



New Issue: MOODY'S ASSIGNS Aaa RATING TO THE STATE OF VERMONT'S \$134 MILLION GENERAL OBLIGATION BONDS

Global Credit Research - 22 Feb 2012

OUTLOOK IS STABLE

VERMONT (STATE OF)
State Governments (including Puerto Rico and US Territories)
VT

Moody's Rating

| ISSUE | | RATING |
|--|--------------------|--------|
| General Obligation Refunding Bonds 2012 Series D | | Aaa |
| Sale Amount | \$69,185,000 | |
| Expected Sale Date | 02/29/12 | |
| Rating Description | General Obligation | |
| General Obligation Bonds 2012 Series A | | Aaa |
| Sale Amount | \$25,000,000 | |
| Expected Sale Date | 02/29/12 | |
| Rating Description | General Obligation | |
| General Obligation Bonds 2012 Series B | | Aaa |
| Sale Amount | \$30,000,000 | |
| Expected Sale Date | 02/29/12 | |
| Rating Description | General Obligation | |
| General Obligation Bonds 2012 Series C (Federally Taxable) | | Aaa |
| Sale Amount | \$10,000,000 | |
| Expected Sale Date | 02/29/12 | |
| Rating Description | General Obligation | |

Moody's Outlook N/A

Opinion

NEW YORK, February 22, 2012 --Moody's Investors Service has assigned a Aaa rating and stable outlook to the State of Vermont's \$134 million General Obligation Bonds 2012, consisting of Series A (\$25 million), 2012B (\$28 million), 2012C (\$10 million- taxable) and 2012D (\$69.2 million - refunding bonds). Proceeds of the Series 2012A,B, and C will be used to fund various capital projects around the state, The Series 2012D bonds will be used to refund outstanding general obligation bonds for interest savings. The outlook is stable.

SUMMARY RATINGS RATIONALE

Moody's highest rating level reflects Vermont's strong history of financial management, which includes conservative fiscal policies and the maintenance of healthy reserve balances that continue to provide a cushion against any unexpected revenue declines; and manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems. The state's credit outlook is stable.

Credit strengths are:

*History of strong financial management and fiscal policies indicated by conservative budgeting practices.

*History of prompt action to reduce spending following revenue weakening.

*Maintenance of budget reserve levels at statutory limit.

*Steady progress in reducing previously high debt ratios and maintaining an affordable debt profile.

Credit challenges are:

*Potential service pressures due to a population that is aging at a relatively rapid pace.

*Decline in job growth.

*Below average per capita income levels.

DETAILED CREDIT DISCUSSION

ENACTED FY 2012 BUDGET ASSUMES REVENUE GROWTH OF 3.2%

The January 2012 economic and revenue forecast produced by the state shows revenues performing on target based on the revised 2012 general fund budget. The enacted fiscal 2012 general fund budget of \$1.18 billion reflected an increase of 3.2% over fiscal 2011 revenues, and was revised upward by \$7.3 million in the July 2011 consensus forecast. As of the new January forecast, state is now back to the original revenue projection of \$1.18 billion reflected in the enacted budget. The change in the revenue forecast accounts for less than 1% and largely reflects the slower rate of growth in the economy. Looking ahead to fiscal 2013, the state is forecasting revenue growth of 5.8%, reflecting growth in personal income tax. The growth rate may be optimistic considering the slower rate of growth in the economy, however it should be noted that the year-over-year growth is off of a lower revenue base. Additionally, based on historical trends, we expect the state to move quickly to resolve any potential shortfalls in revenue performance.

HURRICANE IRENE DAMAGE ESTIMATED BETWEEN \$521 MILLION and \$591 MILLION

Vermont was one of 13 states to be impacted by Hurricane Irene, which touched down in the state in late August 2011. The entire state was declared a disaster area by the Federal Emergency Management Agency (FEMA). Current damage estimates related to the hurricane range between \$521 million and \$591 million, of which \$202 million is related to state transportation infrastructure. The state is expected to qualify for a 90% FEMA eligible match and 100% of Federal Highway Administration eligible match for emergency road repairs. The estimated total state share is \$88 million, after accounting for federal funds. The state plans to fund its share of Irene related costs, through a combination of operating revenues and capital funds. The state has included \$19.7 million of funds for Irene related costs in the 2012 general fund budget adjustment.

FISCAL UNCERTAINTY BALANCED BY STATE'S TREND OF PROACTIVE FINANCIAL MANAGEMENT

While Vermont moved quickly to address budget deficits during the recession, it could still face challenges in its out-year budgets. As in many states, persistent weakness in the national economy could pose a threat to a strong economic recovery for the state. The governor has been proactive in managing out year costs. In 2010 he negotiated labor contracts that reduced wages by 3% for two years and was able to negotiate benefit changes in the state teachers retirement system. The state also increased the frequency of its revenue forecasting during the downturn, which traditionally was performed on a semi-annual basis. From January 2008 to January 2010 the state published quarterly economic and revenue forecasting which enabled them to identify and provide solutions for any sudden revenue declines. Moody's expects that, like other Aaa-rated states, Vermont will continue its trend of conservative financial management and aggressive approach to dealing with budget shortfalls to manage its current fiscal challenges.

BUDGET RESERVE LEVELS MAINTAINED AT STATUTORY FUNDING LEVELS OF 5%

Vermont has so far avoided using any of its fully funded budget stabilization reserve funds (BSR). At the end of fiscal 2011, Vermont's General Fund BSR was \$54.3 million which reflects the statutorily required funding level of 5% of prior year budgetary appropriations, a level that has been maintained since 2004. Vermont also maintains a fully funded Transportation Fund BSR, also at 5% of prior year appropriations (\$10.4 million), and in its Education Fund at the statutory required level of 3.5% to 5% of prior year expenditures (\$30.3 million), excluding General Fund transfers. Vermont expects to maintain its budget stabilization reserves at the statutory level through the end of fiscal 2012. The Governor has also introduced legislation to increase the maximum reserve levels in the General Fund BSR from 5% to 5.25%.

EMPLOYMENT GROWTH OUTPACES THE NATIONAL GROWTH RATE

Continuous job growth in education and health services, Vermont's largest employment sector, has helped offset persistent weakness in other areas of the economy, primarily manufacturing and construction. Vermont never fully recovered manufacturing job losses from the prior economic recession in 2001-2002. For 2011, Vermont's average annual year-over-year job growth increased by 1.8%, higher than the national growth rate of 1%. 2012 employment growth is expected to yield similar results of 1.3%. The state's unemployment level, which has historically been low, rose rapidly during 2009 but has since stabilized at 5.5% (January 2012) versus 8.3% for the nation. One of the states largest private employers, IBM, has continued

to hire on an as need basis which is also positive for the state's economy.

DEBT RATIOS ARE LOWER THAN THE U.S. MEDIANS

Vermont's debt levels have declined considerably over the past decade and are now below average relative to Moody's 50-state median, on both a per capita and personal income basis. Debt per capita of \$747, compared to the state median of \$1066, ranked Vermont 37th among the fifty states in Moody's 2011 state debt medians. Debt to total personal income of 1.9%, compared to the 2.8% state median ranked Vermont 36th. Both ratios represent steady improvement in Vermont's debt profile, reflecting efforts by the state's Capital Debt Affordability Advisory Committee which oversees long-term capital planning for the state.

Vermont's overall pension funding levels have historically been strong relative to other states. Due to the broad based market losses experienced in 2008 the state's two pension systems have seen a decline in funding ratios, particularly in 2009. As of June 30, 2011 the state employees' system had a 79.6% funding ratio, down from the 81.2% funded ratio reported June 30, 2010. The teachers' system has a funded ratio of 63.8% on June 30, 2011, down from 66.5% reported June 30, 2010. The decline in the funding ratio from 2010 to 2011 were largely due to lower actuarial assumed rates of return. The state continues to be committed to the full annual funding requirements. Vermont's assessment of its other post employment benefit (OPEB) liability reflects \$998.6 million for state employees and \$780 million for teachers. The state has not decided on a funding mechanism for either of the OPEB liabilities, however they have set up an irrevocable trust fund for the state employees to initially be funded with excess revenues from Medicaid part D reimbursements. As of June 30, 2011 this trust fund held \$11.2 million of assets.

Outlook

The outlook for Vermont's general obligation debt is stable. Moody's expects that the state will continue its trend of proactive and conservative fiscal management in light of slower economic recovery. We believe that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

What could make the rating go - DOWN

- *A break from the states history of conservative fiscal management.
- *Emergence of ongoing structurally imbalanced budgets.
- *Depletion of budget reserves without swift replenishment.
- *Liquidity strain resulting in multiyear cash flow borrowing.

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moody.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moody's.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moody's.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moody's.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moody's.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody's.com for further information.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Analysts

Kimberly Lyons
Lead Analyst
Public Finance Group
Moody's Investors Service

Nicole Johnson
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2012 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT

OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service

Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.