MOODY'S
INVESTORS SERVICE

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.moodys.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.moodys.com.

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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.

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