Moody's Investors Service

New Issue: **MOODY'S ASSIGNS Aaa RATING TO STATE OF VERMONT'S $52 MILLION GENERAL OBLIGATION BONDS 2010 SERIES A**

Global Credit Research - 22 Jan 2010

Aaa RATING AFFIRMED ON OUTSTANDING $440.6 MILLION GENERAL OBLIGATION DEBT; OUTLOOK IS STABLE

State
VT

Moody's Rating

ISSUE		RATING
General Obligation Bonds, 2010 Series A		Aaa
Sale Amount	$52,000,000	
Expected Sale Date	01/27/10	
Rating Description	General Obligation Bonds	

Opinion

NEW YORK, Jan 22, 2010 -- Moody's Investors Service has assigned a Aaa rating and stable outlook to the State of Vermont's $52 million General Obligation Bonds 2010 Series A. At this time we have also affirmed the Aaa rating assigned to the state's $440.6 million outstanding general obligation bonds. Proceeds of the current issue will be used to fund various capital projects around the state. 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 further 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:

*Continuing budget pressure in the upcoming fiscal year and out-years

*Decline in job growth.

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

*Below average per capita income levels.

SIGNIFICANT REVENUE DECLINES IN 2009 LEAD TO BUDGET GAPS

As a result of revenue underperformance during fiscal 2009 the state of Vermont's general fund budget was reduced four times by a total of $66 million (or 5.8%) from the approved fiscal 2009 budget of $1.155 billion to the April 2009 final revenue estimate of $1.089 billion. However the state did realize a surplus of $14 million (roughly 1% of revenues) at the end of fiscal year 2009, a result of better than expected collections in the Inheritance and estate taxes category. The major revenue sources of the state (personal income, sales & use, and rooms & meals) finished slightly below forecast by a cumulative $2.3 million. Total fiscal 2009 revenues declined by 8% from fiscal 2008 revenues of $1.199 billion. During the course of fiscal 2009 the state faced a cumulate budget gap of $87 million. In order to solve the budget gaps the state used a mix of budget cuts (primarily in human services), revenue enhancements, and federal fiscal stimulus funds. The state also substantially reduced the size of the state workforce, reducing the number of employees by roughly 9%.

FY 2010 YEAR TO DATE REVENUES PERFORM AS FORECAST; FY 2011 BUDGET SHORTFALL OF $150 MILLION PROJECTED

The new January 2010 economic and revenue forecast produced by the state shows year-to-date revenues as of December performing essentially on target. Full year General Fund revenue estimates for fiscal 2010 have been revised upward by $5 million to $1.031 billion. The revised revenue figure still represents an overall decline of 6.5% from fiscal 2009 revenues. As in other states, Vermont benefited from the federal fiscal stimulus package, which helped the state mitigate budget shortfalls during fiscal 2009, the current fiscal 2010 and to a certain extent fiscal 2011. Vermont has approximately $174 million of federal funds built into the fiscal 2010 budget (17% of fiscal 2010 sources). The federal funds were used primarily to backfill cuts in health and human services. Vermont is projecting a structural budget gap of $150 million for fiscal 2011 (14% of revenues projected to be available for fiscal 2011). The state's out-year projections show continued structural imbalance as a result of increased spending pressures and the elimination of the federal stimulus dollars.

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

While Vermont has taken swift actions to address budget deficits, it still faces substantial challenges in its out-year budgets. As in many states, persistent economic weakness will continue to present financial threats for the state. The Governor has already taken steps to reduce out-year gaps such as negotiating labor contracts for the next two years which will reduce wages by 3%. The governor has also asked state agencies to reduce general fund requests by 8% for fiscal 2011. The state has also increased the frequency of its revenue forecasting, which traditionally was performed on a semi-annual basis. Since January 2008 the state has published quarterly economic and revenue forecasting which has 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 2009, Vermont's General Fund BSR was $60.1 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, and one in its Education Fund at the statutory required level of 3.5% to 5% of prior year expenditures, excluding General Fund transfers. Vermont expects to maintain its budget stabilization reserves at the statutory level through the end of fiscal 2010. Additionally the state has set aside $14.8 million in a General Fund Revenue Shortfall Reserve account. The state also maintains a Human Services Caseload Reserve, which is available for unexpected caseload growth. As of June 30, 2009 the reserve held $17.8 million. The governor's fiscal 2010 budget adjustment utilized $16.2 million of the reserve to cover the human services caseload increase experienced by the state. There remains a residual balance of just $70,000 in this reserve. Even with the use of the caseload reserve the state has substantial cushion by keeping the additional budget reserve funds fully funded.

UNEMPLOYMENT RATE HAS DECLINED

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 2009, Vermont's average annual year-over-year job growth is projected to decline by 3.72%, lower than the projected national employment decline of 4.2%. The state's unemployment level, which has historically been low, rose rapidly during 2009 but has stabilized at 6.4% (November 2009) versus 10.2% for the nation. The states largest private employer IBM has recently announced plans for hiring which is also positive for the state's economy.

DEBT RATIOS CONTINUE TO DECLINE

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 $692, compared to the state median of $865, ranked Vermont 34th among the fifty states in Moody's 2009 state debt medians. Debt to total personal income of 1.8%, compared to the 2.5% state median, ranked Vermont 35th. 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. As of June 30, 2009 the state employees' system had a 78.9% funding ratio, down from the 94.1% funded ratio reported June 30, 2008. The teachers' system has a funded ratio of 65.4% on June 30, 2009, down from 89% reported June 30, 2008. The state continues to be committed to the full annual funding requirements. Vermont's assessment of its other post employment benefit (OPEB) liability reflects $813 million for state employees and $872 million for teachers. The state has not decided on a funding mechanism for the OPEB liabilities, however they have set up an irrevocable trust fund to initially be funded with excess revenues from Medicaid part D reimbursements. As of June 30, 2009 this trust fund held $3.7 million of assets.

MOST RECENT RATING ACTION

The last rating action with respect to the State of Vermont was on February 24, 2009 when the rating of Aaa was assigned to the state's $50.5 million General Obligation Bonds 2009 Series A.

The principal methodology used in rating the current issue was Moody's State Rating Methodology published in October 2004 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Outlook

The outlook for Vermont's general obligation debt is stable. The state faces significant pressure to achieve structural budget balance in the coming fiscal years. Moody's expects that the state will continue its trend of proactive and conservative fiscal management in light of declining revenues and increasing expenditures. 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.

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