MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO THE STATE OF VERMONT'S $25 MILLION GENERAL OBLIGATION BONDS 2010 SERIES E

Global Credit Research - 16 Nov 2010

OUTLOOK IS STABLE

State
VT

Moody's Rating

ISSUE	RATING
General Obligation Bonds 2010 Series E (Vermont Citizens Bonds)	Aaa

Sale Amount	$25,000,000
Expected Sale Date	11/16/10
Rating Description	General Obligation

Opinion

NEW YORK, Nov 16, 2010 -- Moody's Investors Service has assigned a Aaa rating and stable outlook to the State of Vermont's $25 million General Obligation Bonds 2010 Series E. Proceeds of the sale will be used to fund various capital projects around the state. The outlook is stable.

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 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 next fiscal year as a result of the expiration of ARRA funding

*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.

FY 2010 RESULTS IN MODEST BUDGET SURPLUS

Like most other states, Vermont continued to experience revenue underperformance during fiscal 2010, resulting in a 5.9% year-over-year decline in general fund . However the state did realize a modest operating surplus of $2.5 million (less than 1% of full year revenues) at the end of fiscal 2010, the result of better than expected collections in corporate income tax receipts, sales and use tax receipts, and meals and rooms tax receipts. Personal income tax receipts lagged in growth, coming in $6 million below the budgeted target. During the course of fiscal 2010 the state faced a sizeable cumulate budget gap of $343 million (31% of general fund revenues) . In order to solve the budget shortfalls the state used a mix of budget cuts ($77 million), revenue enhancements ($26.2 million), and federal fiscal stimulus funds ($192.2 million). The state also tapped $16 million in caseload reserve funds and rescinded $28 million from agencies.

ENACTED FY 2011 BUDGET CLOSED SHORTFALL OF $267 MILLION

The January 2010 economic and revenue forecast showed the state facing a budget gap in fiscal 2011 of $267 million. The state took action to close $154 million of the gap primarily with recurring expenditure cuts and savings reached through a modification of the teachers retirement system and cost effective labor contracts. The remaining gap was closed by use of ARRA funding. As in other states, Vermont has greatly benefited from the federal fiscal stimulus package, which helped the state mitigate budget shortfalls during fiscal 2009, fiscal 2010 and the current fiscal 2011. Vermont has approximately $113 million of federal funds built into the fiscal 2011 budget (11% of fiscal 2011 sources). The federal funds were used primarily to backfill cuts in health and human services. 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. Vermont is currently projecting a structural budget gap of between $110-$120 million for fiscal 2012, which at the higher end could equal 10% of operating revenues projected to be available for fiscal 2012.

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 took steps early on to reduce out-year gaps such as negotiating labor contracts for the next two years which will reduce wages by 3%. The state has also increased the frequency of its revenue forecasting, which traditionally was performed on a semi-annual basis. From January 2008 to January 2010 the state 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 2010, Vermont's General Fund BSR was $57.3 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, and 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 2011.

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 declined by 3.3%, lower than the national employment decline of 4.3%. 2010 employment growth is expected to decline by 0.4% The state's unemployment level, which has historically been low, rose rapidly during 2009 but has stabilized at 5.8% (September 2010) versus 9.6% for the nation. The states largest private employer IBM has begun 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 $709, compared to the state median of $936, ranked Vermont 36th among the fifty states in Moody's 2010 state debt medians. Debt to total personal income of 1.8%, compared to the 2.5% state median also 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, 2010 the state employees' system had a 81.2% funding ratio, up from the 78.9% funded ratio reported June 30, 2009. The teachers' system has a funded ratio of 66.5% on June 30, 2010, up from 65.4% reported June 30, 2009. The state continues to be committed to the full annual funding requirements. Vermont's assessment of its other post employment benefit (OPEB) liability reflects $962.6 million for state employees and $703 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 $5.7 million of assets.

Outlook

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.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.

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, and public information.

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.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service 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.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Kimberly Lyons
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
250 Greenwich Street
New York, NY 10007
USA