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Summary:

Vermont; Gas Tax

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Summary:
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Credit Profile		
US$11.305 mil spl oblig transp infrastructure bnds due 06/15/2033		
Long Term Rating	AA+/Stable	New
Vermont spl infrastructure		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Vermont's series 2013A special infrastructure bonds. The outlook is stable. At the same time, we affirmed our AA+ rating on the state's parity bonds outstanding.

The ratings reflects our view of the:

- Broad-based, statewide nature of motor fuel tax revenues;
- Strong maximum annual debt service (MADS) coverage; and
- Good legal provisions, including an additional bonds test (ABT) of 2x MADS and a fully funded debt service reserve (DSR).

Somewhat offsetting these strengths are our assumption that coverage will be diluted by additional debt issuance and the susceptibility of the pledged revenue stream to economic conditions and changes in fuel prices.

The bonds are secured under a trust indenture by pledged revenues consisting primarily of 2% of the retail price per gallon of regular gasoline -- excluding state and federal taxes -- and a three-cent-per-gallon assessment on diesel fuel. State statutes prevent the pledged assessment rates from being reduced while the revenue bonds are outstanding. These specific pledged revenues have only been authorized since 2009, but the state has been collecting other gasoline and diesel fuel assessments for significantly longer. The gasoline portion of the pledged revenues accounts for about 90% of total pledged revenues. Because the gasoline portion is based on the price of gasoline and not the number of gallons sold, we believe this structure results in less adverse exposure to consumption declines in response to rising prices, although it increases the exposure to price declines.

The Vermont legislature authorized the new fuel assessment to address its construction needs for roads, bridges, and other transportation projects through pay-as-you-go capital expenditures or the issuance of motor fuel assessment bonds. The legislature has previously authorized two bond issues backed by these motor fuel assessments, and this current issue will be used to or replace state bridges and roadways. Officials project that the state may issue a total of approximately $99.6 million of parity debt by 2017, including the previous 2010 and 2012 issues. However, officials may alter the timing and sizing of future issues.

While the unaudited fiscal 2013 pledged revenues cover the MADS on the new bonds and the 2010 and 2012 parity issues by 9.6x, coverage is expected to be significantly diluted after the projected issuance of the additional debt.

However, while the ABT requires 2x MADS coverage, officials indicate an intention to limit debt issuance to maintain DSC at no less than 3x, which we view as strong. The state's pro forma figures assume compound average annual revenue growth of 3.2% and indicate annual DSC of no less than 3.65x, which the pro forma projects would occur in fiscal 2018. The pro forma coverage of future MADS without any additional revenue growth is 3x, but state officials also indicate that additional debt issuance may be delayed or reduced if actual revenues do not meet projections. The state's per-capita gasoline expenditures in 2010 were the third highest in the nation, reflecting the rural nature of the state and significant tourism.

The pledged assessments were first collected in fiscal 2010; the unaudited fiscal 2013 pledged revenues were $23.0 million and were $22.8 million in fiscal 2012. The fiscal 2012 revenues were 24% higher than in fiscal 2011, which officials attributed to higher gas prices then. The increase from fiscal 2012 to fiscal 2013 was only 0.6%, reflecting relative stability in gas prices.

The ABT requires 2x MADS coverage by historical revenues in 12 consecutive months out of the previous 18. The test allows for the projection of an increase in revenues from any subsequent additions to the revenues pledged to the parity debt. The DSR is required to be equal to the standard three-part test of 100% of MADS, 125% of average annual debt service, or 10% of par.

Outlook

The stable outlook reflects the bonds' strong projected coverage and legal provisions over our two-year outlook horizon, and Standard & Poor's expectation that additional debt issuance will be in line with state officials' projections.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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