Moody's Investors Service

Global Credit Research
New Issue
13 DEC 2007

New Issue: Vermont (State of)

MOODY'S ASSIGNS Aaa TO VERMONT'S GENERAL OBLIGATION BONDS SERIES 2007E AND GENERAL OBLIGATION REFUNDING BONDS SERIES 2007F

TOTAL GO DEBT AFFECTED APPROXIMATELY $486 MILLION

State
VT

Moody's Rating

ISSUE		RATING
State of Vermont General Obligation Bonds 2007 Series E		Aaa
Sale Amount	$11,000,000	
Expected Sale Date	12/12/07	
Rating Description	General Obligation	
State of Vermont General Obligation Refunding Bonds 2007 Series F		Aaa
Sale Amount	$30,000,000	
Expected Sale Date	12/12/07	
Rating Description	General Obligation	

Opinion

NEW YORK, Dec 13, 2007 -- Moody's Investors Service has assigned a rating of Aaa and stable outlook to the State of Vermont's general obligation bonds. Moody's highest rating level incorporates Vermont's strong history of financial management, evident in the state's maintenance of healthy reserve levels; manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems; and a stable, diversifying economy that lacks the kind of volatility that can make revenues swing dramatically up or down and increase financial uncertainty. The outlook on Vermont's general obligation bond rating is stable reflecting Moody's expectations for sustainable growth in the state's revenue sources, maintenance of solid operating reserve balances, and manageable debt levels. We expect that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

Vermont plans to sell $11 million General Obligation Series 2007E and $28.3 million of General Obligation Refunding Bonds Series 2007F. Proceeds will be used for a variety of capital projects of the state.

Credit strengths are:

*Sound financial management and fiscal policies indicated by conservative budgeting practices.

*Prompt action to reduce spending following revenue weakening during recession.

*Relatively rapid restoration of reserves used during periods of revenue weakness.

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

*Low unemployment rates.

Credit Challenges are:

*Slower job growth moderates revenue performance.

*Still prominent manufacturing sector that has not recovered jobs lost during recession.

*Despite gains, Vermont's per capita income levels remain below the national average.

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

STRUCTURAL BUDGET BALANCE REFLECTS SOUND FINANCIAL MANAGEMENT

Vermont was well-positioned to weather the 2002 and 2003 recession as a result of its conservative budgeting practices, available reserves, and prompt action to control spending. As the economy and state revenues weakened in fiscal 2002, the state's personal income taxes (Vermont's largest revenue source in the General Fund) dropped 10%, while sales and use taxes were essentially flat.

Vermont's General Fund revenues recovered relatively quickly from the recession, aided by prompt bipartisan willingness to restore budget balance. Vermont began early restoration of its reserves in fiscal 2003, bringing its General Fund BSR to the full statutorily required level of 5% of prior year budgetary appropriations by year-end fiscal 2004, a level that has been maintained since then as indicated in audited results through fiscal year 2006 and in preliminary unaudited results for fiscal year 2007. 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. A Human Services Caseload Reserve, which is available for unexpected caseload growth due to the economy, adds another layer of flexibility in the event of revenue fluctuation. Vermont used a portion of this reserve to fund its Medicare Part D expenses and repaid the amount with a subsequent federal reimbursement. Combined available operating reserves have averaged about 7% of operating revenues over the past five years, excluding the caseload reserve, and remained at or above 5.8% over that period.

Vermont's management strength has improved with the now timely publication of its financial audits. In earlier years financial reporting was delayed during the extended implementation of a new software system.

HEALTHY REVENUE GROWTH IN FISCAL 2007; SLOWING IN FISCAL 2008 AS EXPECTED

Revenue growth moderated in fiscal year 2007, with 3.6% growth in General Fund revenues compared with 7.4% growth in fiscal year 2006. Personal income tax growth was the main driver, increasing 4.5%. An unexpected strong showing in corporate income taxes also gave revenues a boost. Sales tax revenues were the largest underperformer, coming in under forecast by about $3.6 million. The drop in sales tax revenue is associated with costs of implementing the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline sales and use taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers.

Vermont publishes a consensus revenue forecast twice a year and the most recent forecast (July 2007) indicates modest General Fund revenue growth of 1.6% for fiscal year 2008, in line with net positive but slower expected job gains. Year to date revenues for fiscal 2008 are above forecast by 1.9%, propelled by strong personal income taxes, corporate income taxes and the meals and room tax. Going forward, the revenue forecast for fiscal year 2009 is 2.4%. The budget increase is in line with projected job growth that is slower than the national pace, as it has been in recent years, but sustainable.

For the fifth consecutive year in a row, Vermont expects its Budget Stabilization Reserves (BSR) in the General and Transportation Funds to remain fully funded at statutory levels at the end of fiscal 2008. The Education Fund BSR is also expected to end at the maximum statutorily required level.

JOBS EXPECTED TO GROW AT SUSTAINABLE PACE

Continuous job growth in education and health services, Vermont's largest employment sector, along with healthy job gains in the professional and business services sector, have helped offset persistent weakness in manufacturing. For 2007, Vermont's average annual year-over-year job growth has been positive for almost all employment sectors. Year to date employment numbers for September 2007 show a continued trend. The state's unemployment level is low compared to the nation at 4.3% (4.7% U.S.) Vermont's job growth will likely maintain a below average but sustainable pace, reflecting modest net in-migration and slow population growth. As a result, unemployment levels should remain low.

DEBT RATIOS DECLINE; MODEST ISSUANCE PLANNED

Vermont's debt levels have declined considerably over the past decade and are now about average relative to Moody's 50-state median, on both a per capita and personal income basis. Debt per capita of $706, compared to the state median of $787, ranked Vermont 28th among the fifty states in Moody's 2007 state debt medians. Debt to total personal income of 2.1%, compared to the 2.4% state median, ranked Vermont 30th. 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. The state's debt authorization levels have dropped steadily over the past decade. The fiscal 2008 amount recommended by the advisory committee for legislative authorization is 20% lower than the level authorized in 1995.

Vermont's overall pension funding levels are strong relative to other states. The state employees system has a funding level of 100%. While the teachers' system is lower, at about 85%, the level reflects a recent revision to the state's funding method that brings it in line with other state systems. The method change in 2006 had the effect of reducing the teachers' system pension funding from the prior level about 91%. At the same time, the state committed to full annual funding requirements which had previously been low due to the appearance of higher funded levels. Vermont recently completed its assessment of its other post employment benefit (OPEB) liability which totaled about $1.4 billion. Under a pre-funding assumption, the liability drops to about $688 million.

Outlook

The stable outlook on Vermont's general obligation bond rating incorporates Moody's expectations for continued growth in the state's primary revenue sources and maintenance of strong reserve balances and manageable debt levels. 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

*Deterioration in the state's financial performance.

*Weakened reserve levels.

*Increasing debt ratios relative to Moody's 50-state median.

*Economic weakness resulting in persistent revenue underperformance.

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
