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Summary:
Vermont; General Obligation

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Credit Profile		
US$29. mil GO rfdg bnds ser 2007F due 07/15/2023		
Long Term Rating	AA+/Stable	New
US$11. mil GO bnds (Vermont Citizens Bnds) due 07/15/2017		
Long Term Rating	AA+/Stable	New
Vermont GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to Vermont's series 2007F GO bonds and its 'AA+' long-term rating to Vermont's series 2007E GO Citizens bonds. At the same time, Standard & Poor's affirmed its 'AA+' rating on the state's outstanding GO debt.

The rating reflects the state's:

- Strong financial management, including conservative debt and budgeting practices, that has helped maintain its favorable financial position with ample reserves and liquidity;
- Stable economy, although economic performance is expected to be mixed over the next few years; and
- Favorable debt position with a low debt burden and rapid amortization of debt outstanding.

The bonds are general obligations of the state for which its full faith and credit is pledged. The series E bonds are the state's Citizen Bonds, representing the retail portion of the 2008 bond issuances. The series F bonds are refunding bonds. The state projects the refunding to generate about 4% in present value savings.

Vermont's economy, in general, remains stable, but economic growth has slowed. Like many other states, the downturn in real estate is having a drag effect on the state's economy. According to the state's economist, the economy is six to nine months into a real estate slowdown. Residential construction spending is down $373 million, with the value of housing construction having declined more than 50% from early 2006 to August 2007. The decline in housing starts, primarily second homes, is coinciding with a decline in the rate of price appreciation on a year-over-year basis. According to forecasts, the current housing market correction will negatively impact economic activity, including job growth, over the next six to eight quarters. As a result, growth and output is projected to be weak and will underperform relative to the U.S. average.

Real gross state product, which was stagnant in the third and fourth quarters of 2006, is expected to post a year-over-year decline in the first quarter of fiscal 2007--its first such decline since 1996--with a turn-around projected in the second half of 2008. This is well below Vermont's long-term range of annual output of 2% to 3% growth. Despite this forecast, other measures of the economy remain solid. The labor market remains tight with low unemployment and some growth in certain segments/industries of the economy. Through August 2007, unemployment was a low 4.1%. Unemployment has remained below the national average since 1991. Six of the eight employment sectors are experiencing some levels of growth. The leisure and hospitality sector, which remains a large part of the overall economy, has lagged other sectors due to poor tourist activity in 2006-2007. However, the sector is expected to experience solid gains in employment and payroll over the next year due, in large part, to the favorable currency exchange rate for Canadian tourists. In 2006, median household effective buying income (EBI) was 98% of the U.S. average; per capita EBI was 97%.

The state's strong fiscal controls and steady revenue performance has contributed to its favorable financial position, with consistent operating surpluses and reserves maintained at their statutory limits. Following a surplus in fiscal 2005, the state closed fiscal 2006 with a $36 million operating surplus. The budgetary surplus was reduced by transfers into reserves and for onetime appropriations, like pay-as-you-go capital. Roughly $24 million was used in the so-called year-end windfall, including funds for one of the state's pension systems.

State officials estimate another operating surplus for fiscal 2007 based on unaudited figures, which closed June 30, 2007, driven mainly by stronger-than-forecast personal and corporate income tax revenues. The state has estimated that this was labor-market driven, more than a function of capital gains. A portion of the projected $32 million surplus will be used to plug a small operating deficit in the transportation fund, which continues to realize lower sales tax revenues due to reduced automobile purchases. The general fund ended the fiscal year with $55.22 million in budget stabilization reserves, equal to the statutory maximum of 5% of the previous-year budgetary appropriations. In addition, both the transportation fund and education fund closed fiscal 2007 with their respective budget stabilization reserves at their maximum level, adding to the state's overall financial flexibility. The base fiscal 2008 appropriation is up 3.3% over fiscal 2007. Year to date, the state's general fund revenues have outperformed budget in four of the first five months of the fiscal year. Cumulative, operating revenues are about 1% ahead of forecast. For the fiscal 2009 budget adjustment, the administration has alerted departmental heads that revenue growth is expected to slow for the coming year, given the economy's outlook.

The biannual consensus revenue forecasting practice is one of the state's many adopted fiscal and debt policies. Standard & Poor's considers Vermont's management practices "strong" under its Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Vermont's debt burden has remained a credit strength over the past several years with debt capacity steadily increasing as state officials retire more debt than they issue. The state's debt affordability committee has recently issued its recommendation for debt authorization for fiscal 2009. The committee recommended increasing the state's GO bonding to $54.65 million in fiscal 2009. The state's debt burden is low, and its debt structure is conservative. Nearly all of the state's direct debt consists of fixed-rate GO bonds, which amortize rapidly. As of this issue, debt ratios were a manageable $803 per capita and 2.3% of personal income, including the $11 million the state will issue in December 2007. The state does not have any variable-rate debt outstanding nor does it use swaps or other derivative products.

Outlook

The stable outlook reflects Standard & Poor's expectation that the state's prudent financial and debt management practices will continue to lead to positive financial operations and structural budget balance. Vermont's steady revenue growth relative to forecasts has allowed it to increase its reserves beyond statutory levels, providing the state some measure of revenue flexibility should revenue growth slow. Standard & Poor's will continue to monitor the state's ability to maintain its favorable financial position, while meeting its growing health services obligations, in light of the state's expectations of slower revenue growth in the near future.

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