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CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

State of

Vermont

RECOMMENDED ANNUAL GENERAL OBLIGATION DEBT AUTHORIZATION

September 2003

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INTRODUCTION

We are pleased to present this report to the Capital Debt Affordability Advisory Committee of the State of Vermont (the "Committee"). As in prior years, this analysis is intended to assist the Committee in determining the maximum amount of long-term, general obligation debt ("G.O. debt") that the State should authorize for the upcoming fiscal year (ending June 30, 2005).

The Committee's enabling legislation requires the Committee to present to the Governor and the General Assembly each year, no later than September 30, a recommendation as to the maximum amount of G.O. debt the State should authorize for the forthcoming fiscal year, consistent with certain guidelines enumerated in the statute. This report provides the supporting analysis and documentation necessary for the Committee to comply with the legislative requirements. As required by the enabling legislation, this analysis extends through fiscal year 2014.

In fiscal year 2003, a total of $67.4 million of G.O. debt was issued ($35.8 million from the authorized amount for FY 2003 of $39 million, plus $31.6 million to advance refund a portion of the Series 1993 Bonds) while $79.6 million of G.O. debt, including the effect of the refunding, as more extensively presented herein, was retired. During August 2003, the State sold $48 million General Obligation Revenue Anticipation Notes ("RANs"). As the RANs are considered self-supporting debt (and are excluded from "net tax-supported debt" by the rating agencies), they are not included in this report. It is expected that during FY 2004 a total of $42.2 million of general obligation bonds will be issued, representing the full amount of that year's authorization ($39 million) plus the carry forward of the authorized but unissued amount from fiscal year 2003 ($3.2 million). This year's report presents an analysis of the recommended level of G.O. debt issuance for FY 2005 of $41 million.

In this report we project that the issuance of $42.2 million during FY 2004 and $41 million during FY 2005 will allow the State to meet the Moody's current and average five-year median of 2.2% for net tax-supported debt as a percentage of personal income by 2005 (at the present time Vermont's ratio of debt as a percentage of personal income is 2.5% and is projected to drop to 2.3% during FY 2004). We believe it is critical for the State to meet the rating agency medians in order to maintain its strong credit profile, particularly during the current economic recovery in which global economic and political uncertainty underpins the forecast for calendar year 2004 and beyond, and when most states' credit ratings are falling. With the rating agencies feeling the pressure to downgrade, we believe that it is critical for Vermont to continue lowering its debt ratios and retiring more debt each year than it issues in order to maintain its strong credit rating.

According to Moody's Investors Service, the State's relative position, among states, improved with respect to net tax-supported debt as a percent of personal income (i.e., from 14th in 2002 to 17th in 2003), but worsened regarding net tax-supported debt per capita (i.e., from 18th in 2002 to 16th in 2003).

Although Vermont's debt ratios now meet the State's guidelines, its net tax-supported debt per capita is currently above the Moody's five-year average median, and is not expected to meet this median anytime soon. While this ratio is also an important consideration by the rating agencies in determining their credit ratings, we believe that net tax-supported debt as a percentage of personal income is a more important credit factor for judging a state's relative ability to pay its general obligation debt; accordingly, we will continue to rely on lowering that ratio as a more realistic and achievable goal for Vermont to pursue.

This year's report is organized into seven sections. **Section 1** presents the State's key existing debt statistics. **Section 2** consists of economic and financial forecasts. **Section 3** discusses the State's recent authorization history and sets forth the effect of the issuance of $42.2 million in fiscal year 2004 and $41 million annually thereafter on future outstanding debt and debt service requirements. **Section 4** includes a history of the State's debt ratios and shows the projected effect of the Section 2 and 3 forecasts on the State's future debt ratios. **Section 5** summarizes the findings of the previous sections and offers considerations for the Committee in its determination of whether to revise the planned future fiscal year debt authorizations. **Section 6** documents relevant provisions of the enabling legislation and explains the methodology and assumptions behind certain projections included in this report. **Section 7** is composed of appendices, including rating agency reports and the "Vermont Economic Outlook" dated May 2003 published by the New England Economic Project ("NEEP").

We would like to express our gratitude to the State Treasurer's Office, the Department of Finance and Management, Economic and Policy Resources, Inc. ("EPR"), NEEP, and various officers and staff members of the State, whose assistance has been invaluable in completing this report. Certain computations and projections were made based on population, personal income, and revenue projections provided by EPR. The numbers presented herein have not been audited and are, therefore, subject to change.

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1. DEBT STATISTICS

Net Tax-Supported Debt Outstanding

The State's aggregate net tax-supported debt decreased from $460.5 million as of June 30, 2002 to $448.2 million as of June 30, 2003, a decrease of 2.7%. For fiscal years 1999, 2000 and 2001, the State issued less G.O. debt than it retired. Last year the State issued $5.6 million more general obligation bonds than it retired. In fiscal 2003, Vermont retired $12.2 million more general obligation debt than it sold during the year (including the issuance of refunding bonds less the par amount of bonds refunded).

It should be noted that two years ago the net tax-supported debt, for the first time, included the Vermont Educational and Health Buildings Financing Agency ("VEHBFA") Revenue Bonds (Vermont Council of Developmental and Mental Health Services Acquisition Program), Series 1999A and Series 1999B that were sold during fiscal year 1999. The Series 1999A Bonds are tax-exempt obligations issued in the initial par amount of $7,125,000 with a final maturity of December 15, 2019; the Series 1999B Bonds are taxable obligations in the initial par amount of $385,000 with a final maturity of December 15, 2001. The State had numerous verbal and written communications with the rating agencies regarding whether the outstanding or prospective debt of the Program should be included on Vermont's net tax-supported debt statement. Last year Moody's Investors Service, Standard & Poors and Fitch Ratings concurred collectively, for the first time, that this debt did not have to be included in the State's debt statement. Accordingly, in this report (as in last year's report) the VEHBFA debt has been excluded from the State's debt statement as well as from all other calculations of net tax-supported debt.

The table below sets forth the sources of the change in net tax-supported debt outstanding from 2002 to 2003 (in thousands):

Net Tax-Supported Debt as of 6/30/02 (1)	$460,495
G.O. New Money Bonds Issued	35,800
G.O. Refunding Bonds Issued	31,555
Less: Retired G.O. Bonds	(47,602)
Less: Advance Refunded G.O. Bonds	(32,000)
Net Tax-Supported Debt as of 6/30/03 (1)	$448,248

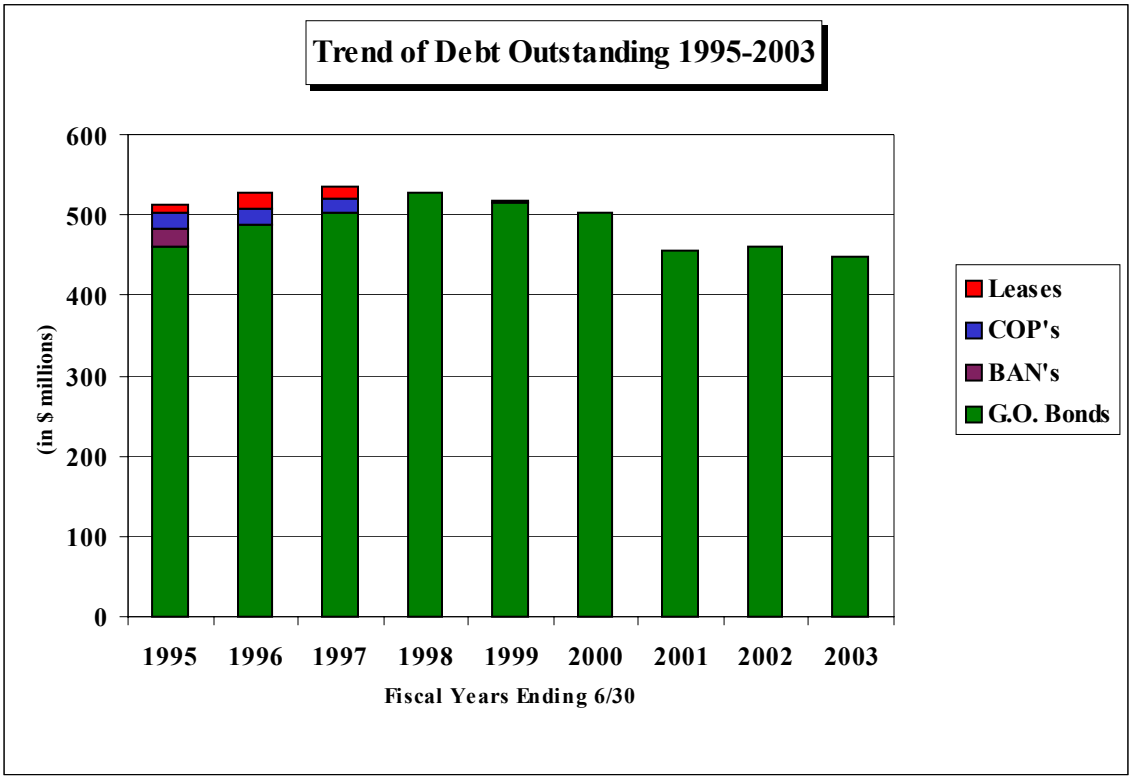
(1) Does not include VEHBFA revenue bonds issued in 1999.

Debt Statement

As of June 30, 2003 ($ Thousands)

General Obligation Bonds*:	
General Fund	418,304
Transportation Fund	13,049
Special Fund	16,895
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	415,730
Vermont Housing Finance Agency	75,940
VEDA Indebtedness	55,000
Gross Direct and Contingent Debt	994,918
Less:	
Reserve Fund Commitments	(546,670)
Net Tax-Supported Debt	**448,248**

* Includes Capital Appreciation Bonds.

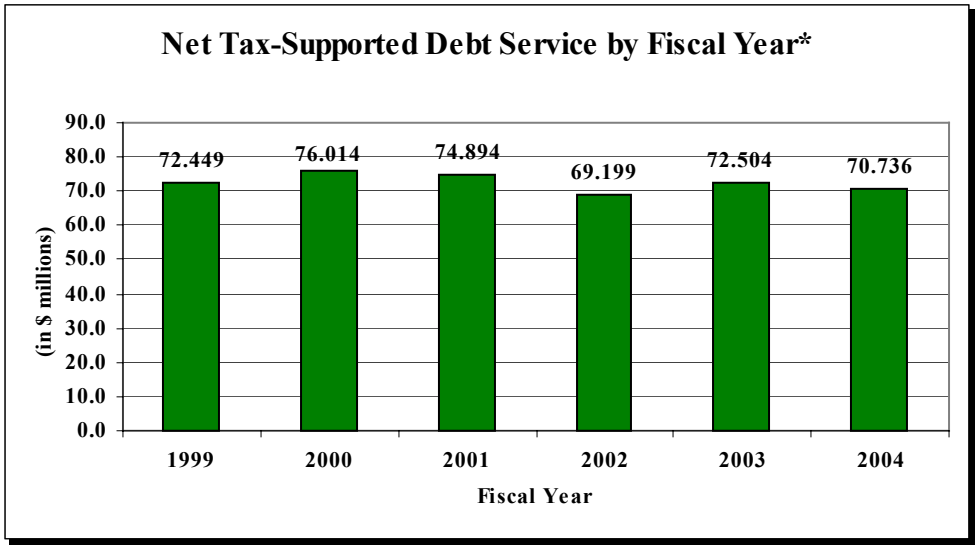


Net Tax-Supported Debt Service by Fiscal Year

- The State's net tax-supported fiscal year debt service requirement for fiscal year 2004 will be $70.7 million, 2.4% less than the $72.5 million paid in fiscal year 2003. This decrease comes after a 4.8% increase in 2003, a 7.5% decrease in 2002, a 1.5% decrease in fiscal year 2001 and a 4.9% increase in fiscal 2000. It should be noted that the State issued no G.O. Bonds during FY 2001, $51 million G.O. Bonds during FY 2002, and $67.36 million G.O. Bond during FY 2003 (including $31.6 million refunding bonds).

Net Tax-Supported Debt Service Due in FY 2003 (1)	$72,504
Decrease in Annual D/S Requirement FY 2003-2004 (1)	(7,291)
Increase Due to G.O. Debt Issued	5,523
Net Tax-Supported Debt Service Due in FY 2004	$70,736

(1) Includes $32,000,000 Series 1993B Bonds refunded during FY 2003.



**Includes General Obligation Bonds and Capital Leases (excludes VEHBFA debt).*

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DEBT OUTSTANDING BY TYPE
(As of June 30, in $ millions)

	1997	1998	1999	2000	2001	2002	2003
G.O. Bonds	501.7	528.6	515.4	503	454.9	460.5	448.2
BANs	0	0	0	0	0	0	0
COPs	19.1	0	0	0	0	0	0
Leases*	15.4	0	1.9	0.9	0	0	0
TOTAL	**536.2**	**528.6**	**517.3**	**503.9**	**454.9**	**460.5**	**448.2**

**After discussions with the rating agencies, certain leases were excluded from the outstanding tax-supported debt beginning in fiscal 1998.*

PROJECTED GENERAL OBLIGATION NET TAX-SUPPORTED DEBT
As of June 30, 2003
(in $ thousands)

	GENERAL OBLIGATION BONDS							
	GENERAL FUND		TRANSP. FUND		SPECIAL FUND		STATE DIRECT DEBT	
Fiscal Year	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service
2004	418,304	65,943	13,049	2,410	16,895	2,383	448,248	70,736
2005	375,277	59,479	11,269	2,075	15,340	2,388	401,886	63,942
2006	336,465	56,224	9,734	1,739	13,710	2,383	359,909	60,346
2007	299,465	53,872	8,464	1,673	12,005	2,495	319,934	58,040
2008	263,446	50,989	7,195	1,586	10,105	2,496	280,747	55,071
2009	229,027	49,000	5,955	1,514	8,120	2,496	243,102	53,010
2010	195,300	44,627	4,728	1,410	6,030	2,500	206,058	48,536
2011	164,479	40,884	3,547	1,353	3,825	1,026	171,851	43,263
2012	136,207	35,221	2,366	1,279	2,985	626	141,558	37,126
2013	109,325	29,376	1,200	439	2,505	628	113,030	30,443
2014	86,144	28,451	816	418	2,000	629	88,960	29,499

2. ECONOMIC AND FINANCIAL FORECASTS

This section and certain sections that follow rely on economic analyses and quantification provided by EPR in conjunction with NEEP which conduct ongoing economic studies of the State. NEEP's report, "Vermont Economic Outlook", dated May 2003 (a copy of which is included in the Appendices), states that "the still struggling U.S. economy and the unusually large degree of global economic-political uncertainty underpins [an economic forecast] that initially disappoints over the first two quarters of the forecast period before hitting a more typical recovery-expansion stride as the forecast moves into calendar 2004 and beyond."

"Looking through the clouded lens of Vermont's amended job growth history and considering the recent positive performance of state consumption tax receipts, it seems apparent that a recovery in Vermont is indeed underway. However, there is still some question as to the actual amount of recovery progress achieved to-date and whether or not this apparent recovery is sustainable." Vermont Gross State Product, total job growth and personal income growth are forecast "to register significantly slower rates of growth over the next two calendar years … than was expected last October." For example, non-farm job growth is projected to increase at an average annual growth rate of 1.1% over the next five years versus an average annual growth rate of 1.4% during the prior five year period, and nominal dollar personal income is projected to increase at an average annual rate of 4.1% from 2003-2007 versus an average annual rate of 5.6% during 1997-2002.

While the initial quarters of the NEEP forecast are not upbeat, growth beyond this period is expected to be more significant due to "… low interest rates, declining energy prices, and recovering consumer, business, and investor confidence." The risks to the forecasted recovery for Vermont, however, are "squarely on the downside" due to the high degree of global economic-political uncertainty that currently exists. These uncertainties include another flare-up in any one of the world's "hot spots," another terrorist attack in the U.S., uncertainty in the global energy markets, and weakness in the global economy.

As shown below, the EPR forecasts for Vermont indicate growth in revenues, population, personal income and estimated full valuation.

EPR's population estimate for 2003 is about 2/3 of 1% greater than its forecast for 2002, and its estimates of future population growth average about 0.42% annually from 2004 through 2014. Personal income increased 4.38% from 2002 to 2003, and is projected to achieve an average annual growth rate of 3.89% from 2004 through 2014. Estimated full valuation increased 1.45% from 2002 to 2003 and is projected to achieve an average annual growth rate of 2.27% from 2004 through 2014. EPR's current and projected economic data are shown in the table on the following page.

Current and Projected Economic Data[1]

Year	Population (in thousands)	Personal Income (in $ billions)	E.F.V. (in $ millions)
2002	616.6	18.17	49,036
2003	620.7	18.96	49,748
2004	623.8	19.64	50,645
2005	625.8	20.35	52,050
2006	627.8	21.15	53,495
2007	630.5	21.99	54,720
2008	633.3	22.88	55,921
2009	636.2	23.79	57,190
2010	638.9	24.71	58,445
2011	641.6	25.70	59,676
2012	644.2	26.76	60,972
2013	646.8	27.81	62,350
2014	649.9	28.87	63,648

[1] These figures were prepared by EPR, except Effective Full Valuation. We projected Effective Full Valuation based on Real Vermont Gross State Product annual growth rates provided by EPR.

As shown in the table below, total revenue for fiscal year 2003 is $22.5 million more than in 2002, an increase of 2.15%. (General Fund receipts in FY 2002 have been adjusted for $29.334 million in personal income tax refunds that were processed in FY 2002 but, due to computer problems, should have been processed in FY 2001.) Fiscal year 2004 growth is forecast at 2.38%; however, the average annual growth rate during the period 2004 through 2014 is expected to be approximately 3.41%.

Current and Projected Revenues[2]

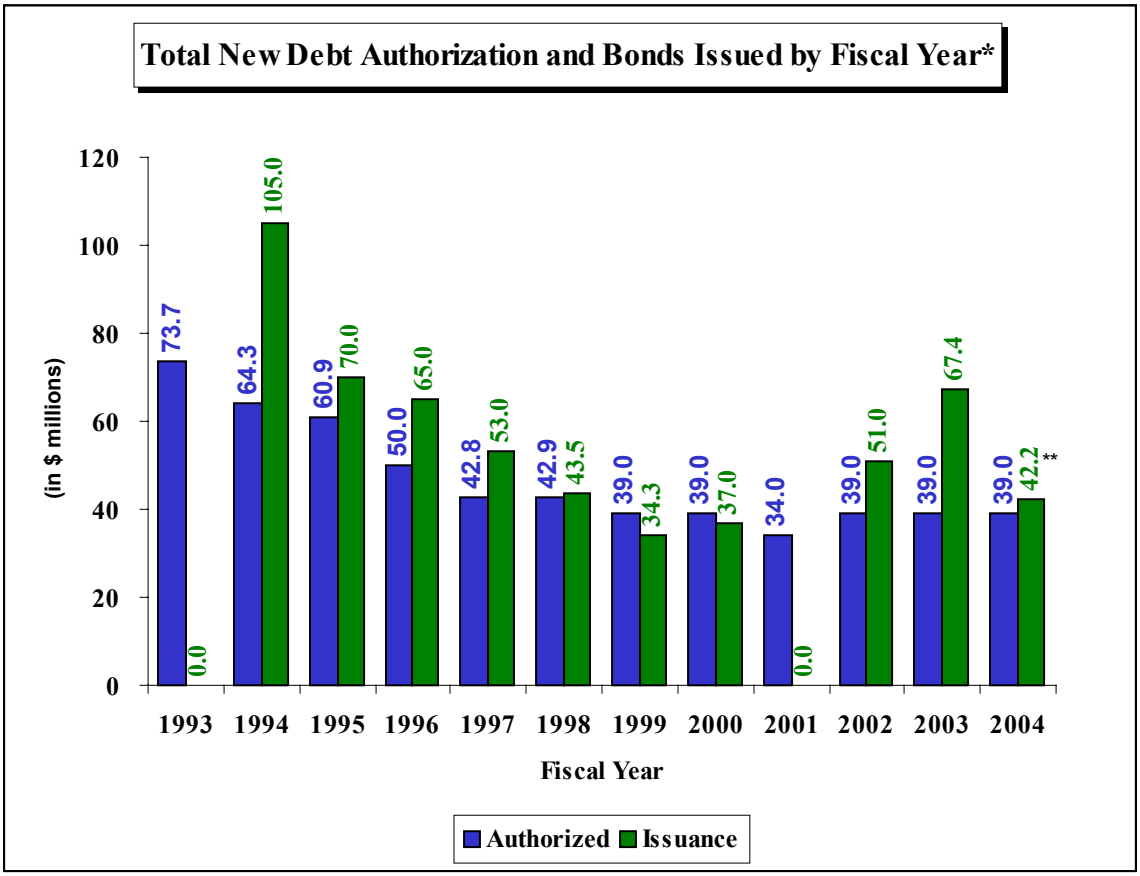
Fiscal Year	General Fund	Transportation Fund	Total Revenue
2002	839.4	206.4	1,045.8
2003	863.0	205.3	1,068.3
2004	880.5	213.2	1,093.7
2005	913.1	213.5	1,126.6
2006	951.9	220.5	1,172.4
2007	992.1	224.7	1,216.8
2008	1,035.1	232.4	1,267.5
2009	1,074.4	237.9	1,312.3
2010	1,111.4	244.8	1,356.2
2011	1,149.9	250.7	1,400.6
2012	1,191.4	258.3	1,449.7
2013	1,231.8	263.8	1,495.6
2014	1,273.1	271.0	1,544.1

[2] In millions of dollars. Amounts for FY 2004-2014 are "current law" revenue forecasts based on a consensus between the State's administration and legislature.

3. DEBT AUTHORIZATIONS AND PROJECTION SCENARIOS

Recent Debt Authorizations

During fiscal year 2002, a total of $51 million of debt was sold, representing the sum of that year's authorization of $39 million, plus $12 million carried forward from fiscal year 2001. During fiscal year 2003, $67.4 million of debt was sold, representing the sum of $35.8 million from that year's authorization of $39 million, plus $31.6 million to advance refund a portion of the Series 1993B Bonds. During fiscal year 2004, $42.2 million of debt is expected to be sold, representing the full amount of that year's authorization ($39 million) plus the carry forward of the authorized but unissued amount from fiscal year 2003 ($3.2 million). We believe this trend in which the State has extinguished all or nearly all of the authorized amount of debt has enhanced the State's credit position with favorable responses from the rating agencies. The following chart presents the amounts of G.O. debt that have been authorized and issued by the State of Vermont since 1993.



** Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances.*
*** Anticipated to be issued.*

General Obligation and General Fund Supported Bond Debt Service Projections

The State's projected annual General Obligation debt service and debt outstanding are presented on the following page and summarized below. The projected debt service assumes the issuance of $42.2 million in G.O. debt during fiscal year 2004 and $41 million annually thereafter through fiscal year 2014.

TOTAL PROJECTED GENERAL OBLIGATION DEBT SERVICE AND DEBT OUTSTANDING (In Thousands of Dollars)

Fiscal Year	G.O. Debt Service	Fiscal Year Ending	G.O. Bonds Outstanding
2003	72,504	6/30/2003	448,248
2004	70,736	6/30/2004	444,086
2005	68,699	6/30/2005	440,884
2006	69,590	6/30/2006	437,524
2007	71,640	6/30/2007	432,792
2008	72,899	6/30/2008	427,442
2009	74,930	6/30/2009	420,538
2010	74,425	6/30/2010	414,311
2011	72,990	6/30/2011	409,838
2012	70,562	6/30/2012	404,970
2013	67,460	6/30/2013	402,400
2014	69,965	6/30/2014	397,680

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EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)													
FY	Current D/S	2004 Issue $42.2MM	2005 Issue $41MM	2006 Issue $41MM	2007 Issue $41MM	2008 Issue $41MM	2009 Issue $41MM	2010 Issue $41MM	2011 Issue $41MM	2012 Issue $41MM	2013 Issue $41MM	2014 Issue $41MM	Total Est. D/S
2004	70,736												70,736
2005	63,942	4,757											68,699
2006	60,346	4,624	4,620										69,590
2007	58,040	4,490	4,490	4,620									71,640
2008	55,071	4,357	4,361	4,490	4,620								72,899
2009	53,010	4,218	4,231	4,361	4,490	4,620							74,930
2010	48,536	4,085	4,102	4,231	4,361	4,490	4,620						74,425
2011	43,263	3,952	3,972	4,102	4,231	4,361	4,490	4,620					72,990
2012	37,126	3,818	3,842	3,972	4,102	4,231	4,361	4,490	4,620				70,562
2013	30,443	3,685	3,713	3,842	3,972	4,102	4,231	4,361	4,490	4,620			67,460
2014	29,499	3,552	3,583	3,713	3,842	3,972	4,102	4,231	4,361	4,490	4,620		69,965

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)													
FY	Current Principal	2004 Issue $42.2MM	2005 Issue $41MM	2006 Issue $41MM	2007 Issue $41MM	2008 Issue $41MM	2009 Issue $41MM	2010 Issue $41MM	2011 Issue $41MM	2012 Issue $41MM	2013 Issue $41MM	2014 Issue $41MM	Total Est. Principal
2004	46,362												46,362
2005	41,977	2,225											44,202
2006	39,975	2,225	2,160										44,360
2007	39,187	2,225	2,160	2,160									45,732
2008	37,645	2,225	2,160	2,160	2,160								46,350
2009	37,044	2,220	2,160	2,160	2,160	2,160							47,904
2010	34,207	2,220	2,160	2,160	2,160	2,160	2,160						47,227
2011	30,293	2,220	2,160	2,160	2,160	2,160	2,160	2,160					45,473
2012	28,528	2,220	2,160	2,160	2,160	2,160	2,160	2,160	2,160				45,868
2013	24,070	2,220	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160			43,570
2014	24,060	2,220	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160		45,720

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)													
FY	Current Debt	2004 Issue $42.2MM	2005 Issue $41MM	2006 Issue $41MM	2007 Issue $41MM	2008 Issue $41MM	2009 Issue $41MM	2010 Issue $41MM	2011 Issue $41MM	2012 Issue $41MM	2013 Issue $41MM	2014 Issue $41MM	Total Est. Debt
2003	448,248												448,248
2004	401,886	42,200											444,086
2005	359,909	39,975	41,000										440,884
2006	319,934	37,750	38,840	41,000									437,524
2007	280,747	35,525	36,680	38,840	41,000								432,792
2008	243,102	33,300	34,520	36,680	38,840	41,000							427,442
2009	206,058	31,080	32,360	34,520	36,680	38,840	41,000						420,538
2010	171,851	28,860	30,200	32,360	34,520	36,680	38,840	41,000					414,311
2011	141,558	26,640	28,040	30,200	32,360	34,520	36,680	38,840	41,000				409,838
2012	113,030	24,420	25,880	28,040	30,200	32,360	34,520	36,680	38,840	41,000			404,970
2013	88,960	22,200	23,720	25,880	28,040	30,200	32,360	34,520	36,680	38,840	41,000		402,400
2014	64,900	19,980	21,560	23,720	25,880	28,040	30,200	32,360	34,520	36,680	38,840	41,000	397,680

4. DEBT RATIOS

This section discusses the impact of the proposed issuance of $42.2 million of G.O. debt during FY 2004 and $41 million of G.O. debt annually during FY 2005-2014 on the State's key debt indices. Please refer to the "Historical and Projected Debt Ratios" on page 14 for the statistical detail described below.

Debt Per Capita

From 2002 to 2003, the State's debt per capita ratio, as measured by Moody's, increased from $813 to $861, and Vermont's ranking among the 50 states went from 18th to 16th (the lower the ranking, the higher a state's debt per capita is relative to all the other states). Vermont's ranking remains fairly high, with 34 states having less debt per capita.

The general debt per capita guideline set by the State is $706 in 1995 dollars. We employed an inflation index, provided by EPR, that projects the $706 figure annually out to 2014. The results of this projection are shown in the table on page 14 under the "State Guideline" column in the "Projected Net Tax-Supported Debt Per Capita" section. As shown in this table, the State's debt per capita ratio of $715 is below the inflation-adjusted target of $817 for fiscal year ending June 30, 2004. Assuming the issuance of $42.2 million in G.O. debt during FY 2004 and $41 million annual thereafter, the net tax-supported debt per capita is projected to decrease each year while the State guideline is projected to increase each year. As such, the estimated net tax-supported debt per capita will be below the State Guideline in each year through FY 2014.

Although this ratio meets the State's guideline, it is currently above the Moody's five-year average median, and is not expected to meet this median anytime soon. While this is a key ratio used by the rating agencies to determine their credit ratings, we believe that net tax-supported debt as a percentage of personal income is a more important credit factor for judging a state's relative ability to pay it debt service obligations.

Debt as a Percentage of Personal Income

In 2003, the State's ratio of debt to personal income, as measured by Moody's, dropped from 3.0% to 2.9%, the lowest level in recent history. The State ranked 14th in this category in 2002 and improved to 17th in 2003.

The State's guideline for debt as a percentage of personal income is: "Aggregate projected State debt should not exceed five percent of projected State personal income in the next ten years." After nearing the five-percent threshold in 1996, the State has steadily improved in this category, with the ratio projected to be 2.3% for the fiscal year ending June 30, 2004. The ratio is projected to remain flat or decline by 0.1-0.2 percentage points annually through 2014, and the State is expected to equal the 2003 and five-year average Moody's median (both currently at 2.2%) in 2005.

We believe it will be especially helpful for the State to meet in the near future the rating agency medians with respect to debt as a percentage of personal income in order to maintain its strong credit rating, particularly during the current economic recovery in which global economic and political uncertainty underpins the forecast for calendar year 2004 and beyond, and when most state's credit ratings are falling. In addition, the State's economic profile has been the weakest credit element among the four key areas reviewed by the rating agencies (i.e., management, debt factors, financial factors, and the economy). Thus, continuing to strengthen Vermont's debt position will reduce rating agency concerns regarding the State's economy when its overall rating picture is evaluated.

Debt Service as a Percentage of Revenues[1]

Since 1998, the State has been in compliance with its guideline that: "Projected annual State debt service on bonds should not be in excess of eight percent of projected revenues in the aggregate General and Transportation Funds during the next ten years." The ratio is currently 6.8%. With the projected issuance of G.O. debt this ratio is projected to decrease to 6.5% for the fiscal year ending 6/30/04, and drop 0.01%-0.04% annually thereafter until 2014, at which time it is estimated to be 4.5%.

It should be noted that Moody's eliminated the state ranking system for debt burden calculated on the basis of net tax-supported debt service as a percentage of revenues. The last Moody's median was computed in 1996 at 3.5%. Nevertheless, the rating agencies compute this ratio for each state issuer annually to determine debt levels on an absolute basis and to evaluate the trend over time.

Debt to Full Valuation

We calculate the State's net tax-supported debt as a percent of its estimated full valuation to be 0.9% at the present time and will remain at this level for the fiscal year ending 6/30/2004. Thereafter, we project this ratio to decline 0.01% every two to four years, and we expect it to be at 0.6% by 2014.

Moody's has also eliminated the state ranking system for net tax-supported debt calculated as a percentage of estimated full value. This index was the most favorable to Vermont of the four ratios previously utilized by the rating agency, as the State of Vermont, from 1991-1995, ranked no higher than 17th in this category.

Historical and Projected Debt Ratios

The chart on the next page sets forth the historical and projected debt ratios for the State.

[1] *In this discussion, "Revenues" does not include any revenues associated with Act 60.*

Historical and Projected Debt Ratios

Fiscal Year (ending 6/30)	Net Tax-Supported Debt Per Capita (in $)			Net Tax-Supported Debt as Percent of Personal Income			Net Tax-Supported Debt as Percent of Estimated Full Valuation			Net Tax-Supported Debt Service as Percent of Revenues [6]		
	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]
Actual [1]												
1993	825	391	9	4.6	2.2	10	1.3	1.0	18	n.a.	n.a.	n.a.
1994	846	399	9	4.5	2.1	10	1.3	0.9	20	6.0	3.6	7
1995	914	409	9	4.7	2.1	9	1.5	1.1	17	6.6	3.4	8
1996	984	431	9	4.9	2.1	8	1.6	1.5	n.a.	7.2	3.5	8
1997	992	422	9	4.7	2.1	8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
1998	946	446	9	4.2	1.9	9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
1999	953	505	10	4.2	2.0	10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
2000	925	540	9	3.8	2.2	10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
2001	828	541	15	3.3	2.1	14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2002	813	573	18	3.0	2.3	14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2003	861	606	16	2.9	2.2	17	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current [2] [3]	727	n.a.	n.a.	2.5	n.a.	n.a.	0.9	n.a.	n.a.	6.8	n.a.	n.a.
Projected (FYE 6/30) [3]		State Guideline [4]			State Guideline						State Guideline	
2004	715	817		2.3	5.0		0.9			6.5	8.0	
2005	707	830		2.2	5.0		0.8			6.1	8.0	
2006	699	846		2.2	5.0		0.8			5.9	8.0	
2007	689	863		2.0	5.0		0.8			5.9	8.0	
2008	678	880		1.9	5.0		0.7			5.8	8.0	
2009	664	898		1.8	5.0		0.7			5.7	8.0	
2010	651	917		1.7	5.0		0.7			5.5	8.0	
2011	641	935		1.7	5.0		0.7			5.2	8.0	
2012	631	953		1.6	5.0		0.6			4.9	8.0	
2013	625	971		1.5	5.0		0.6			4.5	8.0	
2014	615	990		1.4	5.0		0.6			4.5	8.0	
5-Year Average Median		553			2.2			n.a.			n.a.	

(1) Actual data for 1993 to 2003 were compiled by Moody's Investors Service.
(2) Calculated by Government Finance Associates, Inc.
(3) Projections assume the issuance of $42.2 million of G.O. debt in FY 2004 and $41 million of G.O. debt annually during FY 2005-2014. Projections exclude General Fund Supported Bonds (VEHBFA).
(4) State guideline set at $706 for 1995; adjusted annually for inflation.
(5) Rankings are in numerically descending order (i.e., from high to low debt).
(6) Revenues are adjusted beginning in fiscal year 1998 to exclude the effect of Act 60.

5. SUMMARY

The State's positive debt trends are highlighted as follows:

- Bond issuance at substantially lower levels than in the early and mid-1990's, including no bond issuance in fiscal year 2001, combined with continued improvement in the State's economic indices and financial condition over recent years, have brought down the State's debt ratios.

- The State's revenue surpluses in many previous years, resulting in full funding of the State's budgetary stabilization funds for the General, Transportation, and Education Funds, contributed to significant pay-as-you-go amounts being employed for funding capital improvements.

- The State's practice of issuing debt with level annual principal installments has resulted in a favorable amortization rate. At roughly 76% within ten years, the State's bond payout ratio has been favorably received by the rating agencies and represents a debt management characteristic we encourage the State to continue to employ.

These developments have helped Vermont attain a series of incremental upgrades from Moody's Investors Service, Fitch Ratings, and Standard & Poor's, which currently rate the State Aa1, AA+ and AA+, respectively. Vermont is the highest rated state, on a composite basis, in New England. Notwithstanding these accomplishments, tax-supported debt remains relatively high in Vermont. The State must continue to stabilize its debt position in order to preserve and, hopefully, further enhance its current ratings.

The State of Vermont experienced a slight decrease (improvement) in its relative debt position among all states for 2003, as determined by Moody's Investors Service on the basis of net tax-supported debt as a percent of personal income (i.e., from 14th in 2002 to 17th in 2003). Vermont's position worsened, however, as determined by Moody's Investors Service, with respect to net tax-supported debt per capita (i.e., from 18th in 2002 to 16th in 2003).

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6. PROVISIONS OF ENABLING LEGISLATION AND METHODOLOGY

The Committee is responsible for the submission of a recommendation to the Governor and the General Assembly of the maximum amount of new long-term, general obligation debt that the State may prudently issue for the ensuing fiscal year. At the discretion of the Committee, such recommendation may include guidelines and other matters that may be relevant to the additional debt to be authorized. The deadline for the Committee's annual recommendation is September 30th. In making its recommendation, it is the Committee's responsibility to consider the following provisions of the enabling legislation:

SUBPARAGRAPH (1):

The amount of state general obligation bonds that, during the next fiscal year, and annually for the following nine fiscal years:

(A) will be outstanding; and

(B) have been authorized but not yet issued.

SUBPARAGRAPH (2):

A projected schedule of affordable state general obligation bond authorizations for the next fiscal year and annually for the following nine fiscal years. The assessment of the affordability of the projected authorizations shall be based on all of the remaining considerations specified in this section.

SUBPARAGRAPH (3)

Projected debt service requirements during the next fiscal year, and annually for the following nine fiscal years, based upon:

(A) existing outstanding debt;

(B) previously authorized but unissued debt; and

(C) projected bond authorizations.

SUBPARAGRAPH (4)

The criteria that recognized bond rating agencies use to judge the quality of issues of state bonds, including but not limited to:

(A) existing and projected total debt service on general obligation debt as a percentage of combined general and transportation fund revenues, excluding surpluses in these revenues which may occur in an individual fiscal year; and

(B) existing and projected total general obligation debt outstanding as a percentage of total state personal income.

SUBPARAGRAPH (5)

The principal amounts currently outstanding, and balances for the next fiscal year, and annually for the following nine fiscal years, of existing:

(A) obligations of instrumentalities of the state for which the state has a contingent or limited liability;

(B) any other long-term debt of instrumentalities of the state not secured by the full faith and credit of the state, or for which the state legislature is permitted to replenish reserve funds; and

(C) to the maximum extent obtainable, all long-term debt of municipal governments in Vermont which is secured by general tax or user fee revenues.

The effect of the above items, 5(A), 5(B) and 5(C), on State debt affordability is a function of the level of dependency for the repayment of debt on the State's general operating revenues. With respect to this matter, the principle that the rating agencies follow should give us relevant guidance: Until such time that the State's guarantee or contingent obligation becomes real (through a payment or a replenishment obligation being made), then such debt or guarantee is not included in the State's debt statement. Similarly, to the extent that the State has not been called upon to pay for the debt components, as envisioned in Subparagraph (5), then those items should not become quantifiable factors included in the affordability analysis.

- Contingent or Limited Liability Obligations (all figures as of June 30, 2003, except as otherwise indicated):

1. VEDA Family Farm Loans: The State had no contingent liabilities for these loans as they were paid off during fiscal year 2003.

- Reserve Fund Commitments (all figures as of June 30, 2003, except as otherwise indicated):

1. Vermont Municipal Bond Bank: The Bank had $415.73 million of debt outstanding secured by reserve fund commitments from the State. The General Assembly is legally authorized, but not legally obligated, to appropriate money to maintain the reserve funds at their required levels. Since participating borrowers have always met

their obligations on bonds, the State has not been required to appropriate money to the reserve fund for this program.

2. Vermont Housing Finance Agency ("HFA"): The State HFA had $75.94 million of debt outstanding secured by reserve fund commitments from the State. It has not been necessary for the State to appropriate money to maintain the reserve fund.

3. It should also be noted that the State has authorized the VEDA to incur indebtedness in an amount of $55 million secured by the State's reserve fund commitment. However, based upon VEDA's historical performance and the quality of the loans it has provided and expects to provide, it is not anticipated that this commitment will produce any direct liability on the State's debt burden.

- Municipal Debt:

In conformance with the standards followed by the rating agencies, this evaluation does not set forth or incorporate any debt obligations of Vermont municipalities. Should any such obligations be required to be payable by the State (e.g., through assumption or support of local debt as part of a financial emergency), a corresponding and appropriate amount of the State's contribution would then be required to be included in the analysis. At present, no such liability has occurred and, therefore, none has been included in this review.

SUBPARAGRAPH (6):

The economic conditions and outlook for the state.

SUBPARAGRAPH (7):

Any other factor that is relevant to:

(A) the ability of the state to meet its projected debt service requirements for the next five fiscal years; or

(B) the interest rate to be borne by, the credit rating on, or other factors affecting the marketability of state bonds.

There are numerous factors that can affect the State's affordability to incur future indebtedness, including the prospective State economy and the availability of adequate financial resources. Of course, it should be recognized that even though the debt load indices employed in this report are also used by the rating agencies for determining the amount of debt that the State can effectively support, these indices do not take into consideration the possibility for deterioration in the State's financial results. For example, if the State were to confront a significantly increased or new financial liability that was not contemplated in the context of this analysis, the predictability of these indices would become less certain. Similarly, if the State were to incur serious deficits or

face a significantly eroding economy, the ability of the State to incur debt in the future could be affected. These managerial and unpredictable aspects of debt affordability have not been considered in this analysis. It should be emphasized that the rating agencies, in the development of the various comparative debt ratios that are applied and reviewed in the rating of State debt obligations, also do not predict the impact of unexpected financial fortunes that can befall governmental borrowers. It will be important for State officials to monitor Vermont's annual financial condition and results, together with the State's economic trends, in order to continue to evaluate the State's credit position to determine whether annual issuance of debt should be adjusted to reflect a changing financial outlook and credit condition for the State under altered circumstances.

With respect to the interest rate and credit ratings assumed in the evaluation, we have made realistic and conservative assumptions, consistent with the past. For example, for anticipated debt issuances, we have assumed that future interest rates on State G.O. indebtedness will average approximately 6.00%; this rate is more than 100 basis points above current rates and well above recently experienced interest rates on State issues.

At the same time, we have assumed that the State will maintain its current ratings: "Aa1" from Moody's, "AA+" from S&P, and "AA+" from Fitch. Of course, a negative change in the State's ratings in the future would adversely affect the comparative interest rates that Vermont pays on its bond issues, thereby increasing the amount of the State's relative annual fixed costs for debt service. This effect could reduce the amount of long-term, general obligation debt that the State could annually afford to issue.

7. APPENDICES

A. 2003 State Debt Medians (Moody's Investors Service)

B. Fitch Ratings Credit Report

C. Moody's Investors Service Credit Report

D. Standard & Poor's Credit Report

E. Vermont Economic Outlook (New England Economic Project)

Special Comment

July 2003

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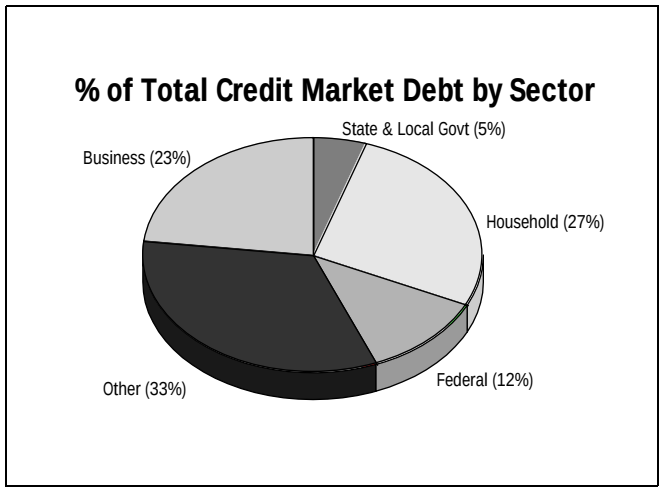
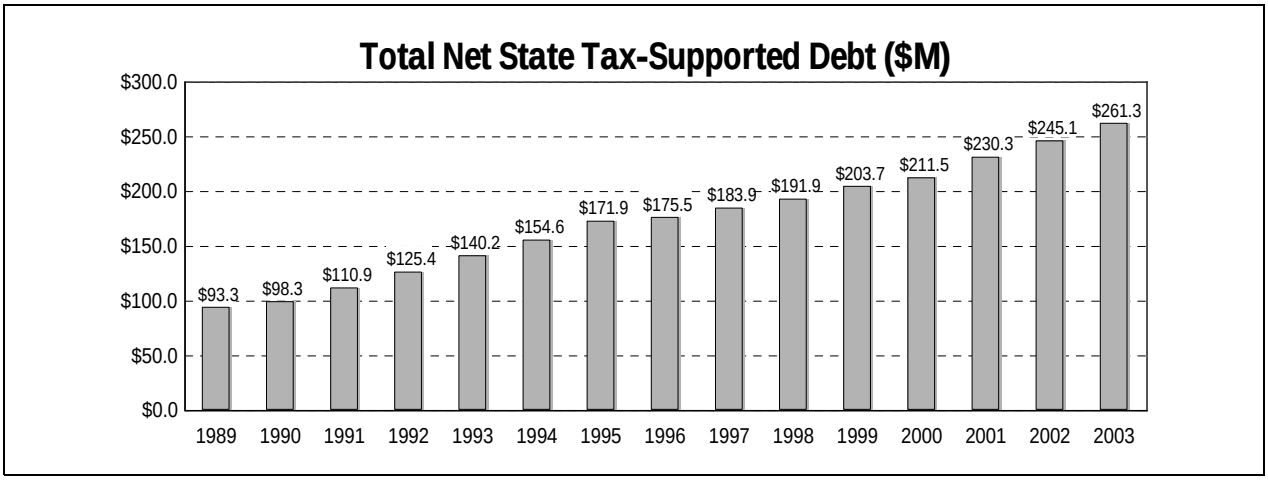
2003 State Debt Medians

This special comment presents Moody's annual analysis of the 2003 State Debt Medians. The debt medians are based on two measures of state debt burden - debt per capita and debt as a percentage of personal income. They are based on the analysis of tax-exempt and taxable municipal obligations issued by each state and supported by the tax base, and are the debt burden measures most commonly used by municipal analysts. While debt burden is only one among numerous factors that determine a credit rating, it plays a significant role in Moody's determination of credit quality. This analysis also takes into account the measure of gross debt, which includes contingent debt liabilities that do not have a direct tax cost but are included in the audited financial statements of the states. For a detailed discussion of the measure of gross debt, please refer to Moody's 2001 State Debt Medians report.



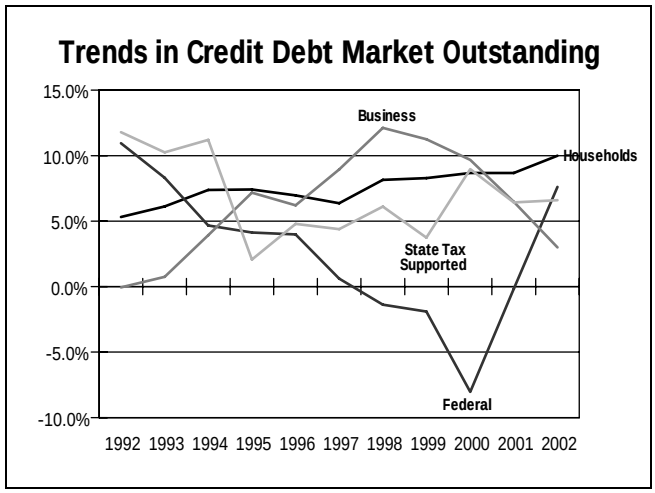
The 2003 State Debt Medians reflect net state-tax supported debt as of the end of calendar 2002.



Strong State and Local Government Debt Growth in 2002

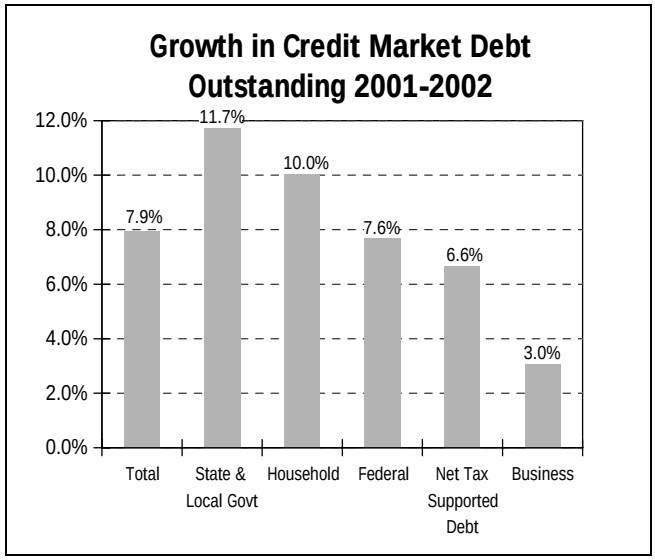
State and local government debt grew at a rapid 11.7% growth rate in 2002, faster than the 7.9% growth of overall debt outstanding in the U.S. credit markets. While state and local government debt was the fastest growing sector in the U.S. credit markets in 2002, it accounted for only 5% of total credit market debt.

States and municipalities increasingly turned to the use of debt in order to maintain capital spending for critical infrastructure needs in the face of weakening economies and serious fiscal stress. As state and local revenue performance weakened, governments were less able to finance their capital programs with cash, while the public demand for capital spending remained high. Severe fiscal stress also caused state and local governments to access the public capital markets for deficit budget financing, providing cash to fund current operating expenses.

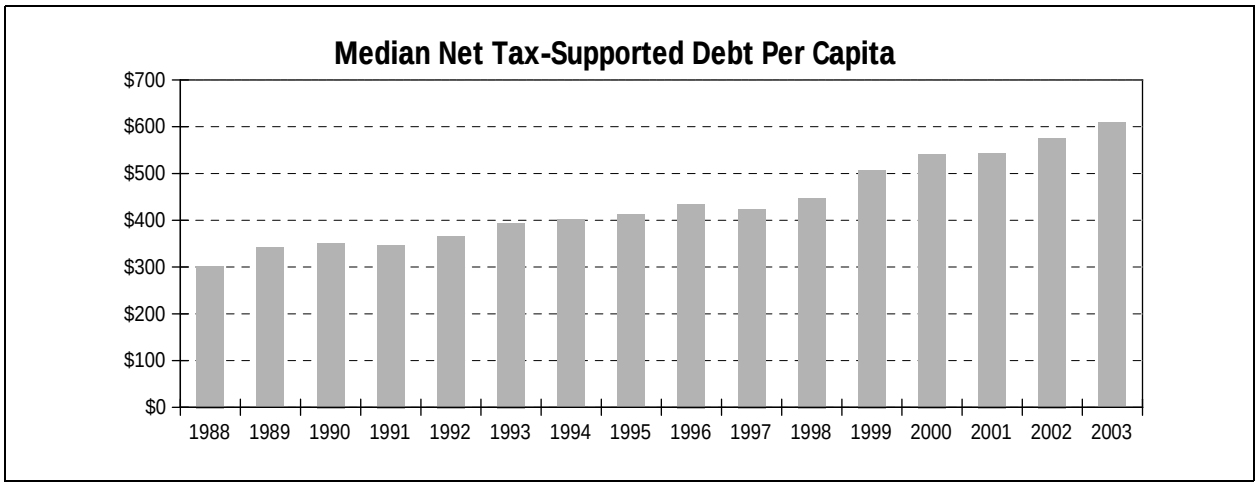


The household sector, accounting for about 27% of total credit market debt, was the second fastest growing sector, increasing at a healthy 10% growth rate. This sector has had, on average, an 8.8% growth rate over the past 5 years, providing a critical element of stability to the economy. Consumer spending, bolstered by household borrowing, has been a consistent strength of the economy and helped to moderate the recession. However, more recently economists have expressed concerns about the levels of consumer debt given the continued weakness of labor markets.

In a reversal of trend, federal borrowing increased by 7.6%. The federal government's borrowing accounts for roughly 12% of the total credit market debt. Increased federal deficits, resulting from large tax cuts and increased federal spending for national defense, homeland security and healthcare costs in the foreseeable future, should result in increasing growth of federal borrowing.



Business sector debt, one of the larger components of credit market debt at 23%, continued to increase slowly due to weak business investment and high levels of unused manufacturing capacity. Business borrowing has slowed from the 10-12% growth rates of 1998-2000, reflecting the bursting of the high-tech and stock market bubbles. This sector has yet to significantly pick up with the continued weakness in the national economy.



State Debt Expected to Rise in 2003

State net tax-supported debt continued to rise in 2002 by 6.6%. This rise is slightly stronger then last year's growth rate and the sector's five-year average growth rate, both of which are 6.4%. Debt per capita increased from $573 to $606, while debt to personal income fell from 2.3% to 2.2%. This reflects strong income growth in 2001, though recent statistics make it clear that income growth slowed sharply in 2002, and thus the decline in this ratio is likely to be temporary.

With the slowdown of the economy many states experienced a significant drop in tax revenues in 2002. This slowdown, coupled with continued pressure on expenditures, and the rise of education and Medicaid costs, has lead many states to experience tighter budgets. As a result, states' debt issuance increased in part to cover revenue shortfalls as well as to fund capital projects. Such use of debt includes the securitization of tobacco settlement payments, deficit financing, as well as a shift from pay-go to debt issuance for capital spending.

Outlook

Despite the slow US economy recovery from the recent recession, state tax revenues are lagging and will likely continue to be weak. With infrastructure needs still pressing but budgets remaining tight, Moody's expects states to turn to increased debt issuance as a way to maintain capital spending for needed infrastructure projects and to finance operations. As a result, we expect state net-tax supported debt in 2003 to grow at least as fast as in 2002. In addition, the historically low interest rate environment will continue to encourage states to refund and restructure their outstanding debt to achieve debt service savings. Low interest rates also make debt issuance more attractive as a capital financing tool. Overall state debt burdens relative to the states' wealth, as measured by personal income, remain low and stable, demonstrating strong state debt management practices that are consistent with the high level of credit ratings assigned to states.

Net Tax-Supported Debt Per Capita

			Rating
1	Connecticut	$3,440	Aa3
2	Massachusetts	$3,298	Aa2
3	Hawaii	$3,111	Aa3
4	New Jersey	$2,110	Aa2
5	New York	$2,095	A2
6	Delaware	$1,599	Aaa
7	Rhode Island	$1,508	Aa3
8	Washington	$1,507	Aa1
9	Mississippi	$1,207	Aa3
10	Kentucky	$1,095	Aa2*
11	Illinois	$1,040	Aa3
12	Florida	$985	Aa2
13	Maryland	$977	Aaa
14	Wisconsin	$958	Aa3
15	West Virginia	$950	Aa3
16	Vermont	$861	Aa1
17	Kansas	$860	Aa1*
18	New Mexico	$844	Aa1
19	California	$810	A2
20	Georgia	$802	Aaa
21	Ohio	$750	Aa1
22	Pennsylvania	$693	Aa2
23	Utah	$682	Aaa
24	Louisiana	$650	A2
25	Minnesota	$625	Aa1
26	South Carolina	$587	Aaa
27	Virginia	$546	Aaa
28	Michigan	$542	Aaa
29	Alabama	$540	Aa3
30	Arizona	$539	NGO**
31	New Hampshire	$485	Aa2
32	Maine	$471	Aa2
33	Oregon	$454	Aa3
34	North Carolina	$429	Aa1
35	Nevada	$413	Aa2
36	Missouri	$368	Aaa
37	Montana	$329	Aa3
38	Arkansas	$328	Aa2
39	Oklahoma	$302	Aa3
40	Indiana	$300	Aa1*
41	Colorado	$295	NGO**
42	Wyoming	$256	NGO**
43	Texas	$246	Aa1
44	North Dakota	$223	Aa3*
45	Tennessee	$222	Aa2
46	South Dakota	$190	NGO**
47	Iowa	$156	Aa1*
48	Alaska	$94	Aa2
49	Idaho	$83	Aa3*
50	Nebraska	$38	NGO**
	MEAN:	***$838***	
	MEDIAN:	***$606***	
	Puerto Rico	*$5,428****	*Baa1*

* Issuer Rating (No G.O. Debt)
** No General Obligation Debt
*** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.
Puerto Rico population is 2002 estimate.

Net Tax-Supported Debt as a % of 2001 Personal Income

1	Hawaii	10.4%
2	Massachusetts	8.4%
3	Connecticut	8.1%
4	New York	5.8%
5	New Jersey	5.5%
6	Mississippi	5.4%
7	Delaware	4.9%
8	Rhode Island	4.8%
9	Washington	4.6%
10	Kentucky	4.3%
11	West Virginia	4.0%
12	New Mexico	3.5%
13	Florida	3.3%
14	Wisconsin	3.2%
15	Illinois	3.1%
16	Kansas	3.0%
17	Vermont	2.9%
18	Utah	2.8%
19	Georgia	2.8%
20	Maryland	2.7%
21	Louisiana	2.6%
22	Ohio	2.6%
23	California	2.5%
24	South Carolina	2.3%
25	Pennsylvania	2.2%
26	Alabama	2.1%
27	Arizona	2.1%
28	Minnesota	1.8%
29	Michigan	1.8%
30	Maine	1.7%
31	Virginia	1.7%
32	Oregon	1.6%
33	North Carolina	1.5%
34	New Hampshire	1.4%
35	Arkansas	1.4%
36	Nevada	1.4%
37	Montana	1.3%
38	Missouri	1.3%
39	Oklahoma	1.2%
40	Indiana	1.1%
41	Colorado	0.9%
42	Texas	0.9%
43	Wyoming	0.8%
44	North Dakota	0.8%
45	Tennessee	0.8%
46	South Dakota	0.7%
47	Iowa	0.6%
48	Idaho	0.3%
49	Alaska	0.3%
50	Nebraska	0.1%
	MEAN:	***2.7%***
	MEDIAN:	***2.2%***
	Puerto Rico	49.2%**

** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only. Puerto Rico population is 2002 estimate.

Total Net Tax Supported Debt (000's)

			Rating
1	New York	$40,130,200	A2
2	California	$28,440,830	A2
3	Massachusetts	$21,199,064	Aa2
4	New Jersey	$18,123,328	Aa2
5	Florida	$16,456,020	Aa2
6	Illinois	$13,100,510	Aa3
7	Connecticut	$11,905,168	Aa3
8	Washington	$9,143,720	Aa1
9	Ohio	$8,571,013	Aa1
10	Pennsylvania	$8,543,748	Aa2
11	Georgia	$6,868,145	Aaa
12	Michigan	$5,443,771	Aaa
13	Texas	$5,351,874	Aa1
14	Maryland	$5,333,649	Aaa
15	Wisconsin	$5,212,673	Aa3
16	Kentucky	$4,480,489	Aa2*
17	Virginia	$3,984,497	Aaa
18	Hawaii	$3,872,506	Aa3
19	North Carolina	$3,568,995	Aa1
20	Mississippi	$3,466,501	Aa3
21	Minnesota	$3,136,608	Aa1
22	Arizona	$2,940,905	NGO**
23	Louisiana	$2,913,141	A2
24	Alabama	$2,422,310	Aa3
25	South Carolina	$2,409,589	Aaa
26	Kansas	$2,336,557	Aa1*
27	Missouri	$2,087,699	Aaa
28	Indiana	$1,846,632	Aa1*
29	West Virginia	$1,711,016	Aa3
30	Rhode Island	$1,613,090	Aa3
31	Oregon	$1,597,157	Aa3
32	Utah	$1,579,292	Aaa
33	New Mexico	$1,566,120	Aa1
34	Colorado	$1,330,247	NGO**
35	Delaware	$1,290,700	Aaa
36	Tennessee	$1,289,408	Aa2
37	Oklahoma	$1,055,504	Aa3
38	Nevada	$898,297	Aa2
39	Arkansas	$889,759	Aa2
40	New Hampshire	$618,294	Aa2
41	Maine	$609,355	Aa2
42	Vermont	$530,993	Aa1
43	Iowa	$457,489	Aa1*
44	Montana	$298,982	Aa3
45	South Dakota	$144,277	NGO**
46	North Dakota	$141,564	Aa3*
47	Wyoming	$127,845	NGO**
48	Idaho	$110,946	Aa3*
49	Nebraska	$65,095	NGO**
50	Alaska	$60,800	Aa2
	Totals	**$261,276,372**	
	Puerto Rico	*$20,944,000****	*Baa1*

** Issuer Rating (No G.O. Debt)*
*** No General Obligation Debt*
**** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

Gross Tax Supported Debt (000's)

			Gross to Net Ratio
1	New York	$40,816,200	1.02
2	California	$32,632,054	1.15
3	Massachusetts	$21,631,658	1.02
4	New Jersey	$20,726,743	1.14
5	Connecticut	$19,972,573	1.68
6	Michigan	$17,646,166	3.24
7	Florida	$16,752,620	1.02
8	Illinois	$13,702,320	1.05
9	Pennsylvania	$11,518,648	1.35
10	Washington	$10,743,720	1.17
11	Minnesota	$9,785,183	3.12
12	Ohio	$8,725,228	1.02
13	Texas	$8,352,393	1.56
14	Virginia	$8,019,452	2.01
15	Oregon	$7,351,286	4.60
16	Georgia	$6,868,145	1.00
17	Colorado	$6,120,247	4.60
18	Wisconsin	$6,099,298	1.17
19	Hawaii	$5,965,263	1.54
20	Alabama	$5,411,371	2.23
21	Kentucky	$5,376,704	1.20
22	Maryland	$5,334,649	1.00
23	South Carolina	$4,779,809	1.98
24	Louisiana	$4,618,208	1.59
25	Utah	$4,578,632	2.90
26	Maine	$4,212,835	6.91
27	Tennessee	$3,596,474	2.79
28	North Carolina	$3,568,995	1.00
29	Indiana	$3,537,347	1.92
30	Mississippi	$3,466,501	1.00
31	Arkansas	$3,336,295	3.75
32	West Virginia	$2,986,837	1.75
33	Arizona	$2,940,905	1.00
34	Kansas	$2,336,557	1.00
35	Alaska	$2,206,345	36.29
36	Missouri	$2,087,699	1.00
37	Rhode Island	$1,974,543	1.22
38	Delaware	$1,910,541	1.48
39	New Hampshire	$1,841,779	2.98
40	New Mexico	$1,668,917	1.07
41	Nevada	$1,476,755	1.64
42	Iowa	$1,110,746	2.43
43	Vermont	$1,081,433	2.04
44	Oklahoma	$1,055,504	1.00
45	North Dakota	$626,870	4.43
46	South Dakota	$443,122	3.07
47	Montana	$403,451	1.35
48	Idaho	$302,775	2.73
49	Wyoming	$127,845	1.00
50	Nebraska	$72,280	1.11
	Totals	**$351,901,921**	**1.35**
	Puerto Rico	*$24,674,000***	*1.18*

*** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

Net Tax-Supported Debt as a Percentage of Personal Income

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Alabama	2.4	2.2	2.0	2.0	1.8	1.9	1.7	1.5	2.3	2.2	2.2	2.2
Alaska	2.5	2.6	2.4	1.2	0.9	0.9	0.5	0.0	1.0	0.4	0.4	0.3
Arizona	1.6	1.8	1.6	2.7	2.4	2.1	1.9	1.9	1.6	1.6	1.9	2.1
Arkansas	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.6	0.9	1.2	1.2	1.4
California	2.0	2.5	3.0	3.5	2.8	2.6	2.6	2.6	2.4	2.5	2.5	2.5
Colorado	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.03	0.4	0.7	0.9
Connecticut	8.7	8.9	9.1	9.6	9.7	9.4	8.7	8.7	8.1	8.0	8.0	8.2
Delaware	8.1	7.5	8.0	8.0	7.6	6.4	5.9	5.7	5.2	5.5	5.3	5.0
Florida	2.2	2.3	2.9	3.0	2.9	3.0	3.4	3.5	3.4	3.3	3.4	3.5
Georgia	2.5	2.9	3.0	3.1	3.3	3.1	2.9	2.9	2.8	2.6	2.9	2.9
Hawaii	10.2	10.4	12.1	10.5	10.3	10.9	10.7	11.2	11.6	11.0	10.4	10.9
Idaho	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.4	0.4	0.3	0.4	0.3
Illinois	2.7	2.7	3.0	3.2	3.2	2.9	2.7	2.6	2.6	2.7	2.8	3.2
Indiana	0.7	1.0	1.0	1.0	0.9	0.9	0.8	0.9	0.9	1.1	1.1	1.1
Iowa	0.2	0.4	0.4	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.6	0.6
Kansas	0.5	1.3	2.0	2.1	2.0	1.9	1.7	2.0	2.4	3.1	3.0	3.0
Kentucky	4.7	5.1	5.0	4.7	5.1	4.1	3.9	3.7	3.5	4.4	4.3	4.4
Louisiana	6.5	6.3	5.9	5.4	4.9	4.4	2.6	2.6	2.4	2.5	2.4	2.7
Maine	2.2	2.7	2.6	2.7	2.7	2.6	1.9	1.9	2.1	2.0	1.9	1.8
Maryland	3.4	3.3	3.3	3.5	3.4	3.3	3.1	3.3	3.0	2.6	2.6	2.8
Massachusetts	8.0	8.5	8.2	8.4	8.3	8.1	7.8	7.8	8.0	8.5	8.5	8.5
Michigan	1.2	1.6	1.5	1.5	1.5	1.5	1.6	1.7	1.5	1.6	1.5	1.8
Minnesota	2.2	2.2	2.0	1.9	1.9	2.2	1.9	2.0	1.9	1.8	1.8	1.9
Mississippi	1.8	1.8	2.1	2.0	3.0	2.9	3.5	4.4	4.7	4.6	4.7	5.6
Missouri	1.3	1.3	1.2	1.2	1.3	1.3	1.0	1.0	1.0	1.1	1.3	1.3
Montana	2.2	2.1	1.9	3.2	2.4	1.4	1.4	1.7	1.7	1.7	1.6	1.4
Nebraska	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Nevada	2.9	2.7	2.2	2.1	2.0	1.8	1.6	1.8	1.8	1.8	1.7	1.4
New Hampshire	2.5	2.7	2.9	2.9	2.9	2.5	2.4	2.3	2.0	1.5	1.5	1.4
New Jersey	2.2	3.0	2.9	3.7	3.6	3.8	5.1	5.2	5.3	5.5	5.6	5.5
New Mexico	1.8	1.7	2.1	2.1	2.1	2.0	1.9	2.6	3.1	4.0	4.0	3.7
New York	5.6	6.1	6.4	6.6	6.9	6.7	6.5	6.6	6.4	6.2	5.9	5.9
North Carolina	0.6	0.6	0.6	0.8	0.7	0.7	1.0	1.2	1.4	1.4	1.4	1.6
North Dakota	1.2	1.2	1.1	1.1	1.1	1.0	0.8	0.6	0.7	0.9	0.9	0.9
Ohio	2.4	2.5	2.5	2.4	2.5	2.5	2.5	2.7	2.7	2.6	2.6	2.6
Oklahoma	0.4	0.4	1.0	1.0	0.8	0.9	0.8	1.2	1.3	1.4	1.3	1.2
Oregon	1.5	1.1	1.2	1.2	1.4	1.9	1.2	1.2	1.3	1.6	1.5	1.6
Pennsylvania	2.7	2.6	2.7	2.6	2.4	2.2	2.0	2.3	2.2	2.2	2.3	2.3
Rhode Island	6.1	8.8	8.9	8.7	8.5	8.7	6.6	6.5	6.2	5.3	5.2	5.0
South Carolina	1.8	1.9	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.8	2.5	2.4
South Dakota	2.2	2.3	2.3	2.1	1.8	1.8	1.5	1.5	1.5	1.2	0.9	0.7
Tennessee	1.0	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.2	0.9	0.8
Texas	1.2	1.1	1.2	1.6	1.7	1.5	1.4	1.3	1.2	1.0	0.9	0.9
Utah	1.6	1.7	1.6	1.7	1.8	1.7	3.1	3.6	3.3	2.8	3.0	2.9
Vermont	4.5	4.6	4.5	4.7	4.9	4.7	4.2	4.2	3.8	3.3	3.0	3.0
Virginia	1.2	1.3	1.6	1.7	1.6	1.7	2.1	2.0	2.1	1.9	1.8	1.7
Washington	4.4	5.0	5.0	5.0	4.8	5.0	4.8	4.6	4.6	4.4	4.4	4.8
West Virginia	4.7	3.4	3.1	2.5	2.6	2.7	2.8	3.4	3.3	4.2	4.0	4.1
Wisconsin	2.7	3.1	3.0	3.0	2.9	3.2	2.8	2.8	2.7	3.2	3.0	3.3
Wyoming	0.0	0.0	0.5	0.4	0.4	0.7	0.7	1.0	1.0	1.0	1.4	0.9
Median	**2.2**	**2.2**	**2.1**	**2.1**	**2.1**	**2.1**	**1.9**	**2.0**	**2.2**	**2.1**	**2.3**	**2.2**

Related Research

Special Comments -

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Weak Economy And Lagging Personal Income Taxes Cause Four Times As Much Municipal Market Debt To Be Downgraded As Upgraded In 2nd Quarter, July 2003, # 78712

Rating Changes for the 50 States from 1973 to Date, June 2003, # 78619

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Tax Supported
New Issue

State of Vermont

Rating
General Obligation Bonds ..... AA+

Analyst
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Issuer Contact
James H. Douglas
State Treasurer
1 802 828-2301

New Issue Details
$64,580,000 General Obligation Bonds, including $30,800,000 2002 Series A and $33,780,000 2002 Series B (refunding) for separate bids Dec. 4. Bonds will be due Aug. 1, Series A in 2003–21 and Series B in 2003–13, and will be callable beginning Aug. 1, 2012, at par.
Security: General obligations of the State of Vermont; full faith and credit pledged.

■ Outlook
Vermont's conservative approach to debt and financial operations provides a strong foundation for high credit quality. During the protracted recession period of the early 1990s, the state assiduously followed an austere recovery program, demonstrating well its willingness to take appropriate action for stability. Following recovery, its reserves were fully funded, expenditure levels remained under control and substantial surplus was used for capital purposes, allowing debt to decline. The state's economy has weakened, and revenues were below projections. Appropriations were cut but partial use of the reserve was still necessary. Revenues through October are somewhat above revised projections and the state intends to avoid further of the reserve at this time.

■ Rating Considerations
Important to Vermont's long-term credit assessment is the demonstrated willingness to keep debt within manageable parameters and fidelity to the simplicity of debt structure, having used faith and credit obligations almost exclusively and, since a refunding in 1998 virtually all direct debt is again general obligation. Debt has declined for four consecutive years, debt ratios are moderate, and amortization is rapid. In line with affordability recommendations, annual borrowing has been reduced, and considerable capital needs have been met from cash, not bonding.

Financial operations were successful for the six years through 2001. After elimination of the deficit in 1995–96, the rebuilding of the budget stabilization reserve commenced followed by the setting up of further reserves for education and welfare as well as the use of current surplus for capital purposes. The stabilization reserve become fully funded now at 5% of revenues. Revenues, driven by the personal income tax, consistently exceeded estimates until weakness surfaced in 2001. The personal income dropped reflected a sharply lower capital gains base, the recession dampened withholdings and corporate taxes were disappointing. Despite expenditure measures, over half of the reserve was tapped in fiscal 2002. This year revenues are a little ahead of revised estimates and the reserve is not expected to be used.

Vermont lost about 5% of employment in the early 1990s recession, but by 1994, employment had exceeded the pre-recession level. However, manufacturing employment, higher paying than the services sector, was slower to recover. While good gains were made, jobs in the sector remained below the 1980's level. With the 2001 recession, manufacturing declined again. Although services have grown, the transformation tends to slow personal income expansion.

Strengths

- Virtually exclusive use of general obligations.
- Moderate and declining debt ratios, with affordability planning.
- Uncomplicated financial system.
- Generally conservative policies.
- Reserves built during strong financial period.
- Deficit plan followed in adverse situation.

Risks

- Some vulnerability through manufacturing importance.
- Revenues have not consistently been meeting estimates.

Debt Position

Vermont has a favorable debt position with no constitutional or statutory restrictions. All direct debt is now general obligation, as a minor amount of leases and certificates of participation (COPs) were refunded in 1998. The bonds which refunded the leases and COPs are treated as special fund bonds, for internal cost accounting purposes, but are actually general purpose obligations. General purpose bonds are serviced from the general fund and highway debt from the transportation fund. Not included in debt is that issued by the Education and Health Building Finance Agency for the benefit of developmental and mental health services provider although much support for the programs is from state appropriations.

There is considerable exposure through credit extension, although it was significantly reduced with the sale of the portfolio of the Vermont Home Mortgage Board, which had liabilities of $117 million in 1998. The state's full faith and credit backs up certain programs of the Vermont Economic Development Authority (VEDA), including the insuring of $15 million mortgages, $10 million borrowings for family farms (90% of loans must be federally guaranteed) and up to $2 million for a jobs program. VEDA in the past borrowed from the state for its mortgage program and the treasurer holds $3.8 million of notes from the authority, and $13.4 million in a 20-year obligation. VEDA has $10.4 million revenue bonds secured by loan repayments and has issued commercial paper ($24.5 million outstanding) for financing new loans; the commercial paper program has a reserve deficiency make-up provision with the state, not to exceed $25 million. Calls on the various guarantees have been minor. There are reserve fund deficiency make-up provisions with the Municipal Bond Bank and the Housing Finance Agency, the latter limited to $125 million bonds; there have been no calls through this provision.

Debt Statistics

($000)

General Obligation Bonds	
General Purpose: Outstanding	445.281
To Be Issued*	35,800
Transportation Bonds	15,214
Total G.O. Bonds	496,295
Revenue Anticipation Notes	75,000
Contingent Liabilities	
Family Farm Program	720
Reserve Fund Commitments	
Bond Bank	411,650
Housing Finance Agency	79,245
Economic Development Authority	25,000
Gross Debt	1,087,910
Less: Contingent Liabilities	720
Reserve Fund Commitments	515,895
RANs	75,000
Net Tax-Supported Debt	496,295
Debt Ratios	
Per Capita ($)	815 (608,827, 2000)
% Estimated Full Value	1.1 ($43,942,727,721, 2001)
% Personal Income	2.8 ($17,531,000,000, 2001)
Debt Service, 2000–01	
General Purpose as % of General Fund Revenues	7.7
Transportation as % of Transportation Fund Revenues	1.7
Total Debt Service Combined as % of Revenues	6.6
Amortization (%)	
Five Years	45
10 Years	79

*Includes this issue and $5,000,000 minibonds expected later this year but excludes refunding bonds now offered. G.O. – General obligation. RANs – Revenue anticipation notes.

Short-term debt has been employed regularly, both for operating and capital purposes. In 1993–97, it was entirely in the form of commercial paper. Operations in 1997–98 were so favorable that operating debt was reduced to $20 million, down from $105 million in 1996–97, and the period of need was brief. There was no need for operating borrowing until this year when $75 million was issued.

Vermont has a capital debt affordability advisory committee that will recommend prudent debt authorizations, taking into account, among other things, debt in relation to personal income and debt

Financial Statistics

($000, Fiscal Years Ended June 30)

	General and Special Revenue Funds		
	1998–99	1999–2000	2000–01
Revenues			
Taxes	1,089,008	1,178,672	1,227,410
Federal Aid	733,600	827,321	862,475
Total	2,019,240	2,213,351	2,287,788
Expenditures			
Human Services	795,392	881,252	934,376
Education	416,148	535,422	531,254
Transportation	238,994	270,558	292,165
Debt Service	72,101	74,872	73,896
Total	1,873,468	2,175,086	2,306,032
Operating Result			
After Transfers	45,772	38,265	18, 244
General Fund Stabilization Reserve	40,033	41,366	43,019
Transportation Stabilization Reserve	8,309	8,803	8,880
Education Stabilization Reserve	1,000	18,810	21,000

service in relation to revenues. A range of $75 million–$100 million annually over the 1990s was set, but amounts were lowered reflecting the recession. Annual amounts have declined from $64 million in 1993–94 to $43 million in 1996–97 and 1997–98 and to $39 million in 1998–99 and 1999–2000, $34 million 2000–01 and $39 million recommended for 2001–02 and 2002–03. Authorizations have approximately matched recommendations.

The state will follow this issue of bonds with $5.0 million general obligation minibonds by the end of the year. The state now makes annual bond authorizations, eliminating any overhang of authorized but unissued debt.

Debt ratios are well within the moderate range. Debt had been rising but the lower affordability level has now become evident. In addition, surplus has been directed to capital purposes, reducing borrowing. From 1992 to 1997, tax supported debt rose 29%, but excluding the deficit notes outstanding in 1992 the increase was 50% while personal income rose 26% over the period. Debt currently is about 14% below the 1997 level, while personal income rose 27% in 1997–2001.

■ Financial Operations

The general fund is the basic operating account. Accounting has been done on a cash basis, but the conversion to GAAP was completed for the 1996 fiscal year.

Vermont returned to surplus operations in 1995–96 which, when combined with a transfer from the transportation fund, eliminated the general fund deficit from the previous year. Vermont had deficit operations in 1991–93, returned to surplus in 1993–94, but again suffered a deficit in 1994–95 when revenues fell short of expectations.

In 1995–96, the original budget was modified to take account of the revenue shortfall experienced in the spring of 1995 and expenditures were cut. In fact, the personal income tax out-performed expectations and an operating surplus was achieved. For 1996–97, an exactly balanced budget was adopted, with modest revenue growth. Actually, revenues, spurred by the personal income tax, were more than 6% over estimates while spending was restrained. The general fund had an operating surplus of almost $50 million, which was basically retained in reserves, except for a $4.9 million transfer to the transportation fund which had a small operating deficit. At June 30, 1997, the budget stabilization fund had a balance of $35.1 million, $7 million was in reserve for education and $2.9 million was reserved for debt reduction. The transportation fund held $7 million in its reserve.

Financial operations in the following years had been favorable, with revenues generally ahead of estimates, operating surpluses achieved and reserves accumulated. Additionally, significant much of appropriations were made for capital and other one time purposes. In 2000–01, growth slowed, with revenues up only 1.3% but an operating surplus of $36 million was achieved. Personal income taxes

rose about 4% and the sales tax was flat. Cigarette taxes, which totaled $11.0 million in the previous year, no longer flow to the general fund but are deposited in the health care access trust fund. Reserves at year-end included $43 million in the stabilization reserve, $18 million in human services caseload reserve and $31 million was reserved for other purposes, for a total of $92.6 million. The transportation fund had a small operating surplus of $6 million; at June 30, its stabilization reserve held $8.9 million

The 2001–02 budget assumed that available revenue would be around the same level as in the previous year and operating surplus after transfers of $23 million to the transportation and education funds was set at $9.3 million. In fact, general fund revenues were about 7% lower than in 2000–01 and 10% below original estimates. The personal income tax was 11% below the previous year and 13% below original estimates, primarily due to the capital gains, options, etc., component. Revenue estimates were lowered twice during the year and in response, appropriations were reduced but the final shortfall dictated the use of $29 million from the reserve, leaving $17 million in that fund as well as $18 million in the caseload reserve.

The budget for 2002–03 was premised on revenues of $883 million but in July, a reduction of 4.5% was made, opening a budget gap of about $38 million. The gap closing plan includes appropriation cuts, use of some tobacco settlement moneys and other measures. There are no current plans to draw further from the reserve. Total reserves at the end of 2002–03 are projected at about $70 million, including $17.6 million in the general fund stabilization reserve, $18 million in the caseload reserve, $24.6 million in the tobacco trust fund and $10 million in the transportation stabilization reserve. For the four months through October, general fund revenues are $10 million over estimates and transportation and education fund revenue are on track.

General and Special Revenue Funds
($000, GAAP)

	1998–99	1999–2000	2000–01
Revenues	2,027,231	2,566,764	2,634,599
Taxes	1,092,581	1,529,510	1,590,016
Federal Aid	752,470	847,345	849,190
Expenditures	1,939,558	2,526,902	2,627,013
Education	486,572	844,920	883,907
Human Services	822,651	909,481	909,236
Transportation	245,902	266,797	294,265
Debt Service	72,067	74,855	73,895
Operating Result	87,673	39,862	7,586
General Fund Balance	135,894	110,681	172,757
Undesignated Balance	53,861	10,696	86,583

■ Economic Base

Vermont's economy includes manufacturing, tourism and agriculture, although the latter has declined considerably in importance. Services now account for 31% of employment, followed by trade at 23% and manufacturing, mostly durables, 16%. Manufacturing declined in the 1990s recession, with employment dropping from over 50,000 in 1985 to the 43,000 level in the early 1990s. There was recovery, with 2000 manufacturing employment at 49,250, but slipping in 2001 to 47,600 and currently at 44,100. The state's largest employer continues to be IBM although there have been some layoffs. A Canadian company, Husky Injection Mold Systems, has established a presence here. Tourism is broad based, including several ski areas for winter attraction while scenic beauty and countryside encourage summer visitors. Several ski areas have undergone improvement, including a continuation of year-round use. The widespread second home and condominium usage already provides some stability. Canadian tourism and shopping is an economic factor and the weak Canadian dollar presents some weakness currently.

Employment in Vermont peaked in 1989 after a period of rapid growth. About 5% of employment was lost, only about half as severe as the losses in most New England states. By the end of 1994, the loss had been regained and 2000 employment was about 14% over the earlier peak. It remained at the same level in 2001. In October 2002, compared to the same month a year ago, employment was up 0.2%, with increases of 2.0% in services, 0.6% in trade, 2.0% in government, 3.1% in 6.0% FIRE while manufacturing was down 6.0%. October was a very favorable month but indicates cautious optimism about improvement. For 2002, a loss of 0.9% is expected, with gains of 0.5% in 2003 and 1.9% in 2004. Personal income is projected to increase 3.9% on the average in 2001–06 below the 4.8% average for the preceding five years. Unemployment has been consistently below the national average and government was unchanged.

Many of the new jobs would appear to be in lower paying industries as personal income growth has generally lagged the national figures since 1993, both

in total and on a per capita basis. In 1980, Vermont ranked 36th in personal income per capita. In 1990, it improved to 26th and final numbers indicate that that position was retained in 2001, which was a positive year for the state. For second quarter 2002, the state gain of 3.5% was equal to 130% of the national 2.7% rate.

Employment Trends

Employment
(000)

Unemployment Rate
(%)

	VT	% Change	U.S.	% Change	VT	U.S.	VT as % of U.S.
1980	200	—	90,406	—	6.4	7.1	90
1985	225	12.5	97,387	7.7	4.8	7.2	67
1988	256	12.4	105,210	8.0	2.8	5.5	51
1989	261	3.2	107,895	2.6	3.6	5.3	66
1990	257	(1.5)	109,419	1.4	5.0	5.5	91
1991	249	(3.1)	108,256	(1.1)	6.4	6.7	96
1992	251	0.8	108,604	0.3	6.6	7.4	89
1993	257	2.4	110,730	2.0	5.4	6.8	79
1994	264	2.7	114,172	3.1	4.7	6.1	77
1995	270	2.4	117,203	2.7	4.2	5.6	75
1996	275	1.9	119,554	2.0	4.6	5.4	85
1997	279	1.5	122,690	2.6	4.0	4.9	82
1998	285	2.2	125,865	2.6	3.4	4.5	76
1999	292	2.5	128,916	2.4	3.0	4.2	71
2000	298	2.1	131,720	2.2	3.0	4.0	75
2001	299	6.3	131,922	0.2	3.6	4.8	75
October 2002	303	1.3	130,849	(0.8)	3.4	5.7	60

Personal Income
(Change from Prior Year)

Per Capita Income
(Change from Prior Year)

	—% Change— VT	U.S.	VT as % of U.S. Growth	—% Change— VT	U.S.	VT as % of U.S. Growth
1991	1.4	3.7	38	0.9	2.6	37
1992	6.5	6.1	107	5.9	4.9	120
1993	3.3	4.1	80	2.6	3.0	87
1994	4.8	5.0	96	3.9	4.0	98
1995	4.6	5.3	87	3.9	4.3	91
1996	5.0	5.6	89	4.4	4.6	96
1997	5.2	6.0	87	4.8	5.0	96
1998	6.5	6.6	98	6.2	5.6	110
1999	5.5	4.9	112	4.7	3.7	127
2000	7.4	8.0	93	6.5	6.8	96
2001	5.0	3.3	152	4.4	2.4	183

Components of Personal Income: Earnings

	VT 1999	VT 2001	% Change 1999–2001	U.S. 1999	U.S. 2001	% Change 1999–2001
Manufacturing	19	19	11	16	15	10
Durables*	14	14	14	10	9	1
FIRE	6	6	12	9	10	14
Services	29	30	13	29	30	14
Trade	15	15	13	15	15	9
Construction	7	7	13	6	6	14
Government	16	16	15	16	16	11

*Durables is a subhead of manufacturing.

State Population: 608,827 (2000)
Population Change 1990–2000 VT 8.2%; U.S. 13.2%
Personal Income Per Capita 2001: $28,594 = 94% of U.S.; rank 26th.

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Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue
Published 15 Jan 2003

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Moody's Rating

Issue	Rating
General Obligation Bonds (Vermont Citizens Bonds), Series 2002C	Aa1
Sale Amount $5,000,000	
Expected Sale Date 01/29/03	
Rating Description General obligation	

MOODY'S ASSIGNS Aa1 RATING TO STATE OF VERMONT'S GENERAL OBLIGATION BONDS

Opinion

Moody's has assigned a rating of Aa1 and stable outlook to the State of Vermont's general obligation bonds. The state's high quality rating reflects our expectation that the state's economic performance will improve over the next two years, though at a slower pace than that of the nation; a stable financial position despite recent downward pressure on revenues; conservative budget and management policies; and manageable debt levels that have declined over the past few years. The state closed a fiscal year 2003 budget gap of almost $39 million through reductions in General Fund appropriations, which resolved about half of the shortfall, and transfers from other funds. Moody's expects the state will take the necessary actions to address any future revenue under-performance.

ECONOMY SHOWS SIGNS OF WEAKNESS, AFTER HOLDING UP WELL IN FACE OF NATIONAL SLOWDOWN

Vermont's economic performance is not expected to begin improving until the first quarter of calendar year 2003, more than halfway through the state's fiscal 2003 year. After relatively good performance in 1999 and 2000, economic indicators showed slower growth in 2001, followed by a decline in non-farm employment in 2002 as the full impact of the economic weakening took hold in Vermont. Unemployment levels are higher than last year but, at 4.0% in November 2002, remain 2 percentage points below national unemployment rates, and lower than other New England States.

Vermont's manufacturing sector added jobs through December 2000, but has since steadily declined, with larger year-over-year decreases continuing through most of the current year. IBM, the state's largest employer, has announced a total of 1,289 job reductions since November 2001. In addition, C&S Wholesalers recently announced the relocation of its corporate headquarters from Brattleboro, Vermont to Keene, New Hampshire. Since workers will still be able to commute, this move affects 400 positions without an actual job loss for Vermont's workers, although it does remove a large number of high paying jobs from the State's payroll job count. Vermont's economy relies somewhat heavily on manufacturing, which makes up about 16% of industry employment versus 13.4% for the United States. The state's manufacturing sector is not expected to recover in the near term. Tourism remains a vital source of seasonal cash flow from income and sales tax revenue. While the outlook for this sector is uncertain and remains dependent on the weather, tourism-sensitive revenues have performed reasonably well recently. Holiday retail sales also remain an important economic variable for the state.

STRONG FINANCIAL MANAGEMENT PROVIDES STRUCTURAL BUDGET BALANCE

Conservative budgeting and favorable tax revenue performance have allowed the state to produce operating surpluses in each of the last several years, through fiscal 2001. This brought the General Fund Budget Stabilization Reserve to approximately $43 million at 2001 year-end. As the economy and State revenues weakened in fiscal 2002 General Fund revenue projections were twice revised downward from original estimates and appropriation levels were also reduced. Year-end results for 2002 indicate a total General Fund operating deficit of $29.5 million after required transfers to the Transportation Fund ($13.85 million) and Education Fund ($5.6 million). The State eliminated the deficit by dipping into the General Fund Budget Stabilization Reserve Fund, still leaving a balance of $17.86 in the reserve. The Human Services Caseload Reserve Fund, which is available for unexpected caseload growth due to the economy, remained the same at $18.05 million. As with the General Fund, Transportation Fund revenues projections were adjusted downward during fiscal 2002 but recovered to result in a year-end $10 million surplus for the fund. The Transportation Fund Budget Stabilization Reserve increased to an estimated $9.9 million at year-end 2002. The Education Fund operated at a deficit in fiscal 2002, although the $12.24 million shortfall was less than the expected $14.26 million. The shortfall was covered by the use of Education Fund reserves, leaving a balance of $14.36 million at year-end. The fund's operating deficit has declined steadily each year, down from $27 million in fiscal 1999, and balanced operations are currently forecast for fiscal 2003 and reserves restored to statutory levels in fiscal year 2004.

SOME POSITIVE SIGNS FOR FISCAL YEAR 2003 REVENUE PERFORMANCE

Following a consensus revenue forecast in July, the state projected a shortfall of $38.6 million. When the budget was adopted, the Legislature provided the governor with broad authority to reduce appropriations in order to balance the budget. The governor's plan to close the gap was approved in August 2002 and included the following actions: appropriation reductions of $20.55 million; a transfer of $6.4 million from the Transportation Fund, which is doing better than expected; and $9.2 million in Tobacco Settlement funds that were not appropriated last year and were specifically set aside to address a possible shortfall. Strong performance in the real estate market is expected to yield $2.5 million higher in property transfer tax receipts that will also help close the budget gap. As a result of the plan, a draw on the Budget Stabilization Reserve Fund is not currently anticipated for fiscal 2003.

The General and Transportation Funds have performed better than expected through December 2002. In addition to higher real estate tax receipts, personal income and consumption taxes are up resulting in General Fund receipts that are $6 million ahead of levels anticipated in the state's cumulative cash flow target. The Transportation Fund is

on target to support approved appropriations, benefiting from motor vehicle sales and associated registration receipts that have so far exceeded original estimates. The Education Fund was slightly below, by $1.8 million, the cash flow target through December 2002.

RELATIVELY HIGH LEVELS OF RAPIDLY AMORTIZED DEBT; MODEST ISSUANCE PLANNED

Vermont's debt levels are moderately high relative to other states, on both a per capita personal basis although the state's ratios have declined slight in recent years. Debt per capita of $813, compared to the state median of $573, ranks Vermont eighteenth among the fifty states. Debt to total personal income of 3.0%, compared to the 2.3% state median, ranks fourteenth and unchanged from prior years. The state has reduced new debt authorization levels each year since 1993 and retired more bond principal in recent years than has been issued.

PENSION SYSTEMS REACH FAVORABLE FUNDING LEVELS

Vermont's state retirement plans have recorded increased funding levels in recent years, benefiting from improved investment returns, while maintaining reasonable assumptions and relatively stable benefit features. The state has three pension plans: the State Teachers Retirement System (STRS), Vermont State Retirement System (VSRS), and the Vermont Municipal Employees Retirement System (MERS). While funded ratios for all three plans increased over the last few years, these ratios could weaken given declines in the equities markets. At June 30, 2002 the STRS had a funding level of 90% (with an unfunded liability of $138 million), a ratio that increased steadily from 74% at June 30, 1990. The VSRS funding level at June 30, 2002 was 97% with an unfunded liability of $27 million, also improved over the 71% funded ratio recorded in 1995. The MERS was has been over-funded for the past five years and assets exceeded liabilities by 10% at June 30, 2002, up from a funding ratio of 98% in 1992.

Outlook

The state's credit outlook is stable, reflecting Moody's view that the state's conservative financial policies, and healthy reserve levels make the state well positioned to maintain a balanced budget through the current period of economic uncertainty. We expect the state will continue to respond with budget adjustments as needed to maintain budget balance. Favorable operating performance in previous years allowed the state to build and maintain reserve funds. Vermont maintains 5% of the prior year budgetary appropriations in each of the general, transportation and education funds. These funds provide a degree of operating cushion, and make the state well positioned to accommodate moderate additional shortfalls.

STANDARD &POOR'S PUBLIC FINANCE

Publication date: 27-Nov-2002
Reprinted from RatingsDirect

Vermont; Tax Secured, General Obligation

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Credit Profile
$72.6 mil muni debt muni issue ser 2002 A&B due 2021
AA+
Sale date: 04-DEC-2002
AFFIRMED
$515.400 mil. Vermont
AA+
OUTLOOK:
STABLE

Rationale

Outlook

Economy

Debt

Fiscal 2004 Budget

Rationale

The 'AA+' rating on the state of Vermont's GO and GO refunding bonds reflects:

- A weakened financial position due to the effects of the economy, although with a combination of use of reserves, cutting budget items, and controlling capital debt issuance, the state has retained solid flexibility to address future budgets;
- A diversified state economy being affected by the national recession, but with unemployment still below the national average; and
- A favorable debt position with a low debt burden and rapid amortization.

The debt position is expected to continue to improve, with projected fiscal 2002 outstanding GO debt 15% less than fiscal 1998's, and a trend of more debt being retired than being issued.

Consistent with the state's conservative management approach, actions to balance the fiscal 2002 and 2003 budgets have been swift and prudent. Following the July 10, 2002, meeting of the consensus revenue forecasting committee, it was determined that the fiscal 2003 budget was nearly $39 million out of balance. The appropriations act for fiscal 2003 provided temporary rescission authority to the administration beyond that previously enacted. The additional authority gave the Vermont Legislature 14 days from the date of submittal to suggest alternate cuts from the administration's plan. The dollar amount of the administration cuts had to be made, but the legislature could suggest alternate sources. On Aug. 27, 2002, the administration and the legislature agreed to a plan to erase the $38.7 million shortfall through a series of transactions and budget reductions including a $6.4 million transportation fund carry forward from a fiscal 2002 surplus, $9.2 million appropriation of tobacco settlement surplus funds, and roughly $23 million in cuts from the budget. The plan does not anticipate use of the general fund stabilization reserve in fiscal 2003.

Fiscal 2003 revenue collections to date have been variable, but through October are ahead of the revised target by $10 million. Withholding taxes are $4 million ahead of projections, possibly reflecting a stabilizing workforce following a summer of major layoffs. Continued strength in withholding taxes will help to verify this assumption. Other positive revenues are in sales, meals, and lodging taxes, which are showing signs of strengthening following a weak fall 2001 tourist season and a relatively mild 2001 into 2002 ski season.

Fiscal 2002 preliminary closing results indicate a general fund operating deficit of $5.7 million and a total deficit of $25.2 million. The completed fiscal 2002 audit is expected to be complete by March 2003 and then future audits by December 31 in subsequent years. The state addressed the fiscal 2002 deficit through use of the general fund stabilization fund, leaving it with a $17.9 million balance. The consensus revenue forecasting committee met three times during the year and two rescissionary actions were taken to bring the

budget in line with current expectations. The preliminary fiscal 2002 final revenue estimate of $866.4 million is more than $45 million below the original revenue estimated from the July 2001 consensus revenue committee. Expenditures were reduced from the original $893.4 million through two separate rescissions to $872.1 million.

The state's transportation fund closed fiscal 2002, with preliminary results indicating a $10.8 million surplus in the transportation fund. The education fund closed fiscal 2002 with a preliminary $7.9 million deficit, which the state is covering with the education reserve. The reserve use will bring the reserve amount to 3.1%, below the statutory 5%, but the state expects to bring the reserve back in compliance in fiscal 2004.

At the close of fiscal 2002, Vermont retains solid financial flexibility to address future adjustments from the revenue forecasting committee. Reserves on hand total nearly $46 million and include $17.9 million in the general fund stabilization fund, $9.9 million in the transportation fund, and $18.1 million in the human services caseload reserve.

Outlook

The stable outlook reflects the expectation that the state's economy will continue to diversify and that prudent financial and debt management practices will continue through the new administration.

Economy

The Vermont economy has slowed in the national recession. Unemployment dropped to 3.7% in August 2002 from its high of 4.7% in January 2002 and has remained well below the national average. According to Economy.com, the Vermont economy is expected to turn around by the first quarter of 2003, but full job recovery is not expected until the second quarter 2004. Between June 2001 and June 2002, the Vermont economy lost 3,050 jobs statewide, with 2,600 in the durable goods sector. IBM, the state's largest employer, went through two rounds of layoffs last year totaling 1,289 reductions, but has hired back 200 of those laid-off at the manufacturing facility. Another company reducing its Vermont labor force is C&S Wholesalers, which moved its corporate headquarters across the Connecticut River from Brattleboro, Vermont to Keane, N.H., taking 400 jobs off the payroll job count, although no Vermonters were expected to lose their jobs. The company employs more than 1,000 people statewide in trucking warehouses, and there is no expectation that the warehouses will close or move. A 200-job addition was recently announced at IDX Corp.

The state's largest employers remain stable with IBM, with more than 6,000 employees; Fletcher Allen Health Care, more than 3,000; and a number of firms exceeding 1,000 employees including Chittenden Trust Company, General Electric, Ethan Allen furniture, Middlebury College, and a couple of grocery stores.

Tourism is an important sector in Vermont, and it was greatly affected by the attacks of Sept. 11, which fell just at the beginning of the lucrative foliage season. The mild winter then caused the ski season to be marginally successful. Even with the slow fall and winter tourist seasons, the passenger boardings at Burlington International Airport appear to be rebounding nicely, with the June 2002 count surpassing the June 2001 numbers.

The Vermont Yankee nuclear power plant was sold on July 31, 2002, to Entergy Nuclear of Mississippi. This sale and concurrent 10-year operating contract will allow the plant to remain operational through sometime after 2012, and delays the need for statewide rate increases.

Debt

Vermont's GO debt burden, including the transportation fund and special fund, is low at $745 per capita and 2.6% of personal income. Total GO debt amortization is rapid, with 79.3% retired within 10 years and 94.5% retired within 15 years. The administration has been able to adhere to a $39 million annual debt cap, suggested by the capital debt affordability advisory committee, since fiscal 1999, and anticipates no more than $39 million to be issued in fiscal 2004. With the debt cap, the state has been retiring debt faster than it has been issuing it, annually improving its debt position, as is the case with an expected $39 million issue limit in the fiscal 2004 budget following $47 million retired in fiscal 2003. At the close of fiscal 2003 the debt ratios are expected to improve to a debt per capita of $727 and 2.5% of personal income.

The state pension system remains in relative good shape; the $1.3 billion state teachers' retirement system is funded at 89.5% through June 30, 2002, with a $138 million unfunded liability. The $1 billion Vermont state retirement system is funded at 97.4% through June 30, 2002, with a $27 million unfunded pension obligation. Each of these system's assets grew and percent funded increased during the difficult investing year between July 1, 2001, and June 30, 2002. The third system, the Vermont municipal employees' retirement system, is overfunded by 10% and has a $17 million surplus.

Fiscal 2004 Budget

With fiscal 2003 expenditure levels at $878 million and fiscal 2004 revenue currently projected at $894 million, the fiscal 2004 budget is expected to be very tight. Unless other revenue sources are determined or expenditures cut, there is only $15 million available for growth in existing expenditures to meet projected revenues. Governor-elect James Douglas expects to be able to present a fiscal 2004 budget with minimal service impacts during his budget address in late January, although significant pressure will be felt as the state opens the new prison in Springfield, which has a roughly $10 million operational cost. Other pressures will be felt as the state's Medicaid match rate was reduced by nearly $7 million in 2004, but the state believes that pharmaceutical management and the second phase of the cigarette tax phase-in beginning on July 1, 2003, will have a positive effect on the Medicaid needs.

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The McGraw-Hill Companies

NEEP

New England Economic Project

MAY 2003

Economic Outlook

2003-2007

Vermont Economic Outlook

Executive Summary

- The still struggling U.S. economy and the unusually large degree of global economic-political uncertainty underpins a Spring of 2003 NEEP[1] economic forecast revision that initially disappoints over the first two quarters of the forecast period before hitting a more typical recovery-expansion stride as the forecast moves into calendar 2004 and beyond.

The still struggling U.S. economy and the unusually large degree of global economic-political uncertainty underpins a Spring of 2003 NEEP economic forecast revision that initially disappoints over the first two quarters of the forecast period before hitting a more typical recovery-expansion stride as the forecast moves into calendar 2004 and beyond.

  If this forecast sounds familiar, it is in fact similar to the past two NEEP forecast revisions dating back to the Spring of 2002 where each called for near-term sluggishness to be followed roughly two quarters later by more typical rates of recovery-expansion in the Vermont economy.

  However, this forecast is likely to be the one that will actually come true because the national economic turnaround this time seems more genuine and immediate, and is not complicated by a looming war in the Middle East or by an imminent layoff on the State economic front.

- Complicating the forecast this Spring is the substantial rebenchmarking revisions and re-structuring of Vermont's employment data under the new North American Industry Classification System (NAICS) that has made gauging the current performance and recovery status of the Vermont economy much more problematic than it has been in the past.

Looking through the clouded lens of Vermont's amended job growth history and considering the recent positive performance of state consumption tax receipts, it seems apparent that a recovery in the Vermont is indeed underway.

  Looking through the clouded lens of Vermont's amended job growth history and considering the recent positive performance of state consumption tax receipts, it seems apparent that a recovery in the Vermont is indeed under way.

  However, there is still some question as to the actual amount of recovery progress achieved to-date and whether or not this apparent recovery is sustainable.

  This is primarily due to the fact that various labor market indicators have shown only very uneven progress since

[1] NEEP refers to the New England Economic Project.

late last Summer, and it is clear that the manufacturing sector has yet to join the recovery to any significant degree.

- On an annual average basis, the forecast expects that Gross State Product, total job growth, and personal income growth indicators are all expected to register significantly slower rates of growth over the next two calendar years in this May 2003 NEEP forecast revision than was expected last October.

On an annual average basis, the forecast expects that Gross State Product, total job growth, and personal income growthindicators are all expected to register significantly slower rates of growth over the next two calendar years in this May 2003 NEEP forecast revision than was expected last October.

Relative to the economic forecast of last October, Vermont's job and personal income growth performance is expected to be between roughly one quarter of a percentage point slower during calendar year 2003 than even the relatively disappointing performance projected for those indicators last Fall.

This updated forecast also downgrades the calendar year 2004 forecast for output, job, and personal income growth by between one quarter and one full percentage depending on the indicator reflecting the delayed nature of the consolidation of the U.S. and Vermont recoveries relative to the NEEP forecast published just last Fall.

In contrast, the out years of the forecast covering the calendar 2005-07 timeframe are expected to be somewhat stronger for output, job and income growth in comparison to the NEEP forecast published last October.

- Overall, this May 2003 NEEP forecast revision for Vermont indicates that non-farm job growth is expected to average 1.1% per year over the 2003-07 forecast period versus 1.4% per year average annual rate of growth experienced over the 1997-02 time period.

Overall, this May 2003 NEEP forecast revision for Vermont indicates that non-farm job growth is expected to average 1.1% per year over the 2003-07 forecast period versus 1.4% per year average annual rate of growth experienced over the 1997-02 time period.

Average annual job growth was expected to vary within the range of between 0.9% and 1.7% over the period following the expected 0.2% annual growth rate during calendar 2003—corresponding to the first full recovery year following the 2001-02 economic downturn in Vermont.

- Nominal dollar Personal Income in the expected weak forecast environment for calendar 2003-07 is projected to increase at an average annual rate of 4.1% versus a 5.6% average rate of growth during the previous five years.

Adjusted for inflation, Personal Income was expected to grow at an average annual rate of 2.0% over the next five years (corresponding to the calendar 2003-07 timeframe), versus the 3.8% average annual rate of growth experienced during the 1997-02 time period.

Real per capita personal income is expected to increase by 1.5% over the calendar 2003-07 forecast period—ranging from a high of 2.0% in calendar 2004 and 2005 to a low of 0.2% in the weak, initial year of the forecast period.

- Although the initial quarters of this revised forecast are less than upbeat, forward progress will nevertheless be significant and activity is then expected to take on a more typical character and pace beyond this initial period of recovery sluggishness.

Although the initial quarters of this revised forecast are less than upbeat, forward progress will nevertheless be significant and activity is then expected to take on a more typical character and pace beyond this initial period of recovery sluggishness.

The stepup in the pace of activity is expected via the growth-supporting effects of exceptionally low interest rates, declining energy prices, and recovering consumer, business, and investor confidence that will finally allow the economy's favorable underlying fundamentals to work through the economy.

- Also similar to recent NEEP outlooks, this forecast expects that virtually all of the risk to the forecasted path of the Vermont economy remains squarely on the downside.

This is primarily because of the exceptional degree of global economic-political uncertainty that dominates the current outlook.

Examples of this uncertainty include: (1) the potential for another flare-up in one of any number of the world's "hot spots," (2) the possibility of another terrorist attack against U.S. interests, (3) the enduring dark cloud that surrounds global energy markets, (4) ongoing weakness in the global economy that threatens a return to global economic recession, and (5) a number of Vermont specific threats.

Also similar to recent NEEP outlooks, this forecast expects that virtually all of the risk to the forecasted path of the Vermont economy remains squarely on the downside.

- Looking ahead, these sources of uncertainty are likely to exert significant drags on the pace and character of economic activity in both the national and state economies to varying degrees over the forecast period.

Because this uncertainty looks to be enduring, it is expected that these drags will be evident throughout the entire course of the 2003-07 forecast period.

The U.S. Situation and Economy.com Outlook: The Iraq War is Over, But the Economy's Struggles Will Continue...

Comments on the U.S. Economic Situation: Despite a number of favorable postwar prognostications, the relatively prompt and generally favorable resolution of the war in Iraq has accomplished relatively little to reinvigorate the U.S. economy. The U.S. economy as of May of 2003 continues to struggle, aided and

abetted by the: (1) difficulties in the global economy (as accentuated by the ongoing SARS scare), (2) the deteriorating condition of most state and many local budgets (which collectively act as a drag on the federal tax cut stimulus), (3) continued uneasiness in the consumer sector (which hurts consumer spending activity), and (4) an ongoing confidence problem in the corporate sector (which tends to curtail business investment spending). Indeed, all of these factors have combined to produce an even more futile economic recovery than was experienced back in the early 1990s during the so-called first "jobless recovery."

The recovery experience of the U.S. economy following its first period of recession in more than a decade is a clear contrast of how financial markets respond much more quickly to positive news than the corporate sector.

The recovery experience of the U.S. economy following its first period of recession in more than a decade is a clear contrast of how financial markets respond much more quickly to positive news than the corporate sector. Prices in equity markets overall have risen significantly since their mid-March lows for calendar 2003,[2] with the Nasdaq up 18.8% since March 11th, the Dow up 14.3% from a similar low point, and the S&P up 16.5% as of this writing from its March low point through May 23rd. While there is little current data on the performance of business capital spending activity since the end of the war, other data pertaining to the business sector outlook (including the 0.5% decline in Industrial Production for the months of March and April and the high degree of volatility in Orders for Non-Defense Durable Goods experienced since last Fall), do indicate that the economy is not likely to get a significant boost from business investment spending over at least the near-term time horizon.

Since March of 2001, the U.S economy has lost a total of 2.1 million non-farm jobs—with a startling 525,000 of those jobs lost over just the past three months.

However, nowhere are the economy's current struggles more evident than in national labor market data. Since March of 2001, the U.S economy has lost a total of 2.1 million non-farm jobs—with a startling 525,000 of those jobs lost over just the past three months.[3] The pace of layoff activity remains uncomfortably high, with the four-week moving average of initial jobless still above the 430,000 level—its 14th consecutive week exceeding the benchmark 400,000 level.[4] In addition, the most recent Challenger Survey (released on May 5th) reported that the number of corporate layoffs jumped to 146,400 during the month of April—their highest level since November of calendar 2002.

Despite "spin" analysis that points to the downward trend of the past two weeks in this indicator, the facts remain that: (1) the U.S. job market's weakness continues to be broad-based, with the number of jobs falling across a wide range of sectors—

[2]The various market indexes on March 11, 2003 were at the time at their lowest levels since hitting multi-year lows in October of calendar year 2002.
[3]Not to mention stagnant median earnings growth over the period.
[4]The 400,000 level for the four-week moving average for this labor market indicator is the traditional benchmark level below which labor markets tend to be improving and above which labor markets tend to be deteriorating.

including manufacturing, commercial construction, the retail sector, investment banking, wholesale trade, and—most recently—state government; and (2) the labor market weakness is currently impacting nearly all regions of the country. The problems in U.S. job markets also are notable because they have been particularly prolonged, dating back to the period six months before the September 11th terrorist attacks. Even during the so-called "jobless recovery" of the early 1990s, the number of jobs in the U.S. economy had managed to turn around and was actually increasing by this point in time in the country's economic turnaround. This time around, labor market weakness is lingering well beyond what most analysts at this time last Spring, or even as late as last Fall, were expecting. The longer this labor market weakness persists, the longer it will be before the U.S. recovery gains traction and begins to realize the "potential" that most economic analysts believe that this recovery has with its still solid fundamentals and favorable underlying productivity numbers.

Even during the so-called "jobless recovery" of the early 1990s, the number of jobs in the U.S. economy had managed to turn around and was actually increasing by this point in time in the country's economic turnaround.

The main concern with the still pronounced and lingering labor market weakness is that consumer confidence will not improve—and may even potentially erode further—and that will act to restrain consumer spending. Since consumer spending accounts for roughly two-thirds of all U.S. economic activity (and has many existing handicaps), the fear is that the recovery will not consolidate its even mild gains and eventually move on to the type of higher economic plane that results in a self-reinforcing economic expansion. Through the labor market report for April, weakness is particularly evident in the manufacturing sector, which is now contracting again for the last two months after a very short period at the beginning of the calendar year when it showed modest gains. Although manufacturing makes up only about one-sixth of the national economy's total job count today, most all of the 2.1 million jobs lost since March of 2001 have come in the nation's factory sector. In addition, factory employees tend to be among the most highly paid workers, and long-term weakness in this sector tends to be a negative factor for wage growth and growth in consumer spending.

The main concern with the still pronounced and lingering labor market weakness is that consumer confidence will not improve—and may even potentially erode further—and that will act to restrain consumer spending.

Even looking outside of the numbers of jobs and layoffs in manufacturing, there is as yet no concrete indication that there are any real prospects for near-term labor market improvement. All of the leading labor market indicators—including initial claims for unemployment insurance, hours-worked, temporary hiring, and the like—are all signaling "yellow"—if not "red." There also are increasing numbers of discouraged workers who have left the work force and therefore do not show up in the reported unemployment numbers. Still others are only marginally attached to the labor force, working at part-time jobs, holding jobs at reduced skill-pay levels, and/or who have joined the ranks of the self-employed—a job market fate that likely also includes a lower level of pay.

Because the current statistics on U.S. labor markets remain weak and because the U.S. manufacturing sector remains mired in its prolonged slump, the outlook for the U.S. economy still remains somewhat "clouded." The primary factors that will be exhibiting drag on the postwar recovery are/will be: (1) the continuing threat of another terrorist attack and its negative impact on the collective psyche of consumers, businesses, and investors; (2) the faltering global economy—which includes the current economic recessions in Japan and Germany (the second and third largest market economies, respectively), and emerging weakness in the economies of many key economies (Mexico, the U.K., India, and Korea); and (3) relatively restrained spending in the consumer sector vis-à-vis the recent past in that the consumer sector will no longer be leading the way on this so-called recovery. In addition, signs of financial stress in the household sector are mounting (e.g. including mortgage rising foreclosure rates and personal bankruptcies), and there certainly is little, if any, pent-up consumer demand in the aftermath of the profligate spending levels of the past three years. Finally, there is little doubt that the potential countercyclical effectiveness of both fiscal policy and monetary policy has been seriously eroded as well, following nearly three years of massive stimulus—especially in the aftermath of the 9/11 terrorist attacks. The fact of the matter is that the Fed is really only one financial crisis away from a "zero percent" Federal Funds rate and potential deflation. It also is not at all clear just how much the recently passed and scaled down federal tax cut will accomplish in the way of stimulating the economy—particularly over the short-term time horizon.

Because the current statistics on U.S. labor markets remain weak and because the U.S. manufacturing sector remains mired in its prolonged slump, the outlook for the U.S. economy still remains somewhat "clouded."

The Economy.com Forecast Scenario: Still, the widely held view of most economic analysts and the Economy.com national economic forecast that underpins this NEEP outlook revision is that the U.S economy will shortly stabilize and then resume a more typical rate of recovery-expansion. For the most part, this view is grounded on Economy.com's expectations that business, consumer and investor confidence will soon recover in sufficient measure to move the economy forward now that the uncertainties surrounding the Iraq war have subsided. In addition, this view and forecast also relies on the fact that the U.S. economy overall remains on fundamentally sound footing, including: (1) solid underlying productivity, (2) the fact that the excesses associated with the stock market bubble have been essentially worked through, and (3) the fact that the worst and most egregious cases of corporate accounting shenanigans and other shareholder malfeasance have been weeded out of the system.

Still, the widely held view of most economic analysts and the Economy.com national economic forecast that underpins this NEEP outlook revision is that the U.S economy will shortly stabilize and then resume a more typical rate of recovery-expansion.

In addition, many analysts and the Economy.com forecast scenario also correctly point out that a significant portion of the recent data relating to the performance of the U.S. economy have been "somewhat encouraging." First, and in addition to the turnaround in national equity markets discussed above, there has also been a fairly good bounceback in Consumer Confidence—even though the various

confidence measures are by most benchmarks still at historically very low levels. Second, the burden of high energy prices likewise has eased and continues to decline, with the price per barrel of West Texas Intermediate Crude oil falling to below the $30 level currently—down from over $40 just a few weeks ago[5] and third, the fact that the non-factory sector of the economy continues to grow, with last month's Institute of Supply Managers Index for the Services sector—the largest employment side of the economy—showing some significant improvement during the month of April.

Indeed, this prevailing view and the Economy.com national forecast scenario appear firmly based on the growth-supporting interaction of solid underlying fundamentals in the economy combined with already-low interest rates, falling oil prices, lean inventories and workforces, a falling dollar, and the next installment of federal tax cutting.

Indeed, this prevailing view and the Economy.com national forecast scenario appear firmly based on the growth-supporting interaction of solid underlying fundamentals in the economy combined with already-low interest rates, falling oil prices, lean inventories and workforces, a falling dollar, and the next installment of federal tax cutting. Together, these forces should be enough to engineer a turnaround in the U.S. economy—perhaps as early as this Summer.

The Vermont Economic Situation—A "Fits and Starts" Recovery...

Turning to the Vermont economic situation and recent performance statistics, the annual Spring re-write of recent labor market performance adds up to a decidedly "mixed bag" with respect to the current status of Vermont's economic recovery. On one side, the re-benchmarking revisions by the Vermont Department of Employment and Training show the State's job markets experienced a genuine turnaround during the Late Summer-Early Fall period[6]—somewhat earlier than the timing of the turning point anticipated in last October's NEEP forecast. Indeed, without the overhang of the unstable global geopolitical situation related to the situation in the Middle East region, the nuclear threat in North Korea, and the SARS[7] situation, one might even be tempted to characterize Vermont's job recovery progress through the month of April as "significant and unmistakable."

Turning to the Vermont economic situation and recent performance statistics, the annual Spring re-write of recent labor market performance adds up to a decidedly "mixed bag" with respect to the current status of Vermont's economic recovery.

[5]Economy.com recently estimated that consumers paid roughly $75 billion (annualized) more for their energy-including gasoline and home heating oil-in February 2003 than they did in February of 2002. Now, the U.S. economy is starting to benefit from falling gasoline and heating oil prices. This also is helping energy intensive manufacturers and the transportation industry as well.

[6]Current data indicate a turnaround during the month of August using the Private Sector month-to-month job change indicator or during months of August/September using the month-to-month change trend in Total nonfarm jobs.they did in February of 2002. Now, the U.S. economy is starting to benefit from falling gasoline and heating oil prices. This also is helping energy intensive manufacturers and the transportation industry as well.

[7]SARS refers to Severe Acute Respiratory Syndrome.

Looking more specifically at the Vermont job recovery statistics, it is clear that both the number of total nonfarm wage and salary jobs and the number of private sector nonfarm wage and salary jobs are now on the upswing since their low points recorded late last Summer.

Looking more specifically at the Vermont job recovery statistics, it is clear that both the number of total nonfarm wage and salary jobs and the number of private sector nonfarm wage and salary jobs are now on the upswing since their low points recorded late last Summer. Using re-benchmarked, seasonally-adjusted data, the number of total nonfarm jobs (including both the governmental and private sectors of the Vermont economy) has increased by a total of 4,500 jobs—enough numerically to declare that the Vermont job recovery is complete and that the State economy has now prepared to move into an expansionary mode.[8] However, the same cannot be said for the job recovery numbers of the private sector. Looking at the seasonally-adjusted monthly data through April, the record shows that 3,000 of the roughly 5,500 private sector jobs lost (or roughly 55%) during the last recession have been recovered. In both cases, the important conclusion from these statistics is that the both concepts lag the pace of job recovery that was experienced during the previous "jobless recovery" in Vermont during the early 1990s (see Table 1 below). Moreover, it also is interesting to note the apparent effect of the uncertainty in the Vermont economy with respect to the period leading up to and including the war with Iraq that appears to have caused a significant dip in the relative rate of job recovery over the February-March time frame (see Charts 1 and 2).

However, even though there are now clear indications in the revised job growth history data that indicate the Vermont economy has indeed experienced a turning point from recession to recovery, recent developments in Vermont's labor markets suggest there is reason to be cautious about declaring Vermont's recovery to be "complete" or even "substantially completed" at this still early juncture.

However, even though there are now clear indications in the revised job growth history data that indicate the Vermont economy has indeed experienced a turning point from recession to recovery, recent developments in Vermont's labor markets suggest there is reason to be cautious about declaring Vermont's recovery to be "complete" or even "substantially completed" at this still early juncture. This is true even aside from the national and global uncertainties that still abound. This caution is also the result of the fact lens through which

[8] Although the number of jobs is the same as the last jobless recovery, readers will note that the rate of job recovery is slower during this recovery versus last.

Table 1: Sizing Up Vermont's Recovery

A. This Jobless Recovery		Total Nonfarm	Private Nonfarm	B. Last Jobless Recovery		Total Nonfarm	Private Nonfarm
Peak	Jan-01	303.5	253.6	Peak	Pre-1990	—	—
Trough	Aug-02	299.0	248.1	Trough	Jan-92	247.4	203.8
Recovery Thru 8 Months	Apr-03	303.5	251.1	Recovery Thru 8 Months	Sep-92	251.9	207.5
Peak-to-Trough	# of Jobs	-4.5	-5.5	Peak-to-Trough	# of Jobs	—	—
	% Change	-1.5%	-2.2%		% Change	—	—
So Far This Recovery	# of Jobs	4.5	3.0	Recovery Thru 8 Months	# of Jobs	4.5	3.7
	% Change	1.5%	1.2%		% Change	1.8%	1.8%

Basic Data Source: REVISED Seasonally-Adjusted CES Data; VT Department of Employment & Training

Figure 1
Slower Than the 1990s Jobless Recovery
Total Nonfarm Jobs (Thru April)

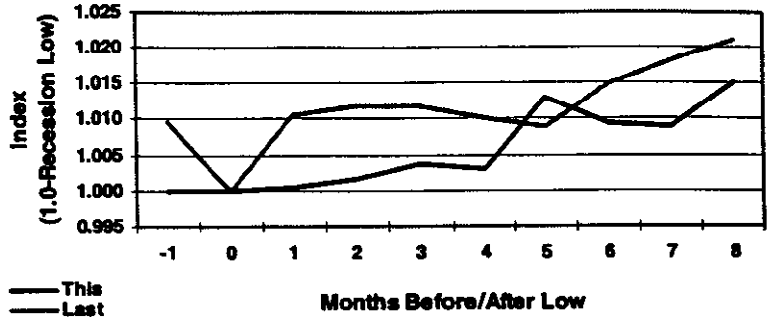
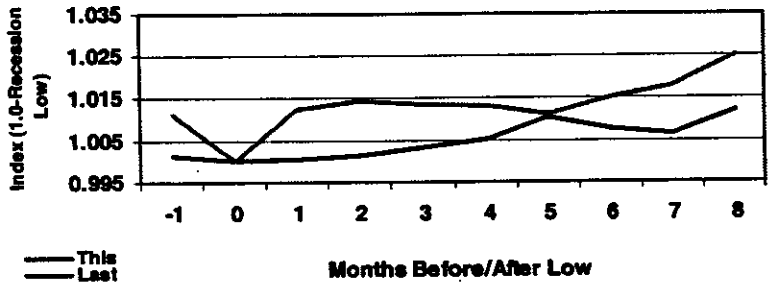


Figure 2
Iraq War Impact--Private Sector Jobs (Thru April)



This past year, all of Vermont's job survey data have undergone a "radical re-structuring" in their configuration from the old Standard Industrial Classification (SIC) system to the new, North American Industry Classification System (NAICS).

we analyze month-to-month job change trends is clouded by the NACIS re-configuration as well. The following lays out the more specific case for caution:

1. This past year, all of Vermont's job survey data have undergone a "radical re-structuring" in their configuration from the old Standard Industrial Classification (SIC) system to the new, North American Industry Classification System (NAICS).[9] This has dramatically altered the collection and reporting of Vermont's job market survey data and has affected the ALL IMPORTANT SEASONAL FACTORS that are crucial for tracking month-to-month movements—both positive and negative—in the State's job counts.

These month-to-month job changes are crucial to supporting the recovery or continued recession characterization of the state of

[9]Every Spring, the Vermont DET re-writes economic history in Vermont through a process called re-benchmarking of the job survey data. The annual Spring re-benchmarking is done to incorporate more complete labor market data into the survey estimates of the job count data to produce a more complete picture of what actually transpired in the way of job additions and losses at Vermont businesses. Often times, this can dramatically alter the analysis of the past year's labor market developments. This year, the annual Spring re-benchmarking process included a dramatic re-configuration of the structure of all of the State's labor market sectors. This made the "re-write of history" even more dramatic this year.

Vermont's labor markets. Since the data reporting system and the seasonal factors are so new and untested, any declaration regarding the strength and sustainability of Vermont's employment recovery is susceptible to "statistical irregularities" in the newly re-vamped job count data and must be made very cautiously. This is especially important given the still "restrained" nature of the indicated Vermont recovery—and the high degree of volatility in the seasonally-adjusted Private sector (that is **excluding** the Government sector) job count data series as Chart 3 below demonstrates.

Since the data reporting system and the seasonal factors are so new and untested, any declaration regarding the strength and sustainability of Vermont's employment recovery is susceptible to "statistical irregularities" in the newly re-vamped job count data and must be made very cautiously.

2. Second, the month-to-month change in the number of seasonally adjusted Private Non-farm Jobs (that is, the total number of jobs excluding the Government sector) has been negative in two of the last four months or during the months of February and March (see Chart 3). In addition, the month-to-month change in the number of Total Nonfarm Jobs including the government sector has been negative in three of the past five months as well (see Chart 4 below), with the months of December, February and March coming up on the negative side of the ledger.

The month-to-month change in the number of Total Nonfarm Jobs including the government sector has been negative in three of the past five months.

Figure 3
Month-to-Month Change in Private Sector Non-Farm Jobs, July 2001-April 2003

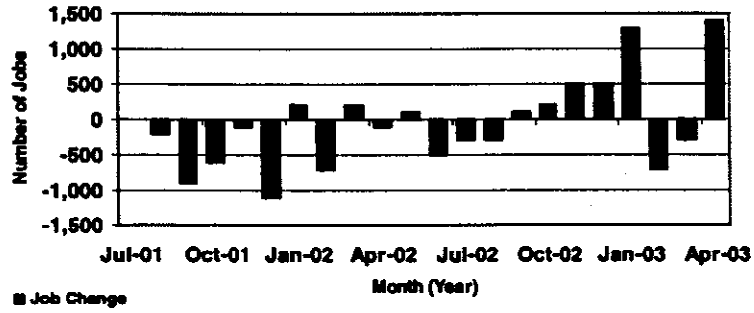


Figure 4
Month-to-Month Change in Total Non-Farm Jobs July 2001-April 2003

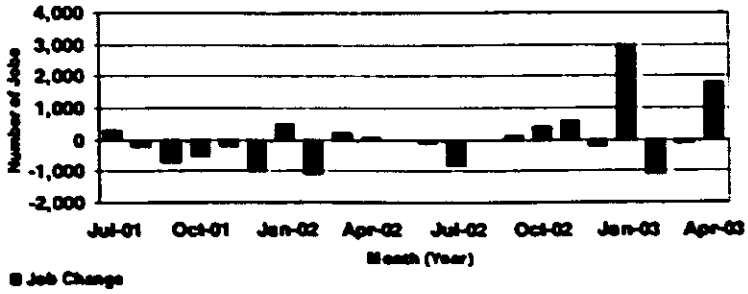


Table 2: Manufacturing Jobs Are Not Yet Recovering....

A. This Jobless Recovery		Total Manufacturing	B. Last Jobless Recovery		Total Manufacturing
Peak	Jan-01	47.3	Peak	Pre-1990	—
Trough	Dec-02	38.8	Trough	Dec-92	39.4
Recovery Thru 4 Months	Apr-03	38.8	Recovery Thru 4 Months	Apr-93	39.9
Peak-to-Trough	# of Jobs	-8.5	Peak-to-Trough	# of Jobs	—
	% Change	-18.0%		% Change	—
So Far This Recovery	# of Jobs	0.0	Recovery Thru 4 Months	# of Jobs	0.5
	% Change	0.0%		% Change	1.3%

Basic Data Source: REVISED Seasonally-Adjusted CES Data; VT Department of Employment & Training

Looking at the non-seasonally adjusted data10, year-over-year data seem to reinforce the view that a modest economic rebound in Vermont is underway.

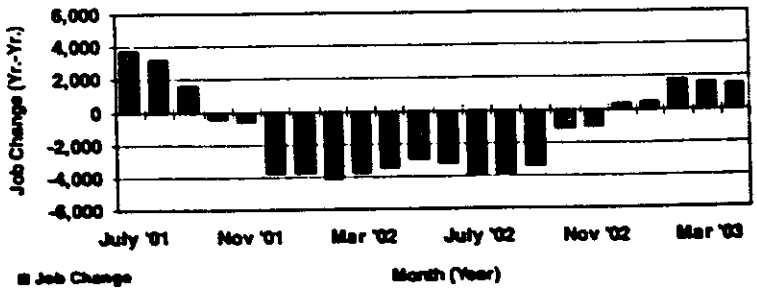
3. Third, the Vermont manufacturing sector continues to lose jobs after losing a revised total of 8,500 jobs (or nearly 1 of every 5 jobs that existed in January of calendar 2001) during the last employment recession in Vermont (see Table 2). In an environment where the manufacturing sector is still not positively contributing to Vermont's labor market recovery, it is indeed difficult to portray the current job recovery in the Vermont economy as a "genuine and sustainable" until there is a sustained turnaround in Vermont's factory sector as well (see Table 2).

Looking at the non-seasonally adjusted data[10], year-over-year data seem to reinforce the view that a modest economic rebound in Vermont is under way—with positive readings in each of the last five months for the state's Private Sector Nonfarm Job count total (see Chart 5 below) even though this indicator has plateaued.

In addition, the profile of gaining, flat and declining sectors in the non-seasonally adjusted data series likewise portray a Vermont economy that appears to be on the mend. A straight look at the "number of major sectors" score card for gaining, flat and losing

In addition, the profile of gaining, flat and declining sectors in the non-seasonally adjusted data series likewise portray a Vermont economy that appears to be on the mend.

Figure 5
Year-Over-Year Change in Private Nonfarm Jobs (Not Seasonally Adjusted)



[10] That is looking at the state's re-configured job market data without the vagaries of the "un-tested" seasonal factors under the new NAICS system.

categories on a year-over-year basis shows a clear improving trend dating back to last year despite April's apparent slippage, with (1) the number of the State's 33 major private sector job sector categories has improved by roughly 1/3 (from 10 to 15 of the state's 33 private sector categories) since January of 2002, and (2) the number of major job sectors declining on a year-over-year basis have similarly fallen by 1/5 or from 18 last declining categories in January 2002 (and as late as September of 2002 as well) to a total of 15 in April of calendar 2003 (see Table 3 below). Although the March 2003 over March 2002 numbers were somewhat brighter than the profile of the April statistics, this represents an unmistakable improvement trend.

Table 3: Profile of Job Adding-Job Declining Sectors

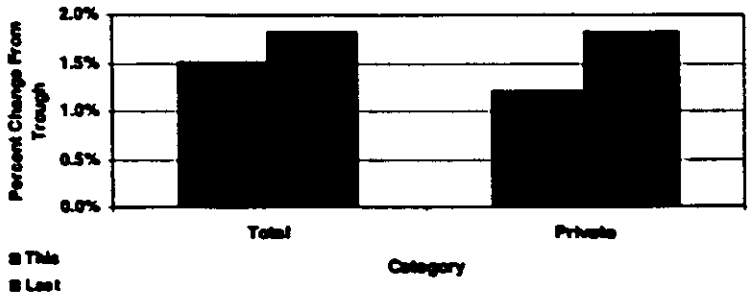
"Private" Sectors Month (NAICS-Based Data)	# Adding Jobs	# Losing Jobs	# of Flat Sectors
January 2002	10	18	5
March 2002	12	16	5
June 2002	13	16	4
September 2002	11	18	4
December 2002	16	15	2
March 2003	18	12	3
April 2003	17	15	1

Source: VT Department of Employment & Training

Vermont's consumption tax data through April show a relatively healthy +4% year-over-year growth trend in an environment of weakening motor vehicle sales.

Add to the above the fact that Vermont's consumption tax data through April show a relatively healthy +4% year-over-year growth trend in an environment of weakening motor vehicle sales (see Chart 6 below which sets forth the year-over-year growth rate statistics for the state's major consumption tax sources for Vermont's 2003 fiscal year). Also, the conclusion that the Vermont economy is now in a recovery mode—albeit a weak and insecure one that amounts to a "fits and starts" recovery—seems to be at this point clear and unmistakable.

Figure 6
Growth Trend in Vermont Consumption Taxes
Fiscal Year 2003



The Vermont Outlook—Pushing a Normal Recovery Out Six to Nine Months—Yet Again...

Although these data show that Vermont's recovery appears to be clear and unmistakable, these data also make it equally apparent that Vermont's current rebound has not yet reached a typical pace and profile as past Vermont recovery-expansion standards go.

Although these data show that Vermont's recovery appears to be clear and unmistakable, these data also make it equally apparent that Vermont's current rebound has not yet reached a typical pace and profile as past Vermont recovery-expansion standards go. This is especially apparent given the weather-curtailed 2002-03 Winter Tourism season just passed[11] in Vermont and the fact that many of Vermont's key economic drivers (e.g. the global-national semi-conductor fabrication sector and national capital investment markets) are still struggling. As a result, this Spring 2003 NEEP forecast revision calls for yet another six to nine month (e.g. two to three quarter) delay before the pace and profile of Vermont's now young economic recovery reaches a more typical character by mid-2004.

If this forecast sounds familiar, it certainly is very similar in character to the previous two NEEP forecast revisions of the Fall and Spring of 2002. These two immediate past forecasts also called for a near-term economic sluggishness and a resumption of more typical rates of economic recovery-expansion later on in the forecast timeframe. The difference in this forecast cycle is that the national economic turnaround seems more genuine and immediate and is not complicated by a looming war in the Middle Eastern region or by an imminent major layoff on the state's economic front. Given the improved alignment of the factors and forces underpinning the expected consolidation of the national economic recovery (e.g. the removal of the psychological uncertainties of war, the passage of the federal tax cut legislation, etc.), it indeed appears that it is only a matter of a relatively short period of time before there is a more normal pace and profile to Vermont's economic recovery as well. In short, perhaps the third time for this forecast of a "six month delay" in the Vermont economy achieving its more typical recovery-expansion stride will be the proverbial "charm" for this Spring of 2003 NEEP forecast revision.

The difference in this forecast cycle is that the national economic turnaround seems more genuine and immediate and is not complicated by a looming war in the Middle Eastern region or by an imminent major layoff on the state's economic front.

Looking more closely at the details of the Spring 2003 NEEP forecast update, the recent re-benchmarking revisions show that the job count history for calendar year 2001 and calendar 2002 both turned out to be somewhat more upbeat than was indicated in the estimated historical data used in last Fall's forecast (see Table 4). The re-benchmarked quarterly data used in this revised Spring 2003 NEEP forecast also indicate that the timing of the Vermont economic turnaround also occurred much earlier than

[11] In part, this was due to the exceptionally cold weather from mid-January on and the large snow falls in southern New England and the northeast that made skiing conditions at the smaller regional snow-bowls that are closer to the Boston-New York metro areas good-if not excellent.

Table 4: Historical Comparison of NEEP Forecasts for Vermont

	2000	2001	2002	2003	2004	2005	2006
Real GSP							
May 1999	2.3	2.9	2.6	2.5			
October 1999	2.0	2.7	2.5	2.6			
May 2000	3.6	2.5	2.8	2.7	2.6		
October 2000	5.9	2.9	3.2	3.0	2.9		
May 2001	6.8	2.0	3.6	3.3	3.1	2.8	
October 2001	4.9	0.9	0.7	3.9	2.6	2.7	
May 2002	4.6	3.1	0.6	3.3	3.4	3.0	2.7
October 2002	5.3	1.9	1.1	1.6	3.2	2.2	2.8
May 2003	5.3	2.5	1.2	1.6	2.7	2.6	2.9
Diff. Pct. Pts. 10/02-5/03	0.0	0.6	0.1	0.0	-0.5	0.4	0.1
Job Growth							
May 1999	1.6	1.9	1.7	1.7			
October 1999	1.4	1.7	1.6	1.6			
May 2000	1.5	1.4	1.3	1.1	1.2		
October 2000	2.0	1.4	1.6	1.4	1.4		
May 2001	2.3	1.2	1.7	1.7	1.4	1.4	
October 2001	2.3	0.3	-0.3	2.1	1.5	1.3	
May 2002	2.5	0.1	-0.9	1.6	2.3	1.4	1.2
October 2002	2.5	0.1	-0.9	0.5	1.9	1.2	1.0
May 2003	2.4	1.1	-0.8	0.2	0.9	1.7	1.3
Diff. Pct. Pts. 10/02-5/03	-0.1	1.0	0.1	-0.3	-1.0	0.5	0.3
Real Personal Income							
May 1999	3.6	3.5	3.1	2.8			
October 1999	2.8	3.1	2.6	2.5			
May 2000	3.8	3.3	3.1	2.8	2.3		
October 2000	4.7	3.1	3.7	3.0	2.5		
May 2001	3.9	2.6	3.1	3.0	2.7	2.4	
October 2001	4.2	2.0	1.4	2.6	2.3	2.4	
May 2002	3.6	4.4	-0.2	1.3	2.7	2.5	2.2
October 2002	3.4	2.6	1.5	1.0	2.0	2.0	2.1
May 2003	4.7	2.9	1.8	0.8	1.8	2.5	2.6
Diff. Pct. Pts. 10/02-5/03	1.3	0.3	0.3	-0.2	-0.2	0.5	0.5

If this forecast holds, it will take approximately two more calendar quarters before the character of Vermont's economic upturn will become "more typical" in character and pace.

was expected last Fall (it in fact occurred during the August-September timeframe as opposed to the January-March timeframe expected in the Fall forecast). However, this forecast is similar—as mentioned above—in that the pace of Vermont's recovery early on in the forecast time horizon is expected to continue to be underwhelming. If this forecast holds, it will take approximately two more calendar quarters before the character of Vermont's economic upturn will become "more typical" in character and pace. This Spring 2003 NEEP forecast revision also expects that calendar year 2003 will be significantly weaker on nearly all key indicator fronts—the exception being the 1.6% annual increase in GSP that is equal to the forecasted GSP growth rate for 2003 in

last Fall's forecast. For the other two principal macro-indicators for the State, this forecast includes a 0.3 percentage point slower rate of job growth and a 0.2 percentage point lower rate of growth in inflation-adjusted personal income growth for calendar 2003 as well.

The forecast for calendar year 2004 is also expected to experience slower rates of growth across-the-board in all three major macro-indicators, with the magnitude of the October 2002-May 2003 forecast downgrades considerably higher than those forecasted for calendar 2003.

The forecast for calendar year 2004 is also expected to experience slower rates of growth across-the-board in all three major macro-indicators, with the magnitude of the October 2002-May 2003 forecast downgrades considerably higher than those forecasted for calendar 2003. Although they are now different data concepts under the NAICS classification system, it also is worth mentioning that the forecast includes a considerably less robust future for factory job growth in Vermont over the next five years—even less robust than the very disappointing forecast published last Fall for the State's manufacturing sector. This downbeat forecast for the state's factory sectors is a reflection of the expected "multiplier realities" of the recent 1,289 permanent IBM job loss and the persistent level of layoff activity still occurring in the manufacturing sector around the State. These continuing job reductions and additional reductions that are likely to occur in the future are expected to continue to exert a drag on overall job and income growth in the Vermont economy over the entire 2003-07 forecast period.

Continuing job reductions and additional reductions that are likely to occur in the future are expected to continue to exert a drag on overall job and income growth in the Vermont economy over the entire 2003-07 forecast period.

As was the case with earlier NEEP forecast revisions (including the forecast revision of last Fall), the key forces behind this Spring 2003 forecast downgrade for the Vermont economy include: (1) the State's continued positioning in its factory sector as a manufacturer of capital goods (the outlook for which is highly dependent on the still tepid national outlook for business capital investment spending), (2) the delayed and still slow turnaround expected in the national-global information technology and telecom sectors (both of which are very important to the outlook for key Vermont manufacturers), (3) the still uncertain outlook for the Travel and Tourism in a still "high alert" homeland security environment (the travel and tourism sector is a very important economic driver in Vermont),[12] and (4) the fact that Vermont's retail sector has an orientation toward "premium" or high-end of the retailing spectrum (and high-end retailing has been the weaker performing segments of an otherwise generally positive performance by the retailing sector across the nation and in Vermont).

[12] It should also be pointed out that a Vermont get-away or vacation is a postponable discretionary purchase.

On a quarter to quarter basis, this Spring 2003 NEEP forecast revision shows that the Vermont economy began wobbling and "went negative" in early calendar 2001 in terms of both employment growth and GSP growth. These revised data also show that job growth actually turned negative during the April to June quarter of 2001, about the same time U.S. job growth turned negative as well. Job growth in Vermont then was estimated to be marginally positive during the third calendar quarter of 2001 before heading South over the next four calendar quarters before its turnaround during the fourth calendar quarter of 2002. It is interesting to note that over the same calendar 2001-02 period, GSP growth in Vermont went negative in only two of those eight quarters (perhaps an indication of a sustained high productivity level of Vermont workers over the period), even though GSP growth was under the 1.5% level in six of the eight quarters during the period. The final forecast numbers of this revised NEEP forecast for Vermont include a brief war-caused "double-dip" in job growth during the second calendar quarter (or the quarter in which this forecast begins) and in inflation-adjusted personal income growth over the first half of calendar 2003. All of the states macro indicators are forecasted to achieve a more normal rate of recovery-expansion by the close of the second calendar quarter of 2004.

On a quarter to quarter basis, this Spring 2003 NEEP forecast revision shows that the Vermont economy began wobbling and "went negative" in early calendar 2001 in terms of both employment growth and GSP growth.

As a result of this sluggish pace of recovery, the State economy is not expected to complete its employment recovery and make a transition to an expansionary mode until the third quarter of calendar 2004—a full year later than expected at this time last year (or the Spring of 2002 NEEP forecast revision) and one calendar quarter later than expected last Fall. The Manufacturing sector is not projected to complete its recovery until well beyond the forecast time horizon, due for the most part to a dramatically poorer job growth performance over the entire 2003-07 timeframe at -0.4% per year.

Conference Theme: Vermont in an Uncertain World—All of the Forecast Risk Remains on the Downside.

As historically disappointing and under-achieving as the expected recovery scenarios for both the U.S. and Vermont economies appear this Spring, they certainly do not represent the worst, plausible case for the national or Vermont economies in this increasingly uncertain world. Global uncertainty has already contributed to a downshifting in both the U.S. and Vermont economies during the January through April time period. The expected continuation of the current and unusually high level of global economic and political uncertainty indeed permeates through the entire fabric of the NEEP forecast revision this Spring.

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On the national and global political-economic level, global economic-political uncertainty takes several forms—some of which affect economic activity directly. Others are more indirect in their influence. Examples of the more important sources of

global economic-political uncertainty that exert direct and negative effects on economic performance of Vermont include:

1. The prospect of another flare up at one of any number of global hotspots (e.g. North Korea, Iran, Syria, etc.) and its potential negative impact on the collective psyche of consumers, businesses, and investors that is already at historically low levels. Already this angst has directly curtailed activity in travel and tourism,[13] compelled businesses to postpone business expansion and other investment activities, and done significant harm through higher energy prices. While the energy price situation is in fact turning less negative, the U.S. recovery (and therefore the Vermont recovery) has little prospect of consolidating into a stronger recovery—and eventually into an expansion—without a further turnaround in the still fragile consumer, business and investor psyches.

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2. The prospect of another terrorist attack and what that might mean for public budgets and international trade in the name of increasing domestic security. The public budget demands (on both the federal and state levels) and procedural impediments to the movement of people and things into and out of the U.S. in a heightened homeland security environment has accomplished little to encourage gains in private sector productivity—and indeed may have accomplished a lot to directly harm it for some time to come. This is particularly important for the Vermont economy and its higher than average dependence on foreign trade and the increasing importance of foreign tourism activity.

3. The enduring dark cloud of uncertainty over global energy markets and the ever present threat of another upward spike in energy costs as the Middle East region remains as a political "tinderbox." Last Winter's energy price spike was an all too familiar reminder of the vulnerability of the U.S. economy—and the New England regional economy in particular—to upward spikes in energy prices and particularly in oil prices. Over the years, rising energy prices have acted as a significant restraining force in the Vermont economy just as the sharp decline in energy prices during the Asian crisis back in the 1998-99 timeframe acted as a significant economic stimulus during that time.

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4. Ongoing global economic weakness and the uncertainty—inclusive of the most recent SARS scare—that have contributed to the faltering global economy and presently includes economic recessions in Japan and Germany (the 2nd and

[13] Although some believe-with some justification-that fear of flying has been somewhat of a benefit to Vermont's auto-based tourism market position, it is clear that Vermont's tourism sector does much better when the travel and tourism industry's outlook is free of such uncertainties.

3rd largest market economies, respectively), and emerging weakness in the economies of many key U.S.-trading partner economies (Mexico, the UK, India, and Korea). As long as the global economy remains weak, the information technology sector (and related sectors) will continue to lag to the direct detriment of the Vermont economy.

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5. The fact that both federal fiscal and monetary policy have virtually exhausted their options to effectively deal with any additional economic or financial crises. Since the September 11, 2001 attacks, both fiscal and monetary policymakers have moved aggressively to assure that the past recession was the shortest and mildest nationally in our postwar history. In addition, policymakers also moved preemptively to address developing economic problems before they got out of control and caused greater economic harm (e.g. the unwinding of the equity market "price bubble"). Indeed since mid-2000, the federal funds rate has been reduced 13 times to its current lowest in 40 years rate of 1.25%. Similarly, the federal budget balance—though a combination of increased spending on security and tax reductions—has flipped from an annualized surplus of $250 billion to an annualized deficit position of $275 billion in just two fiscal years. While the past effectiveness of these policy moves is not in dispute, both monetary and fiscal policy have nearly exhausted their ability to effectively respond to further economic or financial crises—representing a very precarious position for the U.S. to find itself in the current very uncertain world geopolitical situation.

In addition, it should be noted here that there are a number of Vermont-specific reasons for concern. An example includes the current high level of investor angst and how that indirectly results in a drag on the performance of the Vermont economy also cannot be ignored. The mechanism for this drag relates to the fact that Vermont's economy is much more dependent on non-wage income sources than the typical state economy. Any underperformance from a price perspective translates through to lower levels of consumption activity (through the wealth effect and other related mechanisms), and the attendant diminished levels of overall economic activity that mechanism engenders. Also closer to the State is the underlying weakness in Vermont's factory sector related to the currently adverse position of a number of key Vermont factory sectors (e.g. energy intensive sectors such as food manufacturing and semi-conductor fabrication) that threaten to undermine the State's already fragile factory sector job base.

The fact that both federal fiscal and monetary policy have virtually exhausted their options to effectively deal with any additional economic or financial crises.

In the years ahead, the practical effects of this collective uncertainty regarding global and national economic and political affairs means that nearly all of the forecast risk for this Spring 2003 NEEP forecast revision remains on the downside. In short, while it is expected the U.S. and Vermont upturns will clearly

soon begin to move forward at a more typical character and pace as economic recoveries-expansions go, these sources of uncertainty—that are unlikely to abate anytime in the near-future—will likely act as restraining forces over the course of the entire 2003-07 forecast period.

Jeffrey B. Carr, Vice President
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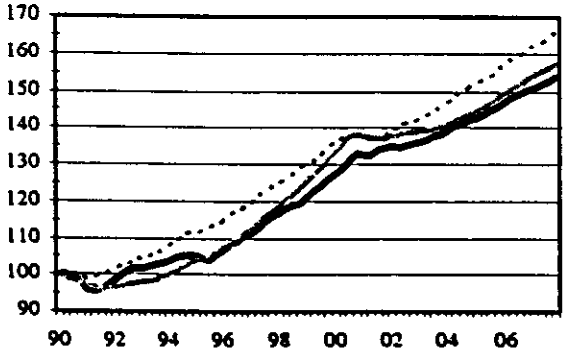
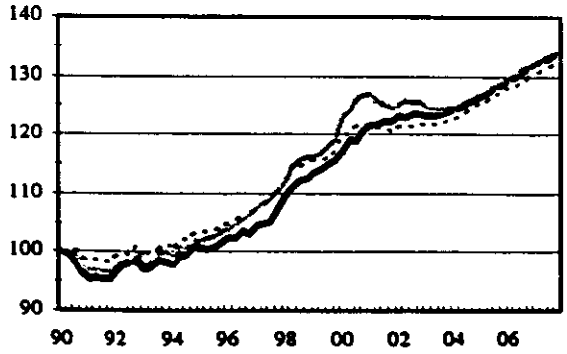
Vermont Spotlight

Vermont FORECAST SUMMARY	HISTORY 1997	1998	1999	2000	2001	2002	FORECAST 2003	2004	2005	2006	2007	ANNUAL GROWTH RATE [illegible]	[illegible]	[illegible]
Personal Income (Bil. $)	13.75	14.74	15.54	16.69	17.53	18.09	18.60	19.28	20.16	21.10	22.06	4.6	5.6	4.1
% Change	5.2	7.2	5.5	7.4	5.0	3.2	2.8	3.7	4.6	4.7	4.6			
Real (Bil.96$)	13.49	14.30	14.84	15.54	16.00	16.29	16.42	16.72	17.14	17.58	18.01	2.4	3.8	2.0
% Change	3.2	6.0	3.8	4.7	2.9	1.8	0.8	1.8	2.5	2.6	2.5			
Personal Income Per Capita ($)	22,572	23,804	24,516	25,466	26,088	26,395	26,441	26,802	27,341	27,894	28,435	1.5	3.2	1.5
% Change	2.5	5.5	3.0	3.9	2.4	1.2	0.2	1.4	2.0	2.0	1.9			
Gross State Product (Bil.C$)	15.30	15.92	16.66	17.54	17.98	18.20	18.49	18.98	19.46	20.03	20.52	2.5	3.5	2.4
% Change	4.4	4.0	4.6	5.3	2.5	1.2	1.6	2.7	2.6	2.9	2.5			
Employment (Thousands)	279.4	285.0	291.6	298.7	302.1	299.7	300.2	303.1	308.3	312.4	315.8	2.2	1.4	1.1
% Change	1.6	2.0	2.3	2.4	1.1	-0.8	0.2	0.9	1.7	1.3	1.1			
Manufacturing	43.8	44.6	45.3	46.3	45.5	40.6	38.8	39.0	39.4	39.6	39.7	2.0	-1.5	-0.4
% Change	2.8	1.9	1.6	2.2	-1.6	-10.8	-4.6	0.7	1.0	0.5	0.3			
Labor Force (Thousands)	327.0	330.3	335.8	333.9	339.8	348.7	352.6	355.6	358.6	361.7	364.8	1.1	1.3	0.9
% Change	1.0	1.0	1.7	-0.5	1.8	2.6	1.1	0.9	0.8	0.9	0.8			
Unemployment Rate (%)	4.0	3.4	3.0	2.9	3.6	3.8	3.8	3.6	3.3	3.2	3.1	-2.7	*Change* -0.2	-0.6
Change	-0.6	-0.6	-0.3	-0.1	0.7	0.2	0.0	-0.2	-0.2	-0.1	-0.1			
Population (Thousands)	597.2	600.4	604.7	610.0	613.0	616.6	620.7	623.6	626.3	629.8	633.0	0.8	0.6	0.5
% Change	0.6	0.5	0.7	0.9	0.5	0.6	0.7	0.5	0.4	0.5	0.5			
Net Migration (Thousands)	1.8	1.6	2.6	3.9	2.2	2.8	3.3	2.2	2.1	2.8	2.7	0.9	*Change* 1.0	-0.1
Change	-1.1	-0.1	0.9	1.3	-1.7	0.6	0.5	-1.1	-0.1	0.7	-0.1			
Total Housing Permits (Tho.)	1,831	2,198	2,600	2,506	2,747	3,274	2,650	2,443	2,535	2,604	2,539	-4.1	12.3	-5.0
% Change	-11.5	20.0	18.3	-3.6	9.6	19.2	-19.1	-7.8	3.8	2.7	-2.5			

Gross State Product



Per Capita Income

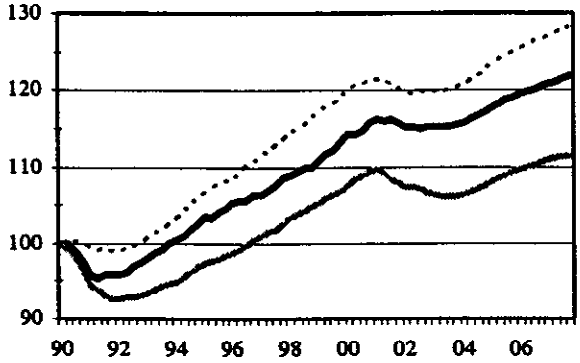


All values, with the exception of the unemployment rate, are indexed to 1990Q1 = 100.

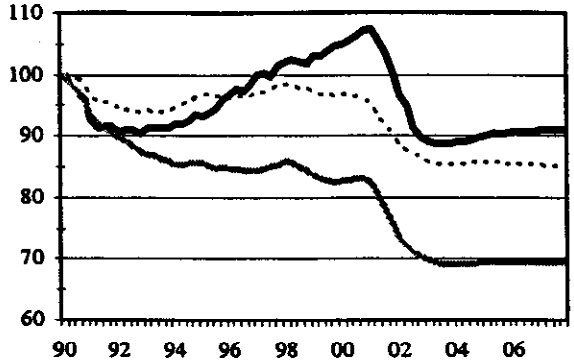
New England — Vermont — United States

Vermont Spotlight

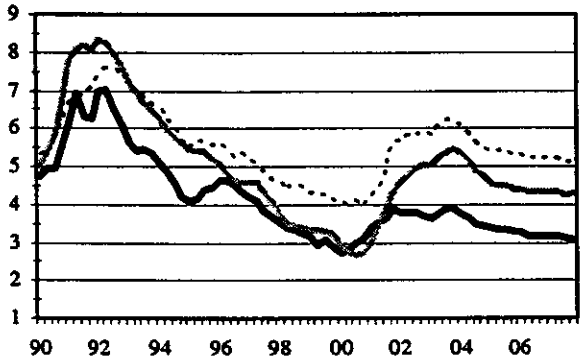
Total Non-Farm Employment



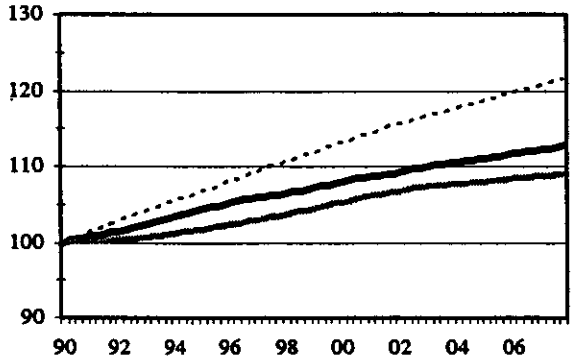
Manufacturing Employment



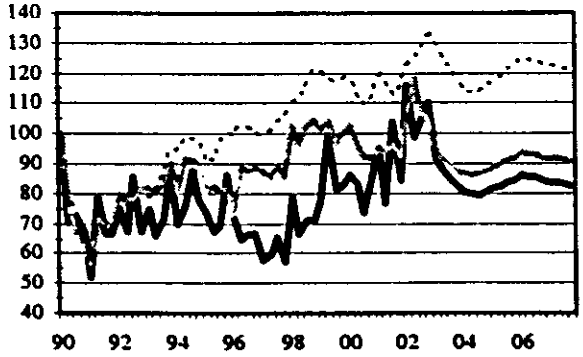
Unemployment Rate



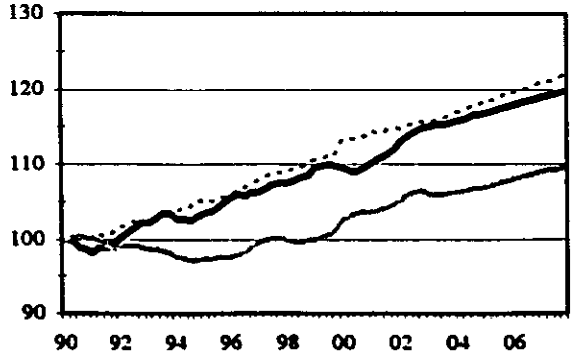
Population



Total Housing Permits



Labor Force



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New England — Vermont — United States