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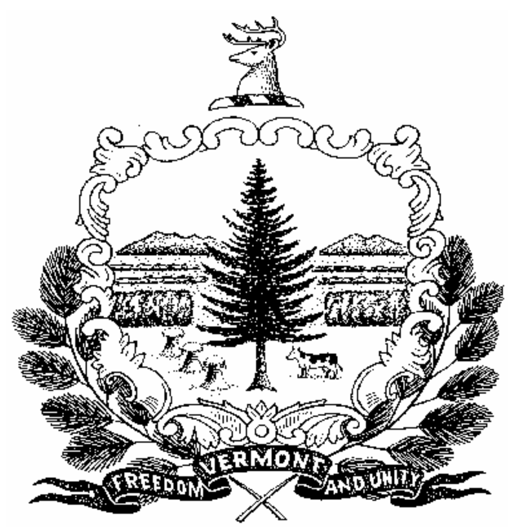
CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

State of



Vermont

RECOMMENDED ANNUAL GENERAL OBLIGATION DEBT AUTHORIZATION

September 2009

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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" or "CDAAC"). This analysis is intended to assist the Committee in determining the maximum amount of long-term, net tax-supported debt (currently consisting only of only general obligation debt ("G.O. debt")) that the State should authorize for the upcoming fiscal year (ending June 30, 2011). The 2008 legislative session required that CDAAC provide an estimate of the amount of long-term net tax supported debt that could prudently be authorized, inclusive of certain special transportation purposes. That number for FY 2009 was $64,650,000, which was then increased to $69,955,000 for FY 2010, consistent with the provisions of the 2008 legislation. For various reasons set forth herein, CDAAC is proposing an authorization of general obligation debt in fiscal 2011 of no more than $71,825,000. The reasons for CDAAC's recommendations for fiscal year 2011 are set forth below under "Adjustments to Debt Per Capita Inflator; Effect on Recommendation" and "Reasons for the Fiscal 2011 Recommended Debt Authorization."

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 net tax-supported debt the State should authorize for the forthcoming fiscal year, consistent with certain guidelines enumerated in the statute. Since the only net tax-supported debt that the State has outstanding is general obligation debt, most of this report will refer to the State general obligation bonds generically as Vermont's net tax-supported indebtedness. There were a series of significant changes, described herein, made to the enabling legislation during the 2008 legislative session, and those adjustments are included herein. Additional changes, which are also noted, were made during the 2009 legislative session. 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 2020.

In fiscal year 2009, $50.5 million of G.O. debt was issued of the $64.65 million authorization while $48.45 million of G.O. debt was retired. For the purposes of the fiscal year 2011 recommendation, it is assumed that during fiscal year 2010, a total of $87.305 million of general obligation bonds will be issued, representing the full amount of the year's authorization, plus the residual amounts of the 2008 authorization ($3.2 million) and the 2009 authorization ($14.15 million) which were not sold as part of the bond issue for which the respective authorizations were enacted. It is possible that these amounts will be spread over several years, but a staggered issuance of the $17.35 million authorized, but unissued levels would not change CDAAC's recommendation for FY 2011.

Adjustment to Debt Per Capita Inflator; Effect on Recommendation

In 2004, after changing the CDAAC guidelines to comport with the 5-year mean and median for triple-A rated states on debt per capita and debt as a percent of personal income bases, the principal limiting guideline for determining appropriate debt authorizations became the 5-year median for debt per capita. In fact, for several years, until 2008, the State was able to comply with three of the new guidelines, the exception being the 5-year median for debt per capita.

In order to achieve a realistic perspective on the future direction of the 5-year debt per capita guideline, it was necessary to inflate this guideline from year to year. However, since there were no practical precedents (with the historical information being stale and not valuable for comparability purposes) against which to evaluate prospective changes in our peer group, a decision was made to utilize an inflation factor for the growth in this guideline consistent with the recent consumer price index ("CPI") at that time. Therefore, a conservative inflation factor of 2.7% was instituted for the guideline of the peer group; there has been, therefore, an assumption that the 5-year median for debt per capita of the peer group, excluding Vermont, would grow, consistent with CPI, at 2.7. However, over the intervening period of time, the actual growth in the 5-year median for debt per capita in the peer group has been approximately 5.3% annually. It would not be prudent, of course, to utilize the full 5.3% figure for Vermont purposes, since the primary reason that Vermont is rated triple-A consists of the conservative debt management and financial management features of the State's credit profile. Relatedly, many of the states that have contributed to the higher number are triple-A as a result of more dynamic and fast-growing economies. Therefore, CDAAC determined that it would be most appropriate to adopt a new inflator, based on a percentage of the 5.3% growth factor for the peer group; a number of 60%, or 3.18%, was selected as being consistent with the State's debt management practices and the expectations of the rating agencies and financial community. At this level, the recommended authorization for fiscal 2011 would be $71,825,000 for the period extending through 2020, pursuant to legislative mandate.

It should be emphasized that the 60% inflation factor is not to be considered fixed. As described elsewhere in this report, there are too many matters in play at present that could conceivably alter this number. First, should the agencies proceed with an increase in the number of triple-A rated states, it is highly likely that the composition of our peer group will be altered in the relatively near future. Second, Moody's has stated on several occasions in its credit reports that if the rating agency were to see a deterioration in the State's relative rankings with respect to debt per capita and debt as a percent of personal income, Vermont's triple-A rating could fall. Therefore, it will be imperative for CDAAC to monitor the State's performance in these comparisons annually to determine if the inflation factor should be adjusted from time to time.

Prospective Increase in Information and Technology Indebtedness

Information systems and technology innovation can lead to improved productivity and operating efficiencies. Toward this end, it is expected that the State will increase the amount of indebtedness that it will issue in the future for these important purposes. At present, it is not possible to provide a precise estimate of future authorizations that will be dedicated to information systems and technology innovation, but based on preliminary projections, it could constitute a significant portion of total debt authorizations. CDAAC does not have concerns about debt financing for such purposes in general, but emphasizes that the following consideration must be carefully monitored. Over the years, the State has sold 20-year debt, generally with level principal amounts, for capital projects that have had useful economic lives significantly exceeding the period of the related debt repayment. Since the useful lives of information systems and technology innovation may be somewhat shorter than those of traditional capital projects for which Vermont has issued long-term debt in the past, it will be crucial for the State to continue to relate its debt repayment structure to the overall useful life profile for the underlying capital projects that are being financed, including any potentially shorter useful lives from the funding of information systems and technology innovation. The State has benefited from the existing repayment debt structure, as viewed by the rating agencies, since the useful lives of the capital projects have extended beyond the period of debt repayment; in a related manner, Vermont has also recaptured its debt capacity rapidly as a result of its amortization schedules - another factor that has been positively noted by the rating agencies. While the State makes adjustments to the projects for which it incurs long-term indebtedness, it will continue to be important for Vermont to adhere to those practices that have resulted in favorable rating agency responses.

Authorized, But Unissued Debt; Effect on Future Recommendations

In fiscal year 2009, Vermont sold only $50.5 million of its authorized $64.65 million; in fiscal year 2008, Vermont issued $46 million of an authorized amount of $49.2 million. This trend diverges from past practice whereby the State annually extinguished all or nearly all of the authorized amount of debt. This previous practice enhanced the State's credit position with favorable responses from the rating agencies

As indicated above, an assumption has been made that Vermont will sell the $17.35 million of authorized, but unissued debt from both 2008 ($3.2 million) and 2009 ($14.15 million) in 2010, at the same time that the total amount of the 2010 authorization of $69.955 million is also being sold, aggregating $87.305 million in debt issuance for the year. It should be emphasized that in accordance with the CDAAC enabling legislation, the annual recommendation must take into account the amount of debt expected to be issued over a ten-year period, utilizing the expected annual authorizations. Therefore, if the remaining authorized, but unissued amount of $17.35 million was divided into, let's say, $10 million in 2010 and $7.35 million in 2011, it would not materially alter the $71.825 million recommended level, since the annual assumed amounts extend through 2020, pursuant to the legislation. Taking these factors into consideration, the CDAAC recommendation is $71.825 million for 2011 and annually thereafter, ending in 2020.

It may be advantageous for the State's future debt management operations and credit profile to reconsider, and perhaps cancel, slow developing or marginal capital projects and for steps to be taken to adhere to Vermont's previous practice of matching annual debt authorizations with realistic annual debt issuances.

2008 Legislative Actions Impacting CDAAC's Participation in State Debt Management Operations

Since the early 1990s, pursuant to its enabling legislation, CDAAC has played an integral role in the State's debt management and credit posture through its annual recommendations of appropriate levels of general obligation debt to be authorized by the State of Vermont. Its work has been repeatedly cited in written and oral communication from the nationally recognized rating agencies as important to the very high investment grade ratings applied to the State's general obligation debt. During the 2008 legislative session, there were numerous initiatives that impacted CDAAC's participation in the State's debt management operations. In particular, CDAAC was asked to review the effect of the State issuing additional general obligation bonds for transportation purposes in the amount of $10 million for 2009 and a similar amount in 2010; unlike other State general obligation debt that is normally amortized over a twenty-year period, this transportation debt is to be repaid over ten years. Otherwise, G.O. debt is assumed to be retired over twenty years. Third, there was considerable expansion of the State's moral obligation commitments to borrowers; while this action does not bear on the specific annual recommendation that CDAAC makes, considering the growth of contingency debt that the moral obligation commitments represent, then CDAAC has taken these actions into account as it views the State's debt affordability position in the future. Fourth, there were several legislative actions that affected the composition of CDAAC. CDAAC was also asked to consider certain other factors in its recommendations, such as the impact of capital spending upon the economic conditions and outlook for the State, the cost-benefit of various levels of debt financing, types of debt and maturity schedules, and any projections of capital needs authorized or prepared by the Agency of Transportation, the Joint Fiscal office or other agencies or departments. The results of these actions are discussed at various places in this document.

2009 Legislative Actions Impacting State Debt Management Operations.

During the 2009 legislative session, there were authorizations by the legislature that affect the State's moral obligation practices. As background, it should be noted that as a result of the financial meltdown of certain segments of the financial markets in late 2007 and continuing through 2008 and 2009, securities that had previously been issued by the Vermont Housing Finance Agency ("VHFA") and the Vermont Student Assistance Corporation ("VSAC") were no longer accepted by investors in the same manner that had previously been the case. To refund certain existing auction rate securities, which were especially hard hit by the financial meltdown in the markets, and to secure funding for new student loans, VSAC sought and received letter of credit and line of credit backup facilities from several banks to expedite debt financings; however, each bank requested that portions of the VSAC's unreserved equity be reserved for the particular issue, reducing the available amount of such equity for future pledge purposes. In response, the 2009 legislature authorized $50 million of moral obligation authority to VSAC with considerable flexibility as to the manner in which the new debt authority may be employed; for example, VSAC can employ the authority through the traditional debt service reserve fund "fill-up" mechanism, but alternatively, it can also utilize the authority in a manner that protects VSAC from having to deplete its unreserved equity. With respect to the latter, in lieu of VSAC unreserved equity, the State would be "morally obligated" to add, under certain conditions, funds to certain transactions to assist VSAC in meeting various "pledged equity" requirements through State appropriations. The $50 million of moral obligation authority to VSAC is a net increase to the State's overall moral obligation commitments. At the same time, legislation was passed in 2009 that didn't provide any net increase in the moral obligation authority to VHFA, but it did give the agency additional flexibility in the use of that authority. Similar to the VSAC authorization, VHFA was also empowered to employ its moral obligation commitment from the State to satisfy various "pledged equity" requirements that could occur as a result of financings conducted by VHFA. The new legislation also expanded the flexibility that VHFA could employ in the use of the traditional moral obligation, debt service reserve fund structure.

Background on Vermont's Recent Historical Debt Policies

The Vermont State Treasurer's Office prepared the following recital of the State's recent historical debt policies for CDAAC. This important information, slightly revised to conform with the balance of this report, is supplied as background material relevant for a better understanding of the State's current debt position:

"In the early 1970s, Vermont lost its triple-A bond rating, largely because of a significant accumulation of bonded indebtedness. There were three principal causes for the increase in outstanding debt . . . interstate highway construction, extensive school construction and renovation, and sewage treatment plant construction. Another factor that may have concerned analysts at that time was the extension of moral obligation support for industrial mortgage guarantees, the Bond Bank, and VHFA.

"In 1975, Vermont enacted in statute the so-called "90 percent rule" as a policy device to reduce its large amount of accumulated tax-supported debt. New general obligation debt authorization was restricted to 90 percent of the debt being retired in the same fiscal year. The policy was successful. The ratio of debt as a percent of personal income, a key benchmark for rating analysts, was reduced from about 11% in the mid-1970s to about 3% in 1989. Clearly, though, the 90 percent rule policy was not sustainable and policymakers recognized it would eventually lead to unrealistically small amounts of allowable new debt.

"In 1990, the "90 percent rule" was repealed, and the Capital Debt Affordability Advisory Committee was created to provide a new framework for determining the appropriate level of new debt issuance for the State. Interestingly, in 1991, the CDAAC recommended issuance of $100 million of new debt based on pent-up demand for infrastructure funding, the need to stimulate the economy with job creation, and attractive interest rates. Perhaps coincidentally, Vermont's bond rating was reduced from AA to AA- by Standard & Poor's in 1991. Since that time, CDAAC and Vermont policymakers have faithfully worked to improve the State's debt profile by being conservative in new debt issuance, utilizing cash from one-time surplus funds to supplement bonding for infrastructure financing, and expanding the State's economic base." As a supplementary comment, in addition to other economic reasons for CDAAC recommending a particularly large amount of debt in 1991, the cost of construction at the time was especially favorable to the State.

CDAAC's Affordability Guidelines and Debt Load Standing Among States

Since 2004, the Committee has followed a series of debt guidelines, reflecting the State's comparative current and prospective performance in terms of debt load measures (i.e., debt per capita and debt as a percent of personal income) against triple-A rated states. A more detailed discussion of these guidelines and the State's compliance with them is presented later. According to Moody's Investors Service's most recent information, the State's relative position, among states, improved during the past year with respect to both net tax-supported debt as a percent of personal income (improving from 33rd in 2008 to 35th in 2009) and net tax-supported debt per capita (improving from 32nd in 2008 to 34th in 2009).

Moody's Triple-A Rating

The State of Vermont achieved a very significant milestone in February 2007 when it was raised to the coveted triple-A category by Moody's Investors Service. Not since the early 1970s has Vermont been rated Aaa by Moody's. There are cost of capital and economic development reasons, among others, that the triple-A rating is a very worthy goal to be achieved. Among the reasons Moody's cited for the increased rating was the State's "steady progress in reducing previously high debt ratios and maintaining an affordable debt profile." Based on numerous communications with Moody's, it has also become clear that the role of CDAAC and the credibility that CDAAC has brought to the debt authorization process were factors in the rating agency's decision to take this important move. Over time, we expect that in the future, Fitch and Standard & Poor's will replicate Moody's action and increase the State's rating to triple-A. The State's adherence to the debt guidelines will improve the prospects for that eventuality.

Legislative and Public Policy Pressures to Increase Ratings

Beginning in 2007 and continuing to the present, the nationally recognized credit rating agencies have been scrutinized in the public arena - in particular, by the Congress and the Securities and Exchange Commission. In addition, they have also been sued by various parties with respect to actions previously taken by the rating agencies. In this context of criticism, legislative and public opinion-makers have suggested that the ratings for state and local governments were artificially kept low by the rating agencies in comparison with sovereign and corporate credits. In response to this criticism, certain of the rating agencies have admitted that state and local governments had been rated on a more value based approach, as opposed to the default based approach routinely applied to sovereign and corporate borrowers. Moreover, Moody's and Fitch have agreed that they will, over time, normalize the ratings among the three types of borrowers, meaning that state and local ratings should rise. This development will probably have two consequential results for borrowers, such as the State of Vermont. For highly rated borrowers, the migration of average ratings to higher classifications may reduce the advantage of better state ratings.

At the same time, the likelihood of Vermont being raised into the triple-A category by all three agencies will probably increase over the next three-four years. In addition, it is possible in this scenario for the State to sell more debt and still remain in the triple-A category. Many market participants currently predict that different tiers of marketability for borrowers will probably develop within rating categories as states and other public borrowers see their ratings rise; if this proves true, then it may be necessary for the State to continue to comply with the strongest state peers, which may not create additional debt capacity beyond that which our guidelines provide for the best states within the triple-A classification. As a result of the severe deterioration in the world economy in 2008, Moody's and Fitch suspended indefinitely in late calendar 2008 the migration project for state and local government ratings. It is currently not known when or if the project will be resumed.

Approach To State Moral Obligation Indebtedness

As the State's rating improved, the value of its moral obligation has also grown. It is therefore apparent that there has been greater pressure on the State to raise the size of its existing moral obligation commitments and/or to assign the moral obligation pledges to State borrowers. However, without some form of containment, it is possible that an ever-increasing moral obligation debt load could, over time, erode the State's debt position.

In accordance with the appropriate provisions from the enabling statute that created CDAAC, the Committee has already been authorized to consider "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." Therefore, it is not inconsistent for CDAAC to develop guidelines for Vermont regarding the size and use of the State's moral obligation debt.

In recent years, CDAAC has adjusted its debt load guidelines to take into account the comparative debt load statistics for triple-A rated states throughout the country. Unfortunately, none of the rating agencies prepare comparative data on the respective triple-A rated states on moral obligation or contingent debt. Moreover, there is little consistency among the triple-A rated states regarding the size, nature and role of such debt. The types of contingent debt are quite varied among the states, including state guarantees of local school debt, back-up support for revenue obligations, etc. Because of the mixture of contingent debt applied by triple-A states, it would not be possible to employ guidelines that are similar to the general obligation guidelines that have been utilized by CDAAC in connection with its annual recommendation of long-term general obligation debt to be authorized by the State legislature.

During the 2008 legislative session, there was a considerable expansion of the State's moral obligation debt, illustrated by $100 million of authorization for higher education purposes and an increase in VHFA's moral obligation capacity to $155 million. $40 million of moral obligation commitment for the Vermont Telecommunications Authority ("VTA") had been authorized during the 2007 legislative session.

This 2008 legislative expansion of moral obligation debt was further built upon by the 2009 legislative session, which provided $50 million of new moral obligation authority to VSAC that was allowed to employ the authority either in the traditional debt service reserve fund "fill-up" structure or through a "pledged equity" mechanism. With respect to the latter, the State is authorized, though not required, to increase certain equity reserves for VSAC if individual trusts do not provide requisite parity levels under financing agreements. A similar provision for a pledged equity moral obligation was authorized for VHFA, but such use was constrained within VHFA's overall ($155 million) moral obligation authority. The pledged equity program for the two agencies was adopted to allow each agency to more effectively deal with the market problems that surfaced recently.

There had been, for several years, discussions within CDAAC regarding the establishment of guidelines for limiting the amount of moral obligation debt that the State should authorize. In an accompanying chart, the State's net tax-supported debt statement, consisting entirely of the State's GO outstanding indebtedness, is presented, as of June 30, 2009, at $440.6 million. Using 225% of GO debt for establishing a limit of moral obligation debt, the State would have had approximately $87.7 million in additional moral obligation capacity. Using 200% of GO debt for establishing a limit of moral obligation debt, the State would have had approximately ($22.4) million in negative capacity; in other words, at 200%, the State could not comply with the administrative guideline. It should also be emphasized that the date during the year that these computations occur are crucial to the results. For example, if the computations had been made about three weeks later, July 21, 2009, after the Vermont Municipal Bond Bank, which has no statutory limit on moral obligation commitment from the State, sold a total of $61.28 million in new money and refunding bonds (net of the outstanding bonds that were refunded), then the outstanding moral obligation commitment that the State had outstanding would have been approximately $964.9 million. Therefore, at 225%, there would be $26.5 million in additional capacity available; at 200%, there would be ($83.7) million in negative capacity – in other words, at 200%, the State could not comply with the administrative guideline.

At this point, CDAAC believes that a range of 200-225% is appropriate in determining the amount of moral obligation commitments that should be outstanding in comparison to the State's general obligation debt. Since CDAAC has not recommended legislative action to codify any statutory limits on the incurrence of moral obligation debt, CDAAC will continuously monitor the developing size of moral obligation commitments and report the results.

State's Triple-A Rating Increases Funding Resources For Vermont Moral Obligation Borrowers

Most state and local borrowers prefer higher investment grade ratings for several obvious reasons: lower borrowing costs for the higher rated general purpose government, lower borrowing costs for authorities that rely on support from the higher rated borrower, and the more indirect economic development advantage of companies being attracted to places that have superior or excellent management, reflected in better investment grade ratings.

One benefit to a triple-A rating to the State that is not immediately obvious is the additional funding resources that become available to moral obligation borrowers. As the investment grade rating of the general purpose government – in this case, the State of Vermont – rises, then the value of the moral obligation pledge also increases. For example, as the State's rating has improved, there has been a growing demand for greater State participation in the form of larger moral obligation commitments, as previously noted. During the time that the State's rating was in the low to mid double-A range in the early to mid 1990s, there was little demand for the State's moral obligation pledge. The application of the State's highly rated moral obligation commitment has therefore expanded the funding resources for many sizeable Vermont borrowers.

Growth In Debt By Other Triple-A States Gives Vermont Additional Long-Term Debt Capacity

As discussed elsewhere, CDAAC altered its affordability guidelines in 2004 to align with debt per capita and debt as a percentage of personal income as experienced by triple-A rated states. In particular, the guidelines called for State compliance with the 5-year mean and median for triple-A rated states with respect to each of these affordability measures. Over most of the intervening period, the State had been able to meet three of the four measures; Vermont was not able for a period of time to meet the 5-year median debt per capita standard for triple-A rated states. However, as forecasted in the 2007 CDAAC affordability report, it was projected that based upon the then existing trends, the State should be able at the end of fiscal 2008 to comply with all four guidelines. In fact, that is what has happened. Moreover, at the end of fiscal 2009, the 5-year median of debt per capita for triple-A rated states was $778, while the 5-year median for Vermont was well below that figure at $706. As set forth elsewhere in this report, Vermont is able to comply with the other three guidelines by healthy margins.

Over the last five years, excluding Florida prior to 2006, Indiana prior to 2008 and Iowa prior to 2009 (previously, these states have not been included among triple-A rated states) and Vermont, the mean for debt per capita among triple-A rated states grew from $831 in 2005 to $899 in 2009, or by over 8%; during the same period, Vermont's debt per capita actually declined from $716 to $692, or a reduction of 3.4%. With respect to debt as a percentage of personal income, over the last five years, again excluding Florida, Indiana and Iowa prior to 2006, 2008 and 2009, respectively, and Vermont, the mean for this ratio among triple-A rated states was relatively stable – from 2.7% in 2005 to 2.4% in 2009; during the same period, Vermont's debt as a percentage of personal income fell from 2.3% in 2005 to 1.8% in 2009.

Now that Vermont's debt ratios are below those, on a median and mean basis, of their peers in the triple-A category, the State's debt capacity has shown capacity for some expansion. It should be emphasized, however, that one of the primary reasons that Vermont currently enjoys a triple-A from Moody's is the State's conservative debt management. Further, Moody's has stated in its recent credit reports on Vermont that if the State's debt ratios increase relative to the 50-state debt measures, the State could see its triple-A rating decline.

It will be important for the State to monitor the annual amount of debt service paid from the State's operating funds, consisting of the General and Transportation funds. While the CDAAC guideline is 6%, this level is above the range at which certain rating agencies are comfortable for a triple-A rated state. At present, debt service represents 5.5% of operating funds – the ratio is one of the more critical debt measures and requires continual review.

Lease and Contingent Purchase Transactions

CDAAC has taken the appropriate position that in the absence of special security provisions, lease (capital) obligations must be taken into account as part of the authorization recommendation process. For example, for CDAAC's fiscal year 2001 general obligation debt recommendation, the amount was reduced from $39 million to $34 million when it was discovered that there was an outstanding capital lease in the amount of $5.0 million then being carried in the Department of Transportation. At this point Vermont has not entered into any lease (capital) obligations of note that were not justifiably self-supporting.

Reasons for the Fiscal 2011 Recommended Debt Authorization

As stated above, CDAAC is proposing that the maximum amount of long-term G.O. debt authorization for the State in fiscal year 2011 be $71.825 million. The rationale for this is as follows:

1. Two years ago, CDAAC proposed an increase to $54.65 million, or an increase of over 40% during the fiscal years, 2004-2009, inclusive. Last year, CDAAC proposed authorizing $69.955 million. Considering the debt capacity that Vermont currently enjoys (see "Adjustment to Debt Per Capita Inflator; Effect on Recommendation"), CDAAC has concluded that the State is able to authorize $71.825 million during fiscal year 2011.

2. The fiscal 2005 recommended authorization rose by over 5% from $39 million to $41 million, and the fiscal year 2006 recommended authorization increased the fiscal year 2005 authorization by nearly 10% to $45 million for a growth of over 15% in two years. The fiscal year 2007 recommended authorization remained at the fiscal year 2006 level. Further, there was an additional $4.2 million increase for fiscal year 2008, reflecting a 26% increase over the 2004-2008 fiscal year period. While there has been an increase in annual authorizations of 75.2% between fiscal year 2005 and fiscal year 2011, we believe the growth is consistent with Vermont's debt affordability.

3. CDAAC is of the opinion that the fiscal year 2011 recommended authorization is consistent with its policy of trying to provide important capital contributions to the State's physical infrastructure requirements within a framework of acceptable debt affordability.

4. At present, the State is in compliance with all of its guidelines. Based on current projections, the proposed debt authorization amount for fiscal year 2011 is expected to allow the State to be in line with all debt guidelines for the near future.

5. CDAAC has some concerns about the economic and financial uncertainties affecting the State and country near-term. With volatile oil prices, recent equity market concerns, projected Federal deficits, mortgage defaults and uneven economic trends, the economic and financial outlook for the State and the country is especially uncertain; as a result, CDAAC believes it is a prudent course of action for the State, at present, to follow the proposed course of near-term State debt authorizations.

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 $87,305,000 in fiscal 2010 and $71,825,000 in fiscal years 2011-2020 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 fiscal year debt authorizations. **Section 6** documents relevant provisions of the enabling legislation, as recently amended, 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 2009 published by the New England Economic Partnership ("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, possibly in a substantial manner.

1. DEBT STATISTICS

Net Tax-Supported Debt Outstanding

The State's aggregate net tax-supported principal amount of debt increased from $438.6 million as of June 30, 2008 to $440.6 million as of June 30, 2009, an increase of 0.46%. Except for the fiscal year 2002, when a carry-forward amount of authorization was included in the debt issue, for each of the fiscal years during the period 1999-2007, the State retired more G.O. bonds than it sold, including the issuance of refunding debt.

The table below sets forth the sources of the change in net tax-supported debt outstanding from fiscal year 2008 to fiscal year 2009 (in thousands):

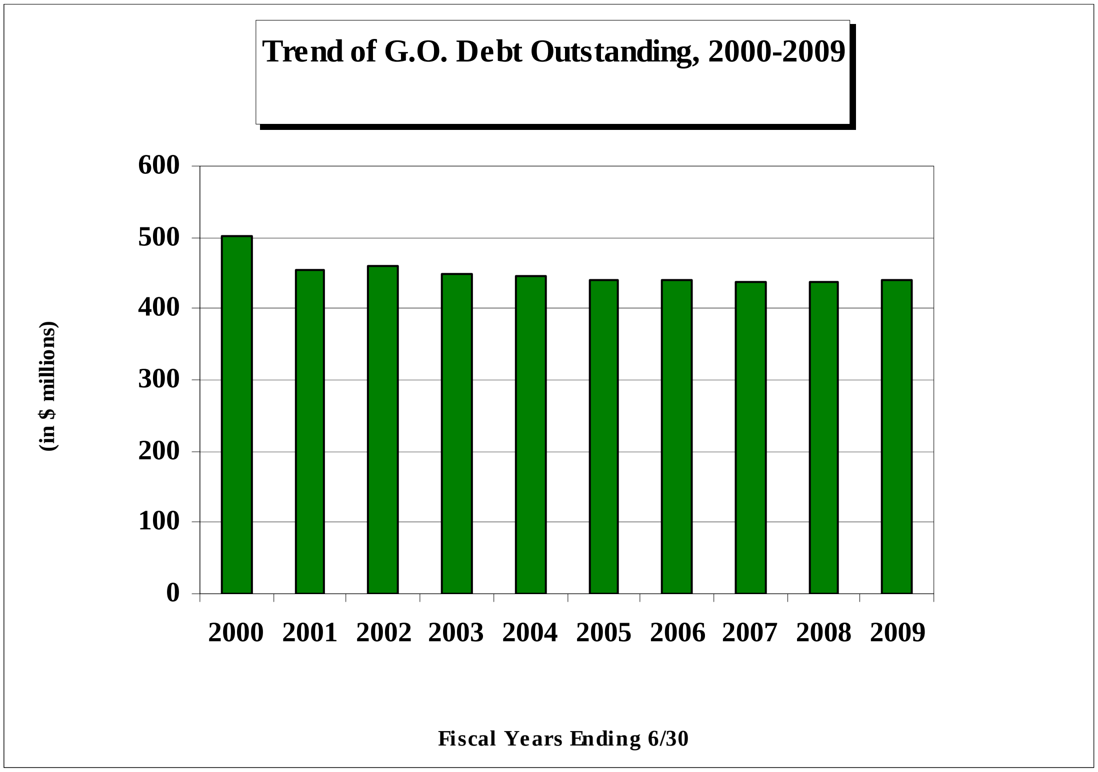
Net Tax-Supported Debt as of 6/30/08	$438,582
G.O. New Money Bonds Issued	50,500
Less: Retired G.O. Bonds	(48,449)
Net Tax-Supported Debt as of 6/30/09	$440,633

Debt Statement

As of June 30, 2009 ($ Thousands)

General Obligation Bonds*:	
General Fund	411,809
Transportation Fund	22,794
Special Fund	6,030
Contingent Liabilities:	
VEDA Mortgage Insurance Program	6,718
VEDA Financial Access Program	877
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	488,615
Vermont Housing Finance Agency	155,000
VEDA	70,000
Vermont Student Assistance Corporation	50,000
Vermont Telecommunications Authority	40,000
Univ. of Vermont/State Colleges	100,000
Gross Direct and Contingent Debt	1,351,843
Less:	
Contingent Liabilities	(7,595)
Reserve Fund Commitments	(903,615)
Net Tax-Supported Debt	**440,633**

* Includes original principal amounts of Capital Appreciation Bonds.



G.O. DEBT OUTSTANDING, 2000-2009
(As of June 30, in $ millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL	503.0	454.9	460.5	448.2	444.7	440.3	440.0	438.4	438.6	440.7

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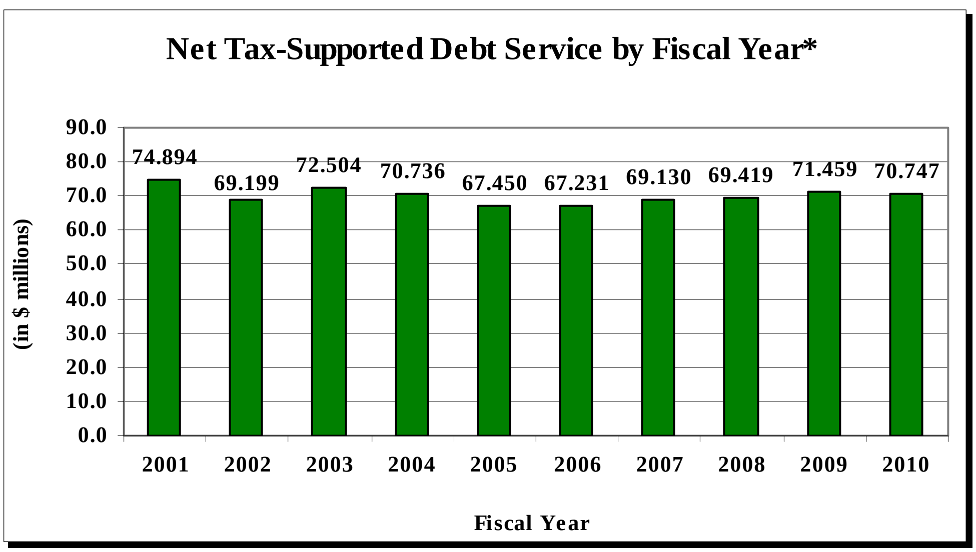
Net Tax-Supported Debt Service by Fiscal Year

- The State's G.O. debt service requirement ("D/S") for fiscal year 2010 will be $70.747 million, 1.01% less than the $71.459 million paid in fiscal year 2009. This decrease comes after annual decreases ranging from 0.3% to 7.6% over the period fiscal 2000 – fiscal 2007, except for an anomaly of a 4.8% increase in fiscal year 2003. There were increases of 0.42% and 2.94% in fiscal years 2008 and 2009, respectively.

(in $ thousands)	
Net Tax-Supported D/S Paid in FY 2009..	$71,459
Decrease in D/S Requirement FY 2009-2010	(5,119)
D/S Increase Due to G.O. Debt Issued in FY 2009	4,407
Net Tax-Supported D/S Due in FY 2010	$70,747



**Consists of General Obligation Bonds.*

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The table below sets forth the State's existing principal amounts outstanding and annual debt service requirements, as of June 30, 2009, without the issuance of any additional G.O. debt. Please refer to the table on page 20 for the State's projected principal amounts outstanding and annual debt service requirements assuming the issuance of G.O. debt, which includes the issuance of $87,305,000 G.O. debt during fiscal year 2010. For fiscal year 2011, CDAAC is recommending $71,825,000 of G.O. authorization.

PROJECTED GENERAL OBLIGATION NET TAX-SUPPORTED DEBT
As of June 30, 2009
(in $ thousands)

	GENERAL OBLIGATION BONDS (STATE DIRECT DEBT)							
	General Fund		Transportation Fund		Special Fund		Total	
Fiscal Year	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Total Debt Service
2010	411,809	64,686	22,794	3,561	6,030	2,500	440,633	70,747
2011	368,680	60,540	20,086	3,483	3,825	1,026	392,591	65,049
2012	328,238	54,444	17,375	3,372	2,985	626	348,598	58,442
2013	289,326	48,150	14,679	2,482	2,505	628	306,510	51,261
2014	254,350	46,785	12,765	2,415	2,000	629	269,115	49,829
2015	219,562	36,724	10,853	2,095	1,470	633	231,885	39,452
2016	192,087	32,465	9,203	1,947	910	636	202,200	35,048
2017	167,718	28,587	7,652	1,884	320	336	175,690	30,807
2018	146,229	25,462	6,101	1,709	0	0	152,330	27,171
2019	126,941	23,733	4,649	1,630	0	0	131,590	25,363
2020	108,554	22,223	3,231	560	0	0	111,785	22,783

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2. ECONOMIC AND FINANCIAL FORECASTS

This section of the report is based on the economic analysis provided by NEEP for the State of Vermont. NEEP's report, "Vermont Economic Outlook," dated May 2009 (a copy of which is included in the appendices), states that "the Vermont economy will follow the U.S. economy and experience a slow, restrained pace of recovery out of the current recession, with employment effects lingering through the middle of calendar 2010. By the time the recession in Vermont is over, it will have been the hardest economic downturn in the state since the 'Great Depression' with a total of 7 of 8 major macro-variables faring 'worse' than in the early 1990s recession. 'Normal' rates of growth for most key macro-variables do not return until calendar years 2011 and 2012 when the effects of the housing market downturn and the long process of global financial and household de-leveraging have fully run their course.

"Over the next 4+ years, it is expected that payroll jobs [in Vermont] will decline for a total of 11 consecutive quarters, or through the second quarter of calendar 2010. The total decline will be 22,500 jobs from peak non-farm employment levels, and the pace of recovery will be halting and insecure. When the recession has run its full course, payroll job losses in Vermont will be more severe, in percentage terms, than losses at the national and regional level since 2009 and 2010; and the Vermont jobs recovery will be slower than that at the national level, but slightly stronger than the New England state average. The unemployment rate will rise to levels not experienced since calendar year 1983.

"The housing market downturn nationally, regionally, and in Vermont, is still underway and the still evolving financial de-leveraging process remains a significant unknown and is a source of downside forecast risk in this NEEP forecast revision. It is expected that additional foreclosures and a substantial inventory of unsold units will continue to put downward pressure on house prices through 2011. So far, although delinquencies have risen in Vermont, they have not risen to the levels where foreclosures and forced liquidation sales have pushed housing prices down significantly. The forecast expects the housing prices in Vermont to decline to a lesser degree than those in other New England states, and the U.S. overall, but they will not begin to recover until calendar year 2012.

"Oil prices have stabilized between $45 and $55 per barrel, but have shown an increasing trend over the last 2 months, representing another source of downside risk in this revised NEEP forecast. Vermont households and businesses have enjoyed the relief provided by energy prices that are down from those of Summer 2008. However, substantially higher energy prices going forward could reduce other forms of spending and slow down the rate of the expected historically slow rate of recovery. Vermont is particularly sensitive to energy costs due to its rural nature, its dependence on vehicle-based tourism and visitor traffic from the northeastern region of the U.S., and the energy cost-intensive nature of its key manufacturing sector.

"Overall, output, gross state product, will decline in 2009, experience weak but positive growth in 2010, and then resume more normal rates of growth in the final three years of the forecast. Real Personal Income in Vermont is expected to decline in 2009 and 2010, and then resume growth in 2011, lagging recovery at the regional and national levels in this variable by one year."

As shown in the table below, EPR's population estimate for 2009 is about 0.06% less than its forecast for 2008, and its estimates of future population growth average about 0.34% annually from 2010 through 2020. Personal income increased 0.12% from 2008 to 2009 and is projected to achieve an average annual growth rate of 5.04% from 2010 through 2020. Estimated full valuation decreased 3.28% from 2008 to 2009 and is projected to achieve an average annual growth rate of 2.63% from 2010 through 2020, inclusive. EPR's current and projected General Fund and Transportation Fund revenues 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)
2007	620.8	23.27	57,521
2008	621.3	24.15	58,475
2009	621.0	24.18	56,556
2010	621.7	24.36	56,831
2011	623.6	24.94	58,976
2012	625.5	26.03	62,059
2013	627.6	27.74	64,108
2014	629.8	29.62	65,814
2015	632.0	31.46	67,471
2016	634.4	33.30	69,072
2017	636.8	35.18	70,336
2018	639.2	37.15	72,082
2019	641.7	39.28	73,802
2020	644.4	41.48	75,233

(1) These figures were prepared by EPR, except Effective Full Valuation. Projected Effective Full Valuation was based on Real Vermont Gross State Product annual growth rates provided by EPR.

As shown in the table below, total revenue for fiscal year 2009 is $115.2 million less than in fiscal year 2008, a decrease of 8.1%. Fiscal year 2010 total revenue is forecast to decrease by $55.7 million, or 4.26%; the average annual revenue growth rate during the fiscal year period, 2010 through 2020, inclusive, is projected to be approximately 2.63%.

Current and Projected Revenues (2)

Fiscal Year	General Fund (in $ millions)	Transportation Fund (in $ millions)	Total Revenue (in $ millions)
2008	1,199.8	223.1	1,422.9
2009	1,104.1	203.6	1,307.7
2010	1,024.6	227.4	1,252.0
2011	1,084.1	235.4	1,319.5
2012	1,184.2	246.5	1,430.7
2013	1,238.7	255.5	1,494.2
2014	1,306.4	266.4	1,572.8
2015	1,382.2	276.8	1,659.0
2016	1,465.1	289.2	1,754.3
2017	1,551.5	300.8	1,852.3
2018	1,641.5	314.7	1,956.2
2019	1,735.1	327.6	2,062.7
2020	1,834.0	342.3	2,176.3

(2) Amounts shown are “current law” revenue forecasts, based on a consensus between the State’s administration and legislature. The official forecast is shown as of July 29, 2009.

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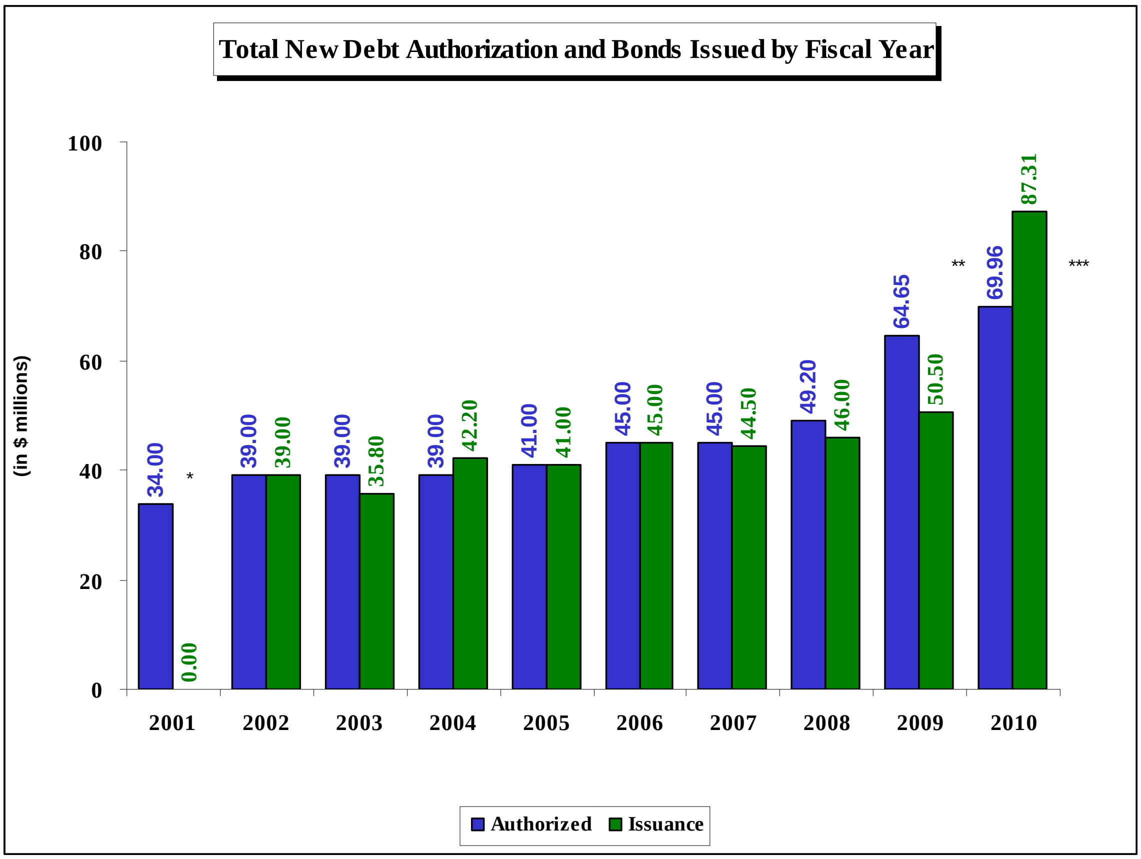
3. DEBT AUTHORIZATIONS AND PROJECTION SCENARIOS

Recent Debt Authorizations

In fiscal year 2009, $50.5 million of debt was issued, representing all but $14.15 million of the $64.65 million authorized for that year. During fiscal year 2010, $87.305 million of debt is expected to be sold, the total amount of the original 2010 recommended authorization plus $17.35 million of authorized, but unissued debt remaining from 2008 and 2009. We believe this trend in which the State has annually extinguished all or a large portion of the authorized amount of debt so that there doesn't exist a rising residual amount of authorized but unissued 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 since fiscal year 2001.



** It should be emphasized that a sizeable amount of the $34 million authorization in fiscal year 2001 was paid down through pay-as-you-go funding and the use of surplus funds.*
*** As approved by CDAAC.*
**** Anticipated to be issued.*
Note: Annual issuances do not include refunding bonds.

General Obligation and General Fund Supported Bond Debt Service Projections

The State's projected annual G.O. debt service and debt outstanding are presented on the following pages and summarized below. The projected debt service (at 6% interest rate) assumes the issuance of $69,955,000 in G.O. debt during fiscal year 2010; for fiscal years 2011-2020, the table assumes the issuance of $71,825,000 annually.

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

Fiscal Year Ending	G.O. Debt Service	G.O. Bonds Outstanding
6/30/2009	70,459	440,633
6/30/2010	70,747	479,896
6/30/2011	74,658	503,358
6/30/2012	75,687	525,135
6/30/2013	75,933	548,010
6/30/2014	81,713	567,455
6/30/2015	78,331	590,850
6/30/2016	80,707	613,825
6/30/2017	83,025	636,360
6/30/2018	85,733	657,925
6/30/2019	90,053	676,835
6/30/2020	93,386	693,900

On the following page is a table showing the projected G.O. debt service, G.O. bond principal payments, and G.O. bonds outstanding during each of the fiscal years, 2010 through 2020, inclusive. This table shows the projected issuance of $87,305,000 in fiscal year 2010 and $71,825,000 during fiscal years 2011-2020, inclusive.

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EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)												
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	D/S	87.305M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	D/S
2010	70,747	0	0	0	0	0	0	0	0	0	0	0	70,747
2011	65,049	9,608	0	0	0	0	0	0	0	0	0	0	74,658
2012	58,442	9,341	7,905	0	0	0	0	0	0	0	0	0	75,687
2013	51,261	9,079	7,689	7,905	0	0	0	0	0	0	0	0	75,933
2014	49,829	8,817	7,473	7,689	7,905	0	0	0	0	0	0	0	81,713
2015	39,452	8,555	7,257	7,473	7,689	7,905	0	0	0	0	0	0	78,331
2016	35,048	8,294	7,042	7,257	7,473	7,689	7,905	0	0	0	0	0	80,707
2017	30,807	8,032	6,821	7,042	7,257	7,473	7,689	7,905	0	0	0	0	83,025
2018	27,171	7,770	6,606	6,821	7,042	7,257	7,473	7,689	7,905	0	0	0	85,733
2019	25,363	7,508	6,390	6,606	6,821	7,042	7,257	7,473	7,689	7,905	0	0	90,053
2020	22,783	7,246	6,175	6,390	6,606	6,821	7,042	7,257	7,473	7,689	7,905	0	93,386

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)												
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Principal	87.305M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	Principal
2010	48,042	0	0	0	0	0	0	0	0	0	0	0	48,042
2011	43,993	4,370	0	0	0	0	0	0	0	0	0	0	48,363
2012	42,088	4,365	3,595	0	0	0	0	0	0	0	0	0	50,048
2013	37,395	4,365	3,595	3,595	0	0	0	0	0	0	0	0	48,950
2014	37,230	4,365	3,595	3,595	3,595	0	0	0	0	0	0	0	52,380
2015	29,685	4,365	3,595	3,595	3,595	3,595	0	0	0	0	0	0	48,430
2016	26,510	4,365	3,595	3,595	3,595	3,595	3,595	0	0	0	0	0	48,850
2017	23,360	4,365	3,590	3,595	3,595	3,595	3,595	3,595	0	0	0	0	49,290
2018	20,740	4,365	3,590	3,590	3,595	3,595	3,595	3,595	3,595	0	0	0	50,260
2019	19,805	4,365	3,590	3,590	3,590	3,595	3,595	3,595	3,595	3,595	0	0	52,915
2020	18,060	4,365	3,590	3,590	3,590	3,590	3,595	3,595	3,595	3,595	3,595	0	54,760

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)												
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Debt	87.305M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	71.825M	Debt
2009	440,633	0	0	0	0	0	0	0	0	0	0	0	440,633
2010	392,591	87,305	0	0	0	0	0	0	0	0	0	0	479,896
2011	348,598	82,935	71,825	0	0	0	0	0	0	0	0	0	503,358
2012	306,510	78,570	68,230	71,825	0	0	0	0	0	0	0	0	525,135
2013	269,115	74,205	64,635	68,230	71,825	0	0	0	0	0	0	0	548,010
2014	231,885	69,840	61,040	64,635	68,230	71,825	0	0	0	0	0	0	567,455
2015	202,200	65,475	57,445	61,040	64,635	68,230	71,825	0	0	0	0	0	590,850
2016	175,690	61,110	53,850	57,445	61,040	64,635	68,230	71,825	0	0	0	0	613,825
2017	152,330	56,745	50,260	53,850	57,445	61,040	64,635	68,230	71,825	0	0	0	636,360
2018	131,590	52,380	46,670	50,260	53,850	57,445	61,040	64,635	68,230	71,825	0	0	657,925
2019	111,785	48,015	43,080	46,670	50,260	53,850	57,445	61,040	64,635	68,230	71,825	0	676,835
2020	93,725	43,650	39,490	43,080	46,670	50,260	53,850	57,445	61,040	64,635	68,230	71,825	693,900

4. DEBT RATIOS

G.O. Debt Guidelines

Over the recent past, the State's investment grade ratings have significantly improved. Even before the State’s rating was increased to Aaa by Moody’s in February, 2007, the State had been the highest rated state in New England for several years. The State also enjoys high double-A ratings from the two other nationally recognized credit rating agencies. The State is currently pursuing a strategy to achieve a triple-A rating in the near future from all three nationally recognized credit rating agencies and has employed its debt load guidelines to assist the State achieve this goal.

CDAAC has adopted guidelines that are consistent with a triple-A rated state. As such, there are four guidelines that are followed by CDAAC in the development of the annual proposed general obligation bond authorization. First, the State will be guided annually by its ability to meet the 5-year mean in debt per capita for triple-A states. Second, the State should be able annually to meet the 5-year median of triple-A states in debt per capita. Third, the State should be able to meet annually the 5-year mean of debt as a percent of personal income for triple-A states. Fourth, Vermont will be guided by its ability to meet the 5-year median for triple-A states of debt as a percent of personal income. As of the end of fiscal 2009, Vermont was able to meet all four standards for debt per capita and debt as a percent of personal income. The end of fiscal 2008 was the first time that Vermont was able to satisfy all four standards.

In addition, CDAAC has adopted the guideline of limiting annual general obligation debt service to no more than 6% of operating revenues, consisting of the annual aggregate of General and Transportation Funds. At present and based on the fiscal 2010 adjusted recommended debt authorization and the proposed fiscal 2011 debt authorization amounts, the State will be in compliance with the 6% guideline for the foreseeable future. For State purposes, this is an especially critical guideline, and while the State expects to be below 6%, there will be a need to monitor the State’s performance in this area very closely. Please see the accompanying charts to evaluate the State's current and anticipated position with respect to the CDAAC guidelines.

This section discusses the impact of the proposed issuance of $87.305 million of G.O. debt during fiscal year 2010 and $71.825 million annually thereafter for each of the fiscal years, 2011 through 2020. Please refer to the “Historical and Projected Debt Ratios” on page 26 for the statistical detail described below.

Debt Per Capita

The Committee has adopted a guideline for the State to equal or perform better than the 5-year mean and median of triple-A rated states on the basis of debt per capita. At present, the targets are $896 for the mean and $778 for the median. Based on data from

Moody's Investors Service, Vermont's 5-year mean and median debt per capita figures are better than the 5-year mean and median for triple-A rated states. Using the 5-year Moody's median for triple-A rated states ($778) and increasing it by 3.18% annually (60% of annual increase for peer group), combined with an assumption that the State will issue $87.305 million during fiscal year 2010 and $71.825 million in 2011-2020, Vermont will continue to be equal to (2017) or below the Moody's 5-year mean and 5-year median for triple-A rated states during fiscal years 2010 through 2020, inclusive (see "Historical and Projected Debt Ratios"). It should be emphasized that the debt numbers for Vermont have been generally falling and stabilizing while those of the triple-A rated states, on a composite basis, have been rising.

Debt as a Percent of Personal Income

The Committee also adopted a guideline for the State to equal or perform better than the 5-year mean and 5-year median of triple-A rated states on the basis of debt as a percent of personal income. At present, the targets are 2.7% for the mean and 2.5% for the median. Based on data from Moody's Investors Service, Vermont's debt as a percent of personal income figure is better than the 5-year mean and 5-year median for triple-A rated states. Moreover, considering the 2009 figures alone, Vermont's relative comparison improves even more, with a widening gap between Vermont's figure and those of the triple-A rated states. Assuming that the State will issue $87,305,000 in fiscal year 2010 and $71,825,000 in fiscal years 2011-2020, Vermont should be able to comply with the 5-year mean and 5-year median for triple-A rated states (see "Historical and Projected Debt Ratios").

Debt Service as a Percentage of Revenues

This ratio, reflecting annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds, is currently 5.5%. With the projected issuance of G.O. debt, this ratio is expected to increase to 5.7% for fiscal year 2010 and drop annually thereafter until fiscal year 2020 (except for a 0.01% increase in 2014), at which time it is estimated to be 4.3%. As noted elsewhere herein, the State's adopted standard for this category is 6% of annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds. At present and for the foreseeable future, it is anticipated that the State will satisfy this standard.

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STATE OF VERMONT

APPROACH TOWARD ESTABLISHING DEBT RATIO GOALS

Comparative Mean Debt Ratios[1]

Per Capita	2005	2006	2007	2008	2009
All States	$ 999	$1,060	$1,101	$1,158	$1,195
Triple-A[2]	831	879	922	998	899
VERMONT	**716**	**707**	**706**	**707**	**692**
% of Pers. Inc.	**2005**	**2006**	**2007**	**2008**	
All States	3.2%	3.2%	3.2%	3.2%	3.1%
Triple-A[3]	2.7	2.8	2.7	2.8	2.4
VERMONT	**2.3**	**2.2**	**2.1**	**2.0**	**1.8**

Listing of Triple-A Rated States By Rating Agency

2009 Triple-A Rated States	Fitch	Moody's	S&P
Delaware	Yes	Yes	Yes
Florida	No	No	Yes
Indiana	No	No	Yes
Iowa	No	No	Yes
Georgia	Yes	Yes	Yes
Maryland	Yes	Yes	Yes
Minnesota	Yes	No	Yes
Missouri	Yes	Yes	Yes
North Carolina	Yes	Yes	Yes
South Carolina	Yes	Yes	No
Utah	Yes	Yes	Yes
Virginia	Yes	Yes	Yes
VERMONT	No	Yes	No

[1] Based on data provided by Moody's Investors Service. Florida raised to triple-A in 2005 and first reflected in 2006 numbers; Indiana carries Municipal Issuer Ratings from both Moody's and S&P, assigned in 2008 and first reflected in 2008 numbers – this is a GO bond equivalent rating as Indiana does not have GO debt outstanding; the Fitch rating is for lease revenue bonds; Iowa carries Municipal Issuer Ratings from Fitch, Moody's and S&P, assigned in 2009 and first reflected in 2009 numbers – this is a GO bond equivalent rating as Iowa does not have GO debt outstanding; these calculations exclude all Vermont numbers.

[2] See chart on "Debt Per Capita" for complete listing of triple-A states and respective ratings. Thirteen states currently rated triple-A by one or more of the nationally recognized rating agencies: Delaware, Florida (2005), Indiana (2008), Iowa (2008), Georgia, Maryland, Minnesota, Missouri, North Carolina, South Carolina, Utah, Virginia and Vermont (2007).

[3] Same as Footnote #2.

STATE OF VERMONT

MOODY'S INVESTORS SERVICE
DEBT PER CAPITA

Triple-A Rated States	July, 2009 Ratings							
	Moody's	S&P	Fitch	2005	2006	2007	2008	2009
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	$1,865	$1,845	$1,998	$2,002	$2,128
Florida[1]	Aa1/Negative	AAA/Negative	AA+/Negative	1,008	976	1,020	1,005	1,115
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	803	784	916	954	984
Indiana[2]	Aa1/Stable	AAA/Stable	AA/Stable	415	474	657	478	482
Iowa[3]	Aa1/Stable	AAA/Stable	AA+/Stable	130	110	104	98	79
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,064	1,169	1,171	1,297	1,507
Minnesota	Aa1/Stable	AAA/Stable	AAA/Negative	679	746	827	879	866
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	449	496	613	675	670
No. Carolina	Aa1/Stable	AAA/Stable	AAA/Stable	682	804	728	898	832
So. Carolina	Aa1/Stable	AA+/Stable	AAA/Stable	558	661	630	966	899
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	792	707	621	542	447
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	589	601	692	764	782
MEAN[4]	___________	___________	__________	**831**	**879**	**922**	**951**	**899**
MEDIAN[5]	___________	___________	__________	**682**	**765**	**778**	**898**	**849**
VERMONT[6]	Aaa/Stable	AA+/Stable	AA+/Stable	716	707	706	707	692

Triple-A Rated States
5-Year Average Mean and 5-Year Median Excluding Vermont:
MEAN: $896 Vermont: $706
MEDIAN: $778 Vermont: $706

[1] Florida raised to triple-A in 2005 and first reflected in 2006 numbers.
[2] Indiana carries Municipal Issuer Ratings from both Moody's and S&P, assigned in 2008 and first reflected in 2008 numbers – this is a GO bond equivalent rating as Indiana does not have GO debt outstanding; the Fitch rating is for lease revenue bonds.
[3] Iowa carries Municipal Issuer Ratings from Fitch, Moody's and S&P, assigned in 2009 and first reflected in 2009 numbers – this is a GO bond equivalent rating as Iowa does not have GO debt outstanding.
[4] These calculations exclude all Vermont numbers.
[5] These calculations exclude all Vermont numbers.
[6] Vermont raised to triple-A in 2007.

STATE OF VERMONT

MOODY'S INVESTORS SERVICE
DEBT AS % OF PERSONAL INCOME

Triple-A Rated States	2005	2006	2007	2008	2009
Delaware	5.5%	5.3%	5.5%	5.2%	5.4%
Florida[1]	3.4	3.2	3.1	2.8	2.9
Georgia	2.8	2.7	3.0	3.0	3.0
Indiana[2]	1.4	1.4	2.1	1.5	1.5
Iowa[3]	0.5	0.4	0.3	0.3	0.2
Maryland	2.9	3.0	2.8	3.0	3.3
Minnesota	2.0	2.1	2.2	2.3	2.1
Missouri	1.5	1.6	1.9	2.1	2.0
North Carolina	2.5	2.8	2.4	2.8	2.5
South Carolina	2.2	2.5	2.3	3.3	2.9
Utah	3.2	2.7	2.3	1.9	1.5
Virginia	1.8	1.7	1.8	1.9	1.9
MEAN[4]	**2.7**	**2.8**	**2.7**	**2.8**	**2.4**
MEDIAN[5]	**2.5**	**2.7**	**2.3**	**2.8**	**2.3**
VERMONT[6]	2.3	2.2	2.1	2.0	1.8

Triple-A Rated States

5-Year Average Mean and 5-Year Median Excluding Vermont:
MEAN: 2.7% Vermont: 2.1%
MEDIAN: 2.5% Vermont: 2.1%

[1] Florida raised to triple-A in 2005 and first reflected in 2006 numbers.
[2] Indiana carries Municipal Issuer Ratings from both Moody's and S&P, assigned in 2008 and first reflected in 2008 numbers – this is a GO bond equivalent rating as Indiana does not have GO debt outstanding; the Fitch rating is for lease revenue bonds.
[3] Iowa carries Municipal Issuer Ratings from Fitch, Moody's and S&P, assigned in 2009 and first reflected in 2009 numbers – this is a GO bond equivalent rating as Iowa does not have GO debt outstanding.
[4] These calculations exclude all Vermont numbers.
[5] These calculations exclude all Vermont numbers
[6] Vermont raised to triple-A in 2007.

Historical and Projected Debt Ratios

Fiscal Year (ending 6/30)	Net Tax-Supported Debt Per Capita (in $): State of Vermont	Moody's Median	State's Rank (4)	Net Tax-Supported Debt as Percent of Personal Income: State of Vermont	Moody's Median	State's Rank (4)	Net Tax-Supported Debt Service as Percent of Revenues (5): State of Vermont (2)	Moody's Median	State's Rank (4)
Actual (1)									
1998	946	446	9	4.2	1.9	9	7.6	n.a.	n.a
1999	953	505	10	4.2	2.0	10	7.2	n.a.	n.a
2000	925	540	9	3.8	2.2	10	7.0	n.a.	n.a
2001	828	541	15	3.3	2.1	14	6.8	n.a.	n.a.
2002	813	573	18	3.0	2.3	14	6.5	n.a.	n.a.
2003	861	606	16	3.0	2.2	17	6.7	n.a.	n.a.
2004	724	701	24	2.5	2.4	25	6.0	n.a.	n.a.
2005	716	703	25	2.3	2.4	27	5.4	n.a.	n.a.
2006	707	754	29	2.2	2.5	28	5.1	n.a.	n.a.
2007	706	787	28	2.1	2.4	30	5.1	n.a.	n.a.
2008	707	889	32	2.0	2.6	33	5.0	n.a.	n.a.
2009	692	865	34	1.8	2.5	35	5.5	n.a.	n.a.
Current (2)	710	n.a.	n.a.	1.8	n.a.	n.a.	5.5	n.a.	n.a.
Projected (FYE 6/30) (3)		State Guideline (6)			State Guideline (7)			State Guideline	
2010	772	803		2.0	2.5		5.7	6.0	
2011	807	828		2.0	2.5		5.7	6.0	
2012	839	855		2.0	2.5		5.3	6.0	
2013	873	882		2.0	2.5		5.1	6.0	
2014	901	910		1.9	2.5		5.2	6.0	
2015	935	939		1.9	2.5		4.7	6.0	
2016	968	969		1.8	2.5		4.6	6.0	
2017	999	999		1.8	2.5		4.5	6.0	
2018	1029	1031		1.8	2.5		4.4	6.0	
2019	1055	1064		1.7	2.5		4.4	6.0	
2020	1077	1098		1.7	2.5		4.3	6.0	
5-Year Moody's Mean for Triple-A States		896			2.7			n.a.	
5-Year Moody's Median for Triple-A States		778			2.5			n.a.	

(1) Actual data compiled by Moody's Investors Service, reflective of all 50 states.
(2) Calculated by Government Finance Associates, Inc.
(3) Projections assume the issuance of $87,305,000 of G.O. debt during fiscal year 2010 and $71,825,000 of G.O. debt annually thereafter through 2020, inclusive, as discussed in the Introduction section of this report.
(4) Rankings are in numerically descending order (i.e., from high to low debt).
(5) Revenues are adjusted beginning in fiscal year 1998 reflecting "current law" revenue forecasts based on a consensus between the State's administration and legislature.
(6) State Guideline equals the 2009 5-year Moody's median for triple-A states of $778 increasing annually at 3.18%.
(7) The 5-year Moody's median for triple-A States (2.5%) has not been increased for the period 2010-2020 since the annual number is quite volatile, ranging from 2.3% to 2.8% over the last five years.

5. SUMMARY

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

- Vermont is now able to comply with CDAAC's debt guidelines for triple-A rated states. Based on the proposed debt recommendation for fiscal year 2011, CDAAC expects the State to continue with this compliance over the fiscal years, 2010 through 2020, inclusive.

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

- The State's practice of issuing debt with level annual principal installments has resulted in a favorable amortization rate. At roughly 78% within ten years, the State's bond payout ratio (rapidity of debt repayment) has been favorably received by the rating agencies and represents a debt management characteristic to be continued.

Based on the proposed debt recommendation for fiscal year 2011, CDAAC believes that Vermont's debt position will continue to be well received by the rating agencies and the financial markets generally.

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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, net tax-supported indebtedness (at this point, general obligation debt) that the State may prudently issue for the ensuing fiscal year. Such recommendation includes guidelines and other matters that may be relevant to the proposed debt to be authorized. The deadline for the Committee's annual recommendation is September 30th. As previously mentioned herein, there were a series of adjustments made during the most recent 2008 Vermont legislative session to the CDAAC enabling legislation. Many of these have already been discussed. However, there were changes to the composition of the Committee that have not been described. The major legislative adjustments regarding the composition of CDAAC are as follows:

1. The Governor now has two appointments, and the State Treasurer has one. In each case, the individuals shall not be officials or employees of the State and shall have experience in accounting or finance.

2. A representative of the VMBB to CDACC is chosen by the directors of the bank.

3. The Auditor of Accounts is now a non-voting member of CDAAC.

In addition, the legislature also replaced in the enabling legislation, "general obligation," with "net tax-supported indebtedness." At this point, all of the State's net tax-supported indebtedness actually consists of only general obligation debt. However, in practical terms, the State's debt load, as computed by the nationally recognized rating agencies, in determining the overall State debt, as reflected in the comparative debt statistics, is based, not just on a state's general obligation debt, but on its net tax-supported indebtedness. It was therefore appropriate for the State to amend the legislation so that CDAAC would focus on net tax-supported indebtedness exposure, not just general obligation debt, although, at present, they are the same.

In making its recommendation, CDAAC has the responsibility to consider the following provisions of the enabling legislation:

SUBPARAGRAPH (1):

The amount of state net state tax-supported indebtedness 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 net state tax-supported 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 net tax-supported 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 net tax-supported 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 this particular 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 actual (through a payment or a replenishment obligation being made), then such debt or guarantee is not included in the State's net tax-supported indebtedness. Similarly, to the extent that the State has not been called upon to pay for the debt components, as envisioned in Subparagraph (5)(C), then those items should not become quantifiable factors included in the affordability analysis.

- Contingent or Limited Liability Obligations (all figures as of June 30, 2009):

1. VEDA Mortgage Insurance Program: The State had a contingent liability of $6.72 million with respect to this Program.

2. VEDA Financial Access Program: The State had a contingent liability of $0.9 million with respect to this Program.

- Reserve Fund Commitments (all figures as of June 30, 2009):

1. Vermont Municipal Bond Bank: The Bank had $488.6 million of debt outstanding secured by reserve fund commitments from the State. At present, there is no limit on the amount of reserve fund ("moral obligation") debt that the Bank may issue and have outstanding. 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 of the Bank, the State has not been required to appropriate money to the reserve fund for this program.

2. Vermont Housing Finance Agency ("VHFA"): The VHFA had previously received a legislative commitment of $155 million of moral obligation debt secured by reserve fund fill-up mechanism from the State. It has not been necessary, over the years, for the State to appropriate money to fill up the debt service reserve fund. In 2009, the State authorized increased flexibility for VHFA's use of the moral obligation commitment specifically allowing for "pledged equity" contributions from the State's operating funds and increased flexibility in the use of the traditional debt service reserve structure. See the section, "2009 Legislative Actions Impacting State Debt Management Operations" for additional explanation.

3. It should also be noted that the State has authorized the VEDA to incur indebtedness in an amount of $70 million secured by the State's reserve fund commitment. Based upon VEDA's historical performance and the quality of the loans it has provided and expects to provide, it is not anticipated that it will be necessary for the State to appropriate money for the reserve fund.

4. Legislation was passed in 2007 to create the Vermont Telecom Authority to facilitate broadband and related access to an increased number of Vermonters. In this connection, the State has authorized $40 million of debt that will have a moral

obligation pledge from the State. The legislation requires that projects must be self-supporting in order to utilize the moral obligation support. Considering the fact that no debt has yet been issued by the Authority, the report has not included any portion of such debt in the State's net tax-supported debt computations.

5. Legislation was passed in 2008 to provide a moral obligation pledge from the State to the University of Vermont in the amount of $66 million and to the State Colleges in the amount of $34 million. It is not expected that the State will need to appropriate money to the respective reserve funds for these purposes.

6. As further discussed in the section, “2009 Legislative Actions Impacting State Debt Management Operations,” for a review of the moral obligation program that provided $50 million of moral obligation commitment by the State to VSAC. Such debt remains unissued.

- 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 related to 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 impact of capital spending upon the economic conditions and outlook for the state.

In 2008, new language, “impact of capital spending upon the,” was added to this subparagraph. It should be noted that CDAAC routinely considers this factor in the context of its deliberations. Indeed, in the early 1990s, CDAAC recommended significantly higher debt authorization during an economic downturn. There is always a concern at the rating agencies when a state meaningfully enlarges its debt program to ameliorate periodic economic downturns. The rating agencies will often advise that long-term annual costs, in the form of higher debt service and frequently higher administrative and operating expenses, can accompany such an increased debt program.

SUBPARAGRAPH (7):

The cost-benefit of various levels of debt financing, types of debt, and maturity schedules.

This subparagraph was added to the enabling legislation in 2008.

CDAAC annually goes through an extensive analysis to determine the “cost-benefit of various levels of debt financing.” The cost-benefit is demonstrated by CDAAC’s determination of the amount of debt that the State should annually authorize and still achieve compliance with CDAAC's articulated affordability guidelines. This evaluation is fundamental to CDAAC's responsibility in recommending annually the amount of net tax-supported indebtedness (i.e., general obligation, at present) that should be authorized by the State.

Second, with respect to the "types of debt," Vermont and its financing agencies have utilized a great variety of debt types. At present, revenue bonds are sold by VSAC, VHFA, VEDA, among others. The State Treasurer's office has looked at a series of options for possible revenue bond issuance, but, because of Vermont's special circumstances, revenue bonds have not appeared to be an answer to the State's direct infrastructure needs, except for VSAC, VHFA and VEDA. Moreover, for certain other purposes, such as transportation needs (i.e., gasoline and GARVEE debt), it appears that the associated revenue bonds would, in fact, be added to the State's net tax-supported debt, thereby eliminating the effective use of revenue debt for funding Vermont physical infrastructure. Notwithstanding the fact that there have been no new revenue bond uses recently for funding Vermont infrastructure requirements, the State will continue to explore possible opportunities in this respect that would not cause debt load or debt management difficulties for Vermont.

Further, quasi-revenue bonds, such as moral obligation or reserve fund commitments, have also been employed by VMBB, VEDA, and VHFA, and such debt is now authorized for issuance by VTA, VSAC, UVM and State Colleges. There is a more extensive discussion of the State's moral obligation commitments elsewhere in this report. In addition, the State, in the past, has directly employed capital lease debt, largely in the form of certificates of participation; however, this type of debt was proven to be expensive and created an undue complexity for the State's net tax-supported debt statement, and the State decided in the late 1990s to refund the certificate of participation indebtedness with general obligation debt – with the rating agencies indicating at the time and subsequently their pleasure with the State's actions. The State will continue to review the extent to which efficient employment of lease financings can be achieved in Vermont's debt program without adversely affecting the State's debt management operations or credit position.

CDAAC and the State Treasurer's Office are constantly reviewing prospects for funding of required infrastructure through approaches that will not add to the State's net tax-supported indebtedness.

The maturity schedules employed for State indebtedness are directly tied to State statute. Moreover, as indicated elsewhere herein, Vermont's current debt repayment for its general obligation bonds allows the State to recapture debt capacity at an attractive pace. By shortening the debt service payments, it would have the effect of placing more fixed costs in the State's annual operating budget, leaving less funds available for discretionary spending. By lengthening debt payments, that would increase the aggregate amount of the State's outstanding indebtedness, which would cause Vermont's debt per capita and debt as a percentage of personal income to rise, reducing the State's ability to comply with its affordability guidelines. Notwithstanding these limitations, there may be opportunities for the State in the future to adjust the maturity of its indebtedness to achieve various debt management goals over time.

SUBPARAGRAPH (8):

Any projections of capital needs authorized or prepared by the agency of transportation, the joint fiscal office, or other agencies or departments.

This subparagraph was added to the enabling legislation in 2008.

CDAAC is proceeding in its compliance with this provision. Material on school construction, transportation, and other infrastructure capital requirements will be considered as this information is provided to CDAAC over time.

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 net tax-supported indebtedness 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 this debt load and related indices would become less certain. Similarly, if the State were to incur serious deficits or face a dangerously 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 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 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, the report has made realistic and conservative assumptions, consistent with the past. For anticipated debt issuances, the interest rate on future State G.O. indebtedness is assumed at 6.00%, which is well above the interest rate at which the State could currently sell long-term general obligation bonds.

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

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7. APPENDICES

A. 2009 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 Partnership)

Special Comment

July 2009

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2009 State Debt Medians Report

Based on 2008 Data

Summary Opinion

State net tax-supported debt increased by 4.8% in 2008 to $416.8 billion (see Figure 1), a slight decrease from the 5.1% growth rate in 2007. The slower growth in net tax-supported debt resulted from the disruption in the bond markets during the fall of 2008, which halted or significantly reduced issuance of debt by most states for an interim period.

At the same time, median net tax-supported debt per capita decreased by 2.6% to $865 from the preceding year's median of $889, reflecting reductions in debt burden among some states. This resulted in a lower debt burden distribution for states and ultimately a lower debt median. This year-over-year change was significantly lower than the prior year's 12.9% increase, again reflecting market disruption during the last quarter of 2008 as well as a slow down in issuance as states anticipated receiving capital funding from the federal government as a part of the stimulus bill.

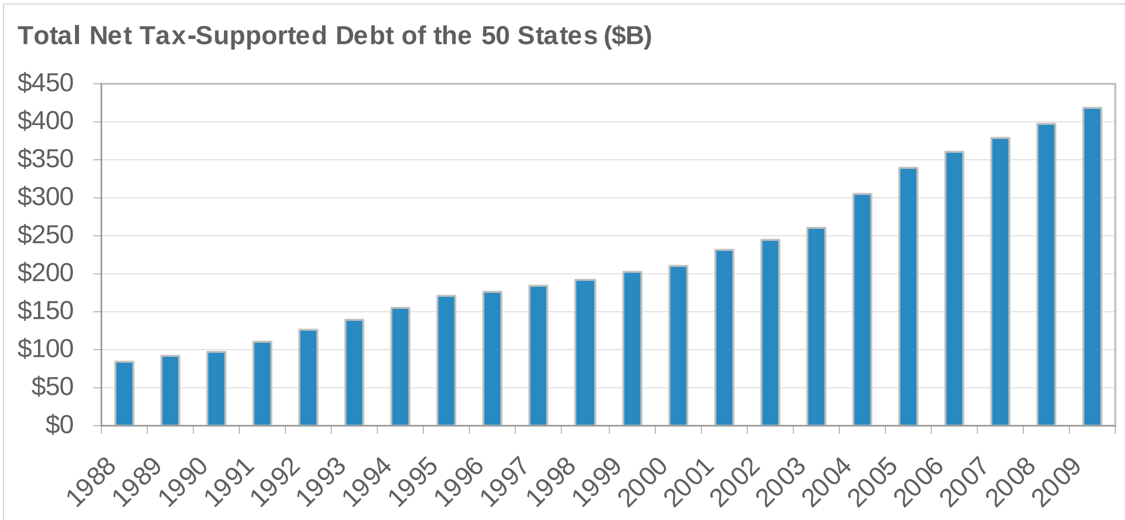
During the first half of 2008, states continued to benefit from a favorable interest rate environment, and issued debt to finance ongoing infrastructure projects as usual. While the refinancing of auction rate securities and interest rate conversions were major drivers of bond issuance volume during the second half of the year, this activity did not add debt to state balance sheets as it was only the nature of the outstanding debt that was modified.

For 2009, state debt issuance (which will be the basis of the 2010 Debt Median analysis) will likely increase as a result of stabilizing bond markets, pent up market demands, and the impact of the Federal American Recovery and Reinvestment Act which includes provisions to encourage municipal debt issuance. The current year will also see an increase in state reliance on long-term financing to alleviate budget strain resulting from the economic recession.

Moody's Investors Service

2009 State Debt Medians

Figure 1



Every year, Moody's prepares a special comment that presents an analysis of state debt medians. The 2009 Debt Medians report examines the condition of net state tax-supported debt as of calendar year-end 2008. As in prior years, the data presented in figures 1, 2, and 3 reflect the historical trend up to the immediately preceding year's state debt issuance while the data point label corresponds to the year in which the report is produced (i.e. The data labeled 2009 reflect debt as of calendar year-end 2008) . Two measures of state debt burden – debt per capita and debt as a percentage of personal income – are commonly used by analysts to compare the debt burden of one state to another. Debt burden is one of many factors that Moody's uses to determine state credit quality. In considering debt burden, Moody's also examines gross debt, which includes contingent debt liabilities that may not have direct tax support, but are included in audited financial statements.

Growth of Net Tax-Supported Debt Slows

State tax-supported debt increased by 4.8% in 2008 to $416.8 billion, slightly lower than the 5.1% rate of increase recorded in the previous year. The slower rate of growth is reflective of the contrasting market conditions between 2008 and 2007. State debt issuance in 2007 benefited from a favorable interest rate environment and significant infrastructure capital spending. Debt issuance in 2008 was impacted by a combination of factors, starting with the downgrade of collateralized mortgage obligations brought on by the softening real estate market and, ultimately the merger or, in the case of Lehman Brothers, bankruptcy in September 2008 of some of the world's largest investment banks. As balance sheets weakened, municipal bond insurers were downgraded, requiring collateral posting by issuers with insured floaters and auction rate securities in their portfolios. Variable rate bonds were put back to banks and issuers, suddenly burdened by bank bond rates, began to restructure their debt portfolios with more fixed rate debt. This activity was unprecedented, but did not add to debt burdens; only the character of the debt was modified, as issuers converted much of their existing variable rate debt to fixed rate.

During the first half of 2008, states continued to address transportation needs through bond issuance. Idaho increased its issuance of Grant and Revenue Anticipation Vehicles (GARVEEs), bonds issued for transportation purposes which are backed by federal highway aid revenues. As a result of its $354 million GARVEE debt issued during calendar year 2008 (Series 2008A and Series 2009A), the State of Idaho's net-tax supported debt increased 47%. However, the state still enjoys the benefits of one of the lowest debt burdens relative to the other states; Idaho ranked a low 43rd out of 50 in total net-tax supported debt at 2008 year-end.

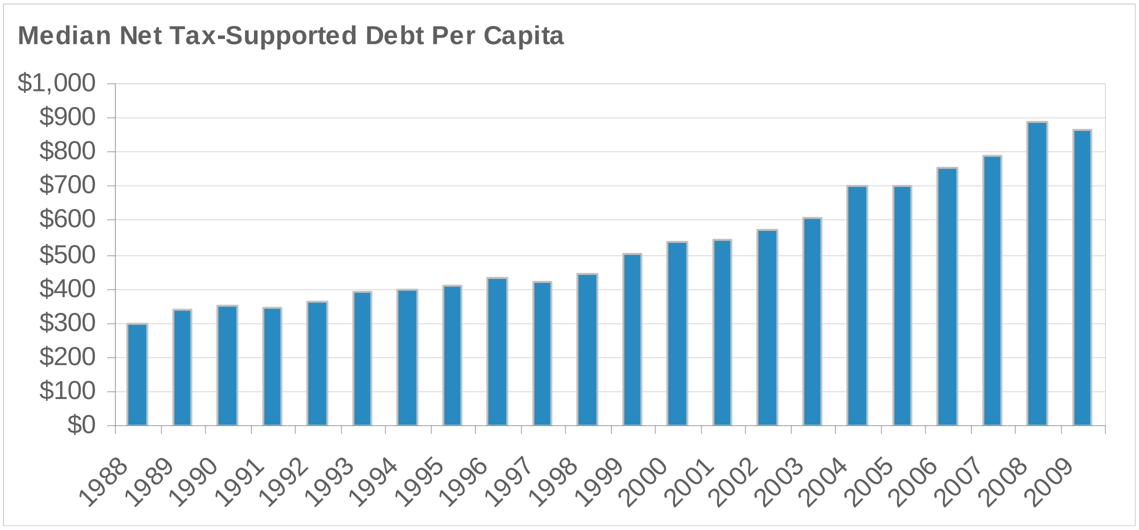
States also issued bonds for budgetary relief. The State of California issued $3.2 billion of Economic Recovery Bonds to provide budgetary relief for the state during one of the arguably most fiscally challenging periods for the state. One of the largest debt issues in 2008 was the State of Connecticut's $2 billion pension obligation bonds. The state issued these taxable bonds to address the significant unfunded liability in the state teacher's retirement system. The $2 billion sale contributed to the state's 21% increase in net-tax supported debt.

Median Decline Reflects Change in Debt Per Capita in Certain States

Median net tax-supported debt per capita at calendar year-end 2008 declined by 2.6% to $865 (see Figure 2). While total net tax-supported debt increased at a slightly slower growth rate than in 2007, changes in debt burden among certain states pushed debt per capita downward and resulted in a skewed distribution relative to the median. While a handful of states sold large amounts of bonds contributing to the overall growth of total net tax-supported debt like the aforementioned State of California's $3.2 billion of Economic Recovery Bonds and the State of Connecticut's $2 billion of Pension Obligation Bonds, the majority of states experienced declines in total debt burden.

Most of the decline in total net tax-supported debt burden can be attributed to the disruption in 2008 debt market conditions. However, some states experienced a decline in net tax-supported debt for other reasons. For example, the State of Louisiana's net tax-supported debt burden declined by a notable 11% as a result of an overstatement of the state's 2007 net tax-supported debt . Other states which have experienced a decline in total net tax-supported debt, for reasons other than a disruption in the 2008 debt market conditions include Alabama, Iowa, and Utah. In Alabama, the decline in net tax-supported debt was a result of the state's largest debt-issuing agency, the Public School and College Authority, issuing only about $50 million of debt, down from $1 billion the prior year. At the same time, the state continued to amortize principal, reducing its debt burden by 7.7%. The State of Iowa, which historically has one of the lowest debt burdens of all states due to a constitutional limitation on issuance of general obligation debt, did not issue any debt in calendar year 2008, while amortizing roughly 19% of outstanding net tax-supported debt (primarily certificates of participation). Similarly, the State of Utah refrained from issuing any debt during calendar year 2008 while continuing its trend of rapid amortization, reducing outstanding net tax-supported debt in the state by 15%.

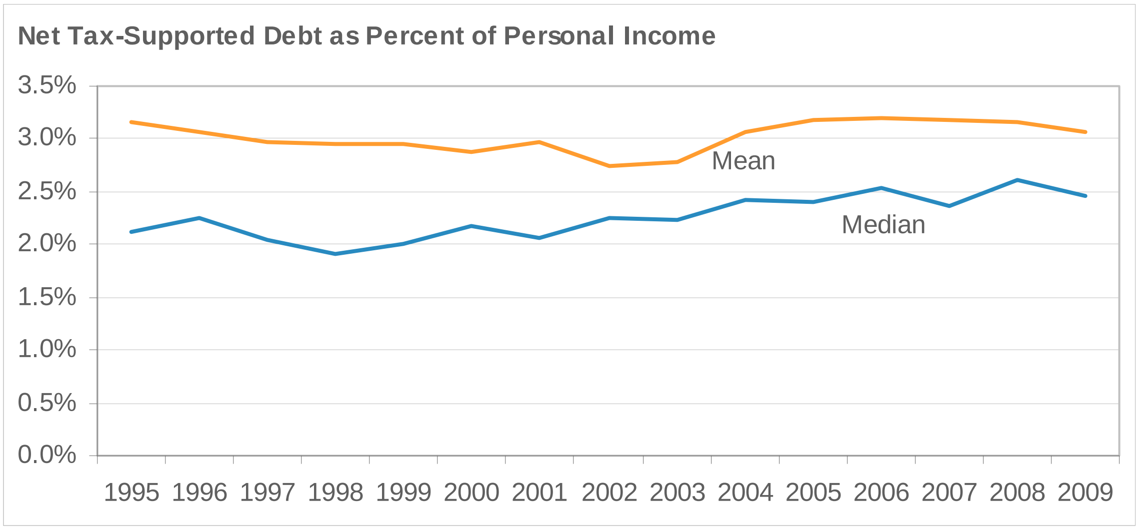
Figure 2



Median net tax-supported debt, as a percent of personal income, decreased in 2008 by one-tenth of a percentage point to 2.5% from 2.6% in the prior year. However, there were two states, Arizona and Connecticut, for which the net tax-supported debt as a percent of personal income shifted one-half a percent or more.   Arizona's net tax-supported debt increased by $1.2 billion; over 60% of that increase was related to increased issuance of appropriation-backed debt to fund capital projects, mostly K-12 school facilities. Additional debt issued for transportation-related projects accounted for almost 20% of the increase. In addition, a portion of the increase related to a change in the classification of certain outstanding debt to net tax-supported debt for the first time. The State of Connecticut experienced an increase as a result of the $2 billion pension obligation bond issuance mentioned earlier. States where the net-tax-supported debt as a percent of personal income decreased by half a percentage point or more include Hawaii, Illinois, Louisiana, and Massachusetts. In general, the decline is attributable to less borrowing in 2008 while continuing to amortize debt previously issued. However, in Massachusetts the decline is due to both the amortization of debt as well as a 4% increase in 2007 personal income growth for the commonwealth.

Mean net tax-supported debt, as a percent of personal income, at approximately 3.1% was relatively stable compared to the prior year. Average mean net tax-supported debt, as a percent of personal income, from 1995 to 2008 remains unchanged at 3.0% (see Figure 3).

Figure 3



2009 State Debt Outlook: Debt Issuance Expected to Increase

State debt issuance in 2009 is expected to be particularly robust as pent up demand for municipal securities increases. States are also in the midst of a national recession which is causing significant negative pressure on state finances. As state-source revenues decline, the need to use long-term debt to fund capital needs will increase. Additionally, the passage of the federal American Reinvestment and Recovery Act (federal stimulus) has created opportunities in the municipal bond market for additional debt issuance. The Build America Bond (BAB) program allows the issuance of taxable debt with either an interest subsidy for the benefit of the issuer or a tax credit to benefit the investor. States such as California, Indiana and North Carolina have already utilized the BABs debt structure. California issued over $5 billion of general obligation BABs, Indiana issued $193 million for economic development and the North Carolina Turnpike Authority issued $115 million of BABs to benefit transportation.

In many states, the economic slowdown and the low interest rate environment may provide the impetus to accelerate debt sales this calendar year to spur economic activity and bolster employment. For example, the State of Iowa plans to issue debt as a way to increase economic activity in the state. Other states will restructure debt or opt to finance capital projects instead of paying for construction from operations to provide budgetary relief as the recession continues to put downward pressure on state-source revenues.

2009 State Debt Medians

Table 1: Net Tax-Supported Debt Per Capita

		($)	Rating
1	Connecticut	$4,490	Aa3
2	Massachusetts	$4,323	Aa2
3	Hawaii	$3,675	Aa2
4	New Jersey	$3,621	Aa3
5	New York	$2,921	Aa3
6	Delaware	$2,128	Aaa
7	Washington	$2,087	Aa1
8	Illinois	$1,877	A1
9	Rhode Island	$1,812	Aa3
10	California	$1,805	Baa1
11	Oregon	$1,606	Aa2
12	Maryland	$1,507	Aaa
13	Mississippi	$1,478	Aa3
14	Kentucky	$1,477	Aa2*
15	Wisconsin	$1,429	Aa3
16	New Mexico	$1,394	Aa1
17	Kansas	$1,164	Aa1*
18	Louisiana	$1,164	A1
19	Florida	$1,115	Aa1
20	West Virginia	$1,050	Aa3
21	Georgia	$984	Aaa
22	Ohio	$962	Aa2
23	Pennsylvania	$950	Aa2
24	South Carolina	$899	Aa1
25	Minnesota	$866	Aa1
26	Nevada	$865	Aa2
27	Alaska	$861	Aa2
28	North Carolina	$832	Aa1
29	Arizona	$807	Aa3
30	Alabama	$796	Aa2
31	Virginia	$782	Aaa
32	Michigan	$766	Aa3
33	Maine	$743	Aa3
34	Vermont	$692	Aaa
35	Missouri	$670	Aaa
36	New Hampshire	$525	Aa2
37	Texas	$520	Aa1
38	Idaho	$513	Aa2*
39	Oklahoma	$511	Aa3
40	Indiana	$482	Aa1*
41	Utah	$447	Aaa
42	Montana	$391	Aa2
43	Arkansas	$375	Aa2
44	North Dakota	$356	Aa2*
45	Colorado	$340	NGO**
46	South Dakota	$274	NGO**
47	Tennessee	$233	Aa1
48	Wyoming	$84	NGO**
49	Iowa	$79	Aa1*
50	Nebraska	$17	NGO**
	MEAN:	$1,195	
	MEDIAN:	$865	
	Puerto Rico	$33,489***	Baa3

** 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.*

Table 2: Net Tax-Supported Debt as a % of 2007 Personal Income

1	Hawaii	9.4%	
2	Massachusetts	8.9%	
3	Connecticut	8.2%	
4	New Jersey	7.3%	
5	New York	6.3%	
6	Delaware	5.4%	
7	Mississippi	5.2%	
8	Washington	5.1%	
9	Kentucky	4.8%	
10	Oregon	4.6%	
11	Illinois	4.6%	
12	Rhode Island	4.5%	
13	New Mexico	4.6%	
14	California	4.4%	
15	Wisconsin	4.0%	
16	Louisiana	3.3%	
17	West Virginia	3.6%	
18	Maryland	3.3%	
19	Kansas	3.2%	
20	Georgia	3.0%	
21	South Carolina	2.9%	
22	Florida	2.9%	
23	Ohio	2.8%	
24	North Carolina	2.5%	
25	Arizona	2.5%	
26	Alabama	2.5%	
27	Pennsylvania	2.5%	
28	Maine	2.2%	
29	Michigan	2.2%	
30	Nevada	2.2%	
31	Alaska	2.2%	
32	Minnesota	2.1%	
33	Missouri	2.0%	
34	Virginia	1.9%	
35	Vermont	1.8%	
36	Idaho	1.6%	
37	Oklahoma	1.5%	
38	Utah	1.5%	
39	Indiana	1.5%	
40	Texas	1.4%	
41	New Hampshire	1.3%	
42	Arkansas	1.3%	
43	Montana	1.2%	
44	North Dakota	1.0%	
45	Colorado	0.8%	
46	South Dakota	0.8%	
47	Tennessee	0.7%	
48	Iowa	0.2%	
49	Wyoming	0.2%	
50	Nebraska	0.0%	
	MEAN:	3.1%	
	MEDIAN:	2.5%	
	Puerto Rico	66.3%	***

*** This figure is based on 2006 Personal Income. It is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

2009 State Debt Medians

Table 3: Total Net Tax Supported Debt (000's)

			Rating
1	California	$66,363,000	Baa1
2	New York	$56,931,275	Aa3
3	New Jersey	$31,438,000	Aa3
4	Massachusetts	$28,093,304	Aa2
5	Illinois	$24,212,758	A1
6	Florida	$20,444,760	Aa1
7	Connecticut	$15,720,999	Aa3
8	Washington	$13,666,660	Aa1
9	Texas	$12,646,297	Aa1
10	Pennsylvania	$11,828,000	Aa2
11	Ohio	$11,048,935	Aa2
12	Georgia	$9,531,999	Aaa
13	Maryland	$8,488,700	Aaa
14	Wisconsin	$8,042,593	Aa3
15	North Carolina	$7,670,275	Aaa
16	Michigan	$7,663,085	Aa3
17	Kentucky	$6,307,670	Aa2*
18	Oregon	$6,086,283	Aa2
19	Virginia	$6,073,123	Aaa
20	Arizona	$5,244,025	Aa3
21	Louisiana	$5,134,681	A1
22	Hawaii	$4,734,558	Aa2
23	Minnesota	$4,520,242	Aa1
24	Mississippi	$4,343,504	Aa3
25	South Carolina	$4,029,181	Aaa
26	Missouri	$3,962,015	Aaa
27	Alabama	$3,708,729	Aa2
28	Kansas	$3,262,201	Aa1*
29	Indiana	$3,071,435	Aa1*
30	New Mexico	$2,766,631	Aa1
31	Nevada	$2,248,486	Aa2
32	West Virginia	$1,904,674	Aa3
33	Rhode Island	$1,903,690	Aa3
34	Oklahoma	$1,862,786	Aa3
35	Delaware	$1,858,100	Aaa
36	Colorado	$1,679,747	NGO**
37	Tennessee	$1,448,350	Aa1
38	Utah	$1,222,504	Aaa
39	Arkansas	$1,069,787	Aa2
40	Maine	$978,008	Aa3
41	Idaho	$781,837	Aa2*
42	New Hampshire	$691,062	Aa2
43	Alaska	$591,200	Aa2
44	Vermont	$429,743	Aaa
45	Montana	$377,986	Aa2
46	Iowa	$236,403	Aa1*
47	North Dakota	$228,306	Aa2*
48	South Dakota	$220,699	NGO**
49	Wyoming	$44,977	NGO**
50	Nebraska	$30,344	NGO**
	Totals	$416,843,607	
	Puerto Rico	$35,190,260***	Baa3

** 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.*

Table 4: Gross Tax Supported Debt (000's)

			Gross to Net Ratio
1	California	$75,204,000	1.13
2	New York	$56,975,993	1.00
3	New Jersey	$36,507,000	1.16
4	Florida	$31,261,960	1.53
5	Massachusetts	$29,554,754	1.05
6	Illinois	$24,473,034	1.01
7	Connecticut	$23,403,919	1.49
8	Michigan	$22,802,662	2.98
9	Washington	$21,434,260	1.57
10	Texas	$16,810,159	1.33
11	Pennsylvania	$16,415,000	1.39
12	Minnesota	$15,297,887	3.38
13	Oregon	$13,764,801	2.26
14	Ohio	$11,103,470	1.00
15	Wisconsin	$11,074,698	1.38
16	Virginia	$10,008,612	1.65
17	Georgia	$9,531,999	1.00
18	Colorado	$9,199,547	5.48
19	Kentucky	$8,777,125	1.39
20	Maryland	$8,488,700	1.00
21	Alabama	$8,152,027	2.20
22	North Carolina	$7,670,275	1.00
23	Louisiana	$6,348,454	1.24
24	Hawaii	$6,276,116	1.33
25	Utah	$6,253,704	5.12
26	Arizona	$5,429,245	1.04
27	Maine	$5,134,428	5.25
28	Indiana	$4,718,872	1.54
29	South Carolina	$4,651,263	1.15
30	Tennessee	$4,603,271	3.18
31	Arkansas	$4,397,120	4.11
32	Mississippi	$4,343,504	1.00
33	Missouri	$4,027,070	1.02
34	West Virginia	$3,911,470	2.05
35	New Mexico	$3,814,629	1.38
36	Alaska	$3,606,500	6.10
37	Kansas	$3,508,943	1.08
38	Delaware	$3,393,400	1.83
39	Rhode Island	$3,114,278	1.64
40	Iowa	$3,019,815	12.77
41	Nevada	$2,925,206	1.30
42	New Hampshire	$1,936,728	2.80
43	Oklahoma	$1,890,284	1.01
44	Idaho	$1,433,602	1.83
45	Vermont	$1,126,237	2.62
46	North Dakota	$892,540	3.91
47	South Dakota	$457,677	2.07
48	Montana	$377,986	1.00
49	Nebraska	$45,129	1.49
50	Wyoming	$44,977	1.00
	Totals	$559,594,329	1.34
	Puerto Rico	$39,413,260***	1.12

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

2009 State Debt Medians

Table 5: Net Tax-Supported Debt as a Percentage of Personal Income

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Alabama	1.7	1.5	2.3	2.2	2.2	2.2	2.0	2.0	2.2	2.0	2.8	2.5
Alaska	0.5	0.0	1.0	0.4	0.4	0.3	3.0	2.8	2.6	2.7	2.4	2.2
Arizona	1.9	1.9	1.6	1.6	1.9	2.1	2.3	2.6	2.2	2.0	2.0	2.5
Arkansas	0.8	0.6	0.9	1.2	1.2	1.4	1.8	1.6	1.6	1.4	1.7	1.3
California	2.6	2.6	2.4	2.5	2.5	2.5	3.2	4.7	4.6	4.4	4.3	4.4
Colorado	0.1	0.0	0.03	0.4	0.7	0.9	0.9	1.0	0.9	0.9	0.8	0.8
Connecticut	8.7	8.7	8.1	8.0	8.0	8.2	8.4	8.5	8.0	7.8	7.3	8.2
Delaware	5.9	5.7	5.2	5.5	5.3	5.0	5.6	5.5	5.3	5.5	5.2	5.4
Florida	3.4	3.5	3.4	3.3	3.4	3.5	3.5	3.4	3.2	3.1	2.8	2.9
Georgia	2.9	2.9	2.8	2.6	2.9	2.9	2.9	2.8	2.7	3.0	3.0	3.0
Hawaii	10.7	11.2	11.6	11.0	10.4	10.9	10.4	11.1	12.1	10.6	9.9	9.4
Idaho	0.2	0.4	0.4	0.3	0.4	0.3	0.5	0.6	0.6	0.6	1.2	1.6
Illinois	2.7	2.6	2.6	2.7	2.8	3.2	5.8	6.2	5.9	5.5	5.2	4.6
Indiana	0.8	0.9	0.9	1.1	1.1	1.1	1.3	1.4	1.6	2.1	1.5	1.5
Iowa	0.5	0.5	0.4	0.4	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.2
Kansas	1.7	2.0	2.4	3.1	3.0	3.0	3.3	4.0	3.8	3.7	3.5	3.2
Kentucky	3.9	3.7	3.5	4.4	4.3	4.4	4.4	4.0	4.5	4.3	4.7	4.8
Louisiana	2.6	2.6	2.4	2.5	2.4	2.7	2.6	2.4	3.1	4.9	4.3	3.3
Maine	1.9	1.9	2.1	2.0	1.9	1.8	1.8	2.2	2.0	1.9	1.9	2.2
Maryland	3.1	3.3	3.0	2.6	2.6	2.8	3.0	2.9	3.0	2.8	3.0	3.3
Massachusetts	7.8	7.8	8.0	8.5	8.5	8.5	8.5	8.5	9.8	9.4	9.8	8.9
Michigan	1.6	1.7	1.5	1.6	1.5	1.8	2.2	2.2	2.1	2.2	2.2	2.2
Minnesota	1.9	2.0	1.9	1.8	1.8	1.9	2.0	2.0	2.1	2.2	2.3	2.1
Mississippi	3.5	4.4	4.7	4.6	4.7	5.6	5.2	4.8	4.8	4.9	4.8	5.2
Missouri	1.0	1.0	1.0	1.1	1.3	1.3	1.6	1.5	1.6	1.9	2.1	2.0
Montana	1.4	1.7	1.7	1.7	1.6	1.4	1.3	1.1	1.4	1.5	1.2	1.2
Nebraska	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Nevada	1.6	1.8	1.8	1.8	1.7	1.4	2.0	2.0	2.2	1.7	2.0	2.2
New Hampshire	2.4	2.3	2.0	1.5	1.5	1.4	1.5	1.3	1.4	1.3	1.3	1.3
New Jersey	5.1	5.2	5.3	5.5	5.6	5.5	5.9	7.4	7.9	7.6	7.5	7.3
New Mexico	1.9	2.6	3.1	4.0	4.0	3.7	4.1	5.3	4.7	5.3	4.8	4.6
New York	6.5	6.6	6.4	6.2	5.9	5.9	6.7	7.2	6.7	6.7	6.3	6.3
North Carolina	1.0	1.2	1.4	1.4	1.4	1.6	2.0	2.5	2.8	2.4	2.8	2.5
North Dakota	0.8	0.6	0.7	0.9	0.9	0.9	0.9	0.6	1.2	1.0	1.1	1.0
Ohio	2.5	2.7	2.7	2.6	2.6	2.6	2.7	2.9	2.9	3.0	2.9	2.8
Oklahoma	0.8	1.2	1.3	1.4	1.3	1.2	1.2	1.2	1.4	1.5	1.5	1.5
Oregon	1.2	1.2	1.3	1.6	1.5	1.6	4.5	4.7	4.5	4.6	5.0	4.6
Pennsylvania	2.0	2.3	2.2	2.2	2.3	2.3	2.2	2.3	2.3	2.4	2.4	2.5
Rhode Island	6.6	6.5	6.2	5.3	5.2	5.0	4.4	4.3	4.1	4.6	4.7	4.5
South Carolina	1.6	1.6	1.6	1.8	2.5	2.4	2.4	2.2	2.5	2.3	3.3	2.9
South Dakota	1.5	1.5	1.5	1.2	0.9	0.7	0.9	0.9	0.7	0.8	0.9	0.8
Tennessee	0.9	1.0	1.0	1.2	0.9	0.8	0.8	0.7	0.8	0.7	0.7	0.7
Texas	1.4	1.3	1.2	1.0	0.9	0.9	0.8	1.0	1.0	1.3	1.4	1.4
Utah	3.1	3.6	3.3	2.8	3.0	2.9	3.5	3.2	2.7	2.3	1.9	1.5
Vermont	4.2	4.2	3.8	3.3	3.0	3.0	2.5	2.3	2.2	2.1	2.0	1.8
Virginia	2.1	2.0	2.1	1.9	1.8	1.7	1.7	1.8	1.7	1.8	1.9	1.9
Washington	4.8	4.6	4.6	4.4	4.4	4.8	4.9	4.9	4.9	5.1	5.1	5.1
West Virginia	2.8	3.4	3.3	4.2	4.0	4.1	3.6	4.6	4.4	3.9	3.9	3.6
Wisconsin	2.8	2.8	2.7	3.2	3.0	3.3	4.5	4.7	4.3	4.2	4.1	4.0
Wyoming	0.7	1.0	1.0	1.0	1.4	0.9	0.8	0.7	0.3	0.3	0.2	0.2
Median	**1.9**	**2.0**	**2.2**	**2.1**	**2.3**	**2.2**	**2.4**	**2.4**	**2.5**	**2.4**	**2.6**	**2.5**

Moody's Related Research

Special Comments:

- Outlook Remains Negative for U.S. States: Federal Fiscal Stimulus May Moderate Recession's Effects on U.S. States; Impact from Recession Will Not be Equal, February 2009 (114526)
- Rating Changes for the 50 States from 1973 to Date, June 2009 (115372)
- U.S. States Credit Scorecard 2008, July 2008 (109606)

Rating Methodology:

- Moody's State Rating Methodology, November 2004 (89335)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Report Number: 118140

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Moody's Investors Service

Tax Supported
New Issue

State of Vermont

Ratings

New Issue
General Obligation Bonds, 2009 Series A — AA+

Outstanding Debt
General Obligation Bonds — AA+

Fitch issued an exposure draft on July 31, 2008 proposing a recalibration of tax-supported and water/sewer revenue bond ratings, which, if adopted, may result in an upward revision of this rating (see Fitch Research on "Exposure Draft: Reassessment of Municipal Ratings Framework"). Fitch has deferred its final determination on municipal recalibration due to market conditions and plans to revisit the recalibration in the first quarter of 2009 (see press release "Fitch Defers Final Determination on U.S. Municipal Ratings Recalibration," dated Oct. 7, 2008).

Rating Outlook

Stable

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New Issue Details

Sale Information: $50,500,000 General Obligation Bonds, 2009 Series A, on or about March 3 via negotiation.
Security: General obligations of the state of Vermont, with its full faith and credit pledged.
Purpose: Finance various capital projects throughout the state.
Final Maturity: March 1, 2029.

Related Research

- *State of Vermont, February 9, 2007*

Rating Rationale

- Vermont's debt profile reflects virtually exclusive use of general obligation debt and amortizes rapidly.
- Debt ratios have declined in recent years and are now low; affordability planning is employed.
- The state's revenue stream is diverse, and reserve funds are fully funded.
- Vermont's economy has diversified but is still vulnerable to the cyclical manufacturing sector.

Key Rating Drivers

- Maintenance of fiscal balance amid the current recession.
- Maintenance of a low to moderate debt burden.

Credit Summary

Vermont's 'AA+' rating reflects its low debt burden, which is maintained through adherence to debt affordability guidelines, conservative financial management with fully funded reserves, and an economy that is now less dependent on the manufacturing sector. Outstanding debt, which is almost entirely GO and matures rapidly, has declined from previously moderate levels. The state budgets conservatively, and its diverse revenue stream includes a state property tax for education. Reserves in each major operating fund, as of the close of fiscal 2008, were at full funding at 5% of prior-year appropriations. The comparatively narrow state economy is supported by larger-than-average manufacturing (albeit less so than in the past), tourism, and health and educational services sector employment. Vermont has a relatively small income base with an older and well-educated population. Challenges include the need to address continued education and Medicaid spending pressures.

Vermont lost less than 1% of its jobs during the recession earlier this decade; by 2004, it had exceeded its prerecession annual employment peak, in sharp contrast to the steep and protracted recession of the early 1990s. Employment grew a below average 1% per year in 2005 and 2006, while employment was flat in 2007. The first half of 2008 saw very slight improvements on a year-over-year basis, but declines began in May 2008, and the fourth quarter data saw performance decline sharply. December 2008 employment data indicate state employment declined 1.9% from the December 2007 level, with the most significant declines occurring in the construction and manufacturing sectors. Manufacturing sector employment, led by an IBM facility near Burlington, still exceeds the national level on a percentage basis, though both employment and personal income reliance on this sector have dropped in recent years. State unemployment has historically been and remains comfortably below the national level, though the recently re-estimated December 2008 rate of 5.9% was well above the 4.0% level reported one year prior. Vermont has been challenged by the aging of its population; the median age of 40.6 years is well above the national median of 36.7 years and is exceeded only by Maine. Per capita personal income in 2007 totaled $37,446, ranking Vermont 21st among the states, at 97% of the national level.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	2/20/09
AA+	Upgraded	—	10/25/99
AA	Assigned	—	8/18/92

Conservative practices and well-stocked reserves sustained healthy finances during the recession earlier this decade, with the state using some reserves and reducing appropriations in fiscal years 2002 and 2003 when revenues softened. Operations were subsequently favorable, and reserves were restored to their maximum level by the end of fiscal 2004. Surpluses in fiscal years 2004–2007 were largely used for reserves, additional pension contributions, property tax relief, and carryovers into ensuing fiscal years. Fiscal 2008 also ended with a $30 million general fund surplus (budgetary basis). Fiscal 2009 revenues, which have seen expectations revised downward on several occasions, through January 2009 were lagging recently lowered expectations by 2%. A current-year general fund budget gap of nearly $50 million — resulting from upward spending pressures, the aforementioned revenue declines, and net of $27 million in already-enacted spending reductions — is expected to be solved with federal stimulus dollars. The fiscal 2010 executive budget proposal addresses a $201 million funding gap with a mix of temporal and ongoing budget solutions, including reductions in human services spending, cuts to the state's work force, use of a human services caseload reserve, and the application of additional stimulus dollars, though the proposal keeps intact the 5% reserves in each of the primary operating funds.

Virtually all of Vermont's debt is GO, and it amortizes rapidly. The state's debt burden is low. As of June 30, 2008, net tax-supported debt of $438 million equaled $706 per capita and 1.9% of 2007 personal income. Debt has declined since the 1990s as a result of debt affordability recommendations, and while annual issuance levels are expected to grow, debt ratios are expected to remain low to moderate. Vermont's pension systems remain well funded, and the state has acted to improve funding levels for the teacher's retirement system.

Debt

Vermont's debt levels have consistently declined and are now considered low. As of June 30, 2008, net tax-supported debt of $438 million equaled $706 per capita and 1.9% of 2008 personal income, well below 1999 levels of $948 per capita and 3.9% of 1998 personal income.

There are no constitutional or statutory restrictions on debt in Vermont. All direct debt is now GO, as a minor amount of leases and certificates of participation were refunded in fiscal 1998. General purpose bonds are serviced from the general fund and highway debt from the transportation fund. Not included in the GO debt is debt issued by the Education and Health Building Finance Agency for the benefit of developmental and mental health services providers, although much support for the programs comes from state appropriations.

Debt Statistics

($000, As of June 30, 2008)

General Fund	421,374
Special Fund	8,120
Transportation Fund	9,088
Total General Obligation Debt	**438,582**
Contingent Liabilities:	
VEDA Mortgage Insurance Program	8,288
VEDA Financial Access Program	882
Reserve Fund Commitments:	
Bond Bank	487,715
Housing Finance Agency	155,000
Economic Development Authority	70,000
VT Telecom Authority	40,000
UVM/VSC	100,000
Gross Tax-Supported Debt	**1,300,467**
Less: Contingent Liabilities	9,170
Less: Reserve Fund Commitments	852,715
Net Tax-Supported Debt	**438,582**
Net Tax-Supported Debt	
Per Capita ($)[a]	706
As % of Personal Income	1.9
Amortization — (General Obligation Debt) (%)	
Due in Five Years	48
Due in 10 Years	76

[a]2008 population estimate. UVM – University of Vermont. VSC – Vermont State Colleges. Note: Numbers may not add due to rounding.

Vermont has considerable exposure through credit extension. The state's full faith and credit backs up certain programs of the Vermont Economic Development Authority (VEDA, or the authority), including the authority's insuring of up to $15 million in mortgages. As of June 30, 2008, the authority had $8.3 million in mortgage contracts outstanding. The authority also is authorized to reimburse lenders participating in the Financial Access Program to a maximum of $2 million. As of June 30, 2008, the reimbursement liability was $881,847. VEDA has also issued commercial paper ($65 million outstanding) for financing new loans; the commercial paper program has a reserve deficiency makeup provision with the state, not to exceed $70 million. Calls on the various guarantees have been minor.

In addition to VEDA commitments, the state has reserve fund deficiency makeup provisions with the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency, with the latter limited to $155 million in bonds; no calls have been employed. The state also has reserve replenishment commitments with the Vermont Telecommunications Authority (VTA) as well as the University of Vermont and Vermont state colleges totaling $40 million and $100 million, respectively. To date, no VTA debt has been issued against these commitments. Further, it is likely that a $50 million combined commitment to the Vermont Student Assistance Corporation for reserve replenishment or equity funding will be extended in the near future.

The state has issued short-term debt, both for operating and capital purposes. In fiscal years 1993–1997, it was entirely in the form of commercial paper. Subsequently, there was no need for operating borrowing until fiscal 2003, when $75 million was issued. In fiscal 2004, $48 million was issued, but the state's finances have improved since then, and the state has not issued short-term debt.

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 service in relation to revenues. Annual recommended amounts declined from $64 million in fiscal 1994 to $43 million in fiscal years 1997 and 1998 and less than $40 million from fiscal years 1999–2004. The recommendation rose to $41 million in fiscal 2005, $45 million in fiscal years 2006 and 2007, and $49.2 million for fiscal 2008. While the committee had initially recommended $54.65 million in new issuance for fiscal 2009, the state's general assembly authorized an additional $10 million above this for transportation purposes, and the committee subsequently offered an amended recommendation that included the additional debt. For fiscal 2010, $69.955 million has been recommended by the committee, inclusive of an additional $10 million for transportation projects, though the general assembly has not yet authorized this proposed new debt. Although authorized issuance levels have grown, debt retirement is rapid, with 75.6% expected to be amortized over the next 10 years, and debt ratios are forecast to remain in the low-to-moderate range over the next several fiscal years.

The state is presently considering the creation of a transportation revenue bond credit. Debt service is expected to be provided for through new revenue sources, though the state may also extend its GO pledge to such debt. Fitch Ratings will monitor developments of this new potential credit.

Pensions/Other Post-Employment Benefits

Vermont's pension systems are well funded, though the funded ratio for the Vermont State Teacher's Retirement System (VSTRS) system has declined in recent years. The Vermont State Employees Retirement System (VSERS) was 94.1% funded at the last actuarial valuation on June 30, 2008. The VSTRS was 80.9% funded. The state has funded the teachers' system below the actuarially recommended contribution (ARC); however, following a change in some actuarial calculations, it has fully funded the ARC since fiscal 2007.

Vermont has completed five actuarial studies for its other post-employment benefits liability to date. For VSERS, assuming a trust is established and prefunding of the liability, the unfunded actuarial liability is $423.5 million, and the ARC is calculated at $36.7 million for fiscal 2009. For VSTRS, with the same assumptions, the unfunded actuarial liability is $424.2 million, with an ARC of $32.3 million for fiscal 2009. The state has statutorily established an irrevocable trust for VSERS and set aside $3.7 million as of the close of fiscal 2009, but it has not decided on how to fund the ARC.

Finances

The state maintains three primary funds, with the general fund serving as the state's basic operating account. The education fund supports the state's portion of K-12 funding through the receipt of one-third of sales tax revenues, one-third of motor vehicle purchase and use tax receipts, lottery proceeds, and the statewide property tax, among other sources. Each fund maintains its own reserve. The transportation fund receives motor fuel taxes and other vehicle-related revenues, and these moneys are expended for construction and maintenance of the state's transportation network, state police services, and debt service on transportation debt.

Accounting has been done on a cash basis, but the conversion to generally accepted accounting principles (GAAP) was completed for fiscal 1996. Vermont's comprehensive annual financial reports (CAFRs) for fiscal years 2002, 2003, and 2004 were each delayed due to complications of a new financial system, conversion to GAAP Statement No. 34, and a delay in auditing capital assets. The problems have since been remedied.

Vermont has a relatively high tax burden and a diverse revenue stream that includes a personal income tax, which provided 52% of audited fiscal 2008 general revenues. The income tax was decoupled from the federal income tax in tax year 2001. Other general fund sources include a corporate income tax, an insurance tax, a property transfer tax, an estate tax, liquor and cigarette taxes, and meals and rooms taxes. Vermont's 6% sales tax — which yields 16% of combined general and education fund revenues — is split between the general fund and education fund on a two-thirds/one-third basis, respectively. It exempts food, medicine, clothing, and supplies and energy for manufacturing and agricultural uses. Vermont's statewide property tax for education represented 85% of education fund receipts in fiscal 2008. Vermont has typically forecast revenues for its three primary funds biannually in January and July. However, the state has been producing quarterly forecasts over the past year and expects to continue to do so until the economy shows signs of recovery.

Fiscal 2002 represented the state's poorest financial performance since the early 1990s. Revenues, projected to hold steady, fell by 7% over 2001 levels, with personal income tax receipts off 11%. The state responded throughout the year by lowering estimates twice, reducing appropriations, and using portions of the reserves. On a GAAP basis, the general fund ran a $23 million operating deficit, to close with a $149.6 million total fund balance.

The state expected fiscal 2003 revenues to also decline and lowered revenue estimates and made cuts. However, following late-year strength, revenues actually matched the originally budgeted level, allowing for modest reserve replenishment at a much earlier stage in the cycle than was possible for most other states. Tax revenues for the year rose 3.1%. At the close of the year, the general fund stabilization reserve was about one-half funded at $23.6 million. On a GAAP basis, the general fund ran a $49.8 million operating deficit and closed with a $99.8 million total fund balance.

Financial Summary — GAAP

($000, Fiscal Years Ended June 30)

	General Fund						Education Fund					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
Personal Income Tax	369,498	434,395	499,007	575,710	582,181	620,824	0	0	0	0	0	0
Sales Tax	217,984	254,107	207,630	218,227	221,748	223,563	0	10,884	103,786	109,112	111,306	113,050
Corporate Income Tax	26,731	46,740	61,154	72,036	78,365	71,265	6,270	10,289	0	0	0	0
Meals and Rooms	83,065	90,735	113,037	112,204	115,447	120,327	18,811	18,333	0	0	0	0
Statewide Property Tax	0	0	0	0	0	0	453,914	487,536	732,331	813,588	878,715	798,905
Total Taxes	802,186	825,974	1,025,142	1,122,518	1,127,228	1,175,986	556,411	609,312	865,564	951,469	1,018,782	913,900
Total Revenue	821,510	967,977	1,049,325	1,122,681	1,167,499	1,196,078	558,960	612,107	865,631	951,632	1,018,959	940,353
Education	118,056	121,775	128,356	137,093	159,232	142,782	838,313	874,787	1,159,872	1,239,072	1,309,545	1,252,529
Public Safety	64,382	69,148	75,347	81,477	88,768	86,273	0	0	0	0	0	0
Human Services	270,664	233,961	326,496	272,633	381,680	402,110	0	0	0	0	0	0
General Government	35,258	37,267	40,763	43,270	56,510	69,738	0	0	0	0	0	0
Debt Service	67,903	66,044	62,609	62,702	64,547	64,205	0	0	0	0	0	0
Total Expenditures	588,205	560,795	672,817	636,751	800,541	812,903	838,313	874,787	1,159,872	1,239,072	1,239,072	1,252,529
Transfers In and Other Sources	34,015	162,435	19,831	11,044	33,938	51,246	270,211	296,609	279,275	289,476	311,437	309,218
Transfers Out and Other Uses	(317,160)	(514,643)	(387,397)	(499,192)	(399,317)	(441,728)	(1,071)	0	0	(932)	0	(4,700)
Net Surplus/(Deficit)	(49,840)	54,974	8,942	(2,218)	1,580	(7,307)	(10,213)	33,929	(14,966)	1,104	91,323	(7,658)
Balance Sheet												
Cash and Investments	22,805	78,070	106,427	100,436	78,305	81,644	11,315	39,568	29,075	29,556	49,441	41,738
Less: Current Liabilities/Encumbrances	19,789	26,804	53,215	54,946	21,671	41,756	10,226	9,271	13,538	25,386	13,049	12,785
Current Position	**3,016**	**51,266**	**53,212**	**45,490**	**56,634**	**39,888**	**1,089**	**30,297**	**15,537**	**4,170**	**36,392**	**28,953**
Taxes Receivable	121,537	147,440	160,883	165,686	194,815	194,305	6,467	13,750	13,840	13,352	15,664	13,757
Interfund Receivables	25,149	20,975	31,219	31,463	36,244	37,471	730	14	36	0	0	0
Deferred Revenues	(66,160)	(80,519)	(93,140)	(102,629)	(122,692)	(129,393)	(1,343)	(3,089)	(3,407)	(2,500)	(3,249)	(2,407)
Total Fund Balance	99,753	154,726	163,668	161,450	163,030	155,723	7,042	40,971	26,005	27,109	47,960	40,303
As % of Revenues	12.1	16.0	15.6	14.4	14.0	13.0	1.3	6.7	3.0	2.8	4.7	4.3
Reserved for Budget Stabilization	23,565	44,486	45,771	51,808	55,224	57,839	11,076	22,763	22,901	24,324	28,248	29,393
As % of Revenues	2.9	4.6	4.4	4.6	4.7	4.8	2.0	3.7	2.6	2.6	2.8	3.1
Undesignated Fund Balance	47,062	61,974	68,610	68,317	68,057	54,458	(4,068)	18,209	3,104	2,785	19,712	10,910
As % of Revenues	5.7	6.4	6.5	6.1	5.8	4.6	(0.7)	3.0	0.4	0.3	1.9	1.2

Note: Numbers may not add due to rounding.

State fiscal years 2004 and 2005 were both characterized by good revenue growth leading to surplus, full reserve funding, and balance carry-forward. As in most states, fiscal 2004 operations were also assisted by federal aid, which helped offset rapid growth in Medicaid spending. Fiscal 2006 was the third consecutive strong year for the state. On an operating basis, the state closed with a $43 million surplus, which was transferred in part to the transportation fund ($10 million) and the budget stabilization reserve ($6 million); $29.4 million was carried forward to fiscal 2007.

Surplus operations continued in fiscal 2007 with a realized general fund surplus of $31.7 million, driven by strong personal and corporate income tax receipts. The state transferred $8 million of the surplus to the transportation fund, and $1.1 million to other funds. At year end, the general fund stabilization reserve, required to hold 5% of prior-year expenditures, was fully funded at $55.2 million, while the transportation fund stabilization reserve, also required to hold 5%, and the education fund stabilization reserve, required to hold between 3% and 5% of fund spending, were also funded at their statutory maximums. Fiscal 2008 ended with a $30 million general fund surplus, led again by overperformance in the personal and corporate income taxes. Sales tax revenues lagged the annual target by 2.4%. Fiscal 2008 general fund revenues of nearly $1.2 billion were up 4.2% over the fiscal 2007 level, with receipts for the income tax up 7.0%, sales tax up 1.3%, and business taxes up 2.4%. All three reserves remained fully funded at their statutory maximum level at the end of fiscal 2008.

Fiscal 2009 revenues, which have seen expectations revised downward on several occasions, through January 2009 were lagging the revised estimates by 2%. The January forecast projected fiscal 2009 general fund revenues would drop 8% from fiscal 2008 levels, with personal, corporate, and sales tax revenues declining 11.3%, 29.9%, and 4.9%, respectively. A current-year general fund budget gap of nearly $50 million, resulting from upward spending pressures, the aforementioned revenue declines, and net of $27 million in already-enacted spending reductions, is expected to be solved with federal stimulus dollars.

The fiscal 2010 executive budget proposal addresses a $201 million funding gap with a mix of temporal and ongoing budget solutions, including reductions in human services spending, cuts to the state's workforce, use of a human services caseload reserve, and the application of additional stimulus dollars, though the proposal keeps intact the 5% reserves in each of the primary operating funds.

Proposed fiscal 2010 general fund spending declines by 4.9%. K-12 public education spending remains a source of pressure for the state as expenditures have grown significantly despite declining enrollment statewide, and the governor supports reform of the state's education funding mechanism. Medicaid spending has also been a pressure, although the state has implemented some cost-control methods.

Economy

Vermont has a relatively small and narrow economy that includes manufacturing, tourism, agriculture, and health and educational services. Health and educational services now account for 19% of employment, while government and leisure and hospitality employment represent 18% and 11% of state jobs, respectively, both well above national averages. Fletcher Allen Health Care, which has recently upgraded its facilities in the state, is reportedly the state's largest employer, with 6,700 employees in the state. The business and professional services sector is small in Vermont, making up just 7.2% of state jobs, compared with 13.1% for the nation, and the financial activities sector is also undersized when compared to that of the nation (4.2% of Vermont employment versus 6.0% national employment) despite attempts to grow the captive insurer base in the state.

Manufacturing, mostly durables, is still important at 11.2% of jobs, above the nation's 10.1%. Manufacturing declined in the 1990s recession, with employment dropping from more than 50,000 in 1985 to 43,000 in the early 1990s. There was recovery, with 2000 manufacturing employment at 46,400, but it slipped by 2003 to 37,600. Manufacturing employment as of December 2008 was at 34,500. IBM, located in the Burlington area, was previously the state's largest private employer, reduced its work force by some 1,800 employees during the recession earlier this decade; the company is experiencing additional contraction in the current environment. General Electric also has a significant manufacturing facility in Rutland. The state has a multiseason tourism industry. Cross-border retail and tourism activity is also important. Housing prices have grown consistently over the past several years, spurred by increasing second-home and condominium investment, and declines over the next few years are expected to be more modest than those seen in other parts of New England and the nation. Mortgage delinquency rates in the state compare favorably to national and regional levels.

Vermont's employment growth outperformed the nation's annually from 2000–2004. Year-over-year job losses began in December 2001 and persisted through July 2003. On an annual basis, recessionary losses were about a combined 1% during 2002 and 2003, well below the national loss. Job growth returned to Vermont in 2004, with a 1.3% increase. Growth was tepid in 2005 (0.8%) and 2006 (0.7%), and employment was flat in 2007. The first half of 2008 saw very slight improvements on a year-over-year basis, but declines began in May 2008, and the fourth quarter data saw performance decline sharply. December 2008 employment data indicate state employment declined 1.9% from the December 2007 level, with the most significant declines occurring in the construction and manufacturing sectors. State unemployment has historically been and remains comfortably below the national level, though the recently re-estimated December 2008 rate of 5.9% was well above the 4.0% level reported one year prior.

Vermont's personal income per capita has lagged the U.S. rate since World War II, falling to as low as 77% of the U.S. level in 1950, and it hovered at only 83% as recently as 1977. More recently, per capita personal income hovered around 90% of the U.S. average until 1998. Per capita personal income in 2007 totaled $37,446, ranking Vermont 21st among the states, at 97% of the national level.

Vermont's population grew 8.2% during the 1990s, faster than the New England region, yet slower than the U.S. The census bureau estimates Vermont has grown about 2.0% during this decade, slightly faster than New England but slower than the U.S. Vermont's population is well educated, with nearly one-third of adult Vermonters holding college degrees, ranking it sixth among the states in a tie with Virginia. Vermont also has the nation's largest share of population — nearly three-quarters — living outside the state's primary metropolitan area. Vermont has been challenged by the aging of its population; the median age of 40.6 years is well above the national median of 36.7 years and is exceeded only by Maine.

Economic Trends

Nonfarm Employment
(000, Not Seasonally Adjusted)

	VT	% Change	U.S.	% Change
1980	200	—	90,528	—
1989	262	30.8	108,014	19.3
1990	258	(1.6)	109,487	1.4
1991	249	(3.3)	108,374	(1.0)
1992	251	0.8	108,726	0.3
1993	257	2.5	110,844	1.9
1994	264	2.5	114,291	3.1
1995	270	2.4	117,298	2.6
1996	275	1.8	119,708	2.1
1997	279	1.6	122,776	2.6
1998	285	2.0	125,930	2.6
1999	292	2.3	128,993	2.4
2000	299	2.4	131,785	2.2
2001	302	1.1	131,826	0.0
2002	299	(0.9)	130,341	(1.1)
2003	299	(0.0)	129,999	(0.3)
2004	303	1.3	131,435	1.1
2005	306	0.8	133,703	1.7
2006	308	0.7	136,086	1.8
2007	308	0.0	137,623	1.1
December 2007	315	—	138,934	—
December 2008p	309	(1.9)	136,119	(2.1)

Unemployment Rates
(%, Not Seasonally Adjusted Annual Rates)

	VT	U.S.	VT as % of U.S.
1980	4.9	7.1	88
1989	3.6	5.3	68
1990	4.9	5.6	88
1991	6.6	6.8	97
1992	6.4	7.5	85
1993	5.3	6.9	77
1994	4.6	6.1	75
1995	4.3	5.6	77
1996	4.4	5.4	82
1997	4.0	4.9	82
1998	3.1	4.5	69
1999	2.9	4.2	69
2000	2.6	4.0	65
2001	3.3	4.7	70
2002	4.0	5.8	69
2003	4.5	6.0	75
2004	3.7	5.5	67
2005	3.5	5.1	69
2006	3.7	4.6	80
2007	4.0	4.6	85
December 2007	4.0	4.9	80
December 2008p	5.9	7.2	89

Personal Income
(Change from Prior Year)

	% Change		
	VT	U.S.	VT as % of U.S. Growth
1995	4.8	5.3	89
1996	5.4	6.0	90
1997	6.9	6.1	114
1998	6.1	7.4	83
1999	5.8	5.1	114
2000	7.9	8.0	98
2001	5.1	3.5	145
2002	1.7	1.8	97
2003	3.7	3.1	117
2004	5.7	6.1	93
2005	2.5	5.6	45
2006	7.6	7.1	108
2007	6.6	6.0	111

Personal Income Per Capita
(Change from Prior Year)

	% Change		
	VT	U.S.	VT as % of U.S. Growth
1995	3.8	4.1	94
1996	4.6	4.8	96
1997	4.7	4.8	99
1998	7.1	6.1	116
1999	5.1	3.9	129
2000	7.0	6.8	102
2001	4.6	2.4	187
2002	1.2	0.8	148
2003	3.5	2.2	159
2004	5.4	5.1	105
2005	2.4	4.6	51
2006	7.4	6.0	123
2007	6.6	5.0	132

Components of Personal Income: Earnings
(%)

	VT			U.S.		
	2002	2007	% Change	2002	2007	% Change
Construction	7	7	28	6	6	31
Manufacturing	18	15	7	14	12	15
Durable Goods Manufacturing	13	12	6	9	8	14
Computer and Electronic Manufacturing	6	5	(4)	2	0	(100)
Trade, Transportation, and Utilities	17	16	19	16	16	25
Financial Activities	6	6	24	10	10	32
Professional and Business Services	9	10	39	13	16	39
Education and Health Services	15	16	36	15	11	34
Government and Government Enterprises	17	18	34	16	17	30
Total Nonfarm Earnings	—	—	24	—	—	29

State population: 608,827 (2000 Census), 621,270 (2008 Census estimate). Population change: 1990–2000: U.S. 13.1%, Vermont 8.2%; 2000–2008: U.S. 8.0%, Vermont 2.0%. Personal income per capita 2007: $37,446 = 97.1% of U.S., rank 21st. Note: Monthly unemployment rates are seasonally adjusted.

Moody's Investors Service

Global Credit Research
New Issue
24 FEB 2009

New Issue: Vermont (State of)

MOODY'S ASSIGNS Aaa RATING TO STATE OF VERMONT'S $50.5 MILLION GENERAL OBLIGATION BONDS SERIES 2009A

APPROXIMATELY $438 MILLION OF G.O. DEBT OUTSTANDING; OUTSTANDING G.O. DEBT RATINGS AFFIRMED

State
VT

Moody's Rating

ISSUE	RATING
General Obligation Bonds, 2009 Series A	Aaa

Sale Amount $50,500,000
Expected Sale Date 03/02/09
Rating Description General Obligation Bonds

Opinion

NEW YORK, Feb 24, 2009 -- Moody's Investors Service has assigned a Aaa rating and stable outlook to the State of Vermont's $50.5 million general obligation bonds series 2009 A. Moody's highest rating level reflects Vermont's strong history of financial management, which includes conservative fiscal policies and the maintenance of healthy reserve balances; and manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems. The state's credit outlook is stable. Bond proceeds will be used to fund various capital improvement projects throughout the state.

Credit strengths are:

*History of strong financial management and fiscal policies indicated by conservative budgeting practices.

*History of prompt action to reduce spending following revenue weakening.

*Maintenance of budget reserve levels at statutory limit.

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

Credit Challenges are:

*Continuing budget pressure in the upcoming fiscal year and out-years

* Decline in job growth.

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

*Below average per capita income levels..

REVENUE DECLINES LEAD TO BUDGET GAPS

Through fiscal 2008 the state of Vermont enjoyed consistent revenue growth. With increases in every major revenue category, including personal income tax growth of 7.1% and sales and use tax growth of 1.4%, the state reported 4.3% overall general fund revenue growth,. As with many states, Vermont is currently experiencing a downturn in revenues as a result of the national economic slowdown. Vermont faces a fiscal year 2009 budget shortfall of $45 million. Revenue weakness, primarily in personal income and sales and use tax led to downward revenue revisions totaling roughly $85 million, or 7% of the original revenue estimate. Reflecting the state's trend of strong fiscal management, Vermont has responded quickly to the sudden revenue declines, the state, which historically conducts consensus revenue forecast every January and July, recently increased the frequency of the forecasts to quarterly in order to better manage state finances. Since January 2008, the state has had four downward revenue revisions. The decline in revenue coupled with an increase in expenditures (primarily in human services) prompted the governor and legislature to act swiftly in reducing expenditures to realign with the reduced state revenues. In order to solve for the budget gaps, the state used a mix of recurring budget cuts (primarily in human services) and revenue enhancements and fund transfers to save roughly $42 million in the current fiscal 2009 budget. The state still has to resolve a remaining fiscal 2009 $45 million budget gap. The governor is proposing to utilize funds expected to be received by the recently passed federal fiscal stimulus plan to solve the remaining shortfall. Vermont is projecting to receive a total of $685 million in funding, of which $300 million can be used for state operating costs.

Moody's assigned a negative outlook to the U.S. state sector in February 2008 and affirmed that outlook this February, reflecting the worsening economic and revenue conditions faced by most states.

FY 2010 PROJECTS $201 MILLION BUDGET GAP

The outlook for 2010 paints a similar picture of budget strain: revenues have been revised downward to reflect a 3% decrease from the current fiscal 2009 budget. Personal income tax is expected to decline by 2.9% while sales and use tax revenue remains flat. This revenue projection and maintenance of current spending levels leaves the state with a fiscal 2010 projected budget deficit of $201 million. The executive budget for fiscal 2010 proposes a 4% reduction in expenditures in the human services area (the state's largest area of expenditures) along with a reduction in state workforce and $90 million of funding provided by the federal fiscal stimulus plan. While the infusion of federal funds is one time in nature, the budget cuts proposed by the governor will result in recurring savings for the state.

BUDGET RESERVE LEVELS MAINTAINED AT STATUTORY FUNDING LEVELS OF 5%

Vermont has primarily dealt with the budget imbalances by adjusting expenditures to meet the continuously declining revenues. The state has so far avoided using any of its fully funded budget stabilization reserve funds (BRF) At the end of fiscal 2008, Vermont's General Fund BSR was $57.8 million which reflects the statutorily required funding level of 5% of prior year budgetary appropriations, a level that has been maintained since 2004. Vermont also maintains a fully funded Transportation Fund BSR, also at 5% of prior year appropriations, and one in its Education Fund at the statutory required level of 3.5% to 5% of prior year expenditures, excluding General Fund transfers. Vermont expects to maintain its budget stabilization reserves at the statutory level through the end of fiscal 2009. The governor has not proposed to use any of these funds as a solution for the fiscal 2010 budget gap. Additionally the state has a Human Services Caseload Reserve, which currently holds $17 million. This reserve is available for unexpected caseload growth due to the economy. Currently the governor's fiscal 2010 budget proposal does utilize the human caseload reserve, but the state has indicated that with the passage of the federal fiscal stimulus plan they may be able to leave this reserve in tact as well.

UNEMPLOYMENT RATE ON THE RISE

Continuous job growth in education and health services, Vermont's largest employment sector, has helped offset persistent weakness in other areas of the economy, primarily manufacturing and construction. Vermont never fully recovered manufacturing job losses from the prior economic recession in 2001-2002. For 2008, Vermont's average annual year-over-year job growth declined to by 0.2%, about the same as the national employment decline of 0.4% last year. The state's unemployment level, which has historically been low, has risen rapidly in the past year. In December 2007 the unemployment rate was 3.9% versus 4.9% for the nation. In December 2008 the state's unemployment rate was 6.9% versus 7.4% for the nation. Vermont's job trends will likely continue to be below average over the near-term forecast horizon.

DEBT RATIOS CONTINUE TO DECLINE

Vermont's debt levels have declined considerably over the past decade and are now slightly below average relative to Moody's 50-state median, on both a per capita and personal income basis. Debt per capita of $707, compared to the state median of $889, ranked Vermont 32nd among the fifty states in Moody's 2008 state debt medians. Debt to total personal income of 2.0%, compared to the 2.6% state median, ranked

Vermont 33rd. Both ratios represent steady improvement in Vermont's debt profile, reflecting efforts by the state's Capital Debt Affordability Advisory Committee which oversees long-term capital planning for the state. The state's debt authorization levels have dropped steadily over the past decade.

Vermont's overall pension funding levels has been strong relative to other states. As of June 30, 2008 the state employees system had a 94.1% funded ratio while the teachers' system was slightly lower, at about 89%. Due to broad based market losses it is expected that the next valuation of the retirement systems will be lower as is expected in other states as well. The state is committed to the full annual funding requirements. Vermont's assessment of its other post employment benefit (OPEB) liability reflects $754 million for state employees and $863 million for teachers. The state has not decided on a funding mechanism for the OPEB liabilities, however they have set up an irrevocable trust fund to initially be funded with excess revenues from Medicaid part D reimbursements. As of June 30, 2008 this trust fund held $3.7 million of assets.

LAST RATING ASSIGNMENT

The last rating action for Vermont was on December 10, 2007 when a Aaa rating with a stable outlook was assigned to the state's General Obligation Refunding Bonds 2007 Series F. The principal methodology used in rating the State of Vermont was the State Rating Methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Rating Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Outlook

The outlook for Vermont's general obligation debt is stable. The state faces significant budget pressure in the coming fiscal year as a result of the slowing economy. It is Moody's expectation that the state will continue its trend of proactive and conservative fiscal management in light of declining revenues. We believe that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

What could make the rating go - DOWN

*A break from the states history of conservative fiscal management.

*Emergence of ongoing structurally imbalanced budgets.

*Depletion of budget reserves without swift replenishment.

*Liquidity strain resulting in multiyear cash flow borrowing.

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STANDARD & POOR'S

RATINGSDIRECT®

February 24, 2009

Vermont; General Obligation

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Vermont; General Obligation

Credit Profile		
US$50.5 mil GO bnds ser 2009A due 03/01/2029		
Long Term Rating	AA+/Stable	New
Vermont GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to Vermont's series 2009A general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the state's existing GO debt.

The ratings reflect our opinion of the state's:

- Strong financial management, including conservative debt and budgeting practices, that has helped it maintain a good financial position; and
- Low debt burden and rapid debt amortization.

Vermont, with a population estimate of 626,322, is in northern New England, bordered by New York State, Massachusetts, New Hampshire, and Canada. The state's population has recently grown slower than the nation as a whole; for 2003-2008, its population grew by 1.1% compared with the nation's 4.6%. State median household and per capita effective buying income indicators for 2008 were 97% and 98%, respectively, of national levels. State unemployment rose to 6.4% in December 2008 from 3.9% a year earlier; the state's rate, however, is the second lowest among the seven northeastern states and is better than the nation's 7.2% rate.

The national economic slowdown has resulted in four separate downward revisions in the general fund revenue forecasts for fiscals 2009 and 2010 from the January 2008 to January 2009 forecasts. The fiscal 2009 forecast has been reduced by $80.8 million, or 6.8%, and the fiscal 2010 forecast has been reduced by $152.5 million, or 12.5%. The transportation and education funds, the state's two other major funds, experienced similar forecast reductions. Despite these forecast reductions, January 2009 general fund revenues were 10.5%, or $14.1 million, below the forecast for the month; but they were just 2.0% below budget, or $14.0 million, for the first seven months of fiscal 2009. The general fund's underperformance in January 2009 was due primarily to personal income tax being 10% below the monthly budget and sales and use taxes being 7% below the monthly budget.

The administration responded to the July and November 2008 revenue reductions with two budget adjustment plans that included a combination of spending reductions and transfers. The Vermont legislature adopted, in part, these budget adjustment plans; but including a further $10.5 million revenue reduction in the January 2009 forecast and increased projections for human service expenditures, a $45.3 million budget gap remains. In addition to these actions, the administration has implemented a quarterly review of revenues, which it formerly reviewed semiannually; officials expect these quarterly forecasts to remain in place at least until the economy demonstrates a turnaround.

Gov. Jim Douglas presented the latest budget adjustment recommendation to the General Assembly on Jan. 22, 2009; but the state has not yet enacted the adjustment. The proposed budget adjustments would result in balanced operations for the three major funds based on the January 2009 revenue forecast. The proposed adjustments include an assumption of $61 million of federal stimulus assistance from a reduction in the required Medicaid match, which officials now believe is conservative given the final stimulus bill's provisions. Officials will revisit revenue projections again in April 2009, but they have indicated they could lower revenue estimates earlier than April if revenues continue to underperform through February 2009.

Gov. Douglas' fiscal 2010 proposed budget is balanced and projects that the general, transportation, and education funds would all end the year with reserves at their statutory maximums. The budget closes a $201 million gap through layoffs, adjustments to general fund support of the education fund, a 4% reduction in human service grants, federal stimulus Medicaid cost reductions, and the use of a general fund human services caseload reserve that is separate from the stabilization reserve. The proposed budget includes a 4.9% decrease, a 5.5% increase, and a 0.3% increase in general, transportation, and education fund expenditures, respectively, compared with the levels in the proposed fiscal 2009 adjusted budget.

Standard & Poor's considers Vermont's financial management practices "strong" under its financial management assessment (FMA) methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The state's net debt ratios are, in our opinion, a low $726 per capita, or 2% of personal income. In our view, Vermont's debt portfolio is conservative, consisting entirely of fixed-rate bonds and no exposure to interest rate swaps. We consider debt amortization rapid with officials retiring 76% of total GO debt over the next 10 years. Fiscal 2008 debt service accounted for 5.3% of general fund revenues, which we consider low. Vermont's debt burden has remained a credit strength over the past several years with the state retiring more debt than it issues. The state's debt affordability committee recommended the issuance of a maximum of $64.7 million of GO debt in fiscal 2009 and $70.0 million in fiscal 2010.

Outlook

The stable outlook reflects Standard & Poor's expectation that the state's prudent financial and debt management practices will allow it to maintain a sound financial position. We will continue to monitor the state's ability to maintain its sound financial position as it reacts to the current environment of decreased revenues.

Economy: Payroll Contraction

According to IHS Global Insight Inc., Vermont experienced net payroll contraction during the first three quarters of 2008 with annualized job losses of 0.6% over the three quarters. The state's leisure and hospitality and education and health service sectors registered positive year-over-year changes as of December 2008; but this growth was outweighed by losses in construction, manufacturing, and financial services. IHS Global Insight projects that the state will lose 1%-2% of its jobs by the end of 2009 but that positive payroll growth will begin in 2010 when the state's economic growth is projected to resume and be among the New England region's highest. The education and health services sector accounts for 20% of state jobs, 38% higher than the national average, while the leisure and hospitality sector accounts for 11%, 9% higher than the national average.

The largest segment of the state's economy is in Chittenden County, which includes Burlington, Vt., with a population estimate of 39,000, the center of the state's only metropolitan statistical area (MSA). Leading sectors of the state's economy include education and health services (20.4% of total state employment, or 138.0% of the national level), leisure and hospitality (10.5%, or 109.0%), and durable manufacturing (7.5%, or 134.0%). The state's leading private employers are Fletcher Allen Hospital (4,700 full-time employees and 2,000 part-time employees) in Burlington and IBM Corp. (5,400). Within manufacturing, concentration exists in high-tech manufacturing due to IBM's presence. An estimated 80% of all state exports are high-tech manufactured goods, mostly produced at IBM's Essex Junction, Vt. facility. In June 2008, IBM reduced employment at its Essex Junction facility by 180, which brought employment to 5,400, down from 8,500 in 2001. IBM recently laid off less than 500 additional employees, but state officials did not know the magnitude.

The leisure and hospitality sector is concentrated in tourism related to the fall foliage and winter ski seasons; and there has been an effort to expand the tourism season into the summer, including the addition of summer activities at some ski areas. Tourism-related revenues from sales, meals, gasoline, and lodging taxes provide significant revenue streams to the state's operating budget. Tourism from Canada has boosted the state's economy recently, but it is somewhat dependent on exchange rates and the strength of Canada's economy.

Finances: A Good Position With Reserves At Statutory Limits

Vermont's strong fiscal controls and steady revenue performance have contributed to a favorable financial position with reserves maintained at statutory limits. Fiscal 2008 ended with the budget stabilization reserves for the general, transportation, and education funds all fully funded at their statutory 5% maximum levels.

Vermont's tax structure is broad, and its revenue sources are diverse across several operating funds. The general fund relies on unrestricted revenues from personal and corporate income, sales and use, and meal taxes. The personal income tax generated $620 million of revenues in fiscal 2008, or 52% of total general fund revenues. The sales and use tax accounted for $224 million, or 19%. Following essentially zero growth in collections in 2001 and 2002, officials increased the sales tax to 6% from 5% in October 2003. Meal and room taxes generated $120 million, or 10% of general fund revenues.

The education fund relies on earmarked sources, primarily the statewide property tax (85% of 2008 revenues) but also the sales and use tax (12%) and state lottery profits. The transportation fund relies on the motor fuel tax, a motor vehicle license fee, and federal-match grant revenues.

NEW ENGLAND ECONOMIC PARTNERSHIP
(NEEP)

Vermont Economic Outlook

May 2009

Vermont Media Sponsor:

MAY 2009 ECONOMIC OUTLOOK FOR VERMONT

The Forecast in Brief

- The May 2009 Vermont forecast for NEEP indicates that the Vermont economy will follow the U.S economy and experience a slow, restrained pace of recovery out of the current recession, with employment effects lingering through the middle of calendar 2010.
    - By the time the recession in Vermont is over, it will have been the harshest economic downturn in the state since the "Great Depression" with a total of 7 of 8 major macro-variables faring "worse" than the early 1990s recession.
    - "Normal" rates of growth for most key macro-variables do not return until calendar years 2011 and 2012 when the effects of the housing market downturn and the long process of global financial and household de-leveraging have fully run their course.
- Among the major macro-variables for the Vermont economy over the next 4+ years, it is expected that:
    - Payroll jobs will decline for a total of 11 consecutive quarters, or through the second quarter of calendar year 2010.
    - The total decline will be 22,500 jobs from peak non-farm employment levels, and the pace of recovery will be halting and insecure.
    - When the recession has run its full course, payroll job losses in Vermont will be more severe, in percentage terms, than losses at the national and regional level in 2009 and 2010; and the Vermont jobs recovery will be slower than that at the national level, but slightly stronger than the New England state average.
    - The unemployment rate will rise to levels not experienced since calendar year 1983.

  - However, despite the recession and the relatively slow pace to recovery once it in fact begins, the state's unemployment rate will continue to remain among the lowest in the New England region throughout the forecast period.

- The housing market downturn nationally, regionally, and in Vermont, is still underway and the still evolving financial de-leveraging process remains a significant unknown and is a source of downside forecast risk in this NEEP forecast revision.

  - It is expected that additional foreclosures and a substantial inventory of unsold units will continue to put downward pressure on house prices through 2011.

  - So far, although delinquencies have risen in Vermont, they have not risen to the levels where foreclosures and forced liquidation sales have pushed housing prices down significantly.

  - The forecast expects the housing prices in Vermont to decline to a lesser degree than those in the other New England states, and the U.S. overall, but the will not begin to recover until calendar year 2012.

- Oil prices have stabilized between \$45 and \$55 per barrel, but have shown an increasing trend over the last 2 months, representing another source of downside risk in this revised NEEP forecast.

  - Vermont households and businesses have enjoyed the relief provided by energy prices that are down from those of Summer 2008. However, substantially higher energy prices going forward could reduce other forms of spending and slow down the rate of the expected historically slow rate of recovery.

  - Vermont is particularly sensitive to energy costs due to its rural nature, its dependence on vehicle-based tourism and visitor traffic from the northeastern region of the U.S., and the energy cost-intensive nature of its key manufacturing sector.

- Overall, output, gross state product, will decline in 2009, experience weak but positive growth in 2010, and then resume more normal rates of growth in the final three years of the forecast.

  - Real Personal Income in Vermont is expected to decline in 2009 and 2010, and then resume growth in 2011, lagging recovery at the regional and national levels in this variable by one year.

The Current U.S. Situation—A "Great Recession…"

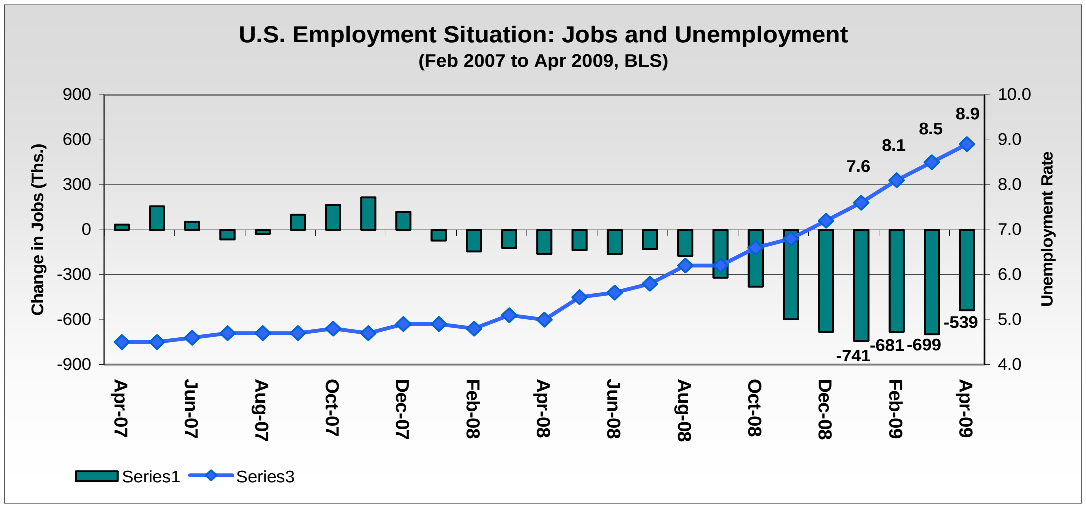
a. Current Conditions: The May 2009 NEEP forecast for Vermont was completed in a time of unprecedented economic uncertainty. On the one hand, the optimists point to the recent emergence of some encouraging "green shoots" among the various economic indicators. These encouraging signs include; (1) an apparent thawing in credit markets, (2) a recent slowing in the trajectory of job losses, (3) a now two month positive turn in U.S. equity markets, (4) a positive up-tick in consumer confidence, (5) signs of an economic stirring in emerging markets and among key global economies (e.g. China and Brazil), and (6) the still unwavering commitment of fiscal and monetary policy makers to do what it takes to pull the global and U.S. economies out of their tailspin. Taken together, as this reasoning goes, the stage is now being set for the beginning of a recovery within the next six to twelve months.

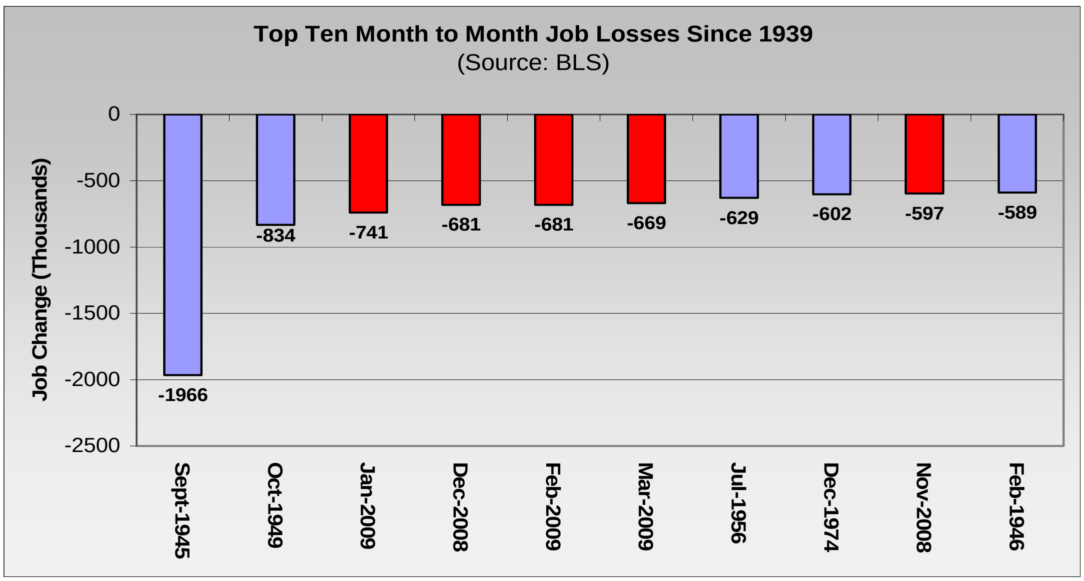
On the other side, the pessimists note several factors. Key among those factors is the forthcoming accumulation of an unprecedented increase in public sector debt in response to a tidal wave of corporate and mortgage bailouts (at $12.1 trillion and still mounting), the servicing cost of which will likely be with us for at least a generation. They also note there has been an estimated $11 trillion-plus decline in household net worth over the last 18 months which will make it difficult for households to ramp up spending again. They then point to the Chrysler bankruptcy and the financially precarious position of General Motors—two former stalwarts of the U.S. auto industry. Lastly, they cite the evisceration of virtually the entire New York money center and the investment banking industry, and the coming revamping of credit market regulation, that is certain to change—in ways we do not currently fully understand—the way the U.S./global credit spigot is likely to operate for the foreseeable future. All of the above factors, the pessimists' reasoning goes, should be taken as evidence that the economy is not anywhere near being "out of the woods" as of May 2009.

Amidst all of this uncertainty, only one thing seems at this point seems clear—the severity of the current economic downturn remains harsh and is unlike any other the country or the world has experienced since the Great Depression of the 1930s. Although economic conditions have not declined to or at anywhere near the pace of the 1930s Depression, the current severely weakened state of the U.S. and global economies clearly indicates that the current economic downturn will qualify as the "Great Recession" of our modern Post-World War II period.

b. An Especially Troubled Labor Market: Nowhere is the severity of the economic downturn more evident than in the U.S. job market. Since the recession began, more than 5.7 million U.S. payroll jobs have been lost or -4.1% of the peak job base, with a stunning 3.9 million jobs lost in just the last 6 months. This compares very unfavorably with the -3.1% employment loss for the U.S economy during the harsh 1981-82 U.S. recession. The unemployment rate which shot up to 8.9% in April is now at its highest level in 26 years. Payroll job losses have been broad-based, both geographically and across all sectors of the U.S. economy. A total of 48 states have experienced year-over-year job declines from March of 2008 (only Alaska and Louisiana[1] have managed to avoid slipping into negative territory). In addition, all major sectors of the economy are losing jobs, with only the Health Care industry in the private sector and the Federal Government in the public sector (which has begun to scale up hiring for the 2010 Census) adding jobs.

[1] And Louisiana's experience is obviously distorted by Hurricane Katrina and the unprecedented level of federal re-construction and aid intervention in the hurricane's aftermath.





In fact, the number of states losing jobs on a year-over-year basis in most major sectors of the U.S. economy is both discouraging and breath-taking (see Table 1 below). Unlike previous downturns in recent memory that were more geographically narrow and more sector specific, there is no economic safe-haven to where workers can migrate to this recession. This was reinforced by a U.S Census Bureau report released in late April, which reported that the nation had the fewest number of residents "changing residences" since 1962—a time when the U.S had 120 million fewer people. A total of 9 of 11 major employment categories have in excess of 40 states losing jobs on a year-over-year basis. Three NAICS super-sectors—Construction, Manufacturing, and Professional and Business Services—are experiencing year-over-year job declines in 49 of the 50 states.[2]

[2] Only Louisiana added jobs in the Construction and Professional and Business Services sectors, while Wyoming was the only state in positive territory for Manufacturing jobs in year-over-year terms.

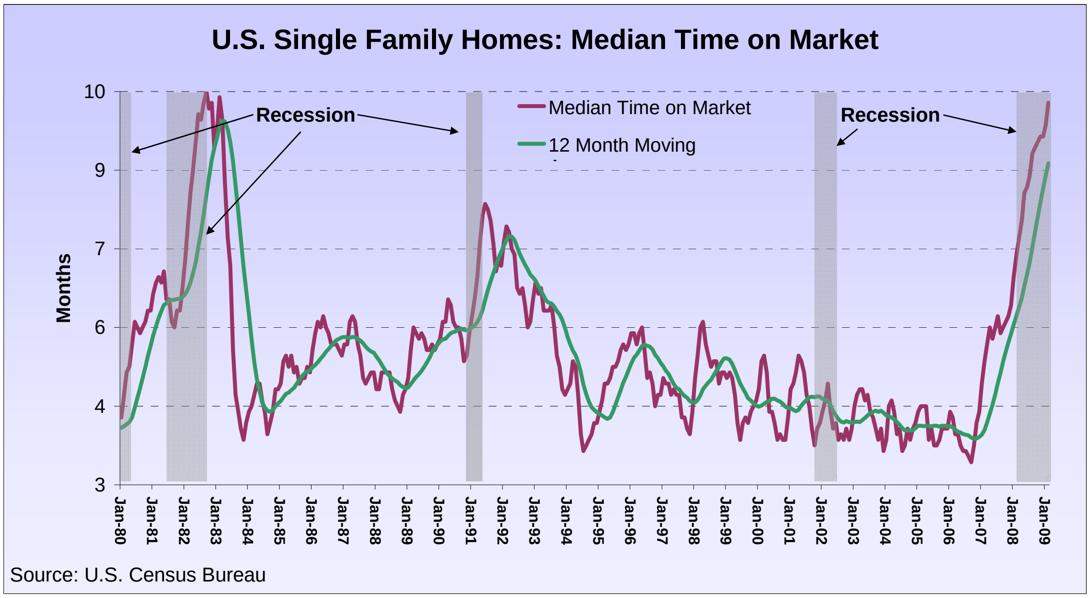
Table 1. Payroll Job Performance By NAICS Supersector March 2008 vs. March 2009

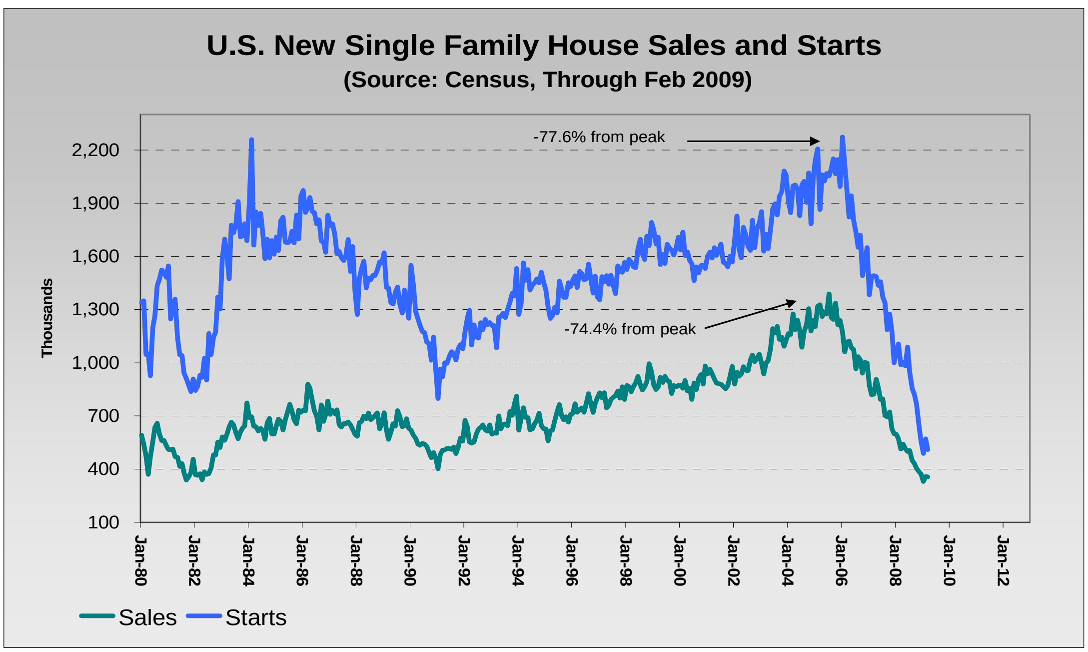
Industry Supersector	Highest Ranked New England State	# of States Reporting Job Losses
Total Nonfarm	**NH (9th)**	**47**
Total Private	**NH (8th)**	**48**
Construction	ME (18th)	49
Manufacturing	MA (5th)	49
Information	NH (22nd)	44
Financial Activities	NH (10th)	46
Trade, Transportation, Utilities	NH (2nd)	45
Leisure & Hospitality	CT (11th)	40
Education and Health Services	***VT (13th)***	***0***
Professional & Business Services	ME (9th)	49
Government	MA (29th)	14

Notes:
NAICS means North American Industry Classification System
Source: U.S. Bureau of Labor Statistics **Prepared by: Economic & Policy Resources, Inc.**

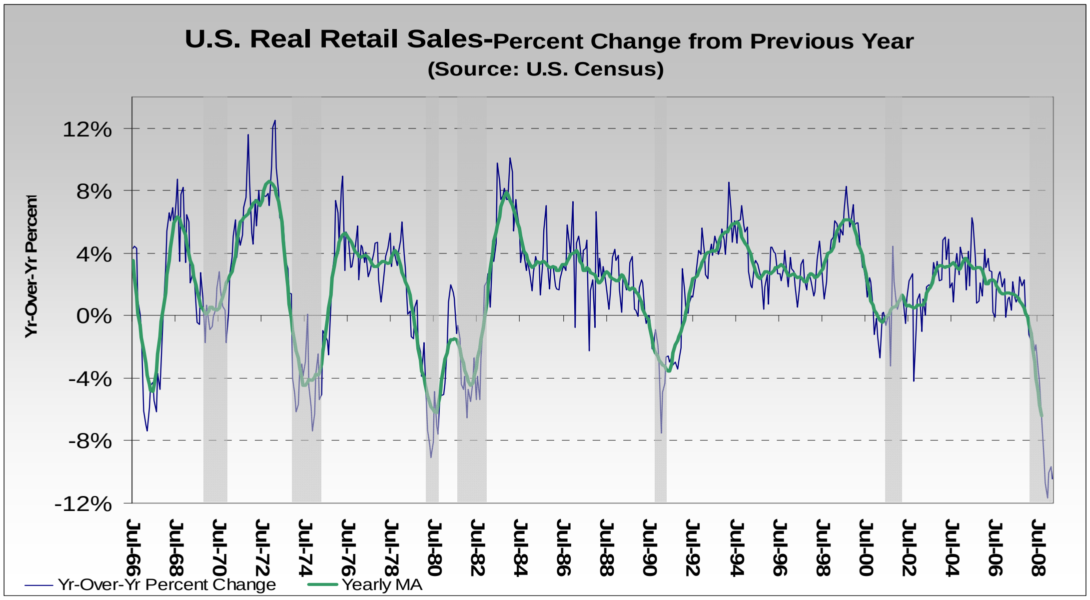
For the most part, this dismal labor market performance is an artifact of the vicious process of financial de-leveraging that continues to unfold. De-leveraging has now has spread to virtually all parts of the economy, and has broad economic implications. Until this difficult process has run its full course, there will be huge barriers to a recovery in household consumption and to a recovery in financial and credit-sensitive sectors in the economy—especially against a backdrop of the possibility of yet another wave of mortgage delinquencies.[3] Housing continues to struggle mightily across many parts of the U.S., with houses taking an average of 10.5 months on the market before selling in calendar year 2008 versus 8.9 months in calendar year 2007. In fact, single family housing starts and sales are each down by more than 70% from their pre-housing market downturn peaks.

[3] As of this writing, more than 12 million U.S. homeowners are "under-water"—carrying a higher amount of debt on their homes than they could reasonably be expected to realize in proceeds from the sale of their home.



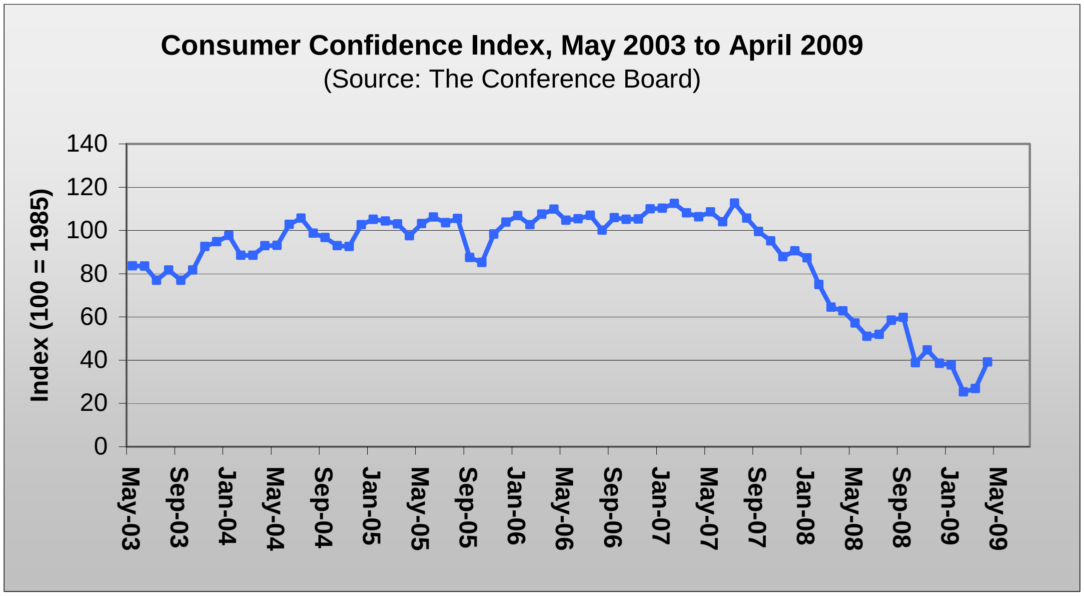


c. Breathtaking Declines in Consumption: Consumption data have shown unprecedented declines as American consumers have pulled back. The pull-back has come as a drastic change from the early 2000s when households went on a consumption binge supported by access to home equity lines of credit and cash-out refinancing activity. Inflation-adjusted consumption has now declined by the heretofore unheard-of, breath-taking rate of more than 10.0% on a year-over-year basis in four of the last six months—despite the small up-tick experienced in February.



This all bodes poorly for near-term household consumption as a source of economic strength underpinning a prospective economic turnaround. With the loss of household wealth and the inability to take on significant amounts of additional debt, the consumer sector will be hard-pressed to re-open the spending spigot to a degree anywhere near the levels of household spending experienced during the early 2000s—or before the current downturn. Improvement is more likely to come at a historically slow and halting pace relative to the early 2000s recovery, and progress will be insecure until broader confidence is restored in the financial system and in the health and performance of the U.S. and global economies.

Also on the consumer front, the Consumer Confidence Index—as measured by The Conference Board's survey—registered an actual increase in April. While the Index still remains at very low levels, it is an improvement from the record lows experienced during the months of February and March. The index is developed from questions on consumers' attitudes of current and future conditions in the economy, employment situation and their own household's expected financial situation, all of which likely influence consumer decisions and behavior. This is an important indicator because personal consumption constitutes a large part of the nation's output (roughly 2/3 of output) and is heavily dependent on whether the consuming public's attitude toward the future is generally positive or negative. While this is an early sign of improvement, the fact of the matter is that the index level is still well below the level that would be signaling an economic turnaround.



d. Buying into the "Big Assumption:" Since last Fall's NEEP forecast update, most forecasters—including the U.S. Federal Reserve, Moody's Economy.com, and the International Monetary Fund (IMF)—have revised their economic forecasts down significantly. Virtually all the economic performance data point to a global and U.S. economy that went into free-fall during the last quarter of calendar year 2008 and this apparently continued during the first quarter of calendar year 2009. Of particular concern since last Fall is the large decline in export demand. The decline in exports—and exports had previously been a source of economic strength for much of calendar year 2008—is exceptionally ill-timed, and likely means that overseas demand will not be a significant source of support for output growth in the U.S. economy for at least most of calendar year 2009.

This highly uncertain economic and financial background has led to wide disagreement among economists and analysts regarding the timing and pace of any prospective global and U.S. economic bottoming and subsequent recovery. Most analysts have bought into the "Big Assumption" and expect the U.S economy to flatten out and "hit bottom" later in calendar year 2009 and begin to slowly recover by mid-calendar year 2010.[4] The beginnings of a recovery later in calendar year 2009 or into 2010 is grounded in the belief that by that time;

(1) The effects of the $870 billion Stimulus Bill begin to have some positive macroeconomic impact,

(2) The stresses (e.g. credit availability and liquidity issues) in the financial sector, which have apparently begun to abate, will turn

[4] The "Big Assumption" is that what is being done on the fiscal and monetary policy fronts to address the financial and economic crisis will ultimately set the stage for a stabilization-bottoming in the economy and financial markets later in calendar year 2009, followed by the beginning stages of a genuine economic recovery by mid-calendar year 2010.

neutral if not positive,

(3) The punishing correction currently underway in housing markets will run its course, bottom and at least some local-regional real estate markets will begin to turn positive, and

(4) The inventory cycle will have run its full course.

What seems clear from the U.S. economy's performance since last Fall is that by the time the current recession which began in December 2007 is over, it will be the longest and likely the deepest recession for the U.S. economy since the Great Depression—**adding up to the "Great Recession" label referred to earlier.** As of May 2009, the current U.S. downturn is in its 18th month, and is now longer than either the 16 month mid-1970s (November 1973-March 1975) downturn and the difficult early 1980s (July 1981-November 1982) U.S. downturn. Up until the current recession, those two downturns had established the record for the two longest recessions in our modern post-World War II history.

Overall, the months of January and February were simply awful months for the U.S. and global economies, with the months of March and April somewhat better (at least they were perhaps "not as bad"). So far, this "not as bad momentum" appears to have carried over into the month of May. Even so, the fact that "the economy may be as bad as it has recently been," is hardly indicative of a U.S. (or global) economy that has either "bottomed" or begun the process of turning around. It simply means that the crisis of the last six months may have passed and the U.S. and global economies are now in a garden variety "harsh recession." This condition implies that the U.S. economy—particularly for traditionally lagging indicators such as job loss and the unemployment rate—will deteriorate further before they improve and there is, as yet, nothing in the economic scheme of things to suggest that economic conditions will improve quickly during any recovery.

e. Too Many Signs of Hope for False Optimism: Even though there are certain to be drags-handicaps on any upcoming economic turnaround, there are a number of early, though not yet conclusive, signs that the intensity of the current recession may finally be beginning to ease and that a turnaround is nearing. Indeed, there appears to be far too many of these indicators with a brightening hue to be either ignored or discounted. These indicators include:

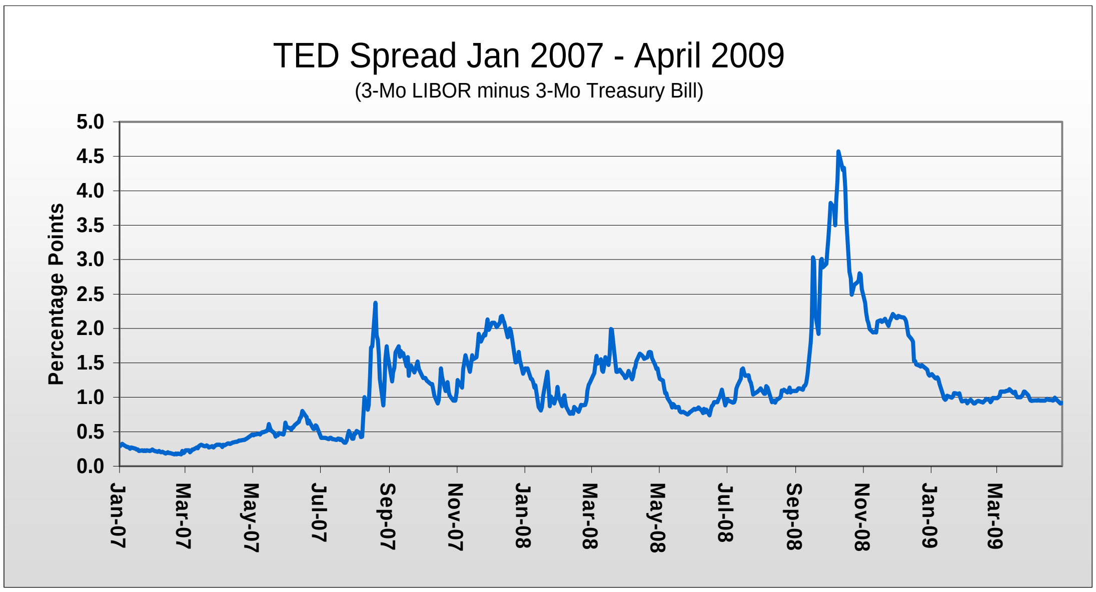
1. An apparent rally in equities markets during the month of March and April which has continued during the first part of May,

2. A narrowing in credit spreads (e.g. the TED spread—although still atypically wide recently narrowed to less than 100 basis points) which suggests that credit markets may finally be thawing and fear of default has eased enough so that lends appear willing to once again begin to take on some risk,

3. Retail sales look to have stabilized recently, following what can only be termed as a terrible, almost disastrous, holiday retailing period,

4. Orders for capital goods rebounded somewhat in February after a long period of monthly declines, and

5. The inventory cycle seems to be proceeding in earnest with retailers and manufacturers cutting sharply both inventories and other costs, which is setting the stage for a rebound in output sometime later this calendar year or in early calendar year 2010.



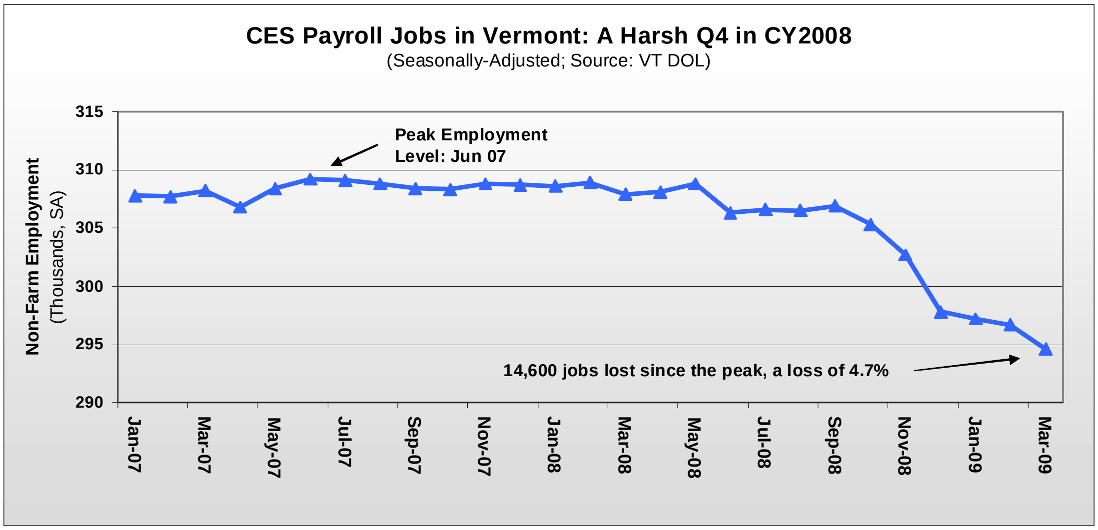
In addition to those signs of green shoots among the melting snow, interest rates remain very low (including mortgage rates), and inflation (including energy prices) similarly remain restrained. Add to that the unprecedented commitment by the federal fiscal policymakers and by the monetary authorities to not let the U.S. and global economies fall into an abyss, and the groundwork does in fact look to be set for a "bottoming" in the U.S. economy and a subsequent turnaround sometime late in calendar year 2009 or in early 2010. While a bottoming is preferred to a continuation of economic decline, there is concern regarding the shape and pace of the prospective economic recovery. An "L-shaped" recovery (which implies an extended period of economic stagnation) or a "W-shaped" recovery (which implies an uneven pace and profile to recovery) both remain within the realm of recovery possibilities.

The Vermont Situation

a. Current Conditions: Vermont economic conditions have followed the national trend of a strong decline in the last quarter of 2008 and first couple months of 2009.

The economy no longer appears to be in a "free-fall", and while conditions will worsen, the rate of decline is lessening.

Like the national economy, nowhere is the recession been felt more than in the state's labor market. Vermont has seen large-scale layoffs in the hard-hit construction sector, where second home construction has been hit particularly hard, and in manufacturing—where there are many lost jobs that offer little hope of returning. The chart below tracks total nonfarm payroll jobs in Vermont.



Several Vermont companies have announced several notable layoffs during the last 6 months. Manufacturers Ethan Allen Furniture and Plasan Carbon Composites reduced their Vermont workforces by 110 and 92 employees, respectively. The state's auto-dependent sector, including Lydall (located in the Northeast Kingdom) and NSK (located in the Bennington region) each reduced their workforces, including a plant closing (for Lydall which cost the state 190 jobs in a part of the state that can ill afford to lose those jobs) and through multiple layoffs at NSK (which has resulted in roughly 200 lost jobs—and still counting). One of the state's largest private employers IBM, also had a significant, but so far un-specified, major layoff rumored to be between 250 jobs and 500 jobs at its Microelectronics Division plant in Essex Junction. In retail, a total of 10 of the state's 97 auto dealerships went out of business during calendar year 2008,[5] and the state also experienced the negative job impacts of the bankruptcy-liquidation of the national retailers Circuit City and Linens and Things and numerous other retail job losses spread throughout the state and across nearly all retail categories. It is noteworthy that all of these retail losses have occurred amid the deepest declines in consumer spending the U.S. economy has experienced since the sharp, but comparatively short-lived consumption decline of the early 1980's.

During the current recession, Vermont's job losses to-date have not yet reached the

[5] According to the Vermont Automobile Dealers Association.

just over 6% rate of decline in nonfarm payroll jobs that occurred during the 1990-1991 recession. That recession, until the current downturn has unfolded, was a particularly harsh downturn for Vermont and so far represents the most severe economic and labor market downturn to have impacted the Vermont economy dating back to the 1930s Great Depression.

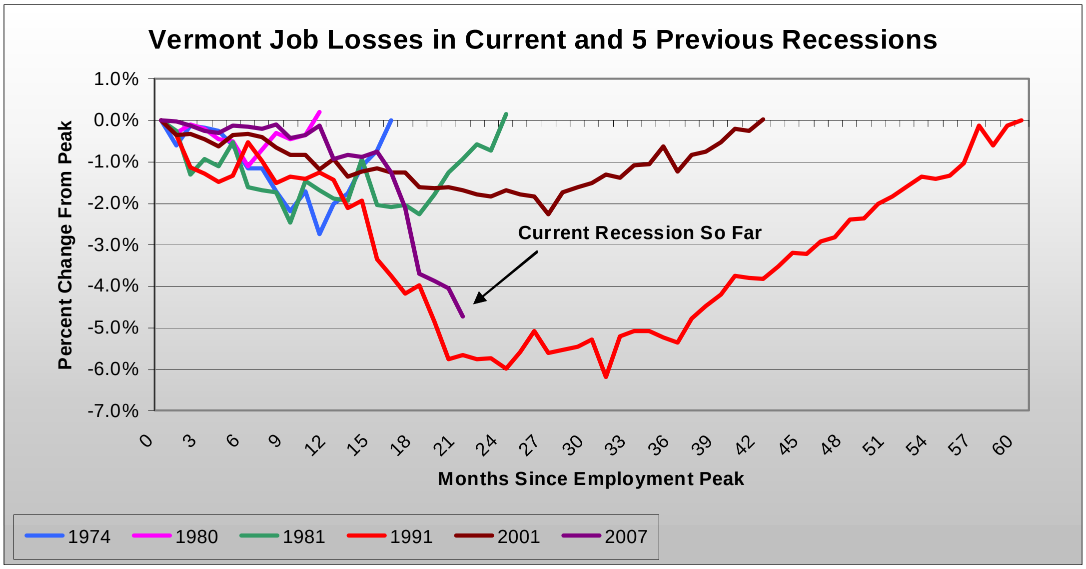
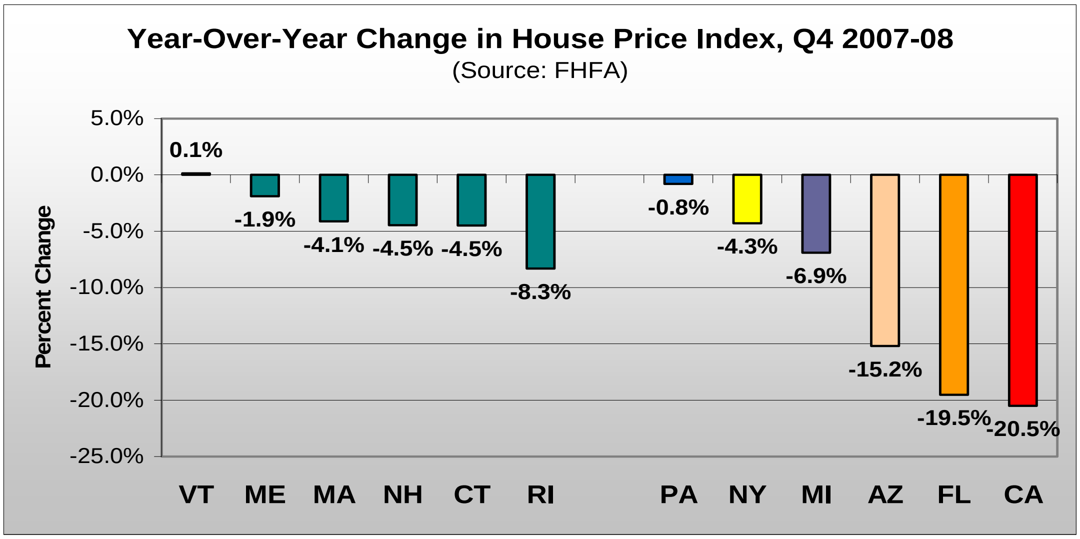


Table 2: Year-Over-Year Job Change by State *Total Payroll Jobs (Mar. 2008-Mar. 2009)*		
Rank	State	% Change
1	Alaska	0.7%
2	Louisiana	0.3%
3	North Dakota	0.2%
4	Wyoming	-0.1%
5	Texas	-1.1%
9	New Hampshire	-1.6%
11	New York	-1.9%
16	Pennsylvania	-2.2%
22	Maine	-2.9%
24	Massachusetts	-3.2%
30	Connecticut	-3.5%
37	California	-4.2%
38	**Vermont**	**-4.3%**
39	Rhode Island	-4.3%
46	Nevada	-5.3%
47	Oregon	-5.3%
48	Florida	-5.7%
49	Michigan	-6.5%
50	Arizona	-6.9%
Source: U.S. Department of Labor, BLS		

Table 3: Year-Over-Year Job Change by State *Private Sector Payroll Jobs (Mar. 2008-Mar. 2009)*		
Rank	State	% Change
1	Alaska	0.7%
2	Louisiana	0.2%
3	North Dakota	-0.1%
4	Wyoming	-1.1%
5	Texas	-1.6%
8	New Hampshire	-1.8%
9	New York	-2.2%
11	Pennsylvania	-2.6%
20	Maine	-3.3%
23	Massachusetts	-3.7%
26	Connecticut	-4.0%
32	Rhode Island	-4.6%
40	**Vermont**	**-5.3%**
45	Florida	-6.5%
46	Oregon	-6.8%
47	North Carolina	-6.8%
48	Idaho	-6.9%
49	Michigan	-7.6%
50	Arizona	-8.2%
Source: U.S. Department of Labor, BLS		

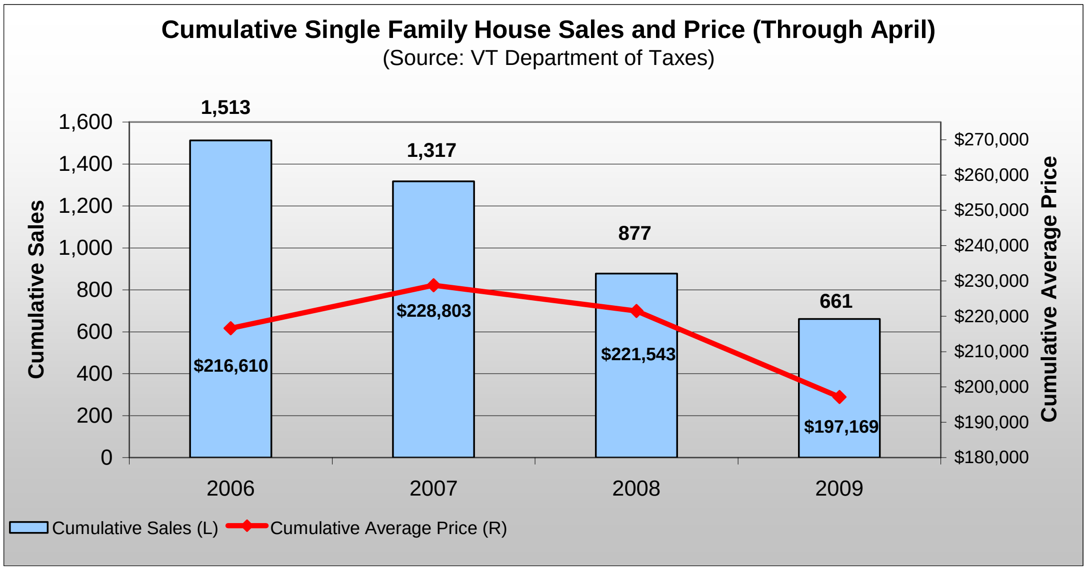
b. Vermont's Housing Market: While Vermont has followed the national trends for unemployment; it certainly has diverged in terms of housing prices. Vermont's housing prices have not declined to the same degree as in other regions, some experiencing declines greater than 20% on a year-over-year basis, and even greater on peak-to-trough basis.



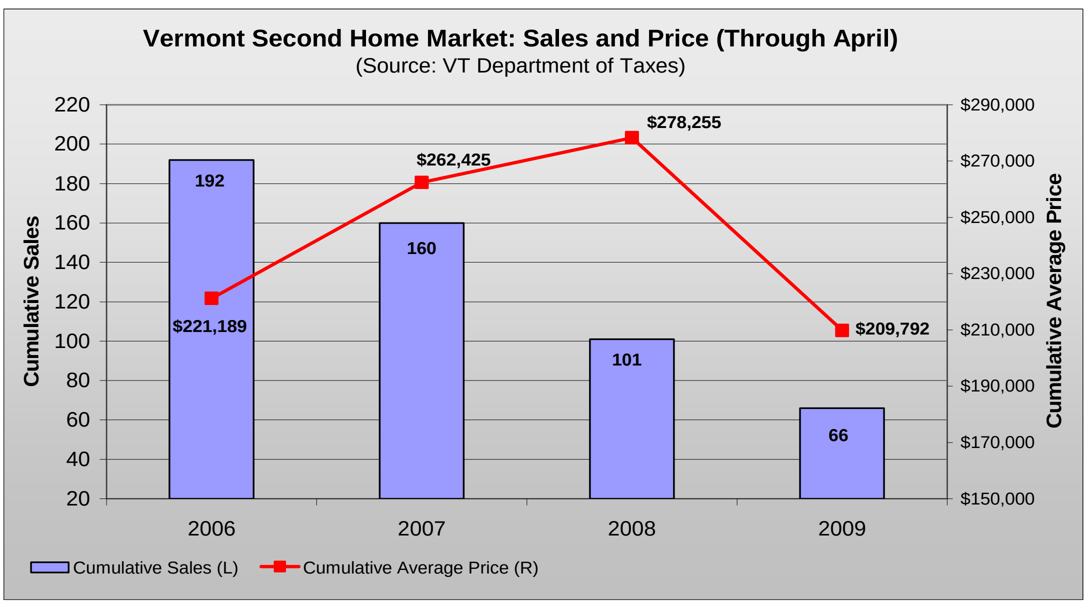
The year-over-year change in the FHFA's Housing Price Index for 2008Q4 actually shows a 0.1% increase for Vermont. The state has seen large year-over-year increases in foreclosures, but the overall rate of foreclosure remains far below most other areas of the country.

Looking at housing price data from another source using Vermont Department of Taxes' Property Transfer Tax statistics,[6] the January to April data show that cumulative average home prices have declined 13.8% from 2007's cumulative average (the peak year). This comes on the heals of a 56.3% cumulative decline in sales volume in calendar 2009 to-date relative to the first four months of calendar year 2006.

[6] This data source is analogous to the National Association of Realtors house sales-price tracking concept.



The vacation home market, an important component to Vermont's economy as it is for all states in the northern New England region, has similarly seen large declines in sales. This is not surprising as a significant portion of the target market for second-home buyers are employed in the financial sector of the Boston and New York money centers.



Overview of the Moody's Economy.com National Economic Outlook

a. A Significant Forecast Downgrade: The last NEEP forecast in November 2008 was a downgrade from the May of 2008 forecast of a "short and shallow" recession. The current recession, presently in its 18th month, is already the longest U.S. recession since the Great Depression. With few underlying signs of a bottoming, this downturn will likely turn out to be significantly longer and potentially the most difficult of any post war downturn. Before the current economic downturn, the longest post-war U.S. economic downturn lasted 16 months, with the average duration of recessions just 10 months.[7] The current recession, initially triggered by the collapse in housing markets and the financial sector, has now spread to the rest of the economy. Stock and real estate prices have collapsed around the world, especially in exporting economies creating the first contemporaneous world recession of the modern era.

Since last November's NEEP forecast, the U.S. government has made extraordinary interventions into the private sector for the stated purpose of preventing a systemic collapse, removing "toxic assets" and stimulating consumption. The most significant programs are the $700 billion Troubled Assets Relief Program (TARP), $1 trillion Term Asset-Backed Securities Loan Facility, the Public-Private Investment Program, and the $787 billion American Recovery and Reinvestment Act, also known as the stimulus package. The government has also made emergency loans to Chrysler and General Motors, the former of which has already filed for bankruptcy while the latter is inexorably headed towards its own Chapter 11 filing.

b. Moody's Economy.com Forecast Detail: The Moody's Economy.com forecast, which helped to form the basis for Vermont's November NEEP forecast, accounts for the economic developments and government programs detailed above. The U.S. forecast now includes five consecutive quarters of falling GDP, covering the period from calendar 2008:Q3 to 2009:Q3, finally turning positive in calendar 2009:Q4 and beyond. The nation's nonfarm employment forecast expects job losses from calendar 2008:Q1 through to calendar 2010:Q2. In total, the forecast anticipates over 7.3 million lost nonfarm payroll jobs from the peak to trough, corresponding to a decline of -5.3% relative to peak employment levels prior to the onset of recession. The Moody's Economy.com U.S. forecast is a more optimistic on G.D.P. growth than employment. Moody's Economy.com sees inflation adjusted gross domestic product (real GDP) contracting by 3.1% in calendar 2009, before growing 1.1% in calendar 2010 and averaging 4.6% annual growth over calendar years 2011 through 2013.

The Vermont Forecast Detail

a. Overview: As the fate of Vermont's economy is tied to that of the U.S. economy, the Vermont forecast update adjusts principally to reflect changes in the U.S. outlook. The main questions the forecast update seeks to answer are: "How far will employment and output fall in Vermont?" and "How long will it be before a Vermont recovery begins?" The short answers to both questions are: (1) Payroll jobs in Vermont are expected to decline for 11 consecutive quarters, losing 22,500 jobs or -7.3% of nonfarm jobs. The employment turnaround—since it is a lagging indicator—is likely to lag the turnaround in output. Therefore, while Gross State Product is expected to return to positive ground by calendar 2010:Q1, the forecast

[7] The 1973-75 and 1981-82 recessions each lasted 16 months.

does not indicate a turning point for employment-jobs or a peaking-then decline in the unemployment rate until mid-calendar year 2010.

b. A Forecast Downgrade Relative to Last Fall's NEEP Outlook: Table 4 below compares the May 2009 NEEP outlook update at the Vermont, New England-regional, and national levels and summarizes the most important elements of the May 2009 forecast. Comparing the forecasts in this manner shows that the bottom and recovery in terms of real output, are expected in calendar 2009 and calendar 2010 respectively, for the U.S., the New England region, and Vermont. Growth in output is expected to be slower in Vermont, and the New England region, than at the national level. The labor market, measured by payroll jobs and the unemployment rate, is expected to bottom in early- to mid-calendar year 2010 and begin recovery in calendar 2011. Vermont and the New England region overall are expected to see unemployment peak below the national peak of 10.2%.

Table 4: Historical Comparison of NEEP Forecasts for Vermont (May 2009)

Calendar Years	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real Gross State Product					<History<	>Forecast>			
May 2006	4.6	3.3	2.8	2.9	3.2	3.5	3.2		
November 2006	4.5	3.0	0.9	1.9	2.4	2.4	2.1		
May 2007	3.9	3.2	3.3	1.4	3.1	2.9	2.8	2.5	
November 2007	4.1	2.5	2.8	-0.3	1.7	3.5	3.6	3.2	
May 2008	4.1	2.5	2.8	1.7	0.5	2.7	3.6	3.6	4.0
November 2008	3.4	2.0	1.2	1.5	1.3	0.1	2.8	3.3	3.2
May 2009	3.4	2.0	1.2	1.5	1.4	-3.9	0.3	3.8	4.7
Diff. Pct. Pts. 11/08-05/09	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**-4.0**	**-2.5**	**0.5**	**1.5**
Payroll Job Growth									
May 2006	1.3	0.8	1.2	1.2	0.8	1.1	0.9		
November 2006	1.3	0.8	0.8	0.7	0.7	0.8	0.8		
May 2007	1.3	0.9	0.6	0.6	0.7	1.0	0.9	0.8	
November 2007	1.3	0.9	0.6	0.6	0.3	0.7	0.9	0.7	
May 2008	1.3	0.9	0.7	0.0	-0.6	0.3	1.0	0.9	0.7
November 2008	1.3	0.9	0.7	0.0	-0.3	-1.7	-0.6	1.0	1.4
May 2009	1.3	0.9	0.7	0.2	-0.7	-4.5	-1.8	2.3	3.5
Diff. Pct. Pts. 11/08-05/09	**0.0**	**0.0**	**0.0**	**0.2**	**-0.4**	**-2.8**	**-1.2**	**1.3**	**2.1**
Real Personal Income									
May 2006	3.1	2.3	1.7	1.5	1.9	2.2	2.0		
November 2006	3.1	2.3	2.0	2.4	3.0	2.8	2.4		
May 2007	1.7	1.3	1.6	3.2	3.1	2.8	2.5	2.3	
November 2007	1.6	1.3	1.9	3.0	2.7	2.5	2.4	2.2	
May 2008	2.8	0.0	3.4	2.4	0.1	2.2	2.4	2.3	2.3
November 2008	3.0	-0.4	4.7	3.9	-0.1	-0.4	1.6	2.6	2.5
May 2009	3.0	-0.4	4.7	3.9	0.2	-1.1	-1.7	1.8	3.1
Diff. Pct. Pts. 11/08-05/09	**0.0**	**0.0**	**0.0**	**0.0**	**0.3**	**-0.7**	**-3.3**	**-0.8**	**0.6**

Source: New England Economic Partnership May 2009)

Real Personal Income in Vermont is expected to bottom in calendar 2010 and begin to resume growth in calendar 2011. If that forecast holds, Vermont's performance will lag both the New England regional and national economy—both of which are expected to see growth in Real Personal Income one year earlier in calendar year 2010. Recovery in the housing market will be slow and insecure, and resumption in upward movement in housing prices is not expected until calendar year 2012 on either the national, regional or state levels. However, Vermont is expected to experience significantly lesser housing price declines relative to the other five New

England states and relative to many other parts of the nation. This is primarily due to more prudent lending practices overall (which have led to much lower foreclosure rates and forced liquidation house sales—including their 25%-30% price discounts) and the comparatively lower level of speculative activity in the state during the housing market boom of the early- to mid-2000s.

c. The Worst Recession for Vermont Since World War II: Even so, by the time the "Great Recession" ends in Vermont either later this calendar year or by mid-calendar year 2010, this downturn will almost assuredly be the longest, most difficult downturn for the Vermont economy dating back to the 1930s. Table 5 below compares the peak-to-trough change in selected indicators between the recession of the early 1990s and the current recession. The forecast for the current recession is worse in 7 of the 8 macro indicators listed in the table relative to the early 1990s downturn—which prior to the current downturn was the state's most severe post-World War II recession. Only the relative level of Construction job loss—which still exceeds 1 of every 4 Construction sector that existed prior to that sector's pre-recession peak[8]—is expected to be less severe (in this case "less severe" is used since it is hard to call such a circumstance "better") than was the case during the harsh early 1990s economic downturn.

"Peak to Trough" Change in Selected Indictors: This Recession Versus the Early 1990s Recession

Variable	Early 1990s Recession	This Recession	Better/ Worse
Change in Gross State Product ($Bil.)	-$0.65	-$1.07	***Worse***
Percent Change	-4.8%	-5.0%	
Change in Payroll Jobs (Ths.)	-14.2	-22.4	***Worse***
Percent Change	-5.4%	-7.3%	
Change in Real Personal Income ($Bil.)	-$410.6	-$709.3	***Worse***
Percent Change	-3.3%	-3.6%	
Change in Construction Jobs (Ths.)	-8.420	-5.035	***Better***
Percent Change	-43.2%	-28.9%	
Change in Retail Jobs (Ths.)	-1.670	-4.209	***Worse***
Percent Change	-4.9%	-10.4%	
Change in Manufacturing Jobs (Ths.)	-5.080	-7.480	***Worse***
Percent Change	-11.4%	-20.2%	
Change in FHFA Index [1980=100] Index Points	-4.67	-24.37	***Worse***
	-2.1%	-5.1%	
"Cyclical High" in Statewide Unemployment Rate	6.8%	9.0%	***Worse***
Change in Percentage Points	4.1	5.6	

Source: Revised May 2009 New England Economic Partnership Forecast

Conference Theme: The Vermont Fiscal Situation

[8] The early 1990s recession claimed nearly one of every two construction jobs during that downturn.

As would be expected in the shadow of the most challenging economic circumstances since the 1930s, state finances across the country are deteriorating. In some states, the scope and breadth of the deterioration in budget conditions and the outlook is considerable. For the most part, many states faced long-term structural challenges of balancing rising expenditure pressures with revenues even before the current recession exacerbated these underlying and growing budget pressures.

State and local governments work cooperatively with the federal government to implement a number of programs, including Medicaid and assistance to the unemployed among other programs. Downturns in the economy, which typically are accompanied by rising unemployment, result in increasing demand for program expenditures while at the same time result in declining revenues. During the early 2000s downturn, the Congressional Budget Office pointed out that Medicaid enrollment increased by 8.6 percent largely because of increased unemployment during the period. At the same time, general tax revenues fell by 7.5 percent just as demand for that program was increasing.

Responding to that situation, the U.S. Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003, which among other provisions, included $20 billion in fiscal relief in the form of a $10 billion temporary increase to the states in Medicaid funding and $10 billion in general assistance to the states which was distributed on a per capita basis. The underlying approach of this assistance was to provide temporary relief to assist states with effectively dealing with the cyclical aspects of the economic downturn. Once the cyclical aspects of the recession were past, the states would have been in a stronger position to deal with the growing structural parts of their growing fiscal pressures without direct federal fiscal assistance.

For the most part, that round of federal fiscal relief in the early 2000s worked as planned. Even as late as April of calendar year 2008 when the housing market correction had been under way for more than a year in some markets, most states reported to the National Conference of State Legislatures (NCSL) in the annual budget survey that they were coping “with slowing revenue growth” and few states had made large expenditure cuts so that the NCSL reported that “state spending plans largely have remained stable,” and although most budget holes had deepened, “most [*spending*] overages appear to be modest.”

That view changed rather dramatically as the recession, which had largely been confined to housing and financial sectors up until that time, deepened and spread more broadly to other parts of the economy. What had been expected to be a “short and shallow recession” at this time last year,[9] obviously turned out to be a recession that was much more significant and broad-based than originally contemplated. As a result, rising job loss and increasing demand for many federal-state cooperative and

[9] Which to be entirely accurate and fair to that forecast view was at the time a much more pessimistic outlook for the overall economy than what prevailed at the time which did not include the expectation of a general economic recession.

state-only administered programs have once again put increasingly difficult fiscal pressures on many parts of state and local government budgets. This comes at a time when the economy is providing significantly less tax and fee resources to meet those challenges—particularly with respect to consumption-based and income-based tax-fee revenue sources.

Looking more specifically at New England, the mid-March review of state finances around the New England region conducted by the New England Policy Center of the Federal Reserve Bank of Boston[10] highlights the growing fiscal pressures in the region. That review pointed out that "total state revenue collections have plummeted sharply relative to year-ago levels…ranging from 2.2 percent in Maine and Rhode Island to 8.4 percent in Connecticut." Declines included significant nominal dollar declines in retail sales tax collections and both major income taxes across the region (except for the state of New Hampshire which does not yet have a general, wage-based personal income tax). As a result, the New England Policy Center reports that the states have pulled out the full arsenal of measures to address fiscal year 2009 General Fund budget deficits that are expected range between 2.3 percent (Connecticut) to 10.4 percent in Rhode Island. On the expenditure cut side of the ledger, states have proposed or passed measures to reduce municipal and/or local and higher education aid, measures to reduce employment costs (e.g. hiring freezes, RIFs,[11] and other incentives for retirement). On the revenue side, states have proposed or passed initiatives such as tax amnesty programs, the use of rainy day funds, increased fees, increases in narrow, selected taxes (such as cigarette taxes), and initiatives to remove certain exemptions from income and/or consumption taxes. In addition, with the passage of the federal stimulus package—the American Recovery and Reinvestment Act of 2009 (ARRA)—many states are using fiscal assistance provided by the federal government to address near-term budgetary gaps.[12]

The problem with this general approach is that counter-cyclical federal assistance to address the current economic downturn will not accomplish much to relieve the mounting longer-term structural fiscal pressures. While ARRA funding for capital-related infrastructure projects may help ameliorate long-term demands for road, bridge and other infrastructure repairs, the ability to obligate ARRA funding expires at the end of federal fiscal year 2010, and to the extent the cyclical pressures are not fully relieved by that time, the states will need to step in to deal with the budget ramifications relating to the residual cyclical impacts of the current recession—and there almost certainly will at least be some of those relatively slower to respond fiscal pressures. In addition, to the extent some states use ARRA dollars to meet on-going or recurring expenditure programs, those funds will need to be replaced when the AARA fiscal support runs its course.

[10] New England State Fiscal Review (Through January Fiscal Year 2009); March 12, 2009.
[11] RIFs mean "Reductions in Force."
[12] Although the ARRA also had tax provisions that will reduce state revenues totaling $9.1 million in fiscal year 2009 in Vermont.

In part because of the prospect of still daunting fiscal challenges for the states and localities as the Great Recession runs its course, there has been some talk of the need for a third stimulus package. While this has been talked about in some circles, news that the federal budget deficit outlook has deteriorated by approximately $90 billion for this fiscal year and next to -$1.84 trillion in federal fiscal year 2009 and -$1.26 trillion in federal fiscal year 2010, or 12.9 percent and 8.5% of U.S. GDP respectively, significantly complicates that possibility—at least without the prospect of stimulating a round of harmful inflation. These new estimates of the federal budget deficit mean federal government will now have to borrow nearly 50 cents of every dollar spent in fiscal 2009 (46 cents to be exact in fiscal 2009) and 35 cents of every dollar spend in fiscal year 2010—thereby reducing the capability of the spender of last resort to fund additional expenditures.

In Vermont, our state has experienced many of the same fiscal pressures that other states in and outside the New England region have faced. Revenue receipts through the month of April were down significantly in nominal dollar terms versus last years levels for both income and consumptions tax sources (see Table 6 below). General Fund receipts through the first ten months of fiscal year 2009 declined by -8.9 percent overall, with -14.7 percent decline in the Personal Income Tax, a -14.5 percent year-over-year decline for the Corporate Income Tax component, and a -4.9 percent year-over-year decline in Sales and Use Tax component of the General Fund. In addition, the tourist-sensitive Meals and Rooms Tax is similarly off in nominal dollars terms year-over-year (at -3.0 percent), despite the fact that visitor traffic in Vermont is rumored to be up due to the "stay-cation" promotional efforts by the state and the Vermont visitor sector. Apparently, increased visitor traffic has not been sufficient to off-set reduced spending for restaurant meals and room rentals by both state residents and declining amounts of corporate business activity.

Table 6. Cumulative GF Revenue Receipts Through April Results FY2009 Versus FY2008

Component ($ Thousands)	Thru April FY2008	Thru April FY2009	Dollar Difference	Percent Difference
Personal Income	**$ 538,753.3**	**$ 459,410.3**	**$ (79,342.9)**	**-14.7%**
Withholding	$ 393,782.2	$ 401,175.7	$ 7,393.5	1.9%
PI Estimates	$ 110,645.7	$ 92,584.6	$ (18,061.2)	-16.3%
PI Paid Returns	$ 109,188.3	$ 78,484.5	$ (30,703.8)	-28.1%
PI Refunds	$ (109,864.8)	$ (135,134.1)	$ (25,269.3)	23.0%
PI Other	$ 35,001.7	$ 22,299.6	$ (12,702.1)	-36.3%
Net Sales & Use Tax	**$ 192,642.0**	**$ 183,187.9**	**$ (9,454.1)**	**-4.9%**
Corporate Income Tax	**$ 62,102.3**	**$ 53,012.4**	**$ (9,089.9)**	**-14.6%**
Corporate Estimates	$ 39,227.0	$ 32,400.4	$ (6,826.7)	-17.4%
Corporate Paid Returns	$ 19,238.7	$ 20,797.9	$ 1,559.2	8.1%
Corporate Refunds	$ (10,076.4)	$ (13,516.7)	$ (3,440.4)	34.1%
Corporate Other	$ 13,712.9	$ 13,330.8	$ (382.1)	-2.8%
Meals & Rooms	**$ 105,071.2**	**$ 101,947.3**	**$ (3,123.9)**	**-3.0%**
Property Transfer Tax	**$ 9,403.9**	**$ 7,400.6**	**$ (2,003.2)**	**-21.3%**
Other	**$ 121,502.6**	**$ 133,213.1**	**$ 11,710.5**	**9.6%**
Estate Tax	$ 10,699.1	$ 8,063.2	$ (2,635.9)	-24.6%
Insurance Tax	$ 47,947.8	$ 46,531.1	$ (1,416.6)	-3.0%
Total Telephone Tax	$ 7,330.6	$ 7,032.0	$ (298.6)	-4.1%
Bank Franchise Tax	$ 9,576.1	$ 20,170.3	$ 10,594.2	110.6%
Fees	$ 12,229.5	$ 16,026.5	$ 3,797.0	31.0%
Other	$ 17,001.4	$ 18,058.0	$ 1,056.5	6.2%
Total Net General Fund	**$ 1,029,475.2**	**$ 938,171.6**	**$ (91,303.6)**	**-8.9%**

Basic Data Source: VT Agency of Administration

This represents a considerable change in fiscal fortunes for the state in comparison to fiscal year 2008 where receipts through the month of April had increased on a year-over-year basis by 4.7% overall—including identical 8.2% year-over-year increases in Personal and Corporate Income Taxes. Even the state's two consumption taxes through the first ten months of fiscal year 2008 remained in positive territory, with a +5.6% year-over-year increase for Meals and Rooms Tax and a +2.4% year-over-year increase for the state Stales and Use Tax—despite the onset of the state's recession during the Summer of 2007.

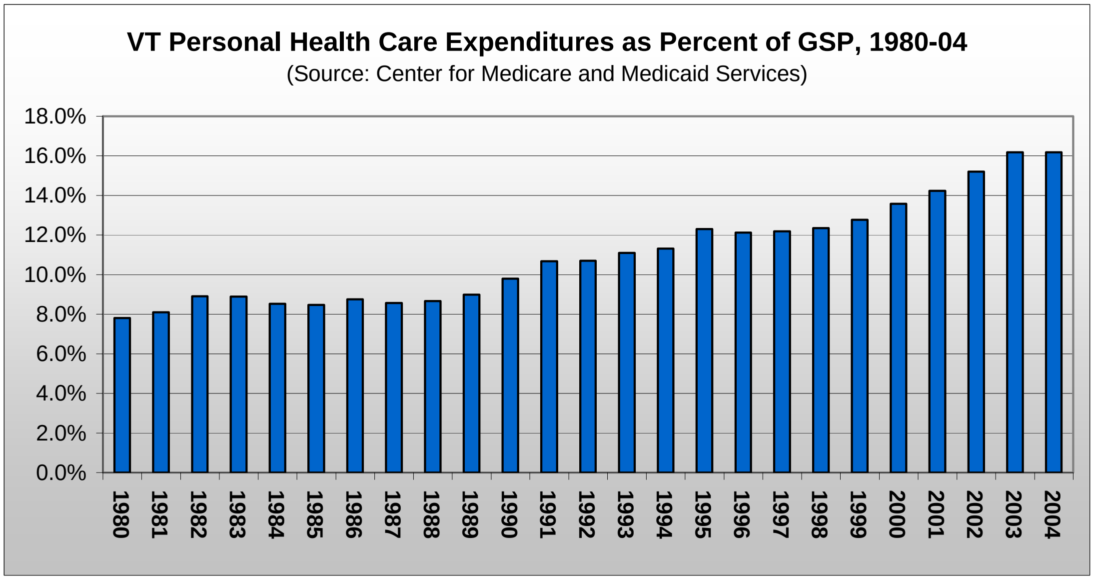
As of this writing, the fiscal year 2010 budget situation remains unresolved, even though the Vermont General Assembly has approved a 2010 budget. The current issue of disagreement concerns the $26 million in new taxes in the budget which critics contend would be unnecessary if the budget had the proper level of expenditure discipline. The budget passed the Vermont House of Representatives on with 91 votes the last week of the session—enough to pass a budget but insufficient to override a prospective gubernatorial veto.

Since the January of 2008 forecast consensus, downward revisions in the state's General Fund for fiscal year 2009 now totals $95.4 million (or -8.1% of the $1,184.8 million January 2008 consensus forecast). For fiscal year 2010, the total General Fund forecast downgrade is $195.9 million, or 16.0% of the original $1,224.5 million January 2008 consensus forecast. During the course of the revenue forecast declines and the 2009 legislative session, Governor Douglas proposed a series of tough budget decisions to address the current budget shortfalls. Budget writers in the Legislature took a different position, preferring to look to more revenues and federal stimulus funds to balance the budget relative to the Governor's proposals. No one at this point is sure how the current situation will be resolved. This uncertainty is a reflection of these unusual and very uncertain times.

b. Focus on Health Care Situation: Health care in Vermont, as in most other states, has become a particularly difficult fiscal issue as costs have risen quickly relative to income and overall economic growth. As a percent of Gross State Product (GSP), expenditures on personal health care by Vermont providers has more than doubled from under 8.0% of GSP in 1980 to over 16.0% of GSP in 2004. This reflects the increasing share of the states resources going to health care, as shown in the chart below.

A significant part of the state's residents are covered by public insurers – just under 32.0% of Vermonters rely on public health insurance (15.8% on Medicare, 16.9% on Medicaid), while another 10.2%, corresponding to approximately 60,000 Vermonters, lack any health insurance according to the most recent data from 2006.[13] These numbers have remained relatively stable since 2001, but reflect a substantial dependence on public resources for insurance coverage and a lack of ability to afford private medical insurance.

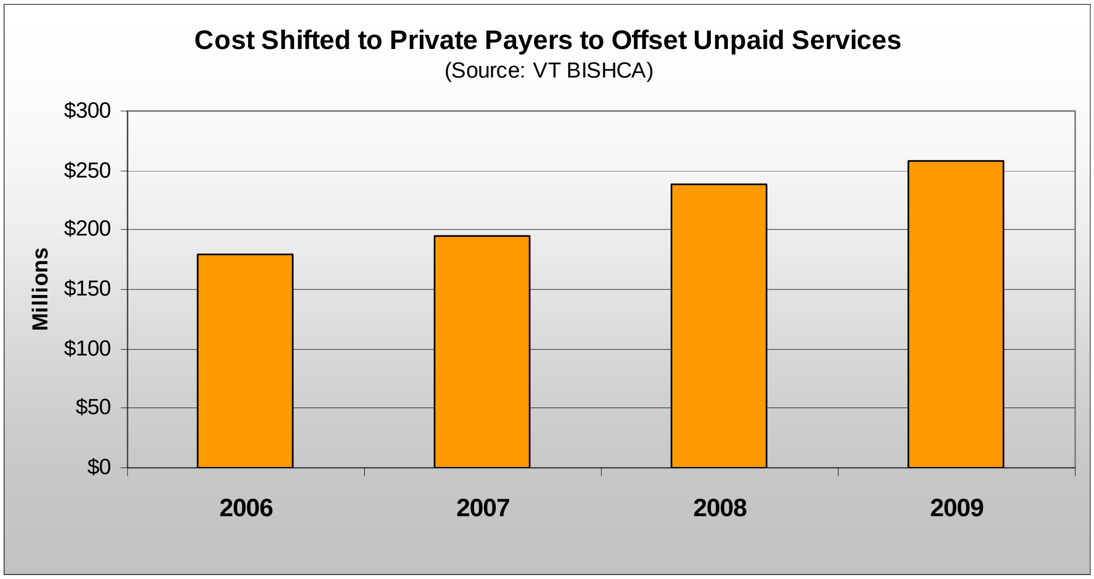
[13] Centers for Medicare and Medicaid Services (CMS).



A primary challenge for the health care system in the state is the cost shifting phenomenon. Cost shifting occurs when hospitals provide services for which they: (1) do not receive payment and/or (2) receive less than the cost of providing that care. As costs to hospitals increase, the burden of paying for those costs has increasingly fallen on private payers—those with and without health insurance. This is reflected in the rates that hospitals charge for their services, which has experienced rapid growth in recent years.

Reliance on cost shifting to balance the state's aggregate health care budget is unsustainable, and results in a negative, self-reinforcing cycle: as the burden continues to fall on private payers, that burden becomes greater and increases the cost of health insurance…this, in turn, makes private insurance less affordable and that leads to fewer and fewer private payers across which to spread the system's costs. Since demand for services do not decrease, and are not likely to decline as the population ages, the services for which hospitals do not receive payment increase, placing even more burden on the fewer and remaining private payers, continuing the cycle. The chart below shows in dollar terms the increasing amount of the state's health care costs that are being shifted to private payers, an amount which is expected to exceed $250 million in 2009.

The cost shift forces hospitals to increase the rates they charge faster than they would need to without this cost shift. State data estimate that cost shifting results in annual rate increases of 1-2% on top of the normal rate increases, reflecting the additional burden on those in the system that few can really afford to pay.



c. The Birth of Catamount Health Plan: In 2006, the Governor proposed and the Vermont General Assembly approved, a program called that Catamount Health Plan. The Catamount Health Plan is a family of state sponsored healthcare options and premium assistance plans, assembled in an effort to provide coverage to those Vermonters not receiving employer sponsored private health insurance. As of March of 2009, more than 8,200 Vermonters had enrolled in the program, with several hundred signing up each month. The Catamount Health Plan now augments the Dr. Dynasaur and Vermont Health Access Plan—two programs which are state-subsidized health care programs. The amount participants pay depends on income, which means that for some Vermonters at the lowest income levels, services may essentially be free.

Catamount Health is funded by a combination of federal funds, tobacco tax revenue, participant premiums, and fees paid by businesses that do not offer health care coverage. While the state sponsored program offers an option to those that previously went without any insurance, costs associated with the program are substantial and have become a point of discussion—especially as the state goes through budget adjustments to bring spending inline with reduced revenue expectations for fiscal years 2010 through 2012 and beyond. Over the long-term, for example, one source of funding, tax revenues on tobacco products, is forecast to exhibit a declining trend as Vermonters use and purchase fewer and fewer tobacco products. In July of 2008, the tobacco tax in Vermont was raised by $0.20 per pack in an effort to at least partially improve one of the key funding sources for Catamount programs. Higher tobacco products prices, driven by company price increases and increased federal and state tax rates, are expected to continue to drive down consumption and associated tax revenues from this source going forward. The long-term funding sources of the Catamount Health Program are not clear, and many analysts believe the program will need alternative funding sources—or perhaps be absorbed by a national health care program—if the program is to attain sustainability over the longer-term.

d. Health Care is Not the Only Sustainability Issue in the Fiscal Landscape: As significant and conspicuous as the state's fiscal obligations are to its health care programs, they are not the only state programs with sustainability issues. One of the fastest growing parts of the state budget is the budget for the Department of Corrections, where since fiscal year 1996 (through fiscal 2008) spending on corrections increased by 129 percent while the prison population nearly doubled. In addition, the state faces ever rising costs in the area of unfounded pension fund obligations for Vermont teachers (at $653.6 million as of December 31, 2008) and unfounded obligations associated with what are called Other Post Employment benefits (OPEBs)—which total another $863.6 million.[14]

The point is that, between rising health care and rising legacy costs, the state is facing long-term fiscal commitments that total in the thousands of dollars per person. This is true even before the exacerbating fiscal forces related to the current downturn are fully considered. The path to long-term structural fiscal sustainability in Vermont will likely require additional difficult forward-looking decisions in the future, hopefully before these obligations rise to the level of a fiscal crisis.

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[14] OPEBs for state employees as of June 30, 2007 totaled $606.5 million—and are likely higher now.