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CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

State of

Vermont

RECOMMENDED ANNUAL GENERAL OBLIGATION DEBT AUTHORIZATION

September 24, 2004

TABLE OF CONTENTS

INTRODUCTION

We are pleased to present this report to the Capital Debt Affordability Advisory Committee of the State of Vermont (the "Committee"). As in prior years, this analysis is intended to assist the Committee in determining the maximum amount of long-term, general obligation debt ("G.O. debt") that the State should authorize for the upcoming fiscal year (ending June 30, 2006).

The Committee's enabling legislation requires the Committee to present to the Governor and the General Assembly each year, no later than September 30, a recommendation as to the maximum amount of G.O. debt the State should authorize for the forthcoming fiscal year, consistent with certain guidelines enumerated in the statute. This report provides the supporting analysis and documentation necessary for the Committee to comply with the legislative requirements. As required by the enabling legislation, this analysis extends through fiscal year 2015.

In fiscal year 2004, a total of $179.7 million of G.O. debt was issued ($42.2 million from the authorized amount for FY 2004 of $39 million plus the carry forward of the authorized but unissued amount from fiscal year 2003 ($3.2 million), plus $137.5 million to advance refund portions of various Series of State General Obligation Bonds) while $136.9 million of G.O. debt, including the effect of the refunding, as more extensively presented herein, was retired. During September 2003, the State sold $48 million General Obligation Revenue Anticipation Notes ("RANs"), which were repaid on March 5, 2004. As the RANs are considered self-supporting debt (and are excluded from "net tax-supported debt" by the rating agencies), they are not included in this report. It is expected that during FY 2005 a total of $41 million of general obligation bonds will be issued, representing the full amount of the year's authorization. This year's report presents an analysis of the recommended level of G.O. debt issuance for FY 2006 of $45 million.

In this report we project that the issuance of $41 million during FY 2005 and $45 million during FY 2006 will allow the State to meet the Moody's current and average five-year median of 2.2% for net tax-supported debt as a percentage of personal income by 2006 (at the present time Vermont's ratio of debt as a percentage of personal income is 2.4% and is projected to drop to 2.2% during FY 2005). We believe it is critical for the State to take into account the rating agency's medians in order to maintain its strong credit profile, particularly during the current economic recovery in which global economic and political uncertainty underpins the forecast for calendar year 2005 and beyond, and when many states' credit ratings are falling.

According to Moody's Investors Service, the State's relative position, among states, improved with respect to both net tax-supported debt as a percent of personal income (i.e., from 17th in 2003 to 25th in 2004) and net tax-supported debt per capita (i.e., from 16th in 2003 to 24th in 2004).

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

As more fully demonstrated herein, the State has followed a set of debt guidelines (i.e., debt per capita, debt as a percent of personal income, debt service as a percent of operating revenues, and debt as a percent of estimated full value) that were meant to establish the affordability standards for the State's debt authorizations. The State has met those guidelines fully in recent years, and with the improvement in its debt position, both on an absolute and relative basis, the State's guidelines have become less valuable. It is therefore appropriate for the State to develop other guidelines and standards for the purpose of determining effective levels of annual general obligation authorizations. As indicated under "Proposed New G.O. Debt Guidelines," CDAAC has instituted a new set of guidelines that are reflective of (i) the significant improvement that the State has achieved in its debt load position and (ii) the commitment of the State to work toward the achievement of a triple-A investment grade rating, a status currently enjoyed by only nine states in the country. These new guidelines are being covered elsewhere in this report.

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 $41 million in fiscal year 2005 and $45 million annually thereafter on future outstanding debt and debt service requirements. **Section 4** includes a history of the State's debt ratios and shows the projected effect of the Section 2 and 3 forecasts on the State's future debt ratios. **Section 5** summarizes the findings of the previous sections and offers considerations for the Committee in its determination of whether to revise the planned future fiscal year debt authorizations. **Section 6** documents relevant provisions of the enabling legislation and explains the methodology and assumptions behind certain projections included in this report. **Section 7** is composed of appendices, including rating agency reports and the "Vermont Economic Outlook" dated May 2004 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.

1. DEBT STATISTICS

Net Tax-Supported Debt Outstanding

The State's aggregate net tax-supported debt decreased from $448.2 million as of June 30, 2003 to $444.7 million as of June 30, 2004, a decrease of 0.80%. During fiscal years 1999, 2000 and 2001, the State issued less G.O. debt than it retired. During fiscal year 2002 the State issued $5.6 million more general obligation bonds than it retired. In fiscal 2003 and 2004 Vermont retired a total of $15.8 million more general obligation bonds than it sold during those years (including the issuance of refunding bonds less the par amount of bonds refunded).

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

The table below sets forth the sources of the change in net tax-supported debt outstanding from 2003 to 2004 (in thousands):

Net Tax-Supported Debt as of 6/30/03 (1)	$448,248
G.O. New Money Bonds Issued	42,200
G.O. Refunding Bonds Issued	137,457
Less: Retired G.O. Bonds	(46,362)
Less: Advance Refunded G.O. Bonds	(136,860)
Net Tax-Supported Debt as of 6/30/04 (1)	$444,683

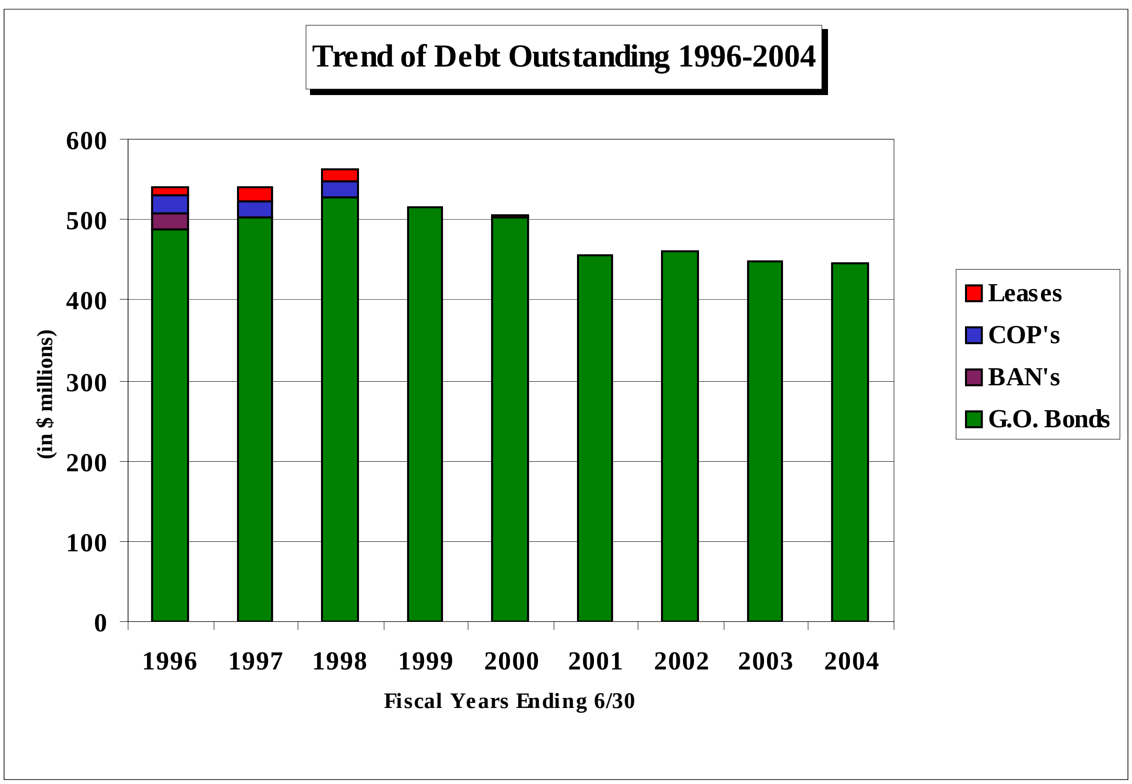
(1) Does not include VEHBFA revenue bonds issued in 1999.

Debt Statement

As of June 30, 2004 ($ Thousands)

General Obligation Bonds*:	
General Fund	414,993
Transportation Fund	14,349
Special Fund	15,340
Contingent Liabilities:	
VEDA Mortgage Insurance Program	10,614
VEDA Financial Access Program	958
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	446,455
Vermont Housing Finance Agency	92,160
VEDA Indebtedness	55,000
Gross Direct and Contingent Debt	1,049,870
Less:	
Contingent Liabilities	(11,572)
Reserve Fund Commitments	(577,395)
Net Tax-Supported Debt	**444,683**

* Includes Capital Appreciation Bonds.

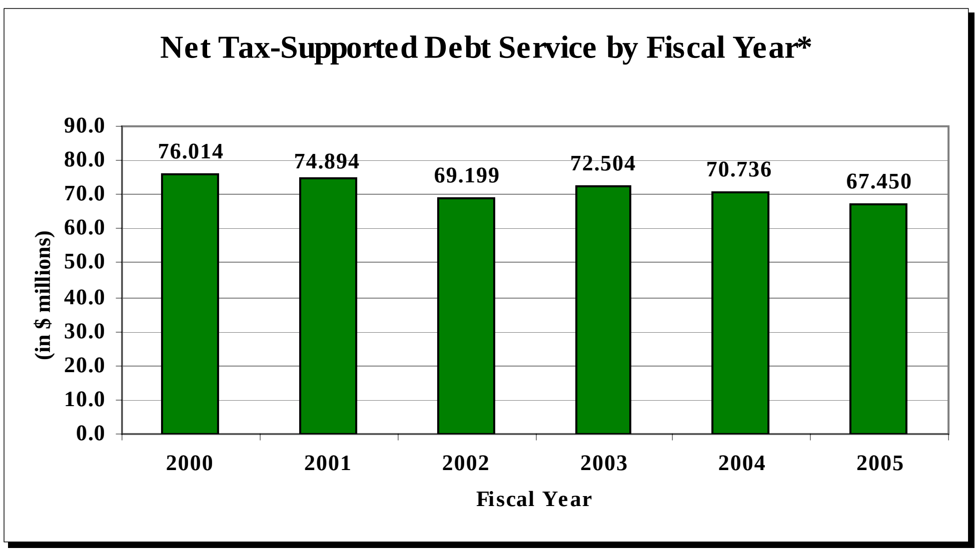


Net Tax-Supported Debt Service by Fiscal Year

- The State's net tax-supported fiscal year debt service requirement for fiscal year 2005 will be $67.5 million, 4.6% less than the $70.7 million paid in fiscal year 2004. This decrease comes after a 2.4% decrease in 2004, a 4.8% increase in 2003, a 7.5% decrease in 2002, a 1.5% decrease in fiscal year 2001 and a 4.9% increase in fiscal 2000. It should be noted that the State issued no G.O. Bonds during FY 2001, $51 million G.O. Bonds during FY 2002, $67.4 million G.O. Bond during FY 2003 (including $31.6 million refunding bonds), and $179.7 million G.O. Bonds during FY 2004 (including $136.9 million refunding bonds).

Net Tax-Supported Debt Service Due in FY 2004 (1)	$70,736
Decrease in Annual D/S Requirement FY 2004-2005 (1)	(7,288)
Increase Due to G.O. Debt Issued	4,002
Net Tax-Supported Debt Service Due in FY 2005	$67,450

(1) Includes $136,860,000 G.O. Bonds refunded during FY 2004.



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

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

	1997	1998	1999	2000	2001	2002	2003	2004
G.O. Bonds	501.7	528.6	515.4	503	454.9	460.5	448.2	444.7
BANs	0	0	0	0	0	0	0	0
COPs	19.1	0	0	0	0	0	0	0
Leases*	15.4	0	1.9	0.9	0	0	0	0
TOTAL	**536.2**	**528.6**	**517.3**	**503.9**	**454.9**	**460.5**	**448.2**	**444.7**

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

PROJECTED GENERAL OBLIGATION NET TAX-SUPPORTED DEBT
As of June 30, 2004
(in $ thousands)

	GENERAL OBLIGATION BONDS							
	GENERAL FUND		TRANSP. FUND		SPECIAL FUND		STATE DIRECT DEBT	
Fiscal Year	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service
2005	414,993	62,731	14,349	2,335	15,340	2,383	444,683	67,450
2006	372,990	59,419	12,656	2,008	13,710	2,382	399,356	63,810
2007	333,151	56,920	11,228	1,955	12,005	2,494	356,384	61,370
2008	294,688	53,949	9,794	1,867	10,105	2,495	314,587	58,311
2009	257,964	51,852	8,388	1,787	8,120	2,495	274,472	56,134
2010	222,039	47,380	6,994	1,673	6,030	2,499	235,063	51,552
2011	189,115	43,531	5,646	1,610	3,825	1,024	198,586	46,164
2012	158,828	37,767	4,295	1,527	2,985	622	166,108	39,915
2013	129,991	31,822	2,959	678	2,505	623	135,455	33,123
2014	104,995	30,837	2,405	652	2,000	622	109,400	32,111
2015	80,112	20,998	1,853	368	1,470	626	83,435	21,992

2. ECONOMIC AND FINANCIAL FORECASTS

This section and certain sections that follow rely on economic analyses and quantification provided by EPR in conjunction with NEEP which conduct ongoing economic studies of the State. NEEP's report, "Vermont Economic Outlook", dated May 2004 (a copy of which is included in the Appendices), states that "this … forecast update represents only a slight upgrade in the 2004-08 forecast when compared to the State economic forecast developed during the Fall of 2003. This modest, but still across the board upward revision in the forecast is for the most part driven by the improved prospects of the national economic rebound, the beginning of a solid construction season in the State so far in the Spring of calendar 2004, and the profile of actual recovery experience in Vermont since last Fall, including the slight, but encouraging, turnaround at IBM."

"Even so, these brightening prospects for the State's economic recovery are still uneven and remain stuck at historically restrained rates of recovery-growth. … None of the State's major macro-indicators are expected to approach the rates of growth experienced as late as calendar year 2000, the final year of the historically robust 1990s upswing. This projected subdued pace and profile of the Vermont recovery each reflects the fact that the State's factory sector remains at risk for further downsizings in several key sectors and in several key regions of the State. This risk will remain and must be acknowledged as part of any economic forecast for the State, unless or until the major employer-participants in the Vermont manufacturing sector begin to substantially join-participate in the State's overall labor market recovery … [accordingly,] the Vermont economy is not expected to complete its labor market recovery … and make a transition to an expansionary mode until the second quarter of calendar 2005, roughly two calendar years later than expected in the previous forecast published last October."

"It is likely that [the State's] recovery-expansion will continue to be accompanied by an unusually high level of uncertainty into the indefinite future." The risks to NEEP's forecast include: (1) the threat of continued high and rising energy prices, (2) on-going global economic uncertainty, (3) the persistently high and increasing U.S. current account deficit, (4) the still fragile business capital spending response, (5) the longer-term threat of higher interest rates, (6) the dramatic deterioration of the federal budget situation, (7) the impact of rising interest rates on ongoing high consumer debt levels, (8) a dramatic deterioration in the military operations currently underway in Iraq, and (9) the ongoing terrorist threat throughout the U.S., the western world, and Asia.

"In addition, there are a number of threats to the outlook that reflect the Vermont situation." These threats include: (1) the relatively high, even non-competitive, level of electrical energy costs in Vermont versus the national average (which threatens Vermont's already fragile manufacturing sector), (2) the recent judicial order that halted construction of the Chittenden County circumferential highway and the permit review uncertainty that implies for many larger development projects and expansion plans for major employers in that region of the State, and (3) the long-standing regulatory-development review uncertainty … and associated increased costs that significantly increase the cost of development and are adversely impacting real estate markets in certain parts of the State.

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

EPR's population estimate for 2004 is about 1/4 of 1% greater than its forecast for 2003, and its estimates of future population growth average about 0.39% annually from 2005 through 2015. Personal income increased 5.1% from 2003 to 2004 and is projected to achieve an average annual growth rate of 3.9% from 2005 through 2015. Estimated full valuation increased 4.25% from 2003 to 2004 and is projected to achieve an average annual growth rate of 4.2% from 2005 through 2015. EPR's current and projected 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)
2003	619.1	19.09	50,778
2004	620.8	20.06	52,938
2005	622.7	20.91	54,066
2006	624.3	21.66	56,182
2007	626.8	22.58	58,728
2008	630.0	23.53	61,296
2009	632.6	24.47	64,349
2010	634.8	25.41	67,387
2011	636.9	26.40	70,444
2012	640.6	27.48	73,617
2013	643.4	28.54	76,869
2014	645.9	29.60	80,138
2015	648.0	30.67	83,542

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

As shown in the table below, total revenue for fiscal year 2004 is $94.4 million more than in 2003, an increase of 8.8%. Fiscal year 2005 growth is forecast at –0.12%; however, the average annual growth rate during the period 2005 through 2015 is expected to be approximately 3.4%.

Current and Projected Revenues[2]

Fiscal Year	General Fund	Transportation Fund	Total Revenue
2003	866.1	205.2	1,071.3
2004	951.0	214.7	1,165.7
2005	950.0	214.3	1,164.3
2006	976.7	221.8	1,198.5
2007	1,012.7	225.4	1,238.1
2008	1,056.1	233.8	1,289.9
2009	1,101.0	238.4	1,339.4
2010	1,147.5	247.5	1,395.0
2011	1,195.1	251.8	1,446.9
2012	1,244.4	260.8	1,505.2
2013	1,295.6	264.7	1,560.3
2014	1,348.1	274.4	1,622.5
2015	1,402.3	278.7	1,681.0

[2] In millions of dollars. Amounts for FY 2005-2015 are "current law" revenue forecasts based on a consensus between the State's administration and legislature.

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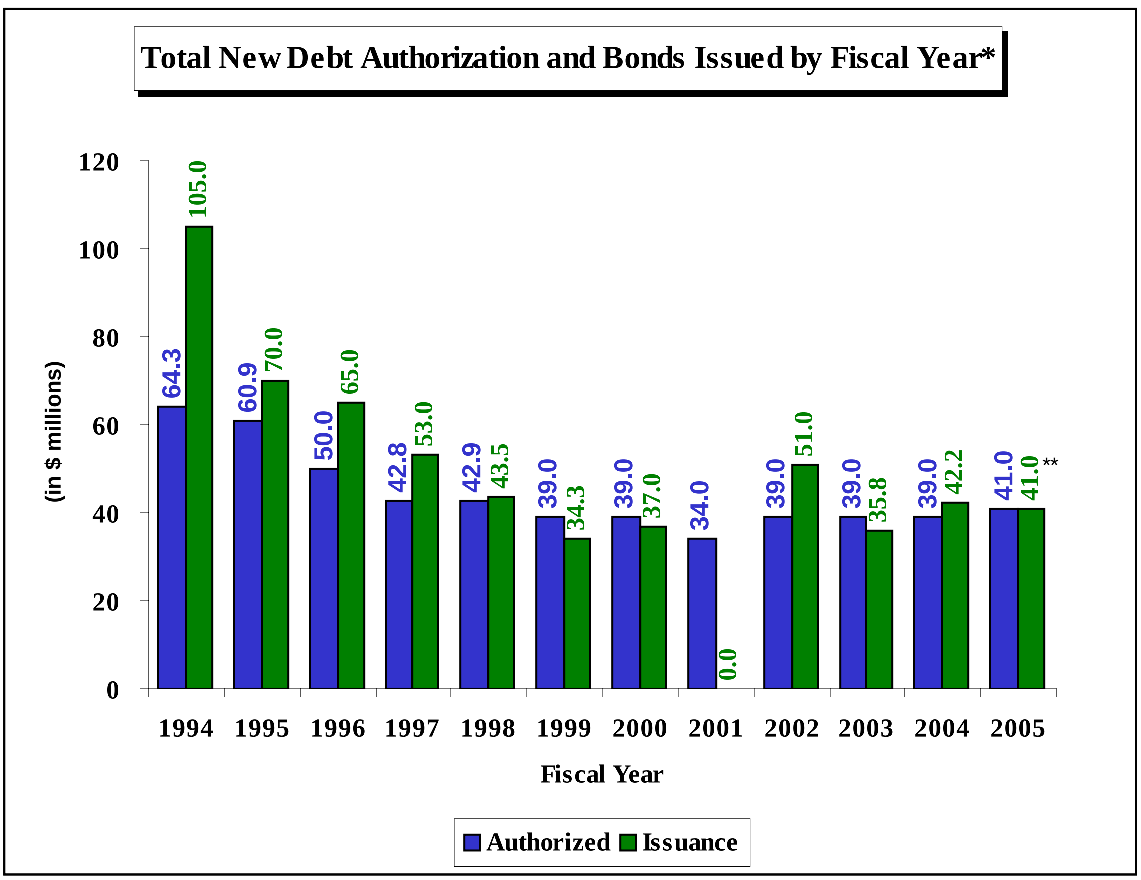
3. DEBT AUTHORIZATIONS AND PROJECTION SCENARIOS

Recent Debt Authorizations

During fiscal year 2002, a total of $51 million of debt was sold, representing the sum of that year's authorization of $39 million, plus $12 million carried forward from fiscal year 2001. During fiscal year 2003, $67.4 million of debt was sold, representing the sum of $35.8 million from that year's authorization of $39 million, plus $31.6 million to advance refund a portion of the Series 1993B Bonds. During fiscal year 2004, $42.2 million of debt was sold, representing the full amount of that year's authorization ($39 million) plus the carry forward of the authorized but unissued amount from fiscal year 2003 ($3.2 million). During fiscal year 2005 $41 million of debt is expected to be sold, representing the full amount of that year's authorization. We believe this trend in which the State has extinguished all or nearly all of the authorized amount of debt has enhanced the State's credit position with favorable responses from the rating agencies. The following chart presents the amounts of G.O. debt that have been authorized and issued by the State of Vermont since 1994.



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

*** Anticipated to be issued.*

General Obligation and General Fund Supported Bond Debt Service Projections

The State's projected annual General Obligation debt service and debt outstanding are presented on the following page and summarized below. The projected debt service assumes the issuance of $41 million in G.O. debt during fiscal year 2005 and $45 million annually thereafter through fiscal year 2015.

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

Fiscal Year	G.O. Debt Service	Fiscal Year Ending	G.O. Bonds Outstanding
2004	63,938	6/30/2004	444,683
2005	67,450	6/30/2005	440,356
2006	68,430	6/30/2006	440,224
2007	70,930	6/30/2007	438,897
2008	72,669	6/30/2008	436,882
2009	75,149	6/30/2009	433,203
2010	75,080	6/30/2010	430,086
2011	74,064	6/30/2011	428,598
2012	72,045	6/30/2012	426,565
2013	69,339	6/30/2013	426,760
2014	72,273	6/30/2014	424,675
2015	65,957	6/30/2015	427,795

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EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)

FY	Current D/S	2005 Issue $41MM	2006 Issue $45MM	2007 Issue $45MM	2008 Issue $45MM	2009 Issue $45MM	2010 Issue $45MM	2011 Issue $45MM	2012 Issue $45MM	2013 Issue $45MM	2014 Issue $45MM	2015 Issue $45MM	Total Est. D/S
2005	67,450												67,450
2006	63,810	4,620											68,430
2007	61,370	4,490	5,070										70,930
2008	58,311	4,361	4,928	5,070									72,669
2009	56,134	4,231	4,786	4,928	5,070								75,149
2010	51,552	4,102	4,643	4,786	4,928	5,070							75,080
2011	46,164	3,972	4,501	4,643	4,786	4,928	5,070						74,064
2012	39,915	3,842	4,359	4,501	4,643	4,786	4,928	5,070					72,045
2013	33,123	3,713	4,217	4,359	4,501	4,643	4,786	4,928	5,070				69,339
2014	32,111	3,583	4,075	4,217	4,359	4,501	4,643	4,786	4,928	5,070			72,273
2015	21,992	3,454	3,932	4,075	4,217	4,359	4,501	4,643	4,786	4,928	5,070		65,957

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)

FY	Current Principal	2005 Issue $41MM	2006 Issue $45MM	2007 Issue $45MM	2008 Issue $45MM	2009 Issue $45MM	2010 Issue $45MM	2011 Issue $45MM	2012 Issue $45MM	2013 Issue $45MM	2014 Issue $45MM	2015 Issue $45MM	Total Est. Principal
2005	45,327												45,327
2006	42,972	2,160											45,132
2007	41,797	2,160	2,370										46,327
2008	40,115	2,160	2,370	2,370									47,015
2009	39,409	2,160	2,370	2,370	2,370								48,679
2010	36,477	2,160	2,370	2,370	2,370	2,370							48,117
2011	32,478	2,160	2,370	2,370	2,370	2,370	2,370						46,488
2012	30,653	2,160	2,370	2,370	2,370	2,370	2,370	2,370					47,033
2013	26,055	2,160	2,370	2,370	2,370	2,370	2,370	2,370	2,370				44,805
2014	25,965	2,160	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370			47,085
2015	18,390	2,160	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370		41,880

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)

FY	Current Debt	2005 Issue $41MM	2006 Issue $45MM	2007 Issue $45MM	2008 Issue $45MM	2009 Issue $45MM	2010 Issue $45MM	2011 Issue $45MM	2012 Issue $45MM	2013 Issue $45MM	2014 Issue $45MM	2015 Issue $45MM	Total Est. Debt
2004	444,683												444,683
2005	399,356	41,000											440,356
2006	356,384	38,840	45,000										440,224
2007	314,587	36,680	42,630	45,000									438,897
2008	274,472	34,520	40,260	42,630	45,000								436,882
2009	235,063	32,360	37,890	40,260	42,630	45,000							433,203
2010	198,586	30,200	35,520	37,890	40,260	42,630	45,000						430,086
2011	166,108	28,040	33,150	35,520	37,890	40,260	42,630	45,000					428,598
2012	135,455	25,880	30,780	33,150	35,520	37,890	40,260	42,630	45,000				426,565
2013	109,400	23,720	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000			426,760
2014	83,435	21,560	26,040	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000		424,675
2015	65,045	19,400	23,670	26,040	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000	427,795

4. DEBT RATIOS

This section discusses the impact of the proposed issuance of $41 million of G.O. debt during FY 2005 and $45 million of G.O. debt annually during FY 2006-2015 on the State's key debt indices. Please refer to the "Historical and Projected Debt Ratios" on page 15 for the statistical detail described below. Also, please see the section "Proposed New G.O. Debt Guidelines" on the following page.

Debt Per Capita

From 2003 to 2004, the State's debt per capita ratio, as measured by Moody's, decreased from $861 to $724, and Vermont's ranking among the 50 states went from 16th to 24th (the lower the ranking, the higher a state's debt per capita is relative to all the other states). Vermont's ranking is slightly above the Moody's median of $701, with 26 states having less debt per capita.

The general debt per capita guideline that was set and followed by the State is $706 in 1995 dollars. We employed an inflation index, provided by EPR, that projects the $706 figure annually out to 2015. The results of this projection are shown in the table on page 15 under the "State Guideline" column in the "Projected Net Tax-Supported Debt Per Capita" section. As shown in this table, the State's debt per capita ratio of $709 is below the inflation-adjusted target of $849 for fiscal year ending June 30, 2005. Assuming the issuance of $41 million in G.O. debt during FY 2004 and $45 million annual thereafter, the net tax-supported debt per capita is projected to decrease each year while the State guideline is projected to increase each year. As such, the estimated net tax-supported debt per capita will be below the State Guideline in each year through FY 2015.

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

Debt as a Percentage of Personal Income

In 2004, the State's ratio of debt to personal income, as measured by Moody's, dropped from 2.9% to 2.5%, the lowest level in recent history. The State ranked 17th in this category in 2003 and improved to 25th in 2004.

The State's historical guideline for debt as a percentage of personal income is: "Aggregate projected State debt should not exceed five percent of projected State personal income in the next ten years." After nearing the five-percent threshold in 1996, the State has steadily improved in this category, with the ratio projected to be 2.2% for the fiscal year ending June 30, 2005. The ratio is projected to remain flat or decline by 0.1 percentage points annually through 2015, and the State is expected to equal or be less than the 2004 and five-year average Moody's median (2.4% and 2.2%, respectively) in 2006.

Debt Service as a Percentage of Revenues[1]

Since 1998, the State has been in compliance with its guideline that: "Projected annual State debt service on bonds should not be in excess of eight percent of projected revenues in the aggregate General and Transportation Funds during the next ten years." The ratio is currently 5.5%. With the projected issuance of G.O. debt this ratio is projected to increase to 5.8% for the fiscal year ending 6/30/05 and drop 0.01%-0.06% annually thereafter until 2015, at which time it is estimated to be 3.9%.

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

Debt to Full Valuation

We calculate the State's net tax-supported debt as a percent of its estimated full valuation to be 0.8% at the present time and will remain at this level for the fiscal year ending 6/30/2005. Thereafter, we project this ratio to decline 0.01% every two to four years, and we expect it to be at 0.5% by 2015.

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

Proposed New G.O. Debt Guidelines

As a result of the State's continuing ability, illustrated in recent years, to meet, by considerable margins, the debt load guidelines established in the 1990s, CDAAC has given considerable attention recently to the development of other, more relevant debt load guidelines. In the last several years, the State's investment grade ratings have significantly improved; at present, the State is, on a composite basis, the highest rated state in New England with high double-A ratings from all three nationally recognized credit rating agencies. The State is currently pursuing a strategy to achieve a triple-A rating over the next few years and will employ the debt load guidelines to assist the State achieve this goal.

It is important to recognize that there will be numerous advantages to the State in being assigned to a triple-A rating. First, it will reduce the State's own borrowing

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

costs. Second, those entities that rely on the State's moral obligation, contingent liability pledge, such as the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency, and the Vermont Economic Development Authority, should see their relative cost of capital improve with the State's triple-A rating. Third, CDAAC believes that the State's economic development efforts would be enhanced as a result of a triple-A rating; companies are more favorably inclined to locate or expand in a state that has managed its debt and financial affairs well enough to acquire the coveted triple-A rating, and such companies anticipate greater revenue stability from a triple-A rated state than one which is rated well below that level.

Therefore, CDAAC believes it is appropriate to establish guidelines that are consistent with a triple-A rated state. As such, there are three guidelines that will be followed by CDAAC in the annual development of the proposed general obligation bond authorization. First, the State will be guided annually by Vermont's ability to meet the triple-A rated state, five-year average for the mean and median of per capita debt load. Second, the State will be guided annually by its ability to meet the triple-A rated state, five-year average for the mean and median of debt as a percent of personal income. At present and assuming implementation of the 2006 proposed general obligation authorization amount, the State is ability to meet these standards for both debt per capita and debt as a percent of personal income, except for the median related to debt per capita. It is our expectation that the spread between the average and Vermont's performance with respect to the median related to debt per capita will close; until such time as that happens, the median related to debt per capita will remain a goal. It should be noted that at the time of the establishment of the previous guidelines in the early 1990s, the State was not able to meet those guidelines, and it took several years before the State was in compliance with them. In addition, CDAAC will follow the guideline of limiting annual general obligation debt service to no more than 6% of operating revenues, consisting of the General and Transportation Funds; this standard represents a reduction from 8% from the previous set of guidelines. At present and based on the 2006 proposed general obligation authorization amount, the State will be in compliance with the 6% guideline for the foreseeable future. Please see the accompanying charts to evaluate the State's current and anticipated position with respect to the new guidelines.

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STATE OF VERMONT
MOODY'S INVESTORS SERVICE
DEBT PER CAPITA

Triple-A Rated States	2000	2001	2002	2003	2004
Delaware	$1,544	$1,616	$1,650	$1,599	$1,800
Georgia	697	679	804	802	827
Maryland	895	819	879	977	1,077
Minnesota	513	546	576	625	691
Missouri	245	288	347	368	461
North Carolina	343	340	375	429	556
South Carolina	347	398	615	587	599
Utah	693	634	708	682	846
Virginia	570	537	566	546	546
MEAN	**650**	**651**	**724**	**735**	**823**
MEDIAN	**570**	**546**	**615**	**625**	**691**
Vermont	925	828	813	861	724

Triple-A Rated States
5-Year Averages:
MEAN: $717
MEDIAN: $609

STATE OF VERMONT
MOODY'S INVESTORS SERVICE
DEBT AS % OF PERSONAL INCOME

Triple-A Rated States	2000	2001	2002	2003	2004
Delaware	5.2%	5.5%	5.3%	5.0%	5.6%
Georgia	2.8	2.6	2.9	2.9	2.9
Maryland	3.0	2.6	2.6	2.8	3.0
Minnesota	1.9	1.8	1.8	1.9	2.0
Missouri	1.0	1.1	1.3	1.3	1.6
North Carolina	1.4	1.4	1.4	1.6	2.0
South Carolina	1.6	1.8	2.5	2.4	2.4
Utah	3.3	2.8	3.0	2.9	3.5
Virginia	2.1	1.9	1.8	1.7	1.7
MEAN	**2.5**	**2.4**	**2.5**	**2.5**	**2.7**
MEDIAN	**2.1**	**1.9**	**2.5**	**2.4**	**2.4**
Vermont	3.8	3.3	3.0	3.0	2.5

Triple-A Rated States
5-Year Averages:
MEAN: 2.5%
MEDIAN: 2.3%

Historical and Projected Debt Ratios

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

Historical and Projected Debt Ratios

	Net Tax-Supported Debt Per Capita (in $)			Net Tax-Supported Debt as Percent of Personal Income			Net Tax-Supported Debt as Percent of Estimated Full Valuation			Net Tax-Supported Debt Service as Percent of Revenues [6]		
Fiscal Year (ending 6/30)	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]	State of Vermont	Moody's Median	State's Rank [5]
Actual [1]												
1993	825	391	9	4.6	2.2	10	1.3	1.0	18	n.a.	n.a.	n.a.
1994	846	399	9	4.5	2.1	10	1.3	0.9	20	6.0	3.6	7
1995	914	409	9	4.7	2.1	9	1.5	1.1	17	6.6	3.4	8
1996	984	431	9	4.9	2.1	8	1.6	1.5	n.a.	7.2	3.5	8
1997	992	422	9	4.7	2.1	8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
1998	946	446	9	4.2	1.9	9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
1999	953	505	10	4.2	2.0	10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
2000	925	540	9	3.8	2.2	10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
2001	828	541	15	3.3	2.1	14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2002	813	573	18	3.0	2.3	14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2003	861	606	16	2.9	2.2	17	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2004	724	701	24	2.5	2.4	25	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current [2] [3]	718	n.a.	n.a.	2.3	n.a.	n.a.	0.8	n.a.	n.a.	5.5	n.a.	n.a.
Projected (FYE 6/30) [3]		State Guideline [4]			State Guideline						State Guideline	
2005	709	849		2.2	5.0		0.7			5.8	8.0	
2006	707	871		2.1	5.0		0.7			5.7	8.0	
2007	703	892		2.0	5.0		0.7			5.7	8.0	
2008	697	913		1.9	5.0		0.6			5.6	8.0	
2009	688	934		1.8	5.0		0.6			5.6	8.0	
2010	680	956		1.8	5.0		0.6			5.4	8.0	
2011	675	979		1.7	5.0		0.6			5.1	8.0	
2012	670	1,002		1.6	5.0		0.5			4.8	8.0	
2013	666	1,026		1.6	5.0		0.5			4.4	8.0	
2014	660	1,049		1.5	5.0		0.5			4.5	8.0	
2015	662	1,074		1.4	5.0		0.5			3.9	8.0	
5-Year Average Median		592			2.2			n.a.			n.a.	

(1) Actual data for 1993 to 2004 were compiled by Moody's Investors Service.
(2) Calculated by Government Finance Associates, Inc.
(3) Projections assume the issuance of $41 million of G.O. debt in FY 2005 and $45 million during FY 2006-2015. Projections exclude General Fund Supported Bonds (VEHBFA).
(4) State guideline set at $706 for 1995; adjusted annually for inflation.
(5) Rankings are in numerically descending order (i.e., from high to low debt).
(6) Revenues are adjusted beginning in fiscal year 1998 to exclude the effect of Act 60.

5. SUMMARY

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

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

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

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

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

The State of Vermont experienced a slight decrease (i.e., improvement) in its relative debt position among all states for 2004, as determined by Moody's Investors Service, on the basis of net tax-supported debt as a percent of personal income (i.e., from 17^{th} in 2003 to 25^{th} in 2004). Vermont's position also improved, as determined by Moody's Investors Service, with respect to net tax-supported debt per capita (i.e., from 16^{th} in 2003 to 24^{th} in 2004).

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6. PROVISIONS OF ENABLING LEGISLATION AND METHODOLOGY

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

SUBPARAGRAPH (1):

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

(A) will be outstanding; and

(B) have been authorized but not yet issued.

SUBPARAGRAPH (2):

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

SUBPARAGRAPH (3)

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

(A) existing outstanding debt;

(B) previously authorized but unissued debt; and

(C) projected bond authorizations.

SUBPARAGRAPH (4)

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

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

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

SUBPARAGRAPH (5)

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

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

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

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

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

- Contingent or Limited Liability Obligations (all figures as of June 30, 2004):

1. VEDA Mortgage Insurance Program: The State had a contingent liability of $10.6 million with respect to this Program.

2. VEDA Financial Access Program: The State had a contingent liability of $1 million with respect to this Program

- Reserve Fund Commitments (all figures as of June 30, 2004):

1. Vermont Municipal Bond Bank: The Bank had $446.5 million of debt outstanding secured by reserve fund commitments from the State. The General Assembly is legally authorized, but not legally obligated, to appropriate money to maintain the

reserve funds at their required levels. Since participating borrowers have always met their obligations on bonds, the State has not been required to appropriate money to the reserve fund for this program.

2. Vermont Housing Finance Agency ("HFA"): The State HFA had $92,160 million of debt outstanding secured by reserve fund commitments from the State. It has not been necessary for the State to appropriate money to maintain the reserve fund.

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

- Municipal Debt:

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

SUBPARAGRAPH (6):

The economic conditions and outlook for the state.

SUBPARAGRAPH (7):

Any other factor that is relevant to:

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

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

There are numerous factors that can affect the State's affordability to incur future indebtedness, including the prospective State economy and the availability of adequate financial resources. Of course, it should be recognized that even though the debt load indices employed in this report are also used by the rating agencies for determining the amount of debt that the State can effectively support, these indices do not take into consideration the possibility for deterioration in the State's financial results. For example, if the State were to confront a significantly increased or new financial liability that was not contemplated in the context of this analysis, the predictability of these indices would become less certain. Similarly, if the State were to incur serious deficits or face a significantly eroding economy, the ability of the State to incur debt in the future could be affected. These managerial and unpredictable aspects of debt affordability have not been considered in this analysis. It should be emphasized that the rating agencies, in the development of the various comparative debt ratios that are applied and reviewed in the rating of State debt obligations, also do not predict the impact of unexpected financial fortunes that can befall governmental borrowers. It will be important for State officials to monitor Vermont's annual financial condition and results, together with the State's economic trends, in order to continue to evaluate the State's credit position to determine whether annual issuance of debt should be adjusted to reflect a changing financial outlook and credit condition for the State under altered circumstances.

With respect to the interest rate and credit ratings assumed in the evaluation, we have made realistic and conservative assumptions, consistent with the past. For example, for anticipated debt issuances, we have assumed that future interest rates on State G.O. indebtedness will average approximately 6.00%; this rate is more than 150 basis points above current rates and well above recently experienced interest rates on State issues.

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

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7. APPENDICES

A. 2004 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)

April 2004

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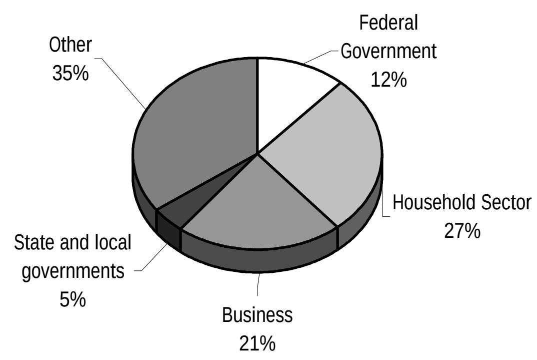
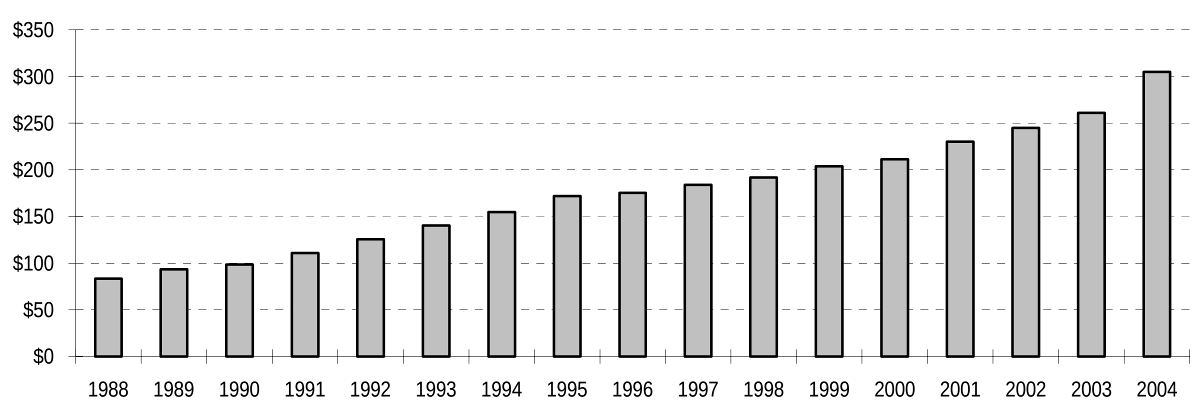
2004 State Debt Medians

This special comment presents Moody's 2004 analysis of the State Debt Medians. The debt medians are based on two measures of state debt burden -debt per capita and debt as a percentage of personal income. They are based on the analysis of tax-exempt and taxable municipal obligations issued by each state and supported by the tax base, and are the debt burden measures most commonly used by municipal analysts. While debt burden is only one among numerous factors that determine a credit rating, it plays a significant role in Moody's determination of credit quality. This analysis also takes into account the measure of gross debt, which includes contingent debt liabilities that do not have a direct tax cost but are included in the audited financial statements of the states. For a detailed discussion of the measure of gross debt, please refer to Moody's 2001 State Debt Medians report.

% of Total Credit Market Debt by Sector



Total Net Tax-Supported Debt of the 50 States ($B)

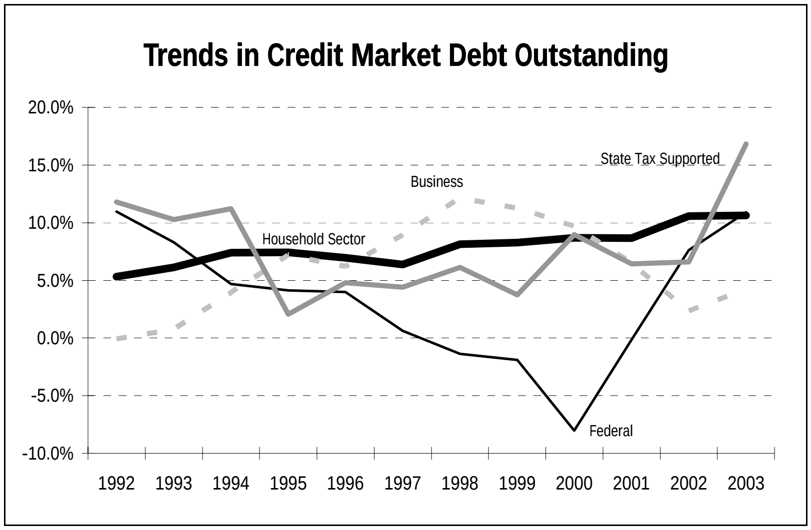


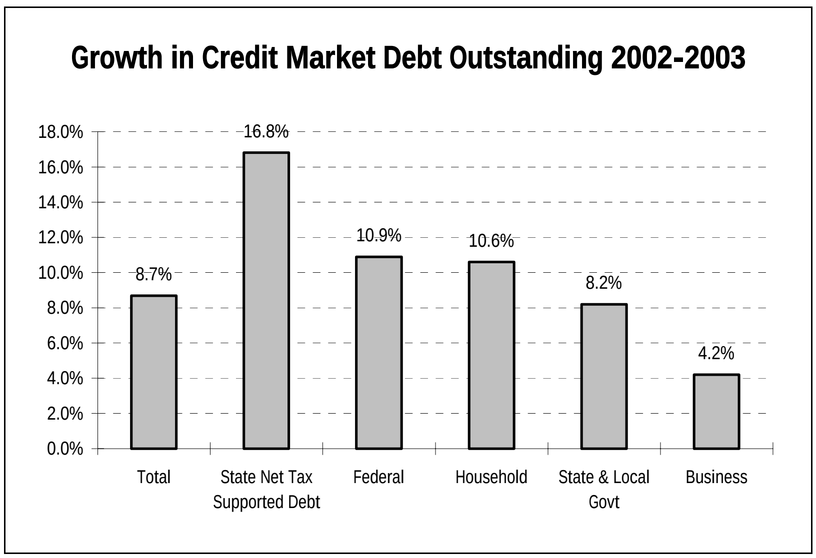
State Net-Tax Supported Debt Soars in 2003

State net-tax supported debt rose at the fastest rate in the 24 years since we began calculating state debt medians in 1980. Propelled by several large "mega-deals", continuing state fiscal stress, and historically low interest rates, state debt rose by 16.8% in 2003, well above the 6.5% rate of the last two years and the 7.0% average of the last 10 years.

Among the largest transactions boosting state debt in 2003 were the $10 billion Illinois pension obligation bond, the $1.8 billion Wisconsin pension obligation bond, the $4.5 billion New York appropriation-backed tobacco bond, the $2.0 billion Oregon pension obligation bond, the $2.6 billion California appropriation-backed tobacco bond and several large New Jersey issues for roads, $960 million, schools, $600 million and land preservation, $500 million.

States have turned to the use of debt in order to maintain capital spending for critical infrastructure needs in the face of weakening economies and serious fiscal stress. Weak state revenue performance forced states to redirect cash pay-go budget resources for budget balance and increase their use of debt finance for capital programs. States have also resorted to deficit bond financing to pay for current operations and to reduce costs of rapidly rising retiree benefits.





Strong Federal and Household Debt Growth in 2003

Total debt outstanding in the overall U.S. credit markets grew at a rapid 8.7% rate, led by the federal government and household sectors. The household sector, accounts for about 27% of total credit market debt and increased at a healthy 10.6% growth rate. This sector has had, on average, a 9.4% growth rate over the past 5 years, providing a critical element of stability to the economy. Consumer spending, bolstered by household borrowing, has been a consistent strength of the economy and helped to moderate the recession. However, economists have expressed concerns about the levels of consumer debt given the continued weakness of labor markets.

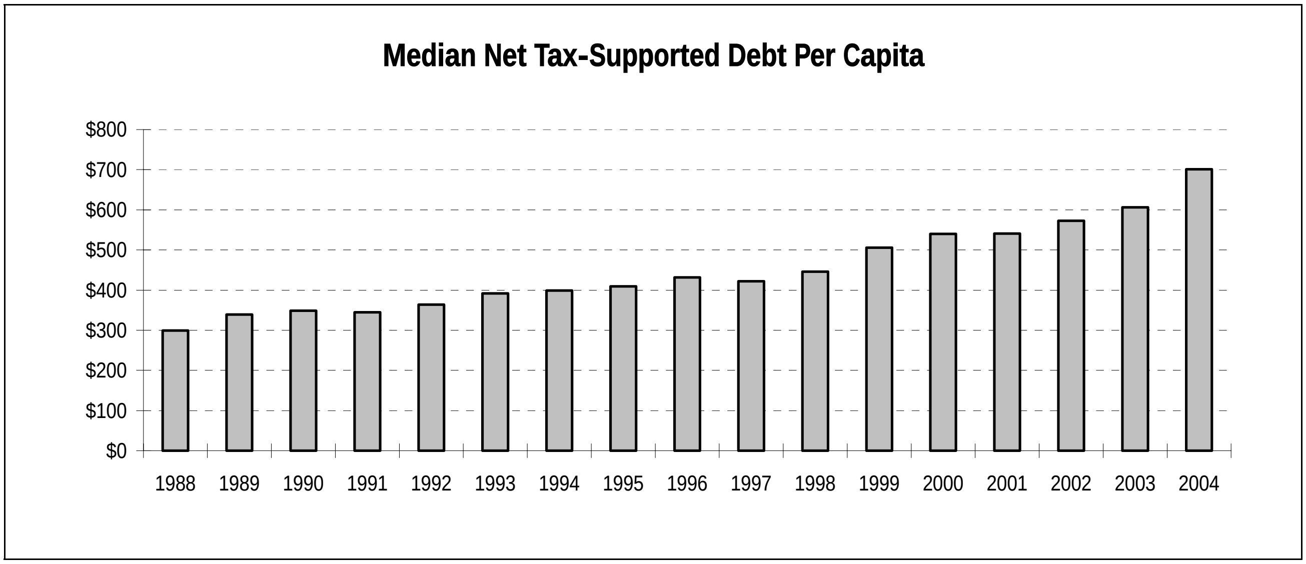
The federal government continued its trend of rapid growth in debt, increasing by 10.9% in 2003.The federal government's borrowing accounts for 11.7% of the total credit market debt and increased rapidly to finance federal deficits resulting from tax cuts, increased federal spending for national defense, homeland security and healthcare costs.

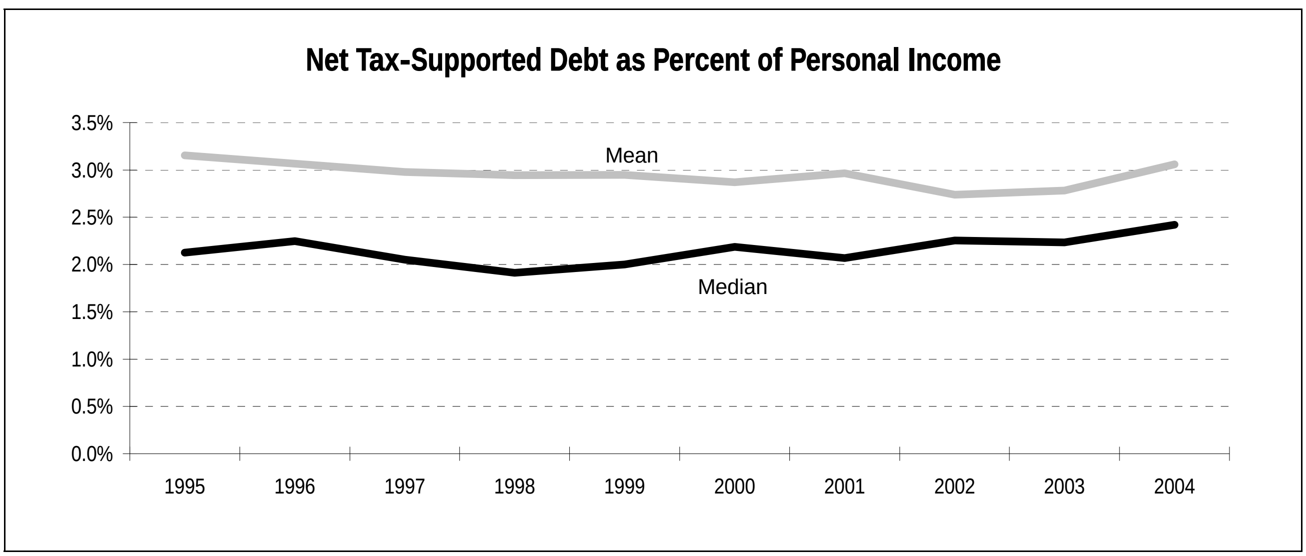
Business sector debt, one of the larger components of credit market debt at 21.5%, continued to increase slowly due to weak business investment and continued high levels of unused manufacturing capacity. Business borrowing has slowed from the 10-12% growth rates of 1998-2000, growing at only 4.2%. This sector has yet to significantly pick up, reflecting the continued weakness in the national economy.

State Debt Growth Should Continue Its Rapid Pace in 2004

Debt per capita increased to $701 from $606, 15.7%, while debt as a percentage of personal income grew to 2.4% from 2.2%, the highest level since 1987. This reflects both weak personal income growth and rapid state debt growth.

With continued fiscal weakness in most states in FY2005, spending will be constrained. Once again, we expect states to look to debt issuance in part to cover revenue shortfalls, to replace pay-go cash funds and to fund capital projects for critical infrastructure needs such as roads and schools, as well as to stimulate economic activity. While most states' debt ratios remain low, the trend of increasing state debt leveraging is likely to continue.





Outlook

As the national economy recovers, some states are starting to benefit from improved revenue growth while other states still experiencing economic weakness. Even though the period of severe revenue deterioration has passed, slow revenue recovery will not be sufficient to support the spending needs for rapidly growing costs in Medicaid, pension costs and K-12 education spending. State budgets will remain tight while the demands for capital spending are strong.

As they did in 2003, states will continue to rely on debt issuance as a way to maintain capital spending for needed infrastructure projects and to finance operations. State net-tax supported debt in 2004 should continue to grow at above long-term trend rates.

Despite the rapid growth of state net tax-supported debt in 2003, state debt burdens relative to the states' wealth, as measured by personal income, remain low and stable. Strong state debt management practices in most states assure that debt issuance does weaken credit quality and support the high level of credit ratings assigned to states.

Related Research

Special Comments:

2003 State Debt Medians, July 2003, #78766

Rating Changes for the 50 States from 1973 to Date, December 2003, #80765

State Credit Cycle Approaches the Bottom; Lessons from the Early 1990s, January 2004, #79493

Municipal Credit Quality Deteriorates Sharply in 2003, Led By State Downgrades, January 2004, #80905

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.

Net Tax-Supported Debt Per Capita

			Rating
1	Connecticut	$3558	Aa3
2	Massachusetts	$3333	Aa2
3	Hawaii	$3101	Aa3
4	New York	$2420	A2
5	New Jersey	$2332	Aa2
6	Illinois	$1943	Aa3
7	Delaware	$1800	Aaa
8	Washington	$1580	Aa1
9	Rhode Island	$1385	Aa3
10	Wisconsin	$1325	Aa3
11	Oregon	$1281	Aa3
12	Mississippi	$1169	Aa3
13	Kentucky	$1119	Aa2*
14	Maryland	$1077	Aaa
15	California	$1060	Baa1
16	Florida	$1023	Aa2
17	Kansas	$963	Aa1*
18	New Mexico	$962	Aa1
19	Alaska	$962	Aa2
20	West Virginia	$859	Aa3
21	Utah	$846	Aaa
22	Georgia	$827	Aaa
23	Ohio	$806	Aa1
24	Vermont	$724	Aa1
25	Pennsylvania	$711	Aa2
26	Minnesota	$691	Aa1
27	Michigan	$670	Aa1
28	Louisiana	$661	A1
29	South Carolina	$599	Aaa
30	Arizona	$591	NGO**
31	Nevada	$590	Aa2
32	North Carolina	$556	Aa1
33	Virginia	$546	Aaa
34	Alabama	$505	Aa3
35	New Hampshire	496	Aa2
36	Maine	492	Aa2
37	Missouri	461	Aaa
38	Arkansas	420	Aa2
39	Indiana	361	Aa1*
40	Oklahoma	315	Aa3
41	Montana	311	Aa3
42	Colorado	307	NGO**
43	South Dakota	254	NGO**
44	Wyoming	250	NGO**
45	North Dakota	235	Aa3*
46	Texas	220	Aa1
47	Tennessee	220	Aa2
48	Iowa	139	Aa1*
49	Idaho	115	Aa3*
50	Nebraska	43	NGO**
	MEAN:	***$944***	
	MEDIAN:	***$701***	
	Puerto Rico	*$5,758*	*Baa1*

** Issuer Rating (No G.O. Debt)*
*** No General Obligation Debt*
**** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*
Puerto Rico population is 2003 estimate.

Net Tax-Supported Debt as a % of 2002 Personal Income

1	Hawaii	10.4%
2	Massachusetts	8.5%
3	Connecticut	8.4%
4	New York	6.7%
5	New Jersey	5.9%
6	Illinois	5.8%
7	Delaware	5.6%
8	Mississippi	5.2%
9	Washington	4.9%
10	Oregon	4.5%
11	Wisconsin	4.5%
12	Rhode Island	4.4%
13	Kentucky	4.4%
14	New Mexico	4.1%
15	West Virginia	3.6%
16	Utah	3.5%
17	Florida	3.5%
18	Kansas	3.3%
19	California	3.2%
20	Alaska	3.0%
21	Maryland	3.0%
22	Georgia	2.9%
23	Ohio	2.7%
24	Louisiana	2.6%
25	Vermont	2.5%
26	South Carolina	2.4%
27	Arizona	2.3%
28	Pennsylvania	2.2%
29	Michigan	2.2%
30	Minnesota	2.0%
31	North Carolina	2.0%
32	Nevada	2.0%
33	Alabama	2.0%
34	Arkansas	1.8%
35	Maine	1.8%
36	Virginia	1.7%
37	Missouri	1.6%
38	New Hampshire	1.5%
39	Indiana	1.3%
40	Montana	1.3%
41	Oklahoma	1.2%
42	South Dakota	0.9%
43	Colorado	0.9%
44	North Dakota	0.9%
45	Wyoming	0.8%
46	Tennessee	0.8%
47	Texas	0.8%
48	Iowa	0.5%
49	Idaho	0.5%
50	Nebraska	0.1%
	MEAN:	**3.1%**
	MEDIAN:	**2.4%**
	Puerto Rico	*51.2%***

*** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*
Puerto Rico population and Personal Income are 2003 estimates.

Total Net Tax Supported Debt (000's)

			Rating
1	New York	$46,437,700	A2
2	California	$37,609,285	Baa1
3	Illinois	$24,591,269	Aa3
4	Massachusetts	$21,443,225	Aa2
5	New Jersey	$20,145,021	Aa2
6	Florida	$17,402,900	Aa2
7	Connecticut	$12,394,152	Aa3
8	Washington	$9,690,532	Aa1
9	Ohio	$9,217,045	Aa1
10	Pennsylvania	$8,797,584	Aa2
11	Wisconsin	$7,253,286	Aa3
12	Georgia	$7,184,698	Aaa
13	Michigan	$6,750,200	Aa1
14	Maryland	$5,932,730	Aaa
15	Texas	$4,873,788	Aa1
16	North Carolina	$4,672,813	Aa1
17	Kentucky	$4,606,215	Aa2*
18	Oregon	$4,559,628	Aa3
19	Virginia	$4,036,012	Aaa
20	Hawaii	$3,899,360	Aa3
21	Minnesota	$3,495,529	Aa1
22	Mississippi	$3,368,574	Aa3
23	Arizona	$3,295,962	NGO**
24	Louisiana	$2,973,533	A1
25	Missouri	$2,628,169	Aaa
26	Kansas	$2,623,891	Aa1*
27	South Carolina	$2,485,642	Aaa
28	Alabama	$2,271,767	Aa3
29	Indiana	$2,235,382	Aa1*
30	Utah	$1,990,404	Aaa
31	New Mexico	$1,803,987	Aa1
32	West Virginia	$1,554,794	Aa3
33	Rhode Island	$1,490,511	Aa3
34	Delaware	$1,471,858	Aaa
35	Colorado	$1,396,199	NGO**
36	Nevada	$1,322,900	Aa2
37	Tennessee	$1,286,893	Aa2
38	Arkansas	$1,146,019	Aa2
39	Oklahoma	$1,107,527	Aa3
40	Maine	$641,965	Aa2
41	New Hampshire	$639,118	Aa2
42	Alaska	$624,200	Aa2
43	Vermont	$448,248	Aa1
44	Iowa	$409,293	Aa1*
45	Montana	$285,616	Aa3
46	South Dakota	$194,142	NGO**
47	Idaho	$157,604	Aa3*
48	North Dakota	$149,035	Aa3*
49	Wyoming	$125,295	NGO**
50	Nebraska	$74,075	NGO**
	Totals	**$305,195,575**	
	Puerto Rico	*$22,334,137*	*Baa1*

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

Gross Tax Supported Debt (000's)

			Gross to Net Ratio
1	New York	$46,869,700	1.01
2	California	$44,354,392	1.18
3	Massachusetts	$26,367,925	1.23
4	Illinois	$25,152,354	1.02
5	New Jersey	$24,545,752	1.22
6	Connecticut	$19,859,652	1.60
7	Michigan	$18,950,000	2.81
8	Florida	$17,690,000	1.02
9	Minnesota	$13,074,954	3.74
10	Washington	$12,290,532	1.27
11	Pennsylvania	$11,280,684	1.28
12	Oregon	$10,703,372	2.35
13	Wisconsin	$9,958,456	1.37
14	Ohio	$9,352,049	1.01
15	Texas	$8,023,197	1.65
16	Virginia	$7,952,065	1.97
17	Georgia	$7,184,698	1.00
18	Colorado	$6,906,199	4.95
19	Maryland	$5,933,630	1.00
20	Hawaii	$5,826,634	1.49
21	Alabama	$5,733,215	2.52
22	Utah	$5,120,710	2.57
23	South Carolina	$4,859,852	1.96
24	Kentucky	$4,693,505	1.02
25	North Carolina	$4,672,813	1.00
26	Maine	$4,240,300	6.61
27	Indiana	$3,796,689	1.70
28	Tennessee	$3,679,482	2.86
29	Arkansas	$3,645,380	3.18
30	Louisiana	$3,524,254	1.19
31	Mississippi	$3,368,574	1.00
32	Arizona	$3,295,962	1.00
33	Alaska	$2,808,350	4.50
34	Nevada	$2,808,045	2.12
35	Missouri	$2,628,169	1.00
36	Kansas	$2,623,891	1.00
37	West Virginia	$2,600,383	1.67
38	Delaware	$2,164,064	1.47
39	New Mexico	$1,986,319	1.10
40	New Hampshire	$1,983,920	3.10
41	Rhode Island	$1,864,158	1.25
42	Iowa	$1,208,557	2.95
43	Oklahoma	$1,107,527	1.00
44	Vermont	$1,000,931	2.23
45	North Dakota	$612,811	4.11
46	Idaho	$507,792	3.22
47	South Dakota	$493,139	2.54
48	Montana	$406,354	1.42
49	Wyoming	$125,295	1.00
50	Nebraska	$84,375	1.14
	Totals	**$409,921,061**	**1.34**
	Puerto Rico	*$25,928,412*	*1.16*

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

Net Tax-Supported Debt as a Percentage of Personal Income

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Alabama	2.4	2.2	2.0	2.0	1.8	1.9	1.7	1.5	2.3	2.2	2.2	2.2	2.0
Alaska	2.5	2.6	2.4	1.2	0.9	0.9	0.5	0.0	1.0	0.4	0.4	0.3	3.0
Arizona	1.6	1.8	1.6	2.7	2.4	2.1	1.9	1.9	1.6	1.6	1.9	2.1	2.3
Arkansas	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.6	0.9	1.2	1.2	1.4	1.8
California	2.0	2.5	3.0	3.5	2.8	2.6	2.6	2.6	2.4	2.5	2.5	2.5	3.2
Colorado	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.03	0.4	0.7	0.9	0.9
Connecticut	8.7	8.9	9.1	9.6	9.7	9.4	8.7	8.7	8.1	8.0	8.0	8.2	8.4
Delaware	8.1	7.5	8.0	8.0	7.6	6.4	5.9	5.7	5.2	5.5	5.3	5.0	5.6
Florida	2.2	2.3	2.9	3.0	2.9	3.0	3.4	3.5	3.4	3.3	3.4	3.5	3.5
Georgia	2.5	2.9	3.0	3.1	3.3	3.1	2.9	2.9	2.8	2.6	2.9	2.9	2.9
Hawaii	10.2	10.4	12.1	10.5	10.3	10.9	10.7	11.2	11.6	11.0	10.4	10.9	10.4
Idaho	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.4	0.4	0.3	0.4	0.3	0.5
Illinois	2.7	2.7	3.0	3.2	3.2	2.9	2.7	2.6	2.6	2.7	2.8	3.2	5.8
Indiana	0.7	1.0	1.0	1.0	0.9	0.9	0.8	0.9	0.9	1.1	1.1	1.1	1.3
Iowa	0.2	0.4	0.4	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.6	0.6	0.5
Kansas	0.5	1.3	2.0	2.1	2.0	1.9	1.7	2.0	2.4	3.1	3.0	3.0	3.3
Kentucky	4.7	5.1	5.0	4.7	5.1	4.1	3.9	3.7	3.5	4.4	4.3	4.4	4.4
Louisiana	6.5	6.3	5.9	5.4	4.9	4.4	2.6	2.6	2.4	2.5	2.4	2.7	2.6
Maine	2.2	2.7	2.6	2.7	2.7	2.6	1.9	1.9	2.1	2.0	1.9	1.8	1.8
Maryland	3.4	3.3	3.3	3.5	3.4	3.3	3.1	3.3	3.0	2.6	2.6	2.8	3.0
Massachusetts	8.0	8.5	8.2	8.4	8.3	8.1	7.8	7.8	8.0	8.5	8.5	8.5	8.5
Michigan	1.2	1.6	1.5	1.5	1.5	1.5	1.6	1.7	1.5	1.6	1.5	1.8	2.2
Minnesota	2.2	2.2	2.0	1.9	1.9	2.2	1.9	2.0	1.9	1.8	1.8	1.9	2.0
Mississippi	1.8	1.8	2.1	2.0	3.0	2.9	3.5	4.4	4.7	4.6	4.7	5.6	5.2
Missouri	1.3	1.3	1.2	1.2	1.3	1.3	1.0	1.0	1.0	1.1	1.3	1.3	1.6
Montana	2.2	2.1	1.9	3.2	2.4	1.4	1.4	1.7	1.7	1.7	1.6	1.4	1.3
Nebraska	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Nevada	2.9	2.7	2.2	2.1	2.0	1.8	1.6	1.8	1.8	1.8	1.7	1.4	2.0
New Hampshire	2.5	2.7	2.9	2.9	2.9	2.5	2.4	2.3	2.0	1.5	1.5	1.4	1.5
New Jersey	2.2	3.0	2.9	3.7	3.6	3.8	5.1	5.2	5.3	5.5	5.6	5.5	5.9
New Mexico	1.8	1.7	2.1	2.1	2.1	2.0	1.9	2.6	3.1	4.0	4.0	3.7	4.1
New York	5.6	6.1	6.4	6.6	6.9	6.7	6.5	6.6	6.4	6.2	5.9	5.9	6.7
North Carolina	0.6	0.6	0.6	0.8	0.7	0.7	1.0	1.2	1.4	1.4	1.4	1.6	2.0
North Dakota	1.2	1.2	1.1	1.1	1.1	1.0	0.8	0.6	0.7	0.9	0.9	0.9	0.9
Ohio	2.4	2.5	2.5	2.4	2.5	2.5	2.5	2.7	2.7	2.6	2.6	2.6	2.7
Oklahoma	0.4	0.4	1.0	1.0	0.8	0.9	0.8	1.2	1.3	1.4	1.3	1.2	1.2
Oregon	1.5	1.1	1.2	1.2	1.4	1.9	1.2	1.2	1.3	1.6	1.5	1.6	4.5
Pennsylvania	2.7	2.6	2.7	2.6	2.4	2.2	2.0	2.3	2.2	2.2	2.3	2.3	2.2
Rhode Island	6.1	8.8	8.9	8.7	8.5	8.7	6.6	6.5	6.2	5.3	5.2	5.0	4.4
South Carolina	1.8	1.9	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.8	2.5	2.4	2.4
South Dakota	2.2	2.3	2.3	2.1	1.8	1.8	1.5	1.5	1.5	1.2	0.9	0.7	0.9
Tennessee	1.0	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.2	0.9	0.8	0.8
Texas	1.2	1.1	1.2	1.6	1.7	1.5	1.4	1.3	1.2	1.0	0.9	0.9	0.8
Utah	1.6	1.7	1.6	1.7	1.8	1.7	3.1	3.6	3.3	2.8	3.0	2.9	3.5
Vermont	4.5	4.6	4.5	4.7	4.9	4.7	4.2	4.2	3.8	3.3	3.0	3.0	2.5
Virginia	1.2	1.3	1.6	1.7	1.6	1.7	2.1	2.0	2.1	1.9	1.8	1.7	1.7
Washington	4.4	5.0	5.0	5.0	4.8	5.0	4.8	4.6	4.6	4.4	4.4	4.8	4.9
West Virginia	4.7	3.4	3.1	2.5	2.6	2.7	2.8	3.4	3.3	4.2	4.0	4.1	3.6
Wisconsin	2.7	3.1	3.0	3.0	2.9	3.2	2.8	2.8	2.7	3.2	3.0	3.3	4.5
Wyoming	0.0	0.0	0.5	0.4	0.4	0.7	0.7	1.0	1.0	1.0	1.4	0.9	0.8
Median	**2.2**	**2.2**	**2.1**	**2.1**	**2.1**	**2.1**	**1.9**	**2.0**	**2.2**	**2.1**	**2.3**	**2.2**	**2.4**

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Tax Supported
New Issue

State of Vermont

Rating

General Obligation Bonds .... AA+

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New Issue Details

$118,595,000 General Obligation Refunding Bonds, 2004 Series A, expected Feb. 2 through negotiation with Citigroup and UBS Financial Services, Inc. Bonds will be due Feb. 1, but maturities and call features are not yet determined.

Security: General obligations of the State of Vermont; full faith and credit pledged.

■ Outlook

Vermont's conservative approach to debt and financial operations provides a strong foundation for high credit quality. During the protracted recession period of the early 1990s, the state assiduously followed an austere recovery program, demonstrating well its willingness to take appropriate action for stability. Following recovery, its reserves were fully funded, expenditure levels remained under control and substantial surplus was used for capital purposes, allowing debt to decline. The state's economy weakened in 2001–02 and revenues were below projections. Appropriations were cut but partial use of the reserve was still necessary. Operations subsequently have been favorable and reserves are being re-built.

■ Rating Considerations

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

Financial operations were successful for the six years through 2001. After elimination of the deficit in 1995–96, the rebuilding of the budget stabilization reserve commenced followed by the setting up of further reserves for education and welfare as well as the use of current surplus for capital purposes. The stabilization reserve became fully funded at 5% of revenues. Revenues, driven by the personal income tax, consistently exceeded estimates until weakness surfaced in 2001. The personal income tax dropped, reflected a sharply lower capital gains base, the recession dampened withholdings and corporate taxes were disappointing. Despite expenditure measures, over half of the reserve was tapped in fiscal 2002. In fiscal 2003 revenues exceeded estimates and surplus funds were diverted to reserves. This year revenues are also ahead of estimates and full funding of reserves is anticipated. The governor has recommended lowering the rate of the personal income tax to be balanced from ending capital gains exclusion and closing corporate loopholes.

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

Strengths

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

Risks

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

Debt Position

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

There is considerable exposure through credit extension, although it was significantly reduced with the sale of the portfolio of the Vermont Home Mortgage Board, which had liabilities of $117 million in 1998. The state's full faith and credit backs up certain programs of the Vermont Economic Development Authority (VEDA), including the insuring of $15 million mortgages, and is authorized to reimburse lenders participating in the Financial Access Program to a maximum of $2 million. Mortgages amounted to $5.0 million and the reimbursement liability was about $1 million. VEDA has issued commercial paper ($34 million outstanding) for financing new loans; the commercial paper program has a reserve deficiency make-up provision with the state, not to exceed $55 million. Calls on the various guarantees have been minor. There are reserve fund deficiency make-up provisions with the Municipal Bond Bank and the Housing Finance Agency, the latter limited to $125 million bonds; there have been no calls through this provision.

Short–term debt has been employed regularly, both for operating and capital purposes. In 1993–97, it was entirely in the form of commercial paper. Operations in 1997–98 were so favorable that operating debt was reduced to $20 million, down from $105 million in 1996–97, and the period of need was brief. There was then no need for operating borrowing until 2002–03 when $75 million was issued. For 2003–04, $48 million was issued.

Vermont has a capital debt affordability advisory committee that will recommend prudent debt authorizations, taking into account, among other things, debt in relation to personal income and debt service in relation to revenues. A range of $75 million–$100 million annually over the 1990s was set, but

Debt Statistics

($000)

General Obligation Bonds	
General Purpose: Outstanding	435.199
To Be Issued*	160,595
Transportation Bonds	13,049
Total G.O. Bonds	608,843
Revenue Anticipation Notes (RANs)	48,000
Contingent Liabilities	
Economic Development Authority	6,013
Reserve Fund Commitments	
Bond Bank	415,730
Housing Finance Agency	75,940
Economic Development Authority	55,000
Gross Debt	1,209,526
Less: Contingent Liabilities and	552,683
Reserve Fund Commitments	114,890
RANs G.O. Being Refunded	48,000
Net Tax-Supported Debt	493,953
Debt Ratios	
Per Capita ($)	811 (608,827, 2000)
% Estimated Full Value	1.1 ($46,929,258,396, 2002)
% Personal Income	2.7 ($18,167,000,000, 2002)
Debt Service, 2000–01	
General Purpose as % of General Fund Revenues	7.1
Transportation as % of Transportation Fund Revenues	1.2
Total Debt Service Combined as % of Revenues	6.8
Amortization (%)	
Five Years	46
10 Years	80

*Includes this issue and $42,000,000 bonds expected later this year.
G.O. – General obligation.

amounts were lowered reflecting the recession. Annual amounts have declined from $64 million in 1993–94 to $43 million in 1996–97 and 1997–98 and to $39 million in 1998–99 and 1999–2000, $34 million 2000–01 and $39 million recommended annually through 2002–03. The recommendation for 2004–05 is $41 million. Authorizations have approximately matched recommendations.

The state will follow this issue of refunding bonds with $42.2 million general obligations shortly. The state now makes annual bond authorizations, eliminating any overhang of authorized but unissued debt.

Debt ratios are well within the moderate range. Debt had been rising but the lower affordability level has now become evident. In addition, surplus has been directed to capital purposes, reducing borrowing. From 1992 to 1997, tax supported debt rose 29%, but excluding the deficit notes outstanding in 1992 the increase was 50% while personal income rose 26% over the period. Debt currently is about 15% below the 1997 level, while personal income rose 32% in 1997–2002.

Financial Operations

The general fund is the basic operating account. Accounting has been done on a cash basis, but the conversion to GAAP was completed for the 1996 fiscal year. Vermont's comprehensive annual financial report for fiscal 2002 was delayed until November 2003, due to complications of a new financial system and conversion to GAAP Statement 34. The 2003 report is expected in Spring 2004.

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

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

Financial operations in the following years had been favorable, with revenues generally ahead of estimates, operating surpluses achieved and reserves accumulated. Additionally, significant appropriations were made for capital and other one time purposes. In 2000–01, growth slowed, with revenues up only 1.3% but an operating surplus of $36 million was achieved. Personal income taxes rose about 4% and the sales tax was flat. Cigarette taxes, which totaled $11.0 million in the previous year, no longer flow to the general fund but are deposited in the health care access trust fund. Reserves at year-end included $43 million in the stabilization reserve, $18 million in human services caseload reserve and $31 million was reserved for other purposes, for a total of $92.6 million. The transportation fund had a small operating surplus of $6 million; at June 30, its stabilization reserve held $8.9 million

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

The budget for 2002–03 was promised on revenues of $883 million but estimates were lowered in July; the gap was to be met from transfers and cuts. However, revenues actually matched the original level and in essence the transfers were added to reserves. Taxes for the year rose 3.1%, reflecting strength in insurance and estate taxes while the personal income tax was up only 0.9% and the sales tax, 1.8%. At the close of the year, the general fund stabilization reserve was about one-half funded at

$23.5 million and the transportation reserve held $9.2 million. A caseload reserve amounted to $17.2 million. The education fund drew on its reserve, bringing it down to $11.2 million.

The budget for 2003–04 expects moderate revenue growth of 3.8% in the personal income tax and 3.2% (underlying) in the sales tax. An operating surplus of nearly $53 million is projected, all to be held in reserves that would then be fully funded. For the first six months, revenues are about $21 million over estimates. The budget proposal for 2004–05 is in balance, with operating surpluses in the general and transportation funds and use of reserves for the education fund. Revenue estimates appear realistic. The governor has proposed a reduction in the personal income tax rate, to be held revenue neutral through closing of corporate tax loopholes and ending the partial exclusion of capital gains from the personal income tax. A long term issue involving $150 million is a clean water program for pollution in lakes and streams.

The transportation and education funds are important in state operations. Transportation revenues have been favorable and its reserve is fully funded. The education fund, set up after court decision held the state responsible for the function, now receives various taxes, lottery proceeds, and general fund appropriations, and will be receiving one-third of sales taxes after 2004. It also collects a state wide property tax. Operations of the fund have often relied on use of its reserve.

Economic Base

Vermont's economy includes manufacturing, tourism and agriculture, although the latter has declined considerably in importance. Services now account for 39% of employment, followed by trade at 17% and manufacturing, mostly durables, 14%. Manufacturing declined in the 1990s recession, with employment dropping from over 50,000 in 1985 to the 43,000 level in the early 1990s. There was recovery, with 2000 manufacturing employment at 46,400, but slipping in 2001 to 45,550 and currently at 40,650 The state's largest employer continues to be IBM although there have been layoffs of some 1,800 over the past two years. A Canadian company, Husky Injection Mold Systems, has established a presence here. Tourism is broad based, including several ski areas for winter attraction while scenic beauty and countryside encourage summer visitors. Several ski areas have undergone improvement, including a continuation of year-round use. The widespread second home and condominium usage already provides some stability. Canadian tourism and shopping is an economic factor and the weak Canadian dollar presents some weakness currently.

Employment in Vermont peaked in 1989 after a period of rapid growth. About 5% of employment was lost, only about half as severe as the losses in most New England states. By the end of 1994, the loss had been regained and 2000 employment was about 14% over the earlier peak. It remained at the same level in 2001 and there was a decline of 0.7% in 2002. In November 2003 compared to the same month a year ago, employment was up 0.5%, with increases of 2.3% in financial services, 0.7% in trade, 0.7% in government, 2% in construction, 1.1% in health and educational services, and 2.3% in leisure services; manufacturing was down 2.8%. Gains of 1.4% in 2003 and 0.4% in 2004 are expected. Unemployment is consistently low.

Through most of the 1990s, personal income growth in the state lagged the national experience. In the past few years, however, Vermont gains have exceeded those of the U.S., both in total and on a per capita basis. In second quarter 2003 state personal income rose 3.5%, compared with 1.5% in New England and 2.8% nationally. In 2002, Vermont's per capita personal income was equal to 96% of the U.S. figure, ranking it 24th.

General and Special Revenue Funds
($000, GAAP)

	1999–2000	2000–2001	2001–2002
Revenues	2,566,764	2,634,599	2,804,565
Taxes	1,529,510	1,590,016	1,600,725
Federal Aid	847,345	849,190	964,142
Expenditures	2,526,902	2,627,013	2,822,405
Education	844,920	883,907	1,035,570
Human Services	909,481	909,236	1,065,880
Transportation	266,797	294,265	311,133
Debt Service	74,855	73,895	69,214
Operating Result	39,862	7,586	(17,840)
General Fund Balance	110,681	172,757	149,594
Undesignated Balance	10,696	86,583	97,898

Employment Trends

Employment

(000)

Unemployment Rate

(%)

	VT	% Change	U.S.	% Change	VT	U.S.	VT as % of U.S.
1980	200	—	90,406	—	6.4	7.1	90
1985	225	12.5	97,387	7.7	4.8	7.2	67
1988	256	12.4	105,210	8.0	2.8	5.5	51
1989	261	3.2	107,895	2.6	3.6	5.3	66
1990	257	(1.5)	109,419	1.4	5.0	5.5	91
1991	249	(3.1)	108,256	(1.1)	6.4	6.7	96
1992	251	0.8	108,604	0.3	6.6	7.4	89
1993	257	2.4	110,730	2.0	5.4	6.8	79
1994	264	2.7	114,172	3.1	4.7	6.1	77
1995	270	2.4	117,203	2.7	4.2	5.6	75
1996	275	1.9	119,554	2.0	4.6	5.4	85
1997	279	1.5	122,690	2.6	4.0	4.9	82
1998	285	2.2	125,865	2.6	3.4	4.5	76
1999	292	2.5	128,916	2.4	3.0	4.2	71
2000	299	2.4	131,720	2.2	3.0	4.0	75
2001	302	1.0	131,922	0.2	3.6	4.8	75
2002	300	(0.7)	130,791	(0.9)	3.7	5.8	60
November 2003	305	1.7	130,123	(0.5)	3.8	5.9	64

Personal Income

(Change from Prior Year)

Per Capita Income

(Change from Prior Year)

	—% Change—		VT as % of	——% Change——		VT as % of
	VT	U.S.	U.S. Growth	VT	U.S.	U.S. Growth
1991	1.4	3.7	38	0.9	2.6	37
1992	6.5	6.1	107	5.9	4.9	120
1993	3.3	4.1	80	2.6	3.0	87
1994	4.8	5.0	96	3.9	4.0	98
1995	4.6	5.3	87	3.9	4.3	91
1996	5.0	5.6	89	4.4	4.6	96
1997	5.2	6.0	87	4.8	5.0	96
1998	7.2	7.1	101	6.6	4.9	135
1999	5.7	4.9	116	4.9	3.7	132
2000	7.8	8.0	98	6.6	6.7	99
2001	5.2	3.3	158	4.7	2.2	214
2002	3.1	2.8	111	2.5	1.4	179

Components of Personal Income: Earnings

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

*Durables is a subhead of manufacturing.

State Population: 608,827 (2000)
Population Change 1990–2000: VT 8.2%; U.S. 13.2%
Personal Income Per Capita 2002: $29,464 = 96% of U.S.; rank 24th.

Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue
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Vermont (State of)

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Moody's Rating

Issue		Rating
General Obligation Refunding Bonds 2004 Series A		Aa1
Sale Amount	$118,595,000	
Expected Sale Date	02/04/04	
Rating Description	General Obligation	

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

OUTLOOK REMAINS STABLE

Opinion

Moody's has assigned a rating of Aa1 and stable outlook to the State of Vermont's general obligation bonds. The state's high quality rating reflects Vermont's stable financial position with increased reserve levels; relatively strong economic performance during the recent recession with some delay in the state's recovery reflecting continued weakness in Vermont's manufacturing sector; and manageable debt levels that have declined over the past few years. At the end of fiscal 2003, Vermont added to its General Fund Budget Stabilization Reserve (BSR) to begin replenishing funds used to offset revenue weakness in the prior year (fiscal 2002). Vermont's most recent revenue forecast (January 2004) for fiscal 2004 shows that revenues are ahead of target for the first six months. The fiscal 2004 budget calls for full restoration of the state's BSR's in the General, Transportation, and Education Funds.

Vermont plans to sell approximately $118 million in General Obligation Refunding Bonds, 2004 Series A on February 4th for debt service savings.

STRUCTURAL BUDGET BALANCE REFLECTS SOUND FINANCIAL MANAGEMENT

Conservative budgeting and favorable tax revenue performance allowed Vermont to produce operating surpluses that brought the General Fund BSR to approximately $43 million at 2001 year-end. However Vermont was not immune to the recent recession. As the economy and State revenues weakened in fiscal 2002 General Fund revenue projections were twice revised downward from original estimates and appropriation levels were also reduced. Between fiscal years 2001 and 2002, personal income taxes

(Vermont's largest revenue source in the General Fund) dropped 10%, while sales and use taxes were essentially flat. At year-end fiscal 2002, the state recorded a General Fund operating deficit of $29.5 million after required transfers to the Transportation Fund ($13.85 million) and Education Fund ($5.6 million). The State eliminated the deficit by dipping into the General Fund Budget Stabilization Reserve Fund, still leaving a balance of nearly $18 million in the reserve.

Revenue collections improved in fiscal 2003 and total tax revenues grew nearly 5% over the prior year, after dropping 6% between fiscal years 2001 and 2002. Vermont received $50 million in federal relief funds which were applied for one-time uses rather than base-building. A slight General Fund operating deficit was offset by transfers from the transportation fund and the tobacco settlement fund. At year end fiscal 2003, the state increased its General Fund BSR, bringing it to $23.6 million, and also recorded a balance of $11.2 million the Education Fund BSR, both half of the statutory maximum of 5% of prior year budgetary appropriations. The Human Services Caseload Reserve Fund, which is available for unexpected caseload growth due to the economy, was down slightly to $17.2 million at the end of fiscal 2003. The fiscal 2004 budget includes an increase in the Caseload Reserve Fund to $24.7 million.

FISCAL YEAR 2004 REVENUE PERFORMANCE AHEAD OF TARGET

Vermont's most recent consensus revenue forecast (January 2004) indicates that General Fund revenues are running about 5% ahead of target, with all major tax sources performing well. Adjusting for the 1 cent sales tax increase (from 5% to 6%) effective October 2003, revenues are still up over the prior year. The state expects Budget Stabilization Reserves in the General, Transportation, and Education Funds to be fully funded at the end of fiscal 2004.

Growth in Education Fund revenues is also higher than expected, largely due to increasing property values leading in turn to higher property tax receipts. As a result, the governor has proposed a 5 cent (per $100 valuation) reduction in the state's property tax rate.

MODEST ECONOMIC IMPROVEMENT; MANUFACTURING SECTOR REMAINS WEAK

Vermont's economy held up relatively well in the recent recession. Unemployment levels hovered around 4.0% for most of calendar year 2003, slightly higher than in 2002 but still about 2 percentage points below national unemployment rates, and lower than other New England States. As in other states, particularly those with a significant manufacturing sector presence, Vermont's economic recovery has been sluggish so far.

Manufacturing remains one of the core industries of Vermont's economy although the sector has declined as a percentage of industry employment as jobs have been shed. Manufacturing made up 13.6% of Vermont's non-farm employment versus 11.7% for the United States in 2002. In prior years manufacturing accounted for nearly 16% of the state's non-farm employment, versus national averages of about 13%. Tourism remains a vital source of seasonal cash flow from income and sales tax revenue for Vermont. Tourism-sensitive revenues performed reasonably during the recession and show signs of growth in the near term forecast.

Vermont's economic performance is not expected to begin expanding until the fourth quarter of calendar year 2004, delayed one quarter from the state's previous economic forecast in May 2003. While the state has seen some labor market improvement, with the recovery of about one-third of total jobs lost during the recession, the state's manufacturing sector remains weak. IBM, the state's largest employer, reduced about 1,800 jobs over the past two years, including 514 permanent job reductions in October

2003. Given the recent sharp increase in international competition for still relatively weak global demand in high tech industries, IBM's employment levels could deteriorate further.

ABOVE AVERAGE LEVELS OF RAPIDLY AMORTIZED DEBT; MODEST ISSUANCE PLANNED

Vermont's debt levels are moderately high relative to other states, on both a per capita and personal income basis although the state's ratios have declined slightly in recent years. Debt per capita of $861, compared to the state median of $606, ranked Vermont sixteenth among the fifty states in 2003. Debt to total personal income of 2.9%, compared to the 2.2% state median, ranked seventeenth representing an improvement over prior years. The state's debt authorization levels have dropped steadily over the past decade. The amount for 2004 is about two-thirds of the level authorized in 1995.

Vermont plans to issue a total of approximately $42.2 million in bonds for capital projects in 2004, including $3.2 million authorized but unissued in fiscal in fiscal 2003. The state issued short term notes to meet cash flow needs in the past two years - $75 million in fiscal year 2003 and $48 million in fiscal year 2004. The fiscal 2004 notes are due on March 5, 2003 and the state has no further short-term borrowing plans for the current fiscal year.

Outlook

Vermont's credit outlook is stable, reflecting growth in the state's primary revenue sources, increasing reserve levels, and the state's demonstrated ability to respond with budget adjustments as needed to maintain budget balance. Favorable operating performance in the years prior to the most recent recession allowed the state to build and maintain reserve funds at 5% of the prior year budgetary appropriations in each of the General, Transportation and Education Funds. These funds provided a degree of operating cushion, making the state well positioned to accommodate revenue shortfalls that occurred in fiscal 2002. Vermont's commitment to restoration of reserve levels, with full funding expected at the end of fiscal 2004, reflects the state's sound financial management and conservative fiscal policies.

Vermont's Diverse Economy, Sound Fiscal Health Support 'AA+' GO Debt Rating

Publication date: 23-Jan-2004

Analyst(s): Geoffrey Buswick, Boston (1) 617-371-0313; Karl Jacob, New York (1) 212-438-2111

Rationale

Standard & Poor’s Ratings Services assigned its ‘AA+’ rating, and stable outlook, to Vermont’s $118.595 million series 2004A GO refunding bonds.

The rating reflects the state’s:

- Strong financial management;
- Conservative debt and budgeting practices, which have helped minimize the national recession’s economic and financial effect on the state compared to other states;

- Diverse economy, which is being affected by the national recession, although with unemployment still below the nation's average; and
- Favorable debt position with a low debt burden, rapid amortization, and a trend of more debt being retired than being issued.

The state's full faith and credit pledge secures the bonds.

Vermont's economic diversification has played a central role in its relatively stable economic performance, leading to a comparably mild recession with less unemployment and revenue dislocation than most states. The state's annual unemployment has been below national levels for more than 20 years. The November 2003 unemployment rate of 4.0% was well below the nation's 5.9% rate. International Business Machines Corp. (IBM), the state's leading employer, has been affected by the national recession. IBM, which at its peak employs upward of 7,800, has laid off 1,800 employees over the past two years, returning the number of employees back to levels last seen in the early 1990s. In December, IBM announced it had secured a long-term contract with the U.S. Department of Defense, which management expects will help stabilize employment levels.

Following IBM, the state's leading employers are stable and quite diverse. The only other private company employing more than 3,000 is Fletcher Allen Health Care (BBB/Negative/--), which is based in Burlington, Vt. Fletcher Allen Health Care is the parent company of Fletcher Allen Hospital, the state's leading hospital and a 500-bed teaching hospital associated with the University of Vermont (A+/Stable/--). A number of firms exceed 1,000 employees, including Chittenden Trust, General Electric Co. (GE), Middlebury College, and a number of grocery stores.

Vermont's financial position is strong. Unlike other New England states, Vermont never fully depleted its reserves; in addition, the state already began replenishing its reserve levels in fiscal 2003. Unaudited fiscal 2003 results indicate a $10.8 million general fund surplus after transfers. The surplus was added to the budget stabilization fund, bringing it to $23.6 million or more than 50% of the required amount. The state's transportation fund closed fiscal 2003 with preliminary results indicating an $8.9 million surplus. The education fund improved operations over fiscal 2002 but still closed with a $3 million deficit. At fiscal year-end 2003, reserves on hand were nearly $50.00 million, including $23.56 million in the general fund stabilization fund, $17.24 million in the human services caseload reserve, and $9.16 million in the transportation fund. Fiscal 2004 revenues are coming in above budgetary expectations.

Vermont's GO debt burden is a low $736 per capita and 2.5% of personal income on $448.2 million of GO debt outstanding. Amortization is rapid with about 80% retired over 10 years.

Outlook

The stable outlook reflects the expectation that the state's prudent financial and debt management practices will lead to continued sound financial operations.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Actions.

For a complete list of ratings, please click the hyperlink provided here http://www2.standardandpoors.com/NASApp/cs/ContentServer?pagename=sp/Page/FixedIncomeRatingActionsPg

NEW ENGLAND ECONOMIC PARTNERSHIP
(NEEP)

Vermont Economic Outlook

May 2004

VERMONT ECONOMIC OUTLOOK 2004-08

Summary

- This revised May 2004 NEEP forecast revision for Vermont over the 2004-08 period includes a modest upward revision for most of the State's macro-indicators versus the October 2003 forecast.

- For the most part, this improved outlook is a reflection of the improvement in the U.S. economy, the beginnings of a strong 2004 construction season in Vermont, and a stabilization in the State's previously hard-hit factory sector.

- Leading the way in the State's manufacturing sector stabilization is the gradually improving outlook for information technology and the initial success of IBM, the State's largest private manufacturing employer, in accessing expanding markets.

- Vermont's rates payroll job growth (at +1.2% per year), Personal Income growth (at 4.1% per year), and output growth (at 3.1% per year) are expected to remain historically restrained and the State's progress toward recovery-expansion is expected to remain uneven.

- The State's labor market recovery is expected to be complete by the end of the second quarter of calendar 2005, but the manufacturing sector overall is expected to only stabilize during the 2004-08 forecast period.

- The highest rates of job recovery-growth are expected in the Professional & Business Services sector (at +2.3% per year), Education & Health Services sector (at +2.6% per year), and the Leisure & Hospitality sector (at +2.3% per year). However, all of these sectors are expected to increase at a rate that is below their national industry counterparts.

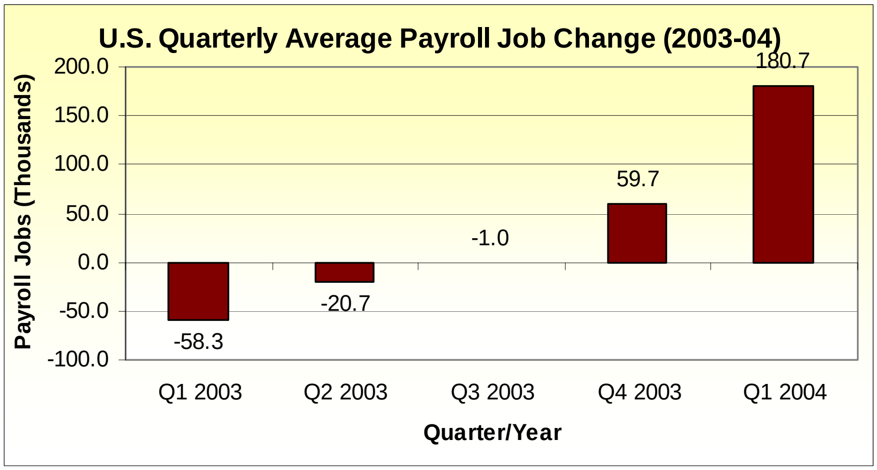
- Overall, the State is projected to recover-grow more slowly in 13 of 22 major job categories, and exceed the national rate of job recovery-growth in 8 of 22 major NAICS sectors. Vermont is expected to post a rate of job recovery that is equal to the national rate of job recovery-growth in 1 additional job category.

- Even though this forecast reflects an upgrade in the State's economic forecast relative to last Fall, several risks to the outlook remain - including rising energy prices, global uncertainty, burgeoning federal deficits, and the on-going war on terrorism. It is likely that this recovery-expansion will continue to be accompanied by an unusually high level of uncertainty into the indefinite future.

The U.S. Economic Situation

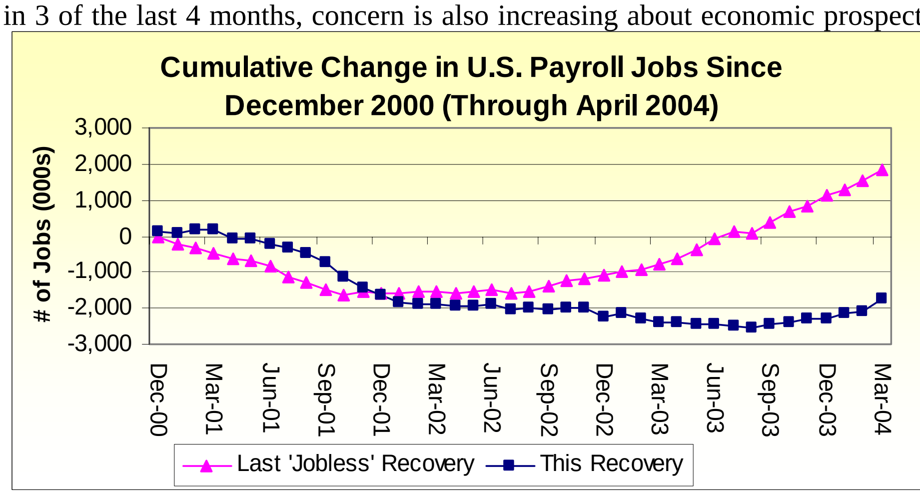
The increasing optimism of last Fall and Winter months is now becoming the tangible improvement in the economy that has been so long anticipated. Over the course of calendar 2003 and the first quarter of calendar 2004, the trends in production, consumption, and now finally, jobs in the U.S. economy are all showing real signs of a genuine rebound. Further, interest rates - although they have begun to move higher recently - continue to hold in areas that are at or near 45 year lows, and business productivity continues to show its historically unique and very strong performance dating back to the late 1990s. Further, recent U.S. Gross Domestic Product (GDP) statistics and other indicators show that business investment spending has recently increased, and the trend is similarly in the positive direction as a strong replacement cycle in the information technology sector fuels investment activity.

In addition, large increases in federal government spending and the third installment of personal and business tax relief are providing a massive fiscal stimulus to consumption and consumption-related activity. U.S. equity markets, even with their relatively downbeat performance over the past three months, have also come back impressively since the spring of 2003, and there are other indications that global economic conditions are improving as well. The above potent combination of growth supporting developments all contributed to the dramatic 8.2% growth rate in inflation-adjusted GDP during the July 1 to September 30 quarter of calendar 2003 and the two subsequent quarters of output growth north of the 4.0% level.



Given the above, there is little remaining doubt among most economic analysts and forecasters that the U.S. economy is now clearly on a path toward recovery that will soon devolve into a self-sustaining economic rebound, if it has not gotten there already. Only dramatic and negative developments in: (1) the on-going war on terrorism, (2) on the international front related to the on-going situation in Iraq, and/or (3) on the energy price front (e.g. gasoline prices recently hit a new record high at more than $1.90 per gallon) seem capable of keeping calendar year 2004 from being one of the better years for the U.S. economy in recent memory-history.

But as optimism has risen over the greater than 150,000 month-to-month increase in U.S. payroll jobs in 3 of the last 4 months, concern is also increasing about economic prospects for calendar year 2005 and 2006. Deficit spending by the federal government related to both the on-going threat of terrorism and the conflict in Iraq, and the apparent return of commodity price inflation following a historically long hiatus is increasing fears about prospects for a tightening in monetary policy and the attendant increase in interest rates. In addition, household debt burdens are high, and sales of motor vehicles and housing market activity have become somewhat overdone over the past year to 18 months. Regarding the former, the concern going forward is how households will react to increasing debt service burdens in such a rising interest rate environment. The second has



resulted in concern that rising interest rates may just be the catalyst to trigger the negative effects on consumption associated with the so-called "spent-up demand" phenomenon. "Spent-up demand" refers to the significant amount of forward buying in vehicle and housing markets that has been encouraged (to the detriment of future sales in these economically key parts of consumption activity) by the extraordinarily low interest rate levels that have characterized much of the past 3½ years since the December 2000 labor market peak. Interest rates have no way to go but up, this reasoning goes, and the only outstanding question is the timing of those prospective interest rate increases as the Fed tightens its monetary policy stance.

As improved as the near-term outlook is for the U.S. economy in calendar 2004, the pace of the labor market recovery is likely to continue to be sub-par from a historical perspective. This is because a significant portion of the job loss experienced during the most recent labor market downturn appears to be tied to structural versus cyclical issues.[1] In addition, any surge of optimism on the job recovery front also needs to be tempered with the reality that labor markets still have a lot of lost ground to recover with the U.S. economy still down nearly 1.5 million payroll jobs through April of 2004. That total still corresponds to more than one-half of total number of jobs lost during the protracted 33-month period of national labor market decline from December of 2000 through July of 2003. Indeed, with nearly 1.5 million jobs left to recover, there still is a steep job recovery hill to climb -- at nearly 181,000 jobs per month needed through December -- if the Bush Administration is to avoid the characterization that it is the first administration to lose jobs over a four-year Presidential term since the 1930s.[2] Still, since the turning point in national labor markets in August of 2003, a total of just under 1.1 million U.S. payroll jobs have been recovered, enabling the current economic rebound to legitimately shed its "job loss" label, and graduate to a not so enviable "Jobless Recovery Redux" label. The second label is apt to stick, unless or until the pace of job recovery surprises and picks up over a more sustained period of time.

The Vermont Situation

Looking at the Vermont recovery, the State's labor markets continue to make progress, but the recovery still remains somewhat uneven and sluggish. Progress at the end of calendar 2003 was hampered by the direct and indirect labor market effects of the third major job reduction at the IBM manufacturing facility in Essex Junction that was first included in the November 2003 data. As of March of 2004, announced job reductions at the IBM facility now total roughly 1,700 jobs over the past 2½ years, net of announcements of nearly 150 recent job add-backs at the facility. These reductions, and others at several other major Vermont employers, have combined to act to restrain the pace of job recovery in the State across the first 11 months of the State's labor market recovery through March of 2004. Even with those drags, it is worth noting that Vermont's pace of job recovery remains as one that is still somewhat better than the national average with just under 50% of the jobs lost during the recent labor market recession "recovered" through March of 2004. That performance has contributed to ranking Vermont 21st among the 50 states for year-over-year private sector payroll job change (and 20th for total payroll jobs) for the year ended March 2004 (March 2004 corresponding to the latest month where data are available. The State's relative job recovery performance in both major payroll job count aggregates through March also remains as the 3rd strongest among the 6 New England states. The State's relative job change performance over the past year in the more-troubled factory sector is consistent with the above data regionally (Vermont is still ranked 3rd in the New England region) but significantly more negative in a relative sense nationally. Through March of

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[1] Groshen, Erica L., and Simon Peter, **"Has Structural Change Contributed to a Jobless Recovery?,"** Current Issues in Economics and Finance, Federal Reserve Bank of New York, Volume 9 (8).

[2] The U.S. economy must average 224,000 new payroll jobs per month if the Bush Administration wants to see the economy breakeven on the payroll job front by November.

2004, Vermont ranked 36th among the 50 states in its year-over-year job change performance in the manufacturing sector with a -2.9% job change reading.

Sources of support for the Vermont labor market recovery have recently included strong levels of residential construction activity, solid rates of job recovery in the Health-Education Services sector, the Professional-Business Services, and the Leisure-Hospitality sector following a mid-Winter lull. The Financial Services sector also has made a positive contribution to the State's labor market recovery since it began in the Spring of 2003. Underpinning those developments are: (1) continued strong levels of real estate market activity (which is supporting expansions to the housing supply for single family homes and is assisting with real estate development around many of Vermont's major resort areas), (2) a reported pick up, though uneven as the value of the U.S. dollar has fluctuated, in Canadian tourism activity related to a somewhat more favorable exchange rate for the U.S. dollar versus the Canadian dollar, (3) a decent fall tourism season and a good winter season, that could have been even better if the weather had cooperated across the Christmas-New Year's holiday period (too wet…as a significant amount of rain fell to the detriment of lift ticket sales across the state during the period), and during the month of January (which was far too cold), and (4) some signs of improvement for Vermont's niche goods and services producers related to the national economic up-tick and the improving performance in business investment spending.

Even IBM, which had been a significant drag on state labor markets for more than 2 years, recently announced the addition of roughly 150 jobs to its Essex Junction manufacturing plant this past Spring. Over the last six months, the company has been reporting good initial success (as evidenced by several long-term supply contracts) with implementing its changed business model-orientation to a contract fabrication facility at the Essex Junction site. Both of those developments at the state's still largest private employer offer some hope that the difficult transition period for jobs at the facility is stabilizing—and may in fact finally be turning around to some degree.

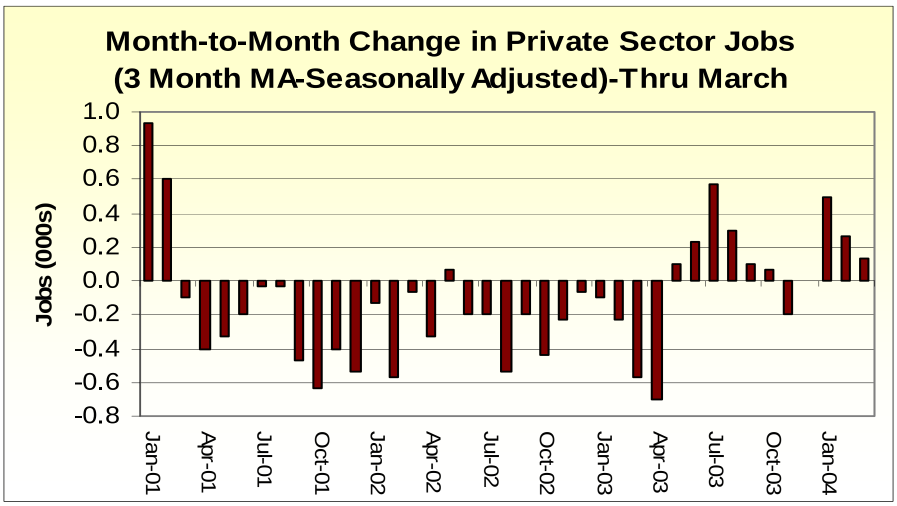
Summary Overview of Vermont's Re-Benchmarking Revisions for 2002-03

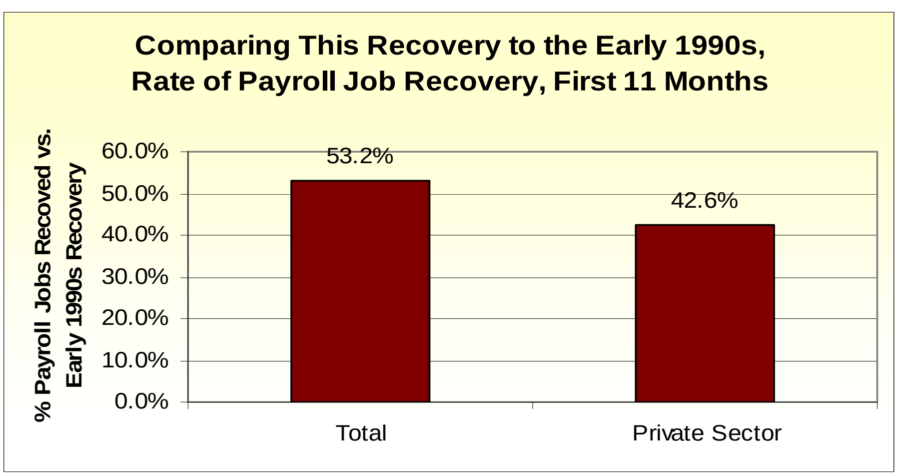
Although the "sum-of-the-states" re-benchmarking revisions for job counts and employed persons resulted in the smallest revisions in the annual rate of job growth since 1997, these same revisions of survey data in Vermont resulted in the largest changes in nearly a decade. Initial re-benchmark revisions for calendar 2003 in payroll job count numbers in the state were significant and negative, with Vermont experiencing the third largest negative adjustment in its annual job growth rate in the country (only the states of Kansas and Oklahoma had larger negative revisions). Table 1 highlights more specifically how the recent re-benchmarking revisions of the old non-farm payroll survey job

Table 1: Re-Writing Vermont's Economic History		Original Survey	Re-Bench-marked	Number Difference	Percent Difference
Total Nonfarm Jobs					
	2002	298,700	299,400	700	0.23%
	2003	302,850	298,750	-4,100	-1.35%
Annual Change 2002-2003					
	Number Change	4,150	-650	-4,800	---
	Percent Change	1.39%	-0.22%	---	---
Private Nonfarm Jobs					
	2002	248,750	248,550	-200	-0.08%
	2003	251,050	246,850	-4,200	-1.67%
Annual Change 2002-2003					
	Number Change	2,300	-1,700	-4,000	---
	Percent Change	0.92%	-0.68%	---	---
Basic Data Source: VT Department of Employment & Training					

counts were revised in this process relative to previously reported survey job counts. Total nonfarm jobs were revised downward by roughly 1.3%, and total nonfarm jobs in the private (or non-governmental) sector were revised down by an even more significant 1.7% for calendar 2003. The practical impact of these re-benchmark revisions is that there were over 4,000 fewer jobs in the Vermont economy for each payroll job aggregate than was previously thought to be the case in the initial survey data**.** The impact of these revisions was to essentially push out the original August 2002 "turning point" that was evident in the preliminary payroll job survey data for the start of Vermont's labor market recovery to April 2003 (for Total Jobs) or May 2003 (for Total Private Sector jobs). As such, Vermont's labor market recovery began roughly 9-10 months later than was indicated by the original payroll job survey data during 2003. Conversely, the State's labor market downturn during the period also was somewhat deeper than first indicated by the survey data.

One aspect of the Vermont labor market recovery that did not change with the re-benchmark revisions was the now well-established trend that the profile of the Vermont labor market recovery is uneven -- even using smoothed data. In addition, the revised data also make it clear that the pace of Vermont's labor market recovery continues to be relatively slower than the pace of the labor market recovery of the early 1990s -- much the same as is the case with the national labor market recovery as well. More specifically through March, these revised payroll job data show that roughly 3,300 total payroll jobs --corresponding to roughly half of the 6,900 payroll jobs lost during Vermont's labor market downturn have been recovered. Relative to the pace of recovery during the labor market recovery of the early-1990s, the 3,400 payroll jobs recovered to-date over the first 11 months was slightly over 53% of the pace of labor market recovery experienced in Vermont over the first 11 months of the early 1990s labor market recovery.





The Economy.com National Economic Forecast Assumptions

The Economy.com national economic forecast establishes the basis for the State's economic outlook. Economy.com provides a detailed five-year forecast for the U.S. economy to each state for each forecast cycle. The following section details the national economic forecast underpinning the Vermont economic forecast that was developed during the March-April period of 2004.

While acknowledging several key risks to the national and global economies, the national forecast scenario provided by Economy.com for the calendar 2004-08 time frame is perhaps the most upbeat in several forecast cycles. GDP is expected to post greater than 4.0% average annual rates of gain through at least mid-year, with consumption, housing construction, federally-supported infrastructure spending, and export activity all contributing positively to building of momentum in the U.S. economy. A further impetus to national recovery-growth is expected to come from a long-struggling labor market that is finally showing real and fundamental signs of improvement, with follow-on gains in business and consumer confidence leading to a genuine consolidation of the U.S. rebound sometime this Spring. The Economy.com forecast also points out that the long-depressed manufacturing sector is showing sings of a turnaround, with sales improving and a firming in prices following several years of falling prices and orders.

Even though the near-term economic outlook looks decidedly upbeat, economy.com is careful to point out that many risks -- rising energy prices, increasing inflationary pressures, high consumer debt levels-leverage, and large federal budget deficits -- remain. In addition, as much as the near-term prospects for a strong surge in economic activity have increased, so too have the risks for negative developments to occur during the first half of calendar 2005. Currently, the Economy.com forecast calls for "an orderly process" as the U.S. economy strengthens and then enters a sub-cycle in 2005. Economy.com does, however, warn that this is a tricky transition, and such transitions rarely unfold as expected.

More specifically, the Economy.com forecast reflects the above discussion. Output growth, as measured by GDP, is expected to average 4.5% for 2004, 3.2% for 2005 and roughly 3½% for the 2006-08 period. Payroll job growth is expected to average between 0.7% (in calendar 2004) and 1.7% (in calendar 2006) on an annual basis over that same period, following a –0.2% contraction in calendar year 2003. Inflation-adjusted personal income was expected to average between 2.5% (in calendar 2004) and 3.3% (in calendar 2007) over the forecast period. The Economy.com national forecast also expected that short-term interest rates will remain at historically low levels over at least the initial stages of the forecast period with rates expected to trend upward to more historically average levels as the economy strengthens throughout the balance of the 2004-08 forecast period. The outlook for overall inflation in the national Economy.com forecast as measured by the Consumer Price Index (CPI-U) and the chain-weighted GDP deflator is reflective of continued restrained, but increasing rates of inflation, against a backdrop of current and expected favorable productivity fundamentals (with rates of growth of roughly 3½% per year) over the forecast period.

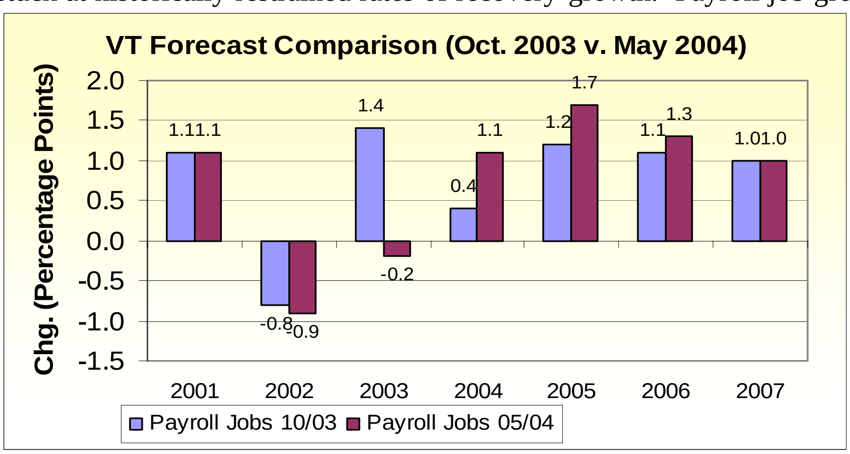
The Vermont Economic Outlook

Given the above as a backdrop, this May 2004 State economic forecast update represents only a slight upgrade in the 2004-08 forecast when compared to the State economic forecast developed during the Fall of 2003. This modest, but still across the board upward revision in the forecast is for the most part driven by the improved prospects of the national economic rebound, the beginning of a solid construction season in the State so far in the Spring of calendar 2004, and the profile of actual recovery experience in Vermont since last Fall, including the above-mentioned slight, but encouraging, turnaround at IBM (see the discussion above). The size of the upward revisions in this forecast are all less than 1.0 percentage points for all of the state's major macro-indicators. The most significant of these upward revisions are similarly weighted toward the initial stages of the forecast period as well.

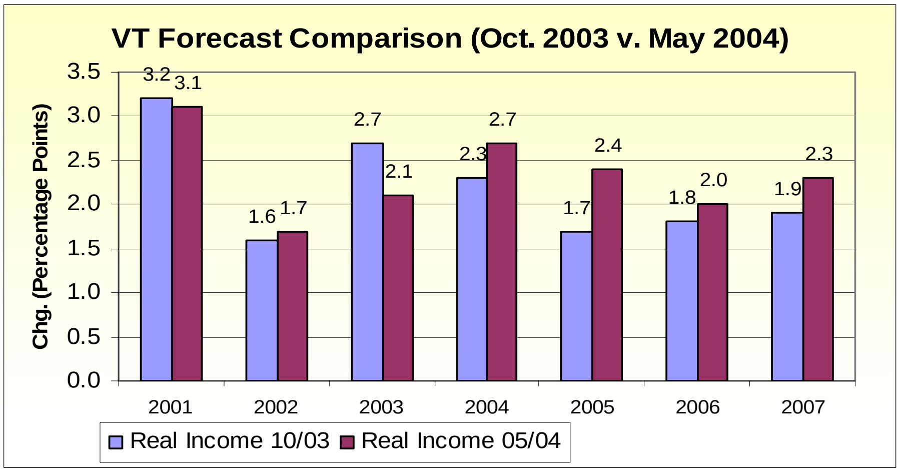
Table 2: Historical Comparison of NEEP Forecasts for Vermont (May 2004)

	2000	2001	2002	2003	2004	2005	2006	2007
Real Gross State Product				<History<	>Forecast>			
May 2001	6.8	2.0	3.6	3.3	3.1	2.8		
October 2001	4.9	0.9	0.7	3.9	2.6	2.7		
May 2002	4.6	3.1	0.6	3.3	3.4	3.0	2.7	
October 2002	5.3	1.9	1.1	1.6	3.2	2.2	2.8	
May 2003	5.3	2.5	1.2	1.6	2.7	2.6	2.9	2.5
October 2003	4.7	3.8	1.5	1.8	2.7	2.1	2.6	2.3
May 2004	4.7	3.8	1.5	0.4	3.6	2.9	3.1	3.0
DIff. Pct. Pts. 10/03-5/04	0.0	0.0	0.0	-1.4	0.9	0.8	0.5	0.7
Payroll Job Growth								
May 2001	2.3	1.2	1.7	1.7	1.4	1.4		
October 2001	2.3	0.3	-0.3	2.1	1.5	1.3		
May 2002	2.5	0.1	-0.9	1.6	2.3	1.4	1.2	
October 2002	2.5	0.1	-0.9	0.5	1.9	1.2	1.0	
May 2003	2.4	1.1	-0.8	0.2	0.9	1.7	1.3	1.1
October 2003	2.4	1.1	-0.8	1.4	0.4	1.2	1.1	1.0
May 2004	2.4	1.1	-0.9	-0.2	1.1	1.7	1.3	1.0
DIff. Pct. Pts. 10/03-5/04	0.0	0.0	-0.1	-1.6	0.7	0.5	0.2	0.0
Real Personal Income								
May 2001	3.9	2.6	3.1	3.0	2.7	2.4		
October 2001	4.2	2.0	1.4	2.6	2.3	2.4		
May 2002	3.6	4.4	-0.2	1.3	2.7	2.5	2.2	
October 2002	3.4	2.6	1.5	1.0	2.0	2.0	2.1	
May 2003	4.7	2.9	1.8	0.8	1.8	2.5	2.6	2.5
October 2003	4.9	3.2	1.6	2.7	2.3	1.7	1.8	1.9
May 2004	4.9	3.1	1.7	2.1	2.7	2.4	2.0	2.3
DIff. Pct. Pts. 10/03-5/04	0.0	-0.1	0.1	-0.6	0.4	0.7	0.2	0.4

Even so, these brightening prospects for the State's economic recovery are still uneven and remain stuck at historically restrained rates of recovery-growth. Payroll job growth is not expected to exceed the +2.0% threshold, and inflation adjusted personal income growth is similarly expected to remain below the 3% threshold level throughout the forecast period. None of the State's major macro-indicators are expected to approach the rates of growth experienced as late as calendar year 2000, the final year of the historically robust 1990s upswing. This projected subdued pace and profile of the Vermont recovery each reflects the fact that the State's factory sector remains at risk for further downsizings in several key sectors and in several key regions of the State. This risk will remain and must be acknowledged as part of any economic forecast for the State, unless or until the major employer-participants in the Vermont manufacturing sector begin to substantially join-participate in the State's overall labor market recovery.



Because the U.S. economy remains as the most significant economic driver for the Vermont economic recovery (and particularly with respect to the capital goods-intensive manufacturing and the travel and tourism sectors), this revised 2004-08 forecast for the Vermont economy remains relatively up beat. On a quarter to quarter basis, this May 2004 forecast revision expects generally sluggish rates of job recovery over the rest of calendar 2004, gradually building momentum through to mid-2005. The rates of job recovery-growth then fade somewhat and level off at the historically modest level of between 1.0% and 1.8% over the remainder of the forecast time frame. Personal Income follows a similar up and down pattern across 2004 and 2005, with the effects of rising inflation pushing out-year nominal personal income growth rates up into the 4.0% to 4.5% range in the out-years of the 2004-08 forecast.



As a result of the above, the Vermont economy overall is not expected to complete its labor market recovery (using private sector jobs as a benchmark) and make a transition to an expansionary mode until the second quarter of calendar 2005, roughly two calendar years later than expected in the previous forecast published last October (with preliminary survey data). The manufacturing sector was not projected to recover at anytime during the 2004-08 forecast horizon, but the good news is that this struggling sector is expected to stabilize during calendar 2005. This was primarily due to the encouraging signs at IBM and other major employers that indicate that the worst of the factory sector's job pressures may be behind us, although this sector is not without on-going job loss risks. This experience in the State's factory sector is a far cry from the enviable record of job additions experienced in this category through the 1990s, until the draconian declines in the global information technology sector took over to depress activity and job levels in this industry during the early 2000s.

Sector Profile

Looking at the sector profile of the Vermont forecast by NAICS[3] category, the State's relatively modest rate of job recovery-growth over the forecast period overall is reflected in the fact that the State is projected to recover-grow more slowly in 13 of 22 major categories. Vermont is expected to exceed the national rate of job recovery-growth in 8 of 22 major NAICS sectors, equaling the national rate of job recovery-growth in 1 additional category. A total of 5 of the 8 major NAICS categories where Vermont is expected to out-perform the U.S. average are found in manufacturing and reflect the expected stabilization of the state's factory sector, while the U.S. factory sector continues to decline more significantly than Vermont's. Another expected top performer for the Vermont economy is the Construction sector, reflecting the continued shortage of housing units across the State and the strong level of development activity at many of the State's major resorts. The final two relatively better performing NAICS sectors in Vermont over the forecast period are services-producing sectors. In addition, even though the State's Professional & Business Services sector (at +2.3% per year),

[3] NAICS refers to North American Industry Classification System.

Education & Health Services sector (at +2.6% per year), and the Leisure & Hospitality sector (at +2.3% per year) are expected to post the strongest rates of job addition over the forecast period, none of the above are expected to match the relatively higher rates of job addition expected in the U.S. economy over the same period. This sector by sector breakdown is consistent with the profile of the State's labor market recovery to-date (Table 3).

Table 3: Measuring Vermont's Labor Market Recovery by NAICS Sector

	High	Low	Present (Mar-04)	# Jobs change	# of Jobs Recovered	% Recovered
Total-Private Industries	253.8	244.9	247.4	8.9	2.5	28.1%
Construction	15.4	14.7	15.8	0.7	1.1	157.1%
Manufacturing	47.4	36.9	37.0	10.5	0.1	1.0%
Retail Trade	40.2	38.5	39.2	1.7	0.7	41.2%
Professional & Business Services	21.1	19.9	20.5	1.2	0.6	50.0%
Private Education Services	12.5	11.9	12.5	0.6	0.6	100.0%
Health Care & Social Assistance	38.9	35.1	41.0	3.8	5.9	155.3%
Leisure & Hospitality	33.9	31.5	32.9	2.4	1.4	58.3%

Source: VT Department of Employment & Training

Risks to this Revised NEEP Outlook

As with previous outlooks, there are a number of enduring risks that could short-circuit an otherwise positive Spring 2004 NEEP forecast revision. These risks include the following:

(1) The threat of continued high and rising energy prices -- with recent talk of over $50 per barrel crude oil prices and per gallon gas prices in excess of $2.00 per gallon. This could siphon off considerable amounts of disposable income for the foreseeable future,
(2) On-going global economic uncertainty, including economic weakness in Latin America, Japan, and significant parts of Europe. In addition, can China really engineer the economic "soft-landing" Chinese marco- and fiscal-policymakers are rumored to desire to cool off that country's super-heated economy,
(3) The persistently high and increasing U.S. current account deficit that threatens to disrupt/undermine international financial flows,
(4) The still fragile business capital spending response and continued historically weak hiring activity, particularly in goods-producing sectors, that threatens to keep the pace of recovery historically slow and fragile,
(5) The longer-term threat of higher interest rates and the somewhat overdone vehicle sales and housing markets
(6) The dramatic deterioration of the federal budget situation and the on-going fiscal weakness for the state-local governments and the potential to exacerbate the likely rise in interest rates (e.g. make this increase worse than it otherwise would be),
(7) The threat of rising interest rates and their impact on ongoing high consumer debt levels,
(8) A dramatic deterioration in the military operations currently underway in Iraq, and
(9) The ongoing, terrorist threat throughout the U.S., the western world, and Asia.

In addition, there are a number of threats to the outlook that reflect the Vermont situation. As mentioned in previous NEEP Outlooks for Vermont, examples these threats include:

(1) The relatively high, even non-competitive, level of electrical energy costs in Vermont versus the national average (which threatens Vermont's already fragile manufacturing sector),

(2) The recent judicial order that halted construction of the Chittenden County circumferential highway and the permit review uncertainty that implies for many larger development projects and expansion plans for major employers in that region of the State, and

(3) The long-standing regulatory-development review uncertainty (this is likely to be mostly on the local level now that Act 250 reform legislation has passed) and associated increased costs that significantly increase the cost of development and are adversely impacting real estate markets in certain parts of the State.

The downside risk in this latest forecast revision is consistent with the risk assessment that has been included in the various NEEP over the past two years and is likely to remain that way over the near term future. As the U.S. and Vermont economies begin to move forward at a more typical character and pace, this risk will diminish somewhat. However, it is likely that this recovery-expansion will continue to be accompanied by an unusually high level of uncertainty into the indefinite future.

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