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CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

State of

Vermont

RECOMMENDED ANNUAL GENERAL OBLIGATION DEBT AUTHORIZATION

September 2005

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INTRODUCTION

We are pleased to present this report to the Capital Debt Affordability Advisory Committee of the State of Vermont (the "Committee" or "CDAAC"). 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, 2007).

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 2016.

In fiscal year 2005, a total of $61.8 million of G.O. debt was issued ($41 million from the authorized amount for FY 2005, plus $20.8 million to advance refund portions of various Series of State General Obligation Bonds) while $65.2 million of G.O. debt, including the effect of the refunding, as more extensively presented herein, was retired. During fiscal 2004, the State sold $48 million General Obligation Revenue Anticipation Notes ("RANs"), which were repaid on March 5, 2004. However, there were no RANs sold by the State during fiscal 2005. As the RANs are considered self-supporting debt (and are excluded from "net tax-supported debt" by the rating agencies), they would not, as a general matter, be included in this report. It is expected that during FY 2006 a total of $45 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 2007 of $45 million. The reasons for CDAAC's recommendation of $45 million are set forth below under "Reasons for Fiscal 2007 Recommended Authorization."

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 25th in 2004 to 27th in 2005) and net tax-supported debt per capita (i.e., from 24th in 2003 to 25th in 2004).

Last year, in September 2004, the Committee adopted new debt guidelines, reflecting the State's comparative current and prospective performance in terms of debt load measures (i.e., debt per capita and debt as a percent of personal income) against triple-A rated states. These new guidelines will be referenced frequently throughout the report. The new set of guidelines indicate (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.

Reasons For Fiscal 2007 Recommended Authorization

As stated above, CDAAC is proposing that the maximum amount of long-term GO debt authorized for the State in fiscal 2007 be $45 million. The rationale for this recommendation is presented below:

1. The fiscal 2005 recommended authorization rose by over 5% to $41 million and the fiscal 2006 recommended authorization increased by nearly 10% to $45 million, or over 15% in two years. In percentage terms, this two-year growth is relatively quite large, and an additional, meaningful increase for fiscal 2007 could send the message to many parties, including the financial community, most especially, the rating agencies, that Vermont was no longer following a restrained debt issuance program.

2. CDAAC believes that the fiscal 2007 recommended authorization is consistent with its policy of trying to provide important capital contributions to the State's physical infrastructure requirements within a framework of acceptable debt affordability. Toward this end, by adopting a debt authorization of $45 million for fiscal 2007, CDAAC is still proposing another $6 million above the fiscal 2004 recommended level. Thus, over the last three years, including fiscal 2007, CDAAC has recommended a sizeable amount of new capital funding for Vermont – that is, an additional $14 million of proceeds in aggregate from the sale of general obligation debt toward the State's capital improvement program.

3. CDAAC has been informed that the State recently incurred capitalized leases in an amount not fully quantified but that could approach $1 million. This ultimately determined amount would be additive to State net tax supported debt in addition to the $45 million of proposed new general obligation debt in FY 2007.

4. CDAAC also has some concerns about the economic and financial uncertainties affecting the country near-term, particularly in the aftermath of hurricane Katrina. With rising oil prices and the potential increasing of Federal deficits that could grow out of a substantial aid package for the gulf coast, combined with higher interest rates, as orchestrated by the Federal Reserve, the economic and financial outlook of the State and the country is now somewhat more precarious; as a result, CDAAC believes it is a more prudent course of action for the State at present to be modest, if not conservative, with respect to new authorizations of future State indebtedness.

5. Based on current projections, the $45 million debt authorization amount is expected to allow the State to be in line with all debt guidelines by 2009. Higher amounts would delay this occurrence.

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 $45 million in fiscal year 2006 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 2005 published by the New England Economic Partnership ("NEEP").

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

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1. DEBT STATISTICS

Net Tax-Supported Debt Outstanding

The State's aggregate net tax-supported principal amount of debt decreased from $444.7 million as of June 30, 2004 to $440.3 million as of June 30, 2005, a decrease of 0.99%. Except for the fiscal year 2002, when a carry-forward amount of authorization was included in the debt issue, for each of the years during the period 1999-2005, the State retired more general obligation bonds than it sold, including the issuance of refunding debt.

The table below sets forth the sources of the change in net tax-supported debt outstanding from 2004 to 2005 (in thousands):

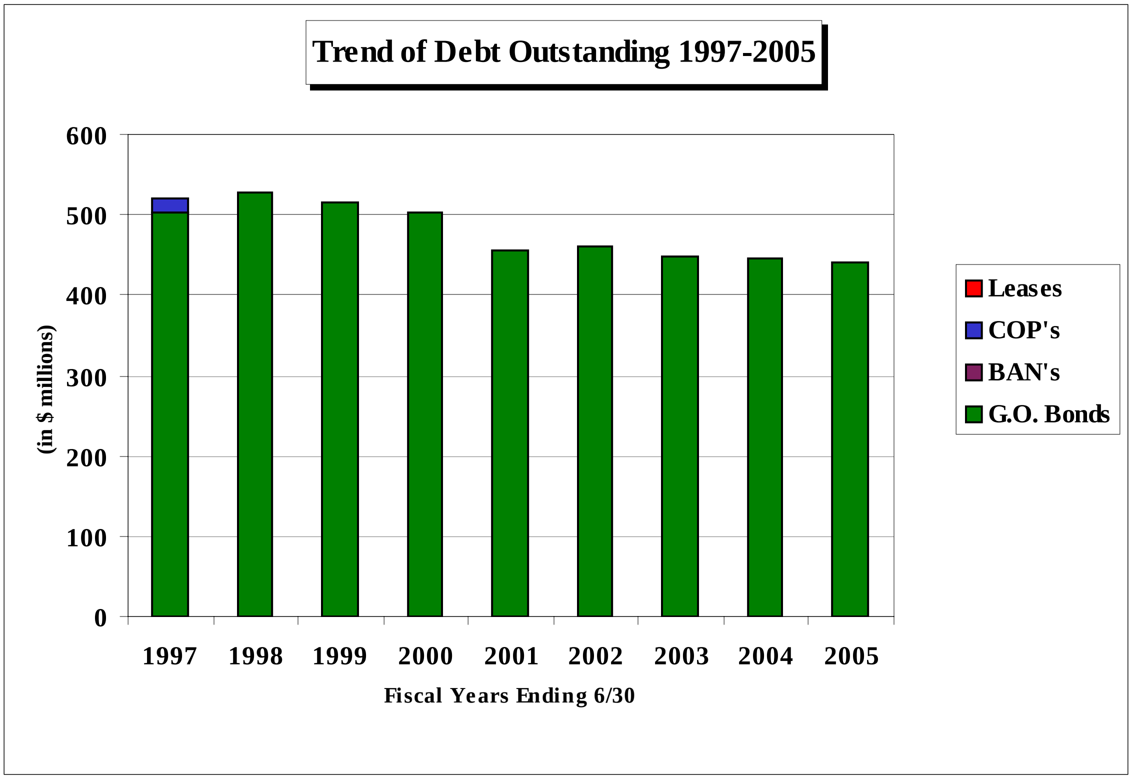
Net Tax-Supported Debt as of 6/30/04	$444,683
G.O. New Money Bonds Issued	41,000
G.O. Refunding Bonds Issued	20,805
Less: Retired G.O. Bonds	(45,327)
Less: Advance Refunded G.O. Bonds	(20,895)
Net Tax-Supported Debt as of 6/30/05	$440,266

Debt Statement

As of June 30, 2005 ($ Thousands)

General Obligation Bonds*:	
General Fund	412,900
Transportation Fund	13,656
Special Fund	13,710
Contingent Liabilities:	
VEDA Mortgage Insurance Program	8,475
VEDA Financial Access Program	868
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	475,355
Vermont Housing Finance Agency	97,485
VEDA Indebtedness	70,000
Gross Direct and Contingent Debt	1,092,449
Less:	
Contingent Liabilities	(9,343)
Reserve Fund Commitments	(642,840)
Net Tax-Supported Debt	**440,266**

* Includes Capital Appreciation Bonds.

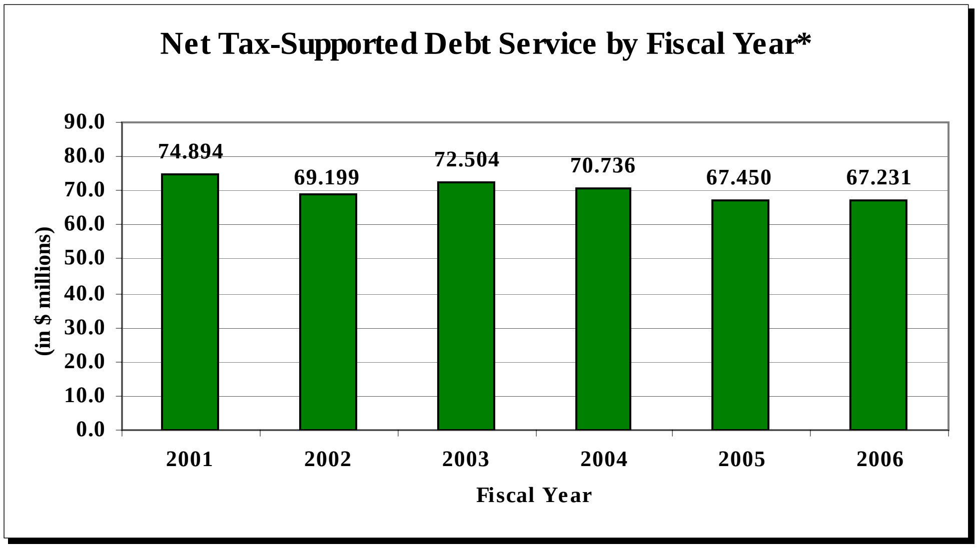


Net Tax-Supported Debt Service by Fiscal Year

- The State's net tax-supported fiscal year debt service requirement for fiscal year 2006 will be $67.2 million, 0.3% less than the $67.5 million paid in fiscal year 2005. This decrease comes after a 4.6 decrease in 2005, 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.

Net Tax-Supported Debt Service Due in FY 2005 [1]	$67,450
Decrease in Annual D/S Requirement FY 2005-2006 [1]	(3,694)
Increase Due to G.O. Debt Issued	3,475
Net Tax-Supported Debt Service Due in FY 2006	$67,231

(1) Includes $20,895,000 G.O. Bonds refunded during FY 2005.



Includes General Obligation Bonds.

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005
G.O. Bonds	501.7	528.6	515.4	503.0	454.9	460.5	448.2	444.7	440.3
BANs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
COPs	19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leases*	15.4	0.0	1.9	0.9	0.0	0.0	0.0	0.0	0.0
TOTAL	**536.2**	**528.6**	**517.3**	**503.9**	**454.9**	**460.5**	**448.2**	**444.7**	**440.3**

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

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PROJECTED GENERAL OBLIGATION NET TAX-SUPPORTED DEBT
As of June 30, 2005
(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
2006	412,900	62,702	13,656	2,146	13,710	2,383	440,266	67,231
2007	370,861	60,228	12,128	2,086	12,005	2,495	394,994	64,809
2008	330,448	57,202	10,594	1,995	10,105	2,496	351,147	61,693
2009	291,774	55,049	9,088	1,912	8,120	2,496	308,982	59,457
2010	253,899	50,518	7,594	1,795	6,030	2,500	267,523	54,813
2011	219,025	46,603	6,146	1,728	3,825	1,026	228,996	49,358
2012	186,788	40,775	4,695	1,642	2,985	626	194,468	43,043
2013	156,001	34,760	3,259	790	2,505	628	161,765	36,178
2014	129,060	33,701	2,605	760	2,000	629	133,665	35,089
2015	102,252	23,792	1,953	472	1,470	633	105,675	24,897
2016	82,792	19,823	1,563	356	910	636	85,265	20,815

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2. ECONOMIC AND FINANCIAL FORECASTS

This section of the report is based on the economic analysis provided by NEEP for the State of Vermont. NEEP's report, "Vermont Economic Outlook", dated May 12, 2005 (a copy is enclosed in the Appendices), states "the Vermont Spring 2005 forecast charts a familiar course, essentially following a now well-worn path. Overall, the outlook is for a positive, but restrained and at times uneven path and pace to economic and labor market activity through the 2005-2009 forecast period."

For the most part, the improved outlook reflects the improving tone of activity in the U.S. economy overall, the strong real estate market and attendant upbeat construction activity, a stabilization in the State's previously hard-hit factory sector (including IBM's Essex Junction facility), and continued job growth success in the State's services-producing sectors.

Job and wage-salary growth is considered as one of the few important growth supporting factors. As the U.S. economy exhausts the economic stimulus from the federal tax cuts and enters the rising interest rate environment, the State will have to rely more on the job creation and wage-salary growth to maintain a reasonable level of consumption spending and therefore economic activity. "Payroll job growth is expected to, for the most part, fluctuate within a +1.0% to +1.4% range over next 6-7 quarters." Education & Health Services sector, the Professional & Business Services sector, and the Financial Activities sector will experience the highest rates of job growth over the 2005-2009 forecast period at +2.2% per year, +2.1% and 1.3% respectively. There also will be a "decent level of business activity in the travel-tourism sector."

Second on the list of growth supporting factors was reported to be the housing sector. "Residential construction activity … remains strong in many regions of the State – but particularly around the state's major destination resort areas." Strong resort area activity combined with the demand for both vacation-retirement-second homes and in-state residential real estate helped, according to the report, to fuel a boom in real estate sales activity which resulted in strong transaction and capital gains income increases in Vermont. Another growth supporting factor is "the still positive capital spending situation and outlook."

The report also states some risks and developments which might impact the pace and path of recovery-expansion for the Vermont economy. Those risks to NEEP's forecast include: (1) energy price risks, (2) the unsustainable twin deficits – the federal budget deficit and current account deficit which may undermine the confidence in the U.S. dollar, (3) rising inflationary pressures, (4) high consumer debt levels-leverage which may become a major concern in "increasingly speculative national housing market." Also the state faces critical demographic changes: shrinking household size and increasing Medicaid spending due to the aging population will place fiscal strains on the State's budget "even before most of the baby-boom generation is retired."

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

As shown in the table below, EPR's population estimate for 2005 is about 1/4 of 1% greater than its forecast for 2004, and its estimates of future population growth average about 0.49% annually from 2006 through 2016. Personal income increased 5.7% from 2004 to 2005 and is projected to achieve an average annual growth rate of 4.5% from 2006 through 2016. Estimated full valuation increased 4.3% from 2004 to 2005 and is projected to achieve an average annual growth rate of 2.6% from 2006 through 2016. EPR's current and projected General Fund and Transportation Fund revenues are shown in the table on the following page.

Current and Projected Economic Data (1)

Year	Population (in thousands)	Personal Income (in $ billions)	E.F.V. (in $ millions)
2003	619.3	19.13	49,748
2004	621.4	20.32	50,827
2005	623.1	21.47	53,034
2006	624.7	22.63	55,869
2007	627.9	23.72	57,770
2008	632.2	24.73	59,264
2009	635.6	25.75	60,310
2010	638.5	26.95	61,755
2011	641.5	28.17	63,230
2012	645.5	29.48	64,729
2013	649.1	30.79	66,082
2014	652.2	32.10	67,535
2015	655.2	33.45	68,934
2016	657.7	34.91	70,257

(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 on the following page, total revenue for fiscal year 2005 is $62.6 million more than in 2004, an increase of 5.3%. Fiscal year 2006 growth is forecast at 2.6%, and the average annual growth rate during the period 2006 through 2016 is expected to be approximately 3.4%.

Current and Projected Revenues (2)

Fiscal Year	General Fund	Transportation Fund	Total Revenue
2004	967.0	214.6	1,181.6
2005	1,035.3	208.9	1,244.2
2006	1,059.0	217.3	1,276.3
2007	1,081.0	221.7	1,302.7
2008	1,112.1	226.2	1,338.3
2009	1,161.1	230.1	1,391.2
2010	1,211.6	235.3	1,446.9
2011	1,261.4	237.4	1,498.8
2012	1,314.3	242.8	1,557.1
2013	1,368.2	244.4	1,612.6
2014	1,422.4	248.9	1,671.3
2015	1,479.7	250.4	1,730.1
2016	1,540.0	255.1	1,795.1

(2) In millions of dollars. Amounts for FY 2006-2016 are "current law" revenue forecasts based on a consensus between the State's administration and legislature.

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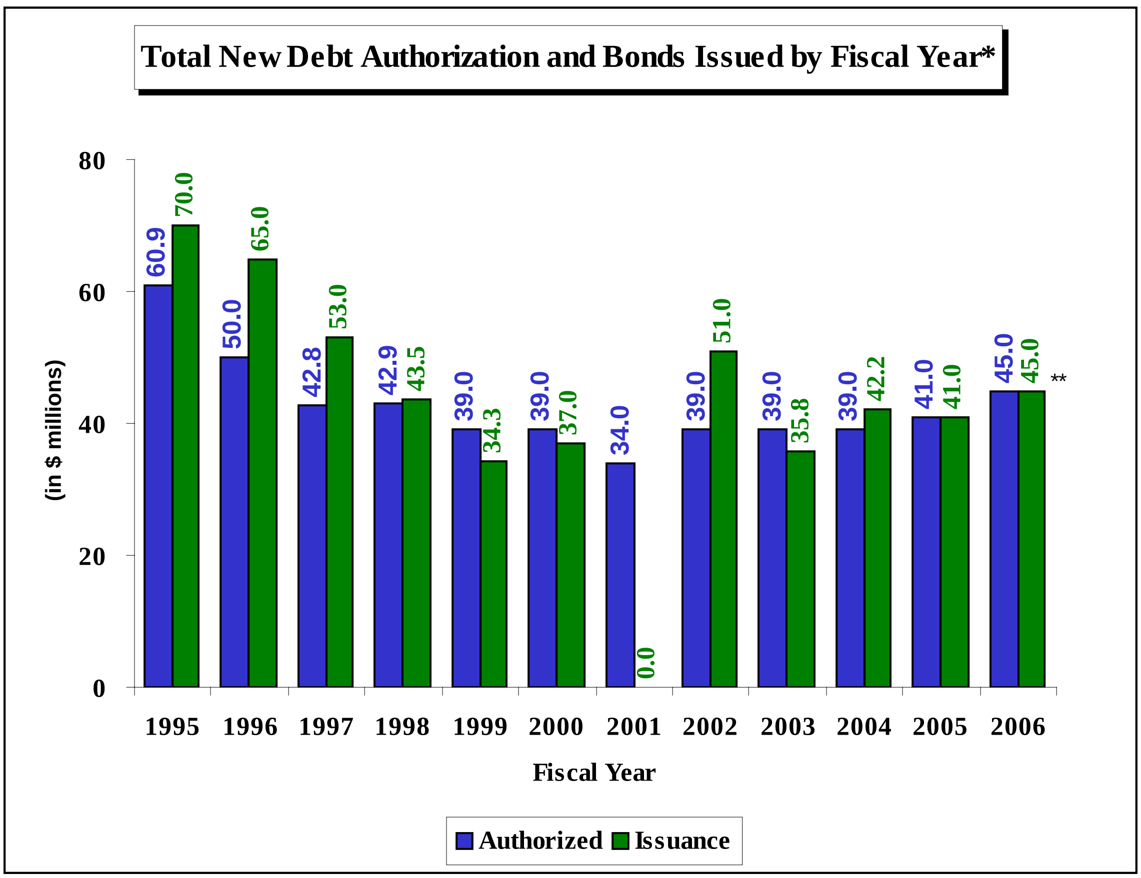
3. DEBT AUTHORIZATIONS AND PROJECTION SCENARIOS

Recent Debt Authorizations

During fiscal year 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 was sold, representing the full amount of that year's authorization. During fiscal year 2006 $45 million of debt is expected to be sold, the total amount of the 2006 authorization. We believe this trend in which the State has annually extinguished all or nearly all of the authorized amount of debt so that there doesn't exist a rising residual amount of authorized but unissued debt has enhanced the State's credit position with favorable responses from the rating agencies. The following chart presents the amounts of G.O. debt that have been authorized and issued by the State of Vermont since 1995.



** Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances. Note: It should be emphasized that a sizeable amount of the $34 million authorization in 2001 was paid down through pay-as-you-go funding and the use of surplus funds.*
*** Anticipated to be issued.*

General Obligation and General Fund Supported Bond Debt Service Projections

The State's projected annual G.O. debt service and debt outstanding are presented on the following page and summarized below. The projected debt service assumes the issuance of $45 million in G.O. debt during fiscal year 2006 and $45 million annually thereafter through fiscal year 2016.

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
2005	67,450	6/30/2005	440,266
2006	67,231	6/30/2006	439,994
2007	69,879	6/30/2007	438,777
2008	71,691	6/30/2008	436,872
2009	74,240	6/30/2009	433,303
2010	74,240	6/30/2010	430,296
2011	73,286	6/30/2011	428,918
2012	71,330	6/30/2012	426,995
2013	68,682	6/30/2013	427,305
2014	71,668	6/30/2014	425,355
2015	65,407	6/30/2015	428,615
2016	65,116	6/30/2016	432,680

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EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)													
FY	Current D/S	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	2016 Issue $45MM	Total Est. D/S
2006	67,231												67,231
2007	64,809	5,070											69,879
2008	61,693	4,928	5,070										71,691
2009	59,457	4,786	4,928	5,070									74,240
2010	54,813	4,643	4,786	4,928	5,070								74,240
2011	49,358	4,501	4,643	4,786	4,928	5,070							73,286
2012	43,043	4,359	4,501	4,643	4,786	4,928	5,070						71,330
2013	36,178	4,217	4,359	4,501	4,643	4,786	4,928	5,070					68,682
2014	35,089	4,075	4,217	4,359	4,501	4,643	4,786	4,928	5,070				71,668
2015	24,897	3,932	4,075	4,217	4,359	4,501	4,643	4,786	4,928	5,070			65,407
2016	20,815	3,790	3,932	4,075	4,217	4,359	4,501	4,643	4,786	4,928	5,070		65,116

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)													
FY	Current Principal	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	2016 Issue $45MM	Total Est. Principal
2006	45,272												45,272
2007	43,847	2,370											46,217
2008	42,165	2,370	2,370										46,905
2009	41,459	2,370	2,370	2,370									48,569
2010	38,527	2,370	2,370	2,370	2,370								48,007
2011	34,528	2,370	2,370	2,370	2,370	2,370							46,378
2012	32,703	2,370	2,370	2,370	2,370	2,370	2,370						46,923
2013	28,100	2,370	2,370	2,370	2,370	2,370	2,370	2,370					44,690
2014	27,990	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370				46,950
2015	20,410	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370			41,740
2016	17,235	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370	2,370		40,935

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)													
FY	Current Debt	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	2016 Issue $45MM	Total Est. Debt
2005	440,266												440,266
2006	394,994	45,000											439,994
2007	351,147	42,630	45,000										438,777
2008	308,982	40,260	42,630	45,000									436,872
2009	267,523	37,890	40,260	42,630	45,000								433,303
2010	228,996	35,520	37,890	40,260	42,630	45,000							430,296
2011	194,468	33,150	35,520	37,890	40,260	42,630	45,000						428,918
2012	161,765	30,780	33,150	35,520	37,890	40,260	42,630	45,000					426,995
2013	133,665	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000				427,305
2014	105,675	26,040	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000			425,355
2015	85,265	23,670	26,040	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000		428,615
2016	68,030	21,300	23,670	26,040	28,410	30,780	33,150	35,520	37,890	40,260	42,630	45,000	432,680

4. DEBT RATIOS

G.O. Debt Guidelines

As a result of the State's continuing ability, illustrated in recent years, to meet, by considerable margins, certain debt load guidelines established in the early 1990s, CDAAC developed and adopted last year 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 are numerous advantages to the State in being assigned to a triple-A rating. First, it will reduce the State's own borrowing 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 a triple-A rating for Vermont. Third, CDAAC believes that the State's economic development efforts will 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 has adopted guidelines that are consistent with a triple-A rated state. As such, there are four guidelines that are followed by CDAAC in the development of the 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 2007 proposed general obligation authorization amount, the State is able to meet three of the four standards for both debt per capita and debt as a percent of personal income. Vermont, at present, is not able to meet the five-year average for the median debt per capita for triple-A rated states. It is our expectation that the spread between the average and Vermont's performance with respect to the median related to debt per capita should close over time; 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 has adopted the guideline of limiting annual general obligation debt service to no more than 6% of operating revenues, consisting of the annual aggregate of General and Transportation Funds. At present and based on the 2007 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.

This section discusses the impact of the proposed issuance of $45 million of G.O. debt during FY 2006 and $45 million of G.O. debt annually during FY 2007-2016 on the State's key debt ratios. Please refer to the "Historical and Projected Debt Ratios" on page 19 for the statistical detail described below.

Debt Per Capita

The Committee has adopted a guideline for the State to equal or perform better than the 5-year average for the mean and median of triple-A rated states on the basis of debt per capita. At present, the targets are $753 for the mean and $625 for the median. Based on data from Moody's Investors Service, Vermont's 2005 debt per capita figure of $716 is better than the 5-year average mean for triple-A rated states but is well above the median. However, looking at 2005 figures alone for triple-A rated states, Vermont's relative comparison improves, although the State is still not able to match the median. Using the 5-year average for triple-A rated states and increasing it by recent growth, combined with an assumption that the State will issue $45 million through 2016, it appears that Vermont will match the 5-year median for triple-A rated states in 2009 (see "Historical and Projected Debt Ratios"). It should be noted that the five-year averages for the State are above both the five-year averages for both mean and median for triple-A rated states. Nonetheless, the debt numbers for Vermont have been falling while those of the triple-A rated states, on a composite basis, have been rising – that explains the reason that the State should incrementally improve its relative position regarding debt per capita over time.

Debt as a Percent of Personal Income

The Committee has adopted a guideline for the State to equal or perform better than the 5-year average for the mean and median of triple-A rated states on the basis of debt as a percent of personal income. At present, the targets are 2.6% for the mean and 2.4% for the median. Based on data from Moody's Investors Service, Vermont's 2005 debt as a percent of personal income figure of 2.3% is better than the 5-year average mean and median for triple-A rated states. Moreover, considering the 2005 figures alone, Vermont's relative comparison improves even more, with a widening gap between Vermont's figure and those of the triple-A rated states. Using the 5-year average for triple-A rated states for the median at 2.4% and assuming that the State will issue $45 million through 2016, Vermont should continue to improve relative to the 5-year average of mean and median for triple-A rated states (see "Historical and Projected Debt Ratios"). It should be noted that the five-year averages for the State are currently above both the five-year averages for both mean and median for triple-A rated states.

Debt Service as a Percentage of Revenues[1]

This ratio, reflecting annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds, is currently 5.4%. With the projected issuance of G.O. debt, this ratio is projected to decrease to 5.3% for the fiscal year ending 6/30/2006, increase to 5.4% for the next two fiscal years, and drop 0.01%-0.05% annually thereafter until 2016, at which time it is estimated to be 3.6%. As noted elsewhere herein, the State's newly adopted standard for this category is 6% of annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds. At present and for the foreseeable future, it is anticipated that the State will continue to satisfy this standard by reasonable margins.

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 6/30/2006. Thereafter, we project this ratio to decline 0.01% every five years, and expect it to be at 0.6% by 2016.

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 in the past 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.

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

STATE OF VERMONT
MOODY'S INVESTORS SERVICE
DEBT PER CAPITA

Triple-A Rated States	2001	2002	2003	2004	2005
Delaware	$1,616	$1,650	$1,599	$1,800	$1,865
Georgia	679	804	802	827	803
Maryland	819	879	977	1,077	1,064
Minnesota	546	576	625	691	679
Missouri	288	347	368	461	449
North Carolina	340	375	429	556	682
South Carolina	398	615	587	599	558
Utah	634	708	682	846	792
Virginia	537	566	546	546	589
MEAN	**651**	**724**	**735**	**823**	**831**
MEDIAN	**546**	**615**	**625**	**691**	**682**
Vermont	828	813	861	724	716

Triple-A Rated States
5-Year Averages:
MEAN: triple-A states: $753; Vermont: $788
MEDIAN: triple-A states: $625; Vermont: $813

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

Triple-A Rated States	2001	2002	2003	2004	2005
Delaware	5.5%	5.3%	5.0%	5.6%	5.5%
Georgia	2.6	2.9	2.9	2.9	2.8
Maryland	2.6	2.6	2.8	3.0	2.9
Minnesota	1.8	1.8	1.9	2.0	2.0
Missouri	1.1	1.3	1.3	1.6	1.5
North Carolina	1.4	1.4	1.6	2.0	2.5
South Carolina	1.8	2.5	2.4	2.4	2.2
Utah	2.8	3.0	2.9	3.5	3.2
Virginia	1.9	1.8	1.7	1.7	1.8
MEAN	**2.4**	**2.5**	**2.5**	**2.7**	**2.7**
MEDIAN	**1.9**	**2.5**	**2.4**	**2.4**	**2.5**
Vermont	3.3	3.0	3.0	2.5	2.3

Triple-A Rated States
5-Year Averages:
MEAN: triple-A states: 2.6%*; Vermont: 2.8%
MEDIAN: triple-A states: 2.4%; Vermont: 3.0%

STATE OF VERMONT
APPROACH TOWARD ESTABLISHING DEBT RATIO GOALS
Comparative Mean Debt Ratios*

Per Capita	2001	2002	2003	2004	2005
All States	$ 820	$ 810	$ 838	$ 944	$999
Triple-A**	651	724	735	823	831
VERMONT	**828**	**813**	**861**	**724**	**716**
% of Pers. Inc.	**2001**	**2002**	**2003**	**2004**	**2005**
All States	3.0%	2.7%	2.7%	3.1%	3.2%
Triple-A**	2.4	2.5	2.5	2.7	2.7
VERMONT	**3.3**	**3.0**	**3.0**	**2.5**	**2.3**

* Based on data provided by Moody's Investors Service.
** Nine states rated triple-A by one or more of the nationally recognized rating agencies: Delaware, Georgia, Maryland, Minnesota, Missouri, North Carolina, South Carolina, Utah and Virginia.

Historical and Projected Debt Ratios

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

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Historical and Projected Debt Ratios

Fiscal Year (ending 6/30)	Net Tax-Supported Debt Per Capita (in $): State of Vermont	Moody's Median	State's Rank [4]	Net Tax-Supported Debt as Percent of Personal Income: State of Vermont	Moody's Median	State's Rank [4]	Net Tax-Supported Debt as Percent of Estimated Full Valuation: State of Vermont	Moody's Median	State's Rank [4]	Net Tax-Supported Debt Service as Percent of Revenues [5]: State of Vermont	Moody's Median	State's Rank [4]
Actual [1]												
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	3.0	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.
2005	716	703	25	2.3	2.4	27	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current [2] [3]	709	n.a.	n.a.	2.2	n.a.	n.a.	0.8	n.a.	n.a.	5.4	n.a.	n.a.
Projected (FYE 6/30) [3]		State Guideline			State Guideline						State Guideline	
2006	706	641		2.0	2.4		0.8			5.3	6.0	
2007	702	658		1.9	2.4		0.7			5.4	6.0	
2008	696	675		1.8	2.4		0.7			5.4	6.0	
2009	685	693		1.8	2.4		0.7			5.3	6.0	
2010	677	711		1.7	2.4		0.7			5.1	6.0	
2011	672	729		1.6	2.4		0.7			4.9	6.0	
2012	666	748		1.5	2.4		0.6			4.6	6.0	
2013	662	767		1.4	2.4		0.6			4.3	6.0	
2014	655	789		1.4	2.4		0.6			4.3	6.0	
2015	657	810		1.3	2.4		0.6			3.8	6.0	
2016	660	831		1.3	2.4		0.6			3.6	6.0	
5-Year Average Moody's Median (2001 through 2005, inclusive)		625			2.3			n.a.			n.a.	
5-Year Average Moody's Median For Triple-A States		625			2.4			n.a.			n.a.	

(1) Actual data for 1995 to 2005 were compiled by Moody's Investors Service.
(2) Calculated by Government Finance Associates, Inc.
(3) Projections assume the issuance of $45 million of G.O. debt during FY 2006-2016.
(4) Rankings are in numerically descending order (i.e., from high to low debt).
(5) 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 a period of years, have brought down the State's debt ratios.

- The Committee adopted new debt authorization guidelines in order to compare Vermont's debt load performance against triple-A states. As a general matter, while the State's five year performance doesn't quite compare as well, the State's current debt position is more positive than the composite results for triple-A states, except for one standard.

- 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 and budgetary surplus 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 81% 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 2005, as determined by Moody's Investors Service, on the basis of net tax-supported debt as a percent of personal income (i.e., from 25th in 2004 to 27th in 2005). Vermont's position also improved, as determined by Moody's Investors Service, with respect to net tax-supported debt per capita (i.e., from 24th in 2004 to 25th in 2005).

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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, 2005):

1. VEDA Mortgage Insurance Program: The State had a contingent liability of $8.5 million with respect to this Program.

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

- Reserve Fund Commitments (all figures as of June 30, 2005):

1. Vermont Municipal Bond Bank: The Bank had $475.4 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 $97.5 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 $70 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 can annually afford to issue.

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7. APPENDICES

A. 2005 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)

May 2005

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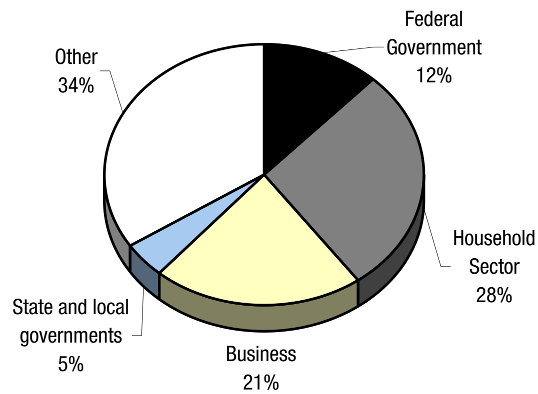
2005 State Debt Medians

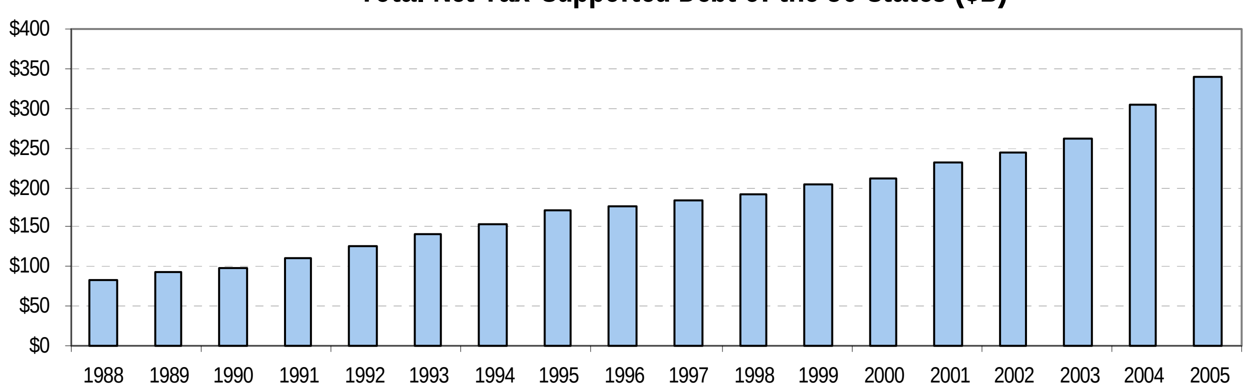
This special comment presents Moody's annual analysis of the 2005 State Debt Medians. The debt medians are based on two measures of state debt burden — debt per capita and debt as a percentage of personal income. They are based on the analysis of tax-exempt and taxable municipal obligations issued by 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 may 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



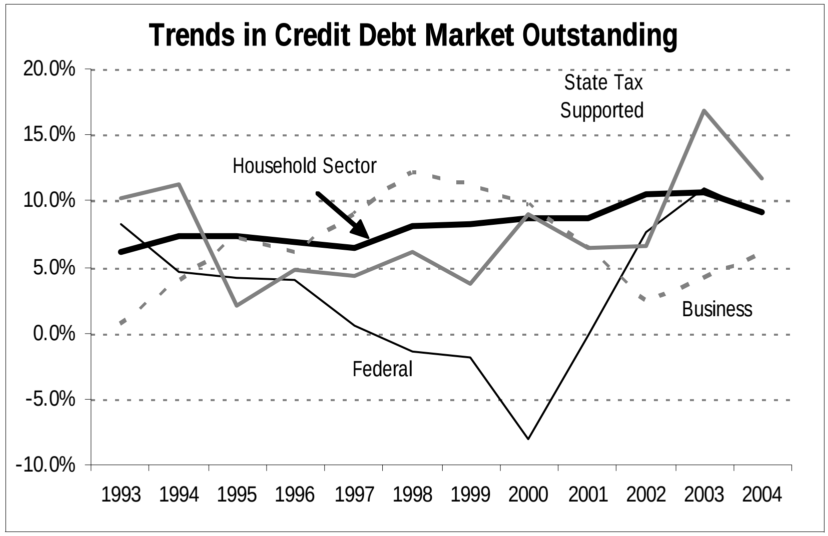
The 2005 State Debt Medians reflect net state tax-supported debt as of the end of calendar 2004.

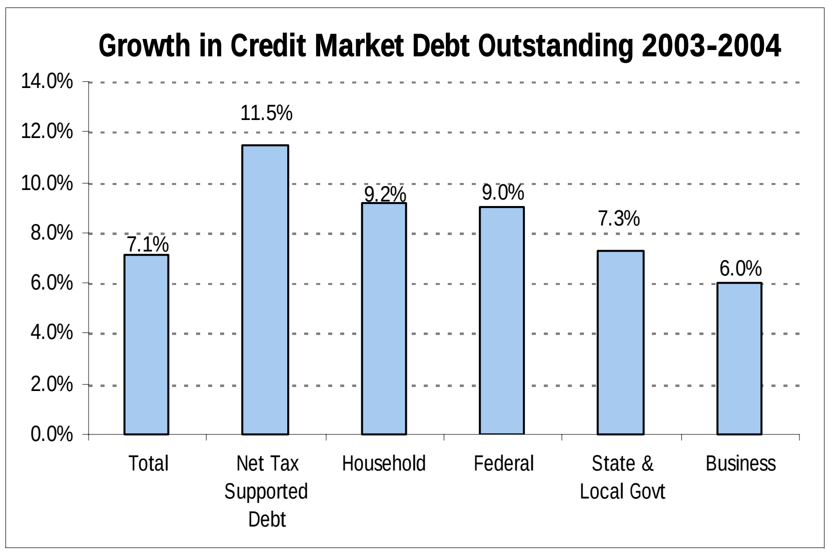
Total Net Tax-Supported Debt of the 50 States ($B)



State Net Tax-Supported Debt Continued Rapid Rise in 2004

State net-tax supported debt rose 11.5% in 2004, down from the record 16.8% in 2003, but still well above the long-term growth rate since 1989 of 8.7%. The 30% increase in 2003 and 2004 was the fastest two year period since the early 1990s. Low market interest rates and growing capital needs for public infrastructure pushed issuance to high levels in 2004. Budget stress continued to force some states to utilize debt for operating budget relief and to supplement funding of public employee pensions.





Notable transactions in 2004 included the issuance of about $11 billion in State of California Economic Recovery Bonds, $2.3 billion in deficit funding bonds by the State of New Jersey (in two separate transactions, one funded by cigarette tax revenue and the other by motor vehicle surcharges), $2.5 billion by the NYC STAR Corp. to refund outstanding NYC MAC (Municipal Assistance Corporation) debt with debt supported by state sales taxes, and $500 million by the Kansas Development Finance as pension obligation bonds. In addition, the New Mexico Finance Authority issued $1.1 billion in transportation revenue bonds and the state of Illinois also sold $800 million of Unemployment Insurance Fund bonds. Texas also sold $1.37 billion in Unemployment Compensation Fund bonds.

The persistence of low interest rates has enabled states to finance critical capital infrastructure at relatively low costs. The recent recession took a toll on state revenues and forced cutbacks in pay-as-you-go capital spending in favor of debt issuance to provide budget relief. With the recovery of state finances, demands for capital projects for schools, roads, environmental protection and public universities is again growing rapidly. In addition, as Medicaid spending absorbs an increasing proportion of state budgets, the need to fund capital projects with debt rather than cash is also growing.

Despite the growing issuance of debt by states, overall state debt burdens remain relatively low and stable. While state debt per capita and debt to personal income have risen slightly in recent years, state debt burdens are still manageable and debt service accounts for a small of total state spending.

Strong Federal and Household Debt Growth in 2004

Total debt outstanding in the overall U.S. credit markets grew at a rapid 7.1% rate, led by the federal government and household sectors. The household sector accounts for about 28% of total credit market debt and was the fastest growing sector, increasing at a 9.2% 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.

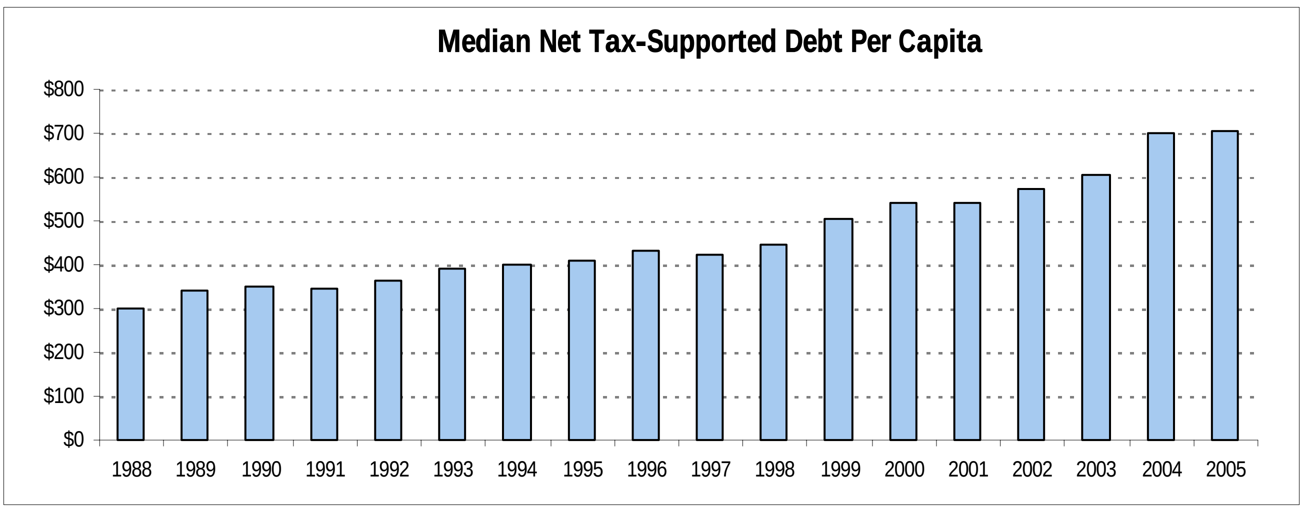
The federal government continued its trend of rapid borrowing, growing by 9.0% in 2004. The federal government's borrowing accounts for 12% of the total credit market debt and it has increased rapidly to finance federal deficits resulting from tax cuts, increased federal spending for national defense, homeland security and healthcare costs.

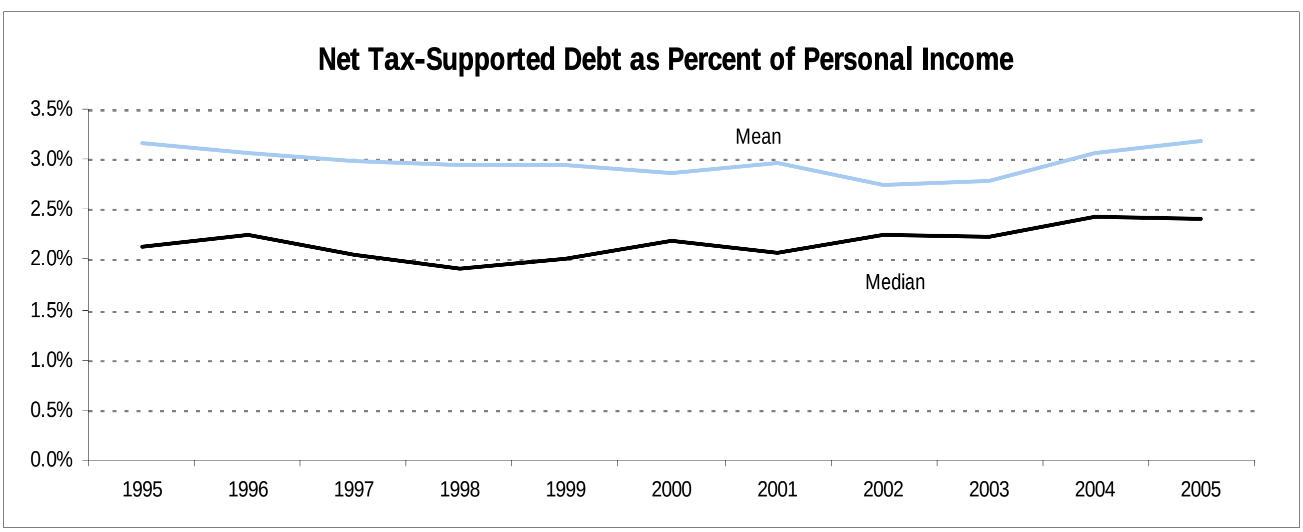
Business sector debt, one of the larger components of credit market debt at 21%, continued to increase slowly reflecting the continued availability of unused manufacturing capacity and the slow pace of business expansion and job growth. Business borrowing is below the 10-12% growth rates of 1998-2000, growing at an average annual rate of only 4.2% from 2001-2004.

State Debt Growth Should Continue Its Rapid Pace in 2005

Median debt per capita increased only 0.3% in 2004, from $701 to $703, while median debt to personal income remained steady at 2.4%, the highest level since 1987. Mean ratios reflect the rapid growth in total debt issuance with debt per capita growing 5.8% and mean debt to personal income growing to 3.2% from 3.1%. This reflects the higher volume issuance of debt by the larger issuer states, including California, New York, Illinois, New Jersey and Florida.

With fiscal recovery underway in most states, operating budget needs to fund dramatically rising healthcare costs, K-12 public education and public employee retirement system costs are consuming most of the additional cash resources that are now becoming available to states. Consequently, states will continue to look to debt to finance their growing capital needs, even as their finances strengthen in the post-recession period. While most states' debt ratios remain low, the trend of increasing state debt leveraging is likely to persist.





Outlook

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

As they have done in recent years, 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 2005 should continue to grow at above long-term trend rates.

Despite the rapid growth of state net tax-supported debt in 2004, state debt burdens relative to states' wealth, as measured by personal income, although rising remain low and stable. Strong state debt management practices in most states assure that debt issuance does not contribute to weakened credit quality and support the high level of credit ratings assigned to states.

Related Research

Special Comments:

2004 State Debt Medians, April 2004, #81876

Positive Credit Quality Sustained from Year-end 2004, April 2005, #92103

Rating Methodology:

Moody's State Rating Methodology, November 2004, #89335

Outlook:

2005 Outlook for State Ratings: Sector Revised to Stable From Negative, February 2005, #91398

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	$3,614	Aa3
2	Massachusetts	$3,372	Aa2
3	Hawaii	$3,343	Aa3
4	New Jersey	$2,901	Aa3
5	New York	$2,593	A1
6	Illinois	$2,019	Aa3
7	Delaware	$1,865	Aaa
8	Washington	$1,598	Aa1
9	California	$1,545	A3
10	Rhode Island	$1,373	Aa3
11	Oregon	$1,351	Aa3
12	Wisconsin	$1,312	Aa3
13	New Mexico	$1,301	Aa1
14	Kansas	$1,170	Aa1*
15	West Virginia	$1,127	Aa3
16	Mississippi	$1,116	Aa3
17	Maryland	$1,064	Aaa
18	Kentucky	$1,057	Aa2*
19	Florida	$1,008	Aa1
20	Alaska	$933	Aa2
21	Ohio	$866	Aa1
22	Georgia	$803	Aaa
23	Utah	$792	Aaa
24	Pennsylvania	$730	Aa2
25	Vermont	$716	Aa1
26	Michigan	$691	Aa2
27	Arizona	$685	Aa3*
28	North Carolina	$682	Aa1
29	Minnesota	$679	Aa1
30	Maine	$634	Aa2
31	Louisiana	$617	A1
32	Nevada	$601	Aa2
33	Virginia	$589	Aaa
34	South Carolina	$558	Aaa
35	Alabama	$523	Aa3
36	Missouri	$449	Aaa
37	New Hampshire	$457	Aa2
38	Indiana	$415	Aa1*
39	Arkansas	$392	Aa2
40	Colorado	$347	NGO**
41	Oklahoma	$306	Aa3
42	Texas	$279	Aa1
43	Montana	$274	Aa3
44	South Dakota	$245	NGO**
45	Wyoming	$239	NGO**
46	Tennessee	$209	Aa2
47	North Dakota	$160	Aa2*
48	Idaho	$154	Aa2*
49	Iowa	$130	Aa1*
50	Nebraska	$42	NGO**
	MEAN:	***$999***	
	MEDIAN:	***$703***	
	Puerto Rico	****$6,812*	*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.*

Net Tax-Supported Debt as a % of 2003 Personal Income

1	Hawaii	11.1%
2	Massachusetts	8.5%
3	Connecticut	8.5%
4	New Jersey	7.4%
5	New York	7.2%
6	Illinois	6.2%
7	Delaware	5.5%
8	New Mexico	5.3%
9	Washington	4.9%
10	Mississippi	4.8%
11	Oregon	4.7%
12	California	4.7%
13	West Virginia	4.6%
14	Wisconsin	4.3%
15	Rhode Island	4.3%
16	Kansas	4.0%
17	Kentucky	4.0%
18	Florida	3.4%
19	Utah	3.2%
20	Ohio	2.9%
21	Maryland	2.9%
22	Alaska	2.8%
23	Georgia	2.8%
24	Arizona	2.6%
25	North Carolina	2.5%
26	Louisiana	2.4%
27	Vermont	2.3%
28	Pennsylvania	2.3%
29	Michigan	2.2%
30	Maine	2.2%
31	South Carolina	2.2%
32	Minnesota	2.0%
33	Alabama	2.0%
34	Nevada	2.0%
35	Virginia	1.8%
36	Arkansas	1.6%
37	Missouri	1.5%
38	Indiana	1.4%
39	New Hampshire	1.3%
40	Oklahoma	1.2%
41	Montana	1.1%
42	Colorado	1.0%
43	Texas	1.0%
44	South Dakota	0.9%
45	Wyoming	0.7%
46	Tennessee	0.7%
47	Idaho	0.6%
48	North Dakota	0.6%
49	Iowa	0.5%
50	Nebraska	0.1%
	MEAN:	***3.2%***
	MEDIAN:	***2.4%***
	Puerto Rico	***56.7%*

** *This figure is based on 2004 personal income. It is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

Total Net Tax Supported Debt (000's)

			Rating
1	California	$55,452,000	A3
2	New York	$49,864,000	A1
3	Illinois	$25,672,456	Aa3
4	New Jersey	$25,236,000	Aa3
5	Massachusetts	$21,637,992	Aa2
6	Florida	$17,538,400	Aa1
7	Connecticut	$12,662,005	Aa3
8	Ohio	$9,922,638	Aa1
9	Washington	$9,911,962	Aa1
10	Pennsylvania	$9,052,000	Aa2
11	Wisconsin	$7,230,284	Aa3
12	Georgia	$7,090,755	Aaa
13	Michigan	$6,987,100	Aa2
14	Texas	$6,270,830	Aa1
15	Maryland	$5,915,900	Aaa
16	North Carolina	$5,824,194	Aa1
17	Oregon	$4,856,154	Aa3
18	Virginia	$4,390,377	Aaa
19	Kentucky	$4,382,953	Aa2*
20	Hawaii	$4,221,444	Aa3
21	Arizona	$3,937,321	Aa3*
22	Minnesota	$3,465,313	Aa1
23	Mississippi	$3,239,310	Aa3
24	Kansas	$3,200,440	Aa1*
25	Louisiana	$2,784,934	A1
26	Missouri	$2,585,785	Aaa
27	Indiana	$2,585,759	Aa1*
28	New Mexico	$2,475,685	Aa1
29	Alabama	$2,368,133	Aa3
30	South Carolina	$2,342,109	Aaa
31	West Virginia	$2,045,563	Aa3
32	Utah	$1,892,333	Aaa
33	Colorado	$1,598,833	NGO**
34	Delaware	$1,548,649	Aaa
35	Rhode Island	$1,483,901	Aa3
36	Nevada	$1,402,194	Aa2
37	Tennessee	$1,230,693	Aa2
38	Oklahoma	$1,078,841	Aa3
39	Arkansas	$1,078,287	Aa2
40	Maine	$835,490	Aa2
41	Alaska	$611,400	Aa2
42	New Hampshire	$594,362	Aa2
43	Vermont	$444,682	Aa1
44	Iowa	$382,720	Aa1*
45	Montana	$254,332	Aa3
46	Idaho	$214,619	Aa2*
47	South Dakota	$189,086	NGO**
48	Wyoming	$121,132	NGO**
49	North Dakota	$101,554	Aa2*
50	Nebraska	$72,701	NGO**
	Totals	**$340,285,605**	
	Puerto Rico	****$26,533,000*	*Baa1*

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

Gross Tax Supported Debt (000's)

			Gross to Net Ratio
1	California	$61,715,000	1.11
2	New York	$49,982,000	1.00
3	New Jersey	$29,754,000	1.18
4	Massachusetts	$26,558,092	1.23
5	Illinois	$26,137,406	1.02
6	Michigan	$20,787,100	2.98
7	Connecticut	$20,094,835	1.59
8	Florida	$17,772,700	1.01
9	Washington	$13,711,962	1.38
10	Pennsylvania	$12,023,000	1.33
11	Oregon	$11,169,927	2.30
12	Minnesota	$10,177,463	2.94
13	Ohio	$10,046,783	1.01
14	Texas	$9,620,304	1.53
15	Wisconsin	$9,468,017	1.31
16	Virginia	$8,243,043	1.88
17	Colorado	$7,558,833	4.73
18	Georgia	$7,090,755	1.00
19	Hawaii	$6,074,367	1.44
20	Alabama	$6,024,322	2.54
21	Maryland	$5,916,800	1.00
22	North Carolina	$5,824,194	1.00
23	South Carolina	$5,121,061	2.19
24	Utah	$5,113,840	2.70
25	Maine	$4,620,757	5.53
26	Kentucky	$4,327,100	1.02
27	Indiana	$4,265,367	1.65
28	Arizona	$4,203,921	1.07
29	Tennessee	$3,664,560	2.98
30	Arkansas	$3,626,012	3.36
31	Louisiana	$3,550,262	1.27
32	Mississippi	$3,239,310	1.00
33	Kansas	$3,200,440	1.00
34	West Virginia	$3,091,152	1.51
35	Alaska	$2,996,565	4.90
36	New Mexico	$2,875,585	1.16
37	Nevada	$2,844,814	2.03
38	Missouri	$2,656,445	1.03
39	Delaware	$2,133,947	1.38
40	Rhode Island	$1,870,105	1.26
41	New Hampshire	$1,868,246	3.14
42	Iowa	$1,805,341	4.72
43	Oklahoma	$1,133,739	1.05
44	Vermont	$1,049,869	2.36
45	North Dakota	$696,644	6.86
46	Idaho	$605,209	2.82
47	South Dakota	$453,643	2.40
48	Montana	$389,183	1.53
49	Wyoming	$121,132	1.00
50	Nebraska	$83,931	1.15
	Totals	**$447,479,621**	**1.32**
	Puerto Rico	***$29,467,000*	*1.11*

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

Net Tax-Supported Debtas a Percentage of Personal Income

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
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	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	2.8
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	2.6
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	1.6
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	4.7
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	1.0
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	8.5
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	5.5
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	3.4
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	2.8
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	11.1
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	0.6
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	6.2
Indiana	0.7	1.0	1.0	1.0	0.9	0.9	0.8	0.9	0.9	1.1	1.1	1.1	1.3	1.4
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	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	4.0
Kentucky	4.7	5.1	5.0	4.7	5.1	4.1	3.9	3.7	3.5	4.4	4.3	4.4	4.4	4.0
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	2.4
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	2.2
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	2.9
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	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	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	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	4.8
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	1.5
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	1.1
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	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	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	1.3
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	7.4
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	5.3
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	7.2
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	2.5
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	0.6
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	2.9
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	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	4.7
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	2.3
Rhode Island	6.1	8.8	8.9	8.7	8.5	8.7	6.6	6.5	6.2	5.3	5.2	5.0	4.4	4.3
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	2.2
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	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	0.7
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	1.0
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	3.2
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	2.3
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	1.8
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	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	4.6
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	4.3
Wyoming	0.0	0.0	0.5	0.4	0.4	0.7	0.7	1.0	1.0	1.0	1.4	0.9	0.8	0.7
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**	**2.4**

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Fitch Rates Vermont's $20.8MM Rfdg GOs 'AA+'

Fitch Ratings-New York-May 27, 2005: Fitch Ratings assigns an 'AA+' rating to the state of Vermont's $20.805 million general obligation (GO) refunding bonds, 2005 series C. The bonds were sold earlier this week through negotiation with a syndicate led by Citigroup and will be due March 1, 2006-20, and may be called at par on or after March 1, 2015. Fitch also affirms the 'AA+' rating on approximately $486 million outstanding GO bonds.

Vermont's conservative approach to debt and financial operations provides a strong foundation for high credit quality. During the protracted recession of the early 1990s, the state assiduously followed an austere recovery program, demonstrating its willingness to take action for stability. Following recovery, reserves were fully funded and substantial amounts were used for capital purposes, allowing debt to decline. Rapid response to changing conditions has continued. With the weakening economy in 2001-02, reserves were again tapped and appropriations reduced to maintain balance. Operations subsequently have been favorable and the reserves were quickly re-built.

Vermont's economy is reliant on health and educational services and tourism, although manufacturing remains important. Manufacturing employment declined about 19% from 2000 to 2003, before leveling off in 2004. This loss was offset by resiliency in other sectors of the economy, keeping total employment virtually unchanged from 2000 to 2003. Total employment growth resumed in 2004, with employment up 1.3%. April 2005 employment was 1.2% ahead of April 2004, led by strong gains in construction and education and health services. Per capita personal income rose from 91% of the U.S. level in 1996 to 99.5% in 2004 and now stands at $32,770, ranking 19th among the states.

Financial operations were successful in the late 1990s and reserves were fully funded to 5% of the revenues in each of the general, transportation, and education funds. However, as the economy slowed during fiscal 2002, revenues fell, and despite expenditure measures, over half of the general fund reserve was spent. In fiscal 2003 revenues recovered to meet estimates, and in fiscal 2004, with help from the federal stimulus package, a $57 million general fund surplus was recorded, allowing for full replenishment of reserves.

Through April of fiscal 2005, general fund revenues are $41 million over estimates, which had been revised upwards in January. Personal income taxes are up 15.5% over last year, and 5.9% over projections. Transportation fund receipts, however, are slightly below estimates. The state expects a surplus, and plans to devote much of it to one-time needs, while reserving portions in balances. The legislature continues to debate the fiscal 2006 budget.

Virtually all of Vermont's debt is GO, and it amortizes rapidly. Net tax-supported debt is very moderate at $486 million, or $798 per capita, and 2.6% of personal income. Debt is below a year ago and 16% below the 1997 level. Vermont’s pension systems remain well funded.

###

Tax Supported
New Issue

State of Vermont

Rating

General Obligation Bonds .... AA+

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New Issue Details

$20,805,000 General Obligation Refunding Bonds, 2005 Series C, sold the week of May 23 through negotiation with a syndicate led by Citigroup and will be due March 1, 2006–2020. The bonds may be called on or after March 1, 2015.

Security: The bonds are general obligations of the State of Vermont, with its full faith and credit pledged.

■ Outlook

Vermont's conservative approach to debt and financial operations provides a strong foundation for its 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 2001–2002, and revenues were below projections. Appropriations were cut, but partial use of the reserve was still necessary. Operations have subsequently been favorable as the economy rebounded, and reserves were rapidly rebuilt.

■ Rating Comment

This $20.8 million issue is solely for refunding and Vermont's net tax-supported debt remains at $486 million. Ratios are low to moderate at 2.4% of personal income and $798 per capita. Virtually all of Vermont's debt is general obligation, and it amortizes rapidly. Debt is below that of one year ago and 16% below the 1997 level, due both to conservative recommendations by the debt affordability committee and Vermont's use of surpluses to replace debt for capital expenses.

After a difficult period, revenues recovered in late fiscal 2003 and finished fiscal 2004 above estimates, allowing the state to record a $57 million surplus and fully replenish its reserves. Following strong returns from the income tax in April, fiscal 2005 general fund revenues are solidly up 9.2% over last year, with personal income tax up 15.5%. To date, general fund revenues are $41.3 million over estimates, which had been revised upward by more than 3% earlier this year. Transportation fund receipts, however, are down 2% from last year.

Vermont's economy relies on health and educational services and tourism, although manufacturing remains important. Manufacturing employment declined about 19% from 2000–2003, before leveling off in 2004. This loss was offset by resilience in other sectors of the economy, keeping total employment virtually unchanged from 2000–2003. Total employment growth resumed in 2004, with employment up 1.3% and April 2005 employment was 1.2% ahead of 2005, led by strong gains in construction and education and health services. Per capita personal income rose from 91% of the U.S. level in 1996 to 99.5% in 2004.

For more information on the State of Vermont, see Fitch Research dated Feb. 9, 2005, available on Fitch's web site at www.fitchratings.com.

New Issue: Vermont (State of)

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

Aa1 RATING AND STABLE OUTLOOK AFFECT APPROXIMATELY $445 MILLION IN OUTSTANDING GENERAL OBLIGATION BONDS

State
VT

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, 2005 Series C		Aa1
Sale Amount	$20,805,000	
Expected Sale Date	06/02/05	
Rating Description	General Obligation	

Opinion

NEW YORK, May 27, 2005 -- Moody's Investor's Service 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 sound financial position with increased reserve levels; relatively stable economic performance during the recent recession despite weakness in Vermont's manufacturing sector; and manageable debt levels that have declined over the past few years. Vermont replenished funds used to offset revenue weakness during the recession, primarily in fiscal 2002, and its Budget Stabilization Reserves (BSR) are fully funded at statutory maximum levels. Vermont plans to sell $20.8 million in General Obligation Refunding Bonds 2005 Series C the week of May 30th. Proceeds will be used to refund outstanding bonds for level debt service savings, with net present value savings of approximately 3.4% of refunded bonds.

Credit strengths are:

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

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

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

*Healthy revenue growth in fiscal year 2004 and expected for current year (fiscal year 2005).

*Steady progress in reducing previously high debt ratios.

*Low unemployment rates.

Credit Challenges are:

*Medicaid cost pressures.

*Delayed release of audited financial results.

*Slower job recovery following rebound at the end of 2003.

STRUCTURAL BUDGET BALANCE REFLECTS SOUND FINANCIAL MANAGEMENT

Vermont was well-positioned to weather the recent recession as a result of its conservative budgeting practices, available reserves, and prompt action to control spending. As the economy and state revenues weakened in fiscal 2002, the state's personal income taxes (Vermont's largest revenue source in the General Fund) dropped 10%, while sales and use taxes were essentially flat. The state eliminated a General Fund operating deficit by drawing on its General and Education Fund Budget Stabilization Reserve funds. Despite only modest income and sales tax growth,

Vermont's revenue collections improved in fiscal 2003 and total tax revenues grew about 3% over the prior year, after dropping 6% between fiscal years 2001 and 2002. Vermont received $50 million in federal relief funds which were prudently applied for one-time uses rather than base-building. The state began to restore its General Fund BSR in fiscal 2003 and brought it to the full statutory maximum of 5% of prior year budgetary appropriations by year-end fiscal 2004, according to unaudited results. Vermont also maintains budget stabilization funds in its Transportation and Education Funds and these were fully funded by the end of fiscal 2004 as well. A Human Services Caseload Reserve, which is available for unexpected caseload growth due to the economy, was used only slightly during the recession and adds another layer of flexibility in the event of revenue fluctuation.

HEALTHY REVENUE GROWTH IN FISCAL 2004; FISCAL 2005 REVENUES ON TARGET

Vermont's revenue recovered relatively quickly from the recession, aided in part by a 1% increase in the state's general sales and use tax rate from 5% to 6% effective October 1, 2003. The telecommunications sales tax rate was also increased to the same rate of 6%. While sales and use tax revenue growth was only modest during the recession, continued growth in a variety of smaller state tax resources, such as the room and meal tax, helped Vermont offset the substantial 10% falloff in personal income taxes in fiscal 2002. Following the drop, income taxes were essentially flat the following year (fiscal 2003) but made a healthy gain of nearly 5% in fiscal 2004, according to unaudited results. Personal income taxes are the state's largest revenue source, accounting for 45% of General Fund revenues in fiscal 2004. Sales and use taxes, which represent Vermont's second largest revenue source at just over one-fourth, of General Fund revenues, were essentially flat during the recession. Release of Vermont's audited results for fiscal 2004 is delayed but expected later this year.

Vermont's most recent consensus revenue forecast (January 2005) indicates that General Fund revenues should grow by about 3% over the prior year. While personal income taxes are estimated to rise by almost 9%, a larger portion of the sales tax is now transferred to the education fund, thus slowing the overall growth in General Fund revenues. Year-to-date results for the first eight months of fiscal 2005 show General Fund revenues running essentially on target, but Transportation and Education Fund revenues were slightly below the revised consensus forecast. Personal income tax revenues are finally expected to exceed pre-recession levels in the current year. The state expects Budget Stabilization Reserves in the General, Transportation, and Education Funds to remain fully funded at the end of fiscal 2005.

Recent growth in Education Fund revenues has been higher than expected, largely due to increasing property values leading in turn to higher property tax receipts. As a result, the governor has proposed another reduction of 3 cents (per $100 valuation) in the state's property tax rate. Last year the state implemented a 5 cent reduction.

CONTINUED ECONOMIC IMPROVEMENT; MANUFACTURING SECTOR REMAINS SOMEWHAT WEAK

Vermont's economy held up relatively well in the recent recession and recorded modest overall job gains for 2004. The state's unemployment level continued to decline in calendar year 2004 and at 3.3% in April 2005 was well below the national unemployment rate of 5.2% the same month and the lowest in the New England region. Continuous job growth in education and health services, Vermont's largest employment sector, helped offset persistent weakness in manufacturing and to a lesser extent in the trade, transportation, and utilities sector.

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 12.6% of Vermont's non-farm employment versus 11.2% for the United States in 2003. 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, sales, and other tax revenue for Vermont. Tourism-sensitive revenues performed reasonably well during the recession and show signs of growth in the near term forecast.

Job cuts at IBM, the Vermont's largest employer, have slowed the state's economic recovery. IBM has reduced about 1,850 jobs since 2001. According to recent announcements, 250 jobs are expected to be added back although IBM's job levels are still down by approximately 1,600.

DEBT RATIOS DECLINE; MODEST ISSUANCE PLANNED

Vermont's debt levels have declined considerably over the past decade and are now about average relative to Moody's 50-state median, on both a per capita and personal income basis. Debt per capita of $716, compared to the state median of $703, ranked Vermont 25th among the fifty states in Moody's 2005 state debt medians. Debt to total personal income of 2.3%, compared to the 2.4% state median, ranked 27th. Both ratios represent steady improvement in Vermont's debt profile, reflecting efforts by the state's Capital Debt Affordability Advisory Committee which oversees long-term capital planning for the state. The state's debt authorization levels have dropped steadily over the past decade. The fiscal 2006 amount recommended by the advisory committee for legislative authorization is about three-fourths of the level authorized in 1995. The state issued short term notes to meet cash flow needs in fiscal year 2003 ($75 million) and fiscal year 2004 ($48 million). The state has no plans to issue cash flow notes in the current or next fiscal years.

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 that provided a degree of operating cushion for the state to accommodate revenue shortfalls that occurred in fiscal 2002. Vermont's commitment to restoration of reserve levels, with full funding restored at the end of fiscal 2004, reflects the state's sound financial management and conservative fiscal policies.

What could make the rating go - UP

*Maintenance of strong reserve levels

*Sustained job growth.

*Institutionalized best financial management practices.

What could make the rating go - DOWN

*Deterioration in the state's financial performance.

*Weakened reserve levels.

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

*Muted economic recovery resulting in continued revenue weakness

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STANDARD & POOR'S PUBLIC FINANCE

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Vermont; Tax Secured, General Obligation

Credit Profile
US$20.805 mil GO rfdg bnds ser 2005C dtd 06/07/2005 due 03/01/2006 2013 -2020
AA+
Sale date: 24-MAY-2005
AFFIRMED
$515.400 mil. Vermont go
AA+
OUTLOOK:
STABLE

Rationale

The 'AA+' rating on Vermont's series 2005C GO refunding bonds reflects the state's:

- Strong financial management with conservative debt and budgeting practices, including consensus revenue forecasting in place for more than a decade;
- Varied economy, with tourism as an anchor and high-tech manufacturing a sizable presence; 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 financial position is strong. Unlike many states, Vermont never fully depleted its reserves during the 2001-2002 recession; in addition, the state already replenished its reserves to statutory levels in fiscal 2004. Fiscal 2004 results indicate a $55.0 million general fund operating surplus. After transfers of $26.1 million to various internal service funds and $20.9 million to the general fund budget stabilization reserve, the surplus was reduced to $10.0 million. The $20.9 million added to the budget stabilization fund returned the fund to its statutorily set level: $44.5 million. The state's transportation fund closed fiscal 2004 with a strong $17.0 million surplus, increasing the transportation fund balance to $21.4 million. The education fund, following two years of deficit operations, returned to the positive with a $33.9 million surplus resulting in a $18.2 million undesignated fund balance and a fully funded budget stabilization reserve of $22.8 million. At fiscal year-end 2004, reserves on hand were nearly $73.5 million, including $44.5 million in the general fund stabilization fund, $18.5 million in the human services caseload reserve, and $10.5 million in the transportation fund. The state's January revenue estimating conference increased revenues in fiscal 2005 by $31 million and to date the state expects to be at least $41 million over the budgetary revenue targets. The state also expects to close fiscal 2005 with fully funded reserve funds.

Vermont's economic diversification plays a central role in its relatively stable economic performance. The state's annual unemployment rate has been below national levels for more than 20 years. The March 2005 unemployment rate of 4.0% was below the nation's 5.4% rate. IBM, the state's leading employer with 6,200 employees, is beginning to rehire after a period with considerable layoffs. Through the national economic slow-down, IBM laid off more than 1,800 employees in Vermont, but in recent months has filled 250 new positions. Following IBM, the state's leading employers are stable and quite diverse. The only other private company employing more than 2,000 is Fletcher Allen Health Care (BBB/Stable/--) with 4,709 employees. 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., Rutland Regional Medical Center, Middlebury College, and a number of retail chains.

Vermont continues to maintain a conservative approach to debt issuance. Tax-supported GO debt outstanding was $445 million as of June 30, 2004. At fiscal 2005 close, debt ratios are estimated to be an average $757 per capita and 2.4% of personal income. Amortization is rapid, with about 84% retired within 10 years. Vermont has been able to adhere to an annual debt cap for the past decade.

Outlook

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

Economy

According to the Bureau of Labor Statistics, the state's total number of jobs increased to 340,700 in 2004 from 324,200 in 2000, but the state contends that this could be slightly below actual job counts. Job growth has been strong in education and health services, retail trade and leisure, and hospitality. Vermont's population has above-average education levels and is currently ranked seventh in the nation as the percent of the population with a college degree.

The state economist expects that Vermont will fully recover job losses that occurred during the recession in the first quarter of calendar year 2005. Comparatively, the state weathered the 2001-2002 recession well, but the IBM layoffs of the past two years slowed its full recovery. Vermont has increased its interdependence on the northeastern U.S. regional and Canadian economy, while its local economy has become more diverse. The increased diversity is important to reduce the effect of economic downturns or periods of stagnant growth, particularly in manufacturing or tourism. Median household effective buying income continues to strengthen and is currently just below the national average at 98.3% of the national level. Vermont's 2003 income of $30,740 per capita was slightly below the nation's $31,632 per capita average.

The fall foliage and winter ski seasons play a great role in Vermont's economy. The state's chief competitor for the prized ski tourism revenue is Colorado. Vermont's past two ski seasons have been strong; to date through the winter 2004-2005 ski season, snow has been about average, but the temperatures have been slightly above average. Increasingly, areas like Killington are being marketed as ski resorts and locations for summer recreational activities, lengthening the tourist season and increasing sales, meals, and lodging taxes.

Finances

Audited fiscal 2004 results indicated a $55.0 million general fund operating surplus, returning the state to the positive after two consecutive deficits. The state addressed the deficits in fiscals 2002 and 2003 through the use of the general fund stabilization fund, which left it with a $23.6 million balance, or roughly half the stabilization fund target. Fiscal 2004 transfers have helped to fully fund all reserves. To date, fiscal 2005 is projected to close with another operating surplus and the state expects to maintain reserves at fully funded levels.

At fiscal year-end 2004, Vermont retained solid revenue flexibility to address future adjustments from the revenue forecasting committee. Reserves on hand totaled more than $75.0 million and included $44.5 million in the general fund stabilization reserve, $18.5 million in the human services caseload reserve, and $10.5 million in the transportation fund.

In July 2001, Vermont converted to a new statewide financial management software system. The VISION system is currently operational, but start-up problems caused a delay in the release of the fiscal 2002 comprehensive annual financial reports (CAFR), which in turn has delayed both the fiscal 2003 and fiscal 2004 CAFRs. The state hopes that the fiscal 2005 CAFR can be released by Dec. 31, 2005. The fiscal 2002, 2003, and 2004 CAFRs are fully GASB 34 compliant, and received unqualified audit opinions.

Fiscal 2006 budget passage

Gov. Jim Douglas' proposed fiscal 2006 budget is conservative, with increases of just 3.4% in general fund expenditures and 3.3% in transportation fund expenditures. Base general fund appropriations will increase to $1.0 billion in fiscal 2006 from a revised $981.3 million in fiscal 2005. The proposed transportation fund appropriations level will increase to $220.8 million in fiscal 2006 from $213.7 million in fiscal 2005. The proposed budget looks to address a growing Medicare funding deficit through changes in the program, including increasing contributions from specific participants, using some reserves, and working with providers to control overall costs and the federal government for more predictable levels of annual federal assistance. Among other things, the budget funds retention of 10 previously federally funded state troopers, a $10 million increase in the general fund transfer to the education fund, and various tax reform measures designed to close loopholes.

Debt

In fiscal 2005, the state capital debt affordability advisory committee increased the debt cap to $41 million, the first increase over the $39 million limit set in fiscal 1999. The cap will again increase in fiscal 2006 to $45 million. Even with the increase, Vermont will continue to retire more debt than it issues annually. At fiscal year-end 2004, debt ratios were a manageable $718 per capita and 2.4% of personal income. In a recently published Standard & Poor's report titled, "Public Finance Report Card: U.S. States Debt Profiles", available on RatingsDirect, Standard & Poor's Web-based credit analysis reference system, Vermont's conservative debt practices reflected well in the national comparisons. On a total tax-supported debt peer comparison, Vermont ranked 42nd. The state was in the middle of the peer group, 24th and 25th, respectively, in comparing debt per capita and debt to personal income. The state has no current plans to issue variable-rate debt or enter into any swaps.

Unlike many national pension systems, Vermont's state pension system remains strong. The $1.4 billion Vermont Teachers' Retirement System is funded at 90.2% through June 30, 2004, with a $140.0 million unfunded pension liability. The $1.1 billion Vermont State Retirement System is funded at 97.6% through June 30, 2004, with a $26.0 million unfunded pension obligation. The Vermont Municipal Employees' Retirement System is overfunded by 6% and has a $7.8 million surplus. The state expects to be compliant with the new government accounting standards board (GASB) statement 45 addressing other post employment benefits (OPEB). The current assumed OPEB unfunded liability is $828 million.

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Vermont; Tax Secured, General Obligation

Credit Profile
US$26. mil GO bnds ser 2005A due 03/01/2025
AA+
Sale date: 16-FEB-2005
AFFIRMED
$515.400 mil. Vermont
AA+
OUTLOOK:
STABLE

Rationale

The 'AA+' rating on Vermont's series 2005A GO bonds reflects the state's:

- Strong financial management with conservative debt and budgeting practices, including consensus revenue forecasting in place for over more than a decade;
- Varied economy with tourism as an anchor, and high-tech manufacturing a sizable presence; 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 financial position is strong. Unlike many states, Vermont never fully depleted its reserves during the 2001-2002 recession; in addition, the state already replenished its reserves to statutory levels in fiscal 2004. Unaudited fiscal 2004 results indicate a $57 million general fund operating surplus. After transfers of $26.1 million to various internal service funds and $20.9 million to the general fund budget stabilization reserve, the surplus was reduced to $10.0 million. The $20.9 million added to the budget stabilization fund returned the fund to its statutorily set level: $44.5 million. The state's transportation fund closed fiscal 2004 with preliminary results indicating a $1.9 million surplus. The education fund, following two years of deficit operations, returned to the positive with a $14.9 million undesignated surplus and a fully funded budget stabilization reserve of $22.8 million. At fiscal year-end 2004, reserves on hand were nearly $73.5 million, including $44.5 million in the general fund stabilization fund, $18.5 million in the human services caseload reserve, and $10.5 million in the transportation fund. Fiscal 2005 revenues are coming in above budgetary expectations, and the state expects to close with fully funded reserve funds.

Vermont's economic diversification plays a central role in its relatively stable economic performance. The state's annual unemployment rate has been below national levels for more than 20 years. The November 2004 unemployment rate of 3.1% was well below the nation's 5.1% rate. International Business Machines Corp. (IBM), the state's leading employer with 6,200 employees, is beginning to rehire after a period with considerable layoffs. Through the national economic slow-down, IBM laid off more than 1,800 employees in Vermont, but in recent months has filled 250 new positions. Following IBM, the state's leading employers are stable and quite diverse. The only other private company employing more than 2,000 is Fletcher Allen Health Care (BBB/Stable/--) with 4,709 employees. 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., Rutland Regional Medical Center, Middlebury College, and a number of retail chains.

Vermont continues to maintain a conservative approach to debt issuance. Tax-supported GO debt outstanding of $445 million as of June 30, 2004, represents an average $718 per capita and 2.4% of personal income. Amortization is rapid, with about 80% retired over 10 years. Vermont has been able to adhere to an annual debt cap for the past decade. The state expects to issue the fiscal 2005 debt limit of $41 million in GO debt authorized for fiscal 2005 in two series--$26 million in this issue and $15 million in a retail sale to Vermont residents in March.

Outlook

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

Economy

According to the Bureau of Labor Statistics, the state's total number of jobs increased to 340,700 in 2004 from 324,200 in 2000. Job growth has been strong in education and health services, retail trade and leisure, and hospitality. Vermont's population has above-average education levels and is currently ranked seventh in the nation as the percent of the population with a college degree.

The state economist expects that Vermont will fully recover job losses that occurred during the recession in the first quarter of calendar year 2005. Comparatively, the state weathered the 2001-2002 recession well, but the IBM layoffs of the past two years slowed its full recovery. Vermont has increased its interdependence on the northeastern U.S. regional and Canadian economy, while its local economy has become more diverse. The increased diversity is important to reduce the effect of economic downturns or periods of stagnant growth, particularly in manufacturing or tourism. Median household effective buying continues to strengthen and is currently just below the national average at 98.3% of the U.S. level. Vermont's 2003 income of $30,740 per capita was slightly below the nation's $31,632 per capita average.

The fall foliage and winter ski seasons play a great role in Vermont's economy. The state's chief competitor for the prized ski tourism revenue is Colorado. Vermont's past two ski seasons have been strong; to date through the winter 2004-2005 ski season, snow has been about average, but the temperatures have been slightly above average. Increasingly, areas like Killington are being marketed as ski resorts and locations for summer recreational activities, lengthening the tourist season and increasing sales, meals, and lodging taxes.

Finances

Audited fiscal 2003 results indicated a $5.86 million general fund operating deficit on a budgetary basis. This was the second consecutive operating deficit. The state addressed the fiscals 2002 and 2003 deficits through the use of the general fund stabilization fund, which left it with a $23.6 million balance, or roughly half the stabilization fund target. Unaudited fiscal 2004 closed with a $57.0 million operating surplus, which after transfers has helped to fully fund all reserves. To date, fiscal 2005 is projected to close with another operating surplus and the state expects to maintain reserves at fully funded levels.

The state's transportation fund closed fiscal 2003 with an $8.8 million surplus. The education fund closed fiscal 2003 with a $3.36 million operating deficit, which the state is covering with the education reserve. The education fund deficit is the second consecutive small operating loss, but unaudited fiscal 2004 results indicate a strong $28.4 million surplus. At fiscal year-end 2004, Vermont retained solid revenue flexibility to address future adjustments from the revenue forecasting committee. Reserves on hand totaled more than $75.0 million and included $44.5 million in the general fund stabilization reserve, $18.5 million in the human services caseload reserve, and $10.5 million in the transportation fund.

In July 2001, Vermont converted to a new statewide financial management software system. The VISION system is currently operational, but start-up problems caused a delay in the release of the fiscal 2002 comprehensive annual financial reports (CAFR), which in turn has delayed both the fiscal 2003 and fiscal 2004 CAFRs. The state expects to release the fiscal 2004 report by the spring of 2005. The fiscal 2002 and 2003 CAFRs are fully GASB 34 compliant, and received unqualified audit opinions.

Fiscal 2006 budget passage.
Gov. Jim Douglas' proposed fiscal 2006 budget is conservative, with increases of just 3.4% in general fund expenditures and 3.3% in transportation fund expenditures. Base general fund appropriations will increase to $1.0 billion in fiscal 2006 from a revised $981.3 million in fiscal 2005. The proposed transportation fund appropriations level will increase to $220.8 million in fiscal 2006 from $213.7 million in fiscal 2005. The proposed budget looks to address a growing Medicare funding deficit through changes in the program, including increasing contributions from specific participants, using some reserves, and working with providers to control overall costs and the federal government for more predictable levels of annual federal assistance. Among other things, the budget funds retention of 10 previously federally funded state troopers, a $10 million increase in the general fund transfer to the education fund, and various tax reform measures designed to close loopholes.

Debt

In fiscal 2005, the state capital debt affordability advisory committee increased the debt cap to $41 million, the first increase over the $39 million limit set in fiscal 1999. The cap will again increase in fiscal 2006 to $45 million and then by roughly 5% annually thereafter. Even with the increase, Vermont will continue to retire more debt than it issues annually. At fiscal year-end 2004, debt ratios were a manageable $718 per capita and 2.4% of personal income. In a recently published Standard & Poor's report titled, "Public Finance Report Card: U.S. States Debt Profiles", available on RatingsDirect, Standard & Poor's Web-based credit analysis reference system, Vermont's conservative debt practices reflected well in the national comparisons. On a total tax-supported debt peer comparison, Vermont ranked 42nd. The state was in the middle of the peer group, 24th and 25th, respectively, in comparing debt per capita and debt to personal income. The state has no current plans to issue variable-rate debt or enter into any swaps.

Unlike many national pension systems, Vermont's state pension system remains strong. The $1.4 billion Vermont Teachers' Retirement System is funded at 90.2% through June 30, 2004, with a $140.0 million unfunded pension liability. The $1.1 billion Vermont State Retirement System is funded at 97.6% through June 30, 2004, with a $26.0 million unfunded pension obligation. The Vermont Municipal Employees' Retirement System is overfunded by 6% and has a $7.8 million surplus.

NEW ENGLAND ECONOMIC PARTNERSHIP
(NEEP)

Vermont Economic Outlook

May 2005

The Vermont Outlook
Spring 2005 revision
May 12, 2005

Summary.

- This revised May 2005 NEEP forecast revision for Vermont over the 2005-09 period calls for a continuation of a modest expansion, with a sub-cycle expected during calendar 2007 where output, job, and income growth will throttle down modestly from current levels.

- For the most part, this improved outlook reflects the improving tone of activity in the U.S. economy overall, the strong real estate market and attendant upbeat construction activity, a stabilization in the State's previously hard-hit factory sector (including IBM's Essex Junction facility), and continued job growth success in the state's services-producing sectors.

- Vermont's rates payroll job growth (at +1.1% per year), Personal Income growth (at 4.6% per year), and inflation-adjusted output growth (at 2.6% per year) are expected to remain historically restrained and the forward progress in the state's economy is expected to remain uneven.

- The state's has completed its labor market recovery in the total payroll jobs category, and is expected to be complete its private sector payroll job recovery by the end of the second quarter of calendar 2005.

- The manufacturing sector, which remains at risk for further job cutbacks, will experience a modest rate of job recovery in 2005 and 2006, and then level off in the out-years of the forecast period.

- The highest rates of job growth are expected the Education & Health Services sector (at +2.2% per year), the Professional & Business Services sector (at +2.1% per year), and the Financial Activities sector (at +1.3% per year). All sectors are expected to recover-add jobs over the forecast period, improving from the 1999-2004 period where 3 of 12 major NAICS categories lost jobs.

- Looking ahead, the state faces critical demographic-based policy challenges as Vermont's older and relatively faster aging population moves toward traditional retirement age, households size declines further , and the aging population needs more health care and elderly care services.

    - Vermont in 2003 had nearly 1/3 of the state's population in the 45-64 years category—the highest percentage in the nation,--and those residents will reach traditional retirement age over the next 20 years.
    - Shrinking household size as the population ages will place additional strains on an already stretched housing inventory—at a time when new home construction is placing strains on municipalities and open space throughout the state.
    - Elder care services and the state's Medicaid budget are being stretched to the limit, even before most of the baby-boom generation is in retirement.

- There are no simple answers to these upcoming challenges where the demographic seeds have been sown.

    - One approach is to become more immigrant-friendly but that is much easier said than accomplished, and this will test the ability of Vermonters to develop creative solutions to these upcoming issues.

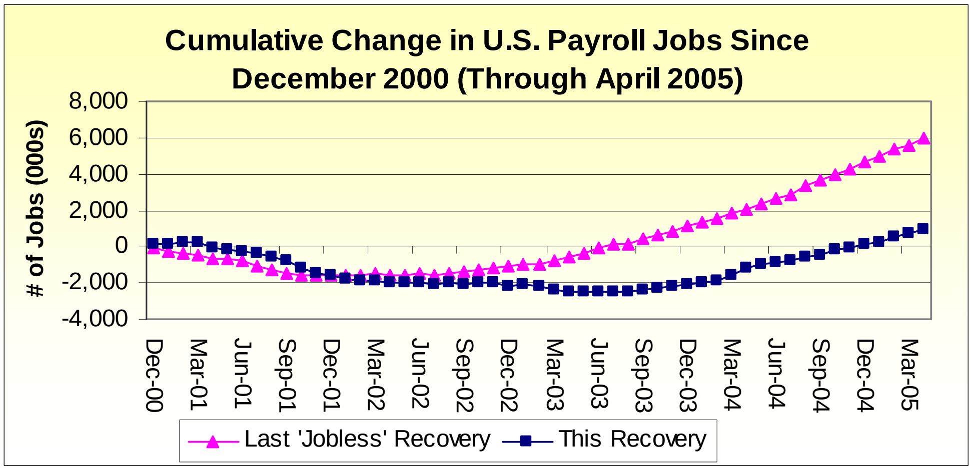
The U.S. Economic Situation: The story of the performance of the U.S. economy over the past year has been a study in contrasts. At the beginning of calendar year 2004, the U.S. economy came in like a lion, posting a healthy +4.5% rate of real GDP growth spurred on by growth in exports and government spending. After traversing through the Summer-Fall "soft-patch," the economy once again gained some positive traction until the run up in energy prices and rising interest rates combined to exert a significant drag where GDP growth has slowed from a roughly +4% rate of increase towards the end of calendar 2004 to the roughly +3% level of GDP growth the U.S. economy is experiencing this Spring. Periodic ups and downs in an overall positive GDP growth track are typical of all modern post-war economic expansions. The somewhat disappointing aspect of the current track of U.S. economic activity is the fact that oil prices of over $50 appear to be weighing heavily on the U.S. economy just at the time that the other fundamentals point to what should be the "sweet spot" of the current middle-aged upturn.

Oil prices above $50, gasoline prices in excess of $2.20 per gallon, and historically "high" prices in other energy sources have recently begun to take a bite out of household and other consumption. The mechanism for this is similar to tax increases, where "high energy prices" act to reduce disposable household income and elevate business costs. This, in turn, leaves less household purchasing power for non-energy items and reduced levels of business profitability as energy cost increases cannot be passed along for those companies in sectors with limited pricing power. However, rising energy prices are different and more pernicious than tax increases from a macroeconomic perspective in that they tend to exert an even more draconian effect than tax increases do on the economy. This result is primarily because there is no off-setting increase in government spending that typically occurs when tax increases occur to off-set the drain on household spend-able income and elevated business costs. It is also widely known that persistently high energy prices also can have a negative effect on inflation, and the resulting "tightening" monetary policy response. This occurs as companies that do have some degree of pricing power seek to recoup part or all of their energy price-induced cost increases by passing them along to their customers. Rising inflation, in turn, often means rising interest rates and the accompanying drags on economic activity that such interest rate increases typically engender.

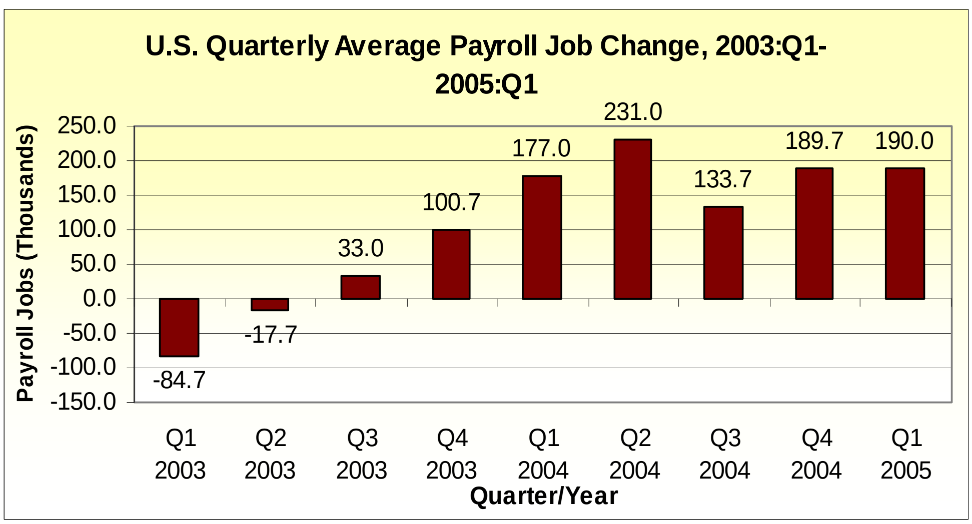
Indeed, this latest round of "high energy prices" has adversely affected consumer confidence, retail sales, and vehicle sales in particular. The Conference Board's Index of Consumer Confidence fell to 97.7 in April—down from significantly higher readings in January (105.1), February (104.4) and March (103.0). Retail sales in March dropped to a +5.8% year-over-year gain, versus a much stronger +7.8% year-over-year growth rate reading in February, a +8.0% annual growth reading in January, and a healthy +8.9% year-over-year growth rate level during December of 2004. Although unit vehicle sales have held up overall (at 17.4 million units versus a 17.0 million 12 month average for the year ended April 2005), consumers have clearly drifted away from the larger (and more profitable), gas-guzzling SUV's despite automakers aggressive discounting designed to offset high gasoline process. As a result, the recent and unexpected jump in inventories threatens to dampen an otherwise fairly sanguine near-term outlook for output and jobs in manufacturing. Unless the inventory accumulation turns out to be driven by the recent surge in import activity, domestic producers will have to look beyond the U.S. consumer to support strong output and job gains over the near-term future.

On consistent source of underlying output growth and job growth strength in the U.S. economy throughout the past year and since the last business cycle peak in 2001 has been the housing sector. Housing construction, expenditures for re-modeling, home sales levels, and housing price appreciation have all made consistently remarkable contributions to GDP growth, construction and real estate sales activity, and to the financial sector. As a good-producing industry, housing construction has resulted in important economy-wide job and income benefits, accounting for as much as 1/4 of GDP growth over the past five years based on estimates by Economy.com. The housing sector, primarily through the strong price appreciation that has occurred over the period, has been a huge cash generating machine for the economy. Economy,com has estimated that as much as $700 billion in equity has been taken out of this price appreciation over just the last calendar year. This huge cash injection has acted as a surrogate for earnings growth and he been deployed throughout the economy as a supplement to household income. Economy.com also points out that Federal Reserve studies indicate that about 1/3 of this equity withdrawal has been used for debt re-payment, another 1/3 has been used for home improvement and other investment expenditures, and the remainder used to supplement household income for consumption. Further, housing has been a boon to the financial sector, and has resulted in a strong banking system that is willing and able to provide credit. Finally, housing has been helpful to the governmental sector that has been trying to contend with the rising costs of K-12 education as state budget pressures for programs such as Medicaid have sapped the resources of state governments.

Looking at the national labor market recovery-expansion, the current 23-month national labor market recovery-expansion (through April) remains as the slowest of any labor market recovery since the Great Depression. When measured relative to the so-called "jobless recovery" of the early 1990s, the gap in total payroll jobs recovered-gained through April of 2005 totals a staggering 5.3 million fewer jobs recovered-added during the same period of labor market recovery-expansion between February 1993 and December 1994. The current U.S expansion's job growth total now sits at an unimpressive 967,000 jobs added during this upturn, just 16.2% of the total number of the just over 6.2 million U.S. jobs added by this point in time during the early 1990s "jobless recovery." As mentioned in last Fall's NEEP forecast update, this in not "new news" for the current U.S. economic upturn. But as was mentioned last time as well, the discouraging aspect of this still tepid U.S. labor market response to this current expansion is that it has occurred concurrently with the ballooning of the U.S. federal budget deficit—and the resulting huge fiscal stimulus that has engendered.



Even so, the pace of payroll job additions has quickened since the last lull to rest at the level of slightly under 200,000 new payroll jobs per month. This comes on the heels of last Summer's relatively faster 231,000 jobs per month average over the April to June quarter of calendar 2004 and the sluggish 133,700 monthly average during the July-September quarter of calendar 2004. During the last two quarters, payroll jobs have increased at the level of 190,000 jobs per month (with a +274,000 reading for April of 2005), a level that is roughly 40,000 jobs per month higher than is necessary to: (1) keep up with labor force and productivity growth,[1] and (2) generate the kind of wage-income growth to support the level of consumption needed to keep U.S. output activity moving forward at a respectable pace (e.g. a 3.0% to 3.5% annual rate of real GDP growth). A sustained greater than 150,000 monthly rate of payroll job gain is important development for the U.S. economy because it would be supportive of a level of wage and disposable income gains necessary to maintain a reasonable level of growth in consumption spending—and consumption remains as the principal economic driver in the U.S.



[1] And therefore help to lower the national rate of unemployment.

economy. This job-wage-earnings growth dynamic will be especially important for the U.S. economy as the economic stimulus from the string of federal tax cuts wanes and the now upward track of interest rates continues. Both of those factors will result in an increasingly less growth-accommodating macroeconomic fiscal and monetary policy environment. As a result, the U.S. economy will need to rely more and more on economic fundamentals such as job growth and wage-salary growth to keep consumption and therefore the U.S. economic upturn going forward. It has been a while since those underlying fundamentals have had to carry that much of the U.S. economy's "recovery-expansion" water, and it remains uncertain as to whether they will be able to effectively do so over the longer-run.

Near term expansion prospects for the U.S. economy through the rest of calendar year 2005 do generally remain upbeat. Although the economy's overall growth rate is expected to slow during the year, GDP growth should still be able to at least match the economy's current growth potential of +3.0% to +3.5%, as long as energy prices do not get out-of-hand and potential even begin to moderate. Leading the list of factors on the plus side of the economy's growth-supporting ledger is the still positive capital spending situation and outlook. Strong productivity growth and still historically low interest rates—even though rates will be rising—will continue to support the U.S. expansion over 2005. These factors have underpinned a very strong financial performance for businesses over the past several years, and this has encouraged double-digit growth rates in business capital spending and its corresponding strong contribution to GDP growth. While there is no expectation of another year of double-digit growth in investment spending, a projected rate of fixed investment growth in excess of 5% will still make and important and significant contribution to GDP growth during 2005.

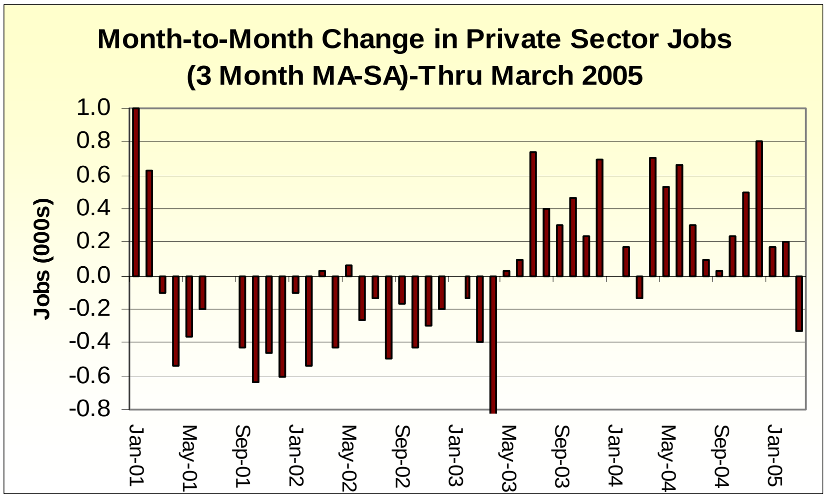
Second on the list of growth-supporting list is the housing sector. Although housing activity will be hard-pressed to continue at current rates or equal this sector's recent strong contribution to GDP growth in 2005, it will still make a significant contribution to growth in 2005. This will be so even as interest rates rise since it will take a period of time for the speculative pressures to unwind during the expected mortgage rate increase—hopefully in an orderly and manageable fashion. The third factor in 2005's expected growth is the expected decent rate of job and wage-salary growth during 2005. However as discussed previously, it has been quite some time since the job market has been at center stage in the growth outlook. Hopefully, this factor will be equal to its crucial growth-supporting task.

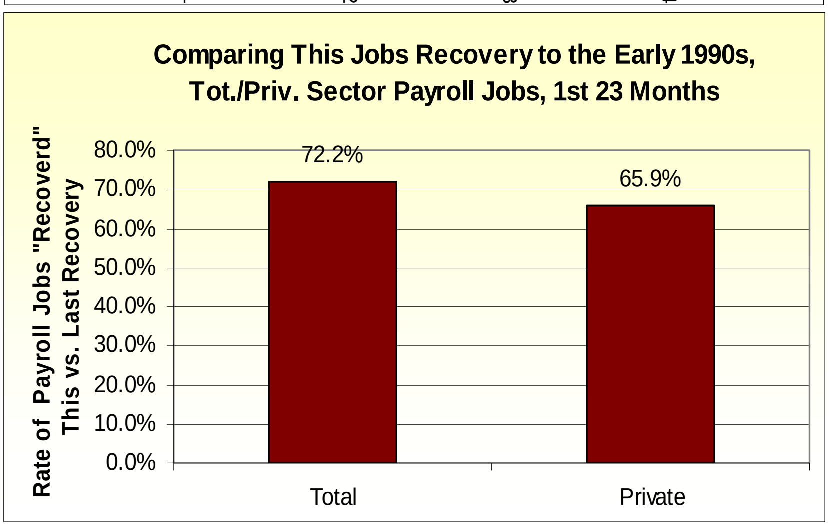
The principal threats to this otherwise relatively sanguine near-term growth prospects for the U.S. economy involve the still volatile energy price outlook and the ballooning—and increasingly unhealthy and unsustainable—increase in the U.S. trade and current account deficits. Regarding the former, energy prices—particularly the prices of oil and natural gas—remain high and persistently so. They remain that way, in part due to still strong global demand for energy (particularly from China), concerns about supply (Iraq, Russia, and the political situation in Venezuela), still relatively lean domestic inventories, and lack of U.S. refining capacity for oil. The net result of these high-rising energy prices is the double-barrel effect of reducing the amount of dollars for discretionary purchases AND reducing the overall purchasing power of each dollar of the household sector. If production decisions at U.S businesses will essentially be driven by the trend in overall demand, the recent sharp increases in oil and gasoline prices, if they do not moderate as expected, will act as significant drags on the U.S. economy going forward through calendar years 2005 and 2006.

Regarding the escalating trade and current account deficits, the inevitable adjustments that are forthcoming from this unsustainable situation implies there will be significantly higher inflation and interest rates sometime in the future. Clearly, this adjustment—when it begins—will result in negative consequences for the parts of the U.S. economy that have benefited from lower interest rates—principally vehicles and housing. The principal risk to the U.S. economy is that the forthcoming adjustments in these two deficits will be much broader than just the interest rate sensitive sectors of the economy. This, if it occurs, could conceivably result in significantly more painful economic adjustments for more sectors than is currently expected. This risk is especially high if these deficits continue to escalate for a protracted period of time during 2005-06 because the Chinese procrastinate further before becoming fully integrated into the global financial system.

The Vermont Situation: Turning to the Vermont recovery and economic situation, the most recent data show that the pace of the State's labor market recovery gained some traction during the Fall following a lull over the Summer of calendar year 2004. This was followed by another downdraft during the Winter, as the pace of expansion in payroll jobs took a breather—even though most other indicators of economic and real estate activity remain robust.

This once again demonstrates that, as has been the case for the greater of the state's 23 month labor market recovery-expansion, the profile of the state's labor market recovery-expansion remains uneven and historically restrained. Using the most recent data on the pace of the state's labor market recovery through the month of March from the Vermont Department of Employment and Training indicates that the recovery rate for total payroll jobs is currently at the level of only 72.2%, corresponding to a total of 3,500 fewer jobs, of the rate of job recovery during the early 1990s economic recovery-expansion. The recovery-rate for total private sector payroll jobs through March is a disappointing 65.9% of the early 1990s recovery, a recovery level that trails that previous labor market recovery by 4,200 jobs. This is a condition that unfortunately mirrors the labor market recovery-expansion situation elsewhere in the New England region and throughout many other parts of the country.





However, in contrast to that early 1990s period, real estate sales activity remains robust throughout Vermont. As a result, residential construction activity also remains strong in many regions of the state—but particularly around the state's major destination resort areas. Resort area activity is to a significant degree being supported by strong surges in out-of-state demand for vacation-retirement-second homes. When combined with the still solid level of in-state demand for residential real estate, these factors have fueled a boom in real estate sales activity which resulted in strong transaction and capital gains income increases in Vermont. It also has finally translated into strong employment gains in the Construction sector according to job market data with the publication of the re-benchmarked labor data by the Vermont Department of Employment and Training.[2]

[2] In the job market data released with the latest benchmark revisions.

In fact, this Spring's re-benchmark revisions were significant and upward (see Table 1)[3] as was suspected would be the case in the NEEP forecast revision published last November. This Spring's re-benchmark revisions turned what was originally thought of as only a tepid +0.7% total payroll job and a +0.8% private sector payroll job gain for calendar 2004 (versus calendar 2003) into a respectable year-over-year job growth record. These re-benchmarked data now indicate that total payroll job growth for 2004 (versus 2003) was a more typical +1.4% (corresponding to a 4,050 net job increase) annual increase—a doubling in the original survey data's year-to-year reading. The re-benchmark revision also boosted the year-over-year growth record for private sector payrolls as well top a more typical level of +1.5% (corresponding to a 3,700 net job gain)—an increase or 0.7 percentage points over the original survey data estimate. The other somewhat brighter news on the labor market front in the re-benchmarked total job numbers was the fact that the state actually made a transition from recovery to expansion back in September of 2004—an important development that had eluded the state's labor markets through the survey total job count data estimates as late as January of 2005.

Table 1: Overview of February 2005 Vermont Payroll Job Rebenchmarking Revisions [1][2]

		1st Revision/ 1st Survey [1][2]	Re-Bench-marked [3][4]	Number Difference	Percent Difference
Total Nonfarm Jobs					
	2003	298,750	299,200	450	0.15%
	2004	300,900	303,250	2,350	0.78%
Annual Change 2003-2004					
	Number Change	2,150	4,050	1,900	---
	Percent Change	0.7%	1.4%	---	---
Private Nonfarm Jobs					
	2003	246,850	247,200	350	0.14%
	2004	248,900	250,900	2,000	0.80%
Annual Change 2003-2004					
	Number Change	2,050	3,700	1,650	---
	Percent Change	0.8%	1.5%	---	---

Notes:
[1] 2004 data are survey data for that year
[2] 2003 data reflect the first re-benchmark revision for that year
[3] 2004 re-benchmarked data correspond to first re-benchmarking revision for that year
[4] 2003 re-benchmarked data correspond to the second and final re-benchmarking revision for that year

Basic Data Source: VT Department of Employment & Training

In addition to the state's robust real estate market, recent data also shows that Vermont similarly appears to be benefiting from the relatively upbeat level of national business investment-capital spending activity. The most recognizable indicator of that recovery-expansionary development is the early stages of an employment turnaround-recovery in the state's hard-hit manufacturing sector. This turnaround is should be considered to be preliminary because it involves only 500 recovered jobs. Such a small job change turnaround remains easily reversible—given the multiple threats to factory jobs that exist in the state today. As an example, it is no secret that the state's major export industries are facing fierce national and international competition, and this competition is particularly fierce in the state's factory sector (as evidenced by the recent out-sourcing decision at York Capacitor in Winooski where roughly 150 jobs will be transferred to Mexico). Significant employment vulnerabilities within the state's factory sector are still prevalent in many of the state's resource processing sectors, commodity-based goods-producing sectors, and at the IBM plant in Essex Junction—the state's largest private employer. Given the fact that the Vermont manufacturing sector lost more than 10,000 jobs during its last and protracted employment downturn, a turnaround that includes less than 5% of the total number of jobs during the previous downdraft has to be considered to be a fledgling one—at best.

[3] As was indicated in the Fall 2004 NEEP Outlook revision.

On the brighter side, the data in Table 2 show the recovery-growth profile of the state's major NAICS[4] jobs categories. The March data show that full recovery has been achieved or expansion is now underway in a total of 5 of 7 major employment categories. The Retail Trade category was the most recent sector to join the ranks of those that have completed their recovery. As of March, only the Leisure and Hospitality category—other than the manufacturing sector discussed above—has a bit more job recovery progress to make. The fact that the Leisure and Hospitality sector has a ways to go in its job recovery progress should not be surprising. This sector was perhaps the most directly and adversely affected by the tragic terrorist attacks of September 11, 2001 and the resoundingly negative impact those attacks had on one of the state's fastest growing visitor categories at that time—the international tourists category.

Table 2: Measuring Vermont's Labor Market Recovery-Expansion by NAICS Sector

	High	Low	Present (Mar.-05)	# Jobs Lost	# of Jobs Recovered	% Recovered
Total-Private and Public Sector Jobs	**303.8**	**296.3**	**305.4**	**7.5**	**9.1**	**121.3%**
Total-Private Industries	254.0	244.6	252.7	9.4	8.1	86.2%
Construction	15.4	14.7	17.2	0.7	2.5	357.1%
Manufacturing	47.3	36.9	37.4	10.4	0.5	4.8%
Retail Trade	40.2	38.5	40.2	1.7	1.7	100.0%
Professional & Business Services	21.1	19.9	21.2	1.2	1.3	108.3%
Private Education Services	12.3	11.9	12.4	0.4	0.5	125.0%
Health Care & Social Assistance	***34.0***	***33.6***	***41.5***	***0.4***	***7.9***	***1975.0%***
Leisure & Hospitality	33.9	31.5	33.4	2.4	1.9	79.2%

Note:

There was no real jobs recession in the ***Healthcare & Social Assistance*** sector during the period.

Source: VT Department of Employment & Training

Prepared By: Economic & Policy Resources, Inc.

Beyond the above indicators, it should be noted that state General Fund tax receipts—perhaps the most encompassing and most timely indicator of economic conditions across Vermont—has continued to post exceptionally strong year-over-year growth rates on a tax rate adjusted basis. Through April 30th, strong Personal Income, Corporate Income, Estate Tax, and consumption tax receipts growth have posted an exceptional 15.4% year-over-year, tax rate-adjusted rate of growth in the fund. The Spring 2005 Personal Income and Corporate Income Tax filing seasons in particular have ranked among the best ever from a total dollars perspective. These data indicate a healthy level of economic activity or overall economic health in the state that may perhaps even exceed the improved view of the state's labor market recovery portrayed by the re-benchmarked labor market statistics.

Turning to the always important IBM situation, there is somewhat positive news to report in that the company was successful in securing two long-term supply contracts from both private sector (e.g. Intersil Corporation of Milpitas, CA) and public sector (e.g. the U.S. Department of Defense) customers. In addition, the company has made recent announcements that indicate a total of roughly 250 job add-backs have been made since employment cutbacks totaling roughly 1,850 company jobs were completed over the three year calendar year 2001-03 period. Even with those recalls, it is again worth noting that the state's largest employer company is still down by a net of roughly 1,600 of among the highest paying private sector jobs. Considering this job category had a $61,027 average wage in calendar 2003—the 3rd highest average annual wage level of all significant Vermont job categories with more than 100 jobs—this sequence of employment-adjustment events at IBM has represented a significant handicap for Vermont's labor market recovery over the last 3½ years. While the company and the factory sector as a whole are certainly not out of the employment reduction woods, these little successes offer some degree of optimism that the manufacturing sector may have finally turned the corner toward recovery—albeit a shaky one and one that is not without significant, on-going risks—from an employment recovery-growth perspective.

[4] NAICS refers to the North American Industry Classification System.

Vermont's relative rank among the New England states and among the other 49 states in the country in year-over-year job change through March echoes the above discussion. Table 3 shows that Vermont ranks 1st in the New England region in terms of year-over-year change growth in both major payroll job aggregates, and ranking in the top half of the 50 states for total payroll jobs (including 19th nationally) and private sector payroll job growth (including 21st nationally). The state also ranks high in year-over-year job change in the Construction (2nd in New England and 10th nationally) and manufacturing (1st in new England and 10th nationally) categories as well. These data seem to indicate that any significant, positive employment change at all in factory jobs is enough to support such a positive relative performance—given the fact that a total of 20 states still lost jobs over the past year and another 13 state were flat or increased by less than 1.0% over the period. Vermont has a somewhat sub-par relative job change performance in the Professional and Business Services (3rd in New England and 37th nationally) and Leisure and Hospitality job categories (6th in New England and 36th nationally).

Table 3: Vermont's Year-Over-Year Job Change Rank By Slected NAICS Sector

March 2004 versus March 2003	Rank in New England	Rank in U.S.
Total-Private and Public Sector Jobs	1st	19th
Total-Private Industries	1st	21st
Construction	2nd	10th
Manufacturing	1st	10th
Professional & Business Services	3rd	37th
Leisure & Hospitality	6th	36th

Source: VT Department of Employment & Training

Prepared By: Economic & Policy Resources, Inc.

The Economy.com National Economic Forecast Assumptions: The Vermont forecast update begins with the Economy.com national economic forecast which establishes the U.S. economic environment within which the Vermont economy will perform. The following section details the national economic forecast underpinning the Vermont economic forecast that was developed during the month of March 2005.

For the most part, the Economy.com forecast for the U.S. economy is relatively sanguine, calling for a moderate pace of uninterrupted recovery-expansion over the 2005-09 period. Total GDP growth is expected to increase over a range between +3.0% to +3.8% over the 2005-09 period. While this is a bit a a downshifting in growth rates relative to the recent past, the moderating pace of recovery-expansion over the next 5 years reflects the ebbing fiscal stimulus, rising interest rates from continued tightening by the Federal Reserve, and the drag on growth associated with the stubbornly high level of energy prices. The forecast includes the expectation that the Fed will continue to tighten well into calendar year 2006 until the federal funds rate reaches what could be considered to be a more neutral level vis-a-vis the current, still activity-stimulating level of interest rates. While it is unclear what the Federal Reserve might consider to be a neutral federal funds rate, Economy.com's estimate currently places it at the 4.5% level. Economy.com expects that fiscal policy will become much more restrained over the forecast period, with expenditure growth rates moderating—except for perhaps military spending—versus the double-digit rate of increase that have been typical of recent years. In addition, personal tax bills are expected to begin to increase again, as more and more taxpayers become ensnared in the net of the Alternative Minimum Tax, and the end of accelerated depreciation benefits for businesses. Add to that the December 31, 2004 sunset of accelerated depreciation benefits and it seems clear that the tax cut-supported macroeconomic stimulus has now largely run its course.

Like last Fall, the Economy.com national forecast includes a moderation in oil prices. The forecast includes a decline from the $50 per barrel range to a level in the mid-$30 per barrel level by mid-2006. The factors underpinning this expected price decline are moderating demand, an increase in output, and a lowering of the risk premium in prices as threats to key oil producing regions moderate. If oil prices fail to moderate as expected and remain near current levels, the Economy.com forecast scenario acknowledges that U.S. GDP growth could be as much as one percentage point lower over the coming year.

Beyond the energy price risk, the Economy.com forecast also acknowledges a number of risks on the U.S. and global economic fronts. The first is the ever-present threat of another terrorist attack (with particular concern about such an attack or a "political meltdown" in a key energy producing nation). The second relates to the unsustainable twin deficits—the federal budget deficit and current account deficit—which pose a threat to the global economy by tripping a global financial crisis because of a loss of confidence in the U.S. dollar—the present currency of choice in international transactions. In addition, recent developments have elevated concerns about rising inflationary pressures and the possibility of pushing monetary policy to a more restrictive instead of neutral posture. In addition, high consumer debt levels-leverage in a rising interest rate policy environment also is a major concern, especially as the use on non-traditional financing products[5] has recently increased in what looks to be an increasingly speculative national housing market. Even so, the current Economy.com forecast scenario expects there will be an orderly transition process over a wide range of potentially thorny macroeconomic issues—but particularly in the above-mentioned areas of energy prices and monetary policy and in the area of real estate markets-housing prices.

More specifically, the Economy.com forecast projects that GDP growth over the 2004-09 period will average 3.8% for 2005, 3.4% for 2006 and post annual rates of growth between roughly 3.0%-3.3% for the 2007-09 period. Payroll job growth is expected to average roughly 1.3% per year over the same period, with a 1.8% rate of payroll job gain in calendar 2005, and a nearly equal 1.7% annual increase in calendar 2006. Over the 2007-09 period, annual payroll job growth rates of 0.9%, 1.2% and 1.3% are expected, respectively. Inflation-adjusted personal income is expected to grow by +3.8% in 2005, and decelerate to +3.3% rate of growth in calendar 2007. For the 2007-09 period, inflation-adjusted income growth is expected to grow within a narrow range of between 2.8% in 2007 and 2008 and 2.7% in calendar 2009. As indicated above, the Economy.com national forecast also expects that short-term interest rates will increase over the forecast period as Fed policy continues with its expected inflation-controlling, monetary policy approach. Finally, as with previous NEEP outlook revisions, the outlook for overall inflation in the national Economy.com forecast continues to be for relatively restrained level of price increases—whether measured by the Consumer Price Index (CPI-U) and the chain-weighted GDP deflator. The "orderly transition" scenario is a key to this forecast, whether looking at energy process of the unwinding of real estate and housing prices over the next several years.

The Vermont Economic Outlook: Against the backdrop of that national economic scenario, the Vermont Spring 2005 forecast update charts a familiar course, essentially following a now well-worn path. Overall, the outlook is for a positive, but restrained and at times uneven path and pace to economic and labor market activity through the 2005-09 forecast period. Payroll job growth is expected to, for the most part, fluctuate within a +1.0% to +1.4% range over the next 6-7 quarters before experiencing a bit of a throttling down (or a sub-cycle) during calendar year 2007. Job growth is then expected to resume a modest pace of expansion just north of a +1.0% annual rate of growth for the remainder of the forecast time frame. Output growth is forecasted to follow a similar pattern over the course of the forecast, averaging +2.9% in calendar 2005, +2.7% in 2006 and 2008, +2.4% in 2007 during the sub-cycle, and +2.5% in 2009. Taken together and relative to the +3.6% average rate of output growth in the Vermont economy during the 1999-2004 period, output growth during the 2005-09 forecast period is expected to average one full percentage point lower at a forecasted average of +2.6%.

This expected quarterly profile of forecasted activity is an artifact of the expected near-term strength in real estate sales and construction activity (in both residential construction and around many of the state's resorts), a long, slow and uneven boat (with sometimes rocky seas) to a job recovery in the manufacturing sector, decent levels of business activity in the travel-tourism sector (which salvaged a poor start to the Winter tourism season in December-January, and the continued expansion in the U.S economy. Table 4 highlights the direction and magnitude of the changes by major macro-indicator in this Spring

[5] Including interest only mortgage loans and other creative mortgage products.

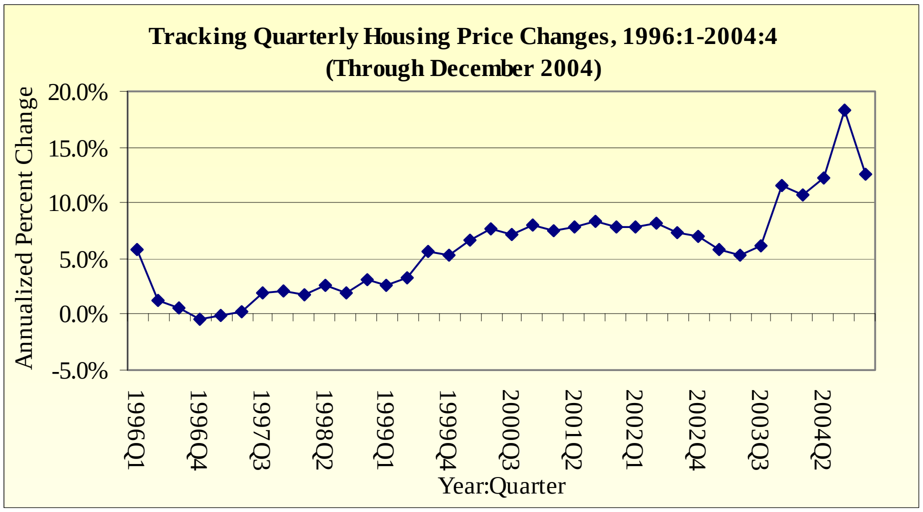
outlook revision versus the previous six NEEP forecast updates. As with previously published economic forecasts for the state, the size of the forecast revisions are generally small, for the most part falling within a +/- 0.5 percentage points range for all of the state's major macro indicators. It is important to point out that there were significant revisions to recent GSP and real personal income history. In addition, the forecast for inflation-adjusted personal income for calendar 2005 is likewise expected to be somewhat more upbeat versus the projected growth rate in inflation-adjusted personal income growth expected in the Fall 2004 NEEP forecast. This reflects a combination of revisions in the historical data series and the apparent strong underlying income growth momentum in the state economy despite relatively tepid performance by the state's major labor market indicators again this Spring.

TABLE 4: Historical Comparison of NEEP Forecasts for Vermont (May 2005)							
Calendar Years	2002	2003	2004	2005	2006	2007	2008
Real Gross State Product			<History<	>Forecast>			
May 2002	0.6	3.3	3.4	3.0	2.7		
October 2002	1.1	1.6	3.2	2.2	2.8		
May 2003	1.2	1.6	2.7	2.6	2.9	2.5	
October 2003	1.5	1.8	2.7	2.1	2.6	2.3	
May 2004	1.5	0.4	3.6	2.9	3.1	3.0	2.8
November 2004	1.5	0.4	3.3	3.4	2.8	2.8	2.9
May 2005	2.8	3.5	3.7	2.9	2.7	2.4	2.7
DIff. Pct. Pts. 11/04-5/05	1.3	3.1	0.4	-0.5	-0.1	-0.4	-0.2
Payroll Job Growth							
May 2002	-0.9	1.6	2.3	1.4	1.2		
October 2002	-0.9	0.5	1.9	1.2	1.0		
May 2003	-0.8	0.2	0.9	1.7	1.3	1.1	
October 2003	-0.8	1.4	0.4	1.2	1.1	1.0	
May 2004	-0.9	-0.2	1.1	1.7	1.3	1.0	1.0
November 2004	-0.9	-0.2	1.1	1.9	1.1	0.9	1.1
May 2005	-0.9	0.0	1.4	1.6	1.2	0.7	0.9
DIff. Pct. Pts. 11/04-5/05	0.0	0.2	0.3	-0.3	0.1	-0.2	-0.2
Real Personal Income							
May 2002	-0.2	1.3	2.7	2.5	2.2		
October 2002	1.5	1.0	2.0	2.0	2.1		
May 2003	1.8	0.8	1.8	2.5	2.6	2.5	
October 2003	1.6	2.7	2.3	1.7	1.8	1.9	
May 2004	1.7	2.1	2.7	2.4	2.0	2.3	2.3
November 2004	1.8	2.1	3.1	2.3	1.7	2.2	2.4
May 2005	1.1	1.7	3.7	3.9	1.8	1.9	2.2
DIff. Pct. Pts. 11/04-5/05	-0.7	-0.4	0.6	1.6	0.1	-0.3	-0.2
Source: New England Economic Partnership (May 2005)							

Illustrating the now familiar pattern of the overall restrained pace of job recovery-expansion, the pace of payroll job recovery-growth on a quarter-to-quarter basis is not forecasted to exceed the level of +2.0% in any quarter during the forecast period. As a point of reference, the state economy was able to breach that +2.0% threshold in 3 of the first 8 quarters of the state's labor market recovery. The forecast also expects that inflation-adjusted personal income growth will follow a similarly restrained path over the forecast period, remaining below the +3.0% level of growth, after exceeding that mark in 5 of the first 8 quarters of the state's current recovery-expansion.. Total nominal-dollar Personal Income follows a somewhat different course, given the impact of intensifying inflationary pressures. After posting an initially upbeat calendar year 2005, nominal dollar personal income moderates somewhat through calendar 2006 and the expected 2007 sub-cycle, before resuming a moderate growth path on a slightly higher +4.0% plane.

On the sector-by-sector front, the highest rates of job growth over the 2005-09 forecast period are expected the Education & Health Services sector (at +2.2% per year), the Professional & Business Services sector (at +2.1% per year), and the Financial Activities sector (at +1.3% per year). The manufacturing sector will experience the most restrained job addition performance (at 0.0%)—improving from the -4.0% record of the 1999-2004 time frame. In fact, all the state's major NAICS sectors are expected to recover-add jobs over the forecast period, representing a significant improvement from the 1999-2004 period where 3 of 12 major NAICS categories lost jobs.[6]

Update on State Housing Markets: Following up on last Fall's NEEP outlook revision for Vermont, the following section is intended to provide an update on state housing prices that at the time seemed to have reached the level of speculative level of activity akin to the "irrational exuberance"-type behavior that was characteristic of U.S. equity markets during the late 1990s dot.com boom. Since last Fall, the OFHEO price index series added another "actual data point" corresponding to the October-December quarter of calendar year 2004. On that front the news was positive, with the +18.0% annualized rate of housing price increase throttling down by roughly 1/3 to a still high, but less disquieting annualized level of +12.3% annualized. That fourth quarter reading interrupted what had been a disturbing three quarter intensification in housing prices to levels that was becoming eerily similar to the speculative run-up in housing prices that cratered during the early 1990s and resulted in the a protracted period of exceptionally low housing sales and construction activity.



Clearly, escalating housing price situation has hardly resolved itself, considering that there is only one quarter's worth of data that indicates that markets may finally moving in the direction of an orderly transition towards a more normal housing price-sales situation. The real estate forecast is at a very difficult juncture, with a wide range of potential outcomes as the market moves toward rationality. There is a complex interplay between rising materials costs on the new construction side of the ledger, a wide band of uncertainty on the resale market as "very tight" demand-supply situation in the middle price ranges, and strong seasonal home demand (much of which is from out-of-state sources) that have combined to push prices to unsupportable levels—as would be expected by the state's underlying economic fundamentals. The revised NEEP outlook for Vermont includes a continuation of the inflating of the current bubble, but at a significantly slower rate than was the case during calendar year 2004. The forecast includes a slower decline than the Economy.com baseline forecast for Vermont and a bottom in prices during calendar 2007. This compares to a baseline forecast that had prices rising to an even higher level than the +18.0% third quarter reading for calendar year 2004 during the first half of calendar year 2005 and subsequent sharp decline (or crash) in calendar year 2006. The revised Vermont forecast is consistent with prior real estate cycles in Vermont and calls for a more orderly transition, with a lower peak and more rounded trough than expected in the Economy.com baseline.

[6] At this point it looks as though the Vermont Air National Guard base will be "safe" from the upcoming announcement of base closures by the Pentagon expected on May 13, 2005. Recent announcements by the Vermont Air Guard indicate that the Vermont base is expected to expand training operations, if anything, and despite the Pentagon's recently announced plans to curtail domestic F-16 fighter activity. We will of course not really know until after the announcement. This forecast makes an assumption that the Vermont Air Guard base will not be among those to be closed-relocated.

Even so, it is true that nearly all real estate cycles include at least some level of speculative sales activity that get out of sync with the economy's fundamentals for at least some period of time. In such speculative price situations, extended periods of "unsupported" price increases can result in larger, steeper corrections in real estate markets that can be harmful economically. The current forecast included in this NEEP forecast revision for Vermont is that there will in fact an orderly unwinding of the State's current housing market situation. This cycle is expected to last 6-8 calendar quarters and run largely independent of the cyclical upturn in the state's overall economy. As this situation develops, it is expected the slowdown in real estate sales activity will slow overall economic growth in Vermont when it occurs. However, it is not expected—if this situation unwinds itself in an orderly fashion—to halt the State's economic recovery-expansion. Nevertheless, a "less than orderly" unwinding of the current housing price escalation situation still represents one of the most significant downside forecast risks for the State's economy, especially during the late-calendar year 2006 to early-calendar year 2007 time frame.

Conference Theme—Is Demographics Destiny?

Overview of Key Demographic Trends: Mid-year estimates from the Census Bureau for 2004 show that Vermont's population grew by an estimated 2,050 persons between 2003 and 2004, representing a 0.3% rate of increase. That rate of increase was slower than the 1.0% increase in population for the nation between 2003 and 2004, and was the same as the 0.3% rate of population increase experienced for the New England region as a whole. Vermont experienced a growth of an estimated 51,800 persons (rounded) between 1990 and 2004, representing an average annual rate of 0.7% per year. That represented a slightly faster annual rate of increase over the 1990-2004 timeframe than the 0.5% rate of growth per year that was experienced by the New England region overall. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.2% per year over the same period.

Age data from the Census Bureau for 2003 indicates that the median age of the Vermont population was 40.1 years (up from 38.3 years in 2000), 4.2 years older than the national average median age of 35.9 years and makes Vermont one of the "oldest states" in the county . Among the various age groupings, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 77.3% of the State's population versus 74.7% of the total population of the United States) in 2003, and a concentration that was slightly higher than the New England regional average in that age group (at 77.8% for Vermont versus 76.8% for the New England region) in 2003. Vermont had below average age concentrations in the under 5 years age category (at 5.0% of the State's total population) relative to both the New England average (at 5.9% of the New England regional population) and U.S. average (at 6.8% of the total U.S. population).

Census Bureau data also shows that a total of 27.5% of the Vermont population, or nearly 1 of every 3 residents, was in the 45-64 years age category in 2003. That percentage was the highest percentage for any state in both the New England region and in the national as a whole. The state also had a below average concentration in the over 65 years age category (at 12.9% of the State's population) relative to the New England average concentration (at 13.5% of the regional population) in 2003. However, the percentage of Vermont's population in the over 65 years age category (at 12.9% of the State population) was slightly higher than that for the U.S. population as a whole (at 12.4% of the U.S. population overall) in 2003. In addition, the percentage of Vermont's population in 2003 aged 14-24 years (at 16.2% of the State's population) significantly exceeded both the percentage of the New England regional population (at 14.7% of the total) and the U.S. population overall (at 15.6% of the total) in 2003. Vermont also had a slightly higher percentage of its population in the 85 years and older category (at 1.8% of the State total) relative to the U.S. population (at 1.6% of the U.S. population) in 2003, but a slightly lower percentage than the New England region as a whole (at 2.0% of the New England regional population) in 2003.

Beyond the population growth and age profile, the Vermont population has a significantly higher level of educational attainment than the U.S. population as a whole according to the latest data from the U.S. Bureau of the Census (March 2003). A total of 88.9% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 11th among the 50 states, 2nd highest among the New England states, and above the national average of 84.6%. In addition, 31.3% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont ninth highest among the 50 states and 4th highest among the 6 New England states—positioning the state well for many basic goods-producing and services-producing industries as well as knowledge-intensive and technology-based businesses.

Looking at the trend data, one of the most significant and disturbing trends is that during the 1990s, Vermont lost its young people at a rate that was nearly 4 times the U.S. average (-19.0% versus -5.4% nationally for the aged 20-34 years age category). The rate of decline in this age category exceeded 25% in 4 of the state's 14 counties, with Rutland County (at -27.2%), Windsor County (-26.9%) Bennington County (at -26.8%) and Windham County (at -26.2%) surpassing that troublesome threshold. Only Lamoille County (at -6.4%) among Vermont's 14 counties, experienced a loss of 20-34 year olds that was less than at a double-digit rates. However, even Vermont's best county still exceeded the comparable national average rate by a full percentage point. At least some of this decline is attributable to dramatic declines in the state's birth rate—estimated by some to be the lowest in modern state history. This record has resulted in a significant 5.7% decline in public school enrollments in the state over just the last 5 years (from an estimated 105,120 in 1999 to 99,085 in 2004)—and the attendant rising costs per student that such enrollment declines tend to engender. Combined with a very restrained level of population in-migration during the early-mid 1990s (in the aftermath of the late 1980s housing boom) and so far during the early 2000s, and the seeds appear to be sown for the emergence of a number of challenging policy and growth management issues over the next 10-20 years.

Implications: The older and faster aging population raises several issues of importance. The first concerns the availability of a dedicated work force with the right skill sets to supply Vermont businesses who want to invest and grow in our state with the type of hard working labor force they need to be successful in today's global marketplace. With an estimated 27.5% of its population in the 45-64 years category, Vermont businesses face the unhappy prospect that nearly 3 in 10 workers will be reaching traditional retirement age within the next 20 years. With so few replacement workers coming up through the ranks as the aged 20-34 years olds leave the state (see above), Vermont faces a stiff challenge to cultivate and/or attract the number of workers needed to address the possibility that there will be a significant shortage of workers in the not too distant future. This is an important challenge because an available work force means having enough people with the right skills at the right time to meet the needs of the state's employers. A shortage of workers in today's economy often means that opportunities to add quality jobs in the Vermont economy will pass us by. Working families are in that way made worse off, and the opportunity to create even more high quality job opportunities may be lost as well.

Aside from the implications on the work force, the aging population also likely means increased pressures on the already stretched state housing stock, the ballooning state Medicaid budget, and a burgeoning need for long-term and other senior care-services. Regarding the first, recent housing assessment studies in many regions of the state have showed how declining household size as the population ages has resulted in significant supply shortages in several regions of the state. Smaller household size means the state's housing stock must work harder to provide homes for each 1,000 person increment of the state's population. Moreover, this dynamic is occurring at precisely the time that it is becoming increasingly difficult (due to rising land prices, development review costs, and rising materials costs) to deliver affordably priced units quickly to the state's inventory. Regarding the second and third trends, increasing numbers and a higher percentage of the state's population in the upper age categories threatens to stretch beyond the capacity of the state budget and other elder services delivery networks to meet the requirements of an increasingly older—if nothing changes—Vermont population.

Solutions: There are no easy answers. One obvious part of the solution is to become more welcoming as a state to in-migrants of working age householders and their families. That is clearly easier said than accomplished because faster population growth likely means significantly more housing unit growth—something that communities and many other groups have not been especially receptive to. Often, more housing means the development of open space, and additional students for some areas' already over-crowded school systems (although in some communities this school enrollment dynamic is changing—see above). In any event, these challenges are likely to intensify before they begin to ease, calling on all of us to look for creative solutions and deft policy-making to address these soon emerging challenges.

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