MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to the State of Vermont's $11.1million Special Obligation Transportation Infrastructure Bonds 2013 Series A

Global Credit Research - 18 Jul 2013

Outlook is Stable

VERMONT (STATE OF)
State Governments (including Puerto Rico and US Territories)
VT

Moody's Rating

ISSUE	RATING
Special Obligation Transportation Infrastructure Bonds, 2013 Series A	Aa2
Sale Amount $11,095,000	
Expected Sale Date 07/29/13	
Rating Description Special Tax: Transportation-Related	

Moody's Outlook

Opinion

NEW YORK, July 18, 2013 --Moody's Investors Service has assigned a rating of Aa2 with a stable outlook to the State of Vermont's $11 million Special Obligation Transportation Infrastructure Bonds 2013 Series A. The bonds are expected to sell on or about July 30th.

SUMMARY RATINGS RATIONALE

The rating reflects healthy debt service coverage provided by pledged revenues consisting of assessments on motor vehicle and diesel fuel, an additional bonds test (ABT) of 2 times coverage, a fully funded debt service reserve fund, conservative forecasting of the revenues by the state, and a covenant by the state not to impair or alter the rights of bondholders. Bond proceeds will be used to fund bridge reconstruction and roadway reconfiguration projects.

STRENGTHS:

*Healthy debt service coverage provided by pledged revenues.

*Debt service reserve fund.

*Satisfactory additional bonds test of two times debt service

CHALLENGES:

* Narrow source of pledged revenues.

*Ability to leverage pledged revenue resulting in likely reduction of debt service coverage.

DETAILED CREDIT DISCUSSION

BONDS WILL FUND NEW TRANSPORTATION PROGRAM FOR THE STATE OF VERMONT

In response to a 2008 Treasurer's report which highlighted the need for significant transportation infrastructure funding across the state, the legislature approved a new bonding program supported by new state revenues to provide additional sources of funding for transportation projects within the state. The state has created a plan to rehabilitate, reconstruct or replace state and municipal bridges, culverts, state roads, railroads, and airports. The 2013 Series A bonds represent the third revenue bond issue for the state under the program. The state projects capacity to issue additional bonds annually through 2017 address the needs outlined in the plan.

PLEDGED REVENUES PROVIDED BY ASSESSMENTS ON MOTOR VEHICLE FUEL AND DIESEL FUEL

Pledged revenues consist of a legislatively approved 2% assessment on the retail price per gallon of gasoline (net of state and federal taxes) and a $.03 cent per gallon assessment on diesel fuel. The assessments were created and approved during the 2009 legislative session. The 2% gasoline assessment went in effect July1, 2009 while the diesel assessment became effective October 1, 2009 (collections began in December of 2009). In fiscal 2013 total assessments were approximately $23.0 million, slightly below the $23.2 million projected in the January 2013 consensus forecast, and about the same as the $22.8 million received in fiscal 2012. Of the pledged revenues, 92.3% are derived from the gasoline assessment.

Pledged revenues are collected monthly by the state department of motor vehicles and then remitted to the commissioner of finance and management. Within 15 business days after the end of each month, the commissioner of finance and management must certify to the trustee and state treasurer the amount of pledged revenues collected during the prior month. The state treasurer, within 2 business days of the certification, is required to deposit pledged revenues into the debt service accounts held with the trustee, if not already full funded.

Revenues are deposited monthly on a gross basis, effectively funding the debt service on a "first money in" basis. In practice, the state has deposited the entire fiscal year's debt service on or before July 1, funded from prior-year revenues. Debt service payment dates are December 15 and June 15th, providing a 5 month buffer period from the start of the fiscal year (July 1) before the first debt service payment is due. After sufficient revenues are on deposit with the trustee for the full year debt service, pledged revenues can be used to fund pay-as-you-go transportation projects.

DEBT SERVICE RESERVE FUND AND NON-IMPAIRMENT CLAUSE PROVIDE ADDITIONAL SECURITY

An additional source of security is provided by the fully funded debt service reserve fund (cash funded with bond proceeds). The bond Indenture requires a debt service reserve fund set at the lesser of: 10% of the original par amount, 125% of average annual aggregate debt service, or 100% of maximum annual debt service for all outstanding bonds issued under the Indenture. The 2013 Series A bonds will comply with this requirement.

The state has covenanted in the bond documents that so long as the bonds are outstanding, the state will fulfill the terms of the bond documents, and will not impair the rights and remedies of the holders of the bonds until the bonds are fully paid.

ADDITIONAL BONDS TEST AND OTHER BOND COVENANTS PROTECT BONDHOLDER PAYMENTS

The state has covenanted that it will not issue any additional bonds secured by the pledged revenues unless: a) revenue collections for 12 consecutive months within the prior 18 months provide at least two times maximum annual debt service (MADS) on the aggregate bonds; and b) pledged revenues for the first full year immediately following the issuance of any additional bonds are projected to provide at least 2 times MADS.

STATE PROJECTS HEALTHY DEBT SERVICE COVERAGE

Based on the fiscal 2013 revenue collections , pledged revenues provide 9.07 times of maximum annual debt service coverage on all outstanding bonds, consisting of current offering and the 2012 series A and 2010 series A bonds. Debt service coverage is particularly strong now due to the very small amount of debt. Additionally, the coverage benefits from the absence of administrative costs and revenue allocations to local entities, commonly found in most transportation programs.

Historic revenue trends are an important credit aspect for revenue backed bonds. Since the revenue pledged to secure repayment of the bonds have only four years of performance history, the analysis focused on the historical prices and amounts of fuel sold in the state. Going back to 1985 on a pro forma basis, the largest annual revenue decline in the TIB Fund would have occurred in FY2010, when the state experienced a 20.4% decline in revenues. This corresponded with gasoline price declines in calendar year 2009 of 30%, relatively flat FY2010 gasoline consumption in gallons (+0.6%) and a decrease in FY2010 TIB diesel receipts of 2.6%, as commercial transport declined during the Great Recession. To stress this revenue low point, if fiscal 2013 TIB revenues were to decline by 20.4%, the state would still achieve 7.26 times coverage on the current outstanding bonds. Pledged revenues would have to decline by 77% to reach the ABT level of 2 times coverage (based on fiscal 2013 revenues) for the current outstanding debt service.

Based on the current forecast, it is estimated that pledged revenues would provide over 3 times coverage in 2017 if all debt under the current five year pro-forma projection is issued. If pledged revenues remain flat at the fiscal 2012 level, aggregate debt service coverage would still exceed 2 times on existing and estimated debt issuances.

The revenue forecast for the transportation infrastructure bond fund has been incorporated into the state's consensus revenue forecasting process, which enhances the reliability of the projections. The state has exhibited positive trends of proactive and conservative revenue forecasting practice.

Outlook

The outlook on Vermont's transportation infrastructure bond ratings is stable at the Aa2 level. The outlook incorporates debt issuances estimated over the next several years as the state begins a new transportation infrastructure improvement plan.

WHAT COULD MAKE THE RATING GO UP?

*Constitutional protection of the pledged revenues source

*Legal provisions consistent with higher rating levels on highway revenue bonds, such as a stronger additional bonds test.

*Maintenance of strong debt service coverage

WHAT COULD MAKE THE RATING GO DOWN?

*Weakened legal covenants.

*Decline in pledged revenues as a result of legislative changes that cause a major reduction in coverage levels

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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