MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to State of Vermont's $85.3M General Obligation Bonds; outlook stable

Global Credit Research - 22 Oct 2013

$ 555 million in general obligation debt outstanding

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

Moody's Rating

ISSUE		RATING
General Obligation Bonds 2013 Series A (Vermont Citizens Bonds) (Negotiated)		Aaa
Sale Amount	$20,225,000	
Expected Sale Date	11/04/13	
Rating Description	General Obligation	
General Obligation Bonds 2013 Series B (Competitive)		Aaa
Sale Amount	$46,410,000	
Expected Sale Date	11/04/13	
Rating Description	General Obligation	
General Obligation Refunding Bonds 2013 Series C (Competitive)		Aaa
Sale Amount	$18,680,000	
Expected Sale Date	11/04/13	
Rating Description	General Obligation	

Moody's Outlook

Opinion

NEW YORK, October 22, 2013 --Moody's Investors Service has assigned a Aaa rating to the State of Vermont's $85.3 million General Obligation Bonds 2013, consisting of Series A ($20.2 million), Series B ($46.4 million), and Series C ($18.7 million). Proceeds of the Series 2013 A and B bonds will be used to fund various capital projects around the state, the Series 2013 C proceeds are being used to refund outstanding GO bonds for debt service savings. The bonds are expected to sell the week of November 4th. The outlook is stable.

SUMMARY RATINGS RATIONALE

Moody's highest rating level reflects Vermont's strong history of financial management, which includes conservative fiscal policies and the maintenance of healthy reserve balances that continue to provide a cushion against any unexpected revenue declines; and manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems.

Credit strengths are:

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

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

*Maintenance of budget reserve levels at statutory limit.

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

Credit challenges are:

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

*Decline in job growth.

DETAILED CREDIT DISCUSSION

SECURITY FOR THE BONDS

The bonds are general obligations of the State, secured by the full faith and credit of the State to pay principal and interest on the bonds.

ENACTED FY 2014 BUDGET ASSUMES REVENUE GROWTH OF 5.3%

The enacted fiscal 2014 general fund budget of $1.324 billion reflected an increase of 3% over fiscal 2013 revenues. The budget, based on the January 2013 economic and revenue forecast produced by the state, was subsequently revised upward by a slight $4 million (less than a percent) in the July 2013 consensus forecast. Year to date revenues through August 2013 were tracking slightly ahead of the updated forecast. Personal income tax receipts provide roughly 50% of the state's general fund revenue. The 3% growth rate projected for FY 2014 seems in line with the economic outlook for calendar years 2013 and 2014. It should be noted that the prior year fiscal 2013 revenues came in significantly above forecast, 7.6% over fiscal 2012 revenues. The additional revenue is largely non-recurring, related to high wealth. As in many states, Vermont benefitted from taxes on capital gains and significant gifts recorded in calendar year 2012 (tax year 2013) in anticipation of the expected lapse of tax cuts beginning in calendar year 2013. Looking ahead to fiscal 2014 and fiscal 2015, the state is maintaining a conservative revenue outlook while economic and fiscal uncertainty remain. We expect the state to move quickly to resolve any potential shortfalls in revenue performance.

ECONOMIC AND FISCAL UNCERTAINTY BALANCED BY STATE'S TREND OF PROACTIVE FINANCIAL MANAGEMENT

While Vermont moved quickly to address budget deficits during the recession, it could still face challenges in its out-year budgets. As in many states, persistent weakness in the global and national economy and political uncertainty at the national level could pose a threat to a strong economic recovery for the state. The governor has been proactive in managing out year costs. In 2010 he negotiated labor contracts that reduced wages by 3% for two years and was able to negotiate benefit changes in the state teachers retirement system. During the downturn, the state also increased the frequency of its revenue forecasting, which traditionally was performed on a semi-annual basis. From January 2008 to January 2010, Vermont published quarterly economic and revenue forecasts which enabled the state to identify and provide solutions for any sudden revenue declines. Moody's expects that, like other Aaa-rated states, Vermont will continue its trend of conservative financial management and aggressive approach to dealing with budget shortfalls to manage its current fiscal challenges.

BUDGET RESERVE LEVELS MAINTAINED AT STATUTORY FUNDING LEVELS OF 5%

Vermont avoided using any of its fully funded budget stabilization reserve funds (BSR) during the recession. At the end of fiscal 2013, Vermont's General Fund BSR was $62.5 million which reflects the statutorily required funding level of 5% of prior year budgetary appropriations, a level that has been maintained since 2004. Vermont also maintains a fully funded Transportation Fund BSR, also at 5% of prior year appropriations ($10.8 million), and the Education Fund BSR at the statutory required level of 3.5% to 5% of prior year expenditures ($29.2 million). Vermont expects to maintain its budget stabilization reserves at the statutory level through the end of fiscal 2014. During the 2012 legislative session, the state established an additional reserve fund, the General Fund Balance Reserve (GFBR). After satisfying the funding requirements for the General Fund BSR and other statutory reserves, any unreserved undesignated General Fund surplus at the end of the year will be placed in the new GFBR. The GFBR has a balance of $11.9 million, as of June 30, 2013. In total, the state has approximately $114 million (9% of total operating funds) to mitigate revenue fluctuations that may occur.

HURRICANE IRENE DAMAGE STILL LINGERS

Vermont was one of 13 states to be impacted by Hurricane Irene, which touched down in the state August 2011. The entire state was declared a disaster area by the Federal Emergency Management Agency (FEMA). Hurricane-related damages ranged between $521 million and $591 million, of which $202 million was related to state transportation infrastructure. Federal funding covered much of the estimated damage. The estimated total state share was $144.8 million, after accounting for federal funds. The largest Irene recovery project that remains outstanding is the Waterbury State Office Complex, which was completely destroyed by the floods. The new office complex will be built on the same site and is expected to be completed in 2015 at a cost of $125 million. The majority of the cost will be covered by the federal government and state insurance proceeds ($89 million), with the remainder covered by the state as a part of its annual capital bill appropriations.

EMPLOYMENT GROWTH OUTPACES THE NATIONAL GROWTH RATE

Continuous job growth in education and health services, Vermont's largest employment sector, has helped offset persistent weakness in other areas of the economy, primarily manufacturing and construction. Vermont never fully recovered manufacturing job losses from the prior economic recession in 2001-2002, and so far the state has recovered about 90% of the payroll jobs lost during the 2007-2010 economic recession. On a year-over-year basis through August 2013, the state has experienced 1.4% growth in private sector jobs, led by the professional and business services sector. According to Moody's Analytics, 2013 full year employment growth is expected to be 0.8%, followed by 1.3% in 2014. The state's unemployment level, which has historically been low, rose rapidly during 2009 but has since stabilized at 4.6% (August 2013) versus 7.3% for the nation. The states largest private employers, IBM and Fletcher Allen, have continued to hire on an as needed basis which is also positive for the state's economy.

DEBT RATIOS ARE LOWER THAN THE U.S. MEDIANS

Vermont's debt levels have declined considerably over the past decade and are now below average relative to Moody's 2013 50-state median, on both a per capita and personal income basis. Debt per capita of $811, compared to the state median of $1,074, ranked Vermont 33rd among the fifty states. Debt to total personal income of 1.9%, compared to the 2.8% state median ranked Vermont 35th. 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.

Vermont's overall pension funding levels have historically been strong relative to other states. Due to the broad based market losses experienced in 2008, the state's two pension systems have seen a decline in funding ratios, particularly in 2009. As of June 30, 2012 the state employees' system had a 77.7% funding ratio, down from the 79.6% funded ratio reported June 30, 2011. The teachers' system had a funded ratio of 61.6% on June 30, 2012, down from 63.8% reported June 30, 2011. The declines in the funding ratio from 2011 to 2012 were largely due to lower actuarial assumed rates of return. The state continues to be committed to the full annual funding requirements.

Based on Vermont's fiscal 2011 pension data, we have calculated that the overall retirement systems' adjusted net pension liability (ANPL) was 49.2% of revenues, slightly above the 50-state median of 45.1%. Other pension ratios such as ANPL to personal income, GDP, and population are similarly slightly above the median.

Vermont's assessment of its other post employment benefit (OPEB) liability reflects $998.4 million for state employees and $872 million for teachers. The state has not decided on a funding mechanism for either of the OPEB liabilities, however they have set up an irrevocable trust fund for the state employees to initially be funded with excess revenues from Medicaid part D reimbursements. As of June 30, 2011 this trust fund held $15.7 million of assets.

Outlook

The outlook for Vermont's general obligation debt is stable. Moody's expects that the state will continue its trend of proactive and conservative fiscal management in light of slower economic recovery. We believe that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

What could make the rating go - DOWN

*A break from the state's history of conservative fiscal management.

*Emergence of ongoing structurally imbalanced budgets.

*Depletion of budget reserves without swift replenishment.

*Liquidity strain resulting in multiyear cash flow borrowing

The principal methodology used in this rating was US States Rating Methodology published in April 2013. 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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