PRELIMINARY OFFICIAL STATEMENT DATED JULY 17, 2019

New Issue – Book Entry Only

***Ratings**: Moody's: Aa1*
Fitch: AA+
S&P: AA+
(See "RATINGS" herein)

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds will not be included in computing the alternative minimum taxable income of individuals. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$88,615,000*
STATE OF VERMONT
General Obligation Bonds
2019 Series A‡
(Competitive)

$40,370,000*
STATE OF VERMONT
General Obligation Refunding Bonds
2019 Series B
(VERMONT CITIZEN BONDS)†
(Negotiated)

Dated: Date of Delivery **Due: As shown on the inside cover hereof**

The 2019 Series A Bonds (the "Series A Bonds") and the 2019 Series B Bonds (the "Series B Bonds," and together with the Series A Bonds, the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of (i) in the case of the Series A Bonds, $5,000 or any integral multiple thereof, and (ii) in the case of the Series B Bonds, $1,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing February 15, 2020. The Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

WITH RESPECT TO THE SERIES A BONDS, ELECTRONIC BIDS WILL BE RECEIVED BY THE STATE IN ACCORDANCE WITH THE OFFICIAL NOTICE OF SALE UNTIL 10:30 A.M. (VERMONT TIME), ON WEDNESDAY, JULY 24, 2019, UNLESS POSTPONED OR CANCELLED AS DESCRIBED IN THE APPLICABLE OFFICIAL NOTICE OF SALE.

The Bonds are offered subject to the final approving opinion of Locke Lord LLP, Boston, Massachusetts, and to certain other conditions referred to herein and, with respect to the Series A Bonds, in the Official Notice of Sale. Certain legal matters will be passed upon for the Series B Underwriters by Nixon Peabody LLP, Boston, Massachusetts. Public Resources Advisory Group serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about August 15, 2019.

Morgan Stanley

BofA Merrill Lynch **Citigroup** **J.P. Morgan**

____________, 2019

* Preliminary; subject to change.
† Only the Series B Bonds will be purchased by the Underwriters listed above, as described under "UNDERWRITING OF THE SERIES B BONDS" herein.
‡ The Series A Bonds will be sold on a competitive sale basis as described herein under "COMPETITIVE SALE OF SERIES A BONDS" and pursuant to the Official Notice of Sale attached hereto as Appendix D.

$88,615,000*
STATE OF VERMONT
General Obligation Bonds
2019 Series A

Due February 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258	Due February 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258
2020	$4,435,000				2030	$4,430,000			
2021	4,435,000				2031	4,430,000			
2022	4,435,000				2032	4,430,000			
2023	4,430,000				2033	4,430,000			
2024	4,430,000				2034	4,430,000			
2025	4,430,000				2035	4,430,000			
2026	4,430,000				2036	4,430,000			
2027	4,430,000				2037	4,430,000			
2028	4,430,000				2038	4,430,000			
2029	4,430,000				2039	4,430,000			

$40,370,000*
STATE OF VERMONT
General Obligation Refunding Bonds
2019 Series B (VERMONT CITIZEN BONDS)

Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258	Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258
2020	$7,665,000				2025	$3,195,000			
2021	7,150,000				2026	3,205,000			
2022	3,175,000				2027	3,205,000			
2023	3,165,000				2028	3,210,000			
2024	3,175,000				2029	3,225,000			

* Preliminary; subject to change.
 CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. The CUSIP numbers above have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. None of the State, the Underwriters or the Paying Agent is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

STATE OF VERMONT

ELECTED OFFICERS

<u>Name</u>

PHILIP B. SCOTT, *Governor*

DAVID ZUCKERMAN, *Lieutenant Governor*

ELIZABETH A. PEARCE, *Treasurer*

JAMES C. CONDOS, *Secretary of State*

DOUGLAS R. HOFFER, *Auditor of Accounts*

THOMAS J. DONOVAN, JR., *Attorney General*

BOND COUNSEL	FINANCIAL ADVISOR
Locke Lord LLP	Public Resources Advisory Group
Boston, Massachusetts	Media, Pennsylvania

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

In connection with the offering of the Series B Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series B Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. Subject to any restrictions as might be set forth in the Contract of Purchase, the Underwriters may offer and sell the Series B Bonds to certain dealers and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The Underwriters of the Series B Bonds have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement (excluding the information related solely to the Series A Bonds) in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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STATE OF VERMONT

\$88,615,000*	**\$40,370,000***
General Obligation Bonds	**General Obligation Refunding Bonds**
2019 SERIES A	**2019 SERIES B**
(Competitive)	**(VERMONT CITIZEN BONDS)**
	(Negotiated)

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State") is provided for the purpose of presenting certain information relating to the State in connection with the sale of \$88,615,000* aggregate principal amount of its General Obligation Bonds, 2019 Series A (the "Series A Bonds") and \$40,370,000* aggregate principal amount of its General Obligation Refunding Bonds, 2019 Series B (Vermont Citizen Bonds) (the "Series B Bonds," and together with the Series A Bonds, the "Bonds").

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

The Series A Bonds will be sold by competitive sale as set forth herein and in the Notice of Sale set forth in Appendix D hereto. See "COMPETITIVE SALE OF SERIES A BONDS" and the Notice of Sale contained in Appendix D. The Series B Bonds will be purchased for re-offering by the Underwriters listed on the cover page of this Official Statement, as set forth herein under the heading "UNDERWRITING OF THE SERIES B BONDS."

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on each of the dates and years as set forth on the inside cover page of this Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the inside cover page of this Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of (i) \$5,000 or any integral multiple thereof, with respect to the Series A Bonds, and (ii) \$1,000 or any integral multiple thereof, with respect to the Series B Bonds, on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of People's United Bank, N.A. (formerly Chittenden Trust Company), Burlington, Vermont, as Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing February 15, 2020, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of

* Preliminary; subject to change.

beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

Series A Bonds

The Series A Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following statutes and Acts of the General Assembly set forth the capital purposes of the State for which the proceeds of the Series A Bonds (consisting of the aggregate par amount thereof plus original issue premium thereon, if any) are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Series A Bonds, to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the General Assembly. See "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization." Under State law, the State Treasurer is authorized to transfer unspent proceeds from the sale of bonds, including the Series A Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State heretofore or hereafter authorized by the General Assembly.

Act 26 of 2015 (as amended by Act 160 of 2016)			
Section 3	Administration – Various Projects		$8,065
Section 6	Commerce and Community Development		73,862
Section 7	Grant Programs		116,549
Section 8	Education		60,000
Section 11	Natural Resources		875
Section 14	Agriculture, Food and Markets		868,026
Act 84 of 2017 (as amended by Act 190 of 2018)			
Section 2	State Buildings		28,135,945
Section 3	Human Services		6,246,115
Section 4	Judiciary		1,496,398
Section 5	Commerce and Community Development		776,347
Section 6	Grant Programs		1,966,259
Section 7	Education		45,647
Section 8	University of Vermont		1,650,000
Section 9	Vermont State Colleges		3,000,000
Section 10	Natural Resources		9,941,582
Section 11	Clean Water Initiatives		29,860,970
Section 12	Military		1,140,000
Section 13	Public Safety		10,894,593
Section 14	Agriculture, Food and Markets		124,352
Section 15	Vermont Rural Fire Protection		125,000
Section 16	Vermont Veterans' Home		1,409,549
Section 17	Vermont Housing and Conservation Board		1,800,000
		Total:	$99,740,134

Series B Bonds

The Series B Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, pursuant to Section 961 of the General Obligation Bond Law (the "Refunding Bond Act"). The Series B Bonds are being issued to provide funds to refund certain of the State's outstanding general obligation bonds as described under "PLAN OF REFUNDING."

The Refunding Bond Act authorizes the State Treasurer, with the approval of the Governor, to issue general obligation bonds to refund all or any portion of one or more issues of general obligation bonds at any time after the issuance of the bonds to be refunded. The Refunding Bond Act further authorizes the State Treasurer to contract with a bank or trust company to serve as escrow agent for the proceeds of the refunding bonds.

The Refunding Bond Act provides that the portion of the proceeds of refunding bonds deposited with the escrow agent and required for the payment of the bonds to be refunded shall be irrevocably committed and pledged to such purpose and the holders of the refunded bonds shall have a lien upon such moneys and investments, which shall become valid and binding upon the issuance of the refunding bonds, without any further act (including, without limitation, the filing or recording of the escrow contract) and that the pledge and lien upon such moneys and investments shall become valid and binding against all parties having claims of any kind in tort, contract or otherwise, against the State, irrespective of whether such parties have notice thereof.

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues, see "STATE FUNDS AND REVENUES" and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization" herein.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Redemption Provisions*

The Series A Bonds maturing on and prior to February 15, 2029 will not be subject to redemption prior to maturity. The Series A Bonds maturing after February 15, 2029 will be subject to redemption prior to maturity, at the option of the State, on and after February 15, 2029, either in whole or in part at any time and by lot within a series and maturity, at a redemption price of 100% of the principal amount of the Series A Bonds to be redeemed, plus accrued interest to the date set for redemption.

The Series B Bonds will not be subject to redemption prior to maturity.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds of a particular series and maturity and bearing interest at a particular interest rate are called for redemption, the applicable Bonds within such series and maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot or in any customary manner as the State in its discretion may determine.

* Preliminary; subject to change.

Notice of Redemption

Notice of redemption of Bonds, specifying the maturities, CUSIP numbers and dates of the Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount, and the place or places of payment of the redemption price and the numbers and portions of the Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 20 days prior to the date set for redemption to the registered owners of any Bonds or portions thereof to be redeemed, at their last addresses appearing on the registry books kept by the Paying Agent. Failure to mail such notice to the owner of any Bond will not affect the redemption of any other Bonds. If at any time of notice of any optional redemption of Bonds moneys sufficient to redeem all of such Bonds shall not have been deposited with the Paying Agent, then the notice of redemption may state that it is conditional on the deposit of sufficient moneys with the Paying Agent by the redemption date, and if the deposit is not timely made the notice shall be of no effect. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Bonds (or the portions thereof) called for redemption shall cease to accrue.

PLAN OF REFUNDING

The Series B Bonds are being issued for the purpose of providing funds to refund certain of the State's general obligation bonds (the "Refunded Bonds"). The Refunded Bonds will consist of the State's general obligation bonds listed in the following table:

Refunded Bonds*

Series	Maturity Date	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price
2010 Series A-2	08/15/2020	4.000%	$3,600,000	09/16/2019	100%
	08/15/2021	4.000	3,600,000	09/16/2019	100
	08/15/2022	4.125	3,600,000	09/16/2019	100
	08/15/2023	4.250	3,600,000	09/16/2019	100
	08/15/2024	4.375	3,600,000	09/16/2019	100
	08/15/2025	4.500	3,600,000	09/16/2019	100
	08/15/2029†	5.200	14,400,000	09/16/2019	100
			$36,000,000		
2010 Series C-1	08/15/2020	5.000%	$4,415,000	09/16/2019	100%
	08/15/2021	3.000	1,720,000	09/16/2019	100
			$6,135,000		
2010 Series C-2	08/15/2021	5.000%	$1,550,000	09/16/2019	100%
	08/15/2021	3.000	690,000	09/16/2019	100
			$2,240,000		

† Term bond with mandatory redemption dates in 2026 through 2029.

Upon delivery of the Series B Bonds, the State will enter into an Escrow Agreement (the "Escrow Agreement") with People's United Bank, N.A. (formerly Chittenden Trust Company), Burlington, Vermont, as Escrow Agent (the "Escrow Agent"). Upon receipt of the proceeds of the Series B Bonds, the Escrow Agent will deposit in the Escrow Fund established under the Escrow Agreement an amount that will be invested in direct obligations of the United State of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient to pay when due interest on and, on the redemption date, the outstanding principal of and redemption premium, if any, on the

* Preliminary; subject to change.

Refunded Bonds. The Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Bonds.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard and Poor's rating of AA+. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial

Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such series and maturity to be redeemed, unless other arrangements are made between DTC and the State.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The State cannot and does not give any assurance that DTC will distribute to Participants, or that Participants or others will distribute to Beneficial Owners, payments of principal of, interest and premium, if any, on the Bonds, or any other notice or that they will do so on a timely basis or will serve or act in the manner described in this Official Statement. The State is not responsible or liable for the failure of DTC or any Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three branches of Government—the Legislative, the Executive and the Judicial. Vermont's statewide elected officers are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office with no limitation on terms.

The Legislative Branch: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

The Executive Branch: All statewide elected officers reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch, briefly described as follows:

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Human Resources, the Department of Libraries and the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency of Transportation consists of three functional divisions that are responsible for the planning, design, construction, maintenance and operation of state highways, railroads, and airports; and the Department of Motor Vehicles, which is responsible for the administration of motor vehicle registrations, driver's licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) Agency of Education: The Agency of Education is under the direction and supervision of the Secretary of Education, who is appointed by the Governor with the advice and consent of the Senate. The Secretary serves at the pleasure of the Governor and is a member of the Governor's cabinet. The principal statutory duties of the Secretary include the following: identifying the educational goals of the public schools, evaluating the program of instruction in the public schools, supervising and directing the execution of the laws relating to the public schools, and supervising the expenditure and distribution of all money appropriated by the State for public elementary and high schools. The Secretary serves on the State Board of Education as a nonvoting member. While not part of the Agency of Education, the State Board of Education evaluates education policy proposals, including those presented by the Governor or the Secretary, engages local school board members and the broader education community, establishes and advances education policy for the State and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board also has authority, among other things, to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; and to examine and determine all appeals made to it. The Board consists of ten members appointed by the Governor with the advice and consent of the Senate.

(4) Agency of Natural Resources: The Agency of Natural Resources consists of the Office of the Secretary, the Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, and the Department of Environmental Conservation. While not part of the Agency, the Natural Resources Board provides review and permitting for land use and development.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The

Agency is composed of the Department of Economic Development, the Department of Housing and Community Development, the Department of Tourism and Marketing, and the Office of the Chief Marketing Officer.

(6) Agency of Human Services: The Agency of Human Services (AHS) administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Office of the Secretary, and the Department of Disabilities, Aging and Independent Living, the Department of Corrections, the Department of Health, the Department of Mental Health, the Department of Children and Families and the Department of Vermont Health Access.

(7) Agency of Digital Services: The Agency of Digital Services (formerly the Department of Information and Innovation) is about providing cost-effective, customer-focused IT services and solutions to enable better government. At the core of the Agency, the Divisions of Shared Services, Data, Security, Enterprise Architecture and Project Management help ensure information technology services are standardized, coordinated, secure and cost-effective across Vermont State government.

(8) Other Agencies and Departments: There are a number of other agencies and departments responsible for other service areas within the Executive Branch as follows: the Agency of Agriculture, Food and Markets; the Department of Financial Regulation (formerly Banking, Insurance, Securities and Health Care Administration); the Department of Labor; the Department of Liquor and Lottery (formerly the Department of Liquor Control and the Lottery Commission); the Military Department; the Defender General; the Department of Public Safety; the Department of Public Service, the Public Utility Commission (formerly the Public Service Board), and the Green Mountain Care Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, a Superior Court consisting of 14 units, one corresponding to each county, and a Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices and is the appellate court for the State. The Superior Court has five jurisdictional divisions: Civil, Criminal, Environmental, Family and Probate. There are 32 judges sitting in the Civil, Family and Criminal divisions of the Superior Court, including an Administrative Judge. The Family Division has five magistrates. The Environmental Division has two judges and exercises statewide jurisdiction within the Superior Court. All judges and magistrates are appointed by the Governor with the advice and consent of the Senate for six-year terms. At the end of each six-year term, the question of their continuance in office is submitted to the General Assembly in a process known as retention. The Judicial Bureau has two hearing officers appointed by the Administrative Judge. An elected Assistant Judge with appropriate training may also be assigned to act as a Hearing Officer in the Judicial Bureau or as a side judge in the Civil and Family divisions. The Probate Division has a probate judge in each of the 14 units of the Superior Court. The citizens of each county elect one probate judge to serve in the Probate Division for a term of four years.

There are 14 counties in the State. Their administration consists of two Assistant Judges elected from each county. Other county level officials include a State's Attorney and a Sheriff, each of whom is elected every four years. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executor in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th in terms of land and water area among the 50 states. In terms of land area only, Vermont's 9,249 square miles ranks it 43rd among the 50 states. Vermont's population as measured by the last decennial Census on April 1, 2010 was 625,741, ranking the State 49th among the fifty states—unchanged from the 2000 and 1990 Censuses (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 as of April 1, 2010. The State's largest cities and towns as of the 2010 Census were the City of

Burlington, population 42,417; the Town of Essex, population 19,957; the City of South Burlington, population 17,904; the Town of Colchester, population 17,067; the City of Rutland, population 16,495; and the Town of Bennington, population 15,764.

Demographic Trends

Mid-year estimates from the U.S. Bureau of the Census for 2018 (the most recent data available) show that Vermont's population increased by an estimated 1,774 persons between July 1, 2017 and July 1, 2018, representing a 0.3% rate of population gain, which is the fastest rate of population growth for the State since before the Great Recession. In comparison, the U.S. as a whole experienced an estimated 0.6% rate of increase in the nation's resident population, and the New England region experienced a 0.3% rate of population increase. Over the 28-year period between July 1, 1990 and July 1, 2018, Vermont had an estimated growth of 61,501 resident persons or an average yearly rate of 0.4% per year. This experience was in line with the 0.4% rate of growth per year for the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.0% over the same 1990–2018 period. The resident population change experienced in Vermont over the past 28 years is slower than that of the 1970s and 1980s, as the State's population has aged and fertility rates have declined. This is consistent with declining birthrates and slow population growth, across the New England region as a whole, and is consistent with national declining birth rate trends that have been characteristic of key demographic categories that make up the State's population.

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Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2018

	----------Vermont----------		----------New England[1]----------		----------United States---------	
Year	Population[2] (in Thousands)	Annual Percent Increase/ Decrease Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]
2018	626	0.3%	14,853	0.3%	327,167	0.6%
2017	625	0.1	14,803	0.3	325,147	0.6
2016	624	(0.2)	14,759	0.2	323,071	0.7
2015	625	0.0	14,730	0.2	320,743	0.7
2014	625	(0.2)	14,704	0.4	318,386	0.7
2013	626	0.0	14,645	0.4	316,058	0.7
2012	626	(0.1)	14,590	0.4	313,874	0.7
2011	627	0.2	14,530	0.4	311,580	0.7
2010	626	0.2	14,470	0.5	309,326	0.8
2009	625	0.1	14,404	0.4	306,772	0.9
2008	624	0.1	14,340	0.4	304,094	1.0
2007	623	0.1	14,279	0.2	301,231	1.0
2006	623	0.3	14,246	0.2	298,380	1.0
2005	621	0.2	14,217	0.1	295,517	0.9
2004	620	0.3	14,207	0.2	292,805	0.9
2003	618	0.4	14,182	0.4	290,108	0.9
2002	615	0.5	14,122	0.6	287,625	0.9
2001	612	0.4	14,041	0.7	284,969	1.0
2000	610	0.8	13,950	0.5	282,162	1.2
1990	565	1.0	13,230	0.7	249,623	0.9
1980	513	1.4	12,372	0.4	227,225	1.1
1970	446	--	11,878	--	203,799	--

[1] The New England states are: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
[2] All population estimates are as of July 1 of the year indicated.
[3] For 2001 through 2018, the annual percentage increase is calculated versus the previous year. For 1980, 1990 and 2000, the annual percentage increase is the average annual increase during the preceding ten-year period.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the U.S. Bureau of the Census indicate that in 2017 (the latest data available) the median age of the Vermont population was 42.6 years, 4.5 years older than the national average median age of 38.1 years. Among the various age groups, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 81.1% of the State's population versus 80.1% of New England's population and 77.4% of the total population of the United States) in 2017. Vermont had a below average age concentration in the under 5 years age category (at 4.8% of the State's total population) relative to both the New England average (at 5.1% of the New England regional population) and the U.S. average (at 6.1% of the total U.S. population)—reflecting its lower birth rates. The percentage of Vermont's population in the over 65 years age category (at 18.8% of the State population) in 2017 was higher than that for the U.S. population as a whole (at 15.6% of the U.S. population overall) in 2017, and the New England average (at 16.9% of the total). In addition, the percentage of Vermont's population in 2017 aged 45-64 years (at 28.7% of the State's population) was higher than both the percentage of the New England regional population (at 28.2% of the total) and the U.S. population overall (at 25.9% of the total) in 2017. Vermont had slightly more of its population in the 85 years and older category (at 2.1% of the State total) relative to the U.S.

population (at 1.9% of the U.S. population) in 2017, but a slightly lower percentage than the New England region overall (at 2.4% of the New England regional population) in 2017.

As reflected in Table 2 below, the Vermont population in 2017 (the latest data available) had 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 (2017 American Community Survey).

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2017

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	92.6%	6th	88.0%
COLLEGE:			
Bachelor's Degree or More	38.3%	8th	32.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census; 2017 American Community Survey.

Data from the U.S. Bureau of the Census for 2017 (the latest data available) also indicate that Vermont's population remains primarily rural in character. A total of 65.0% of the State's population lived outside of the State's single metropolitan area—the second highest percentage among the 50 states after Wyoming with 69.3%. Vermont's percentage of persons living outside of metropolitan areas as of July 1, 2017 was over four times the national and New England average percentages and over eight times the average percentage for the northeastern United States.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of July 1, 2017

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	279,698	85.9%	46,021	14.1%
Northeast[1]	51,904	91.9	4,567	8.1
New England	13,081	88.3	1,729	11.7
Vermont	218	35.0	405	65.0

[1] The northeast states include all six of the New England states and the states of New York, New Jersey and Pennsylvania.
SOURCE: U.S. Department of Commerce, Bureau of the Census, Geography Division.

Property Valuation

The Vermont Department of Taxes, through its Division of Property Valuation and Review, annually conducts a study of all the grand lists (i.e., tax rolls) prepared by the municipalities in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State. These values are then used as one of the primary factors to determine each municipality's school property tax rates. Since most municipalities' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all municipalities' grand lists to 100 percent of market value, thereby "equalizing" the tax rolls statewide.

In general, equalized property values were determined by comparing grand list values to real estate sales or property appraisals and deriving the ratio representing the level of appraisal for each municipality. The resulting estimates of full property value in each municipality were then aggregated to derive an estimate of the market value of all taxable property in the State.

Changes to Vermont law due to Act 178 of the 1996 Session of the General Assembly (changing the agricultural and forest taxation program to reflect the value of property based on its “Current Use”) and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their “use” value as opposed to market value; and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purposes.

The State’s Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

Changes in the composition of the grand list under Act 60 also reduced the value of total taxable property for funding schools. This resulted primarily from the exemption of personal property such as machinery and equipment from the education property tax.

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1995 and comparable estimates for tax years 1997 through 2018 (the most recent data available). The State experienced a significant increase in estimated fair market value between 2002 and 2008 largely due to strong price appreciation in residential, commercial, and second home markets. Residential price appreciation, second home price appreciation, and valuations for some commercial properties first slowed and then declined during the most recent U.S. and State economic downturns.[1] As of April 1, 2018, property values in Vermont appear to have resumed a typical and modest upward trajectory after their full recovery from the last recession.

The estimates from 1997–2018 include an estimate of the fair market value of property enrolled in the Current Use Program. The current use values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes. The estimates are based on a weighted average of the statewide municipal Common Level of Appraisal (CLA) and are not a calculation at the parcel or town-wide level.

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[1] During the period, housing prices in Vermont as measured by the Federal Housing Finance Agency (FHFA) Home Price Index have increased by 4.2% from their last cyclical price peak during the first quarter of calendar year 2008 through the fourth quarter of calendar year 2018, and were up by 1.7% over the past year (for the calendar year ended December 31, 2018). The Vermont housing price increase since the previous cyclical peak through the fourth quarter of calendar year 2018 ranked third highest in the New England region, after the states of Massachusetts (up 11.6% since its last cyclical peak during the first quarter of calendar year 2006) and Maine (up 8.9% since its last cyclical peak during the first quarter of calendar year 2008). During the current period of housing price recovery-gains, Vermont was the second New England state to complete its housing price recovery from the sharp, mid-2000s housing price downturn—second only to Massachusetts.

Table 4
Equalized Property Values
1990–2018

Equalization Date As of April 1,	Fair Market Value
2018**	$87,143,027,744
2017**	85,377,824,901
2016**	83,996,280,491
2015**	82,906,587,230
2014**	81,826,687,038
2013**	81,163,612,629
2012**	82,568,773,344
2011**	83,636,887,446
2010**	85,260,877,760
2009**	86,705,197,176
2008**	84,799,241,954
2007**	79,214,611,562
2006**	72,513,809,335
2005**	64,306,356,880
2004**	56,756,181,626
2003**	51,168,536,723
2002**	46,929,258,396
2001**	43,942,727,721
2000**	41,358,590,703
1999**	39,053,369,590
1998**	38,967,094,160
1997**	38,399,375,459
1995*	37,558,139,758
1993*	36,471,723,016
1992	36,766,102,513
1991	35,286,508,007
1990	31,300,748,717

* Beginning in 1993, the Fair Market Value and Assessed Value of all taxable property in the State were equalized every two years. Beginning in 1998, equalization studies were again conducted annually by the Division of Property Valuation and Review.

** Estimated, based on an estimate for the difference between the Fair Market Value and the Use Value of property enrolled in the Current Use Program. The estimated fair market value of property exempted due to enrollment in the Current Use Program was $744.8 million in 1997, $792.3 million in 1998, $816.7 million in 1999, $866.1 million in 2000, $924.4 million in 2001, $1,157.9 million in 2002, $1,205.0 million in 2003, $1,661.1 million in 2004, $1,853.7 million in 2005, $2,155.0 million in 2006, $2,458.8 million in 2007, $2,726.6 million in 2008, $2,938.6 million in 2009, $3,028.7 million in 2010, $2,983.0 million in 2011, $3,003.0 million in 2012, $3,030.4 million in 2013, $3,040.2 million in 2014, $2,988.5 million in 2015, $2,992.8 million in 2016, $3,016.1 million in 2017, and $3,034.8 million in 2018.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc. ("EPR"), Williston, Vermont, based upon such firm's independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont Agency of Administration with responsibilities as to matters of the analysis of economic trends and economic forecasting, as well as providing technical forecasting services to the State with respect to the various short-term and longer-term consensus revenue estimating processes performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under “The Moody’s Analytics National Economic Forecast Assumptions” herein that is provided by Moody’s Analytics of West Chester, Pennsylvania, as adjusted by the consensus revenue forecasting process between EPR, as the economist for the Administration, and Kavet, Rockler & Associates, LLC (“Kavet”), as the economist for the Vermont General Assembly’s Joint Fiscal Office (the “JFO”). When available, the consensus forecast utilizes the State economic forecast developed as part of the State’s participation in the New England Economic Partnership (NEEP), a regional, non-profit economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. NEEP forecasts for the State and the other New England states have been developed and published only intermittently since calendar year 2016. Because of the reduced availability of the NEEP annual economic forecasts for the New England Region and the State in recent years, the State economic forecast through calendar year 2021 as part of the State’s consensus forecasting process was developed using an on-line modeling capability provided by Moody’s Analytics as jointly subscribed to by the JFO and the Administration. The on-line forecasting capability from Moody’s Analytics allows timely, customized State forecasts with modeling capability similar to the historic capability provided through NEEP. This more Vermont-focused forecasting approach, however, does not include forecasted regional comparison data and forecasted data for the individual New England states, which was typically available for the State with its participation in the NEEP forecasting group. The State macroeconomic forecast (described below) was developed cooperatively by the Administration through its association with EPR and the JFO through its association with Kavet. For more information on the consensus revenue forecasting process, see “REVENUE ESTIMATES” herein.

The U.S. Economic Situation: Through the first quarter of calendar year 2019, the various data and performance metrics for the U.S. economy showed the second longest economic recovery-expansion in recorded U.S. economic history. As of the end of March 2019, the U.S. economy had completed its 117th month of economic recovery/expansion, including more than 100 consecutive months of additions to U.S. nonfarm payroll jobs,[2] an unemployment rate holding steady at the lowest levels in roughly three decades, wages that have been rising at a rate of 3.0% or higher for six straight months, and U.S. equity markets that have regained nearly all of the ground lost during the period of volatility during the fourth quarter of calendar year 2018. During recent months, share prices for all three major U.S. stock market indices have approached and/or established new, all-time share price highs.

The U.S. economy’s pace of growth slowed in early calendar year 2019, which was expected. At least part of calendar year 2018’s fast pace of U.S. growth was fueled by the passage of the deficit-financed Tax Cuts and Jobs Act of 2017 (“TCJA”), and a large part of the federal fiscal stimulus from that bill has now passed. In addition, the expected boost to economic growth in calendar year 2019 (and beyond) that was expected to come as a result of the corporate tax cuts that were part of the TCJA and the Trump Administration’s on-going deregulation efforts has not yet occurred. Moreover, a good part of the recent slowdown also can be traced to monetary policy. The Federal Reserve increased short-term interest rates four times in calendar year 2018—totaling a full percentage point—in response to the strong, stimulus-induced GDP growth rate, tight labor markets with rising wage rates, and the increasing rates of price appreciation in asset markets.

The Federal Reserve’s apparent efforts to slow U.S. economic activity appear to have accomplished what they intended to do—slow the pace of U.S. growth and ease the rate of tightening in labor and financial markets. Consumption spending by U.S. households and U.S. vehicle sales have gone flat, with retail sales slowing significantly during the period immediately following the holiday retail season. Housing unit sales and construction have moved sideways since calendar year 2019 as long-term interest rates (including mortgage rates) have risen. The U.S. manufacturing sector (an important U.S. goods-producing sector) and new orders for non-defense capital goods (an important indicator of future capital investment by U.S. businesses) have also shown little forward progress in recent months. These and other factors—including the most recent federal government shutdown and the widening slowdown in the global economy[3]—have recently been a drag on the pace of overall U.S. economic growth.

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[2] Using the seasonally-adjusted nonfarm payroll jobs.

[3] Reflecting widespread uncertainty regarding global trade policy and the political paralysis in the U.K and the European Union regarding the protracted Brexit debate.

In spite of those economic headwinds, there are a number of factors that indicate that U.S. economic growth began to rebound in Spring 2019. First, the March U.S. jobs report showed that nonfarm payroll jobs increased by 196,000, well above consensus expectations and reflecting a strong rebound from the very weak, initial U.S. labor market report for the month of February. Combined with upward revisions to January and February, the March report meant that U.S. payroll jobs rose by 180,000 per month during the January to March 2019 quarter. Although that January to March record was below the 223,000 per month average rate of increase in payroll jobs registered during calendar year 2018, it still represented a sufficient level of U.S. payroll job growth to support a reasonable rate of wage gain, stay ahead of labor force growth and keep the U.S. unemployment rate steady at least over the near-term. Second, this improved and reinvigorated labor market performance was recently validated by the initial reports of U.S. GDP growth for the January to March 2019 quarter. Data from the U.S. Department of Commerce indicated that inflation-adjusted U.S. output grew at an annual rate of more than 3.0% for the first three months of calendar year 2019—regaining its footing after a poor October to December 2018 annual rate of only 2.2%.

Third, the Federal Reserve has also responded to the recent U.S. economic slowdown by issuing more "dove-ish" statements about U.S. economic conditions and the outlook for its so-called "quantitative tightening" policy regarding its balance sheet securities holdings. The recent U.S. economic softness also has caused the Federal Reserve to ease back on plans for what were previously thought to likely be multiple increases in short-term interest rates during calendar year 2019. In response, long-term interest rates recently have declined and the U.S. stock market has rebounded. The prospect of increasing jobs, rising wages, a continuing strong U.S. stock market, and stable interest rates bodes well for household consumption, and therefore also for near-term U.S. economic conditions. Respondents to the Wall Street Journal's economic forecast panel expect there will be a general downturn in the U.S. economy that would reach the scale of a full-blown recession anytime in the next six to twelve months. This assumes there will not be a significant mistake in U.S. monetary policy, a major fiscal policy gaffe, a significant error in U.S./global trade policies, and/or adverse developments in any number of evident geo-political risks[4] that might result in any one or more of a number of potentially economically-debilitating developments. As a result, it remains highly likely that the U.S. economic upturn will continue through July 2019, making the current upturn the longest uninterrupted period of U.S. economic recovery/expansion in recorded U.S. economic history.

The Vermont Situation: Forward progress in the Vermont economy continues to demonstrate an uneven character. The relative performance of many of the State's "top line" macroeconomic indicators, such as inflation-adjusted output, income, payroll jobs and employment, continue to be dominated by sluggish population and associated labor force growth, the uneven urban-rural character to economic and job growth, and the recent strengthening of price pressures in the State's real estate markets. The State level impacts associated with uncertainty in U.S. trade policy and recently rising energy costs also serve as headwinds for State job growth. In labor markets, recent data regarding payroll job change in Vermont has been mostly flat overall, with widely divergent zig-zags in the month-to-month, seasonally-adjusted data for the greater part of the last 24-36 months. These zig-zags in part reflect federally required changes to the Current Employment Survey ("CES"), more conventionally known as the business establishment nonfarm payroll job count survey, where Vermont's long-standing but divergent methods for determining "statistically significant" job changes by industry category were brought back to the national standard. The resulting presentation shows a higher number of job changes.[5] This has underpinned a lot of the choppiness in the State's monthly job change statistics. As a result, Vermont's seasonal adjustment factors have become more unreliable in their ability to accurately remove month-to-month seasonal influences from the unadjusted payroll job counts to ascertain genuine, underlying progress in Vermont's total payroll job counts and for individual sector payroll job changes.

This still evolving situation has made the current and near-term track of the seasonally-adjusted job estimates much more volatile and difficult to understand month-to-month. Recent labor market data, however, indicate that modest forward progress is still being made in the State. Total nonfarm payroll job changes overall include a year-over-year 0.8% rate of payroll job gain since March 2018 in the State with a corresponding 0.6% rate of increase in private sector job changes. Both rates of change resulted in Vermont being ranked 2nd among the six

[4] Including threats in Middle East policy (especially with respect to Iran and global oil markets), the on-going nuclear arms reduction negotiations with North Korea, and on-going immigration challenges with certain Central American countries and Mexico, which was a catalyst for the December 2018-January 2019 partial shutdown of the federal government.

[5] These changes were required by the U.S. Department of Labor.

New England states and 28th among the 50 states in total payroll job gains over the last year and 2nd among the six New England states and 37th nationally in private sector payroll job gain. This record has come within the context of a total of six positive and six negative seasonally-adjusted month-to-month job changes, and confirms that forward progress overall all is, in fact, being made in the Vermont economy despite the month-to-month volatility. This has occurred even though a series of right-sizing decisions at key employers in "economic driver" sectors in the State's northwest region (such as at Global Foundries in the Durable Goods Manufacturing sector and at several higher education institutions throughout the State in the Education and Health Services sector[6]) have served to restrain forward labor market progress in key areas of the State. These employer re-alignments have also acted to restrain upward pressure on wages despite the presence of tight labor markets throughout many parts of the State.

Reviewing the most recent preliminary state employment statistics by industry sector on a year-over-year basis since March 2018,[7] Vermont has had positive job additions over the past year in five of nine NAICS[8] super-sectors and declines in four of nine categories. The largest year-over year payroll job increase occurred in the Leisure and Hospitality sector (an increase of 4.1%, which ranks 1st in the New England region and 5th nationally), followed by the Manufacturing sector (an increase of 2.7%, which ranks 1st in the New England region and 16th nationally), the Government sector (an increase of 1.9%, which ranks 1st in the New England region and 2nd nationally), the Education and Health Services category (an increase of 1.7%, which ranks 3rd in the New England region and 29th nationally) and the Professional & Business Services sector (an increase of 1.4%, which ranks 2nd in the New England region and 25th nationally). The improved performance in the State's Manufacturing sector represented a turnaround for this important goods-producing sector of the State economy given a number of announced downsizings at key employers, including a number of mergers and acquisitions.

There were three categories where the State ranked poorly in its relative year-over-year job change comparison—the Construction sector, which experienced a decline of 9.7% year-over-year (which ranks 6th in the New England region and 50th nationally), the Financial Activities sector, which experienced a decline of 4.2% year-over-year (also ranking 6th in the New England region and 50th nationally), and the Information sector, which experienced a decline of 6.8% year-over-year (ranking 5th in the New England region and 47th nationally). The Trade, Transportation & Utilities sector also experienced a year-over-year decline of 0.4% for the period March 2018 through March 2019, which ranked 5th in the New England region and 40th nationally. Right-sizing pressures continue in the Information sector and Financial Activities sector, and this is reflected in the above year-over-year job change statistics. The State believes that the negative year-over-year change in the Construction sector seems to be contrary to current economic conditions throughout the State (e.g., the overall State payroll job growth rate and the State's Property Transfer tax receipts are both positive), as well as anecdotal information on construction activity across the State. To the extent the year-over-year job change statistics reported above reflect a data or survey issue, the State believes that such issue should be rectified as the construction season gets underway and any influence of seasonal factors within the payroll job data will be reduced.

Turning to the household survey of employed and unemployed Vermonters, the unemployment rate in Vermont has hovered between 2.3% and 3.3% over the 39-month period since January 2016, the result of recent "tight" labor market conditions and only sluggish growth in the civilian labor force (at 0.6% over the period since January 2016 using the seasonally-adjusted data). Year-over-year, Vermont's unemployment rate has declined from 2.7% in March 2018 to 2.3% in March 2019. The Vermont unemployment rate in March 2019 established a new historical record low, and was tied with North Dakota for the lowest in the nation. Vermont's seasonally-adjusted March 2019 unemployment rate was also the lowest in the New England region, although the State of New Hampshire's 2.4% seasonally-adjusted unemployment rate for March 2019 was only 0.1 percentage point higher, and it compares favorably with the overall U.S. unemployment rate of 3.8% in March 2019. The Vermont unemployment rate has been consistently below the average for the U.S. as a whole since May 1991, as have the unemployment rates for most of the New England region—except for the states of Rhode Island and Connecticut.

The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for Vermont for the calendar year 2019 through calendar year 2021 period is based on a comprehensive national economic

[6] See "STATE ECONOMY – Largest Private Employers" herein

[7] Based on Monthly Employment Statistics published by the Bureau of Labor Statistics through the Current Employment Statistics (CES) Program.

[8] NAICS refers to the **N**orth **A**merican **I**ndustry **C**lassification **S**ystem.

outlook assembled by Moody's Analytics, a respected national economic forecasting firm, as modified through the Administration-JFO consensus forecasting process. The statistics in the consensus economic forecast in Table 5 (below) reflect this underlying Moody's Analytics national economic forecast as adjusted during the December 2018-January 2019 consensus revenue forecast update. Consistent with the updated, adjusted U.S. macroeconomic consensus forecast, the updated national consensus economic forecast includes the likelihood that economic growth beyond the next 12 to 24 months will slow as the federal fiscal stimulus associated with the deficit-financed federal tax cuts ebbs—and may restrain economic growth. This is expected to result in slower rates of economic growth beginning in calendar year 2020, including slowing rates of output and job growth. These expectations are consistent with "late cycle" dynamics—the economic trends typical after the business cycle (i.e., upward and downward movements of GDP around the long-term trend) has reached a peak and economic activity begins to contract. "Late cycle" periods typically include rising inflation rates, tight labor market conditions with cyclically low unemployment rates, slowing job growth, and rising housing prices and concurrently rising interest rates due to "tightening" monetary policy and moderating equity market share price gains.

These dynamics are reflected in the various macroeconomic performance metrics, with U.S. GDP expected to expand by 2.4% for calendar 2019, followed by an increase of only 1.1% for calendar year 2020 (following an initial GDP growth estimate of 3.0% in calendar year 2018 (as of the date of the January 2019 consensus revenue forecast)). For calendar year 2021, U.S. GDP is expected to increase by 1.9% on an annual average basis—one half of one percentage point below the expected annual average rate of growth for calendar year 2019 but 0.8 percentage points higher than calendar year 2020's anticipated annual average GDP growth rate.

The Moody's Analytics national outlook (as adjusted) for U.S. labor markets includes an annual average increase in payroll jobs of 1.6% in calendar year 2018, 1.3% in calendar year 2019 and 0.5% in calendar year 2020. Then, forward payroll job growth progress is expected to stall in calendar year 2021 (corresponding to a 0.0% rate of payroll job change on an annual average basis for the year). The U.S. unemployment rate under this scenario would average 3.8% in calendar year 2018, 3.6% in calendar year 2019, 3.9% in calendar year 2020 and then 4.5% in calendar year 2021, on a seasonally-adjusted basis.

Consumer prices, as measured by the Consumer Price Index (CPI), are also expected to reflect the above-described "late cycle" dynamics. Following a prolonged period of relatively flat change, the CPI is expected to rise at a rate of 2.4% in calendar year 2018, 2.5% in calendar year 2019, 2.1% in calendar year 2020, and 2.3% in calendar year 2021. The adjusted Moody's Analytics forecast for monetary policy over the calendar year 2019 through calendar year 2021 period expects a "gradual normalizing" of short-term interest rates with a noticeable easing in calendar year 2021. Accordingly, an increase in interest rates is expected to take place over the forecast period, increasing on an average annual basis from 4.9% in calendar year 2018, to 6.0% in calendar year 2019 and 6.5% in calendar year 2020, before then easing back to 6.3% in calendar year 2021.

In addition to the above, another principal area of economic risk relates to an uncertain international geo-political environment, particularly with respect to energy costs and trade policy (e.g., the Iranian oil sanctions imposed by the Trump Administration and the threatened escalation of disputes with China and other U.S. trading partners). In each case, these downside risks are not expected to seriously threaten the current economic expansion, and the current positive trajectory for the U.S. economy, while restrained, is expected to continue through calendar year 2019. Through calendar year 2021, the U.S. economy should be able to avoid a full-fledged economic downturn—although a significant slowdown is expected.

The Vermont Economic Outlook: The Vermont near-term economic outlook, which is based on the Moody's Analytics' national forecast as adjusted by the consensus forecast (as described above) is reflected in Table 5 below. The most recent consensus economic forecast includes a Vermont economy that is expected, for the most part, to follow a similar path to the U.S. economy throughout the calendar year 2019 through calendar year 2021 period. Looking at the State's major macroeconomic variables, the updated forecast calls for the current State economic upturn to continue for real output (as measured by Gross State Product or GSP), for inflation-adjusted or real personal income, and for most labor market indicators throughout the period. It is also expected that the pace of forward progress in Vermont will continue at a historically moderate pace, due, in part, to a combination of the State's demographic situation and the late-cycle dynamics of a maturing expansion.

Vermont has recently experienced reduced population growth due in part to historically low birth rates and a slowdown in domestic migration following the Great Recession. This period of reduced population growth has coincided with a roughly five-year period where the State's labor force was declining or flat. This demographic situation may impact future workforce growth and the economic growth potential in the State. Domestic out-migration has decreased in recent years, however, which may be attributable to the recovery of housing prices throughout the country and in New England (as further described below). Coupled with increased international in-migration, the State has experienced a return to modest population growth over the last two years according to mid-year population estimates from the U.S. Census Bureau.

In terms of Vermont's key economic benchmarks, the adjusted Moody's Analytics forecast for Vermont expects an annualized 1.9% increase in inflation-adjusted output for all of calendar year 2019 (following calendar year 2018's 2.2% rate of increase), followed by a 0.6% increase in the rate of output growth for calendar year 2020. Inflation-adjusted output is then expected to increase by 1.9% in calendar year 2021. The rate of payroll job growth for the forecast period is expected to be 0.4% in calendar year 2019, followed by an increase of 0.2% in calendar year 2020 and a decline of 0.2% in calendar year 2021 on a calendar year basis (after a 0.1% decline in calendar year 2018).[9] Nominal dollar personal income growth is likewise expected to show comparatively restrained growth rates over the forecast period. For calendar year 2019 through calendar year 2021 (after completing calendar year 2018 at a 3.0% rate of growth), nominal dollar personal income is expected to increase between 2.5% per year and 2.8% per year, with the strongest annual rates of personal income growth occurring early in the forecast period and progressively slowing through the consensus forecast update period. Housing prices, as measured by the Federal Housing Finance Agency (FHFA) Housing Price Index for Vermont, are expected to continue to increase at moderate rates, reflecting the current economic upturn's "late cycle" dynamics—after calendar year 2018's 4.5 % increase. For calendar year 2019, the FHFA price index is expected to increase by 5.3%, representing the first time housing prices will have increased by over 5.0% since the mid-2000s. Housing prices in Vermont are then expected to increase by 6.2% in calendar year 2020, before easing back to 6.1% in calendar year 2021.

As of Spring 2019, housing prices in the State are now well above the peak price levels experienced just prior to the Great Recession. Vermont was the second state in the New England region to complete its full housing market price recovery from the mid-2000s, following Massachusetts. More recently, Maine and New Hampshire also have completed their full housing price recoveries—leaving only Rhode Island and Connecticut to complete their respective housing price recoveries in the New England region. The only states in the northeast region with FHA housing price levels that have not yet recovered from prior cyclical peaks are Rhode Island, Connecticut and New Jersey. They also represent three of only ten states in the entire country that have not yet achieved a full housing price recovery. This is a particularly noteworthy development because with very low birth rates in Vermont, migratory inflows into the State are an important component of population change. Since most of the State's in-migration comes from nearby New England states, especially Massachusetts, reducing housing prices as a constraint on population-labor force mobility would be helpful in encouraging population inflows to Vermont. This may already be having a positive impact as mid-year population estimates for Vermont from the U.S. Census Bureau indicate that Vermont's resident population increased modestly during 2017 and 2018 due to in-migration, following outright population declines in the State in four of the previous five years. This could be a particularly positive development for the State as labor market conditions continue to tighten, even though job gains have been moderate and the Vermont labor force has recently struggled to grow.

Even though the State's economic performance is expected to be moderate over the calendar year 2019 through 2021 period, the forecast includes the expectation that labor market conditions will remain historically "very tight." The State's annual average unemployment rate is expected to average 2.7% for calendar year 2019 and then rise to 3.2% in calendar year 2020 and 3.6% in calendar year 2021. This latest adjusted consensus economic forecast for Vermont, if achieved, would result in a Vermont unemployment rate as of the end of calendar year 2021 that would be 0.9 percentage points below the forecasted U.S. unemployment rate for that same calendar year.

Economic Forecast – Summary Data

The following table sets forth comparative statistics and assumptions corresponding to the current short term economic outlook for the Vermont and national economies. The U.S. data correspond to the most recent

[9] It should be noted that jobs and employment are lagging indicators which typically trail current economic conditions by three to six months.

Administration-Legislative JFO consensus forecast update for the macroeconomic environment for the Vermont economy for the upcoming three calendar year period as it was developed in the winter of 2018 and was subsequently adjusted as needed for the January 2019 consensus revenue forecast process. The Vermont statistics present the specific detail for the Vermont economic forecast, and incorporate the estimated impacts of the on-going moderate improvement in State output levels, labor market conditions and other macroeconomic metrics. As of the date of this Official Statement, regional data from NEEP is not yet available for comparison purposes.

Table 5
Calendar Year Forecast Comparison: United States and Vermont

	Actual					Forecast[1]			
	2013	2014	2015	2016[1]	2017[1]	2018	2019	2020	2021
Real Output (% Change)									
U.S. Gross Domestic Product	1.8	2.5	2.9	1.6	2.2	3.0	2.4	1.1	1.9
Vermont Gross State Product	(0.2)	0.5	0.7	1.5	1.1	2.2	1.9	0.6	1.9
Non-Farm Employment (% Change)									
U.S.	1.6	1.9	2.1	1.8	1.6	1.6	1.3	0.5	0.0
Vermont	0.7	1.0	0.8	0.3	0.3	(0.1)	0.4	0.2	(0.2)
Unemployment (%)									
U.S.	7.4	6.2	5.3	4.9	4.4	3.8	3.6	3.9	4.5
Vermont	4.4	4.0	3.6	3.2	3.0	2.8	2.7	3.2	3.6
FHFA Home Prices (% Change) (Current Dollars)									
U.S.	3.9	5.2	5.2	5.6	6.2	6.5	6.8	5.8	5.1
Vermont	0.0	0.1	1.9	1.6	2.6	4.5	5.3	6.2	6.1

[1] 2016 and 2017 variables are subject to further revision, and 2018 through 2021 values in this table reflect projected data as of December 2018.

Sources: Moody's Analytics (U.S.) December, 2018 Control Forecast (as adjusted as of January 22, 2019); January 2019 Vermont Consensus Forecast Update (as adjusted as of January 22, 2019).

The data shown in Table 5 is consistent with the labor market, output growth, and housing price experience of the State during the State's recovery from the Great Recession. The Great Recession's impact on the Vermont economy during the mid-2000s was less severe in comparison to other states, which has resulted in a corresponding slower pace of economic recovery in the State versus the U.S. average. Despite peaking earlier in its labor markets than the U.S. economy leading into the Great Recession, the State's non-farm payroll jobs fell at a slower pace and declined less significantly than the U.S. average during the deep recessionary period from 2007 through 2009. The Vermont economy's "fall less-recover slower-expand slower" performance during the most recent period of economic recession and recovery/expansion for the U.S. economy as a whole is consistent with the State's comparative performance during the recession-recovery period during the early-2000s.

For calendar years 2019 through 2021, Vermont's inflation-adjusted output and non-farm payroll job growth are forecast to continue to increase, but at a level somewhat below the U.S. average. The State's unemployment rate is expected to continue to track at a level significantly below the U.S. average—as has been the case for Vermont labor markets dating back to the early 2000s. Vermont's comparative housing price performance is expected to continue to track below U.S. levels, largely due to the fact that the State's housing price decline during the Great Recession was not as pronounced as the U.S. average nor near the level of price declines experienced by most U.S. states during the housing market crash that occurred during this period.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region. Table 6 shows the most current monthly unemployment rate data for Vermont, the seven northeastern states, and the U.S. as a whole. Tables

7 and 8 set forth the latest annual unemployment and payroll job change data available for the various New England metro areas.

These data show that during the current and previous economic cycles the Burlington metropolitan area continues to be a strong performing metropolitan area in the New England region in comparison to the other 20 New England metropolitan areas. The tables show that the State and its major metropolitan area have among the lowest unemployment rates, and among the best relative job change performances, in the region during the most recent complete business cycle (November 2001 through December 2007), the period corresponding to the latest recession (January 2008 to June 2009) and the subsequent recovery-expansion. This previous cycle includes the year with the labor market peak and trough surrounding the early-2000s national economic recession and subsequent expansion up-cycle in the New England region and the United States as a whole that ended in December 2007. Data for calendar years 2012 through 2018 where relevant and available, are also included to present data related to the most recent period of economic recovery-expansion.

Table 6
Total Unemployment Rate Comparison of Vermont,
Seven Northeastern States and the U.S.

	May 2019	April 2019	May 2018	Change From Last Year
Vermont	2.1%	2.2%	2.7%	(0.6)
Connecticut	3.8	3.8	4.2	(0.4)
Maine	3.3	3.3	3.3	0.0
Massachusetts	3.0	2.9	3.5	(0.5)
New Hampshire	2.4	2.4	2.6	(0.2)
New Jersey	3.8	4.9	4.2	(0.4)
New York	4.0	3.9	4.2	(0.2)
Rhode Island	3.6	3.7	4.0	(0.4)
United States	3.6	3.6	3.8	(0.2)

Note: Data are seasonally adjusted and exclude the Armed Forces.
Source: U.S. Department of Labor, Bureau of Labor Statistics

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Table 7
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 2012	Annual Average % 2013	Annual Average % 2014	Annual Average % 2015	Annual Average % 2016	Annual Average % 2017	Annual Average % 2018
Connecticut							
Bridgeport, Stamford, Norwalk	8.0	7.5	6.4	5.6	5.0	4.7	4.1
Danbury	6.9	6.3	5.3	4.6	4.3	3.9	3.4
Hartford-W. Hartford-E. Hartford	8.3	7.8	6.6	5.7	5.2	4.7	4.1
New Haven	8.6	8.0	6.7	5.8	5.1	4.7	4.0
Norwich-New London	9.1	8.5	7.2	6.2	5.3	4.6	4.0
Waterbury	10.2	9.7	8.3	7.3	6.3	5.8	5.1
Maine							
Bangor	7.1	6.2	5.3	4.2	3.8	3.5	3.5
Lewiston-Auburn	7.8	6.7	5.4	4.2	3.6	3.2	3.2
Portland, So. Portland, Biddeford	6.2	5.5	4.5	3.5	3.0	2.7	2.7
Massachusetts							
Barnstable Town	8.2	8.1	6.9	5.9	4.7	4.5	4.1
Boston, Cambridge, Newton	5.6	5.7	4.9	4.1	3.3	3.2	2.8
Leominster, Fitchburg, Gardner	8.4	8.3	6.9	5.8	4.6	4.3	3.8
New Bedford	10.0	10.5	8.7	7.3	5.8	5.7	5.2
Pittsfield	7.6	7.6	6.7	5.5	4.6	4.5	4.1
Springfield	7.7	7.8	6.8	5.7	4.8	4.6	4.1
Worcester	7.3	7.2	6.1	5.2	4.2	4.0	3.6
New Hampshire							
Dover-Durham	5.6	5.0	4.1	3.2	2.6	2.5	2.4
Manchester	5.6	5.1	4.2	3.3	2.8	2.7	2.4
Portsmouth	5.2	4.8	3.9	3.0	2.6	2.4	2.4
Rhode Island							
Providence, Fall River, Warwick	10.0	9.0	7.5	5.9	5.1	4.4	4.1
Vermont							
Burlington-South Burlington	3.9	3.6	3.2	2.9	2.6	2.4	2.1

Note: Data for Labor Market Areas are subject to sporadic revisions, depending on the state.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 8
Comparison of Non-farm Payroll Job Growth in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Number of Non-farm Jobs 2001 Annual Average (000s)	Number of Non-farm Jobs 2009 Annual Average (000s)	Number of Non-farm Jobs 2018 Annual Average (000s)	Annual Percent Change in Non-farm Jobs 2001–2009	Annual Percent Change in Non-farm Jobs 2009–2018
Connecticut					
Bridgeport, Stamford, Norwalk	413.5	390.9	408.1	(0.7)%	0.5%
Danbury	77.2	73.2	77.4	(0.7)	0.6
Hartford-W. Hartford-E. Hartford	568.9	554.9	581.9	(0.3)	0.5
New Haven	274.9	267.4	285.4	(0.3)	0.7
Norwich-New London	131.2	131.9	129.9	0.1	(0.2)
Waterbury	73.2	66.3	68.9	(1.2)	0.4
Maine					
Bangor	63.2	64.6	67.3	0.3	0.5
Lewiston-Auburn	48.1	48.1	50.9	0.0	0.6
Portland, So. Portland, Biddeford	184.6	187.7	209.9	0.2	1.2
Massachusetts					
Barnstable Town	97.1	97.3	106.8	0.0	1.0
Boston, Cambridge, Quincy	2,521.0	2,420.1	2,769.9	(0.5)	1.5
Leominster-Fitchburg-Gardner	53.2	48.8	54.1	(1.1)	1.2
New Bedford	63.9	60.1	66.6	(0.8)	1.1
Pittsfield	42.7	41.4	41.1	(0.4)	(0.1)
Springfield	316.7	307.9	336.8	(0.4)	1.0
Worcester	265.9	259.5	286.9	(0.3)	1.1
New Hampshire					
Dover-Durham	45.3	49.2	53.9	1.0	1.0
Manchester	100.1	100.7	114.9	0.1	1.5
Portsmouth	76.4	79.4	94.0	0.5	1.9
Rhode Island					
Providence, Fall River, Warwick	578.4	541.8	592.1	(0.8)	1.0
Vermont					
Burlington-South Burlington	114.9	112.9	125.6	(0.2)	1.2

Note: Labor Market Areas are subject to sporadic revisions depending on the state and also are subject to infrequent geographic redefinition. Data are not seasonally adjusted.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont under NAICS. The earnings data reflected in Table 9 cover the calendar year 2016 to 2018 period (calendar year 2018 being the latest year for which complete annual average data are available). Employment data by industry reflected in Table 10 are provided for the 2015-2017 calendar year period for Vermont and 2017 for the U.S. (the most current data available as of the date of this Official Statement).

The full-time and part-time jobs data through calendar year 2017 show that Health Care and Social Assistance remains one of the State's most important sectors, representing an estimated 13.6% of total employment in 2017 versus 11.3% of employment for the U.S. in 2017. Other important parts of Vermont's economic base include: Retail Trade at 10.5% of 2017 total employment versus 9.8% of employment for the U.S. as a whole in 2017; Accommodations and Food Services at 8.3% of 2017 total employment versus 7.5% of employment for the U.S. as a whole in 2017; Manufacturing at 7.8% of 2017 total employment versus 6.8% of employment for the U.S. as a whole in 2017; Construction at 6.7% of 2017 total employment versus the U.S. average of 5.4% in 2017; and Private Education Services at 4.4% of total employment versus the U.S. average of 2.4% in 2017.

Earnings data over the calendar year 2016 to 2018 period show little relative change. The share of earnings in the Manufacturing sector increased slightly (by 0.1 percentage point) to 10.5% of total earnings in 2018 compared to 10.4% of total earnings in 2016 and 2017. The share of Construction earnings remained essentially unchanged at 7.7% of total earnings in 2017 and 2018 (7.6% in 2016). Of the other important parts of Vermont's economic base, the share of Health Care and Social Assistance earnings was 15.0% of total earnings in 2018 (up slightly from 14.8% of total earnings in 2017 but equal to the share of earnings in 2016); the share of earnings in the Retail Trade sector remained unchanged at 7.3% in 2018, 2017 and 2016; the share of earnings in Private Education Services in 2018 fell slightly to 3.5% of total earnings in 2018 (down from 3.7% in 2016 and 2017); and the share of earnings for the Accommodations and Food Services sector in 2018 remained unchanged at 4.9% of total earnings compared to 2017 (versus 4.7% of total earnings in 2016).

Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on sectors such as Construction, Forestry and Fishing, Manufacturing, Private Education Services, Health Care and Social Assistance, Retail Trade, Accommodations and Food Services, Arts, Entertainment, and Recreation and the Farm sector. The State's relatively high reliance on Retail Trade and Accommodations and Food Services reflects the importance of the travel and tourism sector to the State's economy. At the same time, the State's economy has a slightly lower reliance on sectors such as Professional and Technical Services, Information, Financial Activities, Transportation, Warehousing and Utilities, Management of Companies and Enterprises, Real Estate and Rental and Leasing, Mining, Administrative and Waste Services, and the Wholesale Trade sector for both its employment and its earnings.

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Table 9
Total Earnings by Industry
2016-2018
($Thousands)

	2016		2017		2018	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$199,865	1.0%	$193,591	0.9%	$131,455	0.6%
Non-Farm Industry:						
Construction	1,575,673	7.6	1,655,828	7.7	1,704,992	7.7
Forestry, Fishing and Other Related Activities	82,486	0.4	78,139	0.4	80,203	0.4
Mining	50,388	0.2	51,000	0.2	53,191	0.2
Utilities	206,140	1.0	191,459	0.9	198,045	0.9
Manufacturing	2,172,758	10.4	2,248,386	10.4	2,320,966	10.5
Wholesale Trade	741,672	3.6	726,202	3.4	756,654	3.4
Retail Trade	1,523,904	7.3	1,571,815	7.3	1,611,740	7.3
Information	367,974	1.8	378,917	1.8	369,318	1.7
Financial Activities	866,322	4.2	953,174	4.4	957,291	4.3
Real Estate and Rental and Leasing	279,288	1.3	290,326	1.3	303,489	1.4
Transportation and Warehousing	413,828	2.0	430,865	2.0	451,605	2.0
Management of Companies and Enterprises	229,823	1.1	226,169	1.0	224,691	1.0
Professional, Scientific and Technical Services	1,660,338	8.0	1,751,432	8.1	1,848,344	8.3
Private Education Services	775,123	3.7	788,546	3.7	784,066	3.5
Health Care and Social Assistance	3,119,573	15.0	3,207,673	14.8	3,330,316	15.0
Arts, Entertainment, and Recreation	234,894	1.1	236,740	1.1	244,952	1.1
Accommodations and Food Services	970,756	4.7	1,058,279	4.9	1,077,777	4.9
Administrative and Waste Services	648,216	3.1	727,887	3.4	772,165	3.5
Other Private Services-Providing	791,692	3.8	798,770	3.7	838,293	3.8
Total Private Non-Farm Industries	$16,710,848	80.2%	$17,371,607	80.4%	$17,928,098	80.8%
Government and Government Enterprises	$3,925,892	18.8%	$4,035,605	18.7%	$4,138,754	18.6%
Total Farm and Non-Farm Earnings	$20,836,605	100.0%	$21,600,803	100.0%	$22,198,307	100.0%

Notes: Total may not add due to rounding. Total Earnings is comprised of wages and salaries, other labor income and proprietor's income.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 10
Vermont Jobs by Industry
2015-2017

	2015		2016		2017		U.S. 2017	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	9,888	2.3%	9,685	2.2%	9,677	2.2%	2,631,000	1.3%
Non-Farm Industry:								
Construction	28,703	6.6	29,168	6.7	29,417	6.7	10,634,600	5.4
Forestry, Fishing, & Other Related Activities	3,635	0.8	3,606	0.8	3,654	0.8	926,400	0.5
Mining	1,327	0.3	1,372	0.3	1,401	0.3	1,511,100	0.8
Manufacturing	34,820	8.0	34,086	7.9	33,882	7.8	13,304,800	6.8
Wholesale Trade	11,448	2.6	10,753	2.5	10,516	2.4	6,478,900	3.3
Retail Trade	46,219	10.7	46,290	10.7	46,071	10.5	19,222,200	9.8
Information	5,979	1.4	6,098	1.4	5,924	1.4	3,384,400	1.7
Financial Activities	13,890	3.2	14,103	3.2	14,446	3.3	10,510,200	5.4
Transportation, Warehousing & Utilities	10,728	2.5	10,573	2.4	10,747	2.5	8,327,300	4.2
Management of Companies and Enterprises	2,498	0.6	2,506	0.6	2,462	0.6	2,667,400	1.4
Real Estate and Rental and Leasing	15,176	3.5	15,443	3.6	15,832	3.6	9,105,900	4.6
Professional and Technical Services	26,980	6.2	26,903	6.2	27,288	6.2	13,721,000	7.0
Private Education Services	18,645	4.3	19,307	4.4	19,304	4.4	4,691,200	2.4
Health Care and Social Assistance	57,888	13.4	58,583	13.5	59,457	13.6	22,201,200	11.3
Arts, Entertainment, and Recreation	11,460	2.6	11,777	2.7	12,042	2.8	4,455,500	2.3
Accommodations and Food Services	35,228	8.1	35,290	8.1	36,262	8.3	14,697,400	7.5
Administrative and Waste Services	17,561	4.1	17,993	4.1	18,430	4.2	12,088,500	6.2
Other Services, except public administration	22,609	5.2	22,415	5.2	22,106	5.1	11,168,200	5.7
Total Private Sector Non-Farm	364,794	84.3%	366,266	84.4%	369,187	84.5%	169,096,200	86.2%
Government	58,145	13.4%	58,089	13.4%	57,886	13.3%	24,405,000	12.4%
Total Jobs	432,827	100.0%	434,040	100.0%	436,750	100.0%	196,132,200	100.0%

Notes: Includes total jobs and proprietors. Totals may not add due to rounding.

SOURCE: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Largest Private Employers

The Vermont economy reflects a diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade and other employers. According to the Vermont Business Directory 2018/19 published by Vermont Business Magazine, in calendar year 2018, the State's three largest private sector employers were: (i) The University of Vermont Medical Center (formerly known as Fletcher Allen Health Care) ("UVMC"), with approximately 5,591 employees, (ii) Global Foundries, Inc. ("Global Foundries"), with approximately 3,000 employees, and (iii) Keurig Green Mountain (formerly Green Mountain Coffee Roasters, Inc.) ("Keurig"), with approximately 1,500 employees.

UVMC, the State's largest private employer, is part of a network of seven partner hospitals (which also includes Central Vermont Medical Center, Champlain Valley Physicians Hospital, the Porter Medical Center, UVM Home Health and Hospice, Elizabethtown Community Hospital, and Alice Hyde Medical Center) that serve the residents of Vermont and northern New York. UVMC has a longstanding strategic alliance with the University of Vermont's College of Medicine and the College of Nursing and Health Sciences, bringing world-class research, education and care to the region. In July 2015, the Green Mountain Care Board ("GMCB")[10] approved a new 180,000 square foot, 128-room inpatient facility designed to improve quality of care and to meet the medical center's long-term bed needs. The $187 million Robert E. and Holly D. Miller Building will replace out-of-date double occupancy inpatient rooms, which will help prevent the spread of infections, offer patients privacy, afford space to accommodate diagnostic equipment, and accommodate patients' families and visitors. Construction of the project was completed in February 2019, and the new inpatient facility opened on June 1, 2019. In January 2019, GMCB received an application from UVMC to replace its Essex Adult Primary Care Facility with an $8.6 million 12,500 square foot facility. The public comment period for the proposed project closed on April 15, 2019 and the proposal is currently under review by GMCB.

Global Foundries, another key Vermont employer, acquired IBM's Microelectronics Division in July 2015, which acquisition included: (i) IBM's semiconductor fabrication facilities in East Fishkill, New York and Essex Junction, Vermont; (ii) IBM's technologists, intellectual property, and technologies related to the IBM Microelectronics Division; and (iii) a 10-year exclusive server processor semiconductor technology provider contract for 10, 14 and 22 nanometer semiconductors. In anticipation of further collaboration following the acquisition, IBM continues to maintain a significant presence at the technology campus in Essex Junction, with a reported 200 employees being based at that location. Press reports accessible on Global Foundries' website indicate that Global Foundries' agreement to participate in the IBM research alliance ends in December 2019, and there have been additional reports noting that IBM has recently turned to Samsung as a supplier of 7 nanometer chips for its high-powered servers after Global Foundries announced it had decided not to enter the market for these next-generation chips.[11] On April 22, 2019, Global Foundries announced it was selling its semiconductor fabrication facility in East Fishkill, New York to ON Semiconductor of Phoenix, Arizona. According to press reports accessible on Global Foundries' website, the sale of that facility is not expected to negatively impact the company's Vermont chip fabrication facility.[12] This transaction is expected to close sometime in calendar year 2020, at which point ON Semiconductor is expected to take over full operation of the East Fishkill, New York fabrication facility. The State cannot predict the impact of these developments on Global Foundries' operations in the State.

Global Foundries has set up an independent subsidiary (Global Foundries US2) to operate the East Fishkill New York and Essex Junction, Vermont fabrication facilities, which subsidiary participates in the U.S. Government's "Trusted Foundry" program, which allows it to compete with other "Trusted Foundry" providers for contracts from the U.S. Department of Defense ("DoD"). In June 2016, it was announced that Global Foundries won a chip fabrication contract with the DoD to be the sole supplier of high-end chips to be used in U.S. fighter planes, weapons systems, and satellites used by the U.S. military. Although details of the DoD contract were not made public, it was reported to be a multi-year contract, valued at approximately $60 million per year.

Keurig, currently one of the State's largest private employers, was acquired by an investor group led by the European investment firm JAB Holding Company in March 2016. Accordingly, the company is now privately held,

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[10] GMCB was created by the Vermont Legislature in 2011 and is an independent group of five Vermonters who are charged with ensuring that changes in the health system improve quality while stabilizing costs. See "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – State Health Care Reform – *Green Mountain Care Board*" herein.

[11] See https://spectrum.ieee.org/nanoclast/semiconductors/devices/globalfoundries-halts-7nm-chip-development, August 28, 2018.

[12] See https://www.globalfoundries.com/news-events/press-releases/semiconductor-and-globalfoundries-partner-transfer-ownership-east.

and according to news releases it operates as an independent entity from JAB Holding Company with the pre-acquisition Keurig management team continuing to run the company. In July 2018, Keurig announced the successful completion of its merger with Dr. Pepper Snapple Group. The combined entity, Keurig Dr. Pepper, is the seventh-largest company in the U.S. food and beverage sector and third-largest beverage company in North America, with annual revenues of approximately $11 billion. In October 2018, Keurig Dr. Pepper announced layoffs of 118 Vermont employees as a result of the merger.

Other major private sector employers in the State include a mix of retail companies (Shaw's Supermarkets, Price Chopper, Walmart), financial institutions (People's United Bank and Peoples United Trust Company), manufacturers (GE Aircraft Engines—Rutland Operation and Revision Military Technologies with its corporate headquarters in Essex Junction and a production facility in Newport), health care services providers (Rutland Regional Medical Center and Central Vermont Medical Center, Inc.), medical software providers (GE Health Care), technology firms (Dealer.com), higher education (Middlebury College and the Vermont State College system), and the travel-tourism industry (Stowe Mountain Resort., Killington Pico Ski Resort, the Stratton Mountain Resort, and Jay Peak Resort). In March 2019, it was reported that as many as 56 digital strategist positions in Vermont were at-risk as Cox Automotive Inc., the partner company of Dealer.com, eliminates 112 positions across five locations nationally.

Other notable private sector employers in the State include Ben & Jerry's Ice Cream (a part of Unilever), Cabot Creamery Coop, Green Mountain Power Corporation (the State's largest investor-owned utility), Consolidated Communications, UTC Aerospace Systems located in Vergennes, and several of the State's major resorts (Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). Each of these employers have at least 250 reported employees. The University of Vermont and State Agricultural College also is a major employer in the State with approximately 3,729 employees according to the Vermont Business Directory 2018/19. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment job count surveys conducted by the Vermont Department of Labor.

In early 2019, several small liberal arts colleges in the State announced they will be closing at the end of the spring 2019 semester. In January 2019, Green Mountain College, located in Poultney, was the first to announce it will be closing, citing financial pressures due to declining enrollment as the principal cause for its decision. In March 2019, both Southern Vermont College, located in Bennington, and the College of St. Joseph, located in Rutland, announced they would cease instruction and close after the end of the spring 2019 semester. All three colleges have arranged teach-out agreements with other institutions so that remaining students can continue their education. Based on estimates in the Vermont Business Directory 2018/19, it is expected that these closures will result in an aggregate loss of at least 274 jobs at the colleges themselves. While these closures are unlikely to have a significant impact on the overall higher education sector in the State, the closure of these colleges and announced enrollment declines at several other higher education institutions throughout the State are likely to have a significant localized impact on the smaller, regional economies of the towns and communities where these institutions are located.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1991 to 2018 period. On an average annual basis, total personal income in Vermont has increased by 4.4% per year from 1991 to 2018, compared to a 4.4% per year average rate of growth for the New England region and a 4.7% per year average rate of growth in the U.S. for the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1991 was $18,465 or 92.2% of the U.S. average of $20,030. By calendar 2018, Vermont's per capita personal income had risen to $53,598 or 99.8% of the U.S. average of $53,712. Vermont's per capita personal income increased by 2.8% in calendar year 2018, which was slower than the New England regional average increase of 3.5% and the national average increase of 3.8% in calendar year 2018. These same data show that Vermont's change in per capita personal income for calendar year 2018 ranked 6th among the six New England states for that same period (ranging from Maine which experienced the largest increase at 3.8% to Rhode Island which experienced that the second lowest increase at 3.0%).

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1991–2018
($ in millions)

	State of Vermont		New England		United States	
Calendar Year	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth
2018	$33,569	3.1%	$989,116	3.9%	$17,572,929	4.5%
2017	32,570	3.2	952,331	4.0	16,820,250	4.4
2016	31,572	2.3	915,453	2.5	16,115,630	2.6
2015	30,866	3.5	892,863	4.8	15,711,634	4.9
2014	29,808	3.9	851,831	4.7	14,983,140	5.7
2013	28,692	1.4	813,492	(0.1)	14,175,503	1.3
2012	28,304	3.5	814,598	3.6	13,998,383	5.1
2011	27,350	6.1	786,564	4.2	13,315,478	6.2
2010	25,787	3.2	754,552	4.4	12,541,995	4.1
2009	24,990	(1.5)	722,458	(1.2)	12,051,307	(3.1)
2008	25,369	4.9	731,512	4.2	12,438,527	3.6
2007	24,192	5.5	701,987	5.5	12,002,204	5.5
2006	22,941	6.9	665,189	7.5	11,372,589	7.3
2005	21,467	2.4	618,499	4.3	10,593,946	5.6
2004	20,965	5.8	592,718	5.4	10,028,781	5.8
2003	19,813	3.9	562,164	2.4	9,480,901	3.6
2002	19,073	2.0	549,227	0.6	9,155,663	1.7
2001	18,693	6.0	546,221	4.8	9,001,839	4.1
2000	17,627	8.1	521,118	10.3	8,650,325	8.1
1999	16,303	6.5	472,603	6.2	8,001,563	5.3
1998	15,304	6.8	444,784	7.0	7,601,594	7.3
1997	14,333	5.5	415,533	6.4	7,086,935	6.2
1996	13,486	5.4	390,679	5.6	6,673,186	6.2
1995	12,890	5.3	369,981	5.6	6,286,143	5.8
1994	12,247	4.8	350,230	4.3	5,940,128	5.2
1993	11,681	3.9	335,792	3.7	5,648,732	4.4
1992	11,242	7.1	323,879	5.7	5,409,920	6.8
1991	10,499	--	306,345	--	5,067,291	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 12
Growth in Nominal Dollar Per Capita Personal Income for
Vermont, New England and the United States
Calendar Years 1991–2018

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2018	$53,598	2.8%	$66,592	3.5%	$53,712	3.8%
2017	52,152	3.0	64,334	3.7	51,731	3.7
2016	50,625	2.5	62,026	2.3	49,883	1.8
2015	49,369	3.6	60,617	4.6	48,985	4.1
2014	47,676	4.1	57,933	4.3	47,060	4.9
2013	45,818	1.3	55,548	(0.5)	44,851	0.6
2012	45,209	3.6	55,833	3.1	44,599	4.4
2011	43,622	5.9	54,135	3.8	42,735	5.4
2010	41,201	3.0	52,147	4.0	40,546	3.2
2009	39,996	(1.6)	50,158	(1.7)	39,284	(4.0)
2008	40,645	4.7	51,012	3.8	40,904	2.7
2007	38,802	5.4	49,161	5.3	39,844	4.5
2006	36,830	6.6	46,695	7.3	38,114	6.3
2005	34,557	2.2	43,505	4.3	35,849	4.7
2004	33,818	5.5	41,721	5.3	34,251	4.8
2003	32,067	3.5	39,638	1.9	32,681	2.7
2002	30,991	1.5	38,890	0.0	31,832	0.8
2001	30,533	5.6	38,902	4.1	31,589	3.0
2000	28,915	7.2	37,357	9.4	30,657	6.9
1999	26,961	5.8	34,153	5.5	28,675	4.1
1998	25,488	6.2	32,386	6.3	27,557	6.0
1997	23,999	4.9	30,459	5.7	25,993	4.9
1996	22,883	4.6	28,822	5.0	24,771	4.9
1995	21,885	4.3	27,462	5.0	23,607	4.6
1994	20,977	3.8	26,144	3.8	22,575	3.9
1993	20,218	3.0	25,182	3.2	21,733	3.0
1992	19,627	6.3	24,405	5.5	21,090	5.3
1991	18,465	--	23,125	--	20,030	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment Statistics

Vermont had an average labor force of 346,000 (rounded) over the first three months of calendar year 2019, with approximately 338,000 (rounded) estimated as being employed and approximately 8,000 (rounded) estimated as being unemployed during that period. Vermont's 2.3% average unemployment rate over the first five months of calendar year 2019 remains significantly below both the five-month average unemployment rate for the New England region (3.2%) and for the nation overall (3.8%) over the same period. The following table sets forth data showing trends in labor force, employment and unemployment rates for Vermont, the New England region, and the U.S. economy as a whole from calendar year 1990 through May of calendar year 2019.

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Table 13
Average Annual Employment and Unemployment Rate

	State of Vermont			New England	United States
Year	Labor Force (in thousands)	Employment (in thousands)	Unemployment Rate (%)	Unemployment Rate (%)	Unemployment Rate (%)
2019*	346	338	2.3%	3.2%	3.8%
2018	346	337	2.7	3.5	3.9
2017	346	336	3.0	3.9	4.4
2016	345	334	3.2	4.1	4.9
2015	345	332	3.6	4.9	5.3
2014	347	333	3.9	5.9	6.2
2013	350	335	4.4	6.9	7.4
2012	355	337	4.9	7.2	8.1
2011	358	338	5.5	7.7	8.9
2010	359	338	6.1	8.4	9.6
2009	360	336	6.6	8.0	9.3
2008	355	338	4.7	5.5	5.8
2007	354	340	4.0	4.5	4.6
2006	357	344	3.7	4.5	4.6
2005	351	339	3.5	4.7	5.1
2004	348	335	3.7	4.9	5.5
2003	346	331	4.3	5.3	6.0
2002	343	329	4.0	4.8	5.8
2001	337	326	3.3	3.6	4.8
2000	331	322	2.8	2.8	4.0
1999	337	327	3.0	3.2	4.2
1998	334	322	3.4	3.5	4.5
1997	328	315	3.9	4.3	4.9
1996	324	310	4.3	4.8	5.4
1995	320	306	4.3	5.3	5.6
1994	316	301	4.6	5.9	6.1
1993	313	296	5.1	6.8	6.9
1992	308	289	6.1	7.9	7.5
1991	304	284	6.6	7.8	6.8
1990	305	289	5.0	5.8	5.6

* Average through May 2019.
Sources: Vermont Department of Labor (Vermont); U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston (New England and the United States).

Transportation

Highway System. The 2040 Vermont Long-Range Transportation Plan published by the Vermont Agency of Transportation describes Vermont's roadway infrastructure system as a total of 14,174 miles of local and state roadway, 806 miles of roadway within the National Highway System (NHS), 2,331 miles of roads listed in the State Highway System (SHS), and 139 miles of Class I Town Highways. There are a number of road construction projects in progress, which range in purpose from system preservation, safety, bridge maintenance, and enhancement to various replacement projects designed to expand the State's roadway infrastructure system capacity.

More specifically, calendar year 2018 marks the completion of a number of major infrastructure improvement projects. These include culvert replacements on Interstate-89, the completion of several major bridge projects in central Vermont, and a number of significant re-paving projects. Regarding Interstate-89, the State completed the replacement of the Route 2 Bridge over Interstate-89 and the New England Railroad track in Middlesex and completed replacement of culverts passing under I-89 in South Burlington and Georgia. Other examples of key projects in the State last calendar year include the following: (1) ledge removal and stabilization on Interstate-91 in Ryegate and 12 miles of highway extending from the Massachusetts border in Guilford, (2) re-surfacing 12.5 miles of Route 15 from Hardwick to Danville, (3) re-surfacing 23.5 miles of Route 9 from Bennington to Wilmington, (4) re-surfacing 5.8 miles of Route 7 in Bennington, (5) re-surfacing 3.2 miles on Route 2 and Route 2A in South Burlington and Williston, (6) and re-surfacing 7 miles in St. Albans City and Swanton along Route 7, VT Route 36, VT Route 38, and VT Route 78.

Vermont's highway system also includes 2,783 long structure bridges—which are defined as bridges spanning more than 20 feet in length and located on public roads. Since 2006, the State has made significant progress in improving its long-structure bridges system performance, including significant reductions in the number of structurally deficient bridges. Beginning in 2018, the federal deficiency definition for "structurally deficient" has been changed in accordance with the Pavement and Bridge Condition Performance Measures final rule, published January 2017. As of March 2019, of the 1,122 State Owned and Maintained Long-Bridges in its inventory, only 40 bridges were listed as being "structurally deficient," which amounts to just over 3.5%. For bridges in the Town Highway system, the percentage of structurally deficient bridges was 16.3% in 2006. By March 2019, the percentage of structurally-deficient bridges in the State's Town Highway system was 1.6%. Both percentages were well below the VTrans System Goal of 10.0% for State Highway System and 12.0% Town Highway system. For the so-called "State Shorts" bridge category, the percentage of structurally deficient bridges has declined from 17.6% of the total in 2006 to 4.1% in 2019. That compares favorably to a 10.0% structural deficiency system goal for the "State Shorts" category as set forth by the Agency of Transportation in its long-range plans.

The State has also made significant improvements in other areas of its transportation infrastructure. In 2009, more than 34% of the State's roads were classified as being in "very poor condition." By 2018, that percentage had declined to 13% and has stayed within a range of 11% to 15% of the total State road mileage over the last three years. In addition, the State paved a total of 197 two-lane miles of roadway in 2018 and maintained 6,193 miles of highway.

Since 2012, the State has successfully used procedures and practices under the so-called Accelerated Bridge Program ("ABP") for all bridge replacement projects. According to the Agency of Transportation, this approach has for the most part become standard practice throughout the State. The primary goal of the ABP is to improve the condition of Vermont's bridges while reducing project costs through expedited project development, delivery and construction. A total of eight ABP projects were successfully constructed during the 2018 construction season using accelerated bridge construction methods. The effective use of ABP practices typically results in only short-term road closures for impacted roadways.

Rail. Vermont's rail network encompasses approximately 578 miles of active rail lines. All of these lines are used for freight service with two routes also being used for intercity passenger service. The State owns 305 miles of the active rail network and 149 miles of inactive rail, and the State acquired these lines when their former owners either filed for bankruptcy or announced that they would no longer provide service on these lines, or both. The first rail lines the State purchased were those of the Rutland Railroad after the company filed for bankruptcy and abandonment in 1962. The most recent was the acquisition of trackage now operated by the Washington County Railroad Connecticut River Line in 2003.

Freight rail service in Vermont is provided by short line and regional railroads. In other parts of the nation, Class I railroads (carriers with revenues in excess of $447 million) serve as the railroad equivalent of the Interstate highway network, carrying freight between regional markets. By contrast, short line and regional railroads serve a gathering role, providing a "last mile" connection to shippers on relatively light density rail lines. In Vermont, and similar to most other New England states, short line and regional railroads comprise its rail network. As such, most freight is handled by multiple railroads between origin and destination. On approximately 91 percent of the Vermont rail network, freight service is provided by one of two companies—Genesee & Wyoming, Inc. or the Vermont Rail System. Genesee & Wyoming is the nation's largest short line holding company with over 120 subsidiary railroads (including 105 in North America), operating over 13,000 miles of track in North America. The company owns two railroads that pass through Vermont: (1) the New England Central Railroad; and (2) the St. Lawrence & Atlantic Railroad. The Vermont Rail System provides freight service on each of the State-owned rail lines under the following three subsidiary railroads: (1) the Vermont Railway; (2) the Green Mountain Railroad; and (3) the Washington County Railroad. These rail lines are leased to the Vermont Rail System, such that the State is responsible for capital improvements on the lines, as well as maintaining some of the rail bridges, while the operator is responsible for ongoing maintenance and freight operations. In addition to operating state-owned lines, the Vermont Rail System also owns and operates the Clarendon & Pittsford Railroad. The Central Maine & Quebec Railway also provides service into northern Vermont, and the Pan Am Railway passes through the southwestern corner of the State. The Central Maine & Quebec Railway was created in 2014 from rail lines formerly owned by the Montreal, Maine & Atlantic Railway, which declared bankruptcy following the Lac Megantic rail accident in Quebec in July 2013.

The Vermont freight network carries a variety of commodities, with petroleum, lumber and wood products, food products, and nonmetallic minerals accounting for more than 90% of the commodities carried in 2017.

Historically, Vermont's largest trading partners, as measured by tonnage of rail freight, have been New York, Maine, states in the Southeast and Canada.

Passenger rail service in Vermont is provided by the National Passenger Railroad Corporation (Amtrak). State-supported Amtrak service includes two passenger trains: (1) the "Vermonter," with service from Washington, D.C. through New York City, New Haven, Connecticut and Springfield, Massachusetts to St. Albans, Vermont (covering 467 miles), and (2) the "Ethan Allen Express," with service from New York City through Albany, Schenectady and Saratoga Springs, New York to Rutland, Vermont (covering 241 miles).

Both the Vermonter and Ethan Allen Express services are subsidized through cooperative agreements between Vermont and other states. The Vermonter is supported by Vermont, Massachusetts and Connecticut; the Ethan Allen Express is supported by Vermont and New York. The Vermont portion of the subsidies for the two passenger services is budgeted at $8.3 million in State fiscal year 2019, which Vermont pays to Amtrak for providing the services. In federal fiscal year 2018, 94,477 passengers got onto or off of trains at stations in the State (Vermonter passengers accounted for 77,576, and Ethan Allen Express passengers accounted for 16,901). Overall, rail ridership has increased in recent years.

Recent improvements to the State's rail system include substantial improvements to the Vermonter rail lines in Vermont and New Hampshire. Between 2010 and 2012, $70 million in public and private sector funds—including $50 million in High Speed Intercity Passenger Rail (HSIPR) funds and $20 million from New England Central Railroad—were invested to replace most of the rail and to complete upgrades that restored speeds of up to 59 mph between St. Albans and White River Junction, and 79 mph between White River Junction and Vernon. In 2014, the State began work on upgrading the rails between Rutland and Burlington along the Western Corridor to a higher grade, heavier weight rail that is continuously welded to remove all joints. This continuous welded track will allow higher train speeds and a more comfortable, quieter ride. The project was funded with $10 million in federal funds, $9 million from a grant received under the Transportation Investment Generating Economic Recovery (TIGER) IV program, and matching State funds. The project was completed in 2018 and resulted in the upgrade of approximately 19 miles of track in this important rail corridor.

In October 2015, the State released a final version of the updated State Rail Plan (the "VSRP"), which articulates the State's vision for increasing passenger and freight service in the State by: (1) extending service by the Vermonter to Montreal, and extending the Ethan Allen Express from Rutland to Burlington, (2) upgrading the State's track system to more consistently accommodate heavier loads to the 286,000 pound carload industry standard, and (3) upgrading the State's rail bridges to the same 286,000 pound carload standard. The VSRP covers the State's capital needs for rail over the 20 year period from the plan's publication date, and includes a projected total of $685.6 million in identified needs that would be required to maintain and enhance the State's rail system. A total of $255.9 million (or 37%) of that total reflects resources that would be required to upgrade all of Vermont's passenger rail routes to the Federal Rail Administration's Track Class 4 (or 79 MPH) standard. According to the VSRP, approximately $203.7 million is required to upgrade and maintain all State-owned bridges to the 286,000 pounds standard. The VSRP also lays out funding requirements for new passenger service between Albany, New York and Burlington, and the funding that is needed to address issues such as vertical clearance (for double stacking) and a series of measures needed to address yard, interchange, and industrial access points for the State's rail system.

Expected funding at current levels in the VSRP totals roughly $380 million (80% federal funding at $15 million per year for 20 years with a 20% State match at $4 million per year for 20 years[13]). This results in an estimated funding gap of $305.6 million, which would need to be filled by alternative sources of financing. Over time, the State has been successful in securing funding from the private sector and from federal sources such as the TIGER and BUILD grant programs and through the federal earmark process (which the U.S. Congress recently ended), from the Federal Emergency Management Administration (FEMA) in the aftermath of the destruction caused by Tropical Storm Irene, and through the American Recovery and Reinvestment Act (ARRA) in the aftermath of the Great Recession. The State has recently secured needed funds for rail improvements through the receipt of competitive grant funds through the federal TIGER IV, TIGER V, TIGER VII and BUILD 1 grant programs. In 2013, the State received a $9 million Federal Railroad Administration Grant (for an $11.2 million improvement project) in the TIGER V funding round. Work began in 2013 on 10.12 miles of Continuous Welded

[13] This is based on an average of just over $15.0 million in federal funding for rail capital projects per year since 2002. Although most State funding for rail is dedicated for operating expenses, the State's VSRP indicates that approximately $4.0 million per year will be allocated over the next 20 years for matching funds to complete rail capital projects in the State.

Rail (CWR) upgrades and the improvement of 11 farm crossings, 1 siding, and 9 switches. This work was completed in 2018. In 2015, the State also was awarded a $10 million Federal Railroad Administration Grant for a $26.4 million project from the TIGER VII funding round to complete another 11.31 miles of CWR rail upgrades, to improve the Florence and Leicester siding, and to complete bridge, crossing and platform improvements. In December 2018, Vermont received $20 million from the US Department of Transportation's Better Utilizing Investments to Leverage Development (BUILD) grant program to upgrade 31 rail bridges along the Vermont Railway between Rutland and Hoosick, New York. Despite these funding successes, because there is no consistent, dedicated federal funding source for rail transportation in the U.S., it is difficult to predict the level of resources that will be available to fund future capital needs identified in the State's VSRP.

Transit. There are seven public transit providers in the State, which provided an estimated 4.7 million passenger trips in State fiscal year 2018. Over the past year, small town, tourism, volunteer driver, rural, and rural commuter bus services saw ridership growth, with rural routes growing by 10%, volunteer driver trips by 8%, intercity by 6%, and the others seeing small gains of 2% or less. Over the same timeframe, urban, express commuter, and demand response services experienced moderate decreases in ridership. Just under half of the statewide ridership in Vermont is attributable to the Chittenden County region, and the other half of the ridership is spread throughout the rest of the State. The State is also served by three private intercity providers, including Greyhound Bus Lines, Vermont Translines, and Megabus.

Aviation. There are 16 public use airports in Vermont. These include ten State-owned airports, with the State managing 90 runway miles at those facilities, five private airports, and the Burlington International Airport ("BIA"), which is municipally owned. During calendar year 2017, enplanements at BIA totaled 591,558, a decrease of 2.15% from the 604,576 enplanements in calendar year 2016. Through September 2018, (corresponding to the latest data available), passenger enplanements at the BIA totaled 501,009, up 14.0% as compared to the passenger total through September 2017 when there were 439,323 enplanements.

As of April 2019, the list of commercial air carriers serving BIA includes six national and regional carriers serving Atlanta, New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia, two of the three Washington, D.C. area airports, and Charlotte, North Carolina. In addition, carriers also provide non-stop service to Chicago, Denver, Orlando, and Detroit. Jet Blue Airlines continues to be the most significant carrier. Other major carriers currently at BIA include United Airlines, Delta Airlines, American Airlines, and Frontier Airlines. Regional carriers include Porter Airlines, which provides seasonal service to Billy Bishop Toronto City Airport, providing travel to Vermont ski areas for Ontario-based Canadian customers during the winter months.

In 2018, Rutland Southern Vermont Regional Airport ("RSVR") had 5,024 enplanements including regular passenger service offered via Cape Air. A total of 229,000 pounds of freight moved through RSVR in 2018.

Utilities

General. Pursuant to 30 V.S.A. §218c1, each regulated electric or gas company is required to prepare and implement a least cost integrated plan (also called an integrated resource plan, or "IRP") for provision of energy services to its Vermont customers. The IRP process and the implementation of each Vermont utility's approved plan are intended to meet the public's need for energy services, at the lowest present value life cycle cost (including environmental and economic costs), through a strategy combining investments and expenditures on energy supply, transmission and distribution capacity, transmission and distribution efficiency, and comprehensive energy efficiency programs. The State currently allows for "economic development" rates for portions of the power used by businesses in Vermont subject to the approval of the Vermont Public Utility Commission ("VPUC"), formerly the Vermont Public Service Board, the State utility regulatory body that grants certificates of public good for utility projects. Many businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years including large manufacturers and ski resorts.

Electricity. In recent years, there have been a number of developments that have contributed to the stability of the electric utility industry in Vermont. For example, when other states were moving aggressively toward retail choice, Vermont elected to preserve an approach where retail customers continue to receive service from vertically integrated, regulated electric utilities. The State also has taken steps to move toward using more distributed energy sources — including wind, solar and other renewable sources. State law sets ambitious goals for Vermont to serve its energy needs from renewable sources. Very broadly, it is the State's goal to obtain 90% of its energy needs (including all uses such as electricity, heating and cooling, and transportation) from renewable sources by 2050. Intermediate goals include obtaining 25% of its energy needs from renewables by 2025 (including meeting 10% of the State's transportation energy needs from renewable sources by that same year), and 40% of the State's total energy needs from renewable sources by 2035.

Every six years, the Vermont Department of Public Service ("DPS") is required to complete and release updates to the State's Comprehensive Energy Plan (required by 30 V.S.A. § 202b) and the Vermont Electric Energy Plan (required by 30 V.S.A. § 202). The most recent six-year plan updates, released in January 2016, addressed the State's move toward distributed renewables, incorporating the views of stakeholders such as utilities, environmental groups, renewable energy advocates, and consumers. The DPS is currently working with regional planning commissions to update regional and municipal energy plans to include practical steps to support the State's broader goals for encouraging energy generation from renewable sources—including the refinement of guidelines for municipal review of the siting of solar and wind generation projects.

All of the State's electric utilities, including the largest utility, Green Mountain Power Corporation ("GMP"), have ownership in generating facilities, including wind, biomass and solar, and have put in place several long-term power purchase agreements that will enable the State to have adequate energy supplies over the next several years. Examples of such agreements include, (i) an agreement with NextERA Energy Resources, LC—the owner of the Seabrook, New Hampshire nuclear power plant—to purchase initially 60 megawatts of power (decreasing to 40 megawatts later on in the contract) over a 23 year period which commenced in May 2011; and (ii) an agreement with Hydro-Quebec to purchase 225 megawatts of power over the 2012-2030 time period. Further, it has in place power supply agreements with other renewable energy projects, including a total of 82.8% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years.

Nuclear Energy. Also affecting supply on the regional level was the closure of the Vermont Yankee nuclear facility in Vernon (the "Vernon station"). The Vernon station permanently ceased electric power generation and was removed from the Independent System Operator in New England (ISO NE) grid on December 29, 2014. The permanent shutdown of the Vernon station reflected the August 27, 2013 announcement by Entergy Nuclear Vermont Yankee LLC ("Entergy") that, for economic reasons, it would be ceasing power production at the Vernon station permanently and moving to safe shutdown on or about December 31, 2014. The closure was announced even though the company had received a federal 20-year licensing extension from the Nuclear Regulatory Commission ("NRC") for operation of the Vernon station through 2032.

On December 23, 2013, Entergy, Entergy Nuclear Operations, Inc., the Vermont DPS and the Vermont Agency of Natural Resources entered into a Settlement Agreement (the "Entergy Settlement Agreement"), which effectively resolved all outstanding litigation relating to the closure of the Vernon station and established the groundwork for moving forward with the plant's closure and decommissioning. According to the Entergy Settlement Agreement, Entergy Nuclear Operations, Inc. was required to complete a site assessment study by December 31, 2014, including the costs and tasks of site restoration for the Vernon station site. In addition to the site assessment study, the Entergy Settlement Agreement provided for the following: (1) the dismissal of outstanding litigation among the parties, (2) the continuation of all existing tax obligations by Entergy to the State, (3) a commitment by Entergy to make a payment of $5 million to the Vermont Department of Taxes before April 25, 2015, and (4) a commitment by Entergy to make a total of $25 million in payments to a Site Restoration Fund between January 2014 and December 31, 2017. In addition, pursuant to the Entergy Settlement Agreement, Entergy is required to (i) release all escrowed monies as of the date of execution of the Entergy Settlement Agreement to the Clean Energy Development Fund in January 2014, and (ii) make a total of $10 million in payments (consisting of annual installments of $2 million) to the Vermont Agency of Commerce and Community Development over the 2014 through 2018 period to promote economic development in Windham County—which is the county in Vermont where the Vernon station is located. The last item is designed to assist the economic transition of the southern Vermont region due to the closing of the Vernon station—the facility's impacts also stretch geographically into southern New Hampshire and northwest Massachusetts. In exchange for the above, the parties to the Entergy Settlement Agreement agreed to support a petition by Entergy and Entergy Nuclear Operations, Inc. to amend its Certificate of Public Good ("CPG") from the VPUC to operate the Vernon station to include the period of March 21, 2012 through December 31, 2014—or through the end of its then-current operating cycle. The amendment to Entergy's CPG was subsequently granted by the VPUC on March 28, 2014. To date, all of the State provisions of the Entergy Settlement Agreement have proceeded as planned.

In December 2014, Entergy submitted a Post Shutdown Decommissioning Report to the NRC. This report estimated that the total cost for decommissioning the reactor would be $1.24 billion. The same document reported that, as of August 2014, only $653 million had accrued in the decommissioning fund over the 42 years of operations of the Vernon station for this purpose. As such, it is expected that full decommissioning will not occur for several decades and the plant will be decommissioned through the SAFSTOR process. The SAFSTOR process allows utilities to wait up to 60 years to complete decommissioning activities, and it is expected that SAFSTOR will allow Entergy more time to further build up the balance of the decommissioning fund to support the decommissioning expenditure requirements of the Vernon station as contained in the decommissioning plan.

In November 2016, Entergy administrators announced a tentative agreement to sell the Vernon station facility, its spent fuel, and its decommissioning trust fund to the New York-based NorthStar Group Services. Under the agreement, NorthStar has pledged to clean up most of the Vernon station site by calendar year 2030, well in advance of the plan set forth by Entergy's SAFSTOR-based decommissioning/cleanup plan. On October 12, 2018, the NRC approved the transfer of Vermont Yankee's license to NorthStar, and in December 2018 the VPUC approved the sale in part on the basis of NorthStart's intention to decommission the plant on a schedule that is expected to be decades faster than originally planned under its previous owner. The sale of the license was completed in January 2019.

Hydroelectricity. The State continues to closely track developments regarding the transmission of Canadian-generated electric power to under-supplied markets in other parts of the New England region where Vermont might play a role in fulfilling this electric power transmission. In April 2017, 13 hydroelectric power generation facilities located in the Connecticut River Valley along the Connecticut and Deerfield Rivers between Vermont and New Hampshire were sold by TransCanada, who had owned the dams since 2005, to Great River Hydro for $1.07 billion. These facilities have a combined "nameplate" generation capacity of 584 megawatts, which ranks this system as the largest conventional hydro-electric generation system in New England.

Natural Gas. Natural gas is an important source of energy, both environmentally and economically, in northwestern sections of Vermont that receive natural gas service through Vermont Gas Systems, Inc. ("VGS"). Natural gas is currently supplied to Vermont from a connection at Highgate Springs to the Trans Canada Pipeline. VGS serves more than 51,000 customers in Addison, Chittenden, and Franklin Counties. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline upgrade looping segments constructed each year.

In December 2013, VGS obtained a CPG from the VPUC to undertake a roughly 43-mile expansion of its natural gas pipeline from Chittenden and Franklin counties into Addison County. While reported project cost increases of up to 40 percent in 2014 caused the VPUC to consider remanding the CPG for the Addison County pipeline during the late Summer 2014, ultimately the VPUC ruled in early October 2014 not to reconsider the December 2013 issuance of the CPG for this project. Subsequently, because the cost of the pipeline project increased yet again in December 2014 from $121.6 million to $154.0 million[14] (or approximately $86 million higher than the expected costs when the original CPG was issued),[15] the VPUC opened a second proceeding on the project to consider re-opening proceedings to reconsider the December 2013 CPG. Technical hearings on this question were held on June 22 and June 23, 2015 and legal briefs were filed by July 6, 2015. On March 30, 2017, the VPUC ruled that VGS was not required to obtain an amended CPG, and this decision was appealed in late April 2017. In addition, a citizen's group has also appealed the result of an eminent domain proceeding employed by the project for a public land parcel used in the pipeline construction process in the Town of Hinesburg, Vermont. The case proceeded through the State courts and was argued before the Vermont Supreme Court in April 2017. In September 2017, the Vermont Supreme Court upheld the decision by the VPUC to allow the construction of the VGS pipeline to proceed through a municipally owned public park in Hinesburg.

Separate from this now-resolved litigation, on July 14, 2017, the VPUC agreed to open an investigation into whether VGS violated its CPG for the Addison County pipeline by failing to bury the pipeline at a minimum depth of four feet in 18 locations within the county. The investigation remains ongoing at this time. In March 2019, the Bristol Selectboard voted to end a license agreement with VGS that had granted the utility permission to build distribution lines along town roads, citing the pending lawsuit. Because of this action by the town and the uncertainty it raised, VGS suspended its efforts to secure permits to expand the pipeline in that municipality.

Despite the above pending VPUC investigation, VGS has been operating the pipeline for gas transmission and distribution to key business customers in Addison County since April 2017. With construction of the pipeline

[14] VGS was subsequently fined $100,000 under Board Rule 5.409 for failing to report the Addison Natural Gas Pipeline project's cost increases in a timely way to the VPUC and all parties involved with the original CPG proceedings.

[15] In February 2015, Phases 2 and 3 of the pipeline project were cancelled after International Paper ("IP") cancelled its participation in the project. IP cancelled the agreement to pay for Phase 2 after its estimated costs increased from $69 million to $135 million.

now complete, VGS also continues to expand service to new business and residential customers in the Addison County distribution area. At this point, it remains unclear what impact, if any, the above pending VPUC investigation will have on current and future operations of the VGS regarding the Addison County pipeline even if the investigation is resolved adversely by the VPUC to VGS.

Telecommunications. Vermont currently has a robust and extensive telecommunications network. The State is currently served by well over a hundred companies that have been authorized by the VPUC to provide local telephone service (though many companies are not actively marketing service), and hundreds more are authorized to provide long distance service within the State. Changing technology is bringing further options in the form of wireless service and Voice over Internet Protocol (VoIP), which provides a voice communications service similar to telephone service via a broadband internet connection.

Commercial and residential voice services is provided by ten incumbent local exchange carriers ("ILECs"). ILECs are the traditional carriers within their service territories and have a Provider of Last Resort (POLR) obligation to serve any reasonable request for service within their territory. Illinois-based Consolidated Communications ("CC"), which purchased FairPoint Communications for a reported $1.5 billion in July 2017, is the largest local phone company, serving about 85% of the State. CC is subject to an "incentive regulation" plan that allows it to introduce and change the prices of new services, but limits its ability to increase prices of pre-existing services. The rates of Vermont's nine rural ILECs, or RLECs, which collectively serve about 15% of the State, continue to be set on the basis of these companies' overall cost of providing service.

Within CC's service territory, consumers have choices of CC or various Competitive Local Exchange Carriers ("CLECs"), including two national cable video companies. The CLECs and toll providers are subject to review of tariffs, but their prices are presumed to be reasonable due to their non-dominant position in the markets. Federal law allows the VPUC to consider whether the terms of service offered by wireless carriers are clear and reasonable, but does not allow the VPUC to establish limits on cellular service prices. Finally, at present, the Federal Communications Commission has at least partially preempted State regulation of cable modem service and VoIP, and some issues of regulation of these new technologies remain uncertain.

The General Assembly dissolved the Vermont Telecommunications Authority (the "VTA"), which had been established in 2007 to coordinate the development of telecommunications infrastructure, as an independent, non-profit entity and redirected its resources to a new organization within State government called the Division for Telecommunications and Connectivity (the "DTC"). The DTC has a similar makeup and mission to that of the VTA, but is focused on bringing access to Vermonters to higher speed broadband service. The DTC promotes broadband development and improvements by coordinating State government initiatives, providing grants and planning, among other efforts as part of the Vermont Department of Public Service. The DTC has the ability to apply for support through the Vermont Universal Service Fund to assist in State efforts to expand and upgrade broadband service. State data show that 73% of the buildings in Vermont have availability of broadband service meeting the federal definition of 25/3 megabits-per-second (Mbps).

Wireless (cellular and PCS) telephone service in Vermont is provided by companies such as AT&T, Verizon Wireless, U.S. Cellular, T-Mobile, Sprint, and VTel Wireless. Of these providers, AT&T and Verizon Wireless have the deepest facilities-based penetration in Vermont. Mobile carriers are continuously expanding coverage and upgrading facilities to bring 4G/LTE service to existing coverage areas. The State's permitting regime has allowed expeditious deployment of wireless telecommunications facilities all around the State. Commercial Mobile Radio Service ("CMRS") providers offer both mobile and fixed data plans. Users can access service through a multitude of devices, including tablets, laptops and smartphones. Data plans offered by CMRS providers generally differ from landline offerings in that customers have data limits and pay data overage fees. Mobile data plans utilize a pricing model based on user consumption rather than speed of service. Mobile data services are often used to compliment users' primary internet connections. Users rely on mobile service when traveling, but use a wireline connection at home or in the office. For rural consumers, mobile data is increasingly becoming a significant source for broadband internet access.

STATE FUNDS AND REVENUES

Budget Process

The Governor submits to the General Assembly, no later than the third Tuesday of every annual legislative session, a recommended budget for appropriations or other authorizations for State expenditures for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act, which must be approved by the Governor before expenditures may be made.

The budget process commences in July of each year when the Emergency Board determines estimates of available revenues based on a forecast for the next fiscal year. The Department of Finance and Management makes provisional allocations to the various budgetary entities ("Departments"), and an assessment of funding required to continue operations at the prior year's levels. Negotiation of revised or incremental funding levels, reflecting Departments' initiatives and priorities and directives from the Governor, while remaining within the projected revenue parameters, takes place through meetings between Departments and the Agency of Administration. Budget documents are submitted electronically, presenting appropriations and expenditures for the current and immediately prior fiscal years and the budget request for the subsequent fiscal year. The Emergency Board has historically updated the revenue forecast in January of each year, which may result in revised funding and programmatic recommendations, which are then presented by the Governor to the Legislature no later than the third Tuesday of every annual legislative session, as required by law. After extensive testimony, the Legislature passes an appropriations bill for consideration by the Governor. Once the bill is signed into law by the Governor, spending controls ("appropriations") are established in the State's financial management system before expenditures can be made.

Budgets are prepared and appropriated on a cash basis. The Governor may amend appropriations within certain statutory limits. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation, unless authorized to be carried forward to the following year(s) by session law. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Internal Control System

Managers across State government are responsible for seeking opportunities to improve their business processes and program results. The State of Vermont recognizes that appropriate internal controls must be in place to achieve these outcomes and minimize operational risks. The Department of Finance and Management works with departments across State government to assess and strengthen internal controls. An internal control system is designed to provide reasonable assurance regarding the achievement of objectives for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The majority of these efforts are directed by a designated internal controls unit within the Department of Finance and Management. Tools developed to assist in this effort include annual internal control self-assessments, associated best business practices, quarterly newsletters, and performance of operational reviews in agencies and departments.

The State of Vermont manages statewide accounting operations centrally through an Oracle-based enterprise-wide financial management system (VISION). Enterprise software improves the State's business processes by providing expanded functionality and by incorporating "best practices" and standardized procedures.

Comprehensive Annual Financial Report

The audit of the State's fiscal year 2018 Comprehensive Annual Financial Report (CAFR) was completed on December 21, 2018. The audited basic financial statements of the State for fiscal year 2018, together with CliftonLarsonAllen LLP's unqualified opinion on these statements, are included as Appendix A to this Official Statement and as part of the State's fiscal year 2018 CAFR (pages 13 through 197) at Finance & Management's website at http://finance.vermont.gov/reports-and-publications/cafr.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the fiscal year ended June 30, 2017. This was the tenth consecutive year that the State has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The State has submitted its fiscal year 2018 CAFR to the GFOA to determine its eligibility for additional certificates.

CliftonLarsonAllen LLP has not been engaged to perform and has not performed, since the date of its report referenced in this Official Statement, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP has also not performed any procedures relating to this Official Statement.

All fiscal year 2019 and fiscal year 2020 information set forth in this Official Statement is preliminary, unaudited and subject to change.

Government-Wide Financial Statements

Vermont's Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in the entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from the government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position (the amount by which assets and deferred outflow of resources exceed liabilities and deferred inflow of resources) are reported on the Statement of Net Position in three components:

(1) Net investment in capital assets – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that is related to the acquisition or construction of those assets including related deferred outflows of resources and deferred inflows of resources;

(2) Restricted – for amounts when constraints placed on the net assets are either externally imposed, or are imposed by constitutional provisions or enabling legislation.

(3) Unrestricted – the total net assets which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

Fund Structure

The State's financial statements are structured into three fund types: governmental, proprietary and fiduciary. The funds in the governmental and proprietary fund types are further classified as "major" or "non-major" depending upon their size in relation to the other funds and importance to the financial statement users, as required by Governmental Accounting Standards Board ("GASB") Statement No. 34. (See Note 1 in the State's fiscal year 2018 audited financial statements attached hereto as Appendix A for further explanation of these criteria.)

Governmental Fund Types

In accordance with GASB Statement No. 54, the fund balance amounts for governmental funds are reported in classifications that comprise a hierarchy (nonspendable, restricted, committed, assigned or unassigned) based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- **Nonspendable** fund balances include items that cannot be spent due to legal or contractual requirements to remain intact, and items that are not in spendable form.

- **Restricted** fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- **Committed** fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. The same type of formal action is necessary to remove or change the specified use.

- **Assigned** fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed.

- **Unassigned** fund balances are the residual amount of the General Fund not included in the four categories above, and any deficit fund balances within other governmental fund types.

The general characteristics of the fund types are as follows.

General Fund (Major Fund): By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects, and include the following:

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on general obligation bonds and notes issued for transportation capital projects (which include the State Transportation and Highway bonds and notes). The principal sources of revenue in this fund are Motor Fuel Taxes, Purchase and Use Taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Within the Transportation Fund there exists a sub-fund, the Transportation Infrastructure Bond Fund (the "TIB Fund"), to which assessments on gasoline and diesel fuel are credited as dedicated revenues. Under State law, these revenues are used first for debt service requirements on the State's special obligation transportation infrastructure bonds, any associated reserve or sinking funds and any associated costs of such bonds. To the extent additional TIB Fund resources are available for such purposes, these revenues are used for pay-as-you-go capital projects or other authorized purposes. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. In accordance with 16 V.S.A. 4025(a) as amended, the sources of revenue in this fund are as follows: statewide education property tax; revenues from the State lotteries; revenue from the electric generating plant education property tax; revenue from Sales and Use Tax; one-third of the motor vehicle Purchase and Use Tax; 25% of the Meals and Rooms Tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) and (g) and funds appropriated or transferred by the General Assembly.

Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future.

Federal Revenue Fund (Major Fund): All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for the Global Commitment to Health Medicaid section 1115 waiver, transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Global Commitment Fund, Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within the Federal Revenue Fund are for various health, education and welfare programs, the State counterpart of which is reflected in the General and Special Funds.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not otherwise categorized that are limited to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Global Commitment (to Health) Fund (Major Fund): This is a major special revenue fund created in 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. During fiscal year 2017, the waiver agreement was renewed through December 31, 2021. This agreement caps Federal expenditures for Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies.

Fish and Wildlife Fund (Non-major Fund): Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and Federal grants.

Capital Project Funds (Non-major Funds): These funds account for capital improvement appropriations that are or will be primarily funded by the issue of State bonds. Separate bond funds are maintained as corollaries to both the General Fund and Transportation Fund.

Debt Service Funds (Non-major Funds): These funds account for and report financial resources that are used to pay debt principal and interest. Separate debt service funds are maintained for general obligation bonds and special obligation transportation infrastructure bonds. Appropriated General, Transportation and Special Fund resources are transferred to the General Obligation Bonds Debt Service Fund for debt service payments on general obligation bonds. Appropriated TIB Fund resources are transferred to the Transportation Infrastructure Bonds Debt Service Fund for debt service payments on special obligation transportation infrastructure bonds.

Permanent Funds (Non-major Funds): These nine funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or its citizenry, such as higher education, cemetery care and monument preservation.

Proprietary Fund Types

Enterprise Funds: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges, or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These types of funds are reported in both major (3 funds) and non-major (5 funds) categories as described above.

Internal Service Funds: There are 24 funds of this non-major type reported by the State. These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments, agencies, or other governmental units on a cost-reimbursement basis. These funds are consolidated into one column and are reported in the Proprietary Funds' financial statements.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These funds include the following:

Pension and Other Employee Benefit Trust Funds: These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement (defined benefit) System, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund, the Retired Teachers' Health and Medical Benefit Fund and the Vermont Municipal Employees' Health Benefit Fund. See "PENSION PLANS."

Private Purpose Trust Fund: The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The State Treasurer administers procedures for returning this property to its rightful owner if he/she can be located. In addition to monetary assets, from time to time the State Treasurer may have custody of tangible property that has not been valued and therefore is not reported in the financial statements. Each year, the fund retains the greater of $100,000 or 50 percent of the amount received during the previous year, and the balance is transferred to the General Fund. Amounts for which the eligibility period for being claimed has expired are transferred to the Higher Education Endowment Fund (a permanent fund).

Agency Funds: These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding and State income tax withholding.

GAAP-Based Fund Results

The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2018 and 2017 as contained in each fiscal year's CAFR.

As of June 30, 2018, the General Fund had a $170.4 million total fund balance as compared to a $122.4 million total fund balance as of June 30, 2017, an increase of $48.0 million. This increase is a combination of a $90.4 million increase in the unassigned portion of this fund balance to $90.4 million in 2018, and a $6.1 million increase in the assigned portion of this fund balance to $6.8 million in 2018, offset by a $48.5 million decrease in the nonspendable portion of this fund balance to $73.2 million in 2018. As of both June 30, 2018 and June 30, 2017, there was no fund balance in the General Fund categorized as restricted or committed.

As of June 30, 2018, the Transportation Fund had a $26.6 million total fund balance as compared to a $15.1 million total fund balance as of June 30, 2017, an increase of $11.5 million. This increase is the combination of an increase in the restricted portion of this fund balance from $0 in 2017 to $0.8 million in 2018, and an increase in the committed portion of this fund balance from $15.1 million in 2017 to $25.8 million in 2018. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2018 and June 30, 2017, there was no fund balance in the Transportation Fund categorized as nonspendable, assigned or unassigned.

As of June 30, 2018, the Education Fund had a committed and total fund balance of $103.5 million, an increase of $33.1 million compared to the balance as of June 30, 2017. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2018 and June 30, 2017, there was no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

As of June 30, 2018, the budget stabilization reserves in the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

As of June 30, 2018, the Global Commitment Fund had a total fund balance of $41.1 million, a decrease of $66.7 million compared to the balance as of June 30, 2017. This decrease is the result of recording Vermont's portion of the accrued claims liability under its Global Commitment to Health Medicaid 1115 Demonstration waiver, in the amount of $58 million, directly in the Global Commitment Fund; in 2017, Vermont's portion of this accrued claims liability was allocated to the General Fund and Special Fund. See "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – Medicaid and State Health Insurance Initiatives" herein. The Global Commitment Fund has no legislatively mandated budget stabilization reserve.

As of June 30, 2018, the Federal Revenue Fund reported a total fund balance of $459.3 million, which was an increase of $0.8 million compared to the June 30, 2017 balance of $458.5 million. The entire fund balance is restricted by agreements with the grantors. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

Prior to fiscal year 2019, the principal sources of State General Fund revenues were the Personal Income Tax, the Corporate Income Tax, a general State Sales and Use Tax, and a Meals and Rooms Tax. These four tax sources accounted for 87.2% of the General Fund revenue in fiscal year 2018. In 2018, the Legislature passed Act 11, which made structural changes to two sources of revenue for the General Fund and the Education Fund, effective July 1, 2018 (fiscal year 2019). In particular, Act 11 of 2018 ended the annual transfer from the General Fund to the Education Fund and dedicated 100% of revenues from the State Sales and Use Tax and 25% of revenues from the Meals and Rooms Tax to the Education Fund (formerly these sources of revenue were dedicated to the General Fund).

The following is a brief discussion of the principal General Fund revenue sources for fiscal year 2018. The information below does not reflect the impact of Act 11 of 2018.

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont Personal Income Tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont Personal Income Tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont Personal Income Tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cuts that were effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent by the development and implementation of standardized Vermont tax tables utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. During the 2015 session, the Vermont General Assembly passed legislation that reduced or eliminated certain tax deductions for Vermont Personal Income Tax purposes. These included the elimination of the deduction for state and local taxes paid, and placed a cap at 2 ½ times the standard deduction (excluding medical and charitable deductions) on the amount of itemized deductions for taxpayers. In addition, the 2015 changes included a 3.0% minimum Vermont Personal Income Tax for all filers with an adjusted gross income at or above $150,000. During the 2018 special legislative session, the General Assembly passed a proposal initially set forth by the Governor to adjust Vermont tax rates and make other changes designed to offset the resulting revenue-raising impacts of the federal TCJA on Vermont State income taxpayers (which were expected to result in a net state tax increase of $30 million to be borne by Vermont taxpayers). In particular, the final legislation (i) set by law the amounts for the State standard deduction and personal exemption (rather than cross-referencing federal definitions), thus eliminating the adverse impact of the TCJA changes to those two items; (ii) eliminated itemized deductions in Vermont[16]; (iii) eliminated the second highest income bracket; (iv) reduced the tax rate on all the remaining four income brackets by 0.2% (offsetting the increase in the tax base affected by clause (ii) of this sentence); and (iv) included a charitable donation tax credit of 5% and increased the earned income tax credit to 36% (from 32%). The final legislation offset much of the TCJA's increases on many middle-income Vermont households and significantly reduced the State income tax consequences of the TCJA's revenue-raising provisions, while simultaneously increasing the stability of Vermont's personal income tax revenue by broadening the tax base and decoupling State taxes from federal definitions. In fiscal year 2018, the Personal Income Tax accounted for $832.0 million or 53.4% of net General Fund revenues.

Sales and Use Tax: The State has imposed a general Sales and Use Tax on products sold within the State since 1969 (the initial Sales and Use tax was 3.0%). Through the years, as described below, the rate has been adjusted periodically, the taxable base has been expanded to include selected services and certain software and e-commerce sales transactions with an appropriate nexus to the State, and the General Assembly has allowed certain municipalities to assess and collect a local option Sales and Use Tax. Under current law, the State imposes a Statewide Sales and Use Tax of 6% and a telecommunications sales tax of 6% (both of these current rates were first effective October 1, 2003). Major exemptions to the State's general Sales and Use Tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective July 1, 2004, the statutory structure of these taxes changed from: (1) 100% of the annual receipts of the general Sales and Use Tax to the General Fund, and (2) 100% of the gross receipts of the telecommunications tax to the Education Fund, to a statutory transfer of one-third of total gross Sales and Use Tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. Effective January 1, 2007, the State also became a participant in the multi-state Streamlined Sales Tax Agreement

[16] The impact of the TCJA was expected to reduce the volume of expected itemizers from 30% to 9%. With such a small portion of the population eligible to itemize, the Legislature decided to eliminate the recognition of itemized deductions in Vermont both for simplicity and to increase the taxable income base.

(“SSTA”). The SSTA is a multi-state effort to simplify and streamline state Sales and Use Taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers. Effective July 1, 2013, the allocation of gross Sales and Use Tax receipts to the Education Fund and General Fund changed from 33% and 67%, respectively, to 35% and 65%, respectively. During the 2015 session, the Vermont General Assembly passed legislation that made the 6% Sales and Use Tax applicable on soft drinks sold in the State effective July 1, 2015. During fiscal years 2016 and 2017, the Vermont Department of Taxes took several actions designed to sustain the State’s taxable base, which have resulted in tax receipts from certain e-commerce-based transactions. In June 2018, the U.S. Supreme Court in *South Dakota v. Wayfair* confirmed the ability of a state or a locality, such as Vermont, to impose a sales tax or use tax collection responsibility upon a remote seller. This decision will allow the Vermont Department of Taxes to continue to seek out e-commerce companies selling goods to Vermont residents and require such companies to collect and remit sales tax to the State. In fiscal year 2018, the State Sales and Use Tax totaled $258.6 million or 16.6% of net General Fund receipts. As noted above, commencing in fiscal year 2019, 100% of the State Sales and Use Tax will be deposited directly in the Education Fund and accordingly will not be a component of aggregate General Fund receipts (see “STATE FUNDS AND REVENUES – State Education Fund Revenues” and “REVENUE ESTIMATES”).

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent for each occupancy. The Meals and Rooms Tax imposed on liquor consumed on the premises is 10%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since July 1, 2004, 100% of the gross receipts from this tax will remain in the State’s General Fund. During the 2015 session, the Vermont General Assembly passed legislation that made the 9% meals tax applicable on all food sold in vending machines effective July 1, 2015. Since fiscal year 2017, the State has been receiving rental occupancy revenues from Airbnb providers, a fast growing, but non-traditional group of room providers in the State that previously had not been remitting Meals and Rooms Tax to the State. In fiscal year 2018, Meals and Rooms Tax revenues amounted to $173.2 million or 11.1% of revenues available to the General Fund. Commencing in fiscal year 2019, 25% of Meals and Rooms Tax revenues will be allocated to the Education Fund, and accordingly only 75% of these revenues will be a component of General Fund receipts (see “STATE FUNDS AND REVENUES – State Education Fund Revenues” and “REVENUE ESTIMATES”).

Corporate Income Tax: From January 1, 1997 until January 1, 2006, the net income of corporations was taxed at the greater of $250 or the following rates: first $10,000 – 7.0%; next $15,000 – 8.1%; next $225,000 – 9.2%; excess over $250,000 – 9.75%. For tax year 2006, the tax was the greater of $250 or: first $10,000 – 6%; the next $15,000 – 7%; next $225,000 – 8.75%; excess over $250,000 – 8.9%. Beginning in 2007, the rates were unchanged through $25,000 and the rate on the excess over $25,000 was 8.5%. For the tax years beginning in 2002, Vermont made adjustments to its Corporate Income Tax designed to substantially maintain the State’s tax base that was in effect prior to the changes in depreciation expenses included in federal stimulus legislation effective in 2001. Subsequent federal bonus depreciation legislation has not reduced the State’s base because of these adjustments. Beginning with tax year 2006, the income of affiliated corporations operating a unitary business was computed using the combined reporting methodology. Also beginning with tax year 2006, the three-factor formula for apportioning income earned from a multi-state business was modified to weight the percentage of sales in the State at 50% and the percentage of property and payroll at 25% each (prior law weighted each factor as one-third). Beginning on July 1, 1998, 19% of the gross tax collected on corporate income (including S corporations, partnerships, and limited liability companies) was allocated from the General Fund to the Education Fund. Effective July 1, 2004, 100% of the gross receipts from this tax remains in the General Fund. Corporate Income Tax receipts in recent years have been impacted by mergers and acquisitions activity within the State. In fiscal year 2018, receipts from the Corporate Income Tax were $96.4 million or 6.2% of the revenues available to the General Fund.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rates was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for captive insurers in an increasingly competitive industry climate. In fiscal year 2018, insurance taxes accounted for $57.5 million or 3.7% of net General Fund revenues.

Telephone Receipts and Property Tax: In addition to the general Corporate Income Tax, a tax of 2.37% is levied on net book value of personal property in the State of persons or corporations owning or operating a telephone line or business within the State. For businesses with less than $50,000,000 in annual gross operating receipts in the State in the preceding taxable year, taxpayers may elect to pay the gross receipts tax of 5.25% in lieu of the income and property tax. Effective June 7, 2004, no new elections to pay the gross receipts tax may be made.

Beginning in fiscal year 2017, payers of the property tax portion of the State's Telephone Tax were required to make monthly payments of their tax liabilities instead of quarterly. In fiscal year 2018, telephone receipts and property taxes generated $4.7 million or 0.3% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In recent years, the General Assembly has often modified this formula to the benefit of the General Fund. During the 2015 session, the Vermont General Assembly passed legislation that imposed a 0.2% surcharge on all transactions subject to the Property Transfer Tax for the period from July 1, 2015 through June 30, 2018. The proceeds of this surcharge were earmarked for the Clean Water Fund (the "CWF"), a new special fund created to provide resources to assist in pollution mitigation efforts for Lake Champlain. During the 2017 session, the Vermont General Assembly earmarked the first $2.5 million of all Property Transfer Tax Revenues to pay debt service for housing bonds, which the Vermont Housing and Conservation Board will use to create new affordable housing. In addition, the 2017 Vermont General Assembly repealed the June 30, 2018 sunset of the 0.2% Property Transfer Tax surcharge on all transactions subject to the Property Transfer Tax and extended it through June 30, 2027. From July 1, 2027 through June 30, 2039, the 2017 Vermont General Assembly reduced the surcharge to 0.04%. The 0.04% surcharge then sunsets on July 1, 2039. The proceeds of the surcharge through June 30, 2017 are earmarked for the CWF. For fiscal year 2018 and beyond, the proceeds of the surcharge will be used to support affordable housing funded through the Vermont Housing and Conservation Trust Fund (the "VHCTF") and clean water initiatives funded through the CWF. Annually until the surcharge sunsets in 2039, the VHCTF will receive the first $1.0 million of all Property Transfer Tax surcharge revenue with the exception of fiscal year 2018. For fiscal year 2018, the first $1.0 million in surcharge revenue will be deposited in the General Fund. The remainder of all surcharge revenue until June 30, 2027 must be deposited into the CWF. After June 30, 2027, when the surcharge rate declines to 0.04%, the remainder of all surcharge revenue will be deposited into the VHCTF. In fiscal year 2017, gross receipts from the Property Transfer Tax totaled $38.8 million. After statutory transfers, net receipts totaling $12.4 million or 0.8% of revenues available were retained by the General Fund in fiscal year 2018.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2018, liquor taxes generated $19.8 million or 1.3% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $7.1 million or 0.5% of net General Fund revenues in fiscal year 2018.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes as computed from the Internal Revenue Code in effect on January 1, 2001. Effective for tax year 2009 and beyond, the Estate Tax exclusion for the State is maintained at $2.0 million. The Estate Tax accounted for $22.9 million or 1.5% of net General Fund revenues in fiscal year 2018.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 has been restructured several times in recent years. Prior to 2000, plants were assessed a tax of 3.5% of the assessed value thereof (defined as original cost less deprecation as required to be reported to the Public Service Department). Beginning in 2000, the tax rate was reduced to 2.75% and the deduction allowed for local taxes was repealed. At the same time, an education tax of 2.0% of the appraised value was imposed. Beginning in 2004, the electric energy tax was restructured as a generating tax with a rate schedule ranging from $2.0 million to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000 (and the education tax was similarly restructured with a rate schedule ranging from $1.465 million to $1.9 million plus $0.29 per megawatt hour in excess of 4,200,000). Effective July 1, 2013, the rate schedule was replaced with a generating tax of $0.0025 per kilowatt hour (and the education tax was repealed). Since fiscal year 2016, the tax did not generate any tax receipts because the Vermont Yankee generating facility in Vernon, which had historically generated all of the tax receipts in this tax source, ceased operations in December 2014. No decisions or proposals have yet been made regarding whether or how this tax might be modified in order to allow the State to receive a similar amount of tax receipts as was received in prior years when this facility was engaged in electric power generation. See "STATE ECONOMY – Utilities" above for information concerning the Vermont Yankee facility.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998 and through June 30, 2004, 58.3% of total collections in this tax source are allocated to the Education Fund. As of July 1, 2004, 100% of gross receipts from this tax have been dedicated to the General Fund. Beginning in fiscal year 2017, tax payments were to be remitted monthly instead of quarterly. Bank franchise tax revenues were $13.1 million, which represented 0.8% of revenues available to the General Fund in fiscal year 2018.

Other Taxes-Fees: In addition to the taxes discussed above, the State levies taxes and other minor fees and related income (including net interest earnings on cash balances allocable to the General Fund) that are credited to the General Fund. For fiscal year 2018, this category included securities registration fees revenues. Securities registrations fees were doubled beginning in fiscal year 2017 by the 2016 Vermont General Assembly. In addition, one-time revenues were received in fiscal year 2017 from tax preparer software companies to compensate the State for tax year 2016 errors pertaining to the Personal Income Tax changes enacted by the 2016 Vermont General Assembly. Net revenues in this category for fiscal year 2018 were $59.4 million or 3.8% of revenues available to the General Fund.

State Transportation Fund Revenues

The following is a brief discussion of the major sources of Transportation Fund revenues and the amount derived from each source in fiscal year 2018.

Purchase and Use Tax: A Purchase and Use Tax that is equivalent to the sales tax rate is assessed on the "taxable cost" (purchase price or value, less allowance for resale value of buyer's used vehicle) upon first registration of the motor vehicle. Effective August 1, 1997, the Purchase and Use Tax was increased from 5% to 6% pursuant to Act 60 property tax reform legislation. Beginning on July 1, 1998, 16.7% of total collections in this tax source began to be deposited directly into the Education Fund. Effective July 1, 2000, a $750 ceiling on trucks over 6,100 lbs., agricultural vehicles, school buses, trailers, and motorcycles was increased to $1,100. As of July 1, 2004, one-third of gross receipts collected under this tax is deposited directly into the Education Fund pursuant to Act 68 of the Acts of 2003. During the 2006 session, the Vermont General Assembly changed the statutory cap on taxes paid to $1,680 effective July 1, 2007. The 2009 Vermont General Assembly and the 2016 Vermont General Assembly also made minor changes to this tax (e.g. an increase in the dollar amount of the cap on truck purchases below which this tax is assessed). After the statutory transfer of one-third of gross revenue receipts to the Education Fund, net revenues to the State Transportation Fund totaled $73.0 million, representing 26.2% of net revenues available to the Transportation Fund, were received in fiscal year 2018.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers with the amount determined by the type, size, weight, and function of the vehicle. Driver's license fees are also included in this category as well as miscellaneous registration and license fees. During the 2006 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2007. In 2009, 2012, and 2016, the Vermont General Assembly increased certain fees. In fiscal year 2018, motor vehicle fees accounted for $86.0 million, or 30.8% of net revenues and fees available to the Transportation Fund.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to Act 60 property tax reform legislation, gasoline distributors are taxed at a rate of 19.0 cents (plus one cent per gallon petroleum licensing fee) per gallon sold. Beginning on July 1, 1999 and through June 30, 2004, 16.0% of total Gasoline Tax collections were allocated to the Education Fund. Effective July 1, 2004, 100% of the tax collected from gasoline distributors is dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2009, the Vermont General Assembly imposed a 2% assessment on the retail price of gasoline. Revenue from the assessment (along with a 3 cent-per-gallon assessment on diesel fuel that is collected at the wholesale level) is segregated from all other Transportation Fund revenue in a special fund, the TIB Fund, which is dedicated to the payment of the debt service on transportation infrastructure revenue bonds. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. Effective May 1, 2013, the ad valorem per gallon tax on gasoline was reduced from 19.0 cents per gallon to 18.2 cents per gallon and a new 2% Transportation Fund Assessment on the quarterly retail price of gasoline (subject to a 6.7 cents per gallon minimum and a 9.0 cents per gallon maximum) was levied through June 30, 2014. Effective July 1, 2014, a 4% levy is assessed on the retail price of gasoline (with a floor of 13.4 cents per gallon and a maximum of 18 cents per gallon) and the ad valorem tax per gallon was reduced by 6.1 cents to 12.1 cents per gallon. Since 2014, there have been only minor adjustments (e.g. a change in the shrinkage allowance) to this tax. In fiscal year 2018, the motor fuel tax accounted for $78.2 million or 28.0% of net revenues available to the Transportation Fund.

Since 2000, a Diesel Tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. Effective July 1, 2013, the ad valorem per gallon tax on diesel fuel was increased from 25 cents per gallon to 27 cents per gallon through June 30, 2014. Effective July 1, 2014, the Diesel Tax increased to 28 cents per gallon. Since 2014, there have been only minor adjustments (e.g. a change in the shrinkage allowance) to this tax. In fiscal year 2018, the Diesel Tax accounted for $18.9 million or 6.8% of net revenues available to the Transportation Fund.

Other Taxes-Fees: These categories include all remaining sources of revenue for the Transportation Fund except Federal receipts. Some of the items are registration fees on off-road vehicles, a tax on aviation fuel, title fees, overweight permit fees, air and rail revenue and revenue from fines and penalties. During the 2006 session, the Vermont General Assembly passed legislation that changed the level of several fees in this category effective July 1, 2007. The 2009 Vermont General Assembly also changed other fees, effective July 1, 2009. Since 2009, there have been only minor changes made to this group of taxes and fees. In fiscal year 2018, these other sources of revenues accounted for $23.0 million or 8.2% of net revenues available to the Transportation Fund.

State Education Fund Revenues

In 1997, Vermont passed comprehensive legislation aimed at responding to a Vermont Supreme Court decision holding its system of funding education unconstitutional. The resulting law, known as Act 60, mandated substantial change to both the focus and funding of K-12 education. The focus of the system is on academic outcomes for children, incorporating standards based on performance and assessment while making the funding effort equitable between towns. The State has made several major changes to its funding model for primary and secondary public education since 1997.

Prior to Act 60, each school district funded educational expenditures within that district and set property tax rates and collected school taxes from the property owners of the district. School tax rates were determined by each school district and ranged from as little as $0.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues.

Act 60 established an Education Fund with a number of revenue sources. The primary source is a statewide property tax and, until fiscal year 2019, a transfer from the State's General Fund. Other revenue sources to the Education Fund include (i) revenues from the State lotteries under Chapter 14 of Title 31, (ii) 36% of the State's Sales and Use Tax, (iii) one-third of the State's motor vehicle Purchase and Use Tax and (iv) certain other revenues and fees. In 2018, the Legislature passed Act 11, which made structural changes to two sources of revenue for the General Fund and the Education Fund, effective July 1, 2018 (fiscal year 2019). In particular, Act 11 of 2018 ended the annual transfer from the General Fund to the Education Fund and dedicated 100% of revenues from the State Sales and Use Tax and 25% of revenues from the Meals and Rooms Tax to the Education Fund (formerly these sources of revenue were dedicated to the General Fund). The following is a discussion of the major sources of Education Fund revenues and the amount derived from each source in fiscal year 2018. The information below does not reflect the impact of Act 11 of 2018.

Statewide Property Tax; Property Tax Reform. Under Act 60, the Legislature established a statewide property tax at a rate of $1.10 per $100 of assessed value. In addition, under the Act, the State provided a block grant from the Education Fund to each school district on a per student basis commencing in fiscal year 1999. The law provided for the amount of the grant to grow based on the inflation index each year. Districts spending more than the block grant were paid from a subdivision of the Education Fund based on a supplemental, or local share, property tax with a unit rate set so that the total collected from all districts with spending over the block grant equaled the amount of the spending. The more a district spent per pupil above the block grant, the higher its local share rate would be.

In 2003, the Legislature passed Act 68, which was implemented in fiscal year 2005 and modified the statewide property tax system by classifying property as either homestead or nonresidential, taxing those classes differently. Homestead property was assessed at the rate of $1.10 per $100 of assessed value, multiplied by the district spending adjustment, while all other property was assessed at $1.59 per $100 and was not subject to the district spending adjustment. These rates have been adjusted annually based upon the Education Fund balance. For fiscal year 2018, the homestead and non-residential rates were $1.00 and $1.535, respectively.

Act 68 of 2003 also included an excess spending provision designed to discourage high per-pupil spending by school districts. Districts spending over the annual threshold are taxed a second time on the excess spending amount. The threshold amount is calculated annually as the product of (i) the statewide average district education spending per equalized pupil in the prior fiscal year, multiplied by (ii) a specified percentage. Act 68 set this percentage as 135% in fiscal year 2005, 130% in fiscal year 2006 and 125% in fiscal year 2007 and thereafter. In 2013, legislation was passed (Act 60 of 2013) that decreased the percentage to 123% in fiscal years 2015 and 2016, and to 121% in fiscal year 2017 and thereafter. In 2014, the Legislature passed Act 174, which modified the threshold amount calculation such that, rather than looking at data from the prior fiscal year, it would be based on the statewide average district education spending per equalized pupil in fiscal year 2014 adjusted for inflation. The base year was subsequently changed to fiscal year 2015 by Act 132 of 2016.The net effect of these changes was to lower the threshold above which school districts incur an additional tax for higher per pupil education costs.

In addition to business property tax relief provided to industrial and commercial owners, Act 60 and Act 68 each provided that any household with income of less than $75,000 would not pay more than 2% (adjusted for per pupil district spending) of that income for the statewide school taxes. The household income amount was raised to $85,000 for fiscal year 2007 and to $90,000 for fiscal year 2008 and after. If a household's income is over $90,000, the taxes on the first $225,000 of equalized homestead value may be eligible for calculation of an adjustment not based on income. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total applicable tax (municipal and school) exceeds between 2.0% and 5.0% of their income based on a tiered scale (effective July 1, 2019, such percentages will be reduced to 1.5% and 3.0%). The maximum adjustment amount for claims filed in fiscal year 2007 was $10,000, reduced to $8,000 for claims filed in fiscal year 2008 and after.

In 2006, the Legislature passed Act 185, which significantly altered the way property tax adjustments are paid. Whereas payments were formerly made directly to eligible taxpayers, with the passage of Act 185, adjustments were paid to the municipalities in which the funds were used to reduce the payable amount on taxpayers' property tax bills. For fiscal year 2008, that amount was paid to the municipality in which the homestead was located on or around July 1, 2007 for timely filed homestead declarations. A second payment to the municipalities occurred on or around September 15, 2007 for late filed declarations. For each fiscal year from and after fiscal year 2009, municipalities were notified of any property tax adjustment that was to be credited to a taxpayer's bill, but only the municipal tax portion of the adjustment was paid to the municipalities. Beginning in fiscal year 2010, property tax adjustments resolved after September 15 are paid directly to the claimant by the tax department, rather than through notification of the municipality in which the homestead is located.

In 2010, the Legislature passed Act 160, which retroactively changed the calculation of property tax adjustments for claims filed beginning January 1, 2010 and thereafter. Homeowners with interest and dividend income above $10,000 have the excess amount over that threshold counted twice in calculating the adjustment. In addition, the adjustment is limited to only the first $400,000 of equalized housesite value, and the additional adjustment of $10 per acre, up to five acres, which was added by statute in 2003, was eliminated. Act 160 made additional changes to the definition of "household income" for claims filed beginning in 2011, which eliminated all but the following exclusions: total income to certain business expenses of reservists, one-half of self-employment tax paid, alimony paid, and deductions for tuition and fees.

In 2011, the Legislature passed Act 45, which allowed the amounts paid by self-employed people for health insurance premiums to be excluded from the calculation of household income for property tax adjustment claims filed beginning in 2012. In 2012, the Legislature passed Act 143, which excludes health savings account deductions from the calculation of household income for property tax adjustment claims filed beginning in 2013.

The Statewide property tax is billed and collected at the local level. A netting process is followed, with the State paying any net amounts due the districts in three payments while the towns pay net amounts due the State in two equal payments. Municipalities retain a percentage of the total education tax collected upon timely remittance of net payments. Beginning in fiscal year 2009, the percentage was increased from 0.125% to 0.225%.

In 2014, the Legislature passed Act 166, which required districts to offer pre-K education for at least ten hours per week. Before that, offering pre-K was optional for each district. In 2015, the Legislature passed more significant education reform. Act 46 of 2015 was passed, which provides incentives to small school districts to merge, thereby maximizing operational efficiencies. This Act offers various incentives to districts that choose to merge if those mergers meet the requirements and goals of the Act including reductions in tax rates and continuation of small school grants. The Act also contains several disincentives such as the removal of a provision that allowed districts under-count the change in pupil numbers from the previous year when the district has experienced declining enrollment. Additionally, the Act directs the State Board of Education to facilitate the merger for any district under 900 students that fails to merge by July 1, 2019. Finally, the Act simplifies the tax rate calculation process somewhat by moving from a base amount tied to a New England inflation index and a variable base tax rate to a variable "yield" number and a base tax rate permanently locked at $1.00 per $100 of equalized property value.

In fiscal year 2018, the Statewide property tax accounted for $1,059.0 million or 65.3% of the net revenues available to the Education Fund.

General Fund Transfer to Education Fund. Under Act 60, the State is required to appropriate a certain portion of General Fund revenues to the Education Fund annually. Prior to Act 11 of 2018, under 16 V.S.A. § 4025, the amount of General Fund appropriated and transferred to the Education Fund was equal to $305.9 million and an annual consensus increase based on the sum of (i) the National Income and Product Accounts (NIPA) Implicit Price Deflator for State and Local Government Consumption Expenditures and Gross Investment plus (ii) one-tenth of one percent. In fiscal year 2018, the base General Fund transfer to the Education Fund was $314.7 million, or 19.4% of the net revenues available to the Education Fund. Additionally, the Legislature authorized additional transfers to the Education Fund in the aggregate amount of $33.5 million to further contribute to the Education Fund reserves, resulting in aggregate General Fund appropriations of $348.2 million or 21.5% of the net revenues available to the Education Fund. Commencing in fiscal year 2019, pursuant to Act 11 of 2018, the General Fund transfer to the Education Fund has been eliminated as a revenue source for the Education Fund, replaced instead by an allocation of 100% of the Sales and Use Tax and 25% of the Meals and Rooms Tax, as described under "STATE FUND AND REVENUES – State General Fund Revenues" above.

Sales and Use Tax. Pursuant to Act 68 of 2003, commencing July 1, 2004, the State implemented a statutory transfer of one-third of the total gross Sales and Use Tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. Effective July 1, 2013, the allocation of gross Sales and Use Tax receipts to the Education Fund changed from 33% to 36%. For more information regarding the Sales and Use Tax, see "STATE FUNDS AND REVENUES – State General Fund Revenues" above. In fiscal year 2018, the statutory transfer of Sales and Use Tax receipts to the Education Fund was $139.2 million or 8.6% of the net revenues available to the Education Fund. As noted above, commencing in fiscal year 2019, 100% of the State Sales and Use Tax will be deposited directly in the Education Fund (see "REVENUE ESTIMATES").

Purchase and Use Tax. Beginning on July 1, 1998, 16.7% of total collections in the motor vehicle Purchase and Use Tax were deposited in the Education Fund. Pursuant to Act 68 of 2003, commencing July 1, 2004, one-third of gross receipts collected under this tax is deposited directly into the Education Fund. For more information regarding the Purchase and Use Tax, see "STATE FUNDS AND REVENUES – State Transportation Fund Revenues" above. In fiscal year 2018, the statutory transfer of Purchase and Use Tax receipts to the Education Fund was $36.5 million or 2.2% of the net revenues available to the Education Fund.

Lottery. Pursuant to Act 60, 100% of the revenues from the State lotteries under Chapter 14 of Title 31 are transferred to the Education Fund. In fiscal year 2018, Lottery revenues deposited in the Education Fund were $27.2 million or 1.7% of the net revenues available to the Education Fund.

Medicaid Transfer and Other Taxes-Fees. In past years the State has allocated 30% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 V.S.A. Section 2959a and recent changes in federal law governing those reimbursements. In addition, the State levies taxes and other minor fees and related income that are credited to the Education Fund, including a solar energy property tax and a wind property tax. Net revenues in this category for fiscal year 2018 were $12.87 million or 0.8% of net revenues available to the Education Fund.

Federal Receipts

In fiscal year 2018, the State's special revenue funds received approximately $1.997 billion in total from the federal government on a GAAP basis, an increase of $5.1 million or 0.26% above fiscal year 2017. These revenues represent reimbursement to the State for expenditures for various health, welfare, educational and highway programs, and distributions of various restricted or categorical grants-in-aid. Fiscal year 2018 federal grant receipts were $1.997 billion, including $1.4 million received from ARRA. The fiscal year 2019 appropriations act, as passed, anticipates approximately $1.980 billion in federal receipts, of which $2.1 million is expected to be received under ARRA.

Federal grants normally are restricted as to use depending on the particular program being funded and normally require matching resources by the State. The largest categories of federal grants receipts in fiscal year 2018 were made in the areas of Human Services, $1.424 billion; Transportation, $311.2 million; Education, $128.8 million; Protection to Persons and Property, $51.7 million; and Natural Resources, $44.4 million.

Federal Sequestration. The State has budgeted for the continuing effects of federal sequestration, including the continuation of reductions in direct pay subsidies for the State's outstanding "Build America Bonds" (BABs) (announced to be 6.2% for federal fiscal year 2019), and accordingly does not currently expect such reductions to have a material adverse effect on the current or any future year's budget.

Tobacco Litigation Settlement Fund

Under the Master Settlement Agreement (the "MSA") with tobacco companies, Vermont is entitled to annual payments in perpetuity. The amount of payment due is calculated annually, applying adjustments specified in the MSA, based on factors including that year's volume of tobacco sales and inflation. Pursuant to the MSA, in addition to regular MSA annual payments, beginning in fiscal year 2008, Vermont was also entitled to receive approximately $10-14 million in net Strategic Contribution Payments (as defined in the MSA) per year for ten years. The final Strategic Contribution Payment was received in April 2017. Both the regular MSA payments and the Strategic Contribution Payments are subject to withholding adjustments based on inflation, the effect of any decreases in the sale of tobacco products to the base year among participating manufacturers and certain other adjustments. Various aspects of the MSA remain in litigation or arbitration in venues across the country.

The table below lists Vermont's base payment and Strategic Contribution Payment as set forth in the MSA, and the actual receipts of settlement funds (in millions) for each of the past twelve years:

	MSA[1]		Actual		
Fiscal Year	Base Payment	Strategic Payment	Base Payment	Strategic Payment	Total[2, 3]
2007	$28.80	-	$24.96	-	$24.96
2008	29.37	$15.65	25.48	$14.42	39.91
2009	29.37	15.65	28.10	14.78	42.88
2010	29.37	15.65	23.39	12.83	36.22
2011	29.37	15.65	22.17	11.69	33.86
2012	29.37	15.65	22.61	11.91	34.52
2013	29.37	15.65	22.59	11.92	34.51
2014	29.37	15.65	*	*	34.52
2015	29.37	15.65	21.88	11.69	33.57
2016	29.37	15.65	23.00	12.07	35.08
2017	29.37	15.65	22.78	11.94	34.72
2018	29.37	**	17.55	**	58.95
2019	29.37	**	23.65	**	23.65

[1] Base payment amount and Strategic Contribution Payments as established in the MSA at time of initial settlement; amounts subject to annual adjustments.
[2] Does not take into account Tobacco Litigation Settlement Fund Account performance due to interest income or expense.
[3] Total for 2018 includes $41,472,086.07 in one-time settlement of disputed diligent enforcement years 2004-2017.
* The breakdown between the base payment and the strategic payment amounts for fiscal year 2014 are not available.
** Strategic payments were issued on a time-limited basis to Vermont and certain other states and expired after 2017.

In fiscal year 2000, the Vermont Legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the MSA are deposited into the Tobacco Litigation Settlement Fund. The State of Vermont targets these revenues specifically for tobacco enforcement, prevention and education programs, substance abuse and youth protection programs in AHS. These funds are also used to support Medicaid and other health-related spending but are not used as a supplemental revenue source to fund other core governmental operations. Any unexpended receipts at the end of each fiscal year are earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. The balance in the Tobacco Investment Trust Fund at the end of fiscal year 2018 was $0.03 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

The following information presented under the above heading is presented on a budgetary (or cash) basis. Reference is also made to the operating statements appearing on pages 58-60 of this Official Statement (under the heading "Financial Summaries") for a tabular presentation of the operating results described below.

Fiscal Year 2015

The State ended fiscal year 2015 with General Fund revenues of $1,375.77 million creating an operating gain of $15.22 million, which was offset by net transfers out to other funds of $10.27 million and transfers to reserves of $4.95 million. Year-over-year consensus (current law) revenues increased by $59.07 million, or 4.49% from fiscal year 2014 revenues of $1,316.70 million. The fiscal year 2015 General Fund consensus revenue forecast, which was the basis for the fiscal year 2015 budget, as passed, was approved by the Emergency Board in January 2014. This estimate was subsequently revised downward by the Emergency Board in July 2014 by $28.80 million and again in January 2015 by $10 million. Compared to target, year-end revenues were 1.32% above the January 2015 revised revenue forecast for fiscal year 2015 of $1,357.86 million. The higher than projected ($17.94 million above target) General Fund revenues were attributable primarily to above target receipts in Personal Income Tax ($4.12 million above target) and Corporate Income Tax ($19.30 million above target). This over performance was offset by below target revenues in Sales and Use Tax ($1.0 million below target) and Estate Tax ($4.50 million below target). The current law revenue results, plus the $5.0 million special assessment paid by Entergy during fiscal year 2015 pursuant to the Entergy Settlement Agreement (see "STATE ECONOMY – Utilities"), allowed the State to appropriate an additional $5.0 million to LIHEAP, appropriate an additional $13.0 million to cover Medicaid cost increases and add an additional $1.8 million to the previous $5.0 million in the General Fund Balance Reserve for subsequent years' appropriation, subject to Emergency Board action. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $69.31 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2015 with consensus (current law) revenues of $261.39 million and an operating surplus of $6.14 million. Year-over-year consensus (current law) revenues increased by 3.16% or $8.01 million from fiscal year 2014 consensus (current law) revenues of $253.38 million. Transportation Fund receipts for fiscal year 2015 were slightly above the consensus revenue target of $260.53 million by 0.33%, primarily due to: Gasoline Tax receipts (1.21% above target); Diesel Tax receipts (5.20% above target); Motor Vehicle Purchase & Use (0.43% below target); Motor Vehicle Fees (0.36% below target); and Other Fees (2.21% below target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $12.55 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2015 with non-property tax revenues of $191.65 million and a General Fund transfer of $297.61 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in a $15.47 million operating surplus (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2015 fully funded at the statutory maximum of 5% of net prior year appropriations ($32.05 million). In addition to the $32.05 million Education Fund Budget Stabilization Reserve, $15.13 million additional surplus remained unallocated and unreserved as of June 30, 2015.

Fiscal Year 2016

The State ended fiscal year 2016 with General Fund revenues of $1,412.39 million creating an operating gain of $5.27 million, which gain was offset by net transfers out to other funds of $3.33 million and transfers to reserves of $1.94 million. Year-over-year consensus (current law) revenues increased by $36.62 million, or 2.66% from fiscal year 2015 revenues of $1,375.77 million. The fiscal year 2016 General Fund consensus revenue forecast, which was the basis for the fiscal year 2016 budget, as passed, was approved by the Emergency Board in January 2015. This estimate was subsequently revised upward by the Emergency Board in July 2015 by $40.20 million to incorporate tax changes adopted by the General Assembly and downward in January 2016 by $4.70 million. Compared to target, year-end revenues were 1.13% below the January 2016 revised revenue forecast for fiscal year 2016 of $1,428.60 million. The lower than projected General Fund revenues ($16.21 million below target) were attributable primarily to below target receipts in Personal Income Tax ($13.8 million below target), Sales and Use Tax ($5.0 million below target), Meals and Rooms Tax ($1.4 million below target), Insurance Tax

($0.8 million below target) and Estate Tax ($8.0 million below target). This under performance was partially offset by above target revenues in Corporate Tax ($12.8 million above target). The lower than anticipated current law revenue results were offset by an unappropriated balance in the General Fund ($6.32 million), higher than expected statutory transfers to the General Fund ($5.02 million) and a reversion of unspent General Funds from Medicaid ($4.87 million) attributed to a lower need for state matching funds than budgeted. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $71.25 million, representing the statutory maximum of 5% of the prior year appropriations level. The $6.80 million deposited in the General Fund Balance Reserve (a.k.a. the "rainy day reserve") in prior fiscal years remained reserved in the General Fund.

The State Transportation Fund ended fiscal year 2016 with consensus (current law) revenues of $264.61 million and an operating surplus of $1.12 million. Year-over-year consensus (current law) revenues increased by 1.23% or $3.22 million from fiscal year 2015 consensus (current law) revenues of $261.39 million. Transportation Fund receipts for fiscal year 2016 were slightly below the consensus revenue target of $266.7 million by 0.78%, primarily due to the combination of the following: Gasoline Tax receipts (0.36% below target); Diesel Tax receipts (6.11% below target); Motor Vehicle Purchase & Use (2.11% below target); Motor Vehicle Fees (0.2% above target); and Other Fees (3.49% above target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $12.79 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2016 with non-property tax revenues of $200.43 million and a General Fund transfer of $303.34 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in a $10.39 million operating surplus (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2016 fully funded at the statutory maximum of 5% of net prior year appropriations ($32.61 million). In addition to the $32.61 million Education Fund Budget Stabilization Reserve, $33.92 million additional surplus remained unallocated and unreserved as of June 30, 2016.

Fiscal Year 2017

The State ended fiscal year 2017 with General Fund revenues of $1,456.92 million contributing to an operating gain of $34.29 million, which was distributed as: $5.77 million net transfers to other funds; $28.52 million in reserves, including up to $10.38 million deposited in the General Fund Balance Reserve for use in 2018 to offset estimated one-time forecasted corporate tax refunds. Year-over-year consensus (current law) revenues increased by $44.53 million, or 3.15% from fiscal year 2016 revenues of $1,412.39 million. The fiscal year 2017 General Fund consensus revenue forecast, which was the basis for the fiscal year 2017 budget, as passed, was approved by the Emergency Board in January 2016. This estimate was subsequently revised upward by the Emergency Board in July 2016 by $7.0 million, and downward in January 2017 by $24.6 million, largely attributable to higher corporate tax refunding activity. Compared to target, year-end revenues were 1.05% above the January 2017 revised revenue forecast for fiscal year 2017 of $1,455.91 million. The revenue performance in June was driven by $3.83 million above target revenues in the Corporate Income Tax and a slight increase in the Property Transfer Tax of $0.69 million. These gains were partially offset by an underperformance across all other revenue types. A full contribution was made to the Budget Stabilization Reserve resulting in a balance of $74.10 million.

The State Transportation Fund ended fiscal year 2017 with consensus (current law) revenues of $271.19 million and an operating surplus of $1.81 million. Year-over-year consensus (current law) revenues increased by 2.49% or $6.58 million from fiscal year 2016 consensus (current law) revenues of $264.61 million. Transportation Fund receipts for fiscal year 2017 were below the consensus revenue target of $274.47 million by 1.19%, primarily due to the combination of the following: Gasoline Tax receipts (0.02% above target); Diesel Tax receipts (5.77% below target); Motor Vehicle Purchase & Use (0.06% below target); Motor Vehicle Fees (3.12% below target); and Other Fees (3.21% above target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $13.26 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2017 with non-property tax revenues of $203.95 million and a General Fund transfer of $305.90 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in an $8.29 million operating deficit (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2017 fully funded at the statutory maximum of 5% of net prior year appropriations ($33.46 million). In addition to the $33.46 million Education Fund

Budget Stabilization Reserve, $26.49 million additional surplus remained unallocated and unreserved as of June 30, 2017.

Fiscal Year 2018

The State ended fiscal year 2018 with General Fund revenues of $1,558.85 million contributing to an operating gain of $76.90 million. The operating gain was distributed as $50.71 million in net transfers to other funds, as well as $26.19 million in net contributions to reserves. Contributions to reserve accounts most notably included bringing the Budget Stabilization Reserve up to its statutory level of $77.0 million, making a $12.0 million addition to the Human Services Caseload Reserve, providing $10.0 million for contingency funds to be used in fiscal year 2019 for personal income and corporate tax refunds should they exceed forecasted expectations, and reserving an additional $0.5 million for General Fund uses in fiscal year 2019. Year-over-year consensus (current law) revenues increased by $101.92 million, or 7.00% from fiscal year 2017 revenues of $1,456.92 million. The fiscal year 2018 General Fund consensus revenue forecast, which was the basis for the fiscal year 2018 budget, as passed, was approved by the Emergency Board in January 2017. This estimate was subsequently revised three times by the Emergency Board: first, in July 2017 it was revised downward by $24.7 million resulting in a General Fund rescission approved by the Emergency Board at the same meeting; then in January 2018 it was revised upward by 8.1 million; and finally in May 2018, the Emergency Board adopted a revenue increase of $44.2 million as compared to January 2018. Compared to target, year-end revenues were 1.37% above the May 2018 revised revenue forecast for fiscal year 2018 of $1,537.8 million. The predominant drivers of the operating gain for fiscal year 2018 were Personal Income and Corporate Income tax receipts exceeding their targets by $38.27 million and $16.96 million, respectively.

The State Transportation Fund ended fiscal year 2018 with consensus (current law) revenues of $278.96 million and an operating surplus of $2.50 million. Year-over-year consensus (current law) revenues increased by 2.87% or $7.77 million from fiscal year 2017 consensus (current law) revenues of $271.19 million. Transportation Fund receipts for fiscal year 2018 were slightly above the consensus revenue target of $277.60 million by 0.49%, primarily due to the combination of the following: Gasoline Tax receipts (0.11% above target); Diesel Tax receipts (2.51% above target); Motor Vehicle Purchase & Use (1.89% above target); Motor Vehicle Fees (2.28% below target); and Other Fees (6.83% above target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $13.47 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2018 with non-property tax revenues of $215.72 million and a General Fund transfer of $348.17 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in a $4.96 million operating surplus (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2018 fully funded at the statutory maximum of 5% of net prior year appropriations ($34.64 million). In addition to the $34.64 million Education Fund Budget Stabilization Reserve, $21.22 million additional surplus remained unallocated and unreserved as of June 30, 2018.

Fiscal Year 2019 General, Transportation and Education Funds to Date

Consensus Forecast. The State, by statute, establishes a consensus revenue forecast each July and the following January unless the Vermont Emergency Board members elect to have more frequent revenue forecasts due to fiscal management needs. On January 18, 2018, the consensus forecast for current law revenues "Available to the General Fund" for fiscal year 2019 was projected to be $1,568.20 million. Subsequent to the adoption of the General Fund forecast, however, the General Assembly passed Act 11 of 2018, pursuant to which 100% of Sales and Use and 25% of Meals and Rooms tax revenues were dedicated to the Education Fund (formerly these sources of revenue were dedicated to the General Fund) (see "STATE FUNDS AND REVENUES – State General Fund Revenues" and "– State Education Fund Revenues"). As a result of this shift in the recognition of revenues, $301.2 million of revenues previously recognized as General Fund revenues were budgeted instead as Education Fund revenues. Commensurate with this shift in revenues, there was a corresponding elimination of the annual appropriation of General Funds transferred to the Education Fund in the amount of $322.91 million. Taking into account these adjustments, the General Fund consensus revenue forecast adopted on January 18, 2018 was $1,267.0 million (on a post-Act 11 fund allocation basis). The Emergency Board subsequently met and revised the fiscal year 2019 General Fund revenue forecast upward to $1,270.7 million on July 27, 2018 and then upward again to $1,282.0 million on January 22, 2019.

The revised January 2019 consensus forecast represented a $15.0 million increase from the January 2018 General Fund post-Act 11 consensus estimate of $1,267.0 million for fiscal year 2019 that was used in preparing the fiscal year 2019 budget. The consensus revenue forecast estimates for fiscal year 2019 were each based on an updated consensus national and State economic outlook at the time, technical re-specifications of the forecasting models for these revenue sources, an updated analysis of the State revenue implications of the TCJA legislation and the State legislation enacted during the 2018 legislative session to offset a significant part of the State tax revenue implications related to the TCJA (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax"), and a revised estimate for the Sales and Use Tax following the June 2018 U.S. Supreme Court *Wayfair* decision (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Sales and Use Tax").

On January 18, 2018, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $281.0 million for fiscal year 2019. The Emergency Board subsequently met and revised the fiscal year 2019 Transportation Fund revenue forecast upward to $283.2 million on July 27, 2018 and then upward again to $284.1 million on January 22, 2019. The revised January 2019 consensus forecast represented a $3.0 million increase from the January 2018 Transportation Fund estimate of $281.0 million for fiscal year 2019 that was used in preparing the fiscal year 2019 budget. This decrease was due to slightly increased revenue expectations as a result of the somewhat stronger than originally expected national and State economic activity relative to the original fiscal year consensus forecast The updated consensus forecast also included technical re-specifications of the forecasting models for these revenue sources that included actual revenue activity from fiscal year 2018 taking into account the various revenue fee changes enacted by the General Assembly in fiscal year 2017.

On January 18, 2018, the Emergency Board agreed to a pre-Act 11 Education Fund consensus revenue forecast for the non-Property Tax and non-gross receipts tax components of $207.8 million for fiscal year 2019 (corresponding to a $509.0 million consensus forecast for the Education Fund on a post-Act 11 fund allocation basis). The Emergency Board subsequently met and revised the fiscal year 2019 Education Fund revenue forecast upward to $526.0 million on July 27, 2018 and then upward again to $527.6 million on January 22, 2019. This revised January 2019 forecast was based on the latest national and State economic outlook, technical re-specifications of the forecasting models for these revenue sources, a revised consensus forecast for the U.S. and Vermont economies, a revised Sales and Use Tax estimate following the June 2018 U.S. Supreme Court *Wayfair* decision, and the latest fund allocations as prescribed by Act 11 of 2018 (see "STATE FUNDS AND REVENUES – State General Fund Revenues" and "– State Education Fund Revenues").

Fiscal Year 2019 Results to Date. The following tables present preliminary revenue results for the components of each major fund, as compared to the fiscal year 2019 monthly cash flow targets through May 2019. Results are presented versus the consensus cash flow targets for the January 22, 2019 consensus revenue forecast.

Fiscal Year 2019 General Fund Results to Date

	May 2019			Fiscal Year 2019 Results To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Personal Income Tax	$38.55	$39.46	2.35	$744.34	$787.18	5.76
Corporate Income Tax	1.44	(0.08)	(105.49)	104.71	115.53	10.34
Meals and Rooms Tax	8.60	8.51	(1.10)	126.53	126.82	0.23
Insurance Premium Tax	7.90	8.97	13.57	57.03	56.54	(0.86)
Inheritance-Estate Tax	1.60	0.25	(84.31)	17.64	11.95	(32.28)
Property Transfer	1.12	1.16	4.34	11.97	11.26	(5.89)
Other Revenues	8.56	9.46	10.52	98.02	100.98	3.02
Total	$67.77	$67.74	(0.05)	$1,160.24	$1,210.26	4.31

[1] Official Revenue Estimates as of January 22, 2019.

Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2019 Transportation Fund Results to Date

	May 2019			Fiscal Year 2019 Results To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Gasoline Tax[2]	$5.69	$5.86	3.04	$71.46	$71.31	(0.21)
Diesel Tax[2]	1.39	1.27	(8.39)	17.01	16.81	(1.23)
Purchase and Use Tax	7.07	7.44	5.31	66.18	65.59	(0.89)
Motor Vehicle Fees	8.88	8.19	(7.83)	76.97	76.46	(0.67)
Other Fee Revenues	1.94	3.12	61.10	21.77	22.47	3.21
Total[3]	$24.96	$25.88	3.68	$253.40	$252.64	(0.30)

[1] Official Revenue Estimates as of January 22, 2019.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2019 Education Fund Results to Date*

	May 2019			Fiscal Year 2019 Results To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Sales and Use Tax[2]	$30.38	$30.17	(0.68)	$380.93	$378.30	(0.69)
Meals and Rooms Tax[2]	2.87	2.84	(1.10)	42.18	42.27	0.23
Lottery	2.14	1.80	(15.88)	23.69	23.99	1.24
Motor Vehicle Purchase & Use Tax	3.53	3.72	5.31	33.09	32.80	(0.89)
Other Revenues[3]	0.13	0.13	(1.80)	0.88	0.70	(20.56)
Total	$39.05	$38.65	(1.00)	$480.77	$478.06	(0.56)

*Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of January 22, 2019.
[2] Per Act 11 of 2018, 100% of Sales and Use Tax receipts and 25% of the Meals and Rooms Tax are allocated to the Education Fund as of July 1, 2018.
[3] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as negative revenue.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions. NM means Not Meaningful.

General Fund. As reflected above, revenues in the General Fund through May 2019 indicate that the State is tracking ahead of cumulative receipts expectations by $50.03 million versus its $1,160.24 million cumulative consensus cash flow target. This corresponds to a revenue forecast difference of 4.31% versus the consensus cash flow targets associated with the January 2019 consensus forecast. The fiscal year 2019 differences from consensus cash flow expectations through May reflect a significant increase in Personal Income Tax and Corporate Income Tax receipts through the first eleven months of fiscal year 2019 (at a combined $53.66 million above target). There were only minor dollar amount differences among the other General Fund sources through May, reflecting a $3.63 million aggregate decrease in receipts versus expectations for all of the other non-income tax components. This decrease did not materially alter the General Fund's overall ahead of cumulative expectations status through the first eleven months of fiscal year 2019.

Transportation Fund. Cumulative receipts in the Transportation Fund through May 2019 totaled $252.64 million, which was $0.76 million or 0.30% below consensus expectations. This was primarily the result of a revenue under-performance related to the Transportation Fund's two fuel taxes (at a combined $0.35 million below consensus expectations through May), an under-performance in Motor Vehicle Purchase and Use Tax (at $0.59 million below the cumulative consensus cash flow target through May), and somewhat higher than expected receipts in the Other Fees component (at $0.70 million above cumulative expectations through May). The Motor Vehicle Fees component of the Transportation Fund was tracking reasonably close to expectations through the first eleven months of fiscal year 2019 (at $0.51 million, or 0.67% below its cumulative $76.97 million consensus cash flow target through the first eleven months of fiscal year 2019).

Education Fund. Non-property tax revenue receipts in the Education Fund through May 2019 totaled $478.06 million, or $2.71 million below cumulative consensus expectations through the first eleven months of fiscal year 2019. Total receipts through May 2019 included the effects of the increased allocation of the Sales & Use Tax and the new allocation of 25% of the Meals and Rooms Tax as set forth in Act 11 of 2018. Excluding the Property Tax and selected other revenue sources for the Education Fund that are not part of the consensus revenue forecasting process under Act No. 178 of 1996, Education Fund receipts through May 2019 were tracking ahead of expectations in the Lottery Transfer component, and Meals and Rooms Tax receipts through May tracked essentially on target with respect to its consensus revenue target. As reflected above, Sales and Use Tax and Motor Vehicle Purchase and Use Tax receipts were slightly under-performing versus consensus expectations through the first eleven months of fiscal year 2019. The Investment Income component of the Education Fund reported revenue receipts of under $1.0 million through May 2019. With an annual receipts total of generally less than $1.0 million for the entire fiscal year for this component, large percentage differences (up or down) from any monthly or cumulative consensus cash flow target tend to be insignificant to the overall Education Fund receipts total for any given period.

Fiscal Year 2020 – Forecast

On January 22, 2019, the Emergency Board agreed to an "Available to the General Fund" consensus revenue forecast of $1,295.1 million for fiscal year 2020. That consensus revenue forecast was a current law forecast and included consideration of the still evolving revenue implications of the TCJA and consensus estimates of the impact of the State legislation enacted to off-set certain State tax revenue implications related to the TCJA, as they were understood during the January to June period of calendar year 2018 (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax"). These State off-sets, updated for the 2020 fiscal year, are estimated to reduce Personal Income Tax liability for Vermont residents by approximately $10.5 million (and designed to prevent over $20.0 million in federally-induced tax increases). This reduction in Personal Income Tax liability is expected to grow in subsequent fiscal years consistent with the general growth of the overall economy and changes in the nature of economic conditions related to the business cycle. The January 22, 2019 consensus revenue forecast represented an upward adjustment of $4.1 million (or 0.3%) relative to the consensus revenue forecast for the General Fund approved by the Emergency Board for fiscal year 2020 on July 27, 2018, and a $7.7 million (or 0.6%) downward adjustment in the consensus revenue forecast for fiscal year 2020 adopted by the Emergency Board on January 18, 2018 (on a post-Act 11 fund allocation basis).

On January 22, 2019, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $286.6 million for fiscal year 2020. The revised forecast was based on the latest national and State economic outlook (including particular emphasis on State vehicle sales and the State registration fees), technical re-specifications of the Transportation Fund components' forecasting models, and updated forward-looking fuel price forecasts for the two major Transportation Fund revenue components: the Gas Tax and the Diesel Tax. The January 22, 2019 consensus revenue forecast represented a slight downward adjustment of $0.5 million (or 0.2%) relative to the consensus revenue forecast for the Transportation Fund approved by the Emergency Board for fiscal year 2020 on July 27, 2018, and a $7.7 million (or 0.6%) downward adjustment relative to the consensus revenue forecast for fiscal year 2020 adopted by the Emergency Board on January 18, 2018. These downward adjustments reflect rising energy prices and their resulting negative effect on consumption, and the impacts of softening vehicle unit sales and leasing activity.

On January 22, 2019, the Emergency Board agreed to an Education Fund consensus revenue forecast of $544.4 million for fiscal year 2020 for the non-property tax portion of the Education Fund. This revised forecast was based on the latest national and State economic outlook, technical re-specifications of the forecasting models for these revenue sources, and the expected revenues associated with the fund structure changes made by Act 11 of 2018. The January 22, 2019 consensus revenue forecast represented an upward adjustment of $2.9 million (or 0.5%) relative to the consensus revenue forecast for the Education Fund approved by the Emergency Board for fiscal year 2020 on July 27, 2018, and a $23.8 million (or 4.6%) upward adjustment in the consensus revenue forecast for fiscal year 2020 adopted by the Emergency Board on January 18, 2018 (on a post-Act 11 fund allocation basis). The increase reflected the expected revenue effects of greater compliance by e-commerce payers resulting from a combination of actions by the Vermont Department of Taxes and the recent U.S. Supreme Court *Wayfair* decision (See "STATE FUNDS AND REVENUES – State General Fund Revenues – Sales and Use Tax").

The State closely monitors collections and other developments with revenues, which are typically reviewed and analyzed on a monthly basis. When warranted, receipts activity developments are tracked more frequently and sometimes on a daily basis. The most recent update of the consensus revenue forecast occurred on January 22, 2019 for the General Fund, Transportation Fund, and part of the non-property tax portion of the Education Fund covering fiscal years 2019, 2020, and 2021. The State updates revenue forecasts semiannually in January and July of each fiscal year. The Emergency Board is scheduled to meet on July 29, 2019 to consider the staff recommendation and approve an updated consensus revenue forecast. Staff reports from the State economists containing the July 2019 consensus forecast update are expected to be accessible within one week following the meeting of the Emergency Board at the Vermont Department of Finance and Management website: https://finance.vermont.gov/reports-and-publications, and the website of the Legislative Joint Fiscal Office: https://ljfo.vermont.gov. These staff reports and any reports of the Emergency Board are not incorporated by reference herein.

Budget Stabilization Reserves

The 1987 the General Assembly initially established the General Fund Budget Stabilization Reserve to "reduce the effects of annual variations in State revenues upon the budget of the State by retaining surpluses in General Fund revenues." Under current law, Budget Stabilization Reserves have been established within the General Fund, the Transportation Fund and the Education Fund.

Act No. 61 of the 1997 Legislative session amended both the General Fund and Transportation Fund budget stabilization laws by stipulating that the respective reserves shall consist of 5% of the prior year budgetary appropriations and further stipulated that in any fiscal year if the General Fund or Transportation Fund is found to have an undesignated fund deficit as determined by generally accepted accounting principles, the applicable Budget Stabilization Reserve shall be used to the extent necessary to offset that deficit. This was done to reflect the State's change to reporting its financial condition in accordance with generally accepted accounting principles.

As of June 30, 2015, the General Fund Budget Stabilization Reserve was $69.31 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $6.80 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2015 was $12.55 million. The Education Budget Stabilization Reserve was $32.05 million as of June 30, 2015 with an additional $15.13 million in Unreserved and Undesignated Fund Balance. For fiscal year 2015, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2015.

As of June 30, 2016, the General Fund Budget Stabilization Reserve was $71.25 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $6.80 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2016 was $12.79 million. The Education Budget Stabilization Reserve was $32.61 million as of June 30, 2016 with an additional $33.92 million in Unreserved and Undesignated Fund Balance. For fiscal year 2016, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2016.

As of June 30, 2017, the General Fund Budget Stabilization Reserve was $74.10 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $17.18 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2017 was $13.26 million. The Education Budget Stabilization Reserve was $33.46 million as of June 30, 2017 with an additional $26.49 million in Unreserved and Undesignated Fund Balance. For fiscal year 2017, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2017.

As of June 30, 2018, the General Fund Budget Stabilization Reserve was $77.00 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $12.49 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2018 was $13.47 million. The Education Budget Stabilization Reserve was $34.64 million as of June 30, 2018 with an additional $21.22 million in Unreserved and Undesignated Fund Balance, and $23.28 million in encumbered fund balance. For fiscal year 2018, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2018.

General Fund Balance Reserve

Act No. 162 of the 2012 Legislative session established within the General Fund the General Fund Balance Reserve (a.k.a. the "rainy day reserve"), which replaced the Revenue Shortfall Reserve, effective July 1, 2012. As amended by Act 11 of 2018, after satisfying the funding requirements for the General Fund Budget Stabilization Reserve and after other statutory and/or reserve requirements have been met, 50% of any remaining unreserved and undesignated General Fund surplus at the end of the fiscal year shall be reserved in the General Fund Balance Reserve. The remaining 50% of any unreserved and undesignated General Fund surplus at the end of the fiscal year shall be transferred to the Retired Teachers' Health and Medical Benefits Fund until the outstanding balance of any interfund loan from the General Fund is paid in full (see "STATE INDEBTEDNESS – Interfund Borrowing"). and "PENSION PLANS – Recent Legislative Action Affecting the Funding Status of the RTHMB Fund and VSRS OPEB" for information regarding the current status if interfund borrowings).Without legislative authorization, the balance in the General Fund Balance Reserve shall not exceed 5% of the appropriations from the General Fund for the prior fiscal year. Monies from this reserve shall be available for appropriation by the General Assembly. At the end of fiscal year 2015, $1.8 million was transferred and reserved in the account in addition to the $5.0 million balance in the fund, bringing the total balance to $6.8 million. At the end of fiscal year 2016 the balance in the fund remained at $6.8 million, and at the end of fiscal year 2017, an additional $10.38 million was transferred and reserved in the General Fund Balance Reserve for use in subsequent fiscal years with legislative approval, bringing the fund balance to $17.18 million. During fiscal year 2018, a net use of the General Fund Balance Reserve in the amount of $4.69 million provided necessary funds for higher than anticipated Corporate Tax refunds. At the close of fiscal year 2018, the balance in the General Fund Balance Reserve was $12.49 million.

27/53 Reserve

Act No. 172 of the 2016 Legislative session established within the General Fund the 27/53 Reserve. The fund was established to reserve funds to account for two recurring liabilities: (i) to provide funding when there is an additional, or 27th, payroll in a fiscal year, and (ii) to provide funding for an extra week of Medicaid payments, often referred to as the "53rd week." Annually, the Commissioner of Finance and Management is required to report to the Joint Fiscal Committee the projected amount of the outstanding liability and recommend a prorated share to be reserved in the upcoming fiscal year. The Governor is required to include the amount of the prorated share in his or her budget recommendation. At the close of fiscal year 2018, $10.78 million is reserved in the 27/53 Reserve fund.

Human Services Caseload Reserve

Act No. 3 of the 2017 Legislative session revived the Human Services Caseload Reserve within the General Fund. This reserve was revived to manage unanticipated fluctuations in caseload pressures at AHS, primarily within the Medicaid program, and any financial impacts that may result from changes in federal policy. At the end of fiscal year 2018, $22.0 million was reserved in the Human Services Caseload Reserve.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2015 through 2018, current law for fiscal year 2019 and current law for fiscal year 2020, for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

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General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2015 – 2020
($ in Millions)

	Actual FY2015	Actual FY2016	Actual FY 2017	Actual FY2018	Current Law FY2019[2]	Current Law FY2020[3]
Sources						
Current Law Revenues	$1,375.77	$1,412.39	$1,456.92	$1,558.85	$1,270.70	$1,295.10
VEDA Debt Forgiveness	(0.14)	-	-	-	-	-
Tax Data Warehouse	1.61	1.50	2.15	1.61	-	-
Direct Applications, Transfers in & Reversions	58.01	51.67	88.10	68.23	53.56	56.98
Other Revenue[4]	5.00	7.93	16.34	-	292.29	276.81
Additional Property Transfer Tax	3.52	10.27	10.68	11.79	15.06	17.54
Prior Year Reserves for Appropriation	5.00	-	-	-	-	0.85
Total Sources	**1,448.75**	**1,483.77**	**1,574.19**	**1,640.49**	**1,631.61**	**1,647.29**
Uses						
Base Appropriations	1,431.80	1,465.62	1,533.36	1,549.35	1,286.45	1,633.73
Budget Adjustment/Rescissions	(34.09)	8.70	(15.12)	(9.51)	282.46	-
One-time Appropriations	0.50	-	16.10	11.05	19.52	-
Contingent One-time Appropriations from Same Year Surplus	22.00	-	-	-	-	-
Other Bills	8.34	4.18	5.56	12.70	8.05	10.92
Total Uses	**1,428.54**	**1,478.51**	**1,539.90**	**1,563.59**	**1,596.48**	**1,644.65**
Operating Surplus (deficit)	**20.21**	**5.27**	**34.29**	**76.90**	**35.13**	**2.64**
Transfers (to) / from Other Funds						
Internal Service Funds	(0.19)	-	(0.20)	-	-	-
Education Fund	-	-	-	(33.47)	-	-
Other Funds	(10.08)	(3.33)	(5.57)	(17.24)	51.52	(0.98)
Total Transfers (to) / from Other Funds	**(10.26)**	**(3.33)**	**(5.77)**	**(50.71)**	**51.52**	**(0.98)**
Transfers (to) / from Reserves						
Other Reserves	-	-	-	(10.50)	(0.35)	-
Budget Stabilization Reserve	(3.15)	(1.94)	(2.85)	(2.89)	(1.18)	(1.64)
Human Services Caseload Reserve	-	-	(10.00)	(12.00)	(78.09)	-
Reserved in 27/53 Reserve	-	-	(5.29)	(5.49)	(3.64)	-
Reserved in General Fund Balance Reserve	(6.80)	-	(10.38)	4.69	(3.39)	(0.02)
Total Reserved in the GF	**(9.95)**	**(1.94)**	**(28.52)**	**(26.19)**	**(86.65)**	**(1.66)**
Total Transfers (to) / from Surplus	**(20.21)**	**(5.27)**	**(34.29)**	**(76.90)**	**(35.13)**	**(2.64)**
Unallocated Operating Surplus/ (Deficit)	**0.00**	**(0.00)**	**0.00**	**0.00**	**(0.00)**	**(0.00)**
GF Reserves (cumulative)						
Budget Stabilization Reserve	69.31	71.25	74.10	77.00	78.18	79.82
Human Services Caseload Reserve	-	-	10.00	22.00	100.09	98.24
27/53 Reserve	-	-	5.29	10.78	14.42	16.27
Reserved in General Fund Balance Reserve	6.80	6.80	17.18	12.49	15.88	15.90
Other Reserves	-	-	-	10.50	0.85	-
Total GF Reserve Balances	**$76.11**	**$78.05**	**$106.57**	**$132.77**	**$209.42**	**$210.23**

1 Results may not add due to rounding.

2 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 (with the $11.3 million revenue upgrade, as compared to July 27, 2018, included in "Other Revenue") and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018, Act 72 of 2019 (which includes one-time appropriations in fiscal year 2019) and the changes to the Personal Income Tax that were passed by the 2018 Vermont General Assembly to offset the TCJA changes (see "Fiscal Year 2020 Budget" and "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax").

3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective July 1, 2019 pursuant to Act 72 of 2019 (see "Fiscal Year 2020 Budget").

4 The amounts shown for fiscal years 2019 and 2020 as "Other Revenue" include the recognition of State Health Care Resources Fund (SHCRF) revenue as General Fund revenue, pursuant to the 2019 Budget Adjustment Act and Act 72 of 2019, respectively, in order to offset the structural change in General Fund revenues affected by Act 11 of 2018 (i.e. the loss of 100% of the Sales and Use Tax and 25% of the Meals and Rooms Tax as revenue sources) (see "Fiscal Year 2019 Budget and Budget Adjustment" and "Fiscal Year 2020 Budget").

Transportation Fund Operating Statement[1]
Budgetary Based
Fiscal Years 2015 – 2020
($ in Millions)

	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY2018	Current Law FY 2019[2]	Current Law FY 2020[3]
Sources						
Current Law Revenues	$261.39	$264.61	$271.19	$278.96	$284.10	$286.60
New Revenue	0.62	-	-	-	-	-
Refund of Prior Year	-	0.03	0.02	0.17	1.64	-
Bond Premium	-	-	-	-	-	-
Direct Applications & Reversions	-	-	-	-	-	-
Current Year Sources	**262.01**	**264.64**	**271.21**	**279.14**	**285.74**	**286.60**
For Approp from General Fund Transfer	-	-	-	-	-	-
Prior Year Unallocated Operating Surplus	-	1.58	-	-	1.45	0.10
	262.01	**266.22**	**271.21**	**279.14**	**287.20**	**286.70**
Uses						
Base Appropriations	257.02	261.49	269.77	273.15	282.91	282.91
Budget Adjustments	(3.15)	1.61	(2.22)	1.54	-	-
Excess Receipts	-	-	-	0.10	-	-
Pay Act	2.00	2.00	1.85	1.85	1.85	2.37
One-time Appropriations	-	-	-	-	-	-
Total Uses	**255.87**	**265.10**	**269.40**	**276.64**	**284.76**	**285.28**
Operating Surplus (deficit)	**6.14**	**1.12**	**1.81**	**2.50**	**2.43**	**1.42**
Transfers (to) / from Other Funds:						
General Fund	-	-	-	-	-	-
Downtown Fund	(0.38)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)
Central Garage Fund	(0.37)	(0.16)	(0.70)	(0.20)	(1.32)	(0.36)
Other Funds	(2.50)	0.15	0.14	0.16	0.14	0.14
VT Recreational Trail Fund	(0.30)	(0.44)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	**(3.55)**	**(0.88)**	**(1.35)**	**(0.83)**	**(1.97)**	**(1.01)**
Transfers (to) / from Reserves:						
Bond Insurance Premium Reserve	-	-	-	-	-	-
Budget Stabilization Reserve	(1.00)	(0.24)	(0.46)	(0.21)	(0.36)	(0.41)
Total Transfers (to) / from Reserves	**(1.00)**	**(0.24)**	**(0.46)**	**(0.21)**	**(0.36)**	**(0.41)**
Total Allocated	**(4.56)**	**(1.12)**	**(1.81)**	**(1.05)**	**(2.33)**	**(1.42)**
Unallocated Operating Surplus / (deficit)	**1.58**	**0.00**	**0.00**	**1.45**	**0.10**	**0.01**
TF Reserves (cumulative)						
Bond Insurance Premium Reserve	-	-	-	-	-	-
Budget Stabilization Reserve	12.55	12.79	13.26	13.47	13.83	14.24
Total TF Reserve Balances	**$12.55**	**$12.79**	**$13.26**	**$13.47**	**$13.83**	**$14.24**

1 Results may not add due to rounding.

2 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018.

3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective July 1, 2019 pursuant to Act 72 of 2019 (see "Fiscal Year 2020 Budget").

Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2015 – 2020
($ in Millions)

	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018	Current Law FY 2019[2]	Current Law FY 2020[3]
Sources						
Net Homestead Education Tax	$422.56	$420.79	$416.63	$414.51	$432.48	$447.79
Non-Homestead Education Tax	603.43	630.67	632.77	644.49	672.84	693.62
Base General Fund Appropriation to Education Fund[4]	297.61	303.34	305.90	314.70	-	-
2017 Act 85 Sec. D.101.1 - Additional GF	-	-	-	3.27	-	-
2018 Act 11 Sec. C.1000(b)(3) - Additional GF	-	-	-	9.80	-	-
2018 Act 11 Sec. C.1000(b)(5) - Additional GF	-	-	-	20.40	-	-
Sales & Use Tax[4]	127.62	129.76	131.85	139.22	415.10	443.01
Purchase & Use Tax	32.42	33.38	34.41	36.48	38.00	38.5
Meals & Rooms Tax[4]	-	-	-	-	45.40	47.83
Lottery Transfer	22.75	26.40	25.52	27.15	28.20	28.5
Medicaid Transfer	7.64	9.62	10.60	10.16	9.60	9.2
Fund Interest	0.08	0.17	0.38	0.49	0.90	1.00
Solar Energy Property Tax & Other	0.21	0.22	0.37	0.52	0.70	0.70
Wind Property Tax	0.93	0.87	0.82	0.85	0.70	0.70
All Other Revenues	-	-	0.01	0.86	0.70	0.60
2018 Act 11 Sec. 111 Sec. 282(c)(1) - Tax Modernization Changes	-	-	-	(0.01)	-	-
2019 Act 72 Sec. E.500.2 – Education Financial Systems Transfer	-	-	-	-	-	1.36
Total Sources	**1,515.25**	**1,555.23**	**1,559.25**	**1,622.88**	**1,644.62**	**1,712.82**
Uses						
Education Payment	1,252.88	1,289.97	1,307.93	1,343.53	1,372.93	1,428.80
Special Education	166.76	172.45	178.09	183.04	198.47	212.96
State-Placed Students	16.38	16.21	15.95	15.40	20.40	18.00
Transportation	17.16	17.73	18.06	18.65	19.23	19.80
Technical Education	13.13	13.15	13.34	12.82	13.93	14.15
Small Schools	7.48	7.60	7.37	7.28	7.80	8.40
EEE Block Grant	6.19	6.29	6.14	6.39	6.62	6.81
Capital Debt	0.13	0.03	0.02	-	-	-
Adult Education & Literacy/Flexible Pathways	6.71	6.50	6.57	9.17	7.35	7.71
Renter Rebate (EF share only: 70%)	4.47	6.47	6.17	6.30	-	-
Reappraisal, Listing Payment, & Accounting Fees	3.28	3.47	3.50	3.23	-	-
Corrections Education	3.88	3.69	3.31	3.19	-	-
Teachers' pension - normal cost	-	-	-	7.90	7.70	6.78
Education finance & administration	1.16	0.96	1.01	1.02	1.00	3.37
2012 Act 156 Sec. 22 - Prevent Child Abuse at Independent Schools	0.15	0.33	-	-	-	-
2016 Act 148 Sec. 4(d) – Sp. Education Consulting	-	-	0.08	-	-	-
Total Uses	**1,499.78**	**1,544.84**	**1,567.53**	**1,617.92**	**1,655.42**	**1,726.77**
Current Year Reversions	**-**	**-**	**-**	**-**	**10.95**	**-**
Operating Surplus/(Deficit)	**15.47**	**10.39**	**(8.29)**	**4.96**	**0.15**	**(13.95)**
Transfers (to) / from Reserves						
Budget Stabilization Reserve	(1.71)	(0.57)	(0.84)	(1.18)	(2.40)	(0.47)
Unreserved/Unallocated	(8.61)	8.96	1.70	(9.05)	-	-
Total Transfers (to) / from Reserves	**(10.32)**	**8.40**	**0.86**	**(10.23)**	**(2.40)**	**(0.47)**
Unallocated Operating Surplus / Deficit	**5.15**	**18.79**	**(7.43)**	**(5.27)**	**(2.25)**	**(14.42)**
EF Reserves						
Budget Stabilization Reserve	32.05	32.61	33.46	34.64	37.03	37.50
Designated for Continuing Appropriations (Encumbered)	24.89	15.93	14.23	23.28	12.33	12.33
Current Year Unallocated/Unreserved	15.13	33.92	26.49	21.22	18.97	4.55
Total EF Reserve Balance	**$72.07**	**$82.46**	**$74.17**	**$79.13**	**$68.33**	**$54.38**

[1] Results may not add due to rounding.

[2] Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018 and Act 72 of 2019 (which includes one-time appropriations in fiscal year 2019) (see "Fiscal Year 2020 Budget").

[3] Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective July 1, 2019 pursuant to Act 72 of 2019 (see "Fiscal Year 2020 Budget").

[4] Reflects the impact of Act 11 of 2018, effective fiscal year 2019, namely (i) the elimination of the General Fund transfer to the Education Fund, and (ii) the dedication of 100% of the Sales and Use Tax and 25% of the Meals and Rooms Tax to the Education Fund. See "STATE FUNDS AND REVENUES – State Education Fund Revenues" herein.

Fiscal Year 2019 Budget and Budget Adjustment

The fiscal year 2019 Budget Adjustment Act can be found at:

https://legislature.vermont.gov/Documents/2020/Docs/ACTS/ACT006/ACT006%20As%20Enacted.pdf

The adjusted General Fund consensus revenue forecast upon which the fiscal year 2019 General Fund budget was based was $1,237.76 million, adopted by the Emergency Board on January 18, 2018, as modified by the fund structure changes implemented pursuant to Act 11 of 2018 (see "STATE FUNDS AND REVENUES – State General Fund Revenues") and the changes made to the Personal Income Tax by legislation passed by the 2018 General Assembly (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax"). The fiscal year 2019 General Fund budget, as passed, provided for total appropriations of $1,294.51 million and a fully funded budget stabilization reserve of $78.18 million, as well as an ending balance in the General Fund Balance Reserve of $15.88 million.

During fiscal year 2019 there were two revenue upgrades for fiscal year 2019. First, in July 2018, the Emergency Board approved a revised General Fund consensus revenue forecast for fiscal year 2019 reflecting a 2.6% ($32.9 million) increase versus the January 2018 consensus forecast. Then, in January 2019, the Emergency Board approved a further revised General Fund consensus revenue forecast for fiscal year 2019 of $1,282.00 million, representing an increase of 0.9% ($11.3 million) over the July 2018 forecast. During each fiscal year, the Legislature may deem it necessary to adjust the current year's budget. This change is implemented via the Budget Adjustment Act ("BAA"). The BAA is enacted into law similarly to the appropriations act. The adopted January 2019 General Fund forecast was used for the fiscal year 2019 BAA (which was enacted on April 22, 2019 as Act 6 of 2019 (the "2019 Budget Adjustment Act" or "2019 BAA")). In conjunction with the adopted General Fund forecast, and in order to address the structural change in General Fund revenues described above, the BAA included the ongoing recognition of $277.6 million in State Health Care Resources Fund ("SHCRF") revenue as General Fund revenue. This ongoing adjustment in the recognition of General Fund revenue largely accounts for the $292.29 million in Other Revenue included in the BAA for fiscal year 2019, with the remainder comprised of an associated adjustment in revenue recognition between the SHCRF and the Tax Computer System Modernization Special Fund.

This combination of General Fund revenues, in addition to direct applications and reversions of $53.56 million and additional property transfer tax proceeds of $15.06 million, results in total General Fund sources of $1,631.61 million. Relative to $1,596.48 million in adjusted appropriations, inclusive of $19.52 million in one-time appropriations largely comprised of adjustments to the 2019 BAA made via Act 72 of 2019, an operating surplus of $35.13 million is budgeted. When combined with $51.52 million in net transfers from other funds to the General Fund, the Budget Stabilization reserve will be fully funded at $78.18 million, and the General Fund Balance Reserve is budgeted with a closing balance of $15.88 million. The remaining balance will be reserved as $78.09 million to the Human Services Caseload Reserve, $0.85 million in temporary General Fund reserves to be used in fiscal year 2020, and $3.64 million to the 27/53 Reserve used for fiscal years during which either a twenty-seventh payroll, or a fifty-third week in Medicaid payments, will occur.

The fiscal year 2019 BAA changes to the Transportation Fund budget are based on an update in the consensus revenue forecast from $281.00 million to $284.10 million, additional revenue of $1.64 million from a refund of prior year expenditures, and $1.45 million in unallocated revenue carried forward from fiscal year 2018 and used to make additional Transportation Fund appropriations of $6.09 million, with a projected end-of-year surplus of $0.10 million to be carried forward into fiscal year 2020.

The fiscal year 2019 current law Education Fund budget, comprised of changes in the 2019 BAA (Act 6 of 2019) and the fiscal year 2020 budget (Act 72 of 2019), provides for a current year operating surplus of $0.15 million. The 2019 BAA reverted $10.95 million from prior year appropriations to be transferred to unallocated Education Fund reserves and also appropriated $1.85 million to the Education Payment to cities and towns. Act 72 of 2019 (the fiscal year 2020 budget) appropriated $4.7 million to State-Placed Students and $0.20 million to Small Schools for fiscal year 2019.

Fiscal Year 2020 Budget

In accordance with State law, the Governor presented the fiscal year 2020 Executive Budget Recommendations to the General Assembly on January 24, 2019. The General Assembly considered the recommendations, modified the proposal and passed a fiscal year appropriations act on June 18, 2019 (Act 72 of 2019). The fiscal year 2020 General Fund budget is based on the consensus General Fund forecast of $1,295.10 million adopted by the Emergency Board on January 22, 2019. In order to address the structural changes implemented pursuant to Act 11 of 2018 (as previously discussed), Act 72 of 2019 includes the ongoing recognition of $276.24 million in SHCRF revenue as General Fund revenue.[17] The shift in the recognition of SHCRF revenue as General Fund revenue, in addition to direct applications and reversions of $56.98 million, additional property transfer tax proceeds of $17.54 million, other net-revenue changes of $0.57 million, and a forecasted carryforward of $0.85 million in General Funds from fiscal year 2019, provide a total of $1,647.29 million in budgeted General Fund revenues for fiscal year 2020. The fiscal year 2020 General Fund budget provides for total appropriations of $1,644.65 million and projects a fully funded Budget Stabilization Reserve of $79.82 million and an ending balance in the General Fund Balance Reserve of $15.90 million.

The fiscal year 2020 Transportation Fund budget is based on the consensus Transportation Fund forecast of $286.60 million adopted by the Emergency Board on January 22, 2019. This budget provides for total appropriations of $285.28 million and projects a fully funded Budget Stabilization Reserve of $14.24 million at the end of fiscal year 2020.

The fiscal year 2020 Education Fund budget assumes use of the cumulative prior years' unallocated/unreserved balance of $18.97 million, and provides for a $14.42 million operating deficit. This budget also anticipates a Budget Stabilization Reserve of $37.50 million, which reflects the 5% statutorily required amount.

State Dependence on Federal Funds

The State's fiscal year 2019 budget, as amended by Act 6 of 2019 and Act 72 of 2019, for all unduplicated[18] funding sources is $5,944.45 million, of which $2,027.59 million (34.10%) is assumed to come from federal funds. Of the remaining $3,916.86 million in State funds, $1,596.47 million represents General Fund revenues. The State's major reserve funds are currently fully funded and in each year since the Great Recession the State has shown a commitment to efficiently and effectively deal with any reduction in federal revenues by covering the shortfall with other funds or enacting rescissions. The Secretary of Administration, through the Department of Finance and Management, is actively monitoring the federal budget process. The Department of Finance and Management continues to work with state agencies and departments to understand any potential impacts of proposed programmatic and funding changes to federally supported activities.

With respect to federal aid relating to healthcare, Vermont's Medicaid and Long-Term Care are not covered by the traditional federal programs; they are covered under a Section 1115 demonstration waiver. The waiver represents a written agreement with the federal Centers for Medicare and Medicaid Services ("CMS"), which runs through December 2021. However, in light of developments in the U.S. Congress relating to the American Health Care Act of 2017 (AHCA), the State cannot predict how federal aid relating to healthcare could impact Vermont's Medicaid program.

The Low Income Home Energy Assistance Program (LIHEAP) is a federal and State funded program. For fiscal year 2019, the program is budgeted to receive $13.59 million in federal grants, which covers 100% of the federally eligible expenses incurred by LIHEAP. State funds are used to cover the expenses incurred for the population served by LIHEAP in excess of the allowable State Median Income (the cut off for federal eligibility). For fiscal year 2019, the State anticipates enough State funds to cover the expenses incurred by LIHEAP that are not federally eligible. The State projects sufficient funding for the LIHEAP program for fiscal year 2019, but will continue to analyze whether additional funds for structural program changes need to be made in the future.

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[17] For fiscal year 2019, this change in revenue recognition was accomplished via the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment" herein).

[18] Appropriations that include reciprocal interfund activity such as internal service funds are appropriated twice: once for departments expending funds to pay for internal services; and once more for the fund providing the services. Reporting unduplicated fund sources represents appropriations for associated services while eliminating interunit transactional appropriations.

REVENUE ESTIMATES

Act No. 178 of the 1996 Adjourned Session established a mechanism by which the State adopts official revenue estimates for the current and subsequent fiscal years. By July 15th and January 15th of each year, and at such other times as the Emergency Board or the Governor deem proper, the joint fiscal office and the Secretary of Administration are to provide to the Emergency Board (comprised of the Governor and the Chairs of the key taxing and spending committees of both chambers of the Vermont Legislature) their respective revenue estimates for the General, Transportation, Education, and health care funds, and revenues from the gross receipts tax, for the current and next succeeding fiscal year. Federal funds are estimated for the current fiscal year. The Emergency Board, within ten days of receipt of such estimates, is required to determine an official revenue estimate for the current and next succeeding fiscal year

A consensus revenue forecast for fiscal years 2019 and 2020 was completed in January 2019 and was approved by the Emergency Board on January 22, 2019 (the "January Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, and overall forecasted level of receipts for the General Fund and Transportation Fund, and several major receipts sources other than property tax receipts in the Education Fund. The January Forecast is a current law forecast that includes all changes to date as enacted by the Vermont General Assembly (see "STATE FUNDS AND REVENUES – State General Fund Revenues," "– State Transportation Fund Revenues" and "– State Education Fund Revenues"). The January Forecast also incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the consensus forecasting process between the Legislature and the Administration. When available, the consensus forecast utilizes the State economic forecast developed as part of the State's participation in NEEP, a regional, non-profit economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. NEEP forecasts for the State have been developed and published only intermittently since calendar year 2016. Because of the reduced availability of the NEEP annual economic forecasts for the State in recent years, the consensus macroeconomic forecast used for the current consensus forecasting cycle was developed using an on-line modeling capability provided by Moody's Analytics as jointly subscribed to by the JFO and the Administration. The online forecasting capability allows for timely, customized state forecasts with modeling capability similar to the former NEEP macroeconomic forecast update capability. The State macroeconomic forecast for the January Forecast was developed cooperatively between the economists of the JFO and the Administration and is a consensus short-term macroeconomic forecast for the variables listed below.

The following discussion describes the level of current law revenues estimated under the January Forecast that are "Available to the General Fund," "Available to the Transportation Fund," and "Available to the Education Fund" for appropriation in fiscal years 2019 and 2020. Such estimates reflect anticipated increases or decreases in collections in each revenue aggregate, the allocation of such collections between the General Fund, Transportation Fund, and the Education Fund pursuant to all relevant Acts passed by the Vermont General Assembly, including the recently passed Act 11 of 2018, as well as other administrative actions taken by the Vermont Department of Taxes designed to boost compliance under the State's major consumption taxes by taxpayers involved in e-commerce transactions activity.

General Fund – Consensus Revenue Estimates

The following group of taxes and fees are those that are significant sources of revenue available for General Fund appropriations, provided that, as noted below, a statutory portion of Meals and Rooms Tax receipts (25%) is allocated to the Education Fund.

Personal Income Tax: The January Forecast for the Personal Income Tax for fiscal years 2019 and 2020 reflects a consensus assessment for the continued historically moderate and somewhat uneven economic and labor market expansion over the two-year, consensus forecast period. In addition, the January Forecast also incorporates the consensus view of the still evolving and uncertain revenue effects of the TCJA and the State legislation subsequently passed in response thereto (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax"). Although initial receipts experience with April 2018 and April 2019 final return payments and extension filer payments have so far been positive (see "RECENT GENERAL FUND, TRANSPORTATION FUND, AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2019 General, Transportation and Education

Funds to Date"). At this point, the specific impacts of this legislation on State fiscal year revenues on a going forward basis is uncertain, as the level of taxpayer knowledge remains limited,[19] tax planning behaviors tied to the changes are still evolving, and the financial incentives under the new laws are still shifting.

Many of the new structural relationships in the State's Personal Income Tax system as a result of the passage of the TCJA may take several more fiscal years to fully develop and become more routine. As a result, Personal Income Tax receipts are expected to show moderate rates of growth through the fiscal year 2019 and fiscal year 2020 period, following the more robust 10.0% year-over-year growth rate experienced during fiscal year 2018, when receipts appear to have been bolstered by the strong capital gains environment associated with the national and State "late cycle" business cycle dynamics, which included a very strong asset price appreciation environment. Factors affecting the Personal Income Tax forecast include: (1) the State's continued, albeit demographically restrained labor market expansion, (2) the continued tightening in State labor markets as evidenced by the State's long-standing, very low rate of unemployment, which currently is below 3.0%, (3) the expected continued growth in the State's real estate markets, and (4) the continued forward growth in the national, New England and Vermont economies. The January Forecast for the Personal Income Tax includes revenue receipts of $824.9 million for fiscal year 2019, reflecting a 0.8% decline in receipts versus fiscal year 2018 receipts, and $853.2 million for fiscal year 2020, reflecting a 3.4% increase as compared to forecasted fiscal year 2019 receipts. Relative to the July 2018 consensus revenue forecast, the January Forecast represents a 1.2% decline in the consensus revenue forecast for the Personal Income Tax for fiscal year 2019. For fiscal year 2020, the January Forecast represents a 0.2% decline in the consensus revenue forecast for this component relative to the July 2018 consensus revenue forecast.

Corporate Income Tax: The January Forecast for Corporate Income Tax receipts for fiscal year 2019 and fiscal year 2020 reflects the ongoing year-to-year volatility in this tax source and the uncertainty associated with the TCJA. Prior to the passage of the TCJA, the consensus forecast included the expectation of a continued slowdown in the rate of increase in corporate profits as tightening "late cycle" labor market dynamics, reduced corporate profits and rising wages placed upward pressures on the overall compensation costs for businesses in the State. The revenue outlook for the State's Corporate Income Tax component has been further complicated by with the passage of the TCJA, which contained federal corporate tax provisions allowing for the repatriation of foreign corporate profits at reduced federal tax rates.[20] These federal profit repatriation provisions will impact State Corporate Income Tax receipts, but the nature and extent of that impact is still unknown (as described below). As a result, there is a new, higher level of uncertainty in the consensus forecast for this key General Fund revenue source.

The State has received the first year of payments since the TCJA was enacted, however, because information regarding how taxpayers calculated their increased liabilities under the TCJA is limited, the January Forecast for fiscal years 2019 and 2020 remains preliminary with respect to the specific effects of foreign profit repatriation on State Corporate Income Tax receipts. In addition, the State has little information regarding the portion of actual payments received that can be tied to the repatriation provisions of the TCJA. Rather, the State's estimates regarding the likely State Corporate Tax revenue impacts associated with repatriation are based largely on circumstantial evidence. For example, the State has derived its initial estimates of the "first wave" of State revenue impacts from profits repatriation by tracking unusually large Corporate Tax payments made from a group of more than 300 corporations that the State has identified as having potentially large corporate profits repatriation liabilities based on public filings of those corporations.

The January Forecast currently estimates that aggregate State Corporate Tax receipts from foreign profits repatriation could be as high as $100-$200 million over the next five to ten fiscal years, however, the timing and exact amount of liability to be paid by Vermont-affected corporations is uncertain. In addition, there is concern that some companies may eventually contest the ability of the State (and states in general) to tax this repatriated overseas net income—making it possible that the final receipt of any amounts to the State under these provisions could be subject to lengthy compliance proceedings and/or litigation.

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[19] Definitive guidance on several key provisions of the TCJA from the Internal Revenue Service ("IRS") likewise remains incomplete. The Vermont Department of Taxes has also indicated it may publish guidance to Corporate Tax taxpayers on this issue once the federal guidelines and the specifics of compliance in Vermont are finalized.

[20] Which also allowed companies to pay any increased federal tax liability due to those provisions over an up to eight-year time period.

Because of the uncertainty around the revenues associated with foreign profits repatriation activity, the January Forecast for Corporate Tax revenue included a rounder peak (relative to the overall estimate of total Corporate Tax revenue potential) and a somewhat fatter and longer tail through fiscal year 2024. In particular, the January Forecast expects Corporate Tax revenue receipts from profits repatriation in fiscal year 2019 to be over $25.0 million, but then decline to under $5.0 million by fiscal year 2021 and then to between $1.0 million to $3.0 million thereafter. As more complete information regarding actual repatriated profits activity is reported on federal and state tax returns, the State will be in a better position to identify payments linked to this liability and establish a more accurate sense of both potential liabilities and tax payment timing. The State will continue to track this issue closely over the rest of fiscal year 2019 and beyond, since it may contribute to significant revenue variances—both up and down—over future consensus revenue forecast update periods.

In addition to the complexity of forecasting the impact of foreign profits repatriation activity discussed above, the January Forecast also includes full consideration of the potential for pending and significant Corporate Income Tax refund requests related to recent merger and acquisitions activity in the State (see "STATE ECONOMY – Largest Private Employers"). Some of these Corporate Tax refunds have already been dispersed, and another round of these disbursements is expected to be made before the end of fiscal year 2019. The January Forecast conservatively estimates the impact of this Corporate Tax refund risk as between $5.0 million and $8.0 million in fiscal year 2019, and then less than $4.0 million for fiscal year 2020 and beyond. Actual Corporate Tax refund risk from merger and acquisitions activity is not expected to reach or exceed the January Forecast.

The January Forecast for fiscal year 2019 Corporate Tax revenues calls for an increase in receipts of 27.2% year-over-year to $122.5 million, versus the $96.4 million in actual Corporate Tax receipts during fiscal year 2018. Corporate receipts in fiscal year 2020 under the January Forecast are then forecasted to decline by 20.4% on an average annual basis versus forecasted receipts in fiscal year 2019 to $97.5 million as tax payments under the repatriated corporate profits provisions of the TCJA are expected to decline significantly. Relative to the July 2018 consensus revenue forecast, the January Forecast includes a 19.8% increase in the consensus revenue forecast for the Corporate Income Tax for fiscal year 2019. For fiscal year 2020, the January Forecast represents a 4.6% increase relative to the July 2018 consensus revenue forecast for Corporate Income Tax receipts.

Meals and Rooms Tax: The January Forecast reflects the consensus forecast for "normal" tourism activity in the State along with continued "normal" levels of Canadian visitor traffic (even against the backdrop of trade policy uncertainty) as the U.S., New England, and Vermont economies continue on their respective courses of economic expansion. The January Forecast for fiscal years 2019 and 2020 reflects current law and includes the revenue results expected from the continued collection of lodging tax receipts associated with Airbnb rental activities in the State by the Vermont Department of Taxes. It also fully reflects the allocation of 25% of Meals and Rooms Tax revenues to the Education Fund, as prescribed by Act 11 of 2018.

The January Forecast overall calls for a total of $181.5 million in Meals and Rooms Tax revenues for fiscal year 2019, representing a 4.8% increase on a year-over-year basis from actual fiscal year 2018 receipts. The consensus January Forecast for fiscal year 2020 calls for a total of $187.6 million in Meals and Rooms Tax revenues, reflecting an increase of 3.4% versus forecasted Meals and Rooms Tax receipts for fiscal year 2020. Relative to the July 2018 consensus revenue forecast for fiscal year 2019, the January Forecast represents a 0.7% increase for Meals and Rooms Tax receipts over actual fiscal year 2018 receipts. For fiscal year 2019, the January Forecast represents a similar 0.5% increase year-to-year versus the July 2018 consensus revenue forecast for this component. The consensus January Forecast for the General Fund portion of this tax source (at $136.1 million in fiscal year 2019 and $140.7 million in fiscal year 2020) and for the Education Fund portion of this tax source (at $45.4 million in fiscal year 2019 and $46.9 million in fiscal year 2020) fully reflects the allocation changes to affected tax sources as prescribed by Act 11 of 2018.

Other Taxes and Revenues Available to the General Fund: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), the inheritance and estate tax, taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, fines assessed by regulatory authorities and the judicial system, fees levied on financial product offerings (such as mutual funds) registered in Vermont, and other similar levies and revenue assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont, as adjusted for federal and State tax and fee changes. The January Forecast for these revenue sources reflects historical collections patterns, recent federal and State changes in the inheritance and estate tax, the continuing evolution of changes in State real estate markets and the associated changes in real estate capital gains realizations, and special factors and other circumstances that have been identified in consultation with contacts in various State departments and agencies responsible for receipts collection and monitoring for these sources. The January Forecast also reflects the third and fourth years of the doubling in securities registration fees which were effective starting in fiscal year 2017 (beginning on July 1, 2016). The January Forecast also includes on-going and significant sales of services revenue from the leasing of vacant prison beds within the State to the U.S. Marshall Service. As has been the case since July 1, 1998, the January Forecast for the General Fund does not include any revenues from lottery profits.

Recent Legislative Changes to General Fund Taxes and Fees. The 2019 session of the Vermont General Assembly included a number of tax and fee changes that will be incorporated into the upcoming July consensus revenue forecast update beginning in fiscal year 2020. These as-passed changes included measures that will impact the Personal Income tax (e.g. a limitation of the dollar amount of the exclusion of capital gains income for State tax purposes, a State medical expense deduction, and changes to certain credits), the Corporate Income Tax (including a change in the apportionment of income to market-based sourcing versus previous cost of performance apportionment), the Property Transfer Tax (expanding the transactions covered by the Property Transfer Tax to include controlling interest transfers), Meals and Rooms Tax (allocating six percentage points of the Meals and Rooms Tax to the funding of clean water initiatives—subject to a cap in fiscal year 2020, and requiring on-line travel agents to collect and remit Meals and Rooms Tax). Other as-passed changes include an increase to the applicable credit for the Vermont Estate tax, and an increase in the so-called appointment fees collected by the Department of Financial Regulation (DFR). Preliminary dollar estimates developed during the legislative process of the aggregate net impact of these changes for the General Fund totaled $5.3 million in fiscal year 2020 and $18.5 million in fiscal year 2021.

Transportation Fund – Consensus Revenue Estimates

For the Transportation Fund, the January Forecast includes specific consensus forecasts for each of the five major components of the fund: (i) the Gasoline Tax, (ii) the Diesel Tax, (iii) the Purchase and Use Tax (one-third of which is allocated to the Education Fund per statute), (iv) Motor Vehicle Fees and (v) Other Fees. The January Forecast for the Purchase and Use Tax mirrors the expected number of vehicle sales within the State and the overall path of interest rates—particularly those rates tied to vehicle sales and leasing activity. While the near-term outlook for the remainder of fiscal year 2019 remains positive for this component, the fiscal year 2020 forecast tracks with an expected weakening in the overall economy, which, in turn, is expected to slow the pace of vehicle sales activity in the State and result in higher interest rates during fiscal year 2020. This anticipated slowing in the U.S. and Vermont economies during fiscal year 2020 is also expected to impact receipts activity in the other four major revenue components of the Transportation Fund. The January Forecast of these tax and fee sources also incorporates the effect of motor vehicle fuel efficiency improvements in general, the effects of a re-classification of fee revenues between the Motor Vehicle Fees category and the Other Fees category during fiscal year 2018, and the diminishing, but still impactful, two-year renewal cycle for motor vehicle registrations in the motor vehicle registration fee component of Transportation Fund receipts.

Overall, the January Forecast for fiscal year 2019 includes a 1.8% year-over-year increase in aggregate Transportation Fund revenues to $284.1 million versus fiscal year 2018 Transportation Fund receipts. The January Forecast also calls for a 0.9% increase in Transportation Fund revenues for fiscal year 2020, as compared to forecasted fiscal year 2019 Transportation Fund receipts. Relative to the July 2018 consensus revenue forecast, the January Forecast represents a 0.3% increase in the consensus revenue forecast for the Transportation Fund for fiscal year 2019. For fiscal year 2020, the January Forecast represents a 0.2% decrease relative to the July 2018 consensus revenue forecast for the Transportation Fund.

There were no actions taken by the 2019 session of the Vermont General Assembly with respect to the various Transportation Fund revenue sources.

Education Fund – Consensus Revenue Estimates

The taxes, fees, and transfers listed below reflect the major sources revenue available to the Education Fund. As noted above, in addition to those revenue sources listed below, 25% of Meals and Rooms Tax receipts is allocated to the Education Fund.

Sales and Use Tax: As previously discussed, pursuant to Act 11 of 2018, commencing in fiscal year 2019, 100% of the net receipts in the State's general Sales and Use Tax are now directly deposited into the Education Fund and the annual budgetary transfer from the General Fund to Education Fund was ended (see "STATE FUNDS AND REVENUES – State Education Fund Revenues"). The January Forecast for the Sales and Use Tax for fiscal year 2019 and fiscal year 2020 reflects the Act 11 changes and includes a consensus assessment of recent collections activity and economic activity trends that impact this tax source, including the updated near-term outlook for economic conditions for the fiscal year 2019 and 2020 timeframe. The January Forecast also expects that Vermont resident consumers and many of the State's visitors (tourists) will continue to be guarded with their expenditure and saving activity, reflecting the increasing volatility of U.S. equity markets and trade policy uncertainties and the outlook for Canadian goods and services trade and for Canadian visitor activity. In addition, the consensus forecast expects that Sales and Use Tax receipts activity will be aided by the collection of State sales tax on an increasing portion of e-commerce transactions. The January Forecast also includes improved levels of real estate market activity in the State, which is expected to help to increase income and corresponding consumption spending activity.

The January Forecast for fiscal year 2019 includes a 4.3% year-over-year increase in Sales and Use Tax revenues to $415.1 million versus fiscal year 2018 Sales and Use Tax receipts. The January Forecast also calls for a 3.5% increase in Sales and Use Tax revenues for fiscal year 2020, as compared to forecasted fiscal year 2019 Sales and Use Tax receipts. Relative to the July 2018 consensus revenue forecast, the January Forecast represents a 0.1% increase in the consensus revenue forecast for Sales and Use Tax receipts for fiscal year 2019. For fiscal year 2020, the January Forecast represents a 0.3% decrease relative to the July 2018 consensus revenue forecast for this component.

Other Taxes and Revenues Available to the Education Fund: This category of taxes, fees and other revenues is comprised of the statutorily-prescribed one-third of the motor vehicle Purchase and Use Tax, a transfer of net receipts after expenses from the State Lottery and net interest receipts from the Education Fund (see "STATE FUNDS AND REVENUES – State Education Fund Revenues"). The January Forecast for these revenues sources reflects consensus expectations regarding motor vehicle sales and the statutory allocation percentage of the tax source's gross revenues to the Education Fund, net revenues derived from the profits realized by State Lottery activities, and net interest earned on cash balances that are allocated by statute to the Education Fund.

Recent Legislative Changes to Education Fund Taxes and Fees. The 2019 session of the Vermont General Assembly included a change to the Sales and Use Tax to require so-called marketplace facilitators to collect and remit Sales Tax to the State on all transactions effective June 1, 2019. Preliminary dollar estimates developed during the legislative process of the aggregate net impact of these changes for the Education Fund totaled $13.4 million in fiscal year 2020 and $13.9 million in fiscal year 2021.

Consensus Revenue Estimate Summaries

The following table compares actual revenue collections for the major individual revenue components of the General Fund (i.e., the Personal Income Tax, the Corporate Income Tax, 75% of the Meals and Rooms Tax and certain Other Taxes and Revenues), the Transportation Fund (i.e., the Gasoline Tax, the Diesel Tax, two-thirds of the Purchase and Use Tax, Motor Vehicle Fees and Other Fees) and the Education Fund (i.e., the Sales and Use Tax, 25% of the Meals and Rooms Tax, one-third of the Purchase and Use Tax, the transfer from the State Lottery and Net Interest) for fiscal years 2017 and 2018, and the projected revenue collections for fiscal year 2019 and fiscal year 2020 per the January Forecast. The consensus revenue estimates described below were completed and approved by the Vermont Emergency Board prior to the various tax and fees actions passed during the 2019 session of the Vermont General Assembly and described above.

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Sources	Actual Fiscal 2017[1]	Actual Fiscal 2018	Forecast Fiscal 2019[2]	Forecast Fiscal 2020[2]	Percentage Change 2018–2019
Available to General Fund:					
Personal Income Taxes	$756,452,094	$831,970,766	$824,900,000	$853,199,525	(0.8)%
Sales and Use Taxes[3]	244,855,655	258,560,292	--	--	(100.0)
Corporate Income Taxes	95,763,057	96,363,559	122,540,000	97,490,000	27.2
Meals and Rooms Taxes[4]	165,345,982	173,223,545	136,125,000	140,700,000	(21.4)
Other Taxes	133,330,262	139,404,004	136,613,440	140,373,640	(2.0)
Total Taxes	$1,395,747,050	$1,499,522,166	$1,220,178,440	$1,231,763,165	(18.6)%
Other Revenues	61,206,157	59,355,873	61,780,000	63,360,000	4.1
Total General Fund	$1,456,953,207	$1,558,878,039	$1,281,958,440	$1,295,123,165	(17.8)%
Available to Transportation Fund:					
Gasoline Taxes[5]	$78,019,940	$78,218,954	$78,200,000	$78,100,000	(0.1)
Diesel Taxes[5]	18,307,665	18,213,266	19,100,000	19,200,000	0.5
Purchase and Use Taxes[6]	66,759,328	68,825,227	76,066,667	77,066,667	1.3
Motor Vehicle Fees	81,963,772	86,227,085	86,300,000	87,400,000	1.3
Other Fees	19,558,691	19,918,595	24,400,000	24,800,000	1.6
Total Transportation Fund	$271,403,127	$278,945,371	$284,066,667	$286,566,667	1.8%
Available to Education Fund:					
Sales and Use Taxes[3]	$131,845,353	$139,224,773	$415,080,000	$429,480,000	198.1%
Meals and Rooms Taxes[4]	--	--	45,375,000	46,900,000	NM
Purchase and Use Taxes[6]	34,412,613	36,475,961	38,033,333	38,533,333	4.3
Lottery Transfer	25,521,647	27,145,779	28,200,000	28,500,000	3.9
Net Interest	375,918	489,718	900,000	1,000,000	83.8
Total Education Fund	$192,155,531	$203,336,231	$527,588,333	$544,413,333	159.5%

1 Fiscal year 2017 revenues include one-time revenues that were received from tax preparer software companies to compensate the State for tax year 2016 errors pertaining to the Personal Income Tax changes enacted by the 2016 Vermont General Assembly.

2 For fiscal years 2019 and 2020, forecasted totals reflect current law as of January 22, 2019. Does not include the impact of the recognition of SHCRF revenue as General Fund revenue commencing in fiscal year 2019 and thereafter (see "STATE FUNDS AND REVENUES – Fiscal Year 2019 Budget and Budget Adjustmetn" and "– Fiscal Year 2020 Budget Proposal"). Total SHCRF receipts are forecasted to be $272.7 million in fiscal year 2019 and $273.3 million in fiscal year 2020.

3 Per statute, for fiscal years 2017 and 2018, 64% of the Sales and Use Tax was apportioned to the General Fund and 36% was transferred to the Education Fund. Commencing in fiscal year 2019, 100% of the Sales and Use Tax is apportioned to the Education Fund, per Act 11 of 2018.

4 For fiscal years 2017 and 2018, 100% of the Meals and Rooms Tax was apportioned to the General Fund. Commencing in fiscal year 2019, 75% of the Meals and Rooms Tax is apportioned to the General Fund and 25% is apportioned to the Education Fund, per Act 11 of 2018.

5 Excludes receipts dedicated to pay debt service on transportation infrastructure bonds (see "STATE INDEBTEDNESS – Transportation Infrastructure Bonds").

6 Per statute, two-thirds of Purchase and Use Tax receipts are apportioned to the Transportation Fund and one-third of Purchase and Use Tax receipts are transferred to the Education Fund.

Source: Vermont Department of Finance and Management. Fiscal totals may not add due to rounding.

The following two tables reflect budgetary-based revenue history from fiscal years 2016 through 2018 and forecasted revenues for fiscal year 2019 and fiscal year 2020 for the General Fund, the Transportation Fund and the Education Fund:

Revenues Available to the General Fund
Budgetary Based ($ in Millions)

COMPONENT	Actual 2016	Percent Change	Actual 2017	Percent Change	Actual 2018	Percent Change	Forecast 2019[1]	Percent Change	Forecast 2020[1]	Percent Change
AVAILABLE TO THE GENERAL FUND										
TAXES:										
Personal Income	$747.0	5.8%	$756.5	1.3%	$832.0	10.0%	$824.9	(0.8)%	$853.2	3.4%
Sales and Use[2]	241.0	1.7	244.9	1.6	258.6	5.6	0.0	NM	0.0	NM
Corporate	117.0	(4.0)	95.8	(18.1)	96.4	0.6	122.5	27.2	97.5	(20.4)
Meals and Rooms[3]	154.2	2.2	165.3	7.3	173.2	4.8	136.1	(21.4)	140.7	3.4
Liquor	18.3	0.8	19.1	4.4	19.8	3.6	20.2	1.9	20.7	2.5
Insurance	56.2	1.7	57.0	1.3	57.5	1.0	57.8	0.5	58.3	0.9
Total Telephone Tax	3.2	(59.2)	5.7	80.6	4.7	(16.8)	4.1	(13.7)	3.6	(12.2)
Beverage	6.7	0.6	6.9	2.9	7.1	2.5	7.2	1.3	7.4	2.7
Estate	12.5	26.5	16.7	33.3	22.9	37.6	19.1	(16.7)	20.9	9.4
Property Transfer	11.5	6.0	12.6	9.0	12.4	(1.5)	13.5	8.8	14.4	7.2
Bank Franchise	10.7	(0.6)	13.2	24.0	13.1	(1.3)	12.4	(5.9)	12.6	1.6
Other Taxes	1.8	(9.0)	2.2	18.0	1.8	(15.2)	2.4	30.3	2.5	4.2
TOTAL TAXES:	$1,380.1	2.5%	$1,395.7	1.1%	$1,499.5	7.4%	$1,220.2	(18.6)%	$1,231.8	0.9%
OTHER REVENUES:										
Business Licenses	$1.1	(1.6)%	$1.2	16.8	$1.2	(2.9)	$1.0	(17.3)%	$1.1	12.0%
Fees	23.0	4.2	48.5	110.8	47.1	(2.9)	47.6	1.1	48.4	1.7
Services	2.8	86.6	3.0	7.9	2.9	(4.2)	3.3	14.5	3.4	3.0
Fines, Forfeits	3.7	5.5	4.4	21.0	3.5	(19..8)	3.6	1.0	3.6	1.7
Interest, Premiums	0.6	136.1	1.2	108.2	2.3	96.1	5.2	126.4	5.5	5.8
Other[4]	1.3	25.9	2.9	128.5	2.4	(18.9)	1.1	(53.4)	1.3	18.2
TOTAL OTHER	$32.3	10.1%	$61.2	89.3%	$59.4	(3.0)%	$61.8	4.1%	$63.4	2.6%
TOTAL GENERAL FUND	$1,412.4	2.7%	$1,457.0	3.2%	$1,558.9	7.0%	$1,282.0	(17.8)%	$1,295.1	1.0%

1 Based on the January Forecast. Represents a current law forecast including the fund allocations under Act 11 of 2018. Does not include forecasted SHCRF receipts, which will be reported as General Fund revenue commencing in fiscal year 2019 and thereafter (see "STATE FUNDS AND REVENUES – Fiscal Year 2019 Budget and Budget Adjustment" and "– Fiscal Year 2020 Budget Proposal").

2 For fiscal years 2017 and 2018, 64% of the Sales and Use Tax was apportioned to the General Fund and 36% was transferred to the Education Fund. Commencing in fiscal year 2019, 100% of the Sales and Use Tax is apportioned to the Education Fund, per Act 11 of 2018.

3 For fiscal years 2017 and 2018, 100% of the Meals and Rooms Tax was apportioned to the General Fund. Commencing in fiscal year 2019, 75% of the Meals and Rooms Tax is apportioned to the General Fund and 25% is apportioned to the Education Fund, per Act 11 of 2018.

4 Includes one-time revenue from tax preparation software vendors to rectify errors pertaining to recent tax changes enacted by the 2016 Vermont General Assembly received in fiscal year 2017.

Source: Vermont Department of Finance and Management. Fiscal year totals may not add due to rounding. NM means Not Meaningful.

Revenues Available to the Transportation Fund and Education Fund
Budgetary Based ($ in Millions)

COMPONENT	Actual 2016	Percent Change	Actual 2017	Percent Change	Actual 2018	Percent Change	Forecast 2019[1]	Percent Change	Forecast 2020[1]	Percent Change
AVAILABLE TO THE TRANSPORTATION FUND[2]										
Gasoline Tax	$78.0	0.5%	$78.2	0.3%	$78.2	0.0%	$78.2	0.0%	$78.1	(0.1)%
Diesel Tax	18.3	(4.4)	18.2	(0.5)	18.9	3.6	19.1	1.3	19.2	0.5
Purchase and Use Tax[3]	66.8	2.9	68.8	3.1	73.0	6.0	76.1	4.3	77.1	1.3
Motor Vehicle Fees	82.0	2.3	86.2	5.2	86.0	(0.3)	86.3	0.4	87.4	1.3
Other Fees	19.6	0.3	19.9	1.8	23.0	15.2	24.4	6.3	24.8	1.6
TOTAL TRANSPORTATION FUND	$264.6	1.3%	$271.4	2.6%	$278.9	2.8%	$284.1	1.8%	$286.6	0.9%
AVAILABLE TO THE EDUCATION FUND										
Sales and Use Tax[4]	$129.8	1.7%	$131.8	1.6%	$139.2	5.6%	$415.1	198.1%	$429.5	3.5%
Meals and Rooms Tax[5]	0.0	NM	0.0	NM	0.0	NM	45.4	NM	46.9	3.4
Purchase and Use Tax[3]	33.4	2.9	34.4	3.1	36.5	6.0	38.0	4.3	38.5	1.3
Other[6]	26.6	16.4	25.9	(2.5)	27.6	6.7	29.1	5.3	29.5	1.4
TOTAL EDUCATION FUND	$189.7	3.7%	$192.2	1.3%	$203.3	5.8%	$527.6	159.5%	$544.4	3.2%
MEMO: "Source" Purchase and Use[7]	$100.1	2.9%	$103.2	3.1%	$109.4	6.0%	$114.1	4.3%	$115.6	1.3%
MEMO: "Source" Sales and Use[7]	$370.7	1.7%	$376.7	1.6%	$397.8	5.6%	$415.1	4.3%	$429.5	3.5%
MEMO: "Source" Meals and Rooms Tax[7]	$154.2	2.2%	$165.3	7.3%	$173.2	4.8%	$181.5	4.8%	$187.6	3.4%

[1] Based on the January Forecast. Represents a current law forecast including the fund allocations under Act 11 of 2018.
[2] Excludes receipts dedicated to pay debt service on transportation infrastructure bonds (see "STATE INDEBTEDNESS – Transportation Infrastructure Bonds").
[3] Per statute, two-thirds of Purchase and Use Tax receipts are apportioned to the Transportation Fund and one-third of Purchase and Use Tax receipts are transferred to the Education Fund.
[4] Per statute, for fiscal years 2017 and 2018, 64% of the Sales and Use Tax was apportioned to the General Fund and 36% was transferred to the Education Fund. Commencing in fiscal year 2019, 100% of the Sales and Use Tax is apportioned to the Education Fund, per Act 11 of 2018.
[5] For fiscal years 2017 and 2018, 100% of the Meals and Rooms Tax was apportioned to the General Fund. Commencing in fiscal year 2019, 75% of the Meals and Rooms Tax is apportioned to the General Fund and 25% is apportioned to the Education Fund, per Act 11 of 2018.
[6] Includes net revenue after expenses (profits) transfer from the State Lottery and Net Interest receipts allocated to the Education Fund.
[7] The term "Source" reflects total revenues for that source regardless of allocations to any individual fund.

Source: Vermont Department of Finance and Management. Fiscal year totals may not add due to rounding. NM means Not Meaningful.

MAJOR GOVERNMENTAL PROGRAMS AND SERVICES

Human Services

The Agency of Human Services (AHS) comprises the following departments and offices:

Office of the Secretary: This Office includes the Office of Health Care Reform, Operations Unit, Fiscal Unit, Policy and Field Services. It also provides support for the Human Services Board, the Vermont Commission of National and Community Service (SerVermont), Refugee Resettlement and the Developmental Disabilities Council.

Department of Disabilities, Aging and Independent Living: This Department assists elderly Vermonters and adults with disabilities to live as independently as possible. It helps adults with disabilities to find and maintain meaningful employment. It licenses inpatient health care facilities and long-term care providers.

Department of Corrections: In partnership with Vermont communities, this Department serves and protects the public by offering a continuum of graduated sanctions for offenders to repair the damage their crimes have caused to victims and communities. The Department operates corrections facilities for incarcerated offenders and Community Correctional Service Centers for offenders convicted of lesser crimes. It also supports 64 Community Reparative Boards that develop sanctions and restorative plans in order for many nonviolent offenders to make amends for their crimes and return value to their communities.

Department of Health: This Department protects and promotes health, and prevents disease and injury through public health programs to maintain and improve the health status of all Vermonters. Programs focus on infectious and chronic disease control and prevention (e.g., injury prevention, and healthy babies programs), surveillance (e.g., disease reporting), and protection (e.g., restaurant inspections).

Department of Mental Health: This Department promotes the health and well-being of Vermonters in coordination with community organizations, providing statewide mental health services for children, families, adults and the elderly. These services include psychiatry, case management, employment, crisis and residential care. In addition to the provision of inpatient services at the Vermont Psychiatric Care Hospital, the Department also works in collaboration with advocacy and consumer organizations to ensure that educational, support and peer-directed services occur statewide.

Department for Children and Families: This Department administers several programs that address the basic needs of Vermonters who are unable to provide for themselves and their dependents. These programs promote the well-being of families and individuals through welfare-to-work services, in-kind benefits and cash assistance. The Department also helps families and individuals lead healthy and independent lives by providing support services and offering educational, information, and prevention services to communities. Social services seek to break the cycle of abuse, neglect and delinquency. Child care services take a lead role in developing quality child care services in Vermont. The Division of Child Support enforces state and federal statutes to ensure that children receive financial support from absent parents and improves financial security for children by obtaining child support obligations and payments.

Department of Vermont Health Access: This Department promotes the well-being of families and individuals through the provision of health care coverage. The Department is responsible for the management of Medicaid, the State Children's Health Insurance Program, State-only funded programs, federal-only funded programs and Vermont Health Connect (VHC).

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The sources of AHS's appropriations (base appropriations only) for fiscal years 2017, 2018 and 2019 are as follows:

	Fiscal Year 2017 Appropriations	Fiscal Year 2018 Appropriations	Current Law Fiscal Year 2019 Appropriations[1]
General Fund	$674,178,383	$677,553,438	$970,084,531
Federal Funds[2]	1,384,001,994	1,358,426,618	1,398,017,231
Tobacco Settlement	33,550,914	23,008,486	22,338,208
Special Funds[3]	387,648,852	380,659,295	118,774,582
Education Funds[4]	3,109,463	3,189,163	--
Other Funds	25,000	25,000	25,000
Total	$2,482,514,606	$2,442,862,000	$2,509,239,552

1 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018.
2 Federal Funds includes ARRA funds.
3 Special Funds includes State Health Care Resources Fund and other AHS special funds.
4 Represents appropriation from Education Fund to cover Department of Corrections High School of Vermont.

Medicaid and State Health Insurance Initiatives

Medicaid

In October 2016, AHS received approval from the federal government to continue Vermont's Global Commitment to Health ("Global Commitment") Medicaid 1115 Demonstration waiver. The approval is for a five-year term effective January 1, 2017 through December 31, 2021. The State amended this waiver in 2018 to receive federal expenditure authority to make payments for institutions for mental diseases for the primary treatment of substance use disorders.

Since 2005, Vermont has used the Global Commitment waiver to operate its Medicaid program under an innovative model developed to provide essential services for Vermont's most vulnerable populations, including people with disabilities, seniors and those with low incomes, and to ensure affordable health care coverage for children and middle-income Vermonters. These efforts have positioned Vermont as a national leader in state-based health care reform.

The current five-year waiver term includes several key benefits to Medicaid participants:

- Medicaid coverage of essential services for Vermont's most vulnerable populations, including people with disabilities, seniors, and those with low incomes;
- Affordable health care coverage for children through the "Dr. Dynasaur" program;
- Premium assistance for low and middle-income Vermonters through the state-based health benefits exchange, Vermont Health Benefit Exchange (a.k.a. Vermont Health Connect (VHC)); and
- Payment and delivery system reform by ensuring Medicaid participation and alignment with the All-Payer Accountable Care Organization Model.

Under this current term, CMS made certain changes to Vermont's waiver in an effort to better align 1115 Demonstration waivers across the country. Under this extension, Vermont has moved from an aggregate budget neutrality agreement to a per member per month ("PMPM") budget neutrality model. Vermont now joins all other 1115 demonstrations in using the PMPM model so the State is not at risk for caseload growth.

Since 2005, Vermont's Medicaid delivery system has required AHS departments to adhere to federal Medicaid Managed Care rules in exchange for Medicaid Managed Care flexibilities. During Vermont's 2010 negotiations, CMS determined that a unit of state government may not legally be considered a Managed Care Entity and may not be at risk for loss of federal matching funds if Medicaid expenditures were to exceed the annually certified PMPM. In 2016, CMS further expanded on this determination in connection with newly promulgated Medicaid managed care rules. As a result, Vermont is now considered to have a "Public Managed Care-Like Model" and, with a few exceptions, Vermont must follow Medicaid Managed Care regulatory expectations as if it were a "non-risk pre-paid inpatient health plan (PIHP)".

State Health Care Reform

Overview

Federal health care reform enacted in the Patient Protection and Affordable Care Act ("ACA") has impacted Vermont's Medicaid program and Global Commitment waiver by shifting the source of coverage for many Vermonters. In 2011, the Legislature passed Act 48 of 2011 ("Act 48"). Act 48 provided for the creation of (i) the Green Mountain Care Board ("GMCB") to address health care costs, and (ii) a state-based health benefits exchange, Vermont Health Benefit Exchange (a.k.a. Vermont Health Connect or VHC), in compliance with the ACA. The GMCB, together with the Agency of Human Services and the Office of the Governor negotiated a state/federal agreement with the Center for Medicare and Medicaid Innovation ("CMMI") to transform the health care system by changing the way health care is paid for and delivered across all payers, including Medicare. Vermont's agreement requires 70% of Vermont residents to be attributed to a fee-for-service, value-based alternative payment model by 2022. Vermont's health care reform efforts support an integrated delivery system across the care continuum.

Green Mountain Care Board

The Green Mountain Care Board (GMCB) was created by the Vermont Legislature in 2011 under Act 48. It is an independent group of five Vermonters who, with their staff, are charged with ensuring that changes in the health system improve quality while stabilizing costs. The Legislature assigned the GMCB three main responsibilities as they pertain to healthcare in Vermont: regulation, innovation, and evaluation. The GMCB regulates not only health insurance rates, but also hospital budgets and major hospital expenditures. The Board also innovates, testing new ways to pay for and deliver health care as part of its role in transforming the system. A key example of this duty is the GMBC's role in regulating and assessing the progress of Vermont's All-Payer Accountable Care Organization Model (see "Other Federal Health Care Initiatives" below).

Vermont Health Connect (VHC)

The creation of a state-based health benefits exchange, such as Vermont Health Connect ("VHC"), is a requirement of the ACA. Act 48 authorized VHC and provides a framework for its goals, functions and governance structure. VHC was established as a division of the Department of Vermont Health Access to build on existing State healthcare infrastructure and avoid duplication of expense. VHC is a virtual marketplace through which Vermonters can access, compare and select health plans; and it is also the vehicle through which Vermonters can access federal tax credits and cost sharing reductions available through the ACA and State premium and cost sharing reductions provided for by the State. VHC began enrolling individuals through its website on October 1, 2013 for coverage beginning January 1, 2014 and worked with health insurers to enroll small businesses directly into VHC insurance plans for coverage beginning in calendar year 2014.

As of June 2018, more than 210,000 Vermonters (more than one-third of the population) were enrolled in VHC health plans (Qualified Health Plans and Medicaid for Children and Adults) either through the marketplace or directly through an insurance carrier. Of the 167,000 who do not receive coverage through a small business employer, 94% qualify for either Medicaid or financial help to lower the cost of coverage. The State has attained the second-lowest uninsured rate in the nation according to the National Center for Health Statistics, and the lowest uninsured rate for children according to the State Health Access Data Assistance Center. As of the 2018 Vermont Household Health Insurance Survey, Vermont's uninsurance rate is only 3.2%.

While the State received certain federal funding and grants to help design, develop and implement the VHC, it is now solely responsible for funding the ongoing operations and maintenance of the VHC. The State expects to fund such costs through a combination of State appropriations and Medicaid funds. For fiscal year 2018, total VHC maintenance and operating costs were $49.5 million. Of this, $20.1 million was appropriated by the Legislature from

State funds and $29.4 million was funded through federal Medicaid. In the fiscal year 2019 budget, $49.2 million is budgeted for VHC operations and maintenance. Of this amount, $20.0 million was appropriated by the Legislature from State funds and $29.2 million was funded through federal Medicaid.

The State continues to evaluate the total cost of operating and maintaining VHC annually. While VHC is operating at a steady state, potential changes at the federal level lend uncertainty to annual budget projections. Further, the State cannot predict whether the current level of federal funding for VHC will continue to be available in the future, or whether additional federal grant monies will be made available to the State for any portion of those costs. Accordingly, the State's share of the costs of VHC could be substantially higher than what has been budgeted for fiscal year 2020 and beyond. The State continues to evaluate the costs associated with VHC and potential State and federal funding sources to finance those costs.

The State previously covered many individuals through Medicaid, Catamount Health and Medicaid expansion programs under Global Commitment. As of January 1, 2014, these individuals with incomes above 133% of the federal poverty level (FPL) accessed coverage through VHC. The ACA provided federal premium tax credits and cost-sharing subsidies to low and middle-income individuals enrolled in VHC beginning in fiscal year 2014. In addition, to maintain the State's current affordability standards, the State offers additional financial assistance to Vermonters enrolled via VHC with incomes below 300% of the FPL to ensure that premiums are affordable and to Vermonters enrolled via VHC with incomes below 250% FPL to ensure affordable deductibles and out-of-pocket maximums. The cost of this additional financial assistance for fiscal year 2018 was $7.9 million, of which $4.5 million was financed from General Fund revenues. On a going forward basis, the cost of this additional financial assistance is expected to decrease slightly as a result of changes to the federal cost-sharing subsidies. The State continues to evaluate how it will fund the remaining costs of these measures on an ongoing basis, but currently expects to fund such costs through a mix of savings generated from the migration of individuals from the Vermont Health Access Plan and Catamount Health to qualified health plans, additional State appropriations, Medicaid funds and federal grants. The ACA did not have any additional State fiscal impact in fiscal years 2018, and the State is currently evaluating the impact on future fiscal years.

Other Federal Health Care Initiatives

The administration and the GMCB are working collaboratively with the CMMI to implement a multi-payer fee-for-service alternative payment model. In October 2016, Vermont signed an All-Payer Model (APM) agreement with CMS to support continued transition to value-based payments. In the model, the federal government allows Vermont to waive certain Medicare payment and quality rules in order to harmonize State-level payment and quality rules across all payers: Medicare, Medicaid and commercial insurance. The Vermont All-Payer Accountable Care Organization ("ACO") Model builds on existing multi-payer payment models to better support and promote a more integrated system of care and a sustainable rate of overall health care cost growth in Vermont. Value-based payments that shift risk to health care providers and that are aligned across all payers encourage collaboration across the care continuum and can result in better health outcomes for Vermonters. Vermont Medicaid and OneCare Vermont signed a contract to launch the Vermont Next Generation (VMNG) ACO program for calendar year 2017, and has since extended that contract in 2018 and again in 2019. In 2019, 79,140 Vermont Medicaid members are attributed to the program, representing 57% of full benefit, non-dual Medicaid members as of January 1, 2019. The program payment model is aligned with Next Generation Payment Model 4 and includes the following items: upside and downside risk for the ACO, quality measures aligned with the APM agreement and a portion of payment contingent on quality. From a budget standpoint, more than half of the Department of Vermont Health Access' full-benefit non-dual Medicaid members are now attributed to a fixed-price payment model, providing more predictability to both the State and healthcare providers.

The State has received federal financial support for other State-specific health care efforts. In particular, the State received a $45 million State Innovation Model grant from CMMI to assist in implementation of delivery system reform and to test alternative payment and delivery system models. This work helped put the State in a position to implement the all-payer model discussed above. The grant began October 1, 2013 and continued into the first half of calendar year 2017, enabling a robust partnership between government, health care providers, health insurers and other interested parties. Final evaluation results from CMS' contractor, RTI, were released on April 8, 2019. Of the six states that received funding in State Innovation Model Round 1, Vermont was the only state to have positive results on expenditure, utilization, and quality measures. Specifically, the evaluation found that only Vermont's ACO model yielded relative Medicaid savings—$97.0 million across the three implementation years—

and that Vermont's ACO program had significant reductions in emergency department visits and inpatient admissions to hospitals.

The State cannot predict at this time the impact that any federal health care reform plan, if passed, might have on the State and its programs.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the State's cities, towns and school districts. In fiscal year 2017 and 2018, the General Fund transfer to the Education Fund for support of K-12 schools, including contingent funding, was $305.9 million and $348.17 million, respectively. As previously discussed, Act 11 of 2018 discontinued the General Fund transfer to the Education Fund effective fiscal year 2019, however the Sales and Use revenue contributions to the Education Fund were increased to cover the difference. Total Education Fund appropriated expenditures were $1.58 billion in fiscal year 2017, $1.64 billion in fiscal year 2018, and $1.65 billion in fiscal year 2019. Agency of Education administration was paid for with General Funds and Federal funds, allowing the Education Fund to be spent entirely on direct support of students and reduction of school tax burdens.

General Funds in the amount of $15 million in fiscal year 2017, $15.3 million in fiscal year 2018, and $16 million in fiscal year 2019 were distributed to towns to reimburse taxes reduced for land conservation and management programs. Additionally, the State contributed $78.66 million in fiscal year 2017, $83.81 million in fiscal year 2018, and $103.73 million in fiscal year 2019 to the State Teachers' Retirement System.

In fiscal year 2018, $70.2 million was appropriated to municipal highway programs (excluding appropriations for FHWA Emergency Relief to town highways and FEMA Public Assistance Grants[1]), funded with $45.2 million in State funds, an additional $2.0 million in State funds appropriated as match for federal FEMA funds, $19.2 million in federal funds (excluding an additional $3.2 million for federal disaster assistance[22]), $1.1 million in State clean water funds, $1.4 million in State general obligation bond funds, $0.5 million in inter-departmental transfer funds and $0.8 million in local funds. For fiscal year 2019, $66.3 million was appropriated to municipal highway programs (excluding appropriations for Federal Highway Administration (FHWA) Emergency Relief to town highways and Federal Emergency Management Agency (FEMA) Public Assistance Grants), funded with $45.3 million in State funds, $2.4 million in State clean water funds (from State general obligation bond proceeds), an additional $1.4 million in State funds appropriated as match for federal FEMA funds, $16.5 million in federal funds (excluding an additional $3.0 million for federal disaster assistance[22]) and $0.7 million in local funds.

	Fiscal Year 2017 Appropriations	Fiscal Year 2018 Appropriations	Current Law Fiscal Year 2019 Appropriations*
State Aid to Local School Districts	$1,311,000,000	$1,352,200,000	$1,372,931,462
Special Education Aid to Local Districts	180,749,796	188,749,796	198,471,642
Vermont State Teachers' Retirement System Contributions	78,659,576	83,809,437	103,734,594
Town Highway Grants	44,960,646	51,098,127	49,797,490
Total	$1,615,370,018	$1,675,857,360	$1,724,935,188

* Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018 and Act 72 of 2019 (which includes one-time appropriations in fiscal year 2019).

[1] These appropriations included disaster funding for Tropical Storm Irene and other federally declared disasters, mostly for town highways but also for town public buildings, schools and non-profits. These appropriations are excluded because it is the State's usual practice not to appropriate disaster aid; it was appropriated in fiscal years 2013 through 2020 because of the magnitude of the damage from Tropical Storm Irene in August 2011.

Additionally, the State provides local direct tax support to individual taxpayers through the following programs:

	Fiscal Year 2017 Appropriations	Fiscal Year 2018 Appropriations	Current Law Fiscal Year 2019 Appropriations*
Property Tax Assistance	$15,560,000	$15,840,000	$16,600,000
Land Use Reimbursement	$15,023,110	15,259,309	15,981,672
Total	$30,583,110	$31,099,309	$32,581,672

* Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment").

Higher Education

The State provides extensive assistance for programs of higher education through a higher education system that includes three major components. These include direct appropriations to the University of Vermont and the Vermont State College system and support through direct financial aid grants to students by the Vermont Student Assistance Corporation, which also receives an annual appropriation.

	Fiscal Year 2017 Appropriations	Fiscal Year 2018 Appropriations	Current Law Fiscal Year 2019 Appropriations*
University of Vermont	$42,509,093	43,009,093	$42,509,093
Vermont State Colleges	27,828,239	30,008,239	29,978,239
Vermont Student Assistance Corporation	19,414,588	19,414,588	19,914,588
Total	$89,751,920	$92,431,920	$92,401,920

* Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018 and Act 72 of 2019 (which includes one-time appropriations in fiscal year 2019).

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2015 to fiscal year 2019.

General Fund Appropriations by Major Function

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Current Law Fiscal Year 2019[1]
General Government	$72,008,322	$73,638,569	$76,106,286	$78,458,601	$92,335,137
Protection to Persons and Property	124,062,040	130,003,661	140,610,696	146,899,384	156,587,023
Human Services	621,076,066	669,703,803	686,962,815	689,767,401	975,587,802
Education	470,638,791	484,659,375	501,192,792	514,674,531	224,346,054
Labor	2,867,475	3,218,732	3,455,020	3,282,129	2,980,386
Natural Resources	27,115,835	26,359,857	27,246,133	28,026,319	28,285,697
Commerce and Community Development	14,825,746	15,512,572	15,851,541	15878052	15,932,584
Other – One-time[2]	31,385,165	8,358,315	17,356,042	18,784,659	27,552,794
Debt Service	64,564,485	67,050,703	71,120,080	67,817,542	72,860,749
Total Appropriations	$1,428,543,926	$1,478,505,587	$1,539,901,405	$1,563,588,618	$1,596,468,226

1 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 22, 2019 (with the $11.3 million revenue upgrade, as compared to July 27, 2018, included in "Other – One-time") and appropriations effective April 22, 2019 pursuant to the 2019 Budget Adjustment Act (see "Fiscal Year 2019 Budget and Budget Adjustment"). Also reflects the impact of Act 11 of 2018, Act 72 of 2019 (which includes one-time appropriations in fiscal year 2019) and the changes to the Personal Income Tax that were passed by the 2018 Vermont General Assembly to offset the TCJA changes (see "Fiscal Year 2020 Budget" and "STATE FUNDS AND REVENUES – State General Fund Revenues – Personal Income Tax").

2 Includes one-time appropriations.

Clean Water Initiatives

In 2016, the U.S. Environmental Protection Agency ("EPA") finalized a pollution budget, also referred to as a total maximum daily load ("TMDL"), for Lake Champlain, a large freshwater lake that borders the northern and western part of the State, to address water quality concerns including periodic harmful algal blooms. The 2016 Vermont Lake Champlain Phosphorus TMDL document, which relates to the Vermont segments of Lake Champlain, includes an Accountability Framework with a suite of 28 milestones the State is required to meet by certain dates. The milestones were organized into successive milestone periods, with the first covering years 2015 to 2017. The first milestone period targets completion of milestones that fundamentally focus on the establishment of new programs and permits described in the Vermont Lake Champlain Phosphorus TMDL and the implementation and enforcement of programs already in place. The first year of this two-year milestone period included 16 milestones that were to be completed by December 30, 2016; the second year contains the remaining 12 milestones that were to be completed by December 30, 2017.

The EPA evaluated the first 16 milestones and provided a satisfactory interim report-card to the State in early 2017. The State submitted its most recent update to the EPA on its progress under the Accountability Framework in March 2018. After review of this submission, in April 2018 the EPA gave Vermont a "provisional pass" in that there were three outstanding milestones that had yet to be fully addressed—two related to stormwater regulation and the third related to establishing a long-term revenue source to support the successful and full implementation of the Vermont Lake Champlain Phosphorus TMDL.

The State has, or will shortly, complete work on the necessary stormwater regulations. With respect to the third outstanding milestone, the Senate and the House passed legislation (S.96) on May 22, 2019, which was designed to satisfy the long-term revenue requirements. S.96, as passed by the Senate and the House, provides for changes in the funding mechanisms for the Clean Water Fund ("CWF"). Effective October 1, 2019, the Meals and Rooms Tax revenue will be reallocated such that 6% of the revenue will be directed to the Clean Water Fund, with the balance being split 69% to the General Fund and 25% to the Education Fund. This is a change from the previous allocation of 75% to the General Fund and 25% to the Education Fund. In fiscal year 2020, it is expected that this change will result in an additional $7.5 million of revenue to the CWF, which along with other revenues associated with Property Transfer Taxes and unredeemed deposits will result in a CWF balance of $14.7 million. Taking into account this amount together with appropriations made through the Capital Bill, Transportation Bill, the Budget Bill, and one-time Federal funding, the State expects to have a total of $50 million available to fund clean water initiatives in fiscal year 2020. In fiscal year 2021, taking into account a full year of Meals and Rooms Tax revenue, the CWF is expected to have a balance of $19.0 million.

The State has remained in close communication with the EPA throughout the 2019 legislative session in order to ensure that the legislation to be passed (S.96) would satisfy the milestone related to long-term revenue. The EPA is currently completing a detailed review of the final version of S.96, but their preliminary indications have been extremely favorable. The State anticipates receiving formal comment from the EPA by the end of June, once the Governor has taken final action on the bill.

GOVERNMENTAL FUNDS OPERATIONS

The following table sets forth the total revenues, expenditures and changes in total fund balances for all governmental fund types of the State for fiscal year 2014 through fiscal year 2018 presented on a GAAP basis.

STATE OF VERMONT
All Governmental Fund Types
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
(modified accrual basis of accounting)
($ in thousands)

	Fiscal Year				
	2014	**2015**	**2016**	**2017**	**2018**
REVENUES:					
Taxes	$ 2,867,311	$ 2,985,073	$ 3,066,310	$ 3,074,928	$ 3,232,052
Fees	105,764	124,482	107,629	156,007	142,462
Sales of services, rents and leases	23,031	15,060	17,972	17,367	22,631
Federal grants	1,938,208	2,087,160	2,021,636	1,991,665	1,996,808
Fines, forfeits and penalties	27,776	15,689	18,299	13,627	15,003
Investment income	5,575	1,794	2,705	6,097	9,151
Licenses	112,692	113,039	119,918	130,704	131,693
Special assessments	68,323	70,240	81,789	89,333	89,511
Other revenues	128,168	120,234	117,929	109,931	151,135
Total revenues	**5,276,848**	**5,532,771**	**5,554,187**	**5,589,659**	**5,790,446**
EXPENDITURES:					
General government	126,159	126,158	112,244	107,375	105,995
Protection to persons and property	324,341	343,144	334,029	373,552	385,757
Human services	2,325,405	2,442,992	2,424,808	2,467,049	2,419,697
Employment and training	28,986	30,199	29,559	32,856	29,922
General education	1,756,437	1,817,577	1,865,637	1,915,800	1,986,177
Natural resources	92,146	97,660	102,494	103,885	116,252
Commerce and community development	37,555	35,116	47,362	40,441	35,740
Transportation	520,760	558,226	539,590	538,693	568,456
Capital outlay	119,775	89,885	85,121	38,817	66,771
Debt service	76,801	70,954	73,283	76,992	73,160
Total expenditures	**5,408,365**	**5,611,911**	**5,614,127**	**5,695,460**	**5,787,927**
Excess of revenues over (under) expenditures	**(131,517)**	**(79,140)**	**(59,940)**	**(105,801)**	**2,519**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	97,910	109,760	115,580	0	106,095
Transfers from Lottery	22,560	22,753	26,415	25,502	27,154
Net operating transfers in (out)	(998)	(3,391)	2,568	1,440	(1,882)
Other sources (uses)	(14,546)	(24,398)	(16,167)	0	10,937
Total other financing sources (uses)	**104,926**	**104,724**	**128,396**	**26,942**	**142,304**
Net change in fund balances	**(26,591)**	**25,584**	**68,456**	**(78,859)**	**144,823**
Fund Balance, July 1, restated[1]	934,297	907,881	937,364	1,005,820	926,961
Fund Balance, June 30	**$ 907,706**	**$ 933,465**	**$ 1,005,820**	**$ 926,961**	**$ 1,071,784**

[1] The July 1, 2014 and July 1, 2015 fund balances were restated for a change related to a government combinations. (See 2015 Comprehensive Annual Financial Report, Note V, and 2016 Comprehensive Annual Financial Report, Note V.)

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institutions Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's public improvement bonds and the State's transportation and highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State has also borrowed money to finance qualifying transportation capital projects by issuing transportation infrastructure bonds, the payment of which is <u>not</u> secured by the full faith and credit of the State. See "Transportation Infrastructure Bonds" hereinafter. The State also has established certain statewide authorities that have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes, or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated State deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for zero coupon bonds or capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of $1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority." To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefor by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefore if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2018, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

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State of Vermont
Debt Statement
As of June 30, 2018
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$631,161
Transportation Fund	4,649
Capital Leases:	
27 Federal Street, St. Albans	$9,646
Noresco Building	105
Self-Supporting Debt:	
Special Obligation Transportation Infrastructure Bonds (TIBs)	$26,750
Reserve Fund Commitments [1]:	
Vermont Municipal Bond Bank	$584,510
Vermont Housing Finance Agency	155,000
VEDA Indebtedness [2]	175,000
Vermont Student Assistance Corporation	50,000
Vermont Telecommunications Authority [3]	40,000
Univ. of Vermont/State Colleges	100,000
Gross Direct and Contingent Debt	**$1,776,821**
Less:	
Self-Supporting Debt	(26,750)
Reserve Fund Commitments	(1,104,510)
Net Tax-Supported Debt [4]	**$645,561**

1 Figures reflect the maximum amount permitted by statute. However, many of the issuers have not issued debt or have not issued the maximum amount of debt permitted by their respective statutes. See "Contingent Liabilities" and "Reserve Fund Commitments" herein for additional information.
2 As of July 1, 2018.
3 The General Assembly dissolved the VTA in 2014 (see "STATE ECONOMY – Utilities – Telecommunications"); however, this amount remains available to the VTA by statute should it ever be reconstituted.
4 Does not include (i) the Bonds offered hereby and (ii) general obligation bonds that have been refunded.

Selected Debt Statistics[1]

	2014	2015	2016	2017	2018
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands) [2]	$560,850	$585,200	$627,035	$577,060	$635,810
Population [3]	625,665	624,455	623,354	623,657	623,719
Debt Per Capita	$895	$935	$1,004	$923	$981
Personal Income ($ in millions by fiscal year) [4]	$29,808	$30,865	$31,572	$32,570	$33,547
Debt as a Percent of Personal Income	1.9%	1.9%	2.0%	1.8%	1.9%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands) [2,5]	$74,408	$68,451	$70,778	$74,490	$70,657
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands) [6]	$1,583,541	$1,643,980	$1,678,822	$1,729,627	$1,838,972
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues[7]	4.7%	4.2%	4.2%	4.3%	3.8%

Percentage Of Debt To Be Retired (as of June 30, 2018)	Special Fund[7]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	100.0%	38.3%	66.4%	38.5%
10 years	100.0	70.2	94.4	70.3
15 years	100.0	92.0	100.0	92.0
20 years	100.0	100.0	100.0	100.0

Sources: Annual Report of the Commissioner of Finance; U.S. Department of Commerce, Bureau of Economic Analysis; Office of the State Treasurer; and other sources as noted below.

1 General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised and estimated data for 2014 through 2018.
2 Excludes general obligation bonds that have been refunded.
3 Reflects the Legislative Joint Fiscal Office-Administration consensus estimate and forecast of the State's residential population as of the end of the second quarter of the calendar year indicated.
4 Personal income is on a fiscal year basis and is projected for fiscal year 2018 using the January 2019 administration-legislative consensus economic forecast prepared in connection with the Consensus Revenue Forecast as of January 22, 2019. Fiscal year 2014 through and 2017 personal income data are subject to further revision.
5 Includes gross debt service on the State's outstanding Build America Bonds, a portion of which debt service is payable from Federal ARRA receipts.
6 Includes Special Fund Revenues and Federal ARRA receipts dedicated to debt service payments.
7 See "Debt Service Requirements" herein for a description of Special Fund bonds.

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont General Assembly to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont General Assembly in recent years has never exceeded the Committee's recommended levels.

While historically the Committee's report provided a recommendation for the amount of new long-term general obligation debt that may be authorized by the State for the following fiscal year, starting with fiscal year 2012, the Committee now submits a two-year debt authorization to the General Assembly. The two-year authorization was developed in an effort to more closely align with the State's biennial legislative session, and was driven by near-term considerations such as (i) historically low interest rates and (ii) the need to get certain large-scale capital projects underway, as well as long-term considerations such as the desire for (a) increased coordination between construction and the debt authorization process and (b) the ability to pursue large-scale projects on a multi-year debt authorization basis.

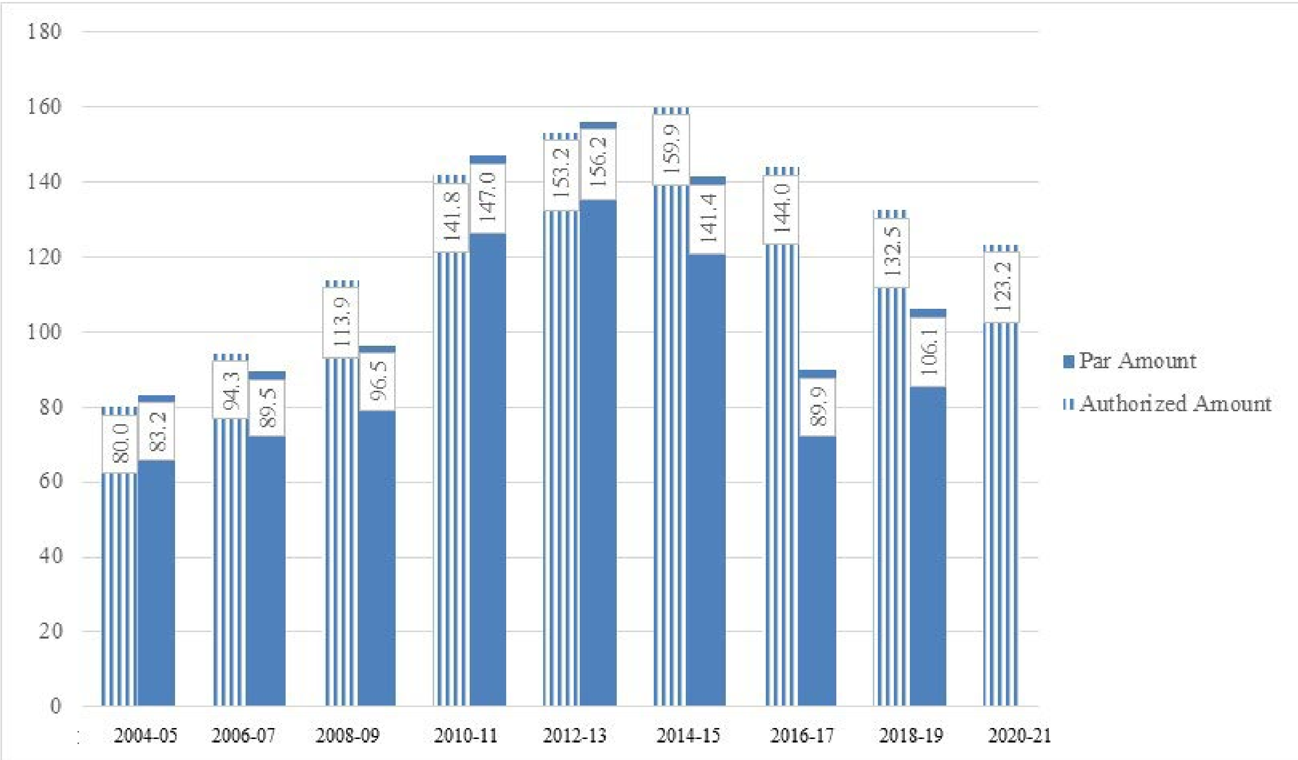
At its September 2016 meeting, the Committee recommended a two-year debt authorization of $132.46 million of general obligation bonds for fiscal years 2018 and 2019. Consistent with the Committee's recommendation, the General Assembly authorized the two year debt authorization of $132.46 million, plus $14.82 million in transfers and reallocations from prior years, for total authority of $147.28 million for the purposes of funding appropriations for fiscal years 2018 and 2019 (consisting of not more than $73.9 million in fiscal year 2018 and the remaining $73.4 million in fiscal year 2019).

In fiscal year 2018, $106.10 million of new money debt was issued, producing $117.03 million in proceeds available for capital projects within the State. The bonds issued in September 2017 were issued at a premium in the amount of $10.77 million. Accordingly, pursuant to the 2018 Capital Bill Adjustment Act (Act 190 of 2018), the General Assembly increased the total authorization for fiscal years 2018 and 2019, to $143.40 million, which authorized amount reflects (i) the $132.46 million two-year debt authorization of the Committee plus (ii) $10.94 million, representing the bonds that were authorized under the prior biennial capital bill but not issued due to the use of original issue bond premium to fund capital projects. Taking into account $82.64 million available from prior fiscal year authorizations and the bonds issued in September 2017, $108.84 million remains available for issuance in fiscal year 2019 and subsequent fiscal years.

At its September 2018 meeting, the Committee recommended a two-year debt authorization of $123.18 million of general obligation bonds for fiscal years 2020 and 2021. Consistent with the Committee's recommendation, the General Assembly authorized the two year debt authorization of $123.18 million, plus $1.38 million in transfers and reallocations from prior years, for total authority of $124.56 million for the purposes of funding appropriations for fiscal years 2020 and 2021 (consisting of not more than $62.49 million in fiscal year 2020 and the remaining $62.07 million in fiscal year 2021).

The following chart presents the amounts of general obligation debt that has been authorized and issued by the State since fiscal year 2004 on a biennium basis, as well as the recommended authorization amount for fiscal years 2020 and 2021.

Historical General Obligation Bonds Authorized and Issued by Biennium
(in millions of dollars)



Notes:

- *Annual issuances do not include refunding bonds. Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances.*
- *Pursuant to Section 34 of Act 104 of 2011, commencing in fiscal year 2013, premium received from the sale of bonds may be applied towards the purposes for which such bonds were authorized. The amount issued reflected above, however, does not include net premium received that was or is expected to be made available for capital purposes.*
- *For fiscal years 2020-21, the "Authorized" amounts reflects the two-year authorized amount of the General Assembly in the 2019 Capital Bill (Act 42). This amount excludes any amounts authorized that relate to (i) the principal amount of bonds authorized in prior biennial capital bills but not issued due to the use of original issue bond premium to fund capital projects and (ii) transfers and reallocations from prior years.*
- *Does not reflect the expected issuance of the Bonds.*

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2018, exclusive of bonds that were refunded in advance of their scheduled maturities. The Special Fund bonds are general obligation bonds issued to refund certain certificates of participation and a lease purchase agreement; there are no Special Fund bonds outstanding as of June 30, 2018. This schedule does not reflect the issuance of the Bonds.

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STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2018

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2019	$50,342,180	$23,621,054	$73,963,234	$580,818,720
2020	49,627,180	21,654,522	71,281,702	531,191,540
2021	49,692,180	19,637,128	69,329,308	481,499,360
2022	46,922,180	17,662,558	64,584,738	434,577,180
2023	45,087,180	15,839,372	60,926,552	389,490,000
2024	42,715,000	14,084,751	56,799,751	346,775,000
2025	42,665,000	12,336,755	55,001,755	304,110,000
2026	40,660,000	10,618,381	51,278,381	263,450,000
2027	38,695,000	9,044,781	47,739,781	224,755,000
2028	36,360,000	7,587,188	43,947,188	188,395,000
2029	34,200,000	6,252,688	40,452,688	154,195,000
2030	32,020,000	5,023,300	37,043,300	122,175,000
2031	28,415,000	3,875,869	32,290,869	93,760,000
2032	21,515,000	2,971,894	24,486,894	72,245,000
2033	21,515,000	2,198,269	23,713,269	50,730,000
2034	16,860,000	1,477,406	18,337,406	33,870,000
2035	13,470,000	904,475	14,374,475	20,400,000
2036	9,795,000	508,191	10,303,190	10,605,000
2037	5,305,000	273,006	5,578,006	5,300,000
2038	5,300,000	94,500	5,394,500	-

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2019	$1,417,820	$211,724	$1,629,544	$3,231,280
2020	417,820	142,411	560,231	2,813,460
2021	417,820	123,098	540,918	2,395,640
2022	417,820	103,786	521,606	1,977,820
2023	417,820	84,315	502,135	1,560,000
2024	260,000	67,405	327,405	1,300,000
2025	260,000	56,745	316,745	1,040,000
2026	260,000	45,825	305,825	780,000
2027	260,000	34,775	294,775	520,000
2028	260,000	23,400	283,400	260,000
2029	260,000	11,700	271,700	--

Short-Term Debt

The Treasurer is authorized to borrow on the credit of the State through the issuance of notes and tax exempt commercial paper (1) to pay expenses of government for which appropriations have been made but for which anticipated revenues have not been received, (2) for the purpose of defraying accumulated State deficits, (3) in anticipation of the receipt of State bond proceeds and (4) for paying costs of issuance of such obligations. In addition, the Treasurer is authorized to enter into credit or liquidity facilities with respect to such obligations.

The State Treasurer may with the approval of the Governor borrow from any fund including restricted funds to defray State Government expenses. Such borrowing may be made twice per year: first from fifteen days preceding to fifteen days following the State's fiscal year end of June 30, and second from December 10 (or earlier if December 10 shall occur on a Friday or Saturday) to January 10 of the subsequent calendar year.

The State has not had any revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years. Since 1998, the State has met its short-term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. The State has not had any draws on its line of credit or short-term borrowings since fiscal year 2004. The State has a line of credit available for fiscal year 2019 but does not currently anticipate any draws thereon or any short-term borrowings for the fiscal year.

Interfund Borrowing

Pursuant to §16 VSA 1994b, the State Treasurer was authorized to use interfund borrowings of up to a total of $28.5 million to finance funding shortfalls to the Retired Teachers' Health and Medical Benefits Fund. At June 30, 2018, the balance on this interfund borrowing was $28.3 million. While it was the Legislature's intent to repay any such borrowings by the end of fiscal year 2023, pursuant to the 2019 Budget Adjustment Act, funds were appropriated in fiscal year 2019 that allowed for the full retirement of this interfund borrowing in April 2019 and the Treasurer's authority to use interfund borrowing for this purpose was repealed. For more information regarding the Retired Teachers' Health and Medical Benefits Fund and planned interfund borrowings in the current and future fiscal years, see "PENSION PLANS – Other Post-Employment Benefits – Funding Status and Funding Progress" and "– Recent Legislative Action Affecting the Funding Status of the RTHMB Fund and VSRS OPEB."

Total Authorized Unissued Debt

As of June 30, 2019, the State had $232.35 million of authorized unissued debt, which amount includes $60.69 million that was included in the 2019 biennial capital bill, but that cannot be issued until after June 30, 2020. Subsequent to the issuance of the Bonds, the State expects to have $132.65 million* of authorized unissued debt.

Notwithstanding any provision of law, under Section 954 of Title 32 the State Treasurer with the approval of the Secretary of Administration is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the original capital projects.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. Municipal loan repayments to the Bond Bank are used to make the Bond Bank's bond payments. On April 19, 2016, the State amended provisions with respect to the State Treasurer's ability to intercept State funding to governmental units that are in default on their payment obligations acquired or held by the Bond Bank. During the default period, the State Treasurer will make direct payment of all, or as much as is necessary, of the withheld

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* Preliminary; subject to change.

amounts to the Bond Bank, or at the Bond Bank's direction, to the trustee or paying agent for the bonds, so as to cure, or cure insofar as possible, the default as to the bond or the interest on the bond. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. The Bond Bank issues bonds under two separate and distinct General Resolutions.

As of June 30, 2018, the Bond Bank has issued 85 series of bonds (including refundings) under its general bond resolution adopted on May 3, 1988 (the "1988 Resolution"), to provide loans to local municipal borrowers. The principal amount of bonds outstanding as of June 30, 2018 under this Resolution was $584,510,000, and the principal amount of loans outstanding to municipal borrowers as of June 30, 2018 was $563,677,548. For bonds issued under the 1988 Resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. If the reserve funds have less than the required amount, the chair shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized, but not legally obligated, to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund. Based on the long history of the Bond Bank program, the rating agencies credit assessment of the underlying loans of the portfolio, the general obligation pledge of the underlying borrowers for a high percentage of the loan amounts and the State intercept provision for the payment of debt, it is not anticipated that it will be necessary for the State to appropriate money for the reserve fund in the future.

As of June 30, 2018, the Bond Bank has also issued one series of bonds under a new general bond resolution adopted on March 30, 2017 (the "2017 Resolution") for the Vermont State Colleges System ("VSCS") Program. The 2017 Resolution is for VSCS financings only. As of June 30, 2018, the principal amount of bonds outstanding under the 2017 Resolution was $67,660,000. The 2017 Resolution bonds are not supported by a reserve fund. The State Treasurer, the Bond Bank and the Commissioner of the Vermont Department of Finance and Management entered into a State Intercept Memorandum of Agreement to establish procedures with respect to the intercept of State funds described above in regard to the VSCS outstanding bonds.

For additional information about the Bond Bank, see its most recent disclosure document, which can be found on the Electronic Municipal Market Access ("EMMA") system at http://emma.msrb.org.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency ("VHFA") was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The VHFA Board consists of nine commissioners, including ex-officio the Commissioner of the Department of Financial Regulation, the State Treasurer, the Secretary of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The VHFA is empowered to issue notes and bonds to fulfill its corporate purposes. As of June 30, 2018, the VHFA's total outstanding indebtedness was $443,264,180.

The VHFA's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the VHFA's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the VHFA may issue, up to $155,000,000 of principal outstanding may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized, but not legally obligated, to appropriate money for any shortfalls in the debt service reserve funds for that debt. If the reserve fund requirement for this debt has less than the required amount, under the act, the chairman of the VHFA will notify the Governor or the Governor-elect, the president of the senate and the speaker of the house of the deficiency. As of June 30, 2018, the principal amount of outstanding debt covered by this moral obligation was $37,710,000. As of June 30, 2018, the debt service reserve fund requirement for this debt was $2,897,141, and the value of the debt service reserve fund was $3,043,999. Since the VHFA's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement. For additional information about the VHFA, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

In January 2018, the VHFA issued $37,825,000 of federally taxable Vermont Property Transfer Tax Revenue Bonds, the proceeds of which will be used to fund the creation and improvement of rental and owneroccupied housing for low to moderate income residents. These bonds are special, limited obligation bonds of the VHFA, secured by a pledge of property transfer tax revenues collected by the State. The first $2,500,000 of property transfer tax revenues collected annually are required to be transferred to the VHFA for payment of principal and interest on the bonds until they are retired.

Vermont Economic Development Authority: The Vermont Economic Development Authority ("VEDA" or the "Authority") was established in 1974 as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a 15-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets, the Commissioner of Forests, Parks and Recreation, the Commissioner of Public Service and ten persons appointed by the Governor with the advice and consent of the Senate.

The Authority has established credit facilities with two banks to fund loans to local and regional development corporations and to businesses under certain programs. The Authority's debt is a combination of commercial paper and variable and fixed-rate notes payable. The commercial paper is supported by two direct-pay letters of credit totaling $95 million from one of the banks. The direct-pay letters of credit are collateralized from various repayment sources, including a $15 million collateral reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $80 million. The Authority has two variable-rate and two fixed-rate notes payable from a second bank totaling $80 million. The notes are collateralized from various repayment sources, including a $6.5 million collateral reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $75 million. The debt service reserve pledges, totaling $155 million are based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2018 was $93.8 million and the variable and fixed-rate note balances outstanding at June 30, 2018 were $79 million. Act No. 157 (H.916), enacted in May 2018, increased the Authority's debt capacity from $155 million to $175 million, effective July 1, 2018. For additional information about the Authority, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

University of Vermont/ State Colleges: Pursuant to Act 200 of 2008, the University of Vermont and State Agricultural College ("UVM") and the Vermont State Colleges ("VSC") are each permitted to create and establish, by resolution, one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes. The debt service reserve fund requirement shall be an amount not to exceed the "maximum debt service" on the bonds or notes to be secured by such debt service reserve fund. Up to $66,000,000 principal amount of UVM debt and up to $34,000,000 principal amount of VSC debt may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for this debt. For each institution, if the reserve fund requirement for this debt has less than the required amount, the chair of the board of trustees will notify the governor, the president of the senate, and the speaker of the house of the deficiency. No bonds have been issued to date. If bonds are issued, it is not expected that the State will need to appropriate money to the respective reserve funds for these purposes. For additional information about UVM and VSC, see their most recent disclosure documents, which can be found on the EMMA system at http://emma.msrb.org.

VSAC: The Vermont Student Assistance Corporation ("VSAC") was created by the State in 1965 for the purpose of providing opportunities for Vermont residents to attend college or other postsecondary education institutions by awarding grants; guaranteeing, making, financing and servicing loans of funds to students who qualify; and to provide career, educational and financial aid counseling and information services to the same. With the approval of the governor, VSAC is empowered to borrow money and issue notes and bonds to fulfill its corporate purposes. As of June 30, 2018, VSAC's total outstanding indebtedness was $751,883,463, of which $50 million is secured by a debt service reserve fund pledge that is permitted under the legislation enacted into law as 16 V.S.A. § 2867 on March 31, 2009 (the "VSAC Moral Obligation Statute"), described below.

Under the VSAC Moral Obligation Statute, VSAC is permitted to create and establish, by resolution, (i) one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes, and/or (ii) one or more pledged equity funds to provide pledged equity or over-collateralization of any trust estate of VSAC to the issuer of a liquidity or credit facility, bond insurance or other credit enhancement obtained by VSAC. In the case of a debt service reserve fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular debt issue, which amount must be established by resolution of the corporation prior to the issuance of such bonds or notes. In the case of a pledged equity fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular credit enhancement, which amount must be established by resolution of the corporation prior to entering into any credit enhancement agreement related to such pledged equity fund. Both uses of the VSAC Moral Obligation Statute require the consent of the Treasurer of the State.

The VSAC Moral Obligation Statute establishes a combined debt service reserve fund and equity fund pledge from the State in an amount not to exceed $50 million. The debt service reserve fund pledge is based on a similar structure utilized by the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency and the University of Vermont/Vermont State Colleges, as discussed above, and is limited to $50 million of VSAC bonds, adjusted downward for any amount used for pledged equity funds. The pledged equity fund amount is limited to $50 million of equity commitment, adjusted downward for any bonds issued with the debt service reserve fund pledge described in the preceding sentence. For additional information about VSAC, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

Transportation Infrastructure Bonds

In 2009, the General Assembly enacted 19 V.S.A. §11f (the "TIB Act"), which provided for the establishment of the Transportation Infrastructure Bond Fund (the "TIB Fund"). Under the TIB Act, the State Treasurer is authorized to issue transportation infrastructure bonds ("TIBs") from time to time in amounts authorized by the General Assembly in its annual transportation bill. The TIB Act provides that the TIB Fund shall be credited with certain funds raised from motor fuel (gas and diesel) assessments levied on distributors. Principal and interest on the TIBs and associated costs will be paid from the TIB Fund (i.e., not supported from current transportation fund or general fund revenues). However, the State is permitted to add its general obligation to secure the repayment of the TIBs if necessary to market the TIBs in the best interest of the State. After payment of the related bond costs, any remaining money in the TIB Fund may be used to fund qualifying transportation capital projects. As of June 30, 2018, the State's outstanding TIBs are as follows:

Date of Issuance	Series	Original Par Amount	Outstanding Par Amount as of June 30, 2018
August 3, 2010	2010A	$14,400,000	$9,555,000
August 9, 2012	2012A	10,820,000	8,065,000
August 8, 2013	2013A	11,165,000	9,130,000

The TIBs are not general obligations of the State and are not secured by the full faith and credit of the State.

PENSION PLANS

Defined Benefit Retirement Plans

Overview

The State maintains three defined benefit pension plans, the Vermont State Teachers' Retirement System ("STRS"), the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, and the Vermont Municipal Employees' Retirement System ("VMERS"). Each retirement system is serviced by an independent actuarial firm. Approximate membership of each system as of June 30, 2018 was as follows:

	Active	Inactive	Terminated, Vested	Retired
STRS	9,892	2,613	787	9,269
VSRS	8,530	1,267	753	6,974
VMERS	7,452	2,516	798	3,189

The State appropriates funding for pension costs associated with its two major retirement plans, VSRS and STRS, covering substantially all State employees and teachers, respectively. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. Both the VSRS and STRS unfunded liabilities are currently amortized over a 30-year period beginning in 2008 and ending in 2038. See "Actuarial Valuation" below.

The STRS appropriations to the pension fund are made from the Education Fund (for the normal contribution) and from the General Fund. In the case of VSRS, the various State cost centers/funds are assessed an employer contribution based on the payroll associated with the cost center/fund. VSRS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, a reconciliation is completed by the State each year, and an adjustment to the subsequent appropriation calculation is made to assure that all funds required to meet the projected ADEC (as defined below) are remitted to the pension fund.

The State's other statutory pension plan, VMERS, was established effective July 1, 1975. Effective July 1, 1987, and thereafter, all payments to the VMERS' pension accumulation fund are supported entirely by employer (municipal) and employee contributions; the State is not required to make any contributions to VMERS. Employers make periodic payments that are reconciled quarterly into the pension accumulation funds, which payments are percentages of annual earnable compensation of each membership group and consist of a "normal" and "unfunded accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

The following tables set forth the total market value of net assets, amount of employee and employer contributions, net investment income or loss, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the defined benefit plans for STRS, VSRS and VMERS for fiscal year 2008 through fiscal year 2018, inclusive.

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Vermont State Teachers' Retirement System (STRS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2018	$1,832,372,554	$37,888,566	$114,598,921	$125,566,281	$184,707,288
2017	1,738,557,574	36,142,411	82,887,174	173,166,614	174,779,900
2016	1,620,899,749	35,408,763	73,225,064	19,877,270	164,915,262
2015	1,653,116,441	34,863,531	72,908,805	(7,566,697)	153,284,690
2014	1,705,364,605	32,558,584	71,869,736	212,338,195	166,962,651
2013	1,554,351,563	32,343,368	63,646,240	120,403,031	155,394,010
2012	1,491,619,901	31,827,995	51,731,875	24,726,665	141,938,812
2011	1,520,766,932	32,062,253	47,134,361	261,886,311	128,907,920
2010	1,305,250,050	25,315,397	40,545,321	214,806,420	116,217,934
2009	1,145,066,114	20,937,686	35,960,934	(307,382,558)	109,524,146
2008	1,501,320,179	22,918,798	39,549,097	(110,019,634)	99,929,342

Vermont State Employees' Retirement System (VSRS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2018[3]	$1,841,500,283	$40,423,239	$97,521,221	$123,632,169	$170,514,813
2017[3]	1,748,442,294	35,966,987	93,229,177	170,358,016	161,945,123
2016[3]	1,609,650,152	34,055,217	89,869,751	17,962,425	153,438,223
2015[3]	1,624,861,239	33,296,248	84,909,380	(8,484,694)	141,860,471
2014[3]	1,657,245,868	31,745,692	80,755,129	203,721,748	128,136,805
2013[3]	1,470,492,327	29,847,352	75,259,094	110,715,697	124,456,335
2012[3]	1,378,489,496	27,708,009	66,167,903	23,604,774	119,974,280
2011[3]	1,380,606,734	22,269,041	62,535,626	238,386,383	113,087,703
2010[3]	1,169,844,902	22,840,354	55,517,534	$182,593,261	101,240,378
2009[3]	1,014,697,982	22,148,754	45,027,364	(242,976,382)	91,038,887
2008	1,282,493,872	18,614,102	39,179,823	(84,156,254)	83,731,903

1 Source: Annual Actuarial Valuation Report and Comprehensive Annual Financial Reports.

2 Net Investment Income is presented in accordance with GASB Statement No. 25. GASB Statement No. 25 has been amended by GASB 67 (as defined below) (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting"). This table does not reflect the reporting standards set forth under GASB 67, but rather is presented for informational purposes only to provide comparison data for the past ten years.

3 Historically, health care contributions and pay-as-you-go payments for VSRS and STRS were included in the pension funds, subordinate to pension benefits, in a sub-trust. Commencing in 2009, such health care contributions and payments for VSRS were paid out of a separate trust. Such contributions and payments are included in the above total for comparative purposes. Net Investment Income does not include investment income associated with the separate trust. Interest earnings on the separate trust, which includes the health care contributions and pay-as-you-go payments previously described, as well as OPEB prefunded amounts, were $86,454 in fiscal year 2009, $480,064 in fiscal year 2010, $802,020 in fiscal year 2011, $375,423 in fiscal year 2012, $667,196 in fiscal year 2013, $1,485,472 in fiscal year 2014, $331,945 in fiscal year 2015, $494,668 in fiscal year 2016, $1,372,446 in fiscal year 2017 and $872,659 in fiscal year 2018.

Vermont Municipal Employees' Retirement System (VMERS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2018	$667,848,904	$19,166,537	$17,519,690	$43,889,050	$32,508,497
2017	619,510,340	25,210,413	16,481,881	59,486,928	28,833,551
2016	547,015,113	15,226,948	15,235,742	6,776,933	26,479,686
2015	535,903,742	13,587,975	14,136,067	(2,358,518)	24,371,268
2014	534,525,477	13,233,728	12,805,737	64,346,116	21,189,402
2013	463,186,430	15,060,665	12,014,186	34,838,507	19,437,379
2012	420,540,070	11,337,926	11,532,230	7,671,464	17,021,297
2011	406,901,556	11,702,728	11,117,363	66,957,781	15,031,192
2010	331,888,451	10,711,600	10,592,919	47,598,096	13,390,141
2009	276,172,429	9,557,973	8,008,862	(56,937,342)	12,839,085
2008	327,060,102	9,906,709	9,250,816	(19,472,654)	11,338,558

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1 Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.

2 Net Investment Income is presented in accordance with GASB Statement No. 25. GASB Statement No. 25 has been amended by GASB 67 (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" herein). This table does not reflect the reporting standards set forth under GASB 67, but rather is presented for informational purposes only to provide comparison data for the past ten years.

Actuarial Valuation

Overview. Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. These reports (the "Funding Valuation Reports"), which are delivered in draft form and approved by the respective system boards in late October of each year and posted with any board-approved revisions in early November, contain an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the actuarially determined employer contribution ("ADEC") (formerly referred to as an actuarially recommended contribution ("ARC")) for the current fiscal year and the next two fiscal years. The Funding Valuation Reports also include, for each system, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions, a summary of member data, the current amortization schedule for the unfunded actuarial accrued liability ("UAAL") and projected benefit payouts and contributions over the next ten years. The Funding Valuation Reports for the fiscal year ending June 30, 2018 (the "2018 Funding Valuation Reports"), which are the most recently completed and board approved final actuarial reports, are incorporated herein by reference and are available at:

VSRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/actuarial-valuation/VSERS_2018_Valuation_Report.pdf

STRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/Actuarial-Valuation/VSTRS_2018_Valuation_Report.pdf

Addendum: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/Actuarial-Valuation/Addendum_2018_VSTRS_Valuation.pdf

An actuarial valuation for funding purposes calculates the actuarial accrued liability in each of the systems, which represents the present value of benefits the system will pay to its retired members and active members upon retirement based on certain demographic and economic assumptions. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a system is funded through a "funded ratio," which represents the actuarial value of assets of the system divided by the actuarial accrued liability of such system. The actuarial valuation will also state an ADEC, which is a recommended amount that the State and other sponsoring employers contribute to the applicable system. The ADEC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL. Both the VSRS and STRS system unfunded liabilities are currently amortized over a 30-year period, beginning in 2008 and ending in 2038.

The Funding Valuation Reports are prepared according to statute for the purpose of funding the respective systems. Recently, GASB implemented new standards for accounting for pensions. For more information, see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" below. These new standards are for accounting purposes only and do not affect the State's funding decisions.

Description of Certain Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each system, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a system differs from these assumptions, the UAAL of such system may increase or decrease to the extent of any such variance. With respect to expected rate of return of assets, for example, the actual rate of return for each system depends on the performance of its investment portfolio. The value of the securities in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the system's UAAL. This could have a resulting impact on the ADEC, which may increase the amount of the State's contribution to the system.

For fiscal year 2018, the actuarial rate of return of the assets, which utilized smoothing (defined below), was 6.9% for VSRS and 7.0% for VSTRS (the market rates of returns were 7.4% and 7.6%, respectively). In addition to the above-described assumptions, the actuarial valuations of each system use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the systems. The actuarial methods for both the STRS and the VSRS plans are set by State statute. The actuarial cost method that is used to determine pension liabilities in the State's valuation is known as the Entry Age Normal ("EAN") Cost Method. EAN is defined as the age at the date of employment, or, if date is unknown, current age minus years of service. Normal cost and actuarial accrued liability are calculated on an individual basis and are allocated by salary, with normal cost determined using the plan of benefits applicable to each participant.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the State uses a 20% "corridor" in order to prevent the smoothed value to stray too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding.

The following chart presents, based on the Funding Valuation Reports for each system, the actuarial value of assets, the market value of net assets, the actuarial value of assets as a percent of market value of assets, the investment rate of return based on the actuarial value of assets and the investment rate of return based on market value assets over the past ten years.

	Fiscal Year	**Actuarial Value (AV) of Assets**	**Market Value (MV) of Net Assets**	**AV as % of MV**	**Investment Rate of Return (AV)**	**Investment Rate of Return (MV)[1]**
STRS	2018	$1,866,120,413	$1,832,372,553	101.8%	7.0%	7.6%
	2017	1,779,592,227	1,738,557,573	102.4	7.3	11.2
	2016	1,716,296,235	1,620,899,749	105.9	6.8	1.3
	2015	1,662,345,707	1,653,116,441	100.6	6.5	(0.3)
	2014	1,610,285,523	1,705,364,605	94.4	8.3	14.2
	2013	1,552,924,370	1,554,351,563	99.9	6.7	8.4
	2012	1,517,410,471	1,491,619,901	101.7	6.3	2.2
	2011	1,486,698,448	1,520,766,932	97.8	9.3	20.5
	2010	1,410,368,434	1,305,250,049	108.1	6.8	18.0
	2009	1,374,079,337	1,145,066,114	120.0	(11.2)	(19.8)
	2008	1,605,461,728	1,501,320,179	106.9	6.9	(6.6)
VSRS	2018	$1,881,804,847	$1,841,500,283	102.2%	6.9%	7.4%
	2017	1,793,794,733	1,748,442,294	102.6	7.3	11.0
	2016	1,707,267,941	1,609,650,152	106.1	6.7	1.0
	2015	1,636,267,663	1,624,861,239	100.7	6.5	(0.6)
	2014	1,566,075,540	1,657,245,868	94.5	8.3	14.5
	2013	1,469,169,902	1,470,492,327	99.9	6.7	8.6
	2012	1,400,779,062	1,378,489,496	101.6	6.3	2.4
	2011	1,348,762,790	1,380,606,734	97.7	9.3	21.2
	2010	1,265,404,195	1,169,844,902	108.2	6.7	17.9
	2009	1,217,637,578	1,014,697,982	120.0	(9.6)	(18.7)
	2008	1,377,101,471	1,282,493,872	107.4	6.9	(5.9)

[1] Investment returns based on market value of net assets are gross of fees.
Source: Funding Valuation Reports.

Recent and Planned Actuarial Assumption Changes. Recently, there has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with their investment and actuarial consultants, believe that the interest rate assumptions should be viewed as part of an interrelated set of actuarial assumptions and thus evaluated in a comprehensive, formal experience study rather than in isolation. State law provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service and comprehensive experience of the members and beneficiaries of each system and make recommendations for certain modifications of the actuarial assumptions, as needed. The most recent experience studies for the VSRS and STRS systems were completed by Buck Consultants for the period covering July 1, 2010 through June 30, 2014. These reports are incorporated herein by reference and available at:

VSRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/Vermont%20State%20Employees%20Exp%20Study%202010%20-%202014.pdf

STRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/other-reports/Vermont_Teachers_Exp_Study_2010-2014_12082016.pdf

As a result of the recommendations set forth in each of these experience studies, changes in the actuarial assumptions were made commencing with the funding valuation reports for the period ending June 30, 2015. The major actuarial assumptions were updated based on the results of the 2014 experience studies, including updates to active service demographic assumptions, compensation increase assumptions, post-retirement mortality rates, interest rate and cost-of-living adjustment rates.

At their respective July 2017 Board meetings, the VPIC and the Retirement Boards of VSRS, STRS and VMERS each lowered the assumed rate of return from 7.95% to 7.50% and associated inflation factor from 3.0% to 2.50%.

Pension and Health Benefits

Overview. Substantially all State employees and teachers participate in one of the two State systems, with five years of employment required before retirement benefits become vested. Retirement benefits are calculated based on a percentage of average final compensation ("AFC"), which is calculated as the average annual compensation during a prescribed period of time based on the particular category of membership an employee falls within. For example, the AFC for Group F employees (the largest VSRS employee group) is calculated as the average annual compensation during the highest three consecutive years. Participants also are offered an early retirement benefit after a prescribed number of years' service, if age requirements for those retirement benefits are met. For a summary of the benefit provisions for each of the VSRS and STRS systems, see the most recent Funding Valuation Reports referenced above.

Recent Legislative Changes Affecting Benefits Levels. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under VSRS and STRS. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the system, which also has the effect of increasing the ADEC for the State for such system. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the system, which also has the effect of limiting the growth of the ADEC for the State for such system in future plan years.

Under legislation enacted in fiscal year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the AFC. Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to age 65 or a "Rule of 87." The "Rule of 87" refers to the sum of the employee's age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service-based schedule. The remaining significant provision of the same legislation makes changes to retiree cost of living adjustments (COLA). The annual COLA applicable to the benefits of Group F members retiring after July 1, 2008 increased from 50% of the annual increase of the Consumer Price Index (CPI) to 100% of the annual increase in the CPI index, up to a ceiling of 5%, effective January 1, 2014. Only current Group F members who were actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 were eligible for the enhanced COLA in 2014.

In an effort to partially offset the increased benefits described above, under legislation enacted in fiscal years 2008 and 2011, contribution rates for State employees in the VSRS system were increased. Effective July 1, 2008, the contribution rate for Group F employees was raised, through legislation enacted in fiscal year 2008, from 3.35% to 5.1%, due to the increases in the cost of living benefit for all Group F employees described above. Subsequently, legislation was enacted in fiscal year 2011, effective July 1, 2011, that again raised the contribution rate for Group F employees, as well as all other State employees. In particular, the rate for Group F employees was increased from 5.10% to 6.40%. These rate increases were due to sunset on June 30, 2016. However, legislation was enacted in fiscal year 2016, effective July 1, 2016, that increased the contribution rate to 6.55% for Group A, D and F members and 8.43% for Group C members. When VSRS has been determined by the actuary to have assets at least equal to its accrued liability, contribution rates will be reevaluated by the actuary with a subsequent recommendation to the General Assembly.

Following negotiations with the Vermont National Education Association ("VNEA"), significant benefit changes and cost reductions to the STRS system were adopted by the Legislature in 2010 (see Act 74 of 2010 and Act 139 of 2010) (the "VNEA Benefits Legislation"). These changes have resulted in annual savings of more than $15 million per year. For STRS employees more than five years from normal retirement eligibility (less than 25 years of service or less than 57 years old), normal retirement will be 65 or "rule of 90" (combination of years of service and age), instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the benefit reduction will be based on an actuarial calculation rather than a set percentage as previously calculated. In addition, employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60% of AFC, instead of the current 50% of AFC, with a higher (2% instead of 1.67%) multiplier upon completion of 20 years of service. The employee contribution rate increased from 3.54% to 5.0% for all employees. The legislation also prohibits extraordinary increases in AFC (limit of 10% per year during AFC determination period) being used to determine retirement benefit levels.

The VNEA Benefits Legislation also creates a tiered medical premium co-payment structure. For new hires and those with less than ten years of service the following premium structure applies: no subsidized coverage for retirees with one to 14 years of service, 60% premium single coverage at 15 years, 70% single premium coverage at 20 years, and 80% premium single or spousal coverage at 25 years of service. For current actives as of July 1, 2010 with more than ten years of service, the current 80% single premium coverage continues with the availability of spousal coverage at the same percentage with retirement with 25 years of service.

In 2014, the Legislature passed Act 179, which included an increase in employee contributions for STRS employees with less than five years' service as of July 1, 2014, from 5% to 6% of earnable compensation.

In fiscal year 2010, the State offered a retirement incentive program. It did not incorporate any enhancements to the retirement benefits or years of service but did offer a cash pay-out, to be paid over two years, using non-pension funds, to encourage those already eligible for normal retirement to retire. Incentives were calculated based on years of creditable service and capped at $15,000. This program resulted in 242 retirements. The retirement incentive legislation stipulates that the State may only refill up to two-thirds of the positions, leaving at least one-third vacant.

In fiscal year 2016, the State offered a retirement incentive program to up to 300 employees. Similar to the 2010 program, this program did not incorporate any enhancements to the retirement benefits or years of service but did offer a cash pay-out, using non-pension funds, to encourage those already eligible for normal retirement to retire. Incentives were calculated based on years of creditable service and capped at $15,000, payable in two installments in fiscal years 2016 and 2017. The program resulted in 219 retirements. The retirement incentive legislation stipulates that the State may only refill up to 25% of the positions, leaving at least 75% of the positions vacant.

Funded Status and Funding Progress

The amount that the State actually contributes to each system is subject to the Governor's budget request and annual appropriations by the Legislature. In adopting the budget, the Legislature is not required to follow the recommendations of the actuaries or the Governor in determining the appropriation for the State's contribution to each system. Budgeted appropriations to fund the ADEC for VSRS and STRS are determined based on the Funding Valuation Reports that are completed and delivered for each system in October of the prior fiscal year.

For the VSRS, the fiscal year 2018 ADEC was $52.1 million, based on the Funding Valuation Report for the year ended June 30, 2016. Of this amount, $1.0 million was paid by member towns, leaving a State portion of $51.1 million. The State also contributed $1.5 million to prepay the Treasurer's estimate of non-healthcare administrative expenses, making the total required State contribution $52.6 million. The fiscal year 2018 contribution to VSRS was $64.6 million, which exceeded the ADEC for VSRS for such year. For fiscal year 2019, the VSRS ADEC was $63.0 million, based on the Funding Valuation Report for the year ended June 30, 2017. Based on an estimate of $0.9 million of contributions by town participants, the actuarial recommendation was reduced to $62.1 million. The State also contributes an amount to prepay the Treasurer's estimate of non-healthcare administrative expenses, which for fiscal year 2019 is $2.0 million, for a total State planned contribution of $64.1 million. The fiscal year 2019 budget fully funded the State's portion of the fiscal year 2019 ADEC for VSRS. The following table presents information regarding the ADEC and the State's contributions to VSRS for the current and last four fiscal years.

VSRS
($ in thousands)

Fiscal Year	**2015**	**2016**	**2017**	**2018**	**2019***
Actuarially Determined Employer Contribution (ADEC)	$44,652	$46,238	$48,503	$52,065	$62,984
Actual Employer (State) Contribution	$55,881	$54,347	$60,280	$64,564	$62,984
% of ADEC Funded for Fiscal Year	125.1%	117.5%	124.3%	124.0%	100.0%

* Budgeted amount.

The 2018 Funding Valuation Report for VSRS sets forth the following projection of contributions for fiscal years 2020 and 2021.[1]

	Projected ADEC (VSRS)		
Fiscal Year	Normal Cost	UAAL	Total
2020	$17,587,034	$61,356,880	$78,943,914
2021	18,202,580	63,197,587	81,400,167

In addition, Schedule 2.G to the 2018 VSRS valuation report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $50.1 million as of June 30, 2018 (FY2019) to $104.59 million as of June 30, 2037 (FY2038), the currently projected final amortization payment. The amortization schedule has been changed in statute. See "Recent Action Affecting the Amortization of Unfunded Liabilities" below.

For the STRS, the fiscal year 2018 ADEC was $88.4 million, based on the Funding Valuation Report for the year ended June 30, 2016. The fiscal year 2018 contribution to STRS was $114.6 million, which exceeded the ADEC for STRS for such year by $26.2 million. The Fiscal Year 2019 ADEC for the STRS was $105.6 million, based on the funding valuation report for the year ended June 30, 2017. The State expects to fund the Fiscal Year 2019 STRS ADEC in an amount equal to $115.6 million from State base appropriations and contributions from local school systems or educational entities. The following table presents information regarding the ADEC and the State's contributions to STRS for the current and last four fiscal years.

[1] See Schedule H to the 2018 VSRS report.

STRS
($ in thousands)

Fiscal Year	**2015**	**2016**	**2017**	**2018**	**2019***
Actuarially Determined Employer Contribution (ADEC)	$72,858	$76,103	$82,660	$88,409	$105,641
Actual Employer (State) Contribution	$72,909	$76,948	$82,887	$114,600	$115,641
% of ADEC Funded for Fiscal Year	100.1%	101.1%	100.3%	129.6%	109.5%

* Budgeted amount.

The 2018 Funding Valuation Report for STRS sets forth the following projection of contributions for fiscal years 2020 and 2021.[2]

	Projected ADEC (STRS)		
Fiscal Year	Normal Cost	UAAL	Total
2020	$7,116,765	$119,080,624	$126,197,389
2021	7,330,268	122,653,043	129,983,311

In addition, Schedule 2.G to the 2018 STRS valuation report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $97.2 million as of June 30, 2018 (FY2019) to $202.7 million as of June 30, 2037 (FY2038), the currently projected final amortization payment. The amortization schedule has been changed in statute. See "Recent Action Affecting the Amortization of Unfunded Liabilities" below.

During the 2018 Special Legislative Session, the Legislature authorized the contribution of $26.2 million of additional payments above the fiscal year 2018 ADEC towards paying down the STRS unfunded liability. The STRS board voted to defer the recognition of the $26.2 million added until the final year's amortization payment, resulting in a savings of $77.4 million over the 20-year amortization period. The deferred recognition, however, resulted in certain amortization payments being shifted forward, and accordingly, an additional $3.2 million was required to be paid by the State in fiscal year 2020. This additional payment was authorized in April 2019 as part of the fiscal year 2019 Budget Adjustment Act, making the funds available for investment earlier than anticipated.

Additionally, during the 2018 Special Legislative Session, the Legislature authorized the contribution of an additional $10 million of funds to STRS for fiscal year 2019, provided that the consensus revenue forecast was raised during the July 2018 revenue update. The July 2018 forecast was raised, and accordingly these funds were transferred to STRS in August 2018.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans from 2009 through 2018, based on the annual Funding Valuation Report for each respective year.

[2] See Schedule H to the 2018 STRS report.

Public Employee Retirement Systems Defined Benefit Plans
Analysis of Funding Progress Using GASB Statement No. 25[1]
($ in thousands)

	Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System	2009	$1,217,638	$1,544,144	$326,506	78.9%	$404,516	80.7%
	2010	1,265,404	1,559,324	293,920	81.2	393,829	74.6
	2011	1,348,763	1,695,301	346,538	79.6	398,264	87.0
	2012	1,400,779	1,802,604	401,825	77.7	385,526	104.2
	2013	1,469,170	1,914,300	445,130	76.8	416,766	106.8
	2014	1,566,076	2,010,090	444,014	77.9	437,676	101.4
	2015	1,636,268	2,178,827	542,559	75.1	462,057	117.4
	2016	1,707,268	2,289,452	582,184	74.6	471,268	123.5
	2017	1,793,795	2,511,373	717,578	71.4	526,439	136.3
	2018	1,881,805	2,661,609	779,804	70.7	544,379	143.2
Vermont State Teachers' Retirement System	2009	$1,374,079	$2,101,838	$727,759	65.4%	$561,588	129.6%
	2010	1,410,368	2,122,191	711,823	66.5	562,150	126.6
	2011	1,486,698	2,331,806	845,108	63.8	547,748	154.3
	2012	1,517,410	2,462,913	945,502	61.6	561,179	168.5
	2013	1,552,924	2,566,834	1,013,910	60.5	563,623	179.9
	2014	1,610,286	2,687,049	1,076,764	59.9	567,074	189.9
	2015	1,662,346	2,837,375	1,175,029	58.6	576,394	203.9
	2016	1,716,296	2,942,024	1,225,728	58.0	586,397	209.0
	2017	1,779,592	3,282,046	1,502,453	54.2	635,759	236.3
	2018	1,866,120	3,379,554	1,513,433	55.2	641,548	235.9
Vermont Municipal Employees' Retirement System	2009	$331,407	$366,973	$35,566	90.3%	$191,521	18.6%
	2010	376,153	409,022	32,869	92.0	202,405	16.2
	2011	402,550	436,229	33,679	92.3	205,589	16.4
	2012	417,443	488,572	71,129	85.4	215,075	33.1
	2013	446,236	528,426	82,190	84.4	220,372	37.3
	2014	500,558	580,972	80,414	86.2	230,969	34.8
	2015	543,768	699,293	155,525	77.0	249,811	62.0
	2016	581,611	744,960	163,349	78.0	256,730	63.0
	2017	634,690	754,877	120,186	84.1	274,814	43.7
	2018	680,005	827,556	147,551	82.2	289,839	50.9

Source: Funding Valuation Reports

[1] GASB Statement No. 25 has been amended by GASB 67 (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting"). This table does not reflect the reporting standards set forth under GASB 67, but rather is presented for informational purposes only to provide comparison data for the past ten years. Data presented in the table was derived from the Funding Valuation Reports, but the table has not been reviewed by the State's consulting actuary.

Defined Contribution Retirement Plans

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2018, the VSRS Defined Contribution Plan's net assets totaled $67.8 million and there were 601 participants.

The Legislature granted authority to VMERS's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under VMERS. The plan was made available to new members effective July 1, 2000. The defined contribution plan may be offered by municipal employers to one or more groups of eligible employees. Once offered by the employer, each eligible employee is required to make an election to participate. As of June 30, 2018, the VMERS Defined Contribution Plan's net assets totaled $23.9 million and there were 481 participants.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67

In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amended GASB Statement No. 25 and set forth new standards that modified the financial reporting of the State's pension obligations. GASB 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability ("NPL"). It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment disclosures. The new standard was effective commencing with the State's fiscal year 2014 reports.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Accordingly, the State will continue to prepare reports based on its established funding methodology, incorporating the generation of an ADEC as the basis for its funding recommendation to the Governor and the General Assembly. Commencing with fiscal year 2014, however, the State's actuary now also prepares a report for each system reflecting fiscal year results under the new accounting requirements (the "GASB 67 Reports"). The GASB 67 Reports for the fiscal year ending June 30, 2018 are incorporated herein by reference and are available at:

VSRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/VSTRS-actuarial-valuation/VSERS%202018%20GASB%2067%20Report.pdf

STRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/Actuarial-Valuation/VSTRS%202018%20GASB%2067%20Report.pdf

VMERS: https://www.vermonttreasurer.gov/sites/treasurer/files/VMERS/VMERS-reports/VMERS-actuarial-reports/VMERS_2018_GASB_67_Report.pdf

The fiscal year 2018 GASB 67 Reports are based on fiscal year 2017 census data rolled forward to fiscal year 2018, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2018. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal (EAN) actuarial method. The long-term expected rate of return is determined using best estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. The single discount rate used for the fiscal year 2018 GASB 67 Reports was 7.5% for each of the systems.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for fiscal year 2018 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The UAAL shown in the table above labeled "Public Employee Retirement Systems Defined Benefit Plans, Analysis of Funding Progress Using GASB Statement No. 25", by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return. For an analysis of funding progress for each of the State's defined benefit plans for fiscal years 2014 through 2018 based on GASB 67, see pages 175-177 of the FY2018 CAFR attached hereto as Appendix A.

Schedule of Changes in the Net Pension Liability and Related Ratios Using GASB Statement No. 67
($ in thousands)

	Actuarial Valuation Date (June 30)	System Fiduciary Net Position[1]	Total Pension Liability	Net Pension Liability	System Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	Net Pension Liability as a Percentage of Covered Payroll
VSRS	2018	$1,841,500	$2,608,559	$767,059	70.59%	$504,553	152.03%
STRS	2018	$1,832,372	$3,343,078	$1,510,705	54.81%	$607,355	248.74%
VMERS	2018	$667,849	$808,525	$140,676	82.60%	$274,814	51.19%

[1] Represents the market value of plan assets as of the actuarial valuation date.
[2] As of the actuarial valuation date.

The GASB 67 Reports present both an NPL and a funding percentage. Because both VSRS and STRS use the EAN actuarial method for funding, which is the required method for GASB 67, variances between the funding and GASB No. 67 reports are primarily, but not exclusively, related to market value differences. For VMERS, however, the variance between the funding valuations and the GASB 67 numbers are significant as the VMERS system does not use the prescribed EAN method for funding valuation purposes.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate, if it were calculated one percentage point lower or one percentage point higher. The results for fiscal year 2018 are as follows:

($ in thousands)	VSRS	STRS
One percent (1%) decrease		
Discount Rate	6.50%	6.50%
Net Pension Liability	$1,068,903	$1,824,257
Net Pension Liability, as reported		
Discount Rate	7.50%	7.50%
Net Pension Liability	$767,059	$1,510,705
One percent (1%) increase		
Discount Rate	8.50%	8.50%
Net Pension Liability	$521,239	$1,196,832

GASB Statement No. 68

In June 2012, GASB also issued GASB Statement No. 68, which set forth new standards that modified the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits requires the State to report in its Statement of Net Position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard requires immediate recognition of more pension expense than was previously required. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date."

The new GASB 68 standard was effective commencing with the State's fiscal year 2015. For fiscal year 2018, the State has elected to use fiscal year 2017 as a measurement date, which means that the NPL reported in the State's CAFR for the fiscal year ended June 30, 2018 is based on the fair value of assets as of June 30, 2017. As of June 30, 2018, the State reported an NPL of $2,162.7 million, of which $680.3 million is allocable to VSRS and $1,482.4 million is allocable to STRS. The State's actuary has completed its analysis as to the appropriate discount rate for calculation of the NPL for fiscal year 2018 (based on a June 30, 2017 measurement date) and concluded that none of the three plans experienced a "crossover" event. The measurement of the State's NPL for fiscal year 2018 assumes a long-term expected rate of return of plan investments of 7.5%. The NPL for the fiscal year ended June 30, 2019 has been completed, but is unaudited, and is based on the fair value of assets as of June 30, 2018. As of June 30, 2019, the State expects to report an NPL of $2,277.8 million, of which $767.1 million is allocable to VSRS and $1,510.7 million is allocable to STRS.

Recent Action Affecting the Amortization of Unfunded Liabilities

Legislation was enacted in fiscal year 2016 to change the amortization rate on the unfunded liability beginning on July 1, 2019. Beginning on July 1, 2019 and annually thereafter, the amount of each annual basic accrued liability contribution shall be determined by amortization of the unfunded liability over the remainder amortization period ending 2038 in installments increasing at a rate of 3.0% per year, instead of the rate of 5.0% as provided previously. Leveling out the payment schedule to a rate more consistent with the long term assumed rate of inflation would increase ADEC payments in the short-term but will have the likely effect of reducing the overall interest payments and result in an earlier reduction of the unfunded liability.

Other Post-Employment Benefits

Overview. Beginning in fiscal year 2008, pursuant to rules adopted by the Governmental Accounting Standards Board covering non-pension post-employment benefits, primarily health insurance (GASB Statement Nos. 43 and 45), public sector entities such as the State were required to report the future costs of these benefits on their balance sheets. The standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is more conservative, and therefore results in larger yearly cost and liability accruals if they are funded on a pay-as-you-go basis—as they presently are in Vermont and in many other jurisdictions—and not pre-funded in the same manner as traditional pension benefits.

Recent Legislative Changes Affecting Benefits. On December 31, 2013, STRS discontinued participation in the Medicare Retiree Drug Subsidy ("RDS") program, and enrolled retirees in a Medicare Part D Employer Group Waiver Plan ("EGWP"), plus a supplement, starting January 1, 2014. On December 31, 2014, VSRS also discontinued participation in RDS and instead enrolled its retirees in EGWP, plus a supplement, starting January 1, 2015. The transfer from RDS to EGWP for each system was expected to result in cost savings to the State while achieving a similar level of service for covered retirees. See "Funding Status and Funding Progress" below for actual and expected savings to date.

Actuarial Valuation. The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2018. Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. VMERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The difference between the value of prefunded and pay-as-you-go OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension, liquid investments over the long term. The discount rate for both systems is estimated at 3.58% for the fiscal year 2019 ADEC and 3.87% for the fiscal year 2020 ADEC. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, currently estimated at 7.5% for VSRS and for STRS. In order to treat its OPEB liabilities as prefunded, the State would have to enact legislation providing for the deposit of annual contributions in an irrevocable trust, in the manner similar to the pension funds. As further described below, an OPEB trust has been established for VSRS although funding to date is limited to the deposit of Medicare-D subsidies received for State employees' health programs. The Retired Teachers' Health and Medical Benefit Fund (see below) is an OPEB fund and was established in fiscal year 2015.

For VSRS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2018 is $1,633.2 million with a UAAL of $1,609.9 million. This represents a net increase of $174.8 million as compared to the UAAL as of June 30, 2017 of $1,435.1 million. The UAAL as of June 30, 2019 is currently projected to decrease to $1,327.9 million, primarily due to favorable per capita claims experience.

Based on the actuarial report for the year ended June 30, 2018, the VSRS OPEB ADECs for fiscal years 2019 and 2020, each calculated assuming no additional prefunding and assumed discount rates of 3.58% for 2019 and 3.87% for 2020, are $100.2 million and $87.8 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for VSRS OPEB obligations earned through June 30, 2018 is reduced to $904.9 million with a UAAL of $880.7 million, and the OPEB ADEC for fiscal years 2019 and 2020 are calculated to be $64.6 million and $60.7 million, respectively. In fiscal year 2018, the State funded actual health care pay-as-you-go payments for VSRS in the amount of $34.6 million. For fiscal year 2019, the State budgeted these payments at $37.0 million.

For STRS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2018 is $948.4 million with a UAAL of $973.4 million. This represents a net increase of $81.9 million over the UAAL as of June 30, 2017 of $891.5 million. The UAAL as of June 30, 2019 is currently projected to decrease to $945.0 million, primarily due to favorable per capita claims experience.

Based on the actuarial report for the year ended June 30, 2018, the STRS OPEB ADECs for fiscal years 2019 and 2020, each calculated on the pay-as-you-go basis at assumed discount rates of 3.58% for 2019 and 3.87% for 2020, are $54.7 million and $58.3 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for STRS OPEB obligations earned through June 30, 2018 is reduced to $557.3 million with a UAAL of $583.2 million, and the OPEB ADEC for fiscal years 2019 and 2020 are calculated to be $41.9 million and $44.3 million, respectively. In fiscal year 2018, the State funded actual health care pay-as-you-go payments for STRS in the amount of $29.3 million. For fiscal year 2019, the State budgeted these payments at $36.7 million.

The actuarial valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2018 are posted on the State Treasurer's website at:

VSRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/VSTRS-other-reports/VSERS%20OPEB%202018%20Funding%20Report.pdf

STRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/other-reports/14794_VSTRS%20Funding%20Report%206_30_2018.pdf

Funding Status and Funding Progress. The State has not yet made decisions on when or how it will fund the full OPEB ADEC, although it has taken several steps. In fiscal year 2007, an irrevocable trust was established to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree post-employment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute.

In the case of VSRS, current year heath care expenses are expressly funded, separate from the pension actuarial contribution. In the case of STRS, until the end of fiscal year 2014, the health care expenses were paid through a sub-fund of the pension fund but were not explicitly budgeted or funded, were treated as an amortized actuarial loss, and were therefore not included in the Net OPEB Liability ("NOL") calculation, but rather were reflected as part of the NPL. In Act 179 of 2014, the Vermont Legislature created the Retired Teachers' Health and Medical Benefits Fund to explicitly fund current year health care expenses separate from the pension actuarial contribution, commencing July 1, 2014.

The Retired Teachers' Health and Medical Benefit Fund ("RTHMB Fund") receives funding from a combination of sources including General Fund appropriations, Employer Group Waiver Plan (EGWP) subsidies, and, starting in fiscal year 2016, an annual health care assessment on newly-hired teachers. As described in "STATE INDEBTEDNESS – Short-Term Debt," the State Treasurer was also authorized to use interfund borrowings of up to a total of $28.5 million to finance any funding shortfalls.[3] For fiscal year 2018, the RTHMB Fund received appropriations of $8.6 million from the General Fund, $2.5 million from the Property Tax Relief Fund, and $4.25 million from additional sources including EGWP receipts, and an additional General Fund appropriation of $3.6 million from the year-end allocation of excess receipts. For fiscal year 2016, the fund received appropriations of $15.6 million from the General Fund. The State utilized additional interfund borrowings of $6.25 million in 2017 and reduced its use of interfund borrowings by $900,000 in 2018. At June 30, 2018, the balance on the interfund borrowing was $28.3 million. While it was the Legislature's intent to repay any such borrowing by the end of fiscal year 2023, pursuant to the 2019 Budget Adjustment Act, funds were appropriated in fiscal year 2019 that allowed for the full retirement of this interfund borrowing in April 2019 and the Treasurer's authority to use interfund borrowing for this purpose was repealed. See "Recent Legislative Action Affecting the Funding Status of the RTHMB Fund and VSRS OPEB" below, and see Note IV.G.4 to the State's fiscal year 2018 CAFR for additional information on the funded status and the development of the NPL and NOL.

The funding status as of June 30, 2018 is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
VSRS:						
2018	$23,307	$1,633,194	$1,609,887	1.4%	$531,543	302.9%
STRS						
2018	$(24,969)	$948,402	$973,370	(2.6)%	$607,354	160.3%

Note: Both systems reflect a calculation on the pay-as-you-go basis at a discount rate of 3.58%.

Recent Changes Affecting OPEB Reporting

In June 2015, GASB issued Statement No. 74 ("GASB 74") and Statement No. 75 ("GASB 75"), which set forth new standards that modified the accounting and financial reporting of the State's other post employment benefits ("OPEB"). Under GASB 74, which was effective in 2017, OPEB plans are required to discount retiree health care liabilities based on the 20-year municipal bond rates if there are not sufficient assets in the plans to use the long term expected return rate. As the STRS OPEB does not have any assets, and is funded on a pay-as-you-go basis, the rates used in 2017 and 2018 were the 20-year municipal bond rates of 3.58% and 3.87%, respectively. While the VSRS OPEB does have some assets in trust, they are not available for benefit payments, and as such the same rates as used for STRS were used for the valuation. GASB 75 was effective in 2018, and required states to report a net OPEB liability on their statements of net position, defined as the difference between the total OPEB liability and the net assets set aside in the trust. Also required by Statement No. 75 was the recognition in the statement of activities of a net OPEB expense. The following tables present the funding status of the VSRS OPEB and the STRS OPEB for the last ten years (in accordance with the applicable GASB statements). For additional information on the State's OPEB funding progress, presented in accordance with GASB 74 and GASB 75, see pages 182-186 of the FY2018 CAFR attached hereto as Appendix A.

[3] Interfund borrowing acts similarly to a revolving loan, where the borrowing is paid back at the beginning of the fiscal year using appropriations, and then used throughout the year when needed to fund benefit payments.

VSRS

Valuation (as of June 30)[1]	Plan Net Position	Total OPEB Liability	Net OPEB Liability	Funded Ratio	Covered Payroll	Net OPEB Liability as % of Covered Payroll
2018	$21,770,915	$1,240,275,317	$1,218,504,402	1.76%	$531,542,782	229.24%
2017	22,501,872	1,484,522,051	1,462,020,179	1.52	497,200,588	294.05
Actuarial Valuation (as of June 30)[2]	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**UAAL**	**Funded Ratio**	**Covered Payroll**	**UAAL as % of Covered Payroll**
2016	$21,352,818	$1,165,802,786	$1,144,449,968	1.83%	$497,222,039	230.17%
2015	19,904,458	1,113,023,051	1,093,118,593	1.79	488,949,089	223.56
2014	18,904,148	1,092,728,237	1,073,824,089	1.73	464,517,262	231.17
2013	15,662,783	985,944,145	970,281,362	1.59	436,949,107	222.06
2012	13,378,884	1,052,687,391	1,039,308,507	1.27	406,929,339	255.40
2011	11,215,536	1,050,335,415	1,039,119,879	1.07	420,321,080	247.22
2010	7,897,382	962,618,261	954,720,879	0.82	414,936,034	230.09
2009	5,748,582	812,987,025	807,238,443	0.71	426,826,921	189.13

1 Amounts are prepared in accordance with GASB 74, effective as of fiscal year 2017

2 Amounts are prepared in accordance with GASB Statement No. 43, which was replaced by GASB 74.

STRS

Valuation (as of June 30)[1]	Plan Net Position	Total OPEB Liability	Net OPEB Liability	Funded Ratio	Covered Payroll	Net OPEB Liability as % of Covered Payroll
2018	$(26,443,247)	$927,843,142	954,286,389	(2.85)%	$607,354,756	157.12%
2017	(26,657,646)	905,632,829	932,290,475	(2.94)%	586,397,072	158.99
Actuarial Valuation (as of June 30)[2]	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**UAAL**	**Funded Ratio**	**Covered Payroll**	**UAAL as % of Covered Payroll**
2016	$(20,961,074)	$656,936,580	$677,897,654	(3.19)%	$606,842,668	111.71%
2015	(10,056,456)	993,036,838	1,003,093,294	(1.01)	576,255,084	174.07
2014[3]	-	766,775,478	766,775,478	0.00	565,658,407	135.55
2013	-	712,666,108	712,666,108	0.00	563,533,549	126.46
2012	-	827,180,098	827,180,098	0.00	561,025,964	147.44
2011	-	780,032,155	780,032,155	0.00	547,748,405	142.41
2010	-	703,750,867	703,750,867	0.00	560,763,396	125.50
2009	-	872,236,321	872,236,321	0.00	561,588,013	155.32

1 Amounts are prepared in accordance with GASB 74, effective as of fiscal year 2017

2 Amounts are prepared in accordance with GASB Statement No. 43, which was replaced by GASB 74.

3 The RTHMB Fund was established by the Vermont Legislature pursuant to Act 179 of 2014, effective July 1, 2014. Prior to such date, health care expenses were paid through a sub-fund of the pension fund but were not explicitly budgeted or funded, were treated as an amortized actuarial loss, and were therefore not included in the UAAL calculation.

The GASB 74 OPEB reports for VSRS and STRS as of June 30, 2018 are posted on the State Treasurer's website at:

VSRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/VSTRS-other-reports/VSERS%202018%20OPEB%20GASB%2074%20Report.pdf

STRS: https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTRS-reports/Actuarial-Valuation/VSTRS%202018%20GASB%2074%20Report.pdf

Recent Legislative Action Affecting the Funding Status of the RTHMB Fund and VSRS OPEB

The fiscal year 2019 Budget Adjustment Act was passed in April 2019 and contained changes that affect the funding status of both the STRS and VSRS OPEB. The legislature passed $22.2 million of General Fund appropriations for the STRS OPEB, which combined with revenue generated from the RTHMB Fund in fiscal year 2019, allowed for the full retirement of the interfund borrowing in April 2019. Additionally, VSRS OPEB is granted 50% of any unreserved and undesignated General Fund surplus at the end of fiscal year 2019. This transfer was previously granted to the RTHMB Fund.

LABOR RELATIONS

As of June 30, 2018, there were 8,776 employees (approximately 8,721 full time equivalent positions) in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary employees. Therefore, they are not included in the number of employees.

Most of the State's classified employees in certified bargaining units are represented by the Vermont State Employees' Association (VSEA). The approximately 272 members of the Vermont State Police bargaining unit (for the rank of Sergeant and below) are represented by the Vermont Troopers' Association (VTA). The State's current contract with its unionized VSEA employees, which began on July 1, 2018 and expires on June 30, 2020, provides for the continuation of longevity-based salary increases (steps) and a 1.35% across the board pay increase effective January 6, 2019, and an additional 1.35% across the board pay increase with the continuation of steps effective January 5, 2020. The VTA bargaining unit agreement (beginning July 1, 2018 and expiring June 30, 2020) provides for the continuation of longevity-based salary increases and a 1.35% across the board pay increases effective January 6, 2019, and an additional 1.35% across the board pay increase with the continuation of steps effective January 5, 2020.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving tort, contract, civil rights and employment claims. While the State is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State that would materially affect its financial position is remote. See "CERTIFICATES OF STATE OFFICERS – Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds. See also Note V.D to the audited basic financial statements of the State for fiscal year 2018, attached as Appendix A to this Official Statement.

TAX MATTERS

In the opinion of Locke Lord LLP, Bond Counsel to the State of Vermont ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds will not be included in computing the alternative minimum taxable income of Bondholders who are individuals. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other State of Vermont tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than the State of Vermont. Complete copies of the proposed forms of opinion of Bond Counsel are set forth in Appendix C hereto.

To the extent the issue price of any series and maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular series and maturity of the Bonds is the reasonably expected initial offering price to the public or, if applicable, the first price at which a substantial amount of such series and maturity of the Bonds is sold to the public. The original issue discount with respect to any series and maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the reasonably expected initial offering price to the public, or, if applicable, the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and State of Vermont personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the Vermont legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, H.R. 1, signed into law on December 22, 2017, reduces the corporate tax rate, modifies individual tax rates, eliminates many deductions, and raises the income threshold above which the individual alternative minimum tax is invoked, among other things. These changes may increase, reduce or otherwise change the financial benefits of owning state and local government bonds. Additionally, Bondholders should be aware that future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Bonds may be affected and the ability of Bondholders to sell their Bonds in the secondary market may be reduced. The Bonds are not subject to special mandatory redemption, and the interest rates on the Bonds are not subject to adjustment, in the event of any such change in the tax treatment of interest on the Bonds.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

FINANCIAL ADVISOR

Public Resources Advisory Group, Media, Pennsylvania ("PRAG"), serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, PRAG has read and participated in the preparation of certain portions of this Official Statement. PRAG is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. PRAG is not obligated to undertake to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

COMPETITIVE SALE OF THE SERIES A BONDS

The Series A Bonds will be offered for sale at competitive bidding on July 24, 2019, unless postponed or cancelled as described in the applicable Official Notice of Sale of the State dated July 17, 2019. This Preliminary Official Statement has been deemed final as of its date by the State in accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). After the Series A Bonds have been awarded, the State will prepare a final Official Statement (the "Final Official Statement"), which will be a "final official statement" within the meaning of Rule 15c2-12. The Final Official Statement will be similar in form to this Preliminary Official Statement, and will include, among other matters, the identity of the winning bidder and the manager of the syndicate, if any, submitting the winning bid, the purchase price of the Bonds from the State and other information regarding the interest rates and reoffering prices or yields of the Bonds, as supplied by the winning bidder.

UNDERWRITING OF THE SERIES B BONDS

The Series B Bonds are being purchased for re-offering by the underwriters named on the cover page of this Official Statement (the "Series B Underwriters"), at an aggregate purchase price of $_________ and the Series B Underwriters will receive a fee from the State in an amount equal to $_______. Pursuant to the Contract of Purchase, the Series B Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Series B Bonds if any are purchased. Subject to the Contract of Purchase, the Series B Underwriters may offer and sell the Series B Bonds to certain dealers and others (including dealers depositing Series B Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the inside cover page hereof, and the public offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Series B Underwriters.

The following language has been provided by the underwriters named therein. The State takes no responsibility as to the accuracy or completeness thereof.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., one of the underwriters of the Series B Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series B Bonds.

BofA Securities, Inc., as an underwriter of the Series B Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Citigroup Global Markets Inc., an underwriter of the Series B Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Series B Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series B Bonds that such firm sells.

RATINGS

The State has received ratings of "AA+," "Aa1" and "AA+" from Fitch Inc., Moody's Investors Service and S&P Global Ratings (each, a "Rating Agency"), respectively, on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, whose approving opinion will be delivered with the Bonds. A copy of the proposed form of opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Series B Underwriters by Nixon Peabody LLP, Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of such officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and event notices will be filed by the State with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the event notices is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The State is not aware of any failure to comply in any material respect with any of its previous undertakings with respect to the Rule in the previous five years.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. Elizabeth A. Pearce, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, Telephone: (802) 828-2301 or from Mr. Thomas F. Huestis, Senior Managing Director, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063, Telephone: (610) 565-5990.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2019 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2019 and thereafter cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: ____
Governor

By: ____
Treasurer

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APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The information in this Appendix A includes pages 13 through 197 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2018. The entire CAFR is available from the Department of Finance and Management's website at http://finance.vermont.gov/reports-and-publications/cafr.

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CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of certain agencies and component units of the State, which represent the indicated percentages of total assets and total revenues of the opinion units as presented in the table below. Additionally, we did not audit the information disclosed in Note V-E. Those financial statements and information in Note V-E. were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it related to the amounts included for those funds and component units, is based solely on the reports of the other auditors.

	Percentage Audited by Other Auditors	
	Assets	**Revenues**
Governmental Activities	9%	2%
Business-type Activities	2%	39%
Aggregate Discretely Presented Component Units	100%	100%
Special Fund	6%	12%
Federal Revenue Fund	75%	6%
Vermont Lottery Commission Fund	100%	100%

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principle

As described in Note V-G. to the financial statements, during the year ended June 30, 2018 the State adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and No. 81 *Irrevocable Split-Interest Agreements*. As a result of the implementation of these standards, the State reported a restatement for the changes in accounting principle. Our opinion was not modified with respect to that matter.

Correction of Error

As described in Note V-G. to the financial statements, the State restated beginning balances resulting from the correction of accounting errors, related to the reporting entity, that occurred in the prior period. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the report of other auditors, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Lexington, Massachusetts
December 21, 2018

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ended June 30, 2018. This Management Discussion & Analysis (MD&A) section is intended to serve as an introduction to the state's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide an easily readable overview of the state's financial activities, identify any material changes from the original budget, and highlight financial matters that occurred during fiscal year 2018. The following presentation is in summary form; to gain a thorough understanding of the state's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide

- Vermont reported a deficit net position of $198.1 million, comprised of $5.229 billion in total assets and $757 million in deferred outflows offset by $5.859 billion in total liabilities and $325 million in deferred inflows at June 30, 2018 (Table 2). Of this deficit net position amount, $2.593 billion represents the net investment in capital assets, $1.042 billion is restricted for various purposes, and $3.833 billion represents a deficit unrestricted net position. The reasons for the deficit unrestricted net position are discussed in the Government-wide Financial Analysis below.

- The primary government's net position has increased by $95 million as a result of this year's operations. The net position for governmental activities increased $15.7 million and net position for business activities increased by $79.4 million (Table 3). The increase in net position for business activities was primarily due to improvements in the financial position of the Unemployment Compensation Trust Fund.

Fund level

- Vermont's governmental funds reported a combined ending fund balance of $1.072 billion, an increase of $144.8 million or 15.6 percent above the prior year. Of this ending fund balance, $80.6 million is non-spendable, $574.8 million is restricted for specific purposes, and $416.4 million is available for spending (committed, assigned, and unassigned fund balance). The increase in ending fund balance is primarily attributable to increases in fund balances of the General Fund ($47.9 million), Special Revenue Funds ($48.4 million), and Capital Projects Funds ($48.7 million).

- Vermont's enterprise funds reported a combined net position of $460.5 million, an increase of $79 million over last year.

- Vermont's General Fund reported an ending fund balance of $170.4 million, of which $73.2 million is nonspendable, and $97.2 million is available for spending (assigned and unassigned).

Capital assets

- The carrying amount of capital assets for the primary government increased to $3.007 billion, an increase of $111 million over last year. The increase is primarily due to $155 million in infrastructure assets, offset by reductions in construction in process ($22 million), and in buildings and improvements ($18 million).

Long-term debt

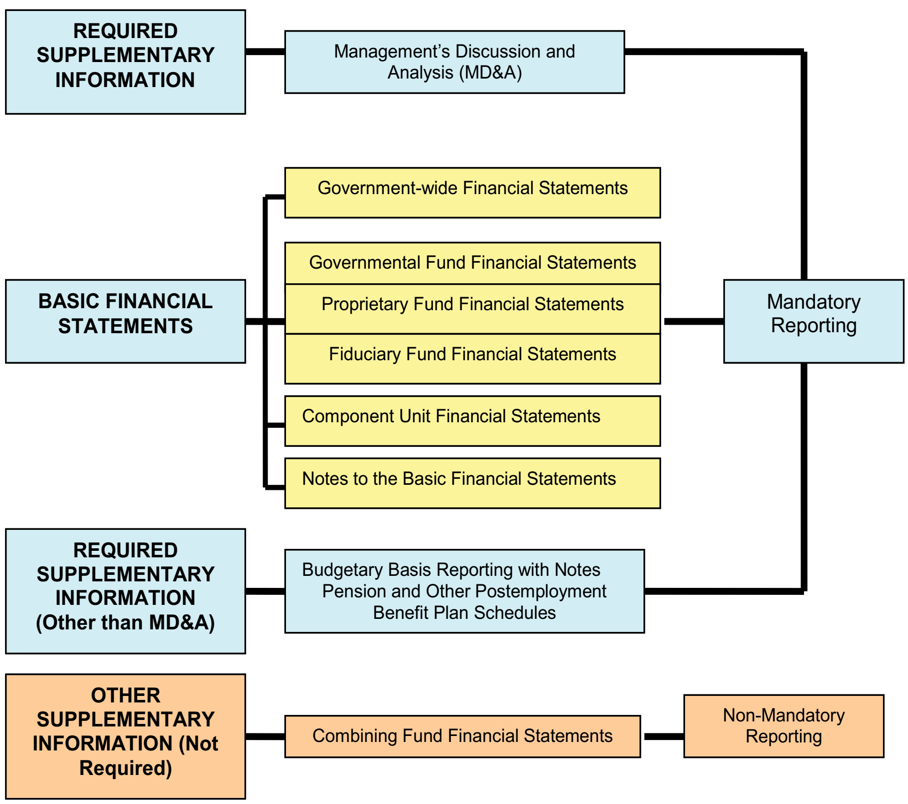
- Vermont's debt outstanding for general and special obligation bonds increased $57.2 million as compared to fiscal year 2017. In 2018, Vermont issued $106.1 million in general obligation bonds, and retired $47.3 million in general obligation bonds and $1.6 million in special obligation bonds.

More information regarding the government-wide financial statements, fund level financial statements, capital asset activity and long-term debt activity can be found beginning on page 23.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of an introductory section, a financial section, and a statistical section. The financial section contains the Independent Auditor's Report, this discussion and analysis section, the basic financial statements (BFS) with required supplementary information (RSI), and other supplementary information. Additional information regarding the above sections may be found below as well as in the notes to the financial statements.

The layout of the financial section and the relationship of the financial statements and supplementary information is presented in the following diagram. Notice the relationships between the various elements of the CAFR, such as "mandatory versus non-mandatory" reporting, or "required versus not required" supplementary information. This diagram is designed to illustrate how the various elements of the state's financial activity fit together in this CAFR.



Basic Financial Statements

Vermont's basic financial statements (BFS) consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component units' financial statements, and 4) notes to the financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. Notes to the financial statements provide explanations and/or additional detail for all of the above type financial statements and are considered an integral part of the financial statements.

Table 1 summarizes the major features of the basic financial statements with further explanations below:

Table 1 - Major Features of the State's Government-wide and Fund Financial Statements				
	Government-wide	Fund Financial Statements		
	Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's discretely presented component units	The activities of the state that are not proprietary or fiduciary, such as Human Services and Transportation	Activities the state operates similar to private businesses, such as the Liquor Control Fund and Vermont Lottery Commission	Instances in which the state is the trustee or agent for someone else's resources, such as the retirement plans for public employees
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expense, and Changes in Net Position, Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, and both short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and both short-term and long-term	All assets and liabilities, both financial and capital, and both short-term and long-term
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

1) Government-Wide Financial Statements
Vermont's government-wide financial statements, which follow this MD&A section, are designed to present a broad view of the state's operations and financial position in a manner similar to the accounting principles used by most private-sector business. All of Vermont's activities except its fiduciary funds' activities are reported in the government-wide statements. Fiduciary activities are not included because the resources of these funds are not available to support Vermont's own programs.

The government-wide statements contain both short-term and long-term information about the state's financial position and assist in assessing the state's economic condition at the end of each fiscal year. Vermont prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. The methods utilized to prepare these statements are similar to those used by most private sector businesses. They consider all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the state, even if cash involved has not been received or paid.

The government-wide financial statements present two statements:

The *Statement of Net Position* presents a snapshot of both the primary government's and its component units' assets and liabilities and deferred outflows and deferred inflows, as of the date of this report, with the difference between the assets and deferred outflows, and liabilities and deferred inflows reported as "net position". Over time, increases or decreases in the primary government's net position may serve as an indicator as to whether the financial position of the state is improving or deteriorating.

The *Statement of Activities* presents the reported year's financial activity and hence, the reason(s) for the changes in net position included on the Statement of Net Position. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the state's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into three categories: governmental activities, business-type activities, and discretely presented component unit activities. The governmental activities and business-type activities are combined to report on what is termed *primary government activities* which are separate and distinct from the *component units' activities* of the discretely presented component units.

Primary Government Activities
Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. The governmental activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – These business-type activities of the state include the operations of Vermont's enterprise activities. For financial reporting purposes, these activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the Unemployment Compensation Trust Fund program, Liquor Control, and the State Lottery Commission. Activities reported as non-major include the Federal Surplus Property Program, publishing Vermont Life Magazine, making equipment loans to municipalities, and several other activities. Both major and non-major activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units' Activities
Discretely Presented Component Units – These are legally separate (incorporated) entities for which the primary government has the ability to impose its will on the entity, receive a benefit from activities of the entity, or could incur a financial burden due to the activities of the entity. Vermont's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of four major and five non-major component units. This categorization is determined by the entity's relative significance to Vermont . Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the component units are presented in Note I to the financial statements.

Blended Component Units – Vermont has no blended component units.

Included with the basic financial statements are two schedules that reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with governmental activities (accrual basis of accounting) on the government-wide statements. The following summarizes some of the differences in modified accrual and accrual accounting:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund statements.
- Certain revenues that are earned, but not available, are reported as revenues of governmental activities, but are reported as unavailable revenue on the governmental fund statements.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, net pension and other postemployment benefit obligations, and bonds and notes payable appear as liabilities in the government-wide statements but are not reported in the governmental fund statements.
- Internal service funds are reported primarily as governmental activities, but reported as proprietary funds in the fund financial statements.
- Capital outlay spending results in recording capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements. Payments of bond and note principal results in a reduction in liabilities on the government-wide statements but is reported as expenditures on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Net position balances are allocated as *net investment in capital assets* (capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds and notes attributable to those assets) *restricted net position* (those with constraints placed on their use by external sources or imposed by law through constitutional provision or enabling legislation) and *unrestricted net position* (the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet any of the above restrictions).

The notes to the basic financial statements provide additional information that is integral to understanding the data provided in the government-wide and fund financial statements.

2) Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. In line with practices in other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on the state's activities in more detail than the government-wide statements. All Vermont's funds have been divided into three categories for reporting purposes: governmental, proprietary, and fiduciary. For governmental activities, the governmental funds financial statements indicate how these services are financed in the short-term as opposed to the government-wide statements, which present a long-term view of the state's finances.

In accordance with GASB Statement No. 34, the focus of governmental fund financial statements has shifted from fund types to reporting on the most significant funds of the state, or major funds. Accordingly, the governmental and proprietary funds are divided into major and non-major categories as required by the Governmental Accounting Standards Board. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules or statements in the Other Supplementary Information section present detailed non-major fund activity. Fiduciary funds are reported by fiduciary type (pension and other postemployment benefit trusts, private purpose trusts, and agency funds) with combining schedules or statements for the individual pension, other postemployment benefit, and agency funds presented in the Other Supplementary Information section.

The three categories of funds are Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below. Following is a brief overview of these three major categories of funds.

Governmental Funds
Most of the basic services provided by Vermont are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as the balances of resources available at the end of the fiscal year. This approach uses the "flow of current financial resources" measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the state's finances that help determine whether adequate financial resources are available to meet the current needs of the state.

Because the time period focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Schedules reconciling the governmental funds' Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided on the pages immediately following each governmental fund financial statement to facilitate this comparison.

Vermont reports twenty governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. Each major fund is presented in a separate column in the Governmental Funds' *Balance Sheet* and in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The "non-major" governmental funds include the Fish and Wildlife Fund, two capital projects funds, two debt service funds, and nine permanent funds, all of which are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the Other Supplementary Information section of this report.

Fund balance (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources) is classified as nonspendable, restricted and unrestricted (committed, assigned or unassigned).

Vermont budgets and controls its financial activities on the cash basis of accounting. State law, requires financial transactions to be recorded in either of two major categories – the General Fund or various special revenue funds. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. Vermont adopts an annual appropriated budget for its budgetary general fund and each special revenue fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the approved budgets. These schedules can be found as part of the required supplementary information section of this report.

The governmental funds' financial statements immediately follow the government-wide financial statements.

Proprietary Funds
This category of funds includes enterprise funds (business-type) and internal service funds. These funds report activities that operate much like those of commercial enterprises. These funds' financial reports include a *Statement of Net Position;* a *Statement of Revenues, Expenses and Changes in Net Position*; and a *Statement of Cash Flows*.

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail and at the fund level. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account for services provided to the general public, government, and non-state government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

Vermont reports eight enterprise funds of which three are reported as major funds in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other five enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary fund statements.

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. These funds provide communication and information technology, facilities and property management, fleet management, printing, risk management and insurance services. The internal service fund activities are allocated proportionately between the governmental activities (predominately) and the business-type activities in the government-wide statements based on the benefit of the services provided to these activities. The reconciliation between the government-wide financial statements for business-type activities and the proprietary fund statements is presented at the end of the proprietary fund financial statements.

Vermont reports twenty-four internal service funds, which are reported in one consolidated column entitled "Governmental Activities – Total Internal Service Funds" on the Proprietary Funds Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The proprietary funds' financial statements immediately follow the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the Other Supplementary Information section of this report.

Fiduciary Funds
The fiduciary funds are used to account for assets held by Vermont in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are excluded from the government-wide financial statements because the Vermont cannot use these assets to finance its operations. The fiduciary funds use the accrual basis of accounting.

Vermont's fiduciary funds are divided into the following three basic categories: Pension and Other Postemployment Benefit Trust Funds (includes three separate defined benefit pension plans, three separate defined contribution pension plans, two defined benefit other postemployment benefit plans, and one defined contribution other postemployment benefit plan); a Private Purpose Trust Fund (which reports only the Unclaimed Property Fund); and Agency Funds (nine agency funds which account for the assets held for distribution by Vermont as an agent for other governmental units, organizations or individuals). These funds' financial reports include a *Statement of Fiduciary Net Position;* and a *Statement of Changes in Fiduciary Net Position*.

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension and other postemployment benefit trust funds, and agency funds financial statements are reported in the Other Supplementary Information section of this report.

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, Vermont has included the net position and activities of four major component units in individual columns and five non-major component units in a single column on the statements. The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in Other Supplementary Information section of this report.

4) Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. The notes also explain some of the information contained in the financial statements and provides more detail than is practical in the financial statements.

The notes include a summary of significant accounting policies; additional information regarding the reconciliation of government-wide and fund financial statements; discussions on stewardship, compliance and accountability; detail notes on all activities and funds; and other information. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information Other Than MD&A

The basic financial statements are followed by a section of required supplementary information. This section includes:

- The Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Investment Returns, the Schedule of Employer and Nonemployer Contributions, and the Schedule of the State's Proportionate Share of the Net Pension Liability for the two defined benefit pension trusts are included in the required supplementary information section. Also, this section includes the Schedule of Changes in Net OPEB Liability and Related Ratios, The Schedule of Investment Returns, Schedule of Employer and Nonemployer Contributions, and the Schedule of the State's Proportionate Share of the Net OPEB Liability for the other postemployment benefit plans.

- Schedules for the General Fund and budgeted Special Revenue Funds comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis. See Note III. A. for additional information regarding the budgetary process, including the budgetary basis.

- Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for the general fund and each budgeted special revenue fund, as well as additional information regarding the budgetary process.

Other Supplementary Information

Combining Financial Statements

The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the Required Supplementary Information section. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

- Non-major governmental funds
- Non-major proprietary (enterprise) funds
- Internal service funds
- Fiduciary funds (including individual pension and other postemployment benefit trust funds, and agency funds)
- Non-major component units

Statistical Section

A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The following primary government condensed financial statement information is derived from Vermont's June 30, 2018 and 2017 government-wide Statement of Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 2
State of Vermont's Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current assets..........................	$ 1,286.0	$ 1,108.1	$ 494.9	$ 416.9	$ 1,780.9	$ 1,525.0
Other assets...........................	439.3	430.4	1.9	2.0	441.2	432.4
Capital assets...........................	3,004.9	2,895.7	2.4	0.9	3,007.3	2,896.6
Total assets.......................	4,730.2	4,434.2	499.2	419.8	5,229.4	4,854.0
DEFERRED OUTFLOWS						
Total deferred outflows.......	754.1	592.3	2.5	2.5	756.6	594.8
LIABILITIES						
Other liabilities..........................	659.3	584.1	23.2	23.3	682.5	607.4
Long-term liabilities....................	5,160.3	3,447.4	16.2	6.3	5,176.5	3,453.7
Total liabilities...................	5,819.6	4,031.5	39.4	29.6	5,859.0	4,061.1
DEFERRED INFLOWS						
Total deferred inflows.........	323.3	113.8	1.9	0.7	325.2	114.5
NET POSITION						
Net Investment in capital assets...........................	2,591.0	2,543.1	2.4	0.9	2,593.4	2,544.0
Restricted................................	582.0	601.2	459.6	384.4	1,041.6	985.6
Unrestricted (deficit)..................	(3,831.6)	(2,263.2)	(1.5)	6.7	(3,833.1)	(2,256.5)
Total net position................	$ (658.6)	$ 881.1	$ 460.5	$ 392.1	$ (198.1)	$ 1,273.2

Totals may not add due to rounding.

Vermont's combined deficit net position (governmental and business-type activities) totals $198.1 million at the end of fiscal year 2018, as shown in Table 2. Approximately $2.593 billion of the combined net position represents Vermont's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This net investment in capital assets represents resources used to provide services to citizens, and therefore is not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets net of accumulated depreciation increased by $111 million primarily due to a $155 million increase in infrastructure assets, offset by a $22 million decrease in construction in process and a $18 million decrease in building and improvements.

An additional portion of the primary government's net position ($1.042 billion) represents resources that are subject to external restrictions on how they may be used. This is an increase of $56 million and is primarily a result of additional amounts that are restricted for unemployment compensation ($75 million), natural resources ($22 million), and in capital projects ($49 million), offset by a decrease in human services ($90 million).

Internally imposed designations of resources are not presented as restricted net position. The remaining balance of unrestricted net position is a deficit of $3.833 billion. The governmental activities' negative unrestricted net position balance is mainly the result of three actions: 1) long-term debt issued by Vermont for municipal, non-profit or component unit capital purposes, $215.7 million outstanding at June 30, 2018 that does not result in a governmental activities' capital asset; 2) the amount of net position that is restricted for various purposes; and 3) the net Pension and net other postemployment benefit liabilities (see Note IV. G. 4.).

Current assets increased by $255.9 million primarily due to increase in cash and cash equivalents ($159.1 million) and investments ($117.6 million), offset by decreases in federal grants receivable ($16.4 million). Long term liabilities increased by $1.723 billion primarily due to the increase in net pension liabilities and net other postemployment benefit liabilities ($1.664 billion) and in bonds, notes, and leases payables ($55 million).

At the end of fiscal year 2018, Vermont reported positive total net position balances in its business-type activities and its discretely presented component units, and a deficit net position in its governmental activities.

Changes in Net Position

Governmental type activities had an overall increase in net position of $15.7 million, or a 2.3 percent reduction in the deficit net position, resulting from an operating loss of $9.8 million offset by net transfers in from business-type activities of $25.5 million, primarily from the Vermont Lottery Commission ($27.2 million) to support education. The $215.7 million increase in revenues over 2017 was due to a $14.4 million increase in program revenues and an increase of $201.3 million in general revenues.

Business-type activities had an overall increase in net position of $79 million or 20.8 percent, resulting from an operating profit of $104.9 million offset by net transfers out of $25.5 million to governmental activities, primarily from the Lottery ($27.2 million) to support education. Revenues increased from 2017, primarily due to an increase in ticket sales in the Vermont Lottery Commission ($10 million), an increase in revenue in the Department of Liquor Control ($2.4 million) and investment income in the Unemployment Compensation Trust Fund ($1.8 million). The revenue increases were offset by an increase in expenses, primarily due to an increase in expenses in Vermont Lottery ($8.6 million).

The primary government condensed financial statement information is derived from Vermont's June 30, 2018 and 2017 government-wide Statement of Changes in Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

The beginning net position as of July 1, 2017 for Governmental Activities and Business-type Activities was restated for the implemented Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* that require employers and non-employer contributing entities to report their net other postemployment benefit liability on their financial statements.

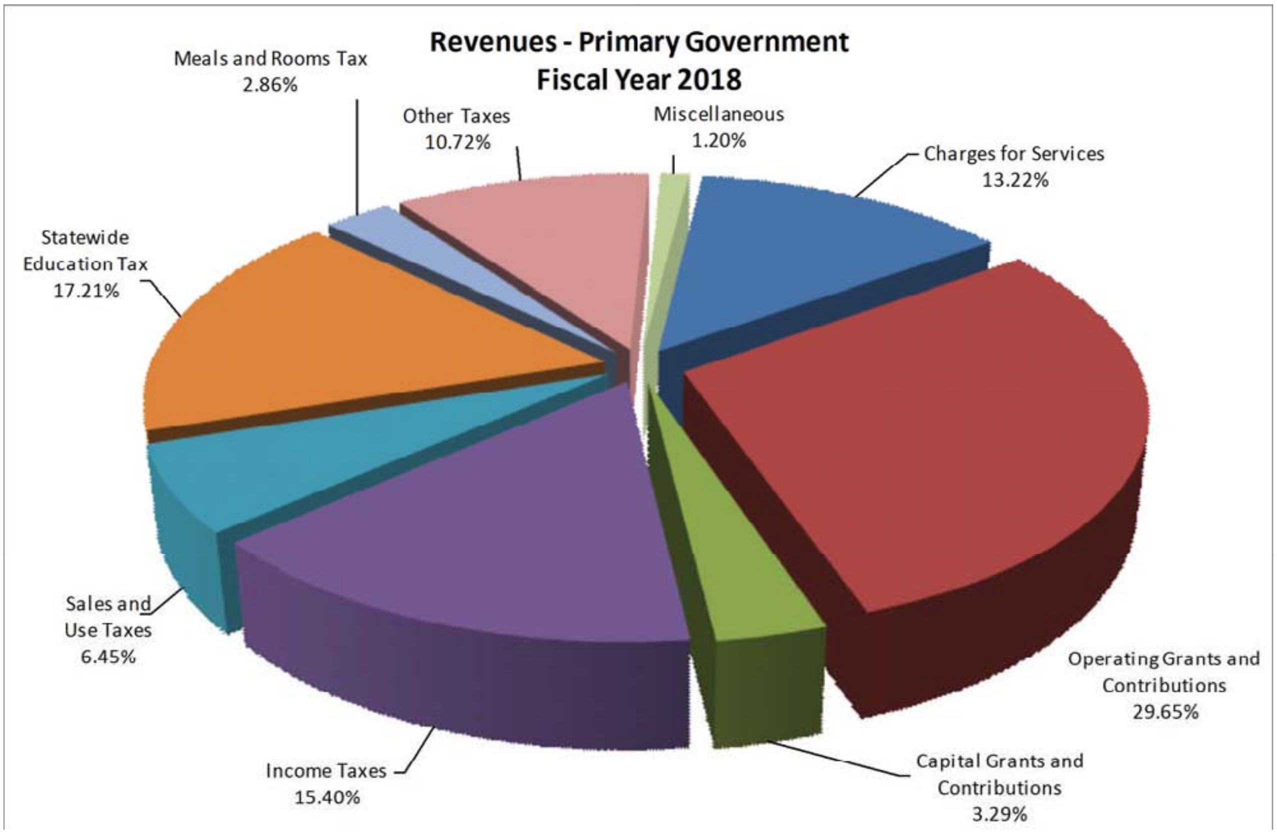
(Table on next page.)

TABLE 3
State of Vermont's Changes in Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	$ 479.4	$ 473.8	$ 333.8	$ 334.2	$ 813.2	$ 808.0
Operating grants and contributions	1,823.6	1,838.5	0.5	0.8	1,824.1	1,839.3
Capital grants and contributions	202.5	178.8	-	-	202.5	178.8
General revenues						
Income taxes	947.6	830.8	-	-	947.6	830.8
Sales and use taxes	397.1	376.4	-	-	397.1	376.4
Statewide education tax						
Gross tax assessed	1,231.1	1,219.3	-	-	1,231.1	1,219.3
Income sensitivity adjustment	(172.1)	(170.2)	-	-	(172.1)	(170.2)
Meals and rooms tax	175.7	169.1	-	-	175.7	169.1
Other taxes	659.5	639.6	-	-	659.5	639.6
Miscellaneous	65.0	37.6	8.8	7.0	73.8	44.6
Total revenues	5,809.4	5,593.7	343.1	342.0	6,152.5	5,935.7
Expenses						
General government	158.6	137.9	-	-	158.6	137.9
Protection to persons and property	407.3	385.0	-	-	407.3	385.0
Human services	2,471.7	2,509.1	-	-	2,471.7	2,509.1
Labor	29.8	31.8	-	-	29.8	31.8
General educaton	2,092.4	1,995.5	-	-	2,092.4	1,995.5
Natural resources	135.0	112.2	-	-	135.0	112.2
Commerce and community development	43.4	48.3	-	-	43.4	48.3
Transportation	462.0	432.9	-	-	462.0	432.9
Interest on long-term debt	19.0	17.1	-	-	19.0	17.1
Unemployment compensation	-	-	64.1	68.8	64.1	68.8
Lottery commission	-	-	105.5	96.9	105.5	96.9
Liquor control	-	-	64.2	60.7	64.2	60.7
Other business type expenses	-	-	4.5	4.8	4.5	4.8
Total expenses	5,819.2	5,669.8	238.3	231.2	6,057.5	5,901.0
Change in net position before transfers	(9.8)	(76.1)	104.9	110.8	95.1	34.7
Transfers net in (out)	25.5	27.5	(25.5)	(27.5)	-	-
Change in net position	15.7	(48.6)	79.4	83.3	95.1	34.7
Net position, beginning of year, as restated	(674.3)	929.7	381.1	308.8	(293.1)	1,238.5
Net position, end of year	$ (658.6)	$ 881.1	$ 460.5	$ 392.1	$ (198.1)	$ 1,273.2

Totals may not add due to rounding.

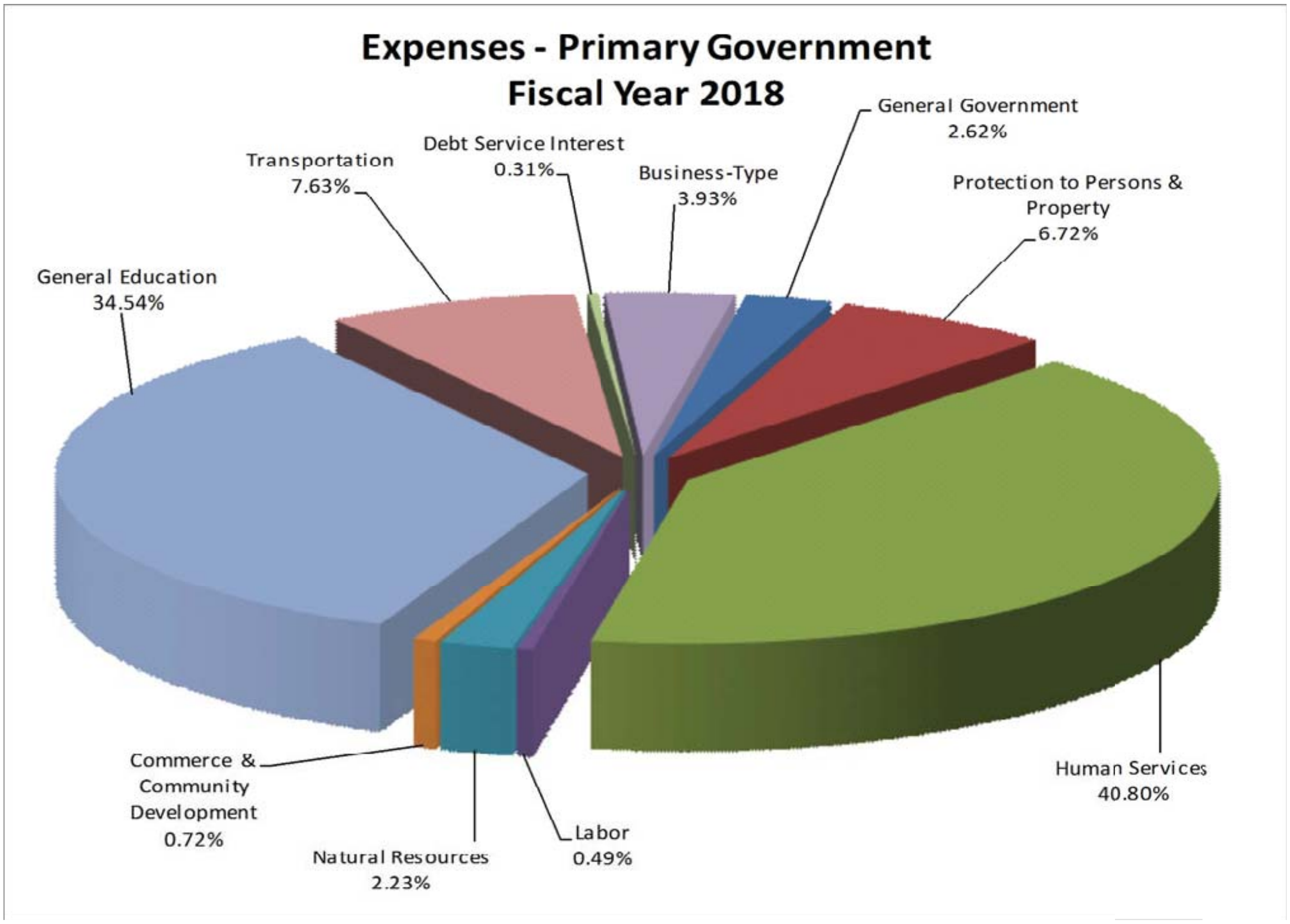
The following graph illustrates the revenues of Vermont's primary government for fiscal year 2018. Approximately 32.94 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 32.61 percent of total revenues are generated by the statewide education and income taxes.



Percentages may not equal 100% due to rounding.

The following graph illustrates the percentages of total primary government expenses for fiscal year 2018. The largest category of expense is for human services (40.80 percent of total expense) which provides for Vermont's low-income, elderly care services and persons in state custody in the form of grants for selected services such as food stamps, health care, housing and child protective services. The second most significant category of expense is for general education (34.54 percent of total expenses) which provides for Vermont's support to secondary and higher education.

(Chart on next page.)

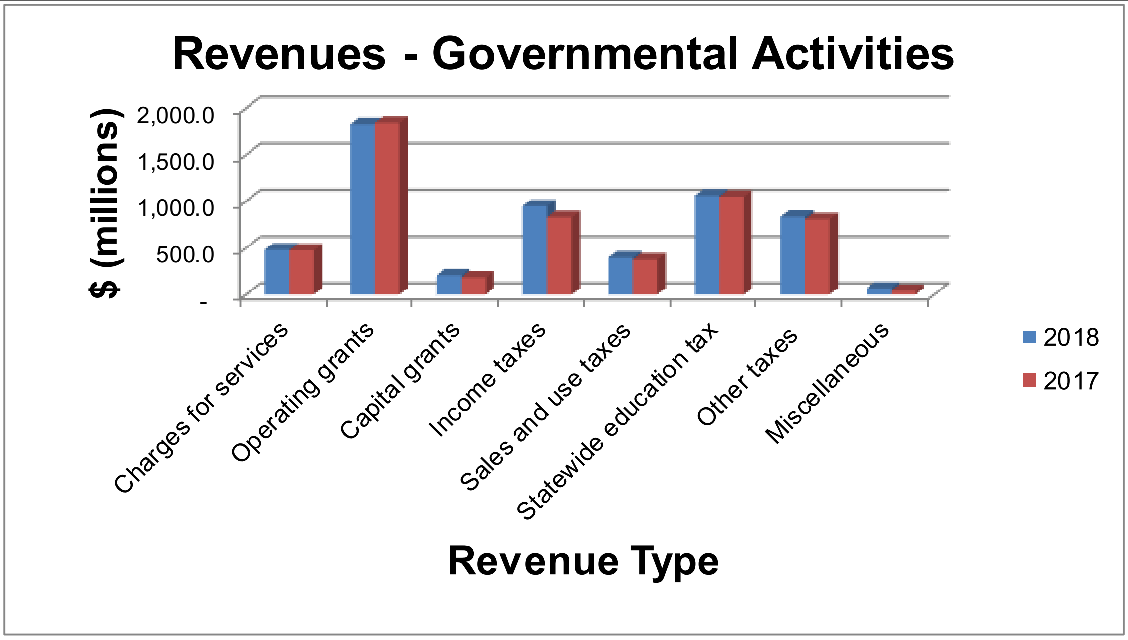


Percentages may not equal 100% due to rounding.

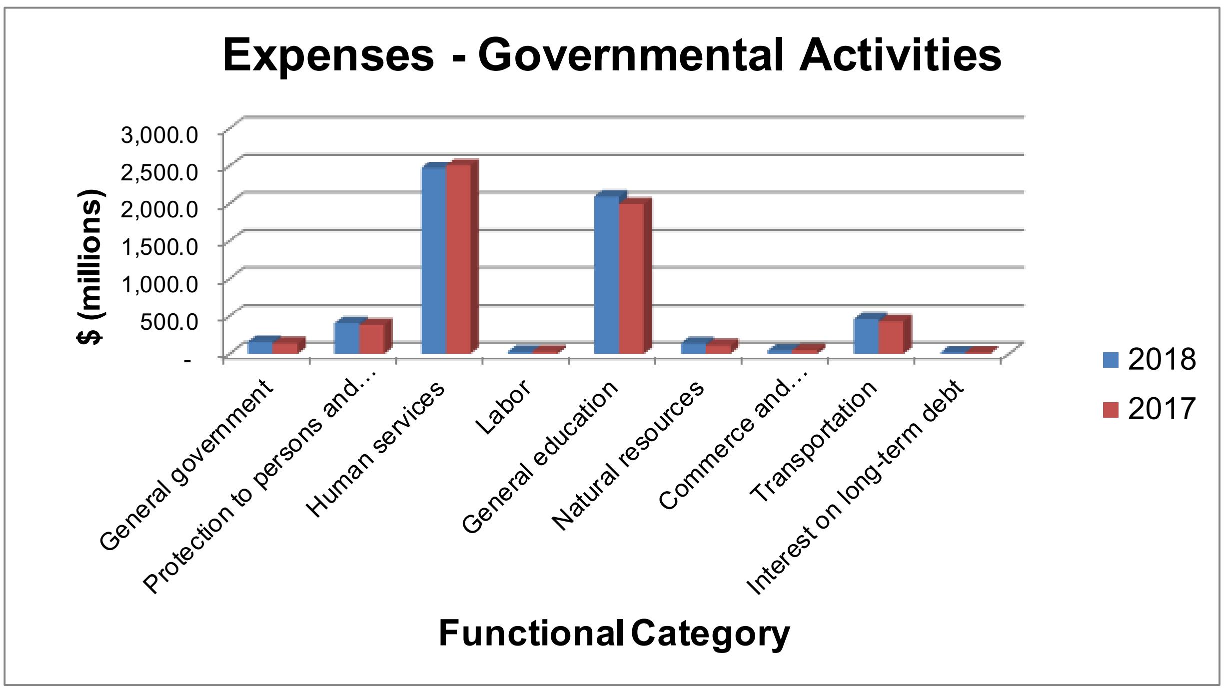
Governmental Activities
In 2018, governmental activities' expenses exceeded revenues by $9.8 million and were offset by net transfers in of $25.5 million from business activities, resulting in a increase of $15.7 million, for a 2.3 percent decrease in deficit net position. Revenues increased by $215.7 million, primarily due to an increase in program revenue ($14.4 million) and an increase in general revenues ($201.3 million). Spending increased for general government ($20.7 million), protection to persons and property ($22.3 million), general education ($96.9 million), natural resources ($22.8 million), and transportation ($29.1 million).

The following chart provides a two-year comparison of governmental activities revenues:

(Chart on next page.)



The following chart provides a two-year comparison of governmental activities expenses:



The following table shows to what extent program revenues (charges for services and grants and contributions) covered program expenses. For fiscal year 2018, program revenues covered $2.5 billion or 43.1 percent of $5.8 billion in program expenses. The remaining $3.3 billion or 56.9 percent of program expenses was paid for by state taxes and other general revenue.

(Chart on next page.)

TABLE 4
Net Program Revenue
For the years ended June 30, 2018 and 2017

	Program Expenses	Less Program Revenues	Net Program (Expense)/Revenue		Program Revenues as a Percentage of Program Expenses	
	2018	2018	2018	2017	2018	2017
Functions/programs						
General government	$ 158,631,192	$ 43,565,022	$ (115,066,170)	$ (103,971,258)	27.5%	24.6%
Protection to persons and property	407,264,163	264,956,810	(142,307,353)	(111,490,841)	65.1%	71.0%
Human services	2,471,653,289	1,475,530,527	(996,122,762)	(1,013,396,110)	59.7%	59.6%
Labor	29,757,653	36,453,189	6,695,536	16,402,297	122.5%	151.5%
General education	2,092,459,202	132,100,378	(1,960,358,824)	(1,855,838,492)	6.3%	7.0%
Natural resources	135,030,367	98,224,831	(36,805,536)	(35,494,405)	72.7%	68.4%
Commerce and community development	43,387,596	15,276,370	(28,111,226)	(27,734,026)	35.2%	42.6%
Transportation	461,987,716	438,357,323	(23,630,393)	(31,427,756)	94.9%	92.7%
Interest on long-term debt	18,997,714	1,131,942	(17,865,772)	(15,988,076)	6.0%	6.7%
	$ 5,819,168,892	$ 2,505,596,392	$ (3,313,572,500)	$ (3,178,938,667)	43.1%	43.9%

FINANCIAL ANALYSIS OF THE PRIMARY GOVERNMENT'S INDIVIDUAL FUNDS

As noted earlier, the State of Vermont uses fund accounting to account for its ongoing operations and to demonstrate compliance with finance-related legal requirements imposed by both legislative mandates as well as externally imposed restrictions.

Governmental Funds
The focus of the state's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state's financing requirements. In particular, unrestricted (unassigned, assigned, and committed) fund balances may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2018, the unrestricted fund balance is 38.8 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at Vermont's discretion in the coming year. The remainder of this fund balance is restricted or nonspendable to indicate that it is not available for appropriation, such as the principal of Vermont's Permanent Funds, and other items that are nonspendable, such as advances and long-term receivables. At the end of fiscal year 2018, Vermont's governmental funds reported combined fund balances of $1,071.8 million, a increase of $144.8 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of Vermont. At the end of fiscal year 2018, the General Fund's total fund balance was $170.4 million. The fund balance was made up of nonspendable amounts totaling $73.2 million, and available amounts totaling $97.2 million of which $90.4 million is unassigned. During 2018, total revenues and other financing sources were greater than total expenditures and other financing uses by $47.9 million.

General Fund revenues increased by $96.7 million, or 6.65 percent, primarily due to a $96 million increase in taxes. Expenditures increased by $30.7 million or 3.43 percent, primarily due to a $30.9 million increase in general education (a one-time additional $26 million payment to state teachers' pension plan and $4.6 million increase in grant expenditures). The General Fund's statutory reserve for budgetary stabilization increased by $2.9 million to $77 million, the statutory maximum.

The Transportation Fund's total fund balance was $26.6 million at June 30, 2018, an increase of $11.6 million from the fiscal year 2017's ending total fund balance. Transportation Fund revenues increased $44.4 million or 7.88 percent, primarily due to an increase in Federal grant funding for state highway projects; offset by an increase in expenditures of $29.3 million for transportation related projects. The Transportation Fund's statutory reserve for budget stabilization increased by $215 thousand to $13.5 million, the statutory maximum.

The Education Fund at June 30, 2018 had a total fund balance of $103.5 million, which represents a $33.1 million increase from fiscal year 2017's ending balance. General education costs increased by $46.1 million, primarily due to an increase in grants to school districts of $46.1 million. The statewide education tax increased $9.7 million, sales and use taxes increased $30.4 million, meals and rooms taxes increased $4.0 million, and purchase and use tax increased $2.1 million. Transfers in from the General Fund increased $43.5 million. The Education Fund's statutory reserve for budget stabilization increased $1.18 million to $34.6 million, the statutory maximum.

The Special Fund's total fund balance at the end of fiscal year 2018 was $165.1 million, an increase of 72.1 percent compared to 2017. The Special Fund's total fund balance is comprised of $10.9 million as restricted, $154.2 million as committed and assigned. Special Fund revenues increased $45.1 million or 7.46 percent, and expenditures increased $19 million or 6.28 percent. The increase in expenditures was primarily in the protection to persons and property function ($12.3 million), of which $5 million was in the Energy Efficiency Utility program's grants; and natural resource function ($13.1 million). This resulted in an increase in "excess of revenues over expenditures" of $26.1 million from last fiscal year. Fiscal year 2018 transfers out to other funds exceeded transfers in from other funds by $259.8 million. The Special Fund received transfers in of $71.5 million, in part, consisting of Federal Revenue Fund monies for the earned income tax credit ($18.5 million); earned federal receipts ($16.9 million); matching funds for school-based Medicare services ($27.7 million); the Next Generation Fund ($2.9 million); and Federal Revenue Fund monies for Children's Health Insurance Claims fund ($1.6 million). Transfers out of $331 million consisted primarily of payments for a portion of Vermont's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver ($321 million).

The Federal Revenue Fund accounts for all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund), the Global Commitment to Health Medicaid waiver (which are included in the Global Commitment Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2018 were $783.8 million, a decrease of $4.4 million compared to fiscal year 2017's federal grant revenues. Expenditures were $719.7 million in fiscal year 2018, a decrease of $9.2 million compared to 2017. The Federal Revenue Fund's total fund balance at the end of fiscal year 2018 ($459.3 million) was an increase of $800 thousand as compared to the total fund balance at the end of fiscal year 2017.

The fiscal year 2018 ending total fund balance for the Global Commitment Fund was $41.1 million, a decrease of $66.7 million. In 2018, the Global Commitment Fund's balance was reduced for Vermont's portion of incurred but not reported ("IBNR") reserve requirement for claims of $58 million; in 2017, Vermont's portion of accrued claims liability was allocated to the General Fund and Special Fund. See Note I, Section C for more information regarding these funds.

Proprietary Funds

Vermont's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund's total net position balance increased from $384.4 million at June 30, 2017 to $459.6 million at June 30, 2018, an increase of $75.1 million in one year. Expenditures from the fund for unemployment benefits decreased by $4.7 million from 2017.

Vermont's *internal service funds'* total net position at June 30, 2018 was $35.6 million, a $3.1 million increase from June 30, 2017. This change is primarily due to an increase in net position of $13.4 million in the medical insurance fund, offset by a decrease in the workers compensation fund of $7.2 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
Vermont's fiduciary funds account for resources held for the benefit of parties outside state government. The Pension and Other Postemployment Benefit Trust Funds' net position increased by 5.55 percent to $4.49 billion at June 30, 2018. For more information regarding the Vermont's retirement and other postemployment benefit plans, see Note IV. G. 4. to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2018 is $15.3 million, and total liabilities balance is $9.8 million, including the escheat property claims liability estimated at $9.8 million, resulting in ending net position of $5.5 million. Net position of all fiduciary funds is reported as restricted for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

Vermont ended fiscal year 2018 with General Fund revenues of $1.559 billion, expenditures of $1.170 billion, and net transfers to other funds of $355.6 million (non-GAAP budgetary basis). This was a $101.9 million increase in revenues over the previous year. The fiscal year 2018 General Fund consensus revenue forecast initially approved by the Emergency Board in July 2017 was subsequently revised upward by the Emergency Board at their January 2018 and May 2018 meetings. Compared to target, the revenues were 4.96 percent above the July 2017 revenue forecast of $1,486 million, and 1.39 percent over the May 2018 revised revenue forecast of $1,538 million. Personal income tax receipts were $38.3 million above target, corporate income tax receipts were $17.0 million above target, sales and use tax receipts were $4.3 million above target, and estate tax receipts were $4.3 million above target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $77 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
Vermont's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2018 was $3.007 billion, a total increase of 3.8 percent (Table 5). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

TABLE 5
Capital Assets at Fiscal Year End
(Net of depreciation, amounts in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land, Land Use Rights, and Land Improvements	$ 153,117	$ 149,691	$ -	$ -	$ 153,117	$ 149,691
Construction in Progress	621,476	645,525	1,843	237	623,319	645,762
Works of Art	136	136	-	-	136	136
Buildings and Improvements	429,437	447,648	-	1	429,437	447,649
Machinery and Equipment	269,902	276,838	571	659	270,473	277,497
Infrastructure	1,530,861	1,375,842	-	-	1,530,861	1,375,842
Totals	$ 3,004,928	$ 2,895,679	$ 2,414	$ 897	$ 3,007,342	$ 2,896,577

Totals may not add due to rounding.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by Vermont, but the assets are actually owned by these other entities. Therefore, these capital assets are recorded on the financial statements of those entities and not on the books of the state. But the general obligation bonds issued by Vermont to finance these capital assets are reported as a liability of the state's governmental activities. At June 30, 2018, Vermont had $215.7 million of general obligation bonds outstanding related to capital assets of these other entities. Additional information on the Vermont's capital assets can be found in Note IV. E. of the notes to the financial statements.

Debt Administration

Bonded Indebtedness

Vermont has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990, the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the state. Annually, the General Assembly passes appropriations for capital purposes and authorizes the State Treasurer to issue general obligation bonds to provide the financing for all or a portion of the appropriations. Bonds are backed by the full faith and credit of the State of Vermont, including the Vermont's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2018, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $57.2 million. This increase can be accounted for by issuances of general obligation bonds of $106.1 million, and a redemption of $47.3 million in general obligation bonds and $1.6 million in special obligation bonds. Additional information on the Vermont's bonded debt is contained in Note IV. G. 1. of the notes to the financial statements.

Vermont's general obligation bond ratings are as follows: Aa1 by Moody's Investor Service (since October 2018), AA+ by Standard & Poor's Ratings Services (since September 2000), and AAA by Fitch Ratings (since April 2010). In October of 2018 Moody's Investor Service downgraded Vermont's general obligation bond ratings from Aaa to Aa1.

ECONOMIC OUTLOOK

Vermont's economy reflects modest growth, broadly in line with the rest of the country. The United States' economy is now in its 113th month of expansion. The current economic expansion is the second longest in business cycle history. If economic growth continues through July of 2019, it will be the longest ever. Vermont's labor market continues to be strong. As of October 2018, Vermont was tied with three other states for the 5th lowest unemployment rate in the nation at 2.8%, its lowest level in more than 18 years. For the 17th consecutive quarter, housing prices increased on a year over year basis in virtually every state. As of June 2018, 39 states equaled or exceeded their pre-recession peak levels, including Vermont.

The July 2018 Consensus Revenue Forecast for the General Fund calls for a modest $33 million upgrade for fiscal year 2019 in comparison to last January's revenue forecast for $1,238 million. For fiscal year 2020, the consensus forecast calls for General Fund revenue of $1,291 million. Both the Transportation Fund and the Education Fund received small upgrades for fiscal years 2019 and 2020. The upgrades are largely attributable to external factors such as general improvement in the economy, and the expected increase in sales & use tax receipts from the recent Supreme Court decision allowing state taxation of internet sales, along with upbeat consumer sentiment and related retail spending.

Vermont's three largest funds, in the aggregate, are above the consensus forecast by $18.69 million over the first four months of fiscal year 2019. On a year-over-year basis, the three funds in aggregate continue to reflect solid gains in a broad range of tax categories. Personal income tax, the largest component of the General Fund, increased by 11.49% over the corresponding period in fiscal 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Vermont's finances for all of Vermont's citizens, taxpayers, customers, and investors and creditors. It seeks to demonstrate the Vermont's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

Component units of the State of Vermont issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note I to the financial statements.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents	$ 664,767,765	$ 444,763,707	$ 1,109,531,472	$ 270,114,966
Taxes receivable, net	117,244,361	35,039,712	152,284,073	-
Loans and notes receivable, net	34,326,895	365,015	34,691,910	211,611,553
Federal grants receivable	213,437,836	495,796	213,933,632	7,624,517
Other receivables, net	83,141,476	6,443,213	89,584,689	111,154,233
Investments	159,862,838	-	159,862,838	256,383,218
Inventories	2,613,333	8,418,704	11,032,037	272,521
Internal balances	650,824	(650,824)	-	-
Receivable from primary government	-	-	-	2,923,917
Receivable from component units	6,246,149	-	6,246,149	-
Other current assets	3,714,830	745	3,715,575	15,186,951
Total current assets	1,286,006,307	494,876,068	1,780,882,375	875,271,876
Noncurrent Assets				
Cash and equivalents	-	321,968	321,968	167,548,355
Taxes receivable	133,676,824	-	133,676,824	-
Other receivables	43,772,100	5,859	43,777,959	-
Loans and notes receivable	261,869,064	692,437	262,561,501	1,879,438,850
Investments	-	897,781	897,781	952,219,785
Other noncurrent assets	-	-	-	22,699,891
Capital assets				
Land	153,116,785	-	153,116,785	46,908,134
Construction in progress	621,475,676	1,843,493	623,319,169	50,024,588
Works of art	136,003	-	136,003	-
Capital assets being depreciated:				
Infrastructure	2,665,219,261	-	2,665,219,261	39,864,432
Property, plant and equipment	1,245,122,959	2,362,412	1,247,485,371	1,482,865,929
Less accumulated depreciation	(1,680,143,016)	(1,791,642)	(1,681,934,658)	(742,647,281)
Total capital assets, net of depreciation	3,004,927,668	2,414,263	3,007,341,931	877,015,802
Total noncurrent assets	3,444,245,656	4,332,308	3,448,577,964	3,898,922,683
Total assets	4,730,251,963	499,208,376	5,229,460,339	4,774,194,559
DEFERRED OUTFLOW OF RESOURCES				
Loss on refunding of bonds payable	7,439,970	-	7,439,970	42,753,821
Pension related outflows	684,539,039	2,127,416	686,666,455	5,292,843
OPEB related outflows	62,109,606	414,064	62,523,670	31,199,899
Interest rate swap	-	-	-	873,000
Total deferred outflow of resources	754,088,615	2,541,480	756,630,095	80,119,563

The accompanying notes are an integral part of these financial statements.

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	373,871,951	10,945,209	384,817,160	106,392,222
Income tax refunds payable	95,944,435	-	95,944,435	-
Payable to primary government	-	-	-	6,246,149
Payable to component units	2,923,917	-	2,923,917	-
Intergovernmental payable - due to federal government	8,185,761	-	8,185,761	-
Accrued interest payable	9,313,810	-	9,313,810	5,979,921
Current portion of long-term liabilities	156,634,861	5,487,874	162,122,735	228,671,665
Unearned revenue	12,454,754	6,746,333	19,201,087	158,315,602
Total current liabilities	659,329,489	23,179,416	682,508,905	505,605,559
Long-term Liabilities				
Lottery prize awards payable	-	690,325	690,325	-
Bonds, notes and leases payable	647,949,072	-	647,949,072	2,466,625,586
Compensated absences	1,263,977	40,288	1,304,265	-
Claims and judgments	34,931,441	-	34,931,441	-
Net pension liabilities	2,146,135,825	4,936,884	2,151,072,709	11,667,765
Net other postemployment benefits liabilities	2,316,776,466	10,531,410	2,327,307,876	705,958,562
Other long-term liabilities	13,256,276	-	13,256,276	34,801,872
Total long-term liabilities	5,160,313,057	16,198,907	5,176,511,964	3,219,053,785
Total liabilities	5,819,642,546	39,378,323	5,859,020,869	3,724,659,344
DEFERRED INFLOW OF RESOURCES				
Deferred lease revenue	-	-	-	2,347,000
Gain on refunding of bonds payable	-	-	-	23,500,000
Service concession arrangement	-	-	-	1,826,000
Split interest arrangements	-	-	-	3,407,000
Pension related inflows	134,828,924	690,227	135,519,151	1,682,365
OPEB related inflows	188,466,233	1,190,760	189,656,993	2,811,847
Total deferred inflow of resources	323,295,157	1,880,987	325,176,144	35,574,212
NET POSITION				
Net investment in capital assets	2,591,000,344	2,414,264	2,593,414,608	199,287,439
Restricted for				
Unemployment compensation	-	459,552,638	459,552,638	-
Funds held in permanent investments				
Expendable	242,364	-	242,364	-
Nonexpendable	7,416,453	-	7,416,453	-
General government	-	-	-	13,214,818
Protection to persons and property	14,785,262	-	14,785,262	-
Human services	78,025,949	-	78,025,949	1,606,150
Labor	4,394,994	-	4,394,994	-
General education	2,900,181	-	2,900,181	764,584,579
Natural resources	403,746,777	-	403,746,777	-
Commerce and community development	7,244,348	-	7,244,348	365,230,787
Transportation	816,079	-	816,079	-
Capital projects	59,235,385	-	59,235,385	-
Debt service	3,213,078	-	3,213,078	-
Unrestricted (deficit)	(3,831,618,339)	(1,476,356)	(3,833,094,695)	(249,843,207)
Total net position	$ (658,597,125)	$ 460,490,546	$ (198,106,579)	$ 1,094,080,566

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government	$ 158,631,193	$ 42,049,145	$ 1,515,877	$ -
Protection to persons and property	407,264,163	212,561,396	52,395,414	-
Human services	2,471,653,289	23,797,181	1,451,733,346	-
Labor	29,757,653	14,677,895	21,775,294	-
General education	2,092,459,202	3,318,868	128,781,510	-
Natural resources	135,030,367	53,058,019	44,906,307	260,505
Commerce and community development	43,387,596	2,815,020	12,461,350	-
Transportation	461,987,716	127,163,492	108,910,195	202,283,636
Interest on long-term debt	18,997,713	-	1,131,942	-
Total governmental activities	5,819,168,892	479,441,016	1,823,611,235	202,544,141
Business-type activities				
Vermont Lottery Commission	105,505,132	132,424,624	-	-
Liquor Control	64,229,293	65,843,224	-	-
Unemployment Compensation	64,096,388	129,953,757	498,906	-
Other	4,465,280	5,557,920	-	-
Total business-type activities	238,296,093	333,779,525	498,906	-
Total primary government	$ 6,057,464,985	$ 813,220,541	$ 1,824,110,141	$ 202,544,141
Component Units				
Vermont Student Assistance Corporation	$ 72,073,000	$ 45,704,000	$ 32,001,000	$ -
University of Vermont and State Agricultural College	720,596,000	445,643,000	287,138,000	1,704,000
Vermont State Colleges	190,650,607	115,036,127	63,689,641	2,500,375
Vermont Housing Finance Agency	23,176,000	17,289,000	2,745,000	-
Other	85,278,448	57,394,736	55,899,866	5,940,159
Total component units	$ 1,091,774,055	$ 681,066,863	$ 441,473,507	$ 10,144,534

General Revenues
Taxes
Personal and corporate income
Sales and use
Meals and rooms
Purchase and use
Motor fuel
Statewide education
Other taxes

Total taxes
Investment earnings
Tobacco litigation settlement
Miscellaneous
Additions to non-expendable endowments
Transfers

Total general revenues and transfers

Changes in net position

Net Position - Beginning, as restated

Net Position - Ending

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	
$ (115,066,171)	$ -	$ (115,066,171)	$ -
(142,307,353)	-	(142,307,353)	-
(996,122,762)	-	(996,122,762)	-
6,695,536	-	6,695,536	-
(1,960,358,824)	-	(1,960,358,824)	-
(36,805,536)	-	(36,805,536)	-
(28,111,226)	-	(28,111,226)	-
(23,630,393)	-	(23,630,393)	-
(17,865,771)	-	(17,865,771)	-
(3,313,572,500)	-	(3,313,572,500)	-
-	26,919,492	26,919,492	-
-	1,613,931	1,613,931	-
-	66,356,275	66,356,275	-
-	1,092,640	1,092,640	-
-	95,982,338	95,982,338	-
(3,313,572,500)	95,982,338	(3,217,590,162)	-
-	-	-	5,632,000
-	-	-	13,889,000
-	-	-	(9,424,464)
-	-	-	(3,142,000)
-	-	-	33,956,313
-	-	-	40,910,849
947,631,192	-	947,631,192	-
397,118,715	-	397,118,715	-
175,746,014	-	175,746,014	-
109,434,224	-	109,434,224	-
80,889,367	-	80,889,367	-
1,059,023,794	-	1,059,023,794	-
469,206,962	-	469,206,962	9,804,840
3,239,050,268	-	3,239,050,268	9,804,840
4,774,720	8,810,300	13,585,020	52,014,923
58,946,104	-	58,946,104	-
1,006,893	26,076	1,032,969	322,365
-	-	-	347,981
25,467,949	(25,467,949)	-	-
3,329,245,934	(16,631,573)	3,312,614,361	62,490,109
15,673,434	79,350,765	95,024,199	103,400,958
(674,270,559)	381,139,781	(293,130,778)	990,679,608
$ (658,597,125)	$ 460,490,546	$ (198,106,579)	$ 1,094,080,566

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents	$ 96,959,108	$ 14,807,695	$ 79,156,162	$ 179,651,775
Investments	-	-	-	3,395,667
Receivables				
Taxes receivable, net	183,305,793	9,332,382	51,758,598	6,442,686
Accrued interest receivable	1,102,373	42,667	-	4,535
Notes and loans receivable	21,155,333	1,614,580	-	7,495,064
Other receivables, net	11,172,353	11,071,532	-	35,515,436
Intergovernmental receivables - federal government, net	-	42,671,377	-	-
Due from other funds	3,939,743	57,601	332,236	4,769,472
Due from component units	746,149	-	-	-
Interfund receivable	91,763,120	738,582	-	-
Advances to other funds	300,275	-	-	-
Advances to component units	5,500,000	-	-	-
Total assets	$ 415,944,247	$ 80,336,416	$ 131,246,996	$ 237,274,635
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 46,977,829	$ 34,166,245	$ 16,845,544	$ 25,023,205
Accrued liabilities	20,763,518	7,944,497	-	11,124,244
Retainage payable	91,985	37,994	-	136,065
Due to other funds	5,215,772	2,644,842	17,553	13,567,212
Due to component units	-	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	32,467,741	-	333,850	8,744
Unearned revenue	7,629,364	198,478	-	154,579
Total liabilities	113,146,209	44,992,056	17,196,947	50,014,049
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue	132,411,171	8,727,680	10,571,385	22,181,362
Total deferred inflow of resources	132,411,171	8,727,680	10,571,385	22,181,362
FUND BALANCES				
Nonspendable				
Advances	5,800,275	-	-	-
Long-term receivables	67,362,459	-	-	-
Permanent fund principal	-	-	-	-
Restricted	-	816,079	-	10,916,117
Committed	-	25,800,601	103,478,664	152,653,574
Assigned	6,830,373	-	-	1,509,533
Unassigned	90,393,760	-	-	-
Total fund balances	170,386,867	26,616,680	103,478,664	165,079,224
Total liabilities, deferred inflows and fund balances	$ 415,944,247	$ 80,336,416	$ 131,246,996	$ 237,274,635

The accompanying notes are an integral part of these financial statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ 56,615,927	$ 79,891,703	$ 80,180,742	$ -	$ 587,263,112
116,781,252	-	39,685,919	-	159,862,838
-	-	81,726	-	250,921,185
13,279	-	-	-	1,162,854
262,302,266	-	-	-	292,567,243
929,138	26,091,397	4,386	-	84,784,242
94,396,038	76,359,485	10,936	-	213,437,836
786,644	6,063,323	13,037	(15,168,201)	793,855
-	-	-	-	746,149
-	-	-	-	92,501,702
-	-	-	-	300,275
-	-	-	-	5,500,000
$ 531,824,544	$ 188,405,908	$ 119,976,746	$ (15,168,201)	$ 1,689,841,291
$ 46,156,356	$ 134,724,250	$ 8,444,967	$ -	$ 312,338,396
9,594,178	2,372,931	1,029,056	-	52,828,424
1,652,256	18,286	1,194,601	-	3,131,187
3,679,914	3,832,655	562,932	(15,168,201)	14,352,679
-	-	2,923,917	-	2,923,917
8,181,396	-	4,365	-	8,185,761
-	-	-	-	32,810,335
3,238,256	-	9,693	-	11,230,370
72,502,356	140,948,122	14,169,531	(15,168,201)	437,801,069
-	6,360,024	4,389	-	180,256,011
-	6,360,024	4,389	-	180,256,011
-	-	-	-	5,800,275
-	-	-	-	67,362,459
-	-	7,416,453	-	7,416,453
459,322,188	41,097,762	62,690,827	-	574,842,973
-	-	35,695,546	-	317,628,385
-	-	-	-	8,339,906
-	-	-	-	90,393,760
459,322,188	41,097,762	105,802,826	-	1,071,784,211
$ 531,824,544	$ 188,405,908	$ 119,976,746	$ (15,168,201)	$ 1,689,841,291

STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
June 30, 2018

Total fund balances from previous page	$ 1,071,784,211
Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds [1]	2,948,251,391
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position	35,533,323
Amounts presented in the statement of net position relating to, but not in fund balances due to a different basis of accounting [1]	611,049,469
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore are not reported in the funds [1]	(5,325,215,519)
Net position of governmental activities	$ (658,597,125)

[1] Additional information on these amounts can be found in Note II. A.

The accompanying notes are an integral part of these financial statements.

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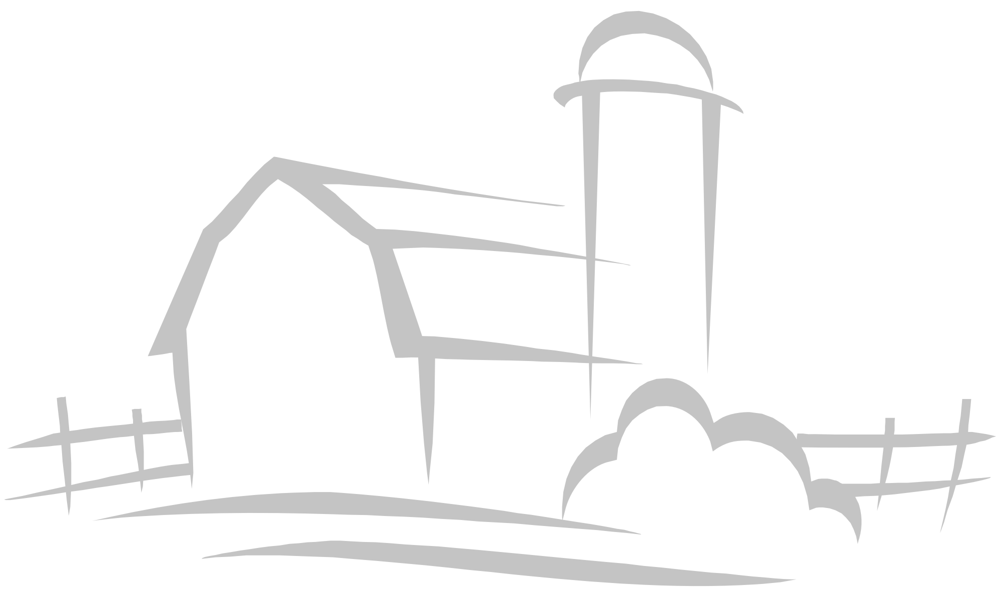

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 827,342,948	$ -	$ -	$ 4,105,672
Corporate income tax	106,592,204	-	-	1,370,555
Sales and use tax	234,442,353	-	163,091,120	-
Meals and rooms tax	170,055,330	-	4,017,805	2,501,605
Motor fuels tax	-	78,493,254	-	1,491,663
Purchase and use tax	-	72,957,178	36,477,046	-
Statewide education tax	-	-	1,059,023,794	-
Other taxes	147,937,315	20,662,577	1,893,196	298,691,776
Earnings of departments				
Fees	47,149,737	21,955,986	-	73,205,529
Rents and leases	-	2,263,402	-	3,613,221
Sales of services	2,878,945	34,147	-	13,781,228
Federal grants	-	311,193,831	-	-
Fines, forfeits and penalties	3,477,407	4,471,304	-	7,039,368
Investment income	2,817,676	264,174	489,718	2,091,499
Licenses				
Business	1,209,565	565,590	-	25,764,826
Non-business	73,031	93,848,805	-	2,949,392
Special assessments	-	-	-	89,510,585
Other revenues	7,402,418	1,781,195	-	123,744,760
Total revenues	1,551,378,929	608,491,443	1,264,992,679	649,861,679
EXPENDITURES				
General government	79,677,259	4,009,733	9,532,605	11,341,781
Protection to persons and property	149,643,251	20,647,944	-	163,104,241
Human services	422,741,459	-	2,965,366	60,721,365
Labor	3,163,000	-	-	5,641,494
General education	226,667,698	-	1,604,903,851	20,031,265
Natural resources	28,556,611	-	-	50,400,572
Commerce and community development	16,482,582	-	-	7,102,864
Transportation	-	565,911,038	-	2,544,576
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	926,931,860	590,568,715	1,617,401,822	320,888,158
Excess of revenues over (under) expenditures	624,447,069	17,922,728	(352,409,143)	328,973,521
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	-	-	-	-
Transfers in	77,392,656	1,100,000	385,478,535	71,525,903
Transfers out	(653,890,821)	(7,464,570)	(11,599)	(331,364,454)
Total other financing sources (uses)	(576,498,165)	(6,364,570)	385,466,936	(259,838,551)
Net change in fund balances	47,948,904	11,558,158	33,057,793	69,134,970
Fund balances, July 1	122,437,963	15,058,522	70,420,871	95,944,254
Fund balances, June 30	$ 170,386,867	$ 26,616,680	$ 103,478,664	$ 165,079,224

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 831,448,620
-	-	-	-	107,962,759
-	-	-	-	397,533,473
-	-	-	-	176,574,740
-	-	904,519	-	80,889,436
-	-	-	-	109,434,224
-	-	-	-	1,059,023,794
-	-	-	-	469,184,864
-	-	150,391	-	142,461,643
-	-	59,827	-	5,936,450
-	-	-	-	16,694,320
783,775,857	893,964,282	7,874,187	-	1,996,808,157
-	-	15,260	-	15,003,339
1,869,055	-	1,618,793	-	9,150,915
-	-	825	-	27,540,806
-	-	7,281,439	-	104,152,667
-	-	-	-	89,510,585
2,670,363	13,884,750	1,651,545	-	151,135,031
788,315,275	907,849,032	19,556,786	-	5,790,445,823
1,433,739	-	-	-	105,995,117
52,361,181	-	-	-	385,756,617
485,103,481	1,448,140,062	25,000	-	2,419,696,733
21,117,452	-	-	-	29,921,946
128,421,370	4,650,418	1,502,187	-	1,986,176,789
19,144,362	-	18,150,840	-	116,252,385
12,154,195	-	-	-	35,739,641
-	-	-	-	568,455,614
-	-	66,770,731	-	66,770,731
-	-	73,160,878	-	73,160,878
719,735,780	1,452,790,480	159,609,636	-	5,787,926,451
68,579,495	(544,941,448)	(140,052,850)	-	2,519,372
-	-	106,095,000	-	106,095,000
-	-	10,936,961	-	10,936,961
3,485,679	507,694,211	75,614,282	(1,092,187,317)	30,103,949
(71,273,630)	(29,418,611)	(3,595,679)	1,092,187,317	(4,832,047)
(67,787,951)	478,275,600	189,050,564	-	142,303,863
791,544	(66,665,848)	48,997,714	-	144,823,235
458,530,644	107,763,610	56,805,112	-	926,960,976
$ 459,322,188	$ 41,097,762	$ 105,802,826	$ -	$ 1,071,784,211

STATE OF VERMONT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Total net change in fund balances from the previous page	**$ 144,823,235**
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (net of internal service funds) [1]	109,171,958
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position [1]	48,935,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position [1]	(110,942,764)
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	12,649,491
Estimated personal income tax refunds that are not due and payable are not reported as governmental fund liabilities	(4,022,156)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds [1]	(188,081,741)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities	3,140,411
Total changes in net position of governmental activities as reported on the statement of activities	**$ 15,673,434**

[1] Additional information on these amounts can be found in Note II. B.

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 431,807,714	$ 6,100,316	$ 3,541,697
Receivables			
Taxes receivable, net of allowance for uncollectibles	34,216,517	-	-
Accounts receivable, net of allowance for uncollectibles	1,672,092	1,767,967	2,625,315
Loans receivable	-	-	-
Accrued interest receivable	-	-	-
Due from other funds	-	5,794	17,295
Intergovernmental receivables - federal government	495,796	-	-
Inventories, at cost	-	7,561,222	777,627
Prepaid expenses	-	-	-
Total current assets	468,192,119	15,435,299	6,961,934
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	897,781
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	75	300,000
Total restricted assets	-	75	1,197,781
Capital Assets			
Land	-	-	-
Construction in progress	-	1,843,493	-
Works of art	-	-	-
Capital assets being depreciated/amortized:			
Machinery, equipment and buildings	-	2,141,765	214,838
Less accumulated depreciation	-	(1,596,187)	(189,646)
Total capital assets, net of depreciation	-	2,389,071	25,192
Total restricted and capital assets	-	2,389,146	1,222,973
Total assets	468,192,119	17,824,445	8,184,907
DEFERRED OUTFLOW OF RESOURCES			
Pension related outflows	-	1,553,562	573,854
OPEB related outflows	-	347,344	66,720
Total deferred outflow of resources	-	1,900,906	640,574

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 3,013,705	$ -	$ 444,463,432	$ 74,304,211
823,195	-	35,039,712	-
372,773	-	6,438,147	21,629,988
365,015	-	365,015	733,551
5,066	-	5,066	-
169,222	(169,222)	23,089	14,346,712
-	-	495,796	-
79,855	-	8,418,704	2,613,333
745	-	745	3,714,830
4,829,576	(169,222)	495,249,706	117,342,625
321,968	-	321,968	-
-	-	897,781	-
692,437	-	692,437	2,895,165
5,859	-	5,859	-
200	-	300,275	3,200,442
1,020,464	-	2,218,320	6,095,607
-	-	-	26,156
-	-	1,843,493	3,492,923
-	-	-	8,200
5,809	-	2,362,412	122,153,155
(5,809)	-	(1,791,642)	(69,004,157)
-	-	2,414,263	56,676,277
1,020,464	-	4,632,583	62,771,884
5,850,040	(169,222)	499,882,289	180,114,509
-	-	2,127,416	-
-	-	414,064	-
-	-	2,541,480	-

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STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
LIABILITIES			
Current Liabilities			
Accounts payable	-	6,906,278	711,717
Accrued salaries and benefits	-	434,491	147,378
Claims payable	1,206,244	-	-
Due to lottery winners	-	-	116,769
Due to agents	-	413,429	-
Due to other funds	169,222	326,046	6,494
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	5,137,884
Unearned revenue	6,250,239	-	174,126
Capital leases payable	-	-	-
Other current liabilities	1,013,776	-	-
Total current liabilities	8,639,481	8,080,244	6,294,368
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	690,325
Claims payable	-	-	-
Advances from other funds	-	75	300,000
Capital leases payable	-	-	-
Net pension liabilities	-	3,646,726	1,290,158
Net other postemployment benefits liabilities	-	7,783,696	2,747,714
Other noncurrent liabilities	-	30,606	9,340
Total long-term liabilities	-	11,461,103	5,037,537
Total liabilities	8,639,481	19,541,347	11,331,905
DEFERRED INFLOW OF RESOURCES			
Pension related inflows	-	498,702	191,525
OPEB related inflows	-	879,493	311,267
Total deferred inflow of resources	-	1,378,195	502,792
NET POSITION			
Net investment in capital assets	-	2,389,071	25,193
Restricted for unemployment compensation benefits	459,552,638	-	-
Unrestricted (deficit)	-	(3,583,262)	(3,034,409)
Total net position	$ 459,552,638	$ (1,194,191)	$ (3,009,216)

The accompanying notes are an integral part of these statements.

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
312,468	-	7,930,463	8,372,298
26,594	-	608,463	7,660,024
-	-	1,206,244	16,148,245
-	-	116,769	-
-	-	413,429	-
638	(169,222)	333,178	477,799
156,228	-	156,228	63,997,589
-	-	5,137,884	-
-	-	6,424,365	1,224,384
-	-	-	333,185
6,055	-	1,019,831	413,001
501,983	(169,222)	23,346,854	98,626,525
321,968	-	321,968	-
-	-	690,325	-
-	-	-	34,931,441
200	-	300,275	-
-	-	-	9,418,025
-	-	4,936,884	-
-	-	10,531,410	-
342	-	40,288	1,489,427
322,510	-	16,821,150	45,838,893
824,493	(169,222)	40,168,004	144,465,418
-	-	690,227	-
-	-	1,190,760	-
-	-	1,880,987	-
-	-	2,414,264	46,925,067
-	-	459,552,638	-
5,025,547	-	(1,592,124)	(11,275,976)
$ 5,025,547	$ -	460,374,778	$ 35,649,091

Adjustment to reflect the consolidation of internal service activities related to enterprise funds................................	115,768
Net Position - Business-type Activities........	$ 460,490,546

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 129,953,757	$ 59,843,099	$ -
Ticket sales	-	-	132,420,000
Rental income	-	-	-
License fees	-	1,974,898	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	4,025,227	4,624
Total operating revenues	129,953,757	65,843,224	132,424,624
OPERATING EXPENSES			
Cost of sales and services	-	48,857,248	102,495,418
Claims expenses	64,096,388	-	-
Salaries and benefits	-	5,173,342	1,803,771
Insurance premium expenses	-	21,658	4,685
Contractual services	-	913,573	125,006
Repairs and maintenance	-	73,009	10,497
Depreciation	-	200,419	7,412
Rental expenses	-	63,041	208,873
Utilities and property management	-	408,019	102,477
Non-capital equipment purchased	-	124,463	20,522
Promotions and advertising	-	61,177	427,232
Administration expenses	-	144,586	34,708
Supplies and parts	-	180,256	30,349
Distribution and postage	-	60,783	19,570
Travel	-	15,266	23,253
Other operating expenses	-	7,867,055	208,084
Total operating expenses	64,096,388	64,163,895	105,521,857
Operating income (loss)	65,857,369	1,679,329	26,902,767
NONOPERATING REVENUES (EXPENSES)			
Federal grants	498,906	-	-
Gain on disposal of capital assets	-	26,076	-
Investment income	8,764,930	-	(8,982)
Interest expense	-	-	-
Total nonoperating revenues (expenses)	9,263,836	26,076	(8,982)
Income (loss) before other revenues, expenses, gains, losses, and transfers	75,121,205	1,705,405	26,893,785
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS			
Insurance recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	(1,075,106)	(27,153,843)
Total other revenues, expenses, gains, losses, and transfers	-	(1,075,106)	(27,153,843)
Changes in net position	75,121,205	630,299	(260,058)
Total net position, July 1, as restated	384,431,433	(1,824,490)	(2,749,158)
Total net position June 30	$ 459,552,638	$ (1,194,191)	$ (3,009,216)

The accompanying notes are an integral part of these financial statements.

	Business-type Activities-Enterprise Funds		Governmental Activities
	Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
	$ 4,579,094	$ 194,375,950	$ 337,896,263
	-	132,420,000	-
	-	-	21,240,906
	-	1,974,898	-
	695,198	695,198	-
	231,196	231,196	-
	52,432	4,082,283	3,094,719
	5,557,920	333,779,525	362,231,888
	3,992,765	155,345,431	39,613,407
	-	64,096,388	196,819,709
	35,642	7,012,755	51,284,627
	6,241	32,584	5,767,877
	102,991	1,141,570	11,052,066
	1,187	84,693	6,795,470
	-	207,831	11,651,523
	3,428	275,342	2,842,643
	21,933	532,429	12,218,888
	335	145,320	1,624,151
	35,238	523,647	68,422
	27,806	207,100	14,562,940
	6,682	217,287	4,530,402
	182,393	262,746	78,132
	2,458	40,977	72,193
	16,388	8,091,527	2,230,939
	4,435,487	238,217,627	361,213,389
	1,122,433	95,561,898	1,018,499
	-	498,906	-
	-	26,076	993,109
	54,352	8,810,300	933,761
	(43,845)	(43,845)	(49,410)
	10,507	9,291,437	1,877,460
	1,132,940	104,853,335	2,895,959
	-	-	13,784
	3,536,000	3,536,000	1,296,047
	(775,000)	(29,003,949)	(1,100,000)
	2,761,000	(25,467,949)	209,831
	3,893,940	79,385,386	3,105,790
	1,131,607	380,989,392	32,543,301
	$ 5,025,547	$ 460,374,778	$ 35,649,091
Total change in net position reported above.........		$ 79,385,386	
Consolidation adjustment of internal service activities related to enterprise funds.......		(34,621)	
Change in net position - business type activities..		$ 79,350,765	

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 134,558,275	$ 59,557,534	$ 131,922,921
Cash paid to suppliers for goods and services	-	(48,448,693)	(7,794,349)
Cash paid to employees for services	-	(4,689,119)	(1,668,471)
Cash paid for prizes and commissions	-	-	(96,493,426)
Cash paid to claimants	(64,131,218)	-	-
Other operating revenues	-	6,000,125	4,624
Other operating expenses	-	(7,867,055)	(208,084)
Total cash provided (used) by operating activities	70,427,057	4,552,792	25,763,215
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	-
Transfers out	-	(1,075,106)	(27,145,778)
Interest paid on interfund loans	-	-	-
Interfund loans and advances	-	-	-
Federal grants	(1,118,718)	-	-
Net cash provided (used) by noncapital financing activities	(1,118,718)	(1,075,106)	(27,145,778)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(1,704,236)	(21,089)
Payment of capital leases and loans	-	-	-
Interest paid on capital leases and loans	-	-	-
Insurance recoveries	-	-	-
Proceeds from capital loans	-	-	-
Proceeds from sale of capital assets	-	26,076	-
Net cash provided (used) by capital and related financing activities	-	(1,678,160)	(21,089)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	8,764,930	-	43,761
Proceeds from sales/maturities of investments	-	-	74,183
Proceeds from loan repayments	-	-	-
Loans issued	-	-	-
Net cash provided (used) by investing activities	8,764,930	-	117,944
Net increase (decrease) in cash and cash equivalents	78,073,269	1,799,526	(1,285,708)
Cash and cash equivalents, July 1	353,734,445	4,300,865	5,127,405
Cash and cash equivalents, June 30	$ 431,807,714	$ 6,100,391	$ 3,841,697
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ 65,857,369	$ 1,679,329	$ 26,902,767
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	200,419	7,412
(Increase) decrease in accounts/taxes receivable	4,493,895	(288,087)	(485,389)
(Increase) decrease in due from other funds	-	(5,794)	-
(Increase) decrease in inventory	-	(42,289)	77,290
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in deferred outflows	-	(60,306)	(26,284)
Increase (decrease) in accounts payable	-	2,495,464	90,907
Increase (decrease) in accrued salaries and benefits	-	(20,724)	(5,771)
Increase (decrease) in claims payable	(96,765)	-	-
Increase (decrease) in due to lottery winners	-	-	(74,182)
Increase (decrease) in due to agents	-	21,211	-
Increase (decrease) in future and unclaimed prizes payable	-	-	(868,313)
Increase (decrease) in due to other funds	110,623	8,316	(10,882)
Increase (decrease) in unearned revenues	-	-	(11,693)
Increase (decrease) in other liabilities	61,935	-	-
Increase (decrease) in subscription reserves	-	-	-
Increase (decrease) in net pension liabilities	-	(2,802)	65,916
Increase (decrease) in net OPEB liabilities	-	(390,169)	(209,414)
Increase (decrease) in deferred inflows	-	958,224	310,851
Total adjustments	4,569,688	2,873,463	(1,139,552)
Net cash provided (used) by operating activities	$ 70,427,057	$ 4,552,792	$ 25,763,215
Noncash investing, capital, and financing activities:			
Retirement of assets not fully depreciated	-	-	-
Fair market value of donated inventory sold	-	-	-

NOTE: Total cash and cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash subscription reserve fund, and imprest cash on the Statement of Net Position.

The accompanying notes are an integral part of these financial statements.

Business-type Activities-Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 5,073,763	$ 331,112,493	$ 358,784,904
(3,793,563)	(60,036,605)	(101,022,055)
(468,554)	(6,826,144)	(48,268,607)
-	(96,493,426)	-
-	(64,131,218)	(193,799,119)
52,432	6,057,181	3,094,719
(16,388)	(8,091,527)	(2,116,990)
847,690	101,590,754	16,672,852
3,536,000	3,536,000	1,296,047
(775,000)	(28,995,884)	(1,100,000)
(43,845)	(43,845)	-
(3,328,820)	(3,328,820)	1,745,878
-	(1,118,718)	-
(611,665)	(29,951,267)	1,941,925
-	(1,725,325)	(12,396,701)
-	-	(616,618)
-	-	(38,187)
-	-	35,734
-		786,792
-	26,076	1,639,321
-	(1,699,249)	(10,589,659)
33,539	8,842,230	933,761
-	74,183	-
460,052	460,052	422,789
(496,483)	(496,483)	(1,699,780)
(2,892)	8,879,982	(343,230)
233,133	78,820,220	7,681,888
3,102,740	366,265,455	69,822,765
$ 3,335,873	$ 445,085,675	$ 77,504,653
$ 1,122,433	$ 95,561,898	$ 1,018,499
-	207,831	11,651,523
164,853	3,885,272	(1,682,183)
135,963	130,169	1,474,308
(54,153)	(19,152)	83,349
16,443	16,443	574,186
271,674	185,084	-
(67,486)	2,518,885	(3,421,910)
(21,062)	(47,557)	3,025,965
-	(96,765)	3,020,590
-	(74,182)	-
-	21,211	-
-	(868,313)	-
(108)	107,949	68,043
-	(11,693)	864,433
6,055	67,990	(3,951)
(37,343)	(37,343)	-
(597,934)	(534,820)	-
-	(599,583)	-
(91,645)	1,177,430	-
(274,743)	6,028,856	15,654,353
$ 847,690	$ 101,590,754	$ 16,672,852
-	-	(667,275)
695,198	695,198	108,859

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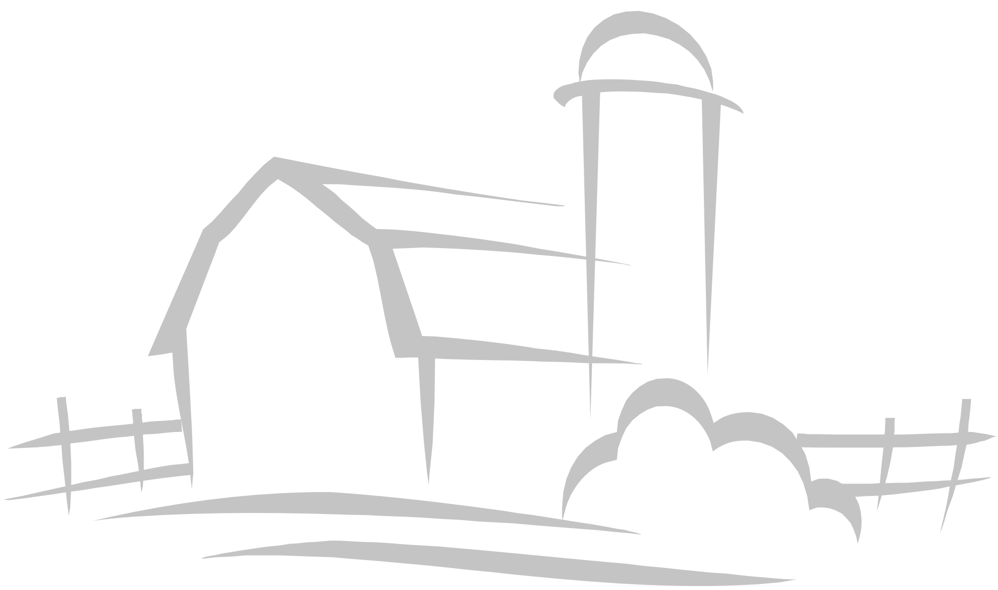

Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2018

	Pension and Other Postemployment Benefits Trust Funds	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 33,275,020	$ 7,128,236	$ 9,097,759
Investments			
Fixed income	572,515,322	-	-
Equities	641,445,565	2,860,702	-
Mutual and commingled funds	2,836,250,384	-	-
Real estate and private partnerships	420,182,283	-	-
Receivables:			
Taxes	-	-	2,045,379
Contributions - current	19,121,047	-	-
Contributions - non-current	6,679,457	-	-
Investments sold	139,156,293	-	-
Interest and dividends	5,688,329	-	-
Other	33,880,251	-	1,654,688
Prepaid expenses	231,862	-	-
Other assets	-	5,318,594	-
Capital assets:			
Capital assets being depreciated:			
Equipment	8,381,284	6,453	-
Less accumulated depreciation	(4,348,742)	(5,098)	-
Total capital assets, net of depreciation	4,032,542	1,355	-
Total assets	4,712,458,355	15,308,887	12,797,826
LIABILITIES			
Accounts payable	3,911,167	25,818	-
Accrued salaries and benefits	-	27,099	-
Claims payable	-	9,778,538	-
Investments purchased	194,854,396	-	-
Interest payable	278,356	-	-
Interfund loans payable	28,300,000	-	47,885
Due to depositories	-	-	99,010
Intergovernmental payable - other governments	-	-	7,172,998
Amounts held in custody for others	-	-	3,460,028
Other liabilities	-	-	2,017,905
Total liabilities	227,343,919	9,831,455	$ 12,797,826
NET POSITION			
Restricted for employees' pension benefits	4,476,093,245	-	
Restricted for employees' other postemployment benefits	9,021,191	-	
Held in trust for individuals, organizations and other governments	-	5,477,432	
Net position restricted for benefits and other purposes	$ 4,485,114,436	$ 5,477,432	

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Pension and Other Postemployment Benefits Trust Funds	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS		
Contributions		
Employer - pension benefit	$ 84,455,423	$ -
Employer - healthcare benefit	32,956,898	-
Non-employer - pension benefit	110,353,599	-
Non-employer - healthcare benefit	29,802,725	-
Plan member	98,732,474	-
Transfers from non-state systems	51,061	-
Other revenues	4,245,322	-
Total contributions	360,597,502	-
Investment Income		
Net appreciation/(depreciation) in fair value of investments	252,194,951	-
Dividends	38,509,931	-
Interest income	23,613,640	85,281
Other income	411,687	-
Total investment income	314,730,209	85,281
Less Investment Expenses		
Investment managers and consultants	10,639,845	-
Total investment expenses	10,639,845	-
Net investment income	304,090,364	85,281
Escheat property remittances	-	1,519,296
Total additions	664,687,866	1,604,577
DEDUCTIONS		
Retirement benefits	348,372,549	-
Other postemployment benefits	64,224,003	-
Refunds of contributions	7,446,409	-
Death claims	1,189,757	-
Transfers to non-state systems	1,588,673	-
Depreciation	806,385	381
Operating expenses	5,271,503	730,154
Total deductions	428,899,279	730,535
Change in net position		
Restricted for employees' pension benefits	235,926,264	-
Restricted for employees' other postemployment benefits	(137,677)	-
Held in trust for individuals, organizations and other governments	-	874,042
Restricted Net position, July 1	4,249,325,849	4,603,390
Restricted Net position, June 30	$ 4,485,114,436	$ 5,477,432

The accompanying notes are an integral part of these financial statements.

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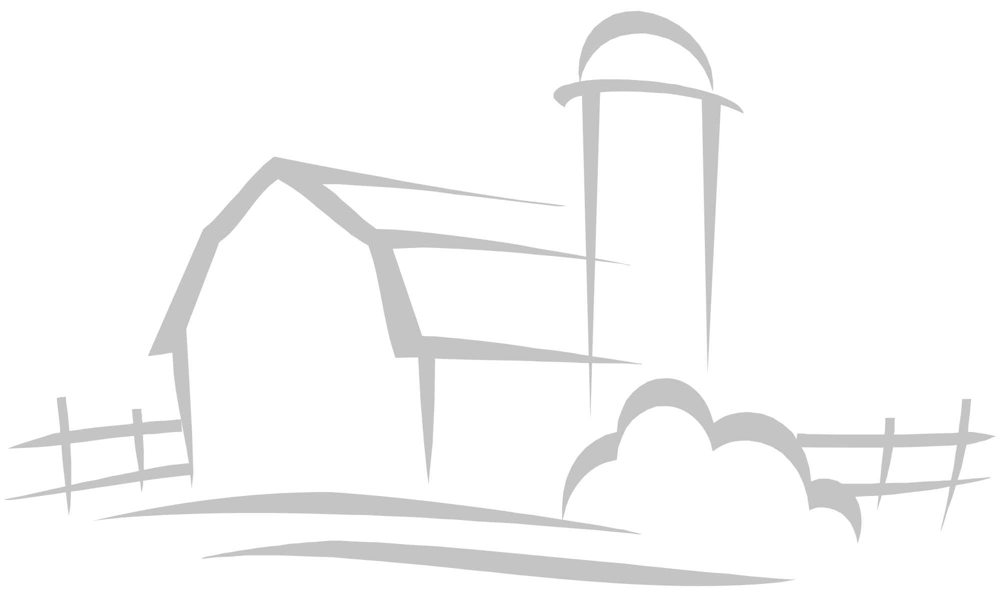

Vermont

DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2018

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
ASSETS						
Current Assets						
Cash and cash equivalents	$ 23,941,000	$ 187,301,000	$ 17,969,575	$ 279,000	$ 40,624,391	$ 270,114,966
Investments	-	201,638,000	4,942,501	23,613,000	26,189,717	256,383,218
Accounts receivable, net	-	49,664,000	11,384,075	-	1,757,345	62,805,420
Accrued interest receivable - loans	13,277,000	-	-	2,796,000	2,500,291	18,573,291
Accrued interest receivable - investments	124,000	-	-	214,000	-	338,000
Loans and notes receivable - current portion	107,087,000	2,077,000	-	21,059,000	81,388,553	211,611,553
Other receivables	1,369,000	561,000	-	615,000	26,892,522	29,437,522
Due from federal government	143,000	6,420,000	-	-	1,061,517	7,624,517
Due from primary government	-	-	-	-	2,923,917	2,923,917
Inventories, at cost	-	173,000	-	-	99,521	272,521
Other current assets	737,000	12,159,000	1,193,508	-	1,097,443	15,186,951
Total current assets	146,678,000	459,993,000	35,489,659	48,576,000	184,535,217	875,271,876
Restricted and Noncurrent Assets						
Cash and cash equivalents	84,257,000	5,872,000	434,981	71,448,000	5,536,374	167,548,355
Investments	5,856,000	636,679,000	46,184,316	185,494,000	78,006,469	952,219,785
Loans and notes receivable, net	664,530,000	50,596,000	4,923,967	229,459,000	929,929,883	1,879,438,850
Other assets	2,670,000	-	169,308	314,000	19,546,583	22,699,891
Total restricted and noncurrent assets	757,313,000	693,147,000	51,712,572	486,715,000	1,033,019,309	3,021,906,881
Capital Assets						
Land	3,150,000	34,101,000	9,004,664	50,000	602,470	46,908,134
Construction in progress	-	49,066,000	908,493	-	50,095	50,024,588
Capital assets, being depreciated						
Buildings and leasehold improvements	17,197,000	938,121,000	263,437,445	1,932,000	35,870,504	1,256,557,949
Equipment, furniture and fixtures	4,708,000	178,202,000	35,411,937	1,451,000	6,535,043	226,307,980
Infrastructure	-	-	39,864,432	-	-	39,864,432
Less accumulated depreciation	(11,148,000)	(517,687,000)	(185,680,251)	(2,746,000)	(25,386,030)	(742,647,281)
Total capital assets, net of depreciation	13,907,000	681,803,000	162,946,720	687,000	17,672,082	877,015,802
Total assets	917,898,000	1,834,943,000	250,148,951	535,978,000	1,235,226,608	4,774,194,559
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of bonds payable	-	5,215,000	9,824,025	-	27,714,796	42,753,821
Interest rate swaps	-	-	-	873,000	-	873,000
Pension related outflows	-	-	-	-	5,292,843	5,292,843
OPEB related outflows	-	12,617,000	17,904,148	-	678,751	31,199,899
Total deferred outflows of resources	-	17,832,000	27,728,173	873,000	33,686,390	80,119,563

The accompanying notes are an integral part of these financial statements.

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	2,344,000	82,513,000	14,395,060	442,000	3,674,162	103,368,222
Accrued interest payable	-	-	-	2,778,000	287,000	3,065,000
Bond interest payable	771,000	-	-	-	2,143,921	2,914,921
Unearned revenue	6,517,000	141,814,000	9,943,657	-	40,945	158,315,602
Current portion of long-term liabilities	7,720,000	12,878,000	3,937,732	20,575,000	183,560,933	228,671,665
Due to primary government	-	-	-	-	746,149	746,149
Escrowed cash deposits	-	-	-	2,859,000	165,000	3,024,000
Advances from primary government	-	-	-	-	5,500,000	5,500,000
Total current liabilities	17,352,000	237,205,000	28,276,449	26,654,000	196,118,110	505,605,559
Noncurrent Liabilities						
Bonds, notes and leases payable	685,663,000	550,779,000	121,086,246	422,689,000	686,408,340	2,466,625,586
Accounts payable and accrued liabilities	-	23,662,000	-	-	-	23,662,000
Accrued arbitrage rebate	3,093,000	-	-	-	99,241	3,192,241
Net pension liabilities	-	-	-	-	11,667,765	11,667,765
Net other postemployment benefits liabilities	-	492,575,000	188,498,148	-	24,885,414	705,958,562
Other liabilities	-	-	6,284,761	1,494,000	168,870	7,947,631
Total noncurrent liabilities	688,756,000	1,067,016,000	315,869,155	424,183,000	723,229,630	3,219,053,785
Total liabilities	706,108,000	1,304,221,000	344,145,604	450,837,000	919,347,740	3,724,659,344
DEFERRED INFLOWS OF RESOURCES						
Deferred lease revenue	2,347,000	-	-	-	-	2,347,000
Gain on refunding of bonds payable	23,500,000	-	-	-	-	23,500,000
Service concession arrangement	-	1,826,000	-	-	-	1,826,000
Split interest arrangements	-	3,407,000	-	-	-	3,407,000
Pension related inflows	-	-	-	-	1,682,365	1,682,365
OPEB related inflows	-	-	-	-	2,811,847	2,811,847
Total deferred inflows of resources	25,847,000	5,233,000	-	-	4,494,212	35,574,212
NET POSITION						
Net investment in capital assets	13,907,000	119,809,000	49,065,357	687,000	15,819,082	199,287,439
Restricted						
Endowments - expendable	594,000	423,624,000	11,517,067	-	-	435,735,067
Endowments - nonexpendable	5,458,000	211,907,000	18,208,512	-	-	235,573,512
Grants and scholarships	699,000	-	-	-	-	699,000
Bond resolution	92,577,000	-	-	75,462,000	-	168,039,000
Investment in limited partnerships	-	-	-	-	3,343,000	3,343,000
Collateral for commercial paper program	-	-	-	-	21,909,000	21,909,000
Project and program commitments	-	-	-	2,838,000	62,839,867	65,677,867
Loans receivable	-	-	-	-	213,659,888	213,659,888
Unrestricted (deficit)	72,708,000	(212,019,000)	(145,059,416)	7,027,000	27,500,209	(249,843,207)
Total net position	$ 185,943,000	$ 543,321,000	$ (66,268,480)	$ 86,014,000	$ 345,071,046	$ 1,094,080,566

STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2018

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
Expenses						
Salaries and benefits	$ 15,780,000	$ 440,510,000	$ 121,875,487	$ 3,633,000	$ 24,638,766	$ 606,437,253
Other expenses	15,776,000	214,211,000	46,080,254	5,966,000	32,697,912	314,731,166
Scholarship, grants and fellowships	24,646,000	16,799,000	7,346,293	-	-	48,791,293
Depreciation	931,000	31,697,000	9,842,721	78,000	1,430,129	43,978,850
Interest on debt	14,940,000	17,379,000	5,505,852	13,499,000	26,511,641	77,835,493
Total expenses	72,073,000	720,596,000	190,650,607	23,176,000	85,278,448	1,091,774,055
Program Revenues						
Charges for services	45,704,000	445,643,000	115,036,127	17,289,000	57,394,736	681,066,863
Operating grants and contributions	32,001,000	287,138,000	63,689,641	2,745,000	55,899,866	441,473,507
Capital grants and contributions	-	1,704,000	2,500,375	-	5,940,159	10,144,534
Total program revenues	77,705,000	734,485,000	181,226,143	20,034,000	119,234,761	1,132,684,904
Net revenue (expense)	5,632,000	13,889,000	(9,424,464)	(3,142,000)	33,956,313	40,910,849
General Revenues						
Property transfer tax	-	-	-	-	9,804,840	9,804,840
Investment income	1,217,000	42,206,000	2,128,687	1,157,000	5,306,236	52,014,923
Additions to non-expendable endowments	-	-	347,981	-	-	347,981
Miscellaneous	-	-	-	-	322,365	322,365
Total general revenues	1,217,000	42,206,000	2,476,668	1,157,000	15,433,441	62,490,109
Changes in net position	6,849,000	56,095,000	(6,947,796)	(1,985,000)	49,389,754	103,400,958
Net position - beginning, as restated	179,094,000	487,226,000	(59,320,684)	87,999,000	295,681,292	990,679,608
Net position - ending	$ 185,943,000	$ 543,321,000	$ (66,268,480)	$ 86,014,000	$ 345,071,046	$ 1,094,080,566

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

Note I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles in the United States of America.

The basic financial statements present the financial position of the State, the results of operations of the State and the various funds and fund types, and the cash flows of the various proprietary funds. The basic financial statements are presented as of and for the period ended June 30, 2018.

The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. Financial Reporting Entity

The State of Vermont's Primary Government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, with a Senate of 30 members and a House of Representatives of 150 members; and the Judicial Branch, with Supreme and Superior Courts and the Judicial Bureau.

The basic financial statements include all funds, agencies, boards, commissions and organizations of the primary government (the State), as well as component units that have been determined to meet the requirements for inclusion in the State's financial reporting entity.

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. These component units are financially accountable to the State if the State appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or if there is a potential for the organization to provide a financial benefit or financial burden to the State. Alternatively, for those organizations where the State does not appoint a voting majority, an organization is financially accountable to the State if the organization is fiscally dependent and the organization provides a financial benefit or financial burden to the State.

Component unit activity may be "blended" into the activity of the primary government or may be reported separately. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. If they are reported separately, they are called "discretely presented component units" and are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit's designation as either "major" or "non-major" has been determined by the entity's relative significance to the State. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

Discretely Presented Major Component Units

The "Discretely Presented Component Units" contained in the government-wide financial statements report the financial results of the following entities:

Vermont Student Assistance Corporation (VSAC) – The VSAC was established by the Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. The Governor of the State appoints five of the eleven members of the Board of Directors and the State Legislature appoints two additional members. The State of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. For audited financial statements and further information, contact their administrative offices at 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404.

University of Vermont (UVM) - The UVM's financial report includes the University, the State Agricultural College, and UVM's two discretely presented component units; the University of Vermont and State Agricultural College Foundation, Inc. (UVMF), and the University Medical Education Associates, Inc. (UMEA). The State appoints thirteen of the twenty-five voting members of the Board of trustees. The State has assumed an obligation to provide financial support through its annual appropriation and is obligated to maintain the University's debt service reserves. Audited financial statements and additional information may be obtained by contacting the university's administrative offices at 348 Waterman Building, Burlington, Vermont 05405.

Vermont State College System (VSC) – The Vermont State College System's annual report includes the financial activity for the following organizations:

- System Offices and Services
- Community College of Vermont
- Castleton University
- Johnson State College
- Lyndon State College
- Vermont Technical College
- Vermont Manufacturing Extension Center
- Small Business Development Center
- Vermont Tech Office of Continuing Education and Workforce Development

The Governor, with the advice and consent of the Senate, appoints nine of the fifteen members of the board of trustees, and the legislature appoints an additional four members. The State has assumed an obligation to provide financial support through its annual appropriations and has assumed an obligation to maintain VSC's debt service reserves. Audited financial statements and additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, P.O. Box 7, Montpelier VT 05601.

Vermont Housing Finance Agency (VHFA) – The VHFA was created in 1974 by an Act of the General Assembly of the State of Vermont for the purpose of financing and promoting affordable, safe and decent housing opportunities for low- and moderate-income Vermonters. The State appoints voting members of VHFA's board of commissioners. The State is able to impose its will on the organization as the Governor can remove any member of the board at will. The State also has an obligation to maintain the organization's debt reserves. Audited financial statements and additional information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05401.

<u>Discretely Presented Non-major Component Units</u>

Vermont Economic Development Authority (VEDA) VEDA, a tax-exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital. The authority has 15 voting members consisting of the Secretary of the Agency of Commerce and Community Development; the State Treasurer; the Secretary of Agriculture, Food and Markets; the Commissioner of Forest, Parks, & Recreation; and the Commissioner of Public Service; or a designee of any of the above; and ten members, who are residents of the State of Vermont and appointed by the Governor with the advice and consent of the senate. The State has the ability to impose its will on the entity as the Governor can remove members at will and the State can change the structure and activities of the organization at any time. The entity's services primarily benefit the Vermont citizenry.

VEDA also administers the State Infrastructure Bank (SIB), the Drinking Water State Revolving Loan Fund – Private Loans, the Brownfields Revitalization Fund, Clean Energy Development Fund, and the Windham County Economic Development Fund. These five funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting VEDA at 58 East State Street, Suite 5, Montpelier, Vermont 05602.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this organization with two goals: create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. The VHCB's Board of Directors is appointed by the Governor of the State of Vermont and there is a material financial relationship. Funding for the organization is provided by the Legislature, comprised of 50% of the revenue from the property transfer tax, plus other monies appropriated from time to time. Audited financial statements and additional information may be obtained by contacting the VHCB at 58 East State Street, Suite 5 Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. The Governor appoints the four directors, and can remove members at will. VMBB is authorized, with written consent of the Governor and the State Treasurer, to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. The State is obligated annually to appropriate any funds necessary to maintain required reserves of the bond bank. The VMBB has an annual fiscal year (December 31).

VMBB also administers the Special Environmental Revolving Fund in accordance with 24 V.S.A. 4753(b). This fund was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and publishes its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. VMBB audited financial statements and additional information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible Vermont educational or health related entities. The majority of the Board of VEHBFA is appointed by the Governor of the State. The Board may appoint officers, agents, consultants and employees. Their compensation is subject to approval of the Governor. It has a December 31 (annual) year-end. Audited financial statements and additional information may be obtained by contacting VEHBFA at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the Vermont Veterans' Home. The State can impose its will on the entity as directors serve at the pleasure of the Governor. The Vermont Veterans' Home is financially accountable to the State as the State provides all funding and controls the finances of the Home. Audited financial statements and additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. All members of the authority are appointed by the Governor, and all resources revert to the State on termination of the authority. The VTA, currently inactive, has remained in the State Statutes in case it becomes necessary to reactivate it in the future. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

Joint Ventures

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The Tri-State Lotto Commission (31 V.S.A. 673) is classified as a joint venture. The financial activities' of this organization have not been included in the State's financial statements; however, see Note V. E. for additional information regarding the organization.

Jointly-governed Organizations

The following organizations are classified as jointly-governed organizations, because they represent units over which control is exercised jointly by the State along with various other governmental agencies. There is no specific ongoing financial benefit or burden for the State associated with these organizations, which distinguishes these arrangements from those classified as joint ventures. The financial activities of these organizations are not included in the State's financial statements.

Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)
New England Board of Higher Education (16 V.S.A. 2692)
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)

Related Organizations

Related organizations are separate legal entities for which the primary government appoints a voting majority of the board members, but does not have either (a) the ability to impose its will on the organization or (b) a relationship of financial benefit or burden with the organization. The Vermont State Housing Authority (24 V.S.A. 4005) has been classified as a related organization, and thus their financial activity has not been included in the State's financial statements.

Excluded Organizations

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statements No. 61.

Vermont Sustainable Jobs Fund, Inc.
Vermont Information Technology Leaders (VITL)
Vermont Council on the Humanities
Vermont Council on the Arts
Vermont Historical Society
Vermont Public Power Supply Authority
Connecticut River Atlantic Salmon Commission (10 V.S.A. 4654)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the reporting entity would not render Vermont's financial statements incomplete or misleading.

B. Basis of Presentation—Government-wide Financial Statements

The basic financial statements of the State of Vermont include both *government-wide statements* and *fund financial statements*. The focus of the government-wide statements is on reporting the operating results and financial position of the State as a whole and present a longer-term view of the State's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the State and present a shorter-term view of how operations were financed and what remains available for future spending.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, although the latter are excluded from the government-wide financial statements.

The State of Vermont's Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from these government-wide statements. However, Interfund services provided and used are not eliminated in the process of consolidation. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate discretely presented component units.

The Statement of Activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position (the amount by which assets and deferred outflows exceed liabilities and deferred inflows) are reported on the Statement of Net Position in three components:

(1) Net investment in capital assets– total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets, including related deferred outflows of resources and deferred inflows of resources.
(2) Restricted – for amounts when constraints placed on the net position are either externally imposed, or are imposed by constitutional provisions or enabling legislation.
(3) Unrestricted – the total net position which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

C. Basis of Presentation—Fund Financial Statements

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. A fund is defined as a separate accounting entity with a self-balancing set of accounts. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and discretely presented component units. Major governmental funds, major proprietary funds, and major component units are reported in individual columns in their respective fund financial statements. Non-major funds and component units are combined and reported in a single column. The single test for classifying a fund as either major or non-major consists of applying the following two steps:

a. Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, etc.) for all funds in that category or type (that is total governmental or total enterprise), **and**
b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to the above major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

The financial activities of the State reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds:

Governmental Funds

General Fund – The Vermont Legislature has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future.

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects, and include the following:

Transportation Fund – This fund is a major special revenue fund. It is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for construction of transportation capital facilities. The primary sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for transportation projects.

Education Fund – This fund is a major special revenue fund. It was established by the Vermont Legislature to equalize statewide education funding requirements. Sources of funding and allowable expenditures are codified in 16 V.S.A. 4025. These allowable expenditures include payments to school districts and supervisory unions for the support of education, the costs of short-term borrowing, and statewide education tax income sensitivity adjustments. Funding includes the statewide education tax, allocations of other taxes, State lottery profits, Medicaid reimbursements, and appropriated transfers from the General Fund.

Special Fund – This fund is a major special revenue fund. It combines many individual special revenue funds that account for proceeds or specific revenues not categorized above that are limited to expenditures for specific purposes. These purposes cross the entire range of State government activities.

Federal Revenue Fund – This fund is a major special revenue fund. All federal grant receipts are recorded in this fund except for those federal funds specifically designated for human services as part of the global commitment to health Medicaid waiver, transportation or fish and wildlife purposes (which are recorded in the State's Global Commitment Fund, Transportation Fund or Fish and Wildlife Fund respectively).

Global Commitment (to Health) Fund – This fund is a major special revenue fund created in accordance with Section 16c of 33 V.S.A. 1901(e). It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. This agreement caps Federal expenditures in Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment, and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies. As part of the agreement, the Agency of Human Services (AHS) has contracted with the Department of Vermont Health Access (DVHA), which serves as a publicly sponsored managed care organization, and adheres to all Federal managed care organization regulations.

In addition to the grant received from the Federal Government, General and Special Fund resources are used to fund payments from the Agency of Human Services to the DVHA for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General and Special Funds and as transfers in to the Global Commitment Fund. These funds will be expended as appropriated by the general assembly, authorized by the Director of the DVHA, and approved by the Commissioner of Finance and Management consistent with agreements between the DVHA and departments delivering eligible services under the waiver. These resources paid to the Global Commitment Fund are adjusted by the AHS each quarter to the actual expenditures paid.

Non-major governmental funds column includes the balances and activities of the following:

Fish and Wildlife Fund – This fund is a non-major special revenue fund. The fund's revenue is committed by statute and can only be utilized for fish and wildlife purposes. Principal sources of revenue include license fees and federal grants.

Capital Projects Funds – These funds, consisting of the General Obligation Bond Projects Fund and the Transportation Infrastructure Bond Projects Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

Debt Service Funds—These funds, consisting of the General Obligation Debt Service Fund and the Transportation Infrastructure Debt Service Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for bond principal and interest.

Permanent Funds – These are non-major governmental funds that report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, and monument preservation.

Proprietary Funds

These funds account for those activities for which the intent of management is to recover the cost of providing goods or services to the general public or other departments of government primarily through user charges; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

Enterprise Funds – These eight funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining five are reported as non-major funds.

Unemployment Compensation Trust Fund – accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed (21 V.S.A. Chapter 17).

Liquor Control Fund – accounts for the operations of the Liquor Control Board which purchases, distributes, and sells distilled spirits through its agency stores (7 V.S.A. Chapter 40).

Vermont Lottery Commission – accounts for the operations of the Vermont Lottery (31 V.S.A. Chapter 14). The net profits of the Vermont Lottery Commission are used to support public education and are transferred monthly to the Education Fund.

Internal Service Funds – These twenty-four separate funds are used to account for the financing of goods and services provided by one State department to other State agencies, departments, or intergovernmental units. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. Activities accounted for in the State's internal service funds include risk management; employee group insurance programs; equipment acquisition and maintenance; rental and maintenance of facilities; financial, human resource, audit, and information technology services; postage, copying and supply procurement services; and State vehicle fleet management. In the government-wide financial statements, Internal Service Funds are reported within the governmental and business-type activities.

Fiduciary Funds

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. These funds include the following:

Pension and Other Postemployment Benefit Trust Funds – These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement (defined benefit) System, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund, the Retired Teachers' Health and Medical Benefit Fund and the Vermont Municipal Employees' Health Benefit Fund.

Private Purpose Trust Fund – The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The Unclaimed Property Division in the State Treasurer's Office administers procedures for returning this property to its rightful owner if they can be located. In addition to monetary assets, from time to time, the Unclaimed Property Division may have custody of tangible property that has not been valued and therefore is not reported in the financial statements.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. They have no net position and report items such as Federal income tax withholding, social security tax withholding, etc.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Statewide education property taxes are recognized as revenues in the year for which the taxes are levied. This property tax is levied by the State on July 1, is included in the property tax bills levied by municipalities, and is collected by municipalities. The municipalities, by December 1 and June 1, must make payment to the State Treasurer in the amount specified by the Commissioner of Taxes.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The State uses a 60-day availability period for revenue recognition.

Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. Expenditures generally are recorded when a liability is due and payable, with the following exceptions:

a. Employees' vested annual, personal, and compensatory leave time are recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the accrual-basis financial statements and does not include any accruals for the State's share of any payroll taxes that will be due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.
b. Interest on general long-term debt is recognized when due to be paid.
c. Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units **–** The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non–operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

E. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension and Other Post Employment Benefit Funds, and bond proceeds in the Capital Projects Funds, cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated based on average daily balances to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of three months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

Investments

The investments are categorized at their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure fair value of the asset that prioritizes inputs into three levels: Level 1 - quoted prices for identical instruments in active markets; Level 2 - significant inputs that are observable; Level 3 - significant inputs that are unobservable.

Also certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. For additional information regarding types of investments and basis of valuation, see Note IV.B. - Investments.

Receivables

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants and are reported net of allowance for uncollectible accounts. See Note IV.C. - Receivables for further information.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and drug expenditure reimbursements due to the Medicaid program from drug companies and third party insurance companies. Revenues accrued in the governmental funds' financial statements consist primarily of accrued taxes, and other receivables that will be collected by the State within 60 days after year-end. Amounts estimated to be collected after the 60-day revenue recognition period are recorded as unavailable revenues. Federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. Notes and loans receivable in the General Fund consist primarily of loans to various non-profit organizations and a Vermont Economic Development Authority note held by the State. No allowances for uncollectible amounts have been recognized in these notes receivable. See Note V.C. - Contingent Liabilities for further information.

Inventories

Inventories of materials and supplies in governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are valued at the lower of cost or market, except inventories reported in the Federal Surplus Property Fund (enterprise fund), which are reported at the federal acquisition cost. Cost valuation methods used in the proprietary funds are weighted average method (enterprise funds - Liquor Control Fund and Vermont Life Magazine Fund, and internal service funds - Highway Garage Fund and Offender Work Programs Fund); specific identification method (enterprise funds - Vermont Lottery Commission, Federal Surplus Property Fund, and internal service funds - Communication & Information Technology Fund, and State Surplus Property Fund); and first-in, first-out method (internal service fund - Postage Fund).

Prepaid Expenses

In the governmental funds, all purchases are recorded as expenditures when the invoice is entered for payment. In the proprietary and fiduciary funds, certain payments reflect costs applicable to future accounting periods and as such, are recorded as prepaid expenses. These prepaid items will be expensed as they are liquidated.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, art and historical treasures, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide Statements of Net Position, and in the fund financial statements for the proprietary and fiduciary funds. All purchased capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated assets are valued at acquisition value on the date donated to the State.

Capital assets, except as stated below, have an initial cost of at least $5,000, and provide a future economic benefit for a minimum of 2 years. This includes buildings that are not considered to be part of an infrastructure asset. All land and land use rights, regardless of cost, are capitalized and are not depreciated. Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as opposed to State employees, cost at least $50,000 and provide future economic benefit for a minimum of 3 years. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets. Software with a cost of at least $50,000 and a useful life of more than two years, and internally generated intangible assets with a cost of at least $150,000 and a useful life of more than one year are capitalized.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 5 to 50 years, equipment is 3 to 20 years, software is 3 to 10 years, and infrastructure assets are 7 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes IV. E. - Capital Assets, and IV. G. 3. - Lease Commitments, respectively.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Repairs and maintenance are recorded as expenses. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements. Interest incurred on debt issued for construction of governmental activities capital assets is not capitalized.

The majority of the historic artifacts and collections that are maintained by the various State agencies and departments are not included in the capital asset reporting. The items not reported are protected and preserved, held for public exhibition and educational purposes and the proceeds from any sales of such items are used to acquire new items for the collection.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Primary Government has six items that qualify for reporting in this category, five of which are related to pensions and other postemployment benefits, the changes in proportional share, differences between projected and actual earnings on plan investments, changes of assumptions, differences between expected and actual experience, contributions made subsequent to the measurement date, and the unamortized balance of losses on bond refunding, are all reported in the government-wide Statement of Net Position. A loss on a bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Changes in proportional share, changes of assumptions, and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining service lives of all employees. Net differences between projected and actual earnings on plan investments is capitalized and recognized over a five -year period. Pension and other postemployment benefits contributions made subsequent to the measurement date will be recognized as a reduction of the net pension and other postemployment benefits liability after the next measurement date.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has one type of item, which only arises under the modified accrual basis of accounting, that qualifies for reporting in this category, and that is unavailable revenue. Governmental funds report unavailable revenue in the balance sheet for revenue that is not available under the modified accrual basis. The amount is capitalized and recognized as revenue in the period that it becomes available. The Primary Government has three items that qualify for reporting in this category in the government-wide financial statements, that are related to pensions and other postemployment benefits. Net differences between projected and actual earnings on plan investments is capitalized and recognized over a five-year period. Changes in assumptions and changes in proportional share related amounts are capitalized and recognized over a period equal to the expected remaining service lives of all employees.

Additional disclosures related to deferred outflows and inflows of resources are included in Notes IV. F. - Deferred Outflows and Deferred Inflows and IV. G. 4. - Retirement Plans and Other Postemployment Benefits.

Tax Refunds Payable

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2018 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2018. The amount reported as tax refunds payable at June 30, 2018 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2018's tax liability that will be paid out in calendar year 2019.

Arbitrage Rebate Obligations

In accordance with Section 148(f) of the U.S. Internal Revenue Code, the State must rebate to the U.S. Government the excess of interest earned from the investment of certain debt proceeds over the yield rate of the applicable debt. Arbitrage rebate, if any, is due and payable on each five-year anniversary of the respective debt issue. As of June 30, 2018, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in "Other Long-term Liabilities" in the government-wide statement of net position.

Compensated Absences

Compensated absences' liabilities include amounts for accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within the subsequent year or be forfeited.

Liabilities for compensated absences are recorded in the government-wide Statement of Activities where the employees are assigned, and in the funds, where applicable. The amounts are calculated based on an employee's pay rate in effect as of year-end. Additional information including changes in balances may be found in Note IV. G. 5. - Other Long-term Liabilities.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is forfeited without any payout; therefore, it is not an accruable liability to the State. There is no limit on the amount of sick leave an employee may accumulate.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Encumbrances remaining at fiscal year-end are reported within the restricted, committed, or assigned fund balances of the governmental funds, as appropriate. The amount of the encumbrances remaining in the general fund is $6,830,373.

Fund Balances

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54 - *Fund Balance Reporting and Government Fund Type Definitions*. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

- Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed. In the General Fund, amounts are assigned by the Agency of Administration under authorization by the Legislature in the annual Budget Adjustment Act.

- Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, generally it is the State's policy to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, it is generally the State's policy to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed. Additional information may be found in Note IV. H. - Fund Balance/Net Position.

Bond Discounts, Premiums and Issuance Costs

In the government-wide financial statements, bond discounts or premiums are capitalized and amortized over the term of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs other than prepaid insurance are reported as expenses.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issued are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

Interfund Transactions

Interfund Loans – Short-term loans between funds outstanding at year-end for such things as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

Reimbursements – Reimbursements result when one fund makes an expenditure for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

Interfund Services Provided and Used –These transactions occur between two government funds that would be accounted for as revenue and expenditures if they occurred between a government entity and a private sector entity.

Transfers – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Transfers are not revenue, expenditures, or expenses, and are classified as "Other Financing Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities that affect the disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

F. Accounting and Reporting Changes

Effective for fiscal year 2018 reporting, the State adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* establishes accounting and financial reporting for other postemployment benefit (OPEB) plans other than pension plans that is provided to the employees of state and local governmental employers. The Statement requires employers and nonemployer contributing entities to report their net OPEB liability on their financial statements. See Note V. G. for cumulative effect of change in accounting principles.

Statement No. 81 *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. See Note V. G. for cumulative effect of change in accounting principles.

Statement No. 85 *Omnibus* 2017 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement did not have an impact on the financial statements.

Statement No. 86 *Certain Debt Extinguishment Issues* establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished and establishes an additional disclosure requirement related to debt that is defeased in substance. This statement did not have an impact on the financial statements.

Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period* establishes accounting requirements for interest cost incurred before the end of a construction period. The Statement requires financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset; and in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement did not have an impact on the financial statements.

Note II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund financial statements each include a schedule that reconciles the fund balance and net changes in fund balance in the fund financial statements to the net position and changes in net position in the government-wide financial statements. Differences between the two occur because the current financial resources measurement focus and modified accrual basis of accounting that is used in governmental funds must be converted to the economic resources measurement focus and accrual basis of accounting that is used in government-wide reporting. In addition, differences will occur because balances and transactions associated with interfund activity must be eliminated in the process of preparing the government-wide financial statements, including consolidation of internal service fund data into the governmental activities in the government-wide financial statements.

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains that "capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds." The details of this are as follows:

Land	$ 153,090,629
Works of art	127,803
Construction in progress	617,982,753
Depreciable capital assets and infrastructure, net of $1,611,138,854 of accumulated depreciation	2,177,050,206
Net adjustment to increase *fund balances - total governmental funds* to arrive at *net position - governmental activities*	$ 2,948,251,391

Another element of that reconciliation explains that "amounts are presented in the Statement of Net Position but are not presented in fund balances due to a different basis of accounting." The details of this are as follows:

Long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds	$ 180,256,011
Deferred outflow for unamortized loss on sale of refunding bonds	7,439,970
Deferred outflow for pension related items	684,539,039
Deferred inflow for pension related items	(134,828,924)
Deferred outflow for OPEB related items	62,109,606
Deferred inflow for OPEB related items	(188,466,233)
Net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ 611,049,469

The final element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds." The details of this are as follows:

(Table on next page.)

Bonded debt	$	(699,210,847)
Accrued interest payable on bonds		(9,313,810)
Compensated absences (net of internal service funds' liability)		(32,104,831)
Tax refunds payable		(63,134,100)
Net pension liabilities		(2,146,135,825)
Net other postemployment benefits liabilities		(2,358,893,830)
Other long-term liabilities		(16,422,276)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(5,325,215,519)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period, net of internal service funds.” The details of this difference are as follows:

Capital outlay/functional expenditures	$	596,961,062
Expensed net book value of disposed assets		(301,114,896)
Depreciation expense		(186,674,208)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	109,171,958

A second element of the reconciliation states that repayment of bond principal is reported as an expenditure in governmental funds. However, in the government wide statements, repayment of bond principal reduces long-term liabilities. The details of this difference are as follows:

Principal repayment		48,935,000
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	48,935,000

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this difference are as follows:

Bonds issued increases long-term debt in the statement of activities	$	(106,095,000)
Bond premium is amortized over the life of the bonds in the statement of activities		(3,664,226)
Refunding bonds deferred outflow amortized to interest expense over life of refunded bonds		(1,168,705)
Bond discount is amortized over the life of the bond in the statement of activities		(14,833)
Net adjustment to decrease *changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	(110,942,764)

The final element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this difference are as follows:

Increase in accrued interest payable	$ (861,032)
Decrease in compensated absences	739,947
Increase in employer pension and other postemployment benefit related costs	(186,978,843)
Increase in pollution remediation related costs	(981,813)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ (188,081,741)

Note III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Vermont statutes require the head of every State department, board and commission, and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years, in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts, including federal receipts, exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

B. Deficit Fund Balances/Net Position

The following funds report a deficit net position at June 30, 2018:

Proprietary Funds		
Non-Major Enterprise Funds:		
Federal Surplus Property Fund	$	(149,391)
Internal Service Funds:		
Communications & Information Technology Fund		(6,758,149)
Copy Center Fund		(1,324,826)
Postage Fund		(3,250,769)
Facilities Operations		(1,188,892)
Property Management		(24,188,951)
State Liability Insurance		(3,180,518)
Risk Management - All Other Insurance		(87,715)
Human Resources		(182,401)
Fiduciary Funds		
Pension and OPEB Trust Funds:		
Vermont Retired Teachers' Health and Medical Benefits		(26,443,247)

Non-major Enterprise Funds

The deficit in the Federal Surplus Property Fund is due mainly to the lack of inventory available for sale from the federal government that could in turn be retrieved for sale by the State. Program management will continue to evaluate the allocation of administrative expenses, making reductions where appropriate. Management will also continue to pursue increasing revenue by actively retrieving goods for sale.

Internal Service Funds

For fiscal year 2018, the statewide effect of the movement of information technology (IT) personnel to the Agency of Digital Services (ADS) was negligible. While the operating loss of $2,500,356 in the Communications & Information Technology (CIT) Fund for fiscal year 2018 can be attributed to the movement of personnel, it is due to the accrual basis accounting treatment of payroll costs and compensated absences, and of their discreet capture in the CIT Fund for the first time. For fiscal years prior to the ADS consolidation of IT personnel, the accrued payroll expenses and the recognition of compensated absences among respective Departments and Agencies for IT personnel were presented in aggregate and imbedded within the Governmental Activities of the Government-wide Financial Statements, which are also prepared using the accrual basis of accounting. Beginning in fiscal year 2019 and going forward, both accounts receivable billing practices and budgeted rates for ADS services will closely match operating costs, account for payroll expenses accrued during fiscal year 2018, and begin to mitigate the cumulative fund deficit.

The Copy Center Fund’s deficit net position is the result of a decline in usage, driven by technology replacements of printed materials, limiting the fund’s revenue potential without reducing fixed costs. To eliminate the deficit, Copy Center Management will implement modest rate increases, while continuing to aggressively pursue additional business opportunities including synergistic partnership with the Postal Center.

The deficit net position in the Postage Fund has been created because the marginal rate (% points saved off federal postal rates) in which to operate the program has not proven sufficient to cover the actual operating costs despite management-initiated efficiencies. In addition, unbilled services (bomb screening and inter-office mail) have not been fully funded in recent years. Program management will attempt to address the fund deficit through improved business operations, while continuing to explore efficiencies gained through a partnership and co-location with the Copy Center. Additional structural changes may be required if operations management cannot fully address the fund deficit.

The Facilities Operations Fund can experience major fluctuations due to many unpredictable factors (such as weather, building damage, equipment failure) and some predictable factors, such as employee advancements (pay act & reclassifications) which do not adjust the billing rate during the year. Continued investments in energy efficiency, strategic maintenance management, and regular review of all operations should help trend this fund toward elimination of the deficit.

Much of the Property Management Fund’s deficit is due to two buildings that have been financed over a twenty-year period but whose recovery of costs is fifty years. This part of the deficit should be eliminated gradually over the next thirty years. Additionally, the fund initially operated with staff and operating costs but lacked associated revenue. The Administration has added a surcharge to the existing leases to cover the operating expenses and deficit. Program management has also addressed, via corrective agreements and billings, a few instances of tenant subsidization where invoicing did not recover the full cost of the leased space.

The State Liability Insurance Fund’s deficit is due to a large increase in the incurred but not reported (IBNR) liability which can shift year to year based on actuary analysis and projections. Program management will continue to evaluate administrative overhead allocations (staffing, space, etc.). A surcharge or rate increases may be required if operating experience continues to trend at a loss.

The Risk Management All Other Fund purchases commercial policies for state agencies and departments. The cost of the policies are charged back to departments, most with a 5% administrative premium. The property insurance portion of the program will fluctuate from year to year depending on how closely the annual billing was set relative to the actual net policy costs. FY18 ended in a deficit position, down from a FY17 surplus, due to actual net expenses exceeding program billings. This deficit will be addressed in future rates setting calculations.

The deficit balance in the Human Resources Services (HRS) Fund is associated with the creation of the Ethics Commission. The Commission was established during FY18, but associated revenue was not built into the HRS fund rate setting calculations until FY19. The resulting deficit will be addressed during future budgeting cycles.

Fiduciary Funds

In fiscal year 2018, the cost of other postemployment benefits for retired members of the Vermont Retired Teachers’ Health and Benefits’ Fund were in excess of the contributions paid to the fund, and the fund ended the year with a deficit net position. The statute creating this fund (16 V.S.A. 1944b) authorizes the State Treasurer to use interfund borrowings of up to $28.5 million to finance any shortfalls in this fund, and it is the Legislature’s intent to repay any such borrowings by the end of fiscal year 2023.

NOTE IV. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash and Cash Equivalents

Deposits for the primary government are governed by State statutes. When depositing public monies, the State Treasurer must act in accordance with 32 V.S.A. Chapter 431. Although the statute provides requirements for the collateralization of deposits, it does not establish limits. These limits are set by published formal guidelines issued by the State Treasurer.

The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by the Federal Deposit Insurance Corporation (FDIC) insurance and are uncollateralized; or collateralized with securities held by the pledging financial institution’s trust department or agent, that are not registered in the depositor – government’s name. Although State statute does not require deposits to be collateralized, the Treasurer requires the State's cash deposits held in its primary bank to be collateralized with either United States Treasury securities or Vermont municipal securities or other approved money market instruments, or other collateral acceptable to the Treasurer. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization and assets. Bank deposits in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. Bank balances of deposits for the primary government, excluding pension, and other post employment benefits funds, at June 30, 2018, were $473,329,778. Of these, $3,132,823 were exposed to custodial credit risk as uninsured and collateralized with securities held in the name of pledging financial institutions.

The Unemployment Compensation Trust Fund had $431,606,230 on deposit with the U.S. Treasury at June 30, 2018. This amount is presented as cash and cash equivalents and is not included in the carrying amount of deposits, nor is it categorized according to risk, because it is neither a deposit with a financial institution nor an investment.

The pension, other postemployment benefits, and investment trust funds' cash deposits, outside of the pension trust funds' custodian bank at June 30, 2018, totaled $11,800,609 none of which was exposed to custodial credit risk.

B. Investments

Primary Government—Excluding All Pension, and Other Postemployment Benefits Trust Funds

Investments for the primary government are governed by State statutes. The State has an investment policy with an overriding goal of minimizing exposure to risk and maintaining liquidity necessary for future cash needs while maximizing the return on investments. Two sections of State statute govern the investment of the State's operating and restricted cash (i.e., non-pension funds).

When investing public monies, the State Treasurer must act in accordance with 32 V.S.A. 433. Types of investments allowed include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations or other approved money market instruments; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. Also, the State Treasurer's Office issues additional formal guidance that is reviewed periodically, to assure that the three investment objectives -- safety, liquidity, and yield -- are met.

The statutory guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the Tobacco Trust Fund, the Higher Education Trust Fund, the Agency of Natural Resources Stewardship Fund, two Veterans' Home trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts.

The State Treasurer may invest funds in accordance with the standard of care established by the prudent investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the Trust Investment Account.

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at fair value when published market prices and quotations are available, or for certain securities at amortized cost. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

(a) Fair Value Measurements
The State categorizes its fair value measurements within the fair value hierarchy established by generally

accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1: Inputs are quoted prices for identical investments in active markets.
- Level 2: Observable inputs other than quoted market prices.
- Level 3: Unobservable inputs.

The fair value measurement at June 30, 2018 for the primary government, with the exception of the Pension and OPEB trust funds is as follows:

Primary Government Investments - Excluding
Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

		Fair Value Measurement Level		
Investments by fair value level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt investments:				
US Agencies/Treasuries	$ 112,182	$ 112,182	$ -	$ -
Commercial Paper	5,497	5,497	-	-
Total debt investments	117,679	117,679	-	-
Equities:				
Equity Securities	2,861	2,861	-	-
Total investments by fair value level	120,540	$ 120,540	$ -	$ -

Investments measured by net asset value (NAV)		**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Money Market Mutual Funds	264,169	-	Daily	-
Fixed Income Mutual Funds	24,663	-	Daily, monthly	1-30 days
Equity Mutual Funds	18,417	-	Daily, monthly	1-60 days
Total investments by NAV	307,249			
Total investments	$ 427,789			

$264,167 of the above money market mutual funds are classified as cash and short-term investments on the financial statements.

(b) Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates for investments, other than pension and investment trust funds' investments. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2018 are presented as follows:

(Table on next page.)

Primary Government Investments - Excluding
Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments:					
US Agencies/Treasuries	$ 112,182	$ 111,388	$ 483	$ 173	$ 138
Money Market Mutual Funds	264,169	264,169	-	-	-
Fixed Income Mutual Funds	24,663	24,663	-	-	-
Commercial Paper	5,497	5,497	-	-	-
Total Debt Investments	406,511	$ 405,717	$ 483	$ 173	$ 138
Other Investments:					
Equity Securities	2,861				
Equity Mutual Funds	18,417				
Total Investments	$ 427,789				

(c) Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributable to the monetary magnitude of the State's investment in a single issuer. While State statute does not establish ceilings, formal investment guidelines for operating funds limit the amount invested to 10% in any one issuer of commercial paper, corporate securities, or bankers' acceptances. There are no limitations for U.S. Government and Federal Agencies. Money market funds utilized by the State Treasurer's Office are highly rated and incorporate the requisite diversification. As of June 30, 2018, no single issuer exceeded 5% for the primary government portfolios.

(d) Custodial Credit Risk
For investments, custodial credit risk is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The State has no formal policy on custodial credit risk but maintains contractual relationships with custodian banks that provide coverage and define the procedures. As of June 30, 2018 all securities were registered in the name of the State at its custodian bank. Investments in open-end mutual funds are not exposed to custodial risk because their existence is not evidenced by specific securities.

(e) Credit Risk
Credit risk is the possibility that the issuer or other counterparty to an investment may default on their obligations. In non-pension funds this risk has been mitigated by implementing statutory guidelines on credit quality and further restricted by formal investment guidelines and the use of low-risk money market instruments. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities, exclusive of pension fund investments, as of June 30, 2018, is presented as follows using the Moody's rating scale:

(Table on next page.)

Primary Government Rated Debt Instruments
Excluding Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

		Quality Ratings		
Debt Investments	Fair Value	Aaa	Aa3	Unrated
Money Market Mutual Funds	$ 264,169	$ 264,169	$ -	$ -
Fixed Income Mutual Funds	24,663	-	-	24,663
Commercial Paper	5,497	-	5,497	-
Totals	$ 294,329	$ 264,169	$ 5,497	$ 24,663

(f) Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Vermont's operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds who only invest in domestic instruments. In the Trust Investment Account portfolio, total exposure to foreign currency risk as of June 30, 2018, was $0.

Primary Government—Pension, and Other Postemployment Benefits Trust Funds

The State has three defined benefit plans (Vermont State Retirement System (VSRS), State Teachers Retirement System (STRS), and Vermont Municipal Employees' Retirement System (MERS)); three defined contribution plans (VSRS, MERS, and Single Deposit Investment Account); and three other postemployment benefit funds. Additional information on these plan benefit and actuarial valuations may be found in Note IV.G.4. - Pension and Other Postemployment Benefits.

By statute, the assets of the three defined benefit plans are invested on behalf of each plan's Trustees through the Vermont Pension Investment Committee (VPIC), which was established by the Vermont Legislature (Title 3 V.S.A. Chapter 17), effective July 1, 2005, to combine the assets of the VSRS, STRS and MERS defined benefit plans for the purpose of (i) investment in a manner that is more cost and resource-efficient; (ii) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems. The majority of these assets have been pooled for investment purposes.

All three defined benefit plans managed by the State have adopted a common asset allocation as determined by the VPIC. As of October 29, 2009, the VPIC adopted a set of investment policies and guidelines common to all three defined benefit plans. These are used by VPIC with the objective of maximizing returns within acceptable risk parameters.

The State's Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, is invested in a commingled stable bond fund. The investment policy governing the SDIA portfolios includes a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized mortgage obligations, corporate bonds, and single issuers of non-treasury/ government agency backed bonds.

The Vermont State Retirement's defined contribution plan's trustee is the State Treasurer. The Vermont Municipal Employees' Retirement System Board of Trustees is the trustee for the Vermont Municipal Employees' defined contribution plan. Both plans are administered by Fidelity Investments Institutional Operations Company. Investment choices are made by participants from a range of funds approved by the trustees' for the plans. Investment options are Fidelity and non-Fidelity mutual funds including large and small market capitalization equities (actively managed and indexed), international equities, fixed income securities, balanced funds, target retirement date age based funds, and a stable value fund. Funds included in the plans were selected based on consideration of fund performance for one and multi-year periods, performance ranked against peer group funds in asset class, management fee expense ratios, fund asset class and investment objectives, historical annual returns, Morningstar ratings, performance in various stages of the capital market cycle, and consultant recommendations as to the optimal number of funds and appropriate asset classes. Fidelity provides quarterly investment reports and analysis that are reviewed by Treasury staff, the State Treasurer and Vermont Municipal Employees' Retirement Board.

The State has three other postemployment benefit funds, the Vermont State Postemployment Benefits Trust Fund (State OPEB), the Retired Teachers' Health and Medical Benefit Fund (RTHMB) and the Vermont Municipal Employees Health Benefit Fund (Muni OPEB). The State OPEB is invested in the Trust Investment Account utilized as an investment vehicle by many of the State's primary funds. The RTHMB has no investments. The Muni OPEB is invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, ICMA-RC employing collective investment trust funds.

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at fair value when published market prices and quotations are available, or for certain securities at amortized cost. Real estate is carried at the net asset value of each retirement system's real estate fund investments, which net asset value is further based on the fair market value of the real properties. Properties' fair market values in each of the retirement systems' fund investments are established quarterly by real estate fund manager appraisals and are validated at least yearly by third-party property appraisals. Nonmarketable securities include alternative investments such as private equity and private partnerships, which are valued using current estimates of fair value obtained from the Investment Manager (Manager) in the absence of readily determinable public market values. Such valuations generally consider variables such as the high, medium, and low values for portfolio investments; the investments' exit timetables, and the status of any proceedings leading to a liquidity event; the financial performance of investments, including comparison of comparable companies' earning multiples; cash flow analysis; and recent sales prices of investments. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

(a) Fair Value Measurements

The Pension and OPEB Trust Funds categorize the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset that prioritizes inputs into three levels. The level is determined based on the lowest level of input significant to the measurement in its entirety.

- Level 1: Securities traded in an active market, on an exchange that have quoted unadjusted prices such as Exchange-traded equities, and exchange-traded derivatives.
- Level 2: Inputs other than quoted prices that are observable. These inputs are derived from market data through correlation or by other means, e.g., "market corroborated". These are primarily fixed income prices using an evaluated price provided by an independent pricing vendor or broker/dealer.
- Level 3: Inputs to the valuation methodology that are unobservable and significant to the fair value measurement. Instruments are often based on internally developed models in which there are few, if any, external observation.

(Table on next page.)

Below is the fair value measurement table at June 30, 2018, for the Pension and OPEB trust funds.

Pension and Other Postemployment Benefits
Trust Funds' Investments
(Expressed in Thousands)

		Fair Value Measurement Level		
Investments by fair value level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities:				
US Agencies/Treasuries	$ 205,941	$ -	$ 205,941	$ -
Corporate Debt	210,721	-	210,721	-
Certificates of Deposit	1,851	-	1,851	-
Municipals	6,013	-	6,013	-
Asset Backed Securities	27,421	-	27,421	-
Mortgage Backed Securities	100,804	-	100,804	-
Sovereign Debt	16,866	-	16,866	-
Repurchase Agreement	(3,368)	-	(3,368)	-
Total debt securities	566,249	-	566,249	-
Equity investments:				
Stock Securities	641,446	641,282	-	164
Investment derivatives:				
Swaps	2,918	-	2,918	-
Options	(19)	(10)	(9)	-
Total investment derivatives	2,899	(10)	2,909	-
Total investments by fair value level	1,210,594	$ 641,272	$ 569,158	$ 164

Investments measured at the net asset value (NAV)		**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled Fixed Income Mutual Funds	816,250	-	Daily, monthly	1-30 days
Commingled Equity Mutual Funds	1,649,472	-	Daily, monthly	1-60 days
Mutual Funds	370,528	-	Monthly, quarterly	90 days
Money Market Mutual Fund	25,361	-	Daily	-
Real Estate Funds	216,991	100,000	-	-
Private Partnerships	203,191	348,722	-	-
Total investments measured at NAV	3,281,793			
Total investments	$4,492,387			

(b) Interest Rate Risk

As pension trust funds have a different investment term horizon based on a long average liability term, the VPIC manages exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities with Core, Core Plus and Global Fixed Income Managers, requiring that the duration be within a specified percentage of the duration band of the appropriate benchmark index. In the case of domestic Core Fixed Income Managers the average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the appropriate passive benchmark's duration by more than +/- 25 percent. The Core Plus portfolio restriction is +/- two years around the passive benchmark duration. With respect to Global Fixed Income portfolios, current portfolio durations are restricted to a range of one to ten years. High yield fixed income portfolios prices and yields are not as directly correlated with the general level of interest rates and are duration monitored but not duration restricted. The calculation of the duration of mortgage backed securities involves assumptions as to the expected future prepayment rate for the security. The Managers are required to calculate duration at the time of initial purchase and on a routine basis to maintain compliance with these guidelines. Fixed income Managers are required to report portfolio characteristics quarterly inclusive of portfolio duration as a measure of portfolio interest rate sensitivity.

Pension and Other Postemployment Benefits
Trust Funds' Investments
(Expressed in Thousands)

Investment Type	Fair Value	Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments:					
US Agencies/Treasuries	$ 205,941	$ -	$ 119,983	$ 64,410	$ 21,548
Corporate Debt	210,721	6,429	106,932	78,367	18,993
Money Market Mutual Fund	25,361	25,361	-	-	-
Certificates of Deposit	1,851	1,851	-	-	-
Municipals	6,013	-	913	407	4,693
Asset Backed Securities	27,421	-	1,076	598	25,747
Collaterized Mortgage Obligations	100,804	799	166	369	99,470
Sovereign Debt	16,866	4,801	3,772	3,905	4,388
Repurchase Agreement	(3,368)	(3,368)	-	-	-
Fixed Income Mutual Funds	816,250	816,250	-	-	-
Total Debt Investments	1,407,860	$ 852,123	$ 232,842	$ 148,056	$ 174,839
Other Investments:					
Equity Mutual Funds	1,649,472				
Equity Securities	641,446				
Mutual Funds	370,528				
Real Estate	216,991				
Private Partnerships	203,191				
Fixed Income - Derivatives	2,899				
Total	$ 4,492,387				

The above money market mutual funds of $25,361 and repurchase agreements of $(3,368) are classified as cash and short-term investments on the financial statements.

(c) Concentration of Credit Risk

Formal guidelines for pension funds state that no more than 5% of the fair value of a portfolio's domestic fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies. As of June 30, 2018, no issuer exceeded 5%.

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The VPIC manages exposure to custodial credit risk by requiring all relevant Managers to hold investments in separate accounts with VPIC's custodian. VPIC guidelines specify the custodial requirements for these accounts and the duties of the Managers and the custodian. As of June 30, 2018, all securities were registered in the name of the State at its custodian bank. Investments in pools, open-end mutual funds, and other investments not evidenced by specific securities are not categorized.

(e) Credit Risk

Detailed pension guidelines by asset class and supplemental requirements by Manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by VPIC. Treasury staff and independent investment consultants are utilized to assure compliance. The credit risks associated with these securities are as follows:

Pension and Other Postemployment Benefits

Trust Funds' Investments

(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
Corporate Debt	$ 210,721	$ -	$ 3,434	$ 30,359
Money Market Mutual Funds	25,361	-	-	-
Certificates of Deposit	1,851	-	-	-
Municipals	6,013	-	3,482	417
Asset Backed Securities	27,421	1,482	2,198	1,446
Collateralized Mortgage Obligations	100,804	2,916	272	-
Sovereign Debt	16,866	639	3,112	3,921
Repurchase Agreement	(3,368)	-	-	-
Fixed Income Mutual Funds	816,250	-	-	-
Totals	$ 1,201,919	$ 5,037	$ 12,498	$ 36,143

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated
Corporate Debt	$ 51,882	$ 26,281	$ 61,599	$ 37,166
Money Market Mutual Funds	-	-	-	25,361
Certificates of Deposit	-	-	-	1,851
Municipals	783	-	-	1,331
Asset Backed Securities	5,808	1,050	11,795	3,642
Collateralized Mortgage Obligations	2,829	582	5,753	88,452
Sovereign Debt	1,450	696	718	6,330
Repurchase Agreement	-	-	-	(3,368)
Fixed Income Mutual Funds	-	-	-	816,250
Totals	$ 62,752	$ 28,609	$ 79,865	$ 977,015

(f) Foreign Currency Risk

Unless VPIC stipulates specific exceptions to the guidelines, the global bond portfolio may hold no more than

30% of its assets, at market value, or 120% of each country's benchmark weight (whichever is greater) in the debt securities of any single foreign government or non-U.S. government entity. For the purposes of this calculation, all countries within the European Single Currency shall count as one country. Single non-government debt security limitations are also set for the global bond portfolio. In the case of equities, the Manager is afforded flexibility in the number of issues held and their geographic or industry distribution, provided that equity holdings are within the lesser of established percentage ranges in relation to single holding limitations and a stock's weighting in the style benchmark against which the Manager is measured. Most foreign currency exposure is in the pension and investment trust funds' portfolios. The value in US dollars by foreign currency denomination and type of investment is as follows:

Pension and Other Postemployment Benefits
Trust Funds' Investments
Foreign Currency Risk - International Securities at Fair Value
(Expressed in Thousands)

Currency	Total	Short Term	Debt	Equity	Derivatives
Argentine Peso	$ 1,093	$ 110	$ 990	$ -	$ (7)
Australian Dollar	13,475	24	-	13,446	5
Brazilian Real	(60)	-	-	-	(60)
Canadian Dollar	8,224	48	-	8,161	15
Danish Krone	4,671	-	-	4,671	-
Egyptian Pound	9	-	-	-	9
Euro	99,473	89	10,623	88,648	113
Hong Kong Dollar	9,552	404	-	9,148	-
Indonesian Rupiah	37	-	-	37	-
Israeli Shekel	990	16	-	974	-
Japanese Yen	55,317	1,089	-	54,539	(311)
Malaysian Ringgit	1,580	31	-	1,549	-
Mexican Peso	322	76	-	291	(45)
New Taiwan Dollar	11	-	-	-	11
New Turkish Lira	63	8	-	70	(15)
New Zealand Dollar	1,065	2	639	402	22
Norwegian Krone	1,215	47	-	1,168	-
Philippine Peso	1	1	-	-	-
Polish Zloty	44	25	-	19	-
Pound Sterling	49,826	794	5,177	44,015	(160)
Russian Ruble	(2)	-	-	-	(2)
Singapore Dollar	10,498	-	-	10,486	12
South African Rand	2,698	136	-	2,563	(1)
South Korean Won	3,777	48	-	3,729	-
Swedish Krona	10,522	(11)	-	10,533	-
Swiss Franc	13,345	-	-	13,345	-
Thai Baht	433	3	-	430	-
United Kingdom Pound	140	-	-	85	55
Yuan Renminbi	2,513	27	-	2,486	-
Totals	$ 290,832	$ 2,967	$ 17,429	$ 270,795	$ (359)

Formal investment policy guidelines adopted by the VPIC state that international equity Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility and facilitate securities transaction settlements rather than leverage portfolio risk exposure. In global fixed income accounts, opportunistic currency positioning may be utilized to hedge and cross-hedge the portfolio's currency risk exposure or in the settlement of securities transactions. The Managers may vary the total portfolio exposure to currency from fully unhedged to fully hedged. The global fixed income Managers are permitted to hedge all, some, or none of the portfolio's currency exposure. They are permitted to cross-hedge currency positions, but may not net short any currency, or net long more than 100% of the portfolio. VPIC has funds allocated to a global allocation asset Manager in the form of shares of a commingled trust. The Manager for this trust may enter into long and/or short positions in currencies of the countries represented in established indices. The strategy is permitted to cross-hedge currency exposure and will actively manage its currency exposure. This active management may go beyond fully-hedged or unhedged currency exposure, and is provided for by a specific exemption to the VPIC general guidelines.

Derivative Financial Instruments

Vermont Pension Investment Committee (VPIC) policy authorizes certain Managers to invest in derivative financial investments. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. Disclosures related to derivatives positions required under Governmental Accounting Standards Board Statement No. 53 – *Accounting and Financial Reporting for Derivative* Instruments (GASB No. 53) apply only to those derivative instruments held directly by the VPIC on behalf of the defined benefit plans and the external investment trust and not those held within commingled fund investment vehicles. The Pension and Other Postemployment Benefit Trust Funds do not have hedgeable assets or liabilities, and all derivative instruments are considered investment derivatives, with corresponding changes in fair value reported in investment income. The fair value of all derivative financial instruments are reported in the Statement of Fiduciary Net Position. All of the derivatives reported at June 30, 2018, are at fair value.

Derivative instruments may be used for any of the following purposes:

- To gain market exposure.
- To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international Managers may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less, and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within the Manager's portfolio. There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging Managers who enter into currency hedging will be guided by specific risk parameters in their contracts.
- To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the Manager and other contract terms applicable to the Manager.
- To make portfolio adjustments that are consistent with other elements of the VPIC's investment policies and that do not systematically increase risk or expected volatility of the rate-of-return of the total portfolio.
- For trading purposes which are intended to enhance investment returns. This purpose is subject to the requirement that it be consistent with other elements of the VPIC's investment policies and that it does not systematically increase the risk or expected volatility of the rate of return of the total portfolio.

All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC Portfolio. Separately managed funds include the following reporting requirements: a list of all derivative positions as of quarter-end; an assessment of how the derivative positions affect the risk exposures of the total portfolio; an explanation of any significant pricing discrepancies between the Manager and custodian bank; an explanation of any non-compliance. Commingled funds provide the VPIC with a quarterly list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

For derivative securities, the Custodian Bank is required to obtain two independent prices, or to notify the VPIC that two independent prices are not available. Managers are required to reconcile the valuations of all derivatives positions on a monthly basis with the Custodian Bank. Derivatives, which are futures contracts, are Commodity Futures Trading Commission approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC). The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (in thousands):

	Changes in Fair Value		Fair Value at June 30, 2018			
	Classification	Amount	Classification	Amount	Notional	
Investment derivatives						
Futures						
Fixed income futures	Investment revenue	$ 364	Investment	$ -	-	
Options						
Fixed income options	Investment revenue	20	Investment	(10)	-	
Other options	Investment revenue	33	Investment	(9)	(15,900)	
Swaps						
Credit default swaps	Investment revenue	36	Investment	36	6,000	
Credit index swaps	Investment revenue	(215)	Investment	(215)	4,611	
Fixed interest rate swaps	Investment revenue	3,284	Investment	3,284	2,570,430	
Swaptions						
Fixed income swaptions	Investment revenue	(177)	Investment	(187)	17,250	
Currency forwards						
FX forwards	Investment revenue	(7)	Investment	-	(2,512)	Argentine Peso
	Investment revenue	5	Investment	-	(380)	Australian Dollar
	Investment revenue	(15)	Investment	-	(1,733)	Brazilian Real
	Investment revenue	15	Investment	-	(1,328)	Canadian Dollar
	Investment revenue	9	Investment	-	6,784	Egyptian Pound
	Investment revenue	79	Investment	-	(9,927)	Euro
	Investment revenue	55	Investment	-	(4,100)	Pound Sterling
	Investment revenue	-	Investment	-	(2,280)	Hong Kong Dollar
	Investment revenue	10	Investment	-	(15,164)	Japanese Yen
	Investment revenue	(2)	Investment	-	818	Mexican Peso
	Investment revenue	23	Investment	-	(835)	New Zealand Dollar
	Investment revenue	(2)	Investment	-	53,819	Russian Rubble
	Investment revenue	-	Investment	-	(187)	Swedish Krona
	Investment revenue	12	Investment	-	(636)	Singapore Dollar
	Investment revenue	(15)	Investment	-	1,256	Turkish Lira
	Investment revenue	11	Investment	-	(13,942)	New Taiwan Dollar
	Investment revenue	(1)	Investment	-	(4,019)	South African Rand

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Fiduciary Net Position.

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2018, the VPIC had three different types of swap arrangements; interest rate swaps, inflation linked swaps, and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Position.

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions in the Statement of Changes in Fiduciary Net Position. Only forward currency contracts are defined as derivatives per GASB No. 53 are reported above; currency spot contracts are not included. Risk of loss arises from changes in currency exchange rates. At June 30, 2018, currency forward positions consisted of unrealized gains on pending foreign exchange sales of $176,916.

Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of "A3" as defined by Moody's Investor Service, "A-" by Standard & Poor's, and "A-" by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A– is prohibited. The use of unrated counter-parties is prohibited. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derived exposure. An exception is allowed if the total commodity derivative exposure is less than $3 million. Any entity acting as counter-party must be regulated in either the United States or the United Kingdom. All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC portfolio. For fiscal year 2018 all counterparties for derivatives met the VPIC counterparty risk rating requirements.

The following shows the market value of credit exposure per Moody's ratings at June 30, 2018:

Moody's Rating	**Market Value**
Aa3	$ 115,397
A2	27,702
A1	124,065
Not rated	86,418
Total	$ 353,582

In addition, Manager credit research teams are tasked with evaluating potential counterparties for their creditworthiness as counterparties, not relying on ratings agencies alone. Managers evaluate individual counterparties using various methods of credit analysis: company visits, reports, earnings updates and take into account other factors, including the broker's/dealer's reputation for sound management, the past experience of the Manager with the broker/dealer, market levels for its debt and equity, its quality of liquidity provided and its share of market participation. At June 30, 2018, risk concentrations are as shown in the following table:

Counterparty Name	Percentage of Net Exposure	Moody's Rating	S&P Rating	Fitch Rating
Bank of America NA……………………	30.94%	Aa3	A+	AA-
Barclays Bank PLC…………………….	7.45%	A2	A	A
BNP Paribas S.A……………………….	0.05%	Aa3	A	A+
Citibank NA…………………………….	8.78%	A1	A+	A+
Citigroup Global Markets, Inc…………	0.38%	A2	A+	A+
Goldman Sachs Bank USA…………….	26.23%	A1	A+	A+
Goldman Sachs International………….	0.08%	A1	A+	A
HSBC Bank USA, N.A………………….	0.05%	Aa3	AA-	AA
JP Morgan Chase Bank, N.A………….	1.58%	Aa3	A+	AA-
Merrill Lynch Pierce Fenner & Smith….	0.96%	-	A+	AA-
Morgan Stanley Capital Services LLC…	21.55%	-	A+	-
SG Americas Securities LLC………….	1.93%	-	-	-

VPIC's Managers use master agreements and may receive additional protection through the collateralization requirements, which helps to mitigate a party's exposure to another party in the event of a default or termination event by requiring the pledging/posting of assets to the other party to secure any outstanding obligations under certain transactions. By regular, generally daily, movement of collateral on forward settling trades, VPIC's exposure to any particular counterparty can be reduced. Collateral movement threshold for securities under the master forward agreements typically ranges from $0 to $250,000 per account, depending on the particular counterparty. Managers require daily posting of collateral with many of our counterparties.

VPIC does not have a formal policy regarding master netting arrangements. As a general practice, Managers use industry standardized contracts, generally known as "master agreements" or "netting agreements," counterparty risk is reduced by providing parties to a transaction the ability to close out and net its total exposure to a counterparty in event of a default with respect to all transactions governed under that particular agreement. These agreements (ISDA Master Agreement and Credit Support Annex, Master OTC Options Agreement, Master Securities Forward Transaction Agreement, Global/Master Repurchase Agreement) allow parties to a transaction to know their legal rights and obligations, in addition to an ability to net. Managers generally put master agreements in place on behalf of each account it manages and each separate counterparty legal entity with which it transacts. The maximum amount of loss VPIC would face in case of default of all counterparties as of June 30, 2018, consists of the aggregated fair value of OTC positions in the amount of $384.

Derivative instruments often contain credit-risk-related contingent features that could result in an immediate payment to the counterparty. For example, a material adverse change clause could provide the counterparty with the right to early terminate the derivative agreement. Alternatively, it could provide a basis for renegotiating the agreement if specific events occur, such as a downgrade of the entity's credit rating below investment grade. These provisions may include an obligation to post additional collateral in instances where the credit-risk contingent feature is triggered or the counterparty is provided the right to terminate the agreement early.

The VPIC funds hold mortgage-backed securities including collateralized mortgage obligations (CMOs) at fair value. Mortgage-backed securities represent a direct interest in a pool of mortgage loans. CMOs are bonds that are collateralized by whole loan mortgages, mortgages pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and pre-payments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment tranches in accordance with the payment order established for the CMO instrument. Cash flows associated with these tranches may demonstrate varying degrees of sensitivity to interest rate fluctuations. A reduction in interest rates may cause some of the tranches to experience a reduction in fair value as prepayments reduce the interest payments, causing a decline in total cash flows. In a rising interest rate environment, an increase in interest payment and cash flows may cause an increase in fair value.

Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk. Agency fixed and floating rate pass-through, U.S. Treasury securities and cash equivalents can be held without limitation. Securities designed to provide more precisely targeted maturities (Sequential Collateralized Mortgage Obligations) and those that create tranches, or Planned Amortization Classes (PAC I and PAC II), with cash flows that are protected from prepayment changes within certain limits, may also be purchased without limitation. Policy restrictions and portfolio percentage limitations are established for the purchase of more interest rate sensitive instruments and certain interest rate and price stress tests are required.

Asset-backed securities are collateralized by a loan, lease, or receivable other than real estate. Payments are collected by a servicer though a “pass-through” arrangement. As monthly payments of principal and interest are made, the pass-through security holder is entitled to a pro rata portion of the payments received. Risk of pre-payment varies with the underlying assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

C. Receivables

Accounts receivable at June 30, 2018 are summarized as follows:

	Enterprise Funds		Total
	Major	Non-major	Business-type Activities
Business-type activities			
Taxes			
Unemployment	$ 40,611,907	$ 2,127,637	$ 42,739,544
Allowance for uncollectibles	(6,395,390)	(1,304,442)	(7,699,832)
Taxes receivable, net	$ 34,216,517	$ 823,195	$ 35,039,712
Loans and notes receivable	$ -	$ 1,057,452	$ 1,057,452
	Current receivable		$ 365,015
	Non-current receivable		692,437
	Total loans and notes receivable, net		$ 1,057,452
Federal grants	$ 495,796	$ -	$ 495,796
Other			
Accrued interest and other receivables	$ 6,204,426	$ 406,476	$ 6,610,902
Allowance for uncollectibles	(139,052)	(22,778)	(161,830)
Other receivables, net	$ 6,065,374	$ 383,698	$ 6,449,072
	Current receivable		$ 6,443,213
	Non-current receivable		5,859
	Total other receivable, net		$ 6,449,072

continued on following page

	Governmental Funds Major	Governmental Funds Non-major	Internal Service Funds	Total Governmental Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 148,551,007	$ -	$ -	$ 148,551,007
Sales and use	73,745,714	-	-	73,745,714
Meals and rooms	44,564,371	-	-	44,564,371
Purchase and use	456,735	-	-	456,735
Motor Fuel	3,388,056	81,726	-	3,469,782
Other taxes	103,455,930	-	-	103,455,930
Subtotal	374,161,813	81,726	-	374,243,539
Allowance for uncollectibles	(123,322,354)	-	-	(123,322,354)
Taxes receivable, net	$ 250,839,459	$ 81,726	$ -	$ 250,921,185
Current receivable				$ 117,244,361
Non-current receivable				133,676,824
Total taxes receivable, net				$ 250,921,185
Loans and notes				
Loans and notes receivable	$ 293,426,443	$ -	$ 3,628,716	$ 297,055,159
Allowance for uncollectibles	(859,200)	-	-	(859,200)
Loans and notes receivable, net	$ 292,567,243	$ -	$ 3,628,716	$ 296,195,959
Current receivable				$ 34,326,895
Non-current receivable				261,869,064
Total loans and notes receivable, net				$ 296,195,959

	Governmental Funds Major	Governmental Funds Non-major	Internal Service Funds	Total Governmental Activities
Federal grants				
Human services	$ 131,455,108	$ -	$ -	$ 131,455,108
General education	12,147,957	-	-	12,147,957
Transportation	42,671,376	-	-	42,671,376
Other	27,152,459	10,936	-	27,163,395
Federal grants	$ 213,426,900	$ 10,936	$ -	$ 213,437,836
Other				
Accrued interest and other receivables	$ 125,992,517	$ 11,975	$ 21,797,271	$ 147,801,763
Allowance for uncollectibles	(40,049,807)	(7,589)	(167,283)	(40,224,679)
Other receivables, net	$ 85,942,710	$ 4,386	$ 21,629,988	107,577,084
Interfund loans receivable and due from other funds from Fiduciary Funds				28,347,885
Less Internal Service Funds' receivables from Governmental Funds				(9,011,393)
Other receivables, net				$ 126,913,576
Current receivable				$ 83,141,476
Non-current receivable				43,772,100
Total other receivable, net				$ 126,913,576

D. Interfund Balances

1. Due From/To Other Funds

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2018, are as follows:

	Due to Other Funds			
	Governmental Funds			
Due From Other Funds	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**
General Fund	$ -	$ 12,231	$ -	$ 158,833
Transportation Fund	4,064	-	-	7,851
Education Fund	-	-	-	16,180
Special Fund	705,264	555,420	-	-
Federal Revenue Fund	345,757	-	-	331,474
Global Commitment Fund	2,932,315	-	-	2,873,989
Non-major Governmental Funds	368	-	-	-
Liquor Control Fund	-	-	-	5,794
Vermont Lottery Commission	-	-	17,295	-
Internal Service Funds	1,228,004	2,077,191	258	10,173,091
Total	$ 5,215,772	$ 2,644,842	$ 17,553	$ 13,567,212

continued below

	Due to Other Funds				
	Governmental Funds			Proprietary Funds	
Due From Other Funds	**Federal Revenue Fund**	**Global Commitment Fund**	**Non-major Governmental Funds**	**Internal Service Funds**	**Unemployment Compensation Trust Fund**
General Fund	$ 96,031	$ 3,590,999	$ 3,947	$ 77,702	$ -
Transportation Fund	2,512	190	80	42,904	-
Special Fund	2,659,582	30,074	474,616	344,516	-
Federal Revenue Fund	-	109,405	-	8	-
Global Commitment Fund	257,019	-	-	-	-
Non-major Governmental Funds	-	-	-	12,669	-
Non-major Enterprise Funds	-	-	-	-	169,222
Internal Service Funds	664,770	101,987	84,289	-	-
Total	$ 3,679,914	$ 3,832,655	$ 562,932	$ 477,799	$ 169,222

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	Due to Other Funds			
	Proprietary Funds			
Due From Other Funds	Liquor Control Fund	Vermont Lottery Fund	Non-major Enterprise Funds	Total
General Fund	$ -	$ -	$ -	$ 3,939,743
Transportation Fund	-	-	-	57,601
Education Fund	316,056	-	-	332,236
Special Fund	-	-	-	4,769,472
Federal Revenue Fund	-	-	-	786,644
Global Commitment Fund	-	-	-	6,063,323
Non-major Governmental Funds	-	-	-	13,037
Liquor Control Fund	-	-	-	5,794
Vermont Lottery Commission	-	-	-	17,295
Non-major Enterprise Funds	-	-	-	169,222
Internal Service Funds	9,990	6,494	638	14,346,712
Total	$ 326,046	$ 6,494	$ 638	$ 30,501,079

2. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursements needs. The General Fund advances to other funds at June 30, 2018, are summarized below:

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	75
Non-major Proprietary Funds	200
Total	$ 300,275

3. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The Transportation Fund reports the corresponding interfund receivable for the cash borrowed from the Highway Garage Internal Service Fund. The General Fund reports the corresponding interfund receivable for the cash borrowed from the rest of the pool. The following funds at June 30, 2018, reported interfund payables. It is expected that certain amounts due the General Fund and Transportation Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payable amounts will be reduced in future years through changes to billing rates and management of operations.

	General Fund	Transportation Fund	Totals
Proprietary Funds			
Non-major Enterprise Funds	$ 156,228	$ -	$ 156,228
Internal Service Funds	63,259,007	738,582	63,997,589
Fiduciary Funds			
Pension and OPEB Trust Funds	28,300,000	-	28,300,000
Agency Funds	47,885	-	47,885
Total	$ 91,763,120	$ 738,582	$ 92,501,702

4. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with the Vermont Economic Development Authority (VEDA) for specific programs. At June 30, 2018, the advances to component units reported in the General Fund ($5,500,000) are advances to Vermont Economic Development Authority. The advance funded a loan for a portion of a project to build a State office building. The terms of the agreement require the principal repayments on the loan be held by VEDA until the funds are requested by the State.

Due from component units/Due to primary government consist of the amounts owed to the primary government for programs administered by component units, in accordance with memoranda of understanding with State departments, and for the elimination of negative balances in the State Treasurer's pooled cash. Due from primary government/Due to component units consist of amounts appropriated from the primary government's funds to the component units that had not been disbursed by fiscal year end.

At June 30, 2018, these account balances are as follows:

	Vermont Housing & Conservation Board
Due from Component Units	
General Fund	$ 746,149
Due to Component Units	
Non-major Governmental Funds	(2,923,917)
Total	$ (2,177,768)

5. Interfund Transfers

Transfers between funds occur when one fund collects revenues and transfers the assets to another for expenditure or when one fund provides working capital to another fund. All transfers are legally authorized by the Legislature through either statute or Appropriation Acts.

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education. The Special Fund received transfers from the General Fund for the Next Generation Fund, from the Federal Revenue Fund for the earned income tax credit for the year, and from the Global Commitment Fund for special education school-based Medicaid services. The Global Commitment Fund received transfers from the General and Special Funds for Medicaid related services provided under the Vermont Global Commitment to Health Medicaid waiver. The Non-major Governmental Funds received transfers from the General, Transportation, Special, and Federal Revenue Funds for debt service payments.

Interfund transfers for the fiscal year ended June 30, 2018, are as follows:

(Table on next page.)

Transfers in	Transfers Out – Governmental Funds: General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ -	$ -	$ 41,666,314
Education Fund	348,165,753	-	-	10,158,939
Special Fund	4,212,405	1,506,040	11,599	-
Global Commitment Fund	230,159,121	-	-	277,535,090
Non-major Governmental Funds	67,817,542	4,662,483	-	2,004,111
Non-major Enterprise Funds	3,536,000	-	-	-
Internal Service Funds	-	1,296,047	-	-
Total	$ 653,890,821	$ 7,464,570	$ 11,599	$ 331,364,454

continued below

Transfers in	Transfers Out – Governmental Funds: Federal Revenue Fund	Global Commitment Funds	Non-major Governmental Funds	Proprietary Funds: Liquor Control Fund
General Fund	$ 32,971,342	$ 1,700,000	$ -	$ 1,055,000
Special Fund	37,172,142	27,718,611	110,000	20,106
Federal Revenue Fund	-	-	3,485,679	-
Non-major Governmental Funds	1,130,146	-	-	-
Total	$ 71,273,630	$ 29,418,611	$ 3,595,679	$ 1,075,106

continued below

Transfers in	Transfers Out – Proprietary Funds: Vermont Lottery Commission	Non-major Enterprise Funds	Internal Service Funds	Total
General Fund	$ -	$ -	$ -	$ 77,392,656
Transportation Fund	-	-	1,100,000	1,100,000
Education Fund	27,153,843	-	-	385,478,535
Special Fund	-	775,000	-	71,525,903
Federal Revenue Fund	-	-	-	3,485,679
Global Commitment Fund	-	-	-	507,694,211
Non-major Governmental Funds	-	-	-	75,614,282
Non-major Enterprise Funds	-	-	-	3,536,000
Internal Service Funds	-	-	-	1,296,047
Total	$ 27,153,843	$ 775,000	$ 1,100,000	$ 1,127,123,313

E. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 149,691,153	$ 3,425,632	$ -	$ -	$ 153,116,785
Construction in process	645,524,647	282,347,875	(290,900,104)	(15,496,742)	621,475,676
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	795,351,803	285,773,507	(290,900,104)	(15,496,742)	774,728,464
Capital assets, being depreciated					
Buildings and improvements	707,010,104	5,602,267	(3,480,950)	-	709,131,421
Machinery and equipment	494,159,892	55,801,490	(14,024,944)	55,100	535,991,538
Infrastructure	2,448,652,417	269,652,884	(53,086,040)	-	2,665,219,261
Total capital assets, being depreciated	3,649,822,413	331,056,641	(70,591,934)	55,100	3,910,342,220
Less accumulated depreciation for					
Buildings and improvements	(259,362,888)	(22,775,586)	2,443,803	-	(279,694,671)
Machinery and equipment	(217,322,119)	(61,429,261)	12,661,383	-	(266,089,997)
Infrastructure	(1,072,809,951)	(114,120,884)	52,572,487	-	(1,134,358,348)
Total accumulated depreciation	(1,549,494,958)	(198,325,731)	67,677,673	-	(1,680,143,016)
Capital assets, being depreciated, net	2,100,327,455	132,730,910	(2,914,261)	55,100	2,230,199,204
Governmental activities capital assets, net	$ 2,895,679,258	$ 418,504,417	$ (293,814,365)	$ (15,441,642)	$ 3,004,927,668

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 237,143	$ 1,606,350	$ -	$ -	$ 1,843,493
Total capital assets, not being depreciated	237,143	1,606,350	-	-	1,843,493
Capital assets, being depreciated					
Buildings and improvements	59,935	-	-	-	59,935
Machinery and equipment	2,296,850	118,975	(113,348)	-	2,302,477
Total capital assets, being depreciated	2,356,785	118,975	(113,348)	-	2,362,412
Less accumulated depreciation for					
Buildings and improvements	(58,862)	(1,030)	-	-	(59,892)
Machinery and equipment	(1,638,297)	(206,801)	113,348	-	(1,731,750)
Total accumulated depreciation	(1,697,159)	(207,831)	113,348	-	(1,791,642)
Capital assets, being depreciated, net	659,626	(88,856)	-	-	570,770
Business-type activities capital assets, net	$ 896,769	$ 1,517,494	$ -	$ -	$ 2,414,263

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, being depreciated					
Machinery and equipment	$ 8,367,639	$ 20,098	$ -	$ -	$ 8,387,737
Total capital assets, being depreciated	8,367,639	20,098	-	-	8,387,737
Less accumulated depreciation for					
Machinery and equipment	(3,547,074)	(806,766)	-	-	(4,353,840)
Total accumulated depreciation	(3,547,074)	(806,766)	-	-	(4,353,840)
Fiduciary activities capital assets, net	$ 4,820,565	$ (786,668)	$ -	$ -	$ 4,033,897

Current period depreciation expense was charged to functions of the Primary Government as follows:

Governmental Activities	
General Government	$ 25,579,537
Protection to Persons and Property	8,868,088
Human Services	35,346,709
Labor	121,142
General Education	309,510
Natural Resources	2,623,235
Commerce & Community Development	324,310
Transportation	113,501,677
Depreciation on capital assets held by Internal Service Funds	11,651,523
Total	$ 198,325,731

Business-type Activities	
Liquor Control	$ 200,419
Vermont Lottery Commission	7,412
Total	$ 207,831

Fiduciary Activities	
Pension Trust Funds	$ 806,385
Private Purpose Trust Fund	381
Total	$ 806,766

F. Deferred Outflows and Deferred Inflows

Deferred outflows in the government-wide Statement of Net Position governmental activities consist of the unamortized balance of losses related to refunding of debt. The difference between the reacquisition price (the amount placed in escrow to pay for advance refunding) and the net carrying amount of the old debt, is reported as a deferred outflow and recognized as a component of interest over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The change in deferred outflows of resources for the loss on refunding of bonds payable is as follows:

Balance, July 1, 2017	$ 8,608,675
Current year amortization	(1,168,705)
Balance, June 30, 2018	$ 7,439,970

Additional information regarding governmental and business-type activities' deferred outflows of resources and deferred inflows of resources related to pension and OPEB liabilities can be found in Note IV. G. 4.

Deferred inflows in the governmental funds Balance Sheet consist of unavailable amounts related to revenue recognition. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both available and measurable. When an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

G. Long-term Liabilities

1. General Obligation & Special Obligation Bonds Payable

General obligation bonds payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways, assistance to municipalities for construction of water and sewage systems, and local schools.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. The bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Special obligation transportation infrastructure bonds are limited obligations of the State of Vermont payable from and secured solely by a pledge of funds held in trust by the Peoples United Bank in accordance with the terms of a Trust Agreement. Funding sources for the pledged funds are funds to be received from the Motor Fuel Infrastructure Assessments as authorized by Act 50 of the 2009 legislative session. The proceeds from this issue are expected to be expended for transportation infrastructure purposes, namely the rehabilitation or replacement of State bridges, and construction of roadway capacity projects.

The changes in bonds principal payable for fiscal year 2018 are summarized in the following schedule:

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2017	$ 577,060,000	$ 28,340,000	$ 605,400,000
Additions:			
Issuances	106,095,000	-	106,095,000
Total	106,095,000	-	106,095,000
Deductions:			
Redemptions	(47,345,000)	(1,590,000)	(48,935,000)
Total	(47,345,000)	(1,590,000)	(48,935,000)
Balance, June 30, 2018	$ 635,810,000	$ 26,750,000	$ 662,560,000

General obligation and special obligation transportation infrastructure bonds outstanding at June 30, 2018, are shown on the following page:

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2018

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value Sources of Payments General Fund	Maturity Value Sources of Payments Transportation Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:						
3/11/2009	3/1/2029	2.0 to 5.0	$ 50,500,000	$ 1,265,000	$ 1,260,000	$ 2,525,000
2/3/2010	8/15/2029	3.75 to 5.2	40,800,000	39,200,000	-	39,200,000
3/11/2010	8/15/2019	2.0 to 2.8	20,000,000	4,000,000	-	4,000,000
3/11/2010	8/15/2021	2.0 to 5.0	29,155,000	13,105,000	-	13,105,000
3/11/2010	8/15/2021	2.0 to 5.0	9,675,000	6,815,000	-	6,815,000
10/26/2010	8/15/2030	1.45 to 4.7	46,250,000	41,250,000	-	41,250,000
11/30/2010	8/15/2020	1.5 to 5.0	25,000,000	7,500,000	-	7,500,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000	12,950,000	-	12,950,000
3/21/2012	8/15/2030	3.0 to 3.5	28,000,000	28,000,000	-	28,000,000
3/21/2012	8/15/2025	0.6 to 5.0	69,060,000	48,610,901	789,099	49,400,000
10/11/2012	8/15/2024	2.0 to 5.0	26,765,000	17,030,000	-	17,030,000
10/11/2012	8/15/2032	2.0 to 5.0	66,420,000	52,855,000	-	52,855,000
11/14/2013	8/15/2028	2.0 to 5.0	25,000,000	14,770,000	-	14,770,000
11/14/2013	8/15/2033	2.0 to 5.0	42,810,000	39,470,000	-	39,470,000
11/14/2013	8/15/2024	3.0 to 5.0	18,935,000	3,945,000	-	3,945,000
12/9/2014	8/15/2029	0.14 to 5.0	20,310,000	15,255,000	-	15,255,000
12/9/2014	8/15/2034	5.0	53,245,000	47,260,000	-	47,260,000
12/9/2014	8/15/2027	3.0 to 5.0	36,205,000	27,875,000	-	27,875,000
10/22/2015	8/15/2030	2.0 to 5.0	28,515,000	25,715,000	-	25,715,000
10/22/2015	8/15/2035	2.625 to 5.0	61,345,000	55,155,000	-	55,155,000
10/22/2015	8/15/2028	2.0 to 4.0	25,720,000	23,040,000	2,600,000	25,640,000
9/13/2017	8/15/2037	2.0 to 5.0	34,700,000	34,700,000	-	34,700,000
9/13/2017	8/15/2037	2.25 to 5.0	71,395,000	71,395,000	-	71,395,000
Total General Obligation Current Interest Bonds				**631,160,901**	**4,649,099**	**635,810,000**
Special Obligation Transportation Infrastructure Bonds:						
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000	-	9,555,000	9,555,000
8/9/2012	6/15/2032	2.0 to 3.0	10,820,000	-	8,065,000	8,065,000
8/8/2013	6/15/2033	3.0 to 4.25	11,165,000	-	9,130,000	9,130,000
Total Special Obligation Transportation Bonds				-	26,750,000	26,750,000
Total General Obligation and Special Obligation Bonds				**$ 631,160,901**	**$ 31,399,099**	**$ 662,560,000**

At June 30, 2018, there remains $109,170,583 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2018 are as follows:

Fiscal Year	General Obligation Current Interest Bonds Principal	General Obligation Current Interest Bonds Interest	Special Obligation Current Interest Bonds Principal	Special Obligation Current Interest Bonds Interest	Total
2019	$ 51,760,000	$ 23,832,779	$ 1,635,000	$ 869,688	$ 78,097,467
2020	50,045,000	21,796,934	1,675,000	822,663	74,339,597
2021	50,110,000	19,760,226	1,730,000	772,613	72,372,839
2022	47,340,000	17,766,344	1,785,000	720,863	67,612,207
2023	45,505,000	15,923,688	1,835,000	667,363	63,931,051
2024-2028	202,395,000	53,900,006	10,020,000	2,486,688	268,801,694
2029-2033	137,925,000	20,333,719	8,070,000	762,547	167,091,266
2034-2038	50,730,000	3,257,577	-	-	53,987,577
Totals	$ 635,810,000	$ 176,571,273	$ 26,750,000	$ 7,102,425	$ 846,233,698

2. Bond Refundings

During fiscal year 2016, the State defeased “in-substance” certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State’s financial statements.

The total amount of defeased bonds remaining outstanding at June 30, 2018, is $25,250,000.

3. Lease Commitments

A. Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes. It should also be noted that the State is currently negotiating a small number of operating leases on which rent is being paid on a month-by-month basis and for which there is no signed agreement. These leases have not been included in the following table.

Total lease payments paid by the primary government in fiscal year 2018 was $9,995,944 for operating leases of which $9,803,490 was paid for property leases, $158,304 for equipment leases, $30,804 for non-cancellable land leases and $3,346 for cancellable land rentals.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2018:

(Table on next page.)

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2019	$ 12,730,377	$ 3,387	$ 12,733,764
2020	11,330,355	3,387	11,333,742
2021	10,654,043	2,187	10,656,230
2022	9,448,257	446	9,448,703
2023	6,214,865	446	6,215,311
2024 - 2028	9,538,429	2,230	9,540,659
2029 - 2033	5,000	2,230	7,230
2034 - 2038	3,000	2,230	5,230
Totals	$ 59,924,326	$ 16,543	$ 59,940,869

B. Capital Leases

The State's future minimum lease obligations are commitments under the following two agreements. The State leases office facilities for various State Agencies and Departments under an agreement which is one piece of a multi-part downtown redevelopment strategy for the City of Saint Albans. The lease commitment assumes a 20-year term; however, the agreement has an option that would allow the State to purchase the property on the tenth anniversary of the lease. In addition, the State has one lease agreement which expires on September 1, 2018 for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex.

Capital lease payments for the primary government in 2018 totaled $1,218,975 with $1,948 for machinery and equipment and $418,296 for building improvements, and $798,731 for the building lease in Saint Albans.

As of June 30, 2018, the historical cost of the primary government's assets acquired through capital leases was $13,028,832 for buildings and improvements, less accumulated depreciation of $4,503,985 results in a net amount of $8,524,847 for primary government's assets acquired through capital leases.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2018 are as follows:

Fiscal Year	Primary Government
2019	$ 922,040
2020	835,079
2021	853,868
2022	873,080
2023	892,724
2024 - 2028	4,774,108
2029 - 2033	5,335,914
2034 - 2038	1,619,802
Total minimum lease payments	16,106,615
Less interest	(6,355,405)
Present value of minimum lease payments	$ 9,751,210

4. Retirement Plans and Other Postemployment Benefits

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and three defined contribution plans. In addition to providing pension benefits, the State also offers other postemployment medical insurance benefit plans to retirees of the Vermont State Retirement System and State Teachers' Retirement System. Disclosures relating to defined benefit pension plans are included in 4. A. below, those relating to defined contribution pension plans are included in 4. B. below, and those relating to other postemployment benefits (OPEB) are included in 4. C. below.

These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension and other postemployment benefit trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

Summary of significant accounting policies – basis of accounting and valuation of investments
The financial statements for the pension and other postemployment benefit trust funds are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. The employers' contributions are recognized when legally due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the pension and OPEB plans. All investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2018. Securities without an established market are reported at estimated fair value. Additional information on the plans' investments may be found in Note IV. B. - Investments.

The State annually establishes a state defined benefit retirement contribution rate. The fiscal year 2018 employer contribution rate was 17.47% of payroll and consists of the following two components: 10.35% for Vermont State Retirement System defined benefit pension plan (VSRS) and 7.12% for the Vermont State Postemployment Benefits Trust Fund defined benefit OPEB plan (VSPB). The rates reflect estimates to fund the VSRS actuarially determined contribution and the VSPB pay-as-you-go amounts. These amounts are estimates and may differ from the funding required to meet VSPB pay-as-you-go amounts. Currently, contributions in excess of VSPB pay-as-you-go amounts are deposited directly to VSRS. Contributions to VSRS and VSPB totaled $64.6 million and $33.0 million, respectively, for the fiscal year ended June 30, 2018.

A. Defined Benefit Retirement Plans

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into three sections. The first section (Disclosures about the Defined Benefit Retirement Plans) offers disclosures about the plans themselves - descriptions of the plans and who is covered; an analysis of the membership of the various groups of the various plans as of the end of the fiscal year; a discussion of benefits provided by each of the plans, and the financial statements of each of the three defined benefit plans.

The second section (Financial Reporting of Net Pension Liability and Pension Expense by the Employer as required by GASB Statement No. 68) provides funding information regarding the pension plans that are required by GASB Statement No. 68 - changes in net pension liability (NPL), balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

The third section (Net Pension Liability and Disclosures required by GASB Statement No. 67) provides the information that is required by GASB Statement No. 67 - the calculation of the net pension liability; the actuarial assumptions and census data that were used in calculating that NPL; the discount rate that was used in the calculations; and the sensitivity of the NPL to changes in the discount rate. The Statement of Plan Net Position and the Statement of Changes in Plan Net Position for the fiscal year ended June 30, 2018 are included at the end of this section.

1. Disclosures about the Defined Benefit Retirement Plans

This first section provides the disclosures about the defined benefit retirement plans required by GASB Statement No. 67, including the plan descriptions, benefits and membership at June 30, 2018.

Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer defined benefit pension plan which covers substantially all general State employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment.

Management of the plan is vested in the VSRS Retirement Board, which consists of an appointee of the Governor; State Treasurer; Commissioner of Human Resources; Commissioner of Finance and Management; three members of the Vermont State Employees' Association who are active members of the system (each chosen by such association in accordance with its articles of association) and one retired state employee who is a beneficiary of the system (to be elected by the Vermont Retired State Employees' Association).

The Vermont State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2018, the retirement system consisted of 225 participating employers.

Management of the plan is vested in the STRS Board of Trustees, which consists of the Secretary of Education (ex-officio); the State Treasurer (ex-officio); the Commissioner of Financial Regulation (ex-officio); two trustees and one alternate who are members of the system (each elected by the members of the system under rules adopted by the board) and one trustee and one alternate who are retired members of the system receiving retirement benefits (who are elected by the Association of Retired Teachers of Vermont).

The Vermont Municipal Employees' Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost-sharing, multiple-employer defined benefit pension plan designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirement is required to join the system. During the year ended June 30, 2018, the retirement system consisted of 402 participating employers.

Management of the plan is vested in the MERS Retirement Board of Trustees, which consists of the State Treasurer; two employee representatives who at all times during their term of office are contributing members and have completed five years of creditable service (each elected by the membership of the system); one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (elected by the membership of the system) and one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (appointed by the Governor from candidates jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association).

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, and information describing each defined benefit plan's provisions in greater detail, are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

Membership of the Vermont State Retirement System is made up of the following:

- General employees who did not join the non-contributory system on July 1, 1981 (Group A);
- State police, law enforcement positions, and airport firefighters (Group C);
- Judges (Group D); and
- Terminated vested members of the non-contributory system and all other general employees (Group F).

Membership of the State Teachers' Retirement System is made up of the following:

- General teachers who did not join the non-contributory system on July 1, 1981 (Group A); and
- Terminated vested members of the non-contributory system and all other general teachers (Group C).

Membership of the Vermont Municipal Employees' Retirement System is made up of the following:

- General employees whose legislative bodies have not elected to become a member of Group B or Group C (Group A);
- General employees whose legislative bodies have elected to become members of Group B or Group C (Group B & C); and
- Sworn police officers, firefighters and emergency medical personnel (Group D)

At June 30, 2018, the State Treasurer's Office reports the following membership of each of the defined benefit plans by status and group:

	Vermont State Retirement System	Vermont State Teachers Retirement System	Vermont Municipal Employees Retirement System
Total Active Members	8,530	9,892	7,452
Retirees and beneficiaries currently receiving benefits	6,974	9,269	3,189
Terminated employees entitled to benefits but not yet receiving them (vested)	753	787	798
Inactive members	1,267	2,613	2,516
Total Members	17,524	22,561	13,955

(Notes continue on next page.)

Contributions

Vermont State Retirement System. Title 3 VSA Chapter 16 of Vermont Statutes grant the authority to the retirement board to review annually the amount of state contribution recommended by the actuary of the retirement system as necessary to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. Employee contributions are established in Chapter 16. Contribution rates for the fiscal year ended June 30, 2018 for the various groups are as follows:

Vermont State Retirement System	Group A	Group C	Group D	Group F
Employee Contributions	6.65% of gross payroll	8.53% of gross payroll	6.65% of gross payroll	6.65% of gross payroll
Employer Contributions	10.35% of gross payroll	10.35% of gross payroll	10.35% of gross payroll	10.35% of gross payroll

State Teachers' Retirement System. Title 16 VSA Chapter 55 of Vermont Statutes grant the authority to the board of trustees of the system to annually review the amount of State contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2018 for the various groups are as follows:

Vermont State Teachers Retirement System	Group A	Group C - Group #1	Group C - Group #2
Employee Contributions	5.50% of gross salary	5.00% of gross salary	5.00% of gross salary for members with at least 5 years of service as of 7/1/2014, and 6.00% of gross salary for members with less than 5 years of service as of 7/1/2014
Non-employer Contributions	Appropriation based on June 2016 actuarial recommendation of amount needed to fund benefits earned during the year (1.33% of projected payroll), plus amount needed to liquidate the accrued liability over the remaining amortization period ($80,063,176).		

Vermont Municipal Employees Retirement System. Title 24 VSA Chapter 125 of Vermont Statutes grant the authority to the retirement board to annually review the amount of municipalities contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and certify the rates of contributions payable by employers. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2018, for the various groups are as follows:

Vermont Municipal Employees Retirement System	Group A	Group B	Group C	Group D
Employee Contributions	2.5% of gross salary	4.875% of gross salary	10.0% of gross salary	11.35% of gross salary
Employer Contributions	4% of gross salary	5.50% of gross salary	7.25% of gross salary	9.85% of gross salary

Benefits provided

Benefit terms are established or amended in accordance with 3 V.S.A. Chapter 16 for the Vermont State Retirement System, in accordance with 16 V.S.A. Chapter 55 for the Vermont State Teachers Retirement System, and in accordance with 24 V.S.A Chapter 125 for the Vermont Municipal Employees Retirement System.

Details of the pension benefits provided by each of the retirement plans are included on the next 3 pages:

(Notes continue on next page.)

Vermont State Retirement System	Group A	Group C	Group D	Group F *Hired Before 7/1/08*	Group F *Hired On or After 7/1/08*
Average Final Compensation (AFC)	Highest 3 consecutive years, including unused annual leave payoff	Highest 2 consecutive years, including unused annual leave payoff	Final salary at retirement	Highest 3 consecutive years, excluding unused annual leave payoff	Same
Benefit Formula	1.67% X AFC x creditable service	2.5% X AFC x creditable service up to 20 years	3.33% X AFC x creditable service (after 12 years in Group D)	1.25% X AFC x service prior to 12/31/90 + 1.67% X AFC x service after 1/1/91	Same
Maximum Benefit Payable	100% of AFC	50% of AFC	100% of Final Salary	50% of AFC	60% of AFC
Normal Retirement (no reduction)	Age 65 with 5 years of service or 62 with 20 years of service	Age 55 (mandatory) with 5 years of service	Age 62 with 5 years of service	Age 62 or with 30 years of service	Age 65 or a combination of age & service credit that equals 87
Early Retirement Eligibility	Age 55 with 5 years of service or 30 years of service (any age)	Age 50 with 20 years of service	Age 55 with 5 years of service or 30 years of service (any age)	Age 55 with 5 years of service	Same
Early Retirement Reduction	Actuarially reduced benefit if under 30 years of service	No reduction	3% per year from age 62	No reduction if 30 years of service; otherwise, 6% per year preceding age 62	No reduction if age 65 with 5 years of service, or if combination of age and service equal to 87; otherwise, monthly reduction preceding age 65 based on years of service: 35+ years - 1/8th of 1%; 30-34 years - 1/4th of 1%; 25-29 years - 1/3rd of 1%; 20-24 years - 5/12th of 1%; less than 20 years - 5/9th of 1%
Post-Retirement COLA*	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	For members retiring on or after 07/01/2008, 100% of a fiscal year CPI increase. For members who retired before 07/01/2008, 50% of a fiscal year CPI increase. Annual COLA adjustments have a minimum of 1% and maximum of 5%	Annual COLA adjustments are 100% of a fiscal year CPI increase, with a minimum of 1% and maximum of 5%
Disability Benefit	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC, with children's benefit of 10% of AFC to maximum of three concurrently	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC	Same
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	70% of accrued benefit with no actuarial reduction applied, plus children's benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Same

* Note: Annual post-retirement Cost of Living Adjustment (COLA) applies beginning the first January after receiving at least 12 pension payments and reaching normal retirement age.

Vermont State Teachers Retirement System	Group A	Group C - Group #1 *	Group C - Group #2 ++
Average Final Compensation (AFC)	Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives	Highest 3 consecutive years, excluding all payments for anything other than service actually performed	Highest 3 consecutive years, excluding all payments for anything other than service actually performed
Benefit Formula	1.67% X creditable service X AFC	1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC	1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC, 2% X AFC after attaining 20.0 years
Maximum Benefit Payable	100% of AFC	53.34% of AFC	60% of AFC
Normal Retirement (no reduction)	Age 60 or with 30 years of service	Age 62 or with 30 years of service	Age 65 or when the sum of age and service credit equals 90
Early Retirement Eligibility	Age 55 with 5 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Early Retirement Reduction	Actuarial reduction	6% per year from age 62	Actuarial reduction
Post-Retirement COLA	Full CPI, up to a maximum of 5%, after 12 months of retirement; minimum of 1%	50% CPI, up to a maximum of 5% after 12 months of retirement or with 30 years; minimum of 1%	50% CPI, up to a maximum of 5% minimum of 1% after 12 months of normal retirement or age 65
Disability Benefit	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefit up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently

* Group #1 are members who were within 5 years of normal retirement (age 62 or 30 years of service) on June 30, 2010.

++ Group #2 members who were under 57 years of age or had less than 25 years of service on June 30, 2010.

(Notes continue on next page.)

Vermont Municipal Employees Retirement System	Group A	Group B	Group C	Group D
Average Final Compensation (AFC)	Highest 5 consecutive years	Highest 3 consecutive years	Highest 3 consecutive years	Highest 2 consecutive years
Benefit Formula	1.4% X creditable service X AFC	1.7% X creditable service X AFC + previous service:1.4% X Group A X AFC	2.5% X creditable service X AFC + previous service:1.4% X Group A X AFC; 1.7% X Group B X AFC	2.5% X creditable service X AFC + previous service:1.4% X Group A X AFC; 1.7% X Group B X AFC; 2.5% X Group C X AFC
Maximum Benefit Payable	60% of AFC	60% of AFC	50% of AFC	50% of AFC
Normal Retirement (no reduction)	Age 65 with 5 years of service or 55 with 35 years of service	Age 62 with 5 years of service or 55 with 30 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Early Retirement Eligibility	Age 55 with 5 years of service	Age 55 with 5 years of service	N/A	Age 50 with 20 years of service
Early Retirement Reduction	6% per year from age 65 **	6% per year from age 62 **	N/A	No reduction
Post-Retirement COLA	50 % of CPI, up to 2% per year	50 % of CPI, up to 3% per year	50 % of CPI, up to 3% per year	50 % of CPI, up to 3% per year
Disability Benefit	Unreduced, accrued benefit	Unreduced, accrued benefit	Unreduced, accrued benefit	Unreduced, accrued benefit plus children's benefit representing 10% of AFC to maximum of three concurrently
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	70% of accrued benefit with no actuarial reduction applied, plus children's benefit

** A special early retirement factor of 3% per year only for municipal police officers who have attained age 60.

2. Employer Reporting of Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans as required by GASB Statement No. 68

This section includes the information that is required to be reported by employers per GASB Statement No. 68. It reports information regarding the calculation of the State's net pension liability, including changes during the measurement period in both total pension liability and plan net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense. In addition to presenting the NPL, this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

The State is responsible for 98.2850% of the VSRS net pension liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.7150% of the VSRS net pension liability. The State is responsible for 100% of the STRS net pension liability as a non-employer contributing entity. The information is presented in this section is for those two plans. The State does not participate in the MERS plan, so no employer information is presented for that plan.

Reporting Date, Measurement Date, and Valuation Date (Employer Reporting)

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the State's reporting date (June 30, 2018) and for the State's reporting period (the year ended June 30, 2018). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of June 30, 2018, the State has chosen to use the end of the prior fiscal year (June 30, 2017) as the measurement date, and the year ended June 30, 2017 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2016, to the measurement date of June 30, 2017.

Net Pension Liabilities (Employer Reporting)

The net pension liability (NPL) is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows (amounts are in thousands):

	Vermont State Retirement System			State Teachers' Retirement System		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a-b)	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a-b)
Balances - June 30, 2016	$ 2,271,588	$ 1,609,650	$ 661,938	$ 2,930,423	$ 1,620,900	$ 1,309,523
Changes for the year:						
Service cost	42,704	-	42,704	35,383	-	35,383
Interest	178,959	-	178,959	228,939	-	228,939
Difference between expected and actual experience	19,283	-	19,283	12,523	-	12,523
Changes of assumptions	42,725	-	42,725	185,849	-	185,849
Contributions - employer	-	60,280	(60,280)	-	-	-
Contributions - non-employer	-	-	-	-	78,664	(78,664)
Contributions - employee	-	35,967	(35,967)	-	36,142	(36,142)
Net investment income	-	170,358	(170,358)	-	173,167	(173,167)
Benefit payments, including refunds of contributions	(126,480)	(126,480)	-	(172,156)	(172,156)	-
Administrative expenses	-	(1,777)	1,777	-	(2,214)	2,214
Other changes	-	444	(444)	-	4,055	(4,055)
Net changes	157,191	138,792	18,399	290,538	117,658	172,880
Balances - June 30, 2017	$ 2,428,779	$ 1,748,442	$ 680,337	$ 3,220,961	$ 1,738,558	$ 1,482,403
Plan fiduciary net position as a percentage of total pension liability			71.99%			53.98%

Proportionate Share of Net Pension Liability

VSRS

		Proportionate Share		
	Amount	2017	2016	Change
Governmental activities	$ 663,732	97.5593%	97.5359%	0.0235%
Business type activities	4,937	0.7257%	0.8266%	-0.1010%
Discrete component unit	11,668	1.7150%	1.6375%	0.0775%
Total net pension liability	$ 680,337	100.0000%	100.0000%	

Additional information regarding the changes in the net pension liability for the year ended June 30, 2018 can be found in the Required Supplementary information immediately following these notes to the financial statements.

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources (Employer Reporting)

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current-period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods, depending on the nature of the change.

The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that these changes result from the use of estimates, where probabilities of events range from 0 to 100 percent, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources, and will be recognized as a reduction of the net pension liability at June 30, 2019. As of June 30, 2018, the State reported the following deferred pension outflows of resources and deferred pension inflows of resources (amounts are in thousands):

	Vermont State Retirement System			
	Primary Government		Discrete Component Units	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 34,164	$ -	$ 596	$ -
Changes of assumptions	65,583	14,319	1,144	250
Net differences between projected and actual earnings on plan investments	119,588	56,400	2,087	984
Change in proportion and the effect of certain employer contributions on the employer's net pension liability	696	564	316	448
Employer contributions made subsequent to the measurement date	63,414	-	1,150	-
Total	$ 283,445	$ 71,283	$ 5,293	$ 1,682

Source	State Teachers' Retirement System Primary Government Deferred Outflows of Resources	State Teachers' Retirement System Primary Government Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,199	$ -
Changes of assumptions	153,759	3,612
Net differences between projected and actual earnings on plan investments	122,910	60,625
Change in proportion and the effect of certain employer contributions on the employer's net pension liability	-	-
Employer contributions made subsequent to the measurement date	110,354	-
Total	$ 403,222	$ 64,237

The amounts reported as deferred pension outflows of resources resulting from employer contributions made subsequent to the measurement date (VSRS - $63.414 million Primary Government and $1.15 million Component Units; and STRS - $110.354 million Primary Government), will be recognized as a reduction of the net pension liability at June 30, 2019. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows (amounts are in thousands):

Year Ended June 30	State Teachers' Retirement System Primary Government	Vermont State Retirement System Primary Government	Vermont State Retirement System Discrete Component Units
2019	$ 85,849	$ 39,956	$ 597
2020	89,891	62,039	983
2021	62,194	34,584	576
2022	(9,303)	2,074	64
2023	-	10,095	241
Total	$ 228,631	$ 148,748	$ 2,461

Pension Expense (Employer Reporting)

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current-period service cost, interest on the total pension liability, changes in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources, and included in pension expense on a systematic and rational manner over current and future periods. Pension expense for the year ended June 30, 2018, is as follows (amounts are in thousands):

(Table on next page.)

	State Teachers' Retirement System	Vermont State Retirement System	
	Primary Government	Primary Government	Discrete Component Units
Service cost	$ 35,383	$ 41,972	$ 732
Interest on total pension liability	228,939	175,890	3,069
Employee contributions	(36,142)	(35,350)	(617)
Plan administrative costs	2,214	1,746	31
Other changes	(4,055)	(436)	(8)
Projected earnings on plan investments	(126,656)	(124,539)	(2,173)
Recognition (amortization) of deferred pension outflows of resources:			
Difference between expected and actual experience	3,131	3,159	55
Change in assumptions	46,462	6,999	122
Recognition of deferred outflows from prior periods	70,780	63,942	1,116
Changes in proportional share of contributions	-	245	100
Recognition (amortization) of deferred pension inflows of resources:			
Net difference between projected and actual investment earnings	(9,302)	(8,579)	(150)
Recognition of deferred inflows from prior periods	(25,222)	(25,663)	(448)
Changes in proportional share of contributions	-	(184)	(161)
Total Pension Expense	$ 185,532	$ 99,202	$ 1,668

Actuarial Methods and Assumptions (Employer Reporting)

Methods and assumptions used to determine pension expense and total pension liability are based on a valuation date of June 30, 2016 for VSRS and STRS.

(Table on next page.)

	VSRS	STRS
Valuation date	6/30/2016	6/30/2016
Inflation assumptions	2.50%	2.50%
Investment rate of return	7.50%	7.50%
Projected salary increases	3.50% - 7.04%	3.75% - 9.09%
Cost of living adjustments	Groups A, C & D: 2.55%; Group F: 1.4% and Group F retiring after 7/1/09: 2.55%	Group A: 2.55%; Group C: 1.4%
<u>Post Retirement Adjustments</u> Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C, D - 5%	Group A - 5%
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in the CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change - 2.55%	For those eligible for increases of 100% of CPI change - 2.55%
	For those eligible for increases of 50% of CPI change - 1.4%	For those eligible for increases of 50% of CPI change - 1.4%
<u>Census Data for 2016 Valuation</u> Retired members or beneficiaries currently receiving benefits	6,542	8,763
Inactive members	1,012	2,454
Active members	8,436	9,919
Terminated vested members	728	747

Mortality rates are based as follows for the various retirement systems:
<u>Vermont State Retirement System</u>

- *Pre-retirement Mortality*: Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group C were based on RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on RP-2014 Healthy Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group C were based on RP-2014 Blue Collar Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on RP -2014 Healthy Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* Groups A, C, D, and F were based on RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

<u>Vermont State Teachers' Retirement System</u>

- *Pre-retirement Mortality*: All Groups were based on 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: All Groups were based on 98% of RP-2014 White Collar Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* All Groups were based on the RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2014. Actuarial valuations attempt to estimate costs associated with the pension system based on a number of demographic, economic, and retirement experience assumptions. To the extent assumptions are at variance to experience, this can result in actuarial gains and losses ultimately impacting contribution rates and the development of the actuarially required contribution. Experience studies are required by statute to be conducted every five years to review actual experience in comparison to these assumptions and to provide recommended changes to assumptions.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Equity	16.00%	6.07%
Non-US Equity	16.00%	7.42%
Global Equity	9.00%	6.85%
Fixed Income	24.00%	2.41%
Real Estate	8.00%	4.62%
Private Markets	15.00%	7.80%
Hedge Funds	8.00%	3.95%
Risk Parity	4.00%	4.84%
Total	100.00%	

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.5%.

Discount Rate (Employer Reporting)

The discount rate used to measure the total pension liability as of June 30, 2017 was 7.50% for the VSRS and STRS. The discount rate used for the prior year was 7.95% for the VSRS and STRS. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 68.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2017 was

10.33% for VSRS, and 10.17% for STRS. Amounts for the prior year were 1.44%, and 1.69% respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Employer Reporting)

The following presents the net pension liability of the various retirement systems (at the June 30, 2017 measurement date), calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

	VSRS	STRS
One-percent decrease		
Discount rate	6.50%	6.50%
Net pension liability	$ 979,072	$ 1,836,911
Net pension liability, as reported		
Discount rate	7.50%	7.50%
Net pension liability	$ 680,337	$ 1,482,403
One-percent increase		
Discount rate	8.50%	8.50%
Net pension liability	$ 432,059	$ 1,186,516

Payable to the Defined Benefit Pension Plan (Employer Reporting)

At June 30, 2018, the State reported a payable of $5,381,587 for the outstanding amount of contributions to the VSRS pension plan required for the year ended June 30, 2018.

3. Net Pension Liability and Disclosures required by GASB Statement No. 67 (Plan Reporting)

This section includes the information that is required to be presented by GASB Statement No. 67, reporting on the financial statements for the defined benefit plans for the year ended June 30, 2018. Separate valuations were performed by the State's actuary to calculate the total pension liability in accordance with this standard for financial reporting by pension plans and calculates the net pension liability (NPL). The plans elected to base the valuations on plan data as of June 30, 2017 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year end of June 30, 2018. In addition to presenting the NPL, this section also includes information on the actuarial assumptions used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

Net Pension Liabilities (Plan Reporting)

The components of the net pension liabilities of the defined benefit retirement plans at June 30, 2018, are shown as follows with amounts in thousands:

(Table on next page.)

	Vermont State Retirement System	Vermont State Teachers' Retirement System	Vermont Municipal Employees Retirement System
Total pension liability	$ 2,608,559	$ 3,343,078	$ 808,525
Plan fiduciary net position	(1,841,500)	(1,832,373)	(667,849)
Net pension liability	$ 767,059	$ 1,510,705	$ 140,676
Plan fiduciary net position as a percentage of total pension liability	70.59%	54.81%	82.60%

Additional information regarding changes in the net pension liability for the year ended June 30, 2018 can be found in the Required Supplementary Information section immediately following these notes to the financial statements.

Actuarial Assumptions (Plan Reporting)

The June 30, 2018 total pension liability was determined by rolling forward the total pension liability as of June 30, 2017 to June 30, 2018, using the actuarial assumptions and methods used in the June 30, 2017 actuarial valuation of the plans.

(Table on next page.)

	VSRS	STRS	MERS
Valuation date	6/30/2017	6/30/2017	6/30/2017
Inflation assumptions	2.50%	2.50%	2.50%
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	3.50% - 7.04%	3.75% - 9.09%	5%
Cost of living adjustments	Groups A, C & D and F (retiring on or after 7/1/2008): 2.55%; Group F (retiring before 7/1/2008) : 1.5%	Group A: 2.55%; Group C: 1.4%	Group A: 1.15%; Groups B, C, & D: 1.3%
Post Retirement Adjustments Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C, D, F (retired on or after 7/1/2008) - 5%	Group A - 5%	N/A
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in the CPI but not in excess of percentage indicated	Group F (retired before 7/1/2008) - 5%	Group C - 5%	Group A - 2%, Groups B,C & D - 3%
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change - 3%	For those eligible for increases of 100% of CPI change - 3%	
	For those eligible for increases of 50% of CPI change - 1.5%	For those eligible for increases of 50% of CPI change - 1.5%	
Census Data for 2017 Valuation Retired members or beneficiaries currently receiving benefits	6,727	9,021	2,942
Inactive members	1,098	2,381	2,221
Active members	8,620	10,028	7,302
Terminated vested members	742	762	797

Mortality rates are based as follows for the various retirement systems:

Vermont State Retirement System

- *Pre-retirement Mortality*: Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group C were based on RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on RP-2006 Healthy Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group C were based on RP-2006 Blue Collar Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on RP -2006 Healthy Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* Groups A, C, D, and F were based on RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality*: All Groups were based on 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: All Groups based on 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* All Groups were based on the RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont Municipal Employees Retirement System

- *Pre-retirement Mortality*: Groups A, B, and C were based on 98% of RP-2006 blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on 100% of RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: Groups A, B, and C were based on 98% of RP-2006 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on 100% of RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* Groups A, B, C, and D were based on 100% of RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Equity	18.00%	6.10%
Non-US Equity	16.00%	7.45%
Global Equity	9.00%	6.74%
Fixed Income	26.00%	2.25%
Real Estate	8.00%	5.11%
Private Markets	15.00%	7.60%
Hedge Funds	8.00%	3.86%
Total	100.00%	

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.50%.

Discount Rate (Plan Reporting)

The discount rate used to measure the total pension liability was 7.50% for the VSRS, STRS, and MERS. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2018 was 6.73% for VSRS, 6.99% for STRS, and 6.75% for MERS. Amounts for the prior year were 10.33%, 10.17% and 10.88% respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Plan Reporting)

The following presents the net pension liability of the various retirement systems, calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

	VSRS	STRS	MERS
One-percent decrease			
Discount rate	6.50%	6.50%	6.50%
Net pension liability	$ 1,068,903	$ 1,824,257	$ 238,273
Net pension liability, as reported			
Discount rate	7.50%	7.50%	7.50%
Net pension liability	$ 767,059	$ 1,510,705	$ 140,676
One-percent increase			
Discount rate	8.50%	8.50%	8.50%
Net pension liability	$ 521,239	$ 1,196,832	$ 61,302

The defined benefit plans financial statements are on the following two pages:

(Notes continue on next page.)

Statement of Plan Net Position
Defined Benefit Plans
June 30, 2018

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 11,677,231	$ 14,709,699	$ 4,984,955
Receivables			
Contributions - current	7,971,656	6,183,733	4,748,230
Contributions - non-current	-	-	6,679,457
Investments sold	60,239,387	54,439,469	24,477,437
Interest and dividends	2,360,523	2,024,683	1,301,836
Due from other funds	72,349	6,659	83,931
Other	1,236,653	29,361,572	502,081
Investments			
Fixed income	250,284,237	220,506,378	101,724,707
Equities	275,418,951	267,620,098	98,406,516
Mutual and commingled funds	1,143,801,623	1,117,905,351	406,576,249
Real estate and private partnerships	171,489,045	196,393,546	52,299,692
Prepaid expenses	42,957	85,472	24,381
Capital assets, net of depreciation	1,539,288	1,827,930	665,324
Total assets	1,926,133,900	1,911,064,590	702,474,796
Liabilities			
Accounts payable	1,814,229	913,156	377,462
Investments purchased	82,819,388	77,778,880	34,242,128
Due to other funds	-	-	6,302
Total liabilities	84,633,617	78,692,036	34,625,892
Net position restricted for employees' pension benefits	$ 1,841,500,283	$ 1,832,372,554	$ 667,848,904

Statement of Changes in Plan Net Position
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2018

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 64,564,323	$ -	$ 17,519,690
Non-employer - pension benefit	-	110,353,599	-
Plan member	40,423,239	37,888,566	19,166,537
Transfers from other pension trust funds	392,557	468,500	271,784
Other revenues	-	4,245,322	-
Total contributions	105,380,119	152,955,987	36,958,011
Investment Income			
Net appreciation in fair value of investments	104,715,339	106,705,442	36,752,627
Dividends	13,272,844	13,724,926	4,432,293
Interest income	10,050,109	9,256,918	4,227,863
Other income	150,636	178,978	54,824
Total investment income	128,188,928	129,866,264	45,467,607
Less Investment Expenses			
Investment managers and consultants	4,556,759	4,299,983	1,578,557
Net investment income	123,632,169	125,566,281	43,889,050
Total additions	229,012,288	278,522,268	80,847,061
Deductions			
Retirement benefits	129,699,506	179,504,941	28,480,667
Refunds of contributions	3,172,033	2,149,962	2,124,414
Death claims	693,500	334,966	161,291
Transfers to other pension trust funds	363,021	269,054	678,091
Depreciation	305,987	365,105	135,293
Administration expenses	1,720,252	2,083,260	928,741
Total deductions	135,954,299	184,707,288	32,508,497
Change in net position	93,057,989	93,814,980	48,338,564
Net position restricted for employees' pension benefits			
July 1, 2017	1,748,442,294	1,738,557,574	619,510,340
June 30, 2018	$ 1,841,500,283	$ 1,832,372,554	$ 667,848,904

B. Defined Contribution Retirement Plans

Retirement Plan Descriptions

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional single employer defined contribution pension plan for exempt State employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds. Exempt employees hired after January 1, 1999, have a one-time opportunity to elect either the defined benefit or defined contribution plan. Employees are required to contribute at the rate of 2.85%. The State is required to contribute to each employee's account at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. During the fiscal year ended June 30, 2018, member contributions totaled $743,036 with State employer contributions at $1,825,001. As of June 30, 2018, the Vermont State Defined Contribution Plan's net position totaled $67,799,284 and there were 601 participants.

The Vermont Municipal Employees' Defined Contribution Plan (24 V.S.A. 5070), a multiple employer defined contribution pension plan, was implemented by the Vermont Municipal Employees' Retirement System's Board of Trustees on July 1, 2000, and is reported as a pension trust fund. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001, actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999, have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective July 1 of the following year.

Participating municipal employees are required to contribute at the rate of 5% of earnable compensation. Employers are required to contribute at the rate of 5.125%. Employees become vested in the plan after 12 months of service. During the fiscal year ended June 30, 2018, member contributions totaled $511,096 and employer contributions at $546,409. As of June 30, 2018, the Municipal Employees' Defined Contribution Plan's net position totaled $22,909,670 and there were 481 participants.

The Single Deposit Investment Account (SDIA), a non-contributory multiple employer defined contribution pension plan reported as a Pension Trust Fund, was established according to the provisions of Public Act 41 of the 1981 Session. The Act authorized a new Group B non-contributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS).

The STRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

- Have both their accumulated employee contributions and accumulated interest returned to them; or
- Have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- Have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VSRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

- Have both their accumulated employee contributions and accumulated interest returned to them; or
- Have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- Have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2018 there were 1,153 members, with net position of $42,662,550 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

Statement of Plan Net Position
Defined Contribution Plans
June 30, 2018

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments	$ -	$ 855,834	$ 107,365
Receivables			
Contributions	146,516	-	6,951
Interest and dividends	-	1,287	-
Investments			
Mutual and commingled funds	67,721,855	41,819,429	23,879,990
Prepaid expenses	4,610	-	-
Total assets	67,872,981	42,676,550	23,994,306
Liabilities			
Accounts payable	1,348	-	705
Investments purchased	-	14,000	-
Due to other funds	72,349	-	83,931
Total liabilities	73,697	14,000	84,636
Net position restricted for employees' pension benefits	$ 67,799,284	$ 42,662,550	$ 23,909,670

Statement of Changes in Plan Net Position
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2018

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,825,001	$ -	$ 546,409
Plan member	743,036	-	511,096
Transfers from other pension trust funds	162,284	-	15,041
Transfers from non-state systems	51,061	-	-
Total contributions	2,781,382	-	1,072,546
Investment Income			
Net appreciation (depreciation) in fair value of investments	1,844,036	(37)	1,158,575
Dividends	4,172,138	1,073,078	1,281,907
Interest income	3,496	9,162	3,354
Other income	18,364	505	6,261
Total investment income	6,038,034	1,082,708	2,450,097
Less Investment Expenses			
Investment managers and consultants	-	175,174	-
Net investment income	6,038,034	907,534	2,450,097
Total additions	8,819,416	907,534	3,522,643
Deductions			
Retirement benefits	3,577,770	5,784,302	1,325,363
Transfers to non-state systems	1,117,451	-	471,222
Operating expenses	149,470	-	109,284
Total deductions	4,844,691	5,784,302	1,905,869
Change in net position	3,974,725	(4,876,768)	1,616,774
Net position restricted for employees' pension benefits			
July 1, 2017	63,824,559	47,539,318	22,292,896
June 30, 2018	$ 67,799,284	$ 42,662,550	$ 23,909,670

C. Other Postemployment Benefits (OPEB)

In addition to providing pension benefits, the State offers postemployment medical insurance, dental insurance, and life insurance benefits to retirees of the VSRS and STRS. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The State has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ending June 30, 2018. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 75 requires employers and nonemployer contributing entities to report their net OPEB liability on their financial statements.

Defined Benefit OPEB Plans

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into three sections. The first section (Disclosures about the Defined Benefit OPEB Plans) offers disclosures about the plans themselves - descriptions of the plans and who is covered; a discussion of benefits provided by each of the plans.

The second section (Financial Reporting of Net OPEB Liability and OPEB Expense by the Employer as required by GASB Statement No. 75) provides funding information regarding the OPEB plans that are required by GASB Statement No. 75 - changes in net OPEB liability, balances of deferred OPEB outflows of resources and deferred OPEB inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of OPEB expense for the year.

The third section (Net OPEB Liability and Disclosures required by GASB Statement No. 74) provides the information that is required by GASB Statement No. 74 - the calculation of the net OPEB liability (NOL); the actuarial assumptions and census data that were used in calculating that NOL; the discount rate that was used in the calculations; and the sensitivity of the NOL to changes in the discount rate.

1.Disclosures about the Defined OPEB Plans

This first section provides the disclosures about the defined benefit retirement plans required by GASB Statement No. 74, including the plan descriptions, contribution information, benefits and membership at June 30, 2018.

Plan Descriptions and Contribution Information

Vermont State Postemployment Benefits Trust Fund

The Vermont State Postemployment Benefits Trust Fund (VSPB) (3 V.S.A. 479a), a single employer defined benefit OPEB plan, was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support retiree postemployment benefits other than pension benefits for members of the Vermont State Retirement System (VSRS).

The VSPB is managed by the VSRS Retirement Board (see VSRS in 4.A.1 above). Title 3 V.S.A. Chapters 16 and 21 provides the authority to establish and amend the benefit provisions of the plan, and to establish and amend contribution requirements. Contributions are actuarially determined, however, the State has elected to pay State contributions to fund current year retiree health care expenses on a pay-as-you-go basis. State contributions for the fiscal year ended June 30, 2018, were $32,956,898, which is 6.20% of covered payroll. Employees are not required to contribute to the OPEB plan.

Benefits are provided through the State's self-insured Medical Insurance Fund (an internal service fund). VSPB plan members have access to the same benefit plans as active employees.

State employees hired prior to July 1, 2008, and retiring directly from active State service for any reason (disability, early, or normal) may elect to carry whatever medical coverage is in effect at that time into retirement for themselves and their dependents. During their lifetime the retiree will pay 20% of the cost of the premium, except in the case where retirees select joint or survivorship options. If the retiree chooses the joint or survivor pension options and predeceases his or her spouse, the medical benefits along with the pension benefit will continue for the spouse. However, generally, the surviving spouse must pay 100% of the cost of the premium.

In addition, once a retiree or surviving spouse becomes eligible for Medicare coverage (at age 65); it is mandatory that they enroll in both Medicare Part A and Part B as soon as possible. Medicare thus becomes the primary insurer with the State plan becoming the secondary insurer. The insured's State insurance premium costs will then decrease in recognition of this change.

Vermont State Retirement System's defined benefit plan Group C members who terminate with 20 or more years of service, but are not yet 50 years old, may elect to receive medical coverage at the time they begin receiving their retirement benefits. For all other Vermont State Retirement System's active employees, if the employee does not retire directly from State service (inactive members), they are not eligible to participate in the State's medical insurance plan. If the insurance is terminated at any time after retirement benefits have been received, coverage will not be able to be obtained again at a later date.

Based on legislation enacted during fiscal year 2008, Vermont State Retirement System's defined benefit plan Group F employees hired after June 30, 2008 will pay, upon retirement, a tiered retiree health care premium amount based on completed years of service. The tiered rate paid will range from 100% of the premium cost for retirees with less than 10 years of service to 20% of the premium cost for retirees with 20 or more years of service. Additionally, as part of the enacted legislation, Group F employees hired after June 30, 2008 will also have the ability to elect health care insurance at the 20% premium cost level when they begin to receive retirement benefits in a manner comparable to regular retirements even if the employee terminated prior to their early retirement date, provided the member had 20 years of service upon termination of employment.

Retired Teachers' Health and Medical Benefit Fund

The Retired Teachers' Health and Medical Benefit Fund (RTHMB) (16 V.S.A. 1944b), a cost-sharing multiple employer defined benefit OPEB plan with a special funding situation, was created by the legislature on July 1, 2014, to explicitly appropriate State contributions to the fund for health care expenses separate from the State's contribution to the State Teachers' Retirement System (STRS) pension trust fund. Prior to fiscal year 2015, the health care expenses for the STRS's retirees were paid through a sub-fund of the defined benefit pension trust fund and no State contribution was explicitly budgeted or funded. The State Treasurer is authorized to use interfund borrowings of up to $28.5 million to finance any funding shortfalls, and it is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. At June 30, 2018 the balance on this loan was $28.3 million.

The RTHMB is managed by the STRS Retirement Board (see STRS in 4.A.1 above). Title 16 V.S.A. Chapter 55 provides the authority to establish and amend the benefit provisions of the plan, and to establish and amend contribution requirements. Contributions are actuarially determined, however, the State has elected to appropriate State contributions to fund current year retiree health care expenses on a pay-as-you-go basis. State contributions for the fiscal year ended June 30, 2018, were $29,802,725, which is 4.91% of covered payroll. Employees are not required to contribute to the OPEB plan.

Retirees of the STRS participate in multi-employer health coverage plans operated by the Vermont Education Health Initiative (VEHI) which is managed jointly by the Vermont School Boards Insurance Trust and the Vermont National Education Association. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. VEHI issues its own audited financial statements. These and plan information are available the VEHI Offices, 2 Prospect Street, Suite 5, Montpelier, VT 05602.

STRS's members have access to medical benefit plans in retirement as offered by VEHI. The plans are identical to those offered to active teachers in public school systems in Vermont. Members may pick up medical coverage under one of the plans offered for themselves and all eligible dependents at the time of retirement, or anytime thereafter during one of the semi-annual open enrollment periods. If the member has a minimum of 10 years of creditable service at the time of retirement, the system picks up 80% of the retiree's premium only, based on the cost of the "standard plan" as defined by statute. The retiree must pick up the full cost of the premium for all covered dependents. Once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the Teacher's medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

During fiscal year 2018 there were 225 participating employers in the STRS - RTHMB plan.

Membership in the plans consisted of the following at June 30, 2018:

	VSRS - VSPB	STRS - RTHMB
Retired members or beneficiaries currently receiving benefits	4,958	6,715
Retired members or beneficiaries not receiving benefits	-	2,499
Vested terminated members entitled to but not yet receiving benefits	-	1,906
Active members	8,886	9,892
Total	13,844	21,012

2. Employer Reporting of OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB Plans as required by GASB Statement No. 75

This section includes the information that is required to be reported by employers per GASB Statement No. 75. It reports information regarding the calculation of the State's net OPEB liability, including changes during the measurement period in both total OPEB liability and plan net position; balances in the various components of deferred OPEB outflows of resources and deferred OPEB inflows of resources and the amounts to be recognized in OPEB expense in future periods; and the calculation of OPEB expense. In addition to presenting the NOL, this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NOL, and disclosures as to the sensitivity of the NOL to changes in the discount rate.

The State is responsible for 98.2979% of the VSPB net OPEB liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.7021% of the VSPB net OPEB liability. The State is responsible for 100% of the RTHMB net OPEB liability as a non-employer contributing entity. The information is presented in this section is for those two plans.

Reporting Date, Measurement Date, and Valuation Date (Employer Reporting)

Net OPEB liabilities, deferred OPEB outflows of resources, deferred OPEB inflows of resources, and OPEB expense are all presented as of the State's reporting date (June 30, 2018) and for the State's reporting period (the year ended June 30, 2018). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 75 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of June 30, 2018, the State has chosen to use the end of the prior fiscal year (June 30, 2017) as the measurement date, and the year ended June 30, 2017 as the measurement period.

The total OPEB liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2016, to the measurement date of June 30, 2017.

Net OPEB Liabilities (Employer Reporting)

The net OPEB liability (NOL) is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the OPEB plan's fiduciary net position. The changes in the components for the measurement period are as follows (amounts are in thousands):

	VSRS - VSPB			STRS - RTHMB		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (a-b)	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (a-b)
Balances - June 30, 2016	$ 1,594,310	$ 21,353	$ 1,572,957	$ 909,465	$ (20,961)	$ 930,426
Changes for the year:						
Service cost	66,841	-	66,841	32,511	-	32,511
Interest	46,868	-	46,868	26,425	-	26,425
Changes of assumptions	(190,151)	-	(190,151)	(33,192)	-	(33,192)
Contributions - non-employer	-	-	-	-	23,839	(23,839)
Contributions - employer	-	32,949	(32,949)	-	-	-
Contributions - transfers from other pension trust funds	-	174	(174)	-	-	-
Net investment income	-	1,372	(1,372)	-	41	(41)
Benefit payments, including refunds of contributions	(33,346)	(33,346)	-	(29,577)	(29,577)	-
Net changes	(109,788)	1,149	(110,937)	(3,833)	(5,697)	1,864
Balances - June 30, 2017	$ 1,484,522	$ 22,502	$ 1,462,020	$ 905,632	$ (26,658)	$ 932,290
Plan fiduciary net position as a percentage of total OPEB liability			1.52%			-2.94%

Proportionate Share of Net OPEB Liability

	VSRS - VSPB			
		Proportionate Share		
	Amount	2017	2016	Change
Governmental activities	$ 1,426,604	97.5775%	97.5970%	-0.0194%
Business type activities	10,531	0.7203%	0.7076%	0.0127%
Discrete component unit	24,885	1.7021%	1.6954%	0.0067%
Total net OPEB liability	$ 1,462,020	100.0000%	100.0000%	

Additional information regarding the changes in the net OPEB liability for the year ended June 30, 2018 can be found in the Required Supplementary information immediately following these notes to the financial statements.

Deferred OPEB Outflows of Resources and Deferred OPEB Inflows of Resources (Employer Reporting)

Most changes in the net OPEB liability are included in OPEB expense during the year of change. Changes resulting from current-period service cost, interest on the total OPEB liability, and changes in benefit terms are required to be included in OPEB expense immediately. Similarly, projected earnings on the OPEB plan's investments are also required to be included in the determination of OPEB expense immediately.

The effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods, depending on the nature of the change.

The effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEBs. This treatment arises from the concept that these changes result from the use of estimates, where probabilities of events range from 0 to 100 percent, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning with the current period. Changes in the net OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEBs. This treatment arises from the concept that OPEBs arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related OPEB measurements are viewed in the context of ongoing, career-long employment relationships.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources, and will be recognized as a reduction of the net OPEB liability at June 30, 2019. As of June 30, 2018, the State reported the following deferred OPEB outflows of resources and deferred OPEB inflows of resources (amounts are in thousands):

	VSRS - VSPB		VSRS - VSPB	
	Primary Government		Discrete Component Units	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ 162,385	$ -	$ 2,812
Net differences between projected and actual earnings on plan investments	174	-	3	-
Change in proportion and the effect of certain employer contributions on the employer's net OPEB liability	174	266	92	-
Employer contributions made subsequent to the measurement date	32,373	-	584	-
Total	$ 32,721	$ 162,651	$ 679	$ 2,812

	STRS - RTHMB	
	Primary Government	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ -	$ 25,544
Net differences between projected and actual earnings on plan investments	-	1,462
Employer contributions made subsequent to the measurement date	29,803	-
Total	$ 29,803	$ 27,006

The amounts reported as deferred OPEB outflows of resources resulting from employer contributions made subsequent to the measurement date (VSRS-VSPB - $32.37 million Primary Government and $0.584 million Component Units; and STRS - RTHMB - $29.803 million Primary Government), will be recognized as a reduction of the net OPEB liability at June 30, 2019. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs, will be recognized in OPEB expense as follows (amounts are in thousands):

	STRS - RTHMB	VSRS - VSPB	
Year Ended June 30	**Primary Government**	**Primary Government**	**Discrete Component Units**
2019	$ (8,013)	$ (24,500)	$ (410)
2020	(8,013)	(24,500)	(410)
2021	(8,013)	(24,500)	(410)
2022	(2,967)	(24,500)	(410)
2023	-	(24,543)	(411)
Thereafter	-	(39,760)	(666)
Total	$ (27,006)	$ (162,303)	$ (2,717)

OPEB Expense (Employer Reporting)

As discussed above, most changes in the net OPEB liability are included in OPEB expense in the year of change, including changes resulting from current-period service cost, interest on the total OPEB liability, changes in benefit terms, and projected earnings on the OPEB plan's investments. Other changes in net OPEB liability are recorded as deferred OPEB outflows of resources and deferred OPEB inflows of resources, and included in OPEB expense on a systematic and rational manner over current and future periods. OPEB expense for the year ended June 30, 2018, is as follows (amounts are in thousands):

	Primary Government		Component Units
	STRS - RTHMB	**VSRS - VSPB**	**VSRS - VSPB**
Service cost	$ 32,511	$ 65,703	$ 1,138
Interest on total OPEB liability	26,425	46,070	798
Projected earnings on plan investments	1,788	(1,566)	(27)
Recognition (amortization) of deferred OPEB outflows of resources:			
Difference between projected and actual investment earnings	-	43	1
Changes in Proportions	-	26	14
Recognition (amortization) of deferred OPEB inflows of resources:			
Change in assumptions	(7,648)	(24,529)	(426)
Difference between projected and actual investment earnings	(366)	-	-
Changes in Proportions	-	(40)	-
Total OPEB Expense	$ 52,710	$ 85,707	$ 1,498

Actuarial Methods and Assumptions (Employer Reporting)
Actuarial Assumptions (Employer Reporting)

Total OPEB liability at the June 30, 2017 measurement date was determined using the June 30, 2016 actuarial valuation and applying roll forward procedures. The actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified were as follows:

	VSRS - VSPB	STRS - RTHMB
Inflation	2.75%	2.75%
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation	7.50%, net of OPEB plan investment expense, including inflation
Discount rate	3.58%	3.58%
Salary increase rate	Varies by age from age 20 - 7.04%, to age 60 - 3.50%.	Varies by age from age 20 - 9.09%, to age 60 - 3.75%.
Health care cost trend rate		
Non-Medicare	7.50% graded to 4.50% over 12 years	7.50% graded to 4.50% over 12 years
Medicare	8.00% graded to 4.50% over 10 years	7.75% graded to 4.50% over 11 years
Retiree contributions	Equal to health trend	Equal to health trend
Plan membership - 6/30/2016		
Retired members or beneficiaries currently receiving benefits	4,795	6,355
Retired members or beneficiaries not receiving benefits	-	2,265
Vested terminated members entitled to but not yet receiving benefits	-	1,824
Active members	8,813	9,919
Total	13,608	20,363

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the following actuarial experience studies:

Vermont State Retirement System
Experience Study: July 1, 2010 – June 30, 2014, dated October 29, 2015 completed by Buck Consultants

Vermont State Teachers' Retirement System
Experience Study: July 1, 2010 – June 30, 2014, dated March 2, 2016 completed by Buck Consultants

Mortality rates are based on the following:
Vermont State Retirement System

- *Pre-retirement Mortality*: Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Group C were based on RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017. Group D were based on RP-2014 Healthy Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Group C were based on RP-2014 Blue Collar Annuitant with generational projection using Scale SSA-2017. Group D were based on RP-2014 Healthy Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* A, C, D, and F were based on RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality*: 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: 98% of RP-2014 White Collar Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* RP-2014 Disabled Mortality Table with generational projections using Scale SSA-2017.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The following table contains the target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate or return assumption:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Large cap equity	20.00%	5.92%
International equity	15.00%	6.71%
Emerging international equity	5.00%	9.70%
Core bonds	60.00%	1.38%
Total	100.00%	

Discount Rate (Employer Reporting)

The projection of cash flow used to determine the discount rate assumed that the plans' contributions would be made at rates equal to the projected benefit payments for the upcoming year. Based on these assumptions, the OPEB plans' fiduciary net position was projected to be exhausted within the first year. Therefore, the long-term bond rate expected rate of return of 3.58% on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The 3.58% is based on the 20-year Bond Buyer GO index at June 30, 2017. The discount rate used in the prior year was 2.85%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (Employer Reporting)

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amounts in thousands):

	VSRS - VSPB	STRS - RTHMB
One-percent decrease		
Discount rate	2.58%	2.58%
Net OPEB liability	$ 1,723,871	$ 1,071,120
Net OPEB liability, as reported		
Discount rate	3.58%	3.58%
Net OPEB liability	$ 1,462,020	$ 932,290
One-percent increase		
Discount rate	4.58%	4.58%
Net OPEB liability	$ 1,252,908	$ 817,506

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (Employer Reporting)

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (amounts in thousands):

	VSRS - VSPB	STRS - RTHMB
One-percent decrease		
Healthcare cost trend rate		
Non-medicare	6.50% decreasing to 3.5%	6.50% decreasing to 3.5%
Medicare	7.00% decreasing to 3.5%	6.75% decreasing to 3.5%
Net OPEB liability	$ 1,237,397	$ 800,022
Net OPEB liability, as reported		
Healthcare cost trend rate		
Non-medicare	7.50% decreasing to 4.5%	7.50% decreasing to 4.5%
Medicare	8.00% decreasing to 4.5%	7.75% decreasing to 4.5%
Net OPEB liability	$ 1,462,020	$ 932,290
One-percent increase		
Healthcare cost trend rate		
Non-medicare	8.50% decreasing to 5.5%	8.50% decreasing to 5.5%
Medicare	9.00% decreasing to 5.5%	8.75% decreasing to 5.5%
Net OPEB liability	$ 1,751,784	$ 1,099,519

Payable to the OPEB Plans (Employer Reporting)

At June 30, 2018, the State reported a payable of $63,493 for the outstanding amount of contributions to the VSPB plan required for the year ended June 30, 2018.

3. Net OPEB Liability and Disclosures required by GASB Statement No. 74 (Plan Reporting)

This section includes information that is required to be presented by GASB Statement No. 74. The plans elected to base the valuations on plan data as of June 30, 2017 and used update procedures to roll forward the total OPEB liability to the OPEB plans' fiscal year end. In addition to presenting the NOL, this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NOL, and disclosures as to the sensitivity of the NOL to changes in the discount rate.

GASB Statement No, 74 requires that OPEB plans disclose the NOL and other related disclosures.

Net OPEB Liabilities (Plan Reporting)

The components of the net OPEB liabilities at June 30, 2018, were as follows (amounts in thousands):

(Table on next page.)

	VSRS - VSPB	STRS - RTHMB
Total OPEB liability..	$ 1,240,275	$ 927,843
Plan fiduciary net position (deficit)...........	21,771	(26,443)
Net OPEB liability..	$ 1,218,504	$ 954,286
Plan fiduciary net position as a percentage of total OPEB liability	1.76%	-2.85%

Additional information regarding changes in net OPEB liability for the year ended June 30, 2018 can be found in the Required Supplementary Information section of these financial statements.

Actuarial Assumptions (Plan Reporting)

The total OPEB liability at June 30, 2018 was determined using the June 30, 2017 actuarial valuation and applying roll forward procedures. The actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified were as follows:

	VSRS - VSPB	STRS - RTHMB
Inflation	2.75%	2.75%
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation	7.50%, net of OPEB plan investment expense, including inflation
Discount rate	3.87%	3.87%
Salary increase rate	Varies by age from age 20 - 7.04%, to age 60 - 3.50%.	Varies by age from age 20 - 9.09%, to age 60 - 3.75%.
Health care cost trend rate		
Non-Medicare	7.15% graded to 4.50% over 12 years	7.15% graded to 4.50% over 12 years
Medicare	7.30% graded to 4.50% over 13 years	7.15% graded to 4.50% over 12 years
Retiree contributions	Equal to health trend	Equal to health trend
Plan membership - 6/30/2017		
Retired members or beneficiaries currently receiving benefits	4,878	6,543
Retired members or beneficiaries not receiving benefits	-	2,351
Vested terminated members entitled to but not yet receiving benefits	-	1,764
Active members	8,941	10,028
Total	13,819	20,686

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the following actuarial experience studies:

<u>Vermont State Retirement System</u>
Experience Study: July 1, 2010 – June 30, 2014, dated October 29, 2015 completed by Buck Consultants

<u>Vermont State Teachers' Retirement System</u>
Experience Study: July 1, 2010 – June 30, 2014, dated March 2, 2016 completed by Buck Consultants

Mortality rates are based on the following:
<u>Vermont State Retirement System</u>

- *Pre-retirement Mortality*: Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Group C were based on RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017. Group D were based on RP-2006 Healthy Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Group C were based on RP-2006 Blue Collar Annuitant with generational projection using Scale SSA-2017. Group D were based on RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* A, C, D, and F were based on RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

<u>Vermont State Teachers' Retirement System</u>

- *Pre-retirement Mortality*: 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality*: 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017.

- *Disabled Mortality:* RP-2006 Disabled Mortality Table with generational projections using Scale SSA-2017.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The following table contains the target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate or return assumption:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Large cap equity	20.00%	7.50%
International equity	15.00%	7.75%
Emerging international equity	5.00%	9.25%
Core bonds	60.00%	3.75%
Total	100.00%	

Discount Rate (Plan Reporting)

The projection of cash flow used to determine the discount rate assumed that the plans' contributions would be made at rates equal to the projected benefit payments for the upcoming year. Based on these assumptions, the OPEB plans' fiduciary net position was projected to be exhausted within the first year. Therefore, the long-term bond rate expected rate of return of 3.87% on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The 3.87% is based on the 20-year Bond Buyer GO index at June 30, 2018. The discount rate used in the prior year was 3.58%. For the year ended June 30, 2018, the VSPB annual money-weighted rate return of investments, net of investment expense, was 4.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (Plan Reporting)

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentge-point higher than the current rate (amounts in thousands):

	VSRS - VSPB	STRS - RTHMB
One-percent decrease		
Discount rate	2.87%	2.87%
Net OPEB liability	$ 1,416,159	$ 1,106,574
Net OPEB liability, as reported		
Discount rate	3.87%	3.87%
Net OPEB liability	$ 1,218,504	$ 954,286
One-percent increase		
Discount rate	4.87%	4.87%
Net OPEB liability	$ 1,058,595	$ 830,493

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (Plan Reporting)

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (amounts in thousands):

(Table on next page.)

	VSRS - VSPB	STRS - RTHMB
One-percent decrease		
Healthcare cost trend rate		
Non-medicare	6.15% decreasing to 3.5%	6.15% decreasing to 3.5%
Medicare	6.30% decreasing to 3.5%	6.15% decreasing to 3.5%
Net OPEB liability	$ 1,044,626	$ 811,075
Net OPEB liability, as reported		
Healthcare cost trend rate		
Non-medicare	7.15% decreasing to 4.5%	7.15% decreasing to 4.5%
Medicare	7.30% decreasing to 4.5%	7.15% decreasing to 4.5%
Net OPEB liability	$ 1,218,504	$ 954,286
One-percent increase		
Healthcare cost trend rate		
Non-medicare	8.15% decreasing to 5.5%	8.15% decreasing to 5.5%
Medicare	8.30% decreasing to 5.5%	8.15% decreasing to 5.5%
Net OPEB liability	$ 1,440,292	$ 1,136,993

Dental Insurance
Dental plans are available to retired State employees, retired teachers, retired municipal employees and their eligible dependents. The dental plan must be elected at the time of retirement. The retiree pays the full premium for all covered lives. There is no cost to the State.

Life Insurance
In the case of life insurance, if a State employee retires with 20 or more years of service and was participating in the life insurance program, a $10,000 benefit will continue into retirement. If a State employee retires due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to the $10,000 level with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Vermont Municipal Employees Health Benefit Fund
The Vermont Municipal Employees Retirement System (MERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated State health care benefit or liability. While the Vermont Municipal Employees Health Benefit Fund is classified as a postemployment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability.

The MERS Retirement Health Savings Plan (RHS) established on July 1, 2007, is a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement. Contributions to this fund are deposited into the RHS Plan member accounts on a tax-free basis, accumulate interest on a tax-free basis, and are drawn out during retirement on a tax-free basis to reimburse health care expenses, including out-of-pocket expenses, deductibles and premiums.

The MERS Board deposited an initial amount of $5.1 million into the RHS accounts on July 2, 2007. Additional employer contributions totaling approximately $6 million were collected during the course of the fiscal years 2008 and 2009 that were deposited in member accounts during fiscal year 2009. No such contributions have been made since fiscal year 2009. Future contributions and subsequent transfers to member accounts will be made as directed by the MERS Board of Trustees. There is no guarantee that the RHS member accounts will receive any additional funding. While classified as a postemployment benefit fund, there is no accrued liability in excess of the asset of the fund. There is no annual required contribution and unfunded actuarial accrued liability.

All MERS defined benefit pension plan members and retirees who have a minimum of 5 years of contributory service are eligible to participate in the RHS plan. The amount each member will receive is determined by the total number of contributory years of service in the system. Each year of service is equal to one share. The share value is determined based on the total eligible population, the total number of years of contributory service represented, and the amount of the distribution. The share value will change when future deposits are made. All eligible members receive the first five shares in their medical reimbursement account, which may be used for any medical expense, including premium reimbursement. The additional shares, representing service credit above five years, are deposited into the premium reimbursement account, which may only be used for medical, dental, vision or long-term health care premium reimbursements.

The money may be accessed by members only after separation from service and the achievement of retiree status from the MERS plan. For members who were already receiving retirement benefits from the MERS, the funds in their RHS account could be accessed after July 2, 2007 to reimbursement expenses incurred after July 1, 2007. Members who are still actively employed, and members in a vested-terminated status, may access the funds once they retire and begin receiving monthly pension payments. Funds in the RHS accounts are invested in the appropriate age-related Milestone Fund through a third-party record keeper.

At June 30, 2018, there were 4,098 active and retired members participating in the MERS RHS plan. The net position of the MERS RHS plan at June 30, 2018 was $13,693,523.

The financial statements for the OPEB Funds on the following two pages:

Statement of Plan Net Position
Other Postemployment Benefit Funds
June 30, 2018

	Vermont State Postemployment Benefits Trust Fund	Vermont Retired Teachers' Health and Medical Benefits Fund	Vermont Municipal Employees' Health Benefit Fund
Assets			
Cash and short term investments	$ 220,164	$ 86,451	$ 633,321
Receivables			
Contributions	63,961	-	-
Other receivables	13,805	2,751,064	15,076
Investments			
Mutual funds	21,497,073	-	13,048,814
Prepaid expenses	-	74,442	-
Total assets	21,795,003	2,911,957	13,697,211
Liabilities			
Accounts payable	24,088	776,491	3,688
Accrued interest payable	-	278,356	-
Due to other funds	-	357	-
Interfund loans	-	28,300,000	-
Total liabilities	24,088	29,355,204	3,688
Net position restricted for employee's other postemployment benefits	$ 21,770,915	$ (26,443,247)	$ 13,693,523

Statement of Changes in Plan Net Position
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2018

	Vermont State Postemployment Benefits Trust Fund	Vermont Retired Teachers' Health and Medical Benefits Fund	Vermont Municipal Employees' Health Benefit Fund
Additions			
Contributions			
Employer - healthcare benefit	$ 32,956,898	$ -	$ -
Non-employer - healthcare benefit	-	29,802,725	-
Transfers from other pension trust funds	-	-	-
Total contributions	32,956,898	29,802,725	-
Investment Income			
Net appreciation (depreciation) in fair value of investments	307,068	-	711,901
Dividends	534,702	-	18,043
Interest income	33,537	19,935	9,266
Other income	-	-	2,119
Total investment income	875,307	19,935	741,329
Less Investment Expenses			
Investment managers and consultants	2,648	-	26,724
Net investment income	872,659	19,935	714,605
Total additions	33,829,557	29,822,660	714,605
Deductions			
Other postemployment benefits	34,559,465	29,328,814	335,724
Operating expenses	1,049	279,447	-
Total deductions	34,560,514	29,608,261	335,724
Change in net position	(730,957)	214,399	378,881
Net position restricted for employees postemployment benefits			
July 1, 2017	22,501,872	(26,657,646)	13,314,642
June 30, 2018	$ 21,770,915	$ (26,443,247)	$ 13,693,523

5. Other Long-term Liabilities

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs, including all major governmental fund types except for the Education Fund. Bonds payable are liquidated by transfers of resources from the General, Transportation, Special and Federal Funds. During the year ended June 30, 2018, the following changes occurred in the governmental activities long-term liabilities:

	Total Liability July 1, 2017 Restated	Additions	Reductions	Total Liability June 30, 2018	Amounts due within one year
Governmental activities					
Bonds payable					
Bonds	$ 605,400,000	$ 106,095,000	$ 48,935,000	$ 662,560,000	$ 53,395,000
Bond premium	33,109,626	10,936,961	7,272,735	36,773,852	7,302,969
Bond discount	(137,838)	-	(14,833)	(123,005)	(18,169)
Total bonds payable	638,371,788	117,031,961	56,192,902	699,210,847	60,679,800
Capital leases payable	10,358,552	-	607,342	9,751,210	333,185
Compensated absences	34,809,969	44,772,677	44,128,402	35,454,244	34,190,267
Claims and judgments	48,059,096	196,819,709	193,799,119	51,079,686	16,148,245
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension liabilities	1,955,150,806	743,544,013	552,558,994	2,146,135,825	-
Net other postemployment liabilities	2,465,584,579	169,890,094	276,580,843	2,358,893,830	42,117,364
Pollution remediation obligations	8,440,463	1,422,474	440,661	9,422,276	3,166,000
Total governmental activities long-term liabilities	$ 5,167,775,253	$ 1,273,480,928	$1,124,308,263	$ 5,316,947,918	$ 156,634,861

The beginning balance was restated for the implementation of GASB Statement No. 75 to recognize the beginning balance of the Net other postemployment liabilities.

The Pollution Remediation Obligation (PRO) liabilities were measured using the actual contract cost when no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to cost increases or reductions, or changes in technology or applicable laws or regulations governing the remediation efforts. Overall, the state has recorded a pollution remediation liability of $9,422,276 of which $3,166,000 is due within one year.

Pollution remediation liability activity in fiscal year 2018 was as follows:

<u>Department of Environmental Conservation</u>

Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends resources from the superfund trust for cleanup. Currently, there are seven sites where the state has referred the matter to federal Superfund jurisdiction, and has executed a contract, or legal obligation, to share in the cost for cleanup and long term operations and maintenance. These obligations are reflected in a State Superfund Contract.

There are two superfund sites where no liability has been reported because obligation are not yet reasonably estimable. One of the sites include an abandoned copper mine requiring cleanup of acid mine drainage, the other site is from a former manufacturing facility of capacitors, transformers, and motors used in household appliances.

The remaining five Superfund sites in Vermont are in various stages of cleanup, from initial assessment to cleanup activities and required monitoring of the remediation effort. There are no viable potentially responsible parties or insurance available to reduce the remediation costs for the superfund sites listed below.

- Cleanup of acidic discharges from this former copper mine are nearly complete under the first phase. An additional phase of remedial work commenced in fiscal year 2017 and under the State Superfund Contract the state is obligated to cover 10% of the site remedy, not to exceed $1,105,000. Long term operation and monitoring costs will likely be reduced by installation of a passive rather than active treatment system. The PRO as of June 30, 2018 is $1,211,000. The current amount due within the next year for remedial activities and maintenance is estimated at $616,000.

- Another former copper mine is currently under remedial investigation and the state's cost share will eventually be included in a State Superfund Contract, which should be finalized by the end of September 2018. The estimated cost of the cleanup to address the most significant sources of acid mine drainage is $22 million which would result in a cost to the state of $2.2 million estimated to begin in 2019, with major construction planned in 2021. Additional cleanup under a separate Record of Decision will address the release of acid mine drainage and create groundwater use restrictions to prevent consumption of contaminated groundwater. These measures will result in a cost to the state of approximately $400,000. The PRO as of June 30, 2018 is $2,600,000.

- There are two superfund sites under the oversight of the USEPA which have been remediated, and under superfund site agreement, the State is responsible for long term operation and maintenance costs of the facilities constructed by the USEPA. During the 5-year review with USEPA in fall 2018, the State will petition USEPA to reduce monitoring frequency from annual to every five years for one of the sites. The PRO as of June 30, 2018 is $150,000, and the current amount due for annual sampling is $105,000.

- One former industrial facility's manufacturing and electroplating operations contaminated soil, sediment and groundwater with metals and industrial solvents. Site investigation and long-term cleanup planning are ongoing. Soil removal work was completed in fiscal year 2018, reducing remaining liability by another $40,000. A State Superfund Contract will be executed before October 2018 for the residential vapor intrusion and the required groundwater reclassification. Mitigation of the vapor intrusion is now estimated at $350,000 rather than $20,000 to fix the area residence impact. Fortunately, this will not increase the state's total liability as the USEPA in turn is lowering state liability for the groundwater remedy by $350,000. The final design for the groundwater remedy is scheduled for July 2019 with a State Superfund Contract before October 2019. In fiscal year 2019, the state's liability is estimated to be $365,000 ($350,00 for vapor intrusion and $15,000 for reclassification). PRO as of June 30, 2018 is $789,000.

Sites not included under federal Superfund trust, include a former mining facility with large eroding mining tailings and waste rock piles that are discharging asbestos into downstream waters. This site is one of the state's largest potential obligations for cleanup. The State has been working with potential responsible parties to address the environmental contamination. A long-term remedy for the site has not been pursued due to the magnitude and limited resources. Currently, one of the potential responsible parties performs the annual operation and maintenance of the erosion control features. The erosion control measures at the site will ultimately need to be replaced. The PRO as of June 30, 2018 is $2,000,000 for the estimated cost of reconstruction measures not yet scheduled but likely to occur within the next five years.

In 2016, the State learned of perfluorooctanoic acid (PFOA) contaminants impacting hundreds of private drinking water wells and public water systems in an area surrounding a former manufacturing plant. The state is currently working on addressing the health, safety, and environmental concerns resulting from the detection of PFOA in the drinking water of residents. In 2017, under a Consent Order, the responsible party agreed to pay $20 million of planned water extensions to replace impacted supply wells in one area. The Area 2 water line extensions would require an additional $20 million, and that is under additional investigation by the parties. The PRO as of June 30th, 2018 is $850,000. The area remediation includes the following: $590,000 for the estimated operations and maintenance cost for 140 point-of-entry treatment systems (this will be lower every other year when carbon replacement is not needed); $110,000 estimated for semiannual sampling of 110 homes with detections of per- and polyfluoroalkyl substances (PFAS) below the health advisory; and $150,000 for a contractor to assist with Natural Resource Damage assessment.

Similarly, the State is responsible for the monitoring and treatment performance evaluations for the cleanup of ground water contamination resulting from a chemical spill at a former dry cleaner facility. The total PRO reported at June 30, 2018 of $677,000 for source removal of contamination, if dictated by annual monitoring. The amount due in 2019 for operation and maintenance is $10,000.

Agency of Transportation

In fiscal year 2018, the State began investigating detections of PFAS in groundwater in and around the Rutland-Southern Vermont Regional Airport in Clarendon. The State is planning an initial site investigation at the airport to assess potential source areas of PFAS contamination which may stem from aqueous film-forming foams (AFFF) required to be available at airports with specific operating certificates. AFFF is used to extinguish fires of flammable liquids such as gasoline or jet fuel. The PRO as of June 30, 2018 is $738,757 which includes $500,000 to be expended in the current year. The cost estimates are based on work scopes and individual tasks being assessed for treatment of existing contamination.

The ongoing site investigation of petroleum cleanup of contaminated soil at two locations continues and the work may be expanded to include ground water monitoring of at least one additional site in 2019. The Agency of Transportation has recorded liabilities totaling $106,519 at June 30, 2018 for site investigation with $20,000 due within current year. The cost estimates are based on knowledge of site history and past performance requirements.

Military

The USEPA's imposed cleanup of paint and building materials containing polychlorinated biphenyls (PCBs) at the Military Department's historic Armory was completed in fiscal year 2018. The decrease due to payments and other adjustments during the year totaled $389,418, leaving the PRO as of June 30, 2018 at $0.

Building and General Services

The Waste Management and Prevention Division of Vermont's Department of Environmental Conservation identified the State's Department of Building and General Services as the responsible party for the remediation of contaminated soil at a state-owned parking lot. Liability for remediation is established for an owner or operator of a property under 10 V.S.A. §6615(1). Remediation includes removing soils contaminated with metal and dyes and disposing of them at an appropriate off-site waste treatment facility. Remedial plans will be to bury any excess soils generated during construction of retaining wall and capping all site soils under the new on-site parking lot. The State will continue to monitor groundwater quality at the property to determine if remediation or long-term monitoring is warranted. The PRO as of June 30, 2018 is $300,000 and will be expended in the current fiscal year.

During the year ended June 30, 2018, the changes occurred in the business-type activities and fiduciary funds long-term liabilities are as follows:

(Table on next page.)

	Total Liability July 1, 2017 Restated	Additions	Reductions	Total Liability June 30, 2018	Amounts due within one year
Business-type activities					
Compensated absences	$ 310,467	$ 278,303	$ 315,261	$ 273,509	$ 233,221
Lottery prize awards payable	6,887,473	87,436,351	88,378,846	5,944,978	5,254,653
Net pension liabilities	5,471,704	2,102,382	2,637,202	4,936,884	-
Net other postemployment liabilities	11,130,993	1,019,533	1,619,116	10,531,410	-
Total business-type activities long term liabilities	$ 23,800,637	$ 90,836,569	$ 92,950,425	$ 21,686,781	$ 5,487,874
Fiduciary					
Compensated absences	$ 7,253	$ 17,189	$ 16,641	$ 7,801	$ 7,801

The beginning balance of the Business-type activities was restated for the implementation of GASB Statement No. 75 to recognize the beginning balance of the Net other postemployment liabilities. The compensated absences for the business-type activities are included as part of accrued salaries and benefits on the propriety funds' Statement of Net Position. The compensated absences for the fiduciary funds are included as part of accrued liabilities on the fiduciary funds Statement of Net Position.

H. Fund Balance/Net Position

Governmental Funds

The composition of the summarized fund balances reported on the governmental funds' Balance Sheet for the fiscal year ended June 30, 2018, are shown below and continues on the following page:

	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund			
Government Operations			
Governor and other Elected Officials................	$ -	$ -	$ 16,635
Public Safety and Regulatory Services.............	-	-	1,055,706
Courts..	-	-	891,849
Health and Human Services............................	-	-	1,071,952
Correctional Services....................................	-	-	170,123
Educational Services....................................	-	-	153,996
Natural Resources Protection and Preservation...	-	-	452,034
Economic and Community Development............	-	-	2,640,489
Tourism and Marketing..................................	-	-	377,589
Total General Fund....................................	$ -	$ -	$ 6,830,373
Transportation Fund			
Transportation..	$ 816,079	$ 25,800,601	$ -

	Restricted Purposes	Committed Purposes	Assigned Purposes
Education Fund			
Educational Services	$ -	$ 103,478,664	$ -
Special Fund			
Government Operations			
Governor and Other Elected Officials	$ -	$ 269,042	$ 1,201,908
Legislature	-	250,984	3,381
Administrative Services	612,891	9,267,101	190,217
Public Safety and Regulatory Services	1,409,022	31,873,542	104,070
Courts	-	4,781,004	-
Health and Human Services	2,077,952	47,999,892	9,823
Correctional Services	5	571,140	-
Employment and Training	-	12,314,652	-
Educational Services	-	4,116,742	-
Natural Resources Protection and Preservation	1,167,133	36,552,664	134
Economic and Community Development	5,649,114	4,072,879	-
Tourism and Marketing	-	583,932	-
Total Special Fund	$ 10,916,117	$ 152,653,574	$ 1,509,533
Federal Revenue Fund			
Government Operations			
Governor and Other Elected Officials	$ 77,207	$ -	$ -
Administrative Services	6,896	-	-
Public Safety and Regulatory Services	13,988,005	-	-
Courts	4,252	-	-
Health and Human Services	32,540,975	-	-
Employment and Training	5,084,148	-	-
Educational Services	2,998,927	-	-
Natural Resources Protection and Preservation	403,002,388	-	-
Economic and Community Development	1,619,390	-	-
Total Federal Revenue Funds	$ 459,322,188	$ -	$ -
Global Commitment Fund			
Health and Human Services	$ 41,097,762	$ -	$ -
Non-major Governmental Funds			
Government Operations			
Administrative Services	$ 16,612	$ -	$ -
Health and Human Services	39,186	-	-
Educational Services	-	24,009,645	-
Natural Resources Protection and Preservation	182,239	11,685,268	-
Economic and Community Development	4,327	-	-
Capital Outlays	59,235,385	-	-
Debt Service	3,213,078	633	-
Total Non-major Governmental Funds	$ 62,690,827	$ 35,695,546	$ -

Note V. OTHER INFORMATION

A. Risk Management

1. Workers' Compensation and Risk Management

The Agency of Administration's Financial Services Division oversees the Workers' Compensation and Risk Management programs, which administers all insurance programs for State government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The programs set aside assets and pay claims utilizing the following three Internal Service Funds:

State Employees' Workers' Compensation Fund
State Liability Self Insurance Fund
Risk Management – All Other Fund (used for the purchase of commercial insurance policies)

The State Employees' Workers' Compensation Fund covers all State employees who are injured on the job, pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any excess workers' compensation insurance to limit this exposure. All claims are processed by a third-party administrator. Two types of claims audits are conducted annually. One is a claims management audit by an independent outside claims consulting company to ensure that the claims operations and claims adjusting follow leading industry practice. The second is a complete actuarial review of Workers' Compensation claims and fund to review and recommend reasonable reserve and funding levels. Reserve fund allocated charges to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The State Liability Insurance Fund covers general and employment practices liability, discrimination, bodily injury and automobile liability risk. The coverage is comparable to standard private commercial policies. This liability coverage is offered to state agencies and certain quasi-governmental agencies. The State's exposure to tort risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. The current sovereign immunity limits are $500,000 per person and $2,000,000 per occurrence. Exposure outside of Vermont and to federal suit and other non-tort suit is potentially unlimited. The State holds a self-insured retention (SIR) for the first $500,000 of exposure and purchases excess commercial liability insurance up to $1,500,000 ($2,000,000 total) per occurrence in Vermont and $10,000,000 per occurrence in excess of the $500,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by the third-party administrator and/or the Vermont Attorney General's Office. Two types of claims audits are conducted annually. One is a claims management audit by an independent outside claims consulting company to ensure that the claims operations and claims adjusting follow leading industry practice. The second is a complete actuarial review of liability claims and fund to review and recommend reasonable reserve and funding levels. Reserve fund allocated charges to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered by the above funds. This coverage provides insurance for State-owned real property, bonds for various categories of employees, errors and omissions coverage for judges, workers' compensation coverage for non-state employees on contract with the Agency of Human Services, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies and potentially for any claims in excess of the purchased limits. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are state agencies and certain quasi-governmental agencies.

Insurance settlements have never exceeded the above commercial insurance limits.

2. Health Care Insurance, Dental Assistance Plan, and Life Insurance Funds for State Employee Benefit Plans

The Employee Benefits Division of the Department of Human Resources maintains medical/behavioral health insurance, dental assistance plan, and life insurance funds for the benefit of current State employees, retired former employees, and legislators as well as employees and certain former employees of outside "special" groups which have been declared eligible to participate by statute or labor agreement. Not all of these named groups may participate in every plan. Detailed eligibility information for each group listed above can be found in the plan summaries that follow. Temporary and contractual employees are not eligible to participate in these plans.

Enrolled plan participants share in the premium cost of the medical/behavioral health plan. Prescription drug coverage is included in the medical/behavioral health plan. Premium rate setting is performed by an outside actuary in conjunction with the Administrative Services Division of the Department of Human Resources. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience. Special Groups covered under the health insurance plan remit premium to the State for their members. Retirees covered under the health plan pay premium through the Retirement Division of the Treasurer's Office.

The plan options are: TotalChoice which is a "preferred provider organization" indemnity-type plan; and the SelectCare plan which is a "point of service" plan similar to an open-ended Health Maintenance Organization (members may opt out of the SelectCare network but must meet a deductible and coinsurance to do so). Benefits are administered under a managed care arrangement. Both health plan options are self-insured by the State. The State uses a third-party administrator to provide administrative services, including claims payment. To limit the State's large claims exposure, the State has purchased a stop loss insurance policy.

The self-funded State of Vermont Employee Dental Assistance Plan provides up to $1,000 regular dental benefits annually and up to $1,750 lifetime benefit for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss, so no stop-loss insurance has been purchased. The Administrative Services Division within the Department of Human Resources sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents. Special Groups covered under the dental assistance plan remit premium to the State for their members.

The State of Vermont Employee Life Insurance Program consists of a Term-Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of $10,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Administrative Services Division calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees' premiums and 100% of retirees' premium costs. Only current State employees, retired State employees, and current active employees of outside special groups are eligible to participate. Special Groups covered under the life insurance plan remit premium to the State for their members.

Three years' changes in the respective funds' claims liability amounts are displayed in the following table:

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2016	$ 31,547,655	$ 3,746,748	$ 7,817,044	$ 27,477,359
2017	27,477,359	3,462,704	7,415,011	23,525,052
2018	23,525,052	14,332,986	9,110,153	28,747,885
State Liability Insurance Fund				
2016	6,855,493	2,383,401	1,652,519	7,586,375
2017	7,586,375	2,862,604	2,113,748	8,335,231
2018	8,335,231	2,556,475	2,122,367	8,769,339
Medical Insurance Fund				
2016	16,628,880	158,289,586	151,768,273	23,150,193
2017	23,150,193	166,104,728	173,369,708	15,885,213
2018	15,885,213	173,608,576	176,217,265	13,276,524
Dental Insurance Fund				
2016	323,076	6,111,147	6,124,546	309,677
2017	309,677	6,196,937	6,193,014	313,600
2018	313,600	6,321,672	6,349,334	285,938

B. Budget Stabilization Reserves

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in State revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances consist of any budgetary basis surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. For fiscal year 2018, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds to their respective statutory maximum levels. The balances at June 30, 2018 are as follows: $76,995,070 in the General Fund's Budget Stabilization Reserve; $13,470,018 in the Transportation Fund's Budget Stabilization Reserve; and $34,636,439 in the Education Fund's Budget Stabilization Reserve.

The State has previously reported its General Fund Budget Stabilization Reserve as reserved for budget stabilization in the governmental funds. With the implementation of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the reserve does not meet the criteria to be classified as restricted or committed fund balance, and is reported as unassigned fund balance. There has been no change in the budget stabilization policy or the way in which the policy is being carried out. The Transportation Fund's Budget Stabilization Reserve and the Education Fund's Education Reserve are classified as committed for transportation and education, respectively.

C. Limited Liabilities

1. Contingent Liabilities

Federal Grants:
The State receives federal grants that are subject to audit and review by federal grantor agencies that could result in expenditures being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting from such disallowances would not be material.

2. Limited Liabilities

Vermont Economic Development Authority:
The State has a limited liability for the VEDA. VEDA may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, VEDA must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont Municipal Bond Bank:
The State has a limited liability for the Vermont Municipal Bond Bank (Bank). The Bank is required to maintain debt service reserve funds. 24 V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:
The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring these reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

Vermont Student Assistance Corporation:
The State has a limited liability for the VSAC. VSAC may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 2867. Annually, VSAC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

University of Vermont:
The State has a limited liability for the UVM. UVM may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 2363. Annually, UVM must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont State Colleges:
The State has a limited liability for the VSC. VSC may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 286. Annually, VSC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

3. Contractual Liabilities

At June 30, 2018, the State of Vermont had long-term contracts outstanding of approximately $444,156,442 funded from federal sources, and $533,365,106 funded from all other funding sources. Contracts such as retainer contracts and contracts for commodities have not been included since the nature of these on-going contracts are tracked statewide to insure the best prices for supplies and some professional services. Following is a summary of contractual obligations by agency, department or office at June 30, 2018.

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 75% have end dates of June 30, 2019 or earlier. Of the Agency of Human Services contractual obligations, 32% is in the Department of Vermont Health Access. Of the contracts in the Agency of Administration, 61% have end dates during fiscal year 2019 and are primarily for human resource benefit administration services, information technology services (including an electronic integrated tax system), capital construction, and an upgrade to the State of Vermont's ERP finance system. The State Treasurer's Office contracts are mostly investment management services and health insurance for the retirement plans of which 75% having end dates during fiscal year 2019.

Following is a summary of contractual obligations by agency, department or office at June 30, 2018:

(Table on next page.)

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 178,273,675	$ 2,854,304	$ 175,419,371
Agency of Agriculture, Food & Markets	1,359,413	-	1,359,413
Agency of Commerce & Community Development	915,934	64,456	851,478
Agency of Education	16,978,342	14,257,312	2,721,030
Agency of Human Services	291,027,544	144,605,366	146,422,178
Agency of Natural Resources	11,746,100	3,337,527	8,408,573
Agency of Transportation	297,343,853	240,144,924	57,198,929
Auditor of Accounts' Office	4,027,633	-	4,027,633
Center Crime Victim Services	311,719	-	311,719
Criminal Justice Training Council	281,411	-	281,411
Department of Labor	4,736,541	4,636,740	99,801
Department of Liquor Control	7,239,804	-	7,239,804
Department of Public Safety	8,602,078	2,057,256	6,544,822
Enhanced 911 Board	4,325,335	-	4,325,335
Financial Regulation	5,679,800	-	5,679,800
Green Mountain Care Board	6,272,856	-	6,272,856
Joint Fiscal Office	271,340	-	271,340
Judiciary	7,918,788	-	7,918,788
Military Department	27,487,112	21,384,989	6,102,123
Office of the Attorney General	1,699,166	70,027	1,629,139
Office of the Defender General	6,040,975	-	6,040,975
Public Service Department	6,036,973	-	6,036,973
Public Utility Commission	82,833	-	82,833
Secretary of State's Office	19,730,253	10,743,541	8,986,712
State Treasurer's Office	62,474,052	-	62,474,052
State's Attorneys and Sheriffs	60,000	-	60,000
Vermont Life Magazine	1,729,486	-	1,729,486
Vermont Lottery Commission	4,868,532	-	4,868,532
Total	$ 977,521,548	$ 444,156,442	$ 533,365,106

4. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. The grant table below summarizes the grant activity by agency, department or office. The award balance represents the total grant obligation outstanding at the beginning of the fiscal year. The awards to grantees in the current fiscal year totaled $635,389,473. The award adjustments column includes a increase of $18,507,744 for amendments to grants that commenced in prior fiscal years offset by a reduction of $13,884,750 to the current year awards balance under Human Services for the contribution received from the University of Vermont Medical Center for the Graduate Medical Education program. The grants expended amount of $594,503,771 includes payments issued to grantees on both current year awards and prior year grant awards. The award balances at June 30, 2018 represents the remaining unexpended award amounts.

(Table on next page.)

	Number of Grants Awarded in 2018	Total Grant Obligation: Award Balances at June 30, 2017	Current Year Awards	Award Adjustments	Grants Expended	Award Balances at June 30, 2018
Agency of Administration	470	$ -	$ 102,681,923	$ -	$ 102,681,923	$ -
Agency of Agriculture, Food & Markets	279	5,478,400	11,821,213	(719,389)	9,299,943	7,280,281
Agency of Commerce & Community Development	218	19,969,468	13,318,517	433,437	18,521,716	15,199,706
Agency of Education	1,498	19,172,787	134,788,623	1,318,101	141,736,735	13,542,776
Agency of Human Services	892	80,668,282	220,795,466	(6,547,955)	154,471,234	140,444,559
Agency of Natural Resources	412	33,383,254	29,554,378	22,271,627	42,975,714	42,233,545
Agency of Transportation	955	170,642,667	103,775,777	(12,774,677)	102,780,934	158,862,833
Center Crime Victim Services	141	3,345,468	6,692,432	-	7,534,925	2,502,975
Department of Labor	80	6,391,024	1,898,323	-	2,966,772	5,322,575
Department of Liquor Control	2	-	15,838	-	15,838	-
Department of Public Safety	92	11,139,060	4,124,805	(26,525)	5,121,832	10,115,508
Enhanced 911 Board	30	1,199	182,433	-	58,937	124,695
Judiciary	2	-	100,000	-	100,000	-
Military Department	14	-	92,700	-	92,700	-
Office of the Attorney General	15	-	1,794,626	6,390	1,736,862	64,154
Public Service Department	7	4,265,279	1,475,500	662,290	2,146,609	4,256,460
State Treasurer's Office	17	57,290	276,519	(304)	260,697	72,808
State's Attorneys and Sheriffs	54	-	1,850,400	-	1,850,400	-
Vermont Lottery Commission	1	-	150,000	-	150,000	-
Total	5,179	$ 354,514,178	$ 635,389,473	$ 4,622,995	$ 594,503,771	$ 400,022,875

The Agency of Administration includes the Department of Libraries which awarded 406 grants in the amount of $361,733 to public libraries throughout the state. The agency also awarded approximately $99 million to help fund higher education in Vermont, and $2.3 million to promote cultural development. The Agency of Education awarded 1,498 grants totaling or 29% of the total number of grants issued by the state. The Agency of Human Services issued 892 awards and expended $138 million to improve the conditions and wellbeing of Vermonters. In addition, the agency paid $30 million to the University of Vermont Medical Center, Inc. for the Graduate Medical Education program (GME). The GME program helps ensure access to quality essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. The University of Vermont contributed $13.9 million to the State to support the GME programs; this support is listed as other revenue in the Global Commitment Fund. The Agency of Transportation awarded 955 grants, totaling $102.8 million, providing funding to communities around the state that focus on safety, preservation and maintenance of existing transportation system, economic development, and energy efficient transportation choices.

D. Litigation

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, any ultimate liability to the State resulting from these lawsuits that is not covered by various insurance policies, would not materially affect the State's overall financial condition.

E. Joint Venture

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission (Commission) which is an interstate body, both corporate and politic, serving as a common agent for the party states and representing them both collectively and individually in the exercise of its powers and duties. The Commission is composed of one member from each of the party states. Each State's lottery appoints one of its members to this position. The three-member Commission annually elects a chairperson from among its members. The Commission is empowered to promulgate rules and regulations governing the establishment and to administer the operation of the Tri-State Lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the Commission. A proportional share of revenue and expenses is allocated to each state based on the ticket sales made by that state. The exceptions to the proportional allocation include: (1) the facilities management fee and agent commissions, which are based on a contracted percentage of operating revenue that varies from state to state; and (2) per diem charges, advertising, and certain printing, travel and miscellaneous costs, which are allocated based on actual charges generated by each state. Comparative financial information for fiscal years ending June 30, 2018 and 2017 are as follows:

	June 30, 2018	June 30, 2017	Increase (Decrease)
Comparative Financial Information			
Assets	$ 43,236,412	$ 42,932,483	$ 303,929
Liabilities	37,207,467	35,784,516	1,422,951
Operating revenues	68,559,048	57,463,385	11,095,663
Interest income	163,839	116,582	47,257
Commissions, fees and bonus expense	5,354,543	4,492,718	861,825
Prize awards	37,575,845	30,365,164	7,210,681
Other operating expenses	3,293,365	3,518,801	(225,436)
Total transfers to member states	22,499,134	19,203,284	3,295,850
Transfer to Vermont	3,762,890	3,313,088	449,802

Tri-State Lotto Commission issues separately audited financial statements. Additional information regarding the Tri-State Lotto Commission may be obtained by contacting the Vermont Lottery Commission, 1311 US Route 302-Berlin, Suite 100, Barre, Vermont 05641.

F. Tax Abatements

The State of Vermont provides tax abatements through various programs subject to the requirements of GASB Statement No. 77. A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity through which the government promises to forgo tax revenues to which they are otherwise entitled, and the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefit the government or its citizens. As of June 30, 2018, the State provided tax abatements through the following programs:

(Table on next page.)

Vermont Affordable Housing Tax Credit

Purpose of program	The program encourages construction or rehabilitation of affordable housing projects in the State.
Tax being abated	Personal income, corporate income, bank franchise, and insurance premium taxes
Authority to abate taxes	32 V.S.A. 5930u
Criteria to be eligible to receive abatements and commitment of the taxpayer	Any municipality, private sector developer, State agency as defined in 10 V.S.A. 6301a, the Vermont Housing Finance Agency, or a nonprofit organization qualifying under 26 U.S.C. 501(c)(3), or a cooperative housing organization, the purpose of which is to create and retain affordable housing for Vermonters with lower income and which has in its bylaws a requirement that the housing the organization creates be maintained as affordable housing for Vermonters with lower income on a perpetual basis. The taxpayer applies to and must be approved by the allocating agency to receive the credit. In return, the taxpayer agrees to construct or rehabilitate affordable housing projects as specified in the application submitted. Vermont's designated allocating agency for this tax credit is the Vermont Housing Finance Agency. The participant is required to ensure that eligible housing is maintained as affordable housing by subsidy covenant, as defined in 27 V.S.A. 610 on a perpetual basis.
How taxes are reduced	Taxpayer will claim credit on tax return. Unused credits may be carried forward for fourteen years.
How is the amount of the tax abatement determined	The amount of the credit is determined by the allocating agency based on the amount of eligible investment in the affordable housing project.
Provisions for recapturing abated taxes	N/A
Type of commitments other than taxes	N/A
Dollar amount of taxes abated during reporting period	$4,110,970

Downtown Sales Tax Reallocation Credit

Purpose of program	The program encourages new construction projects, and the improvement and rehabilitation of existing properties in Vermont's designated downtowns.
Tax being abated	Sales tax
Authority to abate taxes	32 V.S.A. 9819
Criteria to be eligible to receive abatements and commitment of the taxpayer	An expansion or rehabilitation of real property in a designated downtown development district, or new construction of real property in a designated downtown development district but only to the extent that the new construction is compatible with the buildings that contribute to the integrity of the district in terms of materials, features, size, scale and proportion, and massing of buildings. The municipality and the developer of the qualified project jointly apply and must be approved by the Vermont Downtown Development Board to receive the credit. In return, the taxpayer agrees to complete their project as specified in the application submitted, and the municipality agrees to use the reallocated tax revenue only for expenditures related to the support of the qualified project.
How taxes are reduced	Refund of sales taxes paid
How is the amount of the tax abatement determined	6% of taxable cost of construction materials
Provisions for recapturing abated taxes	N/A
Type of commitments other than taxes	N/A
Dollar amount of taxes abated during reporting period	$204,567

Agricultural and Managed Forest Land Use Program

Purpose of program	The program goal is to preserve the working landscape and the rural character of Vermont.
Tax being abated	Education Property Tax
Authority to abate taxes	32 V.S.A 3756
Criteria to be eligible to receive abatements and commitment of the taxpayer	A property must be at least 25 contiguous acres in size to be eligible for enrollment in the program, with limited exceptions for actively farmed land, and conservation land owned by a qualified organization as defined in 10 V.S.A 6301a. The property owner applies to and must be approved by the Department of Taxes to receive the tax abatement. In return, the owners of agricultural land and/or farm buildings are required to certify annually that their agricultural land and farm buildings meet the requirements to be eligible for the program; and for forested and conservation land (non-agricultural) the property must be managed according to the approved forest or conservation management plan and according to state standards and be inspected at least once every 10 years.
How taxes are reduced	Reduction of assessed value
How is the amount of the tax abatement determined	Land is valued at fixed price per acre as determined by the Current Use Advisory Board
Provisions for recapturing abated taxes	Once enrolled in the program land is subject to a lien, if this land is ever developed or removed from the program, the owner at the time of development must pay a land use change tax of 10% tax on the full fair market value of the changed land determined without regard to the use value appraisal.
Type of commitments other than taxes	As part of the Land Use Program, is a municipal hold harmless payment that reimburses municipalities for property tax revenue not collected due to the reduction in assessed value from property enrolled in the Land Use Program. Fiscal year 2018 payments are $15,259,309.
Dollar amount of taxes abated during reporting period	$45,360,286

Vermont Downtown and Village Center Tax Credit Program

Purpose of program	The program encourages the improvement and rehabilitation of historic properties in designated downtowns and village centers. It includes three tax credits: The Historic Rehabilitation Tax Credit, the Façade Improvement Tax Credit, and the Code or Technology Improvement Tax Credit.
Tax being abated	Personal income, corporate income, bank franchise, and insurance premium taxes
Authority to abate taxes	32 V.S.A. 5930cc
Criteria to be eligible to receive abatements and commitment of the taxpayer	Commercial buildings and non-profit owned buildings constructed before 1983 located within designated downtown or village centers are eligible for the credit. The taxpayer applies to and must be approved by the Vermont Downtown Development Board to receive the credit. In return, the taxpayer agrees to improve or rehabilitate their historic property in designated downtowns and village centers as specified in the application submitted.
How taxes are reduced	Taxpayer will claim credit on tax return. Unused credits may be carried forward for nine years.
How is the amount of the tax abatement determined	Historic Rehabilitation Tax Credit is 10% of qualified expenditures up to a maximum tax credit of $75,000. Façade Improvement Tax Credit is 25% of qualified expenditures up to a maximum tax credit of $25,000. Code or Technology Improvement Tax Credit is 50% of qualified expenditures up to a maximum tax credit of $50,000 for sprinklers, $50,000 for elevators, $12,000 for platform lifts, $50,000 for other qualified code improvements, and $30,000 for technology improvements.
Provisions for recapturing abated taxes	If, within five years after completion of the qualified project the applicant shall be liable for a recapture penalty in an amount equal to the total tax credit claimed if the Vermont Downtown Development Board finds that any work performed on the qualified project is inconsistent with the approved application; or the applicant knowingly failed to supply any information, or supplied incorrect or untrue information or failed to comply with any award condition; or in the case of the Historic Rehabilitation Tax Credit, the National Park Service revokes certification for unapproved alterations or for work not done as described in the historic preservation certification application.
Type of commitments other than taxes	N/A
Dollar amount of taxes abated during reporting period	$1,075,684

Vermont Employment Growth Incentive (VEGI)

Purpose of program	The program is designed to encourage business recruitment, growth and expansion.
Tax being abated	Personal income taxes
Authority to abate taxes	32 V.S.A. 3330
Criteria to be eligible to receive abatements and commitment of the taxpayer	Any size business can apply, to be eligible to receive abatements. The Vermont Economic Progress Council (VEPC) must find for the project that the total estimated incremental tax revenues from all sources generated to the State by the proposed economic activity exceeds the revenue costs of the activity to the State, including the cost of the incentive. The host municipality must welcome the new business. The proposed economic activity must conform to applicable town and regional plans. If the business proposes to expand within a limited local market, an incentive must not give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market. Applicants must assert in writing and VEPC must agree that, but for the incentive, the proposed economic activity: would not occur; or would occur in a significantly different manner that is significantly less desirable to the State. The taxpayer applies to and must be approved by the VEPC to receive the tax abatement. In return, the taxpayer agrees to meet their performance requirements for new qualifying employment, new qualifying payroll, and new qualifying capital investments as specified in the application submitted.
How taxes are reduced	Refund of taxes paid
How is the amount of the tax abatement determined	The total amount of abatement is determined by a cost-benefit model analysis that calculates the estimated revenue benefits and costs to the State, based on the qualifying jobs, payroll, and capital investments projected by the applicant.
Provisions for recapturing abated taxes	For three years from the last day of the utilization period if the business experiences a 90% or greater reduction in base employment, or if the business fails to file required claim forms. In addition, if the business fails to meet its capital investment performance requirements by the end of the award period the abatements paid may be recaptured.
Type of commitments other than taxes	N/A
Dollar amount of taxes abated during reporting period	$3,608,848

G. Accounting Changes

Accounting changes related to changes in Other Postemployment Benefit Plans (OPEB) reporting

During the year ended June 30, 2018, the State implemented Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* that require employers and nonemployer contributing entities to report their net OPEB liability on their financial statements. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for OPEB plans. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Previously, GASB Statement No. 45, required employers to report a net OPEB obligation on their financial statements.

Implementation of this standard had no effect on the beginning fund balances of governmental funds. However, the beginning net positions of governmental and business activities, certain enterprise funds and a discretely presented component unit have been restated. The restatement eliminated the previously reported net OPEB obligation and recognizes the newly required net OPEB liability and deferred outflow of resources. The effect of the restatement is shown below.

Accounting changes related to changes in Irrevocable Split-Interest Agreements reporting

A prior period restatement of net position was made for University of Vermont (UVM) implementing GASB Statement No. 81 *Irrevocable Split-Interest Agreements.* This statement establishes recognition and measurement requirements for irrevocable split-interest agreements, defined as “a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments”. This Statement requires that resources received pursuant to an irrevocable split-interest agreement are recognized as assets, liabilities, and deferred inflows of resources at the inception of the agreement. The effect of the restatement is shown below.

Accounting changes related to changes in reporting entity

A prior period restatement of net position was made for a correction to the reporting entity of UVM to include the beginning net position for two discretely presented components units that are part of UVM’s reporting entity. The two discretely presented components units included in UVM’s reporting entity are the University of Vermont and State Agricultural College Foundation, Inc. (UVMF), and the University Medical Education Associates, Inc. (UMEA). The effect of the restatement is shown below.

Restatement of net position

The effects of accounting changes on net position were as follows:

	Governmental Activities	Business-type Activities	Liquor Control Fund	Vermont Lottery Commission
As originally reported, July 1	$ 881,160,426	$ 392,032,179	$ 6,173,031	$ 145,719
Restatements				
Elimination of opening net OPEB obligation as of June 30, 2017	853,994,137	-	-	-
Recognition of opening net OPEB liability as of July 1, 2017	(2,465,584,579)	(11,130,993)	(8,173,865)	(2,957,128)
Recognition of deferred outflow of resources for OPEB contributions made during the year ended June 30, 2017	56,159,457	238,595	176,344	62,251
Restated amount	$ (674,270,559)	$ 381,139,781	$ (1,824,490)	$ (2,749,158)

The effects of accounting changes on net position of component units were as follows:

	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Veterans' Home	Non-major Component Units
As originally reported	$ 552,867,000	$ 40,809,681	$ 9,442,464	$ 321,785,141
Restatements				
Prior period restatement to report discretely presented component units	164,819,000	-	-	-
Prior period restatement to report irrevocable split interest agreements	(117,000)	-	-	-
Elimination of opening net OPEB obligation as of June 30, 2017	232,590,000	64,914,056	-	-
Recognition of opening net OPEB liability as of July 1, 2017	(471,201,000)	(171,508,646)	(26,667,642)	(26,667,642)
Recognition of deferred outflow of resources for OPEB contributions made during the year ended June 30, 2017	8,268,000	6,464,225	563,793	563,793
Restated amount	$ 487,226,000	$ (59,320,684)	$ (16,661,385)	$ 295,681,292

H. Subsequent Events

The State has evaluated whether any events have occurred subsequent to June 30, 2018, that would require disclosure and has determined that no such events have occurred through the date which these financial statements were available to be issued.

Required Supplementary Information

(Unaudited)

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT STATE RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FIVE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 49,744	$ 42,704	$ 47,012	$ 41,786	$ 39,369
Interest	180,860	178,959	171,563	164,405	156,635
Differences between expected and actual experience	83,266	19,283	25,051	3,979	-
Changes of assumptions	-	42,725	(21,853)	62,247	-
Benefit payments, including refunds of member contributions	(134,090)	(126,480)	(120,094)	(111,396)	(104,493)
Net change in total pension liability	179,780	157,191	101,679	161,021	91,511
Total pension liability, July 1	2,428,779	2,271,588	2,169,909	2,008,888	1,917,377
Total pension liability, June 30	2,608,559	2,428,779	2,271,588	2,169,909	2,008,888
Plan fiduciary net position					
Contributions - employer	64,564	60,280	54,347	55,881	56,483
Contributions - member	40,423	35,967	34,055	33,296	31,746
Net investment income (loss)	123,632	170,358	17,962	(8,485)	203,722
Benefit payments, including refunds of member contributions	(134,090)	(126,480)	(120,094)	(111,396)	(104,493)
Administrative expenses	(1,720)	(1,777)	(1,467)	(1,858)	(1,158)
Other	249	444	(14)	177	454
Net change in fiduciary net position	93,058	138,792	(15,211)	(32,385)	186,754
Plan fiduciary net position, beginning of year	1,748,442	1,609,650	1,624,861	1,657,246	1,470,492
Plan fiduciary net position, end of year	1,841,500	1,748,442	1,609,650	1,624,861	1,657,246
Net pension liability, June 30	$ 767,059	$ 680,337	$ 661,938	$ 545,048	$ 351,642
Plan fiduciary net position as a percentage of the total pension liability	70.59%	71.99%	70.86%	74.88%	82.50%
Covered payroll	$ 504,553	$ 471,268	$ 462,057	$ 437,676	$ 416,766
Net pension liability as a percentage of covered payroll	152.03%	144.36%	143.26%	124.53%	84.37%
Notes to Schedule					
Change in assumptions:					
Discount rate	7.50%	7.50%	7.95%	7.95%	8.22%
Assumed inflation	2.50%	2.50%	3.00%	3.00%	3.00%
Assumed COLA increase					
Groups A, C, D and F (retired on or after 7/1/2008)	2.55%	2.55%	3.00%	3.00%	3.00%
Group F (retired before 7/1/2008)	1.40%	1.40%	1.50%	1.50%	1.50%

Effective 6/30/2017 mortality tables updated from variations of RP-2000 with static projection to variations of RP-2006 with generational improvement.

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None
Plan Type: single employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FIVE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 40,117	$ 35,383	$ 34,979	$ 33,614	$ 33,144
Interest	237,747	228,939	222,185	215,447	206,150
Differences between expected and actual experience	59,469	12,523	3,613	20,003	-
Changes of assumptions	(32,957)	185,849	(7,224)	57,489	-
Benefit payments, including refunds of member contributions	(182,259)	(172,156)	(162,751)	(150,734)	(140,846)
Net change in total pension liability	122,117	290,538	90,802	175,819	98,448
Total pension liability, July 1	3,220,961	2,930,423	2,839,621	2,663,802	2,565,354
Total pension liability, June 30	3,343,078	3,220,961	2,930,423	2,839,621	2,663,802
Plan fiduciary net position					
Contributions - non-employer	110,354	78,664	73,225	72,909	72,668
Contributions - member	37,889	36,142	35,409	34,864	32,559
Net investment income (loss)	125,566	173,167	19,877	(7,567)	212,338
Benefit payments, including refunds of member contributions	(182,259)	(172,156)	(162,751)	(150,734)	(140,847)
Administrative expenses	(2,084)	(2,214)	(1,797)	(2,259)	(26,116)
Other	4,349	4,055	3,821	538	411
Net change in fiduciary net position	93,815	117,658	(32,216)	(52,249)	151,013
Plan fiduciary net position, beginning of year	1,738,558	1,620,900	1,653,116	1,705,365	1,554,352
Plan fiduciary net position, end of year	1,832,373	1,738,558	1,620,900	1,653,116	1,705,365
Net pension liability, June 30	$ 1,510,705	$ 1,482,403	$ 1,309,523	$ 1,186,505	$ 958,437
Plan fiduciary net position as a percentage of the total pension liability	54.81%	53.98%	55.31%	58.22%	64.02%
Covered payroll	$ 607,355	$ 586,397	$ 557,708	$ 567,074	$ 563,623
Net pension liability as a percentage of covered payroll	248.74%	252.80%	234.80%	209.23%	170.05%
Notes to Schedule					
Change in assumptions:					
Discount rate	7.50%	7.50%	7.95%	7.95%	8.15%
Assumed inflation	2.50%	2.50%	3.00%	3.00%	3.00%
Assumed COLA increase					
Group A	2.55%	2.55%	3.00%	3.00%	3.00%
Group C	1.40%	1.40%	1.50%	1.50%	1.50%

Effective 6/30/2017 mortality tables updated from RP-2000 with static projection to 98% of the RP-2006 White Collar Table with generational improvement for healthy participants and the RP-2006 Disabled Mortality Table with generational improvement for disabled participants.

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None
Plan Type: cost sharing multiple employer with a special funding situation

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FIVE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 28,434	$ 27,246	$ 25,264	$ 24,366	$ 22,519
Interest	56,504	54,780	49,744	46,058	42,139
Differences between expected and actual experience	14,172	(3,749)	1,088	3,046	-
Changes of assumptions	-	14,481	12,204	19,192	-
Changes of benefit terms	194	-	-	-	-
Benefit payments, including refunds of member contributions	(31,445)	(27,803)	(25,589)	(23,314)	(20,601)
Net change in total pension liability	67,859	64,955	62,711	69,348	44,057
Total pension liability, July 1	740,666	675,711	613,000	543,652	499,595
Total pension liability, June 30	808,525	740,666	675,711	613,000	543,652
Plan fiduciary net position					
Contributions - employer	17,520	16,482	15,236	14,136	12,806
Contributions - member	19,167	25,210	15,227	13,588	13,234
Net investment income (loss)	43,889	59,487	6,777	(2,359)	64,346
Benefit payments, including refunds of member contributions	(31,445)	(27,803)	(25,589)	(23,315)	(20,601)
Administrative expenses	(929)	(875)	(755)	(950)	(588)
Other	137	(6)	215	279	2,143
Net change in fiduciary net position	48,339	72,495	11,111	1,379	71,340
Plan fiduciary net position, beginning of year	619,510	547,015	535,904	534,525	463,186
Plan fiduciary net position, end of year	667,849	619,510	547,015	535,904	534,526
Net pension liability, June 30	$ 140,676	$ 121,156	$ 128,696	$ 77,096	$ 9,126
Plan fiduciary net position as a percentage of the total pension liability	82.60%	83.64%	80.95%	87.42%	98.32%
Covered payroll	$ 274,814	$ 256,730	$ 249,811	$ 230,969	$ 220,372
Net pension liability as a percentage of covered payroll	51.19%	47.19%	51.52%	33.38%	4.14%
Notes to Schedule					
Changes in assumptions and methods:					
Discount rate	7.50%	7.50%	7.95%	7.95%	8.23%
Assumed inflation	2.50%	2.50%	3.00%	3.00%	3.00%
Assumed COLA increase					
Group A	1.15%	1.15%	1.50%	1.50%	1.50%
Group B, C, and D	1.30%	1.30%	1.80%	1.80%	1.80%

Effective 6/30/2017 mortality tables updated from variations of RP-2000 with static projection to variations of RP-2006 with generational improvement.
For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None
Plan Type: cost sharing multiple employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
LAST FIVE YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Actuarially Determined Contribution[1] (ADC)	Contributions in Relation to ADC	Contribution (Excess) Deficiency	Covered Payroll (CP)	Contribution as a Percent of CP
Vermont State	2018	$ 52,065	$ 64,564	$ (12,499)	$ 504,553	12.80%
Retirement System	2017	48,503	60,280	(11,777)	471,268	12.79%
	2016	46,238	54,347	(8,109)	462,057	11.76%
	2015	44,652	55,881	(11,229)	437,676	12.77%
	2014	42,786	56,483	(13,697)	416,766	13.55%
State Teachers'	2018	$ 88,409	$ 114,599	$ (26,190)	$ 607,355	18.87%
Retirement System[2]	2017	82,660	82,887	(227)	586,397	14.13%
	2016	76,103	76,948	(845)	557,708	13.80%
	2015	72,858	72,909	(51)	567,074	12.86%
	2014	68,353	72,668	(4,315)	563,623	12.89%
Vermont Municipal Employees'	2018	$ 15,067	$ 17,520	$ (2,453)	$ 274,814	6.38%
Retirement System	2017	12,896	16,482	(3,586)	256,730	6.42%
	2016	15,236	15,236	-	249,811	6.10%
	2015	14,136	14,136	-	230,969	6.12%
	2014	12,806	12,806	-	220,372	5.81%

Notes to Schedule

(1) ADC for a given fiscal year are based on results from the June 30 actuarial valuation two years prior for STRS and VTRS, and one year prior for MERS.

(2) Included in the ADC is an actuarially determined contribution rate that is applied to the total earnable compensation for teachers whose funding is provided by federal grants and is paid by the employer to the STRS.

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplemental information.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

	VSRS	STRS	MERS
Valuation date			
Actuarially determined contributions rates are calculated as of June 30 two years prior for VSRS and STRS and one year prior for MERS to the end of the fiscal year in which contributions are reported. Assumptions values listed below were used in determining the actuarially determined contributions rates calculated as of that date.			
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period All closed basis	22 years	22 years	21 years
Asset valuation method	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return [1]	7.95%	7.95%	7.50%
Inflation rate	3.00% to 3.25%	3.00% to 3.25%	2.50%
Projected salary increases	3.50%-7.04%	4.12%-9.46%	5.00%
Cost of living adjustments[2]	Groups A, C & D - 3.00% Group F - 1.50% Group F retiring after 7/1/2008 - 3.00%	Group A - 3.00% Group C - 1.50%	Group A - 1.15% Groups B, C & D - 1.30%

Mortality Rates

VSRS

Pre-retirement:
Group A/F/D - RP-2000 Custom Table
Group C - RP-2000 Table for Employees using Scale BB to 2026

Healthy Retiree:
Group A/F - RP-2000 Mortality Tables for Employees and Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
Group C - RP-2000 Tables for Employees and Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
Group D - RP-2000 Tables for Employees and Healthy Annuitants projected with Scale BB to 2026

Disabled Retiree:
All Groups - RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants with a five-year set-forward

STRS

Pre-retirement:
All Groups - RP-2000 Custom Table

Healthy Retiree:
All Groups - RP-2000 Projected to 2029 using Scale BB

Disabled Retiree:
All Groups - RP-2000 Projected to 2020 using Scale AA

MERS

Pre-retirement:
Groups A/B/C - 98% of RP-2006 tables, blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017
Group D - 100% of RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017

Healthy Retiree:
Groups A/B/C - 98% of RP-2006 tables, blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017
Group D - 100% of RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017

Disabled Retiree:
All Groups - 2006 Disabled Mortality Table with generational projection using Scale SSA-2017

[1]Through the 2014 valuations, a select-and-ultimate interest rate set was used ranging from 6.25% in year 1 to 9% in years 17 and later. For 2016 a 7.95% rate was used for MERS.

[2]Effective January 1, 2014, the Group F employees who were actively contributing into the system on June 30, 2008, and retired on or after July 1, 2008, are eligible for 100% of CPI.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST FIVE YEARS[1]
(Dollar amounts expressed in thousands)
(Unaudited)

	Vermont State Retirement System				
	2018	2017	2016	2015	2014
State's proportion of net pension liability	98.2850%	98.3625%	98.3289%	98.2355%	98.1400%
State's proportionate share of the net pension liability	$ 668,669	$ 651,099	$ 535,939	$ 345,437	$ 438,573
Plan fiduciary net position as a percentage of the total pension liability	71.99%	70.86%	74.88%	82.50%	76.69%

	State Teachers' Retirement System[2]				
	2018	2017	2016	2015	2014
State's proportion of net pension liability	100%	100%	100%	100%	100%
State's proportionate share of the net pension liability	$ 1,482,403	$ 1,309,523	$ 1,186,505	$ 958,437	$ 1,011,002
Plan fiduciary net position as a percentage of the total pension liability	53.98%	55.31%	58.22%	64.02%	60.59%

[1]The amounts presented for each fiscal year were determined by an actuarial valuation on June 30 two years prior to to the fiscal year. The measurement period and measurement date is one year prior to the fiscal year.

[2]The State Teacher's Retirement System has a special funding situation where the State, as the non-employer contributing entity, is responsible for the net pension liability.

GASB No. 68 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PLANS
SCHEDULE OF INVESTMENT RETURNS
LAST FIVE YEARS
(Unaudited)

	2018	2017	2016	2015	2014
VERMONT STATE RETIREMENT SYSTEM					
Annual money-weighted rate of return, net of investment expense	6.73%	10.33%	1.44%	-0.50%	14.05%
STATE TEACHERS' RETIREMENT SYSTEM					
Annual money-weighted rate of return, net of investment expense	6.99%	10.17%	1.69%	-0.40%	13.83%
VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM					
Annual money-weighted rate of return, net of investment expense	6.75%	10.88%	1.56%	-0.51%	14.13%

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014.
Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT STATE POSTEMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST TWO FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017
Total OPEB liability		
Service cost	$ 52,326	$ 66,841
Interest	54,401	46,868
Changes of benefit terms	(20,233)	-
Differences between expected and actual experience	7,140	-
Changes of assumptions	(303,322)	(190,151)
Benefit payments, net of retiree contributions, including administrative expense	(34,559)	(33,346)
Net change in total OPEB liability	(244,247)	(109,788)
Total OPEB liability, July 1	1,484,522	1,594,310
Total OPEB liability, June 30	1,240,275	1,484,522
Plan fiduciary net position		
Contributions - employer	32,957	33,123
Net investment income (loss)	872	1,372
Benefit payments, including refunds of member contributions	(34,559)	(33,346)
Administrative expenses	(1)	-
Net change in fiduciary net position	(731)	1,149
Plan fiduciary net position, beginning of year	22,502	21,353
Plan fiduciary net position, end of year	21,771	22,502
Net OPEB liability, June 30	$ 1,218,504	$ 1,462,020
Plan fiduciary net position as a percentage of the total OPEB liability	1.76%	1.52%
Covered payroll	$ 531,543	$ 497,201
Net OPEB liability as a percentage of covered-payroll	229.24%	294.05%

Notes to Schedule
Plan Type: single employer
Benefit changes in 2018: Medical copays were modified, and pharmacy deductible and maxiumum out of pocket expenses were increased
In 2018 the discount rate was increased from 3.58% to 3.87%
GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFITS TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST TWO FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017
Total OPEB liability		
Service cost	$ 26,273	$ 32,511
Interest	32,838	26,425
Differences between expected and actual experience	42,621	-
Changes of assumptions	(50,192)	(33,192)
Benefit payments, net of retiree contributions, including administrative expense	(29,329)	(29,577)
Net change in total OPEB liability	22,211	(3,833)
Total OPEB liability, July 1	905,632	909,465
Total OPEB liability, June 30	927,843	905,632
Plan fiduciary net position		
Contributions - non-employer	29,803	23,839
Net investment income (loss)	20	41
Benefit payments, including refunds of member contributions	(29,329)	(29,348)
Administrative expenses	(279)	(229)
Net change in fiduciary net position	215	(5,697)
Plan fiduciary net position, beginning of year	(26,658)	(20,961)
Plan fiduciary net position, end of year	(26,443)	(26,658)
Net OPEB liability, June 30	$ 954,286	$ 932,290
Plan fiduciary net position as a percentage of the total OPEB liability	-2.85%	-2.94%
Covered payroll	$ 607,355	$ 586,397
Net OPEB liability as a percentage of covered payroll	157.12%	158.99%

Notes to Schedule
Plan Type: cost sharing multiple employer with a special funding situation
Benefit changes since June 30, 2016: None
In 2018 the discount rate was increased from 3.58% to 3.87%
GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF INVESTMENT RETURNS
LAST TWO FISCAL YEARS
(Unaudited)

	2018	2017
Vermont State Postemployment Benefit Trust Fund		
Annual money-weighted rate of return, net of investment expense	4.00%	6.50%
Retired Teachers' Health and Medical Benefits Fund *		
Annual money-weighted rate of return, net of investment expense	N/A	N/A

* The Retired Teachers' Health and Medical Benefits Fund has no investments.

GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
LAST TWO FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Actuarially Determined Contribution[1] (ADC)	Contributions in Relation to ADC	Contribution (Excess) Deficiency	Covered Payroll (CP)	Contribution as a Percent of CP
Vermont State Postemployment Benefit Trust Fund (VSPB)	2018	$ 74,760	$ 32,957	$ 41,803	$ 531,543	6.20%
	2017	71,833	33,123	38,710	497,201	6.66%
Retired Teachers' Health and Medical Benefits Fund (RTHMB)	2018	$ 37,317	$ 29,803	$ 7,514	$ 607,355	4.91%
	2017	35,918	23,839	12,079	586,397	4.07%

[1]ADC for a given fiscal year are based on results from the June 30 actuarial valuation two years prior.

GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

	VSPB	RTHMB
Valuation date:		
Actuarially determined contributions rates are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are reported. Assumptions values listed below were used in determining the actuarially determined contributions rates calculated as of that date.		
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of payroll, open basis	Level percentage of payroll, open basis
Remaining amortization period	30 years	30 years
Asset valuation method	Market Value	Market Value
Actuarial assumptions		
Investment rate of return	7.95%	7.95%
Discount rate	4.00%	4.00%
Projected salary increases	5.00%	5.00%
Inflation	3.00% to 3.25%	3.00% to 3.25%
Health care cost trend rates		
Non-Medicare	8.00% graded to 4.50% over 12 years	5%
Medicare	6.00% graded to 4.50% over 6 years	5%

Mortality Rates

VSPB

Pre-retirement:

Group A/F - RP-2000 Mortality Tables for Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
Group C - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
Group D - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026

Healthy Retiree:

Group A/F - RP-2000 Mortality Tables for Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
Group C - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
Group D - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026

Disabled Retiree:

All Groups - The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with a five-year set-forward, with mortality improvements projected to 2026 with Scale BB.

RTHMB

Pre-retirement:

All Groups - RP-2000 Mortality Tables for Healthy Annuitants with mortality improvements projected to 2029 with Scale BB

Healthy Retiree:

All Groups - RP-2000 Mortality Tables for Healthy Annuitants with mortality improvements projected to 2029 with Scale BB

Disabled Retiree:

All Groups - RP-2000 Disabled Life Mortality Tables are used with mortality improvements projected to 2020 with Scale AA

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST FISCAL YEAR[1]
(Dollar amounts expressed in thousands)
(Unaudited)

Vermont State Postemployment Benefit Trust Fund

	2018
State's proportion of net OPEB liability	98.2979%
State's proportionate share of the net OPEB liability	$ 1,437,135
Plan fiduciary net position as a percentage of the total OPEB liability	1.52%

Retired Teachers' Health and Medical Benefits Fund[2]

	2018
State's proportion of net OPEB liability	100%
State's proportionate share of the net OPEB liability	$ 932,290
Plan fiduciary net position as a percentage of the total OPEB liability	-2.94%

[1] The amounts presented for each fiscal year were determined as of the measurement date. The measurement period and measurement date is one year prior to the fiscal year.

[2] The Retired Teachers' Health and Medical Benefits Fund has a special funding situation where the State, as the non-employer contributing entity, is responsible for the net OPEB liability.

GASB No. 75 required supplementary information is not available for fiscal years prior to 2018. Data for future years will be added prospectively.

See Independent Auditor's Report.

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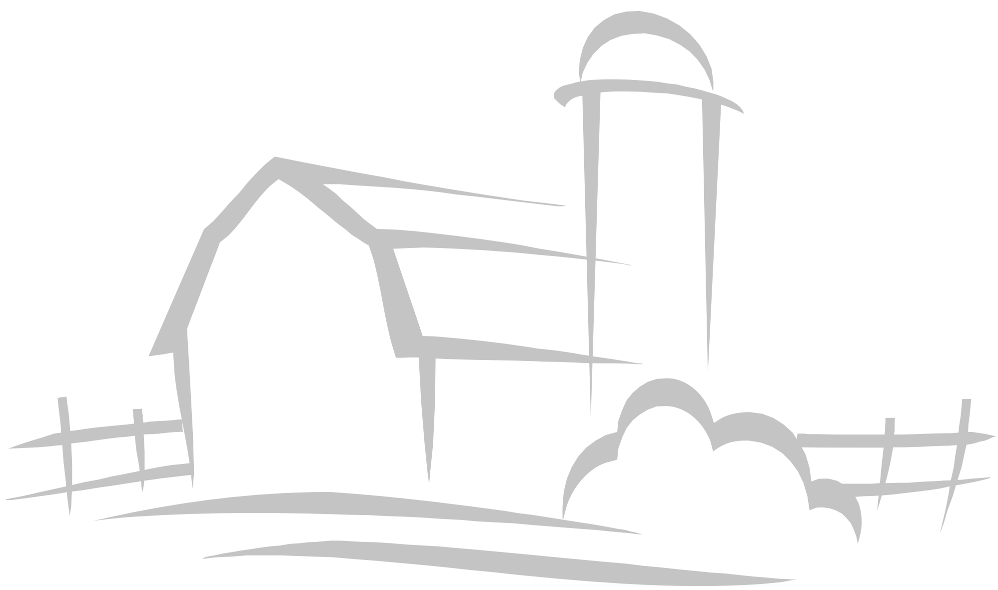

Vermont

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,424,900,000	$ 1,478,000,000	$ 1,499,879,433	$ 21,879,433
Earnings of Departments	49,800,000	47,800,000	47,059,301	(740,699)
Other	10,800,000	12,000,000	12,296,571	296,571
Total revenues	1,485,500,000	1,537,800,000	1,559,235,305	21,435,305
Expenditures				
General Government				
Agency of Administration	51,982,386	47,723,480	42,395,343	(5,328,137)
Executive Office	1,695,176	1,799,648	1,655,389	(144,259)
Legislative Council	12,534,497	13,203,499	12,200,596	(1,002,903)
Joint Fiscal Office	1,757,736	2,577,019	1,762,443	(814,576)
Sergeant at Arms	741,345	795,140	738,250	(56,890)
Lieutenant Governor's Office	238,955	251,408	250,344	(1,064)
Auditor of Accounts	400,371	408,180	393,320	(14,860)
State Treasurer	1,006,452	1,185,523	857,706	(327,817)
State Labor Relations Board	247,014	256,494	251,431	(5,063)
VOSHA Review Board	44,103	56,316	36,213	(20,103)
Homeowner Property Tax Assistance	16,600,000	16,155,896	16,052,117	(103,779)
Renter Rebate Tax Assistance	3,150,000	3,296,817	2,700,552	(596,265)
Protection to Persons and Property				
Attorney General	7,032,895	8,004,888	7,399,439	(605,449)
Defender General	16,965,014	17,389,258	17,181,328	(207,930)
Judiciary	43,288,131	44,034,331	41,975,395	(2,058,936)
State's Attorneys and Sheriffs	18,227,336	19,894,949	17,591,946	(2,303,003)
Department of Public Safety	46,646,494	49,640,990	48,260,318	(1,380,672)
Military Department	4,071,400	5,014,133	4,425,874	(588,259)
Center for Crime Victim Services	1,264,140	1,264,140	1,236,055	(28,085)
Criminal Justice Training Council	2,298,555	2,442,772	2,434,516	(8,256)
Agency of Agriculture, Food and Markets	8,488,392	12,572,694	8,984,529	(3,588,165)
Secretary of State	-	400,000	-	(400,000)
Public Service Department	-	96,056	88,501	(7,555)
Human Rights Commission	490,527	511,769	489,265	(22,504)
Human Services				
Agency of Human Services	682,081,853	701,478,894	683,319,759	(18,159,135)
Green Mountain Care Board	2,119,482	2,801,801	2,126,600	(675,201)
Governor's Commission on Women	371,061	528,551	376,913	(151,638)
Human Services Board	409,989	409,582	409,582	-
Vermont Veterans' Home	6,365,116	7,140,522	5,940,522	(1,200,000)
Labor				
Department of Labor	3,282,129	4,690,165	3,102,605	(1,587,560)
General Education				
Agency of Education	9,794,752	10,313,263	9,598,623	(714,640)
State Teacher's Retirement	103,473,782	103,473,782	103,173,782	(300,000)
Higher Education	86,710,244	87,940,246	87,590,246	(350,000)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	27,418,713	28,999,744	27,907,253	(1,092,491)
Natural Resources Board	607,606	606,998	606,998	-
Commerce and Community Development				
Agency of Commerce and Community Development	14,011,627	20,196,027	14,485,394	(5,710,633)
Cultural Development	2,031,425	2,067,523	2,067,523	-
Total expenditures	1,177,848,698	1,219,622,498	1,170,066,670	(49,555,828)
Excess of revenues over expenditures	307,651,302	318,177,502	389,168,635	70,991,133
Other Financing Sources (Uses)				
Transfers in	57,451,153	94,359,668	94,359,668	-
Transfers out	(394,904,840)	(449,963,160)	(449,963,160)	-
Total other financing sources (uses)	(337,453,687)	(355,603,492)	(355,603,492)	-
Excess of revenues and other sources over (under) expenditures and other uses	(29,802,385)	(37,425,990)	33,565,143	70,991,133
Fund balance, July 1	148,716,202	148,716,202	148,716,202	-
Fund balance, June 30	$ 118,913,817	$ 111,290,212	$ 182,281,345	$ 70,991,133

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 167,400,000	$ 168,100,000	$ 171,776,355	$ 3,676,355
Motor vehicle fees	88,000,000	88,000,000	85,994,424	(2,005,576)
Federal	325,648,972	340,325,422	308,641,525	(31,683,897)
Other	35,300,000	36,400,000	40,819,457	4,419,457
Total revenues	616,348,972	632,825,422	607,231,761	(25,593,661)
Expenditures				
General Government				
Agency of Administration	5,736,230	3,925,671	3,909,200	(16,471)
Protection to Persons and Property				
Department of Public Safety	20,250,000	20,251,941	19,828,818	(423,123)
Transportation				
Agency of Transportation	588,852,109	616,833,871	568,729,353	(48,104,518)
Total expenditures	614,838,339	641,011,483	592,467,371	(48,544,112)
Excess of revenues over (under) expenditures	1,510,633	(8,186,061)	14,764,390	22,950,451
Other financing sources (uses)				
Transfers in	-	1,100,000	1,100,000	-
Transfers out	(7,464,570)	(7,464,570)	(7,464,570)	-
Total other financing sources (uses)	(7,464,570)	(6,364,570)	(6,364,570)	-
Excess of revenues and other sources over (under) expenditures and other uses	(5,953,937)	(14,550,631)	8,399,820	22,950,451
Fund balance, July 1	4,984,545	4,984,545	4,984,545	-
Fund balance (deficit), June 30	$ (969,392)	$ (9,566,086)	$ 13,384,365	$ 22,950,451

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,233,468,724	$ 1,233,968,724	$ 1,236,575,763	$ 2,607,039
Interest and premiums	400,000	500,000	489,718	(10,282)
Total revenues	1,233,868,724	1,234,468,724	1,237,065,481	2,596,757
Expenditures				
General Government				
Grand List	3,460,000	3,861,945	3,234,852	(627,093)
Renter Rebates	7,350,000	7,684,263	6,301,289	(1,382,974)
Human Services				
Agency of Human Services	3,189,163	3,189,163	3,189,163	-
General Education				
Agency of Education	1,606,992,222	1,618,569,464	1,597,302,044	(21,267,420)
State Teachers' Retirement	7,896,621	7,896,621	7,896,621	-
Total expenditures	1,628,888,006	1,641,201,456	1,617,923,969	(23,277,487)
Excess of revenues over (under) expenditures	(395,019,282)	(406,732,732)	(380,858,488)	25,874,244
Other financing sources (uses)				
Transfers in	355,270,471	385,470,471	385,470,471	-
Transfers out	(11,599)	(11,599)	(11,599)	-
Total other financing sources (uses)	355,258,872	385,458,872	385,458,872	-
Excess of revenues and other sources over (under) expenditures and other uses	(39,760,410)	(21,273,860)	4,600,384	25,874,244
Fund balance, July 1	74,529,930	74,529,930	74,529,930	-
Fund balance, June 30	$ 34,769,520	$ 53,256,070	$ 79,130,314	$ 25,874,244

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 647,659,473	$ 767,552,967	$ 682,559,245	$ (84,993,722)
Total revenues	647,659,473	767,552,967	682,559,245	(84,993,722)
Expenditures				
General Government				
Agency of Administration	16,703,463	36,701,909	23,993,730	(12,708,179)
Executive Office	186,500	186,500	186,500	-
Joint Fiscal Office	-	469,438	98,275	(371,163)
Sergeant at Arms	-	20,000	4,247	(15,753)
Auditor of Accounts	53,145	73,440	73,440	-
State Treasurer	2,705,022	3,240,022	2,711,129	(528,893)
State Labor Relations Board	9,576	9,576	3,540	(6,036)
VOSHA Review Board	44,102	44,102	36,213	(7,889)
Unorganized Towns and Gores	-	480,000	324,645	(155,355)
Ethics Commission	-	115,323	52,370	(62,953)
Protection to Persons and Property				
Attorney General	5,343,893	5,904,286	5,380,557	(523,729)
Defender General	589,653	589,653	574,662	(14,991)
Judiciary	4,992,732	12,272,463	4,623,063	(7,649,400)
State's Attorneys and Sheriffs	2,834,262	2,850,905	2,510,745	(340,160)
Department of Public Safety	18,768,131	23,480,401	20,122,914	(3,357,487)
Military Department	335,310	997,809	919,352	(78,457)
Center for Crime Victim Services	5,132,559	5,282,272	4,781,862	(500,410)
Criminal Justice Training Council	40,386	125,386	125,381	(5)
Agency of Agriculture, Food and Markets	10,623,304	13,786,819	10,560,697	(3,226,122)
Department of Financial Regulation	15,344,986	16,064,986	14,702,531	(1,362,455)
Secretary of State	11,082,000	11,082,000	10,877,602	(204,398)
Public Service Department	13,898,084	16,512,427	13,449,289	(3,063,138)
Public Utility Commission	3,647,838	3,647,838	3,567,907	(79,931)
Enhanced 911 Board	4,842,364	4,842,364	4,836,990	(5,374)
Human Rights Commission	-	6,000	-	(6,000)
Department of Liquor Control	233,843	478,161	337,944	(140,217)
Human Services				
Agency of Human Services	454,468,659	467,339,346	434,138,614	(33,200,732)
Green Mountain Care Board	3,805,953	5,086,980	3,417,551	(1,669,429)
Governor's Commission on Women	-	2,000	2,000	-
Human Services Board	46,800	46,800	10,574	(36,226)
Labor				
Department of Labor	6,730,380	7,373,380	6,902,406	(470,974)
General Education				
Agency of Education	28,227,045	30,505,984	20,886,898	(9,619,086)
Higher Education	494,500	994,500	494,500	(500,000)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	50,089,054	81,818,059	53,763,946	(28,054,113)
Natural Resources Board	2,459,044	2,459,044	2,238,346	(220,698)
Commerce and Community Development				
Agency of Commerce and Community Development	10,079,147	19,283,768	7,637,071	(11,646,697)
Cultural Development	-	28,500	28,500	-
Transportation				
Agency of Transportation	4,193,999	7,193,623	2,549,229	(4,644,394)
Total expenditures	678,005,734	781,396,064	656,925,220	(124,470,844)
Excess of revenues over expenditures	(30,346,261)	(13,843,097)	25,634,025	39,477,122
Other Financing Sources (Uses)				
Transfers in	52,325,494	70,530,797	70,530,797	-
Transfers out	(21,979,233)	(56,687,700)	(56,687,700)	-
Total other financing sources (uses)	30,346,261	13,843,097	13,843,097	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	39,477,122	39,477,122
Fund balance, July 1	147,266,262	147,266,262	147,266,262	-
Fund balance, June 30	$ 147,266,262	$ 147,266,262	$ 186,743,384	$ 39,477,122

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 1,725,653,561	$ 1,797,115,015	$ 1,610,158,750	$ (186,956,265)
Interest and premiums	-	153,321	153,321	-
Other	-	118,220	118,220	-
Total revenues	1,725,653,561	1,797,386,556	1,610,430,291	(186,956,265)
Expenditures				
General Government				
Agency of Administration	820,514	1,294,409	1,203,530	(90,879)
State Treasurer	-	260,697	260,697	-
Protection to Persons and Property				
Attorney General	1,113,091	1,122,205	1,121,831	(374)
Judiciary	556,455	556,455	492,460	(63,995)
State's Attorneys and Sheriffs	31,000	31,000	5,865	(25,135)
Department of Public Safety	19,064,842	21,208,109	13,320,313	(7,887,796)
Military Department	19,451,199	30,431,200	22,604,696	(7,826,504)
Center for Crime Victim Services	7,367,796	7,367,796	6,445,680	(922,116)
Agency of Agriculture, Food and Markets	3,273,245	3,584,279	3,455,889	(128,390)
Secretary of State	1,207,000	4,207,000	1,052,796	(3,154,204)
Public Service Department	2,354,279	2,354,279	1,000,586	(1,353,693)
Human Rights Commission	70,101	70,101	69,112	(989)
Department of Liquor Control	312,503	312,503	149,861	(162,642)
Human Services				
Agency of Human Services	1,400,213,607	1,386,294,772	1,293,088,591	(93,206,181)
Green Mountain Care Board	226,574	226,574	102,401	(124,173)
Human Services Board	314,044	314,044	124,750	(189,294)
Labor				
Department of Labor	31,891,593	31,891,593	22,055,677	(9,835,916)
General Education				
Agency of Education	136,958,720	136,958,720	127,508,861	(9,449,859)
Natural Resources				
Agency of Natural Resources	36,808,022	42,638,095	30,801,930	(11,836,165)
Commerce and Community Development				
Agency of Commerce and Community Development	9,377,628	54,917,553	11,848,721	(43,068,832)
Total expenditures	1,671,412,213	1,726,041,384	1,536,714,247	(189,327,137)
Excess of revenues over expenditures	54,241,348	71,345,172	73,716,044	2,370,872
Other Financing Sources (Uses)				
Transfers out	(54,241,348)	(71,073,630)	(71,073,630)	-
Total other financing sources (uses)	(54,241,348)	(71,073,630)	(71,073,630)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	271,542	2,642,414	2,370,872
Fund balance, July 1	35,154,310	35,154,310	35,154,310	-
Fund balance, June 30	$ 35,154,310	$ 35,425,852	$ 37,796,724	$ 2,370,872

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GLOBAL COMMITMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$ 1,545,800,000	$ 1,543,700,000	$ 1,512,050,355	$ (31,649,645)
Total revenues	1,545,800,000	1,543,700,000	1,512,050,355	(31,649,645)
Expenditures				
Human Services				
Agency of Human Services	1,538,170,765	1,505,187,003	1,477,303,887	(27,883,116)
Green Mountain Care Board	2,567,518	2,729,418	1,966,456	(762,962)
Vermont Veterans' Home	410,986	410,986	410,986	-
General Education				
Higher Education	4,455,678	4,455,678	4,455,678	-
Agency of Education	260,000	260,000	194,740	(65,260)
Total expenditures	1,545,864,947	1,513,043,085	1,484,331,747	(28,711,338)
Excess of revenues over (under) expenditures	(64,947)	30,656,915	27,718,608	(2,938,307)
Other financing sources (uses)				
Transfers out	(29,418,611)	(29,418,611)	(29,418,611)	-
Total other financing sources (uses)	(29,418,611)	(29,418,611)	(29,418,611)	-
Excess of revenues and other sources over (under) expenditures and other uses	(29,483,558)	1,238,304	(1,700,003)	(2,938,307)
Fund balance, July 1	81,561,151	81,561,151	81,561,151	-
Fund balance, June 30	$ 52,077,593	$ 82,799,455	$ 79,861,148	$ (2,938,307)

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

Notes to the Required Supplementary Information—Budgetary Reporting (unaudited)

Budgetary Comparison Schedules
The budgetary schedules provide a comparison of the original and final adopted budget with actual data on a budgetary basis for the Governmental Funds. The State compiles a separate legal basis budgetary report, which shows the legal compliance with the budget. Budgetary comparison schedules showing legal level detail may be obtained by contacting the State of Vermont, Department of Finance and Management, 109 State Street, 5th Floor, Pavilion Building, Montpelier, Vermont 05609-0401.

Budgetary Process
Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Governor may amend appropriations or transfer appropriations within limits established by 32 V.S.A. Chapter 9. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Revenue Estimates
By July 31 each year, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues in the General, Transportation, Education, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special and Federal Revenue Funds the original budget for revenues is based on the amount appropriated for expenditures. By January 15, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues and the Emergency Board determines any revision to the July revenue estimates.

Expenditure and Transfer Budgets
The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature. The full faith and credit of the

State has been pledged to support various programs. Any payments that are required to be made by the Treasurer are paid in accordance with Vermont Statutes and do not require an appropriation by the Legislature.

Budget and GAAP Basis Reporting
The accompanying budgetary comparison schedules report the actual revenues, expenditures and other financing sources (uses) on a budget basis, which differs significantly from GAAP. These different accounting principles result in basis, perspective, and entity differences in the fund balance - budgetary basis. *Basis differences* arise because the basis of budgeting (cash basis) differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances - governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. The following presents a reconciliation of the budgetary basis and GAAP basis fund balances for the funds reported in the accompanying schedules for the fiscal year ended June 30, 2018:

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund
Fund Balance - Budgetary Basis	$ 182,281,345	$ 13,384,365	$ 79,130,314	$ 186,743,384	$ 37,796,724	$ 79,861,148
Basis differences						
Cash not in budget balances	366,795	(50,191)	23,219	781,966	3,129,819	(18,120)
Taxes receivable	183,305,793	9,332,382	51,758,598	6,442,686	-	-
Notes and loans receivable	353,249	-	-	3,167,862	-	-
Other receivables	10,730,588	11,022,736	-	16,100,757	(2,021,097)	26,091,397
Interest receivable	1,102,373	-	-	-	-	-
Due from other funds	3,939,743	57,601	332,236	4,769,472	786,644	6,063,323
Due from federal government	-	42,671,376	-	-	91,977,508	76,359,485
Due from component units	5,500,000	-	-	(12,971)	-	-
Interfund Receivable	147,211	-	-	-	-	-
Accounts payable	(18,760,679)	(34,030,995)	(16,842,915)	(19,413,422)	(45,237,671)	(134,675,575)
Accrued liabilities	(20,763,518)	(7,944,497)	-	(5,765,334)	(9,567,846)	(2,372,931)
Retainage payable	(91,985)	(37,994)	-	(136,065)	(1,652,256)	(18,286)
Unearned revenue	(7,629,364)	(198,478)	-	(154,579)	(3,238,256)	-
Tax refunds payable	(32,467,741)	-	(333,850)	267,644	-	-
Intergovernment payables	-	-	-	-	(8,181,396)	-
Due to other funds	(5,215,772)	(2,644,844)	(17,553)	(13,567,212)	(3,679,914)	(3,832,655)
Unavailable revenue	(132,411,171)	(8,727,680)	(10,571,385)	(22,181,362)	-	(6,360,024)
Entity differences						
Blended non-budgeted funds	-	3,782,899	-	8,118,281	399,450,600	-
Perspective differences						
Component unit included in budgeted funds	-	-	-	(81,883)	(240,671)	-
Fund Balance - GAAP Basis	$ 170,386,867	$ 26,616,680	$ 103,478,664	$ 165,079,224	$ 459,322,188	$ 41,097,762

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of its $88,615,000* General Obligation Bonds, 2019 Series A (the "Series A Bonds") and its $40,370,000* General Obligation Refunding Bonds, 2019 Series B (Vermont Citizen Bonds) (the "Series B Bonds," and together with the Series A Bonds, the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and that has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement. Filing information for the MSRB is set forth in Exhibit B hereto.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual

* Preliminary, subject to change.

Report if they are not available by that date. If the Issuer's fiscal year changes, it shall promptly file a notice of such change with the MSRB.

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

> Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available; and
>
> Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State for the Bonds dated _________, 2019.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB's Internet Web site or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events (each, a "Listed Event") with respect to the Bonds:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults, if material.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

(vii) modifications to rights of Bondholders, if material.

(viii) optional, contingent or unscheduled calls of bonds, if material, and tender offers.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds, if material.

(xi) rating changes.

(xii) bankruptcy, insolvency, receivership or similar event of the Issuer.†

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(xv) Incurrence of a financial obligation of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect Bondholders, if material.*

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.*

(b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge

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† As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

* For purposes of event numbers (xv) and (xvi) in Section 5(a) of this Disclosure Certificate, the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" excludes municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule.

any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) the Issuer shall promptly file a notice of such change with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _________, 2019

STATE OF VERMONT, as Issuer

By: _______________________________________
Elizabeth A. Pearce
Treasurer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: General Obligation Bonds, 2019 Series A and
General Obligation Refunding Bonds, 2019 Series B (Vermont Citizen Bonds)

Date of Issuance: _________, 2019

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated _________, 2019. The Issuer anticipates that the Annual Report will be filed by _______________.

Dated: ____________

STATE OF VERMONT, as Issuer

By: ____

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board

http://emma.msrb.org

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FORM OF BOND COUNSEL OPINION

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PROPOSED FORM OF OPINION OF BOND COUNSEL

(Date of Delivery)

The Honorable Philip B. Scott
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$88,615,000*
State of Vermont
General Obligation Bonds, 2019 Series A
Dated Date of Delivery

and

$40,370,000*
State of Vermont
General Obligation Refunding Bonds, 2019 Series B
(Vermont Citizen Bonds)
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be

* Preliminary, subject to change.

satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

LOCKE LORD LLP

APPENDIX D

NOTICE OF SALE

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NOTICE OF SALE

STATE OF VERMONT

$88,615,000*

GENERAL OBLIGATION BONDS

2019 SERIES A

DATED: DATE OF DELIVERY

ELECTRONIC BIDS ONLY RECEIVED UNTIL 10:30A.M.
(VERMONT TIME)

WEDNESDAY, JULY 24, 2019

BY THE HONORABLE ELIZABETH A. PEARCE
TREASURER OF THE STATE OF VERMONT

* Preliminary; subject to change.

NOTICE OF SALE

STATE OF VERMONT

$88,615,000*

GENERAL OBLIGATION BONDS
2019 SERIES A

Electronic bids only will be received by the State of Vermont (the "State"), in accordance with this Official Notice of Sale until 10:30 a.m., Vermont Time, on Wednesday, July 24, 2019 (the "Date of Sale").

Immediately thereafter, the bids will be publicly announced. Award of the Bonds (as defined below), which is subject to confirmation by the Governor, or rejection of all bids, is expected to be made no later than 4:00 p.m., Vermont Time, on the date of receipt of such bids.

Bid Submission

Electronic bids via BIDCOMP/PARITY (the "Electronic Bidding System") will be accepted until 10:30 a.m., Vermont Time, on the Date of Sale, in accordance with this Official Notice of Sale. The State is using BIDCOMP/PARITY as a communication mechanism to conduct the electronic bidding for the sale of $88,615,000* General Obligation Bonds, 2019 Series A (the "Bonds"), as described herein. To the extent any instructions or directions set forth in BIDCOMP/PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. Each bidder submitting an electronic bid agrees (i) that it is solely responsible for all arrangements with BIDCOMP/PARITY, (ii) that BIDCOMP/PARITY is not acting as the agent of the State, and (iii) that the State is not responsible for ensuring or verifying bidder compliance with any of the procedures of BIDCOMP/PARITY. The State assumes no responsibility for, and each bidder expressly assumes the risks of and responsibility for, any incomplete, inaccurate or untimely bid submitted by such bidder through BIDCOMP/PARITY. Each bidder shall be solely responsible for making necessary arrangements to access the Electronic Bidding System for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the State nor the Electronic Bidding System shall have any duty or obligation to provide or assure such access to any bidder, and neither the State nor BIDCOMP/PARITY shall be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, BIDCOMP/PARITY. For further information about BIDCOMP/PARITY, potential bidders may contact BIDCOMP/PARITY at 1359 Broadway, 2nd Floor, New York, New York 10018, telephone (212) 849-5021.

Each bid must be unconditional.

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* Preliminary; subject to change.

Principal Redemption

The Bonds will be general obligation bonds of the State, dated the date of delivery (the "Dated Date"), and will mature serially or be subject to mandatory sinking fund redemptions on February 15 in the years and amounts shown below.

Due*	Amount*	Due*	Amount*
2020	$4,435,000	2030	$4,430,000
2021	4,435,000	2031	4,430,000
2022	4,435,000	2032	4,430,000
2023	4,430,000	2033	4,430,000
2024	4,430,000	2034	4,430,000
2025	4,430,000	2035	4,430,000
2026	4,430,000	2036	4,430,000
2027	4,430,000	2037	4,430,000
2028	4,430,000	2038	4,430,000
2029	4,430,000	2039	4,430,000

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemptions

Bidders may provide for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year that has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule above. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of the maturity being redeemed. The State shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to Term Bonds of any maturity by the principal amount of any such Term Bonds theretofore optionally redeemed by the State.

Description of the Bonds; Book-Entry Only System

The Bonds will be issued by means of a book-entry system with no distribution of physical Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), or its nominee, and immobilized in its custody. The book-entry system will evidence beneficial ownership of the Bonds in principal amounts of $5,000 or multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Bond certificates registered in the name of Cede & Co. will be deposited with DTC. Interest on the Bonds will be paid semiannually on February 15 and August 15 beginning February 15, 2020 until the maturity or earlier redemption thereof. Principal on the Bonds will be paid annually on February 15 beginning February 15, 2020 to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners.

The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be prepared, executed and delivered.

* Preliminary; subject to change.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that case, either a successor depository will be selected by the State or Bond certificates will be prepared, executed and delivered.

Optional Redemption*

The Bonds that mature on or prior to February 15, 2029 are not subject to optional redemption prior to their stated maturities. Bonds that mature after February 15, 2029 will be subject to redemption beginning February 15, 2029, in whole or in part at any time, at the option of the State, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus interest accrued to the redemption date.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the State Treasurer in such manner as may be determined to be in the best interest of the State. If less than all of the Bonds of a particular maturity are called for redemption, DTC or any successor securities depository will select the Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system is discontinued, the Bonds to be redeemed will be selected by the State by lot in such manner as the State in its discretion may determine. In either case, each portion of the $5,000 principal amount is counted as one Bond for such purpose.

Notice of Redemption

The State will cause notice of the call for redemption identifying the Bonds or portions thereof to be redeemed to be sent by facsimile transmission, registered or certified mail or overnight express delivery, not less than 30 nor more than 60 days prior to the redemption date, to the registered owner thereof. The State shall not be responsible for mailing notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Bonds. If no qualified securities depository is the registered owner of the Bonds, notice of redemption shall be mailed to the registered owners of the Bonds. If a portion of a Bond is called for redemption, a new Bond in principal amount equal to the unredeemed portion shall be issued to the registered owner upon the surrender thereof.

Security

The Bonds will be valid general obligations of the State, for the payment of the principal or redemption price of and interest on which the full faith and credit of the State is pledged. The Bonds are issued pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended, and specific Appropriation Acts of the General Assembly.

Use of Bond Proceeds

As described in more detail in the State's Preliminary Official Statement, dated July 17, 2019, the Bonds are being issued for the purpose of providing funds for various public improvements.

Adjustments to Principal Amounts and Optional Redemption Provisions of the Bonds

The aggregate principal amount of the Bonds of $88,615,000* and the principal amount of each annual maturity of the Bonds as set forth in this Official Notice of Sale (the "Aggregate Principal Amount" and the "Principal Amount" of each annual maturity, respectively; collectively, the "Principal Amounts") and the optional redemption provisions of the Bonds ("Optional Redemption Provisions") may be revised before the receipt of electronic bids for their purchase. ANY REVISIONS TO THE PRINCIPAL AMOUNTS (the "Adjusted Aggregate Principal Amount" and the "Adjusted Principal Amount" of each

* Preliminary; subject to change.

annual maturity, respectively; collectively, the "Adjusted Amounts") OR OPTIONAL REDEMPTION PROVISIONS OF THE BONDS (the "Adjusted Optional Redemption Provisions") made prior to the receipt of electronic bids WILL BE PUBLISHED ON THOMSON MUNICIPAL MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 9:45 A.M. (VERMONT TIME) ON THE DATE OF THE SALE. In the event that revisions are made, bidders shall submit bids on the Adjusted Amounts and in consideration of the Adjusted Optional Redemption Provisions, and the Adjusted Amounts will be used to compare bids and select a winning bidder.

The State reserves the right, after the award of the Bonds to the successful bidder, to increase or decrease by up to twenty-five percent (25%) the principal amount of the Bonds being offered hereby. Should the State decide to exercise this right, any such increase or decrease in the principal amount of particular maturities of the Bonds will be communicated to the successful bidder by 4:00 p.m., Vermont Time, on the Date of Sale. The dollar amount bid for the principal of the Bonds by the successful bidder will be adjusted as necessary to reflect any increase or decrease in the principal amount of the applicable maturities of the Bonds so adjusted, but the interest rates specified by the successful bidder for each maturity will not be altered. **Such adjusted dollar amount bid will not change the successful bidder's compensation per $1,000 of par amount of the Bonds from that which would have resulted from the bid submitted.** The successful bidder may not withdraw its bid as a result of any change made within the foregoing limits.

Bidding Rules; Award of Bonds

Bidders may only bid to purchase all of the Bonds. No bid for less than 100% of par shall be considered. Bidders are invited to name the rate or rates of interest per annum that the Bonds are to bear in multiples of one-twentieth (1/20th) or one-eighth (1/8th) of one percent. All Bonds maturing on the same date must bear interest at the same rate. Any number of rates may be named provided that (a) the lowest rate of interest stated for any maturity may not be less than 1.0% per annum, and (b) the highest rate of interest stated for any maturity may not exceed 5.0% per annum and (c) the dollar prices for each of the years 2030 through 2039, inclusive, shall not be less than 98%. The State reserves the right to reject any or all bids (regardless of the interest rate bid), to reject any bid not complying with this Official Notice of Sale and, so far as permitted by law, to waive any irregularity or informality with respect to any bid or the bidding process.

All bids will remain firm for a period of no less than six hours after the time specified for the opening of bids. An award of the Bonds, if made, will be made by the State within such six-hour period or, with the express consent of the bidders, such longer time period as deemed necessary.

Unless all bids are rejected, the Bonds will be awarded to the bidder complying with the terms of this Official Notice of Sale and submitting a bid that provides the lowest "true" interest cost to the State. True interest cost shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Dated Date and to the price bid. If more than one bid offers the same lowest true interest cost, the successful bid will be selected by the State Treasurer by lot. The State reserves the right to reject any or all bids and to waive any irregularity or informality with respect to any bid.

Bids for the Bonds shall not be conditioned upon obtaining insurance or any other credit enhancement. If a bidder proposes to obtain a policy of municipal bond insurance or any other credit enhancement, any such purchase of insurance or commitment therefor shall be at the sole option and expense of the bidder, and the bidder must pay any increased costs of issuance of the Bonds as a result of such insurance or commitment. Any failure by the bidder to obtain such a policy of insurance shall not in any way relieve such bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Good Faith Deposit

The successful bidder for the Bonds is required to submit a Good Faith Deposit in the amount of $886,150 payable to the order of the State in the form of a wire transfer in federal funds, as instructed by the State's Financial Advisor. The successful bidder must submit the Good Faith Deposit not later than 5:00 p.m., Vermont Time, on the date of the award. The successful bidder shall provide the federal funds reference number upon request of the State. If the successful bidder fails to comply with the terms of its bid, the Good Faith Deposit shall be retained by the State as full liquidated damages; otherwise, the amount thereof will be applied to the purchase price of the Bonds at the time of delivery. No interest on the Good Faith Deposit will accrue to the successful bidder.

Establishment of Issue Price

The successful bidder shall assist the State in establishing the issue price of the Bonds and shall execute and deliver to the State on the Closing Date an "issue price" or similar certificate, in the applicable form set forth in Exhibit 1 to this Notice of Sale, setting forth the reasonably expected initial offering prices to the public or the sale prices of the Bonds together with the supporting pricing wires or equivalent communications, with such modifications as may be appropriate or necessary in the reasonable judgment of the successful bidder, the State and Bond Counsel. All actions to be taken by the State under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the State by Public Resources Advisory Group ("Financial Advisor") and any notice or report to be provided to the State may be provided to the Financial Advisor.

Competitive Sale Requirements. The State expects that the competitive sale requirements ("competitive sale requirements") set forth in Treasury Regulation § 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the sale of the Bonds because:

(1) the State has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;

(2) all bidders will have an equal opportunity to bid;

(3) the State may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the State anticipates awarding the sale of the Bonds to the bidder who submitted a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid. By submitting a bid, each bidder shall be deemed to confirm that it has an established industry reputation for underwriting new issuances of municipal bonds and that it will be an "underwriter" (as defined below) that intends to reoffer the Bonds to the public.

In the event that the competitive sale requirements are not satisfied, the State shall so advise the successful bidder. In this event, the successful bidder may use either Option A or Option B, set forth below.

Failure to Meet the Competitive Sale Requirements – Option A – The 10% Test to Apply. If the competitive sale requirements are not satisfied, the successful bidder may, at its option, use the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis, of the Bonds. The successful bidder shall advise the Financial Advisor if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds or all of the Bonds are sold to the public, the successful bidder agrees to promptly report to the Financial Advisor the prices at which the unsold Bonds of each maturity have been sold to the public, which reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied for each maturity of the Bonds or until all the Bonds of a maturity have been sold. The successful bidder shall be obligated to report each sale of Bonds to the Financial Advisor until notified in writing by the State or the Financial Advisor that it no longer needs to do so. If the successful bidder uses Option A, the successful bidder shall provide to the State on or before the Closing Date the certificate attached to this Notice of Sale as Exhibit 1 – Option A.

By submitting a bid and if the competitive sale requirements are not met, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

(1) "public" means any person other than an underwriter or a related party,

(2) "underwriter" means (A) any person that agrees pursuant to a written contract with the State (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public), and

(3) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

Failure to Meet the Competitive Sale Requirements – Option B – The Successful Bidder Agrees to Hold the Price of Maturities of Bonds for Which the 10% Test in Option A Is Not Met as of the Sale Date. The successful bidder may, at its option, notify the Financial Advisor in writing, which may be by email (the "Hold the Price Notice"), not later than 4:00 p.m. on the Sale Date, that it has not sold 10% of the maturities of the Bonds listed in the Hold the Price Notice (the "Hold-the-Offering-Price Maturities") and that the successful bidder will not offer the Hold-the-Offering-Price Maturities to any person at a price that is higher than the initial offering price to the public during the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the successful bidder has sold at least 10% of the applicable Hold-the-Offering-Price Maturity to the public at a price that is no higher than the initial offering price to the public. If the successful bidder uses Option B and delivers a Hold the Price Notice to the Financial Advisor, the successful bidder shall provide to the State on or before the Closing Date the certificate attached to this Notice of Sale as Exhibit 1 – Option B.

Delivery of the Bonds

The Bonds will be delivered at the expense of the State in New York, New York, through the facilities of DTC on or about August 15, 2019.

The successful bidder will be furnished, without cost, with the approving opinion of the law firm of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, as to the validity and tax status of the Bonds, substantially in the form provided in Appendix C to the Preliminary Official Statement referred to below.

The obligations hereunder to deliver or accept the Bonds pursuant hereto shall be conditioned on the availability to the successful bidder and delivery at the time of delivery of the Bonds of said approving opinion and of the Continuing Disclosure Agreement described below, certificates in form and tenor satisfactory to said law firm evidencing the proper execution and delivery of the Bonds and of receipt of payment therefore and including a statement of the Attorney General dated as of the date of such delivery, to the effect that there is no litigation pending or (to the knowledge of the signer thereof) threatened relating to the Bonds and a statement of the Governor and the State Treasurer certifying that to the best of their knowledge the Official Statement relating to the Bonds, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Additional Information to be Provided by Successful Bidder

The successful bidder must, by facsimile transmission or overnight delivery received by the State within 24 hours after receipt of the bids for the Bonds, furnish the following information to the State to complete the Official Statement in final form, as described below:

A. The expected offering prices for the Bonds (expressed as the price or yield per maturity).

B. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields described in Subpart A above).

C. The identity of the underwriters if the successful bidder is a part of a group or syndicate.

D. Any other material information necessary to complete the Official Statement in final form but not known to the State.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with the terms of its bid. Public Resources Advisory Group, municipal advisor to the State, will timely apply for CUSIP numbers with respect to the Bonds as required by MSRB Rule G-34. The successful bidder will be responsible for the cost of assignment of such CUSIP numbers.

Official Statement

The State will furnish the successful bidder at the expense of the State a reasonable number of copies of the final Official Statement within seven business days from the date of the award of the Bonds, as specified or required in Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") and the rules of the Municipal Securities Rulemaking Board (the "MSRB") provided that minor delays in furnishing such final Official Statement will not be a basis for failure to pay for and accept delivery of the Bonds. Additional copies will be made available at the successful bidder's request and expense. The State assumes no responsibility or obligation for the distribution or delivery of the Official Statement to anyone other than the successful bidder.

The successful bidder agrees to provide two copies of the Official Statement (with any required forms) to the MSRB in electronic format, as prescribed by the MSRB or its designee, no later than ten business days following the Date of Sale. The successful bidder shall notify the State as soon as practicable of (1) the date that is the end of the underwriting period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with the MSRB or its designee. The State agrees to advise the successful bidder of any "developments that impact the accuracy and completeness of the key representations" (within the meaning of the Rule) contained in the Official Statement, which may occur during the requisite time period for such notification.

If the Bonds are awarded to a syndicate, the State will designate the senior managing underwriter of the syndicate as its agent for purposes of distributing copies of the Official Statement to each participating underwriter. Any underwriter executing and delivering a bid form with respect to the Bonds agrees thereby that if its bid is accepted it shall accept such designation and shall enter into a contractual relationship with all participating underwriters for the purposes of assuring the receipt and distribution by each such participating underwriter of the Official Statement, unless another firm is so designated by the syndicate in writing and approved by the State.

Federal Securities Laws

No action has been taken to register the Bonds under the federal securities laws.

Tax Matters

The Preliminary Official Statement, dated July 17, 2019 related to the Bonds contains a discussion of the tax status of interest received on the Bonds.

Continuing Disclosure

To assist the successful bidder in complying with the Rule, the State will agree, pursuant to the Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement for the Bonds and will also be set forth in the final Official Statement for the Bonds.

The State is not aware of any failure to comply in any material respect with any of its previous undertakings with respect to the Rule in the previous five years.

Right to Change the Official Notice of Sale and to Postpone Offering

The State reserves the right to make changes to this Official Notice of Sale and postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by the TM3 newswire. If the receipt of bids is postponed, any alternative date for receipt of bids will be announced via the TM3 newswire not less than 24 hours before the alternative date for the receipt of bids. Any bidder must submit a bid for the purchase of the Bonds on such alternative time and sale date in conformity with the provisions of this Official Notice of Sale, except for any changes announced via the TM3 newswire as described therein.

Additional Information

For further information relating to the Bonds and the State, reference is made to the State's Preliminary Official Statement. The State has deemed the Preliminary Official Statement to be final as of its date within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted pursuant to the Rule. The Preliminary Official Statement may be obtained from the State's Financial Advisor, Public Resources Advisory Group, Tom Huestis at 212-788-5600 or thuestis@pragadvisors.com or Christine Fay at 610-565-5900 or cfay@pragadvisors.com.

Elizabeth A. Pearce
State Treasurer
State of Vermont

Dated: July 17, 2019

EXHIBIT 1

Issue Price Certificate for Use if the Competitive Sale Requirements are Met

$88,615,000*
STATE OF VERMONT
GENERAL OBLIGATION BONDS
2019 SERIES A

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (the "Successful Bidder"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Bonds") of the State of Vermont (the "Issuer").

1. **Reasonably Expected Initial Offering Prices.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Successful Bidder are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Successful Bidder in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by the Underwriter to purchase the Bonds.

(b) the Successful Bidder was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Successful Bidder constituted a firm offer to purchase the Bonds.

2. **Defined Terms.**

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is [DATE].

(d) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder's interpretation of any laws, including specifically Sections 103

* Preliminary, subject to change.

and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: ___________, 2019

[SUCCESSFUL BIDDER]

By: ____
Name:
Title:

SCHEDULE A

REASONABLY EXPECTED INITIAL OFFERING PRICES

(Attached)

SCHEDULE B

COPY OF UNDERWRITER'S BID

(Attached)

EXHIBIT 1 – OPTION A

Issue Price Certificate for Use if the Competitive Sale Requirements are Not Met and the Hold the Price Rule Is Not Used

$88,615,000*
STATE OF VERMONT
GENERAL OBLIGATION BONDS
2019 SERIES A

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of ______________________________ (the ("Successful Bidder")[, on behalf of itself and [NAMES OF OTHER UNDERWRITERS]] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. **Sale of the Bonds**. As of the Sale Date , [except as set forth in paragraph 2 below,] for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public on the Sale Date is the respective price listed in Schedule A.

[Only use the next paragraph if the 10% test has not been met or all of the Bonds have not been sold for one or more Maturities as of the Closing Date.]

2. For each Maturity of the Bonds as to which no price is listed in Schedule A, as set forth in the Notice of Sale for the Bonds, until the 10% test has been satisfied as to each Maturity of the Bonds or all of the Bonds are sold to the Public, the Successful Bidder agrees to promptly report to the Issuer's financial advisor, Public Resources Advisory Group (the "Financial Advisor"), the prices at which the unsold Bonds of each Maturity have been sold to the Public, which reporting obligation shall continue after the date hereof until the 10% test has been satisfied for each Maturity of the Bonds or until all the Bonds of a Maturity have been sold. The Successful Bidder shall continue to report each sale of Bonds to the Financial Advisor until notified by email or in writing by the Issuer or the Financial Advisor that it no longer needs to do so.

3. **Defined Terms**.

(a) *Issuer* means the State of Vermont.

(b) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the

* Preliminary, subject to change.

initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Successful Bidder's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: ____________, 2019 [SUCCESSFUL BIDDER]

By:______________________________

Name:

Title:

SCHEDULE A

SALE PRICES

[(Attached)]

or

[Complete Schedule Below]

Maturity	Price

EXHIBIT 1 – OPTION B

Issue Price Certificate for Use if the Competitive Sale Requirements are Not Met and the Hold the Price Rule Is Used

$88,615,000*
STATE OF VERMONT
GENERAL OBLIGATION BONDS
2019 SERIES A

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of (the ("Successful Bidder")[, on behalf of itself and [NAMES OF OTHER UNDERWRITERS]] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

A. Issue Price.

1. ***Sale of the General Rule Maturities***. As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

[2. ***Initial Offering Price of the Hold-the Offering-Price Maturities***.

(a) The Successful Bidder offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the "Initial Offering Prices") on or before the Sale Date, which correspond to the yields shown on Schedule A and on the inside cover of the Official Statement relating to the Bonds dated the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) The Successful Bidder agrees that (i) for each Maturity of the Hold-the-Offering-Price Maturities it will neither offer nor sell any of the unsold Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the "hold-the-offering-price rule"), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any unsold Bonds of a Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

[2.][3.] ***Defined Terms***. *[keep applicable definitions, depending on sale outcome]*

(a) *General Rule Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the "General Rule Maturities."

(b) *Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the "Hold-the-Offering-Price Maturities."

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (a) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriters have sold at least 10% of such Hold-the-Offering-Price

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* Preliminary, subject to change.

Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) *Issuer* means the State of Vermont.

(e) *Maturity* means Bonds with the same credit and prepayment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is [DATE].

(h) *Underwriter* means (i) any person, including the Successful Bidder, that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

B. Reliance.

The representations set forth in this certificate are limited to factual matters only. The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein. Nothing in this certificate represents the Successful Bidders's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate dated _________, 2019 relating to the Issue, to which this certificate is attached as an exhibit, and with respect to compliance with the federal income tax rules affecting the Issue, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Issue is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038 and other federal income tax advice that it may give to the Issuer from time to time relating to the Issue.

Dated: ____________, 2019

[SUCCESSFUL BIDDER]

By:______________________________

Name:

Title:

SCHEDULE A

SALE PRICES OF THE GENERAL RULE MATURITIES AND INITIAL OFFERING PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES

(ATTACHED)

SCHEDULE B

PRICING WIRE OR EQUIVALENT COMMUNICATION

(ATTACHED)

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STATE OF VERMONT • GENERAL OBLIGATION BONDS, 2019 SERIES A (COMPETITIVE) AND REFUNDING BONDS, SERIES B (NEGOTIATED)

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