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January 2011 Economic Review and Revenue Forecast Update

Prepared for the
State of Vermont
Emergency Board and
Legislative Joint Fiscal Committee

January 14, 2011

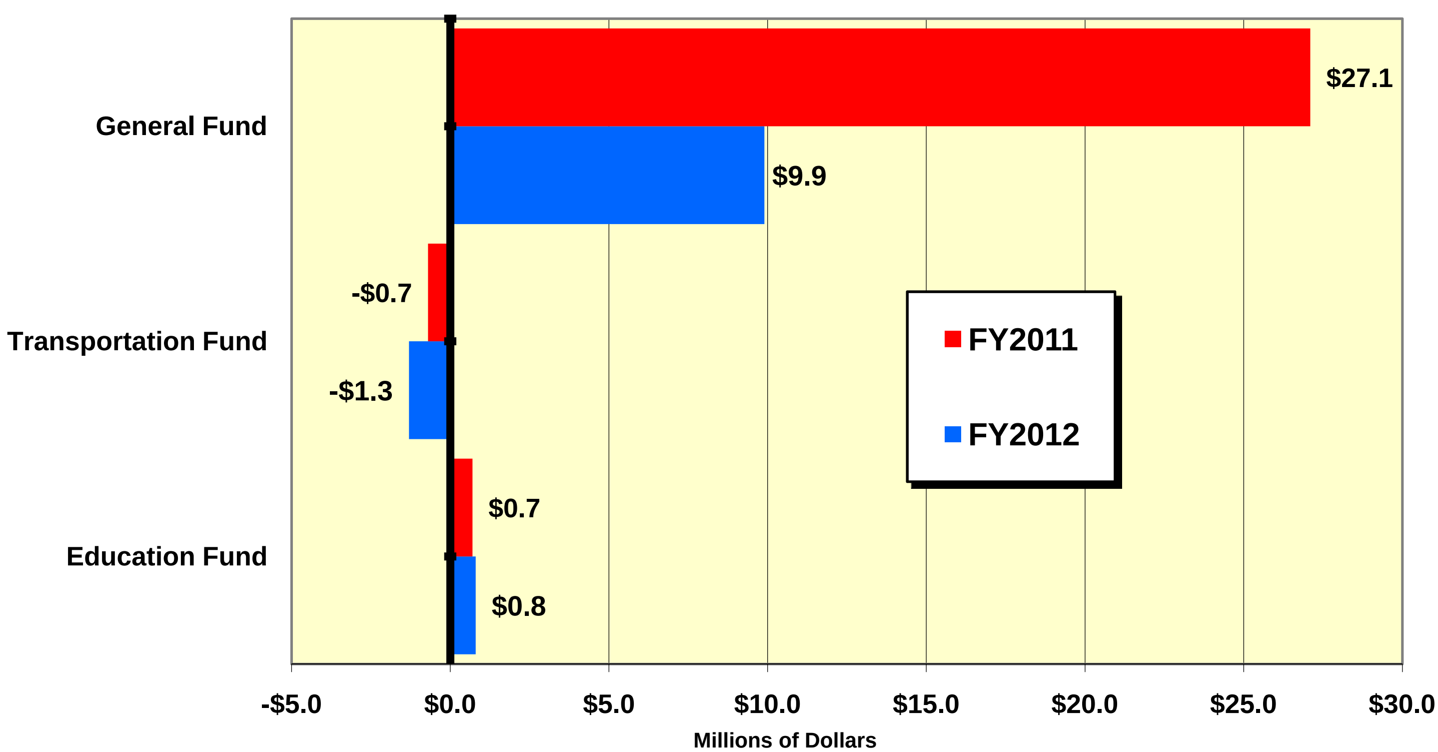
Economic Review and Revenue Forecast Update
January 2011

Overview

The halting economic recovery of 2010 is beginning to show signs of life as it enters the new year. After flirting with prospects of a double-dip recession for several months, expansive new federal monetary and fiscal policy measures seem likely to finally propel the economy into a self-sustaining recovery. These measures include unprecedented quantitative easing by the Fed and an additional $250 billion in federal stimulus in the form of tax cuts and unemployment benefits that will represent more than a percentage point in real U.S. GDP growth and about 1.5 million jobs.

State revenue performance during the past six months has been close to expectations, with the five large consumption taxes and personal income receipts less than one percent above July 2010 projections. A small number of favorable revenue events affecting Estate, Corporate and Bank receipts, however, will benefit FY11 by about $25 million. These events plus emerging improvements in the external economic environment will lead to General Fund upgrades in FY11 of about $27 million and about $10 million in FY12. Despite general economic improvement, higher energy prices will cause a slight downgrade to expected Transportation Fund revenues over the forecast horizon.

Recommended Net Revenue Changes from July 2010 Forecast

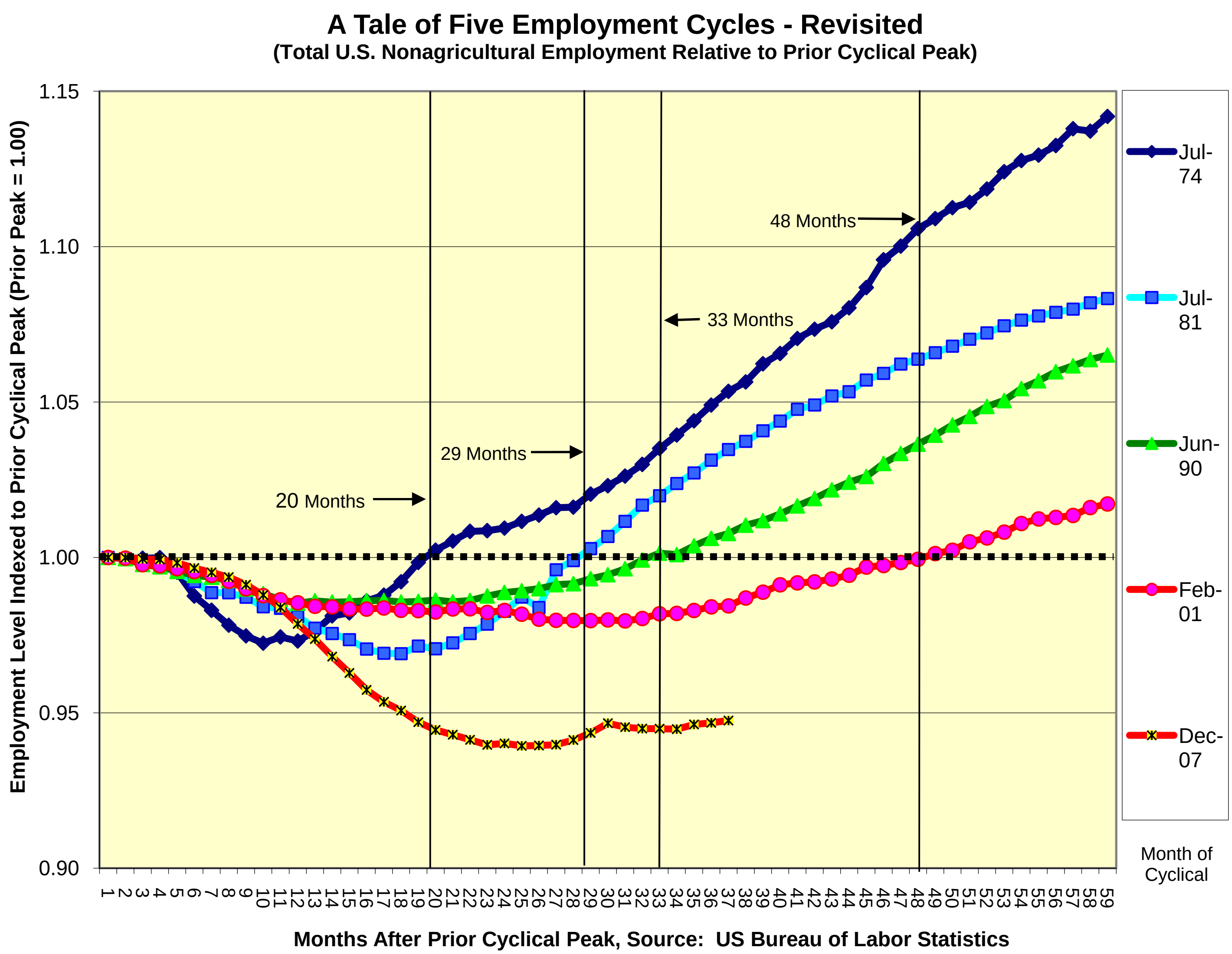


- Over the past six months, federal policy errors that could have sent the economy into another tailspin were narrowly averted. In the face of mounting political clamor for "rolling back" prior federal stimulus spending, the Fed stepped into the breach in October with a commitment to buy an additional $600 billion in intermediate and long term Treasury bonds in order to "promote a stronger pace of economic recovery." Although the Fed Chairman indicated a preference for additional fiscal stimulus at this phase of the business cycle, in its absence, the Fed clearly demonstrated that it would not stand idly by as the economy faltered. Two months later, to the surprise of many, agreement was reached in Congress on a wide-ranging set of tax cuts and unemployment benefit extensions that represent significant additional economic stimulus. These two policy actions have lowered the risk of a double-dip recession this year to less than 15% and set the stage for significant potential near term improvement in the economy. While no one argues that these same actions will require severe longer-term fiscal recalibration in the form of spending cuts and/or additional taxes, they are both appropriate and cost-effective at a time of massive idle productive capacity and virtually no threat of rising interest rates.

- The macro-economic outlook since our last forecast in July of 2010 similarly worsened through October and has since recovered to levels comparable to July control forecasts (see Tables A and B). Because of this, out-year revenue projections herein are close to prior July estimates, with some upside potential present for the first time in several years.

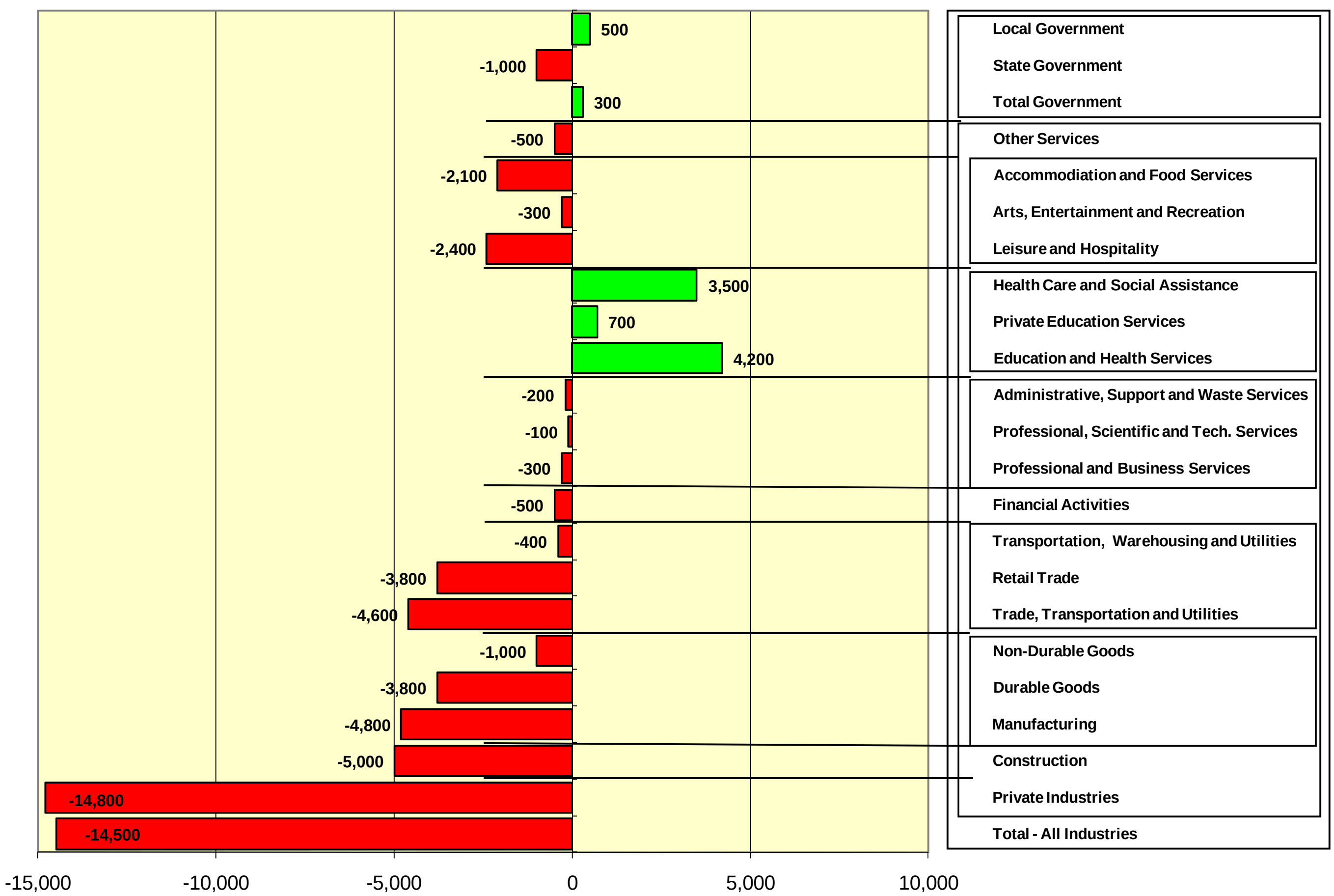
- Although the U.S. economy has a long way to go to emerge from the depths of the worst downturn since 1929, harbingers of improvement abound: The Conference Board's Leading Economic Index was up for the fifth consecutive month in November, U.S. equity markets closed the year more than 15% above 2009 levels and more than 60% above their monthly low in March of 2009, and temporary employment hiring, which usually leads permanent hiring by 6-12 months, is up nearly 30% from its cyclical low in September of 2009. Consumer spending has begun to post solid year over year gains and the holiday shopping season was generally better than expected. Corporate profits continue to be robust, especially among large corporations whose access to credit and capital has been plentiful and cheap.

- Labor markets, however, which always lag general economic conditions, continue to be under great stress. The biggest buzz at the recent North American Auto show was not the cars, but the announcement by Ford that it was planning to hire 7,000 U.S. workers in 2011. With the unemployment rate stubbornly close to 10% (not counting discouraged and under-employed workers), wages and income have dropped for millions of families, stunting purchasing power and overall consumer demand. As depicted in the below chart, 37 months since its December 2007 seasonally-adjusted peak, U.S. employment is still more than 7 million jobs below this prior cyclical peak. Of the five most recent recessions, this downturn represents the most severe employment decline and the slowest recovery of any.



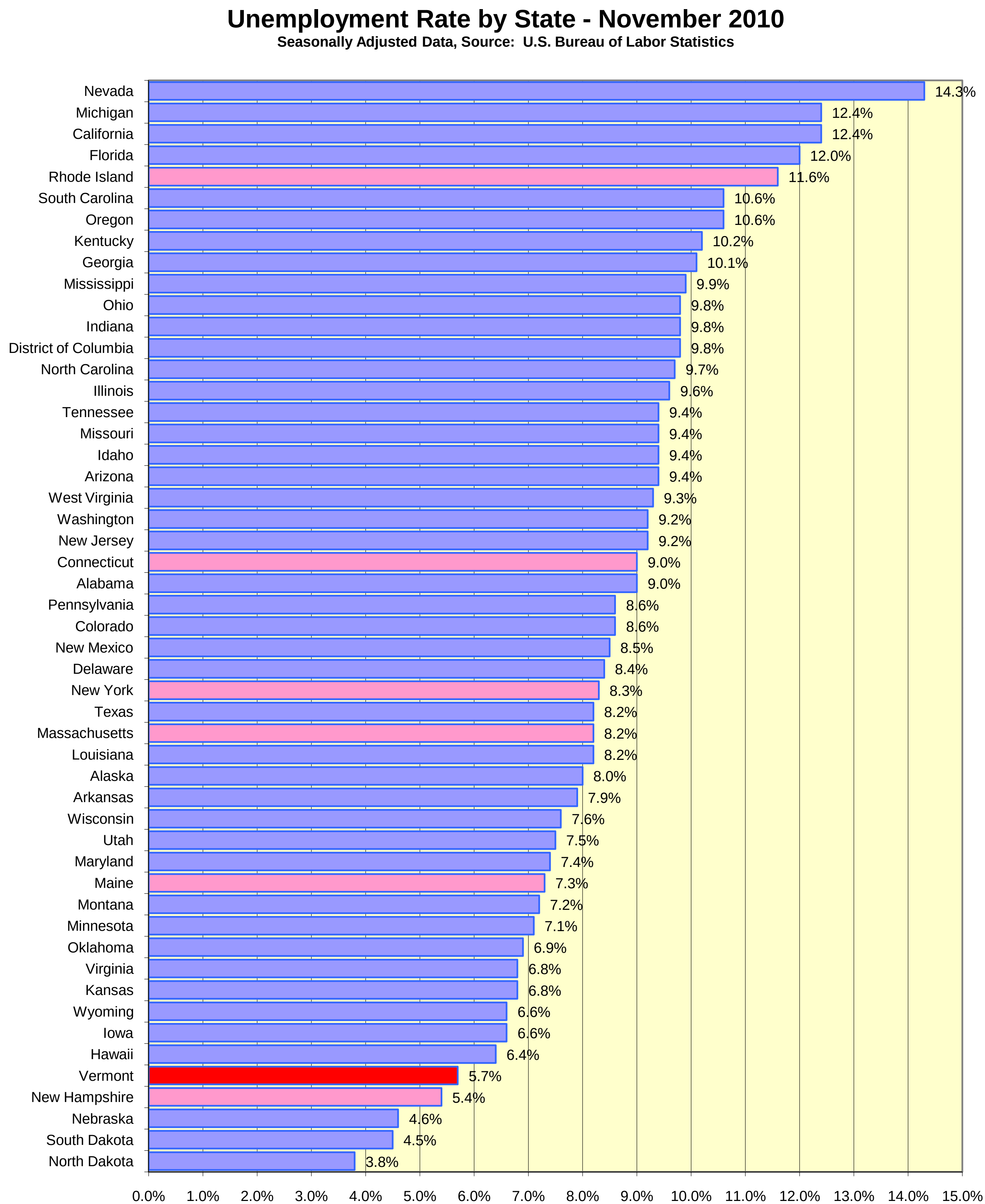
- While peak to trough declines in Vermont employment during this recession have been close to U.S. levels and also represent the slowest recovery in recent history, Vermont's unemployment rate entering the recession was significantly better than the U.S. and it has remained among the lowest of the 50 states throughout the downturn. As depicted in the chart on the following page, as of November, Vermont registered the 5th lowest unemployment rate in the country. As shown in the map on page 6, however, there is still a pronounced differential in the unemployment rate - and general economic conditions - between the 14 counties within the State. As has been the case for many years, there is an enormous gap between economic performance in Vermont's best performing areas and its worst. The most recent unemployment rates in the Northeast Kingdom counties of Essex and Orleans, for example, are more than 70% (or 3.6 percentage points) higher than those in Chittenden County.

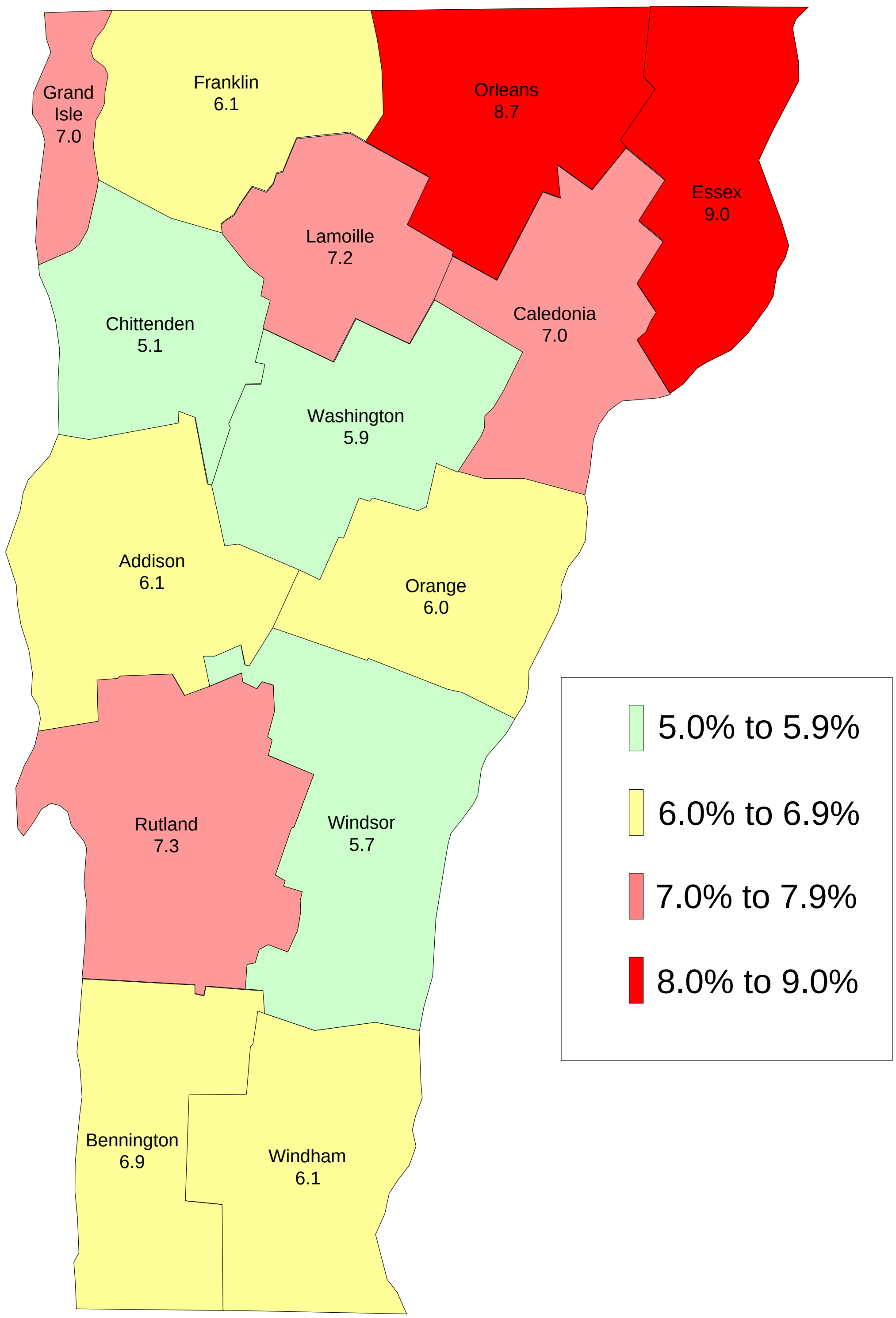
Net Employment Changes in Vermont Since Prior Cyclical Peak (June 2007)



Change in Employment, SAAR, Source: Vermont Department of Labor, Data Through November 2010

- Since its prior cyclical employment peak in June of 2007, Vermont has lost more than 14,000 jobs. As illustrated in the above chart, construction employment has been most severely impacted, shrinking by more than 30% and shedding some 5,000 jobs in the face of record declines in new


Unemployment Rate by State - November 2010
Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics
Nevada 14.3%
Michigan 12.4%
California 12.4%
Florida 12.0%
Rhode Island 11.6%
South Carolina 10.6%
Oregon 10.6%
Kentucky 10.2%
Georgia 10.1%
Mississippi 9.9%
Ohio 9.8%
Indiana 9.8%
District of Columbia 9.8%
North Carolina 9.7%
Illinois 9.6%
Tennessee 9.4%
Missouri 9.4%
Idaho 9.4%
Arizona 9.4%
West Virginia 9.3%
Washington 9.2%
New Jersey 9.2%
Connecticut 9.0%
Alabama 9.0%
Pennsylvania 8.6%
Colorado 8.6%
New Mexico 8.5%
Delaware 8.4%
New York 8.3%
Texas 8.2%
Massachusetts 8.2%
Louisiana 8.2%
Alaska 8.0%
Arkansas 7.9%
Wisconsin 7.6%
Utah 7.5%
Maryland 7.4%
Maine 7.3%
Montana 7.2%
Minnesota 7.1%
Oklahoma 6.9%
Virginia 6.8%
Kansas 6.8%
Wyoming 6.6%
Iowa 6.6%
Hawaii 6.4%
Vermont 5.7%
New Hampshire 5.4%
Nebraska 4.6%
South Dakota 4.5%
North Dakota 3.8%
0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0% 7.0% 8.0% 9.0% 10.0% 11.0% 12.0% 13.0% 14.0% 15.0%



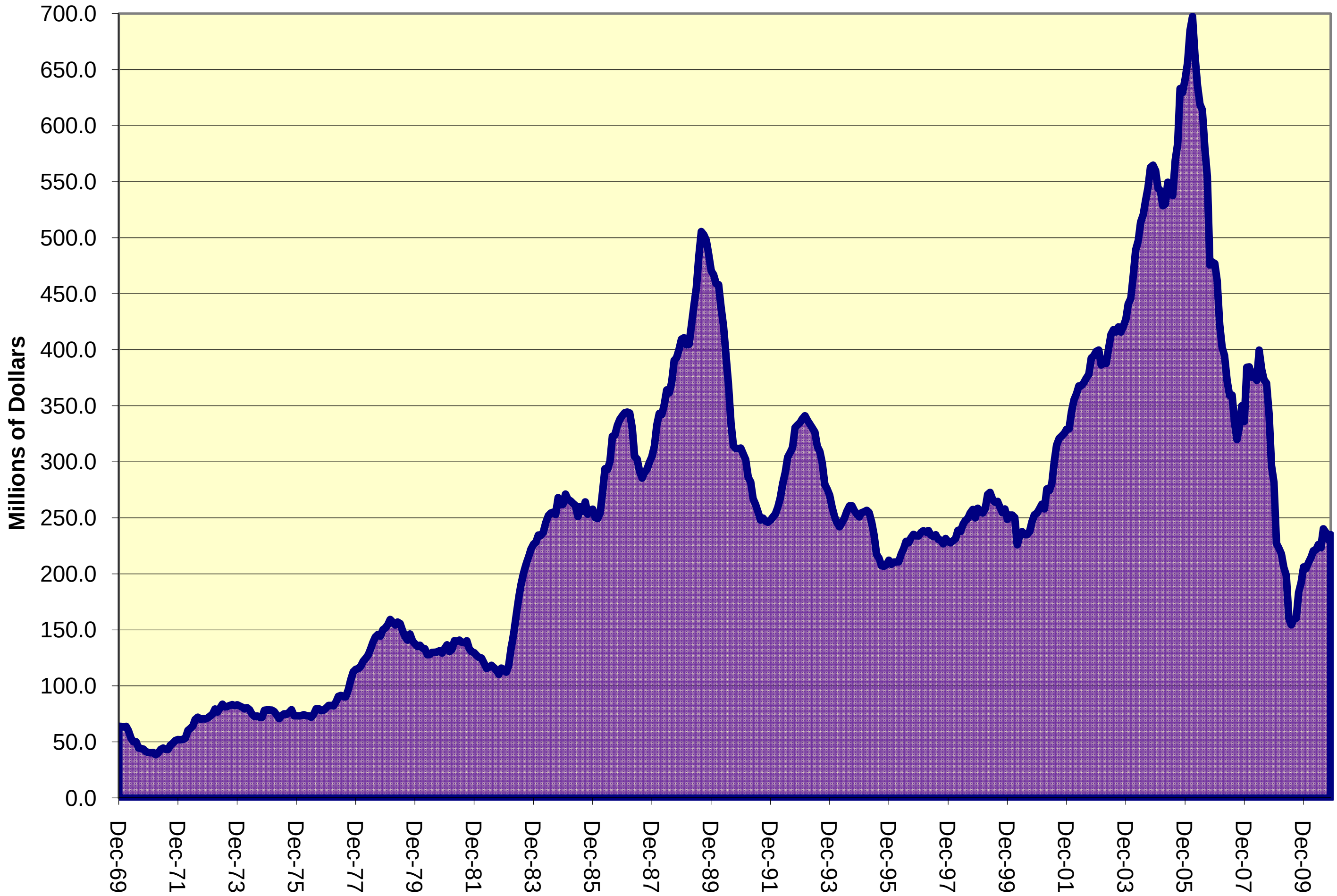
Vermont Unemployment Rates by County

12 Month Average, December 2009 to November 2010

Source: Vermont Department of Labor

construction investment (see below chart). Significant declines have also been posted in manufacturing (-4,800), trade/transportation/utilities (-4,600, including -3,800 in retail trade) and leisure and hospitality (-2,400) employment during this same period. Only health care (+3,500) and educational services (private, +700 and local public, circa +400) have exhibited growth.

VT Residential Investment Struggles as Declining Prices Weigh on Markets
(Value of New Residential Construction Starts - 12 month moving total basis)

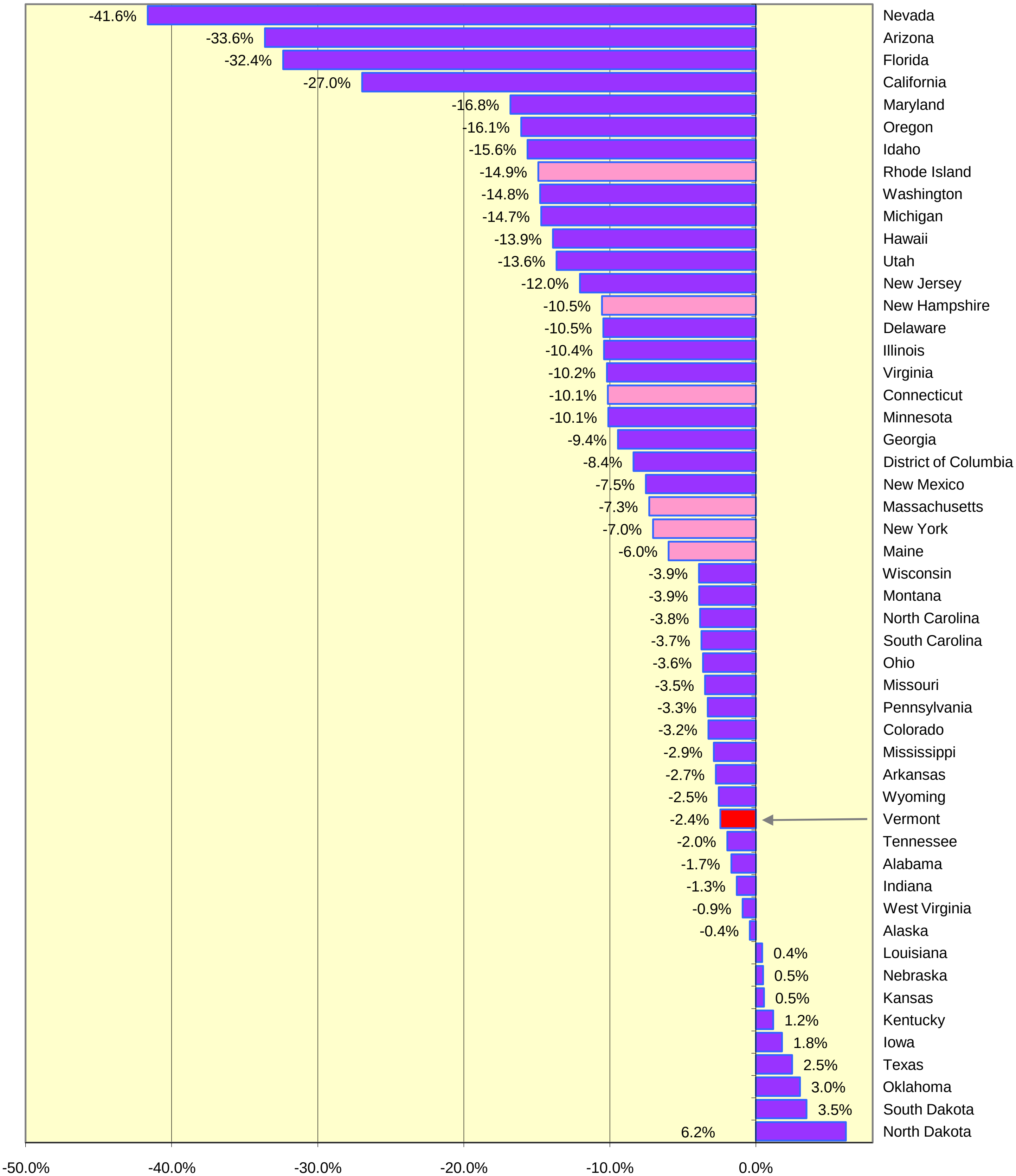


Source: F.W. Dodge/McGraw-Hill

- As noted in prior economic and revenue reports, real estate markets often behave with different and longer cyclical patterns than the general economy. Because of this, the housing market correction will require much longer to effect and lag the general economic upturn, with weakness expected for a two to three year period. Housing price declines are expected to persist in Vermont for a couple of additional quarters in 2011 before an extended period of relatively flat or slow growth in home values. There is also a pronounced regional variation in markets, as illustrated in the chart on the following page. Despite widespread price declines, there is evidence most markets are close to the bottom and future improvement is likely: Although 39 states registered continued housing price declines in the 3rd quarter of 2010 (the latest available data), *every single state posted decelerating price declines or*

The Real Estate Market Crash - Wide Regional Variation

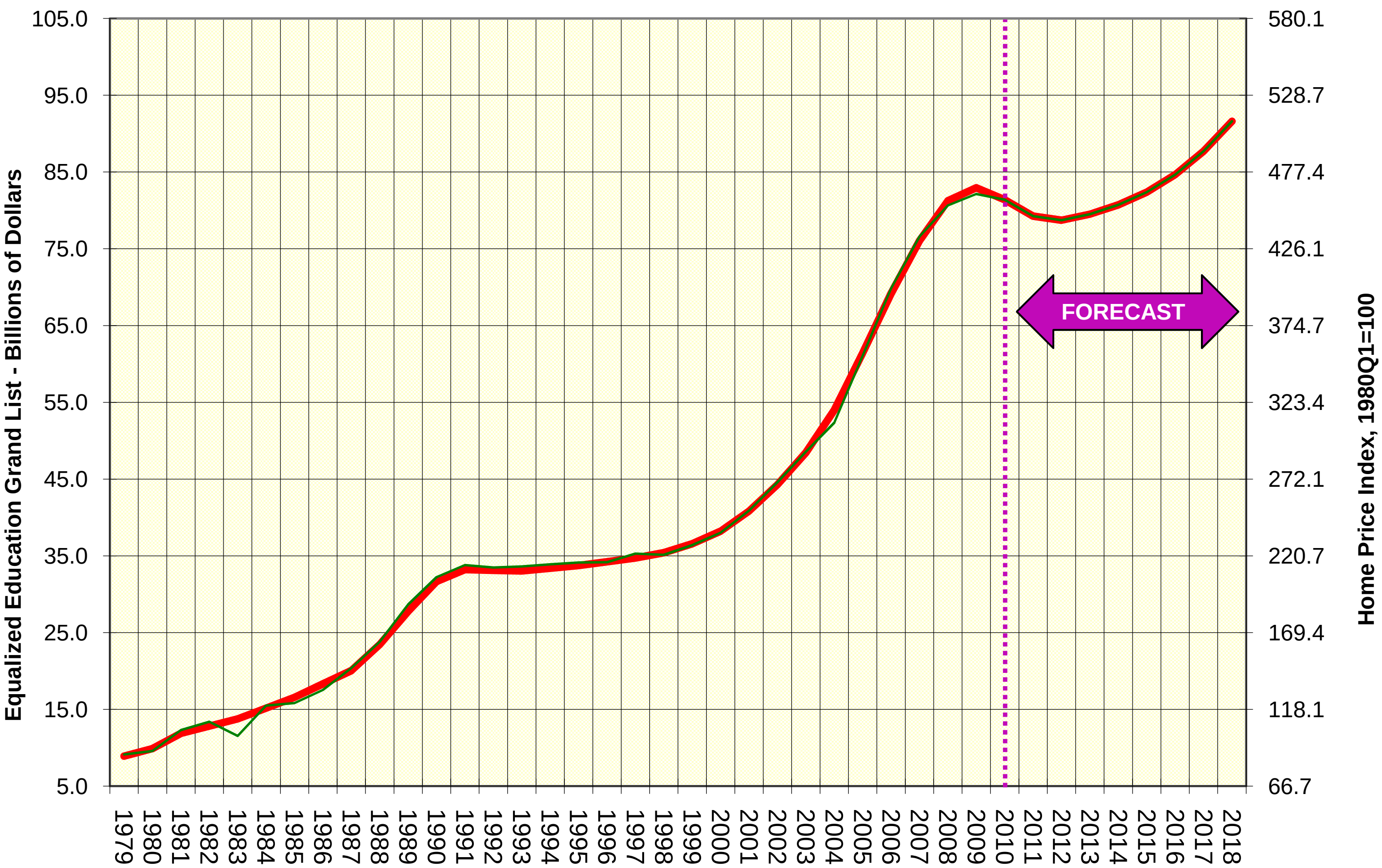
Percent Change, Third Quarter of 2010 vs. Third Quarter of 2007, Source: FHFA Home Price Index



accelerating price increases. In the preceding quarter (2nd quarter of 2010), 49 out of 51 states experienced declines. North Dakota is the only state that has had no price declines over the entire recession. At the other extreme, Nevada has had the highest peak to trough decline at -43.2% (and counting) and was the only state to post double digit declines in the most recent quarter (-10.2%). Michigan has the distinction of the longest period of decline, suffering 18 consecutive quarterly declines in home valuations.

- Housing and other real estate prices are important to Vermont revenues in many ways, however, their most direct and significant impact is on the State Equalized Education Grand List, which is the tax base for the statewide property tax. This tax is the largest revenue component of the Education Fund, forecast separately in October of each year, except for the several allocated taxes from the General and Transportation Funds listed in Table 3 herein. The close relationship between housing prices (lagged 5 quarters) and the State Grand List is illustrated in the below chart. Declining or flat Grand List values over the next several years will require property tax rate increases, unless spending declines or remains constant with revenues.

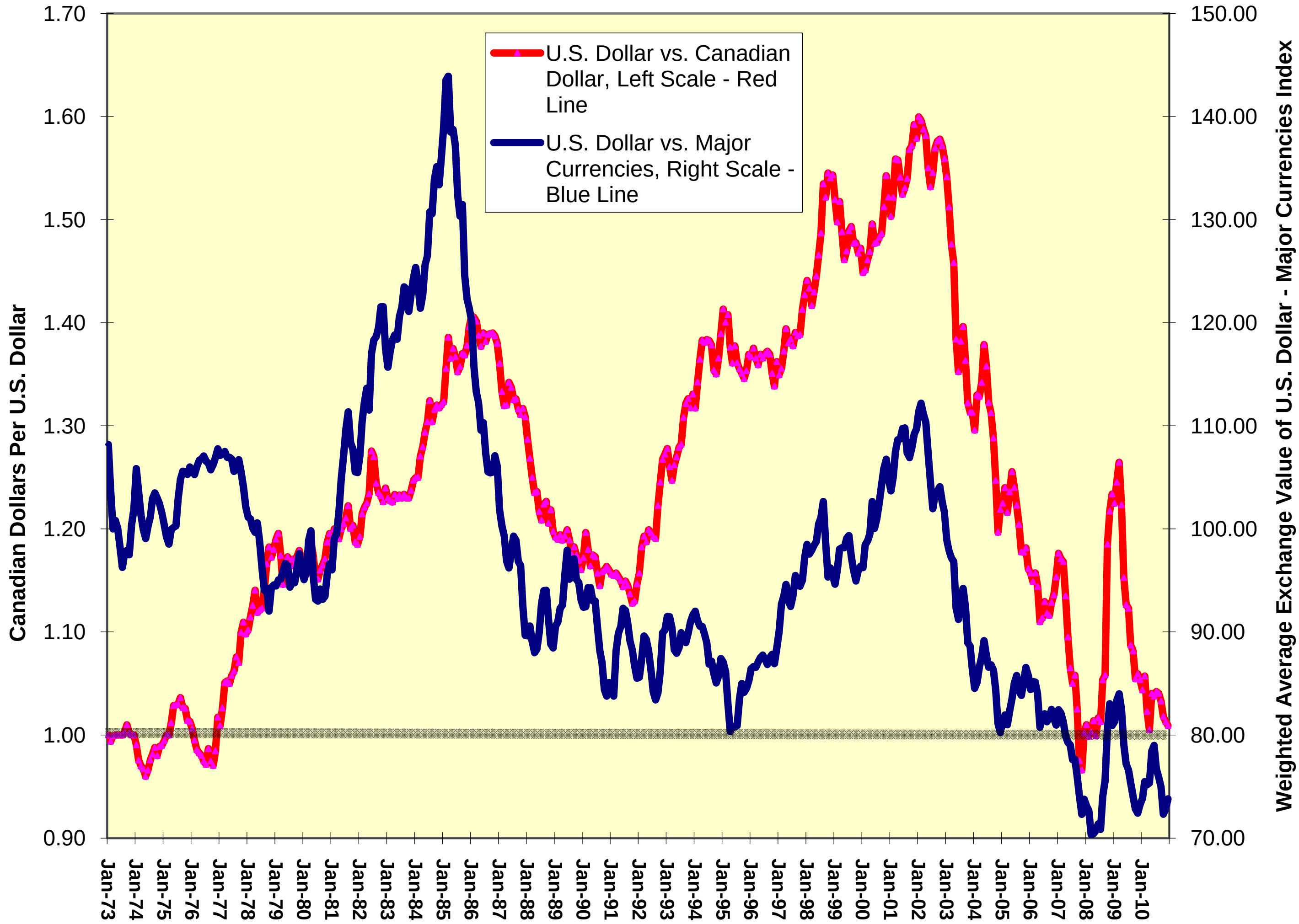
Vermont Adjusted Equalized Education Grand List (thick red line, left scale) vs. FHFA Vermont Home Price Index Lagged Five Quarters (thin green line, right scale)



Sources: PVR; E.com Index based on FHFA data; Prepared for the Joint Fiscal Office by Kavet, Rockler & Assciates, October 2010

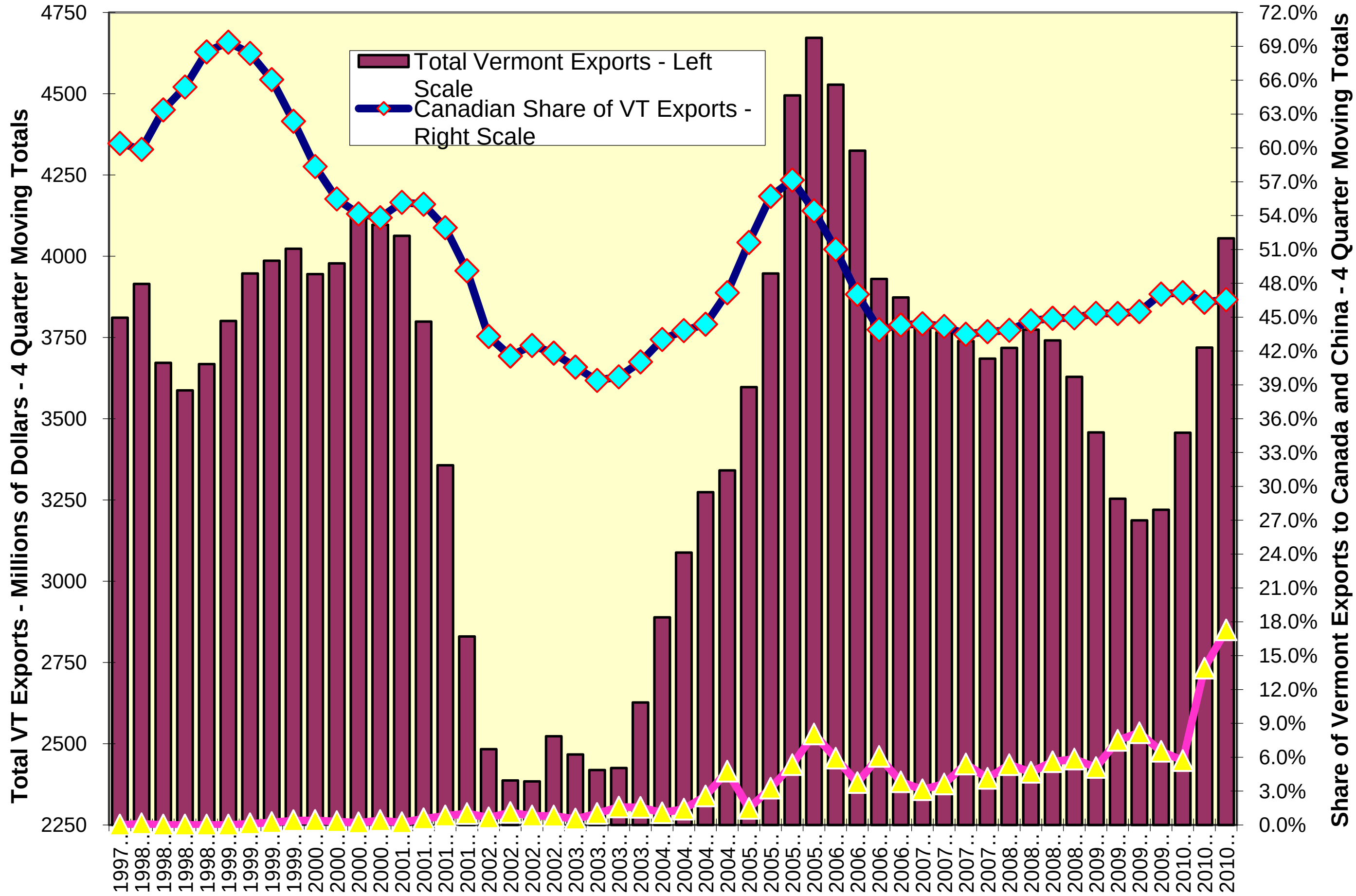
- Exports have been a source of recent economic strength in both the U.S. and Vermont, as persistent declines in the value of the U.S. dollar against most major currencies – and of particular importance to Vermont, the Canadian dollar – improve the international competitive position of domestic firms. As depicted in the below chart, the Canadian dollar now trades on par with the U.S. dollar, after declining nearly 40% over the past decade.

The Dollar Remains Near Historic Lows Against Most Major Currencies
(Source: U.S. Federal Reserve Board)



- Vermont exports have also accelerated in recent quarters, as illustrated in the chart on the following page. Although the share of Vermont exports to Canada have remained relatively constant at about 45% of late (see top blue line, right scale), the share of Vermont exports destined for China have soared from about 6% to 18% in the last year (see lower red/yellow line, right scale). When Hong Kong and Taiwan are included, this broader Chinese market now accounts for more than a quarter of all Vermont exports.

Vermont Exports Rally Amidst Persistently Weak Dollar
(Source: World Institute of Strategic Economic Research, Federal Reseve Bank of Boston)

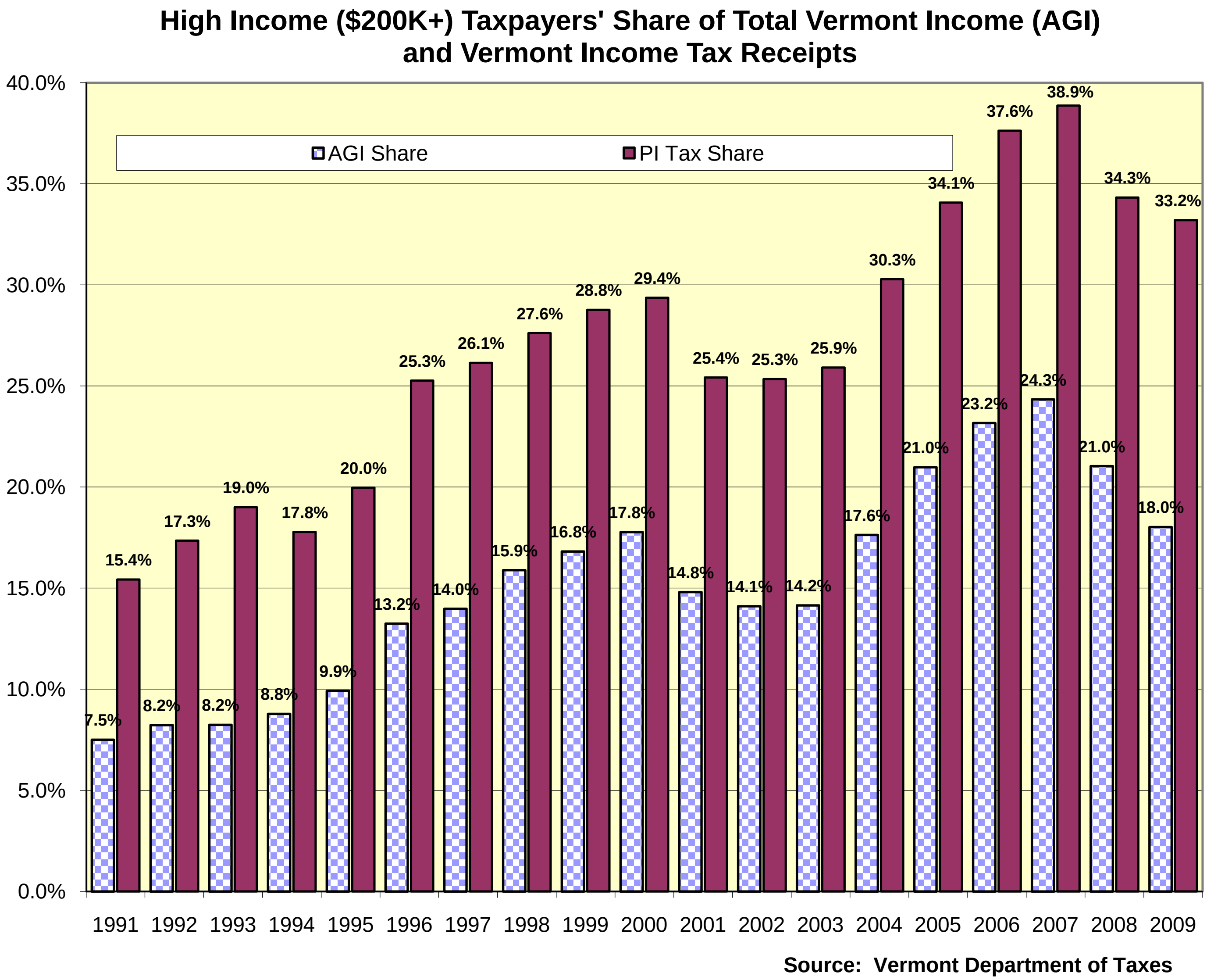


- For the third consecutive economic and revenue update, only minor technical adjustments are recommended to the prior revenue forecasts adopted by the State, due to revenue collections through the first six months of FY11 that have been very close to July 2010 projections. During the first half of FY11, aggregate Transportation Fund revenues were one one-hundredth of a percent (0.01%) above estimates, while the three largest General Fund revenue sources in aggregate were eight tenths of one percent (0.8%) above projections, with personal income tax receipts about 1.4% above estimates, sales and use revenues about 0.1% below estimates and meals and rooms revenues about 0.1% above prior July projections.

- Several unique events affecting Corporate, Estate and Bank tax revenues, however, resulted in about $25 million in additional FY11 revenues beyond expectations. At this time, these receipts appear to be one-time events, and thus will have little impact on FY12 revenues, but are the primary reason FY11 recommended revenue estimates were raised by $27.1 million.

- State corporate income receipts have also benefitted from exceptionally strong corporate profits during the past 4 quarters and provisions associated with unitary taxation in the Vermont tax code have created both greater stability in corporate tax revenues and somewhat mitigated cyclical revenue declines. Corporate profitability also affects personal income tax receipts through both business income that flows through to personal income tax returns and capital gains associated with business activities.

- Personal income tax receipts in tax year 2009 illustrated the greater volatility inherent in high-end income, as both the share of adjusted gross income (AGI) and the share of Vermont income taxes paid by the highest income classes declined for the second year in a row (see below chart).



- After declining precipitously in tax years 2008 and 2009, capital gains are expected to represent a larger share of personal income tax revenues in FY11 and beyond, as stocks, bonds and business ownership valuations recover. As shown in the table on the following page, these asset classes are disproportionately concentrated among the wealthiest segments of the population, which will tend to increase both income and taxes paid by the wealthiest taxpayers. As a result of this and other factors, the shares of both adjusted gross income and Vermont income taxes paid by high-end taxpayers are likely to resume their long-term upward trends in tax year 2010 and beyond.

2007
Shares of U.S. Net Worth and Selected Components
Distributed by Net Worth Groups

	Wealth Percentile Group				
Item	*0 to 50*	*50 to 90*	*90 to 95*	*95 to 99*	*99 to 100*
All Assets	6.1	29.0	10.6	24.7	29.6
Principal Residence	12.6	48.9	11.0	18.1	9.4
Other Residential Real Estate	2.2	23.4	14.6	35.2	24.6
Other Real Estate	1.1	17.0	10.8	35.2	35.8
Stocks	0.6	9.0	8.0	30.5	51.9
Bonds	0.0	1.5	4.8	31.2	62.4
Businesses	0.4	6.0	5.5	25.5	62.7
Automobiles	28.6	45.9	8.0	10.9	6.6
Liabilities	26.7	46.6	7.7	13.7	5.3
Principal Residence Debt	25.3	50.1	7.6	12.9	4.1
Other Residential Real Estate Debt	5.8	34.8	12.9	32.9	13.6
Credit Card	43.1	45.8	5.6	4.3	1.2
Net Worth	2.5	26.0	11.1	26.6	33.8
Total Income	22.4	36.3	8.3	16.6	16.4

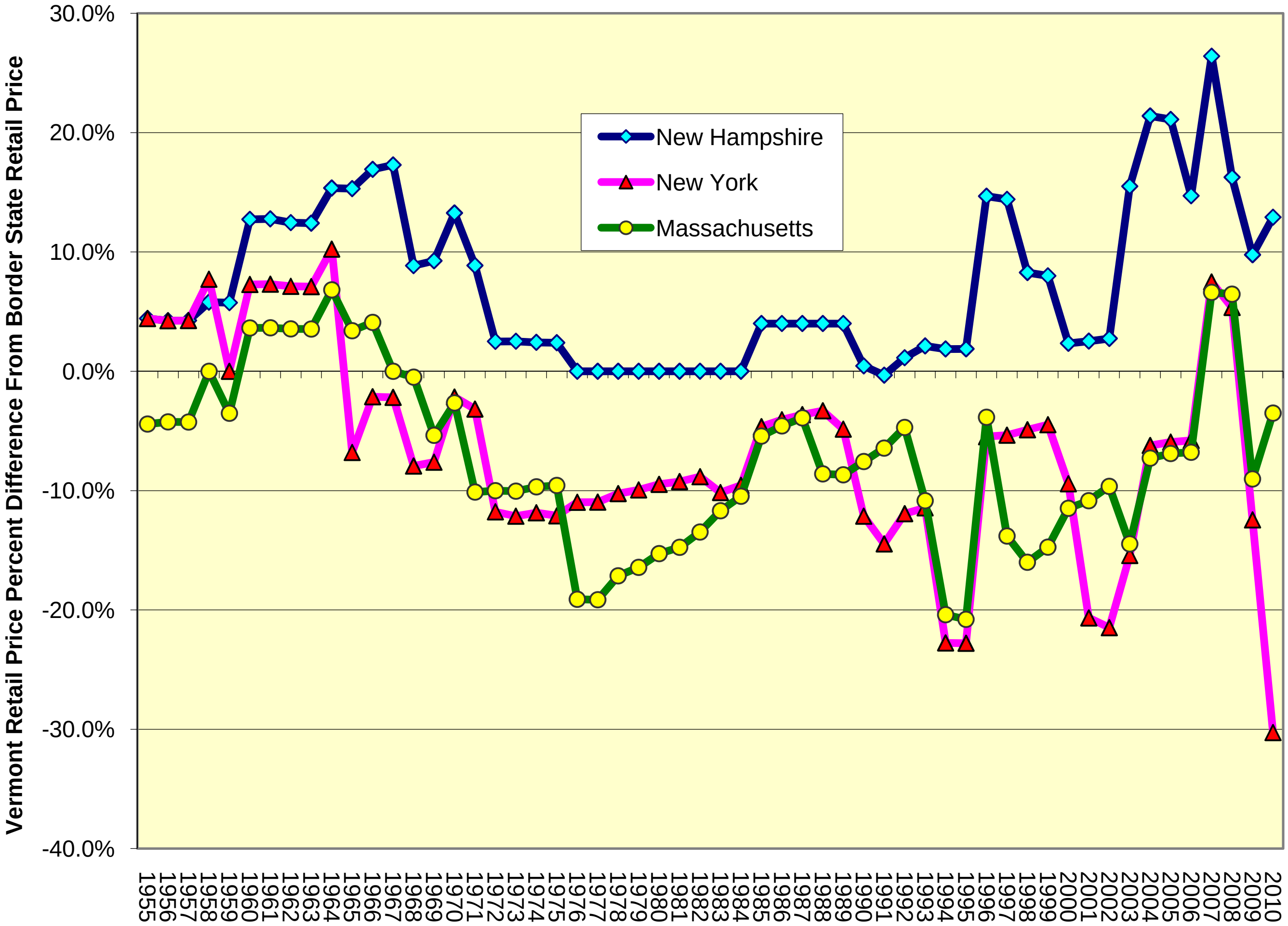
Source: Federal Reserve Board publication by Arthur B. Kennickell,
"*Ponds and Streams: Wealth and Income in the U.S., 1989 to 2007*" - Figure A3a

- As noted in the above table, real estate holdings, which will take much longer to recover than other asset classes, are more widely distributed among the population. For example, the poorest 50% of the population owns 12.6% of all principal residences, but less than 1% of all stocks and virtually 0% of all bonds. More than half of all stocks and more than 60% of all bonds and businesses are owned by the wealthiest 1% of the population.

- Concentrations of asset ownership also affect estate tax receipts, which are paid by a relatively small number of high net worth taxpayers (about 2% of all estates). FY11 is now expected to benefit from recent federal legislation on estate taxation in 2011 and 2012, with retroactive provisions available to 2010 estates as well. At this time, it appears there may be a number of estates that had delayed filing during the confusing tax environment in 2010 (when the federal estate tax was repealed and various modifications were proposed but not enacted), but are now filing based on the revised retroactive provisions.

- State cigarette tax revenues have benefitted from recent tax increases in neighboring states – especially the move by New York to raise rates to $4.35 per pack, the highest in the nation. This has created the largest retail price differential between Vermont and any bordering state in the history of the cigarette tax (see below chart). Along with recent tax increases by Massachusetts (to $2.51 per pack) and New Hampshire (to $1.78 per pack), this will result in more than $4 million per year in additional cigarette and tobacco products revenues in FY11 and beyond.

Border State Tax Changes Benefit Vermont Cigarette Receipts
(Cigarette Price Differentials Relative to Vermont - Expressed as a Percentage of Retail Price)



Source: Orzechowski and Walker, Vermont Joint Fiscal Office

- Higher gasoline and oil prices will negatively impact Transportation Fund revenues over the forecast period, resulting in annual revenue reductions of between $1M and $4M during the next five years. Because both the gasoline and diesel taxes are based on gallonage sold (and not the value of the sale), when gas prices rise, consumption declines and with it, tax revenues. In contrast to this, the new State Transportation Infrastructure Bonds (TIBs) are financed in large part through a tax on the value of gasoline sold. Being insulated from price-induced consumption declines, this revenue source is projected to increase slightly, relative to prior July projections (see Table 2).

- While some of the recent energy price increases are related to increasing global demand, much of the recent increase in oil and other commodity prices has been associated with the weakening Euro and U.S. dollar and the use of an ever-widening array of commodities as supposed "safe havens" against inflationary and other currency fluctuations. While gold is the commodity that has traditionally served this purpose, with its price more than doubling over the past two and a half years, it is becoming increasingly vulnerable to speculative excess and setback. As a result of this, traders have moved into oil futures and other commodities, seeking a similar purpose and pushing up prices in the process.

- The U.S. and Vermont macro-economic forecasts upon which the revenue forecasts in this Update are based are summarized in the below Tables A and B, and represent a consensus JFO and Administration macro-economic forecast developed using internal JFO and Administration State economic models with input from Moody's Economy.com (E.com) December 2010 projections and New England Economic Partnership (NEEP) October 2010 forecasts. These forecasts include estimates of recent federal fiscal and monetary stimuli, including impacts associated with the extension of Bush-era tax cuts, provisions extending unemployment insurance, near-term tax benefits from accelerated depreciation and recent quantitative easing by the Federal Reserve. Despite rising risks of a double-dip recession in the months following the prior July 2010 economic and revenue outlook, these recent policy measures lower such risks substantially and will support near term macro-economic growth at levels very close to or above prior July projections.

TABLE A
Comparison of Recent Consensus U.S. Macroeconomic Forecasts
June-09 Through December-10, Selected Variables, Calendar Year Basis

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP Growth									
June-09	*2.9*	*2.8*	*2.0*	*1.1*	*-3.0*	*1.2*	*4.4*	*5.8*	
November-09	*3.1*	*2.7*	*2.1*	*0.4*	*-2.6*	*1.8*	*3.9*	*5.4*	*3.6*
June-10	*3.1*	*2.7*	*2.1*	*0.4*	*-2.4*	*3.1*	*3.9*	*5.0*	*3.4*
December-10	*3.1*	*2.7*	*1.9*	*0.0*	*-2.6*	*2.9*	*3.9*	*4.5*	*4.4*
S&P 500 Growth (Annual Avg.)									
June-09	*6.8*	*8.6*	*12.7*	*-17.3*	*-23.7*	*31.1*	*8.2*	*7.5*	
November-09	*6.8*	*8.6*	*12.7*	*-17.3*	*-23.9*	*24.6*	*8.0*	*7.4*	*5.0*
June-10	*6.8*	*8.6*	*12.7*	*-17.3*	*-22.5*	*21.2*	*5.8*	*4.2*	*5.9*
December-10	*6.8*	*8.6*	*12.7*	*-17.3*	*-22.5*	*20.5*	*12.4*	*6.8*	*5.8*
Employment Growth (Non-Ag)									
June-09	*1.7*	*1.8*	*1.1*	*-0.4*	*-3.7*	*-0.8*	*2.4*	*3.6*	
November-09	*1.7*	*1.8*	*1.1*	*-0.4*	*-3.7*	*-1.0*	*2.2*	*3.5*	*3.3*
June-10	*1.7*	*1.8*	*1.1*	*-0.6*	*-4.3*	*-0.4*	*1.5*	*2.9*	*3.2*
December-10	*1.7*	*1.8*	*1.1*	*-0.6*	*-4.3*	*-0.5*	*1.7*	*2.3*	*3.3*
Unemployment Rate									
June-09	*5.1*	*4.6*	*4.6*	*5.8*	*9.3*	*9.9*	*8.6*	*6.6*	
November-09	*5.1*	*4.6*	*4.6*	*5.8*	*9.2*	*10.0*	*8.9*	*7.0*	*5.8*
June-10	*5.1*	*4.6*	*4.6*	*5.8*	*9.3*	*9.9*	*9.5*	*7.5*	*6.1*
December-10	*5.1*	*4.6*	*4.6*	*5.8*	*9.3*	*9.6*	*9.5*	*8.0*	*6.4*
West Texas Int. Crude Oil $/Bbl									
June-09	*56.5*	*66.1*	*72.4*	*100.8*	*58.1*	*74.6*	*84.5*	*82.4*	
November-09	*56.5*	*66.1*	*72.4*	*100.8*	*60.6*	*75.9*	*87.5*	*89.4*	*90.2*
June-10	*56.5*	*66.1*	*72.4*	*99.6*	*61.7*	*79.5*	*87.3*	*89.4*	*90.2*
December-10	*56.5*	*66.1*	*72.4*	*99.6*	*61.7*	*79.4*	*93.0*	*96.4*	*97.9*
Prime Rate									
June-09	*6.19*	*7.96*	*8.05*	*5.09*	*3.25*	*3.53*	*5.32*	*7.07*	
November-09	*6.19*	*7.96*	*8.05*	*5.09*	*3.22*	*3.35*	*5.15*	*7.01*	*7.50*
June-10	*6.19*	*7.96*	*8.05*	*5.09*	*3.25*	*3.20*	*4.60*	*6.78*	*7.07*
December-10	*6.19*	*7.96*	*8.05*	*5.09*	*3.25*	*3.23*	*3.21*	*4.43*	*6.55*
Consumer Price Index Growth									
June-09	*3.4*	*3.2*	*2.9*	*3.8*	*-0.6*	*1.7*	*2.0*	*2.0*	
November-09	*3.4*	*3.2*	*2.9*	*3.8*	*-0.5*	*1.7*	*1.9*	*2.1*	*2.0*
June-10	*3.4*	*3.2*	*2.9*	*3.8*	*-0.3*	*1.8*	*2.1*	*3.1*	*2.8*
December-10	*3.4*	*3.2*	*2.9*	*3.8*	*-0.3*	*1.6*	*1.5*	*2.6*	*3.0*
Avg. Home Price Growth									
June-09	*11.5*	*7.5*	*2.2*	*-2.5*	*-5.5*	*-9.9*	*-0.1*	*4.0*	
November-09	*11.5*	*7.4*	*2.0*	*-2.6*	*-5.0*	*-10.4*	*-1.5*	*4.2*	*5.7*
June-10	*11.4*	*7.2*	*2.0*	*-3.0*	*-4.0*	*-4.6*	*-0.7*	*0.4*	*1.5*
December-10	*11.4*	*7.2*	*1.7*	*-3.1*	*-4.0*	*-3.7*	*-1.1*	*0.3*	*1.4*

TABLE B

Comparison of Consensus Administration and JFO Vermont State Forecasts
October-08 Through December-10, Selected Variables, Calendar Year Basis

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GSP Growth									
October-08	*2.0*	*1.2*	*1.5*	*1.3*	*0.1*	*2.8*	*3.3*	*3.2*	
December-08	*2.0*	*1.2*	*1.5*	*1.2*	*-0.8*	*1.8*	*3.9*	*4.5*	
June-09	*2.2*	*1.3*	*1.7*	*1.7*	*-3.3*	*0.5*	*3.4*	*5.1*	
November-09	*2.2*	*1.3*	*1.7*	*1.7*	*-3.1*	*-0.5*	*4.5*	*5.3*	*4.3*
June-10	*2.2*	*1.3*	*1.7*	*1.7*	*-0.3*	*3.5*	*4.0*	*5.1*	*3.2*
December-10	*1.3*	*1.2*	*0.1*	*2.0*	*-0.7*	*3.4*	*4.1*	*5.3*	*3.8*
Population Growth									
October-08	*0.2*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	
December-08	*0.2*	*0.2*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	
June-09	*0.1*	*0.1*	*0.1*	*0.1*	*0.0*	*0.1*	*0.3*	*0.3*	
November-09	*0.1*	*0.1*	*0.1*	*0.1*	*0.0*	*0.2*	*0.3*	*0.3*	*0.3*
June-10	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*	*0.1*	*0.3*	*0.3*	*0.3*
December-10	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*	*0.1*	*0.3*	*0.4*	*0.5*
Employment Growth									
October-08	*0.9*	*0.7*	*0.0*	*-0.3*	*-1.7*	*-0.6*	*1.0*	*1.4*	
December-08	*0.9*	*0.7*	*0.0*	*-0.2*	*-1.3*	*0.2*	*1.6*	*1.6*	
June-09	*0.9*	*0.7*	*0.2*	*-0.7*	*-4.6*	*-1.7*	*1.4*	*2.9*	
November-09	*0.9*	*0.7*	*0.2*	*-0.7*	*-3.8*	*-1.1*	*1.3*	*2.3*	*2.9*
June-10	*0.8*	*0.7*	*0.2*	*-0.4*	*-3.3*	*-0.4*	*0.8*	*2.2*	*1.9*
December-10	*0.8*	*0.7*	*0.2*	*-0.4*	*-3.3*	*-0.9*	*0.5*	*1.8*	*2.7*
Unemployment Rate									
October-08	*3.5*	*3.7*	*3.9*	*4.9*	*6.3*	*6.7*	*6.0*	*5.3*	
December-08	*3.5*	*3.7*	*3.9*	*4.9*	*6.6*	*7.2*	*6.3*	*5.1*	
June-09	*3.5*	*3.7*	*4.0*	*4.8*	*8.0*	*8.9*	*7.7*	*6.1*	
November-09	*3.5*	*3.7*	*4.0*	*4.8*	*7.2*	*8.1*	*7.4*	*6.0*	*5.1*
June-10	*3.5*	*3.7*	*3.9*	*4.5*	*6.9*	*6.7*	*6.6*	*5.4*	*4.5*
December-10	*3.5*	*3.7*	*3.9*	*4.5*	*6.9*	*6.2*	*6.1*	*5.2*	*4.1*
Personal Income Growth									
October-08	*2.5*	*7.6*	*6.6*	*3.6*	*1.9*	*2.9*	*3.8*	*3.9*	
December-08	*2.5*	*7.6*	*6.6*	*3.9*	*1.3*	*2.5*	*3.6*	*4.5*	
June-09	*2.5*	*7.6*	*6.7*	*3.8*	*0.1*	*0.7*	*2.4*	*4.4*	
November-09	*2.5*	*7.6*	*6.7*	*4.3*	*1.4*	*1.1*	*2.4*	*3.5*	*5.1*
June-10	*2.3*	*8.0*	*4.8*	*2.7*	*-0.3*	*2.8*	*3.4*	*5.5*	*6.0*
December-10	*2.3*	*8.0*	*4.8*	*2.7*	*0.2*	*2.5*	*2.8*	*5.8*	*6.5*
Home Price Growth (JFO*)									
October-08	*14.2*	*9.2*	*4.0*	*0.8*	*-2.7*	*0.2*	*1.6*	*1.5*	
December-08*	*14.1*	*9.1*	*3.9*	*0.7*	*-1.3*	*0.1*	*1.1*	*1.5*	
June-09*	*14.0*	*8.9*	*3.4*	*0.9*	*-1.7*	*-1.6*	*0.5*	*1.1*	
November-09*	*14.0*	*8.5*	*3.2*	*0.8*	*-1.8*	*-1.9*	*0.4*	*1.1*	*2.1*
June-10	*13.9*	*8.4*	*3.1*	*0.4*	*-1.5*	*-2.1*	*0.1*	*1.1*	*2.1*
December-10	*13.9*	*8.3*	*3.0*	*0.3*	*-1.5*	*-1.3*	*-0.1*	*0.7*	*1.3*

Methodological Notes and Other Comments

- This analysis has benefited significantly from the input and support of Tax Department and Joint Fiscal Office personnel. In the Joint Fiscal Office, Sara Teachout, Stephanie Barrett, Catherine Benham, Neil Schickner and Mark Perrault have contributed to numerous policy and revenue impact analyses and coordinated JFO forecast production and related legislative committee support functions. Theresa Utton-Jerman has diligently organized and maintained large tax and other databases in support of JFO revenue forecasting activities. In the Tax Department, Susan Mesner, Tax Department Economist, has made invaluable analytic contributions to many tax and revenue forecasts, including tax law change analyses and Bill Smith, Tax Department Statistician and Policy Analyst, has provided a wealth of statistical and related background information from the detailed tax databases he has developed and maintained. Our thanks to all of the above for their many contributions to this analysis.

- The analysis in support of JFO economic and revenue projections are based on statistical and econometric models, and professional analytic judgment. All models are based on 32 years of data for each of the 25 General Fund categories (three aggregates), 29 years of data for each of the Transportation Fund categories (one aggregate), and 11 to 32 years for each of the Education Fund categories. The analyses employed includes seasonal adjustment using the X-11 and X-12 Census methods, various moving average techniques (such as Henderson Curves, etc.), Box-Jenkins ARIMA type models, pressure curve analysis, comparable-pattern analysis of monthly, quarterly and half year trends for current year estimation, and behavioral econometric forecasting models.

- Because the State does not currently fund an internal State or U.S. macro-economic model, this analysis relies primarily on macro-economic models from Moody's/Economy.com and the New England Economic Partnership (NEEP). The NEEP forecast for Vermont is managed by Jeff Carr, of Economic & Policy Resources, Inc., who is also the current Administration economist. Since October of 2001, input and review of initial Vermont NEEP model design and output prior to its release has been provided by the JFO Consulting Economist. Dynamic and other input/output-based models for the State of Vermont, including those from Regional Economic Models, Inc. (REMI), Regional Dynamics, Inc. (REDYN), and IMPLAN are also maintained and managed by the JFO for use in selected economic impact and simulation analyses used herein.

- The Consensus JFO and Administration forecasts are developed following discussion, analysis and synthesis of independent revenue projections produced by Administration and Joint Fiscal Office economic advisors.

TABLE 1A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - January 2011

SOURCE G-FUND *revenues are prior to all E-Fund allocations and other out-transfers. Used for analytic and comparative purposes only.*	FY 2006 (Actual)	% Change	FY 2007 (Actual)	% Change	FY 2008 (Actual)	% Change	FY 2009 (Actual)	% Change	FY 2010 (Actual)	% Change	FY 2011 (Forecast)	% Change	FY 2012 (Forecast)	% Change	FY 2013 (Forecast)	% Change
REVENUE SOURCE																
Personal Income	$542.0	8.3%	$581.2	7.2%	$622.3	7.1%	$530.3	-14.8%	$498.0	-6.1%	$534.3	7.3%	$594.8	11.3%	$641.4	7.8%
Sales & Use*	$325.5	4.7%	$333.7	2.5%	$338.4	1.4%	$321.2	-5.1%	$311.1	-3.1%	$323.3	3.9%	$336.8	4.2%	$349.8	3.9%
Corporate	$75.9	25.8%	$72.8	-4.1%	$74.6	2.4%	$66.2	-11.3%	$62.8	-5.1%	$80.6	28.3%	$78.1	-3.1%	$81.2	4.0%
Meals and Rooms	$111.8	-1.1%	$114.9	2.8%	$121.1	5.4%	$117.1	-3.3%	$118.0	0.8%	$122.8	4.1%	$127.2	3.6%	$131.5	3.4%
Cigarette and Tobacco**	$48.9	0.3%	$64.3	31.4%	$59.2	-7.9%	$64.1	8.3%	$70.1	9.2%	$72.2	3.0%	$70.3	-2.6%	$68.4	-2.7%
Liquor	$13.2	5.1%	$13.7	4.0%	$14.2	3.7%	$15.0	6.0%	$14.9	-1.0%	$15.0	0.7%	$15.4	2.7%	$15.8	2.6%
Insurance	$52.5	4.2%	$52.9	0.8%	$54.8	3.8%	$53.7	-2.1%	$53.3	-0.9%	$54.4	2.1%	$55.5	2.0%	$56.7	2.2%
Telephone	$10.4	-1.4%	$10.0	-4.0%	$9.5	-4.6%	$9.1	-3.8%	$7.9	-13.9%	$9.4	19.5%	$9.3	-1.1%	$9.2	-1.1%
Beverage	$5.4	2.8%	$5.5	1.3%	$5.6	1.9%	$5.6	0.3%	$5.7	0.4%	$5.8	1.6%	$5.9	2.6%	$6.0	1.7%
Electric	$2.6	0.0%	$2.6	1.2%	$2.7	3.3%	$2.8	4.0%	$2.9	2.5%	$2.9	0.1%	$1.4	-50.3%	$0.0	-100.0%
Estate	$26.2	39.0%	$17.8	-32.1%	$15.7	-11.9%	$23.4	49.1%	$14.2	-39.5%	$22.4	58.1%	$18.2	-18.8%	$18.9	3.8%
Property	$43.7	-3.4%	$39.3	-10.0%	$34.0	-13.5%	$25.9	-23.7%	$23.8	-8.2%	$23.9	0.3%	$25.5	6.7%	$27.5	7.8%
Bank	$10.2	18.3%	$10.5	3.6%	$10.2	-3.4%	$20.6	102.5%	$10.4	-49.7%	$15.8	52.6%	$10.9	-31.0%	$11.1	1.8%
Other Tax	$7.2	9.1%	$6.5	-10.2%	$3.2	-51.1%	$2.8	-12.7%	$3.7	32.1%	$2.1	-42.5%	$2.3	9.5%	$2.6	13.0%
Total Tax Revenue	$1275.4	6.8%	$1325.7	3.9%	$1365.5	3.0%	$1257.9	-7.9%	$1196.5	-4.9%	$1284.9	7.4%	$1351.6	5.2%	$1420.1	5.1%
Business Licenses	$2.8	-0.5%	$2.8	-1.0%	$2.7	-1.0%	$3.0	9.4%	$3.0	-0.2%	$3.1	3.9%	$3.2	3.2%	$3.3	3.1%
Fees	$13.2	6.1%	$14.2	7.4%	$14.7	3.6%	$19.1	29.5%	$19.2	0.9%	$19.9	3.5%	$20.5	3.0%	$21.2	3.4%
Services	$1.3	-35.3%	$1.5	17.1%	$1.7	15.9%	$1.5	-11.0%	$1.2	-19.9%	$1.2	-3.2%	$1.3	8.3%	$1.4	7.7%
Fines	$3.2	-26.7%	$3.2	-2.1%	$4.4	38.6%	$9.8	122.0%	$7.4	-24.8%	$4.2	-42.9%	$4.4	4.8%	$4.6	4.5%
Interest	$2.7	67.0%	$3.6	33.5%	$3.9	10.1%	$1.4	-63.9%	$0.6	-57.0%	$0.6	-1.8%	$2.3	275.0%	$3.6	60.0%
Lottery	$21.9	7.3%	$23.3	6.5%	$22.7	-2.5%	$20.9	-7.7%	$21.6	3.0%	$21.0	-2.7%	$21.5	2.4%	$22.0	2.3%
All Other	$0.2	-40.9%	$1.1	365.2%	$0.6	-44.1%	$0.2	-64.7%	$0.3	57.4%	$1.2	246.6%	$0.5	-58.3%	$0.6	20.0%
Total Other Revenue	$45.3	2.9%	$49.6	9.5%	$50.9	2.5%	$56.0	10.0%	$53.3	-4.7%	$51.2	-4.0%	$53.7	4.8%	$56.7	5.7%
TOTAL GENERAL FUND	**$1320.8**	**6.7%**	**$1375.4**	**4.1%**	**$1416.4**	**3.0%**	**$1313.9**	**-7.2%**	**$1249.9**	**-4.9%**	**$1336.1**	**6.9%**	**$1405.3**	**5.2%**	**$1476.8**	**5.1%**
OTHER																
Fuel Gross Receipts Tax***	$6.3	8.0%	$7.0	10.6%	$7.3	4.7%	$7.3	-0.2%	$6.9	-5.4%	$7.3	5.3%	$7.8	7.4%	$8.1	3.6%

* Includes Telecommunications Tax; includes $3.76M transfer in FY08 to the T-Fund for prior years Jet Fuel tax processing error

** Includes Cigarette, Tobacco Products and Floor Stock tax revenues

*** FY09 Fuel Gross Receipts data are forecast, not preliminary or actual, due to data processing delays

TABLE 1 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - January 2011

CURRENT LAW BASIS

including all Education Fund allocations and other out-transfers	FY 2006 (Actual)	% Change	FY 2007 (Actual)	% Change	FY 2008 (Actual)	% Change	FY 2009 (Actual)	% Change	FY 2010 (Actual)	% Change	FY 2011 (Forecast)	% Change	FY 2012 (Forecast)	% Change	FY 2013 (Forecast)	% Change
REVENUE SOURCE																
Personal Income	$542.0	8.3%	$581.2	7.2%	$622.3	7.1%	$530.3	-14.8%	$498.0	-6.1%	$534.3	7.3%	$594.8	11.3%	$641.4	7.8%
Sales and Use*	$216.9	4.7%	$222.5	2.6%	$225.6	1.4%	$214.1	-5.1%	$207.4	-3.1%	$215.5	3.9%	$224.5	4.2%	$233.2	3.9%
Corporate	$75.9	25.8%	$72.8	-4.1%	$74.6	2.4%	$66.2	-11.3%	$62.8	-5.1%	$80.6	28.3%	$78.1	-3.1%	$81.2	4.0%
Meals and Rooms	$111.8	-1.1%	$114.9	2.8%	$121.1	5.4%	$117.1	-3.3%	$118.0	0.8%	$122.8	4.1%	$127.2	3.6%	$131.5	3.4%
Cigarette and Tobacco	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Liquor	$13.2	5.1%	$13.7	4.0%	$14.2	3.7%	$15.0	6.0%	$14.9	-1.0%	$15.0	0.7%	$15.4	2.7%	$15.8	2.6%
Insurance	$52.5	4.2%	$52.9	0.8%	$54.8	3.8%	$53.7	-2.1%	$53.3	-0.9%	$54.4	2.1%	$55.5	2.0%	$56.7	2.2%
Telephone	$10.4	-1.4%	$10.0	-4.0%	$9.5	-4.6%	$9.1	-3.8%	$7.9	-13.9%	$9.4	19.5%	$9.3	-1.1%	$9.2	-1.1%
Beverage	$5.4	2.8%	$5.5	1.3%	$5.6	1.9%	$5.6	0.3%	$5.7	0.4%	$5.8	1.6%	$5.9	2.6%	$6.0	1.7%
Electric	$2.6	0.0%	$2.6	1.2%	$2.7	3.3%	$2.8	4.0%	$2.9	2.5%	$2.9	0.1%	$1.4	-50.3%	$0.0	-100.0%
Estate**	$26.2	39.0%	$17.8	-32.1%	$15.7	-11.9%	$21.9	39.4%	$14.2	-35.2%	$21.0	48.3%	$18.2	-13.3%	$18.9	3.8%
Property	$13.5	-8.9%	$12.8	-4.5%	$10.7	-16.3%	$8.5	-21.1%	$7.8	-8.2%	$7.8	0.3%	$8.3	6.7%	$9.0	7.8%
Bank	$10.2	18.3%	$10.5	3.6%	$10.2	-3.4%	$20.6	102.5%	$10.4	-49.7%	$15.8	52.6%	$10.9	-31.0%	$11.1	1.8%
Other Tax	$7.2	9.1%	$6.5	-10.2%	$3.2	-51.1%	$2.8	-12.7%	$3.7	32.1%	$2.1	-42.5%	$2.3	9.5%	$2.6	13.0%
Total Tax Revenue	$1087.7	7.6%	$1123.7	3.3%	$1170.3	4.1%	$1067.7	-8.8%	$1006.7	-5.7%	$1087.4	8.0%	$1151.9	5.9%	$1216.6	5.6%
Business Licenses	$2.8	-0.5%	$2.8	-1.0%	$2.7	-1.0%	$3.0	9.4%	$3.0	-0.2%	$3.1	3.9%	$3.2	3.2%	$3.3	3.1%
Fees	$13.2	6.1%	$14.2	7.4%	$14.7	3.6%	$19.1	29.5%	$19.2	0.9%	$19.9	3.5%	$20.5	3.0%	$21.2	3.4%
Services	$1.3	-35.3%	$1.5	17.1%	$1.7	15.9%	$1.5	-11.0%	$1.2	-19.9%	$1.2	-3.2%	$1.3	8.3%	$1.4	7.7%
Fines	$3.2	-26.7%	$3.2	-2.1%	$4.4	38.6%	$9.8	122.0%	$7.4	-24.8%	$4.2	-42.9%	$4.4	4.8%	$4.6	4.5%
Interest	$3.4	60.7%	$4.9	43.9%	$5.3	7.2%	$1.2	-77.8%	$0.5	-56.3%	$0.5	-1.9%	$2.1	320.0%	$3.4	61.9%
All Other	$0.2	-40.9%	$1.1	365.2%	$0.6	-44.1%	$0.2	-64.7%	$0.3	57.4%	$1.2	246.6%	$0.5	-58.3%	$0.6	20.0%
Total Other Revenue	$24.2	-0.1%	$27.7	14.3%	$29.5	6.5%	$34.8	18.0%	$31.7	-8.9%	$30.1	-5.0%	$32.0	6.3%	$34.5	7.8%
TOTAL GENERAL FUND	**$1111.9**	**7.4%**	**$1151.4**	**3.5%**	**$1199.7**	**4.2%**	**$1102.5**	**-8.1%**	**$1038.4**	**-5.8%**	**$1117.5**	**7.6%**	**$1183.9**	**5.9%**	**$1251.1**	**5.7%**

* Includes $2.5M transfer to the T-Fund in FY08 for prior years Jet Fuel tax processing errors

** Excludes transfer to the Higher Education Trust Fund of $2.4M in FY05 and $5.2M in FY06

TABLE 2A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - January 2011

SOURCE T-FUND *revenues are prior to all E-Fund allocations and other out-transfers. Used for analytic and comparative purposes only.*	**FY 2006** *(Actual)*	% Change	**FY 2007** *(Actual)*	% Change	**FY 2008** *(Actual)*	% Change	**FY 2009** *(Actual)*	% Change	**FY 2010** *(Actual)*	% Change	**FY 2011** *(Forecast)*	% Change	**FY 2012** *(Forecast)*	% Change	**FY 2013** *(Forecast)*	% Change
REVENUE SOURCE																
Gasoline	$63.8	-2.7%	$63.6	-0.3%	$62.6	-1.6%	$60.6	-3.1%	$61.0	0.6%	$61.4	0.6%	$62.2	1.3%	$63.2	1.6%
Diesel	$17.7	14.0%	$18.0	1.7%	$16.6	-7.8%	$15.5	-6.5%	$15.1	-2.6%	$15.4	2.0%	$15.9	3.2%	$16.5	3.8%
Purchase and Use*	$80.3	-4.4%	$80.6	0.4%	$79.0	-2.0%	$65.9	-16.6%	$69.7	5.7%	$74.9	7.5%	$80.6	7.6%	$83.9	4.1%
Motor Vehicle Fees	$57.4	2.3%	$65.4	14.1%	$67.5	3.2%	$65.5	-3.0%	$72.5	10.7%	$73.1	0.8%	$76.1	4.1%	$77.6	2.0%
Other Revenue**	$18.2	8.6%	$20.2	11.1%	$23.7	17.2%	$18.0	-24.0%	$18.2	1.4%	$18.0	-1.3%	$18.6	3.3%	$19.2	3.2%
TOTAL TRANS. FUND	**$237.4**	**-0.3%**	**$247.8**	**4.4%**	**$249.4**	**0.6%**	**$225.6**	**-9.6%**	**$236.6**	**4.9%**	**$242.8**	**2.6%**	**$253.4**	**4.4%**	**$260.4**	**2.8%**

TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - January 2011

CURRENT LAW BASIS *including all Education Fund allocations and other out-transfers*	**FY 2006** *(Actual)*	% Change	**FY 2007** *(Actual)*	% Change	**FY 2008** *(Actual)*	% Change	**FY 2009** *(Actual)*	% Change	**FY 2010** *(Actual)*	% Change	**FY 2011** *(Forecast)*	% Change	**FY 2012** *(Forecast)*	% Change	**FY 2013** *(Forecast)*	% Change
REVENUE SOURCE																
Gasoline	$63.8	-2.7%	$63.6	-0.3%	$62.6	-1.6%	$60.6	-3.1%	$61.0	0.6%	$61.4	0.6%	$62.2	1.3%	$63.2	1.6%
Diesel	$17.7	14.0%	$18.0	1.7%	$16.6	-7.8%	$15.5	-6.5%	$15.1	-2.6%	$15.4	2.0%	$15.9	3.2%	$16.5	3.8%
Purchase and Use*	$53.9	-3.8%	$53.7	-0.3%	$52.7	-2.0%	$44.0	-16.6%	$46.5	5.7%	$49.9	7.5%	$53.7	7.6%	$55.9	4.1%
Motor Vehicle Fees	$57.4	2.3%	$65.4	14.1%	$67.5	3.2%	$65.5	-3.0%	$72.5	10.7%	$73.1	0.8%	$76.1	4.1%	$77.6	2.0%
Other Revenue**	$17.1	7.6%	$19.2	11.9%	$23.7	23.5%	$18.0	-24.0%	$18.2	1.4%	$18.0	-1.3%	$18.6	3.3%	$19.2	3.2%
TOTAL TRANS. FUND	**$209.9**	**0.4%**	**$219.9**	**4.8%**	**$223.1**	**1.4%**	**$203.6**	**-8.7%**	**$213.3**	**4.8%**	**$217.8**	**2.1%**	**$226.5**	**4.0%**	**$232.4**	**2.6%**
OTHER																
TIB Gasoline									$13.4	NM	$16.5	23.6%	$18.0	9.3%	$19.6	8.4%
TIB Diesel									$1.5	NM	$1.9	24.1%	$1.9	3.2%	$2.0	3.7%
Total TIB									$14.9	NM	$18.4	23.6%	$20.0	8.7%	$21.5	8.0%

* As of FY04, includes Motor Vehicle Rental tax revenue

** Beginning in FY07, includes Stabilization Reserve interest; FY08 data includes $3.76M transfer from G-Fund for prior Jet Fuel tax processing errors and inclusion of this tax in subsequent years

TABLE 3 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE EDUCATION FUND* REVENUE FORECAST UPDATE
(Partial Education Fund Total - Includes Source General and Transportation Fund Allocations Only)
Consensus JFO and Administration Forecast - January 2011

CURRENT LAW BASIS

** Source General and Transportation Fund taxes allocated to or associated with the Education Fund only.*	**FY 2006** *(Actual)*	% Change	**FY 2007** *(Actual)*	% Change	**FY 2008** *(Actual)*	% Change	**FY 2009** *(Actual)*	% Change	**FY 2010** *(Actual)*	% Change	**FY 2011** *(Forecast)*	% Change	**FY 2012** *(Forecast)*	% Change	**FY 2013** *(Forecast)*	% Change
GENERAL FUND																
Meals and Rooms	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Sales & Use**	$108.5	4.8%	$111.2	2.5%	$112.8	1.4%	$107.1	-5.1%	$103.7	-3.1%	$107.8	3.9%	$112.3	4.2%	$116.6	3.9%
Bank	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Corporate	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Security Registration Fees	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM	$0.0	NM
Interest	($0.7)	NM	($1.3)	NM	($1.3)	-0.8%	$0.3	NM	$0.1	NM	$0.1	NM	$0.2	50.0%	$0.2	33.3%
Lottery	$21.9	7.3%	$23.3	6.5%	$22.7	-2.5%	$20.9	-7.7%	$21.6	3.0%	$21.0	-2.7%	$21.5	2.4%	$22.0	2.3%
TRANSPORTATION FUND																
Purchase and Use***	$26.4	-5.8%	$26.9	1.8%	$26.3	-2.0%	$22.0	-16.6%	$23.2	5.7%	$25.0	7.5%	$26.9	7.6%	$28.0	4.1%
TOTAL	**$156.1**	**3.0%**	**$160.1**	**2.6%**	**$160.5**	**0.3%**	**$150.2**	**-6.4%**	**$148.6**	**-1.1%**	**$153.8**	**3.5%**	**$160.8**	**4.5%**	**$166.8**	**3.7%**

** Includes Telecommunications Tax; Includes $1.25M transfer to T-Fund in FY08 for prior Jet Fuel Tax processing errors

*** Includes Motor Vehicle Rental revenues, restated