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July 2008 Economic Review and Revenue Forecast Update

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

July 29, 2008

Economic Review and Revenue Forecast Update

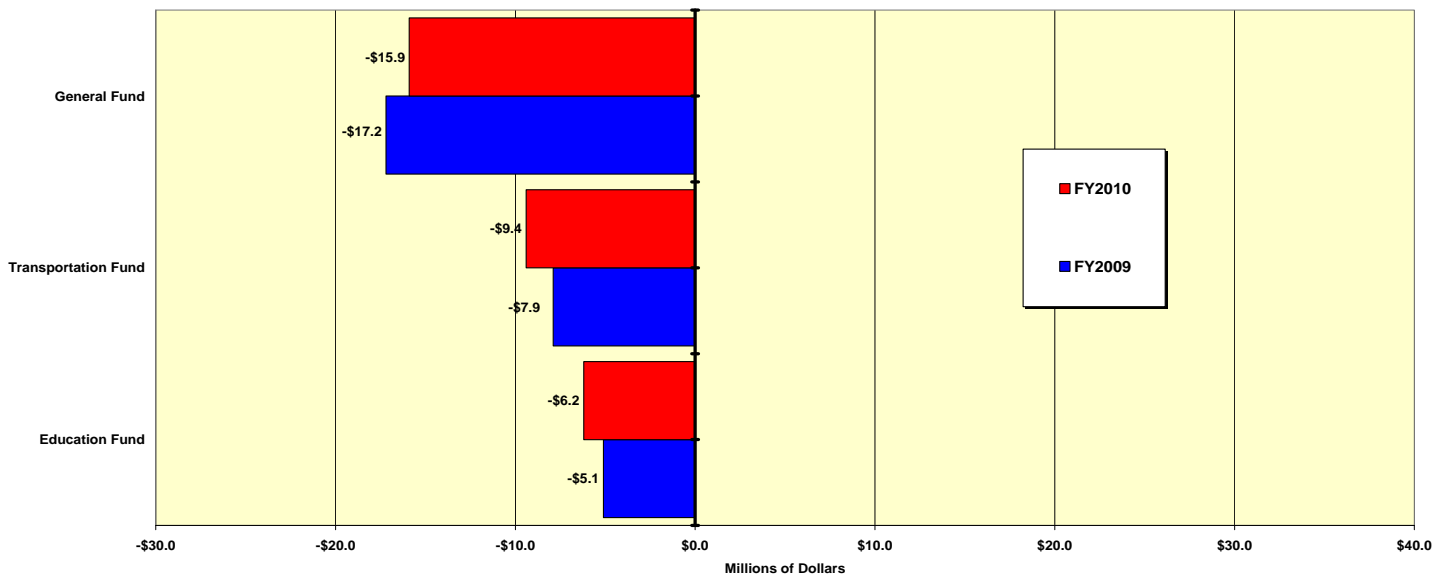
July 2008

Overview

Economic conditions have continued to deteriorate during the recent quarter, with the prospects for a deeper and more prolonged economic contraction now likely. Since the last economic review in April, there has been no reversal of the three primary headwinds buffeting the Vermont and U.S. economies: Consumers and lenders continue to be pummeled by huge losses in net worth, as housing prices plunge and real estate markets freeze, financial sector woes are severely constricting the availability of credit despite low Federal Funds rates, and a staggering run-up in petroleum and related energy prices have and will reverberate with particularly harsh impacts on the Vermont economy. Despite the plethora of fiscal and monetary medicine dispensed to date, the patient remains “critical,” and as inflation accelerates to its highest level in 17 years, there is concern that some of the cures could be worse than the disease.

Accordingly, there has been a further downgrade in expected State revenue collections in both FY09 and FY10. Available¹ General Fund revenues are now expected to total about \$17 million less than previously anticipated in FY09 and \$16 million less in FY10, with Available Transportation Fund revenues down by \$8 million in FY09 and about \$9 million in FY10.

Recommended Net Revenue Changes from Adjusted April 2008 Baseline Forecast

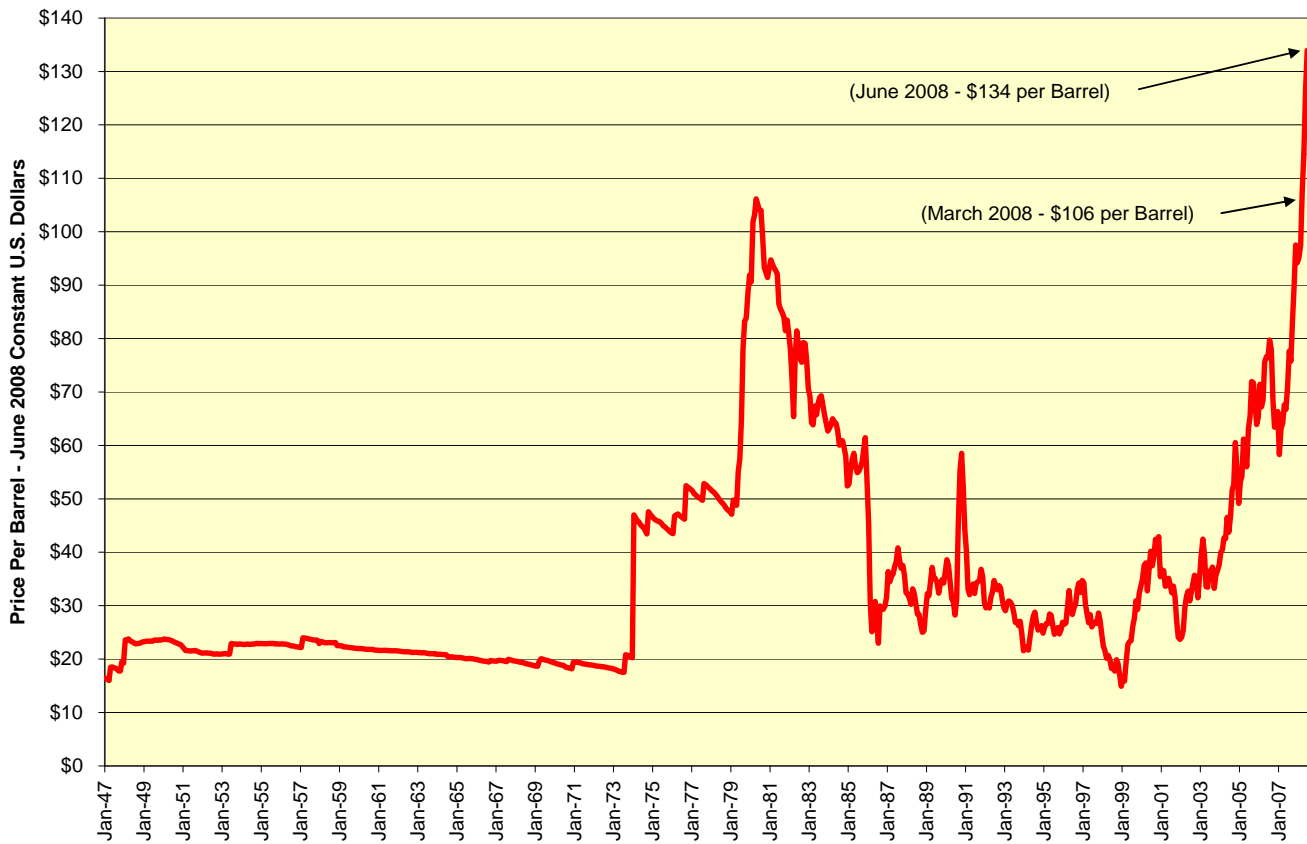


¹ “Available” General and Transportation Fund revenues refer to revenues after transfers and other invisible tax expenditures and allocations.

The U.S. Economy

- The U.S. economy has been mired in a downward spiral that has brought it precariously close to a major economic crisis. Despite massive intervention by fiscal and monetary authorities, the U.S. financial system remains fragile with credit tight and a long list of banks and “near-bank” financial institutions reporting hundreds of billions of dollars in losses and many on the verge of bankruptcy.

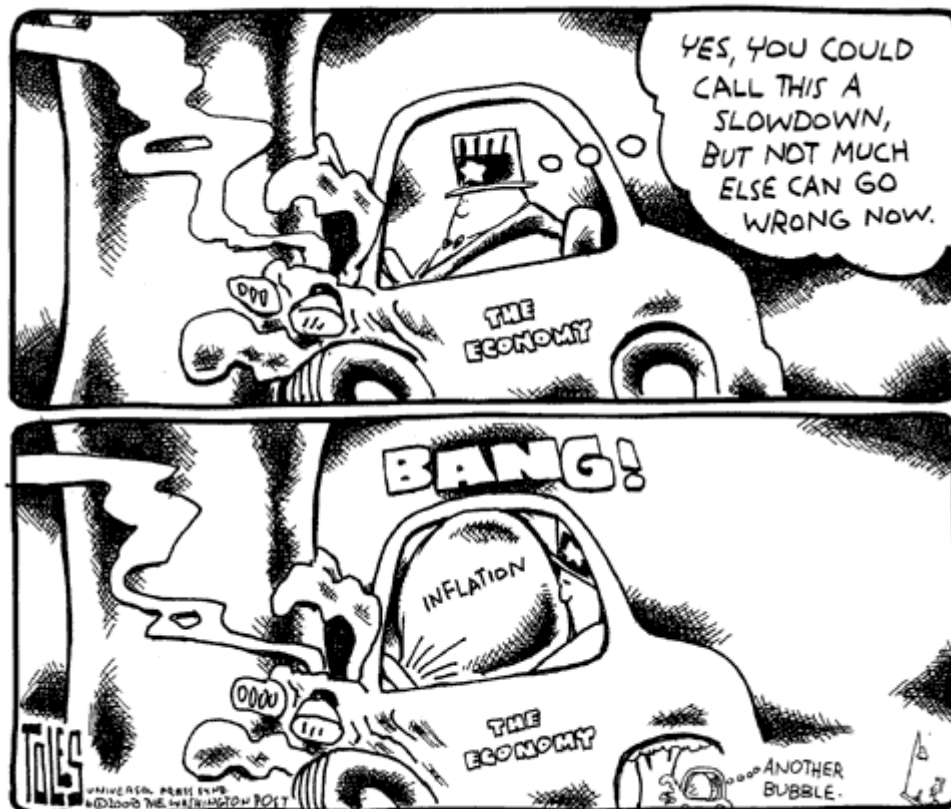
Real Oil Prices Soar Into Uncharted Territory...
(West Texas Intermediate Crude Oil, PPB in June 2008 Constant Dollars)



Sources: Wall Street Journal, Economy.com

- Since the last forecast update three months ago, prices for petroleum and related energy commodities, most of which are imported, have soared to unprecedented levels, with the Energy Information Administration (EIA) now expecting average oil prices in 2008 to be 76% higher than last year. This has crippled consumer spending (real retail sales have declined for 7 consecutive months) and ignited a wave of inflation that has swamped wage and salary growth and will limit any potential future monetary stimulus. Although energy prices are still expected to recede over the forecast period, they will do so from a significantly higher peak.

- The housing market continues to unravel, with delinquencies and foreclosures still accelerating, adding to the inventory of unsold houses and pushing prices down further. The costly Federal rescue of mortgage financing pillars Fannie Mae and Freddie Mac illustrate the extent to which mortgage lending profits have been “privatized,” with losses now essentially “socialized.” The bill to taxpayers for this could be astronomical, with the combined owned or guaranteed debt of these two institutions alone exceeding \$5 trillion - about the same as the entire current outstanding Federal debt held by the public. The FDIC, which recently took over the 9th largest U.S. mortgage lender, IndyMac Bancorp, faces as much as \$8 billion in potential losses, about 15% of its total insurance fund of \$53 billion.



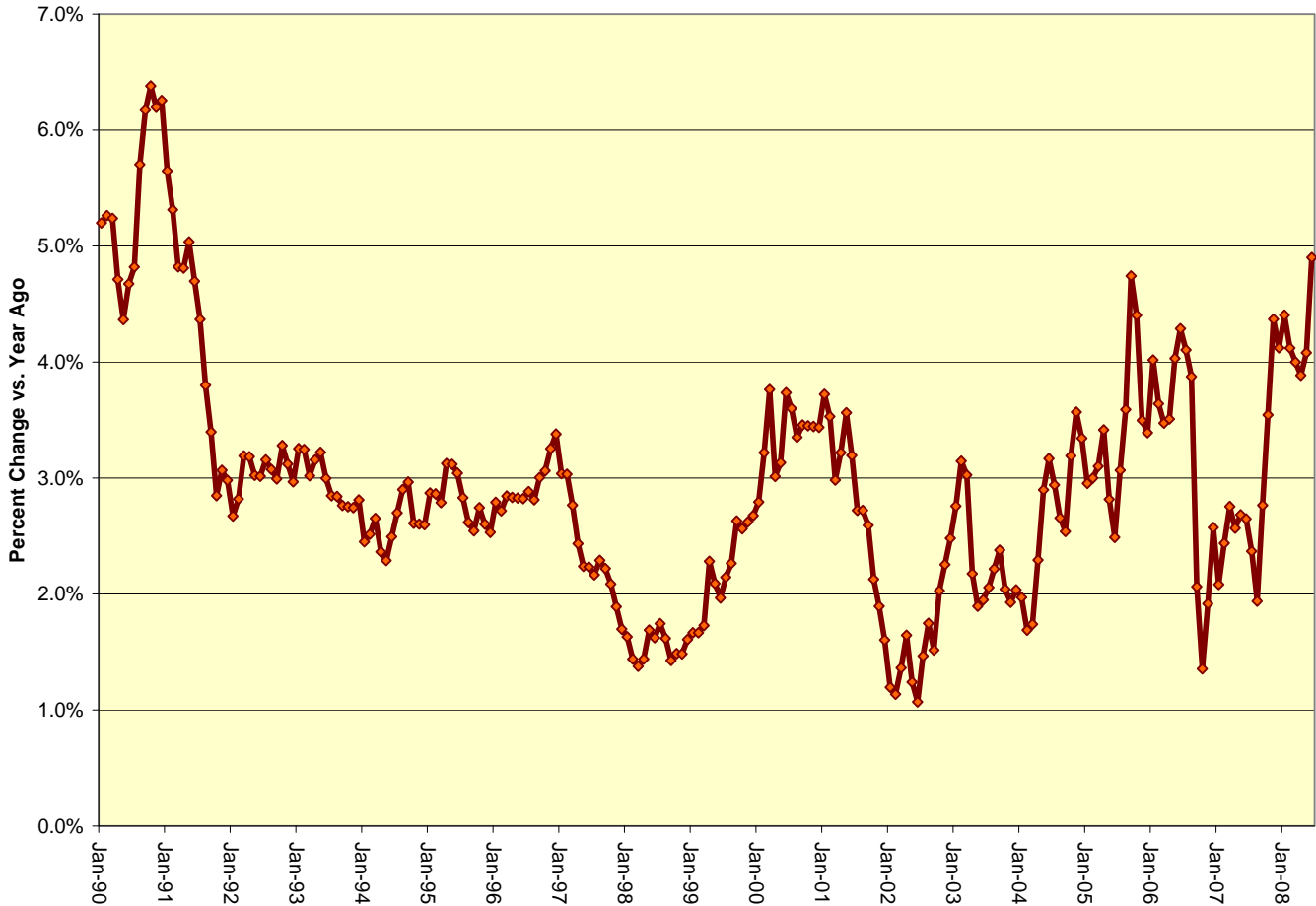
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- Despite a flurry of recent Federal initiatives to shore up ailing lenders and staunch the bleeding in the housing sector, it is likely to take several quarters – and maybe more – to stabilize and reverse declining housing and financial sectors. Even U.S. Treasury Secretary Henry Paulson, who could hardly be accused of excessive pessimism, has indicated there are no quick fixes at hand. “It’s going to be months that we’re working our way through this period – clearly months,” he recently said.
- One of the few silver linings in the prior outlook was export demand, but this too may be weakening as international growth prospects fade. The IMF now

expects world economic growth to slow to 3.0% by the fourth quarter of this year, down nearly 2 percentage points from the same period in 2007.

Inflationary Pressures Mount, Limiting Fed Options

CPI-U - All Items, Source: U.S. Bureau of Labor Statistics



- The general macro-economic forecasts upon which the State revenue forecasts are based were prepared by Moody's/Economy.com (E.com) in July 2008 and are summarized in the below Table A. This forecast marks one of the first times that consensus revenue projections have used the most current macro-economic forecasts available, instead of projections that are at least 3-4 months old, coincident with the New England Economic Partnership (NEEP) fall/spring timetable. Although we still regard the energy price (and some other) projections in this control forecast to be optimistic, it was not possible within the time or budgetary constraints present to perform a customized macro-economic control at the state or national levels for this update. Model add-factors and other more minor modifications, however, were performed to reflect the general JFO and Administration consensus when at variance with the E.com control forecast.

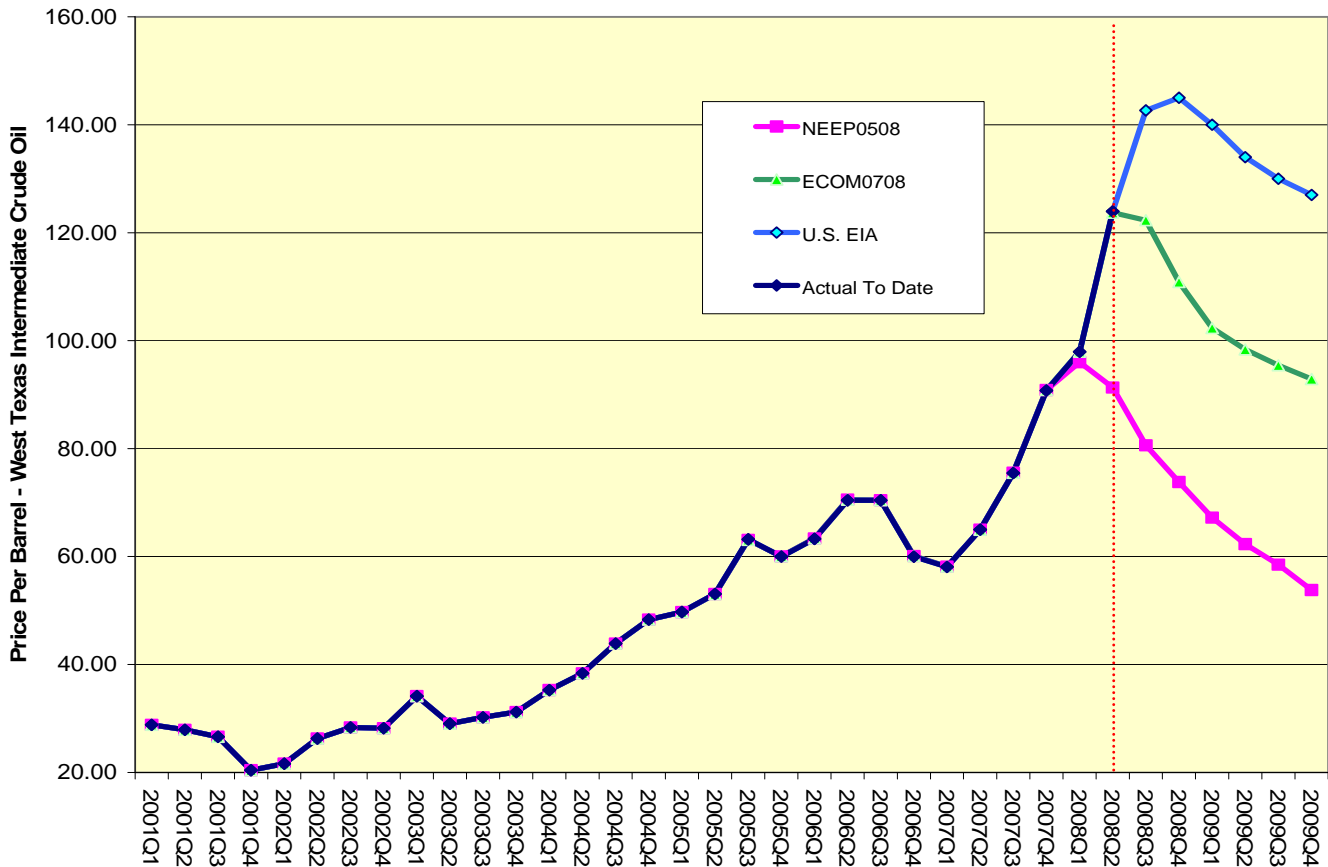
TABLE A
Comparison of Recent NEEP/Economy.com U.S. Macroeconomic Forecasts
May 2007 Through July 2008, Selected Variables, Calendar Year Basis

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP Growth										
May-07	2.5	3.9	3.2	3.3	2.4	3.1	3.0	3.0	3.0	
October-07	2.5	3.6	3.1	2.9	2.0	2.3	3.2	3.1	2.8	
May-08	2.5	3.6	3.1	2.9	2.2	1.5	3.5	3.5	2.8	2.7
July-08	2.5	3.6	3.1	2.9	2.2	1.9	2.2	3.5	2.9	2.6
S&P 500 Growth (Annual Avg.)										
May-07	-3.2	17.3	6.8	8.6	9.0	3.2	6.0	6.2	6.1	
October-07	-3.2	17.3	6.8	8.6	13.1	3.4	5.7	5.3	5.2	
May-08	-3.2	17.3	6.8	8.6	12.7	-2.0	10.4	4.7	5.3	6.1
July-08	-3.2	17.3	6.8	8.6	12.7	-7.8	11.8	8.2	5.6	6.2
Employment Growth (Non-Ag)										
May-07	-0.3	1.1	1.7	1.9	1.1	1.0	1.3	1.3	1.4	
October-07	-0.3	1.1	1.7	1.9	1.3	0.7	1.1	1.3	1.2	
May-08	-0.3	1.1	1.7	1.8	1.1	0.3	0.9	1.7	1.4	0.8
July-08	-0.3	1.1	1.7	1.8	1.1	0.0	0.6	1.7	1.4	0.8
Unemployment Rate										
May-07	6.0	5.5	5.1	4.6	4.7	4.8	4.7	4.6	4.6	
October-07	6.0	5.5	5.1	4.6	4.6	4.9	4.7	4.6	4.6	
May-08	6.0	5.5	5.1	4.6	4.6	5.4	5.8	5.4	4.9	4.8
July-08	6.0	5.5	5.1	4.6	4.6	5.5	6.2	5.8	5.2	5.1
West Texas Int. Crude Oil \$/Bbl										
May-07	31.1	41.4	56.5	66.1	58.7	50.7	44.7	41.5	40.2	
October-07	31.1	41.4	56.5	66.1	65.4	52.9	46.5	44.7	45.1	
May-08	31.1	41.4	56.5	66.1	73.3	85.4	60.5	51.9	51.8	51.8
July-08	31.1	41.4	56.5	66.1	72.4	113.7	97.3	83.8	75.9	66.7
Prime Rate										
May-07	4.12	4.34	6.19	7.96	8.25	8.25	8.00	7.75	7.50	
October-07	4.12	4.34	6.19	7.96	8.13	7.75	7.94	7.87	7.50	
May-08	4.12	4.34	6.19	7.96	8.05	5.41	7.27	7.88	7.51	7.51
July-08	4.12	4.34	6.19	7.96	8.05	5.32	5.44	7.09	7.84	7.50
Consumer Price Index Growth										
May-07	2.3	2.7	3.4	3.2	1.9	2.1	2.1	2.2	2.2	
October-07	2.3	2.7	3.4	3.2	2.7	1.9	2.0	2.2	2.4	
May-08	2.3	2.7	3.4	3.2	2.9	3.0	2.0	1.8	1.9	2.2
July-08	2.3	2.7	3.4	3.2	2.9	4.2	2.5	1.7	1.5	1.8
Avg. Home Price Growth										
May-07	6.8	10.7	13.1	9.1	0.5	-1.0	2.7	4.1	4.1	
October-07	6.8	10.6	13.0	9.0	1.8	-4.3	-1.2	3.9	4.3	
May-08	6.7	10.5	12.8	9.1	2.3	-3.1	-3.9	1.5	4.3	3.6
July-08	6.3	9.6	11.7	8.0	2.7	-2.1	-5.1	0.2	4.5	3.8

The Vermont Economy

- The Vermont economy, which has been struggling to gain traction for the past two years, now faces an impending tidal wave of energy expenditures that will likely reverse real GSP growth in both calendar year 2008 and fiscal year 2009. In a state that consumes about 17 million barrels of oil a year in motor fuel, home heating oil and other commercial and industrial uses, the recent run-up in energy prices represents an incremental annual \$935 million drain on the state economy. The impacts of this tab on consumers, businesses and government will be widespread and painful – especially when the winter heating season arrives.

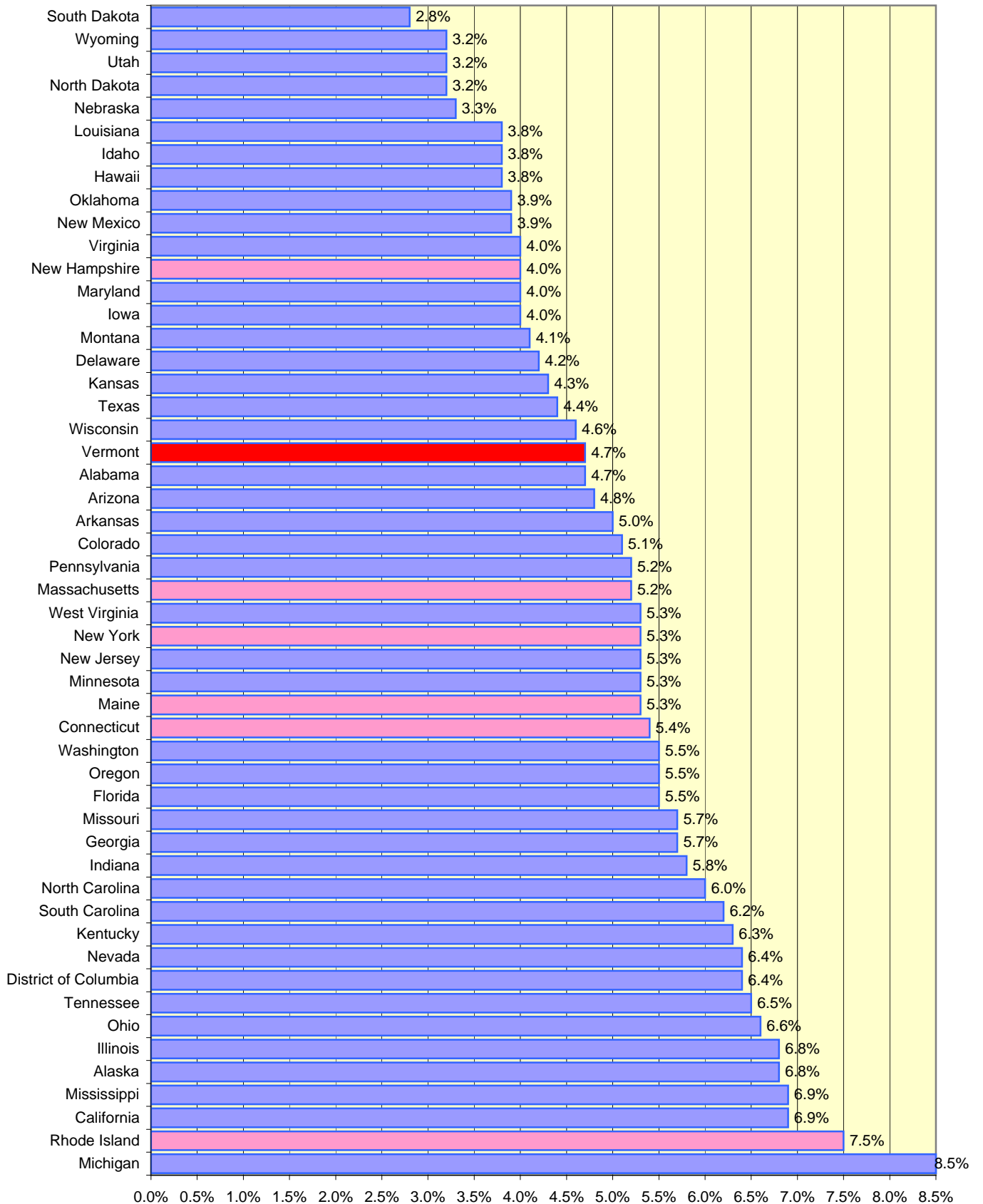
Peak Oil Leads to New Oil Price Peaks - But Where's the Top?

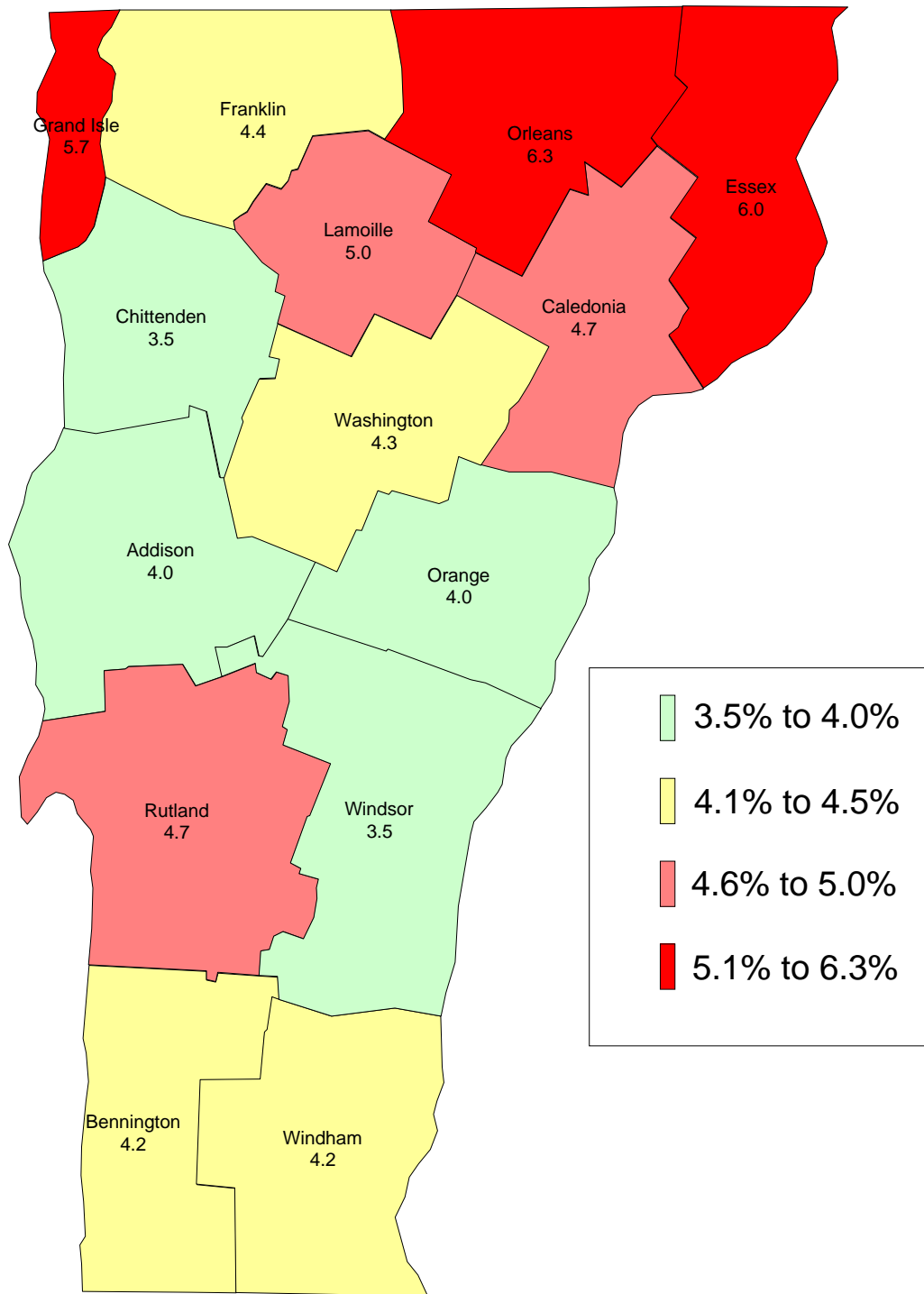


- Vermont has continued to slip in the U.S. state unemployment rankings, from the 2nd lowest rate in the nation as recently as May of 2005, to the 17th lowest rate in November of 2007 and now falling to 20th place in July of 2008 (see chart on next page). After boasting the lowest unemployment rate in New England for almost 4 years from 2001 to 2005, the State has also fallen behind New Hampshire with the gap widening to nearly a full percentage point in May 2008.

Unemployment Rate by State - July 2008

Seasonally Adjusted Data, Source: U.S. Bureau of Labor Statistics



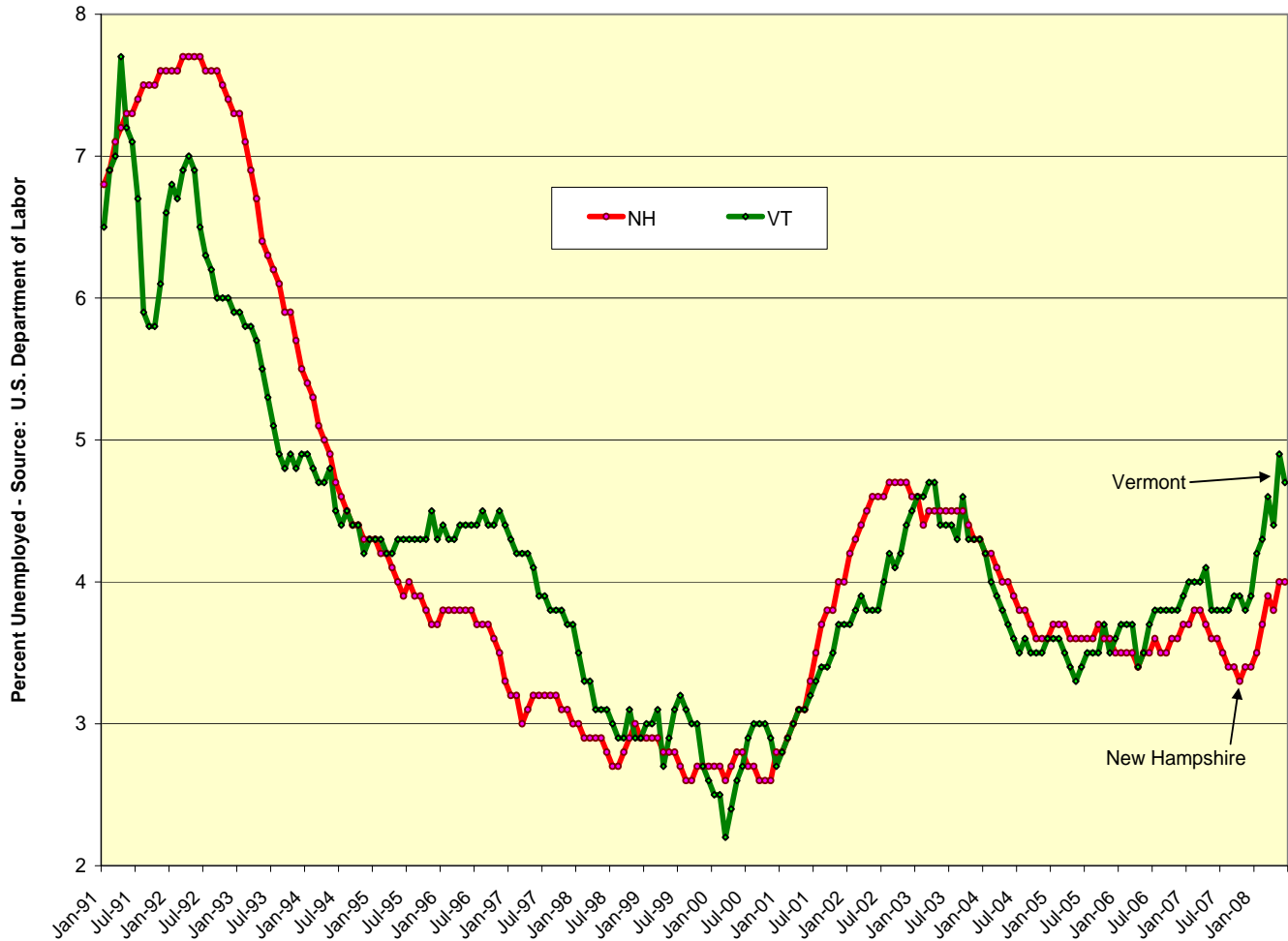


Vermont Unemployment Rates by County

12 Month Average, May 2007 to June 2008

Source: Vermont Department of Labor

A Tale of Two States: Vermont vs. New Hampshire Unemployment Rates

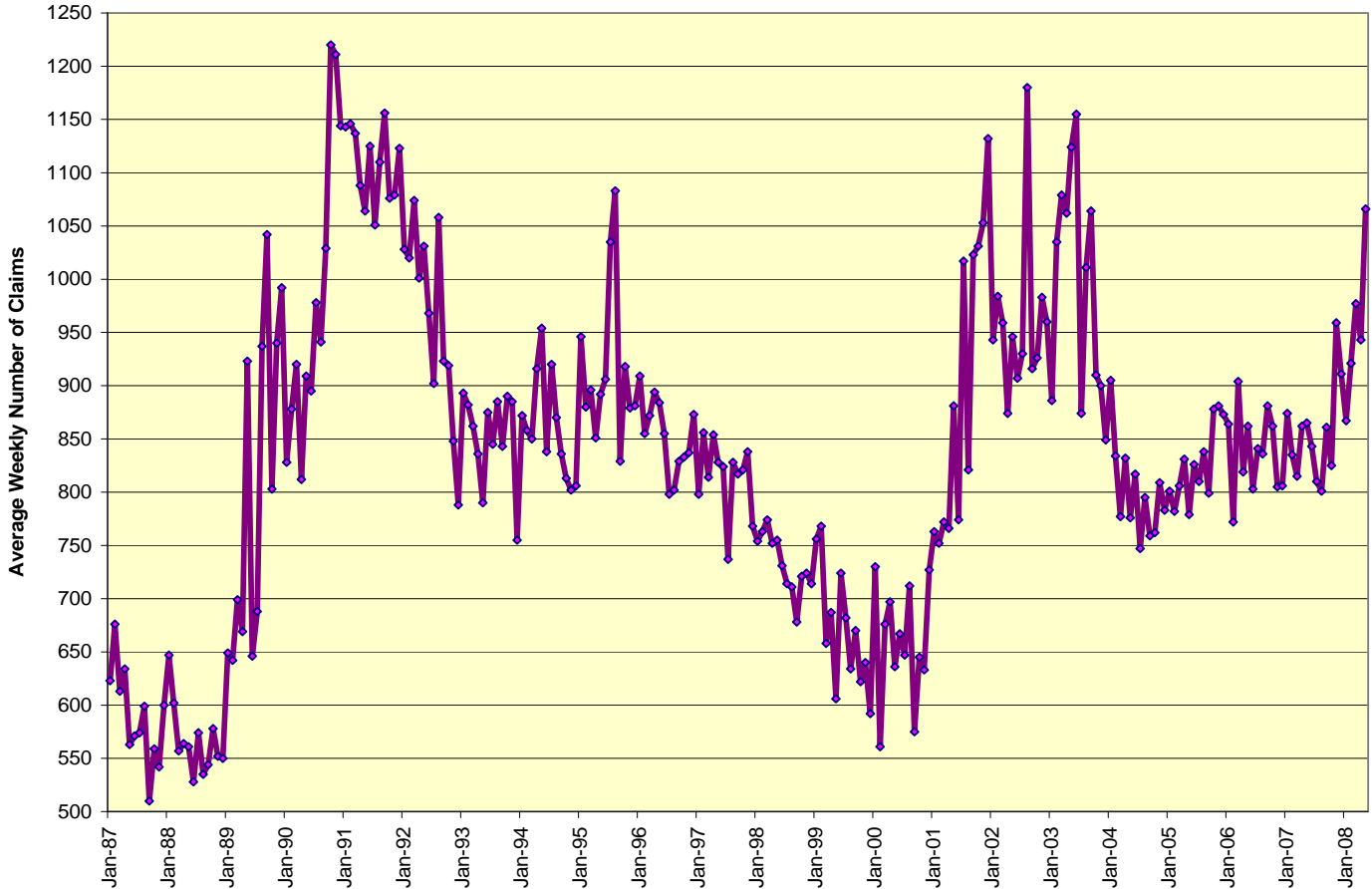


- Although the housing and mortgage financing crisis has not been as severe in Vermont as in some states, credit markets (especially secondary mortgage markets) are national and increasingly, international, and the State has not been immune from the fallout from these events. Vermont will soon be experiencing declining housing prices and the full impact of a 50+% peak to trough contraction in residential construction.
- Although 2008 residential construction starts in Vermont through June benefitted from a few larger multifamily projects, single family housing has continued to decline. Through the first six months of 2008, only about 400 single family homes were started in Vermont, 35% fewer than during the same period in 2007 and the lowest 6 month total in more than 28 years of available data. Total construction contract awards in the first six months of 2008 are down another 12% from the same period last year, suggesting further job losses are likely in this sector in the months ahead.

- Initial claims for unemployment insurance, one of the best leading indicators of future labor market conditions also took a turn for the worse in May. Vermont claims in that month (the most recent available) rose to 1066, their highest level since the last recession (see below chart).

Spike in Unemployment Insurance Claims Portends Tough Sailing Ahead...

(Average Weekly Initial Claims for Unemployment in Vermont, Seasonally Adjusted, Source: BLS and Boston Fed)



- For the first time, the Vermont macro-economic forecast upon which the revenue forecasts in this Update are based was prepared in July 2008 by Moody's/Economy.com (E.com) with JFO and Administration consensus adjustments. Unlike prior July revenue updates, which have relied on May New England Economic Partnership (NEEP) projections prepared in March/April, changes in the external economic environment in the past three months necessitated the use of more current projections. Although consensus model adjustments were made to the E.com State forecast, it was not possible to run a complete consensus macro-economic forecast scenario with full feedback effects due to time and budget constraints. Accordingly, the below projections summarized in Table B are E.com projections with selected consensus adjustments.

TABLE B
Comparison of Adjusted NEEP/Economy.com Vermont State Forecasts
May 2006 Through July 2008, Selected Variables, Calendar Year Basis

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GSP Growth									
May-06	4.6	3.3	2.8	2.9	3.2	3.5	3.2		
October-06	4.5	3.0	0.9	1.9	2.4	2.4	2.1		
May-07	4.5	2.7	1.6	1.4	3.1	2.9	2.8	2.5	
October-07	4.1	2.5	2.8	-0.3	1.7	3.5	3.6	3.2	
May-08	4.1	2.5	2.8	1.7	0.4	3.3	3.7	3.1	
July-08	3.4	2.0	1.2	1.5	-0.4	1.6	4.0	3.4	2.4
Population Growth									
May-06	0.3	0.3	0.3	0.5	0.6	0.5	0.4		
October-06	0.3	0.3	0.3	0.5	0.7	0.5	0.4		
May-07	0.4	0.3	0.2	0.3	0.5	0.4	0.3	0.3	
October-07	0.4	0.3	0.2	0.3	0.5	0.4	0.3	0.3	
May-08	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.4	0.5
July-08	0.3	0.2	0.2	0.1	0.1	0.2	0.2	0.3	0.4
Employment Growth									
May-06	1.3	0.8	1.2	1.2	0.8	1.1	0.9		
October-06	1.3	0.8	0.8	0.7	0.7	0.8	0.8		
May-07	1.3	0.9	0.6	0.6	0.7	1.0	0.9	0.8	
October-07	1.3	0.9	0.6	0.6	0.3	0.7	0.9	0.7	
May-08	1.3	0.9	0.7	0.0	-0.6	0.3	1.0	0.9	0.7
July-08	1.3	0.9	0.7	0.0	-0.5	-0.1	1.3	1.1	0.6
Unemployment Rate									
May-06	3.7	3.5	3.5	3.6	3.5	3.4	3.3		
October-06	3.7	3.5	3.3	3.4	3.4	3.3	3.2		
May-07	3.7	3.5	3.6	3.9	3.9	3.7	3.6	3.6	
October-07	3.7	3.5	3.6	3.9	4.1	3.9	3.8	3.7	
May-08	3.7	3.5	3.7	3.9	4.3	4.6	4.3	3.8	3.7
July-08	3.7	3.5	3.7	3.9	4.9	5.4	5.0	4.6	4.4
Personal Income Growth									
May-06	5.8	5.2	4.8	4.4	4.3	4.3	4.1		
October-06	5.8	4.8	5.2	5.2	4.8	4.5	4.2		
May-07	4.3	4.2	4.4	5.0	4.9	4.5	4.3	4.3	
October-07	4.3	4.3	4.7	5.5	4.3	4.2	4.2	4.2	
May-08	5.6	2.9	6.3	5.0	2.6	3.8	3.9	4.0	4.2
July-08	5.7	2.9	6.4	5.2	3.7	2.8	4.0	4.1	4.3
Avg. Home Sale Price Growth									
May-06	13.5	14.5	10.4	3.7	1.9	2.1	3.1		
October-06	13.5	14.7	9.6	1.4	-0.4	1.1	1.4		
May-07	13.5	14.4	10.0	-0.1	-1.4	3.0	3.2	2.6	
October-07	13.5	14.2	9.9	3.6	-2.0	-1.5	1.1	1.2	
May-08	13.5	14.2	9.7	4.3	-0.8	-0.9	1.0	1.7	2.0
July-08	13.5	14.2	9.4	4.0	0.1	-1.4	0.2	1.1	1.8

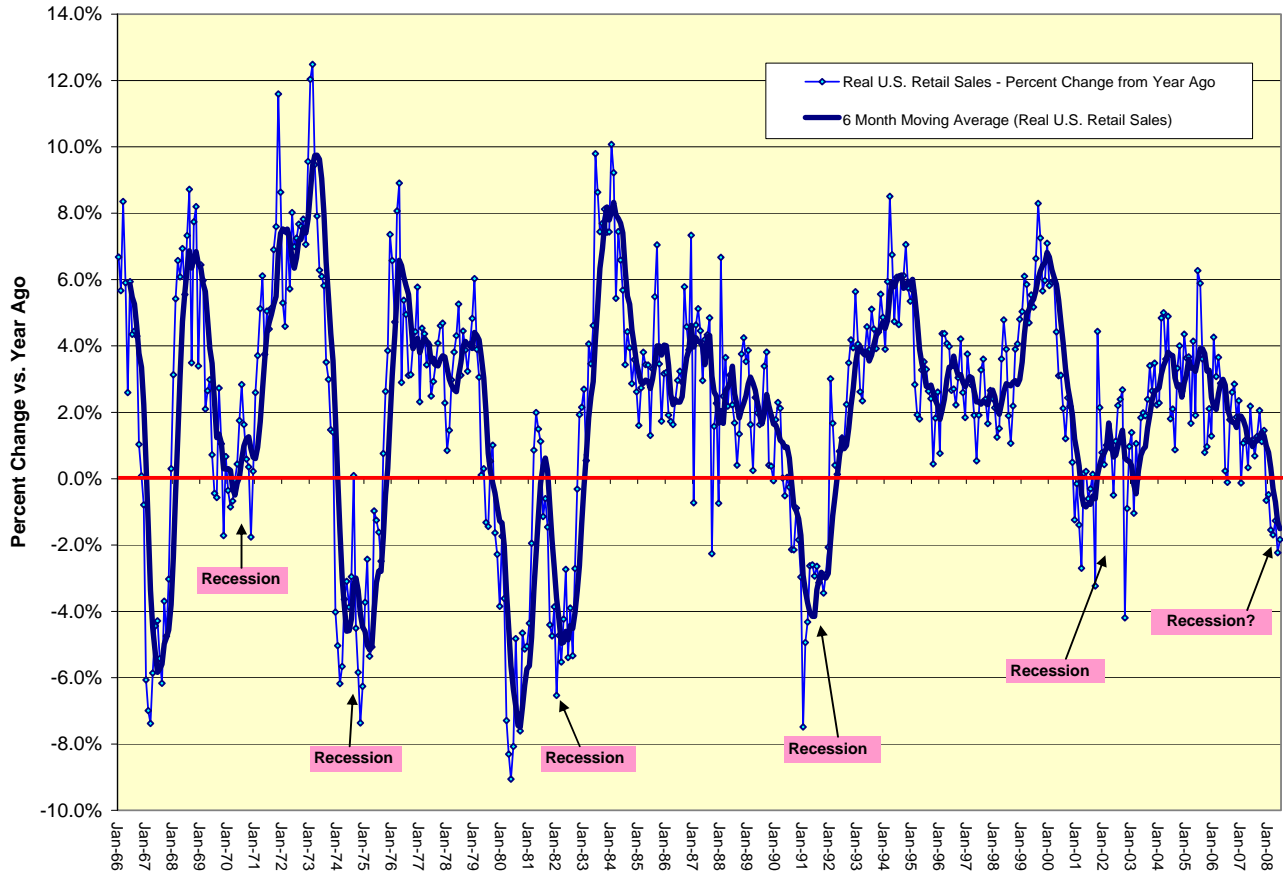
State Revenues

- Total State revenues in FY08 closed the year 0.5% above prior January 2008 projections and 1.1% above July 2007 projections (and 0.3% off April 2008 projections), one of the smallest forecasting misses on record. Continued exceptional strength in personal and corporate income receipts and unexpected estate tax collections in the fourth quarter of FY08 offset below-estimate performance in weakening consumption taxes and across-the-board losses in Transportation Fund revenue sources impacted by skyrocketing oil prices.
- These sources of strength in the General Fund, however, are not likely to be able to endure in FY09 in the face of sagging stock prices, dysfunctional real estate markets, a worsening credit crunch and declining employment. Total Available General Fund revenues are expected to drop by about 5% in FY09 before recovering in FY10 by about 3.0% and then accelerating to longer term growth rates in FY11 and beyond of about 5% per year.
- The Transportation Fund will suffer from dramatic increases in oil prices, depressing motor fuel consumption, vehicle miles traveled and the number of vehicles sold and in operation. All of these factors will impact some category of T-Fund tax or fee revenues, depressing collections by about \$8 million in FY09 and about \$9.5 million in FY10. Future oil prices (and credible predictions cover a wide range of possible outcomes) will largely determine the fortunes of these revenue sources in the coming years.
- Future Education Fund revenues will suffer from vulnerability in the two large consumption taxes (Motor Vehicle Purchase & Use and Sales & Use) upon which it is reliant, along with tepid growth prospects for the State Lottery, as currently configured. After closing FY08 slightly below expectations, FY09 is expected to be about \$5 million lower and FY10 about \$6 million lower than April 2008 forecasts.
- **Personal Income** revenues face the prospect of cyclically vulnerable high-end income, upon which they are increasingly dependent, as equity markets are likely to show losses in tax year 2008, real estate values decline and business income recedes with the slowing economy. Nationally, the IRS recently reported that for the first time since 1929, the richest 1% of the population earned more than 22% of all adjusted gross income (AGI). Although this same group paid nearly 40% of all federal income taxes in 2006, their effective tax rate declined for the fifth consecutive year, as income gains exceeded tax payment growth. While pushing total effective income tax rates up, this continued concentration of income among a relative small number of taxpayers, which has been evident in Vermont state income tax data as well, makes this category of revenue much more vulnerable to decline during a period of economic stress such as that expected in FY09.

- Personal income receipts are expected to decline by at least 5% in FY09, with a relatively slow recovery in FY10 of about 4.5%, before resuming growth of 6%-7% in FY11-13.
- **Corporate Income** tax revenues closed FY08 slightly above estimates, however, fourth quarter receipts dropped almost \$10 million on a seasonally adjusted annual basis. Recent unitary and other tax law changes should provide a somewhat higher floor to corporate tax revenues going forward, but have also created some taxpayer confusion which could result in higher refunding activity in FY09 and FY10 as overpayments are processed and audited. Corporate profits (excluding financial firms) have remained surprisingly strong throughout the early phases of this economic contraction, but will slow substantially as the economy weakens further.
- **Source Sales and Use** tax revenues will be among the most vulnerable to decline in FY09, as consumers confront persistently high energy costs and rising inflation. Whereas gasoline demand is highly inelastic (as prices rise, demand reductions are relatively small), other consumer goods will be more highly impacted.

Consumer Stress Will Impact Sales and Use Tax Revenues

Total Constant Dollar U.S. Retail Sales - Percent Change from Year Ago, Source: U.S. Census Bureau



- **Property Transfer** taxes continue to suffer from the housing and credit crises, and are now expected to decline still further in FY09, dropping below \$30 million. As excess housing supply is worked off, price corrections take effect, and credit markets return to normal, Property Transfer taxes should make a gradual recovery in FY10 and beyond.
- **General Fund Fee** revenues will benefit from a series of fee increases in H. 691 that will boost FY09 (and beyond) revenues by approximately \$3.9 million. The bill also includes about \$350K in additional fee revenues for the Transportation Fund.
- Favorable winter weather lifted FY08 **Meals and Rooms** revenues 5% above FY07 levels, but fourth quarter FY08 revenues slowed markedly as higher gas prices deterred visitation. If this persists into the critical summer tourism season and beyond, Meals and Rooms revenues could suffer further. Currently, FY09 revenues are expected to be flat, with growth resuming in FY10 and beyond.
- **Estate tax** revenues have been modified slightly throughout the forecast horizon, due primarily to taxable wealth reductions in real estate and equities, but otherwise follow the pattern projected in the prior forecast. Revenue from the estate tax has benefited from rapid prior real estate appreciation and continued sporadic, very large estate tax payments. With the unified credit exclusion amount escalating from \$2 million to \$3.5 million in January of 2009, estate tax revenue in FY10 will likely decline by at least \$2 million. Unless there is a change in the current law (which most consider likely), the tax will be repealed for one year in 2010 and then revert to a \$1 million exemption, causing a steep decline in FY11 and FY12 revenues, followed by a large increase in FY13. With the strong appreciation in assets such as real estate, stocks and bonds that have occurred over the past 10 to 15 years, any statutory changes affecting the treatment of estate taxation could have substantial revenue impacts in FY10 and beyond.
- **The Largest Transportation Fund** revenue sources will continue to be severely impacted by high and persistent oil and gasoline prices in FY09 and beyond. Although almost all energy price forecasts show some decline by FY10, global imbalances in supply and demand could keep prices well above \$100 per barrel. This reality has created behavioral changes that are just now being felt, including significantly fewer miles driven, fewer cars and trucks purchased and registered, and lower tax revenues for many Transportation Fund revenue sources.
- **Motor Vehicle Purchase and Use** revenues will be negatively affected by both high fuel prices and restricted credit availability during the immediate forecast period, offsetting tax rate changes that would otherwise have spurred revenue growth in FY08 and beyond.

- **Motor Vehicle Fee** revenues closed FY08 almost \$1 million below expectations, as reduced vehicle registration growth offset much of the fee changes associated with H.869 that were expected to add substantial additional revenues in FY08 and beyond. In addition to these changes, the two year vehicle registration cycle will continue to cause alternating annual revenue fluctuations in this category.

Now Included in the State Economic and Revenue Updates: Fuel Gross Receipts Taxes

In accordance with statutory changes made during the last legislative session, revenues associated with the Fuel Gross Receipts (FGR) tax will now be included in the regular revenue forecasts prepared by the Administration and Joint Fiscal Office. The first such forecast is included at the bottom of Table 1A, entitled "Source General Fund" forecasts.

The FGR forecasts were performed by fuel type (for heating oil, propane, natural gas, electricity and coal), with estimates and forecasts of both physical volume demand and prices using variables included in the Economy.com State and macro-economic forecasts. Although most of the annual variation in total revenues is due to price changes, demand changes based on weather conditions and per capita and/or output-based consumption patterns are also important components of the final projections.

To this end, the forecasts could be improved considerably by having access to data on the actual physical volume of each fuel source in addition to the gross receipts reported. This would represent a relatively minor change to the tax collection effort (since fuel quantities are readily available to all paying the tax) but may require statutory action to effect.

The FRG forecasts would also benefit from improvements in the timeliness of available revenue data from the Tax Department. Unlike all other General, Transportation and Education Fund data that are regularly forecast, the Fuel Gross Receipts data are not available at the close of each quarter (or month) on a timely basis. Thus, data for the final quarter of FY08 are still not available for analysis, despite the fact that this is now "history" and all payments have been made. Given the importance of the most recent data in preparing forecasts and analyses, it makes little sense to forecast an event for which actual data already exist.

Based on data available to date, and assuming "normal" winter weather conditions, FY08 FGR revenues are expected to total about \$7.4 million, about 6% above prior year levels, with strong growth likely in FY09 (+13%), as fuel prices spike. Almost no growth is expected in FY10 as demand is suppressed by substitution and curtailed use, and fuel prices begin to recede. Receipts in FY11-13 could actually decline by 1%-6% per year, if energy prices retreat to levels currently forecast.

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 and Mark Perrault have contributed to numerous policy and revenue impact analyses and coordinated JFO forecast production and related legislative committee support functions. Sandy Noyes has organized and maintains large tax and other databases in support of JFO revenue forecasting activities. In the Tax Department, Susan Mesner, Tax Department Economist, has made important 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 30 years of data for each of the 25 General Fund categories (three aggregates), 27 years of data for each of the Transportation Fund categories (one aggregate), and 9 to 30 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 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 - July 2008**

SOURCE G-FUND

revenues are prior to all E-Fund allocations
and other out-transfers. Used for
analytic and comparative purposes only.

	FY 2004	%	FY 2005	%	FY 2006	%	FY 2007	%	FY 2008	%	FY 2009	%	FY 2010	%
	(Actual)	Change	(Actual)	Change	(Actual)	Change	(Actual)	Change	(Preliminary)	Change	(Forecast)	Change	(Forecast)	Change
REVENUE SOURCE														
Personal Income	\$429.8	4.5%	\$500.5	16.4%	\$542.0	8.3%	\$581.2	7.2%	\$622.3	7.1%	\$582.3	-6.4%	\$608.8	4.6%
Sales & Use*	\$272.2	17.1%	\$310.8	14.2%	\$325.5	4.7%	\$333.7	2.5%	\$338.4	1.4%	\$330.8	-2.2%	\$341.8	3.3%
Corporate	\$55.7	57.7%	\$60.4	8.3%	\$75.9	25.8%	\$72.8	-4.1%	\$74.6	2.4%	\$61.1	-18.1%	\$53.6	-12.3%
Meals and Rooms	\$108.5	6.4%	\$113.0	4.1%	\$111.8	-1.1%	\$114.9	2.8%	\$121.1	5.4%	\$121.0	-0.1%	\$125.2	3.5%
Cigarette and Tobacco**	\$53.4	11.7%	\$48.8	-8.7%	\$48.9	0.3%	\$64.3	31.4%	\$59.2	-7.9%	\$63.1	6.5%	\$60.6	-4.0%
Liquor	\$11.7	4.5%	\$12.5	7.1%	\$13.2	5.1%	\$13.7	4.0%	\$14.2	3.7%	\$14.6	2.9%	\$15.2	4.1%
Insurance	\$47.0	10.7%	\$50.3	7.0%	\$52.5	4.2%	\$52.9	0.8%	\$54.8	3.8%	\$56.9	3.7%	\$58.6	3.0%
Telephone	\$10.4	2.5%	\$10.5	1.6%	\$10.4	-1.4%	\$10.0	-4.0%	\$9.5	-4.6%	\$9.4	-1.1%	\$9.3	-1.1%
Beverage	\$5.2	2.9%	\$5.3	2.0%	\$5.4	2.8%	\$5.5	1.3%	\$5.6	1.9%	\$5.7	1.4%	\$5.8	1.8%
Electric	\$2.8	7.4%	\$2.6	-6.0%	\$2.6	0.0%	\$2.6	1.2%	\$2.7	3.3%	\$2.8	3.0%	\$2.8	1.1%
Estate	\$14.7	-5.7%	\$18.9	28.2%	\$26.2	39.0%	\$17.8	-32.1%	\$15.7	-11.9%	\$16.3	3.9%	\$14.4	-11.7%
Property	\$34.0	23.3%	\$45.2	33.2%	\$43.7	-3.4%	\$39.3	-10.0%	\$34.0	-13.5%	\$29.4	-13.5%	\$30.1	2.4%
Bank	\$6.5	3.2%	\$8.6	32.0%	\$10.2	18.3%	\$10.5	3.6%	\$10.2	-3.4%	\$10.3	1.3%	\$10.4	1.0%
Other Tax	\$4.4	59.8%	\$6.6	52.1%	\$7.2	9.1%	\$6.5	-10.2%	\$3.2	-51.1%	\$2.8	-11.7%	\$3.0	7.1%
Total Tax Revenue	\$1056.3	10.9%	\$1193.9	13.0%	\$1275.4	6.8%	\$1325.7	3.9%	\$1365.5	3.0%	\$1306.5	-4.3%	\$1339.6	2.5%
Business Licenses	\$2.7	0.6%	\$2.8	2.9%	\$2.8	-0.5%	\$2.8	-1.0%	\$2.7	-1.0%	\$2.8	2.4%	\$2.8	0.0%
Fees	\$11.3	6.1%	\$12.5	9.9%	\$13.2	6.1%	\$14.2	7.4%	\$14.7	3.6%	\$18.3	24.3%	\$19.0	3.8%
Services	\$1.6	-18.8%	\$2.0	22.9%	\$1.3	-35.3%	\$1.5	17.1%	\$1.7	15.9%	\$1.7	-2.2%	\$1.8	5.9%
Fines	\$7.4	114.1%	\$4.4	-40.2%	\$3.2	-26.7%	\$3.2	-2.1%	\$4.4	38.6%	\$3.5	-20.6%	\$3.6	2.9%
Interest	\$0.2	-86.2%	\$1.6	894.1%	\$2.7	67.0%	\$3.6	33.5%	\$4.2	16.8%	\$2.2	-47.4%	\$2.5	13.6%
Lottery	\$20.3	30.7%	\$20.4	0.4%	\$21.9	7.3%	\$23.3	6.5%	\$22.7	-2.5%	\$23.0	1.3%	\$23.6	2.6%
All Other	\$0.5	-71.4%	\$0.4	-9.9%	\$0.2	-40.9%	\$1.1	365.2%	\$0.6	-44.1%	\$0.6	-3.7%	\$0.7	16.7%
Total Other Revenue	\$44.0	18.1%	\$44.1	0.1%	\$45.3	2.9%	\$49.6	9.5%	\$51.1	3.0%	\$52.1	1.9%	\$54.0	3.6%
TOTAL GENERAL FUND	\$1100.3	11.2%	\$1238.0	12.5%	\$1320.8	6.7%	\$1375.4	4.1%	\$1416.6	3.0%	\$1358.6	-4.1%	\$1393.6	2.6%
OTHER														
Fuel Gross Receipts Tax***	5.5	3.8%	5.9	6.8%	6.3	8.0%	7.0	10.6%	7.4	6.1%	8.4	13.1%	8.5	1.2%

* 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

***FY08 data are forecast, not actual

**TABLE 1 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2008**

CURRENT LAW BASIS

including all Education Fund

allocations and other out-transfers

	FY 2004	%	FY 2005	%	FY 2006	%	FY 2007	%	FY 2008	%	FY 2009	%	FY 2010	%
	<i>(Actual)</i>	<i>Change</i>	<i>(Actual)</i>	<i>Change</i>	<i>(Actual)</i>	<i>Change</i>	<i>(Actual)</i>	<i>Change</i>	<i>(Preliminary)</i>	<i>Change</i>	<i>(Forecast)</i>	<i>Change</i>	<i>(Forecast)</i>	<i>Change</i>
REVENUE SOURCE														
Personal Income	\$429.8	4.5%	\$500.5	16.4%	\$542.0	8.3%	\$581.2	7.2%	\$622.3	7.1%	\$582.3	-6.4%	\$608.8	4.6%
Sales and Use*	\$272.2	17.1%	\$207.2	-23.9%	\$216.9	4.7%	\$222.5	2.6%	\$225.6	1.4%	\$220.5	-2.2%	\$227.9	3.3%
Corporate	\$45.2	57.8%	\$60.4	33.6%	\$75.9	25.8%	\$72.8	-4.1%	\$74.6	2.4%	\$61.1	-18.1%	\$53.6	-12.3%
Meals and Rooms	\$88.4	6.3%	\$113.0	27.8%	\$111.8	-1.1%	\$114.9	2.8%	\$121.1	5.4%	\$121.0	-0.1%	\$125.2	3.5%
Cigarette and Tobacco	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Liquor	\$11.7	4.5%	\$12.5	7.1%	\$13.2	5.1%	\$13.7	4.0%	\$14.2	3.7%	\$14.6	2.9%	\$15.2	4.1%
Insurance	\$47.0	10.7%	\$50.3	7.0%	\$52.5	4.2%	\$52.9	0.8%	\$54.8	3.8%	\$56.9	3.7%	\$58.6	3.0%
Telephone	\$10.4	2.5%	\$10.5	1.6%	\$10.4	-1.4%	\$10.0	-4.0%	\$9.5	-4.6%	\$9.4	-1.1%	\$9.3	-1.1%
Beverage	\$5.2	2.9%	\$5.3	2.0%	\$5.4	2.8%	\$5.5	1.3%	\$5.6	1.9%	\$5.7	1.4%	\$5.8	1.8%
Electric	\$2.8	7.4%	\$2.6	-6.0%	\$2.6	0.0%	\$2.6	1.2%	\$2.7	3.3%	\$2.8	3.0%	\$2.8	1.1%
Estate**	\$14.7	-5.7%	\$18.9	28.2%	\$26.2	39.0%	\$17.8	-32.1%	\$15.7	-11.9%	\$16.3	3.9%	\$14.4	-11.7%
Property	\$11.1	-11.0%	\$14.8	33.1%	\$13.5	-8.9%	\$12.8	-4.5%	\$11.0	-14.5%	\$9.6	-12.5%	\$9.8	2.4%
Bank	\$2.7	3.2%	\$8.6	216.6%	\$10.2	18.3%	\$10.5	3.6%	\$10.2	-3.4%	\$10.3	1.3%	\$10.4	1.0%
Other Tax	\$4.4	59.8%	\$6.6	52.1%	\$7.2	9.1%	\$6.5	-10.2%	\$3.2	-51.1%	\$2.8	-11.7%	\$3.0	7.1%
Total Tax Revenue	\$945.5	9.9%	\$1011.1	6.9%	\$1087.7	7.6%	\$1123.7	3.3%	\$1170.5	4.2%	\$1113.3	-4.9%	\$1144.8	2.8%
Business Licenses	\$2.7	0.6%	\$2.8	2.9%	\$2.8	-0.5%	\$2.8	-1.0%	\$2.7	-1.0%	\$2.8	2.4%	\$2.8	0.0%
Fees	\$8.9	8.8%	\$12.5	40.4%	\$13.2	6.1%	\$14.2	7.4%	\$14.7	3.6%	\$18.3	24.3%	\$19.0	3.8%
Services	\$1.6	-18.8%	\$2.0	22.9%	\$1.3	-35.3%	\$1.5	17.1%	\$1.7	15.9%	\$1.7	-2.2%	\$1.8	5.9%
Fines	\$7.4	114.1%	\$4.4	-40.2%	\$3.2	-26.7%	\$3.2	-2.1%	\$4.4	38.6%	\$3.5	-20.6%	\$3.6	2.9%
Interest	\$0.4	-73.4%	\$2.1	438.3%	\$3.4	60.7%	\$4.9	43.9%	\$5.6	13.4%	\$3.6	-35.2%	\$3.9	8.3%
All Other	\$0.5	-71.4%	\$0.4	-9.9%	\$0.2	-40.9%	\$1.1	365.2%	\$0.6	-44.1%	\$0.6	-3.7%	\$0.7	16.7%
Total Other Revenue	\$21.5	10.2%	\$24.2	12.6%	\$24.2	-0.1%	\$27.7	14.3%	\$29.8	7.7%	\$30.5	2.4%	\$31.8	4.3%
TOTAL GENERAL FUND	\$967.0	9.9%	\$1035.3	7.1%	\$1111.9	7.4%	\$1151.4	3.5%	\$1200.3	4.2%	\$1143.8	-4.7%	\$1176.6	2.9%

* 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 - July 2008**

SOURCE T-FUND

revenues are prior to all E-Fund allocations
and other out-transfers. Used for
analytic and comparative purposes only.

	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Preliminary)	% Change	(Forecast)	% Change	(Forecast)	% Change
REVENUE SOURCE														
Gasoline	\$65.1	0.5%	\$65.5	0.7%	\$63.8	-2.7%	\$63.6	-0.3%	\$62.6	-1.6%	\$60.2	-3.8%	\$61.2	1.7%
Diesel	\$18.0	9.7%	\$15.5	-13.8%	\$17.7	14.0%	\$18.0	1.7%	\$16.6	-7.8%	\$16.1	-2.9%	\$16.5	2.5%
Purchase and Use*	\$86.2	5.0%	\$84.1	-2.5%	\$80.3	-4.4%	\$80.6	0.4%	\$79.0	-2.0%	\$77.1	-2.5%	\$79.4	3.0%
Motor Vehicle Fees	\$55.2	7.0%	\$56.1	1.6%	\$57.4	2.3%	\$65.4	14.1%	\$67.5	3.2%	\$68.0	0.7%	\$71.4	5.0%
Other Revenue**	\$15.6	5.5%	\$16.7	7.3%	\$18.2	8.6%	\$20.2	11.1%	\$23.6	17.1%	\$20.3	-14.1%	\$20.9	3.0%
TOTAL TRANS. FUND	\$240.1	4.5%	\$238.0	-0.9%	\$237.4	-0.3%	\$247.8	4.4%	\$249.4	0.6%	\$241.7	-3.1%	\$249.4	3.2%

**TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2008**

CURRENT LAW BASIS

including all Education Fund
allocations and other out-transfers

	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Preliminary)	% Change	(Forecast)	% Change	(Forecast)	% Change
REVENUE SOURCE														
Gasoline	\$54.3	0.5%	\$65.5	20.8%	\$63.8	-2.7%	\$63.6	-0.3%	\$62.6	-1.6%	\$60.2	-3.8%	\$61.2	1.7%
Diesel	\$18.0	9.7%	\$15.5	-13.8%	\$17.7	14.0%	\$18.0	1.7%	\$16.6	-7.8%	\$16.1	-2.9%	\$16.5	2.5%
Purchase and Use*	\$71.9	4.7%	\$56.0	-22.1%	\$53.9	-3.8%	\$53.7	-0.3%	\$52.7	-2.0%	\$51.4	-2.5%	\$52.9	3.0%
Motor Vehicle Fees	\$55.2	7.0%	\$56.1	1.6%	\$57.4	2.3%	\$65.4	14.1%	\$67.5	3.2%	\$68.0	0.7%	\$71.4	5.0%
Other Revenue**	\$15.2	4.3%	\$15.9	4.9%	\$17.1	7.6%	\$19.2	11.9%	\$23.6	23.4%	\$20.3	-14.1%	\$20.9	3.0%
TOTAL TRANS. FUND	\$214.6	4.5%	\$209.1	-2.5%	\$209.9	0.4%	\$219.9	4.8%	\$223.1	1.4%	\$216.0	-3.2%	\$222.9	3.2%

*As of FY04, includes MV Rental Tax revenues

**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 - July 2008**

CURRENT LAW BASIS

* Source General and Transportation

Fund taxes allocated to or associated
with the Education Fund only.

	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Actual)	% Change	(Preliminary)	% Change	(Forecast)	% Change	(Forecast)	% Change
GENERAL FUND														
Meals and Rooms**	\$20.1	6.8%	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Sales & Use***	\$16.4	19.2%	\$103.6	533.1%	\$108.5	4.8%	\$111.2	2.5%	\$112.8	1.4%	\$110.3	-2.2%	\$113.9	3.3%
Bank	\$3.8	3.2%	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Corporate	\$10.5	57.1%	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Security Registration Fees	\$2.5	-2.5%	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Interest	(\$0.2)	NM	(\$0.5)	NM	(\$0.7)	NM	(\$1.3)	NM	(\$1.4)	4.2%	(\$1.4)	2.1%	(\$1.4)	0.0%
Lottery	\$20.3	30.7%	\$20.4	0.4%	\$21.9	7.3%	\$23.3	6.5%	\$22.7	-2.5%	\$23.0	1.3%	\$23.6	2.6%
TRANSPORTATION FUND														
Gasoline	\$10.8	0.5%	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0	NM
Purchase and Use****	\$14.3	6.2%	\$28.0	96.2%	\$26.4	-5.8%	\$26.9	1.8%	\$26.3	-2.0%	\$25.7	-2.5%	\$26.5	3.0%
TOTAL	\$98.5	15.9%	\$151.5	53.8%	\$156.1	3.0%	\$160.1	2.6%	\$160.5	0.2%	\$157.6	-1.8%	\$162.6	3.2%

** Note: After Travel Tourism out-transfer of \$1.56 million ***Includes Telecommunications Tax; includes \$1.25M transfer to T-Fund in FY08 for prior Jet Fuel Tax processing errors ****Includes MV ental revenues, restated.