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November 2009 Economic Review and Revenue Forecast Update

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

November 12, 2009

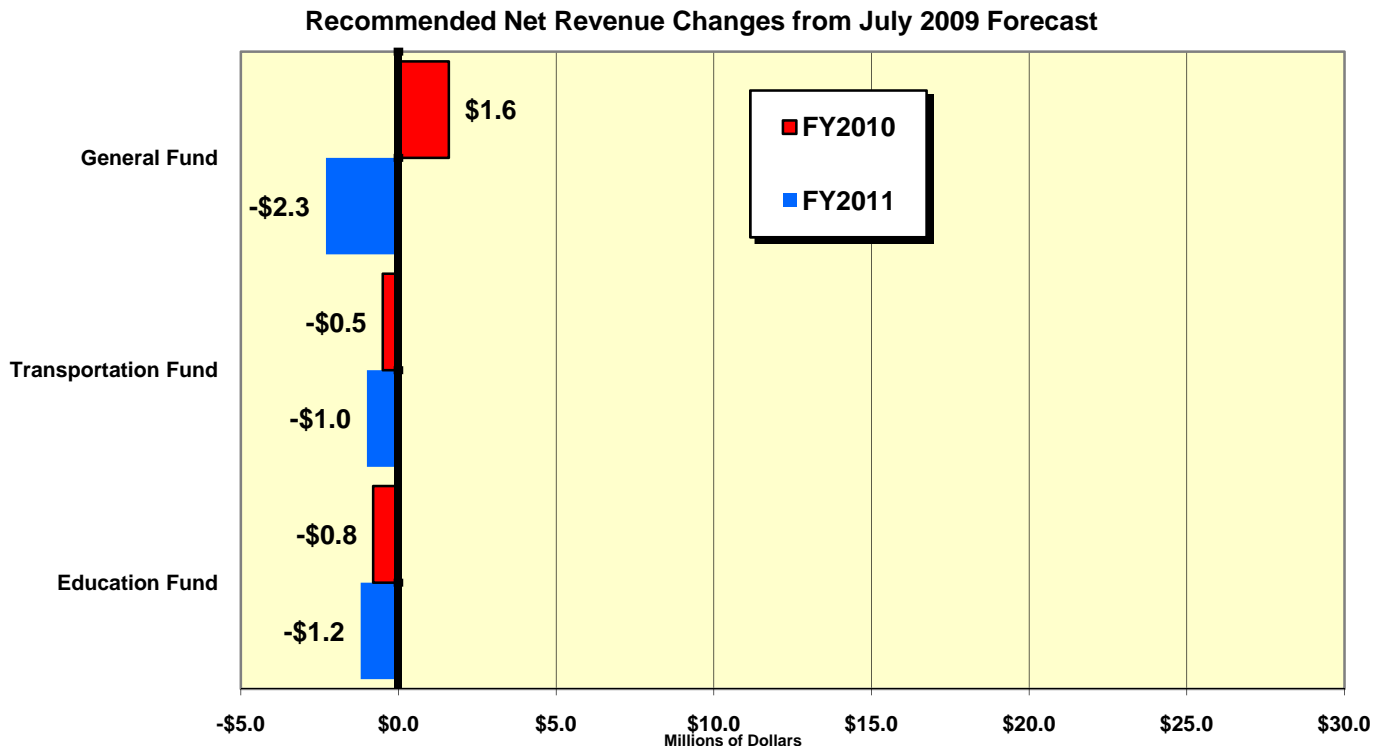
Economic Review and Revenue Forecast Update

November 2009

Overview

Propped up by a formidable array of federal monetary and fiscal stimuli, the U.S. economy has begun a fragile and uneven recovery from the most severe economic contraction since the Great Depression. It is no coincidence that the likely end of the recession (via 3.5% annualized third quarter growth in GDP) occurred at a time of maximum federal fiscal stimulus expenditure and extensive public intervention in credit markets. Without this federal lifeline, it is estimated that at least another 1 million jobs would have been lost and the economy would still be in retreat. Instead, for the first time in 18 months, general macro-economic expectations have not been significantly downgraded and a slow, though still painful, recovery has likely begun.

Accordingly, per the below chart, virtually no net change in aggregate FY09 and FY10 revenues are expected, despite some re-estimation of individual revenue categories due to technical and other adjustments. It should be noted, however, that in the absence of a broad-based, self-sustaining recovery, significant downside risks to this revenue forecast still exist.



November 2009 Interim Forecast Commentary

- Divergent economic signals typify this stage of an economic cycle and are in stark relief now: The stock market is up 60% since its low water mark on March 5th of this year, but remains 30% below its prior peak; Corporate profitability is strengthening, but corporate bankruptcy petitions are running at rates nearly double those of 2006 and extended mass layoffs reached an all-time record high in the third quarter of this year; Investment in new housing has begun to show positive growth, but is starting from levels that are 80% below prior peaks, with vast slack in productive capacity and continued massive inventory hangover and record foreclosures; Credit is cheap, but the structured finance market is still unhinged, commercial real estate financing is collapsing and credit remains unavailable to critical sectors of the economy – especially smaller U.S. businesses; Rescued banks and the surviving large investment banks are reporting profits again, while small bank failures abound, with a record number to be taken over by the FDIC this year and next; The index of leading economic indicators published by the Conference Board is flashing bright green, with its sixth consecutive monthly increase, while lagging economic indicators, such as the unemployment rate, soared to 10.2% in October, its highest rate in 26 years.

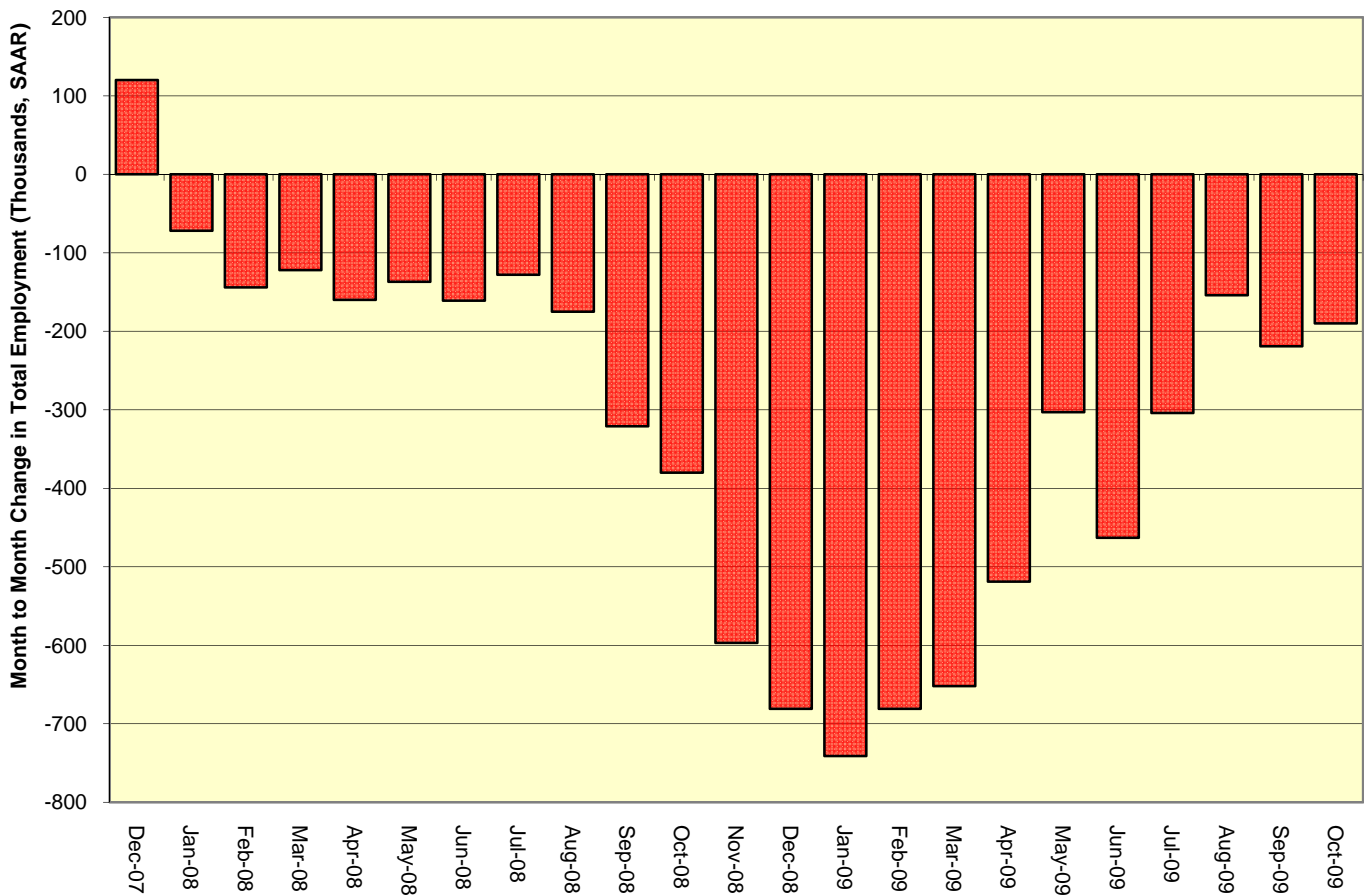


- Federal government policies have played a critical role in stabilizing the economy in recent quarters. Low interest rates and plentiful liquidity have kept mortgage and business borrowing costs low, prevented the financial panic from spreading and allowed financial markets to begin functioning again. Extended aid to unemployed workers, tax cuts to both businesses and individuals and the “cash for clunkers” program have had huge beneficial impacts on consumer spending and domestic demand, while tax credits for first time homebuyers and financial

backstopping of securitized mortgage paper through Fannie Mae and Freddie Mac have kept housing markets from total collapse. Finally, federal aid to state and local governments has been timely and significant – avoiding vast additional layoffs and preserving essential public services at a critical phase in the downturn.

- Labor markets have been especially stressed during this recession, with U.S. and Vermont job losses both representing about 5% of total employment to date. At the national level, this represents more than 7 million jobs, and in Vermont, more than 15,000, with further losses expected in the months ahead. While the most commonly cited U.S. unemployment rate (U3) topped 10% in October, a broader measure of unemployment (U6) that includes workers who have given up looking for work and underemployed workers, now exceeds 17%. Although comparable monthly data are not available by state, the equivalent measure in Vermont probably exceeds 12%.

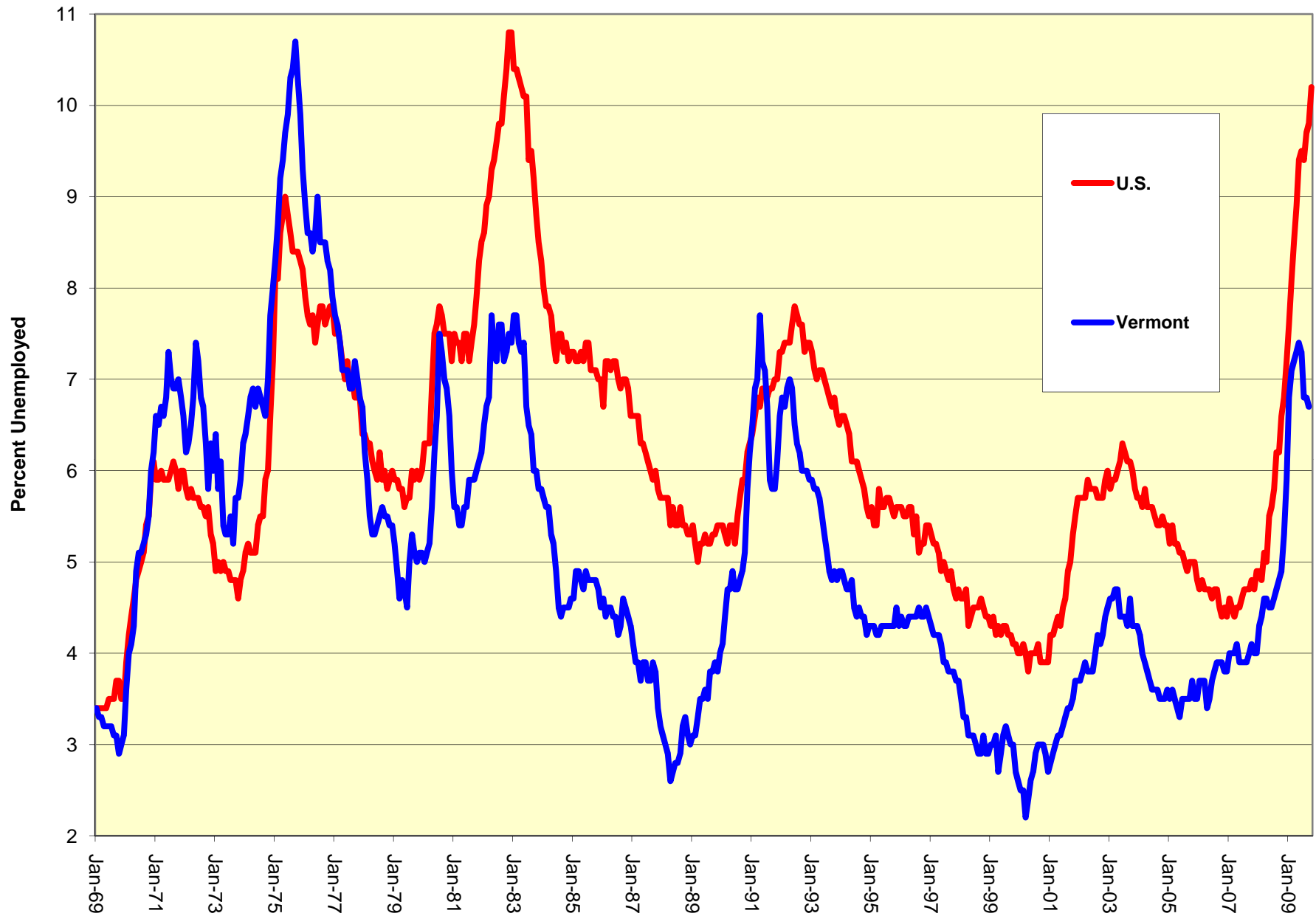
Recessionary U.S. Job Losses Slow, But Now Total 7.3 Million - and Counting...
 (Monthly Change in Total Payroll Employment, Seasonally-Adjusted, Source: U.S. Bureau of Labor Statistics)



- Vermont’s unemployment rate temporarily diverged from the U.S. during the third quarter of this year (see charts on following 2 pages), with a decline to 6.8%

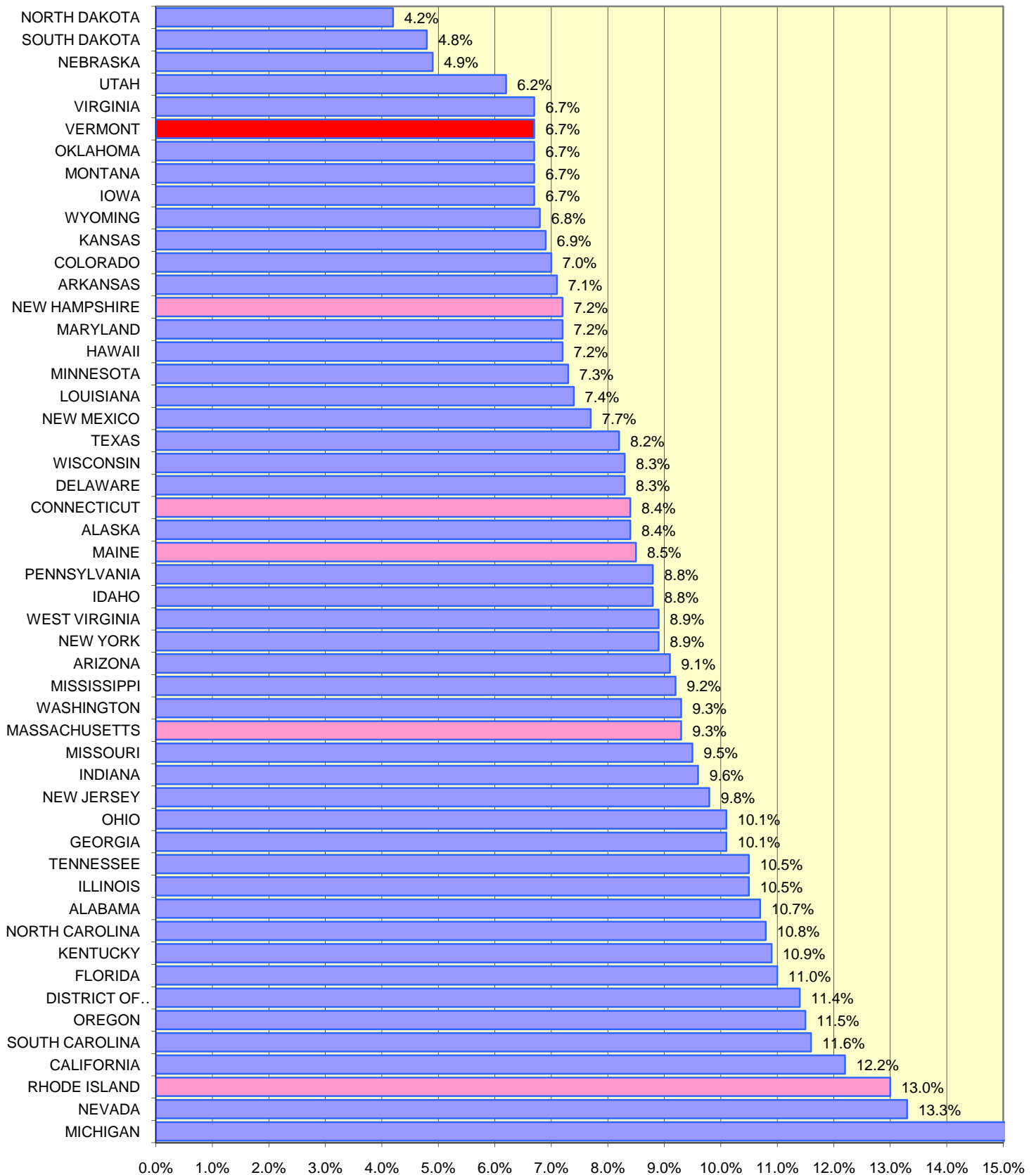
U.S. and Vermont Unemployment Rates Temporarily Diverge in Last Quarter

(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)



Unemployment Rate by State - September 2009

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

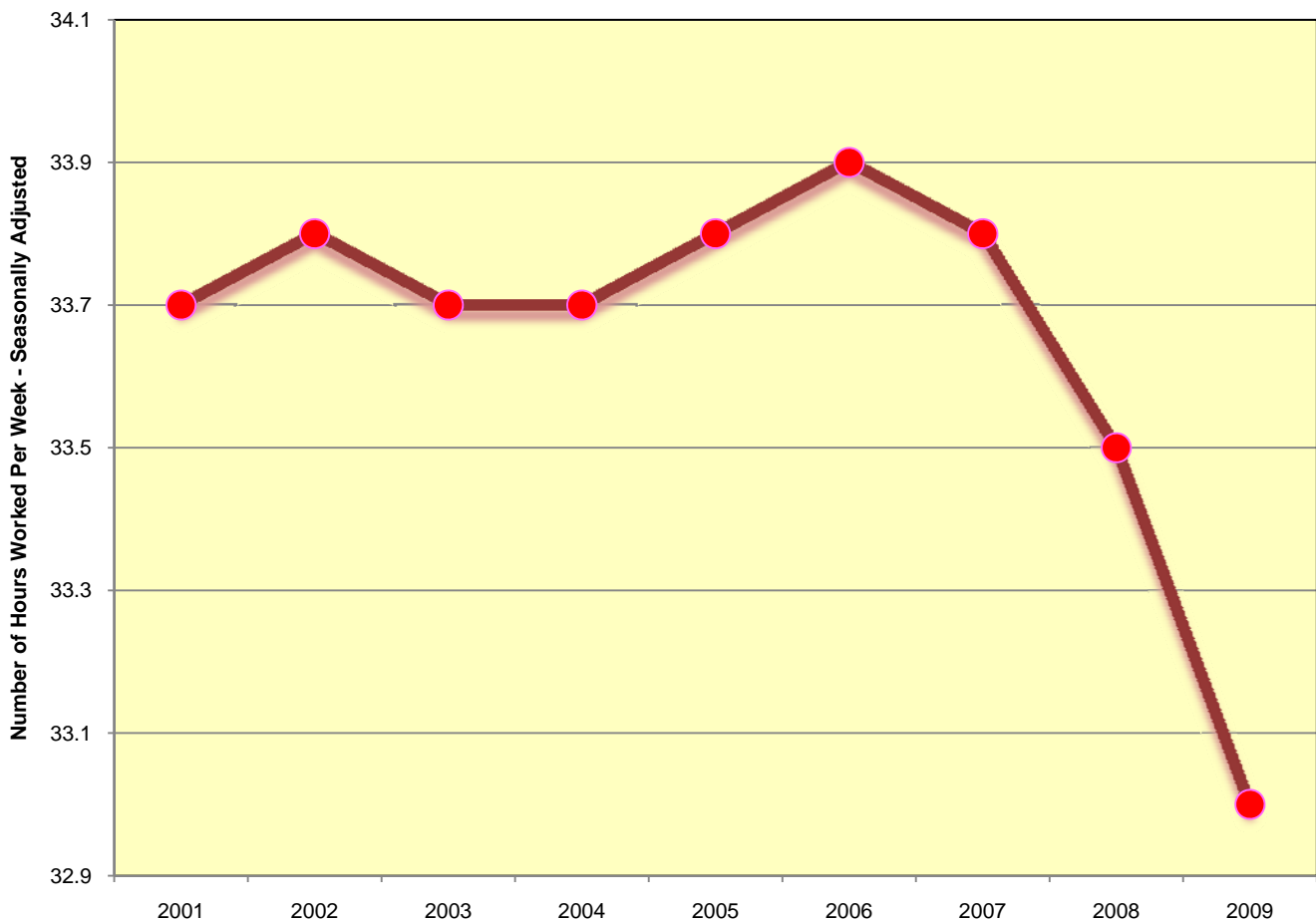


following a 7.3% rate in the second quarter. This unexpected event was caused by both a rapid decline in the labor force and what is probably disproportionate federal stimulus and related spending in the state. Only six other U.S. states, including WI, OR, OH, IN, MN and CO, registered unemployment rate declines of more than half a percentage point between May and September of this year.

- As the ranks of the unemployed grows, the duration of unemployment has risen to record levels, the number of hours worked has dropped to record levels, the labor force has shrunk as discouraged workers exit the workforce, and wages have stagnated. In October, the share of unemployed workers without employment for 27 weeks or longer rose to 35.6%, an all-time high, while the average of number of hours worked fell to 33, the lowest since such data began in 1964. All this has put downward pressure on wages, slowing total nominal labor compensation as measured by the labor cost index to a mere 1.5% in the third quarter of this year. If continued unemployment rate increases lead to declining nominal wages, a deflationary cycle could result with severe negative impacts – including a double-dip recession later in 2010.

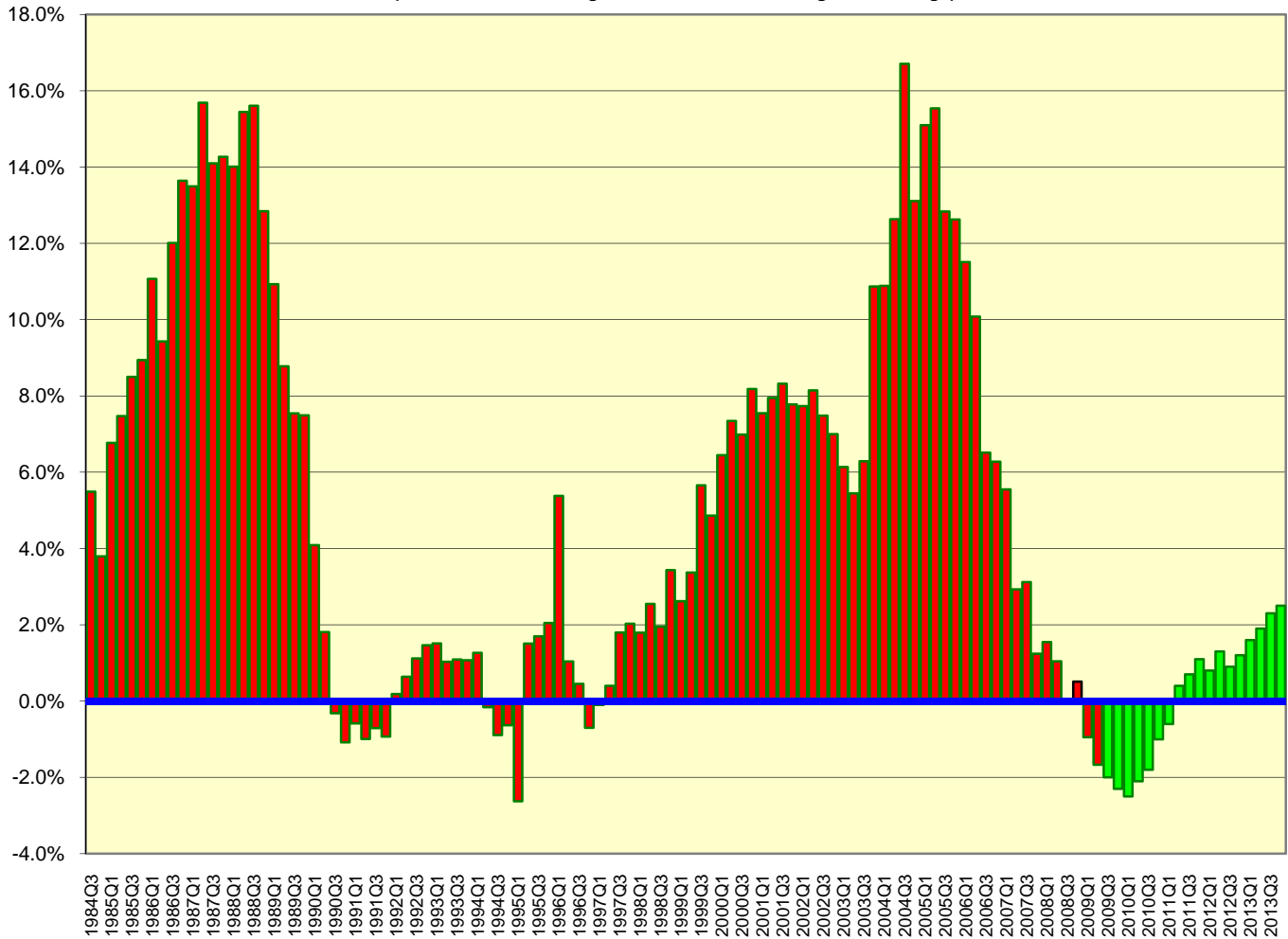
Labor Market Slack is Evident in Reduced Hourly Work Week

Average Weekly Hours of Private Sector Production Workers in October of Each Year, Source: U.S. Bureau of Labor Statistics



- Housing and real estate markets, which have been at the center of this downturn, seem to finally have a bottom in sight. With almost nowhere left to go but up, several key leading indicators are finally doing just that. Housing starts in both Vermont and the U.S. are edging up after extraordinary declines. Per the chart on the following page, Vermont housing starts appear to have bottomed out in July of this year after an unprecedented 81% decline. Lagging home and other real estate prices, however, will continue to decline throughout 2010 and will depress new construction for several years to come.

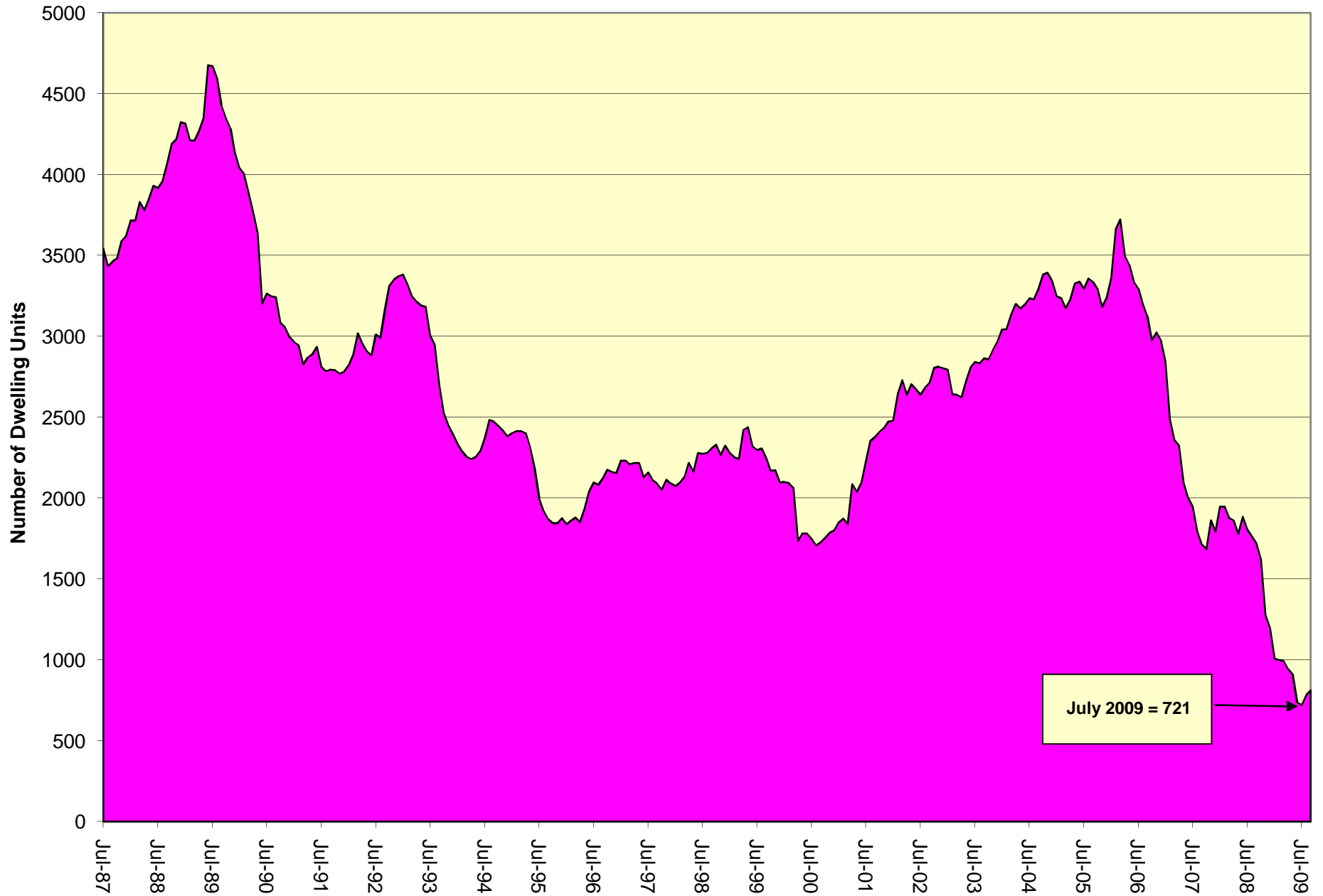
Vermont Real Estate Prices Begin Period of Decline, but Remain Above U.S. Rates
(FHFA Vermont Housing Price Index Percent Change Vs. Year Ago)

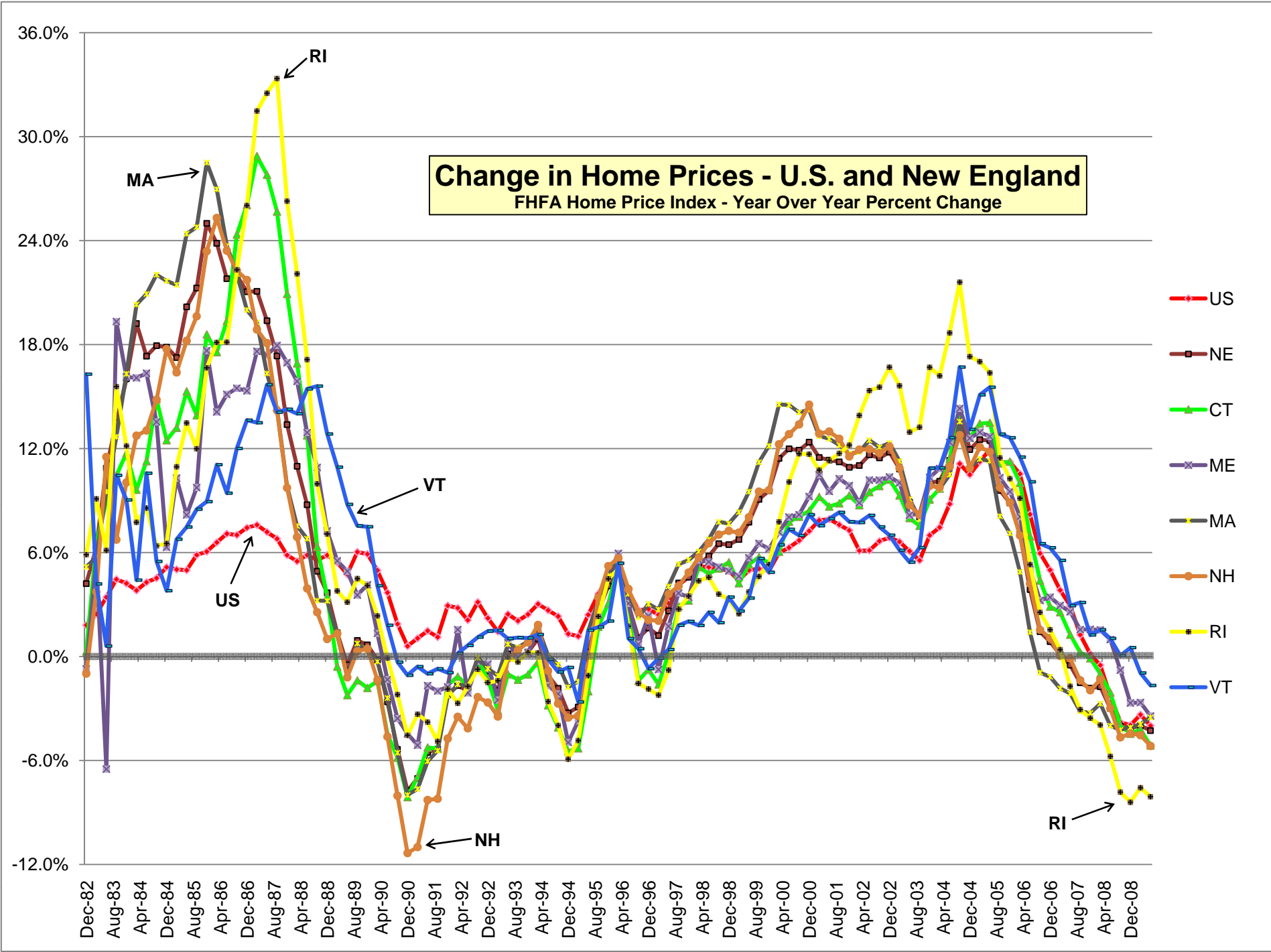


- The most severe housing price declines in Vermont have and are likely to continue to occur in the second home market. The absence of federal support for this market segment and the disappearance of private secondary market financing along with income reductions among even the wealthier income classes will leave a glut of second home properties that could take several years to work off.

Vermont Housing Starts Finally Hit Bottom, But the Hole is the Deepest Ever

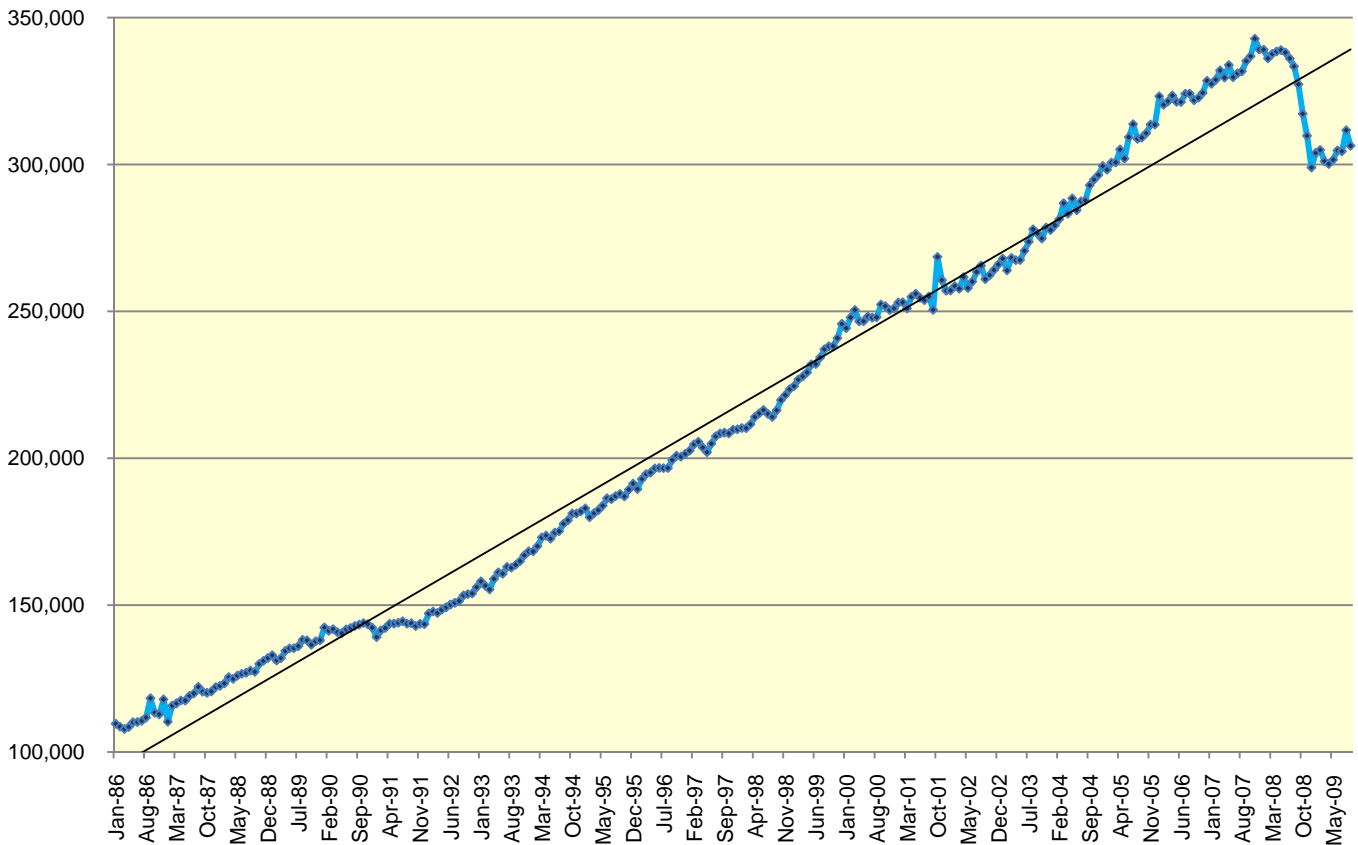
(12 Month Moving Totals, Source: F.W. Dodge Division of McGraw-Hill)



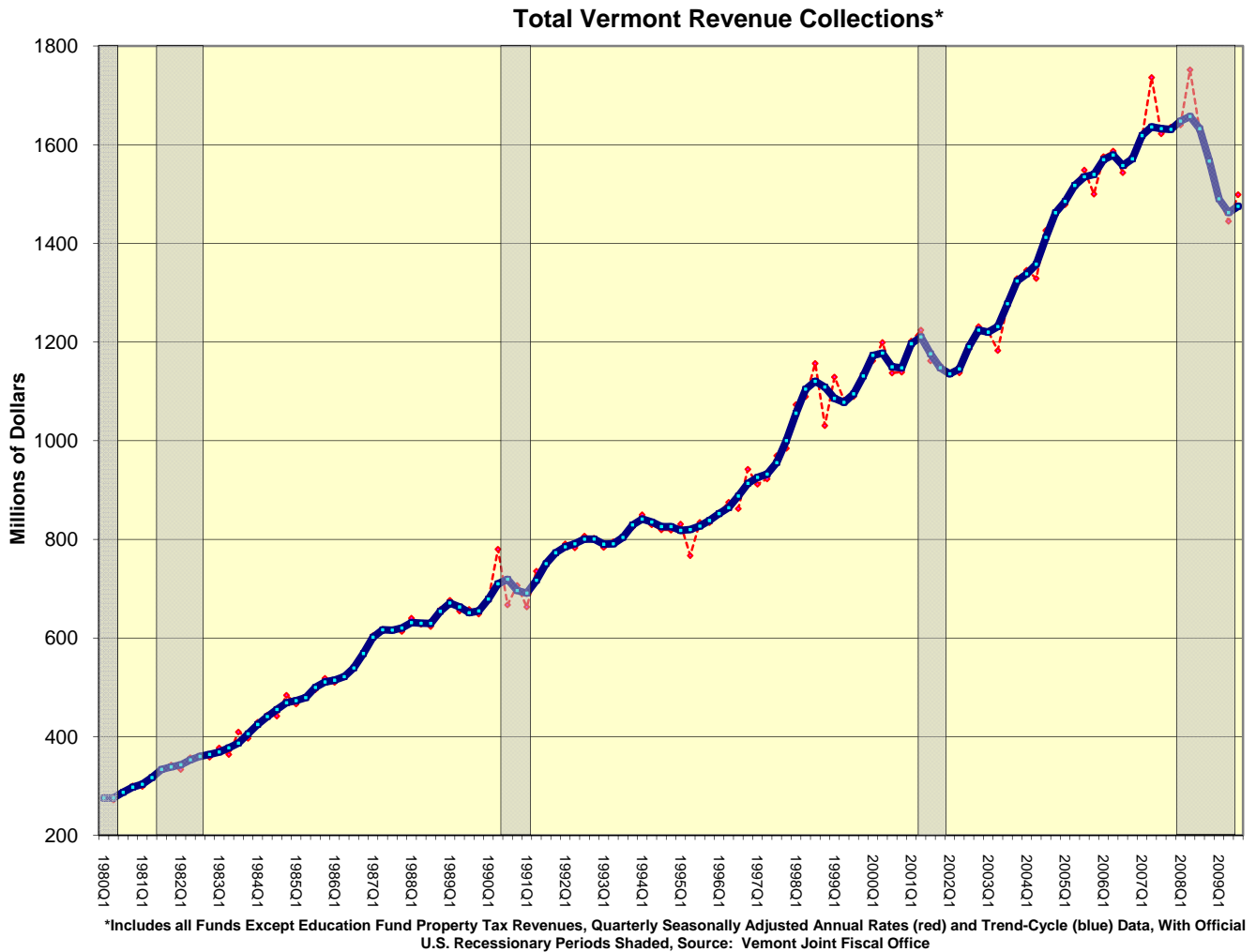


- Although this real estate cycle has not spared Vermont, it has not been as severe as in other states – just as in the late 1980's. The chart on the preceding page illustrates housing price changes during the two most recent real estate cycles in the U.S., New England and the six New England states. Of these states, Rhode Island is the most prone to excess building and cyclical correction. With more stringent permitting requirements for new construction (that are often the target of criticism by developers during cyclical peaks), Vermont is at the other end of the spectrum, with delayed and more subdued cyclical peaks and comparably less intense downturns. As shown in the chart, Vermont has registered the lowest home price declines among the New England states thus far in this recession and is likely to continue to do so throughout this contraction. Since the first quarter of 2007, Vermont housing prices have declined by 1%, versus an 8% decline for all of New England and, among the worst states, declines of 33% in NV, 29% in CA, 26% in FL, 25% in AZ and 15% in RI.
- U.S. consumer spending, representing two-thirds of the economy, continues to be exceptionally weak, with year over year declines still prevailing (see chart, below and next page). Until employment stabilizes and income growth resumes, retail spending and related revenues from state consumption taxes are likely to be subdued. Thus, the early stages of this recovery will be reliant on continued government spending and business spending associated with export growth.

Consumers Slam on the Brakes: Total U.S. Retail Sales - Nominal Dollars
 Millions of Dollars, Seasonally Adjusted - Source: U.S. Census Bureau



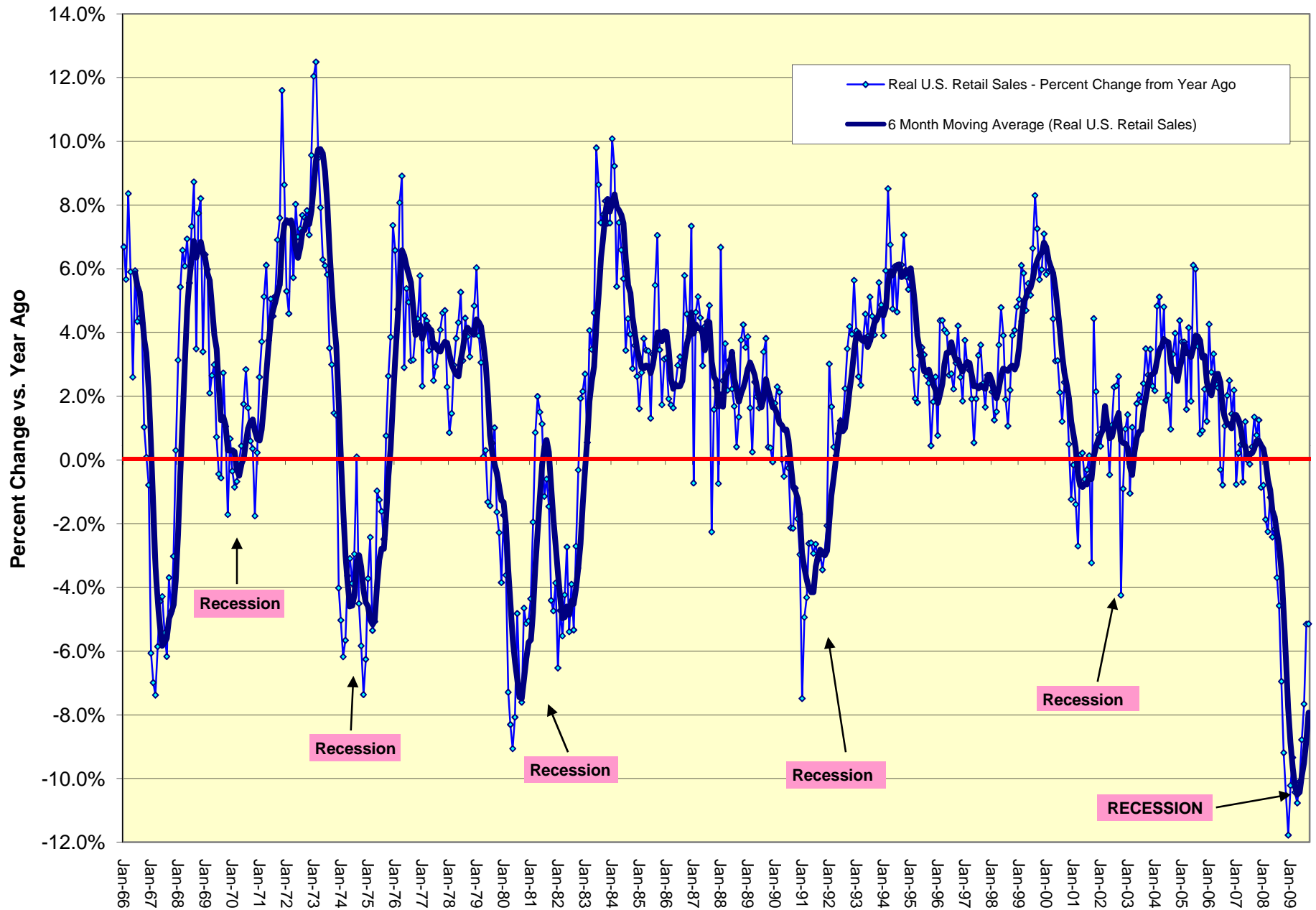
- State revenues through October have been tracking very close to expectations, with total collections across all three major funds about 1.5% above July 2009 projections. Corporate, Meals and Rooms, and Estate tax receipts are all above prior estimates and likely to remain so for the fiscal year. Personal income, Motor Vehicle Purchase and Use and Gasoline tax revenues were slightly above targets, but for various technical reasons are not expected to continue above target over the balance of the fiscal year.



- Most forecast risk remains on the downside at this juncture, with the economy vulnerable to further setback over the next 12 to 18 months. Aside from the above-mentioned risk of a deflationary spiral caused by declining nominal wages and income, the financial sector continues to be vulnerable to further potential shocks from bad commercial real estate debt and soaring related failures among smaller banks. Because these banks and related financial institutions are the primary lenders to small businesses, which in recent years have created nearly half of all net new jobs, continued or worsening credit restrictions affecting this sector could be debilitating.

Consumer Spending Declines Slow, But Continue to be Negative

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



- The most pronounced downside risk, however, is related to the timing and magnitude of policy adjustments by the federal government. Either the absence of additional federal monetary and fiscal stimulus, if needed, or the premature withdrawal of existing measures could send the economy into another tailspin. Political considerations that are unrelated to economic conditions, as well as justified fears regarding both the gargantuan federal deficit and potential related longer term inflation risks, could influence near term policy actions in ways that could be counterproductive and tip the economy back into recession.



- 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 were prepared in September and October of 2009 by the New England Economic Project (NEEP) and Moody's/Economy.com with limited JFO review and input.

TABLE A
Comparison of Recent NEEP/Economy.com U.S. Macroeconomic Forecasts
December-08 Through November-09, Selected Variables, Calendar Year Basis

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|-------|-------|-------|------|------|------|
| Real GDP Growth | | | | | | | | | |
| December-08 | 2.9 | 2.8 | 2.0 | 1.2 | -1.5 | 2.1 | 4.8 | 5.1 | |
| April -09 | 2.9 | 2.8 | 2.0 | 1.1 | -2.6 | 1.6 | 4.8 | 5.9 | |
| 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 |
| S&P 500 Growth (Annual Avg.) | | | | | | | | | |
| December-08 | 6.8 | 8.6 | 12.7 | -18.3 | -12.4 | 30.8 | 7.6 | 8.8 | |
| April-09 | 6.8 | 8.6 | 12.7 | -17.3 | -23.0 | 36.6 | 7.7 | 8.0 | |
| 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 |
| Employment Growth (Non-Ag) | | | | | | | | | |
| December-08 | 1.7 | 1.8 | 1.1 | -0.2 | -2.2 | 0.4 | 2.5 | 3.1 | |
| April-09 | 1.7 | 1.8 | 1.1 | -0.4 | -3.7 | -0.3 | 2.8 | 3.7 | |
| 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 |
| Unemployment Rate | | | | | | | | | |
| December-08 | 5.1 | 4.6 | 4.6 | 5.7 | 8.0 | 8.7 | 7.4 | 5.9 | |
| April-09 | 5.1 | 4.6 | 4.6 | 5.8 | 8.8 | 9.6 | 8.2 | 6.1 | |
| 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 |
| West Texas Int. Crude Oil \$/Bbl | | | | | | | | | |
| December-08 | 56.5 | 66.1 | 72.4 | 101.2 | 53.4 | 77.5 | 85.4 | 82.4 | |
| April-09 | 56.5 | 66.1 | 72.4 | 100.8 | 51.8 | 73.8 | 84.5 | 82.4 | |
| 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 |
| Prime Rate | | | | | | | | | |
| December-08 | 6.19 | 7.96 | 8.05 | 4.96 | 3.28 | 5.02 | 7.34 | 7.60 | |
| April-09 | 6.19 | 7.96 | 8.05 | 5.09 | 3.15 | 4.22 | 6.17 | 7.32 | |
| 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 |
| Consumer Price Index Growth | | | | | | | | | |
| December-08 | 3.4 | 3.2 | 2.9 | 4.2 | 0.9 | 2.7 | 1.8 | 1.7 | |
| April-09 | 3.4 | 3.2 | 2.9 | 3.8 | -1.0 | 1.9 | 2.1 | 2.0 | |
| 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 |
| Avg. Home Price Growth | | | | | | | | | |
| December-08 | 11.6 | 7.8 | 2.5 | -3.0 | -8.1 | -6.4 | 1.7 | 4.4 | |
| April-09 | 12.6 | 8.4 | 2.3 | -3.9 | -8.3 | -7.1 | 1.0 | 4.0 | |
| 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 |

TABLE B
Comparison of Adjusted NEEP/Economy.com/JFO Vermont State Forecasts
July-08 Through November-09, Selected Variables, Calendar Year Basis

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------------|------|------|------|------|------|------|------|------|------|
| Real GSP Growth | | | | | | | | | |
| July-08 | 2.0 | 1.2 | 1.5 | -0.4 | 1.6 | 4.0 | 3.4 | 2.4 | |
| 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 | |
| April-09 | 2.0 | 1.2 | 1.5 | 1.4 | -3.9 | 0.3 | 3.8 | 4.2 | |
| 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 |
| Population Growth | | | | | | | | | |
| July-08 | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.4 | |
| 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 | |
| April-09 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.2 | 0.2 | |
| 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 |
| Employment Growth | | | | | | | | | |
| July-08 | 0.9 | 0.7 | 0.0 | -0.5 | -0.1 | 1.3 | 1.1 | 0.6 | |
| 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 | |
| April-09 | 0.9 | 0.7 | 0.2 | -0.7 | -4.5 | -1.8 | 2.3 | 3.1 | |
| 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 |
| Unemployment Rate | | | | | | | | | |
| July-08 | 3.5 | 3.7 | 3.9 | 4.9 | 5.4 | 5.0 | 4.6 | 4.4 | |
| 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 | |
| April-09 | 3.5 | 3.7 | 4.0 | 4.8 | 7.8 | 8.9 | 7.6 | 5.8 | |
| 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 |
| Personal Income Growth | | | | | | | | | |
| July-08 | 2.9 | 6.4 | 5.2 | 3.7 | 2.8 | 4.0 | 4.1 | 4.3 | |
| 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 | |
| April-09 | 2.5 | 7.6 | 6.6 | 3.6 | 0.7 | 1.5 | 2.8 | 3.3 | |
| 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 |
| Home Price Growth (JFO*) | | | | | | | | | |
| July-08 | 14.2 | 9.4 | 4.0 | 0.1 | -1.4 | 0.2 | 1.1 | 1.8 | |
| 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 | |
| April-09 | 14.1 | 9.1 | 3.8 | 1.0 | -2.7 | -1.3 | 0.0 | 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 |

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 31 years of data for each of the 25 General Fund categories (three aggregates), 28 years of data for each of the Transportation Fund categories (one aggregate), and 10 to 31 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 - November 2009**

SOURCE G-FUND

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

| | FY 2005 | % | FY 2006 | % | FY 2007 | % | FY 2008 | % | FY 2009 | % | FY 2010 | % | FY 2011 | % |
|----------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | \$500.5 | 16.4% | \$542.0 | 8.3% | \$581.2 | 7.2% | \$622.3 | 7.1% | \$530.3 | -14.8% | \$489.1 | -7.8% | \$527.9 | 7.9% |
| Sales & Use* | \$310.8 | 14.2% | \$325.5 | 4.7% | \$333.7 | 2.5% | \$338.4 | 1.4% | \$321.2 | -5.1% | \$310.4 | -3.4% | \$321.4 | 3.5% |
| Corporate | \$60.4 | 8.3% | \$75.9 | 25.8% | \$72.8 | -4.1% | \$74.6 | 2.4% | \$66.2 | -11.3% | \$60.2 | -9.0% | \$63.2 | 5.0% |
| Meals and Rooms | \$113.0 | 4.1% | \$111.8 | -1.1% | \$114.9 | 2.8% | \$121.1 | 5.4% | \$117.1 | -3.3% | \$116.6 | -0.4% | \$120.0 | 2.9% |
| Cigarette and Tobacco** | \$48.8 | -8.7% | \$48.9 | 0.3% | \$64.3 | 31.4% | \$59.2 | -7.9% | \$64.1 | 8.3% | \$68.3 | 6.5% | \$65.7 | -3.8% |
| Liquor | \$12.5 | 7.1% | \$13.2 | 5.1% | \$13.7 | 4.0% | \$14.2 | 3.7% | \$15.0 | 6.0% | \$14.7 | -2.3% | \$15.4 | 4.8% |
| Insurance | \$50.3 | 7.0% | \$52.5 | 4.2% | \$52.9 | 0.8% | \$54.8 | 3.8% | \$53.7 | -2.1% | \$54.2 | 0.9% | \$55.7 | 2.8% |
| Telephone | \$10.5 | 1.6% | \$10.4 | -1.4% | \$10.0 | -4.0% | \$9.5 | -4.6% | \$9.1 | -3.8% | \$9.5 | 4.0% | \$9.4 | -1.1% |
| Beverage | \$5.3 | 2.0% | \$5.4 | 2.8% | \$5.5 | 1.3% | \$5.6 | 1.9% | \$5.6 | 0.3% | \$5.7 | 0.6% | \$5.7 | 0.5% |
| Electric | \$2.6 | -6.0% | \$2.6 | 0.0% | \$2.6 | 1.2% | \$2.7 | 3.3% | \$2.8 | 4.0% | \$2.9 | 1.9% | \$2.9 | 0.0% |
| Estate | \$18.9 | 28.2% | \$26.2 | 39.0% | \$17.8 | -32.1% | \$15.7 | -11.9% | \$23.4 | 49.1% | \$17.4 | -25.6% | \$18.1 | 4.0% |
| Property | \$45.2 | 33.2% | \$43.7 | -3.4% | \$39.3 | -10.0% | \$34.0 | -13.5% | \$25.9 | -23.7% | \$21.7 | -16.4% | \$23.3 | 7.4% |
| Bank | \$8.6 | 32.0% | \$10.2 | 18.3% | \$10.5 | 3.6% | \$10.2 | -3.4% | \$20.6 | 102.5% | \$10.6 | -48.5% | \$10.8 | 1.9% |
| Other Tax | \$6.6 | 52.1% | \$7.2 | 9.1% | \$6.5 | -10.2% | \$3.2 | -51.1% | \$2.8 | -12.7% | \$1.5 | -45.8% | \$1.9 | 26.7% |
| Total Tax Revenue | \$1193.9 | 13.0% | \$1275.4 | 6.8% | \$1325.7 | 3.9% | \$1365.5 | 3.0% | \$1257.9 | -7.9% | \$1182.8 | -6.0% | \$1241.4 | 5.0% |
| Business Licenses | \$2.8 | 2.9% | \$2.8 | -0.5% | \$2.8 | -1.0% | \$2.7 | -1.0% | \$3.0 | 9.4% | \$2.7 | -9.7% | \$2.8 | 3.7% |
| Fees | \$12.5 | 9.9% | \$13.2 | 6.1% | \$14.2 | 7.4% | \$14.7 | 3.6% | \$19.1 | 29.5% | \$18.4 | -3.5% | \$19.2 | 4.3% |
| Services | \$2.0 | 22.9% | \$1.3 | -35.3% | \$1.5 | 17.1% | \$1.7 | 15.9% | \$1.5 | -11.0% | \$1.3 | -15.9% | \$1.4 | 7.7% |
| Fines | \$4.4 | -40.2% | \$3.2 | -26.7% | \$3.2 | -2.1% | \$4.4 | 38.6% | \$9.8 | 122.0% | \$6.8 | -30.5% | \$4.4 | -35.3% |
| Interest | \$1.6 | 894.1% | \$2.7 | 67.0% | \$3.6 | 33.5% | \$3.9 | 10.1% | \$1.4 | -63.9% | \$0.3 | -78.9% | \$0.8 | 166.7% |
| Lottery | \$20.4 | 0.4% | \$21.9 | 7.3% | \$23.3 | 6.5% | \$22.7 | -2.5% | \$20.9 | -7.7% | \$20.8 | -0.7% | \$21.3 | 2.4% |
| All Other | \$0.4 | -9.9% | \$0.2 | -40.9% | \$1.1 | 365.2% | \$0.6 | -44.1% | \$0.2 | -64.7% | \$0.4 | 81.9% | \$0.5 | 25.0% |
| Total Other Revenue | \$44.1 | 0.1% | \$45.3 | 2.9% | \$49.6 | 9.5% | \$50.9 | 2.5% | \$56.0 | 10.0% | \$50.7 | -9.4% | \$50.4 | -0.6% |
| TOTAL GENERAL FUND | \$1238.0 | 12.5% | \$1320.8 | 6.7% | \$1375.4 | 4.1% | \$1416.4 | 3.0% | \$1313.9 | -7.2% | \$1233.5 | -6.1% | \$1291.8 | 4.7% |

* 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 - November 2009**

CURRENT LAW BASIS

including all Education Fund

allocations and other out-transfers

| | FY 2005 | % | FY 2006 | % | FY 2007 | % | FY 2008 | % | FY 2009 | % | FY 2010 | % | FY 2011 | % |
|----------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | \$500.5 | 16.4% | \$542.0 | 8.3% | \$581.2 | 7.2% | \$622.3 | 7.1% | \$530.3 | -14.8% | \$489.1 | -7.8% | \$527.9 | 7.9% |
| Sales and Use* | \$207.2 | -23.9% | \$216.9 | 4.7% | \$222.5 | 2.6% | \$225.6 | 1.4% | \$214.1 | -5.1% | \$206.9 | -3.4% | \$214.3 | 3.5% |
| Corporate | \$60.4 | 33.6% | \$75.9 | 25.8% | \$72.8 | -4.1% | \$74.6 | 2.4% | \$66.2 | -11.3% | \$60.2 | -9.0% | \$63.2 | 5.0% |
| Meals and Rooms | \$113.0 | 27.8% | \$111.8 | -1.1% | \$114.9 | 2.8% | \$121.1 | 5.4% | \$117.1 | -3.3% | \$116.6 | -0.4% | \$120.0 | 2.9% |
| 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 | \$12.5 | 7.1% | \$13.2 | 5.1% | \$13.7 | 4.0% | \$14.2 | 3.7% | \$15.0 | 6.0% | \$14.7 | -2.3% | \$15.4 | 4.8% |
| Insurance | \$50.3 | 7.0% | \$52.5 | 4.2% | \$52.9 | 0.8% | \$54.8 | 3.8% | \$53.7 | -2.1% | \$54.2 | 0.9% | \$55.7 | 2.8% |
| Telephone | \$10.5 | 1.6% | \$10.4 | -1.4% | \$10.0 | -4.0% | \$9.5 | -4.6% | \$9.1 | -3.8% | \$9.5 | 4.0% | \$9.4 | -1.1% |
| Beverage | \$5.3 | 2.0% | \$5.4 | 2.8% | \$5.5 | 1.3% | \$5.6 | 1.9% | \$5.6 | 0.3% | \$5.7 | 0.6% | \$5.7 | 0.5% |
| Electric | \$2.6 | -6.0% | \$2.6 | 0.0% | \$2.6 | 1.2% | \$2.7 | 3.3% | \$2.8 | 4.0% | \$2.9 | 1.9% | \$2.9 | 0.0% |
| Estate** | \$18.9 | 28.2% | \$26.2 | 39.0% | \$17.8 | -32.1% | \$15.7 | -11.9% | \$21.9 | 39.4% | \$17.4 | -20.5% | \$18.1 | 4.0% |
| Property | \$14.8 | 33.1% | \$13.5 | -8.9% | \$12.8 | -4.5% | \$10.7 | -16.3% | \$8.5 | -21.1% | \$7.1 | -16.4% | \$7.6 | 7.4% |
| Bank | \$8.6 | 216.6% | \$10.2 | 18.3% | \$10.5 | 3.6% | \$10.2 | -3.4% | \$20.6 | 102.5% | \$10.6 | -48.5% | \$10.8 | 1.9% |
| Other Tax | \$6.6 | 52.1% | \$7.2 | 9.1% | \$6.5 | -10.2% | \$3.2 | -51.1% | \$2.8 | -12.7% | \$1.5 | -45.8% | \$1.9 | 26.7% |
| Total Tax Revenue | \$1011.1 | 6.9% | \$1087.7 | 7.6% | \$1123.7 | 3.3% | \$1170.3 | 4.1% | \$1067.7 | -8.8% | \$996.4 | -6.7% | \$1052.9 | 5.7% |
| Business Licenses | \$2.8 | 2.9% | \$2.8 | -0.5% | \$2.8 | -1.0% | \$2.7 | -1.0% | \$3.0 | 9.4% | \$2.7 | -9.7% | \$2.8 | 3.7% |
| Fees | \$12.5 | 40.4% | \$13.2 | 6.1% | \$14.2 | 7.4% | \$14.7 | 3.6% | \$19.1 | 29.5% | \$18.4 | -3.5% | \$19.2 | 4.3% |
| Services | \$2.0 | 22.9% | \$1.3 | -35.3% | \$1.5 | 17.1% | \$1.7 | 15.9% | \$1.5 | -11.0% | \$1.3 | -15.9% | \$1.4 | 7.7% |
| Fines | \$4.4 | -40.2% | \$3.2 | -26.7% | \$3.2 | -2.1% | \$4.4 | 38.6% | \$9.8 | 122.0% | \$6.8 | -30.5% | \$4.4 | -35.3% |
| Interest | \$2.1 | 438.3% | \$3.4 | 60.7% | \$4.9 | 43.9% | \$5.3 | 7.2% | \$1.2 | -77.8% | \$0.2 | -82.9% | \$0.6 | 200.0% |
| All Other | \$0.4 | -9.9% | \$0.2 | -40.9% | \$1.1 | 365.2% | \$0.6 | -44.1% | \$0.2 | -64.7% | \$0.4 | 81.9% | \$0.5 | 25.0% |
| Total Other Revenue | \$24.2 | 12.6% | \$24.2 | -0.1% | \$27.7 | 14.3% | \$29.5 | 6.5% | \$34.8 | 18.0% | \$29.8 | -14.3% | \$28.9 | -3.0% |
| TOTAL GENERAL FUND | \$1035.3 | 7.1% | \$1111.9 | 7.4% | \$1151.4 | 3.5% | \$1199.7 | 4.2% | \$1102.5 | -8.1% | \$1026.2 | -6.9% | \$1081.8 | 5.4% |

* 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 - November 2009**

SOURCE T-FUND

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

| | FY 2005 | % | FY 2006 | % | FY 2007 | % | FY 2008 | % | FY 2009 | % | FY 2010 | % | FY 2011 | % |
|--------------------------|----------------|--------------|----------------|--------------|----------------|-------------|----------------|-------------|----------------|--------------|----------------|-------------|----------------|-------------|
| | (Actual) | Change | (Actual) | Change | (Actual) | Change | (Actual) | Change | (Preliminary) | Change | (Forecast) | Change | (Forecast) | Change |
| REVENUE SOURCE | | | | | | | | | | | | | | |
| Gasoline | \$65.5 | 0.7% | \$63.8 | -2.7% | \$63.6 | -0.3% | \$62.6 | -1.6% | \$60.6 | -3.1% | \$60.3 | -0.6% | \$61.1 | 1.3% |
| Diesel | \$15.5 | -13.8% | \$17.7 | 14.0% | \$18.0 | 1.7% | \$16.6 | -7.8% | \$15.5 | -6.5% | \$15.1 | -2.6% | \$15.7 | 4.0% |
| Purchase and Use* | \$84.1 | -2.5% | \$80.3 | -4.4% | \$80.6 | 0.4% | \$79.0 | -2.0% | \$65.9 | -16.6% | \$66.1 | 0.3% | \$69.3 | 4.8% |
| Motor Vehicle Fees | \$56.1 | 1.6% | \$57.4 | 2.3% | \$65.4 | 14.1% | \$67.5 | 3.2% | \$65.5 | -3.0% | \$73.0 | 11.4% | \$74.5 | 2.1% |
| Other Revenue** | \$16.7 | 7.3% | \$18.2 | 8.6% | \$20.2 | 11.1% | \$23.7 | 17.2% | \$18.0 | -24.0% | \$19.8 | 10.1% | \$20.3 | 2.5% |
| TOTAL TRANS. FUND | \$238.0 | -0.9% | \$237.4 | -0.3% | \$247.8 | 4.4% | \$249.4 | 0.6% | \$225.6 | -9.6% | \$234.3 | 3.9% | \$240.9 | 2.8% |

**TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - November 2009**

CURRENT LAW BASIS

including all Education Fund
allocations and other out-transfers

| | FY 2005 | % | FY 2006 | % | FY 2007 | % | FY 2008 | % | FY 2009 | % | FY 2010 | % | FY 2011 | % |
|--------------------------|----------------|--------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|--------------|----------------|-------------|----------------|-------------|
| | (Actual) | Change | (Actual) | Change | (Actual) | Change | (Actual) | Change | (Preliminary) | Change | (Forecast) | Change | (Forecast) | Change |
| REVENUE SOURCE | | | | | | | | | | | | | | |
| Gasoline | \$65.5 | 20.8% | \$63.8 | -2.7% | \$63.6 | -0.3% | \$62.6 | -1.6% | \$60.6 | -3.1% | \$60.3 | -0.6% | \$61.1 | 1.3% |
| Diesel | \$15.5 | -13.8% | \$17.7 | 14.0% | \$18.0 | 1.7% | \$16.6 | -7.8% | \$15.5 | -6.5% | \$15.1 | -2.6% | \$15.7 | 4.0% |
| Purchase and Use* | \$56.0 | -22.1% | \$53.9 | -3.8% | \$53.7 | -0.3% | \$52.7 | -2.0% | \$44.0 | -16.6% | \$44.1 | 0.3% | \$46.2 | 4.8% |
| Motor Vehicle Fees | \$56.1 | 1.6% | \$57.4 | 2.3% | \$65.4 | 14.1% | \$67.5 | 3.2% | \$65.5 | -3.0% | \$73.0 | 11.4% | \$74.5 | 2.1% |
| Other Revenue** | \$15.9 | 4.9% | \$17.1 | 7.6% | \$19.2 | 11.9% | \$23.7 | 23.5% | \$18.0 | -24.0% | \$19.8 | 10.1% | \$20.3 | 2.5% |
| TOTAL TRANS. FUND | \$209.1 | -2.5% | \$209.9 | 0.4% | \$219.9 | 4.8% | \$223.1 | 1.4% | \$203.6 | -8.7% | \$212.3 | 4.3% | \$217.8 | 2.6% |

OTHER

| | | | | | | | | | | | | | | |
|--------------|--|--|--|--|--|--|--|--|--|--|---------|--|------|--------|
| TIB Gasoline | | | | | | | | | | | 15.2 NM | | 19.8 | 30.3% |
| TIB Diesel | | | | | | | | | | | 1.5 NM | | 3.0 | 100.0% |

* 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 - November 2009**

CURRENT LAW BASIS

* Source General and Transportation

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

| | FY 2005 | | FY 2006 | | FY 2007 | | FY 2008 | | FY 2009 | | FY 2010 | | FY 2011 | |
|----------------------------|----------------|--------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|--------------|----------------|--------------|----------------|-------------|
| | (Actual) | % Change | (Actual) | % Change | (Actual) | % Change | (Actual) | % Change | (Preliminary) | % Change | (Forecast) | % Change | (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 |
| Sales & Use** | \$103.6 | 533.1% | \$108.5 | 4.8% | \$111.2 | 2.5% | \$112.8 | 1.4% | \$107.1 | -5.1% | \$103.5 | -3.3% | \$107.1 | 3.5% |
| Bank | \$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 |
| Security Registration Fees | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM |
| Interest | (\$0.5) | NM | (\$0.7) | NM | (\$1.3) | NM | (\$1.3) | -0.8% | \$0.3 | NM | \$0.1 | NM | \$0.2 | NM |
| Lottery | \$20.4 | 0.4% | \$21.9 | 7.3% | \$23.3 | 6.5% | \$22.7 | -2.5% | \$20.9 | -7.7% | \$20.8 | -0.7% | \$21.3 | 2.4% |
| TRANSPORTATION FUND | | | | | | | | | | | | | | |
| Purchase and Use*** | \$28.0 | 96.2% | \$26.4 | -5.8% | \$26.9 | 1.8% | \$26.3 | -2.0% | \$22.0 | -16.6% | \$22.0 | 0.3% | \$23.1 | 4.8% |
| TOTAL | \$151.5 | 53.8% | \$156.1 | 3.0% | \$160.1 | 2.6% | \$160.5 | 0.3% | \$150.2 | -6.4% | \$146.4 | -2.6% | \$151.7 | 3.6% |

** 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