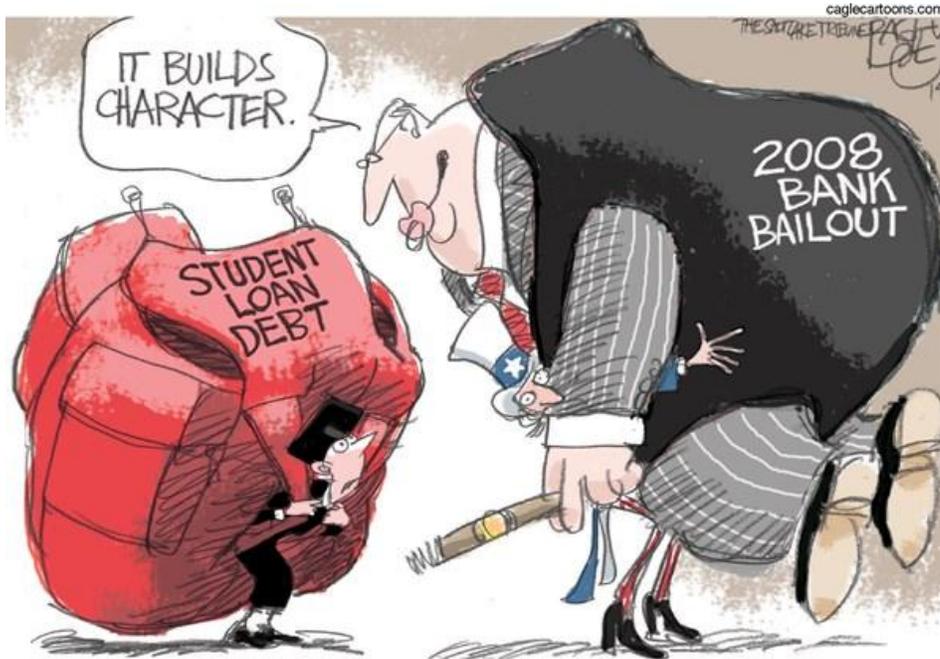


The Revised Fiscal 2015-16 Revenue Outlook

General Fund, Transportation Fund, and Education Fund



Prepared for the Vermont Emergency Board

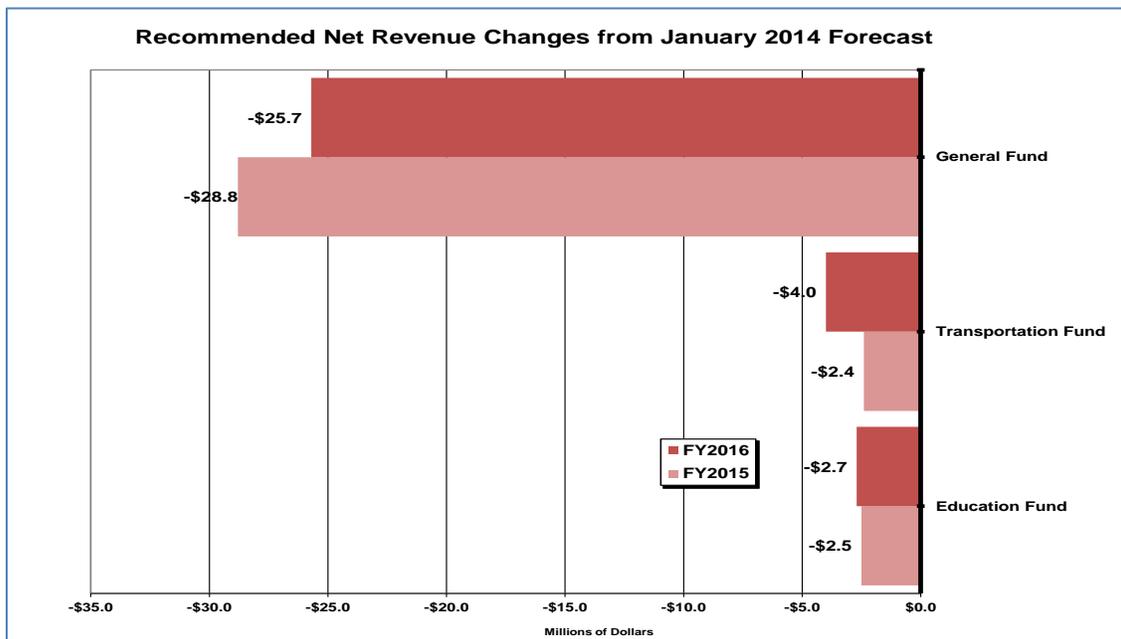
July 22, 2014

Prepared by:

Economic & Policy Resources, Inc.
400 Cornerstone Drive, Suite 310
P.O. Box 1660
Williston, Vermont 05495-1660
(802) 878-0346
www.epreconomics.com

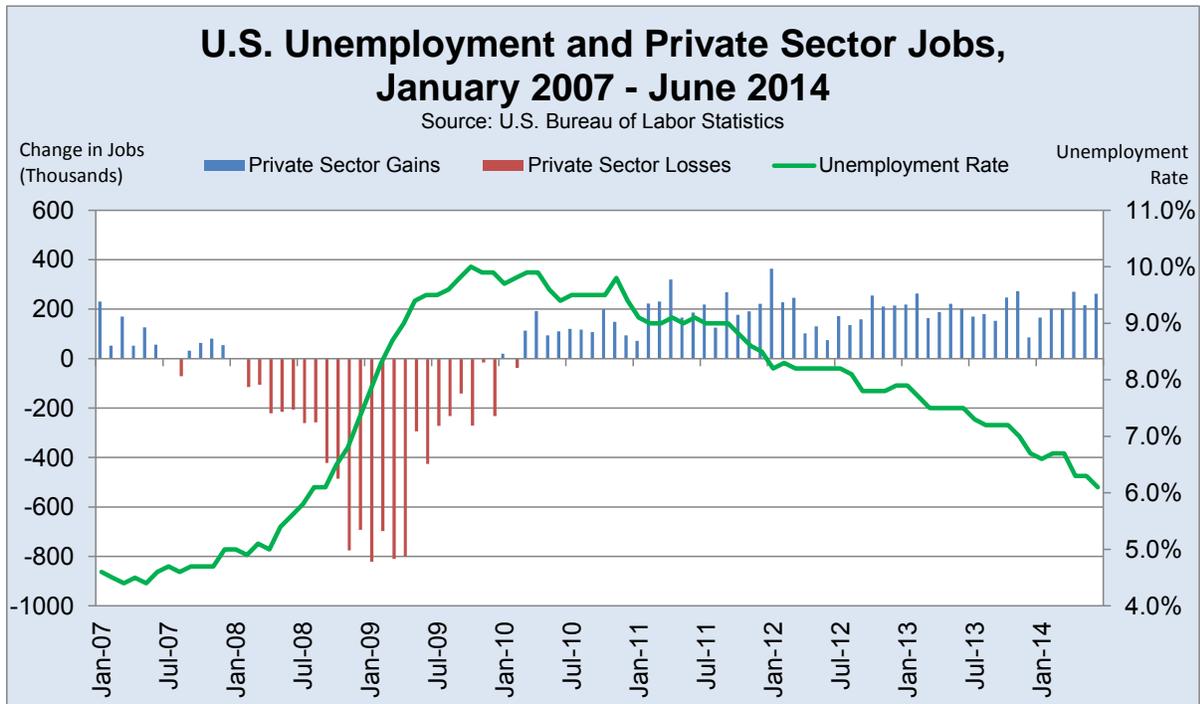
A. Forecast Overview

- Although fiscal 2014 receipts generally finished the year within reasonable forecast accuracy bounds, evidence of an apparently broad slowdown in economic activity and the profile of actual revenue receipts result in a staff recommended downgrade in fiscal year 2015 and fiscal year 2016.
 - For the General Fund, the staff recommended forecast revision is -\$28.8 million (or -2.1%) in fiscal year 2015 and -\$25.7 million (or -1.8%) for fiscal year 2016. For the most part, revenue activity in the second half of FY 2014 that showed softening Personal Income Tax receipts (mainly PI Withholding and higher than expected PI Refund activity), more sluggish than anticipated Sales & Use Tax receipts, and technical adjustments in several “below the line” minor components, were responsible for the downgrade.
 - In the Transportation Fund, the staff recommended forecast downgrade total is -\$2.4 million (or -0.9%) in fiscal year 2015 and -\$4.0 million (or -1.5%) in fiscal year 2016. The forecast downgrade in the Transportation Fund is attributable to sluggish Gas Tax receipts due to weaker than expected Gasoline prices, and the realization that gasoline consumption is in a long term secular decline.
 - For the Education Fund [Partial], the staff recommended forecast downgrade totals -\$2.5 million (-1.4%) in fiscal year 2015 and -\$2.7 million (or -1.4%) in fiscal year 2016. The forecast downgrade in the Education Fund [Partial] is attributable to the softer consumption tax trends and the flat outlook for Lottery profits which underpin revenues from the Lottery.



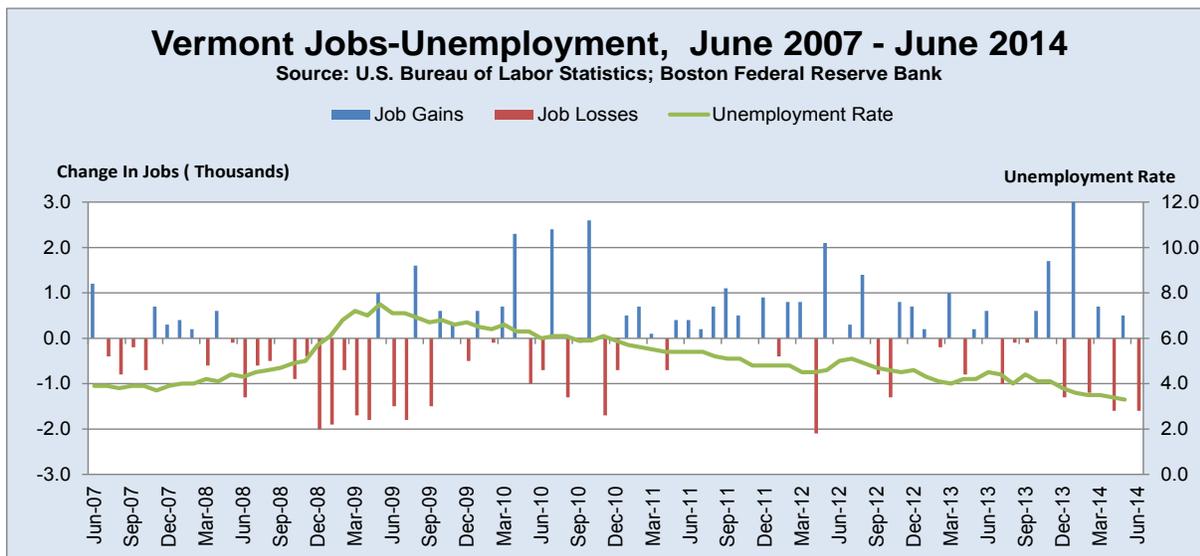
B. Review of the Economy

- Just when it looked like the U.S. economy was poised to shift into a higher gear, along came a perplexing -2.9% decline in U.S. GDP during the first quarter of calendar year 2014. The first quarter of calendar year 2014 was the worst quarterly performance for inflation-adjusted output growth in five years (dating back to the last stage of the "Great Recession"), and flies in the face of many other indicators portraying significantly stronger economic conditions.



- Although the GDP was somewhat consistent with other indications of a pause in the U.S. economy's forward momentum over the first half of calendar year 2014 (corresponding to the second half of the state's fiscal year 2014), this conflicts with the data that shows a strengthening job market performance, positive trends in disposable income growth, improving consumer confidence, continued low inflation and interest rates, and the performance of global equity markets. All of these factors run counter to an interpretation that this is a time for pessimism with respect to the state of the economy.
 - In fact, other indicators for the first half of calendar year 2014 show that the period marks the first time in 21 years (or since calendar year 1993) that global stock markets, commodity markets, and bond markets all ticked upward in unison during the first half of a calendar year.
- Nationally, the various labor market metrics portray an improving labor market that has finally recaptured—at least numerically—all of the jobs lost during the "Great Recession." Jobs are increasing across a broadening range of industries and pay levels of the recovered-new jobs have improved from the beginning of the recovery.

- Monthly job increases over the first half of calendar year 2014 averaged 231,000 per month and 272,000 per month for the April to June quarter—corresponding to the best payroll job numbers since pre-“Great Recession” labor market peak.
- In Vermont, the state’s continued low unemployment rate (which ticked up slightly last month to 3.5% in June—but is down from 4.4% a year ago on a seasonally adjusted basis)—continues to track as the lowest in the New England region and among the lowest in the U.S. as a whole. The Vermont Department of Labor (VDOL) earlier in July also reported a seasonally adjusted job decrease of 1,600 jobs in June from the revised May data—continuing a one month up-one month down see-saw pattern to seasonally adjusted month-to-month job changes.
- Since last December, month to month changes have essentially moved sideways. So far this calendar year, there have been no consecutive months of seasonally adjusted employment increases or declines (See below).



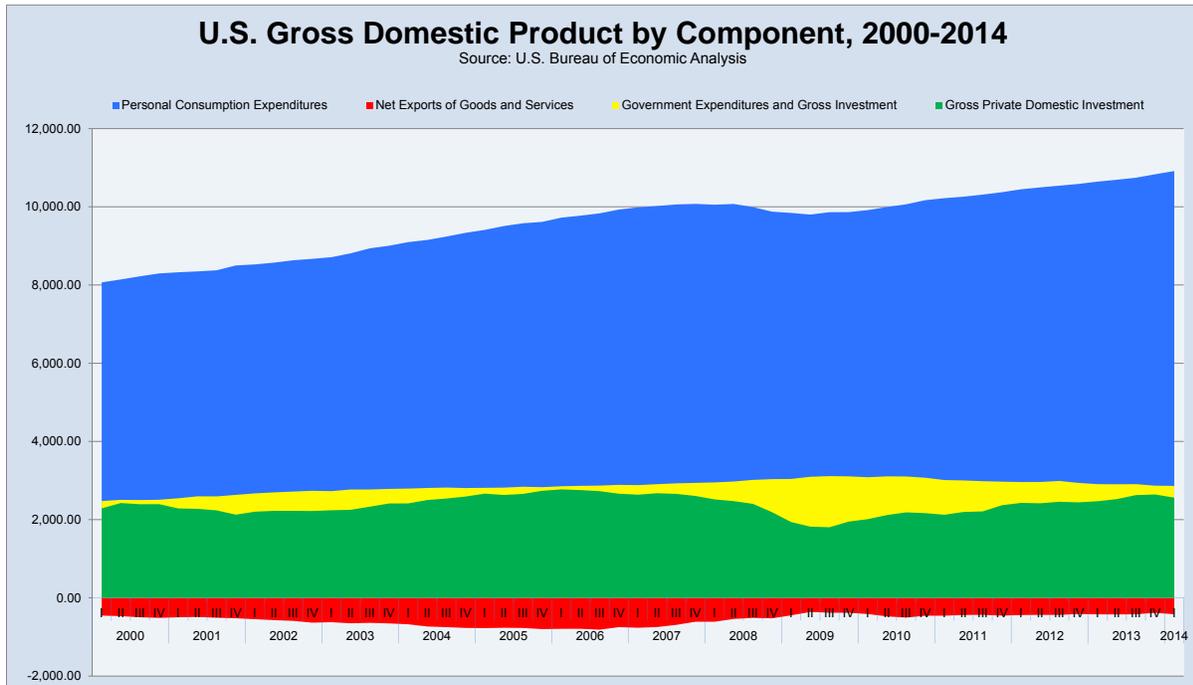
- The VDOL also added in its June job market announcement that seasonally adjusted month-to-month changes in June were mixed at the sector-level. Those with a notable percent increases included: Professional and Business Services (+300 jobs or +1.1 percent), Education & Health Services (+600 jobs or +1.0 percent) and Construction (+100 jobs or +0.7 percent). Industries with a notable percent decreases included: Leisure & Hospitality (-1,100 jobs or -3.1 percent), State Government (-400 jobs or -2.2 percent) and Trade, Transportation & Utilities (-800 jobs or -1.4 percent).
- The year-over-year job change numbers show that Vermont’s best performance over the last year came in the Construction sector with job additions on a year-over-year basis of +4.0%. That performance corresponded to Vermont’s 2nd highest U.S. (at 22nd) and 2nd highest New England ranking (3rd—along with the Government sector). Education and Health Services grew 2.1% over June 2013, finishing as

Vermont's highest U.S. ranking at 20th.

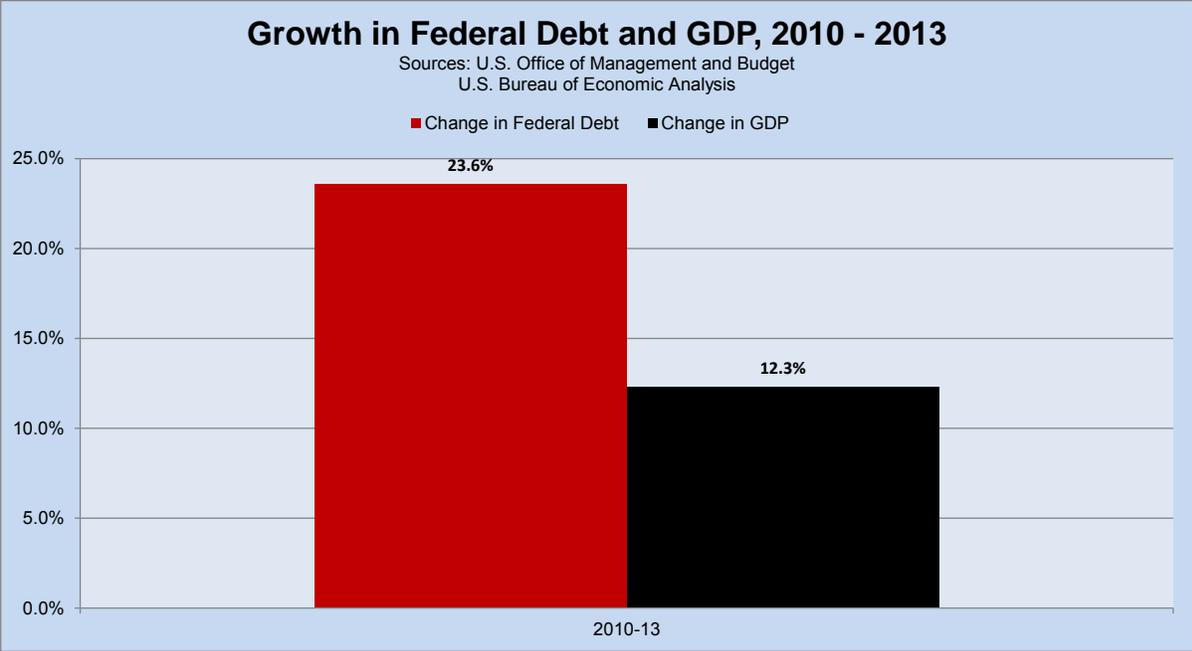
- The weakest year-over-year job changes have come in the Information sector (at -10.4% since June of 2013), the Trade, Transportation, and Utilities sector (at -1.3% year-over-year), and the Manufacturing sector (at -1.2% since June of 2013). The latter is largely due to the layoffs that have occurred at IBM over the past year.
- The job change numbers of the last three years indicate that progress toward a labor market recovery is still being made in the Vermont economy, with many of the same sectors that have been flat or down over the last year (which is admittedly an arbitrary period for measuring job change—but is needed when using non-seasonally adjusted job data) actually experiencing modest job gains over the longer three-year time horizon.
 - Since June of 2011, the Vermont economy has added 6,900 nonfarm payroll jobs overall—including 7,100 private sector nonfarm payroll jobs. This is consistent with a Vermont labor market that did not lose as many jobs as its national counterpart during the “Great Recession,” and made more significant recovery earlier in the labor market recovery process than was the case nationally and in many other states.
- Nevertheless, the above data indicate that the Vermont economy—like its U.S. counterpart—also apparently experienced slower forward momentum during the first half of calendar year 2014 (corresponding to the second half of fiscal year 2014).
 - Even taking into account this apparent slowdown, year-over-year revenue results for key revenue concepts through June of fiscal year 2014, like Personal Income Withholding (at +6.3% for fiscal 2014 versus fiscal 2013) and Meals and Rooms Tax¹ (at +5.9% year-over year), and Property Transfer Tax (at +9.3% year over year) show that the Vermont economy is very likely still improving despite the recent flat performance of some jobs indicators.
- Although the at this point economy seems to possess the underlying fundamentals to move onto a higher performance plane, it does not mean the economy is not without its “uncertainties.” Most are on-going and well documented, and include (among others): (1) the orderly unwinding of the Fed policy of Quantitative Easing (or “QE”)—as it impacts the changing sources of demand and future inflation levels, (2) fiscal policy uncertainties in Washington and the still rising federal debt, (3) the on-going plight of the long-term unemployed and underemployed, (4) the still under-performing housing market, and (5) the still fragile level of household and business confidence, which impedes a more typical business and household response to various economic stimuli.
 - Regarding the first, the economics community appears split regarding the effectiveness of the federal stimulus program and what the Fed has done to encourage a turnaround in housing markets and the economy overall through

¹ Indications are the 2013-14 Winter tourism season (as evidenced by roughly 4.5 million skier visits) was a solid one.

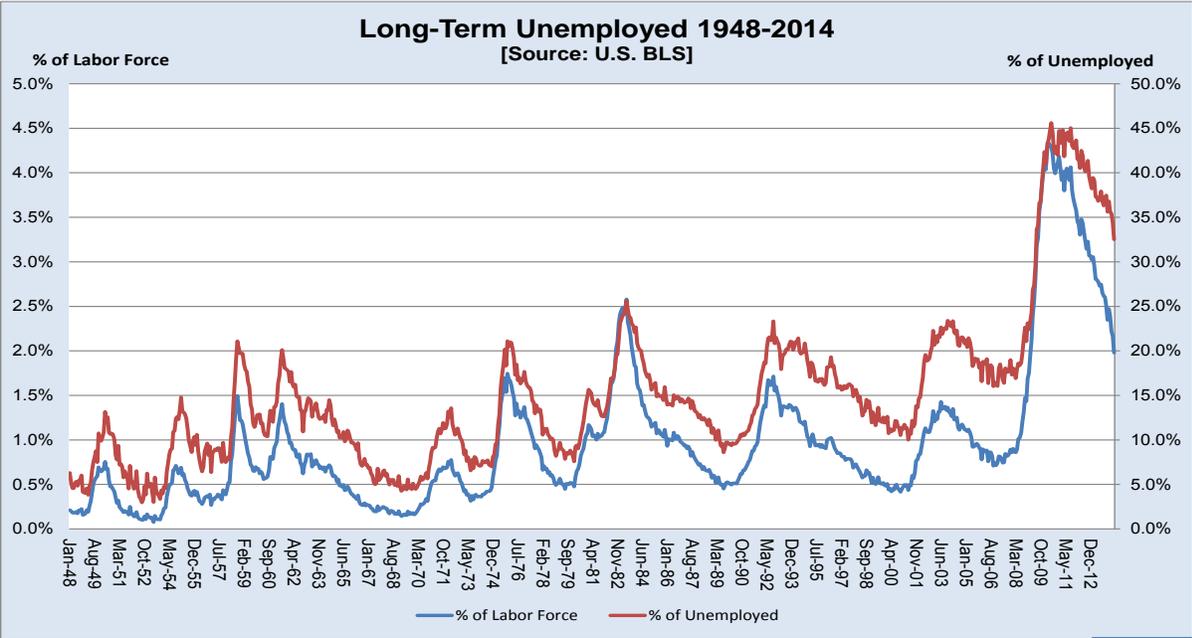
its QE policies. Regardless of where any analyst stands on the above fiscal and monetary policy matters, the sources of final demand underpinning GDP growth have changed. For the near-term economic outlook, it will be up to the business sector and individuals to carry the “economic ball” farther down the field—as the public sector’s support further wanes.



- Regarding the second, the current lull in what we will term the “manufactured fiscal crises” in Washington has been a welcome development. However the federal deficit is still increasing, on top of the already significant growth in the federal debt that has occurred just over the 2010 to 2013 period—where the federal debt increased at a rate roughly two times as fast as output in the U.S. economy increased over the same period.

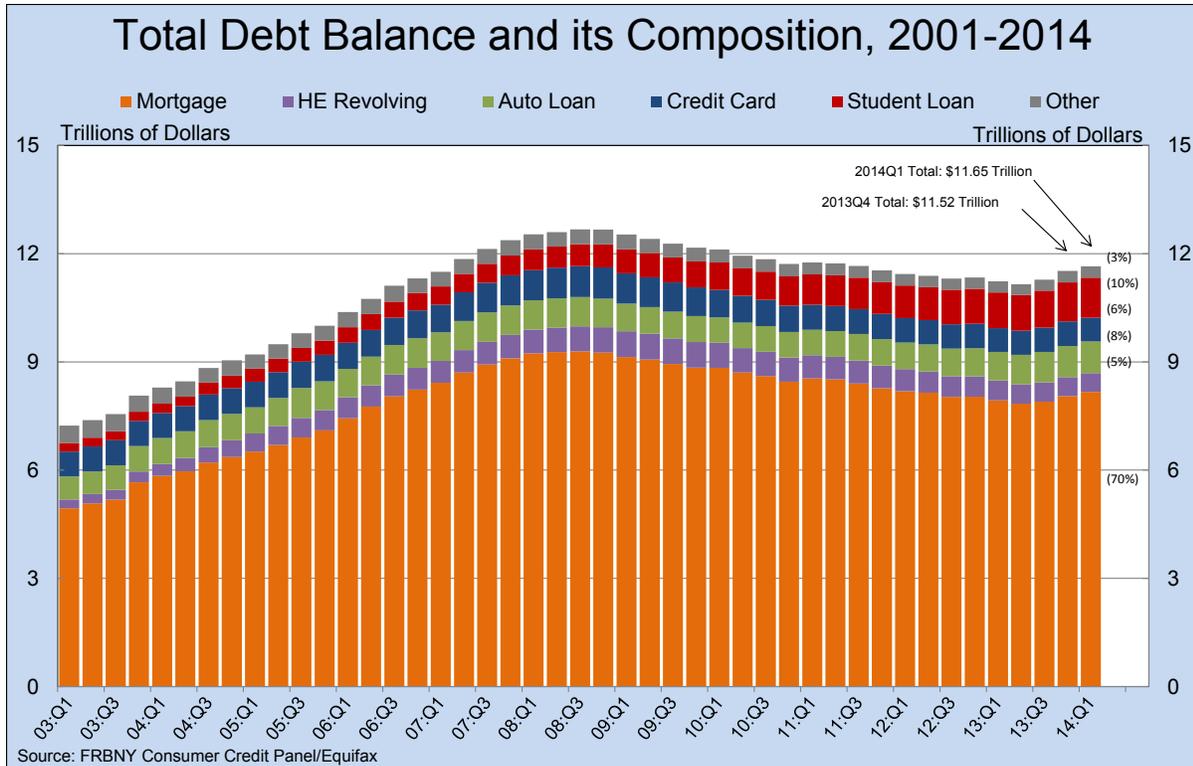


- Regarding the third, the number of long-term unemployed has been and continues to be a drag on the pace of the labor market recovery—even though it is improving. The percentage of long-term unemployed remains very high by historical standards (at roughly third of the total number of unemployed or nearly 3.1 million) relative to this point in the any past U.S. economic recovery-expansion dating all of the way back to World War II.²

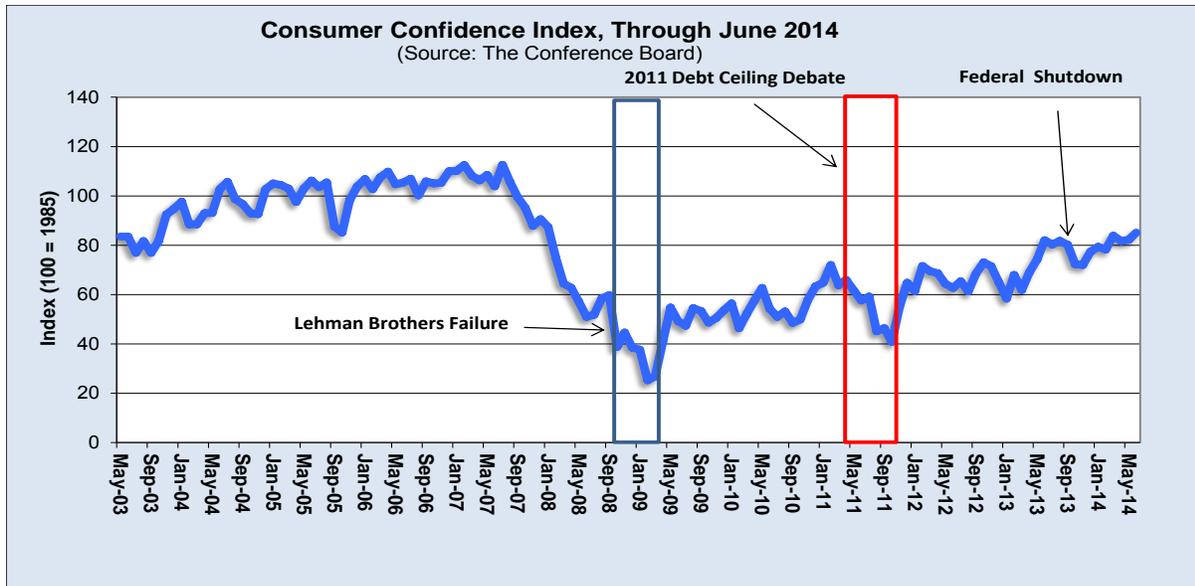


² The closest prior recovery-expansion experience was the roughly 25% figure associated with the early 1980s recession-recovery. That recession-recovery-expansion was similar in that the 1981-82 recession had financial sector underpinnings as the Fed tried to wring inflation out of the U.S economy and financial system by increasing short-term and long-term interest rates.

- Regarding the fourth, it is difficult to envision a “typical pace and character” to the U.S. upturn without a further normalizing of U.S. housing markets. At this point, the first time buyer component appears to be lagging.
- At least part of the reason underpinning the sluggish first time homebuyer component of the housing market is the unprecedented level of student debt outstanding which has grown to roughly \$1.1 trillion—about 1/8 of the level of total mortgage debt outstanding.



- Regarding the fifth, even as the negative psychological effects of the “Great Recession” fade, they are still recent enough to constrain consumption (for households), business hiring and investment behavior going forward (which could retreat at the first sight of something negative or problematic in the environment of uncertainty). This has been reinforced by recent events in the Middle East and in the Ukraine, and domestically as U.S. equities markets climb the “Wall of Worry” regarding recent new records.
- It almost seems as though analysts, regarding anything positive that is reported about the U.S. economy, are intentionally looking for why what is occurring could not possibly be so—until there is a plethora of unequivocal positive evidence to once and for all rebut all the “analytic negativism” that currently seems to be pervasive.



- Given the above, the revised consensus forecast presented below has discounted the first quarter U.S. GDP number and the resulting forecast-reducing actions being taken by most macroeconomic forecasting firms in response.
 - The key variables connected to the updated consensus economic forecast, which was employed in the consensus revenue forecast update, appear below in Tables 1 and 2 (below).
- While the updated consensus economic forecast leans toward the upper end of the current U.S. macro forecast and is higher than the current Vermont state macro forecast from Moody's Analytics, the revised consensus forecast still incorporates many of the clearly evident economic and fiscal policy obstacles over the next several years.
 - These obstacles range from the on-going fiscal challenges in Washington (which could intensify depending on the November 2014 mid-term election results), to the potential for deft execution of monetary policy with a new Fed Chair (e.g. the unwinding of the Fed's bond buying program known as QE and then the re-balancing of the Fed's Balance Sheet), the still unfolding situation in the Ukraine, and the ever-present geopolitical threats that exist in the Middle Eastern region (ranging from the situation in Iran, the military exploits of ISCS in Syria and Iraq, and the instability in Gaza).
- With the updated consensus economic forecast, the risk associated with this revenue forecast has moved back to a more downside orientation versus last January in terms of the revenues risk ledger.
 - Last January, the consensus forecast acknowledged that "...a lot can still go wrong during the second half of fiscal year 2014 and beyond..." This concerned appears more likely to be realized at this time.

- As such, the risk profile with this forecast has now shifted back to a more even distribution, with a much lower level of upside forecast risk than was the case last January.

TABLE 1
Comparison of Recent Consensus U.S. Macroeconomic Forecasts
December 2012 through June 2014, Selected Variables, Calendar Year Basis

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------|------|------|------|------|-------|-------|-------|-------|-------|
| Real GDP Growth | | | | | | | | | | |
| December-12 | -3.1 | 2.4 | 1.8 | 2.2 | 2.0 | 3.9 | 4.2 | 3.5 | | |
| June-13 | -3.1 | 2.4 | 1.8 | 2.2 | 2.0 | 3.4 | 4.3 | 3.3 | | |
| December-13 | -2.8 | 2.5 | 1.8 | 2.8 | 1.8 | 3.1 | 4.0 | 2.9 | | |
| June-14 | -2.8 | 2.5 | 1.8 | 2.8 | 1.9 | 2.8 | 3.9 | 3.2 | 2.8 | 2.2 |
| S&P 500 Growth (Annual Avg.) | | | | | | | | | | |
| December-12 | -22.5 | 20.3 | 11.4 | 8.1 | 6.9 | 7.1 | -0.4 | 1.7 | | |
| June-13 | -22.5 | 20.3 | 11.4 | 8.7 | 14.4 | 3.6 | -0.7 | 0.4 | | |
| December-13 | -22.5 | 20.3 | 11.4 | 8.7 | 19.2 | 9.6 | -0.1 | 0.4 | | |
| June-14 | -22.5 | 20.3 | 11.4 | 8.7 | 19.1 | 13.1 | 3.4 | -5.5 | 4.8 | 5.6 |
| Employment Growth (Non-Ag) | | | | | | | | | | |
| December-12 | -4.4 | -0.7 | 1.2 | 1.4 | 1.3 | 2.1 | 2.6 | 2.2 | | |
| June-13 | -4.4 | -0.7 | 1.2 | 1.7 | 1.4 | 1.6 | 2.7 | 2.4 | | |
| December-13 | -4.4 | -0.7 | 1.2 | 1.7 | 1.6 | 1.7 | 2.2 | 2.1 | | |
| June-14 | -4.3 | -0.7 | 1.2 | 1.7 | 1.7 | 1.8 | 2.4 | 2.4 | 1.9 | 1.1 |
| Unemployment Rate | | | | | | | | | | |
| December-12 | 9.3 | 9.6 | 9.0 | 8.1 | 7.8 | 7.1 | 6.3 | 5.8 | | |
| June-13 | 9.3 | 9.6 | 8.9 | 8.1 | 7.7 | 7.0 | 6.2 | 5.7 | | |
| December-13 | 9.3 | 9.6 | 8.9 | 8.1 | 7.4 | 6.6 | 6.1 | 5.8 | | |
| June-14 | 9.3 | 9.6 | 8.9 | 8.1 | 7.4 | 6.3 | 6.0 | 5.7 | 5.2 | 5.0 |
| West Texas Int. Crude Oil \$/Bbl | | | | | | | | | | |
| December-12 | 61.7 | 79.4 | 95.1 | 94.4 | 95.7 | 105.3 | 110.3 | 114.0 | | |
| June-13 | 61.7 | 79.4 | 95.1 | 94.2 | 96.8 | 104.6 | 110.3 | 114.0 | | |
| December-13 | 61.7 | 79.5 | 95.0 | 94.1 | 98.2 | 104.8 | 111.8 | 114.5 | | |
| June-14 | 61.7 | 79.5 | 95.0 | 94.1 | 97.9 | 110.8 | 114.9 | 119.7 | 121.0 | 124.6 |
| Prime Rate | | | | | | | | | | |
| December-12 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.32 | 4.92 | 6.86 | | |
| June-13 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 4.26 | 6.60 | | |
| December-13 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.38 | 5.31 | | |
| June-14 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.37 | 5.00 | 6.30 | 6.90 |
| Consumer Price Index Growth | | | | | | | | | | |
| December-12 | -0.3 | 1.6 | 3.1 | 2.1 | 2.2 | 2.6 | 2.6 | 2.4 | | |
| June-13 | -0.3 | 1.6 | 3.1 | 2.1 | 1.7 | 2.1 | 2.3 | 2.5 | | |
| December-13 | -0.3 | 1.6 | 3.1 | 2.1 | 1.5 | 1.7 | 2.1 | 2.4 | | |
| June-14 | -0.3 | 1.6 | 3.1 | 2.1 | 1.5 | 1.9 | 2.3 | 2.6 | 2.9 | 2.8 |
| Avg. Home Price Growth | | | | | | | | | | |
| December-12 | -5.1 | -3.8 | -3.5 | -0.5 | 0.8 | 4.6 | 5.3 | 3.5 | | |
| June-13 | -5.3 | -3.9 | -3.6 | -0.1 | 2.7 | 4.9 | 3.7 | 2.3 | | |
| December-13 | -5.4 | -4.0 | -3.7 | 0.0 | 4.1 | 6.2 | 2.2 | 0.3 | | |
| June-14 | -5.5 | -4.0 | -3.7 | -0.1 | 4.1 | 4.9 | 5.6 | 6.4 | 5.8 | 4.7 |

TABLE 2
Comparison of Consensus Administration and JFO Vermont State Forecasts
December 2011 through June 2014, Selected Variables, Calendar Year Basis

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| Real GSP Growth | | | | | | | | | | |
| December-11 | -2.3 | 3.2 | 2.3 | 2.8 | 3.5 | 3.6 | 3.3 | 2.3 | | |
| June-12 | -3.6 | 4.1 | 0.5 | 2.3 | 2.9 | 3.3 | 3.4 | 2.5 | | |
| December-12 | -3.6 | 4.1 | 0.5 | 2.0 | 2.2 | 3.7 | 4.0 | 3.1 | | |
| June-13 | -2.9 | 5.6 | 1.3 | 1.2 | 1.3 | 3.0 | 4.2 | 2.9 | | |
| December-13 | -2.9 | 5.6 | 1.3 | 1.2 | 1.4 | 3.1 | 4.1 | 2.9 | | |
| June-14 | -2.9 | 5.6 | 1.3 | 1.2 | 0.5 | 2.9 | 4.0 | 3.2 | 2.4 | 2.1 |
| Population Growth | | | | | | | | | | |
| December-11 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.4 | | |
| June-12 | 0.1 | 0.2 | 0.1 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | | |
| December-12 | 0.1 | 0.2 | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | | |
| June-13 | 0.1 | 0.2 | 0.1 | -0.1 | 0.3 | 0.3 | 0.3 | 0.4 | | |
| December-13 | 0.1 | 0.2 | 0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.2 | | |
| June-14 | 0.1 | 0.2 | 0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 |
| Employment Growth | | | | | | | | | | |
| December-11 | -3.2 | 0.1 | 1.8 | 1.3 | 1.39 | 2.5 | 2.2 | 1.4 | | |
| June-12 | -3.3 | 0.2 | 0.7 | 1.2 | 1.1 | 2.0 | 2.3 | 1.4 | | |
| December-12 | -3.3 | 0.2 | 0.7 | 1.1 | 0.9 | 1.8 | 2.3 | 1.8 | | |
| June-13 | -3.3 | -0.2 | 0.7 | 1.2 | 1.0 | 0.9 | 2.2 | 1.9 | | |
| December-13 | -3.3 | -0.2 | 0.7 | 1.2 | 1.0 | 1.3 | 2.2 | 1.9 | | |
| June-14 | -3.3 | 0.3 | 0.8 | 1.3 | 0.5 | 1.4 | 2.0 | 1.8 | 1.6 | 1.4 |
| Unemployment Rate | | | | | | | | | | |
| December-11 | 6.9 | 6.2 | 5.5 | 5.4 | 5.1 | 4.4 | 3.5 | 3.1 | | |
| June-12 | 6.9 | 6.4 | 5.6 | 4.8 | 4.7 | 4.3 | 3.9 | 3.2 | | |
| December-12 | 6.9 | 6.4 | 5.6 | 5.0 | 5.0 | 4.4 | 3.9 | 3.5 | | |
| June-13 | 6.9 | 6.4 | 6.6 | 5.0 | 4.4 | 4.1 | 3.6 | 3.3 | | |
| December-13 | 6.9 | 6.4 | 5.6 | 5.0 | 4.4 | 4.1 | 3.6 | 3.3 | | |
| June-14 | 6.9 | 6.4 | 5.6 | 4.9 | 4.4 | 3.9 | 3.6 | 3.3 | 3.0 | 2.8 |
| Personal Income Growth | | | | | | | | | | |
| December-11 | -1.3 | 3.4 | 4.0 | 5.0 | 5.3 | 5.1 | 4.8 | 4.0 | | |
| June-12 | -1.3 | 3.4 | 4.3 | 3.3 | 4.4 | 6.0 | 6.2 | 5.0 | | |
| December-12 | -2.2 | 3.3 | 4.7 | 3.2 | 3.4 | 5.6 | 6.3 | 5.2 | | |
| June-13 | -2.2 | 3.3 | 4.7 | 3.4 | 1.0 | 2.8 | 4.2 | 3.7 | | |
| December-13 | -2.2 | 3.3 | 4.7 | 3.4 | 3.8 | 5.7 | 6.2 | 5.1 | | |
| June-14 | -1.4 | 1.7 | 7.1 | 3.7 | 2.9 | 4.9 | 5.6 | 5.0 | 4.6 | 3.9 |
| Home Price Growth (JFO*) | | | | | | | | | | |
| December-11 | -1.5 | -0.8 | -0.5 | 0.5 | 1.2 | 1.6 | 2.1 | 3.0 | | |
| June-12 | -1.6 | -0.9 | -0.4 | 0.6 | 1.1 | 1.6 | 2.0 | 3.0 | | |
| December-12 | -1.9 | -1.0 | -0.4 | 0.5 | 1.0 | 1.5 | 2.0 | 3.1 | | |
| June-13 | -2.0 | -1.1 | -0.5 | 0.5 | 0.7 | 1.5 | 2.0 | 3.2 | | |
| December-13 | -2.0 | -1.2 | -0.6 | 0.5 | 0.5 | 1.5 | 2.1 | 3.1 | | |
| June-14 | -2.1 | -1.2 | -0.6 | 0.5 | 0.2 | 0.4 | 1.7 | 2.9 | 3.7 | 5.2 |

C. Discussion of Recent Revenue Performance

- Annual net revenues in the G-Fund for fiscal year 2014 were -\$4.2 million (or -0.3%) below the January 2014 consensus cash flow target for the year (see Table 3 below).
 - Through June, preliminary data show that two of the “Big Four” components (the Personal Income Tax and Sales & Use tax) underperformed, while the two other “Big Four” components (Meals & Rooms Tax and Corporate Income Tax) and the “Other” category (boosted by an exceptionally strong year for receipts in the Estate Tax) tracked ahead of their respective cumulative consensus cash flow targets for fiscal year 2014.
 - The mixed performance of the two largest components of the “Big Four” (Personal Income Tax and Sales and Use Tax), the very positive performances by the always volatile Corporate Income Tax and the “random walk” Estate Tax components, and the structural changes in several “below the line” minor components³, laid the groundwork for the forecast downgrade.

Table 3: Fiscal Year 2014 Revenue Results—General Fund

| G-Fund Revenues by Component (\$Thousands) | Monthly Revenues | Monthly Target | Diff. | % | Cumulative Revenues | Cumulative Target | Diff. | % |
|--|---------------------|---------------------|-------------------|-------------|-----------------------|-----------------------|---------------------|--------------|
| Personal Income | \$ 63,546.4 | \$ 68,682.9 | \$ (5,136.5) | -7.5% | \$ 671,090.4 | \$ 693,200.0 | \$ (22,109.6) | -3.2% |
| Sales & Use | \$ 18,915.3 | \$ 18,881.1 | \$ 34.2 | 0.2% | \$ 229,868.9 | \$ 231,530.0 | \$ (1,661.1) | -0.7% |
| Meals & Rooms | \$ 10,344.8 | \$ 9,972.0 | \$ 372.8 | 3.7% | \$ 142,741.8 | \$ 140,100.0 | \$ 2,641.8 | 1.9% |
| Corporate Income | \$ 21,427.3 | \$ 15,726.9 | \$ 5,700.4 | 36.2% | \$ 94,846.6 | \$ 89,200.0 | \$ 5,646.6 | 6.3% |
| G-Fund Other | \$ 11,281.0 | \$ 11,100.9 | \$ 180.1 | 1.6% | \$ 189,827.7 | \$ 178,570.1 | \$ 11,257.6 | 6.3% |
| Total | \$ 125,514.8 | \$ 124,363.8 | \$ 1,151.0 | 0.9% | \$ 1,328,375.3 | \$ 1,332,600.1 | \$ (4,224.8) | -0.3% |

- The key issues in the Personal Income forecast for fiscal year 2015 and beyond in this staff recommended forecast revision was the apparent under-estimation of last year’s asset churning behavior against the background of “federal fiscal cliff” negotiations which were taking place at the time. Under-estimating the effects of this asset churning caused an over-estimation of base revenues in the personal Income Tax for fiscal year 2014 that did not come about. Re-calibration adjustments therefore needed to be made to the Personal Income Tax forecast for fiscal year 2015 and beyond. This became clearly evident during the fourth quarter of fiscal 2014 where Personal Income Withholding receipts actually declined by nearly -2.0% in nominal dollar terms versus the fourth quarter receipts level in fiscal year 2013.
 - Outside the issues in the Personal Income Tax, the profile of fiscal 2014 receipts was also problematic in that so much of the revenues that contributed to the General Fund’s positive performance were in inherently volatile and sometimes unpredictable revenue sources—principally the Corporate Income Tax and the Estate Tax.
 - Regarding the Corporate Tax, it is uncertain how much longer the G-Fund can really continue to rely on an above target performance on such volatile tax sources in fiscal 2015 and beyond.

³ Such as the re-structuring of revenue accounts for collections by and for the Secretary of State.

- With respect to the Estate Tax, that component finished the year with \$35.5 million in receipts—or +\$15.1 million ahead of its revised January 2014 consensus revenue forecast total. This clearly helped off-set the sub-par performance of the Personal Income Tax. However, over the last 5 years, Estate Tax receipts have ranged from a low of \$13.334 million in fiscal year 2012 to a high of \$35.879 million in fiscal year 2011.
- For the net revenues in the Transportation Fund, fiscal year 2014 receipts finished the fiscal year at -\$1.7 million or -0.7% below the January 2014 consensus forecast target (see Table 4 below).

Table 4: Fiscal Year 2014 Revenue Results—Transportation Fund

| T-Fund Revenues by Component (\$Thousands) | Monthly Revenues | Monthly Target | Diff. | % | Cumulative Revenues | Cumulative Target | Diff. | % |
|--|--------------------|--------------------|-------------------|-------------|---------------------|---------------------|---------------------|--------------|
| Gasoline | \$ 7,317.6 | \$ 6,560.0 | \$ 757.6 | 11.5% | \$ 76,488.1 | \$ 77,700.0 | \$ (1,211.9) | -1.6% |
| Diesel | \$ 1,911.2 | \$ 2,213.9 | \$ (302.7) | -13.7% | \$ 17,163.7 | \$ 17,200.0 | \$ (36.3) | -0.2% |
| MvP&U | \$ 7,742.9 | \$ 7,449.2 | \$ 293.6 | 3.9% | \$ 61,217.0 | \$ 61,600.0 | \$ (383.0) | -0.6% |
| MvFees | \$ 9,116.2 | \$ 8,903.6 | \$ 212.6 | 2.4% | \$ 79,023.6 | \$ 79,300.0 | \$ (276.4) | -0.3% |
| Other Fees | \$ 2,157.4 | \$ 2,068.5 | \$ 88.9 | 4.3% | \$ 19,491.1 | \$ 19,300.0 | \$ 191.1 | 1.0% |
| Gasoline TIB | \$ 1,548.2 | \$ 1,661.5 | \$ (113.3) | -6.8% | \$ 19,202.7 | \$ 19,800.0 | \$ (597.3) | -3.0% |
| Diesel TIB | \$ 202.7 | \$ 219.8 | \$ (17.1) | -7.8% | \$ 1,833.3 | \$ 1,900.0 | \$ (66.7) | -3.5% |
| Total [No TIB] | \$ 28,245.3 | \$ 27,195.3 | \$ 1,050.0 | 3.9% | \$ 253,383.4 | \$ 255,100.0 | \$ (1,716.6) | -0.7% |

- Fiscal year revenues under-performed in the Gas Tax (at -\$1.2 million or -1.6%), with smaller, yet still negative versus consensus forecast, performances in MV P&U Tax (at -\$0.4 million or -0.6%) and MvFees (at -\$0.3 million or -0.3%).
- The Diesel Tax was essentially “on target” for fiscal year 2014 and there was a small positive forecast variance in the Other Fees category (At +(0.2 million or +1.0%) for the year.
- As shown in Table 5, the performance by TIB revenues mirrored their respective fuel tax counterparts in the T-Fund overall.
- The staff recommended forecast update reflects the reality of the on-going secular decline in gasoline consumption that continues despite the structural changes made to this tax source during past legislative sessions.
- For the net revenues available to the E-Fund [Partial], fiscal year 2014 receipts under-performed by -\$1.5 million (or by -0.8% versus its January 2014 consensus revenue forecast) (see Table 5 below).

Table 5: Fiscal Year 2014 Revenue Results—Education Fund [Partial]

| E-Fund Revenues by Component (\$Thousands) | Monthly Revenues | Monthly Target | Diff. | % | Cumulative Revenues | Cumulative Target | Diff. | % |
|--|--------------------|--------------------|-----------------|-------------|---------------------|---------------------|---------------------|--------------|
| Sales&Use | \$ 10,185.1 | \$ 10,166.7 | \$ 18.4 | 0.2% | \$ 123,775.5 | \$ 124,670.0 | \$ (894.5) | -0.7% |
| MvP&U | \$ 3,871.4 | \$ 3,724.6 | \$ 146.8 | 3.9% | \$ 30,608.5 | \$ 30,800.0 | \$ (191.5) | -0.6% |
| Lottery | \$ 3,782.8 | \$ 3,114.1 | \$ 668.7 | 21.5% | \$ 22,570.4 | \$ 22,900.0 | \$ (329.6) | -1.4% |
| Interest | \$ (2.1) | \$ 17.2 | \$ (19.3) | -112.2% | \$ 69.1 | \$ 100.0 | \$ (30.9) | -30.9% |
| Total | \$ 17,837.2 | \$ 17,022.7 | \$ 814.5 | 4.8% | \$ 177,023.5 | \$ 178,470.0 | \$ (1,446.5) | -0.8% |

- The under-performance in the G-Fund-related Sales & Use Tax and the T-Fund-related MvP&U Tax mirrored the performances of each ion their respective fund aggregates. The under-performance by the Lottery Transfers component was responsible for the overall E-Fund’s [Partial] aggregate

receipts under-performance.

- The staff recommended update for the E-Fund reflects the forecast updates for the two consumption tax sources and the diminished profit outlook for the Lottery Transfer component going forward per Lottery Commission staff.

D. Tables Associated with the Updated Staff Recommended Consensus Revenue Forecast

- Given the above context, the staff recommended consensus forecast by Fund is presented in the forecast change table presented below.

Table 6: Staff Recommended Fiscal Year 2015 and 2016 Forecast (By Fund)

| | 2015 | | 2016 | |
|---|----------|---------|----------|---------|
| | Dollars | Percent | Dollars | Percent |
| General Fund <i>[Available to the General Fund]</i> | (\$28.8) | -2.1% | (\$25.7) | -1.8% |
| Transportation Fund <i>[Available to the Transportation Fund]</i> | (\$2.4) | -0.9% | (\$4.0) | -1.5% |
| Education Fund <i>[Partial]</i> | (\$2.5) | -1.4% | (\$2.7) | -1.4% |
| Total--"Big 3 Funds" | (\$33.8) | -1.8% | (\$32.4) | -1.7% |
| MEMO #1: TIB: [1] | | | | |
| Gasoline | (\$0.4) | -1.8% | (\$0.8) | -3.7% |
| Diesel | (\$0.1) | -3.1% | (\$0.1) | -3.5% |
| Total TIB | (\$0.4) | -1.9% | (\$0.9) | -3.7% |

Note:

[1] Totals in the TIB may not add due to rounding.

E. Notes and Comments on Methods:

- All figures presented above are presented as described, including current law "net" revenues for the respective funds listed in the consensus forecast estimate for fiscal years 2015 and 2016 that are part of the official Emergency Board motion.
- The revenue forecasting process is a collaborative one involving the staff of the Vermont Department of Taxes, VTrans, the Legislative Joint Fiscal Office, Kavet Rockler & Associates, LLC, and many others throughout state government and the staff of Economic & Policy Resources. Special thanks are due to Sharon Asay (of the Vermont Department of Taxes), Victor Gauto (of the Vermont Department of Taxes), Doug Farnham (of the Vermont Department of Taxes), Terry Edwards (of the Vermont Department of Taxes), Lenny LeBlanc of VTrans), Sara Teachout, Stephanie Barrett, Catherine Benham, Neil Strickner, Theresa Utton-Jerman, and Mark Perrault (of the JFO), and many others in both the Administration and the JFO.

All contributed time and energy to assembling data, providing analysis, or technical assistance that was crucial to completing these forecasts.

- The consensus forecasting process involves the discussion and agreement of two independent forecasts completed by Thomas E. Kavet of the JFO and the staff at Economic & Policy Resources. Agreement on the consensus forecast occurs after a complete discussion-vetting and reconciliation of these independent forecasts.
- At this time, the State does not currently fund an internal State or U.S. macroeconomic model. This analysis therefore relies primarily on macro-economic models from Moody's Analytics and, when available, the New England Economic Partnership (NEEP). The NEEP forecast for Vermont is managed by Economic & Policy Resources, Inc., who also currently supports the Vermont Agency of Administration with the Administration's part of the consensus forecasting process. Since October of 2001, input and review of initial Vermont NEEP model design and output prior to its release has been provided by KRA, as the State Economist and Principal Economic Advisor to the Vermont Legislature. Dynamic and other input/output-based models for the State of Vermont, including those from Regional Economic Models, Inc. (REMI), the REDYN input-output model as currently maintained by Economic Analytics, LLC), and IMPLAN are also occasionally employed in the analytic process for completing the consensus economic and revenue forecasts.

F. Detailed Forecast Tables.

**TABLE 1A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2014**

SOURCE G-FUND

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

| | FY 2009 | % | FY 2010 | % | FY 2011 | % | FY 2012 | % | FY 2013 | % | FY 2014 | % | FY 2015 | % | FY 2016 | % |
|----------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | \$530.3 | -14.8% | \$498.0 | -6.1% | \$553.3 | 11.1% | \$597.0 | 7.9% | \$660.6 | 10.7% | \$671.1 | 1.6% | \$716.4 | 6.8% | \$756.2 | 5.6% |
| Sales & Use* | \$321.2 | -5.1% | \$311.1 | -3.1% | \$325.6 | 4.7% | \$341.8 | 5.0% | \$346.8 | 1.4% | \$353.6 | 2.0% | \$362.2 | 2.4% | \$372.5 | 2.8% |
| Corporate | \$66.2 | -11.3% | \$62.8 | -5.1% | \$89.7 | 42.7% | \$85.9 | -4.2% | \$95.0 | 10.5% | \$94.8 | -0.1% | \$89.9 | -5.2% | \$86.9 | -3.3% |
| Meals and Rooms | \$117.1 | -3.3% | \$118.0 | 0.8% | \$122.6 | 4.0% | \$126.9 | 3.5% | \$134.8 | 6.2% | \$142.7 | 5.9% | \$146.9 | 2.9% | \$151.5 | 3.1% |
| Cigarette and Tobacco** | \$64.1 | 8.3% | \$70.1 | 9.2% | \$72.9 | 4.0% | \$80.1 | 9.9% | \$74.3 | -7.2% | \$71.9 | -3.3% | \$72.4 | 0.6% | \$70.2 | -3.0% |
| Liquor | \$15.0 | 6.0% | \$14.9 | -1.0% | \$15.4 | 3.1% | \$16.4 | 7.0% | \$17.0 | 3.4% | \$17.7 | 4.0% | \$18.3 | 3.6% | \$18.9 | 3.3% |
| Insurance | \$53.7 | -2.1% | \$53.3 | -0.9% | \$55.0 | 3.3% | \$56.3 | 2.5% | \$55.0 | -2.3% | \$57.1 | 3.7% | \$57.4 | 0.6% | \$57.8 | 0.7% |
| Telephone | \$9.1 | -3.8% | \$7.9 | -13.9% | \$11.4 | 44.4% | \$9.6 | -15.3% | \$9.4 | -2.6% | \$9.1 | -2.9% | \$9.0 | -1.2% | \$8.9 | -1.1% |
| Beverage | \$5.6 | 0.3% | \$5.7 | 0.4% | \$5.8 | 2.2% | \$6.0 | 3.3% | \$6.2 | 3.3% | \$6.4 | 3.6% | \$6.6 | 3.2% | \$6.8 | 3.0% |
| Electric*** | \$2.8 | 4.0% | \$2.9 | 2.5% | \$2.9 | 0.8% | \$2.9 | 0.3% | \$8.9 | 204.5% | \$13.1 | 46.9% | \$9.1 | -30.9% | \$0.0 | -100.0% |
| Estate | \$23.4 | 49.1% | \$14.2 | -39.5% | \$35.9 | 153.3% | \$13.3 | -62.8% | \$15.4 | 15.4% | \$35.5 | 131.0% | \$24.2 | -31.9% | \$25.4 | 5.0% |
| Property | \$25.9 | -23.7% | \$23.8 | -8.2% | \$25.6 | 7.7% | \$24.1 | -6.0% | \$28.5 | 18.3% | \$30.9 | 8.5% | \$33.6 | 8.6% | \$36.2 | 7.7% |
| Bank | \$20.6 | 102.5% | \$10.4 | -49.7% | \$15.4 | 49.0% | \$10.7 | -30.9% | \$10.7 | 0.2% | \$11.0 | 2.7% | \$11.1 | 1.2% | \$11.2 | 0.9% |
| Other Tax | \$2.8 | -12.7% | \$3.7 | 32.1% | \$3.7 | 1.7% | \$1.2 | -66.7% | \$1.8 | 42.9% | \$1.9 | 9.6% | \$2.2 | 13.6% | \$2.4 | 9.1% |
| Total Tax Revenue | \$1257.9 | -7.9% | \$1196.5 | -4.9% | \$1335.1 | 11.6% | \$1372.4 | 2.8% | \$1464.3 | 6.7% | \$1517.0 | 3.6% | \$1559.2 | 2.8% | \$1604.9 | 2.9% |
| Business Licenses | \$3.0 | 9.4% | \$3.0 | -0.2% | \$3.0 | -0.6% | \$3.0 | 2.8% | \$2.8 | -8.0% | \$1.1 | -61.4% | \$1.1 | 1.7% | \$1.2 | 4.5% |
| Fees | \$19.1 | 29.5% | \$19.2 | 0.9% | \$20.5 | 6.4% | \$20.9 | 2.1% | \$21.4 | 2.2% | \$20.6 | -3.4% | \$21.2 | 2.7% | \$21.8 | 2.8% |
| Services | \$1.5 | -11.0% | \$1.2 | -19.9% | \$1.1 | -8.7% | \$2.3 | 105.8% | \$2.5 | 8.3% | \$1.3 | -47.3% | \$1.5 | 12.9% | \$1.6 | 3.3% |
| Fines | \$9.8 | 122.0% | \$7.4 | -24.8% | \$5.7 | -22.2% | \$7.4 | 28.7% | \$4.7 | -35.9% | \$3.6 | -24.2% | \$5.1 | 42.7% | \$5.5 | 7.8% |
| Interest | \$1.4 | -63.9% | \$0.6 | -57.0% | \$0.3 | -49.7% | \$0.4 | 42.4% | \$0.6 | 26.3% | \$0.2 | -59.2% | \$0.6 | 165.6% | \$1.0 | 70.0% |
| Lottery | \$20.9 | -7.7% | \$21.6 | 3.0% | \$21.4 | -0.7% | \$22.3 | 4.2% | \$22.9 | 2.7% | \$22.6 | -1.6% | \$22.6 | 0.1% | \$22.9 | 1.3% |
| All Other | \$0.2 | -64.7% | \$0.3 | 57.4% | \$0.7 | 115.7% | \$0.9 | 15.8% | \$1.7 | 93.1% | \$1.3 | -24.0% | \$1.1 | -13.3% | \$1.2 | 9.1% |
| Total Other Revenue | \$56.0 | 10.0% | \$53.3 | -4.7% | \$52.8 | -1.1% | \$57.3 | 8.6% | \$56.6 | -1.2% | \$50.7 | -10.4% | \$53.2 | 5.0% | \$55.1 | 3.6% |
| TOTAL GENERAL FUND | \$1313.9 | -7.2% | \$1249.9 | -4.9% | \$1387.9 | 11.0% | \$1429.7 | 3.0% | \$1520.9 | 6.4% | \$1567.6 | 3.1% | \$1612.4 | 2.9% | \$1660.0 | 3.0% |

* 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

*** Assumes Vermont Yankee continues to operate through calendar 2014, with a gradual reduction in output towards the end of the year, and is taxed per Act 143 of 2012 effective in FY13;
Stated Electric Energy Tax revenues exclude appropriations to the Clean Energy Development Fund and Education Fund

**TABLE 1 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE GENERAL FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2014**

CURRENT LAW BASIS

including all Education Fund

allocations and other out-transfers

| | FY 2009 | % | FY 2010 | % | FY 2011 | % | FY 2012 | % | FY 2013 | % | FY 2014 | % | FY 2015 | % | FY 2016 | % |
|----------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | \$530.3 | -14.8% | \$498.0 | -6.1% | \$553.3 | 11.1% | \$597.0 | 7.9% | \$660.6 | 10.7% | \$671.1 | 1.6% | \$716.4 | 6.8% | \$756.2 | 5.6% |
| Sales and Use* | \$214.1 | -5.1% | \$207.4 | -3.1% | \$217.1 | 4.7% | \$227.9 | 5.0% | \$231.2 | 1.4% | \$229.9 | -0.6% | \$235.4 | 2.4% | \$242.1 | 2.8% |
| Corporate | \$66.2 | -11.3% | \$62.8 | -5.1% | \$89.7 | 42.7% | \$85.9 | -4.2% | \$95.0 | 10.5% | \$94.8 | -0.1% | \$89.9 | -5.2% | \$86.9 | -3.3% |
| Meals and Rooms | \$117.1 | -3.3% | \$118.0 | 0.8% | \$122.6 | 4.0% | \$126.9 | 3.5% | \$134.8 | 6.2% | \$142.7 | 5.9% | \$146.9 | 2.9% | \$151.5 | 3.1% |
| Cigarette and Tobacco | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM | \$0.0 | NM |
| Liquor | \$15.0 | 6.0% | \$14.9 | -1.0% | \$15.4 | 3.1% | \$16.4 | 7.0% | \$17.0 | 3.4% | \$17.7 | 4.0% | \$18.3 | 3.6% | \$18.9 | 3.3% |
| Insurance | \$53.7 | -2.1% | \$53.3 | -0.9% | \$55.0 | 3.3% | \$56.3 | 2.5% | \$55.0 | -2.3% | \$57.1 | 3.7% | \$57.4 | 0.6% | \$57.8 | 0.7% |
| Telephone | \$9.1 | -3.8% | \$7.9 | -13.9% | \$11.4 | 44.4% | \$9.6 | -15.3% | \$9.4 | -2.6% | \$9.1 | -2.9% | \$9.0 | -1.2% | \$8.9 | -1.1% |
| Beverage | \$5.6 | 0.3% | \$5.7 | 0.4% | \$5.8 | 2.2% | \$6.0 | 3.3% | \$6.2 | 3.3% | \$6.4 | 3.6% | \$6.6 | 3.2% | \$6.8 | 3.0% |
| Electric** | \$2.8 | 4.0% | \$2.9 | 2.5% | \$2.9 | 0.8% | \$2.9 | 0.3% | \$8.9 | 204.5% | \$13.1 | 46.9% | \$9.1 | -30.9% | \$0.0 | -100.0% |
| Estate*** | \$21.9 | 39.4% | \$14.2 | -35.2% | \$21.0 | 48.3% | \$13.3 | -36.5% | \$15.4 | 15.4% | \$35.5 | 131.0% | \$24.2 | -31.9% | \$25.4 | 5.0% |
| Property | \$8.5 | -21.1% | \$7.8 | -8.2% | \$8.4 | 7.7% | \$7.9 | -6.2% | \$9.2 | 16.5% | \$10.0 | 9.3% | \$10.9 | 8.6% | \$11.7 | 7.7% |
| Bank | \$20.6 | 102.5% | \$10.4 | -49.7% | \$15.4 | 49.0% | \$10.7 | -30.9% | \$10.7 | 0.2% | \$11.0 | 2.7% | \$11.1 | 1.2% | \$11.0 | -0.9% |
| Other Tax | \$2.8 | -12.7% | \$3.7 | 32.1% | \$3.7 | 1.7% | \$1.2 | -66.7% | \$1.8 | 42.9% | \$1.9 | 9.6% | \$2.2 | 13.6% | \$2.4 | 9.1% |
| Total Tax Revenue | \$1067.7 | -8.8% | \$1006.7 | -5.7% | \$1121.6 | 11.4% | \$1162.1 | 3.6% | \$1255.0 | 8.0% | \$1300.3 | 3.6% | \$1337.4 | 2.8% | \$1379.6 | 3.2% |
| Business Licenses | \$3.0 | 9.4% | \$3.0 | -0.2% | \$3.0 | -0.6% | \$3.0 | 2.8% | \$2.8 | -8.0% | \$1.1 | -61.4% | \$1.1 | 1.7% | \$1.2 | 4.5% |
| Fees | \$19.1 | 29.5% | \$19.2 | 0.9% | \$20.5 | 6.4% | \$20.9 | 2.1% | \$21.4 | 2.2% | \$20.6 | -3.4% | \$21.2 | 2.7% | \$21.8 | 2.8% |
| Services | \$1.5 | -11.0% | \$1.2 | -19.9% | \$1.1 | -8.7% | \$2.3 | 105.8% | \$2.5 | 8.3% | \$1.3 | -47.3% | \$1.5 | 12.9% | \$1.6 | 3.3% |
| Fines | \$9.8 | 122.0% | \$7.4 | -24.8% | \$5.7 | -22.2% | \$7.4 | 28.7% | \$4.7 | -35.9% | \$3.6 | -24.2% | \$5.1 | 42.7% | \$5.5 | 7.8% |
| Interest | \$1.2 | -77.8% | \$0.5 | -56.3% | \$0.3 | -49.9% | \$0.4 | 52.6% | \$0.5 | 20.5% | \$0.2 | -66.6% | \$0.5 | 218.8% | \$0.9 | 80.0% |
| All Other | \$0.2 | -64.7% | \$0.3 | 57.4% | \$0.7 | 115.7% | \$0.9 | 15.8% | \$1.7 | 93.1% | \$1.3 | -24.0% | \$1.1 | -13.3% | \$1.2 | 9.1% |
| Total Other Revenue | \$34.8 | 18.0% | \$31.7 | -8.9% | \$31.3 | -1.2% | \$34.9 | 11.5% | \$33.5 | -3.9% | \$28.0 | -16.4% | \$30.5 | 8.8% | \$32.1 | 5.2% |
| TOTAL GENERAL FUND | \$1102.5 | -8.1% | \$1038.4 | -5.8% | \$1152.8 | 11.0% | \$1197.0 | 3.8% | \$1288.6 | 7.7% | \$1328.4 | 3.1% | \$1367.9 | 3.0% | \$1411.7 | 3.2% |

* Includes \$2.5M transfer to the T-Fund in FY08 for prior years Jet Fuel tax processing errors; Transfer to the Education Fund increases from 33.3% to 35.0% effective in FY14

** Assumes Vermont Yankee continues to operate beyond FY12, pending legal and regulatory rulings, and is taxed per Act 143 of 2012 effective in FY13;

Stated Electric Energy Tax revenues exclude appropriations to the Clean Energy Development Fund and Education Fund

*** Excludes transfer to the Higher Education Trust Fund of \$2.4M in FY05, \$5.2M in FY06 and \$11.0M in FY11

**TABLE 2A - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
SOURCE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2014**

SOURCE T-FUND

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

| | FY 2009 | % | FY 2010 | % | FY 2011 | % | FY 2012 | % | FY 2013 | % | FY 2014 | % | FY 2015 | % | FY 2016 | % |
|--------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | | | | | | | | | | | | | | | | |
| Gasoline | \$60.6 | -3.1% | \$61.0 | 0.6% | \$60.6 | -0.6% | \$59.3 | -2.2% | \$59.9 | 1.1% | \$76.5 | 27.6% | \$77.8 | 1.7% | \$77.5 | -0.4% |
| Diesel | \$15.5 | -6.5% | \$15.1 | -2.6% | \$15.4 | 2.0% | \$16.0 | 3.9% | \$15.6 | -2.2% | \$17.2 | 9.7% | \$18.3 | 6.6% | \$18.8 | 2.7% |
| Purchase and Use* | \$65.9 | -16.6% | \$69.7 | 5.7% | \$77.1 | 10.5% | \$81.9 | 6.3% | \$83.6 | 2.0% | \$91.8 | 9.9% | \$96.6 | 5.2% | \$100.1 | 3.6% |
| Motor Vehicle Fees | \$65.5 | -3.0% | \$72.5 | 10.7% | \$72.3 | -0.3% | \$73.5 | 1.7% | \$77.9 | 5.9% | \$79.0 | 1.5% | \$80.2 | 1.5% | \$80.8 | 0.7% |
| Other Revenue** | \$18.0 | -24.0% | \$18.2 | 1.4% | \$17.9 | -1.9% | \$18.3 | 2.2% | \$19.1 | 4.2% | \$19.5 | 2.3% | \$19.8 | 1.6% | \$20.1 | 1.5% |
| TOTAL TRANS. FUND | \$225.6 | -9.6% | \$236.6 | 4.9% | \$243.3 | 2.8% | \$249.0 | 2.3% | \$256.0 | 2.8% | \$284.0 | 10.9% | \$292.7 | 3.1% | \$297.3 | 1.6% |

**TABLE 2 - STATE OF VERMONT
LEGISLATIVE JOINT FISCAL OFFICE
AVAILABLE TRANSPORTATION FUND REVENUE FORECAST UPDATE
Consensus JFO and Administration Forecast - July 2014**

CURRENT LAW BASIS

including all Education Fund
allocations and other out-transfers

| | FY 2009 | % | FY 2010 | % | FY 2011 | % | FY 2012 | % | FY 2013 | % | FY 2014 | % | FY 2015 | % | FY 2016 | % |
|--------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <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 | | | | | | | | | | | | | | | | |
| Gasoline | \$60.6 | -3.1% | \$61.0 | 0.6% | \$60.6 | -0.6% | \$59.3 | -2.2% | \$59.9 | 1.1% | \$76.5 | 27.6% | \$77.8 | 1.7% | \$77.5 | -0.4% |
| Diesel | \$15.5 | -6.5% | \$15.1 | -2.6% | \$15.4 | 2.0% | \$16.0 | 3.9% | \$15.6 | -2.2% | \$17.2 | 9.7% | \$18.3 | 6.6% | \$18.8 | 2.7% |
| Purchase and Use* | \$44.0 | -16.6% | \$46.5 | 5.7% | \$51.4 | 10.5% | \$54.6 | 6.3% | \$55.7 | 2.0% | \$61.2 | 9.9% | \$64.4 | 5.2% | \$66.7 | 3.6% |
| Motor Vehicle Fees | \$65.5 | -3.0% | \$72.5 | 10.7% | \$72.3 | -0.3% | \$73.5 | 1.7% | \$77.9 | 5.9% | \$79.0 | 1.5% | \$80.2 | 1.5% | \$80.8 | 0.7% |
| Other Revenue** | \$18.0 | -24.0% | \$18.2 | 1.4% | \$17.9 | -1.9% | \$18.3 | 2.2% | \$19.1 | 4.2% | \$19.5 | 2.3% | \$19.8 | 1.6% | \$20.1 | 1.5% |
| TOTAL TRANS. FUND | \$203.6 | -8.7% | \$213.3 | 4.8% | \$217.6 | 2.0% | \$221.7 | 1.9% | \$228.2 | 2.9% | \$253.4 | 11.0% | \$260.5 | 2.8% | \$263.9 | 1.3% |

OTHER

| | | | | | | | | | | | | | | | | |
|-------------------------|--|--|--------|----|--------|-------|--------|-------|--------|-------|--------|-------|--------|------|--------|------|
| TIB Gasoline | | | \$13.4 | NM | \$16.5 | 23.6% | \$20.9 | 26.6% | \$21.2 | 1.4% | \$19.2 | -9.5% | \$20.0 | 4.4% | \$20.6 | 2.8% |
| TIB Diesel and Other*** | | | \$1.5 | NM | \$2.0 | 32.1% | \$1.9 | -2.1% | \$1.8 | -8.1% | \$1.8 | 3.9% | \$1.9 | 3.1% | \$2.0 | 2.6% |
| Total TIB | | | \$14.9 | NM | \$18.5 | 24.4% | \$22.8 | 23.5% | \$23.0 | 0.6% | \$21.0 | -8.4% | \$21.9 | 4.3% | \$22.6 | 2.8% |

* 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

*** Includes TIB Fund interest income of less than \$15,000

**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 2014**

CURRENT LAW BASIS

* Source General and Transportation

Fund taxes allocated to or associated
with the Education Fund only

| | FY 2009 | % | FY 2010 | % | FY 2011 | % | FY 2012 | % | FY 2013 | % | FY 2014 | % | FY 2015 | % | FY 2016 | % |
|----------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
| | <i>(Actual)</i> | <i>Change</i> | <i>(Preliminary)</i> | <i>Change</i> | <i>(Forecast)</i> | <i>Change</i> | <i>(Forecast)</i> | <i>Change</i> |
| GENERAL FUND | | | | | | | | | | | | | | | | |
| Sales & Use** | \$107.1 | -5.1% | \$103.7 | -3.1% | \$108.5 | 4.7% | \$113.9 | 5.0% | \$115.6 | 1.4% | \$123.8 | 7.1% | \$126.8 | 2.4% | \$130.4 | 2.8% |
| Interest | \$0.3 | NM | \$0.1 | -60.2% | \$0.1 | -48.8% | \$0.0 | -7.5% | \$0.1 | 72.8% | \$0.1 | -17.2% | \$0.1 | 44.7% | \$0.1 | 20.0% |
| Lottery | \$20.9 | -7.7% | \$21.6 | 3.0% | \$21.4 | -0.7% | \$22.3 | 4.2% | \$22.9 | 2.7% | \$22.6 | -1.6% | \$22.6 | 0.1% | \$22.9 | 1.3% |
| TRANSPORTATION FUND | | | | | | | | | | | | | | | | |
| Purchase and Use*** | \$22.0 | -16.6% | \$23.2 | 5.7% | \$25.7 | 10.5% | \$27.3 | 6.3% | \$27.9 | 2.0% | \$30.6 | 9.9% | \$32.2 | 5.2% | \$33.4 | 3.6% |
| TOTAL | \$150.2 | -6.4% | \$148.6 | -1.1% | \$155.7 | 4.8% | \$163.6 | 5.1% | \$166.5 | 1.7% | \$177.0 | 6.3% | \$181.7 | 2.6% | \$186.8 | 2.8% |

** Includes Telecommunications Tax; Includes \$1.25M transfer to T-Fund in FY08 for prior Jet Fuel Tax processing errors; Transfer percentage from the General Fund increases from 33.3% to 35.0% effective in FY14

*** Includes Motor Vehicle Rental revenues, restated