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INVESTORS SERVICE

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Update

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Burlington (City of) VT Airport Enterprise

Update - Moody's revises outlook to positive, affirms Baa3 rating for Burlington Airport Enterprise, VT

Summary Rating Rationale

Moody's Investors Service has affirmed the City of Burlington (VT) Airport Enterprise's airport revenue bonds at Baa3 and revised the outlook to positive from stable. The rating action affects $37 million of debt.

The positive outlook reflects ongoing improvement in the airport's liquidity and debt service coverage ratios (DSCRs), which will be supported by a strengthened cost recovery framework following the recent adoption of a five-year residual airline agreement. The airport achieved its strongest financial position of the last five years in FY 2016, ending with 230 days cash on hand and 1.59x net revenue debt service coverage. We expect the new airline agreement, which ensures the airport has 200 days cash on hand and a 1.5x DSCR, will support incremental improvement of financial metrics from these levels and mitigate risks related to the airport's recently volatile enplanements.

Enplanements have been on a downward trend for the last 10 years. The decline mostly reflects a reduction in Canadian travelers, rather than leakage from the airport's primary catchment area. The rate of decline has slowed in the last two years, and enplanements are on track to grow 3% in FY 2017. With evidence of a stabilized enplanement trend and a continuation of improved financial metrics under the new airline agreement, the airport will be well positioned to sustain its strengthened credit quality as it has a manageable cost profile and leverage: the airport has sufficient airfield and terminal capacity, level debt service, grant funding for the majority of planned capital spending and no additional debt anticipated. A recent 12-year tax settlement with the City of South Burlington will further stabilize operating costs and increase visibility for annual property tax assessments, which pressured costs in recent years.

The Baa3 rating also reflects the airport's moderate long-term growth prospects, due to demographic challenges in the service area economy and airline industry consolidation that may constrain growth prospects from the supply side. Airlines continue to introduce incremental seat capacity in large, profitable markets at the expense of small hubs, a trend we expect will continue in 2017. However, we expect Burlington's regional economic significance, mix of business and leisure travel demand generators, and limited air travel alternatives will support a stable O&D market, which the airport is well positioned to serve. The airport is the primary commercial service airport for the Burlington region, which is relatively isolated and sufficiently distant from nearby airports in Boston (215 miles), Manchester (170 miles) and Albany (145 miles), a positive factor that is also incorporated into our rating.

Credit Strengths

- Five-year residual airline agreement provides strong and timely cost recovery
- Limited competition in the primary catchment area
- Stabilizing presence of education and health care institutions in Burlington, low unemployment and above-average income levels relative to the state and nation
- Diverse airline service

Credit Challenges

- Trend of declining enplanements since 2009
- Improved but still modest liquidity compared to peer airports
- Depreciation of the Canadian dollar versus the US dollar introduces risk that Canadian passengers elect to fly from Montreal rather than BTV

Rating Outlook

The positive outlook reflects our expectation for stability in core financial metrics, namely DSCRs and liquidity. We expect the airport will maintain net revenue DSCRs at or above 1.5x, and liquidity above 230 days cash on hand. The airport is well positioned to sustain these improved metrics due to the cost recovery framework provided by the new airline agreement, along with largely stable airline service, economic recovery in the service area, a manageable CPE and no new borrowing. Should financial metrics revert below expected levels, or enplanements resume their decline, we could revise our outlook.

Factors that Could Lead to an Upgrade

- Sustained enplanement growth driven by expanded air service and stable or expanded economic activity in the service area
- Net revenue DSCRs above 1.5 times on a sustained basis
- Incremental improvement in liquidity on a path to 300 days cash on hand

Factors that Could Lead to a Downgrade

- Renewed downturn in enplanements
- Net revenue DSCRs below 1.5 times
- Liquidity, measured by days cash on hand, below 200 days

Key Indicators

Exhibit 1
Key Indicators

Burlington (City of) VT Airport Enterprise

	2012	2013	2014	2015	2016
Operating Revenue ($000)	14,784	15,630	16,208	16,640	16,303
Debt Outstanding ($000)	34,650	44,240	42,770	38,690	37,040
Total Enplanements (000)	653	606	617	600	595
Utilization (x)	3.05	2.81	2.85	2.77	2.74
Primary Carrier as % of Total	27.6	32.1	40.5	29.7	31.7
Debt Per O&D Enplaned Passenger ($)	39.71	60.68	56.23	53.59	51.03
Days Cash on Hand	58	113	128	174	234
Senior Lien Coverage (Bond Ordinance) (x)	1.37	1.29	1.52	1.56	1.67

Source: Moody's Investors Service

Recent Developments

Following a decrease of 1.9% in FY 2016, enplanements are growing 3% through the first seven months of FY 2017. American initiated a second flight to Charlotte and new service to New York in December 2016. The service area economy is in expansion and airlines have added 3% seat capacity for the second year in a row.

Burlington reached a tax settlement agreement with the City of South Burlington, which will be in effect through 2028. The settlement is positive for the airport as it reduces the airport's assessed value to $52 million from $77 million, lowers the valuation base for airport and residential property, and establishes a methodology for the formulation of tax assessments, creating important certainty for the airport around these costs, which are not insignificant at 10% of O&M.

In 2017, BTV will start construction of a new quick turn around (QTA) facility for the car rental companies. The project will be funded with CFCs based on the five-year agreement with rental car agencies executed in 2015, which clarified sharing of CFCs and included escalation-based minimum annual guarantees (MAGs) for revenues.

Detailed Rating Considerations

Revenue Generating Base

Burlington International Airport (BTV) is a small hub O&D airport located four miles east of downtown Burlington. BTV is the primary commercial service airport for the Burlington-South Burlington Metropolitan Statistical Area. The airport mostly serves passengers in and around the MSA, its primary catchment area, but it also draws passengers from northern Vermont, New Hampshire, northeastern New York and southern Quebec. The airport estimates that approximately 15%-25% of enplaned passengers are Canadian residents.

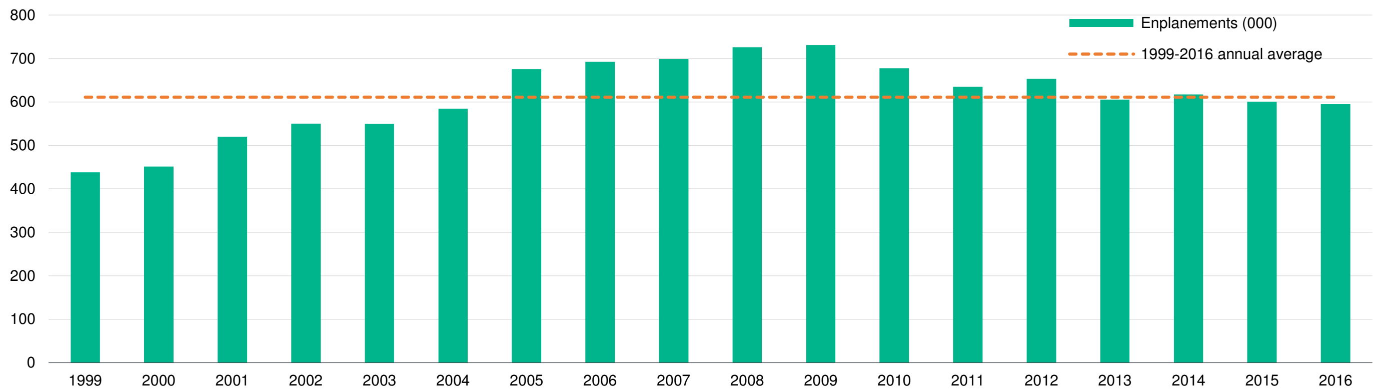
The Burlington MSA is currently in expansion, according to Moody's Analytics. Burlington is the largest city in the state and a regional economic center with major businesses and government, health care and higher education institutions. While the presence of these institutions provides long-term stability and above-average resident income, economic growth prospects are constrained by low rates of population growth and job creation in private industries. Long-term, the expectation of limited population growth is unlikely to propel travel demand, although we expect this factor to remain balanced by the institutional presence, stable employment and above-average income in the service area.

The airport has a strong competitive position due to the region's geographic distance from large hub airports. Airports in Montreal and Boston are the most significant competitors, but are two hours and three and a half hours (travel by car) away, respectively. Passenger travel from Montreal to BTV is supported by a more streamlined customs process crossing the border, and by the cost competitiveness of BTV relative to the fee structures in effect at Canadian airports. Plattsburgh International Airport, which has a much larger share of Canadian passengers than BTV, is undertaking a terminal expansion that will triple capacity from its current 150,000 enplanements. While this represents a modest competitive risk for BTV, it is unlikely to result in a material loss of passengers as existing air service at each airport caters to different passengers, with Plattsburgh represented by ultra low cost carriers serving leisure destinations and BTV by legacy carriers serving primary hub airports.

Enplanements at BTV declined 2.7% in FY 2015 and 1.9% in FY 2016. Enplanements have been volatile in recent years, alternating from growth to contraction year-over-year despite no material change in air service or regional economic conditions. Recent weakness has been attributable in part to the airport's reduced cost advantage with the appreciation of the US dollar, which the airport estimates has led to a 5%-10% drop in Canadian passenger enplanements. Enplanements have improved in FY 2017, growing 3% through the first seven months of the year. Air service offerings have remained stable, with American adding a second flight to Charlotte and new daily service to New York in December 2016. Delta and United continue to operate mainline service on routes to Atlanta and Chicago, and airlines increased seat capacity by 3% in FY 2016 and FY 2017. However, enplanements remain below their FY 2009 peak levels, and an extended decline lower could pressure the rating.

Exhibit 2

Following strong growth into 2009, enplanements have declined 19% through 2016



Source: Bureau of Transportation Statistics

The airport is served by a diverse set of carriers compared to similarly sized airports, represented by United (32%), American (27%), Delta (22%) and Jet Blue (11%) in FY 2016. The carrier diversity has historically been a strong feature for the airport, with no airline having a significant majority since the 1990s.

Operational and Financial Performance

The airport's net revenue DSCRs have approximated 1.5x for the last four years, a satisfactory level that we expect will be maintained based on the new airline agreement. The net revenue DSCR, which includes PFC revenues transferred to the debt service fund ($1.1 million), was 1.59 times in FY 2016.

After DSCRs fell below the rate covenant in FY 2009 and FY 2010, management worked to achieve and sustain higher DSCRs. In FY 2012, the airport implemented an apron fee as part of the effort to increase net revenues available for debt service, and the new airline agreement will ensure a DSCR of 1.5x inclusive of payments on capital leases and similar debt-like obligations.

Airport management has also implemented strategies to increase non-airline revenues, including raising parking rates, raising car rental concessions, and renegotiating terminal concessions to improve food-beverage and news-gifts offerings. These actions have led to growth in gross concession and other non-airline revenues, which has helped offset lower parking revenues and supports the airport's ability to maintain a competitive cost per enplanement (CPE), which increased to $7.21 in FY 2016 from $6.79 in FY 2015 as the airport continued to phase out subsidies to airlines. We expect CPE will remain stable going forward as the airport has a manageable cost profile, with level debt service, grant funding for the majority of planned capital spending and no additional debt anticipated. The recent tax settlement with South Burlington will also provide certainty around the property tax assessment rate, which had been a source of volatility in the past. A competitive CPE is an important component of BTV's efforts to attract air service.

LIQUIDITY

Liquidity, an important credit factor for the airport, also continues to improve. From a low of 22 days in FY 2011, cash on hand has increased to 234 days in FY 2016. Airport management has indicated a commitment to maintaining liquidity in excess of 200 days, a level that will be maintained based on the true-up provision in the new airline agreement. Approximately $3.3 million of the $4.3 million of unrestricted cash on the balance sheet at FY 2016 end represented accumulated CFCs. The airport does not expect to appropriate or draw down the unrestricted CFCs, and is able to apply these funds to operating expenses related to its garage, roads, and related parking facilities. While much improved, and a testament to management's efforts, the current cash balance remains narrow by comparison with peer airports; the median for the sector stood at 579 days in FY 2015. The positive outlook reflects our expectation that the airport will at least maintain if not add to the current level of liquidity, solidifying its improvement of this metric.

Debt and Other Liabilities

At the end of FY 2016, the airport had $37 million of revenue debt outstanding, representing a manageable $51 per O&D enplanement. We expect the airport will continue to deleverage as no new debt is required for the capital program.

The airport has additionally utilized grant anticipation notes (GANs) to finance capital outlays prior to receipt of Airport Improvement Program (AIP) funds. Recent GANs have been established through a line of credit with KeyBank, secured solely by AIP grants. The airport currently has a $7 million GAN outstanding.

The airport has a manageable near-term capital program consisting of $69.5 million of capital projects and $7.6 million of major maintenance projects from FY 2017 to FY 2019. Most of the capital projects relate to airfield projects ($35.7), primarily taxiway and apron work, in addition to $5.5 million allocated for terminal area projects. The airport expects to fund the program from state and federal grants, which will require a 4%, or $2.5 million, local match from the airport. PFCs and the airport's share of CFCs (split with RACs) are also included as funding sources.

The airport has also secured separate AIP funding and state contributions to fully finance its three-phase noise mitigation project, which includes the acquisition and demolition of nearby residential properties.

DEBT STRUCTURE

All of the airport's outstanding GARBs are fixed rate, fully amortizing, long term obligations. Annual debt service requirements are level at approximately $3.65 million through FY 2028, before decreasing to $1.47 million for two years until the final maturity in FY 2030.

DEBT-RELATED DERIVATIVES

The airport has no debt-related derivatives.

PENSIONS AND OPEB

The financial impact of unfunded pension and OPEB liabilities are minor and thus not currently a major factor in our assessment of the airport's credit profile.

Management and Governance

BTV is owned and operated by the City of Burlington (A3 positive) and the city charter grants policy setting powers and overall responsibility for the airport to the board of commissioners. The board consists of five total members, four of whom are appointed by the city council with the Mayor of Burlington presiding and one member is appointed by the city council of the City of South Burlington. Each board member serves a four-year term. Day-to-day management of the airport is designated to the director of aviation, who is appointed for a three-year term by the Mayor of Burlington.

The airport entered into a new five-year airline agreement, effective 7/1/2016 through 6/30/2021. The new agreement is residual in nature, with an annual true-up no later than 120 days after the fiscal year end. Airline overpayment is credited so long as the airport has maintained a 1.5x DSCR and 200 days cash on hand for operating expenses. If the airport has less than 200 days cash, it is required to remit only 50% of any overpayment. The airport can set aside up to $1 million per year in an Airport Capital Projects Reserve, up to $5 million in total, which it can use without majority-in-interest consideration.

Legal Security

The bonds are special obligations of the city payable solely from airport net revenues. The pledge of revenues includes allowable PFCs and industrial park revenues associated with designated projects. The rate covenant is 1.25x annual debt service and the additional bonds test is equal to 1.25x maximum annual debt service (MADS). The airport has a cash-funded debt service reserve fund sized at MADS.

Use of Proceeds

N/A.

Obligor Profile

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The airport is located on 1,100 acres and includes a 130,000 square foot main terminal building with 11 gates, 2 runways and a 2,700-stall parking garage connected to the terminal by an enclosed walkway. Other airport facilities include 220,251 square feet of building space rented to a fixed-base operator, as well as an industrial park encompassing over 80 acres with plans for future development.

Exhibit 3

Grid: Publicly Managed Airports and Related Issuers

Regional Position:	**Regional**		
Rate Making Framework:	Residual		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Ba	0.218
	b) Economic Strength and Diversity of Service Area	Ba	
	c) Competition for Travel	A	
2. Service Offering	a) Total Enplanements (millions)	Ba	0.595
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	A	
	d) Carrier base (Primary Carrier as % of Total Enplanements)	A	32%
3. Leverage and Coverage	a)Debt Service Coverage by Net Revenues	A	1.59
	b)Debt in USD per O&D Enplaned Passenger	A	51
		Metric	**Notch**
4. Liquidity	Days Cash on Hand	0	
5. Connecting Traffic	O&D Traffic	0	
6. Potential for Increased Leverage		0	
7. Debt Service Reserves		0	
Scorecard Indicated Rating:		**Baa2**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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