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Burlington (City of) VT Airport Enterprise

Update to credit analysis

Summary

Burlington International Airport's (BTV; Baa2 stable) credit profile reflects continued stability in liquidity and debt service coverage, combined with a strengthened cost recovery framework following the adoption of a multi-year airline agreement that is residual in nature and provides for a 1.50x debt service coverage ratio (DSCR) and a floor of 200 days cash on hand. The credit profile will remain supported by limited competition for Burlington's primary O&D passenger base, and a relatively low debt burden.

We expect the service area's long-term growth prospects to remain modest, given Burlington's status as a regional economic center with institutional anchors represented by government, health care and higher education will sustain a solid level of air travel demand, which the airport is well positioned to serve. However, while enplanement levels have seen improvement in recent years, the onset of the coronavirus pandemic has challenged operations and has created some economic uncertainty.

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airline and airport sectors have been among those sectors most significantly affected by the shock given their sensitivity to consumer demand and sentiment. More specifically, while BTV has experienced a downturn in enplanements, it remains supported in the near-term by both internal and external sources of liquidity, which offer a financial buffer.

Credit strengths

» Residual airline agreement through 2021 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

» Despite recent growth, enplanements remain below pre-recession levels and have underperformed the sector throughout the subsequent economic recovery

- Improved but still modest liquidity compared to peer airports
- Exposure to depreciation of the Canadian dollar versus the US dollar, and a broader air service offering at the large hub airport in Montreal, increase the risk that Canadian passengers will elect to fly from Canada rather than BTV

Rating outlook

The stable outlook reflects our expectation for stability in enplanements and core financial metrics, namely DSCRs and liquidity. We expect the airport will maintain net revenue DSCRs close to 1.50x, and liquidity above 200 days cash on hand. The airport is well positioned to sustain its credit profile over the next 12-18 months due to the cost recovery framework provided by the multi-year airline agreement, recent significant growth in air service, economic stability in the service area, a competitive cost per enplanement (CPE), and no material new borrowing.

Factors that could lead to an upgrade

- Enplanement and air service growth that markedly improves the airport's competitive position in the region
- Liquidity sustained above 600 days
- DSCRs sustained above 2.00x

Factors that could lead to a downgrade

- Prolonged downturn in enplanements
- Liquidity, measured by days cash on hand, below 200 days
- DSCRs below 1.50x for a sustained period

Key indicators

Exhibit 1

	2015	2016	2017	2018	2019
Total Enplanements ('000)	600	595	598	624	693
Debt Outstanding ($000)	38,690	37,040	38,504	38,869	35,598
Adjusted Debt to Operating Revenue ($)	2.37	2.46	2.60	2.16	1.98
Airline Payments per Enplanement (x)	6.79	7.21	6.78	7.55	6.99
Days Cash on Hand (days)	174	240	280	298	261
Senior Lien Coverage by Net Revenues	1.49	1.65	1.53	1.71	1.59

Source: BTV and Moody's Investors Service

Profile

Burlington International Airport (BTV) is a small hub O&D airport located four miles east of downtown Burlington. The airport is located on 1,100 acres and includes a 130,000 square foot main terminal building with 13 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. Vermont Army National Guard and Air National Guard are located at the airport, and the Air National Guard provides all Aircraft Rescue and Fire Fighting (ARFF) services, from fleet to personnel, for the airport, a savings of approximately $2.5 million annually.

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. BTV estimates that approximately 15-25% of enplaned passengers are Canadian residents.

Detailed credit considerations

Revenue generating base

The Burlington-South Burlington MSA has been in late expansion with still healthy but plateauing economic activity, according to Moody's Analytics, though recent corona pandemic related developments introduce uncertainty into the economic outlook. Burlington (Aa3) is the largest city in Vermont (Aa1 stable) and its economy is anchored by multiple colleges, health care and government institutions that provide stability through economic cycles. While these institutions support travel demand, economic growth prospects are otherwise constrained by unfavorable demographics and the area's modest industrial base.

Given uncertainty around the coronavirus pandemic and the adverse impact on travel demand, airport management received $8.7 million grant from the CARES Act, and recently secured an $11.1 million revenue anticipation note, to provide for additional support during a period of weakened travel. It is unclear at the moment whether colleges will have students on campus in the fall and there are currently restrictions on elective surgeries for hospitals. In the long-term, the expectation of limited population growth is unlikely to propel travel demand, although we expect this challenge will remain balanced by the institutional presence, tourism draw, stable employment and above-average income of the service area.

BTV is well positioned to serve travel demand in the region because of the considerable distance to more competitive airports. Airports in Montreal and Boston are the most significant competitors, but are 105 miles and 215 miles away, respectively. Passenger travel from Canada to BTV has historically been supported by a more efficient border-crossing process, and by the cost competitiveness of BTV relative to the parking and fee/tax structures in effect at Canadian airports. Passenger leakage to Montreal has occurred in recent years as the Canadian dollar has weakened versus the US dollar, and proximity to Montreal remains a long-term challenge because the large hub Montreal-Trudeau (YUL) offers travelers significantly more flight options and competitive transborder connectivity. We note that recent cross-border restrictions have limited the use of BTV by Canadians, and comprise a small segment of enplanement declines witnessed by the airport.

Plattsburgh International Airport, which is approximately 35 miles from BTV, has a much larger share of Canadian passengers than BTV, but requires a ferry crossing to access and has a different and more narrow air service offering relative to BTV, with Plattsburgh represented by ultra low cost carriers serving leisure destinations and BTV by network carriers serving primary hub airports.

After 10 years in a declining trend, enplanements at BTV grew for the fourth year in a row to 693,208 enplanements in fiscal 2019, from 595,799 enplanements in 2016, or 16.4% growth. While FY20 through February saw solid enplanement growth, we expect to see an overall decline by year-end due to the coronavirus, with considerable uncertainty over the pace and timing of recovery in FY21.

The airport is served by a diverse set of carriers compared to similarly sized airports, represented by United (34%), American (28%), Delta (25%) and Jet Blue (13%) in fiscal 2019. The carrier diversity has historically been a strength for the airport, with no airline having a significant majority since the 1990s.

Financial and operating position

The airport's net revenue DSCRs have averaged around 1.61x for the last three years, a satisfactory level that we expect will be maintained based on the multi-year airline agreement that recovers 1.50x annual debt service, inclusive of payments on capital leases and similar debt-like obligations, though this may be pressured as airport revenue declines due to the drop in air travel. The net revenue DSCR, which includes passenger facility charge (PFC) revenues transferred to the debt service fund ($980 thousand), was 1.59x in fiscal 2019. We expect FY20 DSCR to be supported at adequate levels by the residual airline agreement.

Cost per enplanement (CPE) decreased to $6.99 in fiscal 2019 from $7.55 in 2018. CPE in FY20 is expected to increase to above $8, due to a sharp decline in passengers and restricted air travel experienced in the latter part of the year. CPE will remain broadly stable as the airport has a manageable cost profile including level debt service, grant funding for the majority of planned capital spending and no additional debt anticipated. Property tax expenses, which had been volatile and a growing cost pressure, have been stabilized at a lower level with greater certainty around the property tax assessment rate for the next nine years following a recent tax settlement with South Burlington. BTV has benefitted from relative stability in parking and rental car revenues, which is supportive of CPE under the residual mechanics of the airline agreement, despite the presence of transportation network companies (TNCs).

2020 has presented a unique challenge with the impact of Coronavirus on air travel, and BTV has taken several measures in response. The airport has postponed a variety of fixed and variable rent payments until 2021 in support of tenants and airport concessionaries, in coordination with the airlines. BTV has also adjusted its capital program, noting however that federally funded and CFC projects have continued largely as planned.

A new airport hotel under development will ultimately provide ground lease revenues of around $100,000 to the airport annual and support passenger travel. The hotel is currently in its final design stage.

LIQUIDITY

Liquidity continues to improve, and we expect this to be the case for FY20 despite the impact of the coronavirus. From a low of 22 days in fiscal 2011, cash on hand has increased to 261 days in fiscal 2019. Management expects cash levels to increase for FY20, supported by an $8.7 million grant from the CARES Act, and a recently secured $11.1 million revenue anticipation note. Over the medium-term, we expect liquidity to remain broadly stable, even with planned capital investment including in a quick turnaround facility, aided by an airline agreement structured to provide a floor of 200 days cash on hand.

At the end of fiscal 2019, the airport had $36 million of revenue debt outstanding, representing a relatively low $51.35 of debt per O&D enplanement. In response to the pandemic, BTV has requested an $11.1 million revenue anticipation note and issued up to an additional $16 million grant anticipation note. No new debt is required for the capital program aside from a $3 million 10-year capital lease payable from customer facility charges (CFCs).

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 fiscal 2028 before decreasing to $1.47 million for two years until the final maturity in fiscal 2030. In 2020, the airport received $11.1 million in funds from Revenue Anticipation Notes (RANs), secured by the airport, and backed by the full faith and credit of the City of Burlington. The airport also plans to expand its Grant Anticipation Notes (GANs) program, from $7 million to approximately $23 million over the next year. Repayment of both the RANs and GANs are subordinate to the airport's outstanding GARBs.

The airport has a manageable near-term capital program consisting of nearly $70 million of total capital improvement and major maintenance projects from fiscal 2019 to 2021. Most of the plan relates to airfield projects, primarily taxiway and apron work, in addition to allocations for terminal area projects. The airport has plans to continue its capital programs during the coronavirus outbreak

Prior to the outbreak, government grants were expected to cover 90% of construction costs, with a 4% contribution from the airport, usually funded by CFC's and PFC's. Now though government grants will cover 100% of project costs. This will alleviate some financial pressure on the airport, as the Air Carrier Rehabilitation Project and Taxiway Gulf Realignment project are expected to proceed this year. 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-RELATED DERIVATIVES

The airport has no debt-related derivatives.

PENSIONS AND OPEB

All full-time employees of the airport participate in the City of Burlington Employees' Retirement System, a cost sharing, single employer defined benefit pension plan. Based on Moody's standard adjustments to reported pension data, Moody's calculates an adjusted net pension liability (ANPL) of $4.5 million in fiscal 2019. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards in order to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under Moody's adjustments, we value liabilities using a (lower) market-based discount rate for high quality taxable bonds.

Management and governance

BTV is owned and operated by the City of Burlington (Aa3) 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 either a two-year or three-year term. Day-to-day management of the airport is designated to the director of aviation, who is appointed by the Mayor of Burlington.

The airport entered into a five-year airline agreement, effective 7/1/2016 through 6/30/2021. The 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 1.50x 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. Corona pandemic related developments create some uncertainty over the terms of the airline agreement renewal, and participants involved.

Rating methodology and scorecard factors

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in March 2019.

The grid is a reference tool that can be used to approximate credit profiles in the airports sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see the Publicly Managed Airports and Related Issuers methodology for more information about the limitations inherent to grids. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Regional Position:	**Regional**		
Rate Making Framework:	**Hybrid**		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	Ba	0.217
	b) Economic Strength and Diversity of Service Area	Baa	
	c) Competition for Travel	Baa	
2. Service Offering	a) Total Enplanements (millions)	Ba	0.693
	b) Stability of Traffic Performance	A	
	c) Stability of Costs	A	
	d) Carrier Base (Primary Carrier as % of Total Enplanements)	A	33.6%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage	A	1.59x
	b) Debt + ANPL (in USD) per O&D Enplaned Passenger	A	$57.88
		Metric	**Notch**
4. Liquidity	Days Cash on Hand		0.0
5. Connecting Traffic	O&D Traffic		0.0
6. Potential for Increased Leverage			0.0
7. Debt Service Reserves			0.0
Scorecard Indicated Outcome:		**Baa2**	

Source: Moody's Investors Service

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CLIENT SERVICES

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