MOODY'S
INVESTORS SERVICE

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New Issue

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Burlington (City of) VT

New Issue - Moody's Upgrades Burlington, VT's GO Bonds to A3; Stable Outlook

Summary Rating Rationale

Moody's Investors Service has assigned an A3 rating to the City of Burlington, VT's $22 million General Obligation Refunding Bonds, Series 2016A, a Baa2 rating to the $4.9 million Refunding Certificates of Participation (Lakeview Garage Project), Series 2016A, and a Baa1 rating to the $1.4 million Refunding Certificates of Participation (DPW facility Project), Series 2016B. Concurrently, Moody's has upgraded to A3 from Baa2 the rating on $109 million of outstanding general obligation debt. Moody's has also upgraded to Baa1 from Baa3 the rating on $1.7 million of outstanding Series 2000 COPs and upgraded to Baa2 from Ba1 the rating on $6.1 million of outstanding COPs Series 1999A and 2005 COPs. The outlook is stable.

The upgrade to the A3 rating reflects an improved financial position following three years of audited operating surpluses, as well as the city's strength as the economic center of Vermont (Aaa stable). The rating also incorporates the manageable but increasing debt burden, and the enterprise risk associated with Burlington Telecom (BT).

The upgrade to the Baa1 and Baa2 ratings on the COPs reflects the improvement to the city's general credit profile while incorporating the appropriation risk of the COPs and essentiality of the projects.

Credit Strengths

» Stable underlying economy and tax base serving as the economic center of the state

» Low OPEB liability

Credit Challenges

» Maintenance of balanced operations and improvement in reserves to healthy levels

» Deferred maintenance will lead to increase in debt burden and debt service costs

Rating Outlook

The stable outlook reflects our expectation that management will maintain balanced operations and a satisfactory financial position, while managing increasing costs for salaries, employee benefits, and capital needs

Factors that Could Lead to an Upgrade

- Trend of surplus operations and material growth in reserves and liquidity
- Final resolution of BT sale

Factors that Could Lead to a Downgrade

- Structurally imbalanced operations, reducing financial flexibility
- Renewed reliance on cash flow borrowing
- Material increase in the debt burden

Key Indicators

Exhibit 1

Burlington (City of) VT	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,907,270	$ 3,957,600	$ 4,056,809	$ 4,019,395	$ 4,268,806
Full Value Per Capita	$ 92,116	$ 93,567	$ 95,942	$ 95,222	$ 101,130
Median Family Income (% of US Median)	94.6%	102.9%	105.0%	105.0%	105.0%
Finances					
General Fund Revenue ($000)	$ 54,094	$ 54,206	$ 55,665	$ 54,532	$ 56,914
Fund Balance as a % of Revenues	-25.9%	-20.4%	-1.9%	3.9%	10.4%
Cash Balance as a % of Revenues	-12.3%	6.8%	27.7%	4.7%	15.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 72,110	$ 55,506	$ 68,040	$ 65,274	$ 80,903
Net Direct Debt / General Fund Revenues (x)	1.3x	1.0x	1.2x	1.2x	1.4x
Net Direct Debt / Full Value (%)	1.8%	1.4%	1.7%	1.6%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.7x	2.8x	3.0x	2.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	3.2%	3.8%	3.8%	3.8%

As of fiscal year-end (June 30)
Source: Moody's Investors Service

Recent Developments

The city's financial position continues to improve. Audited fiscal 2015 results were in line with management's projections from last fall and reflect the third consecutive operating surplus. Effective fiscal 2015, the school department became a component unit of the city and the School Fund is no longer a major Governmental Fund of the city. This change has no material impact to the city's credit profile, and we continue to focus on General Fund operations.

Detailed Rating Considerations

Economy and Tax Base: Strong Healthcare and Higher Education Anchor Stable Tax Base

Burlington's diverse $4.3 billion tax base will remain stable given the diversity of the local economy, its regional importance, and a significant institutional presence. Education and health services and government sector employment represent a large portion of the area's largest employers, approximately 44%. The city's two largest employers are the University of Vermont Medical Center and the University of Vermont & State Agr. Coll., VT (Aa3 stable), which comprise a combined 8,800 jobs, or 38% of the workforce. In the private sector, GlobalFoundries's Essex Junction facility (previously owned by IBM, Aa3 stable), which employs approximately 3,000 people, should remain stable over the near term following some recent voluntary separation agreements and a small amount of layoffs.

The full value (estimated fair market value) increased by 6.2% in 2015, bringing the five year compound average annual growth to 1.6%. Fiscal 2015 taxable value represented the strongest growth in several years, increasing 4.4%, compared to a five year average of 0.8% (fiscal 2010–2014). Wealth levels are average, with median family income equal to 99.8% of the state and 105% of the US. The city's unemployment rate of 2.6% (November 2015) remains well below the state (3.5%) and US (4.8%).

Financial Operations and Reserves: Three Years of Audited Operating Surpluses Have Increased Reserves to Satisfactory Levels

The financial position continues to improve due to conservative budgeting and prudent expenditure management. Audited fiscal 2015 results reflect the third consecutive operating surplus, and available General Fund balance (excludes nonspendable and restricted) improved to $5.9 million, or a 10.4% of revenues. The $3.3 million surplus was due to conservative expenditure budgeting and some one-time revenues. Unassigned fund balance improved to $4.3 million, or 7.5% of revenues.

The fiscal 2016 General Fund budget increased 3.6% due to salaries, employee benefits, and IT improvements. The budget was balanced with a 2.8% tax levy increase from new growth (the tax rate remained flat), fee increases, and some expenditure cuts. Management reports that operations are stable year to date and expects to add $1 million to unassigned fund balance, as budgeted. Fiscal 2016 reserves should remain relatively level, however, given plans to spend approximately $1.3 million for one time capital needs in the current year.

Future reviews will continue to focus on management's ability to maintain structurally balanced operations and gradually increase reserves, despite budgetary pressure from expected rising debt service costs due to deferred maintenance.

Additionally, uncertainly remains regarding whether the city will continue to operate BT even after it finds a new buyer. The city's current focus remains on adding customers and improving the financial health of the enterprise, and management states that they will actively look for a buyer in 2017. While the concern regarding material financial liability has been resolved, because the long-term ownership and operations of BT remains unclear, the enterprise risk associated with BT will continue to be a rating factor going forward.

LIQUIDITY

Burlington's General Fund net cash position at the end of fiscal 2015 improved to $8.7 million, or 15.2% of revenues. The city has reduced its line of credit with KeyBank National Association (Aa3 under review for possible downgrade) to $5 million with no draws since fiscal 2013, and the city does not anticipate any cash flow borrowing in fiscal 2016.

Debt and Pensions: Debt Burden Will Increase Due to Deferred Maintenance; Long Term Liabilities Remain Manageable

Exclusive of the revenue bonds supported by the city's airport, electric and wastewater enterprise funds, the city's General Fund-supported net direct debt burden is currently 2.0% of full value. The city's debt burden continues to include general obligation debt issued on behalf of the school department, although debt service is paid by the school department. The debt burden will increase over the near term due to annual issuance of approximately $7 million for annual capital needs for the city and the school and electric departments. In addition, the city plans to issue (pending voter approval) approximately $25 million over the next four years to address deferred maintenance.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below average, with 57.3% retired within ten years. Fiscal 2015 debt service costs of $3.6 million (net of GO debt service issued for school purposes and paid by the school department) comprised 6.8% of expenditures.

DEBT-RELATED DERIVATIVES

Burlington has no derivatives

PENSIONS AND OPEB

The city participates in the Burlington Employee Retirement System, a single-employer, defined benefit retirement plan. The city contributed $5.2 million (net of BED and school department) to the plan in fiscal 2015, representing 9.8% of General Fund expenditures. The city's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $158.7 million, or an above average 2.8 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The city contributed $216,000 towards its annual OPEB cost in fiscal 2015, representing 68.2% of the cost and less than 1% of expenditures. The total unfunded liability is $3.8 million as of June 30, 2015.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented $9.1 million, or 17% of expenditures.

Management and Governance

Vermont cities have an institutional framework score of “Aa,” or strong. Revenues are highly predictable as they mostly consist of property taxes. Cities have a high revenue-raising ability given that property taxes can be increased annually without statutory limit. Expenditures are moderately predictable as they largely consist of general government and public safety costs. Cities generally have a moderate ability to reduce expenditures, given the presence of public sector unions.

The city's management team since 2012 continues to show commitment to addressing financial pressures with a sound approach and fiscal responsibility, which we expect will be aided by the recent adoption of a formal fund balance policy and ten-year capital plan.

Legal Security

The bonds are secured by the city's general obligation unlimited tax pledge.

The COPs are secured by lease payments from the city that are subject to annual appropriation.

Use of Proceeds

Bond proceeds will refund various maturities of eight outstanding bond series for estimated net present value savings of $990,000, or 7.6% of refunded principal, with no extension of final maturity.

The 2016A COP proceeds will refund the outstanding Series 1999A and 2005 COPs for estimated net present value savings of $608,000, or 11.1% of refunded principal, with no extension of final maturity.

The 2016B COP proceeds will refund the outstanding Series 2000 COPs for estimated net present value savings of $130,000, or 8.8% of refunded principal, with no extension of final maturity.

Obligor Profile

Burlington is located in northwestern Vermont along the coast of Lake Champlain. The population is approximately 42,200.

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

BURLINGTON (CITY OF) VT

Issue	Rating
General Obligation Refunding Bonds, Series 2016A	A3
Rating Type	Underlying LT
Sale Amount	$21,970,000
Expected Sale Date	03/14/2016
Rating Description	General Obligation
Refunding Certificates of Participation (DPW Facility Project), Series 2016B	Baa1
Rating Type	Underlying LT
Sale Amount	$1,410,000
Expected Sale Date	03/14/2016
Rating Description	Lease Rental: Appropriation
Refunding Certificates of Participation (Lakeview Garage Project), Series 2016A	Baa2
Rating Type	Underlying LT
Sale Amount	$4,905,000
Expected Sale Date	03/14/2016
Rating Description	Lease Rental: Appropriation

Source: Moody's Investors Service

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