MOODY'S
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Rating Update: Moody's revises to stable the outlook on Burlington (VT) International Airport's bonds; Ba1 rating affirmed

Global Credit Research - 15 Jan 2014

Appropriately $43.160 million of outstanding debt affected

BURLINGTON (CITY OF) VT AIRPORT ENTERPRISE
Airports
VT

Opinion

NEW YORK, January 15, 2014 --Moody's Investors Service has affirmed the Ba1 rating and revised the outlook to stable from negative on the City of Burlington's $43 million Airport Revenue Bonds.

RATING RATIONALE:

The Ba1 rating reflects weakness in the airport's market position shown by recent enplanement declines as well as its financial volatility shown in recent years. The rating also recognizes the airport's diverse carrier base and revenue mix, and improving liquidity and financial performance. The fundamental strength of the Burlington economy is incorporated in the rating, coupled with the lack of direct competition that is likely supportive of future increased rates and charges at the airport.

OUTLOOK

The stable outlook reflects the airport's rising enplanement trend for the first half of fiscal year ending June 30, 2014, as well as the improving debt service coverage ratio (DSCR) and liquidity.

What Could Change the Rating - UP

The rating could be pressured upward if the airport experiences reliable enplanement growth, improves debt service coverage to above 1.4x (calculated per net revenue) on a sustained basis and is able to restore and maintain liquidity to a reasonable level.

What Could Change the Rating - DOWN

The rating could be pressured downward if liquidity and debt service coverage falls below current levels, and if leverage increases are not supported by enplanements. Also, the rating could face negative pressure if the FAA inquiry regarding possible grant program violations at the airport have a material impact.

LEGAL SECURITY: The bonds are special obligations of the city payable from airport net revenues. The pledge of revenues includes PFCs and industrial park revenues to be used for designated projects. The rate covenant is 1.25x and the additional bonds test is equal to 1.25x maximum annual debt service. The airport has a fully cash funded debt service reserve equal to the maximum annual debt service.

STRENGTHS

* Large education and health care presence in City of Burlington, VT

* Diversity of the airport revenues, including significant parking and concession revenues aside from airline derived revenues

* Diversified airline carrier mix that minimizes passenger diversion to airports in Albany, NY and Manchester, New Hampshire NH

CHALLENGES

* Volatile financial performance evidenced by debt service coverage below rate covenant of 1.25x in FY2009 and

FY2010

* Low liquidity compared to Moody's airport sector median as measured by 122 days cash on hand in FY2012

* Declining enplanements in recent years

RECENT DEVELOPMENTS

Year over year enplanements at the Burlington International Airport (BTV) has been improving since August 2013. Throughout FY2013, enplanements declined 11 months out of the year and the total number of enplanements declined -7% at the end of FY2013. Enplanements through the first six months of FY2014 improved and are 3.5% higher than the same period in FY 2013. These activity levels are further supported by higher load factors that should provide traction to the growth trend. BTV's airline carrier mix is well diversified with United accounting for 32% of the market share in FY2013. Delta started a daily Atlanta service in June 2013 and Allegiant is starting a twice weekly service Orlando in February 2014. BTV has an incentive program in place for domestic and international services and continues to focus on Canada to attract passengers. BTV already receives passengers from Canada due to lower fares to U.S. cities compared to the ones from Canada. The airport estimates that Canadian passengers crossing the border have accounted for up to 30% of total enplanements in recent years. The promotional fares are expected to bring more passengers to the airport in the following winter months. Management has added amenities to the airport in order to differentiate itself and increase concession revenue. Several recreational amenities were added in 2013 and a well known local restaurant opened two full service restaurants within the airport in April 2013. Restaurants monthly revenues in FY2014 to date are well ahead of budget. In September 2013 BTV opened three enhanced news and gift stores. Within the first month of opening, the gross sales per enplanement increased 21% year over year.

The airport's debt service coverage ratios are improving gradually since 2009. Since 2010, the airport's net revenue DSCR has been over 1.30 times. The airport is expecting to have 1.46 times coverage ratio in FY2013. In order to improve coverage levels, the airport took action by raising parking rates per the consultant's report and by managing operating expenses since 2010. The liquidity has also been issue for BTV over the last several years and will play a key role with respect to its credit strength in near- to mid -term. Management has been active on improving the airport's credit quality and as of June 30, 2013, the airport has $4 million in debt service reserves, $3 million in O&M reserves and $0.22 million R&R reserve. The unrestricted cash for the airport is expected to improve further over the next five years. Management also took action to separate the airport's accounts from the city accounts and continues to reimburse the city for borrowed funds.

The airport's capital improvement program is focused on required airside improvements as well as the purchase of lands adjacent to the airport for noise abatement purposes. Planned funding sources consist of a combination of passenger facility charges, local and state funds, limited amounts of airport funds. Currently management is not planning any bond-financed projects for the near term.

DEBT RELATED DERIVATIVE INSTRUMENTS: None

RATED DEBT:

Outstanding amounts as of June 30, 2012: $43.160 million

Airport Revenue Bonds, Series 2003A & B: $18.360 million: Ba1, Stable

Airport Revenue Bonds, Series 2012A & B: $24.80 million: Ba1, Stable

KEY INDICATORS:

Type of airport: O&D

Rate making methodology: Hybrid

FY 2012 enplanements ('000): 652,793

FY 2011 vs FY 2012 enplanement growth: 1.42%

FY 2012 vs FY 2013 enplanement growth: -7.24%

% O&D vs connecting, 2011: 100%

Largest carrier by enplanements, (FY2012 share): United (32%)

Airline cost per enplaned passenger, 2012: $4.74

Debt per enplaned passenger, 2012: $55.28

Debt service by net revenue, FY 2012: 1.40x

METHODOLOGY SCORECARD FACTORS:

Factor 1a - Market Position- Total Enplanements: 652,793

Factor 1b - Market Position- Size of Service Area: 212,000

Factor 1c - Market Position- Economic Strength/Diversity of Area: Ba

Factor 1d - Market Position- Competition for Travel: A

Factor 2a - Service Offering- Carrier Base (Primary): 28.5%

Factor 2b - Service Offering- Enplanement 5-year CAGR: -1.7%

Factor 2c - Service Offering- O&D Passenger Mix:100%

Factor 3a - Capacity and Capital- Growth & Operational Restrictions: A

Factor 3b - Capacity and Capital- Construction Risk: A

Factor 5a - Financial Metrics - Airline Cost per Enplanement: $4.74

Factor 5b - Financial Metrics - Net Revenue Debt Service Coverage: 1.40x

Factor 5c - Financial Metrics - Debt per O&D Passenger: $55.28

Notching: -1 notch for 122 days cash on hand

Grid Indicated Rating: Baa2

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RATING METHODOLOGY

The principal methodology used in this rating was Airports with Unregulated Rate Setting published in July 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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