New Issue: Moody's upgrades to Baa3 from Ba1 Burlington International Airport, VT's revenue bonds; assigns Baa3 to Series 2014A bonds

Global Credit Research - 12 Nov 2014

$40.6m of debt is affected; outlook is stable

BURLINGTON (CITY OF) VT
Airports
VT

Moody's Rating

ISSUE		RATING
Airport Revenue Refunding Bonds, Series 2014A (Non-AMT)		Baa3
Sale Amount	$20,000,000	
Expected Sale Date	12/01/14	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, November 12, 2014 --Moody's Investors Service has upgraded to Baa3 from Ba1 the rating on the City of Burlington Airport Enterprise's $40.6 million Airport Revenue Bonds. Moody's has also assigned a Baa3 to the Series 2014A bonds. The rating outlook is stable.

RATING RATIONALE:

The upgrade to Baa3 from Ba1 reflects an improvement of financial metrics including debt service coverage and liquidity after a period of volatility in recent years. The rating also reflects the recent trend of enplanements, which turned positive in 2014 after several years of declines. The rating also recognizes the fundamental strength of the City of Burlington economy and the low cost per enplanement that are expected to keep air travel demand at or above current levels.

OUTLOOK

The stable outlook reflects the stable enplanement trend through 2014 and our expectation that net revenues and debt service coverage will remain at or around current levels and financial liquidity will continue to improve.

STRENGTHS

-Large education and health care presence in Burlington, low unemployment relative to the state and nation

-Diversity in airport revenues, including significant parking and concession revenues

-Diversified airline carrier mix and limited competition in the service area

CHALLENGES

-History of volatile financial performance evidenced by debt service coverage below rate covenant of 1.25x in FY2009 and FY2010

-Low liquidity which limits financial flexibility

-Recent history of declining enplanements demonstrates fragility of demand in the market

What Could Change the Rating - UP

Sustained enplanement and revenue growth that improves financial margins and debt service coverage ratios above 1.75 times on a sustained basis. A significant increase in liquidity to over 365 days cash on hand could also place positive pressure on the rating.

What Could Change the Rating - DOWN

The rating could be pressured downward if debt service coverage falls below current level or if liquidity does not continue to grow.

DETAILED CREDIT DISCUSSION

RECENT DEVELOPMENTS

Enplanements at the Burlington International Airport (BTV) showed improvements in 2014, with an unaudited 1.9% increase in enplaned passengers over FY2013, a sharp increase from the -7.2% in FY2013. Enplanements had been trending down from a peak of 743,248 in 2009 to 606,000 in FY2013 and we expect this metric to remain around the current level in the near term. The airport is forecasting enplanement growth of around 1% in their budget.

Liquidity was an important factor in the recent credit actions on BTV and it continues to be an outlier on this metric in 2013. Days cash on hand stood at 22 days in 2011 on a Moody's adjusted basis, which provided minimal financial flexibility and cushion. Since then, the airport has begun to rebuild liquidity, bringing this metric up to 50 days in FY2012 and 106 in 2013. The airport is forecasting 145 days cash on hand for FY2014, which, despite the improvements, is lower than all other Moody's rated airports. Based on the airport's projections of operations and finances, we expect liquidity to continue to improve. The airport has fully cash funded debt service reserves and has an O&M reserve, recently bolstered, which has $3.1m as of FY2013.

Low debt service coverage was another important factor in the downgrade of BTV, which reached 0.91 times in 2009, below the rate covenant. Total debt service coverage on a net revenue basis has gradually increased, reaching 1.46 times in FY2013. The airport is forecasting improvements in 2014 and 2015, and we expect coverage to remain around the current level.

In order to improve coverage and liquidity, airport management implemented strategies to increase revenues, which included raising parking rates, raising car rental concessions, and improving terminal concessions through renovations and new retailers. Management also made changes in operations to lower expenses or make them more predictable, such as the implementation of expense management software, budgeting and forecasting, and future power rate purchase guarantees.

The airport serves customers who reside in Vermont and parts of New Hampshire, New York, and a small portion of Canada. The airport has a strong competitive position due to the geographic distance to large hub airports. Montreal and Boston are the most significant competitors which are two hours and three and a half hours drives away, respectively. Traffic from the Montreal area is supported by an easier customs process when driving across the border and the cost competitiveness of BTV airport, aided by the Canadian fee structure. The CPE had remained flat in the $4 range for a decade before rising to $5.87 in 2013.

The airport is served by a diverse base of carriers compared to similarly sized airports, including (32%), U.S. Airways (26%), Jet Blue (23%), and Delta (19%) in FY2013. The carrier base diversity has historically been a strong aspect of this airport with no airline having a clear majority since the 1990s. The airport has not operated under a use and lease agreement since the expiration of the previous agreement in 2006. Management is currently negotiating a 5 year lease which they hope to operate under beginning in FY2016.

The airport has a manageable capital program which contains $72.5m of projects over the FY2015-2019 period. The bulk of the capital plans are in airfield projects ($33.85m) and terminal area projects ($11.9m), which are expected to be funded primarily through local, state, and federal grants. The airport expects that $9.2m of capital projects will be funded through PFCs.

2014 DEBT ISSUANCE

The 2014A bonds will be issued with a par value of $20m and will be used to refund the outstanding 2003A bonds. The 2003A bonds were issued with a 25 year final maturity and the 2014A bonds will extend the maturity by 2 years to 2030. Savings from the refunding will be used in the form of debt service relief.

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.

DEBT RELATED DERIVATIVE INSTRUMENTS: None

RATED DEBT:

Outstanding amounts as of June 30, 2013: $44.24 million

METHODOLOGY SCORECARD FACTORS:

Type of airport: O&D

Rate making methodology: Hybrid

Factor 1a - Market Position- Total Enplanements: 606,000

Factor 1b - Market Position- Size of Service Area: 214,800

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): 32.1% (United)

Factor 2b - Service Offering- Enplanement 5-year CAGR: -3.6%

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: $5.87

Factor 5b - Financial Metrics - Net Revenue Debt Service Coverage: 1.46x

Factor 5c - Financial Metrics - Debt per O&D Passenger: $60.68

Notching: -1 notch for 106 days cash on hand

Grid Indicated Rating: Baa2

CONTACT

Gene Richards

Director of Aviation

(802) 343-9909

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Andrew Nowicki
Lead Analyst
Public Finance Group
Moody's Investors Service

Chee Mee Hu
MANAGING_DIRECTOR
Public Finance Group
Moody's Investors Service

Maria Matesanz
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA