MOODY'S
INVESTORS SERVICE

Rating Update: Moody's maintains Baa3 on Burlington Airport Enterprise, VT's revenue bonds; stable outlook

Global Credit Research - 11 Dec 2015

Approximately $39 million of rated debt outstanding

BURLINGTON (CITY OF) VT AIRPORT ENTERPRISE
Airports
VT

NEW YORK, December 11, 2015 --Moody's Investors Service maintains the Baa3 rating on Burlington Airport Enterprise, VT's $38.7 million of airport revenue bonds. The outlook is stable.

SUMMARY RATING RATIONALE

The Baa3 rating reflects ongoing improvement in the airport's financial metrics, most notably in debt service coverage ratios (DSCRs) and liquidity. The rating also reflects our expectation for generally stable air service and travel demand, although year-to-year enplanements have proven to be volatile, alternating between positive and negative growth in recent years, which can weaken revenue predictability and planning for the airport. Enplanement volatility is mitigated by the airport's manageable cost per enplanement (CPE) and our expectation that CPE will remain relatively stable going forward given support from non-airline revenues, level debt service and no new leverage. The rating continues to recognize the stable but comparatively mature service area centered on the City of Burlington (Baa2/positive), which is a regional economic center anchored by education, health care and government institutions. The airport also draws passenger traffic from Canada due to its more efficient customs process and costs that have historically been low relative to Canadian airports.

OUTLOOK

The stable outlook reflects our expectation for ongoing improvement in core financial metrics, namely DSCRs and liquidity. We expect the airport will be able to achieve these increases due to largely stable airline service, CPE and no new borrowing, combined with economic recovery in the service area.

WHAT COULD MAKE THE RATING GO UP

-Sustained enplanement growth driven by expanded air service and stable or expanded economic activity in the service area

-DSCRs above 1.5 times on a sustained basis

-Continued increases in liquidity on a path to reach 300 days cash on hand

WHAT COULD MAKE THE RATING GO DOWN

-Prolonged downturn in enplanements

-DSCRs fall below current levels

-Liquidity, measured by days cash on hand, does not continue to increase as we anticipate

STRENGTHS

-Large education and health care presence in Burlington, low unemployment and solid income levels 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

-Recent history of declining enplanements demonstrates fragility of demand in the catchment area

-History of volatile financial performance evidenced by bond ordinance DSCRs below rate covenant in FY 2009 and FY 2010

-Low, but improving, liquidity which limits financial flexibility

-Uncertainty provided by month-to-month airline agreement in holdover from expired 2006 agreement

-Depreciation of the Canadian dollar against the US dollar introduces risk that Canadian passengers elect to fly from Montreal rather than BTV

RECENT DEVELOPMENTS

Following an increase of 1.9% in FY 2014, enplanements decreased 2.7% in FY 2015, affected mainly by weather-related cancellations and unfavorable currency exchange rates for Canadian passengers. Enplanements have continued to decline in FY 2016, down 3% year-to-date through October 2015.

The airport recently executed a new five-year agreement with rental car agencies, which clarifies sharing of CFCs and includes escalation-based minimum annual guarantees (MAGs) for revenues. The airport expects to also reach a new five-year airline agreement in the next several months, anticipated to be largely similar to the current compensatory model.

Debt service coverage ratios and liquidity improved in FY 2015 (unaudited), and a strengthening trend of financial metrics is an important factor for the airport's credit profile. The credit impact from better financial metrics would be weakened if enplanements decline for an extended period and the airport experiences further delays in adopting an airline agreement.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE

Burlington International Airport (BTV) is a small-hub O&D airport located in South Burlington, VT. BTV is the primary commercial air service airport for the Burlington-South Burlington, VT Metropolitan Statistical Area. The airport primarily serves passengers who reside in the MSA and, to a lesser extent, parts of northern Vermont, New Hampshire, northeastern New York and southern Quebec. The airport estimates that approximately 15%-25% of enplaned passengers in a given year are Canadian residents.

Burlington's economic growth has picked up in 2015, but Moody's Analytics expects the expansion will fall behind the national average in the near term, as weakness in the private sector offsets stability provided by the anchor institutions of education, health care and government. While the presence of these established institutions provides long-term stability and above-average incomes for residents, economic growth prospects are constrained by slow population growth and job creation in private industries that will likely lag the national average. Long-term, the expectation of limited population gains is likely to constrain travel demand, although we expect this factor to remain balanced by stable employment and comparatively strong incomes in the service area.

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 drive times away, respectively. Traffic from the Montreal area is supported by a more streamlined customs process when driving across the border, and by the cost competitiveness of BTV airport as a result of the Canadian fee structure. Plattsburgh, which has a much larger share of Canadian passengers than BTV, is undertaking a terminal expansion that will triple capacity by FY 2017, from its current 150,000 enplanements. While this represents a modest risk to Canadian passengers for BTV, it is unlikely to result in a material loss of passengers because existing air service at each airport caters to different passengers, with Plattsburgh dominated by ultra-low-cost service to tourism destinations and BTV focused largely on service to primary hub airports.

Enplanements at BTV grew 1.9% in FY 2014, but contracted 2.7% in FY 2015. Enplanements have been volatile in recent years, swinging from growth to contraction year-over-year despite no material change in air service or economic conditions. Such volatility weakens the predictability of passenger traffic and increases the significance of the airport having strong baseline coverage and liquidity metrics given that the airline agreement is largely compensatory in nature. Enplanements have continued to trend lower in FY 2016 to date through October. Recent weakness mostly reflects the impact of severe weather and the airport's reduced cost advantage given the appreciation of the US dollar, which the airport estimates has led to a 5%-10% drop in Canadian-based enplanements. We do not expected a reversal of exchange rate movements in the near-term, therefore we expect negative pressure on Canadian passengers to continue. Air service offerings have remained stable, with American adding new daily service to Charlotte and United adding seat capacity on existing mainline service in August 2015. However, enplanements remain notably below their FY 2009 peak levels, and an extended decline lower would likely pressure the rating.

The airport is served by a diverse base of carriers compared to similarly sized airports, including United (41%), American (U.S. Airways) (27%), Jet Blue (11%), and Delta (20%) in FY 2014. The carrier diversity has historically been a strong aspect of the airport with no airline having a clear majority since the 1990s.

FINANCIAL OPERATIONS AND POSITION

The airport's DSCRs have improved steadily in recent years, which is one of the key credit metrics that we will continue to monitor. DSCRs fell below the rate covenant in FY 2009 and FY 2010, although the airport has demonstrated a commitment to achieving and sustaining meaningfully higher DSCRs going forward. In FY 2012, the airport implemented an apron fee as part of an effort to increase net revenues available for debt service to at least 1.3 times debt service, prior to any transfers of PFCs.

Total debt service coverage continues to trend upward, reaching 1.26 times in FY 2014 on a net revenue basis prior to the use of eligible PFCs. Bond ordinance debt service coverage, which includes PFC revenues transferred to the debt service fund ($1.29 million) and PFCs prepaid into the sinking fund in an amount not to exceed 25% of debt service ($323,000), increases to 1.52 times in FY 2014. The airport is forecasting a similar DSCR in FY 2015.

In order to improve debt service coverage and liquidity, airport management implemented strategies to increase non-airline revenues, which included raising parking rates, raising car rental concessions, and improving terminal concessions through renovations and new retailers. These actions will help the airport maintain a competitive cost per enplanement (CPE), which increased to $6.06 in FY 2014 from $5.87 in FY 2013. CPE is expected to remain stable going forward due largely to stable airport costs, although an extended downturn in enplanements would likely push CPE higher. Importantly, the airport has shown a willingness to adjust airline rates and charges as needed, with a cumulative 10% increase in FY 2015 that helped to offset a decline in enplanements. A competitive CPE is an important element of BTV's efforts to attract air service.

Liquidity

Liquidity remains an important credit factor for the airport. Positively, liquidity continues to build incrementally, off a very low base of only 22 days cash in FY 2011 to 140 days cash in FY 2014. The airport has indicated a commitment to building liquidity toward a target in excess of 200 days cash, and has communicated this priority to the airlines. FY 2015 (unaudited) data reflect an increase to 175 days cash. While still low by comparison with Moody's-rated airports, and particularly low for an airport with a compensatory rate-making structure, we believe the airport will continue to gradually build liquidity to a level that affords greater financial flexibility.

DEBT AND OTHER LIABILITIES

At the end of FY 2014, the airport had $40.6 million of parity revenue debt outstanding. We view the debt burden as manageable, evidenced by debt per O&D passenger of $56.23 and a debt ratio of 22.1% in FY 2014, and we expect additional deleveraging going forward 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 that it expects to retire in September 2016.

The airport has a manageable near-term capital program consisting of $72.5 million of projects over the FY 2015 to FY 2019 period. The bulk of the capital projects relate to airfield projects ($33.85m), primarily taxiway and apron work, in addition to $11.9 million allocated for terminal area projects. The airport expects to fund the program from state and federal grants, which combine to require a very minor 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. The airport does not plan to issue new debt for the life of the capital program.

Debt Structure

All of the airport's outstanding GARB debt is represented by fixed rate, fully amortizing, long term obligations. Annual debt service requirements are level at approximately $3.65 million through FY 2028, before a significant step down 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 (Baa2/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 and airlines continue to operate on a month-to-month basis pursuant to the holdover from a use and lease agreement that expired in 2006. The prior agreement, which continues in force, included five distinct cost centers and was largely compensatory in nature. Management is currently negotiating a new five-year agreement, which they hope to implement in early 2016. While the absence of a formal, long-term agreement is a concern, it has not stopped the airport from being able to work collaboratively with airlines or from being able to adjust rates and charges as needed.

KEY STATISTICS

-Type of Airport: O&D / Regional

-Rate Making Methodology: Hybrid

-FY 2014 Enplanements: 617,301

-5-Year Enplanement CAGR 2019-2014: -3.3%

-Enplanement 10-year Growth Standard Deviation 2004-2014: 6.5%

-FY 2014 vs. FY 2013 Enplanement growth: 1.9%

-% O&D vs. Connecting, FY 2014: 100%

-Largest Carrier by Enplanements (FY 2014 share): United (40.5%)

-Airline Cost per Enplaned Passenger, FY 2014: $6.06

-Debt per Enplaned Passenger, FY 2014: $56.23

-Bond Ordinance Debt Service Coverage, FY 2014: 1.52x

-Moody's Net Revenue Debt Service Coverage, FY 2014: 1.26x

-Utilization Factor, FY 2014: 2.89x

METHODOLOGY SCORECARD FACTORS:

The airport's actual rating is above the grid-indicated rating reflecting our expectation that DSCRs and liquidity will continue to improve through concerted efforts on the part of the airport to drive these metrics higher.

Factor 1 - Market Position- Size of Service Area: Ba (217.3 million)

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

Factor 1 - Market Position- Competition for Travel: A

Factor 2 - Service Offering- Total Enplanements: Ba (617K)

Factor 2 - Service Offering- Stability of Traffic Performance: Ba

Factor 2 - Service Offering- Stability of Costs: A

Factor 2 - Service Offering- Carrier Base (Primary), FY 2014: Baa (United, 40.5%)

Factor 3 - Leverage and Coverage- Debt Service Coverage by Net Revenues, FY 2014: Baa (1.26x)

Factor 3 - Leverage and Coverage- Debt per O&D Enplaned Passenger - Regional: A ($56.23)

Factors 4-7:

-1.0 Notch for Liquidity

0 Notches for Connecting Traffic

0 Notches for Potential for Increased Leverage

0 Notches for Debt Service Reserves

Scorecard Indicated Rating: Ba1

Note: The grid is a reference tool that can be used to approximate credit profiles in the airport industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see Publicly Managed Airports and Related Issuers for more information about the limitations inherent to grids.

OBLIGOR PROFILE

Burlington International Airport (BTV) is located in South Burlington, VT, and is the primary commercial air service airport for the Burlington-South Burlington, VT Metropolitan Statistical Area. The airport also attracts passengers, to a lesser extent, from northern Vermont, northeastern New York and portions of southern Quebec. The airport estimates that approximately 15%-25% of enplaned passengers in a given year are Canadian residents.

The airport is located on 1,100 acres and includes a 130,000 square foot main terminal building with 12 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 major fixed based operator, as well as an industrial park encompassing over 80 acres with plans for future development.

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

Not Applicable.

RATING METHODOLOGY

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

REGULATORY DISCLOSURES

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