

CREDIT OPINION

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City of Burlington, VT

Update to credit analysis

Summary

[Burlington](#) (Aa3) benefits from its status as the regional economic center with institutional presence in the State of [Vermont](#) (Aa1 stable). The city's resident income is below-average while full value per capita is more average for the rating category. The city's financial position is stable with sound reserves and liquidity that are expected to remain healthy over the next few years. The leverage position and fixed costs are manageable and in line with the Aa rating category.

Credit strengths

- » Regional economic center of Vermont
- » Stable financial position
- » Favorable demographics including low median age compared to the state

Credit challenges

- » Economic performance lags that of the US
- » Recent increase in capital funding

Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Increase in available reserves and liquidity as a percent of revenue
- » Decline in leverage as a percent of revenue
- » Improved economic growth rate compared to the US

Factors that could lead to a downgrade

- » Material decline in available reserves and liquidity
- » Significant increase in leverage
- » Large and sustained trend of economic decline

Key indicators

Exhibit 1

Burlington (City of) VT

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	78.2%	81.4%	83.7%	N/A	115.0%
Full Value (\$000)	\$4,770,128	\$5,171,758	\$5,378,761	\$5,770,209	\$2,649,338
Population	42,545	42,645	44,703	N/A	22,694
Full value per capita (\$)	\$112,120	\$121,275	\$120,322	N/A	\$108,666
Economic growth metric (%)	N/A	-0.6%	-1.0%	N/A	-0.5%
Financial Performance					
Revenue (\$000)	\$198,025	\$180,057	\$176,994	\$208,852	\$48,404
Available fund balance (\$000)	\$59,546	\$63,957	\$53,381	\$70,908	\$24,069
Net unrestricted cash (\$000)	\$91,701	\$103,609	\$80,633	\$78,156	\$32,092
Available fund balance ratio (%)	30.1%	35.5%	30.2%	34.0%	51.0%
Liquidity ratio (%)	46.3%	57.5%	45.6%	37.4%	69.0%
Leverage					
Debt (\$000)	\$203,897	\$235,124	\$219,246	\$236,925	\$34,496
Adjusted net pension liabilities (\$000)	\$173,398	\$205,573	\$260,955	\$227,081	\$55,543
Adjusted net OPEB liabilities (\$000)	\$5,334	\$6,143	\$6,307	\$4,819	\$6,316
Other long-term liabilities (\$000)	\$11,060	\$6,158	\$6,203	\$5,648	\$1,623
Long-term liabilities ratio (%)	198.8%	251.6%	278.4%	227.2%	244.8%
Fixed costs					
Implied debt service (\$000)	\$15,742	\$14,866	\$16,838	\$15,378	\$2,436
Pension tread water contribution (\$000)	\$7,627	\$8,313	\$9,351	N/A	\$1,565
OPEB contributions (\$000)	\$45	\$244	\$0	\$51	\$178
Implied cost of other long-term liabilities (\$000)	\$770	\$806	\$441	\$435	\$109
Fixed-costs ratio (%)	12.2%	13.5%	15.0%	12.1%	11.1%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Burlington-South Burlington, VT Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Burlington (City of) VT's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

Burlington is the largest city in the State of Vermont (Aa1 stable) located along the coast of Lake Champlain, approximately 216 miles northwest of Boston, MA and 96 miles south of Montreal, QC, Canada. The city is the regional economic center of the state and is home to the [University of Vermont & State Agricultural College, VT](#) (UVM, Aa3 stable). The population is approximately 42,645 (American Community Survey 2020). The city has multiple enterprise funds including the [Burlington Airport Enterprise](#) (Baa2 Stable); [Burlington Water Enterprise](#) (Aa3); and [Burlington Electric Enterprise](#) (A3 Stable).

Detailed credit considerations

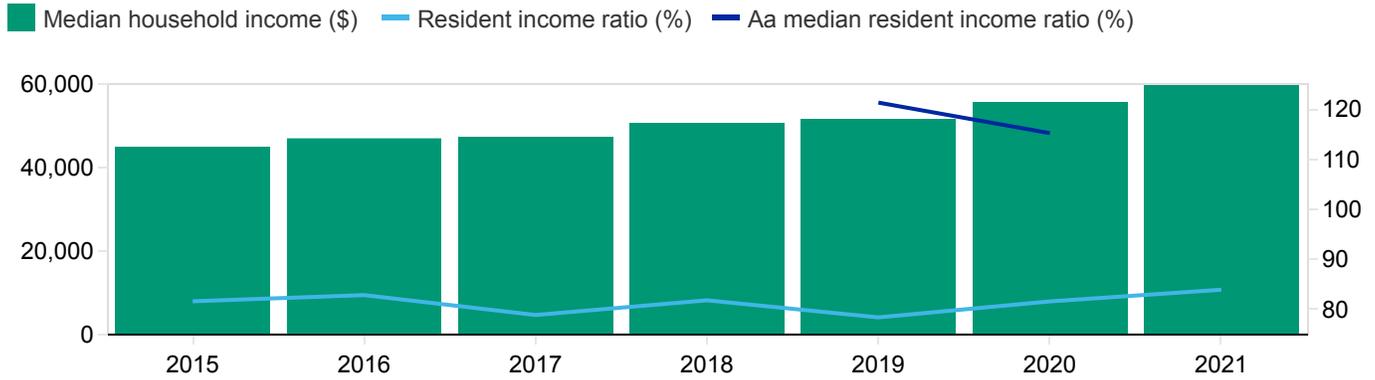
Economy: diverse economy representing the state's regional economic center

Burlington benefits from a diverse economy and stable tax base supported by higher education, healthcare and technology sectors. The city also has a strong entrepreneurial focused business community that has remained resilient through the coronavirus pandemic and the recent impacts from a regional flooding event in the summer of 2023. Economic development plans remain healthy with top employers investing and expanding in the city. Rhino Foods, a manufacturer of cookie dough and other baked goods, currently employs around 200 people and is planning a 65,000 square foot expansion in Burlington. While the University of Vermont Medical Center, the city's largest employer, opened 55 units of UVM housing with 120 more units under construction. This effort will aid in recruiting and contribute to the city's efforts to increase affordable housing. The city expects to continue to improve zoning and building codes over the near term to address housing challenges.

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The city's resident income is below-average with median household income adjusted for regional price parity equal to 84% of the US median. Income levels are on the rise over the last ten years. Burlington's unemployment rate is low, reflecting a rating of just 1.4% as of April 2023.

Exhibit 2
Resident Income

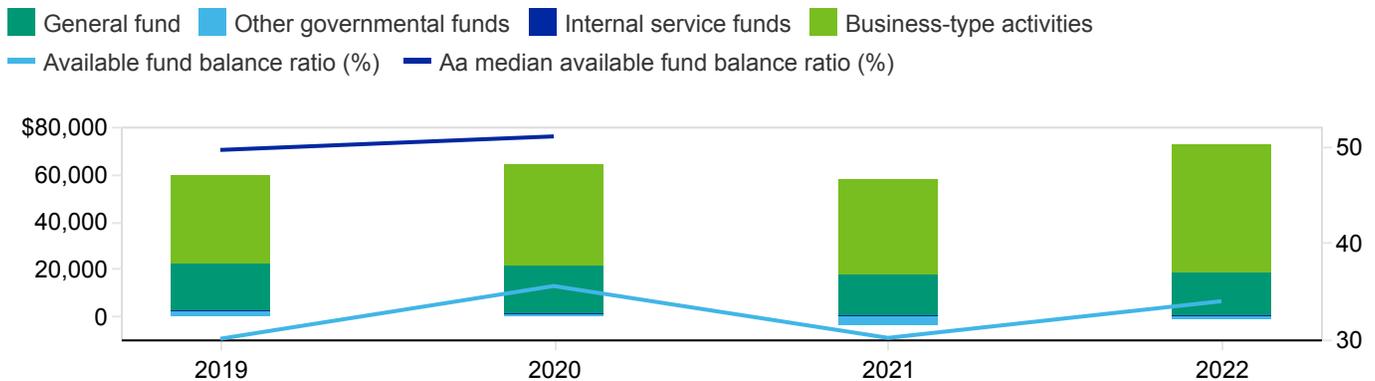


Source: Moody's Investors Service

Financial operations: stable operations likely to continue across governmental and enterprise funds

The city's financial position is likely to remain stable over the next few years because of conservative budgeting and prudent revenue increase. Across all governmental funds and business-type activities, the city closed fiscal 2022 (the latest audit ending June 30, 2022) with an available fund balance and net unrestricted assets of \$70.9 million representing 34% of revenue (see exhibit). The governmental funds also ended the year with \$21.3 million in restricted funds primarily for capital projects, future debt service and allocations towards the city's two TIF districts.

Exhibit 3
Fund Balance



Source: Moody's Investors Service

Burlington's governmental activities provide 48% of the city's revenue base with property and other taxes representing 51% of fiscal 2022 governmental revenue. The city's enterprise funds including Electric, Airport, Wastewater and nonmajor provide the remaining revenue sources. The electric department is the largest followed by the airport and wastewater. The city's largest governmental expenditures are public safety, capital outlay and general government. The school department is a separate governmental unit and is a discretely presented component unit in the city's audited financials.

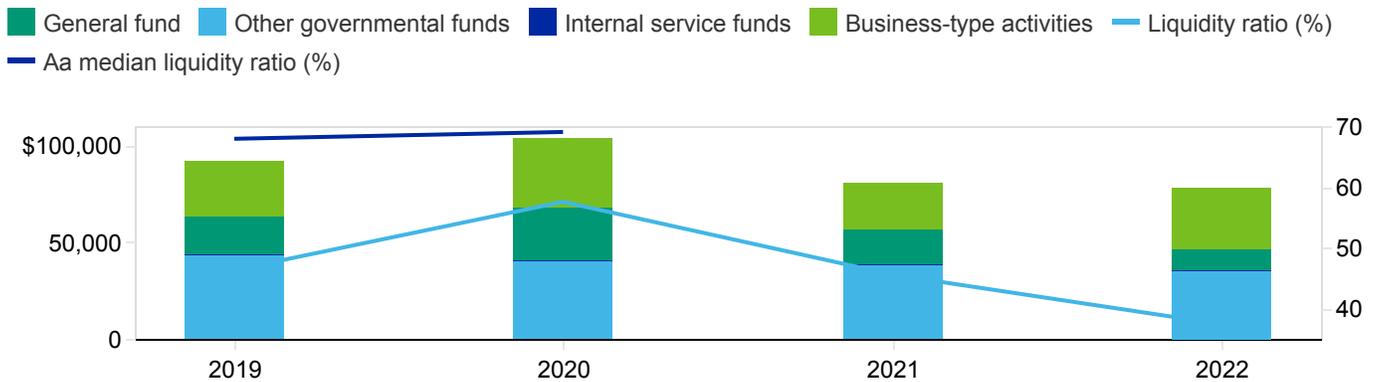
The fiscal 2023 year-end results according to the city reflect a recovery of gross receipts from meals, alcohol, hotel and amusement taxes as well as its local option taxes. The receipts have increased to record highs compared to levels prior to the pandemic. The budget included \$2 million in ARPA revenue replacement funds although the city was able to free some of those funds up for other purposes given positive operating variance. The city indicates an operating surplus for the year and increase in available reserves.

The fiscal 2024 budget of \$101.1 million reflects a 4% increase in expenditures driven by cost of living adjustments (COLAs) for employees under settled labor contracts for all city unions. The budget is balanced with a 6.6% increase in taxes from the prior year. Additionally, all three enterprise funds operations include a 5% rate increase. Future budgets will reflect COLAs of around 3%, in line with more historic levels compared to recently large increases primarily for public safety in fiscal 2022 and 2023.

Liquidity

Burlington's net unrestricted cash and investments at the end of fiscal 2022 was \$78.2 million representing 37.4% of revenue. The liquidity position at the end of fiscal 2023 is not likely to materially change.

Exhibit 4
Cash



Source: Moody's Investors Service

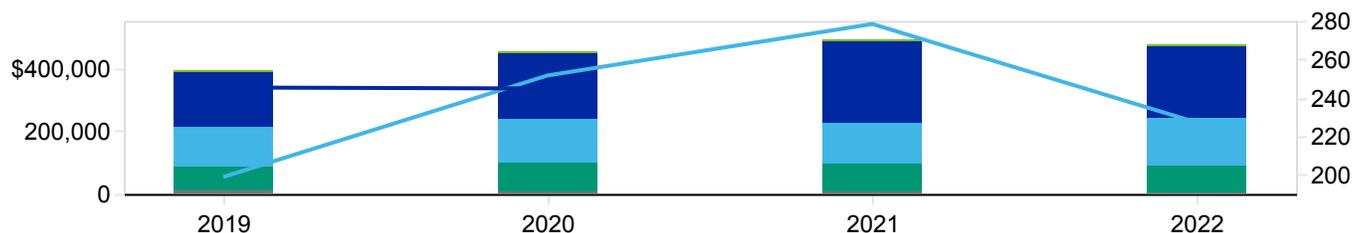
Leverage: likely to remain moderate given debt plans and annual contributions towards pension liability

Burlington's leverage is average for the Aa rating category and will likely remain moderate over the next few years given the city's capital and debt plans while continuing to fund the pension and other liabilities. The city ended fiscal 2022 with a long-term liabilities ratio of 227% of revenue (see exhibit). The city's debt accounts for 50% of the total leverage ratio while adjusted net pension liability and adjusted net OPEB liability represent 48% and 1%, respectively. The leverage ratio when incorporating school debt, school revenue and the 2023 bond issuance is projected to equal 214% of revenue. Future borrowing plans include \$7 million in GO bonds allowed under city charter (\$3 million for electric department, \$2 million for school district and \$2 million for the city). The city also has \$6.6 million and \$35 million remaining in separate voter approved authorizations for the city's capital plan and the high school project, respectively.

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt
 ■ Business-Type Activity Debt
 ■ Adjusted net pension liabilities
■ Adjusted net other post-employment liabilities
 ■ Other long-term liabilities
 — Long-term liabilities ratio (%)
— Aa median long-term liabilities ratio (%)



Source: Moody's Investors Service

Legal security

The bonds are backed by the city's full faith and credit general obligation and unlimited taxing powers are pledged and are payable from unlimited ad valorem taxes duly assessed on the grand list of all taxable property in the city.

Debt structure

All of the city's debt is fixed rate with 70% of GO backed principal repaid in 10 years.

Debt-related derivatives

Burlington is not party to debt-related derivatives.

Pensions and OPEB

Burlington's pension and small OPEB liabilities are relatively equal in size to its debt burden and though manageable at this time, represent a potential future credit challenge. The city participates in the Burlington Employees' Retirement System, a multi-employer defined benefit plan and makes annual required contributions based on at least its proportional share. In fiscal 2022 the city reduced the discount rate to 7.1% from 7.2%. Moody's 2022 adjusted net pension liability based on a more conservative discount rate equaled \$227 million. The city also funds its OPEB liability on a pay-go basis and has a relatively small liability. The 2022 Moody's adjusted net OPEB liability equaled \$4.8 million. The city's fixed costs are likely to rise moderately given the new debt issuance but remain manageable at around 15% of revenue.

ESG considerations**Burlington's ESG Credit Impact Score is Neutral to low, CIS-2**

Burlington's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting neutral to low exposures to environmental, social and governance risks.

Environmental

Burlington's E issuer profile score is neutral to low (**E-2**). Among US local governments, Burlington's environmental risks are low. With no coastal exposure, the city is primarily exposed to extreme rainfall risk, according to data from Moody's ESG Solutions. Increased rainfall could result in more frequent local or regional flooding. We expect the city and state have resources and capacity to address flooding events.

Social

Burlington's S issuer profile score is neutral to low (**S-2**). The city benefits from favorable educational attainment and a strong labor force. Residents also have good access to basic services. The city's demographics including median age and net migration reflect low risk although this runs counter to the state's overall long-term trend of a declining prime working age population. Risks associated with health and safety and housing is low.

Governance

Burlington's G issuer profile score is neutral to low (**G-2**). The city has a favorable institutional structure, transparency and disclosure. The city also consistently approves and releases its budgets and audited financial statements in a timely manner. Burlington's budget management and policy credibility and effectiveness is strong and is reflected in its healthy financial position and trend of stable operations and reserves.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Burlington (City of) VT

	Measure	Weight	Score
Economy			
Resident income ratio	83.7%	10.0%	A
Full value per capita	124,989	10.0%	Aa
Economic growth metric	-1.0%	10.0%	Aa
Financial Performance			
Available fund balance ratio	34.0%	20.0%	Aa
Liquidity ratio	37.4%	10.0%	Aa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	227.2%	20.0%	A
Fixed-costs ratio	12.1%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa3

The complete list of outstanding ratings assigned to the Burlington (City of) VT is available on their [issuer page](#). Details on the current ESG scores assigned to the Burlington (City of) VT are available on their [ESGView page](#).

Sources: US Census Bureau, Burlington (City of) VT's financial statements and Moody's Investors Service

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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