MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Baa2 to Burlington, VT's $7M GO Bonds; outlook positive

Global Credit Research - 23 Oct 2015

Affirms Baa2 on $99M of outstanding GO debt and COPs at Baa3 and Ba1

BURLINGTON (CITY OF) VT
Cities (including Towns, Villages and Townships)
VT

Moody's Rating

ISSUE	RATING
General Obligation Public Improvement Bonds, Series 2015A	Baa2

Sale Amount	$7,000,000
Expected Sale Date	11/04/15
Rating Description	General Obligation

Moody's Outlook POS

NEW YORK, October 23, 2015 --Moody's Investors Service has assigned a Baa2 rating to the City of Burlington, VT's $7 million General Obligation Public Improvement Bonds, Series 2015A. Concurrently, Moody's has affirmed the Baa2 rating on $99 million of outstanding GO debt, the Baa3 rating on $2 million of Certificates of Participation (COPs), Series 2000 (city multi-purpose), and the Ba1 rating on $6.8 million of Certificates of Participation, Series 1999A and 2005 (parking). The outlook is positive.

SUMMARY RATING RATIONALE

The Baa2 rating reflects an improved financial position, although audited reserves and liquidity remain narrow. The rating also incorporates the dismissal of the Burlington Telecom (BT) lawsuit through a settlement agreement that is favorable to the city. The rating also factors in the city's strength as the economic center of Vermont (Aaa stable) and its manageable debt and pension liability.

The Baa3 and Ba1 ratings on the COPs reflect the city's general credit profile while incorporating the appropriation risk of the COPs and essentiality of the projects.

OUTLOOK

The positive outlook reflects a trend of balanced financial operations in fiscal 2013 and 2014, as well as an expected surplus in fiscal 2015 (unaudited). The liquidity also continues to improve, and the city has not issued tax anticipation notes since fiscal 2013. Additionally, the dismissal of the BT lawsuit and favorable settlement reduces the risks related to the enterprise. The settlement has also allowed the city to address the large nonspendable, advances to BT from the General Fund.

WHAT COULD MAKE THE RATING GO UP

- Audited confirmation of fiscal 2015 surplus

- Development of a formal recovery plan or financial goals to return to a satisfactory financial position

WHAT COULD MAKE THE RATING GO DOWN

- Structurally imbalanced General Fund operations, reducing the city's financial flexibility

- Increased exposure to losses from the city's various enterprise or other nonmajor funds

- Renewed reliance on cash flow borrowing

STRENGTHS

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

- Manageable debt profile

CHALLENGES

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

RECENT DEVELOPMENTS

The city's financial position continues to improve. Management expects fiscal 2015 audited results to reflect the city's third consecutive surplus, which should increase available General Fund balance (committed, assigned and unassigned) to approximately $4.8 million, or roughly 8.6% of revenues. The liquidity position remains stable, and the city has not issued tax anticipation notes since fiscal 2013. In addition, the city is focused on improving the financial position of Burlington Telecom and is beginning the process to search for a buyer within the four-year timeframe as outlined in the lawsuit settlement.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: STRONG HEALTHCARE AND HIGHER EDUCATION ANCHOR STABLE TAX BASE

Burlington's $4.3 billion tax base will remain stable over the near term given the diversity of the city's local economy, its regional importance, and a stabilizing institutional presence. Education and health services and government sector employment represents approximately 37% of total jobs, including two of the city's five largest employers, University of Vermont Health Network (A3 stable) and the University of Vermont & State Agr. Coll., VT (Aa3 stable), which comprise a combined 8,294 jobs, or 7.2% of the city's workforce. In the private sector, the sale of the IBM Corporation's (Aa3 stable) Essex Junction facility to GlobalFoundries initially preserved all 3,000 jobs at the facility. However, due declining industry growth, the company sought to downsize its workforce through voluntary separation agreements. The company recently announced that the cost cutting measure was successful and layoffs are unlikely for the foreseeable future.

The full value (estimated fair market value) increased by 6.2% in 2015, bringing the five year compound average annual growth to 1.6%. Taxable value remains stable, with seven consecutive years of limited growth averaging 1.4% annually. The city's wealth levels are just below state and national averages, with median family income equal to 99.8% and 105%, respectively. Also, the city's unemployment rate of 3.2% (July 2015) remains well below the state (3.6%) and US (5.6%).

FINANCIAL OPERATIONS AND RESERVES: EXPECTED FISCAL 2015 SURPLUS WILL INCREASE RESERVES TO MORE SATISFACTORY LEVELS

The city improved its financial position through the issuance of deficit financing bonds in fiscal 2013, conservative budgeting and proactive revenue and expenditure enhancements which are expected to result in balanced operations over the near term. The fiscal 2014 audited financial statements include an unqualified auditor's opinion for the first time since before BT's financial problems became publicly known in late 2009 and reflects an operating surplus of $2.5 million, excluding a special item of $16.9 million, representing a write-off of city advances to BT following the dismissal of the BT lawsuit. The surplus is attributed to positive variance in revenues and expenditures as well as $1 million from the sale of land. The elimination of the BT advances reduces the total fund balance given its allocation in previous years as a nonspendable reserve. However, all other fund balance allocations improved as a result of the $2.5 million operating surplus. The surplus increased the available fund balance (committed, assigned and unassigned) to $2.1 million or 3.9% of revenues up from a negative $928,000 or -1.9% of revenues in 2013.

The 2015 expenditures increased by 2.6% from the prior year and the budget was balanced with a 4.6% tax levy increase. Management expects fiscal 2015 audited results to reflect the city's third consecutive surplus, which should increase available General Fund balance (committed, assigned and unassigned) to approximately $4.8 million, or roughly 8.6% of revenues. The surplus was largely attributable to conservative budgeting, as revenues were favorable by $550,000 and expenses were $2 million under budget. In addition, the city received a one-time payment of $750,000 from the city's electric enterprise (revenue rating of Baa2 positive) for multiple years of overbilling the city for electricity. The fiscal 2016 General Fund budget increased 5.4%.

Liquidity

Burlington's General Fund net cash position at the end of fiscal 2014 remains narrow at $2.6 million, or 4.7% of revenues. Given the liquidity provided by the deficit financing bonds, the city has reduced its line of credit with KeyBank National Association (Aa3 stable) to only $5 million with no draws since fiscal 2013.

DEBT AND OTHER LIABILITIES: DEBT BURDEN AND 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 of 2.0% of full value is expected to remain manageable. Since the end of fiscal 2014, the city has borrowed $14.8 million of general obligation debt through the Vermont Municipal Bond Bank (Aa2 stable). Future debt plans include annual issuance of approximately $7 million for annual capital needs for the city, schools, and electric department. The city will determine how to finance its capital plan - either through the bond bank, private placements or direct public issuance - on a case by case basis. Additionally, the city's ten-year capital improvement plan will begin to address the deferred maintenance due to its recent fiscal pressures as well as additional capital needs over the medium term.

Debt Structure

Amortization of outstanding principal is below average, with 54.8% retired within ten years. Debt service in fiscal 2014 represented 5% of General Fund expenditures and the city's debt portfolio is comprised entirely of fixed rate debt.

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's annual required contribution (ARC, net of BED and school department) for the plan was $5.4 million in fiscal 2014, or 10.8% of General Fund expenditures. The city's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $162.7 million, or an above average 1.4 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 86% of its annual Other Post Employment Benefit costs in 2014, representing $381,268. The city's OPEB UAAL as of June 30, 2013 is $3.9 million. Fiscal 2014 total fixed costs including pension, OPEB and debt service was $9.3 million or 18.3% of expenditures.

MANAGEMENT AND GOVERNANCE

Vermont cities have an institutional framework score of "Aa" or strong. Cities rely on property taxes which are highly predictable and can be increased annually without statutory limit. Primary expenditures are for public safety and general government services. Expenditures are largely predictable and cities have the ability to reduce expenditures.

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

KEY STATISTICS

Fiscal 2015 Full Valuation: $4.3 billion

Fiscal 2015 Full Value Per Capita: $100,843

Median Family Income as % of U.S.: 105%

Fiscal 2014 Available General Fund Balance as % of Revenues: 3.9%

5-Year Dollar Change in Available General Fund Balance as % of Revenues: -5.0%

Fiscal 2014 Cash Balance as % of Revenues: 4.7%

5-Year Dollar Change in Cash Balance as % of Revenues: -1.6%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 0.95x

Net Direct Debt as % of Full Value: 2.0%

Net Direct Debt / Operating Revenues: 1.5x

3-Year Average ANPL as % of Full Value: 3.9%

3-Year Average ANPL / Operating Revenues: 1.3x

OBLIGOR PROFILE

Burlington is located in northwestern Vermont along the coast of Lake Champlain. The population is approximately 42,284.

LEGAL SECURITY

All GO debt is secured by the city's general obligation unlimited tax pledge.

USE OF PROCEEDS

Bond proceeds will finance various capital projects for the city as well as the school and electric departments.

PRINCIPAL 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 Credit Policy page on www.moodys.com for a copy of these methodologies.

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