

CREDIT OPINION

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Burlington (City of) 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 tax base is likely to continue to grow due to a strong residential sector and relatively stable commercial sector. The financial position is stable with healthy reserves although the recent recovery from the coronavirus pandemic and focus on increased staffing and salaries will drive budget growth over the near term. The city's debt burden and pension liabilities are expected to remain above-average but manageable.

Credit strengths

- » Regional economic center of Vermont
- » Stable tax base valuation
- » Healthy reserves

Credit challenges

- » Above-average debt burden and pension liability
- » Rising fixed costs
- » Maintaining balanced operations given large increase in salaries under collective bargaining agreements

Rating outlook

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

Factors that could lead to an upgrade

- » Continued trend of stable finances and reserves as a percent of revenue
- » Decline in the debt burden and/or unfunded pension liability

Factors that could lead to a downgrade

- » Material increase in the debt burden
- » Trend of structurally unbalanced operations leading to a decline in reserves

Key indicators

Exhibit 1

Burlington (City of) VT

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|-------------|-------------|-------------|-------------|-------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$4,474,475 | \$4,607,608 | \$4,770,128 | \$5,171,758 | \$5,378,761 |
| Population | 42,453 | 42,513 | 42,545 | 42,645 | 42,645 |
| Full Value Per Capita | \$105,398 | \$108,381 | \$112,120 | \$121,275 | \$126,129 |
| Median Family Income (% of US Median) | 109.3% | 107.3% | 112.6% | 112.1% | 112.1% |
| Finances | | | | | |
| Operating Revenue (\$000) | \$63,288 | \$61,786 | \$67,170 | \$68,543 | \$62,274 |
| Fund Balance (\$000) | \$13,238 | \$16,855 | \$20,147 | \$20,195 | \$17,435 |
| Cash Balance (\$000) | \$15,139 | \$16,874 | \$19,849 | \$27,488 | \$18,501 |
| Fund Balance as a % of Revenues | 20.9% | 27.3% | 30.0% | 29.5% | 28.0% |
| Cash Balance as a % of Revenues | 23.9% | 27.3% | 29.5% | 40.1% | 29.7% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$84,289 | \$106,468 | \$113,020 | \$129,150 | \$120,052 |
| 3-Year Average of Moody's ANPL (\$000) | \$120,114 | \$137,112 | \$143,844 | \$145,624 | \$159,929 |
| Net Direct Debt / Full Value (%) | 1.9% | 2.3% | 2.4% | 2.5% | 2.2% |
| Net Direct Debt / Operating Revenues (x) | 1.3x | 1.7x | 1.7x | 1.9x | 1.9x |
| Moody's - ANPL (3-yr average) to Full Value (%) | 2.7% | 3.0% | 3.0% | 2.8% | 3.0% |
| Moody's - ANPL (3-yr average) to Revenues (x) | 1.9x | 2.2x | 2.1x | 2.1x | 2.6x |

As of June 30 fiscal year-end

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

Profile

Burlington is located in northwestern Vermont 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); and [Burlington Water Enterprise](#) (Aa3); and [Burlington Electric Enterprise](#) (A3 Stable).

Detailed credit considerations

Economy and tax base: regional economic center with institutional presence; stable valuation

Burlington is Vermont's largest city and economic center. It has a strong and diverse economy and tax base supported by higher education, technology, and health care. Additional strength is added with a strong entrepreneurial focused business culture and environmental sustainability practices. These attributes have led to a growing and diverse tax base with a 2023 full value of \$5.8 billion. The 2022 value increased by 0.7% from the prior year, contributing to a five year growth rate of 4.8%. Tax base valuation is expected to remain stable with positive growth driven by the strong residential sector.

Recently, the Champlain Parkway project was granted approval for construction to begin. The parkway is proposed as a main traffic artery around the city. Additionally, Beta Technologies, an electric airplane manufacturer, finalized a 75-year aircraft facility lease at the Burlington Airport. The facility is around 350,000 square feet, and the company with over 300 employees is expected to see material growth over the next few years.

Resident income is just above average with a median family income equal to 112% of the US median. The large student population likely depresses the income metrics and also contributes to a high poverty rate of 25% which also reflects the city's role as a major

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social services provider. The city's unemployment rate is a low 1.6% as of May 2022 and is expected to continue to trend below the state's 2.1% and nation's 3.4% rates.

Financial operations and reserves: stable operations and healthy reserves: near term challenges possible from large salary increases

Burlington's financial position will likely remain stable over the next few years given conservative budgeting. However, a focus on increasing staffing primarily in the police department and balancing large salary increases under new collective bargaining agreements could be a challenge over the next two years. The city ended fiscal 2021 with an operating deficit in the general fund of \$5.2 million due to a greater reliance on fund balance. The use of reserves was planned to help reduce the burden of a property tax increase and mitigate revenue loss associated with the coronavirus pandemic. The deficit reduced the available general fund balance to \$17.4 million representing 28% of revenue. The city's primary revenue source is property taxes representing 60% of 2021 general fund revenue followed by charges for services representing 24%. The largest expense is public safety representing 45% of 2021 general fund expenditures.

Fiscal 2022 year-end operations are projected to be positive with a general fund surplus. Property taxes increased by a healthy 12.5% from the prior year accounting for a revaluation of city assessed value. On a cash basis, revenues are over budget by around \$2 million and expenses are under budget by \$4 million.

The fiscal 2023 budget reflects an increase of 7.8% over the prior year driven by salaries, benefits and capital expenses. The budget is balanced with a \$0.03 increase in the municipal tax rate while the overall city tax rate is down 4% given a decline in the state's education tax rates that are supplemented by increased state aid funding.

The city is focused on a three year police department rebuilding plan that includes returning the officer level to the 87 officer authorized cap. Currently the level is around 62 officers due to significant budget cuts to the department in 2021 that resulted in a significant reducing in officers beyond the level intended through attrition.

The city has also finalized collective bargaining agreements with three out of the four labor unions. The police union finalized a contract that included salary increases of 12% in year 1 (2023), 5% in year two and 3% in the final year. Other agreements include an 18% increase over a four year contract with an increase of over 7% for year one and gradually declining each year. These levels are a reflection in part, of the recent economic trends and high inflation rate against the city's tight labor market. The city expects to partially cover these increases with prior year savings from reduced employee numbers.

The city's ARPA funding totaled \$27 million and the city has allocated around \$11 million on revenue replacement, economic stimulus and COVID precautions. An additional \$3 million has been committed to aid homelessness and housing. The city has \$12.2 million in funding left to designate.

Liquidity

Cash and investments in the general fund at the end of fiscal 2021 was \$18.5 million representing a healthy 27.6% of revenue.

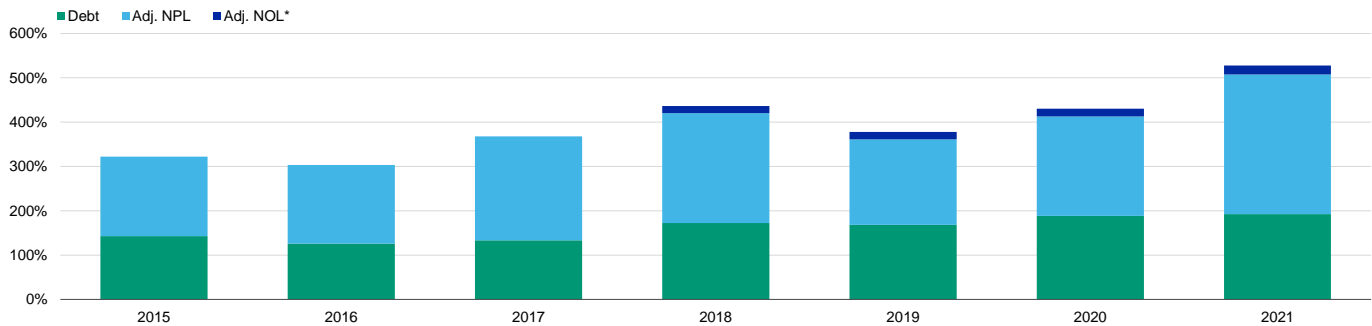
Debt and long-term liabilities: above-average leverage driven by debt burden that includes school projects and unfunded pension liability

The city's debt and pension liability are above-average for the rating category but expected to remain manageable over the medium term (see exhibit). The direct debt burden including the 2022A and B issuance is \$171.3 million representing 2.9% of full value and 2.75 times general fund revenue. The direct debt burden is net \$45.7 million of self-supporting electric department debt. The direct debt burden does include \$41.2 million in school district debt supported by the general obligation of the city. The school department pays its own debt service but the debt is backed by the city's general obligation pledge. The debt burden is reduced to 2.1 times revenue net of the school department debt. Future borrowing plans include annual issuance of around \$20 million in fiscal 2023. The city is also expected to vote in fall 2022 on a new high school project with a currently estimated cost of \$190 million with GO bonds financing a large portion of the project.

Exhibit 2

Burlington's leverage is likely to remain elevated given future debt plans

Leverage as a % of revenue



Adj. NOL not available pre-GASB 75

Sources: Moody's Investors Service and Burlington's financial statements

Legal security

The GOULT bonds, notes and certificates of participation, are backed by the city's general obligation unlimited tax pledge.

Debt structure

All of the city's debt is fixed rate with 74% of principal repaid in 10 years and a final maturity of 2042.

Debt-related derivatives

Burlington has no interest rate swaps or derivative agreements.

Pensions and OPEB

Burlington's pension and OPEB liabilities are roughly equal to the 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. The retirement plan currently uses a 7.3% discount rate versus a 2.7% discount rate used for the Moody's adjusted net pension liability. The town also funds its OPEB liability on a pay-go basis and has a relatively small liability of \$6.9 million at the end of 2021. The table below summarizes the city's 2021 debt, pension and OPEB unfunded liabilities and contributions.

Exhibit 3

Burlington's fiscal 2021 debt, pension and OPEB unfunded liabilities and contributions

| | 2021 | \$\$\$ (000) | % of Operating Revenues | Discount Rate |
|--|------|-----------------|----------------------------|---------------|
| Operating Revenue | | 62,274 | n/a | n/a |
| Reported Unfunded Pension Liability | | 66,665 | 107% | 7.30% |
| Moody's Adjusted Net Pension Liability | | 195,941 | 315% | 2.70% |
| Reported Net OPEB Liability | | 13,545 | 22% | 2.17% |
| Moody's Adjusted Net OPEB Liability | | 12,676 | 20% | 2.84% |
| Net Direct Debt | | 120,052 | 193% | n/a |
| Debt & unfunded retirement benefits (Moody's adjusted) | | 328,670 | 527.78% | |
| Pension Contribution | | 6,188 | 9.94% | n/a |
| OPEB Contribution | | 142 | 0.23% | n/a |
| Debt Service | | 6,073 | 9.75% | n/a |
| Total Fixed Costs | | 12,402 | 19.92% | n/a |
| Tread Water Gap | | n/a | n/a | n/a |
| Moody's Adjusted Fixed Costs | | n/a | n/a | n/a |

2021 tread water data not yet available

Sources: Moody's Investors Service and Burlington's financial statements

The city's fixed costs including debt service, pension, and OPEB contributions are manageable at 20% of revenue in 2021, although the costs have risen from 16% in 2017. Annual pension contributions have equaled around 102% of the tread water indicator over the last five years. The tread water indicator is the amount required to keep the unfunded liability from increasing if all actuarial assumptions are realized. Failure to realize the assumed return on pension assets could result in larger required increases to meet the funding schedule.

ESG considerations

Environmental

Environmental risks are not material to the city's credit profile at this time. According to Moody's ESG Solutions, the city has a medium risk level associated with floods, heat stress, hurricanes, and water stress. Additionally, the city has an aggressive Net Zero Energy goal that is largely headed by Burlington Electric including the electric system's \$18 million revenue bonds, series 2022A for net zero energy projects.

Social

Social considerations such as demographics, labor force, income and education are material considerations that influence the city's economy, demographic, financial and leverage trends. Population in the city is flat to slightly declining and median age of 27.1 is much younger than the state and US. Additionally, the city's last two budget cycles have focused in part on public safety funding. In 2021 the city made significant cuts to police funding that resulted in a material loss of officers. Beginning in fiscal 2023 the city has implemented a three-year rebuilding plan of the police department.

Governance

The city has a strong record of conservative budget management and proactive policies that have benefitted the city financially. The current mayor is serving his fourth term and has been in office since 2012. The City Council consists of 12 members.

Vermont Cities have an institutional framework score ¹ of "Aa", which is strong. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source property tax is not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally

less than 25% of expenditures Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Burlington (City of) VT

Burlington (City of) VT

| Scorecard Factors and Subfactors | Measure | Score |
|--|-----------------------------|-------|
| Economy/Tax Base (30%)^[1] | | |
| Tax Base Size: Full Value (in 000s) | \$58,11,000 | Aa |
| Full Value Per Capita | \$1,36,265 | Aa |
| Median Family Income (% of US Median) | 112.1% | Aa |
| Notching Adjustments:^[2] | | |
| Institutional Presence | | Up |
| Regional Economic Center | | Up |
| Finances (30%) | | |
| Fund Balance as a % of Revenues | 28.0% | Aa |
| 5-Year Dollar Change in Fund Balance as % of Revenues | 13.1% | Aa |
| Cash Balance as a % of Revenues | 29.7% | Aaa |
| 5-Year Dollar Change in Cash Balance as % of Revenues | 13.6% | Aa |
| Management (20%) | | |
| Institutional Framework | Aa | Aa |
| Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x) | 1.0x | A |
| Debt and Pensions (20%) | | |
| Net Direct Debt / Full Value (%) | 2.9% | A |
| Net Direct Debt / Operating Revenues (x) | 2.8x | A |
| 3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%) | 2.8% | A |
| 3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x) | 2.6x | A |
| | Scorecard-Indicated Outcome | Aa2 |
| | Assigned Rating | Aa3 |

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, Burlington's financial statements and Moody's Investors Service

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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