

CREDIT OPINION

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 Rate this Research

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Burlington (City of) VT

Update to credit analysis

Summary

The city of Burlington, VT (Aa3) rating incorporates a growing and strong reserve position and very strong cash position (Fiscal 2020). This is supported by an expanding tax base which incorporates the city's strength as the economic, higher education, and medical center of the state of Vermont (Aa1 stable). The city expects to grow its unassigned fund balance for fiscal 2021. The credit profile also recognizes the challenges of rising fixed costs and increased leverage. Pension expense and liabilities will continue to increase, while future debt plans include \$40 million of general obligation debt, as well as debt associated with the School District and potentially Tax Increment Finance districts (TIF). The school district and TIF district are both self-supporting, but benefit from the general obligation pledge of the city, but any additional debt issued by these entities will add to overall leverage of the city.

Credit strengths

- » City serves as the economic center of the state
- » Stable underlying economy and tax base
- » Strong reserve levels and cash position

Credit challenges

- » Growing fixed costs with increasing debt burden and pension expense
- » Economy that may have limited ability to continue to grow at current rates
- » Range of potential debt plans which may put pressure on overall debt levels

Rating outlook

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

Factors that could lead to an upgrade

- » Maintenance of reserves at recently improved levels
- » Reduction in debt levels and pension liabilities

Factors that could lead to a downgrade

- » Structurally unbalanced operations leading to a decline in reserves

» Significant increase in debt burden and leverage

Key indicators

Exhibit 1

Burlington (City of) VT

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$4,267,608	\$4,474,475	\$4,607,608	\$4,770,128	\$5,171,758
Population	42,556	42,453	42,513	42,545	42,545
Full Value Per Capita	\$100,282	\$105,398	\$108,381	\$112,120	\$121,560
Median Family Income (% of US Median)	112.8%	109.3%	107.3%	112.6%	112.6%
Finances					
Operating Revenue (\$000)	\$61,886	\$63,288	\$61,786	\$67,170	\$68,543
Fund Balance (\$000)	\$9,300	\$13,238	\$16,855	\$20,147	\$20,195
Cash Balance (\$000)	\$10,017	\$15,139	\$16,874	\$19,849	\$27,488
Fund Balance as a % of Revenues	15.0%	20.9%	27.3%	30.0%	29.5%
Cash Balance as a % of Revenues	16.2%	23.9%	27.3%	29.5%	40.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$77,949	\$84,289	\$106,468	\$113,020	\$129,150
3-Year Average of Moody's ANPL (\$000)	\$108,576	\$120,114	\$137,112	\$143,844	\$151,366
Net Direct Debt / Full Value (%)	1.8%	1.9%	2.3%	2.4%	2.5%
Net Direct Debt / Operating Revenues (x)	1.3x	1.3x	1.7x	1.7x	1.9x
Moody's - ANPL (3-yr average) to Full Value (%)	2.5%	2.7%	3.0%	3.0%	2.9%
Moody's - ANPL (3-yr average) to Revenues (x)	1.8x	1.9x	2.2x	2.1x	2.2x

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 north west of Boston, MA and 96 miles south of Montreal, QC, Canada. The population is approximately 42,545 (American Community Survey 2019 estimate). The city has multiple enterprise funds including the Burlington Airport Enterprise (Baa2 Stable); and Burlington Water Enterprise (A1/ Positive); and Burlington Electric Enterprise (A3 Stable).

Detailed credit considerations

Economy and Tax Base: Diverse economy anchored by health care and education

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 full value over \$5.3 billion in 2021 and a 5 year CAGR of 4.8%.

Challenges include a very tight labor market and limited affordable housing. While the city continues to improve policies and grow the affordable housing stock it remains an ongoing issue given current demographics. Median family income is 113% of the US, median home values are 131% of the US, and poverty is elevated at 26% of the population reflecting the city's role as a major provider of social services, and its high student population.

Financial Operations and Reserves: Strong reserve and cash position supported by operating surpluses

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The financial position continues to strengthen and reflect conservative budget management resulting in surplus income, leading to increased reserve levels. Fiscal 2020 available fund balance of \$20.2 million is a strong 29% of operating revenues. Despite declining revenues in fiscal 2021, due to the pandemic, the city expects to add between \$500,000 and \$1 million to fund balance as they close the books on fiscal 2021. This was driven by a large \$1.9 million operating surplus as expense savings were greater than revenue declines. The city used a modest amount of fund balance and settlement funds from the sale of Burlington Telecom between 2020 and 2021 to address issues related to the pandemic. It expects ARPA and CARES act funds to reimburse a portion of these expenses. Over the next three years the city expects to receive \$27 million in ARPA funding, it received \$9 million in fiscal 2021.

The water, sewer, and school budgets were break even to positive and continue to have minimal direct impact on general fund operations.

Liquidity

Burlington's General Fund net cash position at the end of fiscal 2018 grew to a very strong \$27.4 million, or 39% of revenues.

Debt and Pensions: Manageable liabilities limited by a growing debt burden and elevated pension liability

The net direct debt of \$134 million (2020) is moderately elevated at 2.5% of full value and includes \$53.7 million of general obligation debt; \$41.2 million of school department debt supported by the general obligation of the city; \$2.3 million of COPs; and \$13 million in state loans, capital leases, and other city guaranteed obligations. The school department pays its own debt service, but the debt is secured by the city's general obligation pledge. Net the \$41.2 million, the city's \$92 million debt burden is a more manageable 1.7% of full value. Over the next few years the school department expects to issue approximately \$100 million in debt for a new high school.

Total fixed costs for fiscal 2020 are elevated and include debt service, required pension contributions and retiree healthcare payments, representing \$16 million, or 24% of operating revenues.

Legal security

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

Debt structure

All debt is fixed rate and amortization of principal is below average. Fiscal 2020 debt service costs of \$5.7 million (net of GO debt service issued for school purposes and paid by the school department) comprised 8.35% of 2020 revenues.

Debt-related derivatives

Burlington has no interest rate swaps or derivative agreements

Pensions and OPEB

The liabilities associated with the retirement system continue to increase, but remain affordable on an annual basis. The city participates in the Burlington Employee Retirement System, a single-employer, defined benefit retirement plan. Annually, the city funds its contractually required contribution(CRC).

The city's OPEB plan is operated on a pay-as-you go basis. The city does not administer its plan through an OPEB trust.

Exhibit 2

Long term liabilities: Manageable level of liabilities and fixed costs

2020	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	64,543	n/a	n/a
Reported Unfunded Pension Liability	97,131	142%	7.40%
Moody's Adjusted Net Pension Liability	171,294	250%	3.51%
Reported Net OPEB Liability	12,299	18%	2.42%
Moody's Adjusted Net OPEB Liability	11,843	17%	2.70%
Net Direct Debt	129,150	188%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	312,287	456%	
<hr/>			
Pension Contribution	9,968	14.54%	n/a
OPEB Contribution	414	0.60%	n/a
Debt Service	5,721	8.35%	n/a
Total Fixed Costs	16,103	23.49%	n/a

Source: Moody's Investors Service and Issuer Financial Statements

ESG considerations**Environmental**

Environmental considerations are not a key credit concern for the city of Burlington's credit profile.

Social

Social considerations are not a key credit concern for the city of Burlington's credit profile.

Governance

The current management and governance team 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.

The two notch difference reflects the city's school department large debt plans associated with a new high school and various other capital plans that will indirectly and directly increase leverage.

Exhibit 3

Burlington (City of) VT

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$5,171,758	Aa
Full Value Per Capita	\$121,560	Aa
Median Family Income (% of US Median)	112.6%	Aa
Notching Factors:[2]		
Institutional Presence		Up
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	29.5%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	20.8%	Aa
Cash Balance as a % of Revenues	40.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	27.5%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.5%	A
Net Direct Debt / Operating Revenues (x)	1.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.9%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.2x	A
	Scorecard-Indicated Outcome	Aa1
	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, {OrgName}'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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