MOODY'S INVESTORS SERVICE

Rating Update: MOODY'S DOWNGRADES TO Baa3 FROM Baa1 BURLINGTON AIRPORT UNDERLYING BOND RATINGS; RATINGS PLACED ON REVIEW FOR FURTHER DOWNGRADE

Global Credit Research - 13 May 2010

BURLINGTON AIRPORT HAS $41.7 MILLION OF RATED DEBT OUTSTANDING

Airport
VT

Opinion

NEW YORK, May 13, 2010 -- Moody's Investors Service has downgraded the underlying rating for Burlington (City of) VT Airport Enterprise bonds to Baa3 from Baa1. The Baa3 rating is under review for further downgrade.

The downgrade is primarily related to the following three factors. First, because of the exposure of the pooled cash system to Burlington Telecom, there is little to no protective liquidity available to the airport. Second, poor financial management and financial performance at the airport as evidenced by debt service coverage ratios of 1.15x in 2008 and 0.99x in 2009, both of which are below the rate covenant of 1.25x. Debt service coverage in 2010 is projected to be 0.87x. Third, a decrease in enplanements related to the departure of AirTran as of September 2009 potentially may reduce enplanements, which would have an adverse affect on the compensatory revenue flow.

The review for further downgrade will focus on the ability of the airport to restore protective liquidity to the airport and to increase rates and charges at the airport such that debt service coverage increases to at least 1.25x, the level stipulated by the rate covenant.

STRENGTHS

* Diversity of the airport revenues, including significant parking and concession revenues aside from airline derived revenues

* Introduction of JetBlue Airways in 2005 helped minimize passenger diversion to Albany, NY and Manchester, New Hampshire in search of low fares

* Burlington's economy is somewhat countercyclical, given the large education and health care presence

* The airport has both low cost per enplanement and fairly low parking rates, both of which are rates that could be increased in order to improve coverage and liquidity at the airport

CHALLENGES

* Little or no protective liquidity currently available to airport due to the exposure of the pooled cash management system to Burlington Telecom

* Poor financial performance, evidenced by debt service coverage (DSCR) of 1.15x and 0.99x in 2008 and 2009, respectively. DSCR for FY 2010 is currently projected to be 0.87x.

* Competitive pressures posed by competition within the service area have resulted in low utilization ratio

* Debt per enplanement for fiscal 2010 is projected to rise due to a decrease in enplanements associated with a reduction in service by AirTran

* Decrease in enplanements associated with departure of AirTran will pressure compensatory revenues in the near term

* Difficulty obtaining accurate information on the financial position and operational profile and of the airport is a credit negative

AIRPORT HAS LITTLE OR NO PROTECTIVE LIQUIDITY AVAILABLE

For fiscal year 2009, the airport's liquidity position materially changed due to the weakening of the financial health of the City of Burlington's pooled cash system. Because the city operates a pooled cash system in which the airport is a component part, liquidity at the airport is influenced by the health of that system, which is considerably less liquid due to a draw by Burlington Telecom in 2008.

According to the 2009 financial audit, because the city was unable to refinance debt on favorable terms during 2008, funds were drawn from the pooled cash system to fulfill the needs of Burlington Telecom. The draw was treated as an interfund loan from the General Fund to the Telecom Fund. The timing and amount of the repayment of this interfund loan is unknown at this time, as represented by City Management to the auditor. The June 30, 2009 Audit Report was qualified for this reason, which states, "The City is unable to provide an assessment of its ability to refinance its current debt or otherwise provide sufficient cash flow in the Telecom Fund in order to repay all, or a portion of, its interfund loan to the General Fund within a reasonable time."

The uncertainty surrounding the repayment of the interfund loan affects the airport because it relies on the pooled cash account for liquidity. The Airport Fund has a $10.4 million "Due from Other Funds" line item, which indicates the amount of the pooled cash it has claim to within the pooled cash system. The pooled cash system is funded by all of the City's funds, of which the largest contributor is General Fund.

At present, there can be no assurance that funds in the pooled cash system to which the airport has claim will be available to cover operating expenses or debt service in the event annual revenue is inadequate, as is projected for 2010. As of December 2009, debt service coverage was projected to 0.87x by the airport consultant.

FINANCIAL PERFORMANCE HAS BEEN POOR THROUGH 2008 AND 2009 AND MANAGEMENT HAS FAILED TO RESPOND TO VIOLATIONS OF THE RATE COVENANT IN A TIMELY MANNER

In the past two years, the airport has achieved debt service coverage below the 1.25x required by the bond indenture, returning a 1.15x and 0.99x for 2008 and 2009 respectively. Revenue remained relatively flat during this time, but expenses increased to $8.9 million in 2008 and $10 million in 2009. Original projections from 2003, when the airport last issued bonds, was for roughly $6 million in both years. The increases can be attributed to the need for additional equipment such as a de-icing machine and increased costs associated with the expansion of the terminal.

The airport is required to maintain rates and charges such that debt service coverage by net revenues is at or above 1.25x. The airport hired a consultant as of June 2009 to recommend changes to rates and charges such that the airport can meet the rate covenant going forward. It is unclear as to why an airport consultant wasn't hired for this purpose as the end of fiscal year 2008.

AIRPORT'S FUNDAMENTAL MARKET POSITION, WHILE STRONG DUE TO STRENGTH OF BURLINGTON ECONOMY, HAS BEEN COMPROMISED BY DEPARTURE TO AIRTRAN

Burlington Airport serves a domestic service area of approximately 600,000 and includes northern Vermont, northern New Hampshire and northeastern New York state. The airport is primarily origination and destination and exists to deliver passengers to a major hub within the domestic US from which passengers are able to travel elsewhere. Using a service area population of 600,000, the airports utilization ratios in 2008 and 2009 were 1.27 and 1.18, respectively. In addition, the airport believes there is a population of 2.4 million north of the Canadian border in Quebec, that could potentially use the airport. Using this additional population, the airport's utilization ratio would have been .32 and .30 for 2008 and 2009, respectively.

Enplanements have been fairly stable on a fiscal year basis through 2009, but starting in the 4th quarter of 2009, enplanement volume began to decrease, in part due to AirTran withdrawing service in September 2009. AirTran was one of two low cost carriers operating out of Burlington. The other low cost carrier is Jet Blue. During FY 2008, the lAirTran accounted for 7.6% of enplanements. Management believes AirTran may return and offer limited seasonal service, but has said that the decision is contingent on AirTran's ability to procure more planes. Given this and other pressures in the airline industry, Moody's believes the airport will struggle to realize strong positive enplanement growth. As a result, compensatory revenues, such as parking and concessions will suffer and will further pressure coverage ratios. Indeed, because Burlington is an origination and destination airport, other airlines may pick up the passengers previously served by AirTran. In this case, the enplanement decrease and the resultant negative revenue impact would be less material.

Outlook

Outlook

The review for downgrade is based on the potential for improvement in the financial position of the airport and the recognition that the fundamental strength of the Burlington economy, coupled with the lack of direct competition may be able to support increased rates and charges at the airport. If the financial position of the airport, in terms of liquidity and debt service coverage do not improve from the present state, the rating would face further downward pressure.

What Could Change the Rating - UP

The rating could be pressured upward if the airport improves debt service coverage above 1.25 times and is able to repair liquidity to a reasonable level.

What Could Change the Rating - DOWN

The rating could be pressured down if liquidity is not improved in a timely manner, debt service coverage remains below the rate covenant for FY 2010 or if enplanement declines continue at the airport. Also, the rating could face negative pressure if leverage as compared to enplanement levels increases above the current level.

LEGAL SECURITY: Pledge of net revenues of the airport system

DEBT RELATED DERIVATIVE INSTRUMENTS: None

RATED DEBT: Outstanding amounts as of June 30, 2009

Airport Revenue Bonds, Series 1997: $11.5 million: Baa3, On Review for Possible Downgrade

Airport Revenue Bonds, Series 2000: $7.98 million: Baa3, On Review for Possible Downgrade

Airport Revenue Bonds, Series 2003: $23.3 million: Baa3, On Review for Possible Downgrade

KEY INDICATORS:

Type of airport: O&D

Rate making methodology: Hybrid

FY 2009 enplanements ('000): 730,692

FY 2009 vs FY 2008 enplanement Growth: 0.7%

CY 2009 vs CY 2008 enplanement growth: -6.7%

% O&D vs connecting, 2009: 100%

Largest carrier by enplanements, (FY2009share): U.S. Airways (21.7%)

Airline cost per enplaned passenger, 2009: $4.62

Debt per enplaned passenger, 2009: $57.09

Debt service coverage per bond ordinance, FY 2009: 0.99x

Debt service by net revenue, FY 2009: 0.99x

Utilization factor, 2009: 1.18x

Total debt outstanding, FY 2009: $41.7 million

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The last rating action was on Nov 28, 2005, when the underlying rating for Burlington International was affirmed at Baa1.

The ratings for the Burlington (City of) VT Airport Enterprise bonds were assigned by evaluating factors we believe are relevant to the credit profile of the Burlington (City of) VT Airport Enterprise (the Company), such as (i) the business risk and competitive position of the Company versus others within its industry, (ii) the capital structure and financial risk of the Company, (iii) the projected performance of the Company over the near to intermediate term, and (iv) management's track record and tolerance for risk. These attributes were compared against other issuers both within and outside of the Company's core industry and the Company's ratings are believed to be comparable to those of other issuers of similar credit risk.

The rating assigned to Burlington (City of) VT Airport Enterprise Bonds was issued on Moody's global rating scale. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration of Moody's U.S. municipal ratings to its global scale please visit www.moodys.com/gsr.

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