

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's upgrades Burlington, VT Airport Enterprise to Baa2, outlook stable

22 May 2018

New York, May 22, 2018 -- Moody's Investors Service ("Moody's") has upgraded the airport revenue bond rating of the City of Burlington, Vermont Airport Enterprise to Baa2 from Baa3. The outlook has been revised to stable from positive.

RATINGS RATIONALE

The upgrade to Baa2 reflects continued improvement in liquidity and stability in debt service coverage, combined with a strengthened cost recovery framework following the adoption of a five-year airline agreement that is residual in nature and provides for a 1.5x DSCR and 200 days cash on hand.

While we expect the service area's long-term growth prospects will remain modest, Burlington's status as a regional economic center with institutional anchors represented by government, health care and higher education will sustain a solid level of air travel demand, which the airport is well positioned to serve. After 10 years in a declining trend, enplanements have stabilized and are now beginning to grow with the introduction of significant new air service in fiscal 2018. The expectation of stable enplanements is made manageable by the airport's stable cost profile, with level debt service, no new debt anticipated, capacity in airside and landside facilities and manageable planned capital investment.

While we anticipate cash will decline due to a \$3 million contribution to a new quick turnaround facility, management has indicated a commitment to maintaining debt service coverage and liquidity at recently improved levels, and the airline agreement is constructed to target a minimum 200 days cash on hand and a DSCR of 1.5x. We expect active management will continue to support a modest but satisfactory financial profile in the context of the airport's strengthened cost recovery through the residual airline agreement, and that the credit profile will remain supported by limited competition for Burlington's primary O&D passenger base, and a low debt burden that will continue to improve.

RATING OUTLOOK

The stable outlook reflects our expectation for stability in core financial metrics, namely DSCRs and liquidity, and enplanements. We expect the airport will maintain net revenue DSCRs close to 1.5x, and liquidity above 200 days cash on hand. The airport is well positioned to sustain its credit profile over the next 12-18 months due to the cost recovery framework provided by the new airline agreement, growing air service, economic stability in the service area, and manageable cost per enplanement (CPE) and no new borrowing.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Enplanement and air service growth that markedly improves the airport's competitive position in the region
- Liquidity sustained above 600 days
- DSCRs sustained above 2.0x

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Prolonged downturn in enplanements
- Liquidity, measured by days cash on hand, below 200 days
- DSCRs below 1.5x

LEGAL SECURITY

The bonds are special obligations of the city payable solely from airport net revenues. The pledge of revenues includes allowable PFCs and industrial park revenues associated with designated projects. The rate covenant

is 1.25x annual debt service and the additional bonds test is equal to 1.25x maximum annual debt service (MADS). The airport has a cash-funded debt service reserve fund sized at MADS.

PROFILE

Burlington International Airport (BTV) is a small hub O&D airport located four miles east of downtown Burlington.

The airport is located on 1,100 acres and includes a 130,000 square foot main terminal building with 11 gates, 2 runways and a 2,700-stall parking garage connected to the terminal by an enclosed walkway. Other airport facilities include 220,251 square feet of building space rented to a fixed-base operator, as well as an industrial park encompassing over 80 acres with plans for future development. Vermont Army National Guard and Air National Guard are located at the airport, and the air national guard provides all Aircraft Rescue and Fire Fighting (ARFF) services, from fleet to personnel, for the airport, a savings of \$2.5 million annually.

BTV is the primary commercial service airport for the Burlington-South Burlington Metropolitan Statistical Area. The airport mostly serves passengers in and around the MSA, its primary catchment area, but it also draws passengers from northern Vermont, New Hampshire, northeastern New York and southern Quebec. BTV estimates that approximately 15-25% of enplaned passengers are Canadian residents.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in October 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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