

**Rating Action: Moody's Investors Service Upgrades Burlington, Vermont Electric Revenue Bonds to Baa1 from Baa2; Outlook Stable**

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**Upgrade Recognizes Financial Position Improvement**

New York, November 09, 2015 -- Moody's Investors Service has upgraded the rating on the outstanding \$29.03 million Burlington, Vermont Electric System Revenue Bonds to Baa1 from Baa2. The outlook is stable. Burlington also has \$46.8 million General Obligation bonds issued for electric utility purposes (Baa2; positive). The city issues approximately \$3 million General Obligation bonds annually for electric purposes. The pledge of payment is after the payment of debt service on the electric system revenue bonds.

**SUMMARY RATING RATIONALE**

The rating upgrade takes into consideration the improved financial record of Burlington Electric Department (BED) ; competitive rates; the shift to a more diverse power supply mix; and the strengthening local economy.

BED serves the City of Burlington, Vermont (Baa2 positive) which has a diverse local economy; stability is provided by the institutional presence of a major university and medical center; and the city serves as a commercial center for a large geographic area. The rating also considers BED's reliable and competitive power supply which is less subject to market volatility and is significantly renewable; the utility's improving financial record including expected strengthening forecasted metrics; and supportive rate regulation. While the BED is subject to the state public service board regulation, new rates may be collected 45 days after the filing with the state. The regulatory board must consider bond covenants and sufficiency of revenues to support voted bonded authorizations. The rate setting record has been supportive and timely with full recovery of requested costs recovered since 2004. The utility has a conservative General Fund transfer policy.

A positive factor in the rating is the proactive stance of management in its strategic planning regarding the evolving power industry. A focus on efficiency programs; renewable energy supply and positioning the utility organization through improved operations factor into our view about BED. Retail rates are also competitive. While the McNeil Generation Station, a wood burning electric generation facility represents 43.9% of FY 2015 BED energy, the carbon neutral-renewable energy source is well-maintained and has had a sound operating record. Vermont is also exempt from the federal EPA Clean Power Plan (CPP) so compliance issues are not a factor.

BED's financial record has been improving with a focus on stronger financial metrics with adjusted debt service coverage trending towards 1.50 times and forecasted coverage in the same range. The adjusted coverage includes payment of General Obligation bond debt service. Combined electric revenue bond and General Obligation bond debt service is level. FY 2015 financial results include adjusted debt service coverage of 1.71 times and days liquidity on hand of 94 days. BED's elimination of a material adverse clause from its line of credit also was a positive factor. BED expects an erosion of net income in FY 2018 due to several factors but management is taking reasonable mitigation measures to resolve. In addition, BED has had a sound record of rate adjustments when appropriate. No additional rate adjustments are currently expected in next two fiscal years.

**OUTLOOK**

The stable outlook reflects the improving trend of BED's financial position that is reflected in the utility's financial forecasts showing continued improvement in financial metrics.

**WHAT COULD CHANGE THE RATING UP**

\*The rating could be upgraded once BED registered a longer trend of both debt service coverage and adjusted days liquidity

\*Continued and sustained improvement in the City of Burlington general financial record

**WHAT COULD CHANGE THE RATING DOWN**

\*Deterioration in financial record of the city and utility

\*Unsupportive regulatory board regarding cost recovery and the maintenance of sound utility financial metrics

#### OBLIGOR PROFILE

The utility serves the City of Burlington, Vermont, the state's largest city and economic center. BED is a department of the city government and has a monopoly in service area. BED is regulated by state public service board but is not like an investor-owned utility oversight.

#### LEGAL SECURITY

The bonds are secured by the net revenues of the electric system. There is a 1.25 times rate covenant and the debt service reserve requirement is equal to maximum annual debt service on the senior revenue bonds.

The department also has approximately \$43 million of general obligation (GO) bonds that are expected to be repaid from electric department operating revenues. The rate covenant on the consolidated debt outstanding is 1.00 times. Per the General Bond Resolution, the claim on the revenues of the department by the revenue bondholders is prior to any claim of the GO bondholders.

#### USE OF PROCEEDS

N/A

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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