MOODY'S
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New Issue: Moody's assigns Baa3 rating to the City of Burlington's (VT) $9 million Taxable General Obligation Bonds, Series 2013A

Global Credit Research - 12 Apr 2013

Note: On April 12, 2013, the report was revised as follows:

The opinion paragraph's Ba1 Certificates of Participation, Series 2000, incorrectly referenced the essential use as a police station and should have referenced city multi-purpose use.

Under the DETAILED CREDIT DISCUSSION there are multiple corrections:

Under the section header: ISSUANCE OF DEFICIT FINANCING BONDS WILL REDUCE NEED FOR LARGE CASHFLOW BORROWING

The fiscal 2012 and 2013 TAN LOC amounts and issued amounts have been corrected to the following:

In fiscal 2012, the city established a $17 million line of credit with KeyBank National Association (rated A3/stable) and used a maximum of $15 million to replace periodic cash flow borrowings and reduce related issuance costs. Positively, the city repaid the full amount outstanding prior to fiscal year end, which increased the net cash position to a positive 6.8% of revenues, an improvement from the negative position in 2011.

The fiscal 2013 TAN LOC was renewed for up to $16 million and the maximum amount drawn year-to-date is $9.5 million, with only $2 million currently outstanding. The current $9 million issue will further reduce the city's reliance on TANs. In fiscal 2014, the city projects to issue $5.5 million in TANs to be used for cash flow during the month of April due to timing of property tax collections. Given the timing of collections, the city will continue to rely on some cash flow borrowing in the near term. In addition, the city electric fund will continue to rely on revenue anticipation notes in the amount of $1.5 million, reduced from $5 million in prior years, and the airport fund will continue to budget for $3 million of revenue anticipation notes and grant anticipation notes, respectively, similar to amounts issued in previous years. The city's ability to continue to improve its cash position while reducing its reliance on short-term and deficit borrowing will be a key factor in future rating reviews.

Under the section header: GENERAL FUND BALANCE BOLSTERED BY ADVANCES TO OTHER FUNDS CONTRIBUTING TO SIGNIFICANT DEFICIT IN UNASSIGNED FUND BALANCE

The fiscal 2012 operating detail has been updated to reflect Moody's adjustment for other financing sources. The fiscal 2013 tax levy was incorrect. The sentence has been updated.

The city's increasing total General Fund balance is bolstered by a number of receivables, including advances to other funds and the issuance of debt. Net of bond proceeds and sale of assets, General Fund operations experienced four consecutive years of operating deficits through 2012. The fiscal 2012 audited financial statements reflect an operating deficit of $239,000 after subtracting out the other financing sources of $2.56 million from the issuance of bonds and notes. The moderate deficit is an improvement over deficits averaging $1.5 million during the previous three years. The city produced excess revenues over expenditures of $545,000, attributable to positive variance in revenues and the implementation of tight expenditure controls and an improved accounting system. After transfers of $1.6 million for capital expenditures, the General Fund ended with the slight operating deficit. The total General Fund balance of $15.6 million (28.1% of revenues) is inflated by the large advances to other funds (BT, wastewater, water and nonmajor enterprise funds) totaling $22.7 million (down from $25.2 million at June 30, 2011. This amount primarily represents the $23 million nonspendable fund balance; unassigned fund balance is equal a negative $15 million (-26.9% of revenues).

The fiscal 2013 budget increased by 6% and is balanced with year to date revenues and expenditures trending favorably and management estimates an operating surplus of at least $300,000, due to continued efforts to control expenditures. In addition, management has focused on the wastewater and nonmajor enterprise funds to increase rates in an effort to repay outstanding advances from the General Fund. The General Fund operating surplus, focus on repayment of advances and the use of deficit financing notes will help to stabilize the negative fund balance position at the end of 2013. The city's ability to maintain structurally balanced operations and produce a positive trend of operating surpluses to eliminate the negative unassigned fund balance is an important factor in overall credit quality.

Under the header: LARGE ADVANCES TO OTHER FUNDS ATTRIBUTED TO POOR ENTERPRISE OPERATIONS

The water and wastewater fund rate increases have been corrected and unrestricted net assets corrected.

The remaining $5.8 million advances from the General Fund are attributable to the wastewater, water, and nonmajor enterprise funds due to negative financial operations. In fiscal 2011, the General Fund advanced a total of $4.6 million to its water and wastewater Funds to cover a $4 million bullet maturity in the wastewater fund and operating deficits in the water fund. The inability of the funds to maintain self-supporting operations is the result of inadequate revenue increases in prior years and the lack of funding for sinking funds to offset upcoming balloon payments. In order to remedy this, the city implemented annual 10% rate increases for three consecutive years through fiscal 2010, a 6% increase in 2011 and a 5% increase in 2012. An additional 5% rate increase was implemented for fiscal 2013 in order to repay the General Fund no later than June 30, 2013. The city is committed to increasing rates over time to eliminate any structural imbalances in the water and wastewater funds. Unrestricted net assets for the water and wastewater funds at the end of fiscal 2012 stood at a negative $1.8 million, an improvement from the negative $2.7 million in 2011. The improved operations of these two enterprise funds, along with similar improvement in the other nonmajor enterprise fund operations, should help limit the outstanding advances to other funds to the outstanding BT receivable of $16.9 million by fiscal 2013 year-end.

Under the header: ULTIMATE IMPACT OF CITIBANK LAWSUIT ON FINANCIAL OPERATIONS REMAINS UNCLEAR

The leased assets value was incorrectly referenced. In addition, the ruling by the PSB restricted the city's actions it did not prohibit.

Long-term plans for BT to satisfy its obligations to investors and the General Fund have been delayed pending the outcome of a recent lawsuit filed against the city. On September 2, 2011, Citibank, N.A., as assignee of its related entity CitiCapital, filed a lawsuit against the city seeking the repayment of the original lease amount of $33.5 million, the repossession of leased assets, damages, and legal fees, among other items. The lawsuit follows the non-appropriation of lease payments and subsequent lease termination on July 1, 2010, per a ruling by the PSB, which oversees BT, restricting the city from utilizing its General Fund to fund BT obligations; given the restriction, Moody's notes the non-payment does not reflect the city's unwillingness to fund its lease obligations. Proceeds from the lease were used to finance the last phase of BT's expansion.

Under KEY STATISTICS, the 2012 unassigned fund balance should state -$15 million not -$14.9 million.

Revised as follows:

Affirms Baa3 rating on $86.8 million of outstanding G.O. debt and Ba1 and Ba2 ratings on $10.5 million of outstanding Certificates of Participation; outlook on all securities is negative

BURLINGTON (CITY OF) VT
Cities (including Towns, Villages and Townships)
VT

Moody's Rating

ISSUE	RATING
Taxable General Obligation Bonds, Series 2013A	Baa3

Sale Amount	$9,000,000
Expected Sale Date	04/18/13
Rating Description	General Obligation

Moody's Outlook NEG

Opinion

NEW YORK, April 12, 2013 --Moody's Investors Service has assigned a Baa3 rating to the City of Burlington's (VT)

$9 million Taxable General Obligation Bonds, Series 2013A. Concurrently, Moody's has affirmed the Baa3 rating on $86.8 million of outstanding G.O. debt, a Ba1 rating on $2.7 million of outstanding essential (city multi-purpose) Certificates of Participation (COPs), Series 2000, and a Ba2 rating on $7.7 million non-essential (parking) COPs, Series 1999A, 1999B and 2005. The outlook on the general obligation debt and the COPs remains negative. The bonds are secured by an unlimited tax pledge. Taxable proceeds will be used to fund one or more reserve funds and provide working capital for the city and its departments, amounting to deficit financing.

SUMMARY RATING RATIONALE

The Baa3 general obligation rating reflects the negative financial position given the significant advances to other funds from the General Fund, including a material use of reserves for the expansion of Burlington Telecom (BT). The advances have reduced the city's liquidity to narrow levels, resulting in a high reliance on cash flow borrowing to maintain financial operations and continue to meet debt service obligations.

The general obligation rating also factors in the city's strength as the economic center of Vermont (G.O. rated Aaa/stable outlook), as well as its manageable debt profile. The Ba1 and Ba2 ratings on the COPs reflect the city's general credit profile while incorporating the appropriation risk of the COPs and essentiality of the projects.

The negative outlook reflects the potential for financial liability depending on the uncertain outcome of the pending lawsuit regarding the BT lease and the interfund loan to BT. On September 2, 2011, Citibank, N.A. (rated A3/stable) filed a lawsuit against the city following the non-appropriation and subsequent termination of the BT lease. While the impact of the lawsuit on the city's General Fund is unclear, Moody's expects that any obligation borne by the General Fund could adversely affect the city's credit profile. Additionally, the outlook reflects challenges as the city attempts to reduce the reliance of its wastewater and non-major enterprise funds on General Fund advances and return to self-supporting operations.

STRENGTHS

- Stable underlying economy and tax base serving as the economic center of the state

- Manageable debt profile

CHALLENGES

- Potential exposure of the General Fund to any judgment or settlement resulting from the recent BT lawsuit

- Long-term viability of BT which would ultimately result in the repayment of funds

- Repayment of advances to other funds from the General Fund

DETAILED CREDIT DISCUSSION

ISSUANCE OF DEFICIT FINANCING BONDS WILL REDUCE NEED FOR LARGE CASHFLOW BORROWING

The city relies on renewable letters of credit (LOC) with four regional and local banks to provide tax anticipation note (TAN) borrowings to fund operations. The bank LOC agreements require the city to repay the full outstanding balance on the line at each property tax collection date, which occurs on the 12th of August, November, March, and June. The city is allowed to carry forward any outstanding balances with the renewal of the line. In fiscal 2011, with reduced liquidity stemming from prior year draws from the operation of BT (discussed below), the city remained heavily dependent on TAN borrowing, regularly issuing about two-thirds of the maximum amount of TANs allowable under its charter (25% of the tax levy, or $18 million) throughout the year, amounting to approximately $11 million, to bridge cash shortfalls between quarterly property tax receipts. The city closed fiscal 2011 with its TAN borrowing still outstanding, given that its cash balance, net of TAN proceeds, declined to a negative 12.3% of revenues, from a positive 14.6% the year prior.

In fiscal 2012, the city established a $17 million line of credit with KeyBank National Association (rated A3/stable) and used a maximum of $15 million to replace periodic cash flow borrowings and reduce related issuance costs. Positively, the city repaid the full amount outstanding prior to fiscal year end, which increased the net cash position to a positive 6.8% of revenues, an improvement from the negative position in 2011.

The fiscal 2013 TAN LOC was renewed for up to $16 million and the maximum amount drawn year-to-date is $9.5 million, with only $2 million currently outstanding. The current $9 million issue will further reduce the city’s reliance on TANs. In fiscal 2014, the city projects to issue $5.5 million in TANs to be used for cash flow during the month of

April due to timing of property tax collections. Given the timing of collections, the city will continue to rely on some cash flow borrowing in the near term. In addition, the city electric fund will continue to rely on revenue anticipation notes in the amount of $1.5 million, reduced from $5 million in prior years, and the airport fund will continue to budget for $3 million of revenue anticipation notes and grant anticipation notes, respectively, similar to amounts issued in previous years. The city's ability to continue to improve its cash position while reducing its reliance on short-term and deficit borrowing will be a key factor in future rating reviews.

GENERAL FUND BALANCE BOLSTERED BY ADVANCES TO OTHER FUNDS CONTRIBUTING TO SIGNIFICANT DEFICIT IN UNASSIGNED FUND BALANCE

The city's increasing total General Fund balance is bolstered by a number of receivables, including advances to other funds and the issuance of debt. Net of bond proceeds and sale of assets, General Fund operations experienced four consecutive years of operating deficits through 2012. The fiscal 2012 audited financial statements reflect an operating deficit of $239,000 after subtracting out the other financing sources of $2.56 million from the issuance of bonds and notes. The moderate deficit is an improvement over deficits averaging $1.5 million during the previous three years. The city produced excess revenues over expenditures of $545,000, attributable to positive variance in revenues and the implementation of tight expenditure controls and an improved accounting system. After transfers of $1.6 million for capital expenditures, the General Fund ended with the slight operating deficit. The total General Fund balance of $15.6 million (28.1% of revenues) is inflated by the large advances to other funds (BT, wastewater, water and nonmajor enterprise funds) totaling $22.7 million (down from $25.2 million at June 30, 2011. This amount primarily represents the $23 million nonspendable fund balance; unassigned fund balance is equal a negative $15 million (-26.9% of revenues).

The fiscal 2013 budget increased by 6% and is balanced with year to date revenues and expenditures trending favorably and management estimates an operating surplus of at least $300,000, due to continued efforts to control expenditures. In addition, management has focused on the wastewater and nonmajor enterprise funds to increase rates in an effort to repay outstanding advances from the General Fund. The General Fund operating surplus, focus on repayment of advances and the use of deficit financing notes will help to stabilize the negative fund balance position at the end of 2013. The city's ability to maintain structurally balanced operations and produce a positive trend of operating surpluses to eliminate the negative unassigned fund balance is an important factor in overall credit quality.

LARGE ADVANCES TO OTHER FUNDS ATTRIBUTED TO POOR ENTERPRISE OPERATIONS

Of the $22.7 million in advances to other funds, $16.9 million was advanced to BT. While the city expected BT to be fully self-supporting, inability to generate sufficient cash flow led to increased reliance on the city's General Fund, negatively impacting the city's financial profile, especially with respect to its liquidity position. The city's fiscal 2009 financial statements included $15 million in advances to BT, an amount that grew to $17 million in fiscal 2010. This amount has not grown beyond this level given that the city is now prohibited from making any additional advances to BT, pursuant to a Vermont Public Service Board (PSB) ruling. Due to ongoing litigation with Citibank, the ability to repay the General Fund the $16.9 million advance remains uncertain.

The remaining $5.8 million advances from the General Fund are attributable to the wastewater, water, and nonmajor enterprise funds due to negative financial operations. In fiscal 2011, the General Fund advanced a total of $4.6 million to its water and wastewater Funds to cover a $4 million bullet maturity in the wastewater fund and operating deficits in the water fund. The inability of the funds to maintain self-supporting operations is the result of inadequate revenue increases in prior years and the lack of funding for sinking funds to offset upcoming balloon payments. In order to remedy this, the city implemented annual 10% rate increases for three consecutive years through fiscal 2010, a 6% increase in 2011 and a 5% increase in 2012. An additional 5% rate increase was implemented for fiscal 2013 in order to repay the General Fund no later than June 30, 2013. The city is committed to increasing rates over time to eliminate any structural imbalances in the water and wastewater funds. Unrestricted net assets for the water and wastewater funds at the end of fiscal 2012 stood at a negative $1.8 million, an improvement from the negative $2.7 million in 2011. The improved operations of these two enterprise funds, along with similar improvement in the other nonmajor enterprise fund operations, should help limit the outstanding advances to other funds to the outstanding BT receivable of $16.9 million by fiscal 2013 year-end.

Of note, the wastewater fund has another $14 million bullet maturity due in fiscal 2014. Currently, the city is planning to refinance the maturity through bond issuance. Moody's will continue to monitor the wastewater fund's ability to maintain positive operations, eliminate the negative unrestricted assets and maintain a sufficient capital plan while extending debt service on previously financed assets.

ULTIMATE IMPACT OF CITIBANK LAWSUIT ON FINANCIAL OPERATIONS REMAINS UNCLEAR

Long-term plans for BT to satisfy its obligations to investors and the General Fund have been delayed pending the outcome of a recent lawsuit filed against the city. On September 2, 2011, Citibank, N.A., as assignee of its related entity CitiCapital, filed a lawsuit against the city seeking the repayment of the original lease amount of $33.5 million, the repossession of leased assets, damages, and legal fees, among other items. The lawsuit follows the non-appropriation of lease payments and subsequent lease termination on July 1, 2010, per a ruling by the PSB, which oversees BT, restricting the city from utilizing its General Fund to fund BT obligations; given the restriction, Moody's notes the non-payment does not reflect the city's unwillingness to fund its lease obligations. Proceeds from the lease were used to finance the last phase of BT's expansion.

Central to the PSB ruling and the lawsuit is a city charter provision that states that all costs and losses incurred by BT are to be "in no event ... borne by [Burlington's] taxpayers, the state of Vermont, or are recovered in rates from electric ratepayers." Based on this charter provision, the PSB declined the city's request to continue to pay the lease obligations, thereby insulating the General Fund. Interpretation of this provision and the PSB ruling in the context of the lawsuit has yet to be resolved. As Moody's continues to monitor the developments of the lawsuit and its potential impact on the General Fund, additional exposure resulting from any judgment or financial settlement or regulatory changes imposed by the PSB could adversely affect the city's credit profile. In January 2013, the parties began court-ordered mediation talks and to date, no specifics regarding those meetings have been made public.

STRONG HEALTH CARE AND HIGHER EDUCATION INSTITUTIONS ANCHOR STABLE TAX BASE

Burlington's $3.9 billion tax base is expected to remain stable over the near term given the diversity of the city's local economy, its regional importance, and the stabilizing effects of higher education and essential health care institutions. Health care, higher education and public sector employment represents approximately 35% of total jobs, including two of the city's five largest employers, Fletcher Allen Health Care (rated Baa1/positive outlook) and the University of Vermont (rated Aa3/stable outlook), which compose a combined 8,294 jobs, or 7.2% of the city's workforce. The region's private sector economy is anchored by Vermont's largest single employer, IBM (5,400 jobs- senior unsecured debt rated Aa3/stable outlook). The full value (estimated fair market value) increase by 1% in 2013, bringing the five year average annual growth to 2.7%. In addition, assessed value remains stable having experienced five consecutive years of limited growth, averaging 0.9% annually. The city's wealth levels are just below the state and national average with median family income equal to 91.6% and 93.2%, respectively. Also, the city's unemployment rate of 3.9% (January 2013) remains well below the state (5.2%) and US (8.5%).

GENERAL FUND-SUPPORTED DEBT MANAGEABLE

Exclusive of the revenue bonds supported by the city's airport, electric and wastewater enterprise funds, the city's General Fund supported net direct debt burden of 1.5% of full value is expected to remain manageable. Future debt plans include a $7 million G.O. bond issuance in August 2013 to cover annual city capital expenditures. In addition, the city is planning to refinance a $14 million bullet maturity on a state loan for the wastewater system with long-term bonds in fiscal 2014. While the current issue of fiscal stability bonds is viewed as deficit financing, the use of funds will reduce the heavy reliance on short-term borrowing in recent years which contributed to the city's negative financial position. Amortization of outstanding principal is below average with 56.7% retired within ten years. Debt service in fiscal 2012 represented 5.8% of expenditures and the city's debt portfolio is comprised entirely of fixed rate debt with no exposure to derivative agreements.

OUTLOOK

The negative outlook reflects our belief that, despite the projected improvement in cash flow borrowing, significant liabilities remain outstanding that could impact the city's financial position. The negative outlook also reflects the ongoing strain on the General Fund due to outstanding advances to other funds as well as the uncertain liability that could result from the conclusion of the Citibank lawsuit. Moody's will continue to monitor the improving cash position and its ability to balance operations and improve fund balance levels in both the General Fund and enterprise funds.

WHAT WOULD MAKE THE RATING GO UP (REMOVE NEGATIVE OUTLOOK)

-Reduction or elimination of the advance due from BT to the General Fund

-A result from the Citibank lawsuit favorable to the city

-Elimination of advances due from wastewater and other nonmajor enterprise funds to the General Fund

-Reduced reliance on short-term cash flow instruments

WHAT WOULD MAKE THE RATING GO DOWN

- Increased exposure of the General Fund to obligations stemming from the BT lawsuit

- Inability to make meaningful progress towards repayment of the advances to other funds

- Lack of a viable plan to place the telecommunications system on a more sustainable path

- Structurally imbalanced General Fund operations, reducing the city's financial flexibility

- Increased exposure to losses from the city's various enterprise funds

KEY STATISTICS:

2010 population (estimate, US Census): 42,417 (9.1% since 2000)

Estimated student population: 12,000 (31% of population)

2012 Full valuation: $3.9 billion

Full value per capita: $92,991

Median family income as % of state, % of nation median: 91.6% and 93.2%, respectively

FY2012Total General Fund balance: $15.6 million (28.1% of General Fund revenues)

FY2012 Unassigned Fund balance: -$15 million (-26.9% of General Fund revenues)

Net Direct Debt burden: 1.5%

Amortization of principal (10 years): 56.7%

Post sale general obligation bonds outstanding: $86.8 million

The principal methodology used in rating the general obligation bonds was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The principal methodology used in rating the lease bonds was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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