

Rating Action: Moody's assigns Baa2 to Burlington (City of) VT Airport Enterprise's Airport Revenue Refunding Bonds, Series 2021A (taxable); stable outlook

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New York, February 22, 2021 -- Moody's Investors Service, ("Moody's") has assigned a Baa2 rating to the Burlington (City of) VT Airport Enterprise's \$5.385 million Airport Revenue Refunding Bonds, Series 2021A (taxable). The outlook is stable. Burlington Airport has \$26.1 million of Series 2012A and 2014A bonds outstanding, as well as \$11.1 million of Revenue Anticipation Notes issued by the City of Burlington.

RATINGS RATIONALE

The Baa2 rating reflects the continued stability in liquidity and debt service coverage, combined with a strengthened cost recovery framework following the adoption of a multi-year airline agreement that is residual in nature and provides for a 1.50x debt service coverage ratio (DSCR) and a floor of 200 days cash on hand. The credit profile will remain supported by limited competition for Burlington's primary O&D passenger base, a stable cost profile, and a relatively low debt burden. The airport anticipates no new debt to fund capital projects, and has a manageable planned capital investment program. We expect the service area's long-term growth prospects to remain modest, given the City of 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 under normal circumstances, which the airport is well-positioned to serve.

Moreover, the airport is well-positioned to address challenges posed by the coronavirus pandemic, which has impacted airport operations and has created economic uncertainty. The airline has seen material declines in enplanements since the onset of the pandemic, and considerable uncertainty remains over the pace of recovery. The airport is supported by adequate levels of liquidity, totaling \$12 million in unrestricted cash (including RAN proceeds), as well as nearly \$4 million of CARES Act funds available to be deployed in the current fiscal year. The airport also anticipates another \$4 million in federal funds.

The airport is further supported by the 2021A refunding, which will materially reduce debt service obligations for fiscal years 2022 and 2023, creating financial flexibility given the uncertainty surrounding the pace of recovery in enplanements, unexpected pressures stemming from the coronavirus pandemic, or broader economic uncertainty. The new debt service structure will have no debt service for fiscal year 2022, modest debt service of approximately \$500,000 for 2023, after which debt service will remain level at \$3.8 million through fiscal year 2031. Moody's expects debt service to remain supported by the extension or renewal of the existing airline agreement under similar terms and with no material changes to participants. The existing airline agreement is set to expire on June 30th 2021.

RATING OUTLOOK

The stable outlook reflects our expectation for stability in core financial metrics, namely DSCRs and liquidity, and a steady improvement in 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 its airline agreement, adequate liquidity levels, favorable debt service schedule, manageable cost structure that supports cost per enplanement (CPE), and no new borrowing.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- 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 OF THE RATING

- 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.

USE OF PROCEEDS

Series 2021A proceeds will be used to advance refund the Refunded Series 2012A Bonds and Refunded Series 2014A Bonds, capitalize interest payments, fund the 2021A debt service reserve fund (though this may be a surety), and pay the costs of the Series 2021A issuance.

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 15 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 this rating was Publicly Managed Airports and Related Issuers published in March 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1140469. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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