MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 March 2017

New Issue

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Burlington (City of) VT

New Issue - Moody's Revises Burlington, VT's Outlook to Positive; Affirms A3

Summary Rating Rationale

Moody's Investors Service has assigned an A3 rating to the City of Burlington, Vermont's $1 million General Obligation Public Improvement Bonds, Series 2017A. Concurrently, we have affirmed the A3 rating on the city's outstanding general obligation debt, the Baa1 rating on the outstanding Series 2016B certificates of participation (COPS), and the Baa2 rating on the outstanding Series 2016A COPs. The outlook on all debt has been revised to positive from stable.

The A3 GO rating reflects the city's improved financial position with sound reserves following four consecutive years of operating surpluses, as well as the city's strength as the economic center of Vermont (Aaa stable). The rating also incorporates the manageable debt burden that will continue to increase, and the enterprise risk from Burlington Telecom (BT).

The Baa1 COP rating reflects the city's general credit profile, appropriation risk of the certificates, and the essentiality of the projects financed.

The Baa2 COP rating reflects the city's general credit profile, appropriation risk of the certificates, and the non-essential nature of the projects financed.

Credit Strengths

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

» Management team budgets conservatively and prudently manages expenditures, leading to recent growth in reserves

» Low OPEB liability

Credit Challenges

» Deferred maintenance will lead to increase in debt burden and debt service costs

» Remaining exposure to Burlington Telecom

Rating Outlook

The revision of the outlook to positive reflects our expectation that the city will maintain structurally balanced operations and modestly improve its reserve levels, as it has done for the past few years, despite rising costs for debt service, salaries, and employee benefits. Additionally, the tax base is an important strength of the overall credit profile, and we expect the moderate growth to continue given new planned development. Finally, in calendar year

2017 the city will actively search for a buyer of BT, and the results of that sale will be an important consideration in future reviews.

Factors that Could Lead to an Upgrade

» Continued surplus operations and material growth in reserves and liquidity

» Final resolution of BT sale

Factors that Could Lead to a Downgrade

» Structurally imbalanced operations, reducing financial flexibility

» Renewed reliance on cash flow borrowing

» Material increase in the debt burden

Key Indicators

Exhibit 1

Burlington (City of) VT	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 3,957,600	$ 4,056,809	$ 4,019,395	$ 4,137,177	$ 4,267,609
Full Value Per Capita	$ 93,567	$ 95,942	$ 95,222	$ 101,130	$ 100,249
Median Family Income (% of US Median)	102.9%	105.0%	106.6%	106.6%	106.6%
Finances					
General Fund Revenue ($000)	$ 54,206	$ 55,665	$ 54,532	$ 56,914	$ 62,293
Fund Balance as a % of Revenues	-20.4%	-1.9%	3.9%	10.4%	14.9%
Cash Balance as a % of Revenues	6.8%	27.7%	4.7%	15.2%	16.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 55,506	$ 68,040	$ 65,274	$ 80,903	$ 77,949
Net Direct Debt / General Fund Revenues (x)	1.0x	1.2x	1.2x	1.4x	1.3x
Net Direct Debt / Full Value (%)	1.4%	1.7%	1.6%	1.9%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	2.7x	2.8x	3.0x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.2%	3.8%	3.8%	3.8%	4.0%

As of June 30 fiscal year-end
Source: Moody's Investors Service; city's audited financial statements

Recent Developments

Since our last report in October 2016, the fiscal 2016 audited financials were released reflecting a $4.1 million surplus, which was in line with management's projections. The positive results enabled the city to become compliant with the formal fund balance policy a few years ahead of schedule. Fiscal 2017 full value increased 5% to $4.5 billion. In addition, voters in November 2016 authorized borrowing for the first half of the ten year capital plan.

Regarding the sale of Burlington Telecom (BT), management reports that the city will begin actively looking for a buyer this year (calendar year 2017) to comply with the terms of the Citibank settlement. Over the past two years, the city has enacted measures to increase subscribership and improve the financial position of BT. In addition, the city has developed criteria for the sale, which the City Council will vote on in March. The city hopes to have a sale, which will be subject to approval by the Vermont Public Service Board, completed by December 31, 2017.

Detailed Rating Considerations

Economy and Tax Base: Strong Healthcare and Higher Education Anchor Stable Tax Base

The diverse $4.5 billion tax base (fiscal 2017) remains a strength of the city's credit profile, aided by the diversity of the local economy, the city's regional importance, and significant institutional presence. Education, health services, and government sector employment represent a large portion of the area's largest employers. The city's two largest employers are the University of Vermont Medical Center and the University of Vermont & State Agricultural College, Vermont (Aa3 stable), which comprise approximately 8,000 jobs. In the private sector, GlobalFoundries' Essex Junction facility, which currently employs approximately 2,800 people (3,000 expected in the near term), should remain stable over the near term following a $72 million investment.

Moderate growth in the tax base will continue over the medium term given planned development. The full value (estimated fair market value) increased 5% in fiscal 2017, bringing the five year compound average annual growth to 2.5%. Large-scale redevelopment plans for downtown, including the Burlington Town Center mall, continue to progress. The city is currently working with a developer, and the estimated $70 million project will add over 270 residential units and office and retail space.

Income levels are average, with median family income equal to 101.4% of the state and 106.6% of the US. The city's unemployment rate of 2.1% (December 2016) is below the state (2.8%) and US (4.5%) rates.

Financial Operations and Reserves: Healthy Financial Position Will Continue

The city remains committed to improving its financial position and has generated four consecutive surpluses (audited 2013-2016). Management adheres to the fund balance policy adopted by the Council in 2015 and has been budgeting $1 million annually for reserve replenishment. The policy targets an unassigned fund balance of 10-15%, and the city achieved that in fiscal 2016, well ahead of schedule.

Audited fiscal 2016 results reflect a $4.1 million surplus, which was projected during our October 2016 review. The positive results were due to a budgeted surplus of $1 million, strong planning and zoning revenue, unused contingency of $800, and turnbacks in most departments. Available reserves are $9.3 million or a sound 14.9% of revenue. Of this amount, $6.5 million (10.5%) is unassigned.

The fiscal 2017 General Fund budget increased 3.5% over 2016 and included another $1 million to add to unassigned fund balance. The tax rate was lowered. Seven months into the year, management conservatively projects a $2 million surplus. Future reviews will continue to focus on management's ability to maintain structurally balanced operations and gradually increase reserves, despite budgetary pressure from rising debt service costs due to the capital plan.

LIQUIDITY

The 2016 General Fund cash position improved to $10 million, or 16.1% of revenues. Given the improved financial position, the city has not drawn on its line of credit with KeyBank National Association (Aa3) since fiscal 2013.

Debt and Pensions: Debt Burden Will Increase to Finance 10 Year CIP; Long-term Liabilities Remain 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 is 1.9% of full value. The debt burden includes general obligation debt issued on behalf of the school department, although debt service is paid by the school department.

The debt burden will increase over the medium term to finance projects in the ten year Capital Improvement Plan (2017-2026). In November 2016, voters approved $27.5 million in GO bonds to finance projects through 2021, and the city will begin issuing the debt immediately (starting with this issuance). The city will go back to voters (likely in 2021) to authorize borrowing for projects planned for 2022-2026, estimated at $25 million. In addition, the city will continue to issue $7 million annually for city, school and electric capital needs.

Voters also approved $8.3 million in water revenue debt, which the city will issue in tranches through fiscal 2019. This debt will be paid out of user fees.

Finally, voters in November 2016 approved a $21.8 million GO bond issue for road projects related to the downtown redevelopment. The city does not plan to issue the majority of bonds until the redevelopment is underway and TIF revenues are sufficient to cover debt service.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is below average, with 57.3% retired within ten years. Debt service costs of $3.4 million (net of GO debt service issued for school purposes and paid by the school department) in fiscal 201 comprised 5.8% of expenditures.

DEBT-RELATED DERIVATIVES

Burlington is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The city participates in the Burlington Employee Retirement System, a single-employer, defined benefit retirement plan. The city contributed $5.1 million (net of Burlington Electric Department, school department and enterprise funds) to the plan in fiscal 2016, representing 8.9% of General Fund expenditures. The three year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $170.5 million, or an elevated 2.8 times General Fund revenues.

The city contributed $125,000 towards its annual OPEB cost in fiscal 2016, representing 36.5% of the cost and less than 1% of expenditures. The total unfunded liability is $3.8 million as of June 30, 2015.

Total fixed costs for fiscal 2016, including debt service, required pension contributions and retiree healthcare payments, represented $8.6 million, or 14.8% of expenditures.

Management and Governance

The management team, in place since 2012, remains committed to improving the city's financial position. The city adopted a fund balance policy in 2015 and became compliant well ahead of schedule. In fiscal 2016, the city eliminated the material weaknesses found in prior audits. In addition, the city is adhering to a recently adopted ten year capital plan that will address deferred maintenance.

Vermont Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes, Vermont Cities' major revenue source, are not subject to a cap. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Vermont has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds are secured by the city's general obligation unlimited tax pledge.

Use of Proceeds

Bond proceeds will finance various city-wide capital projects.

Obligor Profile

Burlington is located in northwestern Vermont along the coast of Lake Champlain. The population is approximately 42,200.

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Burlington (City of) VT

Issue	Rating
General Obligation Public Improvement Bonds, Series 2017A	A3
Rating Type	Underlying LT
Sale Amount	$1,000,000

Expected Sale Date	03/15/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1061395

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