MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Contacts

Chris Salcedo +1.212.553.3761
Associate Analyst
chris.salcedo@moodys.com

Thomas Jacobs +1.212.553.0131
Senior Vice President
thomas.jacobs@moodys.com

Burlington, VT

New Issue – Moody's upgrades Burlington, VT's GOs to A2

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to the City of Burlington, Vermont's $7.3 million General Obligation Public Improvement Bonds, Series 2017C and $3.4 million General Obligation Tax Increment Bonds, Series 2017D. Concurrently we have upgraded to A2 from A3 the rating on $106.8 million of outstanding general obligation debt. Moody's has also upgraded to the 2016B certificates of participation (COPS) to A3 from Baa1, and the outstanding Series 2016A COPs to Baa1 from Baa2.

The upgrade to A2 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 rising fixed costs in the face of a somewhat challenging revenue raising environment, significant pension liabilities and ongoing enterprise risk associated with Burlington Telecom (BT).

The upgrades to the A3 and Baa1 of the COP ratings reflects the improvement of to the city's general credit profile while incorporating the appropriation risk of the COPs and essentiality of the projects.

The A3 COP rating reflects the city's general credit profile, appropriation risk of the certificates, and the essentiality of the various projects financed.

The Baa1 COP rating reflects the city's general credit profile, appropriation risk of the certificates, and the non-essential nature of the parking facilities 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 operating surpluses and growth in reserves

» Low OPEB liability

Credit Challenges

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

» Somewhat challenged revenue raising environment

» Continued delays in the sale of Burlington Telecom

» Elevated pension liability

Rating Outlook
Moody's does not typically assign outlooks to local governments with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Continued surplus operations and material growth in reserves and liquidity

Factors that Could Lead to a Downgrade

» Operating deficits reducing reserves and financial flexibility

» Renewed reliance on cash flow borrowing

» Material increase in the debt burden

» Retention of significant contingent liabilities resulting from sale of Burlington Telecom

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	$4,267,608
Full Value Per Capita	$93,651	$95,835	$94,927	$97,185	$100,528
Median Family Income (% of US Median)	102.8%	105.0%	106.6%	109.5%	109.5%
Finances					
Operating Revenue ($000)	$126,061	$115,842	$126,310	$56,762	$61,886
Fund Balance as a % of Revenues	-9.9%	-3.0%	3.5%	10.4%	15.0%
Cash Balance as a % of Revenues	3.0%	12.6%	7.9%	15.2%	16.2%
Debt/Pensions					
Net Direct Debt / Operating Revenues (x)	0.4x	0.6x	0.5x	1.4x	1.3x
Net Direct Debt / Full Value (%)	1.4%	1.7%	1.6%	2.0%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.3x	1.4x	2.9x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.2%	3.8%	4.3%	4.0%	4.1%

Source: Moody's Investors Service; Burlington audited financial statements

Recent Developments
Since our last credit opinion on April 12, 2017 the city has considered three bids for Burlington Telecom but has not finalized a sale. The city faces a year-end deadline to close on the sale before its share of the sale proceeds declines from 50% to 35%. Additionally, there are potential legal risks associated with two of the bids which are discussed further in the finance section.

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 (Aa3 stable), which together employ approximately 8,000 people. In the private sector, GlobalFoundries' Essex Junction facility, which currently employs approximately 2,800 people, 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 city's 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: Stable Financial Position

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 which targets an unassigned fund balance of 10-15%. The city achieved its fund balance policy goal in fiscal 2016, well ahead of schedule.

Audited fiscal 2016 results reflect a $3.7 million surplus, which was projected at the time of 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.

While the city reports a $1 million surplus for fiscal 2017 on a preliminary basis, future reserve growth will moderate given rising fixed costs. Specifically, costs for debt service, salaries and employee benefits will outpace growth for the city's largest revenue source, property taxes. Evidence of some budgetary tightening is seen in the fiscal 2018 budget which projects adding $100,000 to unassigned fund balance, notably less than $1 million surpluses in each of the two prior fiscal years. The budget increased 6% over the prior year.

ENTERPRISE RISK

Current city management has significantly improved the health of its various enterprise funds which were, for many years, a drain on the General Fund. The city will further reduce enterprise exposure with the sale of Burlington Telecom which is currently in the bid evaluation phase. The bidding process generated three bids with varying terms. The city's legal department has expressed concern that the two lowest bids under consideration may expose the city to litigation by the other financial stakeholders. We will monitor the sale process and any contingent liability that may arise.

The city recently discovered that its Water and Sewer enterprise had inadvertently overbilled a limited number of customers over several years. The city currently estimates it will need to reimburse fees of approximately $2 million. The reimbursement of overbilled amounts to be paid from the Water and Sewer Funds with little to no impact of its General Fund.

LIQUIDITY

The 2016 General Fund cash position improved to $10 million, or 16.1% of revenues. Based on its improved financial position the city has avoided drawing on its line of credit with KeyBank National Association (Aa3) since fiscal 2013.

Debt and Pensions: Growing Debt Burden; Elevated Pension Liability

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 1.8% of full value (including the current issue). The debt burden includes general obligation debt issued on behalf of the school department, although debt service on school related debt is paid by the school department.

The debt burden will increase over the medium term as the city finances additional projects in its 10 year Capital Improvement Plan (2017-2026). Te current issuance is the first of the $27.5 million in GO bonds voters approved to finance projects through 2021. The city will continue to issue debt incrementally to finance various capital improvements and ongoing maintenance of existing facilities. Management 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. Amortization of principal is slower than 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 2016 comprised 5.8% of expenditures.

DEBT-RELATED DERIVATIVES
Burlington is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB
Burlington's pension liability is elevated but should remain stable given adequate annual contributions.

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 manageable at $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 $12.4 million, or 21.4% 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 with which it reached compliance 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 that are part of the 10 year CIP.

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 COP 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 2017C	A2
Rating Type	Underlying LT
Sale Amount	$7,300,000
Expected Sale Date	12/05/2017
Rating Description	General Obligation
General Obligation Tax Increment Bonds, Series 2017D	A2
Rating Type	Underlying LT
Sale Amount	$3,400,000
Expected Sale Date	12/05/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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CLIENT SERVICES

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