

Rating Action: Moody's revises outlook to positive, affirms Baa3 rating for Burlington Airport Enterprise, VT

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New York, March 17, 2017 -- Summary Rating Rationale

Moody's Investors Service has affirmed the City of Burlington (VT) Airport Enterprise's airport revenue bonds at Baa3 and revised the outlook to positive from stable. The rating action affects \$37 million of debt.

The positive outlook reflects ongoing improvement in the airport's liquidity and debt service coverage ratios (DSCRs), which will be supported by a strengthened cost recovery framework following the recent adoption of a five-year residual airline agreement. The airport achieved its strongest financial position of the last five years in FY 2016, ending with 230 days cash on hand and 1.59x net revenue debt service coverage. We expect the new airline agreement, which ensures the airport has 200 days cash on hand and a 1.5x DSCR, will support incremental improvement of financial metrics from these levels and mitigate risks related to the airport's recently volatile enplanements.

Enplanements have been on a downward trend for the last 10 years. The decline mostly reflects a reduction in Canadian travelers, rather than leakage from the airport's primary catchment area. The rate of decline has slowed in the last two years, and enplanements are on track to grow 3% in FY 2017. With evidence of a stabilized enplanement trend and a continuation of improved financial metrics under the new airline agreement, the airport will be well positioned to sustain its strengthened credit quality as it has a manageable cost profile and leverage: the airport has sufficient airfield and terminal capacity, level debt service, grant funding for the majority of planned capital spending and no additional debt anticipated. A recent 12-year tax settlement with the City of South Burlington will further stabilize operating costs and increase visibility for annual property tax assessments, which pressured costs in recent years.

The Baa3 rating also reflects the airport's moderate long-term growth prospects, due to demographic challenges in the service area economy and airline industry consolidation that may constrain growth prospects from the supply side. Airlines continue to introduce incremental seat capacity in large, profitable markets at the expense of small hubs, a trend we expect will continue in 2017. However, we expect Burlington's regional economic significance, mix of business and leisure travel demand generators, and limited air travel alternatives will support a stable O&D market, which the airport is well positioned to serve. The airport is the primary commercial service airport for the Burlington region, which is relatively isolated and sufficiently distant from nearby airports in Boston (215 miles), Manchester (170 miles) and Albany (145 miles), a positive factor that is also incorporated into our rating.

Rating Outlook

The positive outlook reflects our expectation for stability in core financial metrics, namely DSCRs and liquidity. We expect the airport will maintain net revenue DSCRs at or above 1.5x, and liquidity above 230 days cash on hand. The airport is well positioned to sustain these improved metrics due to the cost recovery framework provided by the new airline agreement, along with largely stable airline service, economic recovery in the service area, a manageable CPE and no new borrowing. Should financial metrics revert below expected levels, or enplanements resume their decline, we could revise our outlook.

Factors that Could Lead to an Upgrade

Sustained enplanement growth driven by expanded air service and stable or expanded economic activity in the service area

Net revenue DSCRs above 1.5 times on a sustained basis

Incremental improvement in liquidity on a path to 300 days cash on hand

Factors that Could Lead to a Downgrade

Renewed downturn in enplanements

Net revenue DSCRs below 1.5 times

Liquidity, measured by days cash on hand, below 200 days

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

N/A.

Obligor Profile

Burlington International Airport (BTV) is a small hub O&D airport located four miles east of downtown Burlington. 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. The airport estimates that approximately 15%-25% of enplaned passengers are Canadian residents.

The airport is located on 1,100 acres and includes a 130,000 square foot main terminal building with 11 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.

Methodology

The principal methodology used in this rating was Publicly Managed Airports and Related Issuers published in November 2015. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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Moses Kopmar
Lead Analyst
Project Finance
Moody's Investors Service, Inc.

One Front Street
Suite 1900
San Francisco 94111
US
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Kurt Krummenacker
Additional Contact
Project Finance
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653



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