

MOODY'S DOWNGRADES CITY OF BURLINGTON'S (VT) GO BOND RATING TO A2 FROM Aa3; RATING PLACED UNDER REVIEW FOR POSSIBLE DOWNGRADE

APPROXIMATELY \$87 MILLION OF OUTSTANDING PARITY DEBT AFFECTED

Burlington (City of) VT
Burlington (City of) VT
Municipality
Vermont

NEW YORK, March 9, 2010 -- Moody's Investors Service has downgraded to A2 from

Aa3 the City of Burlington's (VT) general obligation bond rating, affecting approximately \$87 million in outstanding parity debt. The bonds are secured by a general obligation unlimited tax pledge. Concurrently, Moody's has downgraded the city's outstanding A1-rated Certificates of Participation (COPs) to A3 and its outstanding A2-rated COPs to Baal, affecting \$4 million and \$10.4 million in outstanding COPs, respectively. The downgrade largely reflects the city's weakened financial position and strained liquidity resulting from the use of its pooled cash account to finance the expansion of the city's struggling telecommunications enterprise. The Watchlist action reflects the possibility of further downward rating movement over the near term. While the city is actively pursuing a viable solution for the telecommunications system there remains a high degree of uncertainty regarding the city's ability to place the enterprise on a more sustainable path and ultimately repay the funds owed to the city's pooled cash account.

Burlington's financial position and liquidity has been weakened by the deficit operations of the city's telecommunications enterprise. The city's preliminary fiscal 2009 financial statements (as of 6/30) includes a -\$15.9 million cash balance associated with the telecommunications enterprise fund. This represents a substantial \$7.3 million or 85% increase from the -\$8.6 million balance at the end of fiscal 2008 and a 212% increase since the end of fiscal 2007. The deficit cash position is the result of ongoing support from the city's pooled cash account to fund the citywide build out of the telecommunications system, which is currently behind schedule. Despite the city's efforts, the telecommunications system has been unsuccessful generating the cash flows necessary to self-fund its capital and debt expenses or to achieve a realistic refinancing plan to repay the interfund loan due to the pooled cash account, which includes the general fund and the airport enterprise, among other smaller accounts. The electric enterprise and the school department maintain separate bank accounts and are not part of Burlington's pooled cash account. Importantly, at -\$15.9 million the interfund borrowing represents a sizable 180% of the city's preliminary fiscal 2009 general fund balance of \$8.8 million and 94% of the combined cash balances of the general fund and the airport enterprise. Assuming the general fund fully reflects this interfund loan and adjusting fund balance for the illiquid nature of the receivable, the city's Moody's adjusted general fund reserve position declines to a pro-forma -12% of General Fund revenues from 16% of revenues.

Also of note, the city missed a scheduled February 17th payment on a lease with CitiCapital related to the telecommunications enterprise,

following a Public Service Board ruling preventing the city from utilizing any additional funds from its pool cash account to fund telecommunications related obligations. Unless action is taken over the near term allowing payment of the \$33.5 million obligation a default would occur on August 17, 2010, following the full utilization of a \$1 million debt service reserve fund. Remedies in the event of default include possession of the assets and acceleration of the current year's payments.

Future rating action will depend on the city's ability to produce a viable plan to place the telecommunications system on a more sustainable path and provide additional detail on the prospects for the system to meet its obligations, including repayment of the interfund loan. Additionally, given the city's reliance on cash flow borrowing Moody's will continue to monitor the city's cash position, its ability to meet day-to-day operating requirements, and how a potential default of their outstanding lease obligation would impact operations of the enterprise.

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the City of Burlington (VT) was Moody's "General Obligation Bonds Issued by U.S. Local Governments," published in October, 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the City of Burlington (VT) was on July 31, 2009 when a Aa3 rating was assigned to the city's GO Public Improvement Bonds.

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