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BOARD OF FINANCE
FEBRUARY 13, 2012

MINUTES OF MEETING

PRESENT: Mayor Kiss; City Council President Keogh; Councilors Wright, and Paul

ABSENT: Councilor Mulvaney-Stanak

ALSO PRESIENT: Councilor Bushor; Interim CAO Schrader; ACAO Goodwin; Barbara Grimes, John Irving, BED; Larry Kupferman, CEDO; Scott McIntire, Melanson & Heath; Lea Terhune, Solveig Overby

1. Agenda

Mayor Kiss requested item 5 be moved to item 2B so the presenters would not have to stay for the entire meeting.

On a motion by City Council President Keogh and Councilor Paul, the agenda was adopted as amended.

2. Public Forum

Lea Terhune stated there would be a finance summit in Contois Auditorium. There would be a welcome from the Mayor, the draft audit would be presented, and Tom Salmon would be the keynote speaker. There would then be time for questions which would be a combination of pre-submitted questions from NPAs, questions from the audience, and questions submitted through Twitter. They would then be presented to the panel. The three Mayoral candidates would then present their financial plans. Finally, there would be a presentation of the Employee of the Year chosen by the people of the NPAs.

Solveig Overby stated she reviewed the annual reports for the past few years and the cover letter from about ten years ago was very helpful and clear. It was good for citizens to understand how things work.

2B. Approval of Proposal for Rotor Coils for McNeil - BED

John Irving, BED, stated there had been an overhaul on the rotor at the McNeil plant and an inspection noted that it was time to replace the rotor coils. There was a long lead time for materials, so it was agreed they could be refastened and the materials could be purchased on a normal timeline. Instrumentation was installed to check the condition of the coils. It was fine until January, but at that time it seemed they were shifting. The material cost would be $484,000. Only 50% of this would be Burlington’s responsibility, as there were other joint owners. Barbara Grimes, BED, stated three would be an additional cost for installation. Mr. Irving stated that installation is another $700,000. That would be part of the regular budget schedule and would be included in the FY13 budget.

City Council President Keogh and Councilor Paul made a motion to approve the project and recommend City Council approval.

Mayor Kiss stated it was anticipated the coils would be needed by October. Mr. Irving stated it was not a certainty but was what the manufacturer recommended. There were few manufacturers and if the parts fail before the order was placed there would be a much longer outage.

City Council President Keogh inquired if the total cost of the parts was $284,000 and BED would be liable for half of that. Mr. Irving stated that was correct. City Council President inquired why the resolution stated the request was for $284,000. Mr. Irving stated it would be purchased through BED and then they would be reimbursed.

Ms. Grimes stated they would do it sooner if they could. Mr. Irving stated the timing had worked out well and it should be done as soon as possible.

The motion passed unanimously.

3. Approval of the Board of Finance Minutes

a. January 23, 2012

On a motion by City Council President Keogh and Councilor Wright, the minutes were approved as presented.

4. Review Annual Report – CT

Interim CAO Schrader stated this was a presentation of the independent single audit. The management letter and the single audit itself were in progress.

City Council President Keogh inquired if the Board of Finance was entitled to review the draft management letter. Interim CAO Schrader stated that typically the management letter was a draft that reviewed recommendations of the auditor and provided the response from the City.

Councilor Paul stated that the RFP required the audit be done in the beginning of March. ACAO Goodwin stated the goal would be to share the management letter by the end of the week. He stated it should not take more than two weeks.

A member of the audience, Councilor Bushor, stated the Council wanted to see a list of questions from the auditor and the responses. She inquired if those issues that had been resolved would be addressed in the management letter. The Council requested to see the initial recommendations from the auditor and the responses in their entirety. Interim CAO Schrader stated the draft management letter was composed of findings and recommendations that the auditor had. There could be additional information that resolved those. In some instances, their recommendations would be amended. If they had been resolved since the end of the fiscal year, they would still be included. Councilor Bushor stated she thought there would be a trail of what the observations were. Interim CAO Schrader stated anything that was resolved would not be included, and other issues that remain would still be included.

Councilor Paul stated that department heads were supposed to be able to address deficiencies relating to their departments while they presented their budget. This was supposed to prevent the same deficiencies occurring year after year. Interim CAO Schrader stated that had been done and department heads were involved in the process of drafting responses. There would be an update for the City Council on those findings and recommendations. It would be done this year as well.

Councilor Wright inquired what the role of the Audit Advisory Committee would be. Interim CAO Schrader stated their first objective goal was to determine the scope of the audit and risk assessment. When the final document was prepared, it would be presented to them for their review and response. They would then determine if risk analysis and the scope of the audit needed to be adjusted in future years. An example would be a closer review of BT because of some of the issues there. Their other responsibility was in the solicitation process of an auditor, but that would not happen this year, as there is a contract with Melanson and Heath for three years. They would also help educate the public and City Council on how to read the audit.

ACAO Goodwin introduced Scott McIntire from Melanson and Heath. It was also noted that the same presentation would be given to the City Council. Scott McIntire, Melanson and Heath, stated the audited financials were nearly complete. The audit went smoothly, which was good because it was his firm's first audit of Burlington. There were only a couple of audit entries, which spoke well for the Burlington's Finance Department. The books and records were in good order.

The City ended FY2011 with several funds in a negative cash position. Those included Burlington Telecom, Wastewater, Water and a number of Capital Projects. These funds are outside of the General Fund, but do impact the balance sheet. These funds total about $25 million, which exposes the City to liquidity risks, and results in a reliance on short term borrowings. The two take-aways are that the audit went smoothly and there is liquidity risk.

Mr. McIntire stated the governmental funds balance sheet show the General Fund. In the asset section, there was an advance to other funds section with a balance of $21.5 million. That represented the negative cash positions in Telecom, Water and Wastewater. It was classified as an advance that they are unable to pay back to the General Fund and cannot be collected in a reasonable period of time. There was a non-spendable total of $25.5 million and there was a relationship between these two things. In the liability section, there were tax anticipation notes of $11 million that existed at the end of the business cycle. The cash balance was only $4.2 million, and it would have looked much better if it were not for that borrowing.

Mr. McIntire stated that almost all readers would start at the fund balance section. The total fund balance was $13,535,000 and consisted of five components. That was up about $3 million from the prior year, but the reason was because of long term borrowings that remained unspent at the end of the fiscal year. The category descriptions were new terminology, because the accounting standard changed this year. The most important term was unassigned, which equated to the prior title of undesignated fund balance. Non-spendable exists because there was a receivable for money that was owed from other funds. Those funds do not have the ability to repay the money to the General Fund. It cannot be turned into liquid cash. It is a non-spendable asset. As that goes up, it must come from somewhere, and it comes from the unassigned fund balance, which is negative $16,561,000.

Mr. McIntire stated the enterprise funds, Airport, Wastewater, Water, and Telecom, showed the operating income and the depreciation and amortization. The Airport fund showed operating income or loss of $819,000. One reason for that was the depreciation expense. If you excluded depreciation, it generated about $3.3 million. $2.4 million was needed to pay debt service costs on long term obligations. There was an improved cash position in the Airport fund.

In Wastewater, there wa an operating income of $716,000. If that were added to depreciation, about $2.2 million was generated. In FY 2011, $4 million was paid in debt service. This was a deterioration of this fund. In non-major enterprise funds, primarily the Water fund, there was an operating income of $659,000 and when depreciation is included the total was $1.2 million. $1.2 million in long term obligations were paid off, so essentially the Water fund broke even.

ACAO Goodwin stated this was an abridged version of the audit. There were separate audits for Telecom and the Airport. He reminded the Board that there had been a formal proposal to find a new auditor, and this firm was not hired until July. Audits typically commence before the year end, and this audit started about two months after the end of the year. Despite that, the audit was finished on schedule. There would be a new Mayor, but the financial workings of the City operated on a daily basis. Money may be distributed differently with a new Mayor, but the operations were daily. In the past year, there had been two new Assistant CAOs, new financial software, and new financial mechanisms. Utilizing short term borrowings had saved the taxpayers money. Additionally, there would be Grant Anticipation Notes, so that all federally-approved projects would be interest free. There had been plans to streamline Information Technology, as well as payroll. This brought the finances to a new level. The total revenue that was audited was approximately $333 million. The total adjustments to operating revenue was $0. The audit showed that the revenues for the City, Airport, Telecom, and Wastewater were all appropriate.

ACAO Goodwin noted the press had stated that the Airport was struggling and not making money. While this was true for the Airport industry, Burlington's Airport was making money. Their profits for FY11 were $4.5 million. This increased $1.6 million in a year. The profit was the highest level achieved in the last eight years. In FY12 they were on track to exceed $5.5 million, the largest it would have achieved in its history. Additionally, federally approved airport improvement projects were made, totaling $25 million, the largest in its history. This was done at no expense to the citizens of Burlington. 98% of the funds were reimbursed by federal and state agencies. The rest was absorbed within the Airport. The parking garage was expanded, and financing had been secured.

ACAO Goodwin continued, stating that in FY11, the citizens of Burlington incurred no additional debt through the General Fund. The only debt was for the School District, which borrowed $11.5 million. Investors and credit rating agencies wanted to increase the restricted cash reserves for the Airport, and this was done by $6.5 million. In FY12, the operating reserves were increased by $4 million. He believed the work that had been done was exceptional. The debt coverage ratio failed to be achieved in FY 08 through FY 10, but it was achieved in FY11. The debt ratio needed to be 1.25, and the score at the Airport was now 1.37. Bankers and Investors now wanted to work with the City and the Airport.

ACAO Goodwin stated Burlington Telecom had great success this year. Telecom started a decade ago, seeing revenues of $17.2 million. This was the first year that a profit had been made.

It was not large, at $392,000, but it was now on the right path. Revenue, expenses, accounts receivable were all audited and were clean and not adjusted. The financials were properly stated. Condition 60 was that expenses occurred by Telecom must be reimbursed by the City in a 60 day window. In June of 2010, this happened with all expenses. It was generally better than that, at 30 days or less. Despite the lawsuit and bad press, Telecom had been stable. Revenue and the customer base were maintained. The technology was state of the art and service was world class. Telecom was at the break-even point and now the customer base could be increased and money would increase dramatically.

ACAO Goodwin stated Wastewater had a deficit that occurred because of a major overhaul of the system twenty years ago. Raw waste was being dumped into the lake. A deal had been structured with the State for there to be several large bonds with a low interest rate. When they were due and payable, it needed to be done as a balloon payment. In the past 20 years, rates should have been increased gradually over time, but that was not done. It was due this year, and was paid, but there was no plan put into place. Moving forward, steps have been taken to cover the deficit that was incurred. In January of 2014 there would be a new bond.

ACAO Goodwin stated that the reliance on short term borrowing mechanisms was by design. When he started working at the City it was clear that using short term borrowings prevented locking into a high interest rate. These short term borrowings have low rates. When the finances become stable, reliance on short term borrowing can end. Deficits were not going to be received by the end of the fiscal year, but were based on what would be collected. With the exception of Telecom, no fund had overspent. Certain projects require money being spent first and then reimbursed, so they would appear negative until the project was closed. Non-spendable was not necessarily a bad thing. It was just not collectable at the end of the fiscal year. There were plans in place for all funds.

Councilor Wright inquired about the cost of expanding the parking garage. ACAO Goodwin stated the cost was $15 million. Councilor Wright inquired if it was paid for with a Bond Anticipation Note. ACAO Goodwin stated that no long term borrowing mechanism was taken out for the Airport. This was taken out with a short term loan of 18 months. When it comes payable, it would be rolled over for another 18 months. Long term borrowing at the Airport decreased $2.5 million. In the next three years, $7.5-8 million would be paid off, and the BAN could be converted to a bond. Councilor Wright inquired what would have happened without the BAN. ACAO Goodwin stated it was needed to ensure a positive cash position at the Airport. Another deal would have to have been structured to extend existing debt that was due. Councilor Wright inquired if it would have been more expensive. ACAO Goodwin stated it could have been.

ACAO Goodwin stated a telecommunications system cost a lot of money to build. The City does not have deep pockets, and that was a major hit to cash. The ending cash position was $4.5 million. The ending cash position in 2012 would be $7 million, and would increase to $14 million by 2014. The money was being recovered, but it would take a couple of years. He stated he would like to see $10 million on the balance sheet. Councilor Wright inquired what BT paid in interest to the city. ACAO Goodwin stated that currently the interest rate was approximately 2.5% on $17 million.

Mr. McIntire stated the negative cash positions needed to be eliminated, as they caused liquidity risks. In Wastewater, a $4 million balloon payment was paid, but there was no appropriation for that. Revenue was not raised in FY11 or the prior year, which caused the cash deficit. There would be a $14 million payment in 2014, and to date there had been no money set aside. The City is likely to refinance that over another 2a 0 year period. That would take place before January of 2014 when the payment was due. He stated it was worth noting the entire payment of the debt would take place in the second half of the 40 year period and that should be planned for.

Long term capital project funds had deficit balances. Monitoring of the funds broke down a little bit in 2011 which resulted in a negative cash position. Money was often spent and reimbursed, but those reimbursements needed to be requested. There was a school project that was bonded which also caused strain on the cash flow. Mr. McIntire noted that close monitoring of capital projects was important. The books and records were in good working order with the exception of capital projects. Further, he suggested there needed to be better tracking of budgeted versus actuals.

Mr. McIntire noted there should be a revision in grants monitoring. With the exception of CEDO, grants are blended into the General Fund. These items cloud the budget versus actual reporting. Pulling this out of the General Fund would be more meaningful. Enterprise fund budgeting versus actual could also be enhanced. Capital asset accounting is tracked on spreadsheets, which was not an accounting system. A system needed to be put in place so there was an audit trail as spreadsheets can disappear. ACAO Goodwin stated that a large portion of this would be addressed by the new financial system.

A member of the audience, Councilor Bushor, inquired if the Department of Public Works had been consulted about the funding issues for Wastewater and Water. Interim CAO Schrader stated he had discussed this with them in the context of the 2013 budget. The rates would be increased in the next three years to cover that debt. Councilor Bushor stated this had been discussed for several years and there was a plan to refinance the $14 million because it had not been planned for. Other communities received a grant from the State. She stated she was surprised that there was no appropriation in place, because there was a plan in place and there was an option to increase Water rates, Wastewater rates, or both, though just one was chosen. Interim CAO Schrader stated there was no appropriation for the $4 million because it was not budgeted for. The intention was to secure another bond for that, but it was not possible to obtain it by the time the payment was due. The City did not have the authority to bond after the payment was made without voter approval. It was absorbed internally. Councilor Bushor stated the money was there to pay for it and inquired if there was a deficit. Interim CAO Schrader stated that $4 million was owed to the General Fund. There would be an agreement that would show that the Wastewater Department would be paying that back. It would not solve immediate cash needs, but would memorialize the amount that was owed. ACAO Goodwin stated it would ensure the future rate structure would support these payments and be able to refinance $14 million in 2014. Councilor Bushor inquired if there would be funds available for unanticipated repairs. Interim CAO Schrader stated those were regularly budgeted for and was part of the current rate structure.

City Council President Keogh stated this was the most informed presentation he had heard about the City's finances. He inquired if non-spendables were the cash pool. Mr. McIntire stated there was a good audit trail. The non-spendable represents funds that have negative cash positions that only paid their bills because the General Fund had cash. They now owe the General Fund money. City Council President Keogh inquired if it was an asset or a liability. Mr. McIntire stated it is carried as an asset, but in general, all assets and liabilities should be current. This did not apply to the non-spendable.

Councilor Paul inquired about ACAO Goodwin’s statements about inaccuracies in the Free Press. ACAO Goodwin stated as a Finance Department, there should be an opportunity to respond to what was often one-sided. What was put in the paper was based on the past and not what was happening today. Nothing had been said about the positive things that have been happened. The finance team works very hard and there had been critical press about the length of time it took to get through the audit. It was actually finished earlier than in the past.

Councilor Paul stated it was fair that the Free Press be told when they are not getting all the information instead of criticizing them. She stated she thought the audit was supposed to be completed by the end of December, not the beginning of February. Interim CAO Schrader stated the entire audit was not even due yet. Councilor Paul stated that the RFP should be clear about due dates versus target dates. Interim CAO Schrader stated it was important to meet the requirements of the federal audit.

On a motion by City Council President Keogh and Councilor Paul, the meeting was adjourned at 6:23 p.m.