Office of the Mayor
Burlington, Vermont

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MEMORANDUM

TO:	City Councilors
FROM:	Mayor Miro Weinberger
DATE:	August 29, 2012 ***(please note this is a revised version of 8/27 memo)***
RE:	November Ballot Items

I hope you all have enjoyed this summer's gorgeous weather as much as I have. As is typical, however, our collective pace will quicken as the fall settles in. We have much to do. I am looking forward to meeting with you at tonight's special work session and engaging on a number of different, important issues.

Most immediately, I am respectfully requesting your support for three separate ballot items:

- Authorization of a $9 million Fiscal Stability Bond;
- Authorization of the use of Waterfront Tax Increment Financing (TIF) to fund Bike Path Improvements, the Waterfront Access North project; and
- Authorization of a ½ cent tax for the improvement and maintenance of the Bike Path.

Authorization of $9 million Fiscal Stability Bond

Summary

This fall marks the unhappy three-year anniversary of the public revelation that the prior administration spent nearly $17 million that the City should now have available, but has no immediate means of recovering. The impact is still with us:

- A community cannot make a $17 million expenditure like this without repercussions. Doing so has left the City short of essential cash reserves, necessitating a higher reliance on short-term borrowing than is prudent. It leaves us vulnerable to substantial interest rate increases and credit availability.
- Our most recent audit management letter recognized this reality, stating in its opening paragraphs that the City is "at risk, as it is overly reliant on borrowing from financial institutions to provide overall City short-term cash requirements" (emphasis added).
- The credit rating agency Moody's noted this risk in its recent three-step downgrade of Burlington's rating to the edge of junk-bond status.

As municipal stewards, we must act together and responsibly address this situation. Our auditor called for such action in the most recent Management Letter, concluding its top recommendation with this passage:

> "We recommend that the City adopt a formal documented plan to improve the cash flow and eliminate the deficit general fund unassigned fund balance. This will improve the financial condition of the City, and reduce the reliance on bank financing to meet normal cash flow requirements."

Tonight interim CAO Paul Sisson will present a "Plan to Reduce Reliance on Short-term Financing and Improve Liquidity" that directly responds to this immediate need and Management Letter recommendation. I am asking each of you to fully support this plan. The key element of the plan involves the issuance of a $9 million Fiscal Stability Bond. Such a bond would dramatically reduce the City's short-term borrowing with a stable bond repayment schedule over the next 15 years.

This action is roughly the municipal equivalent of an individual refinancing a large amount of credit card debt into a stable home-equity loan or mortgage at a time of historically low long-term interest rates. With this replacement financing, the City will reduce the reliance on short-term financing with a disciplined budgeted and manageable approach.

<u>What is the problem?</u>
The amounts "loaned" ($16,936,492) to Burlington Telecom by the City of Burlington are not a liquid asset. As of today, it is impossible to know when – if ever – that will be repaid.

The impact of this impaired asset on the City's cash flow has been mitigated by true operating surpluses in recent years – annual revenues that exceed expenses – of approximately $8 million. Thus, unless and until the amounts transferred to BT can be collected, the City still faces a true deficit of just under $9 million.

Since the BT situation developed, the City has been addressing this deficit through extensive use of the short-term borrowing instrument known as a Tax Anticipation Note (TAN). There are two problems with the continuation of this practice:

1) <u>It is expensive.</u> We are spending nearly $500,000 a year out of the general fund operating budget covering interest obligations on TANs. These substantial payments are doing nothing to resolve the underlying deficit.

2) <u>This type of borrowing is inherently risky.</u> The TAN borrowing must be renewed on an annual basis. This over-reliance on short term credit markets is not prudent in light of the present economic situation. The City's current TAN already includes covenants that would double the interest rate should the City's Moody's credit rating slip even one step further. To stay the current course is to risk even larger financial penalties, disruptions of public services, as well as other damaging long term financial consequences.

After consultation with our auditor, our financial advisor Public Financial Management (PFM), the City Attorney, bond counsel, and our Moody's contacts, interim CAO Sisson and I have concluded that continuation of the current level of TAN short-term borrowing should be addressed as quickly as possible. We are proposing to the Council and the voters of Burlington that this be done through a $9 million Fiscal Stability Bond. As a general obligation bond that will pledge the City's full faith and credit, we will need to gain a 2/3rds affirmative vote for the bond to be authorized.

<u>How does it address the problem?</u>
The proposed Fiscal Stability Bond would improve the City's liquidity with $9 million of new cash. In conjunction with the implementation of the other elements of the Plan to Reduce Reliance on Short-term Financing and Improve Liquidity, the bond would eliminate the City's deficit balance and replace short-term TAN borrowing on a dollar for dollar basis.

This Fiscal Stability Bond would not eliminate all TAN borrowing. Used properly to cover inherent gaps between necessary expenditures and the collection of predictable revenues, TAN's are a legitimate way of evening out the City's uneven cash flow over the course of the year – comparable to the type of line of credits that many businesses utilize. However, the Fiscal Stability Bond would end the City's over-reliance on TANs.

<u>Wouldn't this just lead to more City spending?</u>
No. No additional spending would be authorized by the issuance of the Fiscal Stability Bond. The bond simply allows the City to meet its current financial obligations without resorting to undue, expensive, risky short-term borrowing.

<u>Why now?</u>
After three years of inaction, it is time to break the City's financial paralysis. Further delay and continued reliance on interest-only TAN borrowing will only increase the ultimate cost to the City and extend the period of time at which the City is exposed to the considerable risks of short-term borrowing.

<u>Does this mean we are bailing out BT?</u>
No. The Fiscal Stability Bond is about securing the City's finances and ensuring the City's financial health. It is about our continued ability to deliver police and fire services, maintain our streets and the essential utilities beneath them, continue our parks and recreation programs. No proceeds from the bond will be spent on BT.

<u>Does this mean BT will not pay the City back?</u>
No – the proposed bond will make repayment of the $16.9 BT loan no more and no less likely. The full $16.9 million receivable will remain on the City's books and my administration will continue to pursue repayment efforts as aggressively as possible. Any funds recovered from BT will be placed in a debt service reserve fund and reduce the property taxpayer's bond payments.
<u>Does the Fiscal Stability Bond resolve all of our BT problems?</u>

The Fiscal Stability Bond would mean that the City was no longer at risk of financial instability as a result of the $16.9 million cash pool loan to BT.

The bond will not in and of itself resolve the litigation with CitiCapital over their $33 million federal suit.

Does this resolve all of our financial issues?

No. The city faces a host of financial challenges that will not be addressed by the Fiscal Stability Bond. Our pension fund has a material shortfall, municipal costs are rising faster than our revenues, the airport has a separate short-term borrowing challenge and we must do more to improve our financial systems and internal controls to avoid repeating errors that created the current problem.

That said, however, the Fiscal Stability Bond does address the top concern raised by our auditor, and one of three major challenges listed by Moody's in their recent three-step downgrade. This is a step we must take together and must take right now.

Are there other options?

The proposed Fiscal Stability Bond will address the City's liquidity issue rapidly and spread the financial pain out over fifteen years, minimizing the cost. With current long term interest rates, property owner's with a $250,000 home will pay approximately $60 more per year for the 15 year life of the bond.

If the bond is not approved, the Administration will have no choice but to consider options that include significant tax increases and municipal service cuts in the FY14 budget. These options will take years to complete – unduly prolonging the City's exposure to financial risk – and have a far greater impact on near-term taxation and public service levels than the proposed bonding solution.

Inaction is not an option that is palatable to me, or to the equally committed members of my administration. I do not believe it is palatable to this City Council either. I urge you to support the Fiscal Stability Bond as the best option we have for facing a difficult challenge.

Authorization of the use of Waterfront Tax Increment Financing (TIF) to fund Bike Path Improvements, the Waterfront Access North

Summary

The Administration is respectfully requesting the Council's support in seeking authorization for up to $6.05 million in general obligation bonds to fund select public infrastructure improvements in the Waterfront TIF District (see attached map Exhibit A). For bonding purposes, it is significant that these proposed improvements are located within the Waterfront Revitalization District and are consistent with its Urban Renewal Plan. These bonds will be repaid through new tax increments from properties in the district. The improvements include a rebuilt and improved Bike Path along the central waterfront and the Waterfront Access North project adjacent to the Moran Plant. The associated overall costs are summarized in the table below:

November 2012 TIF Bond Costs Summary			8/26/2012
Project	Bond Amount	Debt Cost	TIF Load
Waterfront Access North	2,900,000	1,190,000	4,090,000
Bike Path (5-9)	2,570,000	1,050,000	3,620,000
CEDO TIF Fee	580,000	230,000	810,000
Totals	6,050,000	2,470,000	8,520,000

Note 1: figures rounded up to nearest $10,000
Note 2: bond amount based on cost estimates from various sources – see attached memos
Note 3: debt cost is estimated based on 4% origination fee, 5% interest, and variable amortization

What do these projects include?

The Waterfront Access North project includes infrastructure improvements such as brownfield remediation, undergrounding of utilities, street and sidewalk improvements, new parking areas, innovative storm water treatment, lighting and pedestrian amenities. The Waterfront Bike Path project includes rebuilding the heavily used central portion (segments 5-9) from Perkins Pier to the northern end of the Urban Reserve. The new bike path will be wider (11' with 2' shoulders), safer, and feature a number of enhancements such as wayfinding signage, benches, trash containers, drinking fountains, benches, and landscaping. The extension to North Beach (segment 10) also is a priority, but its eligibility as a TIF item is still uncertain. A summary memo on each project is attached, as well as supplemental cost memos. Finally, also included is a 7.5% project development fee for CEDO. This is broken out as a separate line item because it was not included as a soft cost in prior cost estimates (see below for more details).

Are these projects qualified TIF expenditures?
TIF investments are intended, by design, to support and stimulate private economic development and related growth in the grand list. Each of these projects has been evaluated and a qualified TIF expenditure using Burlington's TIF District Policies and Guidelines. An analysis of the qualifying criteria for each project also is attached.

Is CEDO Development Fee a qualified expense?
CEDO is the primary developer/manager of both the TIF District and the associated TIF funded projects. The fees are a key funding source for CEDO's project based development work. As part of the 2009 VT Legislature's extension of the Waterfront TIF District, the approved implementation proposal included a 7.5% project fee (see last page of attached Exhibit E--Burlington's TIF District Policies and Guidelines). We have reviewed these policies with City Attorney's office. They confirmed that project development fees are eligible for inclusion as a cost related to TIF funded improvements. The fees are based on the total tax increment allocated to the project.

How does TIF financing work?
TIF is a powerful fiscal tool designed to finance public infrastructure that supports future property tax growth within the designated TIF district. In simple terms, growth in tax revenues above and beyond the base revenue at the start of the district's life (i.e. the "tax increment") can be used to borrow and repay infrastructure costs thru the end of the tax district (2025).

Can we afford these projects?
The actual lifetime capacity of TIF district is subject to a number of future variables (interest rates, property assessments, tax rates, timing of projects, amount of private development in the district, etc). However, our most recent analysis shows that even under the most conservative projections, the district will have ample capacity to fund these improvements.

Will repayment of these bonds raise property tax rates?
No, assuming expenditures are carefully planned. The big advantage of TIF is that it uses tax revenues from incremental growth in tax revenues to fund the improvements. These are revenues that would likely not have been available without the TIF investments.

Is part of the TIF increment sent to the State for education funding?
While the Waterfront TIF pre-dates the requirements of Act 60, the City agreed in the 2009 agreement with the legislature's Joint Fiscal Committee to send 25% of the education portion of the TIF increment to Vermont.

Can we afford other TIF funded infrastructure projects on the Waterfront?
Yes. The amount of TIF funding available for additional projects will vary depending on the property taxes generated by those projects and other variables.

How long do we have to decide on TIF investments?

In 2009, the Vermont Legislature agreed to extend the window for the Waterfront TIF investments by five years as part of Act 54. The district is allowed to incur new TIF debt to the end of 2014. Given that extensive planning, cost estimating, and voter approval are necessary before incurring TIF debt, it is important that the City begin committing to specific investments now.

Use it or lose it.

The majority of any surplus balance left in the TIF account at the end of 2025 will be returned to the State without and direct benefit to the City per the JFC 2009 agreement.

Authorization of a ½ cent tax for the improvement and maintenance of the Bike Path

Our Bike Path is a spectacular resource in great need of restoration. I applaud the Bike Path Task Force for two years of hard work, and I fully support the Task Force's vision of a rebuilt and modernized bike path.

The Task Force also has laid out a thoughtful and compelling plan for financing an $11.6 million project over approximately five years. The plan would appropriately spread the responsibility for the upgraded path among visitors, the business community, and property tax payers.

In a different time it might have been appropriate to secure full financing for this worthy project all at once. In the City's current financial condition, we must be more resourceful and disciplined. <u>Given the importance of addressing our City's core financial challenges through voter approval for the Fiscal Stability Bond, I cannot support a competing general obligation bond for the Bike Path at this time.</u>

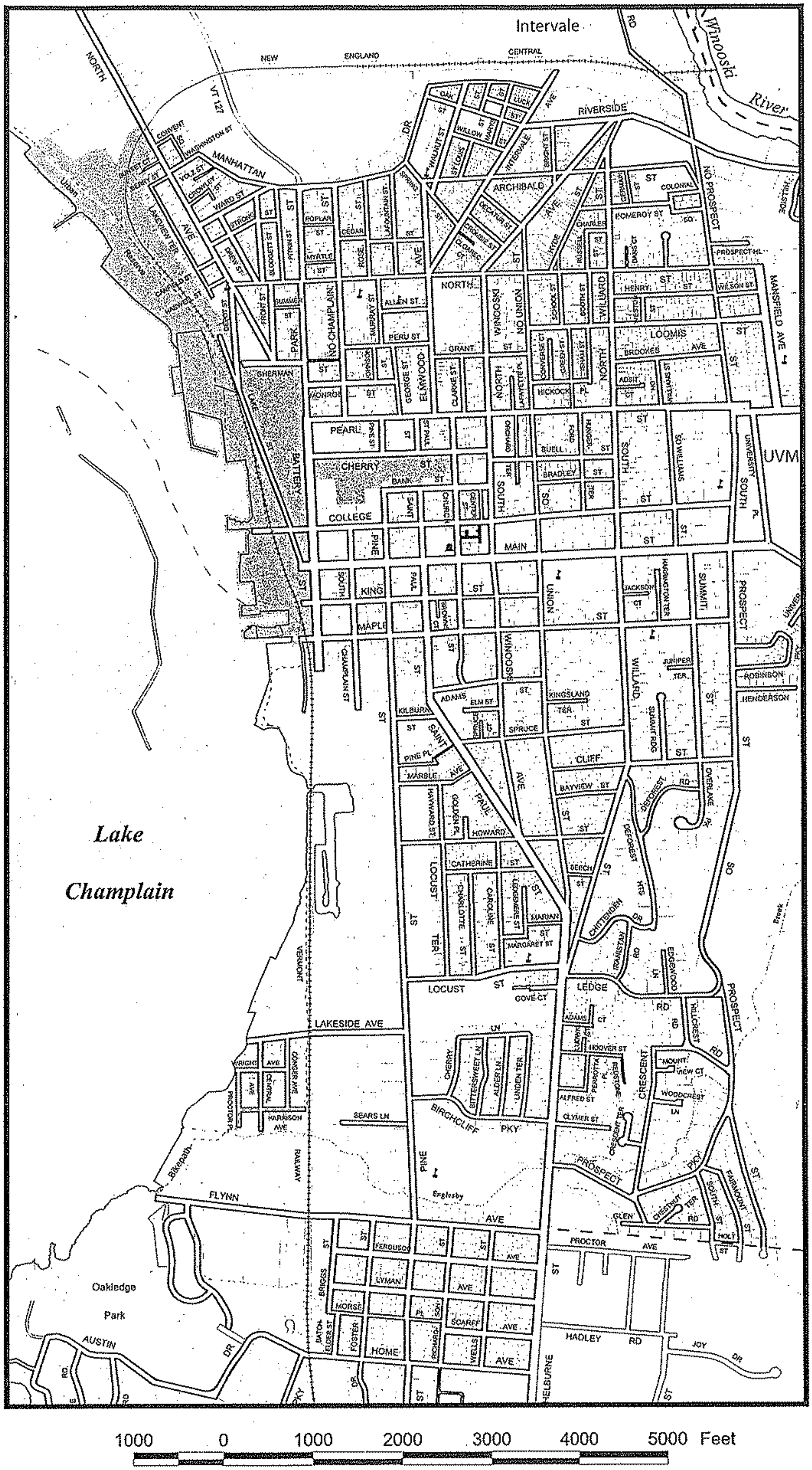
Fortunately, we can make considerable and immediate progress towards the ultimate realization of a rehabilitated bike path through the passage of two ballot items this fall:

- The Waterfront TIF ballot item that includes up to $2,570,000 of TIF investment in the bike path, as detailed above (this figure includes approximately $600,000 in potential "enhancement" items detailed in the Task Force Report beyond the $11.6 million baseline scope).
- A ½ cent tax for the improvement and maintenance of the bike path.

If successful, these two initiatives, augmented if necessary with modest investments from the Penny For Parks program, the annual City capital budget, and $1 million of anticipated private donations, will allow us to:

- Design and permit the proposed upgrades and enhancements for the entire 7.5 mile path. (Estimated time period: approximately 12-18 months.)
- Reconstruct the critical, heavily-utilized section of the Bike Path from at least College Street to North Beach. (Estimated time period: 1 year; Note: as detailed in an attached 8/26/12 Steinbach memo, the non-TIF section from the Urban Reserve to North Beach will cost an additional $875,000.)

In short, with the passage of these two ballot items, the anticipated private fundraising, and investment of existing City capital improvement sources the City will be able to design and permit the entire new path and actually rebuild the most over-crowded section of the path. During the more than two years that it will take to complete this work we will strengthen the City's overall finances and secure the resources to finish this vital effort.



Community and Economic Development Office
Burlington, Vermont

TIF District (Tax Increment Financing)

Exhibit A

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www.burlingtonvt.gov/cedo

Exhibit E

Burlington Tax Increment Financing
Downtown and Waterfront District
Policies and Guidelines

TIF PURPOSE

Burlington Tax Increment Financing (TIF) is designed to stimulate economic growth and development in the City. The primary objectives of the Burlington Tax Increment Financing Program are to:

1. Revitalize and improve a significant downtown area;
2. Enhance employment opportunities within the City of Burlington and the surrounding region;
3. Stabilize business and growth incentives;
4. Preserve and enhance the tax base for the City of Burlington;
5. Develop high density housing in the commercial center;
6. Reduce pressure for commercial and residential development upon open lands in the region;
7. Reduce traffic congestion and protection of existing interstate exchanges;
8. Integrate into and be compatible with regional development, capital and municipal plans.

These guidelines are for Burlington's existing Downtown and Waterfront District.

TIF GUIDELINES

Notwithstanding compliance with any or all of the guidelines, the utilization of TIF is a policy choice to be made by the Burlington City Council on a case-by-case basis. TIF is not a right under Vermont law or City Ordinance and meeting these guidelines does not create a right or entitlement for any applicant.

For TIF to be considered by the City of Burlington, the application must meet a majority of the following guidelines.

A. Threshold Guidelines:

1. The City's participation is economically necessary and involvement by the City is needed in order for the project to be undertaken. The Project must demonstrate that but for the tax incremental financing, the Project would not go forward. Justification for economic need and City involvement must be clearly demonstrated.
2. TIF funds will be utilized for the construction or rehabilitation of public infrastructure facilities such as traffic upgrades, public parking facilities, etc. that are needed within the TIF District;
3. The project creates significant new tax value equal to or greater than $10,000 a year.
4. Financial capability to undertake project must be evidenced prior to review.
5. Compliance with all statutory and regulatory guidelines of the State of Vermont and the City of Burlington.

B. Guidelines to determine level of City Participation:

1. The project assists an established business in the City of Burlington, thus retaining existing employment;
2. The project creates long-term, permanent employment;
3. The Project pays a prevailing wage for construction and livable wages for jobs generated or saved.
4. The project improves a blighted area in need of redevelopment, or an area identified as a priority by the City of Burlington;
5. The project improves a blighted building in need of rehabilitation;
6. The project will create other public benefits, such as access to open spaces, community facilities, job training, supporting local contractors and suppliers, etc

TIF STRUCTURE

1. In order to minimize risk to the citizens of Burlington, tax increment financing will be provided via credit enhancement agreements only. The applicant must provide any and all other documentation that will protect the City's economic and financial position, and/or that conform both the letter and spirit of the underlying agreement between the applicant and the City.
2. The City prefers a financing structure that utilizes up to 75% of the incremental taxes, and whose term is less than 10 years.

TIF MANAGEMENT

The City's Community & Economic Development Department will act as a clearinghouse and coordinate all activity regarding tax increment financing proposals. Working with potential applicants, the Community & Economic Development Department will:

1. Provide information on tax increment financing;
2. Discuss project proposals and accept preliminary applications from applicants;
3. Review preliminary applications based on policy guidelines with the City Treasurer, City
4. Attorney, City Tax Assessor, and other City Departments as appropriate;
5. Advise applicants on findings of City staff review;
6. Following a review and evaluation of an application, the Community & Economic Development Director will make a written determination whether to accept or reject the application. The Director's written decision approving an application and the application will be sent to the Mayor and the City Council where required for review and a recommendation. The Community & Economic Development Director will also send decisions rejecting an application to the same.
7. Provide assistance, if required, to the City Council.
8. Monitor on-going public and private investment in the development project.
9. Preliminary tax increment financing applications will be provided by the Community & Economic Development Department, City of Burlington, 149 Church Street, City Hall, Burlington, VT 05401

All applicants must pay a $250 non-refundable application fee at the time of submission. If tax increment financing is approved, a one time administrative fee equal to 7.5% of the incremental taxes reallocated to the project will be charged.

All applicants will be required to sign a Legal Fee Consent form agreeing to reimburse the City of all legal costs incurred as a result of the tax increment financing proposal, whether or not tax increment financing is approved.

In addition, any out-of-pocket expenses incurred by the City in connection with the tax increment financing proposal will be reimbursed by the applicant, whether or not tax increment financing is approved.

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To: Miro Weinberger, Mayor

From: Peter Owens, CEDO Director

Date: August 28, 2012

RE: Bike Path Funding

Background

It is a high priority of the Administration to move forward with the full implementation of the Bike Path Task Force. The Administration is in full agreement with the Task Force's broad based funding approach and ready to commit the first $3.5 to 4 million dollars of City funds toward achieving it. The administration is fully committed to 1) moving forward with design and permitting of the full path; 2) starting construction ASAP; and 3) aggressively pursue full funding and implementation of the bike path project over the next five years.

Phased Implementation

The first step toward full implementation is undertaking full design and permit the entire 7.5 mile project. Funding for initial design work is part of the $2.57 million TIF bond. The bond also provides capital funding for the central section of the bikepath.

	Estimated Cost	Funding Source
6. Perkins Pier to King Street	$145,000	TIF
7. King Street to College Street	$710,000	TIF
8. College Street to Lake Street	$330,000	TIF
9. Lake Street through Urban Reserve	$1,385,000	TIF
Design, Permit + Construction Inspection Segments 6-9	($250,000-500,000 Included in above estimates)	TIF
PH I: USES FUNDED BY TIF BOND	$2,570,000	

The non-TIF funds will be required to extending the first phase to North Beach—a logical terminus for Phase I. Table below summarizes estimated capital needs.

10. Urban Reserve to North Beach	$475,000	(from report)
Estimated Design & Permit balance of 7.5 mile path	$1,100,000	(10-20% cc)
PH I: USES FUNDED BY NON TIF	$1,575,000	See below

Non TIF Funding Sources

A combination of non-TIF funds will be tapped to complete this initial phase of permitting, design, and construction. This commitment to design and permit the entire project provides a great opportunity for the nascent Parks Foundation to launch an aggressive fund raising campaign for private dollars. Public-private collaboration is critical to realization of the project's overall vision. It will be a key to leveraging additional public, foundation and other funds to complete the vision.

FY14 & FY15 ½ cent tax	$360,000	½ cent tax
Private Fundraising	$1,000,000	Foundation
Other City Capital Sources TBD	$215,000	PFP, City Capital Budget
SOURCES OF NON-TIF FUNDING	$1,575,000	

Feasibility study cost estimates are necessarily generalized and conservative. Funding levels and other funding opportunities are likely to come into sharper focus once design work is completed. It may be necessary to increase modestly the investment of other City Capital Sources if the private fundraising lags behind the $1 million projection in the first two years of this project.

Councilors

NOVEMBER 6, 2012 SPECIAL CITY MEETING -
ISSUANCE OF GENERAL OBLIGATION BONDS
FOR PUBLIC IMPROVEMENTS WITHIN THE WATERFRONT TIF DISTRICT

In the year Two Thousand Twelve...

Resolved by the City Council of the City of Burlington, as follows:

That WHEREAS, the Burlington Bike Path Task Force, which was created by a City Council resolution in September 2010, has made recommendations for improvements and changes to Burlington's Bike Path; and

WHEREAS, the Waterfront Access North Project includes significant public infrastructure improvements to the waterfront area to the north of Waterfront Park, including brown field remediation, utility undergrounding, parking, sidewalks, plantings and lighting improvements; and

WHEREAS, all the needed public improvements described above are within the Waterfront TIF district;

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby requests, pursuant to Sec. 25 of the City Charter, that the Mayor call a Special City Meeting to be held on November 6, 2012 and that the following question be placed on the ballot of that Special City Meeting:

"Shall the city council be authorized to issue general obligation bonds or notes in one or more series in an amount not to exceed Six Million Fifty Thousand Dollars and 00/100 ($6,050,000) in order to finance public improvements pursuant to the Urban Renewal Plan for the Waterfront Revitalization District that serve the Waterfront Tax Increment Financing (TIF) district, specifically for the Waterfront Access North Project, and Bike Path improvements that serve the TIF district; it being understood that tax increment from properties within the TIF district shall be pledged and appropriated for the payment of principal and interest on any bonds or notes issued for the purpose of accomplishing these improvements?"