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**BOARD OF FINANCE
MONDAY, JANUARY 9, 2012
CONFERENCE ROOM 12, CITY HALL
5:00 P.M.**

PRESENT: Mayor Kiss; City Council President Keogh; Councilor Wright; Councilor Paul (arrived for item 10).

ALSO PRESENT: Interim CAO Schrader; ACAO Goodwin; Councilors Decelles, Bushor, and Shannon; Barbara Grimes, Bill Kropelin, BED; Bob McEwing, Airport; Marina Collins, Retirement

ABSENT: Councilor Mulvaney-Stanak

1. Agenda

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

2. Public Forum

n/a

3. Approval of the Board of Finance Minutes

- a. September 12, 2011
- b. October 17, 2011
- c. October 31, 2011
- d. November 7, 2011
- e. November 14, 2011

Councilor Wright and City Council President Keogh made a motion to approve the minutes. The motion passed unanimously.

4. ATTORNEY: Charter Change Increasing Authorized Annual Borrowing – BED

City Council President Keogh and Councilor Wright made a motion to approve the charter change.

A member of the audience, Councilor Bushor, inquired about language of the charter and inquired if a section had been included for historical purposes. Interim CAO Schrader stated it was supposed to be there.

City Council President Keogh inquired if this had been authorized temporarily in the past year.

Barbara Grimes, BED, stated they had missed the deadline for a ballot item last year and it was done as a temporary measure.

Councilor Wright inquired what the effect of this would be on taxpayers. Ms. Grimes stated this allowed BED to increase the allowance of their budget because they had many capital projects in progress. This was advantageous to rate payers and would have no impact on taxpayers.

City Council President Keogh inquired if this would affect the City's borrowing capacity. Interim CAO Schrader stated it would take away some borrowing capacity, but the City was not close to the maximum allowable.

The motion passed unanimously.

5. ATTORNEY: Charter Change Increasing Authorized Annual Borrowing – City

City Council President Keogh and Councilor Wright made a motion to approve the charter change.

A member of the audience, Councilor Bushor, inquired if the language stating that 'notes anticipating revenue shall mature within two years' was the standard amount of time. Interim CAO Schrader stated that it was standard for anticipation notes. Those need to be converted to bonds within that time frame.

The motion then passed unanimously.

6. BED: Approval of Amendment to Security Agreement with TB Lincoln Loggers

City Council President Keogh and Councilor Wright made a motion to approve the amendment.

Bill Kropelin, BED, stated this request was for an extension of an existing agreement with TB Lincoln Loggers previously approved in 2008. This security agreement allowed the logging company to buy a wood chipper and furnish wood chips to McNeil Generating Station. This request is for the term of the agreement to be extended by one year as the company was unable to pay off the security agreement, due mainly to weather related events and reductions of inventory at the McNeil station. Mayor Kiss inquired if this would allow for continued service. Mr. Kropelin stated McNeil will continue to receive all of the logger's output and will increase the rate at which he pays back this loan. Ms. Grimes stated unforeseen events prompting the extension were the flooding in the spring and Hurricane Irene.

City Council President Keogh inquired who officially owned the chipper. Mr. Kropelin stated the City held the note and the chipper was collateral for the loan. The logger owned the chipper and the City receives a discount on the loads of wood delivered because the City provided him the loan to buy the chipper. City Council President Keogh inquired if there was a bond on this. Mr. Kropelin explained that if the logger defaulted the City would retrieve the chipping machine. Ms. Grimes stated this would go before the Electric Commission and would not move forward without their approval.

The motion passed unanimously.

7. AIRPORT: Authorization for Janitorial Services

The Board considered a request from the Airport for authorization to contract with Global Industrial Services for \$2,121,000 for three years. City Council President Keogh and Councilor Wright made a motion to authorize the contract.

Mayor Kiss inquired if the company was local. Bob McEwing, Airport Director, stated the company had a local location but their headquarters were not. The price was slightly lower than previous contracts. The quality of the work was good and the prices are competitive.

A member of the audience, Councilor Bushor, stated she was concerned by the wording in the resolution that stated Board of Finance approval was required because this also needed to be approved by the City Council. Mr. McEwing stated he would revise the language.

The motion passed unanimously.

8. AIRPORT: Request for Pratt & Whitney Lease

The Board considered a request from the Airport for authorization to execute an amendment to the sublease related to Pratt & Whitney rental space. City Council President Keogh and Councilor Wright made a motion to approve the lease.

Mr. McEwing stated this was a renewal of the lease and Pratt & Whitney have used the space since 1996.

City Council President Keogh inquired if the terms remained the same. Mr. McEwing stated one difference was the ground rent had been adjusted.

The motion passed unanimously.

9. C/T: GASB 45 Report

The Board considered a report from Buck Consultants which outlined the actuarial valuation of the post-retirement benefits plan. ACAO Goodwin explained the City was required to audit the post-employment employee insurance benefits every two years.

City Council President Keogh inquired if the information included Medicaid. ACAO Goodwin stated it only audited for fraud and determined the future liability of the current employees who work for the City.

Councilor Wright inquired if there was anything that the Board should pay special attention to. Interim CAO Schrader stated the information in the report was useful because retirees were eligible to pay an equivalent based on the allowables. This report allowed the City to see whether or not the cost of the retiree premiums were paying the claims that were being generated. This report determined if the premiums were covering the cost of participation and, if not, should there be a different premium charge for retirees.

Mayor Kiss stated the report noted that older employees cost more than their premiums. Interim CAO Schrader stated they also become eligible for Medicare which greatly reduces the cost of

their claims.

Councilor Wright and City Council President Keogh made a motion to accept the communication and place it on file. The motion passed unanimously.

10. C/T: Report on Status of Master Lease FY2012

ACAO Goodwin stated the City had a five year plan for the purchase of vehicles, equipment and software. In the following year, those purchases would be converted into a lease. This methodology created strain on cash, and if the City were unable to obtain a lease, the cash would be gone. Moving forward, it would be better to have the lease in place before making the purchases. The Board of Finance and City Council approved the Master Lease in August, but that paid for expenses that were incurred in FY10. This would ensure that whatever equipment had been purchased in 2012 would be financed in 2012. There would be a list of expenditures that would take place in 2012 of approximately \$1.8 million and the financing would be in place before the money was spent. Year to date, the City had spent \$600,000. No additional funds would be spent until there was a lease in place.

City Council President Keogh stated this sounded like a good idea. He inquired how the difference would be made up. ACAO Goodwin stated he would work with a leasing entity to receive a reimbursement for the \$600,000. Future purchases would be reimbursed as they occurred. The difference was that the City had spent \$1 million to \$1.5 million that was not reimbursed until the following year. Interim CAO Schrader stated there was only \$600,000 that had been spent and future purchases would take place before the end of the fiscal year.

Mayor Kiss inquired how this would work when the exact cost of purchases were not known. ACAO Goodwin stated there would be a list of purchases with approximated costs. The deal would be structured so that the expense would not hit until 2013. In the FY 13 budget, this would be accounted for. Interim CAO Schrader stated there should be a good estimate of what the cost for equipment and software would be. If the cost were exceeded, the City Council would then have to approve an amendment to the master lease.

A member of the audience, Councilor Bushor, inquired how the money could be requested before the item was purchased. Interim CAO Schrader stated the City can draw down on the lease total. At the point in time the equipment is purchased, the cost of equipment would be deducted. The financing company would then have a commitment to allow that piece of equipment into the lease. Councilor Bushor stated in the past the companies had something tangible they could take, but inquired what they would have in this scenario. Interim CAO Schrader stated they still would have that option. ACAO Goodwin stated this solution would improve the cash balance and the city's liquidity and reduced risk. He stated reimbursement would take place very quickly. Interim CAO Schrader stated they have closely reviewed the list of purchases. In time, it may be possible to end this process and build purchases into the budget.

City Council President Keogh and Councilor Wright made a motion to accept the report. The motion passed unanimously. Councilor Paul abstained, as she was not present for the discussion.

11. C/T: Authorization for Agreement with State of Vermont – Irene

Interim CAO Schrader stated this would allow the State of Vermont to reimburse the City for

cleanup after Irene. There are several projects that are in the \$25,000 range. In order to be reimbursed the City has to enter into an agreement.

Mayor Kiss inquired if anyone was familiar with the manual. Interim CAO Schrader stated he and some Public Works employees were becoming very familiar with it.

City Council President Keogh and Councilor Paul made a motion to approve the agreement. The motion passed unanimously.

12. C/T: Authorization for Agreement with State of Vermont – FWHA Relief Program (Flooding)

The Board considered a request to authorize an agreement with the State of Vermont. Interim CAO Schrader stated this agreement related to the Spring Flooding and that there was one City structure that was impacted, the bike path along Route 127. It was a federal highway structure and was not eligible for FEMA money, but was eligible for Federal Highway money. The federal share was 80% and the City would be required to cover 20%. There needed to be an agreement in place to receive reimbursement.

City Council President Keogh and Councilor Paul made a motion to approve the agreement.

City Council President Keogh inquired where the City's 20% would come from. Interim CAO Schrader stated a portion of the capital program was set in reserve to cover the local share of the Spring Flooding. He stated he hoped there would be better estimates in the coming weeks. City Council President Keogh stated there were concerns about this. Interim CAO Schrader stated there was a meeting with FEMA to go over this. A report would be provided as soon as possible and explained there had been difficulties coming to agreement with what would bring things to a pre-existing condition. The City was still in negotiations and he hoped it would be wrapped up in the next six weeks.

Mayor Kiss inquired how much money was in reserve. Interim CAO Schrader stated he would have to check.

The motion passed unanimously.

13. Budget Discussion

Interim CAO Schrader stated the memo provided to the Board outlined the potential impacts on departments to meet the guidelines that were established with budget instructions. The guidelines were that there could be no net increases in City obligations and the departments would have to absorb the COLAs that were contractually obligated.

The impact of the guidelines would be painful for some departments, but most would be able to absorb the COLA with only a small impact on services. This would also require looking at current practices and making sure that they are cost efficient. The Library came forward with a proposal to have an eight hour day instead of the split shift they currently have. This would result in operating 8 hours a day instead of 10. The departments that would be most strongly impacted were Fire, Police, and Parks. Fire will need to cut \$245,000, and most of their costs are personnel. The only opportunity they would have to deal with this cost is to reduce apparatus. A

potential solution would be to move one company from active service to a rotating one. This would result in the layoff of 4 firefighters. There are ramifications of removing an engine company. The rates of homeowners insurance are based on the response from the Fire Department and the availability of water. It increases response time and the Chief stated that a fire doubles in size every ten seconds.

The Police Department has a \$400,000 amount they would have to absorb. That would mean the elimination of 9 sworn officers. Parks would have to mitigate \$125,000. They would be recommending increasing some fees. There would be a decrease in expenditures that would have a direct impact on maintenance to the Parks.

Interim CAO explained there was an increase to the Grand List that will mitigate some of this required cuts and there were increases in gross receipts and the sales tax. These increased funds would probably be used for health insurance. He notified the Board that the deadline to place a budget item on the ballot was February 23. He recommended holding a special work session to discuss the issue.

City Council President Keogh stated he would like to have a work session. He stated he was concerned how cuts would impact different areas.

A member of the audience, Councilor Bushor, stated she appreciated this and stated she was concerned about the proposal to increase fees for usage because affordability was important. People who do not qualify for the sliding scale will not use programs. These suggestions were out of touch with the people that are served. The City had agreements with institutions that offer money and inquired if those are slated to increase this year. Interim CAO Schrader stated there was no indication that fees for service could be negotiated higher. The contract with UVM was currently in negotiation. Councilor Bushor inquired if it would impact FY13. Interim CAO Schrader stated it had the potential to. Councilor Bushor inquired if there were a slate of meetings for the Board of Finance to meet with departments. Interim CAO Schrader stated a lot of the content of those discussions would come after City Council decided on the ballot item. It would be difficult to have discussions until after March when a budget was drafted. Mayor Kiss stated there was plenty of time for more discussion. Councilor Bushor stated it was a challenging time because the three members of the administration may not be available after March.

Councilor Wright inquired if it was clear that these cuts must happen at this level to avoid a tax increase. Interim CAO Schrader stated that was what was currently being reviewed. Councilor Wright inquired if there were alternatives to the cuts being proposed. Interim CAO Schrader stated it was a policy decision and nothing was set in stone. A lot of this would involve significantly more discussion. Departments would prefer a tax increase rather than increasing fees, particularly in the Parks Department, and were trying to keep programs affordable. Even if the item went on the ballot and was not approved, there were more potential options.

Councilor Wright inquired if there were discussions about having the tax be used only for public safety. Interim CAO Schrader stated there were opponents to having splinter taxes, but there could be a discussion about this. One question was the impact of switching to the School Department paying for their own retirement, but this would have no impact on the overall tax rate. The retirement tax would go down but the school tax would go up.

Councilor Wright inquired what the total amount was of the School Department being

responsible for their retirement costs. Interim CAO Schrader stated FICA was \$410,000 and Retirement was \$800,000. ACAO Goodwin stated the total was approximately \$1.5 million and there were three components. Councilor Wright stated last year the voters were asked for an increase and it was rejected. Then the City found it didn't need to be increased as much as was originally projected. He inquired if there was a better handle on it this year. Interim CAO Schrader stated it will be about the same. The longer the fiscal year runs, the better revenues can be predicted. The CPI today is 3.5%. In March it could be different. This was a conservative estimate.

Councilor Paul inquired if there could be a trend of the expenses over the last eight quarters provided to the Board. She also stated it was important to remember that some money was going from one side of the City to another and that hole would need to be filled which would require a tax increase. Interim CAO Schrader stated that was correct. Further, there was a model for gross receipts and sales tax that review trends from the past five years and predicts future trends. It was not a science, so the economy could do better or worse than anticipated. He believed it was good to estimate conservatively so there was not a deficit at the end of the year.

City Council President Keogh inquired if the School Department budget went down if there would be a reduction in taxes. Interim CAO Schrader stated that was not necessarily true. The School Department could put a new budget in front of the voters. He stated it would if retirement and FICA were still covered. Mayor Kiss stated if the shift were made, the Schools would have to make their budgets work.

Councilor Wright inquired what the current contribution to the pension was and inquired if it was scheduled to go to the \$4-4.5 million range. ACAO Goodwin stated he did not want to provide numbers without researching the answer. Interim CAO Schrader stated they could provide a report and were working on issues with the pension. He noted that currently the number was approximately 12-14% of payroll.

Councilors Paul and Wright made a motion to adjourn. The meeting was adjourned at 5:59 p.m.