



Office of Mayor Miro Weinberger

TO: City Council
FROM: Miro Weinberger, Mayor
DATE: June 17, 2018
RE: Fiscal Year 2019 Proposed Budget

Herein is the Mayor's proposed budget for Fiscal Year 2019 (FY19). This budget builds upon the strong financial foundation re-established over the last six years through the commitment of the Administration, City Council, and Burlington voters. In particular, I would like to recognize the hard work of our Chief Administrative Officer, Beth Anderson, who has led the budget process for the first time this year, the members of her team, and the City Department Heads and their teams, who deserve a great deal of credit for our financial progress.

This budget will continue to advance important community goals while also making prudent and strategic investments designed to help reduce future taxpayer costs. The total budget reflects feedback from four work sessions with the City Council in May, and includes over \$200 million in total annual expenditures. This memo summarizes the highlights of the FY19 budget.

Summary: The FY19 City Budget continues the city's progress on infrastructure, public safety, and new equity initiatives while also continuing property tax restraint and fiscal improvement

The goals the Administration set for this year's budget were ambitious: continue the City's momentum investing in infrastructure, public safety, a host of relatively new efforts to protect and support our kids and vulnerable populations (the low-barrier shelter, the Burlington Early Learning initiative, the Street Outreach program) and other emerging needs, while also continuing the half-penny tax cut to the General City Tax rate first made in FY17. Keeping operational taxation at the same level was challenging, as it has now been five years since we increased the property tax rate for municipal operations and, unlike most municipal expenses, this primary municipal funding source does not increase as inflation rises.

I am pleased to submit to you a budget that achieves these important goals.

FY19 Budget is Built on a Strong Municipal Financial Position

In November 2017, Moody's Investors Service upgraded the City's credit rating from A3 to A2, representing an upgrade of four steps in three years. In explaining their decision, Moody's Financial Services (which provides an independent assessment of the creditworthiness of the City) called out the City's improved financial position with sound reserves following four consecutive years of operating surpluses, as well as the City's strength as the economic center of Vermont (Aaa stable). This budget should enable the City to continue to improve its financial position as has been our collective goal for years.

The City continues to make great strides with its other enterprise funds. In March 2018, Moody's upgraded the Burlington International Airport credit rating to Baa2 from Baa3 and revised the Airport's credit outlook from positive to stable. This is the second credit rating upgrade the Airport has earned since 2014 and represents its highest rating since prior to the multiple downgrades of the

Airport in 2010. In its Credit Report, Moody's stated that "the upgrade reflects continued improvement in liquidity and stability in debt service coverage, combined with a strengthened cost recovery framework following the adoption of a five-year airline agreement that is residual in nature and provides for a 1.5x DSCR and 200 days cash on hand."

Moody's also affirmed in November 2017 the Burlington Electric Department's "A3" credit rating and affirmed the City's Water Utility "A1". The BED rating cited a number of credit strengths, including: strong and focused management working on industry transition, including ensuring utility fixed cost recovery through rate structure, and diverse and substantially renewable power supply resource mix, which mitigates industry challenges such as market price disruptions and carbon regulation. In its rating summary for the Water System Revenue Bonds, Moody's recognized the City for its stable service area and ample system capacity, healthy debt service coverage and improving liquidity, and sound legal security provisions.

Further, the Administration continues efforts across City departments to identify opportunities to operate more efficiently and identify potential cost savings. Our work includes consolidated purchasing, process improvements, and expanding data analysis to identify opportunities. The benefits of these efforts can be seen in the reduced operational costs experienced in FY18 and the additional reductions projected for FY19.

Early Achievement of Unassigned Fund Balance Target Creates Investment Opportunity

An exciting element of this year's budget is that we have an opportunity to make important municipal investments to reduce future costs and improve operations with approximately \$2 million of Unassigned Fund Balance reserves that exceed the targets that we set several years ago.

In 2015, the Administration and the City Council set a new Fund Balance Policy that called for the accrual of an Unassigned Fund Balance of at least 5 percent and no more than 15 percent by FY19. The purpose of the policy is to create a healthy operating reserve for the City that will help insulate it in future years from unpredictable changes in the economy or unexpected events, and the creation of this new policy was specifically cited by Moody's as a major factor in their 2016 credit rating upgrade restoring the City's A rating.

The initial policy envisioned the City reaching the 5 percent threshold by 2019. We outpaced this projection substantially, and ended FY17 with an Unassigned Fund Balance of \$8.4 million, a figure representing approximately 14 percent of operating costs. We are proposing opportunities to invest Unassigned Fund Balance dollars in excess of the 10 percent to support a number of projects that we believe would result in benefits to the City, including improved service to residents, operational efficiencies, and cost savings. We have included \$848,000 in investments in the budget at this time, and plan on pursuing three separate studies that will likely result in additional recommendations for investment by the end of the calendar year. The largest current proposal is to commit \$500,000 for the upcoming reappraisal, which we now have a statutory obligation to pursue in a timely fashion. This commitment, combined with funds we have set aside in past years, should give us approximately sufficient funds to complete that major work without the need to raise taxes for that purpose.

By separate cover I have submitted a memo and chart to you with additional detail about these current and possible future investments.

FY19 Budget Continues Investments in Public Safety

Burlington remains one of the safest cities in America, but like every other city across the country, we are facing major law enforcement and public health challenges in the form of a growing opioid crisis,

years of increases in the number of requests for service related to mental health issues, and public demands for changes in the way we police.

The FY19 Budget sustains all of the investments in public safety in recent years while making a number of important new investments, including:

- Increasing the Police Department funding to grow the authorized size of the department to 105 sworn officers (from 103.5 in FY18 and 100 in FY17). The impact of this increase on Burlington taxpayers is mitigated by the second year of our three-year federal grant providing matching funds for this additional staffing.
- Funding a new pilot to bring a mental health counselor for the Burlington Fire Department. Our firefighters are on front lines of mental health and opioid crises and often experience very traumatic situations. We have long offered mental health supports to our police officers and this represents an important new investment in the wellbeing of our outstanding firefighters.
- Providing for a pilot expansion of the lifeguard season at North Beach, in response to Burlington Fire Chief Steven Locke's fall 2017 policy review following the tragic death of Burlington High School student Christian Kibabu. We will be piloting this expansion at North Beach because it continues to be the most frequently visited beach in Burlington, and will assess it after the end of this summer season.
- The investment made in a new Computer Assisted Dispatch system in FY18 will result in the launch of this new operational capacity in early FY19 and expenses related to this new system are now part of the Fire Department's operating budget.
- Continuing to grow the capability of the Fire Department's paramedicine capability. By the end of FY19 we project to have 13 paramedics (up from nine currently), nearing the full-staffing goal of 15 that will ensure the City sends a paramedic on all medical calls.

FY19 Budget Includes Important Investments in Kids, Seniors and the Most Vulnerable

The FY19 budget includes continued support for recent investments to expand opportunity for Burlingtonians of all backgrounds and incomes, including:

- Funding for Early Learning Initiative. The budget includes a second year of funding for the Early Learning Initiative (ELI) focused on Burlington children from birth to age 3. In FY18, the City provided \$500,000 in capacity grants to Burlington childcare programs that provide high-quality care to low income children and commit to increasing the number of slots available for children ages 0 - 3. The initial grant attracted one small but important application, and the City moved quickly into a second round of grant awards that resulted in seven applications exceeding \$500,000. We look forward to bringing these strong proposals to the Council for approval in the coming weeks. In year two, consistent with discussions with the Council's CDNR Committee, we anticipate the program transitioning to funding high quality child care scholarships for low-income infants and toddlers.
- Extended Low-barrier Shelter Pilot. Over the past four winters, the City has supported the work of CVOEO, COTS, and most recently the Community Health Centers of Burlington to run a low barrier warming shelter from November to April. The shelter has been successful in reducing the State's motel room cold weather exception program costs, saving taxpayers substantial money each year, and helped some of our most vulnerable residents find jobs and permanent housing. In FY18, we reserved \$60,000 in matching funds to support extending the shelter year round. We encountered operational and financial challenges with this plan and the shelter remains on the same calendar at this time. However, we have continued our conversations with key partners (the Community Health Center of Burlington – the operator of the facility – and other potential funders), and are now confident of being able to offer some extended operations in calendar year 2019 if we carry-

forward last year's \$60,000 appropriation. Our focus now is to operate the shelter for as many additional months as possible in 2019 as a pilot effort, and to assess whether such extended operations result in positive outcomes for the users and City operations. We will continue to provide the CDNR Committee updates on our progress on this initiative.

- Expanded Funding of Senior Centers. Both the Champlain Senior Center – now operated by the City's Parks, Recreation and Waterfront Department – and the Heineberg Community Senior Center will experience reduced funding in FY19 from other funders. The FY19 budget will give the City the ability to replace this recently lost funding in the upcoming year and to work with the senior centers to ensure long-term financial stability.
- Enhanced Funding of the Housing Trust Fund. The FY19 budget again includes \$175,000 of supplemental funding for the Housing Trust Fund to increase the City's contribution to the equivalent of a one cent assessment of the Grand List.

FY19 Budget Supports Continued Implementation of Sustainable Infrastructure Plan

The FY19 Budget includes continued investments in the City's infrastructure at historically high levels. Highlights of this investment include:

- The funding necessary to complete summer 2018 rebuilding of large stretches of North Avenue, Colchester Avenue, Plattsburgh Avenue, and other roads. Altogether, in 2018 we will approach 300 percent of the typical road paving investment.
- Another fiscal year at nearly triple the historic level of investment in our sidewalks.
- The building of two new Bike Path pause places and design work for additional investment in the southern three miles of the Bike Path in calendar year 2019.

This public infrastructure investment will result in an approximately two-cent increase in FY19 in the dedicated tax related to debt service payments. This is consistent with the multi-year projected tax increases communicated in advance of the November 2016 bond vote supported by approximately three-quarters of Burlington voters.

Continued Investment in Water Infrastructure Enhancements

As in FY18, the FY19 enterprise fund budgets include enhanced capital investment in the City's water, wastewater, and stormwater infrastructure. The budget includes a combined 4.95 percent increase in the City's water/wastewater/stormwater rates to continue addressing deferred capital needs, and to address revenue reductions the water and wastewater funds are receiving as a result of the long-standing but recently discovered billing errors. The average age of the City's water mains is 75 years – and a full quarter of our system is over 100 years old. In 2017, Burlington piloted a water main relining program that is cheaper and causes less disturbance than excavating and replacing pipes. DPW applied lessons learned from that effort to complete substantially more work last summer, and will continue to do that work this summer.

FY19 Budget Continues Fourth Year of Flat Operating Taxes, While Debt + Retirement Tax Rise

The FY19 Budget includes an overall municipal tax rate increase of 4.16 percent. Key information about this increase includes:

- At the new rate of \$0.8344, the total rate is just 4.35 percent higher than it was four years ago.
- No new revenue is being raised for general operating costs. The total of the operating-related taxes remain set at a rate approximately 1 percent lower than the assessments four years ago.
- Nearly two-thirds of the tax increase was driven by an increase in the voter-approved debt service tax. As noted above, this increase is consistent with the projections supplied to voters prior to the November 2016 vote on the \$27 million Sustainable Infrastructure Bond.

- The remaining increase is the result of a 7.25 percent increase in the Retirement Tax, the first increase since FY15. Some additional notes on this increase:
 - This increase is driven in part by updated actuarial projections which have reallocated some of the City's projected pension liability onto the general fund instead of enterprise funds.
 - The increase is also partially driven by the failure of the fund's high assumed 8 percent rate of return, which has been difficult to meet in recent years (this policy is being reviewed by the Burlington Employee Retirement System).
 - The budget assumes that this year City taxpayers will pay 72 percent and employees will pay 28 percent of the annual actuarially determined contributions required to maintain the BERS, approximately the same percentages paid in the current fiscal year. The actual percentages will be determined as a result of collective bargaining negotiations with the City's unions, which are currently underway. The current 72/28 split represents substantial progress for taxpayers, since prior to the last round of retirement systems reforms when taxpayers were responsible for approximately 80 percent of costs. This split is consistent with the way in which costs in FY18 were shared but has not been fully negotiated with public employees for FY19, as those contracts are in active negotiation.
 - Despite three years of level Retirement Tax payments and the achievement of employee risk-sharing and cost-sharing more consistent with national averages, the Administration remains concerned about the long-term BERS trends. We anticipate continued discussions in FY19 about strengthening the system and controlling its cost impact on the municipal budget.

Conclusion: the FY19 Budget represents the continuation of the financial and programmatic progress we have forged together over the prior six years. The FY19 budget coming before the City Council is very much in line with the significant progress we have made together over the last six years. I again thank you for your help with the development of the FY19 budget and respectfully request your strong support for it on June 18, 2018.

Thank you.