



## Office of Mayor Miro Weinberger

TO: City Council  
FROM: Miro Weinberger, Mayor  
DATE: June 10, 2016  
RE: Fiscal Year 2017 Proposed Budget

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Herein is the Mayor's proposed budget for Fiscal Year 2017. The Chief Administrative Officer Bob Rusten, members of his office, and all of our Department Heads and the members of their teams deserve credit for the careful and methodical work that went into creating a budget that represents progress and will serve our community well. I also would like to thank City Councilors for your help in the creation of this budget and engagement in four productive work sessions in May.

The City of Burlington is a complex financial entity involving numerous enterprise funds, many revenue streams, and over \$200 million (excluding the School District) in total expenditures. While this complexity defies a simple summary, I would like to highlight key elements of the FY17 Budget.

### **Summary: the FY17 budget represents progress and good news on many fronts**

The City's FY17 Budget builds on the financial progress we have made together over the past four years and projects to achieve more of the City's goals than any of my prior budget submissions. The budget continues to strengthen the City's fiscal position while also including critical new investments in public safety, infrastructure, and City service quality. It continues to expand opportunities for all Burlingtonians through investment in the Housing Trust Fund at nearly double its historic rate, and through new services at the Library and in an Old North End community center. And, as a result of hard and disciplined work by Department Heads, the City Council, and the CAO's office, progress on some of structural financial challenges, as well as a strong and growing economy, the FY17 budget achieves all of this and more while *also* responding to the concerns of Burlingtonians about rising property tax rates by slightly lowering taxes for the second year in a row.

### **FY17 budget reduces municipal tax rate for second year in a row**

For the second year in a row, the municipal tax rate will be slightly lower than the preceding year. The FY17 decrease will be slightly over a half a penny per hundred dollars of property value. The two years of modest tax rate decreases together represent progress restraining the property tax growth, a major constituent priority.

The largest factor in the tax rate reduction is the refinancing of the City's General Fund debt, made possible by the restoration of the City's "A" credit rating in March 2016 and resulting in a decrease in the portion of the municipal tax rate related to debt service. In explaining their decision to upgrade the City's rating, Moody's Financial Services (which evaluates the risk associated with Burlington's debt) called out the City's improved liquidity, conservative budgeting, prudent expenditure management, and commitment to addressing financial pressures in a responsible manner.

The tax rate reduction is also a result of the progress the City has made – through a shared Administration, City Council, and public employee effort – controlling the costs of the City's pension

system. After more than a decade of steep increases, the City's share of the FY17 pension costs will remain at the same level as the prior year for the second year in a row.

Detailed and thorough budgeting work also played a major role in this year's budget. With multiple years of budget information now available through our New World accounting system, the CAO's office was able to perform a line-by-line analysis of the General Fund's over three thousand budget lines and reduced or kept level-funded approximately two thirds of them.

Finally, the strong economy and a focus on creating new revenue (i.e., higher utilization of recreation programs) has driven non-property tax growth.

As we have worked with the Council to finalize the budget in recent weeks, several Councilors have expressed serious interest in electing to reduce the tax rate an additional half penny to a penny (reductions that would save the homeowner of an average-priced house approximately \$12-\$24 annually). While I am sympathetic to the desire to reduce tax rates even further and have given the proposal serious consideration, the CAO and I are not supportive of a further tax reduction at this time for the following reasons:

- We are focused on achieving the Unassigned Fund Balance Policy target of a 10 percent reserve. As detailed by CAO Rusten in his response to the recent budget memo from Council President Knodell and Councilor Wright, we have made rapid progress towards this 10 percent goal over the last two years, increasing our unassigned fund balance from \$70,000 at the end of FY 14 to a projected \$4.5 million at the end of FY 16. However, when the books are closed on FY16 we expect to be approximately \$1 million short of the 10 percent goal. The Fund Balance Policy created by the Administration and City Council a year ago has been specifically cited by Moody's as a major factor in their recent credit rating upgrade restoring the City's A rating, and Moody's has made it clear that they will be watching closely to see if we successfully implement and sustain the policy. Given the City's plans for significant additional infrastructure borrowing in upcoming years, and the likelihood of greater budget challenges in future fiscal years, we see major advantages in budgeting to meet our 10 percent target in FY17.
- We do not think it is prudent at this point to build the City budget on the assumption that the new payment-in-lieu of taxes (PILOT) revenues that began flowing to the City in FY16 will remain ongoing municipal revenues. Prior to the Agency of Education ruling that impacted the current fiscal year, these funds were distributed to the School District per the City Charter, and the School Board continues to actively work to find ways to invest the funds in activities that support our children either through legislative change or other means. I support these efforts to find appropriate ways to strengthen the School District's finances. By reserving instead of spending these funds we avoid the possibility of sudden structural deficit in the future in the event that the School Board is successful in its efforts. Moreover, given that the achievement of the Fund Balance targets will also directly financially benefit the schools during their anticipated upcoming significant bonding efforts, building our reserves is an appropriate use of PILOT funds that benefits both the City and School District.
- Cutting tax rates further now could put our recent fiscal progress in jeopardy. In recent weeks we have become aware of a School District proposal for using the PILOT funds that may be consistent with state education finance rules and could reduce the projected \$1,000,000 FY17 surplus by as much as \$500,000. Given that the FY17 budget reduces the \$500,000 contingency we have had in recent years to \$100,000, we are concerned that a tax decrease of \$180,000 to \$360,000 would give the City little margin for error in the event of an economic downturn or an event which

creates substantial unexpected costs. The achievement of operating surpluses in multiple consecutive years has been another major factor in our recent credit rating progress and the reversal of this trend would not be well-received by Moody's or our financial partners.

An alternative way to achieve a further tax decrease would be to cut the new investments proposed by the Administration in the FY17 budget. The next sections of this memo describe and defend these critical investments.

### **Budget again includes substantial new investment in public safety**

Although Burlington remains one of the safest cities in America, we are facing major law enforcement and public health challenges. In recent years, we have faced a growing opiate challenge, a huge increase in the number of requests for service related to mental health issues, and public demands for changes in the way we police.

With my support and direction, the Burlington Police Department has responded decisively to these new challenges with critical new 21<sup>st</sup> Century Policing initiatives in the last two years, first under Chief Michael Schirling and now under Chief Brandon del Pozo. These new efforts include:

- Becoming one of the first agencies in New England to deploy body cameras for all of our sworn officers.
- Increasing substantially the number of foot patrols and bike patrols in the City.
- Creating new community engagement and domestic violence officer positions to build trust and communication with the community and respond to one of our largest public safety concerns.
- Organizing the new CommunityStat initiative that will attempt to effectively help coordinate the many agencies that are working on some element of opiate challenge.

Successfully implementing these efforts requires full staffing at the Police Department, as these strategies are labor intensive. In FY17, the Burlington Police Department (BPD) budget has been built on fully staffing 100 sworn officers throughout the year (to avoid extended periods of staffing dropping to 90-95 officers as we have experienced historically). In addition, the FY17 budget expands the availability of sworn officer by one through the hiring civilian trainer (thereby releasing current sworn officer from this duty).

Effective community policing is also expensive. Over the last two budget years as we have pursued these strategies we have increased the Burlington Police Department's draw on the general fund by a cumulative \$1.6 million, by far the largest net change of any department. We are projecting continued growth in law enforcement investment in FY18 and FY19 to increase our number of sworn officers further, and we are pursuing federal grants to mitigate the short-term cost of this growth.

The FY17 budget also includes the top budget priorities of new Burlington Fire Chief Steven Locke: a new deputy chief in the Fire Department to improve operational effectiveness and new investments in our young paramedicine program that is providing a new higher level of care to Burlingtonians during emergencies.

### **The FY17 budget continues expanded infrastructure investment**

Last year, the FY16 budget funded the first year of the 10-year Capital Plan using a number of secured and anticipated one-time sources to increase capital investment by \$2.3 million. This additional investment focused on three areas:

- Enhanced sidewalk funding. In FY15, the City increased sidewalk funding by approximately 80 percent to begin to restore the City's sidewalk system, and that heightened level of funding is maintained in FY16 and FY17;
- \$1 million for continuing the expansion and rebuilding of the Bike Path from the Urban Reserve to North Beach; and
- Substantial investments in City facilities, especially in critical deferred maintenance items identified in our recent independent study of City facilities.

This focus on infrastructure will continue to grow as we implement the Capital Plan. The FY17 Budget assumes that we will return to the Council in the coming months with a variety of strategies to fund the increased investment necessary in our streets, sidewalks, bike path, City Hall Park, vehicle fleet, IT, garages, facilities and water infrastructure. To effectively implement these new investments, the FY17 capital budget includes new positions at DPW and PRW, as well as the creation of a City Architect position to ensure quality control during this period of heightened investment (while included in the capital budget, the creation of this position will happen through future Council action).

Further, as in FY16, the FY17 enterprise fund budgets include enhanced capital investment in the City's water, wastewater, and stormwater infrastructure. The budget includes a combined 2.5 percent increase in the City's water/wastewater/stormwater rates to continue addressing deferred capital needs that have been insufficiently addressed since they were identified in the Water Division's 2007 capital plan. The average age of the City's water mains is 75 years – and a full quarter of our system is over 100 years old. Burlington is about to become the first community in the state to begin relining our water lines, a process that is cheaper and causes less disturbance than excavating and replacing pipes. The Department of Public Works (DPW) anticipates that these fee increases will cause the typical single family home monthly bill to rise \$1.72 from \$69.05 to \$70.77.

**The FY17 General Fund Budget includes significant new investments intended to save money and continue to strengthen the City's finances**

In recent years we have pursued numerous strategies that required up-front investment to achieve medium and long-term financial progress. These strategies have included:

- An agency-wide re-organization and early retirement initiative at BED.
- Creation of a centralized purchasing position.
- Replacement of short-term debt with the Fiscal Stability Bond.
- Creation of new Assistant City Attorney positions to take legal work in house
- Energy-efficiency investments in City facilities.

Cumulatively, these and other efforts have saved the City millions of dollars and played a significant role in the tax rate decreases of the last two years and our success at maintaining energy rates at their 2009 levels for another year. The FY17 budget also includes a number of new investments similarly designed to build on this track record and achieve sustained savings over time, including:

- The creation of a new municipal risk management position that will assess liabilities in the City's operations and direct efforts to improve workplace safety and reduce claims against the City. Our experiences with regulatory inspections over the last year has made it clear that this kind of investment – which has been part of BED's operations for many years – is a critical new capacity to add to the City broadly.
- Additional investment in information technology modernization, and the creation of new network and data positions. The data position will support the Chief Innovation Officer (CIO)'s efforts to

build a culture of continuous improvement and efficiency through LEAN management techniques. This position will not only save far more dollars than it costs over time, it will also improve the quality of City services. Early implementation of LEAN techniques at our Code Enforcement office have resulted in an approximately 30 percent increase in completed inspections. The CIO has included a memo in the budget materials with a further explanation of the importance of this new position.

- Retention of a management consultant to evaluate efficiency opportunities in some major General Fund departments. This effort will be funded by carried over unspent FY16 contingency dollars, led by the CAO, and modeled after the successful re-organization completed at BED in 2016.

The FY17 budget also supports a re-organization of the Clerk-Treasurer's Office designed to capitalize on the recent success of that office, improve efficiency, address the remaining audit findings and promote internal controls.

Finally, in addition to continuing our progress towards achieving our unassigned fund balance goals, as described above, the FY17 continues comparable efforts to build critical reserves in our enterprise funds. The City has made great strides with its days cash on hand (COH) both at the Burlington International Airport (BTV) and Burlington Electric Department (BED) in its effort to improve the credit ratings of both BTV and BED by increasing the liquidity of these enterprises. Moody's Investors Service has indicated that BTV's reaching 200 days COH will be a significant factor as Moody's considers the Airport for another credit ratings upgrade. At the end of FY15, BTV had accumulated 176 days COH, and it is targeting 185 days COH as its FY16 goal. BED had 73 days COH by the end of FY14 and 95 days COH at the end of FY15. With a projection of 106 days COH for the end of FY16, BED has targeted 109 days COH for FY17.

### **FY17 Budget Expands Opportunity for Burlingtonians**

The FY17 budget includes important new or recent investments in expanded opportunity for Burlingtonians of all backgrounds, including:

- Continued funding of the Housing Trust Fund at historically high levels. Over the last year the Housing Trust Fund allowed the City to play a major role in assisting the residents of the North Avenue Co-op as they took control of their future and purchased the park, and in supporting the build out of Champlain Housing Trust's (CHT) exciting new Bright Street project in the Old North End. In future years it will help support the major new housing effort on the former Burlington College land and on other critical projects.
- Funding for a new community center in the Old North End. The budget includes new funding for the Parks Recreation and Waterfront Department to work with CHT to open a new community center in the former St. Joseph's school in the coming months. This center will include both youth programming and a meals service for seniors.
- Continued investment in the expansion of Library Services youth services. Over the last two years we have added a much-needed teen librarian position and converted a part-time youth librarian to full-time. These investments remain in this year's budget and are supported by new investment in evaluating, expanding, and cultivating our outreach initiatives to direct community services. The goal of this investment will allow the creation of a collective impact approach to create efficiencies amongst other city wide institutions, fostering community collaborations and ensuring measurable direct community impact around youth and teen services.

**FY17 marks the third consecutive budget with the fair, factual, and forward principles**

CAO Bob Rusten first articulated the goals of crafting a Fair, Factual, and Forward Budget early during the FY15 budget process. These goals continue to be reflected in numerous ways in the FY17 budget:

Fair: While the City's General Fund Budget gets the most attention because of its relationship to property taxes, the Administration and the City Council are responsible for numerous budgets and – while there is considerable overlap – there are different constituencies and users impacted by these different budgets and related taxes and fees. The Administration and the Council have a responsibility to treat all the different stakeholders accurately and fairly in their cost and revenue allocations between the General Fund and other budgets.

Factual: The Administration has attempted to be highly factual in its creation of the budget. In the General Fund alone, we have published a budget with over 3000 line items, each showing the FY17 budget compared to prior year totals and current year actual spending. As a result of the availability of these comparisons, we began last year to make substantial adjustments to prior year budgets. The resulting improvements in budget accuracy based on our new accounting system having been fully implemented have continued this year and, with the entire City budget and all spending information available online and updated daily, we expect the budget accuracy to continue to improve.

Forward: The FY17 Budget – the third created under the direction of CAO Rusten – has benefited from the dramatic improvements in the City's budgeting practices. As part of the budgeting process, this year for the second time the City was able to project out over the next three fiscal years (FY17, FY18, and FY19) to help identify tradeoffs and plan earlier for future challenges.

**Conclusion: the FY17 Budget represents the institutionalizing of important steps toward greater municipal financial health and improved operations.** The FY17 budget coming before the City Council is very much in line with the significant progress we have made together over the last four years. I again thank you for your help with the development of the FY17 Budget and respectfully request your strong support for the budget on June 13, 2016.

Thank you.