



Office of Mayor Miro Weinberger

TO: City Council
FROM: Miro Weinberger, Mayor
DATE: June 13, 2014
RE: Fiscal Year 2015 Proposed Budget

Herein is the Mayor's proposed budget for Fiscal Year 2015. I want to thank Chief Administrative Officer Bob Rusten, the members of his office, and all our Department Heads and the members of their teams who contributed to the creation of this document, which represents progress on many fronts and is the product of an orderly and careful process. I also want 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 nearly \$180 million (excluding the School District) in total expenditures. While this complexity defies a simple summary, I would like to highlight key elements of the FY15 Budget.

Administration Strives for an FY15 Budget that is Fair, Factual, and Forward

CAO Rusten articulated the goals of a Fair, Factual, and Forward FY15 Budget early in the process, well before the Town Meeting Day vote. These goals are reflected in numerous ways:

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. Property tax payers are not, for example, in an identical universe as electric rate payers. 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. There has been a conscious effort this year to scrutinize these allocations and reset them where necessary, a practice that should help the City avoid future problems.

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 3,500 line items, each showing the FY15 budget compared to prior year totals and current year actual spending. As a result of these comparisons, in a number of areas – for example Parks and Recreation and Burlington City Arts revenue lines that had been repeatedly over-budgeted in the past – we have made substantial adjustments to prior year budgets. Going forward, with the new accounting system fully implemented 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 FY15 Budget – the first created under the direction of CAO Rusten – also is intended to be a bridge to future budgets. For example: we have changed policy and begun funding a future reappraisal Reserve Fund; we are laying the groundwork to purchase vehicles with cash instead of with loans that have frequently left the City paying off debt for vehicles even after they were no longer

in use; and we have included funds for a central purchaser and for the creation of a much needed Information Technology (IT) Department that should enable the City to improve performance and free up the CAO's Office to focus on major cost drivers. I very much appreciate that the voters were willing to fund this approach, and we will be working hard over the next year to make good on this opportunity.

The FY15 General Fund Budget maintains restraint and prudence

The proposed FY15 General Fund Budget limits overall growth in expenditures to 2.6 percent (after accounting for changes in the way billing for expenses within General Fund Departments is now being accounted for). This figure will be achieved in part by limiting Cost of Living Adjustments for municipal employees to one percent (unless savings in our health care benefits or pension funds can be achieved that allow the City to consider a greater increase), and it includes a \$500,000 contingency for unanticipated expenses, a budget-line introduced in the FY14 Budget that has proven important.

The FY15 Budget reflects much-needed focus on capital project administration

This Administration is very focused on moving forward capital and infrastructure projects ranging from major transportation projects like the Champlain Parkway to ongoing routine re-investment in our buildings. Over the past two years, we have made substantial progress rebuilding the Bike Path after the 2011 floods, eliminating a large backlog of Penny for Parks projects, and in recent months making substantial progress investing in our buildings through the Capital Improvement Program (CIP) by putting more focus on project management and implementation capacity. The FY15 Budget takes another step in this direction by bringing in-house electrical work that previously was outsourced at a higher cost.

In addition, the FY15 Budget addresses a related operational area where we have struggled – capital project accounting. The Budget adds to the CAO's Office an accountant focused on project accounting (including billing/reimbursement, which in the past sometimes lagged far behind). This position will be particularly important in the years ahead as the City enters construction on Waterfront Access North and ramps up other waterfront tax increment financing (TIF) projects.

The FY15 Budget reflects substantial improvement in most enterprise funds and the City's intent to address remaining challenges within CEDO and Traffic

The City's efforts to improve the financial position of its enterprise funds are producing results.

Wastewater and stormwater: A three-year effort – begun in the prior Administration – to turn around the troubled Wastewater Fund was successfully completed over the past year. In June, 2011, the Wastewater Fund showed a \$2.5 million deficit that contributed significantly to the Auditor's and Moody's Investors Service's concerns about the City's liquidity position. Further, through December, 2013, the Wastewater Fund faced a considerable challenge as the refinancing of \$14 million of debt was needed. As a result of multiple rate increases since 2011 and the City's first refinancing with the Vermont Municipal Bond Bank – a relationship estimated to save rate payers over \$5 million in interest due to a lower interest rate – the debt was refinanced successfully, and the General Fund deficit now has been repaid fully.

FY15 will be the first year since the utility was created in 2009 in which the stormwater utility will be functioning at full capacity as a result of a fee increase that was phased in over the course of FY14.

Water: A similar effort to eliminate deficits in the Water Fund also was successfully completed in the last year. The audited deficit peaked in June, 2012, when the Water Fund owed the General Fund over \$2.2 million and was called out by the Auditor and Moody's as a driver in the City's vulnerable liquidity

position. As a result of a rate increase, this deficit has been eliminated, and the fund now is poised to make over \$900,000 of needed infrastructure investment in FY15.

Airport: After some of the most difficult years in the institution's long history, the airport will finish its third strong year of financial performance this month with a projected debt coverage ratio of 1.75, well above both the target of 1.4 (identified to restore market confidence in the airport's finances) and the 1.25 required by our debt covenants (which the airport failed to hit prior to FY12). In FY14, Moody's stabilized the airport's ratings outlook for the first time since 2010. The FY15 Budget reflects the fact that the airport faces another challenging year of maintaining this performance. The airport's longstanding dispute with South Burlington regarding proper taxation of the airport is anticipated to go to court this fall and could result in significant budgetary relief.

Burlington Electric Department: BED's Moody's rating also was stabilized in FY14 after years of negative outlook. After prevailing in arbitration regarding the Winooski One Hydroelectric Plant and retiring the debt related to construction of the McNeil Generating Station, BED is poised to make financial progress in the FY15 Budget. In FY15, while continuing its modernization efforts and the build-out of solar installations on several City properties, BED will improve its cash on hand and debt service coverage, two areas that Moody's has been critical of in the past.

The FY15 Budget also reflects our attempts to address challenges in two major funds:

Traffic: As has been projected for over a year, policy changes will be needed in FY15 to keep the fund solvent and to make necessary investment in the City's three parking garages. In preparation, the Administration has been pursuing a unique collaboration among the Community and Economic Development Office (CEDO), the Department of Public Works (DPW), and the Burlington Business Association (BBA). We currently are awaiting the results of an engineering investigation into the garages that is expected to show a need for substantial reinvestment, and consultant recommendations regarding a range of possible revenue enhancements and operational changes focused on making the Traffic Fund solvent and improving the parking experience in Burlington. Early in FY15, the Administration expects to approach the Public Works Commission regarding fee changes and to return to the Council for a budget adjustment once the studies are complete.

CEDO

As was discussed with the Council in a lengthy work session, CEDO's FY15 Budget attempts to display clearly and address fully the Department's chronic funding challenges through a combination of cuts and steps towards a new, stable funding stream for CEDO's economic development activities. (The Department's community development efforts are grant funded and remain largely unchanged.) The City has enjoyed strong growth in the Gross Receipts revenues in significant part because of new downtown developments that CEDO has helped facilitate. Continued growth of these revenues could contribute to a long-term stable funding strategy for CEDO.

The FY15 Budget reflects the City's expanded commitment to the Livable Wage and to enforcement of the ordinance

The results of the lengthy discussion over the last year about the Livable Wage can be seen in two budget lines. The Parks and Recreation Budget for seasonal employees was increased by over \$60,000 in anticipation of the additional wages that now will be due to seasonal employees who have worked for the City for more than four years.

The City's Budget also was increased to include \$40,000 for professional consulting that is expected to be spent largely on an independent livable wage monitor – a concept created by the ordinance revisions of the last year.

The FY15 Budget dedicates new funds to the City's increasing commitment to diversity and inclusion efforts

The Budget includes \$115,000 for three new diversity and inclusion initiatives.

New Training Position: \$60,000 for the creation of a new training position in the Human Resources Department that will allow the City to pursue enhanced employee training in diversity, accessibility, and other areas.

Strategic Plan: \$50,000 for implementation of the City's new Diversity and Equity Strategic Plan (an increase of \$15,000 over FY14).

Intern Stipends: \$5,000 for intern stipends to allow high school and college students from diverse backgrounds to participate in the third year of the City Hall internship program.

In addition, the Parks and Recreation Budget includes \$18,500 of increased scholarship funding for Burlington youth who need financial assistance to participate in Parks and Recreation programs.

The FY15 Budget will enable the City to improve operations through better Information Technology (IT) capacity, as well as through improved data collection and analysis

For many years, the largest operational need reported by our Department Heads has been better IT equipment and staffing, and the public also long has desired improved municipal IT performance. For the first time, the FY15 Budget includes funds for the creation of a new IT Department Head, as well as an additional new position. We also likely will be bringing to the Council some re-organization of our additional IT positions to create a more effective Department. Not only will these changes allow us to address long-standing needs, but also a new IT Department should position the City to build on the open data efforts we have made over the last year and lead to more data-based analysis and decision-making, and thus more effective, impactful performance.

Conclusion: the FY15 Budget represents another important step towards restored municipal financial health and improved operations, however, serious challenges remain ahead

In sum, I believe the Budget now before the Council is very much in line with the significant progress we have made together over the last two years. I again thank you for your help with the development of the FY15 Budget and respectfully request your strong support for the Budget on June 16, 2014.

I want to be clear that our work on financial challenges will not end with the passage of this Budget. As I stressed in my State of the City Address in April, the work ahead includes finishing the critical task of completing the resolution of the Burlington Telecom situation, confronting directly the rising costs in our pension system and K-12 education system that are driving property tax growth, creating and implementing a long-term stewardship plan for our municipal assets, and increasing municipal revenues through sustained financial growth. While work is underway in each of these areas, further action from the Council beyond the Budget will be required to address these challenges.

Thank you.