

Financial Policies & Municipal Debt

Financial Policies and Goals

The accounting policies adopted by the City of Burlington conform to generally accepted accounting principles (GAAP) as applicable to government agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. In 2001, the City implemented three Government Accounting Standards Board Statements (GASB 34, 37, & 38) regarding basic financial statements, management's discussion and analysis, and certain financial note disclosures. Burlington was the first municipality in Vermont that was required to present its financial statements under these standards for the fiscal year ending June 30, 2002.

Accounting Method and Fund Structure

The City's financial management system is divided into a number of funds for budgetary purposes. The City's resources are allocated to and budgeted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are to be controlled. The funds included in this budget are as follows:

Governmental Funds:

1. General Fund
2. Special Revenue Fund
 - a. Community & Economic Development Fund
 - b. Traffic Fund of Public Works
 - c. Church Street Marketplace Fund
 - d. Housing Trust Fund
3. Capital Projects Fund

Proprietary Funds:

1. Enterprise Funds
 - a. Airport Fund
 - b. Burlington Electric Department
 - c. DPW - Water Resources Fund
 - d. DPW - Wastewater Fund

Fiduciary Fund (Trust Fund):

1. Retirement Fund

Also included in the City's budget, in summary form, is the School Department budget. This is considered to be a Special Revenue Fund of the City. Please refer to chapter five for a more detailed description of these funds.

The Basis of Budgeting

The budgets of government type funds (the General Fund and Special Revenue Funds) are prepared on a modified accrual basis. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. Available means that the funds are collectible within sixty days of the fiscal year end (60-day rule). The amount of property taxes uncollected within that time period is accounted for as deferred revenue. In addition to property taxes, special assessments, payments in lieu of taxes and charges for services have been treated as revenue sources susceptible to accrual within the governmental fund types. Effective in the 2001 fiscal year, the City implemented GASB Statement #33, "Accounting and Financial Reporting for Non-exchange Transactions." The statement requires that grant revenue can be recognized when all applicable eligibility requirements are met and the resources are available. Therefore, the 60-day rule now applies to grant revenue also.

Budgeted expenditures are recorded when the liability is incurred, except under certain circumstances. These include interest on long-term debt, certain compensated absences, self-insured health and dental benefits, reserves for property, casualty, and worker's compensation claims, landfill post-closure costs which are recognized when the obligations are expected to be liquidated or are funded with expendable available

resources. The Enterprise Funds (Water, Wastewater, and the Airport) also recognize expenditures when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the City (for example, water user fees are recognized as revenue when service is provided).

In all cases (for both Enterprise Funds and General Governmental Funds), goods and services not received by year-end are counted against the next years' budget.

The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of "generally accepted accounting principles" (GAAP). In most cases this conforms to the way the City prepares its budget. Exceptions are as follows:

- a. Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability on a budgetary basis, and then adjusted to the GAAP basis, for reporting on the Comprehensive Annual Financial Report.
- b. Depreciation expense is recorded on GAAP basis only and not in the budgets of individual funds.

The Comprehensive Annual Financial Report shows fund expenditures and revenues on both a GAAP basis and Budget basis for comparison purposes.

The modified accrual basis of accounting is followed by the governmental and fiduciary funds listed above in the development of its budgets.

The proprietary funds employ the full accrual method of accounting in the development of their budgets. The special revenue funds defer recognition of Federal and State grants until an expense of the type appropriate to the grant is incurred. Therefore, carryover amounts are displayed in the budget for grants, which have not been fully expended from previous years. Recognition of revenues on funds received in connection with loan programs are recognized when loans are awarded and expenses incurred in excess of current grants and program income. Offsetting deferred revenue is recognized for all loans receivable. Loan repayment revenue is recognized as the loans are repaid.

Encumbrance accounting, under which purchase orders for the expenditure of monies are recorded in order to reserve that portion of the appropriation, has not previously been employed as an extension of formal budgetary integration in City funds.

Legal Budgeting Requirements

There are several important sections of the City Charter which deal with the adoption and management of the City budget. Two of the most important ones, dealing with the

adoption of the budget, and management of expenditures are listed below:

City Charter Section § 157. Preparation and Submission of Budget

"The mayor shall, with the assistance of the other members of the board of finance, annually prepare an estimate of the necessary appropriations to cover the expenses of each department and branch of the city government for the next fiscal year, to be known as the "budget," and shall submit said "budget" to the city council for its guidance and action in making the annual appropriations and the tax levy for such next fiscal year. The mayor shall submit the "budget" to the city council on or before June 15 of each year and the city council shall make the annual appropriations and the tax levy no later than June 30 of each year. The city council may reduce the items of such budget, but shall not increase them except by two-thirds vote of said city council. Wherever any appropriation, annual or otherwise, shall be made to any department or branch of the city government, for any specified purpose, no part of such appropriation shall be expended for any purpose other than the one specified, unless authorized by resolution of the city council or by written permission of the board of finance. Nothing herein contained shall authorize the board of finance to transfer any appropriation, or any part of any appropriation, from one department or branch of the city government to another."

City Charter Section § 70. Excess Expenditures Prohibited;

"No superintendent, board or commission member or corresponding executive officer of any city department, with the exception of the health, police and fire departments, and then only in case of an emergency, shall expend any money or incur any obligation, unless there is an available appropriation from which the same may be paid and to which it may be charged, and shall not at any time expend any money or incur any obligation in excess of such appropriation. In case any such superintendent, board or commission member or corresponding executive officer of any city department violates this provision, the city clerk/treasurer shall report such occurrence to the mayor and to the city council. The mayor shall advise the city council as to whether there was appropriate justification for such violation and if the mayor and city council agree that such violation was unjustified, the mayor may recommend and the city council may determine that the office shall thereupon become vacant and shall be forthwith filled for the unexpired term by the officials

authorized to make the original appointment in such case.”

Municipal Debt:

City Borrowing Authority

The City has authority to issue general obligation (GO) debt up to 10% of the Grand List, or approximately 10% of the assessed value of real and personal property in the City. The State of Vermont law sets forth the debt limit. Other methods of financing are revenue bonds, revenue anticipation notes, long-term lease debt, notes payable and tax anticipation notes. Tax anticipation notes and most revenue-supported debt are outside the debt limit. Tax anticipation notes are temporary loans not exceeding, during any quarter of the fiscal year, twenty-five (25%) percent of the annual tax assessment and repaid from quarterly property tax installment receipts. Revenue bonds are generally used to finance enterprise activities and are paid by the revenue generated by users of the services. Revenue anticipation notes are short-term loans repaid from charges for services or user fees. The information below is from the June, 2005 Official Statement for the City’s general obligation bond issue:

ESTIMATED MARKET VALUE (per report of 8/15/05)	\$	3,606,806,864
ASSESSED VALUE 2006	\$	3,606,806,864
GRAND LIST (1% OF ASSESSED VALUATION) 2006	\$	36,068,069
GENERAL OBLIGATION DEBT: (June 30, 2005)		
Levy Supported	\$	18,496,467
Revenue Supported	\$	4,488,533
LONG-TERM LEASE OBLIGATIONS	\$	30,706,817
REVENUE DEBT	\$	153,944,205
OVERLAPPING GENERAL OBLIGATION DEBT	\$	1,035,540
POPULATION (2000 Census)		39,824
AREA		16.1 square miles

DEBT RATIOS:			% of
	Debt	Per Capita	Assessed
	Outstanding	(39,824)	Market Value
General Obligation Debt			
Levy Supported	\$ 18,496,467	\$ 464.46	0.51%
Revenue Supported	\$ 4,488,533	\$ 112.71	0.12%
Overlapping Debt	\$ 1,035,540	\$ 26.00	0.03%
Total G.O. Debt	\$ 24,020,540	\$ 603.17	0.67%

The debt limit provided by Vermont law is ten times the amount of the grand list, or approximately 10% of the assessed value of real & personal property in the City. A computation of the City’s general obligation borrowing limit is presented below:

Borrowing Capacity -Debt Limit (10% of \$3,606,806,864)	\$ 360,660,686
Less: Outstanding bonds subject to limit	<u>\$ 22,985,000</u>
Net Borrowing Capacity	<u>\$ 337,675,686</u>

City Bond Rating

The City’s bond rating is evidence of its strong financial health. The City has a bond rating of Aa3 by Moody’s Investor Services, Inc. that was reconfirmed this year for its GO bonds. Burlington general obligation bonds continue to be considered a very good investment both within Vermont and nationally. To maintain this rating, the City is striving to increase the ratio of the General Fund Balance to total revenues of 5%.

The following tables present the debt position of the various City funds.

	Issue Date	Interest Rate %	Maturity Date	Original Issue	Outstanding June 30, 2004
General Obligation Debt (Tax Levy Supported)					
General City					
Fire Truck Bond 1995	06/01/95	4.00-5.00	05/01/2005	500,000	60,000
G.O. 1996 Series A Refunding Bonds	06/15/96	3.80-5.40	12/01/2009	5,695,000	3,180,000
General Improvements 1996 Series C	07/01/96	5.00	12/01/2016	250,000	0
General Improvements 1997 Series A	07/10/97	4.00-4.80	12/01/2007	500,000	230,000
General Improvements 1997 Series B	07/10/97	4.00-4.80	12/01/2007	750,000	345,000
Marketplace II 1998 Refunding Bonds	08/03/98	3.90-4.10	12/01/2005	217,000	20,000
Urban Renewal 1998 Refunding Bonds	08/03/98	4.25-4.55	12/01/2011	835,000	555,000
G.O. 1998 Series B Refunding Bonds	08/03/98	4.25-4.55	12/01/2011	174,167	115,833
General Improvements 1998 Series A	08/03/98	4.20-4.30	12/01/2008	750,000	415,000
Bike Path II 1999 Refunding Bonds	02/16/99	3.25-3.80	05/01/2006	750,000	120,000
General Improvements 1999 Series B	07/20/99	4.25-4.80	12/01/2009	750,000	490,000
General Improvements 2000 Series A	10/12/00	4.25-4.75	12/01/2010	750,000	565,000
General Improvements 2001 Series A	10/01/01	3.00-4.00	11/01/2011	750,000	625,000
North/South Connector 2001 Refunding Bonds	10/01/01	3.00-3.10	11/01/2006	1,035,000	650,000
Waterfront Imp. 2001 Refunding Bonds	10/01/01	3.00	11/01/2006	1,090,000	665,000
General Improvements 2002 City Portion	07/30/02	3.00-4.00	09/01/2012	750,000	685,000
Fire Equipment Bond 2003A	05/01/03	3.50-4.00	11/01/2018	2,500,000	2,500,000
General Improvements 2003 Series B	10/15/03	2.00-3.75	11/1/2013	750,000	750,000
Subtotal				<u>18,796,167</u>	<u>11,970,833</u>
G.O. School 1996 Series A Refunding Bonds	06/15/96	3.80-5.40	12/01/2009	2,120,000	1,215,000
G.O. School 1996 Series B Bonds	06/15/96	5.25-5.60	12/01/2016	3,250,000	2,515,000
G.O. School II 1998 Series B Refunding Bonds	08/03/98	3.90-4.10	12/01/2005	260,400	24,000
G.O. School 1998 Series C Refunding Bonds	08/03/98	4.25-4.55	12/01/2011	696,667	463,333
G.O. School 2002 Series Refunding Bonds	07/30/02	2.50-4.00	09/01/2013	1,070,000	985,000
G.O. School 2002A Series Bonds	07/30/02	3.00-4.375	03/01/2018	860,000	830,000
Subtotal				<u>8,257,067</u>	<u>6,032,333</u>
Certificates of Participation					
Downtown Parking - Certificate of Participation	06/01/99	4.30-4.80	12/01/2018	5,500,000	4,315,000
Waterfront Refunding - Certificate of Participation	06/01/99	4.30-4.80	12/01/2018	1,390,000	1,150,000
Capital Projects - Certificate of Participation	06/27/00	5.375-5.75	12/01/2020	4,100,000	3,715,000
Police Facility - Certificate of Participation Refunding	07/30/02	3.00-4.25	05/01/2015	2,075,000	1,805,000
Subtotal				<u>13,065,000</u>	<u>10,985,000</u>
Other Notes Payable					
School Energy Note - EPA	01/01/87	0.00	12/30/2004	98,554	2,815
Winooski Main Street Lot Mortgage	05/10/98	5.00	05/15/2008	260,000	182,000
Pease Grain Lot & Central Garage Mortgage	05/10/98	7.20	05/15/2008	840,000	588,000
HUD Section 108 - US Guaranteed Notes 1999	04/28/99	5.40-6.20	08/01/2017	1,930,000	1,510,000
HUD Section 108 - US Guaranteed Notes 2003	02/12/03	1.32-1.36	10/31/2017	2,295,000	2,295,000
Subtotal				<u>5,423,554</u>	<u>4,577,815</u>

	Issue Date	Interest Rate %	Maturity Date	Original Issue	Outstanding June 30, 2004
Tax and Bond Anticipation & Other Notes Payable					
Tax Anticipation Note - General Fund	7/1/2003	1.95	8/15/2003	5,000,000	0
Tax Anticipation Note - General Fund	12/30/2003	2.24	3/15/2003	5,000,000	0
Bond Anticipation Note - General Fund	6/30/2003	1.74	7/30/2003		0
					0
Subtotal				<u>10,000,000</u>	<u>0</u>
Add Unamortized Premium				0	52,016
Subtotal				<u>10,000,000</u>	<u>52,016</u>
Revenue Anticipation Notes Payable-Enterprise:					
Wastewater Revenue Anticipation Notes	6/30/2004	2.57	06/30/2005	600,000	600,000
Wastewater Revenue Anticipation Notes	7/2/2003	2.00	06/30/2004	700,000	0
Subtotal				<u>1,300,000</u>	<u>600,000</u>
Revenue Supported					
Enterprise Funds:					
Airport Commission:					
Airport 2001 Refunding Bonds	10/01/01	3.00	11/01/2005	1,015,000	500,000
				<u>1,015,000</u>	<u>500,000</u>
Add Unamortized Premium				0	1,963
Subtract Deferred Loss on Refunding				0	(7,207)
Subtract Unamortized Discount				0	0
Subtotal				<u>1,015,000</u>	<u>494,756</u>
Electric Department:					
Nuclear Units #3	06/01/79	5.75	05/01/2008	1,200,000	200,000
Electric 1993 Capital	05/01/93	4.25-5.20	05/01/2007	250,000	0
Electric 1993 Refunding Bonds	05/04/93	2.50-4.75	11/01/2004	1,005,000	0
Electric 1993 Refunding Bonds	05/04/93	2.50-4.75	11/01/2004	180,000	0
Electric 1993 Capital	09/01/93	2.60-5.35	09/01/2009	250,000	0
Electric 1995 Capital	06/01/95	4.00-5.50	05/01/2010	250,000	130,000
Electric 1996 Series A Refunding Bonds	06/15/96	3.80-5.40	12/01/2009	555,000	300,000
Electric 1996 Capital Series B	06/15/96	5.25-5.60	12/01/2016	250,000	180,000
Electric 1996 Capital Series C	07/01/96	5.00-6.00	12/01/2016	250,000	215,000
Electric 1998 Series B Refunding Bonds	08/03/98	3.90-4.10	12/01/2005	390,600	36,000
Electric 1998 Series C Refunding Bonds	08/03/98	4.25-4.55	12/01/2011	174,167	115,833
Electric 2001 Capital Refunding Bonds	10/01/01	3.00-3.10	11/01/2006	570,000	255,000
Electric 2002 GO Refunding Bonds	07/30/02	2.50-3.50	09/01/2008	120,000	105,000
Subtotal				<u>5,444,767</u>	<u>1,536,833</u>
Add Unamortized Premium				0	3,420
Subtract Deferred Loss on Refunding				0	(42,014)
Subtotal				<u>5,444,767</u>	<u>1,498,239</u>
Water Resources:					
Water 1998 Series B Refunding Bonds	08/03/98	3.90-4.10	12/01/2005	217,000	20,000
Subtotal				<u>217,000</u>	<u>20,000</u>
Subtract Deferred Loss on Refunding				0	(2,477)
Subtotal				<u>217,000</u>	<u>17,523</u>

	Issue Date	Interest Rate %	Maturity Date	Original Issue	Outstanding June 30, 2004
Wastewater 1999 Series A Refunding Bonds	02/16/99	3.25-3.80	05/01/2006	6,490,000	1,990,000
Subtotal				6,490,000	1,990,000
Add Unamortized Premium				0	2,536
Subtract Deferred Loss on Refunding				0	(22,004)
Subtotal				6,490,000	1,970,532
Total Revenue Supported				13,166,767	3,981,050
Total General Obligation Debt				70,008,555	38,199,048
Revenue Debt					
Electric Department:					
Revenue Bonds 1992 Series A	10/01/92	6.25	12/01/2015	35,285,000	0
Revenue Bonds 1996 Series A	04/01/96	3.80-6.38	12/01/2012	54,475,000	35,735,000
Revenue Bonds 2001 Series A	12/01/01	2.30-4.60	07/01/2014	11,115,000	10,715,000
Revenue Bonds 2002 Series A	04/01/02	5.00-5.375	07/01/2014	20,875,000	20,210,000
Revenue Bonds 2004 Series A	04/15/04	4.27	07/01/2024		10,000,000
Subtotal				121,750,000	76,660,000
Add Unamortized Premium				0	1,994,981
Subtract Unamortized Discount				0	(70,311)
Subtract Deferred Loss on Refunding				0	(22,549,316)
Subtotal				121,750,000	56,035,354
Water Resources:					
Revenue Bonds 1997 Series A	07/10/97	4.10-5.00	12/01/2012	13,925,000	9,925,000
Subtotal				13,925,000	9,925,000
Subtract Deferred Loss on Refunding				0	(331,597)
Subtotal				13,925,000	9,593,403
Wastewater:					
Revenue Bonds 1990 Series 1	12/06/90	0.00	12/01/2010	5,378,105	5,082,313
Revenue Bonds 1991 Series 1	02/12/92	0.00	12/01/2014	19,403,807	18,936,475
Revenue Bonds 2001 Series	07/01/00	0.00	Unknown	65,700	65,700
Subtotal				24,847,612	24,084,488
Airport:					
Revenue Bonds 1997 Series A	05/01/97	3.85-5.60	07/01/2017	12,380,000	9,950,000
Revenue Bonds 1997 Series B	05/01/97	4.00-5.75	07/01/2017	7,450,000	6,010,000
Revenue Bonds, 2000 Series A	05/17/00	4.80-6.20	07/01/2020	10,435,000	9,490,000
Revenue Bonds, 2003 Series A, Series B	06/11/03	2.00-5.00	07/01/2028	24,800,000	24,800,000
Subtotal				55,065,000	50,250,000
Add Unamortized Premium					388,204
Subtract Unamortized Discount				0	(100,262)
Subtotal				55,065,000	50,537,942
Total Revenue Debt				215,587,612	140,251,187
Total General Obligation and Revenue Debt				285,596,167	178,450,235

Ratios

Ratio of Annual Debt Services for General Bonded Debt to Total General Expenditures for the Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures
1995	1,289,606	1,433,994	2,723,600	24,248,355	11.2%
1996	1,445,219	1,414,605	2,859,824	26,277,091	10.9%
1997	1,527,264	1,385,445	2,912,709	26,216,391	11.1%
1998	1,301,774	814,605	2,116,379	29,065,077	7.3%
1999	1,486,120	938,222	2,424,342	31,112,685	7.8%
2000	1,468,710	1,161,040	2,629,750	30,143,813	8.7%
2001	1,821,955	1,363,866	3,185,821	32,679,669	9.7%
2002	2,090,091	1,275,214	3,365,305	35,101,773	9.6%
2003	2,200,061	1,123,239	3,323,300	37,464,301	8.9%
2004	2,297,672	1,148,542	3,446,214	38,978,268	8.8%

Debt Service Requirements

Ratio of Annual Debt Service for General Obligation Bonds

Fiscal Year	Total Debt Service	Total General Revenues	Ratio of Debt Service to General Revenues
1995	2,723,600	24,099,314	11.3%
1996	2,859,824	26,632,592	10.7%
1997	2,912,709	28,398,861	10.3%
1998	2,116,379	28,113,630	7.5%
1999	2,424,342	32,022,348	7.6%
2000	2,629,750	30,600,487	8.6%
2001	3,185,821	32,099,550	9.9%
2002	3,365,305	33,512,175	10.0%
2003	3,323,300	35,801,291	9.3%
2004	3,446,214	39,605,805	8.7%

Municipal Debt

The City makes annual payments of principal and interest on the outstanding municipal debt. General Obligation Debt service expenditures, budgeted in the General Fund, are increasing by 2.3% over the previous year's budget. The total payment in FY 2006 of \$2,450,000 is supported by the property tax levy. Under City Charter, the City Council is authorized to set the annual tax rate at levels sufficient to raise the funds necessary to make these payments.

The City had about \$178.5 million in outstanding debt as of June 30, 2004. Of this, revenues other than the property tax support approximately \$144.8 million of the total. This self-support of a significant amount of the City's indebtedness puts Burlington in a favorable position of a moderate debt burden and debt per capita.

Direct Bonded General Obligation Debt Outstanding	\$ 18,003,166
Revenue Supported General Obligation Debt	\$ 4,581,050
Revenue Bonds	<u>\$ 140,251,187</u>
 Gross Bonded Debt	 \$ 162,835,403
 Capitalized Leases	 \$ 10,985,000
Notes Payable	\$ 4,629,831
Bond and Revenue Anticipation Notes	<u>\$ -</u>
 Gross Direct Debt	 \$ 178,450,234
Less:	
Bond & Revenue Anticipation Notes	\$ -
Revenue Bonds	\$ (140,251,187)
Self-supporting General Obligation Bonds	\$ (4,581,050)
 Direct Net Debt	 \$ 33,617,997
Overlapping Debt	\$ 1,035,540
 Overlapping Net Debt - General	 \$ 34,653,537