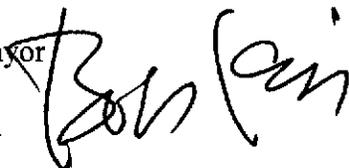


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TO: Burlington City Council
FROM: Bob Kiss, Mayor 
DATE: June 10, 2011
RE: Fiscal Year 2012 Proposed Budget

Herein is the Mayor's proposed budget for Fiscal Year 2012. This is a responsible and sound budget. Due to a challenging economic environment, the Chief Administrative Officer advised that it would be necessary to provide an "up to four cent" increase in the real property tax rate to meet an estimated operational shortfall of as much as \$1.4 million. In response, this office and the City Council authorized a ballot question during the Annual City Meeting held in March requesting voter authorization to increase the tax rate for general city services by four cents.

At the same time, at my request, the City departments submitted proposals to reduce the overall operational shortfall facing the City. This proved to be a difficult task given the already lean nature of the departmental budgets based on previous work to improve the efficiency and effectiveness of city government. The end result is a variety of revenue enhancements, expense reductions and employee reductions designed to achieve a balanced budget with the least impact on City services in FY12.

As you are aware, the ballot question was defeated. As a result, the reductions proposed by the departments need to be enacted. While this budget contemplates reductions in employees and expenses, these reductions will allow Burlington to maintain high quality City services and programs for the next year.

The proposed budget for the General Fund continues a moderate rate of growth in expenditures similar to the past five years. The total proposed budget for General Fund operating expenditures is \$48,930,428, an increase of \$855,931 or 1.8%. This moderate rate of growth achieves the City Council Super-Committee budget goals in terms of both overall expenditures and personnel-related costs. In particular, the increase in non-retirement personnel benefits is minimal with an overall reduction in the number of personnel by 2.3 full-time equivalent positions.

Among those position reductions are two full time positions and a part time position within the Clerk/Treasurer's Office. It is anticipated that these staff reductions can be accommodated through the purchase and implementation of a new Financial Management and Human Resources software system that, once completed, will increase staff productivity and efficiency. In addition, a re-organization within the Human Resources Department is proposed that, in effect, will provide better support to the administration of the City's Retirement program, allow for flexibility in assisting Human Resources functions and, ultimately, reduce costs to the Retirement Fund.

The proposed General Fund budget for Fiscal Year 2012 continues a significant new investment in the Streets and Parks infrastructure of the City. In addition, the expenditures narrative in Section 2 of the budget discusses regular and new initiatives in the programs and services of City departments. It is important to note that this budget is designed to have as little impact as possible on the quality, extent and scope of City services and programs during this continuing economic downturn but also continues to provide momentum, as it did last year, in support of sustainability and quality of life issues.

The Capital Improvements budget for the General Fund is proposed to be maintained at approximately \$5.5 million. Approximately \$3.9 million or 70% of the capital improvements is the street repaving programs financed by the voter approved \$5.5 million bond issue and tax rate increase. In addition, the Capital Improvements budget includes \$361,000 for Parks Capital Improvements paid by the one cent increase approved last year and the annual \$1 million bond. The detail of these two Capital Improvements budget will be provided to you next week. As previously discussed with the Board of Finance, I will recommend significant reserves pending more information on the extent of repairs to City property and structures required by the flooding this spring.

The overall non-education municipal tax rate is recommended to be 72.8 cents. This represents a 1.1% increase over the current fiscal year tax rate of 72.0 cents. This includes a 1.4 cent increase to fund the Annual Contribution Required for the retirement system. This increase is offset by a reduction of .69 cents in the tax rate for debt service.

Based on discussions with the Chief Administrative Officer, the City Retirement Fund's performance will continue to pose a significant challenge in the future. While this performance does not affect the funding requirements for FY 2012 as currently structured, a prospective increase in unfunded liability is likely to result in a significant increase in the City's annual contribution to the Retirement Fund in the foreseeable future. Recently negotiated labor agreements are designed to begin to address the long term financial viability of the program, but more work will be required.

The City's Stormwater Management Program has been a huge success and is currently self-sufficient. This program is meeting the City's state and federal stormwater permit compliance requirements. Fully addressing these requirements is essential in order to improve the water quality of Lake Champlain and the Winooski River, as well as the watershed that flows into them.

In this budget, the City continues the development process for the reuse of The Moran Center on Burlington's waterfront as well as to achieve approval of a new downtown Tax

Increment Financing District. These projects, similar to the recently completed construction of the parking addition at the Burlington International Airport, represent important economic development initiatives that will help to grow and sustain the local and regional economy.

This budget also begins a three year plan to increase wastewater rates to fully restore the fiscal integrity of the Wastewater Enterprise Funds. These increases, when fully implemented, will prepare and enable the City to refinance the approximately \$18 million in no interest loans from the State of Vermont that mature over the next five years.

This budget represents a continuation of our efforts to strengthen and improve finances and the financial management of city government. I caution the City Council and the public that significant measures will have to be taken during this fiscal year to address concerns looming in the Fiscal Year 2013 budget. The conservative strategy represented by this budget is aimed at continued investment in what makes Burlington a place that people choose for business, to live, raise a family, be educated, find high quality healthcare and human services, retire, visit, vacation and always enjoy. If we do not address the reality that faces us in Fiscal Year 2013, the services and quality of life that we have come to expect could be jeopardized.

The finances of the City remain strong and continue to improve despite the challenges of the past few years. The Fund Balance of the City has been strengthened with a total Fund Balance estimated at about \$9.9 million and an Undesignated Fund Balance of about \$7.2 million. The general success of the FY 2010 and FY 2011 budgets and the overall financial position of the City provide a good foundation for the FY 2012 budget. While the City faces challenges related to Burlington Telecom capital investment and start-up costs and anticipated pension liability, there continues to be substantial progress in moving forward.

I want to thank the CAO, Clerk/Treasurer's Office staff, and other City Departments for their determined efforts to resolve the fiscal challenges confronting the City. I appreciate the *investment of time and effort* by the Board of Finance in reviewing this budget and, once again, recognize the historical importance of work by the Citizen's Budget Committee in shaping this budget.

I look forward to your comments and suggestions.