

# **Proposed City of South Burlington Budgets for Fiscal Year 2013**

## **City Manager's Budget Message**

### **December 30, 2011**

**Introduction and Background:** The essential message contained in the following pages is that this budget, if adopted in this or substantially similar form, resolves virtually all of the key financial problems – in total exceeding \$17 million – that have been documented during the past eighteen months and results in fiscal stability for the City of South Burlington. This proposed budget, with recommendations for the establishment of several strategic reserve funds, also makes strides to achieve our financial vision for the future.

**Form and Substance of the Proposed Budget:** The FY 2013 proposed City Manager budget is very similar in format to that of the current FY 2012 budget. It continues and expands on the effort begun with the FY 2012 budget to maximize disclosure and transparency by more clearly and accurately showing all expenses and revenues. As appropriate, a number of items previously found in departmental budgets have been moved into Administrative Services. It is essential that we continue to provide the level of information needed to continue to build trust between all stakeholders, including residents, taxpayers, Council and Staff, and empower voters to make informed decisions.

The most important continuation for FY 2013 is that expenditures and revenues for all funds are proposed based on a realistic and fact-based methodology, something we were striving toward last year at this time, but were not yet completely sure of. Department and division heads have been fully involved in the budget preparation process. As much as possible, individual budget line items are based on multi-year trends, full accounting for actual expenses to be incurred, and the funds actually needed to provide services. Again, while this seems sensible and obvious, compared to the way budgets were prepared for FY 2011 and earlier, the methods we use here represent a radical departure.

Many of the largest financial problems facing South Burlington have been addressed (for more details on these issues you may wish to consult the FY 2012 Budget Message on the City's website at [www.sburl.com](http://www.sburl.com)). Key discussion points follow:

**Pension Issues Addressed:** Our auditors and pension actuaries have reported in open session to City Council that the pension loan, selected movement of staff toward VMERS and more accurate reporting have put the City in an excellent position. Our actuaries now report that we are in exactly the position we want to be. As a result, our pension expenses for the current year (FY 2012) and FY 2013 are expected to be hundreds of thousands of dollars less than budgeted for FY 2012. In addition, to avoid returning to an underfunded pension plan as had been the case prior to this year, we propose contributing about an additional \$100,000 more to the South Burlington Retirement Income Plan than the actuaries' recommended minimum for FY 2012 and FY 2013.

**Ending the Deficit Trend:** We believe the proposed FY 2013 budgets (along with the FY 2012 budgets in place) will end the budget deficit trend. While the General Fund experienced a deficit of approximately \$200,000 last year (FY 2011), we project, for the current year (FY 2012) a surplus at least as large as that,

depending upon how funds are expended toward the end of this fiscal year. Our Water, Stormwater and Water Pollution Control funds are also expected to be in surplus and, with no or very low rate increases, will begin to develop surpluses to address the large capital costs needed to maintain these systems in the years to come.

Creation of Separate Bank Accounts and Reserve Funds: To appropriately segregate funds, separate bank accounts have been set up for Impact Fees, each of the utility funds and donations.

Addressing the “200”, “300” and “600” Special Funds: As required by the City Charter, we include 200, 300 and 600 funds in the overall budget proposal. When there is no compelling reason to keep one of these funds separate, we will incorporate them into the General Fund department budgets and enterprise fund budgets as appropriate. For FY 2013 we show activity in only twenty-four (24) special funds compared to about 150 such funds in prior years.

Possible Charter Changes – Voting on the Budget and Reappraisal: Based on the December 6, 2011 vote approving both Charter changes, I am making assumptions based on the expectation that the Legislature will approve the changes and the Governor will sign them. First, the assumption is made that we will not need to fund a re-appraisal in FY 2013. This avoids a cost which could easily exceed \$400,000. Second, in order for the new budget voting scheme to be in effect for Town Meeting, it will likely need to be approved by the Legislature, signed by the Governor, and made effective upon enactment--all no later than the time Town Meeting is warned. Should this not be the case, it is likely that a July 1, 2012, effective date for this item would be written into the legislation.

Billing for Uncollected Invoices: There are two major sources of unbilled funds which are being addressed in FY 2012 and which have significant potential implications for FY 2013.

Our Deputy Finance Officer has determined there are almost \$1 million in services which have been paid for by the City, dating back as far as 2005 and which were, presumably, paid for by the General Fund, which can be billed to the State for the Airport Parkway Water Pollution Control Facility Upgrade. Although we do not understand why these bills had not previously been submitted, we expect the State to reimburse us for these expenditures. These bills will be submitted shortly.

After ending the litigation related to Kennedy Drive, we determined there were several hundred thousand dollars due to the City from the State for expenses not submitted for reimbursement for this project in FY 2010 and early FY 2011. We have collected these funds.

Additionally, we initiated a process to obtain payment for every unbilled service for which we believe there is a possibility of collection.

Replenishing Impact Fees, Donations and Other Funds: Cash reserves remaining on hand, combined with the billing for uncollected invoices referred to immediately above, should allow the complete replenishment of all Impact Fee accounts, donation funds and other accounts depleted in the years prior to FY 2011 and which we are legally and morally required to accounted for.

Writing-off “Due To and Due From” Entries and Elimination of the Cumulative Deficit: After making a number of adjustments in FY 2011 and FY 2012, we have considerably reduced the “Due To and Due From” cumulative deficit through up-to-date billing and replenishment of impact fees and other funds.

We are further proposing to write off the remaining Due To and Due From items, which will effectively eliminate the remaining portion of the \$6 million cumulative deficit identified in the FY 2010 audit.

Notable is approximately \$1.8 million which could be “Due To” the Stormwater Fund. However, previous recordkeeping systems do not allow for easy verification of these amounts and we believe there is a significant possibility that this amount is not accurate. An alternative would be to hire a forensic accountant to examine this situation and the entire range of issues related to it. We believe the amount of time, money and staff resources necessary to accomplish this provide a poor rate of return on the investment required and, hence, we recommend the write-off scenario. This is not dissimilar to the write-off of the \$450,000 loan Due To the Water Fund which was never paid and written off this past year.

Another example is the new police station where the total cost exceeded the voter authorized amount by \$164,872. We are proposing to recover \$120,000 from the Police Department Bequest Fund and the Asset Forfeiture Fund. \$44,872 would be written off.

There are several benefits to the approach I have outlined here. First, we will avoid spending resources on this effort that would keep us from other pursuits. Second, the City’s several funds are entering a “stable” period where they each are anticipated to break even or produce surpluses, so there is not an urgent or fiscally essential reason for the forensic approach. Third, it is conceivable the result of a forensic investigation would result in monies moving back and forth across the several funds with only marginal benefit to any individual fund. Finally, the approach outlined here has the enormous benefit of allowing us to “reset” our funds, meaning that the cumulative deficit problem, including the Due To and Due From problems are eliminated. The downside to this approach is that we will never be able to identify exactly where each penny should have been and, therefore, one or more funds may be “shortchanged”.

This plan has been reviewed with the independent auditor and we have sought his feedback. He has informally agreed to this general approach. To finalize this accomplishment City Council approval is needed to write off the remaining Due To and Due From items to allow the “reset” of the budgets.

Also noteworthy is that the process of developing a plan to address the cumulative deficit through a combination of collecting unpaid bills, producing surpluses and write-offs can be accomplished in FY 2013. This process is something the auditor had projected could take a longer period of time and Staff recommends City Council consult with the auditor to determine the wisdom of compressing this time frame as we have proposed.

### **The General Fund:**

General Fund Revenues, Expenses and Tax Levy: A summary of the General Fund budget, including a summary breakdown by department for both revenues and expenses, is provided on the following page. Please note all property tax discussions are for municipal property taxes only and do not include the education property tax.

- General Fund revenues and expenses are proposed at \$18,834,743, an increase of \$1,164,191, or 6.59% over the FY 2012 budget.
- The City increase in the tax levy is anticipated to be from \$10,501,268 in FY 2012 to \$11,074,564 for FY 2013, an increase of \$573,296, or 5.46%.

- Non-Property tax revenues are projected to increase by \$840,895, or 12.15% in FY 2013. The largest increases are due to increased revenues from the Sales and Use Local Option Tax and revenues to be generated by a new service offering.
- For purposes of estimating a tax rate based on the proposed budget, the City Assessor is estimating a 1.2% increase in the Grand List.
- This yields an estimated tax rate of \$0.3987, an increase of \$0.0161 (1.61), or 4.21%, over the FY 2012 rate of \$0.3826.
- The impact of this proposed increase on taxpayers is as follows:
  - For every \$100,000 in assessed value, there would be \$16.10 in annual municipal taxes added to the \$382.60 paid in FY 2012, for a FY 2013 total of \$398.70.
  - For a typical condominium owner, with an assessed value of \$224,000, there would be an annual municipal tax increase of \$36.09. When added to the FY 2012 municipal tax bill of \$857.02, the FY 2013 total is \$893.11.
  - For a single family property assessed at \$322,000, the annual municipal property tax for FY 2013 would increase \$51.84 to \$1,283.81 from the FY 2012 bill of \$1,231.97.

Internal Controls and Financial Management: We continue to strive to improve our internal controls and procedures. As our auditor reported in November, there have been significant improvements in policies and procedures. The following work still remains to be done and is, partly, dependent upon modernization of our computer systems:

- Development of a comprehensive Purchase Order system.
- Establish the use of encumbrances, to guard against line item over-expenditures.

**FY 2013 Budget Development:** Changes in staffing, services, program initiatives, reserve and contingency funds are discussed in this section.

City Manager's Department: Based on a shortage of resources to perform special project related tasks, City Council authorized the creation of a Project Director, and that position has been added to the FY 2013 budget. Additionally, the vacant position of Policy and Planning Analyst will be filled, either as titled or as a Finance Analyst position. We are currently reviewing applicants for the position.

We have re-titled the City Manager's budget as a "Department" since last year there was considerable misunderstanding about the salary increase received by the City Manager. The departmental budget increased by about 35% due to the addition of a new staff position in FY 2012. Some individuals misinterpreted that 35% increase as being for the City Manager's salary, which it was not. For FY 2012, the City Manager's salary increased by 2.3%, which was contractually agreed upon at the time of hire. The City Manager's salary has not been set for FY 2013, so there is no increase in the City Manager's salary shown for FY 2013. Any adjustment to the City manager's salary will occur following an evaluation process the City Council has not, as yet, begun.

General Administration, Finance and Planning: Additional demands on City Staff in planning, general administration and finance have created a need for some additional staff. Based on vacancies and how they might be filled, I am proposing that \$30,000 be set aside for some additional staff capacity. This may be two part-time employees, an intern or some other combination of staff. This could also have the

additional benefit of allowing the administration to be more flexible and assign staff, as needed, where and when they are needed.

South Burlington Community Library Hours, Staff and Services: Last year the Library budget was cut, resulting in staff and Library hour reductions. During budget discussions, City Council placed a high priority on working to reverse some or all of the cuts and, hopefully, in the process, enhance services. Additionally, the Library conducted a community survey to identify strengths and weaknesses and areas where the community saw opportunities for improvement. We believe the FY 2013 budget achieves these objectives discussed last year and is supportive of the results of the community survey. Here are some highlights which are expected to result from the FY 2013 budget as proposed.

- The proposed budget converts two part-time positions to full-time, giving the Library four full-time staff persons.
- Weekly Library hours will increase from 49 to 58 per week.
- Evening hours would be extended to four evenings per week (up from two presently).
- Weekend hours will be increased.
- The Children's Librarian's hours will be increased. Programming for elementary school aged children and young adults will be increased and other youth and family related programs will be enhanced. This will also enable the Library to offer community outreach services to local day care centers, pre-schools and other community organizations.
- A Reference Librarian will be available to assist the community with an established and consistent schedule of times when this service will be available.

Fire Department and Ambulance Services:

- The Fire Chief initiated a proposal for the City to take over fire and condominium inspection services from the State. In addition to improving services for South Burlington residents, we expect program revenues will exceed expenses by at least \$75,000 in the first year of the program. Therefore, we are recommending the addition of this new inspection services program.
- A new staff person would be added and a vehicle purchased for use by this individual.
- Additional funds have been added to the budget to provide for additional EMS patient care equipment needs as identified by the department. This expense is expected to be partially offset by grants.

Police Department:

- We are anticipating leasing out part of the 2<sup>nd</sup> floor of the SBPD space at 19 Gregory with a net increase in revenue to the City.
- An additional dispatcher has been hired in FY 2012 to address scheduling difficulties and provide an adequate level of service for our public safety functions. This position is proposed to continue in FY 2013.
- A number of changes to our grant funded Community Justice Center (CJC) have taken place or are being considered and additional services have been added. All costs (beyond overhead), are covered by grant funding from the State.
  - The Coordinator of the Community Justice Center has had hours increased to 30 per week with consideration being given to extending hours to 32 per week.
  - Part-time office help at ten hours per week may be added.

- A fourth reparative board is being added in South Burlington, which increases responsibilities for the Coordinator.
- The CJC Coordinator has also provided mediation services to the City at no cost. It was first used, successfully, to resolve a dispute between the National Gardening Association and a community gardener.

Public Works – Highway Staffing, Paving and Project Funding:

- Paving: A large increase in the paving budget is proposed for FY 2013 and much of this increase over the FY 2012 expenditure level will be offset by grants. Therefore, there will be a small increase in the General Fund contribution to the highway paving budget in FY 2013. Public Works has developed a six year paving plan (FY 2012 to FY 2017). It is attached as a supplemental schedule in the budget book.
- Route 2 Widening: Funds are budgeted for the City’s share of the Route 2 widening project.
- A Truck Driver position has been added to the Public Works Highway division.
- Some reorganization is anticipated in the second half of FY 2012 in Public Work, which will carry over to FY 2013.

“True Up” Payments and Services between the City and School District: In discussing the FY 2012 budget, it was agreed City and School District Staff would work collaboratively to “true up” payments and services between the two entities. The Staff recommendation to both boards includes the following, which must be agreed to by both bodies.

- The City would pay the School District about \$56,700 annually for the Library, instead of the \$72,000 we have been paying annually.
- Due to adding a mechanic to School staff, the School District would pay the City about \$17,700 for bus maintenance, instead of \$70,000 to be paid to the City for Fiscal Year 2012.
- The City would pay \$1,000 for school bus drivers related to Recreation program use and \$1,000 for custodial overtime as a result of City programs.
- No other General Funds would change hands and utilities charges were not addressed in this agreement for this year.
  - The “community use” subsidy payment by the City of \$26,938 would be eliminated. The \$16,981 for “school use” by Recreation Programs would be eliminated. Payment by the City for “school grounds maintenance” would be eliminated.
  - School athletic teams’ use of City athletic fields for practice and games would continue at no cost to the Schools and City use of School fields would continue at no charge.
  - The City would not charge the School District for the cost of School Resource Officers (SROs).
- The agreement and all terms would be reviewed annually.

Employee Wages, Benefits and Compensation:

- A new compensation schedule is being employed to more accurately determine the total compensation package of employees.
- Step Increases: All full-time staff will receive step increases. These are 1.5% for Water Pollution Control, City Hall, Public Works and Management/Non-represented employees; 2.5% for Police employees; and, variable step increases for Fire Department employees.
- Management and Non-represented Staff:

- In addition to step increases, the increase will generally be 2%. Some employees may receive more based on performance goals or title/job responsibility changes.
- Because Management staff no longer receive the City's 5.5% ICMA-RC deferred compensation match, the FY 2012 and FY 2013 salary increases will, together, place them only slightly ahead of their FY 2011 compensation package.
- Beginning with the City Manager, several other management employees have voluntarily set their maximum sick leave accrual at 600 hours – generally those who have much less than 600 hours presently – and these employees will receive Long Term Disability benefits from the City. The City will be seeking an equitable method of addressing accruals of employees who have more than 600 hours accrued.
- A number of management positions have had compensatory time eliminated or reduced when compared to their predecessors (e.g. the City Manager, Deputy City Manager, Deputy Finance Director and new Project Director). The Administration will continue to examine ways to further reduce compensatory time for this category of employees.
- Part-time Employees are proposed to receive 2% increases.
- Bargaining Unit Employees:
  - For bargaining units that have not already negotiated regarding unlimited sick leave accrual no wage increases (beyond steps), are proposed based on the June 30, 2012 expiration of all four collective bargaining agreements. The City will be seeking to bargain on the issue of unlimited sick leave accrual and use as retirement health insurance. The cost of the sick leave accrual is expected to be in the millions of dollars over time. This budget contains funds to perform an actuarial analysis to help determine the future cost of this benefit.
  - Water Pollution Control employees' sick leave accrual has already been capped at 600 hours through collective bargaining and they received Long Term Disability in exchange.
  - The City will also be seeking to bargain on the 5.5% ICMA-RC deferred compensation match being provided to City Hall and Public Works employees. The Water Pollution Control employees have already had their deferred compensation match reduced, in half, to 2.75%.
- Health insurance: Per employee health insurance costs for calendar 2012 (the first half of FY 2013) will be 3% less than for 2011. However, we will be including four additional staff in the General Fund in our FY2013 budget and we are projecting a very *conservative* 10% increase in costs for calendar 2013 (which includes the second half of FY 2013).

Capital Budget, Debt and Capital Planning:

- A Capital Improvement Plan reserve fund is established with \$190,000 to fund capital projects.
- No additional debt is included in the budget for FY 2013. Note, however, that a special bond vote might be scheduled for water meter replacement in the Water Fund. For details, see below.
- Vehicle Purchases: A six-year capital plan is being used to fund vehicles to allow the City to avoid borrowing for this category of expenditure.
- Recreation Improvements are also being scheduled using a six-year capital plan to strive toward level funding over this period.
- The above evidence the fact that we have also made strides toward developing a Capital Improvement Program (CIP). However, the CIP is not yet complete across all funds and departments.

Computerization, Technology and Upgrading our Systems:

- With the exception of the Police Department, City departments have had long standing problems with antiquated technology, particularly in terms of servers, old desktops and laptops and outdated or gaps in software.
- To address this problem we have centralized, in Administrative Services, many of the data functions of City departments and centralized responsibility in one office.
- In addition, we had added approximately \$34,000 to this line item.
- We are proposing to add computer tablets for Councilors and some departments.
- The administration is continuing to work to establish a “technology working group” to provide advice to senior Staff on the available technologies and applications to promote better communications with our citizenry.

Sick Leave Bank Reserve Fund: This benefit, which we believe is unique to South Burlington, has been, for the most part, unfunded. In several recent budgets some funds have been budgeted for employees who have retired or were known to be retiring. However, the future cost of this benefit has not been funded and often employees retire who were not anticipated to retire. Based on this we are proposing to set aside an initial contribution of \$100,000 for FY 2013 into a Sick Leave Bank Reserve Fund. As mentioned above, we are proposing an actuarial determination of the cost of this benefit.

Contingency Funds: We are proposing to increase the FY 2013 Contingency budget by \$40,000 to \$140,000 for unanticipated capital expenditures, grant matching funds and other costs. This represents less than 0.75% of the General Fund budget as proposed.

Elimination of the \$250,000 Staff Challenge: For this year’s, FY 2012, budget Council challenged the administration to find an additional \$250,000 in savings or enhanced revenues. Staff more than achieved this objective. This challenge is being eliminated in the FY 2013 budget.

Undesignated Reserve Fund: Our auditors have recommended the establishment of an Undesignated Reserve Fund and we are proposing to initial funding of \$50,000 in an undesignated reserve fund. This represents 0.3% of our General Fund expenditures. Typically, Vermont municipalities may have anywhere from 0% to 10% or more in such funds, which are used for tax stabilization purposes or as so-called “rainy day” funds.

**Special Funds – 200, 300 and 600 Accounts:** The budget for the remaining special funds consists of \$790,284 in expenses, a decrease of \$169,594, or 17.67%. Revenues are projected at \$1,008,294. Noteworthy is that the FY 2013 budget shows twenty-four (24) special funds remaining out of the approximately 150 such funds that were in prior years’ budgets. Many of the former special funds were consolidated into departmental budgets and others are now incorporated in the budgets of enterprise funds. The Special Funds’ budget pages now contain a brief description of each of the active funds.

**Enterprise Funds including Administrative Fees for the General Fund:** A chart showing rates and costs to typical households follows below.

Water Fund: Most costs associated with budget are based on costs provided by the Champlain Water District (CWD) for the City of South Burlington. CWD provides maintenance support for our water system as well as billing services for all three enterprise funds.

- The Water Fund Budget for FY 2013 is \$2,370,308, an increase of \$32,873, or 1.4%, over the FY 2012 budget of \$2,337,435.
- The Water Fund rate is proposed to increase by 2.8% for FY 2013 (compared with the 16.64% increase this year). A typical household paying \$229.47 in FY 2012 would see a total annual increase of \$6.43 in FY 2013.
- A number of years ago the City made a decision to begin replacing water meters. Although the meters had extremely high error rates, the company went bankrupt, and the technology was bought by a new company, the decision was made to continue to buy the meters as produced by the new company. The meters have continually experienced very high error rates. CWD and the City will be exploring options for replacing these meters. In addition, many meters are not readable by radio, so there is still reading done by going door-to-door. One possibility is bonding for the replacement of all the City's meters so readings can be done remotely and efficiently.
- The Administrative Fee to the General Fund for FY 2013 is proposed at \$42,640.
- A portion of the City's general insurance costs have been allocated to the Water Fund. This year, that allocation is \$31,500. After reviewing these costs, we can only justify an allocation of \$5,000 in insurance costs. The FY 2013 budget is adjusted accordingly.

Stormwater Utility: Rates were increased 31.92% in FY 2012 for the first time since the utility was formed. For FY 2013 we are proposing no increase in rates. The typical household will continue to pay \$71.28 annually.

- The Stormwater budget is proposed at \$3,622,114, an increase of \$1,884,496 which is offset by \$1,670,650 in additional revenues from grants, homeowners' associations' matching funds and unexpended funds from FY 2012), related to capital projects.
- We have included \$40,000 in the proposed Stormwater budget to perform a rate and equity analysis. This study is in response to concerns that rates are virtually identical irrespective of housing type.
- We are in the process of implementing an agreement with the Vermont Agency of Transportation to perform certain services in exchange for a \$50,000 annual fee.
- We are in the process of adjusting the utility bill to Burlington International Airport to reflect the rack rate for utility services, as opposed to the \$160,000 annual flat fee, which has been charged since the creation of the Stormwater Utility. The new bill is expected to be considerably higher.
- The Administrative Fee to the General Fund for FY 2013 is proposed at \$122,720.
- A five-year plan has been adopted for capital programming for Stormwater to work toward level funding for this category of expenditures.

Water Pollution Control: The FY 2012 rate increase of 28% was implemented to address significant cumulative deficits in the Water Pollution Control fund. Last year we indicated the rate model would require annual increases of 3% to address the increasingly complicated operations of the Airport

Parkway Wastewater Treatment Facility, service debt for the expansion, and establish reserves to allow for upgrades and repairs that will be needed at the Bartlett Bay Treatment Facility in eight to ten years.

- The FY 2013 budget is proposed at \$2,671,686. This is a decrease of \$35,724 or 1.32%, from the current budget.
- To meet the Fund’s long term goals a user rate increase of 1.5% is proposed, half the 3% increase projected at this time last year. More precise budgeting allows us to lower the projected future annual rate increases from 3% to 2.25%.
- A typical household paying \$357.40 for sewer service in FY 2012 would see an annual increase of \$5.36 for FY 2013.
- A 3% increase in connection fees is proposed with future increases also slated at 3% annually.
- With the opening of the expanded and significantly more complicated Airport Parkway Wastewater Treatment Facility, a Laboratory Analyst position will be filled either in late FY 2012 or for FY 2013.
- The Administrative Fee to the General Fund for FY 2013 is proposed at \$137,280.

**CITY OF SOUTH BURLINGTON PROPOSED FY 2013 MUNICIPAL UTILITY RATES**

Utility	Existing Fiscal Year 2012 Rate	Fiscal Year 2012 Annual Fee for a Typical Home	Proposed Fiscal Year 2013 Rate	% Increase	Annual Increase for a Typical Home
Stormwater	\$5.94 per month for residential units	\$71.28	\$5.94 per month for residential units	0%	\$0.00
Sewer	\$34.88 per 1000 cubic feet	\$357.40	\$35.40 per 1000 cubic feet	1.5%	\$5.36
Water	\$24.174 per 1000 cubic feet	\$229.47	\$24.856 per 1000 cubic feet	2.8%	\$6.43

Recreation Fund “240”: Because this fund crosses budget years consistently, in consultation with our auditors we have decided to treat this fund as an enterprise fund for FY 2013, and possibly beyond. Consistent with our practice of charging an administrative fee to other enterprise funds this fund will also be charged an administrative fee for FY 2013 of \$30,000. To sustain the fund, we propose an increase in youth program fees of \$3.00 per week.

**Goals, Objectives and Other Considerations for FY 2013:**

TIF and City Center Projects: With the addition of the Project Director to the City Staff we will be in a position to advance the required TIF application, which is essential to the funding of future City Center infrastructure. We expect to move much closer to obtaining final permits for the construction of Market Street in FY 2013.

Interim Zoning (IZ): At this writing, Interim Zoning is being considered by City Council, an Interim By-law is about to be published, and a public hearing warned for January 17, 2012. If IZ is implemented, there will be a considerable potential impact on the FY 2013 budget. Given the timing of the introduction of IZ, Staff has not been able to project a potential budgetary impact for FY 2013.

When a different version of IZ was considered in the summer of 2011, the projected cost was estimated at between \$235,000 and \$695,000 for two years. One option would be for City Council to add the projected cost (whatever additional analysis suggests it will be), into the tax levy for FY 2013. Each penny of tax rate impact would raise approximately \$277,000.

Alternatively, it might be reasonable, for initial discussion's sake, to assume at least a one penny impact on the FY 2013 tax rate. That is, I recommend City Council consider adding a penny to the tax rate if IZ is implemented and, at the same time, changing the budget accordingly by placing these funds into an IZ reserve fund. Please note this cost is not included in this proposed budget.

Continue Implementation of Changes to Financial Management Systems: While much work toward "re-setting" the City's finances has been done, there are still tasks to be accomplished, such as a city-wide purchase order and encumbrance system and incorporating remote buildings into our financial management system. Currently our computer systems are not capable of incorporating the software needed to accomplish this task. We will also pursue developing our internal controls and checks and balances, including staff redundancy so more than one individual can perform critical financial management tasks.

Workers' Compensation and Workplace Safety Committee: Last year I called for the rejuvenation of a Workplace Safety Committee due to the very high "modification" rates from our Workers' Compensation insurer – which resulted from high levels of workplace lost-time incidents. While there has been considerable improvement in loss time incidents the Committee still makes sense and will be pursued, time permitting.

- For 2011, our experience modification rate was 1.15. For 2012 it is 0.95.
- The 1.15 experience modification rate in 2011 added \$66,214 to our Workers Compensation bill. In 2012 the more favorable modification rate will reduce our Workers Compensation bill by \$22,843. Considering this factor alone, this is an approximate net difference, to the positive, of \$89,000.
- A good deal of credit is due to our employees who are having fewer loss-time incidents. Additional training is another factor in this positive trend. Management and employees will continue to work to lower loss-time accidents and, as a result, costs to the City.

City Hall Safety – Moving Offices, HVAC and Related Issues: Last year at this time we reported we were considering moving some administrative offices from their current location to the second floor of what used to be the Police Department (SBPD) offices. We have, in fact, already moved some records and Recreation Department storage into the first floor of the former SBPD offices.

However, concerns have arisen about the possibility of ongoing mold problems which may not have been completely addressed during the mold remediation costing about \$330,000 several years ago. We have put our plans to relocate offices on hold pending the outcome of an investigation into the existing building conditions.

If we are to relocate offices, the City Manager's Department and Deputy Finance Office would likely move to the second floor of the former SBPD. The additional space created by this movement in the

south side of the second floor of City Hall would be used to better advantage by the Planning and Zoning and Recreation Departments.

City Hall entryway improvements (partly grant funded) and HVAC improvements totaling approximately \$200,000 are on hold until the building conditions are verified.

Resolve Assessment, Taxes and Stormwater Charges to Burlington International Airport: The three-part agreement inherited by this administration and the current City Council will need to change for FY 2013.

Heretofore, the method for collecting property taxes from the City of Burlington for Burlington International Airport properties has been based on an old agreement intended to avoid a dispute over the valuation of airport properties. Although South Burlington has no direct relationship with Heritage Aviation (as they are a tenant of Burlington International Airport), Heritage is challenging the valuation South Burlington has placed on their property based on a clause in their lease with Burlington.

Another part of the agreement had Burlington International Airport receiving significantly discounted Stormwater Utility charges from South Burlington for a number of years.

The third part of the agreement was for a “fee for service” to be paid to South Burlington. Burlington International Airport has been getting a considerable Stormwater discount during this period and has failed to pay South Burlington the “fee for service” for FY 2010, FY 2011 and FY 2012.

Due to all of these issues, and others, on December 16, 2011, I wrote Mayor Kiss indicating the prior agreements (which his administration also inherited), are effectively ended.

We have asked our legislators for their assistance in moving forward to help resolve these matters. This particular item remains one of the biggest unknowns for FY 2013 and beyond.

**Conclusion and Recommendation:** The Staff team is pleased with the progress we have made toward restoring the City’s finances to a stable state. We look forward to receiving input and establishing a dialogue with the South Burlington community and City Council about the proposed FY 2013 budget. I am very proud to lead the fine staff team that has brought South Burlington to the point where we can say South Burlington has achieved nothing short of financial recovery and is well on the way to future fiscal stability.

There are many proposals contained herein, such as, but not limited to, the creation of reserve funds and writing off of Due To’s and Due From’s to reset the several budgets and funds. Therefore, I recommend City Council, after due consideration and any modifications they wish to make, adopt the budget *and* budget message as a financial implementation blueprint.