



OFFICE OF THE CLERK/TREASURER

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BOARD OF FINANCE MONDAY, JANUARY 6, 2014

MINUTES

PRESENT: Mayor Weinberger; City Council President Shannon; Councilors Knodell and Bushor; CAO Rusten

ABSENT: Councilor Aubin

ALSO PRESENT: Councilor Paul, ACAOs Goodwin and Schrader; City Attorney Blackwood; Stephen Barraclough, Amber Thibeault, BT; Ken Nolan, John Irving, BED; Brian Lowe, Mayor's Office; Martha Lang, Ward 1 Resident

1. Agenda

Mayor Weinberger stated they will add an item to discuss a real estate transaction in executive session.

On a motion by City Council President Shannon and Councilor Knodell the agenda was adopted unanimously as amended.

2. Public Forum

Martha Lang, Ward 1 Resident, spoke about the Burlington School Department's proposed real estate transactions and budget.

3. Approval of Board of Finance Minutes

a. December 16, 2013

Councilors Knodell and Bushor made a motion to approve the minutes. The motion passed unanimously.

4. Authorization for Purchase of Winooski One – BED

Councilors Bushor and Knodell made a motion to authorize the purchase of Winooski One.

Councilor Knodell inquired if they were happy with the number and who did the legal work. Ken Nolan, BED, stated they were happy with the number and Bill Ellis did the legal work. They received a report from the arbitrators and the arbitrators accepted all of BED's positions. The arbitration is binding and the number itself is fixed. They have to lodge that award with the Superior Court. City Attorney Blackwood stated they have filed a motion to confirm the award. The other party has until January 10 to file a motion to vacate the award. Vermont law favors the arbitration process. Most likely, the Court will confirm the award and they will move forward. If they do file a motion to vacate, they courts will move quickly. Mr. Nolan stated the current

Winooski One operators start accruing interest 18 months from exercising the option. It is a mechanism for them to get more money if they are locked in arbitration. Councilor Knodell inquired if they still collect interest even if the delay is due to their action. City Attorney Blackwood stated she will look into seeing if there is a way for them to make payments into escrow so they get credit. There will be some delay anyway because they will have to have a bond to pay the purchase price. Councilor Knodell inquired if the bond vote will be on the March 2014 ballot. Mr. Nolan stated they are planning to have it on the March ballot. They will know more about where they are when they come to the Council meeting.

Councilor Bushor requested an explanation of the risk analysis variables and key variables identified. Mr. Nolan stated the risk analysis variables shows that they look at this the same way they do the integrated resource plan. They look at a number of future variables to determine whether this is a good investment or not. The variables that matter are the ones outlined in the key variables identified. These variables are energy prices, production, renewable energy value, and capacity price. They also looked at operating and management costs. Winooski One has high operating costs compared with other hydro facilities. When looking at their financials, a lot of that is transferring money to people who own the plant. They are not sure what those costs will really look like. The case result chart shows how good of a deal they think this is. The red line is the purchase price set by the arbitrator. The green dots are the value of the plant under different future scenarios. There are very few outcomes where this would be a bad deal for Burlington, and more than likely it will be a good deal. The box at the top shows scenarios where natural gas prices rise. If they go up, this will be particularly valuable.

City Council President Shannon inquired what the bond request will be and what variables are influencing that. Mr. Nolan stated the resolution says that they have requested up to \$18 million to cover the purchase price and the costs of issuing the bond. Their CFO thinks that they will be able to issue \$12 million of bonds and use \$6 million of cash that BED will have at that time. He believes they will ultimately request up to \$12 million.

Councilor Bushor inquired if the bond market will be weaker because they will be using so much of their cash. Mr. Nolan stated that is a concern. Moody's issued a letter affirming their credit rating as stable negative. One of the key things they said was that their cash position was weak compared with other utilities. They are assuming that they will keep a significant amount of cash on hand to keep Moody's happy. They put \$10 million in reserve in 1984 for the McNeil plant. That cash will become available in June. They are trying to determine how much they should keep to help their credit rating and how much they should use to reduce the bond amount. They are comfortable dropping the amount of the bond and keeping some of the remaining cash on hand. Mayor Weinberger stated it has been difficult to increase cash. The release of this reserve will help address that issue. Even with the new bonding, the debt service will still be less than what they were paying on the McNeil bond.

The motion passed unanimously.

Mayor Weinberger requested an update on the wastewater bond. ACAO Goodwin stated they will be closing the deal and they received a favorable rate. The savings from that deal is approximately \$4.8 million over a 20 year period. The Municipal Bank has more confidence in Burlington because they were willing to do this deal with them.

5. Authorization for Vermont Gas Systems Interruptible Sales Agreement - BED

Councilor Knodell and City Council President Shannon made a motion to approve the agreement.

Councilor Bushor inquired about the penalties for overrun gas use. John Irving, BED, stated it is included in the agreement but it has not happened since 1989.

City Council President Shannon inquired what interruptible gas is. Mr. Irving stated it is gas that they provide at a very low price when they have it available. It costs about 1/3 of regular gas, but it does not come on a reliable schedule. Last year they used \$100,000 worth of gas.

The motion passed unanimously.

6. Authorization to Award Banking Contract to KeyBank – C/T

ACAO Goodwin stated the City went out for a formal RFP for banking service as required by the Charter. They gave banks the option to bid on part of the City's business or all of it. There were several banks that said they were too small to hand the complexity of the City's finances. The two banks that bid were TD Bank and KeyBank. Based on their proposals, they decided they would like to award the contract with KeyBank. That does not mean that they won't do business with other banks.

Councilor Knodell inquired what services they were seeking in the RFP. ACAO Goodwin stated it was open for many different pieces. They were looking for someone who would do financing with the City, such as lines of credit. TD Bank made it clear that they would not do a line of credit and would only do notes. Interest rates are traditionally lower on a line of credit than a lump sum. KeyBank offered some additional services that TD Bank was unable to offer. They offer a procurement card, which they believe will save the City money in the future. They have next day availability on credit cards. They allow them to make deposits that combine cash and checks. Depositing cash and checks separately requires a lot more work and makes reconciliation more difficult. KeyBank will also allow them to establish a line of credit that would be attached to their sweep account if they need it. They will not have to borrow any more money than they actually need. That will result in significant interest savings. They also have many additional security features. They have had a steady source of support from KeyBank, while other banks have had heavy turnover. They would like to move forward with KeyBank.

Councilors Knodell and Bushor made a motion to award the contract. The motion passed unanimously.

7. Discussion on Central Purchasing Plan

CAO Rusten stated the Council approved a resolution asking for a plan to be submitted for moving forward with central purchasing. It also requested an explanation of the disadvantages and the potential issue of fraud. The CAO office felt the proposed plan was a good approach in taking a phased step. They would start by looking at some of the biggest areas and recognizing that certain departments have specific needs and skills. They would evaluate how this works and what other areas they could look at. They are looking at a new position to do this and it would be

paid for by the savings they would have from doing central purchasing. They attended a presentation from a company that was willing to work with municipalities through the Vermont League of Cities and Towns to do auctioning for items. They could use this to purchase paper. The central purchasing person would also be able to look at potential savings for the schools.

Councilor Bushor stated previous Councils have asked for collaboration with the School Department to find potential savings. She appreciates they have to start with themselves before they expand to the Schools. She hopes that there will be opportunities for savings in the future. She works at Fletcher Allen where they have some central purchasing, but certain items are purchased within the Department. This is a good model and she hopes they will be able to better serve themselves. She does not know if this will ultimately result in a position savings, because people in Departments who are already doing this have the expertise they need to make decisions. She is glad they will be evaluating this after a year. CAO Rusten stated they will be working to do this collaboratively and sent this plan to Department Heads before bringing it forward. Most of the issues identified by Department Heads were not related to the plan, but more the implementation. A number of departments offered to have the people who do their purchasing work with them to implement this smoothly. There was a lot of interest. It is also important to look at ways to cooperate with other municipalities to find cost savings.

8. Review November Financials – C/T

CAO Rusten stated they have added a new column to show where they were a year ago. This allows them to compare revenues and expenses. That helps them get a sense of things that are off. They have identified some areas that they have some concerns with. They have had conversations with Parks and Recreation who has seen a drop in revenues. This will be helpful when developing the FY15 budget and to determine how they will get through the rest of the year. Public Works has spent most of their salt money because of the recent ice storm, so they are talking about how to address that as well.

Councilor Knodell inquired where they are at with property tax collection. CAO Rusten stated they have changed their practice from last year. They are now booking revenue as it is collected rather than what was intended to be collected. The numbers from this year are more accurate. Councilor Knodell stated the report says that they are at 90% of last year, but last year included receivables and this year does not. CAO Rusten stated last year's number would not have shown actual cash. ACAO Schrader stated in the past they recognized the revenue that they had billed out, but not what was actually collected. CAO Rusten stated doing that makes the numbers look high and does not accurately show delinquency. Councilor Knodell inquired if property taxes are allocated out to departments. CAO Rusten stated they are non-departmental.

ACAO Goodwin stated they received property tax revenue in November that resulted in a reduction in many funds' reliance on the sweep account. The School Department owed the sweep account \$16 million in November. Now, the sweep account owes the School Department \$4.6 million. In the next few months, the amount owed to the sweep account will continue to grow until the next tax payment. He outlined changes in the due to/from amounts for the Capital Fund, the Retirement Fund, and the Airport.

CAO Rusten stated there is a correlation between the monthly financials and the sweep account. The Retirement Fund owes the sweep account money, and this can be seen in the expenditure

and revenue columns of the monthly financials. The difference between the expenditures and revenues is the amount seen on the sweep account report.

Councilor Knodell inquired if the School Department pays interest to the City. ACAO Goodwin stated they do pay interest when they owe money to the sweep account. Councilor Knodell inquired what the interest rate is. ACAO Goodwin stated it is determined based on the rate the City pays for its line of credit, which is slightly less than 3%. Any amount that is positive means that the fund owes money to the sweep account. If the sweep account owes a fund money, it pays them interest. Councilor Bushor inquired if that happens. ACAO Goodwin stated it does. Each month they book interest income and expenses to the different funds on the amount owed.

A member of the audience, Councilor Paul, inquired why the totals for the stability bond have changed. ACAO Goodwin stated in the coming months, the amount will approach or get to zero. They may have to use their line of credit. The beauty of the stability bond is that they are not paying interest in the short term. Councilor Paul suggested they put the most important funds at the top of the report.

Councilors Knodell and Bushor made a motion to accept the financial report and the sweep account report. The motion passed unanimously.

***** EXPECTED EXECUTIVE SESSION*****

9. Authorization for CSNNE Contract Amendment – BT

The Board did not vote to go into executive session.

City Council President Shannon stated she would like to discuss contracts in general. They have a contract before them that they never voted on before. There was a resolution in 2008 that said the Council wouldn't be involved in voting on the content of these contracts. The reason they may not have voted on them was because they are written on a per subscriber basis, which does not meet the dollar threshold. There is no way to vote on a contract without voting on its content. She suggested that contracts could go forward so long as they are within the budgeted amount.

Councilor Bushor stated she does not see this as voting on content. She sees it as voting on access to different types of programming. Al Jazeera was controversial, but the content of this contract is not controversial. She feels this contract is straightforward and there was no information that made her question it. Stephen Barraclough, BT, stated the content before them is a three year contract.

Councilor Bushor stated she feels she is deciding if they are able to continue operating the same programming. CAO Rusten stated he is uncomfortable signing the contract without direction from the Board of Finance and City Council. He looks at the financial component only. There are other situations where departments have money in their budget for certain contracts, but the Council wants there to be another set of eyes on it. Councilor Knodell stated the total amount of the contract is based on the number of subscribers.

City Council President Shannon stated she agrees that this is non-controversial, but it sets a precedent for others that may be. She does not feel that the Board of Finance wants to be the one

making those decisions. Councilor Bushor inquired who would make the decision. City Council President Shannon stated the resolution stated it should be a decision between the General Manager and the Cable Advisory Committee. City Attorney Blackwood stated the resolution stated content would be reviewed by the Cable Advisory Committee and the Transportation, Energy, and Utilities Committee. However, the process that was outlined was never set up. Amber Thibeault, BT, stated the Cable TV Search Policy was established in 2006 and it continues to be followed. All contracts are reviewed by the City Attorney's Office. Mayor Weinberger stated the City Attorney's Office only reviews contracts for legal questions. The CAO only reviews them for financial content. He is not comfortable with contracts of a magnitude of hundreds of thousands of dollars being executed without the opportunity for the CAO, Mayor and City Council to ask questions. Councilor Bushor stated this is an amendment to an existing agreement to provide access to a sports network. The financial risk is minimal because they will pay per the number of subscribers. Mr. Barraclough stated that content is not part of a competitive market in which they can shop for different providers. It is difficult to take content down. CAO Rusten stated the purchasing policy seems to be in competition with what practice has been. The number of subscribers is such that it meets the \$50,000 that requires Board of Finance approval. He wants it to be explicit who can make these decisions.

Councilors Bushor and Knodell made a motion to approve the contract with the understanding that they will continue to discuss the role of the Board of Finance in this type of contract. The motion passed unanimously.

9.5 Discussion of Real Estate Transaction

This item was not addressed at this meeting.

Without objection, Mayor Weinberger adjourned the Board of Finance meeting at 6:10 pm.

FOR INFORMATION PURPOSES

- **Limited Service Position Analysis**