



To: Board of Finance and City Council
From: Katherine Schad, Chief Administrative Officer
Re: FY23 Fiscal Health Report
Date: September 18, 2023

Below is the periodic fiscal health report for the City of Burlington.

Since 2012, the City has realized significant improvement in its overall financial condition because the Administration, Department Heads and all City staff, and the City Council made a commitment to improving the City's financial position. This report provides information about the steps that the City took to improve its financial standing and the impacts of those efforts.

The City's Credit Rating

The City of Burlington receives regular reviews by bond credit rating firm Moody's, which performs a thorough analysis of the City's finances. Moody's assigns a credit score to the City and this score is used by financial institutions to understand the relative risk of lending money to Burlington. A better score is important because it leads to lower interest rates and more preferable terms, saving taxpayers money.

A Credit Crisis

Between 2010 and 2012, the City's credit rating was downgraded six steps in three separate actions by Moody's, from a high of Aa3 to a low of Baa3. A Baa3 rating is only one step from junk bond status. Moody's cited the Burlington Telecom liability and advances to other enterprise funds; increasing reliance on short-term borrowing; and multiple years of operating deficits as key reasons for the downgrades. Further, in FY12 the Management Letter from the City's auditor stated the City was "at risk" due to being "overly reliant on borrowing from financial institutions to provide overall City short-term cash requirements."

In response, and as a foundation for improving the City's fiscal picture, the Mayor and City Council received voter approval to issue \$9 million in Fiscal Stability Bonds in 2013. The bond proceeds resulted in an immediate improvement of the City's cash situation and eliminated costly short-term borrowing.

Upgraded to an A

Since the June 2012 downgrade and the 2013 Fiscal Stability Bond issuance, the City has seen four credit rating upgrades **for a total of a six-notch improvement with the most recent**

upgrade to Aa3 being achieved in July 2019 and maintained since, the most recent credit opinion having been issued in August 2023.

Moody's has pointed to the following for Burlington's improved rating:

- Strong City of Burlington management team
- Operating surpluses in recent budget years
- Elimination of short-term borrowing
- Creating and following fund balance policy
- Developing a multi-year capital improvement program
- Stable underlying economy and tax base
- Serving as the economic center of the state
- Strong reserve levels and cash position; and
- Elimination of risks associated with Burlington Telecom litigation.

Impact to Citizens

An improved credit rating has real impacts on the City and its citizens because it is much cheaper to borrow money with an Aa3 rating than with a Baa3 rating.

We have estimated the actual cost of debt service for all bonds issued after the Fiscal Stability Bond to the cost of what those bonds would have been if they had been issued at the Baa3 negative outlook bond rating. Please note that while the Fiscal Stability Bond is not the only reason for the creation of these savings, it was the first key step in this process. **The City has locked in an estimated \$24,108,885 in current dollars of savings, over the terms of the bonds, a direct savings for each taxpayer and rate payer.**

On the November 2022 General Election ballot, 72% of Burlington voters approved \$165,000,000 of general obligation bonds to build a new high school and technical center, with a total project cost estimated to be \$190,000,000. In July 2023, the City Council approved up to \$130M in bonds for the high school, which includes \$40M for the refinancing of a prior bond note associated with the project, which is due September 14, 2023. **We project that when the debt service is complete for the already approved \$130M bond, the City will have saved an additional estimated \$20,566,079 in present value savings, for a total current dollar savings to tax payers and ratepayers of no less than \$44,674,964.**

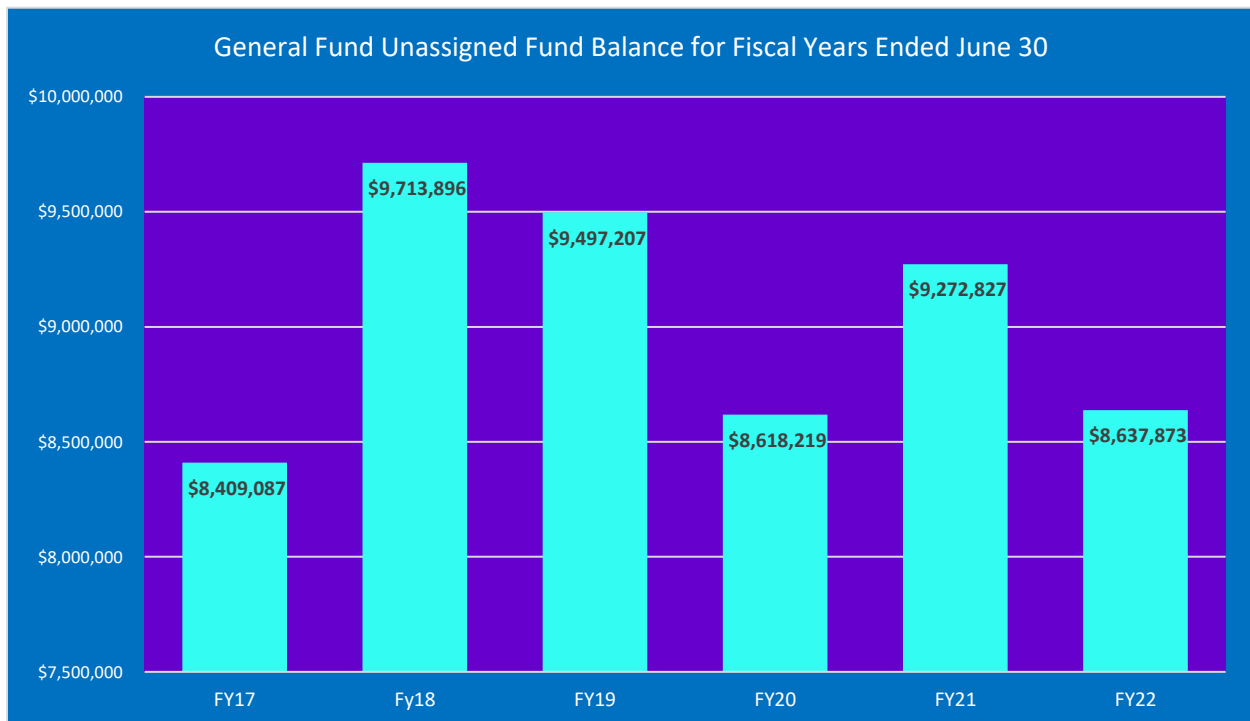
The General Fund Unassigned Fund Balance (also known as The Rainy-Day Fund)

The unassigned fund balance (UAFB) is an important reflection of the City's financial health because it ensures we have the appropriate liquidity to support City operations, cover debt service obligations, and to respond to unforeseen events, such as the COVID-19 pandemic. Further, our fund balance is a direct component of how Moody's assigns its ratings.

The City's [Fund Balance Policy](#) establishes a target level for the UAFB as a minimum of 5% and a maximum of 15% of the City's General Fund operational costs, with a preference for staying in the 10-15% range.

Preparing for the Storm

In FY12 the City had a negative UAFB, primarily driven by the uncollectible Burlington Telecom receivable. This means that there was no rainy-day fund at all for the City. As stated above, the first step to stabilize the situation was issuing \$9 million in Fiscal Stability Bonds. Then the Administration and leadership team worked hard over many years to focus on fiscal management while also still implementing innovative and new programming. As a result, you can see in the chart below that by FY17 the City had over \$8M set aside in case it was needed for a crisis. This rainy-day fund has remained steady despite the COVID crisis and well within our target range.



Closing

In summary, over this past year the City has continued to achieve significant savings as a result of its improved fiscal management and health. That said, financial challenges for the City certainly remain as the larger economic impacts from record-high COVID-related inflation persist. We remain optimistic about the financial health of the City of Burlington. The UAFB remains high and the savings we have achieved as a result of our high credit rating are significant. These are a direct result of the commitment and leadership of the Mayor and the City Council, as well as the continued efforts of all of the City departments. Moreover, this plan has succeeded because Burlington voters have consistently supported this focus with multiple votes. We believe that through continued responsible financial management, maintaining the unassigned fund balance, and identifying new sources of efficiencies, we can achieve further ratings upgrades and additional reductions in our debt service costs, keeping Burlington strong for generations to come.