Board of Finance
11/17/2014

Board of Finance (Monday, November 17, 2014)

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Present: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

Also Present: CAO Bob Rusten; City Attorney Blackwood; ACAO Rich Goodwin; Mike Kanarick, Brian Lowe, Mayor's Office; Thomas Melloni, Burak, Anderson, Melloni, Terry Dorman, Dorman and Fawcett (phone)

1. Agenda

Action, Minutes, Procedural: 1.01 Adopt/Amend Agenda

Approve the Agenda with the amendment to address item 3.03 first

Motion by Sharon Bushor, second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

2. Public Forum

No one came forward to speak.

3. For Approval and Recommendation to City Council

Action, Resolution: 3.03 Authorization to Refinance Airport Debt

ACAO Goodwin stated they are delegating authority to the CAO to sign a contract in the event that the interest rate is below 5.25%. They will not pursue the refinance deal unless the rates result in a reduction in the debt load for the Airport.

Councilor Bushor stated the goal is to refinance the 2003 bonds at about $17 million. The additional $3 million would go in reserve. There was a statement about the Heritage flight property being leased to BCDC and inquired if that is correct. Thomas Melloni, Burak, Anderson, Melloni, stated the bonds were issued primarily for the parking garage and public facilities. The City had previously financed the Heritage hangar with VEDA. They use two buildings at that park, and one was financed with BCDC.

Authorize the CAO to Execute the Contract if the Interest Rate is below 5.25%

Motion by Sharon Bushor, second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

Action, Resolution: 3.01 Authorization for Approval of Financing Documents and Completion of Settlement Agreement - BT

Councilor Knodell stated she wants to ensure that as they move through their financing they reserve the right for a partnership arrangement. They were told that the term sale was used because BT's assets are being sold and leased back to be managed by the current BT team. At the end of the arrangement with Bluewater, the assets will be sold. They are not actually selling the business, just the assets. They hope that more capital will come into the business through a liquidity event and the business will be reorganized to continue telecommunications operations. Thomas Melloni, Burak, Anderson, Melloni, confirmed that is correct. The marketing and delivery of services is still under control of the City. As the assets are conveyed to Bluewater Holdings, the City will make an arrangement with a prospective purchaser, although the City may retain some interest in the company. At that time, the business will be transferred.

Terry Dorman, Dorman and Fawcett, stated all but one potential partner he has spoken with have had an interest in the City remaining involved in BT.

Amend the resolution to add a resolved clause that states "be it further resolved that the City Council encourages the Administration to seek potential partners who will include a continued interest of the City in BT after the sale event contemplated in the bridge financing documents."

Motion by Jane Knodell, Second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

Councilor Bushor stated they received a lease agreement document that allowed them only 10 days to rectify a late lease payment. She inquired why the window was so small. Mr. Melloni stated past of the negotiations stated Bluewater Holdings has their own financing arrangement through Merchant's Bank. The way the transaction is structured, all of the payments will be deposited into a revenue fund. There should be a surplus built up over time that will be used in the event of a shortfall. They requested a shorter time period because if they have used that surplus, it signifies that there is a bigger issue. The BT management team will manage their expenses to ensure they make those payments given the impact of a missed payment. Councilor Bushor stated she wants to ensure that consideration is given and that it does not start a costly, unnecessary process. In other payment arrangements, there is often a grace period before additional finance charges apply. Mr. Melloni stated the payments will be automatic.

City Attorney Blackwood noted some typos in the resolution that will need to be corrected. The Board voted unanimously to approve the corrections.

Approve and Recommend City Council Approval

Motion by Karen Paul, Second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

Action, Resolution: 3.02 Authorization for Expansion of BTAB and Approval of BT Operating Guidelines - BT

Councilor Knodell outlined the revisions to the resolution since their last meeting.

Councilor Bushor stated there is a desire for BT to function as an entity separate from the City and they have used BED as a model. She inquired why they are proposing differences in the way that BT relates to the Board of Finance. BTAB will be a Commission providing oversight, but it is also important that the Council be aware of what is going on. She requested the Council receive monthly financial reports as Bluewater and BTAB will. She requested notification if pre-debt cash flow will be affected by more than 10%. Terry Dorman, Dorman and Fawcett, stated there is no problem sending the Board of Finance the financial reports. They agree with providing the Board of Finance with information about negative cash flow. Stephen Barraclough, BT, stated he would prefer not to manage the business totally in the public and it would be better to keep a low profile if there are improvements. Councilor Bushor inquired why purchases of over $100,000 do not have to go to the Board of Finance. Mr. Barraclough stated they can accommodate that requirement. There are few purchases that fall into that category and they usually only have one choice of vendor. Councilor Bushor stated she inquired if it is relevant that BTAB and the Board of Finance be exempt from the RFP process since they are still a part of the City. Mr. Barraclough stated in the majority of cases with significant expenses there is only one source of supply that works for them. The problem they have is if they use a different product it causes unintended consequences elsewhere in the system. He suggested they could send a notification to the Board of Finance if they will not be using the RFP process. Councilor Bushor inquired if the CAO will be informed when this happens. CAO Rusten stated he expects there will be communication between BT and his office. Mr. Barraclough stated they will be clear about those items and can report any deviations. Councilor Bushor stated she is fine with having a forecast acknowledging that there are suppliers that will not go through an RFP process and that the CAO will be informed. Councilor Bushor requested that BT be transparent with the Board of Finance as well as the C/T Office for finances. City Attorney Blackwood stated this document was negotiated between BT and the Administration. BT is different than other entities in that it is in a competitive environment. They feel a need to be nimble and providing these reports takes a lot of time with his lean staff. Mr. Barraclough stated by financial transparency they mean that BT will have its own General Ledger, but the C/T Office will be able to view it at any time. They anticipate issuing monthly and quarterly reports and going through an annual budget process. Councilor Bushor inquired if BT would need approval from the HR Committee to use a separate employee policy. She inquired if there are other departments that have bonus scenarios. City Attorney Blackwood stated there are no other departments with bonuses. In the past BT brought forward decisions about individuals receiving incentive compensation. They do not forego step increases to get that compensation, but there are a few people who have that option built into their compensation packet. Mr. Barraclough stated they include that for people in commercial sales. They now have a commission available for residential sales staff for net increases in business. Those arrangements have come before the Board of Finance in the past. He is interested in including bonuses for senior management while they are working long hours to bring BT to a new place. It will be a period of real uncertainty because they do not know what will happen when BT is sold. They could be paid up to 25% of their base salary if they hit their budget targets, which are higher than they've ever been. They would also have to generate excess revenues sufficient to pay the bonuses. This would recognize their hard work. If they do this, it would freeze their salaries and they would forego COLA and step adjustments. They think it would help drive the value of BT. Councilor Bushor stated she has concerns that BT is still part of the City and feels they should have a policy to look to. City Attorney Blackwood stated this would be the approval for this particular bonus. Other personnel policies would go through the normal process. Mr. Barraclough stated they will file a written description with Human Resources. He noted that many of the BT management team are limited service employees. Councilor Bushor inquired how these agreements will be incorporated into the Operational Guidelines. City Attorney Blackwood outlined changes to the resolution to address Councilor Bushor's concerns.

Councilor Paul stated they are giving Burlington Telecom the opportunity to operate as a business. Their Board of Directors will be selected by the Council and will be able to make decisions for the business. She is concerned that they are now putting caveats on all of their financial decisions. This adds another layer of approvals for them which will make operations more difficult for them. Mr. Barraclough stated they spent a lot of time with the CAO and City Attorney to set the operating guidelines.

Councilor Knodell stated she believes that requesting monthly financial reports and having them submit their personnel policy to Human Resources does not seem onerous. She requested more information about contract approval. City Attorney Blackwood stated the only reason they felt comfortable agreeing to this is because there are very few instances where contracts would be over $100,000. Mr. Dorman stated the idea was that their budget will be presented in a year. If they are operating in accordance to that budget, the approvals should be streamlined. Mr. Barraclough stated when they started discussions with the CAO they were focused on presenting a plan up front that would lay out their plans. Mayor Weinberger inquired if he is comfortable coming to the Board of Finance for approval of contracts. Mr. Barraclough stated he is willing to if that would make the Board more comfortable, but would prefer not to have to. CAO Rusten stated because BTAB will be reviewing contracts he felt comfortable that there is appropriate oversight. Mr. Dorman noted that any material change to the operating guidelines will need to be reviewed by Bluewater.

Councilor Paul noted that the Operational Guidelines state that the parties agree that Burlington Telecom will operate as near to an independent entity as possible. She believes they should be mindful of the purpose of the guidelines. She would not be in favor of the amendments discussed other than receiving monthly financial reports.

Amend the Operational Guidelines to request monthly financial reports

Motion by Karen Paul, second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Sharon Bushor, Karen Paul, Joan Shannon, Miro Weinberger, Jane Knodell

City Council President Shannon inquired if this would cause delays in action for BT.

Councilor Knodell inquired if they will just be reviewing any changes and taking no action. City Attorney Blackwood stated that is correct. They could still act they would just need to report to the Board of Finance.

Amend the Operational Guidelines to state that if there are changes in the financial forecast that impact the negative pre-debt cash flow by more than 10% will be reported to the Board of Finance for information

Motion by Sharon Bushor, Second by Jane Knodell

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

City Council President Shannon stated the City's HR policy has been cumbersome to BT. They are specifically looking to amend that policy. Adding another committee to that process is unnecessary.

Amend the Operational Guidelines to require personnel policy changes to be reviewed by the HR Director, HR Committee, BTAB and the City Council

Motion by Sharon Bushor

Final Resolution: Motion not Seconded

Councilor Knodell stated in the future, it would be useful to have a document laying out all of BTAB's responsibilities in one place. It is unclear to her who has the responsibility for taking the lead on securing partners for a joint venture.

City Council President Shannon stated they have periodically updated the charge of Committees. It may make sense to do that when they bring forward a resolution about new membership of BTAB.

Mayor Weinberger stated they will have further discussions about who will take the lead on securing a partner. They will come back with a thought out process.

Approve and Recommend City Council Approval

Motion by Jane Knodell, Second by Joan Shannon

Final Resolution: Motion Passes

Ayes: Miro Weinberger, Joan Shannon, Sharon Bushor, Jane Knodell, Karen Paul

4. Adjournment

Action, Procedural: 4.01 Adjournment

Without objection, Mayor Weinberger adjourned the Board of Finance meeting.