Board of Finance - Monday, September 26, 2016 at 5:30 p.m.
Conference Room 12, City Hall
9/26/2016

MINUTES SUBJECT TO CORRECTION BY BURLINGTON BOARD OF FINANCE. CHANGES, IF ANY, WILL BE RECORDED IN THE MINUTES OF THE NEXT MEETING OF THE BOARD.

BURLINGTON BOARD OF FINANCE

CITY HALL

BURLINGTON, VERMONT

MINUTES OF MEETING

September 26, 2016

DRAFT

MEMBERS PRESENT: Mayor Miro Weinberger

Jane Knodell

Karen Paul

Sharon Bushor

Kurt Wright

OTHERS PRESENT: Bob Rusten, CAO

Rich Goodwin, DFO

Eileen Blackwood, City Attorney

Richard Haesler, Assistant City Attorney

Ben Pacy, HR

Norm Baldwin, DPW

Noelle MacKay, CEDO

Gillian Nanton, CEDO

Kirsten Shapiro, CEDO

Sara Giannoni, City Council

Tom Ayres, City Council

Max Tracy, City Council

Ken Braverman

Abe Farkas [via teleconference]

Matt Craige via teleconference]

Don Sinex

Nick Principe

Elizabeth Miller

Margaret Murray

[Note: Minutes reflect order of published agenda.]

1.0 CALL TO ORDER and AGENDA

Mayor Weinberger called the Board of Finance meeting to order at 5:34 PM on 9/26/16.

1.01 Agenda

MOTION by Councilor Bushor, SECOND by Councilor Knodell, to approve the agenda with the amendment to advance Item 5.6 on the agenda (Reclassify Gallery Coordinator and Curatorial Assistant Position) by renumbering as Item 3.00. VOTING: unanimous; motion carried.

2.0 PUBLIC FORUM

Margaret Murray, resident, spoke of information being communicated that is either incorrect or not available to the public in a timely manner, citing the Board of Finance handling items involving a significant amount of money and the information only being available to the public a day or two in advance and being told by a city councilor that the marketing feasibility assessment was taken care of in August and yet there is a letter dated 9/23/16 about the assessment. Ms. Murray mentioned other items with very little information for explanation (updated tax increment summary that notes $21 million and $821,000, DNK preliminary estimate, hard and soft costs) and stressed that the public wants the information before laying out $16,275,000. Also, the feasibility study says “public version” and “redacted” which is confusing. If using $21 million of public dollars then the public really needs to know what is happening.

3.0 DISCUSSION

3.00 Reclassify Gallery Coordinator and Curatorial Assistant Position

MOTION by Councilor Bushor, SECOND by Councilor Knodell, to approve and recommend to City Council for approve reclassification of the Gallery Coordinator and Curatorial Assistant Position. VOTING: unanimous; motion

carried.

3.01 Review TIF Capacity

Mayor Weinberger explained Devonwood's projections are for completion of construction in 2018-2019 and then the actual expenditure and taking on the TIF debt would occur so there are numerous years and many authorizations before the point at which public monies are committed. The Administration takes use of public money very seriously. Information will be presented on TIF capacity before seeking authorization from the voters. Past practice has been to go to the voters early in the process to make sure the city is on the right track. The city is further along with the amount of information on the proposed project than when the city typically goes to the voters.

Bob Rusten reviewed the spreadsheet showing four versions of TIF capacity. The following was noted:

- With the nonresidential education tax rate increase of 3% on average per year and a city tax rate of 1% increase per year, and the new increment value that is equalized (assessed value reduced by common level of appraisal) which takes into account not being at 100% full market value, the tax rate multiplied by the assessed value equals $1.7 million total revenue raised.
- With the TIF agreement the city can keep up to 75% of the education tax rate and must match with the same amount of municipal tax rate.
- Twenty five percent (25%) of the new revenue being raised accrues to the grand list. In FY2020 that equals $123,000. In total the amount times 75% equals $1.2 million in FY2020. At full value ($87 million) the amount is $1.8 million in FY2021 to $1.9 million going forward.
- Using a borrowing figure of $21,829,890 if borrowed in December 2019 the first payment is not likely until FY2021 so there would be 15 years of bond payments. At 3.5% interest the yearly payment on the bond would be $1,895,000 and total payment of the bond would be $28 million.
- If the total amount being raised is $34 million at 3.5% interest the total amount to pay is $28,430,000 leaving $6.5 million. At an interest rate of 3.75% there is $6 million remaining. At 4% there is $5.5 million remaining and at 5% there is $3.3 million remaining so there will be more than enough capacity to payback the $21.8 million in TIF funds.
- Regarding cash flow, in FY2021 with revenue coming in at $1,881,000 and at 3.5% the payment being $1,895,000 there is a short gap, but the payment in FY2020 is used to make up the difference. In FY2022 there is a $3,000 difference made up by the increment in FY2020. With interest rates of 4% and 5% it will take a couple of years before seeing enough revenue coming in to cover the actual payment.
- With the nonresidential education tax rate increase at 2% and the municipal tax rate increase at .25% the amount of revenue coming in is decreased, but even with 5% interest borrowing rate there would still be sufficient capacity within the total amount of years to be able to pay the TIF bond. The increment in FY2020 would make up the difference in cash flow.

Mayor Weinberger summarized the numbers work in the most rigorous of stress tests. Unexpected events happen and there is a way to address them.

Councilor Knodell asked if the appraised value in 2021 of $87.7 million was generated by the Assessor. Bob Rusten confirmed this, adding the predevelopment agreement says the number is going to be whatever it needs to be. The value will be increased sufficient to be able to generate sufficient revenue to pay off the bond. The developer agreed he would not dispute that value. Councilor Knodell asked that City Council receive a copy of the information from the Assessor. Councilor Knodell asked if residential appreciating faster than commercial in appraised value is a problem. Bob Rusten explained the predevelopment agreement says the value will be increased over and above what might be identified through the process to be able to raise sufficient revenue.

Mayor Weinberger added there will be iterative and repeated contact with Devonwood between now and the time construction documents are signed and financial closing is reached to solidify and bind the agreement and construction begins. Regarding the private improvements that need to be sufficient enough for the city to pay the debt service, there will not be a surprise in the conversation that the owner pay property taxes essentially above and beyond the assessed value because the final plan of exactly what will be built and the cost will be worked out. Devonwood is not anticipating paying substantially above the assessed value. The city will have the ability to size what gets built with the cost based on where the final numbers are on the private improvements. The predevelopment agreement does provide a fallback position that provides protection to the city. Another protection is 25% of the increment which is new money coming into the city and potentially available for use. The assumption is 75% available for debt service.

Councilor Bushor asked if the revenue generated includes what the private sector does or projects on the surrounding streets. Bob Rusten said the revenue is solely based on the mall. Richard Haesler added the mall itself can support the improvements, but if there is development in the Cherry Street spur that development gets captured by the district as well until 2025. The improvements only describe the first phase of the Sinex development so there could be additional increments. The $87 million is the increment that serves the debt and that gets added to the existing grand list value in place.

It was noted conservatism has been built into the model. There was no further discussion.

3.02 Feasibility Review Report

Abe Farkas and Matt Craige with EcoNorthwest summarized that the feasibility report showed there is demand in each of the market sectors (residential, retail, office). Further review will be done of loan rates, capitalization rates, how the financing is structured and other projected development.

Mayor Weinberger thanked Don Sinex and his team for the partnership and the agreement and confidence in the City of Burlington to make this type of investment. The goal is to establish that the project achieves baseline feasibility and the team has the capacity to do the project. The project is not a pipedream. The project is a private development in which the city is not a direct party. The city will be making public investments related to the project that will succeed if the project succeeds. The level of due diligence for a private investor is beyond what the city normally would do.

Councilor Knodell said the study did reassure as to the economic feasibility of the project. The study is saying the project is sustainable and can generate a competitive return to investors, and is not using $22 million in order to become feasible.

There is no mention in the study of the $22 million underwriting the cost of the development. It has been claimed the TIF investment would be a subsidy to the project, but this is patently false.

Councilor Bushor asked when more information on competition in the retail sector will be available. Mayor Weinberger said the matter may be addressed with the proprietary information to be discussed in Executive Session. Councilor Bushor also asked why housing projects in the last 12 months were not included in the analysis. Don Sinex explained when City Council asked for a feasibility study the appropriate party was selected to do the study and instructions were given to do an objective review of the market, the absorption, and all the different component segments to be able to opine to City Council a professional opinion as to whether the project would be economically feasible, and that includes generating a return on investment. The consultant will be asked why other housing projects were not included in the study.

Councilor Paul commented the project to some degree has generated a lot of excitement and concern. One of the outgrowths of this is statements being made that are factually not true, such as the city building a 14 story mall. There is not a 14 story mall anywhere least of all Burlington, Vermont. In order for the project to be viable it must have a return on investment that is commensurate with projects of its realm. If this is not the case then there is no financing. The concern is the pro forma and what the indicators were as well as sensitivity testing. One of the strengths of the TIF projections is that they are based on conservative estimates. The mall is a standalone, but clearly over the next 20 years there will be other development. The indicators need to be known in order to speak to the fact that those considerations have been taken into account.

Councilor Tracy asked about the analysis for continued economic vitality of a mall the size of the Burlington Town Center given that type of retail has been in decline for some time. Mayor Weinberger agreed malls are generally in decline, but post redevelopment the project may not be thought of as a mall because the retail on the site will be repurposed to face the street. Studies have shown Burlington can support more retail in the downtown. Abe Farkas added the project repositions a 1960s mall into a 21st Century, mixed use project, reopens streets, provides a number of amenities, and creates a product type nowhere else in Burlington that will attract high quality retail and office tenants and a rich mix of housing providing more housing alternatives across a larger bandwidth of housing from affordable to market rate.

4.0 EXECUTIVE SESSION

MOTION by Councilor Knodell, SECOND by Councilor Paul, that public discussion of proprietary information related to the BTC development where premature disclosure will place the city at a disadvantage is appropriate for Executive Session. VOTING: unanimous; motion carried.

MOTION by Councilor Knodell, SECOND by Councilor Paul, based on the finding of premature disclosure placing the city at a disadvantage to go into Executive Session to discuss the feasibility report and invite all members in attendance from City Council, the Mayor and Mayor's Office, CAO's Office, City Attorney's Office, CEDO Office, DPW, Ken Braverman and EcoNorthwest consultants. VOTING: unanimous; motion carried.

Executive Session was convened at 6:30 PM.

MOTION by Councilor Knodell, SECOND by Councilor Wright, to adjourn Executive Session and reconvene the regular meeting. VOTING: unanimous; motion carried.

Executive Session was adjourned and the regular meeting reconvened at 7:10 PM.

5.0 APPROVE AND RECOMMEND TO CITY COUNCIL

5.01 Authorization of TIF Resolution

MOTION by Councilor Knodell, SECOND by Councilor Paul, to approve and recommend to City Council for approval authorization of the TIF resolution. VOTING: unanimous; motion carried.

5.02 Authorize Public Improvement Bonds for Fiscal Year 2017

MOTION by Councilor Paul, SECOND by Councilor Knodell, to approve and recommend to City Council for approval authorization of public improvements bonds for FY2017. VOTING: unanimous; motion carried.

5.03 Authorize General Obligation Refunding Bonds

5.04 Authorize Taxable General Obligation Refunding Bonds

Rich Goodwin reported staff has identified $21 million in bonds from 2009 to be refinanced at a lower rate not extending the term. Based on the city's credit rating improvement and current market conditions, annual savings will range from $1.9 million to $2.1 million. Net present value savings over the life of the loan is $1.7 million. Without the credit rating improvement staff would not be seeking opportunity to refinance at this time. Bonds to be refinanced include $6 million in city general obligations bonds, $2 million in school bonds, $3.5 million in BED bonds, and $9.7 million in a taxable bond issued by BED. Different series of bonds and interest rates will be refinanced.

MOTION by Councilor Bushor, SECOND by Councilor Paul, to approve and recommend to City Council for approval the General Obligation Refunding Bonds (Item 5.03) and the Taxable General Obligation Refunding Bonds (Item 5.04).

<u>DISCUSSION</u>: Councilor Bushor requested a synopsis of the interest rate and the real savings as a communications report to the Board of Finance. Councilor Paul asked about bond insurance. Rich Goodwin said if the cost is more for bond insurance than the savings on the refinance the options will be weighed. There may be opportunity to further reduce the rate of the bond insurance. There were no further comments.

VOTING: unanimous; motion carried.

5.05 Approve Issuance of Grant Anticipation Notes for Costs of Certain Airport Improvement Projects

MOTION by Councilor Paul, SECOND by Councilor Knodell, to approve and recommend to City Council for approval the Grant Anticipation Notes for costs of certain airport improvement projects. VOTING: unanimous; motion carried.

6.0 ADJOURNMENT

With no further business and without objection the meeting was adjourned at 7:11 PM.

RScty: MERiordan