

BUDGET RETREAT – February 24, 2006

City Clerk Donna K. Spickler called this Budget Retreat of the Mayor and City Council to order at 9:14 a.m., Friday, February 24, 2006 in the Council Chambers at the City Hall. Councilmember L. C. Metzner presided as Chairperson. Present were City Council Members K. B. Aleshire, K. S. Cromer, L. C. Metzner, P. M. Nigh and A. Parson-McBean, City Administrator Bruce Zimmerman, and City Clerk D. K. Spickler.

Bruce Zimmerman, City Administrator, stated the packet for this meeting contains a copy of the presentation slides, a copy of the City's fiscal policies and the preliminary general fund financial projections. A preliminary budget will be provided to the Mayor and Council by March 31, 2006. There are some challenging issues and there are some resources to work with. He encouraged the Council to ask questions at any time during the presentation. He stated if everyone works together this process will be manageable. Alfred Martin, Finance Director, and Ray Foltz, Assistant Finance Director, were also present.

Staff puts together an award winning budget document, which is judged on 27 points. The budget is based on sound financial practices.

The Goals established for this Budget Retreat are as follows:

1. Encourage Mayor and Council to establish their legacy for Hagerstown
2. Review Budget policies and related budgetary issues
3. Continue choices which eliminated the extremely large General Fund deficits projections of the past
4. Chart a clear direction for managing major and potentially conflicting budgetary issues
 - a. Growth in property tax revenues from new development and increasing property values
 - b. Capital improvement program needs
 - c. Staffing needs
 - d. OPEB – Retiree health insurance changes
 - e. Competitive wages and benefits
 - f. Property Tax Rate

To keep the City on track, the Mayor and Council will need to implement a multi-year plan to be incorporated in the Fiscal Year 2006/2007 budget.

1. The OPEB requirement will place significant financial pressure on the General Fund. What will be the plan for funding retiree health insurance costs, or modifying the cost sharing arrangement with retirees?
2. Growth and Development, along with increasing property values, have strengthened the General Fund budget. What will be the plan for sustaining the budget if development and/or market appreciation slows down below current levels?

3. Property taxes are currently a major area of community focus. The State and County have recently joined together to recommend halving (10% - 5%) the annual assessment increase cap in owner occupied property (est. tax revenue impact \$ 287,000). What are the plans for the City's property tax rate?
4. Members of the Mayor and Council have expressed interest in adding both police and firefighter positions. What will be the plan for funding these positions, especially if property tax revenue growth declines?
5. To remain healthy, Hagerstown will continue to need a strong and well funded capital improvement program. What is the plan for funding capital projects? If bonded debt is part of the funding plan are we prepared to accept the increased levels of debt service and use of debt capacity?
6. The City is completing a wage and benefit study and also faces staffing needs in non-public safety operations. What will be the plan for funding in these areas?
7. There are new programs and services for Hagerstown that are of interest to members of the Mayor and Council. What will be the plan for funding these new initiatives?

As they work on the Fiscal Year 2006/2007 budget and future budgets, this Mayor and Council will establish its legacy for Hagerstown. Prior Mayor and Council legacies have included renovation and occupancy of the Elizabeth Hager Center; purchase and construction of Fairgrounds Park, Downtown University Center and University Plaza; adoption of annexation policy and rental licensing program; strengthening General Fund finances and operating budget; and strengthening Police and Fire staffing.

The City's only tax supported fund is the General Fund. The general fund accounts for public safety, streets, parks, recreation, public functions and general administration. Wages and benefits are 71% of these costs. These operations are primarily paid for with local property taxes and State shared taxes. The rest are user charges, licenses and permits and grants.

The Operating Budget Policy, for use of fund balances, stated that prior year's fund balances are to be treated as a "rainy day" fund and are not to be used in budgeting for operating expenditures. The Fund Balance Policy states the City will maintain a minimum undesignated fund balance (to be used for unanticipated emergencies) of 10% of the General Fund Operating Budget (excluding Capital Outlay). The City has exceeded the 10% minimum requirement every year since 2000.

The City has a strong Debt Policy. The City will limit its long-term borrowing to Capital Improvements or projects that cannot be financed on a "pay-as-you-go" basis. The City will not use long-term debt to fund current operating costs. Total debt service

for general long-term debt will not exceed 10% of total operating revenues. Total general obligation debt will not exceed 10% of the assessed valuation of taxable property or \$ 1,000 per capita.

For years the City struggled with large deficits in the General Fund as the cost of wages and benefits exceeded growth in property tax revenues. In the past two years, the General Fund revenues have grown much stronger. There is not a deficit projected for this budget. The policy changes and new initiatives that have improved financial resources include: rental registration and inspection program; enhanced property maintenance and code compliance; utility extension and annexation policy; new development pays for its own costs; and livable city focus and downtown renaissance.

The real estate tax rate has not increased in the last two years because the assessable base tax growth was sufficient to provide the needed funding. Annexation has had a significant impact on the City. The number of permits for new dwelling units has risen as a result of the annexations. The City is finally sharing in the growth that is occurring in the metropolitan areas. The Rental Residential program has increased the property values of older homes.

The budget is preliminarily balanced for 2006/07 and the five year projections without a change in the tax rates. However, the preliminary budget excludes any additional staffing requests, any new program additions or enhancements, any provision to address change in retiree benefit accounting requirements and the full impact of the Total Compensation Study is not known.

Governmental funds capital spending is financed by General Fund current revenues, bond financing, grants and contributions for capital spending. The City is starting to catch up and get ahead of the depreciation. There are growing needs in this area and we will continue to see the needs growing, i.e. the needs at the Market House.

Councilmember Aleshire asked if the City was catching up because of bond financing or because of general fund revenue. Mr. Foltz stated that information could be available for the next meeting.

The following list shows the major capital improvement projects:

1. Roads
 - a. Eastern Boulevard Widening
 - b. Eastern Boulevard North Extension
 - c. Edgewood/US 40 Intersection
 - d. Professional Court/Bridge Extension
 - e. Jonathan Street Streetscape Improvements
 - f. Wesel Boulevard Dualization
 - g. Storm Drain/Bridge Repairs
 - h. Southern Boulevard

- i. Marshall Street Reconstruction
- j. Haven Road Reconstruction
- k. East Washington Street Alley Improvements

- 2. Public Safety
 - a. Central Booking
 - b. City/County Police Radio
 - c. Police Vehicle Replacement
 - d. Fire Engine/Truck Replacement
 - e. New Public Safety Facilities

- 3. Parks
 - a. Fairgrounds Entrance Building
 - b. Fairgrounds Grandstand Improvements
 - c. Other Fairgrounds Park Improvements
 - d. Potterfield Pool Rehabilitation
 - e. Stadium Improvements
 - f. Wheaton Park Improvements
 - g. City Park Restroom
 - h. Pangborn Park Improvements
 - i. Ice Rink Improvements

- 4. Other
 - a. Computer Migration
 - b. City Hall and Public Works Improvements
 - c. Market House Improvements
 - d. New Business Park
 - e. School for the Arts
 - f. Arts Center/Library in A & E District
 - g. Downtown Buildings
 - h. Additional Downtown Parking Facilities

Mr. Foltz pointed out there are projects planned for both the electric department and the water/sewer department. The focus of the discussion today is on the general fund.

With the exception of an additional 17 positions in Public Safety and the addition of 6 positions in the new Code Compliance program, the City has only added a net of 3 positions in the last 10 years to all other operations.

The cost to add 19 positions in the Fire Department would be \$ 946,798.00. The cost for 8 positions in the Police Department would be \$ 419,601.00. There are other areas of the City's operations that also need to be considered for staffing in the course of the budget development process.

The increase in cost to the retiree health insurance since December 31, 2003 is 24.7%. Accounting practices require that this liability be shown on an actuarial basis, rather than

a “pay as you go.” The effect this would have on the tax rate to fund this change is 23.1% or a 16.9 cent increase on the tax rate. Approximately 60% of local governments provide retiree benefits.

Mr. Martin stated Washington County’s policy is that when you reach age 65, you are out of their health care program. He stated the Mayor and City Council need to think about being fair with retirees and employees and at the same time being fair with ratepayers and taxpayers. The employee groups are aware of the situation and have provided great support. He stated this will be a challenge, but there is still time to address the situation. The change will take place within two years. Councilmember Nigh stated County employees have Medicare coverage when they reach 65. Mr. Martin stated Medicare becomes the primary insurance and any other insurance is secondary. Councilmember Nigh stated the City needs to talk to members of the Federal government to help ensure the Medicare program continues. She asked how many retired employees depend on the City to provide healthcare coverage. She is concerned about the spouses of retirees.

Councilmember Nigh asked if the Council needs to contact House and Senate members concerning funding for highways. Mr. Martin stated the highway user revenue has not been as high as expected. Income tax revenue has exceeded expectations. He stated they may need to talk to the Delegation and to the Maryland Municipal League (MML) concerning the State Highway User Funds.

Councilmember Nigh asked that Staff let them know what they have to do for the good of the City. Councilmember Metzner asked if this is an issue being addressed by the MML. It was stated they are addressing this as well as the proposed bill for annexation laws presented by the Maryland Association of Counties (MACO).

Councilmember Metzner and Councilmember Aleshire attended a meeting with Greater Hagerstown to hear about the lobbyist they have hired. The lobbyist didn’t approach the House and Senate but identified who the “players” were in Annapolis for the issues. Councilmember Nigh stated the Washington County Delegation members should know who the Council should talk to about these issues. Councilmember Cromer asked what the Council needed to do in Annapolis. Councilmember Nigh stated she knows this community is in a bad situation and it will impact the ratepayers and taxpayers. She stated the City does not need a lobbyist, there are people here who can tell them what they need to do. She stated she would go to Annapolis.

Councilmember Metzner stated it concerns him that a paid lobbyist may only be knocking on doors, rather than making arrangements for meetings, etc. He stated the MML lobbyist has not made arrangements for every Mayor to meet the necessary House members in the last 12 years. Past Hagerstown Mayors have attended hearings.

Kathleen Maher has been following the bill from MACO. There may be a need to attend the hearings scheduled for this bill.

Councilmember Parson-McBean stated the leadership in Prince Georges County is a very close knit group. She stated her experience at the MML convention was different because she spent time with the Prince Georges County group. She stated the Council needs to invest more time in being in Annapolis. The City's network needs to be larger.

Councilmember Metzner stated the Council needs to make sure they are present during the General Assembly for the issues that impact the City. He stated the County government and the business community has been in Annapolis. He stated he heard a Homeland Security issue was discussed recently. He stated there are four issues the City Council should be involved in. They are: Edgewood Drive improvements, regulations for the Gaming Commission, sewer issues and homeland security. Councilmember Parson-McBean agreed the Council needs to have stronger communication ties with the Delegation members. Councilmember Metzner stated the City should also be closer to officials in Garret and Allegany counties.

Mr. Zimmerman stated copies of pending bills are placed in the Council mailboxes. He stated he thinks the idea of building a stronger connection with the representatives in Annapolis is a good one.

Councilmember Nigh stated she is not convinced the people who are attending the legislative sessions have Hagerstown at heart. She asked former Mayor Bob Bruchey if there were groups that traveled to Annapolis when he was mayor. Mr. Bruchey stated the Greater Hagerstown Committee did go to Annapolis.

Councilmember Nigh stated part of the City Administrator's job is to keep the Council informed of the happenings during the legislative session and to let them know when they need to go to Annapolis. She is not in favor of a committee that is trying to control the City of Hagerstown.

Councilmember Parson-McBean stated she is willing to work with anyone who is trying to make Hagerstown better. Councilmember Nigh stated Councilmember Parson-McBean has the benefit of a Delegate guiding her and letting her know when she needs to approach people and who to approach. Councilmember Nigh stated she will make the time to travel to Annapolis because the Council needs to be involved.

Councilmember Parson-McBean stated when she needs answers, she doesn't mind reaching out. Reaching out to others enhances the City. She thinks the Greater Hagerstown Committee understands groups are only as good as their network.

Councilmember Metzner stated success also depends on what legislative bill the Council supports. He stated City representatives can attend the sessions in Annapolis as well as a lobbyist. He doesn't think the City taxpayers, who already pay county taxes, should have to pay a second time for a lobbyist. Councilmember Parson-McBean stated the City needs to be asking for more from the Delegation.

Mr. Martin stated the City will have to address the retiree health insurance issue. He stated Staff hopes to form a labor committee to discuss suggestions, ideas and recommendations. More details will be presented to the Mayor and Council. Mr. Foltz pointed out that four union contracts are nearing renewal time and this issue has to be dealt with.

The value of each penny on the real estate tax rate in fiscal year 2005/06 is \$ 221,279.00. In fiscal year 2006/07, the value of each penny is \$ 247,382.00.

Mr. Zimmerman and Mr. Martin encouraged the Council to think about their long range vision for the City. Questions to be considered are:

1. Will the City be the urban services provider for the Hagerstown metropolitan area?
2. What will our citizens be like – older, better educated, higher income level, more culturally diverse, actively employed/semi or fully retire?
3. Where will our citizens be employed?
4. What services will the City provide?

The Mayor and Council will need to implement a multi-year plan with a view to the future. The Fiscal Year 2006/2007 Budget is a start to implement that plan. The issues which must be addressed are:

1. OPEB – What will be the plan for funding retiree health insurance costs? Or modifying the cost sharing arrangement with retirees?
2. Growth and development – What will be the plan for sustaining the budget if development and/or market appreciation slows down below current level?
3. Property taxes – What are the plans for the City's property tax rate?
4. Adding police and firefighter positions – What will be the plan for funding these positions, especially if property tax revenue growth declines? And positions in other operation areas?

Mr. Zimmerman stated these issues need to be worked through. The City has worked through the lean years with a good team. People are willing to make adjustments and work together. He stated Department Managers have done a good job managing resources. If the Council, management and employee groups work together, these issues are manageable.

Councilmember Nigh stated the public needs to know why the Council does what they do. Mr. Martin stated the presentation today is an attempt to make the budget process easier to understand.

Councilmember Metzner stated he has been a Councilmember in three administrations and he has heard repeatedly there is a crisis with the number of firefighters. The issue has not been addressed for seven years. The Council needs to recognize that the County is not going to address or solve the problem. There are obviously police issues also. He stated the Council knows Community Rescue Service is going to ask for assistance. These issues can no longer be ignored. He expects the City will find they are going to have to expand into the rescue business and will have to put a new facility in the west end of town. Firefighters will have to be hired and then be cross trained for rescue work. He stated IAFF came to the Mayor and Council ten years ago with a proposal to take over the rescue operations. He stated after seeing the emergency response to Hurricane Katrina, he would rather say to the City's citizens this needs to be done than telling them why the City wasn't able to help them. He stated the West End is the fastest growing area in the city and fire and rescue service has to be provided. He stated employee groups need to explain to the citizens why more firefighters are needed. He suggested that the groups write letters to the editor. He stated the relationship between the union groups and the Mayor and Council is the best it has ever been in the last eight months. He stated there was concern that the unions would take over the City. The opposite has occurred and there is complete communication between the City and unions. He stated the Council needs to make sure employees understand there are five council members who are dealing with them with full faith. The promises made will be upheld. He will vote to recognize unions in the City Charter, if the opportunity becomes available. The unions and the Council have become partners and he wants that to continue.

Mr. Zimmerman indicated the March 7, 2006 Work Session will include items of a budget and personnel nature. The Staff Committee will be joining the Springsted team to present the results of the compensation study.

Councilmember Aleshire stated this Council cannot determine what legacy they want to leave until the OPEB issue is addressed. He wants to make this a top priority in this fiscal year. He stated the citizens are not immune to the effect of increased assessments on property. He thinks it would be the wrong approach to subsidize any deficit. He stated the effect of an impact fee has to be factored in to the budget. He recommended adding restructuring of debt into the fiscal policies of the City. He stated a time frame to implement the wage study needs to be established. He stated Councilmembers need to know what projects they each are supportive of. They need to understand that four years is a very limited time to get things accomplished. He stated they need to determine which projects have a majority support. He stated the City needs to continue to find ways to lower the amount of wages and benefits that are covered by local property taxes. He stated the range for bonded debt should be 15% to 20%. He stated it would be beneficial to set a schedule for an appropriate increase in the property tax rate. They shouldn't wait four years and then increase the rate by 5 cents. It should be spread out over several years.

Mr. Zimmerman stated a proposed budget will be presented to the Mayor and Council for review by the end of March. He asked what the Council wanted Staff to include for public safety.

Councilmember Metzner stated they will hear from Police Chief Smith about the police department's needs. He stated the fire department issue is a major one and it will not be solved easily. He stated this will be the first time they have reviewed a budget that includes funding to start taking care of the situation. He stated he would like the Council's legacy to be a new fire station in the West End with fire personnel who are trained for EMS too. He would like to start moving forward with this. He stated he knows there will be a request from CRS for funding. He stated if money is spent to hire personnel, they will be fire department personnel.

Mr. Zimmerman asked if this would be a four year plan. Councilmember Metzner stated it would be and he wants to make sure the fire fighters know this is a concrete plan.

There being no further business to come before the Council, on a motion duly made by Councilmember K. S. Cromer and seconded by Councilmember P. M. Nigh, the meeting was adjourned at 11:25 a.m.

Respectfully submitted,

Donna K. Spickler
City Clerk

Approved: _____