

Budget/Strategic Planning Session – September 29, 2009

Mayor R. E. Bruchey, II called this Budget/Strategic Planning Session of the Mayor and City Council to order at 4:05 p.m., Tuesday, September 29, 2009 at Elgin Station, 40 Elgin Boulevard, Hagerstown, Maryland. Present with the Mayor were Councilmembers W. M. Breichner, M. E. Brubaker, F. Easton, A. C. Haywood, L. C. Metzner, City Administrator Bruce Zimmerman and Donna Spickler, City Clerk.

Budget/Strategic Planning Overview

Bruce Zimmerman, City Administrator, stated the primary purpose of this meeting is to receive Mayor and Council input and direction on both the budget and future development of a strategic plan. Staff views this retreat as one of the first steps in this process and looks forward to receiving feedback and guidance.

Following the scheduling of this retreat, an immediate concern to the City has arisen due to the recent \$ 1,850,000 reduction in State of Maryland revenues in the FY 10 General Fund budget. These State cuts coupled with previously established concerns over the negative impact of the national recession finances, make the budget a preeminent issue. However, the presence of these serious financial challenges also clearly increases the need for a strategic plan that guides the City's financial planning, program priorities and operating decisions in the future.

Staff is asking the Mayor and City Council to take the following actions:

1. Direct staff to move forward on the basis of the City's FY 10 Budget Plan
2. Authorize staff to work from a list of Potential Budget Adjustment Options for Future Consideration in the preparation of the FY 11 and future year budgets, with the understanding that this list will change as the City works on these issues and receives new budget information in coming months
3. Schedule a follow up budget retreat in mid-November to provide staff further guidance in the preparation of next year's budget
4. Commit to the future development of a strategic plan for the City

What would help staff most is to not only have a set of Mayor and Council goals for the community and the City government, but a clear understanding of their vision for Hagerstown. Staff would encourage the Mayor and Council to think both in terms of their future vision of what they would like to see Hagerstown become as a community and also their legacy of accomplishments. A future development of a strategic plan in some form is critical to Hagerstown, especially due to the difficult financial decisions that will have to be made.

For the City, it is the budget that demonstrates the plan and vision for the future of Hagerstown. Through budget decisions, the City indicates to the public how the City's resources are being aligned, with the priorities for serving the public and operating the government. The strongest budgets are prepared consistent with an organization's

strategic plan that is well understood by the public, elected officials and the staff. In the face of difficult financial circumstances it is even more important to operate and make budget decisions within the context of a strategic plan.

For Hagerstown, especially in the current economic conditions, Mayor and Council and staff will face choices as to how the budget affects property owners and residents through taxes and fees, the use of resources for critical responsibilities such as capital infrastructure, public safety, neighborhood revitalization, economic development, parks, utilities, and other aspects of City operations and services to the community. The budget decisions made in the coming months will have a long term impact on the health of the community and the government.

In addition to maintaining a strategic focus, staff also thinks it is important that the City not approach the budget preparation with the mind set of just trying to weather the storm and getting through this situation. Rather it will be more beneficial to the community and government if this time is used to evaluate the value and cost of programs and services, the City's use of the revenues received and new ways of operating. With the strong probability of Hagerstown experiencing difficult budget conditions for several years, the City will need to think beyond the current approaches to operations and budgeting.

Hagerstown Community Trends

Kathleen Maher, Planning Director, reported that the employment composition is changing in Washington County. In 1970, manufacturing was the largest employer. It is expected that services employment will increase to 33.3% of total employment.

During the years from 2001 to 2007, Hagerstown's population increased. The City's population growth was higher than that for Washington County. Even though the population increased, the tax base has held fairly constant.

Annexation does not usually increase population because it is usually vacant land. The increase occurs as the vacant property is developed.

Councilmember Brubaker stated the City has to keep expanding in order to increase the tax base. Councilmember Haywood suggested not depending on new development alone to increase the tax base. The tax base has to be increased in existing neighborhoods.

Mr. Zimmerman stated the tax base can be increased through a two step approach. It depends on livable city initiatives and new development. Older neighborhoods are not being sacrificed for annexation.

Councilmember Easton and Councilmember Breichner expressed the need to sustain the older neighborhoods in the City. Councilmember Haywood stated if a halfway house moves into a neighborhood, the whole neighborhood will deteriorate. She urged the

Mayor and Council to move quickly to prevent a halfway house from being located in Hagerstown. Mr. Zimmerman stated staff has been meeting with the City Attorney to address this possibility. Ms. Maher indicated the Planning Commission is scheduled to review a draft zoning amendment at their meeting on September 30, 2009.

Ms. Maher stated the median household income has remained fairly steady. However, neither the City of Hagerstown or Washington County are keeping up with Frederick County. Building permit trends for new housing units in Hagerstown has been up and down for several years. There was an increase from 2007 to 2008. Home-ownership rates are still lower than rental properties in Hagerstown.

Standard and Poor's City of Hagerstown Bond Rating – An Independent Perspective of Hagerstown from an Outside Financial Firm

In Standard & Poor's Ratings Services' opinion, the "AA-" long-term rating assigned to Hagerstown Maryland's series 2009 public facilities bonds reflects:

1. The City's role as a regional employment and retail center, with commutable proximity to Washington D.C. and Baltimore offering residents additional economic and employment opportunities;
2. A growing and very diverse tax base that continues to exhibit healthy ongoing growth as a result of continued commercial development and despite the national economic downturn;
3. The maintenance of a strong reserve position, supported by favorable operating performance and strong financial management policies and practices; and
4. A low overall net debt burden, with manageable future capital needs.

The city's financial performances and position are strong, with operating surpluses in four out of the past five fiscal years and the maintenance of very strong reserve levels. Hagerstown's management practices are considered "strong" under Standard & Poor's financial management assessment.

Staff's Budget Guidelines

The City Charter mandates a balanced budget. Prior Mayor and Councils adopted fiscal policies to meet the Charter mandate and assure short and long term financial management of the City.

Alfred Martin, Finance Director, and Ray Foltz, Assistant Finance Director, discussed these guidelines. Mr. Martin stated additional budget cuts are anticipated from the State of Maryland. In addition to the decreases in revenue from the state, the City's revenues are decreasing. Significant recovery in the budget is not expected for at least 18 months. Property tax rates were raised significantly several years ago due to a lack of assessable base growth and growth in expenditures out pacing the tax base. The City needs to avoid

placing additional burdens on taxpayers and ensure that the City's tax rates are competitive with other jurisdictions. Mr. Foltz stated the City needs to find more diverse revenue sources.

The 2002 Annexation Policy and subsequent annexations allowed the City to share in the metropolitan area's growth and resulting growth in the City's revenue base. Since FY03, the City has received over \$ 4 million per year in additional tax revenues from new growth. This strong economic development and growth is necessary for the City's future financial health.

Staff anticipates major changes in the City's future handling of personnel costs. Mr. Foltz stated the City will attempt to avoid lay-offs and rollback of pay rates with the following guidelines:

1. No COLAs or step increases in the next few years
2. Possible reduction in benefit levels and increased cost sharing with employees
3. Possible furloughs
4. Need to reduce overtime, temporary and seasonal staffing, and other personnel related costs

Temporary reductions in capital expenditure levels are being implemented, including suspension of the City's "Pay As You Go" capital fiscal policy. No vehicle/equipment replacements will be approved unless they are grant funded. There will be reduction or curtailment of street resurfacing, computer replacements and other capital expenditures. Funding will need to be restored to capital expenditure in the future. There will be no further use of fund balance as budgeted revenue.

Councilmember Haywood asked how staff feels about these guidelines. Eric Deike, Public Works Manager, stated he would rather see furloughs than layoffs. He doesn't see how the City can continue to operate without making these changes.

Michael Spiker, Director of Utilities, stated these changes go hand in hand with reduction in city services. In several departments, one manager does the work of two people. Vacancies have been held open for longer lengths of time.

Councilmember Brubaker stated it is a credit to the management staff that the City has been able to stay away from layoffs. Many other jurisdictions have had to resort to layoffs to meet budget reductions.

Mr. Foltz stated management has been very transparent with the budget reduction information. No one likes this situation, but changes are necessary. Mr. Deike thinks employees are more willing to help with solutions to the current situation because of this transparency.

Donna Frazier, Director of Human Resources, stated employees are taking this budget situation seriously. Employees have approached her and expressed they are willing to

work together, as long as everyone shares in the responsibility. Mr. Zimmerman stated if all employees share in dealing with the reductions, it makes the City a better organization. However, the first commitment is to the community.

Councilmember Breichner pointed out that certain functions have a higher priority than others. Mr. Zimmerman stated the City's resources need to be aligned with the priorities.

Mayor Bruchey asked if employees will be affected during this fiscal year. Mr. Martin stated staff has developed a plan that all managers have discussed to deal with the current challenges. He stressed that there may be more reductions from the State.

Fundamental changes are necessary in the City's revenue and expenditure structure including:

1. Less reliance on state shared revenues
2. Opportunity to re-examine what we do and how we do it
3. Allows the City to better position itself strategically for the future

Councilmember Breichner stated he doesn't anticipate any State funding from the slot revenue. Councilmember Haywood asked if anyone at the State level has considered increasing the alcohol tax. Mr. Martin indicated the City receives a small share of the revenue from liquor licenses.

Proposed FY 09/10 Budget Plan

Early in September, the City learned that due to the large budget deficit facing the State in the current fiscal year, it had reduced its revenue sharing program for local governments. These reductions cut the City's share of Highway User Revenue by 90% or \$1,576,929 and the City's share of Police Protection Revenue by 35% or \$ 275,097 for a total of \$ 1,852,026. In addition, staff reviewed the affect of the economic slowdown on other City revenues and determined that net revenue reductions of \$ 421,070 should be included. This is primarily the result of income tax revenues being lower than expected due to the economic down turn. In total, staff found that expenditures need to be reduced by \$ 2,273,096 to cover these reduced revenue levels.

Department managers have met several times as a group to discuss the problem and to develop broad strategies and ideas. The City managers understood the need and every manager participated in making the necessary adjustments to the current year budget to deal with the problem as it stands today.

The proposed plan for offsetting the loss of General Fund Revenue consists primarily of the following:

1. Stopping expenditures for new capital outlay and CIP expenditures for which the City wasn't already committed
2. Stopping expenditures for educational advances beyond those for which the City wasn't already committed

3. Severely curtailed and limited future professional development and training expenditures for conferences and seminars and other out of town trips, except for those limited to maintaining mandated certifications
4. Limited non-grant funded expenditures for overtime and reduced temporary employee budgets
5. Curtailed budget available for specialized contractual services
6. Reduced energy related costs in hopes that energy prices and use will not rise above last year's levels
7. All other expenditure areas were reviewed for prior history and cutbacks were made to limit budgeted resources available in the current year's budget

A delay in the sale of the 2009 bonds resulted in a one time savings of \$ 564,469 due to not having a full year of principle and interest payments.

The goal in addressing this initial round of budget reductions was to avoid significant service level reductions or actions which would adversely affect full-time personnel. Unfortunately, as additional budget reductions or unexpected expenditures due to snow or other uncertainties become obvious, the City's ability to avoid impacting full-time personnel will be more limited.

Staff believes the size of the budget problem for the City will continue to grow in future years. Staff is requesting concurrence from the Mayor and Council to address the FY 10 budget shortfalls.

Councilmember Haywood asked if the police academy is fully financed by the tuition. Mr. Martin indicated it depends on the number of students enrolled. A county wide public safety training center is being considered to reduce costs. Police Chief Arthur Smith pointed out there is increased police visibility downtown during the academy.

Elimination of the spring dumpster program (savings of \$ 65,000.00) and closure of the skate park at Fairgrounds Park (\$ 5,000.00) are included in the department budget reductions.

Councilmember Haywood suggested considering increasing the fees at the golf course. This could be included in future budget discussions. Councilmember Haywood stated looking at different options to maximize services and amenities would be helpful.

Other amenities and services will most likely be reduced as discussions continue.

Mayor Bruchey suggested looking at an option to charge people to use the dumpsters instead of eliminating the program completely. Eric Deike, Public Works Manager, stated the program can be reviewed and other options could be considered. One suggestion is to change the amount of time the dumpsters are available. The program

will be not be held until at least after July 1, 2010. The program will be reviewed during FY 2011 budget discussions.

It was the general consensus of the Mayor and Council to accept the budget adjustments and move forward with implementing them.

Presentation of Potential Budget Adjustments Options for Future Consideration

Staff presented a list of potential budget adjustments for future consideration. The list attempts to avoid the following: 1) Property Tax Rate Increases; 2) Major Reductions in City Services and Programs; 3) Personnel Layoffs and Reduction in Current Employee Pay; and 4) Use of General Fund Surplus. Of significant concern is the impact of the financial environment on funding of community based capital projects and capital equipment purchases used to support City operations.

The list includes (but is not limited to) eliminating vehicle purchases, eliminating Cost of Living Adjustments or Step increases next year; using red light cameras to increase revenue, retirement incentives, federal lobbyist, productivity/operational enhancements cable franchise audit and fee increases and service charges.

Councilmember Metzner doesn't think red light cameras should be considered as a revenue generator. He is in favor of red light cameras for law enforcement and safety.

Councilmember Haywood suggested completing an analysis of cost savings from moving signal lights to flashing signals after a certain time. This is being developed.

It was the consensus to review the cable franchise lease and consider retirement incentives.

Councilmember Easton suggested looking into the possibility of using prison crews to assist with outside work. Mr. Deike pointed out the labor is inexpensive but there is a cost involved with providing supervision at all times. This will be added to the list of items to be discussed.

Councilmember Haywood would like to discuss decreasing energy consumption in the City. She asked what impact solar panels on City Hall would have on energy costs. Councilmember Metzner stated it would take a long time to recover the installation costs. Councilmember Breichner and Councilmember Brubaker mentioned that grant funding is available for energy savings programs.

The City received a grant to install new, energy saving lights in the parking decks and energy saving bulbs for citizens. Signal lights have been replaced with LED lights and energy costs have gone down significantly.

Mr. Zimmerman indicated expanded prisoner use and partnering with other agencies will be added to this working list.

Councilmember Brubaker stated employees can help offset costs by participating in productivity and operational enhancements.

Mr. Zimmerman indicated the remaining information in the meeting packet is for the Mayor and Council's future consideration. A well-developed strategic plan would be helpful to staff in order to meet the goals of the Mayor and Council.

Councilmember Easton suggested looking at outsourcing operations that may be more cost effective to do so. He stated this type of meeting should be held annually.

The meeting was recessed at 6:45 p.m. and reopened at 7:06 p.m.

Councilmember Haywood stated the most pressing issue for the Mayor and Council is having a vision for the neighborhoods that already exist. She feels it is counter productive to continually allow non-profit uses in older neighborhoods. Subsidized housing doesn't work and this mix doesn't work downtown.

Councilmember Metzner stated residential uses can't be removed from residential districts. He would rather not see the Alexander House go back to use as a hotel.

Councilmember Easton stated Frederick has revitalized their downtown and doesn't understand why Hagerstown can't do the same thing. Councilmember Metzner stated Frederick doesn't have large buildings without parking. Councilmember Breichner stated the property owner lives upstairs in many buildings in Frederick.

Councilmember Haywood wonders how Hagerstown became a dumping ground for halfway houses. Councilmember Metzner stated when felons are housed in residential areas there are problems.

Councilmember Haywood stated the City should pass ordinances to create effective facilities. She provided an example of what Tampa, Florida has enacted. Councilmember Metzner suggested discussing this issue with the local legislators.

Councilmember Haywood indicated the residences located near her business do not have a positive influence on her business and the City is not positively influencing the residents' quality of life.

Councilmember Metzner stated a discussion should be held with the hospital to find out what is going to be done with the present facility when the new hospital opens. He indicated a discussion should be held with Hagerstown Neighborhood Development Partnership (HNDP) about their plans for the Baltimore Street location. He is tired of the City being blamed for holding back HNDP projects. The Planning Commission has approved zoning for the anticipated project and the City has provided funding in the last several budgets. Councilmember Easton stated the City should talk to HNDP instead of waiting to read something in the newspaper. He stated discussions should be held with

the County Commissioners (specifically about the library expansion), the hospital and HNBP. The City should issue an invitation for dialogue and not wait for an invitation.

Councilmember Breichner asked that a meeting be scheduled with the Housing Authority also.

The Mayor and Council discussed whether or not the discussions should be with all members of the respective groups or with a few members.

Councilmember Haywood stated she had confirmation that Bannum, Inc. (a group that is looking at the possibility of placing a halfway house for incarcerated individuals downtown) is currently in negotiations with property owner Alan Greenwald. Deborah Everhart, Director of Economic Development, indicated Mr. Greenwald told her he would not negotiate with Bannum.

Mr. Zimmerman stated he believes the best approach to deal with this situation is to discuss the issue with Senator Mikulski and Senator Cardin. The Planning Commission is working on legislation to limit the location of this type of use in Hagerstown. He stated the City needs to decide what is expected from HNBP.

Councilmember Metzner stated HNBP appears to be an integral part of the discussion with the hospital. It has to be determined what the existing site will be used for. He suggested making a list of what the City does not want placed there and develop a plan for what would be best for the City and the property owner. Councilmember Breichner is concerned the building will be demolished and the City will be left with the problem of reuse.

Councilmember Haywood stated a discussion needs to be scheduled about the MELP building. She stated the environmental hazards need to be cleaned up. The City will be liable for the hazards. Councilmember Metzner stated EPA regulations does not remove the current owner's liability. Mr. Zimmerman and City Attorney Mark Boyer have been meeting to discuss the City's responsibility for the site.

Councilmember Haywood stated the Mayor and Council need to focus on the City reinvesting in buildings. There are many abandoned manufacturing buildings. Conversations have been held to discuss energy stewardship at First Urban Fiber.

Mr. Zimmerman stated some accomplishments have been made with some of these groups in the last few years. Councilmember Metzner stated he doesn't think the 2 + 2 committee accomplished anything. He stated staff has been able to work together with County staff to get things accomplished. This level of City/County cooperating is a tribute to staff.

Mr. Zimmerman stated the City is not in a position financially to undertake some of these major issues.

Mayor Bruchey stated a meeting should be scheduled with the County Commissioners as soon as possible. The next meeting should be scheduled with the Hagerstown Housing Authority. Then a meeting should be held with the hospital.

Councilmember Breichner stated it is extremely important to develop a strategic plan for the future of Hagerstown. It is important for citizens to have a clear understanding of the City's goals.

There being no further business to come before the Mayor and City Council, on a motion duly made, seconded and passed, the meeting was adjourned at 7:56 p.m.

Respectfully submitted,

Donna K. Spickler, City Clerk

Approved: October 27, 2009