

Mayor R. E. Bruchey, II called this Work Session of the Mayor and City Council to order at 9:05 a.m., Friday, April 7, 2017, in the Council Chamber at City Hall. Present with the Mayor were Councilmembers K. B. Aleshire, E. Keller, L. C. Metzner, and D. F. Munson, City Administrator Valerie Means, and City Clerk D. K. Spickler. Councilmember P. D. Corderman was not present.

FY 2017/18 Budget Review

Michelle Hepburn, Director of Finance, was present to review the General Fund Revenue and Expenditure portion of the budget.

Councilmember Metzner recommended discussing questions the Mayor and City Council have instead of reviewing the many components of the budget. He realizes a portion of the proposed tax rate increase represents the amount that is needed to maintain the current revenue from taxes, based on the Constant Yield Tax Rate report from the State of Maryland. He asked that Councilmembers who don't support a tax rate increase identify areas that won't be funded. There may be services or projects others may want eliminated or reduced in order to keep the tax rate the same as it is now. The Mayor and City Council have to decide what is important to fund. Councilmember Keller discussed a proposed \$ 50.00 police and fire fee on social media. Some responses were positive for this fee.

Mayor Bruchey stated OPEB needs to be addressed. The City of Hagerstown has been funding OPEB for many years. Concerns were raised that the City's bond rating would decrease if OPEB was not funded. He noted the State of Maryland has not funded OPEB and it has not had a negative affect on the State's credit rating. He does not think \$ 650,000.00 annually for OPEB is necessary.

Ms. Hepburn stated the City has recognized the liability and has been commended by the auditors and financial advisors for it. She noted a significant portion of the funding is from the Health Insurance Fund. Mayor Bruchey questioned the \$ 400,000 surplus in the health insurance fund. Ms. Hepburn reminded the group that the City is self-insured and an amount equivalent to a premium is set aside to pay claims. The OPEB contribution was reduced in FY16/17.

Councilmember Metzner suggested funding OPEB at the current level. This may reduce the amount needed from the reserve funds.

Mayor Bruchey suggested using reserve funds to increase the First Third Grant incentive program.

Ms. Hepburn stated the City needs to acknowledge the obligation it has to retiree members that participate in the health insurance program. As a government agency, the

City is now being looked at to provide guarantees of secured funding for those obligations. The funds cannot be transferred to the General Fund for City operations.

Mayor Bruchey asked if health insurance coverage changed recently for retirees older than 65. The coverage has not changed.

Ms. Hepburn noted in the proposed budget the \$ 650,000.00 is redistributed back to the respective funds. The balance of Reserve Funds is more than \$ 3 million, which represents 5.7 months of operating expenses. The only reason staff is proposing the use of reserve funds to fund one-time projects is because there is a surplus in the Health Insurance Fund and the Reserve Fund balance is stable. Additional transfers are not recommended.

Councilmember Aleshire stated there are two major issues with this budget – a decreasing tax base and increasing employee costs largely associated with public safety. The Mayor and Council have to determine if they want to keep up with the Constant Yield Tax Rate and include the increased costs for employee wages and benefits. These are two points that are not changing.

Mayor Bruchey noted this is the first issue the Mayor and Council have discussed. They have to focus on managing personnel costs.

Councilmember Aleshire stated these two issues will continually present challenges for the City.

Councilmember Metzner stated the largest expense is personnel, but he doesn't think the Mayor and Council can do what the citizens want them to do – lower taxes and provide more public safety personnel. Citizens need to recognize this is not realistic.

Councilmember Aleshire noted citizens voted for binding arbitration during the last election. The negotiating process associated with public safety contracts are now largely in favor of the union negotiations. The tax rate increase is a reflection of that approval. He feels the proposed 5.5 cent increase is what the citizens said they wanted – increased public safety.

Councilmember Metzner stated it is important for citizens to understand that the tax rate increase is to provide funding for additional public safety services. He is not complaining about the proposed tax rate increase. For those that don't support the tax rate increase, he asked that they provide suggestions for expenses to reduce in order to fund the budget.

Councilmember Aleshire stated he is not going to pick apart the budget, which would be destabilizing. The elected officials who were supported by entities on the preface of increased public safety but don't support a tax rate increase can pick apart the budget.

Councilmember Keller stated she was supported by the groups mentioned. She is aware that the tax rate increase is needed to make public safety employees whole. She supports the tax rate increase because of this.

Councilmember Munson asked what the tax revenue is. Ms. Hepburn stated with the proposed 5.5 cent increase, it would be \$ 29.5 million. He then asked what the Police Department and Fire Department budgets are. Ms. Hepburn noted the total operating budget for the Police Department is \$ 14.1 million and \$ 21.8 million for the Fire Department. With other employee benefits added to these figures, Councilmember Munson noted it appears tax revenue does not cover employee wages and benefits.

Councilmember Aleshire noted the gap increases in the projections.

Councilmember Munson stated it is incredible general fund departments are able to operate given the employee expenses. He is disappointed voters supported binding arbitration. It takes wage and benefit decisions away from the elected body.

Councilmember Metzner stated the budget challenges cannot be blamed on the cultural trail, economic incentives, or decisions made by the last administration. Eliminating amenities to avoid a tax rate increase is not going to solve the problem. Without amenities, the assessable base will continue to decline.

Ms. Hepburn pointed out vacancy savings are included in the budget. There have been a large number of turnovers in the last several years.

Councilmember Aleshire stated the City is competing with surrounding jurisdictions for police officers. Many officers leave after three or four years. He stated the largest expenses have to be addressed. Having just three months of operating expenses worth of reserves is alarming to him.

Councilmember Metzner agreed that retaining police officers is competitive. If the wages are not increased for officers, it will remain difficult to retain them.

Councilmember Munson stated while he was campaigning, he heard from some City employees they felt they were hurt by insurance items. He clarified that the Mayor and City Council is not making any attempt to adjust employee insurance benefits.

Ms. Hepburn reviewed the revenue sources from Section 1, Page 26. She mentioned there are some one time revenue sources included in this list, including the use of Fund Balance. She noted that projections show there will be a deficit of \$ 1.5 million because of the one time use funds in the proposed budget for FY17/18.

General Fund expenditures by City functions are shown on Page 27 in Section 1.

Councilmember Aleshire stated people have to understand that making the budget structurally sound will be a long term endeavor. The problem will not be fixed with one time savings.

Mayor Bruchey is not willing to eliminate any amenities. Amenities are necessary to attract people to Hagerstown who will invest in the City. More amenities are needed.

Councilmember Keller thinks the Mayor's suggestion of discussing consolidation of services with Washington County is worth considering.

Councilmember Metzner stated consolidation of police and fire services would be the only thing that would have a significant impact on the budget. Combining these services would also address the issue of double taxation.

Mayor Bruchey stated consolidation could also include purchase of vehicles under a combined bidding process.

Councilmember Aleshire does not think the County would be willing to take on the costs of the City funded fire stations.

Councilmember Metzner pointed out the tax set off that is intended to reimburse municipalities for services they provide does not cover half the costs of fire and police services.

Councilmember Aleshire stated operating expenses for the City's fire department are \$ 7.5 million. In comparison, the County provides \$ 7.5 million for all the other fire stations annually. He would not turn over the City's fire department to the County under the current operating system.

Using the proposed tax rate, Councilmember Aleshire stated his personal tax bill would increase just \$ 50.00 from what it was 12 years ago. Councilmember Metzner offered to use his assessment at his residence as an example of what the tax bill has been over the last 25 years.

Councilmember Aleshire suggested reviewing the initiatives that were discussed by Delegate Maggie McIntosh several years ago. She has experience with the same urban taxing issues the City of Hagerstown is facing.

Review of the budget will continue with on Tuesday, April 11, 2017.

CITY ADMINISTRATOR'S COMMENTS

Valerie Means, City Administrator, had no additional comments.

WORK SESSION

2017

MAYOR AND CITY COUNCIL

MAYOR AND COUNCIL COMMENTS

APRIL 7,

HAGERSTOWN, MARYLAND

Councilmember D. F. Munson had no additional comments.

Councilmember L. C. Metzner had no additional comments.

Councilmember K. B. Aleshire had no additional comments.

Councilmember E. Keller had no additional comments.

Mayor R. E. Bruchey, II had no additional comments.

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 10:27 a.m.

Respectfully submitted,

Original signed by D. K. Spickler

Donna K. Spickler
City Clerk

Approved: May 23, 2017