

EXECUTIVE SESSION – February 6, 2018

On motion duly made by Councilmember E. Keller and seconded by Councilmember S. McIntire, the Mayor and City Council unanimously agreed by voice vote of all members present to meet in closed session to consider a matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State, #4, (Section 3-305(b)), on Tuesday, February 6, 2018 at 3:30 p.m. in Room 407, 4th floor, City Hall, Hagerstown, Maryland.

The following people were in attendance: Mayor R. E. Bruchey, II, Councilmember K. B. Aleshire, Councilmember A. Heffernan, Councilmember E. Keller, Councilmember S. McIntire, City Administrator Valerie Means, Michelle Hepburn, Director of Finance, Jill Thompson, Director of Community and Economic Development, Jonathan Kerns, Community Development Manager, and D. K. Spickler, City Clerk. Councilmember L. C. Metzner was not present for the Executive Session.

The meeting was held to review a business proposal involving several City owned properties. No formal action was taken at the meeting. On a motion duly made, seconded, and passed, the meeting was adjourned at 3:48 p.m.

WORK SESSION – February 6, 2018

Mayor R. E. Bruchey, II called this Work Session and Executive Session of the Mayor and City Council to order at 4:02 p.m., Tuesday, February 6, 2018 in the Council Chamber at City Hall. Present with the Mayor were Councilmembers K. B. Aleshire, A. Heffernan, E. Keller, S. McIntire, and L. C. Metzner, City Administrator Valerie Means, and City Clerk D. K. Spickler.

Eastern Panhandle Expansion Project

Brooke Harper, MD/DC Policy Director of the Chesapeake Climate Action Network, was present to provide information about the Eastern Panhandle Expansion Project. The Eastern Panhandle Expansion Project would bring fracked gas from Bedford County, Pennsylvania through Hancock, Maryland and under the Potomac River to Berkeley County, West Virginia.

Ms. Harper and other citizens have expressed their concerns about this project to the Maryland Department of the Environment. Due to the Karst geology in this area, citizens are concerned that the limestone base will form cracks, fissures, and sink holes. There is also limited filtration. In other locations, spills have occurred due to the fluids used in drilling.

Brent Wills, Potomac Riverkeepers, stated slick mud water is used to pressurize the drill bit. Sometimes this pressurized water finds its way to the surface and causes a blowout.

Councilmember Metzner mentioned the Mayor and Council are familiar with Superfund sites and realize how far water can travel in unexpected ways.

Councilmember Aleshire inquired if the group's objective is to stop the project or to ensure additional precautionary measures are taken. Ms. Harper stated if the project cannot be stopped, they want to make sure it is done in an environmentally responsible way. Councilmember Aleshire stated the FERC is under the authority of the President of the United States. Letters to other leaders won't affect the permit. In his experience with Myersville, Maryland, he knows the judges typically side with the FERC if the projects are legally challenged. FERC is not subject to local or State regulations. Ms. Harper indicated the State could impose conditions on the project. Councilmember Aleshire suggested contacting the National Park Service (NPS) or other federal agency to protest the project. Ms. Harper indicated they have contacted the Army Corp of Engineers and the NPS and the group is asking for local support.

Councilmember Metzner pointed out there appear to be no benefits to the citizens of Washington County from this project. In fact, there could be negative impacts to citizens.

The deadline for responses to the application is within one year. Information for how this could affect the drinking water supply in Washington County has not been completed. The FERC could gather this information upon the request of the State of Maryland. Until this information is available, the group is suggesting denying the application.

Local governments have sent letters to the Governor. The Washington County Commissioners have expressed their concerns and asked the Governor to postpone approval of the application until all the information has been gathered. The Town of Boonsboro has asked Governor Hogan to deny approval of the application. Copies of these letters and several others were provided to the Mayor and City Council.

It was the general consensus of the Mayor and City Council to submit a letter to the Governor encouraging him to postpone approval of the application from TransCanada for the pipeline until information is provided as to how it could potentially affect the drinking water supply in Washington County.

FY19 General Fund Budget State Review

Michelle Hepburn, Director of Finance, was present to provide a status review of the FY2018/19 General Fund Budget.

Staff will be finalizing budget projections and other financial information over the next two months, so the budget material presented and discussed during this meeting will change as staff finalizes the preliminary budget requests. The Mayor and Council will receive a balanced and comprehensive FY2018/19 Proposed Budget by March 31, 2018 and then have time to review and/or amend the budget during April and May.

This review is intended to provide a preliminary snapshot and overview of the issues Hagerstown faces as budget preparations move forward.

As mentioned, the City faces a challenging budget scenario for next year which is reflected in the major budget assumptions represented in the material presented for the meeting. Most of this was anticipated a year ago as future budget years were reviewed. As of Friday, February 2, 2018, the General Fund FY 2018/19 deficit was approximately \$ 2.7 million. During February and March, staff will work on eliminating the deficit.

Ms. Hepburn reminded the Mayor and Council the budget ordinance has to be approved in May in order for the budget to be effective July 1, 2018.

There is very little change in the utility and parking funds. A five year rate plan is in effect for the Water and Wastewater funds.

FY 2018/19 General Fund revenue is currently estimated to be \$ 44.2 million and expenses are projected to be \$ 46.9 million. Revenue from the Red Light Camera program is also included. There are no significant changes in the working budget for services. Nothing has been added that has not been approved by the Mayor and Council.

At this time, there is no increase in the property tax rate which is 94.1 cents per \$ 100 assessed value, and, each penny on the tax rate represents approximately \$ 261,000 in revenue. At this time, there is no amount included for a potential new two-tier property tax rate. The preliminary estimates for property tax revenue include an overall increase of 4% compared to FY 2017/18 budget amounts due to two primary factors:

1. The City has experienced assessable growth increase beyond original estimates from the State Department of Assessment and Taxation which is reflective in estimated actual for FY2017/18 being higher than FY2017/18 budget amounts.
2. FY2018/19 is the second year of the City's triennial assessment period and the City's historical trends indicate a slight increase during the second year from current levels. The Constant Yield Tax Rate memo has not been received yet.

There is \$1.3 million in the current FY2017/18 budget. Currently there is \$0.6 million of fund balance reserve utilized in the FY2018/19 working budget. The majority of this fund balance reserve usage is for items previously committed, including \$0.2 million that could be utilized for additional funding requests from The Maryland Theatre towards the City's portion of the UIP (Urban Improvement Project).

Three of the City's four collective bargaining unions have contracts in place through June 2022. The current 1605 IAFF contract expires in June 2018 and union negotiations are soon to begin. There are salary enhancements included for all employee groups (union, non-union, fully-time, part-time, and seasonal staff) which represents approximately \$1.2 million more than in FY2017/18 budget.

There are no positions included that have not been previously discussed and/or approved. There are also no reductions in staffing at this time.

Health insurance projections include no increase over current year actual levels for the first time in many years which is a reflection of current claims being processed and net changes to the health plan that were incorporated. Dental insurance projections are anticipated to remain flat with current year amounts. Police and Fire pension projections are 14% of salaries and wages which totals \$1.6 million. State of Maryland pension rates are estimated to increase from 8.56% to 9.00 % of salaries and wages for the employer's contribution rate. Paid sick leave for employees that average 12 hours per week is included. Currently there are no additional benefit dollars included in the FY2018/19 working budget but staff are working on a new policy and what this minimum impact will be. Prior to the new law taking effect on February 11, 2018, the City did not provide any paid sick leave for part-time, seasonal, or substitute staff. Staff will make a separate presentation to Mayor and Council in the next few weeks.

Transfers from the general fund (pay-go funding) are approximately \$ 1.4 million. This request for \$ 1.4 million includes funding a variety of items such as vehicles for various departments representing \$ 586,000, public safety radios, cameras, and equipment for Police and/or Fire in the amount of \$ 400,000, matching funds for multiple grant projects across the Parks, and other infrastructure related projects. The assumptions include new bond issues in 2018. The City's current bond ratings are an AA rating from S&P and an Aa3 rating from Moody's. There is a future 2018 bond issue for the General Fund in preliminary requests that total \$ 6.5 million which would have an estimated 20 year annual debt service of \$ 442,000. It is anticipated that the impact to FY2017/18 would be limited to one payment based on the timing of the issue. The projects included as potential new 2018 bond issue at this time include fire consolidation of public assets, Urban Improvement Plaza project, Pangborn Lake reconstruction, Fire Reserve Engine 4, police radios, and other miscellaneous infrastructure and rehab projects. In an effort to conserve funds, there is approximately \$0.5 million in CIP project funding that will be carried over and/or deferred from the current fiscal year until FY2018/19. At this time, there are no capital funds included for a stadium or sportsplex project.

The current FY2018/19 deficit does not include any reductions or changes to City services including no changes to events, recreation, public safety, public works or golf from current fiscal year 2017/18. Staff will be working on the Golf Fund preliminary requests to keep the General Fund stipend level at \$0.2 million. During 2016/17, the General Fund stipend for the Golf Fund was \$0.3 million which was approximately \$0.1 million more than originally budgeted or anticipated.

Official funding requests have been received from other agencies and companies. The Maryland Theatre has requested additional money from the City toward its fundraising efforts for its expansion project. The Museum of Fine Arts has requested additional funding beyond the annual agency contribution amount for a new HVAC system. The Discovery Station is requesting funding and/or in-kind services for routine operations. The Ice Rink and Softball Association are requesting loans which would obligate the current CIP funds until the loans were paid in full.

The current working operating budget includes some overlap for two special studies that have been approved by the Mayor and Council to begin in the current fiscal year. These are a Sportsplex feasibility study of \$ 15,000 and a Stormwater Management study of \$ 100,000.

At this time there is a transfer of \$ 125,000 from the General Fund to the Economic Redevelopment Fund in the preliminary FY2018/19 budget to continue to fund on-going incentives such as Partners in Economic Progress (PEP) subsidized rental assistance and sign and façade grants. This transfer from the General Fund is the same amount that is currently being funded in the approved FY 2017/18 budget. The current working FY2018/19 budget does not include any further general Fund Balance Reserve transfers. The previously obligated Fund Balance Reserves are proposed to be redirected for the UIP.

There is a \$ 250,000 incentive already committed for a Class A Office Building. There is the potential to redirect that prior commitment and use it toward the UIP. The Maryland Theatre request for up-front funding for their fundraising campaign could be provided in FY18, if the \$ 250,000 is redirected and fund balance is used. Ms. Hepburn noted there is no additional revenue source to provide anything to the Maryland Theatre outside this possibility. If additional funding is approved, Ms. Hepburn suggested reviewing the agency contributions and reallocating funding within that program to cover the additional funding to the Maryland Theatre.

Councilmember Aleshire stated the future of the golf course should be discussed. He pointed out it will never be self sufficient. Mayor Bruchey stated previous discussions included having a managing company run the course, with the City receiving half the revenue.

Councilmember Metzner wondered how people in the community will react to a serious discussion during the budget review regarding the golf course. Given the amount of revenue needed for current operations, he does not think reducing the tax rate may be possible. He mentioned several funding requests will be considered during the budget discussions.

Councilmember Keller stated the designated agencies that receive funding regularly bring foot traffic to downtown and provide things for kids in the community.

Councilmember Metzner pointed out CRS has a reserve fund. If any of the agency contributions were to be reduced, it could possibly be the contribution to CRS.

Councilmember Aleshire stated that the City cannot sustain a stable budget operating in this manner. The only way to increase revenue is to increase taxes.

Ms. Means stated a balanced budget will be presented to the Mayor and Council by the required date of March 31, 2018.

Loan Request to Replace Zamboni Ice Resurfacer

Rodney Tissue, City Engineer, Paul Sweeney and Dan LaValliere, Hagerstown Ice Amateur Athletic Association, Inc. (HIAAA), were present to discuss a loan request to replace the Zamboni Ice Resurfacer.

The HIAAA has an Operating Agreement (which was approved in March, 2014), with the City to manage the ice rink through June 30, 2019. The HIAAA reports to the Mayor and Council each October and Mr. Tissue attends the monthly board meetings. The City subsidizes all of the utility costs and the HIAAA pays \$ 3,000 per month in rent. The general consensus is the HIAAA is doing a great job of managing the facility and they are financially sound.

In the Operating Agreement, the HIAAA is responsible for the ice resurfacer and to “regularly contribute to a capital account to be used exclusively for (their) purchase of a new ice resurfacer”. The current ice resurfacer (brand name Zamboni) is nearing the end of its useful life and needs to be replaced (or put in reserve as a back up to a new resurfacer). Over the last several months, the HIAAA Board decided it is time to replace the ice resurfacer and the Board voted to send a proposal to the City to request financing for the purchase.

HIAAA submitted a detailed proposal for the City’s review. Highlights are as follows:

1. New resurfacer purchase price is \$ 121,866.70
2. City will post Purchase Order for the unit to avoid down payment
3. HIAAA will pay the City \$ 22,500 (or more) at time of deliver on unit
4. Loan amount from the City will be no more than \$ 121,866.70 - \$ 22,500 = \$ 99,366.70

Mr. Sweeney stated they have looked for a used resurfacer but very few are available. HIAAA has not explored financing through another institution because the loan term would extend well past HIAAA’s Agreement with the City. If the contract with the City is extended, there may be a larger down payment required. Lease options are available; however, they would most likely also shop for term financing if they went with an outside lender. One issue is that the order terms require a \$ 25,000 down payment at the time of placement. HIAAA is now heading into the seasonal cash flow down cycle and laying out \$ 25,000 now leaves open the chance that they could not meet a surprise expense over the summer. Their practice is to make large outlays as much as possible during the up cycle, which would coincide with delivery of the machine in this case.

In the unlikely event that the HIAAA ceases to operate the rink, the City will assume ownership of the Zamboni (and all equipment in the rink) and forgive HIAAA’s loan balance.

Staff recommends supporting the HIAAA but may need to wait until the FY19 budget process concludes before giving a final answer since it is unknown what projects the City can afford in its CIP budget at this time.

Councilmember Metzner stated the ice rink was a failing amenity and the HIAAA made an offer to operate the rink. The user groups were brought together and now the rink is successful. He would support extending the contract with HIAAA. If they do not find outside financing, he would support a loan as requested.

Mr. Tissue noted that the City subsidizes approximately \$ 40,000 to the ice rink and pays for the utilities, which is \$ 75,000.00. As noted previously, HIAAA pays \$ 35,000 in rent annually.

Tiered Real Property Tax Structure

Scott Nicewarner, Director of Technology, Communications, and Support Services, was present to follow-up on the brief presentation on November 21, 2017 regarding a two-tiered real property tax rate. During that discussion, information was provided of the overall assessment information for FY18 and how a tiered tax system for owner occupied vs. non-owner occupied would look financially for the City. Information about other municipalities in Maryland utilizing a multi-tier real property tax structure for both commercial vs. residential and owner vs. Non-owner occupied parcels was provided as well.

Mr. Nicewarner reviewed several charts with the Mayor and Council showing how tier increases between 5% and 25% would affect multiple classifications of property. A 5% increase for properties classified as apartments would be less than \$ 190.00 per year for even the highest assessed value property. All this information is available on the City's website. He noted information is being posted on social media that increases would be \$ 200.00 per month. This is not accurate.

Mr. Nicewarner noted the charts also include median and average bills for the classifications. Information was also included showing how increasing homeownership would affect the tax revenue.

Councilmember Aleshire stated a tiered tax structure will distribute taxes more equitably for City properties, based on the typical use of City services.

Councilmember Metzner stated there have been reports of tenants being told their rents will increase. He urged renters to review their leases and understand that an increase in taxes does not automatically mean an increase in their rent. He stated he would be opposed to a rate increase for commercial, non-residential properties.

Mr. Nicewarner pointed out some renters may look more seriously at homeownership with a change in the tax rate.

Mayor Bruchey stated a 10% increase for a 4 unit apartment building equals \$ 4.13 per unit per month.

Ms. Means stated direction is needed from the Mayor and Council regarding the tiered tax rate in order to complete the proposed budget.

Councilmember Heffernan supports a tiered tax rate. He noted a property with one residence pays significantly higher taxes per capita than a property with four residences.

Ms. Means clarified that the information on the charts is for all properties, not just for properties with four or more units. Mr. Nicewarner stated that is correct and that specific information can be pulled from the charts and the percentages can be applied to that information. Townhouses under one parcel would be considered as one property.

Councilmember Metzner asked for examples of the different rates as applied to different classifications of rental units. Mr. Nicewarner indicated the State Department of Assessments would have to provide the base information in order to be able to calculate this.

Councilmember Aleshire cautioned that setting a number of units may cause some owners to reclassify their property to avoid the rental rate.

Councilmember Metzner asked if everyone agreed a different tax rate should be applied to all properties with four or more units.

There was some discussion about which percentage to use. It was noted a 5% increase only yields \$ 100,000 in additional revenue. Some members support discussing the higher percentages.

Mayor Bruchey wondered if a higher rate could be applied to properties with larger numbers of units. Mr. Nicewarner indicated the State does not separate the information in that manner.

Councilmember Keller stated it is unrealistic to anticipate a significant shift in homeownership especially since young people are not purchasing homes.

Councilmember Aleshire has calculated a formula with this information that would yield the equivalent of 2 cents on the tax rate. This is for all non-owner occupied, except for commercial.

CITY ADMINISTRATOR'S COMMENTS

Valerie Means, City Administrator, stated staff will be presenting a balanced budget to the Mayor and City Council by March 31, 2018.

MAYOR AND COUNCIL COMMENTS

Councilmember S. McIntire met with a boy scout who is working on his merit badge. She suggested having boy scouts and girl scouts lead the Pledge of Allegiance at the Regular Sessions of the Mayor and Council on a regular basis. All members thought this is a good idea.

Councilmember L. C. Metzner apologized for missing the Executive Session earlier.

Councilmember A. Heffernan has been contacted by a concerned citizen about the proposed cell tower being located at North Hagerstown High School. The citizen is concerned about the health impacts of living close to a tower and the aesthetics of the structure. There is a meeting scheduled to discuss the project at the Morris Frock Legion Post next week.

Councilmember K. B. Aleshire stated this is a complex budget with revenue and expense constraints. When he reviews the budget, he wants to make sure the costs are being applied to everyone as equitably as possible. If that doesn't happen, 75% of the property owners are picking up 100% of the increased cost of services.

The ESAP Committee was tasked with discussing how to resolve concerns about the future of emergency services in Washington County. A study was completed but it has not been released to the public or to all members of the committee. However, during continued discussions, it was noted the City was not included in the study of how to provide service in the county. In conjunction with that thought, it was stated that members representing the City should not participate in the meeting, unless asked to. When he attends these meetings, he expects to participate and provide input. Difficult conversations are needed to find long term solutions to a long term problem. He has notified the Chairman that he wants to be involved and participate but if he is not able to speak and the City isn't included, he won't be attending. During his campaign for County Commissioner in 2008, he talked about the need to look at the fire service.

Councilmember E. Keller is glad there are now five Councilmembers. The group should now start setting goals for what they want to accomplish in the next three years.

Mayor R. E. Bruchey, II visited classes at Salem Avenue Elementary School today to promote the If I Were Mayor contest.

The Mayor and Council thanked the fire department for the job well done to put out an apartment fire this morning on North Potomac Street.

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 6:16 p.m.

Respectfully submitted,

Original signed by D. K. Spickler

Donna K. Spickler

WORK SESSION AND EXECUTIVE SESSION
2018
MAYOR AND CITY COUNCIL

FEBRUARY 6,
HAGERSTOWN, MARYLAND

City Clerk

Approved: March 27, 2018