

EXECUTIVE SESSION – February 5, 2019

On a motion duly made by Councilmember A. Heffernan and seconded by Councilmember E. Keller, the Mayor and City Council unanimously agreed by voice vote of all members present at the time of the vote to meet in closed session to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation or performance evaluation of appointees, employees, or officials over whom it has jurisdiction, #1 (Section 3-305(b)), and 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 5, 2019 at 3:00 p.m. in Room 407, 4th floor, City Hall, Hagerstown, Maryland. Councilmember McIntire was not present for the vote.

The following people were in attendance: Mayor R. E. Bruchey, II, Councilmember K. B. Aleshire, Councilmember A. Heffernan, Councilmember E. Keller, Councilmember S. McIntire, Interim City Administrator Michael Spiker, Wendy Nussbaum, Director of Human Resources, Jill Thompson, Director of Community and Economic Development, Jonathan Kerns, Community Development Manager, and Donna K. Spickler, City Clerk. Councilmember L. C. Metzner was not present.

The meeting was held to discuss various personnel matters and a business proposal. No formal action was taken at the meeting. On a motion duly made, seconded, and passed, the meeting was adjourned at 3:44 p.m.

WORK SESSION – February 5, 2019

Mayor R. E. Bruchey, II called this Work Session of the Mayor and City Council to order at 4:06 p.m., Tuesday, February 5, 2019 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, Interim City Administrator Michael Spiker, and City Clerk D. K. Spickler.

Indoor Sports Complex Proposals

Rodney Tissue, City Engineer, and Brian Connolly, Victus, were present to review the results of the proposal solicitation for an indoor sports complex.

Victus Advisors completed their study in July and provided a clear window into the market for a sports complex. After interviewing dozens of people and receiving survey input from over 700 others, the consensus is that an indoor facility is warranted in the community and the existing indoor facilities do not meet the demand, let alone the potential growth. There appears to be significant public support for this type of facility.

Based upon the report findings, Council directed staff to issue a Request for Qualifications/proposals from firms (or multi-firm project teams) interested in designing, constructing, operating and maintaining an indoor sports facility that would both provide residents with sports and recreation activities, as well as serve as an economic development driver for enhancing the overall quality of life for Hagerstown residents.

The RFQ was based on the premise that the City could sell or lease property (or a portion of the property) to the private developer but the City did not intend to commit any construction or operating funds to the private operations of the facility/development.

On November 28, 2018, the City received two responses to the RFQ from:

1. Eastern Sports Management (ESM) to re-develop the City's golf course property with an indoor sports facility and ancillary private development on the balance of the property
2. Hagerstown Ice Amateur Athletic Association (HIAAA) to expand the ice rink facility with a second sheet of ice and indoor sports courts all constructed in front of the current rink.

On January 9, 2019, City Staff and Victus Advisors conducted interviews with both ESM and HIAAA.

ESM has a highly qualified and experienced project team, including operations, development, construction, design, engineering, etc. The proposal and site concepts were well developed and professionally prepared. They proposed to operate the facility without the need for public operating subsidies. They also included an ancillary development proposal at the golf course, which the City currently subsidizes.

ESM's estimated project costs were high – approximately \$ 54 million including a pool, or approximately \$ 36 million without a pool. Their proposal did not include any private investment, therefore the project debt service (whether issued via the City or via a third-party) would be the sole responsibility of the City.

HIAAA has an existing relationship with the City and is experienced in operating a sports facility in Hagerstown. Development at Fairgrounds Park would continue to position the complex as a destination sports attraction. The estimated project cost was not only significantly lower than the ESM proposal, but also included 50% of the construction costs to be sourced from private fundraising efforts.

The HIAAA proposal contained significantly less detail than the ESM proposal. Their estimated project costs (\$16 - \$ 18 million) was a hard construction cost estimate only, and did not include site costs or soft costs. The HIAAA project team was loosely defined, no construction or engineering partners were specified, and HIAAA Board does not have full-time members dedicated to this project. HIAAA's fundraising and development timeline was much longer than ESM's. HIAAA has never fundraised amounts of \$ 8 to \$ 10 million, and they were not able to articulate potential sources or a clear plan for fundraising such an amount.

Based on their review of the two proposals and interviews with the proposing entities, Victus Advisors and City staff have prepared the following conclusions and discussion items for the Mayor and City Council to consider:

1. ESM Proposal – Although ESM is a highly-qualified operator, the proposed construction cost is too expensive and the City would be responsible for 100% of the debt.
2. HIAAA proposal – Their funding plan is vague, HIAAA does not maintain a full-time professional staff capable of leading the fundraising/design/build process, and significant questions remain about HIAAA’s ability to operate a larger facility without the need for City subsidies.
3. Question 1 – Does the City wish to seek additional project funding partners, such as the County and/or other State or Non-profit grants, in order to move either of these two proposals forward?
4. Question 2 – It is apparent that qualified, national, sports operators such as ESM would be interested in operating a new sports center in Hagerstown if they are not responsible for the capital costs to construct the facility. Would the City be interested in a model where the City designs/builds/owns a more affordable facility and then issues an RFP for a professional, third-party, operating partner?
5. Question 3 – would the City consider asking HIAAA to provide a more affordable proposal for a second sheet of ice only, with the City matching any funds they raise?

Mr. Connolly noted that some companies didn’t consider responding because the City of Hagerstown is not building the facility.

Mayor Bruchey mentioned there was a proposal several years ago to build an addition at the grandstand for a sports facility. Mr. Tissue stated it was about 10 years ago and the estimated cost at that time was \$ 6 - \$ 8 million. That proposal was for a basketball use.

Councilmember Heffernan suggested approaching the County for participation and support with a narrowed scope of what is needed.

Mr. Connelly stated there is a model laid out from the study that concepts could be applied to.

Councilmember Heffernan knows there is the need for a second sheet of ice. He doesn’t know if that can be bundled with this facility. Mr. Tissue suggested hearing the proposal from HIAAA.

Councilmember McIntire noted the estimate from EMS is significantly higher than the previously stated estimate. She wondered if EMS would consider anything less than the submitted proposal. Mr. Connolly noted their proposal included a number of premium amenities and a large fitness component, which was not part of the RFQ.

Mr. Tissue stated he thinks a discussion with the County Commissioners during a joint meeting on this topic is appropriate.

Councilmember Aleshire stated he thinks the proposal from EMS is far beyond the needs of the community. There are two locations that have direct City ownership – the ice rink and the stadium. They didn't consider the stadium because they didn't want to be in the political fray. A building constructed with indoor turf and fields is needed.

Councilmember Metzner noted including the County Commissioners also opens up the possibility of a location outside the City limits. If the location is not in the City limits, City taxpayer dollars should not be used. He is interested in hearing the proposal for a second sheet of ice from HIAAA. His impression has been that the City's contribution toward a facility would be the property.

Councilmember Keller has no interest in a facility outside the City limits. She thinks discussing a partnership with the County is a good idea. When the City is successful, the County is successful.

Councilmember McIntire pointed out there would be an increase in hotel/motel tax from users of a sports facility. Mr. Connelly stated Victus could provide an estimate of that increase for a presentation to the County.

Mayor Bruchey noted an indoor sports facility and a new stadium could turn the ice rink property and stadium property into revenue generators.

HIAAA will be invited to present their proposal for a second sheet of ice to the Mayor and City Council.

FY20 Working Budget Status Review

Michelle Hepburn, Director of Finance, and Jennifer Peterson, Accounting and Budget Manager, were present to provide a status review of the FY 2019/20 General Fund budget.

Staff will be finalizing the budget projections and other financial information over the next two months, so the budget information presented today will change as staff finalizes the preliminary budget requests. The Mayor and City council will receive a balanced and comprehensive FY2019/20 proposed budget by March 31 and then will have time to review and/or amend the budget during April and May.

The City faces a challenging budget scenario for next year. Most of this was anticipated a year ago as projections were reviewed during last year's budget. As of Friday, January 25, 2019, the General Fund FY 2019/20 deficit is approximately \$ 3.4 million.

General Fund Revenue:

The City's anticipated FY2019/20 General Fund Revenue of approximately \$ 45.1 million reflects a \$ 1.3 million decline compared to the FY 2018/19 budget. Overall, this

difference from current FY 2018/19 reflects the inclusion of \$ 1.2 million of transfers from Health Insurance and fund balance reserve usage. In addition, FY 2019/20 reflects the current declining trend of \$ 0.2 million for Safe Speed for School programs and flat Red Light revenue within Fines and Forfeitures, no Stormwater fees, and a reduction of \$0.4 million Cable Franchise revenue due to pending and unknown FCC legislation.

At this time, there is no increase in property tax rates which is 1.002 cents per \$ 100 assessed value for most, 1.032 cents per \$ 100 of assessed value for the Apartments category, and each penny on the tax rate represents approximately \$ 263,000 in revenue. At this time, there is no amount included for a potential new two-tier corporate personal property tax rate for utility companies (defined by SDAT). The current corporate personal property tax rate is \$2.505 per \$ 100 and by default is calculated 2.5 times the Real Estate tax rate per \$ 100. The preliminary estimates for property tax revenue include an overall increase of 0.8% compared to FY 2018/19 budget amounts due to two primary factors:

1. Current estimated actual for FY2018/19 is flat or on track with the budget for FY 2018/19
2. FY 2019/20 is the third year of the City's triennial assessment period and the City's historical trends indicate a slight increase during the third year from current levels. The preliminary numbers include an early estimated 1.0% growth.

Fund Balance Reserve

There is \$0.6 million in the current FY 2018/19 budget to be utilized for capital projects and a one-time \$ 200,000 grant for The Maryland Theatre for its expansion. Currently there is \$0 of fund balance reserve utilized in FY 2019/20 working budget. It is anticipated that \$0.7 million to \$0.9 million will be necessary to balance the FY 2019/20 budget and continue with infrastructure and capital purchases.

Salary Enhancements

All of the City's four collective bargaining unions have contracts in place through June, 2022. There are salary enhancements included for most employee groups (union, non-union, and full-time). Any change to the current minimum wage would affect part time and seasonal employees of the City.

Staffing

Currently there are no positions included that have not been previously discussed and/or approved. There are 452 funded full time positions with 316 in the General Fund and 136 in other funds and operations. There is a total of 25 unfunded positions across the City with 15 in the General Fund and 10 in other funds and operations. The salary costs for the 35 unfunded positions will not be reflected in the FY 2019/20 proposed budget with an offsetting savings. Instead, only funded full time positions will be reflected in the FY2019/20 numbers. There are also no reductions in staffing at this time.

Given the current vacancy trend with the Police Department, it is anticipated that the vacancy savings included in the balanced budget by March 31 will be higher than prior years.

There is currently one full time staff person in Parking who is responsible for the 24/7, 365 days per year duties. This needs to be addressed. Another full time person should be added to alleviate this situation.

There is a higher vacancy rate within the Police Department. Of the 112 sworn positions, 19 are currently vacant.

Benefits

Health insurance projections include 3% increase over current year actual levels which are a reflection of current claims being processed. It is anticipated that this increase will be reduced by March 31 due to net changes to the health plan proposed to be incorporated from changes to vendor contracts and savings identified by the Healthcare Committee. The total dollar amount associated to health insurance for active employees (\$ 3.2 million) and retired employees (\$1.4 million) in the General Fund is \$ 4.6 million in the preliminary 2019/20 working budget. Dental insurance projections are anticipated to remain flat with current year amounts and total approximately \$ 137,000 in the General Fund for active employees and retirees. Police and Fire pension projections are 14% of salaries and wages which totals \$ 1.5 million. The employer contribution of 14% is the same level as current FY2018/19. The employees' contribution rate is now 8%, which was effective July, 2018.

State of Maryland pension rates are estimated to increase from 9.00% to 9.38% of salaries and wages for the employer's contribution rate. With this increase of 4.2%, the total amount of funding included in the FY 2019/20 preliminary budget is \$0.7 million. The employees' contribution rates are established by the State of Maryland as well and remain at 7% of salaries and wages.

CIP Projects

Transfers for the general fund (pay-go funding) are approximately \$ 1.9 million. This request includes funding a variety of items such as: vehicles for various departments (\$ 704,000); public safety radios, cameras, and equipment for Police and/or Fire (\$ 565,000); matching funds for multiple grant projects across the Parks; IT related infrastructure server upgrades; and other infrastructure related projects. The assumptions include new bond issues in 2019. The City's current bond ratings are 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 \$ 7.0 million which would have an estimated 20 year annual debt service of approximately \$ 0.5 million. It is anticipated that the impact to the FY2019/20 will include two interest payments plus principal based on the timing of the issue(s). The bond funded projects included at this time are: Fire consolidation of public assets; Urban Improvement plaza project; Pangborn Lake reconstruction; Fire

Engines (3) Police radios; Fire radios; Fire Training Facility; 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 FY2019/20. There are projects that are already funded and include some IT related projects, and some miscellaneous infrastructure deferrals.

City Services

The current FY2019/20 deficit does not include any reductions or changes to City services including no changes to recreation, public safety, public works or golf from current fiscal year 2018/19. The current FY2019/20 deficit does not include planned changes from moving away from the traditional Blues Fest event and as a result there is a reduction in revenue of approximately \$ 70,000. The current FY2019/20 General Fund stipend for the Golf Fund is \$ 0.2 million.

Items not currently included for FY2019/20 budget

The Maryland Theatre – request for additional money from the City toward its fundraising efforts for its expansion project. In December 2018, there was a request from the Maryland Theatre for an additional \$ 300,000 from the City. Currently, there is only \$ 9,000 in General Fund Agency contributions included in the FY2019/20 budget information.

Ice Rink – there have been some very preliminary verbal discussions about the need for a second sheet of ice, which would require an expansion of the current city-owned facility/building.

Sportsplex – there are no dollar amounts nor a project included in the preliminary FY2019/20 budget for a Sportsplex. During the current FY2018/19, the City submitted a request for proposals from developers and contractors to provide the City owned land for a facility to be built. A separate update on the results was presented earlier in this meeting.

Minor League Baseball Stadium – there are no dollar amounts nor a project included in the preliminary FY2019/20 for a new or renovated minor league baseball stadium. The only amounts included at this time are the normal \$ 35,000 in existing stadium repairs and minimal operating expenses. During the current FY2018/19, a feasibility study is being conducted by the MSA.

Cable Franchise revenue – there is a reduction of approximately \$ 360,000 in general fund revenue dollars pending a FCC legislation.

911 Funding – the general fund numbers continue to include \$ 400,000 in expense from the City to fund the existing 911 center.

The current working operating budget includes some overlap for two special studies; one of which has been approved by the Mayor and Council to begin in the current fiscal year:

1. Branding/marketing consultant - \$ 50,000 estimate in Communications operating budget to start working toward a Mayor and Council goal
2. Stormwater Management study (Phase II) - \$ 127,000 for completion of Phase II as approved on January 29, 2019

Incentives

At this time, there is a total transfer of \$ 1.2 million from the General Fund to Economic Redevelopment Fund for the following:

1. \$ 0.2 Million – continue to fund on-going smaller incentives such as Partners in Economic Progress (PEP) subsidized rental assistance and sign and façade grants. This is \$ 50,000 more in funding than the current FY2018/19.
2. \$ 1.0 million – Invest Hagerstown Grant Program incentives consisting of City Center Redevelopment Grants, City-wide Redevelopment Grants, Homeownership Grants, Rental Project Rehabilitation Grants. The funding source for the entire Invest Hagerstown Grant Program is the FY2018/10 Real Estate tax tier increase on the apartments, which is approximately \$ 800,000 in gross revenue.

Of the \$ 550,000 in incentive funding, the remaining FY19 balance is \$ 95,000.

General Utility Revenue Overview

The rate study that was just approved for Water and Wastewater rates for the City will be in place, which drives the revenues, for five years, FY2020-FY2024. The Electric contract for purchased power is in place until FY2022 and establishes flat rates until that time for customers.

Electric Fund

As of June 30, 2018, the Electric Fund had \$ 15.9 million in net positions. The Electric Fund expects to realize an increase in Retained Earnings for FY2018/19 in the amount of \$ 112,000 and decrease from FY2019/20 in the amount of \$ 21,000.

The Electric Fund is anticipated that all capital improvement projects for FY2019/20 will be funded from the Electric Fund and Contributions by Others. The total amount of CIP projects for FY2019/20 is \$ 667,500.

Water Fund

As of June 30, 2019, the Water Fund had \$ 86.4 million in net position. The Water Fund expects to realize increases in Retained earnings for FY2018/19 in the amount of \$ 215,000 and a decrease for FY2019/20 in the amount of \$ 438,000.

The Water Fund is anticipating that all capital improvement projects for FY2019/20 will be funded from the water Fund, Bond Financing, MDE Loan and anticipated grant for the water fund. The total amount of CIP projects for FY2019/20 is \$ 3,495,000. This includes the Edgemont Reservoir Improvements.

Wastewater Fund

As of June 30, 2018, the Wastewater Fund had \$ 49.7 million in net position. The Wastewater Fund expects to realize increases in Retained Earnings for FY2018/19 in the amount of \$ 446,000 and for FY 2019/20 in the amount of \$ 368,000.

The Wastewater Fund is anticipating that all capital improvement projects for FY2019/20 will be funded from the Wastewater Fund, Bond Financing and Contributions by Other. The total amount of CIP projects for FY2019/20 is \$ 8,612,000. This includes the Synagro Facility Upgrade.

Ms. Hepburn reiterated that a balanced budget will be presented to the Mayor and City Council on March 31. She asked that the Mayor and City Council members let her know now if there is something that the majority insists has to be included or not included in the proposed budget.

Councilmember Aleshire reminded everyone that the figures being discussed today are estimates. Until the Constant Yield Tax Rate notification is provided by the State of Maryland and the Capital Improvement Project lists are finalized, the numbers will be estimates. The Mayor and City Council's goal is obviously to have as much money as possible in the investment programs. He clarified and reiterated that the additional revenue from the tiered tax rate approved last year is an investment effort. He approved the tax rate and does not want any portion of the extra revenue being used for non-investment purposes. He will be reviewing the audit to see if all the additional revenue was utilized for investment programs.

Mr. Spiker stated the answer to the review will be yes, it has been used only for investment programs. Ms. Hepburn stated she is committed to utilizing \$ 800,000 (the additional revenue) for the investment programs.

Councilmember Aleshire stated the Mayor and City Council should consider approving a Utility Tax Rate. Another issue to review is the amount the City is contributing to Washington County for public safety that other communities are not doing.

Michael Spiker, Interim City Administrator, thanked Ms. Hepburn, Ms. Peterson, and all staff who have put in more than 1,000 hours working on the proposed budget. Staff is committed to a 0% tax rate increase and the investment amount of \$ 800,000. Staff, along with the Mayor and City Council, want to make Hagerstown a vibrant city.

Mr. Spiker announced that Sweet Times at the Market is being held on Saturday, February 9, 2019.

MAYOR AND COUNCIL COMMENTS

Councilmember S. McIntire congratulated Brooke's House for their grand opening earlier today. The opening is a big accomplishment, which they did debt free.

Councilmember L. C. Metzner had no additional comments.

Councilmember A. Heffernan had no additional comments.

Councilmember K. B. Aleshire recently visited the Discovery Station and is impressed with the new programing.

Councilmember E. Keller had no additional comments.

Mayor R. E. Bruchey, II also congratulated Kevin and Dana Simmers, the Board of Directors, and all those that donated to Brooke's House.

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 5:13 p.m.

Respectfully submitted,

Original signed by D. K. Spickler

Donna K. Spickler
City Clerk

Approved: March 26, 2019