

BUDGET WORK SESSION

APRIL 21, 2014

MAYOR AND CITY COUNCIL

HAGERSTOWN, MARYLAND

BUDGET WORK SESSION – April 21, 2014

Mayor D. S. Gysberts called this Budget Work Session of the Mayor and City Council to order at 4:40 p.m., Monday, April 21, 2014, in the Council Chamber at City Hall.

Present with the Mayor were Councilmembers K. B. Aleshire, M. E. Brubaker, L. C. Metzner, D. F. Munson and P. M. Nigh; City Administrator Bruce Zimmerman, and City Clerk D. K. Spickler.

Bruce Zimmerman, City Administrator, and Michelle Hepburn, Director of Finance, reviewed the proposed budget with the Mayor and City Council.

The FY 14/15 Proposed Budget shows a 5.7% increase in General Fund revenue from the FY 13/14 Budget. The primary causes for this increase in General Fund revenues are \$ 1,477,104 in Property Tax Revenue with a tax rate increase and \$ 823,500 in Appropriated Use of Fund Balance for the Invest Hagerstown program commitment and proposed use of funds for one-time purchases in the General Capital Improvement Project Fund. Without the use of the fund balance, the revenue increase would be reduced to 3.6%. Without the proposed tax rate increase, there would be a decrease in revenue from the previous budget year.

Ms. Hepburn pointed out the only line item showing growth is Fines and Forfeitures, predominately from the Safe Speeds for Schools program.

The largest increase has been in Wages and Benefits. This figure includes a 2% COLA and longevity step for AFSCME Local 1540, Non-union and IAFF Local 1605. It also includes increases for the settlement of the AFSCME Local 3373 Police contract. Increases in the cost of health insurance, dental insurance and workers' compensation insurance are anticipated.

Councilmember Aleshire stated wages and benefits are a significant cost. Councilmember Metzner stated from the City's perspective, the liability is much higher to just maintain the benefits employees take for granted. The costs continue to rise and no increase has been passed on to employees.

Ms. Hepburn stated capital expenditures have decreased more than \$ 400,000. If fund balance was not used to help cover this expenditure, the trend would show less investment in infrastructure. Expenditures have increased in miscellaneous categories, in particular maintenance and repairs for PC, picking up the costs for a previously grant funded operation, \$ 15,000 for the Main Street Program, agency contributions, a \$ 250,000 commitment to the Maryland Theatre and an \$ 111,000 contingency fund to cover pay outs for employees leaving the City, unexpected funding requests, and costs for recruitment of a City Administration. The amount will not last long.

There is a 19.3% increase in operating costs for public safety. The Police department proposed FY2014/15 budget reflects an increase of 5.7%, or \$ 678,576. This increase is a result of three additional positions being added, salary enhancements, rising employer

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costs (insurance, pension, and workers comp), the funding of a total of seven sworn officers as part of two Federal COPS Hiring grants, increase in Police Academy training costs, and an increase in vendor fees associated with the Safe Speeds for Schools program. The Fire department proposed FY2014/15 budget reflects an increase of 4.2%, or \$ 267,681. Primarily, this increase reflects salary enhancements, rising employer costs (insurance, pension, and workers comp), additional \$ 50,000 in overtime based on current trends, and bi-annual medical services related to physicals.

Contributions to Other Agencies reflects an expected increase of \$ 200,000 or 73.1%. This \$ 200,000 is the remaining commitment the City made to the Maryland Theatre toward its capital improvement projects. The total amount of funding from the City is \$ 260,000 over FY2013/14 and FY2014/15.

The FY2014/15 budget caps the transfer to the golf course at \$ 250,000.

Councilmember Aleshire wondered if this discussion is to determine where savings may be within the proposed budget or to determine if there a consensus to accept it as presented. He senses staff is not saying the tax rate increase will correct the budgetary deficiencies. It is clear this body will be discussing the same things next year. He is willing to discuss possible savings.

Mayor Gysberts stated he is sure staff would be receptive to any suggestions.

Councilmember Aleshire stated the City won't be able to pick up the benefits costs without an increase in revenue. He is concerned there is a misconception that the 11 cent increase is all that is needed.

Councilmember Brubaker stated small changes will not have a significant impact on the difficult issues the City is facing with the budget.

Councilmember Metzner stated a majority of expenses are employee related. A choice has to be made about employees and levels. One thing to consider is a change in services.

Mr. Zimmerman stated declining revenue is a major challenge. It is not easy to delete services to citizens.

Mayor Gysberts appreciates the discussion but would like to discuss the details of the budget.

Councilmember Brubaker pointed out the projections section is particularly useful.

Councilmember Munson noted the lack of available tax base in Hagerstown is challenging.

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Ms. Hepburn noted more than 60% of revenue is from property taxes. The proposed budget includes an 11 cent tax rate increase. Any changes made to the proposed tax rate will impact projections for FY16 and FY17. There are no tax increases included in the projections for FY16 and FY17. There is slight growth included in the projections.

Councilmember Brubaker thought the Mayor and Council had previously mandated PILOT (payment in lieu of taxes) payments from non-profits. Mr. Zimmerman stated this was discussed several years ago. Staff will research the outcome of the discussion. Ms. Hepburn noted there are only 5 PILOTs currently.

Mayor Gysberts inquired about the State Highway User Revenue. Mr. Zimmerman stated this revenue has been significantly reduced from the State during the last several years. Ms. Hepburn stated it is being shown in the CIP budget, rather than in the General Fund because of the impact of unexpected decreasing revenue. It is being included in the CIP budget. The amount included is \$ 330,000. This had been as high as \$ 1,200,000.

Mayor Gysberts suggested pursuing a City hotel tax. Other revenue sources are needed as well to meet the goals of the City.

Ms. Hepburn stated if there are no changes to the 11 cent tax rate increase and nothing changes in the FY16 expenditure projections, an additional \$ 500,000 will be needed in the budget. No additional tax rate increase is projected for FY16 – FY19.

Ms. Hepburn discussed the Safe Streets for Schools program. The amount included in the budget is very preliminary because the program is new. The revenue may level at some point as drivers change their driving habits.

Grants have been dwindling recently. The Federal COPS hiring grants are being tracked in the General Fund.

With rising Workers' Compensation premiums and anticipated changes, the dividend from this fund was not continued into future years. Dividend funds from utilities, if there are any, will be held in the CIP fund for economic development projects. Mr. Zimmerman stated this is in conjunction with the policy that the Mayor and Council adopted within the past year.

Ms. Hepburn mentioned that there are currently 14 unfunded positions in the coming year. By FY19, it is anticipated that the number of unfunded positions will be 10. Vacancy savings are used to fund unanticipated overtime and other expenses.

Mr. Zimmerman stated the four primary drivers of general fund debt service are \$ 1,500,000 for downtown, MELP and two ladder trucks. No assumption of using Fund Balance is made for FY16.

Ms. Hepburn stated changes in anticipated Workers' Compensation premiums (reduction) would help with future projections.

Mr. Zimmerman stated the City is not covering capital and expenditures costs in the General Fund. This indicates a structural weakness in the budget.

Any adjustments made by the Mayor and Council throughout the budget discussions will be included in the budget and the effect on future projections will be shown.

Ms. Hepburn stated if FY14 ends close to where it is currently and nothing else changes with the fund balance, the amount will be \$ 7,700,000. Using a portion of this amount to balance the budget will affect future years as well.

Mayor Gysberts encouraged Council members to review the proposed budget and discuss any questions with Mr. Zimmerman or Ms. Hepburn. Discussion of the budget will continue at the Work Session on April 22, 2014, with focus on General Fund adjustments.

CITY ADMINISTRATOR'S COMMENTS

Bruce Zimmerman, City Administrator, had no additional comments.

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Councilmember M. E. Brubaker had no additional comments.

Councilmember K. B. Aleshire had no additional comments.

Councilmember D. F. Munson will not be able to attend tomorrow evening's meeting due to a death in his family. He thanked Public Works for picking up trash in an alley near the University of Maryland that has been there for some time. He asked that the owner of the property be aware they are responsible for removing their own trash.

Councilmember P. M. Nigh had no additional comments.

Councilmember L. C. Metzner had no additional comments.

Mayor D. S. Gysberts 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 6:05 p.m.

Respectfully submitted,

Donna K. Spickler
City Clerk

Approved: May 27, 2014