City Manager's

Budget Message

Fiscal Year 2015

TOWN OF
OCEAN CITY
The White Marlin Capital of the World

TO: The Honorable Mayor, Council President and Members of City Council
FROM: David L. Recor, ICMA-CM, City Manager
RE: Budget Message – Fiscal Year 2015 Proposed Operating Budget
DATE: April 1, 2014

I am pleased to present the City Manager's Fiscal Year 2015 Proposed Operating Budget for the Town of Ocean City which totals $151,361,282. The Proposed Operating Budget includes the Town's General Fund, all of the Enterprise Funds and Internal Service Funds in addition to the Pension & OPEB Trust. These spending plans reflect the priorities identified by the Mayor and Council's Strategic Planning Action Items and a commitment to continue to provide a high level of service to our residents and enhance our visitor experience while preserving our organization's long-term financial viability. The Fiscal Year 2015 Proposed Operating Budget is balanced and confirms that our distinguished community is clean, safe, healthy and strong – a place where the quality of life is unsurpassed.

Fiscal Year 2015 Proposed Operating Budget

FUND	BUDGET
General Fund	$79,351,270
Enterprise Funds	
- Water	$7,516,873
- Wastewater	$12,781,961
- Transportation	$9,314,238
- Convention Center	$8,130,176
- Airport	$1,336,998
- Golf Course	$2,112,462
Internal Service Funds	
- Information Technology	$1,996,239
- Service Center	$5,218,725
- Vehicle Trust	$2,463,425
- Risk Management	$2,342,993
Pension & OPEB Trust	$16,424,555
Capital Improvement Project Funding	$2,371,367
TOTAL	**$151,361,282**

Highlights – Proposed Fiscal Year 2015 Operating Budget

- Expenditures for all Funds total $151,361,282, an increase of 2.5% from Fiscal Year 2014.

- General Fund revenues and expenditures equal $79,351,270, an increase of 3% from Fiscal Year 2014.

- Assessed value of all real property equal to $8,517,156,880, an increase of $28,029,607 or .33%.

- Currently in third year of 3-Year Assessment Cycle. January 1, 2015, is the first year of a new 3-Year Assessment Cycle and all Ocean City residential and commercial property (with the exception of one section of commercial property, i.e., 25th Street north to the Delaware line) will be reassessed. That section of commercial property will be reassessed in year two of the Cycle. In year three, Ocean City properties will be reassessed to reflect alterations, additions, deletions and/or adjustments.

- Property Tax Revenue Projection is based on the Constant Yield ad valorem tax rate ($0.4704) plus $0.01, or $0.4804, which generates $42,711,465 including personal property and corporation taxes.

- One cent ($0.01) on the real property tax rate is equivalent to $851,795.

- Includes use of $775,000 in General Fund Balance for Capital Improvement Project funding ($500,000 for Canal Dredging and $175,000 for Bulkhead Replacement) and $100,000 special appropriation for healthcare as previously approved by the Mayor and Council.

- Includes $1,871,277 in Street Paving funding.

- Capital Improvement Project expenditures for General Fund supported projects total $2,371,367 representing 3% of General Fund expenditures.

- Provides an FY11 step increase on July 1, 2014, and FY15 step increase on January 1, 2015, equivalent to a 2.33% average salary adjustment for eligible FOP bargaining unit employees totaling $164,676 (General Fund); does not provide a market adjustment (COLA).

- Provides an FY15 step increase on July 1, 2014, equivalent to a 1.53% average salary adjustment for eligible IAFF bargaining unit employees totaling $79,631 (General Fund); does not provide a market adjustment (COLA).

- Provides an FY15 step increase on July 1, 2014, equivalent to a 2.89% average salary adjustment for eligible General non-bargaining unit employees totaling $524,242 (General Fund); does not provide a market adjustment (COLA).

- Eliminates the EMS Billing position and adds three (3) new positions (Human Resources Training Manager, Communications Operator and Transportation Training Manager) and converts two (2) part-time positions to fulltime status (Private Events Coordinator and Convention Center Maintenance Worker) for a net increase of four (4) fulltime equivalents (FTEs).

- Provides $4,500 to resume production of a second high quality Fall Newsletter which will be combined with the Annual Report to Citizens.

- Increases Water Usage rates by $0.15 per 1,000 gallons as stipulated in Resolution 2010-7. No change to Water Fixture Charge. No change to Wastewater Fixture Charge. Final year of 2010 Rate Study.

- Increases the weekend Spring/Summer golf rack rate by $4.00 at Eagle's Landing Golf Course.

- Reduces the General Fund transfer to the Transportation Fund by $1,327,606, or 77%, by eliminating the $1.00 per boarding bus fare based on quantitative statistical trend analysis of bus ridership.

- Maintains the General Fund Balance consistent with Mayor and Council policy of 15% of previous year General Fund expenditures equivalent to $11.9 million.

Budget Preparation Process

The development of the Town's operating budget involves three phases: formulating budget requests by Departments, Executive Review with the Budget Manager and City Manager, and Mayor and Council review and adoption. Each of the three phases is summarized as follows:

Formulating Budget Requests by Departments: September – December

1) The formative stage of the budget begins in September of the current fiscal year.
2) Departments assess their budgetary needs and submit funding requests to the Budget Manager for review and discussion.
3) Personnel, Information Technology and Vehicle replacement requests require supplemental information and are due by the end of October.
4) Capital Improvement project requests also require supplemental information and are due by the end of November.

5) Complete Department budget requests are due by the end of December.
6) Departments work directly with the Budget Manager throughout the entire budget process.
7) Revenue projections are derived from a review of current and projected economic indicators, current and proposed Federal and State legislation, knowledge of future events in the Town and an extensive quantitative review of historic trends.

Executive Review with the Budget Manager and City Manager: January – February

1) Funding requests from Departments are reviewed and evaluated for priority (link to Strategic Plan, Goals, Policy Agenda Priorities and Management Agenda Priorities).
2) Meetings are held between Departments, Budget Manager and City Manager to discuss budget requests.
3) Based on projected revenues, funding is proposed by the City Manager for the programs and services required to maintain an essential level of service or to provide for enhancements to programs and services identified as priorities by the Mayor and Council.
4) City Manager proposes the budget and presents an overview to the Mayor and Council the first week of April.
5) By law, local government budgets must be balanced, i.e., expenditures may not exceed revenues.

Mayor and Council Review and Adoption: April – May

1) Departments provide budget presentations to the Mayor and Council.
2) Mayor and Council determine and advertise the proposed real property tax rate.
3) Mayor and Council reviews the proposed budget and a public hearing is held to provide the public with an opportunity to comment to ensure the budget is responsive to citizen needs.
4) After careful and focused deliberation, the proposed budget, as modified for additions and/or deletions, is enacted by the Mayor and Council by Ordinance as the adopted budget. In addition, the Mayor and Council adopt the real property tax rate.
5) The budget can only be amended by the Mayor and Council after proper notice and a public hearing.
6) The Adopted Operating Budget takes effect on July 1, the beginning of the fiscal year.

<u>Mayor and Council Budget Review Schedule</u>

Date	Action Item
Tuesday, April 1, 2014	Mayor and Council Work Session • City Manager/Budget Manager presentation/overview of Fiscal Year 2015 Operating Budget • Fiscal Year 2015 Budget Books distributed
Tuesday, April 2, 2014 – Friday, April 11, 2014	Mayor and Council Special Meetings • Department Budget Reviews and Wrap Up
Monday, May 5, 2014	Mayor and Council Regular Meeting • First Reading – Ordinance to Adopt Fiscal Year 2015 Operating Budget

	• Public Hearing
Monday, May 19, 2014	Mayor and Council Regular Meeting • Second Reading – Ordinance to Adopt Fiscal Year 2015 Operating Budget
Monday, June 2, 2014	Mayor and Council Regular Meeting • Alternative Date (if necessary)

Mayor and Council's Strategic Plan

The Operating Budget, as a policy document, represents our continued commitment to prudent fiscal management and effective service delivery. Once adopted by the Mayor and Council, the Operating Budget establishes the direction for all Town government programs and services for the next fiscal year. It represents the synthesis of Mayor and Council direction and staff recommendations on how to best accomplish the Mayor and Council's Five-Year Strategic Planning Goals, FY15 Policy Agenda and Management Agenda Priorities. The Fiscal Year 2015 Proposed Operating Budget responds to community needs in accordance available resources, established policies and sound administrative practices. With this in mind, the review and adoption of the annual Operating Budget is one of the Mayor and Council's most important responsibilities as a legislative body.

The Mayor and Council's Five-Year Strategic Planning Goals were first established in the Fall of 2012. Upon establishing a 15-year Vision Statement for the Town of Ocean City, and after engaging staff, residents and business leaders in the community, the Mayor and Council's Strategic Plan will enable the Town to focus its limited resources on the most important priorities and continue to improve our visitor experience and the high quality of life our residents enjoy.

The Mayor and Council's Five-Year Strategic Planning Goals served as the guiding principles in preparing the Fiscal Year 2015 Proposed Operating Budget. These policy statements and associated Action Items offer clear and thoughtful direction for achieving the Mayor and Council's expectations.

Five-Year Strategic Planning Goals

1) 1st Class Resort and Tourist Destination
2) Financially Sound Town Government
3) More Livable Community for Residents
4) Excellent Service Through a High Performing Town Organization
5) Revitalized Ocean City: Development and Redevelopment

Mayor and Council Adopted Fiscal Policies

The Fiscal Year 2015 Proposed Operating Budget has also been prepared consistent with the Mayor and Council's Adopted Fiscal Policies:

1) The Town will maintain unassigned fund balance to pay for needs caused by unforeseen emergencies, to provide for unanticipated expenditures of a nonrecurring nature, or to meet unexpected increases in service costs. This reserve will be maintained at 12 – 15% of the General Fund operating budget.

2) The Town will utilize surplus in excess of reserve and cash flow requirements to invest in capital assets and/or to retire outstanding debt, if feasible.

3) The Town will pay for all current expenditures with current revenues. The Town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' revenues or requiring short term borrowing.

4) The Town will strive to maintain sufficient retained earnings in Enterprise Funds to provide for working capital needs and system improvements.

Organization of the Proposed Operating Budget

The Town's financial operations are budgeted and accounted for in a number of funds. A fund is a separate accounting unit.

General Fund

The Town's General Fund is a governmental fund used to account for all monies received and distributed for general government purposes, including all assets, liabilities, reserves, fund balances, revenues and expenditures, which are not accounted for in any other fund or other special account. The General Fund includes administration, police protection, fire protection and emergency medical services, solid waste removal, community planning, construction and fire safety inspection, the construction and maintenance of streets and infrastructure, and recreation, parks, cultural and special events.

Each year, when the Town begins the budget process, budget staff utilizes comprehensive trend analysis to project revenues and estimate expenditures to fund current programs and services with our existing workforce. Unfortunately, rising costs of personnel, maintenance agreement obligations and equipment replacement needs result in increased expenditures for providing *the same* level of service each year. In addition, new policy decisions and the desire to enhance and expand levels of service affect and cause the need for additional resources in the annual budget.

Projected Revenue

Category	Projected
Property Taxes	$42,941,465
Other Taxes	$16,270,600
Licenses and Permits	$4,012,570

Revenue From Other Agencies	$4,850,273
Charges For Current Services	$9,407,718
Fines and Forfeitures	$710,000
Other Revenue	$383,644
Prior Year Reserves	$775,000
TOTAL	**$79,351,270**

Fiscal Year 2015 Projected Revenue for Property Taxes is based on the Constant Yield ad valorem tax rate of $0.4704 plus $0.01 or $0.4804 per $100 of assessed valuation of real property. The additional $0.01 above Constant Yield will generate an additional $851,795 in Property Tax revenue for Fiscal Year 2015. Projected Revenue from Corporate and Personal property is based on a rate of $1.29 per $100 of assessed valuation and remains unchanged.

Other Taxes represents the second largest General Fund revenue category and includes income tax, highway user tax, admissions tax, room tax and excise taxes. Room Tax for Fiscal Year 2015 is projected at $13,350,000.

While there are signs of economic recovery in Ocean City, Revenue Projections remain conservative and relatively flat. January 1, 2015, represents the first year of a new 3-Year Assessment Cycle and all Ocean City residential and commercial property (with the exception of one section of commercial property as previously defined) will be reassessed. That section of commercial property will be reassessed in year two of the Cycle. In year three, Ocean City properties will be reassessed to reflect alterations, additions, deletions and/or adjustments. We are optimistic that additional public and private investment as well as redevelopment initiatives and activities will lead to an increased property assessment roll.

Proposed Expenditures

Category	Proposed
General Government	$4,072,459
Public Safety	$34,288,986
General Public Works/Beach Maintenance	$5,383,734
Sanitation and Waste Removal	$5,629,302
Highways and Streets	$5,425,812
Economic Development – Tourism	$7,110,216
Culture and Recreation	$7,747,273
Debt Service	$5,129,093
SUBTOTAL	**$74,786,875**
Transfers	
- Transportation Fund	$395,082
- Airport Fund	$264,435

- Convention Center	$1,443,092
- Capital Projects	$2,371,367
- Vehicle Trust	$90,419
TOTAL	**$79,351,270**

Developing and finalizing the Proposed Operating Budget for Fiscal Year 2015 required a great deal of collaboration and cooperation from all Town departments. Department budget requests for Fiscal Year 2015 totaled $4,335,201 above Fiscal Year 2014 funding levels equivalent to $0.0509 on the real property tax rate. Executive Review resulted in expenditure reductions totaling $2,523,786 (or $0.0296) plus an additional $847,000 in proposed new vehicle purchases.

The Fiscal Year 2015 Proposed Operating Budget is structured to preserve Ocean City's exemplary quality of life and visitor experience. This begins with a financial commitment toward essential Public Safety services. The Proposed Operating Budget provides for an additional $199,943 in Public Safety funding including $33,065 for three (3) additional part-time seasonal Communications Dispatcher positions to staff the new "City Watch" Boardwalk surveillance program. Comcast connection costs related to this proactive Public Safety initiative are budgeted at $52,800. The $150,000 initial investment in IT backbone infrastructure as well as hardware costs was funded in the current fiscal year.

The Proposed Operating Budget also includes $32,513 to reclassify eight (8) fulltime Public Safety Aide positions (non-sworn) in the Police Department to Custody Officer positions (non-sworn). In addition, as part of the new Police Chief's restructuring plan, four (4) sworn Police Officer positions assigned to the Front Desk and Detention Area will be reassigned to the Patrol Division and replaced with four (4) new seasonal part-time Public Safety Aide positions (non-sworn) at a cost of $40,701.

Funding in the amount of $37,052 is also included in the Proposed Operating Budget for one (1) new fulltime Communications Operator. This new fulltime position will enable the Communications Division to assign three fulltime personnel to all shifts. In addition, this new fulltime position reduced the required number of part-time seasonal Communications Dispatchers initially proposed for staffing the new "City Watch" initiative from four (4) to three (3) positions.

Significant required maintenance and repairs to OC1, the Town's Mobile Command Center used during Emergencies and large Special Events, are budgeted at $12,500. In addition, a satellite phone for use during Emergency situations is funded at $2,600. The Proposed Operating Budget also includes $8,100 in match funding to supplement a like donation from the Ocean City Paramedic Foundation for procurement of a new storage/travel trailer for the Fire/EMS Dive Team.

Improvements to the Third Floor conference room at the Public Safety Building, including new conference room table, chairs and window treatments, are budgeted at $14,700. Additional

industrial kitchen equipment for the Public Safety Building (as home of the Town's Emergency Operations Center), including stove, oven and microwave, are funded at $7,865. An industrial refrigerator was funded in the current fiscal year.

Other personnel adjustments funded in the Fiscal Year 2015 Proposed Operating Budget include a new fulltime Training Manager position in the Human Resources Department. This position will work directly with Town departments to identify and coordinate specific training needs and opportunities. In addition, the position will support the performance measurement/management review process as well as develop and administer a succession planning program for the Town.

A new fulltime Transportation Training Manager is also funded in the Proposed Operating Budget. This new position will be responsible for monitoring compliance with Federal Transportation Administration (FTA) and Maryland Transportation Administration (MTA) regulations to meet the Town's Federal Grant obligations. The new Transportation Training Manager position will also coordinate training of Transportation Division staff, identify and monitor facility and rolling stock preventative maintenance as well as administer drug and alcohol policies applicable to the Transportation Division.

The Proposed Operating Budget also funds the conversion of two (2) part-time positions to fulltime status. Due to the increasing demands and responsibilities associated with the growth and coordination of Private Event activities, funding for conversion of the Town's sole part-time Private Events Coordinator position to fulltime status is included in the Proposed Operating Budget. In addition, funding for the conversion of one (1) part-time Convention Center Maintenance Worker position is included in the Proposed Operating Budget due to the limitation of hours and impact of the Federal Affordable Care Act as well as Convention Center expansion. The conversion of these part-time positions will improve the consistency, dependability and reliability of our work force and their service to the Town.

On April 15, 2013, the Mayor and Council ratified contracts with the Fraternal Order of Police (FOP) and International Association of Fire Fighters (IAFF) collective bargaining units. Fiscal Year 2015 represents Year-Two of a Two-Year agreement with the FOP and Year-Two of a Three-Year Agreement with the IAFF. The Proposed Operating Budget includes funding for negotiated step increases for eligible bargaining unit employees as well as a step increase for all General Employees. The cost of Fiscal Year 2015 step increases for all affected Town employees' totals $768,549. Note that ninety-nine of the Town's 531 employees, or 19%, are not eligible for a step increase in Fiscal Year 2015.

For the first time in three years, the Fiscal Year 2015 Proposed Operating Budget includes $250,000 in funding to the Maryland Department of Natural Resources Beach Renourishment Fund. The Maryland Department of Natural Resources establishes the funding formula to maintain a minimum funding level for the Beach Renourishment Fund and the Fund balance is evaluated annually by the department. This contribution protects our community residents and preserves the Town's most important natural resource by ensuring a consistent schedule for beach renourishment in Ocean City.

A number of significant maintenance projects are funded in the Proposed Operating Budget. For the second year in a row, $500,000 is included for much needed Canal Dredging. In addition, $175,000 for replacement of the Public Works compound bulkhead is included. These undertakings will be identified in the Town's Five-Year Capital Improvement Plan as "pay-go" projects for Fiscal Year 2015.

Other important maintenance projects funded in the Proposed Operating Budget include:

Project	Cost
• Resurfacing of the Little Salisbury neighborhood basketball court on 94th Street	$25,500
• City Hall improvements	$25,000
• Street Light Pole Repainting, Phase II	$25,000
• Replacement of three (3) Concrete Planters and Placement of twelve (12) New Decorative Trash Cans on the Boardwalk	$14,934
• Northside Park – Walkway and Drainage Repairs, Phase IX	$9,000

The Economic Development – Tourism budget includes destination advertising, funding dedicated to the Tourism Advisory Board as well as funding for Town-promoted Special Events including Sun Fest, Winter Fest and Spring Fest. Fiscal Year 2015 Projected Revenue from Room Tax totals $13,350,000. As required by Ordinance, $5.3 million is dedicated to advertising, an increase of $188,055, and an additional $631,000 for marketing and promotional activities including, for the second year in a row, $300,000 for in-kind service support for large Private/Special Events.

Culture and Recreation includes Recreation and Parks, Beach Patrol, Museum and fulltime Special Events staff. Ocean City has long boasted premier recreation programs and activities for both youths and adults including visitors and residents alike. Contracted Services for programs and activities has been increased by $17,000 for Fiscal Year 2015. In addition, funding is proposed in Special Events for fireworks to celebrate the 25th Anniversary of Spring Fest, a new Fall event planned for Halloween and conversion of the part-time Private Events Coordinator position to fulltime status. Overall, funding for Culture and Recreation has been increased by $213,204 in Fiscal Year 2015.

Debt Service costs in Fiscal Year 2015 decreased by $185,351 due to the Refunding of 2004 Bonds in the current fiscal year. Fiscal Year 2015 Debt Service includes principal and interest on the 2013 Bond for the Beach Patrol Headquarters, roof replacements at the Service Center and Public Safety Building, Phase II Construction of the Performing Arts Center at the Convention Center and Wastewater capital.

The Fiscal Year 2015 Proposed Operating Budget also relies on a number of cost reduction strategies. For example, the Mayor and Council recently extended the Town's "waste to energy" contract with Covanta Energy through 2021, a cost effective alternative to traditional

curbside recycling programs. In addition, the Town has outsourced EMS billing, initiated an energy performance program with a potential savings of $1 million and departments are effectively managing the hours of part-time employees and position vacancies shifting resources when and where necessary.

Capital Improvement Project funding

Following adoption of the Operating Budget for Fiscal Year 2015, the Mayor and Council will review and update the Town's Five-Year Capital Improvement Program (CIP). The CIP identifies a schedule of planned physical improvements over the next five years as well as specific funding sources for capital projects over the entire period.

For Fiscal Year 2015, $500,000 in "pay-go" funding from Fund Balance has been included for Canal Dredging as well as $175,000 for bulkhead replacement at the Public Works compound. In addition, $1,871,277 in "pay-go" funding for Street Paving has been identified. $1,300,720 of this total is funded through a combination of parking fee revenue, casino revenue and State Highway User Fees. Additional funding in the amount of $570,647 was made possible through reduction of the General Fund transfer to the Transportation Fund as a result of elimination of the $1.00 per boarding bus fare option.

Enterprise Funds

Enterprise Funds are used for services provided to the public on a user charge basis similar to the operation of a commercial business. The Town operates Water, Wastewater, Transportation, Convention Center, Airport and the Golf Course as enterprises.

Transportation, Airport and the Convention Center continue to be partially funded by General Fund transfers in Fiscal Year 2015.

General Fund Transfers to Enterprises

Fund	Proposed
- Transportation	$395,082
- Airport	$264,435
- Convention Center	$1,443,092
TOTAL	**$2,102,609**

Note that the Fiscal Year 2015 General Fund transfer to the Transportation Fund has been reduced by $1,327,606 or 77%. This reduction was made possible by eliminating the $1.00 per boarding bus fare based on quantitative statistical trend analysis of bus ridership. The Proposed Operating Budget contemplates only the $3.00 ride-all-day bus pass. Exclusive use of the ride-all-day pass will also greatly improve financial accountability in the Transportation Fund.

As Airport Fund reserves have been depleted, the Fiscal Year 2015 Proposed Operating Budget includes a $264,435 General Fund transfer to supplement Airport operations.

The General Fund transfer to the Convention Center increases by $87,832 in the Proposed Operating Budget. This is due in large part to the $20,000 funded as the Town's 50% cost share with the Maryland Stadium Authority for purchase of a $40,000 forklift in Fiscal Year 2015. Conversion of the part-time Convention Center Maintenance Worker to fulltime status is also included at a net cost of $13,495.

No General Fund transfer is planned for the Golf Course Fund in Fiscal Year 2015 as Projected Revenues are expected to continue to cover Estimated Expenditures. The Proposed Operating Budget includes $10,000 in funding for "Endless Golf" marketing and promotion, a golf television show which will feature Eagle's Landing Golf Course.

While General Fund transfers continue to supplement specific enterprises, overall the Town's Enterprise Funds remain healthy. The Water and Wastewater Funds are entirely self-sufficient, funded completely by user fees and fixture charges and include over $2.4 million in planned infrastructure improvements in Fiscal Year 2015.

Internal Service Funds

The Town's Internal Service Funds are used to account for the financing of goods or services provided by one department of a government to other departments on a cost-reimbursement basis.

The Information Technology Fund accounts for hardware, software and other technology needs of all Town departments. Although the Proposed Operating Budget increases the IT Fund by $126,504 ($52,800 for Comcast connection costs related to the new "City Watch" program and $62,500 for additional IT data storage capacity), more than $97,813 in requested technology needs were eliminated from the original Department budget requests during IT or Executive Budget Review including the GovNow Tax & Accounts Receivable module estimated at $12,743. In addition, the Network Backup Appliance and Offsite Replication System requested by Emergency Management was not funded based on the annual cost of $119,000 (Network Backup Appliance and Offsite Replication System estimated at $73,000 and Offsite Recovery Plan estimated at $46,000). Engineering, IT and Emergency Management staff are working with the State of Maryland to investigate cost effective alternatives for this important Emergency Management resource.

The Fiscal Year 2015 Proposed Operating Budget includes $5,250 in funding for the GovNow online Utility Billing module which will enable utility customers to pay their utility bills online as well as view their account data and consumption history. In addition, $36,100 is included in the Proposed Operating Budget for continuation of the Network Switch replacement program to increase network connection capacity as well as dependability and reliability.

The Risk Management Fund accounts for costs of providing workers' compensation and liability insurance coverage to other departments and to provide funds to pay claims, premiums, reserves and administrative costs of the program. An increase in treatment costs for worker's compensation claims and an increase in projected policy costs resulted in an increase of nearly $58,000 in the Fiscal Year 2015 Proposed Operating Budget.

The Proposed Operating Budget provides $1,516,100 in Vehicle and Equipment Trust funding for various department vehicle replacement requests including another new Ambulance at a cost of $278,000, two (2) replacement Trash Trucks at a total cost of $460,000 and a new Street Broom at a cost of $180,000. A $90,419 General Fund transfer to the Vehicle and Equipment Trust is required to fully cover these expenditures. Note that the Purchasing Manager implemented objective evaluation criteria during the Fiscal Year 2015 budget process including quantitative analysis of a vehicle's use life and ranking system. Approximately $847,000 in vehicle replacement requests were eliminated between the Purchasing Manager's vehicle evaluation process and during Executive Review.

Funding for the Service Center is reduced in the Proposed Operating Budget by approximately $58,000 due primarily to salary savings and reduction in fuel purchase costs.

Pension & OPEB Trust

These Funds are used to account for the Town's anticipated future liability for retiree healthcare and pension costs. Annual funding is based on actuarial assumptions which are evaluated and determined annually by the Town's Actuary for pension plans and bi-annually for retiree healthcare. The Town anticipates a 6% increase in health insurance coverage and the Proposed Operating Budget increases Pension & OPEB Trust funding by $335,423 for Fiscal Year 2015.

Town's Financial Condition

A great way to look at the big picture of the Town's current fiscal position is through the Comprehensive Annual Financial Report (CAFR) prepared by our Finance Department. More perspective can be gained by reviewing the Statement of Net Assets. As of June 30, 2013, the City's total assets (our infrastructure, property, facilities and equipment) exceeded total liabilities by $153 million, a 3.3% improvement from the previous fiscal year. Of this amount, $25.7 million is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental accounting and financial reporting rules are sensibly requiring units of government to make a clearer and more complete assessment of their overall and long-term financial positions. Reporting on a full accrual basis of accounting represents a significant change to the overall financial reporting model previously used.

It is this type of holistic balance sheet statement that brings a healthy dose of business accounting to our public setting. Ocean City's balance sheet remains strong. The talents wisely

spent are not just expenditures out the door; the expenditures are investments throughout this Operating Budget.

At a time when many local government bond ratings are being either downgraded or suspended, in Fiscal Year 2014 not only did the Town of Ocean City maintain its rating of AA- from Fitch ratings (quality companies) and Aa2 from Moody's Investors Service (high quality, very low credit risk) but Standard and Poor's *upgraded* the Town's rating from AA- to AA (Stable) prior to the December 2013 Bond sale. The improved rating was based on the Town's strong financial practices, thorough budget preparation and capital improvement planning. In spite of assessment declines, other characteristics that support the Town's improved rating include its stable, but limited, tourism-based economy coupled with adequate wealth and income factors, manageable debt burden and the effectiveness of the governing process to manage performance, address problems and changing conditions.

Summary

With a new Three-Year Assessment Cycle beginning January 1, 2015, the Town is hopeful and optimistic for growth in its assessment base. However, there are always many competing demands for our limited financial resources. While a challenging situation, I am confident that our prudent fiscal practices and strategic budgeting approach positions us well for the new fiscal year. The Proposed Operating Budget avoids service level reductions, includes new programs and activities and the Town will continue to provide visitors and residents with the high level of service for which the Town is known.

Moving forward, we will continue to perform some organizational "fine-tuning" looking for more ways to optimize our existing workforce and better organize and deploy our employees to meet the needs of our dynamic Town. We will continue to improve efficiencies and focus resources toward achieving the Mayor and City Council's 5-Year Strategic Planning Goals and continue to work closely with Ocean City residents, business leaders and our community partners to strategically invest in efforts to strengthen our community.

I would like to thank the Mayor and Council for their guidance and support throughout the development of this Proposed Operating Budget. In addition, I would like to thank the Department Heads and staff who have contributed with creativity and sacrifice to make the Fiscal Year 2015 Proposed Operating Budget a reality. A special acknowledgement and thank you goes to Jennie Knapp, Budget Manager, who worked tirelessly coordinating the budget calendar and process.

The Town of Ocean City is a great place with many talented people and a diversity of interests. The business community works hard and our Town government strives to maintain that tradition. We do the hard work with talented staff and community partners. The Fiscal Year 2015 Proposed Operating Budget again balances a variety of needs and wants, focuses both short and long-term, and reflects strategic planning priorities and tactical results. Our objective now is to look outward and place our attention on not just maintaining the quality of life in Ocean City but improving it. Key projects such as street improvements, park improvements as

well as the design and construction of a new Beach Patrol Headquarters building are all planned to improve the community and provide better service to our citizens and visitors alike.

Respectfully submitted this 1st day of April, 2014.

City Manager's
Fiscal Year 2015
Proposed Operating Budget

Tuesday, April 1, 2014

GENERAL FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
Property Taxes	$41,364,182	$41,912,140	$42,711,465
Penalties and Interest	$254,275	$200,000	$230,000
Other Taxes	$15,611,881	$15,893,153	$16,270,600
Licenses and Permits	$4,061,716	$3,986,656	$4,012,570
Revenues from Other Agencies	$5,715,490	$5,761,876	$4,850,273
Charges for Current Services	$8,738,383	$9,217,805	$9,407,718
Fines and Forfeitures	$785,979	$752,238	$710,000
Other Revenue	$558,694	$431,285	$383,644
TOTAL REVENUES	**$77,090,600**	**$74,511,690**	**$78,576,270**
EXPENDITURES			
General Government	$3,860,291	$3,879,285	$4,072,459
Public Safety	$32,546,171	$34,089,043	$34,288,986
Public Works/Beach Maintenance	$5,109,638	$5,137,758	$5,383,734
Sanitation and Waste Removal	$5,389,174	$5,645,750	$5,629,302
Highways and Streets	$5,727,860	$5,175,780	$5,425,812
Economic Development – Tourism	$7,792,309	$7,735,561	$7,110,216
Culture and Recreation	$7,259,523	$7,534,069	$7,747,273
Debt Service	$4,469,029	$5,314,444	$5,129,093
TOTAL EXPENDITURES	**$72,153,995**	**$74,511,690**	**$74,786,875**
EXCESS (DEFFICIENCY) OF REVENUES OVER EXPENDITURES	$4,936,605	$3,643,463	$3,789,395
OTHER FINANCING SOURCES (USES)			
Operating Transfers – Out	($3,875,845)	($3,628,880)	($2,193,028)
Transfer to Capital Construction	($2,000,000)	($2,400,000)	($2,371,367)
TOTAL OTHER FINANCING SOURCES (USES)	**($5,875,845)**	**($6,028,880)**	**($4,564,395)**
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	($939,240)	($2,385,417)	($775,000)

GENERAL FUND cont.

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
EXPENDITURES			
General Government			
Legislative Division			
- Mayor and Council	$347,512	$357,266	$361,964
- City Clerk	$465,164	$437,150	$476,188
Executive and Administrative Division			
- City Manager	$1,043,733	$993,732	$1,004,940
- Finance	$1,976,407	$2,035,596	$2,013,579
- Human Resources	$517,871	$560,081	$627,126
- Legal	$531,772	$296,127	$450,981
Planning and Community Development	$938,761	$1,036,297	$1,079,449
Special Appropriations	$124,017	$137,183	$142,183
TOTAL GENERAL GOVERNMENT	**$5,945,237**	**$5,853,432**	**$6,156,410**
Public Safety			
- Police	$19,672,603	$20,143,853	$20,685,406
- Emergency Management/Communications/Electronics	$2,443,719	$2,514,363	$2,670,282
- Fire/Emergency Medical Services	$7,391,155	$7,861,167	$7,966,616
- Volunteer Fire Company	$1,262,705	$1,874,967	$1,258,377
- Fire Marshal	$1,086,718	$1,098,416	$1,074,254
- Construction & Inspection	$639,000	$596,277	$634,051
TOTAL PUBLIC SAFETY	**$32,494,900**	**$34,089,043**	**$34,288,986**
Public Works/Beach Maintenance	**$5,109,638**	**$5,137,758**	**$5,383,734**
Sanitation and Waste Removal	**$5,389,174**	**$5,645,750**	**$5,629,302**
Highways and Streets	**$5,727,860**	**$5,175,780**	**$5,425,812**
Economic Development – Tourism	**$7,792,309**	**$7,735,561**	**$7,110,216**
Culture and Recreation			
- Recreation	$2,387,375	$2,506,520	$2,530,504
- Parks	$1,717,369	$1,802,810	$1,869,126
- Beach Patrol	$2,266,848	$2,318,422	$2,331,929
- Special Events	$666,980	$663,060	$766,274

- Museum	$220,952	$243,257	$249,540
TOTAL CULTURE AND RECREATION	**$7,259,523**	**$7,534,069**	**$7,747,273**
Debt Service			
- Principal	$2,828,443	$3,714,657	$3,565,415
- Interest	$1,640,586	$1,599,787	$1,563,678
TOTAL DEBT SERVICE	**$4,460,029**	**$5,314,444**	**$5,129,193**
TOTAL EXPENDITURES	**$72,153,995**	**$74,511,690**	**$74,786,875**

ENTERPRISE FUNDS

WATER FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$7,081,398	$7,309,936	$7,516,873
TOTAL REVENUES	**$7,081,398**	**$7,309,936**	**$7,516,873**
EXPENDITURES			
- Personnel	$1,767,468	$2,006,663	$2,097,248
- Operating	$3,025,146	$3,010,603	$3,172,165
- Other	$2,135,617	$2,432,216	$2,247,460
TOTAL EXPENDITURES	**$6,928,231**	**$7,449,482**	**$7,516,873**

WASTEWATER FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$12,389,157	$12,638,289	$12,675,117
TOTAL REVENUES	**$12,389,157**	**$12,638,289**	**$12,675,117**
EXPENDITURES			
- Personnel	$3,813,650	$4,098,768	$4,174,500
- Operating	$3,566,785	$3,863,064	$3,625,632
- Other	$4,432,821	$4,780,563	$4,981,829
TOTAL EXPENDITURES	**$11,813,256**	**$12,742,395**	**$12,781,961**

TRANSPORTATION FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$5,185,932	$8,088,091	$8,919,156
TOTAL REVENUES	**$5,185,932**	**$8,088,091**	**$8,919,156**
EXPENDITURES			
- Personnel	$3,513,393	$3,630,632	$3,714,729
- Operating	$3,387,860	$3,403,823	$3,267,509
- Other	$212,676	$2,774,324	$2,332,000
TOTAL EXPENDITURES	**$7,113,929**	**$9,810,779**	**$9,314,238**

AIRPORT FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$1,878,062	$1,261,715	$1,072,563
TOTAL REVENUES	**$1,878,062**	**$1,261,715**	**$1,072,563**
EXPENDITURES			
- Personnel	$302,458	$296,897	$318,923
- Operating	$1,111,185	$1,057,776	$875,098
- Other	$590,396	$142,974	$142,977
TOTAL EXPENDITURES	**$2,004,039**	**$1,497,647**	**$1,336,998**

GOLF COURSE FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$2,034,326	$2,157,123	$2,112,462
TOTAL REVENUES	**$2,034,326**	**$2,157,123**	**$2,112,462**
EXPENDITURES			
- Personnel	$1,048,976	$1,060,269	$1,084,267
- Operating	$961,648	$1,086,065	$1,024,758
- Other	$18,099	$10,789	$3,437

TOTAL EXPENDITURES	**$2,028,723**	**$2,157,123**	**$2,112,462**

CONVENTION CENTER FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- All sources	$5,236,380	$5,551,494	$6,687,084
TOTAL REVENUES	**$5,236,380**	**$5,551,494**	**$6,687,084**
EXPENDITURES			
- Personnel	$2,768,312	$2,896,622	$2,991,499
- Operating	$1,532,089	$1,590,805	$1,600,585
- Other	$2,269,850	$2,419,327	$3,538,092
TOTAL EXPENDITURES	**$6,570,251**	**$6,906,754**	**$8,130,176**

<u>INTERNAL SERVICE FUNDS</u>

INFORMATION TECHNOLOGY FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- Department reimbursements	$1,743,469	$1,869,735	$1,996,239
TOTAL REVENUES	**$1,743,469**	**$1,869,735**	**$1,996,239**
EXPENDITURES			
- Personnel	$914,062	$958,627	$997,502
- Operating	$860,472	$911,108	$998,737
TOTAL EXPENDITURES	**$1,774,534**	**$1,869,735**	**$1,996,239**

SERVICE CENTER

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- Department reimbursements	$5,264,119	$5,276,489	$5,218,725
TOTAL REVENUES	**$5,264,119**	**$5,276,489**	**$5,218,725**

EXPENDITURES			
- Personnel	$1,831,577	$1,860,429	$1,831,182
- Operating	$3,383,610	$3,416,060	$3,387,543
TOTAL EXPENDITURES	**$5,215,187**	**$5,276,489**	**$5,218,725**

VEHICLE AND EQUIPMENT TRUST FUND

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- Department reimbursements	$2,242,243	$6,038,179	$2,373,006
TOTAL REVENUES	**$2,242,243**	**$6,038,179**	**$2,373,006**
EXPENDITURES			
- Operating	$792,642	$762,471	$744,352
- Other	$1,937,601	$5,590,708	$1,719,073
TOTAL EXPENDITURES	**$2,730,243**	**$6,353,179**	**$2,463,425**

RISK MANAGEMENT

	Actual Fiscal Year 2013	Revised Fiscal Year 2014	City Manager Proposed Fiscal Year 2015
REVENUES			
- Department reimbursements	$2,049,414	$2,284,941	$2,342,993
TOTAL REVENUES	**$2,049,414**	**$2,284,941**	**$2,342,993**
EXPENDITURES			
- Personnel	$234,880	$248,506	$258,356
- Operating	$1,216,219	$2,036,435	$2,084,637
TOTAL EXPENDITURES	**$1,451,099**	**$2,284,941**	**$2,342,993**