



Town of Ocean City, Maryland

Report to Citizens

For Fiscal Year Ended June 30, 2011

Mayor

Richard W. Meehan

City Council

James S. Hall, President

Lloyd Martin, Secretary

Brent Ashley

Douglas S. Cymek

Joseph T. Hall, II

Mary P. Knight

Margaret L. Pillas

City Manager

Dennis W. Dare, PE

Finance Administrator

Martha B. Lucey, CPA



A print of Ocean City in the summer of 1915 by Paul McGehee.

To the Citizens of Ocean City, Maryland,

We are pleased to present this summarized report on the Town of Ocean City's finances showing how your tax dollars and service fees were used in the fiscal year ending June 30, 2011 and what we have and owe at year end. Our goal is to better communicate the results of financial operations in a report that is straightforward and easy to read. The report highlights the 2010 bond sale and changes to employee wages and benefits. The Town's debt received rating upgrades in November 2010. Our rating from Fitch Ratings was upgraded from A+ to AA- as they felt that "financial flexibility is sound, with consistent reserve levels and a current tax rate that is well below levels earlier in the decade." Moody's Investor Service upgraded the Town's rating for its debt from A1 to Aa2. "The rating considers the Town's conservative management practices and healthy financial position affording satisfactory flexibility." Other articles describe tourism promotions and our successful advertising campaign.

The information presented in this report was taken from the Town of Ocean City Comprehensive Annual Financial Report for the year ended June 30, 2011, (the CAFR), which was prepared by the Finance Department. The financial statements in the CAFR, audited by SB & Company, LLC, give much more detail and disclosures and are prepared in a way that is accepted by the Governmental Accounting Standards Board. We invite you to read the CAFR that is available on the Town's website, www.oceancitymd.gov, or you may get a copy by contacting the Finance Department at 410-289-8858.

THE ECONOMY

A destination resort, Ocean City is nationally recognized as a clean and safe community for its residents, vacation homeowners and visitors with tourism as the basis of its economy. The Town increased the advertising budget from \$3.7 million in 2009 to \$4.5 million in 2011. The successful campaign included the use of social media, Facebook and Twitter, and television ads featuring “Rodney, the Lifeguard” to promote the resort. For the year ended June 30, 2011, room sales were 5.3% above the prior year and food and beverage sales were up 3.3%.

The number of construction permits was slightly more in 2011 at 1,622 compared to 1,501 in 2010, but the 2011 fiscal year saw a substantial decline in the estimated value of that construction. The estimated value of construction in 2011 was \$25,521,294 compared to \$36,525,292 in 2010. The decrease in real estate values has forced several scheduled development projects to be delayed, changed in scope, or withdrawn. Investors and developers are understandably applying more conservative strategies during this economic downturn.

The Town relies on property taxes for 57% of its general fund revenues. Property tax revenues are directly impacted by the value of homes and new construction. Although the Town has a 3% assessment increase cap for owner-occupied homes, only 5% of properties are eligible for the cap. The assessed value of the remaining business properties, second homes and condominiums is at full market value and is highly sensitive to changing market conditions. As properties in the State of Maryland are assessed on a triennial system, property tax decreases are anticipated for a number of years and may lag behind other improvements in the economy.

MAJOR INITIATIVES

General Obligation Build America Bonds of 2010

In November 2010, the Town issued \$18,105,000 in 20-year general obligation bonds to fund the following land purchases and improvements:

Convention Center Expansion	\$	5,000,000
Land acquisition - 64th St - General Fund		3,396,825
Land acquisition - 64th St - Wastewater Fund		1,828,750
64th St boat ramp		762,525
32nd St wastewater pumping station		610,020
Wastewater plant dissolved air floatation units		2,338,410
15th-49th St force main & pump replacements		3,761,790
15th St wastewater pumping station		406,680
Total	\$	<u>18,105,000</u>

The American Recovery and Reinvestment Act of 2009 authorized the Town to issue federally taxable Build America Bonds to finance capital expenditures for which it could issue federally taxable bonds and elect to receive a subsidy payment from the federal government equal to 35% of each interest payment on the bonds. A syndicate managed by Robert W. Baird & Co was the successful bidder for the bonds at a public sale on November 18, 2010. The average coupon rate for the bonds was 4.82% and the true interest cost to the Town was 3.07%.

Pension Plan and Wage and Benefit Changes for New Employees

The Town Council has passed an ordinance in May 2011 to close the Town’s defined benefit pension plans to new hires. New hires were provided a defined contribution plan with a 5% mandatory contribution by the employee matched by the Town and an option of an additional 2% contribution also to be matched by the Town. The salary ranges for new hires in all classifications of general, non-union employees were reduced from 2% to 8%. Retiree health insurance for new hires is offered until age 65

only, with retirement after 25 years of service. This change was anticipated by the Council to reduce immediate costs for wages and future pension and retiree health unfunded liabilities.

ACTIVITIES AND ACCOMPLISHMENTS

Ocean City Free-For-All



The Town of Ocean City launched the “Ocean City Free-for-All” promotion in 2011. This promotion highlights all cost-free activities the Town offers. The promotion, in conjunction with the Rodney the Lifeguard campaign, was instituted as an investment in the Town’s visitors. While the Town of Ocean City has offered some free activities for its visitors for over fifteen years, it increased its free activities in 2011 and has maintained these activities despite their costs. There are various free activities that visitors can participate in: Concerts on the Beach, Family Movie Nights, Sundaes in the Park, Sunset Party Nights, and the Life Saving Museum events.

The Town of Ocean City also partners with outside vendors to bring other free activities to Ocean City such as the annual Air Show, various parades including the Maryland State Firemen’s Parade, its Fourth of July celebration and concert, and the Radio Disney productions. For more information on other free activities please visit, www.ococean.com/freeforall.

Rodney Saves Campaign



In 2009, while other businesses and municipalities were cutting their advertising funds due to the recession, the Town of Ocean City took a different approach. The Town of Ocean City’s Tourism Department partnered with MGH, Inc – an integrated marketing and communications agency in Baltimore, Maryland to develop a unique advertising campaign to promote tourism. After much brainstorming, the Rodney campaign was developed – a campaign that featured Rodney, Ocean City’s favorite lifeguard, who rescues people from their mundane, stressful lives and brings them to Ocean City, Maryland for a vacation. The Rodney campaign was a fully integrated campaign and not just a creative idea. The campaign covered the traditional media, online media, social media, public relations promotions, word of mouth, and events and reminded the public that they deserved a vacation. One of the traditional media ads highlighted Rodney rescuing a man from lawn work, loading him onto an Ocean City, Maryland tram and bringing him to Ocean City. Rodney soon transitioned from saving individuals to saving the entire East Coast. The campaign also focused on the value the visitor receives while vacationing in Ocean City with the “Rodney Saves” slogan. It highlighted money-saving deals and discounts as well as the free-for-all events (see above) occurring in Ocean City six nights a week. Local businesses were encouraged to join with the Town to provide special discounts and some local businesses also provided free family events.

Additional promotional avenues were created with Android and iPhone application and updates to the Ocean City Insiders. Since 2007, the Ocean City Insiders have been the first ambassadors for Ocean City, Maryland. They provide advice to potential visitors and an avenue for the visitor to ask and in return, receive feedback and recommendations. The Ocean City Insiders became a fully integrated part of this advertising campaign push too and it proved to be effective. To broaden the social media infiltration, MGH developed profiles for Ocean City in the social media marketing arena. This advertising avenue proved to be successful when the Ocean City fan network grew 62% in the past year.



FINANCIAL INFORMATION

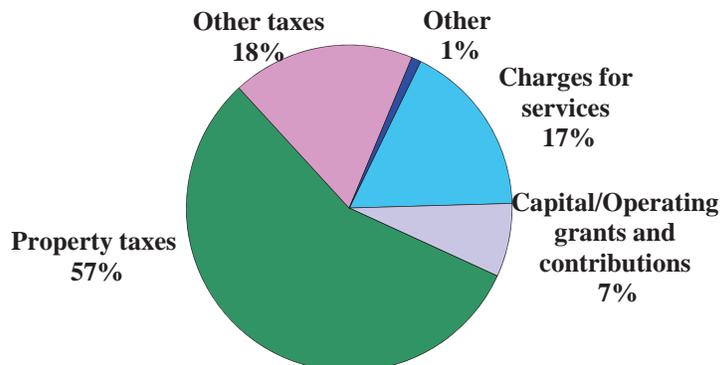
The financial information in this report distinguishes functions of the Town that are principally supported by taxes and intergovernmental revenues, *governmental activities*, from other functions that are intended to cover their costs primarily from user fees and charges and are *utilities and business services*. The governmental activities of the Town include general government, public safety, general public works and beach, sanitation and waste removal, highways and streets, economic development, recreation and culture, and construction of capital assets. The utilities and business services of the Town include water, wastewater, the Roland E. Powell Convention Center, transportation, the Ocean City Municipal Airport and Eagle's Landing Golf Course.

Governmental Activities

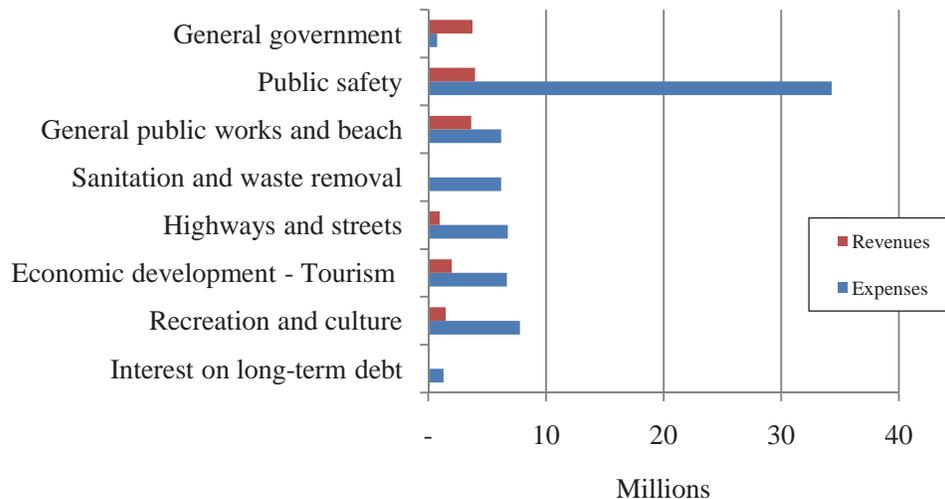
Governmental activities such as police and public safety, solid waste collection, and community services are generally supported by taxes and revenues shared from the federal government, State of Maryland and Worcester County as the fees collected for each activity do not generally cover all expenses.

Where the Money Comes From			Where the Money Goes		
	2011	2010		2011	2010
REVENUES			EXPENSES		
Program Revenues:			General government	\$ 751,333	\$ 1,621,071
Charges for current services	\$ 13,123,194	\$ 12,592,238	Public safety	34,297,859	33,961,816
Operating grants and contributions	2,807,769	2,705,797	General public works and beach	6,205,643	6,055,716
Capital grants and contributions	75,000	80,000	Sanitation and waste removal	6,193,273	7,081,833
General revenues:			Highways and streets	6,763,540	7,036,697
Property taxes	42,660,709	43,900,041	Economic development - Tourism	6,671,972	6,243,797
Other taxes	13,703,686	13,031,401	Recreation and culture	7,783,123	7,890,492
Grants and contributions not			Interest on long-term debt	1,296,137	1,261,803
restricted to specific programs	2,636,388	2,436,638	<i>Total expenses</i>	69,962,880	71,153,225
Other revenue	711,497	835,277	Increase in net assets before transfers	5,755,333	4,428,167
<i>Total revenues</i>	\$ 75,718,213	\$ 75,581,392	Transfers	(3,795,956)	(4,288,477)
			<i>Increase in net assets</i>	\$ 1,959,377	\$ 139,690

Revenue by Source - Governmental Activities



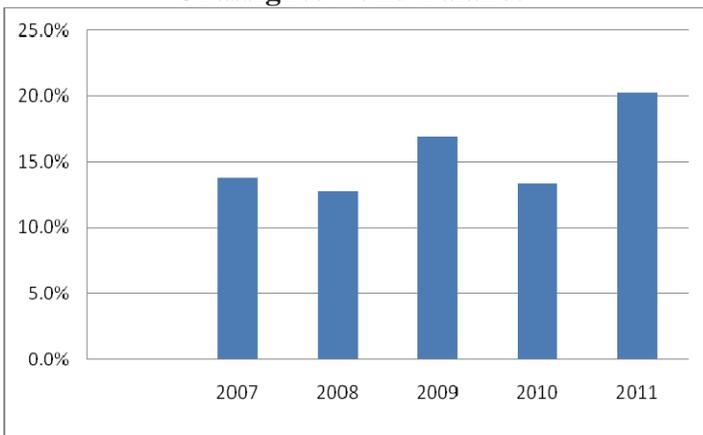
The following graph indicates the service fees and expenses of governmental activities which shows the extent which the governmental functions produce revenues to their program costs. Expenses not covered by direct program revenues and fees are covered primarily by taxes, licenses, and state and county-shared revenues. Program revenues and fees covered 22.9% of governmental expenses in FY-2011 compared to 21.6% in FY-2010.



The Town’s overall financial position improved in 2011, increasing \$6,478,696 above 2010. The increase was primarily from higher service fees and federal grants for new buses and equipment. There were gains in business-type activities of \$723,363 before transfers of \$3,795,956 from the general fund resulting in an increase in net assets of \$4,519,319. In governmental activities there was an increase of \$1,959,377 in net assets. Total revenues increased 6.0% or \$6,642,516 from 2010, while expenses decreased \$164,807 or 0.2%.

Public Safety is the largest governmental function with expenses of \$34,297,859 in 2011, a 1.0% increase from 2010, due to grants for new equipment and alcohol and drug enforcement. It is comprised of the police department, \$20,772,400, 60%; emergency medical services, \$7,556,108, 22%; communications, \$1,543,486, 4.6%; fire department, \$1,427,749, 4.4%; fire marshal, \$1,360,040, 4%; construction inspection, \$641,460, 2%; emergency management, \$654,925, 2%; and electronics, \$341,691, 1%. With 24-hour operations, 208 of the Town’s 536 full-time employees work in public safety, and an additional 176 employees are hired in the summer season.

Unassigned Fund Balance



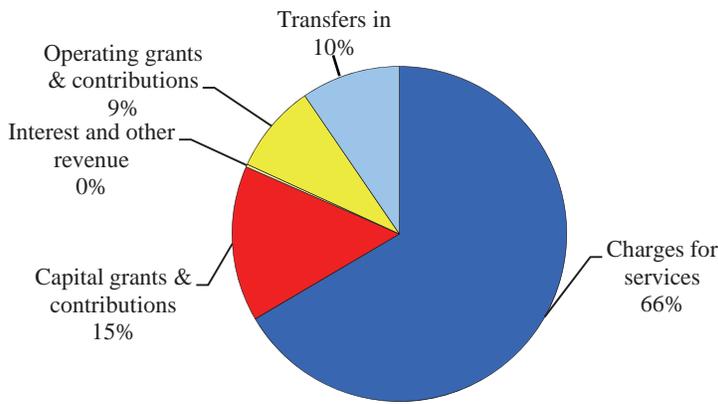
What is Fund Balance?

“Fund balance” is the difference between assets and liabilities for governmental funds and is a key measure of financial health. The Town of Ocean City subdivides fund balance into *Restricted*, *Committed*, *Assigned*, and *Unassigned* portions. The reserves portion represents set-asides for existing obligations. The unassigned portion represents set-asides for future purposes and is available for emergencies. Think of the unassigned as the savings account of the fund. It is the Town’s policy to have a minimum of 10% of expenses in unassigned fund balance. At June 30, 2011, the percentage was 20.2%.

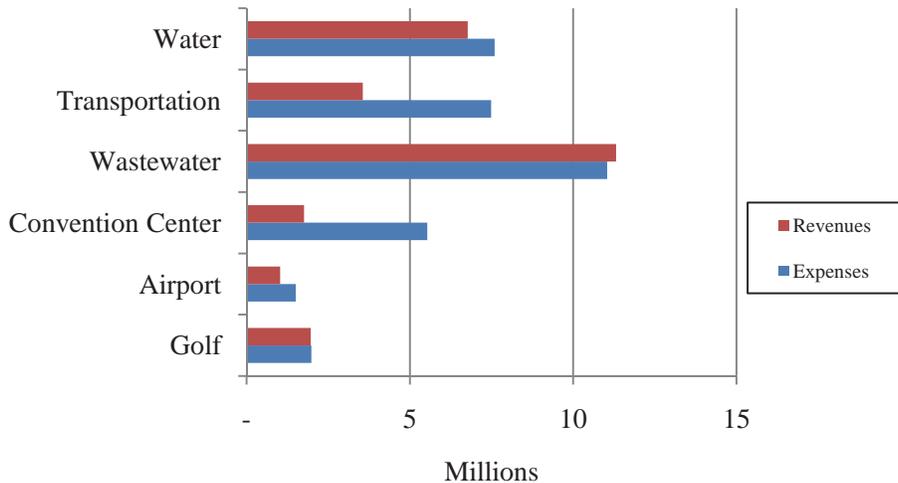
Utilities and Business Services

The Town operates two utilities and four businesses and accounts for their activities similar to businesses in the private sector. Operating revenues and expenses result from providing services and delivering goods. The Water Fund operates the water treatment plants and distribution system; the Wastewater Fund operates the sewage treatment plant, pumping stations and collection system; the Convention Center Fund accounts for the activities of the Roland E. Powell Convention Center; the Transportation Fund accounts for the operations of the Town’s bus system and boardwalk trams; and the Airport Fund and Golf Course Fund account for the operations of the Ocean City Municipal Airport and Eagle’s Landing Golf Course. Fees and service charges are 66% of all revenues.

Business-type Activities - Revenues by Source



The following graph indicates the portion of expenses that are covered by service charges to customers for business-type activities. In water, wastewater, and golf funds, service charges or reserves cover all costs. The operations of the transportation, airport, and convention center recovered 44% of expenses from user charges.



Utilities and Business Services

	2011	2010
Where the Money Comes From:		
Charges for current services	\$ 26,397,862	\$ 25,203,633
Operating grants and contributions	3,414,926	3,401,683
Capital grants and contributions	5,960,662	671,195
Other revenue	105,059	396,303
<i>Total revenues</i>	35,878,509	29,672,814
Where the Money Goes:		
Water	7,597,787	6,978,781
Transportation	7,493,620	7,715,464
Wastewater	11,045,110	10,337,839
Convention Center	5,533,018	5,669,798
Other enterprise operations	3,485,611	3,427,726
<i>Total expenses</i>	35,155,146	34,129,608
Increase (decrease) in net assets before transfers	723,363	(4,456,794)
Transfers	3,795,956	4,288,477
<i>Increase (decrease) in net assets</i>	\$ 4,519,319	\$ (168,317)

WHAT WE OWE

The Town borrows most of the money that it spends for major capital improvements by selling general obligation bonds or from loans that do not require collateral. The Town's bonds have interest rates from 3.00% to 5.43% and are paid over 20 years. At the end of 2011, the Town owed \$82,423,010 in debt. Over 59% of the debt, \$48,836,525 will be paid from service fees from business-type activities and \$33,586,485 or 41% will be paid from general tax revenues.

Why sell bonds? By selling tax exempt bonds, the Town obtains financing at a low interest rate and spreads the cost of the project over many years instead of adding the total cost to your tax bill in one year.

The Town has several pension plans that its employees participate in and has made a commitment to the employees to fund their future pensions. At March 31, 2011 the date of the actuarial valuation of the plans, the plans had an actuarial value of assets of \$73,484,872 and an actuarial accrued liability of \$96,779,581. This means that \$23,294,709 still needs to be contributed to the plans. Employees contribute 5-8% of their pay to the plans and the Town plans to fund its portion of the liability over the next ten years. The Town has assets of \$9,389,506 to fund retiree health benefits and an actuarial liability of \$40,674,000. The unfunded actuarial liability of \$31,284,494 is being funded over twenty-seven years.

WHERE WE STOOD ON JUNE 30, 2011

The Town's statement of net assets provides a "snapshot" of where we stood financially on June 30th, the last day of the fiscal year. Net assets represent the Town's spendable resources and ownership (equity) in the assets that make up the Town's land, infrastructure, and buildings.

	Governmental 2011	Business-type 2011	Total 2011	Change from 2010
Cash and current assets	\$ 31,464,720	\$ 37,135,463	\$ 68,600,183	36.3%
Capital assets	80,977,073	96,355,890	177,332,963	(0.1)
Total assets (Owned)	112,441,793	133,491,353	\$ 245,933,146	8.0
Long-term liabilities outstanding	32,958,704	43,549,120	76,507,824	14.0
Other liabilities	14,165,514	10,835,073	25,000,587	9.9
Total liabilities (Debts)	47,124,218	54,384,193	101,508,411	13.0
Excess of assets over debts:				
Invested in capital assets, net of debt	47,390,589	58,001,891	\$ 105,392,480	(1.2)
Restricted for capital and to pay debt	1,713,579	9,638,746	11,352,325	4.3
Unrestricted	16,213,407	11,466,523	27,679,930	35.7
Total Excess of Assets over Debts	\$ 65,317,575	\$ 79,107,160	\$ 144,424,735	4.7%

For additional information
or questions contact:

Town of Ocean City
Finance Department
City Hall
301 Baltimore Avenue
PO Box 158
Ocean City, MD 21843
410-289-8858



Town of Ocean City's Report to Citizens

OPERATING INFORMATION FOR 2011

General Information:		Tourism and Recreation:	
Year-round Residents	7,102	Park Average	77
Registered Voters	5,166	Beach (miles)	10
Average Summer Population	263,765	Tennis Courts	14
Public Safety – Police:		Solid Waste:	
Total Arrests	3,572	Trash Processed (tons)	34,253
Parking Violations	14,705	Highways and Streets:	
Classified Officers	102	Number of Streetlights	3,024
Seasonal Officers	102	Number of Stormwater Catch Basins	2,307
Fire and Emergency Services:		Water:	
Fire Responses	1,224	Daily Average Consumption (gallons)	5,591,287
Ambulance Responses	5,935	Plants Daily Capacity (gallons)	18,000,000
Fire Safety Inspections/Re-Inspections	2,068	Wastewater:	
Fire Investigations	136	Daily Average Treatment (gallons)	5,731,000
Classified Fire Personnel	4	Summer Daily Treatment Average (gallons)	9,986,000
Volunteer Firemen, Life Honor, Gold Badge	221	Plants Daily Treatment Capacity (gallons)	14,000,000
Classified Emergency Medical Technicians	36	Construction:	
Seasonal Emergency Medical Technicians	74	Construction Permits Issued	1,622
Transportation:		Estimated Value of Construction	\$25,521,294
Bus Passengers	2,997,578		

Visit our website to check your utility and tax account balances or to pay these bills online. www.oceancitymd.gov

