



Town of Ocean City, Maryland Report to Citizens For Fiscal Year Ended June 30, 2012

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

David L. Recor, ICMA-CM

Finance Administrator

Martha J. Bennett, CPA



Paul-Luc Ronchetti competing at the 2011 Dew Tour, photo by Susan Magnano.

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, 2012 and what we have and owe at year end. Our goal is to communicate the results of financial operations in a report that is straightforward and easy to read. The report highlights the boardwalk renovations, the 2012 bond sale, the Dew Tour and the Ocean City Beach Patrol. The Town's debt ratings of Aa2 and AA- were affirmed in May 2012. Moody's Investor Service rating of Aa2 cited, "The rating takes into consideration the town's conservative management practices and healthy financial position, affording satisfactory flexibility to offset risks inherent to a tourism-based economy, and an affordable debt position."

The information presented in this report was taken from the Town of Ocean City Comprehensive Annual Financial Report for the year ended June 30, 2012, (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 \$5.8 million in 2012. For the year ended June 30, 2012, room sales were 6.25% above the prior year and food and beverage sales were up 4.16%. This increase in sales occurred even though the town was evacuated for three days in August 2011 due to hurricane Irene.

The number of construction permits was slightly less in 2012 at 1,525 compared to 1,622 in 2011, but the 2012 fiscal year saw a substantial increase in the estimated value of that construction. The estimated value of construction in 2012 was \$35,460,786 compared to \$25,521,294 in 2011. Several development projects delayed during the recession were completed in 2012 including a new 113 unit hotel, the Hampton Inn and Suites.

The Town relies on property taxes for 55% 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 the 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

Boardwalk Renovation Project



http://oceancity.shownbphotos.com/Ocean_City-skyline-pictures.html

Since its early days, the boardwalk has undergone many renovations. In 2011, the Town's engineers realized that part of the boardwalk was in need of a total renovation, from the ground to the surface, while other parts only needed new surface boards replaced. The first phase of the renovation replaced the boards from Somerset Street to the Inlet, repairing any substructure as needed as well as the boardwalk and its substructure from 27th to 15th Streets. Phase two of the project will begin in October 2012 and will consist of full replacement of the boardwalk

from North Division Street to 15th Street and replacement of the deck boards from Somerset Street to North Division Street. It will be completed in April 2013 and will also include a new restroom and performance stage at Caroline Street. Proceeds from the below bond sale were used to fund the \$6 million dollar boardwalk project and restroom and stage project costing \$1 million dollars.



General Obligation Municipal Purpose and Refunding Bonds of 2012

In May 2012, the Town issued \$33,560,000 million of General Obligation Municipal Purpose and Refunding Bonds, which resulted in a savings of \$858,377 in future debt service for the Town's wastewater and general funds. Ocean City attracted national interest in the municipal market as nine prominent underwriters competed for the bonds with bids based on a true interest rate ranging from 2.39% to 2.67%. Proceeds of the bonds were used to refund the Town's outstanding Series 2005 bonds, which mature after 2015, and to finance the new boardwalk, comfort station, street improvements, fire stations, wastewater plant improvements and pumping stations and a new parking lot. The sale resulted in a net present value savings of 5.61% of refunded principal.

ACTIVITIES AND ACCOMPLISHMENTS

The Dew Tour

Alli Sports, a division of NBC Sports, held their famous Dew Tour in Ocean City in 2011 and 2012. The Dew Tour is an extreme sports event consisting of summer and winter events. The summer locations are conducive to skateboarding and BMX, with additional competitions of surf and freestyle motocross and the winter locations are conducive to snowboarding and free skiing. To accommodate these events, the tour is held in various locations in the United States. Ocean City was the opening location for the tour. The other locations were Portland, Oregon, Salt Lake City, Utah and Las Vegas, Nevada



for the Dew Tour Championships. In the seven years the event has been touring, this was the first time the tour was held on the beach. Each athlete competes and accumulates points based on their individual event and ultimately for the title of Dew Cup champion. In addition, the event featured live concerts.

The events were broadcast live on NBC and NBC Sports Network as well as distributed on Universal HD and internationally on Eurosport, Fox Australia, Extreme Channel and Allarco Superchannel. Organizers of the event were pleased with the Ocean City venue, which had record-breaking crowds in attendance, and provided a significant economic impact to town businesses.

Ocean City Beach Patrol



The Beach Patrol employs approximately 200 employees. Many think the Beach Patrol as a seasonal operation; however, there are some employees that work year round. Almost half of the staff has been a part of the Beach Patrol for five years or more and 33 employees have been employed for ten years or more. Five members have been employed for 28 years or more. They are Lt. Mike Stone – 28 years, Sgt. Tim Uebel – 29 years, Lt. Ward Kovacs and 1st Lt. Skip Lee - 30 years, and Captain Butch Arbin – 40 years. Although the Ocean City

Beach Patrol is their second job, these highly trained individuals are committed to the Town of Ocean City and the safety of its visitors.

FINANCIAL INFORMATION

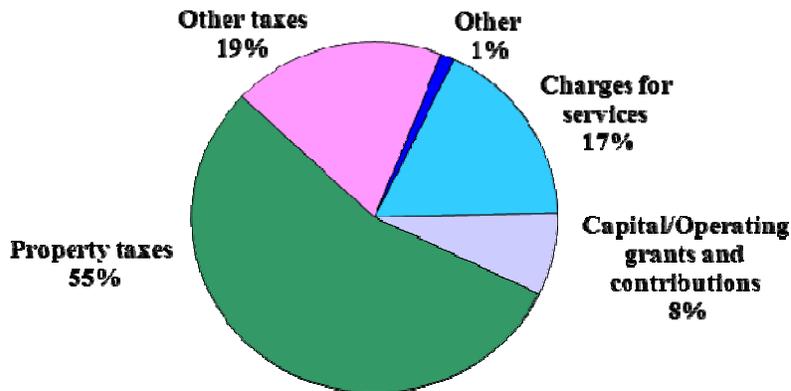
The financial information in this report distinguishes functions of the Town that are principally supported by taxes and intergovernmental revenues, *governmental activities*, from other functions that are intended to cover their costs primarily from user fees and charges and are *utilities and business 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

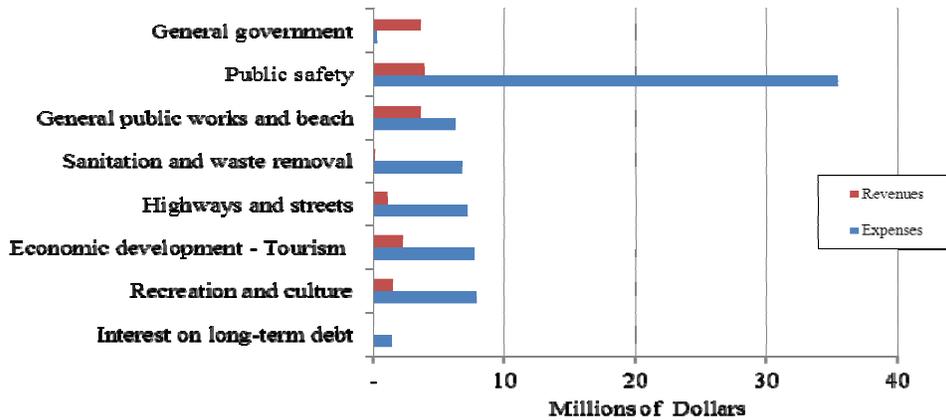
Governmental activities such as police and public safety, solid waste collection, and community services are generally supported by taxes and revenues shared from the federal government, State of Maryland and Worcester County as the fees collected for each activity do not generally cover all expenses.

Where the Money Comes From			Where the Money Goes		
	2012	2011		2012	2011
REVENUES			EXPENSES		
Program Revenues:			General government	\$ 335,703	\$ 751,333
Charges for current services	\$ 13,475,814	\$ 13,123,194	Public safety	35,440,373	34,297,859
Operating grants and contributions	2,805,472	2,807,769	General public works and beach	6,257,840	6,205,643
Capital grants and contributions	-	75,000	Sanitation and waste removal	6,776,510	6,193,273
General revenues:			Highways and streets	7,250,787	6,763,540
Property taxes	42,509,186	42,660,709	Economic development - Tourism	7,692,558	6,671,972
Other taxes	14,649,416	13,703,686	Recreation and culture	7,873,652	7,783,123
Grants and contributions not restricted to specific programs	3,093,926	2,636,388	Interest on long-term debt	1,352,400	1,296,137
Other revenue	927,938	711,497	<i>Total expenses</i>	<u>72,979,823</u>	<u>69,962,880</u>
<i>Total revenues</i>	<u>\$ 77,461,751</u>	<u>\$ 75,718,213</u>	Increase in net assets before transfers	4,481,929	5,755,333
			Transfers to other funds	(3,205,769)	(3,795,956)
			<i>Increase in net assets</i>	<u>\$ 1,276,160</u>	<u>\$ 1,959,377</u>

Revenue by Source - Governmental Activities



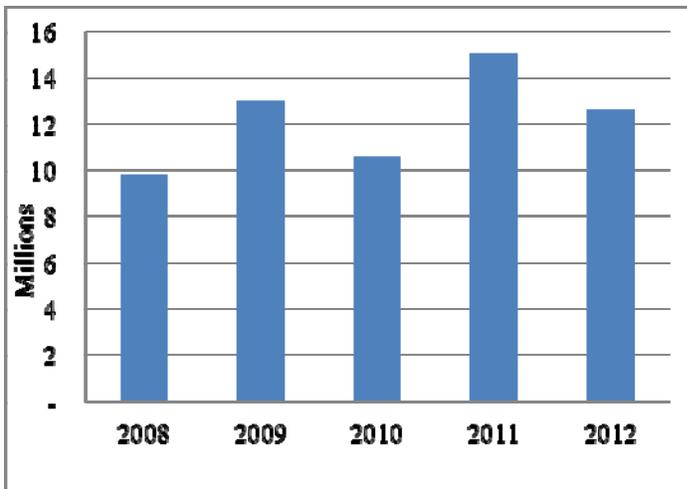
The following graph indicates the service fees and expenses of governmental activities which shows the extent in which the governmental functions produce revenues to their program costs. Expenses not covered by direct program revenues and fees are covered primarily by taxes, licenses, and state and county-shared revenues. Program revenues and fees covered 22.3% of governmental expenses in FY-2012.



The Town’s overall financial position improved in 2012, increasing \$3,886,686 above 2011. The increase was primarily from higher service fees and bond proceeds. There were losses in business-type activities of (\$595,243) before transfers of \$3,205,769 from the general fund resulting in an increase in net assets of \$2,610,526. In governmental activities there was an increase of \$1,276,160 in net assets. Total revenues remained stable in 2012, increasing 0.2% or \$214,123 from 2011, while expenses increased \$2,806,133 or 2.7%.

Public Safety is the largest governmental function with expenses of \$35,440,376 in 2012, a 3.3% increase from 2011, due to grants for new equipment and the response to hurricane Irene. It is comprised of the police department, \$21,913,143, 61.6%; emergency medical services, \$7,654,473, 22%; communications, \$1,528,390, 4.3%; fire department, \$1,488,509, 4.2%; fire marshal, \$1,296,091, 3.6%; construction inspection, \$628,599, 1.8%; emergency management, \$555,622, 1.5%; and electronics, \$375,546, 1%. With 24-hour operations, 211 of the Town’s 528 full-time employees work in public safety, and an additional 150 employees are hired in the summer season.

Unassigned Fund Balance

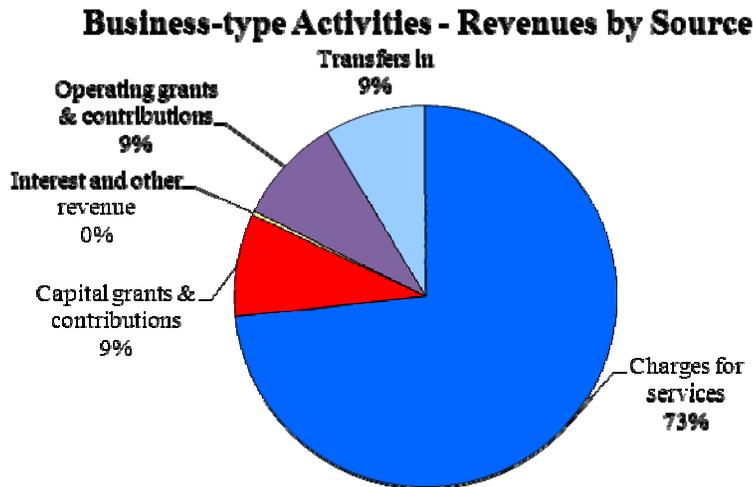


What is Fund Balance?

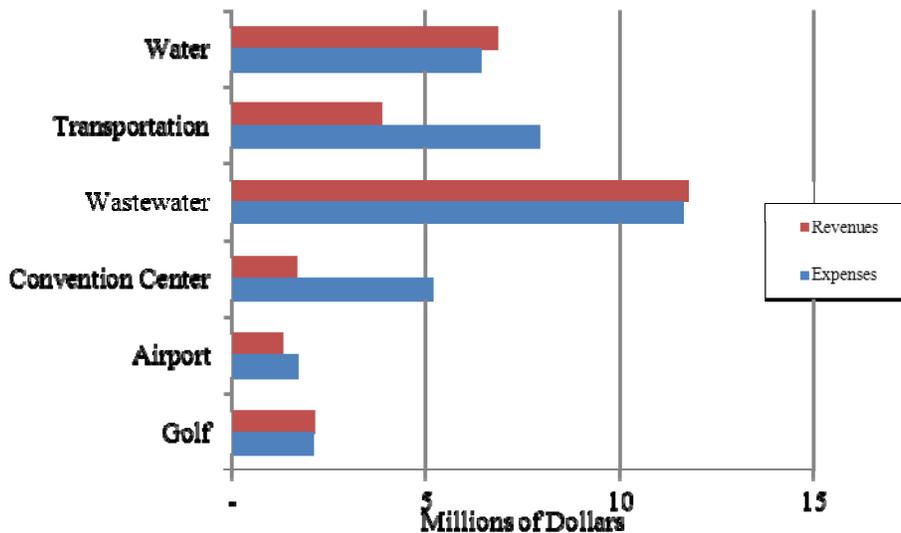
“Fund balance” is the difference between assets and liabilities for governmental funds and is a key measure of financial health. The Town of Ocean City subdivides fund balance into *Restricted*, *Committed*, *Assigned*, and *Unassigned* portions. The restricted and committed portions represent set-asides 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 10-12% of expenses in unassigned fund balance. At June 30, 2012, the percentage was 17.5%.

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 73% of all revenues.



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 49.5% of expenses from user charges.



Utilities and Business Services

	2012	2011
Where the Money Comes From:		
Charges for current services	\$ 27,538,728	\$ 26,397,862
Operating grants and contributions	3,413,436	3,414,926
Capital grants and contributions	3,269,491	5,960,662
Other revenue	127,438	105,059
<i>Total revenues</i>	34,349,093	35,878,509
Where the Money Goes:		
Water	6,419,219	7,597,787
Airport	1,681,333	1,503,697
Wastewater	11,642,169	11,045,110
Convention Center	5,173,147	5,533,018
Other enterprise operations	10,028,468	9,475,534
<i>Total expenses</i>	34,944,336	35,155,146
Increase (decrease) in net assets before transfers	(595,243)	723,363
Transfers	3,205,769	3,795,956
<i>Increase (decrease) in net assets</i>	\$ 2,610,526	\$ 4,519,319

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 1% to 5.6% and are paid from 10 to 20 years. At the end of 2012, the Town owed \$96,769,939 in debt. Over 50% of the debt, \$48,531,082 will be paid from service fees from business-type activities and \$48,238,857 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, 2012 the date of the actuarial valuation of the plans, the plans had an actuarial value of assets of \$80,096,536 and an actuarial accrued liability of \$100,825,619. This means that \$20,729,083 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 \$12,151,386 to fund retiree health benefits and an actuarial liability of \$40,674,000. The unfunded actuarial liability is being funded over twenty-six years.

WHERE WE STOOD ON JUNE 30, 2012

The Town's statement of net assets provides a "snapshot" of where we stood financially on June 30th, 2012, 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 2012	Business-type 2012	Total 2012	Change from 2011	
Cash and current assets	\$ 45,419,585	\$ 23,097,566	\$ 68,517,151	(0.1)	%
Capital assets	83,271,818	115,274,760	198,546,578	12.0	
Total assets (Owned)	128,691,403	138,372,326	267,063,729	8.6	
Long-term liabilities outstanding	48,032,066	43,282,134	91,314,200	19.4	
Other liabilities	14,065,602	13,372,506	27,438,108	9.7	
Total liabilities (Debts)	62,097,668	56,654,640	118,752,308	17.0	
Excess of assets over debts:					
Invested in capital assets, net of debt	35,032,961	55,645,888	90,678,849	(14.0)	
Restricted for capital and to pay debt	16,140,004	8,551,119	24,691,123	117.5	
Unrestricted	15,420,770	17,520,679	32,941,449	19.0	
Total Excess of Assets over Debts	\$ 66,593,735	\$ 81,717,686	\$ 148,311,421	2.69%	%

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 2012

General Information:		Fire and Emergency Services:	
Year-round residents	7,110	Fire responses	1,303
Registered voters	6,034	Ambulance responses	6,025
Average summer population	276,809	Fire Safety Inspections/re-inspection	2,050
Public Safety – Police:		Fire investigations	115
Total arrests	3,879	Classified Fire Personnel	4
Parking violations	13,045	Volunteer Firemen, Life Honor, Gold Badge	235
Classified officers	103	Classified Emergency Medical Technicians	36
Transportation:		Seasonal Emergency Medical Technicians	54
Bus passengers	2,872,472		

Would you like your utility bill sent to your email address? If so, please email the following to:

myocwaterbill@oceancitymd.gov

Account Number

Name

Phone Number

Email Address

Please indicate if you would like email only or email and printed bill.

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

