



TOWN OF OCEAN CITY

The White Marlin Capital of the World

To: The Honorable Mayor, Council President and Members of the City Council
From: Douglas R. Miller, City Manager
Re: Budget Message – Fiscal Year 2016 Proposed Operating Budget
Date: June 20, 2016

To the Honorable Mayor and Council of Ocean City as well as to our citizens and taxpayers: I am delighted to outline and review the adopted Budget for Fiscal Year 2017. I wish to thank our Budget Manager, Jennie Knapp who did the hard work in making this budget balance. I would also like to thank Mayor Meehan who, as acting City Manager, presided over the beginning of the budget process. Our department heads must also be recognized for their thorough and thoughtful budget submissions.

As a matter of quick review, the “budget” is actually a collection of separate accounting units referred to as “funds”. The budget that typically gets the most attention is the General Fund Budget. This is the budget that is supported by property tax, state-shared revenue and fees. These revenues fund services such as public safety, public works, tourism, solid waste, planning and zoning, recreation and parks and the various administrative and support functions. In addition to the General Fund, Ocean City has six enterprise funds: Water, Wastewater, Transportation, Eagles Landing Golf Course, the Ocean City Airport and the Convention Center. These budgets are supported by the fees that are charged for the services provided under these funds. The Transportation, Airport and the Convention Center Enterprise Funds require annual contributions from the General Fund to make them balance. The Town also has Internal Service Funds and Fiduciary Funds in its budget. The total of all of these funds for FY 17 is \$124 million. As established in the Maryland Code, the fiscal year (FY) begins on July 1 and ends on June 30, and FY’s are numbered in the year that they end.

The FY 17 General Fund Budget is balanced with just over \$81 million in both revenue and expenditure. The real property tax rate was reduced slightly (from \$.478 to \$.4727 per \$100 of assessed value) to what is referred to as the Constant Yield Tax Rate. We were able to do this through a combination of increased revenue estimates, significant reductions in expenses such as fuel and energy costs and a reduction in health insurance costs, and utilization of fund balance to fund capital improvements. Unfortunately, the savings in fuel and energy will probably not be repeated in subsequent FY’s. For FY 17, one penny on the tax rate generates \$855,473 in revenue.



A key goal of the Mayor and Council is to make Ocean City an attractive place to live twelve months of the year. The Town has employed many strategies to accomplish this goal, one of which is to stabilize the property tax bill for the permanent resident by setting the Homestead Property tax rate at 0%, essentially freezing any future increases in assessment. In FY 17, most permanent residents who claim the Homestead Property Tax Credit on their Ocean City home will see their property tax bill decrease.

Real Property Taxes provide about 50% of the revenue needed to fuel the General Fund. The amount of the General Fund budget, which is funded by property taxes, has been declining since FY '09 while

revenues, such as Room Tax, have significantly increased. In FY 17, the Room Tax estimate is \$14,600,000. Other taxes received by the General Fund include State Shared revenue such as Highway User Revenue (\$491,000), State Aid for Police Protection (\$405,000), emergency management grants (\$117,000), Admissions Tax (\$1,335,000) and slots and casino revenue (\$605,000). Revenue from these sources is projected to increase over \$1.3 million from FY 16. Other revenue sources include planning and zoning fees (\$100,000), building permit fees (\$770,000) and cable TV franchise fees (\$995,000). The County provides the Town grants in the amount of \$4.2 million to offset the costs of duplicate services. Emergency medical fees are budgeted at just over \$1 million.

The Water Enterprise Fund and the Wastewater Enterprise Fund are primarily supported by water and sewer rates broken down into fixture charges and usage rates. For FY 17 the water usage rates will increase from \$3.70 per 1000 gallons used to \$3.90 per 1000 gallons. Sewer fixture charges will increase from \$8.80 to \$8.95. These increases reflect the recommendations of a study previously conducted by the Town's Finance Department, and support necessary capital improvements in these funds.

There will be no new full-time positions added in FY 17. The non-union employees will receive a step increase as of January 1, 2017. Members of the FOP will receive a step increase on December 31, 2016 and a step increase the following day on January 1, 2017. These increases were a part of a previously negotiated contract. Members of the IAFF will not receive any increases in FY 17.

It should be noted that budgets are at best estimates. It is impossible to forecast with 100% certainty how much will be collected in taxes and fees. It is also impossible to look ahead eighteen months from the beginning of the budget process and predict all pressures placed upon the Town due to events, equipment failures or emergencies. For that reason we are conservative in our estimates. If we are fortunate enough to have a fiscal year where revenue is more than forecast, and without unforeseen significant or emergency expenditures, any surplus will be used for two purposes. The first will be to maintain a balance of at least 15% of budget for emergency expenditures. The second purpose will be to reinvest in the town by way of capital projects. And while the Town does a better job than many municipalities addressing infrastructure, our capital needs are greater than the available revenue to fund them. The FY 17 budget utilizes \$1.2 million of fund balance to fund street paving, canal dredging, repairs at Northside Park, continuation of the boardwalk surveillance project, and fiber connectivity for municipal buildings on the south end of the island.

The budget is far more than a financial document. It is where the priorities become actions next twelve to eighteen months. In that light, the Mayor and Council, along with the senior staff, participated in a very impressive multiyear strategic planning process yielding ambitious goals which this budget supports.



One goal of the Strategic Plan is that Ocean City be a “First Class Resort and Tourist Destination”. The Town will dedicate significant resources in many different areas to make Ocean City stand out. The FY 17 budget invests \$1.7 million into maintaining the beach and boardwalk by funding the restoration of boardwalk light poles, beach replenishment and extra seasonal crews to keep the boardwalk clean. Our ten-mile beach is

protected by our Beach Patrol so \$2.3 million has been dedicated to this effort. As one of our prominent business leaders says, “Ocean City needs to address the three “S’s” to be successful; sand, surf and

safety”. To ensure that we satisfy that last “S” safety, the Town will spend \$33.7 million in public safety in FY 17 which includes police, fire/EMS, communications and emergency management. Spending for tourism will increase by \$241,000 in this fiscal year to \$5.7 million. We will further invest \$2.2 million in Special Events which have proven to be a successful draw of visitors to our resort. One popular and greatly improved Town service is our transit system. The FY 17 budget will dedicate \$1.3 million from the General Fund for that purpose.

Another goal of the Strategic Plan is to have a “Financially Sound Town Government”. The FY 17 Budget will have a reduced tax rate and water and sewer rates that are based on sound financial data and trend analysis. The long established debt policy will be adhered to as well as the reserve policy. In addition, pensions and OPEB (other post-employment benefits) are funded to a healthy level. The Town enjoys an AA bond rating which is partially influenced by the sound conservative financial practices that we employ. It should be noted that the Town greatly benefits from its very capable and long serving Finance Director, Martha Bennett. Her leadership is one key reason that the Town enjoys such an impressive bond rating.

Another goal for Ocean City is to be a “More Livable Community for Residents”. The FY 17 budget will continue to provide resources to upgrade and enhance Northside Park. Between FY 16 and FY 17, the Town has invested \$1 million in this recreational complex. Canal dredging will remain a priority as the Town has invested over \$1.6 million in these waterways since FY 14. The Town will further devote \$2 million to street paving and sidewalk repair.



Ocean City is clearly the most unique municipality in Maryland. No other town or city has the ongoing pressure upon it to provide top notch services every day. While other jurisdictions can reduce services or put off capital projects, Ocean City cannot. We must sparkle every day. The FY 17 budget reflects the Town’s strong commitment to serve our citizens, to serve our businesses, to serve our non-resident property owners and to serve the millions of visitors who enjoy Ocean City every year.