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 2016 Proposed Operating Budget
DATE: April 7, 2015

The Ocean City, Maryland, Code of Ordinances, Part I, Charter, Title VII, Finances, § C-704 – Budget, requires that the City Manager submit a balanced budget to the Mayor and Council at least thirty-two (32) days before the beginning of any fiscal year. I am pleased to present the City Manager's Fiscal Year 2016 Proposed Operating Budget for the Town of Ocean City, beginning July 1, 2015, which totals $145,141,358, for the Mayor and Council's review and consideration. The Proposed Operating Budget includes the Town's General Fund, all of the Town's Enterprise Funds and Internal Service Funds in addition to the Pension & OPEB Trust. The Proposed Operating Budget represents a complete financial plan for the coming fiscal year as required by the Charter.

These spending plans reflect many of the priorities identified by the Mayor and Council's updated Strategic Planning Action Items as well as a continued commitment to provide a high level of service to our residents and keep our visitor's experience fresh and exciting all the while preserving our organization's long-term financial viability. The Fiscal Year 2016 Proposed Operating Budget is balanced and confirms that our distinguished resort community will remain clean, safe, healthy and strong – a place where the quality of life is unsurpassed.

Fiscal Year 2016 Proposed Operating Budget

FUND	BUDGET
General Fund	$78,277,984
Enterprise Funds	
- Water	$6,504,651
- Wastewater	$13,419,297
- Transportation	$8,747,734
- Convention Center	$8,172,710
- Airport	$1,384,116
- Golf Course	$2,123,538
Internal Service Funds	
- Information Technology	$2,013,130
- Service Center	$4,993,009
- Vehicle & Equipment Trust	$2,374,515
- Risk Management	$2,358,267
Pension & OPEB Trust	$14,772,407
TOTAL	**$145,141,358**

Highlights – Proposed Fiscal Year 2016 Operating Budget

- Expenditures for all Funds total $145,141,358 a 2.3% *decrease* of $3,484,271 from Fiscal Year 2015.

- General Fund revenues and expenditures equal $78,277,984, a 1.2% *decrease* of $957,349 from Fiscal Year 2015.

- January 1, 2015, marked the first year of a new 3-Year Assessment Cycle in Worcester County and all Ocean City residential and commercial property (with the exception of one section of commercial property, i.e., 25th Street south to the Inlet) was reassessed. State of Maryland Department of Assessments and Taxation (SDAT) calculations indicate that Ocean City's Net Assessable Real Property Base, as of July 1, 2015, *declined* 1.6% to $8,390,862,470 (including a $26,836,505 increase in Estimated Abatements and Deletions).

- The General Fund Property Tax Revenue Projection is based on the "Constant Yield" ad valorem tax rate of $0.4780, an increase of $0.0076, which generates $40,239,417 (not including Corporate or Personal Property taxes).

- One cent ($0.01) on the Real Property Tax Rate is equivalent to $841,164.

- The General Fund Budget is funded 53.96% by Real Property Tax Revenue continuing the downward trend since Fiscal Year 2009 (by comparison, seven years ago, the Fiscal Year 2009 General Fund Budget totaled $80,470,291, Real Property Tax Revenue equaled $47,146,932 comprising 58.59% of the General Fund Budget).

- Includes $1,026,426 in "pay-go" Capital Improvement Project expenditures for Street Paving projects in Fiscal Year 2016.

- Includes a 2% Cost of Living (COLA) adjustment for all Fraternal Order of Police (FOP) bargaining unit members on January 1, 2016, as provided for in first year of a new Three-Year Collective Bargaining Agreement scheduled for ratification on Tuesday, April 14, 2015.

- Includes a step increase on July 1, 2015, for eligible International Association of Fire Fighters (IAFF) bargaining unit members as provided for in third year of Three-Year Collective Bargaining Agreement, which expires June 30, 2016, in addition to a 2% Cost of Living (COLA) adjustment on January 1, 2016.

- Includes a 2% Cost of Living (COLA) adjustment for all General Employees on January 1, 2016.

- Includes a 2% Cost of Living (COLA) adjustment for Step 1 Part-time Employees on January 1, 2016 (consciously compresses the Part-time Employee Wage Table).

- Reflects new rate structure established by the updated Comprehensive Water/Wastewater Study adopted by Resolution and scheduled for consideration by the Mayor and Council on Monday, April 6, 2015.

- Maintains the General Fund Balance consistent with Mayor and Council fiscal policy of 15% of previous year General Fund expenditures equivalent to $12.1 million (as of June 30, 2014).

Budget Preparation Process

Development of the Town's annual operating budget involves three phases: formulating budget requests by Departments, Executive Review with the Budget Manager and City Manager, and Legislative Review with the Mayor and Council followed by budget 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 further discussion.
3) Personnel, Information Technology and Vehicle Replacement requests require supplemental information and are due by mid-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 to the Budget Manager by the beginning of December.
6) Departments communicate, coordinate and work directly with the Budget Manager throughout the entire budget process.
7) Revenue Projections are derived by the Budget Manager 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 link to the Mayor and Council's Strategic Planning priorities (Vision, Goals, updated Policy Agenda and Management Agenda).
2) Meetings are scheduled with Departments, Budget Manager and City Manager to evaluate and further discuss Department budget requests.
3) Based on Projected Revenues, funding is proposed by the City Manager for the activities, programs and services required to maintain an essential level of service and/or to provide for enhancements to activities, programs and services identified as priorities by the Mayor and Council.
4) City Manager proposes the Annual Operating 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.

Legislative Review by the Mayor and Council – Budget Adoption: April – May

1) Department budget presentations are scheduled with the Mayor and Council over a two week period in April.
2) Mayor and Council determine and advertise the proposed Real Property Tax Rate.
3) Mayor and Council review the City Manager's Proposed Operating 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 Operating Budget, as modified for additions and/or deletions, is enacted by the Mayor and Council by Ordinance as the Adopted Operating Budget for the following Fiscal Year. In addition, the Mayor and Council adopt the Real Property Tax Rate.

5) The Adopted Operating 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.

Mayor and Council Budget Review Schedule

Date	Action Item
Tuesday, April 7, 2015	Mayor and Council Work Session • City Manager/Budget Manager presentation/overview of Fiscal Year 2016 Proposed Operating Budget
Wednesday, April 8, 2015 – Friday, April 17, 2015	Mayor and Council Special Meetings • Department Budget Reviews and Wrap-Up
Monday, May 4, 2015	Mayor and Council Regular Meeting • First Reading – Ordinance to Adopt Fiscal Year 2016 Operating Budget • Public Hearing
Monday, May 18, 2015	Mayor and Council Regular Meeting • Second Reading – Ordinance to Adopt Fiscal Year 2016 Operating Budget • Public Hearing
Monday, June 1, 2015	Mayor and Council Regular Meeting • Alternative Date (if necessary)

Mayor and Council's Strategic Plan

The Annual Operating Budget, as a policy document, represents the Town's 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 activities, 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 including the priorities established by the Mayor and Council in the updated Fiscal Year 2016 Policy Agenda and Management Agenda Priorities. The 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 for the Town of Ocean City, and after engaging staff, residents and business leaders in the community, the Mayor and Council's Strategic Plan enables the Town to focus its limited resources on the most important priorities and continue to enhance our visitor's experience and the high quality of life our residents enjoy.

The Mayor and Council's Five-Year Strategic Planning Goals serve as the guiding principles in preparing the Annual 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

1st Class Resort and Tourist Destination

Financially Sound Town Government

More Livable Community for Residents

Excellent Service Through a High Performing Town Organization

Revitalized Ocean City: Development and Redevelopment

Mayor and Council Adopted Fiscal Policies

The Fiscal Year 2016 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 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, permitting, building construction and fire safety inspections, the construction and maintenance of streets and infrastructure, and recreation, parks, tourism, cultural affairs and special events.

Each year, when the Town begins the budget process, the Budget Manager utilizes comprehensive trend analysis to project revenues and works directly with Departments to accurately estimate expenditures

to fund current programs and services. 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.

Fiscal Year 2016 Projected Revenue

Category	Projected
Property Taxes	$42,241,417
Other Taxes	$16,538,806
Licenses and Permits	$4,048,126
Revenue From Other Agencies	$4,886,407
Charges For Current Services	$9,197,378
Fines and Forfeitures	$581,500
Other Revenue	$534,000
Prior Year Reserves	$250,000
TOTAL	**$78,277,984**

As previously noted, Projected Revenue for Property Taxes in Fiscal Year 2016 is based on the "Constant Yield" ad valorem tax rate of $0.4780 per $100 of assessed valuation of real property, a $0.0076 increase from the previous fiscal year given the 1.6% decline in Ocean City's Net Assessable Real Property Base. Projected Revenue from Corporate and Personal Property Taxes 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 2016 is conservatively projected to increase by 1.7% to $13,837,500.

Revenue generated by several of the Town's Franchise Agreements has declined recently. The last Beach Equipment Franchise auction in December 2014 (Mid-Section) resulted in a 5.4% decrease in annual revenue equivalent to $48,391. Beach Equipment Franchise Auctions are held every year at City Hall the first week of December. The Town's entire beachfront is divided into three sections – South, Mid and North. The South Section is comprised of the Inlet to 27th Street, the Mid Section is comprised of 28th Street to 84th Street and the North Section is comprised of 85th Street to 145th Street. In addition, the Town's Vehicle Franchise revenue (ice cream and/or similar frozen treats) has also decreased significantly to $33,900 annually, representing a 52.4% reduction from the previous Franchise Agreement which defaulted in late 2014.

General Fund Revenue Projections remain conservative and relatively flat although there are measurable signs of economic recovery in Ocean City. There are a number of projects and new developments that have been permitted and/or under review representing nearly three times the valuation during the same time period last year. The valuation of building permits issued year-to-date in the current fiscal year exceeds $116,000,000.

Given the results of the most recent SDAT property assessment, the above referenced permitting data as well as other economic indicators, including Room Tax and Food and Beverage Tax collections, we remain cautiously optimistic that Ocean City is well positioned and that our business climate is stable.

Fiscal Year 2016 Proposed Expenditures

Category	Proposed
General Government	$3,819,151
Public Safety	$33,998,354
General Public Works/Beach Maintenance	$5,130,325
Sanitation and Waste Removal	$5,720,131
Highways and Streets	$5,532,152
Economic Development – Tourism	$7,324,360
Culture and Recreation	$7,778,044
Debt Service	$5,015,068
SUBTOTAL	**$74,317,585**
Transfers	
- Transportation Fund	$1,211,499
- Airport Fund	$264,791
- Convention Center	$1,457,683
- Capital Improvement Projects	$1,026,426
TOTAL	**$78,277,984**

From the onset of the Fiscal Year 2016 budget process, Departments were instructed to prepare "status quo" budget requests using a "current level of service" approach. Departments were further instructed to identify proposed expenditures above Fiscal Year 2015 funding levels as "right hand column" expenditures that could be tracked and would be revisited as the Town's Fiscal Year 2016 General Fund Projected Revenue became clearer. "Status quo" became the administrative mantra throughout preparation of the Fiscal Year 2016 Proposed Operating Budget. This strategy required Departments to prioritize proposed expenditures yet also enabled a holistic view of the functional and operational needs of the entire organization, the many demands competing for limited financial resources.

Personnel

The Fiscal Year 2016 Proposed Operating Budget does not fund any new Full-time positions in the General Fund. Alternative strategies were utilized to meet the personnel needs of various departments including continuation of the Police Department's program to reclassify its Public Safety Aide positions to Custody Officers. Two positions are affected in the Police Department's budget at a cost of $8,728. The Police Department's budget also includes an additional $44,000 for Overtime in the Patrol Division.

The Department of Emergency Services Communications Division budget provides for the reclassification of one Communications Officer II position to Communications Officer III. The reclassified position will be responsible for coordinating and providing Training in the Communications Division in lieu of a proposed new Training Coordinator position.

The Fiscal Year 2016 Proposed Operating Budget reflects the elimination of the Assistant Director position in Recreation and Parks. However, the proposed budget also funds a restructuring proposal advocated by the new Director. The restructuring proposal provides career advancement opportunities in the Programs Division by funding the promotion of two (2) Recreation Supervisor positions to new

Program Manager positions. The vacated Full-time Recreation Supervisor positions will be replaced with Part-time Recreation Supervisor positions (3,000 hours total).

In addition, Phase I of a Succession Plan in the Parks Division is funded given the anticipated retirement of the tenured Parks Superintendent. The Fiscal Year 2016 Proposed Operating Budget implements Phase I of the Succession Plan with the promotion of two (2) Crew Leader positions to Supervisor positions. Phase II is planned for implementation in Fiscal Year 2017 with the conversion of a Part-time Parks Worker to Full-time status followed by the retirement of the Parks Superintendent and elimination of the Assistant Superintendent position who will be promoted upon the Park Superintendent's retirement mid-year in Fiscal Year 2017.

Funding for reclassification of four (4) positions in the Department of Public Works Maintenance Division is also included in the Proposed Operating Budget. Two (2) Maintenance Worker positions have been reclassified to Heavy Equipment Operators at a cost of $9,360 and two (2) Heavy Equipment Operator positions have been reclassified to Crew Leaders at a cost of $4,284. These reclassifications have been advocated by the Director of Public Works in an effort to reallocate personnel resources for specific purposes in the Department without increasing the overall number of positions in the Department.

The Proposed Operating Budget also projects and funds a 7.5% increase in health insurance coverage effective January 1, 2016.

Operating and Maintenance

Departments were able to fund a number of important and necessary operating expenses within the "status quo" directive. For example, the Fire Department budget includes funding for replacement of eleven (11) heart monitoring systems under a five-year Lease Purchase Agreement at an annual cost of $62,436. The Proposed Operating Budget also includes $85,000 for the Fire Department to proceed with Phase I (of II) replacement of the Town's Automated External Defibrillators (AEDs) at an annual cost of $85,000.

The Proposed Operating Budget also includes funding for the Department of Emergency Services Communications Division in the amount of $75,000 for replacement of the Division's telephone/radio transmission logging recorder. In addition, $20,000 for replacement of the Centralized City Alarm System has been funded in the Communications Division budget.

The Economic Development – Tourism budget includes destination advertising funding, funding dedicated to the Tourism Advisory Board as well as funding for Town-promoted Special Events including Sunfest, Winterfest and Springfest. As previously noted, Fiscal Year 2016 Projected Revenue from Room Tax totals $13,837,500 and, as required by Ordinance, $5.5 million of this projection is dedicated solely to advertising, an increase of $115,056 from Fiscal Year 2015. In addition, $621,000 for marketing and promotional activities including $300,000 for in-kind service support for large Private/Special Events has been included in the Proposed Operating Budget as well as funding to assist various Departments with advertising and marketing other important activities and events.

Culture and Recreation includes Recreation and Parks, Beach Patrol, Museum and Special Events. Ocean City has long boasted premier recreation programs and activities for both youths and adults including visitors and residents alike. The Recreation budget includes funding for a second "beach toy" structure in the amount of $26,000. Once every six years an additional week occurs between Memorial Day and Labor Day requiring the extended services of our Beach Patrol. The Proposed Operating Budget includes $80,325 for Beach Patrol to provide uninterrupted continuous beach protection services for the entire

Summer of 2015. Special Event funding includes a $10,000 increase for 4th of July fireworks as well funding for a new Senior-themed Special Event (Age 50+).

A number of important maintenance projects are also funded in the Proposed Operating Budget including:

Project	Cost
• Tunnel Avenue bulkhead replacement	$40,000
• Public Safety Building: Exterior Wall Treatment and Repair, Phase I	$250,000
• HVAC repairs and replacement (recommended by Public Works Facilities Manager)	$61,579
• South Tram Booth (painting, insulation, carpet replacement)	$25,000
• Northside Park: Footbridge Painting	$12,200
• Northside Park: Walkway and Drainage Repairs, Phase X	$10,000
• Street Light Pole Repainting, Phase III	$27,480
• Replacement of three (3) concrete planters and ten (10) new bike racks on the Boardwalk	$10,590
• Boardwalk Light Poles and Tops – Repainting and Repair, Phase I	$22,506

It is very important to note that various structures and facilities at Northside Park are in need of repair and required maintenance. These improvements are impossible to fund with "status quo" funding and have been comprehensively identified separately for the Mayor and Council's review and consideration.

The Fiscal Year 2016 Proposed Operating Budget also includes $220,000 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.

General Fund Debt Service for Fiscal Year 2016 is summarized in the following table:

General Fund Debt	P&I
• DNR Loans	$51,345
• 2006 Airport G.O. Bond	$306,471
• 2007 Municipal Refunding Bonds	$1,274,283
• 2009 Municipal Refunding Bonds	$533,673
• 2010 Municipal Purpose Bond	$342,791
• 2012 Municipal Purpose Bond	$1,679,132
• 2013 Municipal Purpose Bond	$368,493
• 2014 Municipal Purpose Bond	$458,880
	$5,015,068

General Fund Debt Service Principal and Interest payments are projected to decrease by $205,095 due primarily to the Refunding of 2004 Bonds in Fiscal Year 2014. Consideration of a new Bond issue in

Fiscal Year 2016 is contemplated in order to fund a variety of planned, necessary and priority capital improvement projects.

With that said, throughout the year, Town staff routinely search for cost reduction strategies and/or methodologies that will improve services without increasing costs. In other words, there is a conscious effort to look within the organization for cost control before looking "outside" for tax or fee increases to balance the budget. Some efforts and initiatives are more significant than others, however, cumulatively these incremental steps and initiatives absolutely positively affect the Town's bottom line. For example, promotion of the Assistant Director, Recreation and Parks, to Director, provided savings and opportunity for further restructuring in the Department. In addition, elimination of the Director of Planning and Community Development position represented significant financial savings during the interim period while management further evaluates the department structure, services provided as well as system and process responsibility. Departments constantly manage operational costs, monitor expenses with oversight from the Budget Manager and work cooperatively together to effectively address the unanticipated.

Capital Improvement Project funding

Following adoption of the Operating Budget for Fiscal Year 2016, 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.

The proposed Fiscal Year 2016 Operating Budget includes $1,026,426 for Street Paving improvements. This figure is funded through a combination of $400,000 in Parking Fee revenue, $500,000 in Casino revenue and $126,426 in State Highway User Fees. In Fiscal Years 2014 and 2015 the Town received a State Highway User Grant in the amount of $300,000; however, the status of this grant award is uncertain for Fiscal Year 2016 and, consistent with our conservative approach in projecting revenue, the figure has not been included in the Proposed Operating Budget at this time.

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 Transportation, the Airport, the Convention Center, the Golf Course and Water/Wastewater as enterprises.

The Transportation, Airport and Convention Center budgets continue to be supplemented by General Fund Transfers in Fiscal Year 2016.

General Fund Transfers to Enterprises

Fund	Proposed
- Transportation	$1,211,499
- Airport	$264,791
- Convention Center	$1,457,683
TOTAL	**$2,933,973**

Transportation

The Department of Public Works Transportation Division budget totals $8,747,734 and includes a $1,211,499 Transfer from the General Fund. In Fiscal Year 2015, the $3.00 ride-all-day fare was implemented generating more than $3 million in revenue, a 17.5% increase. Gross revenue from the Boardwalk Tram is also included in the Transportation Division budget and is projected at $1.1 million for Fiscal Year 2016 including $30,000 in revenue from Boardwalk Tram Advertising.

Personnel expenses total $3,636,952 including $513,000 in projected Unemployment Costs. Operating expenses total $3,158,556 and are comprised primarily of $2.2 million in vehicle fuel and fleet maintenance costs. The balance of the Transportation Division budget consists of Capital Outlay for the purchase of four (4) new transit buses and two (2) new replacement ADA vans. The Federal Transit Administration and the Maryland Transit Administration generally cover 90% of the Division's Capital costs through annual grant awards. The Town's 10% "local match" contribution is included in the Transportation Division's budget. Certain Operating costs are also covered by Federal and State grant awards totaling $825,782 although these grant awards have not increased in ten years or since Fiscal Year 2007.

Airport

The Fiscal Year 2016 Proposed Operating Budget includes a $264,435 General Fund Transfer to supplement Airport operations. The Airport's budget is comprised of $316,030 in Personnel expenses, $925,091 in Operating costs and Debt Service in the amount of $142,995. The Airport's primary expense is purchases for resale of fuel. As a resort destination community, the Airport is an important resource and amenity for the Town of Ocean City. Airport-related activity generates business revenue as a result of the provision of air passenger service, freight service, and ground support services for commercial and general aviation activity.

Convention Center

The Convention Center budget totals $8,172,710 and includes a $1,457,683 General Fund Transfer. The General Fund Transfer is matched according to the Town's partnership agreement with the Maryland Stadium Authority. The Convention Center's Fiscal Year 2016 budget reflects the retirement of the tenured Director of Sales. The proposed budget eliminates the Director of Sales position and replaces the position with a second Sales Manager position. The Convention Center budget also includes one (1) new Full-time Maintenance Worker II position. The Convention Center budget includes a $30,000 capital expense for purchase of a Genie Boom Lift for the Performing Arts Center. In addition, the Convention Center budget includes $100,000 in funding for Town-sponsored productions/events in the new Performing Arts Center. Convention Center Debt Service for Fiscal Year 2016 totals $3,386,810 and is paid for 100% by the Town's Food and Beverage Tax which is dedicated solely to retirement of Convention Center debt.

Golf Course

No General Fund Transfer is anticipated for the Golf Course Fund in Fiscal Year 2016 as Projected Revenues are expected to continue to cover Estimated Expenditures. However, a number of proposed expenditures were eliminated under the "status quo" directive including $13,800 for a new Greens Roller and Trailer, $18,000 for replacement of tables and chairs in the Clubhouse and $12,000 in kitchen improvements at the Clubhouse.

The Golf Course budget does include funding for a new bus wrap (advertising/marketing expense) in the amount of $8,000. The Golf Course's golf cart Lease Agreement will expire in August 2015 and a projected increase of $4,600 for renegotiation and renewal of the Lease Agreement is funded in the Proposed Operating Budget. In addition, the Proposed Operating Budget includes $10,000 in funding for "Endless Golf" marketing and promotion, a golf television show that features Eagle's Landing Golf Course.

Water/Wastewater

On Monday, April 6, 2015, the Mayor and Council will consider adopting, by Resolution, a new Water and Wastewater Comprehensive Rate Study predicated on the use of a cash flow basis to support the pricing of utility services using a planning period of five years (Fiscal Year 2016 to Fiscal Year 2020). Estimated Water System Capital Improvement Project expenditures during the planning period equate to approximately $14.2 million while Wastewater Capital Improvement Project expenditures during the planning period are estimated at $28.2 million.

As an Enterprise Fund, the Water and Wastewater Funds are entirely self-sufficient, funded completely by user fees and fixture charges. The new Water and Wastewater Comprehensive Rate Study implements new rates that decrease the Department of Public Works Water Division Fiscal Year 2016 Operating Budget by more than $1 million.

Proposed Rates	Current	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Water Fixture	$2.60	$1.60	$1.60	$1.60	$1.60	$1.60
Wastewater Fixture	$8.45	$8.80	$8.95	$9.85	$9.45	$9.60
Fixture Rate – Combined	$11.05	$10.40	$10.55	$10.95	$11.05	$11.20
Water Usage per 1,000 Gallons	$3.40	$3.70	$3.90	$4.00	$4.00	$4.20

The Study contemplates a Bond issue in Fiscal Year 2016 to fund the construction of a new 1 million gallon water tank at 1st Street to replace the existing water tanks located at Worcester Street and 15th Street. In addition, a number of Wastewater Capital Improvement Projects totaling $10.2 million in Fiscal Year 2016 are included in the Proposed Operating Budget. The Study also contemplates both Water and Wastewater Fund Balance contributions as part of future annual budgets to fund future "pay go" Capital Improvement Projects.

While General Fund Transfers continue to supplement specific Enterprises, overall the Town's Enterprise Funds remain healthy and stable.

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.

Information Technology

The Information Technology Fund accounts for personnel costs, hardware, software and other technology needs for all Town departments. The Fiscal Year 2016 Information Technology budget totals

$2,013,130. Personnel expenses account for $988,950. Operating expenses total $1,024,180. Of this amount, Software Maintenance Agreements represent the largest component totaling $530,945. The Information Technology Operating budget also includes funding for specific capital expenditures including $32,540 for replacement of the Police Department's fingerprint equipment/system. In addition, $13,000 has been budgeted for replacement of Computer Aided Dispatch (CAD) work stations in the Department of Emergency Services Communications Division. The Information Technology Fund also includes $11,000 for the purchase of tablets for the Fire Department's Ambulance units. Other Operating expenses included in the Fiscal Year 2016 Information Technology Fund include $34,000 for continued Town-wide use and installation of Virtual Desktop equipment, $80,000 for the Microsoft Software Assurance (License Agreement) required for Virtual Desktop installation, $27,600 for Network Switch replacements to insure network stability and $28,000 for an Information Technology Risk Assessment, last performed in August 2008, to determine vulnerability of the Town's network.

More than $200,000 in technology needs were eliminated from the original Department budget requests during IT and/or Executive Budget Review meetings. "Status quo" funding did not allow the Network Backup Appliance and Offsite Server Replication System requested by the Department of Emergency Services Emergency Management Division based on the initial cost of $119,000 (Network Backup Appliance, one-time cost of $55,400 plus Offsite Server Replication System estimated at $54,000 annually). However, Engineering, IT and Emergency Management continue to work with the State of Maryland to investigate cost effective alternatives for this important Emergency Management resource.

In addition, the Network Backbone Replacement, which was identified by the Mayor and Council as a High Priority on the 2015 Strategic Planning Management Agenda, was not funded given the estimated cost of $565,000.

Risk Management

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. The Fiscal Year 2016 Risk Management Fund reflects a $17,500 increase in insurance policy costs. The Proposed Operating Budget includes $15,000 for an Actuarial Study to assess the losses and outstanding liability associated with the Town's self-insured workers compensation, general liability and auto insurance policies. This assessment was last performed in Fiscal Year 2013.

Vehicle and Equipment Trust

The Proposed Operating Budget provides for $2,374,515 in Vehicle and Equipment Trust funding. Vehicle replacements total $1,210,300 and include, among others, one (1) new Ambulance at a cost of $290,000 and two (2) replacement Trash Trucks at a total cost of $430,000. An additional $215,600 has been included to fund year one payment for a mass five-year Lease Purchase Agreement of Public Works construction equipment. In addition, $240,027 in Contracted Services for communications related equipment and maintenance has been funded. The Proposed Operating Budget also includes $482,082 in Intergovernmental Expenses primarily for vehicle insurance and general overhead expenses. Staff continued the use of objective evaluation criteria and quantitative analysis of a vehicle's useful life and ranking system during the Fiscal Year 2016 budget process.

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 Proposed Operating Budget decreases Pension & OPEB Trust funding by $1.6 million from the Fiscal Year 2015 Adopted Budget.

What is Not Funded?

There are a number of major projects identified in the Town's five-year Capital Improvement Plan, as well as other important and necessary initiatives, including several Mayor and Council Strategic Planning priorities, which do not have designated funding sources identified for construction and/or implementation. Maintaining "status quo" funding levels will prove difficult given the significant funding hurdles the Town faces over the next few years as it grapples with pressure to maintain and improve levels of service to community residents, enhance and keep our visitor's experience fresh and exciting, increase funding for much needed Capital Improvement Projects in a variety of categories as well as addressing increasing and accumulating maintenance costs.

Personnel

Department	Description	Cost
City Manager	FT Administrative Office Associate I	$43,923
	City-wide Reorganization Plan: City Manager Span of Control *	TBD
	Evaluation/Organization of Planning and Zoning *	TBD
Emergency Services/Communications	FT Communications Officer I (4)	$175,692
	FT Training/Quality Assurance Coordinator	$57,957
Emergency Services/Emergency Management	FT Planner II	$60,135
	PT Emergency Management Specialist	$32,612
Fire	PT to FT: Conversion of four (4) Firefighter/EMT positions	$101,662
Recreation	FT Recreation Supervisor	$54,554
	PT Office Associate	$16,775
Parks	FT Parks Worker	$31,144
Transportation	FT Training and Compliance Manager	$64,559
Human Resources	Implementation of Pay and Classification Study *	TBD
	SUBTOTAL	**$639,013**

Operating and Maintenance

Department	Description	Cost
Fire/Volunteers	Pro Watch System and Program (ID Card System)	$5,000
Fire/EMS	Bariatric Stretcher and Lift	$13,500
	Red Alert Mobile Tablet App	$19,585

Police	John Deere XUV (1)	$18,141
	Conference Room table and chairs	$7,200
Emergency Services/Communications	CAD System enhancement	$21,880
Recreation	Floor Scrubber	$6,000
	East Gym patron net	$17,900
	Scissor Lift	$15,000
Golf Course	Greens Roller and Trailer	$13,800
	Clubhouse tables and chairs	$18,000
Special Events	50' Christmas Tree (LED)	$66,000
	Winterfest Pavilion Structure replacement	$75,000
Police	Manpower Allocation Study *	$50,000
	Physical Abilities Test Evaluation	$15,000
	Social Media Recruitment Campaign	$10,000
	PSB Exterior Wall Treatment, Phase II	$328,500
Fire/Volunteers	Mechanics training (1)	$2,798
Fire/EMS	Ambulance Lease – 3 months/summer	$4,100
Public Works/Maintenance	Weed Prevention Program	$22,500
	Boardwalk railing replacement	$100,000
Information Technology	Off-site Data Back-Up *	$55,400
	Off-site Server Replication (Annual cost) *	$54,000
Recreation	Northside Park Master Plan	$47,000
	Wi-Fi service at Northside Park	$42,553
	NSP: East Gym floor repair	$80,000
	NSP: Exterior Metal/West side of building	$88,000
	NSP: Flat Roof between East and West Gyms	$89,000
	NSP: East Gym ceiling repair	$70,000
	NSP: West Side roof replacement	$610,000
	NSP: Soccer Field House roof replacement	$12,000
	NSP: East Gym bleacher replacement	$80,000
	NSP: East locker rooms, lobby restrooms (5 area)	$80,000
	NSP: Parking lot repairs and improvements	$155,000
	SUBTOTAL	**$2,292,607**

Capital

Fiscal Year	Description	Cost
FY15 / FY16	Council Chambers Audio Visual upgrades	$110,000
	City-wide Security Improvements	$80,000
	Ballistic Window System in PSB lobby	$14,233
	City-wide Phone System replacement	$500,000
	Network Backbone Replacement *	$565,000
	Canal Dredging *	$750,000
	Municipal Facility – 65th Street PW Complex	$475,000
	94th Street – Landscaping Strips	$60,000
	Caine Woods Street Improvements	$600,000
	Undergrounding of Utilities	$5,147,000
	Street Improvements and Overlays	$973,574

	Convention Center – Design: Phase III expansion *	$100,000
	Netscaler Gateway	$105,000
	800 MHz Radio System *	$500,000
	SUBTOTAL	**$9,979,807**
FY17 thru FY19	800 MHz Radio System *	9,000,000
	Canal Dredging *	$1,100,000
	Caine Woods Street Improvements	$1,800,000
	Street Improvements and Overlays	$5,000,000
	Parks: Garage/Storage expansion: Design/Construction	$290,000
	NSP: Bio-Retention Improvements	$180,000
	Runway 02/20 Obstruction Removal (local match)	$30,000
	Taxiway A Relocation (local match)	$216,000
	Rehabilitate Runway 14/32 (local match)	$27,500
	City-wide Security improvements, Phase II	$80,000
	PSB Generator replacement	$150,000
	PSB Chillers and Cooling Tower	$300,000
	Airport Apron Expansion (local match)	$85,000
	Airport Localizer Relocation (local match)	$65,000
	SUBTOTAL	**$18,258,500**
	TOTAL	**$31,169,927**

* Strategic Planning Priority identified by the Mayor and Council

Note that the above referenced list does not include an estimated $16 million in anticipated Bond funded projects including the Mid-Town Fire Station, Downtown Recreation Complex improvements, Philadelphia Avenue transit lane, Chicago Avenue bulkhead replacement or the Whiteside Facility Evaluation and Replacement. *

It goes without saying that the Town cannot possibly complete these activities and projects with "status quo" financial resources. Nor is it realistic to think that these initiatives can or will be completed in a single budget year. Alternatively, similar to the methodology used to project the Town's Water and Wastewater revenues and expenses, predicated on the use of a cash flow basis to support the cost of providing the Mayor and Council's desired level of service, staff could in fact prepare a comprehensive detailed financial analysis depicting the required personnel, operating and capital expenditures for a planning period defined by the Mayor and Council, i.e., 3 to 5 years, and the Real Property Tax Rate required to achieve this objective. Performing this analysis and developing this model would also satisfy one of the Mayor and Council's 2015 Strategic Planning Policy Agenda High Priority Action Items which calls for a detailed analysis of Town services and staffing levels.

It is refreshing to witness the Mayor and Council embrace the Strategic Planning process which has clearly become institutionalized in our organization. The annual Action Items established by the Mayor and Council keep the staff laser focused on meeting the policy groups' expectations. Identifying the Town's core services, priority programs and activities, major projects and performing a 3 to 5 year financial analysis to project the personnel, operating, maintenance and capital financial resources including the Real Property Tax Rate and required revenue necessary to meet these objectives would

take our Strategic Planning efforts to the next level and become a model for other local government organizations to emulate.

The Town of Ocean City is fortunate to have seasoned, dedicated and professional staff that are committed to achieving results. Given the financial resources necessary to meet the Mayor and Council's objectives, I am certain of our ability to deliver further results.

Town's Financial Condition

While the need and demand for the Town's financial resources may be many, 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 Position. As of June 30, 2014, the City's total net position (our cash, investments, infrastructure, property, facilities and equipment) exceeded total liabilities by $161,468,387, a 5.5% improvement from Fiscal Year 2015. Of this amount, approximately $27.3 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.

As it is expected the Town will consider an additional Bond issue to fund a variety of capital improvement projects in Fiscal Year 2016, the Town's creditworthiness and our Rating will be re-evaluated by Fitch (AA-, quality companies), Moody's Investors Service (Aa2, high quality, very low credit risk) and Standard and Poor's which *upgraded* the Town (AA, stable) during its last rating review prior to the December 2013 Bond sale.

In spite of assessment declines, the rating companies will likely look favorably on the Town's strong financial practices, thorough budget preparation, stable 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

While Ocean City's tax base appears to have stabilized, given the latest SDAT assessment, and specific economic indicators and the season outlook are favorable, there continue to be many demands for our limited financial resources. The Fiscal Year 2016 Proposed Operating Budget reflects a collective effort to address the Mayor and Council's Strategic Planning priorities and support our distinguished community's needs.

I am confident that our prudent fiscal practices and strategic budgeting approach positions us well for the new fiscal year, however, continuation of "status quo" beyond Fiscal Year 2016 will be a challenge. The issues facing the Town are numerous. However, staff is also confident that, by working together, making difficult choices and decisions, establishing priorities, and developing predictable funding

strategies, we can deliver results. We can continue to meet the Mayor and Council's goals and objectives and exceed expectations.

Our residents and visitors expect quality services and programs. 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. With so many choices and competition for the tourist dollar, we recognize the importance of keeping our resort community fresh and exciting, a vacation destination and more livable community for residents alike.
Moving forward, we will continue to perform more organizational "fine-tuning" looking for creative alternatives 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.

Town staff looks forward to productive discussions with the Mayor and Council in evaluating the recommendations contained in the Proposed Operating Budget with the hope that, when adopted, the budget will be a positive reflection of diverse points of view, having been given carful thought about how to best care for the community in which we live and many visit.

I would like to thank the Department Heads and staff for their participation and creative contributions to the Fiscal Year 2016 budget process. A special acknowledgement and thank you goes to Jennie Knapp, Budget Manager, who works constantly and tirelessly coordinating the budget calendar and what has become nearly an annual year long process.

The Fiscal Year 2016 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.

Respectfully submitted this 7th day of April, 2015.