



To: The Honorable Mayor and Members of the City Council
From: Doug Miller, City Manager
Re: FY18 Budget Message
Date: June 6, 2017

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 the Fiscal Year 2018. 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 our department heads who must also be recognized for their thorough and thoughtful budget submissions.

As established in the Maryland Code, the fiscal year (FY) begins on July 1 and ends on June 30, and fiscal years are numbered in the year that they end. This year's budget was a "status quo" budget, meaning each department was funded at the same level of service as the prior year. There were minimal additions of personnel and equipment. No substantial increases were made in any department's budget. Personnel increases were achieved by reducing the number of higher paid positions and using those savings to fund more line positions. Submissions by department heads reflected only real needs and even then, \$2.2 million of those needs remained unfunded in the FY 18 Budget.

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 the 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 that are provided under that budget. The Water and Wastewater Enterprise funds are primarily supported by water and sewer rates broken down into fixture charges and usage rates. For FY 18, the water usage rates will increase from \$3.90 per 1,000 gallons of consumption to \$4.00 per 1,000 gallons. Sewer fixture charges will increase from \$8.95 to \$9.25. These increases reflect the recommendations of a study previously conducted by the Town's Finance Department, and support necessary capital improvements in these funds. Transportation, the Airport and the

Convention Center 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 all funds for FY 18 is \$128 million.

The FY 18 General Fund Budget is balanced with just over \$84 million in both revenue and expenditure. The real property tax rate was reduced slightly (from \$.4727 to \$.4656 per \$100 of assessed value) to what is referred to as the Constant Yield Tax Rate, which simply means that the Town is collecting the same amount of revenue from real property taxes in FY 18 as it did in FY 17. We were able do this through a combination of increased revenue estimates, reductions in expenses, and the utilization of Fund balance to fund capital improvements. For FY 18, one penny on the tax rate generates \$873,790 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 and again in FY 18, 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 just over 48% of the revenue needed to fuel the General Fund. The Real Property taxes collected today are actually less than those collected in FY 09. The amount of the General Fund budget, which is funded by property taxes, also has been declining since FY '09 while revenues, such as Room Tax, have significantly increased. In FY 18, the Room Tax estimate is \$15,440,000. Other taxes received by the General Fund include State Shared revenue such as Highway User Revenue (\$129,556), State Aid for Police Protection (\$74,146), emergency management grants (\$122,000), Admissions Tax (\$1,375,000) and slots and casino revenue (\$650,000). Other revenue sources include planning and zoning fees (\$141,000), building permit fees (\$900,000), and cable TV franchise (\$1,020,000). Emergency medical fees are budgeted at just over \$1 million. The County provides the Town grants in the amount of \$4.6 million to offset the costs of duplicate services. One of the Council's strategic planning goals is to pursue a more equitable recognition of the Town's financial contribution to the County through tax differential.



Service is the primary function of Town government, so it is imperative that staffing is adequate to support the service level our residents and visitors have come to expect. Four full-time positions will be added in FY 18. Two positions are conversions of current part-time positions to full-time and two positions increase the manpower in Public Safety. The non-union employees will receive a step increase as of January 1, 2018. Members of the FOP will receive a step increase on December 31, 2017 and a 2% COLA the following day on January 1, 2018.

These increases were a part of a previously negotiated contract. Members of the IAFF will receive a step increase and a 1.5% COLA on the first day of the fiscal year.

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 in which 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 future 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 18 budget utilizes \$2.2 million from fund balance to continue street paving and canal dredging and to fund IT and Airport capital projects.

The budget is far more than a financial document. It is where the priorities of the Council become actions for the next twelve to eighteen months. In that light, the Mayor and Council, along with the senior staff utilize the practice of participating in a strategic planning process where goals and priorities are set. This budget supports those goals and priorities set in the last strategic planning process conducted in the winter of 2016. The Elected Body and the senior staff will again convene for strategic planning in the summer of 2017.



One goal of the last 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 18 budget invests \$2.1 million into maintaining the beach and boardwalk by funding the beach replenishment and additional seasonal crews to keep the boardwalk clean. Our ten-mile beach is protected by our Beach Patrol and \$2.3 million has been dedicated to this effort. No resident or visitor wants to go anywhere they don’t feel safe. To ensure that we make Ocean City safe for all, the Town will spend \$35.2 million in public safety in FY 18 which includes police, fire/EMS, communications and emergency management. Spending for tourism will increase by \$373,000 in this fiscal year to \$6.1 million. We will further invest \$2.2 million in our 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 18 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 18 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 is for Ocean City to be a “More Livable Community for Residents”. The FY 18 budget will continue to provide resources to upgrade and enhance Northside Park. Between FY 16 and FY 18, the Town has invested \$1 million in this recreational complex. The Town will further devote \$2.2 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 18 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.