March 27, 2014

Mayor Stokes and Members of the Augusta City Council,

As mandated by the City Charter, I herewith present to you my recommended budget for the fiscal year 2014 – 2015. As was the case with last year's budget, I am quite frustrated with my inability to provide you with a financial plan for the coming year that holds the line on property taxes while maintaining the level of municipal services I believe you and our residents support. A number of factors contribute to this dilemma including reduced State aid, escalating fixed costs, virtually no earnings on investments, and the costs associated with keeping our workforce compensation fair and competitive. It has always been my practice to include whatever amount for school funding that the School Board has settled on. In this budget that is an increase in local taxpayer support of $822,907 or an increase to our mil rate of 3%. (It must be noted however, that total spending proposed by the School Board is only up 1.6% over this year ($443,080) while the rest of the increased need from local taxation is due to reduced school revenues (down $379,827). Coupled with the need on the municipal side (plus a modest County Tax increase of $38,415) for $758,004 over this year, the total increase in the amount raised from taxation would need to be $1,619,326 or 6.07%. Worse, it would be substantially more except I am recommending that $1,050,000 in the fund balance be drawn down over the next three years to mitigate the situation. Thus in 2018, the fund balance would be down close to the level that the charter recommends (8.3% of the total city/school budget).

There are, of course, steps that can be taken to reduce proposed expenditures but they by necessity involve a reduction in the level of service we provide. As was discussed last year, 76% of the City's General Fund budget supports fixed costs (like utilities and bonds) and the Police, Fire and Public Works departments. Everything else comes out of the remaining 24%. If it comes as any consolation, Augusta is not alone in addressing this no-win situation. As Thomas College Professor Emily Shaw stated in a recently published study in the Maine Policy Review:

"The variety of shifts in municipal revenue collection and expenditure reveal that municipalities are seriously affected by reductions in state revenue. The outcome is a mixture of heightened municipal revenue collection, decreased spending on general town services, increased spending on education – and where necessary, increased indebtedness... Instead, despite efforts to cut where they can, municipalities are largely making up for the lack of state spending through increasing the tax and fee burden on their local populations." (At volume 22, issue 2, Summer/Fall 2013, page 40.)

To their credit, our legislators worked very hard to reverse a state budget provision that would have gutted what remains of the statutory state revenue sharing program (which says that fully

5.1% of all state income and sales tax revenues are to be distributed by formula to Maine's 500 cities and towns). That action prevented us from losing over $800,000 in the next fiscal year. Nonetheless, we will lose $100,000+ this coming year in revenue sharing (due to a separate $5 million cut in the fund at the state level) and in each of the past few years we've not received over $1.5 million a year that the statute says we should get. Put differently, were state revenue sharing to be funded to its statutory level, we'd not have needed a tax increase of 3.4% last year nor would we need one this year.

I hope that I do not sound like I'm making excuses for property tax increases (although, in some respects I suppose I am), however, I teach state and local government at UMA and I know that nationally sound state tax policy suggests a balanced reliance on the three basic forms of broad-based taxation (income, sales, and property taxes). The State of Maine has, unfortunately, through its budget policies, opted to dramatically skew that balance toward an overreliance on the property tax. According to Maine Revenue Services, of all the monies collected at the state and local level combined each year, approximately 46% is property taxes, 33% is income taxes, and 21% is sales taxes. This is in a state where a huge proportion of sales taxes are paid by visiting out-of-state folks who consume state and local services. Until state policy makers face this inequity and reform state tax policy, the hardest choices are going to continue to be left to municipal officials like you. To his credit, our own State Senator Roger Katz has been an outspoken champion over the past several years for exactly such reform (though not enough of his colleagues in the Legislature and Governor's Office have yet to see the light).

General Government Revenues

The largest source of revenue for the City/School Department budget is the property tax. It is the only significant revenue source that Council has control over and it backstops our municipal corporation when other revenue sources decline. During periods of growth in the property tax base, receipts increase lessening the need for a change in the rate. Unfortunately, based on the Assessor's records, there is no growth projected for this year. Our gross taxable valuation will be $1,468,951,000. This year, the mil rate (tax rate – that is, the amount needed to be raised from taxation divided by the total assessed valuation) was $18.15 per thousand. For next year, I am proposing a rate of $19.25 – a 6.07% increase. The average single family home in Augusta has an assessed value of $128,000. That means the property tax on that property for this year was $2,323. If my recommended budget is approved without change, that annual bill will increase by $141 to $2,464. (Please refer to Appendix "C" for a complete numeric summary of revenues, expenditures, valuation, and taxes and rates as adopted for this year and proposed for 2014/2015.)

Our next largest source of revenue on the municipal side is excise tax receipts. As you are acutely aware, we have been fighting in the Legislature to defeat a bill sponsored by CMP that would deprive us of over $200,000 in these revenues. As of last week (again with the valued assistance of our local delegation) we were successful in at least delaying this legislation until a future session of the legislature. Thus, I am comfortable projecting maintenance of this revenue at a slight increase (.26%) over this year to $2,951,987.

Our next largest revenue source is state revenue sharing. For next year, that line item is down $626,377 to $1,057,770. Two things account for that. The first is that after we adopted this year's budget, the legislature cut revenue sharing by $60 million which for us was a loss of $525,000 that had to be backfilled by a supplemental Council appropriation from the unassigned fund balance. In addition, the 2015 state budget reduces revenue sharing by an additional $5 million which for us is another $100,000. Five years ago, the last time the state funded it to the full 5.1% of state revenues the statute requires, our revenue sharing receipts totaled $2.6 million. It's ironic that were we to receive that amount there would be no need for a property tax increase next year (and that next year's reduction represents a third of this budget's requested tax increase).

The other notable revenue reduction for next year is a loss of $164,625 in investment income. In the past, when interest rates on idle funds on deposit were higher, we could count on hundreds of thousands of dollars in revenue from this source. Of late, we are lucky to get any interest whatsoever and even though we have millions on deposit at various times of the year our total interest earned revenue is not expected to exceed $103,000. (So if one is in the market to buy a new car and can get a 0% four year loan, this is a good interest rate environment. If you count on investment income, it's not so great.)

On the plus side of the revenue ledger, I am projecting a number of modest increases. They include restoring the $70,000 in annual contribution to parking garage debt service that the Augusta Parking District has traditionally remitted to us (it was not budgeted for last year because the District's finances were unable to afford it); a $56,280 increase in reimbursement from the State in business equipment tax exemption proceeds (the BETE program) because we now exceed 5% of our base in equipment taxes and that qualifies us, by statute, for an enhanced amount; a $37,184 increase in MDOT Local Road Assistance funds because we've assumed maintenance of more roads that the State used to maintain; a $19,300 increase in state General Assistance funding because our GA spending is us up by $38,600 and half of that is reimbursed by statute; a $11,692 new excise tax revenue category on aircraft based in Augusta; a slight increase ($11,804) in ambulance fee receipts, to mention some of the more notable items (see the full list of revenue projects located in Tab 3 for greater detail)

The final General Fund revenue to be noted is the recommended appropriation for the coming year from the City's Unassigned Fund Balance (or Surplus) Account. The Fund Balance is the City's vital reserve account. It exists to maintain stability in the City finances and protect us during times of unforeseen emergency needs. It is an essential element of our credit rating. The Charter recommends that the fund balance not go below an amount equal to 8.3% of the total (combined City and School Department) budget (and mandates that it not go below 5%). Most municipal finance authorities see 8% - 10% as the minimum prudent level of reserves for a municipal corporation. At the end of our last fiscal year (June 30, 2013) our fund balance was $6,895,942 (or 13% of budget). During the past year, Council authorized a $525,000 appropriation to offset the unanticipated loss of state revenue sharing, a $34,474 appropriation to heat the Flatiron Building, a $40,000 appropriation for the cost of a natural gas consultant, and a $231,670 appropriation to help fund the Capital Improvement program. For the coming year, I am recommending the appropriation of $496,683 to balance the budget. Altogether, these appropriations will reduce the fund balance to a projected $5,568,115. At 8.3% of this year's budget of $52,458,891, the surplus should be $4,369,825. The difference is $1,198,290. I am proposing that you create a reserve for tax stabilization in that amount and draw down $350,000 in each of the next three years. That will leave $150,000 which can be used to affect a two-year step down in the fourth year.

General Fund Expenditures

For 2014/2015, the General Fund expenditures are proposed to increase from $25,042,980 to $25,665,255. That is $621,175 or 2.48%. As a service organization, the majority of our expenditures are associated with the costs of wages and benefits for our workforce. In this year's budget, that totaled $13.8 million or 58% of the budget. For next year, wage and benefit costs will total $14.1 million – still 58% of the total new budget. Of that $320,000 in additional compensation costs, $73,000 is a mandatory increase in the employer share of state pension contribution (employees are also being assessed a percentage increase), step increases provided by union contracts (80 % of the City's workforce is represented by one or another of eight bargaining units), and an allowance for a modest wage increase – negotiations for which are currently underway. We project that health insurance premiums will go up in January of 2015 by 7% and the increase in wage and benefit estimates includes that. Funding for the Department of Public Works (which we try to predict based upon a three-year average of winter costs) is recommended to increase by $135,000, primarily for motor pool expenses and materials for routine street maintenance (pothole repair). Also contained within the $622,175 is an $80,000 increase in our annual debt service payment for our pension obligation bond, $38,600 in projected increases in General Assistance disbursements, $10,000 in additional Police Department overtime costs and $14,000 for Fire Department training. There are a few noteworthy reductions, namely, $15,000 in savings from energy conservation measures,

$12,000 in election costs (there is no primary in 2015), and $8,500 in Flatiron Building maintenance costs (as the building should belong to the developer by then).

By department, the expenditure lines are proposed as follows:

The Legislative and Executive Department is up $3,187 (.59%) to $541,430. Within that department, the Mayor and Council account is down $258 to $29,944. The City Manager account is up $7,317 to $206,907 and that is attributable to my former executive assistant not participating in our health insurance program and the incumbent assistant opting in. The Corporation Counsel account is budgeted at the same level as this year ($125,004) as is Central Services ($9,787). The Unclassified account funds our annual audit ($51,000), City-wide phone systems ($26,640), dues to the Maine Municipal Association and Service Center Coalition and Mayor's Coalition ($25,498) and the subsidy for KVCAP's bus transportation program ($20,000). It is down $3,972 (2.7%) to $139,788. The Council ($20,000) and Manager ($10,000) Contingency accounts are flat funded.

The Department of Finance and Administration is recommended to increase by $32,688 (2.0%) to $1,651,867. Routine wage and benefit increases will be $40,014 but other non-wage line items in the various bureaus will decrease by a net $7,326. Clerk, Treasury, and Tax Collection increases by $9,884 (2%) to $502,511 due primarily to wage and benefit adjustments. Registration and Elections goes down by $12,080 to $34,979 because of no primary. The City Auditor bureau sees an increase of $10,065 (6.5%) to $164,877 due to wage and benefit adjustment. The Information Systems bureau increases by $14,903 (5%) to $388,595 due in part to wage and benefit adjustments but also to an increase of $9,046 in software licensing charges. (It's worth noting that both the City and School Department continue to accrue the benefits of sharing the costs of this bureau.) The Assessor's bureau is up $5,249 (3.4%) to $158,125 due to wage and benefit adjustments. The Finance Administration account (which is the Director of Finance and Administration and a part-time floating clerical person and associated costs) is flat funded at $146,395. Finally, the Human Resources bureau is up $4,707 (1.8%) to $256,385 about half of which is wage and benefit adjustment and the remainder in reclassifying where printing costs are charged.

The Department of Development Services budget is recommended to increase by $94,465 (6.6%) to $1,529,461. The bulk of that increase is due to a $64,565 lease payment for energy equipment (that produces a $63,850 savings later in this budget in the Electricity account and $15,997 savings in heating oil due to our recent conversion to natural gas at City Hall). The Economic Development bureau (which is fully funded by Tax Increment Financing revenues) increases by $6,937 to $237,763 (3%). That increase is attributable to wage and benefit adjustments. The Planning bureau supports 80% of the cost of the Department Director's position and 100% of Assistant Planner position as well as Planning Board stipends and other

Planning Board support costs. It is up $8,646 (5.5%) to $166,695 due to wage and benefit adjustments. The Historic Preservation Commission annually receives $5,825 to support its activities. That amount is unchanged for next year. The Code Enforcement bureau is up $2,723 (1.9%) to $147,368 also due to wage and benefit adjustments. Development Services Administration is down $2,606 due to a $3,500 reduction in printing costs. The City Engineer bureau funds 75% of that position (the rest comes from charges to capital improvement projects that he works on) and related support costs. It is up $2,851 (3.6%) due to wage and benefit adjustments and a modest increase in training funds for continuing education requirements. The Facilities Maintenance bureau supports the costs of the director and all of the City's custodial staff. It is up $89,222 (as mentioned above) to $629,085 with $25,505 of that related to wage and benefit adjustments. Last year we neglected to budget for one of our part-time custodians and there is $20,000 in here to correct that oversight. The Buker Community Center is down $4,808 to $202,134 due to booked energy saving from our conversion to natural gas and upgraded energy systems. This will be the last budget that references the Flatiron Building. It is zeroed out (down $8,500) in anticipation of an April closing with developer Cyndy Taylor of Housing Initiatives.

The Community Services Department (or as Director Leif Dahlin likes to refer to it – the "Quality of Life Department") is comprised of a number of bureaus that collectively add much to the unique character of Maine's capital city. For the coming year, an increase in funding of $78,577 (3.5%) is recommended. That would take the department budget to $2,305,036. The Administration account funds the director and an administrative assistant position and related costs. It will be up $6,303 (3.7%) to $175,193 due to wage and benefit adjustments. The Lithgow Library bureau is funded in this department. There is great excitement surrounding the prospect of constructing a renovated and expanded library and should that project be approved by the voters elements of the Library operating budget could be subject to adjustment. For purposes of this budget plan, those contingencies are not considered. Thus, I am recommending an increase in this bureau's funding of $20,116 (3.2%) to $647,121 - $16,616 of which is wage and benefit adjustments and a $2,500 increase in the book and audio visual purchase line items. The proposed budget for the Recreation bureau is essentially flat at $160,077 (up $560). That is because there is a reduction in part-time wages and benefits of $29,946 largely associated with a reduction in summer pools' staff and a corresponding increase in contractual services to pay the KVYMCA $30,806 to provide that service (the arrangement saves the City $1,500 – the numbers don't match because of other bureau staff wage adjustments). The Parks and Cemeteries bureau requires an increase of $5,931 (.8%) to $772,267 for the coming year. Wage and benefit adjustments come to $8,112 with a $6,000 increase in pool repairs offset by a $7,000 reduction in equipment purchases. The Old Fort Western bureau account just covers the wage and benefit costs of the director and a part-time assistant (and a small amount for building repair and maintenance. All of the other costs (interpreters, program materials, etc.) are supported by the Board of Trustees of the Fort and their fund-raising efforts and admission charges. The budget for the Fort is recommended to increase by $825 (1%) to $90,961. Bicentennial Nature Park continues to be the beneficiary of a dedicated group of supporters who are committed to raising money to support the park's operation (projected to be $8,000 in revenue). The budget for the park is recommended to be $29,627, down $1,488 or 4.8% from this year. The reduction is a result of fine-tuning all of the line items to hold costs as much as possible. The Health and Welfare bureau provides the staffing for administration of the state mandated General Assistance program. It is projected to increase by $7,730 to $140,740 mostly attributable to wage and benefit adjustments (plus $1,000 for required interpreter services as needed). GA is expected to go up $38,600 (15.4%) to $289,050, half of which is eligible for reimbursement from the State.

Paramount among the range of important local services that our City provides its residents and visitors are those that address public safety. Fully one third of the General Government budget is devoted to the Department of Public Safety. For the coming year, I propose that funding for this department increase by $93,286 (1.1%) to $8,334,905. The Augusta Police Department would receive $4,283,030 of that – up a modest $20,432 (.4%). Wage and benefit costs are actually up a bit higher than that ($21,432) but reductions in other line items (primarily telephone expenses) offset it. Savings from changes in the union health insurance plans negotiated last year are also a significant factor here. Upon the recommendation of Chief Gregoire, I have approved a new management structure for the department that is cost neutral and does not affect the number of authorized positions. It will come into place when two of our senior lieutenants retire. At that time, we will go from four lieutenants to two (one to be Patrol Commander and one to be Special Services Commander) and from six sergeants to eight. The main selling point for me with this new arrangement will be that the sergeants schedule will be able to be aligned with the patrol officers schedule and each crew (or shift) of officers will have the same supervisor all the time. As it is now, the sergeants work their own schedule (because of their number, it has to be that way) so effective supervision is more of a challenge. Consistent with his inclusive management style, the Chief has vetted this concept with his supervisors and the rank and file and it enjoys the support of both. The budget provides for the replacement of 3 (down from 4) cruisers (we are now transitioning away from Ford Crown Victorias – which are no longer manufactured – to Ford SUV police packages, which are far more effective in our climate and roughly the same cost to purchase and operate) and other equipment. Though reduced from a few years ago, federal grant funds for Police and Fire training and equipment continues to ease the burden on our local resources in these areas.

The Augusta Fire Department budget is proposed to increase by $72,699 (1.8%) to $4,040,780. Wage and benefit costs are up by $66,728, mostly in health insurance premium costs (unlike the other City union bargaining units, we do not have a contractual agreement with the firefighters union to mitigate this expense). The other notable increase in the departmental budget is the need for an additional $14,390 for training because of the number of newly hired personnel (we had a larger than usual number of retirees this year). The good news is that the AFD continues to be perceived as a top flight organization and draws plenty of impressive applicants. Based on usage projections, gasoline and diesel fuel is projected to be down $12,485 and wearing apparel down by $3,725 and medical supplies up by $4,500. Most other costs are constant with this year.

Each year we budget a modest sum for maintenance of our <u>Emergency Preparedness</u> function. The money is used for training and maintenance of the emergency operations center (The Fire Chief serves without additional compensation as the Director of Emergency Preparedness). The budget for next year is recommended to increase by $155 (1.4%) to $11,095.

You are aware of the capital needs for the Fire Department. As we have discussed, in the coming year, I will present a plan (primarily relying upon tax increment financing resources) to acquire a major piece of replacement fire apparatus (a "Quint"), to construct a new substation in North Augusta (likely on the Quimby property that we own), and perhaps renovation and expansion of the Hartford Station headquarters building. These items will not impact next year's general government operating budget.

Not surprisingly given the winter we are (hopefully) coming out of, the budget for the <u>Department of Public Works</u> (which we use three years of recent cost experience to base our cost projections for the coming year on) is recommended to go up by 5.2% ($174,773) to $3,552,830. The costs are roughly allocated into Highway Maintenance (summer), Snow Removal (winter) and Waste Removal. Overall, the departmental increase can be attributed to the need for $54,278 in contractual wage and benefit increases (no new positions are requested in this department – or anywhere else in this budget for that matter), $54,728 in motor pool (truck and equipment rental from Central Garage and other equipment expenses like fuel, again based on a three-year average), and an $80,325 increase in construction materials (which is basically pothole patching supplies). So, for next year, I recommend that the <u>Highway Maintenance</u> budget be increased by $235,551 (14.7%) to $1,841,809. Of that, $30,709 is in wages and benefits (2.8% increase), $101,187 in motor pool (again based on the three-year average), $84,700 in construction materials (it should be noted that last year there was sufficient General Fund budget surplus for a cash CIP that funded this line item – not so this year), and $11,950 in gasoline and diesel. Conversely, offsetting these increases, the <u>Snow Removal</u> budget is recommended to be down $91,327 (9.3%) with corresponding reductions in wages and benefits (-$23,205), motor pool (-$46,459), gas and diesel (-$40,900). Tires and chains will be up $19,237 and sand and salt up $3,570 (with us taking greater precautions to ensure an uninterrupted supply of salt next winter).

Solid Waste Removal, our popular residential curbside trash collection program, is up $28,814 (4%) to $753,544. Here there is an upward adjustment in wages of $25,303 because we failed to account for a position in last year's budget and this will be overspent by that much at year-end. Per ton disposal costs (paid to the Hatch Hill Landfill enterprise fund) are projected to be down by $14,650 based on recent experience.

Over 9% of the General Fund budget goes to Utility payments. The good news is that due to our recent energy conservation efforts (including our conversion to natural gas at various buildings) and a reduction in some rates, our cost of electricity for next year will be down $63,550 (from $151,812 to $88,262) or 42%. The other utility bills (water $753,198; storm and sanitary sewer $1,174,936; traffic signals $17,928; and Street lights $367, 167) are all within a few dollars of this year's costs. Here I want to single out Assistant City Manager Ralph St. Pierre for his masterful work in managing our utility costs. It is Ralph's creativity and competence that has led us to such impressive results in the procurement of energy (including our natural gas contracts), in their financing (including the use of TIF funds to offset our storm sewer costs and lease purchase arrangements for our energy upgrades) and the stabilization of our rates through a strategy of blended multi-year contracts that hedge against price spikes. (Ralph is also the architect of our strategy to fund a major library project without an adverse impact on our tax rate but that's another story.)

In the cost center for Insurance and Retiree Benefits, there needs to be an increase of $170,360 (6.2%) to bring that total expenditure to $2,915,102 (another fixed cost that represents over 11% of the budget). This $2.9 million includes our Unemployment Compensation costs (constant at $26,000); our Workers Compensation costs (also projected to be constant at $253,844); our payments for Retiree Health Insurance benefits (which will be up by $28,884 next year to $938,125); and a new cost of $55,250 for employee health cost reimbursements (part of the approach we adopted to incent our unions to switch to lower cost health insurance plans that save us far more than this benefit). Also in this cost center is our liability insurance premiums (up $5,993 to $232,993) and the interest and principle on our pension obligation bond (up a net $80,223).

Other scheduled Bond and Notes payments for next year amount to $989,510 (down $380 from this year). A $750,000 Council bond to fund such capital improvements as Council might determine as prudent in next year's Capital Improvement Plan is contemplated for next year.

By law, all Maine municipalities are obligated to remit to their county government whatever County Tax levy the County Commissioners decide upon to fund the operations of county government (the lion's share of which goes to support the Sheriff's Department which include the county jail). My opinion is that Kennebec County government has been very responsible in the management of their budget and our county tax levies have been reasonable. Ralph and I estimate, based on conversations with the County Manager that next year's levy will be up about 2.7% ($38,415) to $1,443,623 (or 5.6% of the General Fund). I don't mean to suggest that there aren't ways that state policy could be changed to reduce the cost of county government (one that comes to mind is eliminating the duplication in county and state corrections systems; another is consolidation of municipal and county services – but these are topics for another day) but that does not appear likely within the coming year.

Enterprise Funds

In addition to the municipal services supported by the General Fund, there are several separate and distinct operations of City government classified and operated as enterprise funds. Government accounting standards treat these operations like businesses because they are intended to be self-supporting through user fees and charges. For us, they include the Augusta State Airport, Childcare, the Augusta Civic Center, the Hatch Hill Regional Landfill, and Central Garage (although this last one is technically considered an "internal service fund"). All of these entities are important contributors to the economy and fabric of our community, are well run, and coordinate fully with the other departments of City government.

The most straight-forward of the enterprise funds is the Augusta State Airport. By the provisions of a five year contract between the City and the State, we provide management services for this facility. This includes three full-time and two part-time employees of the City, including the Airport Manager, who reports to the Director of Development Services. Per the contract, we agree to perform these management and operation duties for an annual fixed sum (which for next year will be $550,000). The Airport Advisory Committee works with the Airport Manager on planning and policy issues. No significant changes are anticipated for the coming year.

The Augusta Civic Center has been an engine of local economic stimulus since its construction forty years ago. To the credit of its management, the Civic Center annually comes very close to being a break-even operation (many such municipal facilities around the country rely on general fund subsidies, including the new Bangor facility). For the coming year, revenues are projected to be down slightly ($1,552) to $2,789,195. That reflects a shift in the past few years away from big events like concerts (not that we don't want them but there's more competition from the Bangor and Portland venues for less shows available) to more conference and meeting business. On the expense side (which balances to revenues at $2,789,195), wages and benefits are up $22,328 (1.7%); supplies are down $31,875 ($21,000 of which is reduced propane for heat due to the installation of solar panels last year); lease payments for that energy equipment is up $12,875; debt payments are down $8,967 next year; and the Civic Center will continue to make a payment to the General Fund of $56,000 as a charge for administrative services. Provided that a plan to modify the Marketplace TIF goes forward, there will be funds next year for significant capital improvements to the building and the parking lots. Those investments are welcome and overdue.

Not technically an enterprise fund but outside the General Fund (because it is supported by user fees and state grants) is the Childcare program. This popular program operates as a bureau of the Community Services Department and provides after-school care for about 130 children and another 100 children in its all-day summer program. This summer, the program will relocate from the schools to the Buker Community Center. For the coming year, Childcare revenues are projected to be flat at $435,319 and expenditures are up by $7,213 (attributable to wage and benefit increases) to $424,703. That will add $10,616 to the fund balance in that program (which is currently $194,767).

Augusta is also fortunate to own the Hatch Hill Regional Landfill. Many Maine communities are subject to the volatility of the private sector solid waste disposal market. Through sound management and prudent investment by the City, we have stable and reliable and competitively priced solid waste services for ourselves and the seven surrounding communities (Hallowell, Manchester, Farmingdale, Gardiner, Randolph, Whitefield and Chelsea) that contract with us. As you know, last year Pittston opted out of our facility, complaining of our long-standing base per-capita fee. To respect the same concern raised by other communities, we are contemplating an adjustment in that fee structure in exchange for longer term inter-municipal agreements. Currently, the fee for each community is $15 per-capita.

For the coming year, revenues for Hatch Hill are expected to increase by $22,350 to $2,639,939 (.85%). Expenditures are projected to decrease by $110,907 to $2,259,905 (4.7%). This results in net income of $380,034. Currently, the retained earnings (fund balance) for Hatch Hill is a negative $24,058. So, if next year's budget performs as expected, Hatch Hill should be in the black (for the first time in several years) by about $355,000. It is important to maintain a healthy surplus in this fund because landfills have a history of unanticipated heavy capital demands, usually some type of environmental mitigation mandate. On the revenue side, per capita fees are down $47,250 due to Pittston's withdrawal but tipping fee income should be up by $36,000, recycling fees up by $23,000 and sale of materials up by $10,000. On the expenditure side, wage and benefit costs will increase by $33,907 (consistent with other City departments), and reserves for interim closure are up $62,490. Notable cost decreases for next year include $103,300 in construction materials, reduced interim closure cost (funded over two years), $88,597 in depreciation (less activity extends the life of the landfill and slows the rate of depreciation), and debt payment declines by $4,990. Running a modern sanitary landfill is a complex and difficult task. The operations staff at Hatch Hill is to be commended for the manner in which they perform their duties.

The Central Garage internal service fund is an effective way to provide for fleet acquisition, and timely replacement and maintenance for all vehicles and motorized equipment with the exception of Police and Fire vehicles (which are maintained separately by the Fire Department mechanic). Central garage employs a fleet services manager (who reports to the Director of Public Works), a working foreman, and four mechanics. The budget for Central Garage is funded through vehicle rental charges for vehicles assigned to city departments and through fuel charges. For next year, the Central garage budget is projected to have revenue of $1,788,010 and expenditures of $1,833,391 an increase of $31,282. That increase includes $40,310 in wage and benefit costs, an increase of $2,000 in tires and tubes, and $13,462 in equipment depreciation. That is offset by less spending in electricity ($5,694), heating oil ($5,614), gasoline and diesel ($10,000) and parts inventory ($7,000). The negative balance between revenues and expenditures of $45,381 would be taken from the fund balance.

The Central garage fund has unrestricted net assets of $642,420. That allows for annual replacement of equipment in the $400,000 - $500,000 range each year. The five year vehicle replacement schedule can be found at Appendix "B". Typically the first year of the schedule is firm and the outer years may change depending on how needs change or vehicles perform. The equipment schedule recommends $420,000.

Conclusion

If you've gotten this far with this message (after processing the discouraging recommendation of a six percent property tax increase), I hope that you can appreciate that, on the whole, this budget proposal does nothing more than attempt to preserve the services I believe our residents value and count on. It continues a series of budgets characterized by reduced state support for its political subdivisions both on the education side and the general government side. It recommends a very modest increase in what we pay our dedicated and capable workforce (after years of frozen wages and "shut-down" days without pay) – financed in large measure by concessions in their health care plans. Because of the availability of tax increment financing monies and street opening permits, it provides for a reasonable paving program for next year (although without a cash CIP) and maintenance of our police, fire, and public works and parks fleet and related equipment. It reflects the School Board's budget priorities. It maintains our bonded indebtedness at a prudent level.

I like to say that city government is not going to go out of business in the foreseeable future and thus we need to plan and budget for the long range. With the exception that in this budget both the School Department and General Government rely very heavily on use of unassigned fund balances (combined at $1.85 million), I believe that we are properly looking to the long view. Projects like the library renovation, updated and expanded fire facilities and equipment, street paving and motor pool replacement demonstrate that commitment. Ironically, the challenge is meeting the everyday operational costs of a full-service city.

As always, senior staff and I stand ready to assist you with the review and modification of this proposed FY 2015 budget, respecting that you as the elected policy makers carry the ultimate responsibility for reconciling the costs of City government against the ability and willingness of the taxpayers to fund those costs.

Respectfully,

William R. Bridgeo

City Manager

APPENDIX A

	MUNICIPAL			SCHOOL		
FY	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
FY 2015	$720,000	$155,135	$875,135	$1,475,604	$783,823	$2,259,427
FY 2016	$620,000	$134,495	$754,495	$1,475,604	$724,361	$2,199,965
FY 2017	$570,000	$118,569	$688,569	$1,475,604	$664,899	$2,140,503
FY 2018	$515,000	$103,611	$618,611	$1,475,604	$605,436	$2,081,040
FY 2019	$515,000	$88,626	$603,626	$1,475,604	$545,099	$2,020,703
FY 2020	$410,000	$73,691	$483,691	$1,475,604	$483,887	$1,959,491
FY 2021	$410,000	$60,483	$470,483	$1,475,604	$421,800	$1,897,404
FY 2022	$410,000	$48,771	$458,771	$1,435,598	$358,837	$1,794,435
FY 2023	$285,000	$38,389	$323,389	$1,400,000	$295,000	$1,695,000
FY 2024	$285,000	$29,301	$314,301	$1,400,000	$232,000	$1,632,000
FY 2025	$285,000	$19,996	$304,996	$1,400,000	$169,000	$1,569,000
FY 2026	$160,000	$13,687	$173,687	$1,400,000	$102,500	$1,502,500
FY 2027	$160,000	$9,455	$169,455	$1,350,000	$33,750	$1,383,750
FY 2028	$35,000	$5,127	$40,127			
FY 2029	$35,000	$3,814	$38,814			
FY 2030	$35,000	$2,868	$37,868			
FY 2031	$35,000	$1,619	$36,619			
FY 2032	$35,000	$371	$35,371			
	$5,520,000	$908,007	$6,428,007	$18,714,826	$5,420,392	$24,135,218

	PENSION OBLIGATION			TOTAL GENERAL FUND		
FY	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
FY 2015	$1,420,000	$320,775	$1,740,775	$3,615,604	$1,259,733	$4,875,337
FY 2016	$1,600,000	$241,500	$1,841,500	$3,695,604	$1,100,356	$4,795,960
FY 2017	$1,795,000	$152,381	$1,947,381	$3,840,604	$935,848	$4,776,452
FY 2018	$2,005,000	$52,631	$2,057,631	$3,995,604	$761,678	$4,757,282
FY 2019	$0	$0	$0	$1,990,604	$633,725	$2,624,329
FY 2020	$0	$0	$0	$1,885,604	$557,578	$2,443,182
FY 2021	$0	$0	$0	$1,885,604	$482,282	$2,367,886
FY 2022	$0	$0	$0	$1,845,598	$407,608	$2,253,206
FY 2023	$0	$0	$0	$1,685,000	$333,389	$2,018,389
FY 2024	$0	$0	$0	$1,685,000	$261,301	$1,946,301
FY 2025	$0	$0	$0	$1,685,000	$188,996	$1,873,996
FY 2026	$0	$0	$0	$1,560,000	$116,187	$1,676,187
FY 2027	$0	$0	$0	$1,510,000	$43,205	$1,553,205
FY 2028	$0	$0	$0	$35,000	$5,127	$40,127
FY 2029	$0	$0	$0	$35,000	$3,814	$38,814
FY 2030	$0	$0	$0	$35,000	$2,868	$37,868
FY 2031	$0	$0	$0	$35,000	$1,619	$36,619
FY 2032	$0	$0	$0	$35,000	$371	$35,371
	$6,820,000	$767,288	$7,587,288	$31,054,826	$7,095,686	$38,150,512

APPENDIX A (CONT.)

FY	HATCH HILL PRINCIPAL	HATCH HILL INTEREST	HATCH HILL TOTAL	CIVIC CENTER PRINCIPAL	CIVIC CENTER INTEREST	CIVIC CENTER TOTAL
FY 2015	$485,000	$152,029	$637,029	$226,315	$79,637	$305,952
FY 2016	$485,000	$123,321	$608,321	$226,315	$67,557	$293,872
FY 2017	$485,000	$94,581	$579,581	$226,315	$55,313	$281,628
FY 2018	$485,000	$66,008	$551,008	$226,315	$42,804	$269,119
FY 2019	$485,000	$37,461	$522,461	$226,320	$30,395	$256,715
FY 2020	$485,000	$14,315	$499,315	$226,320	$17,818	$244,138
FY 2021	$0	$0	$0	$226,320	$5,163	$231,483
FY 2022	$0	$0	$0	$0	$0	$0
FY 2023	$0	$0	$0	$0	$0	$0
FY 2024	$0	$0	$0	$0	$0	$0
FY 2025	$0	$0	$0	$0	$0	$0
	$2,910,000	$487,715	$3,397,715	$1,584,220	$298,687	$1,882,907

FY	TOTAL ENTERPRISE FUNDS PRINCIPAL	TOTAL ENTERPRISE FUNDS INTEREST	TOTAL ENTERPRISE FUNDS TOTAL	TOTAL BONDED INDEBTEDNESS PRINCIPAL	TOTAL BONDED INDEBTEDNESS INTEREST	TOTAL BONDED INDEBTEDNESS TOTAL
FY 2015	$711,315	$231,666	$942,981	$4,326,919	$1,491,399	$5,818,318
FY 2016	$711,315	$190,878	$902,193	$4,406,919	$1,291,234	$5,698,153
FY 2017	$711,315	$149,894	$861,209	$4,551,919	$1,085,743	$5,637,662
FY 2018	$711,315	$108,812	$820,127	$4,706,919	$870,491	$5,577,410
FY 2019	$711,320	$67,856	$779,176	$2,701,924	$701,581	$3,403,505
FY 2020	$711,320	$32,133	$743,453	$2,596,924	$589,711	$3,186,635
FY 2021	$226,320	$5,163	$231,483	$2,111,924	$487,445	$2,599,369
FY 2022	$0	$0	$0	$1,845,598	$407,608	$2,253,206
FY 2023	$0	$0	$0	$1,685,000	$333,389	$2,018,389
FY 2024	$0	$0	$0	$1,685,000	$261,301	$1,946,301
FY 2025	$0	$0	$0	$1,685,000	$188,996	$1,873,996
FY 2026	$0	$0	$0	$1,560,000	$116,187	$1,676,187
FY 2027	$0	$0	$0	$1,510,000	$43,205	$1,553,205
FY 2028	$0	$0	$0	$35,000	$5,127	$40,127
FY 2029	$0	$0	$0	$35,000	$3,814	$38,814
FY 2030	$0	$0	$0	$35,000	$2,868	$37,868
FY 2031	$0	$0	$0	$35,000	$1,619	$36,619
FY 2032	$0	$0	$0	$35,000	$371	$35,371
	$4,494,220	$786,402	$5,280,622	$35,549,046	$7,882,088	$43,431,134

APPENDIX B

5 YEAR EQUIPMENT REPLACEMENT SCHEDULE

	UNITS TO BE PURCHASED	EST COST	UNITS TO BE TRADED VEH #	YEAR & TYPE
		FY2015		
1	Pickup w/Utility Body	$28,000	751	1996 Chevrolet Pickup
1	SUV 4wd	$28,000	750	2006 Pontiac Torrent
1	Grader w/ wing	$200,000	857/802	1995/1999 Champion
1	Class 8 Dump w/plow & wing	$150,000	711	2001 GMC Dumptruck
1	Fork Lift *(used)*	$16,000	891	1972 Hyster Forklift
	Total	**$422,000**		
		FY2016		
1	Rubbish Truck	$130,000	732	2004 Freightliner
1	1 ton 4wd Dump w plow	$45,000	710	2007 GMC 1 ton dump
1	Class 8 Dump w/plow & wing	$150,000	746	2003 GMC Dumptruck
1	SUV	$28,000	762	2004 Chevrolet SUV
1	3/4 Ton Pickup w/Dump body	$32,000	723	2001 Chevrolet
1	1 ton 4wd Dump *(patch truck)*	$42,000	747	2000 Ford 1 ton
	Total	**$427,000**		
		FY2017		
1	1 ton 4wd Dump w plow	$45,000	774	2010 Ford 1 ton dump
1	Sidewalk Tractor	$110,000	812	2005 Trackless SW plow
1	Class 8 Dump w/plow & wing	$150,000	739	2002 GMC Class 8 Dump
1	3/4 Ton Pickup w/Dump body	$32,000	718	2001 Chevrolet
1	Loader	$150,000	867	2003 John Deere
	Total	**$487,000**		
		FY2018		
1	Bucket Truck *(used)*	$26,000	761	1996 Bucket Truck
1	Skid Steer	$50,000	853	1989 Toyota Skid Steer
1	Backhoe	$70,000	868	1998 Backhoe
1	Loader	$120,000	875	2006 case
1	Class 8 Dump w/plow & wing	$150,000	748	2004 GMC Dumptruck
	Total	**$416,000**		
		FY2019		
1	Rubbish Truck	$140,000	730	2008 Freightliner
1	Class 8 Dump w/plow & wing	$150,000	741	2006 Freightliner
1	Rackbody	$80,000	733	2004 Freightliner
1	Crew Cab Pickup	$32,000	769	2001 GMC Crew Cab
1	Screen Plant	$115,000	804	2002 Norberg
	Total	**$517,000**		