

March 28, 2013

Mayor Stokes and Members of the Augusta City Council,

As required by the Augusta City Charter, I herewith present to you my proposed budget for Fiscal Year 2013-2014. Including the latest figures available from School Superintendent Jim Anastasio and the estimated need for County Tax payments, the total proposed budget comes to \$52,384,985. That constitutes a spending increase over this year of \$975,917 or 1.9%. Due in large measure to projected revenue decreases from this year, a tax increase of 4% would be required to balance the budget. After fifteen years in my position as city manager, I fully appreciate the difficulties associated with property tax increases as well as the frustrating over-reliance on this regressive form of taxation in the State of Maine. However, with years of economizing on the expenditure side of the city budget, I do not see how to continue to maintain the core public services the public demands without additional tax revenues.

We are all aware that municipal government is under attack at the state level. Governor LePage's proposed budget is the most aggressively hostile accumulation of anti-municipal actions I have seen since I began my career in municipal administration in 1976. If he has his way (and unfortunately we will probably not have the answer to that within the timeframe you need to adopt this budget), all municipal revenue sharing will be eliminated. That alone will cost us almost \$1.7 million each year (by law, it should be more like \$2.7 million but earlier raids on this trust fund in recent state budgets have already cost us that \$1 million annually). I don't believe, in the end, that our legislators will allow this to happen so I am budgeting that revenue at this year's budget amount. If, however, that proposal survives the finalization of the state budget and we are forced to deal with a \$1.7 million loss of revenue sharing, that equates to an additional 6.6% property tax increase or drastic cuts in core services which would have to include public safety, public works and community services. It's worth remembering that the bulk of our budget is personnel costs. To cut \$1.7 million would necessitate reducing the workforce from about 204 FTE's to 169 FTE's. The Governor's budget also proposes to deny us about \$110,000 in excise taxes paid on tractor trucks. I hope this item is also rejected by the Legislature but to be conservative I am not including the revenue in my projections. The Governor also proposes to eliminate the Business Equipment Tax Refund (BETR) program and modify the Business Equipment Tax Exemption (BETE) program. That will adversely impact our revenues (and affected businesses to boot). The Governor and Legislature curtailed General Purpose Aid to Education for this year and that cost our School Department \$168,000. His new budget proposal continues to fund schools at that curtailed level. Also, the Governor has proposed that local school departments and administrative units begin to bear a percentage of the cost of teacher retirement – something that has always been funded 100% by the State as part of aid to education.

Mr. Anastasio has included that new requirement in his budget and that adds another \$413,465 in cost.

These are the gubernatorial proposals that directly impact the municipal/school budget. As troubling, and frankly in my opinion more insidious, are two proposals in the Governor's budget that will hit property taxpayers directly. The first is the elimination of the Homestead Exemption for people under 65 in the second year of the state biennial budget (it doubles for those over that age). With the City taking no action whatsoever, that will result in a property tax increase of about \$180 for every homeowner under age 65- two of every three it is estimated -in the City. The second is his proposal to eliminate the so-called Circuit Breaker program for people under 65. The program currently provides for a property tax refund directly to all taxpayers, who meet certain income guidelines, of approximately \$365. It is estimated that this change (which also lowers the eligible income limits substantially) will also cut two-thirds of the current recipients. (Last year in Augusta 1,669 households received refunds totaling \$544,000, according to the Maine Municipal Association).

Taken as a whole, were all of these negative proposals to become law, the net effect on the average Augusta property taxpayer under age 65 could easily equate to a 20% or greater property tax increase.

[It is worth noting that the three primary sources of revenue that fund state and local government combined are personal and corporate income taxes, sales taxes, and income taxes. As I teach in my government courses at UMA, as a matter of sound fiscal policy states generally strive for an equitable balance among those taxes, recognizing the relative regressivity – which is the failure of tax to correlate to an individual's ability to pay –of the property tax and progressivity of the income tax. The Tax Foundation, a conservative national think tank, advocates this sort of balance and regularly produces analyses that show that on average across the fifty states there is a one-third, one-third, one-third distribution in these revenue sources. Remarkably, in Maine, that balance is greatly skewed toward the property tax. Even without the further shift the Governor's budget would cause, the \$4.4 billion a year collected from those three sources is roughly 45% property tax, 33% income tax and 22% sales tax - this in a state where out-of-state visitors annually pay 30% of the sales tax.]

Some have said that it is incumbent upon cities and towns to “tighten their belts” and budget more efficiently. Well, in Augusta, that is exactly what we have been doing for years. In my fifteen years here, the average increase in the property tax rate has been less than 1%. In the past four years as we have coped with the Great Recession, increased state and federal mandates, and reduced state and federal money, we have consolidated operations, reduced the workforce by 10%, capped employee compensation, increased their health insurance contributions and – for several years - instituted “shut-down” days. We have closed schools and deferred numerous capital improvements. Notwithstanding these “belt tighteners”, we have maintained quality essential services like police and fire and public works. During January's Council goal-setting session, Assistant City Manager Ralph St. Pierre distributed an analysis that showed that over 75% of the City's

General Government budget is either fixed costs like utility bills and debt services or for basic public safety/public works expenditures. That goal-setting session also resulted in program targets to increase Police and Fire departmental capacity, given the heavy demands for services we see as the state capital and regional business center.

Thus, when we fold all of the above considerations into one document, and when we acknowledge that local government services are the most valued to residents it is pretty tough to continue a practice of minimal property tax increases, maintain prudent reserves, recruit and retain a quality workforce, and preserve the level of service and facilities and infrastructure the public expects and deserves.

### **General Government Revenues**

The largest source of revenue for the City/School Department budget is the property tax. For the coming year, I propose an increase of \$1,021,089 or 3.98% to \$26,687,542. It is projected that the City's taxable valuation will remain flat due to limited taxable property growth in the past year offset by properties becoming tax exempt or being demolished. That valuation is \$1.46 billion. Dividing the needs from taxation by the municipal valuation yields a tax (mil) rate of \$18.25 – up from \$17.55 this year. The average single family home value in Augusta is about \$128,000. Applying a tax rate of \$18.25 per thousand to that amount would yield a tax bill of \$2,336, up \$90 over this year's bill of \$2,246. (Of that \$18.25, \$9.24 is attributable to the municipal budget, \$8.02 to the school budget, and \$.99 to the County Tax levy.)

Our next largest source of municipal revenue (discounting the various outside sources of School Department revenues that combined total \$15,571,531) is vehicle excise tax. For the coming year, I project that line item to decrease by \$22,000 from \$2,852,055 to \$2,829,258. That estimate takes into consideration the projected loss of \$110,000 in truck excise taxes referenced earlier.

The Fire Department's ambulance service is expected to yield an increase in fees of \$131,670 (11.6%) to \$1,263,545. This is tied to an expenditure proposal I am recommending that would add two additional permanent firefighters discussed later in more detail.

There is an increase in Tax Increment District funds transferred into the General Fund to pay for the principle and interest costs of a voter approved bond issue that pays for street reconstruction of School and Patterson Streets and offset the loss of \$70,000 that the Augusta Parking District used to annually contribute toward the parking garage debt service. That new revenue is \$131,670 and brings the total TIF revenue transfer to \$1,263,545. (These TIF proceeds fund the City's economic development bureau budget of \$250,000; Greater Augusta Utilities District storm water charges of \$735,000; parking garage debt service of \$182,500; and Cony Circle improvements debt service of \$96,045.)

Ralph St. Pierre estimates (and all of these revenue estimates are his work) that our income from interest on investment of surplus funds will be up \$22,000 to \$267,600. The fee that we charge the Utility District for providing their human resource services goes up \$13,540 to \$36,844 as it has not increased in a number of years.

On the down side of the ledger, I expect our franchise fee revenue from Time/Warner Cable Television to go down \$11,314 to \$123,746 due to the state of the economy; our reimbursement from the State of Maine for general assistance reimbursement to be down \$16,801 to \$125,225 due to reduced demand for assistance from clients; business equipment tax exemption (BETE) reimbursement from the State of Maine will be down \$57,797 to \$175,720. This revenue has dropped 10% a year on its way down to a state constitutional mandated minimum of 50%. This projected level gets us to that 50%; and the loss of a contribution toward the downtown parking garage from the Augusta Parking District of \$70,000 as they are not in a financial position to continue the contribution and remain solvent.

Finally, I recommend the continued transfer of \$166,611 from the sale of the old Cony property to Hannaford for tax stabilization as well as \$496,683 from unassigned general fund balance for the same purpose. That will leave an estimated Unassigned Fund Balance of \$5,652,044, which represents 10.8% of the city budget.

### **General Government Expenditures**

General Government expenditures are recommended to total \$23,644,739 for FY 2013-2014. That is an increase of \$498,354 or 2.15%. (School Department expenditures are budgeted, at least for now, to increase \$431,846 or 1.61% and County Tax – over which we have no direct control as it is mandated by State law – which is expected to increase by \$45,717 or 3.28%.) The major cost drivers associated with this General Government increase include wages and fringe benefits up \$324,104. I am not proposing any increase in base wages (COLA) in this budget. The new money funds step increases (\$167,000) and state pension system mandated contribution increases (\$89,028) and three new public safety positions (two firefighters and one police officer) at \$151,118. The other cost driver is an increase in debt service of \$233,849 which includes the annual step-up increase in the eight year old pension obligation bond (\$78,597); the new Cony Circle bond (\$96,025); and an FY 2013-2014 Council bond (\$91,875). If you do the math, you'll note these two categorical increases exceed the recommended total budget increase, meaning of course that the remainder of the General Government budget is down from this year. That is attributable to no funding for the Cony Flatiron building (\$52,140) as I am optimistic about its redevelopment prospects, and a reduction in general assistance costs of \$33,603 (the expected increase this year in applicants due to changes in state TANF eligibility did not materialize to the extent we thought it would).

For 2013/2014, the Legislative and Executive Department budget is up \$4,415 or .8% to \$538,243 due to benefit and step increases in the Manager's Office. All of the other accounts (Mayor and Council, Corporation Counsel, Unclassified, Central Services, and

Contingencies) are unchanged from this year. (In last year's budget there were significant reductions in the travel and training lines in this department.)

Costs in the Department of Finance and Administration decrease by \$14,385 (or .9%) to \$1,619,179. This includes a \$27,684 decrease in the Clerk Treasurer's account attributable primarily to a reduction in banking fees. Registration and Elections and the City Auditor budgets are flat-funded. Finance Administration is up \$3,832 to \$146,335 due to benefit and step increases (2.7%) and the Human Resources Bureau is \$5,521 (2.2%) to \$251,778 for the same reason. As mentioned earlier, the HR Bureau generates about \$37,000 in charges for services from the Utilities District.

The proposed budget for the Development Services Department for next year is \$1,434,996. That is down \$22,892 (1.6%) from this year for a number of reasons. The Economic Development Office is up \$4,567 to \$230,826 because we account for the department director's salary in this account and I have shifted some of that cost from the Planning Office (which goes down a corresponding \$7,729 to \$158,049) which reflects the change in personnel we experienced this year. The entire Economic Development account is eligible to be funded from TIF proceeds and we do so each year. Under that department's Miscellaneous Services line item I am reducing marketing from \$10,000 to \$3,000 and the contribution to the Capital Riverfront Improvement District from \$30,000 to \$2,000. That \$2,000 would allow for some pay-as-you-go service from the Maine Development Foundation to CRID on an as-needed basis. Those two reductions will free up \$35,000 in TIF funds. I am recommending that \$25,000 of that be appropriated as the City's share of the Augusta Downtown Alliance's proposed Maine Street program and that Council commit to this matching contribution for the next three years. I am also recommending that the City enter into a fee-for-service relationship with the Kennebec Valley Council of Governments in an amount not to exceed \$10,000 for technical assistance throughout the year as we may desire. (KVCOG provided valuable assistance to us during the past year in dealing with the natural gas issues and I feel certain there will be future instances where their expertise will be of value.)

Also in Development Services, there is a modest amount of money (\$5,825) made available to the Historic Preservation Commission to pursue approved projects and that is included. The City Engineer has a small increase in his line item (\$1,215) to account for benefit cost increases which brings the total to \$80,001. City Facilities pays for our Facilities Manager and the custodial staff in our various buildings, as well as heat, maintenance, and utilities. It is up \$24,015 next year to \$539,863 due to additional step and benefit costs, some increase in part-time custodial hours and a change in health insurance for one employee from single to family coverage. Budgeted separately is the cost of operating Baker Community Center, which is essentially flat at \$206,942 and the Cony Flatiron/Hodgkins Buildings account which I am optimistically expecting to be much lower anticipating a lease of the Flatiron Building to Housing Initiatives, Inc. thus decreasing the account by \$43,640 to \$8,500 which is the amount necessary to meet the annual costs of the moth-balled former Hodgkins School.

In the Community Services Department, the request is to essentially flat-fund the department (actually a decrease of \$4,692) at \$2,195,344. The Administration account is increased by \$7,130 to \$168,890 due to wage and benefit increases. The Lithgow Library Bureau account increases by \$18,206 (3%) to \$627,005. Most of that (\$14,306) is attributable to step increases and changes in health insurance from single to family plan. (Community-based fundraising efforts continue on behalf of a renovated and expanded Lithgow. At this writing, committee chair Wick Johnson advises that there is considerable progress being made by his group. Their goal is to raise half of the estimated \$8+ million total cost and thus spur voter support for bond funding that would cover the remainder. A number of mechanical (e.g. elevator) and maintenance issues are deferred that would otherwise be in this budget pending the outcome of this capital campaign.)

The Community Services Department also includes the Parks and Cemeteries Bureau. They are responsible for the maintenance of all City grounds, including twenty six cemeteries, all of the neighborhood parks, the rotaries and medians and beautiful flower beds throughout the City. In recent years, through constant efforts at efficiency, this team has absorbed cost increases without significant budget increases or compromising its performance. The budget is requested to increase modestly (\$4,349 or .6%) to \$766,336. Old Fort Western, the unique historic asset operated and maintained through the cooperative efforts of the City and the Trustees of the Board of the not-for-profit that supports the Fort (the City funds the two permanent staff positions and the Trustees raise the money for all other annual operating costs), increases by \$6,554 (7.8%) to accommodate step and benefit costs as well as a small increase in support personnel hours. The last cost center in Community Services is Health and Welfare and General Assistance. Here, I am happy to report, we are able to budget a significant decrease from this year due to less of a caseload increase than we anticipated a year ago. Health and Welfare is our administrative costs associated with the state-mandated programs we must provide. It will be down \$9,934 (6.9%) to \$133,010. General Assistance is the actual benefits (food, housing, medicine, etc.) paid to or on behalf of eligible individuals (of which 50% is reimbursed by the State and which shows up in the revenue section of the budget) is projected to be down \$33,603 (11.8%) to \$250, 450. These costs are certainly significant but it is worth noting that they would likely be much higher were it not for the conscientious work of the H/W staff and Health Officer and Human Services Liaison Mary Frances Bartlett.

Last year, the Bicentennial Nature Park account was not funded saving about \$42,000. As a result, a number of concerned residents began working to raise the funding necessary to allow the park to reopen this summer. A committee was formed and has been working with City staff and the Augusta Rotary Club has adopted the park as one of its key initiatives. Those efforts are ongoing as I write this message but it is unclear at this time how successful they will be. For that reason, I have not included a specific appropriation recommendation herein. If, during your upcoming review process, you are persuaded that sufficient financial support has been generated and you wish to appropriate the difference (staff now estimates that we can operate the park in a slimmed down fashion for about \$35,000 for this summer) then it will be my recommendation to use fund balance to close the gap.

The City's Department of Public Safety is the largest cost center in our municipal government. During the January goal-setting process it was clear that Council places the highest priority on maintaining the quality of our Police and Fire Department services. Recognizing that, I am recommending an increase of (\$295,071 (3.7%) to this cost center, bringing the total proposed expenditure to \$8,247,692. Within this broad category, the Police Department budget increases by \$170,911 (4.2%) to \$4,249,698. Last year, due to financial constraints, the Police Dept. budget lost funding for a patrol officer position. During my review with Chief Gregoire for this year's proposal, he stressed the need to restore funding for that position and also requested two additional officers. As we learned during the goal setting process, the APD is a very busy agency (which I also routinely observe first hand when I interact with the department). The departmental management study conducted a few years ago by the International Association of Chiefs of Police (IACP) bore that out as well. For the coming year, I am recommending restoration of the funding for the lost position. Unfortunately, I do not see – given our ongoing fiscal pressures – how to add additional slots. The balance of the departmental increase is attributable to wage and benefit increases (steps/health insurance costs/ and retirement contribution increases).

In the Fire Department budget, I am recommending an increase of \$124,160 (3.2%) bringing the departmental total to \$3,997,994. Of that increase, \$116,536 is in wages and benefits and that amount includes provision for two additional full time firefighter/paramedics, which will bring the permanent line staffing to forty-four. Between what is projected for reduced overtime and the enhanced revenues that more staff can generate (and which shows up in the revenue section), I expect this to be a break even proposition. This staffing situation was also discussed and enjoyed Council support during goal-setting (actually, a case could be made that the department's workload could justify an additional four position but I believe we should crawl before we walk as regards adding permanent positions). The proposed budget also includes an additional \$3,750 for repair and maintenance of equipment and \$8,100 for additional building repair funding.

The third Public Safety cost center is the modest Civil Emergency Preparedness account. Fire Chief Audette serves as the City's Emergency Preparedness Director. This account is proposed to be reduced by \$1,760 (14%) to \$10,940. That entire account funds emergency preparedness equipment replacement in the emergency operations center as well as consumable supplies (food and medical supplies, etc.).

For the coming year, I am proposing an increase in the Public Works Department budget of \$68,632 (2.1%), taking the new total to \$3,408,966. Other than a small administrative line, the three major cost centers in the DPW are Highway Maintenance (which goes up \$315,048 or 24.4%), Snow Removal (goes down \$224,735 or 18.1%) and Waste Removal (which is our curbside residential rubbish removal service) which goes down \$23,532 (3.1%). The marked variations proposed for Highway Maintenance and Snow Removal are due to a proposed change in how we account for the ordinary hours logged by the work-force. In the past, during winter all employee hours were charged off to

snow removal. Going forward – on advice of Department Director Lesley Jones and Ralph St. Pierre, only winter overtime hours would be logged against snow removal. This will simplify record-keeping. The increase in the DPW budget for next year includes about \$22,000 for step increases and benefit costs; \$26,000 for rental of a payloader in the winter to load salt and sand (a less costly alternative than having Central Garage buy one as the one we have been using has worn out); and \$8,750 in additional costs for bulldozer rental for the unit we use in the winter on the snow dump. Again this year, there is no money budgeted in the operating budget for maintenance paving. There will be a recommended amount in the CIP for next year (that would be funded with proceeds from a \$750,000 Council bond - the debt services for which is provided for in this proposed budget).

The City annually budgets about 10% of its General Government funding for the cost of Utilities. This year that cost center decreases slightly (\$2,936 or .1%) to \$2,465,687. Electricity is down for the second year in a row by \$2,709 (1.8%) to \$151,812 to Ralph St. Pierre's work locking in favorable multi-year rates through Maine Power Options, the non-profit buying group sponsored by the Maine Municipal Bond Bank. Water (which is mostly state Public Utilities Commission mandated fire hydrant rental charges levied by the Greater Augusta Utilities District) is up \$4,150 (.6%) to \$753,653 for next year. You have expressed interest in learning more about these hydrant charges and I will have more for you on this during your review sessions. The Sanitary and Storm Sewers account is down slightly (\$7,093 or .6%) to \$1,175,031. A year ago, this line increased by over \$600,000 due to a storm sewer rate increase adopted by GAUD to offset the cost of the \$17 million combined sewer overflow (CSO #3) abatement project off Mt. Vernon Avenue along Bond Brook. Fortunately, the use of downtown TIF proceeds over the next nineteen years to cover this increase has blunted the effect of the rate increase and the recent favorable Superior Court decision supporting the rate structure and denying Hallowell's challenge to it means those rates will be stable going forward. The Traffic Signals line item provides funds for the electricity for the forty or so signalized intersections that are the City's responsibility. It will be up \$2,716 next year to \$18,024 reflecting an escalator clause in our multi-year maintenance contract. Throughout the City there are approximately 2,000 Street Lights. Most are leased by the City from Central Maine Power, although a hundred or so are owned by the City (primarily those mounted on cast iron period style lamp-posts). The Street Lights account is also expected to remain unchanged at \$367,167

The cost center for Insurance and Retiree Benefits is another large set of accounts that are pretty much fixed and beyond much management adjustment. It totals \$2,744,742 for next year – up \$19,889 or .7% and it represents almost 11% of the General Government budget. Unemployment insurance costs are expected to be constant year-to-year at \$26,000 (we do not purchase insurance here but rather as allowed by law we are a direct reimbursement employer). Due to a stable experience modification factor (achieved through on-going efforts to control the incidence of workforce job-related accidents and injuries) our Workers' Compensation premiums for the coming year are projected to be flat at \$253,844. Health Insurance benefits for our retired workforce are budgeted in this

cost center and that line item is also projected to go down, in this case by \$65,708 (6.7%) to \$909,241. As with reductions in the health insurance costs for our active employees, this reduction is due to changes in active employee health plans which then change the retirees' plan in addition to the negotiated cost-sharing provisions achieved in the last round of negotiations with our bargaining units for new retirees. Our City Property and Casualty insurance premiums (provided by Maine Municipal Association's property and casualty pool – which refunds to the participating communities all proceeds in excess of claims paid and loss reserves) are projected to increase by \$7,000 (3.2%) to \$227,000.

Also associated with retiree costs is the annual principle and interest payment on a fifteen year Pension Obligation Bond issued by the City nine years ago. Each year that payment increases (next year's increase is \$78,597 or 6.3%) as that was the only practical way to structure the bond issue when it was executed because that's how the original obligation to the state retirement system was structured. It's worth keeping in mind that the pension obligation bond will have saved the City over \$2 million in avoided interest costs over its fifteen year life.

The General Fund account for payment of debt service on Serial Bonds and Notes should be increased next year in the amount of \$155,252 (18.6%) as discussed earlier. That will bring the total principle and interest attributable to General Fund obligations to \$989,890.

### **Enterprise Accounts**

In addition to the municipal services supported by the General Fund, there are several separate and distinct operations in the City of Augusta classified and operated as enterprise funds. They include the Airport, Civic Center, Hatch Hill Regional Landfill and Central Garage (although this last one is technically considered an "internal service fund"). The key operating principle of an enterprise fund is that it is sustained for the most part by revenues that its operations generate.

The Augusta State Airport is owned by the State of Maine and for the past seventeen years has been managed by the City of Augusta through a contract for services. All costs associated with the personnel who run the airport, as well as all related supplies, contractual services and capital improvements are paid for with State or federal funds channeled through the State. For the coming year, the budget for the airport is \$550,000 – the same as this year. In December, the City Council authorized the renewal of a five year contract whereby the City provides management services to the State-owned facility. The State remits the agreed upon compensation to the City (less any revenues the Airport takes in during the year.) The airport operates at a minimal staffing level (three full-time employees including the manager and two part-timers). In the last couple of years, there has been major infrastructure investment by the Federal Aviation Administration at the airport that enhances both safety and capacity. Through an Essential Air Services subsidy provided by the FAA, we have scheduled air service several times daily to Boston and in

the past two years with Cape Air providing that service the number of enplanements has grown significantly.

Not technically an enterprise fund but outside the General Fund (because it is supported fully 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 the all-day summer program. The budgeted revenue for Childcare for 2012/2013 is \$435,319 up \$13,520 (3.2%) from this year. This is due to an anticipated modest enrollment in clients. Conversely, expenditures are expected to be down \$4,309 (1%) to \$417,490 to reflect actual expenditures from this year. The difference (\$17,829) is held in the Childcare retained earnings account which is currently \$173,979.

For the past forty years, the City has owned and operated the Augusta Civic Center – Maine’s premier conference/concert/convention facility. In recent years, due primarily to the weakened economy, the Civic Center has struggled to break even without compromising its quality of service. The staff is to be commended for their efforts in this regard. For the coming year, revenues are expected to total \$2,790,747 which is down \$101,466 (3.5%) from the amount budgeted for this year and is based on this year’s estimated actual revenue. Of course, the budget must balance so Director Dana Colwill will need to confine his expenditures to that amount. To accomplish this, the wage and benefit account is reduced by \$8,565. That includes about \$36,000 in lower full and part-time wages offset by \$28,372 in increased fringe benefit costs (mostly increased contributions mandated by the State retirement system). The fringe benefit line item was also under-budgeted for this year and that has been corrected. Electricity is down \$6,253 and marketing \$4,000. The repair and maintenance line item is reduced by \$53,827 to meet budget. That includes deferring \$20,000 in ongoing carpet replacement and the fact that we over-budgeted for the HVAC maintenance contract last year by \$24,000. Cleaning supplies is down \$5,654, depreciation down \$9,525 (due to a lack of recent capital investment, which I discuss later), and debt interest down \$17,425 as we amortize the outstanding bonded indebtedness. On the up side, rental of equipment increases by \$16,350 for audio equipment that we in turn bill clients for and \$5,100 in increased heating costs (propane in this building).

Regarding the need to address the Civic Center’s capital improvements (both deferred and projected), I have discussed with Ralph the idea of somehow restructuring the Marketplace at Augusta tax increment financing sheltered revenues to help support the Civic Center and other public infrastructure in that part of the City (including roads and sidewalks), something that would need to be reviewed and approved by the State. I suggest this because this year, the twenty year old credit enhancement agreement with the owners of the Marketplace expires. That means that even though the TIF itself remains in place for another ten years, the City is free of the obligation to return \$615,000 a year in property taxes paid by the owners back to them. The City has the option of returning this money to the General Fund but in so doing we would lose the value of half of it as a result of reduced state aid and higher county taxes. If, instead, the money can

appropriated to qualified economic development purposes the City realizes double the purchasing power. I intend to discuss this at length with you in the next couple of months.

The other major City-owned enterprise is the Hatch Hill Regional Landfill. This state licensed facility serves the solid waste and recycling needs of the City of Augusta and seven other neighboring communities. As host community, we receive a per-capita fee from each of those communities equal to \$10.00 per resident (according to the last census figures). All users of the facility, including Augusta residents and our DPW municipal trash collection function, pay a tipping fee of between \$62 and \$70 a ton depending on volume. For the coming year, DPW Director Lesley Jones estimates that the total fund revenues for Hatch Hill will be \$2,617,589, up \$281,800 (12.1%) from this year. This is likely attributable to an improving economy and the benefit of an arrangement with a Portland area automobile salvage operation that pays us to dispose of their non-metal residue (which the DEP has said we can use as daily cover material. Our revenue for that residue is projected to be \$240,000 next year. Total expenditures for next year are projected to be \$2,370,812, up \$139,301 (6.2%). The difference will be applied to our Hatch Hill Unrestricted Net Assets account which is currently a negative \$247,972 and which brings the fund to operating in the black. (The deficit operations of the past couple of years were covered by a “loan”, if you will, from the General Fund which is being replaced.)

The major Hatch Hill expenditure items worth noting for next year include an increase in construction materials of \$211,000 for temporary cover for the north side of Expansion III (our current operational area) required by the DEP because that section of Expansion III is at capacity; an additional \$80,370 to the DEP mandated closure liability account because of the increased tonnage we are receiving; \$40,013 in motor pool expenses to provide for the replacing of the steel teeth on the wheels of the compactor; and \$34,000 for engineering services and water quality monitoring. Expenditure reductions will include \$99,235 because the 2008 compactor is fully depreciated this year; \$54,820 in lower debt interest as the principle payments are amortized and the balance is reduced; \$17,000 less in leachate monitoring costs (fewer wells are required to be monitored); and line item reductions in electricity (\$4,800), sewer charges (\$11,600), rental of equipment (\$9,600), and gas and diesel (\$14,650).

For many years, the City has effectively used an internal service fund, Central Garage (which is very similar to an enterprise fund), to provide for fleet acquisition, 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 surcharges. For FY'13, the Central Garage revenue budget is \$1,801,609 which is up \$13,731 (.8%) from this year. Motor pool rental charges are up \$35,424 and gas and diesel charges are down \$32,200 due to a slight decrease in fuel prices.

On the Central Garage expenditure side, the budget decreases by \$16,369 (.9%) to \$1,801,609. (Central Garage has retained earnings as of June 30<sup>th</sup> of \$622,295 – the amount necessary in order to sustain the replacement schedule of equipment (see Appendix “B”) for rolling the five-year replacement program. Wage and benefits are flat. Depreciation goes up \$18,954 because as we replace equipment, the cost of new equipment is substantially greater than the older equipment. (The average age of our fleet of rolling stock is about ten years.) Fuel purchases are down \$32,200.

### **Conclusion**

I seem to conclude each of my annual budget messages with the observation that they get harder each successive year and this year is no exception. It’s not enjoyable to propose a master financial plan for the City for the coming year that recommends no cost of living increase for our capable and dedicated workforce and in many instances once again asks them to do more with less. It’s not enjoyable to be aware of many unmet capital needs - be they roads, parks, or buildings and grounds – and not have a plan to finance their improvement. It’s not enjoyable to watch the School Board and their employees struggle to meet the ever more complex and costly needs of educating our children. The Augusta City Council, School Board and City employees have been conscientious stewards of the public fisc over the fifteen years that I’ve been in this job and I know that we will continue to do so. My hope this year is that our partners at the State level recognize that and do not follow the Governor’s lead and effectively eviscerate our ability to meet the need for public services that our residents rightfully expect.

As in past year’s my staff and I stand ready to assist you as you work through this budget process and modify my recommendations as you judge appropriate.

Respectfully,

William R. Bridgeo  
City Manager