

March 28, 2012

Mayor Stokes and Council Members,

Pursuant to the provisions of the City Charter, I herewith present to you my proposed budget for the upcoming 2012 – 2013 fiscal year. It's no secret that development of this document has been a difficult and challenging process (and that you will now engage in an equally difficult and challenging task as you review and modify it to reflect the will of our community). A number of factors out of our control impact next year's budget on both the School Department and city government sides of the ledger. Furthermore, the intense fiscal pressures we are coping with have been ongoing at least since the onset of the national recession four years ago. We long ago trimmed the fruit of any low-hanging expenditures. In recent years, our employees have gone without pay raises, endured "shut-down" days without pay, had their share of health insurance premium payments substantially increased and been required to take on additional job duties without additional compensation as we have downsized our staffing (without noticeably cutting services). We've absorbed substantial increases in fuel and energy costs; in pension obligation bond costs; and in utility costs, while experiencing a dramatic decrease in State revenue sharing. Through it all, we've maintained the integrity of our finances (including keeping our fund balance at the recommended level), preserved a reasonably positive level of employee morale, promoted economic development at every opportunity (think new hospital, JS McCarthy Printing, downtown redevelopment, Kennebec Technologies, and Kenway Corp.), and seen the performance measures of our school system improve substantially. We are a desirable community to live and work in; are proud of our role as the State's capital; and are optimistic about the opportunities that the future presents.

However, to get from here to there we must contend with the current fiscal challenges. I'm often heard to say that, unlike private business, municipal government – at least larger ones like ours – don't have the option of going out of business if the financial challenges becoming too daunting. So, regardless of how discouraging the pressures may be we must be as creative and flexible as we can to meet the service needs of our constituents - constrained by our appreciation of their ability to pay. In this recommended budget, that is my primary goal. To maintain the level of service I believe the residents and taxpayers desire, I am proposing a total city budget for FY '13 of \$51,525,384 which is a 2.27% increase over this year's budget of \$50,382,642. Because of reductions in non-property tax revenues discussed below, this budget would require an increase in the property tax levy of \$871,974 (from \$25,095,263 to \$25,967,237) or 3.47%. A significant contributor to the increase in tax rate is the fact that my staff and I project no growth in the City's taxable property for next year. It is projected to remain at about \$1.45 billion. (To avoid a tax increase through expansion of the tax base – essentially commercial and industrial growth – there would need to be \$51 million in new development come on line in a year. That is the equivalent of the full value of the Augusta Crossing commercial

An increase of 3.47% in the tax rate raises the mil rate by \$.60 from its current level of \$17.30 per thousand of property valuation to \$17.90. The average single family residence in Augusta is assessed at about \$125,000. That means that homeowner's tax bill would increase from \$2,163.00 to \$2,238.00 or \$75.00 for the year.

On the municipal side of the budget, I propose an increase of \$1,221,916 (or 5.54%) from \$22,053,279 to \$23,275,195. The lion's share of that increase is attributable to rate increases from the Greater Augusta Utilities District for fire protection coverage (hydrants) and combined sewer overflow (CSO's) construction Phase 3. The City is the District's largest customer and combined those new charges represent an increase of \$623,278. The second major cost driver in the General Government increase is the projected increase in General Assistance expenditures that will result from changes in how the State funds welfare. I estimate that our costs will increase by \$331,905 because of these changes. (There are certain revenue offsets to the GAUD and GA expenses discussed below that are an integral part of this discussion.)

The third significant factor in the General Government expenditure increase is employee wage and benefit increases (which result, in part, from last year's contract settlements) which total about \$120,000; and required increases to the state retirement system (they've increased their mandatory rate of employer contribution due to current portfolio investment performance) that come to \$133,000. Our annual scheduled principal and interest payment on the fifteen year pension obligation bond also increases by about \$100,000.

For the School Department, at this writing, the School Board is still finalizing its numbers. Based on my conversations with Superintendent Brown, I expect the Board to request an additional \$400,000 in local property tax support of their budget for next year, notwithstanding the fact that their total budget is expected to be down \$106,000 (from \$26,974,072 to \$26,867,792). This is due to a disappointing reduction of almost \$500,000 in state General Purpose Aid for next year and the State's elimination of Medicaid reimbursement for services to students, which total \$125,000 in this year's budget. To avoid an even larger request to Council for property tax support, the Board proposes to utilize \$1,328,915 from their \$2.2 million fund balance. That, of course, suggests a very significant problem for them in another year. In addition, the School Dept. budget contains no funding provision for raises or step increases for their workforce for the coming year (existing contracts expire this June 30<sup>th</sup>).

By state law, every municipality is required to include in its property tax levy an amount determined by the County Commissioners for County Tax and to remit that amount to them. The rate is determined by the assessed valuation of the community and the total county budget approved by the commissioners. For FY '13, the County Administrator estimates that Augusta's county tax will increase by \$27,106 (2%) from \$1,335,291 to \$1,382,397.

In addition to our School Department and General Government budgets, the City has several significant enterprise operations that include the Augusta Civic Center, the Hatch

Hill Regional Landfill and the Augusta State Airport. All are discussed in detail further on but in summary, all their proposed budgets are consistent with this year's – meaning they struggle as a consequence of the poor economy.

### **General Government Revenues**

The proposed General Government budget for 2012-2013 is \$23,275,195. Non-property tax revenues available to support the budget are projected to be \$9,836,998. That represents an increase over 2011-2012 of \$776,705 or 8.57%.

After property taxes, the largest General Government revenue source is vehicle excise tax. Assistant City Manager and Director of Finance and Administration (who is the driving force behind the preparation of this complex annual budget development process) estimates that next' year's excise tax revenues will be up about 6.6% (\$176,225) to \$2,852,005.

The next most significant revenue source is State Revenue Sharing. By law, the State is supposed to remit by formula to every city and town 5.2% of all of the state income and sales tax it takes in. In recent years, in order to balance the State budget, the Governor and Legislature have raided the revenue sharing fund (to the tune of about \$40 million each year) and our revenue sharing receipts have diminished from over \$2.6 million a few years ago to a projected \$1,670,202, essentially flat from last year. Were the state to fully honor the intent of the revenue sharing program we would receive an additional \$800,000 – essentially eliminating the need for a tax increase next year.

A key service that our City provides is emergency medical response and ambulance transports (routine and emergency). Charges for ambulance services provide a significant revenue source which is projected to increase about 9% from \$1,100,032 to \$1,200,642.

Maine law allows municipalities to create tax increment financing districts (TIF's) to stimulate economic development. Augusta has taken advantage of this tool on a number of occasions. Within the geographic area of any district that is created (by the City Council and approved by the State), any new property value realized from development is "sheltered". That means it is not considered a part of the City's overall valuation when state education aid is calculated and when county taxes are assessed. Both of those work very much to the benefit of the municipality. Sometimes a portion of the financial benefits are awarded as a tax refund to the new development in the district (as an incentive to make the development investment for the sake of new jobs and additional property taxes) and sometimes the entire "sheltered" value is reserved for the benefit of the municipality. The portion of sheltered tax payments available to the municipality can only be used for "qualified economic development purposes". In the past we have used these funds to underwrite the cost of our economic development department, to fund downtown improvements and activities, to rebuild streets in TIF districts (e.g. North and South Chestnut Streets and Winthrop Street) and to fund the Capital Riverfront Improvement District. Through some creative thinking, Ralph St. Pierre has structured a mechanism with the utility district to use the balance of our annual Downtown TIF

proceeds to offset the CSO rate increase mentioned earlier. So you will see a substantial increase (\$626,628) in the TIF revenue line item in this proposed budget for that purpose which brings the total TIF transfer to the General Fund to \$1,131,875. Often times, TIF's are misunderstood and sometimes suspect. I assure you that in Augusta, judicious use of TIF's has been a boon to the City (without the availability of TIF proceeds to cover the GAUD storm water rate increase, a \$625,000 hole would exist in the General Government budget).

In the past three years, Council has appropriated money from a reserve account that was set up with the \$1.5 million proceeds of the sale of a portion of the former Cony High School site. For the coming year, I am recommending an appropriation from that reserve of \$166,611 – consistent with past years. At this rate, the principle would be expended in another seven years or so, which coincides with the amortization schedule of the City's outstanding pension obligation bond.

A major revenue item reduction projected for next year is investment income of funds on deposit. We project that line item will be down \$272,986. Last year we budgeted \$518,347 and to date we've only realized about \$168,000. Worse, banks used to aggressively compete for our business by offering both healthy rates of interest and by waiving fees. That, too, is a thing of the past and for next year we have to budget an expense item of \$49,000 for the first time for bank fees – a double whammy.

Other revenue items of note that will be down next year are business equipment tax reimbursements from the state (they've been phasing that out in recent years) in an amount of a \$31,216 reduction (from \$224,035 to \$192,819) and rental of city property as a result of the Community College not renewing its lease for classroom space at the Buker Community Center in the amount of \$29,511.

Most of the other numerous revenue line items are smaller and remain flat for next year. (State highway aid, referred to as URIP and intended as reimbursement for maintaining state roads in the City, is a significant revenue item at \$307,444, and it too is unchanged for next year).

The last revenue line you should note in particular is the appropriation from the Unassigned Fund Balance. For FY '13, I am recommending an increase of \$62,140 over this year's appropriation of \$181,678. As of the most recent audited financial statements, the Fund Balance in the General Fund on June 30<sup>th</sup>, 2011 was \$4,797,641 – which represents 9.5% of the City budget. The City Charter mandates at least a 5% fund balance and recommends an 8.3% fund balance. A healthy fund balance is vital to financial stability and bond rating (ours is an enviable AA). At this writing, Ralph St. Pierre projects that we will about break even for FY 2012 so the modest increase in appropriation (which I've tied – at least in my mind- to the temporary cost of maintaining the Flatiron Building) should not adversely affect our finances.

### **General Government Expenditures**

As mentioned above, General Government expenditures increase for the FY 2012-2013 budget from \$22,053,279 to \$23,275,195 – an increase of \$1,221,916 or 5.54%. Beyond the general cost drivers referenced in the introduction to this message, it should be noted that full-time salaries and wages in total increase by 4.37%, which includes provision for 2% across-the-board cost-of-living increases effective July 1<sup>st</sup> and routine step increases for those eligible. Entity wide fringe benefit costs increase 22% (\$133,000) and almost all of that is attributable to a rate increase in the mandatory employer contribution to the Maine State Retirement System (Maine PERS). Effective July 1st, the rate for every \$100 of payroll goes from \$4.40 to \$5.30. On the plus side, our premiums for workers' compensation will go down by \$34,102 due to an improved experience rating and our active employee health insurance premium costs will go down by \$42,412 due to the new contract provisions recently negotiated.

Because we purchased our heating oil and gas and diesel this year for a price less than we budgeted, I am not recommending an increase in these lines for the coming year. I do this with some trepidation, however, given the volatility of these markets. We annually purchase hundreds of thousands of gallons of petroleum products and a \$1 spike in the price would be a huge hit to us.

For 2012/2013, the Legislative and Executive Department budget is down \$38,828 or 6.9% (and it was reduced last year by another 6.3%) to \$523,828. That includes a reduction in the Mayor and Council account of \$2,173 from the travel/training line item and a \$6,060 reduction in the City Manager's account by reducing the travel/training account by \$1,300 and the budgeted hours for my executive assistant from 40/week to 32/week.

Costs in the Department of Finance and Administration increase by \$79,129 (5.09%) to \$1,633,564. Wages and benefits account for \$48,415 of the increase and the aforementioned new bank fees of \$49,000 much of the remainder. There is \$4,925 in postage to cover mailings associated with ward change notices expected as a result of the 2010 census figures. Equipment maintenance in the Information Technology bureau is reduced by \$15,900 as is travel/training by \$2,500.

The proposed budget for the Development Services Department (also referred to as the City Services Department) is reduced by \$41,473 (2.73%) to \$1,478,341. Within that, the Engineering bureau is reduced by \$25,662 in anticipation of charging 30% of the engineer's costs to various funded capital projects (like Blair Road reconstruction). Fuel oil costs for the Flatiron Building are projected to be \$10,386 less than this year and fuel costs in other buildings (found under the line for Facilities Maintenance) will be down \$13,687 in the aggregate. The only other departmental cost adjustments are the standard wage and benefit adjustments.

In the Community Services Department, the request is for an increase of \$309,995 (15.43%) bringing the departmental total request to \$2,318,392. This is all (and then some due to cuts in other bureaus) attributable to the need to budget an additional

\$331,905 in General Assistance benefit payments and an additional \$29,429 for Health and Welfare staffing associated with that anticipated extra workload. This is the anticipated impact of the changes either already approved or under discussion at the State Legislature. Regarding the GA payments, we know that there will be an influx of new applicants as a result of changes in TANF eligibility. True, there is a bill before the Legislature now that would deny these people GA eligibility. It's too soon to know how that would play out even if approved. Furthermore, several other bills (including eliminating 90% state reimbursement for local GA costs that exceed .003% of the City's assessed valuation) are at play right now. State law now provides that half of the increase we anticipate (\$166,000) will be reimbursed – and that shows up in the revenue section of this budget. There is no state reimbursement for administering the GA program, so the staff increases I believe will be necessary are solely our responsibility.

Because of this year's budget pressures, I have instructed the Library Director to provide me with the impact associated with reducing her budget request by \$40,000 (or her actual 2011/2012 budget by \$13,510). Understandably that has been a distressing process for her but unfortunately I do not see how we get to the taxing and spending levels we need absent such reductions. Our library staff epitomizes caring, well-trained and dedicated employees. The only way forward that I can see (after consultation, but not necessarily agreement with the Director) is to reduce the hours the library is open to essentially a five day week. I should note that Lithgow Library's funding did increase by 7% (from \$549,435 to \$588,409) in the current year's budget.

I am also proposing a reduction to the Recreation bureau budget of \$30,405 or 17.7% (from \$172,107 to \$141,702). This would be accomplished by substantially reducing the number of hours our neighborhood pools are open (including a schedule for rotating which days staff are at which pools) and by selling the bureau's van (used primarily for bureau sponsored excursions for seniors and others). The van costs are ongoing because it is leased from Central Garage. I propose to achieve \$39,980 in savings by not opening Bicentennial Nature Park this season. Costs in the Parks and Cemeteries bureau go up \$27,382 (3.66%) next year due almost entirely to wages and benefits.

The City's Department of Public Safety is the largest cost center in our municipal government. For the coming year, I am proposing that its budget increase by \$204,528 or 2.64% to \$7,952,261. All of that increase can be attributed to contractual salary, wage and benefit increases. In the Police Department, the total appropriation would go up \$166,872 (4.27%) to \$4,078,787. The PD is nonetheless feeling the effects of this difficult budget. Travel and training costs are diminished; a vacant patrol officer position is eliminated and only three replacement cruisers will be purchased instead of the usual four. About the only non-wage line item to increase is \$3,000 for replacement radio equipment as the warranty has expired on the last equipment we purchased. (It's worth keeping in mind that in 2010 the City contracted with the International Association of Chiefs of Police for an exhaustive management study of the PD and that among the study's key findings was that the department is characterized by a very heavy workload that has only increased in the interim. Our police personnel are at maximum capacity and reductions in force – even one officer - are difficult for me to recommend.)

The Fire Department proposed budget increases modestly (\$39,916 or 1%) to \$3,861,124. There is provision in the budget for \$118,699 in wage increases (6.4%). Some of that is attributable to the fact that wages, stipends and step increases were all frozen for two years while contract negotiations were at an impasse (the ultimate recent settlement was, as you know, retroactive and consistent with what was provided to the rest of the City's workforce). It is worth noting that as a result of the new contract, next year overtime will be down \$28,104 (the contract provides for the first three hours of OT in any week to be paid at straight time) and the City's share of health insurance premiums will be down \$47,005 (as a result of employee contributions going from 10% to 20%). To hold the expenditure line, the FD's training budget is reduced by \$16,150; building maintenance is reduced by \$24,770; supplies by \$6,100. The one notable increase is in the equipment account for a replacement thermal imaging camera costing \$11,000.

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 \$2,260 (15%) to \$12,700. 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 a modest increase in the Public Works Department budget of \$51,141 (1.55%), taking the new total to \$3,340,334. Other than a small administrative line, the three major cost centers in the DPW are Highway Maintenance (which goes up \$53,180 or 4.3% to \$1,291,210), Snow Removal (which is budgeted on a rolling five year average and goes up \$12,747 or 1% to \$1,240,820) and Waste Removal (which is our curbside residential rubbish removal service) which goes down \$18,713 or 2.44% to \$748,262. Department-wide, wages and benefits are up \$46,523 (3.1%) consistent with employment agreements and City policy. Motor pool costs (rental of all DPW vehicles from the Central Garage internal service fund as well as purchase of fuel from that fund) go down, department-wide, by \$45,730 – again based on the five-year rolling average of winter maintenance (snow removal). The reduction in waste removal costs is due to reduction of \$1 per ton in tipping fees charged to DPW by the Hatch Hill Landfill enterprise fund (like any other outside customer of Hatch Hill, the DPW is charged the going rate for disposing of the solid waste it collects around the City and deposits at the landfill). Other line item increases of note include reinstating \$18,000 for weed control spraying (after a two year hiatus while Council studied and modified the practice); annual rental of a specialized piece of equipment to extend the outward reach of our roadside mowing program (\$7,200); and \$29,000 increase in the cost of sand and salt (due to an increase in the amount of road miles we are responsible as the State turns over roads to the City). In an ideal world, I would be proposing a significant increase to the DPW budget as it is clear there is substantial resident demand for enhanced service especially winter maintenance. DPW Director Lesley Jones and her team face very frustrating circumstances every winter trying to balance citizen demands for service and budget constrictions – this past winter being a good example of that. Finally, once again this year, there are no funds proposed for maintenance paving – only use of past years' unexpended balances to the tune of about \$300,000. In another year, it will be a challenge

to come up with that amount. New this year, however, I am asking Lesley and Street Superintendent Jerry Dostie to initiate a program known as “chip-sealing” (or “oil and stone”) as a preservation technique, where appropriate. Chip-sealing is not as common a practice in Maine (I have no idea why) as in other northeastern U.S. states, but it is a widely accepted supplementary strategy for extending the life of paved roads and streets and in my opinion well worth a try. We will discuss this during your review of the DPW budget and I will propose that we begin with a modest program in the \$50,000 - \$100,000 range, using part of the paving budget. Lesley and Jerry are also exploring other alternate paving technologies that may warrant consideration also.

The City annually budgets about 10% of its General Government funding for the cost of Utilities. This year that cost center must (we really have very little latitude here) increase by \$623,278 (33.8%) to \$2,468,623. Electricity is down \$6,700 (4.2%) to \$154,521 due to rates being down (and Ralph St. Pierre being very sharp at analyzing the trends and locking us in to advantageous multi-year contracts with 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 \$28,037 (3.9%) to \$749,503 for next year. The Sanitary and Storm Sewers account is up \$601,941 (104%) due to the aforementioned 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. This brings the sewer appropriation for next year to \$1,182,124. Fortunately, the use of downtown TIF proceeds over the next twenty years to cover this increase has blunted the effect (although it is interesting to contemplate what those funds might otherwise have been used for were this federally-mandated CSO work not required of the community). The Traffic Signals line item provides funds for the electricity for the forty or so signalized intersections that are the City’s responsibility. 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 \$2,724,853 for next year – up \$9,230 or .34% and it represents almost 12% 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 an improved experience modification factor (achieved through a reduction in workforce job-related accidents and injuries) our Workers’ Compensation premiums for the coming year are projected to be down \$34,102 (11.8%) to \$253,844. The emphasis that our Human Resources bureau and department staff has placed on workplace safety in recent years is showing results here and they are to be commended. 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 \$42,414 (4.2%) to \$974,949. 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 changes 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 \$10,000 (4.76%) to \$220,000.

Also associated with retiree costs is the annual principle and interest payment on a fifteen year Pension Obligation Bond issued by the City eight years ago. Each year that payment increases (next year's increase is \$77,246 or 6.6%) 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 \$25,412 (3.14%). That includes an increase in principal payments of \$25,000 to \$645,000 and a slight decrease in interest payments of \$88 to \$189,638. Included in these amounts is provision for Council to issue \$750,000 in bonding (if you so choose) to fund a Capital Improvement Program next year. (I will have a recommended CIP for your consideration within a few weeks. Ralph and I are still awaiting detail information on several major items under consideration that have been recommended by department heads.) I expect to recommend a modest cash funded CIP for the coming year (in the neighborhood of \$285,000 left over from prior years' unexpended CIP balances and another \$160,000 from prior years' paving account).

### **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. As you know, the long-term contract with the State for management services expired last June 30<sup>th</sup> and we have been operating under a one-year extension. It has become quite clear that we cannot continue to provide quality management of this important facility without an increase in funding from the State. Resolving that in the next couple of months is a priority for us. Our current air carrier, Cape Air continues to impress us with their service and growth in passenger counts. Also,

major capital improvements, funded by Federal Aviation Administration grant funds, are underway that will enhance the vitality of this important regional aviation asset. The state continues to be a very cooperative partner in this endeavor.

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 budget for Childcare for 2012/2013 is \$421,799 up \$51,568 (13.9%) from this year's budget of \$370,231. The increase is due to increased enrollment and thus the need for more staff (ratios are set by State law).

The City takes great pride in the ownership and operation of the Augusta Civic Center. In recent years, however, due to the effects of the weak economy, Director Dana Colwill and his staff have struggled to keep the enterprise in the black. I am projecting that the year-end results for this year will be a deficit of \$100,000. That will more than deplete the Civic Center's remaining fund balance of \$76,364 and will require the General Fund to assign the difference to its fund balance (in effect a "loan") I stress that this is in no way a management issue. Over the past few years, Dana and his senior staff have taken every practical cost-reduction measure available to them but when the economy is bad there are less events, less ticket sales, and fewer opportunities to grow revenues but many of the facility's costs – like debt service and heat and electricity - are fixed. For the coming year, Civic Center revenues are projected to be \$2,892,213, down \$31,886 (1.1%) from this year. To keep this budget in balance for next year, a variety of line item reductions are recommended including \$15,831 in wages and benefits. Other reductions include electricity due to a rate reduction (-\$37,206); propane (-\$2,600); training (-\$3,000); capital outlay (-\$4,000); debt service (-\$4,094); tablecloths (-\$3,820); and food (-\$3,440). Notable cost increases in the budget include \$20,000 for carpet replacement; \$17,519 for annual costs of a new computerized energy management system for the building; \$7,526 for sewer rate increases; and \$2,100 in additional marketing expenses. With state government continuing a policy to restrict its usage of the Civic Center (pursuant to an executive order issued last year) – and keeping in mind that in the past state agency usage of the Civic Center has represented as much as 50% of our revenues) – and with a new competitive facility soon to open in Bangor, the ACC faces ongoing challenges. The good news is that we could not ask for a better team of personnel there to meet the challenge.

The other major City-owned enterprise is the Hatch Hill Regional Landfill. Last year, again due to the bad economy, Hatch Hill ran a half million dollar deficit which required us to assign an offsetting amount of our General Fund balance (again, as with the Civic Center, a "loan" from the General Fund to the Hatch Hill Fund) to cover that shortfall. To remedy that deficiency, we took steps to gain more voluntary compliance with our City flow control ordinance and that has been effective. For that reason, I project that Hatch Hill will have excess revenues over expenditures in FY '13 of about \$104,000. That will be used to reduce the "loan" from the General Fund and hopefully completely eliminate it

over the next few years. For FY '13, Hatch Hill revenues are projected to be \$2,335,789, down \$665,998 (22.2%) from this year. That reflects an estimated reduction for the year of 9000 tons to be taken in (from 35,000 this year to 26,000 next year). This is attributable to economic conditions and one major local waste hauler (Casella) who resists complying with our ordinance (we are currently working with the City Attorney to remedy this). Total expenditures will be down in a corresponding fashion from this year's budget by \$502,827 to \$2,231,511 (18.4%). The big expenditure reductions are associated with the reduced tonnage projections. Less material means a longer life to the landfill so the asset can be depreciated more slowly and that saves \$201,711. As well, a longer lifespan requires less money to be placed in the State-mandated closure reserve account and that is a budget savings next year of \$288,360. Other smaller savings include supplies (-\$10,052); small tools (-\$5,500); cover material (-\$6,000) and wages and benefits (-\$5,185). Annual debt service for the fund goes down next year by \$28,628. There are a few cost increases that include recycling fees (+\$20,000); sewer charges for the leachate force main (+\$16,380); maintenance of equipment (+\$8,250); and electricity (+\$7,884). With at least one proposal before us for alternative use of our trash at Hatch Hill, there is the possibility that a new business model could emerge in FY'13 for this facility but it is too early to make any budget assumptions in that regard.

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 \$1,787,878 which is down \$85,960 (4.6%) from this year. Motor pool rental charges are down \$56,591 and gas and diesel charges are down \$35,750 due to a projected scale down in the number of capital projects the DPW will be engaged in.

On the Central Garage expenditure side, the budget increases by \$25,889 (1.4%) to \$1,817,978. The estimated net loss of \$30,100 will be charged against retained earning (Central Garage has retained earning as of June 30<sup>th</sup> of \$673,536 – 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 increase \$18,735. Depreciation goes up \$37,330 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 \$37,350.

## **Conclusion**

This is the fifteenth consecutive City budget that I have prepared as your city manager. None have been easy. This one has been particularly difficult. This City's annual budget process is the collaborative – and impressively collegial – effort of many capable and dedicated City and School Department staff. It takes place over a period of many months. In a year like this one, it can involve some tough conversations with employees about programs they care deeply about and are emotionally invested in, or for that matter about their own future with the City or School department. I am always struck by the professionalism we are so fortunate to have amongst those folks. As you grapple with the difficult choices associated with balancing service needs with tax burdens, City staff and I will do our best to give you the most accurate and timely information we can to assist you in that responsibility. In the end, I am confident you will strike the proper balance and we will have a solid work plan for the coming year.

Respectfully,

William R. Bridgeo  
City Manager