



City of Rockville Mayor and Council Agenda Item

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| For the meeting on: | October 18, 2010 |
| Agenda Item Type: | Presentation |
| Department: | Finance |
| Responsible staff: | Stacey Tate, Budget and Finance Officer phone: (240) 314 - 8407 email: state@rockvillemd.gov |

Subject

FY 2012 Budget Preview - Part I

Recommendation

Staff recommends that the Mayor and Council review and file the FY 2012 Budget Preview - PART I, and offer guidance as necessary for preparing the FY 2012 Proposed Operating and Capital Improvement Program budgets.

Discussion

It is the City's practice to provide the Mayor and Council with a preview of the upcoming year's budget in the late fall. According to the adopted Financial Management Policies,

"At least one month before the preparation of the proposed annual budget, the City Manager will meet with the Mayor and Council members to review and deliberate all policy guidelines that may affect the proposed budget." (source: FY 2011 Adopted Operating Budget, page 2-4)

Tonight's presentation, FY 2012 Budget Preview - PART I, will briefly review each operating fund, and discuss any changes in the revenue forecasts since the FY 2011 budget was adopted. For the enterprise funds, the presentation contains the current rate structures that are in place for FY 2012 as approved during the FY 2011 budget process. It is expected that the Mayor and Council will provide guidance with respect to program and project priorities at this meeting, as well as at the FY 2012 Budget Preview - PART II, which is scheduled for November 8, 2010.

Mayor and Council Goals and Priorities

On September 20, 2010, the Mayor and Council approved a new budget tool in preparation for the development of the FY 2012 Operating and CIP budgets. Staff created four budget surveys for the Mayor and Council to communicate their budget priorities and preferences. The results of the surveys will be compiled and reported at the meeting on November 8, 2010. It is expected that the results will provide a structure for generating debate and discussion about City priorities. At the November 8, 2010 meeting, staff will ask for guidance and direction on the budget principles and priorities for FY 2012. The timing of the budget surveys will allow the City Manager to incorporate the financial and budgetary impacts of the Mayor and Council's goals and priorities into the proposed budget.

FY 2012 Budget Calendar

During this preview the Mayor and Council should notify staff of any suggestions or changes they would like to see to the budget process or the proposed budget calendar. There will be other opportunities for the Mayor and Council to provide additional guidance and direction during the Mayor and Council budget preview scheduled for November 8, 2010 or February 28, 2011, or during any of the other Mayor and Council worksessions or public hearings that are listed in the proposed FY 2012 budget calendar.

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|---|---|
| October 18, 2010 | Mayor and Council Budget Preview - PART I |
| November 8, 2010 | Mayor and Council Budget Preview - PART II (includes survey results) |
| February 28, 2011 | Mayor and Council Budget Preview - FINAL |
| March 28, 2011 | Presentation of Proposed Budget and Introduction of Ordinances and Resolutions |
| April 4 and 11, 2011 May 2 and 9, 2011 | Budget Public Hearings and Mayor and Council Worksessions (if additional meetings are needed, staff proposes April 12 and May 3) |
| May 23, 2011 | Budget Adoption |

Overview

The FY 2012 operating and capital budget will focus on the City's core mission and the Mayor and Council's highest priorities. Staff's current estimates on major revenues and expenditures are described throughout this report. Staff will continue to update the Mayor and Council throughout the FY 2012 budget preparation process if/when new revenue and expenditure estimates are available.

General Fund

General Fund - Revenues

The General Fund is the primary operating fund of the City and is used to account for the majority of the City's daily operations. Many of the City's core services and administrative functions are supported through the General Fund. The major revenue sources for the General Fund include: property taxes, income tax, tax duplication, hotel tax, and charges or user fees for services. These revenue sources in total comprise 85 percent of the FY 2011 adopted General Fund budget. FY 2012 revenue estimates will again be conservative and reflect the current economic conditions.

Property Taxes

For FY 2012 staff estimates that total taxable real property assessments will increase slightly due to new properties being added during the fiscal year. The base assessed values will not change from FY 2011 to FY 2012 because there are no reassessments scheduled for January 2011. The next reassessments in the City will take place in January 2012 and January 2013.

Given that the taxable assessments will increase only slightly, the current five-year forecast continues with the Homeowners' Tax Credit Program, but does not include the \$100 one-time credit. Under the assumption that the City will not provide the \$100 credit, total real property tax revenue would increase by \$1.7 million from FY 2011 to FY 2012.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Real Property Tax Rate | \$0.302 | \$0.292 | \$0.292 | \$0.292 | \$0.292 |
| Real Property Tax Revenue | \$29.1 mm* | \$31.3 mm* | \$31.9 mm* | \$31.7 mm* | \$33.4 mm** |

** Includes a one-time tax credit of \$100 for every owner-occupied household through the State's Income Tax Offset Program. Under Maryland law, the City of Rockville may grant a real property tax credit that offsets increased income tax revenue. Each year from FY 2008 to FY 2011, Rockville used this program to target tax relief for owner-occupied residential properties (approximately 15,400 in the City).*

*** This estimate is based on the five-year forecast which does not include a one-time tax credit of \$100 for every owner-occupied household.*

Income Tax

Income tax revenue consists of the City's share of income taxes received by the State of Maryland for returns filed from Rockville residents. Maryland counties are able to impose an income tax that is separate from the State income tax. In accordance with Maryland law, municipalities receive 17 percent of collected county income taxes within the municipalities' jurisdiction. Montgomery County's income tax rate is currently 3.2 percent.

In FY 2010, actual income tax revenues came in at \$10.3 million, which was 1 percent less than FY 2009 revenues. Other surrounding jurisdictions, such as Montgomery County, experienced greater decreases in their income tax revenues during FY 2009 and FY 2010. Because FY 2010 came in higher than anticipated, staff will monitor FY 2011 income tax revenue and adjust it upward when necessary during the fiscal year. Unfortunately this revenue source is volatile and there is very little data available from the State or County to estimate total revenues for FY 2011 or FY 2012. In order to be conservative, staff will assume \$10 million in income tax revenue for FY 2012 until more information becomes available.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Income Tax Revenue | \$10.6 mm | \$10.4 mm | \$10.3 mm | \$9.3 mm | \$10.0 mm |

Highway User Revenue

Highway User Revenue (HUR) represents the City's share of gasoline tax and vehicle registrations collected by the State of Maryland. During FY 2010, the State of Maryland's Board of Public Works voted to decrease the municipal share of HUR by 90 percent or \$2.16 million for the City of Rockville (HUR was adopted at \$2.4 million for FY 2010). In September 2010, staff received a letter from the State Highway Administration that states Rockville's contribution would equal \$121,760 for FY 2012. As the FY 2012 budget process continues, staff will inform the Mayor and Council about any revisions to the City's HUR estimates.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Highway User Revenue | \$3.05 mm | \$2.67 mm | \$325,985 | \$113,000 | \$121,760 |

Tax Duplication

This revenue is received from Montgomery County as a partial reimbursement for tax duplication. Several factors, such as number of streetlights, the number of street miles maintained by the City, and what the County spends each year, determine what the City receives each year. The County is working to revise the formula that determines the amount of tax duplication that municipalities will receive. The revised formula could reduce the City's contribution by up to 40 percent of the FY 2010 amount. Until that formula is finalized, staff will assume flat tax duplication revenue from FY 2011 to FY 2012. This is a 15 percent decrease from past years due to the County's budget deficit starting in FY 2011.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax Duplication Revenue | \$2.23 mm | \$2.23 mm | \$2.23 mm | \$1.89 mm | \$1.89 mm |

Hotel Tax

This revenue consists of the City's share of tax levied on a person who pays for a room or space at a hotel. FY 2009 was the first year the 2 percent hotel tax was levied, which began October 1, 2008. For FY 2012, the City anticipates approximately \$850,000 in hotel tax revenue, which is consistent with FY 2011. The increase from FY 2010 to FY 2011 and FY 2012 is due to two new hotels that opened at the end of FY 2010. No new hotels are anticipated for FY 2011 or FY 2012.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Hotel Tax Revenue | N/A | \$624,486* | \$770,454 | \$850,000 | \$850,000 |

* Represents a partial year, or nine months, of Hotel Tax Revenue.

Police Protection Grant

This revenue consists of an annual operating grant from the State of Maryland to assist with funding police protection services. During FY 2010, the State of Maryland's Board of Public Works voted to decrease the municipal share of police protection aid by 35 percent or \$217,000 for the City of Rockville (police protection was adopted at \$620,000 for FY 2010). Because the State will likely be in deficit in FY 2011 and FY 2012, and there is no plan in place to increase this revenue to local governments, staff recommends budgeting police protection at \$417,000 for FY 2012 (consistent with actual revenues in FY 2010). Staff will keep the Mayor and Council informed about police protection aid if new information becomes available over the course of FY 2012 budget preparation.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Police Protection Grant | \$627,894 | \$615,763 | \$417,386 | \$403,000 | \$417,000 |

Other Revenues

Other revenue sources, such as charges for services and licenses and permits, are being analyzed through a formal user fee study, which was commissioned in the FY 2009 budget. This study evaluates all user fees and customer charges to determine if fees and charges are being set appropriately to cover the costs of programs and services. Depending on the results of the study, General Fund revenues may increase in FY 2012. Staff will present this report to the Mayor and Council during the FY 2012 budget process, and will have more information on which revenue sources will be impacted for the February budget preview.

General Fund - Expenditures

The General Fund constitutes over 60 percent of the City's total budget. The known major cost drivers for the General Fund in FY 2012 include: salaries and benefits, the City's pension fund, retiree health care costs, outside agencies, debt service, and transfers to the Capital Projects and Parking funds.

Employee Salaries

In the FY 2011 adopted budget regular and temporary employees salaries total 47 percent of all General Fund expenditures. The FY 2011 budget did not include any across the board adjustments or merit increase for employees. During the FY 2011 budget process, the AFSCME union contract was renegotiated and a new three-year schedule of planned across the board adjustments starting in FY 2012 were included. These adjustments include a 1 percent increase in FY 2012, a 1 percent increase in FY 2013, and a 1.25 percent increase in FY 2014. For FY 2012, the five-year forecast assumes the 1 percent across the board adjustment, with no merit increases. The 1 percent increase is forecasted to apply to all regular City employees in FY 2012, and totals approximately \$350,000 for all funds, with \$275,000 coming from the General Fund. In total regular employee salaries are estimated at \$35.3 million for all funds and \$27.8 for the General Fund for FY 2012.

Health Care

Health care is a major cost driver in the City's total personnel budget. The cost of health care is anticipated to increase anywhere between 8 and 30 percent under the City's current providers, which equates to an increase between \$273,000 to \$1 million for all funds, with \$205,000 to \$770,000 coming from the General Fund. With the estimated increases, the total cost for health care will range from \$3.7 million to \$4.4 million for all funds, with \$2.8 million to \$3.3 million coming from the General Fund. Health care costs are supported by all funds that contain regular FTEs. Negotiations with the City's health care providers will take place over the next few weeks, and staff will provide revised estimates to the Mayor and Council during the FY 2012 budget process.

Pension Fund

As a result of the turmoil in the financial markets during the latter part of 2008 and early 2009, the City's annual required contribution to the pension fund will increase from the current \$3.5 million budgeted in

FY 2011 to \$4.4 million projected for FY 2012. This represents an increase of approximately \$950,000 or 27 percent, of which \$750,000 or 80 percent will be funded by the General Fund. The City's April 1, 2010, valuation report due in the next few weeks will solidify this estimate.

Retiree Health Care

In FY 2009 the City set up an irrevocable trust fund to begin prefunding retiree health care benefits as required under GASB 45. The City's initial contribution to the trust totaled \$1.3 million in FY 2009, and then an additional \$235,820 was contributed in FY 2010 (which represents 1/5 of the total liability per the City's Financial Management Policies). For FY 2012, staff estimates that the City will need to contribute approximately \$450,000 for all funds, of which the General Fund will contribute approximately 80 percent or \$360,000 (based on the FY 2012 valuation report).

Staff continues to evaluate various options for reducing the City's retiree health care costs going forward, from eliminating the benefit, to changing the benefit amounts provided to retirees.

Liability, Property, and Workers' Compensation Insurance

Effective June 30, 2010, the City departed the Montgomery County Self-Insurance Program (MCSIP) due to significant increases in contributions required for insurance coverage, and new terms of coverage that were unfavorable to the City starting in FY 2011. As a result of departing MCSIP, the City secured insurance coverage through the Local Government Insurance Trust (LGIT) and Injured Workers' Insurance Fund (IWIF). The estimated premium requirements of \$1.2 to \$1.3 million provided by LGIT and IWIF for all lines of insurance coverage are estimated to save the City approximately \$600,000 starting in FY 2011.

For FY 2012, the City will continue with LGIT and IWIF and staff anticipates that given the City's good loss experience this year and that the market is still fairly competitive, total insurance coverage will be comparable to FY 2011 at \$1.2 to \$1.3 million. One item that is currently outstanding is that the City is in the process of updating automobile and property schedules, which may result in a slight increase due to the increased number of covered items since the last inventory was taken by the City.

Outside Agencies

Each year the Division of Community Services coordinates committees (employee panel and community panel) that review and evaluate all caregiver and outside agency funding requests received by the City. After the committees review and evaluate each application, they develop funding recommendations for each program. These recommendations take into account the number of City residents served, the demonstrated need for the service, and the quality of the application. New for FY 2011, the total caregiver agency grant amount of \$553,270 contains \$26,000 in contingency funds intended for mid-year appropriation to one or more agencies in need of additional funding. The \$26,000 in contingency funding makes up 4.7 percent of the total caregiver grant awards for FY 2011.

Since there is a 1 percent across the board increase currently planned in the union contract for FY 2012, staff recommends the FY 2012 grant amounts for caregiver and outside agencies increase by 1 percent.

Rockville Economic Development, Inc. (REDI) is not required to submit a grant application, and is not included in the formal evaluation process. In the past REDI and the City have negotiated a contract that specifies the grant amount the City will provide REDI each fiscal year. In FY 2011, the City agreed to contribute \$530,120 to REDI in FY 2011, with no future grant amounts or escalating factors specified.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Caregiver - Human Needs | \$444,500 | \$469,150 | \$518,875 | \$553,270* | \$558,800 |
| Outside - Other | \$160,207 | \$102,907 | \$132,847 | \$174,200 | \$175,940 |
| REDI | \$471,112 | \$493,825 | \$517,424 | \$530,120 | TBD** |

* The total grant amount of \$553,270 contains \$26,000 in contingency funds intended for mid-year appropriation to one or more

caregiver agencies in need of additional funding. The \$26,000 in contingency funding makes up 4.7 percent of the total caregiver grant awards for FY 2011.

** At the Mayor and Council meeting on April 12, 2010, the Mayor and Council approved a three-year agreement between REDI and the Mayor and Council, to start in FY 2011 with a \$530,120 grant. At that meeting the Mayor and Council did not specify the grants amounts, or an escalating factor, for FY 2012 or FY 2013.

Transfer to the Capital Projects Fund

The Capital Improvements Program (CIP) budget is mainly funded from four components over a five-year period: debt, cash (paygo transfer from the General Fund), government grants, and developer contributions. The planned General Fund contribution for FY 2012 totals \$3.0 million, which is a slight decrease from FY 2011. Staff will evaluate the current five-year CIP plan, and through the City's formal CIP prioritization process, make recommendations on what projects should be funded in FY 2012 and what projects can be eliminated or deferred to future years. The amount of the annual paygo contribution impacts both the current fiscal year and future years since the Capital Projects Fund is balanced over a five-year period.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| General Fund Paygo Transfer | \$7.8 mm* | \$8.5 mm* | \$2.4 mm | \$3.1 mm | \$3.0 mm** |

* Includes additional transfers that were authorized mid-year from the prior years' surplus.

** This transfer is subject to the results of the 5-year cash flow that staff will analyze during the budget process.

Excluding extraordinary circumstances that might justify exceptions, it is important that the City's debt be managed within the current guidelines and established target ratios. Any decision by the Mayor and Council to reduce the planned CIP transfer amount will either increase the amount of money the City will need to borrow in the future, or require the deferral or elimination of capital projects.

It is also important to keep in mind when reviewing CIP projects that many have associated operating cost impacts. The operating cost impacts should be considered when deciding to proceed with the capital project. For FY 2012, the new ongoing operating costs of approved CIP's are projected at \$357,150 for all funds, with \$290,250 going to the General Fund.

Transfer to the Debt Service Fund

The planned transfer from the General Fund to the Debt Service Fund for FY 2012 totals \$5.1 million. This supports the City's annual debt service payments, and is the same amount as the FY 2011 adopted transfer. Currently there is one bond issue for \$6.5 million planned for FY 2013. Staff will re-evaluate the need for this bond issue during the FY 2012 budget and CIP prioritization process.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| General Fund Transfer | \$4.9 mm | \$4.1 mm | \$4.0 mm | \$5.1 mm | \$5.1 mm |

Transfer to the Parking Fund

The planned FY 2012 budget includes a \$1.2 million transfer from the General Fund to the Parking Fund to support the parking enterprise. This is an increase of \$200,000 from the FY 2011 adopted transfer of \$1.0 million. Staff recommends continuing with a General Fund transfer until more of the annual revenues offset annual expenses, which include 5.9 regular FTEs, the operating and contract service costs for the maintenance of the garages, and the debt service payments on \$36 million of bonds issued to support the construction of the garages.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| General Fund Transfer | \$1.57 mm | \$0.95 mm | \$0.85 mm | \$1.0 mm | \$1.2 mm |

Enterprise Funds

Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the cost of expenses, including both operations and capital, are financed or

recovered primarily through user charges. The City of Rockville has designated the following operations as enterprise funds: Water, Sewer, Refuse, Stormwater Management, Parking and RedGate Golf Course.

The goals in setting the City's utility rates (Water, Sewer, Refuse, Stormwater Management) are low rates over time, while covering all operating and capital expenses and maintaining required reserve levels (30 to 90 days). The City establishes rates on a multi-year basis as opposed to setting them annually in order to maintain consistency and reduce volatility for our customers. In order to set the rates the City uses rate models that take into account factors such as future changes in operating expenses, debt obligations, capital needs, and changes in revenues. For setting rates and fees for Parking and RedGate Golf Course, the City uses additional factors such as comparative pricing and user demand.

Water Fund - 70% of the City (the remaining 30% is serviced by WSSC)

The Water Fund is used to account for the financial activity associated with the treatment and distribution of potable water. In FY 2008, the Department of Public Works presented two comprehensive studies that evaluated the City's overall water program related to the Water Treatment Plant and the Water Distribution System. As a result of these two studies, starting in FY 2009 the City increased both the Water Fund operating and CIP budgets to address the concerns that were identified.

To fund the increases in the system requirements, the water usage rates increased by approximately 25 percent each year from FY 2008 to FY 2011, and are anticipated to increase again by 24.5 percent from FY 2011 to FY 2012. Starting in FY 2013, rates will need to be adjusted to cover the recent expenses associated with the 24-inch water main breaks on July 7, 2010 and July 12, 2010. These costs include the purchase of WSSC water, additional overtime, and supplies and equipment. Staff will factor these costs into the rate model on a multi-year basis in order to maintain consistency and reduce volatility in the rates in the future. Water and sewer customers also pay a ready-to-serve charge that will increase by 3 percent from FY 2011 to FY 2012 and is equally distributed to both Water and Sewer funds.

| Usage Tier (per quarter) | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Per 1,000 gal. - first 12,000 | \$1.78 | \$2.23 | \$2.78 | \$3.48 | \$4.33 |
| Per 1,000 gal. - next 12,000 | \$2.56 | \$3.20 | \$4.00 | \$5.01 | \$6.23 |
| Per 1,000 gal. - over 24,000 | \$2.75 | \$3.44 | \$4.30 | \$5.37 | \$6.69 |

Sewer Fund - 70% of the City (the remaining 30% is serviced by WSSC)

The Sewer Fund accounts for the financial activity associated with the collection of sewage. Charges are based on water consumption. Nearly all of the capital costs in the Sewer Fund, and a substantial portion of the operating costs, are payments for the operation of and capital improvements to the District of Columbia Water and Sewer Authority's (DCWASA) Blue Plains Advanced Wastewater Treatment Plant. The City's share of Blue Plains' capital improvements is proportionate to the City's allocation of treatment capacity.

In accordance with the current plan, the Sewer Fund rate for FY 2012 will equal \$5.26 per 1,000 gallons. This is an increase of \$0.60 or 13 percent over the FY 2011 adopted rate of \$4.66 per 1,000 gallons. The Sewer Fund ended FY 2010 with a negative working capital balance, and the planned annual increases will bring the Sewer Fund back to a positive balance with an adequate reserve over the five year planning period. As mentioned above, water and sewer customers also pay a ready-to-serve charge that will increase by 3 percent from FY 2011 to FY 2012 and is equally distributed to both Water and Sewer funds.

| Usage | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Sewer Rate per 1,000 gal. | \$3.82 | \$3.97 | \$4.12 | \$4.66 | \$5.26 |

Refuse Fund - Residential Properties Only

The Refuse Fund is used to account for the financial activity associated with the collection and disposal of

recycling, refuse, and yardwaste. The FY 2012 Refuse budget will be based on a semi-automated once per week recycling and refuse program. During the multi-year implementation of the semi-automated once per week system, the annual fee remained flat at \$392.40 per year from FY 2008 through FY 2011. For FY 2012 the rate is set to increase by 3.8 percent to \$407.28 per year.

| Usage | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Refuse Rate (per year) | \$392.40 | \$392.40 | \$392.40 | \$392.40 | \$407.28 |

Stormwater Management Fund - All Properties in the City

The Stormwater Management (SWM) Fund accounts for the financial activity associated with maintaining existing SWM facilities and constructing new facilities. In FY 2008 the Mayor and Council approved an ordinance to amend the City Code to include a new Stormwater Management Utility Fee. This ordinance enables the City to charge an annual fee per Equivalent Residential Unit ("ERU"). For the FY 2010 budget, a fixed fee of \$40.00 per ERU was implemented, which generated \$1.6 million in fee revenue. This fee was increased by 23 percent for FY 2011, and as approved by the Mayor and Council during the FY 2011 budget process, will increase by approximately 27 percent each year from FY 2012 through FY 2014, and approximately 1 percent each year from FY 2015 through FY 2020. This fee schedule was developed to generate sufficient revenue to cover the operating and capital expenses of the Stormwater Management Fund.

The future fee levels assume that all properties (including over \$45,000 due from County properties) will pay the annual fee. If all properties do not pay the planned fees, staff will need to evaluate the planned fee increases and future operating programs and capital expenses, and adjust them accordingly.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| SWM Utility Fee per ERU | N/A | N/A | \$40.00 | \$49.20 | \$62.48 |

Parking Fund - Users

The Parking Fund was created to account for the revenue and expenses from parking related activities, including the issuance of parking tickets, the parking meter program, and the costs associated with the construction and operation of the three public parking garages in the City's Town Square. In order to manage the three parking garages and on-street meters within Town Square, the Town Center Parking District was formed. The Parking District tax rate for FY 2008 through FY 2010 was \$0.300 per \$100 dollars of assessed value. In FY 2011 the rate increased by 10 percent to \$0.330, and will increase again in FY 2012 by 10 percent to \$0.363 in order to help close the annual operating deficit in the Parking Fund. The commercial property owners (FRIT and MEDCO) that are located within the Town Square boundaries pay this tax in addition to the general City property tax.

| Special Tax District | FY 2008 Act | FY 2009 Act | FY 2010 Est | FY 2011 Bud | FY 2012 Est |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Parking District | \$0.300 | \$0.300 | \$0.300 | \$0.330 | \$0.363 |

In addition to the revenues raised by the Parking Fund, the FY 2012 proposed budget will include a \$1.2 million transfer from the General Fund to support the parking enterprise. Staff recommends continuing with a General Fund transfer until more of the annual revenues offset annual expenses, which include the debt service payments on approximately \$36 million of bonds issued to support the construction of the Town Square Garages.

RedGate Golf Fund - Users

The RedGate Golf Fund is used to account for the financial activity associated with the City's public golf course. After covering all of its operating, overhead and capital costs for nearly thirty years, RedGate began operating in the red in FY 2000. In response to financial losses over several years, staff presented a business plan to the Mayor and Council that analyzed the financial situation of the golf course in March

2006. The business plan focused on achieving the objective of generating sufficient revenues through fees and charges in order to pay for the costs of operations, capital outlay, and infrastructure improvements. FY 2011 is the fifth year of the five-year business plan.

Although there have been several changes made since the business plan was adopted, the RedGate Golf Fund had accumulated a deficit of (\$1,691,655) at the end of FY 2010, and currently has an estimated FY 2011 annual operating deficit of (\$673,990). In response to the negative balance in the Fund, the Mayor and Council, at their meeting on September 20, 2010, directed staff to transfer \$2.4 million in General Fund reserves to pay down the deficit. In addition to directing staff to pay down the debt, the Mayor and Council directed staff to contract with National Golf Foundation Consulting (NGF) to perform an operations assessment for the viability of the course. This project is estimated to begin on October 2010, with final results available in early December. Any impacts on the budget as a result of NGF's assessment will be discussed with the Mayor and Council during the FY 2012 budget process.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by legal, regulatory, and policy provisions to finance specific activities. Included in the special revenue funds are the Special Activities, Community Development Block Grant, Town Center Management District, and Speed Camera funds.

Special Activities Fund

The Special Activities Fund receives revenues from fundraising and community activities, payment-in-lieu programs, as well as from a variety of corporations and community service organizations. These revenues are deposited into separate accounts and then used for specific purposes related to those accounts. The amount that is appropriated each year is directly related to the overall revenues received in the past years, and projected revenues for the next year (these accounts are not funded by general revenues). There are currently 14 active accounts in the FY 2011 budget. Staff will have more information on any major changes to existing accounts, or new Special Activities accounts later in the FY 2012 budget process.

Community Development Block Grant Fund (CDBG)

CDBG is a special revenue fund supported by a sub-grant of federal funds via Montgomery County. The annual budget for this fund consists of unexpended prior years' grants as well as the next year's anticipated grant. Staff anticipates next year's grant will remain at \$304,000.

| | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|------------|-------------|-------------|-------------|-------------|-------------|
| CDBG Grant | \$304,000 | \$304,000 | \$310,000 | \$304,000 | \$304,000 |

Town Center Management District Fund

The Town Square Street and Area Lighting District (residential and commercial properties) and the Town Square Commercial District (only commercial properties) were created in FY 2008 to support the maintenance and operational costs of the Town Center Management District. The two districts levy special property taxes on the properties within the Town Square boundaries to support the Town Center Management District Fund. Based on the current assessed values, staff recommends the rates remain the same for FY 2012. The rates are set to cover the accumulated deficit in the Fund, as well as the annual operating costs of the districts.

| Tax District | FY 2008 Act | FY 2009 Act | FY 2010 Act | FY 2011 Bud | FY 2012 Est |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Street and Area Lighting | \$0.048 | \$0.105 | \$0.105 | \$0.116 | \$0.116 |
| Commercial | \$0.530 | \$1.200 | \$1.200 | \$1.320 | \$1.320 |

Speed Camera Fund

The Speed Camera Fund, created in FY 2007, is a special revenue fund used to track the financial transactions associated with the City's speed camera program. Total revenue for FY 2011 and future years is currently estimated to remain steady at \$1.3 million annually, based on an estimated 2,800 paid citations per month. In April 2010 the Police Department started to use portable camera units (PCUs), and as a result, have seen a significant increase in the number of citations issued per month. The Department expects PCU-generated violations to level off as drivers become accustomed to the new units, so the FY 2011 budget estimates have not yet been adjusted.

Recent monthly citation figures averaged just under 5,000 citations per month, which is well ahead of original estimates. As the current fiscal year progresses, budget staff will continue to review current citation levels and revise both FY 2011 and FY 2012 estimates if the current PCU-generated "spike" does not begin to trend downward.

Under the current assumptions, the FY 2012 Speed Camera Fund will support 5.5 positions, the operating costs of the program, as well as several CIP projects which focus on pedestrian and traffic safety (*note: all Speed Camera Fund revenues must be used for public safety expenditures*).

Mayor and Council History

Each year, it is the City Administration's practice to provide the Mayor and Council with a preview of the upcoming year's budget in the late fall. This is the first Mayor and Council preview for FY 2012.

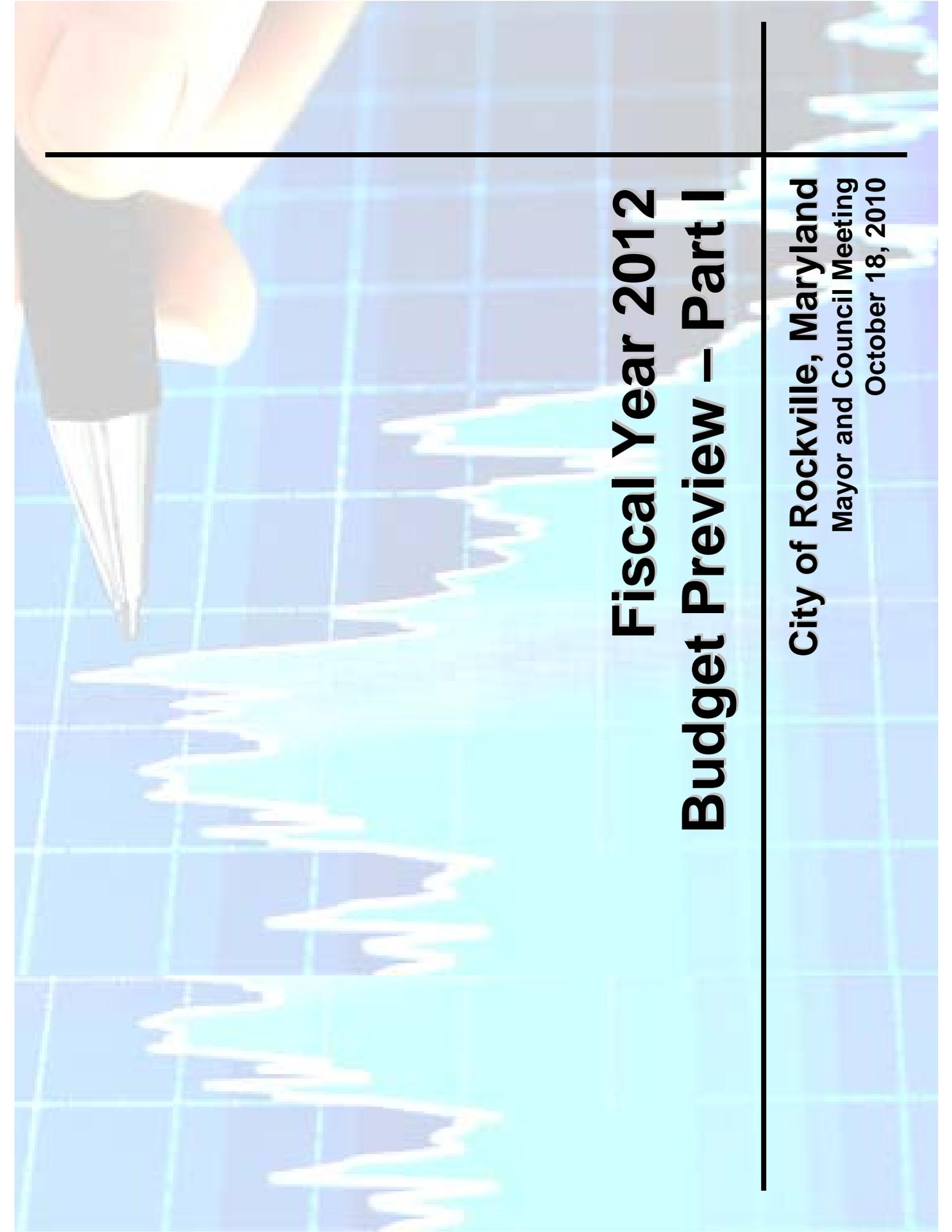
Fiscal Impact

This presentation contains information that will impact the revenues and expenditures of the FY 2012 Operating and CIP budgets. Staff will incorporate the policy direction and guidance of the Mayor and Council and determine the fiscal impacts of each decision during the budget development process.

Department Head



City Manager: Scott Ullery, City Manager
Approval Date: 10/06/2010



Fiscal Year 2012 Budget Preview – Part I

City of Rockville, Maryland
Mayor and Council Meeting
October 18, 2010

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CIP BUDGET

NEXT STEPS

Agenda

✓ Calendar

✓ General Fund

✓ Enterprise Funds

✓ Special Revenue Funds

✓ CIP Budget

✓ Next Steps

FY 2012 Budget Calendar

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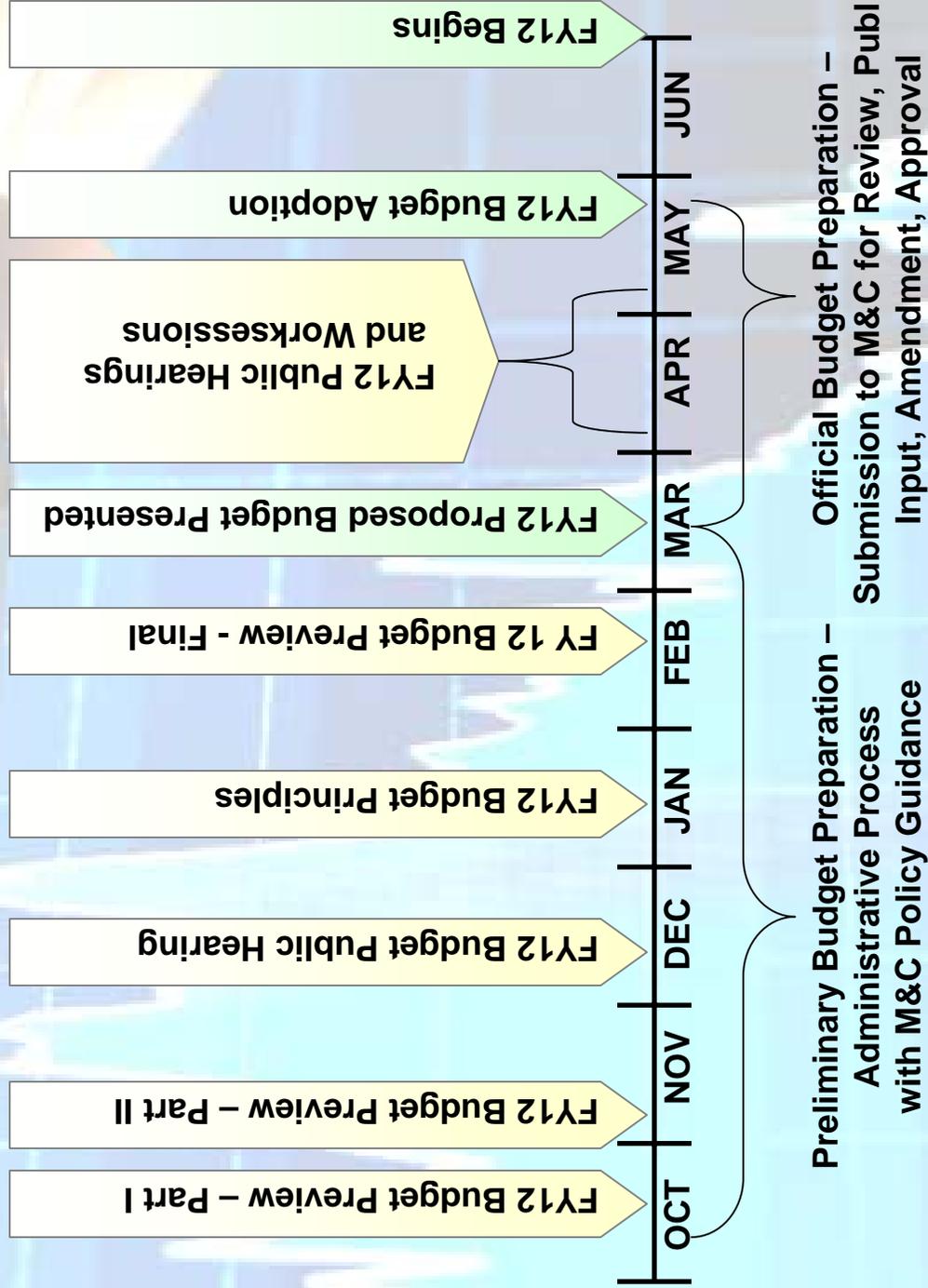
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CIP BUDGET

NEXT STEPS



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CIP BUDGET

NEXT STEPS

General Fund

- ✓ **FY 2012 revenue estimates are consistent with the adopted Five-Year Forecast with the following exceptions:**
 - **income tax – increase from \$9.3 million in FY 2011 to \$10 million in FY 2012 (Forecast assumed \$9.8 million)**
 - **hotel tax – maintain at \$850,000 from FY 2011 to FY 2012 (Forecast assumed \$884,000)**
 - **user fees and charges for services – TBD pending the results of the User Fee Study (Forecast assumed a 5% increase)**

- ✓ **FY 2012 expenditure estimates are consistent with adopted Five-Year Forecast**

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CIP BUDGET

NEXT STEPS

General Fund

- ✓ Possible changes to revenues and expenditures in FY 2011 and FY 2012
 - FY 2010 final audit results to confirm balances
 - Mayor and Council's FY 2012 priorities as identified in budget surveys and in adopted budget principles
 - reductions in County and State funding
 - January 2011 health care increases
 - branding study recommendations
 - budget and finance task force recommendations
 - communications task force recommendations
 - IT strategic plan recommendations
 - bid awards for Senior Center, Gude Drive, and Police Station CIP projects
 - unfunded CIP projects (page 12 of CIP)
 - financial condition of the RedGate Golf Course
 - new green building tax credit (\$300,000)
 - income tax offset credit

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CIP BUDGET

NEXT STEPS

Water Fund – 70% of the City

- ✓ The proposed FY 2012 rate schedule contains an increase of 24.5%, and is consistent with the Five-Year Forecast

| Usage | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|---|---------|---------|---------|---------|---------|
| Per 1,000 gall for the first 12,000 gall per qtr | \$ 1.78 | \$ 2.23 | \$ 2.78 | \$ 3.48 | \$ 4.33 |
| Per 1,000 gall for the next 12,000 gall per qtr | \$ 2.56 | \$ 3.20 | \$ 4.00 | \$ 5.01 | \$ 6.23 |
| Per 1,000 gall for usage over 24,000 gall per qtr | \$ 2.75 | \$ 3.44 | \$ 4.30 | \$ 5.37 | \$ 6.69 |

- ✓ Starting in FY 2013, rates will be adjusted to cover the expenses associated with the recent 24-inch water main breaks
- ✓ Staff will smooth break-related expenses on a multi-year basis to reduce rate volatility
- ✓ Ready-to-serve charge is planned to increase by 3% for FY 2012 and is equally distributed to Water and Sewer funds
- ✓ A bond issue to support the CIP is planned for FY 2011 – no bond issue planned for FY 2012

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CIP BUDGET

NEXT STEPS

Sewer Fund – 70% of the City

- ✓ The proposed FY 2012 rate schedule contains an increase of \$0.60 or 13%, and is consistent with the Five-Year Forecast

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|------------------------------|---------|---------|---------|---------|---------|
| Sewer Rate per 1,000 gallons | \$ 3.82 | \$ 3.97 | \$ 4.12 | \$ 4.66 | \$ 5.26 |

- ✓ Ready-to-serve charge is planned to increase by 3% and is equally distributed to Water and Sewer funds
- ✓ Nearly all of the capital costs, and a substantial portion of the operating costs, are payments for the operation of and capital improvements to Blue Plains Wastewater Treatment Plant
- ✓ A bond issue to support the CIP is planned for FY 2011 – no bond issue planned for FY 2012

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CIP BUDGET

NEXT STEPS

Refuse Fund – Residential Properties

- ✓ FY 2012 proposed budget will be based on a semi-automated once per week recycling and refuse program
- ✓ The FY 2012 proposed annual rate will increase by \$14.88 or 3.8%, and is consistent with the Five-Year Forecast

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Refuse Rate per Household per Year | \$ 392.40 | \$ 392.40 | \$ 392.40 | \$ 392.40 | \$ 407.28 |

- ✓ No bond issue planned for FY 2012

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CIP BUDGET

NEXT STEPS

Parking Fund – Users

- ✓ Commercial property owners (FRIT and MEDCO) pay this tax in addition to the general City taxes
- ✓ Parking District tax rate for FY 2012 will increase by \$0.033 or 10% to \$0.363 in order to support the Town Square parking garages
- ✓ These rate increases are consistent with the Five-Year Forecast

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|---------------------------------------|----------|----------|----------|----------|----------|
| Town Center Parking District Tax Rate | \$ 0.300 | \$ 0.300 | \$ 0.300 | \$ 0.330 | \$ 0.363 |

- ✓ In addition to the revenues raised by the Parking Fund, the FY 2012 proposed budget will include a \$1.2 million transfer from the General Fund

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|---|---------|---------|---------|---------|---------|
| Transfer from the General Fund (millions) | \$1.57 | \$0.95 | \$1.20 | \$1.03 | \$1.20 |

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CIP BUDGET

NEXT STEPS

Stormwater Mgmt Fund – All Properties

- ✓ City started charging a SWM Utility Fee in FY 2010
- ✓ The fee provides a dedicated funding source for SWM facility and storm drainage maintenance, stream restoration, and required improvements
- ✓ For FY 2012, the fixed fee per ERU is proposed to increase by \$13.28 or 27 %, and is consistent with the Five-Year Forecast

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|-------------------------|---------|---------|----------|----------|----------|
| SWM Utility Fee per ERU | N/A | N/A | \$ 40.00 | \$ 49.20 | \$ 62.48 |

- ✓ A bond issue to support the CIP is planned for FY 2011 – no bond issue planned for FY 2012
- ✓ This fee structure assumes all properties will pay fee (including over \$45,000 from County)

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NEXT STEPS

RedGate Golf Course Fund – Users

- ✓ FY 2011 is the last year of the 5-year business plan
- ✓ RedGate had accumulated a deficit of (\$1,691,655) at the end of FY 2010, and has an estimated FY 2011 annual operating deficit of (\$673,990)
- ✓ In response to the negative balance, M&C transferred \$2.4 million in General Fund reserves to pay down the deficit
- ✓ The City has also contracted with NGF to evaluate the viability of the course with results expected in December 2010
- ✓ Mayor and Council's direction as a result of NGF's evaluation will be incorporated into the FY 2012 proposed budget

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NEXT STEPS

Special Activities Fund

- ✓ Receives annual revenues from
 - fundraising and community activities
 - payment-in-lieu programs
 - corporations and community organizations

- ✓ Appropriated budget is related to revenues received in past years plus projected revenues

- ✓ There are 14 accounts in FY 2012
 - Art in Public Architecture → Holiday Drive
 - Art in Public Places → Park Maintenance
 - Bikeway Program → Recreation Fund
 - Cable TV Equipment → Rockville Emergency Assistance Program
 - Croydon Creek Center → Senior Assistance
 - Forest / Tree Preservation → Transportation Demand Management
 - Friends of the Arts
 - Glenview Mansion

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CIP BUDGET

NEXT STEPS

Community Development Block Grant

- ✓ CDBG is supported by a sub-grant of federal funds via Montgomery County
- ✓ The annual budget for this fund consists of unexpended prior years' grants as well as the next year's anticipated grant
- ✓ Staff anticipates this grant will remain at \$304,000 for FY 2012

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|-----------------------------------|---------|---------|---------|---------|---------|
| Community Development Block Grant | \$304k | \$304k | \$310k | \$304K | \$304K |

- ✓ In addition to CDBG funding, organizations can apply for other grant funding through the City's annual caregiver and outside agency grant program

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CIP BUDGET

NEXT STEPS

Town Center Mgmt District Fund

- ✓ All Town Center property owners pay one or both of these taxes in addition to the general City taxes
- ✓ The property tax rates will remain the same as the FY 2011 adopted rates

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|-----------------------------------|----------|----------|----------|----------|----------|
| Street and Area Lighting District | \$ 0.048 | \$ 0.105 | \$ 0.105 | \$ 0.116 | \$ 0.116 |
| Commercial District | \$ 0.530 | \$ 1.200 | \$ 1.200 | \$ 1.320 | \$ 1.320 |

- ✓ Rates are set to cover the accumulated deficit in the Fund, as well as the annual operating costs of the district

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CIP BUDGET

NEXT STEPS

Speed Camera Fund

- ✓ Revenue for FY 2012 is estimated at \$1.3 million, based on 2,800 citations per month, and is consistent with the Five-Year Forecast
- ✓ In April 2010, Police started using portable camera units, resulting in an increase in the number of citations issued
- ✓ Recent citation figures averaged just under 5,000 citations per month
- ✓ As the year progresses, staff will monitor citation levels and revise FY 2011 and FY 2012 if the current "spike" does not trend downward
- ✓ Under current assumptions, FY 2012 budget will support 5.5 FTEs, operating costs of the program, and CIP projects that focus on public safety

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NEXT STEPS

CIP Budget

- ✓ CIP budget is funded over a 5-year period from debt, General Fund contribution (“paygo”), government grants, and developer contributions
- ✓ Staff recommends that the planned General Fund contribution for FY 2012 total \$3.0 million, which is consistent with the Five-Year Forecast

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|--|---------|---------|---------|---------|---------|
| General Fund Paygo Transfer (millions) | \$7.8* | \$8.5* | \$2.4 | \$3.1 | \$3.0** |

* Includes additional transfers that were authorized mid-year from General Fund reserves.

** Subject to the results of the 5-year cash flow that staff will analyze during the budget process.

- ✓ Staff will evaluate the current 5-year CIP plan, and through the City's CIP prioritization process, make recommendations on what projects should be funded, eliminated or deferred
- ✓ Currently there is a \$6.5 million bond issue scheduled for FY 2013

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CIP BUDGET

NEXT STEPS

Next Steps

- ✓ **Budget Preview – PART II, November 8, 2010**
 - **Presentation of M&C Survey Results**
 - **Direction from M&C on FY 2012 Budget Principles and Proposed Budget**
- ✓ **Budget Public Hearing, December 6, 2010**
- ✓ **Adoption of Budget Principles, January 10, 2011**
- ✓ **Mayor and Council direction needed during FY 2012 budget preparation process**
 - **User Fee Study**
 - **RedGate Golf Course (NGF Assessment)**
 - **Budget and Finance Task Force**