

City of Rockville

Finance and Budget Task Force Report

September 20, 2010

Introduction

Mayor Marcuccio, in her inaugural address on November 22, 2009, proposed the creation of a special task force to assess Rockville's Financial and Budget processes. On December 14, 2009 the Finance and Budget Task Force was created by Mayor and Council (see Appendix A for the resolution). The Task Force held its first meeting on January 27, 2010 and formed subgroups on Financial Management Policies, Budget Process, and the Budget Book.

The Financial Management Policies subgroup was charged with determining whether Rockville's policies should be revised or dropped, or if any should be added. The Budget Process subgroup evaluated ways to improve the overall budget-making process. The Budget Book group assessed ways to improve the presentation of data in the Operations Budget Book. The purpose of all these efforts is to make Rockville's budgets and budget tradeoffs more understandable to its citizens and the elected officials.

Membership

The volunteers for the task force brought an incredible amount of expertise to this effort through education and work experience. Most members have previously participated in budget-making processes in Rockville or other governments. Knowledge of finance and budgets were extremely strong in this group and there was additional expertise in computer systems and data presentation.

Members Appointed by Mayor and Council

Mark Pierzchala, chair
Leonard Briskman
Marika Brown
Paul Clark
Jim Coyle
Beryl Feinberg
Rich Gottfried
Rebecca Kanin
Paul Newman
Jonathan Smith
Art Stigile
Jeff Weber

The work of the Finance and Budget Task Force actually preceded its first meeting. On January 15 and 16, 2010, Mayor and Council convened for a "Goals and Priorities" work session at Glenview Mansion. Several members of the Task Force attended as observers to see how this biannual session feeds into the

City Manager's proposed budget. The Task Force's starting date of January 27, 2010, meant that the Task Force started its work at the same time that Mayor and Council were deep into the budgeting process for Fiscal Year 2011. This gave the members an opportunity to observe the budget process while working in their sub-groups.

Rockville Budgets

The consensus of the members of the Task Force is that Rockville's budgets attain a very high quality but their formulation can be improved. The Task Force recognizes that changes will be more evolutionary rather than revolutionary and that some changes will take time and substantial resources. The City's Triple-A bond rating and the Budget Book's 20 years of GFOA awards attest to the fact that much is already done right. The members of the Task Force hope that the recommendations below will help take Rockville's budgets to an even higher level.

Methodology

At its first meeting, the Task Force divided into three workgroups: the Financial Management Policies workgroup, the Budget Process workgroup, and the Budget Book workgroup. The three groups met and worked independently of each other in order to assess their topics and to develop recommendations. Each group held meetings, reviewed applicable materials from Rockville and other cities, and interviewed Mayor and Council, City Staff, and one former elected official. During the spring and summer, each of the workgroups presented its draft analysis and recommendations to the entire Task Force. Each member of the Task Force was offered multiple opportunities, in writing and at several meetings of the entire Task force, to comment on the section of the report that was prepared by each workgroup.

The groups offered City Staff the opportunity to read final drafts and meet with the sub-group to provide comments. This was carried out for all three sub-groups. A few groups also discussed initial draft recommendations with City Staff.

The City Staff review of the material helped ensure technical accuracy and relevance. Most Task Force recommendations were discussed in detail. City Staff offered their opinions on the recommendations. The Task Force members greatly appreciate the willingness of City Staff to work with the Task Force and the many useful comments that were provided. However, the Task Force members made the final decisions as to which recommendations remained, which were modified, and which were deleted. Many recommendations were strengthened as a result of this interaction and some were added. These meetings provided an opportunity to exchange information and points of view. Whereas City Staff initially appeared to be defensive about their work, they seemed to become more comfortable with the process as it unfolded. For their part, the Task Force members gained an appreciation for the roles, constraints, effort, and challenges of the City Staff.

The cooperation between Task Force members and City Staff was the only viable way for a citizen-based group to approach this daunting technical material. The Task Force challenged City Staff in many ways but always in a constructive manner. The result of this cooperation has resulted in a high quality Task Force Report that can change the way budgets are formulated. We would like to express our sincerest thanks and appreciation to Scott Ullery, Gavin Cohen, and Stacey Tate for their comments and suggestions on the Report.

Budget Context

The work of the Finance and Budget Task Force was carried out during difficult financial times. The effects of the Nation's near financial collapse in the fall of 2008 and the continuing recession impacted Rockville's FY 2011 budget in several ways. The City's tax base was re-assessed on schedule in early 2009 and early 2010. While Rockville was fortunate in this valuation compared to most other localities, it did mark an end to ever-increasing valuations over many years. Grants from the State and the County fell sharply while at the same time Rockville was forced to replenish its employees' retirement fund which suffered badly during the financial crisis. Rockville faces the prospect of several years of tighter budgets and it might have to make very difficult choices that in previous years could be put off.

In this era of stagnant or reduced revenues and increasing costs, the Finance and Budget Task Force submits this report in the expectation that its recommendations, when implemented over the next few years, will improve the City's budget-making process and contribute to rational budget choices.

Next Steps

The Task Force recommends that City Staff review this final report in preparation for a Mayor and Council work session. The objective of the City Staff review is to estimate cost, level of effort, and time frame for implementation of these goals. With that information, Mayor and Council can make informed decisions concerning Task Force recommendations.

The Task Force recognizes that City Staff has already begun making changes to the Budget Process and the Budget Book presentation. The Task Force recognizes that only the Mayor and Council can make changes to the Financial Management Policies.

Executive Summary

There are 57 recommendations across the three sections. The Financial Management recommendations seek to hold Rockville to a higher standard and introduce some additional rigor. A signal contribution is in how the General Fund reserves are calculated. The Budget Process recommendations seek to inform the budget-making process with much better contextual information. Also it seeks more citizen input at an earlier time in the process as well as to make the process more user-friendly to the lay person in the form of simplified materials and definitions. The Budget Book recommendations aim to make budget-decision tradeoffs more apparent. They also give numerous suggestions for making budget data more understandable.

Financial Management Policies

Introduction

The City of Rockville's Financial Management Policies have served the City well for the past two decades, in periods of strong economic growth and during economic downturns. The City has largely adhered to these policies under different Mayors and Councils, and City staffs have adeptly used these policies to improve the City's financial position. Since the mid-1980's, the City's Bond Rating has evolved from a AA to a AA+ to its current Triple A Rating, saving City taxpayers substantial interest along the way and placing Rockville in the top performing category of cities of comparable size. This is an impressive accomplishment for the City, given its small city status and modest annual budget. The City has been recognized repeatedly with awards for its financial stewardship from many financial ratings organizations.

Given the nature of our form of governance with part-time legislators who frequently do not have financial backgrounds, the Financial Management Policies need to be clearly written, so the Mayor and Council members can better understand and follow the City's financial policies. This will increase their confidence and trust when reviewing the City Manager's proposed budget and other financial materials, and lead to better budget decisions. To that end, our report includes 15 recommendations that we believe would strengthen the City's Financial Management Policies.

Recommendations for the Financial Management Policies

Improved User Fee Policies

The Task Force strongly endorses the current policy of recovering costs by charging fees to users of City services, where most or all of the benefits of the service go to the users, and little or none of the benefits go to the public at large. We also strongly endorse the current goal of setting fees equal to the full cost of providing services, to the extent permitted by market conditions. This follows a well-established principle of public finance, which is recommended as a best practice by the Government Finance Officers Association.¹

User fee financing is preferable to tax financing of City services for two important reasons. First, it distributes costs more equitably between taxpayers and users of City services. Second, it requires users to take costs into account as they demand services, leading to a more efficient level of services. Because of these benefits, exceptions to user fee financing of government services generally are limited to circumstances where some greater public purpose would be served by taxpayer funding. Common examples are taxpayer subsidies for low-income residents who otherwise would be unable to use government services, and taxpayer financing of public schools, where the community at large benefits from providing a quality education to all children.

The user fee section of the Financial Management Policies adheres generally to these principles. However, the section is poorly organized, and the goals are poorly described, making it difficult to

¹ See Establishing Government Charges and Fees, Government Finance Officers Association, 1996.

understand the cost recovery goals for different services and the rationale for those cost recovery goals. In addition, the definitions of programs and services in this section differ from the definition of cost centers used in the annual budget document, making it difficult to tie goals to actual practice. Also, the amount of taxpayer subsidies provided to non-residents is given scant attention. Therefore, the Task Force recommends the following improvements to this section:

Recommendation #1: The user fee section should be reorganized to focus first on cost recovery goals, not on the City's organizational structure. Bands of cost recovery goals that range from 0 to 100 percent are not helpful guides. Bands should be defined more narrowly, such as a band for 25 to 50 percent as the cost recovery goal. Within these bands, the cost recovery goals should be stated in terms of the cost centers that are used as the basis for the annual budget document, so that the goals can be matched to the data provided in the budget for each cost center.

Recommendation #2: The user fee section should be redrafted to provide better justifications for the cost recovery goals for category of programs, for example, explaining why a goal of 100 percent recovery is appropriate for certain services, but only 25 percent for other services. As stated previously, there should be strong, persuasive reasons for asking taxpayers to subsidize services that primarily benefit users. Clear articulation of the public policy goals being achieved by subsidies helps ensure that there is, in fact, a valid justification and that the goals are being met as staff implements the policies.

Recommendation #3: A requirement should be added for the annual budget to include a detailed table that compares the cost of providing services, the cost recovery goal for each service, and the actual level of cost recovery for all user-fee funded programs costing \$25,000 or more. Providing the same information about lower-cost programs would be optional. Consistent with recommendation #1, this information should be on the basis of the cost centers that are used in the annual budget.

Recommendation #4: The user section should include a requirement that budget proposals to create new fees or to adjust current fees be accompanied by staff estimates of the full cost to provide the service and the percentage of the cost estimated to be recovered by the fee.

Recommendation #5: The user fee section should include a requirement to track the cost to City taxpayers of providing subsidized services to non-residents for services for large-dollar services. The bar for subsidizing non-residents should clearly be set much higher than for subsidizing City residents. A high level of subsidies to non-residents warrants consideration by Mayor and Council of setting higher cost recovery goals or discontinuing the service.

Improved General Fund Reserve Requirement

The current Financial Management Policies require maintaining separate reserves for the General Fund and for each of the Enterprise Funds. Each reserve is set at a level that would enable the City to continue to provide services in the face of unanticipated operating shortfalls. For Enterprise Funds, the Financial Management Policies specify that each Enterprise Fund will earn sufficient fees to cover expenses and to fully fund its reserve. If an Enterprise Fund develops a negative cash balance, the Financial Management Policies state that the City should develop a plan to return the Fund to balance within five years. The City's overall financial health depends critically on each Enterprise Fund meeting each of these goals, so

that the Funds operate without drawing unexpectedly on taxpayer dollars in the General Fund. Together with the separate requirement to maintain a General Fund reserve equal to 15 percent of revenue, the reserve policies are essential to maintaining the City's overall credit worthiness.

The Task Force strongly supports the current reserve policies, with one major exception. As currently written, the policies provide no guidance for when an Enterprise Fund has completely depleted its reserve and will not, under current budget projections, earn sufficient revenue both to cover expenses and rebuild its reserve. In such cases, the Enterprise Fund's operating risk is effectively transferred to the General Fund because taxpayers ultimately are responsible for paying the City's bills. From an accounting perspective, the impact of this additional risk on the General Fund reserve is recognized if the budget for the General Fund includes a transfer to the Enterprise Fund to cover its deficit. But the risk is not recognized if the General Fund fails to include the cost to taxpayers of the Enterprise Fund's deficit. In the latter case, if the Enterprise Fund were to continue to run large deficits for an extended period, there is a distinct risk that the current measure for the General Fund reserve would mislead the Mayor and Council into assuming that the General Fund reserve is adequate when it has effectively been substantially erased by the Enterprise Fund deficit. This could lead to a situation where the City suddenly finds itself with insufficient reserves to cover the combined operating risk of both the General Fund and the Enterprise Fund. The Task Force believes it would be prudent to revise the reserve requirement for the General Fund to recognize this additional financial risk to taxpayers.

Recommendation #6: The Task Force recommends amending the Financial Management Policies to require increasing the minimum reserve for the General Fund or to explicitly budget for a subsidy payment from the General Fund to the Enterprise Fund, if an Enterprise Fund has completely depleted its reserve and will be unable to rebuild its reserve to the minimum target within five years. We believe that this is especially important for Enterprise Funds that operate in a competitive environment, where the City cannot unilaterally impose fee increases to cover costs, such as the RedGate Fund and the Parking Fund. By following this practice, the City would maintain reserves for the General Fund and the Enterprise Funds that, in total, meet the financial risk posed by all of the City's operations, regardless of how the expenses are classified for Fund purposes.

Add Triple A Bond Rating as an Explicit Goal

The Financial Management Policies specify a number of financial goals that, together, help create a financially strong City. Because the Mayor and Council have followed practices over the past several years that enabled the City to meet these financial goals, Rockville has earned a Triple A bond rating. Bond ratings are generally only thought of as important determinants of the City's cost of borrowing. However, a Triple A bond rating also acts as a valuable certification to taxpayers from independent financial experts that the City's financial position is strong and the City's finances are being managed exceptionally well. Therefore, we recommend adding the following requirement to the Financial Management Policies:

Recommendation #7: The goal of maintaining a Triple A bond rating should be added to the Financial Management Policies, so as to minimize the cost to taxpayers of debt financing and to provide taxpayers with assurance as to the high quality of the City's financial management. The interest savings to taxpayers can be enormous. For example, based on Standard and Poor's Composite Yield Table for Municipal Bonds for June 12, 2010, the interest rate spread between a 20-year municipal bond with an

AAA rating versus a bond with an A rating was 0.72 percentage points.² If Rockville had to pay this differential on all of its outstanding debt, taxpayers would have to pay an additional \$800,000 of interest each year.

Create a Long-Term Capital Improvement Plan

Rockville has made substantial investments in capital assets, including but not limited to buildings, roads, sidewalks, water and sewer lines, and vehicles. Most of these assets support ongoing services and must be replaced when they reach the end of their useful lives. The cost to taxpayers to replace capital assets increases with inflation and with new capital investments. The current Financial Management Policies call for the development of a five-year Capital Improvements Plan (CIP) to show the financing of planned new capital investments. The policies focus primarily on the funding of new projects. The Task Force agrees that the CIP is a useful planning tool. To better plan for the City's capital investment needs and to improve long-term debt planning, the Task Force recommends the following:

Recommendation #8: The CIP section of the Financial Management Policies should include a requirement for City Staff to regularly review and report on the condition of existing capital assets, to better help the Mayor and Council plan for capital replacements. The Task Force understands that over the past five years, City Staff have begun implementing a system for testing capital infrastructure on a regular basis to ascertain their current condition and the need to replace them. We understand, for example, that it was this new practice that identified the need to begin replacing worn out water lines in parts of the City. In prior years, our understanding is that the City did not have a rigorous system for identifying capital replacement needs. Adding the current Staff practice to the Financial Management Policies would help ensure that future managers would continue to follow this best practice.

Recommendation #9: To be an effective planning tool, the CIP should focus on the capital projects that are necessary and are truly intended to be financed. The current CIP often seems like a wish list that includes projects that have not been funded for years and are not likely to be funded for the foreseeable future. The Task Force recommends adding a policy to remove a project from the CIP list if it has been on the list and has not received funding in any of the past five years.

Recommendation #10: Eliminate the current requirement to reappropriate funds for capital projects that have not been completely spent by the end of the fiscal year. Capital projects sometimes cannot be staged so that they are completed within a single fiscal year, so the need for funding crosses fiscal years. Requiring the unspent funds to be appropriated again in the following fiscal year serves no apparent purpose and potentially causes unnecessary problems. Once Mayor and Council have approved funding for a capital project, Staff should be allowed to carry it to completion without having to ask for reapproval in mid-stream. This would require a change in the City charter.

Better Planning to Constrain Cost Increases in Capital Projects

A common problem for capital projects at all levels of government is “cost creep,” that is, the tendency for cost estimates to increase as the project moves from idea to design to actual build out. This can be due

² The Standard and Poor's composite yield table for municipal bonds can be found at the SIFMA website (<http://www.investinginbonds.com/charts/SnPcompositeBase.html>).

to faulty estimates, project add-ons, and unexpected factors. The Task Force has two recommendations to combat cost creep:

Recommendation #11: The Financial Management Policies should be revised to require funding the design costs of large capital projects (above a dollar threshold) separately from the construction costs and for the Mayor and Council to approve funding for the construction costs after the design stage is completed. Staff should continue to provide rough estimates of the total construction cost when each capital project is first presented to the Mayor and Council, to inform the decision about whether to fund the design phase. However, waiting to fund construction until the design is completed should provide the Mayor and Council with more accurate and reliable estimates of the construction costs. It could also help focus greater attention on cost overruns or changes in project scope that increase cost, which would have to be brought to the Mayor and Council for additional funding before the project could continue.

Recommendation #12: The Financial Management Policies should be revised to require the City Manager to periodically provide a status report to Mayor and Council on all capital projects above a dollar threshold, comparing actual construction costs to budgeted costs. In addition, City staff be held accountable in their annual performance appraisals for projects that come in over budget. We understand that the City Manager already has such a system in place for tracking status and for holding staff accountable for cost overruns. We feel it is best practice that is worth articulating as a standard policy to be followed by future City Managers.

Purchase a Complete Formal Budget System

Easy access to complete, timely, reliable and consistent budget information is a prerequisite for effective budgeting. Our understanding is that the City does not have a budget system that meets modern standards, but that the CIP includes purchase of one in FY 2013. Given the growth in the City's budget and in the range of services funded, the lack of an effective budget system is a major weakness that needs to be rectified and avoided in future years.

Recommendation #13: The Financial Management Policies should be revised to include a requirement to maintain a robust, modern budget system that supports the functions required to track financial events, provide information significant to the development and implementation of the City's budget, and supply data required for preparation of financial statements. The system must be capable of providing complete, timely, reliable and consistent information for decision makers and the public. Such a system would have the added benefit of making it much easier to produce and maintain and historical budget database (see recommendation #15).

Improve Monitoring and Reporting on the Cost of the City's Employee Retirement Obligations

The City offers employees two kinds of pension plans – a defined benefit plan and a defined contribution plan. Payments from the City to the plans are included in the annual operating budget. The cost of the defined benefit plan is measured on an accrual basis, consistent with accounting standards. The annual expense is a function of the value of future benefits and the rate of return earned on the pension plans' investment portfolio. The City's annual pension obligations remained relatively stable from 2003 to 2009, making it relatively easy to budget for the expense. However, because of losses incurred due to the

recent market downturn, the City's annual contribution will need to increase by about \$950,000 per year through FY 2012. Mayor and Council will have to make room in the budget for this increased cost either by cutting spending for other priorities or by raising taxes and fees. Despite the large cost of this item, the Financial Management Policies say little about the pension plans, and the subject is not discussed in detail in the annual budget document.

Recommendation #14: The Task Force recommends that the Financial Management Policies include a requirement for regular reporting to the Mayor and Council and discussion in the annual budget document about the cost and performance of the pension plans. In addition, there should be direction to the Retirement Board to establish performance goals for plan investments and for the fund managers. For clarity, we explicitly are not recommending that the City convert completely to a defined contribution plan. Although a defined contribution plan could shift risk from taxpayers to retirees, the type of retirement package offered by the City should be guided by other important considerations, such as ensuring a reasonable retirement package with equitable risk sharing between the City and retired employees. The goal of our recommendation is simply to increase understanding about the status of the pension plans and their impact on the annual budget.

Create an Historical Budget Database.

Understanding the City's current financial position requires knowledge about the City's recent financial condition as well as future projections. Trend analysis is particularly important for this purpose. This requires having historical budget data that are defined on a basis that is comparable to the structure of the current budget. Currently such information is not readably available to the public. Instead, members of the public who want to analyze trends must comb through past budgets and try to reconstruct the data to match current definitions. The associated workload acts as a barrier to this kind of analysis, and even if it is done well, the data do not bear the stamp of approval from the City staff and, therefore, are viewed as questionable.

Recommendation #15: The Task Force recommends including a requirement in the Financial Management Policies for City staff to begin publishing an historical budget data base for the major categories of revenue and expenditures, and that the estimates be revised as necessary each year to be on a basis that is comparable to the budget for the coming fiscal year. We recommend maintaining data for at least the ten most recent years.

Budget Process

Goals

At the start of the process the team received its charge and expectations for the report. Based on our initial discussions, three objectives quickly arose that we decided to investigate. They were: 1) Increase communication with respect to the budget development effort throughout the process; 2) Strive for more public involvement earlier in the process and, 3) Simplify the budget process.

Soon after conducting our initial interviews with staff and members of the Council, it became evident that the first two goals were in fact right on target. Even though the process is very thorough and transparent, there are ways in which the budget can be presented to provide a more meaningful flow of information to the Mayor and Council as well as the citizens of Rockville. It was also agreed that additional tactics to increase public involvement in the process could be expanded beyond the handful of citizens that normally attend hearings or comment on the budget. It was widely recognized that the process is very complicated and can be dense to the uninitiated. The goal for simplification of the budget process morphed into a revised goal to make the process more user-friendly to the lay person in the form of simplified materials and definitions either in print or on the internet.

Current Process

The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a five-year capital improvement plan is presented for the Mayor and Council's consideration. The Mayor and Council schedule and publish advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance. The City amends the budget throughout the fiscal year as needed.

In December 2009 City management presented a preview of the FY 2011 budget principals, financial picture, and alternative scenarios for the General Fund, and sought and obtained general direction and guidance in preparing the FY 2011 Budget from the Mayor and Council. In a non-election year this would have been accomplished in October or November. It should also be noted that after each election, the newly formed Mayor and Council meet in a day and a half retreat to discuss policy and set their priorities for the upcoming two year cycle. These discussions ultimately evolve into a Mayor and Council vision which informs two years of budgets. For the 2011 cycle, these discussions happened after the budget preview occurred and were never finalized before the draft budget was presented.

As part of the process, Management and staff conducted a review of each department's operating budget and all CIP projects. Targets were established and worksheets were distributed to departments. In January 2010, the City Manager held meetings with the senior management team and division heads to complete detailed, line by line review of the budget for the coming year, to ensure it meets the mayor and Council's priorities.

In February 2010, City management and Budget staff presented the final budget preview of the FY 2011 financial picture to the Mayor and Council and obtained general direction and guidance in preparing the FY 2011 proposed budgets. During February and March 2010, the budget staff prepared the FY 2011 Proposed Operating Budget and FY 2011 – FY 2015 Capital Improvements Program Budget for presentation to the Mayor and Council on March 22, 2010. After the Mayor and Council, the senior management team, and the public received the proposed budget, public hearings and work sessions were held to discuss the budget.

On May 10, 2010, the Mayor and Council gave final directions to staff. This is where the final balancing occurred. On May 24, 2010, the Mayor and Council adopted the budget and the ordinances and resolutions that set the property tax rates and the utility rates. The adopted budget for FY 2011 took effect on July 1, 2010.

The following time-line depicts the major components of the FY 2011 budget development process as they were envisioned at the beginning of the cycle.

FY 2011 Budget Process as Originally Planned

Nov 9	Budget kick-off for Department staff
Nov-Dec	Departmental budget submissions developed by City staff
Dec 7&14	Budget preview sessions with Mayor and Council
Jan-Feb	Budget narratives developed by City staff
Jan 15-17	Mayor and Council Retreat
Feb 22	Final budget Preview with Mayor and Council
Mar 22	Presentation of Proposed Budget ³
April 12&19	Public Hearings
April 26	Mayor and Council Work Session – Operating Budget
May 3	Mayor and Council Work Session – CIP and other
May 10	Mayor and Council Work Session / Public Hearing
May 24	Budget Adoption by Mayor and Council

What Has Already Changed for the 2011 Budget Process?

The City Manager and staff have always been very flexible in making changes to the process as requested or needed. They are always striving to improve the process and the final product. For example, in advance of the FY 2011 budget process the City Manager added the May 10 work session / public hearing to the calendar at the request of one of the council members.

As mentioned, the City staffs are constantly improving the process based on input from others. A number of improvements were added throughout the FY 2011 process, many of them based on suggestions made by members of the Mayor and Council. This responsiveness to input demonstrates how well the City staff adjusts to guidance from City leaders. Changes in the process made for 2011 are enumerated below:

³ City Manager provided various options for the Mayor and Council to consider.

During the budget preview the Mayor and Council were provided spreadsheets to enhance their ability to look at the budget by cost center and budget lines, including one that showed cost centers in descending dollar order within departments.

Options were presented at the final budget preview session on February 22, a month in advance of the draft budget presentation

An enhanced website entitled, **It's Your Money**, now includes all budget information in one location for citizens to easily identify budget information pertaining to the City.

Two additional work sessions were added to review the Department of Public Works (May 4) and the Department of Parks and Recreation (April 19), the two largest departments in the budget.

At the May 10, 2010 Mayor and Council meeting the City staff introduced a what-if spreadsheet with various scenarios that was used during final deliberations of the budget.

As a result of the improvements made to the FY 2011 budget process, the final steps in the FY 2011 process are outlined below.

FY 2011 Budget Process (with improvements)

Nov 9	Budget kick-off with City staff
Nov-Dec	Departmental budget submissions developed by City staff
Dec 7&14	Budget preview sessions with Mayor and Council (Priority setting also took place at this session)
Jan-Feb	Budget narratives developed by City staff
Jan 15-17	Mayor and Council Retreat
Feb 22	Final budget Preview with Mayor and Council with options
Mar 22	Presentation of Proposed Budget
April 12	Public Hearing
April 19	Mayor and Council Work Session – Recreation and Parks
April 26	Public Hearing
April 27	Mayor and Council Work Session – Operating Budget ⁴
May 3	Mayor and Council Work Session – Operating budget ⁵
May 4	Mayor and Council Work Session – Public Works , Public Hearing
May 10	Final Budget Discussion and instructions to staff, what-if spreadsheet
May 24	Budget Adoption by Mayor and Council

It should be noted that in order to improve the process even further and alleviate some of the concerns expressed in this report, the City Manager is about to unveil three new tools for use in next year's budget process: A General Fund Principles Survey, a General Fund Programs and Services Survey and a CIP Survey. These tools will help the Mayor and Council come to a consensus on programs to be increased,

⁴ The departments reviewed were Police, Mayor and Council, City Attorney, and Information Technology

⁵ The departments reviewed were City Manager, Community Planning and Development Services, Finance, and Human Resources.

reduced or eliminated. They can also be used to narrow the scope of programs that are looked at in more depth as discussed in Recommendations 7 and 8 below.

Discussion and Recommendations

The Vision Process

As discussed earlier, the annual budget process is a complex and challenging effort. During more than eight months of meetings, work sessions, and staff effort, the Mayor and Council, city staff, and interested citizens provide input to prioritize and allocate funds toward core city services, civic responsibilities, desired community amenities, capital project investments, support for social service and civic organizations, and the costs of operating the city government. It is the responsibility of the City Manager and his finance department to organize this effort to produce a balanced budget for Mayor and Council review and action.

To accomplish this goal the City Manager and his finance staff collect these inputs and balance the projected costs of programs and services against the city's anticipated revenue. And to guide these decisions they rely on the city's core financial principles, stated priorities among programs and services, department leaders' vision regarding changes being seen in the community & population needs, as well as the experience and vision of current and prior city administrations and leaders.

The latter of these guideposts, the vision of our current elected leaders (for the future of our city) is formulated during the bi-annual Mayor and Council retreat in the winter of each election year. At this retreat, our elected leaders work with a meeting facilitator and the City Manager to outline and reach consensus on a vision and program priorities for the current term. These discussions inform the City Manager about the goals of the current Mayor and Council, which can then be used to shape the city's budget and program priorities.

Thus the Mayor and Council retreat represents an important early step in the budget process. Unfortunately, the January 2010 retreat missed out on a key component due to time constraints, namely an explicit session on budget priorities. Some seem to recall a primary goal of identifying themes and vision for the future among the current elected officials, and then brainstorming program ideas to ensure city activities during the current term steer the city toward those goals. In our opinion, this is very difficult to do without a clear understanding of the City's budget.

Recognizing the importance of the Mayor and Council vision in the budget process leads us to make a number of observations about how this synergy can be improved. First, the retreat where this vision is developed must be explicitly recognized as a contributing element in the budget development process. Any outline, timeline, or description of the annual budget development process must include this retreat, because the vision and priorities that emerge will be incorporated into the city's budget.⁶

⁶ The budget process is NOT outlined or described anywhere in its entirety on the city's web site, so it is not clear whether or not the winter retreat is "formally" considered part of the budget process.

The Mayor and Council vision statement should be completed as early in the term as feasible. This material is needed early in the process for a number of reasons: it is explicitly quoted in the budget document, it is used to develop and shape department programs, and then it is used to prioritize programs that best contribute toward the stated goals. For this reason, it is essential that the Mayor and Council retreat take place as soon as possible after the inauguration, and that the vision statement that emerges from this process be completed in a timely manner after the event.

But, at the same time, the visioning process should not be done to the exclusion of reviewing priorities among the entire range of city services and expenses. The retreat should set the strategic direction of the City, but it is not complete without discussing its core services in detail. More than one person we interviewed expressed some concern that the brainstorming and priority-setting that took place during the visioning process lacked the context of overall priorities. These participants felt that they were asked to cut or reduce emphasis on programs they had suggested be included in the vision, but were not afforded an opportunity to cut or reduce emphasis on other, existing programs that had not been raised in the visioning discussion. As a result, they felt the visioning process would forever add new programs, but rarely if ever recommend reduction or retirement of older programs. This could be avoided if some time was devoted at the retreat to review the core city services and how the budget is allocated against them. A discussion outlining the funding available at the current services level would also be helpful to the Mayor and Council. This would provide Mayor and Council with an estimate of the impact of repeating the budget decisions that they approved last year, giving them an indication of the constraint or flexibility that is available to them in the coming fiscal year. Such a concept will be discussed later in this report.

Recommendation #1: Vision themes discussion should be completed earlier in the cycle to better inform the budget process. Before priorities are even discussed, a substantial part of the retreat's Day One agenda should be allocated to review an outline of core city services and how the overall budget is allocated toward those functions. This review should be organized around department and enterprise cost centers such as the summary spreadsheet provided to the Mayor and Council during this year's budget preview session, or perhaps using the award-winning Popular Annual Financial Report (PAFR) document. This discussion could serve the dual purposes of providing new members of the Mayor and Council a brief primer on the city's income and expenses and also provide an opportunity to discuss the priorities implicit in how those funds are allocated. A preview of the financial indicators discussed elsewhere in this report should also be discussed (see recommendation #6).

Recommendation #2: A mechanism is needed to relate the visioning process to core city services, ultimately resulting in attainable goals. This should also be done using cost center data. Once the overall department allocations and priorities have been reviewed, the Mayor and Council can discuss their specific vision for the term. Next, as indicated in the Table below, with overall city priorities as a baseline, and Mayor and Council vision for the future as a goal, the brainstorming process can identify programs to support those vision points and clarify how those programs relate to the city's core priorities. Department heads can then translate this into attainable goals in time for the budget preview.

Vision Points in Support of Core City Services

	Core priority 1 (e.g., Public Safety)	Core priority 2 (e.g., infrastructure)	Core priority 3 (e.g., Community)	Core priority 4 (e.g., Business)	Core Priority 5 (e.g., amenities)	Core priority 6 (e.g., Other)
Vision Point 1 program 1.1 program 1.2 program 1.3						
Vision Point 2 program 2.1 program 2.2 program 2.3						
Vision Point 3 program 3.1 program 3.2 program 3.3						

Vision Themes 2004 - 2010

2010

Quality Environment
 Exceptional City Services and Amenities
 Multimodal Transportation
 Business Friendly
 Engaged Governance
 Urban Sensitivity
 Strong and Distinctive Neighborhoods

2006

A Distinctive Place
 City of Neighborhoods
 Communication and Engagement
 Exceptional Built Environment
 Balanced Growth
 Fiscal Strength

2008

Distinct Neighborhoods, One City
 A Cultural Destination
 Green City
 Quality Built Environment
 Exceptional City Services
 Economic Development and Sustainability
 Community Engagement

2004

Create a Vibrant Town Center
 Ensure New Development City-wide Enhances
 Rockville's Quality of Life
 Improve Pedestrian Traffic Safety
 Strengthen Rockville's Neighborhoods and Sense
 of Community
 Enhance the City's Government Performance

Recommendation #3: In order to complete the Mayor and Council retreat in a timely manner each cycle, a date should be set before the election takes place, putting all candidates on notice of the date and time. The date could be announced as part of the call for candidates in order to inform all potential candidates of one of their initial responsibilities should they be elected. This would alleviate coordination of calendars after the election, which could delay the process several months.

Similarly, we encourage the Mayor and Council to complete the vision statement that emerges from this process in a timely manner to better inform the budget process.

Budget Presentation and Review

The City of Rockville charter requires the City Manager to submit an annual budget to the Mayor and Council at least one month before the beginning of the fiscal year. The traditional position of the City Manager and Director of Finance has been to present a balanced budget to the Mayor and Council. As a result, the City Manager and his staff are making most of the recommendations that go into the annual budget. Despite the fact that these are merely recommendations, many perceive these as decisions. However, the procedure recognizes the Legislative responsibilities of the Mayor and Council vis-à-vis the administrative role of the City Manager. It is an entirely reasonable division of responsibilities that is used by most cities the size of Rockville. The proposed budget reflects the City Manager's interpretation of the priorities of the Mayor and Council and how they fit within the constraints of projected funding and spending needs. The Mayor and Council's subsequent consideration of the budget is framed as changes to the City Manager's proposed budget. We have heard dissatisfaction with this process, often expressed as disagreement with the "City Manager's priorities," lack of understanding of the proposed allocation funding and revenues, and difficulty in constructing alternatives. This tension is inherent in a budget process that requires the City Manager to construct a proposed budget that serves as the basis for the Mayor and Council's deliberations.

Throughout the process, the City Manager receives some input from the Mayor and Council in the form of regular one-on-one meetings that are available to them with the City Manager. Information can also be gleaned from various public sessions held with the Mayor and Council, most notably the vision setting exercise (referred to as Mayor and Council retreat above). As one interviewee put it, the City Manager develops the budget by "reading the tea leaves" through discussions with the Mayor and Council. By most accounts it was agreed that the budget process is complete and straight forward, but some improvements are needed to make the information more readily available for decision making and public involvement.

There is a great disparity in knowledge between the City Manager and his staff when compared to that of the Mayor and Council. The City Manager is a full-time employee tasked with running the City. He has been involved in developing over 25 budgets for various municipalities. The Mayor and Council on the other hand are part-timers working on a minor stipend. Interested citizens may have even less experience with municipal budgeting, and relatively few opportunities to explore the choices made in preparing the annual budget.

As a result, it is difficult for people that are not as immersed in the process, as the City Manager is, to get up to speed without additional tools to assist them. To the less experienced among us, the budget process can appear to be very complicated and it produces reams of paper to review before all is done. Even members of the Council who are familiar with the process, and believe it is a good process, feel that they can be more productive in their decision-making. During each stage of the process the City Manager provides an opportunity for the Mayor and Council to offer additional guidance. For example, during the final budget preview session one of the options presented to the Mayor and Council was to eliminate or reduce current services. However, this is a very broad statement that could require much time and effort for the Mayor and Council to make meaningful choices without more explicit guidance from the City Manager.

We have several recommendations to make the budget process more user-friendly. Hopefully this will result in more meaningful discussions between City staff and the Mayor and Council and simplify the discussions for uninitiated public observer who would like to participate more fully in the process.

Recommendation #4: In order to ensure that the Mayor and Council enter the budget discussions with as much knowledge as possible, it is recommended that they make better use of the one-on-one meetings with the City Manager to discuss budget issues and voice their priorities. This will result in more meaningful discussions when the entire council convenes in session.

Recommendation #5: It is recommended that the City Manager add an additional column in the Departmental summary Tables in the budget depicting a “Current Services Level” and present it to Mayor and Council as part of the proposed budget. The current services level would depict revenues and expenditures for the budget year, assuming that last year’s approved budget is repeated without change. For example, the current services level would project the amount of property tax revenue assuming the same rate and same deductions approved for the previous fiscal year, and spending would be for the same programs and levels, updated for expected changes in prices. This would provide Mayor and Council with an estimate of the impact of repeating the budget decisions that they approved last year, giving them an indication of the constraint or flexibility that is available to them in the coming fiscal year. It also would provide a policy neutral benchmark against which the impact of proposed changes, including the City Manager’s proposed budget, can be measured.

Recommendation #6: Prior to the preview stage, the Mayor and Council should agree on a set of core budget priorities that will be followed throughout the process. At each stage of the process, the City Manager should provide updates on how his recommendations comply with the previously agreed upon core budget priorities. This can be done in the form of a scorecard (dashboard), providing key financial indicators that is regularly updated throughout the process.

Recommendation #7: During the preview stage of budget development the City Manager should submit departmental budgets at multiple levels to help the Mayor and Council select options that are best for the City. More clarity should be provided on mandatory spending during this phase, to provide the Mayor and Council with data on the level of spending that may actually be available based on decisions made in the previous cycle.

Recommendation #8: Allocate Mayor and Council time for review of departmental budgets based on the size of departmental budgets. Bring departmental discussions forward earlier in the process. As was the case this year with Parks and Recreation and Public Works, the larger budgets can be reviewed on a rotating cycle to provide more insight into the workings of the City. How these sessions are conducted is very important. The City Manager should consider presenting each Department at various levels (for example – base budget, 5% decrease, 10% increase).

Recommendation #9: During the final draft budget presentation more concrete options regarding various City services should be presented to the Mayor and Council, in addition to the open ended statement that Council has right to make changes. This should be an annual process, regardless of whether there is a budget gap, to allow the Mayor and Council more choices for use of City funds (i.e., buy down debt, increase contribution to CIP, adjust the level of spending for City services, etc.)

Communication Issues

Many times in this document we've referenced the fact that the city's budget process is a complex effort that involves the concerted effort of many players over many months. Those directly involved in the day-to-day activities of devising and implementing the budget readily become familiar with the assumptions, terms, and schedules embedded in these documents because they are immersed in the process daily and are held accountable for critical input and deadlines throughout the process. Over time and with experience, City staff become more familiar with the budget process and the choices that must be made to balance a budget while also meeting the expectations of the Mayor and Council and the community they serve.

But the rest of us participate on a more limited basis. The Mayor and Council are charged with reviewing, understanding, and passing judgment on the high-level budget. To accomplish this task, they participate in budget briefings and work sessions, meet individually with the City Manager and city staff as needed, and study the supporting materials as time permits. And, like city staff, prior experience informs this understanding.

Beyond the Mayor and Council, the effort to understand the budget itself and the process of achieving it becomes even more challenging. Citizens may watch City Council meetings and work sessions, and have access to published documents on the city's web site. And they may request meetings with city staff to ask questions or discuss concerns. But to fully grasp the details of a process this complex takes time and experience.

A number of previews, work sessions, briefings, and public hearings are included in the eight month schedule that comprises the budget development process. In addition, notices in Rockville Reports and on the city's web site invite public comment, and citizens are welcomed to meet with city staff upon request.

In spite of this, we heard from numerous participants in the process that the level of public participation is lower than desired, and that many who do comment express frustration that there was not sufficient opportunity to influence the process. As mentioned earlier, some indicated that the public hearings are scheduled "after the budget is done".

In comparing the concerns expressed and the facts available, we conclude that perceptions about lack of opportunity for public input unfairly condemn the process. But we also identified some options to correct this misperception.

First, we reviewed the timeline and found that advertised public hearings are held in April, shortly after the proposed budget is assembled and presented. There are no public hearings or solicitations for input on budget priorities between the early November budget kick-off and the late March presentation of the proposed budget.

Second, there is a misperception that the proposed budget presented in April is a “done deal.” This is also a potential reason for lack of citizen input in the process. This proposed budget is, by definition, a draft intended for review and comment. It may be wise to more clearly identify this document as a rough draft and the desire for public comment. These elements all contribute to perceptions that the release of the proposed budget is too late in the process to comment or influence decisions.

Even though the draft budget is a very detailed document with a glossy cover, a draft is still a draft. In some cases it is actually the starting point for real discussions on the process that developed from the budget previews that preceded it. Additional hearings and work sessions, as was the case in FY 2011, should alleviate this perception. In addition, some felt that the presentations at the various stages of the process tend to be more of a lecture than an opportunity to have open-ended discussions on the contents of the document.

Recommendation #10: To better equip the lay person to participate in this process, communications and published material should be expanded to include explanations of the process of devising and approving the annual budget. This is especially important to participants who are new to the process – whether in City staff, on Mayor and Council, or in the community at large. These materials should include an explicit outline of the steps in the budget process, an overview of the allocation of funds by department, and a summary of the metrics used to monitor how well expenditures track with budget plans.

Recommendation #11: Adding advertised opportunities for public input early in the process can address the perception that public input is sought too late in the process. This can be accomplished either with a full public hearing on initial budget priorities or by increasing public notification about the desire for public input early in the process. In addition, to address the concerns of some that the draft budget is a “done deal”, the City Manager should consider publishing the draft budget on lighter paper stock and/or with less formal cover stock and design.

Environmental Scans

Up to this point most of our discussion has been about the budget development process itself, and the manner in which the City Manager and staff present their proposals to the Mayor and Council. We have proposed adjustments in approach and timing as well as public notification and communication. These are all minor tweaks to a process that generally serves the city well and actively seeks to engage the public in the process.

Beyond these minor tweaks, we do have a few recommendations that reach beyond the current process. One area that is not actively addressed in the existing budget process is the topic of the larger economy in which we operate. There are many factors external to Rockville that can have a significant impact on our fiscal policy and financial plans. Our economy is deeply intertwined with those of the county, state, school district, and Federal government. In addition to these higher-level authorities, changes in the national economy and financial markets can influence our budget decisions as well. Understanding the changing external environment that may impact the city is critical. More importantly, successful management of the City depends on the ability of senior leaders to adapt to this changing environment.

These statements seem obvious in this second year of a record-setting recession that has negatively impacted public, private, and personal spending around the world. But prior to this most recent budget cycle there was little overt acknowledgement of how significantly such changes could impact our income and spending plans.

The City Manager and Finance Director indicated that they have considered these factors in their planning, and have discussed whether explicit references to such environmental factors should be included in the formal budget process. While there have been discussions about how this information might be included in the process, there is no explicit place for this data in the budget presentation.⁷

For example, revenue projections depend heavily on tax duplication contributions from the county. Budgets typically state these as assumptions, and note that these contributions can change. In addition, projects around us can severely impact future budgets, such as the Gaithersburg West and White Flint Master Plans. But without an environmental scan there is little information about how severe this risk may be or what can be done to adjust to changes that may occur.

Ideally an outline or checklist should be developed to document the most significant elements of the city budget that would be impacted by various changes in the macro economy.

Recommendation #12: The City Manager should make greater use of Environmental Scans in development of the budget. We suggest that an explicit reference be made to environmental scans in the annual budget process. References to the larger economy should be included in the executive summary of each budget, and also linked to the assumptions used to develop the budget. Macro economic factors can impact the costs of debt repayment as well as our credit rating. Changes in the local, regional, and global economy can impact occupancy rates in office buildings as well as the income of residents. Each of these should be noted as a risk in the assumptions and plans made in the annual budget. Environmental scans should be updated every 2-3 years.

Other discussion topics to improve the budget process that would require charter revision:

The annual budget process is stressed, particularly with a two year election cycle where the visioning process begins almost immediately after an election. In addition, newly elected officials are stressed to participate in a complex budget process while just getting acclimated to their jobs and responsibilities.

⁷ The Department of Community Planning and Development recently published a strategic scan, and intends to update the document after the 2010 Census.

Mayor and Council serve in part-time positions and require some time to absorb the intricate nature of the city's budget.

To allay some of these stresses, a **two-year budget cycle in tandem with four year terms**, would help the Mayor and Council get acclimated to the process and dramatically reduce the cost of the budget development. It is interesting to note that legislation was recently introduced in the Pennsylvania State legislature to establish a two-year budget cycle.⁸

Cost Implications of the Proposed Recommendations

The recommendations presented to improve the budget process will have very little financial impact on the City if they were implemented. An increase in staff time will be required to provide additional scenarios for the Mayor and Council to review; however, this is more than likely information the City has already developed for their own internal use. Additional "volunteer time" would be required of the Mayor and Council if the additional work sessions added in the FY 2011 process is institutionalized. There would be some savings to offset this cost if the draft budget were printed on lighter paper stock than is currently used.

If a two-year budget cycle were adopted, significant resources could be saved. A two-year budget cycle would reduce the time and resources necessary to enact a new budget each year and encourage the Mayor and Council to incorporate long-term perspectives in budgeting. The plan would also allow for a more in-depth review of how city agencies spend taxpayer dollars.

⁸ On 2/216/10 Sen. Mike Brubaker (R-36) introduced legislation that would establish a two-year budget cycle in Pennsylvania to promote greater efficiency and productivity in state government. "The time we spend each year debating spending and taxation could be better spent reviewing the performance of state programs and agencies to determine where taxpayer dollars are best spent," Brubaker said. "This simple measure will help to reduce the political battles we suffer through each year and allow the General Assembly and the governor to get a clearer picture of the programs and services that provide the greatest benefit to the communities we represent. Our current budget process is repetitive, time-consuming and inefficient," Brubaker said. "By adopting a two-year budget cycle, we can help state government budget more efficiently and address many of the problems that have led to the past seven years of missed budget deadlines."

Budget Book

General Discussion

Rockville's Operating Budget Book is a very good document that owes its present format to a variety of factors. However, there are several additions and extensions that can and should be made. Most suggestions try to make tradeoffs clearer as elected officials make budget decisions.

All specific Budget Book references are to pages and tables found in the FY2011 Adopted Operating Budget Book (referred to as Budget Book below). This document can be found in PDF format on Rockville's website at <http://www.rockvillemd.gov/budget/>. The scope of this write-up is limited to the Operating Budget. The recommendations apply to both the proposed Operating Budget Book and the adopted Operating Budget Book. There are many recommendations in this section and the group recognizes that some of them will have to be implemented incrementally.

Rockville's Budget Books have been awarded the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for 20 years. There is a list of criteria, some required and some recommended, on which GFOA evaluates budget presentations. For example, page 3-2 of the Operating Budget Book is about the Capital Improvements Program budget. This page is there because of GFOA requirements. The Budget Book owes much of its current format to GFOA guidelines. Therefore it is not realistic to suggest a complete revision to this document.

The Budget Book is a massive document that will never be easily pulled together. However there are improvements that can make budget data and tradeoffs more understandable. The extensions mentioned below can be accomplished with current technology. Some software improvements will wait for the City's overall software update process which will take several years. Rather than get into the details of which software the Budget Office uses, we mention below a few specific software requirements and capabilities. In the meantime, ad-hoc spreadsheet software can be used to execute high-level what-if scenarios as was seen in the Mayor and Council meeting on May 10, 2010.

There are substantive and cosmetic improvements that can be made to the Budget Book. Some improvements concern a few measurable financial management principles. A few others support this report's recommendations for budget process improvements. All seek to clarify the data and to make plainer the tradeoffs inherent in budget decisions. All recommendations keep in mind the audience for the Budget Book including: (1) Mayor and Council; (2) City Staff; (3) Interested Citizens including candidates for office; and (4) Historians.

An example of how the operating Budget Book can be improved to illustrate a key policy tradeoff is how the debt in the RedGate Enterprise Fund impacts the General Fund Reserve. Though the General Fund Reserve has been lending money to the RedGate Enterprise Fund this is not seen in the Budget Book. Yet it is likely that this debt will have to be written off by the General Fund Reserve, potentially bringing its level below the required 15% level unless Mayor and Council make other budget adjustments.

Measurable Financial Management Principles

A few of the Financial Management Policies found in Section 2 of the operating Budget Book are measurable. They state specific numeric targets for reserve levels and debt ratios.

Recommendation #1: The Budget Book’s Financial Management Policies in Section 2 should make reference to where each numeric target is documented. For example, numbers relating to *Debt Management Policies* are found on page 3-25 of the Budget Book.

Recommendation #2: The following measurable Financial Management Principles should be made part of a scorecard, (also known as a dashboard), where in one place we can see revenues, expenditures, fund balance, reserve level, and debt ratio. It is a key goal that when Mayor and Council make decisions in any given year, they fully understand tradeoffs for the present and for the future.

Balance General Fund budget (p 2-4, #4, Operating Budget Policies):

The definition of a balanced budget is found in the City Charter. “The budget shall be adopted in the form of an ordinance, which, by its terms, shall appropriate anticipated revenues to the designated expenditure items.” This definition gives Mayor and Council some discretion in how the body arrives at balance. There is no requirement that revenues in a given year pay for expenditures in that year, only that the expenditures be covered. For example, if there is a revenue shortfall, the General Fund reserve can be used to make up the expenditures. A balanced budget is displayed in tables on page 3-1, but it may not be obvious how balance is achieved. Part of the problem is with the use of jargon.

Recommendation #3: Align the definition of a balanced budget found in the Budget Book to the definition found in the City’s Charter.

Recommendation #4: The descriptor: “Appr. Fund Bal/net Assets” may be technically correct, but the term “from reserves”, (or a similar layman’s term) would be clearer and should be added.

Recommendation #5: When reserves are used to balance the budget, this should be stated explicitly in a footnote to the tables on page 3-1.

The City will maintain an unreserved General Fund balance at a level not less than 15% of the Annual General Fund Revenue (p 2-10, #1, General Fund):

Recommendation #6: Add a row which is the fund balance of each fund to the table on page 3-1.

Recommendation #7: The calculated percent reserve should also be shown there in addition to its placement on page 4-5. Its connection to the present budget would be clearer on page 3-1.

Recommendation #8: The percent reserve for the previous budget should also be shown on page 3-1 so that this table would more clearly show the connection between the current budget and its impact on reserves.

Recommendation #9: The Expenditure table on page 4-5 should show actual reserve levels for prior fiscal years. These table cells are currently grayed out though the graph below shows their levels.

Recommendation #10: Where the General Fund Reserve has loaned money to another budget fund that will not be paid back, the table on page 3-26 (Statement of Projected Unreserved Equity in City Funds) shall note the presence and amount of unrecoverable debt. (See the related recommendation in the Financial Management Policies section of this report.)

Measurable Debt Management Policies, (p 2-11, #12, 13, 14, 15, and 17). These are documented in tables on page 3-25 of the operating Budget Book.

Recommendation #11: These Financial Management Principles should refer to the tables on page 3-25 of the Budget Book.

Recommendation #12: In addition to being part of the scorecard, the Finance Department should consider combining them into the Section 4 Forecasts.

Recommendation #13: The scorecard should be part of any electronic spreadsheet used in Mayor and Council budget-making deliberations.

Other Substantive Changes

Recommendation #14: The table on page 3-1 is the basic high-level table for much of the rest of the book. It shows resources on top of expenditures.

- Use 2 full pages, a left page and a right page, simultaneously viewable.
- The present table on page 3-1 can be kept as is (with modifications as stated above) but it should appear on the left page.
- On the right page, place an additional resources table with rows that are subsets of the sometimes too-broad categories currently used. For example, the “From Other Gov’t.” row includes Income Tax, which at \$9.3M deserves exposure (it is almost 10% of the overall budget). A cut-off rule for inclusion as a supplementary information row would be revenue of ½ million or more, or funds that normally should be at that level.
- On the right page, put in another Use of Funds table that includes a departmental breakdown. Add a bottom row that shows the fund balances for each of the funds.

Justifications: The tables on page 3-1 are organizational or anchor tables for the rest of the Budget Book. For expenditures in subsequent pages there are two major breakdowns that recur in subsequent tabs. These breakdowns are by (1) department and (2) by type. It would help to see the departmental breakdown on page 3-1. For revenues, it is important to recognize large sources of revenue that are hidden by the higher-level breakdowns. This is the first step towards understanding the risks to revenues that the City faces.

Recommendation #15: For selected Cost Centers, for example for the Swim Center, provide a longer history of expenditures, revenues, and a measure of use such as numbers of Rockville and non-Rockville residents. The latter may require the adoption of a new registration system to track resident use.

Recommendation #16: For Department and Division summary tables add a ‘percent-changed’ column comparing prior-year figures to those of the current year. For example, for the FY2011 budget, this would relate the ‘Est. Act. FY10’ column to the ‘Adopted FY11’ column. This new percent-changed column would be the right-most column.

Recommendation #17: Department Summary tables, e.g., page 10-1 or the Department of Human Resources. We see the ‘Use of Funds’ illustrated as a 1-year pie chart. A better representation would be a 5-year stacked bar chart.

Recommendation #18: In the Department Summary table, insert a ‘current-services’ column which would represent the cost to maintain the service at the current level.

Recommendation #19: Near the front of the book, add an illustrative 2-page section that indicates how to interpret the Budget Book, especially its cascading presentation of finer and finer detail.

Recommendation #20: Near the front of the book, consider adding all or key parts of the Popular Annual Financial Report (PAFR).

Recommendation #21: In the Appendix, continue the just-adopted practice of displaying the Cost Center Summary.

Recommendation #22: In the Appendix, continue the just-adopted practice of displaying the Line Item Summary.

Recommendation #23: Somewhere there should be a statement of what it costs annually to pay off every \$1M that we have borrowed.

Recommendation #24: In addition to specific operating Budget Book extensions we recommend that City Staff consider a broader technical approach to the availability and presentation of budget data. Federal, State and local governments increasingly provide an extraordinary array of data to the public in machine-readable format. These efforts make “operations and data more transparent... expanding opportunities for citizen participation, collaboration and oversight” (<http://www.whitehouse.gov/open/around>). Moreover, providing more data in more formats improves government transparency and accountability (<http://sunlightfoundation.com/about/>). “These steps will strengthen our democracy and promote efficiency and effectiveness across the government” (IBID, Whitehouse).

Budget data can be provided in an electronic format more flexible than PDF images. The City could adopt one or both of two basic approaches. Less flexible but more useful to a general audience, a “push” approach involves providing electronic access to budget and performance information using an online

tool. An excellent example of this is the Federal IT Dashboard at <http://it.usaspending.gov/>. This site provides a variety of predesigned, regularly updated reports. Users can drill down to a desired level of detail to analyze spending over time, evaluate spending allocations across categories, and evaluate specific investments. The City could create an online Budget Book that supported drill downs and historical analyses within and between departments. A “pull” alternative would not constrain users to centrally imagined analyses and reports. Consider the example of www.data.gov, the Federal government’s data sharing nexus. The site makes publicly and freely available more than a quarter million different data sets generated through an immense array of taxpayer-funded efforts. The City could post all historical data in a standard format for use by the public, businesses, the media, academia or any other interested party. Another valuable data feed would be a posting of City contract and purchase activity (<http://www.data.gov/tools/132>). As described at data.gov, this is the ultimate in “democratizing public sector data” and would drive innovation.

Recommendation #25: With respect to the acquisition of budget software, this Task Force makes the following very general recommendations.

- Staff should proceed with the planned purchase of budget software. If financially feasible, this should be moved up by one fiscal year.
- Budget software should be fully integrated with General Ledger and other financial software including potentially the payroll system. This can help eliminate manual data entry and other sources of errors.
- Software should have the ability to create reports as needed by staff and in response to requests by Mayor and Council. Reports should be able to provide details as well as high-level summaries as necessary. Mayor and Council need a general overview and can request details when warranted.
- The system should be capable of generating reports that include prior years’ data in comparison with current year’s data as well as percent change.

Cosmetic Improvements

Recommendation #26: Labeling

- Put table numbers at the top of each table.
- Put figure numbers at the top of each diagram, chart, or figure.

Justification: This just makes communication easier, especially the back-and-forth between Mayor and Council and City Staff.

Recommendation #27: It should be made plainer that if anyone wishes to consider trimming or cutting a ‘program’ that this can be done by reviewing the Cost Center data.

Recommendation #28: Where there are ‘out-of-kilter’ financial management principle numbers, there should be detailed footnotes that explain why this is. For example, on page 3-25, footnote 1 of the Capital Projects Fund table should be more explicit that the parking garage situation explains why row 2 of that table is not being met.

Recommendation #29: The proposed Budget Book should more clearly indicate its draft nature.

Recommendation #30: The PDF version of the Budget Book should be formatted to principles of accessibility so that people with disabilities can make use of these documents.

Suggestions from Other Sections

From the Financial Management Policies section, recommendations 3 and 14 also give suggestions for Budget Book improvements.

From the Budget Process section, recommendation 5 gives a suggestion for Budget Book improvement.

Acknowledgements

The Finance and Budget Task Force would like to thank many people who assisted with this report. This includes City Staff, namely City Manager Scott Ullery, Finance Director Gavin Cohen, and Budget Officer Stacey Tate and their staffs. They were interviewed, dug up information, interpreted data, and provided a technical review of some drafts. They met at length with all three sub-groups. We appreciate their help as well as their continuing efforts to improve the budgeting process. All members of the Mayor and Council were interviewed at least once for this report.

Former Mayor and Councilmember Susan Hoffmann was also interviewed and we extend our sincere thanks to her.

Many thanks as well to the Task Force members. They gave their intellect, experience, skills, time, and energy to a difficult task. Members had to absorb a large amount of material in a short period of time and produce achievable recommendations. Their suggestions are far reaching and cut to the core of how the City allocates its resources. Councilmember Mark Pierzchala expresses his profound gratitude for their extraordinary efforts.

Appendix A

Task Force Resolution (Adopted December 14, 2009)

PROPOSAL FOR A FINANCE AND BUDGET TASK FORCE BY COUNCILMEMBER MARK PIERZCHALA

December 4, 2009

Purpose: The purpose of a Finance and Budget Task Force is to help define better tools and procedures for Mayor and Council and City Staff to formulate Rockville's annual budget of approximately \$100M.

Need: The budget has grown over the years as revenues have increased, but now Rockville is faced with stagnant or declining revenues and greater expenses. Some sources of revenue and some expenses are not entirely in Rockville's control. As a result, Mayor and Council may have to reduce or eliminate some programs in this or future years.

Rockville's Finance Department possesses great expertise and the budget book has been cited 19 years running for its presentation. Rockville's budgets have been crafted with very conservative assumptions over the years in order to handle 'worst-case' scenarios. Further, it is recognized that the Finance Department has already anticipated the need for Mayor and Council to see information in a different way, or examples 2 new budget tools were introduced in the Budget Preview, Part I. Yet because of the unprecedented and uncertain situation in which the City finds itself, through no fault of its own, a technical and narrowly focused Task Force can contribute additional expertise and fresh points of view that would help City Staff and elected officials.

Goals and products: A Finance and Budget Task Force would have three technical goals to: (1) review Rockville's Financial Management Policies; (2) review Rockville's budget process, and (3) review the budget book, especially the presentation of budget data. The Task Force would make positive recommendations to City Staff and Mayor and Council. There would be a short interim report by the end of March 2010 and a finished report by the end of June 2010. This proposal recognizes that the budget process for FY2011 is already well underway and that some recommendations could only be implemented for FY2012.

The interim report would give a first review of the financial management principles. It would also give strategic and achievable recommendations on data presentation that might help decision makers compare one program with another for FY2011.

The final report would give a final review of the financial management principles. It would make additional budget-book recommendations, and possibly define additional kinds of data presentations such as (1) historical time series, (2) spreadsheets, or (3) web-based displays. The final report would also make recommendations on the budget-making process after having observed the process for FY2011.

Task Force Membership: Because of the technical nature of this Task Force, citizen members should apply for membership. Individuals should have relevant expertise with local government financing or accounting, data display, process management, or related fields. The selection of individuals will be by nomination and vote of the Mayor and Council.