



March 24, 2008

Honorable Mayor and Members of the City Council
City of Rockville, Maryland

It is my privilege to present to you the proposed budget for the City of Rockville for Fiscal Year 2009. The total operating budget for all funds equals \$103.9 million, an increase of 10.7 percent over last year. The General Fund budget increased by 5.9 percent to \$62.4 million and maintains a real property tax rate of \$0.302 per \$100 of assessed valuation. The budget is balanced, and supports the Mayor and Council's vision, existing programs and services, and the City's infrastructure. We face FY 2009 in a strong financial position, despite an overall change in the economic climate.

The Government Finance Officers Association (GFOA) annually recognizes the City's budget document for its excellence as a communication device, policy document, financial plan, and operations guide. I hope that you find it to be a valuable tool in making the important decisions that will impact Rockville citizens and the City government throughout the next year.

The main theme of the FY 2009 proposed budget is sustainability. Resources are provided to promote sustainability in different areas that will allow the City to thrive into the future. Environmental sustainability will be promoted through the "Strategy for a Sustainable Rockville," major improvements to the City's water and stormwater infrastructure, the use of single stream recycling, and the overall implementation of the new refuse system. Financial sustainability will be encouraged through the utilization of a new financial forecasting tool, the implementation of updated financial management policies, and the use of a new Capital Improvements Program prioritization system. In addition, program and service level sustainability will be supported through the allocation of City resources to maintain or improve existing City programs and services, and to promote Rockville as a major recreation and cultural destination.

Changes to the Budget Document

The most significant change in the FY 2009 Operating Budget document is the addition of Section 4, Five-Year Forecast. This section, which presents a five-year forecast of the revenues and expenses for the City's major funds, has a

direct relationship to the long-term financial plan of the City. In terms of budgeting and financial planning, forecasting is essential in determining the future revenues and spending levels of the City. If surpluses or deficits are predicted in the forecast, management actions must be taken early on to maintain the overall financial health of all funds. Though this model is in its infancy, future additions will allow staff to run various scenarios to determine the long-term implications of policy and budget decisions.

The recently adopted Financial Management Policies have been included in Section 2, Policies and Goals. These Financial Management Policies will assist the City in maintaining long-term financial stability, sound internal controls, and stakeholder confidence. The Policies serve as guidelines for staff on financial matters, and they reflect prudent fiscal practices on behalf of the Mayor and Council. It is important that the City adheres to these financial policies and practices, as they are the foundation that allows the City to maintain stable tax rates and operate with maximum efficiency and effectiveness.

The FY 2009 Operating Budget book includes a number of improvements to the City's overall performance measurement program. Performance measures and workload indicators have been updated throughout the department and division sections to show whether programs and services are achieving their intended results. The City will continue to improve the overall performance measurement program so that we can accurately identify program results, assess past performance, and facilitate program and service delivery improvements for future years.

In the FY 2009 – FY 2013 Capital Improvements Program (CIP), the City initiated a new process to prioritize CIP projects supported by the Capital Projects Fund based on the needs of the Rockville community and the vision and priorities of the Mayor and Council. This improved prioritization process, as discussed on page six and in the Appendix of the CIP, is a more systematic process for setting citywide CIP project priorities than employed previously, and is an important element for ensuring long-term sustainability of the CIP.

Each improvement to the document enhances the transparency with which we govern, and demonstrates that the tax dollars the City receives are prudently managed.

Major Factors Impacting the FY 2009 Budget

Economic Climate

The City's budget and overall financial plans are directly linked to the status of the national and regional economies. Regional experts believe we will continue to see slowing economic growth that will likely impact future government resources. Slowing economic growth has forced the Federal Reserve to lower interest rates and offer an economic stimulus package to try and bring stability to the economy. The Federal Reserve has cut interest rates to three percent in an attempt to avoid a recession, and future rate cuts are anticipated. The slowing housing market, with record foreclosures and property abandonments, and the price of oil at over \$100 a barrel are major causes for concern. Other factors, such as a presidential campaign, are creating uncertainty in the national economy. Some believe this uncertainty may lead to a recession (defined as a decline in gross

domestic product (GDP) for two or more successive quarters). Even if a recession is avoided, the U.S. is likely to experience GDP growth this year that is below trend, as consumers attempt to increase their savings.

Although the City is impacted by the recent economic trends through decreased revenues from the State, the City's budget continues to experience steady, albeit slower, growth consistent with sustainable recurring revenues and the growing needs of the Rockville community.

Property Assessments

Property value assessments and new development are principal drivers of City revenues. For several years both new development and property values have increased significantly, providing needed revenue to meet the demand for basic municipal services and maintenance of public facilities. The rate of new private development has slowed considerably due in part to the City's current moratorium, which is scheduled to end on June 30, 2008. The proposed new zoning regulations currently being considered by the Planning Commission may also impact new development.

The revenue impact of this slower rate of new development is not readily apparent because property values remain relatively high. Assessed valuations are not decreasing, however they are increasing at lower levels. As noted in this budget on page 3-5, the billable assessed value is expected to increase by 11 percent from FY 2008 to FY 2009. No properties in the City of Rockville were reassessed as of January 2008. The next reassessments for the City will take place in January 2009 and January 2010.

Starting in FY 2011, the City anticipates that the assessed value above the ten percent residential cap on annual increases will be fully taxed. It is because of this excess capacity that Rockville's assessable base has continued to grow despite the national and regional economic conditions. Staff anticipates that assessments will continue to rise but at a much slower rate, and the City's ability to sustain its current programs and service levels, at the current tax rate, will be accomplished through continued careful management of resources.

General Fund Tax Rates and Tax Credits

The projected revenue growth for FY 2009 allows the City to maintain the real property tax rate and the personal property tax rate at \$0.302 per \$100 of assessed valuation and \$0.805 per \$100 of assessed valuation respectively. Maintaining the general tax rates confirms the City's strong financial position, as other communities are facing difficult choices regarding raising taxes or reducing services.

For the third consecutive year, the proposed budget features tax relief for our citizens. Because a reduction in the tax rate without reducing recurring expenditures would be unsustainable within the current economic environment, a one-time tax credit of \$100 is recommended for every owner-occupied household through the State's income tax offset program. This would be the second consecutive year that the City has utilized this program that targets residential homeowners, and would provide an element of relief given current economic conditions.

In addition to the \$100 tax credit, staff recommends that the City continue to provide property tax relief to the City's low-and moderate-income taxpayers through the Homeowners' Tax Credit Program. Many households with annual gross incomes of up to \$70,000 will qualify for this credit on their FY 2009 real property tax bills. For very low household incomes, the credit eliminates the City tax bill on the first \$300,000 of assessed value. The amount of the credit decreases as gross household income rises, until reaching zero at \$70,000.

FY 2009 is the first year that a Senior Tax Credit is included, which will operate in conjunction with the Homeowners' Tax Credit Program. The Senior Tax Credit Program is identical to the Program offered by Montgomery County and the State, which allows for 25 percent additional credit if one or more of the primary residents is 70 years or older. The program is administered by the State through the Homeowners' Tax Credit Program.

The City will receive approximately \$1.54 million less in property tax revenues due to the Income Tax Offset Program, and approximately \$300,000 less due to the Homeowners' Tax Credit Program and Senior Tax Credit Program.

Town Center Management District Tax Rates

The Town Center Management District (District) is funded through the Town Square Street and Area Lighting Tax District and the Town Square Commercial Tax District. The District was established to fully support the maintenance and operational costs of the common areas owned by the condominium associations in Town Square. The two taxing districts were established in FY 2008.

The Town Square Street and Area Lighting Tax District will levy a real property tax of \$0.105 per \$100 of assessed value on residential and commercial properties within the Town Square boundaries. The GDA limits the annual tax revenue that comes from the residential properties within this District to \$140,490 for the first two years, and this is the second and final year for this limitation. Staff anticipates that the tax rate will yield approximately \$140,000 from residential properties and \$55,000 from commercial properties for a total of \$195,000. The Town Square Commercial Tax District will levy a property tax of \$1.20 per \$100 of assessed value on commercial property within the Town Square boundaries. Staff anticipates that this tax rate will yield approximately \$625,000. The tax rates have increased from the adopted FY 2008 budget by \$0.057 for Street and Area Lighting District and by \$0.67 for the Commercial District due to the actual assessed values coming in lower than originally estimated. The total tax revenue from these two districts is sufficient to cover the total expenditures in the Town Center Management District budget for FY 2009.

Town Center Parking District Tax Rate

This taxing district was formed in FY 2007 to pay the operational costs, including debt service, of the three public garages within Town Square. The District plays an important role in the entire City parking operation, and as discussed under "Parking Fund" on page 3-16, it is unlikely to be self-supporting in its early years of operation. The tax rate for FY 2009 will remain unchanged at \$0.30 per hundred dollars of assessed valuation, which will provide an approximate contribution of \$115,000 from the developer towards funding the District. A summary of the overall Parking Fund's revenues and expenses can be found on pages 3-16 and 3-17 within the Fund Summaries section.

The Mayor and Council gave approval for the garages to start accepting payment starting March 10, 2008. It will take a full year of receiving payments before a realistic analysis can be done utilizing actual payment data to determine the long-term need for the General Fund subsidy.

Mayor and Council Ten-Year Vision of a Desired Future Community

The FY 2009 proposed budget allocates resources to focus on the priorities of the Mayor and Council. In January 2008, the Mayor and Council drafted their Vision for the City of Rockville, along with associated priorities to be accomplished between 2008 and 2010. The Vision guides staff in planning programs, services and projects for the community. The seven vision themes are as follows (complete descriptions start on page 2-1 of this book):

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

The City's Executive Team has the principal leadership responsibility for implementing the Vision.

New Operating Expenses

The Thomas Farm Community Center, the City's first major community recreation facility west of I-270, will open in FY 2009. Net annual operating costs for the Center are projected to be approximately \$400,000. The majority of these costs, including 2.0 new FTEs, are included in the FY 2009 operating budget. Additional funds will be included in FY 2010 when the facility is fully operational for the entire year.

Included in the proposed budget for the first time is \$262,000 to prefund a portion of the City's liability for its retiree health care costs known as OPEB (other post-employment benefits) in accordance with GASB 45. GASB 45 is a new accounting statement that is in effect for the City beginning with its FY 2008 financial statements. The City's total liability equals approximately \$1.3 million, and will be funded over a five-year period.

In order to provide exceptional City services, new operating expenses of approximately \$200,000 are budgeted in the fields of technology, financial systems, and employee training. This new funding will help staff improve their internal and external customer service capabilities thereby improving services to residents and businesses. Improvements in these fields make the City more efficient and effective, and ensure that the City is keeping pace with industry standards and best practices.

Starting in FY 2009, staff recommends that City facilities pay for their own water and sewage usage since a majority of the City's facilities are now metered. This policy change adds operating costs of approximately \$290,000 to all City funds that utilize water and sewer services, of which \$175,000 is budgeted in the City's General Fund.

Commodity and supply prices continue to increase and are a major factor when determining the total cost to maintain current programs and service levels. For the FY 2009 budget, approximately \$380,000 was added to cover the increase in the price of electricity, gasoline / oil, heating fuel, and chemicals across all funds.

City Staffing

Over the past few years the City has grown with the addition of the King Farm and Falls Grove neighborhoods, and now Town Center. New construction continues elsewhere in the City, and ground breaking has taken place at Twinbrook Commons. The resulting increases in the population, numbers of streets and parks, and new facilities require that the City government grow to keep up with the additional demand. Since the City has held back over the past several years on adding staff as it conserved its resources to devote to developing Town Center, the FY 2009 budget adds 23.4 regular FTE's across all funds (6.12 FTEs in the General Fund) to meet the increased demand. This includes 3.0 positions that were proposed, but not adopted in the FY 2008 budget. The full FTE count is reconciled on pages 1-9 through 1-11 and new FTE's are described within their respective departments.

These new positions support a wide variety of programs and it is the first time in many years that staff is proposing to strengthen its support services across all support departments. The City's support services enable the front line operations to provide their services at the level expected by the City's residents. The proposed FY 2009 budget has new FTE's in the support areas as follows: PIO Specialist in the City Managers Office, Systems Support Senior Analyst in the Finance Department, Training Coordinator in Human Resources, and a Network/PC Support Specialist and Network Engineer in the Information and Technology Department. Together these five new positions support communication, training, and technology, and will allow the City to modernize many of its business practices.

The high level of competition within the labor market is unlikely to change in the near future. The City organization will continue to face the challenges of low unemployment within the regional and national labor markets, and the retiring baby boomer generation. Talented individuals have expectations for professional development, and the City must continue to provide those opportunities, pay competitive salaries and benefits, reward performance, and provide adequate equipment and tools in order to both retain and attract exceptional employees.

The Mayor and Council recognized the challenges associated with retaining and attracting high quality employees and, in FY 2008, approved a one-time Compensation Study that analyzed the City's full range of salaries and benefits across many of the salary classes. This Study is being utilized in FY 2009 as a basis for contract negotiations with the AFSME union, and during the meet and confer process with the FOP. The FY 2009 budget includes sufficient resources to make significant improvements to keep salaries competitive in an increasingly tight labor market.

The FY 2009 proposed budget also includes sufficient resources to make minor modifications to the City's pay for performance plan, and to provide stipends for cell phone usage in accordance with a new wireless communications policy that staff modified to stay in compliance with IRS regulations.

Speed Camera Fund

The Speed Camera Fund, a special revenue fund created in late FY 2007, is used to track revenues and expenses associated with the City's speed camera program. This program is designed to save lives by getting drivers to slow down on residential streets and near schools. Though program revenue is not available for general City operations, it is available to enhance traffic and pedestrian safety programs and projects in the operating and the CIP budget.

In line with the Mayor and Council priorities and State law, revenue from this program provides the City with the resources needed to focus on pedestrian safety needs. For FY 2009, the Speed Camera operating budget includes 2.0 new Police Officers that will serve in the City's Traffic Unit and 0.5 Civil Engineer that will supplement staff assigned to the design of sidewalks and pedestrian walkways. The operating budget also includes funding for a one-time comprehensive citywide inventory and evaluation of all pedestrian sidewalks, crosswalks, walkways, etc. In addition, the FY 2009 CIP includes Speed Camera Funding for the Pedestrian Safety project, the Street Lighting Improvements project, and Pedestrian Bikeway Systems Improvements project. The FY 2009 proposed budget reflects gross revenues from this program at \$4.8 million. A full summary of the fund can be found on page 3-21.

Maintaining our Infrastructure/Capital Projects

Investing in the City's infrastructure is critical. Deteriorating roads, bridges, public buildings, parks, and utility systems in many jurisdictions across the country stand as unfortunate examples of what happens when communities fail to invest sufficiently. Maintaining and enhancing these investments is critical to the City's future. The City has a fairly robust CIP that addresses many, but not all, of the infrastructure needs. The City's FY 2009 proposed CIP budget contains approximately \$24.1 million in new funding for the City's 81 current CIP projects. The Capital Projects Fund provides approximately 52 percent of the CIP's new funding and the City's six enterprise funds (water, sewer, refuse, parking, stormwater, golf) and the Speed Camera Fund provide the remaining 48 percent.

A new CIP project on the horizon is the possible acquisition of the Old Post Office (CIP page 151). Staff has performed a feasibility study on the reuse of the building, with the ultimate goal of renovating the building and converting it into a new public safety facility. While acquiring the building from the federal government is not a certainty, staff has received positive feedback and is taking the necessary steps to complete the acquisition. Funding has been provided in the CIP to proceed with the design and construction of the new facility in FY 2010.

In addition to the acquisition of the old Post Office, the City will continue to rent space at Courthouse Square and move certain functions to these offsite locations. This is in an effort to address the City's critical space needs that inhibit our ability to grow as needed.

Rockville's Changing Population

Rockville is fortunate to have citizens representing a wide and diverse range of cultures in our community, and we welcome the opportunity to accommodate and adapt our services to meet their needs. The City needs to continue evaluating our overall communication strategy for reaching all Rockville residents and engaging

them in the public process. We need to continue to adapt our recreation, public safety and social service programs to ensure we are meeting the needs of our population. We also need to focus on recruiting a more diverse City workforce, with an emphasis on acquiring multi-lingual staff.

Consistent with nationwide trends, Rockville's population is aging and living longer. While our services to seniors are widely regarded as the best in the region, the large proportion of the City's population approaching retirement age presents challenges and requires that we continually adapt our services. As we look forward, we need to consider what services to provide to seniors, how to provide them, and how to pay for them.

The City also supports those with significant human service needs through grants to caregiver agencies. The FY 2009 proposed budget includes \$463,075 for grants to these agencies. Approximately 36 percent of the total (\$166,050) supports agencies that provide housing assistance or food and clothing services. Approximately 47 percent of the total (\$216,025) supports medical programs, home health care for seniors, and emergency financial assistance. The remaining 17 percent (\$81,000) supports cultural diversity programs.

High Quality Municipal Services

The FY 2009 proposed budget was developed with the principle supported by the Mayor and Council that the City will maintain the same high levels of service provided in FY 2008. The growth in revenues has allowed the City to accommodate higher utility, debt service, and personnel costs, as well as subsidizing the Parking District without sacrificing service levels or programs.

Many enhanced programs and services are being offered as part of the FY 2009 proposed budget, such as maintenance of infrastructure, including asphalt street paving, invasive plant removal, and sidewalk improvements. New environmental programs will commence, and new self-supporting recreation classes are being added.

The City's longstanding commitment to providing a high level of basic municipal services is reflected in our citizen survey results. Our fourth semi-annual survey was conducted again during FY 2007, and the results were presented to the Mayor and Council on May 14, 2007. This scientific survey provides objective data on how the City government performs on behalf of the entire community, and points to program areas that need improvement. The survey results also included recommended steps to address major organization-wide themes, and department specific action plans to address and respond to critical issues. Responding to survey results showing lower levels of citizen satisfaction in neighborhoods east of Rt. 355 will be emphasized again in FY 2009.

Citizen Survey results can be found throughout the budget document in the performance measure tables located in each department section. This data assists management in assessing program effectiveness and making decisions about funding levels for programs. The entire report of results is posted to the City's Web site.

Budget Overview

The proposed FY 2009 operating budget totals approximately \$103.9 million for the City's 12 operating funds. This represents an overall increase of 10.7 percent from the FY 2008 adopted budget.

TABLE 1: Total Resource Allocation by Department, All Funds

Expenditures by Department	Actual FY07	Adopted FY08	Proposed FY09	% Change
Mayor and Council	1,316,457	1,389,543	1,272,943	-8.4%
City Manager	2,665,281	3,116,926	3,283,370	5.3%
CPDS	4,200,519	7,184,377	5,590,611	-22.2%
Finance	2,513,565	2,726,005	2,939,955	7.8%
Human Resources	936,032	1,017,534	1,166,537	14.6%
Information and Tech.	2,910,287	3,266,938	3,412,008	4.4%
Police	7,234,977	9,455,841	10,908,617	15.4%
Public Works	16,906,221	20,644,809	23,133,178	12.1%
Recreation & Parks	16,496,640	19,283,496	21,576,124	11.9%
Non-departmental	35,604,442	20,212,464	25,342,262	25.4%
Subtotal	90,784,420	88,297,933	98,625,605	11.7%
Debt Service Fund	5,657,692	5,510,892	5,230,000	-5.1%
Total	96,442,112	93,808,825	103,855,605	10.7%

Approximately 60.1 percent of the City's spending comes from the tax-supported General Fund. Other significant enterprise funds include the Water, Sewer, Refuse, Parking, Stormwater Management, and Golf funds. User fees charged to City households, businesses, and golf course support these funds. Five, and ten-year cash flow projections prepared as part of the budget process determine the fees charged. Each fund is described in more detail below.

General Fund

The General Fund constitutes the City's single largest discretionary operating fund. The City's goal is to balance the General Fund operating budget without the need to rely on reserves, which this budget achieves for FY 2009. The proposed FY 2009 General Fund budget of \$62.4 million is 5.9 percent higher than what was adopted for FY 2008. The General Fund growth is characterized by revenue growth predominantly in property taxes (increase of 7.5 percent) and income tax (increase of 12 percent).

In total, the City's General Fund should receive approximately \$3.5 million more than was adopted for FY 2008. The Fund Summaries section of the budget includes detailed information on the major FY 2009 General Fund revenue sources. Table 2 below summarizes the General Fund revenue sources. Table 3 highlights the expenditure authority by category with the percent change from the FY 2008 General Fund budget.

TABLE 2: General Fund Revenues by Type

General Fund Revenues	Actual FY07	Adopted FY08	Proposed FY09	% Change
Property Taxes	31,192,975	32,024,080	34,416,320	7.5%
Licenses and Permits	2,114,909	1,714,500	1,764,500	2.9%
Rev. from Other Gov't.	17,678,571	16,107,699	16,872,259	4.7%
Charges for Services	5,296,741	5,539,942	5,919,395	6.8%
Fines and Forfeitures	877,137	774,000	824,000	6.5%
Use of Money / Property	1,271,860	1,073,812	870,676	-18.9%
Other Revenue	1,755,881	1,672,872	1,729,123	3.4%
Total	60,188,073	58,906,905	62,396,273	5.9%

TABLE 3: General Fund Expenditures by Type

Expenditures by Type	Actual FY07	Adopted FY08	Proposed FY09	% Change
Salaries	24,872,690	27,379,925	28,710,931	4.9%
Benefits	6,603,131	7,730,006	8,258,359	6.8%
Overtime	750,210	787,276	764,761	-2.9%
Personnel Subtotal	32,226,031	35,897,207	37,734,051	5.1%
Contractual Services	6,308,899	7,948,259	7,621,986	-4.1%
Commodities	4,153,091	4,802,757	5,130,329	6.8%
Operating Subtotal	10,461,990	12,751,016	12,752,315	0.0%
Capital Outlay	540,260	709,378	747,308	5.3%
Other / Transfer	2,309,142	2,278,410	2,178,670	-4.4%
Contribution to CIP	10,312,824	2,365,002	4,500,000	90.3%
Debt Service Transfer	5,650,800	4,905,892	4,483,929	-8.6%
Total	61,501,046	58,906,905	62,396,273	5.9%

Personnel costs will increase in total by 5.1 percent, or \$1.8 million, which includes a cost of living adjustment (COLA), merit increases for Police and union personnel, and funding for pay for performance for administrative scale and Recreation and Parks scale employees. The total number of FY 2009 benefited FTEs in the General Fund will increase by 6.12. Overall, 12.95 FTEs were added as new positions, 1.0 FTE was transferred to the General Fund from the Capital Projects Fund, 0.6 FTEs were deleted, and 7.23 FTEs were transferred out of the General Fund to other funds.

The General Fund constitutes 60.1 percent of the City's total proposed FY 2009 expenditure budget. The major cost drivers for the General Fund for FY 2009 include: rising costs to maintain program and service levels, increases in commodity and supply prices, funding retiree health care costs, transfer to the

CIP, transfer to the Parking Fund, and funding the new water and sewer charges for City facilities.

TABLE 4: General Fund Expenditures by Department

Expenditures by Department	Actual FY07	Adopted FY08	Proposed FY09	% Change
Mayor and Council	1,311,133	1,359,543	1,262,943	-7.1%
City Manager	2,665,281	3,116,926	3,283,370	5.3%
CPDS	3,729,444	4,685,027	4,162,521	-11.2%
Finance	1,740,305	1,914,805	2,114,605	10.4%
Human Resources	936,032	1,017,534	1,166,537	14.6%
Information and Tech.	2,910,287	3,266,938	3,412,008	4.4%
Police	6,952,314	8,266,077	8,259,286	-0.1%
Public Works	5,913,393	6,635,945	6,278,085	-5.4%
Recreation & Parks	15,296,877	17,620,726	18,895,888	7.2%
Non-departmental	20,045,980	11,023,384	13,561,030	23.0%
Total	61,501,046	58,906,905	62,396,273	5.9%

City Enterprise Funds

The City operates six enterprise funds for the provision of water, sewer, refuse, parking, stormwater and golf services. These funds operate and account for their transactions in a way similar to private businesses. By policy the funds are to be self-supporting; i.e., their fees and charges are supposed to be sufficient to recover all operating costs, both direct and indirect, and all capital outlay, infrastructure and debt service costs, as well as maintain sufficient reserve levels to allow for stable rates.

Water Fund

On February 11, 2008, the Department of Public Works presented the overall status of the City's water production and distribution system to the Mayor and Council. The presentation demonstrated that major infrastructure replacement is needed over the next couple of decades to upgrade the City's distribution system, and to ensure that the water plant complies with new federal regulations. Accordingly, staff reviewed and recalibrated the water rate model that was adopted by the Mayor and Council in March 2006. The FY 2006 water rate study, along with the most recently completed studies reflect that substantial annual rate increases are needed for the next several years to bring the Fund's financial status back to health, and to generate sufficient resources to pay for all of the infrastructure improvements.

The recommended water usage rates for the FY 2009 are:

- \$2.80 per thousand gallons for the first 12,000 gallons per quarter
- \$4.02 per thousand gallons for the next 12,000 gallons per quarter
- \$4.32 per thousand gallons for usage over 24,000 gallons per quarter

In addition to the water usage rate, customers pay a ready-to-serve charge that is split equally between the Water and Sewer Funds. The amount of the charge is based on the size of the water meter and ranges from \$6.18 to \$741.60 per quarter, an increase of 3 percent from adopted FY 2008. A history of rates can be found on page 3-11 of this budget document.

In FY 2009, the City will continue the ongoing investment in the system's comprehensive meter replacement program. This will allow for improved efficiencies in reading meters and billing, and for more accurate collection of revenues.

For FY 2009, 3.3 FTEs will be added to the Water Fund, including a Deputy Director of Utilities. These resources are needed if the City is going to make any headway in upgrading the infrastructure. The new Water Main Rehabilitation project in the FY 2009 – FY 2013 CIP reflects the City's water line replacements at a cost of approximately \$67 million over the next fifteen years. The City will be funding this through a combination of debt and pay-go financing.

Sewer Fund

The Sewer Fund budget for FY 2009 is based on the March 2006 Water and Sewer Rate Study recommendations approved by the Mayor and Council on June 5, 2006. The FY 2009 proposed sewer charge equals \$3.97 per 1,000 gallons. This is an increase of \$0.15 or 3.93% over the FY 2008 adopted rate of \$3.82 per 1,000 gallons. This rate is slightly lower than what was included in the March 2006 Water and Sewer Rate Study. In addition, the study recommended a ready-to-serve charge that is split equally between the Water and Sewer Funds. The amount of the charge is based on the size of the water meter and ranges from \$6.18 to \$741.60 per quarter, an increase of 3 percent from adopted FY 2008.

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 Wastewater Treatment Plant. The 1998 Master Plan for the DCWASA included a significant increase in planned capital costs, as reflected in the Blue Plains Wastewater Treatment CIP project. A history of sewer rates can be found on page 3-13 of this budget document.

Refuse Fund

The FY 2009 proposed budget is based on a semi-automated once per week refuse and recycling program. The refuse rate for the FY 2009 budget will remain the same as the adopted FY 2008 rate of \$32.70 per month. The semi-automated once per week system requires reduced operating expenses because fewer personnel (a reduction of 5.0 FTEs from FY 2008 and FY 2009), contractual services, commodities, and vehicles are needed.

Staff plans to implement the new semi-automated once per week refuse and recycling program during FY 2009 and FY 2010. The initial rollout will begin in October 2008, and the full program will be phased in over approximately eighteen months. This is the first major change to the refuse service and the rollout will be accompanied by an expansive education and outreach campaign. Staff is currently working on campaign materials, the recycling offload facility, and

ordering trucks and carts. The new refuse and recycling program complements the environmental sustainability program adopted by the Mayor and Council.

Parking Fund

FY 2009 will be the first full year that the City charges for parking in the City's garages. The Mayor and Council gave approval for the garages to start accepting payment starting on March 10, 2008. The rate will be \$1.00 per hour from 7:00 am until 7:00 pm with no charge on the weekends. In FY 2006, financing was obtained for the construction of three public garages within the Town Center development. The Fund's annual debt service totals \$2.1 million; a substantial portion of this amount will have to be funded with a transfer from the City's General Fund. The latest data analyzed reflects that there will not be sufficient revenues generated to service this debt, and an annual transfer from the City's General Fund will be required annually for the thirty-year life of the bonds. The proposed transfer for FY 2009 is \$950,000.

It is the Mayor and Council's policy that all revenue generated by meters throughout the City be dedicated to servicing the debt incurred to construct the garages. The City is reliant on both the meter revenue and parking violation revenue to pay for the costs of constructing the garages.

Stormwater Management Fund

Historically, rapid development has funded much of Rockville's stormwater management, with fees imposed on developers. With new development nearly complete, and redevelopment presenting different challenges, other funding sources are needed to cover the maintenance of the public stormwater infrastructure and new programs. On December 17, 2007, staff introduced a new ordinance to amend the City Code to include a new Stormwater Management Utility Fee. This annual fee, based on Equivalent Residential Units ("ERUs"), was designed to provide a dedicated funding source for the SWM Fund. This fee will support an enhanced stormwater management program that will ensure Rockville's streams and watersheds are protected, restored, and enhanced by meeting State and federal guidelines. This fee is not included as part of the FY 2009 proposed budget; it is recommended the new program utilize the Fund's existing balance in FY 2009, and a fee begin in FY 2010. As shown in Table 5, 15.62 FTEs (7.47 transfers and 8.15 new) will be added to the Stormwater Management Fund to help support the new program.

TABLE 5: Stormwater Management Fund FTE Summary

Public Works Division	FY 2008 Adopted	Transfers	New Positions	FY 2009 Proposed
Engineering	5.00	0.87	5.15	11.02
Contract Management	1.00	1.70	1.00	3.70
Environmental Management	0.80	0.50	0.00	1.30
Storm Drain Maintenance	0.00	4.40	2.00	6.40
TOTAL Regular FTEs	6.80	7.47	8.15	22.42

Golf Fund

As of June 30, 2007, the Golf Fund had a cash deficit of more than \$770,000. The Mayor and Council adopted a business plan in FY 2006 based on a financial analysis of the Golf Fund to address the deficit. As a result of the analysis, the Mayor and Council directed that the Golf Fund administrative charge be reduced by half, marketing efforts be intensified, and additional capital improvements be made to the course. Positive results for rounds played and the condition of the course have already been noted throughout FY 2007 and through the first half of FY 2008. The plan will continue through FY 2009, which will be the third year of the five-year plan. Although there has been an increase in rounds played and the condition of the course has improved, the deficit continues to grow and it is unlikely that the Fund will overcome the deficit by the end of the five-year business plan.

Conclusion

The City's current financial situation requires that we continue our responsible fiscal practices in managing expenditures and revenues. First, we need to respond appropriately to changing growth patterns. For many years, new development and growth have helped fund a steady stream of new projects, facilities and services. As Rockville reaches its growth potential, we will be less able to look to growth and new development as sources of increasing revenue. Future property tax revenues will be a function of redevelopment and reassessments of existing property, and may not increase as rapidly as in recent years.

Second, we must continue to carefully consider how reserves, including any surpluses, are used. Retaining reserves for unexpected expenses is imperative, particularly given the large capital projects currently under construction and planned for the near future. It is also important to keep in mind that unless overall service levels are reduced, or selected programs are eliminated, expenditures will continue to rise over time. We need to be prepared to fund those rising expenditures and, where possible, to contain them by improving our operational efficiency.

Finally, we must be vigilant with regard to the City's debt management and capital planning. We will continue to look for every opportunity to manage our debt within policy guidelines.

While uncertainties and challenges lie ahead, so too do many opportunities. The City's financial policies and conservative fiscal approach will allow the City to sustain its strong financial position for FY 2009 and beyond. Still, we need to anticipate and remain adaptable to the changing service needs inherent in the physical, social, and demographic changes Rockville is experiencing, and will continue to experience.

The proposed budget as presented utilizes available resources in an effective and responsible manner. The budget is in line with all previous policy direction set by the Mayor and Council, and includes sufficient resources to fulfill Mayor and Council's Vision and associated priorities. On behalf of our dedicated City staff, we remain grateful to the community and the Mayor and Council for the

opportunity to serve, and we look forward with enthusiasm to FY 2009 and the many exciting challenges and opportunities that await us.

Many City staff, too many to mention by name, contributed to preparing the budget. A vast amount of analytical work goes into producing the budget document. The budget process is truly one project that involves all City departments. The many people working together on its production exemplify the values of teamwork, craftsmanship, and public service that guide City staff in all of our work throughout the year. I would like to thank the department directors and their staff for their significant contributions in preparing this budget, and for their excellent performance in service to the community.

Respectfully,



Scott Ullery
City Manager

