



March 23, 2009

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 (FY) 2010. The total operating budget for all funds equals \$102.2 million, a decrease of 0.5 percent from last year. The General Fund budget equals \$62.6 million, an increase of only 1.2 percent, and includes a \$42 tax credit for owner-occupied households and an expanded Homeowners' Tax Credit Program for low- to moderate-income households. The budget is balanced, and supports the Mayor and Council's vision, existing programs and services, and the City's infrastructure.

Due to current economic conditions and the uncertainty surrounding the future of the City's major revenue sources, staff took a "belt tightening" approach to developing the FY 2010 operating budget. This approach provides funding for current programs and services (including operating expenses for the new Thomas Farm Community Center and Mattie J.T. Stepanek Park), but includes several reductions that will impact FY 2010 and future years. The General Fund budget for FY 2010 is estimated to increase by only 1.2 percent over the FY 2009 adopted budget. The City has not experienced an increase this low since FY 1999; the average annual increase for the last ten years has been approximately 6 percent.

The 1.2 percent increase from FY 2009 to FY 2010 is mainly due to the reductions in the City's major revenue sources. Major revenues such as interest earnings and highway user, are estimated to decrease, while other major revenues, like income tax and tax duplication are expected to remain flat. The General Fund's largest source of revenue, property tax revenue, is estimated to increase by 4.9% from the FY 2009 adopted budget. Because many of the City's major revenue sources are flattening or even declining, the FY 2010 budget focuses on efficiency and areas that can be reduced without directly impacting service levels.

Changes to the Budget Document

ATTACHMENT A

There are several changes or improvements to the FY 2010 Operating Budget and Capital Improvements Program (CIP) Budget documents. The first, and most significant change is the addition of a new section, Department of the City Attorney. In previous budgets, the City Attorney function was located in the Department of the Mayor and Council. Recently, the Mayor and Council hired an in-house attorney and created a separate department for the City attorney function. This department includes a total of 4.0 FTEs with a budget of \$708,500. Prior to the adoption of the in-house attorney model, the City maintained a contract with an outside legal firm to provide day-to-day legal counsel.

The second major change in the operating budget is the addition of revenue and expenditure history for the City's major funds in Section 4, Five-Year Forecast. This section, which first appeared in the FY 2009 budget, presents a five-year forecast of the revenues and expenditures for the City's major funds. In response to comments from the Government Finance Officers Association (GFOA) budget reviewers, we added four years of history along with the current FY 2009 budget to this section. In terms of budgeting and long-term financial planning, this section is essential for determining and establishing the overall spending level of the City. In short, understanding past revenue and expenditure trends, and forecasting future revenue and expenditure trends is key in the overall financial management of the government. If surpluses or deficits are predicted in the forecast, management actions should be taken early on to maintain the overall financial health of all funds.

The FY 2010 operating budget book also includes a number of improvements to the City's overall performance measurement program. Performance measures and workload indicators have been updated throughout the budget book to show whether programs and services are achieving their intended results. For FY 2010, all cost centers focused on performance and workload measures based on industry best practices, connecting measures to organizational goals, and evaluating and making adjustments to existing measures. 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. This is essential given current economic conditions because as our revenue growth slows and perhaps even declines, we must become more efficient and, if necessary, revamp or eliminate programs that are not performing to expectations.

In addition to changes in the operating budget, staff made several improvements to the CIP budget. In the FY 2010 – FY 2014 CIP, the City improved the CIP prioritization process that was initiated in FY 2009. This process was particularly helpful this year because of our "belt tightening" approach due to current economic conditions and the City's current financial commitments. This process allowed the City to identify and fund only projects that are deemed critical to maintaining or improving the quality of life for our residents. Overall, as a result of the prioritization process 13 projects were reduced, deferred, or eliminated compared to what was presented in the FY 2009 – FY 2013 CIP.

Another improvement to the CIP was transferring one-time studies and programs that are not capital projects into the operating budget. After an analysis of local government best practices, items that are not considered major capital improvements were removed from the FY 2010 - FY 2014 CIP budget. From FY 2010 forward, all one-time studies and programs with dedicated funding sources will be funded from the operating budget. We are confident this practice will transform our CIP budget into a true capital budget.

We hope that each improvement to the budget document enhances the transparency with which we govern, demonstrates how tax dollars are prudently managed, and shows how we are planning for the future. In these uncertain times, we want to ensure all information is available and understandable in order to promote open and thoughtful discussions and decision making.

Major Factors Impacting the FY 2010 Budget

Economic Climate

The City's budget and overall financial plans are directly linked to the status of the regional and national economies. Economic forecasters expect our area's gross regional product, which averaged 6.75 percent annual growth for the period 2001 through 2006, to grow no more than 1.5 percent this year, and some experts expect it to contract. The region's job growth is continuing to slow, the unemployment rate is going up, and property values are declining.

On the national level, the slowing economy has caused overall fixed income security rates to decrease dramatically. The markets are reacting to the decision by the Federal Open Market Committee to decrease the Federal Funds Target Rate to zero percent in December 2008, and to the projected negative quarters for gross domestic product (GDP). GDP is one of the best indicators of the country's economic health as it measures the value of all goods and services produced in the U.S. Recent reports indicate GDP decreased by 0.5 percent in the third quarter of 2008, and decreased by 6.2 percent in the fourth quarter of 2008 (source: advance estimate released by the Bureau of Economic Analysis). The decrease in real GDP in both the third and fourth quarters reflects a sharp downturn in personal consumption, equipment and software purchases, and residential fixed investments.

Although the City is greatly impacted by the recent economic downturn through decreased revenues, the City's budget continues to fund the growing needs of the Rockville community. In the FY 2010 budget and beyond, we will look for every opportunity to continue our practice of fiscal responsibility by reducing costs and increasing revenues while maintaining high quality services and programs.

Property Assessments

Property assessments and new development are principal drivers of City revenues. For several years both new development and property values increased significantly, providing needed revenue to meet the growing demand for basic municipal services and public facilities. The rate of new private development has slowed considerably, and most property assessments are decreasing due to current economic conditions. The total taxable assessed value

from FY 2009 to FY 2010 is estimated to increase by only 1.6 percent. This shows a major slowing in assessed values compared to previous fiscal years. All properties in the City have been, or will be reassessed in January 2009 or January 2010, and upon completion of the remaining assessments in January 2010, the total assessed value will potentially flatten or even decrease starting in FY 2011.

The full impact of the change in assessed values on property tax revenues will not be felt immediately due to the method by which the State caps the annual increase in the taxable assessed value through the Homestead Tax Credit. The Homestead Tax Credit was designed to blunt the impact of rapidly rising assessments, setting a cap for the amount a residential assessment can increase each year. With the Homestead Tax Credit in place, many residents are currently paying property taxes on assessed values lower than the true assessed values. As assessed values decrease, the taxable assessed values will equal the true assessed values, which will ultimately lead to a flattening or decline in property tax revenues.

General Fund Tax Rates and Tax Credits

The FY 2010 budget will include property tax revenues based on the current tax rates of \$0.292 per \$100 of assessed value for real property, and \$0.805 per \$100 of assessed value for personal property. Property tax revenue is the largest General Fund revenue source constituting 55.8 percent of all General Fund revenues. Under the current tax rates, it is estimated that property tax revenue will increase by approximately \$1.6 million or 4.9 percent from the FY 2009 adopted budget. The increase is due to more existing properties being taxed at or closer to full value, and new properties added during the fiscal year.

For each of the last three fiscal years, the Mayor and Council have approved a one-penny reduction in the real property tax rate. During this time the City was able to sustain the reductions because the taxable assessments on residential properties were steadily increasing. As previously mentioned, the City's taxable assessments are not increasing; therefore the FY 2010 proposed budget does not include a tax rate reduction, but does include other significant forms of tax relief for residential properties.

The FY 2010 proposed budget includes a one-time tax credit of \$42 for every owner-occupied household through the State's Income Tax Offset Program. This is the third consecutive year that the Mayor and Council have provided this credit that targets residential properties. In each of FY 2008 and 2009, the Mayor and Council provided a one-time \$100 credit per owner-occupied residential property through this program. Under Maryland law, the City of Rockville may grant a real property tax credit that offsets increased income tax revenue. For the past two years, Rockville used this program to target tax relief for owner-occupied residential properties (approximately 15,400 in the City), in addition to the homeowners' tax credit program and the property tax rate reduction. This type of relief is prudent given current economic conditions because it does not impact future revenue growth and the future provision of current service levels.

In addition to the \$42 credit, the FY 2010 budget includes an expanded Homeowners' Tax Credit Program. The Homeowners' Tax Credit Program is a

State administered program that provides real property tax credits to residents for property taxes due on their principal residence. Under the FY 2010 proposed Homeowners' Tax Credit Program, households with gross incomes up to \$85,000 per year and a household net worth of less than \$150,000 (not including the value of the home or qualified retirement savings) could qualify for tax relief on the first \$400,000 of their home's assessed value. For low-income households, the credit could be several hundred dollars with the maximum credit totaling the City tax due on the first \$400,000 of assessed value. The FY 2010 budget also includes an additional 25 percent credit for seniors 70 years or older who are primary homeowners. The Mayor and Council first approved the senior credit in FY 2009.

Staff estimates that the proposed Homeowners' Tax Credit Program, combined with the senior credit, will dramatically increase the number of residents who apply and receive this credit. In FY 2006, 366 households participated and received an average credit of \$200. In FY 2007, 630 residents received an average credit of \$308, and in FY 2008 660 residents received an average credit of \$296.

The City will receive approximately \$1.4 million less in property tax revenues in FY 2010 due to the Income Tax Offset Program (\$646,000) and the Homeowners' Tax Credit Program (\$800,000) with senior credit.

Town Center Management District Tax Rates

The Town Center Management District (TCMD) is funded through the Town Square Street and Area Lighting Tax District and the Town Square Commercial Tax District. These taxing districts, which levy special property taxes on the properties within the Town Square boundaries, were created in FY 2008 to support the maintenance and operational costs of the TCMD. The tax rates are set to cover the FY 2010 proposed expenditure budget for the TCMD Fund.

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. This tax rate was previously capped per the General Development Agreement; however FY 2009 was the last year for the tax cap. Staff anticipates that the tax rate will yield approximately \$125,600 from residential properties and \$47,800 from commercial properties for a total of \$173,400. 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 \$546,200. Both district tax rates are unchanged from FY 2009.

Overall, the FY 2010 total expenditures for the TCMD are approximately 12 percent lower than the FY 2009 adopted budget. Even though the expenditure budget is less, the tax rates need to remain the same because the assessed values of the properties in the TCMD have declined by approximately \$30 million from FY 2009 to FY 2010.

Town Center Parking District Tax Rate

In order to manage the operational costs and debt service of the three public garages within Town Center, the Town Center Parking District was formed in

2007. The Parking District is a special taxing district that levies a real property tax against the commercial properties within the Town Square boundaries. The Parking District tax rate for FY 2010 will remain unchanged at \$0.30 per \$100 of assessed value. This tax will provide approximately \$137,000 towards funding the Parking District.

The Parking District tax revenue is estimated to decrease in FY 2010 from the FY 2009 actual revenue of approximately \$200,000 because of an overall decrease in the commercial property assessed values within Town Square. From FY 2009 to FY 2010, commercial properties within the Town Square boundaries decreased by \$20.7 million or 31 percent. A summary of the overall Parking Fund's revenues and expenses can be found on pages 3-16 and 3-17, and more information regarding overall Parking revenues can be found within the enterprise funds section of this message on page 1-8.

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

The FY 2010 proposed budget allocates resources to focus on the priorities of the Mayor and Council. In January 2008, the Mayor and Council developed 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.

FY 2010 Operating Expenditures

Since the FY 2009 budget was adopted, overall economic conditions have worsened. Local governments are straining to meet basic financial needs, and many local governments are experiencing structural deficits because their major revenue sources are dramatically decreasing. While the City is not in a structural deficit situation, and because of the uncertainty surrounding the future of the City's major revenue sources, the City took a "belt tightening" approach in developing the FY 2010 expenditure budget. This approach provides funding for current programs and services without additional staff, and includes reductions of over \$500,000 in areas such as employee travel and training, employee pay-for-performance and merits, trophies and awards, reclassification studies, and some contract services and capital outlay.

Although staff limited new expenditures in developing the FY 2010 budget, some operating costs were increased in order to fulfill the Mayor and Council's priority to maintain current programs and service levels. For the FY 2010 budget, the City expects a significant increase in the price of electricity (approximately \$223,500 for the General Fund). The price of other commodities, such as

chemicals, gasoline and heating fuel, have remained relatively flat with the current market conditions. For the remainder of FY 2009 and into FY 2010, staff will closely monitor other commodities in order to mitigate the budgetary impact resulting from volatile markets and potential increases in prices.

Another area where the General Fund operating budget increased is an additional \$370,000 in operating costs associated with completed CIP projects. The \$370,000 is budgeted across several departments in electricity, program supplies, contract services, and temporary employees. These operating costs are directly tied to the recent completion, or partial completion of the Thomas Farm Community Center, Swim Center Meeting and Fitness Room, Fallsgrove Park, Mattie J.T. Stepanek Park, and the Gude Drive Maintenance Facility.

In addition to funding increased commodities and new operating cost impacts, the FY 2010 budget includes funding to support the Stormwater utility fee for City facilities. The Stormwater utility fee, new for FY 2010, will help support Rockville's existing and expanded stormwater, storm drainage and water quality programs. The fee is based on Equivalent Residential Units ("ERU") and will cost the City \$70,000, of which \$63,000 is budgeted in the General Fund.

Although we are currently able to maintain programs and service levels in the FY 2010 budget, more ongoing operating reductions may be necessary in the future if the economy continues to worsen and the City's major revenue sources decrease or remain flat.

City Staffing

Several new positions were added to the FY 2009 adopted budget, and during the FY 2009 budget year. For FY 2010, the City held back new positions because of current economic conditions and the uncertainty of future revenues. The FY 2010 operating budget includes a net increase of 0.7 full time equivalents (FTEs) across all funds. The full FTE count for all funds is reconciled on pages 1-10 through 1-12 of this section.

Over the last several years, the City has experienced a great deal of competition within the labor markets, making it challenging to attract and retain talented individuals. This competition is likely to change in the near future in response to the economy and current unemployment. Although Montgomery County continues to have the lowest unemployment rate in the State, the rate has steadily increased from 2007 to 2008, and will continue to increase in 2009. As of the December 2008 Economic Indicator Report from Montgomery County, the unemployment rate was 3.7% for Montgomery County, 5.1% for the State of Maryland, and 6.5% for the national average.

In FY 2008 the Mayor and Council recognized the challenges associated with retaining and attracting high quality employees and 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 was utilized in FY 2009 as a basis for contract negotiations with the AFSME union, and during the meet and confer process with the Fraternal Order of Police (FOP).

Since that time, and in developing the FY 2010 budget, some changes were made to the original recommendations of the Study in order to reduce ongoing operating personnel costs. These changes, which remain consistent with the union and FOP agreements and City compensation policies, include eliminating reclassifications, eliminating pay-for-performance lump sum awards, and reducing the total amount of the annual merit available to senior administrative, administrative, and Recreation and Parks scale employees. For FY 2011 and future years, more ongoing reductions of personnel expenditures may be necessary in order to balance the budget if the economy continues to worsen.

Speed Camera Fund

The Speed Camera Fund, a special revenue fund created in late FY 2007, is used to track financial transactions associated with the City's speed camera program. In FY 2010, an estimated 8,500 citations will be paid per month generating net revenue of \$2.4 million in the Speed Camera Fund. By state law, the program revenue is not available for general City operations. In keeping with the restricted nature of the fund, it is recommended that the FY 2010 revenues fund the operating expenditures of the program, 2.0 Police Officers (adopted in FY 2009), 0.5 FTE Civil Engineer (adopted in FY 2009), as well as several CIP projects that are directly related to traffic and pedestrian safety.

Recent developments at the State level indicate that revenues from speed camera citations may be restricted even further (or taken away altogether) by requiring that all funds be spent within two years after they are received. If the funds are not spent within the two year time period they will be returned to the State. Staff expects to have more information on this issue in the upcoming months. 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. Given the City's current financial commitments and the overall state of the economy, the CIP addresses many, but not all, of the City's infrastructure needs. The City has strategically selected projects through a formal Citywide prioritization process, and will fund those projects that are critical to improving our overall service delivery and the overall quality of life for our residents.

The FY 2010 CIP budget includes new funding of \$28.9 million to address the priorities of the Mayor and Council. The Capital Projects Fund provides approximately 50 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 50 percent. This new funding combined with prior year unspent funding will support 63 CIP projects. Of the 63 projects, there are 3 major projects that are essential to keep up with the City's population and the City's additional service demands. These projects include the Police Station – which funds the design and construction of the Old Post Office, Gude Drive Maintenance Facility – which funds the modernization of the current facility, and the Senior Center – which funds the expansion and improvements to the City's Senior Center.

In order to fund these projects responsibly, the City plans to increase the pay-go transfer to the CIP from the General Fund from the FY 2009 adopted level of \$4.5 million to \$4.8 million. In addition, the City plans to issue approximately \$12 million in debt in FY 2010 when conditions are most favorable. One factor that is still unknown for the capital budget is the potential for stimulus funding from the Federal government. If the City receives stimulus funding for CIP projects in FY 2010, we may be able to fund more projects, or further reduce the amount we need to borrow.

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. Included in the FY 2010 CIP budget is a project totaling \$4.6 million for improvements and expansion to the City's Senior Center. These improvements include the expansion of the fitness and exercise rooms, the addition of lockers, and the renovation of the fitness office area.

The City also supports those with significant human service needs through grants to caregiver agencies. Each year the Division of Community Services coordinates a committee to review and evaluate all caregiver and outside agency funding requests received by the City. After the committee reviews and evaluates each application, they develop funding recommendations for each program. These recommendations take into account the number of City residents served, the demonstrated need for the service, and the quality of the application. This year, in response to a request made by the Mayor and Council at the FY 2009 budget worksessions, the Division of Community Services created two committees to review and evaluate the grant applications. The first committee, the employee panel, was made up of three City employees from the departments of the City Manager, Finance, and Recreation and Parks. The second committee, the community panel, was made up of three members from the Human Services Advisory Commission, the Human Rights Commission, and the Recreation and Park Advisory Board.

Each panel's funding recommendations were compared and, in an effort to increase the amount of funding the City provides to the caregivers in FY 2010, the higher of the two recommendations were included in the FY 2010 proposed budget. The total Caregiver budget for FY 2010 equals \$513,875 or 8.7 percent over FY 2009. Approximately 35.8 percent of the total (\$184,100) supports agencies that provide housing assistance or food and clothing services.

Approximately 46.1 percent of the total (\$236,775) supports medical programs, home health care for seniors, and emergency financial assistance. The remaining 18.1 percent (\$93,000) supports cultural diversity programs.

High Quality Municipal Services

The FY 2010 proposed budget was developed with the Mayor and Council supported principle to maintain the same levels of City service and programs as provided in FY 2009. With limited growth in overall revenues some difficult choices have been made over the past few months in order to balance the budget, while continuing to fund this principle. Staff carefully reviewed each expenditure and revenue category and recommended adjustments that would have the least impact on the City's ability to provide residents with high quality services.

The City's longstanding commitment to providing a high level of basic municipal services is reflected in our Citizen Survey results. Our fifth semi-annual survey was conducted again during FY 2009, and the results were presented to the Mayor and Council on March 9, 2009. Our Citizen Survey is an excellent source for identifying areas where our citizens express the greatest concerns, and suggesting opportunities to improve our performance. We will continue to carefully analyze these survey results for guidance on improving our services and programs, while controlling our overall costs.

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.

Technology, especially information technology, is essential to achieving continuous improvement in service delivery during a period of shrinking resources. The effective use of technology can increase our efficiency, control the costs of government, and improve government services in ways that benefit our citizens and improve internal management. Our need to use technology effectively compels us to recognize information technology as a powerful business force subject to non-stop change. It is imperative that the City keeps pace with changing technology and applications. For this reason, during FY 2010, we will undertake a comprehensive update of our Information Technology Strategic Plan.

Budget Overview

The proposed FY 2010 operating budget totals approximately \$102.2 million for the City's 12 operating funds. This represents an overall decrease of 0.5 percent from the FY 2009 adopted budget.

TABLE 1: Total Resource Allocation by Department, All Funds

Expenditures by Department	Actual FY08	Adopted FY09	Proposed FY10	% Change
Mayor and Council	1,473,792	1,277,983	644,400	-49.6%
City Attorney	N/A	N/A	708,500	N/A
City Manager	2,886,851	3,207,281	3,705,232	15.5%
CPDS	6,038,144	5,507,919	4,636,600	-15.8%
Finance	2,662,060	2,968,871	3,258,700	9.8%
Human Resources	998,617	1,172,820	1,324,400	12.9%
Info. and Tech.	3,136,208	3,334,393	2,887,100	-13.4%
Police	9,308,142	10,979,241	10,792,000	-1.7%
Public Works	17,888,670	23,048,319	21,631,665	-6.1%
Recreation & Parks	18,633,898	21,614,806	23,126,501	7.0%
Non-Departmental	25,227,889	21,921,707	21,757,500	-0.7%
Subtotal	88,254,271	95,033,340	94,472,598	-0.6%
Debt Service Fund	6,305,819	5,230,000	5,098,008	-2.5%
Addition to Fund Balance / Net Asset	-	2,464,300	2,606,920	5.8%
Total	94,560,090	102,727,640	102,177,526	-0.5%

Approximately 61 percent of the City's spending comes from the tax-supported General Fund. Other significant funds include the Water, Sewer, Refuse, Parking, Stormwater Management, and Golf funds. User fees charged to City households, businesses, and golf course users support these enterprise funds. Five- and ten-year cash flow projections are prepared as part of the budget process to determine the fees charged.

The City's six enterprise 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. 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 2010. The overall General Fund budget will increase from the FY 2009 adopted budget by 1.2 percent to \$62.6 million. Staff will continue to remain vigilant with regards to

overall General Fund growth in FY 2010 and future years, with emphasis on how economic trends and conditions will impact General Fund expenditures and revenues.

In total, the City's General Fund should receive approximately \$743,000 more in revenues than was adopted for FY 2009. Although the increase in property tax revenue is 4.9 percent, nearly half of this increase is offset by decreases in the City's other major revenues such as highway user (decrease of \$500,000) and interest earnings (decrease of \$373,000). The Fund Summaries section of the budget includes detailed information on the major FY 2010 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 2009 General Fund budget.

TABLE 2: General Fund Revenues by Type

General Fund Revenues	Actual FY08	Adopted FY09	Proposed FY10	% Change
Property Taxes	32,205,812	33,317,420	34,939,140	4.9%
Licenses and Permits	1,797,039	1,764,500	1,754,500	-0.6%
Rev. from Other Gov't.	18,484,188	16,872,259	16,351,477	-3.1%
Charges for Services	5,460,825	5,919,395	5,873,558	-0.8%
Fines and Forfeitures	634,907	824,000	619,000	-24.9%
Use of Money / Property	1,042,552	809,676	455,375	-43.8%
Other Revenue	1,737,430	2,329,123	2,586,290	11.0%
Total	61,362,753	61,836,373	62,579,340	1.2%

TABLE 3: General Fund Expenditures by Type

Expenditures by Type	Actual FY08	Adopted FY09	Proposed FY10	% Change
Salaries	25,923,867	28,393,539	29,998,250	5.7%
Benefits	6,762,556	8,222,291	7,901,055	-3.9%
Overtime	820,797	764,761	792,200	3.6%
Personnel Subtotal	33,507,220	37,380,591	38,691,505	3.5%
Contractual Services	7,746,084	7,521,126	7,103,030	-5.6%
Commodities	4,457,595	5,059,554	5,270,430	4.2%
Operating Subtotal	12,203,679	12,580,680	12,373,460	-1.6%
Capital Outlay	749,700	747,308	445,700	-40.4%
Other / Transfer	2,780,090	2,190,170	2,268,675	3.6%
Contribution to CIP	7,831,500	4,453,695	4,800,000	7.8%
Debt Service Transfer	4,905,892	4,483,929	4,000,000	-10.8%
Total	61,978,081	61,836,373	62,579,340	1.2%

Personnel costs will increase in total by 3.5 percent, or \$1.3 million, which includes an across the board increase of 3.25 percent, merit increases for Police and union personnel, and 0.00 to 3.25 percent merit adjustments for senior administrative, administrative, and Recreation and Parks scale employees. The total number of benefited FTEs in the General Fund will increase by 0.7 from FY 2009 adopted to FY 2010 proposed. This net increase is primarily due to 3.0 FTEs added in the Department of the City Attorney, (1.0) FTE reduced from the Department of the City Manager, and (1.0) FTE reduced from the Department of Community Planning and Development Services. In addition to these changes there were several employees that transferred between departments and a few employees that transferred between funds in order to better align the positions with the actual work being performed.

Table 4 contains total General Fund expenditures by department for FY 2010. Major changes include the addition of the Department of the City Attorney (with accompanying reduction in Mayor and Council), an increase in Finance due to the transfer of software maintenance for the City's finance and human resources systems from the Department of Information and Technology (IT), an increase in the Department of the City Manager due to the transfer of 4.5 FTEs in the Cable TV Division from IT, and an increase in Human Resources from the transfer of 1.0 FTE Wellness Coordinator from Recreation and Parks. All major funding adjustments are detailed in each department's section throughout the operating budget.

TABLE 4: General Fund Expenditures by Department

Expenditures by Department	Actual FY08	Adopted FY09	Proposed FY10	% Change
Mayor and Council	1,464,380	1,267,983	644,400	-49.2%
City Attorney	N/A	N/A	708,500	N/A
City Manager	2,886,851	3,207,281	3,432,900	7.0%
CPDS	4,274,335	4,079,829	4,028,600	-1.3%
Finance	1,878,862	2,135,525	2,433,400	13.9%
Human Resources	998,617	1,172,820	1,324,400	12.9%
Information and Tech.	3,136,208	3,334,393	2,887,100	-13.4%
Police	7,562,703	8,326,353	8,423,400	1.2%
Public Works	6,206,579	6,338,329	6,415,605	1.2%
Recreation & Parks	17,238,861	18,926,806	19,639,135	3.8%
Non-Departmental	16,330,685	13,047,054	12,641,900	-3.1%
Total	61,978,081	61,836,373	62,579,340	1.2%

Water Fund

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

both the Water Fund operating and CIP budgets to address the concerns that were identified. To fund the increases in the budgets, and in accordance with the Mayor and Council's adopted plan, the water usage rates increased by 25 percent from FY 2008 to FY 2009, and will increase again by 25 percent from FY 2009 to FY 2010.

The proposed water usage rates for FY 2010 are:

- \$2.78 per thousand gallons for the first 12,000 gallons per quarter
- \$4.00 per thousand gallons for the next 12,000 gallons per quarter
- \$4.30 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 \$6.36 to \$764.40 per quarter, an increase of 3 percent from adopted FY 2009. A history of rates can be found on page 3-11 of this budget document.

Approximately 30 percent of Rockville residents do not receive water service from the City, but are serviced by the Washington Suburban Sanitary Commission's (WSSC) water system. The locations in WSSC's system include King Farm, Twinbrook (portion on the east side), Potomac Woods (small portion on the south side), and College Gardens. WSSC's proposed rate for FY 2010 totals \$3.04 per 1,000 gallons for a household that uses an average of 14,000 gallons per quarter. The \$3.04 rate represents a 9 percent increase over FY 2009.

Sewer Fund

The Sewer Fund accounts for the financial activity associated with the collection of sewage. Charges are based on water consumption. In accordance with the Mayor and Council's adopted plan, the Sewer Fund rate for FY 2010 will equal \$4.12 per 1,000 gallons. This is an increase of \$0.15 or 3.8 percent over the FY 2009 adopted rate of \$3.97 per 1,000 gallons. In addition to the sewer charge, 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 \$6.36 to \$764.40 per quarter, an increase of 3 percent from adopted FY 2009.

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. The City's share of Blue Plains' capital improvements is proportionate to the City's allocation of treatment capacity. A history of sewer rates can be found on page 3-13 of this budget document.

The Mayor and Council have recently received a proposal to implement a declining block rate structure for sewer rates instead of the current single usage rate. FY 2010 rates will change accordingly if the Mayor and Council opt for the declining block rate structure.

Refuse Fund

The Refuse Fund is used to account for the financial activity associated with the collection and disposal of recycling, refuse, and yardwaste. The FY 2010 Refuse budget will be based on a semi-automated once per week recycling and refuse program. The refuse rate for the FY 2010 budget will remain the same as the adopted FY 2009 rate of \$32.70 per month. The semi-automated once per week system provides reduced operating expenses because less personnel (including a reduction of 3.6 FTEs in FY 2010), contractual services, commodities, and vehicles and equipment are needed. Because of these reduced operating expenses, the rate has remained the same for FY 2008, FY 2009, and FY 2010. It is staff's goal to maintain this same rate through the full implementation of the semi-automated system.

The initial rollout of the semi-automated once per week recycling and refuse program began in October 2008, with the full program being phased-in over approximately eighteen months. The rollout of this new program has been, and will be, accompanied by an expansive education and outreach campaign. This new program not only costs less, but it complements components of the environmental sustainability program adopted by the Mayor and Council.

Parking Fund

FY 2010 will be the second full year the City has charged for parking in its three public garages. The main sources of Parking Fund revenues, meter fees and violations, are expected to increase in FY 2010 as a result of the Mayor and Council's decision to charge nights and Saturdays starting in May 2009. The current hourly parking rate in Town Center is \$1.00 per hour for parking Monday through Friday, 7:00 am to 7:00 pm. The Mayor and Council approved increasing the hours on Monday through Friday from 7:00 am to 10:00 pm, and added Saturdays from 7:00 am to 10:00 pm.

In addition to the revenues raised by the Parking Fund, the FY 2010 proposed budget includes a transfer of \$950,000 from the General Fund to the Parking Fund. This transfer amount is the same as adopted in FY 2009, and staff recommends that it remain the same until the Parking Fund can demonstrate that it can offset more Parking Fund expenses, which includes the annual debt service on \$36 million of bonds issued to support the construction of the Town Center parking garages. 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 over the thirty-year life of the bonds.

Stormwater Management Fund

The Stormwater Management (SWM) Fund accounts for the financial activity associated with maintaining existing SWM facilities and constructing new facilities. In FY 2008, Public Works staff indicated that a stormwater utility fee will be needed to fund Rockville's existing and expanded stormwater, storm drainage and water quality programs. Historically, rapid development has funded much of Rockville's stormwater management with fees imposed on developers. With few opportunities for new development, staff identified the need to seek other funding sources to cover new programs and the maintenance of the public stormwater infrastructure.

In FY 2008 the Mayor and Council approved an ordinance to amend the City Code to include a new Stormwater Management Utility Fee. This ordinance enables the City to charge an annual fee per Equivalent Residential Unit ("ERU"). Although the Mayor and Council adopted the ordinance that enabled the fee, no fee was adopted in FY 2009. The expenses for the new program in FY 2009 were funded from the Stormwater Management's fund balance.

For the FY 2010 budget a fixed fee per ERU of \$61.85 is included, which is estimated to generate \$2.5 million in fee revenue. This fee was developed to generate sufficient revenue to cover the operating and capital expenses of the Stormwater Management Fund for FY 2010 and future years. The total operating budget for FY 2010 and future years has been scaled back from the original plan approved by the Mayor and Council in order to decrease the program expenses, while still complying with State and Federal regulations. The program as adopted by the Mayor and Council included 4.0 new FTEs in FY 2010 and 6.0 new FTEs in 2011. The scaled back program includes a net increase of 3.6 FTEs in FY 2010 and only 2.0 new FTEs in 2011.

Golf Fund

The RedGate Golf Fund is used to account for the financial activity associated with the City's public golf course. After covering all of its operating, overhead and capital costs for nearly thirty years, RedGate began operating in the red in FY 2000. In response to financial losses over several years, a five-year business plan was adopted in May 2006. The business plan focused on generating sufficient revenues through fees and charges in order to pay for the costs of operations, capital outlay, and infrastructure improvements. FY 2010 will be the fourth year of the business plan.

Although there has been several changes made since the business plan was adopted, and despite admirable efforts by the RedGate staff to reverse the losses, the Fund continues to have a significant deficit. Some of the changes the City made in order to assist RedGate over the last three years include: transferring \$372,500 from the General Fund to the RedGate Golf Fund to support capital improvements to the course, reducing the administrative charge to the General Fund by half, and intensifying overall marketing efforts.

The annual FY 2010 budgeted deficit totals approximately \$398,000; bringing the total deficit in the Fund to an estimated \$1.5 million at the end of FY 2010. Consideration should be given to address the annual operating deficit through a subsidy from the General Fund. Both golf course performance and the annual subsidy level present significant challenges we need to confront in the upcoming months.

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 the changing economic environment. With each passing week, the recession's severity grows wider and deeper, and the prospects for recovery are receding into 2011, or beyond. Because the City's major General Fund revenues are tied directly to the local economy and State and County

activity, the recession threatens our capacity to provide the range and level of municipal services the community needs and expects. As our revenue growth slows and perhaps even declines, so too must our expenses. We will address this by concentrating on becoming more efficient in our core services and, if necessary, shedding programs that are not performing or meeting expectations. Our economic environment is changing rapidly, and unless we continue to adapt our operations as we have in the FY 2010 proposed budget, we face the risk of service cutbacks or even layoffs in subsequent years.

The proposed budget as presented utilizes available resources in an effective and responsible manner. The budget is in line with previous policy direction set by the Mayor and Council, and includes sufficient resources to fulfill Mayor and Council's Vision and associated priorities. GFOA recognizes the City's budget document for its excellence as a communication device, policy document, financial plan, and operations guide. I hope 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. 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 to FY 2010 and the many challenges and opportunities that lie ahead.

Many City staff contributed to preparing the budget. 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

