Second Quarter FY 2014 Financial Report

City of Rockville, Maryland

Prepared by the Department of Finance

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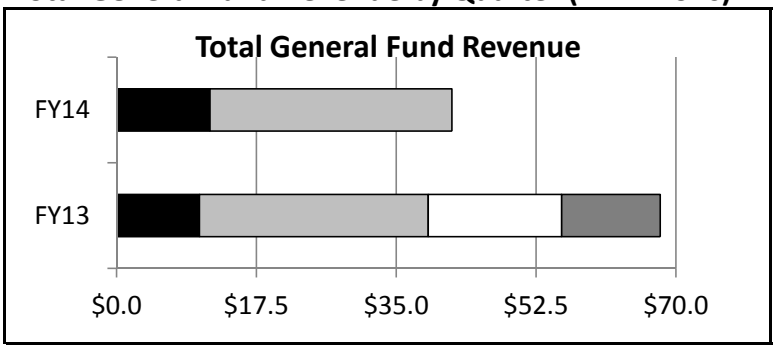
City of Rockville
Get Into It

General Fund Revenue as of December 31, 2013

General Fund Revenue Budget to Actual

Revenue Category	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Received	Actual 12/31/12
Property Taxes	$ 36,045,000	$ 36,045,000	$ 24,888,363	69.0%	$ 23,795,707
From Other Gov't.	16,904,660	16,904,660	9,362,969	55.4%	7,793,148
Fines & Forfeitures	1,817,000	1,817,000	972,075	53.5%	803,818
Use of Money & Property	935,420	935,420	108,095	11.6%	111,051
Charges for Service	5,986,910	5,986,910	3,157,958	52.7%	3,039,267
Licenses & Permits	2,461,750	2,461,750	1,270,638	51.6%	881,440
Other Revenue	4,889,260	4,889,260	2,212,570	45.3%	2,589,926
Total Revenue	$ 69,040,000	$ 69,040,000	$ 41,972,668	60.8%	$ 39,014,358

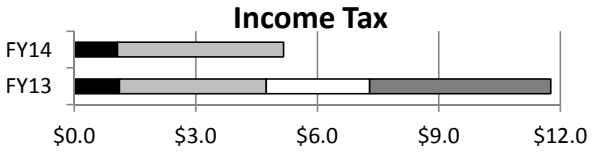
Total General Fund Revenue by Quarter (in millions)



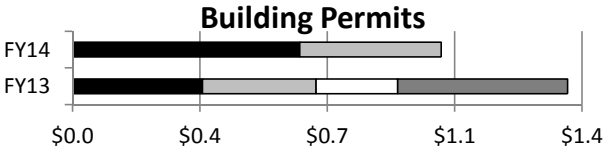
General Fund Revenue Trend

The most notable 2Q FY14 revenues are **income tax** and **building permits**, which are discussed below. Several other revenue sources, including **real property tax**, **highway user**, and **redlight camera citation** revenue, all continue to come in higher than FY13 levels, as estimated in the FY14 adopted budget.

General Fund Revenue Highlights (in millions)



Income tax revenue (From Other Gov't category) received through 2Q is approximately $400,000 greater than what was received through 2Q FY13. Staff included a $500,000 increase to income tax revenue on the February budget amendment. Income tax revenue came in at $11.8 million in FY13, and was budgeted at $11.2 million in the FY14 adopted budget.



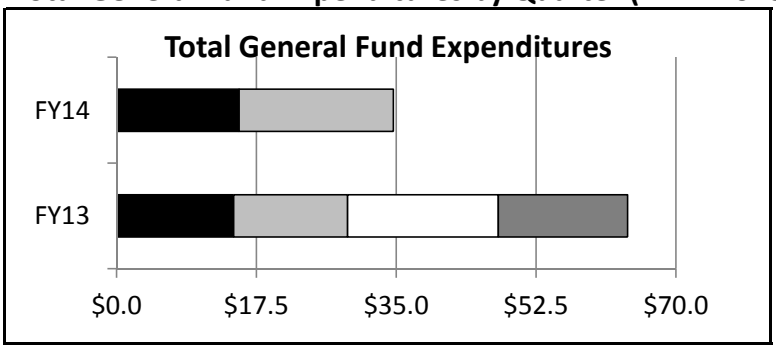
Building permit revenue (Licenses & Permits category) remained well above FY13 levels through 2Q due to strong permitting activity including several large-scale projects. While staff do not anticipate as many large-scale projects receiving permits in the second half of FY14, permitting revenue is expected to exceed the adopted budget. Staff included a $210,000 increase to building permit revenue on the February budget amendment. Building permit revenue came in at $1.4 million in FY13, and was budgeted at $1.3 million in the FY14 adopted budget.

General Fund Expenditures as of December 31, 2013

General Fund Expenditures Budget to Actual

	Current Fiscal Year				Previous Yr
Expenditure Category	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Spent	Actual 12/31/12
Personnel					
Salary	$ 30,016,250	$ 30,016,250	$ 14,259,402	47.5%	$ 14,099,643
Benefits	11,519,810	11,519,810	7,381,010	64.1%	3,711,282
Overtime	816,320	816,320	411,437	50.4%	376,080
Contractual Services	7,311,240	7,509,900	3,314,799	44.1%	3,368,410
Commodities	5,155,060	5,162,720	1,970,845	38.2%	1,918,717
Capital Outlays	569,080	583,130	221,426	38.0%	216,781
Other / Transfer	2,542,240	2,557,240	1,065,814	41.7%	932,263
Transfer to Debt Service	5,444,000	5,444,000	2,817,000	51.7%	2,350,000
Transfer to CIP	5,666,000	6,408,000	3,204,000	50.0%	1,950,000
Total Expenditures	$ 69,040,000	$ 70,017,370	$ 34,645,734	49.5%	$ 28,923,176

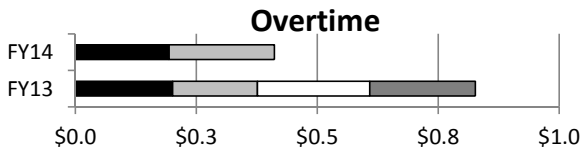
Total General Fund Expenditures by Quarter (in millions)



General Fund Expenditure Trend
The largest shifts in 2Q General Fund expenditures compared to last fiscal year occurred in **benefits** and **transfers**. **Benefits** are discussed below. **Transfers** show an increase over 2Q FY13 due to the budgeted increases in transfers to the Parking, Debt Service, and Capital Projects funds.

General Fund Expenditure Highlights (in millions)

Benefits for 2Q FY14 are nearly double what was spent through 2Q FY13 due to the timing of the City's pension and retiree health contributions. These payments, which totaled $3.89 million for 2Q FY14, occurred in 3Q in FY13. Staff made this change so that the Pension Fund and Retiree Benefit Trust can benefit by receiving and investing City funds earlier.



Overtime costs for 2Q FY14 were slightly ahead of FY13 overtime costs. Due to the recent weather emergencies, and pending any additional weather-related events, overtime may continue to run higher than FY13 levels. At this point in time, there are sufficient vacancy savings to cover additional weather-related overtime costs, and staff does not anticipate the need to appropriate additional funding.

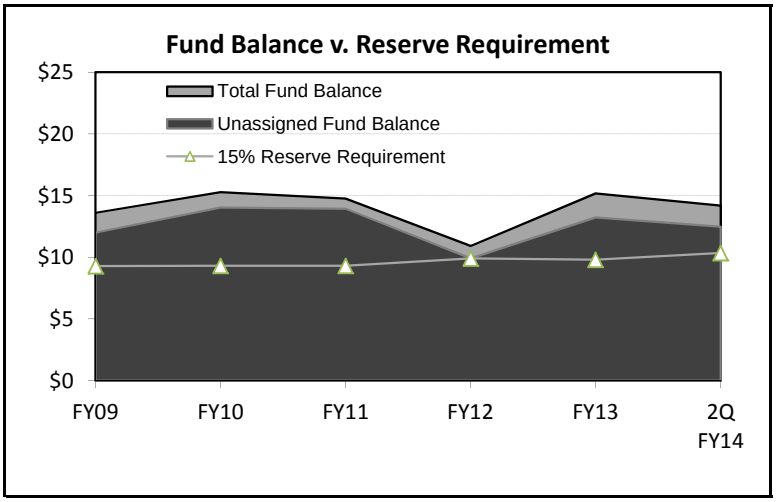
General Fund Summary as of December 31, 2013

General Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Total Revenue	$ 69,040,000	$ 69,040,000	$ 41,972,668	60.8%	$ 39,014,358
Total Expenditures	69,040,000	70,017,370	34,645,734	49.5%	28,923,176
Add to / (Use of) Reserves	$ -	$ (977,370)	$ 7,326,934		$ 10,091,182

General Fund Unassigned Fund Balance

	Amount	% of FY14 Adp. Rev.	Explanation
Audited FY14 Beginning Total Fund Bal.	$ 15,175,271	22.0%	Fund balance = **Accumulated** total of revenues less expenditures
Less Nonspendable Portion	(1,728,224)		
Plus Amended General Fund Revenue	69,040,000		
Less Amended General Fund Expenditures	(70,017,370)		
Est. FY14 Ending Unassigned Fund Bal.	**12,469,677**	**18.1%**	Projected ending balance exceeds 15% target
Target Minimum FY14 Unassigned Fund Bal.	10,356,000	15.0%	
Estimated Variance from FY14 Target	**$ 2,113,677**		



General Fund Unassigned Fund Balance Status

The FY14 estimated ending unassigned fund balance is in compliance with the City's policy of maintaining an unassigned fund balance that is equal to or greater than 15% of adopted General Fund revenue.

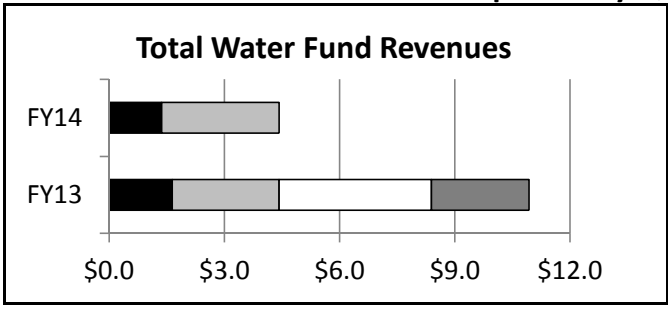
Historically, the unassigned balance has exceeded the 15% requirement, which has contributed to the City's ability to maintain its triple-A credit status. The current estimated FY14 ending unassigned balance is 18.1%; however, staff anticipates this will likely be higher due to underspending in personnel as a result of vacant positions.

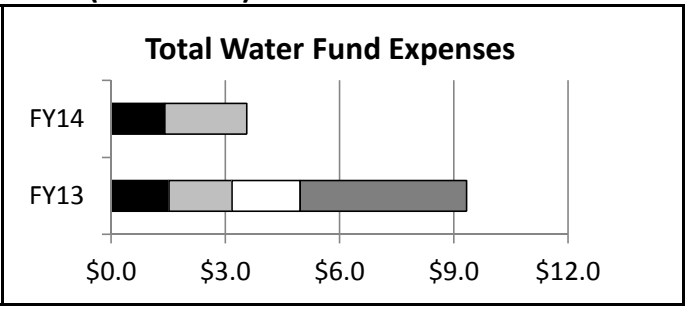
Water Fund Summary as of December 31, 2013

Water Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Utility charges	$ 11,289,160	$ 11,289,160	$ 4,094,432	36.3%	$ 4,032,815
Connection Charges	100,000	100,000	11,300	11.3%	86,600
Sales of materials	10,300	10,300	9,692	94.1%	17,813
Interest income/Other	47,500	47,500	29,662	62.4%	3,814
Penalties	60,000	60,000	44,442	74.1%	53,933
Trans. from Sewer/Refuse	468,530	468,530	234,265	50.0%	227,745
Total Revenue	$ 11,975,490	$ 11,975,490	$ 4,423,793	36.9%	$ 4,422,720
Expenses					
Personnel	$ 3,420,790	$ 3,420,790	$ 1,793,870	52.4%	$ 1,522,327
Operating	2,069,620	2,177,649	789,027	36.2%	763,438
Capital	62,900	62,900	48,928	77.8%	44,312
Debt serv., transfer, other	4,644,360	4,644,360	926,759	20.0%	843,671
Total Expenses	$ 10,197,670	$ 10,305,699	$ 3,558,585	34.5%	$ 3,173,748
Add to / (Use of) Reserves	$ 1,777,820	$ 1,669,791	$ 865,209		$ 1,248,972

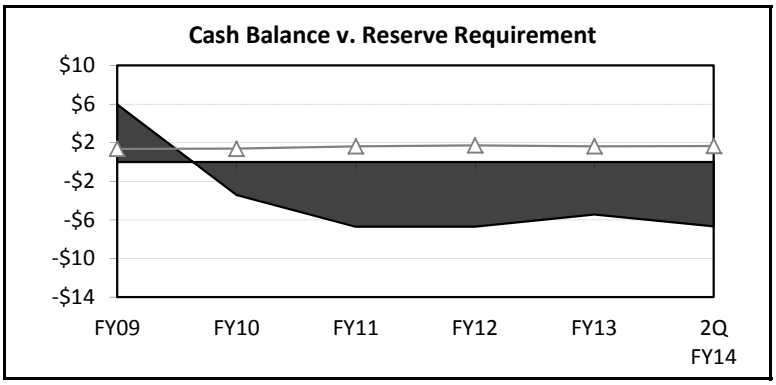
Total Water Fund Revenues and Expenses by Quarter (in millions)





Water Fund Cash Balance

FY14 Reserve Requirement = 90 Days / $1,648,500	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ (5,465,235)	$ (6,071,414)	$ (6,667,827)	N/A	N/A
Is this fund compliant?	No	No	No		



Water Fund Cash Balance Status

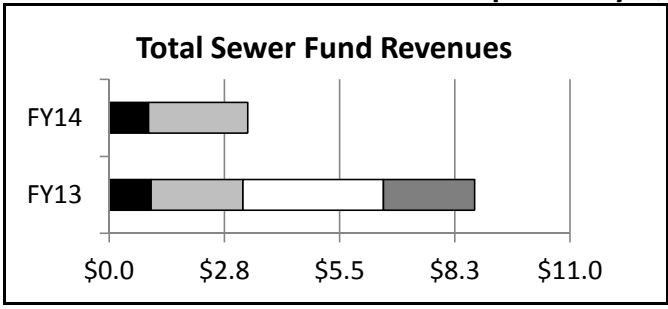
Staff is concerned with the ongoing sustainability of the City's Water Fund. The ongoing needed investment in infrastructure, the high fixed operating costs of the system, the limited customer base to spread the costs, and the current cash deficit are troubling. There is a structural imbalance between revenues and expenses in the Fund, leading to annual loans from the City's General Fund. Staff recently hired a national expert in utility systems, Burton & Associates, to perform a comprehensive analysis of the Water and Sewer funds. Burton & Associates will provide policy options to the Mayor and Council in the Fall of 2014. This timeline ensures that any policy decisions can inform the FY 2016 budget process.

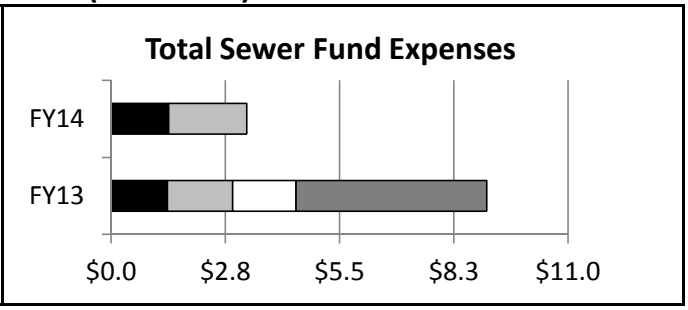
Sewer Fund Summary as of December 31, 2013

Sewer Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Utility charges	$ 9,602,760	$ 9,602,760	$ 3,259,066	33.9%	$ 3,017,211
Connection charges	120,000	120,000	16,400	13.7%	129,900
Interest income/Other	10,000	10,000	1,825	18.2%	3,000
Penalties	60,000	60,000	33,874	56.5%	41,636
Total Revenue	$ 9,792,760	$ 9,792,760	$ 3,311,165	33.8%	$ 3,191,747
Expenses					
Personnel	$ 1,604,320	$ 1,604,320	$ 792,891	49.4%	$ 688,413
Operating	3,683,820	3,813,875	1,493,649	39.2%	1,470,118
Capital	35,000	35,000	11,394	32.6%	-
Debt serv., transfer, other	5,222,170	5,222,170	968,551	18.5%	766,990
Total Expenses	$ 10,545,310	$ 10,675,365	$ 3,266,485	30.6%	$ 2,925,521
Add to / (Use of) Reserves	$ (752,550)	$ (882,605)	$ 44,679		$ 266,226

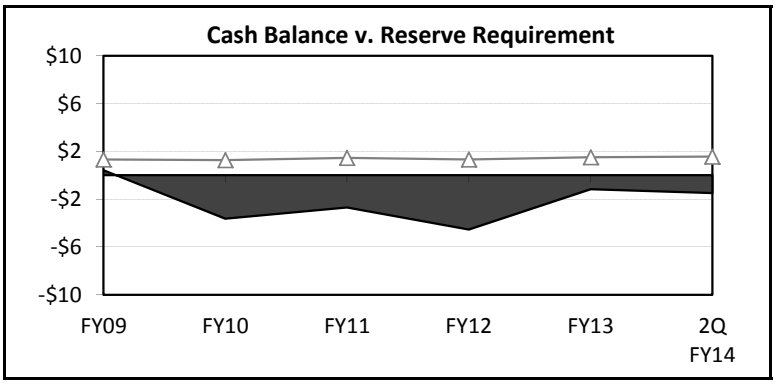
Total Sewer Fund Revenues and Expenses by Quarter (in millions)





Sewer Fund Cash Balance

FY14 Reserve Requirement = 90 Days / $1,552,900	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ (1,174,218)	$ (1,098,120)	$ (1,488,550)	N/A	N/A
Is this fund compliant?	No	No	No		



Sewer Fund Cash Balance Status

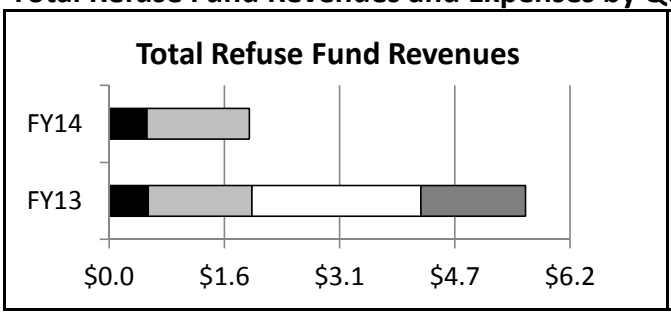
Staff is concerned with the ongoing sustainability of the City's Sewer Fund. The ongoing needed investment in infrastructure, the high fixed operating costs of the system, the limited customer base to spread the costs, and the current cash deficit are troubling. There is a structural imbalance between revenues and expenses in the Fund, leading to annual loans from the City's General Fund. Staff recently hired a national expert in utility systems, Burton & Associates, to perform a comprehensive analysis of the Water and Sewer funds. Burton & Associates will provide policy options to the Mayor and Council in the Fall of 2014. This timeline ensures that any policy decisions can inform the FY 2016 budget process.

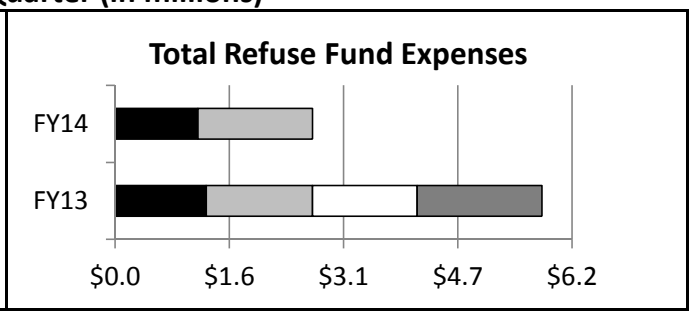
Refuse Fund Summary as of December 31, 2013

Refuse Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Utility charges	$ 5,142,900	$ 5,142,900	$ 1,697,381	33.0%	$ 1,717,186
Interest income/Other	13,930	13,930	456	3.3%	1,084
Sale of materials	296,600	296,600	155,323	52.4%	165,990
Penalties	65,560	65,560	34,969	53.3%	35,914
Total Revenue	$ 5,518,990	$ 5,518,990	$ 1,888,128	34.2%	$ 1,920,175
Expenses					
Personnel	$ 2,686,350	$ 2,686,350	$ 1,285,162	47.8%	$ 1,155,213
Operating	1,820,310	1,820,310	769,969	42.3%	903,213
Capital	20,000	20,000	19,134	95.7%	17,685
Debt serv., transfer, other	1,559,960	1,559,960	604,162	38.7%	598,989
Total Expenses	$ 6,086,620	$ 6,086,620	$ 2,678,426	44.0%	$ 2,675,101
Add to / (Use of) Reserves	$ (567,630)	$ (567,630)	$ (790,298)		$ (754,926)

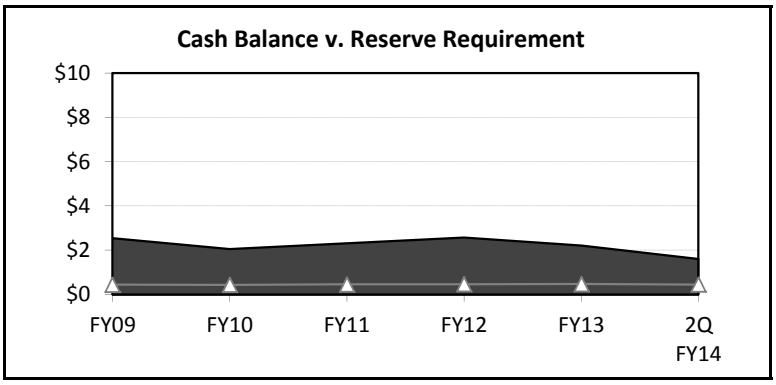
Total Refuse Fund Revenues and Expenses by Quarter (in millions)





Refuse Fund Cash Balance

FY14 Reserve Requirement = 30 Days / $439,600	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ 2,202,066	$ 2,297,424	$ 1,599,290	N/A	N/A
Is this fund compliant?	Yes	Yes	Yes		



Refuse Fund Cash Balance Status

The Refuse Fund's cash balance is above the required reserve level. The FY14 refuse rate is equal to the rate charged in FY13: $372 per year.

Staff is in the process of evaluating the estimated cash balances in future years to see if the rate can remain flat for FY15.

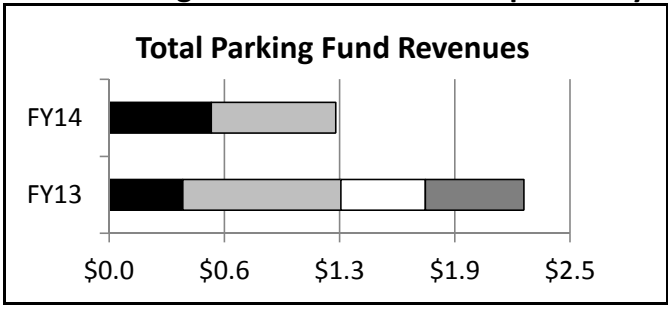
Parking Fund Summary as of December 31, 2013

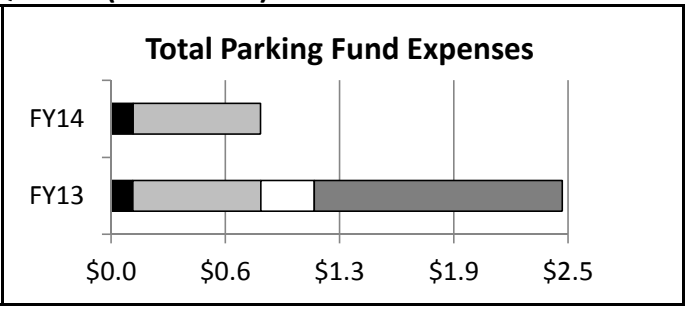
Parking Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Real property tax	$ 167,200	$ 167,200	$ 159,044	95.1%	$ 147,082
County contribution	299,000	299,000	-	0.0%	298,875
Parking meters	376,000	376,000	183,834	48.9%	189,432
Parking violations	730,000	730,000	453,770	62.2%	370,632
Interest income/Other *	240	240	57,015	N/A	564
Trans. from General Fund	750,000	750,000	375,000	50.0%	250,000
Total Revenue	$ 2,322,440	$ 2,322,440	$ 1,228,663	52.9%	$ 1,256,583
Expenses					
Personnel	$ 244,480	$ 244,480	$ 130,685	53.5%	$ 113,439
Operating	129,010	129,010	35,169	27.3%	44,316
Debt serv., transfer, other	1,793,270	1,793,270	650,456	36.3%	660,935
Total Expenses	$ 2,166,760	$ 2,166,760	$ 816,310	37.7%	$ 818,690
Add to / (Use of) Reserves	$ 155,680	$ 155,680	$ 412,353		$ 437,894

**Actual includes $56,938 escrow release for Town Square Parking Garages.*

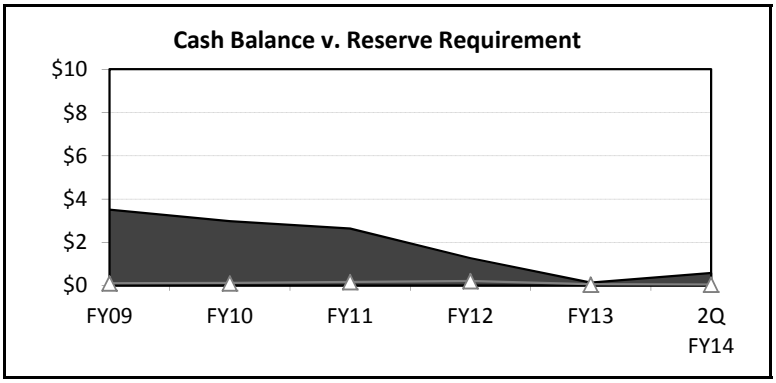
Total Parking Fund Revenues and Expenses by Quarter (in millions)





Parking Fund Cash Balance

FY14 Reserve Requirement = 30 Days / $42,518	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ 129,794	$ 626,164	$ 569,330	N/A	N/A
Is this fund compliant?	Yes	Yes	Yes		



Parking Fund Cash Balance Status

The Parking Fund is currently in compliance with the reserve requirement, mainly due to the annual General Fund transfer. The largest cost in the Parking Fund is debt service, which is paid in the 2Q and 4Q.

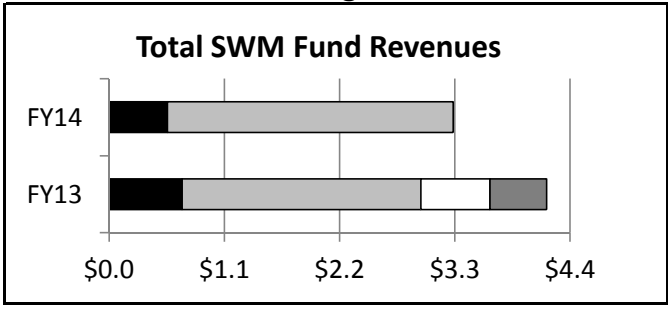
Parking violation revenue has remained strong through 2Q. As a result, this revenue source will be increased in the FY15 proposed budget. Another revenue source that will impact the FY15 budget is the percentage rent payment from FRIT, which is the City's portion of FRIT's operating net income from operating the Town Center garages. For FY14, this payment totaled $51,341. This will be budgeted at $50,000 in FY15.

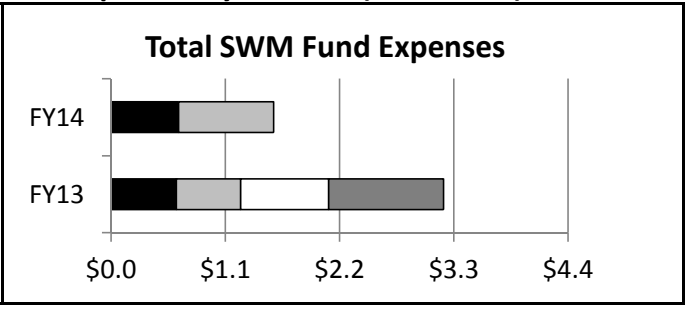
Stormwater Management Fund Summary as of December 31, 2013

Stormwater Management Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
SWM utility fees	$ 3,729,200	$ 3,729,200	$ 2,896,873	77.7%	$ 2,287,963
SWM permits	280,000	280,000	137,145	49.0%	258,788
Regional SWM fees	200,000	200,000	238,662	119.3%	427,360
Interest income/Other	9,130	9,130	12,055	132.0%	2,417
Total Revenue	$ 4,218,330	$ 4,218,330	$ 3,284,735	77.9%	$ 2,976,529
Expenses					
Personnel	$ 1,875,200	$ 1,875,200	$ 957,793	51.1%	$ 794,053
Operating	582,470	772,894	275,057	35.6%	139,655
Debt serv., transfer, other	985,970	985,970	318,576	32.3%	312,391
Total Expenses	$ 3,443,640	$ 3,648,784	$ 1,563,386	42.8%	$ 1,246,099
Add to / (Use of) Reserves	$ 774,690	$ 569,546	$ 1,721,349		$ 1,730,430

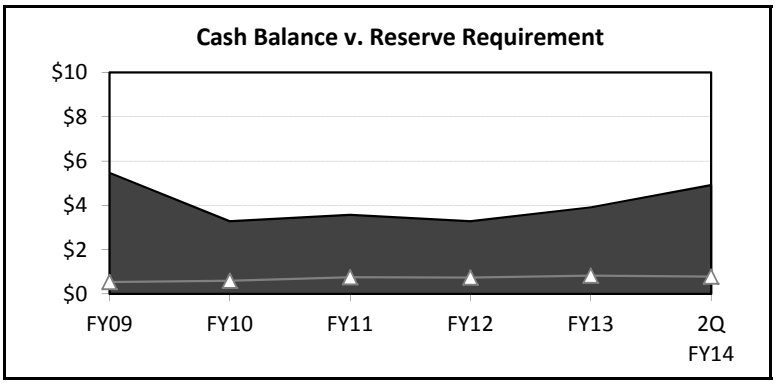
Total Stormwater Management Fund Revenues and Expenses by Quarter (in millions)





Stormwater Management Fund Cash Balance

FY14 Reserve Requirement = 90 Days / $774,300	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ 3,906,298	$ 3,162,262	$ 4,906,954	N/A	N/A
Is this fund compliant?	Yes	Yes	Yes		



SWM Fund Cash Balance Status

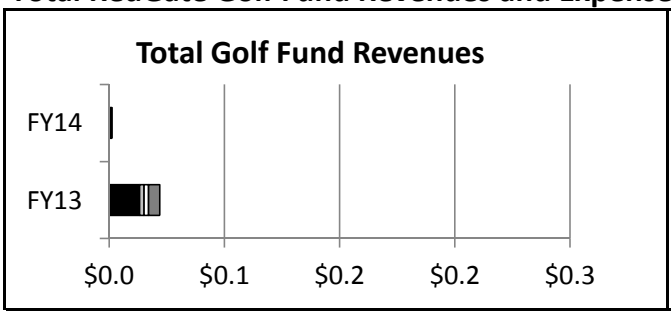
Staff is concerned with the current level of operating and capital spending in the Stormwater Management Fund. Although the fund is currently in compliance with policy guidelines, the program was originally designed to be supported by all properties within the City. As the Mayor and Council are aware, the non-payment from Montgomery County is significant, and is having a negative impact on the affordability of the program for Rockville residents and businesses.

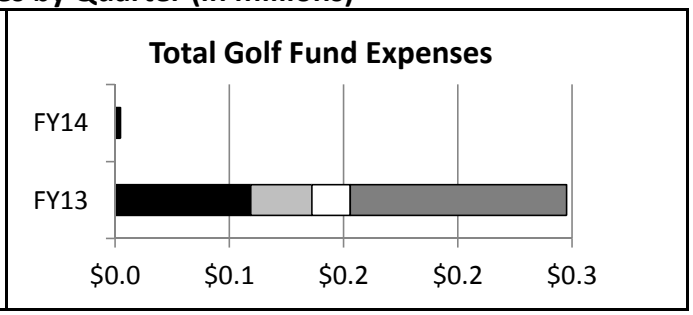
RedGate Golf Fund Summary as of December 31, 2013

RedGate Golf Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Performance/Misc.	$ 41,340	$ 41,340	$ -	0.0%	$ 17,482
Course lease	12,000	12,000	2,000	16.7%	6,000
Total Revenue	$ 53,340	$ 53,340	$ 2,000	3.7%	$ 23,482
Expenses					
Personnel	$ -	$ -	$ -	0.0%	$ 131,393
Debt serv., transfer, other	134,370	134,370	3,677	2.7%	1,962
Total Expenses	$ 134,370	$ 134,370	$ 3,677	2.7%	$ 133,355
Add to / (Use of) Reserves	$ (81,030)	$ (81,030)	$ (1,677)		$ (109,873)

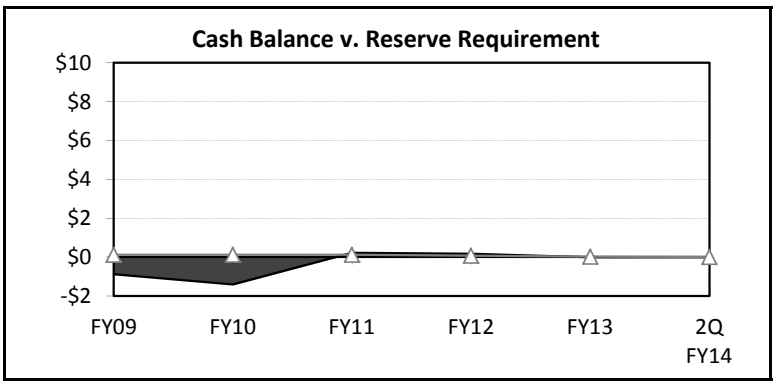
Total RedGate Golf Fund Revenues and Expenses by Quarter (in millions)





RedGate Golf Fund Cash Balance

FY14 Reserve Requirement = 30 Days / N/A	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ (10,639)	$ (13,316)	$ (13,316)	N/A	N/A
Is this fund compliant?	N/A	N/A	N/A	N/A	N/A



RedGate Golf Fund Cash Balance Status

The Golf Fund does not have a reserve requirement since it no longer has any operating expenses--only depreciation and debt service payments. FY13 employee severance payouts depleted the fund's cash reserves. In order to re-establish a positive cash balance, the City will need to transfer General Fund resources in the future.

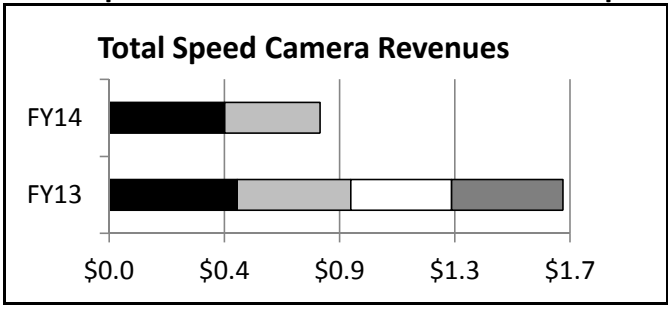
The FY14 revenue budget includes reimbursement for debt service as well as performance revenue; however, the lease amendment recommended by staff and approved by the Mayor and Council in October eliminates debt service reimbursements and reduces course rental and performance revenue going forward.

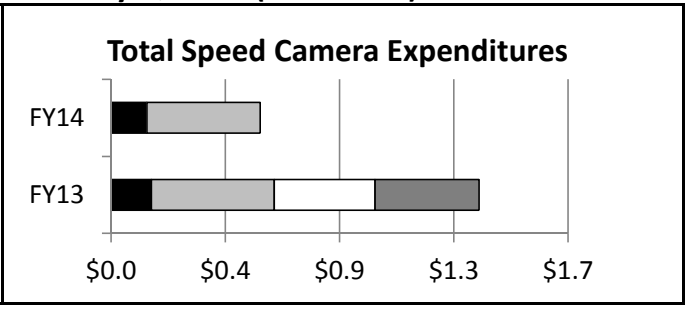
Speed Camera Fund Summary as of December 31, 2013

Speed Camera Fund Budget to Actual

	Current Fiscal Year				Previous Yr
	FY14 Adopted	FY14 Amended	Actual 12/31/13	% Amend. Rec/Spent	Actual 12/31/12
Revenues					
Speed camera citations	$ 2,000,000	$ 2,000,000	$ 777,770	38.9%	$ 890,162
Interest income	490	490	261	53.3%	625
Total Revenue	$ 2,000,490	$ 2,000,490	$ 778,031	38.9%	$ 890,787
Expenditures					
Personnel	$ 420,580	$ 420,580	$ 180,630	42.9%	$ 168,234
Operating	864,600	864,600	258,588	29.9%	307,215
Debt serv., transfer, other	351,330	351,330	115,665	32.9%	113,395
Total Expenditures	$ 1,636,510	$ 1,636,510	$ 554,883	33.9%	$ 606,772
Add to / (Use of) Reserves	$ 363,980	$ 363,980	$ 223,148		$ 284,015

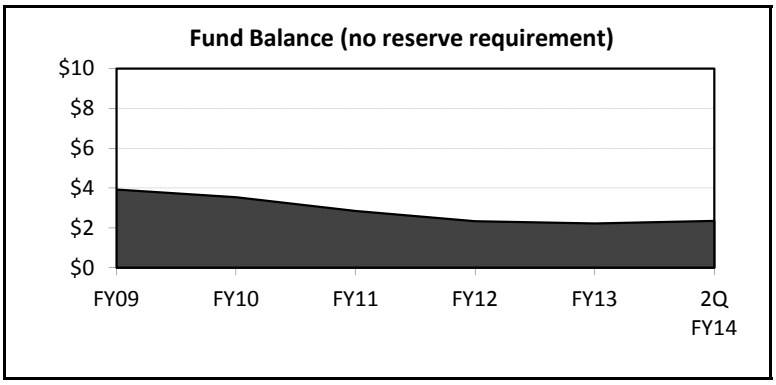
Total Speed Camera Fund Revenues and Expenditures by Quarter (in millions)





Speed Camera Fund Total Fund Balance

FY14 Reserve Requirement = None (legally restricted)	6/30/2013 Actual	1Q Actual	2Q Actual	3Q Actual	4Q Actual
	$ 2,223,510	$ 2,466,791	$ 2,347,910	N/A	N/A
Is this fund compliant?	N/A	N/A	N/A	N/A	N/A



Speed Camera Fund Total Fund Balance Status

The City's speed camera program continues to be successful at reducing speeding. As a result of this success, speed camera citation revenue continues to decline. As the gap between budgeted operating revenues and expenditures decreases, less funding is available for eligible capital projects. A majority of the current fund balance is appropriated for Transportation capital projects. These funds are legally restricted for public safety uses; therefore, the fund has no minimum reserve requirement.

Debt Ratios

Debt Service Fund Debt Ratios*

	Target	FY14	FY15	FY16	FY17	FY18
Debt per assessed valuation	≤1.0%	0.6%	0.6%	0.5%	0.5%	0.5%
Debt per capita	≤$1,225	$1,179	$1,095	$1,015	$1,006	$922
Debt per capita (not incl. parking garages)	≤$1,225	$606	$540	$474	$408	$351
Debt per capita as percent of per capita income	≤2.5%	2.3%	2.1%	1.9%	1.9%	1.7%
Debt service as percent of operating budget	≤15.0%	11.6%	11.4%	10.6%	9.8%	10.1%
Amortization rate - 5 years	≥25%	28.1%	30.0%	32.0%	34.5%	36.9%
Amortization rate - 10 years	≥50%	56.3%	59.0%	61.2%	62.9%	65.1%

**All ratios include debt issued for the Town Center Parking Garages unless otherwise noted.*

2Q FY14 CIP Transfers

Project Name	Amount	Fund	Dept	Reason for Transfer
Water Main Rehabilitation Water Plant Upgrades Water System Facility Improvements	$ (800,000) 552,000 248,000	Water Fund	Public Works	Add'l funding needed to award ferric chloride, residuals handling, and air scour projects (M&C awarded 9/30/13)
Water Tank Improvements Hydraulic surge Suppression Southlawn Lane Water Main	$ (80,965) (17,591) 98,556	Water Fund	Public Works	WSSC's requirements changed once project was underway, resulting in additional vault and inspection fees.

City Manager Contingency Usage

Adopted Budget Contingency Level	**$**	**280,000**
RHE backbilled refuse accounts as directed by the Mayor and Council	$	(22,076)
General Fund CDBG support not needed (grant award higher than budgeted)		10,800
Mediation advice and coordination services related to the CFI hearings		(29,000)
City Hall security improvements		(26,400)
Unused Balance *	**$**	**213,324**

**Since December 31, 2013, a total of $157,000 has been transferred from the City Manager Contingency account to fund RedGate lease amendment items ($18,000) and additional snow and ice removal needs ($139,000).*