

MEMORANDUM

TO: City Council

FROM: David J. Deutsch, City Manager

SUBJECT: Budget Policy Guidance Presentation

DATE: December 1, 2010

The City's Strategic Plan recommends that the City Council should meet to establish budget priorities and guidelines for the upcoming fiscal year. In that regard, staff will make a presentation (see attached) and facilitate a discussion regarding the upcoming FY2012 City Budget.

Attachment

DJD/RSP

City of Bowie Budget Policy Guidance Meeting

December 6, 2010

Background

City of Bowie

Action Plan 11 from Strategic Plan:

Strategic Issue: Growing service demand

Goal: Better balance between resources and current demand for existing services

Action: Provide policy guidance at start of budget process

City of Bowie

Action Plan 11 (Continued)

Specific tasks:

1. Council meets to establish budget priorities and guidelines.
2. City Manager conveys Council policy to department heads for guidance in preparing budget requests.

Action Items

- Establish a framework for FY2012 Budget
- Set priorities and parameters
- Emphasize importance of using the CIP as a strategic financial planning tool
- Consideration of long term recurring operating costs when adding Capital Projects

City of Bowie

- Council/Manager form of government
 - ◆ Council – Policy-making body with legislative authority
 - ◆ Manager – Responsible for carrying out the policies and ordinances, overseeing the day-to-day operations, and serves as the Chief Financial Officer

City of Bowie

- The City Manager is required to prepare an annual budget to be submitted to the Council (City Charter, Sec. 39. Powers and duties, par.6).
- The City Manager shall submit a budget to the Council between the tenth and the fifteenth days of April each year (City Charter, Sec. 42. Duty to prepare budget, etc.)

Budget Development Schedule

November	Council meets to establish budget priorities. City Manager conveys Council policy to Department Heads.
December	Staff begins planning recommendations for the Capital Improvement Program.
January	Staff begins developing goals for the coming year and estimating costs for operating budget recommendations.
February	City Manager meets with Department Heads to analyze new projects, evaluate progress on continuing projects, determine operating cost requirements and set priorities.
March	Finance Department makes revenue projections, prepares summaries, edits and assembles the City Manager's Proposed Budget.
April	City Manager submits the Proposed Budget and Capital Improvements Program to City Council between April 10 th and April 15 th , as required by City Charter.
April-May	City Council holds budget work sessions and one or more public hearings, all of which are televised and open to the public.

Fiscal Policies

Revenue and Expenditure Policies

1. The City will strive to adopt an annual General Fund budget in which recurring expenditures do not exceed recurring revenues.
2. A five-year projection of revenues and expenditures for the General and Water and Sewer Fund will be prepared each fiscal year to provide a long-range, strategic perspective for the annual budget process.

Fiscal Policies

Revenue and Expenditure Policies (Continued)

3. On an annual basis the City will set rates for the Water and Sewer Fund at levels which provide for self-sufficiency.
4. One-time nonrecurring revenues shall be used for financing capital projects. Examples of one-time revenues include, but are not limited to: proceeds from the sale of surplus property, capital grants and other infrequent, nonrecurring revenues. The use of one-time revenues for financing ongoing operating expenditures is strongly discouraged.

Fiscal Policies

■ Capital Financing and Debt Management Policies

1. The City will not use long-term borrowing to finance current operations or normal maintenance expenses.
2. The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements.

Fiscal Policies

■ Capital Financing and Debt Management Policies (Continued)

3. The City will maintain an unreserved fund balance in the General Fund and the Water and Sewer Fund at a level not less than 25 percent of annual expenditures.
4. To the extent that unreserved fund balance in the General Fund exceeds the 25 percent level, the City will draw upon the fund balance to provide pay-as-you-go financing for capital projects or for other one-time capital items.

Fiscal Policies

■ Capital Financing and Debt Management Policies (Continued)

5. As part of the Capital Improvements Program, an analysis of the long-term financial impact shall be performed for new capital projects. The analysis shall include the initial capital costs for acquisition and construction, as well as the impact on operating costs. The analysis of operating costs shall include the changes in operating and maintenance costs, additional workforce requirements, productivity enhancements, and risk management considerations.

Fiscal Policies

■ Capital Financing and Debt Management Policies (Continued)

6. All debt issued will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
7. The City will maintain its tax-supported bonded debt at a level not to exceed 0.8 percent of the assessed valuation of taxable property within the City.
8. The ratio of debt service expenditures as a percent of General Fund revenues shall not exceed 10 percent.

Revenue Outlook

- State
- County
- City

Revenue Outlook - State

Cautious optimism?

- In FY2010, Income Taxes rose by 3.2%, Sales Tax declined by 2.7%.
- Modest increases in Sales Tax (3.8%) and Income Taxes (4.3%) estimated for FY2011.
- Continuation of increases in Sales Tax (3.4%) and Income Taxes (5.1%) projected for FY2012.

Source: Bureau of Revenue Estimates, State of Maryland Comptroller's Office, October 2010

Revenue Outlook – County

- Continue to face great challenges in FY2011 and FY2012:
 - ◆ Significant reductions in assessed values predicted
 - ◆ Loss of Highway User Revenue
 - ◆ Projected additional cuts of State aid to the County
 - ◆ County expenditures growing faster than revenues

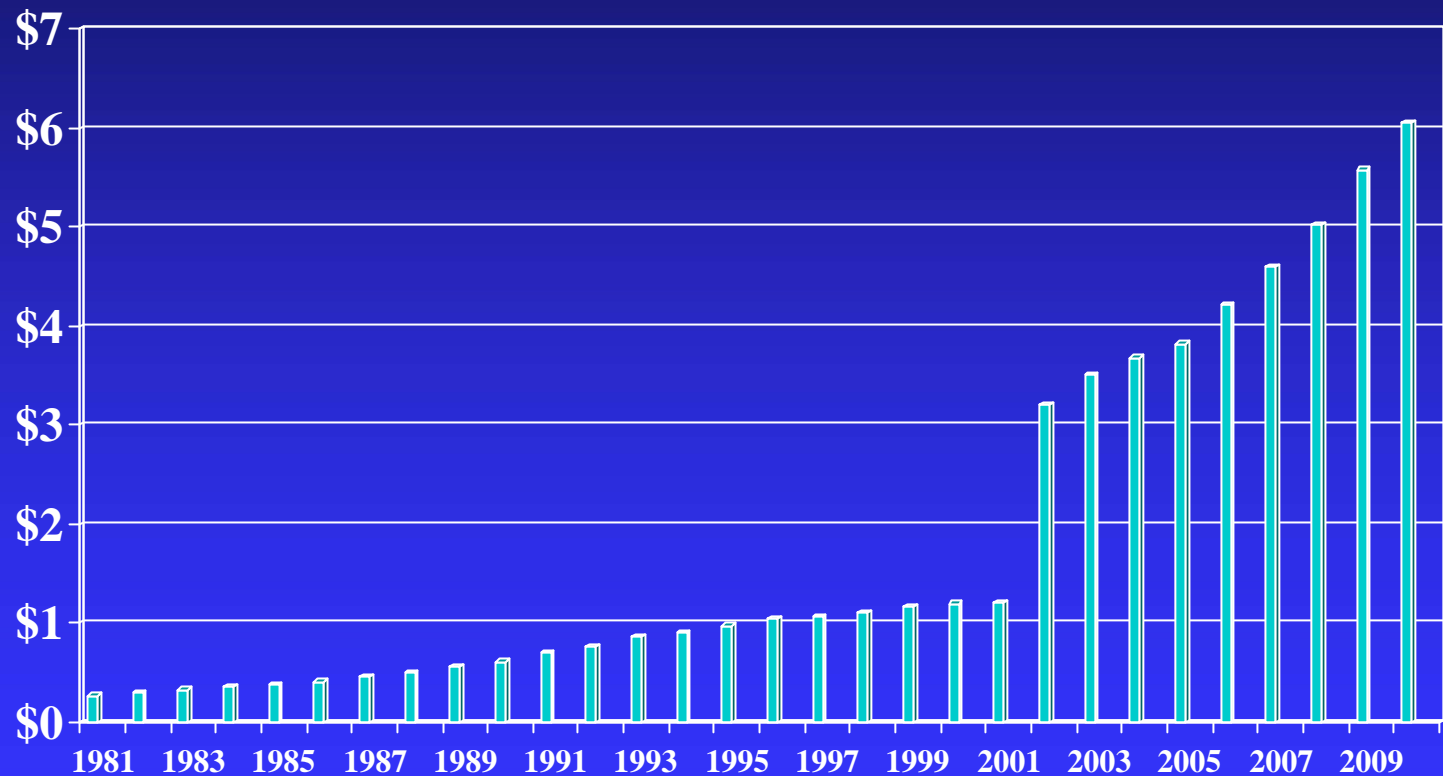
Source: Prince George's County

Revenue Outlook - City

- Taxable property values increasing in FY2011. As a result of reassessments performed by the State, property values may decline in FY2012, first time since FY1979.
- Continued reductions in highway user revenue from the State.
- Income Taxes remain steady.
- Speed Camera Program - Over \$650,000 has been collected, offset by \$265,000 in costs, since its implementation in June 2010.

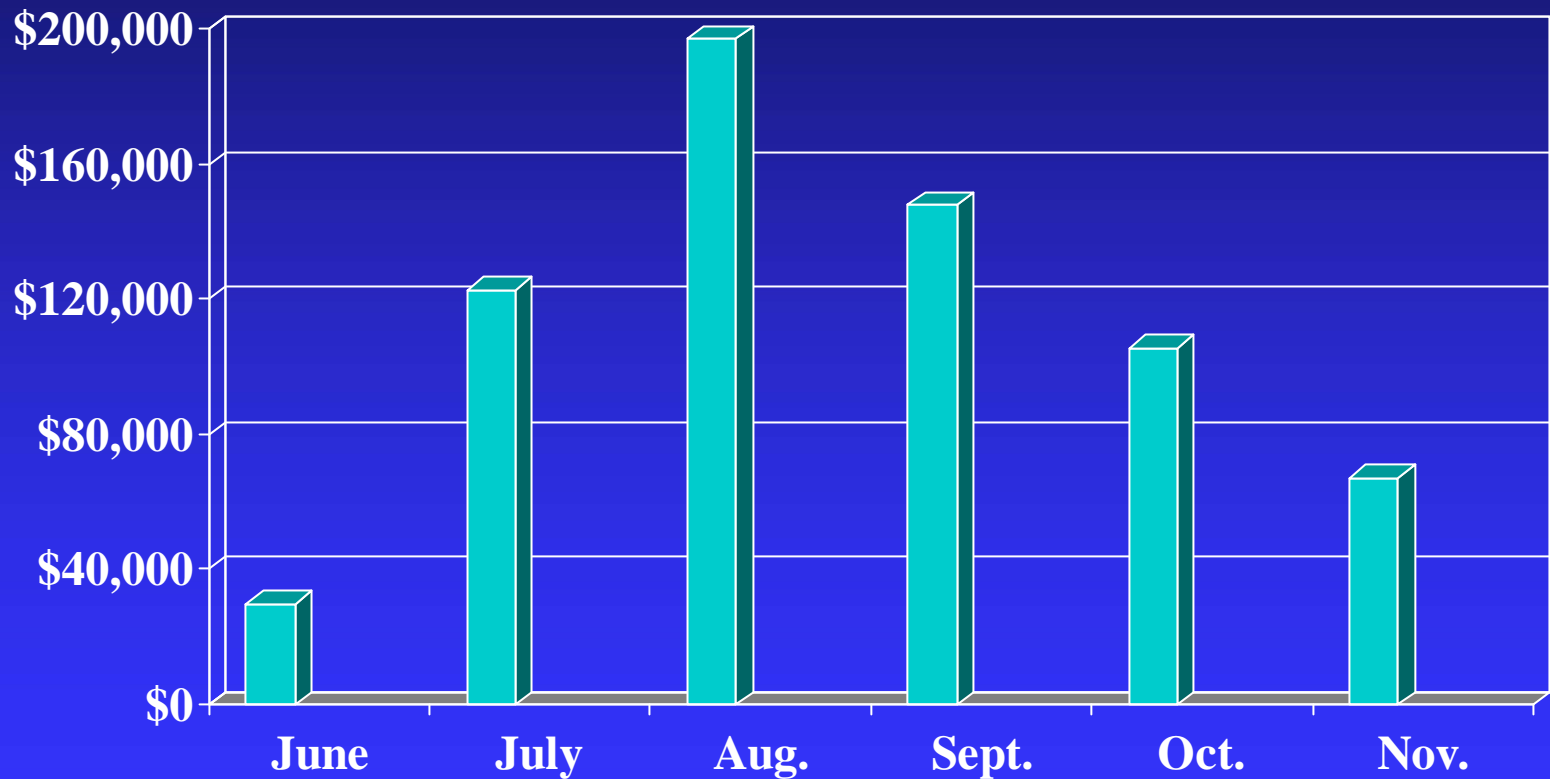
History of Taxable Assessed Values 1981 - 2010

Billions



Prior to FY2002, real property was assessed at 40% of estimated full value.

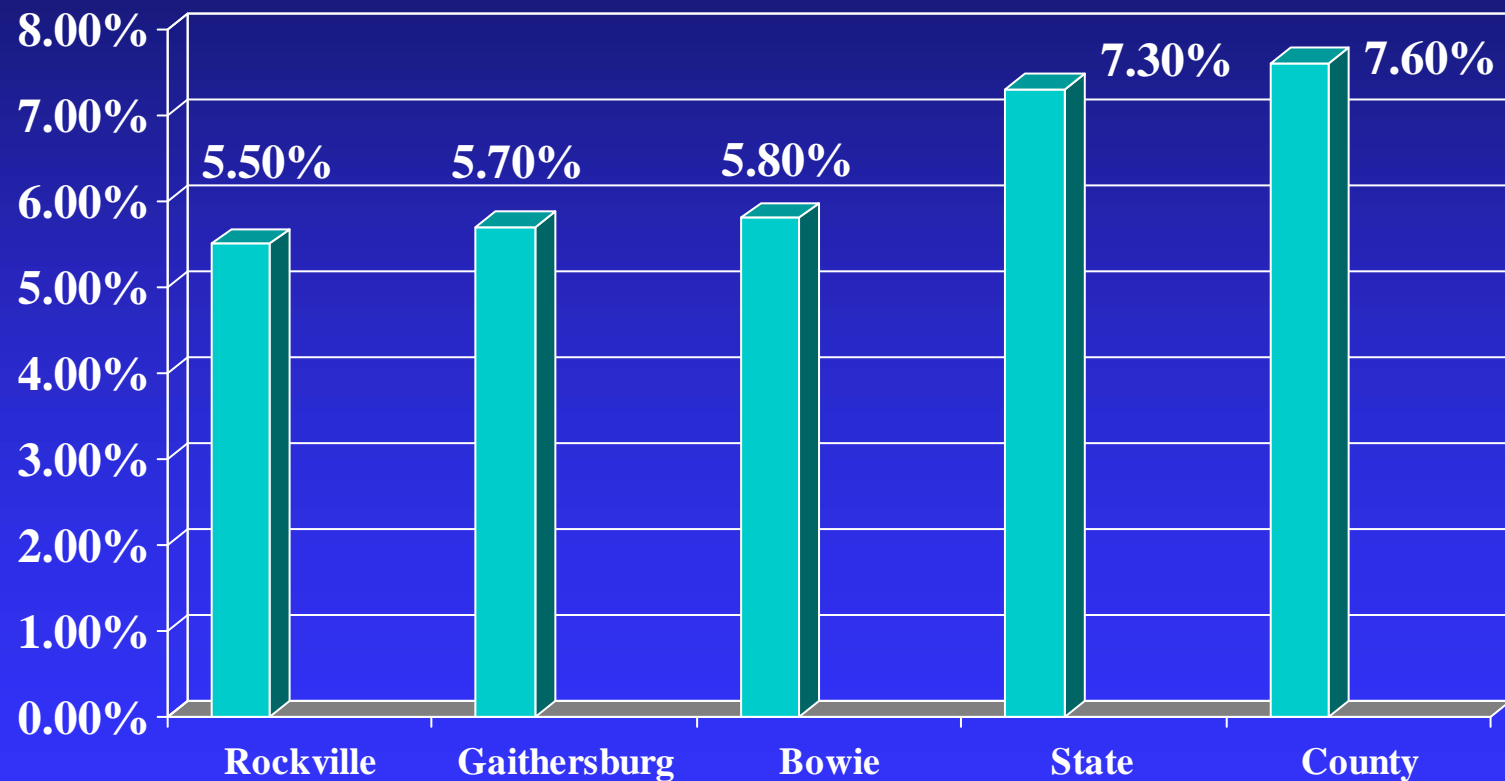
Revenue from Speed Camera Infractions June through November 2010



Factors that would adversely impact City budget:

- Reduced assessed values would impact property tax revenue in fiscal years 2012, 2013 and 2014.
- Higher oil and energy prices.
- Income tax revenues would be adversely impacted should the federal government furlough, institute a reduction-in-force process, or not provide cost of living increases for its employees.

Unemployment Rates – August 2010

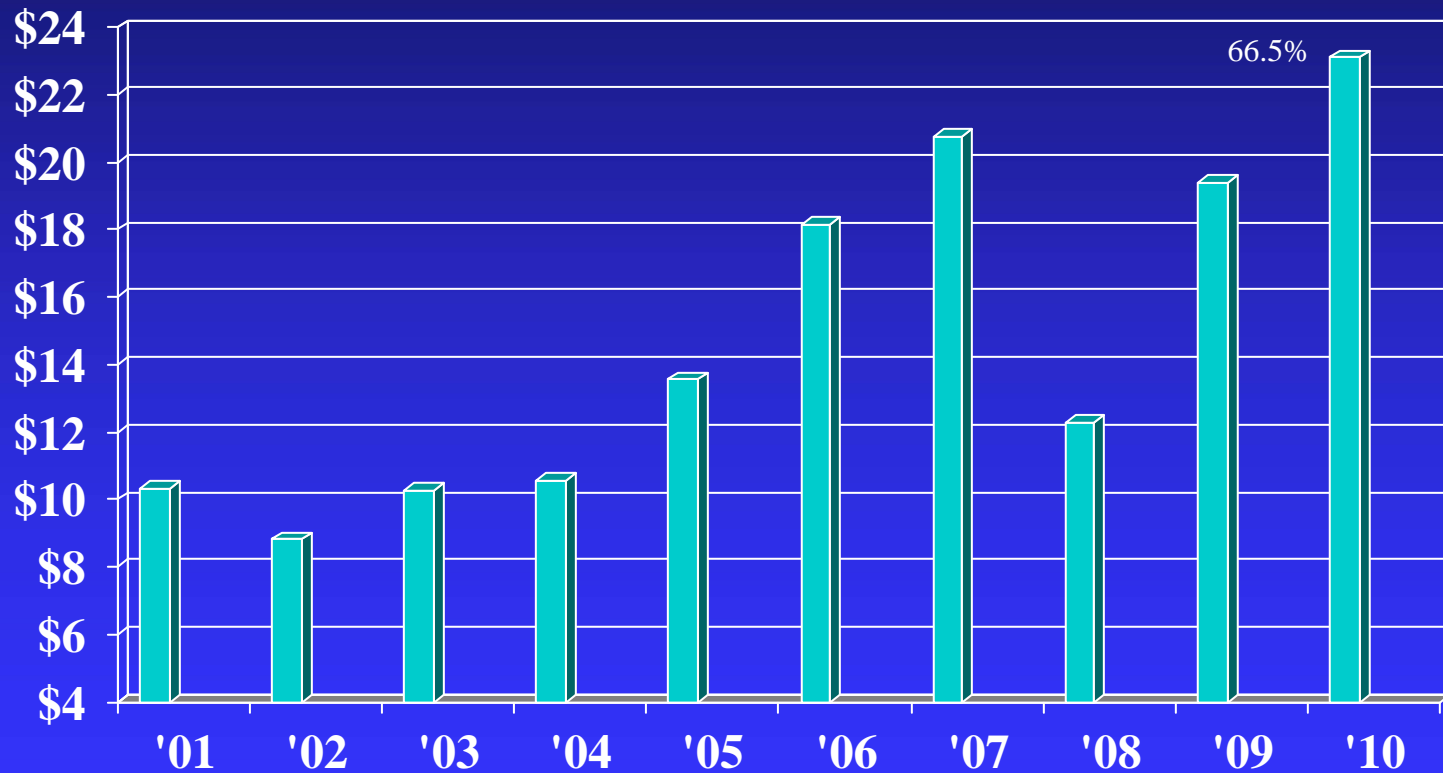


Source: Maryland Dept. of Labor, Licensing & Regulation

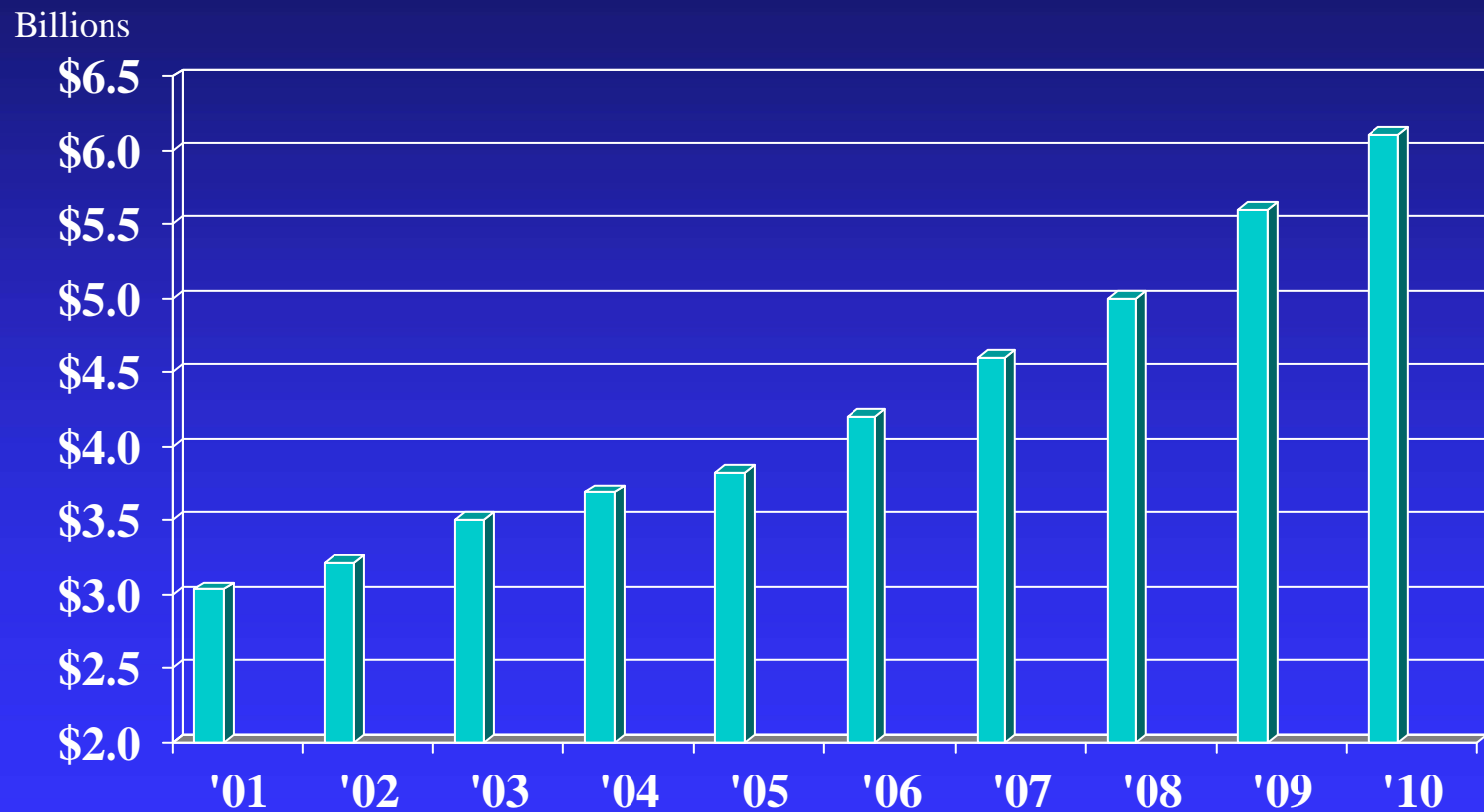
Trends of Major Revenue Sources Last Ten Years

Undesignated Fund Balance – Last Ten Years

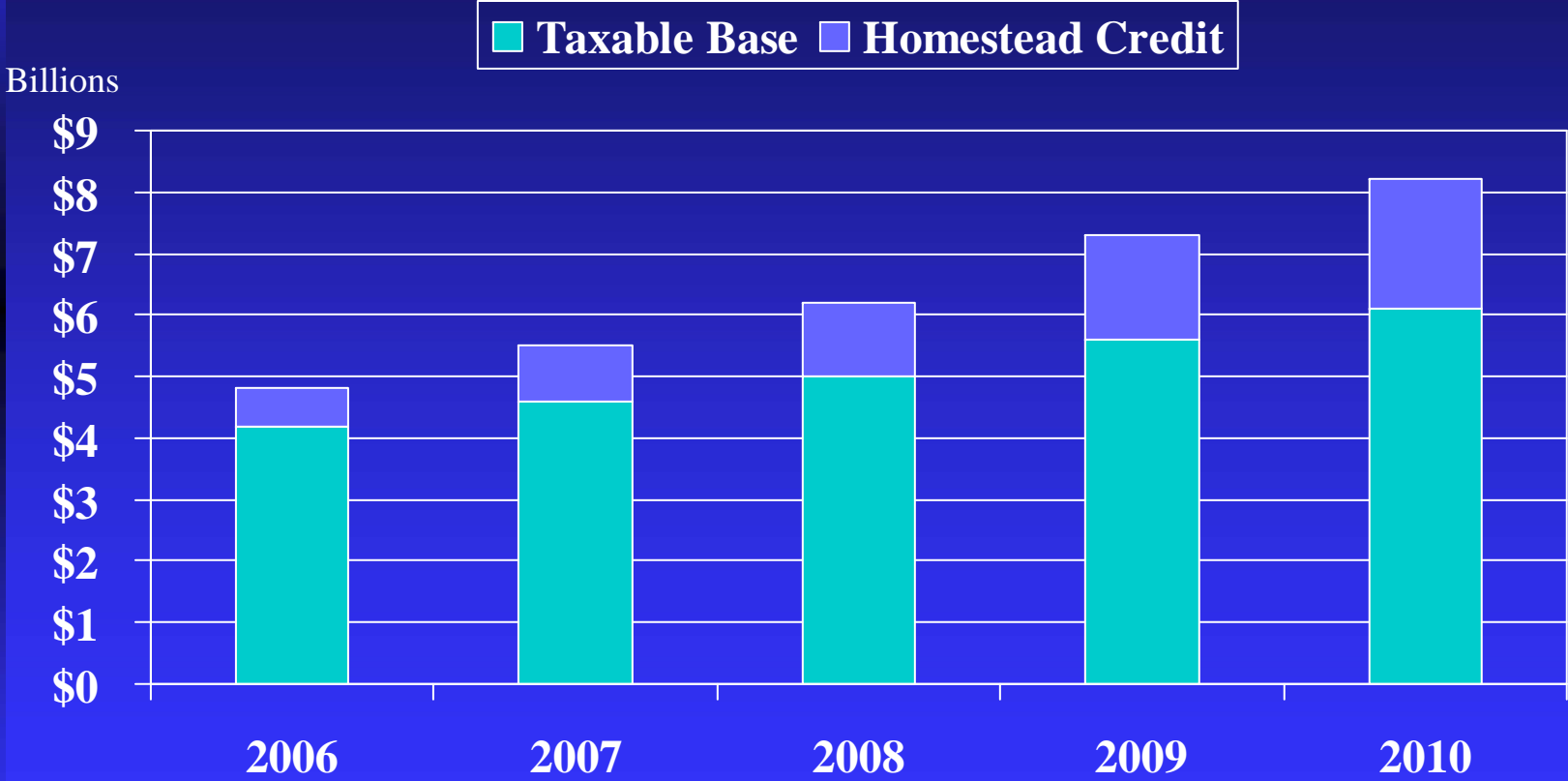
Millions



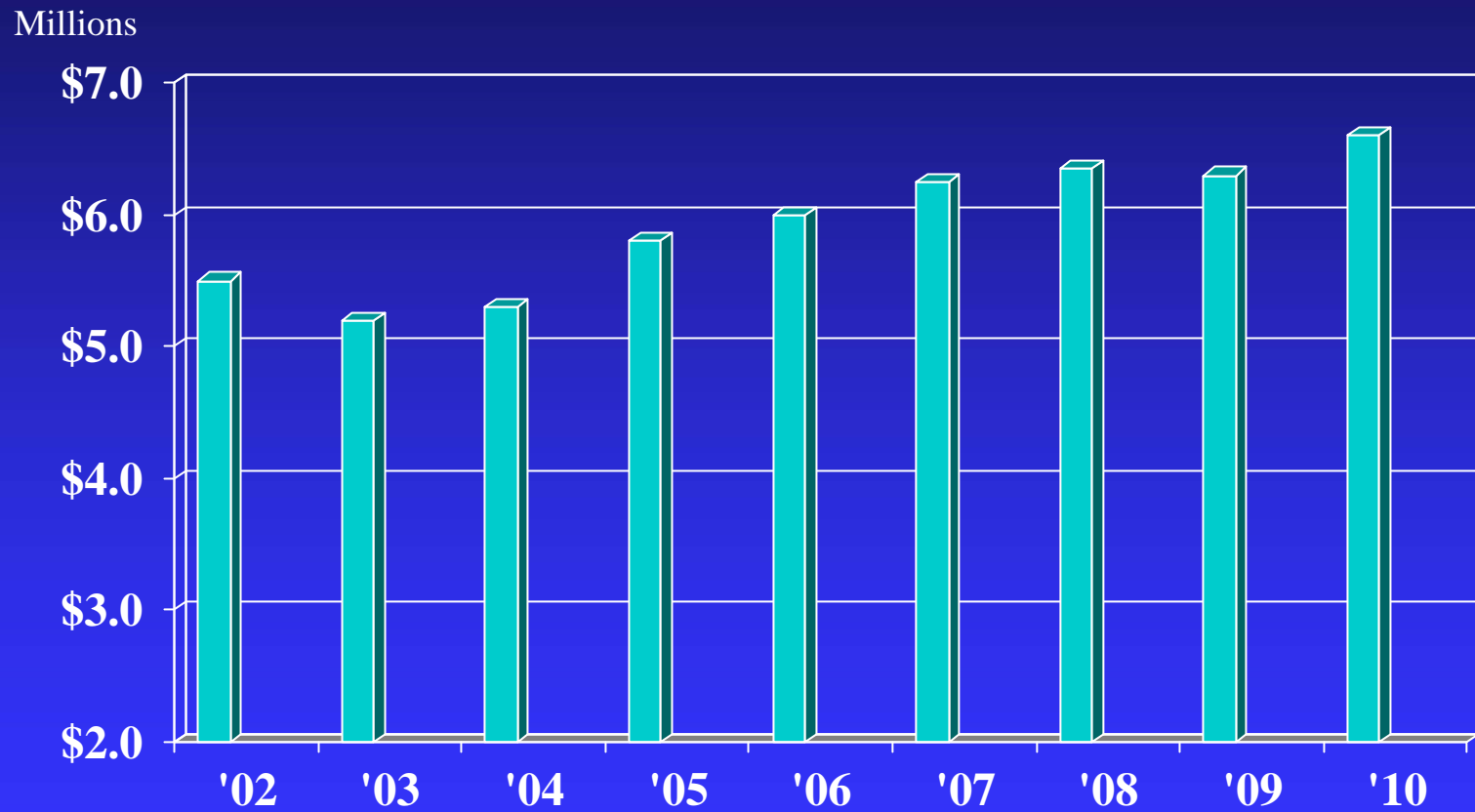
Assessed Value Last Ten Years



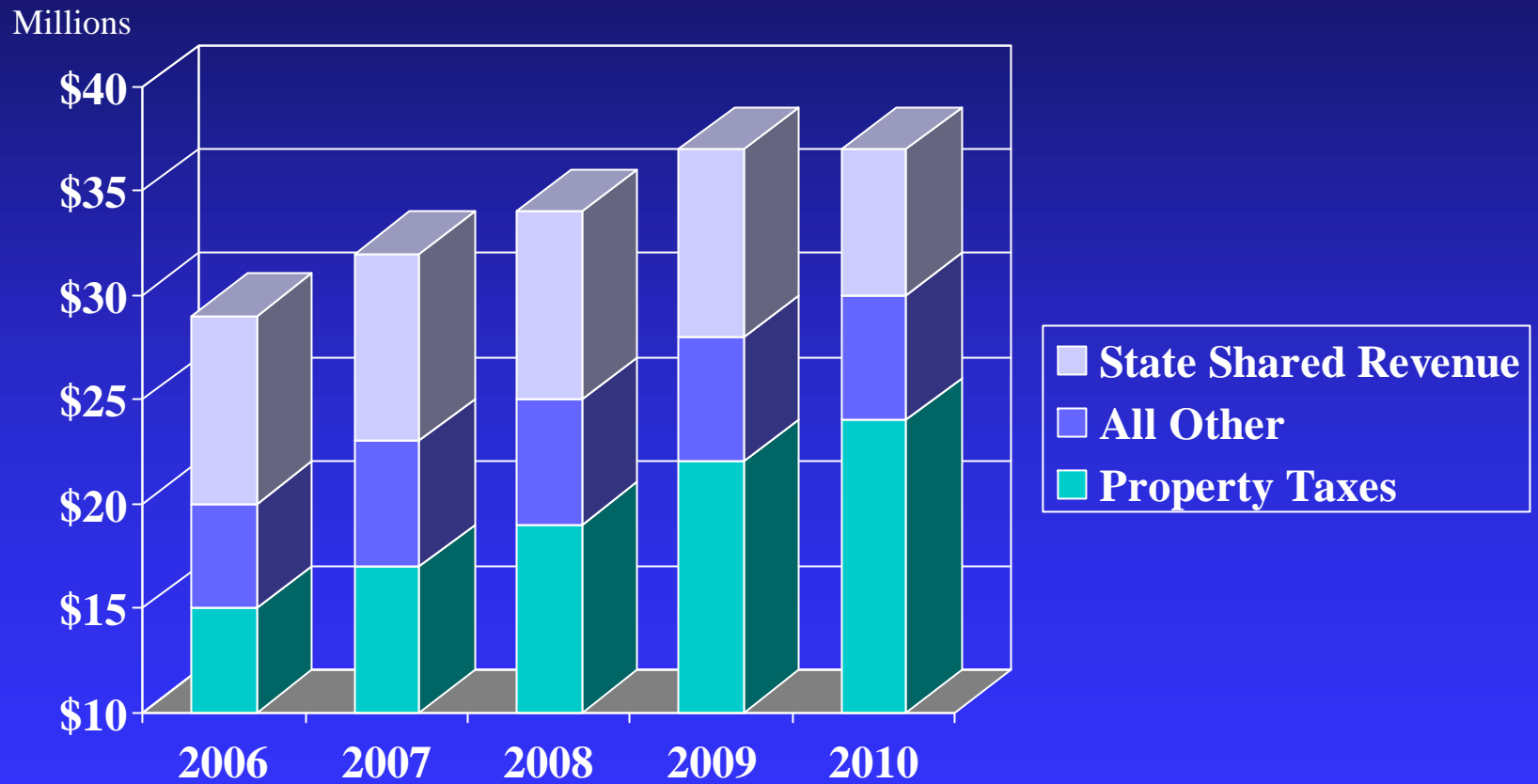
Homestead Tax Credit (Assessed values)



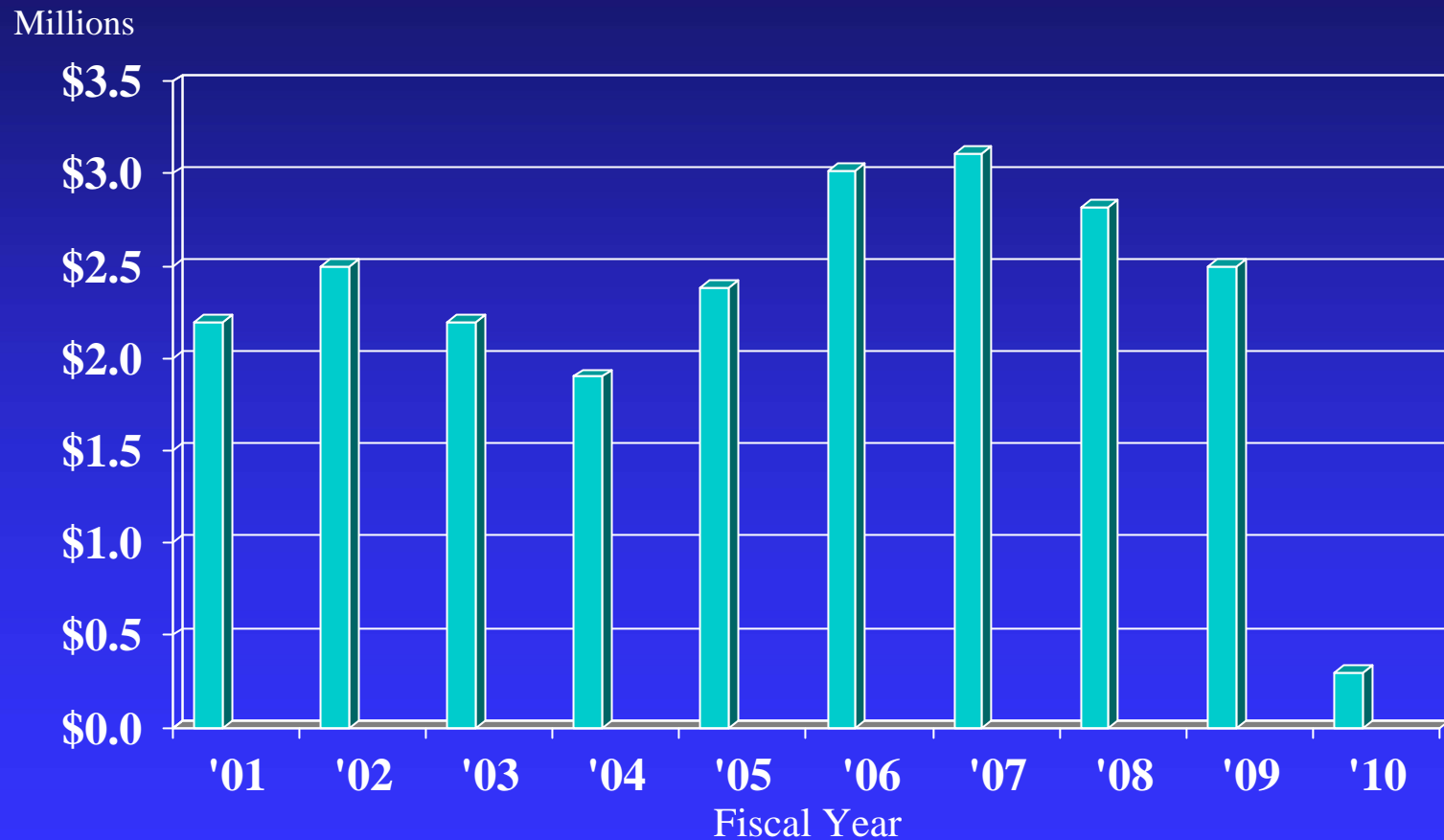
Income Taxes Last Ten Years



General Fund Major Revenue Categories



Highway User Revenue Last Ten Years

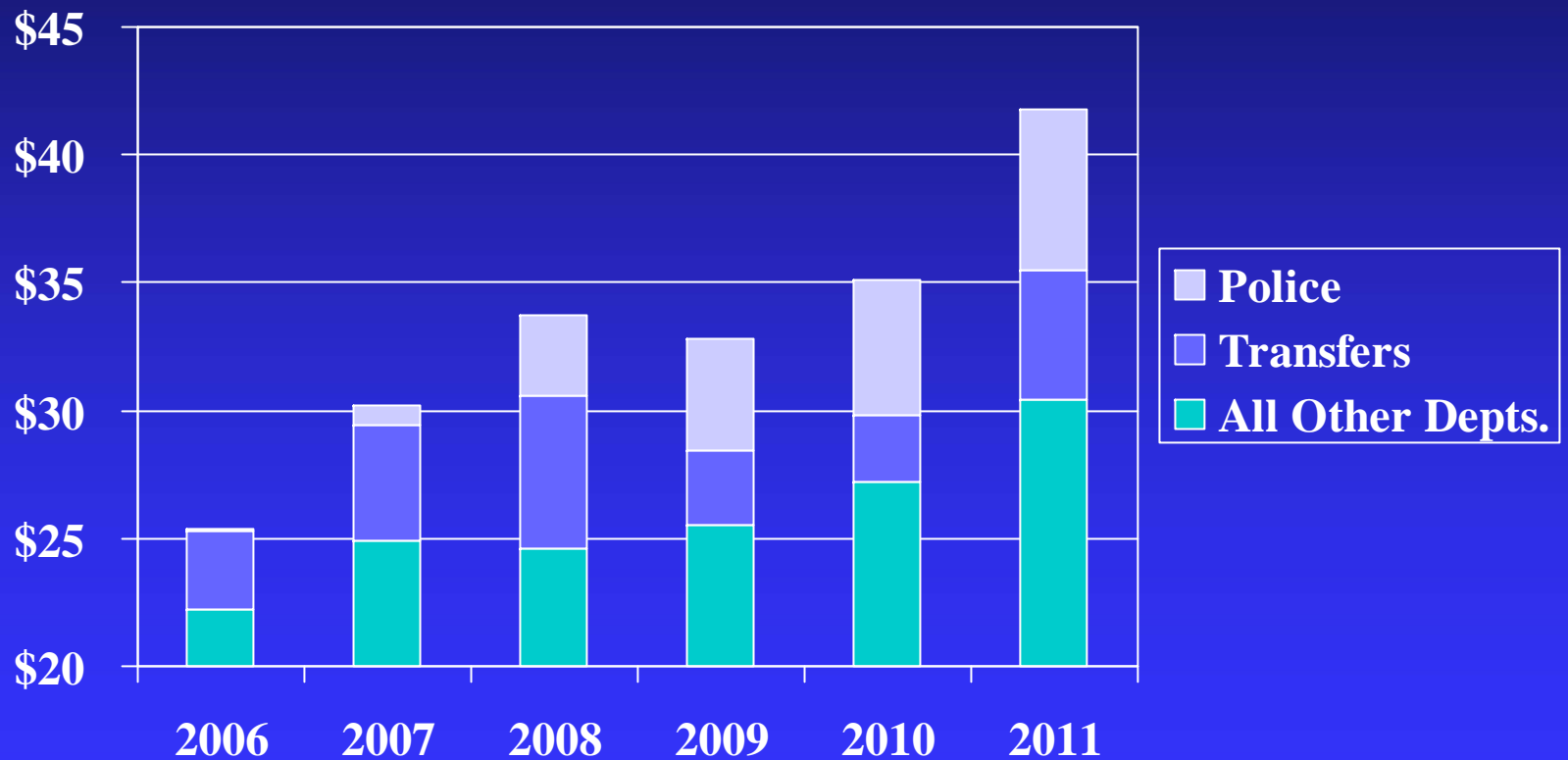


Update on Highway User Revenue

- The City expects to receive only \$103,000 in FY2011. The City received \$3.1 million in FY2007.
- Restoration of full funding (FY2007 levels) in the next few years is highly improbable.

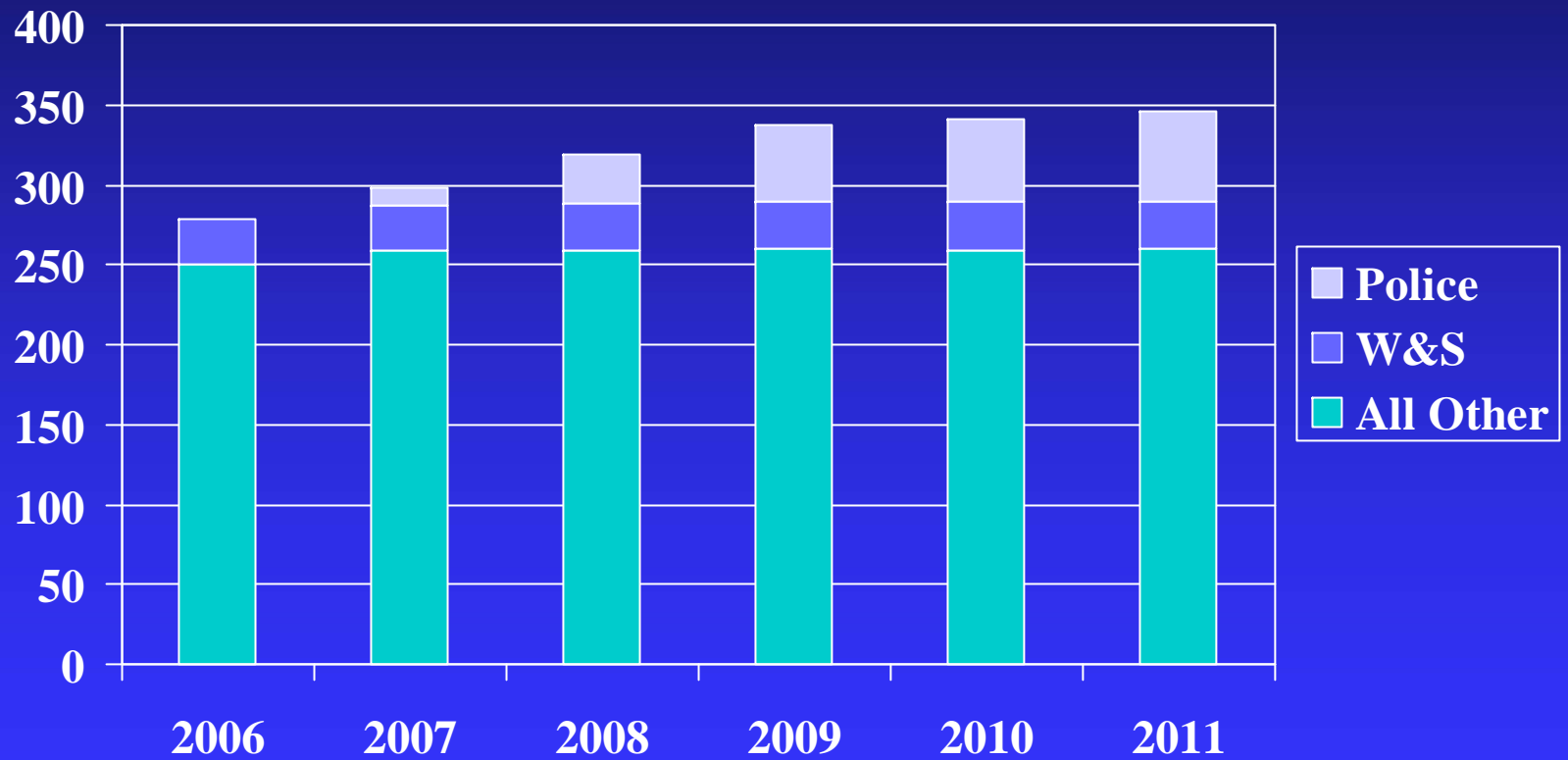
General Fund Expenditures Police, Transfers, All Other Depts.

In Millions



FY2006 – 2010 (Actual), FY2011 (Budget)

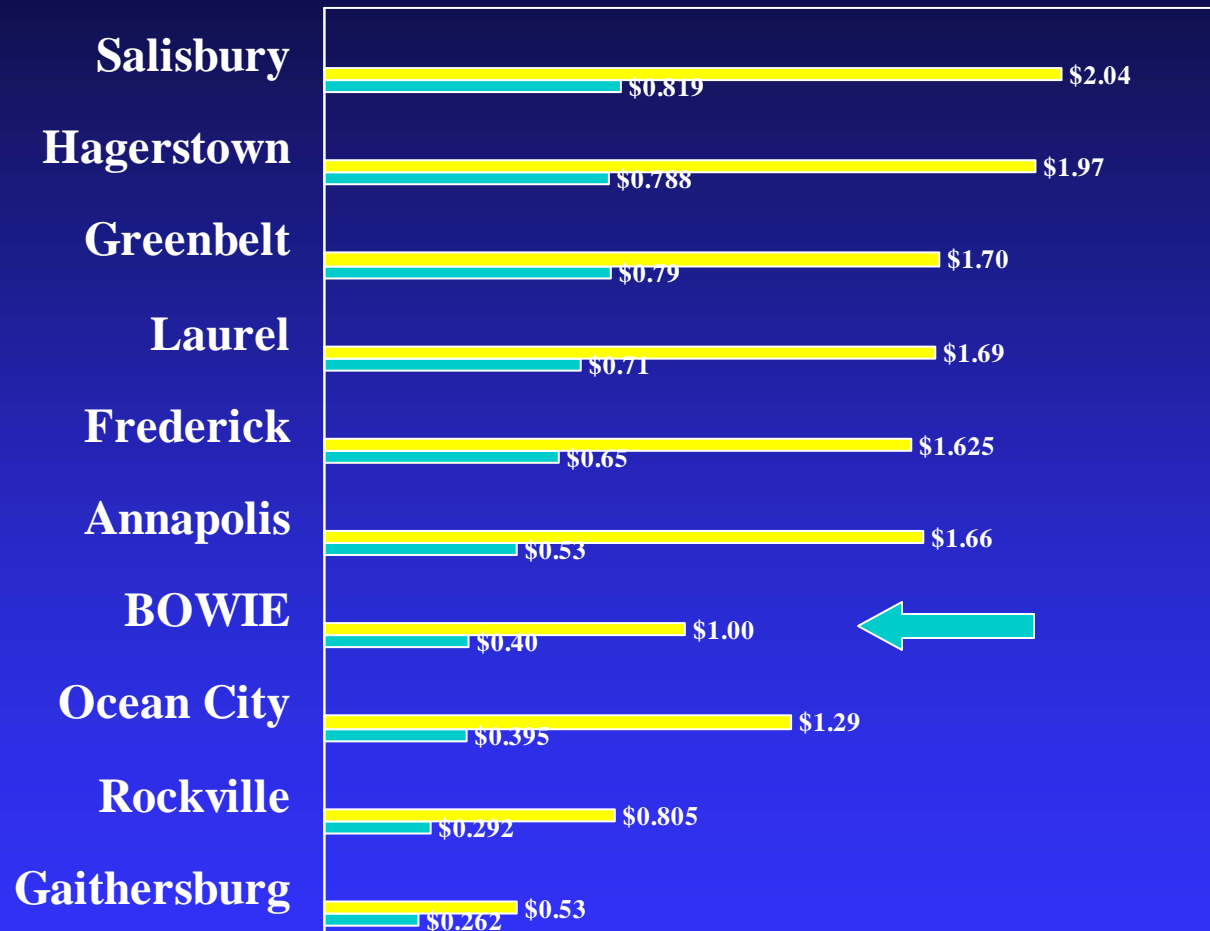
Total Personnel Full-time Equivalents



Update on New City Hall

- Scheduled to be fully operational by April 2011.
- Construction is 69% complete, as of 10/31/10.
- Change orders to date amount to approximately \$665,000 or 4.2% of the original construction contract.
- Debt Service in FY2011 is \$1.3 million.

FY2011 Property Tax Rates – Business Personal and Real Property



Note: Some municipalities have additional charges added to this rate.

Source: State of Maryland Department of Assessments and Taxation

Major Current Projects FY2011

- New City Hall
- Enhanced Nutrient Removal project at the Wastewater Treatment Plant
- Public Works Solid Waste Admin. Facility
- Whitemarsh Park – One-half of cost reserved for synthetic turf ballfield

New Services and Projects FY2012 and beyond

- Police Department Staffing
- Allen Pond Park Improvements (\$14.3 mil.)
- New Indoor Sports Facility (\$11.1 mil.)
- Facility Preventive Maintenance (\$1.3 mil.)
- Railroad Avenue Hiker/Biker Trail (\$.9 mil.)
- Ice Arena (\$0.7 mil.)
- Church Road Park improvements (\$0.6 mil.)

City of Bowie

Action Plan 12 from Strategic Plan:

Strategic Issue: Growing service demand

Goal: Adjusted service mix that meets 2011 needs

Action: Evaluate options; select and implement changes

Potential Projects and Services for Future Consideration

- Dispatching for Police – Start up costs of \$1.25 million; estimated annual operating costs of \$500,000 to \$1 million.
- Renovation of Old City Hall
- Whitemarsh Park improvements
- A-44 Greenway Trail
- Trailhead Facility on former Fladung property

Water and Sewer Fund

- Self-supporting entity financed entirely by user charges.
- Declining user consumption
- Capital costs of an aging system
- The financial forecast model anticipated a 9% rate increase for FY2012. It may be necessary to consider a higher rate increase due to declining user consumption and capital costs.

Council Guidance for Budget

- Action Plan 11 from the Strategic Plan states that the Council should establish budget priorities and guidelines.
- Once established, the City Manager conveys the Council policy to department heads for guidance in preparing budget requests.

Council Guidance for Budget

- Establishment of budget priorities and guidelines at start of budget development process provides an opportunity for cost and other analyses to be performed.
- Often, there is insufficient time for similar analyses to be conducted during the five Council budget worksessions held in April and May of each year.

The “New Normal”

- For the first time since 1979, the possibility of flat or declining assessed values must be considered.
- The elimination of Highway User Revenue.
- Expansion of the Police Department.
- Debt service on City Hall bond issue.

Council Guidance for Budget

1. Police Department – FY2012 staffing levels need to be determined.
2. Expectations for FY2012 tax rate – The financial forecast model assumed a one-half cent increase for FY2012. Increased City taxes offset by reduced County taxes due to the tax differential program.
3. What additional services are being requested by the community?
4. Are there any City-funded activities or services that could be eliminated or reduced in scope?

Real Property Tax Rates All Overlapping Governments

Fiscal Year	City	County	All Other*	Total
2006	\$.322	\$.944	\$.4387	\$1.7047
2007	.352	.945	.4184	1.7154
2008	.352	.946	.4182	1.7162
2009	.380	.909	.4180	1.7070
2010	.380	.866	.4179	1.6639
2011	.400	.819	.4170	1.6360

*The All Other column includes the State of Maryland, Maryland-National Capital Park & Planning Commission, Washington Suburban Sanitary Commission, and Washington Suburban Transit Commission.

Staff Recommendations – FY2012

- Focus on essential core services.
- Recognize the possibility of declining resources.
- Consider long-term financial impact of current decisions.
- Review user fees/charges and adjust accordingly.
- Deferral of non-critical capital projects and equipment scheduled for replacement.

Summary

- Strong financial position
- Essential core services provided
- Implementation of Police department continues in current fiscal year, with the addition of 5 officers
- Completion of the new City Hall and the ENR improvements at the Wastewater Plant in current fiscal year

Council Guidance for Budget

- Council questions or comments.