

ANNUAL BUDGET FORUM



Mayor and City Council
Work Session
February 8, 2016

AGENDA

- ❑ Strategic Directions
- ❑ Economic Challenges
- ❑ FY 2015 Annual Financial Report
- ❑ FY 2017 Budget Issues
- ❑ Mayor and City Council Annual Retreat



STRATEGIC DIRECTIONS

- ❑ City Administration
- ❑ Communication
- ❑ Community Services
- ❑ Economic Development
- ❑ Environment
- ❑ Housing
- ❑ Infrastructure and Facilities
- ❑ Parks, Recreation and Culture
- ❑ Planning and Development
- ❑ Police
- ❑ Transportation



ECONOMIC CHALLENGES

- ❑ State & County Budget Issues
- ❑ Real Property Trends
- ❑ OPEB & Health Care



STATE & COUNTY BUDGET ISSUES

□ State of Maryland

- Areas identified for increase in current year
 - K-12 education & nutrition programs
 - Public safety and correctional
 - Services to individuals with disabilities
- Governor's stated goal going forward is reducing spending across the board
 - Departmental expenditures, including salaries
 - Entitlement and local aid programs
- Transportation funding appears especially vulnerable
 - Capital projects postponed (related to debt service expenditures)
- Debate on spending of current year surplus (\$450mm)



STATE & COUNTY BUDGET ISSUES (CONT'D)

□ **Montgomery County**

- Income tax revenues continue to be disappointing
 - November receipts much lower – estimates down \$135mm
- FY17 revenues projected to be about \$100mm less than FY16; may consider real property tax increase
- High “structural” costs (debt service, labor agreements)
- Maintenance of Effort regulations constrain budget decisions



STATE & COUNTY BUDGET ISSUES (CONT'D)

- **Uncertainty in Income Tax Revenues**
 - Wynne Case
 - First indications of City impacts starting to come in
 - Tax years 2007-2010 complete; 2011-2014 subject to additional returns
 - State Income Tax Returns – Potential Errors
 - Municipality codes on MD tax returns may have been incorrectly assigned
 - Independent auditors working to determine scale of issue
- **City's budget strategy focuses on revenues that we control**



REAL PROPERTY TRENDS

- ❑ The collective assessment of the City's Real Property base grew in excess of \$335mm from 2015 to 2016
 - \$9.468B to \$9.804B
- ❑ However, the (phased-in) full cash value (FCV) of the same base decreased by \$322mm
 - \$11.323B to \$11.001B
- ❑ The FCV of every category of commercial real property declined
 - Vacancy improving but rents are soft; no new inventory
- ❑ Revenues from existing base will continue to grow in the short term, but may now level off sooner
- ❑ Additional development in the pipeline (virtually all residential) will also support revenue growth



OPEB & HEALTH CARE

- Other Post-Employment Benefits” (OPEB) responsibilities are rising as we approach peak of the retirement cycle & due to new guidelines
 - OPEB is the liability the City carries to provide health insurance benefits to our retirees
 - Retiree health care is a major component of our employee benefit package
 - GASB rules 74 & 75 make changes to how the liability and annual costs are calculated
 - Annual contributions to the Trust Fund will need to be substantially increased to guarantee current benefits and ensure compliance
 - We are currently ahead of the curve, most cities are only now beginning to address
 - Permanent, long-term cost reductions will be proposed in 2016 (for new employees)



OPEB & HEALTH CARE (CONT'D)

- Uncertainty in health care landscape remains a concern; costs continue to rise
 - City's "pooled" approach mitigates risk via cooperative purchase
 - Renewal rates are based solely on claims history
 - 2015 costs were successfully forecast; slight refund from the pool
 - Programs and initiatives designed to increase employee awareness have been instituted
 - Certain costs especially difficult to control
 - Plan design changes (current & new employees) must be considered



FY 2015 Annual Financial Report

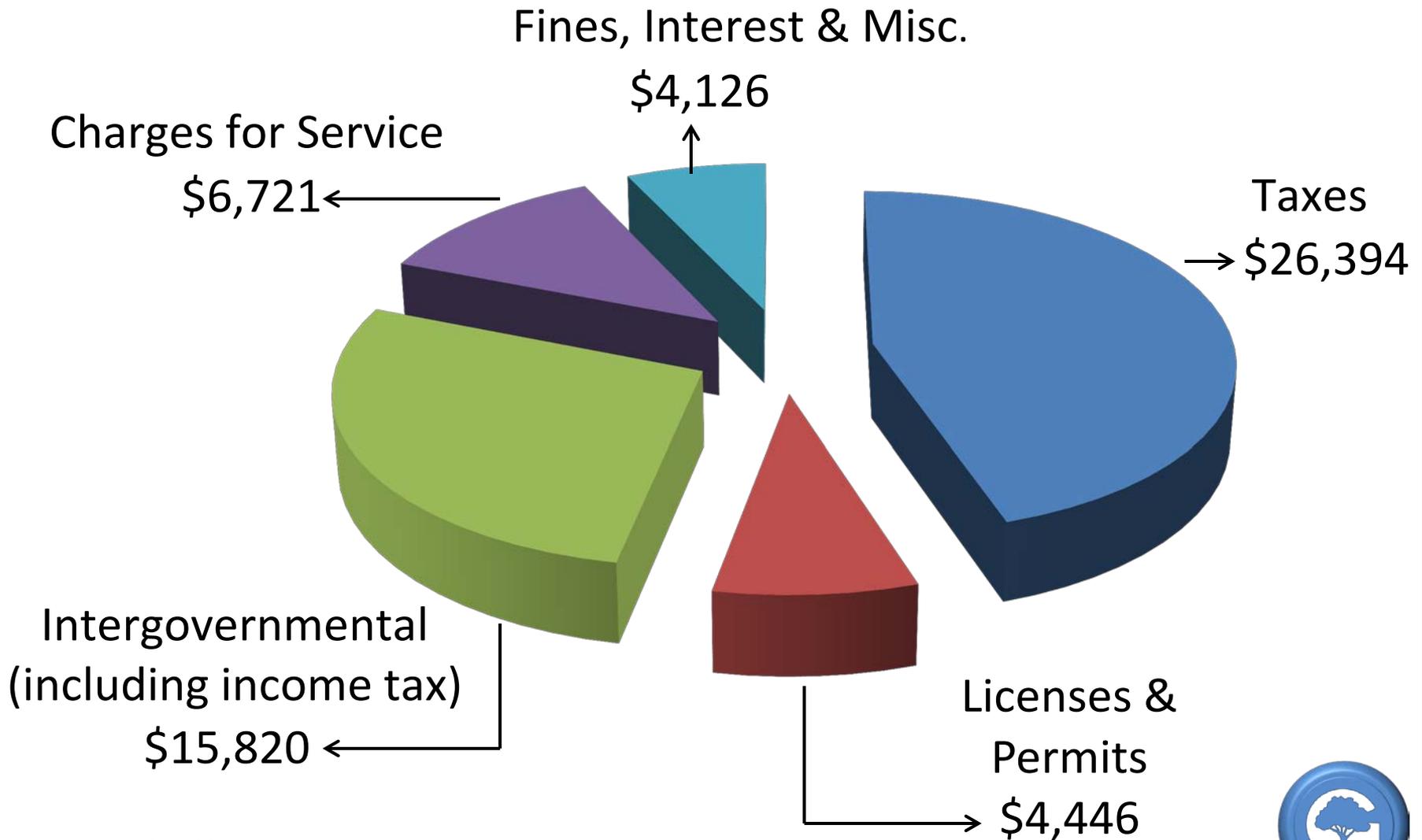
Revenue

Expenditures

Fund
Balances

FY 2015 AUDITED REVENUES BY CATEGORY (000s)

AUDITED TOTAL \$57,509*

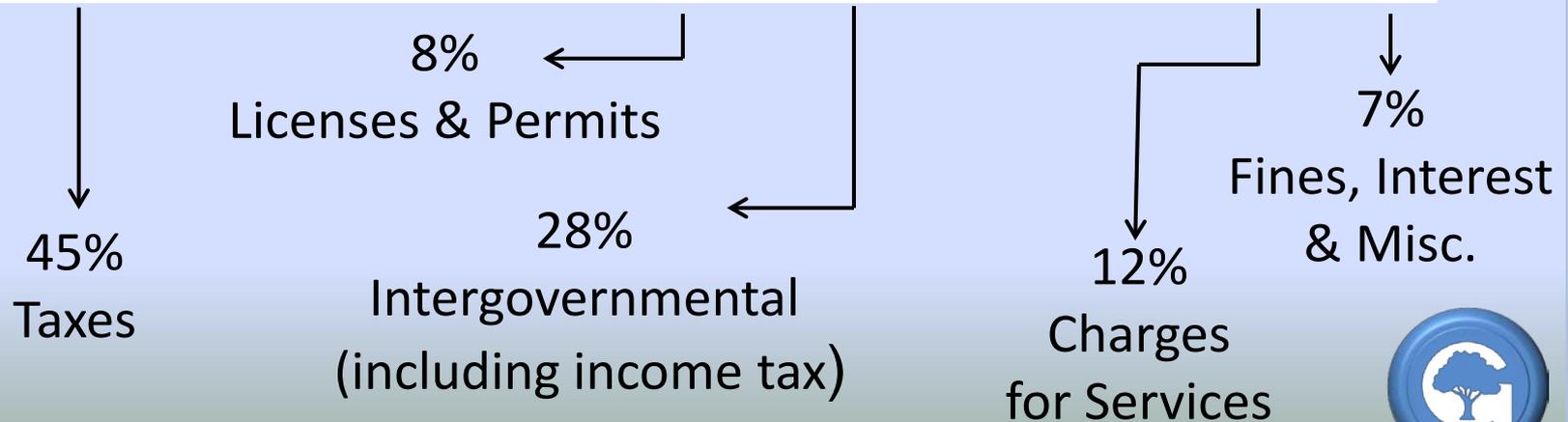


* Total off due to rounding



FY 2015 AUDITED REVENUES BY CATEGORY (000s)

AUDITED TOTAL \$57,346



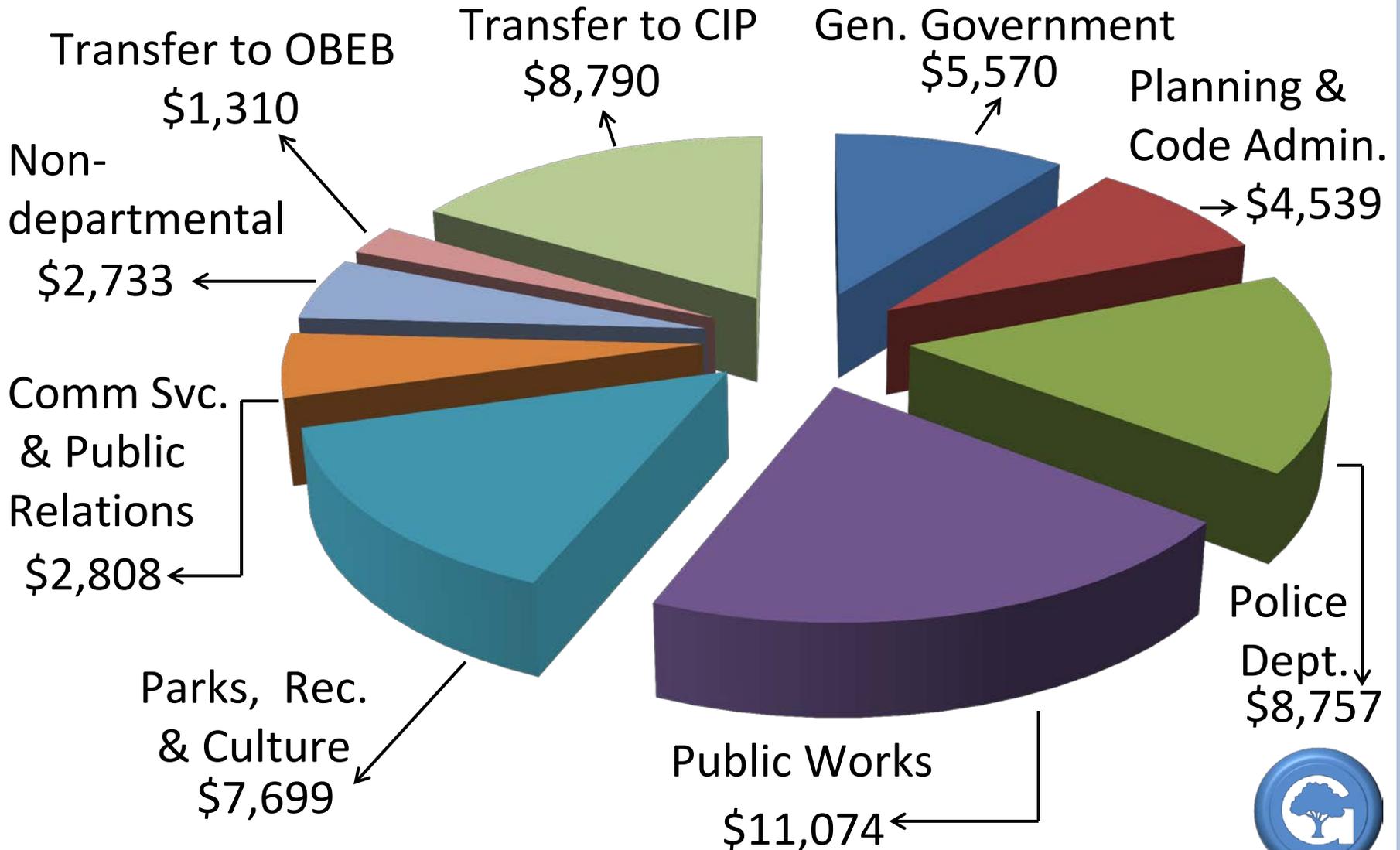
REVENUE

Total FY 2015 Actual vs. Budget (in thousands)

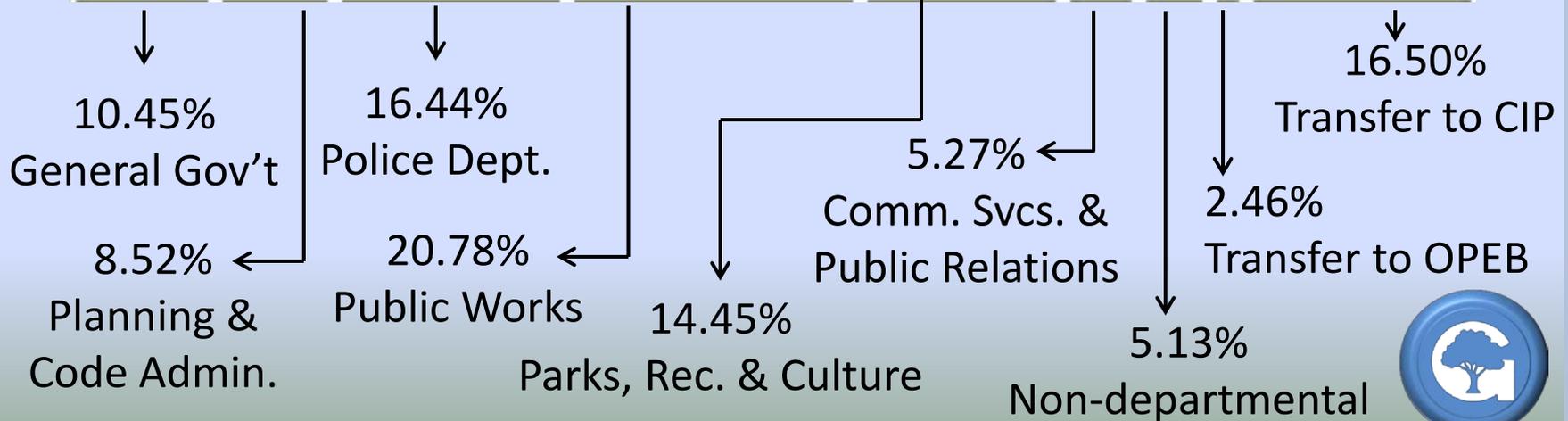
- ❑ Budget - \$53,368
- ❑ Actual - \$57,509 (\$4,140 above budget)
 - Summary of revenue variances:
 - Licenses & Permits - \$820
 - Building permits, CATV franchise
 - Intergovernmental - \$2,110
 - Income tax, synthetic turf funding, Bond Bill
 - Charges for Services - \$735
 - Recreation fees, pool admissions, WQPC
 - All Other - \$475



FY 2015 Audited Expenditures By Department (000s) - Audited Total \$53,280



FY 2015 AUDITED EXPENDITURES BY DEPARTMENT (000s) - AUDITED TOTAL \$53,280



EXPENDITURES

Total FY 2015 Budget vs. Actual

- ❑ Budget - \$59,317
- ❑ Actual - \$53,280 (\$6,037 below budget)
- ❑ Unexpended budget amounts:
 - General Government - \$2,320
 - Public Safety - \$732
 - Public Works - \$921
 - Parks, Recreation & Culture - \$691
 - Community Services - \$191
 - All Other - \$1182



FUND BALANCES

- Operating (General Fund –Total)
 - Beginning Fund Balance at 07/01/2014 – \$74,164
 - Net Change to Fund Balance at 06/30/2015 - \$3,908
 - Ending Fund Balance at 06/30/2015 - \$78,072

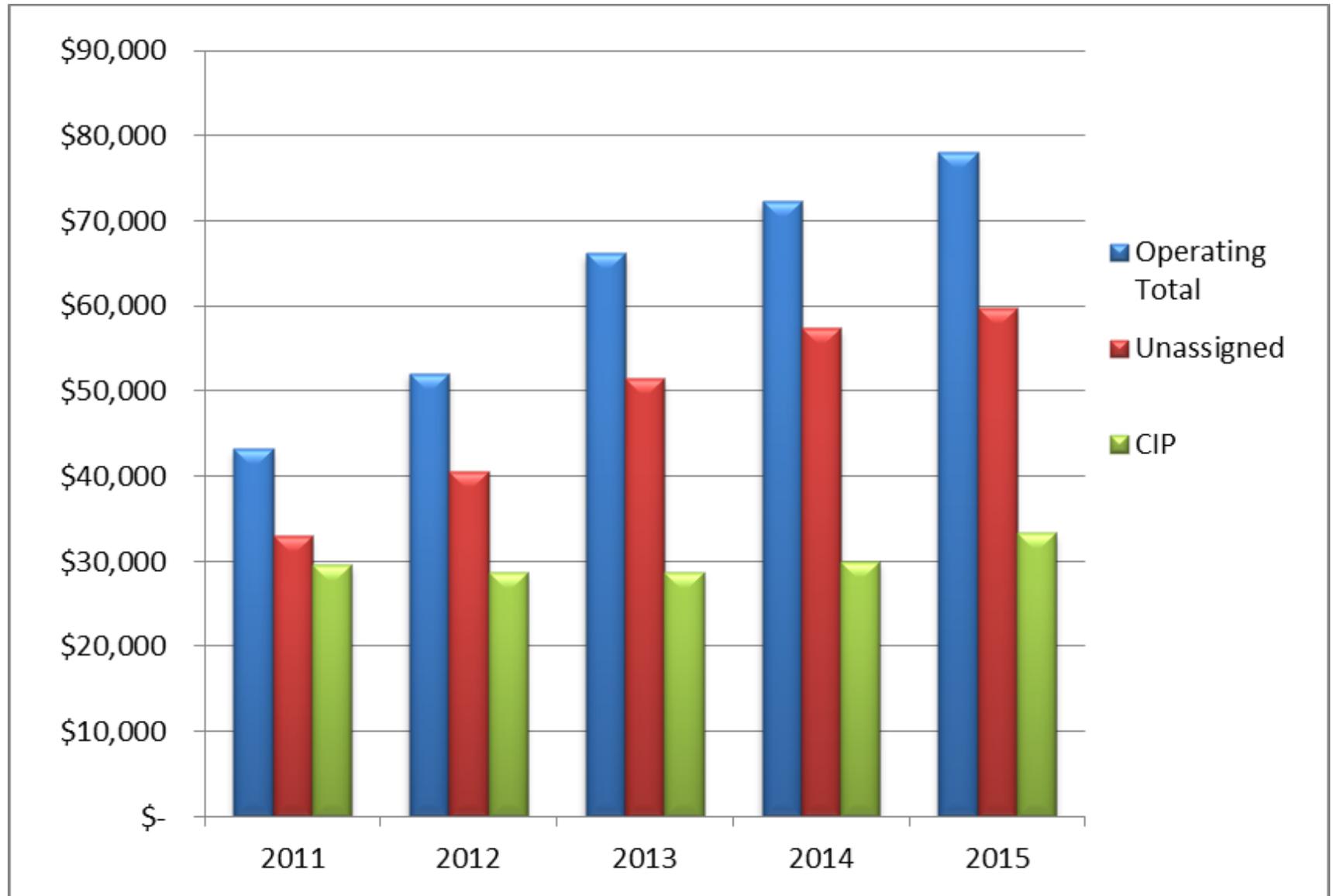
- Unassigned
 - Beginning Fund Balance at 07/01/2014 – \$57,365
 - Net Change to Fund Balance at 06/30/2015 – \$2,495
 - Ending Fund Balance at 06/30/2015 - \$59,861

- CIP
 - Beginning Fund Balance at 07/01/2014 – \$30,020
 - Net Change to Fund Balance at 06/30/2015 – \$2,593
 - Ending Fund Balance at 06/30/2015 - \$32,614

- All three Net Changes are reduced from FY15 levels



Year End Operating, Unassigned and CIP Fund Balances (000s) - 2011-2015

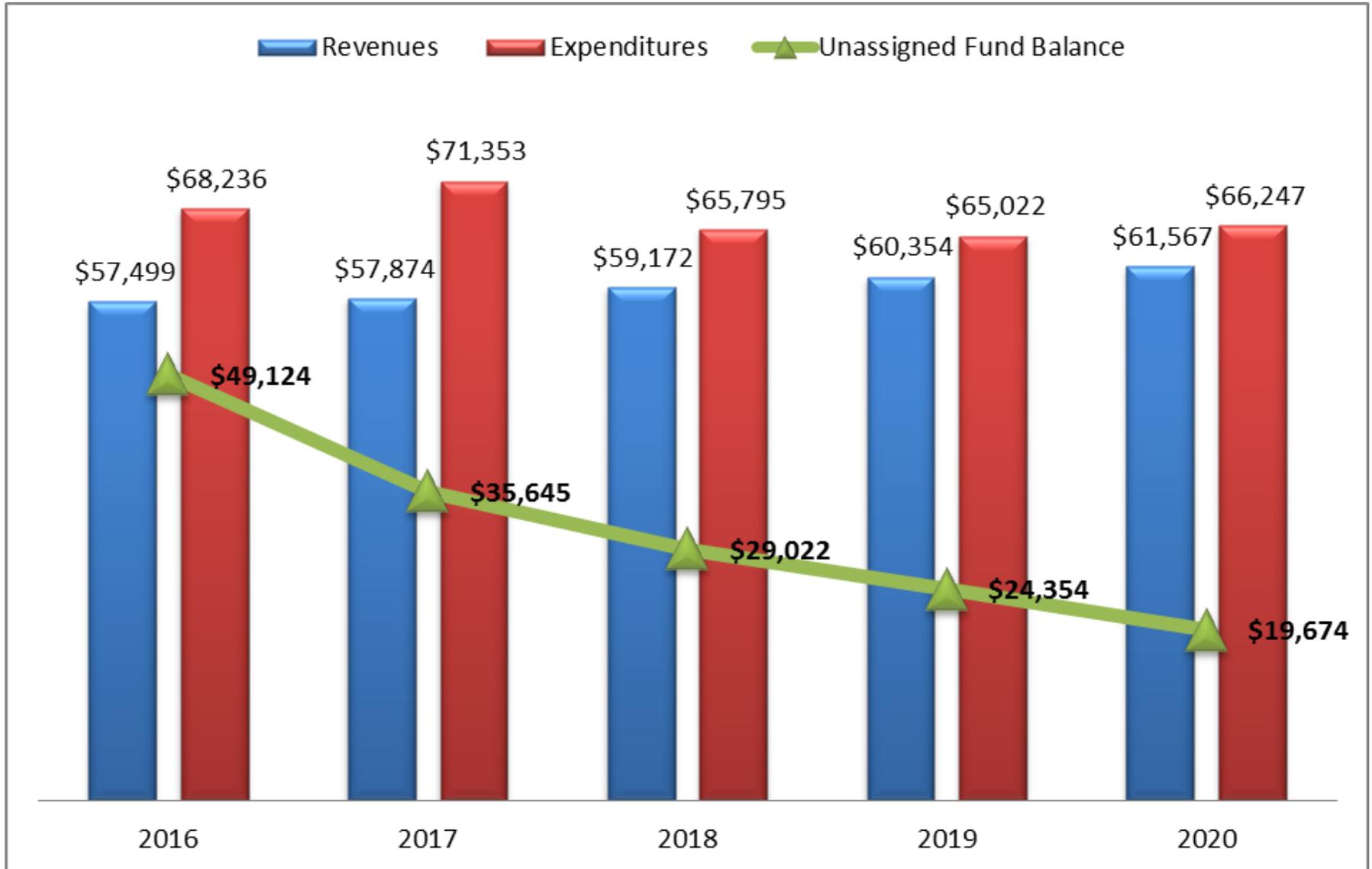


CITY FINANCIAL POSITION

- ❑ Gaithersburg's financial position remains unquestionably strong
 - Low tax rate; Debt-free
 - "Unmodified (formerly "Unqualified") audit
- ❑ Certificate of Achievement for Excellence in Financial Reporting & Distinguished Budget Presentation from GFOA in 2015
- ❑ Revenue indicators – some concern
 - Real property assessments
 - Uncertain inter-governmental appropriations
 - Speed camera revenues leveling off – expenses rising
 - New large-scale developments underway; new residents moving to the City
- ❑ Controlling the scope of capital projects is a priority
- ❑ Balance budget growth with resident expectations



Potential Fund Balance Spend Down 2016 - 2020



FY 2017 BUDGET ISSUES

- ❑ FY 2017 Document Changes
- ❑ Personnel Budget Growth
- ❑ Community Resilience
- ❑ Capital Improvements Plan



FY 2017 BUDGET DOCUMENT CHANGES

- ❑ New sections:
 - Equipment Replacement Funds consolidated
 - Forest Conservation Fund
 - New CIP account – Bridges & Culverts
- ❑ New policies:
 - Vehicle & Equipment purchases will be seen in the budget
 - An allowance for position vacancy will be instituted
- ❑ Consolidation of work plan goals and performance measures into the Strategic Plan
- ❑ Consolidation of services and significant changes to the department level rather than activity level



PERSONNEL BUDGET GROWTH

- ❑ Growing sense we may be running a little too “lean” to meet community needs and maintain a leadership position in the region
- ❑ FY 2017 proposals under consideration -
 - Enhancing public safety – Police & Neighborhood Services
 - Upgrading and maintaining technology assets – IT & Police
 - Improving transportation and environmental planning - Planning & Code
 - Improving procurement & grant administration- Budget & Finance
- ❑ Minimum wage increases will continue in FY 2017 & FY 2018
- ❑ All requests remain staff-level proposals until FY 2017 resources are fully identified



“COMMUNITY RESILIENCE”

- ❑ “The ability to prepare for and adapt to changing conditions and to withstand and recover rapidly from disruptions”
 - Weather incidents
 - Accidents/infrastructure failure
 - Deliberate attacks
- ❑ Concept that has always guided our thinking but new challenges suggest the concept be a formal principle
- ❑ Includes focus on the built environment, infrastructure, and vehicles & equipment
- ❑ Staff will be utilizing these concepts to improve decision making in many areas; results over time



CAPITAL IMPROVEMENTS PLAN

- ❑ Over \$30mm in projects have been added to address community needs and maintain existing facilities/assets in the past few years
- ❑ City reserve funds are being matched to larger CIP initiatives
 - Infrastructure Projects (mainly streets)
 - Gaithersburg Police Station
 - Former Consumer Product Safety Commission Site
- ❑ These three accounts alone will require \$9.5mm in funding in FY17 vs. a total CIP of \$8.8 in FY16. There are over 30 CIP accounts



CAPITAL IMPROVEMENTS PLAN (CONT'D)

- Recent staff review of all CIP accounts indicates that several recurring initiatives should be considered for permanent increases in funding
 - Facilities (including space needs)
 - Streets & Sidewalks
 - Bridges & Culverts (new)
- The overall CIP funding and expenditure levels are planned to reach historic levels shortly, in order to complete several, large, one-time projects and then level off



SUMMARY

- ❑ The City is in excellent shape to face upcoming challenges
- ❑ More uncertainty on revenue than usual, but we maintain substantial reserves and should be able to withstand reasonable disruptions
- ❑ Proposed budget will request that we grow the budget on both the capital and operating sides to meet community needs



MAYOR AND CITY COUNCIL ANNUAL RETREAT

- ❑ Date/Time: Monday, February 29, 2016 at 6:30 p.m.
- ❑ Location: Benjamin Gaither Center (80 A Bureau Drive)
- ❑ Topics:
 - Strategic Plan Review
 - Potential City Charter Amendments
- ❑ Public comment will not be taken during the retreat



INTRODUCTION OF FY 2017 BUDGET

- ❑ Date/Time: Monday, March 21, 2016 at 7:30 p.m.
- ❑ Location: Council Chambers, City Hall (31 S. Summit Avenue)
- ❑ Special meeting of the Mayor and City Council held solely to introduce the FY17 budget. (This is not the work session or public hearing.)

