

Report for the Board
Chevy Chase village
January 9, 2013

The Budget Committee met on December 6, 2012 and again on January 3, 2013 to develop revenue and expenditure reference points that could inform the Board's guidance to the Village Manager and staff for preparation of the FY 2014 draft budget. The Board's request for this analysis was conveyed by the Committee's Board liaison, Mr. Gary Crockett.

The Committee thanks Mr. Demetri Protos, staff Finance Director, for his excellent work in preparing all tables in consultation with the Committee.

Board members will find enclosed with this Report the following: 1) A table elaborating revised revenue estimates for FY 2013 and projections for FY 2014 with comparative, actual revenue dating back to FY 2008, and 2) Tables with revised budget estimates for FY 2013 and projections for FY 2014 and out-years through FY 2017. 3) Separately the impact of a step increase for all eligible staff, a COLA increase of 2% and a health insurance cost increase of 5% in FY 2014 were calculated.

The Committee believes that its revised estimate of revenue for FY 2013, the base year, will prove to be realistic, the main unknown being Safe Speed receipts, and has given its best judgment on revenue projections for FY 2014, the budget year. Revenue for out-years was projected pro forma at the FY 2014 revenue level.

The revised estimate of income tax revenue for FY 2013, \$2,445,000, represents a substantial increase over the budget estimate of \$1,850,000 and is based on receipt of the November quarterly distribution and of substantial reconciliations reimbursements in October 2012. The projection of income tax revenue for FY 2014, \$2,200,000, is based on the assumptions that net taxable income in CY 2012 will exceed modestly that of CY 2011, but that reconciliations (which include apparently one-time, substantial reimbursements in FY 2013 for delinquencies in prior years) will be considerably less in FY 2014. The projected drop in income from Safe Speed citations is in keeping with the downward trend to date, but reflects a judgment that the trend may be bottoming out.

Expenditure for FY 2014 and out-years was projected on the basis of a 5% annual increase in personnel costs and a 1% increase annually in operations costs. (These two elements together equal "Total Program Costs" or current expenditure). "Capital Projects" expenditure for all years was taken directly from the Six-Year Capital Improvements Program (CIP) Budget. The 5% increase in personnel costs suggested for FY 2014 should be roughly adequate to cover step increases for all eligible staff, a COLA of 2% and historical increases in other personnel-related costs.

The Committee notes a projected annual surplus over the next few years raising the accumulated surplus already reaching nearly twice the level of the \$3 million reserve traditionally thought to be adequate for working capital needs and normal expectations of fiscal adversity. A \$3 million reserve would provide working capital requirements and a cushion to ease a sharp drop in income tax and Safe Speed revenue while absorbing a substantial one-time, unforeseen expenditure, allowing Village management

to adjust to a possible new fiscal reality. In such a worse case scenario, however, the \$3 million reserve would be inadequate to help bridge over 2-3 years an ultimately sustainable level of services. As part of such a hypothetical context, a repeat of the sharp fall-off in income tax revenue in FY 2010 and its substantial restoration by FY 2012/2013 provides an example.

The Committee is not of one mind concerning reserves and implications for property tax reductions. One approach would be gradually to reduce reserves to the \$3 million level, given substantial and projected growing reserves seen as excessive vis-à-vis needs. Another would advocate more robust reserves, putting a premium on maintaining services likely to be sustainable through inevitable periods of fiscal adversity, given uncertain political and economic times and the financial implications of damage from storms of increasing frequency and violence. In the same vein, another view suggests first an unbiased, professional study of costs of undergrounding power lines in the Village, which could have implications for future funding requirements.

Pro Forma Projections

I. Revenue	FY2012(Actual)			FY2013(Projections)			FY2014			FY2015			FY2016			FY2017		
	Income Tax			1,949,829			2,445,000			2,200,000			2,200,000			2,200,000		
Property Tax			1,159,635			1,081,100			1,083,100			1,083,100			1,083,100			1,083,100
Investments & Misc. Income			50,455			46,925			46,500			46,500			46,500			46,500
Cost Recoveries/Grants			371,952			368,590			355,892			355,892			355,892			355,892
Citation Revenue			1,857,387			1,605,000			1,505,000			1,505,000			1,505,000			1,505,000
WSSC Reimbursement			0			170,506			0			0			0			0
Total Revenue			5,389,258			5,717,121			5,190,492			5,190,492			5,190,492			5,190,492
II. Costs																		
A. On-going Programs	Personnel	Operations	Total	Personnel	Operations	Total	Personnel	Operations	Total	Personnel	Operations	Total	Personnel	Operations	Total	Personnel	Operations	Total
<u>Department Services</u>																		
Police	970,821	1,023,559	1,994,380	1,076,189	831,561	1,907,750	1,129,998	839,877	1,969,875	1,186,498	848,275	2,034,774	1,245,823	856,758	2,102,581	1,308,114	865,326	2,173,440
Communications	376,467	19,123	395,590	325,977	19,000	344,977	342,276	19,190	361,466	359,390	19,382	378,772	377,359	19,576	396,935	396,227	19,771	415,999
Public Works	506,059	278,528	784,587	509,787	290,000	799,787	535,276	292,900	828,176	562,040	295,829	857,869	590,142	298,787	888,929	619,649	301,775	921,424
Capital Contracts	111,561	5,873	117,434	125,000	7,500	132,500	131,250	7,575	138,825	137,813	7,651	145,463	144,703	7,727	152,430	151,938	7,805	159,743
Administration	415,085	96,465	511,550	401,873	100,000	501,873	421,967	101,000	522,967	443,065	102,010	545,075	465,218	103,030	568,248	488,479	104,060	592,540
Legal Counsel-General		127,465	127,465		60,000	60,000	0	60,000	60,000	0	60,000	60,000	0	60,000	60,000	0	60,000	60,000
State User Fee																		
<u>Facilities, Fleet, & Infrastructure</u>																		
Village Hall		76,559	76,559		69,308	69,308		70,001	70,001		70,701	70,701		71,408	71,408		72,122	72,122
Parks, Trees, & Greenspace		212,285	212,285		235,000	235,000		237,350	237,350		239,724	239,724		242,121	242,121		244,542	244,542
Lights		39,288	39,288		40,000	40,000		40,400	40,400		40,804	40,804		41,212	41,212		41,624	41,624
Subtotal	2,379,993	1,879,145	4,259,138	2,438,826	1,652,369	4,091,195	2,560,767	1,668,293	4,229,060	2,688,806	1,684,376	4,373,181	2,823,246	1,700,619	4,523,865	2,964,408	1,717,026	4,681,434
Income vs. On-going Expense			1,130,120			1,625,926			961,432			817,311			666,627			509,058
B. Capital and Special Projects																		
<u>Equipment</u>			68,719			75,721			75,600			150,000			187,000			191,000
<u>Projects</u>			777,952			1,276,300			849,590			455,500			131,500			166,500
Subtotal			846,671			1,352,021			925,190			605,500			318,500			357,500
Total Costs			5,105,809			5,443,216			5,154,250			4,978,681			4,842,365			5,038,934
III. Budgeted Deficit/Draw on Reserves			283,449			273,905			36,242			211,811			348,127			151,558
Reserves	Reserves			Reserves:			Reserves:			Reserves:			Reserves:			Reserves:		
Beginning of Year Reserves			5,698,461			5,981,910			6,255,815			6,292,057			6,503,868			6,851,994
End of Year Reserves			5,981,910			6,255,815			6,292,057			6,503,868			6,851,994			7,003,553

**Fiscal Year 2004 through 2013
Budgeted vs. Actual Operating Budgets**

	Tax-Based Operations			SafeSpeed		
	Revenue		Expenditures	Revenue		Expenditures
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2004	2,808,597	3,049,563	3,211,412	2,832,762		
2005	2,871,441	2,825,593	3,023,498	2,821,717		
2006	2,978,779	3,911,240	3,352,298	3,259,855		
2007	3,344,171	4,090,778	3,864,951	3,640,058		
2008	3,867,704	4,717,269	4,180,769	3,897,800	3,027,376	2,875,357
2009	4,227,515	4,750,536	4,776,750	4,189,512	7,360,427	4,713,667
2010	3,448,985	3,207,834	4,571,264	4,242,668	2,787,736	2,581,328
2011	3,318,957	2,862,179	3,940,062	3,407,908	2,010,000	2,092,134
2012	2,968,807	3,531,871	3,091,525	2,731,676	2,110,000	1,857,387
2013	3,670,052	4,112,121	3,600,236		1,810,000	1,605,000
Total	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Revenue	6,895,080	7,592,626	9,464,203	6,236,721	5,789,162	5,789,162
Expenditures	5,574,627	5,186,104	8,833,111	6,613,349	10,933,123	6,769,601
Total	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Revenue	5,328,957	4,954,313	5,078,807	5,389,258	5,480,052	5,717,521
Expenditures	8,438,825	6,576,508	5,865,174	5,105,811	5,854,142	5,443,216

Note: Per Mr. Crockett's request, all FY2013 actuals are year-end projections.