

Budget and Tax Matters

Like other jurisdictions and municipalities across the country, Chevy Chase Village has experienced the unfortunate effects of the nation's economic downturn. However, the immediate impact on the Village has been less severe than on some other jurisdictions in that we had built up a reserve (totaling roughly \$4.4 million at the beginning of the current fiscal year) adequate to cover moderate revenue losses for a few years, while maintaining the level of services our residents have come to enjoy. As in the past several years, the proposed budget for the upcoming fiscal year does not require an increase in property taxes.

The Village's annual general funds operating budget depends in large part on allocations from the State of a small portion of residents' income tax revenue. The FY2010 operating budget, approved by the Board of Managers in April 2009, projected income tax revenues totaling \$1.8 million. We are now projecting that we will miss that mark by approximately \$250,000 by the end of the fiscal year, June 30, 2010. Coupled with this revenue decline was an increase in expenses, resulting in a projected deficit of approximately \$1.14 million. We had planned for a deficit in FY2010 of approximately \$470,000, and thus will draw down reserves some \$670,000 more than we expected.

In anticipation that income tax revenue may not increase in the upcoming fiscal year, FY2011, the Board asked a Budget Task Force to work with the Village Manager and Department Heads to look at various ways to reduce ongoing expenses. The Budget Task Force, comprised of Budget Committee Chair Samuel Lawrence, Treasurer and Budget Committee Member Gail Feldman, and Board Secretary and Budget Committee Member Robert Jones, worked over several weeks reviewing the Village's services, operations and program expenses. The Board of Managers approved several of the Task Force's recommendations, and they agreed with the Task Force to leave certain expense reductions for implementation if needed in future fiscal years.

In addition to expense reductions made across the board, the following cost saving measures were approved by the Board of Managers, resulting in further reductions in the DRAFT FY2011 general funds operating budget deficit presented by the Village Manager:

- Elimination of one uniformed police position
- Freezing (position will not be filled when the next vacancy is created) of one uniformed police position
- Replacement purchase deferral of the next two cruisers scheduled to be taken out of service
- Restructuring of existing civil service positions to increase efficiency & cross-departmental utilization
- Deferral of certain special, capital, and discretionary projects and purchases
- Reductions in the use of Village Counsel in regard to general municipal matters

The following cost saving measures were considered by the Budget Task Force and Board of Managers, but are NOT proposed for the upcoming fiscal year. It should be noted, however, that these cost saving measures could be considered in future fiscal years if needed:

- Nighttime closure of the Communications Center, resulting in the elimination of one to

two positions

- Elimination of mowing services in the public rights-of-way adjacent to residential properties
- Once weekly trash collection (currently performed twice weekly)
- Large decreases in funding for community events
- Deferred tree planting and pruning programs
- Increase in the property tax rate

Deficits had been budgeted for each of the three fiscal years ending June 30, 2007, 2008 and 2009; however, surpluses each year of \$450,000 and more were recorded. The original FY2010 budget projected a deficit of \$470,000; the actual deficit projection now stands at \$1.14 million. The DRAFT operating budget for FY2011 projects a deficit of \$422,000. The combined deficits from FY2010 and FY2011 would result in a draw on undesignated reserves totaling \$1.56 million.

Even with the constructive steps that have been taken to draft a conservative operating budget, the Board of Managers and the Village Manager will continue to monitor the Village's expenses to ensure long-term fiscal sustainability.

FY2011 Budget Materials and Approval Schedule

Monday, April 12, 2010—Regular Board of Managers' Meeting: Formal introduction of the Draft FY2011 Operating Budget and Tax Rate. Resident questions and comments will be invited in advance by email to ccv@montgomerycountymd.gov and in person at this meeting.

Monday, April 19, 2010—Village Annual Meeting: Adoption of the FY2011 Operating Budget and Tax Rate

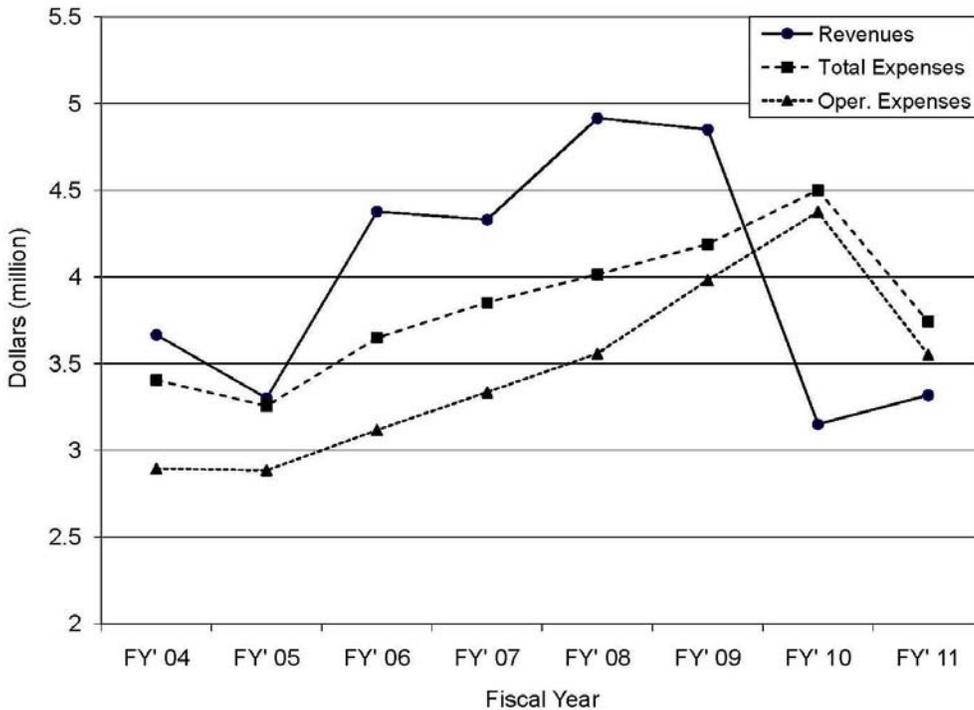
*Submitted by:
Shana R. Davis-Cook, Village Manager*

BUDGET COMMITTEE REPORT

The Budget Committee has reviewed the FY 2011 budgets for both General and *SafeSpeed* funds prepared by Ms. Davis-Cook and recommends their approval. It has conducted its review mindful of the recent Resident Survey, which indicated both a high degree of satisfaction with present services and interest in selectively reducing costs, and mindful also of the considerable uncertainties which the Village faces in seeking to define its financial future.

After more than a decade in which both operating expenses and revenues have trended upwards, revenues in FY 2010 turned sharply down. In response the Village has already initiated a number of actions to contain expenses, but nonetheless anticipates a deficit this year of some \$1.1 million. The General Funds budget is geared to a further \$422 thousand draw on Village reserves in FY '11. The Village is able to sustain these deficits because of the strong financial position it has gained through a practice of conservative budgeting over the past several years.

**Revenue and Expense
Adjusted for Inflation**



Because revenues each year from FY '06 through '09 substantially exceeded budgeted expectations, General Fund reserves increased over this period by \$1.8 million – enough to absorb the deficits anticipated this year and proposed for FY 2011 with a modest margin still remaining. Additionally, a sufficient balance has been accumulated of *SafeSpeed* funds to permit going forward with certain public safety-related capital projects as specific plans may be finalized and approved.

There remain a number of variables which could alter both the FY '10 and '11 outcomes. In general, the committee believes the budget estimates to be appropriate and the variances, barring some unforeseen event, to be more likely to improve the forecast outcomes than to necessitate further draw on the undesignated General Fund reserve.

The Committee has been concerned as to the long term sustainability of current programs. If the Village allocation of income tax revenues does not rebound from its current level, the Village will need either to raise property taxes, reduce services, or be able to meet a greater portion of its public safety expenses from *SafeSpeed* funds. This last alternative is particularly uncertain because of the nature of that program, undertaken as a traffic control

measure for which revenue implications are secondary. Indeed *SafeSpeed* operations could result in added cost to General Funds rather than a net contribution.

In November, after the Village income tax allocation for FY'11 is reported and further data are available regarding *SafeSpeed* outcomes, the Committee will meet again to review the situation and offer whatever further advice it may deem appropriate.

We turn now to the specific proposed budgets and supporting detail.

1. General Fund

FY 2011 General Funds Budget as proposed for Board action

I. Costs			
A. On-going Programs	Personnel	Operations	Total
Department Services:			
Police	779,612	72,934	852,546
Communications	414,582	26,204	440,786
Public Works	535,288	331,000	866,288
Administration & Other	485,342	389,280	917,299
Facilities, Fleet, & Infrastructure			
Village Hall		116,900	116,900
Parks, Trees, & Greenspace		335,800	335,800
Streets, Walks, Drains, & Lights		55,000	55,000
Vehicle & Equipment Replacement		10,000	10,000
Subtotal	2,214,824	1,337,118	3,551,942
B. Other			
Wohlfarth Annual Payment		39,000	39,000
Litigation Reserve		150,000	150,000
Subtotal		189,000	189,000
Total Costs	2,214,824	1,526,118	3,740,942
II. Revenue			
Income Tax			1,800,000
Property Tax			1,074,500
Investments & Misc. Income			39,500
Cost Recoveries/Grants			404,957
Total Revenue			3,318,957
III. Budgeted Deficit/Draw on Reserves			(421,985)

Revenues received into the General Fund in FY '09 and anticipated in FY '10 and '11 are detailed in Table 1. Although off sharply from the levels received over the past three years, the Village's formula allocation of income tax revenues continues to provide over half our general fund revenue. In FY 2011, the Village allocation will be derived chiefly from calendar 2009 tax filings. The \$250 thousand upward adjustment shown for FY 2011 reflects the fact that a portion of the allocation payable on the basis of calendar 2008 incomes was conveyed to the Village in its 2009 fiscal year, artificially depressing current year receipts. Property tax receipts are budgeted on a "constant yield" basis. Because for most properties lower Homestead credits will cause assessments to increase, the Village real property tax rate is proposed actually to be reduced from 9.60 to 8.98 cents per \$100 in order to realize the "constant yield".

Table 1: General Fund Revenue

	FY '09 Actual	FY '10 projected	FY '11 budgeted
State income tax allocation	\$2,972K	\$1,550K	\$1,800K
State and County grants	242	246	242
Real and personal property tax	1,087	1,069	1,075
Fees and reimbursements for services	365	236	166
Investment income	85	60	30
Total	4,751	3,161	3,319

Expenses proposed to be charged to General Funds in FY '11 will be slightly below the level initially budgeted for the current year and substantially below the current estimate for FY '10 costs, which reflect supplemental appropriations made during the year for snow removal, litigation expense, and other services.

Table 2:
Summary Comparisons: FY 2010 to FY 2011 Budget

	2010		2011	Difference
	Initial Budget	Current Estimate	Proposed Budget	'11 v '10 Budgets
Revenue:				
Income Tax	1,800,000	1,550,000	1,800,000	0
Property Taxes	1,046,987	1,068,754	1,074,500	27,513
All Other	602,000	541,767	444,457	(157,543)
	-----	-----	-----	-----
Total Revenue	3,448,987	3,160,521	3,318,957	(130,030)
Expense:				
On-going Operations				
Dept. Services	3,287,926	3,635,803	3,034,242	(253,684)
Infrastructure	506,900	537,260	507,700	800
Vehicle & Equipment	2,500	2,500	10,000	7,500
	-----	-----	-----	-----
Subtotal Operations	3,797,326	4,175,563	3,551,942	(245,384)
Special Projects/Other	122,000	125,000	189,000	67,000
	-----	-----	-----	-----
Total Expense	3,919,326	4,300,563	3,740,942	(178,384)
	=====	=====	=====	=====
Net draw on reserves	(470,341)	(1,140,042)	(421,985)	48,356

Personnel compensation is the largest component of Village expense as most services are provided by in-house personnel. Contracts are used for trash and recycling, tree and greenspace maintenance, software leases, janitorial services and some street repair. Legal, audit, and other professional services are additional operating costs.

The FY '11 budget provides funding for 29 positions, a reduction of three compared to the current year. The reductions reflect decisions to terminate fee-based police services to other local municipalities, shift more Village Hall maintenance to contracts, and hold one police

position vacant at least for the time being. Three police positions will continue to be financed entirely from *SafeSpeed* funds. *SafeSpeed* funds also will cover a portion of the compensation of several other personnel, reflecting time dedicated to this activity. The savings achieved from these actions have been partially offset by a 15% increase in health insurance costs and a roughly 2% allowance for within grade step increases and minimal cost of living adjustment for continuing employees.

Table 3: Personnel levels and Compensation Data

	Funded Positions		Total Compensation		FY'11 Comp. Charged to:	
	FY '10 budget	FY '11 budget	FY '10 budget	FY '11 budget	Gen. Fund	<i>SafeSpeed</i>
Public Safety	13	11	\$1,226K	\$1,146K	\$780K	\$366K
Public Works	7	6	569	543	535	8
Communications Center	6	6	356	422	415	7
Admin and other	6	6	642	647	485	162
Total	32	29	2,793	2,758	2,215	543

Reductions also are anticipated in most departmental operating expenses and in budgets for Village Hall maintenance, streets, walks, and greenspace. Vehicle and equipment charges to General Funds have been held for a second year to a bare \$10 thousand minimum, and no discretionary special projects are proposed in the budget year.

Litigation and other legal services have been a major expense factor during the current year, which the budget anticipates will abate in FY '11. However, a \$150 thousand amount has been identified as a potential expense should currently pending litigation not be concluded in the current year.

Fund Balance The proposed FY '11 deficit of \$422 thousand will absorb about one-third of the undesignated portion of fund balances that we now estimate will remain available as of June 30 of this year. The Committee has recommended that \$1million of the Fund balance be designated for contingencies. An additional \$1 million of the June 30 balance is used each year to meet costs of operations until the first substantial revenues are received in mid-October and to provide necessary working capital. Budget planning accordingly anticipates that the Village will conclude FY '11 with some \$865 thousand as a cushion to absorb potential deficits in FY '12 and beyond and/or other purposes.

Table 4: Analysis of General Fund Balance

Aggregate fund balance as of June 30, 2009	\$4,422 K
Less designations for:	
First quarter expense and working capital margin	1,000
Income stabilization and expense contingencies	1,100
Current estimate of FY '10 deficit	1,140
Undesignated fund balance as of June 30, 2010	1,282
Proposed draw on balance for FY '11 budget	422
Remaining undesignated balance, June 30, 2011	865

2. *SafeSpeed* Funds

FY 2011 *Safe Speed* Budget as proposed for Board action

I. Costs			
A. On-going Programs			
	Personnel	Operations	Total
Department Services:			
Police	366,148	1,170,360	1,536,508
Communications	6,569	3,000	9,569
Public Works	8,700	1,250	9,950
Administration & Other	161,515	81,470	242,985
Facilities, Fleet, & Infrastructure			
Village Hall		7,750	7,750
Parks, Trees, & Greenspace		0	0
Streets, Walks, Drains, & Lights		50,000	50,000
Vehicle & Equipment Replacement		0	0
Subtotal	542,932	1,313,830	1,856,762
B. Special Projects		2,500,000	2,500,000
Total Costs	542,932	3,813,830	4,356,762
II. Revenue			
Citations			1,800,000
Interest			10,000
Total Revenue			1,810,000
III. Budgeted Deficit/Draw on Reserves			(2,546,762)

This budget anticipates operations to yield a modest positive outcome in FY '10 and a small loss (\$47 thousand) in FY '11. It also anticipates substantial investment in public safety capital projects (Brookville Road and other sidewalks, street lights, and Wohlfarth security) and such other initiatives as may be approved by the Board to be funded from *SafeSpeed* reserves.

FY '11 estimated revenue at \$1.8 million anticipates citation volumes of 3500 per month (80% paid current) and that \$35 thousand per month will continue to be received from payment of due accounts as vehicles come up for registration renewal.

The FY '11 *SafeSpeed* operating expense budget anticipates camera contract costs of \$1,020 thousand and \$837 thousand other personnel and operating expense. Personnel compensation is budgeted at \$543 thousand (see Table 3 above for detail). Of the \$293 thousand included for non-contract "operations", \$150 thousand has been identified for legal support to both the camera program and public safety initiatives and \$50 thousand has been included as potential outlays for streets and other infrastructure expense appropriately charged to this source of funds.

The proposed budget forecasts expenditures of \$2.5 million for the anticipated public safety capital projects: e.g., the Brookville Rd. and other sidewalk projects, street lighting, and Wohlfarth security equipment. Individual cost estimate breakdowns for these capital projects will be

presented over the next several months to the Board and the budgeted \$2.5 million figure reflects only a preliminary estimate of the amount which might be spent within that fiscal year. Completing currently anticipated projects will likely require additional funding in subsequent years.

Over the past year, the ground rules for operating the *SafeSpeed* program have changed in two important ways, first, revenues received prior to Oct. 1, 2009, may now be carried forward into FY '11 and subsequent years. Second, revenues earned from citations issued after that date may now be used for any public safety program, including programs previously financed from general funds. A third development is that cameras are now being deployed throughout the state and driver compliance with posted speeds, perhaps especially on Connecticut Ave., should further improve.

The outlook for the *SafeSpeed* program is one of several major uncertainties that face the Village as it plans its future finances. As indicated above, the Village FY '10 and '11 budgets are premised on citation revenues approximating current operating expense so that a major portion of the currently available fund balance may be applied to public safety capital projects. An additional portion of that fund balance - the Committee would suggest \$450 thousand - might appropriately be reserved to cover operating shortfalls in the *SafeSpeed* program in months (such as this past February) with low traffic/citation volumes and to assure an orderly conclusion for this program should the authority for use of speed cameras be withdrawn.

SafeSpeed fund balances as of June 30, 2009 and the effect of operations and anticipated capital spending through June 30, 2011 are shown below.

Table 5: Analysis of *SafeSpeed* Fund Balances

Fund balance as of June 30, 2009	\$3,878 K
Anticipated FY '10 surplus, net of \$315K for Brookville Rd sidewalk and vehicle purchases	+161
FY '11 operations budget, net	- 47
FY '11 public safety capital projects expense estimate	-2,500
June 30, 2011 projected fund balance	1,492

To date, the Village auditors have elected not to recognize revenues which might be realized from collection of unpaid fines. These past due accounts currently aggregate some \$1.5 million divided roughly equally between in and out-of-state vehicles. Owners of the former will have to settle their accounts in order to re-register any of their MD registered vehicles. Collection of fines due from out-of-state vehicles is more problematic but strategies to enforce these fines are under the active consideration of the Village Board. So, in addition to the amounts shown in the above Table, a material additional amount may become available.

As a concluding note, we emphasize that the future of the *SafeSpeed* program is uncertain and estimates of activity even within the budget period may need to be revised. By November of 2010, there should be a better basis for forecasts and the Committee anticipates revisiting this activity at that time.

Submitted by Sam Lawrence, March 26, 2010 on behalf of the CCV Budget Committee

Dana Beyer, Gail Feldman, Robert Jones, Peter Kilborn, William Kirby, Emily Miller, Louis Morsberger