

Budget and Tax Matters

FY2012 Budget Materials and Approval Schedule

Monday, April 11, 2011, beginning at 7:30 p.m.—Regular Board of Managers' Meeting: Formal introduction of the DRAFT FY2012 Operating Budget and Property Tax Rate and Public Hearing. Residents' questions and comments will be invited at the meeting or in advance by email to ccv@montgomerycountymd.gov.

Wednesday, April 20, 2011, beginning at 7:30 p.m.—Village Annual Meeting: Adoption of the FY2012 Operating Budget and Tax Rate.

Report from the Village Manager Regarding the DRAFT Budget for FY2012

Chevy Chase Village has weathered the economic downturn of the past couple of years well relative to other jurisdictions and municipalities across the State and country, with healthy reserves and careful budgeting leaving us better prepared to deal with revenue declines. We entered the current fiscal year with \$7.32 million in aggregate reserves (general funds combined with reserves from the Village's photo speed enforcement program along Connecticut Avenue). These reserves have allowed the Village Manager and Board to maintain core services to the community, while exercising restraint in ongoing expenses. This report seeks to inform residents of Chevy Chase Village regarding our financial position, and our projections and plans for the upcoming fiscal year. Residents are encouraged to attend the Public Hearing on Monday, April 11, 2011 at 7:30 p.m. in the Village Hall to comment on the draft budget for the fiscal year beginning July 1, 2011 and ending June 30, 2012 (FY2012). *Note: Unless otherwise noted, this report refers to the budget in aggregate—general (or tax-based), AND photo speed enforcement program (SafeSpeed), budgets.*

Response to Fiscal Changes in the Current Fiscal Year

The Village's largest source of income has historically been income taxes. In the years between FY2001 and FY2009, income taxes accounted for over 50% of the Village's total revenues, and in the fiscal years between FY2005 and FY2009 averaged in excess of \$2.6 million annually. Income tax revenues have proven to be highly volatile and unpredictable. In FY2010, the Village experienced an extraordinarily sharp decline in income tax revenues, when that revenue source plummeted by 48% from \$2.9 million in FY2009 to \$1.5 million in FY2010. Income tax revenue for the current fiscal year (FY2011) is now estimated to fall some \$350,000 short of our \$1.8 million original projection. State and County grants in aid to the Village have also come in below estimates, but Village operating expenses have been constrained as well. As a result, we now project a year-end FY2011 general funds budget deficit of \$620,000 (originally budgeted at \$422,000).

The shortfall in general fund revenues in 2011 has been partially offset by better than expected *SafeSpeed* results. When the Village launched its photo speed enforcement program—the *SafeSpeed* Program—in FY2008 there was no thought or expectation the program might become a significant element of support for ongoing Village finance. The program's primary purpose was to slow traffic, and in this, it has been quite successful: the program has contributed to a 71% decline in auto collisions and a 52% reduction in average vehicle speed along

Connecticut Avenue. In addition, revenues from the *SafeSpeed* Program have allowed the Village to pursue a number of public safety projects and pedestrian safety initiatives, including the installation of a new sidewalk along Brookville Road, which was completed earlier this year, sidewalk trip hazard repairs and maintenance, street repair and maintenance, and the acquisition of a surveillance vehicle and other public safety equipment.

Proposed Budget for FY2012

In the context of our current volatile revenue situation, the Village Manager, with assistance from the Finance Director, has developed a budget for FY2012 which seeks to trim expenses as much as is feasible while minimizing the impact on direct services to the community. The draft budget was reviewed by the Budget Committee at its meetings on January 27 and February 3 and by the Board of Managers at its work sessions on February 28 and March 14. The complete DRAFT aggregate budget for FY2012 immediately follows this report.

Revenue Projections in the DRAFT Budget for FY2012

The primary revenue sources for the Village budget are (a) income tax revenues, (b) property tax revenues, and (c) *SafeSpeed* Program citation revenues.

Revenue	
Income Tax	\$1,500,000
Property Tax	1,077,500
Investments & Misc. Income	36,000
Cost Recoveries/Grants	355,307
<i>SafeSpeed</i> Citation Revenue	2,110,000

Total Revenue	\$5,078,807

(a) The income taxes received by the Village are apportioned by the State by allocating 17% of the Montgomery County portion of annual State/local income taxes paid by Village residents.

This is money that would otherwise remain with the County if residents fail to enter "Chevy Chase Village" in the "City, town or taxing area" portion of their income tax return.

The draft budget for FY2012 conservatively estimates income tax revenues at \$1.5 million. There is reason to believe, however, that we may begin to see a moderate up-swing in these revenues due to a stabilization of Village residents' net taxable incomes.

(b) Village property tax receipts are budgeted on a "constant yield" basis. That is, unless a change in property tax *dollar revenue* is determined to be appropriate for the upcoming year's budget, property tax *rates* are adjusted so that the rate multiplied by total property assessments in the Village will yield an unchanged level of property tax income. Because of a lowered estimated assessable property base (home values have decreased by an average of 10.6% since the prior assessments—three years ago—in our community), the DRAFT budget for FY2012 reflects adoption of the constant yield rate of 10.05 cents per \$100 of assessed property value, which is higher than the current year's rate of 8.98 cents per \$100 of assessed value. The dollar amount Village residents in aggregate will pay on their property tax bill will NOT increase; however, those whose assessments decreased more than 10.6% will pay somewhat less while those with a more modest reduction in assessed value will pay a bit more.

(c) The *SafeSpeed* Program continues to generate steady revenue for that portion of the budget eligible for financing from these funds. Last year, the Village Board approved a contract to pursue severely delinquent citations. In the DRAFT budget for FY2012, we anticipate gross revenues from newly issued citations, and payment of delinquent citations and interest, to total

\$2,110,000. The Village, under the 2009 amendments to the State's law authorizing the *SafeSpeed* Program, may retain all costs of the program's implementation and administration, and also *Safe Speed* revenues after such expenses of up to 10% of gross Village revenues (estimated in FY2012 at slightly over \$5 million) for support of public safety projects and programs.

Expenses Proposed in the DRAFT Budget for FY2012

Notwithstanding, the Village's healthy reserves, ongoing financial uncertainty requires conservative planning and budgeting. Careful reductions must be made, and have been made, to the Village's ongoing expenses. However, respondents to the 2009 triennial Resident Survey were very clear that it is important to them that we maintain the services that make Chevy Chase Village a unique and desirable community. In order to satisfy both of these objectives, budgeted FY2012 expenses were cut in ways which are not expected to have a significant impact on Village services.

On-going Program Expenses	<u>Personnel</u>	<u>Operations</u>	<u>Total</u>
<u>Department Services</u>			
Police	\$1,089,780	\$1,140,760	\$2,230,540
Communications	423,259	22,350	445,609
Public Works	539,227	313,700	852,927
Capital Contracts	123,567	17,470	141,037
Administration	431,674	115,725	547,399
Legal Counsel-General		255,000	255,000
<u>Facilities, Fleet, & Infrastructure</u>			
Village Hall		93,855	93,855
Parks, Trees, & Greenspace		295,200	295,200
Streetlights		40,000	40,000
Total Expenses	\$2,607,507	\$2,294,060	\$4,901,567

Pursuant to modifications advanced by the Board at its work sessions, the DRAFT FY2012 operating budget now reflects a 13% expense reduction from the FY2011 amended budget, excluding capital projects and vehicle and equipment purchases, and an almost 20% reduction from costs actually incurred in FY2010 as shown in the table below.

Fiscal Year	Combined Budgets Excluding Capital Projects & Vehicles/Equipment	FY2012 Draft Budget Savings Compared to Prior Budget	FY2012 Draft Budget Savings as a % of Prior Year Budget
FY2012	\$4,901 thousand		
FY2011	\$5,648 "	\$ 747 thousand	13.2%
FY2010	\$6,094 "	\$1,193 "	19.5%

The \$446 thousand difference between FY2010 actual expenses and FY2011 amended budget is largely due to a lower contract cost for *SafeSpeed* camera services and the termination

of contract policing. The \$747 thousand difference between the FY2011 amended budget and FY2012 draft budget reflect a number of further expense reductions including:

- Reduced legal costs as a result both of conclusion of the Euwer litigation and other actions
- Removing funding for two full-time positions, which have been vacant for all of FY2011: the Director of Administration and one police officer
- No cost-of-living adjustments for Village employees
- Reduced conference attendance for Village employees
- Elimination of two marked cruisers (when they are due for replacement), which will ultimately reduce the fleet from 5 to 3
- Prolonged use of equipment and vehicles in lieu of replacements, with minimally increased maintenance and repair costs
- Reductions to costs for community events
- Reductions to the tree care program
- Conclusion of the 10 year payments for the acquisition of the Chevy Chase Open Space property (previously referred to as the Wohlfarth Property)
- Deferral of certain discretionary purchases and projects

In addition to the above expense reductions, the Board of Managers, Village Manager and department heads continue to monitor the Village's ongoing expenses to ensure long-term fiscal sustainability and will specifically seek to evaluate the long-term projected cost of the current size of and compensation structure for the Village civil service.

Capital Improvements Program (CIP)

Traditionally, the Village's budget has included a category called "Special Projects", which listed those projects that the Village sought to pursue above ongoing operations. In the current fiscal year, this included the installation of a sidewalk along Brookville Road. Previously this category included renovations to the Village Hall, payments toward the acquisition of the Chevy Chase Open Space parcel (previously referred to as the Wohlfarth Property), and large equipment purchases.

This year, the Board of Managers directed the staff to draft a Capital Improvements Program, or CIP. The CIP includes projects and equipment purchases, to be funded either by general fund revenues and reserves or *SafeSpeed* Program revenues and reserves that would previously have been listed in the budget as Special Projects. While the CIP's future focus will be to fund visible upgrades to Village facilities and infrastructure, as available funding permits, this year's CIP also includes some maintenance work on streets and sidewalks that had been deferred over the past couple of years in response to declining tax-based revenues and stringent restrictions on the use of *SafeSpeed* funds, which were removed in the October 2009 amendments to the State's authorizing legislation for the program.

Please note that while these projects are listed in the CIP for 2012, final action to begin these projects does not occur until the Board approves the related contract for the work. The future year scope of these projects, and the pace at which they proceed, will be governed by the financial condition of the Village and on-going assessment of needs.

Some of these projects begin in FY2012, but extend over five fiscal years or more. Some, such as street maintenance and sidewalk repair, are ongoing. The amounts shown in the table to the right reflect the proposed projects' costs for FY2012; please refer to the enclosed CIP summary sheet for our present, preliminary estimate of the total anticipated cost of these proposed projects. The full CIP is available on the Village website and in the Village office.

Financial Outlook and Status of Village Reserves

The DRAFT FY2012 budget, including both operating and CIP costs, is conservative, allowing the Village to maintain basic operations and staffing while protecting a meaningful level of tax-based and *SafeSpeed* reserves to deal with future financial challenges. Excluding the CIP projects, the DRAFT budget for FY2012 projects a year-end surplus of \$177,240. With inclusion of the full slate of proposed capital projects, the projected deficit (or draw on reserves) totals \$417,510. These outcomes permit the Village to continue to maintain a healthy reserve balance for future investment and contingencies (which includes a working capital set-aside of \$1,000,000 to fund the first quarter of the fiscal year during which minimal revenues are received), as shown in the table below.

Capital Improvements Program (CIP)	
<u>Equipment</u>	
Police Radios	\$50,000
Digital Archiving	55,000
<u>Projects</u>	
Sidewalk Trip Hazard	11,000
Street Maintenance	181,000
Village Wide Sidewalk Replacement	185,000
Street Lights	30,000
Chevy Chase Open Space Development	8,750
Public Works Upgrade	69,000
Crime Technology	5,000
Total CIP Costs	\$594,750

	General Fund (\$000)	Safe Speed (\$000)	Total (\$000)
Reserves as of June 30, 2010	3,388	3,932	7,320
Anticipated FY2011 Draw on Reserves	-620	-787	-1,407
June 30, 2011 Projected Reserve Balance	2,768	3,145	5,913
Anticipated FY2012 Draw on Reserves	-203	-215	-418
June 30, 2012 Projected Reserve Balance	2,565	2,930	5,495
Set aside for working capital and contingencies	-1,800	-325	-2125
Net remainder	765	2,605	3,370

The Board of Managers and Village Manager are committed to ensuring the Village's fiscal sustainability while ensuring continuation of core services and programs, maintaining infrastructure, and pursuing improved technology, with the ultimate goal of upholding the legacy and quality of life this community has come to expect. This will require continued careful management of our financial position to ensure an efficient government over the long-term.

*Report Submitted by Shana R. Davis-Cook, Village Manager
April, 2011*

**FY 2012 General Funds and Safe Speed Budgets
Aggregate Summary
(\$)**

I. Revenue	
Income Tax	1,500,000
Property Tax	1,077,500
Investments & Misc. Income	36,000
Cost Recoveries/Grants	355,307
Citation Revenue	<u>2,110,000</u>
Total Revenue	5,078,807

II. Costs

A. On-going Programs	Personnel	Operations	Total
<u>Department Services</u>			
Police	1,089,780	1,140,760	2,230,540
Communications	423,259	22,350	445,609
Public Works	539,227	313,700	852,927
Capital Contracts	123,567	17,470	141,037
Administration	431,674	115,725	547,399
Legal Counsel-General		255,000	255,000
<u>Facilities, Fleet, & Infrastructure</u>			
Village Hall		93,855	93,855
Parks, Trees, & Greenspace		295,200	295,200
Street Lights		<u>40,000</u>	<u>40,000</u>
Subtotal	2,607,507	2,294,060	4,901,567

Surplus/Deficit

177,240

B. CIP and Special Projects

<u>Equipment</u>			
Police Radios			50,000
Digital Archiving			55,000
<u>Projects</u>			
Sidewalk Trip Hazard			11,000
Street Maintenance			181,000
Village Wide Sidewalk Replacement			185,000
Street Lights			30,000
Chevy Chase Open Space Development			8,750
Public Works Upgrade			69,000
Crime Technology			<u>5,000</u>
Subtotal			594,750

Total Costs	<u>2,607,507</u>	<u>2,294,060</u>	<u>5,496,317</u>
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III. Budgeted Deficit/Draw on Reserves

(417,510)

Capital Improvements Program (CIP) and Special Projects
(Shown in thousands.)

Equipment	Proposed FY2012	Total 5 Yr. Cost	Equipment/Project Description
Police Radios	\$50.0	\$117.0	A total new system mandated by the Federal Communications Commission (FCC) to all police agencies. Radios to be acquired over a 2-year period.
Digital Archiving	30.0	55.0	Anticipated 2-year project, estimated to acquire scanning equipment and software for the archiving of Village files.
	25.0		Part-time staffing to perform the digitizing of the Village's files.
Sub-Total	\$105.0	\$172.0	

Projects	FY2012	5 Yr. Cost	Equipment/Project Description
Street Maintenance and Repair Program	\$181.0	\$988.0	This project provides for the ongoing maintenance and repair of the Village's roadways, curbs and storm drainage infrastructure using concrete and hot mix asphalt. Current plans anticipate paving 5% of Village streets in FY 2011, 5% in FY 2012 of the Village's 8.1 miles of roadway. This funding level anticipates repaving each Village street every 20 years.
Village-wide Sidewalk Replacement	185.0	2,094.0	The FY2012 amount will permit replacement of approximately 10% of existing sidewalks. Additional sections of sidewalk to be replaced will be determined at a later date by the Board of Managers.
Sidewalk Trip Hazards	11.0	41.25	This amount will cover materials cost for ongoing sidewalk construction and/or repair performed by Public Works personnel.
Street Lights	30.0	842.0	FY2012 amount represents funds to install new street lights at 14 "dark spot" locations. Future replacements await further technological developments.
Public Works Upgrade	69.0	109.0	Anticipated 2-year project, to create additional covered storage space and improve office and restroom areas for Public Works personnel.
Crime Fighting Technology	5.0	80.0	These amounts are included to permit exploration of options to introduce new public safety equipment as new technologies develop.
Chevy Chase Open Space Development	8.75	43.75	Consultant and other costs to participate with Montgomery County in planning improvements for and use of the Chevy Chase Open Space property (previously referred to as the Wohlfarth Property).
Sub-Total	\$489.75	\$4,198.0	
Grand Total	\$594.75	\$4,370.0	

2011 Constant Yield Tax Rate Certification

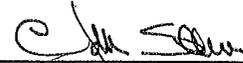
Taxing authority: **Chevy Chase Village
 in Montgomery County**

1	1-Jul-2010	Gross assessable real property base	\$	1,132,993,800
2	1-Jul-2010	Homestead Tax Credit	-	55,488,856
3	1-Jul-2010	Net assessable real property base		1,077,504,944
4	1-Jul-2010	Actual local tax rate (per \$100)	x	0.0898
5	1-Jul-2010	Potential revenue	\$	967,599
6	1-Jul-2011	Estimated assessable base	\$	970,308,657
7	1-Jan-2011	Half year new construction	-	3,468,070
8	1-Jul-2011	Estimated full year new construction*	-	550,000
9	1-Jul-2011	Estimated abatements and deletions**	-	3,219,669
10	1-Jul-2011	Net assessable real property base	\$	963,070,918

11	1-Jul-2010	Potential revenue	\$	967,599
12	1-Jul-2011	Net assessable real property base	÷	963,070,918
13	1-Jul-2011	Constant yield tax rate	\$	0.1005

EXEMPT

Certified by



 Director

* Includes one-quarter year new construction where applicable.
 **Actual + estimated as of July 1, 2011, including Homestead Tax Credit.
 CYTR #1