The City Manager's Response
to
The Finance and Budget Task Force Report

November 2010

The following response, as directed by the Mayor and Council, is not intended to evaluate or critique the Task Force's recommendations, but to assess the levels of effort required to implement the recommendations.

FINANCIAL MANAGEMENT POLICIES (FMP)

User Fees

Recommendations # 1 and # 2

A moderate level of effort would be required to develop policy proposals for the Mayor and Council's consideration, assign cost centers to categories or bands, and rewrite the cost recovery sections of the Financial Management Policies (FMP). This could be done in conjunction with the citywide user fee study that is currently underway, and which we anticipate will be presented to the Mayor and Council in February 2011.

Recommendation # 3

A small level of effort would be required to add this requirement to the FMP and include an additional column for cost recovery goal information in the Cost Center Summary table that starts on page 16-20 of the FY 2011 adopted operating budget. That table already has expenditure and revenue columns. As with Recommendations #1 and #2, staff recommends that the cost recovery goals be established in conjunction with the citywide user fee study.

Recommendation # 4

A small level of effort would be needed to add this requirement to the FMP. Cost recovery information associated with new fees or charges, or increases or decreases to fees and charges, is provided during the annual budget process.

Recommendation # 5

Depending on how "large-dollar services" is defined, significant additional resources might be required to track residents versus non-residents. Residency is already tracked for some services, but not for others, and non-resident rates are often set at a higher level than resident rates. Cost recovery goals should be as market-sensitive as possible so that the prices are set high enough to effectively maximize overall cost recovery, in accordance with policy. Specific policy language would need to be proposed and considered for the Mayor and Council's adoption into the FMP.

General Fund Reserve Requirement

Recommendation # 6

> The Mayor and Council would need to add to the FMP either a new minimum level of General Fund reserve, or a requirement to explicitly budget for subsidy payments from the General Fund to the enterprise funds if the enterprise funds have depleted their reserves and will not recover within a five-year period. Because a decision in the near term may have an adverse affect on the long term, an element of professional judgment as reflected in the City's Five-Year Forecast comes into play.

Triple A Bond Rating

Recommendation # 7

> A small level of effort would be needed to add this requirement to the FMP.

Long-term Capital Improvement Plan

Recommendation # 8

> A moderate level of effort would be required to provide the Mayor and Council with an inventory of existing capital assets and the methods the City employs to plan for replacement. Currently, when a study (e.g., roofs, watersheds, IT), inspections (e.g. bridges), or replacement criteria (e.g., vehicles) indicate that capital replacement is needed, the project is added to the five-year capital improvements program. If more information is needed, the Mayor and Council should specify the frequency and format of the information that is needed.

Recommendation # 9

> All CIP projects, funded and unfunded, are included so that the Mayor and Council and public are aware of the capital improvements that are needed, not just what the City can fund in the five-year plan. A minimal level of effort would be required if the Mayor and Council would like to remove unfunded projects from the CIP.

Recommendation # 10

> If the Mayor and Council approve this recommendation, the Mayor and Council would need to change the City Charter and FMP. The Charter (Article. VII, Section 4) states that all funding, operating and capital, lapses at year end. Because the funding lapses, the City reappropriates the capital budget each year.

Cost Increases of Capital Projects

Recommendation # 11

> This recommendation may have unintended consequences of delaying projects, because construction will not be able to commence until the fiscal year after the design is complete, or until a budget amendment is approved. This recommendation may cause problems for projects that are design build, and not design bid. Appropriating design funds separate from construction funds is more common in larger jurisdictions that have

significantly higher capital budgets, and much larger capital projects. This would require a moderate level of effort in planning and possible amendments to the CIP budget during the year.

Recommendation # 12
Currently the City Manager conducts periodic reviews of all major capital projects, which includes a review of the project budget, schedule, and any changes or issues with the project. Because of the control features in the City's financial system, it is impossible for a project to exceed the appropriated project budget. In addition to the project close-out resolution that is presented to the Mayor and Council each May, a supplementary cost report could also be prepared with minimal effort.

Budget System

Recommendation # 13
The purchase of a budget system is currently planned for FY2013: an on-line, database-driven budgeting system that will assist in planning, forecasting, and printing the annual operating budget and CIP. This Web-based system will fully integrate with the financial system, and will be more efficient than the City's current system of linked spreadsheets, and will reduce the risk of human error. It is unlikely that funds will be available this year to purchase a new system. Meanwhile, as always, the staff is available to respond to the Council's information needs. This subject is not typically addressed in formal financial management policies, but a general statement of commitment to maintaining appropriate state-of-the-art budget and financial system could be added to the FMP.

Monitoring and Reporting on Employee Retirement Obligations

Recommendation # 14
Minimal effort would be required to report regularly to the Mayor and Council and enhance discussion in the annual budget document about the cost and performance of the pension plans, and to add this requirement to the Financial Management Policies.

Historical Budget Database

Recommendation # 15
Currently there is funding scheduled in FY 2013 to purchase a budget system. Since this will be a new system, staff might not be able to convert prior years' actuals (prior to the new system implementation) for historical comparison. Similar to Recommendation #13, this subject is not typically included in traditional financial management policies.

BUDGET PROCESS

<u>*The Vision Process*</u>

Recommendation # 1

Moderate effort would be required to add a review of the City's budget to the biannual visioning retreat. Adopting this recommendation would likely require additional staff work to prepare for and participate in the retreat and visioning process. Additional time devoted to the retreat might be required.

Recommendation # 2

A mechanism currently used to relate City services to the vision is to designate a major vision category for each cost center objective. This is accomplished in the published budget by using a distinctive icon for each vision category and reproducing the icon for each objective. A process for the Mayor and Council to reach agreement on what constitutes the City's overall and core priorities will need to be developed and included in the retreat. The Mayor and Council survey introduced this year, which covered all cost centers, budget principles, and projects, is one tool that can assist with identifying overall priorities. The survey results could also be the basis for stimulating discussion of "core priorities." When one analyzes the "Mayor and Council Vision 2020," it is apparent that virtually the full range of City programs and services are required to realize the Vision, and only a small handful of services and programs are not mentioned or implied.

Shortening the horizon for the vision from the previously used 10-15 years to the two-year term, brainstorming programs supporting the vision, completing the recommended table, and translating the results into attainable goals in time for the budget preview will require considerable restructuring of the retreat. This recommendation might require additional retreat time for the Mayor and Council, and additional staff time to prepare for and participate in the retreat, including the participation of department directors and other professional staff in the retreat.

To advance the goal of increasing citizen involvement in the budget process, the Mayor and Council might wish to consider replacing the biannual visioning retreat with a biannual or annual meeting to include citizens, the entire City Council, the City Manager and the executive staff. The biannual citizen survey could also be revised to reduce the emphasis on measuring citizen satisfaction with services provided and increase the emphasis on measuring citizen's views on core services and priorities.

Recommendation # 3

Moderate effort will be required to set a retreat date and engage a facilitator in advance of the election, and develop and distribute a retreat agenda and materials to all candidates. For the next retreat, this would need to be approved by the sitting Mayor and Council in September or October of 2011.

Budget Presentation and Review

Recommendation # 4

The level of effort required to make better use of the City Manager's one-on-one meetings with the Mayor and Councilmembers will depend on the additional information required.

Recommendation # 5

If the Mayor and Council approve this recommendation, additional resources (possibly including additional analyst positions) might be needed to manage the preparation of two proposed budgets. "Current services level" information and any proposed changes are provided during the budget previews in December and February, and the Mayor and Council are given the details of major changes to revenues and expenditures from year-to-year. "Significant changes" are summarized at the division level in the recommended and adopted budget books. In addition, the proposed budget is prepared based on a set of principles that the Mayor and Council adopt. However the principles might change from year-to-year, the Mayor and Council is aware of the dollar amounts associated with those changes. The vast majority of service levels for the various City services remain largely the same from one year to the next, and the cost associated with maintaining service levels typically rise. The vast majority of the City Manager's recommended budget already incorporates "spending... for the same programs and levels, updated for expected changes in prices," and property tax revenue is projected based on the adopted tax rate.

Recommendation # 6

The "core budget priorities" identified during the visioning retreat (see Recommendation 2), and prior to the budget preview, can be specifically referenced throughout the budget process without a significant additional level of effort. The "key financial indicators" of compliance with core budget priorities are the cost center, program, and project expenditures. The level of effort required to remap expenditures and revenues for the format of a "scorecard (dashboard)" will depend on how greatly such a format would differ from the currently employed cost centers and expenditure types. New for the development of the FY 2012 operating and capital improvements program budgets, staff created four surveys as a tool for the Mayor and Council to communicate their budget priorities and preferences. If the Mayor and Council find this approach acceptable and useful, staff will continue with this process in future budget years.

Recommendation # 7

Implementing this recommendation would entail a considerable increase in the effort and resources required. The current process requires a considerable organization-wide level of effort to develop and produce a recommended budget for submittal to the Mayor and Council in late March. Significant additional resources (including additional analyst positions) would be needed to manage the preparation of multiple levels of proposed budgets on the current schedule. To submit multiple level budgets for each department on a new schedule, during the preview stage of development (December through February), would require revamping and accelerating the entire budget process. Significant additional resources would be required to accomplish this.

Recommendation # 8

Moderate level of effort is required to implement this recommendation. Department presentations were made last year at the preview stage, and, as noted, separate work sessions were held for the Recreation and Parks and Public Works departments. As mentioned under Recommendation #7, if the Mayor and Council request that department budgets be presented at multiple levels (base, 5% decrease, 10% decrease), staff would need additional resources (including additional FTEs) to manage the preparation and presentation of these budgets.

Recommendation # 9

The level of effort required to develop and present concrete options for City services as part of the City Manager's recommended budget would depend on which services the Mayor and Council would like to consider. Options to accommodate across- the-board decreases and increases, as suggested in Recommendations 7 and 8, would require significant level of additional effort.

Communication Issues

Recommendation # 10

A moderate level of additional effort would be required to implement this recommendation. If the Mayor and Council approve this recommendation, finance staff will work with the Communication and Public Information Division to increase communications and published budget materials. Currently, the Cable Television cost center is working on a series of budget and finance-related segments that explain the City's budget, fund structure, debt management, reporting, etc. These segments will air on Channel 11 during the FY 2012 budget process.

Recommendation # 11

A public hearing has been added during the preview phase, to take place on December 6, 2010. In addition, staff requests that the proposed budget books remain on heavy paper because of the wear and tear on the books during the budget work sessions.

Environmental Scans

Recommendation # 12

If the Mayor and Council approve this recommendation, staff will expand the Economic Climate section of the Executive Summary to include more national, regional, and local economic statistics. In the past staff has identified the economic trends that most impact the City's budget and explain those trends in this section. In 2010, the City produced its first "Strategic Scan," which provides an overview of major trends and conditions relevant to the City government's services and resources.

BUDGET BOOK

Measurable Financial Management Principles

Recommendation # 1

A moderate level of additional effort would be required to include relevant cross-references.

Recommendation # 2

If the Mayor and Council approve this recommendation, they should give direction to staff on which policies / items they would like to see on a scorecard. Once the scorecard is developed and approved, current staff will present it to the Mayor and Council to assist in their annual budget deliberations. Staff would recommend including beginning fund balances or working capital, estimated revenues and expenditures, estimated ending fund balances or working capital, General Fund reserve percentages, and Capital Projects Fund and enterprise funds debt ratios.

Recommendation # 3

The Mayor and Council can redefine the term "balanced budget" in the Financial Management Policies or in the charter at any time. The current Financial Management Policies defines a balanced budget as it relates to best practices in public sector budgeting (current revenues equaling current expenditures). If the Mayor and Council approve this recommendation, they should give direction to staff on which definition they would like to use, and their interpretation of that definition.

Recommendations # 4 through # 8 (Also see Recommendation #14)

These recommendations can be implemented with moderate level of effort. Due to the limited space on page 3-1, adding the items listed in Recommendations #4 through #8 would require expanding 3-1 to two pages or, incorporating the information throughout Section 3, either on each fund page, or on page 3-26 with the projected fund balances and working capital amounts. The entire Section 3 is intended to be a high level summary of all the funds, so including this information throughout the section is consistent with it's intended purpose.

Recommendation # 9

A minimal level of effort would be required to include historical reserve fund balances for the General Fund.

Recommendation # 10

A minimal level of effort would be required to include a footnote on page 3-26 that states the estimated interfund payables to the General Fund.

Recommendation # 11

Similar to Recommendation #1, a minimal level of effort would be required cross-reference with pages in the budget book.

Recommendation # 12

Debt service expenditures are included in the Five-Year Forecast table in Section 4.

Recommendation # 13

As mentioned under Recommendation #2, if a scorecard is approved, a moderate level of effort will be required to develop an electronic spreadsheet.

<u>*Other Substantive Changes*</u>

Recommendation # 14

A moderate level of effort would be required to keep page 3-1 as is, and add two new pages as described. The new pages would provide additional revenue and expenditure details, without impacting the summary view on page 3-1.

Recommendation # 15

A considerable level of effort might be required, depending on the number and complexity of cost centers selected, and the particular tracking statistics desired.

Recommendation # 16

A moderate level of effort would be required to implement. The department and division summary tables would need to be shrunk to add the additional column. Also, staff suggests that the percent change be calculated based on adopted to adopted, not estimated actual to adopted.

Recommendation # 17

A moderate level of effort would be required to create a five-year history and present it as stacked bar charts. Multiple bar charts will not present well for departments with more than three or four divisions. Also, some charts will need to be heavily annotated or footnoted to explain changes across time.

Recommendation # 18

Because most services are maintained at current levels from year to year, the information would likely be highly repetitive of the recommended budget. Changes in service and funding levels are documented in the "significant changes" section. To include a new column on the department summary page would require a redesign of the Department Summary page.

Recommendation # 19

A minimal amount of effort would be required to illustrate the description of the budget book's organization provided on page v of the Adopted Budget.

Recommendation # 20

A moderate amount of effort would be required to incorporate selected key portions of the PAFR. Adding all of the PAFR into the budget document would require additional narrative explaining that the PAFR and the budget represent different views of City numbers. The budget is a planning device and is forward looking, while the PAFR

summarizes prior year actuals based on the CAFR. City's GFOA budget book reviewers have commented on the overall length of the budget book. Including the PAFR or components from the PAFR would make the budget book even longer.

Recommendation # 21 and # 22

Minimal level of effort would be required to continue to including these tables in future budget books.

Recommendation # 23

This information is currently stated on page 8 of the CIP. It states, "At current prevailing interest rates, a $1,000,000 borrowing commitment results in an increased average annual debt service of approximately $70,000." Staff updates this information each year. This information is located in the CIP because it explains the relationship between debt service and the CIP.

Recommendation # 24 and #25

A moderate level of effort would be required to consider these system components when evaluating a new budget system (currently the City does not have a budget system – only an accounting system). Finance staff will also work with the Communication and Public Information Division to determine what would be helpful for the community. Currently there is $150,000 programmed for FY 2013 for a budget system. If the Mayor and Council want all of the components that are recommended by the task force, then this amount will likely need to be increased. This project is part of the IT strategic plan, and will be competing for funding and staff resources over the next few years.

Cosmetic Improvements

Recommendation # 26

Minimal level of effort would be required to add table and figure numbers throughout the budget book starting in FY 2012.

Recommendation # 27

A minimal level of effort would be required to add a brief explanation of the purpose of the cost centers in the introduction section on page v.

Recommendation # 28

A minimal level of effort would be required to more fully explain items that appear to be off target.

Recommendation # 29

A minimal level of effort would be required to modify the cover and title page of the recommended budget, and explain in more detail the process and responsibilities for developing recommending, and adopting the annual budget (see page 1-14 of the Adopted Budget, "Budget Development Process.") The proposed budget book is presented pursuant to the City Charter's requirement that the City Manager prepare and submit a recommended budget to the Council. To implement the Task Force's

recommendation in keeping with the City Charter, the previously titled "Proposed Operating Budget" will be changed to "The City Manager's Recommended Operating Budget," with the sub-title "Submitted for the Mayor and Council of Rockville's Consideration."

Recommendation # 30

In both the Operating and CIP budget books there is a section on the first page that states, "Any individual with disabilities who would like to receive the information in this publication in another form (e.g., large print, Braille, tape, etc.) may contact the City's Americans with Disabilities Act Coordinator at (240) 314-8100; TTY (240) 314-8137. For additional information about the City of Rockville, please see our website (www.rockvillemd.gov)."