

City of Takoma Park, Maryland

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Suzanne R. Ludlow, City Manager

Planning for a New Day

April 5, 2021

Honorable City Councilmembers and Residents,

With this letter, I submit for your review and consideration the Recommended Budget for the City of Takoma Park for Fiscal Year 2022 (FY22), which begins on July 1, 2021. The City's annual budget determines the manner in which services are delivered to the community and demonstrates how resources are planned to be used to achieve the priorities of the City Council. Consideration and adoption of the budget is one of the most important actions that the City Council takes each year.

It has been more than a year since the world was first impacted by the COVID-19 pandemic. Last year, the City Council acted to bolster City reserves as well as set aside substantial funds to help residents and businesses impacted by the pandemic. With the lessening of the pandemic in sight and many changes planned for the City of Takoma Park in the coming year, the theme of this Proposed Budget is "Planning for a New Day."

For FY22, we continue to have a very lean Proposed Budget, but we are able to maintain key programs and services due to federal financial assistance that reimbursed our COVID-19 Fund expenditures and will replace our lost revenue. With very small increases in tax revenue over the years and continued unfairly low municipal tax duplication rebates from Montgomery County, our City's revenue is not keeping up with the cost of services, particularly as the Council expands the services it wishes to see provided. This is not fiscally sustainable – ongoing expenses must be supported by ongoing revenue. For that reason, and even in these difficult times, I am proposing a property tax increase of just over one cent, from 53.97 cents per \$100 of assessed value to 55 cents.

We have a very unusual – but good – situation for the coming 2 ½ years. The City will receive approximately \$14.8 million in American Rescue Plan Act (ARPA) funds, in two \$7.4 million tranches, for limited purposes, some of which are not yet defined by the U.S. Treasury Department. These funds cannot be used to lower the property tax rate. The funds must be spent by December 2024, so cannot be considered ongoing revenue. But the funds can be spent to make significant steps forward for economic self-sufficiency of our residents and small

businesses, provide badly needed social service and mental health resources, replace lost revenue of the City government, and be used for water, sewer and broadband infrastructure.

Over the next few months, a plan for use of the ARPA money will be developed, adopted by Council, and implemented. Staff has begun identifying potential uses of the funds and is monitoring federal and other guidance related to use restrictions and opportunities.

As noted in last year's Proposed Budget transmittal, budgeting during an emergency requires an assessment of immediate need and impact, projection of needs for the recovery period after the emergency and a continued eye on maintaining long term fiscal health. We are keeping this approach front of mind in preparing this year's Proposed Budget for Council consideration.

Council Priorities

The Council's Priorities, reaffirmed earlier this year, are:

- Mitigate the Impact of COVID-19 on the Community and City Operations
- A Livable Community for All
- Fiscally Sustainable Government
- Environmentally Sustainable Community
- Engaged, Responsive and Service-oriented Government
- Community Development for an Improved and Equitable Quality of Life

Because of the remarkable work done in the past three years to advance these priorities, there are strong platforms in place to move Takoma Park forward through and after the pandemic. These include the Housing and Economic Development Strategic Plan, the Climate Emergency Response Framework Resolution, work done on advancing race equity, our experience in providing grants through the City's COVID-19 Fund, the finalization of Library renovation plans, community engagement around the redevelopment of the Takoma Park Recreation Center and the establishment of the Reimagining Public Safety Task Force.

As we "Plan for a New Day" in the FY22 Budget, we will also be providing the foundation and tools for new leadership joining City staff: a new City Manager, Library Director, Housing and Community Development Director, and Public Works Deputy Director. They are joining the existing highly talented staff to lead the City forward. We will also need to retain short term staff or consultants to help implement the ARPA-funded initiatives. While these new staff and federal funds provide great opportunities for the City, we recognize that they also require additional levels of attention to personnel, financial and technology management.

Proposed Property Tax Rate

The City's current real property tax rate is 53.97 cents per \$100 assessed valuation for taxing purposes. I am proposing to raise the rate to 55 cents per \$100 assessed valuation. This tax rate allows for some changes the City Council may wish to make in advancing its Priorities and to begin to address the widening gap between available revenues and expenditures.

As mentioned above, the amount of revenue from taxes has not been great enough to keep up with the cost of services, particularly as even more services or initiatives are requested by Council. For those households who cannot accommodate increased property tax rates, we look

for ways to assist. We have income-based property tax credit programs and we can provide assistance to households who have been financially harmed during the pandemic. We cannot use the ARPA funds in any way that would lower the property tax rate or provide property tax credits.

Montgomery County owes the City millions of dollars in tax duplication rebate funds. If the formulas for road maintenance, police services, crossing guards and park maintenance were updated and followed, there would be ongoing increases in revenue consistent with the increases in the cost of those services. Tax duplication rebate funds have been largely frozen since 2012; the formula for police services was last updated in 2000 and much of the funding frozen in 2012 as well. The ARPA funds the City will be receiving cannot be spent on these services and are not ongoing revenue. The City of Takoma Park cannot continue absorbing the increased cost of services without fair tax duplication payments.

Planning for Long Term Financial Stability

The City of Takoma Park's proposed General Fund expenditures have been shown as exceeding General Fund revenues in the City Budgets for a number of years. Because not all expenditures actually occur in the year they were budgeted for, the City's finances have remained in the black. But the trend is not going in the right direction.

Ongoing expenditures include personnel costs, regular operating expenditures, and continuing infrastructure improvements such as road maintenance. Ongoing revenue consists of real and personal property tax, income tax, formula-based payments from the State of Maryland and Montgomery County, and revenue from classes, rental fees, and fines.

It is best to have the trend lines for ongoing expenses and ongoing revenues remain roughly parallel. The City has kept non-personnel operating expenses very low over the past years, but personnel costs make up the bulk of the General Fund expenditures. Per person personnel costs rise each year due to the need to keep up with the regional labor market and pay increased health care costs. Personnel costs can only be cut by reducing the numbers of staff. This can be done by reducing the number or type of services being provided and by adoption of technology that can reduce staff needs.

Income tax revenue has been increasing steadily for a number of years, but remains less than 15% of General Fund revenues. The amount of income tax revenue received by the City is set by State law and is 17% of the amount of income tax paid to Montgomery County by Takoma Park residents.

About half of Takoma Park's General Fund revenues come from real property tax revenue, which is the tax rate set by the City Council multiplied by the net assessed property value (assessed value after credits and caps) and divided by \$100. The value of real property in Takoma Park has been increasing in general, but does decline in some years. If the property tax rate is kept the same or is reduced, the total revenue from real property tax may not keep up with the cost of operations. As mentioned above, not having the fair amount of annual increase in municipal tax duplication rebate payments causes increased burden on Takoma Park taxpayers. In addition to the need for fair tax duplication payments, the City needs to encourage commercial

investment and redevelopment in Takoma Park to reduce the proportion of property tax revenue coming from single family homeowners.

If the real property tax rate were set at a level to bring in the same amount of revenue as is expected for FY21 (the Constant Yield Tax Rate), that rate would be \$0.5295 for FY22, about one cent lower than the FY21 tax rate of 53.97 cents. I am proposing a tax rate increase of just more than one cent over the FY21 tax rate. Taken together, this will result in a State-projected increase of real property tax revenue in FY22 of \$528,635, a 3.9% increase. This increase funds a very tight base budget that includes a small increase in personnel expenditures and \$300,000 in funds for Council priorities not otherwise included in the base budget. Because a cent of the property tax rate yields \$257,870 in FY22, this allocation for Council priorities represents about 1.16 cents of the proposed 55 cent tax rate.

Compensation negotiations with the City's two unions are not yet completed for FY22. Regarding appropriate wage levels, the City undertakes a regional compensation survey every three years, and each year the City also looks to the December Bureau of Labor Statistics Employment Cost Index (ECI) for State and Local Governments for guidance. For FY21, all employees received a 1.5% increase only, recognizing the deep financial uncertainty the City faced at the beginning of the pandemic. The City normally provides an annual step increase and looks to compensate excellent performance; in FY21, we did neither of these. I deeply appreciate the collaborative discussions among the unions and employees over this past year in recognizing the City's fiscal position at the same time the staff were working under difficult conditions. For FY22, the ECI of December 2020 was 1.8% for wages only and 2.3% for total compensation.

Again, the City must be careful as it looks to the future. As we look to the opportunities we may get from the federal funds, we will try to get a jump on one-time purchases that can offset long-term expenditures. For example, technology improvements to address pandemic needs can institute processes that save the City staff time for many years going forward. The federal funds can provide short-term workforce training and business assistance that will allow improved self-sufficiency which, in turn, increases and broadens the base of the income and property tax revenue. And the federal funds can relieve the City from expending high levels of emergency grants or program scholarship funds in future years. If handled well, the federal ARPA funds can buy time to get the underlying financial base of the City into a better aligned position regarding revenues and expenditures.

Thank You

This Proposed Budget transmittal is the last one I will write as City Manager of the City of Takoma Park. I retire on July 1, 2021, the first day of FY22. I am so grateful to have been part of the City of Takoma Park for over 27 years, the last six as City Manager.

Preparation of the City's Budget each year is a herculean task. Fortunately, I have a remarkably skilled, dedicated staff working together to do research, consider best ways to address Council Priorities, enter numbers into the financial system, prepare Budget document pages and charts, and make changes as needed. Each year, they make improvements to the Budget document based on the comments of community members, Councilmembers and the Government Finance Officers Association budget review staff.

I cannot say enough about Finance Director Susan Cheung. She keeps the financial systems of the City safe, provides wise advice to managers, and coordinates the budget preparation process to ensure on time completion. This year, she was helped by Deputy City Manager Jessica Clarke who brought her own budgeting experience to the City one year ago and has improved internal processes, relieving managers of some of the duplicative work required in past years. Budget and Accounting Manager Ron Kawaley oversees the financial aspects of budget document production and Communications Specialist Donna Wright oversees the layout, photos and feel of the document. The City has won the prestigious Distinguished Budget Presentation Award from the Government Finance Officers Association for the last three years due to great staff work and strong commitment to budget transparency by the Takoma Park City Council.

While preparation of the City Budget is not my favorite task (and I do look forward to spending future springs enjoying the sunshine!), my work on preparing and presenting the Proposed Budget for Council consideration each year is the element I am most proud of regarding my service to the City of Takoma Park. The goals of the City Council have been effectuated through the annual Budget, and the financial health of the City has remained sound through recessions and this current pandemic. Continued attention to increasing the City's revenues and reserves will be required, but the City of Takoma Park has weathered these difficult storms well.

The City Council will now begin consideration of this Proposed FY22 Budget.

We will get past the pandemic and Takoma Park will have a "New Day." The funds that have been given will provide a real opportunity to not just recover, but thrive. I thank our federal representatives for the critical federal aid we and all jurisdictions are receiving so that we can address the needs of our community and our municipal government now in the years ahead.

I look forward to working with you as you consider the Proposed FY22 Budget.

Sincerely,

Suzanne R. Ludlow

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