

CITY OF TAKOMA PARK
City Manager's Office



November 20, 2023

Fiscal Year 2025 Budget Forecast

David Eubanks
Acting City Manager



Introduction

- **Agenda:**
 - Revenue Assumptions and Outcome
 - Expenditure Assumptions and Outcome
 - FY25 Projected Deficit
 - City Council Considerations and Next Steps
- **Budget Forecast Purpose:**
 - To provide the City Council with General Fund budgetary context as the City prepares for the FY25 budget development process
 - The budgetary context includes the expected impact that inflation and changes in fixed costs will have on expenditures, assumptions of revenue growth, the incorporation of the Capital Improvement Plan (CIP) schedule, and the effect of adherence to existing city policies and recommendations from the recently presented 10-year financial forecast and police actuarial valuation
- **Budget Forecast Assumptions:**
 - Exclusively focused on the General Fund
 - The projection assumes that the current level of service is to be maintained for FY25
 - Throughout the presentation and forecast report comparisons are made to the FY25 expected budget and the FY24 Adopted Budget including the Q1 FY24 budget amendment
 - The forecast does not include programs or expenditure items that are currently funded by ARPA but may have to be transferred to the General Fund in FY25 and future years.
 - The estimated expenditures exclude the Library Construction for all fiscal years shown due to the uniqueness of the project and its funding; and for effective comparisons between fiscal years.

FY25 Revenue Assumptions

<i>Revenues</i>	<i>FY23 Budget (\$)</i>	<i>FY24 Budget (\$)</i>	<i>FY25 Forecast (\$)</i>	<i>Change (\$)</i> <i>FY24 - FY25</i>	<i>Change (%)</i> <i>FY24 - FY25</i>
<i>Property Tax Revenue</i>	14,425,815	15,454,791	16,151,850	697,059	4.51%
<i>Income Tax</i>	3,850,000	4,000,000	4,200,000	200,000	5.00%
<i>Intergovernmental</i>	6,479,949	6,719,366	6,720,000	634	0.01%
<i>Other</i>	2,573,474	2,867,654	2,928,150	60,496	2.11%
Total Revenue	27,329,238	29,041,811	30,000,000	958,189	3.30%

- Total General Fund Revenue:
 - Total \$30M
 - Increase of 3.3% or \$958K from FY24
- Property Tax :
 - Total \$16.2M
 - Increase of 4.5% or \$697K from FY24
 - Based on an evaluation of changes in assessed property tax values over the last nine years
- Income Tax:
 - Total \$4.2M
 - Increase of 5% or \$200K from FY24
- Intergovernmental:
 - Total of \$6.7M
 - Increase of 0% from FY24
 - Historically intergovernmental revenue has been flat, thus we expect no changed in FY25
- Other General Fund Revenues:
 - Total \$2.9M
 - Increase of ~2%
 - Will be offset by the declining collections from cable fees

FY25 Expenditure Assumptions

- **Total General Fund Expenditures (excluding Library Construction):**
 - Total \$33.2M
 - Increase of 6.5% or \$2M from FY24
 - \$1.1M increase in salaries and wages and \$1.1M increase in capital expenditure
- **Salaries and Wages:**
 - The increases in salaries assumes and additional 2.7% increase for union members for FY24 (depending on final negotiated agreements)
 - This increase is in addition to the 2% increase included in the FY24 Adopted Budget
 - The FY25 budget estimate includes a 4% to 6% increase in salaries and wages
- **Fringe Benefits:**
 - Costs for employee fringe benefits are projected to decrease slightly compared to the FY24 budget due to lower than expected health benefit costs compared to what was anticipated during the development of the FY24 budget
- **CIP:**
 - Capital expenditure estimates are based on the FY25 Capital Improvement Plan (CIP) items listed in the 5-year plan that was included in the FY24 Adopted Budget
- **Operations:**
 - Departmental operating expenses are projected to increase by 4%, compared to the FY24 budget, to maintain current level of City services.
 - This was based on a review of current inflation rates published by the Bureau of Labor and Statistics
 - Core-Consumer Price Index: 4%
 - Employment Cost Index: 4.2%
 - There is an estimated 15% increase in the General Liability Insurance based on historical data and recent premium estimates from our insurers and a 14% decrease for Workers' Compensation Insurance due to a decrease in costs compared to what was anticipated in the development of the FY24 budget.

FY25 Expenditures

Expenditures	FY23 Budget (\$)	FY24 Budget (\$)	FY25 Forecast (\$)	Change (\$) FY24 - FY25	Change (%) FY24 - FY25
General Govt					
Total - Gen Govt.	4,543,700	4,727,307	5,024,778	297,471	6.29%
Police					
Total - Police	9,438,348	10,149,284	10,084,322	(64,962)	-0.64%
Public Works					
Total - Public Works	7,383,456	6,763,271	8,017,279	1,254,007	18.54%
Recreation					
Total - Recreation	2,171,117	2,287,358	2,260,709	(26,648)	-1.17%
HCD					
Total - HCD	2,837,400	2,675,193	3,135,798	460,604	17.22%
Communications					
Total - Communications	799,712	887,144	974,397	87,253	9.84%
Library					
Total - Library	1,439,062	1,491,232	1,545,579	54,347	3.64%
Debt Service	740,712	741,663	742,600	937	0.13%
Multi Departmental - Operations					
Workers' Comp Insurance	533,322	614,100	525,598	(88,502)	-14.41%
Gen Liability Insurance	164,254	201,160	231,334	30,174	15.00%
General Contingency	135,281	145,109	150,000	4,891	3.37%
Property Tax and Renters' Rebate Program	150,000	140,000	150,000	10,000	7.14%
Housing Fund Expenditures	50,000	50,000	50,000	-	0.00%
Other Operational Costs	325,324	255,500	265,720	10,220	4.00%
Total - Multi Dept.	1,358,181	1,405,869	1,372,652	(33,217)	-2.36%
Total General Fund Expenditures	30,711,689	31,128,321	33,158,113	2,029,792	6.52%

**Due to significant increases in FY25 CIP projects*

Departmental details and the CIP projects are listed in the full report.

FY25 Financial Forecast Revenue vs Expenditures

<i>FY25 Forecast</i>	<i>FY23 Budget (\$)</i>	<i>FY24 Budget (\$)</i>	<i>FY25 Forecast (\$)</i>	<i>Change (\$)</i> <i>FY24 - FY25</i>	<i>Change (%)</i> <i>FY24 - FY25</i>
<i>General Fund Total Revenue</i>	27,329,238	29,041,811	30,000,000	958,189	3.30%
<i>General Fund Total Expenditures</i>	30,711,689	31,128,321	33,158,113	2,029,792	6.52%
<i>Surplus (Deficit)</i>	<i>(3,382,451)</i>	<i>(2,086,510)</i>	<i>(3,158,113)</i>	<i>(1,071,603)</i>	

- Primary difference in expenditures between Raftelis and the City’s forecast is due to wage assumptions in FY24 (3% vs 4.7%) and FY25 (3% vs 4% to 6%).
- City Budget Forecast results in a budget deficit of \$3.2M

General Fund Budget Deficit Sources

Raftelis
Projections

Revenues: \$29.5M

Expenditures: \$29.8M

City Projections

Revenues: \$30M

Expenditures: \$33.2M

Managing the Budget Deficit

<i>FY25 Forecast</i>	<i>FY23 Budget (\$)</i>	<i>FY24 Budget (\$)</i>	<i>FY25 Forecast (\$)</i>	<i>Change (\$)</i> <i>FY24 - FY25</i>	<i>Change (%)</i> <i>FY24 - FY25</i>
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- Equipment Replacement Reserve (ERR) Contribution: \$814,242 for CIP projects
- Remaining Deficit Less ERR: \$2.3M
- As of June 30, 2023 the Total Unassigned Reserves is \$8M
- The City’s policy is to hold 17% of General Fund revenue in unassigned reserves. Based on the projected revenue for FY25, this recommended amount would be \$5.1M
- As recommended in the 10-year Financial Forecast prepared by Raftelis, the City expects to transfer \$600K from the unassigned reserve balance to the ERR
- Leaving \$2.3M in the total unassigned reserve that could be applied to the deficit, assuming there are no changes to the unassigned reserve balance by the end of FY24 (unlikely)
- If you assume a CIP execution rate of 85% and a staff vacancy of 5% for FY25 the deficit after the ERR contribution is \$818K (instead of \$2.3M)

Council Considerations

- Approach to reducing the General Fund budget by 3% - 7%. Where should reductions be targeted?
- Specific FY25 budget priorities will help staff identify where funding and capacity ought to be focused.
- Council consensus on budget scenarios.
 - Note: A constant yield budget will require a larger reduction in operations, services and CIP.

Next Steps

- November 20th
 - Budget Forecast Presentation
 - Council FY25 Budget Priorities
- November 29th
 - Budget Priorities Voting Session
- December 15th
 - Budget Guidance to Departments



QUESTIONS?



THANK YOU

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Special Thanks To:

Andrew Bolduc, Acting Deputy City Manager

Susan Cheung, Finance Director

Lori Cannon, Human Resources Director

Ron Kawaley, Budget and Accounting Manager