



MEMORANDUM

TO: City Council
FROM: Council Finance Work Group
DATE: March 13, 2024
RE: Council Work Group Findings & Recommendations

Background

On May 24th, 2023, the City Council passed resolution 2023-15 “Establishing Policy Objectives Associated with the Fiscal Year 2024 Budget.” In pertinent part, the resolution established a Councilmember Work Group of 3 of its members to study various aspects of the City’s budgeting practices and policies. Broken into three main categories, these areas of review concern: 1) policies around ongoing capital costs such as vehicle, facilities, and roadway maintenance; 2) increases to specific revenue generators such as railroad and utility tax, vacant property, and commercial property tax rates; and, 3) budget calendar and process improvements.

Since mid-June, the work group, composed of Councilmembers Fulcher, Seamens, and Gibson, met regularly to share their research into each of these categories and their sub-parts. This has included researching policies and practices from other communities, reviewing GFOA best practices, and engaging with staff. Back in September of 2023, the work group developed a recommended FY25 budget calendar, which included several process improvements, including formal council adoption of the budget calendar, and a City Manager budget forecast prior to council adopting upcoming fiscal year budget priorities to guide staff in their development of the budget. Council approved the FY25 recommended calendar shortly thereafter.

Discussion and Recommendations

Fees/Services/Rentals

The work group recommends that council directs the City Manager to work with department directors to assess whether there ought to be changes to the various fees the City currently collects for permitting, services, and rentals. When reviewing fees, staff should consider: 1) whether fees are consistent within the marketplace; 2) whether they accurately recoup the administrative costs associated with administering or processing the associated service; and, 3) in appropriate circumstances, consider revenue-positive increases that may more effectively enforce the behavior being regulated and produce the desired result.

Commercial & Railroad and Utility Tax

The work group reviewed the city’s commercial property and railroad and utility tax rates. The work group recommends that the city continue to tax commercial property owners in the same proportion as it has in recent history for the following reasons: 1) in the TLCDA area, the City mandates an additional fee for businesses and commercial property owners that already disproportionately burdens commercial owners; and,

2) commercial rental market is currently high (\$30-\$35/SF in the OTBA area and slightly higher in the TLCDA) with concern that any increased disproportionate tax burden would be passed on to business owners through rent increases therefore limiting the city's ability to maintain and attract new and hyper-local business.

The work group appreciates the work done by staff to support the businesses and business associations in Takoma Park, especially through the impacts of the covid pandemic. As economic conditions continue to change, the work group suggests Council receive yearly updates on vacancy rates and comparisons of tax with other businesses and business associations similar to Takoma Park.

Similarly, the work group recommends no change to the Railroad and Utility Tax rate at this time. The work group reviewed rates of similar jurisdictions and the City's rate of 1.57 per \$100 of assessed valuation is comparable. As with increases to the commercial property tax rate and rents, historically increases in this tax are directly passed on to the City's utility rate payers.

Stormwater Fees

The work group recommends that council direct the City Manager to provide an update on recommended projects from LIDC along with a recommended implementation plan. An analysis of changes to the City's Stormwater Fee in order to accomplish goals outlined in the final LIDC report should be included. Further Council review will be needed regarding any policy implications of stormwater mitigation and/or education proposals on private property.

Budget Timetable

The work group recommends that the council establish the goal of a standardized budget calendar for FY26 and beyond per the budget calendar template attached to this memorandum. This calendar highlights the following principles and opportunities the work group would like to see incorporated into the budget process moving forward. These are:

- A councilmember candidate orientation that includes a municipal budgeting component;
- Council review and approval of a budget calendar for the upcoming fiscal year;
- A pre-budget adoption public engagement component on fiscal year budget goals;
- An upcoming fiscal year financial forecast that includes anticipated fixed/structural expenditures and revenues;
- Council provides fiscal year budget priorities, goals and a budget impact estimate based on specific budgetary requirements to the City Manager prior to budget creation.

Performance Management & Metrics

The work group recommends that the Council and City Manager schedule the Council priority strategy to identify baseline performance measures under key departmental line items to highlight the link between budget decisions and anticipated strategic outcomes.

Street Repaving

The work group held several sessions with staff to discuss the City's current street repaving policy and annual funding. The work group recommends that the Council direct staff to consider changes to the 20-year flat annual funding of \$500,000 with the goal of beginning to include appropriate inflationary adjustments that ensures the City remains on track in meeting its Pavement Condition Inventory goals. Additionally, review of industry best practices should be considered.

Vehicle Replacement Policy & ERR

The work group held several sessions with staff to review the City's Equipment Replacement Reserve and Vehicle Replacement Policies. The work group recommends that the council direct the City Manager to continue a regular review of its Vehicle Replacement Policy and to make appropriate adjustments to its objective criteria. For example, to consider regular inflationary adjustments to the annual maintenance cost criterion and to add new metrics, consistent with industry best practices, when evaluating the City's electric vehicles.

The work group reviewed the state of the City's Equipment Replacement Reserve and noted that for a number of years, the Reserve has been under-funded which threatens the long-term stability of the fund. As of FY24, the city is funded through the first half of FY28 which is less than half of its total liability which extends through a target of FY34. The work group recommends that the council direct the City Manager to provide an update on the funded status of the fund as part of the FY25 proposed budget to include a consideration of recent execution rate trends and criteria adjustments that will be considered with the transition to an increasingly electric fleet.