



Takoma Park City Council Meeting – July 17, 2024

Agenda Item 3

Work Session

FY25 Budget Policy Working Group Findings Discussion

Recommended Council Action

Discuss Work Group findings and provide next steps direction

Context with Key Issues

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 three of its members to study various aspects of the City’s budgeting practices and policies. Broken into three main categories, these areas of review were: 1) policies around ongoing capital costs such as vehicles, facilities, and roadway maintenance; 2) increases to specific revenue generators such as railroad and utility, vacant property, and commercial property tax rates; and, 3) budget calendar and process improvements.

The work group, composed of Councilmembers Fulcher, Seamens, and Gibson, met regularly through 2023 to share and discuss their research. This included researching policies and practices from other communities, reviewing GFOA best practices, and engaging with staff. In September 2023, the work group developed a recommended FY25 budget calendar which included several process improvements, including formal council adoption of the budget calendar, a City Manager’s budget forecast, and a Council-adopted budget priorities resolution to guide staff in their development of the budget.

In March 13, 2024, the work group presented its Findings & Recommendations to the full Council, and following approval of the FY25 budget in May, Council began to develop a resolution establishing policy objectives leading into the FY26 budget. With the goal of improving consensus following discussion in May, Council agreed to table the resolution until the full Council had more opportunity to discuss the work group’s findings. Attached in your packets is the work group’s March memo, as well as the draft FY26 policy objectives from May.

Council Priority

Engaged, Responsive & Service-oriented Government; A Livable Community for All; Fiscally Sustainable Government

Environmental Considerations

Effective city management of its budget will allow the City to continue to pursue and build upon its environmental sustainability efforts.

Fiscal Considerations

Decisions made on next steps may have a wide range of future budget impacts.

Racial Equity Considerations

Regular critical evaluation of municipal processes, including its fiscal policy, is integral in reversing historic institutional racism and bias.

Attachments and Links

- From the March 13th Council Meeting: Work Group Memorandum re: Findings and Recommendations;
- From the May 29th Council Meeting: Cover Memo and Resolution Establishing Policy Objectives Associated with the Fiscal Year 26 Budget



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.



Takoma Park City Council Meeting – May 29, 2024

Agenda Item 1

Voting Session

Resolution Establishing Policy Objectives Associated with the Fiscal Year 2026 Budget

Recommended Council Action

Adopt the proposed resolution.

Context with Key Issues

Establishing a long-term fiscal sustainability strategy for the City is a priority goal in the City Council's 2023-4 Council priorities. The City is still recovering from the fiscal and other impacts of the COVID-19 pandemic. City Council has received reports and presentations on a 10-year financial forecast and the City's fiscal health. The City Council, after adopting the FY24 budget, also adopted Resolution 2023-40 identifying some fiscal and budget policy objectives for further review, and created a short-term Council working group to begin exploring them.

The City Council has adopted the Fiscal Year 2025 budget for July 1, 2024 – June 30, 2025, which the City Manager proposed with an intent to move the City closer to long-term fiscal sustainability. In considering the proposed Fiscal Year 2025 budget, specific capital expenses, policies, and revenue options were once again identified that may have the potential to improve the City's long-term fiscal health. The City Council considered a draft resolution and city staff comments on May 15, 2024; this proposed resolution reflects those conversations.

Council Priority

This resolution will address the City Council's priority for a more fiscally sustainable government.

Environmental Considerations

Broad fiscal policies will affect Takoma Park's budget which may allow for more programs, including the city's ability to implement sustainability, climate, stormwater and other environmental programs.

Fiscal Considerations

The focus of this resolution is fiscal considerations--to review budgeting policies and additional revenue sources that have the potential to improve the City's long-term fiscal health.

Racial Equity Considerations

Broad fiscal policies will affect Takoma Park as a whole, but may also have different effects on lower-income and black and brown residents and business owners. In reviewing the individual policies and revenue options, equity considerations will be considered.

Attachments and Links

Draft Resolution Clean Copy

Draft Resolution Showing Markup

**Resolution Establishing Policy Objectives Associated with the Fiscal Year
2026 Budget**

(2nd draft 5/23/24)

Introduced by: Councilmember Dyballa

WHEREAS, the City Council has adopted Ordinance 2024-9, approving and adopting a Fiscal Year (FY) 2025 Budget for July 1, 2024 – June 30, 2025; and

WHEREAS, the City is recovering from the fiscal and other impacts of the COVID-19 pandemic; and

WHEREAS, the City Council has received reports and presentations on a 10-year financial forecast and the City’s fiscal health; and

WHEREAS, the City Council and City management team desire to work closely throughout the months before the next budget season, to develop and consider policy options and additional revenue sources related to long- term fiscal health of the City; and

WHEREAS, the City Council has identified establishing a long-term fiscal sustainability strategy for the City as a priority goal in the 2023-4 Council priorities; and

WHEREAS, as part of the City Council’s review of the proposed FY 2024 budget, the Council identified various budget-related policy and revenue options for investigation, and created a short-term working group to begin that work; and

WHEREAS, the short-term working group submitted a report to the City Council on March 6, 2024 with discussion and recommended next steps in the City’s evaluation of various budget-related policy and revenue options and the implementation of a standardized budget calendar; and

WHEREAS, as part of the City Council’s review of the proposed FY 2025 budget, specific policy and revenue options have been identified that may have the potential to improve the City’s long-term fiscal health.

NOW, THEREFORE, BE IT RESOLVED THAT the City Council will continue to review revenues, expenditures, reserves and economic projections throughout FY 2025, including quarterly fiscal reports on expenditures and revenues publicly presented by the City Manager and Finance Director; and

BE IT FURTHER RESOLVED that the City Council, working closely with the City Manager and staff, will review the report and supplemental information provided by the Council working group formed under resolution 2023-15; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated

staff to refine the newly developed FY 2025 budget calendar to be applied to the FY 2026 budget process, including: a new councilmember municipal budget orientation, multifaceted opportunities for pre-budget public engagement; an FY 2026 budget forecast; and a City Council resolution establishing budget priorities, goals and budgetary considerations to the City Manager prior to budget creation; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated staff in the next eight months to continue review of specific areas of City policy concerning the capital improvement program, relative to municipal best practices, specifically:

- Updating the Equipment Replacement Reserve policy to establish a goal for the minimum number of years the City reserve should aim to fund and a strategy for reaching the funding goal; and
- Reevaluating the road maintenance policy; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated staff in the next eight months to consider the advisability and the impacts of increasing the City's revenue with potential adjustments to the following revenue sources for the purposes indicated:

- City fees to ensure that revenues cover the estimated cost of service delivery where desirable, considering equity impacts;
- Stormwater fund fees to fund additional staff capacity or resources to assist the City in its expansion of flood management efforts;
- Tax revenue sources:
 - railroad and utility tax;
 - vacant property or vacant housing tax;
 - commercial property tax rate; and
- County's "tax duplication" formula that accurately accounts for the City's budgeted costs associated with providing municipal services that are duplicated through County services, such as, Police, Crossing Guards, Parks and Recreation.

Adopted this _____ day of May, 2024.

Attest:

**Resolution Establishing Policy Objectives Associated with the Fiscal Year
2026 Budget**

(2nd draft 5/23/24)

Introduced by: Councilmember Dyballa

WHEREAS, the City Council has adopted Ordinance 2024-9, approving and adopting a Fiscal Year (FY) 2025 Budget for July 1, 2024 – June 30, 2025; and

WHEREAS, the City is recovering from the fiscal and other impacts of the COVID-19 pandemic; and

WHEREAS, the City Council has received reports and presentations on a 10-year financial forecast and the City’s fiscal health; and

WHEREAS, the City Council and City management team desire to work closely throughout the months before the next budget season, to develop and consider policy options and additional revenue sources related to long- term fiscal health of the City; and

WHEREAS, the City Council has identified establishing a long-term fiscal sustainability strategy for the City as a priority goal in the 2023-4 Council priorities; and

WHEREAS, as part of the City Council’s review of the proposed FY 2024 budget, the Council identified various budget-related policy and revenue options for investigation, and created a short-term working group to begin that work; and

WHEREAS, the short-term working group submitted a report to the City Council on March 6, 2024 with discussion and recommended next steps in the City’s evaluation of various budget-related policy and revenue options and the implementation of a standardized budget calendar; and

WHEREAS, as part of the City Council’s review of the proposed FY 2025 budget, specific policy and revenue options have been identified that may have the potential to improve the City’s long-term fiscal health.

NOW, THEREFORE, BE IT RESOLVED THAT the City Council will continue to review revenues, expenditures, reserves and economic projections throughout FY 2025, including quarterly fiscal reports on expenditures and revenues publicly presented by the City Manager and Finance Director; and

BE IT FURTHER RESOLVED that the City Council, working closely with the City Manager and staff, will review the report and supplemental information provided by the Council working group formed under resolution 2023-15; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated

staff to refine the newly developed FY 2025 budget calendar to be applied to the FY 2026 budget process, including: a new councilmember municipal budget orientation, multifaceted opportunities for pre-budget public engagement; an FY 2026 budget forecast; and a City Council resolution establishing budget priorities, goals and budgetary considerations to the City Manager prior to budget creation; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated staff in the next eight months to continue review of specific areas of City policy concerning the capital improvement program, relative to municipal best practices, specifically:

- Updating the Equipment Replacement Reserve policy to establish a goal for the minimum number of years the City reserve should aim to fund and a strategy for reaching the funding goal; and
- Reevaluating the road maintenance policy; and

BE IT FURTHER RESOLVED THAT the City Council will work with the City Manager and designated staff in the next eight months to consider the advisability and the impacts of increasing the City's revenue with potential adjustments to the following revenue sources for the purposes indicated:

- City fees to ensure that revenues cover the estimated cost of service delivery where desirable, considering equity impacts;
- Stormwater fund fees to fund additional staff capacity or resources to assist the City in its expansion of flood management efforts;
- Tax revenue sources:
 - railroad and utility tax;
 - vacant property or vacant housing tax;
 - commercial property tax rate; and
- County's "tax duplication" formula that accurately accounts for the City's budgeted costs associated with providing municipal services that are duplicated through County services, such as, Police, Crossing Guards, Parks and Recreation.

Adopted this _____ day of May, 2024.

Attest: