

## Budget Frequently Asked Questions

1. Where can I find budget documents and other financial reports?
  - Financial documents – including annual proposed and adopted budgets, Comprehensive Annual Financial Reports, budget amendments, and more – are available on the City’s website: <https://takomaparkmd.gov/government/finance/budgets-and-financial-documents/>
2. What is the process for development of the budget?
  - The budget development process begins in late fall, when staff begins looking at expenditure and revenue trends and thinking about needs for the upcoming year. In January, Council holds its annual retreat to discuss and establish its priorities for the upcoming year. After several months of internal meetings, preparation of preliminary departmental budgets, presentation of the City Manager’s Recommended Budget, and several public Council meetings, budget work sessions, open houses, and public hearings, the process wraps up in May when the Council adopts a budget and tax rate. In a nutshell:



There are also quarterly financial reports presented to the Council throughout the year, which provide an update and snapshot on the City’s financial standing.

3. How can I participate in budget deliberations?
  - As noted in the graphic above about the budget process, there are a number of opportunities to participate in the budget deliberation process, and participation is highly encouraged! First and foremost, residents and other stakeholders are always welcome to contact staff at any point throughout the year to ask questions or provide feedback. In terms of formal opportunities to participate or provide comments that are on the record, the Manager’s Recommended Budget presentation is followed by a series of open houses, Council Work Sessions, and Public Hearings where anyone can send in comments or provide in person testimony.

4. What is the City's fiscal year?
  - The City's fiscal year runs from July 1 – June 30. When we refer to Fiscal Year 2020 (FY20), we mean the period between July 1, 2019 and June 30, 2020.
  
5. When I look at the budget documents, I notice that sometimes annual expenditures exceed revenues and sometimes revenues exceed expenditures. Why don't the budgets appear to be "balanced?"
  - In any given year, the City's budget could have budgeted expenditures that exceed budgeted revenues or budgeted revenues that exceed budgeted expenditures. When revenues exceed expenditures, the "extra" revenues are typically allocated to the City's fund balance (basically, our savings/checking account) to be repurposed in a future year. When expenditures exceed revenues, the fund balance and/or an increase in the tax rate is used to make up the difference. Many governments in other states are required to have a "balanced budget." Even in these cases fund balance may be used to close gaps between expenditures and revenues, but the transfer of funds shows up as a type of revenue (typically denoted as a "transfer from the fund balance").
  
6. What are the different "funds" included in the budget?
  - The City operates using four funds:
    - General Fund: the General Fund (GF) is the primary operating fund of the City. Fund expenditures include basic City services, such as police protection, street maintenance, and recreation. Administrative services, such as human resources and financial management, are also accounted for in the General Fund.
    - Stormwater Management Fund: the City is responsible for providing stormwater management services. These services, which are directed by the Public Works Department, include the construction, maintenance and repair of bioretention facilities, storm drains, inlets, channels, and ditches. Additionally, the City ensures compliance with state and federal requirements for erosion and pollution control associated with stormwater run off. The Stormwater Management Fund accounts for revenue and expenditure activity related to stormwater management.
    - Special Revenue Funds: The City receives a variety of grants that provide funding for law enforcement, cable TV (City TV), community revitalization, parks development, and infrastructure improvements. The City utilizes Special Revenue Funds to account for revenue and expenditure activity attributable to the specific projects funded by these grants. Some grants require a funding match, which is reflected as an operating transfer from the General Fund to the Special Revenue Funds.
    - Speed Camera Fund: The Speed Camera Fund was established in FY09 to account for financial transactions related to the City's speed camera program. The goal of the program is to reduce speeding in an effort to prevent accidents and reduce injuries and fatalities. By State law, program revenues are restricted and cannot be used to fund general City operations. They may be used for purposes that improve public safety.

7. What is the “fund balance?”

- The fund balance – also referred to as “reserves” – represents the City’s assets reduced by its liabilities. It’s sort of like a combined savings and checking account. Some of the fund balance is “committed” or assigned to be used for a particular purpose (like to pay off debt for a loan). There is also an “unassigned fund balance” which is the portion that is not committed or encumbered for a specific purpose. The City relies on fund balance to meet cash flow requirements through the year, as revenues do not come in consistently from one month to the other and operation costs can vary widely throughout the year. The unassigned fund balance also provides a critical buffer in the event of unanticipated events such as economic downturns which impact revenue estimates, weather-related catastrophes, and other emergencies.

The goal each year, consistent with best practices and the Council’s reserve policy (established in 2017), is for the unassigned fund balance to equal 17 percent of budgeted General Fund revenues.

8. What is the Constant Yield and how is it determined?

- The Constant Yield Tax Rate is the property tax rate that, when applied to new assessments, will result in the taxing authority receiving the same revenue in the coming taxable year that was produced in the prior taxable year. The Constant Yield concept is that as assessments rise the tax rate should drop to the point that the revenue derived from the property tax *stays at a constant level from one year to the next*, thus assuring a "constant yield" from this tax source.

Prior to February 15 of each year, the Department of Assessments and Taxation notifies the City of the tax rate that would produce the same revenue from the property tax as was produced the year before. The rates, which are “certified” and sent to the local governments, are known as the "Constant Yield Tax Rates" and are based on the new, net assessable base for that jurisdiction. New property or construction added to the rolls for the first time is subtracted from the calculation and allowances for abatements and other deletions are deducted in arriving at the net assessable base for this purpose.

The Department of Assessments and Taxation is charged with the responsibility of administering the Constant Yield Tax Rate Provisions. In addition to calculating the rate, the Department also oversees and monitors the advertising requirements. If violations are detected, the Department must report them to the Attorney General who must investigate and take appropriate legal action to effect compliance.

The Constant Yield Tax Rate is a State Law that exists solely for the benefit of the taxpayer. It represents a clear and direct opportunity for citizen input to influence the level of property taxation. Although setting of the local property tax rates is the task of elected officials, Maryland's Constant Yield Tax Rate Provision gives property owners a voice in the process before the final tax rates are determined. This is done by requiring each taxing jurisdiction to give advance notice and hold public meetings prior to the rate setting if they are considering a tax rate higher than the Constant Yield Tax Rate. Most meetings are held during April, May and early June. Tax rates must be set by July 1, which is the beginning of the tax year.

The information above was gleaned from the State of [Maryland's Department of Assessments and Taxation website](#), where additional information is available.

9. What is a Comprehensive Annual Financial Report? How is it different from the budget?

- The Comprehensive Annual Financial Report (CAFR) is the City's official financial report, which complies with the requirements of the Governmental Accounting Standards Board, that provides detailed and summary information on the City's expenditures, revenues, and general financial standing. The information contained in the CAFR is compiled by staff and audited by an external certified accounting firm. The CAFR is different from a budget in that the CAFR shows the actual results of past fiscal periods, while a budget is a plan for the current or upcoming fiscal period. In order to best understand the financial standing of the City, one should refer to both the CAFR and budget documents.

10. How does the City budget for employee compensation (wages and benefits)?

- Budgeting for employee compensation can be challenging because there are many factors involved (such as whether or not there are already wage agreements in place with the two labor unions) and even unknowns (such as what the change in health, dental, or vision benefits might be). In general, for wages, we first look at existing positions and how much the incumbent is being paid in the current fiscal year. From there, depending on where the City is in the contract cycle with our two labor unions, we may simply look to see what annual increase was agreed to and budget based on that agreement. For example, for FY19, both union agreements state that on the first day of Fiscal Year 2019, the wage scale grid will be adjusted by 2.1%. And that an employee who is rated "Fully Successful" in their annual performance evaluation will receive a one step increase (1.25%) on that wage scale effective at the beginning of the new fiscal year. An Employee rated "Distinguished" will receive a two step (2.5%) increase. We don't know who will and will not receive which ratings, so for FY19, we budgeted in between a 3.35% and 4.6% increase.

Of course, it's not feasible or sustainable to increase wages to this degree each year. For that reason, we conduct wage studies about every three years to see how our wages compare with other jurisdictions in the region. This is required to ensure that we remain competitive in the market. If we seem to be on par with other jurisdictions, the percentage increases may be lower, or adjustments may be made for particular positions. The City Manager's salary is set by the Council and may or may not abide by the same wage scale as other positions.

For benefits, we look to our brokers and claims data to determine whether we should be anticipating a change in premiums. This can be as much art as science, and can have reasonably sizable impacts on the budget. For example, we spend over \$2 million per year for health insurance. If we budget for a 5% increase based on guidance from our brokers and the data we have available, but the increase is actually only 1%, that's an \$80,000 difference.

These dollar amounts are very important because personnel costs usually account for the largest portion of our budget.

11. What are the City's sources of revenue?

- Revenues to the City come from a variety of sources, including but not limited to:

- Real property taxes: the taxes paid by property owners on the assessed value of their property (real property taxes often make up less than half of the City's total revenues).
- Utility taxes: taxes paid by public utilities on their property within the City
- Intergovernmental payments: payments to the City from different levels of government or government agencies, such as grants or reimbursement payments for services provided by the City that would otherwise be provided by the County
- Income taxes: the City's portion of State-collected taxes applied to taxable income
- Charges for particular services: charges for particular City services that are not taxes, such as inspection fees, fees for Recreation programs, passport services, etc.
- Fines and forfeitures: funds received when the City institutes fines or realizes funds through the sale of forfeitures (the vast majority of these revenues are from fines related to speed cameras)

## 12. What are the City's expenditure categories?

- Expenditures break down into the following key areas:
  - Personnel: wages and benefits
  - Capital outlay: costs for capital items like infrastructure and facility improvements, vehicle replacement, equipment replacement, technology improvements, park development, and stormwater management
  - Services and charges: most operating costs other than those for personnel and capital outlay such as contracted services, licensing fees, non-capital small equipment, internal services (telephones, copying, postage), etc.
  - Debt service: payments for the principal and interest on loans to the City
  - Supplies: costs for office supplies, uniforms, vehicle fuel, construction and road repair materials, ice-melt, etc.
  - Other: a catch-all for items that don't fit neatly into the other categories, such as costs to conduct elections, conferences and training for staff, professional association membership dues, employee recruitment, special events and programs, etc.

## 13. What is a Capital Improvement Plan?

- A Capital Improvement Plan (CIP) is a short-to-medium range plan that identifies capital projects and expenditures and a schedule for how they will be financed/paid for. The CIP included in the budget projects out five years and includes six different categories of capital expenditures: Equipment Replacement, Information and Communication Technology Improvements, Park Development, Infrastructure Improvements, Facility Improvements, and Stormwater Management.

There is an entire section in the budget that outlines what we plan to purchase over the next five years. The budget document also includes information on how we budget for various types of CIP items. For example, equipment replacement in the CIP is financed through an "Equipment Replacement Reserve." Each year's budget includes expenditures in the form of payments to the reserve, based on purchase price and the estimated useful life of each item, necessary to maintain the reserve at a level sufficient to replace the covered items. When it becomes necessary and appropriate to replace items covered by the Equipment Replacement Reserve,

that year's budget will include revenues to be drawn from the reserve to replace covered items. However, if it is determined that the reserve contains insufficient funds to fully fund the replacement of one or more items, additional revenues from other sources may also be designated.

#### 14. What is tax duplication?

- Tax duplication is a complex issue, with a history that goes back to the 1970s. In 1973, the Montgomery County Code established a program to reimburse cities for services they provided that would otherwise be provided by the county. In 1975, the state recognized the importance of "double taxation" when the General Assembly passed the first "State Tax Duplication Law." At the county level, resolutions in 1978 and 1981 adjusted the formulas used to calculate reimbursements. By the mid-90s, problems with the reimbursement program, particularly regarding police and road maintenance formulas, resulted in creation of a new county "Double Taxation Task Force." This task force, composed of professional staff from the county and the affected cities (Takoma Park, Rockville, Gaithersburg, Chevy Chase, and Barnesville), produced a report that the County Council adopted in September 1996. That report provided that cities would be reimbursed based on what the county would have spent if it performed the service in the municipality, tied to the county's actual net expenditures. In other words, if the county said it would spend \$50,000 on a particular service, but Takoma Park spent \$75,000 on that same service, the City would only receive a \$50,000 reimbursement.

While there have been many changes and continued exchanges in the past two decades, things have only gotten more controversial and contentious as costs continue to go up to provide certain types of services, but formulas and payments have not kept pace. In fact, since FY2012, Montgomery County has essentially frozen the amount of rebates provided to municipalities.

City representatives continue to spend a considerable amount of time advocating for a fairer system for reimbursements, and we strongly encourage residents to get involved. After all, more equitable reimbursements to the City could have

More detailed information on the recent history and debate about tax duplication is available here: <https://takomaparkmd.gov/initiatives/municipal-tax-duplication/>

#### 15. What options do I have for tax credits/rebates?

- There are several resources that Takoma Park residents may find beneficial when filing their taxes. Most notably, the Maryland Homestead Tax Credit, Homeowners' Property Tax Credit, and Renters' Tax Credit. There are also credits specifically for seniors and military veterans provided through the County. More information on these programs is available here: <https://takomaparkmd.gov/government/finance/tax-credit-options/>

The FY20 budget also includes \$22,500 for additional tax assistance. As of the posting of this document (May 2019), Council still needs to determine how these funds will be used, though they have indicated the criteria will be income based.