

New Item #1
4-27-10

BFAAC Comments – City Council April 27, 2010

Thank you, Mr. Mayor – Members of City Council:

May I start with a commendation:

The Committee believes that significant progress has been made in recent years including this year, in developing and actualizing improvements in the budgeting process -

Compliments go to Council, the City Manager, the Chief Financial Officer and the Management and Budget staff for the reformulated budget development process, formatting and presentation that continues to mature since being initiated about three to four years ago -

This includes such changes as adopting the Management for Results Initiative in the Operating budget, changes in the CIP process such as this year's projecting project out 10 years and other moves toward better planning, much greater transparency and better coordination overall.

We are pleased with the progress and that several of these changes are in keeping with recommendations made over the last several years by our budget and fiscal affairs committee.

As you know, our group and Council discussed the report in detail earlier this month, so my remarks tonight are a summary – with highlights on a few recommendations.

Having complimented you at length, I now turn to our current economic situation, being cognizant of the trying economic times that affect the City, the State and the federal government and especially ... citizens and taxpayers.

Therefore BFAAC in this report states the belief that going forward the City needs to identify and then adopt controls that reduce the rate of growth in City spending and expand efforts (such as the one initiated in Resolution 2368) and establish a process of utilizing long-range financial forecasts to develop current budgets.

- That you establish guidelines for operational priorities among and within Strategic Plan Goals as budget reductions (or eventually -- increases --) are anticipated.
- That you use the Mid Growth Forecast Model, to project revenue and expenditures out 5 fiscal years and balance the budget, ...
- That you employ "what if" scenarios, then determine what programs and activities are affordable, in concert with what the citizens want, and what programs should be reduced, eliminated, or expanded.
- Integral to this approach is a review and analysis of the various methods of obtaining citizen input, with an objective to modify those processes to produce data that is more actionable in relation to funding of services

Turning to the proposed Operating Budget and the Capital Improvements Budget

- We expect that the downturn will last up to five years or more and that operations as in the past are no longer realistic. For FY 2011 and into the future, the City should take more aggressive steps to identify nonessential services that can be eliminated, scaled back, or phased-out in an effort to rebase the Operating and CIP budgets.
- In order to effectively measure the degree to which Strategic Goals are attained, BFAAC encourages the City to continue to let MFRI evolve, and to focus more results of activities in each DISCRETE program element.

In considering salary increases for staff this year we were faced with the same set of options that Council faces - Salary increases are a great driver of costs – and staff morale and competitiveness for the City vis a vis competing jurisdictions are important factors.

Also as we have mentioned in many yearly reports, we believe the overall approach to salary and benefits has been in need of major revamping. On balance we support an increase of some type. OF SOME TYPE This year, but we wish that any increases could be in the context of a reclassification of positions, adoption of a new merit-based approach to salaries and other recommendations from the Watson Wyatt study that is being developed by Human Resources and management but is not yet ready for deployment.

Turning again to The Proposed Capital Improvement Program:

We recommend:

- that all projects in each category be listed in priority rank order. And that projects cut from the CIP be listed in a similar priority order.
- that the City develop improved criteria for scoring the existing or future value of projects and
- that the timing and implementation of a project is consistent with its priority rank and operational considerations.'
- That the impact of the CIP on the City's Operating Budget also be considered and reported
- Review use of cash capital in relation to the CIP
- The City should develop a cash capital policy similar to the one it has successfully utilized with respect to debt policy.

- When considering cash capital contributions to the CIP, Council should consider the equities between current and future taxpayers that are inherent in funding the CIP budget.

Revenues and Outlook

The percentage of per capita income that goes to pay the residential real property tax should continue to be monitored and Council should be especially cautious, particularly in the current economic environment, in setting tax rates that that would result in ratios significantly above historic ranges. We urge prudence

A related topic: The Committee supports the storm water fee rather than the tax. There are arguments on both sides.

Our support for the fee relates in part to the fee falling less on residential taxpayers, whereas the run-off from impervious surfaces on commercial and tax exempt property contribute significantly to the storm sewer overload problems when large runoff occurs.

Another recommendation: As the City continues to add pay-for-use taxes and fees, we believe it will become increasingly important to develop metrics which track overall City-imposed financial burdens as a function of personal income and gross receipts.

ECON DEVELOPMENT

We have previously recognized the critical contribution of economic development to the City's finances. We continue to urge that economic development efforts be given a high priority. This includes funding and studies for expansion of econ resources, such as

LANDMARK, POTOMAC YARD, WATERFRONT STUDY
And the KING STREET RETAIL STUDY

Let me conclude with a word about borrowing by the City

The Debt Policy Guidelines

BFAAC believes that the established debt policy guidelines have served as an important tool for fiscal discipline. Many of the limits of these guidelines are now forecast to be challenged.

We strongly support efforts to remain within all of the guidelines. This same thinking applies to the amount of cash capital that is maintained.

Any additional borrowing should be analyzed against the debt policy guidelines.

Current forecasts are now showing debt service payments crowding out operating budgets.

Borrowing in excess of the targets should be temporary and undertaken only with the most careful deliberation, and only in circumstances where the projects to be funded are essential under the strategic goals and result in significant long-term benefits to the City, or represent the City's commitment to fulfill a prior obligation, (e.g., Metro).

We support the commercial real estate add-on tax for transportation, provided that the rate of such a differential tax is determined annually, taking into account current market and other economic conditions and is set to be consistent with the City's efforts to attract and retain its commercial tax base.

Thank you for opportunity, etc.