

Executive Summary



July 1, 2005

Honorable Mayor and Members of the City Council
City of Rockville, Maryland

It is my privilege to submit to you the adopted budget for the City of Rockville for FY 2006. The adopted budget supports the Mayor and Council's goals, existing programs and services, and the City's infrastructure. It also takes into account various external and internal factors that impact the general decision-making environment for the FY 2006 budget.

The adopted FY 2006 all funds operating budget totals \$89,051,559. This represents an increase of 18.9 percent over the adopted FY 2005 budget. This large increase is somewhat deceptive, as \$12.4 million of it will be used to pay off short-term debt related to the Town Center project. Putting aside this one-time payment, the FY 2006 all funds operating budget will be \$76.7 million, an increase of just \$1.8 million from FY 2005, or 2.3 percent. We are pleased to present a balanced budget without any increase in the property tax rate, which remains at \$0.322 per hundred dollars of assessed value for real property. In addition, this budget proposes implementation of an enhanced homeowner's "circuit breaker" tax credit to provide greater tax relief to low-income households.

The new format and content of this adopted budget are intended to provide a depth of information about the allocation of City resources. While previous budgets presented dollar figures and descriptive text at the division level, this budget provides that information by sub-divisions. This additional level of cost center detail provides a more complete picture of the complexity and diversity of City government programs.

The Decision-Making Environment

The decision-making environment for the FY06 budget is shaped by various external and internal factors. The most prominent of these factors are discussed below.

Economic Climate

The national and regional economic climates impact our finances and budget. Local economic experts agree that the local regional economy will continue its steady growth. Continued strong job and housing market growth are expected, although not at the high rates of recent years.

Overseas demand for construction materials has caused shortages nationally, resulting in sharp increases in the prices of critical construction materials such as concrete, steel, and asphalt. Even the availability of such items as computer hard drives and water treatment chemicals has been affected. The prices of fuel and electricity also have increased. These higher prices are likely to continue to impact City operations and capital projects into FY06.

Energy costs also have been on the rise, exacerbated by a tripling of the County's energy tax rate in FY05. The City's FY05 operating budget included an additional \$350,000 to cover higher energy costs. Despite this increase, actual costs are exceeding budgeted amounts for most facilities. The FY06 budget includes approximately \$70,000 more than FY05 for heating fuel and \$18,000 more than in FY05 for electricity.

Property Assessments

Property value assessments and new development are principal drivers of City revenues. For several years, both new development and property values have increased significantly, providing needed revenue to meet the increasing demand for, and higher costs of, basic municipal services and public facilities. The rate of new private development is showing signs of slowing. As the City builds out, less land is available for new development, and that development tends toward denser urban redevelopment.

The revenue impact of this slowing rate of new development is not readily apparent because property values have been skyrocketing. The median price for a home in Rockville reached \$485,000 in early 2005, which is more than double the price of only five years ago. Over the past five years, housing prices have increased at an annual average rate of slightly more than 20% (however, a cap built into the tax system limits the annual increase for an individual property to 10%). While economists do not see prices falling in 2005, the rate of increase is expected to slow significantly.

Tax Relief

Given the current economic environment, the Mayor and Council addressed the need for property tax relief for households that can least afford the higher taxes that accompany increased assessments. Many property owners can afford, and are willing to pay for, the high level of municipal services the City provides. However, an unknown number of other residents with relatively low fixed incomes are experiencing stress from sharp increases in property taxes associated with rapid increases in home values.

The FY 06 Budget is the first that includes a City supplement to the State's Homeowner's Tax Credit. Under this initiative, the City will give qualified households a credit on City property tax in the amount of 35 percent of the State Homeowner's credit.

The City is implementing an aggressive marketing campaign and outreach program to inform residents of this new initiative. The campaign includes notices in all utility bills, information on the City Web site and The Rockville Channel (TRC 11), articles in Rockville Reports and the Senior Center newsletter, and targeted outreach efforts. We are providing information in multiple languages.

The Mayor and Council directed staff to analyze additional options for further property tax relief. That involves analysis of the State tax code, coordination with the State Department of Assessments and Taxation, and review of tax relief plans implemented by other jurisdictions. Following careful research and analysis, we will identify an optimal progressive property tax relief plan for Rockville and determine whether implementation requires seeking State legislation.

Revenue Shifts

We need to continue to be aware of shifts in other revenues. Some key State revenue sources were lost over the last several years. In FY04, the City absorbed a one-third reduction – almost \$800,000 – in its allocation of Highway User Revenue disbursed by the State, and the reduced allocation remained in force for the FY 2005 budget. The situation has improved somewhat for the FY06 Budget but the City's Highway User funds will be about \$200,000 below the historical allocation.

Annually between FY 1994 and 2000, the City received \$248,000 on average in Program Open Space funds from the State. In FY01 and FY02 the amount increased to \$367,000 and \$418,000, respectively. By FY05, the amount dropped significantly to \$158,000. It is unclear at this time how much Program Open Space funds the State will provide in FY06.

The adopted FY06 budget includes adjustments to Recreation and Parks program and facility fees. In most cases, adopted FY06 fees are higher than current fees. However, there are some cases where staff recommends holding fees at current levels. The increases are in line with the User Fee/Cost Recovery Policy adopted by the Mayor and Council in FY04 and the City's five-year plan to incrementally increase fees to improve cost recovery. The adopted fees also take into consideration data on program and facility use and comparisons to fees charged by other jurisdictions and the private sector. The City continues programs in FY06 that provide financial assistance to Recreation and Parks program users based on financial need.

Town Center Redevelopment

Among the City's highest priorities is to create a vibrant Town Center. To that end, we are undertaking an ambitious and exciting redevelopment project of significant size and complexity. The redeveloped Town Center will serve as the

economic, cultural, and social center of the City. The project is currently under construction and will include a new library, a cultural arts center, a public square, 640 residential units, and approximately 175,000 square feet of retail/restaurant space. There will be three public parking garages, one private parking garage and on-street parking, totaling approximately 2,000 parking spaces.

The successful execution of this project requires a sustained commitment of resources and strong project management. To help ensure success, the adopted FY06 budget includes funds to enhance our capacity to manage the Town Center project. The City also is drawing on several funding sources to meet the public infrastructure needs, including funding commitments from the County, State and Federal governments. In FY05 the State dedicated \$1.5 million and the County dedicated \$2.3 million to the project. We anticipate the same commitments from these two funding sources in FY06.

The City's own investment in the public improvements will total \$11 million. The City will sell a total of approximately \$34.7 million in General Obligation bonds to build the three public parking garages. The City will use developer contributions, parking district revenues, street and garage parking meter revenue, and parking fine revenue to pay the debt service on these bonds over 30 years. During construction, our debt ratios will marginally exceed our policy targets. While the City is confident we have the resources to support the increased debt, it leaves us with less flexibility to fund new projects or respond to major challenges or opportunities.

We are learning that a project of this size requires being prepared for the unexpected. For example, the previously mentioned increases in the prices of steel and concrete have significantly impacted the cost of the parking garages. The FY06 adopted budget takes these developments, and the subsequent impacts on the operating budget, into consideration.

High Quality Municipal Services

The FY06 adopted budget was developed with the assumption that the City will maintain the same high levels of service provided in FY05, with virtually the same amount of non-personnel operating dollars as in the FY05 adopted budget. It does, however, include additional operating funds to support a City election in November 2005. Those dollars appear in the City Clerk's Office, Mayor and Council's Office, City Manager's Office and Information and Technology budgets. They fund election judge training, sample ballot, part-time staff support, television coverage of debates, Spanish translation services, and other items related to the election.

The City's longstanding commitment to providing a high level of basic municipal services is reflected in our citizen survey results. Staff recently briefed the Mayor and Council on the results of the 2005 Citizen Survey, which indicate that Rockville residents are pleased with the City's performance. For example, 92% of respondents describe the quality of life in the City as "excellent" or "good" (29% rate it as "excellent" and 63% as "good"). Although 7% describe the quality of life as only "fair", we are extremely pleased that no respondents rate the quality of life

as poor. These responses are consistent with the responses received in 2003 (29% "excellent", 64% "good", and 7% "fair").

In 2005, 81% of respondents rated the overall customer service provided by City employees as either "excellent" (38%) or "good" (43%). That is slightly better than the 78% rating customer service as "excellent" or "good" in 2003.

In terms of specific services, respondents rated the following as "excellent" or "good" in 2005: street repairs and maintenance – 64% (59% in 2003); refuse collection – 86% (84% in 2003); residential property maintenance/code enforcement – 67% (64% in 2003); recreational programs – 86% (87% in 2003); and the City's Web site – 75%. Seventy-five percent of respondents in FY05 agreed or strongly agreed that the Rockville Police are helpful and cooperative, compared to 74% in 2003.

While we are pleased with the results, there is room for improvement. What we have learned will help us to address problem areas as quickly as possible. For example, a group of employees is currently planning on-going activities to continue improving customer service. An analysis of refuse services is underway that aims to improve the quality and efficiency of the service. One of the City's FY06 objectives is to evaluate and redesign the home page on the City Web site.

Attracting and Retaining Employees

The City's high levels of service and many complex projects require skilled and experienced employees. We need to invest continually in providing a workplace environment attractive to high performing employees. Competitive salaries and benefits, a system that rewards performance, training and development, opportunities for advancement, and adequate tools and facilities are all important parts of that environment.

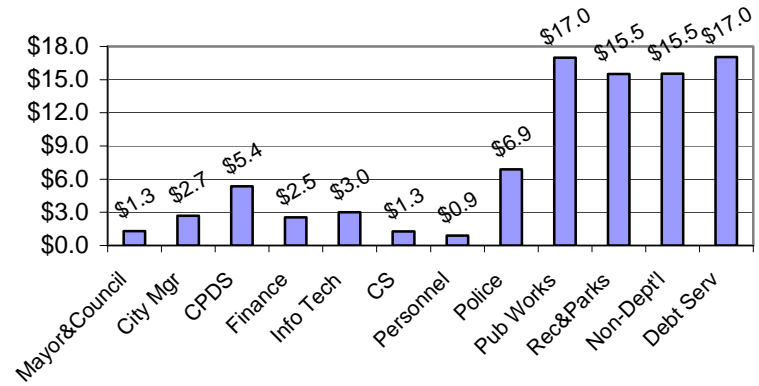
Recruitment issues and certain vacancies can also provide opportunities to refocus limited resources where they are most needed, and to provide services more efficiently. To the extent this is possible, we can advance the Mayor and Council's Goal No. 5, To Enhance the City Government's Performance.

Budget Overview

The \$89.1 million FY 2006 operating budget includes a 2.5% Cost of Living Adjustment (COLA) for City employees as well as the short-term debt payoff mentioned earlier. Generally, the allocation of operating funds among the City departments in FY 2006 is similar to the allocation in the FY 2005 budget. The following chart in the right column illustrates how the FY 2006 Budget is allocated among City departments.

The majority of the City's spending comes from the tax-supported General Fund. Other funds include the Water, Sewer, Refuse, Parking, Stormwater Management, and Golf funds. User fees charged to City households, businesses, and golf course users support those funds. Six-year cash flows prepared as part of the budget process determine the fees charged. Each fund is described in more detail in the following sections.

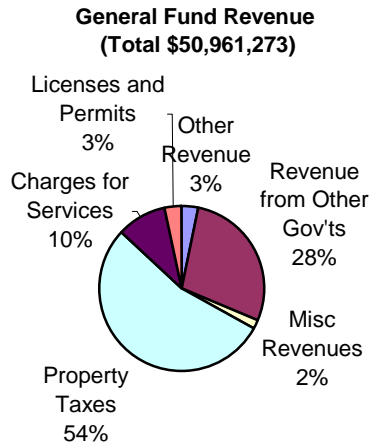
All Funds Expenditures By Dept
(\$ in Millions)



Total Expenditures \$89,051,559

General Fund

The adopted FY 2006 General Fund budget of \$50,961,273 is 7.1 percent higher than the adopted FY 2005 budget, net of the appropriated fund balance. General Fund revenue in FY 2006 will exceed the revenue in the modified FY 2005 budget by \$2,025,228. The Fund Summary section of the adopted budget includes detailed information on the major FY 2006 General Fund revenue sources. The graph on the next page summarizes the sources.



A major portion of the General Fund revenue growth is a projected increase in property tax revenue of \$2,236,000 or 8.9 percent over the FY 2005 adopted amount. No change is adopted to the property tax rate for FY 2006. Revenue from other governments is projected to increase \$1,432,392 or 11.2% over the adopted FY 2005 amount. Revenue from charges for services and licenses/permits are projected to decrease 4.6% and 3.8%, respectively.

The cost of water, sewer and refuse services will increase in FY06. The following chart shows the cost of these utility services for the "typical" homeowner.

	FY 2004	FY 2005	FY 2006	Change	Percent
Water (72,000 gal/yr)	\$143.28	\$149.04	\$162.72	\$13.68	9.18%
Sewer (72,000 gal/yr)	\$252.00	\$259.92	\$270.00	\$10.08	3.88%
Refuse Charge	\$357.00	\$373.00	\$406.00	\$33.00	8.85%
Total	\$752.28	\$781.96	\$838.72	\$56.76	7.26%

Water Facility Fund

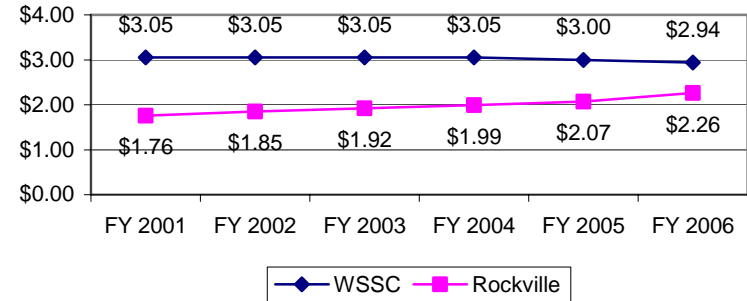
The Water Fund will require a rate increase of \$0.19 per thousand gallons in FY 2006. This will raise the rate to \$2.26 per thousand gallons, an increase of 9.2 percent. Successive annual rate increases are needed for the next several years to bring the rate up to the required level.

In FY06, the City continues a multi-year investment in water plant improvements. The City is replacing and upgrading the filter and pumping systems in order to increase efficiency, accommodate future plant expansion and comply with Federal and State requirements.

Other factors necessitating a rate increase in FY06 include the slower rate of development in Rockville and reduced water consumption per household. The FY06 adopted budget includes funds for a rate study to closely examine revenues and expenses as well as consider different rate structures.

The following chart compares Rockville's water rates to the rates charged by the Washington Suburban Sanitary Commission (WSSC) between FY 2001 and FY 2006. Rockville continues to provide City customers with a good value by producing quality water at a rate significantly below WSSC's.

Water Rate Comparison

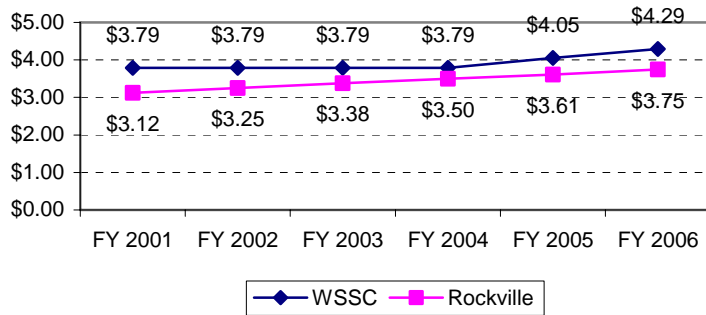


Sewer Fund

The Sewer Fund rate increase is \$0.14 per thousand gallons in FY 2006, raising the rate to \$3.75 per thousand gallons. This represents a 3.8% increase. Nearly all of the capital costs in the Sewer Fund and a substantial portion of the operating costs are payments for the operation of and capital improvements to the District of Columbia Water and Sewer Authority's (DCWASA) Blue Plains Wastewater Treatment Plant. The 1998 Master Plan for the DCWASA included a significant increase in planned capital costs, as reflected in the Regional Treatment Facilities CIP project. Similar rate increases are anticipated in future years depending on the pace of work at the Blue Plains facility.

Even with the FY06 increase, the City's rate remains below WSSC's. The chart below compares the Rockville and WSSC rates. Despite this positive comparison, the City wants to further assess the Sewer Fund and rates. The FY06 adopted budget includes funds for a rate study to examine revenues and expenses and rate structures, similar to the study adopted for the water fund.

Sewer Rate Comparison



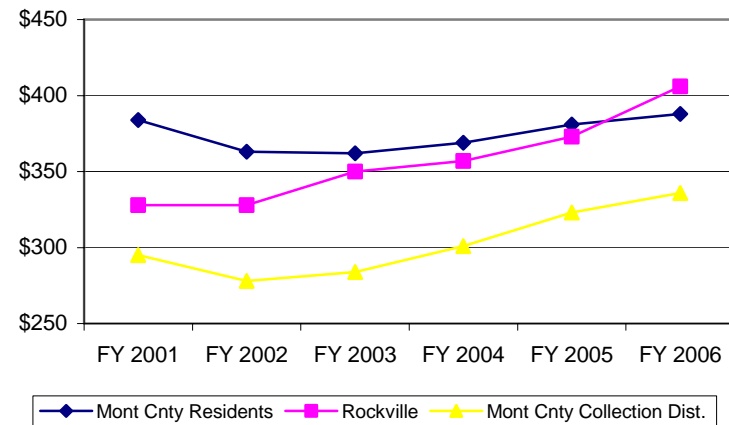
Refuse Fund

A cash flow analysis of the Refuse Fund has identified the need for a \$1.75 per month increase in the monthly rate for refuse collection, disposal, and recycling services. The FY 2006 rate of \$29.50 per month is a 6.3 percent increase from FY 2005. Successive annual rate increases are needed for the next few years to bring the rate up to the required level.

City residents will pay \$406 total for refuse services in FY 2006. Residents will pay the City \$354 divided into quarterly payments, and will pay Montgomery County a \$52 Systems Benefit Charge with their tax bill.

The chart below compares Rockville's refuse rates to Montgomery County's. It combines both refuse payments, system charges, and other costs included on annual tax bills. The City's refuse rate is slightly higher than the FY 2006 twice weekly service of Montgomery County's non-collection district and includes additional services not incorporated in the County's rate, including fall and spring leaf collection and special pick-ups. The City's rate is higher than the cost within Montgomery County's collection district, where service is only provided once per week.

Refuse Annual Charge Comparison



During FY05, the City contracted for a study of refuse collection services. The study examined the current expensive, labor intensive, and outdated service delivery methods, and identified alternative approaches for the Mayor and Council's consideration. It also involved a survey of a statistically significant sample of Rockville households' perceptions of the City's refuse services, and preferences for future services and rates. Staff and the consultant will continue this work into FY06, including discussions with the Mayor and Council of potential improvements to the refuse system.

Stormwater Management Fund

Changes in the rate of development in the City are also impacting the Stormwater Management Fund. As the rate of development slows, fewer dollars come into the fund to support growing stormwater management needs throughout the City. A three-phase study of the fund will begin at the end of FY05 and continue for the following two years. The study will develop cash flows, cost allocations, and billing systems for a new annual fee to make the stormwater management program self sufficient.

Parking Fund

The Parking Fund was created to account for revenue and expenses from parking related activities including parking tickets, parking meters, and the planning, design, construction and operation of proposed garages in Town Center. The FY06 Operating Budget assumes an increase of \$67,660 to the net assets in the Parking Fund. The City expects parking violation revenue to make up over half of the fund revenue in FY06. The majority of the expenses will fund debt service. The City will issue the bulk of the debt for the construction of the

Town Center parking garages during FY06, and is currently reviewing the options for structuring that debt.

Golf Fund

The Department of Recreation and Parks worked diligently to adjust operations and reduce expenses to eliminate the deficit over time. In FY07, the fund begins to show a positive cash flow that grows steadily through FY 2011. Reductions in expenses aim to eliminate the deficit by FY 2012.

Mayor and Council Goals

The FY06 adopted budget allocates resources to focus on the Mayor and Council's priorities, as reflected in the five goals adopted in February 2004. FY 2005 was a challenging yet productive year that involved significant progress in all of the Mayor and Council's goal areas.

Goal No. 1 – Create a Vibrant Town Center TC

After a groundbreaking ceremony in June 2004, construction of the new Rockville Town Center has progressed very well. A 24-hour Web camera was installed, accessible from the City's Web site, so that Rockville residents and others can observe the progress of construction. Portions of the project will be completed over time, between September 2006 and October 2007, beginning with a new road, an extension of Maryland Avenue, the library, parking garages, Town Square, and residential and retail establishments. There has been some slippage in the schedule for various reasons, and we are working assiduously to reduce, or at least contain, any delays. To support the timely and smooth completion of the project, this adopted budget includes \$150,000 for a Town Center Project Manager.

The City signed a Memorandum of Understanding with Rockville Arts Place (RAP) in December 2004 that lays the groundwork for RAP to occupy two full floors and some street level space in the a new building in Town Square. RAP's campaign to raise funds to build out the space is underway. In partnership with Rockville Economic Development, Inc. and Montgomery County, two floors will be added to house a business incubator. Building design will be completed in early FY06 and construction will begin November 2006.

During FY05, a citizen task force led by the Cultural Arts Commission recommended sites for nine Art in Public Places projects to be installed in Town Square. The art project selection process will be completed in FY06.

While Town Square construction is exciting, we recognize the impacts it can have on surrounding neighborhoods. In FY05, staff conducted outreach to the neighborhoods impacted by construction traffic, and began identifying post-construction traffic impacts. Staff is identifying specific locations for traffic calming and other improvements, to begin design and construction in FY06.

Another objective of the Mayor and Council is to set the stage for redevelopment of the Stonestreet Avenue corridor and the Town Center block north of Beall Avenue. Staff is working with a task force to draft an implementation strategy

study for redevelopment of the Stonestreet Avenue corridor. The Mayor and Council will review and adopt the plan in FY06, and it will serve as the basis for on-going work in the corridor. In terms of the Town Center area north of Beall Avenue, little additional work has been undertaken in the several months since staff shared a draft plan with the Mayor and Council and the Planning Commission. Instead, resources have been directed to addressing other major and currently active projects. We expect to renew our efforts in FY06.

Goal No. 2 – Ensure New Development Citywide Enhances Rockville's Quality of Life 🏡

We need to ensure that new development contributes to enhancing the quality and character of the Rockville community and does not place undue burdens on existing neighborhoods. The FY05 adopted budget included approximately \$1.1 million for six special Community Planning and Development Services (CPDS) projects aimed at achieving this Mayor and Council goal. Work has begun on all six of the multi-year projects, and will continue into FY06. For example:

- A staff team was developed in FY05 to begin the *Zoning Ordinance review and revision*. The team prepared a white paper outlining background information and an approach for revising the ordinance for Mayor and Council consideration. Next, the Mayor and Council will award a contract for consultant services and public outreach will begin. Work will continue throughout FY06.
- During FY05, staff prepared a public outreach program and held a community kick-off meeting for the *Rockville Pike Corridor Plan*. Community advisory groups are forming and we expect to have a plan completed and approved by the Mayor and Council by the end of FY06.
- A *Twinbrook Metro Area Study* and *Twinbrook Neighborhood Plan* are also underway, with work continuing into FY06. The Mayor and Council also have invested significant time during FY05 considering a proposal for redevelopment around the Twinbrook Metro station.

Other multi-year special CPDS projects underway include the previously mentioned vision for redevelopment of the Town Center block north of Beall Avenue, and a study of initiatives to expand senior and other affordable housing opportunities. In addition to these special studies, the department is working on a review of the Adequate Public Facilities Ordinance, annexation and development approvals for the Twinbrook Commons project, the Lincoln Park Neighborhood Plan, and a Lincoln Park Preservation Project.

Goal No. 3 – Improve Pedestrian and Traffic Safety 🚌

During FY05, the City completed improvements at Maryland 28 and Great Falls Road, Mannakee Street, Hurley Avenue, South Washington Street and Baltimore Road. The City also strengthened collaboration with the Maryland State Highway Administration to address concerns, such as pedestrian safety at locations along Veirs Mill Road and at Maryland 355 and Wootton Parkway, re-designation of Maryland 28, and development of the InterCounty Connector and Corridor City

Transitway. We will continue to address pedestrian and traffic safety, and work with the State to pursue important projects.

The FY06 CIP includes dollars to support on-going general road and sidewalk maintenance throughout the City. For example, the CIP includes \$977,000 in FY06 for asphalt pavement maintenance, \$750,000 for concrete improvements to curbs, gutters, sidewalks, drainage structures, and retaining walls, and \$50,000 for street lighting improvements. We are also seeking \$3 million in federal funds to bring Baltimore Road into conformance with City standards and to install traffic calming devices.

The Police Department will address pedestrian and traffic safety in FY06. To increase the department's capacity, the adopted budget includes \$82,600 for an additional police officer. This represents the first year commitment toward meeting the Mayor and Council's intent of adding one police officer per year for five years. During FY06, the Police Department will:

- Assist in the development of a pedestrian safety action plan to promote community safety, protection of life and property, and regulation of safe and efficient vehicle and pedestrian traffic
- Continue to provide a high level of directed patrol enforcement activity for both pedestrian and vehicle violations
- Continue to provide oversight to the red light camera program

Goal No. 4 – Strengthen Rockville's Neighborhoods and Sense of Community

In an effort to strengthen Rockville's neighborhoods, and enhance program effectiveness and efficiency, the City is completing a reorganization of the Department of Neighborhood and Community Services. The Community Enhancement/Code Enforcement Division was transferred to the Police Department and the Neighborhood Resources Program was transferred to the City Manager's Office.

The City will engage a consultant to conduct an in-depth organizational analysis of the Community Services Division to assess the services the City provides in relation to services provided by Montgomery County and nonprofit social service agencies. The study will focus on determining the most cost effective ways to provide services that are needed by Rockville residents, and define the City's appropriate role in service provision. This reorganization occurred too late to be included in the proposed budget, but it is reflected for the first time in this document.

Meeting the community's expectations for property maintenance is an important part of this Mayor and Council goal. During FY05, the City began a program to inspect all home exteriors for property maintenance violations, beginning in the Twinbrook area. This effort has fallen behind schedule, and as we continue it into FY06, we are assessing ways to improve the program's effectiveness.

In FY05, staff also identified approximately 20 recurring property maintenance offenders across the City. Recurring offenders are defined as properties for

which the City has opened three or more property maintenance cases during a one-year period. We will work with these property owners in an effort to address the Mayor and Council's expected outcome to reduce recidivism among property maintenance violators. We expect that the transfer of the code enforcement function to the Police Department will strengthen these efforts.

During FY05, the Senior Citizen's Commission and other organizations representing issues important to seniors continued to study and develop recommendations for affordable senior housing. The Senior Citizen's Commission reported its findings to the Mayor and Council at a worksession in February 2005. In March 2005, the Mayor and Council amended the Zoning Ordinance and the King Farm Concept Plan to permit senior housing uses in King Farm. The City will continue to identify opportunities to work with leaders in the senior community to find workable approaches to increase the availability of affordable housing for seniors.

One of the Mayor and Council's expected outcomes is to enhance community-oriented policing programs. One FY06 Police Department objective is to enhance these types of program, such as the Beacon of Safety program, National Night Out, Crime Prevention through Environmental Design program, Citizens Police Academy and school presentations. The department also will implement a patrol area plan to address the growing service needs of Town Center, King Farm and Falls Grove. In FY05, the department received its third re-accreditation by the Commission on Accreditation of Law Enforcement Agencies (CALEA), and revitalized the Canine Program.

Several projects in the FY06 CIP aim to improve neighborhoods and the sense of community, including:

- Thomas Farm Community Center – Thomas Farm will be the City's third community recreation center, and our first west of I-270
- Falls Grove Neighborhood Park – Progress was made in FY05 on site grading and seeding, playground and ballfield construction, and the first section of the parking lot. Those parts of the project will be complete by the fall of 2005. Progress on the remainder of the park will continue through scheduled completion in FY 2009
- Mattie Stepanek Park/ King Farm Dog Park/Farmstead – Construction of the park, including the City's first Dog Park, will be underway in FY06
- College Gardens Gym – The FY06 budget proposes a \$200,000 contribution to construction of the school's gymnasium
- Community Beautification – This CIP project enhances landscaping at City parks and grounds. In FY06, \$10,000 is adopted for landscaping in Glenora Park at the corner of Wootton Parkway and Dundee Road

One FY06 objective of the City Manager's Office is to analyze the results of the 2005 Citizen Survey that address the information needs and resources of residents whose primary language is not English. We will use the survey results to adjust the City's communications approach to meet the needs of our diverse population, and further strengthen Rockville's sense of community. For example,

we will pursue an initiative to increase the Spanish language abilities of City police officers in FY 2006.

Goal No. 5 – Enhance the City Government's Performance

To maintain and improve our effectiveness, we must continuously improve our systems and methods for managing the growing workload, and for allocating and deploying our limited resources among competing priorities. Accordingly, changes to such critical systems as the budget, personnel management, financial control, performance measurement, project tracking, employee evaluations, and compensation are in various stages of redevelopment. To support the increasing complexity of the budget document and process, the FY06 budget includes \$68,000 for a second Budget Management Administrator in the Department of Finance.

City staff worked diligently during FY05 to improve performance and we have several initiatives planned for FY06 to continue that effort. The City Manager's Office developed a new approach to tracking and reporting progress on 39 of the City's major projects. Improvements to that system will continue into FY06 and will include devising a system to automate the data tracking, reporting and oversight of all major City projects.

Every City employee received customer service training during FY05. A team of City employees is now developing a work plan to continue customer service initiatives into FY06.

Several projects are planned in the Public Works area. The City will continue work that began in FY05 to make the refuse collection system more efficient and effective. The rising cost of providing water and sewer services, along with decreasing revenues and slowing development, leads us to include funds in the FY06 budget for a water and sewer fund rate study. The City recognizes the need to look at the longer-term viability of the stormwater management fund as well. The FY06 budget includes funds to examine ways to structure fees so that the fund can meet the City's long-term stormwater management needs. It also includes \$50,835 for an additional staff person at the City's water plant to support 24-hour coverage of the facility and succession planning.

To address increasing energy costs over the longer term, the City began an Energy Performance Project in FY02 to study all of the City's facilities and systems that use electricity and heating fuel. Approximately \$1.2 million in improvements were subsequently made to City facilities. FY06 marks the first full year of implementation of the Energy Performance Project. We expect the investment in the project to increase energy efficiency and potentially offset some of the energy cost increases the City experiences.

The City is renewing its focus on organizational development. In FY06, the City Manager's Office established an Organizational Development Division and used existing funding to support that area. One Organizational Development focus will be the City's High Performance Organization initiative. The initiative aims to enhance performance City wide by investing in training and other activities that

encourage employees at all levels of the organization to recognize and use their leadership, management and decision-making abilities.

Looking Forward

The City's current financial situation requires that we continue our responsible fiscal practices in managing expenditures and revenues. First, we need to respond appropriately to changing growth patterns. For many years, new development and growth have helped fund a steady stream of new projects, facilities and services. As Rockville reaches its growth boundaries, we will no longer be able to look to growth and new development as a source of steadily increasing revenue. Future revenue increases will result mostly from increasing property values identified by reassessment.

Second, we must continue to carefully consider how funds, including any surplus, are used. Retaining funds for unexpected expenses is important, particularly given the large capital projects currently under construction and planned for the near future. It is also important to keep in mind that unless overall service levels are reduced, or selected services are eliminated, expenditures will continue to rise over time. We need to be prepared to fund those rising expenditures and, where possible, to contain them by improving our operational efficiency.

Specific items to consider as we look forward include the following:

Town Center and Other Major Projects

Unanticipated increases in the cost of building materials have resulted in increased overall cost of the Town Center redevelopment project. While unanticipated revenues, primarily from the sale of garage parking spaces, will substantially cover these additional costs, we need to be prepared for possible additional cost increases over the next few years.

Other major projects place additional significant demands on our fund balance, including upgrades to the City's financial system, construction of the Cultural Arts Building (and possible additional space for a business incubator) and the Thomas Farm Community Center. Regardless of how well managed and monitored, the unexpected can occur when undertaking multiple projects of such size and complexity.

New Operating and Personnel Expenses

The Thomas Farm Community Center concept plan includes a gymnasium, fitness center, computer learning center, multi-purpose rooms, locker rooms, a kitchenette, offices and storage. Net annual operating costs for the Center are projected to be approximately \$280,000. Additional revenue will need to be secured, or other operating expenses reduced, in order to cover that operating cost in FY07 and beyond.

As the City's population grows and new developments such as Town Center and Twinbrook Commons come on line, our public safety needs will increase. The City intends to hire more police officers in future fiscal years to meet the growing needs and must be prepared to fund those positions.

Maintaining our Infrastructure

Investing in the City's infrastructure is critical. Deteriorating roads, bridges, public buildings, parks and utility systems in too many cities and counties across the country stand as unfortunate examples of what happens when communities fail to invest appropriately. Maintaining and enhancing these investments is critical to the City's future, but are increasingly expensive.

The increasing costs of materials means our maintenance dollars are funding less each year. Over the past year, the cost of asphalt increased 8% and concrete 10%, straining our ability to maintain roads and sidewalks, and making it virtually impossible to undertake needed new construction and reconstruction. The cost of steel increased 30% in the past year, impacting the cost of guardrail and bridge repairs, vehicles and other equipment/parts, and water main pipes. Fuel prices also increased, from approximately \$1.15/gallon in FY04 to at least \$1.75/gallon in FY05.

Rockville's Changing Population

Rockville is fortunate to have a wide range of unique and rich cultures in our community, and we welcome the opportunity to accommodate and adapt our services to this diversity. The City needs to continue evaluating how we communicate through printed material and other means to ensure we reach all Rockville residents. We need to evaluate our recreation and social service programs to ensure we are meeting the needs of our population. We also need to focus on recruiting a more diverse City workforce, with an emphasis on acquiring multi-lingual staff.

Consistent with nationwide trends, Rockville's population is aging. While our services to seniors are widely regarded as the best in the region, the large proportion of the City's population approaching retirement age presents challenges and requires that we adapt our services accordingly. As we look forward, we need to carefully consider what services to provide to seniors, how best to provide them and how to pay for them.

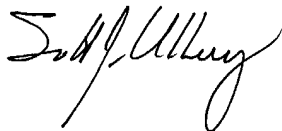
The City also supports those with significant human service needs through grants to caregiver agencies. The FY06 adopted budget includes \$400,294 for grants to these agencies. Approximately one-third (\$105,000) of the total grant funds support housing assistance programs. Another 45% of the total (\$181,000) supports medical programs, home health care for seniors, and emergency financial assistance. Approximately 15% (\$60,000) supports the Latino Outreach Program.

Conclusion

I would like to thank all of the City staff that contributed to this adopted budget. Every department invested additional time and effort this year to present new information in a different format, and the Departments of Finance and Information and Technology, and the Graphics and Printing Division, contributed significantly to compilation and production of the new budget format. In particular, I would like to thank Dominic Del Pozzo, Gil Francisco, Jennifer Kimball, Janet Hare, Fran Jablonski, Susan Lander, David Rowland, Nancy Zombolas, Betsy Robbins and Christopher Ross.

The Rockville community is experiencing significant demographic, social, and physical change. Under your leadership, Rockville City government is initiating and adapting its programs accordingly, as reflected in this adopted budget. On behalf of our dedicated City staff, without which none of our programs and services would be possible, we look forward with enthusiasm to FY06 as an opportunity to rededicate ourselves to continuing and strengthening our commitment to public service excellence.

Respectfully,



Scott Ullery
City Manager



FY 2006 Budget Highlights

Rate Information:

- The property tax rate remains at \$0.322 per hundred dollars of assessed valuation for real property. The tax rate for personal property remains at \$0.805 per hundred dollars.
- The water rate increased by 19 cents per thousand gallons to a new rate of \$2.26 to provide support for ongoing capital improvements.
- The sewer rate increased by 14 cents per thousand gallons to a new rate of \$3.75 to accommodate increased capital costs at the Blue Plains Wastewater Treatment Plant.
- The refuse rate increased by \$1.75 to a new rate of \$29.50 per month. Further increases will be needed in future years to accommodate modest cost increases and to assure that revenue covers all expenses.

Overview:

- The General Fund budget of \$50,961,273 is 7.1 percent higher than the FY 2005 budget, net of appropriated fund balance. The combined budget of \$89,051,559 for the City's eleven operating funds is 4.1 percent higher than the all funds budget for FY 2005, net of the appropriated fund balance in the General and Debt Service Funds. Without excluding fund balances, the increase is 19 percent.

Organizational Structure Changes:

Department of Community Services:

The Department of Neighborhood and Community Services was restructured and renamed as the Department of Community Services.

- The Code Enforcement and Community Enhancement became a cost center of the Police Department in its Special Operations Bureau representing an additional 8.5 FTEs to the Police.
- The Neighborhood Resource Program transferred to the City Manager's Department and became its third division. This represents an increase of 4 FTEs for the City Manager's Department.
- The remaining two divisions; Community Programs and Administration (4 FTEs) and Youth and Family Services (9.5 FTEs) comprises the new Department of Community Services.

Staffing Changes:

New and deleted positions for FY 2006 have a net decrease of 5.4 FTEs and are listed below by department.

Department of Mayor and Council and Department of City Manager:

- The Council Support Specialist position was transferred from the Department of Mayor and Council to the Department of City Manager.

- Transfer of the Neighborhood Resource Program to this Department. (An increase of 4 FTEs.)

Department of Community Planning and Development Services:

- The Secretary II position was reclassified and upgraded to a Planning Technician position.
- A New Town Center Manager (Chief of TC Redevelopment) was added to prepare and operate the Parking Garages and TC Commercial district.

Department of Finance:

- A new Budget Management Administrator position was added to assist with increased workload and in improving the budgeting system and process. (An increase of 1.0 FTE.)

Department of Personnel:

- The Personnel Technician position was reclassified and downgraded to a Personnel Assistant position.

Department of Police:

- A new Police Officer position in the Field Services Bureau was added to assist with increased police work. (An increase of 1.0 FTE..)
- Transfer of the Code Enforcement and Community Enhancement to this Department. (An increase of 8.5 FTEs.)

Department of Public Works:

- Deleted the Sanitation Superintendent position in the Refuse Operations Division. (A decrease of 1.0 FTE.)
- A new Water Treatment Plant Operator Trainee was added as part of succession planning for the retirement of experienced staff in FY 2007. (An increase of 1.0 FTE.)
- The Pedestrian/Bikeway Coordinator position was reclassified to a Transportation Planner position.

Department of Recreation and Parks:

- Deleted were: a part-time Kids Club Director in the After School Program; four part-time Childcare Directors and one Childcare Group Leader in the Childcare Program; and two Golf Technician positions. (A total decrease of 8.4 FTEs.)
- A new Sanitation Worker was added to the Parks and Facilities Management Division. (An increase of 1.0 FTE.)

Summary of Position Changes FY 2005 – FY 2006

The following tables summarize the overall regular and temporary position changes (measured in FTEs or full time equivalents), by department, from FY 2004 to FY 2005.

Regular Positions by Department:	FY 2005 Adopted	Additions	Deletions	FY 2006 Adopted
Mayor and Council	5.5	0.0	1.0	4.5
City Manager	16.1	5.0	0.0	21.1
Community Planning and Development Services	44.0	2.0	1.0	45.0
Finance	27.5	1.0	0.0	28.5
Information and Technology	21.0	0.0	0.0	21.0
Community Services	27.0	0.0	13.5	13.5
Personnel	8.0	1.0	1.0	8.0
Police	68.5	9.5	0.0	78.0
Public Works	154.0	1.5	1.5	154.0
Recreation and Parks	<u>157.8</u>	<u>1.0</u>	<u>8.4</u>	<u>150.4</u>
Regular Position FTE Total	<u>529.4</u>	<u>21.0</u>	<u>26.4</u>	<u>524.0</u>

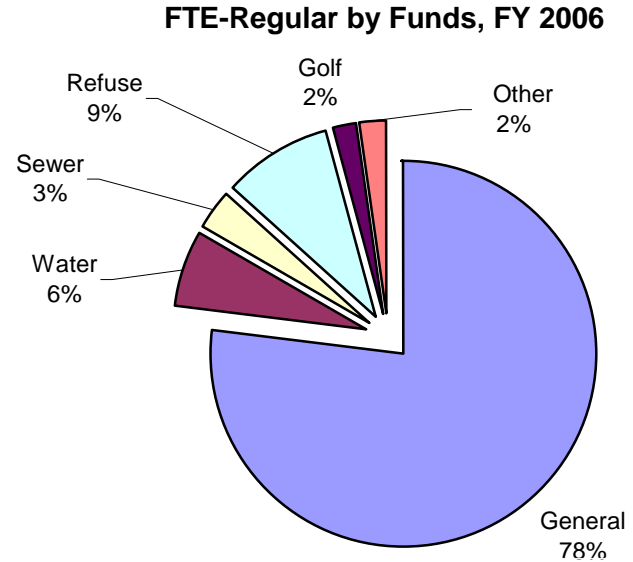
Temporary Positions by Department:	FY 2005 Adopted	Additions	Deletions	FY 2006 Adopted
Mayor and Council	0.6	0.1	0.0	0.7
City Manager	0.8	0.0	0.0	0.8
Community Planning and Development Services	0.2	0.4	0.0	0.6
Finance	0.1	0.0	0.0	0.1
Information and Technology	2.2	0.0	0.1	2.1
Community Services	0.2	0.0	0.1	0.1
Personnel	0.1	0.0	0.0	0.1
Police	1.5	0.0	0.0	1.5
Public Works	12.2	0.0	0.8	11.4
Recreation and Parks	<u>77.3</u>	<u>0.2</u>	<u>0.0</u>	<u>77.5</u>
Temporary Position FTE Total	<u>95.2</u>	<u>0.7</u>	<u>1.0</u>	<u>94.9</u>
Grand Total FTEs for all Positions	<u>624.6</u>	<u>21.7</u>	<u>27.4</u>	<u>618.9</u>

Full Time Equivalent Positions by Fund

Each City of Rockville position, whether regular or temporary in status, is allotted a full-time equivalent (FTE). The FTE associated with each position is then charged against a fund (or funds) determined to be most appropriate to that job, based on the scope of work being performed. Benefits provided with each position are offered on a pro-rata basis based on the FTE count. The charts below list the regular FTEs (top chart) and the temporary FTEs (bottom chart) by fund. The charts listing the allocation of regular and temporary FTEs by department is on the following page.

Regular Positions:	FY 2004 Actual	FY 2005 Actual	FY 2006 Adopted
General	408.6	404.7	403.6
Water Facility	30.8	31.5	33.3
Sewer	14.0	15.4	16.5
Refuse	50.1	49.5	48.4
Parking	2.0	2.0	2.5
Stormwater Management	5.0	5.0	6.0
RedGate Golf Course	12.8	10.8	10.8
Special Activities	1.0	0.0	0.0
Community Development Block Grant	1.0	1.0	0.9
Capital Projects Fund	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Regular Position FTE Total	<u>527.3</u>	<u>521.9</u>	<u>524.0</u>

Temporary Positions:	FY 2004 Actual	FY 2005 Actual	FY 2006 Adopted
General	84.2	79.4	79.4
Water Facility	0.0	0.4	0.4
Sewer	0.0	0.4	0.4
Refuse	7.2	9.0	8.7
Parking	0.1	0.0	0.0
Stormwater Management	0.3	0.8	0.8
RedGate Golf Course	5.5	5.2	5.2
Special Activities	1.4	0.0	0.0
Community Development Block Grant	0.0	0.0	0.0
Capital Projects Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Temporary Position FTE Total	<u>98.7</u>	<u>95.2</u>	<u>94.9</u>
Grand Total FTEs for all Positions	<u>626.0</u>	<u>617.1</u>	<u>618.9</u>

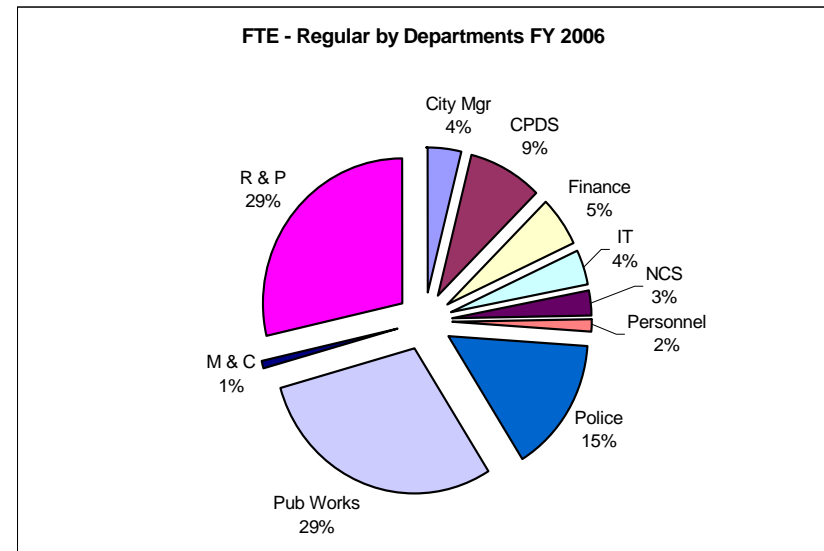
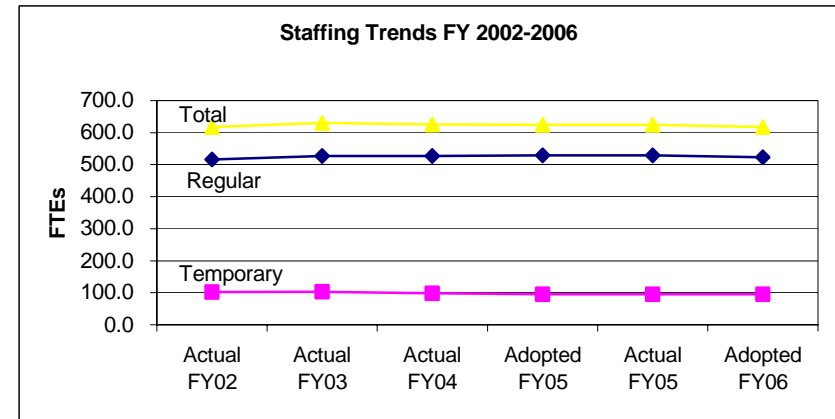


Full Time Equivalent Positions by Department

The charts below list the allocation of regular FTEs (top chart) and temporary FTEs (bottom chart) by department.

Regular Positions:	FY 2004 Actual	FY 2005 Adopted	FY 2005 Actual	FY 2006 Adopted
Mayor and Council	5.5	5.5	5.5	4.5
City Manager	16.1	16.1	16.1	21.1
Community Planning and Development Services	44.0	44.0	44.0	45.0
Finance	27.5	27.5	27.5	28.5
Information and Technology	21.0	21.0	21.0	21.0
Community Services	27.5	27.0	27.0	13.5
Personnel	8.0	8.0	8.0	8.0
Police	68.5	68.5	68.5	78.0
Public Works	150.0	154.0	154.0	154.0
Recreation and Parks	<u>159.2</u>	<u>157.8</u>	<u>150.3</u>	<u>150.4</u>
Regular Position FTE Total	<u>527.3</u>	<u>529.4</u>	<u>521.9</u>	<u>524.0</u>

Temporary Positions:	FY 2004 Actual	FY 2005 Adopted	FY 2005 Actual	FY 2006 Adopted
Mayor and Council	0.6	0.6	0.6	0.7
City Manager	0.8	0.8	0.8	0.8
Community Planning and Development Services	0.2	0.2	0.2	0.6
Finance	0.1	0.1	0.1	0.1
Information and Technology	2.2	2.2	2.2	2.1
Community Services	0.4	0.2	0.4	0.1
Personnel	0.0	0.1	0.1	0.1
Police	1.5	1.5	1.5	1.5
Public Works	10.1	12.2	12.2	11.4
Recreation and Parks	<u>82.8</u>	<u>77.3</u>	<u>77.1</u>	<u>77.5</u>
Temporary Position FTE Total	<u>98.7</u>	<u>95.2</u>	<u>95.2</u>	<u>94.9</u>
FTE Total	<u>626.0</u>	<u>624.6</u>	<u>617.1</u>	<u>618.9</u>



Budget Development Process

General — The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a six-year capital improvement plan is presented for the Council's review. The Mayor and Council schedule and publish advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance. The City amends the budget throughout the fiscal year as needed.

FY 2006 Operating Budget — In October 2004, City Management and Budget staff presented to Mayor and Council the FY 2006 financial picture and alternative scenarios, and sought and obtained general directions and guidance in preparing the FY 2006 Budget.

Management and staff conducted a review of operations and projects as well as cost-reduction exercise. A number of cost reduction suggestions were incorporated into the departmental budget submissions. In December 2004, established targets and worksheets were distributed to departments. In January and February 2005, the City Manager held meetings with the senior management team and division heads to discuss priorities for the coming year.

A preliminary worksession took place on February 22, 2005 with the Mayor and Council to discuss general budget issues and obtain definitive directions in preparing the proposed FY 2006 Budget. The collective recommendations of the senior management team formed the basis for the City Manager's recommended budget.

During March 2005, the budget staff prepared the FY 2006 Proposed Operating Budget and FY 2006 - FY 2011 Capital Improvements Program for presentation to the Mayor and Council on April 4, 2005. After further review and discussion between the Mayor and Council and the senior management team, public hearings were held on April 18, 2005 and April 25, 2005, to solicit citizen responses to the proposed budget.

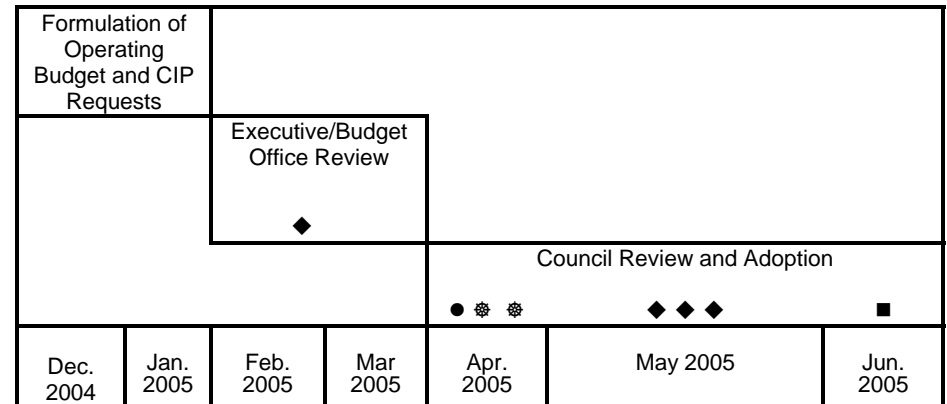
Following the public hearings, the Mayor and Council conducted worksessions on May 2, 2005, May 16, 2005 and May 17, 2005 to discuss the budget prior to adoption. The Mayor and Council approved the budget and adopted ordinances, which set forth the property tax rate, the water and sewer rates, and the refuse charge on June 13, 2005.

During June and July 2005, the budget staff prepared and implemented the FY 2006 Adopted Operating Budget and FY 2006 - FY 2011 Capital Improvements Program. The adopted budget for FY 2006 took effect on July 1, 2005.

FY 2006 Capital Improvements Program — In October 2004, the City Manager solicited requests from departments, neighborhoods, and homeowners associations for Capital Improvements Program (CIP) projects. The due date for submitting requests was October 29, 2004. Staff evaluated all requests received for inclusion in the proposed budget. A list of the requests and actions taken is located on pages 8-9 in the CIP overview section of the CIP Book (separate).

The proposed operating budget and CIP are available on the City's Web site (www.rockvillemd.gov) and highlights are available on *The Rockville Channel* (Ch.11) and in *Rockville Reports*. The adopted budget document will be made available to departments, agencies, schools, libraries, media, and the public by September of each year.

The chart below is a monthly time-line of the major components of the FY 2006 budget development process.



- Presentation: April 4, 2005
- * Public Hearings: April 18, 2005
April 25, 2005
- ◆ Worksessions: Feb. 22, 2005
May 2, 2005
May 16, 2005
May 17, 2005
- Adoption: June 13, 2005

Organizational Chart

