

FY 2011 Budget Review, September 16, 2010
Arthur Alexander, Treasurer

The May 13, 2010 Village council meeting adopted a resolution that a thorough budget review be held at the September council meeting to examine expenses. This report presents an analysis to support that review.

Comparative Analysis: Is the Village of Martin's Additions profligate or frugal? One way to answer this question is to compare the Village's expenditures to all 157 municipalities in Maryland. To do this, I compiled a comprehensive database of financial statistics from a variety of state and online sources. The figures in Tables 1 and 2 are for FY2007, except income per capita, which comes from the 2000 census.

Table 1 shows Martin's Additions, together with its neighbors, ranking the measures from highest to lowest across the state. Population, for example, ranges from Rockville's 59,400 to 19 in Port Tobacco. Table 2 lists expenditures per person. The Village's population puts it near the lowest third statewide. Population has two opposing effects on spending. Larger size often means economies of scale; therefore, larger towns typically spend less per person on an item. However, there is also an opposing effect: as programs become less expensive per person, municipalities tend to do more. New York puts on Shakespeare in Central Park; Martin's Additions could not afford it. On the average, expenditures per person tend to rise with population across Maryland's municipalities.

Table 1: Key Characteristics of Martin's Additions and Neighboring Municipalities

State Rank	Municipality	Population	State Rank	Municipality	Income, per capita, \$	State Rank	Municipality	Assessed property per capita, \$
59	Chevy Chase	2,786	1	Chevy Chase Village	95,174	6	Chevy Chase Village	366,839
70	Chevy Chase Village	2,094	2	Somerset	82,368	8	Somerset	294,243
74	Kensington	1,929	3	Chevy Chase	70,325	9	Chevy Chase	273,147
90	Somerset	1,159	4	Chevy Chase, Five	60,893	10	Martin's Additions	241,859
98	Garrett Park	947	5	Martin's Additions	59,502	11	Chevy Chase, Three	228,281
101	Martin's Additions	894	6	Chevy Chase View	58,916	13	North Chevy Chase	218,522
102	Chevy Chase View	893	7	Chevy Chase, Three	58,916	16	Chevy Chase, Five	201,903
105	Chevy Chase, Three	789	10	Garrett Park	50,305	17	Kensington	201,597
111	Chevy Chase, Five	655	12	North Chevy Chase	43,499	18	Garrett Park	196,932
121	North Chevy Chase	480	18	Kensington	35,919	21	Chevy Chase View	166,354

Table 2: Municipal Expenditures, FY2007

State Rank	Municipality	Expenditures per capita, \$
20	North Chevy Chase	328
25	Chevy Chase Section Three	352
40	Chevy Chase View	431
85	Martin's Additions	648
94	Somerset	721
107	Kensington	825
109	Chevy Chase Section Five	840
113	Garrett Park	859
140	Chevy Chase	1,264
150	Chevy Chase Village	1,738

Source: Maryland Department of Legislative Services, *Local Government Finances in Maryland, Fiscal Year Ending June 30, 2007*.

Martin's Additions is wealthy in both income and property. Income per capita places us in 5th place. In fact, neighboring communities comprise the seven wealthiest in the state. The same general proposition is true for the assessed value of property, which is the base for the property tax. A few communities include

a good deal of nonresidential property; Luke (75 people and a paper mill) has \$1.5 million per person. Both income and the assessable property tax base drive local expenditures.

Martin's Additions spending is near the middle of all municipalities, despite its high income and property base. Our expenditures per person are roughly double North Chevy Chase and one-third Chevy Chase Village. A "best fit" prediction of expenditures based on the key variables shown in Table 1 projects Martin's Additions' spending at \$761, somewhat more than actual—a result that holds up under alternative estimation methods.

I would conclude from the evidence that Martin's Additions is not profligate, but rather on the low side of spending, given its income, property tax base, and population.

Differing preferences: Before discussing the budget in detail, we should note two important points. First, values and preferences differ among the residents. One example: during the heated budget discussion in June, people on my block uniformly suggested cutting out the community events because they had little value. Given those comments, I was surprised to hear quite the contrary view in emails and at council meetings, namely that the events give meaning to the Village as a community. It is clear that we cannot both have and not have a Halloween party. The job of the council as an elected body is to consolidate these views in light of the available resources and revealed preferences of the community.

Past decisions: Second, several explicit decisions made in the past reflected the general views at the time. Among those decisions was the choice to establish an independent municipality. Another was to rent an office to conduct Village business, where records could be stored, service providers and residents could appear or call up for Village business at regular hours, and council meetings and other public events could occur. We hired a part-time assistant for backup when the manager was out of the office and to assist in administrative matters. The goal was a higher level of service than had previously been possible. These decisions consciously entailed higher expenditures, some—but not all—of which are reimbursed through various mechanisms. Questioning expenditures based on these past decisions really means reopening the earlier choices, which we think is not appropriate for the current budget deliberations.

How we got here: Approximately two-thirds to three-quarters of the Village's revenues are from the 17% of state income tax paid by residents that is remitted to municipalities. By design, property tax in Martin's Additions has not been a significant revenue source.

With a booming economy and rising income tax revenues, actual spending in FY2008 was \$734,000, the highest in the Village's history. The initial budget for FY2009 increased that amount to \$764,000, but as the economy deteriorated, the council reduced spending such that the final figure came to \$580,000, the chief casualty being capital improvements to streets and sidewalks. Unexpectedly, actual revenues from the Village share of the state income tax jumped \$175,000 above the plan; the excess went into reserves.

For FY2010, projected revenues were revised downward, but not enough to reflect the actual collapse of state and county revenues. The initial budget included more than a quarter-million dollars for capital improvements, much of which was to be financed by reserves, built up for just such purposes. Most of those projects were canceled. Additional savings were found in legal fees and elsewhere, but snow removal pushed total expenditures to \$671,000. The final figure was \$270,000 below the initial budget document, \$250,000 of which was accounted for by the cancellation of the capital projects, and \$20,000 from other savings.

Current budget choices: As the council addressed the FY2011 budget, it was clear that revenues were likely to fall even further. The decision was made to increase the property tax rate, which had been *the*

second lowest of any municipality in the state. In addition, expenditures were scrutinized for more savings.

Professional fees have been singled out by residents as a potential place to seek savings. Some are non-recurring—adopted for specific contingencies such as implementing the building ordinances. Others are regular. Legal fees, which had been as high as \$50,000 in recent years, were cut to \$25,000. One source of reduction arose from resolving a situation that had required advice; another source of savings is scheduling council meetings in a way that reduces the need for counsel.

Accounting and auditing fees also were identified as a possible place for savings. The council decided to continue using professional accountants rather than in-house methods for several reasons. First, an annual audit is required by the state. In past years, when accounting was performed in-house, the records for the audit frequently were inadequate. Moreover, the county and state now require numerous reports based on standardized accounting approaches and definitions; our professional accountant is experienced and familiar with these requirements. In addition, we think that monthly accounts based on developed municipal definitions are a useful management tool for judging the ongoing state of Village finances.

The budgeted \$25,000 for professional advice on building and zoning is significantly offset by the fees imposed on construction projects. The Council has the authority to set permitting fees to reflect the actual costs associated with issuing and supervising permits. As we refine our understanding of these costs, we will have the opportunity to adjust the fees. The benefits from building and zoning advice include the timely review of building plans and construction to assure that they conform to Village codes. We have seen neighboring jurisdictions allow grossly out-of-code variances because the violations were discovered only at or near completion of construction, at which time it was felt to be too onerous to impose the codes.

Two other areas of savings deserve mention. Spending on community events has been reduced from more than \$20,000 in recent years to \$5,000. Happily, the July 4 event has been under-written by private individuals. The second item is sidewalk snow removal for those unable to do it themselves. It may surprise many residents to know that the cost of sidewalk shoveling has run roughly three times the cost of street snow removal—more than \$50,000 last year. That item is now budgeted at \$5,000 for Brookville Rd.

Other one-time or non-continuing items have been eliminated or reduced. These include the cost of recycling bins and the professionals needed for establishing the Village building ordinances.

Conclusion: We are closely reviewing ongoing expenditures and requests for new projects with an acute eye on the tight budgetary situation. For example, the Village manager recently renegotiated the big-trash and yard waste contracts, which generated more than \$3,000 in lower costs. We welcome residents' suggestions for other such savings.

Delaying capital improvements can have longer-term costs. The reserve fund had been expected to cover some of these expenditures, but the current budget problems delayed those plans. As a buffer against unforeseen circumstances, we aim to preserve our reserve fund above one year's expenditures. Until we can rebuild the fund, only unusual or emergency projects will be funded from the reserves.