

## **Alliance of Rockville Citizens Budget Analysis FY10**

Good Evening, My name is Roald Schrack. I speak tonight for the Alliance of Rockville Citizens. This analysis reflects a recent budget meeting. I want to praise the city for the October 27, 2008 briefing on the budget that showed early concern for our current economic situation. The five year budget forecast given last October had 3 five year projections: Best case, current estimate, and worst case. The best case scenario closely tracked the FY09 City Budget proposal on page 4-2. The worst case scenario of six months ago now tracks the current FY10 City Budget Proposal (again on page 4-2). Our expectations for the future are steadily declining.

Similar declines at the state and county level are reflected in losses of expected revenue to the city this year and in future years. Federal stimulus funds have been a welcome assist but may not be available next year.

The major source of revenue for the city is the property assessable base. This year the city assessable base increased only 1.6% as compared to the previous year increase of 13.3%. Much of this reduction is due to the reassessment of residential property in about half the city that occurred January 2009. The second half of the city will be reassessed on January 2010. Unless there is a radical improvement in housing prices before then, ( of which there is no indication) the city property assessable base may actually drop for FY11.

Due to the state law that restricts real estate tax increases to 10% per year, the current taxable assessments this year will reflect housing values 5 years ago. We have a couple of 10% increases coming before we catch up even to today's depressed values. City property taxes will thus increase this year by 10% (and probably also in FY11). It will probably not be until FY12 that taxes begin to reflect the new, lower housing values in the city.

The city is extremely fortunate that unlike the county and the state, Rockville can present a budget this year that will allow a \$100 tax rebate. The city should not reduce the tax rate from the present 29.2 cents because of the lower assessments that will soon come into play for the residential properties. They represent 60% of the total city property assessable base. The remaining commercial property assessable base is determined by the earning power of commercial properties. Economic conditions may reduce the earning power of commercial properties which will in turn be reflected by reduced revenues for the city from commercial properties too.

During work sessions a number of changes have been made in the budget. The parking garages in Town Center have been more heavily subsidized by continuing to allow free parking on weekends and after 7 pm until October. In addition free parking coupons have been planned for city residents and the fine for over parking has been reduced. These changes seem justified as the retail shops and restaurants have experienced difficult times.

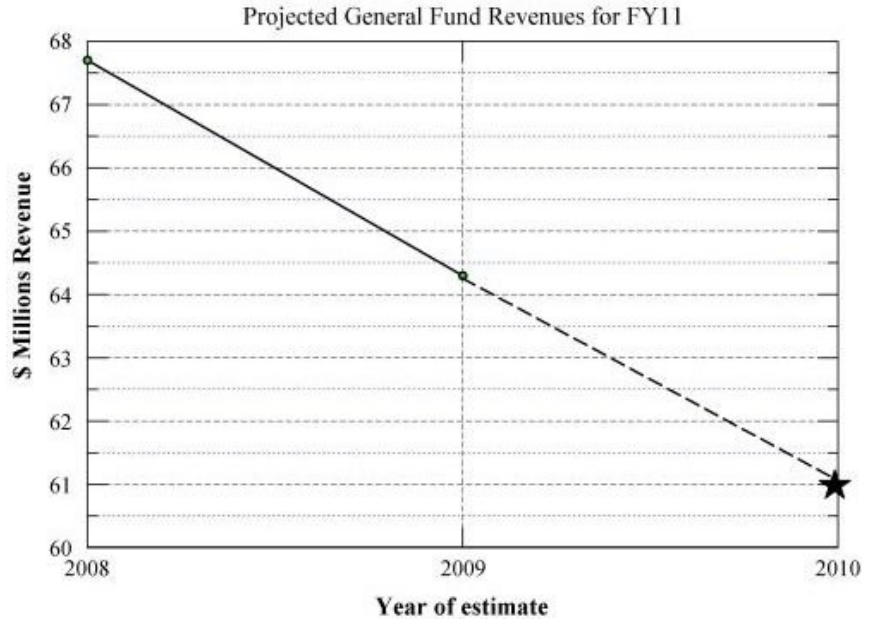
A large number of capital projects that were in the FY09 budget have been dropped in the FY10 budget. The loss of these projects represents a decline in city services. Recently monies from the General Fund not used during a previous year have been used to finance capital projects. Because of declining revenues available for General Fund expenditures, the city would be wise to stop using current revenues for capital projects and instead rely on notes and bonds to finance capital projects as is the usual practice.

I am including some graphs that you may find helpful.

Thank you for your attention.

## Graphs for Budget Analysis FY10

This graph shows the projected loss of revenue for the General Fund for FY11 using the values given in the 5 year projections in the FY09 and FY10 budgets. The actual revenues in FY11 may be more or less than this projected value. This projection is presented as cautionary and shows why it is dangerous to reduce the tax rate this year because the revenue for next year may be even less than the 5 year projections given in the FY10 document



The graph below has been included in previous budget presentations. It is included again because it is still very instructive. The step marked “10” shows the taxable assessment of the average home in Rockville is \$450,000 for the FY10 tax bill. The curve marked “Market value of home” is shown as solid up until 2009. The dashed curve after 2009 is shown as a possible projection. Note that I expect the market values to continue to drop this year and finally start back up in 2010. This projection was made over a year ago and may be unduly pessimistic. In any case the curve of market value as shown would indicate that there is another 10% increase in taxable assessable base ( going from 10 to 11) that will occur for FY11.

### Assessment of Average Rockville Home

