CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
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June 23, 2022

BY E-MAIL
Mayor and City Council of the City of Annapolis
160 Duke of Gloucester Street
Annapolis, Maryland 21401

Re: Financial Advisory Commission Report on Proposed Collective Bargaining Agreements for UFCW Local 400 (Police), IAFF Local 1926 (Fire), AFSCME Local 3162 (Clerical and Technical), and AFSCME Local 3406 (Labor and Trades) ("CBAs")

Dear Mayor Buckley and Members of the City Council:

The Mayor and City Council referred Resolution 31-22 to the Financial Advisory Commission ("FAC") for our review and advice. This Resolution, if adopted by the City Council, would ratify two-year CBAs between the City and the four labor unions that represent employees in the City's four bargaining units identified above.

As discussed below, certain financial aspects of these CBAs compound the concerns expressed in the FAC's May 17, 2022, letter to the City Council on the City's FY 2023 budget. Collectively, these proposed CBAs substantially worsen the structural deficit that the FAC warned needs to be addressed without further delay. If adopted, these CBAs will place the City almost inevitably on the path towards raising taxes, laying off employees, cutting services or taking all of these actions in some combination as early as FY 2025.

In sum, the City Council must think long and hard about the consequences and the available options before ratifying the CBAs in their current forms.

Background

The FAC was provided with and reviewed the four CBAs and the Staff Report and Fiscal Impact Note dated June 8, 2022, for Resolution 31-22. The FAC also received presentations from and engaged in detailed discussions with the City Manager, Finance Director, Human Resources Manager and Assistant City Attorney about the CBAs and negotiations that led up to the CBAs. These presentations and discussions revealed that the collective bargaining negotiations were conducted under the specter of rising inflation (approximately 8%), wage scales contended to underpay some City employees as compared with other local government jurisdictions, and, with respect to the Police Department, perceived challenges recruiting new employees and retaining current employees.

As negotiated, the key financial components of the four CBAs are as follows:

UFCW Local 400: Significant increased adjustments to the wage scale and a 2.5% COLA to the wage scale in each fiscal year of the agreement.

IAFF Local 1926: Increased adjustments to the wage scales; a 2.5% COLA in each year of the agreement; and a $3,000 one-time payment each fiscal year.

AFCSME Local 3162: 2.5% COLA in each year of the agreement and a $3,000 one-time payment each fiscal year.

AFCSME Local 3406: 2.5% COLA in each year of the agreement and a $3,000 one-time payment each fiscal year.

In addition to these financial enhancements for members of the four collective bargaining units, the City will provide similar COLA and one-time payment enhancements to non-represented and exempt employees.

As reflected on the "Approximate Fiscal Impact of Economic Provisions in Union Contracts" that is part of the Fiscal Impact Note, the price tag for these financial aspects of the CBAs is significant. The estimated cost of these and several other economic benefits in FY 2023 is approximately $5,600,000, and in FY 2024 is approximately $5,700,000. These amounts are over and above the costs to the City under the expiring CBAs. So, over the two years of the CBAs, the costs to the City would increase cumulatively by approximately $11,300,000.

Financial Concerns regarding the CBAs

In the FAC's recent report to the City Council regarding the proposed FY 2023 budget, the FAC stated:

> However, in light of the uncertainty as to how the City, State and rest of the country will emerge from the COVID-19 pandemic's economic impacts, and the possibility of looming inflationary pressures and supply-side dislocations in the overall economy, the City must continue to remain extremely vigilant in managing expenses and revenues going into what may be an even more challenging FY 2024 and, thereafter, FY 2025. Ongoing efforts must be intensified to <u>reduce or eliminate structural deficits</u> for when federal revenue infusions have ended. <u>These financial planning efforts must begin now</u>.

The economic aspects of the CBAs noted above (pay scale adjustments, COLAs and one-time $3,000 payments in each of two fiscal years) do not heed the FAC's warning regarding the

City's structural deficit. This economic package is far more costly than the City had anticipated at the beginning of the FY 2023 budget process and prior to completion of negotiations of the CBAs. To fund this added financial burden without increasing property taxes during the next two years, the City will have to (i) dig further into federal ARPA funds, reducing the amount of ARPA funds available for other needs in FY 2023 and FY 2024, and (ii) use the City's reserve funds. In the alternative, and as an illustration of the magnitude of the burden, the FAC estimates that the pending concessions in the four CBAs would equate to more than a $0.07 increase in the real property tax rate in each of the next two fiscal years for City taxpayers.[1]

Without a designated or reliable revenue stream to fund the increased expenditures required by the CBAs, the FAC anticipates that these expenditures will lead to an increase in the City's structural deficit in future years that will outpace and outlast the remaining ARPA funds. This structural deficit is not sustainable. The City may hope that upcoming property reassessments will generate additional property taxes as an enhanced revenue source. However, in light of the current high rate of inflation and challenged commercial property sector in Annapolis, an increase in commercial assessments cannot be assured. Likewise, there is no assurance that residential property assessments will grow as rising mortgage interest rates may portend a potential softening in real estate resale values. Additionally, no meaningful new revenue stream has been identified as available to the City to help address the structural deficit.

Without a reasonable and realistic plan to address the structural deficit that is likely to continue, the only alternatives in the not-too-distant future may be a property tax rate increase or a significant curtailment of expenditures, including reductions in programs and services and personnel costs. To avoid this result, the FAC again cautions that the City Council must begin now to identify a financially sustainable path forward. These CBAs meaningfully aggravate the fiscal concern the FAC previously identified.

Conclusion

The FAC believes the City Council has the following options available for consideration to address the concerns raised by the FAC:

1. Renegotiate the CBAs to retain the proposed $3,000 annual payments for each of the two fiscal years covered by the CBAs and eliminate the 2.5% COLA in each of the same two fiscal years. In addition, restructure the pay scale for Police to reduce the proposed pay increase for recruits while providing appropriate pay enhancements for retaining full-time police officers after a defined period of employment with the City of Annapolis; *or*

[1] . It is estimated that a $0.01 rate per $100 of assessed market value yields approximately $738,000 in revenue for the City. To cover the approximately $5.6m - $5.7m annual estimated costs of the CBAs would require a tax rate increase of approximately $0.076.

2. Ratify the CBAs, and then identify a new revenue stream and/or pass a property tax rate increase and/or implement cuts in services to account for the expenditure increases in the four CBAs, so as not to add to the structural deficit. The FAC urges limiting the expanded use in FY 2023 of the remaining ARPA funds so that they can be available for FY 2024 as originally anticipated. The FAC questions the prudence of using the City's reserve funds. Overall, the City should work toward reducing the structural deficit in anticipation of a likely challenging financial environment for the FY 2025 budget.

It is the FAC's opinion that the City Council must consider the financial dynamics driving the City's pending structural deficit and take reasonable actions, such as those outlined in this letter, now.

Sincerely,

Frederick C. Sussman

Frederick C. Sussman, Chair

cc: David Jarrell, City Manager (By e-mail)
Jodee Dickinson, Finance Director (By e-mail)
Tricia Hopkins, Human Resources Manager (By e-mail)
Regina C. Watkins-Eldridge, City Clerk (By e-mail)
Financial Advisory Commission Members (By e-mail)