

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
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May 15, 2017

BY E-MAIL

Mayor and City Council of the City of Annapolis
160 Duke of Gloucester Street
Annapolis, Maryland 21401

Re: Ordinance 12-17 (City's FY 2018 Operating Budget)

Dear Mayor Pantelides and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC") to explain the Commission's concerns regarding Ordinance 12 -17 (City's FY 2018 Operating Budget). The City Council referred Ordinance 12-17 to the FAC for review and recommendation. At this point, all that was available to the FAC for consideration was the Mayor's proposed budget. The FAC discussed the Mayor's proposed lean budget with the Finance Director and City Manager.

First, the Mayor's proposed FY 2018 Operating Budget represents a reasonable spending plan with one significant exception. For several years the FAC has strongly urged the City to increase and maintain its unrestricted fund balance and to not use unrestricted fund balance as a revenue source to fund appropriations that are recurring and reasonably can be anticipated. Last year we wrote to you: "The accumulated fund balance exists for the purpose of addressing significant financial stress caused by an economic downturn or consequential unanticipated financial emergencies. Neither of these two conditions exist to warrant drawing down the unrestricted fund balance. The direction and trend of the City's fund balance will doubtless be noted by the bond rating agencies and will be likely to affect the City's bond rating in the future and thus the City's ability to borrow money for necessary capital investments."

The City has made good strides in achieving unrestricted fund balance objectives. It is troubling to see that the Mayor's proposed FY 2018 budget uses approximately \$330,000 of fund balance as a revenue source for the annual sidewalk replacement program. The FAC agrees that the sidewalk replacement program is an operating expense but disagrees that fund balance should be used for this purpose. Rather, the FAC urges that sidewalk replacement be funded entirely with PAYGO. In order to raise the PAYGO revenue to fund the sidewalk replacement program, the City Council should reject the proposed property tax rate decrease, maintain a constant tax rate from FY 2017, and use the additional tax revenues raised to fund the sidewalk replacement program.

Second, for several years the FAC has urged the City to engage in performance based budgeting to provide better transparency to the budget process, to allow a comprehensive evaluation of budgetary priorities, and to provide enhanced accountability for expenditure of funds. Although such a budgeting process takes several years to fully implement, the City had begun to make strides towards implementation in FY 2017. Therefore, it is distressing to the FAC to hear that the City abandoned a performance based budgeting approach for FY 2018 and has reverted to the more traditional line item budget process. The FAC urges the Mayor City Council to resume performance based budgeting for FY 2019.

The FAC thanks you for the opportunity to weigh in on the proposed FY 2018 operating budget. The FAC stands ready to review and comment on further iterations of the FY 2018 operating budget as it progresses through the legislative process.

Sincerely,

Frederick C. Sussman

Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Bruce Miller, Finance Director (By e-mail)
Thomas Andrews, City Manager (By e-mail)
Jacquelyn Lee, Legislative and Policy Analyst (By e-mail)
Regina Watkins-Eldridge, City Clerk (By e-mail)