FY 2015 Budget Report of
The Finance Committee
of the Annapolis City Council
May 12, 2014

<u>Finance Committee Members</u>
Alderman Ian Pfeiffer, Ward 7, Chairman
Alderman Ross Arnett III, Ward 8
Alderman Fred Paone, Ward 2

EXECUTIVE SUMMARY

The Finance Committee has reviewed the Mayors Budget and, with extensive and invaluable help from the Finance Director, his staff, the City Manager, his staff and all of the Department Heads, we offer the following report to the City Council.

The Finance Committee met 18 times after the introduction of the Mayor's Budget on March 10, 2014. The Committee met with Finance Staff, The City Manager and all of the City Departments.

The Finance committee looked at many options including fees, fines, taxes and decreased expenses to address the 1.8m budget shortfall in the budget and the continued deficits in the Transportation Budget.

At the final meeting of the Finance Committee to consider amendments to the Mayor's budget on May 8, 2014, Acting City Manager Woodward appeared before the committee and raised questions about the budget drafting process. It should be noted that Acting City Manager Woodward was not serving in his current role when the Mayor's budget was delivered to the Council in March, so the committee took his concerns very seriously.

As the key administrative professional in our system of government, he is uniquely positioned to suggest budget revisions that can be supported by the department heads and the Mayor. He asked to be given the responsibility to work with his department heads and the Mayor to suggest a package of cuts and potential revenue increases to address the 1.8m budget shortfall in the budget. The Committee voted 2-1 to table further deliberations of the FY'15 budget, until the Acting City Manager and the Mayor deliver a package that speaks to their shared ideals and benefits from their professional expertise.

The Mayor and City Manager delivered a proposal to address the shortfall on May 12, 2014. The committee is in receipt of this proposal and they are included here as Appendix A.

Introduction

The finance Committee began the budget process this year by reviewing the goals and priorities of the committee and the council. The following are the guidelines agreed upon by the committee:

Finance Committee Objectives

The Committee set several objectives for our deliberations. First, we needed to make the Mayor's Budget legal. That is, we had to find spending cuts to compensate for the $1.8 million of furloughs called for in the Mayor's Budget. We also determined that we needed to analyze the long term structural spending problem facing the City. Also, we asked the Finance Director and Acting Director of the Transportation Department to give us options to bring that budget back into balance. We also decided that we must come to grips with the City's long-term debt status. Finally, we evaluated all of the City's revenue sources other than property tax to see if there was budget relief from changes to these sources. This Report sets forth our findings on each of these analytical areas.

Goals

- Balance the Budget – Make Legal
- No Increase in Property Taxes
- Structural Cuts
    - Ones that will carry over into the next years
    - Go After Top-heavy Layers of Administration
    - Fair Distribution of Cuts
    - Look for Revenue Increases to Mitigate Reductions in Spending
- Increase Fees and Fines Where Available and as Appropriate
- Other Revenue Sources
- Reduce Capital Costs
- No New Bond Issuances
- Reorder Capital Projects
- Move Capital spending to paygo
    - Through Review of revenue sources
- Fees & fines
- Personal property taxes

Guidelines

The City of Annapolis should have budgeting policies that:

- Are sustainable
- Are forward looking
- Provide professional service
- Maintain our capital facilities and equipment in good working order
- Provide management and internal controls to assure minimum waste
- Meet voter expectations for programs, services, and taxes

<u>Sustainability</u>: The budget policies should be capable of being consistently applied from year to year. We should not lurch back and forth between feast and famine. Taxpayers should understand what to expect in upcoming years, and employees should expect that their jobs have stability, provided they do their jobs well and the City policy towards their functional area remains constant.

<u>Forward Looking</u>: The budget should consider the impact current decisions will have on future years. The IBB agreement was a one-time event that has distinct, new ongoing expenses in each of several years. The CIP proposes $13 million in bond-funded projects this year, which will inevitably lead to substantial debt service and depreciation in future years. Next year's capital spending will have a similar delayed effect on future years, etc. Historically the Council has only tried to balance the current-year budget. When the built-in future expenses arrive, they are an unplanned "surprise" and lead to budget crises such as the one we face this year.

<u>Provide professional service</u>: If the City is to engage in a program or service, the City should provide the staff, training, and other resources to deliver the program or service in a professional manner. It is self-destructive to hire professionals and starve them of the resources needed to do their jobs well. If the City cannot provide the resources, the City should look at cutting the program or service.

<u>Maintain our capital facilities and equipment in good working order</u>: Ongoing maintenance is expensive, and something frequently cut on a "temporary" basis. Temporary turns into permanent, and as a result we have facilities in need of big-ticket repairs. Our budgeting policies should have the discipline to continue with maintenance and repair annually. We have seen the start of this with roads, sidewalks, water, sewer, and vehicles. The policy needs to be extended to our buildings, parks, and other facilities.

<u>Provide management and internal controls to assure minimum waste</u>: It is essential that we are good stewards of the taxpayers money and as such must have robust internal controls and other cost saving measures to insure that money is well spent.

<u>Meet voter expectations for programs, services, and taxes</u>: As a City, our product is a set of programs, services, capital facilities and infrastructure. We must "produce" to certain standards in order to provide our "customers" with a satisfactory experience that they perceive as valuable. As elected officials, Council members are given the responsibility for striking this balance and, ultimately, our electorate will be the judges.

Our discussion is handicapped by the fact that we lack a vocabulary for discussing our programs and services. There has been talk of identifying "core services". An important first step is enumerating just what services and programs the City does provide. This will enable us to talk about services and service levels.

In general terms, most residents would consider Police, Fire, Water, and Sewer to be essential services. There is less unanimity of opinion regarding what level of those services is appropriate. Moving beyond those four, priorities are less clear: A person with no car has little use for a stellar road network or parking, but may value transit services. A person with no boat may have little use for the harbor. Perhaps it would be good for some of us to use the Recreation Center a bit more than we do. And so forth. On top of these, there are functions that are essential to having the government simply operate, but don't constitute programs or services that, in themselves, our "customers" value: finance, Human Resources, facilities, and Information Technology, to name a few.

In the course of discussing and evaluating programs and services, inevitably the council members must put our values on the table. It will be relatively easy to agree on a minimal level of essential services. However, we do not ascribe to the notion that "provide a minimal level of essential services" is our sole mission. We also have a responsibility to provide for a vibrant economy and to look after the health & welfare of our citizens. Both of these mean efforts that exceed the minimum, that imply services such as public transit and historic preservation that we would not otherwise consider. Each member of the Council will bring different perspectives and values. This segment of the Council's discussion of budgeting principles is barely begun.

Mayors Budget

On March 10, 2014 Mayor Pantelides presented both his State of the City Address and his budget proposal for fiscal 2015. In his address the Mayor made several salient points that bear repeating in this Finance Committee report to the City Council. First the Mayor promised to provide essential City services, "…without raising taxes." As presented the Mayor's Budget holds total spending at fiscal 2014 levels and does not raise property taxes.

The Mayor went on to enumerate several factors that put new spending pressure on fiscal 2015 over those felt in fiscal 2014. These changes include union contract agreements that add a costs of living wage adjustment (a COLA covering a three period starting in FY14), increased contributions to the Police and Fire Pension Plan, and the establishment and funding of a retiree health benefits fund; all with a FY15 cost of $2.4 million dollars. Other cost increases in FY15 are $2 million rise in debt service, employee health insurance cost predicted to raise by $340,000, workers compensation claims increases of $403,000, and general insurance cost increases of $163,000. On the other side of the ledger, revenue is declining by $1.7 million in fiscal 15. This all adds up to about $7 million in monies that need to be found just to hold the line at fiscal 2014 levels. Finally, prudence dictates the new budget include a surplus of at least million dollars (the proposed budget exceeds this minimum).

So the Mayor was faced with an $8 million nut to crack just to remain at the fiscal 2014 budget levels. His proposed budget solves all but about $1.8 million of this problem. He then came, "to the difficult decision of proposing furloughs." This "solution" has two flaws. First $1.8 million in furlough does not cut spending by that amount because of what will be an increased need for overtime spending, especially in the area of public safety. More important, furloughs require agreement from the bargaining units and they all immediately rejected the idea. The Mayor's budget also ignores a major source of deficit spending in the past, that of the big cost overruns in the Transportation Department.

Problem Statement

Thus, the City Council Finance Committee has been handed an unbalanced budget with a long standing unaddressed problem with Transit, a long-term structural spending problem, and a growing long-term debt problem. To be sure, these problems are not new and have been noted in past Finance Committee Reports to the Council.

In 2013 the finance committee recommended:

The creation a multi-year plan for dealing with OPEB, pension obligations and fund balance. The evaluation of the complimentary services of the City, for example, free parking and special events fee waivers. The committee intends to seek input from the *public, staff and appropriate committees with the intention of recommending changes to the full council.*

In 2012 the finance committee noted:

In general the Committee finds favor with any spending that addresses restoring fund balances, reducing debt, and funding liabilities. *The Mayor proposes new spending for fleet replacement, creating a revolving fund for such replacement rather than borrowing to purchase new vehicles. Sidewalk repair is a long standing liability for the City and a public safety issue for residents, business and visitors (we need to begin the process of bringing our sidewalks up to code).* ***The City has been negligent in its obligation to the Police and Fire Pension Plan. The pension is underfunded by over $21+ million and we must restart payments into the pension fund. Even more egregious is our unfunded liability for retiree health benefits (OPEB), now estimated by our actuaries as a deficit of $46+ million and growing steadily.*** *Finally, the Committee supports the Administration's plans to address the huge unfunded liability for City infrastructure such as water, sewer pipe and storm drain systems, buildings and roads -- a liability estimated to be $120 million.*

In 2011 the Finance committee wrote:

The Committee recommends that the Administration prepare detailed projections of the costs of the City's long-term liabilities that relate to employee benefits – pension contributions, OEPB and Health Insurance – and other long-term liabilities – infrastructure, vehicles, etc.

The Committee recommends that the Administration develop a plan to address these and other long-term liabilities through the creation of trust funds or other appropriate measures for funding these costs.

The Finance Committee is very mindful of the January 11, 2014 report the Council received from the City's financial advisor, Davenport & Company, LLC, where they laid out the chronology of how we got into great financial distress starting in the around 2005 (see Appendix B). Through the implementation of sound financial practices, we have pulled back from that precipice, but we are still a long way from full recovery. The lesson the Finance Committee takes from this history is that now is not the time to sit back and congratulate ourselves.

Budget Hearing Process

The City Council Finance Committee met 18 times after the introduction of the Mayor's Budget on March 10, 2014. We have met with Finance Staff, The City Manager and all of the City Departments.

The Committee decided to take a new tack with the departmental hearings this year by limiting presentation time to a half hour and to the four questions below.

1. What is the difference between the FY 14 adopted budget and the FY15 proposed budget?
2. How does this impact the services you provide?
3. Staying within the budget constraints, what other alternatives would you recommend?
4. What revenue enhancements do you propose for your department?

City Departments

The Finance Committee met with all of the City Departments and discussed with them the changes in their budgets this year. The submissions from each department are summarized here and the actual submissions in their entirety are in Appendix C.

FIRE DEPARTMENT

Chief Stokes presented the Fire Department budget on March 18th along with Deputy Chiefs Simmons and Remaley.

The Chief stated that the AFD budget has a 1.4 million due to step and or negotiated pay increases, and increases in insurance costs. Despite the overall increase in budget there will be a reduction in force. The effects of that reduction will in that the duties of those individuals will now have to be done by the remaining employees. The Chief also expressed concerns about eliminating the quartermaster position as it was created to deal with a best practice issue created by the same person purchasing, ordering and inventorying supplies.

Chief Stokes and Deputy Chief Remaley addressed a question about the supervisory structure of the department. The chiefs pointed out that many of the supervisors are on the fire trucks not in desk supervisory roles.

EMERGENCY PREPAREDNESS AND RISK MANAGEMENT

Deputy Chief Simmons discussed the Emergency Preparedness and Risk Management budget. The chief stated that the Mayors Budget reduces the department by 2 positions and removes the dedicated emergency radio channel.

The Chief stated that it would create a challenge to handle a large incident and it could decrease grant funding as there would be less staff to apply for and manage grants. There would no longer be an emergency channel for interdepartmental communication in an emergency.

POLICE

Chief Pristoop presented to the committee on March 18, 2014 along with Captain Amoia.

The Chief stated that the Mayors budget reflected increased costs due to the IBB process, insurance etc. and a reduction in overtime by 200,000 by seeking detail pay reimbursement. The Mayors budget includes a reduction of 7 unfilled positions including five Police Officers and one Lieutenant and an increase in the supply budget to reflect actual spending.

RECREATION AND PARKS

Mr. J.P. “Flip” Walters and Mr. Brian Woodward presented the Recreation and Parks department Budget on April 1, 2014. They discussed staffing reductions in the Mayors budget at both the Stanton Center and the Pip Moyer Recreation Center.

They discussed concerns that any staffing reductions will bring a decrease in safety and quality of service at the facilities. Further they expressed concerns that any service reductions would bring corresponding reductions in revenue.

PLANNING AND ZONING

Dr. Sally Nash presented on the Planning and Zoning Budget on April 1, 21014 along with Mr. Tom Smith and Ms. Lisa Craig.

Ms. Nash stated that the primary change in their budget is the reduction of one filled position and one vacant position for a total reduction of $217,241.97 (a decrease of 16.09% in cash and an 18% cut in personnel).

Ms. Nash discussed the type of planning work that would be reduced by the reduction in staff.

DEPARTMENT OF NEIGHBORHOOD AND ENVIRONMENTAL PROGRAMS

Director of DNEP Broadbent and Chief of Environmental Programs Biba spoke on their departmental budget on April 8, 2014. Ms. Broadbent stated that The DNEP budget is proposed to be decreased in FY2015 by $120,743. This decrease eliminates funding for two positions, the Chief of Environmental Programs and the Environmental Program Coordinator. In addition, funding has been reduced in salaries due to the retirement of the plans reviewer, with a new employee starting a lower salary and reductions in the maintenance accounts for street trees and the unsafe structures.

Ms. Broadbent stated that the impacts of the staff reductions would include the reduction of environmental programs, the increase in lead time in permitting of projects and possible compliance issues with federal and state programs.

Ms. Broadbent discussed some proposed fee increases and contract reductions that could serve as alternatives.

HUMAN RESOURCES

Director of Human Resources Rensted discussed the HR Budget with the committee on April 8, 2014. Mr. Rensted stated that the reductions proposed in the budget include the elimination of one contractual Associate position as well as reductions in employee physicals, Labor Counsel, contractual services, professional services and supplies.

PUBLIC WORKS

Public Works Director Jarrell discussed the Public Works Budget with the committee on April 8, 2014 along with Assistant Director Patrick. Mr. Jarrell discussed proposed staffing cuts in Public Works as well as proposed cuts to contract services for Snow and Ice removal, security and grounds maintenance.

Mr. Jarrell discussed the potential impacts of these changes and some alternative suggestions to achieve the reductions.

OFFICE OF LAW

Acting City Attorney Murnane presented the Law Office Budget on April 15, 2014. Mr. Murnane stated that the primary change in the budget is a decrease in the use of outside council. Mr. Murnane also discussed workers compensation policy.

MAYORS OFFICE

Acting City Manager Woodward presented the Mayors Budget to the committee on April 15, 2014. Mr. Woodward stated that there are reductions in the supply and project budgets in the Mayor’s Office and an increase in the salary and benefits budget that reflects the city wide increase in salaries.

MANAGEMENT INFORMATION TECHNOLOGY

MIT Director Thorn presented the MIT section of the Finance Department Budget to the committee on April 15, 2014. Mr. Thorn stated that there are reductions in materials and supplies, training and education, and repair and maintenance. Contract services are proposed to be increased in FY 2015.

Mr. Thorn suggested raising revenues by charging “convenience fees” for various online services or at least payment transaction services.

PURCHASING

Procurement Office Brian Snyder presented on the Procurement off ic Budget on April 15, 2014. Mr. Snyder stated that the Mayors budget has a projected increase of 5.23% in Salaries and benefits and an operating account decrease of 74.4% due to the removal of a onetime expense of $40,000 for consulting services to review the efficiency of the Purchasing Department by consultants from the National Institute of Governmental Purchasing (NIGP).

TRANSPORTATION

Finance Director Miller and Mr. Woodward spoke on the Transportation Department budget on April 15, 2014 stating that they were looking in depth at that budget and would return with proposals for changes in the proposed budget. Acting Director of Transportation Duah presented to the committee on April 23, 2014. At this meeting Mr. Duah stated that the Transportation department needs to cut expenses by about 3 million dollars to bring the department in to balance. Mr. Duah presented an option for route changes that could address the deficit.

FINANCE DEPARTMENT

Finance Director Miller discussed the Finance Department administrative budget on April 23, 2014. Mr. Miller stated that the Mayors budget included an increase in salaries of $14,018.78 and an increase in benefits of $23,088.47. Despite an overall rise in salaries and benefits there were reductions of one position, savings from a reclassification, reduction of the supply budget, and reductions in professional services.

Mr. Miller stated that the staffing reduction would have little impact on services. The other listed reductions will not impact Finance Department services. Mr. Miller suggested the creation of a convenience fee for telephone or web payments could help recover the merchant fee service charges that we pay.

LEGISLATION

O-8-14 Annual Operating Budget: FY 2015 and O-9-14 Capital Improvement Budget: FY 2015 were referred to the Finance committee along with the following accompanying legislation R-11-14 Position Classifications and Pay Plan, R-10-14 FY 2015 Fees Schedule Effective July 1, 2014, R-12-14 Capital Improvement Program: FY 2015 to FY 2020.

The committee requested that additional legislation be drafted to update the Fines schedule and make changes to the code on Water and sewer charges. On Monday May 12, 2014 the city council will introduce R-21-14 Fine Schedule for City Code Violations and O-20-14 **Water Service Charges** at the request of the Finance Committee. These pieces of legislation are being introduced to address the need to raise some fees and fines to balance the budget.

The Finance committee will report on the legislation at their meeting on June 3, 2014.

Finance Committee Recommendations

FY2014 Budget

- The Committee accepts the CIP for existing funds with an amendment to move up the Barbud Lane project and the Admiral Heights Entrance Median project.
- The committee recommends that the city not sell more bonds for the foreseeable future and start moving CIP projects to Pay-Go
- The committee asks the departments to review the CIP and recommend which projects need to be addressed in light of upcoming fund reductions.
- The committee recommends the fee schedule with an overall change of the minimum fee from $25 to $35 and some specific fee increases to address costs.
- The committee recommends changes in the Fine schedule to increase the minimum fine from $25-$35
- The committee recommends the formation of a subcommittee of the Finance committee to meet regularly and make suggestions for structural changes to the city budget.
- The committee recommends the reinstatement of critical environmental positions in the DNEP and Planning and Zoning departments. These expenses are offset by proposed fee increases.
- The committee recommends the reinstatement of the Transportation inspector. This expense is offset by proposed fee and fine increases.

Long Term Recommendations

- Develop two year budgets
- Have Departments develop their own budgets with budget parameters from the council, including the Mayor
- Finance Department to receive departmental budgets, performing collation and validation
- Finance Department to supply budget analysis along with provision of:
    - *Proforma* spreadsheets
    - CIP budget with analysis of staffing requirements and debt service commitments
    - Fee schedule with analysis of validity and sustainability
    - Pay schedule along with analysis of out-year consequences of staffing and pay grade levels
    - Provide key measures such as fund balances, cash flow analysis, five year projections, and comparisons of audited numbers versus appropriated budget.
- Hire a City Auditor
- Add sinking funds to prefund infrastructure replacement and to more accurately reflect actual annual spending levels

City of Annapolis
Budget Adjustments

		As of May 12, 14 $
Budget Reconciliation		
	Furlough Days	1,800,000.00
	Add:	
	Transportation Transition Costs	300,000.00
	Sub-Total	300,000.00
	Less:	
	Addition In Fees	300,000.00
	Increase In Personal Property	500,000.00
	Sub-Total	800,000.00
	Adjusted Balance	1,300,000.00
City Manager Salary		
	Decrease In City Manager Salary	(14,700.00)
	Associated Benefits	(2,646.00)
	Office Associate	(6,000.00)
	Elimination of Assistant City Manager	(98,430.00)
	Associated Benefits	(19,890.10)
AEDC		
	Bring AEDC under City; reduce budget to $200,000	(100,000.00)
Finance		
	Change Staffing to Senior Accountant from Accountant	30,000.00
	Associated Benefits	5,100.00
Human Resources		
	Professional Services	(7,000.00)
Planning and Zoning, Contract Services		
	Contract Services	(37,500.00)
	Office Administrator	(68,514.00)
	Office Administrator -Benefits	(25,332.52)
	Planning and Zoning Current Planning	122,200.00
	Associated Benefits	21,554.00
Police		
	Increase Attrition	(300,000.00)
Fire		
	Correction 2 staff-	(220,000.00)
	Associated Benefits	(65,600.00)
	Increase Attrition	(300,000.00)
	Office Associate III; Contract	32,100.00
DNEP		
	Chief Environmental Programs	113,000.00
	Associated Benefits	20,910.00
	Environmental Programs Coordinator	(25,000.00)
	Associated Benefits	(11,000.00)
	Eliminate 1 Administrative Position	(40,000.00)
	Associated Benefits	(15,800.00)
	Supplies	(12,000.00)
	Contract Services	(13,000.00)
Public Works		
	Salary / Benefits Reduction-	(142,000.00)
Parks and Recreation		
	Salary / Benefits Reduction-	(75,000.00)
Dock		
	Eliminate Dock Administrative Assistant	(68,000.00)
	Associated Benefits	(17,760.00)
Community Grants - reallocation		

		As of May 12, 14 $
	Community Grants - decrease to $150,000	(50,000.00)
	Community Grants - Special allocation to Bates Legacy	25,000.00
	Community Grants - Special allocation to Four River	25,000.00
Other		
	Reduce Dock Subsidy by increasing fees	(50,000.00)
Mayor		
	Contract Services	5,000.00
Elections / Council for Board of Supervisors		
	Legal Services	10,000.00
	Subtotal	(1,375,308.62)
	Net Change - Increase to Fund Balance	(75,308.62)
OTHER FUNDS		
Transportation - Restore Transit Inspector		
	Taxi Permits	(41,540.00)
	Salary	68,514.00
	Benefits	25,332.52
Parking		
	Add; Parking Enforcement (recommended 2 additional positions)	70,000.00
	Benefits	42,600.00
	Additional Fees	(112,600.00)
Harbor Master		
	Contract Services - Grant Funded	
	Add; part-time admin / financial support	25,000.00
	Subtotal	77,306.52
	Net General Fund Adjustments	1,997.90
Solid Waste		
	Salary and Benefits	60,000.00

Davenport & Company

Discussion Materials Prepared for:

City of Annapolis, Maryland

Saturday, January 11, 2014

Agenda Items

Introduction & Presentation Objectives

Introduction & Presentation Objectives

- Davenport & Company LLC ("Davenport") serves the City of Annapolis ("City") as Financial Advisor. The role of the Financial Advisor is to provide unbiased, independent advice in the areas of bond issuance, credit rating management, and strategic financial planning.
  - By rule, a municipal financial advisor has a fiduciary duty to put the City's interests ahead of its own interests.
- Davenport serves the majority of counties in Maryland as Financial Advisor, as well as several cities/towns in the Baltimore-Washington region, including Alexandria, Bowie, Fairfax, Falls Church, Frederick, Leesburg, and Vienna.
- Messrs. Ketterman and Mason have a combined 50+ years of experience in public finance, having served at various times as an issuer official, a senior credit rating executive, and a financial advisor.
- Today's presentation is intended to offer a data-driven, third party perspective on the City's recent financial challenges and path to fiscal recovery.

Credit Ratings

What are Credit Ratings?

- Shorthand symbol for credit risk.

- Provided by three major firms: Moody's Investors Service ("Moody's"), Standard & Poor's (S&P) and Fitch Ratings ("Fitch"), plus some very small niche firms.

- An opinion that measures **ability** and **willingness** to pay on time and in full.

- Most, if not all, cities in Maryland have one or more ratings and many use all three Rating Agencies.

The Importance of Credit Ratings to Annapolis

- Drive the cost of capital – good ratings lower future debt service, placing less pressure on the budget.
- Enhance opportunities to capture refunding savings when market conditions permit.
- Provide market access and liquidity, even during turbulent economic times.
- Support economic development by being seen as a creditworthy partner.
- Provide independent feedback on City management and community direction.

Credit Spreads versus the 30 Year AAA MMD			
June 2003- September 2008			
Rating	Min	Max	Average
AA	0.04%	0.15%	0.10%
A	0.15%	0.60%	0.28%
BBB	0.30%	1.00%	0.56%
October 2008- Present			
Rating	Min	Max	Average
AA	0.08%	0.33%	0.20%
A	0.39%	1.26%	0.79%
BBB	0.79%	2.58%	1.66%

Source: Thomson Reuters Municipal Market Data ("MMD") curve.

The City's Historical Credit Ratings

- The City holds a General Obligation credit rating with each of the three major Credit Rating Agencies.

- A history of the City's rating with these Agencies is shown below and on the following page:

Moody's			
Rating	Action	Outlook	Date
Aa3	Affirmed	Positive	May 2013
Aa3	Affirmed	Stable	June 2012
Aa3	Downgraded	Negative	March 2011
Aa1	Affirmed	--	December 2010
Aa1	Revised	--	May 2010
Aa2	Affirmed	--	June 2009
Aa2		--	January 1998
Aa		--	1986

Source: Moody's Rating Analysts.

The City's Historical Credit Ratings (continued)

- The City's historical S&P and Fitch ratings are as follows:

Standard & Poor's			
Rating	Action	Outlook	Date
AA+	Upgraded	Stable	May 2013
AA	Upgraded	Stable	November 2001
AA-	Upgraded	Stable	April 1995
A+	Upgraded	Stable	August 1991
A+	Upgraded	--	January 1988
A	Upgraded	--	June 1986
A-	Upgraded	--	October 1984
BBB+	Downgraded	--	October 1982
A+		--	November 1974

Fitch			
Rating	Action	Outlook	Date
AA+	Affirmed	Negative	May 2013
AA+	Affirmed	Stable	June 2012
AA+	Downgraded	Stable	March 2011
AAA	Revised	Stable	April 2010
AA+	Affirmed	Stable	June 2009
AA+	Affirmed	Stable	August 2007
AA+	Affirmed	Stable	August 2005
AA+	Affirmed	Stable	June 2003
AA+	Initial	--	November 2002

Source: S&P and Fitch Rating Analysts.

The City's Current Credit Ratings

- Affirmed most recently in May 2013, the City enjoys very strong General Obligation credit ratings, as shown in the table below:

	Moody's	S&P	Fitch	
Top Tier "Highest Possible Rating"	Aaa	AAA	AAA	
2nd Tier "Very Strong"	Aa1	AA+	AA+	(Highest)
	Aa2	AA	AA	(Middle)
	Aa3	AA-	AA-	(Lowest)
3rd Tier "Strong"	A1	A+	A+	(Highest)
	A2	A	A	(Middle)
	A3	A-	A-	(Lowest)
4th Tier "Adequate Capacity to Repay"	Baa1	BBB+	BBB+	(Highest)
	Baa2	BBB	BBB	(Middle)
	Baa3	BBB-	BBB-	(Lowest)
5th – 10th Tiers "Below Investment Grade"	Ba, BB, B, Caa, CCC, Ca, CC, C, D			

Credit Rating Factors

- As shown on the previous page, the City has achieved very high credit ratings.

- Each of the three major Rating Agencies considers essentially four primary factors when evaluating a credit applicant.

- The four primary factors and subcategories are as follows:

  1. Economic Strength

     - Size and Growth Trend;
     - Type of Economy;
     - Socioeconomic and Demographic Profile; and,
     - Workforce Profile.

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Credit Rating Factors (continued)

2. Financial Strength
   - Balance Sheet and Liquidity;
   - Operating Flexibility; and,
   - Budgetary Performance.

3. Management and Governance
   - Financial Planning and Budgeting;
   - Debt Management and Capital Planning;
   - Management of Economy and Tax Base; and,
   - Governing Structure.

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Credit Rating Factors (continued)

4. Debt Profile

- Debt Burden;
- Debt Structure;
- Debt Management and Financial Flexibility; and,
- Other Long-Term Commitments and Liabilities.

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Rating Process

- The rating process begins with a rating presentation conducted by the Mayor, certain Senior Staff and Davenport. The presentation is very detailed and the material is reviewed and rehearsed prior to the actual meetings.

- The meetings, which may be held in either New York or in the City, usually last approximately 1.5 hours, including a period of follow-up questions by the primary Rating Analysts.

- Upon the conclusion of the rating meetings, the Analysts will evaluate the materials presented in conjunction with Federal and in-house databases to arrive at a recommended rating level.

- The actual final rating will be determined by a committee of 4-6 Rating Analysts who will vote on a specific rating following a presentation and discussion by the primary Analysts.

- The Analysts will notify the City by phone of the rating results and upon acknowledgement will issue a written rating report.

Recent Financial Problems & Recovery

Recent Financial Problems

- The 2000s saw a tremendous increase the City's property tax base and a high water mark in the City's fund balance reserves. Operating budget growth was obtainable without the need for changes to tax and fee recovery policy.

- As did many of its peers and neighbors, Annapolis chose to strategically use these accumulated resources (those in excess of the then informal fund balance policy) on one-time capital expenditures and to balance the operating budget. In essence the City accelerated its pay-as-you-go capital funding in lieu of taking on additional debt.

- This strategy seemed to work as the City's unreserved general fund balance gradually dropped from nearly 60% of budget in 2000, down to about 20% of budget in fiscal year 2007, but still ahead of its policy target of 15%.

- The City continued to take the same approach to its operating and capital budgets in fiscal years 2008 and 2009, again without any changes to revenue policy. Unfortunately, because of the previous spend down of reserves, the City was left with a diminished margin for error.

Recent Financial Problems (continued)

- The fall of 2008 witnessed the financial crisis and a deepening of the recession that began in late 2007. Revenue growth flattened overall, but expenditure levels were not commensurately pared back, leading to further reductions in reserves.

- The fiscal year 2009 budget was adopted with a use of fund balance of $1.8 million, ostensibly for one-time capital expenditures. The actual drop in fund balance for the year was $4.5 million, with recessionary revenue shortfalls and a litigation settlement contributing to the higher than expected deficit. The City fell below its minimum fund balance policy floor of 10% of budget, ending at 8.0%.

- By early 2010, the City's cash position was largely depleted and it was experiencing a cash flow crisis. The City had to resort to external liquidity (a credit line from Bank of America) to fund its operations. City staff arranged this bank loan, without consultation with Davenport. The City is fortunate that its liquidity crisis occurred in spring 2010, rather than fall of 2008, when the credit markets seized up on a world-wide basis.

Recent Financial Problems (continued)

- Recognizing that there were structural problems with the fiscal year 2010 budget, the City's new Mayor, with the support of City Council, froze discretionary spending, instituted layoffs, and took other budget balancing actions. The expenditure reductions were not sufficient to overcome revenue shortfalls and the year ended with a $1.3 million deficit, with fund balance falling to 6.2% of budget.

- During this time, it also came to light that the City's former Finance Director was using bond proceeds to fund operations and subsequently reimbursing the capital projects fund from future tax revenue. The problem was that the City was not generating sufficient revenue to repay the internal loan. This led to a second Bank of America line of credit.
  - While this practice is not technically illegal, it is a clear violation of financial best practices, which call for segregating bond proceeds for their intended purposes.
  - Neither City Council nor Davenport was aware of the former Finance Director's actions until shortly before he resigned in late summer of 2010.

- In December 2010, Moody's Investors Service became the first credit rating agency to recognize the deterioration in the City's financial condition by placing the City's Aa1 general obligation rating on Negative Watch.

Financial Recovery

- The fiscal year 2011 budget was the first developed by the Cohen Administration and it took several steps toward improving the City's finances:
  - Overall reduction in spending of nearly 14%;
  - Increased enterprise fund fees to reduce the drain on the General Fund; and,
  - Reduced estimated revenue by over 11% to more attainable levels.

[Please continue to the next page]

Financial Recovery (continued)

- The City Manager and new Finance Director knew, however, that the City was not going to be able to cut its way to prosperity. They therefore supported Davenport's recommendation to restructure a portion of the City's outstanding debt to simultaneously address the following:

  – City required capital improvements of nearly $97M through fiscal year 2016. Of that total, approximately $25M represented mandated capital water projects required to be funded in the near term.

  – Based on operating requirements of the utility and the previously incurred debt service costs, substantial utility rate increases would be required.

  – The City was dangerously reliant on external liquidity, which it might not have affordable access to if either market conditions deteriorated or the City's credit ratings were substantially downgraded.

- In spring of fiscal year 2011, the City sold the restructured financing of approximately $30M out of its outstanding indebtedness of $85.4M.

Financial Recovery: 2011 Restructuring

- The major goals achieved in the Restructuring were:
  - Provided immediate cash flow savings to the General Fund to bolster reserves and mitigate need for cash flow borrowings;
  - Obtain adequate funding for CIP, particularly the mandated utility projects; and,
  - Minimize utility rate requirements in meeting existing and proposed debt service.

- The City's goals were met and in the process "freed" nearly $18M in cash flow relief over 8 fiscal years compared to the then existing debt service.

Financial Recovery: 2011 to Present

- Davenport advised the City to expect one or more downgrades in connection with the Restructuring. The nearly decade long decline in City reserves, coupled with the liquidity crisis, and the misuse of bond proceeds were more than enough to elicit a negative response from the rating agencies. Ultimately, Moody's lowered the rating two notches to Aa3 and kept it on Negative Outlook, while Fitch cut its rating to AA+ (Stable) from AAA. S&P did not change its rating in 2011.

- While the downgrades were not welcome news, all three rating agencies gave the City officials who visited them high marks for addressing the City's problems head on and in a very transparent manner.

- Additional spending restraint and modest revenue enhancements in fiscal years 2012 and 2013 further bolstered the City's fund balance to the point that it has been able to all but eliminate short-term external borrowing. The City can once again rely upon its own working capital reserves to operate. External borrowing reached a peak of $18 million in 2009.

- The City is once again fully compliant with its adopted financial policies for fund balance.

- As of May 2013, the City's rating with Moody's, the most punitive agency in 2011, has a positive outlook and S&P upgraded its rating to AA+.

Other Managerial and Financial Highlights

- Restructured the operations of the Transit System to substantially reduce deficits.
- Based upon recommendations of independent auditing firm and bond counsel, took appropriate steps to segregate and restrict bond proceeds.
- Further delegation of specific duties and cross training of Finance employees to reduce “key person” risk.
- Installation of additional Munis models, such as: Fixed Assets, Human Resources and Budget. In process of implementing Utility Billing Model.
- Improved cash management controls with implementation of new banking services.
- Improved internal control environment with additional staff.

Other Managerial and Financial Highlights (continued)

- Enhanced reporting score and accuracy.
- Implemented Financial Best Practices and Policies, including Debt and Cash Management and Tax-Exempt Issuance Procedures.
- Improved Budget Practices, Strategic Planning and Pro-Forma Analysis.
- Implemented Financial Advisory Commission Work Plan.
- Established detailed multi-year CIP.

Past Refunding Opportunities

Past Refunding Opportunities

- Davenport maintains a database of all outstanding client bond issues. Performing a regular refunding or refinancing analysis, we are able to recommend bond refundings to issuers as soon as market conditions permit.

- These bond refundings have realized significant debt service or budgetary savings for the issuers well into the future.

- The pages that follow provide more detail for recent successful bond refundings conducted by the City.

Series 2013 Refunding of Series 2005A and B

- In 2013, the City refunded its portion of the Series 2005A and B Park Place Project Bonds by issuing both taxable and tax-exempt direct bank loans with SunTrust. In total, the refunding transaction represented $6.8 million in debt service savings, **$3.5 million** of which was related to the City's portion.

Debt Service Comparison: City Portion of 2013 Refunding			
Fiscal Year	Existing Debt Service	Refunding Debt Service	Debt Service Savings
2014	$325,449	$83,966	$241,483
2015	857,207	403,036	454,171
2016	876,030	584,437	291,592
2017	893,844	641,314	252,530
2018	913,542	701,240	212,302
2019	932,598	754,215	178,383
2020	951,530	810,240	141,291
2021	972,000	854,343	117,656
2022	992,067	871,970	120,097
2023	1,012,223	898,278	113,945
2024	1,033,508	918,168	115,341
2025	1,055,154	936,738	118,416
2026	1,076,418	963,828	112,590
2027	1,098,342	984,341	114,002
2028	1,120,739	1,008,275	112,464
2029	1,020,414	902,624	117,790
2030	952,530	833,932	118,597
2031	970,673	855,207	115,466
2032	988,686	870,064	118,622
2033	1,006,993	893,407	113,586
2034	1,025,985	910,138	115,846
2035	439,247	327,496	111,752
Total	**$20,515,178**	**$17,007,255**	**$3,507,922**

Note: Debt service savings figures above are for the City's portion of the Series 2013 Refunding only (taxable and tax-exempt direct bank loans). Existing debt service and refunding debt service shown net of debt service reserve funds in fiscal year 2035.

Series 2012 Refunding

- In 2012, the City competitively sold a series of bonds for new money and refunding purposes. The refunding portion generated more than **$350,000** of debt service savings, structured to maximize the impact of the savings in fiscal year 2013 in order to provide budgetary relief for the upcoming year.

Debt Service Comparison: 2012 Refunding			
Fiscal Year	Existing Debt Service	Refunding Debt Service	Debt Service Savings
2013	$541,300	$287,592	$253,708
2014	529,700	475,950	53,750
2015	494,000	490,125	3,875
2016	494,000	489,075	4,925
2017	494,000	488,025	5,975
2018	1,243,700	1,236,500	7,200
2019	1,242,500	1,238,800	3,700
2020	1,235,200	1,229,900	5,300
2021	1,236,700	1,234,700	2,000
2022	2,915,931	2,908,800	7,131
2023	2,915,300	2,910,800	4,500
2024	1,063,538	1,061,100	2,438
2025	1,058,216	1,056,350	1,866
2026	1,056,347	1,055,600	747
Total	**$16,520,431**	**$16,163,317**	**$357,114**

Financial Policy Guidelines

Financial Policy Guidelines

- The City's current Financial Policy guidelines are as follows:

  – **Debt as a Percentage of Assessed Value**

  The City will maintain its net bonded debt at a level not to exceed a ceiling of 3% of the assessed valuation of taxable property within the City, with a target ratio of 2%.

  – **Debt Service as a Percentage of General Government Expenditures**

  The City will maintain its annual net bonded debt service costs at a ceiling of 10% of the General Fund expenditures, with a target ratio of 8%.

  – **Debt Payout Ratio**

  The City will maintain a ten-year payout ratio (i.e. rate of principal amortization) for its net bonded debt of not less than 65%.

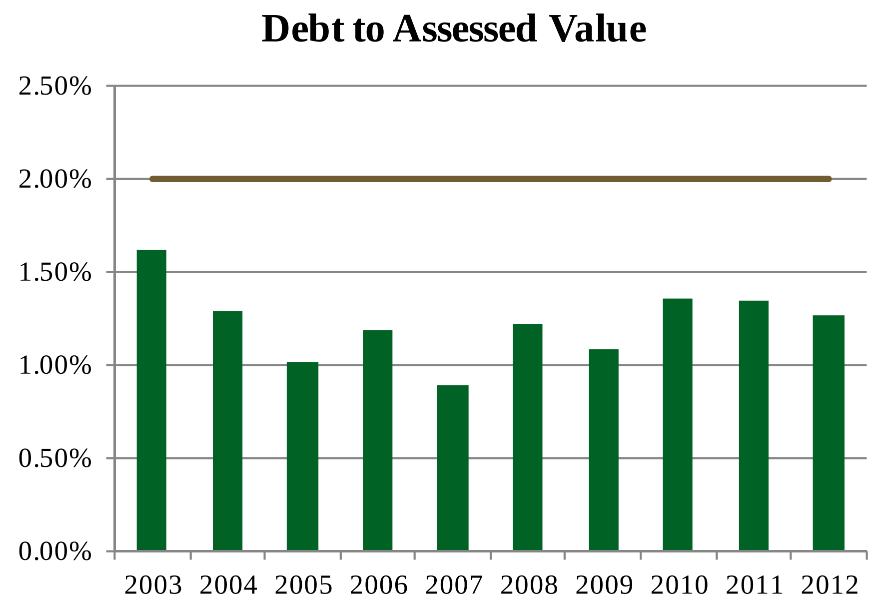
  – **Fund Balance**

  The City will maintain an unreserved General Fund balance at a level not less than 10% and a target of 15% of operating expenses of all funds.

Debt to Assessed Value

- The City's Debt to Assessed Value ratio has consistently remained well below the target policy level of 2%.

Fiscal Year	Total Bonded Debt	Assessed Value	Debt to Assessed Value	Policy
2003	$45,046,122	$2,786,719,148	1.62%	2.00%
2004	41,397,654	3,224,255,118	1.28%	2.00%
2005	37,595,196	3,709,072,022	1.01%	2.00%
2006	49,108,046	4,150,982,690	1.18%	2.00%
2007	44,838,310	5,043,267,785	0.89%	2.00%
2008	71,637,175	5,911,023,962	1.21%	2.00%
2009	65,358,273	6,040,939,755	1.08%	2.00%
2010	85,231,540	6,323,061,027	1.35%	2.00%
2011	86,590,528	6,437,267,368	1.35%	2.00%
2012	83,593,680	6,640,303,945	1.26%	2.00%

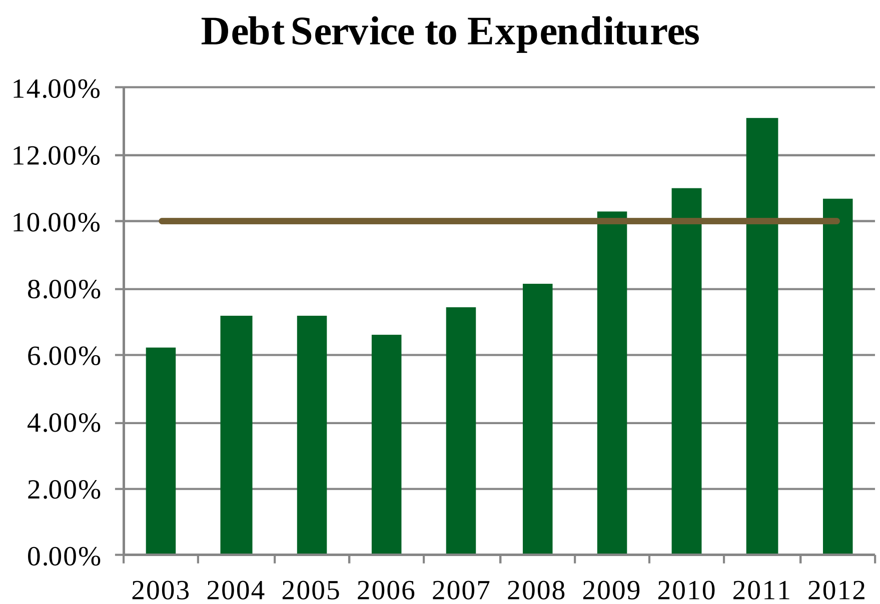


Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

Debt Service to Expenditures

- The City's Debt Service to Expenditures level is returning to within its target level of 10%.

Fiscal Year	Debt Service for General Bonded Debt	General Fund Expenditures	Debt Service to Expenditures	Policy
2003	$2,258,349	$36,339,285	6.21%	10.00%
2004	2,668,063	37,141,662	7.18%	10.00%
2005	2,786,989	38,745,129	7.19%	10.00%
2006	2,838,210	43,026,881	6.60%	10.00%
2007	3,315,079	44,507,379	7.45%	10.00%
2008	4,024,243	49,587,770	8.12%	10.00%
2009	6,029,119	58,555,154	10.30%	10.00%
2010	6,702,986	61,011,983	10.99%	10.00%
2011	6,624,230	50,627,948	13.08%	10.00%
2012	5,669,944	53,173,675	10.66%	10.00%



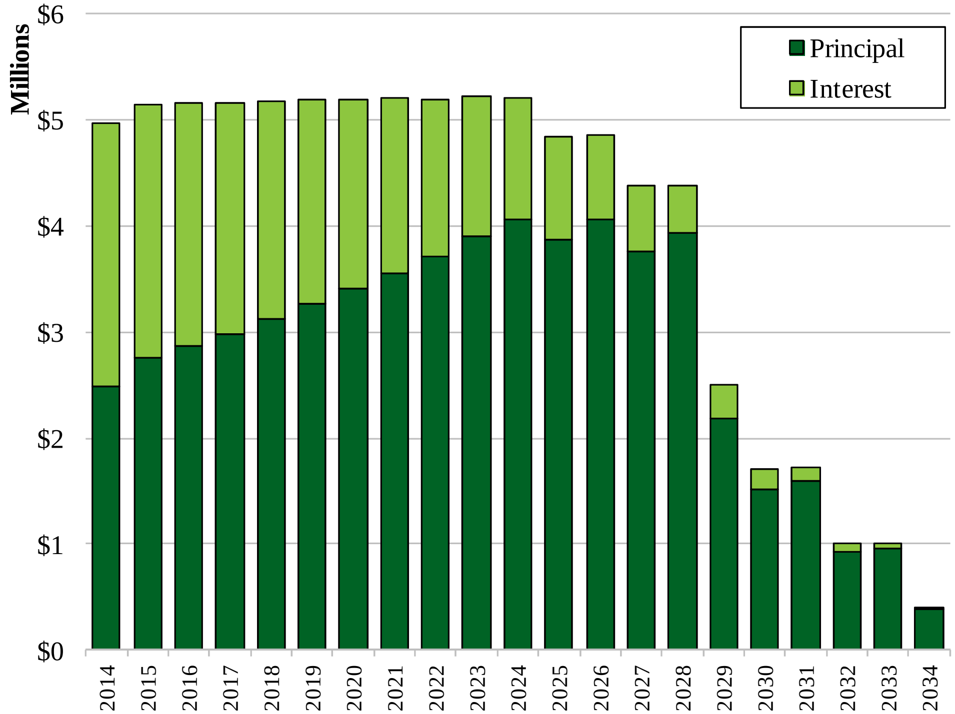
Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

Debt Payout Ratio

- The City's ten-year payout ratio, which is currently 61%, is slightly below its Financial Policy Guidelines level of 65%, but is above the "Best Practices" level of 50%.

General Fund Debt Profile

Fiscal Year	Principal	Interest	Total	Payout Ratio
Total	**$59,253,034**	**$24,291,684**	**$83,544,718**	
2014	$2,485,936	$2,473,285	$4,959,221	4.2%
2015	2,749,787	2,395,434	5,145,221	8.8%
2016	2,861,813	2,288,459	5,150,272	13.7%
2017	2,970,902	2,178,041	5,148,942	18.7%
2018	3,114,719	2,052,728	5,167,447	23.9%
2019	3,262,601	1,923,989	5,186,590	29.4%
2020	3,402,320	1,787,260	5,189,579	35.2%
2021	3,558,392	1,641,087	5,199,479	41.2%
2022	3,712,258	1,481,556	5,193,814	47.5%
2023	3,899,983	1,317,431	5,217,414	54.0%
2024	4,061,408	1,143,414	5,204,822	60.9%
2025	3,870,262	968,694	4,838,957	67.4%
2026	4,051,457	795,185	4,846,642	74.3%
2027	3,754,641	621,722	4,376,363	80.6%
2028	3,930,376	447,060	4,377,436	87.2%
2029	2,186,110	310,798	2,496,909	90.9%
2030	1,509,794	203,840	1,713,634	93.5%
2031	1,590,639	133,396	1,724,035	96.2%
2032	923,291	77,877	1,001,168	97.7%
2033	965,943	38,228	1,004,171	99.3%
2034	390,402	12,200	402,602	100.0%



Note: General Fund (i.e. Tax-Supported) debt shown above as of 6/30/2013. Includes General Fund portion of Series 2013 G.O. Bonds.

Resolution on Replenishing Fund Balance

- In June 2010, the City adopted the following Resolution to restore Fund Balance levels to be in compliance with its Financial Policy guidelines. This compliance was achieved in fiscal year 2012, ahead of the schedule detailed in the Resolution.

CITY COUNCIL OF THE CITY OF ANNAPOLIS

RESOLUTION NO. R-21-10

Introduced by Mayor Cohen

LEGISLATIVE HISTORY			
First Reading:	Public Hearing:	Fiscal Impact Note:	180 Day Rule:
06/07/10	06/14/10	06/11/10	12/11/10
Referred to:	Referral Date:	Meeting Date:	Action Taken:
Finance Committee	06/07/10		
Rules & City Gov't	06/07/10		
			Travels with O-22-10

A RESOLUTION concerning

Budgetary Reserve Funding Policy

FOR the purpose of approving a Budgetary Reserve Policy for the City of Annapolis.

WHEREAS, for Fiscal Year 2010, the City of Annapolis will not have maintained an unreserved general fund balance at the target of fifteen percent as established in the City Debt and Financial Administration Policy in Resolution R-38-07; and

WHEREAS, the City of Annapolis seeks to meet this target by Fiscal Year 2014 and to set forth the means by which to do so; and

WHEREAS, establishing a policy to provide for the consistent and gradual replenishment of reserve funds is in the City's best interests.

NOW THEREFORE BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL that the City's Budgetary Reserve Policy shall be as follows:

BUDGETARY RESERVE POLICY

EFFECTIVE DATE: JULY 1, 2011

Effective July 1, 2011, the City shall maintain a fund balance at a level not less than ten percent and a target of fifteen percent of operating expenses for all funds. Included in this

balance, at least five percent shall be in cash or cash equivalents, readily available to pay current expenses.

Should the targeted fund balance of fifteen percent, including at least five percent in cash, not be reached, the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base to fund the reserves.

Should the targeted fund balance of fifteen percent, including at least five percent in cash of cash equivalents, not be achieved by other means, in the Fiscal Year 2012 and Fiscal Year 2013 budget the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base in order to fund the reserves.

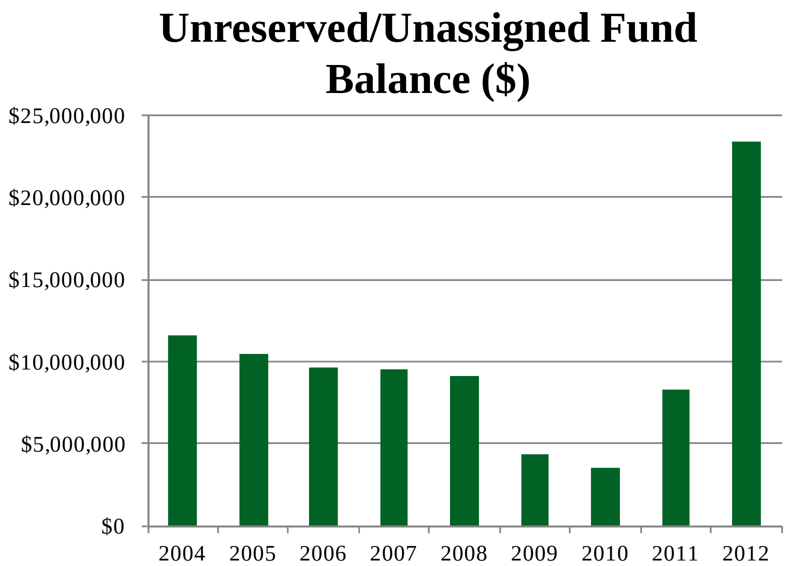
Should the targeted fund balance of fifteen percent, including at least five percent in cash or cash equivalents, not be replenished by the conclusion of Fiscal year 2013, the Council shall appropriate all necessary funds to satisfy the target reserve of fifteen percent as part of the Fiscal Year 2014 budget.

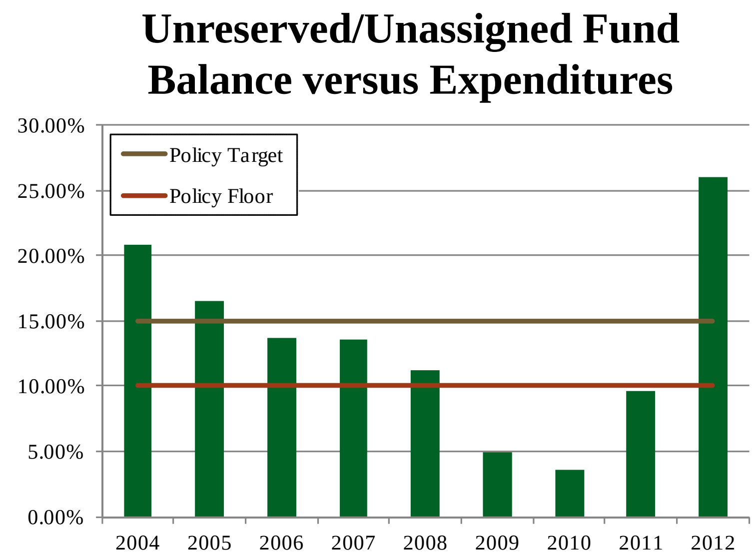
ADOPTED this 14th day of June, 2010.

ATTEST:	**THE ANNAPOLIS CITY COUNCIL**
______________________	BY: ______________________
Regina C. Watkins-Eldridge, MMC	**JOSHUA J. COHEN, MAYOR**
City Clerk	

Fund Balance

- The City returned to compliance with its Fund Balance policy during fiscal year 2012.





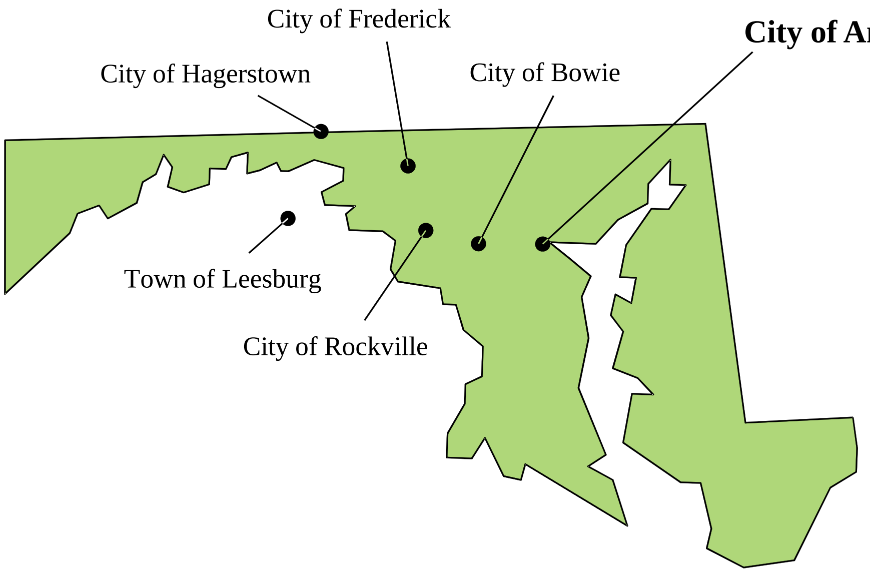
Fiscal Year	Total Expenditures	Unreserved/ Unassigned Fund Balance	Fund Balance versus Total Expenditures	Policy Floor	Policy Target
2004	$56,012,205	$11,649,131	20.80%	10.00%	15.00%
2005	63,814,997	10,515,594	16.48%	10.00%	15.00%
2006	70,581,705	9,619,912	13.63%	10.00%	15.00%
2007	70,305,180	9,534,721	13.56%	10.00%	15.00%
2008	81,521,893	9,124,610	11.19%	10.00%	15.00%
2009	89,024,457	4,407,708	4.95%	10.00%	15.00%
2010	97,060,845	3,478,434	3.58%	10.00%	15.00%
2011	85,527,393	8,279,541	9.68%	10.00%	15.00%
2012	90,057,973	23,387,107	25.97%	10.00%	15.00%

Note: For Fiscal Years 2011 and 2012, the Policy is calculated using Unassigned Fund Balance in accordance with GASB-54 standards.
Source: Fiscal Year 2012 Comprehensive Annual Financial Report, City of Annapolis Finance Department.

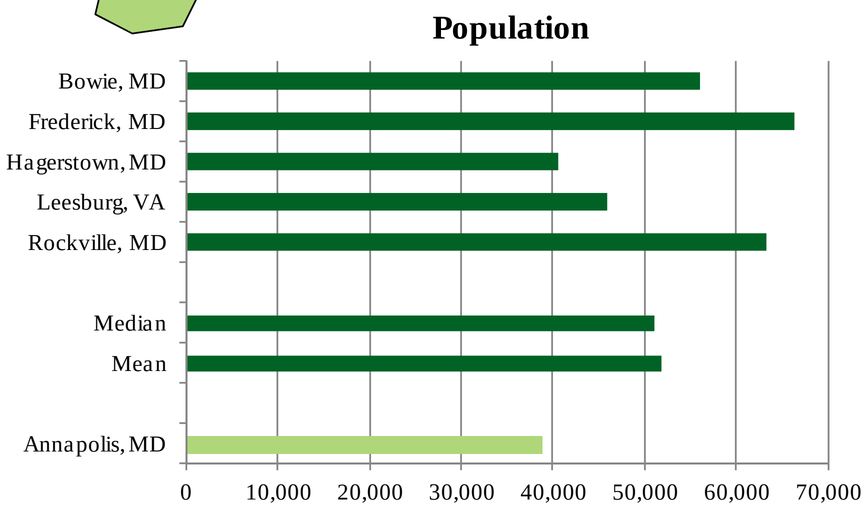
Peer Comparatives

Peer Comparatives

- The City of Annapolis compares favorably to other highly-rated cities/towns with similar populations in Maryland/Northern Virginia, as shown on the following pages.



Locality	Moody's	S&P	Fitch	Population
Bowie, MD	Aaa	AAA	AAA	56,129
Frederick, MD	Aa2	AA	AA+	66,382
Hagerstown, MD	Aa3	AA-	NR	40,638
Leesburg, VA	Aa1	AA+	AA+	45,936
Rockville, MD	Aaa	AAA	NR	63,244
Annapolis, MD	Aa3	AA+	AA+	38,620

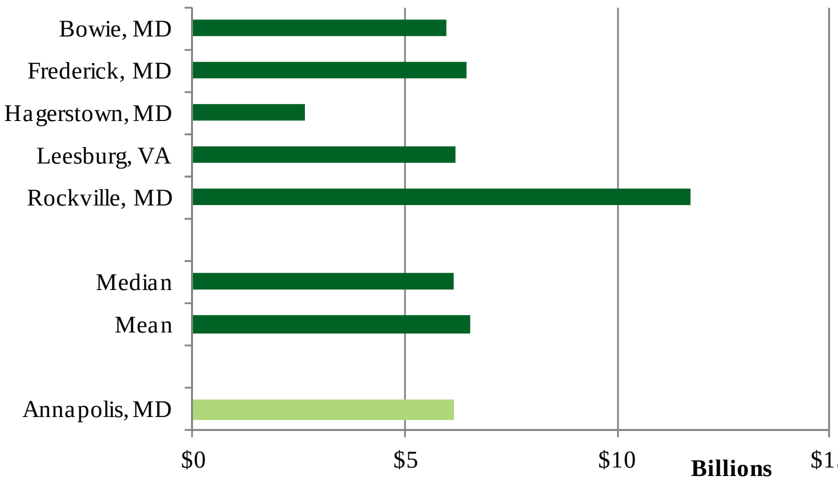


Source: Websites for Moody's/S&P/Fitch, respectively. Population Data is July 1, 2012 estimate per U.S. Census Bureau.
Note: All figures for the "Peer Comparatives" section from the Fiscal Year 2013 CAFR for each locality, except for City of Annapolis (figures from Fiscal Year 2012 CAFR, 2013 CAFR not available at the time of this presentation), unless otherwise noted.

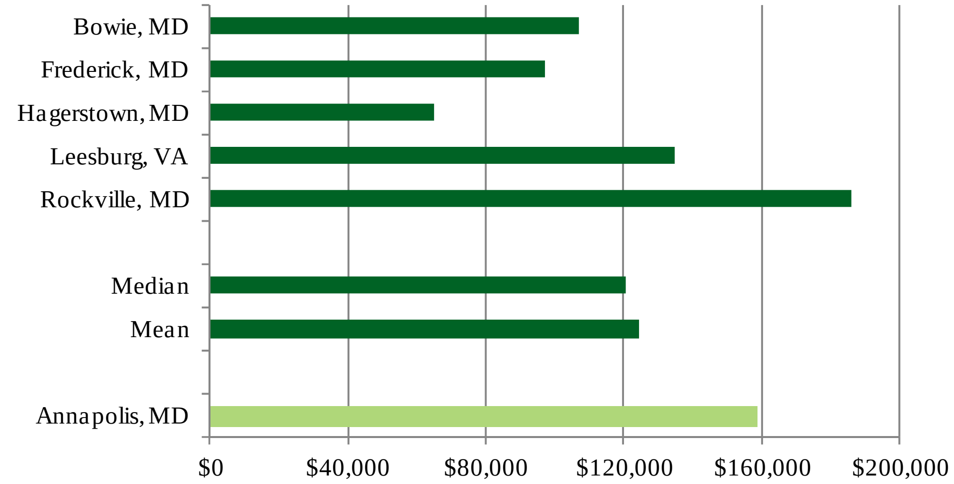
Peer Comparatives: Assessed Value

- The City's Taxable Assessed Value Per Capita is one of the highest of its Peer Group.

Total Taxable Assessed Value



Assessed Value Per Capita

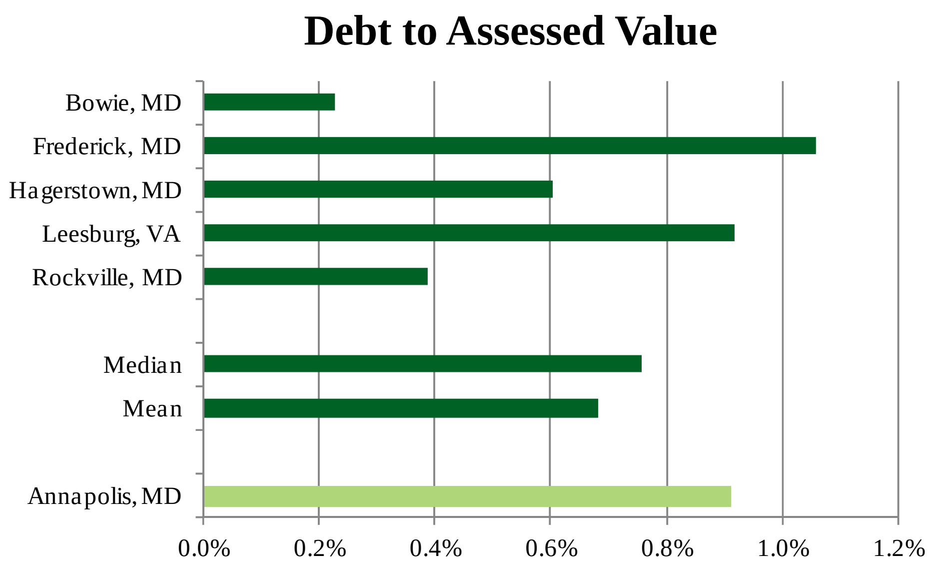


Locality	Total Taxable Assessed Value	Population	Assessed Value Per Capita
Bowie, MD	$5,985,918,000	56,129	$106,646
Frederick, MD	6,436,438,423	66,382	96,961
Hagerstown, MD	2,638,213,000	40,638	64,920
Leesburg, VA	6,196,965,138	45,936	134,904
Rockville, MD	11,746,203,658	63,244	185,728
Median	6,196,965,138	51,033	120,775
Mean	6,600,747,644	51,825	124,523
Annapolis, MD	$6,101,252,965	38,620	$157,982

Note: Total Assessed Value for City of Annapolis is estimate for Fiscal Year 2013 per City Finance Department.

Peer Comparatives: Debt to Assessed Value

- The City's Debt to Assessed Value level is in line with its Peer Group.

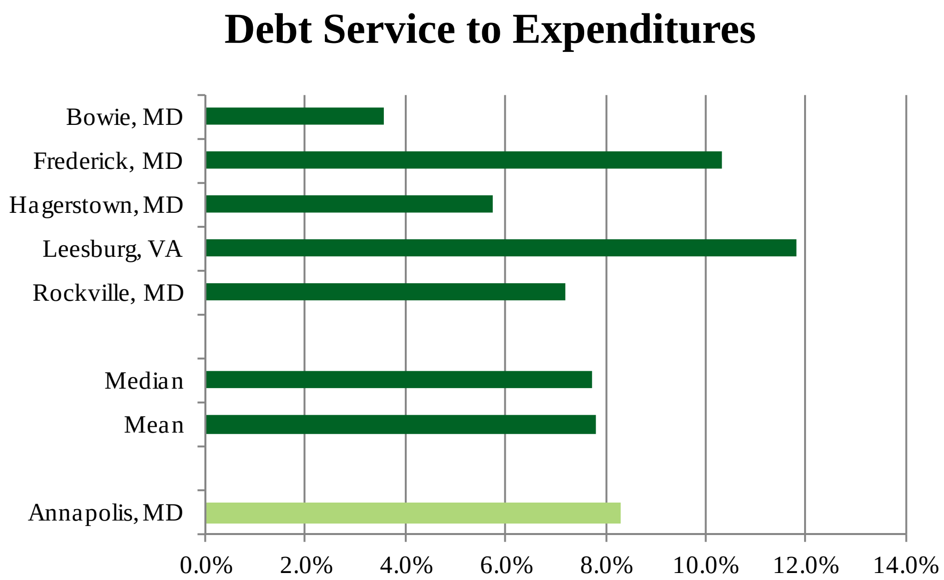


Locality	Tax-Supported Debt	Total Taxable Assessed Value	Debt to Assessed Value
Bowie, MD	$13,502,021	$5,985,918,000	0.2%
Frederick, MD	68,051,645	6,436,438,423	1.1%
Hagerstown, MD	15,947,901	2,638,213,000	0.6%
Leesburg, VA	56,889,341	6,196,965,138	0.9%
Rockville, MD	45,381,206	11,746,203,658	0.4%
Median	45,381,206	6,149,109,052	0.8%
Mean	39,954,423	6,517,498,531	0.7%
Annapolis, MD	$55,413,563	$6,101,252,965	0.9%

Note: Total Assessed Value for City of Annapolis is estimate for Fiscal Year 2013 per City Finance Department.

Peer Comparatives: Debt Service to Expenditures

- The City's Debt Service to Expenditures level is similar to its Peer Group.

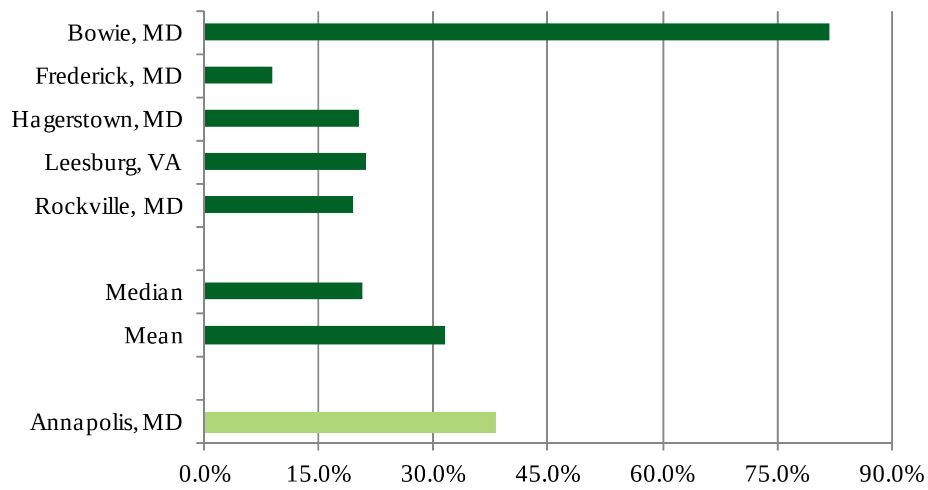


Locality	General Fund Debt Service	General Fund Expenditures	Debt Service to Expenditures
Bowie, MD	$1,301,031	$36,407,831	3.6%
Frederick, MD	6,996,252	67,791,989	10.3%
Hagerstown, MD	2,031,024	35,476,597	5.7%
Leesburg, VA	5,724,783	48,531,008	11.8%
Rockville, MD	4,700,000	65,345,802	7.2%
Median	4,700,000	50,202,734	7.7%
Mean	4,150,618	50,904,614	7.8%
Annapolis, MD	$4,281,835	$51,874,459	8.3%

Peer Comparatives: Fund Balance

- The City has a strong Fund Balance level compared to its Peer Group.

Unassigned Fund Balance versus Revenues



Locality	Unassigned Fund Balance	General Fund Revenues	Fund Balance versus Revenues
Bowie, MD	$34,469,586	$42,102,366	81.9%
Frederick, MD	5,945,753	66,717,614	8.9%
Hagerstown, MD	7,668,912	37,972,189	20.2%
Leesburg, VA	10,041,113	47,095,711	21.3%
Rockville, MD	13,226,677	68,114,370	19.4%
Median	10,041,113	54,457,303	20.8%
Mean	14,270,408	53,970,191	31.6%
Annapolis, MD	$23,387,107	$61,818,895	37.8%

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Appendix one - Departmental Presentations

Recreation & Parks

Harbormaster

Planning and Zoning

Department of Neighborhood and Environmental Programs

Human Resources

Public Works

Mayors Office

Law Office

Management Information Technology

Purchasing Office

Finance Department (administrative)

Annapolis City Council, Finance Committee; 01 April, 2014 Recreation and Parks Department

Question 1:

What is the difference between the FY14 adopted budget and the FY15 proposed budget.?

	Recreation Div.	Parks Div.	Department
FY 14	$2,065,356	$2,189,976	$4,255,332
FY15	$2,281,407	$1,950,622	$4,232,029
Delta	$ 216,051	-($ 239,354)	-($ 23,303)

The proposed reductions occur primarily in staffing levels at the Pip Moyer Recreation Center. We would reduce the floor monitor staffing to one per shift, eliminate the swing shift supervisor and reduce front desk staffing to one person per shift. Additionally the two management positions at the Stanton Center will be consolidated into a senior manager and a lower graded assistant.

Question 2:

How does this impact the services you provide.?

This will greatly reduce service to the fee paying public and diminish the overall quality of the Rec Center Experience.

The floor monitors set up furniture, basketball nets, volleyball nets, baseball cages, before and in between and after events, tournaments, practices, games, meetings and parties, etc. They also monitor behavior reminding users of the rules (failure to pay fees, wrong shoes, bullying, inappropriate language, improper use of equipment, and monitor guest stealing equipment or being in the wrong places.

Reducing floor monitors will require longer lead-time between events for set-up and breakdown. This will very likely result in some lost revenues at the PMRC. Properly enforced rules of usage helps equalize the various users and makes the Pip Moyer experience more pleasurable to all. Reduced staffing will likely result in reduced user satisfaction which may in turn result in loss of members and revenues.

The swing shift supervisor is a customer service specialist and problem solver during the busiest hours at PMRC from noon to 7 PM. During these peak usage hours the front desk frequently becomes overloaded with customers, unplanned changes to floor and meeting room schedules and solving the unexpected. This supervisor has been particularly effective in calming customers, making last minute changes to room uses, and directing floor and custodial staff to set up and take down equipment when unplanned schedule changes occur.

The front desk staff is at times overwhelmed with customer volumes. Reducing front desk staff will reduce costs, but will also reduce customer satisfaction during "Crunch Times" which include weekends and evenings.

All of these reductions reduce customer service. Any reduced service to the paying customer carries with it a yet to be quantified probability of reduced customer base and lost revenues.

Question 3:

Staying within the budget constraints, what other alternatives would you recommend.

We have been unable to identify any other viable alternatives

Annapolis City Council, Finance Committee;   01 April, 2014   Harbormaster Division / Dock Fund

Question 1:

What is the difference between the FY14 adopted budget and the FY15 proposed budget.?

	Revenues	Operations	Debt Service	Depreciation	Other	Total
FY 14	$1,022,000	$502,977	$166,908	$261,661	$ 90,000	$1,021,546
FY15	$ 868,000	$475,425	$320,652	$260,000	$116,207	$1,172,284
Delta	-($ 154,000)	-($ 27,552)	$153,744	-($ 1,661)	$ 26,207	$ 150,738

Grant funds have been included in the proposed budget. This causes confusion every year. I have met with Finance and we have agreed that the Grant items shown on lines 1921, 1922 and 1923 do not offset the City Salaries and Benefits Appropriation and should be removed entirely from the Salaries and Benefits section; thus allowing total Salaries and Benefits of $336,720.

Many Grants are task based and provide reimbursement only for performing those specific tasks. Just as Operating Budget and Capital Improvement Budget are authorized in separate ordinances, the Council should consider that Grant Funded Activities should perhaps be separated from City Tax Base Funded Activities, in a separate Ordinance; except where the grants are specifically intended to reduce the local cost.

I believe it is appropriate to include in the Dock Fund the State Tax Revenues received from Admissions and Amusement Taxes generated by City Dock (Dock Fund) leases, such as Boat Shows and Watermark. Were this Revenue included, it is highly likely that we would not see a proposed transfer from the General Fund to the Dock Fund.

Question 2:

How does this impact the services you provide.?

Overall this budget does not reduce services provided within the Harbormaster Division / Dock Fund

Question 3:

Staying within the budget constraints, what other alternatives would you recommend.

As an Enterprise Fund, we believe that service reductions are usually rewarded with losses of revenues greater than the savings achieved by those reductions. We have been unable to identify any other viable alternatives.

City of Annapolis
DEPARTMENT OF PLANNING AND ZONING
145 Gorman Street, 3rd Floor, Annapolis, Maryland 21401
Chartered 1708 Annapolis 410-263-7961 • FAX 410-263-1129 • MD Relay (711)

Budget Presentation
Department of Planning and Zoning
April 1, 2014
Finance Committee

1) What is the difference between the FY 14 adopted budget and the FY 15 proposed budget?

The largest difference between the two budgets is the salary/benefits line. It is proposed that one filled position and one vacant position are eliminated for a total savings of $217,241.97 (a decrease of 16.09% in cash and an 18% cut in personnel).

The changes to our operating budget include:

- Supplies cut by $3,000 (a 13% reduction)
- Training and Education cut by $2,000 (a 20% reduction)
- Special Programs cut by $10,000 but given a one-time $35,000 enhancement so that the Chief of Community Development can hire a consultant to produce HUD required consolidated plan. This plan is required to be completed every 5 years in order to be eligible for $1.25 million in federal funds. This is a net increase of $25,000 compared to FY2014
- Contract Services—Net increase of $127,500 from $77,500 (included Main Streets Annapolis Program funding)
    - ♦ Main Streets Annapolis Program on-going enhancement funded at the same level for a total of $37,500 ($25,000 for salary for Main Streets Coordinator and $12,500 for the organization)
    - ♦ Arts and Entertainment District funding cut by $10,000 to $15,000
    - ♦ Cultural Landscape Report enhancement funded at $100,000

2) How does this impact the services you provide?

The mission of the Planning and Zoning Department is to promote a sustainable city by preserving, protecting and enhancing the integrity, fabric, and character of the natural and built environment; to provide timely delivery of general and specialized counsel and support to the City's policy makers; to provide housing, and support services to our low and moderate income citizens; and to provide these services in a fully collaborative and transparent manner.

There is no doubt that the proposed cuts will greatly impact this mission.

If we lose the Chief of Current Planning position and the Senior Comprehensive Planner, our core services will need to be reduced by a corresponding amount. Current Planning presently has a total of 4 positions, and

Comprehensive Planning presently has a total of 2 positions (one vacant). Therefore, these cuts would have an immeasurable and devastating effect on these divisions in terms of personnel.

The Chief of Current Planning does much more than supervise the three planners in the Current Planning Division. He is an integral part of the work and functioning of this division, handling the majority of all major development review with oversight on the remainder. Staff would only be able to absorb the loss of this position with major code changes—greatly reducing the amount of site design that is required for planned developments, special exceptions, subdivisions, and residential structures in our neighborhood conservation districts. We would also need to adopt by reference the state's critical area law, which is less restrictive than our own, and eliminate the detailed review of sign and fence permits.

Furthermore, existing projects that are being reviewed by the Chief of Current Planning would need to be reassigned and that loss of expertise and institutional knowledge would greatly handicap and hamper the review process.

The Senior Comprehensive Planner is also essential for fulfilling the mission of the department. Without this position, and funding, the comprehensive plan cannot be implemented and no additional sector studies (beyond the almost-completed West Annapolis Sector Study) can be undertaken. Additionally, the department would not be able to engage in special studies and projects that look at the impact of future growth, development, redevelopment and quality of life. This would include studies such as the Citizens Committee to Review Alcoholic Beverage Laws (CCRABL) and the Wayfinding Master Plan.

The positions contribute to the high quality of life that we have in Annapolis and are essential to department's mission.

Other cuts in our operating budget will mean that we will not be able to attend training classes or regional meetings. We won't be able to hire consultants to assist on complex projects. We will not be able to obtain the proper amount of supplies. And, we will not be able to go on site visits if we cannot be reimbursed for mileage—we don't have access to a City vehicle. We will also not be able to continue to provide free printing and copying to the Fire Marshal's Office.

More importantly, we will not be able to keep up with our currently level of work, especially our high level of site design plan review and our comprehensive planning.

In 2006, Planning and Zoning had 17 full-time positions, one of which was a contract position. 14 of those positions were professional staff, 3 were administrative. Currently, we have 11 full-time positions (2 administrative, 7 filled professional staff, and 2 vacant professional staff positions). This is <u>35% fewer staff positions compared to 2006</u>. If we lose two more positions, that would be a <u>47% decrease in staff over a 7-year period</u>. We lost four positions in the layoffs of 2010. Other departments that were cut in 2010 have been able to add back most, if not all, of those lost positions. Even though the economy has improved and building permit applications are regionally recovering to the 10-year average point, Planning and Zoning has not added any staff.

3) Staying within the budget constraints, what other alternatives would you recommend?

It is true that when you look at the Planning and Zoning organizational chart, it looks like we have a lot of coaches and not a lot of players. This is first of all a nomenclature issue, and secondly, a result of the personnel cuts that the department has absorbed over the past four years. Our coaches are a lot more like players than coaches—they do their share and more of the work and are always out on the field, rather than on the sidelines.

For the sake of comparison, the City of Rockville has 61,209 people (At approximately 38,620, Annapolis is about 63% that size). Their Chief of Planning supervises 9 staff including the Zoning Administrator, Principal Planner, and and Historic Preservationist (our division would be 1/3rd that size under the proposed budget). Their Chief of Long Range Planning has 4 staff members (our division would be 1/4th that size under the proposed budget). The Rockville Chief of Community Development (Housing Specialist) has 2 staff members. Therefore, Rockville has 17 professional staff members, not counting any administrative staff or the Director and Assistant Director (Planning and Zoning is combined with the Building Permits Department). The Annapolis FY2015 proposed budget for Planning and Zoning has 9 total staff.

Through the work of our department we assist residents and businesses in articulating a vision of the community and work to achieve and sustain this vision. We do this by engaging civic leaders, business interests and citizens in a manner that helps them play a meaningful role in Annapolis' future.

We hope to continue to be able to fulfill this mission and vision in the future.

Dept. of Neighborhood & Environmental Programs response to budget questions for the City Council Finance Committee:

1) What is the difference between the FY 14 adopted budget and the FY 15 proposed budget?

The DNEP budget is proposed to be decreased by $120,743. This decrease eliminates funding for two positions, the Chief of Environmental Programs and the Environmental Program Coordinator. In addition, funding has been reduced in a few other areas. These include a $39,158 reduction due to the retirement of the plans reviewer, with a new employee starting a lower salary. Savings are also proposed by cutting $3500 each from the maintenance accounts for street trees and the unsafe structures. The new phone contract will save the department $7,000 per year and $100 will be reduced from the supplies account.

2) How does this impact the services you provide?

Eliminating position of Environmental Program Coordinator: Compliance with the Federal Clean Water Act sections pertaining to wastewater pretreatment and storm water (NPDES) will continue to be required. This position is currently filled with a contract employee working on the wastewater pretreatment administrative aspect only. The NPDES compliance is currently undertaken by the Chief of Environmental Programs as part of the EPA Chesapeake Bay nutrient reduction program. Shifting these responsibilities to other staff with their own full time responsibilities will negatively impact these programs. Further information on the responsibilities of this position is attached.

Eliminating position of Chief of Environmental Programs: Compliance with multiple City, State and Federal regulations will continue to be required. Given the breadth of services provided by this position it is not possible that any other staff person with their own full time responsibilities could accommodate all of the program responsibilities. Spreading program responsibilities to multiple staff would negatively impact the quality of services attendant to these programs. Further information on the responsibilities and some background on the accomplishments of the position are attached.

The reduction of $3500 each from both the tree and unsafe structure accounts will have little impact on these budgets overall. The other reductions (new plan reviewer, new phone contract, $100 less in supplies) have no operational impact.

3) Staying within the budget constraints, what other alternatives would you recommend?

Savings from plans reviewer retirement:	$39,158
Savings from upcoming Plumbing Inspector new hire:	17,000
Telephone contract:	7,000
Contract services, urban forestry:	10,000
Contract services, unsafe structures:	10,000
Elimination of Deputy Property Maint. Inspector Contractual Position:	31,000
Supplies:	6585
Total:	$120,743

Environmental Program Coordinator

Position is responsible for the administration of the City's Wastewater Pretreatment Program, in compliance with the Federal Clean Water Act. Commercial uses discharging into the City's wastewater system are required to have permits and have their effluent regularly tested to assure that the content of their discharge is within proscribed limits. Violations have the potential to negatively impact the biological function at the wastewater treatment facility. The Environmental Program Coordinator is responsible for issuing annual permits for 285 commercial businesses and the Naval Academy, coordination with the contractor providing effluent sampling for each use, and licensing of waste haulers that service grease traps associated with each use.

The Coordinator is also responsible for compliance with the Federal Clean Water Act's National Pollution Discharge Elimination System (NPDES) that requires monitoring of the city's storm water discharge and an associated public education program. Reports on the City's program are provided annually to the Maryland Department of the Environment and the US EPA. This has been a required program since the early 1990's but will undergo significant changes in the next year to comply with the EPA's nutrient reduction requirements for the entire Chesapeake Bay watershed. The NPDES program will be the means by which the EPA will measure compliance with the TMDL (Total Maximum Daily Load) standards for nutrient (nitrogen and phosphorus) discharges.

This position is also responsible for the public education program to promote recycling. Residential recycling is a State regulation that has a required minimum rate for diversion of the solid waste stream. The public education program is designed to maintain a high rate of recycling participation while also encouraging commercial recycling.

The Program Coordinator provides oversight for the City's energy efficiency initiatives undertaken by the Environmental Compliance Inspector. In this supervisory role, the Program Coordinator is responsible for defining the program and coordinating with other city departments.

Chief, Environmental Programs

Staff Responsibilities:
Manage Environmental Programs Division
Stormwater Management (State regulation)
Urban Forestry (City and State regulations)
Wastewater Pretreatment (Federal regulation)
Sediment and Erosion Control (State regulation)
Sustainability Program

Responsibilities:
Marine Construction Application Review (State and Federal regulations)
National Pollution Discharge Elimination System (Federal regulation)
Forest Conservation Act Review (State regulation)
Tidal and Non-Tidal Wetland Review (State and Federal regulations)
Watershed Nutrient Reduction (Federal regulation with 2025 compliance requirement)
Stream Restoration Projects
Grant Writing and Administration ($1.3 M in the last 5 years)
Assume Staff Responsibilities in their absence
Coordinate with other Departments on DNEP Programs and Development Applications
Personnel Mentoring and Review

Define Projects, Develop Requests for Proposals, Select and Manage Project Contractors
Develop City Regulations (2.50, Annapolis Conservancy Board; 17.09, Trees in Development Areas; 17.14, Green Buildings, Energy and Environmental Design; 17.22; Petroleum Storage Facilities)
Update City Regulations (17.09, Trees in Development Areas; 17.10, Stormwater Management)
Staff to Board of Port Wardens (Process applications and meet with applicants, contractors, State and Federal regulators; arrange hearings; meet with board members; field inspections), Maritime Advisory Board and Environmental Commission (Meet with board members and provide information as requested)
Attend City Council Meetings and City Council Subcommittee Meetings Regarding Projects and Programs

Project Manager:
Annapolis Sea Level Rise/Flood Mitigation Strategies
Regulatory Response to Sea Level Rise
Natural Hazard Mitigation Plan
Harbor and Waterways Plan
Outer West Street Sector Study
Watershed Improvement Plan (Revision for FY15)

Project Participation and Contribution:
1998 and 2009 Comprehensive Plans; 2013 City Dock Plan; 1987 Critical Area Plan

Selected Former Responsibilities:
Managed DPW Solid Waste Division; Developed and Managed City Recycling Program; Developed and Managed Urban Forestry Program; Developed and Managed Wastewater Pretreatment Program; Managed Floodplain Management Program

Professional Accreditations:
AICP, American Institute of Certified Planners, American Planning Association
LEED AP, Leadership in Energy and Environmental Design Approve Professional, US Green Building Council
Certified Erosion and Sediment Control Inspector, Maryland Department of the Environment

Education:
Master of Environmental Management, Duke University
Master of Business Administration, Johns Hopkins University

MEMORANDUM

DATE: April 8, 2014

TO: Members of the Finance Committee

FROM: Paul M. Rensted
Human Resources Director

RE: **Human Resources Proposed FY 2015 Budget Information**

This memo is in response to your request for additional information regarding the proposed FY 2015 Human Resources budget.

1. What is the difference between the adopted FY 2014 budget and the proposed FY 2015 budget?

Our department budget will be decreased by $73,257 in the following areas:

A. $38,727 Elimination of contractual Human Resources Associate I position
B. $1,570 Employee Physicals
C. $10,000 Legal Services (Labor Counsel)
D. $10,000 Contractual Services
E. $10,960 Professional Services
F. $2,000 Supplies

2. How does this impact the services you provide?

A. **Elimination of HR Associate I position:** The workload in the Human Resources Department has increased dramatically as a result of three major changes: (1) implementation of a labor-intensive HRIS; (2) implementation of a VEBA, a High Deductible Health Plan, and a Health Savings Account; and (3) legally mandated changes under the Affordable Health Care Act. The HRIS implementation procedures moved data entry from Payroll to the Human Resources Department, significantly increasing the time required to process and approve payroll/HR changes. This increase in data entry/approval time has affected each HR staff member's workload and often distracts Administrators and the Director from working on advanced-level projects that require professional expertise. As a result, the available time to maintain existing services and stay reasonably current on department workload has become a significant challenge.

This contractual position has been a critical asset in addressing administrative tasks, including assisting with benefits administration, maintaining personnel files/recordkeeping, and being available to provide quality service to employees, visitors and customers.

Below are some of the important responsibilities provided by the incumbent:

- Providing critical front desk coverage, including greeting and assisting customers and responding to telephone inquiries;
- Processing employment verifications;
- Supporting recruitment activities, including ad placement, web postings, and preparing and distributing announcements;
- Resolving routine health insurance and benefits issues;
- Processing unemployment claim information requests;
- Compiling attendance and wage records for workers compensation claims;
- Assisting individuals with applications and various other payroll/HR forms;
- Scheduling meetings and assisting with logistics;
- Processing workers compensation checks and reconciling leave buybacks;
- Reconciling monthly benefit invoices;
- Entering benefit-related changes in MUNIS and Informed systems

There is no current civil servant in the Human Resources Department with the available time to complete the multitude of assignments and tasks assigned to this contractual position. In implementing MUNIS, significant additional work has been assigned to the department and this position is essential to maintain the existing workload while other staff members assume additional responsibilities.

B. **Reduction in Employee Physicals:** The City is legally required to comply with various federal and state mandates, including:

- The US Department of Transportation regulations and the Drug Free Workplace Act related to drug and alcohol screenings. Compliance is imperative for the City to continue to receive grant funding from the federal government.
- Union agreements for sworn law enforcement personnel specify random and other types of drug and alcohol testing.
- Pre-employment drug screening is further mandated for law enforcement personnel under the Maryland Police and Correctional Training Commission (MPCTC).
- City policy requires pre-employment drug screening for all City employees.
- Pre-employment psychological evaluations are required for law enforcement personnel under MPCTC regulations.
- Pre-employment physicals are required for all sworn public safety positions.
- Independent Medical Exams (IME) and Independent Psychological Exams (IPE) are necessary for proper determination of disability retirement applications, to make appropriate workplace accommodation decisions, and to ensure employee and workplace safety.

In order to comply with mandated testing, a funding reduction in this area will require the Human Resources Department to reduce/limit the number of Independent Medical Examinations and Independent Psychological Examinations it orders in FY 2015, and to rely upon the guidance of the employee's health professional for medical-related determinations.

C. **Reduction in Legal Services:** Assuming that we successfully conclude the FY 2014 re-opener related to pay-for-performance with the AFSCME unions, FY 2015 should require less time of the Human Resources Department with respect to union negotiations. All four unions have ratified Collective Bargaining Agreements and the City is not contractually obligated to re-open negotiations until October 1, 2015 to determine wages for FY 2017. As part of that re-opener, we are required to review and consider utilizing the Employment Cost Index (ECI) and a pay-for-performance model as a basis for a COLA in FY 2017. This comprehensive review will require additional funding for FY 2016.

In addition, each Collective Bargaining Agreement requires the involvement of legal counsel to negotiate the impact of any health premium increase that exceeds 10% per year and/or changes mandated by the Affordable Health Care Act. The decreased funding level for negotiations for FY 2015 should allow for this limited scope of work, assuming no other projects arise which involve outside counsel.

D. **Reduction in Contractual Services:** The City is required by Union contract to annually conduct promotional examinations for sworn Fire and Police personnel. Contractual services funding is also used to conduct entrance exams for public safety positions and, on occasion, specific promotional examinations for high level public safety positions. Human Resources can accommodate this reduced funding as long as the number of candidates for each testing cycle is limited or the City conducts no public safety entrance exams.

E. **Reduction in Professional Services:** Our Professional Services budget includes the following activities –

- City-wide training programs such as workplace discrimination, employment law, customer service and other necessary training help to reduce liability for the City and to ensure legal compliance.
- Classification and compensation consultant services to ensure internal equity in the assignment of pay and job responsibilities.
- Transcription of Civil Service Board grievance/appeal hearings in order to preserve the records of the proceedings for review and potential circuit court challenges.
- External consultant services for conducting background investigations.

All of these services will be limited, with the transcription services and background investigations taking priority.

F. **Reduction in Supplies:** We believe we can handle this reduction by closely monitoring our usage of supplies and paper.

3. Staying within the budget constraints, what alternatives would you recommend?

I recommend a different break-down of cost reductions in our program budget in order to retain the contractual Human Resources Associate I position. The functions performed by the Human Resources Department are both labor-intensive and people-intensive and the proposed budget includes no reduction in the scope of Human Resources services. Under these circumstances, it will be extremely difficult for the Department to fulfill its mission with less staff members. The functions performed by the existing employee are not being reduced, therefore requiring the workload to be absorbed by other staff members.

The additional reductions I propose instead of eliminating a staff member are as follows:

$6,000 in Employee Physicals
$2,000 in Legal Services (Labor Counsel)
$18,000 in Professional Services
$3,000 in Advertising
$7,227 in Supplies

$2,500 in Special Projects (Employee Recognition/Holiday Party)

The implications of these reductions are as follows:

- Severe curtailment in Independent Medical and Psychological examinations;
- Less flexibility/support in seeking assistance from Labor Counsel;
- The training budget will be eliminated and it is anticipated that no training will occur in FY 2015;
- The advertising budget will be eliminated; departments will need to identify resources if they have vacancies requiring advertising;
- Supplies will be reduced to the extent that it may impact operations ;
- The reduction in Special Projects will reduce the employee recognition budget by 50% and the program will need to be modified.

Thank you for your consideration.

Department of Public Works responses to Finance Committee questions on the FY-15 Budget

1) What is the difference between the FY 14 adopted budget and the FY 15 proposed budget?

The salary and benefits line items have increased due to the pay raises. The following decreases are included in the budget submission.

<u>General Fund</u>

a. Roadways – Page 29
   - Reduction of two filled EO1 positions
   - Reduction of two vacant positions (EO1 and PWMW1)
   - Reduction of $10,000 in Supplies account (10% reduction)

b. Snow & Ice Removal – Page 30
   - Reduction of $8,000 in Contract Services (35% reduction)

c. Fleet Maintenance Center – Page 31
   - Reduction of the filled Facilities Maintenance Technician position

d. General Govt Buildings (Bldgs & Maint.) – Page 31
   - Reduction of $56,647 in Contract Services account (15% reduction)
     i. Elimination of the City Hall security guard contract ($34,000)
     ii. Elimination of landscape services at City buildings ($22,649)

<u>Enterprise Funds</u>

e. Water Plant – Page 38
   - Reduction of vacant Water Plant Technician position
   - Reduction of $200,000 in R&M – Bldgs and Structures account (75% reduction)

f. Water Distribution – Page 39
   - Reduction of two vacant positions (EO2 and EO3)
   - Reduction of $11,270 in Supplies account (12% reduction)

g. Wastewater Collection – Page 41
   - Reduction of $41,020 in R&M – Bldgs and Structures account (50% reduction)
   - Reduction of $21,059 in Contract Services account (23% reduction)

h. Market House – Page 52
   - Revision of operating expense line items to reflect the actual costs

i. Residential Waste Collection – Page 55
   - Reduction of Salaries and Benefits accounts to reflect one PW Supervisor position

j. Stormwater Management – Page 57
   - Reduction of one filled PWMW1 position
   - Reduction of $23,710 in Contract Services account (39% reduction)

2) How does this impact the services you provide?

a. Roadways

a. Two of the four filled positions in the sidewalk crew will be cut. The sidewalk crew was created after solid waste collections were contracted out, in order to address the large number of sidewalks that require repair or replacement. The two positions are Equipment Operators I. The EO1's also perform snow removal duties during the winter. These position eliminations will reduce the amount of sidewalk repairs/replacement that the City will be able to perform. The City has received very favorable comments on responsiveness to reported sidewalk issues; this reduction will decrease Public Works' ability to respond to and correct such sidewalk hazards. Additionally, the City will have a greater reliance on contractors for snow removal. This will have a negative effect on snow removal efforts due to the need to closely oversee contractors performing snow removal. In addition, contractors are not as dependable to respond when called as compared to City employees.

b. Two vacant positions in the Downtown Cleaning Crew will not be funded. The positions, one (1) Equipment Operator I and one (1) Maintenance Worker I, have recently become vacant. Keeping these positions vacant will have a negative impact on the level of downtown cleaning. As a result, trash can emptying, broom sweeping, gum removal from sidewalks, weed abatement, and general response to downtown needs, will be reduced. The ability to provide seven days a week coverage in downtown areas will be reduced. Additionally, the cleaning supplies budget for the downtown cleaning crew will be reduced by $10,000.

b. Snow & Ice Removal
   - The reduction is from the Contract Services account, which will decrease from $22,970 to $14,170. This funding is used to hire contractors to supplement the City's snow removal crew during large snow storms.

c. Fleet Maintenance Center
   - Elimination of the Facilities Maintenance Technician position. This position is responsible for supporting the work in fleet maintenance by performing maintenance and cleaning of the vehicle bays and associated spaces, picking up materials and parts from vendors, and completing other duties as assigned. Reduction of this position will eliminate most of these services, or require their performance by the fleet mechanics.

d. General Govt Buildings (Bldgs & Maint.)
   - The contract security guard in the lobby of City Hall would be eliminated. Visitors would enter City Hall without being greeted and being asked to sign-in at the entrance desk. Arguably, this may reduce the security posture of City Hall and lead to increased thefts or vandalism.
   - Discontinue contract landscape services at the following City buildings. The frequency of mowing and landscaping will decrease, and the appearance of City properties will degrade at the following locations:
     - City Hall
     - Maynard Burgess House
     - Transportation Building
     - City of Annapolis Fire Stations (Eastport, Taylor Ave & Forest Drive)
     - Annapolis Police Station
     - Public Works buildings
     - Main Street
     - West Street

- Alex Haley Park
- Prince George Street Park
- Dock Street Parking Lot
- Susan Campbell Park
- Larkin Street Parking Lot
- South Street Parking Lot

e. Water Plant
   - The Water Plant Technician position is currently vacant. We do not anticipate that the position will be needed when the new Water Treatment Plant is completed, and, therefore, should not be filled and can be eliminated. Recently, the funding for the position has been used for contract temporary employees to help during busy periods. The vacancy will increase work tempo and overtime for the remaining plant operators for the next two years until the new plant is completed.
   - The reduction in the R&M – Bldgs and Structures account will cause a deferral of required maintenance (corrosion control painting) of the elevated water tanks. The impact of deferred maintenance is obvious – premature deterioration of the asset, higher life cycle costs, and higher cost when the work is performed. Deferred maintenance should be contemplated only when absolutely necessary due to an extremely bad financial situation.

f. Water Distribution
   - Two vacant positions from the water distribution crew will not be funded. The positions, one (1) Equipment Operator II and one (1) Equipment Operator III, are among the most senior non-supervisory positions in water distribution. Keeping these positions vacant will have a negative impact on the maintenance and repair of the water system. These positions were fully funded in the water rate study completed in 2011.
   - The reduction in the Supplies account will affect required purchases for operations and maintenance of the water system, personnel protective equipment, office supplies, water testing, and tools. After the Supplies account is used, additional purchases of required materials and parts will be deferred until funding is available. This will cause a negative impact on the ability of the water distribution crew to maintain the full operations of the system.

g. Wastewater Collection
   - The reduction in the R&M – Bldgs and Structures account will reduce funding for maintaining and repairing the 25 pump stations and other buildings associated with the City's wastewater collection system. Funding for flow meter calibration, pump station repairs, electrical repairs, and maintenance of the SCADA system will be reduced. After the remaining funding is used, repairs to pump stations and related equipment will be deferred until funding is available. This will cause a negative impact in the ability of the wastewater collection crew to maintain the full operations of the system.
   - The reduction in the Contract Services account will decrease the ability to use contractors to support the efforts of the City's crew for operating and maintaining the City's wastewater collection system. Contractors are used for both emergency and scheduled repairs to the wastewater collection system. After the available funding is used, work will be performed by City crews to the greatest degree possible. However,

the crews do not have the capacity to absorb all of the work currently performed by contractors. As a result, some maintenance and repairs will be deferred until funding is available. This will cause negative impact on the ability of the wastewater collection crew to maintain the full operations of the system.

h. Stormwater Management
  - The stormwater crew consists of three positions. A reduction in the funding for the filled Public Works Maintenance Worker I position will reduce the crew and work effort by 33%. At the same time, the budget for contractor support is being reduced by nearly 40%. The amount of maintenance and cleaning of the City-owned stormwater BMPs and drains will decrease significantly at a time when increased scrutiny is being placed on the use of the stormwater enterprise funds.
  - This reduction in Contract Services will decrease funds for engaging contractors to support the efforts of the City's crew for maintaining and cleaning the City's storm drain system. Funding for the use of contractors for both emergency and scheduled work will be reduced by nearly 40%. After the available funds are used, work will be performed by the City's crew to the greatest degree possible. However, the crew does not have the capacity to absorb all of the work currently performed by contractors, and is proposed to lose one of the three filled positions. As a result, some maintenance and repairs will be deferred until funding is available. This will cause a negative impact on the ability of the stormwater crew to maintain the full operations of the system.

3) Staying within the budget constraints, what other alternatives would you recommend?

- The discussion of the General Fund budget and deficit should be separated from discussion of the budgets for the Enterprise Funds. The same level of cuts have been applied to the Enterprise Funds, despite the fact that most have a surplus. The cuts in the water and wastewater budgets will serve only to increase the deferred maintenance backlog, which will ultimately increase their costs over the long-term. Following are the FY15 budget surpluses projected for the enterprise funds managed by DPW:
  - Water Fund - $128,135
  - Wastewater Fund - $484,147
  - Residential Refuse Fund - $845,030
- The concepts of "doing more with less" and "budget cuts without service impacts" are fallacies. Position reductions in Public Works will reduce the quantity of services provided to residents.
- The General Fund cuts include alternatives that we felt were least impactful to our residents.
  - It must be noted that Equipment Operator position cuts decrease the amount of "normal" work that will be done (road maintenance, sidewalk repairs, right-of-way mowing, downtown beautification, etc.), but also will reduce personnel available for snow removal.
  - The reduction in snow removal contract services will not impact our decision to bring in contractor support if needed. We have the green light to prudently use the contractor resources when needed for snow removal.
- Budget Alternatives:
  - The budget for street lights electricity is $582,500. Turning off half of the streetlights will save nearly $300,000 per year.

- The City normally operates three street sweepers. One of the sweepers is inoperable and beyond economic repair. The cost of a new sweeper is approximately $200,000. Reduction of one sweeper will save the one-time capital cost of $200,000, plus the annual cost of an operator and vehicle maintenance. Estimated annual savings is $55,000.
- Consolidation of the City's three fleet maintenance operations (Fire, Police and Public Works). Savings and efficiencies will be realized from the consolidation. The Fleet Manager position should immediately be filled to allow the fleet consolidation to begin.
- Pass a trench cut ordinance, which prohibits street trenches for a prescribed time after the street is resurfaced. Should trench cuts be required, a hefty permit fee is imposed to recover the cost of the damage to the street.
- Impose franchise fees on the solid waste haulers in the City. This would allow the City to recover part of the cost of street deterioration caused by the heavy trash and recycling trucks.
- Return the sidewalk repair and replacement responsibilities to the residents. Many municipalities hold the adjacent property owners responsible for all aspects of the upkeep of sidewalks.

The Four questions are:

1) What is the difference between the FY 14 adopted budget and the FY 15 proposed budget?

When comparing the FY 14 Mayor's Office Budget to the FY 15 Mayor's Office Budget, the following changes were included:

- Salaries and Benefits had a net change of $36,270.84 due to a 4% COLA increase in FY 14, a 3% COLA increase in FY 15, step increases for those applicable, and overall changes in staffing.
- Supplies were cut by $6,776 based on prior year spending.
- Special Projects were cut by $10,300, leaving $70,900 to fund: MLK Events $1,300; Commission on 1864 $7,500; Banners, Flags, NYE $24,000; July 4th Fireworks $20,000; Mandatory Music Licenses $1,100; Reimbursement for Special Events $3,000; Kunta Kinte Memorial $7,500; National Citizen Survey $5,000; and Center for Performance Measurement $1,500. The items that were cut from Special Projects were the Employee Holiday Luncheon ($3,500) and the Bates Legacy Center ($25,000). The Bates Legacy Center was moved to the Community Grants process.
- Training & Education was cut by $16,200.
- Contract Services were increased by $10,000 for Minor Carter.
- Vehicle Allowance of $6,000 for the City Manager was eliminated.

2) How does this impact the services you provide?

TBD

3) Staying within the budget constraints, what other alternatives would you recommend?

None

4) What revenue enhancements do you propose for your department?

please provide your answers in writing by Friday 4/11 and please Copy Brian Woodward and Bruce Miller as well as me so they can review.

CITY OF ANNAPOLIS
OFFICE OF LAW

Timothy D. Murnane
Acting City Attorney

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MEMORANDUM

To: **Finance Committee Members**
Ald. Ian Pfeiffer, Chair
Ald. Ross H. Arnett, III
Ald. Frederick M. Paone

From: **Timothy D. Murnane**

Date: **April 24, 2014**

Re: **FY'15 Office of Law Budget**

Following are the Office of Law's responses to the 4 questions presented by the Finance Committee:

1. **What is the difference between the FY'14 adopted budget and the FY'15 proposed budget?**

The proposed FY'15 Office of Law budget is being reduced by 6.72% overall as follows:

Outside Counsel account is being reduced 37.6% from $125,000 to $78,000 (reduction of $47,000)
Salaries/Benefits account is being reduced by $28,852, which represents the following:
- Assistant Election Administrator salary - approx. $23,000
- Assistant City Attorney salary (less than originally budget) - approx. $16,000
+ 3% increase for employees (calculated by Finance)
+ Step increase for Assistant City Attorney (due Nov. 2014)

2. **How does this impact the services you provide?**

A majority of the expenses paid from the Office of Law Outside Counsel account are due to work requests or issues involving other departments, such as finance/bond issues (Finance) and EEOC claims (HR/Police), rather than typical litigation matters. The proposed 37.6% budget reduction in the Outside Counsel account will create an over abundance of work for existing staffing and attorneys. The Office of Law has taken a much more active role in investigating and analyzing general liability and Workers' Compensation claims that are presented against the City, in attempt to reduce liability and expenses, which leaves less time to handle departmental issues, review agreements and policies and handle general litigation matters.

3. **Staying within the budget constraints, what other alternatives would you recommend?**

Alternatives might be to have the responsible department pay the expenses relating to their departmental issues out of their individual budgets, rather than the Office of Law paying out if its budget. It is nearly impossible to predict what needs and/or issues will arise from other departments. The Office of Law is currently having one of the Assistant City Attorneys become familiar with specialized issues in an effort to reduce, if not eliminate, expenses of hiring an outside law firm to handle these issues, as has been done in the past 3 years.

4. **What revenue enhancements do you propose for your department?**

A. The Office of Law does prosecute municipal citations issued by DNEP and Public Works in District Court of Maryland for Anne Arundel County. Successful representation of the City produces both abatement and payment of fines imposed by the District Court pursuant to the City Code. According to the Finance Department, FY'14 resulted in the assessment of approximately $30,000 in fines. Prosecution of Municipal Infractions abates and cures deteriorating housing infractions and other nuisances that help stabilize property values and cure unsafe conditions. The Office of Law has approximately 275 pending municipal infractions that it is processing for DNEP.

B. The Alcoholic Beverage Control Board ("ABCB"), within the Office of Law, generates approximately $450,000 in revenue per years for liquor license application fees, in addition to fines assessed in disciplinary actions. Currently, the Office of Law is reviewing the fee structure to fairly adjust for differences in establishments based on seating, square footage, gross revenues, and other distinguishing items. The Office of Law is recommending a surcharge of $100 for processing bifurcated annual renewal payments.

C. The City Clerk within the Office of Law tracks Amusement tax for amusement devices. The Office of Law is in the process of reviewing Admission and Amusement tax, which is currently collected by the Comptroller of the Treasury for the benefit of the City and has generated approximately $830,000 per year over the last 3 years. The Office of Law believes enhanced education and enforcement can substantially increase the amusement and admission tax revenue to the City.

D. The Office of Law is currently working on enabling legislation and a study of the Renewable Energy Park, which, if successful, may generate nearly $100,000 per month in additional revenues for the City.

E. The Office of Law has undertaken a comprehensive review of the City's administration of its Workers' Compensation program in conjunction with Chief Kevin Simmons and Mary O'Brien of Risk Management. The Office of Law is prepared (pending Council approval) to unveil a more efficient system to oversee the process at a substantial savings to the City without deleterious impact on claimants.

Based on analysis of Workers' Compensation claims payments over the past several years, it is necessary to reevaluate policies and procedures in an effort to control and reduce escalating Workers' Compensation claims payments. Increased claims payments have resulted in a $650,000 line item increase for FY'15 so that there will be sufficient funds to pay Workers' Compensation claims.

F. The Office of Law is currently reviewing all documents for legal sufficiency and have instituted a new policy to include financial justification to ensure the City is paying or is paid at fair market value for products, goods and services delivered or received. This analysis includes a review of IRS forms 990 for non-profits that seek grants or other concessions from the City.

G. The Office of Law is heavily involved in the legal and financial analysis of the proposed Regional Transportation Authority and the RTA's impact on the Annapolis Department of Transportation and delivery of transit services to residents of the City.

H. The Office of Law has studied the City of Annapolis take-home vehicle policy and made recommendations to change the policy to reduce risks and costs.

I. The Office of Law has drafted or is drafting legislation changes in the following subject areas:

1. Tyler Avenue Re-zoning
2. Hestia Cruises Lease
3. Fresh Farm Lease renewal
4. Market House Easement
5. Vehicle Master Lease
6. Pension Issues
7. 2.16 clean-up
8. Education facilities bulk regulations
9. Special Events Ordinance
10. Parade Safety
11. Split Zoning
12. Parking Enterprise Fund
13. Parking District 1/State Circle Ordinance
14. Admissions/Amusement Ordinance
15. Forest Conservation
16. Public-Private Partnerships
17. Moving Forest Conservation from Title 17 to Title 21
18. Resident Agent
19. Newsracks
20. Sprinklers
21. Review Criteria for Grants
22. Change Code References from 23A to Local Government Article
23. Canvassers and Solicitors Ordinance
24. Workers' Compensation
25. Public Safety Emergencies
26. Density Provisions for Planning & Zoning
27. Revising ABCB Rules & Regulations
28. Drafting a Motion and Amicus Brief re: Reserve at Quiet Waters Court of Special Appeals case
29. Granicus/Legislate Training
30. Pension Retirement Board
31. Presentation on ICMA conference/public administration best practices
32. Review PDF of 2013 Code from Municode
33. Call LA in Columbus, OH re: Granicus
34. Streamlining Fees
35. Departmental Restructuring
36. Research way to recoup costs of site visits, engineering, project review before application

J. A list of Office of Law is handling pending litigation is attached.

OFFICE OF LAW PENDING LITIGATION / CLAIMS / MUNICIPAL INFRACTIONS

2/26/14

Open Litigation:

Case Name	Dept	Comments
James E. Bailey v. APD, et al. District Court Case No. CV-0702-13630-2011 (L67-11)	APD	trial judge's decision pending
Joseph Manriquez v. COA, et al. Circuit Court Case No. C-2011-162336 (L47-11)	APD	Oral arguments 12/6/13; CSA decision pending
Fairwinds of Annapolis Condominiums PJR Circuit Court Case No. C-2011-163122 (L49-11)	BOA	Remanded to BOA, which stayed remand proceedings due to litigation between applicant (tenant) and property owner (landlord)
James Armstead, et ux. V. APD, et al. District Court Case No. CV-0702-7980-2012 (L56-12)	APD	Appeal to Circuit Court of District Court grant of City Motion to Dismiss; trial date pending
QW Properties' PJR Circuit Court Case No. C-2013-176246 (L16-13)	BOA	Circuit Court overturned Board of Appeals' Decision, appeal to CSA; City not participating
Shelley White, et al. v. COA U.S. District Court Case No. CV-01130-JFM (L21-13)	APD	Discovery ongoing
Moe's Southwest Grill PJR Circuit Court Case No. C-2013-178391 (L39-13)	BOA	Circuit Court granted Motion to Dismiss Petition for Judicial Review; appealed to Court of Special Appeals
Jane Duvall v. City of Annapolis, et al. District Court Case No. CV-8562-13 (L41-13)	DOT	trial date 2/27/14
City of Annapolis v. SPAW, LLC (Municipal Infractions) District Court Case No. 3z36100886, 5z36100888 (L1-13)	HPC	Appeal to Circuit Court of District Court’s finding of Municipal infraction; trial date pending
Addison v. City	PW	discovery ongoing
Matter of Crystal Springs - Planned Development - PJR	DNEP	Petition for Judicial Review of BBOA decision denying appeal of DNEP consideration of Forest Stand Delineation
Milkshake Lane - Planned Development - PJR	DNEP	Petition for Judicial Review of BBOA decision denying appeal of DNEP consideration of Forest Stand Delineation
Erie Insurance Exchange v. City	APD	Response filed to Petition to Open Case for Purpose of Perpetuating Evidence; Motion to Rescind Order filed
220 Chesapeake Avenue – PJR	P&Z	Petition for Judicial Review of Planning & Zoning Director’s decision; Board of Appeals
Travis v. City	APD	Complaint; Answer/Motions pending
EEOC Cases: (all pending decisions by EEOC)		
Stansbury	DPW	EEOC decision pending
McGarrie	R&P	EEOC decision pending
Belk	DOT	EEOC decision pending

Johnson	R&P	EEOC issued Right to Sue Notice
Workers' Compensation Appeals to Circuit Court:		
Liebross v. City	APD	Jury trial pending
McCrae v. City	Fire	Jury trial pending
Timmons v. City	Fire	Jury trial pending
Van Houten v. City	APD	Jury trial pending
Williams v. City	?	Jury trial pending
City v. S.White	APD	Jury trial pending
K.White v. City	PW	Jury trial pending
Disability Retirement Review Board Appeals:		
Keys v. City	APD	Hearing pending
Personal Injury / Property Damage Claims being handled by Office of Law:		
Boston v. City		Personal Injury
Brown v. City		Personal Injury
Bruce v. City		Personal Injury
Chapman v. City		Property Damage
Cully v. City		Personal Injury
Carroll v. City		Claim against APD
Spivey v. City		Claim against APD
Schwartz v. City		Property Damage
Spencer v. City		Personal Injury

Claims Being Pursued by Office of Law:		
City v. Bruce		Personal Injury
City v. (hazmat trucking company/marina fire)		Property Damage

Current # of open Municipal Infractions (DNEP/PW Civil Citations) Heard by District Court Needing Follow-Up: 47

Current # of Municipal Infractions Served and to be Processed to District Court: 210

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MIT – Paul Thorn, Director

1) What is the difference between the FY 14 adopted budget and the FY 15 proposed budget?
a. Materials and Supplies reduced -$1,422
b. Training and Education reduced -$5,450
c. Repair and Maintenance Equipment reduced -$18,075
d. Contract Services increased+$71,964
2) How does this impact the services you provide?
(see attached)

3) Staying within the budget constraints, what other alternatives would you recommend?
a. What are the priorities and level of service desired? We have been enacting and implementing many of the technology services identified as deficient in the 2010 Information Technology 5 Year Strategic Plan approved and financially supported by the City Council. These are the bare bones costs of providing technology services required to support all City departments. Any cut would require elimination of 2 if not 3 key IT staff members and probably result in a corresponding cut in the level of IT service to these departments. This would result of two steps backward in the level of IT services which may take a long time to recover and cost more strategically to catch back up to current levels.

4) What revenue enhancements do you propose for your department?
a. Increase revenues by charging "technology fees" for various online services. At least for online payment transaction services.

<u>Finance Committee – Central Purchasing Budget Hearing – 15 April 2014</u>

1. What is the difference between the Adopted FY14 Budget and the Proposed FY15 Budget?

Salaries and benefits have a projected increase of 5.23%. The operating account decreases by 74.4%. The FY14 budget included $40,000 for consulting services to review the efficiency of the Purchasing Department. Consultants from the National Institute of Governmental Purchasing (NIGP) conducted an on-site visit in March and we await their final report. Other minor reductions were made to the remaining accounts.

2. How does this impact the services you provide?

The reduction will have no impact on current services provided.

3. Staying within the budget constraints, what alternatives would you recommend?

I anticipate that the NIGP report will comment on the lack of a procurement card program, which the Finance Department is currently evaluating.

Submitted by: Brian D. Snyder, Procurement Officer

Finance Committee Hearing

Tuesday, April 22, 2014

1) What is the difference between the FY14 adopted budget and the FY15 proposed budget?

-Increase in Salaries of $14,018.78

-Increase in Benefits of $23,088.47

Despite an overall rise in our Salaries and Benefits we made the following reductions:

-Elimination of a Position (Accounting Associate I)

-Savings from staffing turnover for an Accounting Associate III position

-Reclassification of employee from Senior Accountant to Accounting Associate III

-Filling a vacant Senior Accountant position (A15) at an Accountant level (A13)

-*Reduction in Supplies of $2,170.00*

-Reduction in Professional Services-Accounting of $165,296.42

In order to provide a more accurate depiction of costs, expenses that were previously absorbed in the Finance Department Budget have been allocated to their appropriate cost accounts. For example, expenses related to Utility Billing will now be expensed to the associated Enterprise Funds (Water, Sewer and Storm water).

-Increase in Telephone of $140.00

Item increased to cover actual cost

-*Reduction in R&M Equipment of $5,000*

2) How does this impact the services you provide?

The position cut will reduce our core clerical-cashiering staff from 3 to 2. Our recent banking conversion has automated many processes, which has made it possible to make this staffing reduction with little impact on our services.

The other listed reductions will not impact Finance Department services.

3) Staying within the budget constraints, what other alternatives would you recommend?

We have no alternatives to recommend.

4) What revenue enhancements do you propose for your department?

A convenience fee for telephone or web payments could help recover the merchant fee service charges that we pay.