

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
c/o James A. Cardillo, Vice Chair
1424 Corey Lane
Annapolis, Maryland 21401
jimcardillo@gmail.com

May 12, 2025

BY E-MAIL

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

Re: Financial Advisory Commission Report on Proposed FY 2026 Operating Budget,
FY 2026 Capital Budget and FY 2026-2031 Capital Improvement Program,
FY 2026 Fees and FY 2026 Fines

Dear Mayor Buckley and Members of the City Council:

The Financial Advisory Commission (FAC) submits to the Mayor and City Council its report on the proposed FY 2026 Operating and Capital Budgets, FY 2026-2031 Capital Program, FY 2026 Fines, and FY 2026 Fees.

Given a failure to provide the FAC with sufficient information and adequate time to consider the information that was provided, the FAC is not able to express an opinion on the proposed budget. This year, unlike in prior years, the FAC was not invited to participate in the budget sessions that have normally been held jointly with the Finance Committee. The FAC was not invited, as is normally done, to the working budget sessions held with the City Council. The budget documents themselves were not provided to the FAC until late afternoon the day before its 8 am meeting held on May 8, 2025. The Acting City Manager and Finance Department staff were not available to the FAC until its May 8 meeting, and were unable to address certain issues and concerns the FAC raised at the meeting.

The following is an outline of our review process and recommendations to address the deficiencies we have identified.

REVIEW PROCESS

The Mayor and City Council referred to the Commission for our review of the Mayor's proposed FY 2026 Operating Budget and Capital Budget, FY 2027-2031 Capital Improvement Program, FY 2026 Fees, and FY 2026 Fines. The new Finance Director's presentation on these documents was not distributed with meaningful advance time before the FAC meeting. Finally, the Financial

Advisory Commission did not receive a Debt Capacity Update report from Davenport, the City's bond advisor, regarding the City's debt affordability. The Finance Director could not answer critical questions on the City's debt profile, which could have been avoided had the FAC been a party to the Davenport presentation.

In total, the meetings the FAC was invited to observe and participate were significantly fewer than in previous years, as well as the documents provided for commentary and discussion.

While current budget projections show that anticipated revenues resulting from the second year of triennial property tax reassessments may mitigate some of the revenue pressures, the full benefits of those property reassessments are tempered by the realization that Homestead Credits used by many City property owners will cap the amount of potential property tax revenue the City may realize. Furthermore, the assessable commercial property tax base may be under measurable stress in the core downtown area due to anticipated City Dock renovations and other current/anticipated upgrade initiatives. Commercial property tax assessments consider revenue generated on commercial property, as well as the value of the land and structures on that property.

As we cautioned in our report in recent years, ongoing efforts must be intensified to reduce or eliminate any structural deficits. Even though the proposed FY 2026 Operating Budget does not reflect a structural deficit, these financial planning efforts must continue unabated to avoid future structural deficits.

We have been engaged in an ongoing review of the proposed legislation to implement a spending affordability plan. We expected that this would be in place for this budget preparation season, however, delays in the legislative process now indicate that this may be in place for the next budget season. We strongly urge its implementation.

ANALYSIS & RECOMMENDATIONS

The Commission offers the following analysis and recommendations, some of which are drawn from the Commission's previous reports to the City Council over the past four years. The City must continue to manage the City's potential structural deficit challenge with a sense of urgency. Our further specific comments follow:

1. At present, the City Council is confronted with limited options. Because of the City's limited revenue enhancement options, significant reduction in City expenses coupled with a potential future property tax increase may be unavoidable. On the revenue side, the Finance Director indicates that the City should pursue alternative revenue sources, and we endorse this goal. Discussions with the County on pursuing joint public safety and other service-related agreements as a way to reduce City expenses should be pursued.
2. It is the FAC's view that the only viable areas to reduce expenses to the extent necessary may be through a reduction in salary and benefit expenses, reducing contractual services,

and lowering future interest expense obligations by managing the acquisition of new debt. The City must then commit to keeping future expenses in-line with anticipated revenues. More specifically, the City must vigorously manage salary and benefit expenses going forward, which leads the next recommendation.

3. As noted in previous FAC budget reports, the growth in City expenditures (10.3% in this budget), attributable in large part to rising personnel-related costs, continues to outpace the growth of revenues, contributing in large part to the City's past structural deficits. Personnel costs also have a direct impact on the City's cash flows. A large portion of the City's Operating Budget (approximately 67% for the General Fund) is driven by personnel-related costs, plus an unidentified additional amount for contractual services in the presence of unfilled positions. The Commission historically has urged restraint in adding to the City's personnel costs and continues to do so.
4. In particular, the City Council should analyze and carefully evaluate the necessity for personnel position enhancements that are proposed in the FY 2026 budget and approve only those that are demonstrated to be essential rather than merely desirable. And, to the extent that additional positions are authorized in the budget, strong consideration should be given to eliminating a comparable number of authorized positions.
5. Furthermore, the City must continue to exhibit resolve in collective bargaining negotiations by making clear the fiduciary relationship that exists between City government and its citizens that creates a "duty of good faith" to responsibly manage taxpayer monies in the financial administration of the City's affairs. The FAC continues to believe that, to carry out its chartered mission, it must have a role in the collective bargaining process. This is best achieved by having a designee FAC member be present as an observer and consultant to the City during the negotiation process.
6. In prior communications to the Mayor and Council, the Commission urgently recommended transitioning from budgeting focused on a line-item incremental approach to a more performance-based budgeting model. The FAC again emphasizes the urgent need to adopt this process for future budgeting. A "priority-based" and "performance-based" budgeting process will lead to (a) increased efficiencies in City government, (b) establishment of a consensus on important core services, (c) a prioritization of the use of citizen and business tax dollars, and (d) establishment of accountability on how those dollars are spent. We understand that, in past years, City staff and the Mayor and Council worked to identify spending priorities and related performance measures. While these efforts may not have evolved into a full-blown "priority-based" and "performance-based" budgeting process, they are a step in the right direction and encourage the continuation and expansion of such efforts.
7. As noted in previous FAC recommendations, the City's budgeting process continues to lack a clear and unifying strategic focus. We know WHAT is required by law (i.e., a balanced budget), and that much, i.e., a balancing of the budget, is achieved in the FY

2026 budget. However, the City still does not have a clear and unifying WHY behind this annual process. The City still follows a bottom-up approach to budgeting, in which department heads individually determine their priorities and performance measures as a basis for their funding requests. However, adopting a strategic focus will instill a top-down budgeting approach in which department heads are focused on an overall vision and mission for the City, and where priorities and performance measures are traceable directly back to the overall vision and mission.

8. Future budget cycles must be designed to include the FAC earlier and meaningfully so that the FAC is in a position to provide advice and insights.

CONCLUDING REMARKS

As the Commission said over the past four years, continued urgent work is still required with the uncertainty of future revenues and the ongoing looming threat of a structural deficit. While no Operating Budget structural deficit is projected for FY 2026, that is no reason to reduce vigilance on budgetary matters or to further delay a spending affordability function in the budgeting process.

We pledge our continued commitment to provide the Mayor and City Council an unvarnished and forthright assessment of the City's financial outlook in a resolute effort to chart the most fiscally responsible and financially sustainable course for the future welfare of our City. We urge the Mayor and City Council to begin implementing the Commission's recommendations that have proven prescient in forecasting the financial opportunities and challenges the City should address expeditiously. Failure to do so may be consequential to the future financial viability of the City.

Sincerely,

A handwritten signature in blue ink, reading "James A. Cardillo". The signature is fluid and cursive, with the first name "James" being the most prominent.

James A. Cardillo, Vice Chair

cc: Victoria Buckland, Acting City Manager (By e-mail)
Brittany Moran, Finance Director (By e-mail)
Regina C. Watkins-Eldridge, City Clerk (By e-mail)
Financial Advisory Commission Members (By e-mail)