

**CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION**  
**c/o Frederick C. Sussman, Esq., Chair**  
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May 1, 2015

BY E-MAIL AND HAND DELIVERY

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

Re: Ordinance 14-15 (City's FY 16 Operating Budget)

Dear Mayor Pantelides and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC") to explain the Commission's serious concerns regarding Ordinance 14 -15 (City's FY 16 Operating Budget).

At the outset, the Commission commends the Mayor, the Administration staff, and the City Council on the efforts that have been made thus far to develop a programmatic budget, following a strong recommendation that the FAC made in its September 18, 2014, letter to the Mayor and City Council. These efforts will provide greater transparency for the budget process and lead to a sounder fact based decision making process as budget deliberations continue. The successful adoption and implementation of a programmatic budget will serve as a solid foundation to evaluate program performance in future years against established matrices. This can lead to even greater budgetary transparency and rational fact based decision making.

The City Council referred Ordinance 14-15 to the FAC for review and recommendation. At this point, all that was available to the FAC for consideration was the Mayor's proposed budget. The FAC extensively discussed the Mayor's proposed budget with the Finance Director and City Manager and commend the efforts that led to the preparation of that budget.

Nevertheless, the FAC finds several significant shortcomings in the proposed budget that the FAC hopes will be addressed as the budget deliberation process continues. Briefly, these issues are as follows:

1. For several years the FAC and Finance Director have advocated annually growing the unrestricted fund balance to have enough unrestricted funds to address unanticipated revenue shortfalls. The Mayor's proposed FY 16 operating budget forecasts a razor thin projected FY 16 year-end contribution to fund balance for the General Fund, less than \$120,000. This leaves very little room for error in assumptions or non-performance in the General Fund, or in the Enterprise

Funds that may need to draw on the General Fund if they go into deficit, as has historically been the case. As an example, based upon history, the FAC lacks confidence that the Transportation Department will perform as budgeted, despite management changes that have been made in that Department. Underperformance is likely to require a subsidy from the General Fund, most likely from fund balance. The City has made great strides to increase its fund balance over the past few years, and the FAC does not believe that it is appropriate for the City to have to draw down on fund balance to meet current obligations that should be anticipated and planned for. The accumulated fund balance exists for the purpose of addressing significant financial stress caused by an economic downturn or consequential unanticipated financial emergencies. Neither of these two conditions exist to warrant drawing down the unrestricted fund balance.


2. As a corollary, the FAC recommends that the FY16 general fund budget include a specific line item that appropriates at least \$1,000,000 to fund balance. This will continue the fiscal discipline that the Mayor, City Council and Finance Director have shown over the past few years when from \$3M to \$6M per year was added to the fund balance. This approach will contribute to a smooth implementation of the Budget Stabilization Fund and the Capital Reserve Fund detailed in Resolution 9-15.

3. Because of expenditures arising from contractual obligations that must be funded in FY 2017, at this point there is an expectation that the City will face a significant general fund deficit in FY 2017 of more than \$1,000,000, with a potential for overall City funds deficits to be significantly greater. The ground work needs to be laid in the FY16 budget to lessen the severity of any expected deficit in FY 2017. The difference between anticipated revenue increases and increases in personnel costs at current service levels is approximately 2%. This is not sustainable. Absent opportunities to diversify the City's revenues, the City will be faced with the choice of cutting services and the attendant personnel, or raising taxes on a regular basis in the future. It should be obvious that this is not prudent financial planning. The FAC recommends that the FY 16 budget identify between \$500,000 and \$600,000 in expenditure cuts or new revenues in order to be a viable financial plan for the City in FY 2016 and going forward.

4. In order to reduce reliance on indebtedness and related debt service to pay for capital expenditures and regular capital facilities maintenance, the City should continue its efforts to pay for some of these items from current year's revenues (PAYGO). The FY16 budget should include a specific appropriation for projects to be funded by PAYGO. Such a PAYGO projects fund should be restricted and not available for other uses.

The FAC thanks you for the opportunity to weigh in on the proposed FY16 operating budget. The FAC stands ready to review and comment on further iterations of the FY16 operating budget as it progresses through the legislative process.

Sincerely,



Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)  
Bruce Miller, Finance Director (By e-mail)  
Thomas Andrews, City Manager  
Jacalyn Bierman, Boards and Commissions Coordinator (By e-Mail)  
Jacquelyn Lee, Legislative and Policy Analyst (By e-mail)