

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
c/o Frederick C. Sussman, Esq., Chair
125 West Street, 4th Floor
Annapolis, Maryland 21401
(410) 268-6600
fsussman@councilbaradel.com

May 4, 2016

BY E-MAIL

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

Re: Ordinance 13-16 (City's FY 2017 Operating Budget)

Dear Mayor Pantelides and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC") to explain the Commission's concerns regarding Ordinance 13 -16 (City's FY 2017 Operating Budget). The City Council referred Ordinance 13-16 to the FAC for review and recommendation. At this point, all that was available to the FAC for consideration was the Mayor's proposed budget. The FAC discussed the Mayor's proposed lean budget with the Finance Director and City Manager.

A budget that is balanced does not necessarily represent a healthy spending plan. At the most basic level a sustainable operating budget is one where normally occurring and recurring revenues exceed normally occurring and recurring expenses. It is also necessary to establish adequate reserves to "pay as you go" to replace operating equipment and vehicles as they become obsolete and to improve capital assets without borrowing. Lastly, unassigned surpluses need to be saved up for future revenue shortfalls, unexpected contingencies, or emergency expenses. It is imperative that the City Council begin seriously evaluating budget priorities now. These decisions become exponentially more difficult every year that they are put off. Briefly the primary issues that must be addressed this year are as follows:

1. The proposed year over year increase for employee payroll and benefit expenses is nearly three times the estimated year over year increase in property tax revenues. The FAC is very concerned by the loss of fiscal discipline that draws down fund balance to fill this gap. City revenues continue to remain relatively flat while expenses continue to increase, particularly personnel costs. With an aversion to increasing the property tax rate, particularly with City elections looming next year, the City Council now should begin to prioritize essential core services and begin making difficult expenditure and service reduction decisions now unless new reliable revenue sources are found. Putting this discussion off will only make the discussion more painful when faced with a genuine fiscal crisis. The performance-based budgeting process introduced last year was intended to give the City Council the tools to make well-informed


decisions about what services are essential and which could be eliminated, but to date the City Council has not wrestled with these understandably difficult decisions.

2. For several years the FAC has advocated annually growing the unrestricted fund balance to have enough unrestricted funds to address unanticipated revenue shortfalls. The Mayor's proposed FY 2017 operating budget proposes to use approximately \$670,000 from unrestricted General Fund balance to fund current operating expenses, and forecasts a razor thin projected FY 2017 year-end contribution to fund balance for the General Fund of less than \$2,000. 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. The City has made great strides increasing 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. The direction and trend of the City's fund balance will doubtless be noted by the bond rating agencies and will be likely to affect the City's bond rating in the future and thus the City's ability to borrow money for necessary capital investments.

3. As a corollary, the FAC recommends that the City Council not add any new expenditures or program funding in the FY 2017 budget. Specifically, the FAC recommends that the City Council not fund employee cost-of-living adjustments that have been requested as part of the IBB process.

The FAC thanks you for the opportunity to weigh in on the proposed FY 2017 operating budget. The FAC stands ready to review and comment on further iterations of the FY 2017 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 (By e-mail)
Jacalyn Bierman, Boards and Commissions Coordinator (By e-mail)
Jacquelyn Lee, Legislative and Policy Analyst (By e-mail)
Regina Watkins-Eldridge, City Clerk (By e-mail)