



# Legislative Summary

O-12-25

## Prioritizing Affordable Spending Through Expansion of Financial Advisory Commission Duties

The City of Annapolis Office of Law created this summary for the use of Annapolis City Council members during their consideration of the legislation.

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### Bill Summary

O-12-25 expands the duties of the Financial Advisory Commission, also called "FAC," to include "spending affordability" reviews of the City's finances and requires annual reports to the City Council before it starts the annual budget process.

### *Background*

"Spending affordability" refers to a government's ability to finance its spending while considering factors like income growth, debt levels, and economic conditions. Spending affordability helps limit budget growth in government budgeting, ensuring it aligns with the local economy's capacity.

In 1982, the state general assembly created its Maryland Spending Affordability Committee to study and review the status and projections of State revenues and expenditures and the status and projections of the Maryland economy. It seeks to keep state spending growth in line with economic growth.

Rather than creating a new committee or entity, O-12-25 puts spending affordability criteria under the purview of the Financial Advisory Commission, which already has the mission of reviewing the City's financial situation.



Spending affordability generally:

### **Sets Spending Guidelines**

Spending affordability guidelines aim to limit government spending so that it does not exceed the growth rate in the local economy.

### **Considers Economic Factors**

These guidelines consider factors such as personal income growth, property tax revenues, and other economic indicators.

### **Reviews Debt Affordability**

They also consider existing debt levels and debt service obligations.

### **Balances Spending with Taxpayer Capacity**

The goal is to ensure that government spending remains sustainable, avoiding the need for excessive taxation or fees.

## **Details**

Changes generally include reorganizing the Financial Advisory Commission article of Title 2 and adding spending affordability provisions.

### **Section 2.48.110 (B)**

Asks the Financial Advisory Commission (FAC) to make recommendations on:

- the City's budget and financial situation,
- ways to improve the City's budget procedures,
- any other issues that the Council requests.

Several reports are required:

- budget levels: for funding and spending, operating and capital expenses for the upcoming fiscal year, and annual tax rates;
- spending affordability;
- funding needs -- to hire consultants to help FAC with the reports.



Reports must be delivered to the City Manager, Finance Director, and City Council and made available to the public.

### **Section 2.48.120**

Reorganization of the section to separate FAC composition requirements.

### **Section 2.48.130**

*Creates a new Spending Affordability section in the City Code*

- A.** Explains spending affordability generally
- B.** FAC is required to make an annual Spending Affordability Report.
  - 1.** The report research must include expense projections, debt service obligations, expenditures, and reserve fund balances.
  - 2.** The reports must include the following components: local economic growth, property tax rates, taxing capacity, estimated outside revenue, city resident income levels, debt in comparison to several factors such as debt per capita, annual inflation rates, housing construction and sales trends, unemployment, and population growth.
- C.** It requires the mayor, city manager, and finance director to consider the FAC spending affordability report when creating the annual draft budget and point out where the FAC recommendations are included in the draft budget.