

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION

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May 13, 2019

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 2020 Operating Budget,
FY 2020 Capital Budget and FY 2021-2025 Capital Program,
FY 2020 Fees, FY 2020 Fines, FY 2020 Annual Pay Scale, and Proposed Exempt Service
and Other Position Reclassifications

Dear Mayor Buckley and Members of the City Council:

The Financial Advisory Commission's mission is to provide impartial advice and guidance to the Mayor and City Council about the City's financial well-being, financial policies and procedures, and proposed budgets. We also provide input as requested by the Mayor and City Council on other matters impactful to the financial health of the City. We approach our responsibility with the perspective that our elected officials have a fiduciary obligation to ensure accountability for spending public funds by efficiently and economically appropriating only such funds as are necessary to secure the benefits of home rule.

The Mayor and City Council referred to the Commission for our review and advice the Mayor's proposed FY 2020 Operating & Capital Budget, FY 2021-2025 Capital Program, FY 2020 Fees, FY 2020 Fines, FY 2020 Annual Pay Scale and other legislation relating to proposed Exempt Service and other position reclassifications. The Financial Advisory Commission has reviewed and discussed these materials with the City's Finance Director and City Manager. In short, the Commission generally supports the proposed FY 2020 Operating & Capital Budgets and the FY 2021-2025 Capital Program, subject to the comments below. However, because the Commission was not provided with background or supporting information for the FY 2020 Fees, FY 2020 Fines, FY 2020 Annual Pay Scale and other legislation relating to Exempt Service and other position reclassifications, the Commission takes no position on these legislative proposals.

The Commission offers the following additional comments:

1. The Commission applauds the new FY 2020 Operating and Capital Budget formats and budget book. They provide the Mayor and Council and the general public with greater clarity and transparency in the budget recommendations. However, in order to evaluate the future impacts of current budget decisions, the Commission recommends that future budget presentations identify significant budgetary recommendations that, if adopted, would result in expenditure impacts beyond the current fiscal year.

2. The proposed Operating Budget incorporates appropriate use of fund balances and reserve funds to fund non-recurring expenses, thereby reducing reliance on property taxes for such purposes. Expenditures are being appropriately funded by anticipated revenues and fund balances and reserve funds. Finance staff was especially helpful to the Commission's understanding of the use of fund balances and reserve funds as budgetary funding sources.

3. The Commission believes that the City's General Fund cash flow is positive under the proposed budget but cannot assess whether it will remain so in the foreseeable future without a projected cash flow analysis that would take into consideration potential changes in economic conditions and the likelihood of a major weather event that would result in reduced revenues or necessitate significant unanticipated expenditures.

4. The Commission continues to encourage and support the use of pay-go to fund capital projects where feasible to reduce reliance on the issuance of debt for such purposes. Because City revenues are projected to be flat for FY 2020 the proposed budget would reduce the amount of money allocated for pay-go and fund by the issuance of debt projects that normally would be suitable for pay-go funding. The Commission recommends that pay-go funding be retained at FY 2019 levels.

5. Because such a large portion of the City's Operating Budget is driven by personnel-related costs, the Commission historically has urged restraint in adding to the City's personnel costs, and continues to do so. However, it appears to the Commission that the Finance Department is significantly understaffed because of unfilled vacant positions and recent staff departures. The Finance Department staff performs an unheralded but vital role in managing the City's fiscal health and providing critical information about the operations of the City, and requires a full complement of experienced staff to do so properly and timely. The Commission urges that the FY 2020 budget preserve all currently authorized Finance Department positions, and that efforts be made to bring the Department up to full staffing levels expeditiously. Finally, we concur with the recommendation made by the City's external auditors that the City evaluate the complement of accounting personnel to determine that the size and mix of personnel is appropriate for the complexity of the City's operations.

6. The proposed FY 2020 Fines Schedule and FY 2020 Fees Schedule do not reflect the proposed changes in fines and fees from FY 2019 to FY 2020. Therefore, the Commission was unable to evaluate the reasonableness of the proposed FY 2020 Schedules. While the Commission encourages the City to maintain fees at levels that are expected to recoup costs of each service or activity to be funded with the fee, the Commission believes that the City needs

to consider whether the collective amounts of certain fees imposed upon business and development related activities are an impediment to economic development and have the unintended consequence of reducing the other types of taxes and revenues that development might generate far in excess of the fees collected.

7. The FY 2020 Operating Budget addresses issues that the Commission has commented upon in past years. The proposed budget increases funding for OPEB and provides full funding for the actuarially recommended City contribution to the Police and Fire Retirement Program.

8. The Commission recommends that no new debt be issued until funds from currently issued debt are utilized. Even then, to avoid unnecessary interest expense, new debt should be the minimum amount necessary to fund projects that are reasonably likely to commence within this fiscal year. Going to the bond market without a workable time table for utilizing the monies obtained from issuance of new debt is not recommended.

In conclusion, the Commission would like to acknowledge the work of Finance Director Jodee Dickinson and City Manager Theresa Sutherland. Despite numerous Finance Department staffing challenges, these individuals were instrumental in helping to bring forward a fiscally responsible financial program for FY 2020. The Finance Commission has confidence in their future leadership to keep the City on solid financial footing.

The Financial Advisory Commission pledges our continued support to work collaboratively with the Mayor and City Council to chart a fiscally responsible and financially sustainable course for the future welfare of our city.

Sincerely,

Frederick C. Sussman, Chair

cc: Theresa Sutherland, City Manager (By e-mail)
Jodee Dickinson, Acting Finance Director (By e-mail)
Regina C. Watkins-Eldridge, City Clerk (By e-mail)
Financial Advisory Commission Members (By e-mail)