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The Budget and City Financial Projections Resulting from COVID-19





City Council Work Session - April 30, 2020

Outlook for FY2020 closeout

General Fund Revenue Projection
\$80,633,313

General Fund Expenditure Projection
\$81,392,020

Projected FY2020 Use of General Fund Balance

▶\$758,707



► FY2020 Planned to Use \$2,872,900

FY21 Revenue Projections

► The Good News

- About 70% of GF revenues are from property taxes, which are stable and are estimated to increase by over \$2 million in FY21
- Our target of 15% unassigned General Fund Balance is being maintained

► The Bad News

- GF revenue, especially income taxes and hotel taxes, along with parking and transportation revenue, will be affected. Revenues related to tourism and development will be most severely impacted.
- GF revenue projections were reduced by roughly \$2.5 million in both FY20 and FY21



FY21 Expenditure Projections

► The Good News

Healthcare costs, prior to the pandemic, were not increasing

- New Rx program manager in FY21 is expected to lower the premiums
- ► The Bad News
 - Salaries and benefits (about 70% of total budget) are growing at 8.3% year over year before reductions.
 - ▶ Pension costs are increasing significantly.
 - Fire and Police Pension required contributions increasing from 22.1% of salaries in FY20 to 28.2% in FY21.
 - State Pension required contributions increasing from 9.4% of salaries in FY20 to 10.2% in FY21.



General Fund Revenues

FY19 Actual	FY20 Projected	FY21 Projected
\$50,457,045	\$52,573,275	\$54,518,000
\$ 2,989,277	\$ 2,543,113	\$ 2,435,000
\$ 199,991	\$ 30,000	\$ 100,000
\$ 3,105,687	\$ 2,757,540	\$ 2,764,600
\$ 356,148	\$ 330,016	\$ 300,000
\$ 1,542,868	\$ 1,727,718	\$ 1,568,000
\$11,333,081	\$12,136,828	\$12,471,000
\$ 5,601,700	\$ 5,114,422	\$ 5,341,000
\$ 3,311,047	\$ 3,420,401	\$ 3,262,200
\$ 78,896,844	\$ 80,633,313	\$ 82,759,800
	\$50,457,045 \$2,989,277 \$199,991 \$3,105,687 \$356,148 \$1,542,868 \$11,333,081 \$5,601,700 \$3,311,047	\$50,457,045\$52,573,275\$2,989,277\$2,543,113\$199,991\$30,000\$3,105,687\$2,757,540\$356,148\$330,016\$1,542,868\$1,727,718\$11,333,081\$12,136,828\$5,601,700\$5,114,422\$3,311,047\$3,420,401



Parking & Transportation Revenues

Source of Funds	FY19 Actual	FY20 Projected	FY21 Projected
Parking Fund	\$8,390,470	\$6,613,333 (1)	\$7,178,400
Transportation Fund	\$5,188,472	\$3,723,375 (2)	\$5,426,684

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Note (1) – FY20 Original Budget for Parking was \$9,110,000. Note (2) – FY20 Original Budget for Transportation was \$5,633,025.



Revenue Assumptions for FY2021

Property Tax – Third year of 3-year assessment, with increase of approximately \$2 million over FY2020. 69% of General Fund revenue.

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- Income Tax Estimate for FY21 lowered from \$8.3 million to \$7.3 million. Decrease in taxable Income offset by 12.4% increase in County piggy back tax rate.
- Tourism and Group Activities 9 mos of activity similar to FY20, little or no income in April, May, or June. Little or no activity in July, August, or September. Includes: hotel/motel, admissions, and some vendor related permitting activities.
- Recreation Rec & Parks, Dock Charges 9 mos of activity with some dock activity in June. Pool opening in July but Rec & Parks activities resume in school year.
- ▶ <u>Liquor Licenses</u> 10% decline projected in FY2021.



Development Permitting – Assumed some categories slow down in permitting by 10% - 20%.

General Fund Expenditures by Dept.

Department	FY19 Actual	FY20 Projected	FY21 Projected
City Council & Mayor	\$ 2,692,606	\$ 3,068,400	\$ 3,497,400
Human Resources	\$ 835,454	\$ 931,390	\$ 995,100
Mgmt Info Systems	\$ 1,806,057	\$ 1,837,105	\$ 2,031,200
► Finance (incl. nonalloc	.) \$25,119,906	\$20,472,075	\$18,360,050
Planning & Zoning	\$ 3,775,566	\$ 3,847,500	\$ 4,344,400
► OEP	\$ 390,305	\$ 450,200	\$ -
► Police	\$19,102,614	\$19,699,600	\$21,853,200
► Fire	\$16,696,525	\$18,076,770	\$20,899,500
► OEM	\$ 195,704	\$ 425,720	\$ 463,800
Public Works	\$ 7,497,589	\$ 7,247,850	\$ 8,210,200
► Rec & Parks	\$ 4,851,182	\$ 5,335,410	\$ 5,612,600
TOTAL	\$ 82,963,508	\$ 81,392,020	\$ 86,267,450

GF Expenditures by Category

Expenditure Type	FY19 Actual	FY20 Projected	FY21 Projected
Salaries & Benefits	\$52,481,044	\$53,959,500	\$59,242,400
Contract Services	\$ 5,842,999	\$ 7,153,780	\$ 8,379,100
Supplies & Other	\$ 2,102,856	\$ 1,849,130	\$ 1,959,800
Capital Outlay	\$ 432,508	\$ 508,205	\$ 1,226,000
Debt Service	\$ 7,748,225	\$ 8,630,005	\$ 7,860,000
Community Grants	\$ 329,200	\$ 429,700	\$ 429,700
Self Insurance	\$ 2,447,500	\$ 2,144,000	\$ 2,015,000
Interfund Transfers	\$ 9,727,006	\$ 4,699,700	\$ 3,055,650
Contingencies & Other	\$ 293,254	\$ 368,000	\$ 790,000
TOTAL	\$ 82,963,887	\$ 81,392,020	\$ 86,267,450



Expenditure Takeaways for FY2021

Salaries & Benefits – 62.67% of GF expenditures in FY2019, 66.30% in FY2020 (projected), and 68.67% in FY2021 (projected)

- Year over Year Growth in Salaries & Benefits 3.79% from FY2019 to FY2020 (projected), and 9.79% from FY2020 (projected) to FY2021 (projected)
- Year over Year Growth in Contractual Services 22.43% from FY2019 to FY2020 (projected), and 17.13% from FY2020 (projected) to FY2021 (projected)
- Increase in Contractual Services offset by decrease in Interfund Transfer for Fleet Management allocations
- Remainder of GF expenditures are relatively flat over the FY2019 to FY2021 budgets

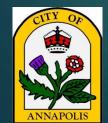


General Fund FY2021Budget Totals

- General Fund Revenue
- General Fund Appropriations
- Appropriations exceed Revenues by....

\$ 82,759,800 (86,267,450) \$ 3,507,650 11

Shortfall funded with use of General Fund Balances:
Capital Reserve Fund for nonrecurring expenses - \$1,707,850
Assigned for one-time uses for nonrecurring expenses - \$1,326,000
Budget Stabilization Fund for recurring expenses - \$473,800



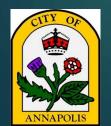
As FY2020 audit is completed, any fund balance in excess of 15% reserve will be used to replenish BSF up to its limit. The rest will be split between the other two reserves. Current projections anticipate excess; however, many factors could change.

Proposed Reductions to Gener	al Fund
Reductions	Amount
Reduce contribution to Fleet Ops and Replacement Funds	\$828,400
Reduce contribution to Self Insurance Fund	\$300,000
Remove funding for two School Resource Officers	\$310,000
Eliminate City contribution to 401(a) Plan	\$160,000
Remove Funding for Grant Writer in Mayor's Office	\$ 42,700
Remove funding for tree planting in Planning & Zoning	\$ 50,000
Reduce planned increase in OPEB funding	\$ 25,000
Add 2% personnel turnover allowance in the departments	\$572,890
Anticipated savings from retiree & employee 65 and over benefit p	olan \$365,700
Rec & Park, OEM, HR, P&Z and Law reductions	\$ 93,000
DPW reductions	\$145,700
MIT reductions	\$102,000
Finance Department reductions	\$ 34,000
► Fire Department reductions	\$ 50,000
Police Department reductions	\$ 50,000
Defer COLA for all City employees from July 1, 2020 to January 1, 2	2021 <u>\$689,000</u>
ANNAPOLIS TOTAL	\$3,818,390

Pension Costs for FY2021

Police and Fire Actuarial Study

- ► Contribution of 22.13% of salaries in FY2020
- Contribution increase to 28.23% of salaries in FY2021
- ► Cost increase is \$762,400
- Actuarial Study recommended increase to 33% in FY22
- ►State Pension
 - Contribution of 9.38% of salaries in FY2020
 - Contribution increase to 10.24% of salaries in FY2021
 - ► Cost increase is \$140,900



Current investment market decline may increase the required contributions in the future.

Fund Balances

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General Fund	FY19 Actual	FY20
General Fund Balance	\$14,260,809	\$
Budget Stabilization	\$ 3,071,439	\$
Capital Reserve	\$ 4,686,903	\$
One-Time Uses	\$ 2,383,539	\$
Keeping History	\$ 25,373	\$
Gifts and Donations	<u>\$ </u>	<u>\$</u>
► TOTAL	\$ 24,480,549	\$ 2

20 Projected \$16,443,961 \$ 3,071,439 \$ 2,343,903 \$ 1,862,539 \$ -<u>\$ -</u> <u>\$ -</u> **\$ 23,721,842**



Compliance with Fund Balance Policy

General Fund Balance Compliance

- General Fund Budgeted Revenue Parking Fund Budgeted Revenue Transportation Fund Budgeted Revenue
- Applicable Fund Balance Requirement
- Required Fund Balance Reserve
- Projected Fund Balance
- Projected Balance in Excess of Requirement



Replenish Budget Stabilization Fund Replenish Capital Reserve Fund ► Replenish Reserve for one-time costs

Fund Balance Requirement (based on FY21 projected revenue) \$82,759,800 \$ 7,178,400 <u>\$ 5,426,684</u> \$95,364,884 <u>15%</u> \$14,304,733 <u>\$16,443,961</u> \$ 2,139,228 263,308 S 937,960 \$ 937,960 \$

Parking Fund Impacts

Parking Fund

- ▶ FY2020 Revenues \$2.5 Million less than budgeted
- FY2020 Reduced subsidy to Transportation Fund from \$2,474,200 to \$1,047,000
- FY2020 Some savings due to reduced operating costs by SP Plus
- ▶ FY2021 Assumes Hillman online for entire year
- FY2021 Projected Revenues are \$721,200 less than FY2020 budget
- FY2021 Not enough revenue to pay Transportation Fund subsidy to break-even



Transportation Fund Impacts

Transportation Fund

- ▶ FY2020 Revenues \$1.9 Million less than budgeted
- FY2020 Reduced subsidy from Parking Fund projected to leave fund with deficit of \$1.33 Million
- FY2020 Some savings occurring due to reduced services and fuel costs
- FY2020 Some Federal Assistance expected for revenue loss
- ► FY2021 Parking Fund subsidy projected at \$2,829,700.
- FY2021 General Fund must subsidize to balance budget in Transportation



DPW Enterprise Fees

- Sewer Rates No change Fund Balance is adequate for near future expenses
- ▶ Water Rates Increase by 5% \$3.72 to \$3.87
 - Ongoing Capital Projects adding to Debt Service and Pay-go funding requirements

- Watershed Restoration Fee structure changing to be based on EDU based on impervious surface
- Solid Waste Rate increasing 5% \$261 to \$274



FY2021 CIP - Funding Source

► General Fund projects – Total - \$16,258,632

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- Bonds GF repayment \$7,735,800
- Bonds Enterprise fund repayment \$2,125,000
- ▶ Pay-Go from Enterprise Funds \$213,500
- ► Grants \$2,176,482
- Capital Reserve Fund \$1,707,850
- ▶ POS Acquisition (CRAB) \$1,300,000
- State Grant (CRAB) \$1,000,000

Enterprise Fund projects – Total - \$6,251,500

- ▶ Bonds \$3,901,500
- ▶ Pay-Go \$2,350,000



Budget Execution in FY2021



Monthly update of the revenue and expenditure projections based on COVID status

Pre-determined list of potential budget actions to address deteriorating budget situation, if needed

Bi-monthly updates to Finance Committee and/or City Council of budget status

