



**Fiscal Year 2022 Budget Report of  
The Finance Committee of  
The Annapolis City Council  
May 10, 2021**

Finance Committee Members

Alderman Ross H. Arnett, III Ward 8, Chairman

Alderman Sheila Finlayson, Ward 4

Alderman Frederick Paone, Ward 2

## Budget Process and Calendar

The Finance Committee received the Mayor's Fiscal 2022 Budget at the City Council meeting of April 12, 2021. The City Council then held a Work Session on Thursday April 15, 2021 for a review of the Budget led by the City Manager and Finance Director. The Committee commenced work on it on Monday, April 19, 2021 and held 14 meetings to deliberate and produce this Report to the City Council. Three of those meetings were meetings with the City Council as a whole, a new practice started this year.

Several changes were made with this year's Finance Committee's deliberative process. First, the Budget Binder, while containing much the same content as in the past, is presented in a new format. The binder is also available online as well as the hard copies given to the Council members. Accompanying the Binder is a new system provided by Open Government that displays the budget in an analytic program that allows charting and graphing, access to line-item detail and exportation of data into Excel spreadsheets for additional analysis. The Committee very much appreciates these upgrades in presentation and analytic power.

In years past many Council members would attend the Committee meetings and did so again this year. However, this year, as mentioned above, the Committee initiated a new process where we held Finance Committee Meetings of the Whole Council. Three such meetings were held: one with Police, one with Fire, Public Works and Transportation, and a final meeting with the remaining departments. These meetings allowed discussions with the departments as they related to the alignment of the budget with City Council policy objectives. It is at budget time that the Council can fully communicate these policy objectives.

This year and by legislative action the Council is to follow several new procedural rules. The first is a deadline for Council member amendments to be submitted to the Finance Department and Office of Law for drafting. The deadline this year is 17 May. Also, as in years past the general rule is that amendments that come with spending increases must be accompanied with spending cuts elsewhere in the budget or a commensurate increase in revenue source. Also new this year is a scheduled City Council Work Session for Thursday 27 May to discuss the Council member amendments to the Budget. Finally, the Council has scheduled a meeting for the first

Monday in June, the seventh, to hold the vote on the Budget with amendments. The final Budget vote will be held at the regular Council meeting of 14 June.

Approval of the fiscal 2022 City Budget is accomplished by passage of the Annual Budget and Appropriation and Property Tax Levy Ordinance and three Resolutions, one for FY 22 fines, FY 22 fees and FY 22 Position Classification and Pay Plan. This year the Council must also consider the Compensation of the Aldermen, Alderwomen, and City Manager legislation, O-11-12, as it will affect FY 22 spending for compensation. The effects of this legislation have not yet been implemented in the FY 22 proposed budget.

The City Manager provided two summary presentations, one on the Fiscal Year 2022 Operating Budget, and the other on the Proposed Capital Budget (FY 2022) and Capital Improvement Program (FY 2022 – FY 2027), both of which are attached to this document and both of which give a very good overview of fiscal 2022.

The Committee heard presentations from all Administration components (departments and offices), each presented in the format of the Performance Measurement system showing goals, objectives, benchmarks and performance measures. Copies of these presentations have been provided to all Council Members and offer a wealth of information about City operations and performance.

### Committee Findings and Recommendations

The Committee reviewed the Fiscal Year 2022 Proposed Annual Operating Budget Support materials that are a detailed presentation in the Budget Binder of general background; and summary of funds, grants, and staffing; along with detailed information of departmental budgets. The Committee reviewed the Budget ordinance, O-10-21, and by a two to one vote recommended its passage to the City Council. The ordinance includes the amount of and distribution of the Community Grants from the City. Likewise, the Committee recommended to the City Council passage of the FY 22 Capital Budget and the FY 22 to 27 Capital Improvement Program (CIP) by a three to zero vote. The Committee voted by three to zero to recommend passage of all three budget resolutions. Finally, the Committee voted by three to zero to recommend favorably O-11-21 the Compensation

legislation. The Committee did note that the distortions of the pandemic and subsequent federal relief programs made comparisons of the fiscal 2022 budget with fiscal 2021 or even back to fiscal 2020 hard to make.

### Committee Deliberation and General Recommendations

There are three indicators of financial health the Finance Committee tracks on a regular basis, Fund Balance levels, cash flow position, and debt capacity. Pages 20 and 21 of Budget Binder show that the projected fund balances for all funds meet or exceed requirements. When asked, the Finance Director assured that there are no cashflow problems expected given our funding streams. Finally, our Financial Advisors, Davenport, provided analysis of our debt capacity (Tab F in the Binder) showing that we are now within and projected to stay within our debt service policy compliance goals of 10 to 12 percent debt service as a percent of General Fund revenue.

The Finance Committee continues to be concerned that our principal source of revenue, property taxes continue on a steady growth path of about 3 percent a year while our City personnel costs, salaries and benefits, are growing at least three times as fast as property tax revenue growth.<sup>1</sup> This is not sustainable and seems to be persistent or structural in nature. Currently, our structural deficit stands at approximately \$2.8 million dollars, but is compensated for by one time only federal dollars.

In recent years, the budget has sometimes been balanced by using Budget Stabilization Funds. Those funds are largely generated by conservative budget making, that is, conservative over estimates of expenditures and under estimates of revenue. In the last two years the budget revenue was greatly aided by one time only federal relief funds.<sup>2</sup> Given the relative growth rate of the principal spending source and with the principal revenue source and the departure of the federal aid, we will be unable to balance the budget without major service cuts or with a significant property tax rate increase.

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<sup>1</sup> It should be noted that the personnel cost growth was unusually high due to four years of COLA increases along with a planned increased contribution to the Fire and Police Pension System. Growth due to these two factors need to be considered in FY 23 and beyond.

<sup>2</sup> It should be noted that the one-time federal relief funds were provided due to the pandemic and its devastating impact on the economy and the City revenues.

City salaries and benefits are driven by additional employees, increased pension contribution requirements, pay step increases, promotions, and cost of living adjustments. Personnel costs are determined by the salaries and benefits given to the total workforce. The compensation portion of the personnel costs is largely determined by union contract negotiations and locked in by the term on the contracts. Approximately one half of City employees are covered by contracts. It has been the practice of the City to compensate all noncovered employees with what has been negotiated with the unions. If the City is to address the disparity between slow revenue growth and more rapid personnel cost growth, that will have to be accomplished with the contract negotiations to occur during fiscal 2022 or, in other words, starting later this calendar year.

The other alternative to bring long-term stability to the structural deficit is to either raise property taxes or find other permanent sources of revenue, also likely to be a tax or transfer. The Spending Affordability Model that the Financial Advisory Commission is evaluating for us should provide information on the supportability of further property tax rate increases to balance the budget.

The Committee notes that many of the concerns we have were shared by the Financial Advisory Commission in their Report to the City on the Proposed FY Operating Budget, FY 2022 Capital Budget and FY 2023 – 2027 Capital Improvement Program, FY 2022 Fees and FY 2022 Fines. A copy of that Report is attached to this report from the Committee.

Finally, each year during the budget deliberations, we are posed with the option of merging services with Anne Arundel County. We realize that such decisions require considerable analysis and discussion with the County. The county may not wish or be able to take on City services and they may not be a lower cost alternative. To begin to address the reoccurring suggestion, we make two recommendations. First, the Finance Committee recommends amending the FY 22 Budget to use contingency funds to fund a community survey to assess the priorities of the residents. Second, we strongly recommend the creation of a task force to investigate the option of merging City services with the County. The Task Force will be codified through resolution.

Finance Committee Meetings with the City Council as a Whole

During the three Finance Committee meetings with the remainder of the City Council, many policy level matters with budget implications were discussed. With the Police Department the Committee of the Whole discussed the long-standing inability to hire up to full authorized strength for sworn officers. In the Council's view, this shortfall affects the ability to fully police the City. We heard that as few as seven officers are on patrol during some shifts. This certainly doesn't allow for the community policing concept of a set of officers continuously in each the same Ward as there are eight of those, not just the seven sometimes on duty. Also discussed was the changing nature of policing, that is, the notion of moving from an arrest to an assist mode of policing. This also addresses looking beyond criminality to causality to reduce crime and its long-term impact on social functioning.

During discussions with the Fire Department members expressed concern with the size of the budget, while recognizing the need for and the quality of the services the City receives. Just as with other communities, we have shifted from fire suppression to emergency medical services, with a 30 to 70 ratio. The change in the type of calls for service does not reduce the need for full staffing and equipment, or the attendant costs. Some examination was given to the Fire Marshall staff, all five of whom are fully qualified firefighters who work a day schedule instead of being on shift work with the rest of the force. With the potential advent of an on staff civilian Fire Safety Engineer, it may be that the fire marshals should be civilian as well, and report to the Safety Engineer.

The discussion with the Director of Public Works focused on pay equity in the lower echelons, and career ladders were discussed. While the discussion was with the Public Works Director, who has been giving some thought to the issues, the topic has more general application across all departmental components of the City.

Finally, the conversation with the acting Director of Transportation focused on two topics. The first was future looking and speculation of potential changes in service with on demand scheduling rather than fixed and routine bus routes. Also discussed was the notion of moving to a more regional transit system in partnership with at least Anne Arundel county if not a broader system. It was noted that many bus rides don't stop at City borders, but extend into the county for schooling, shopping and medical services as well as transit to and from workplaces.

At the last meeting of the whole the Council Members discussed the proposed new hires and staff conversions from contract to civil service positions during an unsettled budget time as we recover from the pandemic. The general agreement seemed to be that this was a discussion to be taken up for next year's budget in conjunction with the union negotiations.

The general topic of installation of new sidewalks was raised and the relative merits of this capital expenditure versus other items in the Capital Improvement Program (CIP). Specifically mentioned was moving dollars for surveillance camera replacement to sidewalks. Another project that was mentioned for the new CIP dollars was for a dirt bike park facility. There was discussion of new revenue sources such as a sales tax like the one granted to Ocean City Maryland. No specific action was recommended for any of these areas of discussion, but rather that the Council should take them up in the new term. Lastly, the notion of a new guaranteed income initiative was discussed. This will need to be established by legislation before funding requirements can be determined, but is part of a more general concept of addressing social causes of crime and socioeconomic disparities.

### Summary

In summary, the Finance Committee finds that a balanced budget has been presented by the Administration that it will sufficiently provide the services expected by the citizenry. There are some out year concerns about the sustainability of the budget path, but there is time and a course to address these concerns, most notably via the upcoming contract negotiations. Our recommendations include amendments offered by Administration staff for fees and fines, and, with only one change, the Committee accepted the recommendations made by the Community Grants Committee. It is likely that individual Council members will offer budget amendments. But on the whole, the Finance Committee recommends approval of all of the Budget legislation, along with our proposed amendment to fund a community survey to determine the service priorities of residents.

### Acknowledgements

The Finance Committee wishes to express its thanks to Jodee Dickinson and Katie Connolly and David Jarrell for guiding us through the Fiscal 2022

Budget with superb documents and presentations. We also thank all the Department Heads for their participation and help. Finally, the meetings and work of the Committee would not have been possible without the help of Teekia Green and Julien Jacques who literally ran our virtual shows.



Appendix A: Fiscal Year 2022 Budget – PowerPoint



FY22 Budget  
Presentation for Coi

## Appendix B: Proposed Capital Budget (FY 2022) and Capital Improvement Program (FY 2022 – FY 2027) – PowerPoint



FY22 Capital Budget  
Presentation - April

## Appendix C: Financial Advisory Commission Report

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

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 2022 Operating Budget and Capital Budget, FY 2023-2027 Capital Program, FY 2022 Fees, and FY 2022 Fines. The Financial Advisory Commission has reviewed and discussed these materials with the City's Finance Director and City Manager, and received from the Finance Director and City Manager a well-prepared budget presentation. Finally, the Financial Advisory Commission heard a presentation from the City's consultant, David Hyder of Stantec, regarding the methodology and process for setting appropriate rates for the Water and Sewer, Storm Water and Refuse Collection Enterprise Funds, and received a Debt Capacity Update report from Davenport, the City's financial advisor, regarding the City's debt affordability. The City Manager, Finance Director, Department Directors and the rest of the Administration's team have done a very creditable job in managing the City's FY 2021 budget expenses in the face of a very challenging COVID-19 pandemic operating environment and accompanying shortfalls in typical anticipated revenues, but aided, in large part by significant infusions of short-term federal ARPA and CARES Act assistance. The job that staff has done should lead to a reasonable year-end fiscal outlook that creates a manageable foundation for FY 2022 budget planning. However, as discussed below, in light of the uncertainty as to how the City, State and the rest of the country will emerge from a COVID-19 pandemic economic slowdown the City will need to remain extremely vigilant in managing expenses and revenues going into what may be an even more challenging FY 2023, and ongoing efforts must continue to reduce or eliminate structural deficits for when federal revenue infusions have ended. In short, the Financial Advisory Commission generally endorses the Administration's proposed FY 2022 Operating and Capital Budgets, FY 2023-2027 Capital Program, FY 2022 Fines and FY 2022 Fees, subject to the comments below as part of a moderate and responsible fiscal plan for a challenging environment. The Commission offers the following additional comments, some of which are drawn from the Commission's report to the City Council last year:

1. While the Commission has great confidence in staff's representations that the FY 2022 Operating Budget revenue projections are very conservative and reasonable based upon information now known and reasonably projected about the recovery from the COVID-19 economic downturn, the extent and timing of the recovery and its impact on City revenues is not known and remains fluid. This makes it imperative that:

(i) the Finance Director continue to monitor and make necessary changes to revenue and cash-flow projections, with corresponding recommendations for Operating Budget revisions, up to the point that the City Council adopts the budget; and

(ii) the Finance Director, City Manager and the Mayor and City Council begin now to develop a plan for mid-year expenditure reductions if anticipated revenues and cash-flows do not materialize, colloquially a "Plan B." An integral part of this analysis should include early identification of levels of revenue and cash-flow shortfalls that would trigger some or all of the Plan B expenditure reductions. This recommendation is similar to the Commission's recommendation last year on the FY 2021 budget, was implemented and monitored and was critical to the FAC's recommended oversight.

2. To further provide six months to monitor the Operating Budget revenue trend during FY 2022, the Commission suggests that the Mayor and City Council identify and consider not appropriating funds for expenditures deemed non-essential, and place into the Contingency Fund all or a part of the funds that have been proposed for such expenditures. The Contingency Fund allocations would be available for appropriation for the deferred expenditures later in the fiscal year if fiscal conditions warrant.

3. In the past several years the Commission recommended that, in order to evaluate the future impacts of current budget decisions, future budget presentations should identify significant budgetary recommendations that, if adopted, would result in expenditure impacts beyond the current fiscal year. It does not appear that this recommendation is included in the proposed FY 2022 Operating Budget although future year financial impacts of proposed capital expenditures are reflected in the 5-year Capital Program. This information becomes particularly important where a significant part of the Operating Budget is funded with grants and less predictable revenue streams generated from fees and other ancillary receipts that may be funding sources for ongoing operating expenses today but may no longer be available at desirable, needed, and appropriate levels to fund such ongoing expenses tomorrow; thereby transferring such funding responsibility to the General Fund. The Commission urges that such information be provided to the Mayor and City Council in the FY 2023 budget presentation.

4. 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 and, to a lesser but important degree, by federal ARPA funding. However, the Commission cautions again that a close eye must be kept on such fund balances and reserve funds so that they do not fall below required levels and remain available as a backstop in the event of future fiscal emergencies. The City's sound fiscal management for many years has built the reserves and fund balances to healthy levels, but one or two unforeseen events can cause a fiscal calamity that might necessitate drawing heavily from reserve funds and fund balances.

5. The Commission has encouraged and supported the use of pay-go to fund capital projects where feasible to reduce reliance on the issuance of debt for such purposes, and, philosophically continues to do so. There has been a gradual expense "creep" going on in the capital budget. The City's percentage of bond debt has gone from 8% to approximately 10% of budgeted expenses over the past few years, and is currently projected to reach 11%, with a 12% cap. Although a prioritization process exists in determining what capital projects to undertake, along with using more PayGo and anticipatory financial note obligations, that process and those policies have not yielded the intended results of stabilizing the percentage of

bond debt to budgeted expenses. Because of the continued uncertainty of revenue and cash-flow influx during FY 2022 due to the pandemic-related economic downturn and the unsettled recovery timeline toward pre-pandemic economic performance levels, the Commission recommends that reliance on pay-go to fund proposed projects be curtailed in FY 2022. This may mean that such projects be deferred, reduced in scope, or funded from other revenue sources. Although the Commission has urged a careful monitoring of the City's debt capability and reduced reliance upon debt to fund capital projects, extremely low public finance interest rates may make it desirable at this time for the City to consider some debt issuance, in lieu of pay-go, to fund capital projects that will have a measurable impact on the public safety and health of the city's residents and businesses, as well as a long-term useful life.

6. Because such a large portion of the City's Operating Budget (currently approximately 70% for the General Fund) 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. The growth in City expenditures attributable in large part to rising personnel-related costs continues to outpace the growth of revenues. Personnel costs also have a direct impact on the City's cash-flows. Even though the City is a service industry and heavily relies upon personnel to provide services, the continued growth of expenses, including personnel and pension-related expenses, in excess of the growth of revenues and the associated impact on cash-flows will not be sustainable in the medium to long term. We note that the successful management of the FY 2021 budget resulted from City Departments maintaining significant numbers of open vacancies; a practice that is not likely continue for an extended period of time. If the City is able to maintain reasonable service levels with such vacancies remaining unfilled, then the interesting question is posed as to whether such positions are needed at all and can be eliminated. The City may be facing some difficult choices to control personnel costs, including eliminating, reducing or modifying City service and program delivery across the board. If not that, then the City may be facing the prospect of increasing taxes and fees to bring personnel costs into line with revenues and cash-flows. The City should begin now the process of evaluating the feasibility of such actions. As part of this evaluation the City must examine the levels of the City's contributions to employee pensions and/or consider transitioning to retirement programs based on defined contributions from the City and away from programs which guarantee a defined benefit. The upcoming negotiations with the City employee collective bargaining units provide an opportunity for the City to do so. As a possible means of reducing public safety expenses, the City also should explore the practicality and financial feasibility of joint City and County sharing of certain public safety functions.

7. As the City needs to take steps to control expenditures, the City also must continue to explore new or supplementary non-grant revenue streams. As the capital city of Maryland, Annapolis enjoys a special relationship with the State, provides numerous services to and in support of State government operations, and is the home to many tax-exempt State-owned properties. In FY 2021 the State provided an enhanced payment in lieu of taxes to the City and financial support through capital project funding. The Financial Advisory Commission encourages the City to calculate the costs borne by the City that are expected to be offset by an annual payment in lieu of taxes from the State, and the "lost revenue" from exempt property in Annapolis owned by the State, and to use such information in future PILOT negotiations with the State.

8. The City's Transportation system has never been self-sustaining, and, as a public transit system, is not likely to be self-sustaining. Because the Transportation Fund is not self-sustaining it requires annual subsidies from the City's General Fund. In order to reduce and stabilize reliance on support from the General Fund the City should continue to explore ways to enhance Transportation system revenues and reduce its operational expenses. As part of this evaluation

the City should explore whether any reasonable, cost effective, opportunities exist for the City to operate its Transportation system more efficiently and as part of a regional approach to providing public transportation. There is still work to be done. We should not lull ourselves into believing this past year's management of expenses in an unusually challenging time, with the assistance of federal funding, offers a reason to reduce our vigilance on these other important budgetary matters. A reasonable argument can be made that the FY 2022 budget has not really begun to address these issues in any material way. In conclusion, the Commission would like to acknowledge the work and responsiveness of Finance Director Jodee Dickinson, City Manager David Jarrell and other City staff. These individuals and their teams were instrumental in helping to bring forward a fiscally responsible financial program for FY 2022. The Financial Advisory Commission has confidence in their future leadership to keep the City on solid financial footing. The entire budget process thus far has been extraordinary considering the significant challenges and uncertainties presented by the COVID19 pandemic. 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: David Jarrell, City Manager (By e-mail) Jodee Dickinson, Finance Director (By e-mail)  
Regina C. Watkins-Eldridge, City Clerk (By e-mail) Jacqueline Lee, Legislative and Policy  
Analyst Financial Advisory Commission Members (By e-mail)