



# City of Annapolis

## State of the City Address and Fiscal Year 2013 Budget Presentation

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March 12, 2012



## Tonight's Presentation:

1. Top three fiscal priorities: where do we stand?
2. Proposed budget changes for FY13
3. Tax and fee implications
4. Closing thought



## Top Three Fiscal Priorities:

1. Structurally balanced budget
2. Restored fund balance
3. Fully funded long term liabilities



# Fiscal Priority 1: Structurally balanced budget



## FY2011: Focused on slashing expenses

- Decreased budget by 13%.
  - Laid off 33 employees; cut funding for 66 more positions
  - Personnel costs reductions made up 51% of cuts
  - Employee contract concessions totaled nearly \$2 million.
  - Employee health care increased from 15% to 20% of premiums
  - Retirees' health care increased from 25% to 30% of premiums.
  - AFSCME unions foregoed a previously negotiated 3% increase.
  - All employees took between 4 and 9 furlough days, and department heads took 13 furlough days (5% of pay)
- **Largest budget cut of any of Maryland's 157 municipalities.**



## FY2012: Focused on raising revenues

- Increased property tax rate from \$0.53 to \$0.56
- Increased water and sewer rates
- Increased solid waste fee
- Increased stormwater utility fee
- Increased bus fares
- Increase other fees to accurately reflect cost of service



- FY 2011 and FY2012
  - Balanced approach: combination of spending cuts and increased revenues
  - Both steps were necessary to reverse course, stop deficit spending, and restore structural balance to the budget.



## FY 2010

### 11 Departments

- Central Services
- Economic Affairs
- Finance
- Fire
- Human Resources
- Neighborhood & Envir. Prgms.
- Planning and Zoning
- Police
- Public Works
- Recreation and Parks
- Transportation

### 5 Independent Offices

- Emergency Management
- Harbormaster
- Law
- Mayor
- Youth and Community Affairs

## FY 2012

### 9 Departments

- Finance
- Fire
- Human Resources
- Neighborhood & Envir. Prgms.
- Planning and Zoning
- Police
- Public Works
- Recreation and Parks
- Transportation

### 2 Independent Offices

- Law
- Mayor

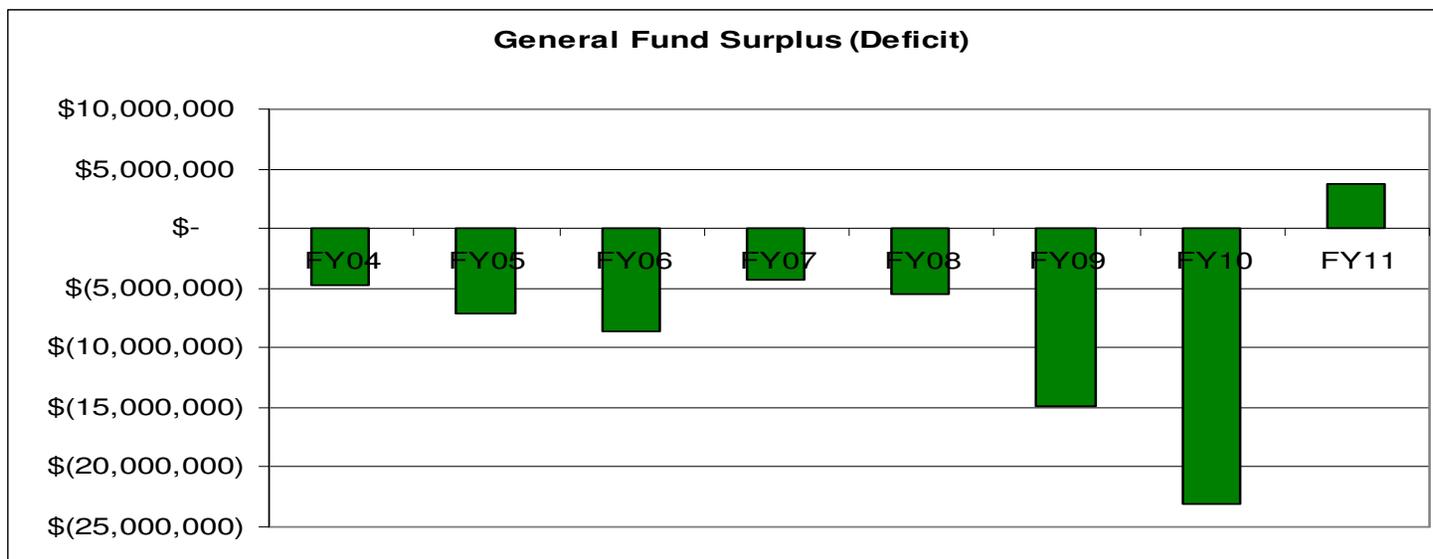


## Personnel Comparison: Then and Now

- FY2010
  - Dec. 2009 total employee count (FTE): 604.5
  - Total budgeted personnel costs: \$54,819,160
- FY2012
  - Dec. 2011 total employee count (FTE): 587.5
  - Total budgeted personnel costs: \$50,170,710



# Budget Surplus/Deficit: 8-Year History



Fiscal Year	Gen. Fund Revenues	Gen. Fund Expenditures	Surplus (Deficit)
FY04	\$ 38,694,188	\$ 43,429,052	\$ (4,734,864)
FY05	\$ 44,100,045	\$ 51,157,889	\$ (7,057,844)
FY06	\$ 46,079,248	\$ 54,703,393	\$ (8,624,145)
FY07	\$ 48,005,781	\$ 52,242,826	\$ (4,237,045)
FY08	\$ 51,439,467	\$ 56,881,716	\$ (5,442,249)
FY09	\$ 57,749,103	\$ 72,630,946	\$ (14,881,843)
FY10	\$ 56,488,934	\$ 79,590,151	\$ (23,101,217)
FY11*	\$ 56,558,456	\$ 52,880,326	\$ 3,678,130

Source: FY2011 Comprehensive Annual Financial Report, Unaudited



# Fiscal Priority 2: Restored fund balance



- In 2010 the City Council adopted **Resolution R-21-10**.
  - **Establishes fund balance floor of 10% of operating expenses and target of 15%.**
  - “The City Council shall allocate fifty percent of any increase in income and property tax revenues above the prior fiscal year’s base to fund the reserves.”
  - “The Council shall appropriate all necessary funds to satisfy the target reserve of fifteen percent as part of the Fiscal Year 2014 budget.”



**CITY COUNCIL OF THE CITY OF ANNAPOLIS**

**RESOLUTION NO. R-21-10**

Introduced by Mayor Cohen

**LEGISLATIVE HISTORY**

First Reading:	Public Hearing:	Fiscal Impact Note:	180 Day Rule:
06/07/10	06/14/10	06/11/10	12/11/10
Referred to:	Referral Date:	Meeting Date:	Action Taken:
Finance Committee	06/07/10		
Rules & City Gov't	06/07/10		

Travels with O-22-10

**A RESOLUTION concerning**

**Budgetary Reserve Funding Policy**

**FOR** the purpose of approving a Budgetary Reserve Policy for the City of Annapolis.

**WHEREAS,** for Fiscal Year 2010, the City of Annapolis will not have maintained an unreserved general fund balance at the target of fifteen percent as established in the City Debt and Financial Administration Policy in Resolution R-38-07; and

**WHEREAS,** the City of Annapolis seeks to meet this target by Fiscal Year 2014 and to set forth the means by which to do so; and

**WHEREAS,** establishing a policy to provide for the consistent and gradual replenishment of reserve funds is in the City's best interests.

**NOW THEREFORE BE IT RESOLVED BY THE ANNAPOLIS CITY COUNCIL** that the City's Budgetary Reserve Policy shall be as follows:

**BUDGETARY RESERVE POLICY**

**EFFECTIVE DATE: JULY 1, 2011**

Effective July 1, 2011, the City shall maintain a fund balance at a level not less than ten percent and a target of fifteen percent of operating expenses for all funds. Included in this

R-21-10  
Page 2

balance, at least five percent shall be in cash or cash equivalents, readily available to pay current expenses.

Should the targeted fund balance of fifteen percent, including at least five percent in cash, not be reached, the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base to fund the reserves.

Should the targeted fund balance of fifteen percent, including at least five percent in cash or cash equivalents, not be achieved by other means, in the Fiscal Year 2012 and Fiscal Year 2013 budget the City Council shall allocate fifty percent of any increases in income and property tax revenues above the prior fiscal year's base in order to fund the reserves.

Should the targeted fund balance of fifteen percent, including at least five percent in cash or cash equivalents, not be replenished by the conclusion of Fiscal year 2013, the Council shall appropriate all necessary funds to satisfy the target reserve of fifteen percent as part of the Fiscal Year 2014 budget.

**ADOPTED** this 14th day of June, 2010.

**ATTEST:**

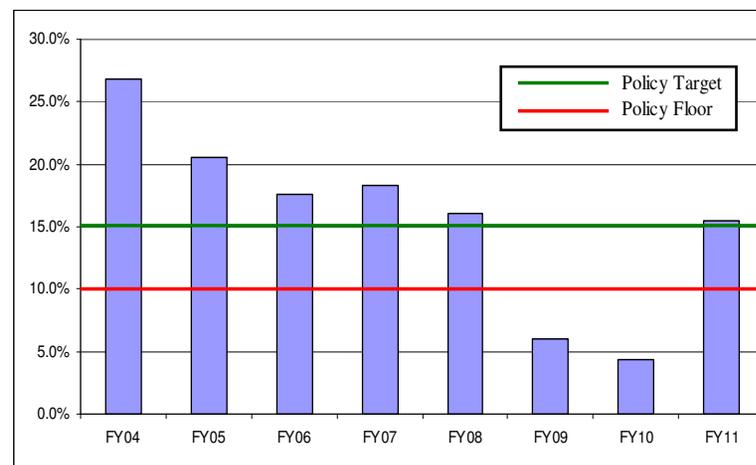
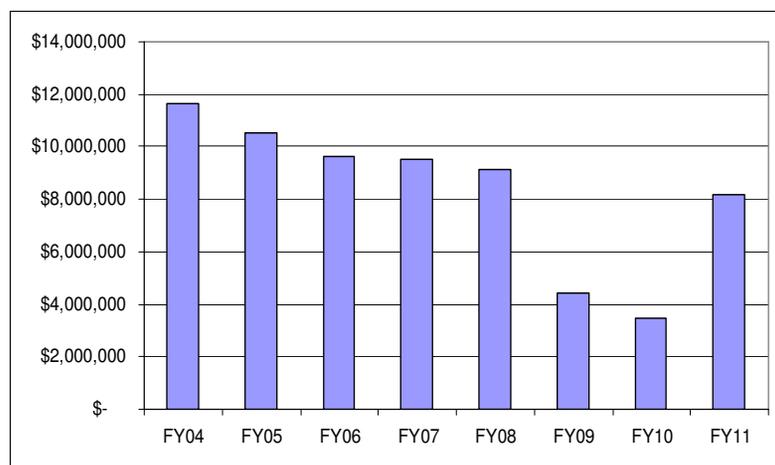
**THE ANNAPOLIS CITY COUNCIL**

Regina C. Watkins-Eldridge, MMC  
City Clerk

**BY:**  
JOSHUA J. COHEN, MAYOR



# Unreserved Fund Balance: 8-Year History



Fiscal Year	Gen. Fund Expenditures	Unreserved Fund Balance	Fund Balance as % of Expenditures	Floor	Target
FY04	\$ 43,429,052	\$ 11,649,131	26.8%	10.0%	15.0%
FY05	\$ 51,157,889	\$ 10,515,594	20.6%	10.0%	15.0%
FY06	\$ 54,703,393	\$ 9,619,912	17.6%	10.0%	15.0%
FY07	\$ 52,242,826	\$ 9,534,721	18.3%	10.0%	15.0%
FY08	\$ 56,881,716	\$ 9,124,610	16.0%	10.0%	15.0%
FY09	\$ 72,630,946	\$ 4,407,708	6.1%	10.0%	15.0%
FY10	\$ 79,590,151	\$ 3,478,434	4.4%	10.0%	15.0%
FY11	\$ 52,880,326	\$ 8,183,494	15.5%	10.0%	15.0%



# Fiscal Priority 3: Fully funded long-term liabilities



- Addressed in FY12 budget:
  - Water and Sewer
    - Significant fee increases brought revenues in line with expenses
    - Current fee structure includes full funding to pay debt service on new water treatment plant
  - Solid Waste
    - Increased annual refuse fee from \$380 to \$426 per household (12 percent)
    - Commitment to seek greater efficiencies through managed competition
  - Stormwater
    - Increased annual residential fee from \$22 to \$40
    - Increased non-residential from \$120 to tiered fees of \$150-\$500
    - Created new 50% credit for best management practices
    - Increased dedicated revenues from \$493,000 to \$934,000



## Long-term liabilities that remain to be addressed

- Infrastructure:
  - Sidewalks
  - Transit
  - Vehicle Replacement
- Personnel:
  - Police and Fire Pension
  - OPEB (retiree medical)



- Sidewalks
  - City lacks a reliable revenue source to pay for sidewalk repair and maintenance
  - DPW estimates long-term \$20 million liability based upon a 40-year lifecycle for sidewalks.
  - City needs approx. \$500,000 annually to keep pace with replacement schedule.



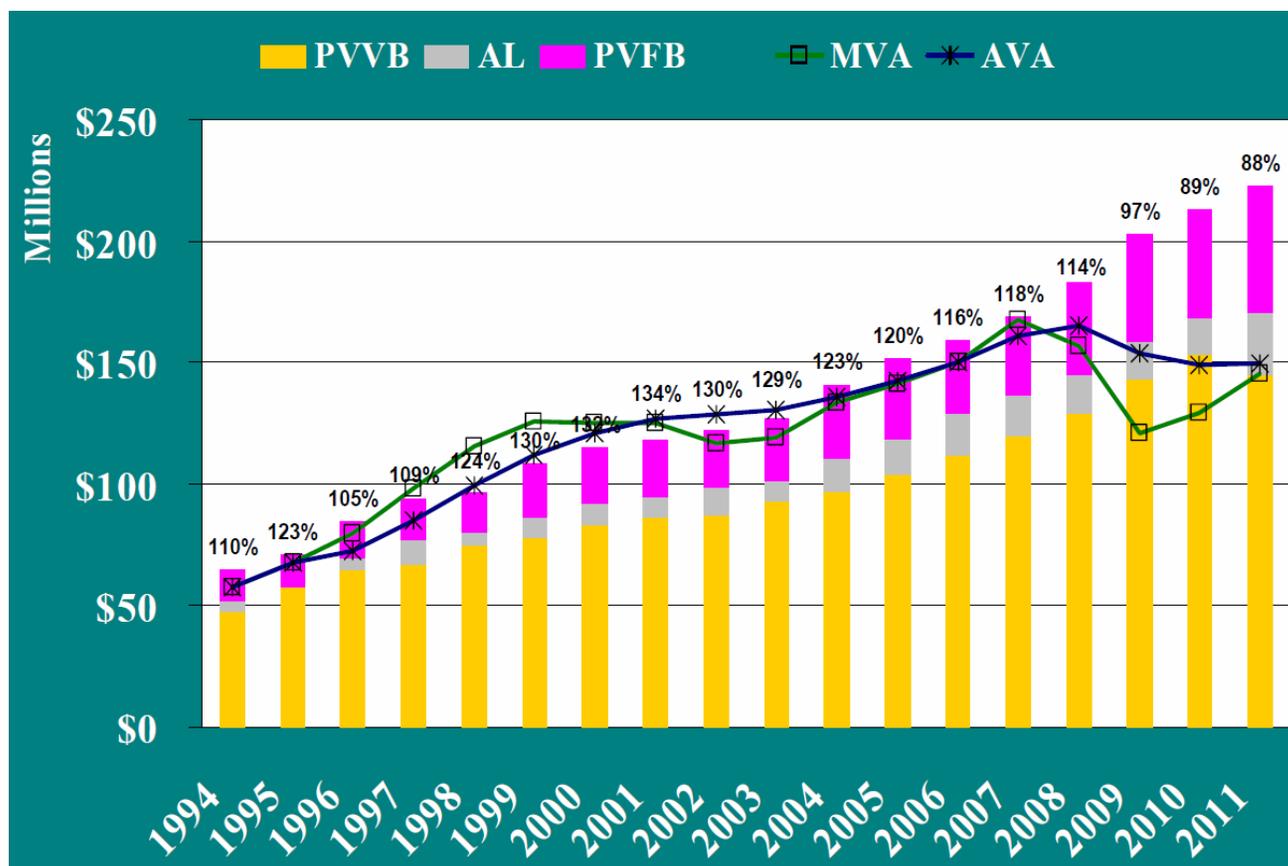
- Transit
  - Transit has always operated at a deficit
    - FY11
      - Deficit was \$1.75M
    - In FY12
      - City increased bus fare from \$1.00 to \$1.50
      - Instituted market pricing at City garages
      - Hiring part-time employees reduced cost per hour from \$18.11 to \$16.24
      - Projected FY12 deficit of \$1.6M
      - Projected FY12 farebox recovery rate of 23%
  - Statewide mandated farebox recovery rate is 35%



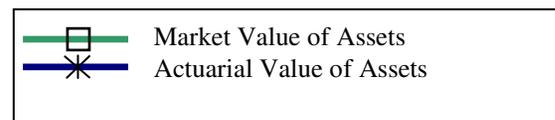
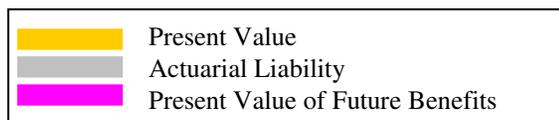
- **Vehicle Replacement Schedule**
  - During FY10 and FY11 the City paid for vehicle replacement on a pay-as-you-go basis.
  - FY12: City took first step to re-institute a funded replacement schedule
    - Annual funding target: \$1.9 Million
    - \$300,000 current FY12 appropriation



# Police and Fire Pension Assets and Liabilities



Source:  
Cheiron actuarial  
valuation of  
Retirement Plan  
for Members of  
the Police and  
Fire Department,  
February 2012





## Police and Fire Pension Contribution History

	Police		Fire	
	Employee	City	Employee	City
FY10	3.5%	-0-	3.5%	-0-
FY11	3.5%	-0-	3.5%	-0-
FY12	3.5%	-0-	5.5%	1%

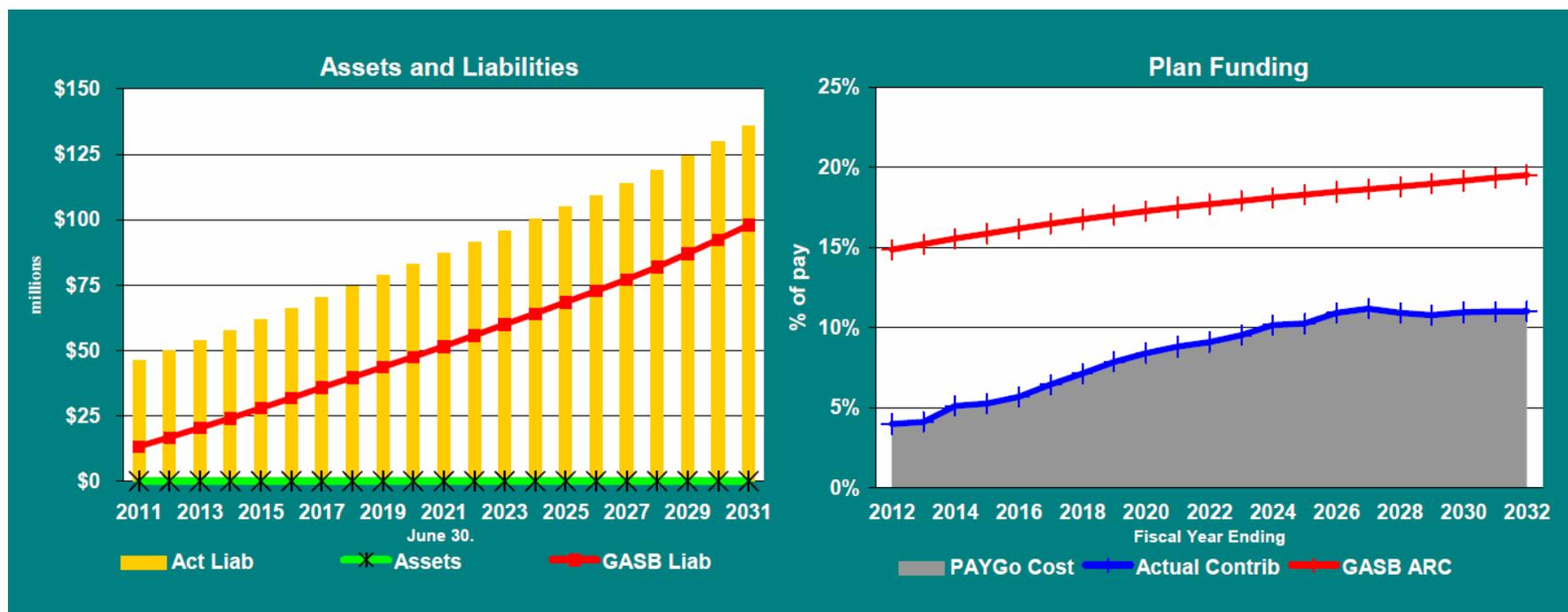
- Goal: Combined 13% contribution by FY14  
(6.5% from employees and 6.5% from City)



# Retiree Medical (OPEB)

## Assets and Liabilities

## Plan Funding



Source: Cheiron OPEB Valuation, January 2012

- Goal: Annual Required Contribution (ARC) should start at 15% of payroll and increase over time.
- FY12 established modest OPEB reserve of \$100,000



# Proposed FY 13 Budget Highlights



## Top Three Priorities for FY13:

1. Maintain structurally balanced budget
2. Continue to restore fund balance
3. Increase funding for long term liabilities

... while still providing value and quality service for our constituents



## Continuing to evolve as an organization

- Merge Planning and Zoning with Neighborhood and Environmental Programs
  - New Department of Planning, Environment and Permits (PEP)
  - Consolidation will improve internal coordination and accountability
  - Will elevate Environment as co-equal with Planning and Permits
- Expand focus for Office of Emergency Management (OEM)
  - New name of Emergency Preparedness and Risk Management
  - Reflects importance of enhancing risk management to reduce financial exposure to claims
  - Shifts funding source from grants to General Fund



## Proposed spending – major highlights

- Current employees:
  - Eliminate furlough days (per collective bargaining): \$662,775
  - Convert 24 contract employees per City Council policy: \$275,000
  
- Long-term liabilities:
  - Add \$4 million from General Fund to unreserved fund balance (\$5.3 million across all funds)
  - Increase fleet replacement funding from \$300,000 to \$1,132,000
  - Increase City pension contribution to 4% for both Police and Fire: \$741,000
  - Dedicate \$600,000 for new sidewalk fund
  - Double OPEB trust fund from \$100,000 to \$200,000



## Proposed new positions for FY13

8 net new full-time; 2 net new part-time

- 9 New full-time positions
  - 2 Staff Accountants (Finance)
  - Dep. Property Maintenance Inspector (PEP)
  - Stormwater Engineer (PEP)
  - Automation Administrator (Police)
  - Assistant Harbormaster for Operations (Rec & Parks)
  - Dep. Director (Transportation)
  - Assistant City Attorney (Law Office)
  - Assistant City Manager (Mayor's Office)
- 2 new part-time positions
  - Election administrator (Law) – contractual
  - Camera operator (Mayor's office) - contractual



## Other spending highlights

- Continued focus on economic development
  - Increase allocation to Annapolis EDC by \$90,000 to \$475,000
  - Increase allocation to Main Streets Annapolis and Arts District by \$12,500 each to \$25,000 each
- Mobility (budget neutral)
  - Expand Gold Route to Edgewater/Sojourner-Douglass College
  - Expand Circulator Trolley to Eastport
- Enhancing community quality of life
  - Increase community grants total by \$45,000 to \$250,000
  - Add \$10,000 for maintenance of Whitmore Park



## Proposed new taxes and fees

- Solid waste fee
- Water and sewer rates
- Bus fares
- Property taxes



## Solid waste

- City conducted managed competition process
- RFP was for entire solid waste program including:
  - Residential refuse – once per week
  - Residential and commercial recycling
  - Street and park can collection
  - Yard waste
  - Leaf collection – bagged inside of vacuumed
  - Bulk collection – on demand instead of quarterly
- Evaluation committee recommended full contractor option



## Solid waste, cont'd.

- Results of process:
  - Based on current delivery system, FY14 annual cost will be: \$3.67M
  - Full City option would cost \$2.92M (20% savings)
  - Full contractor option would cost \$1.91M (48% savings)
- Budget proposes modified City option
  - Contractor continues to provide recycling; City continues to provide refuse, yard waste, bulky items, street and park cans
  - Projected costs in FY14: \$2.64M (28% savings)
  - Eliminate 6 positions during FY13
- **FY13 annual household fee will drop by \$48 to \$378 (11% savings)**
- Household savings will increase in future years



## Water and Sewer

- In FY12 the City increased the average residential water and sewer rate by 75%
  - Average quarterly bill increased from \$125 to \$220 (based on 250 gal/day)
- **FY13 budget proposes 2% increase**
  - Average quarterly bill will increase to \$244.50
- City is negotiating agreement with U.S. Navy to charge same wastewater fees.
  - FY13 budget reflects tentative \$440,000 increase from USN.



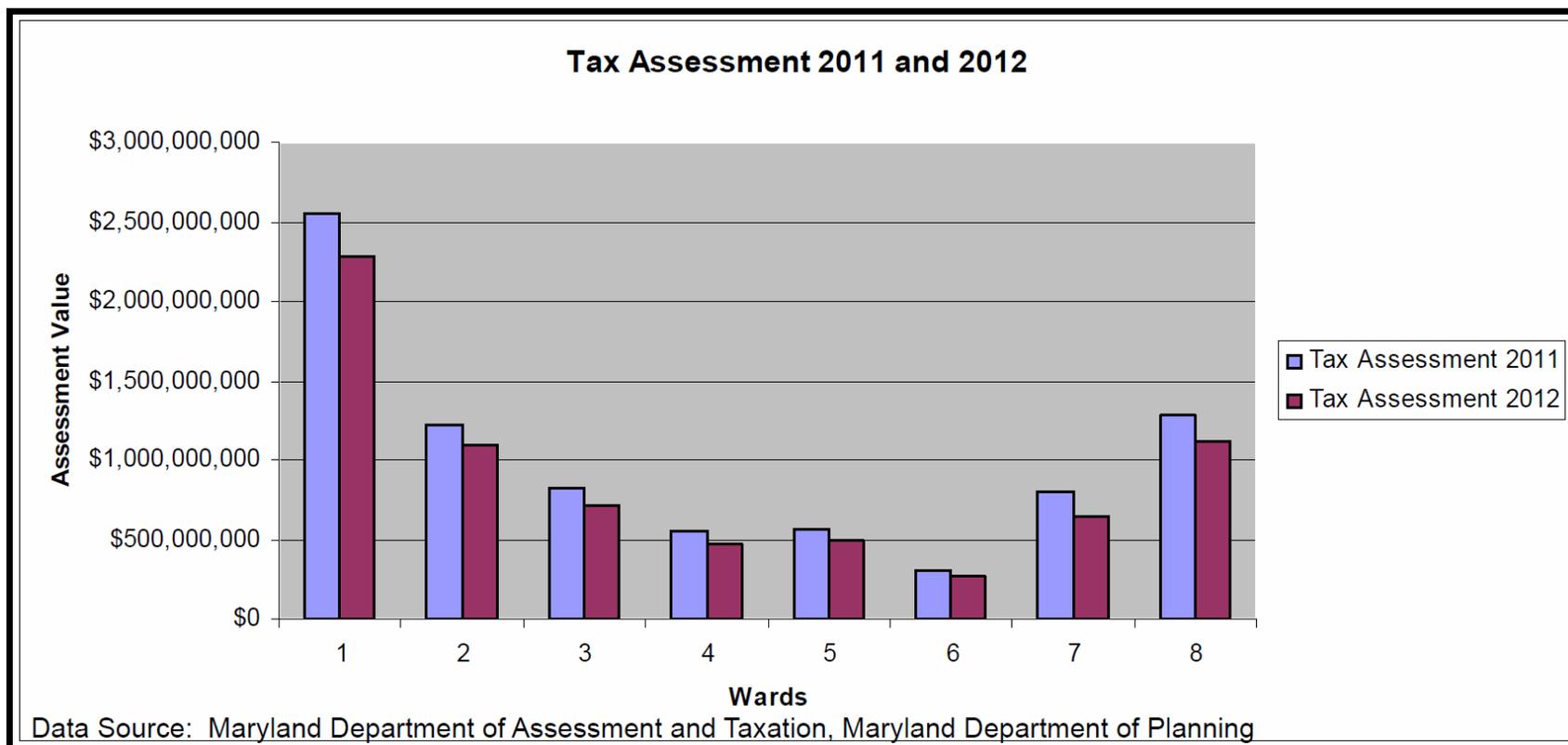
## Bus fares

- Proposed FY13 fare increase from \$1.50 to \$2.00
- Proposed FY13 budget achieves farebox recovery rate of 35%



# Property Taxes

## Taxable Assessment



- Assessable base declined 11.7% citywide
- Assessable base decline in each ward ranged from 10.5% to 18.5%



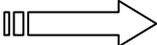
## Property taxes

- Triennial reassessment reduced taxable base by 11.7%
  - \$6.88 Billion to \$6.075 Billion
  
- Current FY12 property tax rate of \$0.56
  - Tax rate must increase by 7 cents to \$0.63 in order to achieve constant yield
  
- Proposed FY13 budget proposes tax rate of \$0.6583
  - Tax rate increase of 2.83 cents over constant yield
    - 1 cent of which is dedicated for Sidewalk Fund
  - **4.5% increase in tax levy over FY12**



# Municipal Tax Rates in Maryland

## 20 Largest Municipalities, FY 2012

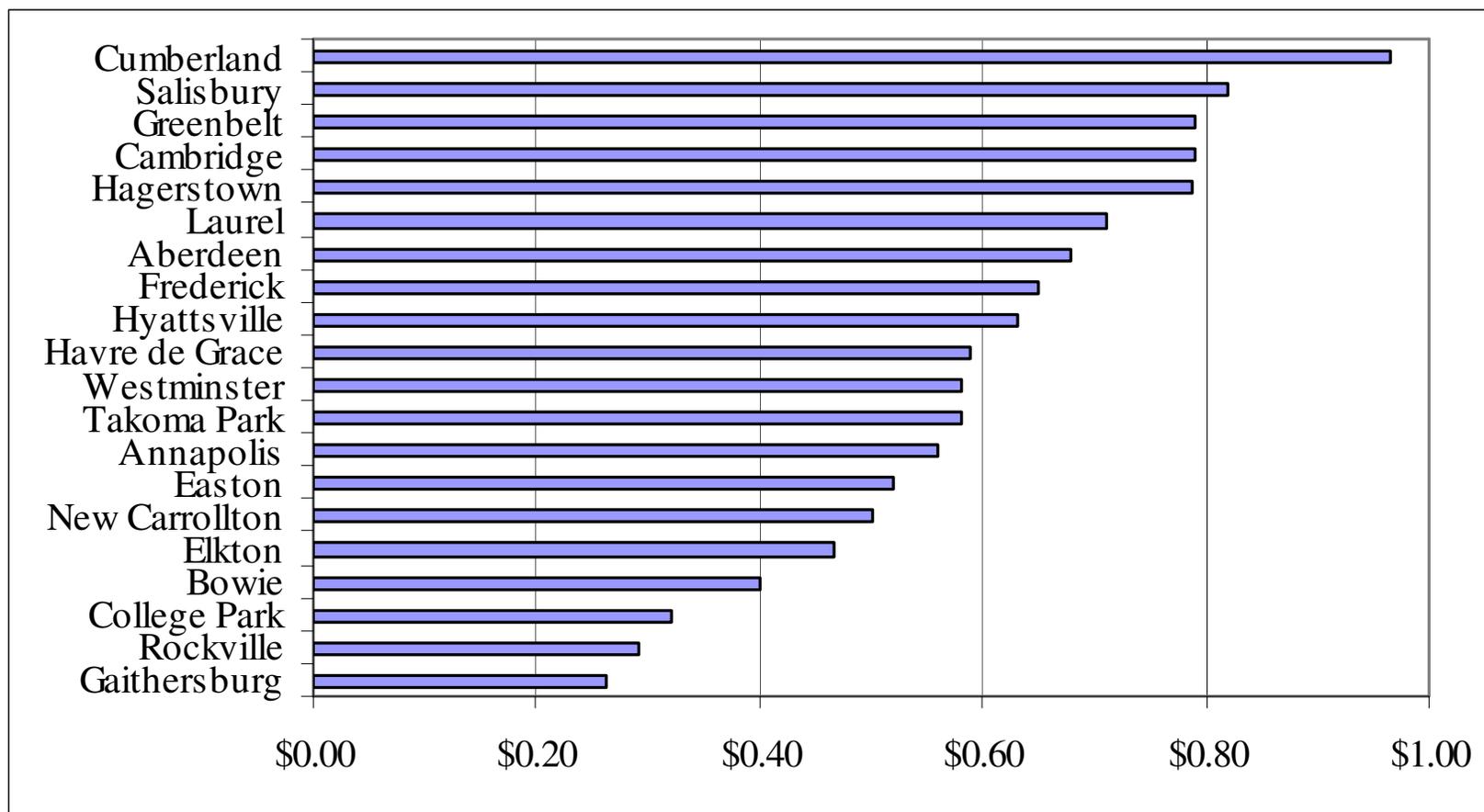
Rank	Municipality	Municipal Rate
1	Cumberland	\$ 0.9654
2	Salisbury	\$ 0.8190
3	Greenbelt	\$ 0.7900
4	Cambridge	\$ 0.7893
5	Hagerstown	\$ 0.7880
6	Laurel	\$ 0.7100
7	Aberdeen	\$ 0.6800
8	Frederick	\$ 0.6500
9	Hyattsville	\$ 0.6300
10	Havre de Grace	\$ 0.5900
11	Westminster	\$ 0.5800
12	Takoma Park	\$ 0.5800
	<b>13 Annapolis</b>	<b>\$ 0.5600</b>
14	Easton	\$ 0.5200
15	New Carrollton	\$ 0.5000
16	Elkton	\$ 0.4656
17	Bowie	\$ 0.4000
18	College Park	\$ 0.3220
19	Rockville	\$ 0.2920
20	Gaithersburg	\$ 0.2620

Source: Overview of Maryland Local Governments, Department of Legislative Services 2012



# Municipal Tax Rates in Maryland

## 20 Largest Municipalities, FY 2012

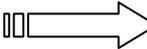


Source: Overview of Maryland Local Governments, Department of Legislative Services 2012



# Combined Municipal and County Tax Rates

## 20 Largest Municipalities, FY 2012

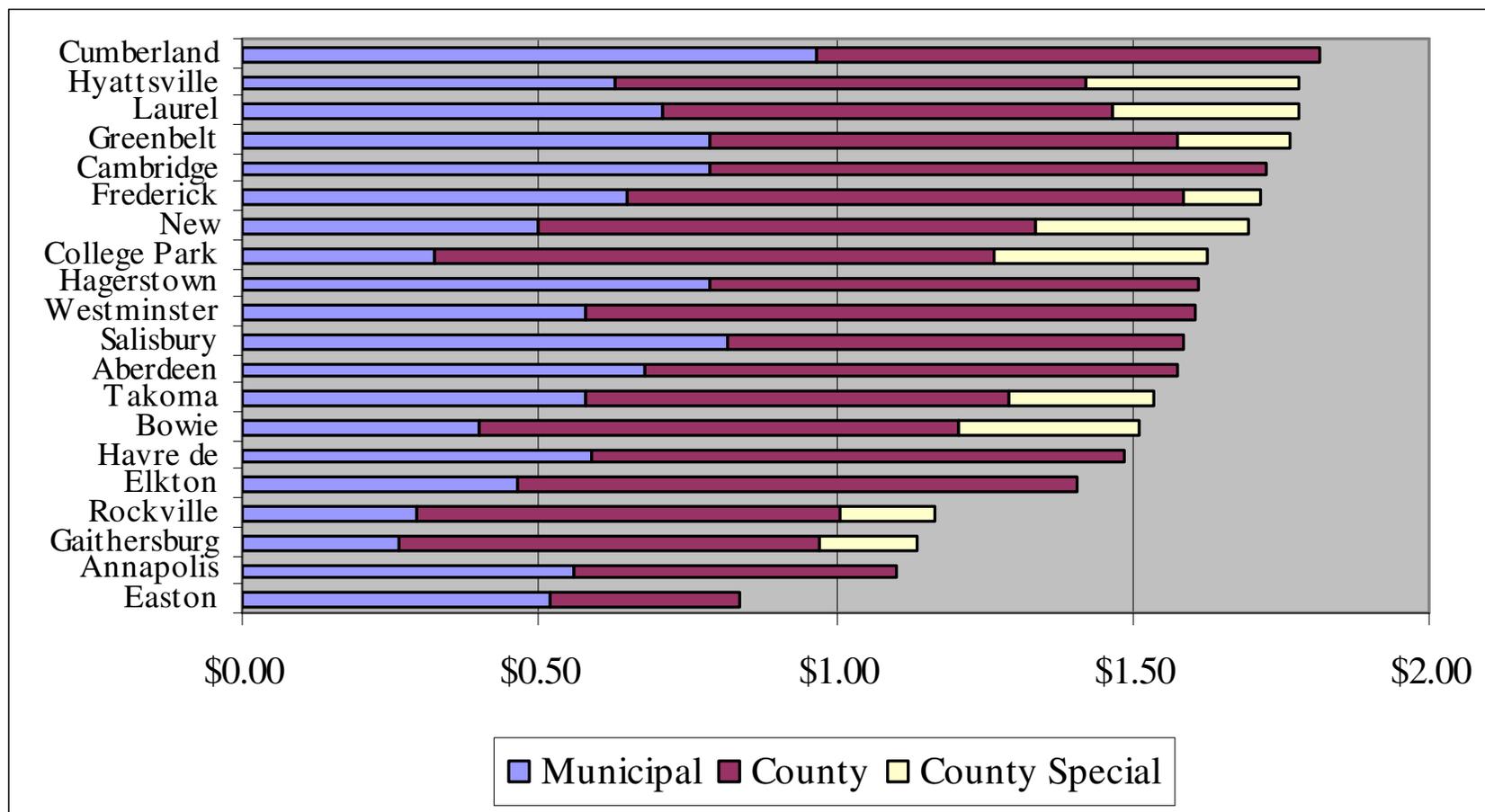
Rank	Municipality	County	Municipal Rate	County Rate	County Special Rate	Total Rate
1	Cumberland	Allegany	\$ 0.9654	\$ 0.8519	\$ -	\$ 1.8173
2	Hyattsville	Prince George's	\$ 0.6300	\$ 0.7920	\$ 0.3590	\$ 1.7810
3	Laurel	Prince George's	\$ 0.7100	\$ 0.7580	\$ 0.3124	\$ 1.7804
4	Greenbelt	Prince George's	\$ 0.7900	\$ 0.7880	\$ 0.1871	\$ 1.7651
5	Cambridge	Dorchester	\$ 0.7893	\$ 0.9370	\$ -	\$ 1.7263
6	Frederick	Frederick	\$ 0.6500	\$ 0.9360	\$ 0.1280	\$ 1.7140
7	New Carrollton	Prince George's	\$ 0.5000	\$ 0.8350	\$ 0.3590	\$ 1.6940
8	College Park	Prince George's	\$ 0.3220	\$ 0.9460	\$ 0.3590	\$ 1.6270
9	Hagerstown	Washington	\$ 0.7880	\$ 0.8230	\$ -	\$ 1.6110
10	Westminster	Carroll	\$ 0.5800	\$ 1.0280	\$ -	\$ 1.6080
11	Salisbury	Wicomico	\$ 0.8190	\$ 0.7690	\$ -	\$ 1.5880
12	Aberdeen	Harford	\$ 0.6800	\$ 0.8960	\$ -	\$ 1.5760
13	Takoma Park	Montgomery	\$ 0.5800	\$ 0.7130	\$ 0.2430	\$ 1.5360
14	Bowie	Prince George's	\$ 0.4000	\$ 0.8080	\$ 0.3050	\$ 1.5130
15	Havre de Grace	Harford	\$ 0.5900	\$ 0.8960	\$ -	\$ 1.4860
16	Elkton	Cecil	\$ 0.4656	\$ 0.9401	\$ -	\$ 1.4057
17	Rockville	Montgomery	\$ 0.2920	\$ 0.7130	\$ 0.1600	\$ 1.1650
18	Gaithersburg	Montgomery	\$ 0.2620	\$ 0.7130	\$ 0.1600	\$ 1.1350
 19	<b>Annapolis</b>	<b>Anne Arundel</b>	<b>\$ 0.5600</b>	<b>\$ 0.5430</b>	<b>\$ -</b>	<b>\$ 1.1030</b>
20	Easton	Talbot	\$ 0.5200	\$ 0.3190	\$ -	\$ 0.8390

Source: Overview of Maryland Local Governments, Department of Legislative Services 2012



# Combined Municipal and County Tax Rates

## 20 Largest Municipalities, FY 2012



Source: Overview of Maryland Local Governments, Department of Legislative Services 2012



# Final thought: Bond ratings



## City Bond Rating

- Most recent bond ratings issued March 2011:
  - Fitch: **AA+**, stable outlook
  - Standard and Poor's: **AA**, stable outlook
  - Moody's: **Aa3**, negative outlook
- Change:
  - Fitch: downgraded one notch
  - Standard and Poor's: maintained
  - Moody's: downgraded two notches



Moody's:

“The negative outlook reflects Moody's expectation that the city will continue to face difficulties in the implementation of budget adjustments, including revenue enhancements, that will result in a stabilization of the city's declining financial position.

In addition, the liquidity position may continue to face pressure over the near-term as the city attempts to return to structural balance and surplus operations.”



Thank you