



**FY 2013 Budget Report of
The Finance Committee
of the Annapolis City Council
May 29, 2012**

Finance Committee Members

Alderman Ross Arnett III, Ward 8, Chairman

Alderwoman Sheila Finlayson, Ward 4

Alderman Richard E. Israel, Ward 1

FY2013 Budget Report of Finance Committee of Annapolis City Council



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Executive Summary

The Finance Committee has reviewed the Mayor's Proposed Budget and, with extensive and invaluable help from the Finance Director, his staff, the City Manager, the Director of Human Resources, all of the Department Heads, Virginia Burke, and especially Hilary Raftovich and Maria Muñiz; we make the following summary recommendations to our colleagues on the City Council.

Our primary recommendations are as follows:

- No increase in property tax revenues over the fiscal year 2012 level
- Only parking revenues and transit revenues (to include grants) will be used to support Department of Transportation expenses. No subsidies of transit operations from the General Fund (\$861,438). To include the transfer in parking revenues by \$540,000.00 to the general fund and further to move those funds from the general fund to the transportation budget.
- Contract out solid waste collection and redeploy or otherwise compensate affected staff
- A City contribution to the Police and Fire Pension of 8.5% of salaries (\$1,575,000)
- An appropriation of \$875,000 to the OPEB Fund
- An appropriation of \$600,000 to the Sidewalk Improvement Fund from bond funds and \$277,444 from the General Fund.
- Elimination of furlough days (pending agreement to contract by police)
- Approve one new hire and the expansion of an existing part time position, of the twelve new positions proposed by the Mayor. (reducing proposed new spending by \$664,770.00)
- An enhancement of \$414,540.61 to the Fleet Replacement Fund (\$321,431 less than in the Mayor's proposed budget).
- 21 Contract Employee conversions to begin on January 1, 2013 (\$142,623) (delaying these proposed conversions by six months will save \$132,377)
- An increase of funding for AEDC of \$15,000 (\$75,000.00 less than proposed)
- Allow excess revenue from speed cameras to fall to General Fund balance including the support of Pension Funds.
- Operating enhancements to departmental budgets as recommended in the table in Section One of this Report (\$637,352.00 versus the \$851,076 proposed in the Mayor's budget yielding \$213,715.00 in reduced spending)
- The committee recommends some changes in the organizational chart to better facilitate city business under the guidance of the City Manager.

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The Committee supports the Fee Schedule as proposed in R-7-12. We support the administration's ongoing efforts to make the fees commensurate to the expenses in the enterprise funds as required by Code. As this Committee is recommending the contracting out of solid waste services, the fees should be amended to reflect the new lower costs. These cost savings will increase over time and thus the fees should decrease with them.

Finally, there is some question about the priority of the projects in the Capital Improvement Program (CIP). With the new emphasis on City Dock Revitalization, the committee believes more immediate action should be taken with the replacement of the Hillman Garage and control of the monthly flooding on Compromise and Dock Streets.

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Finance Committee Budget Statement

Budgets are by their nature a balancing act between competing objectives. Budgeters must satisfy the need to keep taxes and fees low, while maintaining service levels acceptable to constituents. In addition, prudence dictates that a surplus of revenues over spending be achieved. For the fiscal year 2013 Budget the surplus must be big enough to both provide a hedge against unforeseen expenses and to continue to restore the general fund reserve. In addition, for fiscal year 2013 the budget must begin to address, in a serious way, several long-term liabilities that have been left unattended for too long and which threaten in a very real way the financial viability of the City finances.

In his State of the City address the Mayor noted three fiscal priorities: a structurally balanced budget; restored fund balance[s]; and fully funded long-term liabilities. He noted that in fiscal 2011 and 2012 there was a balanced approach, using spending cuts and revenue increases. In his view, both types of actions “were necessary to stop deficit spending, and restore structural balance to the budget.” For fiscal year 2013 the Mayor proposes to maintain a balanced budget, continue to restore fund balances, and increase funding for long-term liabilities; all while still providing value and quality service for constituents.

The Finance Committee concurs with the Mayor’s budget objectives, but proposes a somewhat different approach. We recommend holding property tax revenues to the fiscal 2012 level, a modest increase in some fees, and some reductions in current operating costs to enable a significant increase in monies devoted to the reduction of long term liabilities such as pension, retiree health, and infrastructure (including sidewalk repair) all of which have been underfunded for many years. All of these recommendations are consistent with the Mayor’s Budget, but with a different emphasis.

The City Council Finance Committee has met 22 times since the introduction of the Mayor’s Budget on March 12, 2012. We have met with all of the City Departments, some more than once, and have been provided with a large volume of information by the Finance and Human Resources Departments.

In terms of recommendations, the Finance Committee has decided to start with Budget Ordinance O-8-12, as introduced by the Mayor that calls for a tax rate of fifty-six cents (\$.56) on each one hundred dollars (\$100.00) of assessable property in the City of Annapolis as of the end of June 30, 2013. The Mayor’s Budget calls for a property tax increase of approximately \$.10 on each one hundred dollars. This includes \$.07 to bring tax revenue to level due to decreased property tax assessments and an additional property tax increase of \$.0283 to cover proposed increases in spending over fiscal 2012 levels.

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The Committee is concerned about increasing the tax rate up to levy, and does not recommend the additional \$.0283 of additional tax increase, but the Committee does favor several spending increases in the Mayor's budget, as will follow.

In general the Committee finds favor with any spending that addresses restoring fund balances, reducing debt, and funding liabilities. The Mayor proposes new spending for fleet replacement, creating a revolving fund for such replacement rather than borrowing to purchase new vehicles. Sidewalk repair is a long standing liability for the City and a public safety issue for residents, business and visitors (we need to begin the process of bringing our sidewalks up to code). The City has been negligent in its obligation to the Police and Fire Pension Plan. The pension is underfunded by over \$21+ million and we must restart payments into the pension fund. Even more egregious is our unfunded liability for retiree health benefits (OPEB), now estimated by our actuaries as a deficit of \$46+ million and growing steadily. Finally, the Committee supports the Administration's plans to address the huge unfunded liability for City infrastructure such as water, sewer pipe and storm drain systems, buildings and roads -- a liability estimated to be \$120 million.

Further, the Administration proposes to raise several fees this year, to introduce a new parking ticket system [automated license plate recognition], and new speeding cameras in school zones that will issue automatic fines. The Committee has mixed opinions on the cost benefit of these new fees and fines.

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Report Structure

This report contains the Finance Committee's proposed changes to the Mayor's budget. The changes in expenses and revenues are contained in the attached proforma (equaling a balanced budget as required by law). Proposed changes to the text of the Budget Ordinance, CIP Ordinance or Fee Resolution are stated as "proposed amendments" throughout the document.

The proforma as submitted has been reviewed and approved by the Finance Department and the proposed legislative amendments reviewed by the Office of Law.

With the exception of recommendations noted in the following report, the Committee accepts the Mayor's Budget as presented in O-8-12 and the Proforma Budget Analysis as of March 12, 2012.

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New Spending

The Finance Committee reviewed the Mayor's proposed \$5,160,943.55 of new spending. The Committee supported \$3,423,812.09 of that spending including the restoration of furlough days (as outlined in the pending union contracts), funding for sidewalks, fleet replacement, and some fire department upgrades that have been long deferred. The committee believes that the Mayor did not allocate enough new spending to OPEB (Other Post Employment Benefits, or retiree medical coverage) and Police and Fire pension. These are long term issues that need to be dealt with for the sake of our employees as well as the City's long term financial health. The Committee recommends \$834,000.00 in additional new spending towards the pension and \$675,000.00 in additional new spending towards OPEB. This brings the recommended new spending of the committee to almost level with the Mayors suggestions but prioritizes programs that will contribute to the financial health of the City and in the long term will save the city money. The new spending recommendations of the Mayor and the Committee are detailed below:

Item	Mayor's Budget	Committee Recommends	Difference
General Fund			
New Hires (12)			\$0.00
Finance (2)	\$182,250.00	\$91,125.00	(\$91,125.00)
Deputy prop maint	\$57,880.00	\$0.00	(\$57,880.00)
Stormwater Eng.	\$86,820.00	\$0.00	(\$86,820.00)
Police*	\$0.00	\$0.00	\$0.00
Harbormaster	\$76,685.00	\$0.00	(\$76,685.00)
ADOT Deputy	\$138,690.00	\$0.00	(\$138,690.00)
Law (2)	\$152,820.00	\$0.00	(\$152,820.00)
City Manager Asst.*	\$0.00	\$0.00	\$0.00
REC acct clerk	\$60,750.00	\$0.00	(\$60,750.00)
Camera Operator	\$16,200.00	\$16,200.00	\$0.00
Total New Staff	\$772,095.00	\$107,325.00	(\$664,770.00)
Fleet Replacement			
General Fund	\$593,350.61	\$493,350.61	(\$100,000.00)
Water Fund	\$93,425.09	\$93,425.00	(\$0.09)
Sewer Fund	\$77,360.25	\$77,360.00	(\$0.25)
Transportation Fund	\$182,180.90	\$36,000.00	(\$146,180.90)
Dock Fund	\$11,905.37	\$11,905.00	(\$0.37)

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Refuse Fund	\$77,750.00	\$2,500.00	(\$75,250.00)
Stormwater Fund	\$0.00	\$0.00	\$0.00
Total (less 300k level-funded)	\$735,972.22	\$414,540.61	(\$321,431.61)
Furlough by Fund			
General Fund Employees	\$662,773.67	\$662,773.67	\$0.00
Enter. Fund Employees	\$103,035.66	\$105,753.81	\$2,718.15
Total by Fund	\$765,809.33	\$768,527.48	\$2,718.15
Conversions	\$275,000.00	\$142,623.00	(\$132,377.00)
Pension	\$741,000.00	\$1,575,000.00	\$834,000.00
OPEB	\$200,000.00	\$875,000.00	\$675,000.00
AEDC	\$90,000.00	\$15,000.00	(\$75,000.00)
MBE			
Main St. & Arts Dist.	\$25,000.00	\$25,000.00	\$0.00
Community Grants	\$45,000.00	\$45,000.00	\$0.00
Sidewalks	\$600,000.00	\$277,444.00	(\$322,556.00)
Whitmore Park	\$10,000.00	\$0.00	(\$10,000.00)
Maryland Hall	\$25,000.00	\$25,000.00	\$0.00
Sailing Hall of Fame	\$25,000.00	\$25,000.00	\$0.00
Mayor's Office			\$0.00
Boards & Comm.	\$1,000.00	\$1,000.00	\$0.00
Legal Ads	\$2,000.00	\$2,000.00	\$0.00
Law training	\$8,500.00	\$0.00	(\$8,500.00)
Finance			
(Services)	\$50,000.00	\$50,000.00	\$0.00
MIT (MUNIS)	\$56,630.00	\$56,630.00	\$0.00
HR			
exams & Services	\$40,500.00	\$40,500.00	\$0.00
P&Z			\$0.00
Pro. Cert	\$2,060.00	\$2,060.00	\$0.00
CDBG Legal	\$1,000.00	\$1,000.00	\$0.00
Hist. Markers	\$5,000.00	\$0.00	(\$5,000.00)
HPA Inventory	\$1,000.00	\$0.00	(\$1,000.00)
Police			\$0.00
Maint. & Supply	\$35,000.00	\$0.00	(\$35,000.00)
R&M	\$10,500.00	\$0.00	(\$10,500.00)

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Fire			\$0.00
EMS supplies	\$71,500.00	\$71,500.00	\$0.00
cell phones/wireless	\$4,000.00	\$4,000.00	\$0.00
Air cards/laptops	\$1,200.00	\$1,200.00	\$0.00
fleet maintenance	\$45,000.00	\$45,000.00	\$0.00
Vehicle Repeater	\$53,000.00	\$53,000.00	\$0.00
Tiburon	\$43,500.00	\$43,500.00	\$0.00
Public Works			\$0.00
radios	\$5,986.00	\$5,986.00	\$0.00
roadways PT emp.	\$102,515.00	\$0.00	(\$102,515.00)
flags/curb paint	\$12,500.00	\$0.00	(\$12,500.00)
water dist. OT	\$25,376.00	\$25,376.00	\$0.00
wastewater OT	\$3,700.00	\$3,700.00	\$0.00
Water Plant Maint.	\$200,000.00	\$200,000.00	\$0.00
Recs & Parks			\$0.00
radios	\$3,900.00	\$3,900.00	\$0.00
Transportation			\$0.00
training (req)	\$12,700.00	\$2,000.00	(\$10,700.00)
passenger survey	\$20,000.00	\$0.00	(\$20,000.00)
marketing	\$25,000.00	\$25,000.00	\$0.00
ALPR	\$8,000.00	\$0.00	(\$8,000.00)
total of proposed new spending	\$5,160,943.55	\$4,932,812.09	(\$228,131.46)

* new positions that are approved but require no new funding

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New Spending detail: Grants and other Not-for-Profit Donations

The Committee supports the recommendations of the advisory committee on allocations of the Community Grant funds with the adjustments outlined in the following chart.

<i>Shaded Grants Are Required Matching Funds</i>		FY 2013 Funds Requested	Committees Suggested Allocations	Finance Committee Suggested Allocations
Four Rivers Heritage Area	91	\$25,000	\$25,000	\$25,000
Annap. Youth Services Bureau	84	\$50,000	\$50,000	\$50,000
St. Philips Family Life Center	96.6	\$10,000	\$6,800	\$5,000
Heritage Baptist Church	94.3	\$5,000	\$3,400	\$2,500
Art Walk	94	\$9,000	\$6,120	\$5,000
Anne Arundel County Volunteer Center	93.3	\$5,000	\$3,400	\$2,500
Box of Rain	93	\$5,000	\$3,400	\$2,500
Creating Communities	91.6	\$2,500	\$1,700	\$1,500
Paint Annapolis 2013/ Plein Air	91.3	\$2,700	\$1,835	\$1,500
The Arc	91	\$5,000	\$3,400	\$2,500
Seeds 4 Success	90.3	\$16,000	\$10,880	\$9,000
Maritime Museum	90.3	\$30,000	\$20,400	\$15,000
Gems & Jewels	88.3	\$20,000	\$13,600	\$10,000
Boys & Girls Club	87.6	\$5,962	\$4,185	\$4,500
Bay Theater Company	85.6	\$3,500	\$2,380	\$2,000
Light House	85.3	\$10,000	\$6,800	\$8,000
Arts Council	80	\$30,000	\$20,400	\$15,000
Historic Annapolis Foundation	77.6	\$10,000	\$6,800	\$5,000
We Care and Friends	75.6	\$40,000	\$27,200	\$30,500
Chesapeake Children's Museum	74.6	\$10,000	\$6,800	\$5,000
Center of Help	73	\$15,000	\$10,200	\$5,000
Kunte Kinte-Alex Haley Foundation	68.3	\$7,500	\$5,100	\$7,000
OIC Job Readiness	68	\$15,000	\$10,200	\$11,000
Archeology in Annapolis	66.6	\$35,000	\$0	\$16,000
Mt. Olive Community Dev. Corp	46.6	\$12,000	\$0	\$9,000
Total Dollars Awarded		\$379,162	\$250,000	\$250,000

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New Spending Detail: Conversions

The Committee concurs with the findings of the 2010 Contract Employment Commission. We believe that contract positions should be reviewed and if deemed to be critical long term positions be converted to either Civil Service or Exempt positions. There is a cost to these conversions and in these challenging times we recommend converting 21 employees (of 71 candidates) half way through this fiscal year. The selections were made both on the basis of longevity and of critical nature of the work function. The Committee also recommends that the list will be reviewed annually by the Finance Committee for additional candidates for conversion over the next 2 fiscal years.

The Civil Service conversions have been reviewed and accepted by the Civil Service Board as well. The Civil Service positions we recommend for conversion in FY 2013 are:

4429 MIT Specialist
4541 GIS Coordinator
4610 MIT Administrative Support Analyst
4650 GIS Technician
4782 Parking Meter Collection
5008 Mobility and Parking Specialist
5063 Front Desk Supervisor
5064 Facility Supervisor
5065 Marketing/Membership Coordinator
5083 Council Associate
4971 Facilities Maintenance Engineer II
2685 Dance and Fitness Coordinator
4887 Administrative Office Associate
4895 Office Associate III
5198 Facilities Maintenance Supervisor
0000 Deputy Director of Emergency Preparedness and Risk Management
4925 Hispanic Liaison
0000 Risk Analyst

The recommended conversions to the Exempt Service are as follows:

3177 Community Relations Specialist
3856 PIO and Quartermaster
4921 Assistant City Attorney

Proposed Offsets

The Finance Committee discussed a variety of ways to offset the proposed spending and lighten the burden on the tax payer. There was discussion of the privatization of various city functions. This committee is recommending the privatization of refuse collection. This recommendation is contingent on finding new positions for all the employees that would be displaced, either with by filling jobs with the City or through employment with the refuse contractor. This recommendation will result in significant annual savings in the refuse fees paid by residents amounting to almost \$1.8 million in each year of the 7 year contract. There will likely be some offsetting new spending in the general fund and slightly smaller savings in the refuse fee in FY2013 budget as there will be expenses associated with the transition. The Committee thanks the Human Resources Director, the City Manager, the Director of Public Works, and AFSCME for their work to make this a successful outcome for both the City workers and the fee paying residents.

We are recommending that the city review other operational efficiencies as appropriate but the Committee is not recommending any other functions for privatization this fiscal year.

This Committee is recommending a surplus of revenues over expenditures in the General Fund of \$4,882,053, slightly larger than that in the Mayor's budget. This surplus is need to continue to restore the General Fund reserve balance and reduce the city's dependence on short-term borrowing to maintain cashflow for day to day operations. We also recommend the Enterprise Fund surplus of just over \$1,013,747 in the Mayor's budget. That surplus will be used largely to finalize the restoration of reserve balances for these Funds.

The committee is recommending the cutting of the \$861,437.77 proposed subsidy to the transportation department from the general fund, including the transfer in parking revenues by \$540,000.00 to the general fund and further to move those funds from the general fund to the transportation budget. The Transportation Department is confident that it can function solely on transit and parking receipts and revenues and grant funding.

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Fee Schedule

The Committee supports the administration's ongoing efforts to make the fee charges to users commensurate to the expenses in the enterprise funds.

As this Committee is recommending the contracting out of solid waste services the fees should be amended to reflect the new lower costs. These savings will increase after the first transition year and thus the fees should decrease with them.

The committee offers the following amendment to the Fee Resolution:

R-7-12, Fee Schedule

Page 1, Line 16, after fees, insert: "as modified by the amendments of the City Council."

The Committee requests that staff review the current Package Goods Liquor License fees to see if there can be a graduated fee based on the percentage of the store dedicated to alcohol sales. The committee requests a fiscal impact be assessed for this proposed change.

The Committee also requests a review of the "overnight" charges and times for Knighton and Park Place garage and the consideration of changing the start time from 8:00 pm to 4:00 pm either for all users or only for hospitality industry employees.

These two fee changes will be revisited and voted on by the Committee in October.

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Capital Improvement Program

With regard to the Capital Improvement Program (CIP), the Committee has the following overarching recommendations. At the beginning of the process the City Council should be consulted on the projects to be included in the CIP before the Capital Working Committee and Capital Programming Committee meet to evaluate and score the project priorities. Also, though dramatic improvements have been made in the CIP project rating system, it still needs more improvement, especially so that scoring is financially meaningful. The Committee also found that the evaluation and design costs as budgeted in the CIP seem excessively high, and these cost estimates should be reevaluated with an eye towards reduction.

In terms of this year's proposed CIP the Committee recommends three changes. First the committee recommends reconsideration of the timing for the Hillman Garage replacement. The committee recommends that the assessment should begin as soon as possible to assist with City Dock Revitalization planning. We are recommending moving the study and design phases in to the FY2013 and FY2014 budgets to enable construction to begin in FY2015

The committee recommends funding \$600,000 in sidewalk repairs in FY2013 from bond funds and adding \$218,000 in funding from the general fund to cover the costs of staff moved from the Refuse fund.

Finally, the committee recommends that project 728, Flood Control Infrastructure be placed on the schedule but not funded in the FY2013 Budget to allow staff time to complete internal evaluations before committing new funding amounts. This project should also be considered in cooperation with the City Dock Revitalization planning.

The amended CIP pages are attached and will be submitted as amendments to R-9-12 FY2013 CIP.

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Capital Improvement Program – Proposed

Project Detail

FY13 – FY18

Project Title General Sidewalks	Project Number TBD	Initiating Department Public Works		
Asset Category Roadways/Sidewalks	Asset Number Numerous asset numbers are assigned to sidewalks	Priority Score Project not scored to date		
Project Description Project is designed as an ongoing infrastructure repair program for the sidewalks in Annapolis. In the summer of 2009, DPW conducted a comprehensive city-wide sidewalk condition assessment. Sidewalks were inspected for cracking, faulting and scaling. Based upon this first inspection, a list of priorities for repair and reconstruction was developed taking into account not only sidewalk condition, but location of sidewalk in terms of its importance to citywide pedestrian traffic. In 2004, a three-tier sidewalk hierarchy was developed with resident and business participation. This hierarchy and the condition rating of individual sidewalk segments will determine the sequence of specific replacement projects.				
Funding for this project is contingent on the identification of a funding source for sidewalk repairs.				
Regulatory or Legal Mandates		Operational Necessity Allows continued safe use of the existing sidewalk network.		
Prior Funding None		Non-City sources of funding		
FY13 Budget commitment allows project stage: Construction		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Project Years Recurring</td> <td style="width: 50%;">Total Project Budget \$600,000 annually</td> </tr> </table>	Project Years Recurring	Total Project Budget \$600,000 annually
Project Years Recurring	Total Project Budget \$600,000 annually			

Appropriation Schedule	Budget	5-Year Capital Plan					FY13 - FY18 Total
	Proposed FY13	Proposed FY14	Proposed FY15	Proposed FY16	Proposed FY17	Proposed FY18	
Land Acquisition							
Design Costs	10,000	10,000	10,000	10,000	10,000	10,000	60,000
Construction Costs	584,000	584,000	584,000	584,000	584,000	584,000	3,504,000
Construction Project Mgmt	6,000	6,000	6,000	6,000	6,000	6,000	36,000
IT Costs							
Furniture/Fixtures/Equipm							
Legal Fees							
Salaries: Supplement	218,770						218,770
Total	818,770	600,000	600,000	600,000	600,000	600,000	3,818,770

Funding Schedule							
Bond funds	600,000						600,000
Operating funds	218,770	600,000	600,000	600,000	600,000	600,000	2,600,000 3,218,770
Other							
Total	818,770	600,000	600,000	600,000	600,000	600,000	3,818,770

Debt analysis: no debt to be incurred for this project.

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Capital Improvement Program – Proposed

Project Detail

FY13-FY18

Project Title Hillman Garage	Project Number: T4/MUNIS 732 / TBD	Initiating Department Central Services/Mayor's <u>Office/Transportation</u>
Asset Category Off Street Parking Facility	Asset Number 50026	Priority Score Project not scored to date
Project Description Replacement of the deteriorating 435-space garage with a new facility, with state of the art controls, ADA compliant pedestrian access, elevators, and appearance more compatible with the surrounding community. Structural repairs completed in 2010 extended the life of this facility. <u>The facility is operated and maintained by the City Transportation Department. Project planning & design is recommended to begin in 2015. First year project planning would determine the project scope and could include a conditions assessment, geo-technical explorations, and a parking study. (Budget estimates prepared by per Department of Central Services in 2009)</u>		
Regulatory or Legal Mandates	Operational Necessity	
Prior Funding Approximately \$700,000 spent in 2009 and 2010 on structural repairs.	Non-City sources of funding	
FY13 Budget commitment allows project stage: <u>No funds requested in FY13 Planning</u>	Project Years FY15 - FY17 anticipated FY13-FY15	Total Project Budget

Appropriation Schedule	Budget		5-Year Capital Plan				FY13 - FY18 Total
	Proposed FY13	Proposed FY14	Proposed FY15	Proposed FY16	Proposed FY17	Proposed FY18	
Land Acquisition							
Design Costs	300,000	765,190	300,000 1,530,360	765,190	1,530,360		2,595,550
Construction Costs			16,723,150		46,723,160		16,723,150
Construction Project Mgmt							0
IT Costs							
Furniture/Fixtures/Equipment							
Legal Fees			334,460		334,460		334,460
Contingencies			2,200,000		2,200,000		2,200,000
Total	300,000	765,190	20,787,970	765,190	20,787,970	0	21,853,160

Funding Schedule							
Bond funds	300,000	765,190	20,787,970	765,190	20,787,970		21,853,160
Operating funds - O.S. Parking							
Other							
Total	300,000	765,190	20,787,970	765,190	20,787,970	0	21,853,160

Debt Analysis			
FY13-FY18 Total	Borrowing Term (Years)	Average Annual Debt Service	Average Tax Rate Impact
21,853,160	30	1,283,873	0*

*No tax rate impact: project is funded from Off Street Parking Fund. If expressed as a tax rate impact, debt service equates to 1.95.

Project Title Flood Control Infrastructure	Project Number: T4/MUNIS 728 / TBD	Initiating Department DNEP	
Asset Category	Asset Number	Priority Score	
Project Description The study “Flood Mitigation Strategies for the City of Annapolis: City Dock and Eastport Area” was completed in 2011. The study identified structural options for protecting property in flood threatened areas and provided preliminary estimates of design and construction costs associated with structural protection measures. A framework for a regulatory response to flooding was completed in the same timeframe.			
Regulatory or Legal Mandates		Operational Necessity	
Prior Funding		Non-City sources of funding	
FY13 Budget commitment allows project stage: No funds requested in FY13.		Project Years	Total Project Budget

Appropriation Schedule	Budget	5-Year Capital Plan					FY13 - FY18 Total
	Proposed FY13	Proposed FY14	Proposed FY15	Proposed FY16	Proposed FY17	Proposed FY18	
Land Acquisition							
Design Costs							
Construction Costs							
Construction Project Mgmt							
IT Costs							
Furniture/Fixtures/Equipment							
Legal Fees							
Contingencies							
Total							

Funding Schedule							
Bond funds							
Operating funds							
Other							
Total							

Debt Analysis			
FY13-FY18 Total	Borrowing Term (Years)	Average Annual Debt Service	Average Tax Rate Impact

Project Detail

Project Title Kingsport Park	Project Number TBD	Initiating Department Recreation & Parks
Asset Category Parks/Rec. facilities/Open Space	Asset Number	Priority Score 44
Project Description This project will complete the development of the Kingsport Park, a 3-2-acre parcel donated to the City as part of the Kingsport residential development. The project will include a 10-car off street parking area, pathway, small linear field, community garden plots, security lighting, water, landscaping and a park sign. Some preliminary design has been completed, but will need to be updated. First year project funds will finalize the park design and programming with input from residents of surrounding communities. Once finalized, grant funds are expected to defray or offset construction costs in subsequent years.		
Regulatory or Legal Mandates No	Operational Necessity Meets the essential recreation and park services for the community. Anticipate small increase in operating costs (~\$500 annually) after project is completed.	
Prior Funding None	Non-City sources of funding Application to Potential: DNR will be made in summer of 2012 (Community Parks and Playground program). City match of \$25,000 (15% of total) is factored into project budget.	
FY13 Budget commitment allows project stage: Design, Construction	Project Years FY13 – FY14	Total Project Budget 172,875

Appropriation Schedule	Budget	5-Year Capital Plan					FY13 - FY18 Total
	Proposed FY13	Proposed FY14	Proposed FY15	Proposed FY16	Proposed FY17	Proposed FY18	
Land Acquisition							
Design Costs	2,500						2,500
Construction Costs	145,000	145,000					145,000
Construction Project Mgmt	7,250	7,250					7,250
IT Costs							
Furniture/Fixtures/Equipment							
Legal Fees							
Contingencies	48,125 12,500	5,625					18,125
Total	472,875 15,000	157,875	0	0	0	0	172,875

Funding Schedule							
Bond funds	25,931 15,000	10,931					25,931
Operating funds							
Other	146,944	146,944					146,944
Total	472,875 15,000	157,875					172,875

Debt Analysis			
FY13 Total	Borrowing Term (Years)	Average Annual Debt Service	Average Tax Rate Impact
25,931	5	5,915	0.01

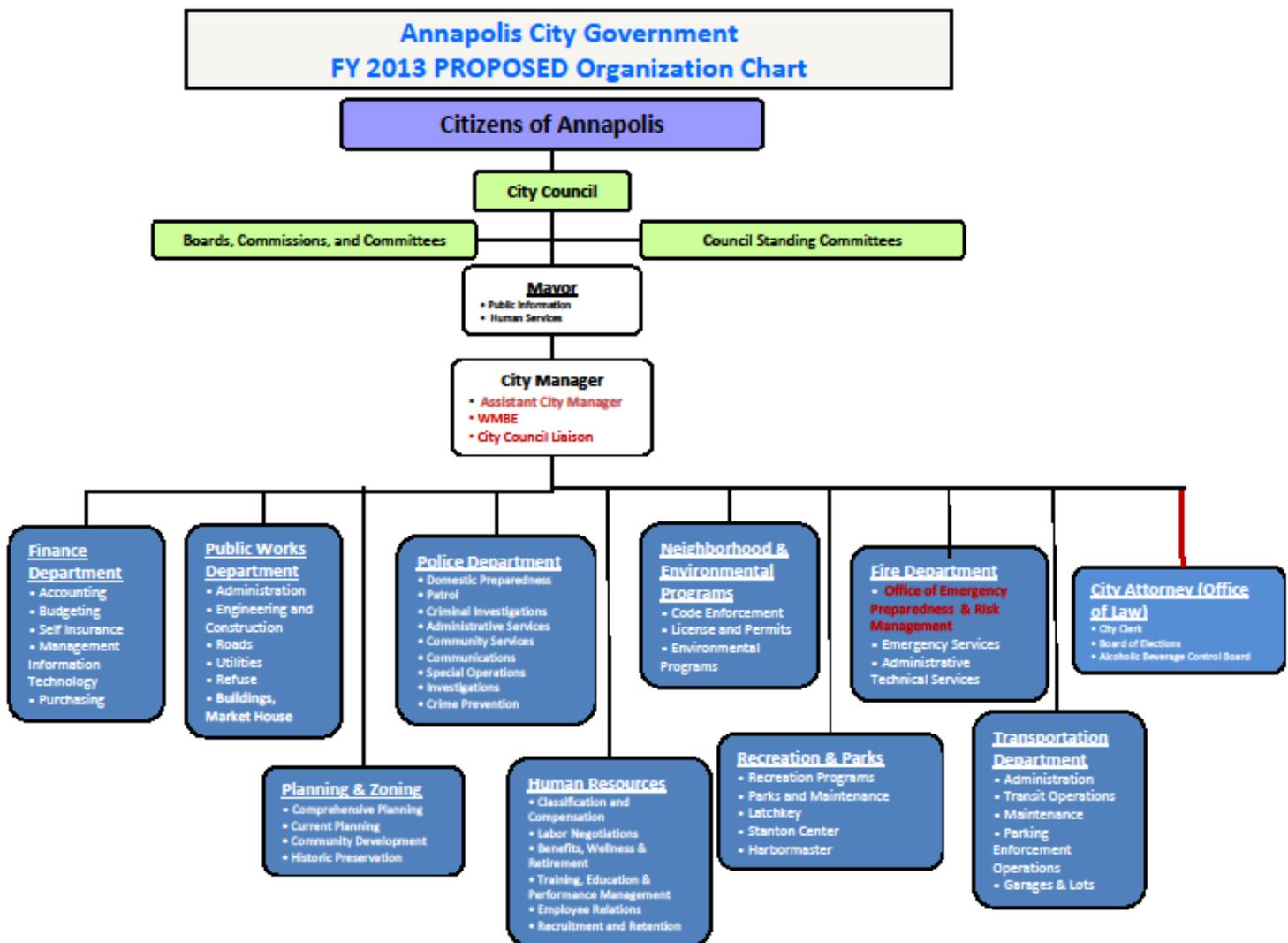
FY2013 Budget Report of Finance Committee of Annapolis City Council

Organizational Chart

The committee proposes the following changes in the Organizational chart.

We recommend moving the MBE function from the Mayors Office to the City Manager’s office. We recommend adding the Assistant City Manager and City Council Liaison to the City Manager’s office. Finally we recommend moving the Office of law from supervision of the Mayor to the Supervision of the City Manager to make it consistent with all the other city departments and to enable the City Manager to better direct interdepartmental work.

The amended chart is as follows:



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Long Term Solutions and Other Report Issues

Financial Accounting: While the *proforma* certainly contains all of the detail needed to evaluate the budget, it lacks ease of understanding. Many important policy decisions are implied by the numbers rather than being made explicit. An example is the so called “Constant Levy” policy that can only be detected by noting that the property tax revenue for FY 12 and 13 are the same amount in each year. This is a huge policy change left to be inferred. While the committee commends the Finance Director and staff on their diligence and commitment to fiscal responsibility, we believe that additional information is needed to aid in making policy decisions. For example, the Committee and other members of the City council find a need for some summary level data and charts that precede the great level of budget detail in the *Proforma*. Also need for the future is a summary of policy decisions that are implicit in the budget detail.

For this year’s budget, the Committee believes that the estimates for Automatic License Plate Recognition System and Speed Camera fines for the first year can be raised, based on the experience of other governmental entities in Maryland. Also, the practice of excluding grant money from the *proforma* is probably good accounting practice, but it hurts the ability to make policy evaluations of each Departments full revenue amounts and how well that covers their expenditures. Perhaps a second set of more aggregate accounts could be developed that shows by department, revenues and expenses including expected or traditional grants and other external sources of revenue. Finally, to set a context for the current year budget amounts, the Committee would like to see 2 or 3 year out projections of expected budget revenues and expenses by department.

Reserves Funds: The Committee would like to see an explicit accounting for all of the reserve funds, including fund balance history and projections. Also needed is a statement on the current condition and projected status of each reserve fund. As an example, the Water Fund still owes money to the General Fund. When will that debt be paid off? For the future, what amount of reserve, and hence impact on fees, will be needed once work begins on the new water purification plant begins?

Contingency Reserve: The Committee would like to have quantified the amount of money set aside for the Contingency Reserve and know the rules governing the amount going into and expenditures from that reserve.

Self Insurance: The city has been self-insured for several years for many liabilities, including health benefits. The Committee would like to see data and information of what liabilities are self-insured, including the amounts set aside for the liabilities, amounts paid out for losses, and any reinsurance coverage with the premiums paid and losses covered. We also recommended looking at cost and benefits of purchased insurance to see if we are really saving by being self-funded.

FY2013 Budget Report of Finance Committee of Annapolis City Council

Other Long-term Issues: Some of the proposals put forward by members of the Committee that are not being recommended for this year's budget, but deserve further review by the Administration for next year's budget exercise.

- Further evaluate employee health benefits for both active and retired employees
- Endorse the formation of the Task Force on Police and Fire Pension Fund and OPEB
- Evaluate the benefits and cost savings of moving immediately to the use of SUVs or other light vehicles for carrying extra fire staff to EMS calls
- Examine and report on operational efficiencies throughout the city organization
- Complete all evaluations recommended in the Fiscal 2012 Report from the Finance Committee.
- Conduct an evaluation of all possible training and technologies available but not employed by the City that would enhance employee productivity and job satisfaction
- Initiate a comprehensive transportation evaluation to determine the extent to which transportation should be provided outside the City boundaries
- Review the idea of establishing a sidewalk enterprise fund
- Examine state code related to penalties for exceeding appropriated budget allocations for an operating component (department or office level)
- Evaluate the impact of demolishing and rebuilding the Hillman garage. The Committee recognizes that this project will cause several effects.
 1. The resulting parking shortage will have a major impact on downtown business and a decrease in parking revenue while also incurring new debt service for the City
 2. The Department of Transportation must prepare for the effects on their budget and operations
- A proper funding source should be determined for the City's parking availability signage. Expenditures for the program will be matched to revenue generation, most probably benefiting the Parking Fund.
- The City should enact formal impasse protocol for union contract negotiations.
- It is recognized that a significant number of Police Department civilian employee salaries are solely grant-funded. The department's General Fund personnel expenditures should be amended/reduced to accurately reflect only those salary/benefits which are funded by the General Fund. Accordingly, when grants are approved by the Finance Committee and City Council, the grant-funded positions will be charged to the appropriate grant accounts.

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- The Police Department's general fund personnel expenditures will allow for the attrition of one Record Specialist position.
- The City Council should review the continuance of the Community Grant Program before the next funding cycle begins
- The Committee recommends moving Four Rivers, Annapolis Youth Services Bureau and The Kunta Kinte Foundation to line item funding in the next budget cycle

FY2013 Budget Report of Finance Committee of Annapolis City Council

Appendix 1: letters from Financial Advisory Commission

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION

c/o Frederick C. Sussman, Esq., Chair

P.O. Box 2289

Annapolis, Maryland 21404-2289

(410) 268-6600

fsussman@cbknlaw.com

May 11, 2012

BY E-MAIL AND HAND DELIVERY

Mayor and City Council of the City of Annapolis
160 Duke of Gloucester Street
Annapolis, Maryland 21401

Re: Recommendations Regarding:

Ordinance No. O-8-12 (Annual Operating Budget: FY 2012)

Resolution No. R-9-12 (Capital Improvement Budget and Program: FY 2013 to
FY 2018)

Dear Mayor Cohen and Members of the City Council:

I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission" or "FAC").

Within the time and resource constraints imposed upon the Commission, we have reviewed Ordinance No. O-8-12 (Annual Operating Budget: FY 2013) and Resolution No. R-9-12 (Capital Improvement Budget and Program: FY 2013 to FY 2018). The Commission's input was not sought during the drafting of the FY 2013 Operating Budget or Capital Improvement Budget and Program. Therefore, the Commission was only able to focus on some of the most noticeable issues in the proposed budget.

The past steps taken by the Mayor and City Council to address the financial dilemma facing the City of Annapolis have moved the City in the right direction. Nonetheless, those steps are not sufficient to declare the City's financial problems at an end. More work needs to be done and more formidable decisions need to be made.

The Commission is concerned that the FY 2013 Operating Budget, as proposed, will not get the City to where it needs to be financially in the time left before the restructured debt payments are due to increase. The Commission also believes the FY 2013 Capital Improvement Budget and Program recommendations lack sufficient financial rationale.

Furthermore, the Commission believes the Mayor and the City Council must firmly adhere to the following key principles in order to return the City to solid financial health:

- 1) **Control expenses** - by continuously re-examining the cost of essential services to insure these services are provided cost effectively. Non-essential services must be continuously re-examined for cost reduction opportunities or elimination to insure the City lives within its financial resources.

- 2) **Fix underfunded liability problems** - by fixing serious systemic and structural problems as exist in the pension plans and OPEB, and by allocating excess funds to neglected infrastructure needs. These liabilities are growing at a dangerous rate and unless brought under control will lead to financial problems more difficult or impossible to fix. Creative options must be explored that go beyond traditional solutions.
- 3) **Stop using grant funding to justify expanding services and staffing.** Grant funds should only be used to fund specific projects, either capital projects or programs of a limited duration, or to reduce the City's burden of existing programs such as transportation. Grant-funded positions should be clearly identified as temporary and be subject to a specific sunset requirement and date.

It is within this framework that the Commission urges the Mayor and City Council to pursue necessary and prudent measures to ensure the City's long-term financial solvency, and provide its citizens and businesses with basic services at a reasonable cost.

Recommendations

The following recommendations are respectfully submitted by the Commission for consideration by the Mayor and the City Council as they begin deliberations on the FY 2013 Operating and Capital Budgets.

A. Proposed Property Tax Increase:

The proposed property tax rate increase lacks sufficient rationale for adoption, given the above observations of the Commission and the following recommendations. Furthermore, there is increasing belief among the members of the Commission that no tax increases should be considered until all reasonable cost containment and reduction options have been fully considered and implemented. The current proposed FY 2013 budget, as presented to the Commission for review, does not meet that test.

B. Collective Bargaining Provisions:

The Mayor acted prematurely by incorporating into the FY 2013 Operating Budget not yet agreed upon collective bargaining provisions with the City's collective bargaining units for lifting employee furloughs. These assumptions should be removed from the proposed FY 2013 Operating Budget.

C. Solid Waste Managed Competition:

The Mayor and City Council should adopt the unanimous recommendation of the Managed Competition for Solid Waste Operations Evaluation Committee and award the seven year contract to the specified contractor.

The potential savings by accepting the contractor's proposal over the current system for the seven year life span of the contract is \$11.78 million. The proposed "City Hybrid Option" in the FY 2013 Operating Budget reduces that savings by 39% to \$7.22 million. Sufficient rationale does not exist to forego \$4.6 million in additional savings, given the City's current financial situation, the proposed tax increases in the FY 2013 Operating Budget, and the existing burden on the solid waste rate payers.

D. Police and Fire Retirement Plan

Regardless of the level of funding budgeted for the Police and Fire Retirement Plan in the FY 2013 Operating Budget, the Mayor and City Council must take immediate action to fix serious systemic and structural problems with the Police and Fire Retirement Plans as outlined in our letter to the City Council dated April 17, 2012. Committing additional funds to the pensions as currently structured is a flawed remedy. We urge the formation of a commission with knowledgeable individuals to address these systemic and structural problems. The commission should begin work no later than July 1, 2012 and submit their findings and recommendations to the Mayor and City Council no later than December 31, 2012

The scope of the commission's work should include consideration of moving from a defined benefit plan to a defined contribution plan for City employee pensions. Short of converting to defined contribution plans, which would be optimal, the only changes that are likely to fix the structural problems with the existing pensions are to increase retirement ages and to push out eligibility for beginning payments to retirees. Adjusting funding levels for employees and the City within realistic ranges, changing assumptions on forward looking rates of return and making small changes in the plan structure will only slightly defer the problem.

E. OPEB Funding

The Mayor and City Council must commit additional funding for OPEB. Furthermore, the City should adopt an actuarial basis in lieu of the current PAYGo cost basis for determining the funding commitment for FYI 2013, as described in the recent actuarial analysis provided by Cheiron on OPEB funding options. By doing so, a more realistic contribution to OPEB of \$2.5 million will be required in FY 2013 to fund current commitments, begin building reserves for future obligations, and reduce a growing liability that will cause serious fiscal difficulties in the near future.

F. Public Safety Positions

The Mayor and City Council should stop adding public safety positions simply because grant money is available to fund such positions. Employees should be added based upon need and merit; not grant funding availability. Committing to reoccurring employment related expenses using time-limited and temporal grant funding is financially imprudent. Public safety staffing levels should be independently evaluated using need-based analysis and productivity standards based upon relevant data and comparisons with similar jurisdictions.

G. Transportation Operations and Funding

The Mayor and City Council should refrain from obligating to any expansion of existing fixed costs, programs, or services until an exhaustive and thorough management review of all aspects of the operations of the Transportation Department is undertaken and completed. Furthermore, grant funding should not be used to justify expanded routes, but instead used to reduce the impact on the general fund of subsidizing transportation operations.

H. Capital Improvement Budget and Programs

The Commission recommends that the rating evaluation process be revised to give greater weight to the financial implications of proposed projects, including better insight into the rating of financial related factors. Furthermore, the rating policy should be revised to establish minimum scores that a project must achieve before recommendation for inclusion into the capital budget. These two recommendations will assure the use of objective criteria supported by sound financial reasoning when determining the merits of a capital project.

I. Budget Format and Approval

The Commission recommends that all significant changes in City Policy that materially affects revenue and expenditure commitments, accounting, or projections be identified in an executive summary at the beginning of each proposed operating budget and capital improvement budget. Furthermore, there should be no assumption that a previous year's expenditures are justified while planning a future operating budget.

Conclusion

Beyond the specific recommendations noted above, the Commission believes there are many other cost savings opportunities that should be explored by the City. These must be identified and evaluated even after the budget process is completed. The Commission will participate in this effort during the coming year.

The Commission stands ready to answer any questions you may have, provide greater detail on our recommendations, and/or offer further guidance as you may request.

Sincerely,



Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Michael Mallinoff, City Manager (By e-mail)
Bruce Miller, Finance Director (By e-mail)
Shirley S. Tripodi, Assistant Finance Director (By e-mail)
Hilary Raftovich, Boards and Commissions Coordinator (By e-Mail)
Jessica Cowles, Legislative and Policy Analyst (By e-mail)

CITY OF ANNAPOLIS FINANCIAL ADVISORY COMMISSION
c/o Frederick C. Sussman, Esq., Chair
P.O. Box 2289
Annapolis, Maryland 21404-2289
(410) 268-6600
fsussman@cbknlaw.com

May 11, 2012

BY E-MAIL AND HAND DELIVERY
Mayor and City Council of the City of Annapolis
160 Duke of Gloucester Street
Annapolis, Maryland 21401

Re: Recommendations Regarding:
Resolution No. R-7-12 (FY 2013 Fees Schedule)

Dear Mayor Cohen and Members of the City Council:

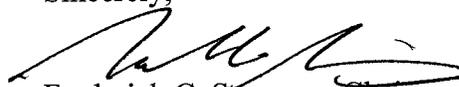
I am writing to you on behalf of the City of Annapolis Financial Advisory Commission ("Commission").

Within the time and resource constraints imposed upon the Commission, we have reviewed Resolution No. R-7-12 (FY 2013 Fees Schedule). We are unable to provide any recommendation on the specific fees proposed in Resolution R-7-12 because we have received no back-up, justification or rationales for the proposed fees.

We understand that there is no uniform process or system in effect across City operations to review and assess the appropriateness of existing or proposed fees, and depending upon the nature of a particular fee, whether the fee is reasonably calculated to cover the cost of regulation, is reasonably estimated to cover the cost of a service, or is comparable to other fees in the relevant marketplace. There also appears to be no uniform system to report the rationale and justification for proposed fees to allow appropriate scrutiny during budget review. This lack of uniform processes and systems can lead to a lack of transparency, accountability and oversight.

The Commission recommends that such processes and systems be developed and implemented before the start of preparation of the FY 2014 budget. The Commission stands ready to answer any questions you may have.

Sincerely,



Frederick C. Sussman, Chair

cc: Commission Members (By e-mail)
Michael Mallinoff, City Manager (By e-mail)
Bruce Miller, Finance Director (By e-mail)
Shirley S. Tripodi, Assistant Finance Director (By e-mail)
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