City of Annapolis
State of the City
and FY 2012

FY2012 Budget Presentation

March 14, 2011

Revised 3/3/11

The challenge for FY11:

How do we balance the budget?

Constraint:

Avoid raising the tax rate, if at all possible.

- Highlights
  - Adopted All-Funds operating budget of $75.2 million, a decrease of 13% from FY 2010.
    - **Largest percentage cut of any of Maryland's 157 municipalities.**
  - Personnel cost reductions made up 51% of operating reductions.
  - Budget held the property tax rate constant at $0.53 per $100 of assessed value, but projects an increase of 1.6% in real property tax revenue from rising commercial real estate values.
  - Adopted General Fund expenditures reduced by 14.9%.
  - Adopted General Fund revenues lowered by 11.5%.
  - **Result is a projected surplus** of $2 million built into the adopted General Fund budget to begin to restore fund balance reserves.

- Highlights, cont'd
  - Employee contract concessions totaling 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 forewent a previously negotiated 3% increase, saving $285,000 in the FY 2010 budget and $757,000 in FY 2011.
    - All employees took between 4 and 9 furlough days, and department heads took 13 furlough days (5% of pay)
  - Consolidated departments
    - Eliminated Office of Emergency Management and Director's position
    - Eliminated Office of Central Services and Director's position
  - Privatized
    - Eliminated Department of Economic Affairs and created new public-private Annapolis Economic Development Corporation.
  - Increases
    - Only budget categories increased: debt service, recreation and parks (due to new recreation center) and economic development

Workforce Comparison

	Annapolis	Gaithersburg	Rockville
FTEs	537	361	540
Contractual/Temps	68	?	92
TOTAL:	605	361	632
Fire			
Uniformed	126	-0-	-0-
Civilian	6	-0-	-0-
TOTAL:	132	-0-	-0-
Police			
Uniformed	116	55	57
Civilian	29	8	36
Total:	145	63	93
Transportation			
Total:	49	-0-	-0-

- New Financial Priorities
  - New Director implementing industry best practices
  - New Internal Controls
  - New Approach to Accounting and Budgeting
    - Enhanced detail in operating budget and CIP
  - Restructuring Debt

Governance and Internal Controls

- Based upon recommendations of independent auditing firm and bond counsel, take appropriate steps to segregate and restrict bond proceeds.
- Delegation of specific duties and cross training of Finance employees to reduce "key person" risk.
- Installation of new Munis financial reporting system to produce greater controls and enhanced managerial level reporting. Current system is approximately 20 years old.
- Improve cash management controls following a recent theft.
- Implement Financial Best Practices and Policies, including Debt and Cash Management.
- Improve Budget Practices, Strategic Planning and Pro-Forma Analysis.

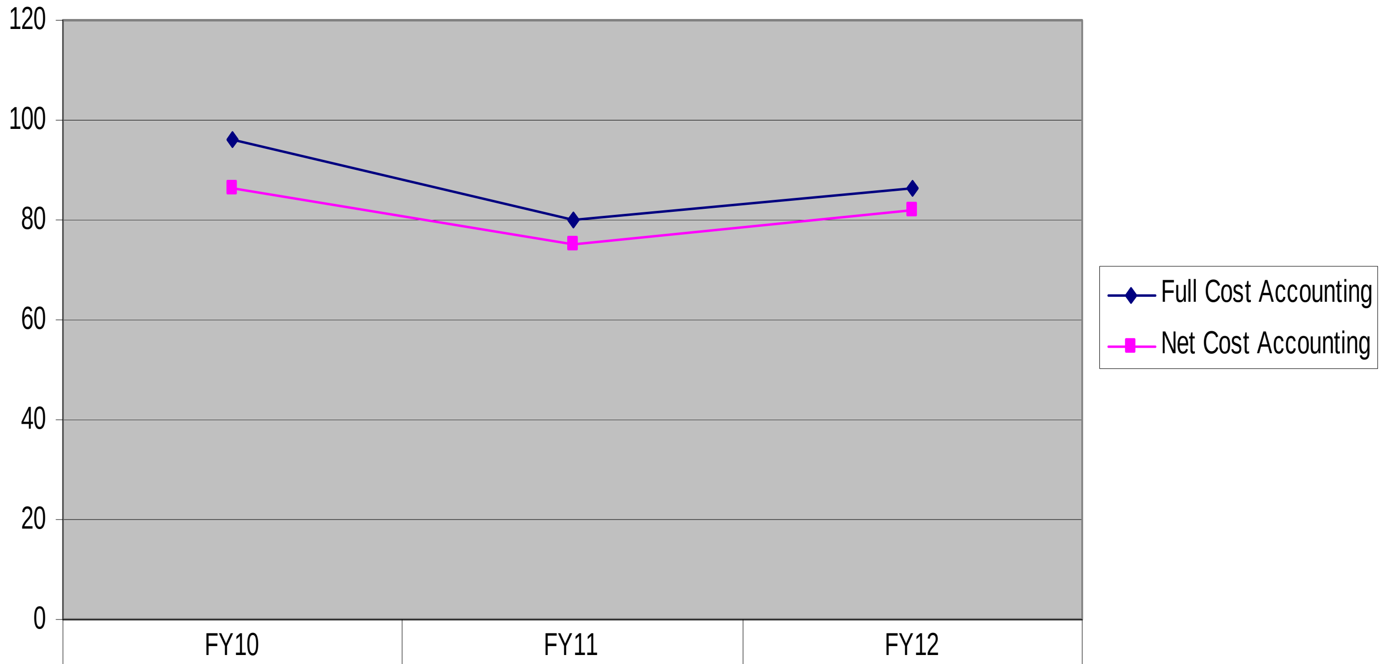
Governance and Internal Controls, cont’d.

- Prior budgets reflected net transfers
  - Prior budgets reflected transfers in and transfers out under expenditures, but not reflected under revenues
  - In effect, expenditures were understated from an accounting and budgeting standpoint
- New full cost accounting
  - Reflects transfers in as other sources of funds
  - Reflects transfers out as other uses of funds

Proposed FY 12 Budget

- Based on prior accounting method:
  - FY11: $75.1 Million
  - FY12: $82 Million (9.2% increase)
- Based on new, full accounting method:
  - FY11: $80.1 Million
  - FY12: $86.2 Million (7.6% increase)
- Including transfers to reserves: $92.8 Million

Budget Accounting Comparison
($ Millions)



	FY10	FY11	FY12
Full Cost Accounting	96.1	80.1	86.2
Net Cost Accounting	86.5	75.1	82

- Refinanced debt to lower debt service and free up cash flow
  - Eliminated remaining FY11 debt service payments
  - Reduced debt service payments over next seven years
  - Overall savings of $17.8 million in debt service savings
  - Net present value of restructuring is approximately $2 Million

Proposed FY 12 Budget Highlights

Now that we have a balanced budget, the priority is:

Positioning Ourselves for the Future

Fiscal Objectives:

- Maintain balanced budgets – minimal enhancements
- Rebuild our fund balances
- Address long-term liabilities
- Economic Development

Constraints:

- Avoid increasing the property tax rate
- Avoid layoffs and preserve services

Priority Enhancements

1. Clean and Green City
2. Enhanced Mobility
3. Continued Focus on Economic Development

Priority Enhancements

1. Clean and Green City

- Enhanced stormwater remediation and stream restoration
- Incentives for conserving water
- Expanding public-use recycling
- Enhanced street sweeping and street sanitation
- Enhanced recycling

Priority Enhancements

2. Enhanced Mobility

- Goals: Leverage parking facilities, bring customers to businesses and visitors to downtown, improve the environment by reducing emissions, open parking opportunities for residents
  - New Circulator Loop Shuttle
    - 10-minute headways
  - Partnering with e-Cruisers to free up City employee parking in Hillman Garage
  - Implementing new Bicycle Master Plan
  - Electronic payments at meters
  - Resident-only parking pilot program

Priority Enhancements

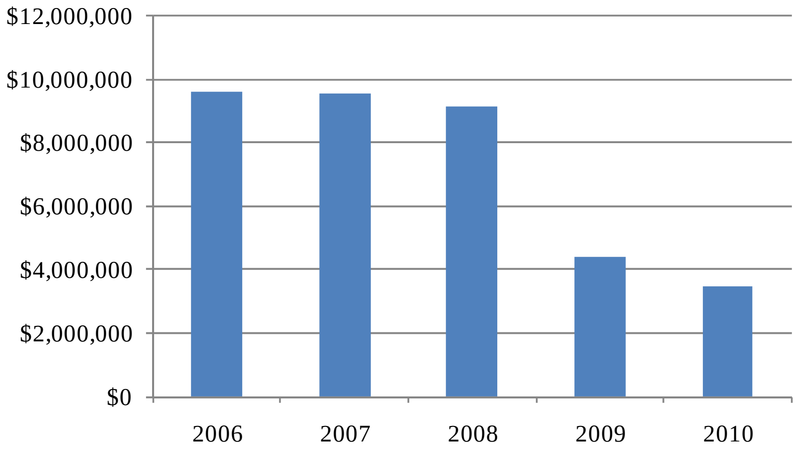
3. Continued Focus on Economic Development

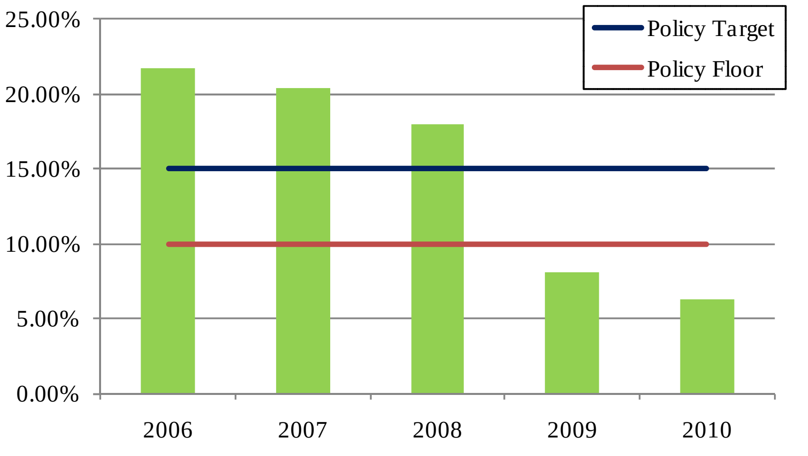
- Maintaining $400,000 commitment to Annapolis Economic Development Corp.
- Setting aside $25,000 for Main Street Maryland and Capital City Cultural Arts District
- Setting aside $25,000 to enhance City Dock “placemaking” process

Other Enhancements

- CCRABL Recommendations
  - Hire additional inspector to enforce liquor violations on evenings and weekends
  - Reopen Harbormaster's restrooms for public use after bars close
- General increases
  - Fuel cost increase $200,000
  - Munis Software Conversion $250,000
  - Increase Community Grants from $205,000 to $250,000
  - Budget Park Place TIF payment of $800,000
- Conversion of contractual employees to civil service and exempt
- Further Consolidations
  - Proceed with merging Central Services into DPW and Finance
  - Merge Harbormaster into Recreation and Parks (per Idea Team)
  - Eliminate Office of Youth and Community Affairs

- General Fund Balance
  - The City's total unreserved fund balance level has recently fallen below the City's policy floor.





Fiscal Year	General Fund Revenues	Total General Fund Unreserved Fund Balance	Unreserved Fund Balance as a % of Revenues	Policy Floor	Policy Target
2006	$44,436,490	$9,619,912	21.65%	10.00%	15.00%
2007	46,783,256	9,534,721	20.38%	10.00%	15.00%
2008	50,813,857	9,124,610	17.96%	10.00%	15.00%
2009	54,934,498	4,407,708	8.02%	10.00%	15.00%
2010	55,326,363	3,478,434	6.29%	10.00%	15.00%

Source: 2006-2010 Comprehensive Annual Financial Reports

Fiscal objective: Rebuild fund balances

- Last year the City Council adopted Resolution R-21-10.
  - Establishes target floor of 10% of revenues and ceiling 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

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 of 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**

________________________   BY: ________________________

Regina C. Watkins-Eldridge, MMC   **JOSHUA J. COHEN, MAYOR**
City Clerk

Fiscal Objective – Rebuild Fund Balance

- Target for FY12: Achieve fund balance of 10%
  - Increases:
  - 50% of new income tax revenue: $1,000,000
  - 100% of general fund debt service savings: $2,600,000
  - Operating surplus: $2,100,000
    - Total increase in general fund balance: $5,700,000
- General fund balance increases from $4,173,250 in FY11 to $9,873,250 in FY12.

Fiscal Objective: Address long-term liabilities

- Infrastructure:
  - Solid Waste
  - Water
  - Sewer
  - Stormwater
  - Sidewalks
  - Transit
  - Vehicle Replacement
- Personnel:
  - OPEB (retiree medical)
  - Police and Fire Pension

- Solid Waste
  - Completed rate study. Examining both costs and revenues.
  - Will reduce costs by changing to one refuse collection per week. Savings will be reallocated to enhance street sanitation services.

Program	Annual Cost	Per Household Cost
Refuse	$2,118,389	$235
Recycling	$334,354	$37
Bulk Waste	$269,510	$30
Yard Waste	$798,154	$89
Leaf Collection	$125,919	$14
Landfill Monitorin	$52,714	$6
Administration	$134,951	$15
Total	**$3,833,992**	**$426**

  - Current Refuse Fee: $380 per residence per year ($46 short)
  - Proposed FY 2012 Increase: $46 per residence (12 percent)

- Water and Sewer
  - Water
    - Average 10-year municipal water rate increase: 95%
    - Annapolis increase over past 10 years: 24%
  - Sewer
    - 10-year average municipal sewer rate increase: more than 100%
    - Annapolis increase over past 10 years: none
- Need for annual rates to keep pace with cost increases
  - Ordinance O-11-11: Authorizes Mayor or City Manager to annually increase fees up to the lesser of 5% or Commodity Fuel (energy) Index

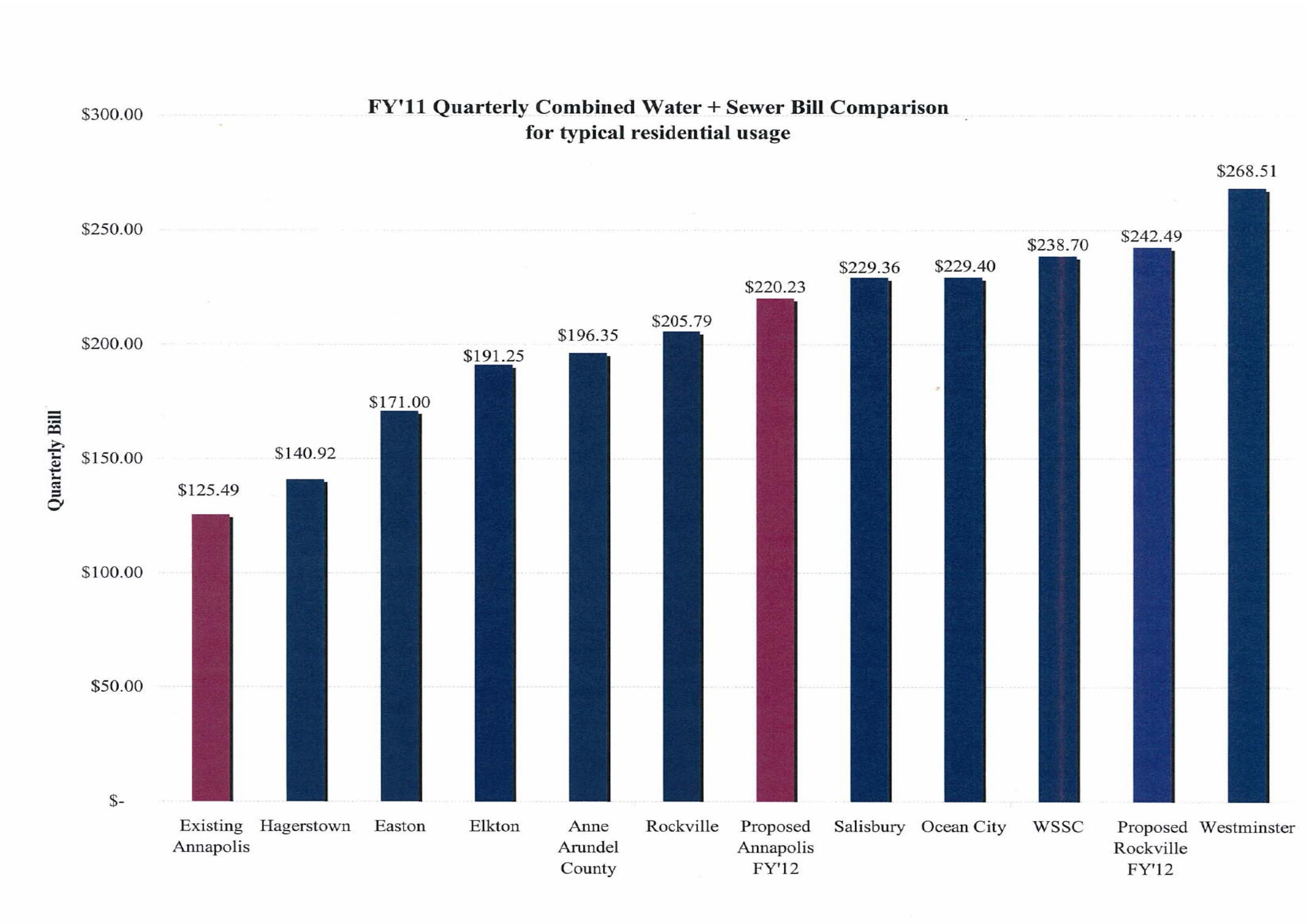
- Water
  - General fund has subsidized the water fund by $3.8 million. We have lots of old pipes and a water plant that need to be replaced.
  - Total cost: $7,200,900
  - Annual water revenue at current rates: $3,810,000
  - Proposed FY 2012 Increase: $3,390,900 – Includes repayment to general fund

- Sewer
  - Similar needs as the Water fund, except we do not need to replace the wastewater treatment plant.
  - Total cost: $6,487,400
  - Annual sewer revenue at current rates: $3,980,000
  - Proposed FY 2012 Increase: $2,507,400 – Includes repayment to general fund

Water and Sewer Bill Comparisons

Agency	*Water & Sewer Bill**	*% Difference*
Annapolis (current)	***$125.49***	-
Hagerstown	$140.92	12.3%
Anne Arundel County	$164.63	31.2%
AWWA 2008 National Rate Survey	$168.21	34.0%
Easton	$171.00	36.3%
Elkton	$191.25	52.4%
Rockville	$205.79	64.0%
Annapolis (with proposed increase)	***$220.23***	***75.5%***
WSSC	$227.70	81.4%
Salisbury	$229.36	82.8%
Ocean City	$229.40	82.8%
Westminster	$268.51	114.0%

***Quarterly bill based on 250 gallons per day of usage**


FY'11 Quarterly Combined Water + Sewer Bill Comparison
for typical residential usage
Quarterly Bill
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$-
$125.49
$140.92
$171.00
$191.25
$196.35
$205.79
$220.23
$229.36
$229.40
$238.70
$242.49
$268.51
Existing Annapolis
Hagerstown
Easton
Elkton
Anne Arundel County
Rockville
Proposed Annapolis FY'12
Salisbury
Ocean City
WSSC
Proposed Rockville FY'12
Westminster

- Stormwater
  - Stormwater requirements at all levels of government are only going to increase with strict limits on nutrients, bacteria, litter, heavy metals and more.
  - Current Residential Stormwater Fee: $22 per year
  - Current Commercial Stormwater Fee: $120 per year
  - Current fees generate $520,000 annually.

  Proposed Increase:
  - Residential: $40 per residence per year
  - Non-residential:
    - Up to 5,000 sq.ft. impervious: $150 per year
    - 5,001 to 10,000 sq.ft. impervious: $300 per year
    - Over 10,000 sq.ft. impervious: $500 per year
- Credit for best management practices
  - Ordinance O-15-11 authorizes 50% credit of annual fee for BMPs.

- Transit
  - Transit has always operated at a deficit
    - Current costs are $3,811,000
    - Current fare is $1.00
    - Current fare box recovery is $992,000 (26% of costs)
  - Policy goal is to recover 40 percent of costs through the fare box
    - Recommended new base fare is $1.50 (50% increase)
    - Projected fare increase will increase revenues by $496,000 to $1,488,000

- Vehicle Replacement Schedule
  - The City has not funded a vehicle replacement schedule for the past two years.
  - Vehicle replacement has been funded on a pay-as-you-go basis
  - Funding a vehicle replacement schedule will eliminate peaks and valleys, and allows for more predictable maintenance, repair and funding.
  - <u>Proposed funding: $300,000</u>

- OPEB (Other Post-Employment Benefits)
  - The City provides a post-employment health insurance program through the General Fund in addition to other pension benefits.
  - The City has funded these benefits on a pay-go basis since the inception date of July 1, 2002.
  - Starting with FY 2009, the City is required to fund these benefits on an actuarial basis.
  - The actuarial liability as of June 30, 2009 was $43.6M compared to $0 in assets.
- Police and Fire Pension
  - As of July 1, 2010 the pension fund was 89% funded
    - Liability of $168 Million and assets of $149 Million

City Bond Rating

- New 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