Baltimore City Fiscal Outlook and Audits

March 5, 2020

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Biennial Audits

- Transfer responsibility from the Director of Finance to the Department of Audits (City Auditor) so there is no longer a conflict of interest.
- Increase the frequency of both performance and financial audits from four years to every two years.
- Provide for staggered audits, half of the agencies audited in odd calendar years, the other half in even years.
- Add three critical agencies to be audited: Department of Health, Mayor's Office of Employment Development, and Mayor's Office of Human Services.
- Provide funding through the Comptroller's annual budget request, based on negotiated agreement between the Administration and the Comptroller's Office.
- Ensure the audits are completed by the City's Department of Audits, not by outsourced consultants.

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Biennial Audits

- Publish audit reports on a website.
- Require City Auditor to report on status of Recommendations for Executive Action from immediate past audit for each agency.
- Establish the Biennial Audits Oversight Commission (BAOC). The BAOC controlled by City Council, comprises of City Council President, three City Council Members, Comptroller, Director of Finance, and Inspector General, they will meet in public at least two times per year, meetings will be publicly advertised. The BAOC will provide input and guidance to City Auditor on scope of performance audits.
- Reporting by the City Auditor to the BAOC on the status of all audits and a public discussion of agency corrective actions to address Recommendations for Executive Action.
- Take effect in January 2017.
- Most importantly, these measures will not increase taxpayer costs for what the City is currently paying to conduct these audits.

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Biennial Audits

Group A

Agency
Mayor's Office of Human Services (MOHS)
Department of Public Works (DPW) – Bureau of Solid Waste
Baltimore City Information Technology (BCIT)
Department of Finance (DOF)
Department of General Services (DGS)
Department of Housing and Community Development (DHCD)
Baltimore City Fire Department (BCFD)
Baltimore Development Corporation (BDC)

Group B

Agency
Department of Law (DOL)
Department of Human Resource (DHR)
Department of Transportation (DOT)
Baltimore Police Department (BPD)
Department of Recreation and Parks (DRP)
Planning and Development (Planning)
Department of Health (Health)
Mayor's Office of Employment Development (MOED)

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Audits of City Schools

City Schools is required to meet numerous and varied audit requirements. These include:

- Financial Management Practices Audit (Office of Legislative Audits - OLA)
- Audit of Basic Financial Statements/Comprehensive Annual Financial Report (CAFR)
- Single Audit (federal funds)
- Audit of State Aid Programs
- Interagency Medicaid Monitoring Team (IMMT) Report
- Maryland State Retirement Agency Compliance Review
- (Federal) Administrative Review of the National School Lunch Program and School Breakfast Program
- Multiple programmatic and fiscal reviews of various federal grants (Title I, Title II, IDEA, other)
- Universal Service Administrative Company (USAC) Performance Audit of recipient of Schools & Libraries (S&L or e-Rate) Program funds
- Dependent Healthcare Audit
- Unclaimed Property Audit
- In addition, The Office Internal Audits for the School Board conducts audits every year, such as:
  - Follow ups from OLA Audits to ensure the school system reviews and makes necessary changes to address all of the audit findings
  - Schools use of School Activity Funds
  - Implementation of employee and student discipline procedures
  - Implementation of Human Resources procedures
  - Materials Management P-Cards
  - Monitoring the use of American Reinvestment and Recovery Act (ARRA) funds

Budget Process

- November - Mayor's Office issues Guidance Documents identifying City Objectives and key strategies.
- December - City agencies submit budget proposals that are responsive to the objectives and key strategies.
- January – March - Department of Finance evaluates and ranks proposals, then makes funding recommendations to Mayor.
- March - Department of Finance sends recommended operating budget to the Board of Estimates.
- April - Board of Estimates holds hearings with Agency heads and amended recommended budget as necessary. Board of Estimates hosts Taxpayers' Night before final Board vote.
- May - Majority vote by Board of Estimates approves the total budget. Budget is sent to City Council for hearings with citizens and agency heads. City Council hosts Taxpayers' Night before final Council vote.
- June - City Council votes on the budget and sends to the Mayor. Mayor may approve the total budget OR disapprove some items and approve the rest.
- July - Adopted budget begins.

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Fiscal 2021 Planning Process

Kirwan Planning

City Agencies

- Were asked to make a 5% reduction proposal over two-year period (FY21 and FY22).
- Were asked to rank services in order of priority.
- Savings options will be reviewed with BBMR and DCOS, and ranked from lowest to highest service impact.
- Note that even a 5% reduction among all agencies (~$70M) is only half of the first-year Kirwan requirement ($138M).

Executive Team

- Goal is to develop consensus around the right mix of changes to fund Kirwan.
- Options could include service efficiencies and reductions, revenue enhancements, and other fixed cost / financial reforms.
- All options must remain on the table.

Other Priorities

School Funding

- Extend bridge funding of in-kind services for an additional year. ($25M)
- Set aside funds for City match for State school construction as part of the Built to Learn Act. (est. $35-40M)

Capital Funding

- Goal is to supplement $80M of GO Bond funding with additional funds for PAYGO (est. $5-10M)

- Enterprise Resource Planning (ERP) Project
- Intent is to replace the City's aging HR, Payroll, and financial systems.
- Contract has been signed with Workday, and planning work has begun.
- Goal is to continue begin project in earnest in Fiscal 2021 (est. $10-15M)

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Fiscal 2021 CLS- Summary

	Fiscal 2020 Adopted	Fiscal 2021 CLS
Revenue	$1,967.4M	$1,998.9M
Expenditure	$1,917.3M	1,996.7M
PAYGO	$50.0M	$10.0M
Surplus/Deficit	$0.0M	$7.8M

Notes

- Fiscal 2021 CLS assumes one year of additional bridge funding ($25M) for in-kind services.

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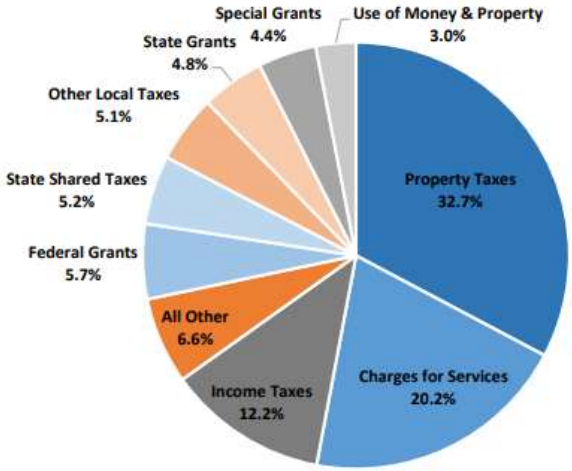
Where the Money Comes From



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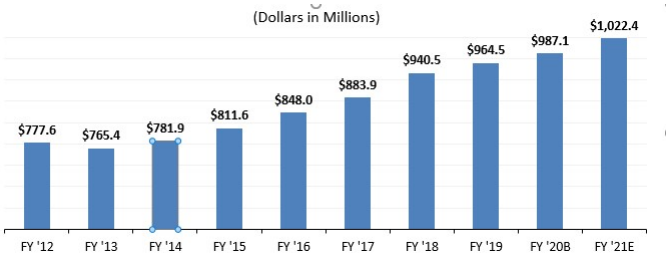
Real and Personal Property Taxes



SDAT reports triennial growth of 8.2% for Group 2 properties:

- Commercial growth = 8.3%
- Residential growth = 8.2%

68.6% of properties increased in value:

- Highest neighborhood gains: Hampden, Mount Vernon, Patterson Park, and Canton.

16.9% of properties decreased in value.

- Largest neighborhood declines: Sandtown-Winchester, Fairmont, Bayview, and Eastwood.

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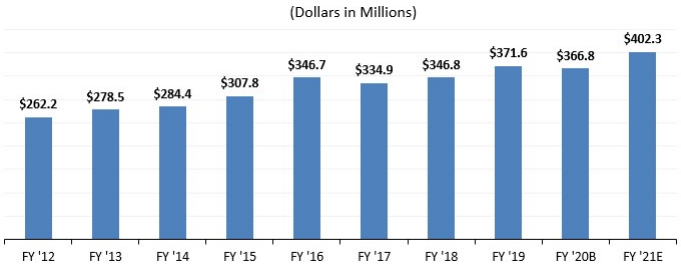
Income Tax



Federal Tax Reform (Tax Cut and Jobs Act) of 2018:

- State BRE reporting a favorable impact on State and local income tax receipts
- Fewer taxpayers are able to itemize deductions under new law, leading to higher tax receipts

Recent trend of City income tax receipts growing faster than Statewide average:

- **FY18:** City 4.1% vs. State 1.6%
- **FY19:** City 6.0% vs State 4.0%

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Other Revenues

Traffic Cameras

- DOT is developing a plan to move select cameras when driver behavior has changed, i.e. citations issued drops below 200 per month.

Transfer and Recordation

- Fiscal 2016 to 2019 revenues averaged ~$90M annually, but Fiscal 2020 is projected at only $81.0M.
- Data shows more transactions but lower average value per transaction.

State Aid

- Governor's proposed Fiscal 2021 budget includes increases to both the Income Tax Disparity grant and Highway User Revenue
- BBMR/MOGR monitoring legislation that has a negative fiscal impact to Baltimore City.

Parking Revenues

- Includes estimated $2.1M for expansion of Taxi Tax to Uber/Lyft.

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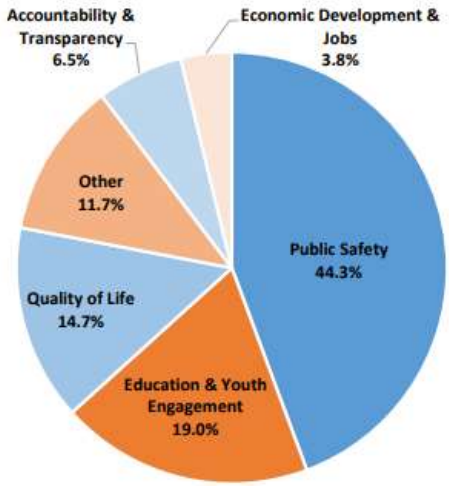
How the Money is Used



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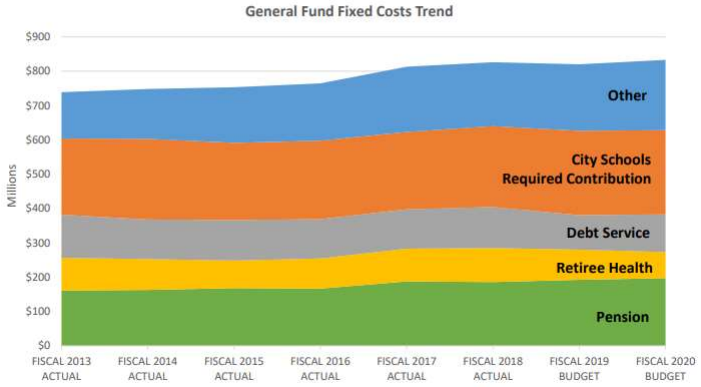
Fixed Costs

In general, "fixed costs" are expenses that the City is required to pay by law or contract and cannot be easily reduced in the short-term. As shown in the chart below, the City's fixed costs include contributions to employee pension systems, health care for retirees, the State-mandated Maintenance of Effort (MOE) contribution to Baltimore City Public Schools (BCPS), and payment of debt service.



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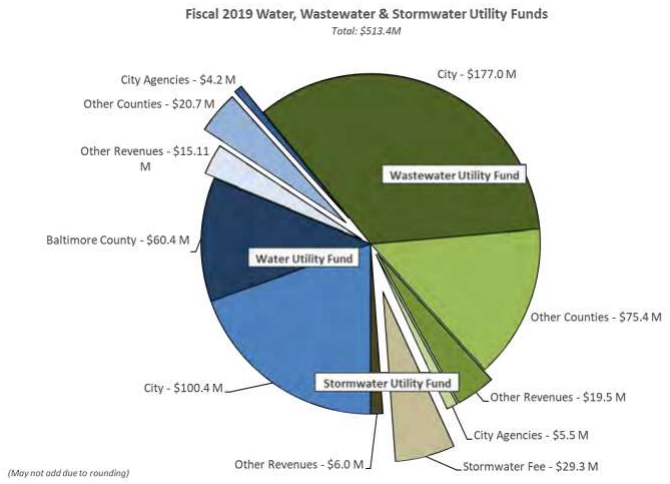
Enterprise Utility Funds



Risks - Fire and Police Pension Lawsuit

Risk	Low	Medium	**High**
Liability	$67M		

BACKGROUND

- Baltimore Circuit Court judge ruled in favor of retirees, but upheld City's change to active's retirement requirement from 20 to 25 years of service
- Retirees can seek damages from the City, but calculations for each member is still in progress.

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Risks - Police Legal Liability

Risk	Low	Medium	**High**
Liability	$100M+ one-time		

BACKGROUND

- Baltimore Circuit Court judge ruled in favor of retirees, but upheld City's change to active's retirement requirement from 20 to 25 years of service
- Retirees can seek damages from the City, but calculations for each member is still in progress.

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Risks - Economy / Recession

Risk	Low	Medium	**High**
Liability	TBD, recurring		

BACKGROUND

- National economy is now in its tenth consecutive year of expansion, the longest since WW2.
- Multiple signs of trouble ahead – stock market volatility, bond yield curve inversion, global trade war.

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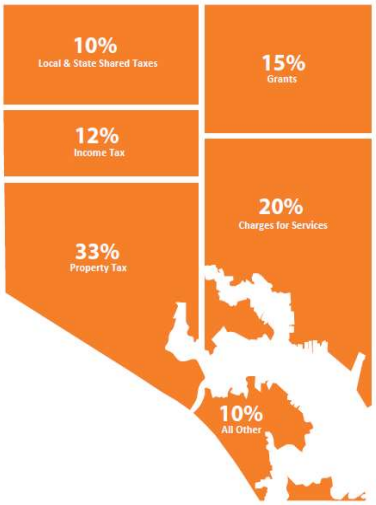
Operating Budget Revenue ($3 billion)



What funds does the City manage?

The **General Fund** is $1.9 billion and is the City's largest fund. It includes all local taxes paid by residents, businesses and visitors. Policy-makers have the most management flexibility over how dollars are spent.

The **Capital Budget** is $627 million and supports projects of $50,000 or more for maintaining or upgrading the City's infrastructure. For example: roads, bridges, buildings, conduits, and sewers.

Enterprise and Utility Funds are $561 million and areused for operations in which the cost of services is covered primarily through user charges, which are determined based on consumption. Examples include water and waste water fees.

Grant Funds are $449 million and are legally required to support specific programs and initiatives. The City receives funding from federal, State and other special or private grantors.

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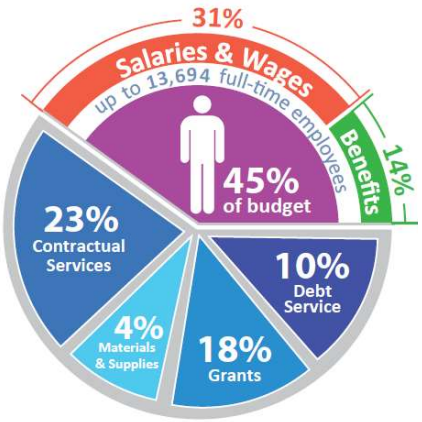
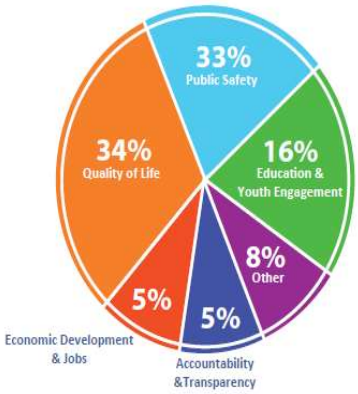
Operating by type of expense ($2.9 billion)



Operating by Outcome ($2.9 billion)



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City Schools Budget

General Fund Revenue by Source

	FY16	FY17	FY18	FY19	FY20
State	$883,769,293	$866,077,368	$848,430,545	$849,475,258	$850,213,308
Local	$258,212,181	$265,412,081	$278,412,181	$278,412,181	$278,412,181
Federal	$9,604,855	$7,682,092	$3,147,933	$7,100,000	$5,400,000
Other*	$32,361,948	$16,407,436	$15,622,535	$21,360,000	$28,360,000
Total	**$1,183,948,277**	**$1,155,578,976**	**$1,145,613,195**	**$1,156,347,439**	**$1,162,385,489**

** Includes transfers from fund balance*

Revenue by Fund

Fund	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Adopted	FY20 Adopted
General	$1,183,948,277	$1,155,578,976	$1,145,613,195	$1,156,347,439	$1,162,385,489
Special	$101,315,951	$112,099,779	$97,317,520	$105,272,821	$104,954,259
Enterprise	$50,887,669	$51,997,758	$48,553,681	$52,817,692	$55,304,192
Total	**$1,311,566,726**	**$1,319,676,513**	**$1,313,742,798**	**$1,314,437,952**	**$1,322,643,938**

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City Schools Demographics and Fiscal Challenges

- Students • 79,297 Students • 52.7% Low Income • 14.6% Students with Disabilities • 89.9% Black and Latinx • 172 Schools
- Staff • 9,560 employees • 4,908 teachers • 94% of employees are based in schools 4 or more days a week • 63% Black and Latinx
- By the state's own analysis in 2017, City Schools should have received $342.2 million more each year under the current formula.
- For a school with 600 students that's $2.4M in additional funding annually.
- Due to systemic underfunding, in FY18 City Schools identified a $130M budget gap.
- City Schools was able to close the gap through $60M in additional funding for three years from the City and State, and budget cuts. That funding is now in year 4 with the expectation of Kirwan recommendations taking effect next FY.

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City Bond Ratings

The City maintains the following long-term bond ratings:

Long-Term Bond Ratings	Moody's Rating	Standard & Poor's Rating
General Obligations Bond	Aa2	AA
Water Senior Lien	Aa3	AA-
Wastewater Senior Lien	Aa1	AA
Water Subordinate Lien	A1	A+
Wastewater Subordinate Lien	Aa3	AA-
Stormwater Senior Lien	Aa2	AA-

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Additional Budget and Audit Resources / Links

- Fiscal 2020 Summary of the Adopted Budget - https://bbmr.baltimorecity.gov/sites/default/files/Final%20SOTA%20FY20-compressed%20web.pdf
- Fiscal 2020 Community Guide to the Budget – https://bbmr.baltimorecity.gov/sites/default/files/CG_Final.pdf
- Fiscal 2020 Agency Budget Detail, Volume 1 - https://bbmr.baltimorecity.gov/sites/default/files/Agency_Detail_Vol1_FINAL_2019-05-02.pdf
- Fiscal 2020 Agency Budget Detail, Volume 2 – https://bbmr.baltimorecity.gov/sites/default/files/Agency_Detail_Vol2_FINAL_2019-05-02.pdf
- Baltimore Capital Improvement Program Overview - https://planning.baltimorecity.gov/sites/default/files/Capital%20Improvement%20Program%20Overview.pdf
- Fiscal 2021 Capital Improvement Program Reports and Resources - https://planning.baltimorecity.gov/planning-capital-improvement/maps
- Fiscal 2020 Baltimore City Public Schools System Budget - https://www.baltimorecityschools.org/sites/default/files/inline-files/FY20AdoptedBudget.pdf
- Baltimore City Department of Audits Reports – https://comptroller.baltimorecity.gov/audits/reports

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- Linked In – https://www.linkedin.com/in/councilmanetc/

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