

Baltimore Executive Summary



Baltimore is similar to most of the other cities examined in this report in that it has experienced a significant decline in manufacturing in recent decades, a concomitant loss in jobs, a significant increase in blighted buildings and loss of population. But what sets Baltimore apart is this: the city has not experienced a financial emergency. Make no mistake about it, the “Charm City” has certainly faced many challenges—and many challenges remain. Yet, despite these challenges, the city is on reasonably solid financial footing. The city has an unrestricted general fund balance of \$216 million—which is equal to 15.3% general fund revenues. The city has an AA- bond rating. The city’s retirement system for police and fire is funded at 82% —better than the national average of 73% for state and local government.¹

After interviews with a wide range of individuals familiar with Baltimore, below are key contributors to Baltimore’s relatively strong financial position:

- **City Charter: The Board of Estimates.** The five-member Board of Estimates plays a particularly strong role in developing the budget and monitoring monthly finances of the city. Under the charter, the city council cannot increase the overall budget from what the Board proposes; it can only decrease it. The Board has three members who are elected at-large by voters: mayor, council president and comptroller. The remaining members are the director of public works and city solicitor—both of whom are appointed by the mayor. Thus, the mayor controls three of the five votes of the Board. Also, the Board is constituted so that all members have a citywide perspective (rather than a ward-based perspective). Furthermore, this Board holds public meetings weekly to approve all contracts and oversees all purchasing in the city. In sum, the Board of Estimates provides for clear lines of authority for decision-making regarding budget and finance matters.
- **Tradition of professionalism in budgeting and finance—combined with positive political culture.** Many individuals cited a long tradition of strong financial management in the city, transcending particular individuals employed in those offices—individuals who have provided budget and other information that is trusted. Yet, it not merely a tradition of the professionals in the budget and finance office. There also is a tradition of elected officials paying heed to the information and guidance provided by these professionals. Many suggest that the presence of the Board of Estimates helps to account for this—since the Board is structured to take a citywide perspective, three elected officials who are elected citywide sit on that Board, and the weekly meetings of the Board are open to the public. Others add that the fact that the City Council can only reduce the budget proposed by the Board plays a role. And still others suggest that because the charter permits the council to only reduce the budget that helps to reduce the opportunity for “log-rolling” that is more likely to occur in legislative bodies. But no one could really pinpoint with confidence whether it was these factors or others that constitute the “secret sauce” for this positive confluence of professionalism and political culture. But virtually everyone acknowledges that it exists.
- **The Role of State Government**
 - The structure of local government throughout Maryland. Baltimore benefits from the fact that county governments are the dominant form of local government in Maryland. The City of Baltimore is considered to be a county under state statutes. As such, the

first line of fiscal equalization in taxes and services—from education, to public safety, to a host of other local government services—occurs *within* each of Maryland’s 24 counties. This helps Baltimore indirectly in that the state government has more “fiscal room” available to target aid to the particular challenges of Baltimore—more “fiscal room” than if the state itself had to fill in disparities among several hundred smaller units of government.

- State assumption of key responsibilities. Over the past 20 years, the State has assumed full financial and operational responsibilities for specific services for Baltimore. These include the community college, the detention center and the central booking facility. This removes \$180 million in expenditure burden from the city. In addition, the State built and operates the light rail and bus system in the city, and owns and operates the stadiums for the Orioles and Ravens. The state owns and manages all of the publicly owned terminals of the Port of Baltimore² and provides substantial direct support for the Baltimore Harbor Development and the convention center.
- State Aid. State statutes provide that every county in Maryland receives no less than 75% of the statewide average yield for the local income tax. The State makes up the difference for Baltimore (and several other rural counties as well) through the Disparity Grant. This grant provides \$79 million to Baltimore. The State also provides \$134 million in aid for roads (out of a statewide total of \$168 million). These two grants account for approximately 82% of all non-education state aid to the city.

“The Dog that Didn’t Bark”: The City of Baltimore

Introduction

The narrative of Baltimore is much like that of many older cities in the East and Midwest: A cumulative shortfall estimated to be nearly \$750 million over the next decade. The loss of 300,00 residents—more than a third of the city’s population over the past 40 years. A city that had 30% of the state’s population in 1960—falling to just 11% today. A loss of 110,000 jobs—mostly in manufacturing.³ Its local tax effort is 64% greater than the statewide average—on a tax base that is the second-lowest in Maryland.⁴

You think you have heard this story before and believe you know pretty much how it will end—but you haven’t...and you probably don’t. This is a story—which is still being written—as to why a city that has experienced so many of the economic and structural challenges of other older Eastern and Midwestern cities has managed to stay afloat. If this were a Sherlock Holmes story, it would be the one about “the dog that didn’t bark.” This is the story of Baltimore.

Make no mistake about it; Baltimore is a city that has experienced the same set of structural and macroeconomic forces of many large Eastern and Midwestern cities for the last 40-50 years. Nor did the Great Recession of the past five years spare Baltimore. The city has reduced services to residents. Employees have been laid off, furloughed and others have absorbed cuts.

Yet, Baltimore also is a city with a AA- bond rating.⁵ As one person stated, it is a city that “punches above its weight.” It has an unrestricted fund balance in its general fund of \$216.5 million—15.3% of general fund revenue.⁶ Pensions for police officers and fire fighters are funded at 82% and other municipal

employees are funded at 73%.⁷ [Granted, these levels are not at 100%, but far better than many in otherwise similar cities and better than the national average of 73%⁸ for state and local governments. For further comparison, the average funding level for S&P 500 companies was 77%.⁹]

However, the success of a city is not measured by its balance sheet. Success is measured by the quality of life for a broad range of its residents and economic vitality for local businesses. But adequate and sufficient levels of local public services in the long run are not possible without sound finances, well-functioning institutions, disciplined management practices and a healthy state-local relationship. By most accounts, Baltimore does benefit by having a respectable combination of all four.

But any “take-aways” or lessons-learned from Baltimore still must be tempered with caution because—as the Mayor Rawlings-Blake stated in her recently released Ten-Year Plan for the City of Baltimore—the city is “...now at inflection point—the juncture where a trend or curve changes direction.”¹⁰

How Bad Was/Is the Problem?

Unlike several other cities in this study, Baltimore has not experienced anything close to a fiscal emergency as defined by the U.S. Advisory Commission on Intergovernmental Relations.¹¹ The city has been able to pay all employees, vendors, contractors and bondholders on time and in full—and there has been no indication that it would not be able to continue to do so. No one interviewed for this report indicated otherwise.

Yet, everyone interviewed for this report also expressed concerns about the chronic, long-term economic and fiscal stress experienced by the city. This distress dates from the 1960s. The following documents a portion of this:

- Like so many industrial cities in the East and Midwest, Baltimore’s population reached a peak of 949,708 in 1950. Approximately 30% of Maryland’s population lived in Baltimore in 1960. By 2010, the city’s population had fallen to 620,961 and only 11% of the state’s population in lived in Baltimore.
- Between 1990 and 2010, Baltimore lost nearly 110,000 jobs (24% of all jobs). Seventy percent of these jobs were in the manufacturing, transportation, trade and utilities sectors.
- There are approximately 16,000 vacant, abandoned structures in the city.
- Although crime rates are at now at their lowest since 1985 for both property and violent crimes—and are about half that from the mid-1990s peak—the perception of crime remains high.¹² The crime rate for Baltimore is 86% greater than the statewide average.¹³
- Median household income in Baltimore is 56% of the state average. The unemployment rate is 3.5 percentage points higher than the statewide average (10.2% vs. 6.8%).¹⁴
- Taxes on residents and businesses are the highest in the state. A report from the Department of Legislative Services of the Maryland General Assembly indicates that the tax effort is 64% greater than the average local government in the state. The locality ranked second is a distant one at that (28% greater than average). The tax effort index includes both major sources of local government tax revenue in Maryland—property and local income taxes. Further exacerbating this difference in tax effort and inter-local tax competition is the fact that the contiguous counties of Baltimore County¹⁵ and Anne Arundel County have tax effort indices 6% and 24% *below* the statewide average.¹⁶

Reasons to be (Cautiously) Optimistic

There are some nascent indicators that, if they persist, would provide the basis for a rejuvenated Baltimore:

- Although Baltimore lost 29,702 residents between 2000 and 2005, the decline slowed considerably in the 2006 and 2011—to only 2,067.
- Between 2000 and 2010, 78 of 278 neighborhoods grew in population—and 10 of those saw gains of 50% or more.
- The percentage of young adults living in Baltimore between 2000 and 2010 grew, while the same age group declined statewide. The percentage of Baltimore’s population between the ages of 25-34 grew from 15% to 17%. Statewide, the same age cohort declined from 14% to 13%.
- Although the city lost more than half of its 126,400 jobs in the “old economy” sectors of manufacturing, trade, transportation and utilities between 1990 and 2011, the number of jobs in educational services, healthcare and social assistance sectors grew by 38% over the same period—from 81,700 to 113,100.¹⁷

Beyond these nascent socio-economic trends, there are number of other reasons to be cautiously optimistic about Baltimore’s future. These involve a variety of institutional factors found in both Baltimore and the state capital in Annapolis that provide reasons for optimism. They also provide a series of policy options that local and state officials across the nation might examine to determine the applicability to their cities, counties and states.

Fiscal Profile¹⁸

Revenue by Source		
	<u>(Millions)</u>	<u>Percent</u>
Property Tax	\$793.7	43.9%
Income Tax	235.0	13.0%
Other Taxes	147.4	8.1%
Licenses & Permits	42.1	2.3%
Federal Grants	176.2	9.7%
State Grants	267.2	14.8%
Other Grants	38.1	2.1%
Service Charges	33.9	1.9%
Fines & Forfeitures	33.7	1.9%
Misc.	41.7	2.3%
Debt Proceeds	0.1	0.0%
Total Revenue	\$1,809.1	100.0%

Expenditures by Function

	(In Millions)	Pct.
General Government	197.8	11.3%
Public Safety		
Police	342.7	19.6%
Fire	149.0	8.5%
Corrections	0.0	0.0
Other Public Safety	25.9	1.5%
Public Works		
Transportation	133.0	7.6%
Solid Waste	72.5	4.1%
Other	0.0	0.0
Health	50.6	2.9%
Social Services	49.6	2.8%
Primary/Secondary Ed.	9.0	0.5%
Community Colleges	0.0	0.0%
Parks, Recreation, Culture	38.8	2.2%
Libraries	0.0	0.0%
Natural Resources	0.0	0.0%
Comm. Dev. & Pub. Hsg.	25.0	1.4%
Econ. Dev. & Opp.	72.5	4.1%
Debt Service		
Principal	61.3	3.5%
Interest	43.0	2.5%
Misc.	235.5	13.5%
Transfer to Bd. of Educ.	220.3	12.6%
Transfers to Other Boards	23.8	1.4%
Total Expenditures	\$1,750.3	100.0%

Selected Statistics

Unrestricted general fund balance: \$216.5m.¹⁹ (15.3% of general fund)

Fire & Police Retirement System:

- Percentage of liability funded: 82%
- Annual required contribution: \$ 89.8 m
- Annual contribution made: \$106.7 m
- Unfunded liability: \$558.6 m

Employees Retirement System

- Percentage of liability funded: 73%
- Annual required contribution: \$62.4 m

- Annual contribution made: \$62.4 m
- Unfunded liability: \$530.2 m

OPEB Liability:²⁰

- Percentage of liability funded: 9.3%
- Annual required contribution: \$160.2 m
- Annual contribution made: \$142.8 m
- Unfunded liability: \$ 2.0 b

Section I: The Intergovernmental Dimension

Structure of Local Government in Maryland

The overall structure of local government throughout Maryland has a very positive impact on the city of Baltimore. Counties are the dominant form of general-purpose local government. Although there are 156 municipalities in the state, they play a supplemental role in the provision of services provided by the counties. Critically important is that the City of Baltimore is treated as a county under state statutes. This fact is one key element to Baltimore's fiscal sustainability.²¹

Arguably, the most important impact of the overall structure of local government in Maryland and its effect on Baltimore is *indirect*. Even in the counties with the highest tax capacity, there are pockets of low-income residents and elements of economic distress. But, as these pockets of relative poverty and higher need are unincorporated areas of a wealthier county, the county—rather than the state—serves as the first-level backstop for fiscal equalization for levels of service and tax rates. This has enormous implications for state aid for K-12 education and other types of state formula and categorical aid. This preserves state funds to target to lower income counties (including Baltimore, but also several largely rural counties). And, because Baltimore is so much larger than these rural counties, far more state assistance is available to target state resources to the city.

There is another aspect to the indirect impact of the structure of local government on Baltimore—inter-local tax competition. If poorer areas of counties were separately incorporated, they would likely be caught up in the all-too-typical death-spiral of higher tax rates to match lower capacity and greater need. The fact that these lower income neighborhoods are often simply unincorporated areas of wealthier counties eliminates the inter-local tax competition within a county. So, again with fiscal equalization occurring within a county, tax and service differentials do not add to other factors that can serve to exacerbate economic decline. Again, because of this, the state is in a better position to target resources to Baltimore and other lower-income counties. And, because Baltimore is so much larger than all of the other poorer counties combined, the magnitude of state resources available to Baltimore is far greater than it otherwise would be if the state had to target intergovernmental aid to upwards of hundreds of local government entities.

The indirect impact of the structure of local government in Maryland then contributes to the “fiscal room” for the state to target assistance to Baltimore. Yet, it does not logically follow that the state *ipso facto* would target state assistance to local governments in general or to Baltimore specifically. A complex web of policy choices made by a generation of elected officials in Annapolis have contributed

significantly to the fiscal health of local governments in Maryland—and specifically to the City of Baltimore.

State Aid to Local Government—and Its Impact on Baltimore

In FY 2011, the State of Maryland provided \$1.215 billion in *direct*²² financial assistance to Baltimore. Of this, \$901 million (74%) was paid directly to the Baltimore City Public School system.²³ The balance is paid directly to the City of Baltimore.

To put the dollar amount of state aid into context, total expenditures for the BCPS are approximately \$1.4 billion. Total expenditures for the City of Baltimore are approximately \$1.8 billion. Yet, it bears repeating that, in spite of this state assistance, the tax effort of Baltimore is 64% greater than the statewide average.

Education Aid

As is the case in virtually every state in the country, financial support for K-12 education is the single largest component of state aid to local governments. Driven by a series of policy choices by elected officials of state government over time (and sometimes prompted into remedial action by decisions of state supreme courts), formula aid in all states is equalized in some fashion to account for differences in fiscal capacity and varying need of the underlying student population. In this regard, Maryland is not appreciably different than most other states.

Although the Baltimore City Public Schools shares the same geographic boundary as the city government, it is a separate governmental entity. The BCPS has no taxing authority. It is classified as a dependent school district by the U.S. Census Bureau and receives funding directly from the state and federal governments as well as direct financial contribution from the City of Baltimore.

One aspect of Baltimore's school board is unique within Maryland and is particularly noteworthy. As a result of state legislation approved in 1997, members of the city's board of education are appointed jointly by the governor and mayor (from a slate of candidates provided by the state board of education). Prior to 1997, the mayor appointed all members of the city's board of education as well as the superintendent.

About 12% of all school districts nationwide are dependent school districts.²⁴ Although the existence of dependent school districts in Maryland is somewhat atypical, it does not make the state unique. But what again sets Maryland apart is its county-based structure of local government—including school systems. Like other forms of state aid (see below), there is substantial fiscal equalization of resources for schools *within* a county before formulas for state aid to county-based school systems kicks in—with all of the attendant advantages regarding fiscal equalization across just 24 counties described in the previous section. The state pays 71% of the cost K-12 education in Baltimore (or \$12,017 per pupil). The federal government provides another 10%. The City of Baltimore finances the remaining portion of the cost of the operating cost of public schools—19%.²⁵ The State also has provided \$308 million in school construction funding for Baltimore over the past 10 years.²⁶

The State administers retirement and pension systems for teachers and librarians. For the BCPS, this state-paid cost is approximately \$85 million.²⁷ Until FY 2013, the State also paid the full amount of the employer share of the cost. A cost-sharing provision with counties was enacted into state law in early 2012. However, a provision of that new statute provided Baltimore with a grant of \$10 million to offset most if not all of this additional cost.

State Aid Paid Directly to the City of Baltimore

Two grant programs account for \$206 million (77%) of the \$267 million in direct aid distributed to the City of Baltimore: Local Highways/Streets and the Disparity Grant.²⁸

Local Highways and Streets. The State provided the City of Baltimore \$127 million in aid in FY 2011 for highways and streets—93% of the statewide total of \$136 million. However, this amount is distributed to the city had been reduced from the FY 2007 peak of \$227 million²⁹—a reduction of \$100 million that hit Baltimore especially hard during the depths of the Great Recession. It is important to note that that the City of Baltimore is responsible for maintaining essentially all the 1,900 miles of roads in the city.³⁰

Disparity Grant. The State of Maryland does not permit local governments to have a local sales tax. But the state does permit local governments (counties) to piggyback a local income tax onto the state income tax—up to a maximum of rate of 3.2%. Baltimore taxes income along with five other counties in Maryland at this maximum local rate. The tax is based on where one lives rather than where one works; by itself, this operates to the detriment of Baltimore. However, the State provides a payment to localities (the Disparity Grant) to substantially compensate for the wide variation in the yield from the local income tax. Without delving into the details of the formula, the state sets a target that each county will receive 75% of the average yield of the local income tax statewide. This results in a grant of \$79 million to Baltimore (71% of the statewide total of \$111 million). The Disparity Grant helps to compensate for the fact that Maryland does not permit Baltimore to tax income by place of work (which would create substantial issues for the suburban counties surrounding Washington, DC—issues that presumably no one in the State would wish to raise).

State Assumption of Services and other State Policies Specific to Baltimore

The State provides assistance to Baltimore beyond the direct payments to the City of Baltimore described above. In the past several decades, the State has assumed financial and operational responsibility for the community college, detention center and central booking facility. In effect, the assumption of these responsibilities by the State reduced costs to the City by \$179 million in FY 2011.

The State also has financial and operational responsibility for public transportation in Baltimore—both operational and capital responsibility. This includes both buses and light rail—that extends to Thurgood Marshall Baltimore Washington (BWI) airport. The State also has full responsibility for BWI.

The State finances and operates stadiums for the Orioles and Ravens through the Maryland Stadium Authority. The state owns and manages all of the publicly owned terminals of the Port of Baltimore³¹ and provides substantial direct support for the Baltimore Harbor Development and the convention center.

Unusual state-local management arrangement: Through the Department of Human Resources, the State of Maryland has direct responsibility for a wide variety of social services statewide and has offices in each county. Baltimore is no exception. As a state agency, the Secretary of the Human Resources appoints the directors of each county. However, what makes Baltimore unique is that both the Governor (through the Secretary of Human Resources) and the Mayor of Baltimore have joint responsibility to select the Director of Social Services³² in the city. Also, unlike any other counties, the Director of Social Services serves as a part of the Mayor’s cabinet.

Section II: Institutions and Management Practices of the City of Baltimore

The Board of Estimates

The city charter contains a provision for the Board of Estimates. The charter provides that the Board, among other things, develops the annual budget for Baltimore and establishes the overall fiscal policy for the city. This includes both revenue estimates for the budget (including proposed tax rates, levels for fees and charges as well as estimates of intergovernmental aid and other revenues) and program-based levels of spending for specific services and programs.

The charter does not permit the 15-member city council to increase spending or revenue from the budget proposed by the Board. The council is only permitted to reduce the budget.

The Board is constituted of five members—the mayor, the council president, the comptroller, the city solicitor and the director of public works. The voters of Baltimore elect three of these members at-large: the mayor, the council president and the comptroller. However, the mayor appoints the city solicitor and director of public works. Thus, the mayor controls three of the five votes on the Board.³³ This provision conveys significant decision-making authority in the mayor for budgeting and fiscal policy issues.

In addition to the power of the Board to shape fiscal policy, the Board also is engaged in the detailed financial management of the city. The Board meets once a week to approve contracts and supervises all purchasing within the city. All of these proposed actions are posted on the weekly agenda and provide transparency. As these are public meetings, members of the public who have standing for specific items on the agenda are permitted opportunities for public input.

Finance and Budgeting

A number of individuals interviewed for this case study independently cited a long-standing tradition (and continuity) of capable and professional staff in finance and budgeting as an institutional strength of the city. But capable and professional staff does not necessarily mean that elected policy makers will carefully consider the information and advice provided by those staff. Yet discussion with a range of individuals—those based in Baltimore and Annapolis, both inside and outside of government—seem to indicate that there seems to be a tradition of mayors, councils and other elected officials of doing so.

A few others also added that the degree of reporting of financial information to the State might also contribute to financial probity. State law requires that all local governments in Maryland provide financial information to the General Assembly’s Department of Legislative Services. This not only

includes expenditure and revenue information, but also detailed information on fund balances and pension information (including investment assumptions). Individuals were somewhat cautious as to the overall impact of this, but suggested that because it is readily available to all members of the General Assembly (rather than an executive level agency), this might contribute modestly to better financial management and fiscal policy for local governments—including Baltimore. Also, there may be increased scrutiny by legislators on Baltimore because of the relatively large percentage of state aid directed to the city. But again, this was based on inference and educated hypotheses rather than any discrete evidence or examples.

Like so many cities in the depths of the Great Recession, the City of Baltimore had to make mid-year cuts in FYs 2010 through 2012—layoffs, unpaid furloughs, closure of fire stations and recreation centers and tax increases in order to stave off an otherwise cumulative shortfall of \$300 million.³⁴ These cuts were painful for residents, employees and elected officials alike. But the perception was that while the cuts addressed the short-term budget problems, they were not sustainable over the long run. There was a need to take a longer more strategic view of policies, practices and finances of the city.

Based on information and recommendations from the budget office, Mayor Stephanie Rawlings-Blake and the Board of Estimates agreed in September 2011 to commission a ten-year financial plan. This plan was to examine longer-term policy and financial options for the city.

In February 2013, the 10-Year Financial Plan was released. It projected that, without changes in current policies, the budget gap would grow from \$30 million in FY 2013 to \$125 million in FY 2022—a cumulative operating deficit of \$745 million. The cumulative gap for capital spending for infrastructure was estimated to be \$1.3 billion.

The Mayor built the budget she proposed for FY 2014 around the framework established by the 10-Year Financial Plan. It will be important to follow Baltimore to determine the extent to which this long-term framework provides a path to long-term financial and service-level sustainability. If so, it will also reinforce the import of elected officials working closely and in concert with professional staff in crafting long-term policies and practices affecting services, activities, priorities and finances of local governments.

Other Management Practices

Several individuals cited the CitiStat program as a management practice that contributed to Baltimore's fiscal sustainability. Governor Martin O'Malley indicated that CitiStat saved the city \$350 million over seven years during his tenure as mayor. CitiStat was recognized with the Innovations in American Government award in 2004 by Harvard University. Although one person expressed skepticism regarding the efficacy of CitiStat in managing the city, the general consensus is CitiStat has a positive impact on the provision of services and on finances.³⁵

Although formally outside of the CitiStat program, one person interviewed for this report indicated that evidence-based analysis and decision making that is now a part of the organizational culture of Baltimore led the city to better target financial assistance to non-profits focusing on delivering positive outcomes to children and families—including \$5 million in FY 2013.

Evidenced-based decision-making is finding its way into areas that are formally outside of the purview of CitiStat. One of those areas is in targeting assistance to non-profits.

First, some background. The Family League is a quasi-governmental agency that is a separately incorporated as a non-profit organization with the mission of serving the poor—with a special emphasis on poor families. However, what is unusual is that the CEO of this organization is a full member of the mayor's cabinet.

One of the Mayor Rawlings-Blake's six outcome areas within the Budgeting for Outcomes framework is "Better Schools." Although the Baltimore City Schools is a separate governmental entity with a separate governing body, the BFO framework not does not distinguish between departments—or, this case, separate governmental entities.

One individual indicated that the Mayor wanted to use some discretionary general fund dollars—that is, city funds not being transferred directly to the BCPS—to help improve outcomes in schools. The Family League looked at Baltimore's data to determine what was working (and what wasn't). They found that the funding for existing programs targeting high school students showed little or no evidence that they were producing better outcomes—even though there was a strong constituency to continue those programs. However, the Family League found strong evidence that programs targeting elementary school children were working—especially those relating to "summer-learning" loss. The Family League's advice to mayor was to refocus the city's investment into younger age groups—specifically summer programs. Even though there was a strong constituency for continuing the high school programs and to spread the money around to a wide range of non-profits, the Mayor discontinued funding for the high school programs and transferred these funds to summer programs for elementary students. This person indicated that this decision was completely driven by data—both in Baltimore and evidence-based studies nationally.

The city initiated a revised process for budgeting--Budgeting for Outcomes— in 2010. Although several individuals mentioned this new initiative and expressed enthusiasm about it, additional information would need to be reviewed (or additional research would need to be conducted) to determine the impact of BFO on Baltimore's policy making and management.

The Board of Estimates approved a new *Budget Stabilization Reserve* policy in 2008. The Government Finance Officers Association recommends such policies. Among other provisions, the policy requires a reserve to be a "...a minimum level of 8% of the combined value of the general fund and motor vehicle fund operating budgets of the subsequent fiscal year."³⁶

Continuity in Executive Leadership

Several individuals noted the relative stability continuity in executive leadership within the city of Baltimore as a factor contributing to its fiscal sustainability—with only three individuals serving as mayor³⁷ between 1971 and 2007. William Donald Schaefer was at the helm of the city from 1971-87, Kurt Schmoke was mayor from 1987-99 and Martin O'Malley led the city from 1999 until he became Governor in 2007. In addition to continuity, several individuals interviewed also mentioned the effectiveness of each of these individuals in their capacity as major.

It remains to be seen whether that continuity will continue. Sheila Dixon was mayor from 2007 until 2010 until she resigned from office in 2010.³⁸ Stephanie Rawlings-Blake has held the position of mayor since 2010.

Section III: Maryland Politics Support Fiscal Sustainability in Baltimore

It might be tempting to examine the information presented in this case study so far and quickly distill several lessons-learned for policy makers in other states and localities. But such lessons-learned must be carefully drawn—particularly with regard to the intergovernmental dimension—due to the unusual if not unique state political environment in which Baltimore operates.

First, the state leans strongly to one political party (the Democratic Party). This party has held majority control of both houses of the Maryland General Assembly for more than three decades. In addition, there has been only one Republican Governor since 1969. By most accounts, this party in Maryland has tended to be generally supportive of many urban issues and that works to the benefit of Baltimore.

Second, an unusual and informal coalition of three counties tends to hold considerable sway in both houses of the General Assembly and so for several decades—Montgomery County, Prince George’s County, and Baltimore City. These counties contain over 40% of Maryland’s population. This coalition reinforces the support for urban issues that again works to the benefit of Baltimore.

Third, the office of the Governor of the State of Maryland has been held by one of the former chief executives of one of the counties in the aforementioned coalition for 22 of the past 26 years. Former Mayor William Donald Schaefer was governor from 1987 to 1995, former Prince George’s County Executive Parris Glendening was governor from 1995 to 2003 and former Baltimore Mayor Martin O’Malley has been governor since 2007.

Summary and Conclusion

A confluence of a number of factors that work in concert with each other have contributed to Baltimore’s fiscal resiliency. These include the primary role that counties play in the structure of local government in Maryland, the State assumption of the financing and operation of key functions and the equalizing impact of state aid. Of course, local institutions also play at least an equally important role—in particular, the responsibility and authority granted to the Board of Estimates by the city charter to streamline decision-making. Lastly, a decades-long tradition of competent and trusted professionals in budgeting and financial administration combined with a political culture where mayors and other elected officials make budgetary and policy choices based on the advice and guidance of those professionals contributes significantly to Baltimore’s fiscal resiliency.

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- ¹ Center for State and Local Government Excellence, *The Funding of State and Local Pensions, 2012-2016*, June 2013, p. 3.
- ² The State of Maryland acquired port facilities from the City in 1956. The state owns seven terminals and 23 are privately owned.
- ³ Public Financial Management (in conjunction with Hay Group and Walker Benefit Services), *City of Baltimore: Ten-Year Financial Plan FY 2013-FY 2022, Background Report*, February 2013, p. 6.
- ⁴ Maryland General Assembly, Department of Legislative Services, *Tax Capacity and Effort of Local Governments in Maryland*, March 2012, p. 4, p. 20
- ⁵ Maryland General Assembly, Department of Legislative Services, *Overview of Maryland Local Governments: Finances and Demographic Information*, January 2013, Exhibit 9.4, p 121. At July 2012, Baltimore was rated AA- by Standard & Poor's and Aa2 by Moody's.
- ⁶ *Overview of Maryland Local Governments...*, Exhibit 8.2, p. 112.
- ⁷ The City of Baltimore's pensions collectively are funded between 76-82%; the unfunded liability of employee pensions and healthcare is \$3.2 billion. For a rough comparison, the employees' retirement system for Montgomery County is funded at 77% and has an unfunded liability of \$875 million; the defined-benefit system for Montgomery County is open only to public safety employees (as well as other employees hired before 1994). Source: Maryland General Assembly, Department of Legislative Services, *Local Government Finances in Maryland: Fiscal Year Ending June 30, 2011*, October 25, 2012, p. 100 (Baltimore) and p. 120 (Montgomery County).
- ⁸ See *The Funding of State and Local Pensions, 2012-2016* cited above.
- ⁹ S&P Dow Jones Indices, "S&P 500 Post Record Level of Pension Underfunding," Press Release dated July 31, 2013. The 77% funding level is for fiscal 2012. Figures for 2011 and 2010 were 79% and 84%, respectively. OPEB funding was 22.3% for the 286 companies within the S&P 500 that offered OPEB.
- ¹⁰ City of Baltimore, *Change to Grow: A Ten-Year Financial Plan for Baltimore, FY2013-FY2022*, February 2013, p.1.
- ¹¹ U.S. Advisory Commission on Intergovernmental Relations, *Bankruptcies, Defaults and Other Local Government Financial Emergencies*, p. 2.
- ¹² For all data in this and the previous three bullets, see *City of Baltimore: Ten-Year Financial Plan...*, pp.6-8.
- ¹³ *Overview of Maryland Local Governments...*, Exhibit 2.7, p. 21.
- ¹⁴ *Overview of Maryland Local Governments...*, Exhibit 2.9, p. 23.
- ¹⁵ Baltimore City is defined in state statutes as a county. Baltimore City should not be confused with Baltimore County—which is a separate governmental entity altogether. Baltimore County and a small portion of Anne Arundel County surround Baltimore City.
- ¹⁶ Maryland General Assembly, Department of Legislative Services, Office of Policy Analysis, "Tax Capacity and Effort of Local Governments in Maryland," March 2012, p. 20.
- ¹⁷ *City of Baltimore: Ten-Year Financial Plan...*, pp. 7-8.
- ¹⁸ Unless indicated otherwise, all figures below are from Maryland General Assembly, Department of Legislative Services, *Local Government Finances in Maryland: Fiscal Year Ending June 30, 2011*, October 25, 2012, p .39. Figures reported are for the "general operating fund" as reported by the Department of Legislative Services for fiscal year ending June 30, 2011.
- ¹⁹ Maryland General Assembly, Department of Legislative Services, *Overview of Maryland Local Governments; Finances and Demographic Information*, January 2013, p. 112. Figure is for Fiscal 2012.
- ²⁰ City of Baltimore, *Comprehensive Annual Financial Report Year Ended June 30, 2011*, p. 77.
- ²¹ There is potential for confusion regarding Baltimore City and Baltimore County. They are separate governmental entities within Maryland and they do NOT overlap. Baltimore County surrounds Baltimore City on three sides.
- ²² There is a significant amount of indirect aid to Baltimore through the state assumption of services and responsibilities—which is discussed later in the report.
- ²³ *Local Government Finances in Maryland...*, p. 39.
- ²⁴ U.S. Census Bureau, 2007 Census of Governments, downloaded May 15, 2013, <http://www.census.gov/govs/cog/GovOrgTab03ss.html>. In 2007, there were 1,510 dependent school districts out of a total of 13,051 total school districts.
- ²⁵ *Overview of Maryland Local Governments...*, Exhibit 7.1, p. 93.
- ²⁶ *Overview...*, Exhibit 7.9, p 101.
- ²⁷ Maryland General Assembly, Department of Legislative Services, *The 90 Day Report*, April 2013, p. A-102. Figure is for FY2014. The Teachers Retirement Supplemental Grant for Baltimore is \$10 million.
- ²⁸ Maryland General Assembly, Department of Legislative Services, *Overview of State Aid to Local Governments: Fiscal 2012 Allowance*, January 2011, p. 17 and p. 20. This document provides grant-by-grant detail that is not provided in the report, *Local Government Finance in Maryland: Fiscal Year Ending June 30, 2011*.
- ²⁹ See *Overview...Fiscal 2012 Allowance*, p. 17. The total amount of this grant—often referred to as "Highway User Revenue" — was \$555 million statewide in FY 2007 and dropped to \$137 million by FY 2011.

³⁰Throughout the balance of Maryland, the State maintains 5,200 miles of state roadways within counties and municipalities—while counties and municipalities themselves maintain another 24,100 miles. See “Overview of State Aid to Local Government: Fiscal 2014 Allowance,” January 2013, pp. 18-19.

³¹The state of Maryland acquired port facilities from the city in 1956. The State owns seven terminals and 23 are privately owned.

³²The names of the department can be confusing. The Department of Human Resources provides a wide array of social services throughout the state. In Baltimore, the city department is called the Department of Social Services.

³³The council president chairs the Board of Estimates.

³⁴*Change to Grow...*, p. 4.

³⁵One person described CitiStat as follows: “It’s not just a dashboard, it is the steering wheel to guide the ship...provides an opportunity for the Mayor to find out what’s going on....meetings held 22 times per year for 90 minutes...great from the perspective of expenditure management.... We knew we sucked [and used CitiStat to help us get better].” Another person described CitiStat as tough, but fair—as he had been on the receiving end of a number of CitiStat reviews—but ultimately described it as “indispensible.” This person went on to say that it provided a good “hook” for managers to use to motivate their staff to collect the data because they could see how it was being used—and the “grilling” that directors or others will receive when data are not available during a CitiStat review.

³⁶*Comprehensive Annual Financial Report...2011*, p. IX.

³⁷Not counting Clarence Burns, who served 11 months in 1987 when William Donald Schaefer became Governor of Maryland.

³⁸Sheila Dixon announced her resignation from office on January 9, 2010 and effective as of February 4 as a part of a plea agreement. “On December 1, 2009, the jury returned a “guilty” verdict on one misdemeanor count of fraudulent misappropriation [misuse of gift cards intended for the poor].” Downloaded from Wikipedia on May 18, 2013—the *Baltimore Sun* was cited as the primary source.