

Case Study Overview: Baltimore



City Snapshot. Baltimore reached a peak population of 949,708 in 1960 and 30% of Maryland's population resided in the city at that time. By 2010, the population had dropped to 620,961 and the city's share of the state's population fell to 11%. Like many Eastern and Midwestern cities, a significant portion of this loss in population is attributable to the decline of its industrial base and suburbanization. Baltimore lost 110,000 jobs between 1990 and 2010—about 24% of all jobs. Seventy percent of these jobs lost were in manufacturing and related industries. There are approximately 16,000 vacant and abandoned properties in the city—one blighted property for every 40 residents. Median household income 44% lower than that of the state and crime is 86% higher. Through all of this change, Baltimore still retains its position as the only large city in Maryland and serves as its principal urban hub. Unlike other cities in this report, Baltimore has not been in a fiscal emergency and has a relatively healthy balance sheet.

Fiscal Structure. Baltimore's annual operating budget is \$1.8 billion.¹ The city's two largest categories of spending are public safety (30%) and the transfer to the local board of education (13%). Aside from general government and miscellaneous expenditures, the next largest specific categories of spending are transportation (8%) and debt service (6%). Primary sources of revenue are the property tax (44%), state grants (15%), local income tax (13%) and federal grants (10%).

Fiscal Circumstances. What sets Baltimore apart from the other case studies in this series is that Baltimore is *not* experiencing a financial emergency. A 10-year financial plan was released in February 2013 indicated a cumulative shortfall of \$750 million over the next decade—the annual amounts increasing from \$30 million in FY14 to \$123 million in FY22. This shortfall reflected the difference between projected levels of spending and revenue (if no changes were made in policy or operations). The purpose of the 10-year plan was then to provide the substantive basis for proposing changes to policies and operations. Despite significant challenges related to poverty, blighted housing and the need for broad economic development throughout much of the city, Baltimore is on solid financial ground. It has a AA- bond rating and holds an unrestricted fund balance of \$216.5 million (equal to approximately 10% of the city's budget). Pensions for police officers and fire fighters are funded at 82% and other those for other city employees at 73%; these figures are comparable to national averages for local governments nationwide. Baltimore serves as a valuable case study in that it provides an opportunity to distill key factors that have contributed financial resiliency spite of significant declines in population and employment.

Analysis. Most would agree that Baltimore has significant challenges at is relates to poverty, urban blight and the need for a broad turnaround in its economic base and population. But despite these challenges, Baltimore is on sound financial footing. The following are key contributors to this.

- **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. 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 financial and operational responsibilities for specific services for Baltimore, including 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 city’s light rail and bus system, owns and operates the stadiums for the Orioles and Ravens and provides substantial support for the Port of Baltimore.
 - 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.
 - **City Charter: The Board of Estimate.** The five-member Board of Estimate 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 that 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). This Board holds public meetings weekly to approve all contracts and oversees all purchasing in the city.
 - **Tradition of professionalism in budgeting and finance—and political culture.** Many cited a tradition of strong financial management in the city over many decades. There also is a tradition that elected officials heed the information and guidance provided by the budget professionals. Some suggest that the presence of the Board of Estimate helps to account for this—with its citywide perspective and its publicly accessible meetings. And still others suggest that because the charter permits the council to only reduce the budget helps to limit the opportunity for “log-rolling” that is more likely to occur in large legislative bodies. No one can truly pin-point with confidence whether it was these factors or others that constitute the “secret sauce” for this positive confluence of professionalism and political culture.

Conclusion. Evidence suggests that a number of factors 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. Local institutions also play a major role—in particular, the responsibility and authority granted to the Board of Estimate by the city charter. Lastly, the confluence of professionalism in budgeting and financial administration combined with a political culture where the advice and guidance of those professionals is heeded by elected officials contributes to Baltimore’s fiscal resiliency.

¹ Maryland General Assembly, Department of Legislative Services, Local Government Finances in Maryland: Fiscal Year Ending June 30, 2011, October 25, 2013, 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.