Change to Grow

A Ten-Year Financial Plan for Baltimore

FY2013 - FY2022

Stephanie Rawlings-Blake
Mayor

February 2013

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Mayor’s Letter

Dear Citizen,

I am pleased to present ***Change to Grow: a Ten-Year Financial Plan for Baltimore***. Change to Grow is a first-of-its kind, long-term fiscal roadmap to help achieve our goal to grow Baltimore by 10,000 families over the next decade. It is born from a belief that our work to get Baltimore growing again must be grounded first in stable city finances.

In order for the city to grow, our city government must end the chronic cycle of annual budget deficits that erode city services and lay a strong fiscal foundation that allows us to work together to plan for Baltimore’s renewal.

Make no mistake, Baltimore faces serious fiscal challenges. That’s why this plan includes a bold set of major reforms to fundamentally change the way the city does business. These proposed reforms will help get Baltimore growing again by:

- Eliminating the serious structural deficit and protecting basic city services from devastating cuts.
- Making modern investments in neighborhood and civic infrastructure while reducing vacant blight.
- Further reducing the property tax burden on city homeowners.

Implementing the plan will require tough trade-offs and major changes to past practices, but doing so will help us make smart investments that reward the future. In addition, the capital infrastructure investments outlined in the plan — totaling more than $370 million over ten years — will help support job creation in Baltimore.

The Ten-Year Financial Plan is the product of more than a year of careful study assisted by national financial experts, outreach and meetings with dozens of key stakeholders, and unprecedented collaboration between city agencies. Over the course of the next year, my administration will work in partnership with the City Council, all city employees, the citizens of our communities, and others to implement the strategies outlined in this plan.

This plan is not a panacea that will solve every city challenge — no realistic plan is. But it will show with greater confidence that Baltimore, more than any other city in America, is taking responsibility and getting its own fiscal house in order. It sends the clear message that Baltimore can change to grow.

Sincerely,

Stephanie Rawlings-Blake
Mayor

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Change to Grow

A Ten-Year Financial Plan for Baltimore

Our path is clear: We must change to grow.

Facing the ten years ahead, the City of Baltimore is now at an inflection point — the juncture where a trend or curve changes direction.

For more than half a century, Baltimore's narrative was a story of post-industrial decline. From a peak of 949,708 residents in 1950, the City lost more than a third of its population, falling to 620,961 by 2010. Manufacturing jobs moved away, once-vital neighborhoods destabilized, and City government was left with a legacy of high tax rates and growing liabilities. Compounding the structural budget challenges of an older City, the impact and aftermath of the worst recession in generations has been severe on both jobs and municipal revenues.

Even with the economic downturn, however, a new Baltimore story has begun to emerge. The City's education and health services sectors have grown from 80,300 to 113,100 jobs since 1990, and major new life sciences investments are now coming on line. Global linkages are strengthening through expansion of the Port of Baltimore, and the City consistently ranks high among the nation's top cities for technology jobs. Over the past half-decade, the City's population has stabilized, with positive gains in a growing number of neighborhoods.

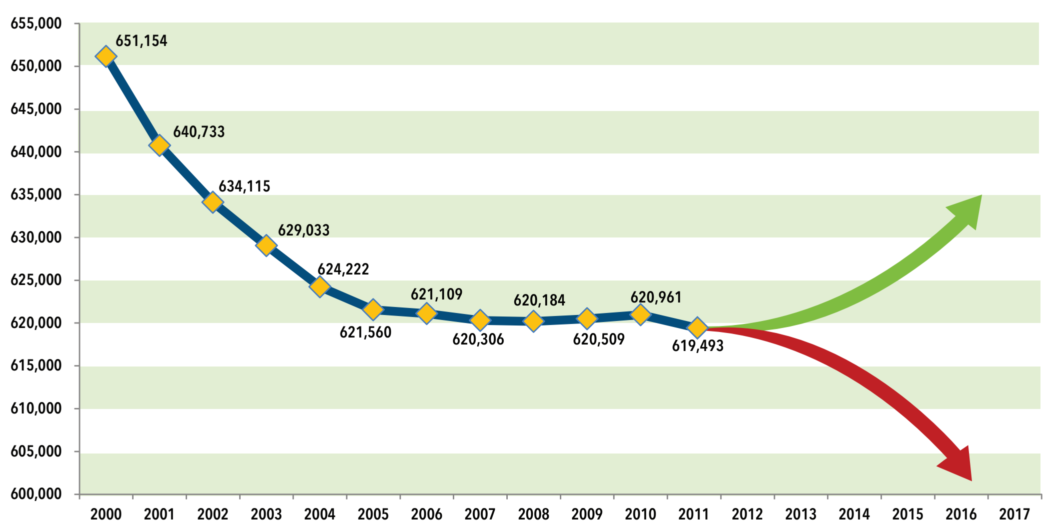
Having reached this critical crossroads, this Ten-Year Financial Plan process has been developed to help shape the answers to the following questions:

- At the end of the decade now ahead, will Baltimore look back at this period as having been no more than a momentary pause — a footnote — in the longer-term story of decline?
- Or will this have been the point where Baltimore began to turn the corner, and to write a new narrative that redefines "urban" as an exciting and energized place to visit, to work, and to live?

The answers will not be derived from academic or demographic analysis, and are not preordained. While global, national, and regional economic forces and policies will greatly affect Baltimore's prospects in the decade ahead, local strategies, choices, and actions will also have a critical impact on the City's future direction.

- If we do nothing, our current course would be marked by growing budget shortfalls of more than $30 million in FY2014, increasing to nearly $125 million by FY2022 — almost $750 million in total across this plan period — even without making critically needed investments in our basic infrastructure, or adequately funding long-term retiree medical liabilities. If not addressed, such annual budget imbalances would erode our reserves within the next three years, and drive Baltimore deep into untenable deficits.
    - In turn, basic services would be further cut, City workers would face additional freezes, furloughs and layoffs, critical infrastructure needs would see further deferrals and deterioration, and Baltimore's taxpayers would experience shrinking value for already high tax dollars.

Baltimore City Population, 2000-2011 (Census Data)



> **If we take action now, we can not only close these projected shortfalls… but we can also carve out the resources needed to begin to reinvest in a new direction.**

- As a result, the population growth and reinvestment seen in many Baltimore neighborhoods in recent years, and the stabilization of decades of decline across the City as a whole, would be at high risk of reverting to the **"vicious cycle"** of disinvestment that has eroded both community and fiscal stability. A decade from now, our current period of hope and revitalization would look like nothing more than a brief pause in an ongoing story of post-industrial decline.

- If we do take action now, however, we can not only close these projected shortfalls and achieve sustainable budget balance, but we can also carve out the resources needed to begin to reinvest in a new direction.
  - Core City services can be strengthened with new technology and tools; a streamlined, more productive workforce can see more competitive pay while retaining quality benefits; taxes can be lowered to improve Baltimore's competitiveness for residents and businesses; basic public infrastructure, school facilities, and recreation centers can be renewed; and long-term fiscal liabilities can be meaningfully reduced.
  - As a result, Baltimore can become a growing City again — adding 10,000 new families as part of establishing a **"virtuous cycle"** of residential and business growth critical to sustainable financial health, strengthening the tax and jobs base, and attracting private investment. Looking back on the decisions of 2013, the choices we make and the work we do together now will be seen as the turning point in a new and positive narrative for one of the nation's great cities.

Our path is clear: ***we must now change to grow.***

As we move forward in this new direction, this Ten-Year Financial Plan begins with the premise that Baltimore's new narrative must be grounded first in stable City finances. A structurally sound budget and improving balance sheets are a necessary foundation for municipal government to play an effective role in sustaining the growth and vitality of the broader community.

Accordingly, this document is a Financial Plan focused on fiscal health and stability — and not an all-encompassing strategic plan covering every dimension of urban planning, program delivery, municipal policy, or economic development. At the same time, this Financial Plan is also much more than just a spreadsheet exercise. Through a fiscally responsible approach to funding core services, improving tax competitiveness, investing in our future, and reducing long-term liabilities, this Ten-Year Financial Plan provides a necessary platform for Baltimore to grow again.

Long-Range Financial Plan Process

To help identify the specific actions necessary to achieve these goals, the City engaged a national consulting firm experienced in public sector long-range financial plans, Public Financial Management, Inc. (PFM), heading a team that also included Hay Group, a premier international human resources and actuarial consulting firm, and Walker Benefits Services, a leading Baltimore area benefits consultancy. The City's Finance Department and its Bureau of the Budget and Management Research provided extensive technical input and review, and the work has also been informed by Guidance Committees including Administration, City Council, and civic representatives, as well as scores of stakeholder interviews. Through these efforts, the consulting team developed a 100+ page report detailing critical long-range challenges and options.

This PFM report begins from a baseline analysis of what the City's finances are projected to look like on a "carry-forward" basis over the next ten years — assuming continuation of current programs and policies, as well as economic conditions consistent with mainstream forecasts. For these projections, PFM developed a detailed, multi-year budget model that applies assumptions about future growth to thousands of individual General Fund revenue and expenditure lines.

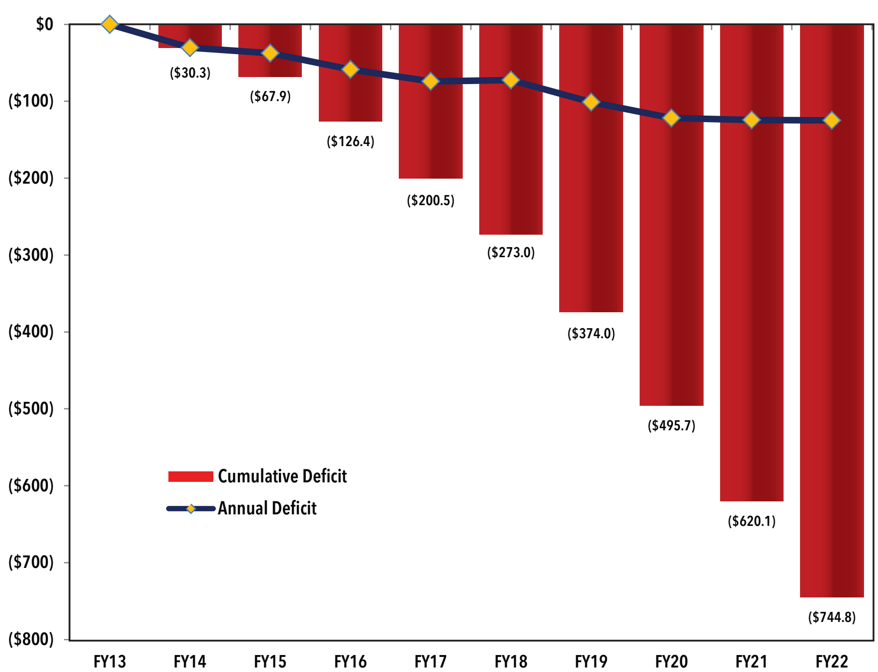
While the City's budget is balanced for FY2013 following another round in a series of recent cuts, the PFM report projects that recurring baseline revenues will not keep pace with recurring, current service expenditures going forward. Without corrective action, this structural deficit is estimated to result in a fiscal gap of over $30 million in FY2014, growing to nearly $125 million by FY2022. Over the nine years from FY2014-FY2022, this cumulative shortfall would total $744.8 million, eroding all of the City's reserves in about three years and driving the City deep into deficits.

General Fund Baseline Projections

($ thousands)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	$1,571.1	$1,585.9	$1,612.7	$1,648.6	$1,677.4	$1,711.9	$1,732.4	$1,769.1	$1,814.8	$1,868.2
Expenditures	$1,571.1	$1,616.2	$1,650.3	$1,707.1	$1,751.4	$1,784.5	$1,833.4	$1,890.7	$1,939.2	$1,992.9
Annual Deficit	$0.0	($30.3)	($37.6)	($58.6)	($74.0)	($72.5)	($101.0)	($121.7)	($124.4)	($124.7)
Cumulative Deficit	$0.0	($30.3)	($67.9)	($126.4)	($200.5)	($273.0)	($374.0)	($495.7)	($620.1)	($744.8)

Further, the City's prospective fiscal gaps would be even greater if Baltimore were investing at sustainable levels in maintaining its basic infrastructure and providing for the actuarial funding requirements associated with current retiree medical benefits. In the General Fund baseline projections, however, neither of these long-range concerns is fully addressed, consistent with current funding approaches in Baltimore (and many other cities) that fall short. In the aggregate, including the full amount of these costs would increase the cumulative shortfall by another $1.3 billion through FY2022 — **for a total cumulative deficit of $2.0 billion.** In addition, it is also important to note that Baltimore's financial challenges could deepen even further if the modest national economic recovery is not sustained.

General Fund Baseline Projected Fiscal Gap



Building from this baseline set of projections, the PFM report outlines a set of options to not only close these projected budget gaps, but also to reinvest in addressing a broader range of vital issues critical to Baltimore's long-range financial sustainability. These strategies and alternatives are organized within four cornerstones of the City's fiscal foundation.

- **Structural Budget Balance:** Identifying ways to "bend the curve" on the City's expenditures to align with recurring revenues.
- **Tax Competitiveness:** Reducing Baltimore's high tax burdens on residents and businesses to strengthen the City's position as a location of choice.
- **Infrastructure Investment:** Addressing longstanding underinvestment to renew and replace core City assets.
- **Addressing Long-Term Liabilities:** Challenges decades in the making will not be entirely resolved over the next ten years, but it is important to achieve real progress with a plan for enhanced fiscal sustainability.

For those committed to Baltimore and its future, these issues are not new — and, in many cases, initial efforts are already underway toward meeting these goals. At the same time, whether newly emerging or already well-understood, addressing these challenges boldly and comprehensively will be critical to Baltimore's next ten years and beyond — both for the health of the City's finances, and the direction of the broader community.

Further, these four strategies are inextricably linked. Without full commitment to making the tough decisions now required to carve out new resources, we will not be able to stabilize our finances in a way that enables vital investments. But if we do dedicate ourselves and our energy to making real and positive change, Baltimore can grow in the years ahead.

Structural Budget Balance: FINDINGS

None of City government's goals can be effectively advanced if Baltimore's fiscal foundation is allowed to become unstable.

For many years — consistent with national trends among local governments and compounded by the Great Recession — growth in the City's costs has been outpacing growth in revenues, and a series of difficult measures have been required to maintain balanced budgets. Over just the past several years, the City has made many difficult choices to counter these underlying trends:

- A sustained hiring freeze was initiated in FY2008 and continued through FY2012, and layoffs were imposed in FY2010 and FY2011, resulting in sharp overall headcount reductions.
- The City imposed unpaid furloughs in Fiscal Years 2010-2012, froze and contained wages, restructured its health benefits program for both actives and retirees, and adopted significant reforms of its Fire and Police Employees' Retirement System (FPERS).
- Capital program investments were severely curtailed, with reduced debt financing and lower pay-as-you-go (PAYGO) funding, resulting in widespread deferrals of needed renewal and replacement projects.
- The Baltimore Fire Department implemented rotating company closures from FY2010 to FY2012, permanently closed a company in FY2010, and made two more of the rotating closures permanent in FY2013.
- The City shifted to once-weekly trash and recycling pick-up, several recreation centers were closed, and the City reduced tree maintenance, street lighting, building upkeep, prisoner re-entry and mentoring programs, Arts and Culture funding, library hours and book purchases, and multiple other services.
- The City increased its income tax rate from 3.05 to 3.20 percent (the maximum allowed under State law), established a new beverage container tax, reached a new voluntary contribution agreement with the City's largest nonprofit institutions, and raised parking, hotel, and energy tax rates.

The challenge is not just to achieve budgetary solvency in the City's financial statements, but it is also to sustain service-level solvency in the neighborhoods of Baltimore.

Overall, the City has eliminated nearly $300 million in projected shortfalls over just the past three years. While such restructuring in the aftermath of the Great Recession has not been unique to Baltimore, this recent history now means that the remaining options for the City's fiscal realignment will be that much more limited and difficult going forward.

Nonetheless, before any new investments can be made in Baltimore's future, underlying revenue and expenditure trends must be brought back into alignment — or the City will remain stuck in an annual cycle focused on how best to slice an ever-shrinking budget pie.

Just as important, the City must work to bring its finances back into structural balance without further compromising core quality of life and public safety services. The challenge is not just to achieve budgetary solvency in the City's financial statements, but it is also to sustain service-level solvency in the neighborhoods of Baltimore. Along with the price of government paid through taxes and fees, the quality of basic public services — the value received — is also a critical factor in determining where people choose to live, work, and visit.

As a result, this Ten-Year Financial Plan looks to stabilize police patrol presence and the number of fire and emergency medical services companies, and to stop the cycle of annual cutbacks in quality of life services beyond public safety. Tax reduction and other new initiatives to grow the City will not meet their goals if they come at the expense of maintaining core services.

To resolve the potential tension across these multiple (and difficult) goals, the City must first work to innovate to become a smaller, more productive government. As a result, this Plan includes a broad range of options to build on the City's established and successful management and productivity programs — such as CitiStat and the Innovation Fund — to further improve efficiency in purchasing, fleet maintenance, energy use, and other non-personnel cost centers.

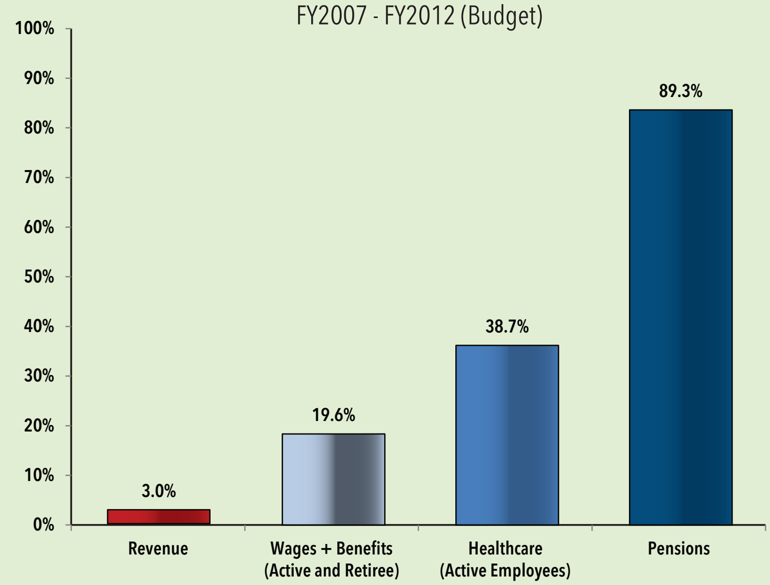
In addition, this Ten-Year Financial Plan outlines a range of approaches for streamlining the City General Fund workforce, while making the necessary business changes to maintain — and, in some areas, potentially improve — public services. Within the context of a long-term financial plan, strategies can be adopted to work toward a smaller, more efficient, and better compensated workforce through attrition — using approaches such as technological change, improved equipment, business process redesign, managed competition, and the establishment of enterprise funds.

Overall, workforce costs are critical, because municipal government is labor-intensive. It takes people to patrol the streets, respond to emergencies, maintain public works, and deliver services to the public. As a result, wage and benefit costs represent over 60% of Baltimore's overall General Fund spending in the FY2013 Budget, and must be addressed thoughtfully as part of long-range financial planning.

Accordingly, along with a goal to achieve a smaller, more productive workforce, this Ten-Year Financial Plan also recommends an approach to rebalance the total compensation portfolio for City employees — both to become more competitive as an employer and to address the sustainability of workforce cost trends.

From a fiscal perspective, growth rates for employee health and pension costs have been one of Baltimore's primary "budget busters," and are projected to continue to pressure the City's finances across the Ten-Year Financial Plan period if not further reformed. Even with a hiring freeze, wage containment, pension restructuring for public safety employees, and furloughs in recent years, total City workforce costs increased 19.6% from FY2007 to FY2012 (budgeted) — while revenues rose only 3.0%. Within these totals, active employee healthcare costs rose 38.7% and the City's employer pension contributions increased by 89.3%.

Growth in Revenues v. Workforce Expenditures
FY2007 - FY2012 (Budget)



Further, from a competitiveness perspective, Baltimore's health, retirement, and paid leave benefits are generous when compared to other large Maryland public employers — and are significantly ahead of regional private industry norms. At the same time, however, the City's salaries for many positions are relatively low compared to other large, regional governments, creating challenges for recruiting, retaining, and motivating a high-performing workforce.

To address this imbalance while remaining competitive, this Ten-Year Financial Plan includes a set of options for directing a greater share of overall compensation dollars toward improved cash compensation, while restructuring health, retirement, and paid leave benefits to become more affordable and sustainable.

Already through the Ten-Year Financial Plan development process, the City has identified $20.2 million in annualized, structural health benefit saving, which have been initiated with January 2013 health plan enrollment and are incorporated in the Ten-Year Financial Plan baseline. Without these advance adjustments, which continue to maintain a competitive, high quality healthcare package, Baltimore's budget gap to close going forward would have been even greater.

Changes for Structural Budget Balance

- *We will commit to aggressive pursuit of a comprehensive set of Innovative Government initiatives to maximize the efficiency and productivity of City operations.*

The Ten-Year Financial Plan includes goals to:

- Improve City purchasing and contract management — implementing strategic sourcing reforms and strengthened change order controls to lower the cost of purchased materials, supplies, equipment, and services.
- Cut the number of City vehicles by at least 5%, and lower fuel and repair costs by modernizing the municipal fleet with newer, more fuel-efficient vehicles under a sustainable lease-financing approach.
- Reduce facility costs through real estate consolidation and implementation of an Internal Service Fund for facilities to promote greater agency accountability for utility costs, custodial services, maintenance, repair, and security.
- Pursue alternative uses for non-core facilities, such as City-owned historic buildings, to identify self-sustaining funding approaches for important civic assets not associated with core City functions.
- Develop a market-based credit system to help developers meet their storm water management obligations at sites without sufficient, cost-effective on-site options by paying into a fund for the ongoing maintenance of cleared, "green" lots used for storm water management. In addition to offsetting operating budget costs for vacant lot maintenance, such a program would encourage new development more generally.
- Maximize telephone cost savings through adoption of new technology and telephone usage and billing audits.
- Invest $5 million in supplemental, one-time technology funding above baseline resources to accelerate improved business processes and reduce mainframe dependence.
- Sustain annual $2 million payments to further capitalize the Innovation Fund for projects to enhance productivity.
- Upgrade law enforcement technology, as with field-based reporting tools that can reduce the costs and potential errors associated with manual data entry.
- Enhance parking technology, increasing the use of cost-effective tools such as EZ Park, multi-space smart meters, and on-line garage reservations and payment systems.
- Pilot semi-automated trash collection, retrofitting City trash trucks for appropriate routes with collection arms to help lift standardized, rugged trash containers — in turn, reducing employee injuries, improving route efficiency, and improving neighborhood cleanliness and rodent control.
- Continuously reevaluate service delivery to find creative ways to meet community needs — for example, converting select, additional neighborhood wading and "walk-to" pools to safer splash pads, an alternative that has proven popular among neighborhood residents while requiring lower operating and capital costs.
- Overall, streamline the number of full-time City positions by at least 10% over the Plan period — using approaches such as the technology investments outlined above, business process redesign, expanded community partnerships, and managed competition to reach this target ***by attrition***.
- Continue to build on Baltimore's existing initiatives to deliver services cost-effectively and align resources with results — with ongoing commitment to the nationally recognized CitiStat program and Outcome Budgeting.

In the aggregate, such Innovative Government initiatives are projected to achieve the following savings toward closure of the baseline budget gap:

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Structural Balance Innovative Government	$2.4	$10.9	$14.7	$17.6	$20.7	$23.8	$26.2	$28.6	$29.2

- *We will work with our municipal unions and managers to restructure both our operations and compensation package to have a more productive and more competitive municipal workforce.*

As reflected in the following specific initiatives — many of which involve collective bargaining and/or require City Council approval — our overall goal will be to rebalance the City's total compensation portfolio by directing available future compensation dollars proportionately more toward wages, while focusing cost containment primarily on fast-growing health and retirement benefits and generous paid leave:

- Continue the healthcare benefit reforms adopted for active employees and retirees in FY2013, which established stronger incentives for employees to participate in more affordable plans, and more consistent cost-sharing for both medical and prescription drug coverage.
- Expand disease management and wellness initiatives, with a significant commitment of City funding and support.
- Rebid and rationalize health vendor contracts, streamlining the City's plan offerings to obtain the most competitive service and pricing.
- Conduct an eligibility audit for health benefits, to ensure that all City premium payments are being directed for workers and dependents legitimately covered by the plans.
- Modify coordination of benefits provisions for Medicare enrollees to ensure cost-effective coverage, and align the City's retiree benefit structure with options available under Medicare — such as improved pharmacy coverage for Medicare eligible retirees under the Affordable Care Act that will enable a phase-out of City subsidies in 2020 as Medicare begins to provide coverage comparable to current City benefits.
- To the extent necessary if cost pressures grow, pursue further healthcare plan design changes in future years to ensure the affordability of a quality program (given the meaningful health benefit reforms adopted in FY2013, no further cost-sharing changes are now planned until at least FY2016).
- Phase in employee pension contributions up to 5% of salary for current civilian employees participating in the Employees' Retirement System (ERS), with new hires to enter a Defined Contribution (DC) retirement program, and all plan members to no longer receive a supplemental variable benefit.
- Restructure the Elected Officials' Retirement System (EOS) with reforms that parallel the ERS program available to other City employees on an equitable basis.

> …the City must first work to innovate to become a smaller, more productive government.

- Establish a more cost-effective and sustainable Hybrid Defined Benefit/Defined Contribution (DB/DC) plan for future public safety hires.
- Pursue a new, three-shift firefighter schedule in collective bargaining, consistent with practices found in many major cities nationally, which would generate substantial savings that could be used to help ensure station coverage, and be partially shared with fire personnel to improve pay competitiveness.
- Reduce the extraordinary payouts now provided for accrued, unused leave at separation, as well as the City's outlier benefit that now provides all fire and emergency medical services employees with an extra 90 days of leave with pay just prior to retirement.
- Address the cost of employee injuries by working to improve employee safety, to ensure quality treatment when employees are injured on duty, and to reduce supplemental pay now provided above Workers Compensation (consistent with the State of Maryland's approach).
- Replace compensatory time for management and professional employees with a pilot paid time off (PTO) leave bank.
- Provide regular, annual across-the-board raises for union-represented employees, above and beyond ongoing step and longevity gains, with no wage freezes or furloughs (wage increases of at least 2% per year are included in each year of the Plan, assuming achievement of sufficient savings from

benefit, paid leave, and schedule adjustments, as well as overall economic conditions and revenue performance consistent with the baseline scenario).

- Develop options for police retention incentives.
- Transition to new executive and managerial pay scales that would improve competitiveness for talent, start to address pay compression, and include performance-based incentives and rewards.

As of FY2012, benefit costs had reached approximately 40% of total compensation costs. With the initiatives in this Ten-Year Financial Plan, benefits are projected to moderate to roughly one-third of total compensation spending while still providing competitive, quality plans. In turn, this will provide capacity for more competitive wages.

At the same time, in the aggregate, such Workforce initiatives are projected to achieve the following net savings toward closure of the baseline budget gap:

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Structural Balance Workforce	$2.3	$33.7	$48.3	$59.2	$65.1	$68.8	$83.0	$92.3	$97.9

…our overall goal will be to rebalance the City's total compensation portfolio by directing available future compensation dollars proportionately more toward wages, while focusing cost containment primarily on fast-growing health and retirement benefits.

Tax Competitiveness: FINDINGS

Baltimore's property tax rates are, by far, the highest in Maryland, and overall tax burdens are also well above the rest of the state. Further, the City's tax structure and high percentage of tax-exempt property places these funding burdens primarily and disproportionately on those who choose to locate their homes and/or businesses in the City. While overall revenues must remain sufficient to support basic services, this non-competitive tax structure deters and drives out investment.

As a result of this current position, Baltimore cannot simply further hike tax rates to improve its fiscal position. Given competitiveness challenges, such increases would only further erode the City's tax base and overall economy. Further, Baltimore's second largest revenue source — the income tax — is already at the maximum level allowed under state law.

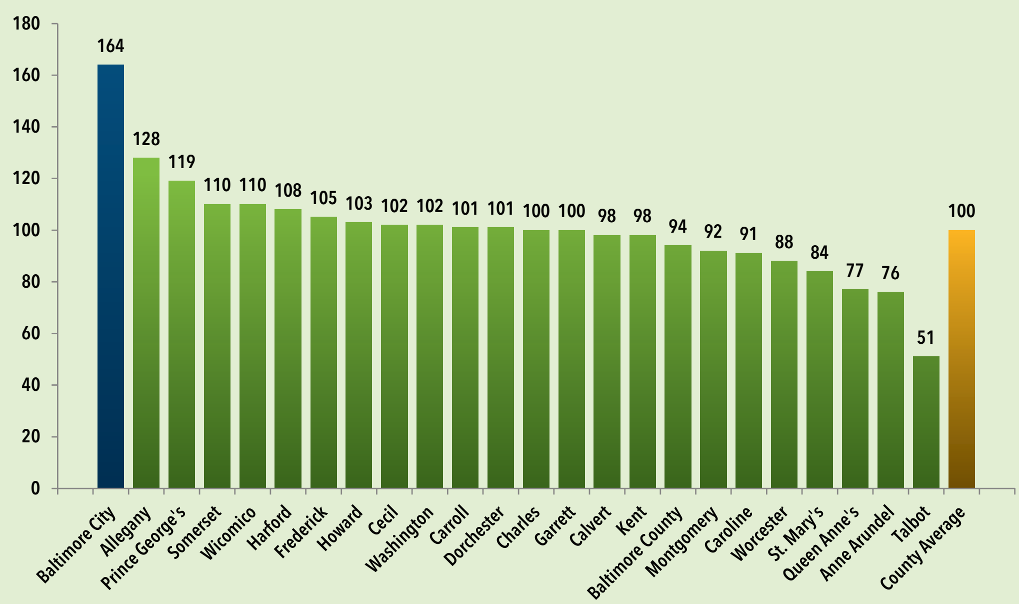
In the FY2013 Budget, we have begun to address this challenge with a new Targeted Homeowners' Tax Credit program designed to bring down the residential property tax by 20 cents by 2020.

To build on this initiative, this Ten-Year Financial Plan sets forth options for additional property tax reduction, diversification of funding sources to more equitably share costs across all who benefit from City services, strengthened revenue enforcement and collections, evaluation of tax incentive programs, and greater reliance on user charges to sustain services that now draw on the general tax base.

Tax Effort Index - 2010

The Maryland Department of Legislative Services measures tax effort, the relative degree to which counties actually tax their primary base. The index compares the ratio of actual revenue generated through Property and Income taxes to the hypothetical yield if rates were set at the statewide average.

An index of 100 is equal to the statewide average, while an index of greater than 100 indicates the degree to which the county is levying higher rates than other counties. Baltimore's Tax Effort Index in 2010 was 164 – 64% higher than the state average and 28% higher than the index of the next highest Maryland county.



Source: Maryland Department of Legislative Services, Office of Policy Analysis

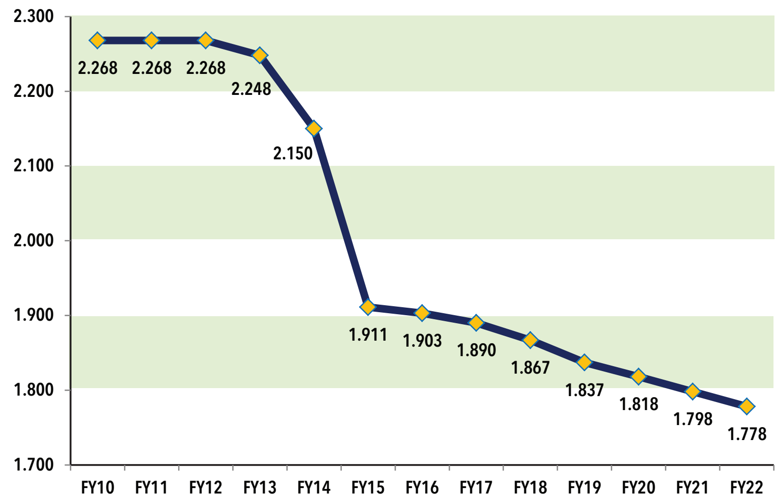
Changes for Tax Competitiveness

- *We will reduce our property tax rates, steadily and significantly.*

To grow our City, we must improve our tax competitiveness, to encourage more residents and businesses to locate in Baltimore — while at the same time, ensuring a sufficient ongoing flow of revenue to fund the core services and strategic investments that are also essential to growth. Among our mix of taxes, there is no greater burden on the City's future than our regionally non-competitive property tax rates. The Ten-Year Financial Plan includes:

- Full incorporation of the "20 cents by 2020" program for targeted homeowner credits to cut the residential rate for each of the next eight years to achieve an aggregate 20 cent reduction.
- Extension of the "20 cents by 2020" program going forward to reduce the homeowner rate by another 2 cents per year in both FY2021 and FY2022.
- Reinvestment of the majority of General Fund savings from establishment of a mandated stormwater remediation fee to fund a further 2 cent across-the-board property tax cut beginning in FY2014. At the same time, this new fee will provide a stable and sustainable funding source for "greening" investment.
- Creation of a new solid waste enterprise, consistent with the approach in place in most major Maryland counties, with dollar-for-dollar property tax relief in the General Fund budget relative to the first-year fees established. This approach will provide a stable base of funding for sanitation, trash disposal, and future landfill needs, could be adapted to encourage recycling with a "pay-as-you-throw" pricing approach, and would enable more meaningful comparisons of tax rates to the other counties that already use this approach. Based on preliminary funding estimates by the City's solid waste management consultants (subject to further refinement as this initiative moves forward), adopting this model with charges comparable to those in other Maryland counties could enable a significant reduction in Baltimore's tax rates. If General Fund savings were directed partially toward an across-the-board property tax reduction, with another share directed toward the Homeowners' Tax Credit program, the net effect for homeowners would be estimated to fund an approximately 23 cent cut in residential property taxes.

Homeowner Property Taxes to be Reduced Nearly 50 Cents



Note: The pace of reductions from FY14 through FY15 may vary due to the timing of gaming revenues that partially support the existing "20 cents by 2020" program.

- In the aggregate, these initiatives would be projected to cut Baltimore's property tax rate for residential homeowners by nearly 50 cents by 2022 — a reduction of almost 22%.

- *To sustain core City services with sufficient resources, we will maximize overall revenues through pursuit of revenue diversification, strengthened enforcement and collections, and modernization of tax incentive programs.*

The Ten-Year Financial Plan includes goals to:

- Diversify the sources of revenue to share costs more equitably across all users of City services, and to leverage City assets, including:
  - Continuation of the Parking Tax at the current 20% rate, rather than decreasing this rate as now scheduled for FY2014. At the current rate, this tax is consistent with the rates in other large East Coast cities, helps to fund the popular Charm City Circulator service, and draws from commuters who rely on City services but otherwise contribute minimally to Baltimore's revenue streams.
  - Development of market-based revenue opportunities for ancillary use of City property and assets by private entities.

Such opportunities include advertising and corporate sponsorships, exclusivity arrangements, and rental agreements to use municipal real estate for cell phone towers.

- Potential leasing revenues from an inter-county broadband network initiative. Led by the Mayor's Office for Information Technology with Innovation Fund financing, the project will replace old 800 mHz lines with a fiber-optic network to increase connectivity between City agencies and schools, and holds the potential to generate new revenues by leasing network access to local businesses and internet service providers.
- Negotiation of a return on investment from the City's conduit system. Baltimore maintains and operates an underground conduit used by private companies for fiber-optic lines and other utilities. Currently, user charges support the cost of this service, and a modest return on investment to the General Fund will be pursued.
- Partnerships with nonprofit institutions. As the City's voluntary contribution agreement phases out, we will explore opportunities for collaboration.
- Establishment of a new Billboard Tax. An excise tax on outdoor advertising could provide an additional source of revenue for the City without further burdening the general tax base, and would be consistent with tax policy in other major cities. New revenues could be used to provide more reliable funding for Baltimore's arts and culture.
- Adoption of a new taxi cab excise tax. This new revenue source would help to share the cost of maintaining the City's transportation networks with tourists and other visitors.

○ Evaluate economic development tax incentives. With a solid forecast of revenues and expenditures, a goal of the Ten-Year Financial Plan is to inform fiscal and economic policy. Job creation, a competitive tax structure, the significant elimination of blight, and sound investment in infrastructure are all essential components. Toward these ends, the Mayor will task staff with examining tax incentives to provide recommendations for how the City can:

- Better align tax incentives with the Mayor's growth vision and priority outcomes.

We will reduce our property taxes, steadily and significantly.

- Most effectively target tax incentives, to maximize economic impact, including exploration of a new incentive to encourage development of apartments.
- Ensure a positive return on the City's tax subsidy investments.

Where tax incentive savings can be identified, the goal will be to redirect these resources for additional general property tax relief and reinvestment in Baltimore neighborhoods.

○ Improve revenue collection and enforcement, including:

- Increased results from expansion of the Billing Integrity Program, responsible for auditing assessment data received from the State, which has already identified approximately $4 million in additional tax revenue by correcting errors in tax credits and exemptions since its creation in 2011. In FY2013, the City Budget includes increased funding for the program to add staff for tax credit audits.
- Modifications to the City's Transfer and Recordation taxes to obtain payments from Fannie Mae and Freddie Mac (recently negotiated successfully) and to pursue other changes.

In the aggregate, such Tax Competitiveness initiatives are projected to achieve the following net impact on the baseline budget gap:

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Tax Competitiveness	$25.5	$15.4	$15.7	$19.3	$23.1	$27.1	$27.8	$23.9	$19.9

Infrastructure Investment: FINDINGS

As in many older cities, Baltimore's aging infrastructure and new capital investments require funding well beyond identified, existing resources. While comprehensive condition assessments have not been completed for every City asset category, there is no question that much of Baltimore's basic infrastructure — roads, bridges, sidewalks, and public facilities — now falls short of a state of good repair. In turn, this erodes the quality of the services such assets support, increases the risk of disruptive infrastructure failures, and adds to life-cycle costs.

In 2012, for example, a major facility study commissioned by the Baltimore City Public Schools (BCPS) supported what Baltimore parents, teachers, and students have long known — too many of the City's aging schools are now in substandard condition. To address the identified deficiencies in general condition and educational adequacy, the preliminary capital investment and life-cycle cost needs are estimated at approximately $2.5 billion.

High quality school facilities can have a positive impact on rates of student learning, attendance, and graduation — and are important for keeping young families in Baltimore as their children reach school age, and in attracting new families to the City. With test scores up in the BCPS, this is an important juncture for building on the District's momentum, and doing more for Baltimore's kids. Accordingly, to jumpstart investment in rebuilding the City's schools, this Administration and City Council launched a "Better Schools Initiative" projected to more than double annual capital funds from the City — a commitment fully incorporated within this Ten-Year Financial Plan.

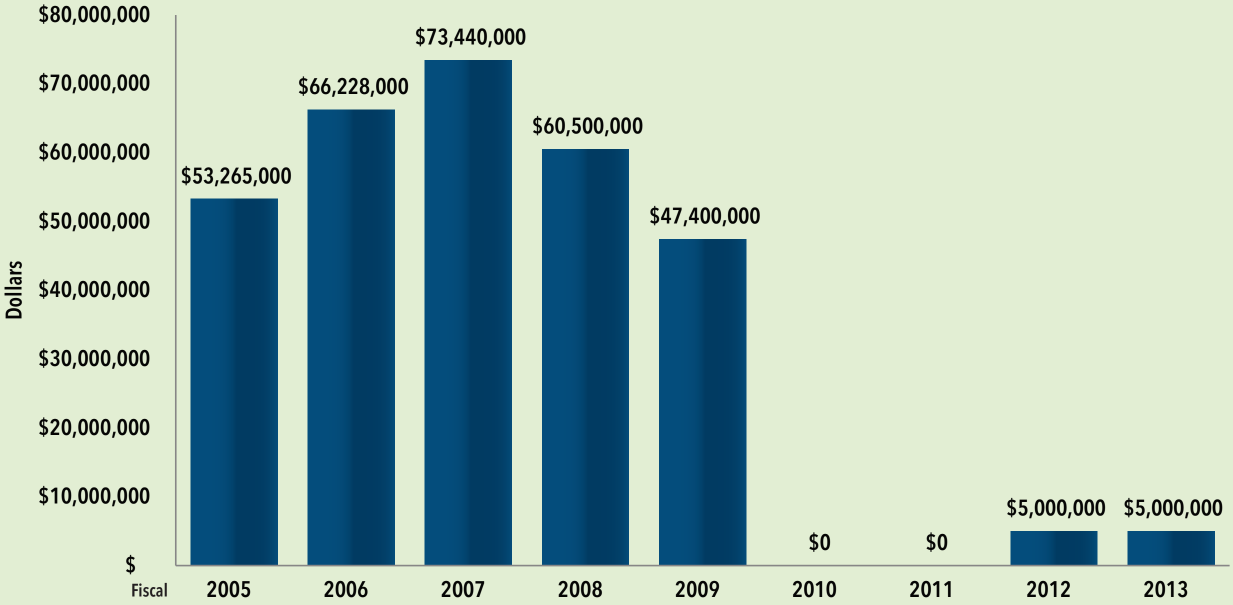
Focusing more directly on the City's own assets, Baltimore faces parallel infrastructure challenges. Based on high-level estimates provided by major City departments as part of the Ten-Year Financial Plan process, the PFM report estimates that capital funding included in the "status quo" baseline scenario would fall well short of the levels required just to maintain the current, suboptimal state of repair and to begin to make slow, incremental progress towards improved conditions.

Looking at the needs for General Fund supported dollars only (recognizing that, in many cases, additional intergovernmental funding can be leveraged to meet the overall costs of core capital investment), the estimated capital program funding shortfall exceeds $115 million in FY2014, rising to over $130 million per year by FY2016 — for a cumulative total over the Ten-Year plan period of $1.1 billion. For example:

- Of Baltimore's more than 300 bridges managed by the Department of Transportation (DOT), 21 have been rated below a level of 50 on the bridge sufficiency rating index used by the Federal Highway Administration. This reflects a state of repair that renders those bridges eligible for replacement, and indicates a serious need for reconstruction.
- At the same time, DOT maintains approximately 5,000 lane miles of roadways across the City. As of a major survey in 2008, 43% of the City's roads were rated to be in a "poor" state of repair based on pavement condition index standards, and funding for repaving and resurfacing has only been further reduced since that review. Currently, DOT has funding sufficient to repave only 200 lane miles or less per year out of the total 5,000, resulting in roadways falling further into disrepair.

> …much of Baltimore's basic infrastructure – roads, bridges, sidewalks, and public facilities – now falls short of a state of good repair.

State Transportation Capital Dollars Have Declined Sharply



- City facilities are also aging, with many in disrepair. Capital needs for Baltimore's fire stations and related infrastructure alone, for example, are estimated to exceed $20 million. To improve the City's Recreation and Community Centers, many of which are also in very poor condition, a Mayoral Task Force developed a comprehensive plan in 2011 to provide a smaller number of upgraded facilities focused on Baltimore's youth — with other facilities beyond the City's capacity to adequately sustain being transferred to nonprofit and community partners. In turn, this transformational approach requires significant new capital investment — estimated by Parks and Recreation to cost approximately $40-50 million over the decade ahead.
- Along with general infrastructure needs, Baltimore has approximately 16,000 vacant and abandoned structures. While repair, rehabilitation, and attraction of private investment are important strategies for reclaiming many vacant structures, the City Planning Department estimates that more than10,000 of these properties are best-suited for demolition and greening initiatives to remove blight, improve public safety, and strengthen their surrounding communities.

In part, Baltimore's capital underinvestment is a function of long-term budget constraints, and will require the City to identify enhanced local resources. At the same time, much of the City's challenge results from decreased state and federal assistance in the wake of the national downturn.

For example, State Highway User Revenues (HUR) that support basic road maintenance, bridge repair, and other transportation programs have been sharply reduced since the recession struck. Drawn primarily from gas tax and other vehicle-related revenues, HUR funding was diverted to help balance the State's own budget during the recession. As a result, Baltimore's budgeted HUR FY2013 funding of $132.0 million is nearly $100 million below the peak level of $227.3 million allocated by the State in FY2007.

Further, because a portion of these funds are used for basic transportation operating budget costs, the remaining balance available to support capital projects declined from a peak of over $73.4 million in FY2007 to zero for both FY2010 and FY2011, and has remained at only $5 million thereafter.

This represents a major setback for addressing critical renewal and replacement needs in the City's component of the regional transportation network — and is paralleled across Maryland as other counties have seen similar reductions.

Changes for Infrastructure Investment

- *We will sustain our commitment to the Better Schools Initiative, to ensure safe and quality facilities where our children can learn.*

As authorized and launched in 2012, this significant City commitment to rebuilding school facilities includes:

- Continuation of the base City capital contribution at approximately $17 million.
- A 5 cent beverage container fee, projected to generate more than $10 million annually.
- 10% of the City's Video Lottery Terminal (VLT) revenues, now slated to increase based on table games authorization.
- Supplemental resources based on the City's contribution for school retiree benefit costs.

To build on this expanded City investment, additional partnerships will be needed to further address the Baltimore City Public Schools' own Long Range Facilities Master Plan, including:

- Additional State school construction funding.
- Development of a schools foundation and private sector capital campaign.
- Savings from reducing the number of City schools.
- Increased financing flexibility to make the best use of those resources that are identified.

- *We will significantly accelerate the demolition component of the City's Vacants to Value (V2V) initiative by capitalizing a new Blight Elimination Fund.*

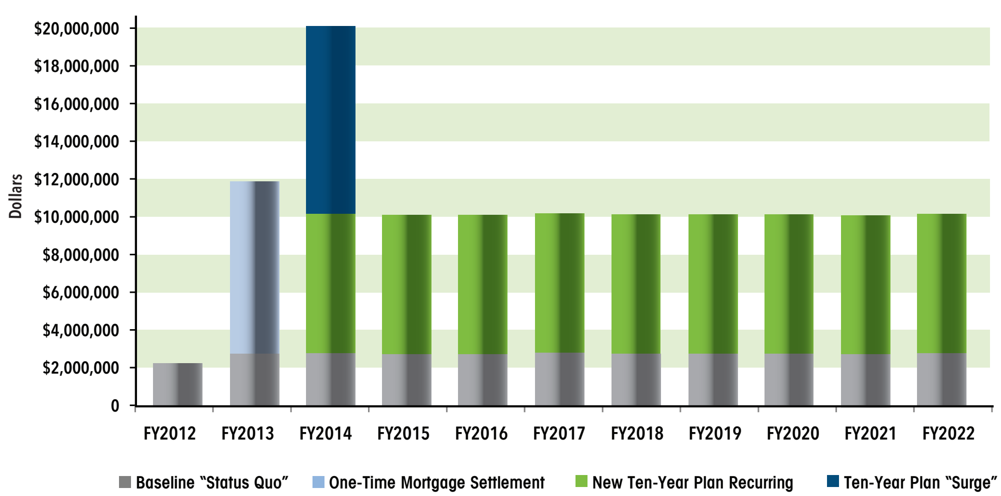
The V2V initiative encourages reinvestment in neighborhoods impacted by blight by strengthening code enforcement, promoting rehabilitation, and streamlining the sale of vacant city property.

To reinforce these goals, the Ten-Year Plan will provide a more than fourfold increase in local demolition funding toward clearing 4,000 severely distressed structures in those cases when renovation is no longer a viable option. This important investment will promote urban greening, improve public safety, enhance environmental and public health, and strengthen surrounding neighborhoods and tax bases. To the greatest extent possible, we will seek to frontload investment in a **"demolition surge"** of vacant structures — to demonstrate immediate impacts in our neighborhoods, start to stem the spread of blight, and build the case for expanded, future investments by State, federal, and foundation partners.

Key funding goals include:

- More than quadrupling local funding for Citywide demolition from the current FY2013 level of $2.3 million to nearly $10 million annually from FY2014-FY2022.
- Following up the one-time FY2013 infusion of $9 million from the proceeds of the Maryland Attorney General's Office Mortgage Servicing Settlement with an additional one-time City investment of $10 million funded from release of special reserves.
- Pursuing creative new approaches to add to these resources, potentially including proceeds from the sale of vacant City-owned properties, recycling-related revenue streams resulting from demolition (e.g., re-sale of bricks), and/or increased vacant property and related code enforcement charges and penalties.

Blight Elimination Local Funding Surge



These sources are projected to generate a total of over $100 million in local blight elimination funding over the Ten-Year Plan period, more than four times the $23 million in baseline funding from annual carry-forward of FY2013 capital dollars. When combined with committed and potential State, federal, and private sources, the City plans to direct nearly $150 million toward blight elimination over these years, with a goal to increase this investment.

- *We will commit increased local investment toward addressing Baltimore's long-deferred capital infrastructure needs.*

While it is also essential to maintain overall City debt levels within manageable parameters, the growing underfunding gap in our capital program erodes the quality of the services such assets support, increases the risk of disruptive infrastructure failures, and adds to eventual, life-cycle costs. The Ten-Year Financial Plan includes goals to:

- Increase local, General Fund capital investment by at least $370 million (from $552 million to $923.6 million) — a more than 2/3 increase for the nine years from FY2015-FY2022. This represents a major new level of investment in our neighborhoods and their core infrastructure needs, to be funded from the following approaches:
  - Ratcheting up ongoing pay-as-you-go (PAYGO) funding from the City's operating budget by $5-$10 million annually above the baseline level of $8 million per year, for an addition of $76.3 million in PAYGO funding ($156.3 million total, including the baseline funds) over the full Ten-Year Financial Plan period. This will provide much-needed additional resources, while maintaining some flexibility relative to fixed debt in the event of budget strain.
  - Expanding the size of planned capital borrowings, while still maintaining overall debt within moderate and manageable levels, such that debt service remains within approximately 10% of total revenues:
    - Adding $15 million more of annual General Obligation bond issuance (from a planned $50 million to $65 million).
    - Continued issuance of $15 million in annual County Transportation bonds from FY2016-FY2022, instead of phasing out this local transportation investment as previously planned.
  - Dedicating several one-time resources anticipated to be generated under this Ten-Year Financial Plan to increase near-term PAYGO investment. In total, more than $50 million in one-time dollars is projected to be generated from the combined release of the Mobile Equipment Reserve as the City shifts to lease financing for vehicles, and the Landfill Development Reserve as the City shifts the full funding for future landfill expansion to a new enterprise fund to be established.
  - Analyzing the potential for Public Private Partnerships (P3) involving the sale or leasing arrangements for City-owned assets. For example, a P3 initiative involving a subset of the City's off-street parking garages (excluding those in key locations for future economic development, or with other complications), could potentially generate a significant, one-time cash infusion, remove the City from a portion of this business with an active, private market, and enable the Baltimore Parking Authority to better focus on other responsibilities such as technology implementation and on-street parking.

  At the same time, it is important that the City not enter into any arrangements that fail to provide fair and worthwhile value for our assets, nor that compromise the

We will commit increased local investment toward addressing Baltimore's long-deferred capital needs.

continued quality of the services such assets support. As a result, we will pursue a more detailed feasibility study before taking any action, and have included no assumed revenues from P3 initiatives within this Plan — but could potentially add even more resources to the level of increased investment already planned.

- While we will not be able to fully fund 100% of Baltimore's infrastructure needs with local dollars alone, this major Ten-Year Financial Plan commitment is expected to support:
  - Full funding of the City's commitment to the Better Schools Initiative, and a major increase in Vacants to Value blight elimination.
  - Increased Recreation and Parks capital funding to rebuild deteriorating Recreation Centers as a new network of quality Community Centers, while offsetting potential reductions in State Program Open Space grants.
  - Improved General Services funding for fire stations and other critical facilities, as well as fleet maintenance infrastructure. At the same time, we will continue to challenge City agencies to consolidate space and cut facility maintenance and energy costs to alleviate remaining pressures on facility conditions.
  - Stabilized capital funding for general economic and community development programs.
  - Expanded local Transportation funding by $15 million annually from FY2016 forward, with a supplemental $10 million in the interim, while seeking renewed State and regional partnerships to meet the significant remaining need.
- Although this Ten-Year Financial Plan is focused on the City's General Fund, we will follow up this effort with increased review and planning around infrastructure needs for the City's water and wastewater enterprise — from main replacement, to stormwater management, to customer service improvements.

We will sustain our commitment to the Better Schools Initiative, to ensure safe and quality facilities where our children can learn.

- ***We will seek renewed State funding and regional partnerships for our transportation network needs.***

While this Ten-Year Financial Plan includes greatly increased local effort to finance basic transportation infrastructure, we simply cannot make up for the loss of $100 million in overall state-controlled funding, of which nearly $70 million was for capital needs, at the purely local level. Consistent with recommendations by the State's own Blue Ribbon Commission on Transportation Funding and Governor O'Malley, transportation funding is a statewide and regional imperative that will require state-level and regional solutions. In the very first years of the Ten-Year Financial Plan, we will join the Governor, civic leaders such as the Greater Baltimore Committee, and counties from across the State of Maryland to advocate strongly for responsible and reliable funding of our transportation assets.

- ***We will ensure stable and sufficient funding to meet environmental stormwater mandates and landfill expansion capital needs through enterprise funding.***

As previously outlined in the context of Tax Competitiveness, shifting these environmental programs onto a self-sustaining, user charge-funded basis will enable significant property tax relief, while providing stable operating funds to deliver important services and meet growing mandates. At the same time, such enterprise funding can support the significant infrastructure needs associated with these "greening " programs, without further burdening the limited General Fund capital program dollars.

New investment can be leveraged to create more jobs for City residents, generating stronger tax receipts in the near-term, while building a more skilled workforce for the long-term.

- *We will explore development of a new Arena and modernization of our Convention Center to advance a new era of growth in our tourism and hospitality sector, but we will do so without drawing limited General Fund capital dollars away from neighborhood projects.*

  To support this high priority job creation initiative, we will first seek to maximize State and private support, as the majority of new tax revenues projected from this sector (primarily income and sales) will flow to the State, and active private participation is key to success. To the extent that any local funding is required to make this important investment happen, we will pursue the establishment of new, dedicated, funding sources. For example, a state-authorized restaurant meal (sales) tax, which is a common revenue source in other major cities, could be considered.

- *We will coordinate on a collaborative, multi-stakeholder basis to link this broad range of expanded capital projects to workforce development for City residents.*

  As the City increases investment to rebuild schools, renew basic infrastructure, develop new "green" storm water systems, advance community redevelopment, and accelerate blight elimination, such projects (along with non-City initiatives such as Red Line construction and Port of Baltimore expansion) will create a once-in-a-generation opportunity for local economic stimulus.

  - New investment can be leveraged to create more jobs for City residents, generating stronger tax receipts in the near-term, while building a more skilled workforce for the long-term.
  - To fully capture the potential that such a wave of new projects would create, the Mayor's Office of Employment Development will lead strategies to maximize this opportunity for Baltimore jobs.

Increased infrastructure investment will primarily impact the City's capital budget, however, some operating budget increases will be required for additional debt service and PAYGO funds. In the aggregate, the following net impact on the baseline operating budget is projected:

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Infrastructure Investment	-$5.4	-$12.3	-$6.9	-$15.2	-$26.5	-$20.5	-$17.6	-$23.5	-$24.8

Addressing Long-Term Liabilities: FINDINGS

Baltimore was founded many generations ago, and will continue to be home to many generations to come. To ensure that the City remains financially healthy not just for the next ten years, but for the many decades ahead, it will be important for the City to make progress with reducing its long-term liabilities and leaving behind a stronger "balance sheet" that does not overburden future generations nor inhibit opportunities for growth.

As outlined in the preceding section of this Ten-Year Financial Plan, one major, long-term stewardship concern is the need to address historic underfunding of the renewal and replacement needs for the City's capital assets. In turn, this will require increased investment, but it will also be important that overall debt burdens associated with borrowing for capital needs remain within manageable levels and a framework of fiscal responsibility.

Baltimore's conservative financial approach has long been a credit strength for the City — and is critical to maintaining market access at affordable rates. As the rating agency Moody's Investors Service noted in its most recent (January 2013) credit report on the City,

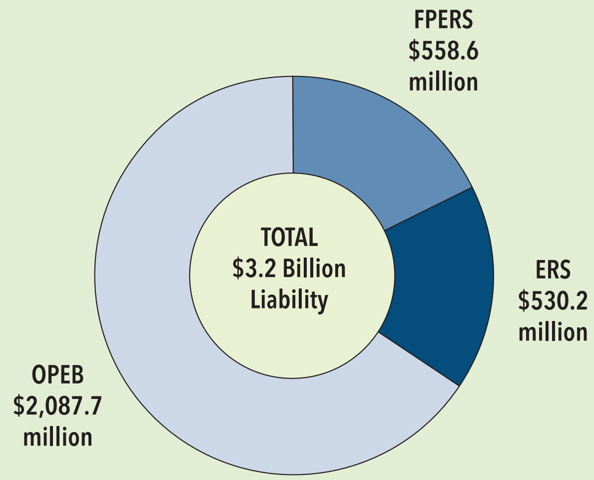
> *"Baltimore's sound financial position is supported by an established record of operating stability, proactive management, and recently-enhanced fiscal policies."*

Along with manageable debt burdens, Baltimore's reserve levels and policies are consistently cited as a positive and very significant ratings factor. As part of improving the City's long-term financial position, it will be important to further build the Budget Stabilization Reserve (BSR) toward the City's target level of 8.0% of revenues within the Ten-Year Financial Plan period.

As with many governments nationally, retiree benefit liabilities are also an important area of concern. As of FY2011, Baltimore had an aggregate unfunded retiree liability of more than $3 billion — including actuarial shortfalls in the City's Fire and Police Employees' Retirement System (FPERS - $558.6 million), Employees' Retirement System (ERS - $530.2 million), and non-pension Other Post-Employment Benefits, primarily retiree medical coverage (OPEB - $2.1 billion).

New Governmental Accounting Standards Board (GASB) accounting rules will further highlight these retiree benefit sustainability challenges, as more conservative approaches are coming into place for recognizing these liabilities in public sector financial statements.

Unfunded Pension and OPEB Liabilities (FY2011 Valuations)



Note: The small Elected Officials' Retirement System, not shown, was above 100% funded as of FY2012 by $1.6 million.

Changes to Address Long-Term Liabilities

- *We will continue to manage our debt levels and structure responsibly and conservatively.*

  The Ten-Year Financial Plan includes:

  - Holding debt service within approximately 10% of overall revenues, and continuing to use conservative repayment structures, even as we increase overall City borrowing to better address critical capital program needs.
  - Incorporating a budget-neutral plan developed by the Finance Department to take advantage of the current, low-rate environment to refinance existing debt with exposure to variable rates and derivatives in order to achieve a more predictable debt structure. Factored into the Ten-Year Financial Plan process and implemented early in 2013, this approach will lower Baltimore's variable rate exposure from 30% to 3.2% of outstanding net debt, and reduce the City's swaps portfolio from eight to just two.

- *We will work to reduce our long-term unfunded liabilities for retiree benefits, totaling more than $3 billion as of FY2011, by more than one-third over the decade ahead.*

  It is critical to reduce these burdens on future generations, and to ensure the sustainability of the benefits expected by retired City workers. Recent health benefit reforms developed as part of this planning process have already helped to address the City's OPEB liability, and a significant reduction in this unfunded liability is anticipated when a new actuarial valuation is released in the coming weeks. To further build on this initial progress, the Ten-Year Financial Plan includes:

  - Pension reforms to strengthen the City's retirement systems and share long-range actuarial/investment risk through defined contribution and hybrid structures for new hires.
  - Reducing the investment return assumption for the Fire and Police Employees' Retirement System from 8.0% to 7.75%, consistent with the Board's recommendation and national trends, which will lead to larger City contributions to improve the sustainability of the plan.
  - Announcement of a plan, consistent with recent actions by the State of Maryland, to sunset City subsidies in 2020 for pharmacy coverage for Medicare eligible retirees when comparable federally funded coverage will become available as a result of the Affordable Care Act.

To ensure that the City remains financially healthy for future generations…it will be important for the City to make progress with reducing its long-term liabilities.

Not only will this opportunity save costs in the latter years of the Ten-Year Plan period, but announcing this change now will also enable the City to adjust its actuarial valuation for OPEB and recognize a substantial reduction in its projected liability.

  - Continuing to make contributions in each year of the Plan toward prefunding the City's OPEB liability with supplemental payments beyond the levels needed to pay for current retirees' benefits into a dedicated trust.
  - Exploration with the Baltimore City Public Schools (BCPS) of opportunities to reduce the City's liability for retiree healthcare associated with school employees hired since the BCPS became independent in 1997.

- *We will continue to contribute to our Budget Stabilization Reserve to reach the minimum goal of 8% of the subsequent year's projected revenues.*

  This reserve provides an important safeguard against unforeseen, adverse events, and is a positive factor in maintaining a strong credit rating.

Addressing Long-Term Liabilities will primarily impact the City's balance sheet, however, some operating budget increases will be required to achieve these goals.

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Addressing Long-Term Liabilities	$5.7	-$6.7	-$8.3	-$2.8	-$8.4	$2.1	$2.7	$3.4	$4.2

The Choices Ahead:
Working Together to Grow Baltimore

Status Quo is Not Sustainable

If we continue on our current path, without taking strong and decisive action together to chart a better course, we risk a return to the decades of decline that have marked our City's post-industrial era:

- A widening structural budget gap will require further annual budget cuts and/or revenue increases that will erode our potential to grow.
- These budget pressures will also continue the cycle of labor concessions, and may require disruptive layoffs if we do not strategically develop a smaller, more productive workforce.
- Despite some property tax reductions from our 20 Cents by 2020 initiative, rates will remain above $2.00 per $100 for homeowners.
- Our Better Schools Initiative will also move forward, but capital funding for upgraded Recreation Centers, core City facilities such as firehouses and police stations, and critical transportation infrastructure such as bridges and roadways will face severe, continued shortfalls.
- V2V blight elimination will also remain highly underfunded, with just $2.3 million of annual local funding for Citywide demolition after the Mortgage Servicing Settlement is exhausted.
- We will see downward pressure on the reserves we rely on to stabilize our budget and the credit ratings that ensure our access to the capital markets.
- Almost no progress will be made with the need to address our large, unfunded liabilities, such that these burdens will carry forward as a long-term drag on Baltimore's finances for generations to come.

Choosing Change to Grow

In contrast, if we move forward with the strategies included in this Ten-Year Financial Plan, and if general economic conditions and our other baseline assumptions hold, we can write a new narrative of growth and reinvestment:

- Our annual budgets will be balanced, providing both improved fiscal stability and greater flexibility to adapt to changing economic conditions.
- City departments will be equipped with upgraded technology, a better fleet, and innovative approaches to service delivery.
- We will be able to end the trend of freezes and furloughs for our municipal employees — providing more competitive pay and more sustainable, quality benefits.
- We will build on our 20 Cents by 2020 initiative to bring residential homeowner property taxes down by more than 20%.
- Our tax incentive programs will be retooled and refocused, including a new apartment development incentive that will help to spark further revitalization of Baltimore.
- Thousands of Baltimore children will enjoy upgraded recreation centers and better schools.
- Overall, we will increase local capital investment by more than $370 million to improve basic facilities and infrastructure, and leverage increased State support for critical transportation needs.
- We will significantly accelerate the Vacants to Value (V2V) program with more than $100 million in local funding dedicated to blight removal, enabling the demolition of 4,000 vacant structures.
- Our budget reserves will be stronger, our long-term retiree benefit liabilities will be reduced, and our credit standing will be improved.
- A mix of public and private investments with transformative potential for Baltimore will create thousands of new short-term and long-range job opportunities, a stronger local economy, and more vibrant urban neighborhoods.

Baseline Projected Budget Gap, Initiative Savings, and Budget Results

($ millions)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Baseline Budget Gap	($30.3)	($37.6)	($58.6)	($74.0)	($72.5)	($101.0)	($121.7)	($124.4)	($124.7)
Total Initiative Savings (Cost)	$30.5	$41.0	$63.6	$78.1	$74.0	$101.3	$122.1	$124.7	$126.3
Surplus/(Deficit)	$0.2	$3.5	$5.0	$4.1	$1.4	$0.3	$0.5	$0.3	$1.6

Major Baltimore Public/Private Investments Coming On Line Within the Next Ten Years

Red Line light rail construction	School facility investment
Port of Baltimore growth	Stormwater management "greening"
BioScience parks expand	Vacants to Value demolition accelerated
Empty commercial space converted to new apartments	Neighborhood redevelopment across the city
New Arena and Convention Center modernization	Expanded community capital investment (e.g., Recreation Center upgrades)

Achieving our goal of a growing City — adding 10,000 families within the decade ahead — is now within reach, but progress will not come easy, and daunting problems that have been, in some cases, more than half a century in the making will not be turned around overnight. **Forward movement will require difficult choices, significant change in how the City does business, and sustained and persistent effort:**

- We must continue to pursue pension reform, health benefits cost containment, retiree benefit liability reduction, and paid leave restructuring to bend the City's cost curve in the largest area of our budget and generate the resources to provide more competitive pay.
- We must also reduce the size of our workforce through attrition, maintaining — and even improving — service levels through new technology, improved business processes, and aggressive implementation of a far-reaching set of Innovative Government initiatives.
- New stormwater and solid waste enterprises must be established to provide sustainable funding for "green" initiatives and property tax relief, while more closely aligning Baltimore's tax and fee policy with our regional neighbors.
- Creative revenue initiatives must be pursued where such opportunities will not compound our already-high local resident and business burdens.
- We will need continued partnership from all of the City's stakeholders.

Successful Ten-Year Financial Plan implementation will require leadership and coordination across the City's elected officials, and focused energy from municipal managers and front-line workers alike. The City and its municipal employee unions must continue to work together to create a more competitive and rewarding government organization.

In the near-term, there may continue to be some sacrifices, adjustment to change, and simple, hard work. As progress is achieved, however, a growing and more sustainable Baltimore will provide growing opportunity and exciting new challenges. The foundation of any strong City government is to maintain its own house in order.

At the same time, the State of Maryland and federal government have long been key partners for Baltimore, and we must continue to strengthen our collaboration. Maryland funds key economic development programs, much of the budget for the BCPS, and important programs in areas such as transportation, public health, and open space — while also directly operating many social services and criminal justice programs within the City. At the same time, federal funding has been important over the years in areas such as community development, public safety, homelessness, and transportation infrastructure.

In recent years, however, intergovernmental funding cuts have had a severe impact on City services — with major reductions in State Highway User Revenues eroding basic bridge and roadway conditions, and declining federal Community Development Block Grant dollars weakening neighborhood programs. Over the decade ahead, as the economy improves, it will be important to renew Baltimore's intergovernmental partnerships to sustain the City's momentum — and to collaborate on new, transformational opportunities such as the Red Line and school construction that will benefit the regional and statewide economy.

Achieving our goal of a growing City – adding 10,000 families within the decade ahead – is now within reach.

Further, forging new and strengthened partnerships from regional and civic stakeholders outside of government is also essential. While public investment in transportation and major public works initiatives is an important element of civic partnership, private investment will ultimately be the determinant of the City's future growth.

In many cases, the best role the City can play to encourage such investment is to remain squarely focused on lowering overall tax rates, maintaining quality public services, and streamlining interactions with municipal government with an emphasis on customer service and reliability. In select areas, however, the City will also need to help lead, promote, and coordinate public-private investment. For other goals — such as the opportunity for accelerated conversion of vacant office space to apartments — targeted tax incentives, within a strategic and fiscally responsible framework for the City, can be impactful tools.

As we move forward together, it is inevitable that new challenges and opportunities will emerge that move our future in directions this Ten-Year Financial Plan has not even contemplated. As a result of this planning process, however, our City will be better positioned to weather future storms, seize new opportunities, and begin to thrive again as one of the nation's great cities.

Working together, now is the time to change to grow.

Working together,
now is the time to
Change to Grow.

Change to Grow: A Ten-Year Financial Plan for Baltimore has been based on research and analysis conducted through an extensive, collaborative process involving City leaders, professional staff, and national experts.

The project was led by the City's Finance Department and its Bureau of the Budget and Management Research, supported by Public Financial Management, Inc. (PFM), a national consulting firm experienced in public sector long-range financial plans. PFM was competitively selected by the City, and headed a team including Hay Group, a leading international human resources and actuarial benefits consulting firm, and two Baltimore area consultancies with strong experience regionally, Walker Benefit Services and Advanced Benefit Solutions.

As the project team conducted its research, key policy insight and review was provided by three City Guidance Committees focused on health benefits, pensions, and the Ten-Year Financial Plan as a whole:

- ***Overall Ten-Year Financial Plan:*** Councilman William Cole; Finance Director Harry Black; Director of Policy and Communications, Ryan O'Doherty; City Planning Director, Tom Stosur; Budget Director, Andrew Kleine; Director of Revenue and Tax Analysis, William Voorhees; and President and CEO of the Greater Baltimore Committee, Donald Fry.
- ***Health Benefits:*** Councilman Brandon Scott; Finance Director Harry Black; Director of Policy and Communications, Ryan O'Doherty; Health Commissioner, Oxiris Barbot; Deputy Director of Human Resources, Yvonne Moore; Benefits Director, Regina Sorrell; Budget Analyst, Lindsay Wines; Director of Revenue and Tax Analysis, William Voorhees; and Daryl Gaskin of the Johns Hopkins School of Public Health.
- ***Employees Retirement System (ERS) Plan:*** Councilman Edward Reisinger; Finance Director Harry Black; Director of Policy and Communications, Ryan O'Doherty; ERS Executive Director, Roseyln H. Spencer; Deputy Budget Director, Robert Cenname; and Director of Revenue and Tax Analysis, William Voorhees.

In addition, the project team met with Mayor Stephanie Rawlings-Blake and members of her Senior Staff for multiple working sessions, as well as with City Council President Bernard C. Young and staff, Council members Helen Holton, James Kraft, and Carl Stokes, City Comptroller Joan M. Pratt, and dozens of City department and division managers and professionals. Along with City officials and staff, the project team also met with a broad range of Baltimore stakeholders — including community and nonprofit leaders, regional and city business community representatives, City employee union leadership, and neighborhood participants in a community budget workshop.

Key findings from the project team's interviews, data review, benchmarking, financial modeling, and supplemental research are detailed in the consultant team's ***Ten-Year Financial Plan Background Report*** which may be found on the City's website at:

http://finance.baltimorecity.gov/BureausandOffices/BudgetManagementResearch/TenYearFinancialPlan.aspx

This Background Report includes the consultant team's diagnosis of the identified challenges facing the City over the decade ahead, a detailed, baseline financial forecast, and a range of potential financial and programmatic options that helped to inform the Mayor's ***Change to Grow Ten-Year Financial Plan.***

Key consultant team members included: Michael Nadol, David Hoskins, Jelani Newton, Marissa Litman, Adam Benson, Trina Smith, Kate Flaming, Gail McKelvie, and Larry Miracola of PFM; Adam Reese, Yuri Nisenzon, and Sanjit Puri of Hay Group; Carl Walker and Courtney Walker of Walker Benefit Services; and Suzanne Thompson of Advanced Benefits Solutions.

Notes

Mayor Stephanie Rawlings-Blake
City of Baltimore
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