

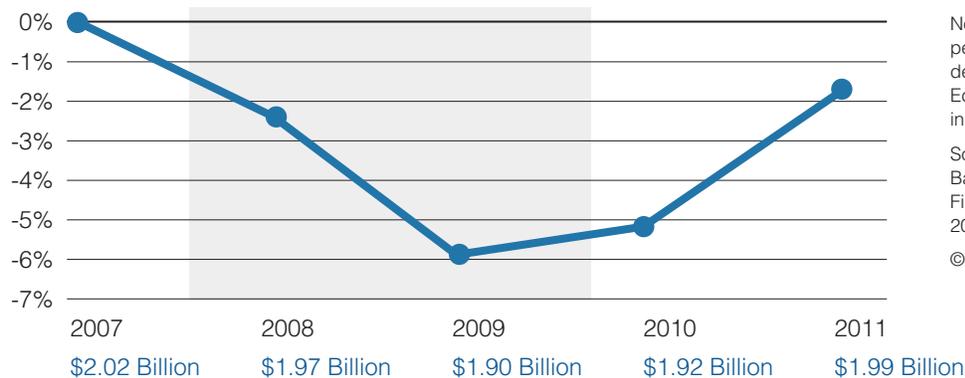
Baltimore

Baltimore's revenue in 2011 remained below the previous peak, and the city faces challenges in its long-term obligations

By 2011, revenue was still 2 percent below prerecession levels, and the city's financial outlook was mixed. (See Figure 1.) After revenue bottomed out in 2009, property tax collections contributed to a revenue uptick, and the city kept operating spending flat between 2009 and 2011. Strides have been made in building reserves, but unfunded retirement obligations remain a concern in city finances.¹

FIGURE 1

Baltimore Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Baltimore's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Growth in Baltimore's property tax collections helped the city recover from early losses in intergovernmental aid

Cuts in intergovernmental aid, declines in taxes on property transfers due to the weakness of the local housing market, and a sharp drop in investment-related income drove revenue to a bottom of \$1.9 billion in fiscal 2009.² From that low point, Baltimore's revenue partially rebounded between 2009 and 2011 because of increases in property tax collections, charges and fees, and intergovernmental aid.

Property tax revenue grew \$105 million after adjusting for inflation, despite falling assessed property values and static tax rates, mainly because, in the declining market, homeowners could not take advantage of Maryland's Homestead Tax Credit, a mechanism to control tax increases when values are rising.³ Charges

and fees increased \$14 million based on increases in licenses and permits and in fine and forfeiture collections, and intergovernmental aid grew modestly between 2009 and 2011, a period that included receipt of federal funds as part of the American Recovery and Reinvestment Act. But despite these increases, Baltimore's revenue did not recover to the prerecession peak.

Spending stayed flat during the rebound, helping Baltimore close gaps

Even as revenue began to rebound after the Great Recession—growing 4 percent between 2009 and 2011—operating spending stayed flat as the city rebuilt its financial cushion. While some spending grew, the largest cuts were in housing and economic development and public safety, which together declined by \$48 million. Cuts in police and fire department overtime accounted for approximately half of that reduction. The city also implemented employee furloughs and layoffs.⁴

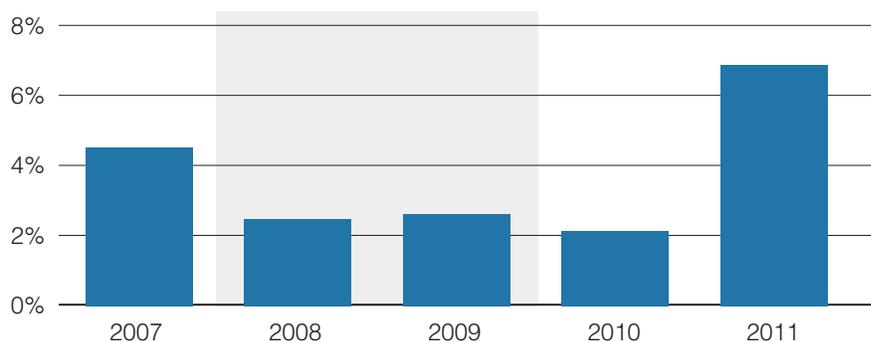
Managing the future: Long-term obligations continued to place fiscal stress on Baltimore

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Baltimore's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.⁵

After using more than half of its general fund reserves, the city rebuilt its balance to \$95 million in 2011 (58 percent higher than in 2007) to better address future budget gaps. (See Figure 2.) But pension obligations remain a concern. The system's total funding level fell from 91 percent in 2007 to 81 percent in 2010.

FIGURE 2

Baltimore Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Baltimore's Comprehensive Annual Financial Reports for fiscal 2007-11.

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The city's position was further worsened by 2010 state legislation that required all Maryland municipalities to take on some teacher pension commitments.⁶ The same year, the city enacted pension reform, but a federal court struck down a major provision of the law in 2012, finding disproportionately negative effects on younger police and firefighters.⁷ At the time of publication, the city was appealing the verdict; if it is upheld, pension costs would increase.

An independent audit in 2013 characterized police and firefighter pensions as a growing and major financial issue,⁸ and the findings of a more comprehensive 10-year forecast commissioned by Mayor Stephanie Rawlings-Blake affirm those conclusions. The study warned that absent further reforms, the city faces several years of growing fiscal stress and cited unfunded pension liabilities and a significant infrastructure gap, among other challenges.⁹

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Ryan Sharrow, "Greater Baltimore Home Sales Rise for the First Time Since 2007," *Baltimore Business Journal* (July 10, 2009), <http://www.bizjournals.com/baltimore/stories/2009/07/06/daily55.html>.

3 Jamie Smith Hopkins, "Property-Tax Bill Rising? Here's One Reason Why," *The Baltimore Sun* (July 8, 2011), http://weblogs.baltimoresun.com/business/realestate/blog/2011/07/propertytax_bill_rising_heres_one_reason_why.html.

4 Moody's Investor Service, *Moody's Assigns Aa2 Rating and Stable Outlook to City of Baltimore \$54.7 Million G.O. Bonds of 2011* (2011), new issue, 2.

5 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

6 Annie Linskey, "Teacher Pension Shift Gets an OK," *The Baltimore Sun*, (March 20, 2010), http://articles.baltimoresun.com/2010-03-20/news/bal-md.budget20mar20_1_teacher-pension-cell-research-funds-vacant-positions.

7 *Robert F. Cherry Jr. et al. v. Mayor and City Council of Baltimore City et al.*, Maryland District Court (2012), <http://law.justia.com/cases/federal/district-courts/maryland/mddce/1:2010cv01447/179097/167>.

8 Luke Broadwater, "Audits Detail Fiscal Problems of City Phone System, Pensions," *The Baltimore Sun*, (March 7, 2013), <http://www.baltimoresun.com/news/maryland/baltimore-city/bs-md-ci-audits-20130306,0,1374046.story>.

9 Public Financial Management Inc., *City of Baltimore, Maryland Ten-Year Fiscal Forecast* (2013), <http://www.wbaltv.com/blob/view/-/18432124/data/2/-/1ekt38/-/Fiscal-Forecast-pdf.pdf>; and WBAL-TV, "Report: Baltimore forecasts financial ruin in 10 years" (Feb. 7, 2013), <http://www.wbaltv.com/news/maryland/baltimore-city/Report-Baltimore-forecasts-financial-ruin-in-10-years/-/10131532/18428792/-/10oat7pz/-/index.html#ixzz2VvUi9hEC>.