Baltimore City

Three-Year Projection
General Fund

Fiscal 2013 to Fiscal 2015

Report by the Baltimore City Bureau of the Budget and Management Research
12/1/2011

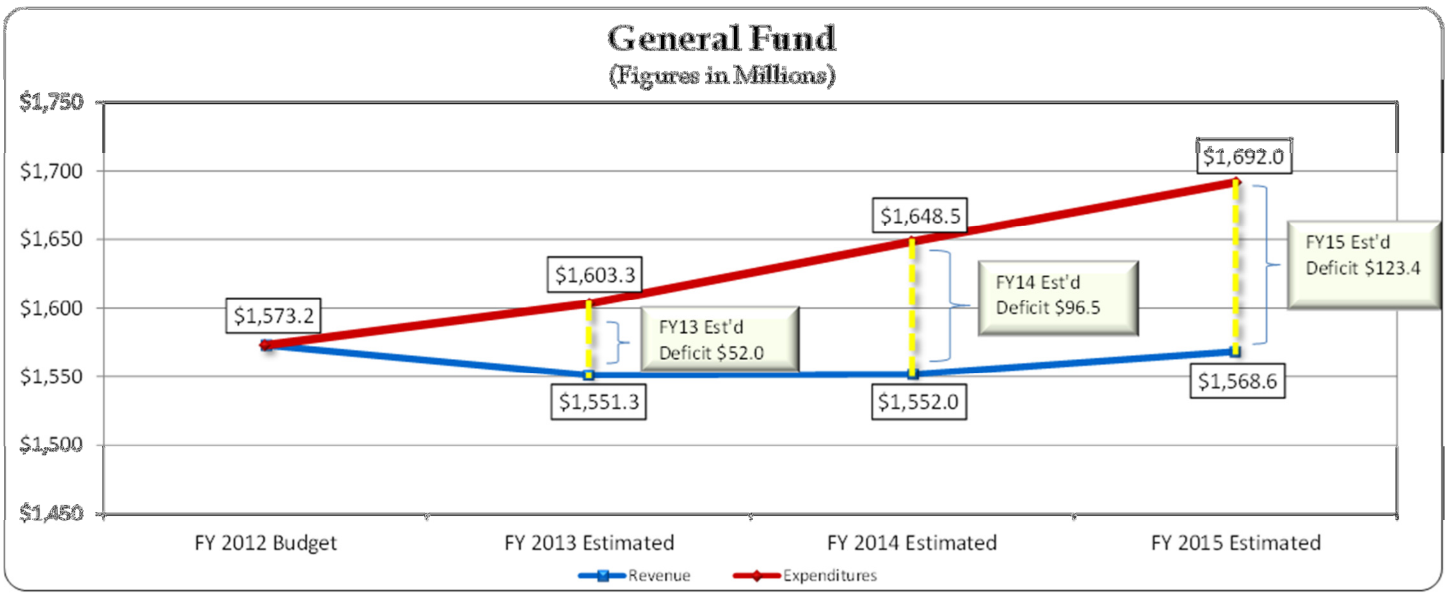
INTRODUCTION

As part of the fiscal planning process, Baltimore City prepares a three-year General Fund revenue and expenditure forecast, which is updated annually. A three year forecast is important, as budget decisions are seldom made with just a single year in mind, but rather are longer term statements of City fiscal policy. In order to establish fiscal policy continuity, it is necessary to create a multi-year budget outlook.

This report provides updated expenditure and revenue projections for fiscal years 2013, 2014 and 2015, and reflects the merger of the Motor Vehicle Revenue (MVR) fund into the General Fund. The report is based on data as of September 30, 2011. Projections are subject to change as new data become available.

Graph 1 and Table 1 summarize the projected General Fund supported revenues and current services costs over the next three years and compares them to the Fiscal 2012 adopted budget. The City is projecting a shortfall of $52 million in Fiscal 2013, $96.5 million in Fiscal 2014 and $123.4 million in Fiscal 2015.

Graph 1: Summary of General Fund Supported Projected Budgetary Surplus/(Shortfall)
($ - Millions)



Note: Report is based on data as of 9/30/2011, and may be periodically updated.

Table 1: Summary of General Fund Supported Projected Budgetary Surplus/(Shortfall)
($ - Millions)

Sources & Uses	Fiscal 2012 Budget	Fiscal 2013 Projection	Fiscal 2014 Projection	Fiscal 2015 Projection
Sources:				
Use of Prior Year Fund Balance	13.1	1.7	0.0	0.0
Regular Revenues & Transfers	1,560.1	1,549.6	1,552.0	1,568.6
Total: Sources	**1,573.2**	**1,551.3**	**1,552.0**	**1,568.6**
Uses				
Salaries & Other Personnel Costs	864.3	887.9	918.0	945.3
Grants, Subsidies and Contributions	337.3	332.8	339.7	347.2
Contractual Services	283.0	281.4	288.4	296.9
Debt Service	145.5	145.3	138.5	134.0
Materials and Supplies	29.6	31.8	33.1	34.4
Equipment	10.0	10.1	10.4	10.7
Transfers	(110.7)	(96.7)	(97.3)	(98.8)
PAYGO Capital	14.0	10.7	17.7	22.3
Total: Uses	**1,573.2**	**1,603.3**	**1,648.5**	**1,692.0**
Projected Surplus/(Shortfall)	0.0	(52.0)	(96.5)	(123.4)

Note: Totals may not add due to rounding.

The projected shortfalls reflect the difference between estimated revenues and the cost of maintaining the Fiscal 2012 service level over the three years of budget cycles beginning in Fiscal 2013 and assume no changes to current policies and staffing levels. The Charter for Baltimore City requires that the budget is balanced on an annual basis. To achieve budgetary balance, the City will need to enact a combination of expenditure reductions and/or revenue enhancements. To the extent that budgets are balanced with ongoing solutions, future shortfalls will decrease.

KEY ASSUMPTIONS

The budget forecasts are based upon a set of assumptions. The assumptions include economic assumptions, service level assumptions, State and federal funding assumptions and capital assumptions. City revenue drivers are primarily economic in nature. When the economy slows, City revenue growth is also slowed. Expenditure projections are also driven by economic assumptions – such as inflation and interest rates – as well as the level of service that is to be provided for the next three years. A summary of the key assumptions affecting the three-year projection is found below. These assumptions do not represent policy decisions; they are for the purpose of comparing expected revenues to the cost of maintaining the service levels in the Fiscal 2012 budget.

Motor Vehicle Fund: Beginning in Fiscal 2013, the Motor Vehicle Fund, which primarily consists of State shared highway user revenues intended for transportation-related programs, has been merged into the General Fund.

Service Levels and Employees: This projection assumes no major changes to policies, service levels and employees from the Fiscal 2012 budget, except for the on-going personnel actions that have been approved by the Board of Estimates as of the forecast date and specific agency personnel change requests that may have received preliminary approval during the forecast period. The projection assumes a 2% cost-of-living increase for all employees in each of the three fiscal years and zero furlough days (compared to 2 to 5 furlough days in Fiscal 2012, depending on salary).

Inflationary Adjustments: The inflationary projections used are summarized in the table below.

Table 2: Summary of Inflationary Adjustments

Inflationary Adjustments	Fiscal 2013	Fiscal 2014	Fiscal 2015
General Inflation Rate	1.6%	1.8%	2.0%
Non-General Inflation Rates			
Salaries/Salary Based OPC's	2.0%	2.0%	2.0%
Medical: Active Employees			
Medical and Hospital Insurance	1.5%	6.0%	5.5%
Health Maintenance Organizations	9.0%	6.0%	5.5%
Prescription Drugs	6.0%	5.0%	5.0%
Medical: Retirees			
Health benefits	0.0%	6.0%	5.5%
Prescription Drugs	0.0%	5.0%	5.0%
Pension Contribution			
Employees Retirement	9.4%	6.6%	4.2%
Fire and Police Retirement	0.2%	6.6%	10.2%
Municipal Post Office	2.5%	2.0%	2.5%
Municipal Telephone Exchange	6.0%	1.0%	1.0%
Gas/Electric/Steam	0.4%	4.4%	4.4%
Rental of City Motor Equipment	1.0%	3.0%	3.0%
Sewer and Water Charges (City Agencies)	9.0%	9.0%	9.0%
Motor Vehicle Fuels and Lubricants	20.0%	8.6%	8.6%
Books and Periodicals (Library)	5.0%	5.0%	5.0%
Workers' Compensation	2.2%	2.2%	2.2%

Economic Recovery: The economic forecast for the next three years assumes that there will be moderate economic growth with Gross Domestic Product (GDP) increases in the low to upper 3% range. While there are indications that employment is beginning to show some vigor, continued growth will depend on sustained increases in consumer spending. Consumer spending comprises between 75%-80% of the GDP. With interest rates being held low by the Federal Reserve, capital is easily obtainable by industry, but to date there appears to be hesitancy towards investment until consumption shows steady improvement. In general, the economy is expected to remain sluggish, with slow growth well into Fiscal 2013 and some acceleration beginning to occur in Fiscal 2015.

PAYGO Capital: The projection assumes debt service reductions will be invested in PAYGO capital projects. PAYGO capital projects are funded from current revenue as opposed to debt financing.

KEY FACTORS THAT COULD AFFECT FORECAST

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. These include:

State Budget Issues: The State's struggle with a slow economy and projected budget shortfalls could result in more reductions in State aid to the City than assumed in this forecast. Under current law, the City is scheduled to begin paying back a loan the State took against the Income Tax Reserve Fund. This law could be changed and would result in the City receiving an additional $2.5M annually beginning in Fiscal 2013. The General Assembly is also considering legislation that would require the City to pay for teacher pensions. With the State facing a $1.1 billion budget shortfall for Fiscal 2013, other sources of State aid are also at risk. On the other hand, a potential gasoline tax increase could restore a large portion of highway user revenue lost over the past three years.

Economic Recovery: The forecast is based on slow growth in the economy, with national GDP growth of 3% or less coupled with low interest rates. Several factors could threaten these assumptions. Of most immediate concern are the potential defaults of European governments. The results of a bond default of a European government are unknown, but would likely result in a global slowing of growth.

In the United States, a significant change in economic policy after the election might also impact the economic levels within the City. A significant reduction in the level of federal grants would reduce City service levels. A large reduction in federal government employment, while not directly impacting the City, would have an impact on the State revenues and ultimately State grants to the City.

Labor Negotiations: Besides the 2% projected annual cost of living adjustment, this forecast does not make any other assumptions about changes that may result from labor negotiations with unions, which may increase or decrease the projected deficit. Changes to employee and/or retiree pension and health benefit costs could significantly impact the City's fiscal outlook.

Revenue Proposals: This projection makes no assumptions about any new revenue proposals.

TOTAL USES – OPERATING AND PAYGO CAPITAL

The total General Fund operating and PAYGO capital expenditures are projected to increase by $30.2 million or 1.9% in Fiscal 2013, $45.2 million or 2.7% in Fiscal 2014, and $43.6 million or 2.6% in Fiscal 2015. The key changes are summarized in Table 3 below and the notes that follow.

Table 3: Key Changes to General Fund Supported Uses
($ - Millions)

	Change from Prior Year Budget					
	Fiscal 2013 Projection		Fiscal 2014 Projection		Fiscal 2015 Projection	
Uses: Increase/(Decrease)	$ Change	% Change	$ Change	% Change	$ Change	% Change
Salaries & Other Personnel Costs	**23.6**	**2.7%**	**30.1**	**3.4%**	**27.2**	**3.0%**
Cost-of-Living Increases	11.4	2.0%	11.6	2.0%	11.8	2.0%
Health and Prescription Drug Benefits - Active Employees	(2.5)	(2.3%)	6.1	5.8%	6.0	5.4%
Retirement Benefits - Employer Contribution	6.6	4.3%	9.7	6.1%	11.0	6.4%
Furlough Plan	8.5	(100.0%)	0.0	0.0%	0.0	0.0%
COPS Grant	0.0	0.0%	3.2	NA	0.0	0.0%
Severance Pay	1.2	NA	0.0	0.0%	0.0	0.0%
Inflationary and Other Adjustments	(1.6)	NA	(0.5)	NA	(1.6)	NA
Grants, Subsidies and Contributions	**(4.6)**	**(1.4%)**	**6.9**	**2.1%**	**7.5**	**2.2%**
Health and Prescription Drug Benefits - School Retirees	(11.9)	(29.2%)	1.4	5.0%	1.4	4.7%
Baltimore Development Corporation (BDC)	2.5	212.3%	0.0	0.0%	0.0	0.0%
BCPS Maintenance of Effort (MOE)	3.2	1.6%	3.7	1.8%	4.2	2.0%
Workers' Compensation	0.8	2.2%	0.8	2.2%	0.8	2.2%
Inflationary Adjustments	0.3	1.6%	0.4	1.8%	0.4	2.0%
Other	0.5	NA	0.6	NA	0.7	NA
Contractual Services	**(1.6)**	**0.6%**	**7.1**	**2.5%**	**8.5**	**2.9%**
Health and Prescription Drug Benefits - Retirees	(7.0)	(9.0%)	3.6	5.1%	3.7	4.9%
State Department of Assessments and Taxation (SDAT)	0.0	0.0%	(1.7)	(41.8%)	0.0	0.0%
Inflationary Adjustments	3.4	1.7%	5.0	2.4%	5.5	2.6%
Other	2.0	NA	0.2	NA	(0.7)	NA
Debt Service	**(0.2)**	**(0.2%)**	**(6.8)**	**(4.7%)**	**(4.5)**	**(3.2%)**
Materials and Supplies	**2.2**	**7.5%**	**1.2**	**3.8%**	**1.3**	**4.1%**
Equipment	**0.1**	**1.1%**	**0.3**	**2.5%**	**0.3**	**2.7%**
Inflationary Adjustments	0.2	2.2%	0.3	2.4%	0.3	2.5%
Other	(0.1)	NA	0.0	NA	0.0	NA
Transfers	**14.0**	**(12.7%)**	**(0.7)**	**0.7%**	**(1.5)**	**1.6%**
Debt Service Reserve	2.0	100.0%	0.0	0.0%	0.0	0.0%
Health Reserve	7.8	100.0%	0.0	0.0%	0.0	0.0%
Inflationary Adjustments	(0.2)	0.9%	(0.9)	3.7%	(0.9)	3.6%
Other	4.4	NA	0.2	NA	(0.6)	NA
PAYGO Capital	**(3.3)**	**(23.6%)**	**7.0**	**47.7%**	**4.7**	**28.5%**
Total Operating and PAYGO Capital	**30.2**	**1.9%**	**45.2**	**2.7%**	**43.6**	**2.6%**

Note: Totals may not add due to rounding.

Salaries and Other Personnel Costs

General Fund salaries and other personnel costs are projected to increase by $23.6 million or 2.7% in Fiscal 2013, $30.1 million or 3.4% in Fiscal 2014 and $27.2 million or 3.0% in Fiscal 2015. The major components are discussed below.

Cost-of-Living Adjustment: This projection assumes a 2.0% cost-of-living adjustment for all City employees which results in additional salary costs of about $11.4 million in Fiscal 2013, $11.6 million in Fiscal 2014 and $11.8 million in Fiscal 2015.

Health and Prescription Drug Costs (Current Employees): The cost of providing health and prescription drug coverage to current employees is projected to decline by $2.5 million in Fiscal 2013 and increase by $6.1 million and $6.0 million in Fiscal 2014 and Fiscal 2015, respectively. The Fiscal 2013 decline is a result of a revision in the baseline prescription drug costs based on the most recent 12 months of actual claim payments; an adjustment made for rebates received from prescription drug manufacturers; and annualization of certain medical and prescription drug cost saving measures scheduled to go into effect on January 1, 2012. The projected increase in the remaining years is due to inflationary adjustments.

Retirement Benefits - Employer Contribution: Total retirement costs are projected to increase based on the latest actuarial valuation reports prepared by the systems' actuaries. This results in total General Fund supported employer contributions to the Fire and Police, Elected Officials and Employee Retirement systems increasing by $6.6 million, $9.7 million and $11 million in Fiscal 2013, 2014 and 2015, respectively.

Furlough Savings: The projection assumes no furloughs will be implemented in the forecast period. This results in the elimination of the $8.5 million in savings that were budgeted in Fiscal 2012.

COPS Grant: The Fiscal 2014 projection reflects the expiration of a federal COPS grant that funded 50 police officer positions for three years. Under the terms of the grant, the City must absorb the cost of the positions ($3.2 million).

Severance Pay: The projection assumes a base severance payout amount of $1.2 million in each of the forecast years for the Fire Department. There was nothing specifically budgeted for severance payouts in the Fiscal 2012 budget.

Inflationary and Other Adjustments: The inflationary adjustment net of salaries, health and prescription drug and retirement benefit cost of about 1.5% are projected to increase costs by about $600,000 in each of the forecast years. Other adjustments are for pending personnel actions and turnover savings.

<u>**Grants, Subsidies and Contributions**</u>

Health and Prescription Drug Costs (School Employees): As a result of allocating costs based on actual claim payments instead of employee count; annualization of certain cost saving measures scheduled to go into effect on January 1, 2012; and a new prescription drug coverage gap discount program under the federal health reform law, expenses are projected to decline by about $11.9 million in Fiscal 2013. Costs are projected to increase at about 5% or $1.4 million in both Fiscal 2014 and 2015.

Baltimore Development Corporation (BDC): The Fiscal 2013 projection for BDC is increased by $2.5 million to make up for the loss of funding from one-time asset sales in Fiscal 2012.

Maintenance of Effort (MOE) Payments for Baltimore City Public Schools: MOE payments are assumed to grow at the general inflation rate over the three year period, which is consistent with BCPS' enrollment growth over the past four years. The annual increases are $3.2 million in Fiscal 2013, $3.7 million in Fiscal 2014, and $4.2 million in Fiscal 2015.

Workers' Compensation – Direct workers' compensation costs are projected to increase from $35.1 million to $37.5 million over the three year period, an average of 2.2% growth per year. Workers' compensation cost estimates are based on data from the previous four fiscal years.

Inflationary Adjustments: The general inflationary adjustments net of school employee retiree health and prescription drug costs, MOE and workers' compensation are projected to increase costs in this category by $0.3 million, $0.4 million and $0.4 million, respectively for the three years.

Contractual Services

Health and Prescription Drug Costs (Retirees): As a result of revisions based on recent actual claims data; annualization of certain cost saving measures scheduled to go into effect on January 1, 2012; and a new prescription drug coverage gap discount program under the federal health care reform law, expenses are projected to decline by about $7.0 million in Fiscal 2013. Costs are projected to increase at about 5% or $3.7 million in both Fiscal 2014 and 2015.

State Department of Assessments and Taxation (SDAT): Local support formula for SDAT is projected to decline from 90% to 50% of operating cost in Fiscal 2014, which results in a $1.7 million reduction. The General Assembly will likely consider extending the 90% cost-share provision in the 2012 legislative session.

Inflationary Adjustments: The inflationary adjustments net of retiree health and prescription drug costs are 1.7% in Fiscal 2013, 2.4% in Fiscal 2014 and 2.6% in Fiscal 2015 and are projected to increase costs in this category by $3.4 million, $5.0 million and $5.5 million, respectively. Energy costs (gas, electric, and steam) are projected to be flat in Fiscal 2013 and grow by 4.4% in 2014 and 2015.

Other: The Fiscal 2013 $2.0 million projected cost increase in this category comes from the following areas: $848,000 as funding for "Pocket Cops" hand-held devices shifts from grant to General Fund; $612,000 to service debt related to the purchase of four new Police helicopters; and $400,000 for payroll system modifications and custom reports.

Debt Service

The City's General Fund debt service obligations are projected to stay relatively unchanged in Fiscal 2013 and decline by 4.7% or $6.8 million in Fiscal 2014 and 3.2% or $4.5 million in Fiscal 2015. These reductions are reinvested for PAYGO capital projects in the baseline projection. The City's goal is to maintain an affordable level of debt.

Materials and Supplies

Costs in this category are projected to increase by 7.5% or $2.2 million in Fiscal 2013, 3.8% or $1.2 million in Fiscal 2014, and 4.1% or $1.3 million in Fiscal 2015. With the exception of a $300,000 projected increase in Fiscal 2013 for the purchase of DNA testing supplies for the Police crime lab, the entire projected increase in this category is due to inflationary adjustments. The most significant inflationary adjustment is a 20% ($1.6 million) increase in the cost of motor fuel, from $2.75 per gallon to $3.30 per gallon of regular and diesel fuel.

Equipment

Due to inflationary adjustments, costs in this category are projected to increase by 1.1% or $108,000 in Fiscal 2013, 2.5% or $253,000 in Fiscal 2014, and 2.7% or $278,000 in Fiscal 2015.

Transfers

Health Reserve: The Fiscal 2013 projection assumes no use of the health reserve.

Inflationary Adjustments: The inflationary adjustments are projected to increase the transfer credits by 0.9% or ($200,000) in Fiscal 2013 and about 3.7% or ($900,000) in both Fiscal 2014 and Fiscal 2015.

Other Adjustments: The projection removes $4.4 million of unsupported transfer credits identified through a baseline review and assumes no use of the debt service reserve.

PAYGO Capital

PAYGO capital spending is projected to decline by $3.3 million or 23.6% in Fiscal 2013 due to the termination of funding for a one-time landfill improvement project. Of the $10.7 million projected for Fiscal 2013, $1.7 million would be sourced from the City's landfill development reserve. Spending increases by $7.0 million in Fiscal 2014 and $4.7 million in Fiscal 2015. Most of the increases are due to debt service reductions being reinvested in PAYGO capital projects. The Fiscal 2014 and 2015 levels also include about $2 million for school construction and renovation – these amounts represent 10% of projected Video Lottery Terminal revenue.

SOURCES – REVENUES AND TRANSFERS IN

Economic Outlook

Fiscal 2012 has been marked with one of the weakest economies seen in decades. On the positive side, with the exception of housing, most economic indicators are no longer falling and have either leveled off or are increasing at a very slow pace.

The low point of the Great Recession occurred in mid-2009. Since then, the GDP, the value of all goods and services produced within the United States, increased by 4.9% between the second quarter of 2009 and the second quarter of 2011. Fiscal 2012 has continued to see limited gains in the economy with some continued expansion in the service sectors. Employment in the City has held steady since April 2009 at around 247,000 persons, down from 264,000 in June 2007. Housing prices have continued to fall to their lowest level since September 2003.

The nation's productivity has been increasing since the third quarter of 2009. In the fourth quarter of 2010, the GDP surpassed pre-recession levels, which peaked in the second quarter of 2008. GDP growth is expected to increase by 3.1% during Fiscal 2012 and remain in the 3-4% range in Fiscal 2013-15. These projections are based on Federal Reserve, OMB and CBO forecasts available in September 2011 and are subject to change. The stock market has traditionally acted as a leading indicator of the economy. With economic turmoil in European bond markets and the Standard and Poor's downgrade of U. S. Treasuries, the market has become volatile, indicating a rocky road forward.

While growth in the GDP is important, the sectors in which the growth is taking place present a better picture of how the growth impacts the City of Baltimore. Because the City lacks a large manufacturing base, this growth had minimal impact on the City's economy. Since the second quarter of 2010, growth has continued to expand to the service sector, resulting in more economic growth in the City.

General Fund Revenues

The Fiscal 2012 budget represents the base year for this three year projection. The annual growth rate for the General Fund revenues is estimated to decrease 1.1% in Fiscal 2013, no growth in Fiscal 2014 and 1.1% increase Fiscal 2015. These variations are mainly explained by the behavior of real property tax, homestead tax credit cost, income tax receipts, the availability of the new targeted homeowner's tax credit, and video lottery terminal revenues.

The projection is based on a set of assumptions that capture expert opinion on the potential direction of the economy and its impact on the City's major sources of revenues. The table below details the core set assumptions for this projection:

Table 4: Core Economic Assumptions

Economic Indicators - Assumptions				
	FY 2012	FY 2013	FY 2014	FY 2015
National CPI	1.6%	1.9%	2.0%	2.0%
Housing Price Growth	0.0%	0.0%	1.8%	2.5%
Housing Sales Growth	0.9%	2.0%	3.5%	4.0%
GDP Growth	3.1%	3.7%	3.6%	3.4%
Population Growth	-0.2%	-0.2%	-0.1%	0.0%
Interest Rates	0.9%	1.1%	3.5%	4.0%
Personal Property Business Assessment	1.0%	1.0%	1.0%	1.0%
Public Utilities Tax Assessment	0.9%	1.0%	1.0%	1.0%

The major drivers explaining the changes to estimated General Fund revenues are highlighted below:

Property Taxes: Major changes in property taxes are explained by the behavior of Real Property tax revenues, which are estimated to decline 2.7% in Fiscal 2013, 4.3% in Fiscal 2014 and 0.3% in Fiscal 2015.

Table 5: Real Property Tax Projection Summary

All Groups - Summary (in millions)			
	FY 2013	FY 2014	FY 2015
Tax Rate	2.268%	2.268%	2.268%
Total Taxable Value	$35,065.4	$33,364.1	$33,064.7
Real Estate Taxes	$795.3	$756.7	$749.9
Collection Rate	97.5%	97.5%	97.5%
Gross After Coll'n Rate	$775.4	$737.8	$731.2
Public Utilities	$11.1	$11.2	$11.6
Tax Increment Financing	($13.3)	($13.3)	($13.3)
Total Real Property Tax	**$773.2**	**$735.7**	**$729.4**
Homestead TC Recipients	94,947	88,283	84,305
Ass't Subject to Homestead TC	$4,779.9	$3,717.9	$3,452.1
Homestead TC Cost	**($105.7)**	**($82.2)**	**($76.3)**
Targeted Homeowner's Tax Credit	**($3.8)**	**($18.6)**	**($20.3)**
Other Tax Credits	**($25.4)**	**($24.2)**	**($24.0)**
Net Real Property Tax Revenue	**$638.3**	**$610.7**	**$608.8**

Three main factors explain the projected reduction in Real Property tax revenues:

- Assessment Reduction: Prices of City properties have been subject to severe downward adjustments after the artificially inflated levels maintained during the housing bubble; therefore, assessment values have declined since 2009. This decline is one of the main factors explaining the revenue reduction from this source. It is estimated that the City will continue experiencing downward assessment reductions through the forecast period, though residential assessments are expected to begin recovering in Fiscal 2015.

- Current housing activity: Aligned with the slow after-recession recovery, the number of sales is estimated to continue to be depressed, and the average housing price is expected to show no growth in Fiscal 2013.

- Targeted Homeowners Tax Credit: The Mayor has proposed a new property tax credit that would effectively reduce the tax rate for residential properties by 20 cents over the next eight years (from $2.268 to $2.068 per $100 of assessed value). The cost of credit is $3.8 million in Fiscal 2013, $18.6 million in Fiscal 2014, and $20.3 million in Fiscal 2015. In Fiscals 2014 and 2015, most of the cost is offset by revenues from the City's Video Lottery Terminal (slots parlor). The Targeted Homeowners Tax Credit requires General Assembly and City Council approval.

Other property tax credits, including those for newly constructed dwelling units, historic preservation, and Enterprise Zones, are projected to be stable over the three-year period.

Table 6: Projected Property Assessments

	Assessment Groups		
	Group III	**Group I**	**Group II**
	FY 2013	FY 2014	FY 2015
Average Assessment Growth	-7.4%	-3.1%	-12.2%

	Citywide Assessments		
	FY 2013	FY 2014	FY 2015
Total Assessment (In Millions)	$35,065.4	$33,364.1	$33,064.7
Total Assessment Change	-2.5%	-4.9%	-0.9%

The Homestead tax credit cost is expected to be reduced 9.1% in Fiscal 2013, 22.2% in Fiscal 2014 and 7.1% in Fiscal 2015 as assessment values drop and the number of homeowners subject to the credit decline; however, this cost reduction does not fully compensate the decline in real property tax revenues. Many homeowners were protected from bubble-driven property tax increases by the 4% cap on annual growth in taxable value. Thus, even with the substantial decline in assessments experienced in recent years, the gap between net taxable value and assessment value is still large from many properties.

Transfer and Recordation Tax: These sources of revenues depend solely on the behavior of the housing market, defined by level of activity as well as the trend in the value of real estate transactions. As the economy improves, the City will realize some improvements in the level of activity, and as the demand for current inventory increases, the average price will also start showing some recovery. Our projection assumes that the current surplus of housing inventory will be gradually and partially absorbed by demand, where the number of transactions subject to these taxes will increase 2.0% in Fiscal 2013, 3.6% in Fiscal 2014 and 4.0% in Fiscal 2015; however, the level of demand will not be high enough to increase current prices. For this reason, no growth is assumed in average housing prices in the City until Fiscal 2014, when it is estimated that growth will resume at 1.8% and 2.5% in Fiscal 2015. The estimate assumes that the availability of historically low interest rates will drive increased refinancing transactions, which are subject to the recordation tax.

Energy Taxes: Energy taxes include natural gas, electricity, fuel oil, steam and liquid petroleum gas. Tax rates for these revenue sources are broken down in three user groups: residential, commercial and non-profit, and are subject to an annual inflation adjustment based on the November to November Washington-Baltimore Consumer Price Index (CPI). Consumption for these commodities is highly dependent on temperatures. Our projection is based on two main factors:

- Average temperature of the last ten years.
- Annual CPI rate adjustment

The projection estimates that revenues from energy taxes will increase 1.5% in Fiscal 2013, 1.7% in Fiscal 2014 and 1.8% in Fiscal 2015. The projection is based on consumption remaining constant and the increase in revenues being driven by the CPI adjustment.

Telecommunications Tax: This revenue source includes taxes charged to three types of telephone lines: wireless, land and Centrex. The demand for land lines has been declining as wireless devices become more prevalent; however, the number of land lines appears to have stabilized at around 250,000. On the other hand, demand for wireless lines has reached the average of 475,000 per month during the last twelve months, representing an increase of 51% compared to the prior 12-month period.

The projection assumes that the demand for lines in Fiscal 2014 and 2015 will be driven by the City's population; therefore, it is estimated that telecommunication tax will increase 2.7% in Fiscal 2013, decline 0.1% in Fiscal 2014 and another 0.1% decline in Fiscal 2015.

Hotel Tax: Revenues from the sales and service tax levied on transient room rentals at hotels, motels and bed and breakfast facilities located in the City (Hotel Tax) are collected in the Convention Center Bond Fund (CCBF). Proceeds from the hotel tax are first used to support the payment of principal and interest associated with City indebtedness incurred to finance the expansion of the Baltimore Convention Center; receipts in excess of the debt service expense appropriated in the CCBF are transferred to the General Fund. The debt on the convention center will be retired in Fiscal 2020.

The estimate assumes no change to the current 9.5% hotel tax rate. The hotel occupancy rate will increase along with the improvements of the economy; however, the availability of new hotels will not necessarily induce additional demand, but will instead reduce occupancy for existing hotels. The projection is also based on the assumption that average daily room rates will be annually adjusted by inflation; therefore, net hotel tax revenue is estimated to increase 4.3% in Fiscal 2013, 2.3% in Fiscal 2014 and 2.1% in fiscal 2015.

Video Lottery Terminals: In Fiscal 2014 the City will start receiving revenues from the video lottery terminal (slots parlor). It is anticipated that 90% of the receipts will be utilized for property tax reduction and 10% allocated to school capital.

Admission and Amusement Tax: The City charges 10% on all gross receipts from admissions to various events. The projection is based on the assumption that activities subject to admission tax will increase as a function of the GDP and disposable income. Admission and amusement tax revenues are estimated to increase 0.5% in Fiscal 2013, 1.8% in Fiscal 2014 and 1.7% in Fiscal 2015.

Beverage Container Tax: The City charges $0.02 tax for each beverage container less than two liters, excluding milk and certain juices. The tax was originally established for three years starting on Fiscal 2011. The projection assumes no increase in consumption in Fiscal 2013, and that the tax would not be charged after its expiration at the end of Fiscal 2013.

Other Locally Collected Taxes: As part of the Fiscal 2011 revenue enhancement package adopted by the Mayor and the City Council, the City entered into a six year MOU with 16 large nonprofit organizations, under which the nonprofits committed to make voluntary payments totaling $20.4 million over the term of the agreement. The payments decline from $5.4 million in Fiscal 2011 and 2012. The projection reflects the payments scheduled for fiscals 2013 ($3.4 million), 2014 ($2.4 million) and 2015 ($2.4 million).

Highway User Revenues: The City's share of the highway user revenues (HUR) is estimated to increase 4.7% in Fiscal 2013, 4.1% in Fiscal 2014 and 3.7% in Fiscal 2015. Highway user revenue is derived from the taxes collected by the State on motor vehicle fuel, titles, corporate income taxes and registration fees. State law provides a formula for sharing portions of these revenues with municipalities and counties. The projections are based on the estimated budget appropriation set at the 2011 Budget Reconciliation and Financing Act (BRFA) where total State highway user revenues are expected to decline 1.4% in Fiscal 2013 and increase 9.4% in Fiscal 2014 and 3.6% in Fiscal 2015. The General Assembly also modified the local share of highway user revenues to permanently transfer a portion to the State general fund and to allocate a flat 7.5% in Fiscal 2012, 8.1% in Fiscal 2013, and 7.7% in Fiscal 2014 and 2015 to the City.

Licenses and Permits: This section includes all fees, licenses and permits the City charges for services provided in four main categories: general government, public safety and regulations, health and highways. The City's power to raise revenues from some of these sources is constrained by federal and State law. Certain license fees, including alcoholic beverage, marriage and some business licenses are set by State law; however, the City is in the process of implementing a new fee policy whereby all unrestricted fees will be annually adjusted by inflation and subject to re-costing analysis every five years. The projection assumes that revenues from this section will be increased by the CPI.

Fines and Forfeits: This section is mainly composed of traffic camera fines. These fines include the revenues generated by speed, right turn on red and red light violations. The projection assumes that driver behavior changes as they get familiar with the locations of the cameras, especially speed cameras; therefore, the estimate assumes a decline in revenue from $23.1 million in Fiscal 2012 to $15 million in Fiscal 2015.

Use of Money and Property: Income from the Use of Money and Property is dominated by two major categories: the rental of the Convention Center facility and earnings on investments. Total income generated by the Convention Center is assumed to be driven by the level of economic activity measured by GDP; while earning on investment returns on the daily cash balances in the City Treasury is assumed to increase as a function of interest rates. All other revenues in this category correspond to several small financing programs subject to interest rates, and the rental of City properties.

State Aid: The largest State grant is the Income Tax Disparity Grant at $79.1 million, followed by the grant funding operations of local health programs for $6.7 million. The distribution of the Income Tax Disparity Grant is based upon a statutory formula created in 1992 by the Maryland General Assembly. The grant is made in order to bring the per capita income tax yield of Maryland's poorer subdivisions up to 75.0% of the State-wide yield. During the 2011 Legislative Session the Maryland General Assembly decided to fund this grant at the same level in Fiscal 2012 as Fiscal 2011. It is assumed that the Fiscal 2012 State aid appropriation will continue at this level throughout the projection; however, these grant levels are uncertain due to the State's budget challenges.

Charges for Current Services: In the Charges for Current Services group, revenues derived from sanitation and solid waste disposal, charges for cost allocated to enterprise funds, impounded vehicle storage fees, lien report fees, District Court services, port fire protection reimbursement and stadium security service charges account for 90.6% of the category total. The remaining revenues are generated from fees and charges for health, zoning and a wide variety of other services rendered by the City. The major single revenue component of this category is the charges for central City services, which corresponds to 6% overhead reimbursement from the enterprise utility funds to the General Fund.

Parking Tax: Parking taxes are collected in the Parking Enterprise Fund, and are part of the revenue transfers to the General Fund. Parking taxes support the payment of debt service expenses resulting from the issuance of revenue bonds for the acquisition or construction of parking facilities. Currently, one-fifth (4%) of the 20% charged for parking taxes is dedicated to fund the Charm City Circulator. It is assumed that demand for parking facilities will continue at current levels; therefore, the increase in revenue would be explained by the CPI adjustment on the rate charged by parking facilities. The projection also assumes that the parking tax rate will be reduced to 19% in Fiscal 2014 as approved by the Mayor and City Council as part of the Fiscal 2011 revenue enhancement package.

	Fiscal 2011 Unaudited	Fiscal 2012 Budget	Fiscal 2013 Estimated	Fiscal 2014 Estimated	Fiscal 2015 Estimated
Local Taxes					
Property Taxes	$750.1	$752.9	$736.1	$709.4	$708.5
Income Taxes	$235.0	$243.6	$243.0	$250.2	$257.0
Recordation & Transfer Taxes	$41.3	$44.2	$45.1	$47.5	$50.7
Energy Tax	$37.3	$37.9	$38.4	$39.1	$39.8
Telecommunication Tax	$34.9	$33.7	$34.6	$34.6	$34.5
Net Hotel Tax	$22.5	$21.0	$21.9	$22.4	$22.9
Video Lottery Terminal	$0.0	$0.0	$0.0	$14.8	$16.5
Admission Tax	$8.2	$8.4	$8.4	$8.5	$8.7
Beverage Container Tax	$4.7	$4.9	$4.9	$0.0	$0.0
All Other locally Collected Taxes	$58.4	$40.8	$42.1	$40.7	$38.3
Subtotal Local Taxes	$1,192.4	$1,187.4	$1,174.6	$1,167.4	$1,177.0
State Collected Taxes					
Highway User Revenues	$128.0	$122.3	$128.0	$133.3	$138.2
Subtotal State Collected Taxes	$128.0	$122.3	$128.0	$133.3	$138.2
Licenses and Permits					
Public Safety and Regulations	$21.6	$21.0	$21.3	$21.7	$22.2
General Government	$3.8	$3.5	$3.5	$3.5	$3.5
Highways	$3.8	$3.9	$3.9	$4.0	$4.1
Health	$2.4	$2.2	$2.2	$2.2	$2.3
Subtotal Licenses and Permits	$31.7	$30.5	$30.9	$31.4	$32.0
Fines and Forfeits					
Traffic Camera Fines	$25.6	$23.1	$17.4	$15.5	$15.0
Environmental Citations	$6.4	$6.3	$6.3	$6.3	$6.3
Other Fines and Forfeits	$1.0	$2.8	$2.8	$2.8	$2.8
Subtotal Fines and Forfeits	$33.0	$32.3	$26.5	$24.7	$24.1
Use of Money and Property					
Convention Center	$9.6	$9.5	$9.8	$10.2	$10.5
Earnings on Investments	$1.0	$1.8	$2.6	$8.4	$9.4
Other Use of Money and Property	$8.2	$8.5	$8.6	$8.7	$8.8
Subtotal Use of Money and Property	$18.8	$19.7	$21.0	$27.3	$28.8
State Aid					
Income Disparity Grant	$79.1	$79.1	$79.1	$79.1	$79.1
Local Health Operations Grant	$6.7	$6.7	$6.7	$6.7	$6.7
Library Aid	$6.5	$6.3	$6.2	$6.2	$6.2
Other State Grants	$0.2	$0.2	$0.2	$0.2	$0.2
Subtotal State Aid	$92.4	$92.3	$92.1	$92.1	$92.1
Private and Federal Grants					
Private and Federal Grants	$0.1	$0.2	$0.2	$0.2	$0.2
Subtotal Private and Federal Grants	$0.1	$0.2	$0.2	$0.2	$0.2
Charges for Current Services					
Charges for Central City Services	$10.0	$14.3	$14.7	$15.0	$15.4
Sheriff - District Court Services	$3.5	$3.1	$3.1	$3.2	$3.3
Impounding Cars - Storage and Towing	$8.8	$8.8	$8.8	$8.8	$8.8
Landfill Disposal Tipping Fee	$5.7	$6.5	$6.5	$6.5	$6.5
Solid Waste Surcharge	$2.2	$2.5	$2.5	$2.5	$2.5
General Revenue Highway	$2.5	$2.2	$2.2	$2.2	$2.2
Other Charges for Current Services	$7.3	$8.4	$9.4	$9.6	$9.7
Sub Total Charges for Current Services	$40.0	$45.8	$47.2	$47.8	$48.4
Other Revenues	$2.9	$13.6	$2.1	$0.4	$0.4
Total Revenues Before Transfers	$1,539.3	$1,544.1	$1,522.8	$1,524.6	$1,541.3
Net Transfers	$9.0	$29.0	$28.5	$27.3	$27.2
Total General Fund	$1,548.3	$1,573.2	$1,551.3	$1,552.0	$1,568.6

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