

# GFOA Conference Presentation: Baltimore's Reserve Policies

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# Agenda

## Old Approach

- One fund, generic target level
  - *Budget Stabilization Reserve*

## Why Change?

## New Approach

- Two funds, risk-based target levels
  - *Emergency Reserve Fund (Tier 1)*
  - *Revenue Stabilization Reserve (Tier 2)*

# Budget Stabilization Reserve

- History

- Also referred to as the “Rainy Day Fund.”
- Established in Fiscal 1993.
- Current balance of \$133 million.

- Policy

- Target of 8% of subsequent year budget.
- Can only be used for a mid-year emergency after “all reasonable efforts have been made in controlling expenses...”
- Must be fully replenished upon use within five years.

# Budget Stabilization Reserve

## *Actual Uses*

### Fiscal 2004

- **\$42 million** loan to Baltimore City Public Schools.
- Repaid in full.

### Fiscal 2010

- **\$17 million** to balance budget due to weak revenues, mid-year State Aid cut, and cleanup expenses from two historic snowstorms.
- Replenished from additional City contributions and FEMA snowstorm reimbursement.

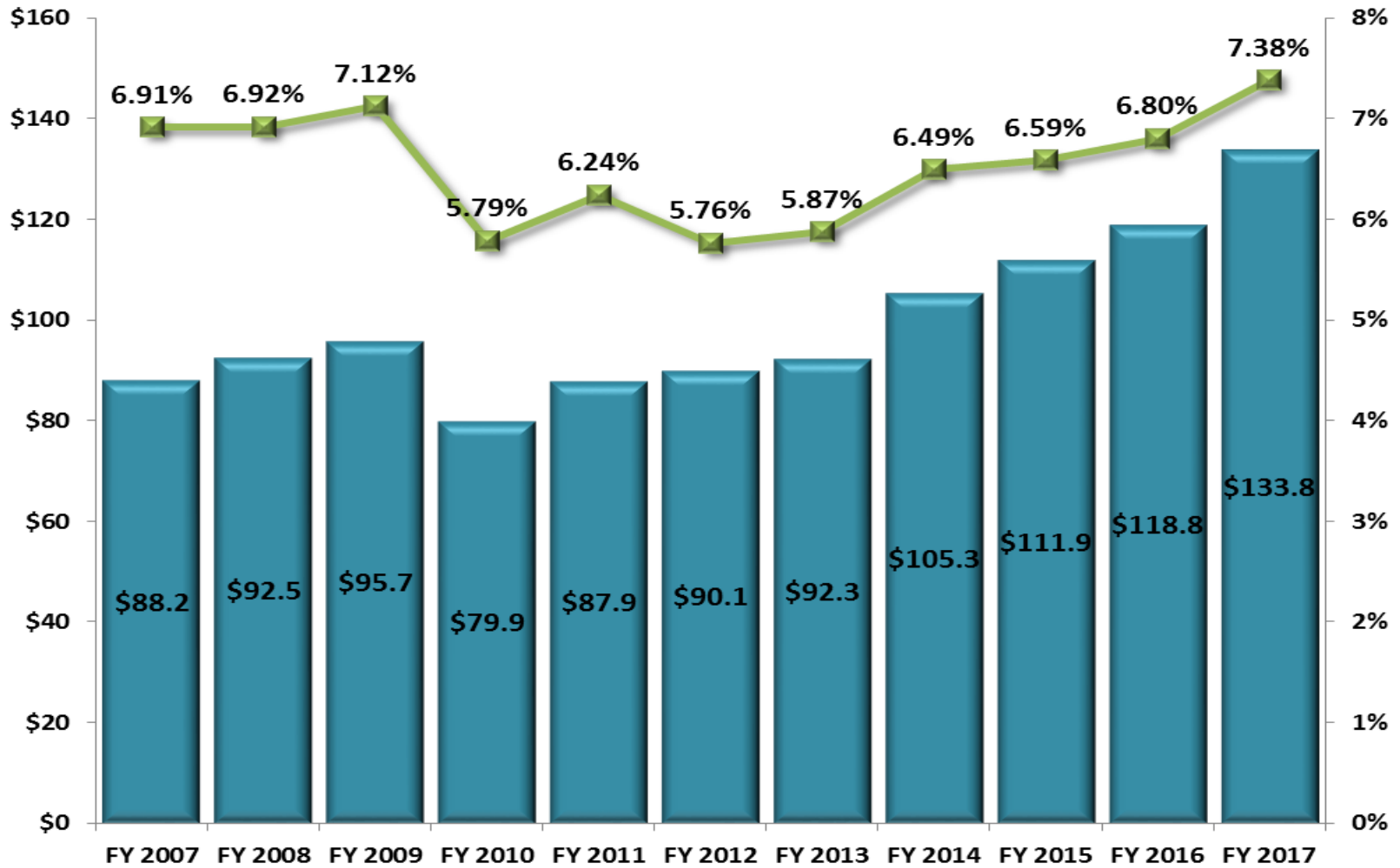
### Fiscal 2015

- **\$20 million** for cost of civil disturbances.
- Replenished with surplus property tax revenue.

# Rainy Day Fund

Actual History

(in \$ millions)



# Why Change?

- Current target level is generic – “one size fits all”
- Difficult to explain to leaders / elected officials
- GFOA Case Study – Colorado Springs
- Make it unique for Baltimore

# New Approach

## Tier 1 Fund

- ***Emergency Reserve Fund***
- Based on assessment of short-term risks.
- Can be used for post-budget adoption emergencies.

## Tier 2 Fund

- ***Revenue Stabilization Reserve***
- Based on assessment of longer-term risks.
- Can be used during budget planning, but only under strict conditions.

# Emergency Reserve Fund (Tier 1)

## *Historical Assessment*

(in \$ millions)

<u>Triggering Event</u>	<u>Fiscal Year</u>	<u>Risk Type</u>	<u>Cost</u>	<u>Source of Funds</u>
Howard Street tunnel fire	2002	Other	unknown	Expenditure surplus
Hurricane Isabel	2003	Weather	4.8	Expenditure surplus
Excessive Snow Season	2003	Weather	6.6	Expenditure surplus
BCPS Fiscal Issue	2004	Other	42.0	<b><i>Emergency Reserve Fund</i></b>
Excessive Snow Season	2010	Weather	32.3	<b><i>Emergency Reserve Fund</i></b> and mid-year spending cuts
Revenue Shortfall	2010	Revenue	30.0	
Hurricane Irene	2012	Weather	1.7	Expenditure surplus
Derecho Wind Storm	2012	Weather	2.5	Expenditure surplus
Hurricane Sandy	2013	Weather	3.6	Expenditure surplus
Monument Street	2013	Infrastructure	7.0	Expenditure surplus and Capital transfer
26th Street collapse	2014	Infrastructure	18.6	Revenue surplus
Excessive Snow Season	2014	Weather	14.0	Revenue surplus
Civil Disturbances	2015	Other	20.0	<b><i>Emergency Reserve Fund</i></b>
Excessive Snow Season	2016	Weather	40.0	Revenue surplus



# Emergency Reserve Fund (Tier 1)

## *Risk Assessment*

### Primary Risks

- Winter storm season
- Revenue shortfall
- Infrastructure failure

### Secondary Risks

- Civil Disturbances
- Other weather events (hurricane, tornado, etc..)
- Baltimore City Public Schools budget
- Public Health outbreak
- Cyber Security
- Hazardous Material transport

# Emergency Reserve Fund (Tier 1)

*Target Level = \$80 million*

## Snow Emergencies

- ***\$30 million***
- based on “Snowmageddon” example in Fiscal 2010.

## Revenue Shortfall

- ***\$30 million***
- based on City’s positioning for a future recession, and experience of mid-year State aid cuts in Fiscal 2010.

## Infrastructure Failure

- ***\$20 million***
- based on assessment of “at-risk” infrastructure, and experience of 26<sup>th</sup> Street collapse in Fiscal 2014.

# Revenue Stabilization Reserve (Tier 2)

## *Risk Assessment*

### **Future Recession Forecast (*Two-Year Impact*)**

*(in \$ millions)*

<u>Revenue Source</u>	<u>Fiscal 2015</u>	<u>Change</u>	<u>Notes / Rationale:</u>
Property Tax	780.6	23.4	3% growth, low side of built up value.
Income Tax	286.7	(20.1)	7% decline, similar to Great Recession.
Highway User Revenue	136.1	(13.6)	10% decline
State Aid	103.7	(17.0)	Reduction in Income Tax Disparity Grant if recalculated.
Transfer and Recordation Tax	59.2	(14.2)	Reduction to \$45M, similar to previous historical lows.
Other Revenues	274.2	(19.2)	7% decline, similar to Great Recession.
<b>TOTAL</b>	<b>1,640.5</b>	<b>(60.7)</b>	

# Revenue Stabilization Reserve (Tier 2)

Target Level = **\$100 million**

<b>Recession Impact</b> <i>(in \$ millions)</i>			
<b>Budget</b>	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>
Revenues	1,640.5	1,610.2	1,579.8
Expenditure	<u>1,640.5</u>	<u>1,673.3</u>	<u>1,715.1</u>
Gap	0.0	(63.2)	(135.3)
<i>RSR covers 1/2 of Gap</i>		(31.6)	(67.7)
<i>Total RSR Required</i>			(99.3)

# Questions?