

**Written Testimony of Andrew Kleine,
Chief of the Bureau of the Budget and Management Research**

1. I am the Chief of the Bureau of the Budget and Management Research in Baltimore City's Department of Finance. In that capacity, I am responsible, inter alia, for analyzing the City's revenues and expenses and making recommendations to the Mayor and City Council pertaining to the City's budget. I have developed the City's budget for the last two years and, consequently, have personal knowledge of the significant cuts that have been made to departments and programs across the City over the last two years and the additional cuts proposed for the upcoming year.

2. Baltimore is grappling with the most difficult budget environment in memory. The recession has battered City and State revenues, and the recovery is likely to be slow. To account for these significant decreases in its revenue streams, the City has made several rounds of budget cuts over the past two years and will need to make additional cuts in the coming years. Unfortunately, revenues are unlikely to rebound as quickly as pension and other costs will grow.

3. Baltimore's economy has been hard hit by the recession. Monthly housing sales in the City have decreased 78.8% from their 2005 peak of 1,365 units. At the same time, the median price for housing has decreased 35.7% from its 2008 peak. And, the unemployment rate for the City is nearly double what it was in 2007. (Data as of March, 2010)

4. These trends are reflected in the City's revenue streams. Transfer and recordation tax collections have dropped \$79.6 million, or 65.9%, from their 2006 peak. Similarly, income tax collections have dropped from \$267.6 million in 2008 to an estimated \$218 million in 2010. And, Highway User Revenues for FY 2010 are down 40.4% from the FY 2008 level of \$214.4 million. Overall, combined revenue for the General Fund and Motor Vehicle Fund is down \$124

million from FY 2008 to FY 2010 (projected), a 7.9% drop.

5. It is important to recognize that the cuts proposed for FY 2011 follow three prior rounds of budget cuts – one in FY 2009 and two in FY 2010.

6. In FY 2009, the City confronted a \$36.5 million budget gap in the General Fund and a \$32 million gap in the MVR Fund, for a combined budget gap of \$68.5 million. To address the General Fund gap, the City hardened a pre-existing hiring freeze, tightened management of overtime spending, deferred manager pay adjustments, and cut \$25 million of current and prior year MVR capital projects. The City shifted \$2.9 million of the undesignated General Fund balance to the Police Department to fill the remaining gap at year end.

7. Going into FY 2010, the City faced a \$120 million baseline budget gap for the combined General Fund and Motor Vehicle Fund, despite balancing the budget in FY 2009. The City addressed this gap with multiple cuts in the adopted FY 2010 budget, including:

- eliminating Motor Vehicle Fund capital funding;
- reducing hours at libraries;
- closing five recreation centers;
- turning two recreation centers over to the school system;
- shortening hours at remaining recreation centers;
- implementing four rotating fire company closures;
- shortening the swim season;
- shifting to once a week trash and recycling collection;
- eliminating the 311 call center night shift; and
- abolishing 523 city employee positions across agencies (excluding sworn police and fire

positions);

8. Early in FY 2010, the City confronted an additional \$60.2 million post-adoption budget gap, due to State cuts and preliminary local revenue shortfalls. In September, the City adopted a spending reduction plan that included:

- extending the hiring freeze
- adopting a city-wide furlough plan, requiring furloughs that varied in length from 5 to 10 days depending on salary;
- deferring \$2.3 million in pay-as-you-go capital expenditures; and
- implementing \$13 million in agency budget reductions.

9. Local revenues continued to deteriorate through the second quarter, and a second round of agency cuts was approved in January, also totaling approximately \$13 million.

10. Compounding an already dire situation, the historic snow storms in February 2010 resulted in unexpected costs of \$33 million for the City.

11. Based on data through of the end of April, the City projects a combined General Fund and Motor Vehicle Fund deficit of \$51.7 million. The City must use a substantial amount of its reserves to address the deficit.

12. The proposed FY 2011 budget reflects yet another round of cuts, given the \$121.4 million discrepancy between projected revenues and the estimated cost of maintaining the current level of City services. These cuts include:

- continuation of the furlough program;
- elimination of almost 1,000 positions (6.6% of the City workforce, including 336 Police and Fire positions);

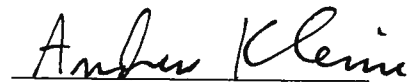
- implementation of step and longevity raise freezes;suspension of "sick leave" conversion program;
- reduction of employer share (and corresponding increase of employee share) for prescription drug costs;
- \$6.3 million reduction in transportation and crossing guard subsidies to the school system;
- implementation of rotating closures of three additional fire stations (for a total of seven);elimination of police aviation, marine and mounted units;
- closure of 29 additional recreation centers;
- elimination of bulk trash pick-up;
- \$2.0 million reduction in maintenance and custodial services for City buildings;
- \$3.1 million reduction park maintenance and horticulture;
- reduction in street paving miles from 200 to 135; and
- reduction in mechanical street sweeping, graffiti removal and business district cleaning.

13. The budgeted expenses for FY 2011 do not include the additional \$64 million that would need to be included in the City contribution to the Fire and Police Retirement System in the event that the variable benefit is not reformed and the interest rate assumption for retiree reserve funds is reduced to 5.0%. Thus, if that scenario comes to pass, the City will need to cut an additional \$64 million worth of services to balance the budget.

14. A \$50 million revenue package that would help to mitigate some of the cuts described above, including the layoffs of police officers and firemen, has been proposed to the

City Council. As of this date, the Council has not taken final action on any of the proposed measures. The Administration is hopeful that the Council will support a significant portion of the plan. However, even if the all of the measures are enacted, the City still confronts a deficit and significant service cuts will be made.

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and Management Research