

# FISCAL YEAR 2025 OUTLOOK- City Council Briefing

City of Baltimore

Department of Finance-Bureau of the Budget & Management Research

December 14, 2023



# FISCAL YEAR 2025- PRELIMINARY FINANCIAL OUTLOOK

# FISCAL 2025: PROJECTED OUTLOOK

***Projected Deficit=\$107.3 Million***

- Based on Current Level of Service projections, expenditures are growing 2.8 times faster than revenue.
- Expenditure and revenue assumptions remove one-time actions taken to balance the Fiscal 2024 budget.

## REVENUE GROWTH

+2.7%

+\$61.4m

## EXPENDITURE GROWTH

+7.7%

+170.5m

## FY2025: AT A GLANCE

	FY24 Adopted	FY25 CLS
Total Revenue	\$2,217,841,727	\$2,279,278,611
Expenditures	\$2,169,922,725	\$2,302,573,400
PAYGO Capital	\$46,175,000	\$84,000,000
Total Expenditures	\$2,216,922,725	\$2,386,573,400
Surplus/Deficit	\$1,744,002	(\$107,294,789)





# REVENUE OUTLOOK



Property Taxes

+5.0%



Highway User  
Revenues (HUR)

+21.4%



Income Taxes

+3.0%



Interest Earnings

-27.0%



State School Funding

-100%



Fund Balance

-100%

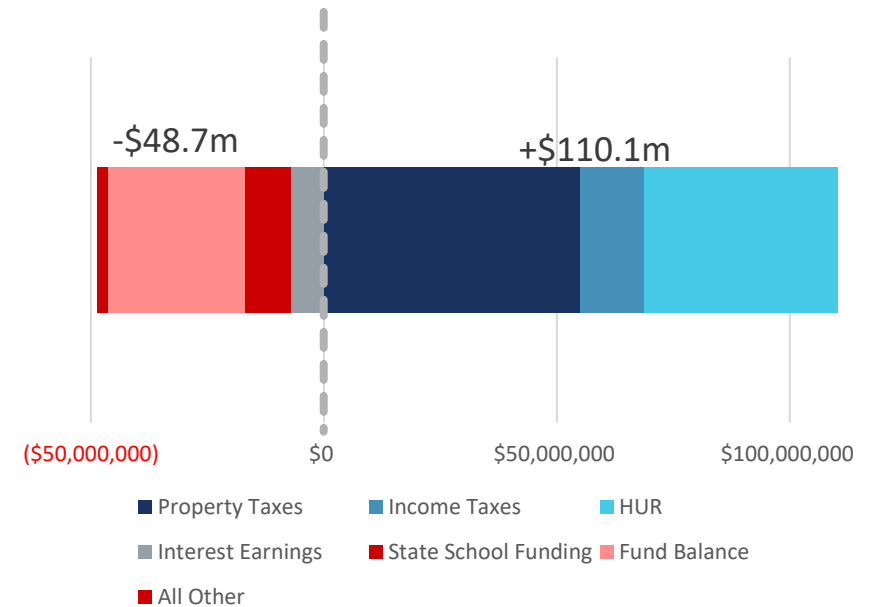


All Other Revenues

-0.6%

## PROJECTED GENERAL FUND REVENUE GROWTH FY 2025 CLS

**+\$61.4m**  
Net Increase





Property Taxes

+5.0%

FY24 Adopted: \$1,080,820,000

FY25 CLS: \$1,134,531,000

% of Budget: 49.8%

### Assumptions

- Properties within Group 3, the southern geographical area of the City, will be reassessed in Fiscal 2025. These properties are anticipated to experience an average annual increase in assessment of 7.9% (first reassessment post housing market boom).
- Overall taxable assessments are projected to increase by 5.8%, driven by the growth in value of residential properties experienced during the last three years.
- The projection includes \$8M in new assessable value from PILOT agreements that will expire prior to Fiscal 2025.
- This anticipated growth in Property taxes will be partially offset by the \$10.4 million increase in the cost of the Homestead Tax Credit.

### PROJECTED GENERAL FUND REVENUE GROWTH FY 2025 CLS



## Income Taxes



+3.0%

FY24 Adopted: \$447,543,000

FY25 CLS: \$461,128,000

% of Budget: 20.2%

### Assumptions

- The Fiscal 2025 projection assumes all components of Income tax receipts (State collected, Fiduciary Returns and Unallocated Withholdings) will grow by 3.0%, equivalent to 70% of the anticipated State's growth.
- The projection assumes the State will experience a 4.4% increase in overall taxable income, but City's share of statewide collections is projected to decline from 1.67% to 1.56%.

### PROJECTED GENERAL FUND REVENUE GROWTH FY 2025 CLS







FY24 Adopted: \$193,444,051  
FY25 CLS: \$234,919,000  
% of Budget: 10.3%

### Assumptions

- The projection reflects the second year increased City revenue from HUR resulting from changes in the State allocations passed by the General Assembly in 2022.
- The City's share of HUR will increase from 9.5% to 11.0% in Fiscal 2025.
- The Corporate Income Tax portion of the allocation is increasing from 20.0% to 21.0% towards HUR.
- **Risk Area:** Recently announced reductions to the State Transportation budget would walk back the anticipated FY25 increase. Reductions may impact funding available for DOT PAYGO capital.

### PROJECTED GENERAL FUND REVENUE GROWTH FY 2025 CLS





Interest Earnings

-27.0%

FY24 Adopted: \$26,038,000

FY25 CLS: \$18,995,000

% of Budget: 0.8%

## PROJECTED GENERAL FUND REVENUE LOSSES FY 2025 CLS

### Assumptions

- The Fiscal 2025 projection reflects an estimated average return of 2.0%, which is lower than the 2.8% return projected in Fiscal 2024.
- The daily cash available for investment is anticipated to average \$1.5B per month, which is lower than the Fiscal 2023 and anticipated Fiscal 2024 averages of \$1.7B. The reduction is due to the gradual distribution of ARPA funding.
- The projected revenue assumes interest rates will hold relatively steady at current levels. The projected decline in revenue is driven by the lower daily cash availability.
- Fiscal 2024 1st Quarter projections are showing strength in this revenue source; this amount will continue to be updated as we see additional data throughout Fiscal 2024.



Interest Earnings

-\$7.0m

■ Interest Earnings   State School Funding   Fund Balance   All Other

## State School Funding



-100%

FY24 Adopted: \$10,000,000

FY25 CLS: \$0

### Assumptions

- In Fiscal 2024 the City received a one-time State payment to offset the impact of the increase costs for Local Share School funding.
- This increase was one-time funding for Fiscal 2024; current projections assume no additional State funding to support the Local Share for Schools in Fiscal 2025.

## PROJECTED GENERAL FUND REVENUE LOSSES FY 2025 CLS

State School Funding  
-\$10.0m

■ Interest Earnings   ■ State School Funding   Fund Balance   All Other



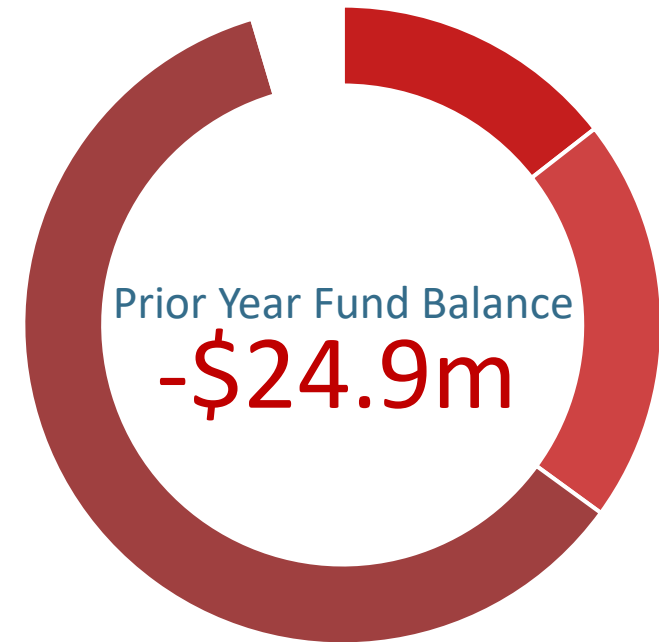
Prior Year Fund  
Balance  
-100%

FY24 Adopted: \$24,900,000  
FY25 CLS: \$0

### Assumptions

- In Fiscal 2024, \$29.4 million from fund balance was used to balance the budget. The current Fiscal 2025 outlook assumes no use of fund balance.
- The General Fund ended Fiscal 2023 with an \$80 million surplus. The full surplus was used for carry forward commitments and funding agency deficits. No additional funding will be added to fund balance based on Fiscal 2023 budget to actual performance.

### PROJECTED GENERAL FUND REVENUE LOSSES FY 2025 CLS



■ Interest Earnings ■ State School Funding ■ Fund Balance ■ All Other

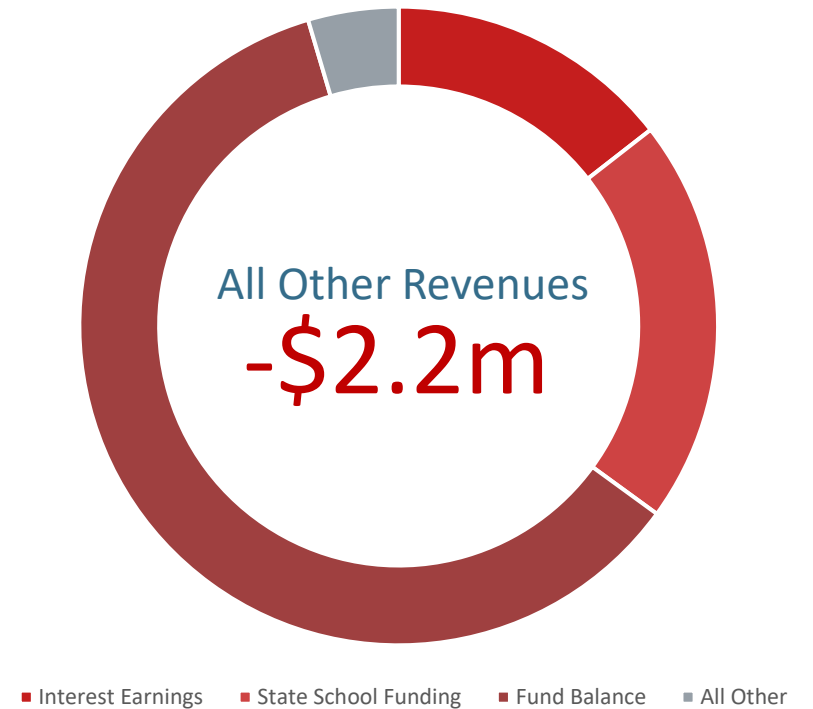


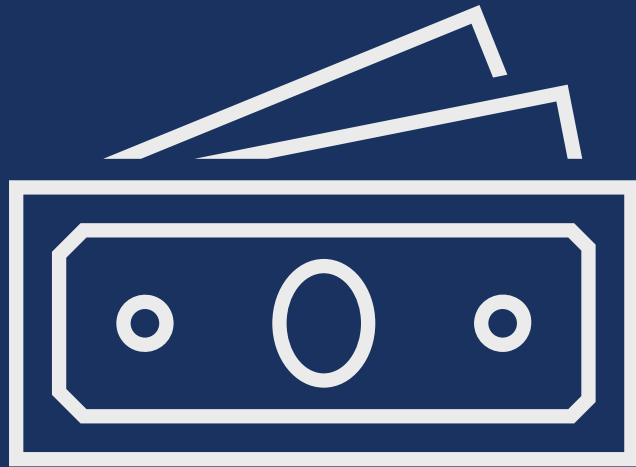
FY24 Adopted: \$403,926,676  
FY25 CLS: \$401,696,611  
% of Budget: 17.6%

### Assumptions

- The continued strength in the City's hospitality industry supports the anticipated increase of \$1.2 million from rental of the Convention Center, Hotel and Admission and Amusement taxes
- Due to the stabilization in the City's real estate market activity, it anticipated that Recordation and Transfer taxes are projected to yield \$1.4 million less than the Fiscal 2024 Budget.
- The combined cost of property tax incentive programs is anticipated to increase by \$2.6 million in Fiscal 2025, not including the Homestead tax credit.
- In general, all other revenues in the General Fund are projected to remain relatively flat compared to the Fiscal 2024 Budget.

### PROJECTED GENERAL FUND REVENUE LOSSES FY 2025 CLS





# EXPENDITURE OUTLOOK



Salaries & Wages

+7.2%



Benefits

+7.6%



Debt & Capital

+21.1%



Schools

+3.8%



Energy

+15.0%



Contractual

+7.6%



Fleet Costs

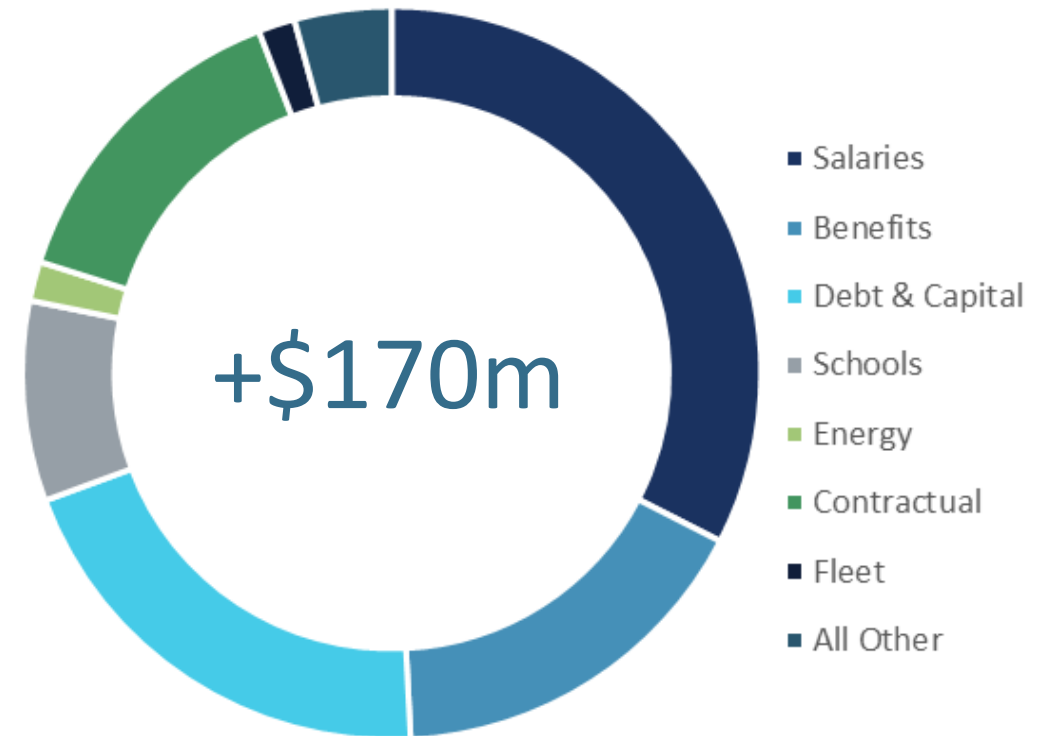
+4.1%



All Other

+6.4%

## PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS





## Salaries & Wages

**+7.2%**

FY24 Adopted: \$769,651,096

FY25 CLS: \$825,013,697

% of Budget: 34.6%

### Assumptions

- Permanent Salaries based on negotiated or anticipated labor contracts
- Removes increases to budgeted turnover savings that were reflected in the Fiscal 2024 budget as a temporary savings measure.
- Includes adjustments to premium pay (out of title, field officer pay, etc.) for sworn agencies.

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS

Salaries & Wages  
**+\$55.3m**





Benefits

+7.6%

FY24 Adopted: \$370,105,351

FY25 CLS: \$398,365,483

% of Budget: 16.7%

## PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS

### Assumptions

- Health Insurance & Prescription Drug
  - CLS estimates assume a 10% increase in these costs based on known rates for calendar year 2024 and anticipated rates for calendar year 2025.
  - Consistent with the rate increase in the Fiscal 2024 budget.
- Pension Costs
  - CLS estimates are based on the valuation reports for the Civilian & Sworn pension systems. The overall GF impact of the rates increases is \$17m.
    - Civilian Pension: +5%
    - Fire & Police Pension: +6%
  - Rates in Fiscal 2024 were flat due to impact from prior year returns in the systems.

Benefits  
+\$28.3m



## Debt & Capital

+20.8%

FY24 Adopted: \$165,138,087

FY25 CLS: \$199,909,055

% of Budget: 8.4%

### Assumptions

- PAYGO Capital: \$84 Million (+\$37.8m from FY24)
  - HUR: \$69M
  - General Fund: \$15M (consistent with Fiscal 2024 funding)
  - **Risk Area:** Recently announced reductions to the State Transportation budget would walk back the anticipated FY25 increase. Reductions may impact funding available for DOT PAYGO capital.
- Debt Service: \$3.0M Decrease
  - Slight reductions to debt service based on delay in FY23 GO Bond issuance.

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS



Schools-Local Share



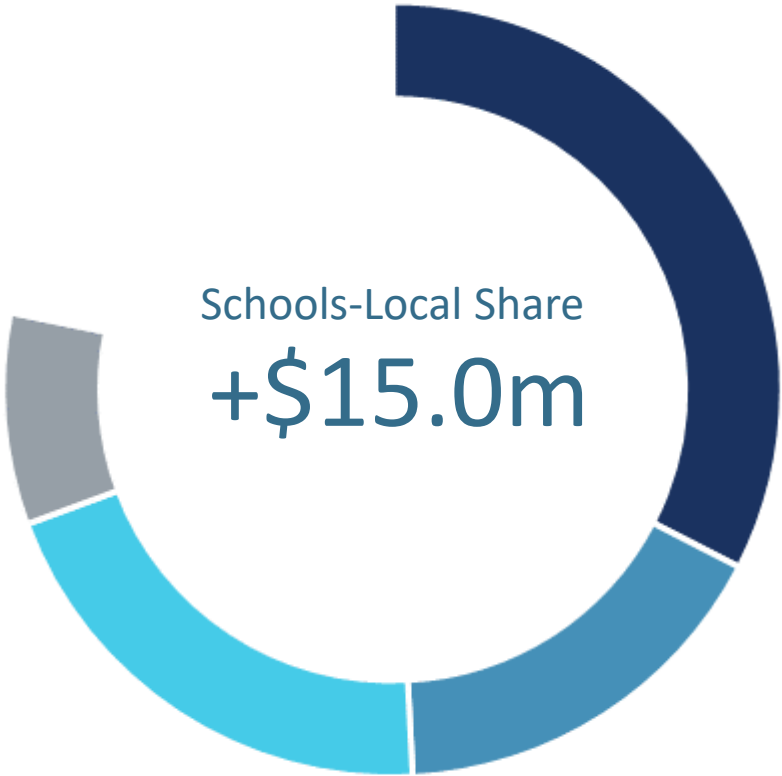
+3.8%

FY24 Adopted: \$392,537,225  
FY25 CLS: \$407,537,225  
% of Budget: 17.1%

Assumptions

- The projection assumes the ‘Core Components’ of Blueprint Funding will continue to grow at 4-5% annually, consistent with previous projections.
- The CLS estimates assume the City will remain in Tier 2 for the Educational Effort Index in Fiscal 2025.
  - If the City drops to Tier 1, the Local Share increase will be higher than currently projected.
- Updates to the School Funding Formula will be shared with local jurisdictions and school districts in mid-late January.

PROJECTED GENERAL FUND EXPENSE GROWTH  
FY 2025 CLS





Energy

+15.0%

FY24 Adopted: \$19,649,349

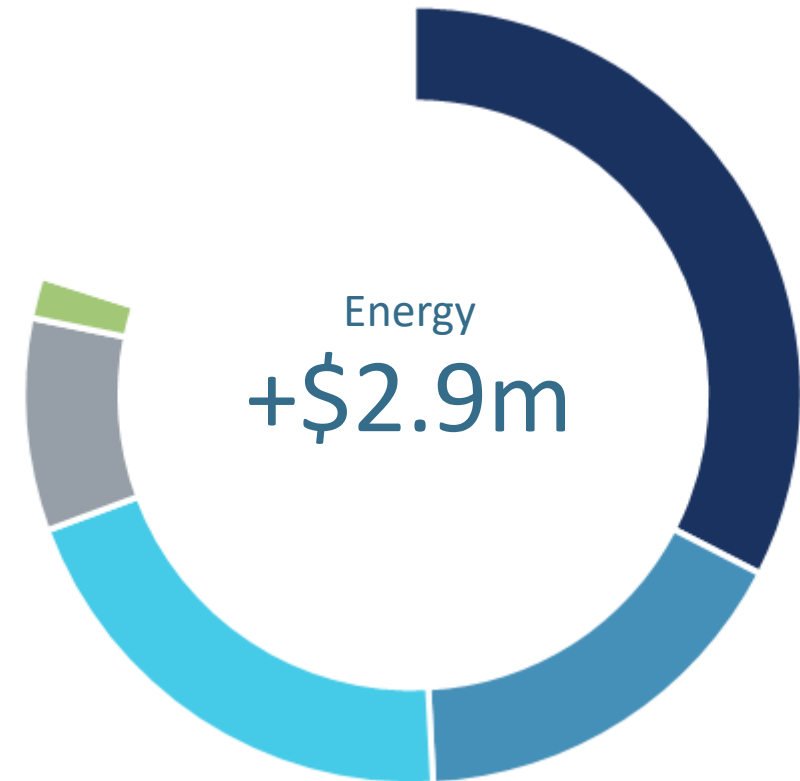
FY25 CLS: \$22,596,887

% of Budget: 0.9%

### Assumptions

- CLS projections assume utilization will remain consistent with Fiscal 2024 levels; increases driven by rates
  - Natural Gas: 35% increase
  - Chilled Water: 21% Increase
  - Electricity: 5% Decrease
- The overall budget for electricity costs is projected to decrease by 5% due to a reduction in the projected rate as identified through the Baltimore Regional Cooperative Purchasing Committee.

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS





Contractual  
**+7.6%**

FY24 Adopted: \$320,161,729

FY25 CLS: \$344,342,905

% of Budget: 14.4%

### Assumptions

- Contractual includes a broad range of expenditures from facility and lease costs to consulting services and software subscriptions.
- The CLS projection includes a standard 4% increase to these items.
- Other Notable Adjustments:
  - Legal Fees: \$2.1M Increase, +40%
  - Tipping Fees: \$3.7M Increase; +37%
  - Rental of Real Property: \$1.5M Increase, +8%

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS





Fleet

+4.1%

FY24 Adopted: \$77,998,560

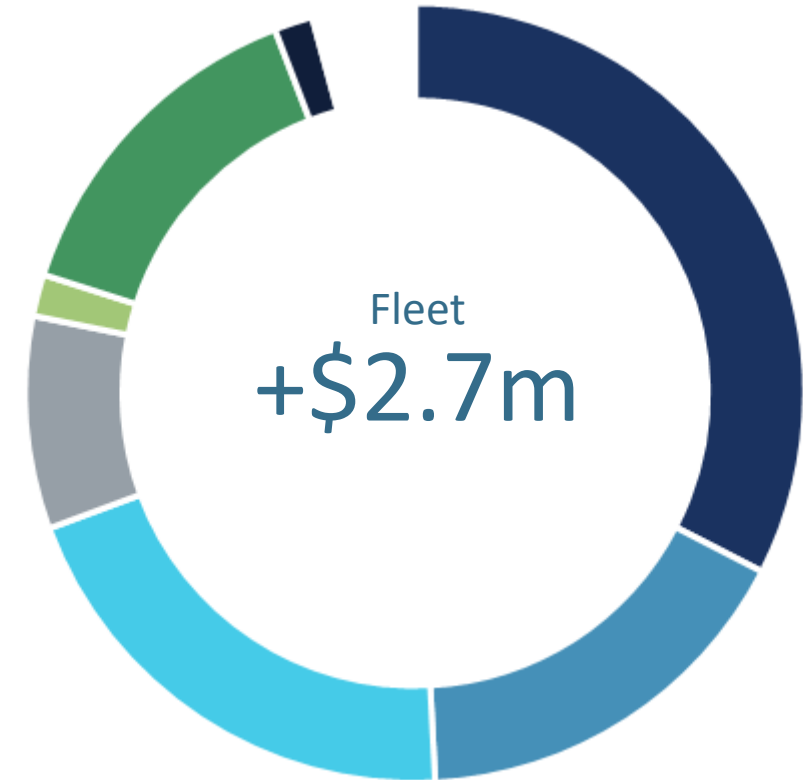
FY25 CLS: \$81,179,748

% of Budget: 3.4%

### Assumptions

- Fleet charges are comprised of maintenance costs, fuel, and debt service for Master Lease purchases.
- CLS assumptions for Fiscal 2025 Fleet Rates:
  - Maintenance: +4%
  - Fuel: +4%
  - Master Lease & Admin Fees : +4.2%
- The Fiscal 2025 budget assumes Master Lease funding will increase by 4% from \$35 million to \$36.4 million

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS





All Other

+6.4%

FY24 Adopted: \$112,201,509

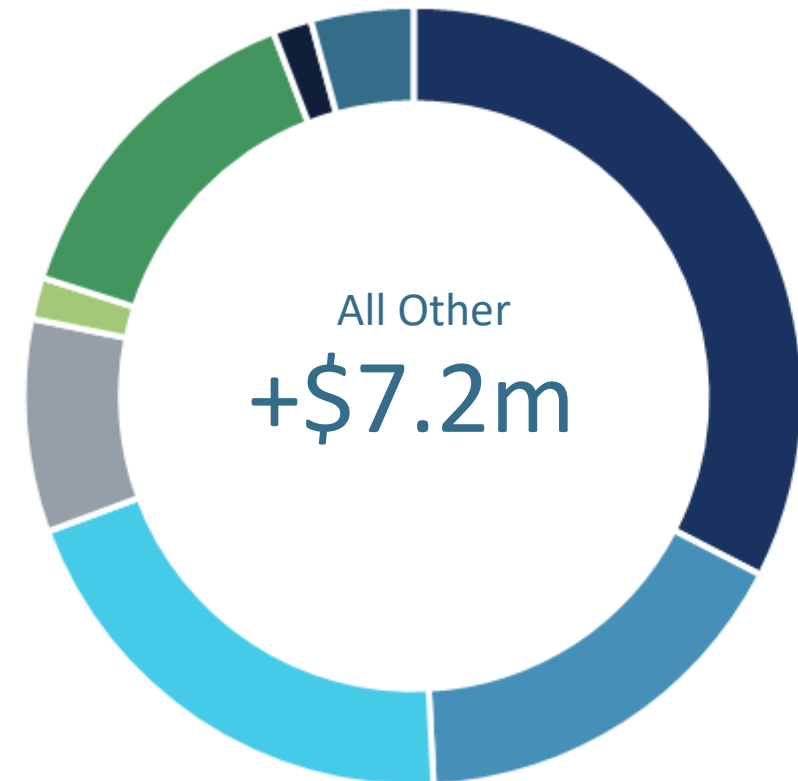
FY25 CLS: \$119,427,388

% of Budget: 5.0%

### Assumptions

- This category includes materials and supplies, equipment, and other misc. expenditures.
- CLS projections included a standard 4% inflationary increase for these line items.
- Notable Adjustments include:
  - Support for Individuals and Organizations: \$2.7M Increase, 5.7%
  - Workers' Compensation: \$2.4M Increase, 4%
  - Computer Software: \$0.8M Increase, 5.4%
  - Local Matching Funds: \$0.2M Increase, 23%

### PROJECTED GENERAL FUND EXPENSE GROWTH FY 2025 CLS



## FY 2025 OUTLOOK: KEY TAKEAWAYS

### Revenue Growth Stabilizing

- The core components of the City's revenue streams continue to show signs of growth.
- Residential properties continue to maintain their value; close monitoring of commercial assessments.

### Slowing Expenditure Growth

- While inflationary pressures have begun to slow, expenditures are growing at a pace that can't be sustained with current revenue sources.

### Balancing One-Time Actions

- The Fiscal 2025 budget balances approaches needs to identify recurring strategies to reduce expenditures focused on structural budget balance.



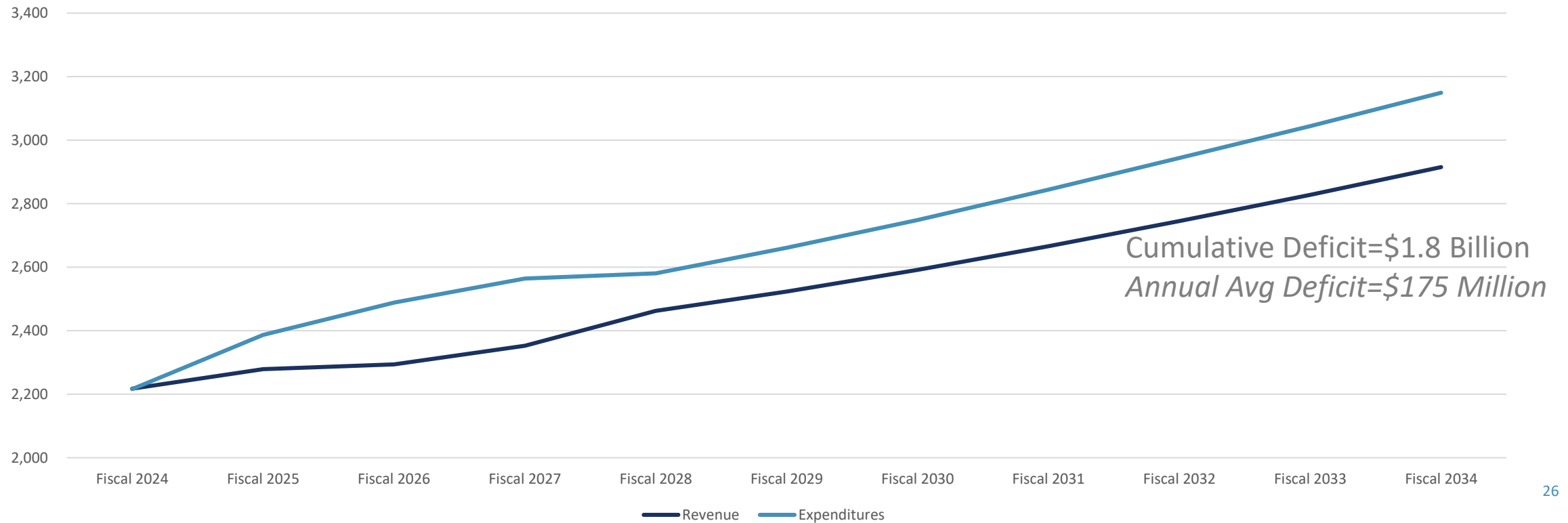


## TEN-YEAR FORECAST

# 10-YEAR PLAN FORECAST

## 10-Year Forecast –Baseline Scenario

Fiscal 2024 to Fiscal 2034

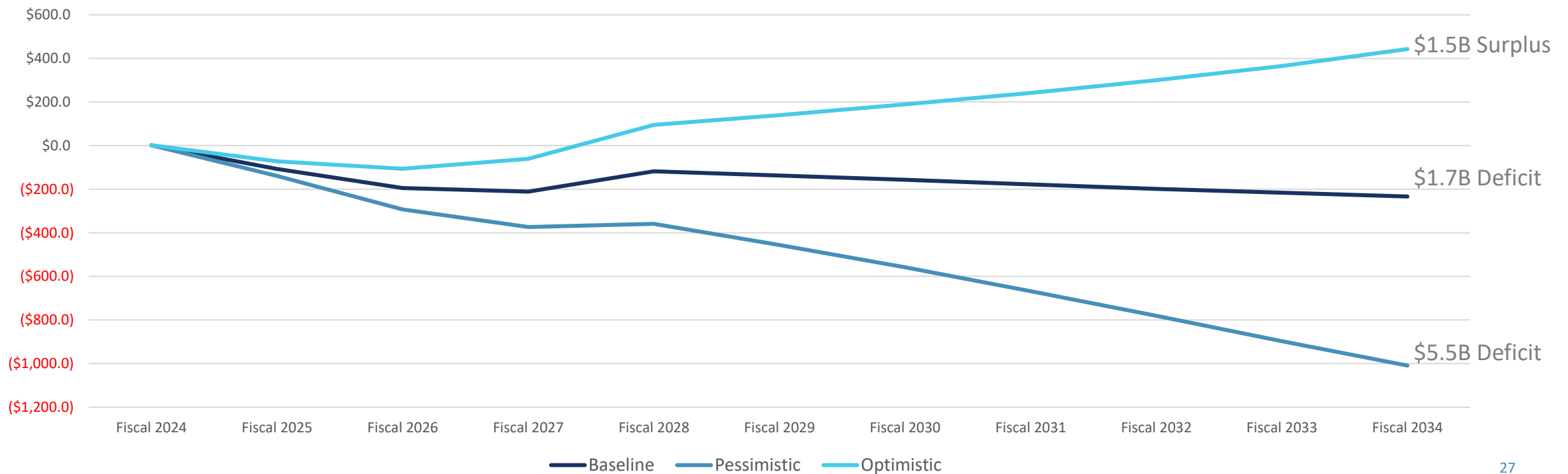


# 10-YEAR OUTLOOK- BASELINE, OPTIMISTIC, PESSIMISTIC

## 10-Year Forecast Scenarios

Fiscal 2024 to Fiscal 2034

*Baseline, Optimistic, Pessimistic*



# 10-YEAR OUTLOOK-ASSUMPTIONS

## Revenue

### Baseline

Assumes continued real property tax increases driven by assessment values, stabilizing inflationary impacts, restoration of HUR.

### Pessimistic

Estimated decline of revenues by 1.5%, considerations for recession and fall in activity levels.

### Optimistic

Achieving 2% increase in most revenue sources, driven by activity, property valuations increasing, and growing wages.

## Expenditures

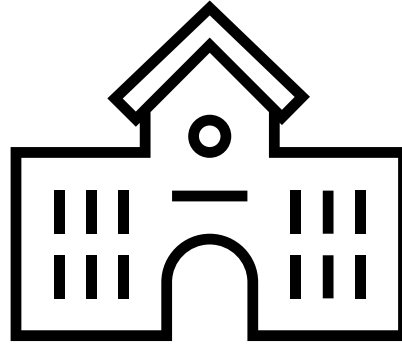
Modest cost-of-living adjustments, inflationary impacts of 4%, health benefits increasing by 10% for active employees and 5% for retirees.

Assumes additional increase of expenditure-related costs by 1.5%, driven by inflation, higher costs of labor, and contracts increasing.

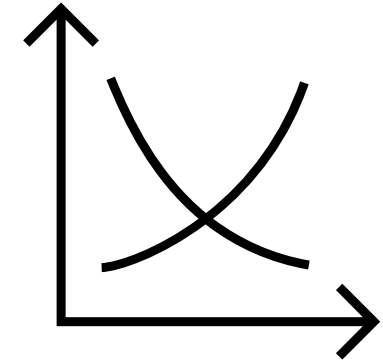
Assumes costs increasing at a slower than anticipated rate, lower inflation.

# LONG RANGE RISK AREAS

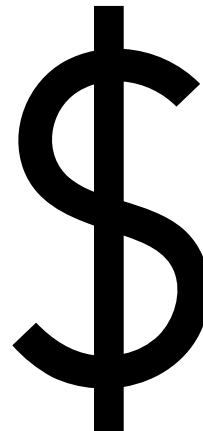
SUSTAINING SCHOOLS CONTRIBUTION



ALIGNING REVENUE & EXPENDITURE  
GROWTH



ECONOMIC SHIFTS



WAGE & LEGACY COSTS FOR EMPLOYEES

