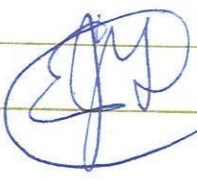
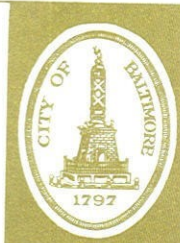


FROM	NAME & TITLE	Edward J. Gallagher, Director	 CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Department of Finance Room 448, City Hall (396-4940)		
	SUBJECT	City Council Bill 09-0348		

TO

DATE: June 24, 2009

The Honorable President
 And Members of City Council
 Room 400 City Hall

Attention: Karen Randle

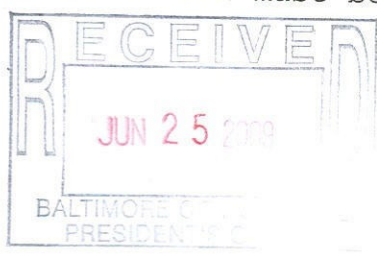
City Council Bill 09-0348 amends Article 22 of the Fire and Police Employees' Retirement System (F&P) as it relates to post-retirement increase provision, also known as the Variable Benefit (V/B) provision.

The proposed amendment specifically does the following:

- Terminates the current variable benefit provisions at 6/30/08.
- Transfers the V/B assets to the general assets of the system.
- Transfers the V/B liabilities to the regular liabilities of the system.
- Provides a guarantee by the City of all previously granted V/B increases (which it does not currently).
- States the intention of the City to examine the feasibility of establishing post-retirement increase provisions upon the System attaining and maintaining an 85% funded ratio for a minimum of three consecutive years. The funded ratio would be based on market value of the assets as determined by the system's actuary.

As a retirement system plan sponsor the primary objective and fiduciary responsibility of the Mayor & City Council is to guarantee and provide the basic benefit to the current retirees and beneficiaries as well as the current active employee members of the system plan who will one day be retirees.

When the assets of the basic benefits are threatened, enhancements of any kind to those basic benefits must be suspended when the system is in a state of financial crisis. The V/B provision is currently draining, and thus threatening the assets that are needed to provide the basic benefit. That situation must be



1
 F

corrected immediately. This legislation will provide that necessary correction and will avoid a financial hit of an additional \$61.5 million to the General Fund in Fiscal 2011, the likes of which would cripple future City services. To sustain that hit and to sustain basic City services, the City would be required in Fiscal 2011 to increase the property tax rate approximately 19.3 cents, or about 8.5% using Fiscal 2010 assessment values.

The taxpayers of the City of Baltimore should not be required to take on this additional cost and financial burden when there is an option available to the Mayor & City Council to avoid it.

All previously awarded post-retirement increases are not guaranteed to retirees and beneficiaries under the current law. A key feature of this proposed legislation does provide a City guarantee for all previously awarded post-retirement increases.

It is certainly unquestionable and undebateable that the Fire & Police Employees' Retirement System is financially out-of-control and is in need of serious restructuring. There is no way that the City, as plan sponsor can support the exponentially increasing cost to support the system nor should the taxpayers of the City of Baltimore be expected to. This proposed legislation as noted in Section 2 recognizes that there needs to be some type of post-retirement increase provision for retirees and beneficiaries. However before that is possible, the system needs to be brought back to a relatively healthy, stable and affordable state before such is considered. The standard to meet that state as set forth in this legislation may be debatable by reasonable people.

However, it is worth noting that the Employee's Retirement System (ERS) has been a relatively well funded plan. One of the reasons for this can be seen in Exhibit I, which compares a 10 year history of the market-based funding ratios of the ERS and F&P systems. ERS has always sustained the 85% standard that is proposed in this legislation for F&P with the exception of Fiscal 2008.

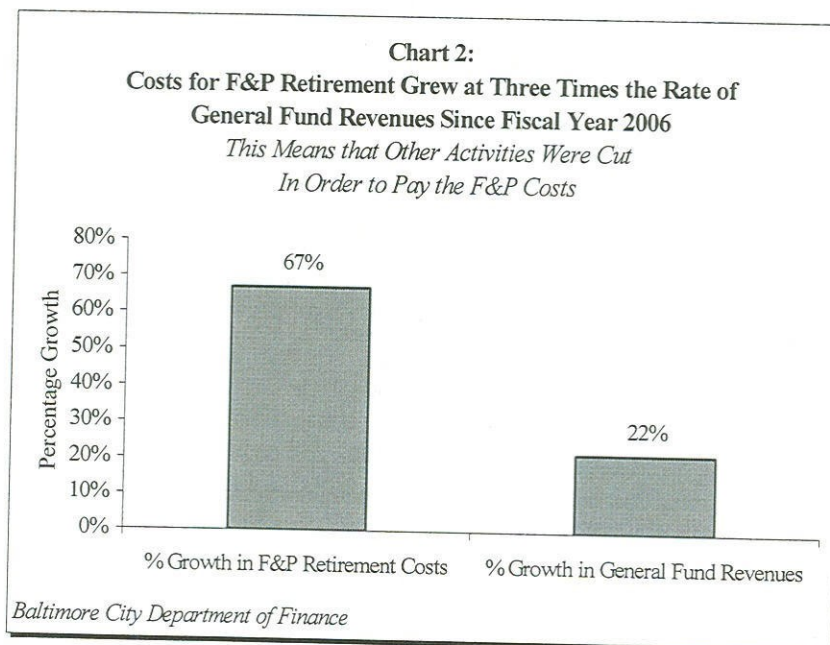
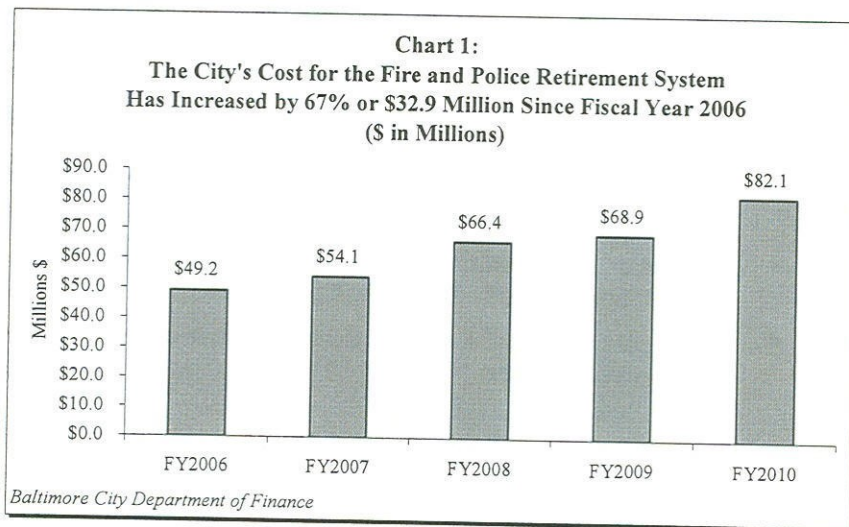
This bill represents an emergency measure to "stop the bleeding" from a system for which the cost to the City taxpayers has skyrocketed out-of-control to levels the City cannot possibly afford. The City Council has the authority and the fiduciary responsibility to protect the integrity of the F&P Retirement System for its retirees, beneficiaries and active members and the already overburdened taxpayers that the City Council represents.

Recent History on F&P Retirement Cost Trends

- The City's required annual cost for the F&P Retirement System has increased by \$32.9 million since Fiscal Year 2006. This represents an increase of two-thirds or 67% from

\$49.2 million in Fiscal Year 2006 to \$82.1 million in Fiscal Year 2010. (See Chart 1)

- This additional \$32.9 million that the City is now paying toward the F&P System each year compared to just 4 years ago represents more than the entire General Fund budget for the Department of Recreation and Parks (\$25.9 million in Fiscal Year 2010).
- During the same period from Fiscal Year 2006 through Fiscal Year 2010, total General Fund budgeted revenues have grown by 22%, much less than the 67% growth in F&P Retirement costs. This means that the City has had to cut costs in other areas in order to accommodate this growing cost in the General Fund. (See Chart 2)



Status Quo Projections for FY2011 and Beyond

- First, without taking into account anything related to the variable benefit provisions, the City's required contribution to the F&P Retirement System for Fiscal Year 2011 is currently estimated to increase by another whopping 29% from \$82.1 million to \$106.1 million (this is an estimate as of May 2009 and is subject to change). This requirement for the City to provide an additional \$24 million to the F&P System to meet its obligations for Fiscal Year 2011 is due primarily to the extraordinary investment losses incurred by the System during Fiscal Year 2009 due to the economic downturn and the impact on the investment markets. There is likely to be a comparable increase in the City's requirement for the Employee Retirement System.
- This additional \$24 million requirement alone is the equivalent of:
 - An additional 7.5 cents on the property tax rate (using the Fiscal Year 2010 assessable base)
 - Almost the entire General Fund budget for the Department of Recreation and Parks (\$25.9 million)
 - 343 police officer positions—more than 10% of the current force
 - 360 firefighter positions—about one-quarter of the current force and the equivalent of 16 suppression companies
 - 445 civilian employee positions—about equal to the remaining General Fund workforce of the Department of Public Works (450) and more than the entire General Fund workforce for the Department of Recreation and Parks (310), the Library (344), or the Housing Department (411)
- Second, if the City Council fails to approve the provisions in Bill No. 09-0348 that terminate the current variable benefit provision, then the F&P Trustees will have to add at least an estimated \$61.5 million to the estimate of \$106.1 million for the City's Fiscal Year 2011 required contribution. This would amount to at least \$167.6 million in required contribution for the F&P Retirement System, an increase of \$85.5 million over Fiscal Year 2010 or an incredible 104% -- more than doubling the City's cost. (See Table 1)

Table 1: F&P Retirement Cost Outlook (\$ in Millions)			
F&P Cost Outlook WITH Passage of the Variable Benefit Legislation		F&P Cost Outlook WITHOUT Passage of the Variable Benefit Legislation	
Fiscal 2011 Contribution	\$ 106.1	Fiscal 2011 Contribution	\$ 167.6
Fiscal 2010 Contribution	\$ 82.1	Fiscal 2010 Contribution	\$ 82.1
\$ Increase	\$ 24.0	\$ Increase	\$ 85.5
% Increase	29.2%	% Increase	104.1%

- This additional \$85.5 million requirement is the equivalent of:
 - An additional 26.7 cents on the property tax rate (using the Fiscal Year 2010 assessable base), or a 12% property tax rate increase over the base rate of \$2.268 per \$100
 - 77% of the combined General Fund budgets for the Department of Recreation and Parks, the Library, the Health Department, and the Department of Housing and Community Development (\$110.6 million combined)
 - 1,221 police officer positions—about half of the current force
 - 1,281 firefighter positions—more than 90% of the current force
 - 1,588 civilian employee positions—40% of the General Fund workforce excluding the Police and Fire Departments
- Clearly the City of Baltimore faces a painful struggle to absorb increased retirement costs in Fiscal Year 2011 resulting from current investment losses alone. It will be devastating to the City's operations and financial solvency to have to absorb the cost associated with the current F&P variable benefit provision on top of that. It cannot be done within reasonable measures. The Mayor and City Council of Baltimore have a fiduciary responsibility to the taxpayers of Baltimore to take urgent and emergency measures to avoid the catastrophe that will ensue if the variable benefit is not halted.
- Lastly, these retirement cost challenges will be hitting the City during a year when the City has been warned by State officials that the State's own budget challenges could

likely result in cuts to local aid or shifts in State costs to the local governments. Two areas of State aid that are likely to be considered for cutbacks include the cost of teacher retirements and the local Income Tax Disparity Grant.

- o The State will pay \$74 million for teacher pensions for Baltimore City in Fiscal Year 2010. Senate Bill 710 introduced during the 2009 General Assembly session proposed shifting the increase in the costs for teacher pensions to the local governments. If that proposal is pursued during Fiscal Year 2010, even just the increase alone could possibly mean costs in the range of \$10 - \$20 million for Baltimore City.
- o The City is slated to receive \$79 million in General Fund revenue from the Income Tax Disparity Grant in Fiscal Year 2010. During the 2009 General Assembly session, the legislature already took action to freeze the Statewide total amount of aid to be allocated through the program at the Fiscal Year 2010 level, meaning that the City will see no growth in revenues from this source in future years and might see declines depending on future allocations of the total among the counties. If the State takes further steps during Fiscal Year 2010 to reduce its cost for the grant, even reductions of 20% or 30% would equate to a loss of \$15 million - \$24 million for the City.

Conclusion

This is by any measure, and in anyone's memory the single largest financial crisis that the City of Baltimore government has had to deal with. The magnitude of the numbers is huge and that financial risk must be avoided. The City Council has an option to avoid that risk and must do it by taking the necessary step to approve City Council Bill 09-0348 without delay.

We recommend that the Taxation, Finance and Economic Development Committee give a favorable report to City Council Bill 09-0348.

Cc: Angela Gibson

EXHIBIT J

FUNDING RATIOS BASED ON MARKET VALUE

