FISCAL YEAR 2023
1ST QUARTER PROJECTIONS

City of Baltimore-Bureau of the Budget and Management Research

Ways & Means Briefing

February 7th 2023

FY 2022 CLOSEOUT

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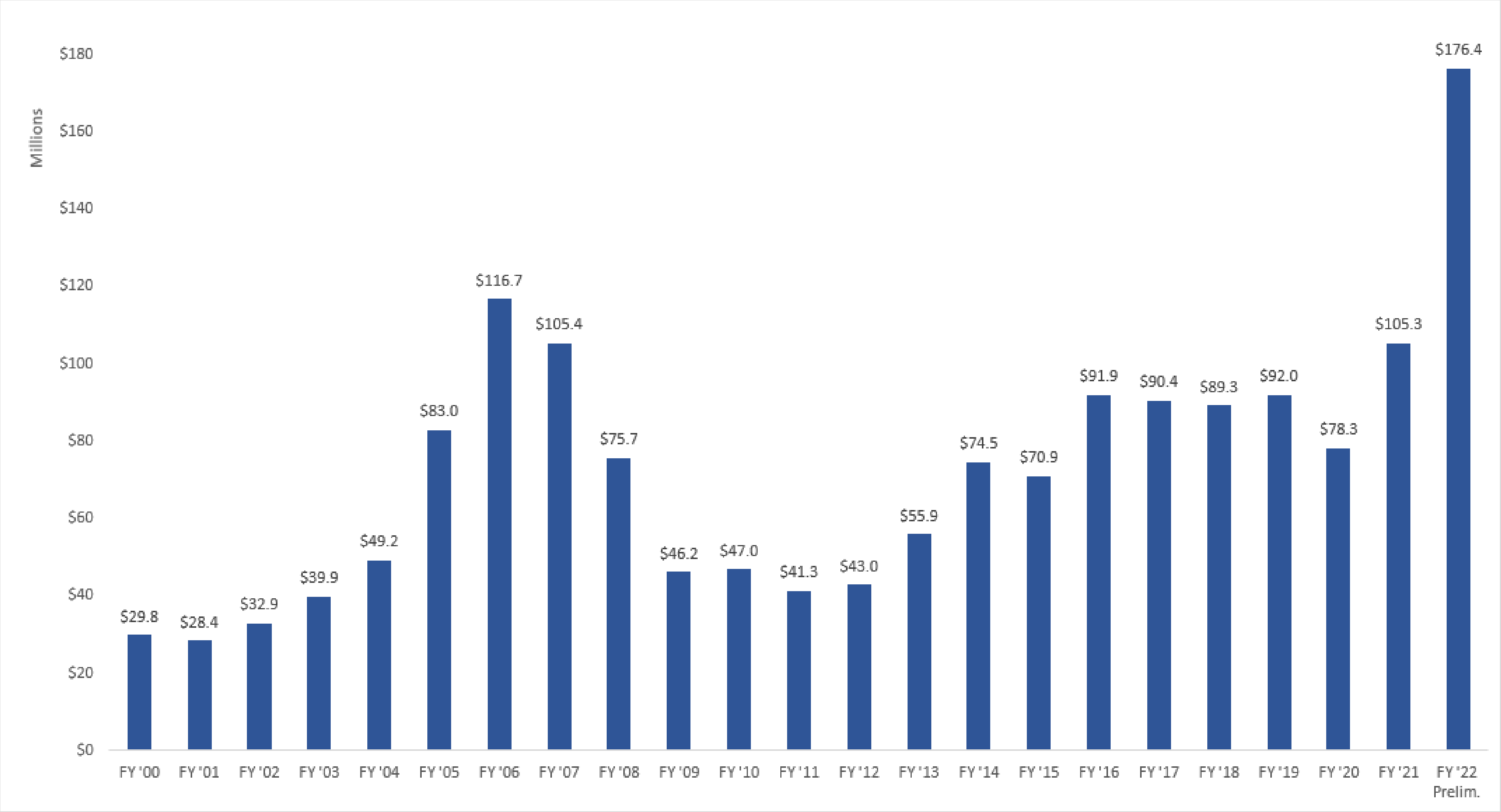
FY22 Budget: Closeout *Budget to Projected Actual ($ in Millions)*			
	FY 2022 Adopted	Closeout Projection	Surplus/Deficit
Revenue	2,007.8	2,194.6	186.8
GF Expenditures	1,992.8	2,065.7	(72.9)
PAYGO	15.0	15.0	-
Total Surplus/(Deficit)			**$113.9m**

REVENUE SUMMARY

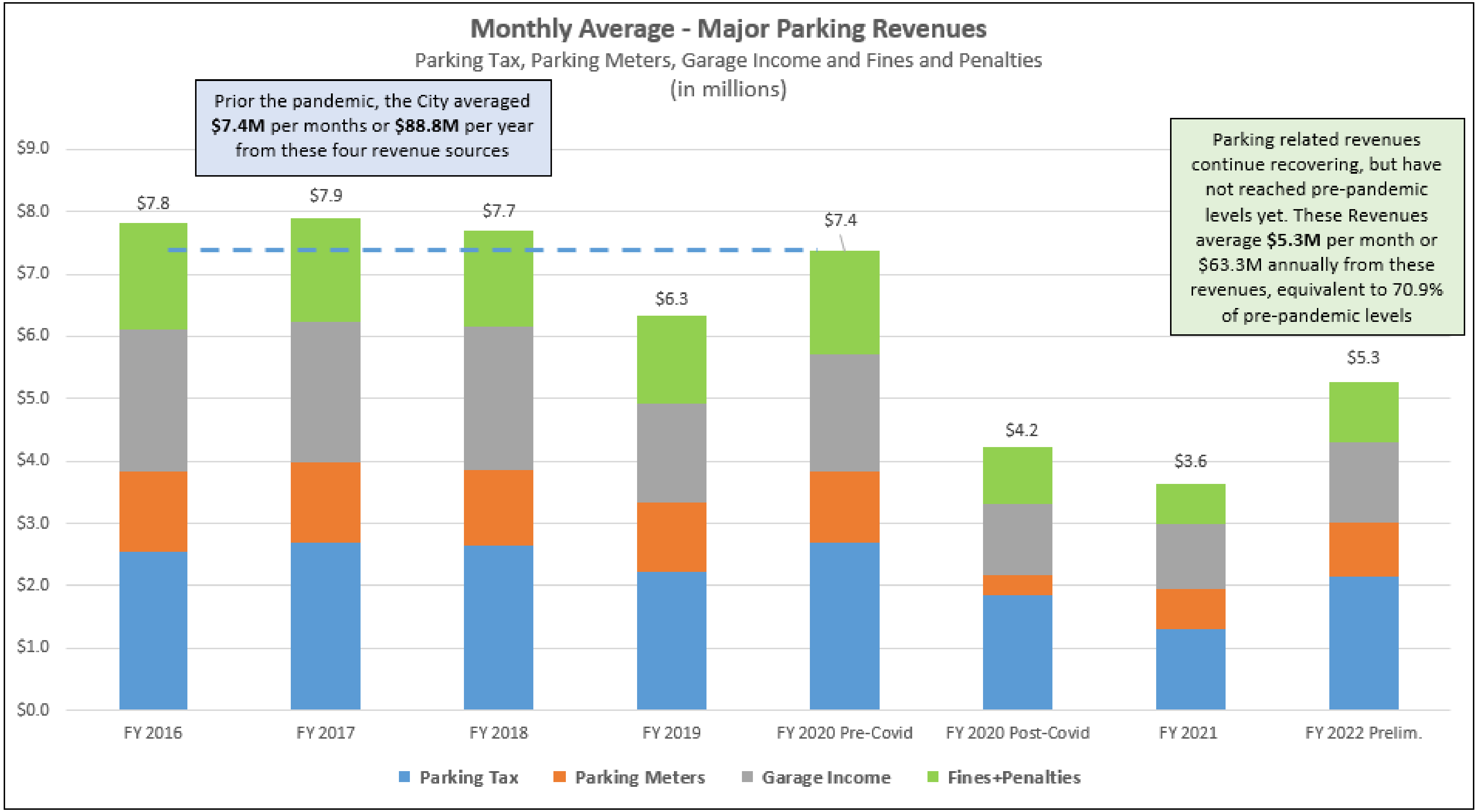
- Fiscal 2022 budget assumed:
  - Local economic recovery to lag behind national and global indicators.
  - Continued strong activity in transfer and recordation market.
  - Continued growth in income tax.
  - Continued COVID-19 drag on tourism-related sectors and revenues.

- What we experienced in Fiscal 2022:
  - Rapid economic recovery across multiple sectors.
  - Record-breaking year of housing market activity resulting in twenty-year high in transfer and recordation receipts.
  - Continued growth in income tax.
  - Gradual recovery of tourism-related sectors.

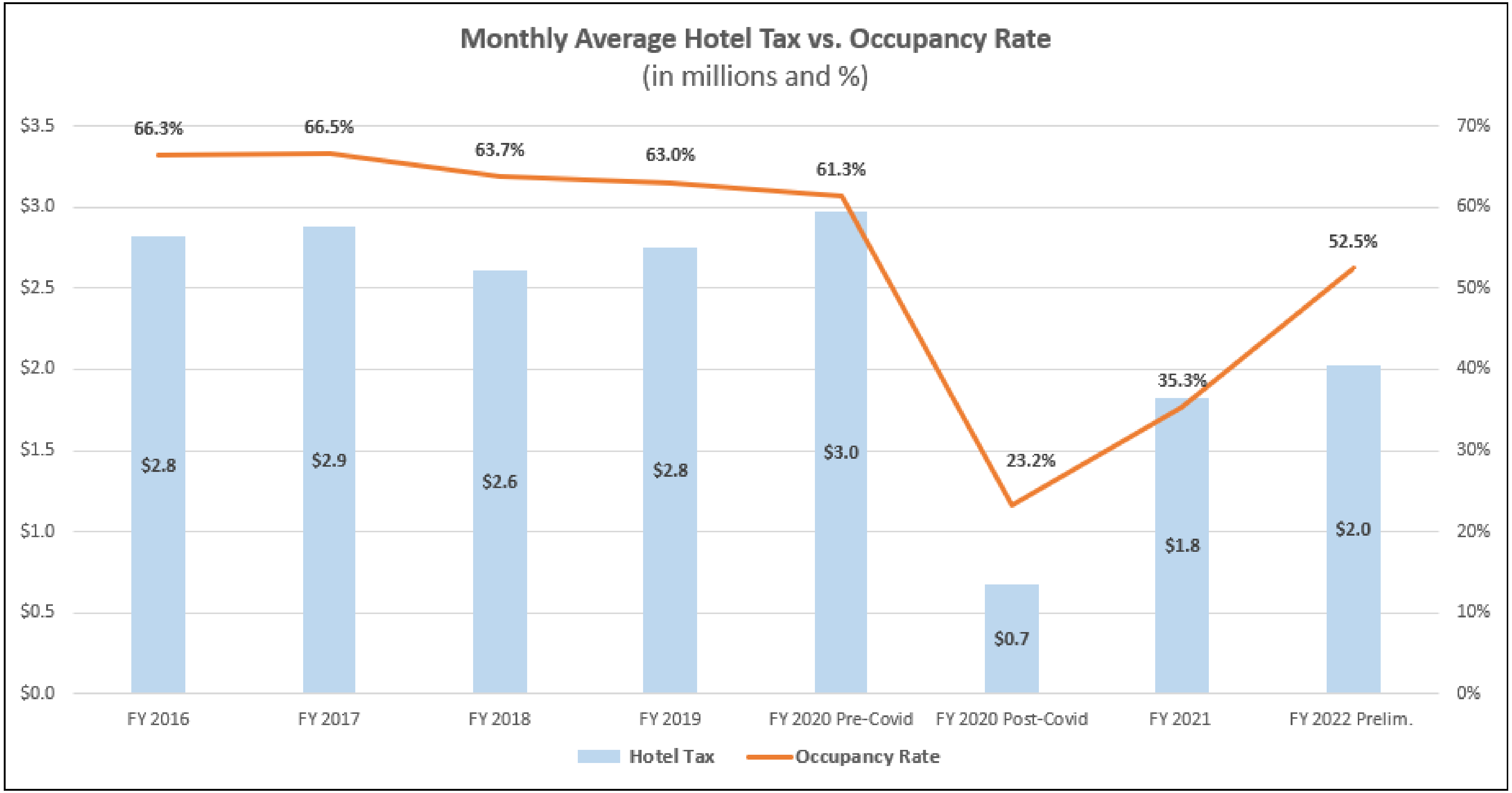
TRANSFER & RECORDATION: HISTORICAL TRENDS



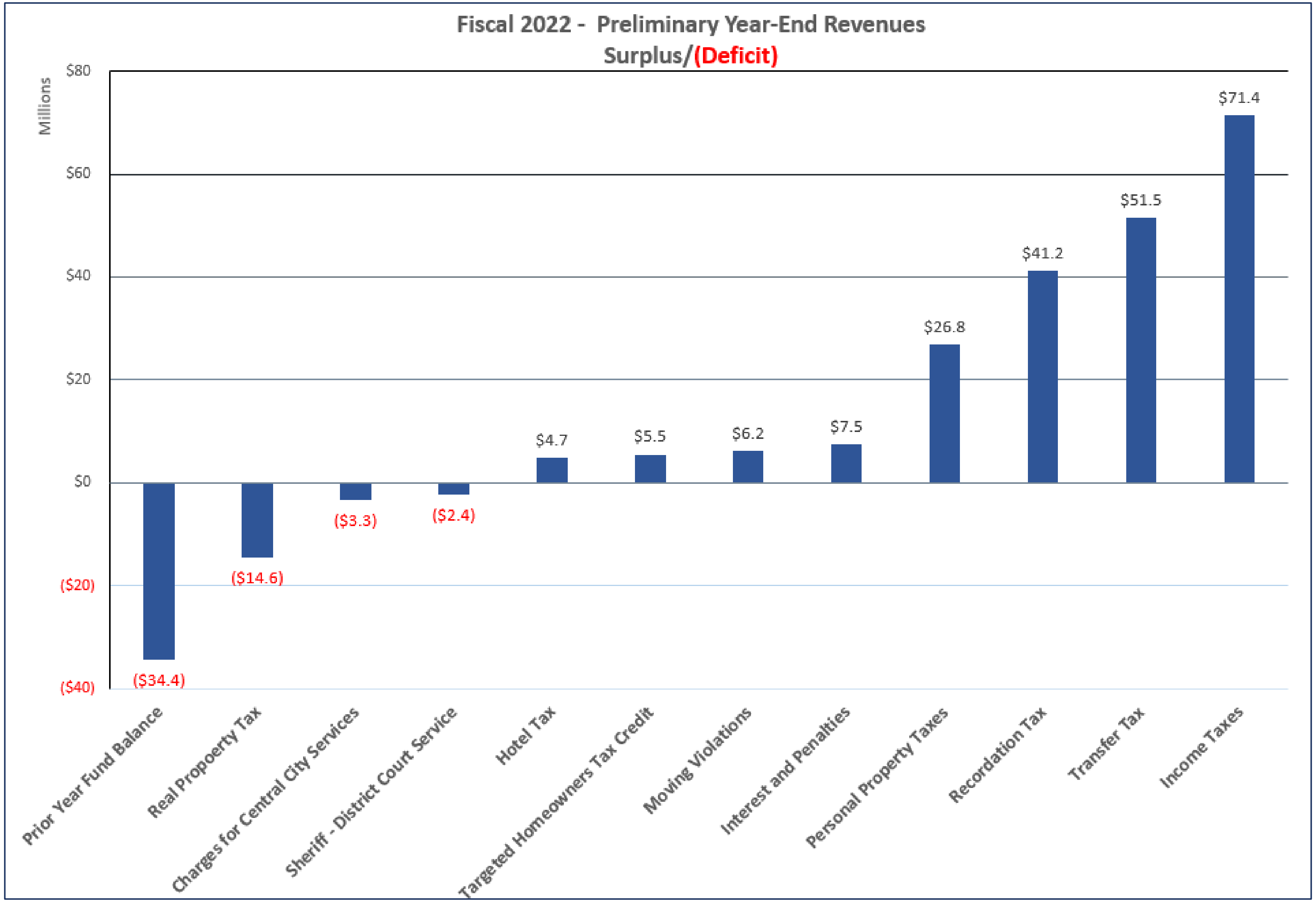
COVID-19 IMPACT: PARKING REVENUES



COVID-19 IMPACT: HOTEL TAX



COVID-19 IMPACT: KEY REVENUE SOURCES vs. BUDGET



CLOSEOUT ACTIONS REQUIRED

Carry-Forward

- The City is permitted to carry-forward unspent appropriation only if:
    - Agency has appropriation available.
    - Funds are to be used for the original budgeted purpose, or
    - Funds are required for a payment timing issue.
- BBMR proposing **$9.6M** to be carried from Fiscal 2022 to Fiscal 2023.
- **Requires Board approval only; BOE approved on 12/21/22**

Contingency Fund

- The budget includes a $1 million allocation in the General Fund for unplanned expenses.
- The FY22 draw on the Contingency Fund allocation totals $563,000 for Sheriff deployment.
- **Requires Board approval only; BOE approved on 12/21/22**

CLOSEOUT ACTIONS REQUIRED

Supplementals

- Per City Charter Article VI, Section 8a, the City's General Fund as a whole and individual agencies must end in surplus balance.
- BBMR proposing **nine supplementals** totaling **$95.2M**
  - Four supplementals for **pandemic-related deficits** in Health, Planning, General Services and the Convention Center **totaling $63.7M**. These costs are reimbursable through the Federal Emergency Management Agency at the rate of 90%, therefore the impact of the deficits on the General Fund cash balance is around $6M.
  - Four supplementals totaling $31.5M for over-spending in the Department of Public Works, the Department of Finance, the Department of Transportation, and Miscellaneous General Expenses.
- **Requires Board approval and City Council approval; BOE approved on 12/21/22**

Transfers

- BBMR proposing transfers between Services within the Fire, Housing and Community Development, Recreation and Parks, Finance, Police, Mayoralty, Public Works, Transportation, Health and Law Departments to balance the budget at the Service level.
- **Requires Board approval only; BOE approved on 12/21/22**

PROPOSED SUPPLEMENTALS-COVID RELATED EXPENDITURES

- Health **($33.8M)**
  - Source: Recordation Taxes
  - For continuing homeless shelter costs and other FEMA-reimbursable expenses.
- Planning **($14.0M)**
  - Source: Federal Aid (FEMA).
  - For continuing feeding program costs.
- General Services **($10.5M)**
  - Source: Transfer Taxes
  - For facilities costs related to the pandemic.
- Convention Center Hotel **($5.4M)**
  - Source: Transfer Taxes
  - For debt service expenses up to $7M limit in bond indenture.

PROPOSED SUPPLEMENTALS-OTHER EXPENDITURES

- Finance **($1.9M)**
  - Source: Recordation Taxes
  - For Accounts Payable backlog and Workday-related expenses.
- Transportation **($4.4M)**
  - Source: Recordation Taxes
  - For Snow removal and street safety.
- Public Works **($2.8M)**
  - Source: Transfer Taxes
  - For disposal costs, employee stipends, and private staffing support.
- Miscellaneous General **($22.4M)**
  - Source: Transfer Taxes
  - For accounting adjustment for leave earnings that were incorrectly posted in FY21

LEGAL LIABILITIES

Funded and Resolved in FY22

- Fire and Police pension case **($35.5M)**

Unfunded and Outstanding

- Police legacy cases **($100M+)**
- ADA sidewalks **($10-25M annually)**

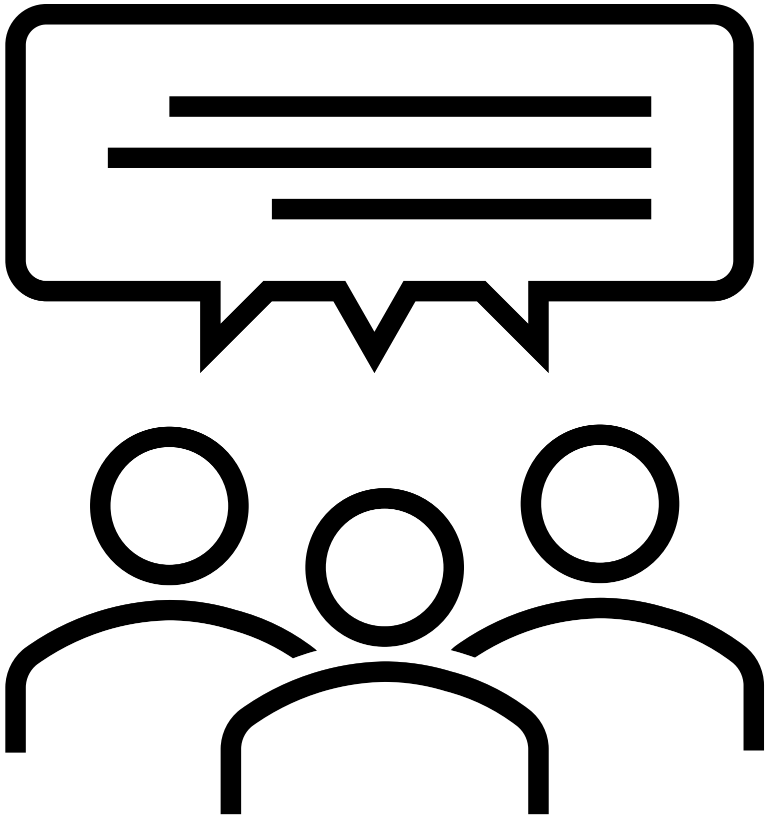
SUMMARY

- Strong economic rebound from the lows of Fiscal 2021, highlighted by growing income tax receipts and a record-year of transfer & recordation activity.

- Modest rebound of tourism-related revenues which are still short of pre-COVID levels.

- Continued use of FEMA reimbursement for certain programs such as homeless sheltering and feeding, resulting in no net cost for the City.

- The Administration is reviewing options for using Fiscal 2022 surplus on either one-time spending or pay-down of outstanding liabilities. Supplementals were passed by the BOE on 12/21/22; legislation currently moving through Council approval process



FY22 CLOSEOUT: DISCUSSION & QUESTIONS

FY 2023-1ST QUARTER PROJECTIONS

FY 2023: 1ST QUARTER PROJECTION

FY23 Budget: 1st Quarter Projections *Budget to Projected Actual ($ in Millions)*			
	FY 2023 Adopted	1st Quarter Projected	Surplus/Deficit
Revenue	2,147.4	2,174.8	27.4
GF Expenditures	2,056.2	2,115.8	(59.6)
PAYGO	90.5	90.5	-
Total Surplus/(Deficit)			**$(32.2)**

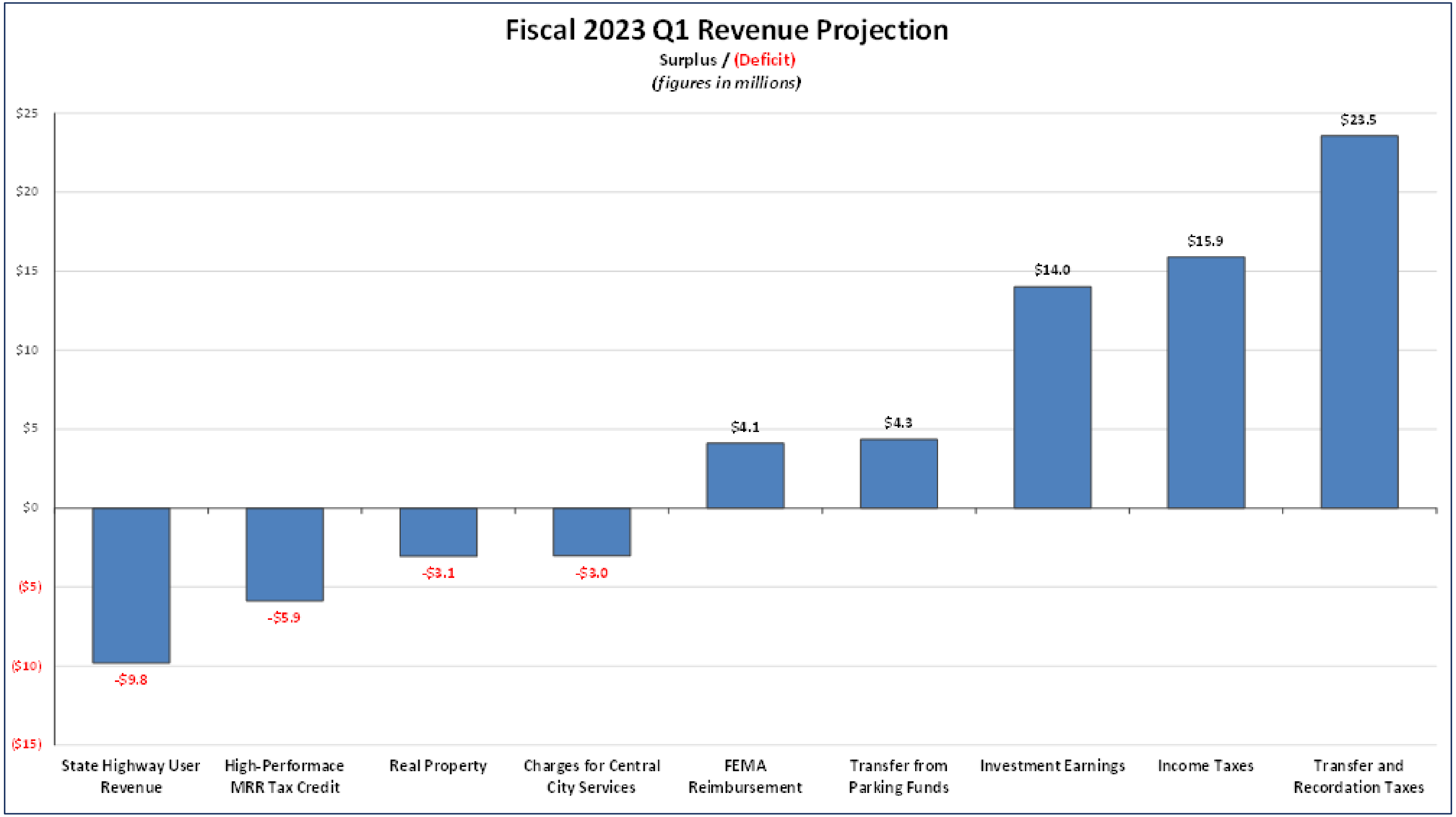
- FY23 Adopted revenue exceeds the budgeted expenditures by $696k; this is due to the reductions to the Sheriff's Office and BOPA
- As of the 1st Quarter, the City is projecting a $32.2 million deficit driven by expenditures exceeding the budgeted amount. The primary driver of this deficit is Fire Department overtime and ongoing COVID related expenditures.
  - FEMA eligible COVID expenditures will continue to be reimbursed at 90% of total cost through May. These costs will be ultimately be reimbursed but there is a lag in the time between seeking reimbursed and receiving FEMA reimbursement funds
- 1st Quarter revenue numbers are picking up residual strength from the Transfer and Recordation tax from summer real estate transactions; this revenue stream has seen declines as the real estate market has cooled off due to increasing interest rates

FY 2023 – Q1 REVENUE PROJECTION DETAIL

FISCAL 2023 – REVENUE HIGHLIGHTS

- The Fiscal 2023 Q1 Revenue Projection anticipates a $27.4 million or 1.3% revenue surplus driven by:
  - Transfer and Recordation Taxes
  - Income Taxes
  - Investment Earnings
- Areas of Concern:
  - Personal Property Tax: The production of bills for personal property taxes is delayed due to printing issues.
  - Components of the Highway User Revenue are not coming at the level the State anticipated.
  - Revenues for the Parking funds require further analysis regarding expenditure trends.

1ST QUARTER REVENUES: KEY VARIATIONS



1ST QUARTER REVENUE: LOCAL TAXES

- Local taxes represent 77% of total General Fund revenues
- The $30.5 million projected surplus is driven by strength in Income Tax & Recordation and Transfer taxes
- This surplus is partially offset by a $2.1m projected deficit in Misc Local Taxes. Portion of deficit due to delay in distributing personal property tax bills

REVENUES	FY2022 Actual	FY 2023 Budget	FY 2023 Q1 Projection	Surplus / (Deficit)
Local Taxes				
Property Taxes	$1,046.8	$1,051.8	$1,048.5	($3.3)
Income Taxes	$450.3	$430.8	$447.3	$16.5
Recordation & Transfer Taxes	$176.4	$90.1	$113.6	$23.5
Energy Tax	$45.6	$46.2	$46.7	$0.5
Telecommunication Tax	$37.4	$34.9	$34.9	$0.0
Net Hotel Tax	$24.3	$26.7	$25.9	($0.8)
Video Lottery Terminal	$12.6	$12.6	$12.6	$0.0
Admission Tax	$8.4	$8.0	$8.6	$0.6
All Other Local Taxes	$76.0	$58.4	$56.3	($2.1)
Tax Credits	($96.1)	($96.3)	($100.9)	($4.5)
Total Local Taxes	**$1,781.8**	**$1,663.1**	**$1,693.7**	**$30.5**

FISCAL 2023 – REVENUE HIGHLIGHTS

Property Taxes: -$3.3 Million Deficit

- Real Property:
  - Taxable assessment remain close to budget. Net increase of $73.5 million in taxable value (258 properties increased values and 373 decreased value compared to budget)
  - Preliminary Fiscal 2022 Year-End data suggests a decline in Collection rates (from 98% to 97.5%) applied to the Fiscal 2023 projection
  - The reduction in Real property taxes is offset by the anticipated $1M reduced cost of the Homestead Tax credit

FY23: Real Property Projections

	FY 2023 Budget	FY2023 Q1 Projection
All Groups		
Taxable Assessment	$43,079,702,566	$43,093,430,262
Assessment Subject to ATC	$970,846,416	$928,895,692
ATC Recipients	34,876	33,635
Gross Revenues	$968,431,714	$968,740,312
Net Appeal Factor	0.10%	0.10%
Collection Rate	98.0%	97.5%
Public Utility Revenues	$17,996,000	$17,883,000
Net Revenue After Collection Rate	$966,110,016.33	$961,460,282.68
Revenue Gain from EZ + Other TC's	$4,461,000	$4,461,000
Revenue Gain from HPMRR	$740,000	$740,000
TIF	($26,263,000)	($24,668,000)
Tax Sale exemption	($2,000,000)	($2,000,000)
Net Real Property Tax Revenues	$943,049,000	$939,994,000
Total Assessment Subject to ATC	$970,846,416	$928,895,692
Total ATC Cost	($21,389,000)	($20,360,000)

FISCAL 2023 – REVENUE HIGHLIGHTS

Recordation and Transfer Taxes: +$23.5 Million Surplus

- Anticipated yields projected to increase by 0.7% in FY23 driven by increased median sales price of real estate
- FY23 projection is $61.0 million lower than the FY22 Actuals. Change driven by:
  - Reduced Refinancing transactions-down 21%
    - (Recordation tax only)
  - Reduced Mortgage originations-down 4%
- 1st Quarter actuals include some revenue from FY22 due to processing backlogs

FY23: Transfer & Recordation Trends

Projection - Growth in Prices, Decline in Volume of Refinancing, Mortgage Originations					
	FY2023 Q1	FY2023 Q2	FY2023 Q3	FY2023 Q4	FY 2023 Total
	Actual				
	Q1	Q2	Q3	Q4	
Growth Assumed		*0.7%*	*0.7%*	*0.7%*	
Average Transfer YLD*	$ 2,343	$ 3,430	$ 3,430	$ 2,685	$ 2,972
Avg Transfer Items, prior year	8,261	7,402	3,883	4,292	
Less					
Mortgage Originations		-4%			
Expected Volume Drop		-22%			
Transfer Transactions	8,261	5,543	3,883	4,292	21,979
Transfer Total	$ 19,351,528	$ 19,013,405	$ 13,320,250	$ 11,523,595	$63,208,777
Growth Assumed		*0.7%*	*0.7%*	*0.7%*	
Average Recordation YLD	$ 1,457	$ 2,575	$ 2,107	$ 1,874	$2,003
Avg Recordation Items, prior year	11,574	10,320	5,202	6,044	
Less					
Refinancing Volume		-21%	-21%	-21%	
Mortgage Originations		-4%			
Expected Volume Drop		-22%			
Recordation Transactions	11,574	6,142	4,135	4,804	26,654
Recordation Total	$16,859,010	$15,817,083	$8,713,077	$9,004,480	$50,393,650
Gross Revenues	**$36,210,538**	**$34,830,488**	**$22,033,327**	**$20,528,074**	**$113,602,428**
Transfer to the General Fund					**$113,602,428**

FISCAL 2023 – REVENUE HIGHLIGHTS

Income Taxes: +$16.5 Million Surplus

- Regular Income Tax:
  - 1st Quarter actuals were based on prior year trends; the first dismemberment of income tax payments were received in November
  - Projection assumes -0.2% growth factor for remainder of FY23
  - FY23 revenues projected to be $4.5m higher than FY22 Actuals, partially driven by higher delinquent payments
- Fiduciary Returns:
  - First payment for Fiduciary Returns is $1.8M higher than budget potentially reflecting the impact of higher interest rates.

FY23: Income Tax Projections

Est'd FY 2023 Withholding and Estimated	$345,677,000	**Non-Quarterly Receipts**		
			Growth factor=	**-0.2%**
Adj's Final Distribution=	$0	Actual	September 30	
Jan-June Delinquent Adj'd=	$18,446,111	Actual	October 31	$15,536,865
Adj'd Prior year Final Distr.=	$19,471,000	Est'd	November 30	$19,516,887
Interest & Penalties July-Dec.=	$16,375,000	Est'd	January 31	$16,414,214
Additional Filings Adj'd=	$3,138,000	Est'd	January 31	$3,144,632
July-Dec. Delinquent Adjusted=	$5,888,000	Est'd	March 31	$5,901,214
Interest & Penalties Jan-June=	$5,168,000	Est'd	July 31	$5,179,780
Final Distribution (Reconciliation)=	$0	Est'd	August 31	$0
Adj'd 2nd Quarter (True-up)	$7,248,000	Est'd	August 31	$7,265,403
(Budget)	$408,996,000			
Total State Coll'd Income Tax=	**$421,411,111**			

FISCAL 2023 – REVENUE HIGHLIGHTS

Investment Earnings: +$14.0 Million

- 1st Quarter projection is $12.9 million higher than FY22 Actual; strength attributed to:
  - Higher cash balances from ARPA funds
  - Higher returns from increasing interest rates
- Projection Assumes:
  - Average Return=1.39%
  - Assumes that ARPA money will be distributed in following months
  - Interest rate will continue gradually increasing at lower pace than market projections

FY23: Investment Earnings

	FY 2022	2023
Average Daily Investment	$1,734,114,248	$1,734,114,248
Average Return	0.21%	1.39%
Est'd Investment Earnings	$3,626,180	$24,104,188
General Fund	**$2,268,459**	**$15,079,053**
Water Fund	$58,531	$58,531
Wastewater Fund	$239,299	$239,299
Stormwater Fund	$91,610	$91,610

FISCAL 2023 – REVENUE HIGHLIGHTS

State Highway User (HUR) Revenues: -$9.8 Million Deficit

- FY23 projection is consistent with FY22 actual, but is not keeping pace with projected increase assumed in the FY23 budget.
- Deficit projected by declines in the HUR formula inputs:
  - Overall components of HUR are down 8.8% as of August 2022
  - Gasoline Taxes, which represents 33.9% of HUR, is down by 7.5% rom Fiscal 2022
  - Motor Vehicle Tax, which represents other 32.8% of HUR, is 9.6% lower than Fiscal 2022
- These factors are very susceptible to economic factors & inflation trends. Continuing to closely monitor with DOT and State partners as the City’s allocation is increased.

FISCAL 2023 – REVENUE HIGHLIGHTS

High-Performance MRR TC: -$5.9 Million Deficit

- The anticipated increase is based on historical participation for this credit.
- The anticipated increase in the cost assumes the additional projects in the pipeline as the result of the passage of CC Bill 21-0167 in December 20221.
- The Fiscal 2023 Budget did not incorporate pipeline projects coming due to this credit's application expansion

1ST QUARTER EXPENDITURE HIGHLIGHTS

1ST QUARTER EXPENDITURES: KEY DEFICIT DRIVERS

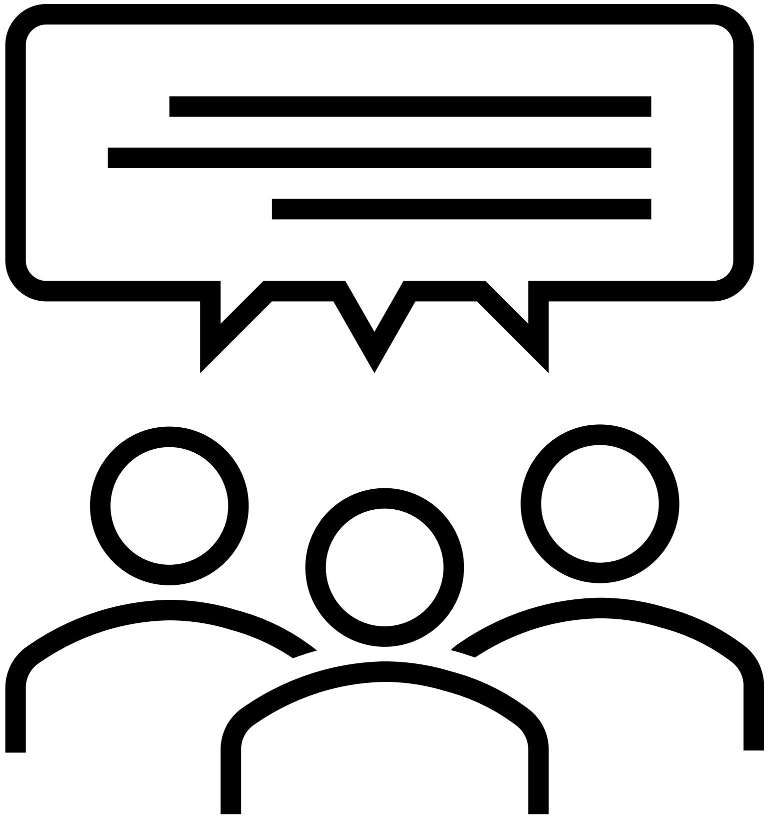
Agency	Variance	Explanation
Fire	($17.4m)	• Overtime & Staffing • Fire Department spending is trending high due to overtime costs in Fire Suppression. Year over year, overtime expenditures are up by 70% due to overtime to cover shifts for vacant positions. This is attributed to contract provisions that allow staff to remain on payroll to spend down leave balances and the length of time to recruit and onboard new employees.

Health	($22.8m)	• FEMA Expenditures
		  • The City's FEMA eligible expenses have been charged to this service within the Health Department. The City is currently receiving 90% reimbursement for these expenses. This reimbursement will be phased out in May when the COVID-19 public health emergency ends.
		  • The activities currently being funded by FEMA are:
		    1. Hotel Shelters & Security Costs
		    2. Vaccine Rollout
		    3. Eligible Health Department Expenses

Equity & Civil Rights	($2.3m)	• Police Accountability Board
		  • The projected deficit is driven by costs for the Police Accountability Board. A supplemental to appropriate funds for this service is pending approval with the City Council.
		  • Projected deficit will decrease based on timing of onboarding newly created positions

SUMMARY

- General Fund revenue continues to be strong, but areas of exceptional strength in FY22 are returning to normal levels
- General Fund expenditures continue to trend at and slightly higher than budget; high vacancy levels in services with daily minimum staffing are resulting in overtime deficits
- Some revenue and expenditure trends have shifted in the 2nd Quarter; we will see the impact of these trends as 2nd Quarter wraps up



FY2023 1ST QUARTER: DISCUSSION