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	SUBJECT	City Council Bill #19-0379 Charter Amendment – Ordinance of Estimates		

TO

DATE:

January 13, 2020

The Honorable President and
Members of the City Council
Room 400, City Hall

The Department of Finance is herein reporting on City Council Bill 19-0379, Charter Amendment-Ordinance of Estimates, the purpose of which is to amend the City's Charter to authorize the City Council to increase items of appropriation or add items for new purposes in the Ordinance of Estimates, subject to certain limitations. The bill also amends the Charter to delete the requirement that supplementary appropriations be recommended by the Board of Estimates.

Background

Article VI of the Baltimore City Charter clearly defines the roles for the Mayor, the Department of Finance, the Department of Planning, the Board of Estimates (BOE), and the City Council in the budget process. Article VI also lays out an orderly timeline for budget development and enactment of the Ordinance of Estimates, as well as the process for making post-adoption adjustments to the budget.

The Charter first requires the Departments of Finance and Planning to make their respective operating and capital budget recommendations and for the BOE to hold public hearings on the recommendations. Next, the BOE must adopt a final recommended budget, the Ordinance of Estimates, by a majority vote of its members and submit the Ordinance to the City Council at least forty-five days prior to the beginning of the subsequent fiscal year, July 1. The City Council holds public hearings on the Ordinance and by a majority vote of its members may reduce or eliminate items of appropriation but is precluded from adding additional funding to the Ordinance. Final adoption of the Ordinance is required at least five days prior to the beginning of the subsequent fiscal year.

In addition, Article VI of the City Charter outlines a process for making additional, or supplemental, appropriations after adoption of the Ordinance. Supplemental appropriations must be directed to a single program or purpose, include an estimate of the revenue source, and be passed by the BOE before being considered by the City Council.

Policy Considerations

City Council Bill 19-0379 makes two significant changes to the budget process outlined above. First, the bill authorizes the City Council to increase or add items of appropriation and for new purposes, as long as the increases are offset by other reductions and do not exceed the total amounts proposed for the operating or capital budget. Currently, the City Council can only reduce items of appropriation. Second, the bill authorizes the City Council to introduce ordinances for supplemental appropriations without a recommendation of the Board of Estimates. Currently, supplemental appropriation ordinances must first be approved by the BOE before consideration by the City Council.

We believe that both of these changes inject considerable risk into the budget development and oversight process, and jeopardize the City's hard-earned financial profile, for the following reasons:

Fiscal Authority and Accountability

The Charter bases financial accountability clearly in the executive branch with the Mayor. Given the weight and clarity of this responsibility, the Mayor must take strong ownership of the City's budget and finances. In turn, the Mayor relies heavily on the professional staff in the Departments of Finance and Planning to review agency budget proposals, to develop the initial budget, and to provide advice and insight on important fiscal matters.

This arrangement has served the City well. Under this arrangement, the City has built reserves to protect against emergencies, has consistently met its funding commitments to its pension systems, and has built a trust fund to better manage post-employment health benefits over the past decade. The City has also made common-sense reforms to health benefit and pension plans. In turn, both Moody's and Standard & Poor's rate the City's credit as AA, which is remarkable given the City's economic and demographic profile in comparison to other AA rated cities. This strong credit rating provides low-cost access to the capital markets for infrastructure projects and sends a signal of underlying safety and strength to investors. In its' latest report, Standard & Poor's praised the City's overall financial profile, citing its "strong financial policies and practices, strong budgetary performance, and very strong budgetary flexibility."

By reducing the authority of the executive in the budget process, City Council Bill 19-0379 threatens to dilute and diffuse fiscal authority and accountability. This could weaken the City's financial accountability structure as we enter a period where Baltimore will face enormous financial challenges. Over the next decade, it is likely that the City will be simultaneously confronted with new mandated education spending and a slowdown in the national economy. These challenges will be exacerbated by the City's already tenuous position as an aging city with declining population, crumbling infrastructure, and a host of pressing service demands. Reducing executive authority during this time would almost certainly raise red flags for our bond rating agencies and leave the City poorly positioned to quickly respond to these challenges.

Budget Development

Months before the Ordinance of Estimates is considered by the City Council, Finance begins the technical work of putting together a budget for the subsequent fiscal year. In the early stages of development, before policy choices are discussed, our focus is on crafting an accurate and realistic budget that carefully weighs the cost of day-to-day City operations versus longer-term liabilities.

In the Fiscal 2020 budget, 43% of the budget was made up of fixed costs, which are costs the City is required to pay by law or contract. Fixed costs, which are approximately \$833 million, include pension costs, City Schools contributions, workers compensation costs, retiree health benefits, reserve fund contributions, debt service payments, and utility costs. While the City has more discretion with the other 57% of the budget, we must account for a myriad of factors when developing the budget, including union contract provisions on pay scales and work rules, potential legal liabilities, building rental costs, vehicle costs, and health benefit cost growth, among many others. In the current setup, the Mayor defers to the City's financial experts for this crucial analysis, which provides some assurance that the proposed budget is an honest and accurate reflection of next year's revenues and expenditures.

By proposing to authorize the City Council to both reduce **and** add items of appropriation in the budget, we fear that arbitrary spending decisions could be made without due consideration of the City's long-term fiscal responsibilities. While this bill does retain controls on overall spending levels with the BOE and Finance, this control would not prevent the Council from cutting line items, including the fixed costs described above, and re-directing those funds to other services or new programming. Those types of changes could swiftly erode

the City's financial health.

It is also important to note that the City Charter, as written, does vest some budget power in the hands of the City Council. If there is consensus in the City Council that the proposed Ordinance of Estimates is bad for the City, the City Council has the power to reject the legislation. Short of this step, the City Council can also leverage its authority to negotiate with the Mayor to make offsetting adjustments to the budget, as it did for Fiscal Years 2013, 2014, 2016, 2017, 2018, and 2020. In those years, funding was added for various City Council priorities, including after-school programming, violence prevention, Fire suppression, housing inspections, animal control, and recreation centers. In exchange, the Mayor agreed to reduce spending for other priorities that had been included in the proposed Ordinance of Estimates. This mechanism of negotiation works within the current Charter authority vested in the City Council, while guarding against unilateral revisions to the Ordinance of Estimates that are possible under this bill.

Post-Adoption Monitoring

Under current law, once the budget is adopted, supplemental appropriation bills to add funding to an agency must be initiated by Finance and approved by the BOE before Council consideration. The current practice is for Finance to carefully monitor actual revenues and expenditures against the Adopted Budget, providing detailed updates to both the Mayor and City Council on a quarterly basis. Even if surplus revenue is forecast, Finance generally counsels the Mayor to first use supplemental appropriations to cover unanticipated spending. Recent examples include supplemental bills for higher than budgeted snow removal expenses, 26th Street repair costs, and Fire overtime costs. Finance has also advised the Mayor, where appropriate, to preserve surplus revenue to protect against immediate risks such as audit findings or pending litigation. This cautious approach to managing the budget has ensured that any remaining resources are first set aside for known fiscal risks, that the City works within its means on a year-to-year basis, and that supplemental bills are introduced sparingly and only out of necessity.

This bill would impede this approach by authorizing the City Council to initiate and pass supplemental spending bills, bypassing the BOE and Finance. The proposed process prevents appropriate vetting of bills and wouldn't guarantee legitimate and sustainable revenue for funded programs. This could invite chaos into the oversight process, encourage multiple competing and unnecessary spending bills, and severely compromise the City's fiscal management.

Conclusion

Article VI of the Baltimore City Charter, which lays out the roles and rules for developing the annual budget, has served the City well. It vests financial authority and accountability with the Mayor, while also providing some power to the City Council to influence the budget in an orderly manner. Baltimore's fiscal governance structure is one of the primary reasons that the City has been able to maintain fiscal stability, as evidenced by its AA bond rating, even after decades of population loss and economic struggles.

By altering the rules for making changes to the budget, City Council Bill 19-0379 threatens to upend the delicate structure that has kept Baltimore's budget in balance. It would dilute the executive's budget authority at a time when the City will be confronting numerous fiscal challenges in the years ahead.

For the reasons stated above, the Department of Finance opposes the passage of City Council Bill 19-0379.

cc: Henry Raymond
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