

Andrew Klein

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	SUBJECT	City Council Bill # 10-0526

CITY of
BALTIMORE
MEMO



TO

The Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

DATE: June 14, 2010

Attention: Karen Randle

City Council bill 10-0526 provides for a supplemental Motor Vehicle Fund appropriation of \$24,200,000 to the Department of Transportation (Program 501 – Highway Maintenance) to fund additional Fiscal 2010 operating expenses related to snow removal. The revenue for this appropriation will come from Fiscal 2009 fund balance (\$2,100,000) and transfer from General Fund (\$22,100,000).

Analysis

Fiscal 2010 Overview

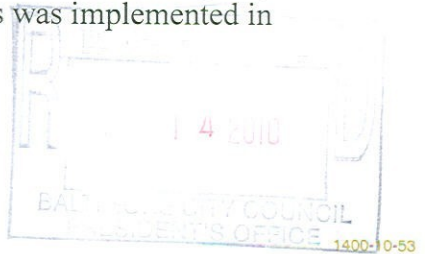
This is the second of three actions proposed by the Board of Estimates to balance the Fiscal 2010 Motor Vehicle Fund budget.

The City of Baltimore has experienced three major budget setbacks in Fiscal 2010:

- In August 2009, the State Board of Public Works reduced Baltimore’s State shared revenues by \$35.2 million. This cut, combined with preliminary local revenue projections, resulted in a \$60.2 million operating shortfall. The bulk of the State reduction (\$31.5) came from the City’s Highway User Revenue distribution, the main source of revenue for the Motor Vehicle Fund.
- In December, the City revised revenues down further. The writedown was due primarily to deteriorating income tax revenue, including a \$14.6 million State adjustment for overpayments made in Fiscal 2009.
- Cleanup from the historic February snowstorms cost the City an estimated \$33 million, putting the snow removal account (part of the Motor Vehicle Fund) \$28 million in deficit. Federal emergency reimbursement is still being negotiated, but will likely be only a fraction of the total costs incurred.

The City took immediate action to reduce spending after the August State aid cuts, approving a plan that included employee furloughs, a continued hiring freeze, and agency budget reductions. An additional round of agency budget reductions was implemented in January, following the State’s income tax overpayment adjustment.

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The spending reductions have worked as intended, generating nearly \$60 million of expenditure surplus in the general Fund and Motor Vehicle Fund. However, these surpluses do not fully offset the aforementioned revenue shortfalls and snow removal costs.

The table below shows the Finance Department’s projections for the two funds as of the end of April. Both funds have large revenue deficits. The General Fund revenue deficit is fully offset by spending reductions. Not so for the Motor Vehicle Fund, which was beset by a relatively larger revenue shortfall (20% of budget compared to 3.3% for the General Fund) and the full impact of the snow removal costs.

Fund	Revenue Surplus/ (Deficit)	Expenditure Surplus/ (Deficit)	Fund Surplus/ (Deficit)
General Fund	(45.1)	51.5	6.4
Motor Vehicle Fund	(37.9)	(20.2)	(58.1)
TOTAL	(83.0)	31.3	(51.7)

Steps to Correct the Deficit

The City Charter requires that the funds, and the agency budgets within the funds, be balanced at year end. The Board of Estimates proposes three steps to balance the Motor Vehicle Fund and the Department of Transportation (DOT) budget within that fund, which is \$25 million in deficit due to the snow removal costs.

Step 1 (Council Bill 10-0525) is to appropriate \$60 million from the Fiscal 2009 General Fund balance -- \$10.5 million from undesignated reserve and \$49.5 million from the Budget Stabilization Reserve (Rainy Day Fund). These funds will be transferred from the General Fund to the Motor Vehicle Fund, where they will cover the Motor Vehicle Fund revenue deficit of \$37.9 million and provide \$22.1 million to address the DOT expenditure deficit.

Step 2 (this bill) is to appropriate \$22.1 million from the General Fund transfer, plus \$2.1 million from undesignated Motor Vehicle Fund balance, to DOT.

Step 3 (Council Bill 10-0527) is to transfer \$2.5 million of expenditure surpluses from the Department of Public Works – Solid Waste Special Services (\$2 million) and the Department of Recreation and Parks – Park and Street Trees (\$500,000) to cover the remaining DOT deficit. These surpluses were generated through the hiring freeze, furloughs, and mid-year agency budget reductions for the purpose of helping to balance the Motor Vehicle Fund.

Budget Stabilization Reserve

According to the Budget Stabilization Reserve policy, the reserve was established to provide a budget defense to stabilize a post-adopted City budget that has been impacted by an uncorrectable shortfall in budgeted revenues and/or unanticipated and

uncorrectable emergency expenses, for the sole purpose of avoiding a budget deficit in any given year.

The reserve can be used only after all reasonable efforts have been made in controlling expenses and the City's undesignated fund balance has been exhausted.

The reserve under no circumstances can be used as a revenue source to balance a planning year budget.

The Finance Department has determined that the Fiscal 2010 budget situation warrants use of the Budget Stabilization Reserve and has discussed its use with the bond rating agencies.

The Budget Stabilization Reserve policy requires that whenever funds are drawn from the reserve, the Board of Estimates must establish a plan for full restoration of the reserve over no more than five years. Consistent with that policy, the Finance Department recommends that any General Fund surplus at year end, plus any federal reimbursement for snow removal costs, be used to replenish the Budget Stabilization Reserve and the undesignated fund balance.

Recommendation

The Finance Department recommends approval of Council Bill 10-0526, as it is necessary to meet the Charter requirement of a balanced City budget.

Cc: Edward Gallagher
Angela Gibson

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