

Fiscal 2024 Third Quarter Projections

Bureau of the Budget & Management Research
City Council Briefing
May 16th, 2024



Fiscal 2024: Third Quarter Outlook

3rd Quarter Projected Deficit: \$13.7Million

Key Takeaways

- Between the 2nd and 3rd Quarter the projected revenue surplus grew by \$20 million while the projected expenditure deficit grew by \$50 million.
- The improved revenue outlook is driven by investment earnings and income taxes.
- The worsening expenditure deficit is driven by:
 - Increasing overtime expenditures (civilian & sworn)
 - Increased procurement activity partially due to paying prior year invoices in FY24
- Resolution of reporting issues
 - FY24 Workday reporting did not capture full procurement activity tied to FY23 contracts.
 - This issue did not present itself in FY23 because all contracts were migrated or created as FY23 items.

Revenue



Expenditures



Fiscal 2024 General Fund Revenue Overview

Fiscal 2024: Revenue Outlook

Key Notes on Third Quarter

- The anticipated surplus increased to **\$45.0 million**.
- The increase is driven by **investment earnings**, yielding higher rates of return and a larger daily cash balance than budgeted.
- Improved **Highway User Revenue** proceeds are estimated to bring in additional revenues of \$8.2 million that the City will either use for covering additional transportation-related operating costs or will transfer to the Capital budget for transportation projects.
- The City **does not anticipate using the \$29.4 million** of budgeted Fund Balance; the net surplus excludes this amount.

FISCAL 2024
THIRD QUARTER

\$45.0M

PROJECTED SURPLUS

Revenue Highlights

General Fund Revenue Summary Table

REVENUES	FY 2024 Budget	FY 2024 Q1 Projection	FY 2024 Q2 Projection	FY 2024 Q3 Projection	Surplus/ (Deficit)
Local Taxes	\$1,717.9	\$1,717.8	\$1,726.8	\$1,737.5	\$19.6
State Collected Taxes	\$193.4	\$199.8	\$199.7	\$201.6	\$8.2
Licenses and Permits	\$28.1	\$27.1	\$29.7	\$33.1	\$5.0
Fines and Forfeits	\$33.1	\$33.1	\$32.2	\$31.2	(\$1.9)
Use of Money and Property	\$45.7	\$83.3	\$75.8	\$77.3	\$31.5
State Aid	\$117.7	\$117.5	\$117.5	\$117.6	(\$0.1)
Private and Federal Grants	\$0.0	\$0.1	\$0.1	\$5.4	\$5.4
Charges for Current Services	\$43.4	\$42.1	\$47.2	\$47.0	\$3.6
Other Revenues	\$6.2	\$6.2	\$6.4	\$6.6	\$0.4
Total Revenues Before Transfers	\$2,185.5	\$2,227.0	\$2,235.4	\$2,257.3	\$71.8
Net Transfers	\$2.9	\$3.6	\$7.0	\$5.5	\$2.6
Prior Year Fund Balance	\$29.4	\$0.0	\$0.0	\$0.0	(\$29.4)
Total General Fund	\$2,217.8	\$2,230.6	\$2,242.4	\$2,262.8	\$45.0

Note: Highway User Revenues are anticipated to bring in an additional \$8.2 million which will either be used for operating expenses related to transportation or capital projects for transportation.

Revenue Highlights

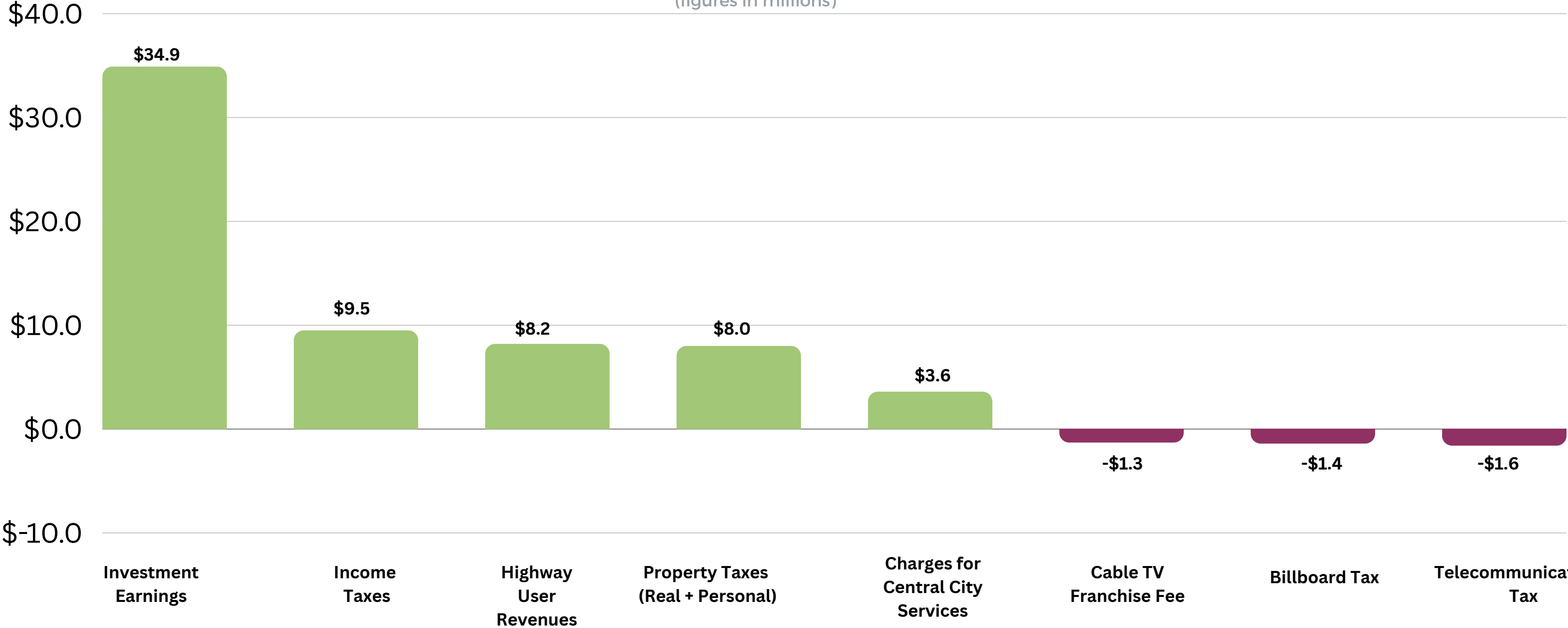
Local Taxes Revenue Summary Table

REVENUES	FY 2024 Budget	FY 2024 Q1 Projection	FY 2024 Q2 Projection	FY 2024 Q3 Projection	Surplus/ (Deficit)
Local Taxes					
Property Taxes	\$1,085.5	\$1,083.2	\$1,085.8	\$1,093.5	\$8.0
Income Taxes	\$447.5	\$447.5	\$453.9	\$457.0	\$9.5
Recordation & Transfer Taxes	\$96.9	\$93.6	\$95.4	\$96.8	(\$0.1)
Energy Tax	\$49.8	\$48.7	\$48.7	\$49.3	(\$0.5)
Telecommunication Tax	\$34.9	\$34.3	\$34.4	\$33.4	(\$1.6)
Net Hotel Tax	\$30.4	\$30.4	\$31.4	\$31.6	\$1.2
Video Lottery Terminal	\$12.6	\$12.6	\$12.6	\$12.6	\$0.0
Admission Tax	\$8.5	\$8.5	\$8.4	\$8.4	(\$0.1)
All Other Local Taxes & Tax Credits	(\$48.3)	(\$41.0)	(\$43.8)	(\$45.2)	\$3.1
Total Local Taxes	\$1,717.9	\$1,717.8	\$1,726.8	\$1,737.5	\$19.6

Revenues: Major Variances

Third Quarter Projections, Budget Variances

Surplus / (Deficit)
(figures in millions)



This chart excludes \$29.4 million of budgeted Fund Balance.

Projected Surpluses

Investment Earnings

Budget: \$26,038,000

Q3 Projection: \$60,897,000

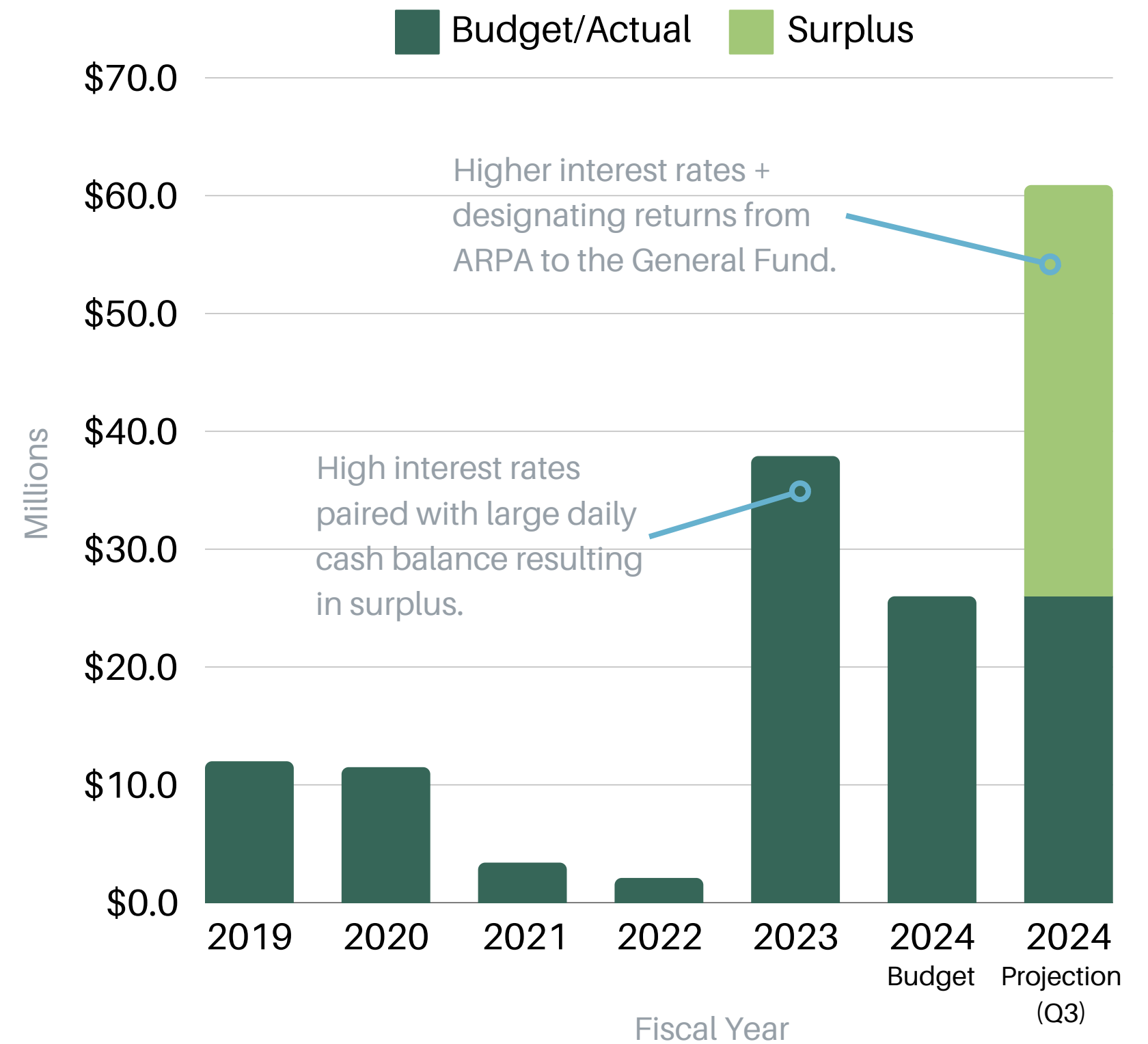
Surplus: \$34,859,000

CASH AVAILABLE FOR INVESTMENT

- The average monthly cash available for investment has been adjusted to designate returns from ARPA to the General Fund.

AVERAGE RETURN RATE AND YIELDS

- Annualized interest rates averaged **5.7%** during the first three quarters of Fiscal 2024, and it is anticipated that they will be falling slightly to **5.1%** in the last quarter of the Fiscal Year.
- The \$1.2M increase from Q2 responds to the higher than anticipated interest rate during the 1st Quarter of Calendar 2024, which averaged 6.5%, 28.8% higher than the projection.



Income Taxes

Budget: \$447,543,000

Q3 Projection: \$457,037,000

Surplus: +\$9,494,000

INCREASED YIELDS FOR INCOME TAX

- The projection is based on YTD activity of income tax proceeds as of March 2024.
- Q3 Income tax projection includes the two major withholding & estimated receipts corresponding to November 2023 and February 2024 distributions, and delinquent payments processed as of March 2024.
- Withholding and estimated payments show no growth from last year, but YTD interest & penalties, additional filings and delinquent payments are 42.4% higher.

FIDUCIARY AND WITHHOLDINGS

- Based on YTD, revenues related to Fiduciary Returns are anticipated to be \$2.4 million lower than Budget, and Unallocated Withholdings will remain at budget.



Highway User Revenues (HUR)

Budget: \$193,444,051

Q3 Projection: \$201,622,000

Surplus: +\$8,177,949

ALLOCATION FORMULA

- In Fiscal 2024, the allocation of Corporate Income tax to State Highway User Revenues increased from 17.2% in Fiscal 2023 to 20% in Fiscal 2024, improving the overall revenue for the City. This is built into the budget.



INCREASED STATE HUR FORECASTS

- This projection anticipates a **4.2% increase in HUR cash for distribution** compared to the budget.
 - The majority of this increase is driven by Corporate Income Tax. Discounting this % allocation increase, gross Corporate Income tax base has grown 2.5% compared to Fiscal 2023.
 - The projection accounts for the YTD growth experienced in Sales and Use Tax, 2.5%, and Motor Vehicle Titling Tax, 2.8%.
 - YTD HUR activity suggests a 1.5% increase compared to the Fiscal 2023 year-end.
 - The \$8.2 million surplus is restricted for transportation related expenses and the City anticipates transferring this surplus to the Capital budget for transportation projects.

Property Taxes

Budget: \$1,080,820,000

Q3 Projection: \$1,088,828,000

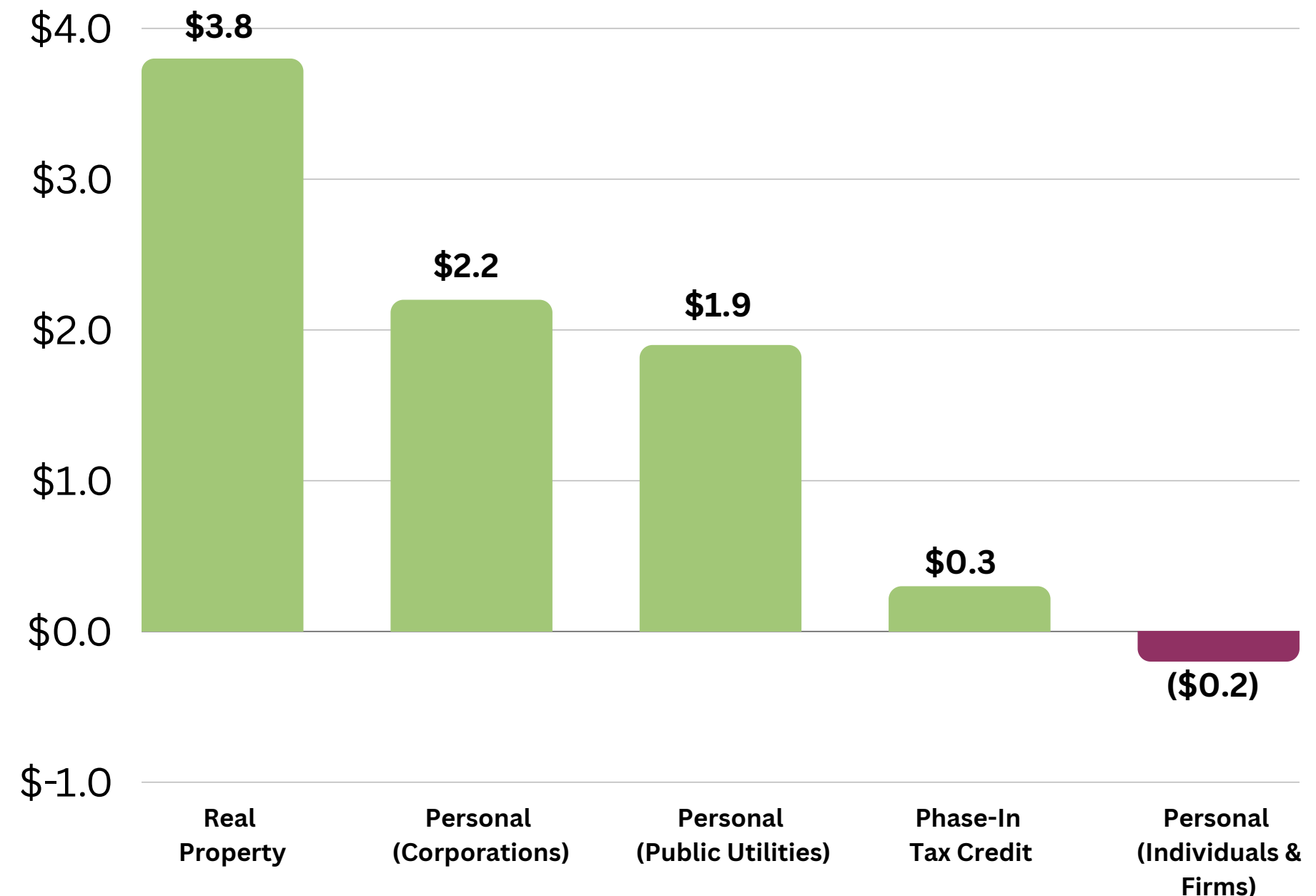
Surplus: +\$8,008,000

PROPERTY TAXES INCLUDE:

- Real Property Taxes
- Personal Property Taxes
 - Ordinary Business Corporations
 - Individuals & Firms
 - Public Utilities
- Phase-In Tax Credit

More details to follow on next slides.

Property Tax Revenue Budget Variances
Fiscal 2024 Third Quarter
 Surplus/ (Deficit) Compared to Budget



Real Property Taxes

Budget: \$971,119,000

Q3 Projection: \$974,936,000

Surplus: \$3,817,000

ASSESSABLE BASE

- The net real property tax base decreased by \$153 million from July to April of Fiscal 2024.
- This reduction was accounted for in our budget assumptions, which included a reduction of 0.89% in the taxable base due to appeals.

DECREASE IN COLLECTION RATE

- Q3 projection anticipates a 95.5% collection rate partially resulting from the Tax Sale exclusion of liens from owner-occupied properties with assessment value lower than \$250K.
- Without the exclusion of selected owner-occupied liens, the anticipated collections rate would be 97.1%.



Real Property Taxes

MAJOR RESIDENTIAL CHANGES

Overall residential tax base grew \$79.7 million net. Group 1 growth was at \$6.1 million, Group 2 at \$56.4 million, and Group 3 at \$17.1 million.

- Brewers Hill: 85 total properties with a gross change of \$28.6 million. These properties appear to be new residential developments and 70 properties are with the same owner.
- Medfield: 37 total properties with a gross change of \$11.1 million. These properties also appear to be new residential developments with most properties owned by “Upward America Southeast”.
- Port Covington: 371 total properties with a gross change of \$20.5 million. All properties had a July tax base of \$0 with the same owner (Insulator Drive).
- These new developments are expected to increase the cost of the newly constructed tax credit in future years as properties are sold by their developers.



Real Property Taxes

MAJOR COMMERCIAL CHANGES

- Inner harbor- The inner harbor experienced \$94.6 million in reduced tax base. One property alone (100 Pratt St - T. Rowe Price) accounted for \$54 million of total tax base loss for the neighborhood. This is a large office building and it is suspected there are a high number of vacancies that led to this reduction.
- Downtown had a loss \$75.6 million in tax base over 46 properties. There was a \$26 million dollar loss in tax base from one office building (1 South St - Au Bon Pan).
- Charles Village- Charles Village lost \$50.7 million in tax base from 10 total properties. \$49.8 million of the loss came from one building owned by John Hopkins.
- All other neighborhoods account for \$160.2 million dollars in commercial gross loss.



Parking Transfer to General Fund

Budget: \$17,126,624

Q2 Projection: \$19,701,360

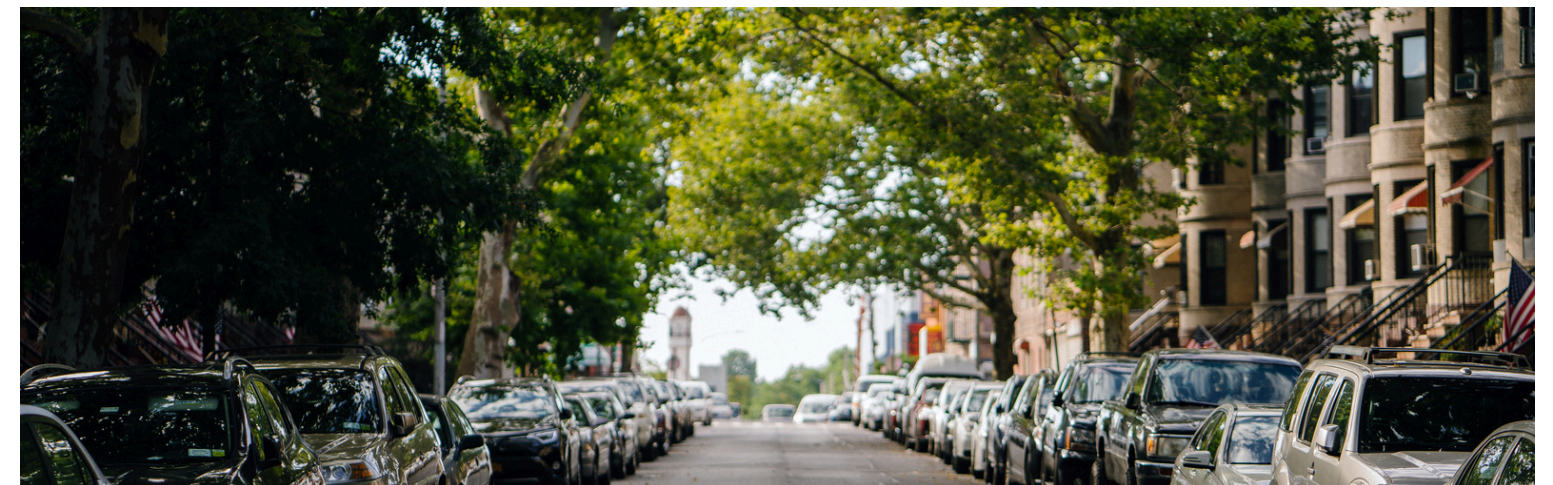
Surplus: +\$2,574,736

REVENUE CHANGES

- Parking related revenues are anticipated to generate \$2.2 million in revenue deficit. This reduction is explained by lower than anticipated metered revenues and Parking fines.
- Garage income and Parking tax, which are both anticipated to be at budget, reflect a \$1.7 million and \$250K reduction in revenues from the Arena Garage

SAVINGS REALIZED

- Based on YTD data, it is anticipated a potential expenditure surplus of \$2.8 million from unspent capital, debt service and contractual service appropriations in the Parking Enterprise Fund.
- An additional expenditure surplus of \$1.9 million is anticipated in the Parking Management Fund from salaries and OPCs.



Projected Deficits

Transfer & Recordation Taxes

Budget: \$96,896,000

Q3 Projection: \$96,834,000

Deficit: (\$62,000)

MARKET ACTIVITY

- The numbers of residential units sold fiscal year-to-date has decreased by 10.4% compared to the same period of the prior year.
 - The budget anticipated a sharp decline in transactions due to a higher interest-rate environment; however the experience so far is slightly worse than the budget assumption.

PRICES AND RESIDENTIAL HOME VALUES

- Residential home sale prices have remained resilient, retaining value despite market conditions. The average sold price grew 6.8% YOY in March.
 - March 2023 Avg. Sold Price: \$238,193
 - March 2024 Avg. Sold Price: \$254,454



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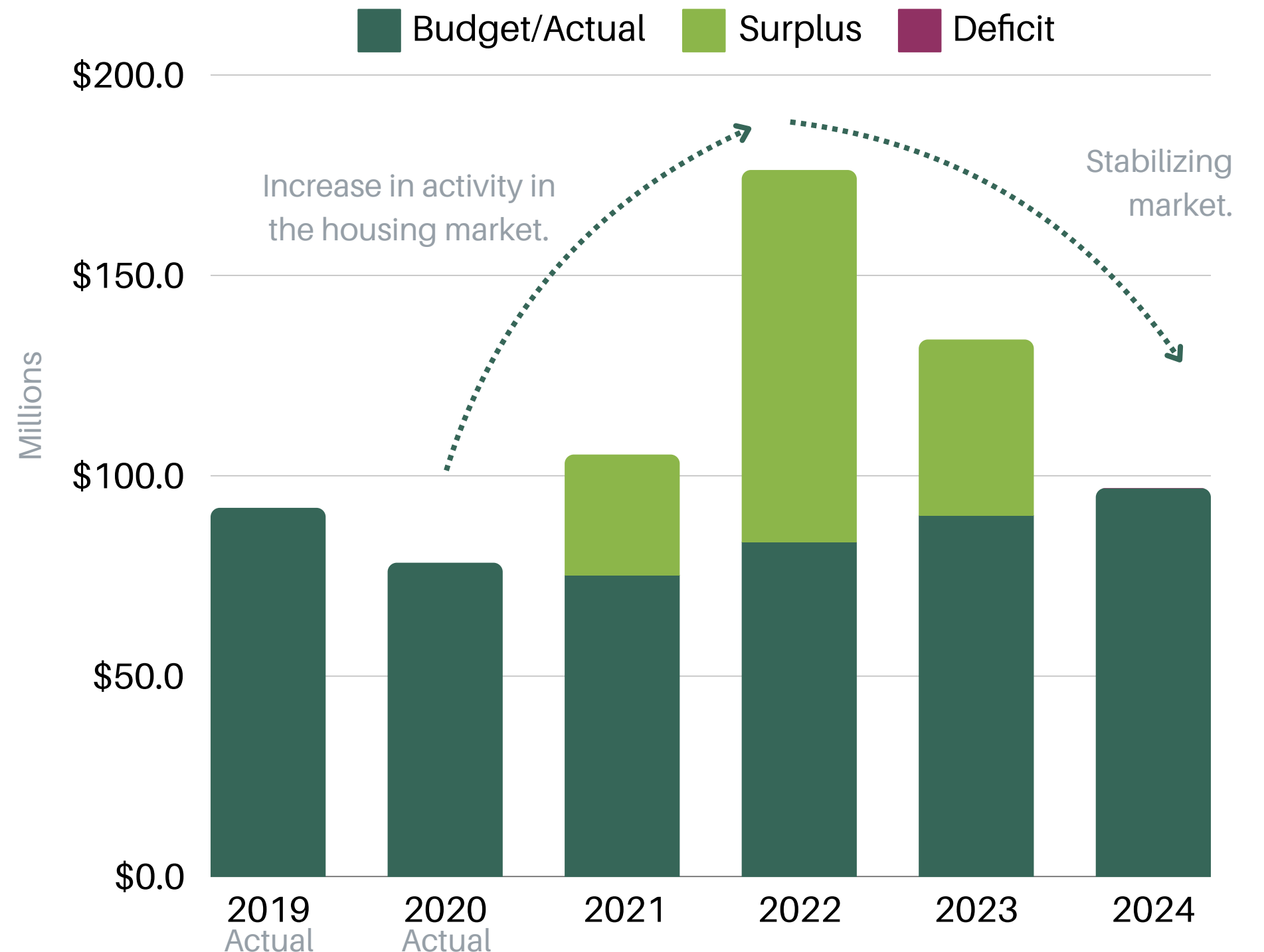
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Cable TV Franchise Fee

Budget: \$6,300,000

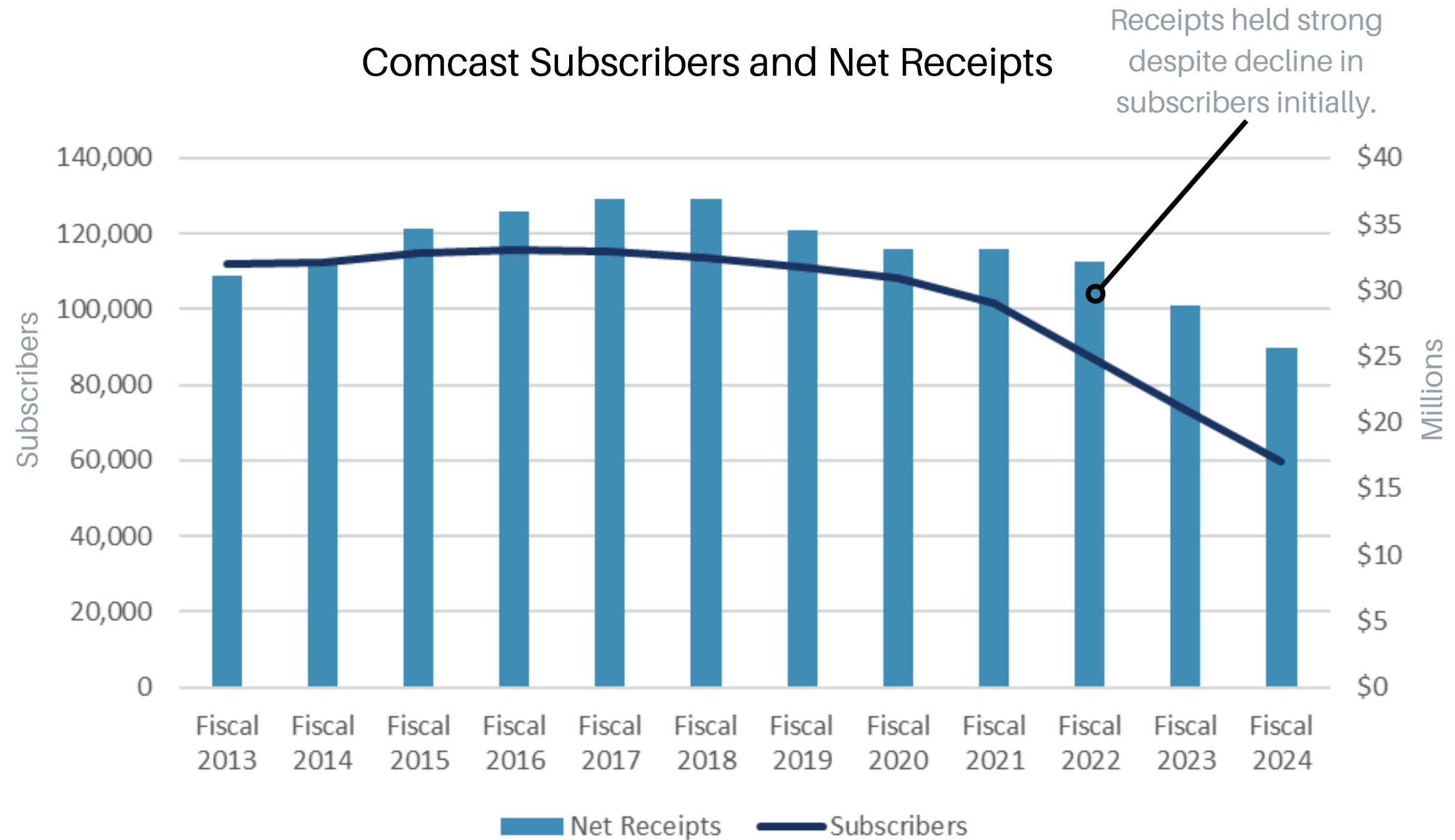
Q3 Projection: \$5,000,000

Deficit: (\$1,300,000)

TREND ANALYSIS: DECLINE IN SUBSCRIBERS AND RECEIPTS

- Total number of subscribers have dropped 46.0% from 111,032 in Fiscal 2019 to 54,531 in Fiscal 2024.
- Even though this trend was identified, the gross receipts subject to the franchise fee did not show alarming changes until Fiscal 2023 when experienced more than 10% decline.

Comcast Subscribers and Net Receipts



Billboard Tax

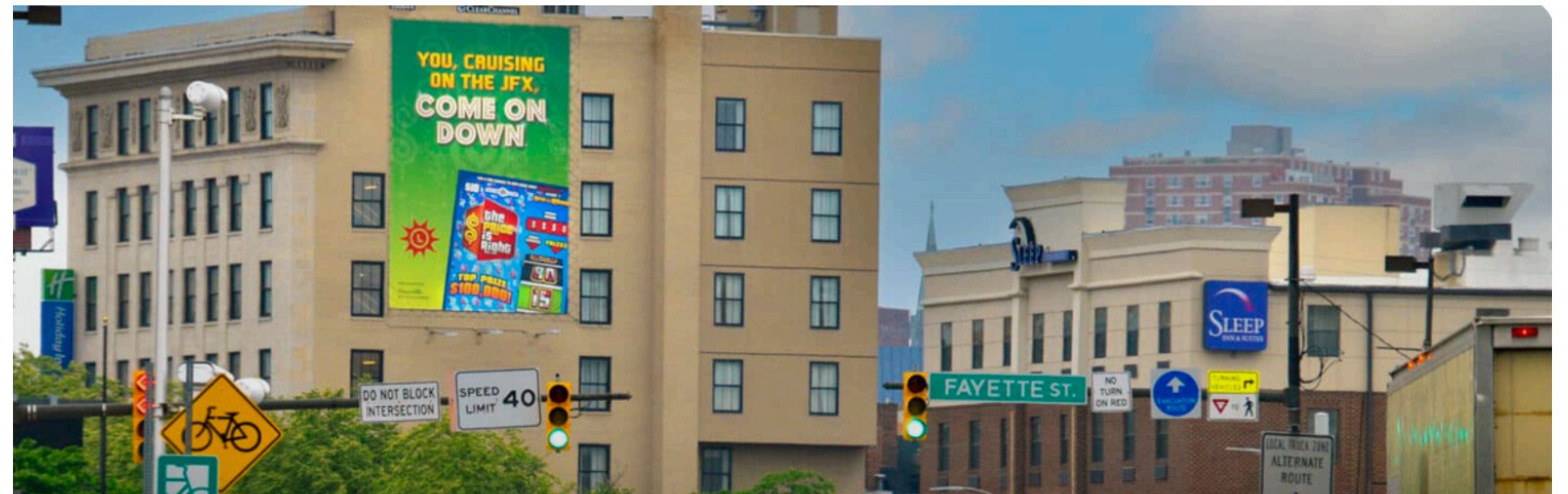
Budget: \$1,400,000

Q3 Projection: \$0

Deficit: (\$1,400,000)

CONTESTED TAX PAYMENTS

- The Billboard Tax is contested annually by the largest payer of the tax (Clear Channel). They have not made any payments this year and it is assumed that they will not make their Fiscal 2024 payment until Fiscal 2025.
- The Bureau of Revenue Collections is working to collect the billed tax due.



Telecommunications Tax

Budget: \$34,928,000

Q3 Projection: \$33,377,000

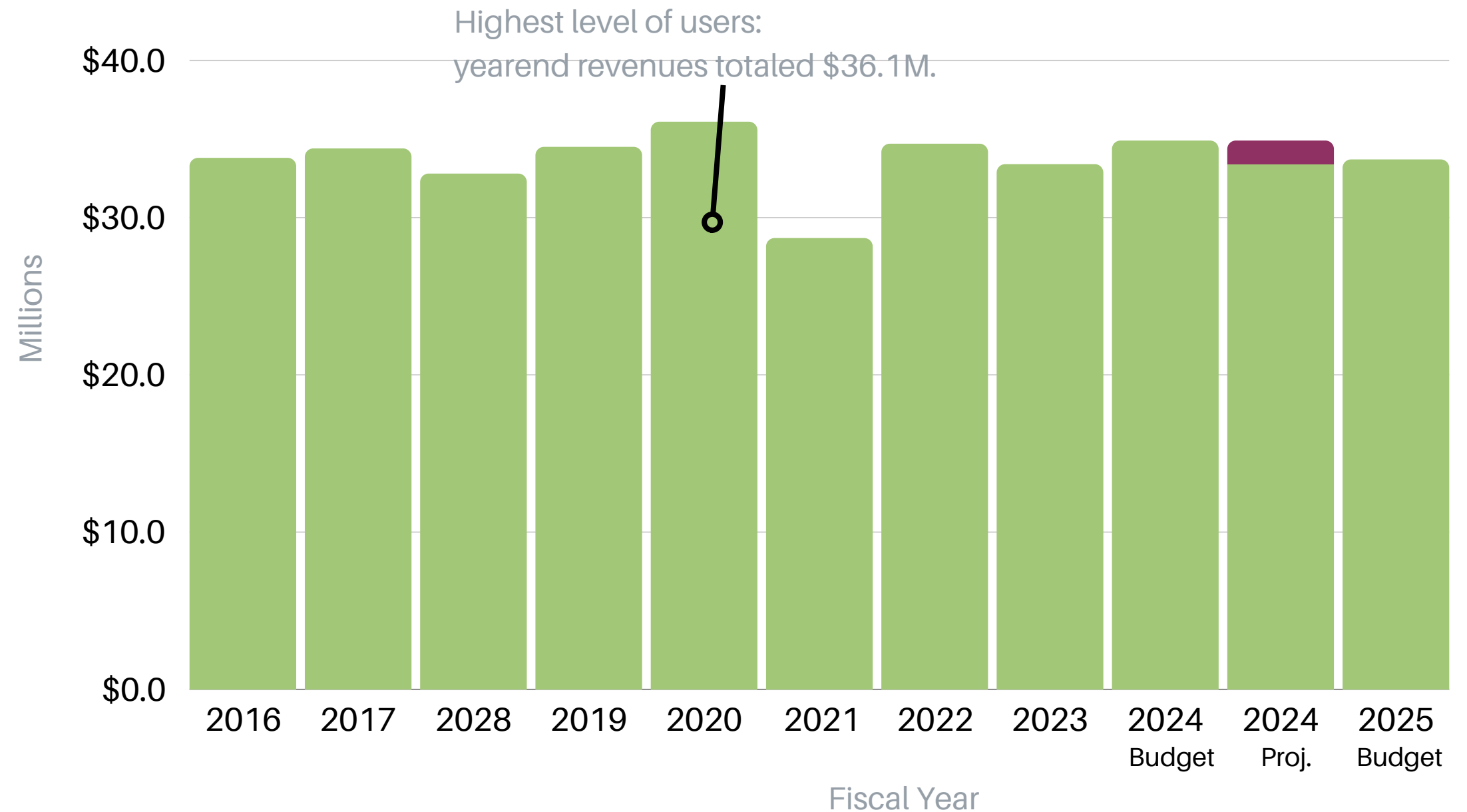
Deficit: (\$1,551,000)

TREND ANALYSIS: DECLINE IN USERS

- The Telecommunications Tax includes rates of \$0.40 for Centrex and \$4 per line for landlines and wireless services.
- Revenues have remained relatively stable despite declining population trends. At the time of creating the Fiscal 2024 Budget, it was assumed user levels would mimic 2022.
- The Fiscal 2025 Budget does account for a reduction in revenues due to declining users.

Telecommunications Tax Revenues

Fiscal 2016 to Fiscal 2025



Fiscal 2024

Expenditure Overview

Fiscal 2024: Expenditure Outlook

EXPENDITURE DEFICIT DRIVERS

Staff Costs: Estimated Impact= \$36 million

- Based on 3rd Quarter actuals, there is a projected \$32.0 million deficit in staff costs in the General Fund. This is driven by exceeding turnover assumptions, overtime, and leave payouts.

Non-General Fund Expenses: Estimated Impact= \$5 million

- Various agency expenditures reflect charging non-General Fund expenses to the General Fund. This is primarily driven by charging grant expenditures to the General Fund rather than appropriate grants.

Purchasing Activity: Estimated Impact= \$10 million

- This is comprised of two factors:
 - Outdated invoices being charged in FY24 resulting in multiple years of expenses being charged in 1 fiscal year.
 - Operational expenditures that exceed budgeted amounts.

FISCAL 2024
THIRD QUARTER

\$50.6M

PROJECTED DEFICIT

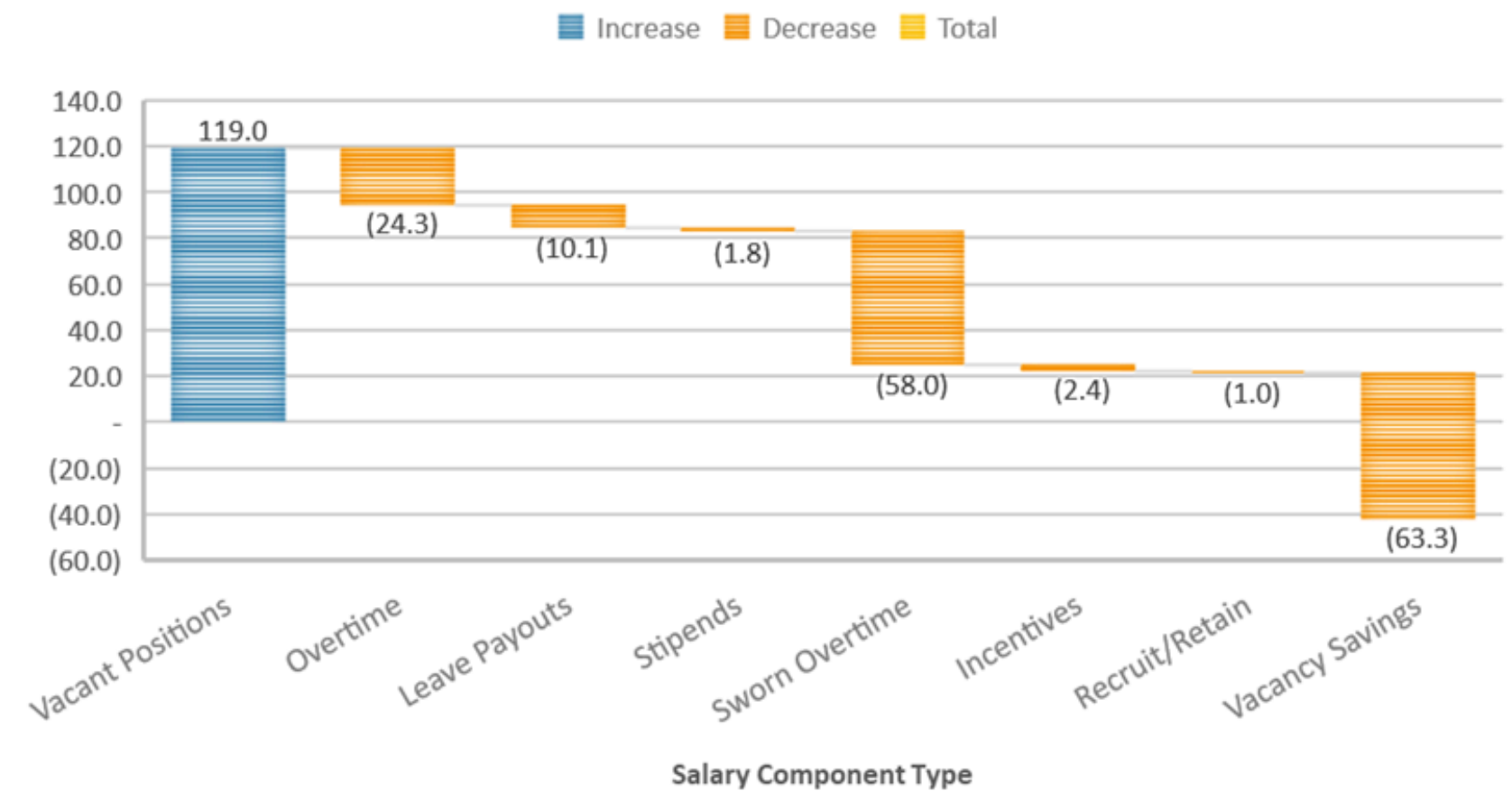
Staff Costs

STAFF COSTS: ESTIMATED IMPACT=\$36 MILLION DEFICIT

Staff Costs: Estimated Impact= \$36 million

- **Sworn Overtime:** Projected to be overbudget by \$58 million. This deficit is partially offset by vacant positions in Police and Fire. Overtime spending has increased as vacancies have increased in these agencies.
- **Civilian Overtime:** Projected to be overbudget by \$24 million. This deficit is primarily in Public Works, Rec and Parks, and Transportation. A portion of this deficit is offset by other savings on personnel line items.
- **Impact of Vacant Positions:** The total value of city General Fund vacancies is \$185M (\$127M in salaries and \$59M in benefits). Actual vacancies and overtime spending are exceeding budgeted turnover savings.

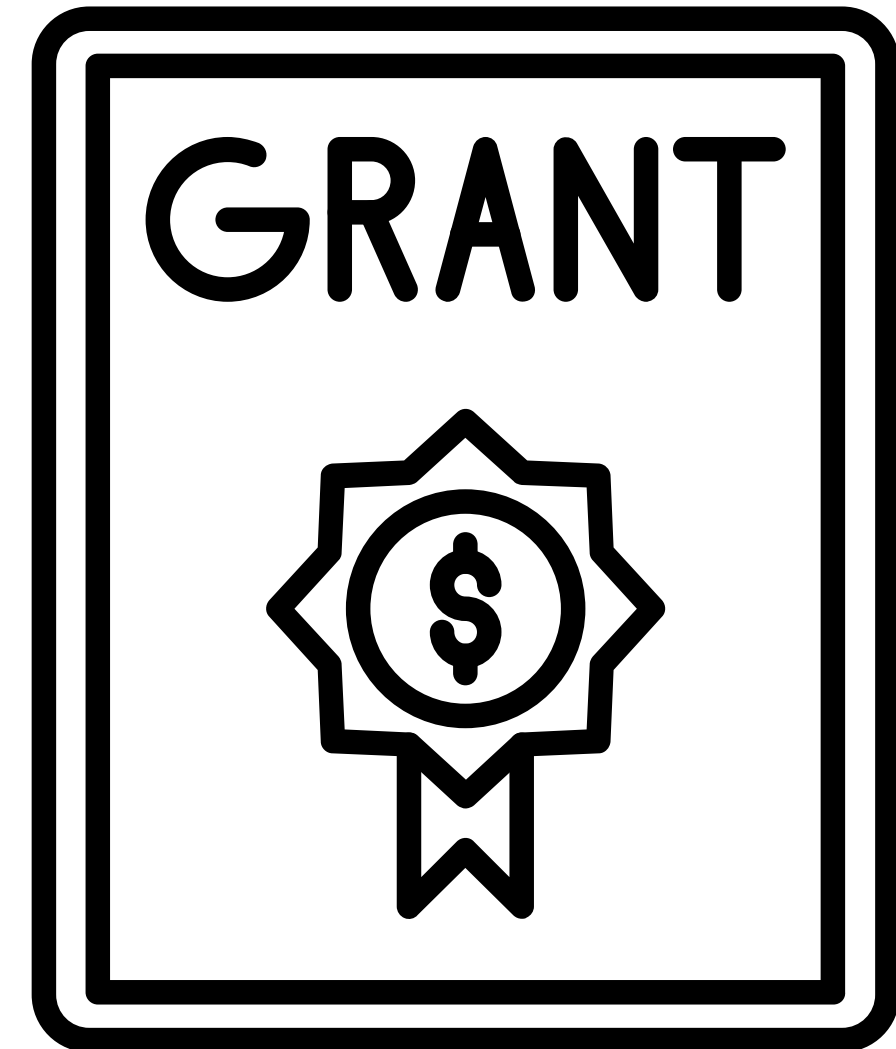
VALUE OF VACANCIES VS. OFFSETTING SALARY COSTS



Non-General Fund Expenditures

NON GF EXPENDITURES=EST IMPACT=\$5 MILLION

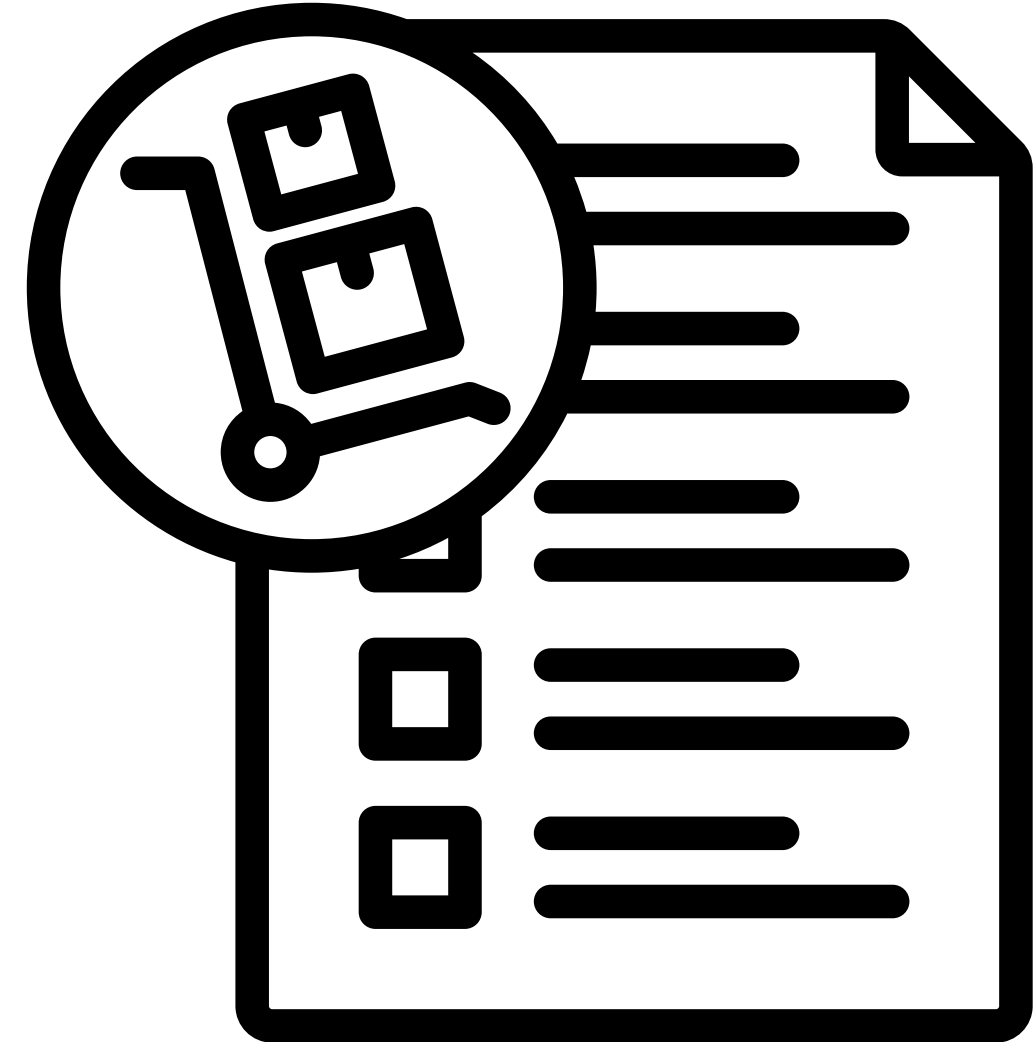
- This is primarily driven by grant related expenditures that have been charged to the General Fund.
- Key examples include:
 - Enoch Pratt Free Library: Charges from State Library Resource Center need to be moved from the General Fund to the grant. Anticipate moving at least **\$1.9 million**.
 - Health: The Department has been correcting grant related charges. There's an estimated **\$2.0 million** remaining to reclass to grants.
 - Recreation & Parks: Costs from Program Open Space have been charged to the General Fund. There's an estimated **\$1.0 million** remaining to be reclassified.



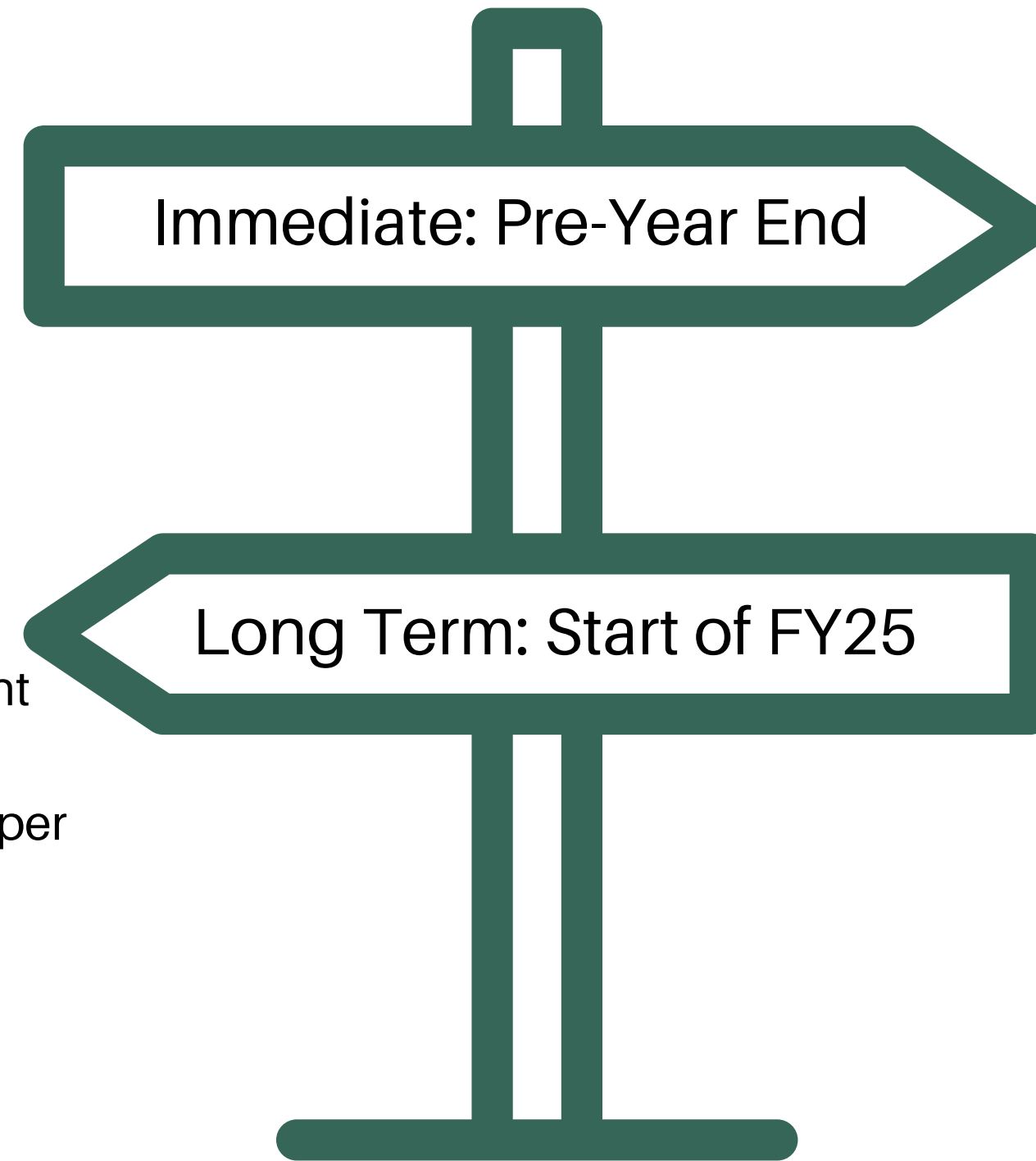
Purchasing Activity

PURCHASING ACTIVITY=EST IMPACT: \$10.0 MILLION

- Payments on late invoicing continues to impact agencies, as these costs often exceed annual line item budgets.
- Key examples include:
 - Finance: Late billing and contract delays resulted in multiple years of software contracts being charged to FY24.
 - Health & Mayor's Office of Homeless Services: Old invoices from COVID-19 response and service providers are still coming in. If the expenditure was during the reporting period, these costs can be reimbursed by FEMA.



Addressing Budget Shortfalls: Remediation Steps

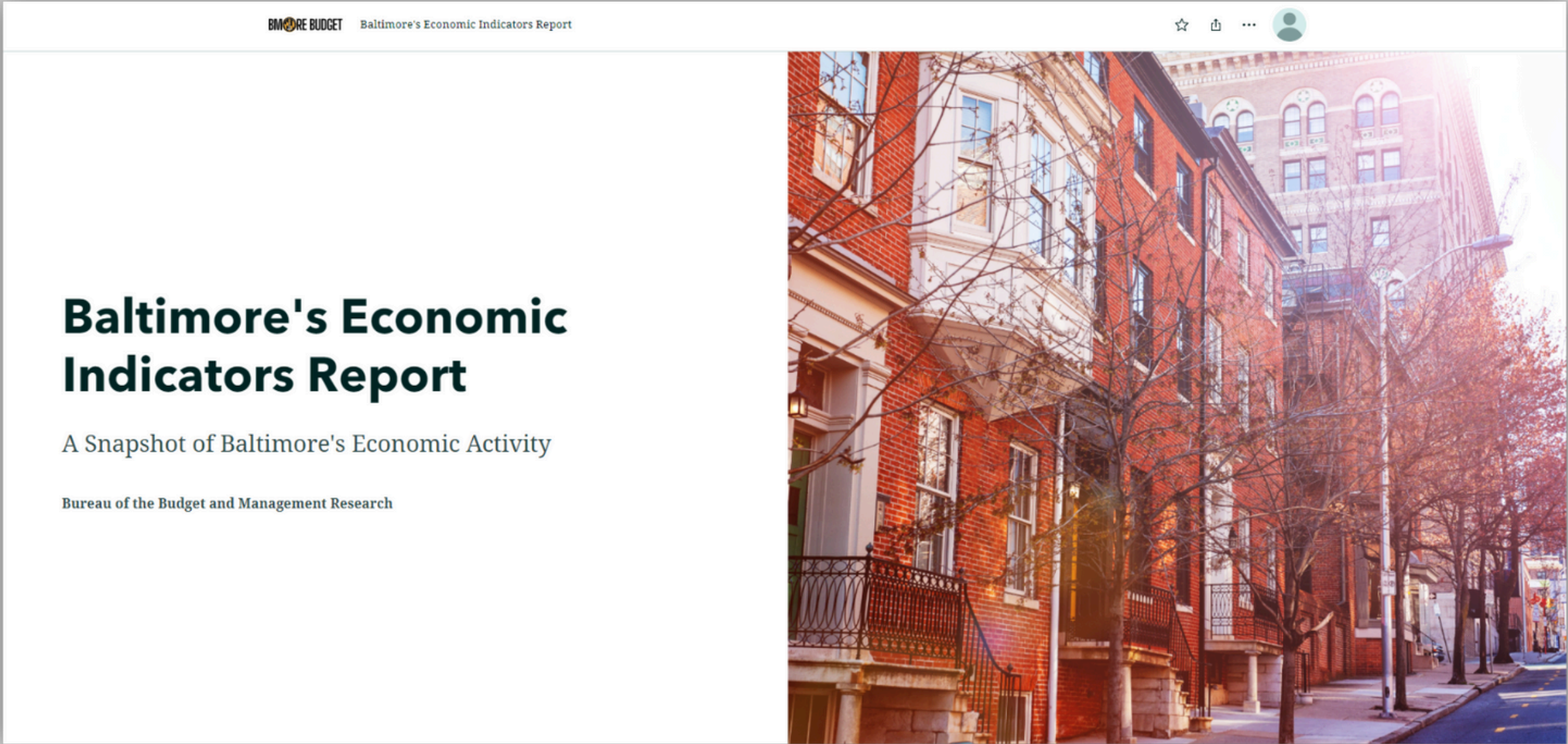


Work with Agencies to move expenses out of General Fund to correct funding sources

1. Strengthen controls in Workday to ensure positions are charged in a manner consistent with the budget.
2. Updating business processes to ensure proper budget checks are in place.

New Dashboard Economic Indicators Report

Economic Indicators Report



Discussion and Questions

