The City of Baltimore, Maryland

Case Summary

Beginning in 2011, Baltimore, Maryland found itself facing annual multi-million dollar financial shortfalls equal to about 17 percent of its discretionary resources. After initially trying to use budget reductions as a means for closing financial gaps, including eliminating 240 positions; increasing hotel, energy, and telecom taxes; and reducing capital projects, maintenance, and recreational programs, the city's mayor and budget director decided there had to be a better way to solve this crisis. Since one of the key causes of Baltimore's woes was a steadily shrinking population base, the city embarked on a comprehensive long-term financial planning process christened “Change to Grow,” with the intent of adding 10,000 new families to Baltimore over a period of ten years.

The collaborative process used to develop longer-term fiscal strategies required that city departments and members of the public work together with the assistance of an external coordinating consultant. In particular, three “guidance committees” were formed. The membership of these committees crossed many stakeholder groups and the committees had substantive roles in decision-making. Two committees were charged with providing policy direction on two of the city’s most important challenges, the cost of employee health benefits and pensions. The third committee provided direction on the ten-year plan as a whole.

When municipalities develop a long-term financial plan, they often focus on a three-year or five-year time horizon. However, the mayor and the finance team knew that the city’s biggest challenges, like declining population, a stagnating tax base, deteriorating capital infrastructure, and growing liabilities for employee pensions could not be adequately addressed over a five-year window. They thought that a ten-year time horizon was needed to effect meaningful change. Further, a longer-time horizon would allow the city to better assess the potential of strategies that might not make a big difference within a few years, but could have major positive impacts down the road. A ten-year window would also deemphasize the long-term plan as a response to the city’s recent severe financial crises and emphasize the plan as a means of long-term transformation of the city’s fiscal fortunes.

Scenario planning incorporated new algorithms and econometric regressions to forecast taxes and leveraged expert judgment from the city’s lobbyist and other officials to estimate state shared revenues, which were coupled with simple revenue extrapolations and judgments where appropriate. This data was blended with information from third parties including regional academic economists, State of Maryland projections and data from federal agencies tasked with economic analysis. Baseline, pessimistic and optimistic scenarios were created with an eye
toward understanding what plausible versions of the future might look like. A combination of public, nonprofit, and private sector participants were asked to use this information as the basis for answering various “what if” questions.

This comprehensive approach allowed all stakeholders to understand how factors such as pension and healthcare costs and a declining tax base would impact Baltimore over a multiple year period and under different economic conditions. Having this data provided to the collective decision-making body – elected officials, union leaders, city employees, the larger community, media as well as special interest groups – provided the foundation for the tough conversations needed to change the city’s financial trajectory. For example, the cost of employee and retiree health benefits was a serious concern for the city because of both its overall size and its high rate of growth. The city’s previous efforts to contain these costs mostly involved making marginal changes to cost-sharing ratios with plan participants, and most of these changes affected only retirees, such as dividing potential pharmaceutical purchases into pricing tiers in order to steer participants towards generic and preferred brands. After the scenario analysis, the participants in “Change to Grow” were willing to consider changes that affected active employees and that required negotiations with employee unions due to the scale of the change proposed. For instance, a 20 percent co-pay for drugs was proposed for all plan participants – this was a doubling of the co-pay for retirees and an entirely new cost for active employees. They also approved a variety of other strategies to make Baltimore more economically dynamic and to make city government more efficient, such as infrastructure investments, tax reform, and making city services more efficient.

This case illustrates how Baltimore elected officials were able to leverage their new-found financial knowledge to build community confidence and trust in their leadership. As a result, collective public support was generated to reduce costs and expand the general municipal tax base through strategic economic development initiatives.

**Connections to the Financial Sustainability Framework**

*LS #1 – Create open communication among all participants.* Baltimore’s Mayor actively led the financial planning process and used a variety of methods to communicate the city’s financial condition to stakeholders. For example, long-term forecasts were made publicly available and Baltimore actively engaged with the local media to distribute financial information.

*LS #3 – Convince stakeholder there can be benefits from collective efforts.* They called the plan “Change to Grow,” which was based on a goal of adding 10,000 new families to Baltimore in 10 years. This would revitalize the city and cast the planning effort in a positive light, not just as a way to survive the latest crisis.
LS #4 – Ensure that key participant remain engaged. “Change to Grow” was a highly collaborative endeavor. The City Council, dozens of city department and division managers and professionals, and members of the public were all engaged. At the center of this engagement strategy were the “Guidance Committees,” who were substantive participants in decision-making.

LS #5 – Build long-term horizons into fiscal planning. The city took a ten-year perspective on its plan so that it could adequately address the city’s biggest challenges, like declining population, a stagnating tax base, deteriorating capital infrastructure, and growing liabilities for employee pensions.

IDP #2 – Proportional equivalence between benefits and costs. Baltimore took a balanced approach improving its revenue income and controlling its costs. It did not over-burden the public or any particular stakeholder group.

IDP #3 – Collective choice arrangements. A broad cross-section of stakeholders participated in making the hard financial decisions. Also, pursuing a broad range of strategies to improve financial health broadened the relevance of the financial planning process.

IDP #4 – Monitoring and decision making. Scenario analysis helped stakeholders who were not financial experts get a better sense of Baltimore’s financial situation and, therefore, be informed participants in decision-making.

IDP #8 – Networked enterprises. Building a financial plan incorporated representatives from academia and the non-profit and private sectors. This resulted in a higher quality plan with a larger base of support.

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