



Department of Finance
Bureau of the Budget and Management Research
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City of Baltimore

BBMR Management Research Memo

Special Fund Analysis

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BACKGROUND

By the end of Fiscal 2013, the City had accumulated a deficit of \$62 million in “grant” funds, which in accounting terms refers to any accounts beginning with 4xxx (Federal), 5xxx (State), or 6xxx (Special) fund numbers. Federal and State funds are usually very clear-cut – funding comes from the Federal government or State government and is earmarked for a specific purpose. Special Funds, however, have been used for both grants from private sources (such as foundations) *or* for the purpose of isolating activities that are supported by specific revenue streams (such as Emergency Medical Services (EMS) billing revenue, which is to be used only for EMS services).

Although Special Funds are appropriated each year in the operating budget, controls and oversight have typically been weak for a number of reasons. First, the original purpose for even setting up a particular Special Fund has often been lost, due to staff turnover and loss of institutional knowledge. Second, revenue forecasting for these funds has often been decentralized in the agency that manages the fund. In some cases, reductions in forecasted revenue were not reflected with corresponding expenditure reductions. Since Special Funds are not closed each year, deficits were often left to accumulate in the fund. Third, real-time information about Special Fund balances has been hard to pull from the Accounting system. Budget analysts could see expenditure data, but could not see a true real-time “profit and loss” view of a Special Fund with revenues, expenditures, and net asset balances.

To address the third issue, BBMR, in conjunction with RSM McGladrey, developed a Special Fund analysis tool that was rolled out to all CityDynamics users in October 2014. This tool shows the beginning and ending net asset balance for all Special Funds by fiscal year, as well as operating revenues, operating expenditures, and a profit and loss calculation. The report also delineates between normal activity (posting date: July 1st to June 29th) and year-end CAFR adjustments (posting date: June 30th).

With this new report, BBMR analyzed the status of thirteen key Special Funds. For the purpose of this first review, we excluded smaller Special Funds that we believe are true “grant” funds where revenue is received from private foundations. Instead, we focused on the Special Funds that we believe were set up with the intent of isolating revenue to support certain operational activities. The thirteen funds reviewed are listed below:

Fund	Fund Name	Agency
6055	Special Collections	Law
6060	Surplus Property	Finance
6061	Special Investigations	Finance
6111	911 Numbers Board	M-R: Office of Information Technology
6112	Asset Forfeiture	Police
6121	EMS Revenue	Fire
6169	Dockmaster	Transportation
6170	Traffic Impact Studies	Transportation
6172	Unified Planning Work Program	Transportation
6779	Amateur Athletics	Recreation and Parks
6804	Permits	Recreation and Parks
6805	Special Facilities	Recreation and Parks
6923	PEG Capital	Cable

Note that the Charm City Circulator is also funded via a Special Fund, but we excluded it for this analysis. A full Management Research report (BBMR-15-01) was completed for the Circulator.

FUND ANALYSIS

Based on BBMR’s analysis, the status of the funds fell into one of four categories based on our recommendation for how to treat the fund going forward:

- 1) **Restrict Balance:** Three funds have accumulated a positive net asset balance over time, but the balances must be restricted for certain purposes:
 - Police: Asset Forfeiture
 - Fire: EMS Revenue
 - Cable: PEG Capital

- 2) **Correct Accounting Issue:** Two funds have revenue to support operations that were incorrectly booked:
 - Transportation: Dockmaster
 - Finance: Surplus Property

- 3) **Monitor Closely:** Six funds have had at least one annual deficit in the last four years. These funds need to be budgeted accurately in Fiscal 2016 to reflect a realistic projection of actual revenues, and then monitored closely during the fiscal year:
 - Recreation and Parks: Special Facilities
 - Recreation and Parks: Permits
 - Transportation: Traffic Impact Studies
 - Transportation: Unified Planning Work Program
 - Recreation and Parks: Amateur Athletics
 - M-R-Office of Information Technology: 911 Numbers Board

- 4) **Eliminate Fund:** Two funds are not being used as intended and should be eliminated:
 - Law: Special Collections
 - Finance: Special Investigations

The next section provides more detail about each of the funds, including the purpose of the fund, a four-year financial history and analysis, and recommendations for correcting any issues.

RESTRICT BALANCE

Police: Asset Forfeiture (6112)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	5.2	6.6	7.1	6.6		
Revenue	2.1	3.4	1.9	0.3	7.7	1.9
Personnel Costs	0.0	0.0	(1.5)	(1.0)	(2.5)	(0.6)
Non-Personnel Costs	(0.8)	(2.8)	(0.9)	(1.1)	(5.6)	(1.4)
Profit / (Loss)	1.3	0.6	(0.5)	(1.9)	(0.5)	(0.1)
Ending Balance	6.6	7.1	6.6	4.7		

Purpose: This fund was created to track the City’s share of revenues received from the National Asset Forfeiture Program, which was created by the Federal Comprehensive Crime Control Act of 1984. The purpose of the program is to aid local law enforcement agencies in their efforts to seize “tools of crime” and profits derived from criminal activities. Assets seized in a Federal investigation are forfeited to the Department of Justice (DOJ) and then a portion of the proceeds are remitted back to local law enforcement agencies that were involved in the investigation or prosecution. Revenue from Asset Forfeiture must be deposited into a special fund and utilized only for allowable law enforcement purposes as outlined by DOJ, including: law enforcement investigations, training, enforcement and detention facilities, equipment, travel and transportation, awards and memorials, drug and gang education and awareness programs, matching funds, pro rata funding, asset accounting and tracking, language assistant services, transfers to other law enforcement agencies, community-based programs, and windfall situations. Overtime expenses are allowable for any expenses supporting “law enforcement operations.”

Analysis: Over the past four fiscal years, the City has received on average \$1.9 million per year for its participation in Federal investigations and prosecutions. (Note that the low revenue received in Fiscal 2014 is due to a timing issue and is expected in Fiscal 2015). Funds are remitted to the City on a Federal fiscal year basis. Revenue can be volatile, but over time a surplus has accumulated. The City has traditionally appropriated \$2 million of spending annually from the Special Fund to match recurring revenues. Police has generally used the funds for large, one-time equipment costs, as well as travel and training expenses. In Fiscal 2013 and Fiscal 2014 the City charged eligible overtime expenses of \$1.0 million and \$1.5 million, respectively, to the Special Fund in order to cover Police overtime deficits in the General Fund.

Recommendations: The accumulated balance should be used as a first option for large one-time equipment purchases, such as body cameras or tasers. \$2 million of annual appropriation is reasonable based on historical revenue. \$1.5 million should be reserved to protect against potential overtime deficits in the General Fund. The other \$0.5 million can continue to be used for travel, training, and other eligible expenses.

Fire: EMS Revenue (6121)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	4.8	3.7	(0.4)	0.5		
Revenue	12.1	9.7	13.1	17.0	51.8	13.0
Transfer to GF	(12.0)	(12.7)	(12.7)	(12.9)	(50.3)	(12.6)
Personnel Costs	0.0	0.0	0.0	0.0	0.0	0.0
Non-Personnel Costs	(1.3)	(1.1)	0.5	0.0	(1.8)	(0.4)
Profit / (Loss)	(1.2)	(4.1)	0.9	4.0	(0.3)	(0.1)
Ending Balance	3.7	(0.4)	0.5	4.5		

Purpose: This fund was created to track revenue generated from ambulance fees. Individuals who are transported by a City ambulance crew are charged a fee for the transport. The fee is typically paid for by the person’s insurance (private, Medicare, or Medicaid). Annual revenue is received in the Special Fund and is transferred to the General Fund to partially offset the cost of EMS services. In Fiscal 2015 the total budgeted cost to provide EMS services is \$36.4 million, of which \$13.2 million (or 36%) is from the Special Fund’s ambulance fees. Note that the billing and collection of ambulance fees is managed by an outside vendor. ACS held the contract through Fiscal 2013, while the current incumbent is Digitech.

Analysis: Under the prior billing vendor, ACS, EMS revenues had averaged \$12-13 million per year. In Fiscal 2012 revenues declined to \$9.7 million due to billing issues, but the full transfer to the General Fund was needed, which sent the Special Fund temporarily into deficit. Under the current vendor, Digitech, revenues rebounded to \$17 million in Fiscal 2014 versus a budgeted transfer of \$13 million, which grew the Special Fund back to a balance of \$4.5 million.

Note that prior to Fiscal 2014, some eligible EMS fleet and equipment costs were charged to the Special Fund. Additional use of Special Funds for equipment purchases should be unnecessary going forward due to a normal replacement cycle having been established with the City’s vehicle master lease program.

Recommendation: The fund balance should be kept at a minimum level of 25% (the equivalent of 3 months) of the current year’s EMS revenues. The current balance of \$4.5 million is adequate – it is equal to 26.4% of the \$17 million revenue received in Fiscal 2014. This balance would be enough to protect against a shortfall like the one experienced in Fiscal 2012. The annual budgeted transfer should be updated annually to reflect the most current EMS revenue projections. Revenue surpluses should first be used to replenish fund balance up to the 25% minimum if necessary, and then can be considered for non-Fleet one-time EMS equipment purchases.

Cable: PEG Capital (6923)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	2.7	2.6	3.1	3.3		
Revenue	0.5	0.6	0.5	0.4	2.0	0.5
Personnel Costs	0.0	0.0	0.0	0.0	0.0	0.0
Non-Personnel Costs	<u>(0.6)</u>	<u>0.0</u>	<u>(0.4)</u>	<u>(0.5)</u>	<u>(1.5)</u>	<u>(0.4)</u>
Profit / (Loss)	<u>(0.2)</u>	0.6	0.2	<u>(0.0)</u>	0.5	0.1
Ending Balance	2.6	3.1	3.3	3.3		

Purpose: Per the City’s 2004 cable franchise agreement with Comcast, the City receives two revenue streams: 1) franchise fees, which are paid by Comcast to the City as compensation for the franchise, and are available as unrestricted General Fund revenue, and 2) subscriber fees that are earmarked for capital equipment and facilities for PEG (public, education, or governmental) channels. This Special Fund was created to track the subscriber fees that are earmarked for capital purchases.

Expenditures in the Special Fund are governed by Federal law and regulations. The Federal Communications Commission (FCC) has narrowly defined capital costs as costs “incurred in or associated with the construction of PEG access facilities.” According to court rulings, the purchase of equipment is eligible but only if the expenses are associated with the construction of PEG facilities. Normal operating expenses and salaries for the operation of the City’s cable system are not eligible expenses. In 2009, the CAP Act was introduced in Congress, which would have eliminated the limits on the use of PEG funds and allowed for support of operating costs and salaries. The bill has not been reintroduced since 2011 and currently lacks political support. Due to the vagueness of Federal definitions on capital expenditures, BBMR has played a central role in monitoring proposed spending in this account.

Analysis: The fund has a balance of \$3.2 million as of the end of Fiscal 2014. The balance has grown by over \$1 million in the past seven years due to revenues consistently outpacing expenditures. The fund has

averaged \$499k annually in subscriber revenue over the past four years but has only averaged \$362k of annual capital expenditures. In Fiscal 2015 expenditures will likely grow due to the launch of CharmTV.

Recommendation: BBMR should continue to closely monitor expenditures in the fund based on capital eligibility, using internal City guidelines established by Law and Accounting. The fund balance can be spent down on eligible expenses as long as purchases do not lead to recurring operating expenses which are not supported by the Special Fund. Even if funds are spent down over time, at least \$0.5 million should be left available for emergencies.

CORRECT ACCOUNTING ISSUE

Transportation: Dockmaster (6169)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	0.0	(0.2)	(0.4)	(0.6)		
Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Personnel Costs	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.2)
Non-Personnel Costs	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)
Profit / (Loss)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)	(0.2)
Ending Balance	(0.2)	(0.4)	(0.6)	(0.9)		

Purpose: This fund was created in Fiscal 2011 with the intention of making the Dockmaster service fully self-supported. Revenues are generated by charging docking fees to private boat operators. Expenditures support the daily operations and maintenance of the City’s docks.

Analysis: Due to an outdated fee schedule, expenditures were historically exceeding revenues by an average of \$123k per year. After BBMR conducted a review in 2013 (Management Research Report BBMR-13-03), the fee schedule was revised to charge boaters by the length of boat and time docked. Fiscal 2015 is the first full year with the new fee schedule so revenue impacts are still unknown. From Fiscal 2011 to Fiscal 2014 docking revenues were booked directly to the General Fund and were not transferred to the Special Fund. This error has caused a small but growing deficit to accumulate in the Special Fund.

Recommendation: At the end of Fiscal 2015 docking fee revenues that are currently being booked to the General Fund must be transferred to the Special Fund by the BBMR Budget Analyst responsible for DOT. Also, the new fee schedule should be evaluated to ensure that revenues are covering ongoing operating expenses.

Impact: \$0.9 million (one-time)
 \$0.1 million (recurring)

Finance: Surplus Property (6060)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	(0.1)	(0.2)	(0.3)	(0.5)		
Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Personnel Costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.1)
Non-Personnel Costs	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>
Profit / (Loss)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.1)
Ending Balance	(0.2)	(0.3)	(0.5)	(0.5)		

Purpose: This fund was created to track revenues generated through the sale of surplus City property via an auction process. Expenditures in this fund are for the three-position unit within the Bureau of Purchases that coordinates the disposal process. The contract for the private online auction service is also budgeted in the Special Fund. The service is intended to be fully self-supporting through the auction revenue.

Analysis: Revenue from the auction of surplus property is exceeding the cost of running the Unit. However, the revenue is not being booked to the Special Fund. Instead, it has been applied to a transfer credit line budgeted in Procurement in the General Fund. Applying this revenue to the General Fund has inflated Finance’s General Fund surplus each year but also left a small but accumulating deficit in the Special Fund. A deficit of \$0.5 million has accumulated as of the end of Fiscal 2014.

Recommendation: Auction revenue should be booked to the Special Fund at the end of each fiscal year by the BBMR Budget Analyst responsible for the Finance Department. Any revenue beyond that which is needed to balance the Special Fund should be transferred to a General Fund revenue account at closeout. The transfer credit in the General Fund in Procurement should be removed in the Fiscal 2016 budget since the revenue is needed to support the ongoing expenses in the Special Fund.

Impact: \$0.5 million (one-time)
 \$0.2 million (recurring)

MONITOR CLOSELY

Recreation and Parks: Special Facilities (6805)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	(0.0)	0.0	(0.2)	(0.1)		
Revenue	1.4	1.0	1.1	1.2	4.7	1.2
Personnel Costs	(0.4)	(0.7)	(0.8)	(0.8)	(2.7)	(0.7)
Non-Personnel Costs	<u>(1.0)</u>	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.5)</u>	<u>(2.2)</u>	<u>(0.6)</u>
Profit / (Loss)	0.0	(0.2)	0.2	(0.1)	(0.2)	(0.1)
Ending Balance	0.0	(0.2)	(0.1)	(0.2)		

Purpose: The purpose of this fund is to support Baltimore City Recreation and Parks (BCRP) Special Facilities operated both privately and by the agency. Privately-operated facilities include: Shake and Bake Family Fun Center and Du Burns Arena. Current BCRP-operated facilities include: Carrie Murray Nature Center, Mimi

DiPietro Skating Center, Mount Pleasant Ice Arena, Northwest Driving Range, Myers Soccer Pavilion, UTZ Field in Patterson Park, and Boat Lake in Patterson Park. Revenues are generated from users of the facilities plus negotiated payments from private operators. Expenditures in this fund are used to maintain and operate the facilities. The fund is intended to be fully self-supporting.

Analysis: Across all facilities, expenditures have exceeded revenues by an average of \$57K over the past four years. Two facilities have operated at a surplus every year (Mimi DiPietro and Mount Pleasant). Two others have operated at a significant loss (Carrie Murray Nature Center and Myers Pavilion). Full capital replacement costs are not included in this analysis, so the true deficit is even larger than displayed.

Recommendation: BBMR recommends hiring an entrepreneurial business manager to oversee this fund. On a case-by-case basis, the City should consider more private operators or investing in one-time improvements to increase revenue. A more in-depth analysis on what is causing revenue and expenditure trends by facility would also be helpful.

Impact: \$0.2 million (one-time)

Recreation and Parks: Permits (6804)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	0.0	0.6	0.6	0.5		
Revenue	0.8	0.5	0.5	0.5	2.2	0.5
Personnel Costs	(0.1)	(0.4)	(0.4)	(0.4)	(1.3)	(0.3)
Non-Personnel Costs	(0.0)	(0.1)	(0.1)	(0.2)	(0.5)	(0.1)
Profit / (Loss)	0.6	(0.0)	(0.1)	(0.1)	0.4	0.1
Ending Balance	0.6	0.6	0.5	0.4		

Purpose: The purpose of this fund is to support Special Events through earned income and revenues from permitted events and the use of fields and ballparks. BCRP operates and maintains several parks and athletic fields throughout the City, and permits them out for private events, community organizations, festivals, and recreational athletic leagues. Revenues are generated from permit fees paid by outside individuals or organizations for use of parks or fields. Expenditures from this fund are for the operation and maintenance of parks and fields, salaries for 14 Park Rangers, several part-time Recreation Programming staff, and three full-time permit office staff.

Analysis: Revenues are generated from permit fee schedules that are based on the location of the event and the expected attendance. Permit revenue has flat-lined at approximately \$0.5 million for each of the last three fiscal years. Expenditures have crept higher due to maintenance costs for new trails built with capital funds, and the expansion of the “Outdoor Recreation” program. Small annual operating deficits in Fiscal 2012, 2013, and 2014 have slowly chipped away at the fund’s balance. The current balance at the end of Fiscal 2014 is \$0.4 million.

Recommendation: In the Fiscal 2016 budget, BBMR should ensure that budgeted expenditures do not exceed the historical revenue stream. Also note that a Lean Event is currently planned which should help streamline the permitting process.

Transportation: Traffic Impact Studies (6170)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	0.1	(0.0)	(0.1)	(0.2)		
Revenue	0.0	0.1	0.1	0.0	0.2	0.1
Personnel Costs	0.0	0.0	0.0	0.0	0.0	0.0
Non-Personnel Costs	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.2)</u>	<u>(0.1)</u>	<u>(0.6)</u>	<u>(0.1)</u>
Profit / (Loss)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.1)
Ending Balance	(0.0)	(0.1)	(0.2)	(0.3)		

Purpose: The purpose of this fund is to track revenues from developer fees that are collected for the purpose of performing traffic impact studies. The fund is intended to be fully self-supporting.

Analysis: On average expenditures have exceeded revenues by \$30k annually over a seven-year period. It is not clear if developers are being under-billed for the full cost of the studies, or if revenue is being deposited into another account.

Recommendation: BBMR should budget \$0.3 million annually in contractual services for the potential cost of traffic impact studies. During the fiscal year, BBMR should review the fund quarterly and restrict expenditures on the basis of revenue received.

Impact: \$0.3 million (one-time)

Transportation: Unified Planning Work Program (6172)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	(0.7)	(0.5)	(0.2)	(0.8)		
Revenue	0.5	0.8	0.4	0.5	2.2	0.6
Personnel Costs	(0.3)	(0.2)	(0.1)	(0.1)	(0.7)	(0.2)
Non-Personnel Costs	<u>0.1</u>	<u>(0.3)</u>	<u>(1.0)</u>	<u>(0.2)</u>	<u>(1.4)</u>	<u>(0.4)</u>
Profit / (Loss)	0.2	0.3	(0.6)	0.2	0.1	0.0
Ending Balance	(0.5)	(0.2)	(0.8)	(0.6)		

Purpose: This fund was created to track regional transportation planning projects that have been approved via the Unified Planning Work Program (UPWP). The UPWP is a statement of planning priorities to be undertaken each year by member agencies. In the Baltimore Region this includes the cities of Baltimore and Annapolis, surrounding counties, and several State agencies.

Each member submits a work program and cost, and expenditures are reimbursed from Federal sources that flow through the State. Expenditures are identified as costs for the transportation projects, which includes a mixture of personnel and non-personnel contractual costs. DOT Fiscal indicated that UPWP funding is subject to State allowances. Localities submit requests for the UPWP reimbursement for applicable projects, and support the remainder of the project through an identified local cost share.

Analysis: On average expenditures have exceeded revenues by \$88K over the past seven years. As of Fiscal 2014, the fund is in deficit by over \$600K. Each year, the Baltimore Metropolitan Region UPWP identifies

budgets, time frames, and partners for each project during the annual budget process (November through March). However, costs have been charged to the Special Fund without a clear statement of revenues matching project costs, and General Fund support is not clearly defined in the service budget.

Recommendation: As the Baltimore Region UPWP budget is formulated through an annual process, DOT should have opportunity to align the budget with this planning process. DOT should only identify the reimbursable cost share as the revenue for this Special Fund. The agency should budget for all expenses within the General Fund, and a transfer amount supported through Special Fund revenues. In this manner, the General Fund budget will be structured to support the full cost of the projects, and the Special Fund will not accumulate any project deficits. A regular/quarterly report of revenues is necessary to understand whether this fund can support ongoing costs, and whether planning targets need to be reassessed or adjusted when the City’s budget is finalized.

Impact: \$0.6 million (one-time)

Recreation and Parks: Amateur Athletics (6729)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	0.0	(0.0)	(0.1)	(0.2)		
Revenue	0.1	0.2	0.2	0.2	0.7	0.2
Personnel Costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.1)
Non-Personnel Costs	(0.1)	(0.1)	(0.2)	(0.1)	(0.5)	(0.1)
Profit / (Loss)	(0.1)	(0.0)	(0.1)	0.0	(0.2)	(0.1)
Ending Balance	(0.0)	(0.1)	(0.2)	(0.2)		

Purpose:

This fund was created to support programming for youth and adult sports via program fees from participants. This fund was not intended to be fully self-supporting. The Fiscal 2015 budget includes \$696k of total funding for youth and adult sports. \$543k (78%) is provided by the General Fund. The remaining \$153k (22%) is provided from this Special Fund via participant fees.

Analysis: The General Fund budget for Youth and Adult Sports includes five full-time positions plus overhead and office expenses. The Special Fund budget includes funding for part-time positions plus small non-personnel expenses such as equipment, trophies, uniforms, and travel, among others. According to Recreation and Parks, the Special Fund was intended to capture the full cost of adult sports, with excess profits available to support youth sports. However, average expenditures have exceeded revenues by \$24K in the Special Fund from Fiscal 2008 to Fiscal 2014, and, looking at just the past four years, average expenditures have exceeded revenues by \$53K per year. Personnel costs have become a larger factor over the past four years.

Recommendation: Since the Special Fund was never intended to fully support the cost of youth and adult sports, the Special Fund should simply be used as a tool for budgeting and planning for expected participant fees. All normal operating expenses should be charged to the General Fund. Revenues received from participant fees should be budgeted as a transfer to the General Fund to offset the cost of providing the service. If Recreation and Parks wishes to delineate between youth sports programming and adult sports programming, separate activities should be set up.

Impact: \$0.2 million (one-time)

MOIT: 911 Numbers Board (6111)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	3.6	1.9	4.2	1.1		
Revenue	5.5	4.9	2.7	5.7	18.8	4.7
Personnel Costs	(2.4)	(2.6)	(3.2)	(3.8)	(12.0)	(3.0)
Non-Personnel Costs	(4.9)	0.0	(2.6)	(2.6)	(10.1)	(2.5)
Profit / (Loss)	(1.8)	2.4	(3.1)	(0.8)	(3.3)	(0.8)
Ending Balance	1.9	4.2	1.1	0.3		

Purpose: This fund was created for the purpose of tracking revenues received from the State 911 Numbers Board, which are used to partially support the City’s 911 system. Revenues are primarily generated from a \$1.00 tax on all post-paid telephone bills such as landlines, cellphones, and VOIP. 75% of these revenues are distributed to the jurisdiction in which phone users are located, and 25% is made available by request for capital costs related to 911 systems, such as new phones, consoles, headsets, generators, and training. Also, as of Fiscal 2014, a \$0.60 tax on pre-paid cellphones is distributed all jurisdictions proportionally for general operating expenditures. Eligible expenditures for this fund are all 911-related operational costs such as personnel, maintenance, and training. General emergency dispatch costs are *not* eligible. Due to this requirement, beginning in Fiscal 2015, the City budgets 911 and dispatch costs in separate activities. The total cost of the 911 system in Fiscal 2015 is \$8.1 million. \$3.97 million (or 48.9%) is supported by the Special Fund, although the State generally estimates that Numbers Board revenues fund approximately 40% of a 911 system.

Analysis: Revenues in the Special Fund have decreased over time, largely due to a declining number of telephones, particularly landlines. The expenditure budget was not adjusted to reflect declining revenue, which caused expenditures in the fund to exceed revenues in Fiscal 2011, 2013, and 2014. (In Fiscal 2012 a credit was booked which offset expenditures from a prior year). Due to these annual losses, as of the end of Fiscal 2014 fund balance had been depleted to \$0.3 million. In Fiscal 2015 the budget was revamped to reflect a more accurate projected revenue estimate of \$3.9 million. As of November 12th, \$1.9 million of revenue has been received, which puts the fund on track to receive at least the full budgeted revenue of \$3.9 million in Fiscal 2015.

Recommendation: No further action is required. The reorganization of the Fiscal 2015 budget, which reflects a more realistic revenue projection, should keep the fund in balance. Going forward, the BBMR Budget Analyst responsible for MOIT should adjust the budget to reflect a revenue projection from the State 911 Numbers Board.

ELIMINATE FUND

Law: Special Collections (6055)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	(0.1)	(0.0)	(0.1)	(0.0)		
Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	1.0	1.0	1.1	0.0	0.0	
Personnel Costs	(0.8)	(1.0)	(0.9)	(0.0)	(2.8)	(0.7)
Non-Personnel Costs	<u>(0.0)</u>	<u>(0.1)</u>	<u>(0.0)</u>	<u>0.0</u>	<u>(0.1)</u>	<u>(0.0)</u>
Profit / (Loss)	0.1	(0.1)	0.1	(0.0)	0.1	0.0
Ending Balance	(0.0)	(0.1)	(0.0)	(0.0)		

Purpose: The purpose of the fund was to use revenue generated by the Law Department’s Collections Practice Group to cover the cost of their Unit. Prior to Fiscal 2014, this special fund received an annual transfer to cover the cost of the Group, mainly personnel. Beginning in Fiscal 2014, the Collections Unit positions were moved to the Law Department’s General Fund budget.

Analysis: Revenues had been slightly exceeding expenditures through Fiscal 2013, but in Fiscal 2014 some expenses were incorrectly charged to the fund. There is a small remaining net asset deficit of \$30k remaining.

Recommendation: This fund should be permanently closed at the end of Fiscal 2015. The tiny net asset deficit of \$30k can be moved to Law’s General Fund at Fiscal 2015 closeout by the Law Department Budget Analyst. No expenditures have been budgeted in this fund after Fiscal 2013.

Finance: Special Investigations (6061)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Total	4-Yr Avg.
Beginning Balance	0.0	(0.2)	(0.6)	(1.0)		
Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Personnel Costs	(0.2)	(0.4)	(0.4)	(0.4)	(1.4)	(0.4)
Non-Personnel Costs	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Profit / (Loss)	(0.2)	(0.4)	(0.4)	(0.4)	(1.4)	(0.4)
Ending Balance	(0.2)	(0.6)	(1.0)	(1.4)		

Purpose: This fund was established in Fiscal 2011 to support a portion of the operational costs of the Special Investigations Unit in the Bureau of Revenue Collections. Inspectors in this unit inspect businesses on an annual basis to ensure compliance with City tax remittance policies. The intent of the Special Fund was to provide an incentive for generating revenues above the baseline for these taxes, which include: beverage containers, open air parking, hotel, simulated slots, and amusement taxes.

Analysis: The Fiscal 2015 Special Fund budget is \$793k and supports twelve positions, all of which are currently filled. There are four Collections Supervisors, five License Inspectors, two Office Assistants, and one Accounting Assistant. A process for distinguishing baseline tax inspection revenues versus additional revenues above baseline was never developed. Therefore, no revenue has been transferred into the fund since its inception, resulting in an accumulated deficit of \$1.4 million at the end of Fiscal 2014.

Recommendation: This fund should be closed at the end of Fiscal 2015. All positions and funding should be moved to the General Fund in the Fiscal 2016 budget.

Impact: \$1.4 million (one-time)
\$0.8 million (recurring)

SUMMARY OF FINDINGS

Of the thirteen funds analyzed, seven had accumulated a net asset deficit by the end of Fiscal 2014. The total accumulated net asset deficit of these seven funds is \$4.1 million. Note that this is part of (not in addition to) the \$62 million grant deficit reported in the Fiscal 2013 CAFR.

Also, three funds have recurring issues that will cost a total of \$1.1 million in the Fiscal 2016 baseline. Note that during Fiscal 2016 CLS, \$2.0 million was set aside for recurring grant deficits in either Special, Federal, or State funds.

The table below summarizes the findings on a fund-by-fund basis, including the net asset basis at the end of Fiscal 2014, a 4-year P&L average, and the fiscal impacts (both one-time and recurring):

	Net Asset Balance	Profit & Loss	Fiscal Impact	
	<i>End of Fiscal 2014</i>	<i>4-Year Average</i>	<i>One-Time</i>	<i>Recurring</i>
<u>Restrict Balance</u>				
6112 Police: Asset Forfeiture	\$4.7M	(\$0.1M)	none	none
6121 Fire: Emergency Medical Services	\$4.5M	(\$0.1M)	none	none
6923 Cable: PEG Capital	\$3.3M	\$0.1M	none	none
<u>Correct Accounting Issue</u>				
6169 Transportation: Dockmaster	(\$0.9M)	(\$0.2M)	(\$0.9M)	(\$0.1M)
6060 Finance: Surplus Property	(\$0.5M)	(\$0.1M)	(\$0.5M)	(\$0.2M)
<u>Monitor Closely</u>				
6805 Rec & Parks: Special Facilities	(\$0.2M)	(\$0.1M)	(\$0.2M)	none
6804 Rec & Parks: Permits	\$0.4M	\$0.1M	none	none
6170 DOT: Traffic Impact Studies	(\$0.3M)	(\$0.1M)	(\$0.3M)	none
6172 DOT: Unified Planning Work Program	(\$0.6M)	\$0.0M	(\$0.6M)	none
6779 Rec & Parks: Amateur Athletics	(\$0.2M)	(\$0.1M)	(\$0.2M)	none
6111 MOIT: 911 Numbers Board	\$0.3M	(\$0.8M)	none	none
<u>Eliminate Fund</u>				
6055 Law: Special Collections	\$0.0M	\$0.0M	none	none
6061 Finance: Special Investigations	(\$1.4M)	(\$0.4M)	(\$1.4M)	(\$0.8M)
TOTAL			(\$4.1M)	(\$1.1M)

OTHER COMMENTS

Budgeting for Special Funds

According to governmental accounting rules, special funds are “to be used for general government financial resources that are restricted by law or contractual arrangement to specific purposes.” Of the thirteen funds analyzed, only four meet the legal and/or contractual test. The other nine were set up with the intention of using related revenue streams to either fully or partially support the operation of a particular service.

Going forward, the City should be selective about setting up new Special Funds if they don’t meet the “legal / contractual test.” And, in budgeting for existing Special Funds, we recommend the following guidelines:

If a service is **fully** self-supported by the revenue in the Special Fund, then all service expenses should be appropriated in the Special Fund. (An example is the Recreation and Parks Special Facilities Fund.)

If a service is only **partially** supported by revenue in the Special Fund, then all service expenses should be budgeted in the General Fund. The Special Fund should simply be used as a vehicle for estimated revenues, with a Special Fund debit and corresponding General Fund credit in the service that is being supported. (An example is the Fire EMS Billing Fund).

The only current exception to this rule is the MOIT 911 Numbers Board Fund. Although Special Fund revenues only support a portion of the cost of 911 Call Center, the law distinguishes between eligible personnel costs (Call Center Operators) and ineligible costs (Dispatchers). Separate activities have been created for each for Call Center and Dispatch to separate these functions.

Please see below for the list of funds that met the “legal / contractual” test, and whether the existing Special Funds fully support their service:

		<i>GASB- Required</i>	<i>Fully-Self Supporting?</i>	<i>Notes:</i>
6111	MOIT: 911 Numbers Board	Yes	No	
6112	Police: Asset Forfeiture	Yes	No	
6121	Fire: Emergency Medical Services	Yes	No	
6923	Cable: PEG Capital	Yes	No	
6060	Finance: Surplus Property	No	Yes	
6169	Transportation: Dockmaster	No	Yes	
6170	DOT: Traffic Impact Studies	No	Yes	
6804	Rec & Parks: Permits	No	Yes	
6805	Rec & Parks: Special Facilities	No	Yes	
6055	Law: Special Collections	No	No	to be eliminated
6061	Finance: Special Investigations	No	No	to be eliminated
6172	DOT: Unified Planning Work Program	No	No	
6779	Rec & Parks: Amateur Athletics	No	No	

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