

SUPPLEMENT
Dated May 3, 2019
TO
PRELIMINARY OFFICIAL STATEMENT
Dated May 1, 2019

IN CONNECTION WITH



\$85,000,000*
MAYOR AND CITY COUNCIL OF BALTIMORE
City of Baltimore, Maryland
General Obligation Bonds

\$64,855,000*
Consolidated Public Improvement Bonds
Series 2019A
(Tax-Exempt)

\$20,145,000*
Consolidated Public Improvement Bonds
Series 2019B
(Taxable)

Set forth below are certain updates to information set forth in the Preliminary Official Statement dated May 1, 2019 (as supplemented, the "Preliminary Official Statement"), pertaining to the above-captioned bonds (the "Bonds") to be issued by Mayor and City Council of Baltimore (the "City"). Specifically, this Supplement hereby supplements and amends certain information concerning certain City elected officials.

1. The second and third paragraphs under the caption "THE CITY" are deleted, and the following two paragraphs are inserted in lieu thereof:

On April 1, 2019, the City released a statement announcing that Mayor Catherine E. Pugh was taking an indefinite leave of absence to recuperate from an illness. Under the Baltimore City Charter, Article IV, Section 2 (b), in the event of "sickness, temporary disqualification or necessary absence of the Mayor, the President of the City Council [becomes] ex officio Mayor of the City." City Council President Bernard C. "Jack" Young assumed the role of ex officio Mayor responsible for the daily operations of the City government. Council Vice President Sharon Green Middleton presided at Council meetings and acted as a member of the Board of Estimates while Mr. Young served as ex officio Mayor. On April 8, 2019, Mayor Pugh indicated, though a released statement, that she intended to resume the duties of her office. However, on May 2, 2019, Mayor Pugh resigned from office. Under the Baltimore City Charter, Article IV, Section 2 (a), in the event of a "vacancy in the office of the Mayor by death, resignation or permanent disqualification, the President of the City Council shall be Mayor for the remainder of the term for which the Mayor was elected." Accordingly, ex officio Mayor Young has assumed the office of Mayor and continues to actively manage City government affairs with the support of all City departments and agencies and with the advice and counsel of the City Law Department. Under the Baltimore City Charter, Article III, Section 4, "[if] it becomes necessary for the President of the City Council to fill the unexpired term of the Mayor, . . . the City Council, by a majority vote of its members, shall elect a new president for the unexpired term." Until such election is held, Ms. Green Middleton will continue to preside at Council meetings and act as a member of the Board of Estimates. See Appendix A, CITY GOVERNMENT AND ADMINISTRATION –Certain Elected and Appointed Officials for biographical information concerning Mr. Young and Ms. Green Middleton.

Governor Larry Hogan, by letter to State Prosecutor Emmet C. Davis dated April 1, 2019, requested an investigation of the matters and facts surrounding former Mayor Pugh's sales of books to the University of Maryland Medical System while she was a board member. Additionally, the City's Board of Ethics is reviewing matters related to the former Mayor Pugh's sales of books to certain entities. The Board of Ethics has the power to investigate alleged violations of the City's ethics law. On April 25, 2019, agents of the Federal Bureau of Investigation and the Internal Revenue Service executed search warrants on the residence of former Mayor Pugh, the offices of former Mayor Pugh in City Hall and other locations in the City, and a subpoena was served on the offices of former Mayor Pugh's personal attorney. The results of these investigations are pending.

This Supplement is submitted in connection with the offering and sale of the Bonds referred to herein and should be read in conjunction with the information set forth in the Preliminary Official Statement. The delivery of this Supplement has been authorized by the City.

*Preliminary, subject to change.

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PRELIMINARY OFFICIAL STATEMENT DATED MAY 1, 2019

NEW ISSUES-BOOK ENTRY ONLY

RATINGS: S&P: AA
Moody's: Aa2
(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing law and subject to conditions described in the section herein entitled "TAX MATTERS," (1) interest on the Series 2019A Bonds (as defined herein) (including any accrued "original issue discount" properly allocable to the owners of the Series 2019A Bonds) is excludable from gross income for Federal income tax purposes and (2) interest on the Series 2019B Bonds (as defined herein) is includable in the gross income of the owners thereof for Federal income tax purposes. It is also the opinion of Bond Counsel, under existing law, that the Bonds (as defined herein), their transfer, and the principal and interest payable thereon (including any profit made in the sale thereof), shall be and remain exempt from any and all state, county and municipal taxation in the State of Maryland; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Bonds, their transfer or the interest thereon. See "TAX MATTERS."



\$85,000,000*
MAYOR AND CITY COUNCIL OF BALTIMORE
City of Baltimore, Maryland
General Obligation Bonds

\$64,855,000*
Consolidated Public Improvement Bonds
Series 2019A
(Tax-Exempt)

\$20,145,000*
Consolidated Public Improvement Bonds
Series 2019B
(Taxable)

Dated: Date of Delivery

Due: See inside front cover

Security: The Bonds are general obligations of the Mayor and City Council of Baltimore (the "City") for the payment of which the City's full faith and credit and taxing power are irrevocably pledged to the timely payment of principal and interest when due. See "THE BONDS -- Security."

Redemption: The Bonds maturing on and after October 15, 2030 are subject to optional redemption, in whole or in part, on or after October 15, 2029. See "THE BONDS -- Optional Redemption."

Interest Payment Dates: April 15 and October 15, beginning October 15, 2019.

Closing: On or about May 21, 2019.

Denominations: Integral multiples of \$5,000.

Purpose: The proceeds of the Bonds will be used to (i) finance various public improvements of the City, (ii) pay the costs of issuance of the Bonds, and (iii) to the extent there are sufficient proceeds, to fund interest with respect to such Bonds.

Book-Entry Only: The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository. The City shall make required payments on the Bonds to DTC which in turn will provide for payment to the beneficial owners of the Bonds. Purchases of the Bonds will be in book-entry form only, and beneficial owners will not receive certificates representing their interests. The City will act as Bond Registrar for the Bonds. See Appendix F -- "Description of the Book-Entry Only System."

**FOR AMOUNTS, MATURITIES, INTEREST RATES, PRICES OR YIELDS
AND CUSIPS, SEE INSIDE COVER**

The Bonds are offered for delivery when, as and if issued by the City, subject to the approving opinion of McGuireWoods LLP, Baltimore, Maryland, as Bond Counsel to the City and other conditions specified in the official Notices of Sale for the Series 2019A Bonds and the Series 2019B Bonds, copies of which are attached as Appendix C-1 and Appendix C-2, respectively. Certain legal matters will be passed upon for the City by the City Solicitor. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, and certain closing documents will be available for delivery in Baltimore, Maryland on or about May 21, 2019.

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

*Preliminary, subject to change

THIS PRELIMINARY OFFICIAL STATEMENT AND THE INFORMATION CONTAINED HEREIN ARE SUBJECT TO CHANGE, COMPLETION OR AMENDMENT WITHOUT NOTICE. THESE BONDS MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE OFFICIAL STATEMENT IS DELIVERED IN FINAL FORM. UNDER NO CIRCUMSTANCES SHALL THIS PRELIMINARY OFFICIAL STATEMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE BONDS IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH JURISDICTION.

\$85,000,000*
MAYOR AND CITY COUNCIL OF BALTIMORE
(City of Baltimore, Maryland)
General Obligation Bonds

\$64,855,000* Consolidated Public Improvement Bonds
Series 2019A (Tax-Exempt)

| Maturity Date | Amount | Interest Rate | Yield | CUSIP No. | Maturity Date | Amount | Interest Rate | Yield | CUSIP No. |
|----------------------|------------------|----------------------|--------------|------------------|----------------------|------------------|----------------------|--------------|------------------|
| (Oct. 15) | Maturing* | Rate | Yield | CUSIP No. | (Oct. 15) | Maturing* | Rate | Yield | CUSIP No. |
| 2020 | \$2,000,000 | | | | 2030 | \$3,280,000 | | | |
| 2021 | 2,100,000 | | | | 2031 | 3,415,000 | | | |
| 2022 | 2,210,000 | | | | 2032 | 3,555,000 | | | |
| 2023 | 2,325,000 | | | | 2033 | 3,700,000 | | | |
| 2024 | 2,445,000 | | | | 2034 | 3,850,000 | | | |
| 2025 | 2,570,000 | | | | 2035 | 4,010,000 | | | |
| 2026 | 2,700,000 | | | | 2036 | 4,170,000 | | | |
| 2027 | 2,840,000 | | | | 2037 | 4,340,000 | | | |
| 2028 | 2,985,000 | | | | 2038 | 4,520,000 | | | |
| 2029 | 3,135,000 | | | | 2039 | 4,705,000 | | | |

\$20,145,000* Consolidated Public Improvement Bonds
Series 2019B (Taxable)

| Maturity Date | Amount | Interest Rate | Yield | CUSIP No. | Maturity Date | Amount | Interest Rate | Yield | CUSIP No. |
|----------------------|------------------|----------------------|--------------|------------------|----------------------|------------------|----------------------|--------------|------------------|
| (Oct. 15) | Maturing* | Rate | Yield | CUSIP No. | (Oct. 15) | Maturing* | Rate | Yield | CUSIP No. |
| 2020 | \$735,000 | | | | 2030 | \$ 990,000 | | | |
| 2021 | 755,000 | | | | 2031 | 1,030,000 | | | |
| 2022 | 775,000 | | | | 2032 | 1,065,000 | | | |
| 2023 | 795,000 | | | | 2033 | 1,105,000 | | | |
| 2024 | 820,000 | | | | 2034 | 1,145,000 | | | |
| 2025 | 845,000 | | | | 2035 | 1,190,000 | | | |
| 2026 | 870,000 | | | | 2036 | 1,235,000 | | | |
| 2027 | 895,000 | | | | 2037 | 1,285,000 | | | |
| 2028 | 925,000 | | | | 2038 | 1,335,000 | | | |
| 2029 | 960,000 | | | | 2039 | 1,390,000 | | | |

* Preliminary, subject to change.

The interest rates shown above are the interest rates payable by the City resulting from the successful bids for the Bonds at public sale on May 7, 2019. The prices or yields shown above are furnished by the successful bidders. All other information concerning the terms of reoffering of the Bonds, if any, should be obtained from the successful bidders and not from the City (see "SALE AT COMPETITIVE BIDDING" herein).

The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by CUSIP Global Services, which is managed on behalf of the American Bankers Association (the "ABA") by S&P Global Market Intelligence, that is not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders. Neither the City nor the successful bidders take any responsibility for the accuracy of CUSIP information and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the assigned CUSIP numbers set forth above. "CUSIP" is a registered trademark of the ABA. The use of CUSIP numbers in this Official Statement is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services.

No dealer, broker, salesman or other person has been authorized by the City or the successful bidders to give any information or to make any representations, other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the successful bidders.

All quotations and summaries and explanations of provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the respective dates as of which information is given herein. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose. The information set forth herein has been obtained from the City and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the City as to information from sources other than the City.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Furthermore, this Official Statement does not contain any investment advice for purchasers or holders of any of the Bonds. Such persons should consult their own financial advisors regarding possible financial consequences of ownership of the Bonds.

THE OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH, TO THE EXTENT THEY ARE NOT RECITATIONS OF HISTORICAL FACT, CONSTITUTE FORWARD-LOOKING STATEMENTS, AS SUCH TERM IS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, IN THIS RESPECT, SUCH FORWARD-LOOKING STATEMENTS ARE IDENTIFIED BY THE USE OF THE WORDS ESTIMATE, PROJECT, ANTICIPATE, EXPECT, FORECAST, INTEND OR BELIEVE OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARBLE TERMINOLOGY, SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD RESULT IN THE ACTUAL INFORMATION BEING SIGNIFICANTLY DIFFERENT FROM THAT EXPRESSED IN THIS OFFICIAL STATEMENT, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS, SUCH FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THE CITY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGES IN THE CITY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933. AS AMENDED, AND HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

**MAYOR AND CITY COUNCIL OF BALTIMORE
ELECTED AND CERTAIN APPOINTED OFFICIALS**

MAYOR

Catherine E. Pugh*

CITY COUNCIL

| | |
|------------------------------------|---------------------------|
| President (elected City-Wide): | Bernard C. “Jack” Young** |
| First District Councilperson: | Zeke Cohen |
| Second District Councilperson: | Brandon M. Scott |
| Third District Councilperson: | Ryan L. Dorsey |
| Fourth District Councilperson: | William B. Henry |
| Fifth District Councilperson: | Isaac “Yitzzy” Schleifer |
| Sixth District Councilperson: | Sharon Green Middleton |
| Seventh District Councilperson: | Leon F. Pinkett, III |
| Eighth District Councilperson: | Kristerfer A. L. Burnett |
| Ninth District Councilperson: | John T. Bullock |
| Tenth District Councilperson: | Edward L. Reisinger |
| Eleventh District Councilperson: | Eric T. Costello |
| Twelfth District Councilperson: | Robert R. Stokes, Sr. |
| Thirteenth District Councilperson: | Shannon C. Sneed |
| Fourteenth District Councilperson: | Mary Pat Clarke |

BOARD OF ESTIMATES

| | |
|--------------------------|--------------------------|
| Sharon Green Middleton** | Chair |
| Bernard C. “Jack” Young* | ex officio Mayor |
| Joan M. Pratt | Comptroller |
| Andre M. Davis | City Solicitor |
| Rudolph S. Chow | Director of Public Works |

BOARD OF FINANCE

| | |
|---------------------------------------|------------------|
| Bernard C. “Jack” Young (President)* | ex officio Mayor |
| Joan M. Pratt | Comptroller |
| Larry I. Silverstein (Vice President) | Member |
| Dana C. Moulden | Member |
| Frederick W. Meier, Jr. | Member |

* The President of the City Council is currently serving as ex officio Mayor. See “THE CITY” herein.
** The Vice President of the City Council is currently presiding at Council meetings and acting as a member of the Board of Estimates while Mr. Young serves as ex officio Mayor. See “THE CITY” herein.

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OFFICIAL STATEMENT

\$85,000,000*

MAYOR AND CITY COUNCIL OF BALTIMORE
(City of Baltimore, Maryland)
General Obligation Bonds

\$64,855,000*
Consolidated Public Improvement Bonds
Series 2019A
(Tax-Exempt)

\$20,145,000*
Consolidated Public Improvement Bonds
Series 2019B
(Taxable)

INTRODUCTION

This introduction is only a brief description of this Official Statement and a full review of the entire Official Statement should be made by any prospective purchaser.

This Official Statement, together with the Appendices, provides certain information relating to the Mayor and City Council of Baltimore (the “City”) in connection with the issuance, sale and delivery of its \$85,000,000* General Obligation Bonds, consisting of its \$64,855,000* Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt) (the “Series 2019A Bonds” or the “Tax-Exempt Bonds”) and its \$20,145,000* Consolidated Public Improvement Bonds, Series 2019B (Taxable) (the “Series 2019B Bonds” or the “Taxable Bonds” and, together with the Series 2019A Bonds, the “Bonds”).

Purpose of the Bonds

The proceeds of the Bonds will be used to (i) finance various public improvements of the City, (ii) pay for the cost of issuance of the Bonds, and (iii) to the extent there are sufficient proceeds, fund interest with respect to such Bonds.

Appendices

Appendix A of this Official Statement provides certain information relating to the condition, affairs and operations of the City. Appendix B of this Official Statement provides financial and statistical statements of the City as contained in the Comprehensive Annual Financial Report for the year ended June 30, 2018. Appendix C-1 is the official Notice of Sale for the Series 2019A Bonds and Appendix C-2 is the official Notice of Sale for the Series 2019B Bonds. The forms of Bond Counsel Opinions are set forth in Appendix D. The form of the Continuing Disclosure Certificate is set forth in Appendix E. The description of the book-entry only system is set forth in Appendix F.

THE BONDS

General

The Bonds will be dated the date of their delivery and will mature as set forth on the inside cover page of this Official Statement, subject to earlier redemption as set forth below under “Optional Redemption.” The Bonds will bear interest from the date of their delivery. Interest on the Bonds is payable on each April 15 and October 15, commencing on October 15, 2019. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months.

*Preliminary, subject to change.

The Bonds will be issued in book-entry only form as fully registered bonds without coupons. The Bonds will initially be registered in the name of Cede & Co., the partnership nominee of DTC. So long as Cede & Co. is the registered owner of the Bonds, interest payments due on such Bonds will be made to Cede & Co.

Optional Redemption

Bonds maturing on or after October 15, 2030 are subject to redemption prior to maturity, at the option of the City, at any time on or after October 15, 2029, in whole or in part, at the principal amount thereof (without premium), plus accrued interest on such principal amount to the date of redemption.

Selection of Bonds for Redemption

If less than all of the outstanding Bonds of a series are called for redemption, the City shall choose the maturities of the Bonds of such series to be redeemed. If less than all of the Bonds of any one maturity of a series shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Bond Registrar; except that so long as The Depository Trust Company (“DTC”) or its nominee is the sole registered owner of the Bonds, the particular Bonds or portions thereof shall be selected by lot by DTC, in such manner as DTC shall determine. Each \$5,000 portion of a Bond shall be treated as a separate Bond in the selection by lot of Bonds to be redeemed. When less than all of a Bond in a denomination in excess of \$5,000 shall be so redeemed, then, upon the surrender of such Bond, there shall be issued to the registered owner thereof, without charge, for the unredeemed balance of the principal amount of such Bond, at the option of such owner, Bonds of the same series in any of the authorized denominations, the aggregate face amount of such Bonds not to exceed the unredeemed balance of the principal amount of such Bond.

Notice of Redemption

The Bond Registrar on behalf of the City will give notice of the redemption of the Bonds by mailing a copy of the redemption notice by first class mail postage prepaid, at least 30 days prior to the date fixed for redemption, to the owner of each Bond subject to redemption in whole or in part at the owner’s address shown on the Bond Register. When the Bonds are not held in a book-entry only system, a second notice shall be sent in the same manner described above not more than 90 days after the redemption date to the owner of any redeemed Bond which was not presented for payment on the redemption date. Failure to receive notice as described in this paragraph, or any defect in that notice, as to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond.

So long as the book-entry only system is in effect, the Bond Registrar will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry only system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

The notice of the call for redemption of the Bonds shall state (i) whether such Bonds are redeemed in whole or in part, (ii) the Bonds or portion thereof to be redeemed by designation, letters, CUSIP numbers or other distinguishing marks, interest rate, maturity date and principal amount, (iii) the redemption price to be paid, (iv) the date fixed for redemption, (v) that interest shall cease to accrue after the date fixed for redemption, (vi) the place or places, by name and address, where the Bonds must be presented for redemption and payment, and (vii) the name and telephone number of the person to whom inquiries regarding the redemption may be directed; provided, however, that the failure to identify a CUSIP number for said Bonds in the redemption notice, or the inclusion of an incorrect CUSIP number, shall not affect the validity of such redemption notice; and provided further that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in such notice.

Authorization

The Bonds are issued under the authority of the Constitution of Maryland, the Charter of the City (the “Charter”), a resolution of the Board of Finance of the City, the Consolidating Act (as hereinafter defined) and certain ordinances of the City (the “City Ordinances”) which have been approved by the City Council of the City (the “City

Council”) and the Mayor of the City (the “Mayor”). The debt authorized by the City Ordinances was approved by voters of the City and by either resolutions of the Baltimore City Delegation to the General Assembly of Maryland (the “General Assembly”) or the Acts of the General Assembly.

The Bonds are issued under the authority of Section 7 of Article XI of the Constitution of Maryland, as amended; Article II, Section 33 of the Charter; Article VII, Section 21 of the Charter; a Resolution of the Board of Finance adopted on April 22, 2019 (the “Resolution”); and the City Ordinances which were approved by the City Council and the Mayor.

The Bonds are consolidated for sale under the provisions of Section 19-101 of the Local Government Article of the Annotated Code of Maryland (the “Consolidating Act”).

The debt authorized by the Ordinances with respect to the Bonds was presented to and approved by a majority of the members of the General Assembly representing the City (the “City Delegation”) and was submitted to the legal voters of the City and approved by a majority of the votes cast as set forth below.

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| Loan Name | Amount | Date | Number | Authority |
|---|---------------|-------------|---------------|------------------|
| 1st Community & Economic Development | \$47,000,000 | 06/18/14 | 14-255 | Res. III |
| 1st Cultural Institution | 3,600,000 | 08/15/06 | 06-299 | Res. I |
| 1st Parks & Public Facilities | 47,000,000 | 06/18/14 | 14-254 | Res. II |
| 1st Public Building | 7,580,000 | 06/23/04 | 04-799 | Res. IX |
| 1st Waxter Center | 1,000,000 | 07/01/02 | 02-374 | Res. XI |
| 2nd Community & Economic Development | 45,000,000 | 06/23/16 | 16-491 | Res. II |
| 2nd Recreation, Parks & Public Facilities | 45,000,000 | 06/23/16 | 16-492 | Res. IV |
| 2nd Public Building | 2,000,000 | 08/15/06 | 06-305 | Res. VIII |
| 2nd Street & Bridge | 8,000,000 | 07/05/88 | 118 | Res. X |
| 3rd Enoch Pratt Library | 7,500,000 | 06/12/00 | 00-036 | Res. V |
| 3rd Police Department | 1,000,000 | 06/24/98 | 98-344 | Res. V |
| 3rd Port Discovery | 400,000 | 06/18/14 | 14-253 | Res. VII |
| 3rd Public Building | 12,500,000 | 05/27/08 | 08-021 | Res. XV |
| 4th Enoch Pratt Library | 2,350,000 | 07/01/02 | 02-376 | Res. IV |
| 5th Public Buildings | 16,200,000 | 06/17/10 | 10-293 | Res. V |
| 6th Enoch Pratt | 3,000,000 | 08/15/06 | 06-300 | Res. II |
| 6th Affordable Housing | 10,000,000 | 08/15/06 | 06-303 | Res. VI |
| 6th Public Buildings | 17,000,000 | 06/18/12 | 12-23 | Res. V |
| 8th Fire Department | 2,000,000 | 06/19/96 | 71 | Res. I |
| 10th Baltimore Museum of Art | 400,000 | 06/18/14 | 14-252 | Res. V |
| 19th Economic Development | 27,650,000 | 07/01/02 | 02-382 | Res. III |
| 20th Economic Development | 29,875,000 | 06/23/04 | 04-714 | Res. III |
| 21st Economic Development | 24,400,000 | 08/15/06 | 06-304 | Res. VII |
| 22nd Economic Development | 15,300,000 | 05/27/08 | 08-019 | Res. XIV |
| 23rd Economic Development | 16,775,000 | 06/17/10 | 10-292 | Res. IV |
| 23rd Recreation & Parks | 6,945,000 | 06/23/04 | 04-719 | Res. X |
| 24th Economic Development | 15,800,000 | 06/18/12 | 12-20 | Res. IV |
| 25th Community Development | 26,000,000 | 06/12/00 | 00-059 | Res. III |
| 25th Recreation & Parks | 16,000,000 | 06/09/08 | 08-030 | Res. XII |
| 26th Community Development | 43,500,000 | 07/01/02 | 02-381 | Res. II |
| 26th Recreation & Parks | 12,897,000 | 05/27/10 | 10-286 | Res. II |
| 27th Community Development | 33,500,000 | 06/23/04 | 04-713 | Res. IV |
| 27th Recreation, Parks & Environment | 8,000,000 | 06/18/12 | 12-24 | Res. II |
| 29th Community Development | 30,500,000 | 05/27/08 | 08-018 | Res. XIII |
| 30th Community Development | 18,050,000 | 06/17/10 | 10-291 | Res. III |
| 31st Community Development | 24,000,000 | 06/18/12 | 12-18 | Res. III |
| 45th Schools | 34,000,000 | 06/18/12 | 12-25 | Res. I |

Security

The Bonds shall be unconditional general obligations of the City, for which the faith and credit of the City are pledged. The Bonds are payable as to principal and interest from *ad valorem* taxes which the City is empowered, obligated and directed by law to levy, without limitation, upon all assessable property within the corporate boundaries

of the City, in each year in rate and amount sufficient for such purpose until all of the Bonds and the interest thereon shall have been paid or provision shall have been made for such payment. Payment of the Bonds is not guaranteed by the State or any other governmental entity, except the City.

Notwithstanding that the City is obligated and directed by law to levy *ad valorem* taxes in each year in rate and amount sufficient to pay the principal of and interest on the Bonds and the City's other outstanding parity indebtedness, the collection of such taxes may not be in amounts sufficient to make the required debt service payments on the Bonds. Further, the City does not segregate the tax revenues levied to pay the principal of and interest on the Bonds and all other outstanding parity indebtedness from other general revenues of the City.

Bondholder Remedies Under Court Issued Writ of Mandamus

If the City fails or neglects to budget, appropriate, and pay debt service on the Bonds when due, a holder may petition the appropriate courts of the State of Maryland (the "State"), upon a finding of such failure or neglect, to direct by order of mandamus the Director of the Department of Finance of the City to pay into the sinking funds established for all outstanding bonds of the City, including the Bonds, the first tax moneys or other available revenues or moneys thereafter received by the Department of Finance for the payment of debt service due on outstanding bonds. Courts may be allowed certain discretion in deciding whether to grant a writ of mandamus. Additionally, municipal officials presented with a writ could resign rather than carry out the mandamus order, in which case it is uncertain the extent to which bondholders would be able to cause other City officials to pay amounts then due and owing.

In addition, while remedies would be available to bondholders and while the general obligation bonds of the City are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies may not be absolute. The State does not at this time have any statute that authorizes municipalities to file under Chapter 9 of the federal Bankruptcy Code. However, enforcement of a claim for payment of principal of and or interest on the Bonds may be subject to applicability of general principles of equity and, if permitted by the General Assembly, provisions of federal bankruptcy laws (as described below) and to the provisions of other statutory laws enacted by the United States Congress or the General Assembly or case law developed by competent courts having jurisdiction extending the time for payment or imposing other constraints upon enforcement insofar as such laws may be constitutionally applied.

Enforcement of Remedies; Public Health and Safety

City officials are generally charged with the duty of providing for the health, safety and general welfare of their residents. Confronted with a choice between providing basic human services to its residents or funding other obligations like debt service on the Bonds, bondholders should consider carefully the risk that such officials might choose to provide basic services to its residents from its limited funds available before it pays its other obligations.

Limitation on the Remedies Under Bankruptcy, if Enacted

The State does not at this time have any statute that authorizes municipalities to seek relief under Chapter 9 of the federal Bankruptcy Code, which is the only Chapter under which a municipality presently can seek relief under the federal Bankruptcy Code. In the future, however, the General Assembly could enact legislation authorizing municipalities, including the City, to seek relief under Chapter 9 of the federal Bankruptcy Code. If the City were to commence a case under the federal Bankruptcy Code, there could be adverse effects on the rights and remedies of holders of the Bonds and the enforceability of the Bonds, including, among other things, (a) delay in payments due on the Bonds and in the enforcement of bondholder remedies, (b) subordination of bondholder claims to claims arising after the commencement of the case, including claims of the providers of goods and services, and claims arising in connection with administration of the case such as the claims of professionals providing services to the City in connection with the case, and (c) imposition, without bondholder consent or over the objection of bondholders, of a plan of adjustment affecting the amount, interest rate, or amortization of the Bonds and otherwise substantially impairing the recovery of bondholders. In addition, the filing of a bankruptcy petition would result in an automatic stay enjoining any enforcement actions by or on behalf of the bondholders, including any action seeking a writ of mandamus, and would relieve the debtor, during the pendency of the bankruptcy case, from the obligation to make debt service payments on the Bonds. In bankruptcy, holders of the Bonds would be considered to be unsecured

creditors of the City, and holders of the Bonds should not expect to receive any payment of debt service prior to confirmation of a plan of adjustment or dismissal of the case. Moreover, holders of the Bonds, as unsecured creditors, generally would not be entitled to a claim for interest accruing during or after the pendency of the bankruptcy case.

Book-Entry Only System

Principal of and interest on the Bonds are payable, so long as the Bonds are in book-entry only form, through a securities depository, as described in Appendix F. DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). Beneficial ownership interests in the Bonds will be available in book-entry only form. Purchasers of beneficial ownership interests will not receive certificates representing their interests in the Bonds purchased. See Appendix F -- "Description of the Book-Entry Only System."

Termination of Book-Entry Only System

In the event that the book-entry only system is discontinued, the Bonds will be delivered by DTC to the Bond Registrar (defined herein) and such Bonds will be exchanged for Bonds registered in the names of the Direct or Indirect Participants or the Beneficial Owners (each as defined in Appendix F) identified to the Bond Registrar. In such event, certain provisions of the Bonds pertaining to ownership of the Bonds will be applicable to the registered owners of the Bonds as described below. Interest on the Bonds will be payable by check mailed by the City (the "Bond Registrar") to the persons in whose names the Bonds are registered as of the close of business on the first day of the month in which such payment date occurs at the addresses shown on the registration books of the City maintained by the Bond Registrar. The principal or redemption price of and premium, if any, on the Bonds will be payable at the office of the Bureau of Treasury Management in Baltimore, Maryland. The City may designate another entity as Bond Registrar pursuant to the Resolution.

Registration, Transfer and Exchange

The City shall cause a Bond Register (the "Bond Register") for the Bonds to be kept at the designated office of the Bond Registrar. The City may deem and treat the person in whose name a Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

Subject to the limitations set forth above with respect to the Bonds held in a book-entry only system, upon surrender for transfer of any Bond at such office, the City shall execute and the Bond Registrar shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds in the same series and authorized denomination or denominations in the aggregate principal amount which the transferee is entitled to receive. All Bonds presented for transfer, exchange or redemption (if so required by the City) shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or by his duly authorized attorney. No service charge shall be made for any exchange, transfer, registration or discharge from registration of the Bonds, but the City may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto. Neither the City nor any other Bond Registrar on behalf of the City shall be required to (a) register the transfer of or exchange any Bond during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of Bonds selected for redemption and ending at the close of business on the day of such mailing or (b) register the transfer of or exchange any Bond so selected for redemption in whole or in part.

THE CITY

The City is a body politic and corporate and a political subdivision of the State and has had a charter form of government since 1797 and home rule powers since 1918. All local government functions are performed by the City. Appendix A provides information regarding the City, including organizational information, financial information and certain demographic and economic information. Appendix B contains the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018.

On April 1, 2019, the City released a statement announcing that Mayor Catherine E. Pugh was taking an indefinite leave of absence to recuperate from an illness. Under the Baltimore City Charter, Article IV, Section 2 (b), in the event of “sickness, temporary disqualification or necessary absence of the Mayor, the President of the City Council [becomes] ex officio Mayor of the City.” City Council President Bernard C. “Jack” Young has assumed the role of ex officio Mayor responsible for the daily operations of the City government. Council Vice President Sharon Green Middleton presides at Council meetings and acts as a member of the Board of Estimates while Mr. Young serves as ex officio Mayor. On April 8, 2019, Mayor Pugh indicated, through a released statement, that she intends to resume the duties of her office. As of May 1, 2019, Mayor Pugh remains on leave. Ex officio Mayor Young is actively managing City government affairs with the support of all City departments and agencies and with the advice and counsel of the City Law Department. See Appendix A, CITY GOVERNMENT AND ADMINISTRATION –Certain Elected and Appointed Officials for biographical information concerning Mr. Young and Ms. Green.

Governor Larry Hogan, by letter to State Prosecutor Emmet C. Davis dated April 1, 2019, requested an investigation of the matters and facts surrounding Mayor Pugh’s sales of books to the University of Maryland Medical System while she was a board member. Additionally, the City’s Board of Ethics is reviewing matters related to the Mayor Pugh’s sales of books to certain entities. The Board of Ethics has the power to investigate alleged violations of the City’s ethics law. On April 25, 2019, agents of the Federal Bureau of Investigation and the Internal Revenue Service executed search warrants on the residence of Mayor Pugh, the offices of Mayor Pugh in City Hall and other locations in the City, and a subpoena was served on the offices of Mayor Pugh’s personal attorney. The results of these investigations are pending.

Debt Service Schedule for Outstanding General Obligation Debt

The following table sets forth the debt service for the Bonds and all other currently outstanding general obligation bonds of the City on a fiscal year basis.

| Fiscal Year | Existing General Obligation Debt Service | | | The Bonds Debt Service | | Total Debt Service |
|--------------|--|-------------------------|---------------------|------------------------|----------|--------------------|
| | Principal | Interest ⁽¹⁾ | SWAP ⁽²⁾ | Principal | Interest | |
| 2019 | \$ 37,605,000 | \$22,955,063 | \$507,248 | - | | |
| 2020 | 41,635,000 | 21,340,384 | 473,781 | | | |
| 2021 | 46,870,000 | 19,427,433 | 387,416 | | | |
| 2022 | 50,365,000 | 17,286,296 | 251,978 | | | |
| 2023 | 53,090,000 | 14,987,497 | 86,393 | | | |
| 2024-2028 | 154,255,000 | 50,260,870 | - | | | |
| 2029-2033 | 100,680,000 | 19,290,211 | - | | | |
| 2034-2038 | 45,645,000 | 4,733,058 | - | | | |
| 2039-2043 | - | - | - | | | |
| 2044-2048 | - | - | - | - | - | - |
| 2049-2053 | - | - | - | - | - | - |
| 2054-2058 | - | - | - | - | - | - |
| Total | \$530,145,000 | \$170,280,81 | \$1,706,816 | | | |

(1) With respect to outstanding general obligation bonds bearing interest at a variable rate, the interest rate is calculated at the reset rate as of 6/30/2018.

(2) Swap debt service represents estimated payments for additional interest resulting from Swap Agreements, calculated at the net swap rate as of 6/30/2018.

PLAN OF FINANCE

The City intends to use the proceeds of the Bonds to (i) finance various public improvements of the City, (ii) pay the costs of issuance of the Bonds and (iii) to the extent there are sufficient funds, fund interest with respect to such Bonds.

The following table outlines the estimated sources and uses of funds for the Bonds.

| | Series 2019A Bonds | Series 2019B Bonds | Total |
|--|-----------------------|-----------------------|-----------|
| Sources of Funds: | | | |
| Par Amount of Bonds | \$ | \$ | \$ |
| Premium | | | |
| Total Sources of Funds: | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Uses of Funds: | | | |
| Deposit to Project Fund | | | |
| Tax-Exempt Projects | \$ | - | \$ |
| Taxable Projects | - | \$ | |
| Additional Proceeds for Payment of Debt Service | | | |
| Costs of Issuance* | | | |
| Total Uses of Funds: | <u>\$</u> | <u>\$</u> | <u>\$</u> |

* Costs of issuance include, among other items, the Underwriters' discount, Bond Counsel fees, ratings fees, printer fees and Municipal Advisor fees.

DEBT SERVICE SCHEDULES

Debt Service Schedules for the Bonds

The following table sets forth the annual debt service requirements for the Bonds.

| <u>Fiscal Year</u> | <u>Series 2019A</u> <u>Bonds</u> | | <u>Series 2019B</u> <u>Bonds</u> | | <u>Total</u> |
|--------------------|-------------------------------------|-----------------|-------------------------------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| | \$ | \$ | \$ | \$ | \$ |

| | | | | | |
|--------------|-----------|-----------|-----------|-----------|-----------|
| Total | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
|--------------|-----------|-----------|-----------|-----------|-----------|

APPLICATION OF PROCEEDS OF THE BONDS

The proceeds of the Bonds will be used to finance or refinance certain capital projects of the City as approved by voters of the City and by either resolutions of the City Delegation to the General Assembly or the Acts of the General Assembly. A portion of the proceeds of the Bonds will finance indebtedness or reimburse expenditures incurred for such authorized public improvement projects (the "Projects"), as set forth below.

| <u>Loan Projects</u> | <u>Series 2019A Bonds*</u> | <u>Series 2019B Bonds*</u> | <u>Total*</u> |
|---|-------------------------------|-------------------------------|-------------------------------|
| 1st Community & Economic Development | \$9,013,883.88 | \$4,519,518.79 | \$13,533,402.67 |
| 1st Cultural Institution | 155,456.33 | 58,623.05 | 214,079.38 |
| 1st Parks & Public Facilities | 14,810,324.09 | 54,669.09 | 14,864,993.18 |
| 1st Public Building | 390,779.32 | 58,631.26 | 449,410.58 |
| 1st Waxter Center | — | 23,572.93 | 23,572.93 |
| 2nd Community & Economic Development | 15,416,078.62 | 4,860,143.43 | 20,443,971.55 |
| 2nd Recreation, Parks & Public Facilities | 6,095,777.06 | 639,359.90 | 6,735,647.31 |
| 2nd Public Building | 2,196.99 | 1,025.68 | 3,222.67 |
| 2nd Street & Bridge | 198,341.01 | — | 198,341.01 |
| 3rd Enoch Pratt Library | 6,435.18 | — | 6,435.18 |
| 3rd Police Department | — | 8,667.72 | 8,667.72 |
| 3rd Port Discovery | 278,330.00 | — | 278,330.00 |
| 3rd Public Building | 622,348.97 | 217,950.86 | 840,299.83 |
| 4th Enoch Pratt Library | 405,792.04 | — | 405,792.04 |
| 5th Public Building | 597,790.11 | 310,993.11 | 908,783.22 |
| 6th Enoch Pratt | 500,000.00 | 4,193.58 | 504,193.58 |
| 6th Affordable Housing | — | 199,068.77 | 199,068.77 |
| 6th Public Building | 2,506,186.95 | 48,604.30 | 2,554,791.25 |
| 8th Fire Department | 74,739.71 | — | 74,739.71 |
| 10th Baltimore Museum of Art | 128,813.35 | — | 128,813.35 |
| 19th Economic Development | 267,291.81 | 3,979.74 | 271,271.55 |
| 20th Economic Development | — | 135,326.83 | 135,326.83 |
| 21st Economic Development | — | 390,332.14 | 390,332.14 |
| 22nd Economic Development | — | 68,557.52 | 68,557.52 |
| 23rd Economic Development | 967,846.38 | 584,624.98 | 1,552,471.36 |
| 23rd Recreation & Parks | 144,440.10 | 90,893.72 | 235,333.82 |
| 24th Economic Development | 142,687.71 | 670,589.85 | 813,277.56 |
| 25th Community Development | 2,085.76 | 393.58 | 2,479.34 |
| 25th Recreation & Parks | 2,342,347.80 | — | 2,342,347.80 |
| 26th Community Development | 2,085.76 | 55,818.68 | 57,904.44 |
| 26th Recreation & Parks | 281,760.45 | 1,366,444.11 | 1,648,204.56 |
| 27th Community Development | — | 15,865.15 | 15,865.15 |
| 27th Recreation, Parks & Environment | 1,394,936.17 | 60,229.03 | 1,455,165.20 |
| 29th Community Development | — | 50,000.00 | 50,000.00 |
| 30th Community Development | 54,079.32 | 1,403,249.44 | 1,457,328.76 |
| 31st Community Development | 1,256,418.88 | 944,416.98 | 2,200,835.87 |
| 45th Schools | 6,795,746.15 | 3,299,884.32 | 10,095,630.47 |
| <u>Total</u> | <u>\$64,855,000.00</u> | <u>\$20,145,000.00</u> | <u>\$85,000,000.00</u> |

*Preliminary, subject to change

CERTAIN FINANCIAL INFORMATION REGARDING CITY OF BALTIMORE

Statement of General Obligation Debt and Other Financing Arrangements as of June 30th

| | After Bond Sale 2019 | 2019* | 2018 | 2017 | 2016 | 2015 |
|--|-------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|
| General Obligation Bonds: | | | | | | |
| Education | | \$171,768,188 | \$183,445,686 | \$186,440,644 | \$197,809,693 | \$193,487,576 |
| Highways | | 1,002,101 | 1,170,240 | 1,310,669 | 1,657,558 | 1,090,664 |
| Parking | | 5,215,407 | 5,372,707 | 5,513,907 | 5,968,107 | 6,403,107 |
| Public Buildings & Facilities | | 66,367,785 | 71,049,370 | 69,919,491 | 74,435,634 | 62,483,195 |
| Public Health | | 1,457,947 | 1,617,930 | 1,896,677 | 2,170,869 | 2,373,871 |
| Public Safety | | 1,641,356 | 1,881,640 | 2,247,638 | 3,058,949 | 3,805,882 |
| Recreation & Parks | | 29,143,789 | 31,214,143 | 31,931,298 | 34,627,284 | 28,815,266 |
| Storm Water | | 3,239,665 | 3,588,769 | 3,290,961 | 3,602,043 | 3,800,480 |
| Unallocated | | 3,422,700 | 4,052,000 | 4,561,280 | 5,204,060 | 5,923,570 |
| Urban Renewal & Development | | 209,281,062 | 226,752,515 | 223,227,434 | 250,860,820 | 248,512,359 |
| Total General Obligation Bonds | \$0 | \$492,540,000 | \$530,145,000 | \$530,340,000 | \$579,395,016 | \$556,695,970 |
| Revenue Obligations - City Facilities: | | | | | | |
| Convention Center Revenue Bonds | | \$271,730,000 | \$277,400,000 | \$281,415,000 | \$306,955,000 | \$313,770,000 |
| County Transportation Bonds | | 112,188,104 | 87,855,054 | 83,270,634 | 93,288,531 | 87,860,000 |
| Parking Facilities Revenue Bonds | | 111,385,000 | 111,530,000 | 123,020,000 | 133,980,000 | 144,330,000 |
| Stormwater Special Revenue Bonds ^(a) | | 16,086,896 | 10,608,394 | 27,337,885 | 29,108,505 | 2,534,105 |
| Wastewater Utility Revenue Bonds ^{(b)(d)} | | 1,350,133,845 | 1,188,940,133 | 1,064,546,338 | 1,004,061,907 | 919,931,301 |
| Water Utility Revenue Bonds ^(b) | | 872,910,971 | 893,969,427 | 912,410,140 | 697,173,749 | 713,054,032 |
| Total Revenue Obligations – City Facilities | \$0 | \$2,734,434,815 | \$2,570,303,008 | \$2,491,999,996 | \$2,264,567,691 | \$2,181,479,438 |
| Special Obligation Bonds | | | | | | |
| Tax Increment Financing | | \$194,953,210 | \$198,175,866 | \$199,875,908 | \$146,010,788 | \$149,154,859 |
| Tax Special Obligation Bonds | \$0 | \$194,953,210 | \$198,175,866 | \$199,875,908 | \$146,010,788 | \$149,154,859 |
| Financings with State of Maryland: | | | | | | |
| Urban Renewal & Development ^(c) | | | | | | \$201,961 |
| Total Financings with State of Maryland | \$0 | \$0 | \$0 | \$0 | \$0 | \$201,961 |
| Financings with the Federal Government: | | | | | | |
| Urban Renewal & Development | | \$16,707,000 | \$20,320,000 | \$23,792,000 | \$27,132,000 | \$30,357,000 |
| Total Federal Government Financings | \$0 | \$16,707,000 | \$20,320,000 | \$23,792,000 | \$27,132,000 | \$30,357,000 |
| Conditional Purchase Agreements: | | | | | | |
| Certificates of Participation | | \$0 | \$1,670,000 | \$7,275,000 | \$12,635,000 | \$18,835,000 |
| Leasing Financings | | 139,010,354 | 159,160,943 | 138,780,570 | 140,737,751 | 128,210,650 |
| CPA's Financed by I.D.A. | | 0 | 0 | 0 | 8,421,834 | 16,270,491 |
| Total Conditional Purchase Agreements | \$0 | \$139,010,354 | \$160,830,943 | \$146,055,570 | \$161,794,585 | \$163,316,141 |
| Total - All Financing Obligations | \$0 | \$3,577,645,379.15 | \$3,479,774,817 | \$3,392,063,474 | \$3,178,900,080 | \$3,081,003,409 |

* Unaudited – as of April 15, 2019

(a) Includes borrowings financed with general obligation bonds, county transportation bonds, and Maryland Water Quality Financing Administration.

(b) Includes borrowings financed through the Maryland Water Quality Financing Administration to fund various water and sewer projects.

(c) Represents borrowings from the State for (i) Maryland Industrial Land Act (MILA) loans for industrial parks owned by the City or industrial facilities financed for private enterprises; and (ii) Maryland Industrial and Commercial Redevelopment Fund (MICRF) loans for industrial and commercial development.

(d) Includes borrowings financed through the U.S. Environmental Protection Agency WIFIA Program.

Source: Bureau of Treasury Management, Department of Finance.

GENERAL OBLIGATION LOANS AUTHORIZED, NOT ISSUED

As described under the heading “DEBT OF THE CITY” in Appendix A of this Official Statement, the City’s ability to incur general obligation debt requires a three-step procedure: State legislative authorization, enactment of a City loan ordinance and approval by the voters of the City. Thereafter, the loan authorization must be appropriated through the City’s capital budget process before the loan funds can be expended. As a result of these required procedures, the City usually has a backlog of authorized loans which have not been funded by issuance of either general obligation bonds or general obligation bond anticipation notes. The table below reflects the remaining amount of such loans authorized but not issued as of the closing date of the Bonds:

| <u>General Purpose</u> | <u>Number of Authorizations</u> | <u>Amount</u> |
|-------------------------------|-------------------------------------|----------------------|
| Education | 4 | \$124,994,183 |
| Finance | 1 | 20,000,000 |
| Highways | 1 | 219,861 |
| Parking | 2 | 345,000 |
| Public Buildings & Facilities | 23 | 177,898,809 |
| Public Health | 4 | 4,070,611 |
| Public Safety | 2 | 147,235 |
| Recreation & Parks | 5 | 17,538,519 |
| Urban Renewal & Development | 26 | 175,324,208 |
| Total | 68 | \$520,538,426 |

FUTURE GENERAL OBLIGATION ISSUES

The City’s capital improvement program is an ongoing undertaking which requires periodic issuances of the City’s general obligation bonds to fund the portion of such program which was appropriated to be paid. The City expects to issue its next general obligation offering in the fourth quarter of fiscal year 2020.

TAX MATTERS

Federal Tax Exemption – Series 2019A Bonds

General. Bond Counsel’s opinion will state that, under current law, (i) interest on the Series 2019A Bonds (including any accrued “original issue discount” properly allocable to the owners of the Series 2019A Bonds) is excludable from gross income for purposes of Federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Series 2019A Bonds is not a specific item of tax preference for purposes of the Federal alternative minimum tax.

Bond Counsel will express no opinion regarding other Federal tax consequences arising with respect to the Series 2019A Bonds.

Bond Counsel’s opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel’s judgment as to the proper treatment of interest on the Series 2019A Bonds for Federal income tax purposes under Section 103 of the Code. Bond Counsel’s opinion does not contain or provide any opinion or assurance regarding the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the “IRS”). The City has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes. In delivering its opinion regarding the tax treatment of interest on the Series 2019A Bonds, Bond Counsel is relying upon certifications of representatives of the City, the underwriters for the Series 2019A Bonds and other persons as to facts material to the opinion, which Bond Counsel has not independently verified. In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2019A Bonds in order for interest on the Series 2019A Bonds to be and remain excludable from gross income for purposes of Federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Series 2019A Bonds and the use of the property financed by the Series 2019A Bonds, limitations on the source of the payment of and the security for the Series 2019A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2019A Bonds to the U.S. Department of the Treasury (“Treasury”). The tax compliance agreement to be entered into by the City with respect to the Series 2019A Bonds (the “Tax Agreement”) contains covenants (the “Covenants”) under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the Series 2019A Bonds to become includable in gross income for Federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2019A Bonds from becoming includable in gross income for Federal income tax purposes. Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Series 2019A Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in the Tax Agreement. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Series 2019A Bonds from gross income for Federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2019A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Series 2019A Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning or disposing of the Series 2019A Bonds.

Prospective purchasers of the Series 2019A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral Federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the “branch profits tax,” individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Series 2019A Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments to any Series 2019A Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2019A Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on Federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for Federal tax purposes or any other Federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount. The “original issue discount” (“OID”) on any Series 2019A Bond is the excess of such Series 2019A Bond’s stated redemption price at maturity (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of such Series 2019A Bond. The “issue price” of a Series 2019A Bond is generally the first price at which a substantial amount of the Series 2019A Bonds of the same maturity was sold to the public. The issue price for each maturity of the Series 2019A Bonds is expected to be the initial public offering price set forth on the inside front cover of this Official Statement (or, in the

case of Series 2019A Bonds sold on a yield basis, the initial offering price derived from such yield). OID on the Series 2019A Bonds with OID (the “OID Series 2019A Bonds”) represents interest that is excludable from gross income for purposes of Federal income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Series 2019A Bond in each year may be included in determining the distribution requirements of certain investment companies and may result in some of the collateral Federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Series 2019A Bonds should be aware that the accrual of OID in each year may result in additional distribution requirements or other collateral Federal income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Series 2019A Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for Federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Series 2019A Bond, the amount of OID that is treated as having accrued on such OID Series 2019A Bond is added to the owner’s cost basis in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for Federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Series 2019A Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Series 2019A Bonds should consult their own tax advisors with respect to the precise determination for Federal income tax purposes of interest accrued upon sale or redemption of such OID Series 2019A Bonds and with respect to state and local tax consequences of owning OID Series 2019A Bonds.

Series 2019A Bond Premium. In general, if an owner acquires a Series 2019A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2019A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2019A Bond (a “Premium Series 2019A Bond”). In general, under Section 171 of the Code, an owner of a Premium Series 2019A Bond must amortize the bond premium over the remaining term of the Premium Series 2019A Bond, based on the owner’s yield over the remaining term of the Premium Series 2019A Bond, determined based on constant yield principles. An owner of a Premium Series 2019A Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Series 2019A Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Series 2019A Bond may realize a taxable gain upon disposition of the Premium Series 2019A Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Prospective purchasers of any Premium Series 2019A Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, sale, exchange, or other disposition of, and the amortization of bond premium on, Premium Series 2019A Bonds.

Federal Tax Treatment - Series 2019B Bonds

Opinion of Bond Counsel – Federal Income Tax Status of Interest

In the opinion of Bond Counsel, under existing law, interest on the Series 2019B Bonds is includable in the gross income of the owners thereof for Federal income tax purposes.

Summary

The following is a summary of certain of the United States Federal income tax consequences of the ownership and disposition of the Series 2019B Bonds as of the date hereof. Each prospective purchaser of the Series 2019B Bonds should consult with its own tax advisor regarding the application of United States Federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law, which implemented significant and wide-ranging changes to many aspects of the United States Federal income tax regime. Certain changes in Federal tax law that may have an impact on the Series 2019B Bonds are detailed below. However, since this tax law was recently enacted, much of the guidance relating to the Tax Cuts and Jobs Act of 2017 from the IRS has yet to be issued. Accordingly, a full evaluation of the Tax Cuts and Jobs Act of 2017 and its potential implications cannot be thoroughly addressed without further and more complete guidance from the IRS. Investors are encouraged to consult with their own tax advisors regarding the implications of the Tax Cuts and Jobs Act of 2017 on their investment in a Series 2019B Bond.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), as well as U.S. Treasury Department regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2019B Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser’s specific tax circumstances that would be provided by a prospective purchaser’s own tax advisor. For example, this summary deals only with Series 2019B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as trusts, estates, tax-exempt investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold Series 2019B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose “functional currency” is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of Series 2019B Bonds.

As used herein, a “U.S. holder” is a U.S. person that is a beneficial owner of a Series 2019B Bond. For these purposes, a “U.S. person” is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in U.S. Treasury Department regulations), an estate the income of which is subject to United States Federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust’s administration and (ii) one or more U.S. persons have the authority to control all of the trust’s substantial decisions. A “non-U.S. holder” is a holder (or beneficial owner) of a Series 2019B Bond that is not a U.S. person.

Tax Status of the Series 2019B Bonds

U.S. Holders

Interest. Interest on the Series 2019B Bonds generally will be taxable to a U.S. holder as ordinary interest income, at the time such amounts are accrued or received, in accordance with the U.S. holder’s method of accounting for Federal income tax purposes.

To the extent that the issue price of any maturity of the Series 2019B Bonds is less than the amount to be paid at maturity of such Series 2019B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019B Bonds), the difference may constitute original issue discount (“OID”). U.S. holders of Series 2019B Bonds will be required to include OID in income for Federal income tax purposes as it accrues, in accordance with a constant yield method, based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Series 2019B Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. holder of a Series 2019B Bond

issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. holder, to amortize such premium, using a constant yield method over the term of such Bond.

Sale or Other Taxable Disposition of the Series 2019B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement or other disposition of a Series 2019B Bond will be a taxable event for Federal income tax purposes. In such event, in general, a U.S. holder of a Series 2019B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bond, which will be taxed in the manner described above) and (ii) the U.S. holder's adjusted U.S. Federal income tax basis in the Bond (generally, the purchase price paid by the U.S. holder for the Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. holder with respect to such Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. holder of Series 2019B Bonds, the maximum marginal Federal income tax rate applicable to any such gain will be lower than the maximum marginal Federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2019B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Payments on the Series 2019B Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Department regulations issued thereunder, a non-corporate U.S. holder of the Series 2019B Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Series 2019B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2019B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the Internal Revenue Service notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. holder's Federal income tax liability, if any, provided that the required information is timely furnished to the Internal Revenue Service. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the Internal Revenue Service.

Non-U.S. Holders

Interest. Subject to the discussion below under the headings "Information Reporting and Backup Withholding" and "FATCA," payments of principal of, and interest on, any Bond to a Non-U.S. holder, other than (i) a controlled foreign corporation (as such term is defined in the Code), (ii) a "10-percent shareholder" (within the meaning of Section 871(h) of the Code) and (iii) a bank which acquires such Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. Federal withholding tax provided that the non-U.S. holder of the Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of Series 2019B Bonds. Subject to the discussion below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by WFBMC) or other disposition of a Series 2019B Bond generally will not be subject to U.S. Federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by WFBMC) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2019B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. Federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Department regulations, payments of principal and interest on any Series 2019B Bonds to a Non-U.S. holder will not be subject to any backup withholding tax requirements if the Non-U.S. holder or a financial institution holding the Bond on behalf of the Non-U.S. holder in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a Non-U.S. holder provides the certification, the certification must give the name and address of such holder, state that such holder is not a United States person, or, in the case of an individual, that such holder is neither a citizen nor a resident of the United States, and the holder must sign the certificate under penalties of perjury.

Foreign Account Tax Compliance Act (“FATCA”). Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury Department to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of principal of and interest on the Series 2019B Bonds and sales proceeds of Series 2019B Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018 and (ii) certain “pass-thru” payments no earlier than January 1, 2019. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

Defeasance

Defeasance of any Bond may result in a deemed disposition of such Bond and a deemed reissuance of a “new” Bond to the holder for U.S. Federal income tax purposes, in which case a holder would recognize taxable gain or loss equal to the difference between the amount realized from the deemed exchange and the holder’s adjusted tax basis in the Bond. The “new” Bond deemed reissued in such a defeasance may be treated as issued with original issue discount in an amount equal to the excess, if any, of the stated redemption price at maturity of the “new” Bond over its deemed issue price. Prospective investors are urged to consult their own tax advisors regarding the tax consequences of a defeasance of the Series 2019B Bonds.

Additional Medicare Tax

An additional 3.8% tax will be imposed on the “net investment income” of certain individuals, estates and trust that have “modified adjusted gross income” above a certain threshold. Net investment income includes, but is not limited to, interest on a Series 2019B Bond and gains from the sale or disposition of a Series 2019B Bond. Prospective investors should consult their tax advisors regarding the possible applicability of this tax to an investment in the Series 2019B Bonds.

Tax Exemption - State of Maryland Taxation

In the opinion of Bond Counsel, under existing law of the State of Maryland, the Bonds, their transfer, and the principal and interest payable thereon (including any profit made in the sale thereof) shall be and remain exempt from any and all state, county and municipal taxation in the State of Maryland; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied or assessed directly on the Bonds, their transfer or the interest thereon.

Interest on the Bonds may be subject to state and local taxes in jurisdictions other than the State of Maryland under applicable state or local laws. Prospective purchasers of the Bonds should consult their own tax advisors regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

Possible Legislative or Regulatory Action

Legislation affecting tax-exempt obligations is regularly considered by the U.S. Congress and various state legislatures. Such legislation may effect changes in Federal or state income tax rates and the application of Federal or state income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for Federal or state income tax purposes. The Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the Federal or state tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the Bonds, regulatory interpretation of the Code or actions by a court involving either the Bonds or other tax-exempt obligations will not have an adverse effect on the Bonds' Federal or state tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the Bonds.

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for Federal income tax purposes. If the IRS does audit the Series 2019A Bonds, the IRS will, under its current procedures, treat the City as the taxpayer. As such, the beneficial owners of the Series 2019A Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Series 2019A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Series 2019A Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed Federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approving opinion of McGuireWoods LLP, Baltimore, Maryland, Bond Counsel, which will be furnished upon delivery of the Bonds. The approving opinions of Bond Counsel to the City are expected to be in substantially the forms set forth in Appendix D attached hereto. Certain legal matters will be passed upon for the City by Andre M. Davis, Esquire, City Solicitor.

SALE AT COMPETITIVE BIDDING

The Bonds were offered for sale by the City at competitive sale on May 7, 2019 in accordance with the official Notices of Sale (the forms of which are attached as Appendix C-1 and Appendix C-2, respectively). The interest rates shown on the inside front cover of this Official Statement are the interest rates to the City resulting from the award of the Bonds at the competitive sale. The yields or prices shown on the inside front cover of this Official Statement are based on information supplied to the City by the successful bidders. Any other information concerning the terms of reoffering of the Bonds, if any, including yields or prices, should be obtained from the successful bidders and not from the City.

RATINGS

Moody's Investors Services, Inc. ("Moody's") and S&P Global Ratings ("S&P") have assigned municipal bond ratings of "Aa2, stable outlook" and "AA, stable outlook", respectively, to the Bonds. Moody's and S&P have assigned ratings of "Aa2" and "AA", both with stable outlook, respectively, to the outstanding general obligation bonds of the City without consideration of bond insurance or other credit enhancement. These ratings reflect only the views of Moody's and S&P. An explanation of the significance of these ratings may be obtained from Moody's and S&P. The City furnished to the rating agencies certain materials and information with respect to the Bonds and itself. Generally, the rating agencies base their ratings on such materials and information and on investigations, studies and assumptions by the ratings agencies. No assurance can be given that such ratings will remain in effect for any given period of time or that they may not be reduced or withdrawn by Moody's and S&P, if in the judgment of such rating agencies circumstances so warrant. Any downward change in or withdrawal of such ratings could adversely

affect the market price of the Bonds. The City has undertaken no responsibility after the issuance of the Bonds to ensure the maintenance of the ratings or to oppose any proposed or threatened change or withdrawal of such ratings.

CONTINUING DISCLOSURE

The City has agreed, in accordance with the provisions of Rule 15c2-12 (the “Rule”) adopted by the United States Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to provide or cause to be provided to the continuing disclosure service established by the Municipal Securities Rulemaking Board (the “MSRB”) known as the Electronic Municipal Market Access System (together with any successor system, “EMMA”), as designated by the SEC in accordance with the Rule, when and if available, but in any event within 245 days after the end of each fiscal year of the City, annual financial information and operating data (commencing with the fiscal year ending June 30, 2019).

The City also has agreed to provide notice to EMMA of certain events with respect to any of the Bonds in a timely manner not in excess of ten business days after the occurrence of such event. Such undertaking requires the City to provide only limited information at specified times and does not require it to disclose all information that may affect the value of the Bonds. The City may choose to make additional information available from time to time, but has no obligation to do so. For more specific information regarding the City’s continuing disclosure undertaking, see Appendix E -- “Form of Continuing Disclosure Certificate.”

The undertakings by the City set forth in the preceding paragraphs, and any claim made with respect to the performance by the City of these undertakings, shall be governed by, subject to, and construed according to the laws of the State. The City may be given written notice by any bondholder at the address set forth below of any claimed failure by the City to perform any such undertaking, and the City shall be given 15 days to remedy such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the City must be filed in the Circuit Court for Baltimore City, Maryland, and any party maintaining such suit or other proceeding shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Any bondholder may take steps to enforce the obligation of the City to provide continuing disclosure, but any failure by the City under its obligation will not result in an event of default under the Bonds.

Annual Disclosure for Years Ending June 30, 2014, through June 30, 2018

Under existing continuing disclosure obligations, the City is required annually to provide on EMMA (as defined herein) audited financial statements not later than 245 days after the end of the City’s fiscal year. If such audited financial statements are not available within 245 days after the end of the City’s fiscal year, the City must provide, not later than nine months after the end of the City’s fiscal year, unaudited financial statements in a format similar to the audited financial statements. In accordance with its continuing disclosure obligations for fiscal years ended June 30, 2014, June 30, 2015, and June 30, 2016, the City determined that its audited financial statements would not be completed in time to meet the filing deadlines; therefore the City filed unaudited financial statements within the time period required under its continuing disclosure obligations. The audited financial statements for these three most recent fiscal years were filed late for the reasons described in greater detail below.

The recent delays in the deliveries of the City’s Comprehensive Annual Financial Reports are related to the manner in which the City previously managed accounting for the City’s Grants Revenue Fund, a governmental fund used to account for revenues derived from governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes. In order to address this and other concerns related to this fund, the City has created a centralized Grants Management Unit within the Finance Department, which seeks to improve the oversight of grants and reduce the potential liability to the General Fund by: (i) updating policies; (ii) streamlining budgeting and accounting procedures; and (iii) developing a database for all grants. The City will also implement a grants accounting module within the City’s computerized accounting system designed to enable the City to manage grant processes from initial solicitation through review, scoring, award, payment processing and post-award reporting. The City anticipates that these actions will facilitate the timely fulfillment of its continuing disclosure obligations in the future.

2014 Audited Financial Statements. In accordance with its continuing disclosure obligations for the fiscal year ended June 30, 2014, the City timely filed its unaudited financial statements, due March 27, 2015, on February

27, 2015 because the City determined that its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 (the “2014 CAFR”) would not be available for filing when due on March 2, 2015. The City filed the 2014 CAFR when it became available on March 18, 2016. The delay in the delivery of the City’s 2014 CAFR related primarily to the City’s Grants Revenue Fund. The 2014 CAFR received a qualified opinion from the City’s independent auditor, KPMG LLP (“KPMG”), with respect to the Grants Revenue Fund, based on the auditor’s determination that the City was unable to provide sufficient support for approximately \$24 million of unearned revenue reported therein. The unearned revenue also impacted the grant accrual calculation used to derive “Due from other governments” and “Unavailable grant revenues” reported in the Governmental Funds Balance Sheet as of June 30, 2014. As a result, the auditors could not determine the extent, if any, that these two financial statement line items may have been affected by the \$24 million of unsupported unearned revenue. The independent auditors determined that it was not practicable to extend auditing procedures sufficiently to satisfy themselves as to the existence of the unearned revenue reported in the fund’s balance sheet as of June 30, 2014. The qualified opinion applies only to the Grants Revenue Fund, and no other fund or activity reported in the 2014 CAFR received a qualified opinion.

The majority of the reported grants in the Grants Revenue Fund were reimbursable grants, which require the City to make the expenditure, before being reimbursed by the grantor. The City did not find evidence that such reimbursement or direct reporting to the grantors was materially inaccurate and the City has not been contacted by any grantor seeking reimbursement of revenues reported in the Grants Revenue Fund. In reconciling the grant transactions, the City determined that, while the direct reporting to the grantors was accurate, they were not properly recorded in the City’s general ledger accounting system. The City believes the unearned grant revenue serving as the basis for the qualified opinion was the result of inaccurate internal record keeping within the Grants Revenue Fund.

2015 Audited Financial Statements. In accordance with its continuing disclosure obligations for the fiscal year ended June 30, 2015, the City timely filed unaudited financial statements, due March 26, 2016, on March 1, 2016 because the City determined that its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015 (the “2015 CAFR”) would not be available for filing when due on March 2, 2016. The City filed the 2015 CAFR when it became available on March 29, 2017. As in the prior year, the delay in the delivery of the City’s 2015 CAFR related primarily to the City’s Grants Revenue Fund. The Grants Revenue Fund received a qualified opinion for reasons similar to those in fiscal year 2014. The opinion was due to approximately \$14 million of unearned revenue in the Grants Revenue Fund as of June 30, 2015. The City was unable to provide sufficient evidence to support the unearned revenue reported in the fund. While the City made progress in its reconciliation efforts it did not, in the auditor’s opinion, meet the threshold sufficient for an unmodified opinion. The qualified opinion applied only to the Grants Revenue Fund.

In addition, the City chose not to include the Baltimore City Public School System (“BCPSS”) as a discretely presented component unit in the City’s financial statements. In reviewing the BCPSS financial statements, the City noted that a material pension liability attributable to BCPSS employees that participate in the Employees’ Retirement System of the City of Baltimore (ERS) was not reported. In the City’s view, Note 8 of the 2015 BCPSS separately issued financial statements incorrectly stated that the net pension liability attributable to BCPSS employees was recorded by the City. The City believed the net pension liability attributable to BCPSS employees should be recorded by BCPSS, not the City, because the BCPSS has responsibility for making employer contributions attributable to its employees. Based on the information available and the size of the unrecorded liability by BCPSS, the decision was made to exclude BCPSS from the City’s financial statements. U.S. Generally Accepted Accounting Principles require the financial data for component units to be reported with the financial data of the City’s primary government. Therefore, the decision not to include BCPSS in the City’s financial statements resulted in an Adverse Opinion relating only to the Aggregate Discretely Presented Component Units. Financial statements for BCPSS can be obtained from the Chief Financial Officer, Baltimore City Public School System, 200 East North Avenue, Baltimore, Maryland 21202.

2016 Audited Financial Statements. In accordance with its continuing disclosure obligations for the fiscal year ended June 30, 2016, the City filed unaudited financial statements, due March 27, 2017, on March 1, 2017 because it determined that its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016 (the “2016 CAFR”) would not be available for filing when due on March 2, 2017. The City filed the 2016 CAFR when it became available on June 28, 2017. The delay in the delivery of the 2016 CAFR resulted primarily from the delay in issuing the 2015 CAFR. The 2016 CAFR received an unmodified opinion from the City’s new independent auditor, SB & Company, LLC (“SB & Company”), on all reporting units, including the Grants Revenue Fund. SB & Company

became the City's independent auditor after the City's 5-year agreement with KPMG expired. Due to additional information provided by the City, in fiscal year 2016 the City was able to book adjustments to the Grants Revenue Fund that SB & Company accepted in reaching its unmodified opinion, which were not accepted for the 2014 CAFR and the 2015 CAFR. Specifically, the City wrote off the prior accounts receivable balances in the Grants Revenue Fund where there was no activity in the grant. The City also wrote off certain unearned revenues upon confirmation that no grantor had made a claim for repayment with respect to the grants relating to such unearned revenues.

In fiscal year 2016 the BCPSS again did not record its proportionate share of the pension liability and related amounts related to its participation in the City's cost sharing retirement plan. For the fiscal year ending June 30, 2016, the City included BCPSS's financial statements and made adjustments to the presentation of BCPSS's financial statements in Note 20 of the City's 2016 CAFR to correct BCPSS's financial statements for these items. The auditors for the City audited the adjustments made to the BCPSS financial statements in the City's 2016 CAFR.

As described above, the City has undertaken steps to address record keeping and reporting, including hiring additional staff with specific responsibilities related thereto.

2017 Audited Financial Statements. In accordance with its continuing disclosure obligations for the fiscal year ended June 30, 2017, the City filed its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017 in a timely manner on January 8, 2018.

2018 Audited Financial Statements. In accordance with its continuing disclosure obligations for the fiscal year ended June 30, 2018, the City filed unaudited financial statements, due March 27, 2019, on February 28 2019, because it determined that its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018 (the "2018 CAFR") would not be available for filing when due on March 2, 2019. The City filed the 2018 CAFR when it became available on March 29, 2019. The delay in the delivery of the 2018 CAFR resulted primarily from a vacancy in the position of City Auditor.

Delays in the receipt of the City's Comprehensive Annual Financial Reports, as described above, caused delayed filings with respect to certain continuing disclosure undertakings relating to the City's parking facilities bonds, convention center revenue bonds and certificates of participation. Similar delays occurred with filings relating to the City's water and wastewater revenue bonds.

Event Filings. The City failed to file event filings in connection with bond rating changes that occurred as a result of the upgrade of the underlying credit rating for certain of the City's bonds and changes in the ratings of bond insurers that secured certain bonds issued by the City. The City has subsequently disclosed these rating changes on EMMA. While the City filed annual reports for certain tax increment financing bonds for fiscal year ending June 30, 2014, such filing with the required information was made on EMMA after the applicable deadline but during the same calendar year.

When filing information with the EMMA system, the City inadvertently failed to index properly certain filings with each relevant outstanding debt issue. To the extent a filing was made without all of the associated CUSIP numbers, the filing was otherwise available on EMMA in connection with another City debt issue. The City has made supplemental filings with EMMA to provide information to correct these filings. The City is committed to complying with its continuing disclosure obligations and in connection with such commitment, has established written policies and procedures with respect to such obligations and provides training for City personnel responsible for carrying out the City's continuing disclosure undertakings.

The City is committed to complying with its continuing disclosure obligations and in connection with such commitment, has established written policies and procedures with respect to such obligations and City personnel responsible for carrying out the City's continuing disclosure undertakings stay abreast of current continuing disclosure requirements.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC, Philadelphia, Pennsylvania (the “Municipal Advisor”) serves as the municipal advisor to the City for debt management and certain other financial matters. The Municipal Advisor has provided certain services to the City in connection with the issuance of the Bonds and has assisted with the preparation of this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

The Municipal Advisor has not undertaken to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in the Official Statement.

INDEPENDENT AUDITOR

The financial statements of the City for the fiscal year ended June 30, 2018, together with the report of SB & Company, independent certified public accountants, are included in Appendix B to this Official Statement and should be read in their entirety.

LITIGATION

There is no litigation presently pending against the City in which the potential liability is to such a degree that the City’s ability to pay its obligations is threatened. See “SOURCES OF CITY REVENUE -- Income Tax” in Appendix A.

NO-LITIGATION CERTIFICATE

At the time of original delivery of the Bonds, the City will deliver a certificate of certain officers of the City stating that there is no litigation then pending, or to their knowledge threatened, affecting the validity of the Bonds, or the power of the City to levy and collect taxes to pay debt service on the Bonds.

The execution of this Official Statement and its delivery has been approved by the Mayor and City Council of Baltimore. At the time of original delivery of the Bonds, Jennell A. Rogers, Chief, Bureau of Treasury Management, will execute and deliver a certificate to the effect that this Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made herein, in light of the circumstances under which they are made, not misleading.

MISCELLANEOUS

Financial data presented in this Official Statement which are so identified have been furnished by the City from its records and, unless otherwise stated, reflect data prepared from the City’s official records, which are public documents, and which are believed to be accurate and reliable. Other data have been prepared by or furnished by sources (identified herein) which the City believes to be accurate and reliable, but the City does not guarantee the accuracy of such data. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. Any statement made in the Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Bonds. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The City will provide its annual financial statements and other information included in its comprehensive annual financial report to any prospective purchaser of the Bonds upon request. Any questions regarding the City's annual financial statements, this Official Statement or the Bonds should be directed to: Chief, Bureau of Treasury Management, Department of Finance, City of Baltimore, 200 Holliday Street, Room 7, Baltimore, Maryland 21202, Telephone: 410.396.4752.

MAYOR AND CITY COUNCIL OF BALTIMORE

By: _____
Bernard C. "Jack" Young,
ex officio Mayor

By: _____
Henry J. Raymond
Director of Finance

By: _____
Jennell A. Rogers
Chief, Bureau of Treasury Management
Department of Finance

Certain Information Regarding Mayor and City Council of Baltimore

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CITY GOVERNMENT AND ADMINISTRATION

Introduction

The Mayor and City Council of Baltimore (the “City”) is a body corporate and politic of the State of Maryland (the “State”) in which all local governmental functions are performed by the City. The City has had a charter form of government since 1797, home rule powers since 1918, and is governed by an elected Mayor, Comptroller and a City Council. The City has a total area of approximately 92 square miles and estimates its calendar year 2017 population to be 611,648. The City is a major deep-water seaport located on the Patapsco River, a tributary of the Chesapeake Bay. It is served by Thurgood Marshall/Baltimore-Washington International Airport in adjacent Anne Arundel County. The City is almost completely surrounded by Baltimore County, a separate entity, which borders the City on the east, north, west and part of the south. Anne Arundel County also adjoins the City on its southern border.

Services provided or paid for by the City from local, State or Federal sources include police, fire and emergency services, education, various welfare programs, public works, storm water management and court and correctional services. The City is also responsible for the adoption and maintenance of building codes and the regulation of licenses and permits, the collection of certain taxes and revenues, the maintenance of public records, the conducting of elections, and the collection and disposal of refuse. There are no overlapping local governmental entities or taxing jurisdictions. Accordingly, there is no overlapping debt of the City.

The City’s executive offices are located at City Hall, 100 N. Holliday Street, Baltimore, Maryland 21202, and can be reached by telephone at 410.396.3100.

History

The founding of the City dates back to 1729 when the Maryland General Assembly (the “General Assembly”) authorized the construction of Baltimore town on the north side of the Patapsco River. Three land additions in 1816, 1888 and 1918 and separation in 1851 from Baltimore County brought the City to its present size. Since 1918, the City’s boundaries have remained unchanged.

In 1797, the City became an incorporated city when the General Assembly granted a charter to the City of Baltimore. One hundred years later, the City appointed a commission to draft a new charter. The product of their efforts, known as the “New Charter” (also referred to herein as the “Charter”), was adopted by the General Assembly in 1898. The New Charter placed the power of appointing most of the heads of the City departments in the hands of the Mayor, subject to confirmation by the City Council.

In 1918, the Charter was amended to provide for a municipal civil service system based on merit and to provide for Home Rule. Home Rule allows the Mayor and City Council to pass all local laws affecting the City, subject to the State Constitution and public general law of the State (as defined by the State Constitution). The Charter has been revised many times since its adoption.

Organizational Structure

Under the Charter, the City’s executive functions are vested in the Mayor, the Board of Estimates and an independent Comptroller. The City’s legislative functions are vested in the City Council.

The Mayor is the chief executive officer of the City. The Mayor is elected for a term of four years and is eligible to succeed as Mayor without limitation as to the number of terms. If the Mayor is disabled or absent from the City, the President of the City Council acts as ex officio Mayor. If the Mayor resigns, is permanently disqualified or dies in office, the President of the City Council becomes Mayor for the remainder of the term. The Mayor has authority to veto ordinances, has power of appointment of most department heads and municipal officers, serves on the Board of Estimates and appoints two of the other four members of the Board of Estimates.

The Board of Estimates is the highest administrative body of the City. It is composed of the President of the City Council, who serves as President of the Board, the Mayor, the Comptroller, the City Solicitor and the Director of Public Works. The latter two members hold their positions on the Board through appointments by the Mayor. The Board of Estimates formulates and determines fiscal policy through its recommendation of the City’s annual budget, known as the “Ordinance of Estimates.”

The Board of Estimates also awards contracts for public works, supplies, materials, equipment and services, subject to certain limited exceptions, fixes the salary or wage scales of City employees in the Classified Civil Service, and adopts such rules as it deems appropriate to ensure, so far as practicable, like working conditions for employees in the several municipal agencies, including vacation and sick leave.

The Board of Finance was established by the Charter to, among other things, issue and sell certificates of indebtedness of the City, including bonds, notes and other forms of indebtedness, to determine all matters pertaining to their issuance and sale and to regulate, monitor, or advise with regard to a number of treasury functions. The Charter provides that the Board of Finance is composed of the Mayor, who serves as President of the Board, the Comptroller, and three members appointed by the Mayor. Current appointees to the Board of Finance are: Frederick W. Meier, Jr., President, Lord Baltimore Capital Corporation, Dana C. Moulden, Financial Consultant, and Larry I. Silverstein, President, Union Box Company.

The Comptroller is an elected official who has, among other duties and responsibilities, the authority to appoint the City Auditor, subject to the Charter provisions relative to the Classified Civil Service. He or she also has responsibility for the Department of Real Estate, the Department of Audits, the Insurance Manager, the Municipal Telephone Service, the Municipal Post Office and the Harbormaster. The Comptroller serves as a member of the board of trustees of the City's three actuarially funded retirement systems and other boards, committees and commissions.

The City Council consists of fifteen members. There are fourteen councilman districts and one member is elected from each district. The President of the City Council is elected on a citywide basis. There is no limitation as to the number of terms that may be served by any member of the City Council. Legislation is passed by the City Council by simple majority vote, except in certain instances, which require a favorable vote of three-fourths of all members, such as a suspension of rules or an override to the Mayor's veto.

Certain Elected and Appointed Officials

CATHERINE ELIZABETH PUGH*, was sworn in as the 50th Mayor of the City of Baltimore on December 6, 2016. Mayor Pugh has been a public servant for more than 15 years. She served as a member of the Baltimore City Council, representing the 4th district (1999-2003). In 2005, she was appointed to the Maryland General Assembly, House of Delegates, where she served for one year before running for the Senate seat in 2006. She represented the State's District 40 from 2007 to 2016, serving communities throughout Baltimore City. During her tenure in the Senate she served as the Majority Leader, was Named Legislator of the Year (2010) by the City Paper, and passed over 150 pieces of legislation. Additionally, Mayor Pugh is a successful businesswoman, serving as President of CEPugh and Company, a marketing and public relations firm. She has worked as a banker, business developer, Dean and Director of Strayer Business College, and as Special Editor for the Baltimore Sun. Mayor Pugh holds a Master of Business Administration from Morgan State University and has received qualification from the University of California as an Economic Development Specialist.

BERNARD C. "JACK" YOUNG*, President of the City Council, was re-elected to his second term as President in November 2016. Prior to his election, Mr. Young was unanimously selected by the City Council to fill the unexpired term of the former Council President, Mayor Stephanie Rawlings-Blake, on February 8, 2010. Mr. Young, a native East Baltimorean, served as chairman of the City Council's Public Safety and Health Committees from 2007 to 2010. Mr. Young has played a major role in passing legislation that has increased funding for education and crime prevention. He also played a role in the development of the Biotech Park in East Baltimore, the Charles North Urban Renewal Program and fought for funding for city swimming pools. Mr. Young has spent all of his time on the City Council representing the interests of the citizens of the District 12.

SHARON GREEN MIDDLETON*, Vice President of the City Council, is now serving her third term representing the Sixth District. She was elected to her first term after her appointment in 2007. She serves as Chair of the Taxation and Finance Committee, and Vice Chair of Land Use and Transportation on the City Council, and is a member of the Commission on Aging and Retirement board. She serves on the boards of both the Maryland Association of Counties (MACo) and The National Association of Counties (NACo). She is 1st Vice President of MACo and serves as a member of NACo's Transportation Steering Committee and Vice Chair of its Ports Sub-Committee. She is a native Baltimorean and a graduate of Morgan State University.

JOAN M. PRATT, CPA, Comptroller, was re-elected to a fifth term in November 2016. Ms. Pratt is the second female as well as the second African-American to hold the position of Comptroller. Ms. Pratt received her undergraduate degree in

*See "THE CITY" in the front part of this Official Statement.

accounting from Hampton University and received her Masters of Science degree in taxation from the University of Baltimore. Ms. Pratt started her career at the accounting firm of Price Waterhouse Coopers LLP. Prior to her election, she served as Comptroller of the Baltimore Legal Aid Bureau, Inc. for 13 years.

RUDOLPH S. CHOW, P.E., Director of Public Works, was appointed Acting Director in January 2014 by Mayor Stephanie Rawlings-Blake and subsequently confirmed as Director by the Baltimore City Council on February 3, 2014. Under current Mayor Catherine E. Pugh, Director Chow's confirmation hearing was held on August 9, 2017 and the Council confirmed his nomination at their August 12, 2017 Council meeting. Mr. Chow is a graduate of George Washington University and the University of Maryland, where he earned a Master of Science Degree, and is a registered Professional Engineer in Maryland and Delaware. He has a long and distinguished career in the water industry, developing and implementing innovative programs and delivering them with the ideals of commitment, accountability, and integrity. He most recently served as Head of the Bureau of Water and Wastewater, which provides the highest quality drinking water to 1.8 million people, wastewater conveyance and treatment for 1.6 million people, as well as flood prevention and stream protection. Prior to that he rose through the ranks of the Washington Suburban Sanitary Commission to become the Interim Deputy General Manager, where he had oversight of the operational departments.

ANDRE M. DAVIS, City Solicitor, was sworn in as City Solicitor on October 18, 2017. Prior to his appointment by Mayor Pugh as City Solicitor, he served for thirty years as a judge on four courts: the United States Court of Appeals for the Fourth Circuit, from 2009 through 2017; the United States District Court, from 1995 through 2009; the Circuit Court for Baltimore City, from 1990 through 1995; and the state District Court from 1987 through 1990. Judge Davis received a B.A. degree from the University of Pennsylvania in 1971 and a J.D. degree from the University of Maryland in 1978. Upon graduating from law school, Davis served as law clerk to Judge Frank A. Kaufman and then to Judge Francis D. Murnaghan, Jr. He also served as an appellate attorney for the Civil Rights Division for the U.S Department of Justice and as an Assistant United States Attorney in Baltimore.

HENRY J. RAYMOND, Director of Finance, was appointed to this position in August 2014. Mr. Raymond earned his Bachelor of Science degree from North Carolina A&T State University. He also holds a Master of Public Administration from the University of Baltimore and a Master of Business Administration from Bowie State University. Prior to his appointment as Director, he served as Deputy Director of Finance, Bureau Chief for Budget and Management Research, Revenue Collections, and Accounting and Payroll Services. Mr. Raymond has over 34 years of State and Local government experience; some of his career highlights include serving as Finance Director for the Maryland Office of the Governor, Chief Financial Officer for the Baltimore Public Schools System, and Director of the Maryland Central Collection Agency. His leadership and contributions to the development, planning and implementation of finance policy and processes in the City of Baltimore have enhanced the fiscal integrity of the City.

ROBERT A. CENAME, Chief, Bureau of the Budget and Management Research, became Baltimore's Budget Director in January 2018 after serving for six years as the Deputy Director. In that role, he led a staff of eight analysts with responsibility for the development, presentation, and monitoring of the City's \$2.8 billion operating budget. Mr. Cename was one of the key architects in developing the City's innovative outcome-based budgeting approach and the City's 10-Year Financial Plan. He received the Mayor's Medallion for Meritorious Service in 2016 for his work on risk management and comprehensive financial planning. Mr. Cename previously served as an analyst and manager for the Procter and Gamble Company in Hunt Valley, Maryland. He earned his Master's in Public Policy from the University of Maryland, Baltimore County, and his Bachelor's in Finance from the University of Notre Dame.

JENNEL A. ROGERS, Chief, Bureau of Treasury Management, was appointed on March 5, 2015. Ms. Rogers holds a Bachelor of Science degree in Finance from Towson University. Prior to her appointment as Chief, she served as Treasury Manager for the Bureau of Treasury Management. Ms. Rogers has over 28 years of accounting experience and has served in other public finance positions within Baltimore City government.

Descriptions of Certain Departments and Agencies

The Charter establishes the following executive departments: Civil Service Commission, Development Commission, Board of Ethics, Department of Finance, Fire Department, Department of Health, Department of Law, Department of Legislative Reference, Department of Municipal and Zoning Appeals, Department of Human Resources, Department of Planning, Department of Public Works, Department of Recreation and Parks, Department of Transportation, and the Department of General Services. Descriptions of certain departments and other City boards, commissions, and agencies follow.

Baltimore City Public School System. In 1997, the Governor of Maryland, the Mayor of Baltimore City, the city's legislative leadership, the State Superintendent of Schools and student advocates entered into a historic accord, known as the

City-State Partnership (Senate Bill 795). The accord created an independent Baltimore City public school district—Baltimore City Public Schools (“City Schools”)—under the direction of the Baltimore City Board of School Commissioners, a 10-member body jointly appointed by the Mayor and the Governor. During the 2018 Legislative session the State approved House Bill # 562 that gave the authority to appoint the members of the Baltimore City School Board to the Mayor of Baltimore. The Board sets and oversees policy and implementation of regulations for the district. City Schools’ chief executive officer reports to the Board.

The original City-State Partnership, which was in effect for fiscal years 1998 through 2002, was modified and reenacted (House Bill 853) during the 2002 General Assembly. The City-State Partnership has among its goals the improvement of student achievement and the establishment and maintenance of efficient management structures and practices in support of quality instruction. In support of efficient management structures and to maximize instructional services to students, City Schools has put into place effective cost containment measures, as well as budget development and accounting procedures. In 2013, the General Assembly passed the Baltimore City Public Schools Construction and Revitalization Act of 2013 (21st Century School Building Program), which provides the necessary governance and funding structure for the City to modernize its entire portfolio of school buildings through renovation or replacement over several years. The Act allows for a Phase I investment of approximately \$1.1 billion. In 2017-18, City Schools opened the first four new or renovated school buildings included in the 21st Century School Buildings Program; five more new or renovated buildings are scheduled to open in FY19. Phase I is being funded by a combination of State, City and City Schools’ contributions. The City’s funding source will include proceeds from a beverage container tax, proceeds of certain gaming revenues and a portion of rent paid by the owner of the video lottery facility located in the City. The City also provides a portion of its general obligation bond proceeds for City Schools modernization and renovation effort.

Each spring, Baltimore City Public Schools’ chief executive and chief financial officers present a proposed budget for consideration by the Board of School Commissioners for the subsequent school year. The proposed budget is balanced, reflecting the district’s role as a good steward of taxpayer dollars and its commitment to spend within its means, and outlines how funds will be allocated to advance the district’s mission and vision in the coming year.

The operating budget of the Baltimore City Public School System consists of City Schools’ General Fund, Special Revenue Fund, and Enterprise Funds. The process for developing the City Schools’ budget involves requests from managers detailing resources necessary to support programs and operations. Total City Schools needs (requests) are compared to projected revenue, with the overriding goal of providing support to the schools. The balanced budget is presented to the Baltimore City Board of School Commissioners for deliberation. Following public comment, the Baltimore City Board of School Commissioners adopts and forwards the fiscal year budget request to the City Council

The Department of Finance. The Department of Finance was established by the Charter revision of 1964, which centralized the major financial functions of the City. The Department of Finance serves as the principal executor of mayoral fiscal and management policy, and is headed by a Director of Finance who is appointed by the Mayor, confirmed by the City Council, and holds office pursuant to Article IV, Section 6 of the Charter. The responsibilities of the Department of Finance are divided among five Bureaus and one Office: the Bureau of Budget and Management Research, the Bureau of Accounting and Payroll Services, the Bureau of Purchases, the Bureau of Treasury Management, the Bureau of Revenue Collections and the Office of Risk Management. The Director’s Office coordinates the Department of Finance.

The Department of Finance is responsible for the formulation and monitoring of the City’s annual budget, for providing accounting services to various governmental/quasi-government agencies, for the preparation of the City’s comprehensive annual financial reports, for the preparation of bids and contracts used in the procurement of materials, supplies and equipment for the City, for the management and issuance of all City debt, for the collection of all City revenues, for the management and investment of the City’s corporate cash accounts and trustee held funds and for the evaluation and administration of the City’s risk management needs.

The Fire Department. The Fire Department is managed by the Chief of the Fire Department, three Assistant Chiefs, one Chief of Staff and nine Deputy Chiefs. The Assistant Chief of Operations oversees the activities of four Deputy Chiefs in fire suppression and one Deputy Chief in charge of Emergency Medical Services (EMS). The Assistant Chief of Community Risk Reduction oversees the activities of the Director of Logistics, the Deputy Chief of Communications/Planning, and the Deputy Chief/Fire Marshal. The Assistant Chief of Safety and Member Services oversees the activities of the Chief of Fire Training, Chief of Staff, the Fire Chief’s Staff, the General Counsel, the Personnel Administrator, the Chief of Fiscal Services and the Public Information Officer. The Fire Department is staffed by career fire fighters and funded out of the General Fund of the City.

The Department of Health. The mission of the Baltimore City Health Department is to promote and protect the health and well-being of all Baltimoreans by leading a collaborative effort with all sectors of civil society. The Department is led by the Commissioner of Health, who is appointed by the Mayor and is subject to confirmation by the City Council. Under the Charter, the Health Department is responsible for (1) the execution of all laws for the preservation of the health of the inhabitants of Baltimore City, and to exercise those other powers and perform those other duties that are prescribed by law; (2) the establishment and implementation policy for the treatment and prevention of physical and mental illnesses, and educating the public with respect to environmental, physical, and mental health; and, (3) general care and responsible for the study and prevention of disease, epidemics, and nuisances affecting public health.

The Department of Housing and Community Development. The Department of Housing and Community Development (“DHCD”) was organized in 1968 to consolidate into one department the principal functions involving housing, community and economic development and to coordinate its activities with those of the Housing Authority of Baltimore City, a federally funded agency.

The mission of DHCD is to ensure that all citizens of Baltimore have access to adequate affordable housing in safe, livable and decent neighborhoods. DHCD is committed to the continuous development and implementation of strategies and programs that promote housing opportunities and commercial activity leading to neighborhood stability and community empowerment. In pursuing its mission, DHCD works with federal, state, and local agencies, housing providers, financial institutions, and community organizations to enhance the quality of life in city neighborhoods. In addition, through the Community Services Division, DHCD provides a variety of human services to further enhance individual, family, and community wellbeing.

The functions of DHCD include managing urban renewal, building, housing and zoning codes, and administering rehabilitation loans and grants under federal and local programs. Working with the Housing Authority of Baltimore City, DHCD helps to facilitate the preservation or production of affordable and mixed income housing. In addition, DHCD works with other city agencies and groups on large-scale neighborhood improvement projects.

The Department of Law. The Department of Law is an agency of the City established pursuant to the Charter. Its function is to serve as legal advisor to the City and its departments, officers, commissions, boards and authorities, and to supervise and direct the legal business of the City. Under the Charter, the Department of Law is solely responsible for (1) preparation and trial of all suits, actions and proceedings of every kind to which the City or any municipal officer or agency is a party, (2) rendering advice and opinions in writing upon legal questions affecting the interests of the City which are submitted in writing by the Mayor, the City Council, any committee of the City Council or the head of any municipal agency and (3) the endorsement as to form and legal sufficiency of all deeds, bonds, contracts, releases and other legal instruments involving the interest of the City to be executed by the Mayor or any City official.

Responsibility for overseeing the Department of Law’s functions is vested with the City Solicitor, who is appointed by the Mayor, subject to confirmation by the City Council.

The Department of Human Resources. The Department of Human Resources is the central authority on human capital matters for the City of Baltimore government. It possesses Charter responsibility for developing and recommending rules, policies, and procedure changes for the Civil Service System. The mission of the Department of Human Resources is to ensure that the City hires, trains, retains, promotes and provides Equal Employment Opportunities for the best qualified employees and individuals; develop and execute goals/objectives that align with and support Baltimore City Government’s goals/objectives; provide exceptional Human Resources service delivery; and assist in promoting a high performance workforce culture anchored by transparency, integrity, accountability, collaborative partnerships, diversity, fairness, trust and mutual respect.

The Department of Human Resources is tasked with driving human capital programs that include establishing, developing and implementing employment rules; maintaining a classification and compensation system; creating, developing and/or administering examinations for classified positions; referring eligible candidates to hiring Agencies; developing and managing a competitive, comprehensive benefits program; and providing guidance on the full-spectrum of human resources affairs to the Mayor, senior leaders, elected officials, and Agencies across the City.

The Department of Planning. The Department of Planning was established by the Charter to guide and coordinate the physical development of the City. The Department of Planning is headed by a nine-member Planning Commission whose members include the Director of Public Works or his designee (ex-officio), the Mayor or her designee (ex-officio), a member of the City Council (ex-officio) and six residents of the City who are appointed by the Mayor, subject to confirmation by the City Council. The Mayor designates one of the six residents as Chair. The Department of Planning and the Planning Commission

are responsible for, among other things, developing the City's capital budget and six-year program; maintaining the City's master plan; reviewing proposals for subdivision of land and proposed amendments to the City's zoning ordinance.

The Police Department. The Police Department is empowered by the Public Local Laws of Maryland to enforce State Laws. The mission of the Police Department is to protect and preserve life and property, to understand and serve the needs of the City's diverse neighborhoods, and to improve the quality of life for citizens by implementing strategies to maintain order, recognize and resolve problems, and apprehend criminals in a manner consistent with the law. This mission will be accomplished by ensuring that every member of the Police Department focuses his or her efforts to reduce violent crime through proactive enforcement. To accomplish this, the following goals have been put in place: reduce violence with a focus on homicides and shootings, remove guns from the streets, reduce juvenile crime, return open spaces to law-abiding citizens, and operate with integrity and professionalism.

A lawsuit has been filed against the City and the Baltimore Police Department ("BPD"), alleging violations of the Fair Labor Standard Act ("FLSA"). The complaint has been amended twice and has been conditionally certified as a collective action. Discovery is scheduled to close on December 31, 2019. There is currently no estimate of the amount of the damages claimed. The City and the Baltimore Police Department are defending the matter vigorously. Not only do the Defendants dispute certain of Plaintiffs' legal interpretations of the FLSA but, because of the way overtime has been paid under the various Memoranda of Understanding between BPD and the Fraternal Order of Police, it is not evident at this time that there would have been any underpayment of amounts owed under the FLSA even if Plaintiffs' legal theories were accepted by the Court.

The Department of Public Works. The Department of Public Works was created by the Charter to foster and enhance an environmentally safe quality of life for the citizens and visitors of the City and the neighboring counties. The mission of Public Works is to support the health, environment, and economy of the City and the surrounding region. This mission is carried out through the efficient management of: solid waste services; water, wastewater and stormwater systems; energy consumption; and the prioritized investment in facilities, infrastructure and other assets. Responsibility for carrying out these functions is vested in the Director of Public Works. The Mayor appoints the Director and the Bureau Heads of the Department of Public Works, subject to confirmation by the City Council. Pursuant to a City Ordinance enacted in 1992, the Department of Public Works assumed the powers, duties and functions of the Department of Transportation. By Executive Order in 2001, some of the duties and functions were delegated to the Mayor's Office of Transportation. A Charter amendment creating the Department of Transportation was approved on November 3, 2004. A Charter amendment creating the Department of General Services was approved on November 4, 2008, and the responsibilities of this former Public Works bureau were transferred to the newly created department effective July 1, 2009.

The Department of Public Works is comprised of the Office of the Director and two bureaus: (1) Bureau of Water and Wastewater, and (2) Bureau of Solid Waste. The Office of the Director includes the following offices: Office of Asset Management; Office of Engineering and Construction; Office of Compliance and Laboratories; Office of Strategy and Performance; Office of Fiscal Management; Office of Sustainable Energy; Office of Legislative Affairs, and the Office of the General Counsel.

The Department of General Services. The Department of General Services provides necessary work environment resources to City agencies so those agencies can better serve the public. The mission of the Department of General Services is the efficient operation, maintenance and improvement of City owned buildings; the effective management of the City's fleet operations, maintenance and facilities; the engineering, design, management and inspection of City funded construction projects; the monitoring and cost reduction of City-wide energy use and the developing of energy-efficiency improvements to City facilities; the issuance and enforcement of public rights-of-way permits to minimize the impacts on the public and City infrastructure; and the management of property records, public and private, for all properties located within the City limits for tax levies and other legal purposes.

A Charter amendment creating the Department of General Services was approved by the Baltimore City voters on November 4, 2008, and became effective on July 1, 2009. The department was formed by extracting certain functions of the Department of Public Works ("DPW") and modifying its structure to operate more efficiently in serving City agencies and to allow DPW to concentrate on citizen services. The Mayor appoints the Director, subject to confirmation by the City Council.

The Department of General Services ("DGS") is comprised of the Director's Office and four divisions: (1) Fleet Management, (2) Building Maintenance, (3) Design and Construction, and (4) Energy.

The Department of Recreation and Parks. The Department of Recreation and Parks is an executive department established by the Charter. The Department of Recreation and Parks' responsibilities are to establish, develop, maintain, operate, control, and provide engineering services to the City's 5,700 acres of park land, which include over 300,000 trees, 25 formal

flower beds, 32 historic structures, 36 picnic groves, 35 comfort stations, squares, athletic and recreational facilities, to provide outdoor concerts and to have charge and control of all monuments belonging to the City.

Public recreational facilities which the Department of Recreation and Parks operates include an ice arena, two indoor soccer pavilions, a rowing center, one skateboard park, one boxing center, four golf courses, an arboretum, a conservatory, an outdoor educational wilderness center, 18 outdoor pools, three indoor pools, 41 recreation centers, one therapeutic recreation facility to serve the physically and emotionally challenged, and a program specializing in senior citizen recreation. An extensive amateur athletics program manages leagues in soccer, football, basketball, baseball, wrestling and tennis. Management of the Department of Recreation and Parks is vested in the Director, who is appointed by the Mayor, subject to confirmation by the City Council. A seven member Board also appointed by the Mayor and subject to confirmation by the City Council, serves in an advisory capacity to the Director. The Director is a member of the Mayor's Cabinet and serves on numerous committees.

The Office of the Labor Commissioner. The Office of the Labor Commissioner was established by an ordinance of the Mayor and City Council, and the powers and duties of that office are set forth in the Baltimore City Code. The Labor Commissioner, who is appointed by the Mayor and confirmed by the City Council, is charged with the administration of the Municipal Employee Relations Ordinance. The Labor Commissioner is the chief negotiator for all collective bargaining agreements. The Office of the Labor Commissioner makes determinations of questions concerning representation, administers the procedure for resolution of unfair practices, processes grievances and arbitration cases and advises the Mayor and Board of Estimates on labor relations matters. Nine employee groups represent City employees and their terms and conditions of employment are contained in nine separate negotiated Memoranda of Understanding. Additional responsibilities of the office also include providing labor relations advice and negotiating services for Baltimore Convention Center.

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BUDGETING AND FINANCIAL PROCEDURES

The City's General Fund is the principal fund of the City and is used to finance most City governmental functions. Budgetary funds established to depict and plan for operations and support provided by Parking Management and the Convention Center debt service are consolidated in the General Fund for annual financing reporting purposes. Table 1 set forth below includes the statement of revenues, expenditures, and changes in fund balances for the General Fund for each of the Fiscal Years ended June 30, 2014 through June 30, 2018.

The Budget Stabilization Reserve or Rainy Day Fund serves to provide a budget defense to stabilize a post-adopted budget that has been impacted by an uncorrectable shortfall in revenues and/or an unanticipated and uncorrectable emergency expense at the discretion of the Board of Estimates. The reserve is the revenue source of last resort to avoid a budget deficit. This reserve cannot be used as a revenue source to balance a planning year budget. See "Key Budgetary Policies – Budget Stabilization Reserve Policy" below.

The City's final budget differs from the original adopted budget ordinance in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved after adoption, and during the Fiscal Year.

Key Budgetary Policies

Balanced Budget: The Charter requires the operating budget to be balanced. Any difference between non-property tax revenues and total expenditures are to be made up by adjusting the property tax rate or enactment of new revenue measures.

Public Hearings: The Charter mandates that both the Board of Estimates and the City Council conduct public hearings on the proposed budget.

Timely Adoption: The Charter sets forth a schedule requiring the budget to be adopted before the beginning of the Fiscal Year, July 1.

Budget Amendment: The Charter provides means for adopting supplemental appropriations funded from unanticipated revenues and/or new grants and sources that materialize during the year. The City's policy is to minimize the use of supplemental appropriations. In addition, the Charter allows for and spells out the procedures for amending the budget to transfer appropriations between programs within an agency and between agencies.

Six-Year Capital Plan: Guiding the physical development budget plan of the City is the Charter requirement for a six-year capital improvement plan, the first year comprising the capital budget year. The plan is prepared in conformance with basic capital budgeting policies, which include appropriating funds in the year in which projects are likely to begin, financing a portion of capital improvements from current revenues, and estimating the impact of capital projects on the operating budget.

Budget Monitoring and Execution: Budget analysts maintain ongoing contact with agency fiscal officers in the process of implementation and execution of the budget. Expenditure and revenue projections are developed and reviewed on a monthly basis. The Mayor, through the Department of Finance, exercises appropriate fiscal management to adjust budget policy, as necessary, to be within the limits of the current adopted plan. The City Council has the practice of reviewing budget performance at mid-year and during the fourth quarter.

Debt Policy: The City adopted a formal debt policy which set annual borrowing limits, consolidated all financing arrangements within the Department of Finance, established refunding and refinancing policies, and set limits on key debt management ratios. The objective is to maintain the City's reputation as a locality having a conservative approach to all aspects of debt management, including debt service expenses, debt retirement schedules, and debt capacity ratios. See "DEBT OF THE CITY -- Debt Policy of the City" herein.

Budget Stabilization Reserve Policy: In November 2008, the City's Board of Estimates approved a budget stabilization reserve policy that establishes the basis for having a budget stabilization reserve as well as identifying its maintenance level, scope of coverage, circumstances under which funds shall be drawn down from the reserve, and the requirements to replenish the reserve when utilized. The policy stipulates that the reserve serves to provide a budget defense to stabilize a post-adopted budget that has been impacted by an uncorrectable shortfall in revenues and/or an unanticipated and uncorrectable emergency expense. The reserve is the revenue source of last resort to avoid a budget deficit. Under no circumstances is the reserve to be used as a revenue source to balance a planning year budget. The policy further stipulates that the reserve shall be maintained

on any June 30 at a minimum level of 8% of the value of the general fund operating budget of the subsequent Fiscal Year. As of June 30, 2018 there was \$139.1 million in the Rainy Day Fund.

“Ten-Year Plan” Initiative

On February 20, 2013, the City released Change to Grow: A Ten-Year Financial Plan for Baltimore. The Ten-Year Plan called for comprehensive reforms to close a projected \$745.0 million structural budget deficit through Fiscal 2022, make Baltimore’s tax rates more competitive, increase infrastructure investment, and reduce the City’s long-term pension and health care liabilities. On December 12, 2018, the Board of Estimates approved and authorized the execution of a professional services agreement with Ernst & Young LLP for consulting services required for the refresh of the City’s Ten-Year Financial Plan. During the 36-month term of the agreement, the consultant shall provide professional advisory services to the City in order to continue implementing recommendations developed under the first iteration of the Ten-Year Plan. Additionally, the consultant’s scope of work includes feasibility analysis for new initiatives, management analysis of options for improving fiscal sustainability, tax policy advisory services, and macro-economic research and analysis.

Implementation of the Ten-Year Plan began in Fiscal Year 2013 with two key initiatives: The 20 Cents by 2020 program to reduce the effective property tax rate for owner-occupied properties, and health benefit changes for employees and retirees that will save the City \$20.0 million per year. Since then the City has implemented more initiatives to further reduce the fiscal gap, including: pension reform for current and future employees; a new shift schedule for firefighters and police officers; a revenue enhancement package to improve collections and increase rates; implementation of the State-mandated stormwater fee; the discontinuation of retiree pharmacy benefits; a reduction in workers’ compensation payments; a 7% reduction in the number of budgeted General Fund positions; the negotiation of a payment-in-lieu-of-taxes agreement with 14 non-profit institutions; a new pay schedule for professional employees to help with recruitment and retention; and a decrease in the City’s fleet. On the investment side, the City increased the contribution to the budget stabilization reserve and increased the City’s annual PAYGO capital contribution from \$8 million to a new baseline of \$17 million. The City is projected to save \$311 million through Fiscal Year 2022 as a result of completed initiatives.

In order to continue to address the remaining shortfall, the City, under the direction and vision of Mayor Catherine Pugh, will explore other innovative solutions including pursuing public-private partnerships, managed competition, City office consolidation, better risk management, and changes to sick and compensatory leave accruals.

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Table 1

SUMMARIES OF FINANCIAL OPERATIONS
Changes in Fund Balances
Budget and Actual Budgetary Basis – General Fund
 (Modified Accrual Basis of Accounting)
 (Expressed in Thousands)

| | Fiscal Year | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Revenues: | | | | | |
| General Fund | \$ 1,793,412 | \$ 1,786,555 | \$ 1,805,797 | \$ 1,655,810 | \$ 1,615,231 |
| Expenditures: | | | | | |
| General Fund | | | | | |
| General Government | 323,312 | 295,103 | 305,297 | 294,000 | 275,806 |
| Public safety and regulation | 746,114 | 725,428 | 699,656 | 656,455 | 619,168 |
| Conservation of health | 43,047 | 25,468 | 22,555 | 25,124 | 26,693 |
| Social services | 2,564 | 3,336 | 2,017 | 2,883 | 6,838 |
| Education | 291,637 | 276,299 | 270,937 | 262,259 | 271,894 |
| Public library | 22,446 | 22,177 | 22,431 | 23,097 | 22,564 |
| Recreation and Culture | 43,089 | 42,243 | 42,583 | 39,505 | 39,773 |
| Highways and streets | 110,408 | 96,287 | 143,647 | 98,865 | 130,753 |
| Sanitation and waste removal | 74,562 | 73,712 | 73,686 | 68,211 | 63,439 |
| Public service | 35,361 | 39,051 | 35,195 | 37,330 | 34,263 |
| Economic development | 50,022 | 53,304 | 56,778 | 65,605 | 62,630 |
| Total expenditures - General Fund | <u>\$1,742,562</u> | <u>\$1,652,408</u> | <u>\$1,674,782</u> | <u>\$1,573,334</u> | <u>\$1,553,821</u> |
| Excess (deficiency) of revenues over expenditures | \$50,850 | \$134,147 | \$131,015 | \$82,476 | \$61,410 |
| Other financing sources (uses): | | | | | |
| Transfers, net | 7,240 | 8,967 | 39,959 | (42,227) | (83,075) |
| Net changes in fund balances | <u>58,090</u> | <u>143,114</u> | <u>170,974</u> | <u>40,249</u> | <u>(21,665)</u> |
| Fund balance beginning (as restated) | <u>\$714,803</u> | <u>\$675,812</u> | <u>\$564,843</u> | <u>\$212,057</u> | <u>\$233,722</u> |
| Fund balance ending | <u>\$772,893</u> | <u>\$818,926</u> | <u>\$735,817</u> | <u>\$252,306</u> | <u>\$212,057</u> |
| Adjustments to reconcile to GAAP basis: | | | | | |
| Addition of encumbrances outstanding | 51,890 | 70,614 | 86,189 | 89,705 | 100,371 |
| Less: Accounts payable not recorded for budgetary purposes | <u>(41,384)</u> | <u>(174,737)</u> | <u>(146,194)</u> | <u>(49,203)</u> | <u>(11,941)</u> |
| Fund balance June 30 - GAAP Basis | <u>\$783,399</u> | <u>\$714,803</u> | <u>\$675,812</u> | <u>\$292,808</u> | <u>\$300,487</u> |

Source: City of Baltimore Comprehensive Annual Financial Reports (2014-2018)

SUMMARIES OF FINANCIAL OPERATIONS

Summary of Fiscal Year 2018 General Fund Operation

The City's final budget has a projected budget surplus of \$52.7 million. The Fiscal Year 2018 budget includes \$28.6 million in General Fund supplemental appropriations. Actual expenditures for the year were \$9.0 million more than the original budgeted amount and also \$19.6 million more than adjusted appropriations. Fiscal 2018 revenues were \$61.7 million higher than the original and adjusted budgets. The major drivers of the revenue surplus relative to the budget include a \$37.8 million surplus in Property Taxes, 21.6 million in Transfer & Recordation Tax revenues as well as the over performance of the speed camera program accounting for \$8.0 million surplus.

After CAFR adjustments were completed, the revenue for Fiscal Year 2018 totaled \$1,793 million and expenditures totaled \$1,742 million. The excess of revenue over expenditures and encumbrances, after including PAYGO capital and transfers, resulted in a budgetary basis increase in fund balance of about \$58.1 million for the fiscal year ended June 30, 2018.

Fiscal Year 2019 Adopted Budget – General Fund and All Funds Summary

The Fiscal Year 2019 budget submitted by the Board of Estimates to the City Council proposed total appropriations of \$3,499,279,441 of which \$1,857,550,000 was appropriated for General Fund operating purposes and \$25,250,000 for General Fund Pay-as-You-Go capital purposes. The General Fund also includes appropriations of two budgetary funds, the Parking Management and Convention Center Hotel Bond funds, which are merged with the General Fund for Comprehensive Annual Financial Report statement purposes. The proposed budget maintained the real property tax rate at \$2.248 per \$100 of assessed value. The City Council, after deliberations pursuant to Charter requirements and powers, made no reductions to the total General Fund or other fund appropriations. The Ordinance of Estimates for Fiscal Year 2019 was adopted by the City Council and signed by the Mayor on May 2, 2018.

Fiscal Year 2019 General Fund Budget Projection

Based on data as of December 2018, General Fund revenues are estimated to exceed the Fiscal Year 2019 budget by \$55.9 million for total revenues of \$1,938.7 million. The main drivers for the anticipated revenue surplus are revenues derived from Property Taxes, Recordation and Transfer Taxes, Income Taxes and Energy Taxes. Relative to the Fiscal 2019 Adopted Budget, Bureau of the Budget and Management Research (BBMR) is projecting a Property Tax surplus of \$32.1M; Recordation Tax surplus of \$10.3M; Transfer Tax surplus of \$3.7M; Income Tax surplus of \$5.5M; and Energy Tax surplus of \$3.2M. In total, the combined surplus from these sources for Fiscal 2019 versus the Adopted Budget is anticipated to be \$55.9M.

BBMR projects that Property Taxes will be 3.2% higher than Fiscal 2018 actuals and 7.5% higher than the Fiscal 2018 budget. While base property tax rates remained the same, in Fiscal 2019 the City experienced its fifth consecutive year of real property tax assessment increases, after four years of consecutive declines following the Great Recession. Income Tax growth will be 3.5% higher than Fiscal 2018 actuals and 2.4% higher than the Fiscal 2018 budget. This growth confirms the narrative of a strong regional labor market. The Income Tax Summary Report, released by the Maryland Revenue Administration Division, shows that during 2017 there was an increase of more than 2,000 total returns, or 1.1% versus calendar year 2016, even as population declined during this period. It follows that the composition of filers has, and continues to change – households are becoming wealthier. The City is continuing to benefit from this demographic shift.

Growth from Recordation and Transfer taxes will be 1.6% higher than Fiscal 2018 actuals and 34% higher than the Fiscal 2018 budget. Revenue growth from these sources remains stable continues to support the thesis for a strong and shifting base of taxpaying households. As Transfer and Recordation Taxes are highly sensitive to economic conditions, the Fiscal 2019 budgeted revenue for both sources is based on a 5-year average of actuals. Energy Tax growth will be 0.06% higher than Fiscal 2018 actuals and 0.07% higher than the Fiscal 2018 budget. Revenue from this source is volatile and changes with consumer habits, weather, and macro-economic conditions.

BBMR is also projecting a \$4.5M surplus in speed camera violations and a \$2.6M surplus in red light violations, for a combined surplus of \$7.1M versus the Adopted Budget. The Fiscal 2019 budget was built using historical actuals from the previous speed camera program; however, based on the available data, YTD activity is outpacing budget assumptions. These surpluses are offset by deficits from other revenue sources.

The Fiscal Year 2019 General Fund appropriation projection as of the Second Quarter shows expenditures expected to have a deficit of \$10.7M, for total expenditures of \$1,868.3 million. This does not include the \$25.2 million in planned PAYGO capital funding. The main drivers of the variance between the Adopted Budget and Second Quarter Projection are Retirees' Benefits and Contributions, Debt Service, and cumulative savings from agency-level surpluses. Overall, a net budget surplus of \$63.6 million is expected.

SOURCES OF CITY REVENUE

Major Sources of Revenue

The major single funding source for the Fiscal Year 2019 budget is real property tax receipts, followed by income tax receipts, and highway user revenues. Table 2, which follows, details the total expected revenues and other funding sources and budget appropriations categorized by purpose in the Fiscal Year 2019 budget approved on May 2, 2018.

Table 2
Total Funding by Source and Budget Appropriations
(Operating and Capital) Fiscal Year 2019 (in millions)

| | General Fund (1) | Capital Improvement Fund (4) | Grant Funds (2) | Enterprise Fund (3) | Total |
|-----------------------------------|---------------------|------------------------------------|--------------------|------------------------|-------------------|
| Source: | | | | | |
| Property Taxes | \$ 887.0 | \$ 0.0 | \$ 0.0 | \$ 0.0 | \$ 887.0 |
| Income Taxes | 353.6 | 0.0 | 0.0 | 0.0 | 353.6 |
| State Highway User Revenues | 142.9 | 0.0 | 0.0 | 0.0 | 142.9 |
| Other Local Taxes | 244.3 | 0.0 | 0.0 | 31.7 | 276.0 |
| Licensee, Permits, Fines | 68.1 | 0.0 | 0.0 | 20.0 | 88.1 |
| State Grants | 101.0 | 79.9 | 121.3 | 0.0 | 302.2 |
| Use of Money & Property | 22.5 | 0.0 | 0.0 | 22.1 | 44.6 |
| Federal Grants | 0.3 | 66.3 | 165.9 | 0.0 | 232.5 |
| Charges for Services | 53.7 | 0.0 | 0.0 | 538.1 | 591.8 |
| Other Revenues | 3.4 | 143.5 | 117.6 | 0.0 | 264.5 |
| Borrowed Proceeds | 0.0 | 324.1 | 0.0 | 0.0 | 324.1 |
| From (To) Fund Balance | 17.8 | 0.0 | 0.0 | 17.2 | 35.0 |
| Transfers In (Out) | (7.2) | 67.2 | 0.0 | (103.2) | (43.3) |
| Total Revenues | \$ 1,887.4 | \$ 680.9 | \$ 404.8 | \$ 525.9 | \$ 3,499.0 |
| Appropriations by Purpose: | | | | | |
| Education and Youth Engagement | \$ 362.1 | 0.0 | 76.1 | 0.0 | 438.2 |
| Quality of Life | 272.0 | 0.0 | 178.4 | 503.5 | 953.9 |
| Economic Development and Jobs | 76.2 | 0.0 | 21.8 | 22.5 | 120.5 |
| Accountability and Transparency | 115.1 | 0.0 | 22.9 | 0.0 | 138.0 |
| Public Safety | 822.0 | 0.0 | 88.9 | 0.0 | 911.0 |
| Capital Improvements | 25.4 | 492.8 | 146.2 | 41.9 | 680.9 |
| Other | 214.5 | 0.0 | 16.5 | 0.0 | 256.4 |
| Total Appropriations | \$ 1,887.4 | \$ 492.8 | \$ 550.8 | \$ 567.9 | \$ 3,499.0 |

(1) Includes General, Convention Center Bonds, and Parking Management Fund.

(2) Includes Federal, State, and Special grants.

(3) Includes Water, Waste Water, Stormwater, Parking, Conduit and Loan & Guarantee Funds.

(4) Difference attributable to Grant and Enterprise Fund categories

Property Taxes

Tax Levy. The City levies real and personal property taxes on all taxable property within its boundaries. The Charter directs that the Board of Estimates, after the City Council has approved the annual operating budget, enacted any new sources of revenues or new rates and determined amounts to be received from all other revenue sources, must certify to the City Council “a rate for the levy of full rate property taxes sufficient to realize the amount required to meet the difference.” The City Council is required by the Charter to adopt the necessary ordinance establishing the tax rate. Provision is made under State statute for publication of notice and a public hearing if such rate is to exceed “a constant yield rate.”

Under applicable law, there are no limits upon real and personal property taxes levied by the City, and the City is required by law to levy such taxes, without limitation, to provide for payment of principal and interest on its debts.

The City and State tax rates on each \$100 of assessed valuation for real and personal property, subject to the full tax rate for fiscal years 2015-2019, were as follows on Table 3:

Table 3
City and State Real Property Tax Rates

| Fiscal Year | City Tax Rate | State Tax Rate | Total |
|-------------|---------------|----------------|---------|
| 2019 | \$2.248 | \$0.112 | \$2.360 |
| 2018 | \$2.248 | \$0.112 | \$2.360 |
| 2017 | \$2.248 | \$0.112 | \$2.360 |
| 2016 | \$2.248 | \$0.112 | \$2.360 |
| 2015 | \$2.248 | \$0.112 | \$2.360 |

Note: The State does not impose a levy on personal property. This State tax rate only applies to real property.
Source: Bureau of Budget and Management Research, Department of Finance.

Property Assessment. The assessment of all real and tangible personal property for purposes of taxation by the City is, by State law, the sole responsibility of the State Department of Assessments and Taxation, an independent State agency. Properties are assessed uniformly throughout the State. The Department is also responsible for determining ownership and for intervening in assessment litigation.

Real properties are physically inspected and revalued, on a rotating basis, every three years. Valuations are established at market value (full cash value), subject, however, to a phase in of one-third each year of any increases in such market value with regard to any individual property. See “Credits, Abatements and Exemptions” below for a discussion of the homestead tax credit.

Tangible personal property is assessed annually at its full cash value on the date of finality (January 1) based on reports filed by property owners with the State Department of Assessments and Taxation. Under authority granted by the General Assembly, the City exempts manufacturing equipment, manufacturing inventory and commercial inventory from such assessment. Cash value reflects depreciation schedules and allowances established by the State Department of Assessments and Taxation.

Taxing Districts. The City has created four special taxing districts within specified geographic areas with the power to charge a supplemental tax on most real property located within the districts. The revenue may be used by the districts to supplement various activities including street cleaning, security services, promotional, park and recreation services and hospitality customer services provided by the City within the districts.

Credits, Abatements, and Exemptions. Current law provides that the homestead property tax credit is to be established by the governing body of each county or municipal corporation in the State. The law provides that the credit limit must be set to provide that no homeowner’s taxable assessment may be increased as a result of reevaluation by more than 10% over the previous year. Counties and municipalities must establish the homestead property tax credit at a rate from 0% to 10%. State law provides that the local governing bodies may change the homestead property tax credit from year to year. The homestead property tax credit limit in the City has been 4% since fiscal year 1992. This credit cost peaked in fiscal year 2010 at \$147.2 million and has been declining since then as assessments have been reduced. For Fiscal Year 2018, this credit cost was \$33.1 million.

The City has enacted a number of real property tax credit programs to encourage home ownership, real estate and business investments. To encourage homeownership, the City offers a property tax credit for the purchase and rehabilitation of certain vacant and abandoned residential property, the purchase of newly constructed dwellings, and home improvements that result in assessment increases and certain eligible improvements for qualified historic properties. Additionally, the City offers the Targeted Homeowners tax credit, a Mayor's program currently on its sixth year of implementation, intended to reduce by 20 cents the effective property tax rate of owner-occupied residents by fiscal year 2020. To encourage business investment, the City offers a property tax credit for renovation of larger historical properties meeting certain conditions, renovations to meet state-of-the-art communications and utility standards, and businesses investing in State designated enterprise zones, Federal Empowerment Zones, and "brownfield" industrial sites. In Fiscal Year 2018, the combined cost of these programs was \$83.6 million.

Relief to lower-income homeowners is also provided by means of a state financed "Homeowner's Tax Credit (HTC)" which takes into account both family income and the property tax levied. As of February 2019, the State funded credits were provided to 9,163 homeowners at a cost of \$14.7 million to the State. A similar program provides relief to elderly and disabled renters to compensate them for indirect contributions towards property taxes.

Exemptions, under qualifying conditions, are granted to properties owned by governments, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind. As of February 2019, the current full cash value for these properties is about \$13.3 billion, totaling approximately \$298.8 million of foregone Property Tax revenue for Fiscal Year 2019. These values are not included in the various charts and tables in this section.

Collections. Tax bills are calculated and rendered on or about July 1 of each year, and by law, the taxes for most commercial and all non-owner-occupied residential properties are due and payable when rendered. In the 1999 session of the General Assembly, the State enacted legislation mandating a semi-annual option for payment of real property taxes on all owner-occupied residential properties, beginning with the 2000-2001 tax year. In the City for fiscal year 2018, there were 126,468 owner-occupied properties eligible to participate in the semi-annual taxpayers program for the tax year. In the 2011 General Assembly, the State amended the law to include small businesses with total property taxes owed less than \$100,000 to be eligible for the semi-annual real property tax payment. The fiscal year 2018 City service charge for semi-annual taxpayers is 0.33%, and there are a total of 13,370 properties eligible for this program. Discounts for timely payment are allowed through July 31, and taxes due and not paid by September 30 become subject to interest and penalty at a combined annual rate of 12% on the State portion and 24% on the City portion of the tax.

Under State law, taxes on real property become a first lien on the real property on which they are levied from the date they become payable until paid. Taxes on personal property become a first lien on the personal property on which they are levied from the date they become payable and a lien on the real property of the owner of the personal property following recording and indexing of a notice among the judgment records of the Clerk of the Circuit Court for Baltimore City or the tax rolls of the City.

With respect to real property taxes and all other municipal liens, final bill and legal notices of eligibility for tax sale are sent to owners of record in February of the tax year (July 1 to June 30). If the taxes and liens remain unpaid on May 1st, the property is placed in the annual tax sale and the liens are sold to the highest bidder. The purchasers of liens may file suits to foreclose the owners' rights of redemption 60 days from the date of the tax sale if they apply for and are granted a "substantial repair certificate" from the City. If the City wants to acquire for development purposes any properties whose liens were not purchased by third parties at the tax sale, it can begin foreclosure six months after the tax sale for non-owner occupied properties and take title in the City's name. Foreclosure on owner occupied properties cannot commence until 9 months after tax sale.

With respect to personal property taxes, final bill and legal notices are sent regularly after 90 days on all delinquent accounts. Thereafter the City commences to file suit in either the District or Circuit Court to collect the delinquent taxes. The City's Law Department represents the City in these cases in an effort to obtain judgment or payment. If judgment without payment is obtained, the Law Department pursues collection via post-judgment remedies.

Income Tax

The City and Maryland counties have been required since 1967 under state law to impose a local income tax, commonly known as the "piggyback" income tax. The local tax is imposed on resident individuals (not corporations) and is paid in conjunction with and at the time individuals pay their state tax liability. The State imposes its individual income tax on the income of individuals as determined for federal income tax purposes with certain addition and subtraction adjustments. Local governments "piggyback" on the definition of net taxable income. Beginning in tax year 1999, the local tax rate has been set as a percentage of State net taxable income. The City tax rate as a percentage of State net taxable income is 3.20%.

Table 4 depicts tax receipts generated from the local income tax for fiscal year 2015 through 2018 and the revenues budgeted for fiscal year 2019.

**Table 4
Income Tax Receipts**

| <u>Fiscal Year</u> | <u>Receipts</u> |
|--------------------|-------------------------|
| 2019 | Budgeted \$ 353,644,000 |
| 2018 | 346,796,930 |
| 2017 | 334,851,015 |
| 2016 | 346,727,264 |
| 2015 | 307,764,022 |

* A disproportionate increase in income tax revenues occurred for the fiscal year ending on June 30, 2016. Events that caused this increase in revenues include (i) an usually large reconciliation of revenues from unprocessed tax returns from prior tax years and from delinquent taxes by the State of Maryland to the City and (ii) a review by the State of Maryland of tax returns that resulted in the adjustment of the annual state distribution formula for income tax revenues

Notes: All figures represent budgetary reporting basis incorporating GASB 33 standards Other Major Locally Imposed Taxes. Income tax includes: Income Tax – State Collected, Fiduciary Returns and Unallocated Withholdings.

Source: Bureau of Budget and Management Research, Department of Finance

On May 18, 2015, the United States Supreme Court issued its decision in Maryland State Comptroller of the Treasury v. Brian Wynne, et ux., 135 S. Ct. 1787 (2015), a case to which the City is not a party, affirming the Maryland Court of Appeals ruling that counties (including the City) are prohibited from collecting personal income taxes from their own residents to the extent that the income was earned from sources in another state where the income is subject to tax by that state. As a result, each county (including the City) in the State will realize a reduction in income tax revenue distributions from the State. On July 29, 2016, the Maryland State Comptroller provided the estimated liability corresponding to the City’s share of the Wynne case of \$3.9 million. This corresponds to refunds and interest owed generated from tax year 2006 through 2014. The City is not required to pay such refunds until May 2019, and has the option of a lump sum or 20 quarterly distribution payments of \$199K. The City deferred realization of approximately \$4,200,000 in income tax revenue to pay for these refunds.

On November 3, 2015, a class action lawsuit, Holzheid v. Comptroller of the Treasury of Maryland, et al., was filed in the Circuit Court for Baltimore City (the “City Circuit Court”) alleging that the State unconstitutionally changed the law to lower the amount of interest owed to taxpayers entitled to refunds as a result of the ruling in the Wynne Case. The General Assembly’s Budget Reconciliation and Financing Act of 2014 (the “Budget Reconciliation Act of 2014”) reduced the interest rate due on refunds not paid within 45 days of a refund request to 3.25% from the greater of 13% or three percentage points above the Federal Reserve Bank’s average prime interest rate and applied the reduction retroactively. At the time the Budget Reconciliation Act of 2014 was passed, it was estimated that such interest rate decrease would reduce the potential amount of applicable interest paid by local governments (including the City) by a total of \$38.4 million beginning in fiscal year 2015.* On January 16, 2018, the City Circuit Court dismissed plaintiffs’ lawsuit on procedural grounds, holding that the plaintiffs were required to exhaust their administrative remedies and should have filed their claims in the Maryland Tax Court instead of the City Circuit Court. The plaintiffs appealed this decision to the Maryland Court of Special Appeals. On March 28, 2019, the Court of Special Appeals upheld the decision of the City Circuit Court. The plaintiffs may petition the Court of Appeals to review the decision of the Court of Special Appeals.

Other Major Locally Imposed Taxes

The City realizes a substantial amount of General Fund revenues from other locally imposed taxes. Receipts from these sources were approximately \$197.5 million in Fiscal Year 2018 and are budgeted to be approximately \$209.2 million in Fiscal Year 2019.

* Fiscal and Policy Note (Revised) for the Budget Reconciliation and Financing Act of 2014 prepared by the Department of Legislative Services of the General Assembly.

Table 5 below details the tax rates for real and personal property taxes, income taxes and all other major locally imposed tax. Table 6 presents the revenues collected (or estimated to be collected) from other major locally imposed taxes for fiscal years 2015 through 2019.

Table 5
Tax Rate History
Major Locally Imposed Taxes

| <u>Type of Tax</u> | <u>Fiscal 2019</u> | <u>Fiscal 2018</u> | <u>Fiscal 2017</u> | <u>Fiscal 2016</u> | <u>Fiscal 2015</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Real Property ⁽¹⁾ | \$2.248 | \$2.248 | \$2.248 | \$2.248 | \$2.248 |
| Personal Property ⁽¹⁾ | \$5.62 | \$5.62 | \$5.62 | \$5.62 | \$5.62 |
| Income ⁽²⁾ | 3.20% | 3.20% | 3.20% | 3.20% | 3.20% |
| Energy ⁽³⁾ | | | | | |
| Gas (per therm) ⁽⁴⁾ | Note 4 | Note 4 | Note 4 | Note 4 | Note 4 |
| Electricity (per kilowatt) ⁽⁵⁾ | Note 5 | Note 5 | Note 5 | Note 5 | Note 5 |
| Steam (per pound) ⁽⁶⁾ | Note 6 | Note 6 | Note 6 | Note 6 | Note 6 |
| Fuel Oil (per gallon) ⁽⁷⁾ | Note 7 | Note 7 | Note 7 | Note 7 | Note 7 |
| Liquid Petroleum Gas (per gallon) ⁽⁸⁾ | Note 8 | Note 8 | Note 8 | Note 8 | Note 8 |
| Telecommunications ⁽⁹⁾ | | | | | |
| Land line/billed line/month | \$4.00 | \$4.00 | \$4.00 | \$4.00 | \$4.00 |
| Centrex/billed line/month | \$0.40 | \$0.40 | \$0.40 | \$0.40 | \$0.40 |
| Wireless/billed line/month | \$4.00 | \$4.00 | \$4.00 | \$4.00 | \$4.00 |
| Transfer ⁽¹⁰⁾ | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| Recordation ⁽¹¹⁾ | \$5.00 | \$5.00 | \$5.00 | \$5.00 | \$5.00 |
| Parking ⁽¹²⁾ | | | | | |
| Daily/Hourly | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% |
| Weekly | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% |
| Monthly | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% |
| Hotel ⁽¹³⁾ | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% |
| Admissions ⁽¹⁴⁾ | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% |

⁽¹⁾ Per \$100 of assessed value which under current state law represents phased in full cash, or market, value for real property and full cash value, subject to depreciation schedules established by the State for personal property.

⁽²⁾ The tax rate is applied as a percentage of net taxable income effective calendar year 1999. The tax rate was increased from 2.51% in calendar 2001 to 3.05% in calendar 2002. Income tax rate was increased to 3.2% starting on January 1, 2011.

⁽³⁾ The energy tax was restructured and the base broadened by legislation effective for deliveries of energy after July 1, 2004 billed after August 1, 2004. The tax is imposed on a per unit basis on the units of natural gas, electricity, fuel oil, liquid petroleum gas and steam delivered to defined users in the City. Different rates are established for different classes of users including commercial, manufacturing and residential users. Non-profit users under current law became subject to the tax in Fiscal Year 2006. Manufacturers were exempted under current law from the tax beginning in Fiscal Year 2007. Government users are exempt.

⁽⁴⁾ Natural Gas tax Fiscal Year 2019 rates per therm: commercial, \$0.110524; residential, \$0.032484; manufacturing, \$0; and non-profit, \$0.087799.

⁽⁵⁾ Electricity tax Fiscal Year 2019 rates per kilowatt: commercial, \$0.008547; residential, \$0.002737; manufacturing, \$0; and non-profit, \$0.005993.

⁽⁶⁾ Steam tax Fiscal Year 2019 rates per pound: commercial, \$0.002688; residential, \$0.000772; manufacturing, \$0; and non-profit, \$0.001590.

⁽⁷⁾ Fuel oil tax Fiscal Year 2019 rates per gallon: commercial, \$0.126317; residential, \$0.045590; manufacturing, \$0; and non-profit, \$0.109021.

⁽⁸⁾ Liquid petroleum gas tax Fiscal Year 2019 rates per pound: commercial, \$0.154160; residential, \$0.048830; manufacturing, \$0; and non-profit, \$0.134053.

⁽⁹⁾ The telecommunications tax was restructured effective August 1, 2004 for Fiscal Year 2005. Changes involved base broadening to include all services, including wireless services, with billing addresses in the City. The tax is imposed on the service providers and as such, exemptions were eliminated.

⁽¹⁰⁾ The percentage rate tax is imposed on the stated consideration for sale of properties not otherwise exempt. An exemption of \$22,000 of consideration was provided for the transfer of residential property to owner occupants.

⁽¹¹⁾ The tax is imposed on each \$500 of the stated consideration for recordation of deeds of sale and upon recordation of certain mortgages and refinancing papers.

⁽¹²⁾ The tax is applied as a percent of the charge for daily, weekly and monthly service users.

⁽¹³⁾ The tax is imposed on transient use of hotel, motel, and bed breakfast accommodations. By state law (Chapter 837 of 2001) 40% of the proceeds are dedicated to convention center marketing and tourism promotion.

⁽¹⁴⁾ The tax is imposed on the gross receipts derived from amusement admissions charges including movies, theaters, swimming pools, ski rentals, golf, and other taxable categories.

Source: Bureau of Budget and Management Research, Department of Finance.

Table 6
Revenue History
Other Major Locally Imposed Taxes

| <u>Type of Tax</u> | <u>Fiscal 2019</u> <u>Budget</u> | <u>Fiscal 2018</u> <u>Actual</u> | <u>Fiscal 2017</u> <u>Actual</u> | <u>Fiscal 2016</u> <u>Actual</u> | <u>Fiscal 2015</u> <u>Actual</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Gas, Electricity, Fuel, Oil, Steam, other fuel | \$41,209 | \$41,973 | \$40,228 | \$41,175 | \$41,711 |
| Telephone | 34,500 | 32,799 | 35,773 | 33,837 | 33,638 |
| Transfer | 39,379 | 46,966 | 48,179 | 47,642 | 36,801 |
| Recordation | 37,366 | 42,331 | 42,241 | 44,273 | 34,111 |
| Parking | 31,694 | 31,861 | 32,379 | 30,474 | 30,182 |
| Hotel | 34,926 | 32,986 | 34,580 | 34,147 | 32,666 |
| Admissions | 8,584 | 8,840 | 9,051 | 7,813 | 8,236 |
| Total | \$227,658 | \$237,756 | \$242,432 | \$239,361 | \$217,345 |

Source: Bureau of Budget and Management Research, Department of Finance

The City is responsible for the construction, reconstruction and maintenance of streets, highways, bridges, alleys and footways within its borders. Such responsibilities include provision of street lighting, snow removal, street cleaning, traffic police, and traffic signs and signals. Funds for such services and responsibilities are provided largely from Highway User Revenue moneys distributed by the State Department of Transportation, which include shares of the motor fuel tax, vehicle excise (titling) tax, registration fees and corporate income tax.

State law provides a formula for sharing portions of these revenues with all Maryland municipalities and counties. Actual receipts from these sources were approximately \$146.3 million in Fiscal Year 2018, and are budgeted at approximately \$142.9 million in Fiscal Year 2019.

Intergovernmental Assistance

The City receives substantial amounts of both Federal and State assistance under a variety of programs and agreements. Some of the major categories of assistance are detailed in the chart below. Amounts reflected in Table 7 that follows do not include State-shared tax collections or the City's entitlement to Highway User Revenues. Revenues in the Special Revenue Fund and the Capital Projects Fund include billed receivables as of the end of the year.

The City has been reviewing all active grants in an effort to address continuing deficits in the Grants Revenue Fund. A detailed review of all grant accounts is ongoing to determine the exact cause of any contributing deficit. If it is determined those expenses are greater than the award or that certain receivables are not collectible, a plan is expected to be implemented to address such liability. At June 30, 2018 the accumulated grants deficit in the Grants Revenue Fund was \$4.5 million. Through fiscal year 2018, the General Fund absorbed approximately \$51.0 million of the Grants Revenue Fund deficit, related to prior years' deficits. A centralized Grants Management Unit within the Finance Department was created in fiscal year 2016. This unit seeks to improve the oversight of grants and reduce the potential liability to the General Fund by: (i) updating policies; (ii) streamlining budgeting and accounting procedures; and (iii) developing a database for all grants. Additionally, the City has implemented a Grants Accounting module within the City's computerized accounting system for improved reporting and efficiency.

Table 7
State and Federal Assistance
(In millions)

| | FY2018 | FY2017 | FY2016 | FY2015 | FY2014 |
|------------------------------|----------|----------|----------|----------|----------|
| General Fund | | | | | |
| All Other | \$ 104.6 | \$ 105.7 | \$ 104.6 | \$ 105.3 | \$ 93.0 |
| Special Revenue Fund | | | | | |
| Federal: | | | | | |
| Community Dev. Block Grant | 17.3 | 14.3 | 17.1 | 17.8 | 24.0 |
| Health and Aging | | | | | 81.8 |
| Public Safety | | | | | 7.9 |
| Urban Services/H.C.D. | | | | | 36.5 |
| Employment Development | | | | | 3.6 |
| All Other | | | | | 14.2 |
| State: | | | | | |
| Health and Aging | | | | | 13.9 |
| All Other | | | | | 70.4 |
| Capital Projects Fund | | | | | |
| Federal: | | | | | |
| Housing & Dev. | | - | | 4.4 | 8.5 |
| Highways | 11.0 | 47.0 | 9.2 | 40.1 | 42.8 |
| All Other | 5.6 | 13.8 | 5.2 | 0.4 | 1.7 |
| State: | | | | | |
| Housing & Dev. | | | | 5.8 | 8.7 |
| Recreation & Culture | 7.6 | 10.9 | 1.9 | 1.9 | 3.8 |
| All Other | 10.0 | 11.8 | 9.0 | 2.3 | 6.3 |
| Total | \$ 156.1 | \$ 203.5 | \$ 147.0 | \$ 178.0 | \$ 417.1 |
| Total General Fund | 104.6 | 105.7 | 104.6 | 105.3 | 93.0 |
| Total Special Revenue Funds | 17.3 | 14.3 | 17.1 | 17.8 | 252.3 |
| Total Capital Projects Fund | 34.2 | 83.5 | 25.3 | 54.9 | 71.8 |
| Total | \$ 156.1 | \$ 203.5 | \$ 147.0 | \$ 178.0 | \$ 417.1 |

Source: Bureau of Accounting and Payroll Services, Department of Finance.

CERTAIN EXPENDITURES OF THE CITY

Overview

City expenditures include employee compensation, employee benefits such as health, medical, dental and social security contributions, pension contributions and risk management.

Budgeted Positions

The budget plan adopted for Fiscal Year 2019 resulted in a net increase of 248 funded positions, from all fund sources. A moderate decrease in the number of positions in the Fire Department was offset by an increase to the number of positions in the Police Department. The Police Department experienced a net increase of 128 positions between all fund sources, with at least 100 Police Officer positions added to the General Fund. Additionally, agencies not specifically listed accounted for an increase of 38 positions between all fund types. Table 8 below shows the details for the funded and authorized full-time budgeted positions in the adopted budgets for Fiscal Years 2015 through 2019.

Table 8
Authorized Full-Time Budgeted Positions in City Government
All Operating Funds

| <u>Funds</u> | <u>Fiscal 2019</u> | <u>Fiscal 2018</u> | <u>Fiscal 2017</u> | <u>Fiscal 2016</u> | <u>Fiscal 2015</u> |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| General | | | | | |
| Police | 3,157 | 3,029 | 3,042 | 3,168 | 3,380 |
| Fire | 1,676 | 1,681 | 1,680 | 1,639 | 1,652 |
| Public Works | 754 | 754 | 790 | 786 | 768 |
| Recreation & Parks | 299 | 298 | 299 | 295 | 295 |
| Other Agencies | 3,614 | 3,576 | 3,581 | 4,015 | 4,031 |
| Total General Fund | 9,500 | 9,338 | 9,392 | 9,903 | 10,126 |
| Other Funds | 4,043 | 3,957 | 3,883 | 3,384 | 3,858 |
| Grand Total | 13,543 | 13,295 | 13,275 | 13,287 | 13,984 |

Source: Bureau of Budget and Management Research, Department of Finance.

Collective Bargaining

The Municipal Employee Relations Ordinance (“MERO”) (Ordinance No. 251, adopted in 1968) establishes the basis for collective bargaining for municipal employees in the City. Excluded from the provisions of MERO are employees of the Baltimore City Public School System, certain supervisory, professional and managerial personnel employees and those employees holding positions that involve a relation of personal confidence with the persons appointing them. Managerial and professional employees covered by Ordinance No. 251 may only meet and confer regarding terms and conditions of employment.

Each of the unions with bargaining rights negotiates independently with the City on all matters relating to wages, hours and working conditions. To conform to local legislation, any agreement reached between the parties becomes a “Memorandum of Understanding” (“MOU”) requiring notation by the Board of Estimates. The Board of Estimates examines each MOU for its impact on the City’s operating budget and its funding requirements. Based upon its findings, the BOE either notes the MOU or recommends an alternative. Notations of such MOUs are subject to the appropriation of funds by the Mayor and the City Council. Except for the Baltimore City Fire Fighters and the Baltimore City Fire Officers, if the City and any union cannot reach agreement, the disputed issues are submitted to a three-member impasse panel. The City and the respective union each designate one member of the panel and mutually agree on a third. The role of the panel is one of mediation, fact-finding and recommendation, not binding arbitration. The impasse panel makes a recommendation to the Mayor. The Mayor may accept or reject such recommendation.

If the City does not reach agreement with the Fire Unions by March 1st, either party may request arbitration by a board of arbitration in accordance with the Charter. The board of arbitration is composed of three members, one member appointed by the Mayor and a member appointed by the certified employee organization(s) representing the Fire Fighters and/or Fire Officers. The third member is selected by the two arbitrators previously chosen and acts as chair of the board of arbitration. An arbitration hearing is conducted and the board of arbitration must choose, in its entirety, the proposal of either the City or the Union(s). The decision of the majority of the board of arbitration is final and binding.

The AFSCME Local 44 reached a multi-year agreement for fiscal years 2017 to fiscal year 2019. All members will receive a 2% wage increase for fiscal year 2017; receive a 2% wage increase and a one-time bonus of \$500 for fiscal year 2018; and receive a 2% wage increase for fiscal year 2019.

The AFSCME Local 2202 reached an agreement for fiscal year 2017. All members will receive a 2% wage increase. A multi-year agreement was reached for fiscal years 2018 to fiscal year 2019. All members will receive a 2% wage increase and a one-time bonus of \$500 for fiscal year 2018; and receive a 2% wage increase for fiscal year 2019.

The AFSCME Local 558 reached a multi-year agreement for fiscal years 2018 to fiscal year 2019. All members will receive a 2% wage increase and a one-time bonus of \$500 for fiscal year 2018; and receive a 2% wage increase for fiscal year 2019.

The City Union of Baltimore (“CUB”), which includes Units I and II, reached a multi-year agreement for fiscal years 2017 to fiscal year 2019. All members will receive a 2% wage increase for fiscal year 2017; receive a 2% wage increase and a one-time bonus of \$500 for fiscal year 2018; and receive a 2% wage increase for fiscal year 2019.

The Managerial and Professional Society of Baltimore, Inc. reached a multi-year agreement for fiscal years 2018 to fiscal year 2019. All members will receive a 2% wage increase for fiscal years 2018 and 2019.

The Fraternal Order of Police (“FOP”) Units I and II contracts has reached a multi-year agreement for fiscal years 2019-2021. For FY19 effective January 1, 2019, all members will receive a 3% wage increase. Also, members who are eligible will receive a \$1,000 one-time lump sum payment. For FY 20 and FY 21 all members will receive 3% wage increase. Effective July 1, 2019, there shall be a 1% increase in Service Step Increment 10.

Also, a new work schedule was negotiated. The new work schedule for Neighborhood Patrol Bureau members shall be four (4) or five (5) days of work depending on the rotation of the schedule in a calendar workweek (Sunday to Saturday) at 8.55 hours (8 hours and 33 minutes) per day. The new work schedule for non-neighborhood Patrol Bureau members shall have an eight (8) hour workday.

The Baltimore Fire Fighters reached a multi-year agreement for fiscal year 2018 to fiscal year 2020. All members will receive a 1% wage increase and a one-time bonus of \$500.00 for fiscal year 2018. All members will receive a 2% wage increase for fiscal years 2019 and 2020.

The Baltimore Fire Officers reached a multi-year agreement for fiscal year 2018 to fiscal year 2020. All members will receive a 2% wage increase for fiscal years 2018 and 2019. For fiscal year 2020, wage rates for FY 2019 shall remain in effect.

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**Table 9
Union Membership**

| <u>Primary Group Represented</u> | <u>Represented By</u> | <u>Number of Union Members</u> | <u>Status</u> |
|---|---|---------------------------------------|---|
| Trades & Labor | American Federation of State, County & Municipal Employees, AFL-CIO, Council No. 67, Locals # 44 (AFSCME) | 2,110 | Contract in place for FY2017 - FY2019 Currently in Negotiations |
| Human Services Workers | AFSCME Council No. 67, Local #2202 | 65 | Contract in place for FY2018 - FY2019 Currently in Negotiations |
| Community Health Nurses | AFSCME, Council No. 67, Local # 558 | 73 | Contract in place for FY2018 - FY2019 Currently in Negotiations |
| Clerical, Technical and Administrative | City Union of Baltimore, AFT, AFL-CIO, Local #800 (CUB) | 2,785 | Contract in place for FY2017 - FY2019 Currently in Negotiations |
| Fire Fighters below rank of Lieutenant | Baltimore Fire Fighters, IAFF, AFL-CIO, CLC, Local #734 | 1,212 | Contract in place for FY2018 - FY2020 |
| Fire Officers of rank of Lieutenant through Battalion Chief | Baltimore Fire Fighters, IAFF, AFL-CIO, CLC, Local #964 | 337 | Contract in place for FY2018 - FY2020 |
| Police Officers, Police Agents & Flight Officers Unit I | Lodge # 3 (FOP) | 1,969 | Contract in place for FY2018 - FY2020 |
| Police Sergeants & Police Lieutenants, Unit II | Fraternal Order of Police, Lodge #3 Unit II (FOP) | 447 | Contract in place for FY2018 - FY2020 |
| Managerial and Professional Employees | Managerial & Professional Society of Baltimore, Inc. (MAPS) | 790 | Contract in place for FY2018 to FY2019 Currently in Negotiations |

Source: Office of the Labor Commissioner

Employee Compensation and Benefits

Table 10 below details the General Fund employee benefit expenditures for active employees by major category during Fiscal Years 2015 through 2018, and also includes the budgeted amounts for Fiscal Year 2019. For more detailed information concerning the City’s provision of employee benefits, see the notes to the City’s Comprehensive Annual Financial Report for the Year Ended June 30, 2018 (the “CAFR”).

Table 10
General Fund Employee Benefit Expenditures
for Active Employees
(in millions)

| | FY 2019 Budget | FY 2018 Actual | FY 2017 Actual | FY 2016 Actual | FY 2015 Actual |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Pension Plan Contributions | 184.2 | 177.5 | 176.5 | 159.3 | 169.8 |
| Health-Medical-Dental-Vision Care-Prescription | 91.4 | 89.7 | 87.5 | 84.6 | 82.9 |
| Social Security | 26.4 | 26.3 | 25.2 | 25.1 | 24.1 |
| Other | 2.3 | 1.4 | 1.2 | 0.9 | 4.3 |
| Total | \$ 304.4 | \$ 294.9 | \$ 290.4 | \$ 269.9 | \$ 281.1 |

Source: Bureau of Budget and Management Research, Department of Finance.

Municipal Pension Plans

The City contributes to three defined benefit retirement plans, which cover those persons employed in the general administration of the City, elected officials, and fire and police officers. The three plans are administered by the Employees’ Retirement Systems agencies. Additionally, the City contributes to two closed pay-as-you-go plans, which were established for certain fire and police officers. Those plans are administered by the respective Fire and Police Departments. Professional employees of the Baltimore City Public School System and the Enoch Pratt Free Library are members of the State Retirement Systems, to which the City is not required to contribute. Descriptions of the defined benefit and pay-as-you-go plans are as follows:

Employees’ Retirement System (“ERS”). The ERS was established on January 1, 1926, to cover regular and permanent employees who are employed in the general administration service of the City and certain employees of the Baltimore City Public School System. The ERS plan provisions, which are amended periodically, currently provide for three classes of membership. Class “A” is a contributory class covering employees hired prior to July 1, 1979. On July 1, 1979, a noncontributory class of membership (Class “C”) was established for employees hired on or after that date. Membership in the noncontributory class was automatic after one year of employment.

Effective July 1, 2013, Ordinance 13-144 was enacted by the Mayor and City Council introducing contributions for active ERS Class “C” members and eliminating the post retirement variable benefit increase. The Ordinance provides that effective July 1, 2013, Class “C” members will contribute 1% of pay, and employee contributions will increase each year at 1% increments capping at 5% of pay. The year-to-year 1% employee contribution increase is contingent on employees receiving at least a 2% raise in pay.

ERS Class “C” closed to new members effective June 30, 2014 under Ordinance 14-216. New employees hired or rehired after that date must elect between the hybrid option and the non-hybrid option. Employees who elect the non-hybrid option will participate in only the RSP and contribute 5% of pay beginning after six months of hire. Employees elect the hybrid option or did not make an election will participate in both the ERS as Class “D” members and the City’s new 401 (a) retirement Savings Plan (“RSP”), a defined contribution plan. Membership in ERS Class “D” begins after one year of employment and contributes 5% of pay.

As of June 30, 2018, ERS active membership is comprised of 83.4% Class “C” members, 16.5% Class “D” members and the remaining 0.1% are Class “A” members.

A nine-member Board of Trustees composed of the Comptroller, the Director of Finance, two appointees of the Mayor, two appointees recommended by the President of the City Council, two employees elected by the active members and one retiree elected by the retired members, administers the ERS. Asset of the ERS are held in custody with BNY Mellon Bank. The ERS contracts with various investment management firms, which make investment decisions within guidelines established by the Board of Trustees of the ERS. The assets are fully diversified to minimize risk and enhance returns over the long term. Monitoring of investment activity is conducted with the assistance of a professional investment advisor.

The City contributes to the ERS annually pursuant to an actuarial valuation, which uses the entry age normal funding cost method. The latest actuarial valuation was completed for the Fiscal Year ended June 30, 2018, when assets valued at market amounted to approximately \$1.71 billion and the net pension liability was approximately \$696.36 million.

The latest study of the assumed interest rate of return, mortality rate, service retirement and compensation was performed for the four-year period ended June 30, 2014 (the “Study”). Based on recommendations contained in the Study, the City adopted Ordinance 16-488 (the “Ordinance”) in 2016, through which the City modified the definitions of “regular interest” for valuation purposes which serve as the assumed interest rates for the City’s pension plan investments. For fiscal years ending June 30, 2017 through June 30, 2018 the assumed interest rate is reduced to 7.50% (for assets covering active members) and 6.50% (for assets covering the liabilities of retired members) from the prior rates of 7.75% and 6.55%, respectively. For fiscal years ending June 30, 2019, and thereafter, the assumed interest rates will be further reduced to 7.00% (for assets covering active members) and 6.50% (for assets covering the liabilities of retired members).

Other recommendations were made by the Study, including changes to mortality rates, withdrawal rates, disability rates, retirement rates, and a change in the salary scale, to more closely represent experience. The Board of Trustees of the ERS adopted the recommendations that were included in the actuarial study.

The Ordinance also changed the definition of “actuarial equivalent” and revised the actuary mortality tables to reflect present trends; clarified the definition of covered employees; changed the frequency of actuarial experience studies; provided for distribution of accumulated contributions; and modified the administration of death benefits for eligible surviving spouses and minor children.

Post-retirement benefit increases are provided for all participants in pay status for at least 12 months as of June 30 of each year. Increases are 1.5% for retirees under the age of 65 and 2% for retirees age 65 and older. The increase is payable commencing the January 1 following the June 30 year-end.

As of June 30, 2018, the date of the last actuarial valuation, the ERS-funded ratio was 74.1% on an actuarial value of assets basis and 71.1% on a plan fiduciary net position basis. At June 30, 2017, the funded ratio was 72.7% on an actuarial value of assets basis and 69.0% on a plan fiduciary net position basis.

Elected Officials’ Retirement System (“EOS”). This plan was established in December 1983 to cover the Mayor, the Comptroller, and the President and the Members of the City Council. An elected official automatically becomes a member of the EOS upon taking the oath of office. Members contribute 5% of compensation to the system. The same Board of Trustees that administers the ERS administers the EOS. Custodianship, investment and monitoring of the assets of the EOS are managed under contracts similar to the ERS, as described above.

The City contributes to the EOS annually pursuant to an actuarial valuation that uses the entry age normal cost method. The latest actuarial valuation completed for the Fiscal Year ended June 30, 2018, when assets valued at market amounted to approximately \$26.2 million and the excess of actuarial assets totaled approximately \$10.9 million.

As of June 30, 2018, the date of the last actuarial valuation, the EOS funded ratio was 168.6% on an actuarial value of assets basis and 171.7% on a plan fiduciary net position basis. At June 30, 2017, the funded ratio was 165.9% on an actuarial value of assets basis and 167.0% on a plan fiduciary net position basis.

For retirees who first became a member on or before December 5, 2016, the post-retirement benefit is indexed to the annual increase in the current salary authorized for the highest-paying position held by the elected official. For retirees who first became a member on or after December 6, 2016, the post-retirement benefit is 1.5% for retirees under age 65 and 2% for retirees age 65 or older.

Fire and Police Employees' Retirement System ("F&P"). This plan was established on July 1, 1962, by City Ordinance. The F&P is a defined benefit plan that covers all uniformed officers of the Baltimore City Fire and Police Departments. The plan also covers certain Maryland Aviation Administration paramedics/firefighters and certain Maryland Transportation Authority police officers included in F&P plan coverage by State law.

An eleven member Board of Trustees oversees the F&P. The F&P Board of Trustees is composed of four ex-officio members: the Comptroller, the Police Commissioner, the Chief of the Fire Department, and the Director of Finance; three appointees of the Mayor; two active employees: one from the Fire Department and one from the Police Department, elected by their respective active members; and two retirees: one from the Fire Department and one from the Police Department, elected by their respective retired members.

Assets of the F&P are held in custody with BNY Mellon Asset Servicing. As of June 30, 2018, net assets of the F&P totaled \$2.7 billion. The F&P contracts with various investment management firms that make investment decisions within guidelines established by the F&P Board of Trustees. The assets are diversified to minimize risk and enhance returns over the long term. Monitoring and consulting of the investment activity is conducted by F&P's investment advisor, NEPC.

The F&P's funding objective is to meet benefit obligations by achieving an investment rate of return of 7.25% over the long-term and through employer and member contributions. As of June 30, 2018, the date of the F&P's last actuarial valuation, the System's funded ratio is 69.8% on an actuarial value of assets basis, compared to 71.1% at June 30, 2017. The System's Plan Fiduciary Net Position as a percentage of the Total Pension Liability at June 30, 2018 is 69.3% compared to 68.9% at June 30, 2017. Both ratios are calculated using the Entry Age Normal cost method.

For fiscal year 2019, the required contribution from the City was \$140.9 million. For fiscal year 2020, the required contribution from the City is \$146.3 million.

On August 19, 2016, the fire and police unions and several plan participants and retirees filed a class action lawsuit against the City in the Circuit Court for Baltimore City, claiming that passage by the City of Ordinance 10-306, which became effective June 30, 2010, wrongfully breached the City's contract with plan membership under the contract clause of the plan. Plaintiffs requested judgment against the City awarding monetary damages, equitable relief, specific performance – including restoration of pre-Ordinance plan provisions - attorney's fees, costs, and judgment interest.

On January 2, 2018, the Circuit Court ruled that the City unlawfully diminished the rights of retired and retirement-eligible F&P members as of June 30, 2010 to the variable benefit and thus breached its contract with them but that the City may have been entitled to make reasonable modifications affecting active members of the F&P plan as long as each change to benefits represented a diminution of contractual rights balanced by other new benefits or justified by countervailing equities for the public's welfare. A trial to determine the legality of the Ordinance 10-306 benefit modifications affecting active members was held in Circuit Court on October 29, 2018.

It is likely that both the City and the unions will appeal any final decision rendered by the Circuit Court to the Court of Special Appeals of Maryland and, ultimately, to the Maryland Court of Appeals.

Barring a future court order to the contrary, F&P will continue to administer the F&P plan as amended by Ordinance 10-306.

Unfunded Pension Plans. Certain Baltimore Police Department (BPD) retirees who were hired before July 1947 and their beneficiaries receive pension benefits through an unfunded pension plan which is administered by the Baltimore Police Department and paid out of the BPD annual budget. Benefits include medical and hospital coverage and pay-as-you-go pension payments indexed to the current annual compensation authorized for the position from which the police officer retired. As of June 30, 2017, there were 1 retiree and 13 beneficiaries receiving the benefit. The unfunded accrued liability is not calculated for this unfunded pension plan.

General. Certain financial information relating to the pension plans is also contained in the notes to the City's Consolidated Annual Financial Report. Interested parties are encouraged to view additional information or request a copy of the respective pension fund financial statements at the following addresses:

Employees Retirement System/Elected Officials Retirement System
7 East Redwood Street
13th Floor
Baltimore, MD 21202
443.984.3200
www.bcercs.org

Fire and Police Employees' Retirement System
7 East Redwood Street
18th Floor
Baltimore, MD 21202
410.497.7929
www.bcfpers.org

Conversion to New Retirement Plan. The City elected to convert to a new form of retirement plan for employees hired on and after July 1, 2014 in an effort to control the escalating costs of the City's contributions to the ERS. Effective July 1, 2014, newly-hired Baltimore City employees, other than fire and police employees and elected officials, are subject to new retirement plan provisions. Upon employment, such new hires are required to elect between two retirement options: the non-hybrid option and the hybrid option. Employees electing the non-hybrid option will participate only in the Retirement Savings Plan (the "RSP"), a new 401(k)-style defined contribution plan. For each payroll period, non-hybrid employees receive a City contribution equal to 4% of pay and will be required to make an employee contribution equal to 5% of pay. In addition, the City matches 50% of the first 2% of deferrals a non-hybrid employee makes to the City's Deferred Compensation Plan. City contributions vest after 5 years of service (or, if earlier, at age 65, disability or death), and employee contributions vest immediately. Employees electing the hybrid option will participate in the RSP and also in the ERS. Under the RSP, hybrid employees receive a City contribution equal to 3.0% or 1.5% of pay, depending on the funded status of the ERS. Those contributions vest after 5 years of service (or, if earlier, at age 65, disability or death).

Other Post-Employment Benefits

The City provides other post-employment benefits (OPEB) to all qualified City and Baltimore City Public School System employees. The Plan is a contributory cost sharing multiple employer defined benefit plan. The Plan provides postemployment healthcare and prescription drug benefits to retirees and beneficiaries.

The City has established a trust fund (the "Trust Fund"), gained approval from the IRS for the tax exempt status for the income of the Trust Fund, and has made contributions to the Trust Fund. The City's policy is to fund benefits on a pay-as-you-go basis plus make additional contributions comprising the federal retiree drug subsidy payments and an additional annual appropriation.

Beginning with the plan year ending June 30, 2018, the City has implemented Governmental Accounting Standards Board Statement Number 75 ("GASB 75") "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This requires the City to account for those benefits on a full accrual basis and the net OPEB liability is reflected in the City's financial statements.

The measurement date for OPEB liability is June 30, 2018 and the valuation date is as of June 30, 2016. As of June 30, 2018, the Total OPEB Liability (TOL) was \$1,450.7 million, the Plan Fiduciary Net Position (i.e. fair market value of the Plan assets) was \$588.6 million and the Net OPEB Liability was \$862.1 million.

Risk Management Program

In 1986, the City created by Ordinance a Committee on Insurance and Risk Management, members of which are to be persons knowledgeable in the field of risk management. The Committee has oversight and advisory responsibilities and reports to the Board of Estimates. It operates through the Office of Risk Management, which is within the Department of Finance.

The Office of Risk Management is responsible for a comprehensive program of (a) risk exposure identification, (b) risk evaluation, (c) risk control and (d) risk financing. Among its functions are the maintenance of systems to allocate insurance costs, handling of claims made and preparation of specifications for all insurance purchased by the City.

Baltimore City Public School System

The operating budget of the Baltimore City Public School System consists of the City Schools' General Fund, Special Revenue Fund, and Enterprise Funds. The process for developing the City Schools' budget involves requests from managers detailing resources necessary to support programs and operations. Total City Schools' needs (requests) are compared to projected revenue, with the overriding goal of providing support to the schools. The balanced budget is presented to the Baltimore City Board of School Commissioners for deliberation. Following public comment, the Baltimore City Board of School Commissioners adopts and forwards the Fiscal Year budget request to the City Board of Estimates. The Board of Estimates includes in the budget a recommended level of support which may vary from the requested level, but must at least meet the maintenance of effort requirement set forth in Section 5-202 of the Education Article of the Annotated Code of Maryland, as amended (the "MOE"). The City Council considers the recommended budget. After public hearings, the City Council votes on the budget and submits it to the Mayor for approval. The Mayor may approve the total budget or disapprove some items and approve the rest.

The City's Fiscal Year 2019 required Maintenance of Efforts (MOE) amount to support the Baltimore City School System is approximately \$227.7 million. The Fiscal Year 2019 adopted budget for School Crossing Guards is \$5.2 million. Crossing guard costs are shared with BCPS. The Fiscal Year 2019 cost of BCPS retirees' health care (\$29.8 million) is reflected as direct City support and is appropriated in the local share program. Also included is \$17.9 million for teacher pensions. BCPS-related debt service is budgeted at \$19.1 million.

Table 11
City Support for the Baltimore City Public School System

| Category of Expenses | Fiscal 2019 Budget | Fiscal 2018 Budget |
|---|-------------------------------|-------------------------------|
| Part I: Direct Payment by the City to the Schools | | |
| Required Maintenance of Effort (MOE) | \$227,706,071 | \$217,706,071 |
| Sub Total | \$227,706,071 | \$217,706,071 |
| Special School Funding | \$3,000,000 | \$13,000,000 |
| Retiree Health Benefits | \$29,805,357 | \$29,805,357 |
| Teacher Pension | \$17,900,753 | \$17,900,753 |
| Sub Total Direct Cost | \$50,706,110 | \$60,706,110 |
| Part II: Costs of the City in Support of the Schools | | |
| Health/School Nurse Program (General Fund portion) | \$14,369,777 | \$14,752,464 |
| School Crossing Guards | \$5,194,366 | \$5,699,122 |
| Risk Management for Schools | \$9,900,000 | \$0 |
| Debt Service/COPs for Schools | \$19,125,424 | \$18,663,223 |
| Sub Total in Support of Schools | \$48,589,567 | \$39,114,809 |
| Total City Costs | \$327,001,748 | \$317,526,990 |

Source: Bureau of Budget and Management Research, Department of Finance.

Baltimore City Police Department

Consent Decree with the United States Department of Justice. Following the issuance of the United States Department of Justice (DOJ) report on its investigation of the Baltimore City Police Department (BPD) on August 10, 2016, the City and BPD agreed to a consent decree with DOJ. The consent decree was entered by U.S. District Court for the District of Maryland on April 7, 2017. The decree requires the City to fund a monitor for a period of 3 to 5 years at an annual budget cap of up to \$1.475 million, to upgrade BPD IT infrastructure, as well as other improvements including for training, supervision and discipline of officers. Funding is expected to come from the City's General Fund as well as from state, federal and private sources.

DEBT OF THE CITY

Debt Policy of the City

During fiscal year 1990, the Mayor, the Board of Finance and the Board of Estimates approved a comprehensive debt policy (the “Debt Policy”), which was developed by a Debt Policy Committee comprised of 12 members appointed by the Mayor. The Debt Policy applies to all forms of financings for capital projects when such financings are accomplished using borrowed funds. The Debt Policy requirements apply without regard to whether such financing arrangements are considered debt within the constitutional definition of debt and therefore backed by the full faith and credit pledge of the City’s taxing powers. While there is no constitutional or statutory debt limitations imposed upon the City, the Debt Policy imposes certain authorization limitations as described below. The Debt Policy is subject to review at least every five years, or at such earlier time as may be recommended by the City’s Director of Finance. The Debt Policy was last reviewed in July 2017 by an independent financial consultant contracted by the City.

Under the debt structure, financing arrangements for capital projects include, but are not limited to: (i) revenue obligations, (ii) general obligation debt authorized pursuant to Section 7 of Article XI of the Maryland Constitution, (iii) loans from the State, such as those for schools, highways, economic development and sanitary sewer projects, (iv) capital leases, certificates of participation, sale/leaseback transactions, and conditional purchase agreements and (v) any additional financing methods, techniques or devices which are approved by the Director of Finance. The goal of such additional financing methods, techniques or devices is to provide the City with flexibility to utilize new methods of financing, provided that the Director of Finance has approved such methods.

The City’s Debt Policy mandates that revenue obligations (including revenue bonds, revenue bond anticipation notes issued in anticipation of future revenue bond sales, and loans from the Maryland Water Quality Financing Administration) shall be used to finance capital projects of the Water Utility Enterprise Fund, Wastewater Utility Enterprise Fund and Parking Enterprise Fund. Such revenue obligations are exempt from the dollar limitations described below. Additionally, the Debt Policy imposes restrictions on debt issuance for all capital projects except those covered by revenue obligations of the Water Utility, Wastewater Utility and Parking Enterprise Funds, and those projects covered by pay-as-you-go financing and loans from the State for sanitary sewer projects, which are supported by user charges. Under the City’s current Debt Policy, the annual budgeted amount of general obligation bonds issued will not exceed \$80,000,000.

The Debt Policy provides that capital projects to be financed by dedicated or special funds, including grants and Federal or State contracts, may be appropriated in amounts estimated to be available for such projects. If such projects fulfill definite needs and are included in the six-year capital improvement program, acceptance of such dedicated or special funds will not obligate the City for capital funds in amounts which cause the City to violate the Debt Policy, and acceptance of such funding will not place an undue burden on the City for operating and/or maintaining such projects.

Overview

The City incurs debt in a variety of ways as are described below. Included within the discussion of the City’s debt management policies are descriptions of obligations, which are not considered debt in the meaning of the term as set forth in the State Constitution, i.e. conditional purchase agreements.

General Obligation Debt

Authorization. The State Constitution does not permit the City to borrow money or pledge its credit, except as described below with respect to certain emergency and temporary borrowing, unless such borrowing or pledging of credit has been:

- (a) authorized by an Act of the General Assembly, or by a Resolution of the members of the General Assembly representing Baltimore City, and
- (b) authorized by a loan ordinance of the Mayor and the City Council of Baltimore, pursuant to the State authorization, and
- (c) approved by a majority of the votes cast by the legal voters of the City at the time and place set forth in the loan ordinance.

Security. The State Constitution requires that any debt of the City or pledge of the City's credit must be discharged within forty (40) years from the time of contracting the same. All bonds issued by the City pursuant to constitutional authority are issued as general obligation bonds even though such bonds may be fully self-supporting through user charges or contractual payments. Such bonds are unconditional general obligations of the City, payable as to principal and interest from ad valorem taxes which the City is empowered and directed by law to levy without limitation as to rate or amount upon all assessable property located in the City in each year in rate and amount sufficient for the purpose until all of the bonds and interest thereon shall have been paid or provision shall have been made for such payment.

The Charter provides for the manner in which the City's annual budget shall be formulated and adopted. It prohibits the City Council from increasing any appropriation and permits the City Council to reduce proposed appropriations except "such amounts as are for the payment of interest and principal of the municipal debt."

Temporary Borrowing. Section 7 of Article XI of the State Constitution permits the City to borrow temporarily to meet cash flow deficiencies in the City treasury. The Charter restricts such temporary borrowing in anticipation of tax receipts of the current year, and requires that such borrowing be discharged prior to passage of the budget for the ensuing year. The Charter specifically prohibits the making of any temporary loans to cover any deficiency arising from a failure to realize sufficient revenues from all available sources to meet the amounts provided for appropriations in the annual budget. In the case of such deficiency, the Board of Estimates is required to effect a reduction in appropriations other than those for the payment of the principal and interest of the City's debt.

Emergency Borrowing. Section 7 of Article XI of the State Constitution permits the City to borrow for certain emergencies without authorization from the General Assembly or voter approval. Such emergency borrowing must arise from the necessity of maintaining the police or preserving the health, safety and sanitary condition of the City. The Charter provides that such emergency borrowing must be authorized by an Ordinance declaring the existence of such emergency, establishing the amount required to meet the emergency, prescribing the form and character of the loan and the terms of the securities and providing for discharge of the loan. In the City's history there have been only two uses of the emergency borrowing authority, both relating to the years 1938 and 1939. Both of the loans were fully paid by 1949.

Unfunded Debt. The City has no unfunded debt. The City has no authority under the Charter to contract an unfunded debt.

Debt Limit. The City has no constitutional or statutory debt limit. However, each loan must be authorized pursuant to the procedures described in paragraph 1 of this section.

Overlapping Debt. There is no overlapping debt of the City. There are no local taxing jurisdictions overlapping the City. The City is not part of any county or other political subdivision of the State. The City is an independent political subdivision of the State.

Defaults or Moratoriums. There is no record of any default or moratorium, either as to principal or interest, on any of the City's bonded indebtedness.

Self-Supporting General Obligation Debt. The City historically has classified part of its general obligation debt as "self-supporting." While bonds for such purposes are issued as general obligation debt of the City, such bonds do not require support of tax levies to meet debt service on the bonds. The Debt Policy notes that distinctions between "self-supporting" and "not self-supporting" financing arrangements have been over-emphasized and recommends that in the future such designations will be made by the Director of Finance only for the purpose of informing the City's voters of those general obligation loan authorizations which the City believes will not require support from City tax revenues. The categories of debt historically classified as self-supporting are:

(a) *Water Debt.* The City's Water system is operated as a public utility and provides water service to residents of certain of the nearby counties as well as to City residents. Under the provision of a Charter amendment adopted in 1978, the City's water system must be operated as a self-supporting utility fund. The Board of Estimates, on recommendations of the Director of Finance and the Director of Public Works, and following public notice, must establish water rates to make the utility self-sustaining at all times.

(b) *Wastewater (Sanitary Sewer) Debt.* The City's Wastewater system is operated as a public utility under similar provisions and in the same manner as the water utility. The sewer utility is supported by consumer charges based upon the consumption of water. In addition, an industrial surcharge is imposed on industries discharging sewerage to the system, which contains constituents in excess of those contained in human wastes.

(c) *Off-Street Parking Debt.* The City has issued general obligation bonds to finance off-street parking projects in the downtown area. Some of these projects are covered by agreements under which developers are required to make payments sufficient to meet all debt service on the bonds. In addition, projects undertaken and operated by the City or by non-profit corporations are required to be self-supporting as to both operating expenses and debt service.

(d) *Housing, Commercial and Industrial Financing Debt.* The City has obtained authorizations and voter approval to issue bonds, the proceeds of which have been used to make loans or to guarantee or insure loans to private persons, including partnerships and corporations, for home rehabilitation or the purchase of commercial or industrial properties. These programs as established provide that the borrower must repay the City for the principal and interest on the loan, plus an amount, which is sufficient to cover the fees, paid to the mortgage servicer, where applicable.

Certain Outstanding Indebtedness

The City has issued variable rate indebtedness of which the majority is currently in an auction rate mode. As of June 30, 2018 there was \$17,935,000 of variable rate general obligation indebtedness outstanding, with all of this outstanding variable rate indebtedness being currently swapped to a fixed rate under various hedge agreements.

Financings with the State of Maryland and Federal Government

Purpose. The City has borrowed funds periodically from the State for school, highway, sewer and economic development purposes pursuant to specific provisions of State law, which authorize such long-term financings. Except as noted below under “Economic Development,” the State laws authorizing such long-term financings provide that they are not general obligation debts of the City or the county to which the funds are advanced by the State, and the City or the county involved is not obligated to levy property taxes to repay such financings or the interest thereon. The City also has received a loan from the Federal government for the redevelopment project discussed below.

Debt Outstanding. The City’s outstanding financings with the State and Federal government are listed below:

(a) *Highways.* Since fiscal year 1972, the City has borrowed funds from the State for highway purposes, principally in connection with financing the City’s share of the Interstate Highway System and for construction or reconstruction of primary roads. The debt service applicable to such financings is withheld by the State Comptroller from distributions due the City for highway user revenues. As of June 30, 2018, the City has \$97,020,000 of outstanding highway debt.

(b) *Maryland Water Quality Revolving Loan Fund.* Since November 1990, the City has participated in the Maryland Water Quality Financing Administration Revolving Loan Fund. As of June 30, 2018, the unpaid principal amount of loans outstanding was \$592,960,000.

(c) *Federal Economic Development Loans.* The City has borrowed funds from the Federal government to provide for the development of Port Covington, Nehemiah and Sandtown/Winchester. See “DEVELOPMENT AND REDEVELOPMENT ACTIVITIES” herein. As of June 30, 2018, the unpaid principal amount owed to the Federal government was \$20,320,000. The notes representing such obligations mature serially through 2024.

(d) *WIFIA Loan.* In December 2018, the City completed the inaugural borrowing totaling \$202 million from the U.S. Environmental Protection Agency to provide funding for various wastewater projects.

Revenue Bonds - City Facilities

Authority to Borrow. The general powers of the City are derived from the State Constitution, and from Public General or Public Local Laws of the State, and are set forth in Article II of the Charter. Article II of the Charter authorizes the City to borrow money to finance undertakings for the accomplishment of any of the purposes, objects and powers of the City, and in connection therewith to issue bonds, notes or other obligations. Such authorization provides that the principal of and interest on such borrowings shall be payable solely from and secured solely by a pledge of: (i) the revenues from or arising in connection with the property, facilities, developments or improvements so financed, (ii) the revenues from or arising in connection with any contracts, mortgages or other securities purchased with the borrowed funds, (iii) the contracts, mortgages or other securities purchased or otherwise acquired with the borrowed funds or (iv) any combination of the foregoing. Article II of the Charter provides that the bonds, notes or other obligations issued under such authority shall be issued pursuant to an Ordinance of the Mayor and City Council of Baltimore, without submitting the question of such issuance to the legal voters of the City for approval or disapproval. The Charter specifically provides that any such revenue bonds, notes or other obligations shall not be general

obligations of the City, shall not be a pledge of or involve the faith and credit or taxing power of the City, and shall not constitute a debt of the City within the meaning of any constitutional, statutory or charter provisions.

Pursuant to Article II of the Charter, the City also is authorized to finance the acquisition and construction of off-street parking facilities in the City, which are owned by the City, by the issuance of revenue bonds, notes and obligations. Such borrowings may be made pursuant to an Ordinance of the Mayor and City Council of Baltimore and may be secured by a pledge of the revenues derived from such facilities and a pledge of revenues collected from parking taxes, parking fees or charges, parking meter collections, parking fines or any other revenues derived from the parking of motor vehicles in the City. Any revenue bonds, notes or other obligations issued pursuant to such authorization shall not constitute a general obligation of the City, shall not involve a pledge of the faith and credit or taxing power of the City, and shall not constitute a debt of the City within the meaning of Section 7 of Article XI of the State Constitution.

For details on the City’s Water, Wastewater, Parking, Convention Center, Stormwater and County Transportation Revenue Bonds, please refer to the “Notes to Basic Financial Statements” section in the Comprehensive Annual Financial Report.

Revenue Bonds - Conduit Financings

Authority to Borrow. In addition to the authorizations previously discussed, there are additional authorizations under which the City has issued mortgage revenue bonds, housing revenue bonds and private purpose revenue bonds.

Such “conduit” financings include:

(i) Revenue bonds issued to facilitate low and moderate cost residential mortgage financing, and to develop an owner-occupancy residential mortgage loan program in the City pursuant to Article II of the Charter.

(ii) Private purpose revenue bonds issued pursuant to the provisions of Title 14 of Article 41 of the Annotated Code of Maryland, as amended, for economic and industrial development and promotion of the health, welfare and safety of the citizens of the City through pollution control measures and encouragement of employment. Such bonds and the interest thereon are payable solely from the revenues generated from the financed facilities or the proceeds of refunding revenue obligations.

(iii) In prior years the City also was authorized to issue private purpose revenue bonds or loans pursuant to the Maryland Industrial Development Financing Authority Act (the “MIDFA Act”). Under the MIDFA Act, the Maryland Industrial Development Financing Authority was authorized to insure, in whole or in part, the repayment of private purpose revenue bonds issued pursuant to Article 41 of the Annotated Code of Maryland, as amended, and to insure private purpose revenue bonds issued pursuant to the MIDFA Act.

Private Purpose Bonds. The following tabulation lists the types of conduit financings provided by revenue bond issues or loans issued and the estimated principal outstanding as of June 30, 2018. None of the obligations described below constitutes an indebtedness of the City, or a charge against the general credit or taxing powers of the City within the meaning of any constitutional, statutory or charter provision.

**Table 12
Conduit Financings**

| Type | No. of Issues | Principal Amount of Issues |
|--------------------------------------|---------------|----------------------------|
| Housing Revenue Bonds | 1 | \$149,078.00 |
| Industrial Development Revenue Bonds | 2 | 6,102,649.00 |
| | 3 | \$6,251,727.00 |

Source: Bureau of Treasury Management, Department of Finance.

Industrial Development Authority Financings

Authorization. The Industrial Development Authority of the Mayor and City Council of Baltimore (the “Industrial Development Authority”) was created pursuant to the Annotated Code of Maryland, as amended and by Ordinance No. 1144 of the Mayor and City Council of Baltimore, approved July 27, 1979, as amended by Ordinance No. 808, approved November 1, 1982. A nine-member Board of Directors governs the Industrial Development Authority. Five of the directors are voting members nominated by the Mayor and approved by resolution of the City Council. The City’s Director of Finance and Deputy Director of Finance are ex-officio, non-voting members of the Board, and the City Council appoints two of its members as ex-officio, non-voting directors.

The Industrial Development Authority has no debt outstanding at this time.

Conditional Purchase Agreements

Since December 1985, the City has entered into various conditional purchase agreements to construct and purchase certain facilities or real property and/or to acquire equipment for use by municipal departments or agencies of the City government. These conditional purchase agreements (“CPAs”) do not constitute a debt of the City within the meaning of any constitutional, statutory or charter limitation and do not constitute a charge against the general credit or taxing power of the City. All amounts payable by the City under the CPAs, including the purchase installments, are subject to annual appropriation by the City Council and the City Council is not obligated to make such annual appropriations. In the event that sufficient funds are not appropriated to meet the requirements of any CPA, such agreement is subject to termination at the end of the last fiscal year for which an appropriation is available. Upon satisfaction of the CPAs, title to the facilities, equipment or real estate financed thereunder passes to the City.

While the City Council is not obligated to make the annual appropriations required under the CPAs, it is the intention of the City to make such appropriations so that financings thereunder will be satisfactorily completed and title to the facilities will pass to the City.

Leases and Other Commitments

Real Property and Equipment Leases. The City has entered into a number of operating leases for rental of office facilities and equipment, some of which provide for increased rentals based upon increases in real estate taxes and common area maintenance fees. All leases contain cancellation provisions and are subject to annual appropriation by the City Council. During fiscal year 2018, rent expenditures approximated \$17,630,000 for all types of leases. These expenditures were made primarily from the General Fund.

Waste Disposal Agreements. The City has entered into various waste disposal agreements as described below.

(a) *Bresco Facility.* The City’s obligation to pay tipping fees for disposal of waste at the Bresco Facility is funded through the General Fund. The City’s waste disposal contract was renewed on June 22, 2011, for a ten-year period.

(b) *Sludge Composting Facility.* In 2008, the City entered into a five-year sewage disposal agreement with the Authority in connection with the disposal of waste water treatment resident at sludge composting facility located in the City, which is owned and operated by Veolia Water North America-Central, LLC (the “Company”). This agreement obligates the City to deliver to the facility approximately certain guaranteed amounts of sewage sludge per year and to pay certain tipping fees. The contract was renewed on June 1, 2014, for another 5-year period. The City’s tipping fees are payable from Wastewater Utility Fund revenues.

(c) *Heat Drying Sludge Disposal Facilities.* The City has entered into two heat drying sludge disposal agreements with two privately financed, owned and operated facilities at its Back River Wastewater Treatment Plant and Patapsco Wastewater Treatment Plant. Synagro Technologies owns and operates both facilities. The City has agreed over a 20-year period to deliver sewage sludge for heat drying and disposal to the facilities at a tipping fee of approximately \$123 per wet tons, which includes debt service and the operation and maintenance. The City’s tipping fees are payable from Wastewater Utility Fund revenues.

Tax Increment Financing (TIF)

Authority to Borrow. The City’s authority to issue bonds under a tax increment financing (“TIF” and “TIF Bonds,” respectively) is established under Article II, Section 62 of the City Charter (the “Enabling Act”). The Enabling Act itemizes the

eligible uses of TIF Bond proceeds and states that TIF Bonds shall be approved by an ordinance of the City Council. The ordinance will describe the basic terms of the TIF Bonds or will provide that such terms are to be specified in a resolution of the Board of Finance. The City may also, acting through the Board of Finance, issue bonds to refund outstanding TIF Bonds.

In most cases, the City will require that the TIF Bonds also be secured by a special tax levied in the development district, pursuant to Article II Section 62A of the City Charter. The establishment of a special taxing district ensures that if the anticipated benefit to be derived by proposed development does not occur, such that the tax increment revenues are not sufficient to pay debt service on the TIF Bonds, the City will levy a special tax on the property owners in the district (i.e., the developer) to make up any shortfall. Such a special tax requires the approval of 2/3 of the property owners, in both number and property value, within the special tax district.

Description. In general, TIF Bonds are special obligations of the City secured by the incremental increase in property taxes resulting from the proposed improvement. The City utilizes this financing option by designating within its borders a TIF district. The base property valuation (assessable base) is then established and certified, and the property taxes from that assessable base continue to be collected and used for general governmental purposes. As the assessed valuation within the district increases, the taxes derived from the increased valuation (tax increment) pay debt service on the bonds used to fund TIF project costs within the district. When the TIF debt is repaid, the district is dissolved and the taxes collected from the increased assessed valuation flow directly to the General Fund.

A TIF functions by pledging property tax increments gained as a result of new development within the tax increment district. The City continues to collect the tax revenues that it had historically received from the TIF district, but the incremental taxes collected from the enhanced value of the real estate is used to pay debt service on the TIF Bonds.

Debt Outstanding. As of June 30, 2018, there was a total of \$198,176,000 in principal amount due for special obligation bonds issued for TIF projects. See Table 13, which sets forth the debt service schedule for the City’s general obligation bonds and certain other long-term financing arrangements.

**Table 13
Debt Service Schedule**

| <u>Fiscal</u> Year | General Obligation | | | Long-term Financing with Federal Government | |
|-----------------------|---------------------------|---|---------------------|--|--------------------|
| | Principal | <u>Bonds</u> Interest ⁽¹⁾ | SWAP ⁽²⁾ | Principal | Interest |
| 2019 | \$37,605,000 | \$22,955,063 | \$507,248 | \$3,613,000 | \$859,482 |
| 2020 | 41,635,000 | 21,340,384 | 473,781 | 2,788,000 | 733,675 |
| 2021 | 46,870,000 | 19,427,433 | 387,416 | 2,901,000 | 612,396 |
| 2022 | 50,365,000 | 17,286,296 | 251,978 | 3,023,000 | 482,743 |
| 2023 | 53,090,000 | 14,987,497 | 86,393 | 2,329,000 | 356,260 |
| 2024-2028 | 154,255,000 | 50,260,870 | | 5,666,000 | 372,915 |
| 2029-2033 | 100,680,000 | 19,290,211 | | | |
| 2034-2038 | 45,645,000 | 4,733,058 | | | |
| 2039-2043 | | | | | |
| 2044-2048 | | | | | |
| 2049-2053 | | | | | |
| 2054-2058 | | | | | |
| Total | \$530,145,000 | \$170,280,811 | \$1,706,816 | \$20,320,000 | \$3,417,470 |

Table 13
Debt Service Schedule (continued)

| <u>Fiscal</u> | Wastewater Utility Fund | | Parking Facilities | | |
|---------------|--------------------------------|----------------------|-----------------------------|-------------------------|---------------------|
| | <u>Revenue Bonds</u> | | <u>Revenue Bonds</u> | | |
| Year | Principal | Interest | Principal | Interest ⁽¹⁾ | SWAP ⁽²⁾ |
| 2019 | \$40,805,289 | \$40,387,088 | \$12,270,000 | \$6,397,842 | \$2,619,202 |
| 2020 | 41,385,149 | 39,656,383 | 4,410,000 | 5,921,379 | 2,550,164 |
| 2021 | 43,121,910 | 38,815,121 | 4,735,000 | 5,663,788 | 2,471,107 |
| 2022 | 45,667,674 | 37,807,617 | 4,980,000 | 5,386,294 | 2,386,130 |
| 2023 | 45,601,218 | 36,398,059 | 5,210,000 | 5,087,910 | 2,277,198 |
| 2024-2028 | 232,817,468 | 159,531,601 | 31,675,000 | 20,168,752 | 9,136,636 |
| 2029-2033 | 261,114,944 | 115,713,068 | 42,550,000 | 8,900,577 | 3,683,122 |
| 2034-2038 | 224,202,969 | 67,952,711 | 5,700,000 | 608,046 | |
| 2039-2043 | 162,319,310 | 29,055,686 | | | |
| 2044-2048 | 74,603,757 | 4,642,592 | | | |
| 2049-2053 | 17,299,444 | 277,526 | | | |
| Total | \$1,188,939,133 | \$570,237,453 | \$111,530,000 | \$58,134,588 | \$25,123,561 |

| <u>Fiscal</u> | Convention Center Headquarters | | Convention Center | | Water Utility Fund | | |
|---------------|---------------------------------------|----------------------|-----------------------------|------------------|-----------------------------|-------------------------|---------------------|
| | <u>Revenue Bonds</u> | | <u>Revenue Bonds</u> | | <u>Revenue Bonds</u> | | |
| Year | Principal | Interest | Principal | Interest | Principal | Interest ⁽¹⁾ | SWAP ⁽²⁾ |
| 2019 | \$1,450,000 | \$13,366,000 | \$4,220,000 | \$326,750 | \$21,058,456 | \$38,415,391 | \$792,038 |
| 2020 | 2,100,000 | 13,302,250 | 4,425,000 | 110,625 | 21,876,218 | 37,770,621 | 792,038 |
| 2021 | 2,500,000 | 13,197,750 | | | 25,373,023 | 36,855,384 | 792,038 |
| 2022 | 2,950,000 | 13,061,500 | | | 25,435,616 | 35,753,641 | 792,038 |
| 2023 | 3,485,000 | 12,900,625 | | | 26,323,386 | 34,628,071 | 792,038 |
| 2024-2028 | 25,170,000 | 61,164,750 | | | 142,624,815 | 155,090,108 | 3,960,189 |
| 2029-2033 | 39,600,000 | 53,090,750 | | | 179,618,428 | 119,542,026 | 3,961,320 |
| 2034-2038 | 51,420,000 | 41,698,250 | | | 196,524,798 | 76,098,336 | 2,228,085 |
| 2039-2043 | 65,625,000 | 27,136,875 | | | 176,812,264 | 35,394,245 | (20,324) |
| 2044-2048 | 74,455,000 | 8,995,375 | | | 72,112,839 | 5,223,281 | |
| 2049-2053 | | | | | 6,209,584 | 74,614 | |
| 2054-2058 | | | | | | | |
| Total | \$268,755,000 | \$257,914,125 | \$8,645,000 | \$437,375 | \$893,969,426 | \$574,845,719 | \$14,089,460 |

Table 13
Debt Service Schedule (continued)

| <u>Fiscal</u> Year | <u>Conditional Purchase Agreement</u> | | <u>Storm Water⁽³⁾ Revenue Bonds</u> | | <u>Transportation Revenue Bonds</u> | |
|-----------------------|---------------------------------------|---------------------|--|--------------------|-------------------------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | \$30,777,588 | \$4,496,523 | \$1,059,009 | \$378,472 | \$12,325,000 | \$3,604,013 |
| 2020 | 27,287,888 | 3,762,837 | 1,093,521 | 344,075 | 12,900,000 | 3,113,238 |
| 2021 | 22,340,481 | 3,033,545 | 1,131,832 | 307,087 | 10,630,000 | 2,599,663 |
| 2022 | 18,450,126 | 2,422,171 | 1,141,296 | 268,299 | 11,165,000 | 2,129,088 |
| 2023 | 15,967,224 | 1,917,899 | 838,259 | 231,195 | 8,825,000 | 1,666,363 |
| 2024-2028 | 37,557,182 | 4,324,154 | 4,186,303 | 645,347 | 30,730,000 | 3,921,438 |
| 2029-2033 | 8,164,723 | 964,300 | 1,937,548 | 102,656 | 10,445,000 | 553,400 |
| 2034-2038 | 285,731 | 5,484 | | | | |
| 2039-2043 | | | | | | |
| 2044-2048 | | | | | | |
| Total | \$160,830,943 | \$20,926,913 | \$11,387,768 | \$2,277,131 | \$97,020,000 | \$17,587,200 |

| TIF | | |
|-----------------------|---------------------------------|----------------------|
| <u>Fiscal</u> Year | <u>Special Obligation Bonds</u> | |
| | Principal | Interest |
| 2019 | \$2,002,656 | \$11,055,767 |
| 2020 | 2,615,252 | 10,951,671 |
| 2021 | 3,101,506 | 10,815,961 |
| 2022 | 3,560,459 | 10,652,079 |
| 2023 | 4,107,152 | 10,487,022 |
| 2024-2028 | 29,329,508 | 48,283,843 |
| 2029-2033 | 42,495,000 | 38,627,884 |
| 2034-2038 | 57,078,000 | 26,336,718 |
| 2039-2043 | 44,378,000 | 8,307,063 |
| 2044-2048 | 9,508,333 | 810,471 |
| 2049-2053 | | |
| 2054-2058 | | |
| Total | \$198,175,866 | \$176,328,480 |

- (1) Variable rate interest is calculated at the reset rate as of 6/30/2018.
(2) The swap debt service is calculated at the net swap rate as of 6/30/2018.
(3) Includes Water Quality Storm Water and County Transportation Revenue Bond debt.

Table 14
Net Tax-Supported Debt and Debt Service Ratios
Fiscal Year Ended June 30th

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| General Obligation Bonds (millions) | 530.1 | 530.3 | 579.3 | 556.7 | 527.9 |
| Population (thousands) * | N/A | 611.6 | 614.7 | 621.8 | 622.8 |
| Assessed Value of Taxable Property (millions) | 36,150.1 | 34,674.5 | 33,589.4 | 30,958.3 | 31,176.4 |
| Estimated Actual Value of Taxable Property (millions) | 41,154.4 | 39,237.6 | 37,794.0 | 35,644.8 | 35,905.1 |
| Annual General Obligation Debt Service (millions) | 54.9 | 62.7 | 63.1 | 61.1 | 66.9 |
| General Fund Revenue (millions) | 1,795.5 | 1,788.8 | 1,810.9 | 1,658.0 | 1,617.2 |
| Ratios: | | | | | |
| Net Debt Per Capita | N/A | \$680 | \$841 | \$813 | \$768 |
| General Obligation Debt as a Percentage of Assessed Value | 1.47% | 1.53% | 1.72% | 1.80% | 1.69% |
| Net Debt as a Percentage of Estimated Actual Value | 1.29% | 1.35% | 1.53% | 1.56% | 1.47% |
| General Obligation Debt Service as a Percentage of General Fund Revenue | 3.06% | 3.51% | 3.48% | 3.69% | 4.14% |

Source: City of Baltimore, Maryland Comprehensive Annual Financial Reports for Years Ended June 30, Department of Finance

*Based on Calendar year

CAPITAL IMPROVEMENT PROGRAM

Description of Program

To guide the City in making necessary physical improvements, the Charter requires that the Planning Commission annually adopt a six-year capital improvement plan. The Planning Commission begins by reviewing agency requests, giving consideration (among other things) to the City's priorities and development strategies, needs expressed by citizens, the merits of particular projects, constraints on the use of State and Federal funds, and the City's own self-imposed borrowing limitations.

The Planning Commission's recommended capital improvement program is submitted to the Board of Estimates, and then referred by the Board of Estimates to the Director of Finance and the Board of Finance for report and recommendation, as required by the Charter. The recommended program must be a balanced budget that identifies the fund source for each project. After the Board of Estimates has adopted the official six-year program, the first year of projects is proposed to the City Council as the capital budget. The City Council may delete projects or reduce amounts, but may not add to the proposed budget. The remaining five years of the capital plan are not legally binding upon the City, but adoption by the Board of Estimates indicates the serious commitment of the City to undertake specific projects with anticipated funding sources.

Projects approved by the Board of Estimates and the City Council for inclusion in the \$1,945 million Capital Improvement Program for Fiscal Year 2019 will be funded using the City's General Fund; Water, Stormwater, and Wastewater Utility Funds; General Obligation Bonds; Revenue Loans; Federal, State and County Grants; and other sources, including private funding.

Fiscal Year 2019 Capital Improvement Budget

The six-year Capital Improvement Plan, adopted in Fiscal 2019, totals \$1,945 million.

Appropriations from the General Fund PAYGO total \$25.3 million, an increase of \$3.9 million or 18% above the General Fund fiscal 2018 level of appropriation. The adopted budget includes:

- \$5.8 million supports compliance with the federal Department of Justice (DOJ) Consent Decree, providing the Police with mobile computer systems in their vehicles to track and document interactions with the public and a data warehouse to securely store information.
- Another \$6.3 million supports community and economic development projects, including Whole Block Demolition and Westside Historic Properties Stabilization.
- \$3.55 million supports Information Technology for hardware and infrastructure upgrades.

Budgeted projects utilizing General Obligation Bonds totaled \$65 million. This funding includes – but is not limited to – \$19.5 million for renovation and modernization of City schools and the Central Library branch, \$18.26 million for community and economic development projects, including \$6.88 million for demolition of whole blocks and blighted structures, \$7.62 million for recreation and aquatic facility renovations, and \$9.2 million for City building repairs and upgrades.

The Baltimore City Public Schools Construction and Revitalization Act of 2013 (the "Act") requires the City to contribute \$20 million annually as its share of debt service for an approximately \$1.1 billion capital program. The Act further requires the City to contribute proceeds from the five cent beverage container fee (approximately \$10 million), 10% of the revenues from the Video Lottery Terminal, and revenue generated from table games on an annual basis. The remainder of the City's contribution is in the form of a guaranteed tax base formula, leveraged by directly appropriating retiree health benefit funding to the Baltimore City Public Schools. For Fiscal Year 2019, the City will provide an estimated \$22.6 million for school construction and modernization upgrades. For a further discussion of the funding provided by the City for the Baltimore City Public School System, see "CERTAIN EXPENDITURES OF THE CITY -- Baltimore City Public School System" above.

Table 15 details the sources of funds and appropriations by agency for the City’s Capital Improvement Program for the current budget year 2019, and the six-year program, Fiscal Years 2019 through 2024.

**Table 15
Capital Improvement Program 2019-2024
(in thousands)**

| <u>Sources of Funds</u> | <u>Program</u> | <u>Program</u> | <u>Program</u> | <u>Program</u> | <u>Program</u> | <u>Program</u> | <u>Six-Year</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>Fiscal 2019</u> | <u>Fiscal 2020</u> | <u>Fiscal 2021</u> | <u>Fiscal 2022</u> | <u>Fiscal 2023</u> | <u>Fiscal 2024</u> | <u>Total</u> |
| General Fund | \$15,250 | \$5,450 | \$5,030 | \$5,300 | \$5,880 | \$5,680 | \$42,590 |
| General Funds (HUR Eligible) | 10,000 | 10,950 | 11,970 | 11,700 | 11,120 | 11,320 | \$67,060 |
| General Obligation Bonds | 65,000 | 80,000 | 80,000 | 70,000 | 70,000 | 70,000 | \$435,000 |
| Revenue Bonds | 259,104 | 140,397 | 32,688 | 43,826 | 15,864 | 15,000 | \$506,879 |
| Federal Funds | 66,284 | 39,177 | 37,117 | 36,935 | 37,072 | 36,072 | \$252,657 |
| Utility Funds | 21,906 | 25,992 | 4,098 | 6,318 | 0 | 0 | \$58,314 |
| State Funds | 79,909 | 22,939 | 28,002 | 11,700 | 13,450 | 13,600 | \$169,600 |
| County Grants | 62,133 | 32,676 | 30,393 | 42,704 | 0 | 0 | \$167,906 |
| Other Funds | 101,343 | 37,400 | 26,850 | 27,300 | 26,200 | 26,200 | \$245,293 |
| Total | \$680,929 | \$394,981 | \$256,148 | \$255,783 | \$179,586 | \$177,872 | \$1,945,299 |
| <u>Appropriations by Agency</u> | | | | | | | |
| Education | \$ 19,000 | \$ 19,000 | \$ 19,000 | \$ 19,000 | \$ 19,000 | \$ 19,000 | \$ 114,000 |
| Recreation & Parks | \$ 24,694 | \$ 16,000 | \$ 10,850 | \$ 8,875 | \$ 10,200 | \$ 10,200 | \$ 80,819 |
| Housing & Community Development | \$ 102,971 | \$ 46,985 | \$ 47,490 | \$ 45,105 | \$ 45,222 | \$ 45,222 | \$ 332,995 |
| Public Buildings | \$ 19,060 | \$ 11,065 | \$ 11,625 | \$ 11,525 | \$ 11,475 | \$ 11,025 | \$ 75,775 |
| Transportation | \$ 83,963 | \$ 85,175 | \$ 79,083 | \$ 76,480 | \$ 75,830 | \$ 74,980 | \$ 475,511 |
| Public Works - Wastewater | \$ 136,971 | \$ 107,406 | \$ 35,856 | \$ 71,327 | \$ 864 | \$ - | \$ 352,424 |
| Public Works - Water | \$ 154,125 | \$ 58,804 | \$ 12,225 | \$ 203 | \$ - | \$ - | \$ 225,357 |
| Public Works - Other | \$ 117,411 | \$ 27,436 | \$ 15,609 | \$ 8,318 | \$ 2,000 | \$ 2,000 | \$ 172,774 |
| Economic Development | \$ 10,380 | \$ 4,650 | \$ 5,150 | \$ 5,150 | \$ 5,495 | \$ 5,745 | \$ 36,570 |
| All Other City Agencies & Programs | \$ 12,354 | \$ 18,460 | \$ 19,260 | \$ 9,800 | \$ 9,500 | \$ 9,700 | \$ 79,074 |
| Total | \$ 680,929 | \$ 394,981 | \$ 256,148 | \$ 255,783 | \$ 179,586 | \$ 177,872 | \$1,945,299 |

Source: Bureau of Budget and Management Research, Department of Finance.

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DEVELOPMENT AND REDEVELOPMENT ACTIVITIES

Overview

Housing development is coordinated primarily by DHCD, and to a lesser extent the City's economic development agency, the Baltimore Development Corporation ("BDC"). DHCD is primarily involved in neighborhood based housing and community development, while BDC oversees such development in its assigned geographic areas of responsibility – the Inner Harbor, Inner Harbor East, the redevelopment of the West Side of downtown, and commercial and industrial areas throughout the City.

The City's involvement in residential development can range from no direct involvement (in areas of strongest market demand), to provision of public land or buildings offered for redevelopment through a competitive process, to tax relief or abatement through negotiated payments in lieu of taxes ("PILOTS"), to direct project financing with community or economic development bond funding, or federal entitlement programs such as Community Development Block Grant ("CDBG") or HOME.

Residential and Community Development

Residential Developments. The City is experiencing a rise in new middle income housing opportunities evidenced by the new construction or substantial rehabilitation of housing units. This is reflected in the increase of new construction and scattered site rehabilitation in emerging markets of the City such as Locust Point, Canton, Fells Point, and Federal Hill, and in stable outer ring neighborhoods.

BCL Projects. Baltimore Community Lending ("BCL"), formerly known as Baltimore Community Development Financing Corporation or CDFC, was founded in 1989 to involve the private sector in public sector efforts to address the City's affordable housing needs. BCL is operated on the community development bank concept, and its primary focus is encouraging local development communities to invest in the City's neighborhoods in order to create affordable housing and other real estate opportunities, eliminate the stigma of slum and blight represented by the appearance of vacant buildings, and stimulate home ownership. BCL utilizes the resources and skills of public agencies, local bankers, developers, nonprofit housing organizations, and other interested parties in accomplishing this mission. BCL is a certified Community Development Financial Institution.

Inner Harbor Project I. BDC continues to support and facilitate the ongoing improvement of the Inner Harbor as an essential park and civic space for the City, as well as the most visited tourist area in the City. BDC is working closely with City agencies and the Waterfront Partnership to implement the vision outlined in the Inner Harbor 2.0 Master Plan, which includes improving the park and public spaces in the Harbor, adding new and diverse seasonal and permanent attractions while maintaining existing ones, and updating the visitor experience through new lighting, landscaping and activities. BDC is making plans for the renovation of Rash Field, which is scheduled to start construction in 2019, and continued to make the Inner Harbor a year-round destination by supporting an ice rink in the Inner Harbor and extending the German Christmas Village for its sixth season.

BDC also continues to promote the development of properties adjacent to the Inner Harbor, and to improve the connection between the Inner Harbor and the streets and properties that surround it. In particular, BDC is actively pursuing development proposals for vacant properties and existing surface lots to promote their conversion into active use, including residential use that is largely absent from the Urban Renewal Plan area. To further integrate the surrounding properties with the Inner Harbor, BDC has implemented and funded streetscape and building improvements along Pratt Street. BDC is also working closely with the owners of Harborplace to design and construct major improvements to the Harborplace pavilions that will further integrate the spaces with the fabric of the City, reduce back-of-house nuisances and generally improve the aesthetic and functional quality of the Harbor's retail and commercial spaces. The first phase of these improvements, which includes a renovation of the Pratt Street pavilion, is now complete, with a second phase slated to begin in late 2019 or early 2020.

Two major projects opened in the last year: The former McCormick site at 414 Light Street and the former University of Maryland Specialty Hospital at 611 S Charles are two mixed use residential developments that also include ground floor retail.

Inner Harbor West. The Pratt Street Plan continues to drive development activity in the Inner Harbor West Area. City leaders undertook the Pratt Street Plan in 2006 with the following goals: to provide a comprehensive plan for Pratt Street (between Martin Luther King, Jr. Boulevard on the west and President Street on the east) that improves its aesthetic and functional design, usage, activities, and attractions; to provide additional retail amenities in the Central Business District (CBD) and Inner Harbor;

to better create public spaces; and to provide an active and engaging pedestrian experience. As a result, a number of recommendations in the Pratt Street Plan have been implemented in the Inner Harbor West Area including, among other things, the skybridge removal at Charles Street and Pratt Street.

There is also renewed development interest in city-owned parcels along Pratt Street and BDC is currently evaluating those projects for viability and benefit to the City, with an eye towards development on some of the parcels beginning as soon as 2019. In front of 225 W Pratt Street, the adjacent building owner is under construction on major improvements to public spaces and plazas that will complement a new retail build-out at that property.

Harbor East. Harbor East has become a \$1.67 billion mixed use development. Replacing a landscape once characterized by derelict warehouses and factories, Harbor East is now defined by modern amenities, gleaming architecture and high rise towers and contains over five million square feet of office, residential, hotel, retail, entertainment and parking space.

Key office tenants located in Harbor East include Legg Mason global headquarters, Morgan Stanley, Johns Hopkins Carey School of Business, Johns Hopkins Medicine, Citi-Smith Barney, RSM McGladrey and Laureate.

Hotels located in Harbor East include The Four Seasons, Marriott Waterfront Convention Hotel, Marriott Courtyard, Hilton Homewood Suites and Hilton Garden Inn. The most recent hotel, the Hyatt Place, opened in late 2014.

The Liberty, a \$170 million luxury apartment building that will feature 282 apartments, 35 condominiums and a full-size Whole Foods Grocery on the ground floor, is currently under construction and is projected to open in 2019.

Harbor Point. Harbor Point is an approximately twenty-seven acre mixed-use development located on a waterfront site west of Fells Point and south and east of the growing Harbor East neighborhood. It is planned to include three million square feet of mixed-use development including new office space, shopping, dining, hotel and residential destinations, 3,300 structured parking spaces, and nearly 9 acres of new public parks. In 2016, the new headquarters building for energy company Exelon officially opened, complete with 443,000 square feet of office space, 40,000 square feet of ground floor retail and 103 residential apartments. Retailers West Elm, Honeygrow, Ceremony Coffee and exercise studio CorePower Yoga have all leased space in the building.

The \$93 million Point Street Apartments was completed in 2018, adding 289 apartments to Harbor Point. Future phases of construction include the Wills Wharf project, which will add additional retail and office to the property, as well as a *Canopy by Hilton* hotel. The project broke ground in 2018 and is expected to be completed in 2020.

Central Business District. The Central Business District (CBD) has seen tremendous development activity following the creation of a High Performance Market-Rate Rental Housing Tax Credit that was sponsored by BDC. Formerly vacant and low-performing office buildings have been converted into residential use, and more than 4,000 new units are in the development pipeline. After hundreds of apartment units were delivered in 2016, hundreds more were added in 2017, with the delivery of the Appraiser's Store Building and 2 Hopkins Plaza. In 2018, the completion of 225 N. Calvert and 300 St. Paul Place added to the market-rate apartment inventory, and the construction of a new major office building at 1 Light Street, in which M&T Bank opened its regional headquarters in 2018, will also be adding additional Class A apartment and office inventory into the CBD.

Hotel Development in the CBD continued to increase, as Staybridge Suites opened in late 2017, a new Hilton property broke ground on Calvert Street, a formerly independent hotel was purchased by new investors, flagged as a Radisson, and underwent a significant renovation, and a new Candlewood Suites in the long-vacant Jefferson Building on Charles Street is slated to open in early 2019. New commercial space continues to open, with Chez Hugo, Ono Poke, Brown Rice, and Red Boat, among other restaurants, opening in 2018. The Alex Brown Restaurant, in the historic Alex. Brown & Sons Building has opened, bringing a new high-end dining option to the CBD.

Westside Revitalization. The City's ongoing redevelopment of Westside have included improvements to Howard Street, streetscape and landscape improvements on Howard Street and façade improvements on targeted blocks. BDC is working with various City agencies to make improvements to the public space on the Westside, including reducing/eliminating illegal street vendors, reduce illegal activities in the immediate vicinity of Lexington Market, and promoting redevelopment and activities consistent with the Bromo Arts and Entertainment District.

At the end of 2018, BDC had five development projects worth approximately \$60 million under construction and has approved development proposals for another four projects, worth approximately \$38 million. These projects will add over 200 units of market rate apartments, over 140 units of affordable housing and nearly a dozen new retail/commercial spaces. Together, these projects comprise over 25 formerly vacant city-owned properties.

Casino. The Horseshoe Casino Baltimore opened August 26, 2014. The casino employs over 1,700 people, 60% of whom are City residents. The \$442 million project includes a 122,000 square foot gaming area with 20,000 square feet devoted to food and beverage establishments and 3,600 space parking garage. In addition to gaming activities, the casino has several restaurants and an entertainment area. The City owns the land and will receive a percentage of gaming revenue as rent payments. The City expects to receive local impact aid from the State gaming proceeds.

Economic and Industrial Development Beyond Downtown

Since 1977, the City has sought to retain and strengthen its traditional manufacturing and industrial base by developing an inventory of office and light manufacturing sites outside the downtown area. As a result, industrial/business parks are maintained and managed, as listed below. Several projects underway involve joint development efforts whereby a private developer provides the land while the City funds infrastructure such as streets and public utilities. In this way, fewer City dollars are needed to leverage private investment. Several projects underway are Stadium Square, East Baltimore, Center West and Port Covington.

Major Development Programs

Industrial development initiatives include the following:

Holabird Business Park. The 220-acre spacious, campus-like setting in southeast Baltimore on the former Fort Holabird Army Base site is home to 49 companies, employing over 2,600 individuals, and generating \$1.15 million in annual property tax revenue. The park is completely built out and permanent signage was installed in and around the park. BDC sold the remaining City-owned parcel in the Holabird Business Park in 2007. The park remains active in attracting various types of owners and tenants. Some of the long-standing businesses have plans to move forward with expansion.

General Motors. The 180-acre former General Motors plant on Broening Highway has been sold to Duke Realty. Duke Realty has completed demolition of the existing plant and construction is complete on the first buildings containing 346,000 and 118,000 square feet of flex warehouse space. Construction was completed on a large refrigerated warehouse which is expected to bring new opportunities to the Port of Baltimore. Recently, Duke attracted Amazon to the site as a tenant. Amazon's 345,000 square foot sortation center opened in October 2014 and will employ up to 325 workers. Adjacent to the sortation center is Amazon's 1-million square foot fulfillment center, which opened in 2015 and currently employs 3,000 people.

Park Circle Business Park. Located on approximately 40 acres in northwest Baltimore along Druid Park Drive between Liberty Heights Avenue and Reisterstown Road, the park is home to more than 40 businesses with a total of 500 employees. The park has limited opportunities for sale or lease.

Fairfield Ecological Business Park. Over the last ten years, the City has invested approximately \$20 million in infrastructure improvements such as roads and water/wastewater upgrades in the Fairfield industrial neighborhood. BDC has invested over \$3 million in capital funding to assemble properties in a cohesive manner to offer for redevelopment. All five of the assembled properties are now owned by private entities and generate real property tax revenue. The fifth property closed in December 2014 and is being leased by the developer to AMPORTS in order to accommodate their expanded footprint for the importation of automobiles into the Port of Baltimore. Fairfield has been able to attract a number transportation and logistics related companies to Fairfield because of its proximity to the Port of Baltimore and major transportation facilities such as I-895 and I-695.

Locust Point. BDC is serving an advisory role in working group meetings with property owners and design groups regarding the future vision for the Key Highway corridor from I-95 to Federal Hill. Ayers Saint Gross completed a corridor study in March 2014 with several design recommendations. The McHenry Row development in the area continues to grow adding new apartments, commercial space and a soon to open hotel.

Carroll Camden Industrial Park. The City adopted the Carroll/Camden Urban Renewal Plan to foster and regulate development and reinvestment in the neighborhood in 2002 and was last amended in 2012. Gaslight Square, which was the former Equitable Gas Works was redeveloped in 2006 and continues to be a target for local businesses looking for quality industrial space in southwest Baltimore. In 2017, BDC continued to successfully implement a comprehensive façade improvement program throughout the Industrial Park to improve the public-facing facades of many of these businesses, including new paint, signage, and lighting.

Rosemont Industrial Area. BDC acquired the former Acme industrial complex in 2005. Since then, it has sold two of the properties within the complex to an adjacent business to assist in its daily recycling operations. Currently, BDC is coordinating with the community and other City government agencies on a redevelopment strategy for the complex so that it will be an asset to the surrounding neighborhood as well as the City.

Brownfields. Brownfields are vacant or underutilized sites where the presence of contamination (or the perception of contamination) is impeding new investment. A 2007 estimate identified more than 1,000 potential brownfield sites, with a collective size of more than 2,400 acres. Redevelopment, conservatively estimated, could produce 27,000 jobs and \$25 million in new annual property tax revenues.

BDC staffs the City's brownfields activities, addressing and overcoming regulatory, financing, and liability hurdles that inhibit brownfields redevelopment. BDC staff assists businesses that are considering sites affected by contamination issues, acting as an ombudsman to help overcome impediments to redevelopment. Since Baltimore's brownfields program commenced in 1996, more than 45 projects have been completed resulting in the creation or retention of over 8,000 jobs. Brownfield projects currently in the development pipeline represent at least an additional 16,000 jobs and more than \$1 billion in new investment.

Hollander Ridge. BDC continues to facilitate redevelopment of the property, a former public housing site, at 6200 Pulaski Highway, as a 500,000 square foot light industrial/business park. Recent updates include the relocation of the H&S Bakery Distribution Center from 601 South Eden Street in Fells Point to 2001 62nd Street in the Business Park.

Commercial Development

East Fayette Street Corridor Business Center. BDC is working with a developer on a 270-unit market rate apartment project with a 260-space parking garage. The project involves the historic rehabilitation of the Hendler Creamery building and demolition of the remaining buildings on the block to make way for new construction. The first phase of construction (demolition and stabilization of the historic building) is complete, and full construction is slated to move forward in 2019.

Ronald McDonald House Charities of Maryland (RMH) is preparing to relocate and build a larger facility to meet rising demand for services. RMH is under construction on a new building on a portion of McKim Park, and BDC executed a long-term Ground Lease and assisted with design and zoning approvals to make this possible. The new Ronald McDonald House will open in early 2019 concurrent with the opening of a newly-reconstructed McKim Park which will be added to the neighborhood's park inventory to make up for the loss of open space.

Hopkins Bayview Research Campus. The Hopkins Bayview Campus is undergoing a period of growth. Based on a master plan, Bayview is adding more modern medical treatment space and demolishing antiquated space. The campus attracted a National Institutes of Health laboratory facility from Bethesda and is looking to increase its federal presence within the framework of the master plan. BDC attracted a biomedical manufacturer from Montgomery County to an existing facility on the campus' northern edge along Lombard Street. The manufacturer has invested approximately \$50 million in the facility and is looking to invest another \$40 million within the next five years. The former PEMCO site across the street from the campus is being redeveloped into commercial and retail space; demolition was recently completed and construction should begin in 2019.

Retail Development. As a result of the City's efforts to eliminate food deserts throughout the City, over the past ten years twenty new grocery stores have opened in the City. In addition, the City's commercial corridors have seen an increase in investment and new businesses. Northwood Commons, the redevelopment of the former Northwood Shopping Center in northeast Baltimore recently held a groundbreaking. The center will provide a grocery store and other amenities to better serve the surrounding community and neighbor, Morgan State University.

Howard Park Urban Renewal Plan. Amended in 2006, the Howard Park Urban Renewal Plan allowed for the acquisition and relocation necessary for the development of the Shop Rite at Howard Park Supermarket. The supermarket opened

in July 2014 and has been very well received by the community. The Shop Rite employs 235 full-time employees the majority of which are City residents. BDC is now moving forward with a block-wide Façade Improvement program that will target the business properties adjacent to the Shop Rite.

Lauraville Urban Renewal Plan. BDC has leased to Hamilton/Lauraville Main Street the property located at 4500 Harford Road for the redevelopment of the site as a retail business incubator, culinary business incubator, office and farmer's market. New development is also occurring along Harford Road, with the *SoHa Row* mixed-use development currently underway, with expected delivery by the end of 2019.

Oldtown Urban Renewal Plan. In 2014, BDC and the Housing Authority of Baltimore City released a Request for Proposals for the mixed-use, mixed-income development of the Oldtown Mall and Somerset sites, which together total more than 17 acres. The Development Team was approved for the development of two affordable apartment buildings, and is currently awaiting the award of Low Income Housing Tax Credits in order to move forward.

Washington Village Urban Renewal Plan. The 700-900 block of Washington Boulevard properties was sold to developers. The 700 block properties are fully rehabilitated and many of the commercial units are leased. The 900 block demolition is complete.

Charles North. The Station North Arts and Entertainment District was created by the City within the Charles North neighborhood boundaries to attract individuals, businesses and organizations that are involved in the arts. In recent years, BDC has made progress on development in the Charles North neighborhood. The former Parkway Theater, located at 3 W. North Avenue was completely renovated into a three-screen movie theater and live performance venue, which opened in 2017. Jubilee Baltimore has renovated another former theater at 10 E. North Avenue and the building is fully leased. The construction of the first new construction, market-rate apartment building in Station North was completed in 2018, as the \$25 million Nelson Kohl apartments opened on Lanvale Street.

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SELECTED DEMOGRAPHICS AND ECONOMIC INFORMATION

See the statistical section of the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018, contained in this Annual Disclosure for information concerning the City's real property value, principal employers, and recreational and other facilities.

Taxable Retail Sales in the City

Since the sales tax is not a City revenue source, the City's own source of revenues is unaffected by cyclical sales tax shifts. Taxable retail sales in the City for fiscal year 2014 through 2018 are set forth below in Table 16:

Table 16
Taxable Retail Sales in the City

| <u>Fiscal Year</u> | <u>Total</u> | <u>% Change</u> |
|--------------------|---------------|-----------------|
| 2018 | 5,819,184,017 | 0.3 % |
| 2017 | 5,802,357,786 | 0.1 |
| 2016 | 5,793,919,073 | -0.8 |
| 2015 | 5,841,344,541 | 1.8 |
| 2014 | 5,739,088,058 | 2.1 |

Source: Revenue Accounting Division, Comptroller of Maryland.

Net Taxable Income (Baltimore City and Maryland)

The net taxable income and average tax paid per return by City and State residents are set forth below and reflect the income base and growth of the City on a per capita basis:

Table 17
Net Taxable Income of City and State

| Calendar Year | City Amount | City % Increase | State Amount | State % Increase |
|------------------|-------------------|--------------------|--------------------|---------------------|
| 2017 | \$ 10,147,606,358 | 5.1 % | \$ 179,184,805,545 | 5.6 % |
| 2016 | 9,657,703,228 | 4.0 % | 169,720,929,597 | 2.7 % |
| 2015 | 9,285,343,745 | 1.5 | 165,328,451,696 | 3.8 |
| 2014 | 9,150,563,712 | 9.8 | 159,326,476,479 | 6.3 |
| 2013 | 8,336,453,230 | 1.0 | 149,947,472,606 | -1.1 |

Source: Prepared by Bureau of the Budget and Management Research, Department of Finance based on data in the State of Maryland Comprehensive Annual Financial Reports for the Years ended June 30.

Table 18
Average State Tax Paid per Taxable Return

| Calendar Year | # of City Returns | Avg. Tax Paid Per City Return | City % Change | # of State Returns | Avg. Tax Paid Per State Return | State % Change |
|---------------|-------------------|-------------------------------|---------------|--------------------|--------------------------------|----------------|
| 2017 | 199,445 | \$ 2,309.37 | 5.6 % | 2,485,490 | \$ 3,409.81 | 4.1 % |
| 2016 | 199,446 | 2,186.68 | 0.2 % | 2,441,520 | 3,273.96 | 0.6 |
| 2015 | 193,296 | 2,181.73 | 3.2 | 2,392,811 | 3,253.99 | 3.6 |
| 2014 | 196,386 | 2,113.52 | 10.3 | 2,382,928 | 3,139.82 | 5.1 |
| 2013 | 195,608 | 1,916.48 | 0.6 | 2,347,281 | 2,988.52 | -2.0 |

Note: The State income tax base is derived from federal taxable income with certain modifications. State law provides for personal exemptions, a standard deduction for taxpayers who do not itemize, and a limited number of credits.

Source: Percent of increased average for paid per taxable return is calculated from information in the State of Maryland Comprehensive Annual Financial Report for the Years ended June 30.

Table 19
Per Capita Income

| | 2000 | 2017 | Increase |
|---------------------|-----------|-----------|----------|
| US | \$ 30,602 | \$ 51,631 | 68.7 |
| State | 35,487 | 60,847 | 71.5 |
| Anne Arundel County | 38,251 | 64,648 | 69.0 |
| Baltimore City | 25,390 | 49,168 | 93.7 |
| Baltimore County | 37,046 | 59,130 | 59.6 |
| Carroll County | 33,180 | 60,512 | 82.4 |
| Harford County | 32,065 | 56,564 | 76.4 |
| Howard County | 45,191 | 74,938 | 65.8 |

Source: U.S. Bureau of Economic Analysis, Per capita personal income - Local Area Personal Income

EMPLOYMENT BY INDUSTRY IN BALTIMORE CITY

The State Department of Labor, Licensing and Regulation collect data on employment, by place of work, from those firms, which participate in State Unemployment Insurance Program. This data indicates that the City has a diversified employment base. Covered employment by industry within the City for calendar year 2017, the most recent calendar year for which data is available is shown below.

Table 20
Employment by Industry
(Annual Average for Calendar Year 2017)

| | Annual Average Employment | | Total Wages | | Average Weekly Wage Per Worker |
|---|---------------------------------|-----------|-----------------------|-----------|--------------------------------------|
| Government: | | | | | |
| Federal | 10,728 | \$ | 894,910,790 | \$ | 1,604 |
| State | 33,975 | | 2,227,697,092 | | 1,261 |
| Local | 23,580 | | 1,469,000,102 | | 1,198 |
| Total Government | 68,283 | \$ | 4,591,607,984 | \$ | 1,293 |
| Private Sector: | | | | | |
| Goods Producing | | | | | |
| Natural Resources and Mining ¹ | ND | | ND | | ND |
| Construction | 11,197 | | 750,392,182 | | 1,289 |
| Manufacturing | 10,484 | | 612,581,517 | | 1,124 |
| sub-total | 21,681 | \$ | 1,362,973,699 | \$ | 1,209 |
| Service Providing | | | | | |
| Trade, Transportation, & Utilities | 40,725 | | 2,264,606,005 | | 1,069 |
| Information | 4,148 | | 367,177,502 | | 1,702 |
| Financial Activities | 17,221 | | 2,565,406,638 | | 2,865 |
| Professional and Business Schools | 45,480 | | 2,899,847,686 | | 1,226 |
| Education and Health Services | 102,604 | | 6,684,153,519 | | 1,253 |
| Leisure and Hospitality | 29,413 | | 929,697,223 | | 608 |
| Other Services | 10,505 | | 441,882,452 | | 809 |
| sub-total | 250,096 | \$ | 16,152,771,025 | \$ | 1,242 |
| Unclassified | | | | | |
| sub-total | - | \$ | - | \$ | - |
| Total Private Sector | 271,787 | \$ | 17,515,896,410 | \$ | 1,239 |
| Total Employment | 340,070 | \$ | 22,107,504,394 | \$ | 1,250 |

¹ Data that did not meet BLS or State standards was Not Disclosed.

Note: Annual average number of employees covered by State Unemployment Insurance Program.

Source: "Employment and Payrolls", Maryland Department of Labor, Licensing and Regulation.

Selected Employers and Employment-Greater Baltimore Area

Set forth below is a list of selected major employers in the greater Baltimore area.

Over 30,000 Employees Each

State of Maryland Government

10,000-30,000 Employees Each

City of Baltimore Government
 Federal Government
 The Johns Hopkins University
 The Johns Hopkins Health System
 University of Maryland Medical System

5,000-10,000 Employees Each

MedStar Health
 University System of Maryland
 LifeBridge Health

2,500-5,000 Employees Each

Mercy Health Services
 St. Agnes HealthCare
 Exelon/Constellation Energy/BGE
 Amazon.com

Source: Comprehensive Annual Financial Report, June 30, 2018

Unemployment

The following table indicates the City’s unemployment rate as compared with certain counties in the Baltimore-Washington region, the State, and the United States for the years 2014 to 2018.

**Table 21
 Average Annual Unemployment Rate**

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|------|------|------|------|------|
| United States | 6.2% | 5.3% | 4.9% | 4.4% | 3.9% |
| State of Maryland | 5.8% | 5.1% | 4.4% | 4.1% | 3.4% |
| Anne Arundel | 5.1% | 4.4% | 3.8% | 3.6% | 2.8% |
| Baltimore | 6.1% | 5.3% | 4.7% | 4.3% | 3.6% |
| Baltimore City | 8.5% | 7.5% | 6.6% | 6.1% | 5.0% |
| Harford | 5.7% | 4.9% | 4.2% | 3.9% | 3.0% |
| Howard | 4.3% | 3.8% | 3.3% | 3.1% | 2.5% |
| Montgomery | 4.4% | 3.9% | 3.4% | 3.3% | 2.6% |

Source: For State and county data, “Employment, Unemployment and Unemployment Rate by Place of Residence (LAUS)”, State of Maryland, Department of Labor, Licensing and Regulation. For United States data, the Bureau of Labor Statistics.

CITY OF BALTIMORE, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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City of Baltimore
Maryland



Comprehensive Annual Financial Report
Year Ended June 30, 2018

City of Baltimore, Maryland

Comprehensive Annual Financial Report

Year Ended June 30, 2018

Prepared by the Department of Finance

Henry J. Raymond

Director of Finance

Bureau of Accounting and Payroll Services

Sandra C. Stecker

Bureau Chief





ELECTED OFFICIALS

MAYOR
Catherine E. Pugh

PRESIDENT OF THE CITY COUNCIL
Bernard C. Young

COMPTROLLER
Joan M. Pratt

BOARD OF ESTIMATES

PRESIDENT
Bernard C. Young

MAYOR
Catherine E. Pugh

COMPTROLLER
Joan M. Pratt

DIRECTOR OF PUBLIC WORKS
Rudolph S. Chow

CITY SOLICITOR
Andre M. Davis

CITY COUNCIL
Bernard C. Young, *President*
Sharon Green Middleton, *Vice-President*

FIRST DISTRICT
Zeke Cohen
SECOND DISTRICT
Brandon M. Scott
THIRD DISTRICT
Ryan Dorsey
FOURTH DISTRICT
Bill Henry
FIFTH DISTRICT
Isaac "Yitzy" Schleifer
SIXTH DISTRICT
Sharon Green Middleton
SEVENTH DISTRICT
Leon F. Pinkett, III

EIGHTH DISTRICT
Kristofer Burnett
NINTH DISTRICT
John. T Bullock
TENTH DISTRICT
Edward Reisinger
ELEVENTH DISTRICT
Eric T. Costello
TWELFTH DISTRICT
Robert Stokes, Sr.
THIRTEENTH DISTRICT
Shannon Sneed
FOURTEENTH DISTRICT
Mary Pat Clarke

City of Baltimore
Comprehensive Annual Financial Report
Year Ended June 30, 2018

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INTRODUCTORY SECTION



- **Letter of Transmittal**
- **Municipal Organization Chart**

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HENRY J. RAYMOND, Director
454 City Hall
Baltimore, Maryland 21202

Catherine E. Pugh, Mayor

Honorable President and Members of
The Board of Estimates
City of Baltimore, Maryland

March 25, 2019

In compliance with Article VII, Section 8, of the revised City Charter (November, 1964), submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Baltimore, Maryland, (the City) for the year ended June 30, 2018. The CAFR was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and changes in financial position of the City; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been provided.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes the independent accountants' opinion, management's discussion and analysis, basic financial statements with related notes, and required supplementary information with related notes. The financial section also includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

The Board of Estimates awarded a contract to the nationally recognized independent certified public accounting firm, SB & Company, LLC, to perform an financial statements of the City as of and for the year ended June 30, 2018. The audit report is contained herein. The audit was conducted in accordance with auditing standards generally accepted in the United States and, for the basic financial statements of the City, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. On the basis of this examination, the independent public accountants have issued an unmodified opinion that the presentation of the basic financial statements conforms with accounting principles generally accepted in the United States. In conducting the audit, the auditor performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditors also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial statement presentation.

The independent audit of the City's financial statements is part of a broader, federally mandated Uniform Grant Guidance "Single Audit" designed to meet the special needs of Federal grantor agencies. The Single Audit Report will be available as a separate document as of a later date.

This report includes all of the funds that we consider to be part of, controlled by or dependent on the City. Professional judgment must be used to determine whether or not a potential component unit should be included in the reporting entity. Various potential component units were evaluated to determine whether they should be reported in the City's CAFR. Three component units, the Baltimore Industrial Development Authority (blended component unit), the Baltimore City Public School System and the Baltimore Hotel Corporation (discretely presented component units), were considered to be part of the City's reporting entity when it was concluded that the City was financially accountable for these entities. The Housing Authority of Baltimore City and certain other organizations are not considered to be component units and are not included in the City's basic financial statements.

PROFILE OF THE GOVERNMENT

The Mayor and City Council of Baltimore (the City) is a body corporate and politic of the State of Maryland (the State) in which all local governmental functions are performed by the City. The City has had a charter form of government since 1797, home rule powers since 1918, and is governed by an elected Mayor, Comptroller and a City Council. The City has a total area of approximately 92 square miles and an estimated 2017 population of 611,648. The City is a major deep-water seaport located on the Patapsco River, a tributary of the Chesapeake Bay. It is served by Baltimore/Washington International Thurgood Marshall Airport in adjacent Anne Arundel County. The City is almost completely surrounded by Baltimore County, a separate entity, which borders the City on the east, north, west and part of the south. Anne Arundel County adjoins the City on its southern border.

The City provides the full range of municipal services contemplated by statute or charter, which are provided or paid for by the City from Local, State or Federal sources. These services include public safety (police and fire protection), water, wastewater and stormwater utilities, highways and streets, sanitation, health and human services, culture and recreation, education (elementary through high school, provided by a component unit, the Baltimore City Public School System), public improvements, planning and zoning, parking facilities, mortgage loan programs, industrial development, and general and administrative services. The City is also responsible for the adoption and maintenance of building codes, and regulation of licenses and permits, collection of certain taxes and revenues, maintenance of public records and the conduct of elections. These activities are included in the reporting entity. There are no overlapping local governmental entities or taxing jurisdictions. Accordingly, there is no overlapping debt of the City.

Under the Charter, the City's executive functions are vested in the Mayor, the Board of Estimates and an independent Comptroller. The City's legislative functions are vested in the City Council. The Mayor is the chief executive officer of the City. The Mayor is elected for a term of four years and is eligible to succeed herself without limitation as to the number of terms. If the Mayor is disabled or absent from the City, the President of the City Council acts as ex-officio Mayor. If the Mayor resigns, is permanently disqualified, or dies in office, the President of the City Council becomes Mayor for the remainder of the term. The Mayor has authority to veto ordinances, has power of appointment of most department heads and municipal officers, serves on the Board of Estimates and appoints two of the other four members of the Board of Estimates.

The Board of Estimates is the highest administrative body of the City. It is composed of the President of the City Council, who serves as President of the Board, the Mayor, the Comptroller, the City Solicitor and the Director of Public Works. The Board of Estimates formulates and determines City fiscal policy with its primary policy tool being the recommended annual Ordinance of Estimates, the City's budget.

Key Budgetary Policies

Balanced Budget: The City Charter requires the operating budget to be balanced. Any difference between non-property tax revenues and total expenditures are to be made up by adjusting the property tax rate or enactment of new revenue measures.

Public Hearings: The Charter mandates that both the Board of Estimates and the City Council conduct public hearings on the proposed budget.

Timely Adoption: The Charter sets forth a schedule requiring the budget to be adopted before the beginning of the fiscal year, July 1.

Budget Amendment: The Charter provides means for adopting supplemental appropriations funded from unanticipated revenues and/or new grants and sources that materialize during the year. The City's policy is to minimize the use of supplemental appropriations. In addition, the Charter allows for and spells out the procedures for amending the budget to transfer appropriations between programs within an agency and between agencies.

Six-Year Capital Plan: Guiding the physical development budget plan of the City is the Charter requirement for a six-year capital improvement plan, the first year comprising the capital budget year. The plan is prepared in conformance with basic capital budgeting policies, which include appropriating funds in the year in which projects are likely to begin, financing a portion of capital improvements from current revenues, and estimating the impact of capital projects on the operating budget.

Budget Monitoring and Execution: Budget analysts maintain ongoing contact with agency fiscal officers in the process of implementation and execution of the budget. Expenditure and revenue projections are developed and reviewed on a

monthly basis. The Mayor, through the Department of Finance, exercises appropriate fiscal management to adjust budget policy, as necessary, to be within the limits of the current adopted plan. The City Council has the practice of reviewing budget performance at mid-year and during the fourth quarter.

Debt Policy: In 1990, the City adopted a formal debt policy which set annual borrowing limits, consolidated all financing arrangements within the Department of Finance, established refunding and refinancing policies, and set limits on key debt management ratios. The objective is to maintain the City's reputation as a locality having a conservative approach to all aspects of debt management, including debt service expenses, debt retirement schedules, and debt capacity ratios. The Debt Policy was last reviewed in July 2017 by an independent financial consultant contracted by the City. After considering the consultant's recommendations, the City plans not to exceed \$80 million in budgeted annual general obligation debt. The Debt Policy will be reviewed again in two years by the City and an independent consultant.

Budget Stabilization Reserve Policy: In November 2008, the City's Board of Estimates approved a budget stabilization reserve policy that established the basis for having a budget stabilization reserve as well as identifying its maintenance level, scope of coverage, circumstances under which funds shall be drawn down from the reserve, and the requirements to replenish the reserve when utilized. The policy stipulates that the reserve serves to provide a budget defense to stabilize a post-adopted budget that has been impacted by an uncorrectable shortfall in revenues and/or an unanticipated and uncorrectable emergency expense. The reserve is the revenue source of last resort to avoid a budget deficit. Under no circumstances is the reserve to be used as a revenue source to balance a planning year budget. The policy further recommends that the reserve shall be maintained on any June 30 at a minimum level of 8% of the value of the general fund operating budget of the subsequent fiscal year.

OTHER FINANCIAL INFORMATION

Retirement Plans

Professional employees of the Baltimore City Public School System, and the Enoch Pratt Free Library, an agency of the City, are members of the State of Maryland Retirement System to which the City is not required to contribute. The City contributes to four retirement plans established for all other City employees and elected officials. The City also contributes to the State of Maryland Retirement System for Sheriff Office employees.

City laws require that contributions to its three funded pension systems be based on actuarial valuations. City contributions to the Unfunded Police Department Retirement Plan (for eligible employees hired prior to January 1, 1947, all of whom are now retired) are not actuarially determined, and these benefits are paid from annual appropriations.

Temporary Investment of Cash Balances

The City, through the Office of the Director of Finance, pursues an aggressive cash management and investment program to achieve maximum financial return on available funds. Depending on cash needs, excess funds are invested on a short, intermediate or long-term basis at the best obtainable rates. Investments are limited generally to direct or indirect obligations of the U.S. government and fully collateralized repurchase agreements. The City utilizes the practice of recording investment income in the period in which it is earned.

Risk Management

The City is self-insured in the area of casualty and property losses, including the uninsured portion of losses to City buildings and contents, vehicles, watercraft, boilers, machinery, workers' compensation and employers' liability, employees' health insurance, third party general liability and automobile liability losses. The Office of Risk Management, within the Department of Finance, administers the fund.

Internal Control

City management is responsible for establishing and maintaining effective internal control over financial reporting. The City has established a comprehensive framework of internal control to provide a reasonable basis for asserting that the financial statements are fairly presented. Because the cost of a control should not exceed the benefits to be derived, the City's objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

ECONOMIC PROFILE AND OUTLOOK

Baltimore is the historic, business, education and cultural center of Maryland. The City benefits from being in one of the wealthiest states in the nation and is the northern anchor of the Washington-Baltimore-Northern Virginia Combined Statistical Area — one of the largest, wealthiest and best educated population centers in the country. The City's economy has traditionally benefited from its location, as it is accessible to a large and diversified workforce. With an excellent highway and rail transportation system, the City is able to access both mid-western and north-eastern markets in support of its international port activity. About 372,600 or 26.6% of the 1.4 million jobs in the metropolitan area are located in the City.

The concentration of stable health care and education related services in the City have become the drivers of the steady job absorption not only for employees in the Baltimore area, but especially for City residents. Job absorption is the capacity of the City's job market to generate stable employment and retain the increasing City's labor force. As of March 2018, jobs in the health and educational sectors represent 33.2% of the jobs located in the City, a proportion that is considerably higher than the regional and national totals of 20.1% and 16.1% respectively. While the City's labor force has remained virtually unchanged since 2010 at a 295,500 annual average, employment of City residents has grown 5.4% from 262,300 in 2010 to 276,600 through the first half of 2018. The prominence of health care and knowledge-related industries is reflected in the City's major employers. Among the ten largest non-governmental employers, eight are health care and education-related entities, one is Amazon's fulfillment center, and the last is a utility-service provider. The City derives economic strength from the number of jobs in the growing health care sector, and in the knowledge-information-based education and information services sectors.

The population trend is often considered the single most important economic factor in the City due to the fact that Baltimore's population peaked at 949,708 in 1950 and has declined to 611,648 in 2017. This 67 year trend reflects an average monthly drop of 420 persons with some decades experiencing faster drops than others. The 1970's saw the greatest declines. During this period, population loss approached 12,000 per year, or 1,000 per month; however, the loss rate has declined in recent years, experiencing an average monthly drop of 111 people since 2010.

Economic Outlook

The City ended Fiscal 2018 within the second longest period of economic recovery since 1850. Since the Great Recession ended in June 2009, the nation has enjoyed 108 months of economic recovery as of June 2018, and this condition is reflected in the City's key economic indicators.

As of the end of Calendar 2017, the City's average wages continued showing steady growth at a rate of 2.8% per year, outpacing inflation's annual average of 1.6%. This represents an annual increase in average wages of 1.2% in real terms.

The City's unemployment rate averaged 6.1% for the twelve-month period ended in June 2018, the lowest since 2008; meanwhile, the City's labor force has increased 0.9% during the same period and 5.6% since the end of the recession, incorporating approximately 1,757 City residents to the job market per year. More importantly, employed City residents have grown 10.5% since the end of the recession, with an absorption of approximately 3,000 individuals per year.

The housing market in the City remains stable. The average sale price of residential property in the City for the second quarter of 2018 was 193,099, 2.6% higher than the same period in June 2017, outpacing the Baltimore region's 1.4%; however, on the year-to-year comparison, the average price remained virtually flat at \$174,800. Meanwhile, residential sale activity for the fiscal year period ending in June 2018 reported an increase of 2.8% or 240 more properties sold the City compared to Fiscal 2017.

Although the City's population declined by more than 3,000 between 2016 and 2017, there is evidence that the City has not experienced a noticeable damage to its taxable base, and is rather experiencing a re-composition of its household characteristics. The negative net migration experienced by the City is potentially explained by the replacement of families with large number of non-working members moving out of the City for smaller size families with larger number working individuals moving in.

In 2010, the total number of households in the City was 238,392, of which 141,892 or 59.5% was composed by households earning less than \$50,000. Contrary to the population experience, the City actually gained more 4,000 households, or 1.7% between 2010 and 2016, and reached a total of 242,416 resident families. Out of this total, 45.3% or 109,811 is composed by households earning more than \$50,000, an increase of almost 13,311 or 13.8%, while those earning less than \$50,000 decreased by 9,200 or 6.5%. Most of the growth in higher income households was from those earning between \$100,000

and \$200,000, increasing from 25,696 in 2010 to 34,570 in 2016, a net increase of 9,625.

This analysis suggests that the number of family units have increased, the size or composition of the units has become smaller, but households have become wealthier, which reinforces that the quality of the jobs offered and the net absorption of these jobs in the City has strengthened the City's taxable based.

The overall economic outlook for the City is positive and analysts anticipate that the economy will continue growing although at a slower pace than recent years. However, the continue population decline, the potential deceleration of real estate activity, the future impact of Federal laws, and the increasing probability of a recession in the near future are still risks at the local and national level that require close attention when making short and mid-term policy decisions.

Jobs and Employment

Employment continues its growth pattern. The national unemployment rate peaked at 10.0% in October of 2009, but has since fallen to 4.0% in June 2018, while the City unemployment rate peaked in August of 2010 at 12.5%, and has since gradually declined and leveled off at 6.4% as of June 2018.

The most recent data from the Bureau of Labor Statistics (BLS) indicates that the number of jobs and total employment in the City continues to increase. The BLS reported an average of 372,067 jobs located in the City during 2017, representing an increase of 1.6% compared to the average of 366,175 in calendar 2016. Calendar 2017 is the seventh year in a row since 2010 where the City has experienced employment growth, an indicator of the improvement in the City's job market after the national recession. In calendar 2017, there were an estimated 276,206 City residents employed. The difference between employed residents and jobs in the City reflects a net contribution of approximately 95,861 jobs to surrounding communities.

Retail Sales

Fiscal 2018 retail sales reported by the State of Maryland for the City showed an increase of 2.1% compared to Fiscal 2017. Sales generated in the City currently represent 7.4% of the state's total retail sales during Fiscal 2018, 0.1% lower than in Fiscal 2017. Through the first six months of 2018, the retail vacancy rate in the downtown area is 4.8%. This represents a slight uptick from the first half of 2017, when retail vacancy rates were 3.7%. In Fiscal 2018, a total of 86,151 square feet of additional retail space has become available in the downtown area. Retail sales activity continues to be a leading indicator of the City's economic activity.

Housing

In Fiscal 2018 the real estate market continued to show mostly healthy market trends, with the total number of transactions increasing significantly but prices dropping slightly. The total number residential units sold in the City as reported by the Metropolitan Regional Information System (MRIS) increased for the sixth year in a row at 2.8% in Fiscal 2018. Despite an increase in the number of residential units sold, the average sales price remained virtually unchanged in Fiscal 2018; homes sold for an average of \$174,815, a \$161 decrease compared to Fiscal 2017. The total number of commercial and residential real estate transactions totaled 16,820, representing a 5.8% increase over the 15,898 in Fiscal 2017. However, in Fiscal 2018 the average price per transaction for all transactions (residential and commercial) dropped slightly from Fiscal 2017 – down from \$197,593 in Fiscal 2017 to \$186,153 in Fiscal 2018.

As expected at the end of Fiscal 2017, the demand for refinancing activities has begun to decline as interest rates have slowly increased; however, Fiscal 2018 represented a very strong year in for the refinancing of non-residential properties. In Fiscal 2018, the City processed a total of 21,588 transactions subject to the Recordation Tax, a 4.0% decrease from Fiscal 2017. Of these transactions, 4,768 it is estimated that 4,768 corresponded to refinancing transactions (down from 6,593 in Fiscal 2017). Although refinancing activities are decreasing, the average value of transactions subject to the Recordation Tax increased to \$196,087 in Fiscal 2018, up 4.4% from Fiscal 2017.

Port of Baltimore

With the expansion of the Panama Canal in 2016 allowing deeper and wider lanes for larger ships to pass through, Baltimore and other Atlantic coastal ports now can receive the larger cargo-carriers, often from the Far East, that previously were limited to the Pacific Coast. Indeed, Baltimore is one of only four Eastern U.S. ports with a 50-foot (15.2 meters) shipping channel and a 50-foot container berth, allowing it to accommodate some of the largest container ships in the world. The Port's total general cargo tonnage increased 6.1% to 11.0 million tons in Fiscal 2018, up from 10.3 million tons

in Fiscal 2017.

In the first quarter of 2018, the Port handled the most general cargo and containers in its 312 year history for a single quarter. The Port of Baltimore ranks first for autos and light trucks, roll on/roll off heavy farm and construction machinery, and imported sugar. The Port is responsible for nearly \$3 billion in personal wages and salary and more than \$300 million in state and local tax revenues.

Tourism and Travel Industries

In Fiscal 2018 the City's tourism and travel industries continued to grow from the prior year. The airport remains one of the busiest in the country, and in Fiscal 2018 the total number of passengers continued to grow. Within the City, more hotels have opened in the past year, and the port's continued to boast strong figures. Further growth in these industries is essential to improving the City's overall economic outlook.

Baltimore Convention Center. In Fiscal 2018, the Baltimore Convention Center (BCC) held 141 events, nineteen more than Fiscal 2017. The revenue generated by BCC decreased in Fiscal 2017, down from \$9.5 million in Fiscal 2017 to \$9.4 million in Fiscal 2018. While higher revenue helps directly support the City's General Fund, growth in the number of events and subsequently the number of attendees would further boost the surrounding economy. In Fiscal 2018, BCC had 473,114 total event attendees, a decrease of about 40,600 less than Fiscal 2017.

Hospitality. Hotel activity remained about the same in Fiscal 2018 as it was in the prior year, with a 63.7% occupancy rate in Fiscal 2018 compared to 66.5% in Fiscal 2017. The lower occupancy rate can be explained by an increase in room supply, which as of June 2018 had increased to over 11,000 rooms and saw a year-over-year increase of 6.8%. In Fiscal 2018 the number of City-wide conventions decreased slightly from Fiscal 2017; however, the number of scheduled City-wide conventions in Fiscal 2019 is the highest in the past five fiscal years. Ultimately, growth in the hospitality industry and hotel activity is dependent on the industry's ability to continue to attract visitors for tourism and convention events.

BWI Thurgood Marshall Airport. During calendar year 2017, nearly 26.4 million passengers flew out of Baltimore-Washington International Thurgood Marshall Airport (BWI), which ranks as the 22nd busiest airport in the United States. This was both an annual record number of travelers and an overall positive indicator for the Greater Baltimore area's tourism industry. Last year also was the third-straight year that more than one million international passengers flew through BWI. Airlines continue to add more international and domestic flights out of BWI, which is yet another positive sign for the region's travel industry.

Port of Baltimore. In 2017, the Port of Baltimore had more than 210,000 passengers use the cruise terminals, which have received recent interior renovations with more upgrades planned. In 2016 the Port signed a multi-year contract with the popular cruise line Royal Caribbean, ensuring a steady flow of cruise activity from the Port through at least Fiscal 2020. Its estimated that cruise-related Port activity generates about \$70 million in business revenue and creates 440 jobs.

Office Development

The Baltimore City commercial real estate market continues to display signals of continued demand. There are multiple projects underway with buildings being preleased, significant leases signed, and buildings being sold, as well as, new projects being announced. The relatively low vacancy rates and absorption figures are providing signals that while there is interest in Baltimore City, particular segments are faring better than others. The industrial market has seen the delivery of new properties (5350 Holabird Ave), sales (5300 Holabird Ave), and leases signed (1657 S. Highland Ave and 2000 Washington Blvd). Despite increasing vacancy rates, new properties and leases for office and retail properties are occurring. Key office properties such as 1 E. Pratt, 500 E. Pratt, and 7 St. Paul have been sold. New leases at 100 E. Pratt, 750 E. Pratt, and 100 Light St. have been signed. For the retail market, a lease for nearly 30,000 square feet of space was signed at 200 E. Pratt Street.

As of June 2018, the City's (Downtown) office vacancy rate was 11.3%. Through the first half of 2018, the demand for industrial space in the City outpaced demand for office and retail space, and in the second quarter of 2018 almost 300,000 square feet of industrial space was leased.

FINANCIAL ACCOMPLISHMENTS

Over the past five years, the City has reduced the baseline deficit through 2022 from \$745 million to \$202 million (73%). Since 2013, Baltimore has implemented initiatives that help in achieving long-term fiscal sustainability by lowering the

effective property tax rate by 7.4%, reducing long-term liabilities by 23%, increased capital investments of \$162 million, and streamlining the workforce by reducing the number of General Fund positions by 7.4%. Combined pension and OPEB unfunded liabilities shrank from \$3.2 billion in Fiscal year 2011 to \$2.7 billion in Fiscal year 2017. A series of reforms helped to reduce the City's unfunded OPEB liability from \$2.1 billion to \$947 million, as of the most recent Fiscal 2017 actuarial report.

TEN-YEAR FINANCIAL PLAN

On February 20, 2013, the City released *Change to Grow: A Ten-Year Financial Plan for Baltimore*. The Ten-Year Plan, a first of its kind for the City, calls for comprehensive reforms to close a projected \$745.0 million structural budget deficit, make Baltimore's taxes more competitive, increase infrastructure investment, and reduce the City's long-term pension and health care liabilities.

Implementation of the Ten-Year Plan began in Fiscal year 2013 with two key initiatives: The 20 Cents by 2020 program to reduce the effective property tax rate for owner-occupied properties, and health benefit changes for employees and retirees that will save the City \$20.0 million a year.

In Fiscal year 2014, the City implemented Ten-Year Plan initiatives to further reduce the fiscal gap, including pension changes for current and future employees, a new schedule for firefighters, a revenue package, a State-mandated stormwater fee, a reduction to the real property tax rate and the discontinuation of retiree pharmacy benefits.

The Fiscal year 2015 budget reflected the implementation of more Ten-Year Plan initiatives, including reducing workers' compensation payments, increasing parking revenues, reducing the size of the City's workforce and the City's fleet. In addition to targeted savings initiatives, a number of the initiatives implemented in the Fiscal year 2015 budget were investments, including increasing the contribution to the budget stabilization reserve, increasing PAYGO capital funding, increasing general obligation debt authority, and implementing a new pay schedule for professional employees to help with recruitment and retention.

In the Fiscal year 2016 budget, key initiatives included an additional \$9 million PAYGO capital contribution beyond the \$8 million baseline and the elimination of 280 General Fund positions. In Fiscal 2016, the City also negotiated a new Memorandum of Understanding (MOU) with 14 non-profit institutions who will contribute a collective \$6 million annually for ten years beginning in Fiscal year 2017.

In Fiscal year 2017, the City continued to work towards implementing cost-saving initiatives identified under the Ten-Year Plan. Infrastructure investments included blight elimination, street repaving, recreation center expansion, and information technology upgrades.

In Fiscal year 2018, the budget contained additional initiatives to improve the efficiency of government, further reduce the property tax rate for homeowners, make much-needed infrastructure investments, and reduce the City's long-term liabilities. In Fiscal 2018, the City contributed \$9 million beyond the \$8 million baseline in PAYGO capital funding, plus an additional \$4.4 of one-time funding to comply with the Department of Justice consent decree for Police Department reforms. The Fiscal 2018 budget also transferred 54 positions out of the General Fund.

To address the remaining operating and capital shortfalls, the Ten-Year Plan calls for further healthcare benefit changes, reforming the Fire and Police pension plans for new hires, launching an employee wellness program, and building reserves to prepare for the next recession. To facilitate this, the City is currently in the process of selecting a new consultant to refresh the current Ten-Year Financial Plan, extend the plan out through a new ten-year period, and assist with developing and implementing new initiatives that align with the goals of the current administration. The refresh of the plan is expected to begin by the end of Fiscal 2019.

HIGHLIGHTS OF THE FISCAL YEAR 2018 ADOPTED BUDGET

The City has made significant progress toward fiscal sustainability over the past five years, but in spite of growing tax revenue and reforms that "bent the curve" on pension and health benefit costs, it stills face annual General Fund shortfalls. For Fiscal 2018, the Finance Department projected General Fund revenue growth of \$56 million (3.1%) versus growth of \$76 million (4.3%) in the cost of maintaining the current level of City services and meeting legal requirements, resulting in a \$20 million gap.

On the revenue side, property tax growth of close to \$30 million is partially diverted to the Children & Youth Fund. Income tax revenue is projected to continue on a strong trajectory, as high-earning households become a larger part of the City's

population. On the expense side, the combined cost of a 2% employee cost-of-living adjustment plus pension and health benefit inflation is \$40 million. Compliance with the Department of Justice consent decree for Police Department reforms is budgeted at more than \$10 million.

The budget takes several steps to achieve a balanced General Fund budget.

To generate new revenue, the City will restart the traffic camera program (+\$5 million net of expenses), expand municipal advertising (+\$1 million), seek reimbursement for the full cost of security and traffic control for Orioles and Ravens games (+\$1 million), and make demand-based parking meter rate adjustments downtown (+\$0.7 million).

To reduce costs, the City will limit eligibility for new public safety property tax incentives to employees who relocate to Baltimore (-\$2.4 million), refinance the Convention Center Hotel loan (-\$2.1 million), and re-bid the employee wellness program contract (-\$0.6 million). Also, the full cost of the street sweeping service will be borne by the Stormwater Fund, saving the General Fund \$2.6 million.

The Adopted Budget for Fiscal 2018 shifts the priorities of City government, investing more in education and youth development than police. Among the highlights:

- Mayor Pugh and the City Council pledged \$100 million over three years to help Baltimore City Public Schools (BCPS) avoid mass layoffs and stabilize its finances until the Governor and General Assembly can consider changes to school funding formulas recommended by the Kirwan Commission. The Fiscal 2018 installment is \$25.4 million, which the State has more than matched. The City's share is funded from General Fund balance, a reduced contribution to the Budget Stabilization Reserve, and reductions to the Police Department's budget. Starting in Fiscal 2019, the City's contribution will include a permanent \$10 million Maintenance of Effort (MOE) increase.
- Mayor Pugh also secured \$5.5 million in new Highway User Revenue from the State to provide free student transportation on MTA.
- With \$3.7 million in State and local funding – funding Mayor Pugh worked hard for in last year's General Assembly session – the City will extend library hours across our 22 branches, with a focus on underserved neighborhoods.
- The voter- approved Youth Fund will dedicate \$11.9 million to evidence-based programs that help children and youth succeed.
- The Police Department's budget includes \$10 million to implement mandated improvements under the consent decree with the U.S. Department of Justice, while at the same time reducing base funding by \$5.5 million below the current level of service. These savings are directed to increasing support for City Schools.
- City Schools was faced with a \$130 million structural budget gap and asked the City and State for help. The gap resulted from several factors, such as declining enrollment, the costs of expanding Pre-K and educating students with special needs, growing employee pay and benefits, underutilized schools, and the cost of school modernization. The City will provide more than \$360 million of support to City Schools in Fiscal 2018, including a \$268 million MOE payment, more than \$20 million to the school modernization fund, \$17 million in additional capital project funding, and school health and crossing guard services. City Schools' general fund operating budget will total roughly \$1.3 billion, made up of state and local aid determined by formulas that equalize wealth across Maryland's 24 jurisdictions. In the counties, State aid flows through the county government; Baltimore is an exception because of the separation of schools from City government in 1997.
- Beyond its direct support for schools, the budget plan invests more than \$160 million for children and youth through recreation centers, after-school programs, maternal and child health, job training, libraries, and much more.

In addition to increased investment in Baltimore's youth, the Fiscal 2018 budget plan funds:

- "Big belly" solar-powered garbage cans in commercial districts.

- The B'More Bright initiative, upgrading all street lights to LED and installing new lights to reduce crime.
- Installation of 25 more BikeShare stations throughout the City, doubling the number of bike stations.
- Continuation of the Small Haulers Program, offering a centrally-located option at the Northwest Transfer Station for commercial waste disposal in order to reduce illegal dumping and misuse of residential Citizen Drop-Off Centers.
- \$500 million in investments for the replacement and rehabilitation of waste water sewage systems to eliminate sewer overflows and improve stormwater drainage.
- Consent Decree implementation to expand officer training and modernize the police force through upgrades to technology, record keeping, and strategic planning.
- Convening of the Civilian Oversight Task Force to provide community oversight of the City's Police Department.
- Support for the Mobile Integrated Health/Community Paramedicine program, which diverts frequent callers of the City's 911 system to appropriate, non-ER healthcare facilities.
- Continued support for the Saturday Safety Sweep program in which all fire suppression units visit every neighborhood to install smoke alarms.
- Programs that target preventative maintenance, such as General Services' HVAC program and Urban Forestry's tree pruning program.
- Paying down the accumulated deficit in the Charm City Circulator Fund and save for bus replacement.
- Fund Mobile Workforce Units to bring employment services to neighborhoods most in need of them.
- Fund services in the Office of Civil Rights to reduce barriers to employment and ensure employers are following wage laws.

The budget plan supports Mayor Catherine E. Pugh's priorities, including investing more in education and youth development, and is built around the following Outcomes, using the Mayor's Five Pillars as a guide:

| | |
|-----------------------------|----------------------------|
| Thriving Youth and Families | Vibrant Economy |
| Safe Neighborhoods | Sustainable Infrastructure |
| Healthy Communities | High Performing Government |

Below are highlights of what the budget plan includes for each Priority Outcome.

Thriving Youth and Families

Funding for Thriving Youth and Families represents an investment in Baltimore's greatest asset: its youth. This priority aims to promote lifelong learning, community engagement and partnerships, and reduce duplication of services for youth. In Fiscal 2018, these investments totaling \$360 million include:

- \$25.4 million in bridge funding to help stabilize City Schools, the first installment of a three-year, \$100 million commitment.
- Per a new charter amendment, \$11.9 million in funding for the Children and Youth Fund is dedicated to new youth programs.
- Funding for 41 recreation centers, plus two new centers under construction.
- 22 libraries, which now offer extended hours.

- B'More for Healthy Babies, whose maternal and child health interventions have reduced infant mortality by 38 percent since the initiative began in 2009.
- Youth Opportunity Centers and the YouthWorks Summer Jobs program. YouthWorks partners with public, private, and non-profit organizations with the goal of placing more than 8,000 young adults in jobs that prepare them for future employment.
- After school and youth enrichment programs that impact more than 30,000 young people and have been shown to increase school attendance

Safe Neighborhoods

Creating and maintaining a safe city requires both long-term preventive measures and the capacity for effective response to crime, fire, accidents, and other emergencies. Fiscal 2018 investments in this Outcome total \$888 million, including:

- \$497 million for the Police Department, \$267 million for Fire and EMS, and \$124 million for State's Attorney, Sheriff, courts, traffic safety, and crime prevention activities.
- \$10 million in new operating and capital funding to implement the pending consent decree based on the Department of Justice review of the Baltimore Police Department. The funding will expand officer training and purchase technology to help the department monitor interactions between police and residents.
- Installation of 6,000 new street lights in areas of the City where they will make residents feel safer.

Healthy Communities

A cleaner city impacts public health (clean water, clean air, and safe buildings), as well as maintains a positive public image in the eyes of residents, tourists and daily visitors. The Community Survey has shown that the City's cleanliness is a major source of dissatisfaction for residents. The budget plan includes \$235 million in funding for this Priority Outcome; highlights include:

- Continued funding for municipal trash cans, which have reduced rat complaints, as well as 1+1 trash and recycling collection, street and alley cleaning, graffiti removal, bulk trash collection, and business district cleaning.
- Funding for "big belly" trash cans in commercial districts to help curb corner can overflow and improve cleanliness in these districts.
- A small haulers program, offering a new waste disposal site to help reduce illegal dumping.
- Investing in a strategy that will allow the Environmental Control Board to take action to reduce the number of repeat sanitation violators.
- B'more Beautiful, an initiative to mobilize volunteers to promote cleanliness and address sanitation issues in neighborhoods.

Vibrant Economy

A Vibrant Economy leverages public-private-non-profit partnerships; respects and supports diversity; and recognizes the interconnectivity of all economic factors – investment, key economic drivers, workforce, quality of life, and infrastructure. The Fiscal 2018 budget plan includes \$160 million in funding in this Priority Outcome to support strategies that increase the number of jobs, the employment rate, the number of visitors to Baltimore, and the diversity of economic sectors in Baltimore. It also includes these investments:

- The continuation of the 20 Cents by 2020 Property Tax reduction plan for homeowners. The Targeted Homeowners Tax Credit will reduce the average effective rate to \$2.10 per \$100 of assessed value, a \$0.15 (6.6%) reduction since Fiscal 2012, saving the average homeowner \$300 a year.

- \$11.6 million for workforce development initiatives targeted at Baltimore City residents. The plan supports new mobile job centers that will bring employment services into the neighborhoods where they are needed most. The Mayor's Office of Employment Development will enroll 7,613 residents in skills workshops, a 16% increase Fiscal year 2016 enrollment.
- \$4.4 million to support small businesses, with a particular focus on minority and female entrepreneurs and technology start-ups. The Emerging Technology Centers (ETCs), Small Business Resource Center, Minority and Women's Business Opportunity Office, and Baltimore Development Corporation (BDC) will work together to incubate hundreds of new businesses and attract and retain thousands of jobs in the city.
- \$5.9 million for economic development activities to build the City's tax base, drive economic growth, and create jobs by leveraging public and private investment to revitalize neighborhoods. BDC's goal is to create nearly 800 new jobs in business districts outside of downtown.
- \$8.4 million for arts and cultural institutions, which combined are anticipated to attract 930,000 visitors to the city. 43,500 students will benefit from the free educational programming provided by the Baltimore Symphony Orchestra, Baltimore Museum of Art, and the Walter's Art Museum.

Sustainable Infrastructure

Sustainable Infrastructure includes \$792 in operating funding for services that support the City's public infrastructure and boost neighborhood investment. The capital budget also includes \$1.1 billion in funding, including new funding for water and wastewater system improvements, school modernization, recreation centers, library renovation, blight elimination, and transportation projects. Operating budget investments include:

- Maintenance and repair of over 120 playgrounds and 350 outdoor recreational facilities.
- Re-paving 60 lane miles of neighborhood streets.
- Proactive pruning for more than a third of the City's street trees, which extends tree life and reduces costs of emergency work orders and storm damage.
- Expanded street sweeping and other stormwater management projects that keep tens of thousands of tons of debris out of the Harbor.
- Building eight new miles of bike infrastructure to support the BikeShare program and replace car trips.
- Support for blight elimination efforts that will leverage \$30 million in private investment in targeted areas

High Performing Government

One of Mayor Pugh's Five Pillars is Accountability and Transparency, which are hallmarks of high performing government. A high performing government adopts organizational change and encourages employee feedback and ideas; utilizes technology and best practices to streamline processes; leverages public and private partnerships to assist in service delivery; constantly re-evaluates and refines its internal business functions to be more efficient and effective; and encourages customer friendly service. The budget plan includes \$144 million for financial, legal, information technology, human resources, and other functions that support the delivery of services to residents. The Mayor has called on those who oversee these functions to be innovative in making their services more cost-effective and helping operating departments do the same. Examples of how support agencies are seeking to innovate include:

- The Department of Human Resource is working to revamp the civil service recruitment rules to speed up the hiring process.
- The Mayor's Office of Information Technology is migrating the City's data to the cloud, reducing costs and improving cyber security.
- The Law Department is going paperless to cut litigation costs and expedite responses to Public Information Act requests.

- The Finance Department is expanding online bill pay options, which is more convenient for customers and brings down the cost per transaction.
- Departments across City government are using Lean /Government process improvement and the Innovation Fund to deliver better service. Success stories include faster development plans review, same day career center service for ex-offenders, turning waste into revenue, and streamlining the asthma program intake process.

ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellent in Financial Reporting to the City of Baltimore, Maryland, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements.

The preparation of this annual report could not have been accomplished without the efficient and dedicated services of the entire staff of the Bureau of Accounting and Payroll Services of the Department of Finance. We wish to express our appreciation to all members of the Bureau who assisted and contributed to its preparation. We are also grateful to the City's independent public accountants, SB & Company, LLC, and the City Auditor for the professional assistance and advice they provided during the course of their audit. Finally, we would like to thank the members of the Board of Estimates and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and professional manner.

Respectfully submitted,

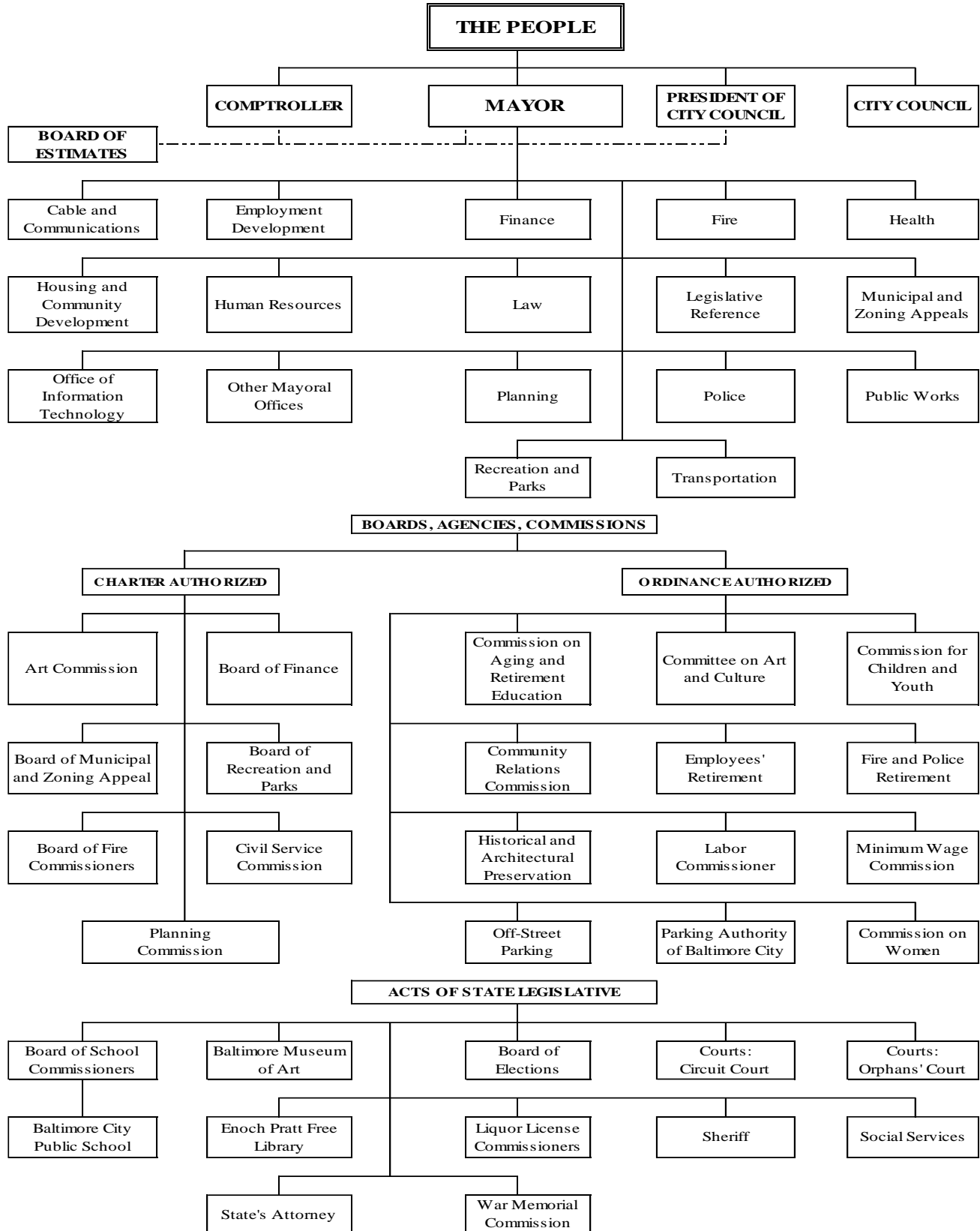


Catherine E. Pugh
Mayor



Henry Raymond
Director of Finance

MUNICIPAL ORGANIZATION CHART





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Baltimore
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Executive Director/CEO

Christopher P. Morill

FINANCIAL SECTION



- **Report of Independent Public Accountants**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Notes to the Basic Financial Statements**
- **Required Supplementary Information**
- **Combining and Individual Fund Statements and Schedules**

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Mayor, City Council, and Board of Estimates
City of Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baltimore, Maryland (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Employees' Retirement System, the Elected Officials Retirement System, and the Fire and Police Retirement System. These funds represent 89% of the total assets, 88% of the net position, and 73% of the revenues of the Pension and OPEB Trust Funds. We also did not audit the Baltimore City Public School System (School System) and Baltimore Hotel Corporation, which are both discretely presented component units. The financial statements of Baltimore City Public School System, Baltimore Hotel Corporation and certain of the Pension and OPEB Trust Funds were audited by other auditors whose reports have been furnished to us. Our opinions, insofar as they relate to the amounts included for the Baltimore City Public School System, Baltimore Hotel Corporation and the Pension and OPEB Trust Funds are based on the reports of the other auditors except for the matter discussed in "Other Matters" below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of information of the City, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 20, during the year June 30, 2018, the City adopted Government Accounting Standards Board (GASB) Statement No.75, “Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions.” This adoption resulted in a restatement of the net position as of July 1, 2017. Our opinion is not modified respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balance – Budget and Actual- Budgetary Basis – General Fund, Schedules of the City’s Proportionate Share of the Net Pension Liability: Employees’ Retirement System Plan, Maryland State Retirement and Pension System – ERPS, Maryland State Retirement and Pension System – LEOPS; Schedules of Employer Contributions: Employees’ Retirement System Plan, Maryland State Retirement and Pension System – ERPS, Maryland State Retirement and Pension System – LEOPS; Schedule of Changes in Net Pension Liability (Assets, and Related Ratios): Fire and Police Employees’ Retirement System - Single Employer Plan, Elected Officials’ Retirement System - Single Employer Plan; Schedule of Employer Contributions – Single Employer Plans; Schedule of Changes in the Net OPEB Liabilities and Related Ratios – Total OPEB Plan; the Schedule of the City’s Proportionate Share of the Net OPEB Liability; and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The combining and individual fund financial statements, and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the



United States of America. In our opinion, the combining and individual fund financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Adjustments to Discretely Presented Component Unit Financial Statements Audited by Other Auditors.

As part of our audit of the City's 2018 financial statements, we also audited the adjustments described in Note 20 that were applied to adjust the financial statements of the Baltimore City Public School System, a discretely presented component unit of the City, as of and for the year ended June 30, 2018, including the restatement of certain 2018 financial statements' beginning balances in the accompanying financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of the School System other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements of the School System as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018, on our consideration of the City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal controls over financial reporting and compliance.

March 25, 2019

A handwritten signature in cursive script that reads "SB & Company, LLC".

SB & Company, LLC
Independent Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the City of Baltimore's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of fiscal year 2018 by \$3.7 billion (net position). This amount includes \$644.9 million (restricted net position) and is net of an unrestricted deficit of \$2.9 billion. During the fiscal year, the City's total net position increased by \$164.9 million.

As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$848.8 million. At the close of the fiscal year, the unassigned fund balance for the general fund was \$163.6 million.

The City's total long term debt decreased by \$5.7 million, during fiscal year 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental Accounting Standards Board Statement No. 34 requires the utilization of dual focus financial reporting. The purpose of this overview is to provide the reader with an introduction to the City's basic financial statements prepared under these reporting requirements.

The City's basic financial statements comprise three components:

- (1) Government-wide financial statements,
- (2) Fund financial statements, and
- (3) Notes to the basic financial statements.

The report also contains required and other supplementary information including notes to the Required Supplementary Information in addition to the basic financial statements themselves.

Measurement focus refers to what is measured and reported in a fund's operating statement while basis of accounting determines when a transaction or event is recognized in these funds. Under the accrual basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed. Under the modified accrual basis of accounting, revenues and other financial resources are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the fund liability is incurred with certain exceptions.

Financial Report Layout and Structure

The total economic resources focus is intended to determine if a fund is better or worse off economically as a result of events and transactions of the period. This focus utilizes the accrual basis of accounting to record events and transactions that improve (revenues or gains) or diminish (expenses or losses) a fund's economic position. It is the focus used by businesses. Until the advent of GASB 34, this focus was utilized by the public sector only to report on its business (self-supporting) activities.

The current financial resources focus is intended to determine if there are more or less resources that can be spent in the near future as a result of events and transactions of the period. This focus utilizes the modified accrual basis of accounting to record increases (revenues or other financing sources) or decreases (expenditures and other financing uses) in a fund's spendable resources. For most state and local governments, this focus is their legally mandated accounting method and with the incorporation of encumbrances (spending commitments), the one utilized to determine adherence to budgetary requirements.

Layout and Structure of the City of Baltimore Comprehensive Annual Financial Report

| | | | | | |
|------------------|---|--|--|---|--|
| C A F R | Introductory Section | | | | |
| | Financial Section | | | | |
| | Management's Discussion and Analysis | | | | |
| | Government-wide Statements | Fund Statements | | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds | |
| | View | Broad overview similar to a private sector business | | | |
| | TYPES OF FINANCIAL STATEMENTS | Statement of Net Position | Balance Sheet | Statement of Net Position | Statement of Fiduciary Net Position |
| | | | Statements of Revenues, Expenditures, and Changes in Fund Balances | Statement of Revenues, Expenses, and Changes in Net Position | Statement of Changes in Fiduciary Net Position |
| | | Statement of Activities | | Statement of Cash Flows | |
| | | Full accrual basis for revenues and expenses, includes all assets and liabilities. Economic resource focus | Modified accrual basis for revenues and expenses. Financial resource measurement focus | Full accrual basis for revenues and expenses, includes all assets and liabilities, using an Economic resource focus | Accrual basis-agency funds do not have measurement focus |
| | Notes to the Basic Financial Statements | | | | |
| | Required Supplementary Information | | | | |
| | Combining and Individual Fund Statements and Schedules | | | | |
| | Statistical Section | | | | |

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business. This section contains the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the City’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as, revenues pertaining to uncollected taxes and expenses pertaining to earned, but unused, vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and regulation, conservation of health, social services, education, public library, recreation and culture, highway and streets, sanitation and waste removal, public service, economic development, and interest expenses. The business-type activities of the City include water, sewer and stormwater utilities, parking facilities and several other fee supported activities.

The government-wide financial statements include, not only the City itself (known as the primary government), but also the legally separate activities of the Baltimore City Public School System and the Baltimore Hotel Corporation. Summary financial information for these component units are reported separately from the financial information presented for the primary government itself. The Baltimore City Public School System prepared its own financial statements, which are also prepared in conformity with GASB 34 and audited. The Baltimore Hotel Corporation prepared its own financial statements in conformity to FASB and audited.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, i.e., most of the City's basic services are reported in governmental funds. These statements, however, focus on: (1) how cash and other financial assets can readily be converted to available resources and (2) the balance left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several major governmental funds (general, grants revenue, and capital projects). Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for these major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements as presented in supplementary information herein.

Proprietary funds

Proprietary funds are generally used to account for services for which the City charges customers -- either outside customers, or internal units or departments of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service fund are charges for customer services including: water, sewer, stormwater, parking fees, commercial and industrial rents, printing services, vehicle maintenance fees, telecommunication, central post office fees, energy conservation and building maintenance. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary funds provide the same type of information as shown in the government-wide financial statements.

The City maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the operation of the City's business-type activities and include water, sewer and stormwater, utilities, and parking facilities, all of which are considered to be major funds of the City, and several other non-major fee supported activities.
- *Internal Service funds* are used to report activities that provide supplies and service for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, printing and mail services, telecommunications services, energy conservation and building maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds

Fiduciary funds are used to report net position held in a trust or agency capacity for others. These resources cannot be used to support the City's own programs and are not reflected in the government-wide financial statements. The City's fiduciary funds are comprised of pension trust, OPEB trust and agency funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information such as the general fund budgetary basis financial statement, the Retirement System's changes in net pension liability and investment return ratios, and the City's progress in funding its other postemployment benefits obligation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Primary Government)

The City's financial statements were prepared in conformity with the reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. The report includes prior fiscal year results for the purpose of providing comparative information for the MD&A.

CITY OF BALTIMORE
Net Position
For fiscal year 2018 and 2017

(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current and other assets | \$ 1,383,219 | \$ 1,303,867 | \$ 1,085,223 | \$ 1,107,526 | \$ 2,468,442 | \$ 2,411,393 |
| Capital assets, net..... | 3,111,845 | 3,153,632 | 5,151,609 | 4,726,742 | 8,263,454 | 7,880,374 |
| Total assets | 4,495,064 | 4,457,499 | 6,236,832 | 5,834,268 | 10,731,896 | 10,291,767 |
| Deferred outflows of resources..... | 344,216 | 501,183 | 116,833 | 139,434 | 461,049 | 640,617 |
| Total assets and deferred outflows of resources..... | 4,839,280 | 4,958,682 | 6,353,665 | 5,973,702 | 11,192,945 | 10,932,384 |
| Long-term liabilities outstanding..... | 3,327,745 | 3,342,952 | 2,458,871 | 2,401,578 | 5,786,616 | 5,744,530 |
| Other liabilities | 1,184,992 | 575,114 | 439,955 | 325,212 | 1,624,947 | 900,326 |
| Total liabilities | 4,512,737 | 3,918,066 | 2,898,826 | 2,726,790 | 7,411,563 | 6,644,856 |
| Deferred inflows of resources..... | 39,352 | 64,092 | 2,150 | 17,859 | 41,502 | 81,951 |
| Total liabilities and deferred inflows of resources..... | 4,552,089 | 3,982,158 | 2,900,976 | 2,744,649 | 7,453,065 | 6,726,807 |
| Net position: | | | | | | |
| Net investment in capital assets | 2,574,640 | 2,528,116 | 3,383,394 | 2,981,404 | 5,958,034 | 5,509,520 |
| Restricted..... | 483,623 | 400,063 | 161,308 | 162,084 | 644,931 | 562,147 |
| Unrestricted..... | (2,771,072) | (1,951,655) | (92,013) | 85,565 | (2,863,085) | (1,866,090) |
| Total net position | \$ 287,191 | \$ 976,524 | \$ 3,452,689 | \$ 3,229,053 | \$ 3,739,880 | \$ 4,205,577 |

Analysis of Net Position

As noted earlier, net position may serve as a useful indicator of the City's financial position. For the City, assets exceeded liabilities by \$3.7 billion at the close of fiscal year 2018. The City's net position includes its investment of \$6.0 billion in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the City's net position, \$644.9 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit in unrestricted net position of \$2.9 billion.

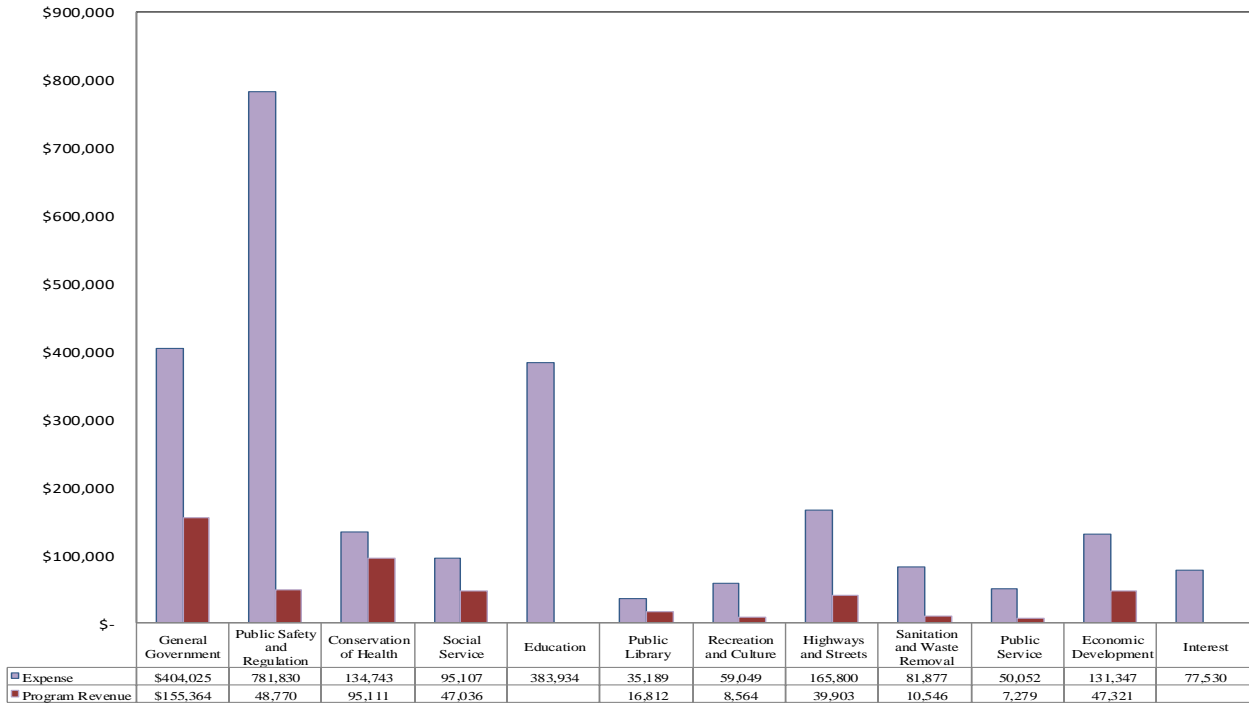
CITY OF BALTIMORE
Changes in Net Position
For the fiscal years 2018 and 2017
(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|-------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 111,154 | \$ 103,151 | \$ 579,201 | \$ 528,203 | \$ 690,355 | \$ 631,354 |
| Operating grants and contributions | 324,457 | 344,684 | | | 324,457 | 344,684 |
| Capital grants and contributions | 41,095 | 83,501 | 169,154 | 217,959 | 210,249 | 301,460 |
| General revenues: | | | | | | |
| Property taxes | 886,417 | 853,197 | | | 886,417 | 853,197 |
| Income taxes | 346,797 | 335,923 | | | 346,797 | 335,923 |
| State shared revenue | 170,240 | 159,022 | | | 170,240 | 159,022 |
| Transfer and recordation tax | 89,298 | 90,420 | | | 89,298 | 90,420 |
| Electric and gas tax | 42,438 | 37,950 | | | 42,438 | 37,950 |
| Telecommunications tax | 32,799 | 34,425 | | | 32,799 | 34,425 |
| Admission | 8,924 | 9,051 | | | 8,924 | 9,051 |
| Other | 166,986 | 122,589 | 5,535 | 3,849 | 172,521 | 126,438 |
| Total revenues | 2,220,605 | 2,173,913 | 753,890 | 750,011 | 2,974,495 | 2,923,924 |
| Expenses: | | | | | | |
| General government | 404,025 | 249,415 | | | 404,025 | 249,415 |
| Public safety and regulation | 781,830 | 764,040 | | | 781,830 | 764,040 |
| Conservation of health | 134,743 | 119,811 | | | 134,743 | 119,811 |
| Social services | 95,107 | 120,630 | | | 95,107 | 120,630 |
| Education | 383,934 | 278,881 | | | 383,934 | 278,881 |
| Public library | 35,189 | 34,531 | | | 35,189 | 34,531 |
| Recreation and culture | 59,049 | 58,124 | | | 59,049 | 58,124 |
| Highways and streets | 165,800 | 169,147 | | | 165,800 | 169,147 |
| Sanitation and waste removal | 81,877 | 76,638 | | | 81,877 | 76,638 |
| Public service | 50,052 | 53,188 | | | 50,052 | 53,188 |
| Economic development | 131,347 | 133,594 | | | 131,347 | 133,594 |
| Interest | 77,530 | 28,857 | | | 77,530 | 28,857 |
| Water | | | 147,289 | 167,667 | 147,289 | 167,667 |
| Wastewater | | | 207,730 | 193,055 | 207,730 | 193,055 |
| Stormwater | | | 26,175 | 21,521 | 26,175 | 21,521 |
| Parking | | | 17,797 | 27,939 | 17,797 | 27,939 |
| Nonmajor proprietary | | | 10,087 | 13,703 | 10,087 | 13,703 |
| Total expenses | 2,400,483 | 2,086,856 | 409,078 | 423,885 | 2,809,561 | 2,510,741 |
| Decrease in net assets before transfer | (179,878) | 87,057 | 344,812 | 326,126 | 164,934 | 413,183 |
| Transfer: | | | | | | |
| Transfer in (out) | 59,295 | 62,095 | (59,295) | (62,095) | | |
| Change in net position | (120,583) | 149,152 | 285,517 | 264,031 | 164,934 | 413,183 |
| Net position - beginning, as restated | 407,774 | 827,372 | 3,167,172 | 2,965,022 | 3,574,946 | 3,792,394 |
| Net position - ending | \$ 287,191 | \$ 976,524 | \$ 3,452,689 | \$ 3,229,053 | \$ 3,739,880 | \$ 4,205,577 |

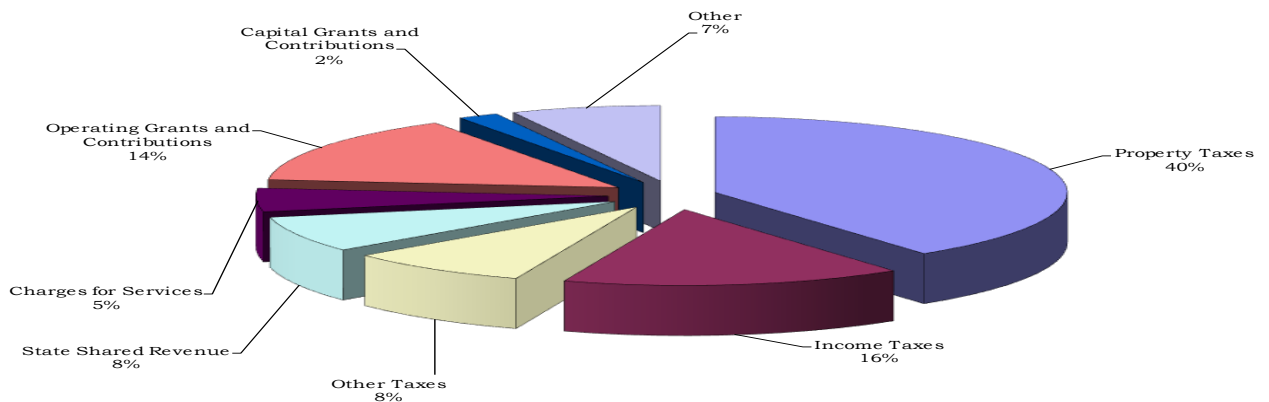
Analysis of Changes in Net Position

The overall increase in the City’s net position amounted to \$164.9 million during fiscal year 2018. This change is explained in the government and business-type activities discussion below.

Expenses and Program Revenues – Governmental Activities (expressed in thousands)



Revenues By Source – Governmental Activities



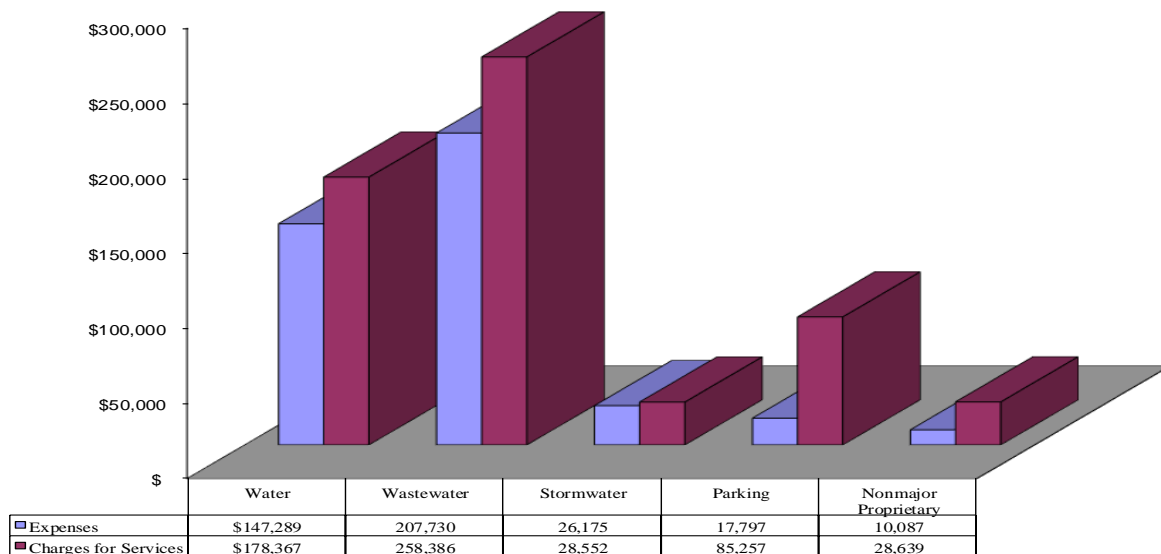
Governmental Activities

During the current fiscal year, expense related to governmental activities amounted to \$2.4 billion; this is more than revenues by \$180.0 million. Total revenue of \$2.2 billion is comprised of program revenues totaling \$476.7 million, which is 21.47% of total revenue. Program revenues are the principal source of funding for the City’s general government, health, and economic development activities. Other major activities including public safety and regulation, as well as the highways and streets program, are primarily supported by general revenues. A more detailed analysis of the governmental activities is discussed in the “Financial Analysis of the City’s Funds” section.

During fiscal year 2018, governmental revenue increased by \$46.7 million.

Governmental expenses increased by \$313.6 million during fiscal year 2018. This increase is primarily attributable to increases in general government, education and interest by \$308.3 million.

Expenses and Program Revenues – Business-type Activities (expressed in thousands)



Business-type Activities

Business-type activities are presented after adjustments to reflect the consolidation of internal service fund activities related to enterprise funds. Charges for services represent the principal revenue source for the City’s business-type activities. During the current fiscal year, revenue from business-type activities totaled \$750.1 million. Expenses for these activities totaled \$405.3 million along with capital contributions of \$165.4 million, income earned of \$344.9 million and net transfer out of \$59.3 million and resulted in an increase in net position of \$285.6 million.

Operating revenues increased by \$37.3 million in fiscal year 2018 in the Water, Wastewater and Stormwater Utility Funds. Capital assets increased by \$424.9 million in the business-type activities primarily as a result of the utilities funds’ effort to build environmentally sound facilities.

The City implemented a new Water and Stormwater billing system during fiscal year 2017. As with all new system implementations, process improvements are still being developed. One issue that remained at year end necessitated The City to estimate billings. The estimates for 2018 were prepared on a conservative basis and the actual bills may be larger than projected.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, an unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the City include the general fund, grants revenue fund, and capital projects fund. Data from the remaining governmental funds are combined into a single, aggregated presentation as other nonmajor funds.

CITY OF BALTIMORE
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Years 2018 and 2017
(Expressed in Thousands)

| | 2018 | 2017 | Variance Amount |
|--|-------------------|-------------------|--------------------|
| Revenues: | | | |
| General fund: | | | |
| Property taxes | \$ 884,410 | \$ 847,095 | \$ 37,315 |
| Income taxes | 346,797 | 334,851 | 11,946 |
| Other local - taxes | 175,196 | 228,647 | (53,451) |
| Total local taxes | <u>1,406,403</u> | <u>1,410,593</u> | <u>(4,190)</u> |
| Licenses and permits | 41,043 | 44,450 | (3,407) |
| Interest, rentals, and other investment income | 27,071 | 21,082 | 5,989 |
| Federal grants | 79 | 480 | (401) |
| State grants | 104,644 | 105,705 | (1,061) |
| Other | 216,312 | 206,478 | 9,834 |
| Total revenues-general fund | <u>1,795,552</u> | <u>1,788,788</u> | <u>6,764</u> |
| Other governmental funds: | | | |
| Grants revenue fund | 233,957 | 226,145 | 7,812 |
| Capital projects fund | 62,019 | 105,487 | (43,468) |
| Other funds | 56,090 | 47,068 | 9,022 |
| Total revenues other governmental funds | <u>352,066</u> | <u>378,700</u> | <u>(26,634)</u> |
| Total revenues all governmental funds | <u>2,147,618</u> | <u>2,167,488</u> | <u>(19,870)</u> |
| Expenditures: | | | |
| General fund: | | | |
| General government | 155,606 | 249,579 | (93,973) |
| Public safety and regulation | 766,230 | 730,093 | 36,137 |
| Conservation of health | 38,648 | 21,882 | 16,766 |
| Social services | 59,899 | 86,353 | (26,454) |
| Education | 293,355 | 276,324 | 17,031 |
| Public library | 24,505 | 24,812 | (307) |
| Recreation and culture | 43,845 | 44,392 | (547) |
| Highways and streets | 99,848 | 96,537 | 3,311 |
| Sanitation and waste removal | 75,384 | 72,380 | 3,004 |
| Public service | 42,579 | 44,769 | (2,190) |
| Economic development | 41,634 | 34,276 | 7,358 |
| Debt service | 94,713 | 104,006 | (9,293) |
| Total expenditures - general fund | <u>1,736,246</u> | <u>1,785,403</u> | <u>(49,157)</u> |
| Other governmental funds: | | | |
| Grants revenue fund | 221,811 | 218,716 | 3,095 |
| Capital projects fund | 186,541 | 154,671 | 31,870 |
| Other funds | 41,857 | 34,101 | 7,756 |
| Total expenditures other governmental funds | <u>450,209</u> | <u>407,488</u> | <u>42,721</u> |
| Total expenditures all governmental funds | <u>2,186,455</u> | <u>2,192,891</u> | <u>(6,436)</u> |
| Excess of expenditures over revenue | <u>(38,837)</u> | <u>(25,403)</u> | <u>(13,434)</u> |
| Other financing sources: | | | |
| Transfers in | 252,168 | 192,331 | 59,837 |
| Transfers out | (194,465) | (132,042) | (62,423) |
| Proceeds from bond issuances | | 403,750 | (403,750) |
| Refunding of bonds | | (377,111) | 377,111 |
| Capital Projects Fund: | | | |
| Transportation revenue bonds | 14,924 | | 14,924 |
| Payoff of bond anticipation note | (60,148) | | (60,148) |
| Refunding of obligation bonds | (133,560) | | (133,560) |
| Capital leases | 29,618 | | 29,618 |
| Refunding of capital leases | (4,563) | | (4,563) |
| Premium on general obligation bonds | 35,923 | | 35,923 |
| Face value of funding and refunding general obligation bonds | <u>225,155</u> | <u>1,907</u> | <u>223,248</u> |
| Total other financing sources | <u>165,052</u> | <u>88,835</u> | <u>76,217</u> |
| Net changes in fund balances | <u>126,215</u> | <u>63,432</u> | <u>62,783</u> |
| Fund balances - beginning, as restated | 722,554 | 659,122 | 63,432 |
| Fund balances - ending | <u>\$ 848,769</u> | <u>\$ 722,554</u> | <u>\$ 126,215</u> |

Revenues for governmental functions overall totaled approximately \$2.1 billion in the fiscal year ended June 30, 2018, which represents a decrease of 1.0% from the fiscal year ended June 30, 2017. Expenditures for governmental functions, totaling \$2.2 billion, decreased by approximately 0.3% from the fiscal year ended June 30, 2017. In the fiscal year ended June 30, 2018, expenditures for governmental functions exceeded revenue by \$38.8 million or 1.8%.

The General Fund is the chief operating fund of the City. Revenue in the General Fund increased \$6.8 million as compared to fiscal year 2017. The total expenditures for the General Fund decreased by \$49.1 million, or 2.75%, compared to fiscal year 2017.

At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$163.6 million, while total fund balance was \$811.1 million. The fund balance in the City’s General Fund increased by \$96.3 million during the fiscal year.

The Grants Revenue Fund is used to account for the spending of various Federal, State and special purpose grant funds. Most of these grants are funded on an expenditure reimbursement basis and the application of Governmental Accounting Standards Board Statement No.33 rules on revenue recognition results in year-to-year fluctuations in the fund balance due to timing and collectability. Should any portion of the grants receivable be determined uncollectable, the balance may be written off against the General Fund.

Proprietary Funds

The City’s business-type activities prior to allocation of internal service fund activities are comprised of the funds listed below. The nonmajor funds include the Industrial Development Authority and Conduit Fund.

(Expressed in Thousands)

| | Water, Wastewater and Stormwater Utility Funds | | Parking Facility Fund | | Nonmajor Other Funds | |
|---|---|------------|-----------------------|------------|----------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Operating revenues | \$ 465,305 | \$ 428,005 | \$ 85,257 | \$ 88,454 | \$ 28,639 | \$ 11,744 |
| Operating expenses | 347,623 | 346,123 | 11,816 | 12,938 | 8,417 | 13,788 |
| Operating income (loss) | 117,682 | 81,882 | 73,441 | 75,516 | 20,222 | (2,044) |
| Non operating revenues (expenses), capital contribution, and transfers | 134,378 | 180,691 | (65,276) | (76,596) | (1,838) | 2,370 |
| Change in net position | \$ 252,060 | \$ 262,573 | \$ 8,165 | \$ (1,080) | \$ 18,384 | \$ 326 |

As discussed in the Business-type activities section, the Water and Wastewater Utilities Fund experienced operating revenue increases in fiscal year 2018. These increases are attributable to rate increases implemented in fiscal year 2018.

General Fund budgetary highlights

CITY OF BALTIMORE
Schedule of Revenues, Expenditures and Encumbrances
and Changes in Fund Balance - Budget and Actual
Budgetary Basis - General Fund
For the Year Ended June 30, 2018

(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance with Original Budget Positive (Negative) | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|--|---|
| Total revenues | \$ 1,796,095 | \$ 1,796,098 | \$ 1,793,414 | \$ (2,681) | \$ (2,684) |
| Expenditures and encumbrances: | | | | | |
| General government..... | 346,266 | 346,266 | 323,312 | 22,954 | 22,954 |
| Public safety and regulation..... | 752,999 | 752,999 | 746,114 | 6,885 | 6,885 |
| Conservation of health..... | 33,552 | 33,552 | 43,047 | (9,495) | (9,495) |
| Social services..... | 2,910 | 2,910 | 2,564 | 346 | 346 |
| Education..... | 301,638 | 301,638 | 291,637 | 10,001 | 10,001 |
| Public library..... | 27,021 | 27,021 | 22,446 | 4,575 | 4,575 |
| Recreation and culture..... | 48,285 | 48,285 | 43,089 | 5,196 | 5,196 |
| Highways and streets..... | 126,644 | 126,644 | 110,408 | 16,236 | 16,236 |
| Sanitation and waste removal..... | 82,500 | 82,500 | 74,562 | 7,938 | 7,938 |
| Public service..... | 41,758 | 41,758 | 35,361 | 6,397 | 6,397 |
| Economic development..... | 59,533 | 59,533 | 50,022 | 9,511 | 9,511 |
| Total expenditures and encumbrances..... | 1,823,106 | 1,823,106 | 1,742,562 | \$ 80,544 | \$ 80,544 |
| Excess (deficiency) of revenue over expenditures and encumbrances..... | (27,011) | (27,008) | 50,852 | | |
| Other Financing uses: | | | | | |
| Transfers in..... | 36,302 | 36,302 | 162,286 | | |
| Transfers out..... | (121,304) | (121,304) | (155,046) | | |
| Total other financing uses..... | (85,002) | (85,002) | 7,240 | | |
| Net changes in fund balances..... | (112,013) | (112,010) | 58,092 | | |
| Fund balances --- beginning | 714,803 | 714,803 | 714,803 | | |
| Fund balances --- ending..... | \$ 602,790 | \$ 602,793 | \$ 772,895 | | |

On a budgetary basis, revenue for fiscal year 2018 totaled \$1.8 billion and expenditures and transfers totaled \$1.7 billion. The excess of expenditures and transfers over revenues resulted in a budgetary basis fund balance at June 30, 2018 of \$772.9 million, an increase of \$58.1 million.

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$8.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and library books. The total increase in the City's net capital assets for the current fiscal year was 4.9% (1.3% decrease for governmental activities and an 9.0% increase for business-type activities) as shown in the table below.

Capital Assets, Net of Depreciation For the Fiscal Years 2018 and 2017

(Expressed in Thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---------------------------------|-------------------------|--------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land and other | \$ 365,900 | \$ 365,356 | \$ 36,920 | \$ 36,920 | \$ 402,820 | \$ 402,276 |
| Building and improvements | 875,800 | 898,676 | 2,718,234 | 2,055,905 | 3,594,034 | 2,954,581 |
| Machinery and equipment | 105,088 | 108,188 | 184,805 | 166,968 | 289,893 | 275,156 |
| Infrastructure | 1,547,191 | 1,579,259 | 998,619 | 898,657 | 2,545,810 | 2,477,916 |
| Library books | 15,591 | 16,276 | | | 15,591 | 16,276 |
| Construction in progress | 202,275 | 185,877 | 1,213,031 | 1,568,292 | 1,415,306 | 1,754,169 |
| Total | \$3,111,845 | \$3,153,632 | \$5,151,609 | \$ 4,726,742 | \$ 8,263,454 | \$ 7,880,374 |

See note number 5 on capital assets.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$3.3 billion. Of this amount, \$526.6 million was general obligation bonds backed by the full faith and credit of the City, \$359.2 million was revenue bonds for governmental activity at the Convention Center, the Convention Center Hotel, and transportation bonds, and \$2.2 billion was revenue bonds related to commercial business activity. The remainder includes revenue bonds and other obligations of City business and governmental activities.

During fiscal year 2018, the City sold \$181.9 million in revenue bonds, of which \$166.9 million were Maryland Water Quality bonds.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position for management, citizens, and investors. A comparison of these indicators follows:

| | FY 2018 | FY 2017 |
|--|------------|------------|
| Net general bonded debt (expressed in thousands) | \$ 418,621 | \$ 415,788 |
| Ratio of net general bonded debt to net assessed value | 1.02% | 1.06% |

See note number 7 on long-term obligations.

As of June 30, 2018, the City had \$530.1 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net restricted assets in the Debt Service Fund (which is part of the General Fund beginning in Fiscal Year 2017) of \$111.5 million for net tax-supported bonded debt of \$418.6 million, which is equal to approximately 1.02% of the assessed value of property (net of exemptions). There are an additional \$360.5 million in bonds that are authorized, but unissued.

Economic Factors and Next Year's Budget and Rates

The fiscal year 2019 budget submitted by the Board of Estimates to the Baltimore City Council proposed total appropriations of \$3,499,279,000 of which \$1,882,800,000 were for General Fund operations and Pay-As-You-Go (PAYGO) capital. The City Council, after deliberations pursuant to Charter requirements and powers, made no reductions to the total General Fund or other fund appropriations. The property tax rates on real property and personal property remained at \$2.248 and \$5.62 per \$100 of assessed valuation, respectively. The locally imposed and State mandated income tax rate was 3.2%. The Ordinance of Estimates was adopted by the City Council and signed by the Mayor on May 2, 2018.

Fiscal 2018 Budget – Economic Factors

Economic activity remained strong during Fiscal 2018 and the nation, as well as the City, continued along with the second longest period of economic growth in U.S. history. As of December 2018, the nation had enjoyed nine years and five months of economic expansion since the Great Recession ended in June 2009, rivaling the period from 1991 to 2001 – the longest period of continued expansion in our nation’s history. Despite this remarkable growth, we know that the average economic expansion cycle lasts about five years, and so the threat of recession remained a central concern during Fiscal 2018, although it did not come to fruition. Against this macro-economic backdrop, the following key indicators guided the Finance Department’s outlook on the City’s financial stability: population change, number of households and income composition, taxable returns and income, labor markets, and real estate markets.

U.S. Census Bureau population estimates made available during Fiscal 2018 indicated a net decrease of more than 3,000 residents between 2016 and 2017, which brought the City’s population to 611,648 residents – a level not experienced in the City since the end of the First World War. This represents the fourth consecutive year of population decline, with more than 12,000 people leaving the City between 2014 and 2017. This trend remained a long-term threat to the City’s tax base and overall financial stability.

Contrary to the narrative about population decline, the City actually gained more than 4,000 households, or 1.7 percent, between 2010 and 2016, reaching a total number of 242,416 resident families. Of these families, approximately 109,811, or 45.3 percent, represent households earning more than \$50,000, an increase of almost 13,311 or 13.8 percent. Moreover, the number of households earning less than \$50,000 decreased by 9,200 or 6.5 percent over the same period. Significant growth in the number of high income households came from those earning between \$100,000 and \$200,000, increasing from 25,696 in 2010 to 34,570 in 2016 – an increase of 9,625 or 37%.

The U.S. labor market remained in what the Federal Reserve considers full employment – an unemployment rate of less than 5 percent. The State’s average unemployment rate was 4.1 percent during 2018, while the City’s average lagged behind at about 5.9 percent, according to the Maryland Department of Labor, Licensing and Regulation. Baltimore’s rate has historically been two or three percentage points above the State rate. This represents the City’s lowest unemployment rate since before the Great Recession, and a decrease from last year’s average of 6.2 percent.

The relatively low unemployment rate in Fiscal 2018 was accompanied by a positive narrative about the increasing labor force and the capacity of the City’s labor market to generate stable employment and absorb market participants in the Baltimore area. Data from the Bureau of Labor Statistics indicates that when comparing calendar years 2016 to 2017, the City gained 5,900 jobs for a total of 372,100, representing an increase of 1.6 percent. During this same comparison period, the total number of labor market participants who are also City residents increased by 1.3 percent, from 295,002 to 298,837 individuals. This continued increase in our labor force and absorption of these workers by the job market during Fiscal 2018 was the reason for the City’s lowest unemployment rate since 2007.

The narrative of a healthy labor market was confirmed by the Income Tax Summary Report, released annually by the Maryland Revenue Administration Division, which shows that during 2016 there were 199,446 taxable returns filed in Baltimore City. This represents an increase of more than 3,000 total returns, or 1.6 percent versus calendar year 2014, even as population declined during this same period. Interestingly (and perhaps expectedly), the composition of filers has changed to reflect the household income composition discussed above. Of the total returns, 71,918 or 36 percent corresponded to individuals whose taxable income was higher than \$50,000. Moreover, Fiscal 2018 income taxes increased by \$19.9 million or 6.1 percent from the prior year. This increase is a reflection of the favorable conditions of the City’s labor market.

In Fiscal 2018 the housing market remained relatively unchanged compared to the prior year. According to data made available by the Metropolitan Regional Information System (MRIS), the City’s average median home sales price decreased slightly from \$133,163 to \$133,044, which does not warrant reporting on a percentage basis. The City maintained progress since the Great Recession, as Fiscal 2018 marked a plateau after three consecutive calendar years of average median price growth. On average, homes spent 10 fewer days on the market during Fiscal 2018 than during the prior year, decreasing from 77 to 67 days. This average is 53 fewer days on market than the average experienced during the period between Fiscals 2008 and 2012. The current average is less than that of the high-activity period prior to the burst of the housing bubble, when the average number of days on market was 82.

In Fiscal 2018 the City experienced its fourth consecutive year of real property tax assessment increases, after four years of consecutive declines. The City has not experienced any cash flow changes from real property tax – its most significant revenue source – that would suggest variation in the collection rate or decline relative to recent history. In fact, property

tax revenue in Fiscal 2018 increased by \$33.2 million, or 3.9 %, versus the prior year. Additionally, transfer and recordation tax revenue continued to support the thesis for a strong (and shifting) base of taxpaying households. In Fiscal 2018, receipts from these volatile sources – which are directly affected by real estate market activity – remained stable, decreasing modestly by \$1.1 million or 1.2 percent. However, growth has slowed substantially compared to the \$21 million, 29.6 percent increase from Fiscal 2015 to 2016.

To recap, the U.S. is currently enjoying one of the longest periods of economic expansion ever, but the risk of recession increases with each passing year of growth. Federal tax cuts in calendar year 2018 have added steam to the current expansion, but macro-economic factors such as trade tensions, rising interest rates, and a flattening yield curve are providing significant (and strengthening) headwinds. It follows that short and mid-term budgetary decisions must be carefully considered in order to minimize the risks of the next economic downturn.

Request for information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Director of Finance at the following address:

Room 469, City Hall
100 N. Holliday Street
Baltimore, Maryland 21202

CITY OF BALTIMORE
Statement of Net Position
June 30, 2018
(Expressed in Thousands)

| | Primary Government | | | Component Units | |
|---|--------------------|---------------------|---------------------|-------------------|--------------------|
| | Governmental | Business-type | Total | Baltimore City | Baltimore |
| | Activities | Activities | | Public School | Hotel |
| | | | Total | System | Corporation |
| Assets and deferred outflows of resources: | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 306,741 | \$ 617,527 | \$ 924,268 | \$ 159,007 | \$ 2,981 |
| Investments | 528,325 | | 528,325 | 234,396 | 44,777 |
| Property taxes receivable, net | 12,483 | | 12,483 | | |
| Service receivable, net | | 132,462 | 132,462 | | |
| Other receivables, net | 27,204 | 1,360 | 28,564 | 4,040 | 3,458 |
| Due from other governments | 133,213 | 331,169 | 464,382 | 39,201 | |
| Internal balances | 43,860 | (43,860) | | | |
| Due from primary government | | | | 6,360 | |
| Inventories, at cost | 8,201 | 10,631 | 18,832 | 1,493 | 87 |
| Notes and mortgages receivable, net | 269,942 | 35,934 | 305,876 | | |
| Other assets | 43,230 | | 43,230 | 368 | 3,504 |
| Net pension asset | 10,020 | | 10,020 | | |
| Capital assets being depreciated, net of accumulated depreciation | 2,543,670 | 3,901,658 | 6,445,328 | 710,927 | 186,323 |
| Capital assets not being depreciated | 568,175 | 1,249,951 | 1,818,126 | 42,712 | |
| Total assets | 4,495,064 | 6,236,832 | 10,731,896 | 1,198,504 | 241,130 |
| Deferred outflow of resources: | | | | | |
| Deferred amortization on early extinguishment of debt | | 66,324 | 66,324 | | |
| Deferred loss on bond refunding | 6,764 | 15,066 | 21,830 | | |
| Deferred outflows related to pension | 316,968 | 22,033 | 339,001 | 41,920 | |
| Deferred outflows related to OPEB | 19,256 | 1,910 | 21,166 | 9,193 | |
| Interest rate swaps | 1,228 | 11,500 | 12,728 | | |
| Total deferred outflows of resources | 344,216 | 116,833 | 461,049 | 51,113 | |
| Total assets and deferred outflows of resources | 4,839,280 | 6,353,665 | 11,192,945 | 1,249,617 | 241,130 |
| Liabilities and deferred inflows of resources: | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | 260,957 | 256,129 | 517,086 | 232,681 | 16,621 |
| Accrued interest payable | 10,644 | 42,082 | 52,726 | | 4,463 |
| Unearned revenue | 22,627 | | 22,627 | 2,968 | 2,047 |
| Notes payable | | | | | 265,721 |
| Due to other governments | 4,654 | 6,004 | 10,658 | | |
| Deposits subject to refund | 25,646 | 15 | 25,661 | | 4,893 |
| Estimated claims in progress: | | | | | |
| Due within one year | 83,901 | | 83,901 | | |
| Due in more than one year | 274,604 | | 274,604 | | |
| Revenue bond payable, net: | | | | | |
| Due within one year | 17,302 | 75,225 | 92,527 | | |
| Due in more than one year | 386,828 | 2,296,103 | 2,682,931 | | |
| Derivative instrument liability | 1,228 | 28,602 | 29,830 | | |
| Long term debt payable: | | | | | |
| Due within one year | 42,869 | 349 | 43,218 | 12,838 | |
| Due in more than one year | 728,476 | 3,240 | 731,716 | 84,147 | |
| Capital leases payable: | | | | | |
| Due within one year | 30,505 | 183 | 30,688 | 4,366 | |
| Due in more than one year | 129,502 | 643 | 130,145 | 10,129 | |
| Compensated absences: | | | | | |
| Due within one year | 45,656 | 5,447 | 51,103 | 5,167 | |
| Due in more than one year | 110,972 | 9,713 | 120,685 | 42,106 | |
| Landfill closure due in more than one year | 25,972 | | 25,972 | | |
| Net pension liability | 1,670,163 | 120,570 | 1,790,733 | 135,109 | |
| Net OPEB liability | 564,431 | 49,920 | 614,351 | 247,751 | |
| Other liabilities | 75,800 | 4,601 | 80,401 | 16,153 | 30,538 |
| Total liabilities | 4,512,737 | 2,898,826 | 7,411,563 | 793,415 | 324,283 |
| Deferred inflows of resources: | | | | | |
| Deferred inflows related to pension | 39,352 | 1,004 | 40,356 | 9,081 | |
| Deferred inflows related to OPEB | | 1,146 | 1,146 | | |
| Total deferred inflows of resources | 39,352 | 2,150 | 41,502 | 9,081 | |
| Total liabilities and deferred inflows of resources | 4,552,089 | 2,900,976 | 7,453,065 | 802,496 | 324,283 |
| Net position: | | | | | |
| Net investment in capital assets | 2,574,640 | 3,383,394 | 5,958,034 | 642,159 | (79,398) |
| Restricted for: | | | | | |
| Construction | 8,448 | | 8,448 | 33,851 | |
| Debt service, sanitation, and capital leases | 460,487 | 161,308 | 621,795 | | |
| Perpetual care: | | | | | |
| Expendable | 6,167 | | 6,167 | | |
| Nonexpendable | 8,521 | | 8,521 | | |
| Unrestricted (deficits) | (2,771,072) | (92,013) | (2,863,085) | (228,889) | (3,755) |
| Total net position | \$ 287,191 | \$ 3,452,689 | \$ 3,739,880 | \$ 447,121 | \$ (83,153) |

CITY OF BALTIMORE
Statement of Activities
For the Year Ended June 30, 2018
(Expressed In Thousands)

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position | | | | |
|---|--------------|----------------------------|--|--|--|---------------------------------|-----------------|--|-----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Component Units | | |
| | | | | | Governmental Activities | Business- type Activities | Total | Baltimore City Public School System | Baltimore Hotel Corporation |
| Primary Government: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | \$ 404,025 | \$ 51,986 | \$ 103,378 | | \$ (248,661) | | \$ (248,661) | | |
| Public safety and regulation | 781,830 | 22,150 | 26,620 | | (733,060) | | (733,060) | | |
| Conservation of health | 134,743 | 7,223 | 87,888 | | (39,632) | | (39,632) | | |
| Social services | 95,107 | | 47,036 | | (48,071) | | (48,071) | | |
| Education | 383,934 | | | | (383,934) | | (383,934) | | |
| Public library | 35,189 | 180 | 16,586 | \$ 46 | (18,377) | | (18,377) | | |
| Recreation and culture | 59,049 | 169 | 3,720 | 4,675 | (50,485) | | (50,485) | | |
| Highways and streets | 165,800 | 9,216 | 1,537 | 29,150 | (125,897) | | (125,897) | | |
| Sanitation and waste removal | 81,877 | 10,546 | | | (71,331) | | (71,331) | | |
| Public service | 50,052 | | 55 | 7,224 | (42,773) | | (42,773) | | |
| Economic development | 131,347 | 9,684 | 37,637 | | (84,026) | | (84,026) | | |
| Interest | 77,530 | | | | (77,530) | | (77,530) | | |
| Total governmental activities | 2,400,483 | 111,154 | 324,457 | 41,095 | (1,923,777) | | (1,923,777) | | |
| Business-type activities: | | | | | | | | | |
| Water | 147,289 | 178,367 | | 66,790 | | 97,868 | 97,868 | | |
| Wastewater | 207,730 | 258,386 | | 102,364 | | 153,020 | 153,020 | | |
| Stormwater | 26,175 | 28,552 | | | | 2,377 | 2,377 | | |
| Parking | 17,797 | 85,257 | | | | 67,460 | 67,460 | | |
| Nonmajor proprietary | 10,087 | 28,639 | | | | 18,552 | 18,552 | | |
| Total business-type activities | 409,078 | 579,201 | | 169,154 | | 339,277 | 339,277 | | |
| Total primary government | \$ 2,809,561 | \$ 690,355 | \$ 324,457 | \$ 210,249 | \$ (1,923,777) | \$ 339,277 | \$ (1,584,500) | | |
| Component units: | | | | | | | | | |
| Baltimore City Public School System | \$ 1,388,698 | \$ 163 | \$ 165,683 | \$ 28,861 | | | | \$ (1,193,991) | |
| Baltimore Hotel Corporation | 63,786 | 64,917 | | | | | | | \$ 1,131 |
| General revenues: | | | | | | | | | |
| Property taxes | | | | | 886,417 | | 886,417 | | |
| Income taxes | | | | | 346,797 | | 346,797 | | |
| Transfer and recordation tax | | | | | 89,298 | | 89,298 | | |
| Electric and gas tax | | | | | 42,438 | | 42,438 | | |
| Telecommunications tax | | | | | 32,799 | | 32,799 | | |
| Admission tax | | | | | 8,924 | | 8,924 | | |
| Other local taxes | | | | | 14,295 | | 14,295 | | |
| State shared revenues | | | | | 170,240 | | 170,240 | | |
| State, federal, and City grants | | | | | | | | 1,195,034 | |
| Unrestricted investment income | | | | | 28,296 | 5,535 | 33,831 | 4,396 | 135 |
| Miscellaneous | | | | | 124,395 | | 124,395 | 148,545 | |
| Transfers | | | | | 59,295 | (59,295) | | | |
| Total general revenues and transfers | | | | | 1,803,194 | (53,760) | 1,749,434 | 1,347,975 | 135 |
| Changes in net position | | | | | (120,583) | 285,517 | 164,934 | 153,984 | 1,266 |
| Net position -- beginning (as restated) | | | | | 407,774 | 3,167,172 | 3,574,946 | 293,137 | (84,419) |
| Net position -- ending | | | | | \$ 287,191 | \$ 3,452,689 | \$ 3,739,880 | \$ 447,121 | \$ (83,153) |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Balance Sheet
Governmental Funds
June 30, 2018
(Expressed In Thousands)

| | General Fund | Grants Revenue Fund | Capital Projects Fund | Nonmajor Funds | Total |
|---|---------------------|---------------------|-----------------------|------------------|---------------------|
| Assets: | | | | | |
| Cash and cash equivalents | \$ 235,352 | | | \$ 12,556 | \$ 247,908 |
| Investments | 515,389 | | \$ 4,336 | 8,600 | 528,325 |
| Property taxes receivable, net | 12,483 | | | | 12,483 |
| Other receivables, net | 24,281 | | 325 | 1,300 | 25,906 |
| Due from other governments | 79,233 | \$ 33,107 | 17,982 | 2,891 | 133,213 |
| Due from other funds | 43,526 | | 14,840 | 8,455 | 66,821 |
| Notes and mortgages receivable, net | 269,942 | | | | 269,942 |
| Inventories, at cost | 1,023 | | | | 1,023 |
| Other assets | 19,760 | | | | 19,760 |
| Total assets | \$ 1,200,989 | \$ 33,107 | \$ 37,483 | \$ 33,802 | \$ 1,305,381 |
| Liabilities, deferred inflows of resources and fund balances (deficits): | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 207,699 | \$ 26,058 | \$ 16,350 | \$ 2,111 | \$ 252,218 |
| Retainages payable | | | 7,621 | | 7,621 |
| Estimated liability for claims in progress | 83,901 | | | | 83,901 |
| Due to other funds | 21,749 | | | 1,844 | 23,593 |
| Due to other governments | | | | 4,654 | 4,654 |
| Deposits subject to refund | 25,646 | | | | 25,646 |
| Unearned revenue | 18,027 | 4,600 | | | 22,627 |
| Total liabilities | 357,022 | 30,658 | 23,971 | 8,609 | 420,260 |
| Deferred inflows of resources: | | | | | |
| Unavailable property taxes | 18,611 | | | | 18,611 |
| Unavailable income taxes and other | 14,211 | | | | 14,211 |
| Unavailable grants revenue | | | | 3,530 | 3,530 |
| Total deferred inflows of resources | 32,822 | | | 3,530 | 36,352 |
| Total liabilities and deferred inflows of resources | 389,844 | 30,658 | 23,971 | 12,139 | 456,612 |
| Fund balances: | | | | | |
| Nonspendable | 2,210 | | | | 2,210 |
| Restricted | 423,673 | | 8,448 | 14,688 | 446,809 |
| Assigned | 221,658 | 2,449 | 5,064 | 8,794 | 237,965 |
| Unassigned | 163,604 | | | (1,819) | 161,785 |
| Total fund balances | 811,145 | 2,449 | 13,512 | 21,663 | 848,769 |
| Total liabilities and fund balances | \$ 1,200,989 | \$ 33,107 | \$ 37,483 | \$ 33,802 | |

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|-------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 3,001,264 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds | 377,706 |
| Internal service funds are used by management to charge the cost of fleet management, energy conservation, mailing, communications, printing, building maintenance, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position | 80,400 |
| Unavailable revenue is not due and payable in the current period and, therefore, is not reported in the funds | 36,352 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds | (4,057,300) |
| Net position of governmental activities | \$ 287,191 |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Governmental Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | General Fund | Grants Revenue Fund | Capital Projects Fund | Nonmajor Funds | Total |
|---|--------------|------------------------|-----------------------------|-------------------|--------------|
| Revenues: | | | | | |
| Taxes -- local | \$ 1,406,403 | | | \$ 12,558 | \$ 1,418,961 |
| State shared revenue | 146,174 | | | 24,066 | 170,240 |
| Licenses and permits | 41,043 | | | | 41,043 |
| Fines and forfeitures | 27,085 | | | | 27,085 |
| Interest, rentals and other investment income | 27,071 | | \$ 270 | 955 | 28,296 |
| Federal grants | 79 | \$ 131,346 | 35,351 | 17,261 | 184,037 |
| State grants | 104,644 | 75,378 | 5,744 | | 185,766 |
| Other grants | 27 | 27,233 | | | 27,260 |
| Charges for services | 43,026 | | | | 43,026 |
| Miscellaneous | | | 20,654 | | 20,654 |
| Other revenue | | | | 1,250 | 1,250 |
| Total revenues | 1,795,552 | 233,957 | 62,019 | 56,090 | 2,147,618 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 155,606 | 26,490 | | 26,756 | 208,852 |
| Public safety and regulation | 766,230 | 15,948 | | 1,781 | 783,959 |
| Conservation of health | 38,648 | 96,199 | | | 134,847 |
| Social services | 59,899 | 35,989 | | | 95,888 |
| Education | 293,355 | 698 | | 35 | 294,088 |
| Public library | 24,505 | 9,438 | | 63 | 34,006 |
| Recreation and culture | 43,845 | 4,766 | | 2,496 | 51,107 |
| Highways and streets | 99,848 | 150 | | 44 | 100,042 |
| Sanitation and waste removal | 75,384 | | | 373 | 75,757 |
| Public service | 42,579 | 5,562 | | | 48,141 |
| Economic development | 41,634 | 26,571 | 52,808 | 10,309 | 131,322 |
| Debt service: | | | | | |
| Principal | 51,466 | | | | 51,466 |
| Interest | 43,247 | | | | 43,247 |
| Capital outlay | | | 108,679 | | 108,679 |
| Capital lease | | | 25,054 | | 25,054 |
| Total expenditures | 1,736,246 | 221,811 | 186,541 | 41,857 | 2,186,455 |
| Excess (deficiency) of revenues over (under) expenditures | 59,306 | 12,146 | (124,522) | 14,233 | (38,837) |
| Other financing sources (uses): | | | | | |
| Transfers in | 185,535 | 27,601 | 39,032 | | 252,168 |
| Transfers out | (148,499) | (23,714) | (4,462) | (17,790) | (194,465) |
| Transportation revenue bonds | | | 14,924 | | 14,924 |
| Refunding of general obligation bonds | | | (133,560) | | (133,560) |
| Payoff of bond anticipation note | | | (60,148) | | (60,148) |
| Capital lease | | | 29,618 | | 29,618 |
| Refunding of capital leases | | | (4,563) | | (4,563) |
| Premium on general obligation bonds | | | 35,923 | | 35,923 |
| Face value of general obligation bonds | | | 225,155 | | 225,155 |
| Total other financing sources (uses) | 37,036 | 3,887 | 141,919 | (17,790) | 165,052 |
| Net changes in fund balance | 96,342 | 16,033 | 17,397 | (3,557) | 126,215 |
| Fund balances (deficits) -- beginning (as restated) | 714,803 | (13,584) | (3,885) | 25,220 | 722,554 |
| Fund balances -- ending | \$ 811,145 | \$ 2,449 | \$ 13,512 | \$ 21,663 | \$ 848,769 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2018
(Expressed in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|----------------------------|
| Net changes in fund balance -- total governmental funds | \$ 126,215 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year | (44,253) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds | (304,486) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | 134,118 |
| The net effect of the expense for recording the City's OPEB liability are not reported as expenditures in the governmental funds | 29,908 |
| The net effect of the expenses for recording the City's pension liability from employment retirement plans are not reported as expenditures in governmental funds | (61,189) |
| The net loss of certain activities of internal service funds is reported with governmental activities | (896) |
| Changes in net position of governmental activities | <u>\$ (120,583)</u> |

The notes to the basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Net Position
Proprietary Funds
June 30, 2018
(Expressed in Thousands)

| | Enterprise Funds | | | | | Total | Internal Service Funds |
|--|--------------------|-------------------------|-------------------------|-------------------------|-------------------|---------------------|------------------------|
| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund | Parking Facilities Fund | Nonmajor Funds | | |
| Assets and deferred outflows of resources: | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 71,130 | \$ 113,624 | \$ 32,145 | \$ 7,553 | \$ 15,227 | \$ 239,679 | \$ 22,019 |
| Accounts receivable, net: | | | | | | | |
| Service billings | 56,668 | 68,043 | 7,751 | | | 132,462 | |
| Other | 129 | 129 | | 1,102 | | 1,360 | 1,298 |
| Due from other governments | 20,145 | 60,000 | | | | 80,145 | |
| Inventories | 9,927 | 258 | 446 | | | 10,631 | 7,178 |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents | 40,243 | 61,692 | | | | 101,935 | |
| Notes and mortgages receivable | | | | 2,460 | | 2,460 | |
| Total current assets | 198,242 | 303,746 | 40,342 | 11,115 | 15,227 | 568,672 | 30,495 |
| Noncurrent assets: | | | | | | | |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents | 58,500 | 130,853 | | 32,497 | 54,063 | 275,913 | 36,814 |
| Due from other governments | 73,531 | 177,493 | | | | 251,024 | |
| Notes and mortgages receivable | | | | 33,474 | | 33,474 | |
| Capital assets, net of accumulated depreciation | 1,264,614 | 2,255,838 | 235,099 | 81,190 | 64,917 | 3,901,658 | 110,581 |
| Capital assets not being depreciated | 361,405 | 802,845 | 33,502 | 15,154 | 37,045 | 1,249,951 | |
| Total noncurrent assets | 1,758,050 | 3,367,029 | 268,601 | 162,315 | 156,025 | 5,712,020 | 147,395 |
| Total assets | 1,956,292 | 3,670,775 | 308,943 | 173,430 | 171,252 | 6,280,692 | 177,890 |
| Deferred outflows of resources | | | | | | | |
| Deferred amortization on early extinguishment of debt | 33,767 | 32,557 | | | | 66,324 | |
| Deferred loss on bond refunding | | | | 15,066 | | 15,066 | |
| Deferred outflows related to pension | 10,547 | 9,608 | 1,256 | | 622 | 22,033 | |
| Deferred outflows related to OPEB | 831 | 795 | 198 | | 86 | 1,910 | |
| Interest rate swaps | 7,290 | | | 4,210 | | 11,500 | |
| Total deferred outflows of resources | 52,435 | 42,960 | 1,454 | 19,276 | 708 | 116,833 | |
| Total assets and deferred outflows of resources | 2,008,727 | 3,713,735 | 310,397 | 192,706 | 171,960 | 6,397,525 | 177,890 |
| Liabilities: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | 14,050 | 19,298 | 394 | 787 | 255 | 34,784 | 8,494 |
| Accrued interest payable | 19,185 | 20,887 | 103 | 1,907 | | 42,082 | |
| Deposits subject to refund | 15 | | | | | 15 | |
| Due to other funds | 9,892 | | | | 32,509 | 42,401 | 480 |
| Due to other governments | | 6,004 | | | | 6,004 | |
| Compensated absences | 2,434 | 2,618 | 249 | | 146 | 5,447 | 1,019 |
| Other liabilities | | | | | 4,601 | 4,601 | |
| Accounts payable from restricted assets | 90,756 | 121,504 | 2,399 | | 6,686 | 221,345 | |
| Leases payable | | 183 | | | | 183 | 16,266 |
| Revenue bonds payable | 21,058 | 40,805 | 1,092 | 12,270 | | 75,225 | |
| General long-term debt payable | | | 349 | | | 349 | |
| Total current liabilities | 157,390 | 211,299 | 4,586 | 14,964 | 44,197 | 432,436 | 26,259 |
| Noncurrent liabilities: | | | | | | | |
| Leases payable | | 643 | | | | 643 | 70,067 |
| Revenue bonds payable, net | 951,358 | 1,236,046 | 9,439 | 99,260 | | 2,296,103 | |
| Derivative instrument liability | 10,909 | | | 17,693 | | 28,602 | |
| Compensated absences | 4,667 | 4,060 | 798 | | 188 | 9,713 | 2,623 |
| General long-term debt payable | | | 3,240 | | | 3,240 | |
| Net pension liability | 57,715 | 52,578 | 6,871 | | 3,406 | 120,570 | |
| Net OPEB liability | 22,831 | 21,782 | 3,501 | | 1,806 | 49,920 | |
| Total noncurrent liabilities | 1,047,480 | 1,315,109 | 23,849 | 116,953 | 5,400 | 2,508,791 | 72,690 |
| Total liabilities | 1,204,870 | 1,526,408 | 28,435 | 131,917 | 49,597 | 2,941,227 | 98,949 |
| Deferred inflows of resources: | | | | | | | |
| Deferred inflows related pension | 481 | 438 | 57 | | 28 | 1,004 | |
| Deferred inflows related OPEB | 339 | 807 | | | | 1,146 | |
| Total deferred inflows of resources | 820 | 1,245 | 57 | | 28 | 2,150 | |
| Total liabilities and deferred inflows of resources | 1,205,690 | 1,527,653 | 28,492 | 131,917 | 49,625 | 2,943,377 | 98,949 |
| Net position: | | | | | | | |
| Net investment in capital assets | 871,921 | 2,130,618 | 255,097 | 23,796 | 101,962 | 3,383,394 | 24,248 |
| Restricted for: | | | | | | | |
| Debt service | 56,078 | 75,781 | | 29,449 | | 161,308 | |
| Unrestricted (deficit) | (124,962) | (20,317) | 26,808 | 7,544 | 20,373 | (90,554) | 54,693 |
| Total net position | \$ 803,037 | \$ 2,186,082 | \$ 281,905 | \$ 60,789 | \$ 122,335 | 3,454,148 | \$ 78,941 |
| Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | | (1,459) | |
| Net position of business-type activities | | | | | | \$ 3,452,689 | |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018
(Expressed In Thousands)

| | Enterprise Funds | | | | | Total | Internal Service Funds |
|--|--------------------|-------------------------|-------------------------|-------------------------|----------------|--------------|------------------------|
| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund | Parking Facilities Fund | Nonmajor Funds | | |
| Operating revenues: | | | | | | | |
| Charges for sales and services | | | | | | | \$ 106,552 |
| Water, sewer and stormwater service | \$ 174,656 | \$ 257,273 | \$ 28,263 | | | \$ 460,192 | |
| Rents and fees | 305 | 389 | 199 | \$ 85,257 | \$ 28,552 | 114,702 | |
| Other income | 3,406 | 724 | 90 | | 87 | 4,307 | |
| Total operating revenues | 178,367 | 258,386 | 28,552 | 85,257 | 28,639 | 579,201 | 106,552 |
| Operating expenses: | | | | | | | |
| Salaries and wages | 38,123 | 42,595 | 7,830 | | 3,754 | 92,302 | 18,870 |
| Other personnel costs | 16,567 | 18,282 | 4,663 | | 2,268 | 41,780 | 7,984 |
| Contractual services | 31,786 | 69,167 | 6,672 | 9,015 | | 116,640 | 45,666 |
| Materials and supplies | 6,696 | 10,486 | 485 | | 174 | 17,841 | 3,663 |
| Minor equipment | 665 | 1,072 | 83 | | 268 | 2,088 | 5,285 |
| Postage and delivery services | | | | | | | 1,697 |
| Depreciation | 34,457 | 53,067 | 4,881 | 2,801 | 1,157 | 96,363 | 13,287 |
| Program expenses | | | | | 796 | 796 | |
| Other | | 46 | | | | 46 | |
| Total operating expenses | 128,294 | 194,715 | 24,614 | 11,816 | 8,417 | 367,856 | 96,452 |
| Operating income | 50,073 | 63,671 | 3,938 | 73,441 | 20,222 | 211,345 | 10,100 |
| Nonoperating revenues (expenses): | | | | | | | |
| Loss on sale of investments | (584) | (366) | | | | (950) | (1,680) |
| Other | | | (1,951) | | (1,838) | (3,789) | |
| Interest income | 2,824 | 3,299 | 362 | | | 6,485 | |
| Interest expense | (21,516) | (16,780) | (64) | (5,981) | | (44,341) | |
| Total nonoperating expenses, net | (19,276) | (13,847) | (1,653) | (5,981) | (1,838) | (42,595) | (1,680) |
| Income before capital contributions and transfers | 30,797 | 49,824 | 2,285 | 67,460 | 18,384 | 168,750 | 8,420 |
| Capital contributions | 66,790 | 102,364 | | | | 169,154 | (4,000) |
| Transfers in | | | | | | | 1,842 |
| Transfers out | | | | (59,295) | | (59,295) | (250) |
| Changes in net position | 97,587 | 152,188 | 2,285 | 8,165 | 18,384 | 278,609 | 6,012 |
| Total net position - beginning (as restated)..... | 705,450 | 2,033,894 | 279,620 | 52,624 | 103,951 | 3,175,539 | 72,929 |
| Total net position - ending..... | \$ 803,037 | \$ 2,186,082 | \$ 281,905 | \$ 60,789 | \$ 122,335 | 3,454,148 | \$ 78,941 |
| Adjustment to reflect the consolidation of internal service activities related to enterprise funds | | | | | | (1,459) | |
| Net position of business-type activities | | | | | | \$ 3,452,689 | |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2018
(Expressed in Thousands)

Amounts reported for business-type activities in the statement of activities are different because:

| | | |
|---|----|---------|
| Net change in fund balance -- total proprietary funds | \$ | 278,609 |
| The net expense of certain activities of internal service funds is reported with business-type activities | | 6,908 |
| Change in net position of business-type activities | \$ | 285,517 |

The notes to the basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Enterprise Funds | | | | | | |
|--|--------------------|-------------------------|-------------------------|-------------------------|----------------|------------|------------------------|
| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund | Parking Facilities Fund | Nonmajor Funds | Total | Internal Service Funds |
| Cash flows from operating activities: | | | | | | | |
| Receipts from customers | \$ 192,112 | \$ 273,987 | \$ 28,133 | \$ 85,061 | \$ 28,639 | \$ 607,932 | \$ 103,770 |
| Payments to employees | (61,055) | (69,228) | (12,712) | | (6,682) | (149,677) | (26,348) |
| Payments to suppliers | (41,055) | (80,697) | (6,846) | (10,162) | 321 | (138,439) | (55,820) |
| Net cash provided by operating activities | 90,002 | 124,062 | 8,575 | 74,899 | 22,278 | 319,816 | 21,602 |
| Cash flows from noncapital financing activities: | | | | | | | |
| Transfers in | | | | | | | 1,842 |
| Transfers out | | | | (59,295) | | (59,295) | |
| Net cash provided (used) by noncapital financing activities | | | | (59,295) | | (59,295) | 1,842 |
| Cash flows from capital and related financing activities: | | | | | | | |
| Mortgages receivable principal payments | | | | 4,556 | | 4,556 | |
| Proceeds from revenue bonds | | 40,884 | | | | 40,884 | |
| Proceeds from bonds anticipation notes payable | | | 1,404 | | | 1,404 | |
| Principal paid on revenue bonds | (17,370) | (20,855) | (690) | (11,490) | | (50,405) | |
| Principal paid on State water quality loans | (1,071) | (18,085) | (365) | | | (19,521) | |
| Principal paid on general long-term debt | | | (255) | | | (255) | |
| Payments on refunded debt | | (3,648) | (852) | | | (4,500) | |
| Interest received | 2,824 | 3,298 | 362 | 202 | | 6,686 | |
| Interest paid | (19,646) | (15,028) | 2,094 | (7,531) | | (40,111) | |
| Acquisition and construction of capital assets | (175,733) | (219,920) | 16,399 | (1,013) | (53,569) | (433,836) | (12,105) |
| Capital lease payments | | (261) | | | | (261) | |
| Capital contributions received | 71,872 | 83,590 | | | | 155,462 | |
| Due to other funds | | | | | 26,446 | 26,446 | |
| Net cash (used) by capital and related financing activities | (139,124) | (150,025) | 18,097 | (15,276) | (27,123) | (313,451) | (12,105) |
| Cash flows from investing activities: | | | | | | | |
| Loss on sale of investments | (584) | | | | | (584) | |
| Gain on investments | | (366) | | | | (366) | |
| Net cash (used) by investing activities | (584) | (366) | | | | (950) | |
| Net increase (decrease) in cash and cash equivalents | (49,706) | (26,329) | 26,672 | 328 | (4,845) | (53,880) | 11,339 |
| Cash and cash equivalents, beginning of year | 219,579 | 332,498 | 38,271 | 39,722 | 74,135 | 704,205 | 47,495 |
| Cash and cash equivalents, end of year | \$ 169,873 | \$ 306,169 | \$ 64,943 | \$ 40,050 | \$ 69,290 | \$ 650,325 | \$ 58,834 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | | |
| Operating income (loss) | \$ 50,073 | \$ 63,671 | \$ 3,938 | \$ 73,441 | \$ 20,222 | \$ 211,345 | \$ 10,100 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | | |
| Depreciation expense | 34,457 | 53,067 | 4,881 | 2,801 | 1,157 | 96,363 | 13,287 |
| Effect of changes in non cash operating assets and liabilities: | | | | | | | |
| Accounts receivables | 13,746 | 15,648 | (420) | (196) | | 28,778 | (72) |
| Inventories | (2,097) | (20) | 57 | | | (2,060) | 526 |
| Deferred outflows - pension | 6,184 | 3,603 | 1,146 | | 441 | 11,374 | |
| Deferred outflows - opeb | (831) | (795) | (198) | | (86) | (1,910) | |
| Accounts payable and accrued liabilities | 54 | (513) | 115 | (1,147) | 17 | (1,474) | 517 |
| Compensated absences | 310 | 132 | 350 | | | 792 | 485 |
| Due to (from) other funds | 9,892 | | | | | 9,892 | (3,241) |
| Deferred inflows - pensions | (8,067) | (7,554) | (316) | | (840) | (16,777) | |
| Deferred inflows - opeb | 339 | 807 | | | | 1,146 | |
| Pension liability - current period | (1,452) | (1,206) | (769) | | (54) | (3,481) | |
| Opeb liability | (2,777) | (3,373) | (209) | | (139) | (6,498) | |
| Due to other governments | (9,829) | 595 | | | | (9,234) | |
| Other liabilities | | | | | 1,537 | 1,537 | |
| Other noncurrent liabilities | | | | | 23 | 23 | |
| Total adjustments | 39,929 | 60,391 | 4,637 | 1,458 | 2,056 | 108,471 | 11,502 |
| Net cash provided by operating activities | \$ 90,002 | \$ 124,062 | \$ 8,575 | \$ 74,899 | \$ 22,278 | \$ 319,816 | \$ 21,602 |
| Noncash activity from capital and related financing activities: | | | | | | | |
| New capital leases | | | | | | | \$ 22,706 |
| Acquisition and construction of capital assets financed by debt | \$ 51,042 | \$ 35,449 | \$ 522 | | | \$ 87,013 | |
| Increase in issuance of State water quality loans | | 166,976 | 1,404 | | | 168,380 | |
| Total noncash activity from capital and related financing activities | \$ 51,042 | \$ 202,425 | \$ 1,926 | | | \$ 255,393 | \$ 22,706 |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018
(Expressed In Thousands)

| | Pension/OPEB | | Total |
|--|---------------------|-----------------|--------------------|
| | Trust Funds | Agency Funds | |
| Assets: | | | |
| Cash and cash equivalents | \$ 138,812 | \$ 233 | \$ 139,045 |
| Investments: | | | |
| Stocks | 3,367,680 | | 3,367,680 |
| Bonds | 1,021,831 | 53 | 1,021,884 |
| Real Estate | 472,807 | | 472,807 |
| Securities lending collateral | 144,899 | | 144,899 |
| Accounts receivable, net: | | | |
| Other | | 347 | 347 |
| Forward foreign contracts | 25,065 | | 25,065 |
| Other assets | 102,344 | | 102,344 |
| Total assets | 5,273,438 | 633 | 5,274,071 |
| Liabilities: | | | |
| Obligations under securities lending program | 144,899 | | 144,899 |
| Forward foreign contracts | 24,852 | | 24,852 |
| Accounts payable | 82,962 | | 82,962 |
| Due to other funds | | 347 | 347 |
| Other | 367 | 286 | 653 |
| Total liabilities | 253,080 | 633 | 253,713 |
| Net position: | | | |
| Net position restricted for Pensions and OPEB | \$ 5,020,358 | | \$5,020,358 |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year Ended June 30, 2018
(Expressed In Thousands)

| | Pension/OPEB Funds Total |
|---|--------------------------------|
| Additions: | |
| Contributions: | |
| Employer | \$ 370,746 |
| Employee | 97,763 |
| Total contributions | <u>468,509</u> |
| Investment income: | |
| Net appreciation in fair value of investments | 323,122 |
| Securities lending income | 9,575 |
| Interest and dividend income | 79,541 |
| Total investment income | <u>412,238</u> |
| Less: investment expense | <u>25,816</u> |
| Net investment income | <u>386,422</u> |
| Total additions | <u>854,931</u> |
| Deductions: | |
| Retirement benefits | 392,533 |
| Health benefits | 159,817 |
| Death benefits | 720 |
| Administrative expenses | 8,638 |
| Other | 3,981 |
| Total deductions | <u>565,689</u> |
| Changes in net position | 289,242 |
| Net position restricted for Pensions and OPEB - beginning of the year | <u>4,731,116</u> |
| Net position restricted for Pensions and OPEB - end of year | <u>\$ 5,020,358</u> |

The notes to basic financial statements are an integral part of this statement.

CITY OF BALTIMORE
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CITY OF BALTIMORE

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

The City of Baltimore (City) was incorporated under the laws of the State of Maryland in 1797 and operates under an elected Mayor-Council form of government. As required by accounting principles generally accepted in the United States for governmental entities (GAAP), the accompanying financial statements present the City and its component units, entities, for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Blended Component Unit

The Baltimore Industrial Development Authority (IDA), an entity legally separate from the City, finances capital construction projects, which solely benefit the City. The IDA is administered by a Board appointed by the Mayor and is financially accountable to the City. This component unit is so intertwined with the City that it is, in substance, the same as the City and, therefore, is blended and reported as if it is part of the City. The IDA is reported as an enterprise fund.

Discretely Presented Component Units

The Baltimore City Public School System (BCPSS) is responsible for elementary and secondary education within the City's jurisdiction. The BCPSS receives significant funding from the City and is a financial burden to the City. The City is also required to pay certain benefits to its employees. However, the BCPSS is legally separate from the City since it has the authority and responsibility for all its system functions and the Governor of the State of Maryland appoints a majority of its nine member board. The City, however, approves the BCPSS annual budget. The City adjusted the financial results of the BCPSS to record the net pension liability attributable to BCPSS employees that participate in the Employees' Retirement System of the City of Baltimore (ERS) and the net other post employment liability (OPEB) which are detailed in Note 20. Complete financial statements for BCPSS may be obtained from the Chief Financial Officer, Baltimore City Public School System, 200 East North Avenue, Baltimore, Maryland 21202.

The Baltimore Hotel Corporation (BHC) was incorporated on October 14, 2005 as a nonprofit non-stock corporation, and is wholly owned by the City. BHC is financially accountable to the City. The BHC assists the Mayor and City Council of Baltimore on enhancing the economic development in the City by operating a downtown convention center headquarters hotel and parking structure. The City has pledged certain site-specific occupancy tax revenue to pay shortfalls in hotel operating revenues and is responsible for operating deficits.

Complete financial statements for BHC for the year ended December 31, 2017 may be obtained from the Director of Finance, Baltimore City, 469 City Hall, 100 N. Holliday St., Baltimore, Maryland 21202.

Related Organizations

There are other governmental entities that provide services within the City of Baltimore. While the City is responsible for appointing the board members of these entities, the City's accountability for these organizations does not extend beyond making appointments. The City's basic financial statements do not reflect the operations of the:

| | |
|---|---|
| Baltimore City Foundation | Live Baltimore Home Center |
| Lexington Market | Healthcare Access Maryland |
| Visit Baltimore, Inc. | Royal Farms Arena – SMG |
| Baltimore Community Lending | Family League of Baltimore City, Inc. |
| City of Baltimore Development Corporation | Hippodrome Foundation |
| Special Benefits Taxing Districts | Community Media of Baltimore City, Incorporated |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

In addition, the Housing Authority of Baltimore City (HABC) is considered a related organization. The HABC is a separate legal entity and is governed by a Commission of five citizens with staggered terms appointed by the Mayor. The Commission establishes the operating policies of the HABC, which was implemented under the direction of an Executive Director appointed by the Commission. The HABC develops, maintains, and manages low-rent housing and administers housing assistance payment programs primarily for the citizenry's benefit and not that of the primary government. These activities are subsidized by the U. S. Department of Housing and Urban Development and other grantors. Consequently, the primary government is not able to exert influence over or to impose a burden relationship upon the HABC. This organization is not financially accountable to the City and maintains its own separate accounting systems.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Basis of Presentation

Government-wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been eliminated for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net position (the amount by which assets exceed liabilities) are reported on the Statement of Net Position in three components:

- Net investment in capital assets - the total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets;
- Restricted - for amounts when constraints placed on the net position are either externally imposed, or are imposed by constitutional provisions or enabling legislation; and
- Unrestricted - the total net position which does not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted assets first with unrestricted resources utilized as needed.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Grants Revenue Fund. This fund accounts for revenues derived from governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

Capital Projects Fund. The proceeds of general obligation bond issues, State construction loans, governmental and other grants, and revenues from other sources appropriated for capital improvements, acquisitions and related programs are accounted for in this fund, except for those accounted for in the proprietary fund types. Although not required to disclose this fund as a major fund per GASB34, management has opted to disclose the Capital Projects Funds as a major fund due to its importance in the financial statements.

The City also reports nonmajor governmental funds which are classified as Special Revenue Funds and Permanent Funds. The Debt Service Fund was reported separately as a nonmajor governmental fund in previous years. The Debt Service Fund was included as part of the General Fund.

The City reports the following major enterprise funds:

Water Utility Fund. This fund accounts for the operation, maintenance, and development of the City's water supply system.

Wastewater Utility Fund. This fund accounts for the operation, maintenance, and development of the City's sewerage system.

Stormwater Utility Fund. This fund accounts for the operation, maintenance, and development of the City's Stormwater system and infrastructure. This fund is a non-major for fiscal year 2018, however the City elected to show major.

Parking Facilities Fund. This fund accounts for the operation, maintenance, and development of the City-owned offstreet parking facilities.

Although not required to report the Stormwater Utility Fund and the Parking Facilities Fund as major enterprise funds per GASB 34, management has opted to disclose these funds separately.

The City reports the following other fund types:

Internal Service Funds. These funds account for mobile equipment, reproduction and printing, municipal post office, municipal telephone exchange, municipal communications, energy conservation, building maintenance and hardware and software replacement, which provided goods and services to other departments on a cost-reimbursement basis.

Fiduciary Funds. These funds account for assets and activities when a government unit is functioning either as a trustee or an agent of another party, transactions related to assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governments. The fiduciary funds include the following:

Pension Trust Funds. These funds account for the receipt, investment and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials and other City employees.

Other Postemployment Benefits Trust Fund. This fund accounts for the receipt, investment and distribution of retiree health and life insurance benefits.

Agency Funds account for assets held by the City as custodians. Agency funds include:

- Unpresented Stock and Coupon Bonds account for principal payments held by the City for matured bonds not yet presented for payment.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

- Property Sold for Taxes accounts for the proceeds of tax sales in excess of the City liens that remain unclaimed by the taxpayer.
- Bid Deposit Refunds account for bid deposits held by the City to secure vendors' bids not yet awarded.
- Recreation Accessory accounts for assets held by the City for the benefit of recreation centers throughout the City.
- Waterloo Summit accounts for assets held by the City as a surety deposit from a developer.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements with the exception of agency funds, which have no measurement focus, are reported using the economic resources measurement focus and are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end, except for grant and entitlement revenues which have a 90 day availability period. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general fund revenues.

C. ASSETS, LIABILITIES, AND EQUITY

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the City.

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2018, based on market prices. The individual funds' portions of the pool's fair value are presented as "Cash and Cash Equivalents." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund. The City does not invest any portion of its cash in derivative investments.

Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Mortgage receivables reported in governmental fund and government-wide financial statements, and notes receivable reported in proprietary fund statements consist of loans that are generally not expected or scheduled to be collected in the subsequent year.

Unbilled water and wastewater user charges are estimated and accrued at year-end.

Inventories

Inventories are valued at cost using the moving average method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art, and similar items are recorded at acquisition value. Infrastructure assets acquired prior to July 1, 2001 are reported at estimated historical cost using deflated replacement cost. Infrastructure assets, such as streets, highways, bridges, sidewalks, street lighting, traffic poles and signals, and storm sewers are required to be capitalized under GAAP. Capitalization thresholds are: \$50,000 for buildings, improvements and infrastructure; and \$5,000 for equipment. Library books are capitalized as a collection based on total purchases. Donated capital assets, such as works of art, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------------|-------------------------------|
| Infrastructure | 25-80 |
| Buildings | 50 |
| Building improvements | 20-50 |
| Equipment | 2-25 |
| Library books | 10 |
| Mobile Equipment | 5-10 |

Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual sick, vacation, and personal leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Payments made to terminated employees for accumulated leave are charged as expenditures/expenses, primarily in the General Fund, Special Revenue Funds, and Proprietary Funds, when paid.

Estimated Liability for Claims in Process

The liability for claims in process represents estimates for all personal injury, workers' compensation, unemployment, property damage, and medical claims as of June 30, 2018. This liability, which includes estimates for known and incurred but not reported claims, is based upon an actuarial valuation of the City's claim payment history discounted at a rate of 3.0%, for all claims except medical, for which claims are not discounted.

Property Tax and Property Tax Calendar

The City levies an annual tax for the fiscal year beginning July 1 and ending June 30, on real and personal property located in the City, due and payable each July 1 (lien date), based on assessed values as of the previous January 1. These assessed values are established by the State of Maryland Department of Assessments and Taxation at various rates of estimated market value. A discount of 1/2% is allowed for payments made in July. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 2% is assessed each month. Real property subject to tax liens is sold at public auction in May in instances where the taxes have remained delinquent since the preceding October 1.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The City is responsible for the assessment, collection, and apportionment of property taxes. The City levies an annual tax for the fiscal year ending June 30, due and payable each July 1, based on assessed values as of the previous January 1.

State law requires that all real property be reassessed every three years, and further provides that the amount of any increase over previous established market values be phased in over a three-year period. To accomplish the triennial assessment requirement, approximately one-third of all real property is reviewed annually. The City Council, effective with the fiscal year beginning July 1, 1991, enacted a 104% homestead tax credit program which will protect home owners from increases in assessments that are greater than 4% in any one year. The assessed value of real property in Baltimore City for fiscal year 2018 was \$33,909,100,000 which was approximately 87.3% of the estimated market value.

The tax rate in Baltimore City for real property taxes for fiscal year 2018 was \$2.248 per \$100 of assessed value. Pursuant to State Law, the personal property tax and tax rate applied to operating property of public utilities is 2.5 times the real property rate or \$5.62 per \$100 of assessed value. Current collections were 97.0% of the total tax levy.

At June 30, 2018, the City had property taxes receivable of \$12,483,000, net of an allowance for uncollectible accounts of \$12,510,000.

Gains and Losses on Early Extinguishment of Debt from Refundings

Gains and losses on the early extinguishment of debt from refundings are amortized over the shorter of the life of the new or old debt.

Sick, Vacation and Personal Leave

Employees earn one day of sick leave for each completed month of service, and there is no limitation on the number of sick days that employees can accumulate. A portion of unused sick leave earned annually during each twelve-month base period may be converted to cash at a maximum of three days, computed on an attendance formula. Upon retirement with pension benefits, or termination of employment after completion of twenty or more years of service without pension benefits, employees receive one day's pay for every four sick days accumulated and unused at the date of separation; under any other conditions of separation, unused sick leave is forfeited.

Employees earn vacation leave for each completed month of service and can accumulate a maximum of 45 days. Police officers earn vacation leave for each completed month of service and can accumulate a maximum of 125 days. Vacation leave balances can either be taken through time off or carried until paid at termination or retirement. Three personal leave days are granted for usage only on the fiscal year starting July 1st, and expire on June 30th of the same fiscal year.

The City accrues for all salary-related items in the government-wide and proprietary fund types in the fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination or retirement. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for sick, vacation and personal leave pay.

The Baltimore City Public School System's employees are granted sick, vacation and personal leave in varying amounts based on length of service and bargaining unit. A limited number of sick, vacation and personal leave days may be carried forward from year to year and upon retirement with pension benefits or separation of employment with twenty years of service, employees are paid accumulated sick, vacation and personal leave days at appropriate formula and rates. The unpaid vested sick, vacation and personal leave days have been reported as vested compensated absences.

Restricted Assets

The proceeds of the Water Utility Fund, Wastewater Utility Fund, Stormwater Utility Fund, Parking Facilities Fund, and Nonmajor Funds revenue bonds and Federal and State grants, and restricted accounts receivable are restricted for the purpose of the construction of water, sewer, stormwater, and parking facilities.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until the future period. At June 30, 2018, the City recognized unamortized losses on early extinguishments of debt, refunding, pension and OPEB activity, and interest rate swaps as deferred outflows of resources in the government-wide statement of net position and the proprietary funds statement of net position.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2018, the City recognized deferred inflows of resources in the governmental funds for property taxes, income taxes, other prepaid taxes and notes receivables. Additionally, the City recognized deferred inflows of resources in the government-wide statement of net position for pension and OPEB.

Fund Balance

The City classifies its fund balance into the following categories:

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in spendable form such as inventories, prepaid amounts, long-term portions of loans and notes receivable and activities that are legally or contractually required to remain intact such as principal balance in a permanent fund.
- Restricted fund balance has constraints placed upon the use of the resources either by external creditors, grantors, contributors or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by the formal vote of Board of Estimates, the City's highest level decision making authority. Amounts in this category may be redeployed for other purposes with the formal vote of the City's Board of Estimates. Committed amounts cannot be used for any other purpose unless the City removes or changes the specific use by taking the same type of action it used to previously commit the amounts.
- Assigned fund balance includes amounts that are constrained by the City to be used for specific purposes but are neither restricted nor committed for which the City has a stated intended use as established by the Board of Estimates. The Board of Estimates has delegated the authority to assign amounts for a specific purpose to the City's Director of Finance. These are resources where the constraints/restrictions are less binding than that for committed funds. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed.
- Unassigned fund balance is the residual amount of the general fund not included in the four categories described above. The general fund is the only positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for the specific purpose exceed the amounts restricted, committed or assigned to those purposes, negative unassigned fund balance may be reported.

The Board of Estimates is required to take formal action before funds can be committed for a specific purpose. Formal action of the Board of Estimates is also required before committed funds can be rescinded or modified. The City's general spending prioritization policy is to consider restricted resources to have been used first, followed by committed, assigned, and unassigned amounts when expenditures have been incurred for which resources in more than one classification could be used.

Nonspendable fund balance

Long Term Assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Inventory - This portion of fund balance represents amounts not available for appropriation or expenditure because the underlying asset (inventory) is not an available resource for appropriation or expenditure.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Permanent Fund – This portion of fund balance represents amounts for which the City is legally or contractually required to maintain intact.

Restricted fund balance

Landfill closure and development – This portion of fund balance has been set aside to fund the cost of future landfill development and closure cost as required by federal regulation.

Debt Service – This portion of the fund balance represents the amounts needed to service future debt payments.

Assigned fund balance

Encumbrances – This portion of fund balance represents approved contracts for which the City has completed the procurement process and the Board of Estimates has approved the contract.

Requisitions – This portion of fund balance is set aside by the Director of Finance to fund various non-lapsing transactions which have not completed the procurement process at year end.

Subsequent years' expenditures - This portion of fund balance represents the amount to finance certain non-recurring policy initiatives and other expenditures included in the fiscal year 2018 budget.

Unassigned fund balance

Budget stabilization reserve - The City of Baltimore's budget stabilization reserve (reserve) was established by resolution of the Board of Estimates for the purpose of providing 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. The Board of Estimates in determining to use the reserve would first need to acknowledge that all reasonable efforts had been made in controlling expenses, and secondly, the City's unreserved fund balance had been exhausted. The reserve under no circumstances can be used as a revenue source to balance a planning year budget. The Board of Estimates determines the amount of annual funding for the reserve. The resolution requires that reserves be maintained on any June 30th at a minimum level of 8% of the value of the general fund's operating budget of the subsequent year. Whenever funds are drawn from the reserve, a Board of Estimates approved reserve replenishment plan must be established and must specify a timetable for full restoration of the reserve not to exceed five years.

Interfund Transactions

The City has three types of transactions among funds:

Statutory transfers - Legally required transfers that are reported when incurred as "Transfers in" by the recipient fund and as "Transfers out" by the disbursing fund.

Transfers of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund payments - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and as expenditures or expenses of the disbursing fund.

Uses of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

D. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD PRONOUNCEMENTS

In fiscal year 2018, the City adopted Governmental Accounting Standards Board Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, Statement No. 81, “*Irrevocable Split-Interest Agreements*”, Statement No. 86, “*Certain Debt Extinguishment Issues*”, and Statement No. 85, “*Omnibus 2017*”. The implementation of these standards had a significant impact on the City’s presentation.

The City will be required to adopt the following Governmental Accounting Standards Board (GASB) pronouncements:

GASB Statement No. 83

In November 2016, the GASB issued Statement No. 83, “*Certain Asset Retirement Obligations*”. The objective of this Statement is to enhance the decision-usefulness of the information provided to financial statement users about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for governments. The City is required to adopt GASB No. 83 for its fiscal year 2019 financial statements.

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, “*Fiduciary Activities*”. The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The City is required to adopt GASB No. 84 for its fiscal year 2020 financial statements.

GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, “*Leases*”. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The City is required to adopt GASB No. 87 for its fiscal year 2021 financial statements.

GASB Statement No. 88

In April 2018, the GASB issued Statement No. 88, “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*”. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is required to adopt GASB No. 88 for its fiscal year 2019 financial statements.

GASB Statement No. 89

In June 2018, the GASB issued Statement No. 89, “*Accounting for Interest Cost Incurred before the End of a Construction Period*”. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement supersedes all interest cost that previously was accounted for in accordance with Statement No. 62. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

historical cost of a capital asset reported in a business-type activity or enterprise fund. The City is required to adopt GASB No. 89 for its fiscal year 2021 financial statements.

GASB Statement No. 90

In August 2018, the GASB issued Statement No. 90, “*Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*”. The objective of this Statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement modifies previous guidance for reporting a government’s majority equity interest in a legally separate organization. The City is required to adopt GASB No. 90 for its fiscal year 2020 financial statements.

2. Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and the net position for governmental activities as shown on the government-wide statement of net position is presented on the face of the governmental funds balance sheets. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

A summary reconciliation of the difference between net changes in fund balance as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and changes in net position for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenues and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

A summary reconciliation of the difference between total net position as reflected on the proprietary funds statement of net position and the net position for business-type activities as shown on the government-wide statement of net position is presented on the face of the proprietary funds statement of net position. The asset element which comprises the reconciliation difference stems from the allocation of internal service fund balance to the business-type activities on the government-wide statement of net position.

A summary reconciliation of the difference between net changes in net position as reflected on the proprietary funds statement of revenues, expenses and changes in net position and changes in net position for business activities as shown on the government-wide statement of activities is presented on the face of the proprietary funds statement of net position. The expense element, which comprises the reconciliation difference, stems from the allocation of internal service funds deficit to the business-type activities on the government-wide statement of activities.

CITY OF BALTIMORE
Notes to Basic Financial Statements

(Continued)

Explanation of differences between the governmental fund balance sheet and the government-wide statement of net position
(amount expressed in thousands):

| | |
|---|-----------------------|
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds : | |
| Capital assets | \$ 5,958,917 |
| Less accumulated depreciation | (2,957,653) |
| Total | <u>\$ 3,001,264</u> |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds: | |
| Net pension asset | \$ 10,020 |
| Other asset | 23,470 |
| Deferred loss on bond refundings | 6,764 |
| Deferred outflow of resources (pension)..... | 316,968 |
| Deferred outflow of resources (OPEB)..... | 19,256 |
| Interest rate swaps | 1,228 |
| Total | <u>\$ 377,706</u> |
| Internal Service funds are used by management to charge the cost of fleet management, mailing, communications, printing energy conservation and building maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position | |
| | <u>\$ 80,400</u> |
| Unavailable revenue is not due and payable in the current period, and therefore, is not reported in the funds | |
| | <u>\$ 36,352</u> |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Accounts payable | \$ 7,029 |
| Accrued interest payable | (10,644) |
| Long-term bonds | (771,345) |
| Revenue bonds | (404,130) |
| Capital leases | (73,674) |
| Compensated absences and other | (152,986) |
| Estimated claims in progress | (274,604) |
| Landfill closure liability | (25,972) |
| Derivative instrument liability | (1,228) |
| Net pension liability | (1,670,163) |
| Net OPEB liability | (564,431) |
| Other liabilities | (75,800) |
| Deferred in flow of resources (pension)..... | (39,352) |
| Total | <u>\$ (4,057,300)</u> |

Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (amount expressed in thousands):

| | |
|--|---------------------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |
| Capital outlay | \$ 81,236 |
| Depreciation | (125,489) |
| Total | <u>\$ (44,253)</u> |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | |
| Grants reimbursements not received for several months after the fiscal year end are not considered as available revenues in the governmental funds | \$ (31,511) |
| Note receipts are not considered as available revenues in the governmental funds | (27) |
| Proceed from new debt | (275,372) |
| Tax revenues not received for several months after the fiscal year end are not considered as available revenues in the governmental funds | 2,424 |
| Total | <u>\$ (304,486)</u> |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | |
| Debt service principal | \$ 245,174 |
| Accrued interest payable | (4,534) |
| Capital leases | 758 |
| Claims liability | (13,598) |
| Landfill closure liability | (5,329) |
| Compensated absences | (9,749) |
| Miscellaneous other liability | (75,800) |
| Other miscellaneous | (2,804) |
| Total | <u>\$ 134,118</u> |
| The net effect of the expenses for recording the City's OPEB liability are not reported as expenditure in the governmental funds | |
| | <u>\$ 29,908</u> |
| The net effect of the expenses for recording the City's pension liability from employee retirement plans are not reported as expenditures in the governmental funds | |
| | <u>\$ (61,189)</u> |
| The net income of certain activities of internal service funds is reported with governmental activities: | |
| Internal service funds net expenses attributed to governmental activities | \$ (896) |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

3. Deposits and Investments

A. SUMMARY OF DEPOSIT AND INVESTMENT BALANCES

The following is a reconciliation of the City's deposit and investment balances at June 30, 2018 (amounts expressed in thousands):

| | Government-wide Statements of Net Position | Fiduciary Funds Statement of Net Position Total | Total |
|---|--|---|---------------------|
| Cash and cash equivalent | \$ 509,606 | \$ 139,045 | \$ 648,651 |
| Investments | 528,325 | 4,862,372 | 5,390,697 |
| Restricted cash and cash equivalent | 414,662 | | 414,662 |
| Total | \$ 1,452,593 | \$ 5,001,417 | \$ 6,454,010 |

B. CASH DEPOSITS

At June 30, 2018, the carrying amount of the City's bank deposits was \$7,219,000 and the respective bank balances totaled \$7,380,000. All of the City's cash deposits are either insured through the Federal Depository Insurance Corporation, or collateralized by securities held in the name of the City, by the City's agent.

At June 30, 2018, BCPSS and BHC had demand deposits with carrying values of \$7,200,000 and \$2,981,000, respectively.

C. INVESTMENTS

Primary Government

For other than pension funds, BCPSS and BHC, the City is authorized by State Law to invest in direct or indirect obligations of the United States Government, repurchase agreements that are secured by direct or indirect obligations of the United States Government, certificate of deposit, commercial paper with highest letter and numerical rating, mutual funds registered with the Securities and Exchange Commission and the Maryland Local Government Investment Pool. The City's investment policy limits the percentage of certain types of securities with the exception of obligations for which the United States Government has pledged its full faith and credit. For investments held by the City in trust and/or to secure certain debt obligations, the City complies with the terms of the trust agreements. The City's Board of Finance has formally adopted the above policies and reviews and approves all securities transactions.

Investments are reported at fair value, except that investments with maturities of less than one year from purchase date are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. Real estate holdings are valued based on current appraisals. Leveling disclosures for the investments are included in a table on the following page.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

This primary government's investments at June 30, 2018, are presented below. All investments are presented by investment type, and debt securities are presented by maturity (amounts expressed in thousands):

| Investment Type | Fair Market Value | Investment Maturities (In Months) | | |
|---------------------------------|-------------------|-----------------------------------|------------|-----------------|
| | | Less Than 6 | 6 to 12 | Greater Than 12 |
| Debt Securities: | | | | |
| U.S. Treasury | \$ 664 | | \$ 110 | \$ 554 |
| U.S. Agencies | 448,220 | \$ 160,506 | | 287,714 |
| Repurchase agreements | 178,000 | | 178,000 | |
| Money market mutual funds | 809,164 | 809,164 | | |
| Commercial paper | 1,836 | | | 1,836 |
| | 1,437,884 | \$ 969,670 | \$ 178,110 | \$ 290,104 |
| Other investments: | | | | |
| Equity mutual funds | 7,490 | | | |
| | 1,445,374 | | | |
| Less: cash equivalents | 917,049 | | | |
| Total investments | \$ 528,325 | | | |

Investments and Valuation - The City categorizes its investments using the fair value measurements identified in the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

| Investment Type | Fair Market Value | Investment Levels | | |
|---------------------------------|-------------------|-------------------|----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Debt Securities: | | | | |
| U.S. Treasury | \$ 664 | \$ 664 | | |
| U.S. Agencies | 448,220 | 448,220 | | |
| Repurchase agreements | 178,000 | 178,000 | | |
| Equity mutual funds | 7,490 | 7,490 | | |
| Money market mutual funds | 809,164 | 809,164 | | |
| Commercial paper | 1,836 | | \$ 1,836 | |
| | 1,445,374 | \$ 1,443,538 | 1,836 | |
| Less: cash equivalents | 917,049 | | | |
| Total investments | \$ 528,325 | | | |

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Interest rate risk—Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investment.

The City limits its interest rate risk in accordance with the City's Board of Finance policy by maintaining a minimum of 20 percent of the City's investments in funds in liquid investments to include United States Government securities, overnight repurchase agreements, and the Maryland Local Government Investment Pool, and by limiting the par value of the portfolio invested for a period greater than one year at or below \$100 million.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The Maryland Local Government Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company but maintains a policy to operate in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940.

Credit risk of debt securities—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The City Board of Finance limits City investments to only the highest rated investments in the categories discussed above. The City’s rated debt investments as of June 30, 2018 were rated by a nationally recognized statistical rating agency and are presented below using the Moody’s rating scale (amounts expressed in thousands):

| Investment Type | Fair Value | Quality Ratings | |
|---------------------------------|---------------------|-------------------|-----------|
| | | Aaa-AA+ | A 1-P1 |
| Debt Securities: | | | |
| U.S. Agencies | \$ 448,220 | \$ 448,220 | |
| Money market mutual funds | 809,164 | not rated | |
| Commercial paper | | | not rated |
| Total investments | \$ 1,257,384 | \$ 448,220 | |

Concentration of credit risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City has not adopted a formal policy on the concentration of credit risk.

The City had the following debt security investments at June 30, 2018, that were more than five percent of total investments (dollar amounts expressed in thousands):

| Investment | Fair Value | Percentage of Portfolio |
|--|-------------------|-------------------------|
| Cantor Repurchase Agreement | \$ 178,000 | 13.01% |

Retirement Systems

The City’s three Retirement Systems (Systems or System) are authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board of Trustees of each system accomplishes the daily management of the investments through an external investment advisor, who acts as a fiduciary for each system, and through external investment managers. The Board of Trustees for each system invests the assets of the system using the “prudent person standard”, which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Boards of Trustees have adopted an investment policy and guidelines for each system to formally document their investment objectives and responsibilities. Leveling tables as required by GASB 72 are available in the separately issued statements for the Systems.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The invested assets of the retirement systems at June 30, 2018 are as follows (amounts expressed in thousands):

| Investment Type | Carrying Value | | | Total |
|---|------------------------------------|---|---|---------------------|
| | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | |
| Debt Securities: | | | | |
| U.S. Treasury notes and bonds | \$ 9,937 | | \$ 67,691 | \$ 77,628 |
| U.S./Canadian government agency bonds | 65,732 | | 55,784 | 121,516 |
| Non-U.S. government agency bonds | 22,451 | | | 22,451 |
| Corporate bonds | 123,877 | \$ 5,647 | 152,444 | 281,968 |
| Commingled fixed income fund | 211,090 | | | 211,090 |
| Mutual funds | 84,370 | 49 | 44,929 | 129,348 |
| Total debt securities | 517,457 | 5,696 | 320,848 | 844,001 |
| Other: | | | | |
| Domestic equities | 504,904 | 10,536 | 509,487 | 1,024,927 |
| International equities | 377,137 | 6,037 | 476,351 | 859,525 |
| Hedge funds | 40,000 | 1,081 | 195,933 | 237,014 |
| Commingled debt and equity fund | | | 516,780 | 516,780 |
| Private equity funds | 98,046 | | 186,913 | 284,959 |
| Energy master limited partnerships | | | 218,438 | 218,438 |
| Real estate | 157,097 | 2,509 | 263,578 | 423,184 |
| Total other | 1,177,184 | 20,163 | 2,367,480 | 3,564,827 |
| Total investments | 1,694,641 | 25,859 | 2,688,328 | 4,408,828 |
| Less: Cash and cash equivalents | 84,370 | 49 | 44,930 | 129,349 |
| Total net investment | \$ 1,610,271 | \$ 25,810 | \$ 2,643,398 | \$ 4,279,479 |

Foreign Currency Risk Exposure – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The Fire and Police Employee’s Retirement System’s Board of Trustees has adopted a policy that the external managers demonstrate sensitivity to currency risk. The foreign currency exposure of the Fire and Police Employee’s Retirement System may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of the portfolio may be hedged. Cross-hedging to currencies other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

The Employees’ Retirement Systems Board of Trustees has not adopted a formal policy to limit foreign currency risk.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The foreign currency risk for each system at June 30, 2018 is presented on the following table (amounts expressed in thousands):

| Currency | Employees' Retirement System | Fire and Police Employees' Retirement System | Total |
|-------------------------------------|------------------------------------|---|-------------------|
| Euro Currency Unit | \$ 81,618 | \$ 117,700 | \$ 199,318 |
| Australian Dollar | 15,962 | 3,530 | 19,492 |
| Brazil Real | 2,388 | 467 | 2,855 |
| British Pound Sterling | 41,600 | 105,980 | 147,580 |
| Canadian Dollar | 24,193 | 26,445 | 50,638 |
| Chilean Peso | 847 | | 847 |
| Chinese Yuan Renminbi | (1,064) | | (1,064) |
| Columbian Peso | 1,029 | | 1,029 |
| Czech Koruna | 1 | | 1 |
| Danish Krone | 1,822 | 7,117 | 8,939 |
| Hong Kong Dollar | 18,354 | 21,870 | 40,224 |
| Hungarian Forint | 284 | | 284 |
| Indian Rupee | 854 | | 854 |
| Indonesian Rupian | 3,704 | 1,742 | 5,446 |
| Israeli Shekel | 628 | | 628 |
| Japanese Yen | 54,406 | 63,902 | 118,308 |
| Malaysian Ringgit | 1,361 | | 1,361 |
| Mexican Peso | 2,289 | 62 | 2,351 |
| New Taiwan Dollar | | 1,854 | 1,854 |
| New Zealand Dollar | 2,490 | | 2,490 |
| Norwegian Krone | 5,730 | 1,261 | 6,991 |
| Peruvian Sol | 316 | | 316 |
| Philippines Peso | 1,693 | | 1,693 |
| Polish Zloty | 835 | | 835 |
| Russian Ruble | 28 | | 28 |
| Singapore Dollar | 12,032 | 272 | 12,304 |
| South African Comm Rand | 4,831 | 1,670 | 6,501 |
| South Korean Won | 484 | 3,091 | 3,575 |
| Swedish Krona | 11,738 | 8,709 | 20,447 |
| Swiss Franc | 15,756 | 31,211 | 46,967 |
| Thai Baht | 377 | 283 | 660 |
| Turkish Lira | 816 | | 816 |
| UAE Dirham | 65 | | 65 |
| Total Foreign Currency | \$ 307,467 | \$ 397,166 | \$ 704,633 |

Interest rate risk – The Fire and Police Employee’s Retirement System Board of Trustees uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond’s value to interest rate changes. The Fire and Police Employees’ Retirement System Board of Trustees’ fixed income interest rate policy states that the effective duration of a portfolio may not exceed 120% of the effective duration of the underlying Bloomberg Barclay’s U.S. Aggregate Bond Index.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Both the Employees' Retirement System and the Elected Officials' Retirement System have selected the duration method to disclose the debt securities exposure to changes in interest rates. However, both plans have not adopted a formal policy to limit interest rate risk.

Credit Risk – The Boards of Trustees of the City's three retirement systems have not adopted a formal policy to limit credit risk.

The credit rating and duration of investments at June 30, 2018, were as follows (amounts expressed in thousands):

| Asset Type | Duration | Carrying | | | | | |
|--|----------|-------------------|-------------------|------------------|---------------|---------------|-------------------|
| | | Value | AAA thru A | BBB thru B | CCC thru C | DDD thru D | Not Rated |
| <i>Employees' Retirement System:</i> | | | | | | | |
| U.S. Treasury notes and bonds | 10.75 | \$ 9,937 | \$ 9,937 | | | | |
| U.S. Government agency bonds | 3.11 | 65,732 | 25,817 | \$ 1,173 | | | \$ 38,742 |
| Non-U.S. Government bonds and agencies | 4.29 | 22,451 | 15,025 | 5,985 | | | 1,441 |
| Corporate bonds | 3.24 | 123,877 | 50,546 | 56,362 | \$ 396 | \$ 223 | 16,350 |
| Mutual funds | N/A | 84,370 | | | | | 84,370 |
| Commingled fixed income funds | 6.01 | 211,090 | | | | | 211,090 |
| Total debt securities | | <u>\$ 517,457</u> | <u>\$ 101,325</u> | <u>\$ 63,520</u> | <u>\$ 396</u> | <u>\$ 223</u> | <u>\$ 351,993</u> |
| <i>Elected Officials' Retirement System:</i> | | | | | | | |
| Corporate bonds | 6.01 | \$ 5,648 | | | | | \$ 5,648 |
| Mutual funds | 0.26 | 49 | | | | | 49 |
| Total debt securities | | <u>\$ 5,697</u> | | | | | <u>\$ 5,697</u> |
| <i>Fire and Police Employees' Retirement System:</i> | | | | | | | |
| U.S. Treasury notes and bonds | 6.81 | \$ 67,691 | \$ 67,691 | | | | |
| U.S. Government agency bonds | 3.87 | 55,784 | 53,362 | | | | \$ 2,422 |
| Corporate bonds | 4.44 | 152,443 | 77,790 | \$ 69,848 | | | 4,805 |
| Mutual funds | N/A | 44,929 | | | | | 44,929 |
| Total debt securities | | <u>\$ 320,847</u> | <u>\$ 198,843</u> | <u>\$ 69,848</u> | <u>\$</u> | <u>\$</u> | <u>\$ 52,156</u> |

The City's Retirement Systems have entered into a Securities Lending Authorization Agreement with BNY Mellon Bank (the Custodian) authorizing them to lend its available securities. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The investment manager may lend securities held in custody of commingled funds if authorized in a manager's contract with the Retirement Systems.

Collateral received in exchange for securities loaned is collected in an escrow account for the Retirement Systems' benefit for the duration of the loan. At no time do the Retirement Systems lose custody of either the security or the collateral. Collateral in exchange for the principal lent may be in the form of cash, or securities issued or guaranteed by the U.S. government, or its agencies or instrumentalities. The minimum levels of collateral are set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral is deposited to adjust up to the appropriate minimum level of collateral. All collateral amounts are adjusted to market daily. The City's Retirement Systems do not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2018, the Retirement Systems had no credit risk exposure to borrowers because the amounts they owed borrowers exceeded the amounts the borrowers owed the Retirement Systems. The market value of securities on loan at June 30, 2018, was \$323,517,000, and the market value of the collateral received for those securities on loan was \$343,669,000 which included collateral received in cash in the amount of \$145,564,000. The Retirement Systems did not impose any restrictions during the fiscal year on the amount of loans the custodian made on their behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the retirement systems against: (1) the failure to demand adequate and appropriate collateral from a borrower as and when required pursuant hereto; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; or (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodian.

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Notes to Basic Financial Statements

(Continued)

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar-weighted average maturity of holding must not exceed 90 days.

Other Postemployment Benefits Fund

The City's Other Postemployment Benefits Trust Fund (Trust) is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the code. The Baltimore City Director of Finance was made Trustee of the Trust and, under a Memorandum of Understanding between the Director of Finance and the Board of Trustees of the Employees' Retirement System (Board), the Board is charged with administration of the Trust and investment of its assets. As part of its responsibility, the Board has adopted investment policies and guidelines, which formally document its investment objectives and responsibilities.

The investment assets of the OPEB Trust Fund at June 30, 2018, are as follows (amounts expressed in thousands):

| Investment Type | Fair Value | Investment Maturities (In Months) | |
|---------------------------------------|------------|-----------------------------------|-----------------|
| | | Less than 6 | Greater than 12 |
| Cash and cash equivalents | \$ 9,463 | \$ 9,463 | |
| U.S. Treasury obligations | 14,531 | | \$ 14,531 |
| U.S. Government agencies | 16,260 | | 16,260 |
| Corporate bonds | 101,876 | | 101,876 |
| Subtotal | 142,130 | \$ 9,463 | \$ 132,667 |
| Real estate | 49,623 | | |
| Stocks | 400,549 | | |
| Total investments | 592,302 | | |
| Less: cash and cash equivalents | 9,463 | | |
| Total net investments | \$ 582,839 | | |

The OPEB Trust Fund categorized their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and given the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 – Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Instruments that are measured at fair value using the net asset value per share (or its equivalent) as practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The table on the following page shows the fair value leveling on the investments for the OPEB Trust Fund.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt Securities classified in Level 1 and Level 2 are valued using a bid evaluation, mid evaluation, last trade or official close. Mid evaluations are when a bid and ask evaluation are both present. Last trade is the most recent trade price of a security at market close time. Official close is the closing price as defined by the exchange.

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Notes to Basic Financial Statements

(Continued)

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below:

| Investment by fair value level | Base Amount | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-------------|---|---|---|
| Debt securities | | | | |
| U.S. Treasury Notes and Bonds | \$ 14,531 | \$ 14,531 | | |
| U.S. Government Agency Bonds | 16,260 | | \$ 16,260 | |
| Corporate Bonds | 36,730 | | 36,730 | |
| Total debt securities at fair value level | 67,521 | 14,531 | 52,990 | |
| Equity securities | | | | |
| Domestic equities | 93,109 | 93,109 | | |
| International equities | 17,176 | 17,176 | | |
| Total equity securities at fair value level | 110,285 | \$ 110,285 | | |
| Total investments by fair value level | 177,806 | | | |
| Investments measured at the net asset value (NAV) | | | | |
| Commingled fixed income | 65,146 | | | |
| Domestic equities | 110,616 | | | |
| Defensive equities | 24,865 | | | |
| International equities | 112,768 | | | |
| Real estate | 49,623 | | | |
| Hedge funds | 41,781 | | | |
| Private equities | 234 | | | |
| Total investments measured at the NAV | 405,033 | | | |
| Total net investments | \$ 582,839 | | | |

| Investment Measured at the Net Asset Value (NAV) | Base Annual | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|-------------|-------------------------|-------------------------|-----------------------------|
| Commingled fixed income | \$ 65,146 | | Daily, weekly & monthly | 0 - 30 days (1) |
| Domestic equities | 110,616 | | Daily, weekly & monthly | 0 - 30 days (2) |
| Defensive equities | 24,865 | | Daily, weekly & monthly | 0 - 30 days (3) |
| International equities | 112,768 | | Daily, weekly & monthly | 0 - 30 days (4) |
| Real estate | 49,623 | | Quarterly | 90-100 days (5) |
| Hedge funds | 41,781 | | Quarterly | 90-100 days (6) |
| Private equities | 235 | \$ 15,000 | Not eligible | N/A (7) |
| Total investments measured at the NAV | \$ 405,034 | \$ 15,000 | | |

(1) International equity investments are in both managed funds and direct investments. Investment in managed funds are in securities where rigorous dividend discount analysis is used to identify value in terms of long-term flow of income as well as in funds which employs strategies that seeks to outperform the MSCI World index (half-hedged) while maintaining a similar level of market risk over the long-term. The direct investment is focused on protection in a down market while performing a rigorous fundamental analysis by assessing competitive framework, scrutinizing financials, analyzing business environment and evaluating management.

(2) Domestic equity investment is in funds that seek long-term capital appreciation by investing at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of large cap companies. Such large cap companies are those with total market capitalizations of \$5 billion or more at the time of purchase.

(3) Commingled fixed income investment is in two mutual funds. One seeks to provide a high level of current income, consistent with preservation of capital by investing at least 80% of its net assets in adjustable-rate senior loans; while the second one actively tracks the performance of an index.

(4) Real estate investments is in a core real estate fund. The investment style is based on strategies and tactics that are designed to take advantage of barrier and rotational market dynamics.

(5) The system's hedge fund investment is in a multi-strategy fund. The fund has a deep and thorough research process that is harnessed through a dynamic risk budgeting framework. The investment is eligible for redemption with a 90-100 days notice period.

(6) Defensive equity investment is in a fund that seek long-term growth of capital. The fund employs a strategy of writing collateralized put-options on the S&P 500 Index. The collateral generally consists of short duration, high quality fixed income positions with a focus on U.S. Treasuries

(7) Private equities commitment is in two (2) funds: The first investment is in a global infrastructure fund that focuses on delivering true risk-adjusted returns through a focus on middle market assets with core risk fundamentals, operational value-add and platform development; while the second investment is in a fund that focuses on private equity secondary investing by utilizing research engine to drive relationships and information advantages, finding or creating opportunities in non-competitive channels and capturing alpha through pricing, engineering and portfolio construction.

Interest Rate and Credit Risk—The Board has not adopted a formal policy to limit interest rate and credit risk.

Bonds held by the OPEB Trust Fund have ratings from AA1 to AA2.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Baltimore City Public School System (BCPSS)

The BCPSS, through the office of the Chief Financial Officer, pursues a cash management and investment program to achieve the maximum financial return on available funds. Depending on the projected cash needs of the BCPSS, excess funds may be invested on a short, intermediate or long-term basis at the best obtainable rates. Investments are generally in direct or indirect obligations of the U.S. Government and are fully collateralized.

The BCPSS is authorized by State law to invest in direct or indirect obligations of the U.S. Government, repurchase agreements and related mutual funds. The BCPSS's investments at June 30, 2018, are presented below. All investments are presented by investment type (expressed in thousands):

| Investment Type | Fair Market Value | Investment Maturities (In Months) | | | Max. allowed per Investment Policy |
|---------------------------------|-------------------|-----------------------------------|------------|---------|------------------------------------|
| | | Less than 4 | 4 to 12 | Percent | |
| Money market funds | \$ 87,471 | \$ 87,471 | | 22.1% | 100.0% |
| Commercial paper | 13,541 | 13,541 | | 3.4% | 5.0 |
| Fixed income | 614 | 614 | | 0.2% | 100.0 |
| Equity funds | 526 | 526 | | 0.1% | 100.0 |
| U.S. Government agencies | 274,350 | 39,954 | \$ 234,396 | 69.2% | 100.0 |
| U.S. Treasury obligations | 19,993 | 19,993 | | 5.0% | 100.0 |
| Total invested funds | 396,495 | \$ 162,099 | \$ 234,396 | 100.0% | |
| Less: cash equivalents | 162,099 | | | | |
| Total net investments | \$ 234,396 | | | | |

Investments and Valuation - BCPSS categorizes its investments using the fair value measurements identified in the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Transactions are recorded on the trade date, realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Following is a description of the valuation methodologies used for assets measured at fair value.

BCPSS investments are comprised of money market funds, fixed income securities, commercial paper and U.S. government securities and are valued at their Fair Market Value (FMVs) or amortized cost.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are value using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

City Schools had the following recurring fair value measurements as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Balance June 30, 2018 |
|---|-----------------|-------------------|-----------|--------------------------|
| Investments by fair value level: | | | | |
| Debt Securities: | | | | |
| Equity Funds | \$ 526 | | | \$ 526 |
| US Government Obligations | | \$ 274,350 | | 274,350 |
| US Treasury Obligations | | 19,993 | | 19,993 |
| Total Debt Securities | 526 | 294,343 | | 294,869 |
| Equity Securities: | | | | |
| Fixed Income | 614 | | | 614 |
| Commercial Paper | | 13,541 | | 13,541 |
| Total Equity Securities | 614 | 13,541 | | 14,155 |
| Investments carried at amortized cost: | | | | |
| Deposits | | | | (105) |
| Money Market Mutual Funds | | | | 87,471 |
| Total Investments at amortized cost | | | | 87,366 |
| Total Investments | \$ 1,140 | \$ 307,884 | \$ | \$ 396,390 |

Investment Ratings - Ratings apply to all Money Market funds, Checking, Commercial Paper, Repurchase agreements, and U.S. Government Agencies (dollar amounts expressed in thousands):

| Moody | Percent | Fair Value | S&P | Percent | Fair Value |
|-----------------|---------------|-------------------|-----------------|---------------|-------------------|
| Aaa | 69.2% | \$ 274,350 | AAA | 21.5% | \$ 85,123 |
| Aaa | 21.5 | 85,123 | AA+ | 69.2 | 274,350 |
| P-1 | 3.4 | 13,541 | A-1+ | 1.6 | 6,471 |
| Not rated | 5.9 | 23,481 | A-1 | 1.8 | 7,070 |
| | <u>100.0%</u> | <u>\$ 396,495</u> | Not rated | 5.9 | 23,481 |
| | | | | <u>100.0%</u> | <u>\$ 396,495</u> |

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The BCPSS limits its interest rate risk in accordance with their policy by maintaining a minimum of 20% of the BCPSS’s investment in funds in liquid investments which include U.S. Government Securities, Overnight Repurchase Agreements and Money Market Mutual Funds.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

As stated above, the BCPSS limits investments to highly rated investments in the categories discussed above.

Cash and cash equivalents include Money Market deposits and other types of investments.

Baltimore Hotel Corporation

The Baltimore Hotel Corporation (BHC) pursues a cash management and investment program to achieve the maximum financial return on available funds. Investments consist of private debt obligations and money market funds with varying maturity dates. Certain portions of the investments are used to fund operating activities of the entity and other portions are used for debt repayment. These investments are stated at market value. Additional disclosures required by GASB 74 are available in the separately issued BHC financial statements.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The BHC has no formal policy for limiting risk associated with these investments. The City of Baltimore Department of Finance directs the selection of investment funds. At year-end BHC held investments in the amount of \$44,777,000 consisting of repurchase agreements with various financial institutions and government money market funds.

4. Receivables, net

Receivable at year-end of the City's major individual governmental funds, enterprise funds, and nonmajor and other funds (including internal service and fiduciary funds) were as follows (expressed in thousands):

| Receivables | General Fund | Grants Revenue Fund | Capital Projects Fund | Enterprise Fund | Non-major and Other Funds | Total |
|--------------------------------------|-------------------|---------------------|-----------------------|-------------------|---------------------------|-------------------|
| Property taxes | \$ 12,483 | | | | | \$ 12,483 |
| Service billings | | | | \$ 132,462 | | 132,462 |
| Due from other governments | 79,233 | \$ 33,107 | \$ 17,982 | 331,169 | \$ 2,891 | 464,382 |
| Notes and mortgages receivable | 269,942 | | | 35,934 | | 305,876 |
| Other | 24,281 | | 325 | 1,360 | 2,945 | 28,911 |
| Total | \$ 385,939 | \$ 33,107 | \$ 18,307 | \$ 500,925 | \$ 5,836 | \$ 944,114 |

Unavailable property taxes include prepaid property taxes. Service billings are reported net of an allowance for doubtful accounts of \$52,537,000. Bad debt expense for fiscal year 2018 was \$23,128,000.

Adjustments unrelated to consumption that resulted in reductions to income on Water, Wastewater, and Stormwater Utility Fund customer accounts were recorded in the Water Utility Fund.

5. Capital Assets

Capital assets activities for the year ended June 30, 2018, were as follows (expressed in thousands):

Governmental Activities Capital Assets:

| Class | Balance June 30, 2017 | Additions | Deductions | Balance June 30, 2018 |
|---|-----------------------|------------------|------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 248,215 | | | \$ 248,215 |
| Other | 117,141 | \$ 2,927 | \$ 2,383 | 117,685 |
| Construction in progress | 185,877 | 86,081 | 69,683 | 202,275 |
| Total capital assets, not being depreciated | 551,233 | 89,008 | 72,066 | 568,175 |
| Capital assets, being depreciated | | | | |
| Building and improvements | 2,138,837 | 17,643 | | 2,156,480 |
| Equipment | 477,469 | 20,409 | 11,486 | 486,392 |
| Infrastructure | 2,882,991 | 39,114 | | 2,922,105 |
| Library books | 69,255 | 2,881 | 35,039 | 37,097 |
| Total capital assets, being depreciated | 5,568,552 | 80,047 | 46,525 | 5,602,074 |
| Less: accumulated depreciation for: | | | | |
| Building and improvements | 1,240,161 | 40,519 | | 1,280,680 |
| Equipment | 369,281 | 21,230 | 9,207 | 381,304 |
| Infrastructure | 1,303,732 | 71,182 | | 1,374,914 |
| Library books | 52,979 | 3,566 | 35,039 | 21,506 |
| Total accumulated depreciation | 2,966,153 | 136,497 | 44,246 | 3,058,404 |
| Total capital assets, being depreciated, net | 2,602,399 | (56,450) | 2,279 | 2,543,670 |
| Governmental activities capital assets, net | \$ 3,153,632 | \$ 32,558 | \$ 74,345 | \$ 3,111,845 |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

Business-type Activities Capital Assets:

| Class | Balance June 30, 2017 | Additions | Deductions | Balance June 30, 2018 |
|--|--------------------------|--------------|------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 36,920 | | | \$ 36,920 |
| Construction in progress | 1,568,292 | \$ 518,126 | \$ 873,387 | 1,213,031 |
| Total capital assets, not being depreciated | 1,605,212 | 518,126 | 873,387 | 1,249,951 |
| Capital assets, being depreciated | | | | |
| Building and improvements | 3,169,204 | 727,890 | | 3,897,094 |
| Equipment | 337,323 | 28,768 | | 366,091 |
| Infrastructure | 1,101,783 | 119,833 | | 1,221,616 |
| Total capital assets, being depreciated | 4,608,310 | 876,491 | | 5,484,801 |
| Less: accumulated depreciation for: | | | | |
| Building and improvements | 1,113,299 | 65,561 | | 1,178,860 |
| Equipment | 170,355 | 10,931 | | 181,286 |
| Infrastructure | 203,126 | 19,871 | | 222,997 |
| Total accumulated depreciation | 1,486,780 | 96,363 | | 1,583,143 |
| Total capital assets, being depreciated, net | 3,121,530 | 780,128 | | 3,901,658 |
| Business-type activities capital assets, net | \$ 4,726,742 | \$ 1,298,254 | \$ 873,387 | \$ 5,151,609 |

Depreciation expense was charged to functions/programs of the City for the fiscal year ended June 30, 2018 (amounts expressed in thousands):

| | |
|------------------------------------|------------|
| <i>Governmental activities</i> | |
| General government | \$ 8,043 |
| Public safety and regulation | 8,925 |
| Conservation of health | 390 |
| Social services | 4 |
| Education | 19,644 |
| Public library | 4,401 |
| Recreation and parks | 8,678 |
| Highways and streets | 67,287 |
| Sanitation and waste removal | 2,387 |
| Public service | 2,570 |
| Economic development | 881 |
| Internal service funds | 13,287 |
| Total | \$ 136,497 |
| <i>Business-type activities:</i> | |
| Water | \$ 34,457 |
| Wastewater | 53,067 |
| Stormwater | 4,881 |
| Parking | 2,801 |
| Conduits | 1,157 |
| Total | \$ 96,363 |

At June 30, 2018, the outstanding commitments relating to projects of the City of Baltimore amounted to approximately \$147,117,000 for governmental activities and \$1,139,043,000 for business-type activities. Interest is capitalized on business-type capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest cost incurred from the date of borrowing until completion of the project, with interest earned on invested proceeds over the period. During fiscal year 2018, net interest cost of \$44,498,000 (net of interest income of \$6,063,000) was capitalized.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

6. Interfund Balances and Activity

A. BALANCE DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at June 30, 2018, were as follows (amounts expressed in thousands):

| Fund | Interfund | |
|-----------------------------|------------------|------------------|
| | Receivable | Payable |
| General | \$ 43,526 | \$ 21,749 |
| Capital projects | 14,840 | |
| Nonmajor governmental | 8,455 | 1,844 |
| Proprietary | | 9,892 |
| Nonmajor proprietary | | 32,509 |
| Internal service | | 480 |
| Agency | | 347 |
| Totals | \$ 66,821 | \$ 66,821 |

The Interfund balances are primarily the result of the City's policy not to reflect cash deficits in its individual funds. Also, at June 30, 2018, certain transactions between funds had not been completed.

B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds at June 30, 2018, were as follows (amounts expressed in thousands):

| Fund | General | Grants Revenue | Capital Projects | Nonmajor Governmental | Parking | Internal Service | Total Transfer To |
|-----------------------------------|-------------------|------------------|------------------|-----------------------|------------------|------------------|-------------------|
| General | \$ 104,901 | \$ 23,249 | \$ 4,462 | | \$ 52,923 | | \$ 185,535 |
| Grants revenues | 21,229 | | | | 6,372 | | 27,601 |
| Capital projects | 20,527 | 465 | | \$ 17,790 | | \$ 250 | 39,032 |
| Internal service | 1,842 | | | | | | 1,842 |
| Total transfers from | \$ 148,499 | \$ 23,714 | \$ 4,462 | \$ 17,790 | \$ 59,295 | \$ 250 | \$ 254,010 |

Transfers were primarily to the General Fund to provide funds for debt service and to transfer excess revenue from the Proprietary Funds to the General Fund.

C. DEFICITS

The following funds had a deficit fund balance/net position at June 30, 2018, (amounts expressed in thousands):

| | |
|------------------------------------|--------|
| Special revenue funds: | |
| CDBG | \$ 492 |
| Table Game | 1,327 |
| Internal service funds: | |
| Municipal telephone exchange | 941 |

Deficits in the above funds are temporary and are not expected to continue.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

7. Long-term Obligations

A. LONG-TERM OBLIGATION ACTIVITY

The City does not have a debt limit; however, the Constitution of Maryland requires a three-step procedure for the creation of debt:

- Act of the General Assembly of Maryland or resolution of the majority of Baltimore City delegates
- Ordinance of the Mayor and City Council
- Ratification by the voters of Baltimore City

Changes in long-term obligations for the year ended June 30, 2018, are as follows (amounts expressed in thousands):

| | June 30, 2017 | New Debt Issued | Debt Retired | June 30, 2018 | Due Within One Year |
|---|---------------|--------------------|-----------------|---------------|---------------------------|
| GOVERNMENTAL ACTIVITIES* | | | | | |
| <i>General Obligation Bonds:</i> | | | | | |
| Highways | \$ 1,311 | | \$ 140 | \$ 1,171 | \$ 168 |
| Health | 1,897 | \$ 801 | 1,080 | 1,618 | 160 |
| Public safety | 2,248 | 824 | 1,190 | 1,882 | 240 |
| Off-street parking | 5,514 | | 141 | 5,373 | 157 |
| Recreation and parks | 23,836 | 16,183 | 8,806 | 31,213 | 2,070 |
| Public buildings and facilities | 53,449 | 42,100 | 24,497 | 71,052 | 4,682 |
| School | 171,356 | 83,600 | 71,511 | 183,445 | 11,677 |
| Urban renewal | 202,729 | 81,572 | 57,550 | 226,751 | 17,471 |
| Unallocated | 4,561 | 75 | 584 | 4,052 | 628 |
| Total general obligation bonds | 466,901 | 225,155 | 165,499 | 526,557 | 37,253 |
| Bond Anticipation Notes | 60,148 | | 60,148 | | |
| <i>Special Obligation Bonds</i> | | | | | |
| Special Obligation Bonds | 199,876 | | 1,700 | 198,176 | 2,003 |
| <i>Long-term financing with the Federal Government:</i> | | | | | |
| Federal economic development loans | 23,792 | | 3,472 | 20,320 | 3,613 |
| Total Governmental Activities | \$ 750,717 | \$ 225,155 | \$ 230,819 | \$ 745,053 | \$ 42,869 |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| <i>General Obligation Bonds:</i> | | | | | |
| Stormwater | \$ 2,440 | \$ 1,404 | \$ 255 | \$ 3,589 | \$ 349 |
| <i>Bond Anticipation Notes:</i> | | | | | |
| Stormwater | 852 | | 852 | | |
| Total Business-Type Activities | \$ 3,292 | \$ 1,404 | \$ 1,107 | \$ 3,589 | \$ 349 |
| COMPONENT UNIT - BALTIMORE CITY PUBLIC | | | | | |
| SCHOOL SYSTEM | | | | | |
| <i>Bonds:</i> | | | | | |
| Schools | \$ 108,720 | | \$ 11,735 | \$ 96,985 | \$ 12,838 |

*Included in the Statement of Net Position for Governmental Activities is a remaining unamortized premium of \$26,292,000

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Fixed Rate General Obligation Bonds

On November 15, 2017, the City issued general obligation bonds, Series 2017-A, 2017-B, 2017-C, and 2017-D, in the amounts of \$76,020,000, \$108,295,000, \$33,675,000, and \$8,570,000, respectively, and totaling \$226,560,000. Of this amount, \$109,695,000 were issued for various capital project, and \$116,865,000 were refunding bonds that current refunded certain outstanding maturities totaling \$46,760,000, and advanced refunded certain outstanding maturities totaling \$84,560,000. Interest on the bonds is due each April 15th and October 15th, and mature between 2019 and 2037 depending on the particular series.

The Series 2017 general obligation refunding bonds were issued for a net present value economic gain of \$15,437,000. This amount was used to reduce the City’s future debt service costs.

Variable Rate General Obligation Bonds

At June 30, 2018, the City had \$17,935,000 of taxable variable rate demand Consolidated Public Improvement Bonds 2003 Series C and D outstanding, to construct various capital projects throughout the City. The bonds mature on October 15, 2020 and 2022, respectively.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Under terms of the remarketing agreement, the City at its option may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of bondholders.

In conjunction with the bonds, State Street Bank and Trust Company issued an irrevocable letter of credit with a current value of \$18,318,000 in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The agreement expires October 15, 2022. The existing Agreement permits the fiscal agent to draw certain amounts to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed.

The interest rate on draws made under this agreement includes a base rate defined as the greater of prime rate plus 1.00%, federal funds rate plus 2.00% or 8.5%. The City is required to pay the Bank’s fee throughout the term of the Agreement equal to 0.65% per annum of the average daily amount of the available commitment. During fiscal year 2018, the City made no draws under the Agreement, and there were no amounts drawn against the Agreement outstanding at June 30, 2018.

Compensated Absences

Compensated absences at June 30, 2018, totaled \$156,628,000 for governmental activities and \$15,160,000 for business-type activities, of which \$45,656,000 and \$5,447,000, respectively, were due within one year. For the Baltimore City Public School System, compensated absences and early retirement incentive plan amounts totaled \$47,273,000.

Changes in compensated absences during fiscal year 2018, are as follows (amounts expressed in thousands):

| | Governmental Activities | Business-type Activities | Total |
|------------------------------|----------------------------|-----------------------------|-------------------|
| Balance, June 30, 2017 | \$ 145,575 | \$ 14,435 | \$ 160,010 |
| Leave earned | 56,709 | 6,172 | 62,881 |
| Leave used | (45,656) | (5,447) | (51,103) |
| Balance, June 30, 2018 | <u>\$ 156,628</u> | <u>\$ 15,160</u> | <u>\$ 171,788</u> |
| Due in one year | <u>\$ 45,626</u> | <u>\$ 5,477</u> | <u>\$ 51,103</u> |

Parking Facilities Fund Revenue Sharing Agreement

The Parking Facilities Fund entered into two revenues sharing arrangements with the State of Maryland in 2001 and 2003 for the development of two parking garages. In exchange for a \$9,000,000 investment from the State, the City agreed to share 5% interest annually on the investment, payable to the State when the garages began to generate positive cash flow.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

In fiscal year 2018, the Parking Facilities Fund reflected \$450,000 of interest expense and paid \$594,726 of interest part of this agreement.

B. DEBT SERVICE REQUIREMENTS

Debt service requirements on long-term debt at June 30, 2018, are as follows (amounts expressed in thousands):

| Fiscal Year | Governmental Activities | | | | | | |
|-------------|--------------------------|------------|------------------|---|----------|--------------------------|------------|
| | General Obligation Bonds | | | Long-Term Financing with Federal Government | | Special Obligation Bonds | |
| | Principal | Interest | Interest | Principal | Interest | Principal | Interest |
| | | | Rate Swap Net(a) | | | | |
| 2019 | \$ 37,253 | \$ 22,786 | \$ 507 | \$ 3,613 | \$ 859 | \$ 2,003 | \$ 11,056 |
| 2020 | 41,255 | 21,188 | 474 | 2,788 | 734 | 2,615 | 10,952 |
| 2021 | 46,437 | 19,301 | 387 | 2,901 | 612 | 3,102 | 10,816 |
| 2022 | 49,904 | 17,182 | 252 | 3,023 | 483 | 3,560 | 10,652 |
| 2023 | 52,604 | 14,906 | 86 | 2,329 | 356 | 4,107 | 10,487 |
| 2024-2028 | 153,679 | 49,999 | | 5,666 | 373 | 29,330 | 48,284 |
| 2029-2033 | 100,270 | 19,126 | | | | 42,495 | 38,628 |
| 2034-2038 | 45,155 | 4,673 | | | | 57,078 | 26,337 |
| 2039-2043 | | | | | | 44,378 | 8,307 |
| 2044-2048 | | | | | | 9,508 | 810 |
| Totals | \$ 526,557 | \$ 169,161 | \$ 1,706 | \$ 20,320 | \$ 3,417 | \$ 198,176 | \$ 176,329 |

(a) Interest Rate Swap Net payments represent estimated additional interest payable to counterparties for additional interest resulting from swap agreements. The additional payments were computed using rates as of June 30, 2018, assuming current interest rates remain the same for the remaining term of the swap. As rates vary, variable rate bond interest payments and net swap payments will vary.

| Fiscal Year | Business-type Activities | |
|-------------|--------------------------|----------|
| | General Obligation Bonds | |
| | Principal | Interest |
| 2019 | \$ 349 | \$ 169 |
| 2020 | 380 | 152 |
| 2021 | 433 | 126 |
| 2022 | 461 | 104 |
| 2023-2027 | 486 | 81 |
| 2028-2032 | 576 | 262 |
| 2033-2037 | 410 | 164 |
| 2037-2041 | 494 | 60 |
| Totals | \$ 3,589 | \$ 1,118 |

A summary of general obligation bonds outstanding and bond anticipation notes outstanding, and bonds authorized but unissued (amounts expressed in thousands) at June 30, 2018, are as follows:

| Purpose | Due Dates | Outstanding | | Authorized |
|-------------------------------------|--------------|----------------|------------|---------------------|
| | | Interest Rates | Amount | But Unissued Amount |
| Fire, police, and public protection | 2018 to 2035 | 1.0% to 6.0% | \$ 1,882 | \$ 147 |
| Off-street parking | 2018 to 2026 | 1.0% to 5.5% | 5,373 | 345 |
| Recreation and parks | 2018 to 2035 | 1.0% to 6.0% | 31,213 | 17,539 |
| Public buildings and facilities | 2018 to 2035 | 1.0% to 5.9% | 71,052 | 112,899 |
| Schools | 2018 to 2035 | 1.0% to 5.8% | 183,445 | 86,994 |
| Urban renewal and development | 2018 to 2035 | 1.0% to 6.0% | 226,751 | 118,324 |
| Highways | 2018 to 2026 | 1.0% to 5.5% | 1,171 | 220 |
| Finance | | | | 20,000 |
| Health | 2018 to 2032 | 1.0% to 6.0% | 1,618 | 4,070 |
| Stormwater | 2018 to 2026 | 1.0% to 5.5% | 3,589 | |
| Unallocated | 2018 to 2026 | 1.0% to 5.0% | 4,052 | |
| Totals | | | \$ 530,146 | \$ 360,538 |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Baltimore City Public School System (BCPSS) Bonds

BCPSS has issued the City Schools Qualified School Construction Bonds Series 2009 (the Series 2009 Construction Bonds) in the amount of \$50,800,000, maturing through the year ending June 30, 2025. The net proceeds of Series 2009 Construction Bonds were used to fund various capital improvements to existing schools within BCPSS.

As BCPSS enters into capital project contracts with one or more contractors, funds are to be drawn from the Series 2009 Construction Bonds escrow account to fund capital expenditures. The interest rates on the bonds include a Tax Credit rate of 5.90% and an interest rate of 1.25%, and interest is payable quarterly on March 15, June 15, September 15, and December 15 of each year. Principal sinking fund payment started on December 15, 2014. As of June 30, 2018, the outstanding balance of the Series 2009 Construction Bonds is \$44,135,000.

BCPSS has issued the City School Refunding Bonds Series 2009 (the Series 2009 Refunding Bonds) in the amount of \$32,335,000, maturing through the year ending June 30, 2018. The proceeds of the Series 2009 Refunding Bonds were used to refund a portion of the Series 2000 and Series 2003A Bonds. The interest rate ranges from 4.00% to 5.00% and interest is payable semiannually on May 1 and November 1 of each year. As of June 30, 2018, the Series 2009 Refunding Bonds are fully paid.

In January 2011, BCPSS issued the City Schools Qualified School Construction Bonds Series 2011 in the amount of \$60,825,000, maturing through the year ending June 30, 2026. The net proceeds of the Series 2011 Bonds were used to fund various capital improvements to existing schools within BCPSS.

As BCPSS enters into capital project contracts with one or more contractors, funds are drawn from the Series 2011 Bonds escrow account to fund capital expenditures. The interest rates on the Bonds is 5.692% and interest is payable semi-annually on June 15 and December 15 of each year. As of June 30, 2018, the outstanding balance on the Series 2011 Bonds is \$52,850,000.

Future minimum bond payments are as follows at fiscal year ending June 30, 2018 (amounts expressed in thousands):

| Fiscal Year | Principal | Interest | Total |
|---------------------|------------------|------------------|-------------------|
| 2019 | \$ 12,838 | \$ 4,097 | \$ 16,935 |
| 2020 | 12,723 | 4,097 | 16,820 |
| 2021 | 12,608 | 4,097 | 16,705 |
| 2022 | 13,373 | 4,097 | 17,470 |
| 2023 | 16,156 | 4,097 | 20,253 |
| 2024 - 2026 | 29,287 | 9,608 | 38,895 |
| Totals | \$ 96,985 | \$ 30,093 | \$ 127,078 |

C. CAPITAL LEASES

Primary Government

The City has entered into various conditional purchase agreements to construct and purchase certain facilities and equipment to be used by municipal agencies. These conditional purchase agreements do not constitute a pledge of the full faith and credit or taxing power of the City and are subject to termination if sufficient funds are not appropriated by the City Council. Since termination of these agreements is not foreseen, the agreements have been capitalized. During fiscal year 2018, the City's capital lease obligations for governmental activities increased by \$7,139,000 (which is net of new leases in the amount of \$25,055,000 and lease principal payments in the amount of \$17,915,000) from the fiscal year 2017 total of \$66,534,000. During fiscal year 2018 the City's capital lease obligations for business-type activities increased by \$7,636,000 (which is net of new leases in the amount of \$22,706,000 and lease principal payments of \$15,070,000 amount of the lease payments) from the fiscal year 2017 total of \$79,522,000.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Future minimum lease payments at June 30, 2018, are as follows (amounts expressed in thousands):

| Fiscal Year | Governmental Fund | Business-type Activities | | Total |
|--------------------------------------|-------------------|--------------------------|-----------------------|------------|
| | | Enterprise Fund | Internal Service Fund | |
| 2019 | \$ 16,660 | \$ 207 | \$ 18,408 | \$ 35,275 |
| 2020 | 14,833 | 120 | 16,098 | 31,051 |
| 2021 | 10,833 | 123 | 14,418 | 25,374 |
| 2022 | 8,262 | 130 | 12,480 | 20,872 |
| 2023-2034 | 35,578 | 335 | 33,275 | 69,188 |
| Total minimum lease payments | 86,166 | 915 | 94,679 | 181,760 |
| Less: interest | (12,492) | (89) | (8,346) | (20,927) |
| Present value minimum lease payments | \$ 73,674 | \$ 826 | \$ 86,333 | \$ 160,833 |

The following is a schedule of leased property under capital leases by major class at June 30, 2018 (amount expressed in thousands):

| Classes of Property | Governmental Activities | Business-type Activities | | Total |
|---------------------|-------------------------|--------------------------|-----------------------|------------|
| | | Enterprise Fund | Internal Service Fund | |
| Buildings | \$ 193,620 | | | \$ 193,620 |
| Equipment | 270,740 | \$ 3,187 | \$ 134,996 | 408,923 |
| Total | \$ 464,360 | \$ 3,187 | \$ 134,996 | \$ 602,543 |

Amortization of assets recorded under capital leases is included in depreciation expense.

Baltimore City Public School System (BCPSS)

In November 2011, BCPSS entered into leases with two financial institutions to refinance the 2006 Energy Lease. The 2011 Refunding Lease-Key Government Finance, Inc. in the amount of \$22,341,000 (at an interest rate of 2.755% for 11 years) and the 2011 Refunding Lease-M&T in the amount of \$24,217,000 (at an interest rate of 2.582% for 11 years) refunded \$22,300,000 in 2006 leases. BCPSS had no gains or losses as a result of these refinancing's. As of June 30, 2018, the outstanding balances on the 1st Niagara and M&T Refunding Leases were \$3,309,000 and \$9,870,000, respectively.

On August 8, 2014, BCPSS entered into a \$3,926,000 capital lease agreement (the Master Equipment Lease) with TD Equipment Finance, Inc., for the acquisition of 29 buses. The lease was issued at an interest rate of 1.53% for a term of five years. At June 30, 2018, the outstanding balance on the 2014 Master Lease was \$943,000.

On January 16, 2017 City School entered a \$0.7 million capital lease agreement (the Master Equipment Lease) with M&T Bank, for the purchase of computers. The lease was issued at a rate of 2.284% for a term of three years. At June 30, 2018, the outstanding balance on the 2017 Master Lease was \$373,000.

Future minimum lease payments as of June 30, 2018, are as follow (expressed in thousands):

| Fiscal Year | Capital Leases |
|--------------------------------------|----------------|
| | Principal |
| 2019 | \$ 4,687 |
| 2020 | 3,938 |
| 2021 | 3,694 |
| 2022 | 2,877 |
| Total minimum lease payments | 15,196 |
| Less: deferred interest | (701) |
| Present value minimum lease payments | \$ 14,495 |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The following is a schedule of leased property under BCPSS capital leases by major class at June 30, 2018 (amounts expressed in thousands):

| Classes of Property | | |
|---------------------|----|--------|
| Buildings | \$ | 70,078 |
| Equipment | | 3,926 |
| Total | \$ | 74,004 |

8. Revenue Bonds

Water, Wastewater and Stormwater Revenue Bonds

The City has issued revenue bonds, the proceeds of which were used to provide funds for capital improvements to water and wastewater facilities. Assets with a carrying value of \$5,936,010,000 at June 30, 2018, and revenues of the Water and Wastewater Funds are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2018 consist of (amounts expressed in thousands):

| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund |
|--|-----------------------|----------------------------|----------------------------|
| Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020 | \$ 11,400 | \$ 6,600 | |
| Term bonds series 1994-A with interest at 5.00%, payable semiannually, due July 1, 2022 | | 5,320 | |
| Term bonds series 1994-A with interest at 5.00%, payable semiannually, due July 1, 2024 | 7,690 | | |
| Serial bonds series 1998-A maturing in annual installments of \$213,000 through February 1, 2019, with interest at 2.87%, payable semiannually | | 213 | |
| Serial bonds series 1999-A maturing in annual installments of \$161,023 through February 1, 2019, with interest rate at 2.52%, payable semiannually | | 161 | |
| Serial bonds series 1999-B maturing in annual installments from \$92,000 to \$636,000 through February 1, 2021, with interest rate at 2.61%, payable semiannually | | 1,347 | |
| Serial bonds series 2001-A maturing in annual installments from \$632,000 to \$800,000 through February 1, 2022, with interest rate at 2.30%, payable semiannually | | 2,979 | |
| Auction rate notes series 2002-B, payable monthly, due July 1, 2037 | 12,800 | | |
| Auction rate notes series 2002-C, payable monthly, due July 1, 2037 | 8,000 | | |
| Serial bonds series, 2003-B maturing in annual installments from \$38,626 to \$73,094 through February 1, 2031 with interest rates at 0.40%, payable semiannually | 897 | | |
| Serial bonds series, 2003-B maturing in annual installments from \$287,000 to \$328,000 through February 1, 2023, with interest rate at 0.40%, payable semiannually | | 1,592 | |
| Serial bonds series, 2004-A maturing in annual installments from \$207,015 to \$218,042 through February 1, 2032, with interest rate at 0.40%, payable semiannually | 2,956 | | |
| Serial bonds series 2004A maturing in annual installments from \$340,000 to \$369,000 through February 1, 2022, with interest at 0.40%, payable semiannually | | | \$ 1,444 |
| Serial bonds series, 2004-B maturing in annual installments from \$547,000 to \$972,000 through February 1, 2022, with interest rate at 0.45%, payable semiannually | | 3,452 | |
| Serial bonds series, 2004-C maturing in annual installments from \$886,000 to \$907,000 through February 1, 2024, with interest rate at 0.25%, payable semiannually | | 5,391 | |
| Serial bonds series, 2005-A maturing in annual installments from \$104,000 to \$1,102,000 through February 1, 2024, with interest rate at 0.25%, payable semiannually | | 5,571 | |
| Serial bonds series, 2006-A maturing in annual installments from \$495,000 to \$1,548,000 through February 1, 2025, with interest rate at 0.40%, payable semiannually | | 9,693 | |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund |
|--|-----------------------|----------------------------|----------------------------|
| Serial bonds series, 2006-B maturing in annual installments from \$185,000 to \$361,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually | | \$ 2,680 | |
| Serial bonds series, 2007-A maturing in annual installments from \$6,541 to \$78,574 through February 1, 2037, with interest rate at 0.40%, payable semiannually | \$ 1,227 | | |
| Serial bonds series, 2007-A maturing in annual installments from \$1,704,000 to \$2,174,000 through February 1, 2026, with interest rate at 0.40%, payable semiannually | | 16,748 | |
| Serial bonds series, 2007-B maturing in annual installments from \$156,000 to \$161,000 through February 1, 2027, with interest rate at 0.40%, payable semiannually | | 1,428 | |
| Serial bonds series, 2008-A maturing in annual installments from \$650,000 to \$670,000 through July 1, 2019, with interest rates of 2.00% to 4.50%, payable semiannually | 670 | | |
| Serial bonds series, 2008-A maturing in annual installments from \$1,270,000 to \$1,335,000 through July 1, 2018, with interest rates of 2.00% to 5.00%, payable semiannually | | 1,335 | |
| Serial bonds series 2009 maturing in annual installments from \$80,342 to \$124,415 through June 15, 2024, with interest at 4.00% to 5.00%, payable semiannually | | | \$ 566 |
| Serial bonds series, 2009-A maturing in annual installments from \$465,000 to \$500,000 through July 1, 2019, with interest rates of 2.00% to 4.50%, payable semiannually | 985 | | |
| Serial bonds series, 2009-A maturing in annual installments of \$426,167 through February 1, 2029, with an interest rate at 0.00% | | 4,688 | |
| Serial bonds series, 2009-B maturing in annual installments of \$91,149 through February 1, 2030, with an interest rate at 0.00% | | 1,011 | |
| Serial bonds series, 2009-B maturing in annual installments of \$586,172 from February 1, 2019 through February 1, 2043, with an interest rate at 0.00% | 14,654 | | |
| Serial bonds series, 2009-C maturing in annual installments from \$665,000 to \$715,000 through July 1, 2019, with interest rates of 2.00% to 4.50%, payable semiannually | | 1,405 | |
| Serial bonds series, 2009-E maturing in annual installments of \$157,842 through February 1, 2032, with an interest rate at 0.00% | | 2,210 | |
| Serial bonds series, 2011-A maturing in annual installments of \$1,145,000 to \$2,000,000 through February 1, 2031, with interest rates from 3.00% to 5.00% | 10,560 | | |
| Serial bonds series, 2011-A maturing in annual installments of \$2,030,000 to \$3,940,000 through February 1, 2031, with interest rates from 4.00% to 5.00% | | 16,785 | |
| Term bond series 2011-A with interest at 4.50%, payable semiannually, due July 1, 2036 | 11,400 | | |
| Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2042 | 14,345 | | |
| Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2036 | | 22,870 | |
| Term bond series 2011-A with interest at 5.00%, payable semiannually, due July 1, 2041 | | 29,185 | |
| Serial bonds series, 2011-B maturing in annual installments of \$134,138 to \$172,023 through February 1, 2043, with interest rates of 1.00% | 3,826 | | |
| Serial bonds series, 2011-B maturing in annual installments of \$175,167 to \$203,363 through February 1, 2033, with interest rates of 1.00% | | 2,848 | |
| Serial bonds series 2012 maturing in annual installments from \$169,950 to \$256,850 through October 1, 2027, with interest rates of 2.00% to 5.00%, payable semiannually | | | 2,073 |
| Serial bonds series, 2013-A maturing in annual installments of \$1,583,518 to \$1,798,836 through February 1, 2034, with interest rate at 0.80%, payable semiannually | | 27,130 | |
| Serial bonds series, 2013-A maturing in annual installments of \$2,280,000 to \$4,980,000 through July 1, 2033, with interest rates from 3.00% to 5.00%, payable semiannually | 56,645 | | |
| Term bond series 2013-A with interest at 5.00%, payable semiannually, due July 1, 2038 | 28,880 | | |
| Term bond series 2013-A with interest at 5.00%, payable semiannually, due July 1, 2043 | 36,860 | | |
| Serial bonds series, 2013-B maturing in annual installments of \$2,985,000 to \$6,815,000 through July 1, 2033, with interest rates from 2.00% to 5.00%, payable semiannually | | 85,750 | |
| Term bond series 2013-B with interest at 5.00%, payable semiannually, due July 1, 2038 | 26,705 | | |
| Term bond series 2013-B with interest at 4.50%, payable semiannually, due July 1, 2038 | 1,115 | | |
| Term bond series 2013-B with interest at 5.00%, payable semiannually, due July 1, 2042 | 36,900 | | |
| Serial bonds series, 2013-C maturing in annual installments of \$1,210,000 to \$2,540,000 through July 1, 2032, with interest rates from 3.00% to 5.00%, payable semiannually | 28,210 | | |
| Serial bonds series, 2013-C maturing in annual installments of \$2,205,000 to \$4,725,000 through July 1, 2033, with interest rates from 3.00% to 5.00%, payable semiannually | | 53,800 | |
| Term bond series 2013-C with interest at 5.00%, payable semiannually, due July 1, 2038 | | 27,420 | |
| Term bond series 2013-C with interest at 5.00%, payable semiannually, due July 1, 2043 | | 35,000 | |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

| | Water Utility Fund | Wastewater Utility Fund | Stormwater Utility Fund |
|--|-----------------------|----------------------------|----------------------------|
| Serial bonds series, 2013-D maturing in annual installments of \$3,065,000 to \$3,640,000 through July 1, 2033 with interest rates from 3.00% to 5.00%, payable semiannually | | \$ 63,860 | |
| Term bond series 2013-D with interest at 5.00%, payable semiannually, due July 1, 2038 | | 14,835 | |
| Term bond series 2013-D with interest at 5.00%, payable semiannually, due July 1, 2042 | | 15,845 | |
| Serial bonds series, 2013-E maturing in annual installments of \$1,690,000 to \$3,030,000 through July 1, 2026, with interest rates from 3.00% to 5.00%, payable semiannually | | 21,630 | |
| Serial bonds series, 2014-A maturing in annual installments of \$2,081,200 to \$2,464,774 through February 1, 2035 with interest rates at 1.00% payable semiannually | | 35,093 | |
| Serial bonds series, 2014-A maturing in annual installments of \$1,715,000 to \$3,785,000 through July 1, 2034 with interest rates from 2.00% to 5.00%, payable semiannually | \$ 44,875 | | |
| Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2037 | 12,535 | | |
| Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2039 | 9,430 | | |
| Term bond series 2014-A with interest at 5.00%, payable semiannually, due July 1, 2044 | 28,040 | | |
| Serial bonds series, 2014-B maturing in annual installments of \$960,000 to \$4,825,000 through July 1, 2034, with interest rates of 5.00% payable semiannually | 32,135 | | |
| Term bond series 2014-B with interest at 5.00%, payable semiannually, due July 1, 2037 | 7,065 | | |
| Serial bonds series, 2014-C maturing in annual installments of \$675,000 to \$3,905,000 through July 1, 2034 with interest rates from 3.00% to 5.00%, payable semiannually | 29,110 | | |
| Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2039 | 6,225 | | |
| Serial bonds series, 2014-C maturing in annual installments of \$1,520,000 to \$3,350,000 through July 1, 2034 with interest rates from 2.00% to 5.00%, payable semiannually | | 39,715 | |
| Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2039 | | 19,445 | |
| Term bond series 2014-C with interest at 5.00%, payable semiannually, due July 1, 2044 | | 24,815 | |
| Serial bonds series, 2014-D maturing in annual installments of \$1,125,000 to \$5,650,000 through July 1, 2034 with interest rates from 3.00% to 5.00%, payable semiannually | | 114,395 | |
| Serial bonds series, 2014-E maturing in annual installments of \$165,000 to \$3,935,000 through July 1, 2032 with interest rates from 2.00% to 5.00%, payable semiannually | | 22,685 | |
| Serial bonds series, 2015-A maturing in annual installments of \$964,000 to \$1,122,000 through February 1, 2035 with interest rates of 0.90%, payable semiannually | | 17,777 | |
| Serial bonds series, 2015-B maturing in annual installments of \$3,306,561 to \$3,920,216 through February 1, 2037 with interest rates of 0.90%, payable semiannually | | 68,796 | |
| Serial bonds series, 2016-A maturing in annual installments of \$1,000 to \$903,935 through February 1, 2047 through with interest rates of 0.70%, payable semiannually | | 23,816 | |
| Serial bonds series 2016 maturing in annual installments from \$908,658 to \$1,996,701 through April 1, 2031, with interest rates of 2.75% to 5.00%, payable semiannually | | | \$ 5,833 |
| Serial bonds series 2017-A maturing in annual installments from \$2,525,000 to \$6,080,000 through July 1, 2036, with interest rates at 5.00% payable semiannually | 77,140 | | |
| Term bond series 2017-A with interest at 5.00%, payable semiannually, due July 1, 2041 | 35,270 | | |
| Term bond series 2017-A with interest at 5.00%, payable semiannually, due July 1, 2046 | 45,010 | | |
| Serial bonds series 2017-B maturing in annual installments from \$1,250,000 to \$1,680,000 through July 1, 2028, with interest rates at 5.00% payable semiannually | 10,195 | | |
| Serial bonds series 2017-C maturing in annual installments from \$90,000 to \$2,825,000 through July 1, 2038, with interest rates of 5.00%, payable semiannually | 27,045 | | |
| Serial bonds series 2017-D maturing in annual installments from \$170,000 to \$5,800,000 through July 1, 2035, with interest rates at 5.00% payable semiannually | 43,910 | | |
| Serial bonds series 2017-E maturing in annual installments from \$2,474,024 to \$3,092,422 through February 1, 2050, with interest rates at 0.80% payable semiannually | 83,509 | | |
| Serial bonds series 2017-A maturing in annual installments from \$635,000 to \$3,940,000 through July 1, 2036, with interest rates at 5.00% payable semiannually | | 49,985 | |
| Term bond series 2017-A with interest at 5.00%, payable semiannually, due July 1, 2041 | | 22,845 | |
| Term bond series 2017-A with interest at 5.00%, payable semiannually, due July 1, 2046 | | 29,165 | |
| Serial bonds series 2017-B maturing in annual installments from \$285,000 to \$10,500,000 through July 1, 2036, with interest rates of 5.00%, payable semiannually | | 73,720 | |
| Term bond series 2017-A with interest at 5.00%, payable semiannually, due July 1, 2039 | | 17,595 | |
| Serial bonds series 2017-C maturing in annual installments from \$565,000 to \$6,835,000 through July 1, 2036, with interest rates at 5.00% payable semiannually | | 52,450 | |
| Serial bonds series 2017-D maturing in annual installments from \$137,315 to \$175,375 through February 1, 2040, with interest rates at 0.80% payable semiannually | | 4,635 | |
| Serial bonds series 2018-A maturing in annual installments from \$4,613,248 to \$5,812,490 through February 1, 2051, with interest rates at 0.80% payable semiannually | | 155,718 | |
| Serial bonds series 2018-C maturing in annual installments from \$521,314 to \$606,526 through February 1, 2040, with interest rates at 0.80% payable semiannually | | 11,257 | |
| Unamortized bond premiums | 893,969 | 1,188,939 | 9,916 |
| | 78,447 | 87,912 | 615 |
| | <u>\$ 972,416</u> | <u>\$ 1,276,851</u> | <u>\$ 10,531</u> |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Variable Rate Water and Wastewater Utility Bonds

At June 30, 2018, the Water Utility fund had \$20,800,000 of auction rate notes outstanding. Interest rates for these notes are determined every 7 days. In the event of a failed auction, the auction agent assesses the failed auction rate to the issuers of the notes. Interest paid under these conditions is currently limited to 150% of the non-financial commercial paper rate depending on the rating of each bond issue. The failed auction rate on these notes during the fiscal year was less than 2.91%.

On June 21, 2018, the City entered into a Water Quality Loan Agreement with the Maryland Water Quality Financing Administration Water Quality Revolving Loan in the amount of \$168,475,809 of which \$1,500,000 is forgivable if the City complies with the terms of the agreement. The rate on interest is set at .080%, maturing February 1, 2051.

Variable Rate Parking Facilities Revenue Bonds

The City has issued revenue bonds, the proceeds of which were used to finance construction of parking facilities and refinance existing debt of the Parking Facilities Fund. Assets with a carrying value of \$29,449,000 at June 30, 2018, and revenues of the Parking Facilities Fund are pledged as collateral for the bonds. Bonds outstanding as of June 30, 2018, consist of (amounts expressed in thousands):

| | |
|--|------------|
| Term bond series 1997-A with interest at 6.00%, payable semiannually, due July 1, 2018 | \$ 6,505 |
| Term bond series 1998-A with interest at 5.25%, payable semiannually, due July 1, 2021 | 3,300 |
| Term bond series 2005 with interest at 5.27%, payable semiannually, due July 1, 2018 | 1,870 |
| Term bond series 2005 with interest at 5.30%, payable semiannually, due July 1, 2027 | 10,470 |
| Term bond series 2005 with interest at 5.62%, payable semiannually, due July 1, 2035 | 1,000 |
| Variable rate demand bonds series 2008, payable monthly, due July 1, 2032 | 67,040 |
| Term bond series 2010 with interest at 5.225%, payable semiannually, due July 1, 2020 | 3,045 |
| Term bond series 2010 with interest at 6.10%, payable semiannually, due July 1, 2025 | 4,275 |
| Term bond series 2010 with interest at 7.00%, payable semiannually, due July 1, 2035 | 14,025 |
| | \$ 111,530 |

The City had \$67,040,000 of Series 2008 refunding taxable variable rate demand revenue bonds outstanding as of June 30, 2018. The Series 2008 Bonds are subject to redemption prior to maturity at any time, at a redemption price of 100% of the principal amount plus interest accrued to the redemption date. The Series 2008 Bonds annual principal amounts starting on July 1, 2017 through July 1, 2032 range from \$1,420,000 to \$7,965,000.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Initially, the Remarketing Agent will use a "Dutch Auction" to set the weekly rate that will be used to remarket the bonds. Under the terms of the indenture, the City at its options may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of the bondholders.

In conjunction with the bonds, Bank of America issued an irrevocable letter of credit with a current value in the amount of \$68,142,027 in favor of the City and Manufacturers and Traders Trust Company as Tender Agent. The agreement expires December 1, 2020. The existing Agreement permits the fiscal agent to draw certain amounts to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed. The interest rate on draws made under this agreement is a defined base rate plus up to an additional 2.00% depending on the terms of the draw. The City is required to pay the letter of credit fee throughout the effectiveness of the Agreement equal to 0.42% per annum of the average daily amount of the available commitment. During fiscal year 2018, the City made no draws under the letter of credit and there were no amounts drawn against the letter of credit outstanding at June 30, 2018.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Convention Center Refunding Revenue Bonds

The Convention Center Refunding Revenue Bonds, Series 1998 were issued as special limited obligations of the City to refund the Mayor and City Council Convention Center Revenue Bonds Series 1994. The bonds are payable solely from the revenues which consist of certain hotel taxes and certain receipts derived from the ownership and operation of the Baltimore Convention Center. At June 30, 2018, the balance outstanding on the Series 1998 bonds was \$8,645,000 of 5.0% term bonds due to mature on September 1, 2019. Interest on the bonds is payable on March 1 and September 1 of each year. The bonds are subject to redemption prior to maturity at redemption prices ranging from 102% to 100% of the principal amount. The term bonds due September 1, 2019 are subject to redemption at par prior to maturity by operation of a sinking fund on or after September 1, 2017, at annual principal amounts ranging from \$4,220,000 to \$4,425,000. These revenue bonds have been recorded in governmental activities because they are expected to be paid by general revenues.

Stormwater Special Revenue Bond

The City has issued a Stormwater Special Revenue Bond, Series 2004 with \$1,443,546 outstanding. This bond funded various City stormwater capital projects associated with road construction. The bond is secured by a pledge of the City's share of state highway user revenues.

County Transportation Revenue Bonds

The City has entered into agreements with the State of Maryland to borrow County Transportation Revenue Bonds with \$81,035,000 outstanding. The proceeds from these bonds will be used to fund certain highway improvements and stormwater projects throughout the City. These bonds are secured by a pledge of the City's share of the highway user revenues.

Convention Center Hotel Revenue Bonds

The City issued Convention Center Hotel Revenue Bonds in the amount of \$300,940,000. The proceeds of these bonds were used to finance the acquisition, demolition, construction and equipping of a convention center hotel in the City. The bonds are secured by pledges of revenues from the operation of the hotel, certain City hotel taxes and limited guarantees from the hotel operator. Bonds outstanding at June 30, 2018, consist of (amounts expressed in thousands):

| | |
|--|-------------------|
| Serial bond series 2017, maturing in installments from \$1,450,000 to \$10,775,000 through September 2036, with interest rates ranging from 3.0% to 5.00% payable semiannually | \$ 117,365 |
| Term bonds series 2017 with interest at 5.00% due September 1, 2039 | 35,655 |
| Term bonds series 2017 with interest at 5.00% due September 1, 2042 | 41,280 |
| Term bonds series 2017 with interest at 5.00% due September 1, 2046 | 74,455 |
| Totals | \$ 268,755 |

Changes in revenue bond obligations for the year ending June 30, 2018, are as follows (amounts expressed in thousands):

| | June 30, 2017 | New Debt Issues | Debt Retired | June 30, 2018 | Due within One Year |
|---|---------------------|-------------------|------------------|---------------------|---------------------|
| <i>Governmental Activities*</i> | | | | | |
| Convention Center and Hotel | \$ 281,415 | | \$ 4,015 | \$ 277,400 | \$ 5,670 |
| Transportation | 77,251 | \$ 14,924 | 10,340 | 81,835 | 11,632 |
| Total Governmental Activities | \$ 358,666 | \$ 14,924 | \$ 14,355 | \$ 359,235 | \$ 17,302 |
| <i>Business - Type Activities**</i> | | | | | |
| Water | \$ 912,410 | | \$ 18,441 | \$ 893,969 | \$ 21,058 |
| Waste Water | 1,064,551 | \$ 166,976 | 42,582 | 1,188,945 | 40,805 |
| Storm Water | 25,897 | | 15,981 | 9,916 | 1,092 |
| Parking Facilities | 123,020 | | 11,490 | 111,530 | 12,270 |
| Total Business-Type Activities | \$ 2,125,878 | \$ 166,976 | \$ 88,494 | \$ 2,204,360 | \$ 75,225 |

* Included in the Statement of Net Position for Governmental Activities is a remaining unamortized portion of bond premium of \$44,895,000.

** Included in the Statement of Net Position for Business Type Activities is a remaining unamortized portion of bond premium of \$166,974,000.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Principal maturities and interest of revenue bonds, shown at gross, are as follows (amounts expressed in thousands):

| Fiscal Year | Governmental Activities | | | | | |
|---------------------|-------------------------|-------------------|-------------------|---------------|------------------------------|------------------|
| | Hotel Revenue Bonds | | Convention Center | | Transportation Revenue Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | \$ 1,450 | \$ 13,366 | \$ 4,220 | \$ 327 | \$ 11,632 | \$ 3,231 |
| 2020 | 2,100 | 13,302 | 4,425 | 110 | 12,174 | 2,774 |
| 2021 | 2,500 | 13,198 | | | 9,867 | 2,295 |
| 2022 | 2,950 | 13,061 | | | 10,364 | 1,862 |
| 2023 | 3,485 | 12,901 | | | 7,987 | 1,435 |
| 2024-2028 | 25,170 | 61,165 | | | 26,544 | 3,276 |
| 2029-2033 | 39,600 | 53,091 | | | 3,267 | 451 |
| 2034-2038 | 51,420 | 41,698 | | | | |
| 2039-2043 | 65,625 | 27,137 | | | | |
| 2044-2048 | 74,455 | 8,995 | | | | |
| Totals | \$ 268,755 | \$ 257,914 | \$ 8,645 | \$ 437 | \$ 81,835 | \$ 15,324 |

| Fiscal Year | Business-type Activities | | | | | | | | | |
|-----------------|--------------------------|-------------------|---------------------------|---------------------|-------------------|--------------------|-----------------|--------------------|------------------|---------------------------|
| | Water Utility | | | Wastewater Utility | | Stormwater Utility | | Parking Facilities | | |
| | Principal | Interest | Swap Interest Rate Net(a) | Principal | Interest | Principal | Interest | Principal | Interest | Swap Interest Rate Net(a) |
| 2019 | \$21,058 | \$38,415 | \$792 | \$40,805 | \$40,387 | \$1,092 | \$378 | \$12,270 | \$6,398 | \$2,619 |
| 2020 | 21,876 | 37,771 | 792 | 41,385 | 39,656 | 1,130 | 344 | 4,410 | 5,921 | 2,550 |
| 2021 | 25,373 | 36,855 | 792 | 43,122 | 38,815 | 1,171 | 307 | 4,735 | 5,663 | 2,471 |
| 2022 | 25,436 | 35,754 | 792 | 45,668 | 37,808 | 1,178 | 268 | 4,980 | 5,386 | 2,386 |
| 2023 | 26,323 | 34,628 | 792 | 45,601 | 36,398 | 874 | 231 | 5,210 | 5,088 | 2,277 |
| 2024-2028 | 142,625 | 155,090 | 3,960 | 232,817 | 159,532 | 3,942 | 645 | 31,675 | 20,169 | 9,137 |
| 2029-2033 | 179,618 | 119,542 | 3,961 | 261,115 | 115,713 | 529 | 103 | 42,550 | 8,901 | 3,683 |
| 2034-2038 | 196,525 | 76,098 | 2,228 | 224,203 | 67,953 | | | 5,700 | 608 | |
| 2039-2043 | 176,812 | 35,394 | (20) | 162,319 | 29,056 | | | | | |
| 2044-2048 | 72,113 | 5,223 | | 74,604 | 4,643 | | | | | |
| 2049-2053 | 6,210 | 75 | | 17,300 | 278 | | | | | |
| | \$ 893,969 | \$ 574,845 | \$ 14,089 | \$ 1,188,939 | \$ 570,239 | \$ 9,916 | \$ 2,276 | \$ 111,530 | \$ 58,134 | \$ 25,123 |

(a) Interest Rate Swap Net payments represent estimated payments for additional interest resulting from swap agreements to counterparties. The additional payments were computed using rates as of June 30, 2017, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

9. Pledged Revenue

The Water, Wastewater and Stormwater Utility Funds

The Water, Wastewater and Stormwater Utility Funds have pledged future customer revenue to repay \$893,969,000, \$1,188,939,000, and \$9,916,000 of revenue bond debt, respectively. Proceeds from these revenue bonds were used to build and improve various aspects of the City's Water, Wastewater and Stormwater Utility systems. The bonds are payable solely from the revenues of the Water and Wastewater Utility Funds and are payable through 2047. Payments for the Stormwater Utility Fund's bonds have been made with General Funds and subsequently reimbursed from Stormwater Utility Fund revenues. Annual principal and interest payments on these revenue bonds are expected to require 66% of pledged revenues. Total principal and interest remaining to be paid on the revenue bonds for the Water, Wastewater and Stormwater Utility Funds are \$1,482,903,000, \$1,759,178,000, and \$13,664,000, respectively. Principal and interest paid for the current year and pledged revenue for the Water Utility Fund were \$56,485,000 and \$84,530,000, respectively. Principal and interest paid for the current year and pledged revenue for the Wastewater Utility Fund were \$79,185,000 and \$116,738,000, respectively. Principal and interest paid for the current year and pledged revenue for the Stormwater Utility Fund were \$2,216,000 and \$8,819,000, respectively.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The Parking Facility Fund

The Parking Facility Fund has pledged future revenue from parking fees and fines to repay \$111,530,000 of revenue bond debt. Proceeds from these revenue bonds were used to construct various garages throughout the City. The bonds are payable solely from the pledged revenue and are payable through 2035. Annual principal and interest payments are expected to require 24.2% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is \$194,787,000. For the current year, principal and interest payments and current pledged revenue were \$18,482,000 and \$76,242,000, respectively.

Tax Increment Revenue Pledges

The City has pledged a portion of future property tax revenues to repay \$198,176,000 in incremental property taxes bonds issued to finance various development projects. The pledged revenue is limited to the incremental taxes on the projects financed by the bond. Should the incremental taxes fail to generate sufficient revenue to pay the required principal and interest, the City has established special taxing districts to generate additional taxes sufficient to pay principal and interest on the bonds. Total principal and interest remaining to be paid on these bonds is \$374,504,000. For the current year, principal and interest payments and current pledged revenue were \$7,918,000 and \$12,136,000, respectively.

Baltimore Hotel Corporation

The City has pledged a portion of its hotel occupancy tax as security for revenue bonds, the proceeds of which were used to build the City's Convention Center Headquarters Hotel. The City's hotel occupancy tax is one of several pledged revenue sources the City used to issue \$268,755,000 in Convention Center Headquarters Hotel Bonds. Following the net operating income and the property tax increment for the Hotel, the site specific occupancy tax is pledged to pay principal and interest payments on the bonds. If these sources are insufficient, a portion of the citywide occupancy tax is also pledged up to 25% of maximum annual debt service. The Hotel opened August 22, 2008. Total principal and interest remaining to be paid on these bonds is \$526,670,000. For the current year, principal and interest payments were \$9,260,000.

Baltimore Convention Center

The City has pledged a portion of future revenue from Convention Center operations to repay \$8,645,000 of revenue bond debt. Proceeds from these revenue bonds were used to expand the Baltimore Convention Center. The bonds are payable solely from pledged revenue and are payable through 2019. Annual principal and interest payments on these revenue bonds are expected to require 100% of pledged revenue. Total principal and interest remaining to be paid on these revenue bonds is \$9,082,000. For the current year, principal and interest payments and current pledged revenue were \$4,548,000 and \$4,580,000, respectively.

10. Prior-Year Defeasance of Debt

Primary Government

In prior years, the City defeased certain revenue bonds and other obligations by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. At June 30, 2018, \$263,205,000 of debt outstanding is considered defeased.

11. Interest Rate Swaps

Objectives of the swaps. The City has entered into swaps for three reasons: first, the majority of its swaps have been used to create synthetic fixed rate financing (by issuing floating-rate bonds and swapping them to fixed) as a way to provide lower-cost fixed rate financing to meet the City's capital needs. Second, the City has used swaps from fixed to floating to help the City manage its balance sheet for an appropriate mix of fixed and floating rate exposure. And, third, the City has used basis swaps to amend the floating rate on certain of its existing synthetic fixed rate swaps in order to provide a better hedge on the underlying floating rate bonds.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Terms, fair value and credit risk. The terms, fair values and credit rating of the outstanding swaps as of June 30, 2018, were as follows. The notional amounts of the swaps match the principal amount of the associated debt. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are designed to track the scheduled or anticipated reductions in the associated "bonds payable" category.

Hedged Derivative Instruments

At June 30, 2018, the City had deferred liabilities for various hedged derivative instruments with the total fair values of these instruments in the amounts of (\$1,228,437) and (\$24,475,720), for governmental and business-type activities, respectively. The notional amounts for these hedged derivative instruments at June 30, 2018, were \$17,935,000 and \$87,200,000, for governmental and business-type activities, respectively. During fiscal year 2018, the fair values of these instruments increased \$1,946,696 for governmental-type and decreased by \$7,678,063 for business-type activities. All hedges are cash flow hedges. The following schedule provides a detailed analysis of derivative instruments held at June 30, 2018:

MAJOR AND CITY COUNCIL OF BALTIMORE

SWAP PROFILE as of June 30, 2018

| Outstanding Bonds | Effective Date | Termination Date | Interest Rate Paid by City | Interest Rate Received | Notional Amount | Fair Value | Counterparty Credit Rating |
|---|----------------|------------------|----------------------------|------------------------|-----------------|-----------------|----------------------------|
| Hedged Derivative Instruments - Governmental Activities | | | | | | | |
| General Obligation Bonds | | | | | | | |
| <i>Floating to Fixed Swaps</i> | | | | | | | |
| 2003 Bonds | 5/14/2003 | 10/15/2020 | 4.215% | 1M LIBOR | \$ 780,000 | \$ (15,502) | A-/Baa2 |
| 2003 Bonds | 5/14/2003 | 10/15/2022 | 4.970% | 1M LIBOR | 17,155,000 | (1,212,935) | A-/Baa2 |
| Total Governmental Activities | | | | | \$ 17,935,000 | \$ (1,228,437) | |
| Hedged Derivative Instruments - Business-type Activities | | | | | | | |
| Water Utility Fund Revenue Bonds Series | | | | | | | |
| <i>Floating to Fixed Swaps</i> | | | | | | | |
| 2002 Revenue Bonds | 5/7/2002 | 7/1/2037 | 4.555% | 67% LIBOR | \$ 20,800,000 | \$ (7,289,816) | BBB+/A3 |
| Total Water Utility Fund | | | | | 20,800,000 | (7,289,816) | |
| Parking Revenue Bonds Series | | | | | | | |
| <i>Floating to Fixed Swaps</i> | | | | | | | |
| 2008 Bonds | 6/19/2002 | 7/1/2032 | 6.098% | 1M LIBOR | 60,700,000 | (16,521,527) | A+/A1 |
| 2008 Bonds | 6/19/2002 | 7/1/2025 | 5.915% | 1M LIBOR | 5,700,000 | (664,377) | A+/A1 |
| Total Parking Facilities Fund | | | | | 66,400,000 | (17,185,904) | |
| Total Business-type Activities | | | | | \$ 87,200,000 | \$ (24,475,720) | |

Credit risk — As of June 30, 2018, the City is not exposed to credit risk on any of the outstanding swaps because the swaps have negative fair value. All fair values were calculated using the mark-to-market or par value method. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' fair value. The swap agreements contain varying collateral agreements with counterparties. In general, these agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below Baa as issued by Moody's or BBB as issued by Standard and Poor's. Collateral on all swaps may be in the form of cash or U. S. government securities held by the City. Although the City executes transactions with various counterparties, one swaps or approximately 20% of the notional amount of swaps outstanding, is held counterparty that is currently rated BBB+/A3. Of the remaining swaps, the City holds two swaps with a counterparty rated A-/Baa2, approximately 17% of the outstanding notional value, and two swaps with one counterparty rated A+/A1, approximately 63% of the outstanding notional value.

Basis risk — The City's variable rate bonds are of two types: remarketed variable rate demand bonds (VRDBs) and auction rate bonds (ARBs). For those swaps associated with the VRDBs and ARBs, the City receives a floating rate based on one-month LIBOR. For two of the swaps, the City will receive a percent of LIBOR or a percent of LIBOR plus a basis point spread, each rate was chosen to closely approximate the City's tax-exempt variable rate bond payments. Because these

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

swaps are LIBOR-based, there is an additional degree of basis risk. For four of the swaps, the City receives the one month LIBOR, chosen to approximate the City's taxable variable rate bond payments. As of June 30, 2018, LIBOR for the prior 52 weeks ranged from 1.05% to 1.98%, whereas the City's taxable market ranged from 1.20% to 1.98%.

Interest rate risk - For those swaps for which the City pays a floating rate and receives fixed rate payments, the City is exposed to interest rate risk. As floating rates increase, the City's expected savings could decrease. The City would, however, benefit from offsetting increases in its earnings on short-term investments, whose return would be expected to go up in a higher interest rate environment.

Termination risk — The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap contract has a negative fair value, the City would be liable to the counterparty for that payment.

Investment Derivative Instruments

The fair value balance and notional amounts of derivative instruments outstanding are classified by type, and the changes in fair value of such derivative instruments for the year ended June 30, 2018 are as follows:

| | Changes in Fair Value | | Fair Value at June 30, 2018 | | |
|--------------------------------------|-----------------------|-----------|-----------------------------|----------------|-----------------|
| | Classification | Amount | Classification | Amount | Notional |
| Business-Type Activities | | | | | |
| Water Utility Fund | | | | | |
| Floating to Floating | Investment Revenue | \$ 85,874 | Debt | \$ (3,619,528) | \$ (71,455,000) |
| Total Business-Type Activities | | \$ 85,874 | | \$ (3,619,528) | \$ (71,455,000) |

Credit Risk - At June 30, 2018, the government is not exposed to credit risk on the interest rate swaps, because they are in a negative fair value or liability position. However, if interest rates change and the fair values become positive, the City would have exposure to credit risk. The counter party rating for the Water Utility Fund was AA-/Aa2. The change in the fair value of investment swaps in the amount of a gain of \$85,874 is netted and reported within the investment revenue classification.

Interest rate risk - For those swaps for which the City pays a floating rate, the City is exposed to interest rate risk. As floating rates increase, the City's expected savings could decrease. The City would, however, benefit from offsetting increases in its earnings on short-term investments, whose return would be expected to go up in a higher interest rate environment.

Fiduciary Fund Types

Forward Currency Contracts

The City's Retirement Systems entered into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. They also entered into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase (payable) or sell (receivable) a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. Unrealized gains or losses on forward currency contracts are the difference between the contract and the closing market value of such contract and is included in the statement of changes in fiduciary net position as net appreciation/depreciation in the fair value of investments.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The table below summarizes the market value of foreign currency contracts as of June 30, 2018:

| Currency | Forward Foreign Contracts Cost Receivable (a) | Forward Foreign Contracts Cost Payable (b) | Forward Foreign Contracts Fair Value Receivable (c) | Forward Foreign Contracts Fair Value Payable (d) | Unrealized Net Gain/(Loss) (c-a) + (b-d) |
|------------------------------|---|--|---|--|--|
| Australian Dollar | \$ 2,632,927 | \$ 2,632,927 | \$ 2,632,927 | \$ 2,535,367 | \$ 97,560 |
| Brazilian Real | 970,000 | 970,000 | 970,000 | 962,174 | 7,826 |
| British Pound Sterling | 313,568 | 313,568 | 313,865 | 313,568 | 297 |
| Canadian Dollar | 423,792 | 423,792 | 423,336 | 424,956 | (1,620) |
| Chinese Yuan Renminbi | 1,091,000 | 1,091,000 | 1,091,000 | 1,064,118 | 26,882 |
| Danish Krone | 432,396 | 432,396 | 432,396 | 431,231 | 1,165 |
| Euro Currency Unit | 4,330,631 | 4,330,631 | 4,313,354 | 4,351,223 | (37,869) |
| Hong Kong Dollar | 152,901 | 152,901 | 152,901 | 152,933 | (32) |
| Japanese Yen | 707,959 | 707,959 | 707,959 | 706,662 | 1,297 |
| Mexican New Peso | 1,355,977 | 1,355,977 | 1,355,977 | 1,399,272 | (43,295) |
| New Zealand Dollar | 6,132,958 | 6,132,958 | 6,132,958 | 5,890,845 | 242,113 |
| Pound Sterling | 419,618 | 419,618 | 419,618 | 415,982 | 3,636 |
| Singapore Dollar | 122,335 | 122,335 | 122,335 | 119,813 | 2,522 |
| Swedish Krona | 113,468 | 113,468 | 113,468 | 113,957 | (489) |
| Swiss Franc | 264,064 | 264,064 | 264,064 | 265,640 | (1,576) |
| U.S. Dollar | 5,650,967 | 5,650,967 | 5,632,928 | 5,650,967 | (18,039) |
| Total | \$ 25,114,561 | \$ 25,114,561 | \$ 25,079,086 | \$ 24,798,708 | \$ 280,378 |

12. Pension Plans

All City employees, other than the professional employees of the Enoch Pratt Free Library and the Baltimore City Public School System (BCPSS), who are members of the Maryland State Retirement and Pension Systems to which the City and the BCPSS make no contributions, are covered under one of the following Public Employees Retirement Systems (PERS) or the Maryland State Retirement and Pension System:

The City contributes to two single-employer defined benefit pension plans, the Fire and Police Employees' Retirement System (F&P Plan), established July 1, 1962 and the Elected Officials' Retirement System (EOS Plan), established December 5, 1983. The City also contributes to two cost-sharing multiple employer defined benefit plan, the Employees' Retirement System (ERS Plan), established January 1, 1926 and the Maryland State Retirement and Pension System (the State System). The F&P Plan, the EOS Plan, and the ERS Plan (the City Plans) are each managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits provisions may be amended only by the City Council. The City Plans are considered part of the City's reporting entity and their financial statements are included in the City's basic financial statements as pension trust funds. The City Plans and the State System issue separate financial statements which may be obtained from the following websites:

For Employees' Retirement System and Elected Officials' Retirement System: www.bcercs.org

For Fire and Police Employees' Retirement System: www.bcfpers.org

For the Maryland State Retirement and Pension System: www.sra.state.md.us

The financial statements for the City Plans and the State System are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period that the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

A. PLAN DESCRIPTIONS-SINGLE EMPLOYER PLANS

Fire & Police Employees' Retirement System

The F&P Plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. Based on criteria established by the GASB, the F&P Plan is a component unit of the City of Baltimore and is included in the City's financial report as a pension trust fund.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

At June 30, 2017, the measurement date, the F&P membership consisted of:

| | |
|--|----------------------|
| Retirees and beneficiaries currently receiving benefit | 6,319 |
| Active plan members | <u>4,012</u> |
| Total | <u><u>10,331</u></u> |

The F&P Plan provides normal service retirement benefits, as well as death and disability benefits. Membership in the F&P Plan is mandatory upon employment. The F&P Retirement System does not have a vested benefit plan; however, members have vested rights to their contributions and interest.

F&P members were required to contribute 10% of their regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. According to plan provisions, contribution requirements of the plan members and the City are established and may be amended by the Mayor and City Council. The valuation method is stipulated in the plan provisions. An expense load of 1.5% is included in the annual employer contribution requirement to cover administrative costs.

Members are eligible for a normal service retirement if they acquire 25 or more service credit years with at least 15 years of services credit as an F&P contributing member regardless of age, or if the member is age 55 and acquires 15 or more years of service credit as an F&P contributing member. Normal service retirement benefits are calculated at 2.5% of the average final compensation for the first 20 years plus 2% of the average final compensation for each year over 20 years of service. Members are eligible for early service retirement which is a reduced retirement benefit. To be eligible for early retirement, members must acquire 20 years of service credit with at least 10 years of service credit as an F&P contributing member regardless of age or attain age 50 with at least 10 years of service credit as an F&P contributing member.

Members are also eligible for a deferred retirement option program, DROP and DROP 2. Members with more than 20 years of service on or before December 31, 2009 can elect to participate in DROP at any time. A member's DROP participation period can be for one to three years. If a member retires during the DROP participation period, the benefit shall equal:

1. The retirement benefit that would have been paid had the member retired at the time he/she began his/her DROP participation, plus
2. A lump sum equal to the member's DROP account. This equals the accumulation of the annuity payments the member would have received had the member retired, plus the member contributions paid during the members DROP participation period, plus interest at 8.25%.

Members with more than 20 years of service on or after January 1, 2010 can elect to participate in DROP 2. On July 1, 2010, this requirement was changed to members with more than 25 years of service for non-grandfathered members. A member's DROP 2 participation period can be for one to three years. If a member retires during the DROP participation period, the benefit shall equal:

1. The retirement benefit that would have been paid had the member retired at the time the member began his/her DROP 2 participation, plus
2. A lump sum equal to the member's DROP 2 account. This equals the accumulation of the annuity payments the member would have received had the member retired, plus the member contributions paid during the members DROP 2 participation period, plus interest at 5.50% for grandfathered members and 3.0% for non-grandfathered participants.

Post-retirement benefit increases are provided to retirees and beneficiaries based on age, type of retirement and having received benefits for two or more years as of each June 30 eligibility determination date.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Elected Officials' Retirement System

The EOS Plan covers the Mayor, the Comptroller, and the President and all members of the City Council. Based on criteria established by the Governmental Accounting Standards Board, the EOS Plan is a fiduciary fund of the City of Baltimore and is included in the City's financial report as a pension trust fund.

At June 30, 2017, the measurement date, the EOS Plan membership consisted of:

| | |
|---|------------------|
| Retirees and beneficiaries currently receiving benefit | 28 |
| Active plan members | 16 |
| Inactive members eligible to but not yet receiving benefits | <u>2</u> |
| Total | <u><u>46</u></u> |

The EOS Plan provides retirement benefits as well as death and disability benefits and the reduction of benefits is precluded by the City Code. Membership in the EOS Plan is mandatory upon taking the oath of office, unless the elected official is already a member of the Employees' Retirement System of the City of Baltimore.

EOS plan members were required to contribute 5% of their regular contribution through payroll deduction. The City's annual employer contribution is determined through an actuarial valuation. Baltimore City Code grants the authority to establish and amend the contributions of the active plan members to the Mayor and City Council of Baltimore. Administrative costs of the EOS Plan are paid from investment earnings.

Members are eligible to retire after the earlier of acquiring at least 16 years of service credit or attaining age 50 with at least 12 years of service credit. A member shall be entitled to receive a maximum service retirement allowance which shall consist of:

1. An annuity which shall be the actuarial equivalent of accumulated contributions at the time of retirement,
2. A pension, in addition to the annuity, which together shall be equal to 2.5% of the current annual earnable compensation applicable to the office multiplied by the number of years of membership credit.

Post-retirement benefit increases are indexed to future increases in the compensation for the position held by the elected official prior to retirement.

B. PLAN DESCRIPTIONS-MULTIPLE EMPLOYER PLANS

Employees Retirement System

ERS is a cost sharing multiple plan that covers City employees and the Baltimore City Public School System employees with the exception of those required to join the Maryland State Retirement System, or the two other Baltimore City retirement systems, the Fire and Police Employees' Retirement System and the Elected Officials' Retirement System. Based on criteria established by the Governmental Accounting Standards Board, the ERS Plan is a component unit of the City of Baltimore and is included in the City's financial report as a pension trust fund.

At June 30, 2017, the measurement date, the ERS Plan membership consisted of:

| | |
|--|----------------------|
| Active plan members | 8,043 |
| Retirees and beneficiaries currently receiving benefit | 9,144 |
| Inactive plan members eligible to but not yet receiving benefits | <u>1,045</u> |
| Total | <u><u>18,232</u></u> |

The ERS Plan provides service retirement benefits as well as death and disability benefits. Only the Mayor and City Council may amend the ERS Plan Provisions. The reduction of benefits is precluded by the City Code.

The ERS Plan is divided into three Classes: A, C and D for amendment of membership and benefit changes of the ERS Plan Provisions.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Class "A" has 13 members. The "A" contributory class consists of all members hired prior to July 1, 1979 who did not elect to transfer to Class C, the non-contributory class. Membership was mandatory on the member's second anniversary of employment. However, the member could voluntarily enroll within the first two years of employment.

Class "C" is composed of 7,223 members of the ERS membership and consists of all employees hired on or after July 1, 1979 who automatically become members on the first anniversary of employment, and all members hired prior to July 1, 1979 who elected to transfer from the Class "A" contributory class.

Effective July 1, 2013, Ordinance 13-144 was enacted by the Mayor and City Council introducing contributions for active ERS Plan non-contributory members and eliminating the post retirement variable benefit increase. The Ordinance provides that effective July 1, 2013, members will contribute 1% of pay, to continue each year at 1% increments provided that 2% compensation is received for each year of contribution until employee contribution reach 5% of compensation.

The ERS defined benefit class "C" was closed to new members on June 30, 2014 to establish the City of Baltimore's Retirement Saving Plan (RSP). The RSP consist of a 401a contributory non-hybrid and a hybrid contributory defined benefit "D" Plan. The RSP is not a separate plan, but is a separate class of the existing ERS plan, if the employee choses to belong to the hybrid defined benefit "D" plan. The waiting period of entry for the contributory non-hybrid plan is 180 days. The hybrid contributory defined benefit plan waiting period is one year. Employees hired as of July 1, 2014 have 150 days of employment to select between the two plans. Employees who do not select a plan after 150 days of employment will automatically default into the hybrid contributory defined benefit "D" plan. Class "D" has 807 members. The mandatory contribution to each of the plan's is 5%. Members have an option in both plans to contribute to the City of Baltimore's 457 Deferred Compensation plan and will receive a 50% match on the first two percent of their contributions.

The contributions required by the ERS Plan provisions for each membership class are as follows:

| Membership classes | Percentage of compensation |
|--------------------|----------------------------|
| A | 4.0% |
| C | 1.0-5.0%* |

* Class C contributions remained at 3% for the fiscal year ending June 30, 2017.

Members of Classes A and B are eligible to retire at age 60 with 5 years of service or 30 years of membership service, regardless of age. Members of Classes C and D are eligible to retire at age 65 with 5 years of service or 30 years of service, regardless of age. Early retirement is allowed at age 55 with 5 years of service payable at age 65 or reduced for payment before age 65. Benefits for service retirement are paid as follows:

Classes A and B – The sum of:

1. An annuity of the actuarial equivalent of a members accumulated contributions; and,
2. A pension, which together with the annuity shall equal 1.935% (Class A) or 1.785% (Class B) of average final compensation times years of service.

Class C:

A pension of (1) 1.6% of average final compensation times years of service up to 30 years, plus (2) .25% of average final compensation in excess of covered compensation, times years of service up to 30 years, plus (3) 1.85% of average final compensation, times years of service in excess of 30 years.

Class D:

A pension of 1.00% of average final compensation, times years of service. If the member retires at or after age 62 with at least 20 years of service the member receives an enhanced benefit of 1.10% of average final compensation times years of service.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Maryland State Retirement and Pension System

Certain city employees are covered by the Maryland State Retirement and Pension System, primarily employees of the Sheriff's Office. The State system is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension System (ERPS), and Law Enforcement Officers' Pension System (LEOPS). The City employees currently participate in the Employees' Retirement and Pension System, and the Law Enforcement Officers' Pension System, with the majority participating in the LEOPS Plan. The State System was established by the State Personnel and Pension Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The State Plans are administered by the State Retirement Agency. Responsibility for the System's administration and operation is vested in a 15- member Board of Trustees.

Membership in the LEOPS is a condition of employment of the Baltimore City Sheriff's Department. LEOPS consists of two separate components a retirement plan (closed to new members January 1, 2005) and a pension plan. Members contribute either 5%, 6% or 7% of annual earnable compensation, depending on whether the member elected to receive limited or unlimited COLA's or whether the member is subject to pension or retirement plan provisions. The City's total required contributions during the year ended June 30, 2018 was \$3,370,000.

LEOPS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service. For members subject to retirement plan provisions, full service retirement allowances equal 2.3% of average final compensation (AFC) for the first 30 years of creditable service, plus 1.0% of AFC for each additional year. For members subject to the pension system provisions who became members of LEOPS on or before June 30, 2011, full service pension allowances equal 2.0% of AFC for the three highest consecutive years as an employee. For members subject to pension system provisions on or after July 1, 2011, full service pension allowances equal 2.0% of AFC for the five highest consecutive years as an employee. LEOPS members are not eligible for early service retirement allowances, but are eligible for disability and death benefits if certain conditions are met.

LEOPS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the LEOPS members must have at least 25 years of creditable service, but less than 30 years. Depending on the entry date of the member into DROP, the retirement allowance is placed into an account earning either 6% or 4% interest.

At June 30, 2018, the City reported a liability of \$35,520,000 for its proportionate share of the net pension liability of the State System. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2017. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2018, the City's proportionate share was .1643%.

C. NET PENSION LIABILITY (ASSET)

The measurement date for the City Plans and the State System is June 30, 2017. Measurements are based on the fair value of assets as of June 30, 2017. The following schedules are the net pension liability (NPL) or the net pension asset (NPA) and the sensitivity of the NPL or NPA to the discount rate.

The component of the net pension liability (asset) of the City Plans is as follows:

(Dollars Expressed in Thousands)

| | Fire and Police Employees' Retirement System | Elected Officials' Retirement System |
|--|---|---|
| Total pension liability | \$ 3,720,307 | \$ 14,946 |
| Less: plan fiduciary net position | 2,562,565 | 24,966 |
| Net pension liability (asset) | \$ 1,157,742 | \$ (10,020) |
| Plan fiduciary net position as a percentage of total pension liability (asset) | 68.9% | 167.0% |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The actuarial assumptions and the current year contributions for the City Plans are:

(Dollars Expressed in Thousands)

| | Fire and Police Employees' Retirement System | Elected Officials' Retirement System | Employees' Retirement System |
|-------------------------------------|---|--|--|
| Contributions required | \$ 129,689 | | \$ 84,474 |
| % of Contribution made | 100.00% | | 100.00% |
| Covered payroll | \$ 296,357 | | \$ 391,083 |
| Actuarial assumptions: | | | |
| Investment rate of return: | | | |
| Pre-retirement | 7.50% | 7.00% | 7.50% |
| Post retirement | 7.50% | 7.00% | 6.50% |
| Projected salary increases | 3.00% | 2.5% | 2.65% |
| Includes inflation rate at | 3.00% | 2.5% | 2.65% |
| Cost-of-living adjustment | 3.00% | 2.5% | 1.5 - 2.0% |
| Mortality | RP-2014 Blue Collar Mortality Table using the RPEC_2014 Model | RP 2000 Health Mortality with projections using 50% of Scale AA projected 15 years with a 2 year set forward for males and females | RP 2000 Health Mortality with projections using 50% of Scale AA projected 15 years with a 2 year set forward for males and females |
| Last Experience Study Covered | July 1, 2012 - June 30, 2015 | July 1, 2010 - June 30, 2014 | July 1, 2010 - June 30, 2014 |

The actuarial assumptions and the current year contributions for the State System are:

(Dollars Expressed in Thousands)

| | Maryland State Retirement and Pension System |
|-------------------------------------|---|
| Contributions made | \$ 3,370 |
| Actuarial assumptions: | |
| Investment rate of return: | 7.50% |
| Projected salary increases | 3.15% to 9.15%, including inflation |
| Inflation rate | 2.65% general, 3.15% wage |
| Mortality | RP-2014 Mortality Tables with generational mortality improvement based on the MP-2014 2-dimensional mortality improvement scale |
| Last Experience Study Covered | 2010 - 2014 |

D. EXPECTED RETURNS, DISCOUNT RATE AND DEFERRED INFLOWS/OUTFLOWS

The long-term expected rate of return on pension plan investments for the City Plans and the State System was determined using a building block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate or return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rate of return for each major asset class included in the City Plans' target asset allocation are summarized in the following table:

Long-Term Expected Real Rate of Return/Target Allocation

| Asset Class | Fire and Police Employees' Retirement System | Elected Officials' Retirement System | Employees' Retirement System |
|------------------------------|---|---|---------------------------------|
| U.S. equities | 5.2%/22.5% | 7.3%/39% | 3.3%/30.0% |
| International equities | 6.0%/22.5% | 7.6%/21% | 7.6%/17.0% |
| Private equities | 7.8%/10.0% | | 11.1%/13.0% |
| Fixed income | 3.2%/17.0% | 2.8%/25% | 2.8%/22.0% |
| Real estate | 6.0%/10.0% | 7.4%/10% | 7.4%/13.0% |
| Hedge funds | 4.5%/5.0% | | 5.0%/2.0% |
| Energy MLP | 7.0%/7.0% | | |
| Private energy | 8.5%/5.0% | | |
| Cash | 1.0%/1.0% | | |
| Defensive Equities | | 6.8%/5% | 6.8%/3.0% |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

The F&P Plan- The projection of the cash flows used to determine the discount rate assumed that plan member contributions and employer contributions will continue to be made at the rates specified in the City Code and the written contribution policy. Based on these assumptions, the Fire and Police Plan retirement contribution was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of the June 30, 2017 measurement date. The discount rate used to determine the total pension liability as of June 30, 2017 is 7.50%.

The EOS Plan- The projection of the cash flows used to determine discount rate assumed that plan member contributions will continue to be made at the rates specified in the City Code. Employer contributions were assumed to be made in accordance with the contributions policy in effect for July 1, 2016 actuarial valuation. As of June 30, 2017, the plan is fully funded and the amortization of the surplus is greater than the normal costs resulting in a required contribution amount of zero. The discount rate at June 30, 2017, 7.00%, is the assumed long-term expected rate of return on EOS investments.

The ERS Plan- The projection of the cash flows used to determine discount rate assumed that plan member contributions will continue to be made at the rates specified in the City Code. Expected member contributions for FYE 2017 were 4% of pay increasing to 5% of pay for FYE 2018 will continue to increase annually up to 5% of compensation thereafter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for the July 1, 2016 actuarial valuation. Based on these assumptions, the ERS Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current members until the last payment for the current covered population is made as of the June 30, 2017 measurement date. The discount rate at June 30, 2017 is 7.50% for active and terminated vested participants and 6.50% for in-pay participants. The assumed long-term expected rate of return on ERS investments is 7.50%.

The major asset classes included in the State System’s target asset allocation and returns are summarized in the following table:

| Asset Class | Maryland State Retirement and Pension System |
|--------------------------|---|
| Public equity | 5.3%/36% |
| Private equities | 7.0%/11% |
| Rate sensitive | 1.2%/21% |
| Credit opportunity | 3.6%/9% |
| Real assets | 5.7%/15% |
| Absolute return | 3.1%/8% |

*The State System-*The projection of cash flows used to determine discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The discount rate at June 30, 2017, 7.50%, is the expected long-term rate of return on State System investments.

The sensitivity of the net pension liability (asset) presents the net pension liability (asset) of the City Plans and the State System calculated using the current discount rates as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1- percentage-point higher than the current rate.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Sensitivity of the pension liability (asset) to changes in the discount rate:

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|--------------|-----------------------|-------------|
| Fire and Police Employees' Retirement System | 6.50% | 7.50% | 8.50% |
| Net pension liability | \$ 1,582,626 | \$ 1,157,742 | \$ 803,454 |
| Plan fiduciary net position as a percentage of total pension liability | 61.8% | 68.9% | 76.1% |

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| Elected Officials' Retirement System | 6% | 7% | 8% |
| Net pension (asset) | \$ (8,555) | \$ (10,020) | \$ (11,269) |
| Plan fiduciary net position as a percentage of total pension (asset) | 152.1% | 167.0% | 182.3% |

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|---|---|---|
| Employees' Retirement System (City of Baltimore Portion) | 6.50% Active Part. 5.50% Retired Part. | 7.50% Active Part. 6.50% Retired Part. | 8.50% Active Part. 7.50% Retired Part. |
| Net pension liability | \$ 804,901 | \$ 597,470 | \$ 421,241 |
| Plan fiduciary net position as a percentage of total pension liability | 62.2% | 69.0% | 75.9% |

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| Maryland State Retirement and Pension System | 6.50% | 7.50% | 8.50% |
| LEOPS | \$ 38,359 | \$ 28,519 | \$ 19,733 |
| ERPS | 10,212 | 7,001 | 4,342 |

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|--------------|-----------------------|--------------|
| Total City Plans and State (exclude Baltimore City Public School Portion) | | | |
| Net pension liability | \$ 2,417,331 | \$ 1,773,711 | \$ 1,233,159 |

(Dollars Expressed in Thousands)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|---|---|---|
| Employees' Retirement System (Baltimore City Public Schools Portion) | 6.75% Active Part. 5.55% Retired Part. | 7.75% Active Part. 6.55% Retired Part. | 8.75% Active Part. 7.55% Retired Part. |
| Net pension liability | \$ 182,017 | \$ 135,109 | \$ 95,257 |
| Plan fiduciary net position as a percentage of total pension liability | 62.2% | 69.0% | 75.9% |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Deferred Inflows and Deferred Outflows- The reported deferred outflows/inflows of resources associated with the City Plans and the State System is as follows:

(Expressed in Thousands)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Fire and Police Employees' Retirement System | | |
| Pension contributions subsequent to measurement date | \$ 136,832 | |
| Differences between actual and expected experience | 12,782 | \$ 13,106 |
| Assumption change | 8,936 | |
| Differences between actual and projected earnings | 53,595 | |
| Total | <u>\$ 212,145</u> | <u>\$ 13,106</u> |

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Elected Officials' Retirement System | | |
| Differences between actual and expected experience | \$ 529 | |
| Differences between actual and projected earnings | 153 | |
| Total | <u>\$ 682</u> | |

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Employees' Retirement System (City of Baltimore Portion) | | |
| Pension contributions subsequent to measurement date | \$ 71,141 | |
| Differences between actual and expected experience | 5,140 | \$ 4,202 |
| Change in proportionate share | 7,955 | 17,588 |
| Assumption change | 8,502 | 781 |
| Differences between actual and projected earnings | 24,399 | |
| Total | <u>\$ 117,137</u> | <u>\$ 22,571</u> |

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Employees' Retirement System (Baltimore City Public Schools Portion) | | |
| Pension contributions subsequent to measurement date | \$ 15,730 | |
| Differences between actual and expected experience | 1,162 | \$ 950 |
| Change in proportionate share | 17,588 | 7,955 |
| Assumption change | 1,923 | 176 |
| Differences between actual and projected earnings | 5,517 | |
| Total | <u>\$ 41,920</u> | <u>\$ 9,081</u> |

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Total City Plans and State (exclude Baltimore City Public School Portion) | | |
| Pension contributions subsequent to measurement date | \$ 211,343 | |
| Differences between actual and expected experience | 18,451 | \$ 19,774 |
| Change in proportionate share | 7,955 | 17,588 |
| Assumption change | 18,725 | 781 |
| Differences between actual and projected earnings | 82,527 | 2,213 |
| Total | <u>\$ 339,001</u> | <u>\$ 40,356</u> |

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Maryland State Retirement and Pension System | | |
| Pension contributions subsequent to measurement date | \$ 3,370 | |
| Differences between actual and expected experience | | \$ 2,466 |
| Assumption change | 1,287 | |
| Differences between actual and projected earnings | 4,380 | 2,213 |
| Total | <u>\$ 9,037</u> | <u>\$ 4,679</u> |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

A summary of the net deferred outflows/(inflows) of resources to be recognized in pension expense in future years for the City Plans and the State System is presented below:

(Dollars Expressed in Thousands)

| Deferred outflows (inflows) for years ended June 30: | Fire and Police | | Employees' Retirement | | Employees' |
|--|------------------------------|--------------------------------------|------------------------------------|--|------------|
| | Employees' Retirement System | Elected Officials' Retirement System | System (City of Baltimore Portion) | System (Baltimore City Public Schools Portion) | |
| 2019 | \$ 29,071 | \$ 357 | \$ 12,279 | \$ 10,308 | |
| 2020 | 41,554 | 357 | 12,641 | 10,390 | |
| 2021 | 11,461 | 147 | 6,357 | (1,815) | |
| 2022 | (19,879) | (179) | (7,852) | (1,774) | |
| Total | \$ 62,207 | \$ 682 | \$ 23,425 | \$ 17,109 | |

(Dollars Expressed in Thousands)

| Deferred outflows (inflows) for years ended June 30: | Maryland State Retirement and Pension System |
|--|--|
| 2019 | \$ 462 |
| 2020 | 1,153 |
| 2021 | 376 |
| 2022 | (752) |
| 2023 | (251) |
| Total | \$ 988 |

In addition to the amounts disclosed above \$211,343,000 in deferred outflows of resources related to contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

E. PENSION EXPENSE AND CHANGES IN NET PENSION LIABILITY (ASSET)

Pension expense (income) includes charges in the net pension liability (asset), projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The components of pension expense for the City Plans are as follow:

(Dollars Expressed in Thousands)

| Pension expense (income) | Fire and Police | | Employees' Retirement | | Employees' Retirement System |
|--------------------------------|------------------------------|--------------------------------------|------------------------------------|--|------------------------------|
| | Employees' Retirement System | Elected Officials' Retirement System | System (City of Baltimore Portion) | System (Baltimore City Public Schools Portion) | |
| | \$ 169,334 | \$ (1,424) | \$ 62,361 | \$ 21,634 | |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The schedule of the changes in net pension liability (asset) and related ratios for the City Plans for the year ended June 30, 2017 is as follows:

(amounts expressed in thousands)

| | Fire and Police Employees' Retirement System | Elected Officials' Retirement System |
|--|---|---|
| Total pension liability | | |
| Interest (included interest on service cost) | \$ 296,220 | \$ 966 |
| Service cost | 70,987 | 250 |
| Changes in proportionate share..... | | |
| Changes in assumptions..... | | |
| Differences between expected and actual experience..... | (17,476) | 662 |
| Benefit payments, including refunds of member contribution..... | (245,080) | (934) |
| Net change in total pension liability | 104,651 | 944 |
| Total pension liability - beginning | 3,615,656 | 14,002 |
| Total pension liability - ending | \$ 3,720,307 | \$ 14,946 |
| Plan fiduciary net position: | | |
| Net investment income | \$ 291,978 | \$ 3,116 |
| Contributions - employer..... | 129,689 | |
| Contributions - member | 29,902 | 90 |
| Changes in proportionate share..... | | |
| Benefit payments, including refunds of member contribution | (245,080) | (934) |
| Administrative expense | (4,328) | (55) |
| Net change in plan fiduciary net position..... | 202,161 | 2,217 |
| Plan fiduciary net position - beginning | 2,360,404 | 22,749 |
| Plan fiduciary net position - ending | 2,562,565 | 24,966 |
| Net pension liability (asset) - ending | \$ 1,157,742 | \$ (10,020) |
| Plan fiduciary net position as a percentage of the total pension liability | 68.88% | 167.04% |
| Covered employee payroll..... | \$ 296,357 | \$ 1,297 |
| Net pension liability (asset) as a percentage of covered employee payroll | 390.66% | (772.62%) |

F. ALLOCATION OF PLANS

ERS balances have been allocated between the government activities, business-type activities (Enterprise funds), and discretely presented component units as follows:

(Dollars Expressed in Thousands)

| <i>Employee Retirement System</i> | -----Enterprise Funds----- | | | | | Component Unit | |
|--|------------------------------------|----------------------------|-----------|------------|------------|---------------------------------|----------------------------------|
| | Employees' Retirement System | Governmental Activities | Water | Wastewater | Stormwater | Nonmajor Proprietary Fund | Baltimore City Public Schools |
| Net pension liability (asset), end of year | \$ 732,579 | \$ 476,900 | \$ 57,715 | \$ 52,578 | \$ 6,871 | \$ 3,406 | \$ 135,109 |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

The total of all retirement plan balances for City (City Plans and State Plans) are shown below:

(Dollars Expressed in Thousands)

City Plans and State of Maryland

| | Fire and Police Employees' Retirement System | Elected Officials' Retirement System | Employees' Retirement System (City of Baltimore Portion | Maryland State Retirement System (LEOP/ERPS) | Primary Government Total |
|--|---|---|---|---|--------------------------------|
| Net pension liability (asset), end of year | \$ 1,157,742 | \$ (10,020) | \$ 597,470 | \$ 35,521 | \$ 1,780,713 |

G. THE UNFUNDED POLICE DEPARTMENT RETIREMENT PLAN

Additionally, the City's Police Department is the administrator of the City's unfunded single-employer defined benefit local retirement plan. The plan is managed by the City's Police Department under the Code of Local Laws of Baltimore. All employees eligible for this plan were hired prior to January 1, 1947. All 12 members of this plan are currently retired and the City plans to pay benefits on a pay-as-you-go basis until all obligations have been fulfilled. The unfunded accrued liability represents the actuarial present value of future benefits based on assumed annual salary increases of 3.0%, and a discount rate of 3.62%. There is no covered payroll for the plan. The City's annual contributions equal the employee benefits paid under the terms of the plan. The City's employer contributions for the last three years are as follows:

Three - Year Trend Information

(Expressed in thousands)

| | Employer Contribution | Net Pension Liability |
|---------------------|-----------------------|-----------------------|
| June 30, 2018 | \$ 241 | \$ 763 |
| June 30, 2017 | 281 | 941 |
| June 30, 2016 | 328 | 1,203 |

H. THE MARYLAND STATE RETIREMENT AND PENSION SYSTEMS – BCPSS

The BCPSS employees, who are not covered under the City's ERS, are members of the Maryland State Retirement and Pension System.

Under Maryland law, the Baltimore City Public School System (BCPSS) is not required to make any contributions to the State Systems. City Schools and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System are required to contribute 7% annually. Members of the Teachers' Retirement System are required to contribute 5-7% annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by City Schools of Trustees for the System. Contributions are deducted from participant's salary and wage payments and are remitted to the State on a regular, periodic basis.

The State of Maryland pays, on behalf of the BCPSS, the employer's share of retirement and pension costs to the State Systems for teachers and related positions. During the fiscal year ended June 30, 2018, the State paid \$65.0 million in such costs. This amount has been recorded by the BCPSS as both revenue and expenditure in the General Fund in the accompanying Statement of Activities. The Special Funding arrangement between BCPSS and the State is disclosed in the BCPSS's financial statements.

The State also makes contributions on behalf of the Enoch Pratt Free Library employees. The State's contribution for the fiscal year ended June 30, 2018, was \$2,138,000. This amount has also been recognized as both revenue and expenditure in the accompanying Statement of Activities.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

I. DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan in accordance with the Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

13. Other Postemployment Benefits

A. PLAN DESCRIPTION

The City of Baltimore provides other postemployment benefits (OPEB) to all qualified City and BCPSS employees. The Plan is a contributory cost sharing multiple employer defined benefit plan. The benefit and contribution provisions of the Plan are established and may be amended by the City. The Plan provides postemployment healthcare and prescription drug benefits to retirees and their beneficiaries. Retirees may choose from two health plan options and four levels of coverage.

The following schedule outlines the eligibility requirements to participants in the Plan by employee group:

| Post Retirement Medical Benefit Eligibility Requirement* | |
|---|---|
| Employee Group | Requirement |
| Maryland State Retirement and Pension Systems | If hired before January 1, 1980: Age 60 or 30 years of service If hired on or after January 1, 1980: Based on age at retirement and years of service |
| Fire and Police Employees' Retirement System | If hired before July 1, 2003: Age 50 with at least 10 years of service or 20 years of service If hired after July 1, 2003: Age 55 with at least 15 years of service or 25 years of service |
| Employees' Retirement System & Elected Officials' Retirement System | If hired before July 1, 1979: Age 60 with at least 5 years of service or any age with 30 years of service If hired after July 1, 1979: Age 55 with at least 5 years of service or any age with 30 years of service |

*All employees are eligible for disability benefits depending on years of service and reasons for disability.

In order to effectively manage the Plan, the City established an OPEB Trust Fund. All retiree and City contributions are deposited into the Trust Fund and all retiree related health and life insurance benefits are paid from the Trust Fund. The City also contracted with the Board of Trustees of the Employees' Retirement System to act as investment manager for the Trust Fund. BNY Mellon Bank Asset Saving is the Trust Fund's asset custodian. The Plan does not issue stand alone financial statements; however, the OPEB Trust Fund is included in the City's financial statement as a fiduciary fund.

The number of participants in the Plan as of June 30, 2016, per actuary report was as follows:

| | Number of Participants | | |
|--|------------------------|------------------------------------|--------|
| | City | Baltimore City Public School | Total |
| Active employees | 12,139 | 11,806 | 23,945 |
| Inactive employees or beneficiaries currently receiving benefits | 9,707 | 5,953 | 15,660 |
| Inactive employees entitled to but not yet receiving benefits | 1,012 | | 1,012 |
| Totals | 22,858 | 17,759 | 40,617 |

B. SIGNIFICANT ACCOUNTING POLICIES OF THE OPEB TRUST FUND

Basis of Accounting- The financial statements for the OPEB Trust Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

Method Used to Value Investments- Plan investments are reported at fair value. Securities traded on national and international exchanges are valued at the last reported sale price at the current exchange rates.

C. FUNDING POLICY

The City’s policy is to fund benefits on a pay-as-you-go basis plus make additional contributions comprising the federal retiree drug subsidy payments and an additional annual appropriation. Retirees are required to contribute at various rates ranging from approximately \$57 to \$2,008 on a monthly basis, depending on the health plan and level of coverage elected and whether Medicare supplemental coverage is present. In addition, retirees contribute 20% toward the prescription plan coverage. Administrative costs of the Plan are covered by the City.

D. ACTUARIAL METHOD AND ASSUMPTIONS

Data was obtained from an actuarial valuation prepared by an independent actuary made as of June 30, 2016, using census data collected as of July 2016 and health care costs for 2016.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial method used is the Entry-Age Normal (EAN). Under the EAN cost method, the actuary develops a “normal cost” that can be expected to fund projected benefits at retirement for a new entrant into the plan. The normal cost of benefits are calculated as a level percentage of covered payroll. The unfunded actuarial liability is being amortized over 30 years on a level dollar basis.

The discount rate is based on the rate of return expected to be earned by the assets used to pay to benefits, if the plan is appropriately funded. The liability discount rate is based on the actuary’s review of the current and historical commitment the City has shown to fully fund the plan, and our determination that current assets plus future contributions will be sufficient to cover all future benefit payments. The plan will not incur a “depletion point”. The discount rate used is 7.0%. Assets are valued at fair value. Past service costs are calculated using the level dollar method with a closed amortization period of 30 years. The valuation also assumes a 5.9% healthcare trend for fiscal year 2016, reduced by decrements to a rate of 3.9% in 2075. Salary increases were not considered as OPEB benefits and OPEB benefits are not based on pay.

| | |
|--|--|
| Inflation | 2.30% |
| Wage inflation | 3.00% |
| Salary increases, including wage inflation | 6.3%-3.5% |
| Long term rate of return | 7.00% |
| Municipal bond rate | |
| Prior measurement date | 3.57% |
| Measurement date | 3.87% |
| Year FNP is projected to be depleted | |
| Prior measurement date | N/A |
| Measurement date | N/A |
| Single equivalent interest rate, net of OPEB | |
| plan investment expense, including price inflation | |
| Prior measurement date | 7.00% |
| Measurement date | 7.00% |
| Health care cost trends | |
| Pre-Medicare | 5.90% for 2016 decreasing to an ultimate rate of 3.94% by 2075 |
| Medicare | 5.90% for 2016 decreasing to an ultimate rate of 3.94% by 2075 |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

E. NET OPEB LIABILITY (NOL) AND DISCOUNT RATE

Beginning with the plan year ending June 30, 2018, the City has implemented GASB Statement No. 75 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.” This requires the City to account for those benefits on a full accrual basis and the net OPEB liability is reflected in the City’s financial statements.

The measurement date for OPEB liability is June 30, 2018 and the valuation date is as of June 30, 2016. The Total OPEB Liability (TOL), the Plan Fiduciary Net Position (i.e. fair market value of the Plan assets), and the Net OPEB Liability as of June 30, 2018 is as follows:

(Expressed in Thousands)

| | City Portion | BCPSS Portion | Total |
|---|-------------------|-------------------|-------------------|
| Total OPEB liability | \$ 1,033,803 | \$ 416,905 | \$ 1,450,708 |
| Less: plan fiduciary net position | 419,452 | 169,154 | \$ 588,606 |
| Net OPEB liability | <u>\$ 614,351</u> | <u>\$ 247,751</u> | <u>\$ 862,102</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 40.6% | 40.6% | 40.6% |

Changes in the discount and healthcare trend rate affect the measurement of the total OPEB liability (TOL). Because the trend rates do not affect the measurement of assets, the percentage change in the NOL can be very significant for a relatively small change in the trend rates. The table below show the sensitivity of the NOL to the discount rate and trend.

(Expressed in Thousands)

| | 1% Increase | Current Discount Rate | 1% Decrease |
|------------------------------|----------------|-----------------------------|--------------|
| Health Care Cost Trend Rates | 8.00% | 7.00% | 6.00% |
| 1% decrease | | \$ 675,217 | |
| Current | \$ 693,441 | 862,102 | \$ 1,025,416 |
| 1% increase | | 1,055,773 | |

(Expressed in Thousands)

| | 1% Increase | Current Discount Rate | 1% Decrease |
|---|----------------|-----------------------------|-------------|
| Health Care Cost Trend Rates (City Portion) | 8.00% | 7.00% | 6.00% |
| 1% decrease | | \$ 481,173 | |
| Current | \$ 494,160 | 614,351 | \$ 730,732 |
| 1% increase | | 752,365 | |

(Expressed in Thousands)

| | 1% Increase | Current Discount Rate | 1% Decrease |
|--|----------------|-----------------------------|-------------|
| Health Care Cost Trend Rates (BCPSS Portion) | 8.00% | 7.00% | 6.00% |
| 1% decrease | | \$ 194,044 | |
| Current | \$ 199,281 | 247,751 | \$ 294,684 |
| 1% increase | | 303,408 | |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

F. DEFERRED INFLOWS AND OUTFLOWS

The reported deferred outflows/inflows of resources associated with the plan are as follows:

(Expressed in Thousands)

| OPEB | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ 29,213 | |
| Total | \$ 29,213 | |

(Expressed in Thousands)

| OPEB (City of Baltimore Portion) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ 20,818 | |
| Change in proportionate share | 348 | \$ 1,146 |
| Total | \$ 21,166 | \$ 1,146 |

(Expressed in Thousands)

| OPEB (Baltimore City Public School Portion) | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ 8,395 | |
| Change in proportionate share | 798 | |
| Total | \$ 9,193 | |

The net deferred outflows/inflows of resources to be recognized in OPEB expense in future years is presented below:

(Expressed in Thousands)

| Deferred outflows (inflows) for years ended June 30: | City Portion | Baltimore City Public Schools Portion | | Total |
|--|--------------|--|----|--------|
| 2019 | \$ 4,130 | \$ 1,896 | \$ | 6,026 |
| 2020 | 4,130 | 1,896 | | 6,026 |
| 2021 | 4,130 | 1,896 | | 6,026 |
| 2022 | 4,130 | 1,896 | | 6,026 |
| 2023 | 3,500 | 1,609 | | 5,109 |
| Total | \$ 20,020 | \$ 9,193 | \$ | 29,213 |

G. OPEB EXPENSE

The OPEB expense includes charges in the net OPEB liability and projected earnings on plan investment and is presented as follows:

(Expressed in Thousands)

| | City Portion | Baltimore City Public School Portion | | Total |
|---|--------------|---|----|----------|
| Service Cost | \$ 21,889 | \$ 8,949 | \$ | 30,838 |
| Interest on total OPEB liability | 67,085 | 27,429 | | 94,514 |
| Expensed portion of current-period difference between expected and actual return on investment | 652 | 267 | | 919 |
| Expected investment return net of investment expenses | 3,625 | 1,482 | | 5,107 |
| Projected earnings on plan investments | (26,637) | (10,891) | | (37,528) |
| OPEB expense June 30, 2018..... | \$ 66,614 | \$ 27,236 | \$ | 93,850 |

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

H. COMPONENT ALLOCATION

OPEB balances have been allocated between the governmental activities, the business-type activities (Enterprise Funds), and the discretely presented component unit as follows:

(Expressed in Thousands)

| | -----Enterprise Funds----- | | | | | | Component Unit |
|---|----------------------------|----------------------------|-----------|------------|------------|------------------------------|----------------------------------|
| | OPEB | Governmental Activities | Water | Wastewater | Stormwater | Nonmajor Proprietary Fund | Baltimore City Public Schools |
| Net OPEB Liability, Beginning of Year | \$ 884,505 | \$ 575,083 | \$ 25,608 | \$ 25,155 | \$ 3,710 | \$ 1,945 | \$ 253,004 |
| OPEB Expense | 93,850 | 61,127 | 2,555 | 2,287 | 429 | 216 | 27,236 |
| Employer Contributions | (145,466) | (91,035) | (5,824) | (5,648) | (836) | (441) | (41,682) |
| Deferred Outflows/(Inflows) | 29,213 | 19,256 | 492 | (12) | 198 | 86 | 9,193 |
| Net OPEB Liability, End of Year | \$ 862,102 | \$ 564,431 | \$ 22,831 | \$ 21,782 | \$ 3,501 | \$ 1,806 | \$ 247,751 |

14. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; civil rights violations; and natural disasters. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The risk management program services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Beginning in fiscal year 2013, the City has included the accounting for violations of a person's civil rights. The civil rights liability is recorded within the General Fund. Commercial insurance coverage is provided for each property damage claim in excess of \$500,000 with a cap of \$550,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual cost of the medical plans and the remaining costs are paid by the internal service program.

All funds of the City and the Baltimore City Public School System participate and make payments to the risk management program based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims. As of June 30, 2018, the City has determined that the range of potential claims liability for the program to be between \$358,505,000 and \$395,541,000. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). This liability, which has been discounted at 3.0% at June 30, 2018, does not include the effects of inflation, incremental or other allocated or unallocated claim adjustment expenses, salvage, or subrogation, as such factors are not considered material.

Changes in the Risk Management Program claims liability in fiscal years 2018 and 2017 were (amounts expressed in thousands):

| | 2018 | 2017 |
|--------------------------------|------------|------------|
| Unpaid claims, beginning | \$ 327,521 | \$ 300,491 |
| Claims incurred | 298,291 | 313,186 |
| Claims paid | (267,307) | (286,156) |
| Unpaid claims, ending | \$ 358,505 | \$ 327,521 |

The City estimates that \$83,901,000 of the estimated claims liability is due within one year.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

15. Operating Leases

The City has entered into a number of operating leases for rental of office facilities and equipment, some of which provide for increased rentals based upon increases in real estate taxes and common area maintenance fees. As of June 30, 2018, future minimum lease payments are as follows (amounts expressed in thousands):

| | | |
|--------------------|-----------|---------------|
| 2019 | \$ | 4,981 |
| 2020 | | 4,483 |
| 2021 | | 4,240 |
| 2022 | | 3,879 |
| 2023 | | 7,113 |
| 2024-2028 | | 3,314 |
| 2029-2033 | | 1,680 |
| Total | \$ | 29,690 |

All leases contain cancellation provisions and are subject to annual appropriations by the City Council. During fiscal year 2018, rent expenditures approximated \$17,630,000 for all types of leases. These expenditures were made primarily from the General Fund.

The BCPSS has entered into a lease for rental of office equipment. During the year ended June 30, 2018, rent and lease expenditures approximated \$1,200,000. These expenditures were made primarily from the General Fund. As of June 30, 2018, future minimum lease payments approximate \$2,289,000, which relates to July 1, 2018 through July 1, 2022 when the leases expire.

16. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require that the City place a final cover on its landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill site, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs is \$25,972,000 as of June 30, 2018, which is based on 82.92% usage (filled capacity) of the landfill. This is an increase in the liability of \$5,329,000, and an increase in the usage of 4%, since June 30, 2017. It is estimated that an additional \$5,351,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (the year 2026). The estimated total current cost of the landfill closure and postclosure care, \$31,323,000, is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2018. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in the landfill laws and regulations. The City does not expect to pay any closure and postclosure care costs during fiscal year 2018.

In addition, the City is required by State and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2018, cash and cash equivalents of \$23,495,000 were held in the City's General Fund. In addition, the General Fund's fund balance was appropriately reserved. It is anticipated that future inflation costs will be financed in part from earnings on investments held by the City. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in closure and postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

CITY OF BALTIMORE
Notes to Basic Financial Statements
(Continued)

17. Notes and Mortgages Receivable

Notes and mortgages receivable as of June 30, 2018, consist of the following:

- A. The General Fund has notes receivable of \$269,942,000 net of a \$1,000,000 allowance for losses. A note receivable from the Baltimore Hotel Corporation for \$265,721,000 bears interest at rates ranging from 3% to 5% and mature over 30 years. A portion of this note receivable totaling \$264,377,000 is scheduled to be collected in 2019 through 2046. The other portion of the notes receivable unrelated to the Baltimore Hotel Corporation is for notes totaling \$1,187,000 net of a \$1,000,000 allowance for losses. These notes bear interest rates ranging from 1.0% to 12.0% over 30 years.
- B. The Parking Facilities Fund has mortgages receivable of \$35,934,000 collateralized by real property. These notes bear interest at rates ranging from 6.1% to 6.9% and mature over 30 years. A portion of this note receivable totaling \$33,474,000 is scheduled to be collected in 2020 through 2036.

18. Fund Balance

The composition of the fund balances of the governmental funds for fiscal year ended June 30, 2018, are as follows (amounts expressed in thousands):

| | General | Grants | Capital Projects | Other Funds | Governmental Funds |
|------------------------------------|------------|----------|---------------------|-------------|-----------------------|
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Reserved for other assets | \$ 2,210 | | | | \$ 2,210 |
| Restricted: | | | | | |
| Education | | | | \$ 6,167 | 6,167 |
| Highways and streets | | | \$ 8,448 | | 8,448 |
| Sanitation and waste removal | 43,393 | | | | 43,393 |
| Debt service | 380,280 | | | | 380,280 |
| Public library | | | | 2,267 | 2,267 |
| Recreation and culture | | | | 6,254 | 6,254 |
| Total restricted | 423,673 | | 8,448 | 14,688 | 446,809 |
| Assigned to: | | | | | |
| General government | 44,072 | | 5,064 | 3,764 | 52,900 |
| Public safety and regulation | 79,796 | | | | 79,796 |
| Conservation of health | 5,017 | 2,449 | | | 7,466 |
| Social services | 3,187 | | | | 3,187 |
| Education | 38,000 | | | 5,030 | 43,030 |
| Public library | 1,786 | | | | 1,786 |
| Recreation and culture | 3,296 | | | | 3,296 |
| Highways and streets | 40,033 | | | | 40,033 |
| Sanitation and waste removal | 2,422 | | | | 2,422 |
| Public service | 2,604 | | | | 2,604 |
| Economic development | 1,445 | | | | 1,445 |
| Total assigned | 221,658 | 2,449 | 5,064 | 8,794 | 237,965 |
| Unassigned | 163,604 | | | (1,819) | 161,785 |
| Total fund balances | \$ 811,145 | \$ 2,449 | \$ 13,512 | \$ 21,663 | \$ 848,769 |

* General fund unassigned fund balance includes \$139,170,000 for the budget stabilization reserve.

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

19. Commitments and Contingencies

The City is party to legal proceedings which normally occur in governmental operations. The City provides for the estimated losses on certain outstanding claims as discussed in Note 14. The City has determined, in consultation with outside counsel that certain claims are in too early of a stage to make a reasonable assessment of the City's liability. The City vigorously contests such claims as a matter of policy and will fully assert all available remedies, including the \$400,000 ceiling per individual claim. It is the opinion of City management, in consultation with outside legal counsel, that any additional liability for remaining litigation will not be material to the City's financial position or results of operations.

The Wastewater Utility has received Federal and State grants. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal and State regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantors' requirements. Any disallowances as a result of these audits become a liability of the Wastewater Utility. As of June 30, 2018, the Wastewater Utility estimates that no material liabilities will result from such audits.

The Northeast Maryland Waste Disposal Authority Act was enacted by the Maryland General Assembly to assist in the provision of waste disposal facilities for the Northeast Maryland area, including the facilities for the disposal of wastewater treatment residue. The City agreed to perform the obligations of the Authority. The current agreement, approved in March 2008, provided that the Authority and Mayor and City Council of Baltimore "the City" entered into a service agreement, through June 30, 2013, with Veolia Water North America-Central, LLC, a Delaware limited liability company, which now owns and operates the facility. The agreement has now been extended through June 30, 2018. The agreement allows the Wastewater Utility to deliver up to approximately 2,167 wet tons of sewerage sludge per month and to pay a tipping fee comparable to alternative methods of sludge disposal currently being used by the Wastewater Utility. The debt service on variable rate bonds has been satisfied and is no longer a component of the tipping fee. The Wastewater Utility's current tipping fee expense per wet ton for delivering sewerage sludge was \$91.26 and \$44.92 up to the guaranteed and excess tonnage amounts, respectively. Payments under the agreement in fiscal year 2018 were \$2.5 million. The maximum commitment by the City is 26,004 wet tons per year.

The Wastewater Utility also has an agreement with Synagro-Baltimore, LLC, a wholly owned subsidiary of Synagro Technologies for processing biosolids at the City's Back River and Patapsco Wastewater Treatment Plants. Under the agreements, the Wastewater Utility delivers approximately 13,000 dry tons of biosolids per year at each facility and pays base and service tipping fees. The debt service on the bonds is a component of the tipping fees. The base tipping fee at the Patapsco Wastewater Treatment Plant terminated in fiscal year 2018 with the completion of debt service payment. The average service tipping fees were \$421.45 and \$411.77 per ton for the Back River and Patapsco Wastewater Treatment Plants, respectively. Payments under the agreements in fiscal year 2018 were \$14.2 million. The agreements extend to 2025 for the Back River and 2027 for the Patapsco Wastewater Treatment Plants.

In 2002, the City voluntarily entered into a Consent Decree to rehabilitate its sanitary sewer system and address sanitary sewer overflows (SSOs). The 2002 Consent Decree expired on January 1, 2016. On October 6, 2017, the U.S. District Court approved a Modified Consent Decree (MCD). The Modified Consent Decree supersedes the 2002 Consent Decree and provides a revised schedule to address SSOs through a hybrid level of protection. The Modified Consent Decree is one of many that the U.S. Department of Justice has negotiated with major cities with aging sewer infrastructure. These efforts are ambitious and the costs are estimated at \$2.8 billion, which is comprised of \$1.6 billion in costs incurred through June 2018; \$183 million projected for completion of Phase I through January 1, 2021 (capital only); \$720 million projected for completion of Phase II through December 31, 2030 (capital only); and \$329 million projected for related costs, including program management, flow monitoring, asset management, and preventative maintenance.

The MCD is composed of two (2) phases. Phase I provides the greatest environmental benefits and constructs the Headworks Project at the Back River Wastewater Treatment Plant. Phase II further increases hydraulic capacity to achieve the hybrid level of protection against SSOs. The City will continue to address sewage backups and sanitary discharges of unknown origin (SDUOs), while performing proactive maintenance throughout the sanitary sewer system. The City will also implement an Expedited Reimbursement Program that budgets up to \$2 million per year from the Wastewater Utility

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

to reimburse City homeowners up to \$2,500 per dwelling, per incident for reasonable, verified disinfection and cleanup costs arising from verified sewage backups resulting from surcharging in the sanitary sewer system caused by wet weather. Applicants must exhaust applicable insurance coverage before seeking reimbursement, and applications must be filed within 90 days after the incident – historical backups are not eligible. In exchange for reimbursement of reasonable, verified expenses, applicants must sign a waiver for any claim to compensation for cleanup or disinfection arising from the incident. Eligibility under the Expedited Reimbursement Program is not premised on a determination of liability, and the program is limited to City homeowners and renters who meet the above criteria. Collectively, the MCD extends the deadline to address SSOs to December 31, 2030. A close-out report is due by July 31, 2033.

Several Baltimore Police Department officers have filed a complaint against the City of Baltimore and the Baltimore Police Department, alleging violations of the Fair Labor Standard Act. The matter has been conditionally certified by the Court as a collective action. Discovery has just begun, and there is currently no estimate of the amount of the damages claimed.

20. Beginning Balance Adjustments

During fiscal year 2018, the City implement Government Accounting Standards Board Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. Under the provisions of this statement, the City must report the net OPEB liability (NOL) on its financial statements. Therefore, the City has restated the fiscal year ended June 30, 2017, net position totals based on the effect of this change. The restated net position total resulting from this accounting are as follows for governmental activities and the applicable proprietary funds affected (amounts expressed in thousands):

| | June 30, 2017 Net Position | GASB 75 OPEB Adjustments | Restated June 30, 2017 Net Position |
|--|-------------------------------|-----------------------------|---|
| <i>Governmental Funds</i> | | | |
| Governmental Activities | \$ 976,524 | \$ (568,750) | \$ 407,774 |
| <i>Proprietary Funds</i> | | | |
| Water Utility Fund | 731,058 | (25,608) | 705,450 |
| Wastewater Utility Fund | 2,059,049 | (25,155) | 2,033,894 |
| Stormwater Utility Fund | 283,330 | (3,710) | 279,620 |
| <i>Nonmajor Proprietary Funds</i> | | | |
| Conduit Fund | 92,301 | (1,946) | 90,355 |
| <i>Component Unit</i> | | | |
| Baltimore City Public School (BCPSS) | 546,141 | (253,004) | 293,137 |

Discretely Presented Component Units

As of and for year ended of June 30, 2018 and 2017, the BCPSS did not record its proportionate share of the pension liability and related amounts related to its participation in the City’s cost sharing retirement plan; and also did not record its proportionate share of net OPEB liability and related amounts related to its participation in the City’s other post-employment benefits (OPEB). As of and for the year ended June 30, 2018, the City made adjustments to the BCPSS financials statements to correct the BCPSS’s financial statements. As such, the City has included the BCPSS’s financials, after adjustments, in the accompanying financials statements. The auditors for the City have audited the adjustments made to the BCPSS financial statements as listed below. The adjustments to the BCPSS financial statements were to include the BCPSS proportionate share of the net pension liability for those employees in the Employees’ Retirement System of the City of Baltimore (ERS) and the BCPSS proportionate share of the net OPEB liability for employees eligible for other post-employment benefits as of June 30, 2018, and related deferred outflows, deferred inflows and expense. Additionally, the required footnote disclosure for such balances have also been added to the notes to the financial statements.

The adjustments recorded are listed below:

| | As reported by BCPSS | Adjustments for recordation of Net Pension Liability | Adjustments for recordation of Net OPEB Liability | Restated per City’s Financial Statements |
|-----------------------------------|----------------------|---|--|---|
| Deferred outflows | | \$ 41,920 | \$ 9,193 | \$ 51,113 |
| Net pension liability | | 135,109 | | 135,109 |
| Net OPEB liability | | | 247,751 | 247,751 |
| Deferred inflows | | 9,081 | | 9,081 |
| Expenses | \$ 1,399,615 | (38,152) | 27,235 | 1,388,698 |
| Net position, June 30, 2018 | 787,948 | (102,269) | (238,558) | 447,121 |

CITY OF BALTIMORE

Notes to Basic Financial Statements

(Continued)

21. Tax Abatement

As of June 30, 2018, the City approves Tax Abatements and Payment In Lieu of Taxes (PILOT) for the purpose of encouraging economic development and to provide better residential housing for the disabled and senior citizens:

- The economic development program provides PILOTs to businesses, landowners and developers to substitute payment for annual real estate taxes with negotiated payment called PILOTs for a specific period of time. PILOTs are granted on qualifying projects which would not otherwise be undertaken without the City’s support. The program is administered under the authority of the Property Tax Article of the State Annotated Code Title 7 Property Taxes Subtitle 5 Exemptions. Abatements are obtained by application to the Baltimore Development Corporations (BDC) with final approval by the City’s Board of Estimates.
- The disable and senior residential housing program provides PILOTs to developers and not-for profit organization who provide housing for disabled and senior citizens to replace their annual real estate taxes with a negotiated payment for a specific period of time. PILOTs are granted on qualifying projects which would not otherwise be undertaken without the City’s support. The program is administered under the authority of the Property Tax Article of the State Annotated Code Title 7 Property Taxes Subtitle 5 Exemptions. Abatements are obtain by application directly to the City’s Department of Housing. Final approval rests with the City’s Board of Estimates.

Additionally, the State of Maryland makes PILOT payments to the City for various port facilities that are operated by the State.

| Tax Abatement Program | Amount of Taxes Abated (in thousands) |
|--|---|
| Economic development | |
| Market based housing | \$ 5,607 |
| Business development | 10,105 |
| Garages | 331 |
| Affordable housing | 8,096 |
| State of Maryland Port Authority | 3,814 |
| Total | \$ 27,953 |

22. Subsequent Events

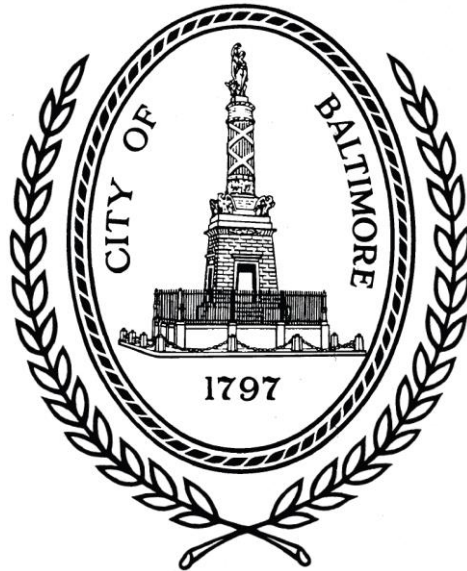
On August 28, 2018, the City entered into two Master/Lease Purchase Agreements with Grant Capital Management Inc. totaling \$23,491,000 to be used to purchase motor vehicles and heavy equipment for the Department of General Services. One agreement was for \$3,331,000 with a term of 6 years and an interest rate of 3.39%. The other agreement was for \$20,160,000 with a term of 10 years and an interest rate of 3.89%.

On December 13, 2018, the City entered into an agreement with the State of Maryland to borrow \$43,580,000 in County Transportation Revenue Bonds, Series 2018, with a 20 year term. The City received an interest rate on the bonds ranging from 3.50% to 5.00% or a true interest of 3.09%. These bonds are secured by a pledge of the City’s share of the highway user revenues.

On December 20, 2018, the City entered into a Wastewater Loan agreement with the Environment Protection Agency, Water Infrastructure Finance and Innovation Act Revolving Loan in the amount of \$202,000,000. The rate of interest on the loan is set at 2.88%, with a final maturity on July 1, 2052.

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Required Supplementary Information



See Report of Independent Public Accountants

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CITY OF BALTIMORE
Schedule of Revenues, Expenditures and Encumbrances,
and Changes in Fund Balances – Budget and Actual – Budgetary Basis(1), (2)
General Fund
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| Revenues: | | | | |
| Taxes - local..... | \$ 1,424,511 | \$ 1,424,511 | \$ 1,406,403 | \$ (18,108) |
| State shared revenue..... | 146,251 | 146,251 | 146,174 | (77) |
| Licenses and permits..... | 37,086 | 37,086 | 41,043 | 3,957 |
| Fines and forfeitures..... | 17,833 | 17,833 | 27,085 | 9,252 |
| Interest, rentals and other investment income..... | 20,116 | 20,116 | 27,071 | 6,955 |
| Federal grants..... | 220 | 220 | 79 | (141) |
| State grants..... | 103,748 | 103,748 | 102,506 | (1,242) |
| Other grants..... | 27 | 27 | 27 | |
| Charges for current services..... | 55,694 | 55,697 | 43,026 | (12,671) |
| Miscellaneous..... | (9,391) | (9,391) | | 9,391 |
| Total revenues..... | 1,796,095 | 1,796,098 | 1,793,414 | (2,684) |
| Expenditures and Encumbrances: | | | | |
| Baltimore City Public School System..... | 293,297 | 293,297 | 282,349 | 10,948 |
| Board of Liquor License Commissioners..... | 2,578 | 2,578 | 1,658 | 920 |
| City Council..... | 7,241 | 7,241 | 6,951 | 290 |
| Civil Service Commission..... | 14,694 | 14,694 | 6,091 | 8,603 |
| Comptroller..... | 8,006 | 8,006 | 7,447 | 559 |
| Courts..... | 16,416 | 16,416 | 15,708 | 708 |
| Department of Finance..... | 27,287 | 27,287 | 23,906 | 3,381 |
| Department of Fire..... | 236,874 | 236,874 | 234,064 | 2,810 |
| Department of General Services..... | 17,932 | 17,932 | 11,763 | 6,169 |
| Department of Health..... | 33,552 | 33,552 | 43,047 | (9,495) |
| Department of Housing and Community Development..... | 59,825 | 59,825 | 50,033 | 9,792 |
| Department of Law..... | 8,930 | 8,930 | 8,058 | 872 |
| Department of Legislative Reference..... | 1,282 | 1,282 | 1,006 | 276 |
| Department of Municipal and Zoning Appeals..... | 646 | 646 | 528 | 118 |
| Department of Planning..... | 6,411 | 6,411 | 5,393 | 1,018 |
| Department of Police..... | 485,876 | 485,876 | 484,894 | 982 |
| Department of Public Works..... | 110,171 | 110,171 | 100,060 | 10,111 |
| Department of Recreation and Parks..... | 42,218 | 42,218 | 37,101 | 5,117 |
| Department of Transportation..... | 126,644 | 126,644 | 110,408 | 16,236 |
| Enoch Pratt Free Library..... | 27,021 | 27,021 | 22,446 | 4,575 |
| Mayoralty..... | 227,081 | 227,081 | 226,914 | 167 |
| Office of Civil Rights..... | 1,945 | 1,945 | 1,572 | 373 |
| Office of Financial Review..... | 753 | 753 | 702 | 51 |
| Office of Sheriff..... | 22,470 | 22,470 | 20,778 | 1,692 |
| Office of State's Attorney..... | 36,250 | 36,250 | 34,922 | 1,328 |
| Supervisor of Elections..... | 7,706 | 7,706 | 4,763 | 2,943 |
| Total expenditures and encumbrances..... | 1,823,106 | 1,823,106 | 1,742,562 | 80,544 |
| Excess of revenues over expenditures and encumbrances..... | (27,011) | (27,008) | 50,852 | 77,860 |
| Other financing sources (uses): | | | | |
| Transfers in..... | 36,302 | 36,302 | 162,286 | 125,984 |
| Transfers out..... | (121,304) | (121,304) | (155,046) | (33,742) |
| Total other financing sources (uses)..... | (85,002) | (85,002) | 7,240 | 92,242 |
| Net changes in fund balances..... | (112,013) | (112,010) | 58,092 | 170,102 |
| Fund balances - beginning..... | 714,803 | 714,803 | 714,803 | |
| Fund balances - ending..... | \$ 602,790 | \$ 602,793 | 772,895 | \$ 170,102 |
| Adjustments to reconcile to GAAP basis: | | | | |
| Residual Equity Transfer In | | | | |
| Addition of encumbrances outstanding..... | | | 79,634 | |
| Less: Accounts payable not recorded for budgetary purposes | | | | |
| and other GAAP adjustments..... | | | (41,384) | |
| Fund balance - June 30, 2018 (GAAP basis)..... | | | \$ 811,145 | |

(1) Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

(2) The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflow) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

(3) This schedule does not include a non-budgetary revenue and expense item in the amount of \$2,138,000 which was paid by the Maryland State Retirement System on behalf of the City of Baltimore for certain employees of the Enoch Pratt Free Library.

CITY OF BALTIMORE
Schedule of the City's Proportionate Share of Net Pension Liability
Employees' Retirement System Plan
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2015 | 2016 | 2017 | 2018 |
|---|------------|------------|------------|------------|
| City's share of the net pension liability | 85.92% | 85.19% | 80.03% | 81.56% |
| City's proportionate share of the net pension liability | \$ 610,998 | \$ 614,236 | \$ 644,079 | \$ 597,470 |
| City's covered employee payroll | 344,809 | 347,656 | 319,693 | 318,999 |
| City's proportionate share of the net pension liability as a percentage of its covered employee payroll | 177.2% | 176.7% | 201.5% | 187.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.83% | 68.00% | 65.17% | 65.17% |

The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Employer Contributions
Employees' Retirement System Plan
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| Description | 2015 | 2016 | 2017 | 2018 |
|---|----------------|----------------|--------------|------------|
| Actuarially determined contribution | \$ 78,437 | \$ 77,088 | \$ 60,712 | \$ 68,895 |
| Contribution in relation to the actuarially determined contribution | 81,558 | 82,780 | 61,704 | 68,904 |
| Contribution deficiency (excess) | <u>(3,121)</u> | <u>(5,692)</u> | <u>(992)</u> | <u>(9)</u> |
| Covered employee payroll | \$ 344,809 | \$ 347,656 | \$ 319,693 | \$ 318,999 |
| Contribution as a percentage of covered payroll | 23.65% | 23.81% | 19.30% | 21.60% |

The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of the City's Proportionate Share of Net Pension Liability
Maryland State Retirement and Pension System-ERPS
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2016 | 2017 | 2018 |
|--|----------|----------|----------|
| City's share of the net pension liability | 0.02% | 0.02% | 0.03% |
| City's proportionate share of the net pension liability | \$ 4,595 | \$ 5,894 | \$ 7,001 |
| City's covered employee payroll | 952 | 850 | 1,400 |
| City's proportionate share of the net pension liability as a percentage of its covered employee payroll..... | 482.7% | 693.4% | 500.0% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.27% | 62.97% | 66.71% |

Note: The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Employer Contributions
Maryland State Retirement and Pension System-ERPS
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| Description | 2016 | 2017 | 2018 |
|---|--------|--------|----------|
| Actuarially determined contribution | \$ 556 | \$ 486 | \$ 659 |
| Contribution in relation to the actuarially determined contribution | 466 | 486 | 659 |
| Contribution deficiency (excess) | \$ 90 | \$ | \$ |
| Covered employee payroll | \$ 952 | \$ 850 | \$ 1,400 |
| Contribution as a percentage of covered payroll | 48.95% | 57.18% | 47.07% |

Note: The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of the City's Proportionate Share of Net Pension Liability
Maryland State Retirement and Pension System-LEOPS
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2016 | 2017 | 2018 |
|--|-----------|-----------|-----------|
| City's share of the net pension liability | 0.11% | 0.13% | 0.13% |
| City's proportionate share of the net pension liability | \$ 23,578 | \$ 30,244 | \$ 28,519 |
| City's covered employee payroll | 172 | 214 | 220 |
| City's proportionate share of the net pension liability as a percentage of its covered employee payroll..... | 13708% | 14165.2% | 12982.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.30% | 58.88% | 62.80% |

Note: The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Employer Contributions
Maryland State Retirement and Pension System-LEOPS
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| Description | 2016 | 2017 | 2018 |
|---|----------|----------|----------|
| Actuarially determined contribution | \$ 2,392 | \$ 2,497 | \$ 2,497 |
| Contribution in relation to the actuarially determined contribution | 2,392 | 2,497 | 2,497 |
| Covered employee payroll | 172 | 214 | 220 |
| Contribution as a percentage of covered payroll | 1390.70% | 1166.82% | 1135.00% |

Note: The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Changes in Net Pension Liability (Assets) and Related Ratios
Fire and Police Employees' Retirement System - Single Employer Plan
Pension Trust Funds
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|
| Total pension liability | | | | |
| Interest (includes interest on service cost) | \$ 248,633 | \$ 256,066 | \$ 260,001 | \$ 296,220 |
| Service cost | 65,548 | 66,199 | 70,730 | 70,987 |
| Change in assumption | | 35,494 | | |
| Differences between expected and actual experience | 1,396 | 28,065 | 11,353 | (17,476) |
| Benefit payments, including refunds of member contributions | (219,808) | (223,359) | (237,195) | (245,080) |
| Net change in total pension liability | 95,769 | 162,465 | 104,889 | 104,651 |
| Total pension liability - beginning | 3,252,533 | 3,348,302 | 3,510,767 | 3,615,656 |
| Total pension liability - ending | \$ 3,348,302 | \$ 3,510,767 | \$ 3,615,656 | \$ 3,720,307 |
| Plan fiduciary net position: | | | | |
| Net investment income | \$ 312,131 | \$ 53,526 | \$ 2,982 | \$ 291,978 |
| Contribution - employer | 113,004 | 118,190 | 120,279 | 129,689 |
| Contribution - member | 28,058 | 30,130 | 30,339 | 29,902 |
| Benefit payments, including refunds of member contributions | (219,808) | (223,359) | (237,195) | (245,080) |
| Administrative expense | (3,786) | (4,281) | (4,377) | (4,328) |
| Net change in plan fiduciary net position | 229,599 | (25,794) | (87,972) | 202,161 |
| Plan fiduciary net position - beginning | 2,244,571 | 2,474,170 | 2,448,376 | 2,360,404 |
| Plan fiduciary net position - ending | 2,474,170 | 2,448,376 | 2,360,404 | 2,562,565 |
| Net position liability (asset) - ending | \$ 874,132 | \$ 1,062,391 | \$ 1,255,252 | \$ 1,157,742 |
| Plan fiduciary net position as a percentage of the total pension liability | 73.89% | 69.74% | 65.28% | 68.88% |
| Covered employee payroll | \$ 290,581 | \$ 320,408 | \$ 298,779 | \$ 296,357 |
| Net pension liability (asset) as a percentage of covered employee payroll | 300.82% | 331.57% | 420.13% | 390.66% |

The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Changes in Net Pension Liability (Assets) and Related Ratios
Elected Officials' Retirement System - Single Employer Plan
Pension Trust Funds
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2015 | 2016 | 2017 | 2018 |
|--|------------|------------|------------|-------------|
| Total pension liability | | | | |
| Interest (includes interest on service cost) | \$ 1,177 | \$ 1,219 | \$ 983 | \$ 965 |
| Service cost | 399 | 410 | 260 | 250 |
| Change in assumption | | (3,523) | 315 | |
| Differences between expected and actual experience | (256) | (440) | (474) | 662 |
| Benefit payments, including refunds of member contributions | (725) | (765) | (763) | (933) |
| Net change in total pension liability | 595 | (3,099) | 321 | 944 |
| Total pension liability - beginning | 16,185 | 16,780 | 13,681 | 14,002 |
| Total pension liability - ending | \$ 16,780 | \$ 13,681 | \$ 14,002 | \$ 14,946 |
| Plan fiduciary net position: | | | | |
| Net investment income | \$ 3,508 | \$ 629 | \$ 45 | \$ 3,116 |
| Contribution - employer | 307 | 85 | | |
| Contribution - member | 56 | 61 | 62 | 90 |
| Benefit payments, including refunds of member contributions | (725) | (765) | (763) | (934) |
| Administrative expense | (32) | (33) | (35) | (55) |
| Net change in plan fiduciary net position | 3,114 | (23) | (691) | 2,217 |
| Plan fiduciary net position - beginning | 20,349 | 23,463 | 23,440 | 22,749 |
| Plan fiduciary net position - ending | 23,463 | 23,440 | 22,749 | 24,966 |
| Net position liability (asset) - ending | \$ (6,683) | \$ (9,759) | \$ (8,747) | \$ (10,020) |
| Plan fiduciary net position as a percentage of the total pension liability | 139.83% | 171.33% | 162.47% | 167.00% |
| Covered employee payroll | \$ 1,267 | \$ 1,298 | \$ 1,334 | \$ 1,297 |
| Net pension liability (asset) as a percentage of covered employee payroll | (527.37)% | (751.38)% | (655.70)% | (772.55)% |

The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Schedule of Employer Contributions-Single Employer Plans
Ten-Year Trend Information
Pension Trust Funds
(Dollars Expressed in Thousands)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------|----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| Fire and Police Employees' Retirement System: | | | | | | | | | | |
| Actuarially determined contribution | \$69,513 | \$94,098 | \$107,540 | \$107,488 | \$107,779 | \$113,843 | \$11,902 | \$121,115 | \$129,689 | \$137,738 |
| Contribution in relation to the actuarially determined contribution | 69,513 | 94,098 | 107,540 | 107,488 | 104,779 | 113,843 | 11,902 | 121,115 | 129,689 | 137,738 |
| Covered employee payroll | 281,424 | 276,577 | 275,648 | 284,601 | 277,524 | 292,739 | 322,667 | 300,855 | 296,357 | 323,351 |
| Contribution as a percentage of covered payroll | 24.70% | 34.02% | 39.01% | 37.77% | 38.84% | 38.89% | 36.39% | 40.26% | 43.76% | 42.60% |
| Elected Officials' Retirement System: | | | | | | | | | | |
| Actuarially determined contribution | | \$340 | \$957 | \$998 | \$419 | \$307 | \$85 | | | |
| Contribution in relation to the actuarially determined contribution | | 340 | 957 | 998 | 419 | 307 | 85 | | | |
| Covered employee payroll | 1,182 | 1,206 | 1,206 | 1,237 | 1,236 | 1,267 | 1,299 | 1,334 | 1,297 | 1,399 |
| Contribution as a percentage of covered payroll | 0.00% | 28.19% | 79.35% | 80.68% | 33.90% | 24.23% | 6.54% | 0.00% | 0.00% | 0.00% |

Source is individual Retirement Systems' stand-alone audit reports.

CITY OF BALTIMORE
Schedule of Changes in the Net OPEB Liabilities and Related Ratios
OPEB Fund
For the Ended June 30, 2018
(Expressed in thousands)

| | 2017 | 2018 |
|---|---------------------|---------------------|
| Total OPEB Liability | | |
| Service Cost at end of year | \$ 29,652 | \$ 30,838 |
| Interest | 93,367 | 94,514 |
| Changes of assumption | | 30,644 |
| Benefits payments | (106,880) | (106,352) |
| Net changes in Total OPEB Liability | 16,139 | 49,644 |
| Total OPEB Liability - beginning | 1,384,925 | 1,401,064 |
| Total OPEB Liability - ending (a) | <u>\$ 1,401,064</u> | <u>\$ 1,450,708</u> |
| Plan Fiduciary Net Position | | |
| Contribution - Employer | \$ 138,931 | \$ 145,466 |
| Net investment income | 46,166 | 32,933 |
| Benefit payments | (106,880) | (106,352) |
| Net change in Plan Fiduciary Net Position | 78,217 | 72,047 |
| Plan Fiduciary Net Position - beginning | 438,342 | 516,559 |
| Plan Fiduciary Net Position - ending (b) | \$ 516,559 | \$ 588,606 |
| Net OPEB liability - ending (a) - (b) | <u>\$ 884,505</u> | <u>\$ 862,102</u> |

Note: This is the second year of presentation per GASB 74. This will build into a 10 year schedule.

| | 2017 | 2018 |
|---|--------------|--------------|
| Total OPEB liability | \$ 1,401,064 | \$ 1,450,708 |
| Plan fiduciary net position | 516,559 | 588,606 |
| Net OPEB liability | \$ 884,505 | \$ 862,102 |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 36.9% | 40.6% |
| Covered payroll | 1,464,035 | 1,345,680 |
| Net OPEB liability as a percentage of covered payroll | 60.4% | 64.1% |
| Average money weighted rate of return..... | 10.5% | 6.4% |

Note: This is the second year of presentation per GASB 74. This will build into a 10 year schedule.

CITY OF BALTIMORE
Schedule of the City's Proportionate Share of Net OPEB Liability
For the Year Ended June 30, 2018
(Dollars Expressed in Thousands)

| | 2017 | 2018 |
|---|------------|------------|
| City's share of the net OPEB liability | 71.4% | 71.3% |
| City's proportionate share of the net OPEB liability | \$ 625,170 | \$ 614,351 |
| City's proportionate share of the net OPEB liability as a percentage of its covered employee payroll..... | 42.7% | 64.1% |
| Plan fiduciary net position as a percentage of the total liability | 36.9% | 40.6% |

Note: The reporting date is June 30, 2018 and the measurement date is June 30, 2017

CITY OF BALTIMORE
Notes to the Required Supplementary Information
(Unaudited)

1. Budgetary Data

Annual budgets are adopted for the General Fund and all Special Revenue Funds, except for Grants Revenue, Community Development Block Grant Funds and the Scholarship Fund, on a basis consistent with Generally Accepted Accounting Principles, except for certain miscellaneous general expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The following procedures establish the budgetary data reflected in the financial statements:

Original Budget

- (1) City agencies submit their anticipated annual budget needs to the Department of Finance during December.
- (2) From December through March, the Mayor and the Department of Finance analyze, review, and refine the budget submittals.
- (3) In April, the Director of Finance sends its recommended budget plan to the Board of Estimates. The Board then holds hearings and the recommended budget is amended as necessary. Citizens have the opportunity to offer input before the Board votes on the budget.
- (4) In May, a majority vote of the Board of Estimates approves the total budget and sends it to the City Council. The Board of Estimates must submit the proposed budget for the next fiscal year to the City Council at least 45 days before the beginning of said fiscal year. The Board of Estimates prepares a proposed Ordinance of Estimates to be submitted to the City Council. The Ordinance of Estimates is the legal authority for the enactment of the budget.
- (5) The City Council then holds hearings on the proposed Ordinance of Estimates, with additional citizen input before it votes in June. The City Council shall adopt the budget at least five days before the beginning of the fiscal year. The City Council then sends the approved Ordinance of Estimates to the Mayor.
- (6) The Mayor then either approves the total Ordinance of Estimates, or disapproves some items and approves the rest of the Ordinance of Estimates.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- (1) Appropriations for a particular program, purpose, activity, or project may, upon the recommendation of the head of the municipal agency concerned and the Director of Finance, and with the approval of the Board of Estimates, be carried over to the subsequent fiscal year to carry out the initial appropriation objectives. All appropriations not carried over lapse at the end of the fiscal year in which they were made. In addition, funds encumbered for contracts, purchase orders, approved requisitions or other actual commitments, as well as funds dedicated to grant programs and capital improvements are carried out over the ensuing fiscal year until utilized or cancelled.
- (2) The adopted budget is prepared and appropriated on an agency, program, activity, and object of expenditure basis by fund. Purchase orders which result in an operating or capital overrun are not released until additional appropriations are made available. Expenditures for each adopted operating budget may not legally exceed appropriations at the agency level. Administratively, the Department of Finance has the authority to move appropriations between activities of the same program within the same agency. The Board of Estimates has the authority to transfer appropriations between programs within the same agency. Only the City Council can transfer appropriations between agencies.
- (3) The City Charter permits further appropriations for programs included in the original Ordinance of Estimates made necessary by material changes in circumstances and additional appropriations for new programs or grant awards which could not reasonably be anticipated when formulating the original Ordinance of Estimates. These changes require

CITY OF BALTIMORE
Notes to the Required Supplementary Information
(Unaudited)

supplemental appropriation ordinances. During fiscal year 2018, a supplemental appropriation ordinance was required for the general fund in the amount of \$28,600,000.

Budgetary data, as revised, is presented as required supplementary information for the general fund and the motor vehicle fund.

2. Schedule of the City's Proportionate Share of Net Pension Liability, Schedule of Employer Contributions, Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

The City Plans are considered part of the City's reporting entity and their financial statements are included in the City's basic financial statements as pension trust funds. Each plan issues a publicly available financial report that includes financial statements and the required supplementary information for that plan. The State System Plans are included in the City's basic financial statements in governmental activities and these plans also issue a publicly available financial report. Financial statements for the City Plans and the State System may be obtained from the following websites:

For Employees' Retirement System and Elected Officials' Retirement System: www.bcercs.org

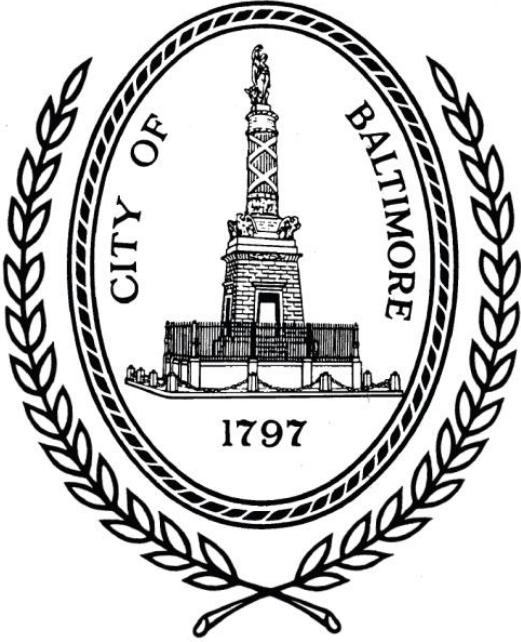
For Fire and Police Employees' Retirement System: www.bcfpers.org

For the Maryland State Retirement and Pension System: www.sra.state.md.us

3. Schedule of the City's Proportionate Share of the Net OPEB Liability and Schedule of Changes in Net OPEB Liability

The City of Baltimore provides other post-employment benefits (OPEB) to all qualified City and BCPSS employees. The OPEB Trust Fund does not issue separate financial statements but is included in the City's financial statements as a fiduciary trust fund. The City does not calculate the actuarial determined contribution so therefor such information is not available for the Total Plan or The City's proportionate share.

**Combining and
Individual Fund
Statement and
Schedules**



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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Community Development Block Grant, Special Racetrack Funds, School Construction, Baltimore Casino, State Video Lottery Terminal Funds, and Table Games Fund - These funds account for revenues derived from certain State shared taxes, governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

Scholarship Fund - This fund accounts for the contributions received and related interest income. The fund can be used to provide scholarships to City residents.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for the purposes that fund and support the reporting government's programs.

Enoch Pratt Free Library Fund - This fund accounts for principal trust amounts received and the related interest income. The interest portion of the trust can be used for the operations of the Enoch Pratt Free Library.

Memorial Fund - This fund accounts for the principal trust amounts received and the related interest income. The interest portion of the trust can be used by the City for memorials.

CITY OF BALTIMORE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018
(Expressed in Thousands)

| | Special Revenue Funds | | | | | | | Permanent Funds | | | Total Nonmajor Governmental Funds |
|--|---|--------------------------------|---------------------|------------------------------|------------------------------|----------------|------------------|--|------------------|-----------------|--|
| | Community Development Block Grant Fund | School Construction Fund | Baltimore Casino | State Lottery Terminal | Video Scholarship Fund | Table Game | Total | Enoch Pratt Free Library Fund | Memorial Fund | Total | |
| | Assets: | | | | | | | | | | |
| Cash and cash equivalents..... | | \$ 3,237 | \$ 1,382 | \$ 1,874 | \$ 5,490 | | \$ 11,983 | \$ 278 | \$ 295 | \$ 573 | \$ 12,556 |
| Investments..... | | | | | 761 | | 761 | 1,980 | 5,859 | 7,839 | 8,600 |
| Other receivables, net..... | | 1,275 | | | 3 | | 1,278 | 9 | 13 | 22 | 1,300 |
| Due from other government..... | | 518 | 1,792 | 63 | | \$ 518 | 2,891 | | | | 2,891 |
| Due from other fund..... | \$ 8,455 | | | | | | 8,455 | | | | 8,455 |
| Total assets..... | 8,455 | 5,030 | 3,174 | 1,937 | 6,254 | 518 | 25,368 | 2,267 | 6,167 | 8,434 | 33,802 |
| Liabilities, deferred inflows of resources and fund balances: | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | |
| Accounts payable and accrued liabilities..... | 763 | | 1,299 | 48 | | 1 | 2,111 | | | | 2,111 |
| Due to other funds..... | | | | | | 1,844 | 1,844 | | | | 1,844 |
| Due to other governmental..... | 4,654 | | | | | | 4,654 | | | | 4,654 |
| Total liabilities..... | 5,417 | | 1,299 | 48 | | 1,845 | 8,609 | | | | 8,609 |
| Deferred inflows of resources: | | | | | | | | | | | |
| Unavailable grants revenue..... | 3,530 | | | | | | 3,530 | | | | 3,530 |
| Total deferred inflows of resources..... | 3,530 | | | | | | 3,530 | | | | 3,530 |
| Total liabilities..... | 8,947 | | 1,299 | 48 | | 1,845 | 12,139 | | | | 12,139 |
| Fund balances: | | | | | | | | | | | |
| Restricted..... | | | | | 6,254 | | 6,254 | 2,267 | 6,167 | 8,434 | 14,688 |
| Assigned..... | | 5,030 | 1,875 | 1,889 | | | 8,794 | | | | 8,794 |
| Unassigned..... | (492) | | | | | (1,327) | (1,819) | | | | (1,819) |
| Total fund balances..... | (492) | 5,030 | 1,875 | 1,889 | 6,254 | (1,327) | 13,229 | 2,267 | 6,167 | 8,434 | 21,663 |
| Total liabilities, deferred inflows of resources and fund balances..... | \$ 8,455 | \$ 5,030 | \$ 3,174 | \$ 1,937 | \$ 6,254 | \$ 518 | \$ 25,368 | \$ 2,267 | \$ 6,167 | \$ 8,434 | \$ 33,802 |

CITY OF BALTIMORE
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Special Revenue Funds | | | | | | | Permanent Funds | | | Total Nonmajor Governmental Funds |
|--|--|--------------------------|-----------------------------|------------------------|------------------|-------------------|------------------|-------------------------------|-----------------|-----------------|-----------------------------------|
| | Community Development Block Grant Fund | School Construction Fund | State Baltimore Casino Fund | Video Lottery Terminal | Scholarship Fund | Table Game | Total | Enoch Pratt Free Library Fund | Memorial Fund | Total | |
| Revenues: | | | | | | | | | | | |
| Taxes - local | | \$ 12,558 | | | | | \$ 12,558 | | | | \$ 12,558 |
| State shared revenue | | 2,770 | \$ 12,360 | \$ 6,856 | | \$ 2,080 | 24,066 | | | | 24,066 |
| Interest, rentals and other investment income..... | | | | | \$ 105 | | 105 | \$ 96 | \$ 754 | \$ 850 | 955 |
| Federal grants..... | \$ 17,261 | | | | | | 17,261 | | | | 17,261 |
| Other revenue..... | | 1,250 | | | | | 1,250 | | | | 1,250 |
| Total revenues..... | 17,261 | 16,578 | 12,360 | 6,856 | 105 | 2,080 | 55,240 | 96 | 754 | 850 | 56,090 |
| Expenditures: | | | | | | | | | | | |
| Current: | | | | | | | | | | | |
| General government..... | 2,243 | 16,576 | 6,718 | 1,219 | | | 26,756 | | | | 26,756 |
| Public safety and regulation | | | 1,781 | | | | 1,781 | | | | 1,781 |
| Education..... | | | | | 35 | | 35 | | | | 35 |
| Public library..... | | | | 36 | | | 36 | 27 | | 27 | 63 |
| Recreation and culture..... | | | 489 | 9 | | 1,807 | 2,305 | | 191 | 191 | 2,496 |
| Highways and streets | | | 44 | | | | 44 | | | | 44 |
| Sanitation and waste removal | | | 373 | | | | 373 | | | | 373 |
| Economic development..... | 9,786 | | 523 | | | | 10,309 | | | | 10,309 |
| Total expenditures..... | 12,029 | 16,576 | 9,928 | 1,264 | 35 | 1,807 | 41,639 | 27 | 191 | 218 | 41,857 |
| Excess of revenues over expenditures..... | 5,232 | 2 | 2,432 | 5,592 | 70 | 273 | 13,601 | 69 | 563 | 632 | 14,233 |
| Other financing sources (uses): | | | | | | | | | | | |
| Transfers out..... | (5,724) | | (3,225) | (6,841) | | (2,000) | (17,790) | | | | (17,790) |
| Total other financing sources (uses)..... | (5,724) | | (3,225) | (6,841) | | (2,000) | (17,790) | | | | (17,790) |
| Net change in fund balances..... | (492) | 2 | (793) | (1,249) | 70 | (1,727) | (4,189) | 69 | 563 | 632 | (3,557) |
| Fund balances - beginning | | 5,028 | 2,668 | 3,138 | 6,184 | 400 | 17,418 | 2,198 | 5,604 | 7,802 | 25,220 |
| Fund balances - ending..... | \$ (492) | \$ 5,030 | \$ 1,875 | \$ 1,889 | \$ 6,254 | \$ (1,327) | \$ 13,229 | \$ 2,267 | \$ 6,167 | \$ 8,434 | \$ 21,663 |

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Nonmajor Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for the operating of various City activities that are provided to the public on a cost reimbursement basis.

Industrial Development Authority - This fund accounts for the activities of the City's Industrial Development Authority.

Conduit Fund - This fund accounts for the rental and maintenance of the City's Conduits.

CITY OF BALTIMORE
Combining Statement of Net Position
Nonmajor Proprietary Funds
June 30, 2018
(Expressed in Thousands)

| | Industrial Development Authority | Conduit Fund | Total |
|--|--|-----------------|------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 15,227 | | \$ 15,227 |
| Total current assets..... | 15,227 | | 15,227 |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Cash and cash equivalents..... | | \$ 54,063 | 54,063 |
| Capital assets, net of accumulated depreciation..... | | 64,917 | 64,917 |
| Capital assets not being depreciated..... | | 37,045 | 37,045 |
| Total noncurrent assets..... | | 156,025 | 156,025 |
| Total assets..... | 15,227 | 156,025 | 171,252 |
| Deferred outflows of resources | | | |
| Deferred outflows related to pension | | 622 | 622 |
| Deferred outflows related to OPEB | | 86 | 86 |
| Total deferred outflows of resources..... | | 708 | 708 |
| Total assets and deferred outflows of resources..... | 15,227 | 156,733 | 171,960 |
| Liabilities and deferred inflows of resources: | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities..... | | 255 | 255 |
| Due to other funds..... | 1,544 | 30,965 | 32,509 |
| Compensated absences..... | | 146 | 146 |
| Other liabilities..... | | 4,601 | 4,601 |
| Current liabilities payable from restricted assets: | | | |
| Accounts payable from restricted assets..... | | 6,686 | 6,686 |
| Total current liabilities..... | 1,544 | 42,653 | 44,197 |
| Noncurrent liabilities: | | | |
| Net pension liability | | 3,406 | 3,406 |
| Net OPEB liability | | 1,806 | 1,806 |
| Other liabilities..... | | 188 | 188 |
| Total noncurrent liabilities..... | | 5,400 | 5,400 |
| Total liabilities..... | 1,544 | 48,053 | 49,597 |
| Deferred inflows of resources: | | | |
| Deferred inflows related pension | | 28 | 28 |
| Total deferred inflows of resources..... | | 28 | 28 |
| Total liabilities and deferred inflows of resources..... | 1,544 | 48,081 | 49,625 |
| Net position: | | | |
| Net investment in capital assets | | 101,962 | 101,962 |
| Unrestricted..... | 13,683 | 6,690 | 20,373 |
| Total net position..... | \$ 13,683 | \$ 108,652 | \$ 122,335 |

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Nonmajor Proprietary Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Industrial Development Authority | Conduit Fund | Total |
|---|--|-----------------|------------|
| Operating revenues: | | | |
| Rents, fees, and other income..... | \$ 1 | \$ 28,551 | \$ 28,552 |
| Interest income on loans..... | 87 | | 87 |
| Total operating revenues..... | 88 | 28,551 | 28,639 |
| Operating expenses: | | | |
| Salaries and wages..... | | 3,754 | 3,754 |
| Other personnel costs..... | | 2,268 | 2,268 |
| Program expenses..... | 1 | 795 | 796 |
| Materials and supplies..... | | 174 | 174 |
| Minor equipment..... | | 268 | 268 |
| Depreciation..... | | 1,157 | 1,157 |
| Total operating expenses..... | 1 | 8,416 | 8,417 |
| Operating income | 87 | 20,135 | 20,222 |
| Capital contributions (reduction)..... | | (1,838) | (1,838) |
| Changes in net position..... | 87 | 18,297 | 18,384 |
| Total net position - beginning (as restated)..... | 13,596 | 90,355 | 103,951 |
| Total net position - ending..... | \$ 13,683 | \$ 108,652 | \$ 122,335 |

CITY OF BALTIMORE
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Industrial Development Authority | Conduit Fund | Total |
|--|--|------------------|------------------|
| Cash flows from operating activities: | | | |
| Receipts from customers..... | \$ 88 | \$ 28,551 | \$ 28,639 |
| Payments to employees..... | | (6,682) | (6,682) |
| Payments to suppliers..... | (1) | 322 | 321 |
| Net cash provided by operating activities..... | <u>87</u> | <u>22,191</u> | <u>22,278</u> |
| Cash flow from capital and related financing activities: | | | |
| Acquisition and construction of capital assets..... | | (53,569) | (53,569) |
| Due to other funds..... | (4,519) | 30,965 | 26,446 |
| Net cash used by capital and related financing activities..... | <u>(4,519)</u> | <u>(22,604)</u> | <u>(27,123)</u> |
| Net increase in cash and cash equivalents..... | (4,432) | (413) | (4,845) |
| Cash and cash equivalents, beginning of year..... | 19,659 | 54,476 | 74,135 |
| Cash and cash equivalents, end of year..... | <u>\$ 15,227</u> | <u>\$ 54,063</u> | <u>\$ 69,290</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | <u>\$ 87</u> | <u>\$ 20,135</u> | <u>\$ 20,222</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense..... | | 1,157 | 1,157 |
| Effect of changes in non cash operating asset and liabilities: | | | |
| Deferred outflows - pension | | 441 | 441 |
| Deferred outflows - OPEB | | (86) | (86) |
| Accounts payable and accrued liabilities..... | | 17 | 17 |
| Other liabilities | | 1,537 | 1,537 |
| Other noncurrent liabilities | | 23 | 23 |
| Pension liability - current period | | (54) | (54) |
| OPEB liability | | (139) | (139) |
| Deferred inflows - pension..... | | (840) | (840) |
| Total adjustments..... | | <u>2,056</u> | <u>2,056</u> |
| Net cash provided by operating activities..... | <u>\$ 87</u> | <u>\$ 22,191</u> | <u>\$ 22,278</u> |

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government, and to other governmental units, on a cost reimbursement basis.

Energy Conservation Fund - This fund accounts for the operation of the City's energy conservation office.

Municipal Communication Fund - This fund accounts for the repair and maintenance of the City's radios.

Mobile Equipment Fund - This fund accounts for the service, repair, operation, and replacement of the City's equipment fleet.

Reproduction and Printing Fund - This fund accounts for the operation of the City's printing shop.

Municipal Post Office Fund - This fund accounts for the operations of the City's internal post office facility.

Municipal Telephone Exchange Fund - This fund accounts for the administration and operations of the City's telephone exchange.

Building Maintenance Fund - This fund accounts for repairs and maintenance in City-owned buildings.

Hardware and Software Replacement Fund - This fund accounts for the cost of maintaining the City's software licensing agreements and hardware refreshes.

CITY OF BALTIMORE
Combining Statement of Fund Net Position
Internal Service Funds
June 30, 2018
(Expressed in Thousands)

| | Energy Conservation Fund | Municipal Communication Fund | Mobile Equipment Fund | Reproduction and Printing Fund | Municipal Post Office Fund | Municipal Telephone Exchange Fund | Building Maintenance Fund | Hardware & Software Replacement Fund | Total |
|--|--------------------------------|------------------------------------|-----------------------------|--------------------------------------|----------------------------------|--|---------------------------------|---|------------------|
| Assets: | | | | | | | | | |
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | \$ 279 | \$ 3,336 | \$ 6,792 | | \$ 646 | | \$ 8,450 | \$ 2,516 | \$ 22,019 |
| Accounts receivable, net: | | | | | | | | | |
| Other | | | 260 | \$ 66 | | \$ 5 | 967 | | 1,298 |
| Inventories | | | 6,347 | 784 | 47 | | | | 7,178 |
| Total current assets | 279 | 3,336 | 13,399 | 850 | 693 | 5 | 9,417 | 2,516 | 30,495 |
| Noncurrent assets: | | | | | | | | | |
| Restricted cash | | | 36,814 | | | | | | 36,814 |
| Capital assets, net | | 249 | 110,332 | | | | | | 110,581 |
| Total noncurrent assets | | 249 | 147,146 | | | | | | 147,395 |
| Total assets | 279 | 3,585 | 160,545 | 850 | 693 | 5 | 9,417 | 2,516 | 177,890 |
| Liabilities: | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Accounts payable and accrued liabilities | 241 | 388 | 4,703 | 580 | 109 | 359 | 1,936 | 178 | 8,494 |
| Due to other funds | | | | 68 | | 412 | | | 480 |
| Leases payable | | | 16,266 | | | | | | 16,266 |
| Compensated absences | 15 | 11 | 683 | 56 | 11 | 66 | 177 | | 1,019 |
| Total current liabilities | 256 | 399 | 21,652 | 704 | 120 | 837 | 2,113 | 178 | 26,259 |
| Noncurrent liabilities: | | | | | | | | | |
| Leases payable | | | 70,067 | | | | | | 70,067 |
| Compensated absences | 23 | 54 | 1,988 | 69 | 15 | 109 | 365 | | 2,623 |
| Total noncurrent liabilities | 23 | 54 | 72,055 | 69 | 15 | 109 | 365 | | 72,690 |
| Total liabilities | 279 | 453 | 93,707 | 773 | 135 | 946 | 2,478 | 178 | 98,949 |
| Net position: | | | | | | | | | |
| Net investment in capital assets | | 249 | 23,999 | | | | | | 24,248 |
| Unrestricted (deficit) | | 2,883 | 42,839 | 77 | 558 | (941) | 6,939 | 2,338 | 54,693 |
| Total net position | \$ | \$ 3,132 | \$ 66,838 | \$ 77 | \$ 558 | \$ (941) | \$ 6,939 | \$ 2,338 | \$ 78,941 |

CITY OF BALTIMORE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Energy Conservation Fund | Municipal Communication Fund | Mobile Equipment Fund | Reproduction and Printing Fund | Municipal Post Office Fund | Municipal Telephone Exchange Fund | Building Maintenance Fund | Hardware & Software Replacement Fund | Total |
|--|--------------------------------|------------------------------------|-----------------------------|-----------------------------------|----------------------------------|---|---------------------------------|---|------------|
| Operating revenues: | | | | | | | | | |
| Charges for services..... | \$ 440 | \$ 5,424 | \$ 57,750 | \$ 3,495 | \$ 2,617 | \$ 9,979 | \$ 23,677 | \$ 3,170 | \$ 106,552 |
| Operating expenses: | | | | | | | | | |
| Salaries and wages..... | 157 | 455 | 12,777 | 730 | 289 | 1,127 | 3,335 | | 18,870 |
| Other personnel costs..... | 115 | 161 | 5,573 | 296 | 130 | 469 | 1,240 | | 7,984 |
| Contractual services..... | 1,337 | 754 | 21,420 | 1,024 | 154 | 5,786 | 15,038 | 153 | 45,666 |
| Materials and supplies..... | 6 | | 1,642 | 1,368 | | 25 | 622 | | 3,663 |
| Minor equipment..... | 14 | 2,736 | | | 42 | 35 | 28 | 2,430 | 5,285 |
| Postage and delivery service..... | | | | | 1,697 | | | | 1,697 |
| Depreciation..... | | 109 | 13,178 | | | | | | 13,287 |
| Total operating expenses..... | 1,629 | 4,215 | 54,590 | 3,418 | 2,312 | 7,442 | 20,263 | 2,583 | 96,452 |
| Operating income (loss)..... | (1,189) | 1,209 | 3,160 | 77 | 305 | 2,537 | 3,414 | 587 | 10,100 |
| Nonoperating revenues (expenses): | | | | | | | | | |
| Loss on sale of equipment..... | | | (1,680) | | | | | | (1,680) |
| Total nonoperating revenues (expenses), net .. | | | (1,680) | | | | | | (1,680) |
| Other financing sources (uses): | | | | | | | | | |
| Capital contribution (reduction) | | | (4,000) | | | | | | (4,000) |
| Transfer in | 1,842 | | | | | | | | 1,842 |
| Transfer out | | | | | | | (250) | | (250) |
| Change in net position..... | 653 | 1,209 | (2,520) | 77 | 305 | 2,537 | 3,164 | 587 | 6,012 |
| Total net position - beginning | (653) | 1,923 | 69,358 | | 253 | (3,478) | 3,775 | 1,751 | 72,929 |
| Total net position - ending..... | \$ | \$ 3,132 | \$ 66,838 | \$ 77 | \$ 558 | \$ (941) | \$ 6,939 | \$ 2,338 | \$ 78,941 |

CITY OF BALTIMORE
Combining Statement of Cash Flows
Internal Services Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Energy Conservation Fund | Municipal Communication Fund | Mobile Equipment Fund | Reproduction and Printing Fund | Municipal Post Office Fund | Municipal Telephone Exchange Fund | Building Maintenance Fund | Hardware & Software Replacement Fund | Total |
|--|--------------------------------|------------------------------------|-----------------------------|--------------------------------------|----------------------------------|--|---------------------------------|---|------------|
| Cash flows from operating activities: | | | | | | | | | |
| Receipts from customers..... | | \$ 5,424 | \$ 58,193 | \$ 3,130 | \$ 2,590 | \$ 7,934 | \$ 23,329 | \$ 3,170 | \$ 103,770 |
| Payments to employees..... | \$ (283) | (598) | (18,212) | (1,011) | (412) | (1,590) | (4,242) | | (26,348) |
| Payments to suppliers..... | (1,280) | (3,736) | (22,418) | (2,119) | (1,864) | (6,344) | (15,482) | (2,577) | (55,820) |
| Net cash provided (used) by operating activities..... | (1,563) | 1,090 | 17,563 | | 314 | | 3,605 | 593 | 21,602 |
| Cash flows from noncapital financing activities: | | | | | | | | | |
| Transfers in..... | 1,842 | | | | | | | | 1,842 |
| Net cash provided by noncapital financing activities..... | 1,842 | | | | | | | | 1,842 |
| Cash flows from capital and related financing activities: | | | | | | | | | |
| Acquisition and construction of capital assets..... | | | (11,855) | | | | (250) | | (12,105) |
| Net cash (used) by capital and related financing activities..... | | | (11,855) | | | | (250) | | (12,105) |
| Net increase in cash and cash equivalents..... | 279 | 1,090 | 5,708 | | 314 | | 3,355 | 593 | 11,339 |
| Cash and cash equivalents, beginning of year..... | | 2,246 | 37,899 | | 332 | | 5,095 | 1,923 | 47,495 |
| Cash and cash equivalents, end of year..... | \$ 279 | \$ 3,336 | \$ 43,607 | \$ | \$ 646 | \$ | \$ 8,450 | \$ 2,516 | \$ 58,834 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | | |
| Operating income (loss)..... | \$ (1,189) | \$ 1,209 | \$ 3,160 | \$ 77 | \$ 305 | \$ 2,537 | \$ 3,414 | \$ 587 | \$ 10,100 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | | |
| Depreciation..... | | 109 | 13,178 | | | | | | 13,287 |
| Changes in noncash operating assets and liabilities: | | | | | | | | | |
| Accounts receivable..... | 156 | | 44 | (41) | | 117 | (348) | | (72) |
| Inventories..... | | | 399 | 154 | (27) | | | | 526 |
| Accounts payable and accrued liabilities..... | 65 | (240) | 630 | 272 | 30 | (500) | 254 | 6 | 517 |
| Other liabilities..... | 6 | 12 | 152 | 16 | 6 | 8 | 285 | | 485 |
| Due to other funds..... | (601) | | | (478) | | (2,162) | | | (3,241) |
| Total adjustments..... | (374) | (119) | 14,403 | (77) | 9 | (2,537) | 191 | 6 | 11,502 |
| Net cash provided (used) by operating activities..... | \$ (1,563) | \$ 1,090 | \$ 17,563 | \$ | \$ 314 | \$ | \$ 3,605 | \$ 593 | \$ 21,602 |
| Noncash activity from capital and related financing activities: | | | | | | | | | |
| New capital leases..... | | | \$ 22,706 | | | | | | \$ 22,706 |
| Total noncash activity from capital and related financing activities..... | | | \$ 22,706 | | | | | | \$ 22,706 |

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Fiduciary Funds

Fiduciary funds include the following funds, which account for assets held by the City as a trustee or as an agent for individuals.

Pension Trust Funds – These funds account for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers, firefighters, elected officials, and other City employees.

Agency Fund - This fund accounts for assets held by the City as a custodian.

OPEB Trust Fund – This fund accounts for the receipts of City and retiree contributions into the OPEB Trust Fund and payment of all retiree related health and life insurance benefits.

CITY OF BALTIMORE
Combining Statement of Fiduciary Net Position
Pension and OPEB Trust Funds
June 30, 2018
(Expressed In Thousands)

| | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | OPEB Trust Fund | Total |
|--|------------------------------------|---|---|-----------------------|---------------------|
| Assets: | | | | | |
| Cash and cash equivalents | \$ 84,370 | \$ 49 | \$ 44,930 | \$ 9,463 | \$ 138,812 |
| Investments: | | | | | |
| Stocks | 1,020,086 | 17,653 | 1,929,392 | 400,549 | 3,367,680 |
| Bonds | 433,088 | 5,648 | 450,428 | 132,667 | 1,021,831 |
| Real estate | 157,097 | 2,509 | 263,578 | 49,623 | 472,807 |
| Securities lending collateral | 118,686 | | 26,213 | | 144,899 |
| Forward foreign contracts | 23,333 | | 1,732 | | 25,065 |
| Other assets | 80,528 | 353 | 20,667 | 796 | 102,344 |
| Total assets | 1,917,188 | 26,212 | 2,736,940 | 593,098 | 5,273,438 |
| Liabilities: | | | | | |
| Obligations under securities lending program | 118,686 | | 26,213 | | 144,899 |
| Forward foreign contracts | 23,119 | | 1,733 | | 24,852 |
| Accounts payable | 61,130 | 15 | 17,325 | 4,492 | 82,962 |
| Pension benefits payable | | | 367 | | 367 |
| Total liabilities | 202,935 | 15 | 45,638 | 4,492 | 253,080 |
| Net position: | | | | | |
| Net position restricted for pensions | \$ 1,714,253 | \$ 26,197 | \$ 2,691,302 | \$ 588,606 | \$ 5,020,358 |

CITY OF BALTIMORE
Combining Statement of Changes in Fiduciary Net Position
Pension and OPEB Trust Funds
For the year Ended June 30, 2018
(Expressed In Thousands)

| | Employees' Retirement System | Elected Officials' Retirement System | Fire and Police Employees' Retirement System | OPEB Trust Fund | Total |
|--|------------------------------------|---|---|-----------------------|--------------|
| Additions: | | | | | |
| Contributions: | | | | | |
| Employer | \$ 87,542 | | \$ 137,738 | \$ 145,466 | \$ 370,746 |
| Employee | 12,943 | \$ 69 | 31,286 | 53,465 | 97,763 |
| Total contributions | 100,485 | 69 | 169,024 | 198,931 | 468,509 |
| Investment income: | | | | | |
| Net appreciation fair value of investments | 106,021 | 2,185 | 188,792 | 26,124 | 323,122 |
| Securities lending income, net | 420 | | 486 | 8,669 | 9,575 |
| Interest and dividend income | 41,711 | 184 | 37,646 | | 79,541 |
| Total investment income | 148,152 | 2,369 | 226,924 | 34,793 | 412,238 |
| Less: investment expense | 8,640 | 59 | 15,257 | 1,860 | 25,816 |
| Net investment income | 139,512 | 2,310 | 211,667 | 32,933 | 386,422 |
| Total additions | 239,997 | 2,379 | 380,691 | 231,864 | 854,931 |
| Deductions: | | | | | |
| Retirement benefits | 148,219 | 1,110 | 243,204 | | 392,533 |
| Health benefits | | | | 159,817 | 159,817 |
| Death benefits | 497 | | 223 | | 720 |
| Administrative expenses | 3,616 | 38 | 4,984 | | 8,638 |
| Other | 439 | | 3,542 | | 3,981 |
| Total deductions | 152,771 | 1,148 | 251,953 | 159,817 | 565,689 |
| Changes in net position | 87,226 | 1,231 | 128,738 | 72,047 | 289,242 |
| Net position restricted for Pensions - beginning of the year | 1,627,027 | 24,966 | 2,562,564 | 516,559 | 4,731,116 |
| Net position restricted for Pensions - end of the year | \$ 1,714,253 | \$ 26,197 | \$ 2,691,302 | \$ 588,606 | \$ 5,020,358 |

CITY OF BALTIMORE
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2018
(Expressed in Thousands)

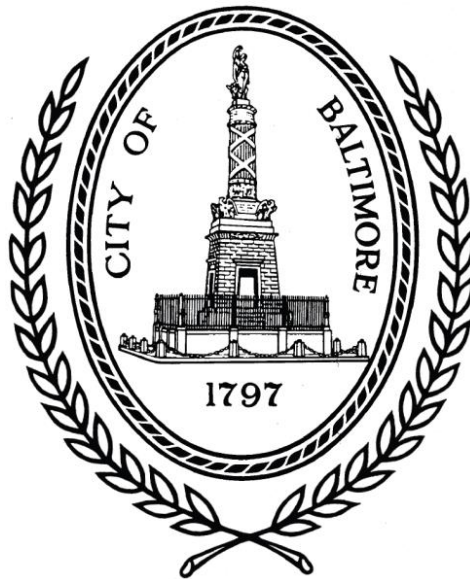
| | Unpresented Stock and Coupon Bonds | Property Sold for Taxes | Bid Deposit Refunds | Waterloo Summit | Recreation Accessory | Total |
|--------------------------------|--|-------------------------------|------------------------|--------------------|-------------------------|---------------|
| Assets: | | | | | | |
| Cash and cash equivalents..... | \$ 55 | \$ 86 | \$ 92 | | | \$ 233 |
| Investments..... | | | | \$ 53 | | 53 |
| Accounts receivable..... | | | | | \$ 347 | 347 |
| Total assets..... | 55 | 86 | 92 | 53 | 347 | 633 |
| Liabilities: | | | | | | |
| Due to other funds..... | | | | | 347 | 347 |
| Other..... | 55 | 86 | 92 | 53 | | 286 |
| Total liabilities..... | \$ 55 | \$ 86 | \$ 92 | \$ 53 | \$ 347 | \$ 633 |

CITY OF BALTIMORE
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018
(Expressed in Thousands)

| | Balance | | | Balance |
|---|---------------|-----------|------------|---------------|
| | June 30, 2017 | Additions | Deductions | June 30, 2018 |
| <i>Unpresented Stock and Coupon Bonds</i> | | | | |
| Assets: | | | | |
| Cash..... | \$ 55 | | | \$ 55 |
| Total assets..... | 55 | | | 55 |
| Liabilities: | | | | |
| Other..... | 55 | | | 55 |
| Total liabilities..... | 55 | | | 55 |
| <i>Property Sold for Taxes</i> | | | | |
| Assets: | | | | |
| Cash..... | 86 | | | 86 |
| Total assets..... | 86 | | | 86 |
| Liabilities: | | | | |
| Other..... | 86 | | | 86 |
| Total liabilities..... | 86 | | | 86 |
| <i>Bid Deposit Refunds</i> | | | | |
| Assets: | | | | |
| Cash..... | 72 | \$ 20 | | 92 |
| Total assets..... | 72 | 20 | | 92 |
| Liabilities: | | | | |
| Other..... | 72 | 20 | | 92 |
| Total liabilities..... | 72 | 20 | | 92 |
| <i>Waterloo Summit</i> | | | | |
| Assets: | | | | |
| Investments..... | 53 | | | 53 |
| Total assets..... | 53 | | | 53 |
| Liabilities: | | | | |
| Other..... | 53 | | | 53 |
| Total liabilities..... | 53 | | | 53 |
| <i>Recreation Accessory</i> | | | | |
| Assets: | | | | |
| Cash..... | 247 | 2,848 | \$ 2,948 | 347 |
| Total assets..... | 247 | 2,848 | 2,948 | 347 |
| Liabilities: | | | | |
| Other..... | 247 | 2,848 | 2,948 | 347 |
| Total liabilities..... | 247 | 2,848 | 2,948 | 347 |
| <i>Total All Agency Funds</i> | | | | |
| Assets: | | | | |
| Cash..... | 460 | 2,868 | 2,948 | 580 |
| Investments..... | 53 | | | 53 |
| Total assets..... | 513 | 2,868 | 2,948 | 633 |
| Liabilities: | | | | |
| Other..... | 513 | 2,868 | 2,948 | 433 |
| Total liabilities..... | \$ 513 | \$ 2,868 | \$ 2,948 | \$ 433 |

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STATISTICAL SECTION



See Report of Independent Public Accountants

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CITY OF BALTIMORE

Statistical Section

(Unaudited)

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Source: Unless otherwise noted, the information in these tables is derived from the annual financial reports for the relevant year.

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Financial Trends

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CITY OF BALTIMORE
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Expressed in Thousands)

| | Fiscal Year | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2009 | 2010 | 2011 | 2012 |
| Governmental activities | | | | |
| Invested in capital assets, net of related debt..... | \$ 2,121,998 | \$ 2,681,668 | \$ 2,989,607 | \$ 2,739,761 |
| Restricted..... | 13,191 | 14,787 | 14,931 | 13,013 |
| Unrestricted..... | (475,903) | (360,180) | (595,687) | (321,033) |
| Total governmental activities net position..... | \$ 1,659,286 | \$ 2,336,275 | \$ 2,408,851 | \$ 2,431,741 |
| Business-type activities | | | | |
| Invested in capital assets, net of related debt..... | \$ 1,371,993 | \$ 1,377,641 | \$ 1,461,618 | \$ 1,646,769 |
| Restricted..... | 260,575 | 124,756 | 142,070 | 160,955 |
| Unrestricted..... | (27,495) | 182,655 | 172,004 | 83,148 |
| Total business-type activities net position..... | \$ 1,605,073 | \$ 1,685,052 | \$ 1,775,692 | \$ 1,890,872 |
| Primary government | | | | |
| Invested in capital assets, net of related debt..... | \$ 3,493,991 | \$ 4,059,309 | \$ 4,451,225 | \$ 4,386,530 |
| Restricted..... | 273,766 | 139,543 | 157,001 | 173,968 |
| Unrestricted..... | (503,398) | (177,525) | (423,683) | (237,885) |
| Total primary government net position..... | \$ 3,264,359 | \$ 4,021,327 | \$ 4,184,543 | \$ 4,322,613 |

| | Fiscal Year | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Governmental activities | | | | | | |
| Net investment in capital assets | \$ 2,988,956 | \$ 2,569,231 | \$ 2,520,873 | \$ 2,464,962 | \$ 2,528,116 | \$ 2,574,640 |
| Restricted..... | 40,548 | 22,598 | 15,946 | 24,669 | 400,063 | 483,623 |
| Unrestricted..... | (650,914) | (442,540) | (1,759,089) | (1,662,259) | (1,951,655) | (2,771,072) |
| Total governmental activities net position..... | \$ 2,378,590 | \$ 2,149,289 | \$ 777,730 | \$ 827,372 | \$ 976,524 | \$ 287,191 |
| Business-type activities | | | | | | |
| Net investment in capital, assets | \$ 1,785,501 | \$ 2,215,884 | \$ 2,379,232 | \$ 2,386,644 | \$ 2,981,404 | \$ 3,383,394 |
| Restricted..... | 152,197 | 180,965 | 157,613 | 165,076 | 162,084 | 161,308 |
| Unrestricted..... | 133,419 | 123,976 | 136,251 | 413,302 | 85,565 | (92,013) |
| Total business-type activities net position..... | \$ 2,071,117 | \$ 2,520,825 | \$ 2,673,096 | \$ 2,965,022 | \$ 3,229,053 | \$ 3,452,689 |
| Primary government | | | | | | |
| Net investment in capital, assets | \$ 4,774,457 | \$ 4,785,115 | \$ 4,900,105 | \$ 4,851,606 | \$ 5,509,520 | 5,958,034 |
| Restricted..... | 192,745 | 203,563 | 173,559 | 189,745 | 562,147 | 644,931 |
| Unrestricted..... | (517,495) | (318,564) | (1,622,838) | (1,248,957) | (1,866,090) | (2,863,085) |
| Total primary government net position..... | \$ 4,449,707 | \$ 4,670,114 | \$ 3,450,826 | \$ 3,792,394 | \$ 4,205,577 | \$ 3,739,880 |

CITY OF BALTIMORE
Changes in Net Position
Governmental Funds
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Expressed in Thousands)

| | Fiscal Year | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Expenses | | | | | | | | | | |
| Government activities: | | | | | | | | | | |
| General government | \$ 521,242 | \$ 545,037 | \$ 452,449 | \$ 443,957 | \$ 399,166 | \$ 278,892 | \$ 294,987 | \$ 303,696 | \$ 249,415 | \$ 404,025 |
| Public safety and regulation | 541,778 | 504,730 | 525,792 | 577,963 | 661,829 | 673,680 | 692,155 | 744,940 | 764,040 | 781,830 |
| Conservation of health | 147,054 | 164,751 | 151,192 | 154,105 | 130,911 | 125,383 | 112,575 | 116,592 | 119,811 | 134,743 |
| Social services | 6,096 | 435 | 14,581 | 31,156 | 125,515 | 112,301 | 102,809 | 109,591 | 120,630 | 95,107 |
| Education | 221,829 | 228,788 | 265,204 | 260,935 | 288,227 | 306,128 | 302,568 | 299,699 | 278,881 | 383,934 |
| Public library | 33,728 | 33,915 | 33,309 | 33,390 | 33,184 | 34,550 | 35,063 | 34,150 | 34,531 | 35,189 |
| Recreation and culture | 42,565 | 39,205 | 48,165 | 49,291 | 50,297 | 52,540 | 51,367 | 53,657 | 58,124 | 59,049 |
| Highways and streets | 135,992 | 191,536 | 140,309 | 162,290 | 159,022 | 172,330 | 185,601 | 192,487 | 169,147 | 165,800 |
| Sanitation and waste removal | 51,167 | 52,905 | 61,605 | 65,677 | 73,536 | 63,623 | 67,445 | 70,823 | 76,638 | 81,877 |
| Public service | 24,637 | 24,316 | 25,059 | 26,676 | 50,710 | 50,260 | 51,041 | 49,475 | 53,188 | 50,052 |
| Economic development | 204,557 | 182,816 | 183,331 | 169,896 | 170,002 | 208,870 | 141,772 | 126,430 | 133,594 | 131,347 |
| Interest | 37,885 | 50,105 | 47,391 | 32,624 | 29,605 | 41,967 | 41,078 | 30,518 | 28,857 | 77,530 |
| Total governmental activities expenses | 1,968,530 | 2,018,539 | 1,948,387 | 2,007,960 | 2,172,004 | 2,120,524 | 2,078,461 | 2,132,058 | 2,086,856 | 2,400,483 |
| Business-type Activities: | | | | | | | | | | |
| Water | 116,407 | 107,982 | 120,736 | 131,271 | 136,171 | 155,308 | 160,208 | 170,637 | 167,667 | 147,289 |
| Waste water | 152,595 | 157,605 | 159,776 | 173,106 | 178,221 | 179,306 | 182,769 | 193,563 | 193,055 | 207,730 |
| Stormwater | | | | | | 18,292 | 15,747 | 19,365 | 21,521 | 26,175 |
| Parking | 23,422 | 24,832 | 19,853 | 25,332 | 17,681 | 23,528 | 19,183 | 18,125 | 27,939 | 17,797 |
| Nonmajor proprietary | 12,353 | 11,538 | 13,860 | 13,287 | 11,826 | 10,753 | 11,607 | 12,148 | 13,703 | 10,087 |
| Total business-type activities expenses | 304,777 | 301,957 | 314,225 | 342,996 | 343,899 | 387,187 | 389,514 | 413,838 | 423,885 | 409,078 |
| Total primary government expenses | \$ 2,273,307 | \$ 2,320,496 | \$ 2,262,612 | \$ 2,350,956 | \$ 2,515,903 | \$ 2,507,711 | \$ 2,467,975 | \$ 2,545,896 | \$ 2,510,741 | \$ 2,809,561 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services (a) | \$ 94,297 | \$ 85,683 | \$ 109,872 | \$ 118,556 | \$ 114,163 | \$ 103,331 | \$ 107,482 | \$ 103,190 | \$ 103,151 | \$ 111,154 |
| Operating grants and contributions | 402,343 | 359,769 | 399,844 | 400,678 | 385,841 | 431,515 | 318,266 | 347,636 | 344,684 | 324,457 |
| Capital grants and contributions | 23,181 | 63,437 | 72,758 | 71,258 | 109,488 | 71,806 | 54,788 | 25,284 | 83,501 | 41,095 |
| Total governmental activities revenue | 519,821 | 508,889 | 582,474 | 590,492 | 609,492 | 606,652 | 480,536 | 476,110 | 531,336 | 476,706 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 119,840 | 130,512 | 129,292 | 132,340 | 154,680 | 158,678 | 176,439 | 160,865 | 163,563 | 178,367 |
| Waste water | 158,305 | 166,016 | 160,076 | 179,873 | 183,521 | 221,181 | 216,428 | 229,300 | 235,133 | 258,386 |
| Stormwater | | | | | | 27,511 | 25,971 | 27,807 | 29,309 | 28,552 |
| Parking | 64,380 | 67,760 | 83,040 | 81,476 | 83,542 | 87,398 | 85,634 | 87,145 | 88,454 | 85,257 |
| Nonmajor proprietary | 12,440 | 9,989 | 9,979 | 12,046 | 18,400 | 14,385 | 13,916 | 37,505 | 11,744 | 28,639 |
| Capital Grants and Contributions | 22,818 | 38,313 | 72,257 | 100,922 | 129,608 | 131,574 | 201,880 | 259,288 | 217,959 | 169,154 |
| Total Business-type Activities Revenue | 377,783 | 412,590 | 454,644 | 506,657 | 569,751 | 640,727 | 720,268 | 801,910 | 746,162 | 748,355 |
| Total Primary Government Revenues | 897,604 | 921,479 | 1,037,118 | 1,097,149 | 1,179,243 | 1,247,379 | 1,200,804 | 1,278,020 | 1,277,498 | 1,225,061 |
| Net (Expense)/Revenue | | | | | | | | | | |
| Government Activities | (1,448,709) | (1,509,650) | (1,365,913) | (1,417,468) | (1,562,512) | (1,513,872) | (1,597,925) | (1,655,948) | (1,555,520) | (1,923,777) |
| Business-type Activities | 73,006 | 110,633 | 140,419 | 163,661 | 225,852 | 253,540 | 330,754 | 388,072 | 322,277 | 339,277 |
| Total Primary Government Net Expenses | \$ (1,375,703) | \$ (1,399,017) | \$ (1,225,494) | \$ (1,253,807) | \$ (1,336,660) | \$ (1,260,332) | \$ (1,267,171) | \$ (1,267,876) | \$ (1,233,243) | \$ (1,584,500) |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Property taxes | \$ 693,767 | \$ 770,320 | \$ 813,613 | \$ 769,094 | \$ 806,258 | \$ 810,824 | \$ 816,199 | \$ 852,114 | \$ 853,197 | \$ 886,417 |
| Income taxes | 262,901 | 251,731 | 234,955 | 257,893 | 276,111 | 284,437 | 300,014 | 346,727 | 335,923 | 346,797 |
| Other local taxes | 148,369 | 115,472 | 147,366 | 178,441 | 188,803 | 204,391 | 193,595 | 242,426 | 240,278 | 187,754 |
| State shared revenues | 187,986 | 135,226 | 127,433 | 130,286 | 128,707 | 131,180 | 147,608 | 153,195 | 159,022 | 170,240 |
| Unrestricted investment income | 35,756 | 27,308 | 23,905 | 17,404 | 17,879 | 16,722 | 19,431 | 34,782 | 21,634 | 28,296 |
| Miscellaneous | 14,568 | 15,806 | 35,695 | 36,794 | 43,861 | 32,581 | 88,734 | 33,073 | 32,523 | 124,395 |
| Transfers | 34,339 | 40,707 | 55,522 | 50,446 | 47,742 | (195,564) | 61,495 | 100,737 | 62,095 | 59,295 |
| Total Governmental Activities | 1,377,686 | 1,356,570 | 1,438,489 | 1,440,358 | 1,509,361 | 1,284,571 | 1,627,076 | 1,763,054 | 1,704,672 | 1,803,194 |
| Business-type Activities: | | | | | | | | | | |
| Unrestricted investment income | 747 | | 5,743 | 3,075 | 2,135 | 2,186 | 5,809 | 4,591 | 3,849 | 5,535 |
| Transfers | (34,339) | (40,707) | (55,522) | (50,446) | (47,742) | 195,564 | (61,495) | (100,737) | (62,095) | (59,295) |
| Total Business-type activities | (33,592) | (40,707) | (49,779) | (47,371) | (45,607) | 197,750 | (55,686) | (96,146) | (58,246) | (53,760) |
| Total primary government | 1,344,094 | 1,315,863 | 1,388,710 | 1,392,987 | 1,463,754 | 1,482,321 | 1,571,390 | 1,666,908 | 1,646,426 | 1,749,434 |
| Change in Net Position | | | | | | | | | | |
| Governmental activities | (71,023) | (153,080) | 72,576 | 22,890 | (53,151) | (229,301) | 29,151 | 107,106 | 149,152 | (120,583) |
| Business-type activities | 36,101 | 69,926 | 90,640 | 116,290 | 180,245 | 451,290 | 275,068 | 291,926 | 264,031 | 285,517 |
| Total primary government | \$ (34,922) | \$ (83,154) | \$ 163,216 | \$ 139,180 | \$ 127,094 | \$ 221,989 | \$ 304,219 | \$ 399,032 | \$ 413,183 | \$ 164,934 |

(a) Changes for services include charges for various City services such as rental of recreational facilities, solid waste disposal fees, port and stadium security services, impound lot fees and library video rental.

CITY OF BALTIMORE
Fund Balances, Governmental Funds
Last Ten Fiscal Years (1)
(Modified Accrued Basis of Accounting)
(Expressed in Thousands)

| | Fiscal Year | |
|---|-------------------|-------------------|
| | 2009 | 2010 |
| General Fund | | |
| Reserved | \$ 181,585 | \$ 157,131 |
| Unreserved | 35,344 | 20,441 |
| Total General Fund | \$ 216,929 | \$ 177,572 |
| All Other Governmental Funds | | |
| Reserved | \$ 119,928 | \$ 151,855 |
| Unreserved reported in: | | |
| Special revenue funds | (43,679) | (43,687) |
| Capital projects fund | 48,128 | (43,974) |
| Debt service fund | 41,240 | 41,319 |
| Total all other Governmental Funds | \$ 165,617 | \$ 105,513 |

| | Fiscal Year | | | | | | | |
|---|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| | 2011 (1) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| General Fund | | | | | | | | |
| Nonspendable | \$ 6,154 | \$ 5,519 | \$ 5,519 | \$ 5,519 | \$ 5,519 | \$ 297,255 | \$ 2,260 | \$ 2,210 |
| Restricted | | 30,338 | | | | | 380,996 | 423,673 |
| Assigned | 104,862 | 128,415 | 203,425 | 188,946 | 174,647 | 244,257 | 197,220 | 221,658 |
| Unassigned | 93,884 | 91,700 | 90,070 | 106,022 | 112,642 | 134,300 | 134,327 | 163,604 |
| Total General Fund | \$ 204,900 | \$ 255,972 | \$ 299,014 | \$ 300,487 | \$ 292,808 | \$ 675,812 | \$ 714,803 | \$ 811,145 |
| All Other Governmental Funds | | | | | | | | |
| Nonspendable | | | | | | | | |
| Motor vehicle fund | \$ 2,658 | | | | | | | |
| Other nonmajor funds | 2,811 | | | | | | | |
| Restricted | | | | | | | | |
| Capital projects fund | | | \$ 27,400 | \$ 9,256 | \$ 2,190 | \$ 10,743 | \$ 5,081 | \$ 8,448 |
| Other nonmajor funds | | \$ 13,013 | 13,148 | 13,342 | 13,756 | 13,926 | 13,986 | 14,688 |
| Assigned | | | | | | | | |
| Motor vehicle fund | 15,177 | | | | | | | |
| Capital projects fund | 128,813 | 7,128 | 5,702 | | | | | 5,064 |
| Other nonmajor funds | 48,837 | 37,333 | 46,060 | 53,217 | 58,095 | 10,068 | 11,234 | 8,794 |
| Unassigned | | | | | | | | |
| Grants revenue fund | (32,688) | (40,248) | (62,864) | (83,355) | (77,836) | (36,799) | (13,584) | - |
| Capital projects fund | (80,539) | (12,393) | (3,490) | (13,612) | (7,576) | (14,628) | (8,966) | |
| Other nonmajor funds | (10,733) | (7,192) | (9,255) | (9,451) | (12,399) | | | (1,819) |
| Total all other Governmental Funds | \$ 74,336 | \$ (2,359) | \$ 16,701 | \$ (30,603) | \$ (23,770) | \$ (16,690) | \$ 7,751 | \$ 35,175 |

(1) During fiscal year 2011, the City implemented GASB Statement No.54 which changed the format for fund balance presentation.

CITY OF BALTIMORE
Changes in Fund Balances
Governmental Funds
Last Ten Fiscal Years
(Expressed in Thousands)

| | Fiscal Year | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Revenue: | | | | | | | | | | |
| General fund: | | | | | | | | | | |
| Taxes - Local | \$1,105,037 | \$1,137,523 | \$1,176,038 | \$1,206,584 | \$1,219,656 | \$1,258,118 | \$1,284,515 | \$1,426,286 | \$1,410,593 | \$1,406,403 |
| State shared revenue | | | | | \$128,707 | \$131,180 | 137,714 | 142,213 | 140,451 | 146,174 |
| Licenses and permits | 29,390 | 34,438 | 42,129 | 37,585 | 40,572 | 41,457 | 41,584 | 48,829 | 44,450 | 41,043 |
| Fines and forfeitures | 6,896 | 7,116 | 8,055 | 6,604 | 29,445 | 14,673 | 15,325 | 8,365 | 7,192 | 27,085 |
| Interest, rentals, and other investment income | 23,616 | 24,148 | 21,903 | 16,244 | 16,816 | 15,833 | 17,181 | 33,991 | 21,082 | 27,071 |
| Federal grants | 224 | 213 | | 226 | 245 | 261 | 275 | 217 | 480 | 79 |
| State grants | 99,423 | 97,320 | 89,453 | 95,651 | 93,376 | 102,786 | 105,059 | 104,585 | 105,705 | 104,644 |
| Other grants | 154 | 46 | 25 | 25 | 25 | 26 | 26 | 26 | 26 | 27 |
| Charges for services | 41,560 | 29,251 | 26,654 | 35,044 | 44,146 | 47,201 | 50,573 | 45,996 | 51,509 | 43,026 |
| Miscellaneous | 234 | 4,528 | 18,579 | 9,976 | 4,365 | 5,757 | 5,730 | 459 | 7,300 | |
| Total revenues - general fund | 1,306,534 | 1,334,583 | 1,382,836 | 1,407,939 | 1,577,353 | 1,617,292 | 1,657,982 | 1,810,967 | 1,788,788 | \$1,795,552 |
| Other governmental funds: | | | | | | | | | | |
| Motor vehicle fund | 206,015 | 156,590 | 160,974 | 169,768 | | | | | | |
| Grants revenue fund | 338,749 | 270,692 | 292,887 | 285,240 | 251,949 | 242,805 | 223,148 | 222,291 | 226,145 | 233,957 |
| Capital projects fund | 46,028 | 75,296 | 84,230 | 93,966 | 121,065 | 91,069 | 66,983 | 45,370 | 105,487 | 62,019 |
| Other funds | 33,030 | 28,641 | 26,245 | 29,339 | 21,860 | 36,279 | 41,327 | 40,792 | 47,068 | 56,090 |
| Total revenues - other governmental funds | 623,822 | 531,219 | 564,336 | 578,313 | 394,874 | 370,153 | 331,458 | 308,453 | 378,700 | 352,066 |
| Total revenues all government funds | 1,930,356 | 1,865,802 | 1,947,172 | 1,986,252 | 1,972,227 | 1,987,445 | 1,989,440 | 2,119,420 | 2,167,488 | \$2,147,618 |
| Expenditures: | | | | | | | | | | |
| General fund: | | | | | | | | | | |
| General government | 368,279 | 410,746 | 375,814 | 387,650 | 223,730 | 216,329 | 258,028 | 281,616 | 249,579 | 155,606 |
| Public safety and regulation | 474,031 | 437,031 | 452,977 | 463,410 | 594,077 | 625,432 | 679,202 | 702,632 | 730,093 | 766,230 |
| Conservation of health | 33,066 | 44,950 | 44,076 | 44,033 | 20,811 | 23,778 | 20,887 | 19,663 | 21,882 | 38,648 |
| Social services | 6,057 | 396 | 1,361 | 707 | 89,235 | 76,857 | 64,249 | 73,851 | 86,353 | 59,899 |
| Education | 205,909 | 207,657 | 247,074 | 254,626 | 257,770 | 273,241 | 265,939 | 269,937 | 276,324 | 293,355 |
| Public library | 25,720 | 24,246 | 23,890 | 23,829 | 23,131 | 24,577 | 24,942 | 24,856 | 24,812 | 24,505 |
| Recreation and culture | 35,163 | 30,212 | 37,981 | 34,749 | 39,235 | 39,796 | 39,349 | 41,884 | 44,392 | 43,845 |
| Highways and streets | 244 | 16,376 | 16,838 | 19,336 | 83,051 | 102,308 | 113,452 | 125,440 | 96,537 | 99,848 |
| Sanitation and waste removal | 40,593 | 37,862 | 39,503 | 40,936 | 69,381 | 59,837 | 64,422 | 72,642 | 72,380 | 75,384 |
| Public service | 17,510 | 21,455 | 16,403 | 17,350 | 43,024 | 41,241 | 43,895 | 42,947 | 44,769 | 42,579 |
| Economic development | 36,573 | 36,186 | 36,589 | 46,741 | 48,544 | 49,348 | 49,069 | 39,499 | 34,276 | 41,634 |
| Debt service | | | | | | | | 69,775 | 104,006 | 94,713 |
| Total expenditures - general fund | 1,243,145 | 1,267,117 | 1,292,506 | 1,333,367 | 1,491,989 | 1,532,744 | 1,623,434 | 1,764,742 | 1,785,403 | 1,736,246 |
| Other government funds: | | | | | | | | | | |
| Motor vehicle fund | 173,570 | 191,558 | 140,223 | 148,769 | | | | | | |
| Grants revenue fund | 238,399 | 280,603 | 292,497 | 298,287 | 280,319 | 275,977 | 223,964 | 238,344 | 218,716 | 221,811 |
| Capital projects fund | 267,641 | 275,701 | 199,217 | 208,837 | 202,458 | 160,874 | 172,688 | 173,201 | 154,671 | 186,541 |
| Debt service fund: | | | | | | | | | | |
| Principal | 53,361 | 60,054 | 61,282 | 64,781 | 69,877 | 44,483 | 38,912 | | | |
| Interest | 12,998 | 39,014 | 38,256 | 32,624 | 23,678 | 31,708 | 31,005 | | | |
| Other bond costs | 26,381 | 9,847 | 5,882 | | | 6,178 | 6,135 | | | |
| Other funds | 18,052 | 11,863 | 14,330 | 17,116 | 22,600 | 23,133 | 31,107 | 29,565 | 34,101 | 41,857 |
| Total expenditures - other government funds | 790,402 | 868,640 | 751,687 | 770,414 | 598,932 | 542,353 | 503,811 | 441,110 | 407,488 | 450,209 |
| Total expenditures all governmental funds | 2,033,547 | 2,135,757 | 2,044,193 | 2,103,781 | 2,090,921 | 2,075,097 | 2,127,245 | 2,205,852 | 2,192,891 | 2,186,455 |
| Excess (deficiency) of revenues over expenditures | (103,191) | (269,955) | (97,021) | (117,529) | (118,694) | (87,652) | (137,805) | (86,432) | (25,403) | (\$38,837) |
| Other financing sources (uses): | | | | | | | | | | |
| Transfers, net | 27,839 | 40,707 | 27,422 | 50,446 | 76,110 | 56,828 | 61,495 | 100,038 | 60,289 | 57,703 |
| Capital leases | 3,956 | 75,099 | 11,020 | 41,460 | 11,804 | | | 8,978 | | 29,618 |
| Refunding capital leases | | | | | | | | | | (4,563) |
| Face value of bonds and loans | 100,164 | 54,688 | 54,730 | | 283,535 | 5,414 | 64,249 | 92,317 | 1,907 | 225,155 |
| Refunding of bonds | | | | | (214,336) | | | | (377,111) | (133,560) |
| Transportation revenue bonds | | | | | | | 9,609 | (13,833) | | 14,924 |
| Swap termination | | | | | (18,760) | | | | | |
| Premium (discount) on sale of bonds | | | | | 42,443 | | 1,606 | 3,220 | | 35,923 |
| Proceeds from bond issuances | | | | | | | | | 403,750 | - |
| Capital contributions | | | | | | (20,421) | | | | |
| Payoff of bond anticipation note | | | | | | | | | | (60,148) |
| Total other financing sources | 131,959 | 170,494 | 93,172 | 91,906 | 180,796 | 41,821 | 136,959 | 190,720 | 88,835 | 165,052 |
| Net changes in fund balances | \$28,768 | (\$99,461) | \$ (3,849) | (\$25,623) | \$ 62,102 | \$ (45,831) | \$ (846) | \$104,288 | \$63,432 | \$126,215 |
| Debt service as a percentage of noncapital expenditures | 3.50% | 5.26% | 5.24% | 5.03% | 4.87% | 3.89% | 3.52% | 3.26% | 3.39% | 3.85% |

Revenue Capacity

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CITY OF BALTIMORE
Property Tax Levies and Collections
Last Ten Fiscal Years
(Dollars Expressed in Thousands)

| Fiscal Year | Total Tax Levy | Collected within due Fiscal Year of the Levy | Percent of Levy Collected | Collections in Subsequent Years | Total Tax Collection | Percent of Total Tax Collections to Tax Levy |
|-------------|----------------|--|---------------------------|---------------------------------|----------------------|--|
| 2009 | \$ 728,359 | \$ 671,869 | 92.2 | \$ 16,270 | \$ 739,803 | 98.4 % |
| 2010 | 751,510 | 723,533 | 96.3 | 17,107 | 767,251 | 98.7 |
| 2011 | 777,332 | 750,144 | 96.5 | 27,047 | 770,399 | 99.9 |
| 2012 | 761,237 | 743,352 | 97.7 | 11,071 | 743,538 | 95.5 |
| 2013 | 778,346 | 732,467 | 94.1 | 11,199 | 752,648 | 99.6 |
| 2014 | 755,711 | 741,449 | 98.1 | 11,572 | 774,648 | 99.5 |
| 2015 | 778,380 | 762,772 | 98.0 | 11,910 | 772,040 | 96.0 |
| 2016 | 804,391 | 760,686 | 94.6 | 12,437 | 808,328 | 95.0 |
| 2017 | 851,099 | 808,328 | 95.0 | 32,183 | 840,511 | 98.8 |
| 2018 | 892,079 | 865,223 | 97.0 | | 865,223 | 97.0 |

CITY OF BALTIMORE
Assessed and Estimate Actual Value of Taxable Property
Last Ten Fiscal Years
(Dollars Expressed in Thousands)

| Fiscal Year | Real Property | | Personal Property | | Total | | Ratio of Total Assessed Value to Total Estimate Actual Value % | Total Direct Tax Rate |
|-------------|----------------|-----------------------|-------------------|-----------------------|----------------|-----------------------|--|-----------------------|
| | Assessed Value | Estimate Actual Value | Assessed Value | Estimate Actual Value | Assessed Value | Estimate Actual Value | | |
| 2009 | \$ 26,601,299 | \$ 32,038,540 | \$ 2,145,251 | \$ 2,145,251 | \$ 28,746,550 | \$ 34,183,791 | 84.1 | \$ 2.380 |
| 2010 | 28,511,521 | 35,600,999 | 1,805,889 | 1,805,889 | 30,317,410 | 37,406,888 | 81.0 | 2.380 |
| 2011 | 29,613,826 | 36,799,638 | 1,767,656 | 1,767,656 | 31,381,482 | 38,567,294 | 81.4 | 2.380 |
| 2012 | 28,762,325 | 35,431,581 | 1,878,997 | 1,878,997 | 30,641,322 | 37,310,578 | 82.1 | 2.380 |
| 2013 | 28,844,799 | 34,386,667 | 1,845,424 | 1,845,424 | 30,690,223 | 36,232,091 | 84.7 | 2.380 |
| 2014 | 29,209,703 | 33,938,341 | 1,966,795 | 1,966,795 | 31,176,498 | 35,905,136 | 86.8 | 2.360 |
| 2015 | 29,063,381 | 33,749,836 | 1,895,006 | 1,895,006 | 30,958,387 | 35,644,842 | 86.9 | 2.360 |
| 2016 | 31,577,756 | 35,782,497 | 2,011,722 | 2,011,722 | 33,589,478 | 37,794,219 | 88.9 | 2.360 |
| 2017 | 32,550,695 | 37,113,758 | 2,123,826 | 2,123,826 | 34,674,521 | 39,237,584 | 88.4 | 2.360 |
| 2018 | 33,909,100 | 38,844,708 | 2,241,053 | 2,309,659 | 36,150,153 | 41,154,367 | 87.8 | 2.360 |

Note: Assessed values are established by the Maryland State Department of Assessments and Taxation on July 1 of each year. Each real property's assessment is reevaluated every three years. Tax rates are for each \$100 of assessed value. The Baltimore City real property tax rate is \$2.248 and the Maryland State real property tax rate is \$0.112, for a total of \$2.360.

Source: Baltimore City Department of Finance

CITY OF BALTIMORE
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years (1)

| Fiscal Year | City Tax Rate | State Rate (2) | Tax Total (3) |
|----------------|------------------|-------------------|------------------|
| 2009 | \$ 2.268 | \$ 0.112 | \$ 2.380 |
| 2010 | 2.268 | 0.112 | 2.380 |
| 2011 | 2.268 | 0.112 | 2.380 |
| 2012 | 2.268 | 0.112 | 2.380 |
| 2013 | 2.268 | 0.112 | 2.380 |
| 2014 | 2.248 | 0.112 | 2.360 |
| 2015 | 2.248 | 0.112 | 2.360 |
| 2016 | 2.248 | 0.112 | 2.360 |
| 2017 | 2.248 | 0.112 | 2.360 |
| 2018 | 2.248 | 0.112 | 2.360 |

Notes:

- (1) Tax rates are for each \$100 of assessed valuation.
- (2) The State tax rate is shown for information purpose only, since the City acts in the role of collector and does not report this portion of the property tax as revenue.
- (3) The City has no special assessments.

Source: Baltimore City Department of Finance

CITY OF BALTIMORE
Principal Property Taxpayer
Current Year and Nine Years Ago
(Dollars Expressed in Thousands)

| | 2018 | | | 2009 | | |
|---|--|------------|--|------------------------------|------------|--|
| | Taxable Assessed Value | Rank | Percentage of Total City Assessed Value | Taxable Assessed Value | Rank | Percentage of Total City Assessed Value |
| | BGE (Baltimore Gas & Electric Company) | \$ 836,538 | 1 | 2.3% | \$ 629,830 | 1 |
| Amazon | 304,580 | 2 | 0.8% | | | |
| Harbor Point - Parcel 2 | 224,776 | 3 | 0.6% | | | |
| CSX Transportation | 201,597 | 4 | 0.6% | | | |
| Baltimore Hotel Corporation | 174,054 | 5 | 0.5% | | | |
| Harbor East - Parcel D | 170,250 | 6 | 0.5% | | | |
| Harbor East Limited | 164,602 | 7 | 0.5% | 125,838 | 5 | 0.4% |
| Verizon - Maryland | 159,145 | 8 | 0.4% | 303,244 | 2 | 1.1% |
| 100 East Pratt Street Business | 157,135 | 9 | 0.4% | 184,482 | 3 | 0.6% |
| JBG/Baltimore SSA, LLC | 157,056 | 10 | 0.4% | | | |
| Baltimore Center Associates LTD Partnership | | | | 178,311 | 4 | 0.6% |
| Canton Crossing Tower, LLC | | | | 85,239 | 6 | 0.3% |
| ABB South Street Associates, LLC | | | | 78,287 | 7 | 0.3% |
| 951 Fell Street Limited | | | | 71,004 | 8 | 0.2% |
| Harbor East Limited - Parcel B | | | | 70,759 | 9 | 0.2% |
| Tribune Company | | | | 67,557 | 10 | 0.2% |
| Total | \$2,549,733 | | 7.1% | \$1,794,551 | | 6.1% |

Debt Capacity

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CITY OF BALTIMORE
Ratios of Outstanding Debt by Type, Primary Government
Last Ten Fiscal Years
(Dollars Expressed in Thousands)

| Fiscal Year | Governmental Activities | | | | | | Business-type Activities | | | | Total Primary Government | Percentage of Personal Income (b) % | Per Capita (a) |
|-------------|--------------------------|--------------------------|---|--|---------------|----------------|--------------------------|--------------------------|---------------|----------------|--------------------------|-------------------------------------|----------------|
| | General Obligation Bonds | Special Obligation Bonds | Long-term Financing with Federal Government | Long-term Financing with Federal of Maryland | Revenue Bonds | Capital Leases | General Obligation Bonds | Sewer Construction Loans | Revenue Bonds | Capital Leases | | | |
| 2009 | \$ 629,018 | \$ 116,508 | \$ 50,803 | \$ 1,553 | \$ 440,079 | \$159,115 | \$ 1,379 | \$ 221 | \$1,395,937 | | \$ 2,794,613 | 11.68 | \$ 4,384 |
| 2010 | 631,993 | 116,205 | 45,436 | 1,186 | 431,155 | 169,100 | 576 | 143 | 1,370,497 | | 2,766,291 | 11.16 | 4,455 |
| 2011 | 630,957 | 115,600 | 42,151 | 925 | 422,011 | 160,930 | | 63 | 1,513,270 | | 2,885,907 | 11.01 | 4,653 |
| 2012 | 570,148 | 114,993 | 39,355 | 1,855 | 411,377 | 179,161 | | 19 | 1,477,473 | \$3,003 | 2,797,384 | 10.17 | 4,502 |
| 2013 | 569,097 | 114,435 | 36,461 | 1,430 | 424,599 | 193,368 | | | 1,467,888 | 2,628 | 2,809,906 | 11.51 | 4,517 |
| 2014 | 524,969 | 149,824 | 33,461 | 1,016 | 395,501 | 189,600 | 3,113 | | 1,735,806 | 2,240 | 3,035,530 | 11.49 | 4,874 |
| 2015 | 553,761 | 147,218 | 30,357 | 662 | 391,894 | 161,477 | 3,018 | | 1,920,369 | 1,840 | 3,210,596 | 11.48 | 5,163 |
| 2016 | 575,793 | 145,990 | 27,132 | 230 | 394,224 | 160,368 | 3,602 | | 1,864,330 | 1,427 | 3,173,096 | N/A | N/A |
| 2017 | 527,049 | 199,876 | 23,792 | | 358,666 | 144,969 | 3,291 | | 2,127,319 | 1,087 | 3,386,049 | N/A | N/A |
| 2018 | 526,557 | 198,176 | 20,320 | | 359,235 | 160,006 | 2,737 | | 2,204,360 | 826 | 3,472,217 | N/A | N/A |

(a) Per capita calculation utilize calendar year figures provided by U.S. Department of Commerce, Census Bureau, in thousands.

(b) Personal Income data from the Bureau of Economic Analysis, U.S. Department of Commerce.

N/A Information not available

CITY OF BALTIMORE
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Dollars Expressed in Thousands)

| Fiscal Year | General Obligation Bonds | Cash Available for Debt Service Activities (b) | Net General Bonded Debt | Percentage of Actual Taxable Value of Property % | Per Capita (a) |
|-------------|--------------------------------|---|----------------------------------|---|-------------------|
| 2009 | \$ 629,018 | \$ 41,240 | \$ 587,778 | 1.72 | \$ 922.12 |
| 2010 | 631,993 | 41,319 | 590,674 | 1.58 | 950.84 |
| 2011 | 630,957 | 36,261 | 594,696 | 1.54 | 957.66 |
| 2012 | 570,148 | 36,796 | 533,352 | 1.69 | 856.90 |
| 2013 | 569,097 | 45,523 | 523,574 | 1.45 | 841.62 |
| 2014 | 528,082 | 49,947 | 478,135 | 1.33 | 767.73 |
| 2015 | 556,779 | 51,130 | 505,649 | 1.42 | 813.14 |
| 2016 | 579,395 | 62,486 | 516,909 | 1.21 | 840.96 |
| 2017 | 469,340 | 53,552 | 415,788 | 1.06 | 679.78 |
| 2018 | 530,146 | 111,525 | 418,621 | 1.02 | N/A |

(a) Per capita calculation utilize calendar year figures provided by U.S. Department of Commerce, Census Bureau, in thousands.

(b) Externally restricted for repayment of principal on debt; through fiscal year 2015, debt service was accounted for in a separate Debt Service Fund; as of fiscal year 2016, debt service is included in the General Fund.

N/A Information not available

CITY OF BALTIMORE
Direct and Overlapping Governmental Activities Debt
June 30, 2018

The City of Baltimore has no Overlapping Debt.

CITY OF BALTIMORE
Legal Debt Margin Information
June 30, 2018

The City has no Legal Debt Margin.

CITY OF BALTIMORE
Pledged Revenue Coverage
June 30, 2018
(Dollars Expressed in Thousands)

| Fiscal Year | Water Revenue Bonds | | | | | | Wastewater Revenue Bonds | | | | | |
|-------------|------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|-----------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|
| | Water Utility Revenues | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage | Wastewater Utility Revenues | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage |
| | | | | Principal | Interest | | | | | Principal | Interest | |
| 2009 | \$119,840 | \$94,547 | \$25,293 | \$3,273 | \$20,693 | 1.06 | \$158,305 | \$121,123 | \$37,182 | \$14,120 | \$22,133 | 1.03 |
| 2010 | 130,666 | 88,394 | 42,272 | 6,754 | 20,202 | 1.55 | 166,072 | 115,762 | 50,310 | 16,822 | 25,627 | 1.19 |
| 2011 | 129,292 | 90,586 | 38,706 | 8,036 | 20,552 | 1.27 | 160,076 | 110,131 | 49,945 | 20,171 | 25,031 | 1.10 |
| 2012 | 132,340 | 95,386 | 36,954 | 8,937 | 22,239 | 1.19 | 179,873 | 119,356 | 60,517 | 20,677 | 27,412 | 1.26 |
| 2013 | 154,680 | 100,845 | 53,835 | 10,343 | 23,545 | 1.59 | 183,521 | 125,035 | 58,486 | 22,676 | 28,910 | 1.13 |
| 2014 | 158,678 | 113,947 | 44,731 | 10,830 | 21,126 | 1.40 | 221,181 | 123,993 | 97,188 | 24,083 | 27,140 | 1.90 |
| 2015 | 176,439 | 114,341 | 62,098 | 12,250 | 27,894 | 1.55 | 216,428 | 122,937 | 93,491 | 24,951 | 33,151 | 1.61 |
| 2016 | 160,865 | 112,771 | 48,094 | 15,880 | 33,432 | 0.98 | 229,300 | 126,379 | 102,921 | 31,485 | 39,359 | 1.45 |
| 2017 | 163,563 | 117,547 | 46,016 | 17,298 | 33,627 | 0.90 | 235,133 | 130,532 | 104,601 | 33,886 | 37,475 | 1.47 |
| 2018 | 178,367 | 93,837 | 84,530 | 18,441 | 38,044 | 1.51 | 258,386 | 141,648 | 116,738 | 40,251 | 38,934 | 1.55 |

| Fiscal Year | Stormwater Revenue Bonds | | | | | | Parking Facilities Revenue Bonds | | | | | |
|-------------|-----------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|-----------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|
| | Stormwater Utility Revenues | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage | Parking Facilities Revenues | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage |
| | | | | Principal | Interest | | | | | Principal | Interest | |
| 2009 | | | | | | | \$64,380 | \$12,170 | \$52,210 | \$6,060 | \$14,224 | 2.57 |
| 2010 | | | | | | | 67,760 | 10,866 | 56,894 | 6,915 | 9,352 | 3.50 |
| 2011 | | | | | | | 83,040 | 10,728 | 72,312 | 7,250 | 8,934 | 4.47 |
| 2012 | | | | | | | 81,476 | 10,937 | 70,539 | 8,395 | 10,324 | 3.77 |
| 2013 | | | | | | | 83,542 | 9,737 | 73,805 | 8,410 | 9,829 | 4.05 |
| 2014 | \$27,511 | \$13,585 | \$13,926 | \$436 | \$466 | 15.44 | 87,398 | 10,919 | 76,479 | 9,280 | 9,407 | 4.09 |
| 2015 | 25,971 | 10,632 | 15,339 | 441 | 441 | 17.39 | 85,634 | 7,133 | 78,501 | 9,800 | 8,753 | 4.23 |
| 2016 | 27,807 | 14,641 | 13,166 | 616 | 140 | 17.65 | 87,145 | 6,662 | 80,483 | 10,350 | 8,217 | 4.33 |
| 2017 | 29,309 | 16,799 | 12,510 | 1,771 | 1,037 | 4.46 | 88,454 | 10,159 | 78,295 | 10,960 | 7,669 | 3.98 |
| 2018 | 28,552 | 19,733 | 8,819 | 1,312 | 533 | 5.33 | 85,257 | 9,015 | 76,242 | 11,490 | 6,992 | 4.13 |

| Fiscal Year | Convention Center Revenue Bonds | | | | |
|-------------|----------------------------------|-----------------------------|--------------|----------|----------|
| | Convention Center Revenues | Net Available Revenue | Debt Service | | Coverage |
| | | | Principal | Interest | |
| 2009 | \$4,463 | \$4,463 | \$2,515 | \$2,070 | 0.98 |
| 2010 | 4,344 | 4,344 | 2,645 | 1,794 | 0.98 |
| 2011 | 4,654 | 4,654 | 2,770 | 1,796 | 1.02 |
| 2012 | 4,655 | 4,655 | 2,935 | 1,637 | 1.02 |
| 2013 | 4,577 | 4,577 | 3,095 | 1,475 | 1.00 |
| 2014 | 4,560 | 4,560 | 3,260 | 1,302 | 1.00 |
| 2015 | 5,968 | 5,968 | 3,435 | 1,118 | 1.31 |
| 2016 | 4,517 | 4,517 | 3,625 | 924 | 0.99 |
| 2017 | 4,120 | 4,120 | 3,825 | 729 | 0.90 |
| 2018 | 4,580 | 4,580 | 4,015 | 533 | 1.01 |

Note: Details regarding the City's outstanding debt can be found in note number 8 in the notes to the financial statements
Operating expenses do not include interest, depreciation or amortization expenses.
Beginning in fiscal year 2014, the Stormwater Utility Fund is presented as a separate proprietary fund.

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Demographic and Economic Information

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CITY OF BALTIMORE
Demographic and Economic Statistics
Last Ten Calendar Years

| Calendar | | Personal Income (a) (thousands of dollars) | Per Capita Personal Income (b) | Total Employment (c) | Unemployment Rate (c) |
|----------|----------------|---|--------------------------------------|-------------------------|--------------------------|
| Year | Population (a) | | | | |
| 2009 | 620,509 | \$ 22,778,362 | \$ 36,709 | 252,544 | 10.2% |
| 2010 | 620,961 | 23,422,681 | 37,720 | 262,347 | 11.2 |
| 2011 | 620,792 | 24,638,760 | 39,689 | 264,134 | 10.6 |
| 2012 | 622,705 | 25,142,165 | 40,376 | 267,128 | 10.2 |
| 2013 | 623,215 | 25,597,551 | 41,073 | 267,697 | 9.7 |
| 2014 | 623,711 | 26,923,439 | 43,167 | 269,052 | 8.6 |
| 2015 | 621,849 | 28,011,281 | 45,045 | 272,019 | 7.7 |
| 2016 | 614,664 | 28,913,526 | 47,040 | 276,430 | 6.6 |
| 2017 | 611,648 | N/A | N/A | 281,066 | 6.1 |
| 2018 | N/A | N/A | N/A | N/A | N/A |

Source:

(a) U.S. Bureau of Economic Analysis

(b) Per capita personal income is calculated based on the personal income divided by the estimated population

(c) Maryland Department of Labor, Licensing and Regulation

N/A Information not available

CITY OF BALTIMORE
Principal Employers
Current Year and Nine Years Ago

| Employer | 2018 [1] | | | 2009 [4] | | |
|---|----------------|------|-------------------------------------|----------------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Government [2] | | | | | | |
| State | 33,635 | 1 | 9.89 % | 41,540 | 1 | 12.23 % |
| Other Government authority (City, School, etc.) | 24,816 | 2 | 7.29 | 28,121 | 2 | 8.28 |
| Federal | 10,530 | 3 | 3.09 | 8,233 | 3 | 2.42 |
| Subtotal Government | <u>68,981</u> | | <u>20.27 %</u> | <u>77,894</u> | | <u>22.93 %</u> |
| Ten Largest Private Sector Employers [3] | | | | | | |
| Johns Hopkins University | 25,800 | 1 | 7.58 | 20,826 | 1 | 6.13 |
| Johns Hopkins Hospital and Health System | 18,500 | 2 | 5.44 | 12,500 | 2 | 3.68 |
| University of Maryland Medical System | 11,450 | 3 | 3.37 | 9,400 | 3 | 2.77 |
| University System of Maryland | 8,975 | 4 | 2.64 | 8,728 | 4 | 2.57 |
| MedStar Health | 6,175 | 5 | 1.81 | 6,206 | 5 | 1.83 |
| LifeBridge Health - Sinai | 5,315 | 6 | 1.56 | 4,963 | 6 | 1.46 |
| Amazon.com | 4,500 | 7 | 1.32 | | | |
| Mercy Health Services | 4,030 | 8 | 1.18 | 2,506 | 10 | 0.74 |
| St. Agnes HealthCare | 3,265 | 9 | 0.96 | 2,987 | 8 | 0.88 |
| Exelon / Constellation Energy / BGE | 2,950 | 10 | 0.87 | 2,670 | 9 | 0.79 |
| Abacus | | | | 3,000 | 7 | 0.88 |
| Subtotal Ten Largest Private Sector Employer | <u>90,960</u> | | <u>26.73 %</u> | <u>73,786</u> | | <u>21.73 %</u> |
| Total Government and Ten Largest Private Sector Employers | <u>159,941</u> | | <u>47.00 %</u> | <u>151,680</u> | | <u>44.66 %</u> |

Source:

[1] For the government and private sectors: Maryland Dept of Commerce

[2] Data only available for the first quarter of 2018

[3] Data as of 2017 (most recent available)

[4] For 2009, City of Baltimore Comprehensive Annual Financial Report for Fiscal Year 2009

Operating Information

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CITY OF BALTIMORE
Full Time Equivalent Employees By Function
Last Ten Years

| Function/program | Full-time equivalent Employees at June 30 | | | | | | | | | |
|------------------------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| General government | 1,733 | 1,725 | 1,700 | 1,754 | 1,674 | 1,666 | 1,700 | 1,577 | 1,785 | 1,858 |
| Public safety | | | | | | | | | | |
| Police | 3,909 | 3,897 | 3,897 | 3,892 | 3,796 | 3,608 | 3,444 | 3,259 | 3,125 | 3,243 |
| Fire | 1,800 | 1,795 | 1,795 | 1,789 | 1,732 | 1,699 | 1,699 | 1,639 | 1,731 | 1,733 |
| Other | 793 | 795 | 791 | 721 | 683 | 695 | 700 | 813 | 735 | 751 |
| Conservation of health | 883 | 878 | 875 | 873 | 862 | 719 | 890 | 842 | 800 | 784 |
| Public library | 430 | 432 | 430 | 399 | 399 | 394 | 391 | 389 | 389 | 437 |
| Recreation and parks | 404 | 400 | 399 | 389 | 368 | 385 | 310 | 327 | 310 | 311 |
| Highways and streets | 1,514 | 1,499 | 1,458 | 1,382 | 1,352 | 1,331 | 1,428 | 1,024 | 1,079 | 1,074 |
| Public work | | | | | | | | | | |
| Water | 893 | 878 | 875 | 850 | 893 | 857 | 717 | 899 | 810 | 846 |
| Wastewater | 1,014 | 1,011 | 1,012 | 991 | 985 | 1,096 | 797 | 694 | 761 | 750 |
| Solid waste | 876 | 875 | 856 | 889 | 853 | 705 | 802 | 995 | 880 | 866 |
| Other | 627 | 621 | 625 | 579 | 537 | 682 | 504 | 487 | 423 | 438 |
| Public service | 68 | 68 | 67 | 62 | 70 | 260 | 65 | 73 | 65 | 65 |
| Economic development | 598 | 564 | 563 | 554 | 560 | 461 | 559 | 426 | 382 | 383 |
| | 15,542 | 15,438 | 15,343 | 15,124 | 14,764 | 14,558 | 14,006 | 13,444 | 13,275 | 13,539 |

Source: Baltimore City Bureau of Budget and Management Research

CITY OF BALTIMORE
Operating Indicators By Function/Program
Last Ten Fiscal Years

| Function/Program | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <i>Police</i> | | | | | | | | | | |
| Arrests* | 72,106 | 62,341 | 56,606 | 53,169 | 45,275 | 44,110 | 33,462 | 25,339 | 24,453 | 25,841 |
| <i>Fire</i> | | | | | | | | | | |
| Fire Suppression Units Dispatched | 136,003 | 135,421 | 121,483 | 129,977 | 137,667 | 140,718 | 143,889 | 147,249 | 163,872 | 163,959 |
| Structural Fires | 2,100 | 2,154 | 2,460 | 2,682 | 2,401 | 1,839 | 2,541 | 2,377 | 2,760 | 2,841 |
| EMS Transports | 86,128 | 86,985 | 86,901 | 90,615 | 94,883 | 92,225 | 92,094 | 97,502 | 100,894 | 100,009 |
| Inspections | 25,654 | 24,156 | N/A | N/A | N/A | N/A | N/A | 24,339 | 16,505 | 29,296 |
| <i>Solid Waste</i> | | | | | | | | | | |
| Refuse Collected (tons) | 181,397 | 148,077 | 145,345 | 144,926 | 142,543 | 149,137 | 155,624 | 149,582 | 153,793 | 159,204 |
| Recyclables Collected (tons) | 15,914 | 25,836 | 25,557 | 24,929 | 26,468 | 25,248 | 28,979 | 28,253 | 29,512 | 29,632 |
| <i>Water/Wastewater</i> | | | | | | | | | | |
| Number of Accounts | 440,215 | 441,209 | 445,335 | 446,142 | 450,427 | 454,008 | 426,642 | 407,000 | 420,681 | 427,040 |
| Average Daily Water Production (MGD) | 226 | 218 | 218 | 218 | 218 | 220 | 223 | 193 | 190 | 183 |
| Average Daily Sewage Treatment (MGD) | 192 | 192 | 208 | 208 | 208 | 208 | 199 | 205 | 180 | 176 |
| <i>Transportation (DOT)</i> | | | | | | | | | | |
| Miles Streets Resurfaced/Reconstructed | 188.1 | 152.0 | 185.0 | 189.0 | 98.0 | 101.0 | 122.0 | 122 | 61 | 109 |
| Potholes Repaired | 120,135 | 127,727 | 105,731 | 81,191 | 74,487 | 126,432 | 126,771 | 122,985 | 12,466 | 93,270 |
| Traffic Citations Issued** | 3,186 | 1,341 | 63 | 63 | 63 | 118 | 88 | 140 | 83 | 6 |
| Parking Citations Issued | 389,642 | 379,633 | 388,338 | 355,344 | 331,067 | 341,384 | 380,239 | 405,721 | 256,551 | 310,655 |
| Traffic Signals Repaired | 5,124 | 6,901 | 5,538 | 4,751 | 4,312 | 4,645 | 4,450 | 4,328 | 4,771 | 5,582 |
| Street Lights Repaired | 22,008 | 25,415 | 29,012 | 29,633 | 28,096 | 25,091 | 24,254 | 21,311 | 20,139 | 22,558 |
| <i>Housing</i> | | | | | | | | | | |
| Number of inspections (housing and code enforcement) | 198,742 | 206,467 | 363,720 | 267,508 | 270,607 | 254,871 | 254,646 | 196,698 | 224,727 | 261,588 |
| Number of permits issued | 33,068 | 36,630 | 27,600 | 25,307 | 24,537 | 28,351 | 27,060 | 30,183 | 40,718 | 39,964 |
| Property Management Service Requests Completed*** | 82,311 | 28,971 | 31,987 | 41,995 | 60,585 | 78,824 | 78,824 | 44,452 | 39,645 | 82,546 |
| <i>Recreation and Parks</i> | | | | | | | | | | |
| Enrollment at Recreation Centers | 139,632 | 135,547 | 154,528 | 169,608 | 146,598 | 138,103 | 144,077 | 158,483 | 148,300 | 162,230 |
| Permits Issued for Park Facilities | 789 | 653 | 741 | 1,518 | 1,581 | 1,616 | 1,894 | 1,935 | 1,711 | 1,929 |
| <i>Library</i> | | | | | | | | | | |
| Volumes in Collection (millions) | 2.5 | 2.6 | 2.6 | 2.0 | 2.4 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 |
| Volumes Borrowed (millions) | 1.5 | 1.5 | 1.7 | 1.7 | 1.7 | 1.3 | 1.3 | 1.2 | 1.1 | 1.3 |

N/A Data not available.

* Yearly arrests are based on calendar year data, not fiscal year.

** This figure includes only DOT officer-written citations and does not include automatic camera citations.

*** Property Management represents primarily cleaning and boarding of vacant properties.

Source: Baltimore City Department of Finance

CITY OF BALTIMORE
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

| Function/Program | Fiscal Year | | | | | | | | | |
|---|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| <i>Police/Sheriff</i> | | | | | | | | | | |
| Buildings | 10 | 10 | 13 | 12 | 16 | 16 | 16 | 16 | 16 | 16 |
| Marked Patrol Units | 471 | 487 | 479 | 373 | 403 | 463 | 576 | 480 | 620 | 680 |
| Other vehicles | 645 | 633 | 616 | 602 | 448 | 311 | 309 | 510 | 538 | 594 |
| <i>Fire Stations</i> | | | | | | | | | | |
| Buildings | 39 | 39 | 39 | 41 | 61 | 62 | 62 | 62 | 62 | 62 |
| Fire/EMS Apparatus (Tankers/Ladders/Medics) (Fleet) | 160 | 160 | 137 | 122 | 154 | 142 | 138 | 155 | 146 | 115 |
| Other vehicles | 164 | 164 | 176 | 235 | 142 | 217 | 228 | 224 | 218 | 241 |
| <i>Recreation and Parks</i> | | | | | | | | | | |
| Buildings | 148 | 148 | 148 | 148 | 210 | 210 | 210 | 210 | 210 | 210 |
| Acreage | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 5,827 | 4,874 | 4,874 | 4,874 |
| Vehicles | 119 | 123 | 120 | 119 | 120 | 121 | 120 | 121 | 142 | 129 |
| Equipment | 286 | 296 | 183 | 157 | 157 | 158 | 151 | 145 | 137 | 104 |
| <i>Public Works (Transportation, Solid Waste, and General Services)</i> | | | | | | | | | | |
| Buildings | 30 | 30 | 30 | 82 | 119 | 119 | 119 | 119 | 119 | 121 |
| Vehicles | 968 | 952 | 984 | 967 | 942 | 1,017 | 987 | 981 | 1,055 | 943 |
| Equipment | 503 | 515 | 595 | 545 | 552 | 538 | 537 | 534 | 570 | 372 |
| Streets (miles) | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 4,800 |
| <i>Water/Wastewater/Stormwater</i> | | | | | | | | | | |
| Treatment plants | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Other Buildings | 31 | 31 | 31 | 95 | 221 | 221 | 221 | 221 | 221 | 221 |
| Vehicles | 608 | 599 | 632 | 608 | 631 | 641 | 636 | 594 | 481 | 688 |
| Equipment | 418 | 429 | 495 | 487 | 489 | 482 | 481 | 466 | 605 | 259 |
| Water Mains (Miles) | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 | 3,669 | 3,692 | 3,748 | 3,748 |
| Water Treatment capacity (MGD) | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 | 360 |
| Sanitary sewers (miles) | 1,335 | 1,335 | 1,335 | 1,335 | 1,335 | 1,335 | 1,361 | 1,380 | 1,398 | 1,398 |
| Stormsewers (miles) | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 | 1,108 | 1,108 | 1,180 | 1,180 |
| Wastewater Treatment capacity (MGD) | 253 | 253 | 253 | 253 | 253 | 253 | 253 | 253 | 253 | 253 |
| <i>Libraries</i> | | | | | | | | | | |
| Buildings | 34 | 34 | 22 | 30 | 30 | 29 | 24 | 24 | 24 | 24 |
| Vehicles | 16 | 16 | 20 | 18 | 16 | 17 | 17 | 16 | 14 | 17 |
| <i>Other-General Government</i> | | | | | | | | | | |
| Buildings | 1,353 | 1,353 | 4,250 | 4,250 | 132* | 132* | 132* | 132 | 132 | 132* |
| Vehicles | 1,017 | 1,141 | 753 | 907 | 869 | 514 | 175 | 532 | 1,643 | 316 |
| Equipment | 64 | 61 | 249 | 151 | 101 | 72 | 14 | 76 | 191 | 49 |

* The total number of buildings excludes residential properties under the ownership of the Mayor and City Council.

N/A Data not available

Source: Baltimore City Department of Finance

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OFFICIAL NOTICE OF SALE

\$64,855,000*

MAYOR AND CITY COUNCIL OF BALTIMORE

(City of Baltimore, Maryland)

General Obligation Bonds

Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt)

NOTICE IS HEREBY GIVEN that electronic bids will be received on the date and up to the time specified below:

SALE DATE: Tuesday, May 7, 2019

SALE TIME: From 11:00 a.m. to 11:15 a.m. Local Baltimore, Maryland Time

ELECTRONIC BIDS: Must be submitted through PFM Financial Advisors, LLC's PFMAuction website as described below. **No other form of bid or provider of electronic bidding services will be accepted.**

Notice is hereby given that electronic bids only for the purchase of all, but not less than all, of the Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt) (the "Bonds") issued by the City of Baltimore, Maryland (the "City") will be received by the Board of Finance (the "Board of Finance") of the City. The Bonds are more particularly described in the Preliminary Official Statement dated May 1, 2019 relating to the Bonds (the "POS") available for viewing in electronic format on the PFMAuction website. The PFMAuction website address is www.PFMAuction.com. All bidders must review the POS and certify that they have done so prior to participating in the bidding.

All bids must be submitted in their entirety on PFM Financial Advisors LLC's ("PFM") PFMAuction website ("PFMAuction") prior to 11:15 a.m., Local Baltimore, Maryland time on May 7, 2019, unless otherwise extended by the two-minute rule described herein (see "Bidding Details"). The auction will begin at 11:00 a.m., Local Baltimore, Maryland time on May 7, 2019.

To bid via the PFMAuction website, bidders must (1) have completed the registration form on either the PFMAuction website or Grant Street Group website (parent of MuniAuction, herein referred to as "MuniAuction"), (2) have requested and received admission to the City's auction, as described under "Registration and Admission to Bid" below, and (3) have an established industry reputation for underwriting new issuances of municipal bonds. The use of PFMAuction shall be at the bidder's risk and expense, and the City shall have no liability with respect thereto.

Consideration of the bids and the award will be made by the City on the Sale Date as set forth herein. The City also reserves the right to make certain adjustments to the aggregate principal amount and the principal amounts of each maturity of the Bonds being offered, to eliminate maturities, to change the terms of the Bonds, to postpone the sale of the Bonds to a later date, or to cancel the sale of the Bonds as further described herein. See "Adjustment of Amounts and Maturities" and "Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Revised Terms."

*Preliminary, subject to change.

Contact Information

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Phone: (410) 659-4400
Email: acason@mcguirewoods.com
cguth@mcguirewoods.com

Bidding Parameters Table*

| INTEREST | | PRICING | |
|-------------------------------------|--|--|--|
| Dated Date: | Date of Delivery | Max. Aggregate Bid Price: | Unlimited |
| Anticipated Date of Delivery: | May 21, 2019 | Min. Aggregate Bid Price: | 100% |
| Interest Payment Dates: | October 15 and April 15 | | |
| First Interest Payment Date: | October 15, 2019 | Max. Reoffering Price (each maturity): | Unlimited |
| Coupon Multiples: | 1/8, 1/20 or 1/100 of 1% | Min. Reoffering Price (each maturity): | 98.5% |
| Maximum Coupon: | N/A | | |
| Minimum Coupon: | N/A | | |
| Maximum TIC: | N/A | | |
| Maximum Difference Between Coupons: | 4% | | |
| No Zero Coupon may be specified | | | |
| PRINCIPAL | | PROCEDURAL | |
| Optional Redemption: | Bonds maturing on and after October 15, 2030 are callable on October 15, 2029 and thereafter at par | Sale Date: | May 7, 2019 |
| | | Sale Time: | 11:00 a.m. – 11:15 a.m., Local Baltimore, Maryland Time |
| Post-bid Principal Increases | | Bid Submission: | Electronic bids through PFMauktion.com only |
| Each Maturity: | Unlimited | | |
| Aggregate: | 15% | | |
| Post-bid Principal Reductions | | Special Considerations: | Two Minute Rule (See “Bidding Details #2 herein) |
| Each Maturity: | Unlimited | | |
| Aggregate: | 15% | | |
| Term Bonds: | Two or more consecutive annual principal maturities may be designated as a term bond that matures on the maturity date of the last annual principal payment of the sequence. | All or None? | Yes |
| | | Bid Award Method: | Lowest True Interest Cost (as defined herein) |
| | | Bid Confirmation: | Notification from the City |
| | | Awarding of Bid: | On the Sale Date by the City |
| | | Good Faith Deposit: | \$648,550, as more fully described herein. See “Good Faith Deposit.” |

* If numerical or date references contained in the body of this Official Notice of Sale conflict with the Bidding Parameters Table, the Bidding Parameters Table of this Official Notice of Sale shall control. Consult the body of this Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

Bond Amortization Schedule*

The Bonds will be issued in serial or term bond form as designated by the successful bidder for the Bonds in its proposal, as described below. The principal of the Bonds shall be payable in installments on the dates in the following years and in the following amounts:

\$64,855,000* Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt)

| Maturity Date* | Amount | Maturity Date* | Amount |
|---------------------------|-------------------------|---------------------------|-------------------------|
| <u>(Oct. 15)</u> | <u>Maturing*</u> | <u>(Oct. 15)</u> | <u>Maturing*</u> |
| 2020 | \$2,000,000 | 2030 | \$3,280,000 |
| 2021 | 2,100,000 | 2031 | 3,415,000 |
| 2022 | 2,210,000 | 2032 | 3,555,000 |
| 2023 | 2,325,000 | 2033 | 3,700,000 |
| 2024 | 2,445,000 | 2034 | 3,850,000 |
| 2025 | 2,570,000 | 2035 | 4,010,000 |
| 2026 | 2,700,000 | 2036 | 4,170,000 |
| 2027 | 2,840,000 | 2037 | 4,340,000 |
| 2028 | 2,985,000 | 2038 | 4,520,000 |
| 2029 | 3,135,000 | 2039 | 4,705,000 |

*Preliminary, subject to change.

THE BONDS

Security

The Bonds shall constitute general obligations of the City, for which the full faith and credit of the City are pledged. The Bonds are payable as to principal and interest from ad valorem taxes which the City is empowered, obligated and directed by law to levy, without limitation, upon all assessable property within the corporate boundaries of the City, in each year in rate and amount sufficient for such purpose until all of the Bonds and the interest thereon shall have been paid or provision shall have been made for such payment.

Use of Proceeds

The proceeds of the Bonds will be used to fund certain capital projects of the City, as described in the Preliminary Official Statement, as approved by voters of the City and by either resolutions of the City Delegation to the General Assembly or the Acts of the General Assembly.

Description of the Bonds

General. The Bonds will be dated as of the Date of Delivery (“Dated Date”), expected to be on or about May 21, 2019, and will be in fully registered form in denominations of \$5,000 each or any integral multiple thereof.

Interest on the Bonds will accrue from the Dated Date, and will be payable October 15, 2019 and semiannually thereafter on each April 15 and October 15 until maturity or earlier redemption. The Bonds will mature on October 15 of each year as specified in the Bond Amortization Schedule above, subject to adjustment as described herein.

Term Bond Option. Bidders may designate in their proposal two or more consecutive annual principal maturities as a term bond that matures on the maturity date of the last annual principal payment of the sequence. Any term bond so designated shall be subject to mandatory sinking fund redemption in each year on the principal payment date and in the entire principal amount for each annual principal maturity designated for inclusion in such term bond. There is no limitation on the number of term bonds in the Bonds.

Form of Bonds. The Bonds shall be issued only in fully registered form without coupons. One bond representing each maturity of the Bonds in principal amount equal to the aggregate principal amount of such maturity will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), as registered owner of the Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the

Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the bonds purchased. The winning bidder, as a condition to delivery of the Bonds, must consent that the bond certificates representing each maturity will be deposited with DTC.

So long as the Bonds are maintained under a book-entry only system, the Bond Registrar and Paying Agent for the Bonds will be the City or any other Bond Registrar and Paying Agent designated by the City. All payments of the principal of and interest on the Bonds shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Optional Redemption

The Bonds maturing on or before October 15, 2029 are not subject to optional redemption prior to their fixed maturity dates. The Bonds maturing on or after October 15, 2030, are subject to redemption prior to maturity, at the option of the City, at any time on or after October 15, 2029, in whole or in part, at the principal amount thereof (without premium), plus accrued interest on such principal amount to the date of redemption.

ADJUSTMENT OF AMOUNTS AND MATURITIES

Prior to the Sale Date, the City may adjust the preliminary aggregate principal amount of the Bonds and the preliminary principal amount and maturity of each serial installment of the Bonds as set forth in this Official Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Principal Amount", and collectively the "Preliminary Amounts"). **ANY SUCH REVISIONS MADE PRIOR TO THE OPENING OF THE BIDS** (the "Aggregate Principal Amount" and the "Principal Amount", and collectively the "Amounts") **WILL BE PUBLISHED ON PFMAUCTION NOT LATER THAN 4:00 P.M., LOCAL BALTIMORE, MARYLAND TIME, ON THE BUSINESS DAY IMMEDIATELY PRIOR TO THE SALE DATE FOR THE BONDS.**

In the event that no such revisions are made prior to the opening of the bids, the Preliminary Amounts will constitute the Amounts. Bidders shall submit bids based on the Amounts, and the Amounts will be used to compare bids and select a winning bidder.

After the opening of the bids, the City may further adjust the Amounts of the Bonds. Changes to be made will be communicated to the successful bidder not later than three (3) hours after the bids have been received and opened and in no case will such changes reduce or increase the Aggregate Principal Amount of the Bonds by more than 15 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the Aggregate Principal Amount of the Bonds, but the interest rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes within these limits.

THE "UNDERWRITER'S DISCOUNT" SHALL BE DEFINED AS THE DIFFERENCE BETWEEN THE PURCHASE PRICE OF THE BONDS SUBMITTED BY THE BIDDER AND THE PRICE AT WHICH THE BONDS WILL BE ISSUED TO THE PUBLIC, CALCULATED FROM INFORMATION PROVIDED BY THE BIDDER, DIVIDED BY THE PAR AMOUNT OF THE BONDS BID. THE DOLLAR AMOUNT BID BY THE SUCCESSFUL BIDDER WILL BE ADJUSTED TO REFLECT ANY ADJUSTMENTS IN THE AGGREGATE PRINCIPAL AMOUNT AND PRINCIPAL AMOUNTS OF THE BONDS. SUCH ADJUSTED BID PRICE WILL REFLECT CHANGES IN THE DOLLAR AMOUNT OF THE UNDERWRITER'S DISCOUNT AND ORIGINAL ISSUE DISCOUNT/PREMIUM, IF ANY, BUT WILL NOT CHANGE THE UNDERWRITER'S DISCOUNT, PER \$1,000 OF PAR AMOUNT OF THE BONDS FROM THE UNDERWRITER'S DISCOUNT THAT WOULD HAVE BEEN RECEIVED BASED ON THE PURCHASE PRICE IN THE WINNING BID AND THE INITIAL PUBLIC OFFERING PRICES.

CHANGE OR CANCELLATION OF SALE DATE AND/OR DATE OF DELIVERY AND/OR OTHER TERMS

The City may cancel or postpone the sale of the Bonds prior to the Sale Date. Notice of a cancellation or postponement will be announced on PFMAuction. Notice of any new date and time of sale will be announced at least 24 hours prior to the time bids are to be submitted and will specify changes in the principal amount or other features, if any.

The City may change the scheduled delivery date, the dates of the semiannual interest payments and annual principal payments, or the optional redemption date or revise any other terms for the Bonds by notice given in the same manner as that set forth above.

PRELIMINARY OFFICIAL STATEMENT; CONTINUING DISCLOSURE

THE CITY HAS DEEMED THE PRELIMINARY OFFICIAL STATEMENT TO BE FINAL AS OF ITS DATE FOR PURPOSES OF RULE 15C2-12 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (“RULE 15C2-12”), EXCEPT FOR THE OMISSION OF CERTAIN INFORMATION PERMITTED TO BE OMITTED BY SAID RULE. AS SOON AS PRACTICABLE AFTER THE SALE DATE, THE CITY WILL PUBLISH A COMPLETE FINAL OFFICIAL STATEMENT (THE “OFFICIAL STATEMENT”) THAT WILL CONTAIN THIS INFORMATION. THE CITY AGREES TO DELIVER TO THE SUCCESSFUL BIDDER FOR ITS RECEIPT NO LATER THAN SEVEN BUSINESS DAYS AFTER THE SALE DATE SUCH QUANTITIES OF THE OFFICIAL STATEMENT AS THE SUCCESSFUL BIDDER SHALL REQUEST, PROVIDED, THAT THE CITY SHALL DELIVER UP TO 25 COPIES OF SUCH OFFICIAL STATEMENT WITHOUT CHARGE TO THE SUCCESSFUL BIDDER.

THE CITY HAS MADE CERTAIN COVENANTS FOR THE BENEFIT OF THE HOLDERS FROM TIME TO TIME OF THE BONDS TO PROVIDE CERTAIN CONTINUING DISCLOSURE, IN ORDER TO ASSIST BIDDERS FOR THE BONDS IN COMPLYING WITH RULE 15C2-12(B)(5). SUCH COVENANTS ARE DESCRIBED IN THE PRELIMINARY OFFICIAL STATEMENT.

ELECTRONIC BIDDING

Registration and Admission to Bid

To bid by PFMAuction, bidders must first visit the PFMAuction website where, if they have never registered with either PFMAuction or MuniAuction, they can register and then request admission to bid on the Bonds. Bidders will be notified prior to the scheduled bidding time of their eligibility to bid. Only FINRA registered broker-dealers and dealer banks with DTC clearing arrangements will be eligible to bid. Bidders who have previously registered with MuniAuction may call MuniAuction at (412) 391-5555 for their ID Number or password.

If any provisions of this Official Notice of Sale shall conflict with information provided by MuniAuction as approved provider of electronic bidding services, this Notice of Sale, as it may be amended by the City as described within, shall control.

Bidding Details

Bidders should be aware of the following bidding details associated with the sale of the Bonds:

- 1) All bids must be submitted on the PFMAuction website at www.PFMAuction.com. No telephone, telefax, telegraph or personal delivery bids will be accepted.
- 2) If any bid in the auction becomes a leading bid two (2) minutes prior to the end of the auction, then the auction will be automatically extended by two (2) minutes from the time such bid was received by PFMAuction. The auction end time will continue to be extended, indefinitely, until a single leading bid remains the leading bid for at least two minutes.
- 3) Bidders may change and submit bids as many times as they like during the bidding time period; provided, however, each and any bid submitted subsequent to a bidder’s initial bid must result in a lower true interest cost (“TIC”) with respect to a bid, when compared to the immediately preceding bid of such bidder. In the event that the revised bid does not produce a lower TIC with respect to a bid, the prior bid will remain valid.
- 4) The last bid submitted by a bidder before the end of the bidding time period will be compared to all other final bids submitted by others to determine the winning bidder or bidders.
- 5) During bidding, no bidder will see any other bidder’s bid, but bidders will be able to see the ranking of their bid relative to other bids (i.e., “Leader,” “Cover,” “3rd,” etc.).
- 6) On the Auction Page, bidders will be able to see whether a bid has been submitted.
- 7) During bidding, a bidder will be able to see what issue price methodology is being utilized at the current time (see “Establishment of Issue Price” herein). In the event 2 or less bidders have submitted bids at any point during the auction, the issue price methodology displayed will say “Hold the Price”. Once 3 or more bidders have submitted bids, the issue price methodology will be automatically updated to say “Competitive Sale Exemption”. All bidders,

regardless of position or if they have previously submitted bids, will be able to see this issue price methodology information. See “Notification of Competitive Sale Exemption During Auction” herein for more details.

Rules of PFMAuction

The “Rules” of PFMAuction can be viewed on the PFMAuction website and are incorporated herein by reference. Bidders must comply with the Rules of PFMAuction in addition to the requirements of this Official Notice of Sale. To the extent there is a conflict between the Rules of PFMAuction and this Official Notice of Sale, this Official Notice of Sale shall control.

- 1) A Bidder (“Bidder”) submitting a winning bid (“Winning Bid”) is irrevocably obligated to purchase the Bonds at the rates and prices of the winning bid, if acceptable to the City, as set forth in the Official Notice of Sale. Winning Bids are not officially awarded to Winning Bidders until formally accepted by the City.
- 2) Neither the City, PFM nor MuniAuction (the “Auction Administrator”) is responsible for technical difficulties that result in loss of Bidder’s internet connection with PFMAuction, slowness in transmission of bids, or other technical problems.
- 3) If for any reason Bidder is disconnected from Auction Page during the auction after having submitted a Winning Bid, such bid is valid and binding upon Bidder, unless the City exercises its right to reject bids, as set forth herein.
- 4) Bids which generate error messages are not accepted until the error is corrected and bid is received prior to the deadline.
- 5) Bidders accept and agree to abide by all terms and conditions specified in the Official Notice of Sale (including Amendments, if any) related to each auction.
- 6) Neither the City, PFM nor the Auction Administrator is responsible to any bidder for any defect or inaccuracy in Official Notice of Sale, Amendments, or Preliminary Official Statement as they appear on PFMAuction.
- 7) Only Bidders who request and receive admission to an auction may submit bids. PFM and the Auction Administrator reserve the right to deny access to PFMAuction website to any Bidder, whether registered or not, at any time and for any reason whatsoever, in their sole and absolute discretion.
- 8) Neither the City, PFM or Auction Administrator is responsible for protecting the confidentiality of a Bidder’s PFMAuction password.
- 9) If two bids submitted in the same auction by the same or two or more different Bidders result in same True Interest Cost the first confirmed bid received by PFMAuction prevails. Any change to a submitted bid constitutes a new bid, regardless of whether there is a corresponding change in True Interest.
- 10) Bidders must compare their final bids to those shown on the Observation Pages immediately after the bidding time period ends, and if they disagree with the final results shown on the Observation Pages they must report them to PFMAuction within 15 minutes after the bidding time period ends. Regardless of the final results reported by PFMAuction, bonds are definitively awarded to winning bidders only upon official award by the City. If, for any reason, the City fails to: i) award bonds to the winner reported by PFMAuction, or ii) deliver bonds to winning bidders at settlement, neither the City, PFM or the Auction Administrator will be liable for damages.

Definitions

- “Bid”: any confirmed purchase offer received by PFMAuction on or before the auction deadline.
- “Bidder”: any underwriting firm registered with either PFMAuction or MuniAuction and approved for participation in auctions that has an established industry reputation for underwriting new issuances of municipal bonds
- “Winning Bid”: any purchase offer made by a Bidder by clicking the “Submit Bid” button and received by PFMAuction which, at the end of the bidding time period, results in the lowest True Interest Cost in the auction and which is accepted to the City.

“True Interest Cost”: calculation described in the Notice of Sale related to each auction which serves as basis for awarding bonds to Winning Bidders.

Minority Business Enterprise Participation

THE CITY STRONGLY ENCOURAGES EACH BIDDER FOR THE BONDS TO MAKE A GOOD FAITH EFFORT TO INCLUDE MINORITY BUSINESS ENTERPRISES IN THE SYNDICATE PURCHASING THE BONDS. THE SUCCESSFUL BIDDER WILL BE REQUESTED TO PROVIDE A LIST OF SYNDICATE MEMBERS WHICH IDENTIFIES THE MINORITY BUSINESS ENTERPRISE MEMBERS AND INDICATES THEIR PERCENTAGES OF PARTICIPATION.

Right of Rejection

The City expressly reserves the right (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Bonds or otherwise provide for the public sale of the Bonds if all bids are rejected or the winning bidder defaults, including, without limitation, sale of the Bonds to one or more of the losing or rejected bidders without regard to their original bid or its relationship to any other bid.

PRELIMINARY AWARD

As promptly as reasonably practicable after the bids are received and reviewed, but not later than **12:30 p.m.** local Baltimore, Maryland time on the Sale Date (unless bids have been postponed), the City will notify the apparently successful bidder of the Preliminary Award of the Bonds. The successful bidder shall make a bona fide public offering of all of the Bonds and shall represent to the City that such offering is in compliance with all applicable securities laws of the jurisdictions in which such Bonds are offered. **Within 30 minutes after being notified of the Preliminary Award of the Bonds, the successful bidder shall advise the City in writing (via e-mail transmission) to Kathy Clupper or Trina Smith at clupperk@pfm.com or smithtr@pfm.com, respectively, of such reoffering prices of the Bonds (the “Reoffering Prices”).**

The apparent successful bidder will also be required to wire to the City a Good Faith Deposit as further described herein. Timely notification of the Final Award is subject to the City’s receipt of the Good Faith Deposit.

AWARD OF BID

Award of Bid

The City expects to make its award of the Bonds to the winning bidder on the Sale Date. It is anticipated that all bids will be reviewed by the City at the time stated above and will be acted on following the opening, tabulation and verification of the bids received. The decision by the City as to the award of the Bonds will be final. Bids may not be withdrawn prior to the award.

All bids shall be for cash on delivery and shall be based on an offering to pay not less than 100% of the par value of the Bonds. Each bidder shall indicate in its bid the rate of interest to be paid on the Bonds of each maturity. All bids for Bonds of any maturity must be greater than or equal to 98.5%. Each rate of interest shall be a multiple of 1/8, 1/20 or 1/100 of one percent, but all Bonds of any one maturity must bear interest at the same rate. Any rate named may be repeated. The difference between the maximum and minimum interest rates may not be greater than 4%. A zero rate may not be named.

The Bonds will be awarded by the City on the Sale Date to the bidder whose bid complies with this Official Notice of Sale and results in the lowest true interest cost (“TIC”) to the City. The lowest TIC will be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Date of Delivery of the Bonds and to the aggregate amount bid for the Bonds. If two or more responsible bidders have made bids resulting in the same lowest TIC to the City, the Bonds shall be awarded by lot to one of these bidders.

Good Faith Deposit

A Good Faith Deposit in the amount of \$648,550 is required only of the winning bidder for the Bonds. The winning bidder for the Bonds is required to submit such Good Faith Deposit payable to the order of the City in the form of a wire transfer in federal funds as instructed by the City’s Financial Advisor, PFM Financial Advisors LLC. The winning bidder shall submit the Good Faith Deposit not later than 2:00 p.m. (local Baltimore, Maryland time) on the Sale Date. The winning bidder should provide

as quickly as it is available, evidence of wire transfer by providing the City with the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the City may direct the next lowest bidder to submit a Good Faith Deposit and thereafter may award the sale of the Bonds to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the City the sum of \$648,550 as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

Submission of a bid to purchase the Bonds serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.

The Good Faith Deposit so wired will be retained by the City until the delivery of the Bonds, at which time the Good Faith Deposit will be applied against the purchase price of the Bonds or the Good Faith Deposit will be retained by the City as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Bonds in compliance with the terms of this Official Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the City. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Bonds.

ESTABLISHMENT OF ISSUE PRICE

General

The successful bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an “issue price” or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit A-1 or Exhibit A-2, as applicable, with such modifications as may be appropriate or necessary, in the reasonable judgment of the successful bidder, the City and Bond Counsel. All actions to be taken by the City under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the City by the City’s financial advisor identified herein and any notice or report to be provided to the City may be provided to the City’s financial advisor.

The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the “competitive sale requirements”) because:

- (1) the City shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

By submitting a bid, each bidder (i) confirms that its bid is a firm offer for the purchase of the Bonds identified in this Notice of Sale, on the terms set forth in its bid and this Notice of Sale, except as permitted by this Notice of Sale and (ii) represents that it has an established industry reputation for underwriting new issuances of municipal bonds.

In the event that the competitive sale requirements are not satisfied, the City shall so advise the successful bidder. The City may determine to treat (i) the first price at which 10% of a maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity and/or (ii) the initial offering price to the public as of the sale date of any maturity of the Bonds as the issue price of that maturity (the “hold-the-offering-price rule”), in each case applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP number within that maturity). The successful bidder shall advise the City if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds. The City shall promptly advise the successful bidder, at or before the time of award of the Bonds, which maturities (and if different interest rates apply within a maturity, which separate CUSIP number within that maturity) of the Bonds shall be subject to the 10% test or shall be subject to the hold-the-offering-price rule. Bids will not be subject to cancellation in the event that the City determines to apply the hold-the-offering-price rule to any maturity of the Bonds. Bidders should prepare their bids on the

assumption that some or all of the maturities of the Bonds will be subject to the hold-the-offering-price rule in order to establish the issue price of the Bonds.

By submitting a bid, the successful bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the successful bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The successful bidder shall promptly advise the City when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds, the successful bidder agrees to promptly report to the City the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the closing has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold.

The City acknowledges that, in making the representation set forth above, the successful bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the successful bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (i) “public” means any person other than an underwriter or a related party,

- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “sale date” means the date that the Bonds are awarded by the City to the successful bidder.

Notification of Competitive Sale Exemption During Auction

During the auction process, there will be an indication once bids from at least three bidders have been received, thus fulfilling the minimum bid requirements of the competitive sale requirements. This will be appear in the bidder’s bidding page under the title “Issue Price Methodology:” and will automatically update to “Competitive Sale Exemption” once the minimum bid requirements of the competitive sale requirements have been met. If bids from two or less bidders have been received, the section will display “Hold the Price”. This message will be updated in live time during the auction process, notifying all bidders, regardless of rank or if they have previously submitted a bid, during the auction that the competitive sale exemption has been reached.

This notification is provided by the City under the assumption that the remaining requirements for the competitive sale requirements have been met, including that i) the City has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters, ii) all bidders shall have an equal opportunity to bid; and iii) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

By submitting a bid, the bidder is confirming that it has an established industry reputation for underwriting new issuances of municipal bonds, thereby completing the full requirements of the competitive sale requirements assuming that at least 3 bidders submit bids.

DELIVERY AND PAYMENT

Delivery of the Bonds will be made by the City to DTC in book-entry only form, in New York, New York on or about the anticipated Date of Delivery, or on or about such other date as may be agreed on by the City and the successful bidder.

At the time of delivery of the Bonds, payment of the amount due for the Bonds must be made by the successful bidder to the order of the City in immediately available federal funds or other funds immediately available to the City, or by such other means as may be acceptable to the City. Any expense incurred in providing immediately available funds, whether by transfer of federal funds or otherwise, shall be borne by the successful bidder.

CUSIP Numbers; Expenses of the Bidder

It is anticipated that CUSIP numbers will be assigned to each of the Bonds, but neither the failure to type or print such numbers on any of the Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Bonds. The Financial Advisor will be responsible for applying for and obtaining, subject to the CUSIP Service Bureau policy and procedures, CUSIP numbers for the Bonds. The successful bidder will be obligated to pay the fee of the CUSIP Service Bureau for assigning the CUSIP numbers to the Bonds. All expenses of typing or printing CUSIP numbers on the Bonds will be paid for by the City.

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the Bonds.

TAX STATUS, LEGAL OPINIONS, CLOSING DOCUMENTS AND NO LITIGATION

The approving legal opinion of McGuireWoods LLP, Baltimore, Maryland, Bond Counsel, will be furnished without cost to purchaser of the Bonds. A summary description of the tax treatment of the Bonds is contained in the Preliminary Official Statement under the heading "Tax Matters." The proposed form of legal opinion of bond counsel with respect to the Bonds is included in Appendix D to the Preliminary Official Statement.

Delivery of the Bonds will be accompanied by the customary closing documents, including a no-litigation certificate effective as of the date of delivery of the Bonds stating that there is no litigation pending affecting the validity of the Bonds. Simultaneous with or before delivery and payment of the Bonds, the purchaser shall be furnished a certificate or certificates of the appropriate City officials to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Prices provided by the purchaser and information regarding DTC and DTC's book-entry system, as to which no view will be expressed) as of the date of sale and as of the date of delivery of the Bonds, did not and does not contain any untrue statement of a material fact and did not and does not omit to state a material fact necessary to make the statements therein, in light of circumstances under which they were made, not misleading, and that between the date of sale and the date of delivery of the Bonds, there has been no material adverse change in the financial position or revenues of the City, except as may have been disclosed in or contemplated by the Official Statement.

ADDITIONAL INFORMATION

This Official Notice of Sale is not a summary of the terms of the Bonds. Reference is made to the Preliminary Official Statement for a further description of the Bonds and the City. Prospective investors or bidders for the Bonds must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The Preliminary Official Statement is deemed final by the City as of its date for purposes of the Rule but is subject to revision, amendment and completion in a final Official Statement. Additional information concerning the matters discussed in this Official Notice of Sale and copies of the Preliminary Official Statement may be obtained online or by request from Jennell A. Rogers, the City's Chief, at (410) 396-4750 or from Kathy Clupper or Trina Smith at, respectively, clupperk@pfm.com or (215) 557-1481, or smithtr@pfm.com or (215) 557-1430.

Bernard C. "Jack" Young
ex officio Mayor

Henry J. Raymond
Director of Finance

Jennell A. Rogers
Chief, Bureau of Treasury Management

\$64,855,000*
Mayor and City Council of Baltimore
(City of Baltimore, Maryland)
General Obligation Bonds
Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt)

ISSUE PRICE CERTIFICATE
(Qualified Competitive Bid)

The undersigned, on behalf of [NAME OF PURCHASER] (the “Purchaser”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

1. ***Reasonably Expected Initial Offering Price.***

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Purchaser are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by the Purchaser to purchase the Bonds.

(b) The Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Purchaser constituted a firm offer to purchase the Bonds.

2. ***Defined Terms.***

(a) *Issuer* means Mayor and City Council of Baltimore.

(b) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this Certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is May 7, 2019.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

*Preliminary, subject to change.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McGuireWoods LLP, as bond counsel to the Issuer, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

[NAME OF PURCHASER], as Purchaser

By: _____

Title: _____

Dated: _____, 2019

SCHEDULE A
Expected Offering Prices of the Bonds

SCHEDULE B
Copy of Bid

\$64,855,000*
Mayor and City Council of Baltimore
(City of Baltimore, Maryland)
General Obligation Bonds
Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt)

ISSUE PRICE CERTIFICATE
(Nonqualified Competitive Bid)

The undersigned, on behalf of [NAME OF PURCHASER] (the “Purchaser”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

1. ***Sale of the 10% Maturities.*** As of the date of this Certificate, for each Maturity of the 10% Maturities Bonds, the first price at which a Substantial Amount of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

2. ***Initial Offering Price of the Undersold Maturities.***

(a) Each Underwriter offered the Undersold Maturities to the Public for purchase at the respective initial offering prices listed in Schedule B (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this Certificate as Schedule C.

(b) As set forth in the Notice of Sale and bid award, each Underwriter has agreed in writing that, (i) for each Maturity of the Undersold Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Offering Period for such Maturity, nor would it permit a related party to do so (the “hold-the-price rule”) and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-price rule. Pursuant to such agreement, no Underwriter has offered nor sold any Maturity of the Undersold Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Offering Period.

3. ***Defined Terms.***

(a) ***10% Maturities*** means those Maturities of the Bonds shown in Schedule A hereto as the “10% Maturities.”

(b) ***Issuer*** means Mayor and City Council of Baltimore.

(c) ***Maturity*** means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(d) ***Offering Period*** means, with respect to an Undersold Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date ([_____, 2019]), or (ii) the date on which the Purchaser has sold a Substantial Amount of such Undersold Maturity to the Public at a price that is no higher than the Initial Offering Price for such Undersold Maturity.

*Preliminary, subject to change.

(e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this Certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(f) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is May __, 2019.

(g) *Substantial Amount* means ten percent (10%).

(h) *Undersold Maturities* means those Maturities of the Bonds shown in Schedule B hereto as the “Undersold Maturities.”

(i) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McGuireWoods LLP, as bond counsel to the Issuer, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the Issuer from time to time relating to the Bonds.

[NAME OF PURCHASER], as
Purchaser
By: _____
Title: _____

Dated: _____, 2019

SCHEDULE A
Sale Prices of the 10% Maturities

SCHEDULE B
Initial Offering Prices of the Undersold Maturities

SCHEDULE C
Pricing Wire

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OFFICIAL NOTICE OF SALE

\$20,145,000*
MAYOR AND CITY COUNCIL OF BALTIMORE
(City of Baltimore, Maryland)
General Obligation Bonds
Consolidated Public Improvement Bonds, Series 2019B (Taxable)

NOTICE IS HEREBY GIVEN that electronic bids will be received on the date and up to the time specified below:

SALE DATE: **Tuesday, May 7, 2019**

SALE TIME: **From 11:30 a.m. to 11:45 a.m. Local Baltimore, Maryland Time**

ELECTRONIC BIDS: Must be submitted through PFM Financial Advisors, LLC's PFMAuction website as described below. **No other form of bid or provider of electronic bidding services will be accepted.**

Notice is hereby given that electronic bids only for the purchase of all, but not less than all, of the Consolidated Public Improvement Bonds, Series 2019B (Taxable) (the "Bonds") issued by the City of Baltimore, Maryland (the "City") will be received by the Board of Finance (the "Board of Finance") of the City. The Bonds are more particularly described in the Preliminary Official Statement dated May 1, 2019 relating to the Bonds (the "POS") available for viewing in electronic format on the PFMAuction website. The PFMAuction website address is www.PFMAuction.com. All bidders must review the POS and certify that they have done so prior to participating in the bidding.

All bids must be submitted in their entirety on PFM Financial Advisors LLC's ("PFM") PFMAuction website ("PFMAuction") prior to 11:45 a.m., Local Baltimore, Maryland time on May 7, 2019, unless otherwise extended by the two-minute rule described herein (see "Bidding Details"). The auction will begin at 11:30 a.m., Local Baltimore, Maryland time on **May 7, 2019**.

To bid via the PFMAuction website, bidders must (1) have completed the registration form on either the PFMAuction website or Grant Street Group website (parent of MuniAuction, herein referred to as "MuniAuction"), (2) have requested and received admission to the City's auction, as described under "Registration and Admission to Bid" below, and (3) have an established industry reputation for underwriting new issuances of municipal bonds. The use of PFMAuction shall be at the bidder's risk and expense, and the City shall have no liability with respect thereto.

Consideration of the bids and the award will be made by the City on the Sale Date as set forth herein. The City also reserves the right to make certain adjustments to the aggregate principal amount and the principal amounts of each maturity of the Bonds being offered, to eliminate maturities, to change the terms of the Bonds, to postpone the sale of the Bonds to a later date, or to cancel the sale of the Bonds as further described herein. See "Adjustment of Amounts and Maturities" and "Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Revised Terms."

*Preliminary, subject to change.

Contact Information

CITY OF BALTIMORE (ISSUER)

Jennell A. Rogers, *Chief*

City of Baltimore

200 Holliday Street, Room 7

Baltimore, MD 21201

Phone: (410) 396-3386

Email: jennell.rogers@baltimorecity.gov

PFM FINANCIAL ADVISORS LLC (FINANCIAL ADVISOR)

Kathy Clupper, *Managing Director*

Trina Smith, *Senior Managing Consultant*

1735 Market Street, 43rd Floor

Philadelphia, PA 19103

Phone: (215) 557-1430

Email: smithtr@pfm.com

clupperk@pfm.com

MCGUIREWOODS LLP (BOND COUNSEL)

Alan C. Cason, *Partner*

Cheryl O'Donnell Guth, *Counsel*

500 East Pratt Street, Suite 1000

Baltimore, MD 21202

Phone: (410) 659-4400

Email: acason@mcguirewoods.com

cguth@mcguirewoods.com

Bidding Parameters Table*

| INTEREST | | PRICING | |
|-------------------------------------|--|--|--|
| Dated Date: | Date of Delivery | Max. Aggregate Bid Price: | Unlimited |
| Anticipated Date of Delivery: | May 21, 2019 | Min. Aggregate Bid Price: | 100% |
| Interest Payment Dates: | October 15 and April 15 | | |
| First Interest Payment Date: | October 15, 2019 | Max. Reoffering Price (each maturity): | Unlimited |
| Coupon Multiples: | 1/8, 1/20 or 1/100 of 1% | Min. Reoffering Price (each maturity): | 98.5% |
| Maximum Coupon: | N/A | | |
| Minimum Coupon: | N/A | | |
| Maximum TIC: | N/A | | |
| Maximum Difference Between Coupons: | 4% | | |
| No Zero Coupon may be specified | | | |
| PRINCIPAL | | PROCEDURAL | |
| Optional Redemption: | Bonds maturing on and after October 15, 2030 are callable on October 15, 2029 and thereafter at par | Sale Date: | May 7, 2019 |
| | | Sale Time: | 11:30 a.m. – 11:45 a.m., Local Baltimore, Maryland Time |
| Post-bid Principal Increases | | Bid Submission: | Electronic bids through PFMAuction.com only |
| Each Maturity: | Unlimited | | |
| Aggregate: | 15% | | |
| Post-bid Principal Reductions | | Special Considerations: | Two Minute Rule (See “Bidding Details #2 herein) |
| Each Maturity: | Unlimited | | |
| Aggregate: | 15% | | |
| Term Bonds: | Two or more consecutive annual principal maturities may be designated as a term bond that matures on the maturity date of the last annual principal payment of the sequence. | All or None? | Yes |
| | | Bid Award Method: | Lowest True Interest Cost (as defined herein) |
| | | Bid Confirmation: | Notification from the City |
| | | Awarding of Bid: | On the Sale Date by the City |
| | | Good Faith Deposit: | \$201,450, as more fully described herein. See “Good Faith Deposit.” |

* If numerical or date references contained in the body of this Official Notice of Sale conflict with the Bidding Parameters Table, the Bidding Parameters Table of this Official Notice of Sale shall control. Consult the body of this Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

Bond Amortization Schedule*

The Bonds will be issued in serial or term bond form as designated by the successful bidder for the Bonds in its proposal, as described below. The principal of the Bonds shall be payable in installments on the dates in the following years and in the following amounts:

\$20,145,000* Consolidated Public Improvement Bonds, Series 2019B (Taxable)

| Maturity Date* | Amount | Maturity Date* | Amount |
|-------------------------|-------------------------|-------------------------|-------------------------|
| <u>(Oct. 15)</u> | <u>Maturing*</u> | <u>(Oct. 15)</u> | <u>Maturing*</u> |
| 2020 | \$735,000 | 2030 | \$ 990,000 |
| 2021 | 755,000 | 2031 | 1,030,000 |
| 2022 | 775,000 | 2032 | 1,065,000 |
| 2023 | 795,000 | 2033 | 1,105,000 |
| 2024 | 820,000 | 2034 | 1,145,000 |
| 2025 | 845,000 | 2035 | 1,190,000 |
| 2026 | 870,000 | 2036 | 1,235,000 |
| 2027 | 895,000 | 2037 | 1,285,000 |
| 2028 | 925,000 | 2038 | 1,335,000 |
| 2029 | 960,000 | 2039 | 1,390,000 |

*Preliminary, subject to change.

THE BONDS

Security

The Bonds shall constitute general obligations of the City, for which the full faith and credit of the City are pledged. The Bonds are payable as to principal and interest from ad valorem taxes which the City is empowered, obligated and directed by law to levy, without limitation, upon all assessable property within the corporate boundaries of the City, in each year in rate and amount sufficient for such purpose until all of the Bonds and the interest thereon shall have been paid or provision shall have been made for such payment.

Use of Proceeds

The proceeds of the Bonds will be used to fund certain capital projects of the City, as described in the Preliminary Official Statement, as approved by voters of the City and by either resolutions of the City Delegation to the General Assembly or the Acts of the General Assembly.

Description of the Bonds

General. The Bonds will be dated as of the Date of Delivery (“Dated Date”), expected to be on or about May 21, 2019, and will be in fully registered form in denominations of \$5,000 each or any integral multiple thereof.

Interest on the Bonds will accrue from the Dated Date, and will be payable October 15, 2019 and semiannually thereafter on each April 15 and October 15 until maturity or earlier redemption. The Bonds will mature on October 15 of each year as specified in the Bond Amortization Schedule above, subject to adjustment as described herein.

Term Bond Option. Bidders may designate in their proposal two or more consecutive annual principal maturities as a term bond that matures on the maturity date of the last annual principal payment of the sequence. Any term bond so designated shall be subject to mandatory sinking fund redemption in each year on the principal payment date and in the entire principal amount for each annual principal maturity designated for inclusion in such term bond. There is no limitation on the number of term bonds in the Bonds.

Form of Bonds. The Bonds shall be issued only in fully registered form without coupons. One bond representing each maturity of the Bonds in principal amount equal to the aggregate principal amount of such maturity will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), as registered owner of the Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the bonds purchased. The winning bidder, as a condition to delivery of the Bonds, must consent that the bond certificates representing each maturity will be deposited with DTC.

So long as the Bonds are maintained under a book-entry only system, the Bond Registrar and Paying Agent for the Bonds will be the City or any other Bond Registrar and Paying Agent designated by the City. All payments of the principal of and interest on the Bonds shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Optional Redemption

The Bonds maturing on or before October 15, 2029 are not subject to optional redemption prior to their fixed maturity dates. The Bonds maturing on or after October 15, 2030, are subject to redemption prior to maturity, at the option of the City, at any time on or after October 15, 2029, in whole or in part, at the principal amount thereof (without premium), plus accrued interest on such principal amount to the date of redemption.

ADJUSTMENT OF AMOUNTS AND MATURITIES

Prior to the Sale Date, the City may adjust the preliminary aggregate principal amount of the Bonds and the preliminary principal amount and maturity of each serial installment of the Bonds as set forth in this Official Notice of Sale (the “Preliminary Aggregate Principal Amount” and the “Preliminary Principal Amount”, and collectively the “Preliminary Amounts”). **ANY SUCH REVISIONS MADE PRIOR TO THE OPENING OF THE BIDS** (the “Aggregate Principal Amount” and the “Principal Amount”, and collectively the “Amounts”) **WILL BE PUBLISHED ON PFMAUCTION NOT LATER THAN 4:00 P.M., LOCAL BALTIMORE, MARYLAND TIME, ON THE BUSINESS DAY IMMEDIATELY PRIOR TO THE SALE DATE FOR THE BONDS.**

In the event that no such revisions are made prior to the opening of the bids, the Preliminary Amounts will constitute the Amounts. Bidders shall submit bids based on the Amounts, and the Amounts will be used to compare bids and select a winning bidder.

After the opening of the bids, the City may further adjust the Amounts of the Bonds. Changes to be made will be communicated to the successful bidder not later than three (3) hours after the bids have been received and opened and in no case will such changes reduce or increase the Aggregate Principal Amount of the Bonds by more than 15 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the Aggregate Principal Amount of the Bonds, but the interest rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes within these limits.

The “Underwriter’s Discount” shall be defined as the difference between the purchase price of the Bonds submitted by the bidder and the price at which the Bonds will be issued to the public, calculated from information provided by the bidder, divided by the par amount of the Bonds bid. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the Aggregate Principal Amount and Principal Amounts of the Bonds. Such adjusted bid price will reflect changes in the dollar amount of the Underwriter’s Discount and original issue discount/premium, if any, but will not change the Underwriter’s Discount, per \$1,000 of par amount of the Bonds from the Underwriter’s Discount that would have been received based on the purchase price in the winning bid and the initial public offering prices.

CHANGE OR CANCELLATION OF SALE DATE AND/OR DATE OF DELIVERY AND/OR OTHER TERMS

The City may cancel or postpone the sale of the Bonds prior to the Sale Date. Notice of a cancellation or postponement will be announced on PFMAuction. Notice of any new date and time of sale will be announced at least 24 hours prior to the time bids are to be submitted and will specify changes in the principal amount or other features, if any.

The City may change the scheduled delivery date, the dates of the semiannual interest payments and annual principal payments, or the optional redemption date or revise any other terms for the Bonds by notice given in the same manner as that set forth above.

PRELIMINARY OFFICIAL STATEMENT; CONTINUING DISCLOSURE

The City has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), except for the omission of certain information permitted to be omitted by said Rule. As soon as practicable after the Sale Date, the City will publish a complete final Official Statement (the “Official Statement”) that will contain this information. The City agrees to deliver to the successful bidder for its receipt no later than seven business days after the Sale Date such quantities of the Official Statement as the successful bidder shall request, provided, that the City shall deliver up to 25 copies of such Official Statement without charge to the successful bidder.

The City has made certain covenants for the benefit of the holders from time to time of the Bonds to provide certain continuing disclosure, in order to assist bidders for the Bonds in complying with Rule 15c2-12(b)(5). Such covenants are described in the Preliminary Official Statement.

ELECTRONIC BIDDING

Registration and Admission to Bid

To bid by PFMAuction, bidders must first visit the PFMAuction website where, if they have never registered with either PFMAuction or MuniAuction, they can register and then request admission to bid on the Bonds. Bidders will be notified prior to the scheduled bidding time of their eligibility to bid. Only FINRA registered broker-dealers and dealer banks with DTC clearing arrangements will be eligible to bid. Bidders who have previously registered with MuniAuction may call MuniAuction at (412) 391-5555 for their ID Number or password.

If any provisions of this Official Notice of Sale shall conflict with information provided by MuniAuction as approved provider of electronic bidding services, this Notice of Sale, as it may amended by the City as described within, shall control.

Bidding Details

Bidders should be aware of the following bidding details associated with the sale of the Bonds:

- 1) All bids must be submitted on the PFMAuction website at www.PFMAuction.com. No telephone, telefax, telegraph or personal delivery bids will be accepted.
- 2) If any bid in the auction becomes a leading bid two (2) minutes prior to the end of the auction, then the auction will be automatically extended by two (2) minutes from the time such bid was received by PFMAuction. The auction end time will continue to be extended, indefinitely, until a single leading bid remains the leading bid for at least two minutes.
- 3) Bidders may change and submit bids as many times as they like during the bidding time period; provided, however, each and any bid submitted subsequent to a bidder’s initial bid must result in a lower true interest cost (“TIC”) with respect to a bid, when compared to the immediately preceding bid of such bidder. In the event that the revised bid does not produce a lower TIC with respect to a bid, the prior bid will remain valid.
- 4) The last bid submitted by a bidder before the end of the bidding time period will be compared to all other final bids submitted by others to determine the winning bidder or bidders.
- 5) During bidding, no bidder will see any other bidder’s bid, but bidders will be able to see the ranking of their bid relative to other bids (i.e., “Leader,” “Cover,” “3rd,” etc.).
- 6) On the Auction Page, bidders will be able to see whether a bid has been submitted.

Rules of PFMAuction

The “Rules” of PFMAuction can be viewed on the PFMAuction website and are incorporated herein by reference. Bidders must comply with the Rules of PFMAuction in addition to the requirements of this Official Notice of Sale. To the extent there is a conflict between the Rules of PFMAuction and this Official Notice of Sale, this Official Notice of Sale shall control.

- 1) A Bidder (“Bidder”) submitting a winning bid (“Winning Bid”) is irrevocably obligated to purchase the Bonds at the rates and prices of the winning bid, if acceptable to the City, as set forth in the Official Notice of Sale. Winning Bids are not officially awarded to Winning Bidders until formally accepted by the City.
- 2) Neither the City, PFM nor MuniAuction (the “Auction Administrator”) is responsible for technical difficulties that result in loss of Bidder’s internet connection with PFMAuction, slowness in transmission of bids, or other technical problems.
- 3) If for any reason Bidder is disconnected from Auction Page during the auction after having submitted a Winning Bid, such bid is valid and binding upon Bidder, unless the City exercises its right to reject bids, as set forth herein.
- 4) Bids which generate error messages are not accepted until the error is corrected and bid is received prior to the deadline.
- 5) Bidders accept and agree to abide by all terms and conditions specified in the Official Notice of Sale (including Amendments, if any) related to each auction.
- 6) Neither the City, PFM nor the Auction Administrator is responsible to any bidder for any defect or inaccuracy in Official Notice of Sale, Amendments, or Preliminary Official Statement as they appear on PFMAuction.
- 7) Only Bidders who request and receive admission to an auction may submit bids. PFM and the Auction Administrator reserve the right to deny access to PFMAuction website to any Bidder, whether registered or not, at any time and for any reason whatsoever, in their sole and absolute discretion.
- 8) Neither the City, PFM or Auction Administrator is responsible for protecting the confidentiality of a Bidder’s PFMAuction password.
- 9) If two bids submitted in the same auction by the same or two or more different Bidders result in same True Interest Cost the first confirmed bid received by PFMAuction prevails. Any change to a submitted bid constitutes a new bid, regardless of whether there is a corresponding change in True Interest.
- 10) Bidders must compare their final bids to those shown on the Observation Pages immediately after the bidding time period ends, and if they disagree with the final results shown on the Observation Pages they must report them to PFMAuction within 15 minutes after the bidding time period ends. Regardless of the final results reported by PFMAuction, bonds are definitively awarded to winning bidders only upon official award by the City. If, for any reason, the City fails to: i) award bonds to the winner reported by PFMAuction, or ii) deliver bonds to winning bidders at settlement, neither the City, PFM or the Auction Administrator will be liable for damages.

Definitions

- “Bid”: any confirmed purchase offer received by PFMAuction on or before the auction deadline.
- “Bidder”: any underwriting firm registered with either PFMAuction or MuniAuction and approved for participation in auctions that has an established industry reputation for underwriting new issuances of municipal bonds
- “Winning Bid”: any purchase offer made by a Bidder by clicking the “Submit Bid” button and received by PFMAuction which, at the end of the bidding time period, results in the lowest True Interest Cost in the auction and which is accepted to the City.

“True Interest Cost”: calculation described in the Notice of Sale related to each auction which serves as basis for awarding bonds to Winning Bidders.

Minority Business Enterprise Participation

THE CITY STRONGLY ENCOURAGES EACH BIDDER FOR THE BONDS TO MAKE A GOOD FAITH EFFORT TO INCLUDE MINORITY BUSINESS ENTERPRISES IN THE SYNDICATE PURCHASING THE BONDS. THE SUCCESSFUL BIDDER WILL BE REQUESTED TO PROVIDE A LIST OF SYNDICATE MEMBERS WHICH IDENTIFIES THE MINORITY BUSINESS ENTERPRISE MEMBERS AND INDICATES THEIR PERCENTAGES OF PARTICIPATION.

Right of Rejection

The City expressly reserves the right (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Bonds or otherwise provide for the public sale of the Bonds if all bids are rejected or the winning bidder defaults, including, without limitation, sale of the Bonds to one or more of the losing or rejected bidders without regard to their original bid or its relationship to any other bid.

PRELIMINARY AWARD

As promptly as reasonably practicable after the bids are received and reviewed, but not later than **12:30 p.m.** local Baltimore, Maryland time on the Sale Date (unless bids have been postponed), the City will notify the apparently successful bidder of the Preliminary Award of the Bonds. The successful bidder shall make a bona fide public offering of all of the Bonds and shall represent to the City that such offering is in compliance with all applicable securities laws of the jurisdictions in which such Bonds are offered. **Within 30 minutes after being notified of the Preliminary Award of the Bonds, the successful bidder shall advise the City in writing (via e-mail transmission) to Kathy Clupper or Trina Smith at clupperk@pfm.com or smithtr@pfm.com, respectively, of such reoffering prices of the Bonds (the “Reoffering Prices”).**

The apparent successful bidder will also be required to wire to the City a Good Faith Deposit as further described herein. Timely notification of the Final Award is subject to the City’s receipt of the Good Faith Deposit.

AWARD OF BID

Award of Bid

The City expects to make its award of the Bonds to the winning bidder on the Sale Date. It is anticipated that all bids will be reviewed by the City at the time stated above and will be acted on following the opening, tabulation and verification of the bids received. The decision by the City as to the award of the Bonds will be final. Bids may not be withdrawn prior to the award.

All bids shall be for cash on delivery and shall be based on an offering to pay not less than 100% of the par value of the Bonds. Each bidder shall indicate in its bid the rate of interest to be paid on the Bonds of each maturity. All bids for Bonds of any maturity must be greater than or equal to 98.5%. Each rate of interest shall be a multiple of 1/8, 1/20 or 1/100 of one percent, but all Bonds of any one maturity must bear interest at the same rate. Any rate named may be repeated. The difference between the maximum and minimum interest rates may not be greater than 4%. A zero rate may not be named.

The Bonds will be awarded by the City on the Sale Date to the bidder whose bid complies with this Official Notice of Sale and results in the lowest true interest cost (“TIC”) to the City. The lowest TIC will be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Date of Delivery of the Bonds and to the aggregate amount bid for the Bonds. If two or more responsible bidders have made bids resulting in the same lowest TIC to the City, the Bonds shall be awarded by lot to one of these bidders.

Good Faith Deposit

A Good Faith Deposit in the amount of \$201,450 is required only of the winning bidder for the Bonds. The winning bidder for the Bonds is required to submit such Good Faith Deposit payable to the order of the City in the form of a wire transfer in federal funds as instructed by the City's Financial Advisor, PFM Financial Advisors LLC. The winning bidder shall submit the Good Faith Deposit not later than 2:00 p.m. (local Baltimore, Maryland time) on the Sale Date. The winning bidder should provide as quickly as it is available, evidence of wire transfer by providing the City with the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the City may direct the next lowest bidder to submit a Good Faith Deposit and thereafter may award the sale of the Bonds to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the City the sum of \$201,450 as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

Submission of a bid to purchase the Bonds serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.

The Good Faith Deposit so wired will be retained by the City until the delivery of the Bonds, at which time the Good Faith Deposit will be applied against the purchase price of the Bonds or the Good Faith Deposit will be retained by the City as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Bonds in compliance with the terms of this Official Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the City. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Bonds.

DELIVERY AND PAYMENT

Delivery of the Bonds will be made by the City to DTC in book-entry only form, in New York, New York on or about the anticipated Date of Delivery, or on or about such other date as may be agreed on by the City and the successful bidder.

At the time of delivery of the Bonds, payment of the amount due for the Bonds must be made by the successful bidder to the order of the City in immediately available federal funds or other funds immediately available to the City, or by such other means as may be acceptable to the City. Any expense incurred in providing immediately available funds, whether by transfer of federal funds or otherwise, shall be borne by the successful bidder.

CUSIP Numbers; Expenses of the Bidder

It is anticipated that CUSIP numbers will be assigned to each of the Bonds, but neither the failure to type or print such numbers on any of the Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Bonds. The Financial Advisor will be responsible for applying for and obtaining, subject to the CUSIP Service Bureau policy and procedures, CUSIP numbers for the Bonds. The successful bidder will be obligated to pay the fee of the CUSIP Service Bureau for assigning the CUSIP numbers to the Bonds. All expenses of typing or printing CUSIP numbers on the Bonds will be paid for by the City.

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the Bonds.

TAX STATUS, LEGAL OPINIONS, CLOSING DOCUMENTS AND NO LITIGATION

The approving legal opinion of McGuireWoods LLP, Baltimore, Maryland, Bond Counsel, will be furnished without cost to purchaser of the Bonds. A summary description of the tax treatment of the Bonds is contained in the Preliminary Official Statement under the heading "Tax Matters." The proposed form of legal opinion of bond counsel with respect to the Bonds is included in Appendix D to the Preliminary Official Statement.

Delivery of the Bonds will be accompanied by the customary closing documents, including a no-litigation certificate effective as of the date of delivery of the Bonds stating that there is no litigation pending affecting the validity of the Bonds. Simultaneous with or before delivery and payment of the Bonds, the purchaser shall be furnished a certificate or

certificates of the appropriate City officials to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Prices provided by the purchaser and information regarding DTC and DTC's book-entry system, as to which no view will be expressed) as of the date of sale and as of the date of delivery of the Bonds, did not and does not contain any untrue statement of a material fact and did not and does not omit to state a material fact necessary to make the statements therein, in light of circumstances under which they were made, not misleading, and that between the date of sale and the date of delivery of the Bonds, there has been no material adverse change in the financial position or revenues of the City, except as may have been disclosed in or contemplated by the Official Statement.

ADDITIONAL INFORMATION

This Official Notice of Sale is not a summary of the terms of the Bonds. Reference is made to the Preliminary Official Statement for a further description of the Bonds and the City. Prospective investors or bidders for the Bonds must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The Preliminary Official Statement is deemed final by the City as of its date for purposes of the Rule but is subject to revision, amendment and completion in a final Official Statement. Additional information concerning the matters discussed in this Official Notice of Sale and copies of the Preliminary Official Statement may be obtained online or by request from Jennell A. Rogers, the City's Chief, at (410) 396-4750 or from Kathy Clupper or Trina Smith at, respectively, clupperk@pfm.com or (215) 557-1481, or smithtr@pfm.com or (215) 557-1430.

Bernard C. "Jack" Young
ex officio Mayor

Henry J. Raymond
Director of Finance

Jennell A. Rogers
Chief, Bureau of Treasury Management

**FORM OF BOND COUNSEL OPINION
SERIES 2019A BONDS**

[Closing Date]

Mayor and City Council of Baltimore
Baltimore, Maryland

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Mayor and City Council of Baltimore, a body politic and corporate of the State of Maryland (the "City"), of its \$ _____,000 Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt) (the "2019A Bonds").

The 2019A Bonds are dated as of the date of their issue, with interest payable on October 15, 2019, and semiannually thereafter on each April 15 and October 15 until maturity or prior redemption; are in fully registered form in the denomination of \$5,000 each or any integral multiple thereof and are issued under the authority of: (i) Section 7 of Article XI of the Constitution of Maryland; (ii) Section 33 of Article II of the Charter of the City (the "Charter"); (iii) Section 19 of Article VII of the Charter; (iv) a Resolution of the Board of Finance of the City adopted on April 22, 2019 (the "Resolution"); and (v) Section 19-101 of the Local Government Article of the Annotated Code of Maryland (2013 Volume). The debt to be incurred by the issuance of the 2019A Bonds was (i) authorized by certain City Ordinances (collectively, the "Authorizing Ordinances") which were approved by the City Council and Mayor of the City, (ii) either (a) presented to and approved by a majority of the members of the General Assembly of the State of Maryland (the "General Assembly") representing the City or (b) authorized by an Act of the General Assembly (the "General Assembly Resolutions") and (iii) submitted to the legal voters of the City and approved by a majority of the votes cast. The 2019A Bonds mature, subject to prior redemption, on October 15 in each of the years and in the amounts, and bear interest at such rates, as set forth in the 2019A Bonds.

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. The scope of our engagement as bond counsel extends solely to an examination of the facts and law incident to rendering the opinions specifically expressed herein.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities, and we have not independently verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

We are qualified to practice law in the State of Maryland, and we do not purport to be experts on, or to express any opinion herein concerning, any law other than the law of the State of Maryland and the Federal law of the United States of America.

With respect to an executed and authenticated 2019A Bond which we have examined and 2019A Bonds similarly executed and authenticated, it is our opinion under existing law that:

(a) The City is a validly existing body politic and corporate of the State of Maryland (the "State"), possessing the authority under the Constitution of Maryland, the Charter, the General Assembly Resolutions, the Authorizing Ordinances and the Resolution to issue the 2019A Bonds.

(b) The 2019A Bonds have been duly authorized and legally issued in accordance with the Constitution of Maryland, the Charter, the General Assembly Resolutions, the Authorizing Ordinances and the Resolution.

(c) The 2019A Bonds are valid and legally binding general obligations of the City to which its full faith and credit and taxing power are pledged, payable as to both principal and interest from ad valorem taxes which the City is empowered and directed to levy, without limitation of rate or amount, upon real and tangible personal property and certain intangible personal property subject to taxation by the City.

(d) To provide for the payment of the principal of and interest on the 2019A Bonds, the City is empowered and obligated to levy said ad valorem taxes in each fiscal year in which provision must be made for the payment of such principal and interest.

(e) The 2019A Bonds, their transfer, and the principal and interest payable thereon (including any profit made in the sale thereof), shall be and remain exempt from any and all state, county and municipal taxation in the State; however, the law of the State does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the 2019A Bonds, their transfer or the interest thereon.

(f) (i) Interest on the 2019A Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2019A Bonds) is excludable from gross income for purposes of Federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2019A Bonds is not a specific item of tax preference for purposes of the Federal alternative minimum tax.

In rendering the opinion expressed above in paragraph (e), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate of even date herewith executed and delivered by the City, which covenants and agreements are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. Failure by the City to comply with such covenants and agreements could cause interest on the 2019A Bonds to become includable in gross income for Federal income tax purposes retroactively to their issue date.

This opinion is given as of its date and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

It is to be understood that the rights of any holder of the 2019A Bonds and the enforceability of 2019A Bonds may be subject to (a) any applicable bankruptcy, insolvency (including, without limitation, laws relating to preferences and fraudulent transfers or conveyances), reorganization, moratorium and other similar laws affecting creditors' rights generally, (b) the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and (c) the valid exercise of constitutional powers of the United States of America and of the sovereign police and taxing powers of the State or other governmental units having jurisdiction.

Very truly yours,

McGuireWoods LLP

**FORM OF BOND COUNSEL OPINION
SERIES 2019B BONDS**

[Closing Date]

Mayor and City Council of Baltimore
Baltimore, Maryland

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Mayor and City Council of Baltimore, a body politic and corporate of the State of Maryland (the "City"), of its \$_____,000 Consolidated Public Improvement Bonds, Series 2019B (Taxable) (the "2019B Bonds").

The 2019B Bonds are dated as of the date of their issue, with interest payable on October 15, 2019, and semiannually thereafter on each April 15 and October 15 until maturity or prior redemption; are in fully registered form in the denomination of \$5,000 each or any integral multiple thereof and are issued under the authority of: (i) Section 7 of Article XI of the Constitution of Maryland; (ii) Section 33 of Article II of the Charter of the City (the "Charter"); (iii) Section 19 of Article VII of the Charter; (iv) a Resolution of the Board of Finance of the City adopted on April 22, 2019 (the "Resolution"); and (v) Section 19-101 of the Local Government Article of the Annotated Code of Maryland (2013 Volume). The debt to be incurred by the issuance of the 2019B Bonds was (i) authorized by certain City Ordinances (collectively, the "Authorizing Ordinances") which were approved by the City Council and Mayor of the City, (ii) either (a) presented to and approved by a majority of the members of the General Assembly of the State of Maryland (the "General Assembly") representing the City or (b) authorized by an Act of the General Assembly (the "General Assembly Resolutions") and (iii) submitted to the legal voters of the City and approved by a majority of the votes cast. The 2019B Bonds mature, subject to prior redemption, on October 15 in each of the years and in the amounts, and bear interest at such rates, as set forth in the 2019B Bonds.

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. The scope of our engagement as bond counsel extends solely to an examination of the facts and law incident to rendering the opinions specifically expressed herein.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities, and we have not independently verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

We are qualified to practice law in the State of Maryland, and we do not purport to be experts on, or to express any opinion herein concerning, any law other than the law of the State of Maryland and the Federal law of the United States of America.

With respect to an executed and authenticated 2019B Bond which we have examined and 2019B Bonds similarly executed and authenticated, it is our opinion under existing law that:

(a) The City is a validly existing body politic and corporate of the State of Maryland (the "State"), possessing the authority under the Constitution of Maryland, the Charter, the General Assembly Resolutions, the Authorizing Ordinances and the Resolution to issue the 2019B Bonds.

(b) The 2019B Bonds have been duly authorized and legally issued in accordance with the Constitution of Maryland, the Charter, the General Assembly Resolutions, the Authorizing Ordinances and the Resolution.

(c) The 2019B Bonds are valid and legally binding general obligations of the City to which its full faith and credit and taxing power are pledged, payable as to both principal and interest from ad valorem taxes which the City is empowered and directed to levy, without limitation of rate or amount, upon real and tangible personal property and certain intangible personal property subject to taxation by the City.

(d) To provide for the payment of the principal of and interest on the 2019B Bonds, the City is empowered and obligated to levy said ad valorem taxes in each fiscal year in which provision must be made for the payment of such principal and interest.

(e) The 2019B Bonds, their transfer, and the principal and interest payable thereon (including any profit made in the sale thereof), shall be and remain exempt from any and all state, county and municipal taxation in the State; however, the law of the State does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the 2019B Bonds, their transfer or the interest thereon.

(f) Interest on the 2019B Bonds is includable in the gross income of the owners thereof for Federal income tax purposes.

This opinion is given as of its date and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

It is to be understood that the rights of any holder of the 2019B Bonds and the enforceability of 2019B Bonds may be subject to (a) any applicable bankruptcy, insolvency (including, without limitation, laws relating to preferences and fraudulent transfers or conveyances), reorganization, moratorium and other similar laws affecting creditors' rights generally, (b) the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and (c) the valid exercise of constitutional powers of the United States of America and of the sovereign police and taxing powers of the State or other governmental units having jurisdiction.

Very truly yours,

McGuireWoods LLP

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$85,000,000*

MAYOR AND CITY COUNCIL OF BALTIMORE
(City of Baltimore, Maryland)
General Obligation Bonds

\$64,855,000*

Consolidated Public Improvement Bonds
Series 2019A
(Tax-Exempt)

\$20,145,000*

Consolidated Public Improvement Bonds
Series 2019B
(Taxable)

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by Mayor and City Council of Baltimore (the “City”) in connection with the issuance of its \$64,855,000* general obligation bonds designated Consolidated Public Improvement Bonds, Series 2019A (Tax-Exempt) and \$20,145,000* general obligation bonds designated Consolidated Public Improvement Bonds, Series 2019B (Taxable), (collectively, the “Series 2019 Bonds”). The Series 2019 Bonds are being issued under the authority of Section 7 of Article XI of the Constitution of Maryland, as amended, Article II, Section 33 of the Charter of the City, as amended (the “Charter”), Article VII, Section 21 of the Charter, certain Acts of the General Assembly of Maryland or Resolutions of the Baltimore City Delegation to the General Assembly of Maryland, Ordinances of the Mayor and City Council of Baltimore (collectively, the “Enabling Acts”), Section 19-101 of the Local Government Article of the Annotated Code of Maryland, and a Resolution of the Board of Finance of the City adopted on April 22, 2019 (the “Resolution”). The City, intending to be legally bound hereby and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City and for the benefit of the registered owners or the Beneficial Owners of the Series 2019 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the “SEC”) Rule 15c2-12(b)(5) (the “Rule”).

SECTION 2. Definitions. In addition to the definitions set forth above, which apply to any such capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2019 Bonds (including persons holding Series 2019 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2019 Bonds for federal income tax purposes.

“Dissemination Agent” shall mean an individual or entity designated in writing by the City to act in such a role on the City’s behalf and who has filed with the City a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 4(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)1 of the Securities Exchange Act of 1934, as amended.

“EMMA” shall mean the continuing disclosure service established by the MSRB known as the Electronic Municipal Market Access System. For more information on EMMA, see www.emma.msrb.org.

“Participating Underwriters” shall mean any of the original underwriters of the Series 2019 Bonds required to comply with the Rule.

*Preliminary, subject to change

“State” shall mean the State of Maryland.

SECTION 3. Provision of Annual Financial Information and Operating Data.

(a) The City shall provide annually, not later than 245 days after the end of the City’s fiscal year, commencing with the fiscal year ending June 30, 2019, to EMMA, financial information and operating data of the type set forth on Exhibit A to this Disclosure Certificate, such financial information and operating data to be updated as of the end of the preceding fiscal year.

(b) The City shall provide annually, not later than 245 days after the end of the City’s fiscal year, commencing with the fiscal year ending June 30, 2019, to EMMA, the audited financial statements of the City for the preceding fiscal year, if prepared and available by such date. If such audited financial statements are not available on or before such date, the City promptly shall provide such audited financial statements, when and if available. In the event that such audited financial statements are not prepared and available within 245 days after the end of the City’s fiscal year, the City shall provide, not later than nine months after the end of the City’s fiscal year, unaudited financial statements in a format similar to the audited financial statements contained in the final Official Statement relating to the Series 2019 Bonds.

(c) The presentation of any financial statements provided in accordance with subsections (a) and (b) above shall be made in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.

(d) If any of the financial information or operating data to be provided annually pursuant to subsections (a) or (b) above can no longer be generated because the operations to which it related have been materially changed or discontinued, the City shall include a statement to such effect in the financial information or operating data to be provided annually pursuant to subsections (a) or (b) above, as applicable.

(e) Any or all of the information to be provided pursuant to subsections (a) or (b) above may be set forth in a document or set of documents, or may be included by specific reference to documents previously provided to EMMA, or filed with the SEC. If the document is an official statement, it must be available from EMMA. The City shall identify clearly each other document so included by specific reference.

(f) If the City is unable to provide to EMMA, any financial information or operating data required by subsections (a) or (b) above by the date specified in subsections (a) or (b) above, as applicable, the City shall provide, in a timely manner, a notice of such failure to EMMA.

(g) If the fiscal year of the City changes, the City shall provide notice of such change to EMMA prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year, as changed.

SECTION 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 4, the City shall provide notice of the occurrence of any of the following events with respect to the Series 2019 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2019A Bonds and Series 2019B Bonds, or

other material events affecting the tax-exempt status of the Series 2019A Bonds and Series 2019B Bonds;

- (7) modifications to rights of bondholders, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2019 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional trustee, or the change of name of a trustee, if material;
- (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, in a timely manner and not in excess of ten (10) business days after the occurrence of such event, file a notice of such occurrence with EMMA.

SECTION 5. Termination of Obligations. The City's obligations under this Disclosure Certificate shall terminate upon the prior redemption or payment in full of all the Series 2019 Bonds. In addition, the City may terminate its obligations under this Disclosure Certificate in any other circumstance permitted by the Rule or SEC interpretations of the Rule. If any such termination occurs prior to the scheduled final maturity of the Series 2019 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(c).

SECTION 6. Amendment.

(a) Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, provided that the following conditions are satisfied:

- (1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City, or type of business conducted;
- (2) this Disclosure Certificate, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2019 Bonds, after taking into account any amendments or SEC interpretations of the Rule, as well as any change in circumstances; and
- (3) the amendment does not materially impair the interests of the registered owners or the Beneficial Owners of the Series 2019 Bonds, as determined by nationally recognized bond counsel selected by the City.

(b) In the event this Disclosure Certificate is amended pursuant to subsection (a) above with respect to the financial information or operating data to be provided annually in accordance with Section 3(a) or (b), the financial information and

operating data provided by the City in accordance with Section 3(a) or (b), as applicable, that contains the amended financial information or operating data shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information or operating data being provided.

(c) If an amendment is made to this Disclosure Certificate regarding the accounting principles to be followed in preparing financial statements, the financial information provided pursuant to Section 3(a) or (b), as applicable, for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the former accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible, the comparison also shall be quantitative. The City shall provide to EMMA a notice of the change in the accounting principles.

SECTION 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any financial information or operating data provided annually pursuant to Section 3 or any notice of the occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any financial information or operating data provided annually pursuant to Section 3 or any notice of the occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future information or operating data provided annually pursuant to Section 3 or any notice of the occurrence of a Listed Event.

SECTION 8. Failure to Comply. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any registered owner or Beneficial Owner of the Series 2019 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A failure to comply with the provisions of this Disclosure Certificate shall not be deemed an event of default under the Enabling Acts, the Resolution or the Series 2019 Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

The City shall be given written notice at the address set forth below of any claimed failure by the City to perform any such undertaking, and the City shall be given 15 days to remedy such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the City must be filed in the Circuit Court for Baltimore City, Maryland, and any party maintaining such suit or other proceeding shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action.

Baltimore City Law Department
City Hall, Room 100
100 Holliday Street
Baltimore, Maryland 21202
Attention: City Solicitor

SECTION 9. Limitation of Forum. This Disclosure Certificate, and any claim made with respect to the performance by the City of its obligations hereunder, shall be governed by, subject to, and construed in accordance with the laws of the State.

SECTION 10. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 11. Performance of Obligations. Notwithstanding anything to the contrary contained in this Disclosure Certificate, the City's obligations as set forth in this Disclosure Certificate shall be undertaken and performed in accordance with the Rule, SEC interpretations of the Rule as published or provided from time to time, and applicable federal securities laws.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City and the registered owners and Beneficial Owners from time to time of the Series 2019 Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, this Continuing Disclosure Certificate has been executed on behalf of the City by its duly authorized signatory as of the date set forth below.

MAYOR AND CITY COUNCIL OF BALTIMORE

By: _____
Jennell A. Rogers
Chief, Bureau of Treasury Management

Dated: _____, 2019

EXHIBIT A

**Financial Information and Operating Data
to be Provided Annually Pursuant to Section 3(a)**

Appendix A -- "Certain Information Regarding Mayor and City Council of Baltimore" and Appendix B - "City of Baltimore Comprehensive Annual Financial Report Year Ended June 30, 2018" of the Official Statement for MAYOR AND CITY COUNCIL OF BALTIMORE \$64,855,000* CONSOLIDATED PUBLIC IMPROVEMENT BONDS, SERIES 2019A (TAX-EXEMPT) and \$20,145,000* CONSOLIDATED PUBLIC IMPROVEMENT BONDS, SERIES 2019B (TAXABLE).

*Preliminary, subject to change.

DESCRIPTION OF THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix has been obtained from sources that the Mayor and City Council of Baltimore (the “City”) believes to be reliable, but the City does not take any responsibility for the accuracy thereof. Capitalized terms used in this Appendix and not defined herein shall have the meaning set forth in the Official Statement unless the context requires otherwise.

The Depository Trust Company

The Depository Trust Company, New York, New York (“DTC” or, together with any successor securities depository for the Bonds, the “Securities Depository”), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds in principal amount equal to the aggregate principal amount of the Bonds of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of United States and non-United States equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both United States and non-United States securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission (the “SEC”). More information about DTC can be found at www.dtcc.com.

Ownership of Bonds

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. *Beneficial Owners will not receive certificates representing their ownership interests in the Bonds except in the event that use of the book-entry only system for the Bonds is discontinued under the circumstances described below under “Discontinuance of Book-Entry Only System.”*

To facilitate subsequent transfers, all Bonds deposited by Direct and Indirect Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

So long as a nominee of DTC is the registered owner of the Bonds, references herein to the Bondholders or the holders or owners of the Bonds shall mean DTC and shall not mean the Beneficial Owners of the Bonds. The City and the Bond Registrar will recognize DTC or its nominee as the holder of all of the Bonds for all purposes, including the payment of the principal or redemption price of and interest on, and the purchase price of, the Bonds, as well as the giving of notices and any consent or direction required or permitted to be given to or on behalf of the bondholders. Neither the City nor the Bond Registrar will have any responsibility or obligation to Direct or Indirect Participants or Beneficial Owners with respect to payments or notices to Direct or Indirect Participants or Beneficial Owners.

Payments on and Redemption or Purchase of Bonds

So long as the Bonds are held by DTC under a book-entry system, principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding information from the Paying Agent on the applicable payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

So long as the Bonds are held by DTC under a book-entry only system, the Bond Registrar will send any notice of redemption or purchase with respect to the Bonds only to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the proceedings for the redemption or purchase of the Bonds or of any other action premised on such notice. If fewer than all of the Bonds of any one maturity are selected for redemption or purchase, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed or purchased, except as otherwise directed by the City.

Neither the City nor the Paying Agent can give any assurances that DTC or the Direct or Indirect Participants will distribute payments of the principal or redemption price of and interest on or the purchase price of, the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption, purchase or other notices, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

Discontinuance of Book-Entry Only System

DTC may discontinue its services as a securities depository for the Bonds at any time by giving reasonable notice to the City, or the City may discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, the Bonds are required to be printed and delivered in fully certificated form to the Participants shown on the records of DTC provided to the Bond Registrar or, to the extent requested by any Participant, to the Beneficial Owners of the Bonds shown on the records of such Participant provided to the Bond Registrar.

Registration and Exchange of Bonds

So long as the Bonds are maintained under a book-entry system, transfers of ownership interests in the Bonds will be made as described above under “Book-Entry Only System.” If the book-entry only system is discontinued, any Bond may be exchanged for an equal aggregate principal amount of Bonds maturing on the same date and bearing interest at the same rate of other authorized denominations, and the transfer of any Bond may be registered, upon presentation and surrender of such Bond at the designated office of the Bond Registrar, together with an assignment duly executed by the registered owner or his attorney or legal representative. The City and the Bond Registrar may require the person requesting any such exchange or transfer to reimburse them for any tax or other governmental charge payable in connection therewith. Neither the City or the Bond Registrar shall be required to register the transfer of any Bond or make any such exchange of any Bond (1) during the 15 days preceding the date of mailing of any notice of redemption of Bonds of the same maturity or (2) after a notice of redemption of such Bond or any portion thereof has been.

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