SPENDING
AFFORDABILITY
COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2007

Baltimore County, Maryland

February 15, 2006

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Honorable John Olszewski
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SPENDING AFFORDABILITY COMMITTEE

February 15, 2006

Honorable Members of the Baltimore County Council
Honorable James T. Smith, Jr., County Executive

I am pleased to submit the report of the Spending Affordability Committee, reflecting the Committee's fiscal policy recommendations for Baltimore County for fiscal year 2007.

For fiscal year 2007, the Committee establishes a base spending guideline of $1,412,302,061, based on a personal income growth forecast of 5.46%. This guideline represents maximum potential growth of $73,119,375 over fiscal year 2006 base spending. The Committee also recommends that debt service not exceed nine percent of fiscal year 2007 General Fund revenues (or $139,014,000) and that total outstanding debt not exceed 2.2% of fiscal year 2006 estimated assessed property value (or $1,374,514,020). These guidelines are meant to limit spending such that the cost of government services does not grow at a faster pace than the growth in the county's economy. In making these recommendations, the Committee emphasizes that these guidelines are not meant as targeted spending levels but rather as maximums not to be exceeded.

In determining its guidelines, the Committee reviewed current and projected conditions of the national, state, and local economies. This review found that the current economic outlook is positive, and that although the national economy faces some potential challenges, fiscal year 2007 is expected to be a healthy year for the county economy.

This year, the Committee adopted a number of policy changes. Two facets of its debt guideline were adjusted based on the recommendations of the County's debt management consultant and practices of other AAA-bond-rated jurisdictions. Neither of these changes is seen as having a negative impact on the County's AAA bond rating. Additionally, the Committee clarified that its role is to control the ongoing growth in County spending, but not to control overall County spending, which is the responsibility of the County Council. This policy clarification was made in recognition of the County's new liability for Other Post Employment Benefits (OPEB), brought on by new government accounting standards. These policy refinements are further detailed in the body of this report.

Recognition of the OPEB liability and the County's desire to pre-fund it will require a significant increase in baseline spending on retiree benefits—an increase currently estimated at $77 million. For fiscal year 2007, the Committee recommends that any contribution toward the OPEB liability be funded from undesignated, unreserved surplus as a "down payment." Future contributions should be included within the spending guideline.

I would like to thank my fellow Council members who serve on the Committee for their time and devotion to this year's process. I would also like to express my gratitude to long-standing Committee member John F. Gaburick, whose experience, dedication, focus, and insights were again invaluable; Committee member John Hopkins, for his valuable input; and the Baltimore County Economic Advisory Committee (BCEAC), chaired by Anirban Basu, CEO, Sage Policy Group, Inc., which provides the Spending Affordability Committee with a real-time view of the local economy through quarterly input of top executives from key county business sectors.

Finally, I would like to express my appreciation to the Committee's staff, for their tireless efforts in providing in-depth analysis and review of Committee policies and in coordinating the Committee's agenda. In particular, I would like to thank Brian J. Rowe, County Auditor; Elizabeth J. Irwin, Manager, Budget Analysis and Fiscal Research; Paul R. Maihan, Principal Analyst; Scott P. Gates, Staff Analyst; and Michelle F. Ganjon, Legislative Specialist.

We hope that this report is given careful consideration in the development and review of the County's operating and capital budgets for fiscal year 2007.

Sincerely,

Joseph Bartenfelder
Chairman, Spending Affordability Committee
Councilman, 6th District

INTRODUCTION

The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed growth in the County's economy.

In March 1990, the Baltimore County Council enacted legislation (Bill 33-90) that established a spending affordability law for Baltimore County to ensure that growth in County spending does not exceed the rate of growth of the county's economy (Baltimore County Code, Sections 2-3-101 to 2-3-107). The law mandates that the Spending Affordability Committee make a recommendation each fiscal year on a level of County spending that is consistent with the County's economic growth. The Committee has implemented this law by establishing both spending and debt guidelines. The spending guideline is a recommendation for the maximum level of General Fund spending for ongoing purposes, or "base spending." The debt guidelines are based on two common debt affordability indicators.

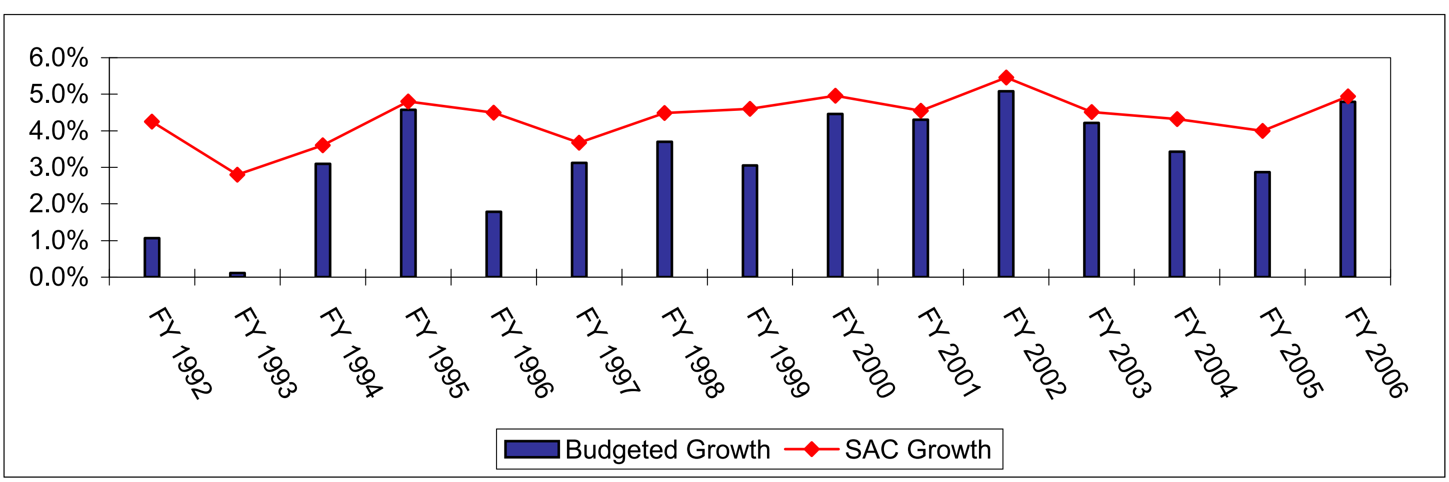
The Spending Affordability Committee submits its report by February 15 of each year in order to provide timely input into the budgeting process.

By law, the Spending Affordability Committee must submit its report to the County Council and County Executive by February 15 of each year. This reporting date allows the Executive ample time to consider the Committee's recommendations before formally presenting the proposed budget to the Council on or before April 16 of each year. The purpose of this report is to provide formal input from the County Council to the County Executive relative to the formulation of the County budget.

In formulating its FY 2007 spending guideline, the Committee reviewed policy issues in an effort to ensure the affordability of all ongoing government services.

Committee guidelines are intended to set recommended maximum County spending levels that should not be exceeded (Figure 1); however, they may be exceeded at the discretion of the County Executive and County Council if a rationale for doing so is provided. Prior to making its FY 2007 recommendations, the Committee reviewed a number of issues and refined its policies, modifying its total debt outstanding (debt affordability) guideline and adopting a policy for recommending ongoing operating budget spending in excess of projected economic growth. Additionally, as a stop-gap measure for FY 2007, the Committee agreed to add to its spending guideline an allowance for pre-funding the County's future retiree benefits obligation—an obligation that will be recognized beginning in FY 2008 as a result of new government accounting standards.

Figure 1. SAC Growth and Budgeted Growth Since Committee Establishment



Sources: FY 1992 - FY 2006 SAC Reports; FY 1992 - FY 2006 Adopted Budgets

ECONOMIC OUTLOOK

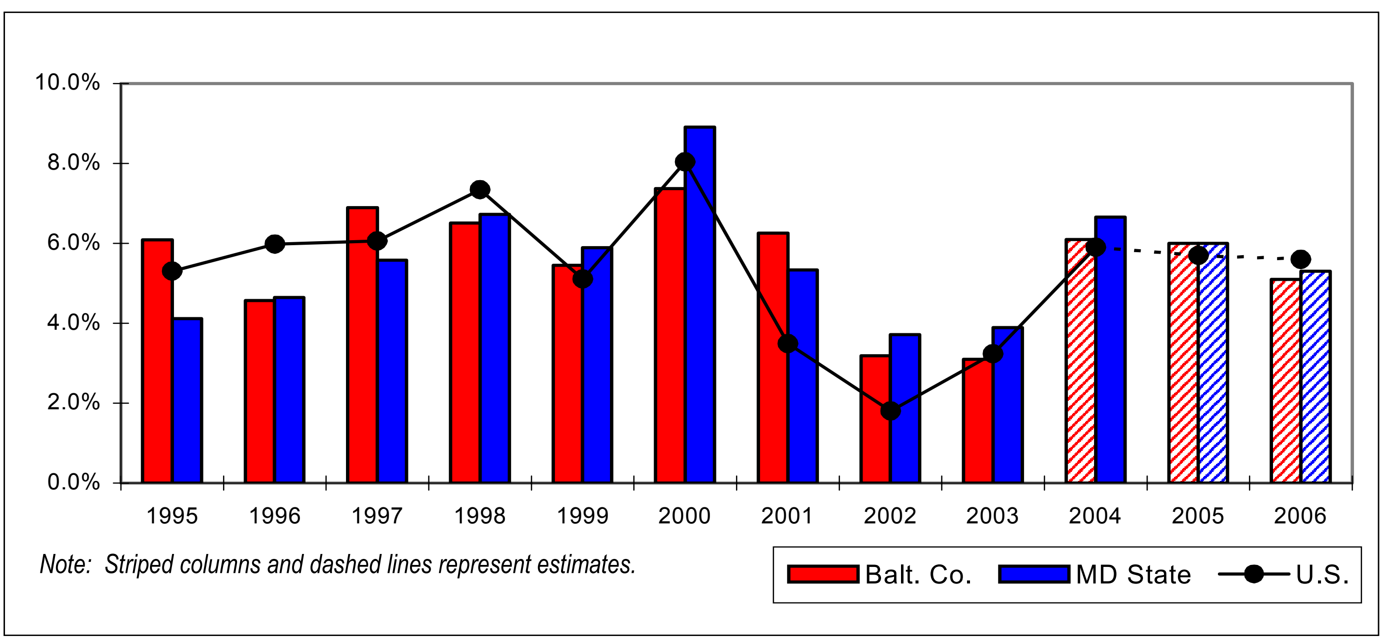
The current economic outlook for the U.S., Maryland, and Baltimore County is positive.

Prior to adopting its FY 2007 base spending growth percentage, the Committee reviewed current and projected economic conditions to ensure that its recommendations would be consistent with the local economic outlook. This review found that projections for personal income and overall economic growth were consistent with the growth for the upcoming fiscal year. The recent meeting of the Baltimore County Economic Advisory Committee (BCEAC) bolstered this view. The BCEAC provided compelling evidence to support the notion of a strong economic performance for Baltimore County in calendar year 2006. Economic forecasters see the potential for an even stronger economic performance for Central Maryland in future years, reflecting in particular the expected growth stimulus of the Federal Government's implementation of the Base Realignment and Closure Commission (BRAC) recommendations.

For FY 2007, personal income, the measure used by the Committee to determine the growth in the economy, is expected to grow by 5.46%. This growth takes into consideration the likely positive impact that should result from the Federal Government's implementation of the Base Realignment and Closure (BRAC) Commission recommendations.

The Committee's FY 2007 recommended 5.46% growth in spending is based on the Baltimore County personal income forecast by RESI Research and Consulting of Towson University (RESI) as of January 27, 2006. This growth, which takes into account the likely positive impact that should result from the BRAC stimulus, is the highest county growth forecast since FY 2002 when it was also 5.46%. The 5.46% growth is 52 basis points higher than the FY 2006 growth of 4.94% and 81 basis points higher than the average FY 2002 to FY 2006 growth of 4.65%. The growth is well in line with the estimated average annual increase in county personal income over the 1995 to 2005 period. Over the 1995 to 2005 period, county personal income increased at an estimated annual rate of 5.6%, compared to an estimated annual increase of 5.6% in Maryland and 5.3% for the U.S. (Figure 2).

Figure 2. National, State, and Local Personal Income Growth



Estimate Sources: County and State, RESI - January 2006; U.S., Economy.com, November 2005

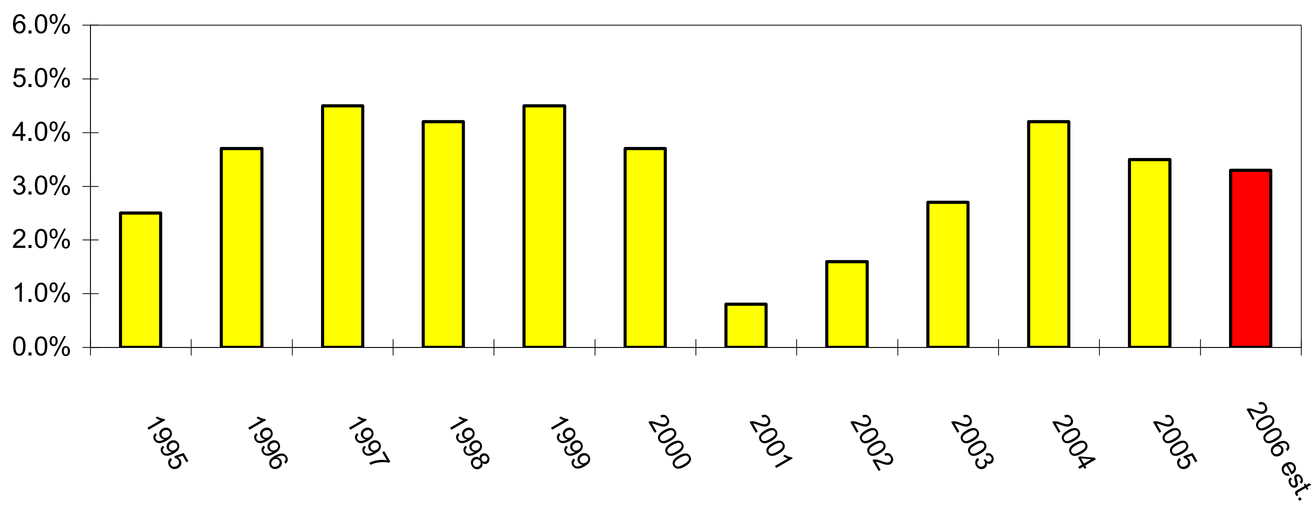
Real Gross Domestic Product (GDP) grew at an average annual rate of 3.3% from 1995 to 2005. For 2006, real GDP is expected to grow by this same rate, 3.3%.

The projected strength of the local economy is influenced, to a large degree, by the underlying performance in the national and state economies. The U.S. experienced a brief eight-month recession from March 2001 to November 2001. However, real Gross Domestic Product (GDP) contracted by only 0.2% from the first cyclical peak in 2000:Q4 to the trough in 2001:Q3 and for the year 2001 showed growth of 0.8% (Figure 3). Coming out of the recession, real GDP was lethargic until 2003:Q2, but over the last ten quarters, from 2003:Q3 to 2005:Q4, real GDP grew at an average annual rate of 3.8%. This pattern of economic growth parallels changes in personal income at the county, state, and national levels. Following 3.5% GDP growth in 2005, the current consensus forecast for GDP growth by the National Association for Business Economics (NABE) is 3.3% in 2006. The projected growth rate is the same as the average annual rate from 1995 to 2005, and is higher than the average annual rate of the 2001 – 2005 period when real GDP expanded by an average annual rate of 2.6%.

County and state labor markets have been performing well compared to the national labor market. Employment numbers in the county and state have been increasing at a faster pace than at the national level, and the county and state have considerably lower unemployment rates compared to the nation.

Relative to the national market, state and local labor markets have performed well and are expected to continue to perform well. Employment among Baltimore County and State of Maryland residents increased by 3.2% and 3.3%, respectively, on a year-over-year basis from December 2004 to December 2005, while national employment increased by 1.5% over that same period. Reflecting stronger employment growth, Baltimore County's and Maryland's December 2005 unemployment rates were 3.7% and 3.6%, respectively – well below the nation's December 2005 rate of 4.9%. Employment forecasts suggest that in 2006 Baltimore County and Maryland employment will increase by 2.0% and 1.9%, respectively, while U.S. employment will increase by 1.5%. Growth in county employment, along with some increases in wages and salaries, supports the county's healthy personal income growth forecast.

Figure 3. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: National Association for Business Economics, November 2005

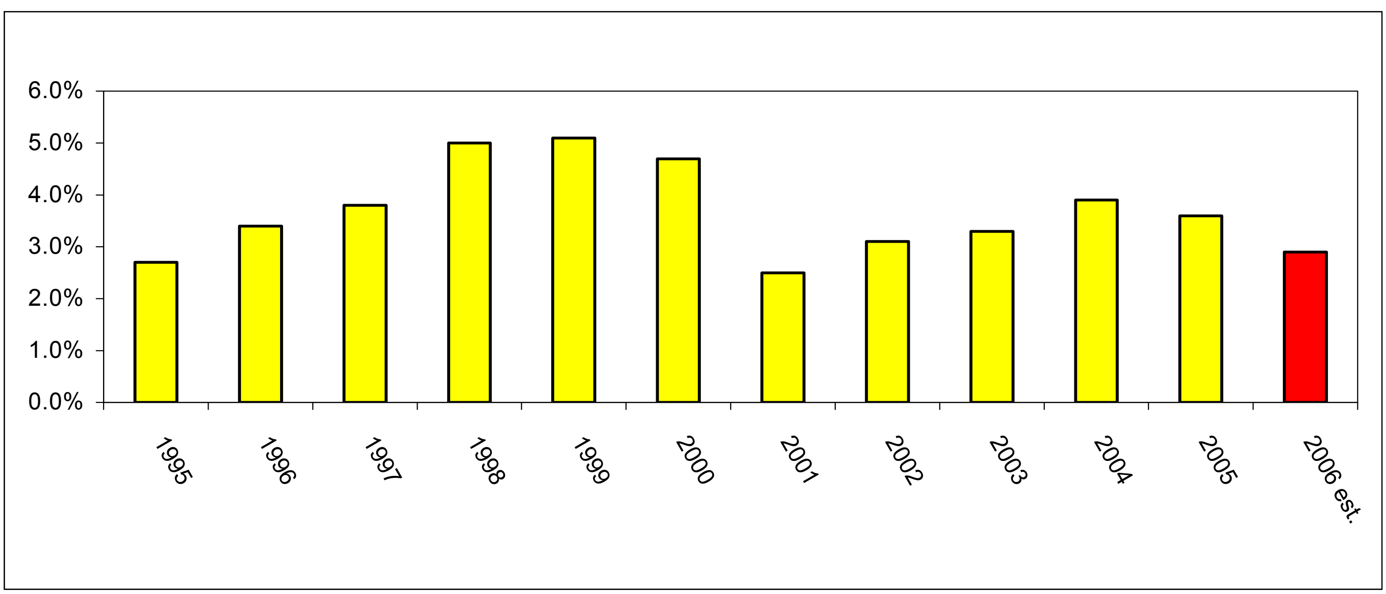
Nationally, consumers have positive expectations that the economy will continue to expand in 2006, and consumer confidence has been increasing in recent months.

Consumer spending, which typically accounts for slightly more than two-thirds of all U.S. economic activity, will determine the future pattern of the current business cycle. The level of confidence consumers have about current and future business conditions, in part, determines the strength of consumer spending. Consumer confidence, based on a survey of 5,000 U.S. households, ended 2005 on a strong note, with the Present Situation Index showing a strong upward surge and the Expectations Index showing a more modest advance. According to the Conference Board, consumer confidence showed further improvement in January and is now at its highest level in more than three years. Overall, the Conference Board stated in its December 2005 report that consumers feel more confident at 2005 year-end than they did at the start of the year and have positive expectations that the economy will continue to expand in 2006.

Although the national economy faces some potential challenges, the outlook for the local economy is favorable.

At the same time, the national economy faces a number of potential challenges. For example, NABE forecasters adopted a more conservative outlook for consumer spending and employment growth in 2006 compared to 2005, and due to interest rate increases and high household debt loads, consumer spending could slow more than expected. NABE is projecting consumer expenditures to increase by 2.9% in 2006, compared to 3.9% and 3.6% in 2004 and 2005, respectively. However, while the national growth rate may be moderating, state and county economic growth is likely to be more robust, reflecting recent strong growth momentem and future benefits from BRAC. In this regard, the January 2006 meeting of the BCEAC was upbeat and concluded that 2006 should be a good year. Specifically, BCEAC Chairman Anirban Basu pointed to Baltimore County's low unemployment levels, high-quality jobs, and strong housing market that is not expected to decline. The Committee's 5.46% growth rate reflects such expectations.

Figure 4. Real Consumer Spending: Annual Percentage Change



Estimate Source: National Association for Business Economics, November 2005

SPENDING GUIDELINE

The Committee has adopted growth in personal income as the best available indicator of the growth in the County's economy. For FY 2007, the growth in personal income is forecast to increase by 5.46%.

Since its inception, the Committee has adopted personal income growth as its gauge of economic growth in Baltimore County. Accordingly, the spending affordability guideline for a given fiscal year is calculated by multiplying the previous fiscal year's estimated base spending (as defined by the Committee) by the Committee's adopted personal income growth forecast (Figure 5). As noted previously, personal income growth of 5.46% is based on the January 2006 Baltimore County personal income forecast by RESI Research and Consulting of Towson University (RESI).

Increasing FY 2006 base spending by 5.46% yields a FY 2007 spending guideline of $1,412,302,061, a $73 million maximum allowable increase over FY 2006 base spending.

Increasing the FY 2006 base spending level ($1,339,182,686) by personal income growth (5.46%) results in a spending affordability guideline of $1,412,302,061 (Figure 6). This guideline represents a $73 million increase over FY 2006 base spending. **Accordingly, the Committee recommends that FY 2007 base spending not exceed $1,412,302,061.**

Spending in excess of the FY 2007 guideline is allowed for the specific purpose of pre-funding the County's future retiree benefits (OPEB).

Additionally, as detailed on page 7, for FY 2007, the Committee is making an allowance for pre-funding the County's future retiree benefits obligation. This allowance results in permitted spending above the Committee's recommended baseline spending.

Certain appropriations are not subject to the Committee's spending guideline because they do not represent ongoing County program obligations and thus such spending is not appropriately linked to the growth in the County's economy.

It is important to note that the base spending amount to which personal income growth is applied excludes certain significant appropriations (Figure 7). These exclusions are made based on the premise that the expenditure is one-time/non-recurring in nature (such as certain contributions to the capital budget) or is required to support a State or Federal program (such as in the case of local share matching appropriations). In some cases, the appropriation may represent only a reserve of funds and not an actual expenditure. Given the nature of these appropriations, related spending should not be measured by the growth in the county's economy but rather by some other factors, such as available surplus or projected revenues. Accordingly, such expenditures are not subject to the Committee's spending guideline.

Figure 5. Calculation of the Spending Guideline

The spending guideline for the new fiscal year is calculated by applying personal income growth to the previous year's estimated base spending (as defined by the Committee). Specifically, the recommended level of spending is calculated as follows:

General Fund Operating Budget Appropriations (previous fiscal year)
\+ Supplemental Appropriations
\- Adjustment for spending not subject to the spending guideline (see Figure 7 for detail)
Base Spending (previous fiscal year)
x Percentage Personal Income Growth
Spending Guideline (new fiscal year)

Figure 6. FY 2007 Spending Guideline

FY 2006 General Fund Operating Budget Appropriations		$1,451,006,305	
Anticipated FY 2006 Supplemental General Fund Appropriations		675,960	
FY 2006 Total General Fund Appropriations		1,451,682,265	(A)
Adjustments:			
Local Matching Fund Appropriations			
Local Share - State & Federal Grants		(6,012,563)	
Education - Federal/Restricted Program		(77,110)	
Capital-Related Appropriations			
PAYGO (excluding operating costs)		(99,216,000)	
Reserve Fund Appropriations			
Contingency Reserve		(1,000,000)	
BCPS One-Time-Only Exclusion		(6,193,906)	
Total Adjustments		(112,499,579)	(B)
Base Spending (A - B)		$1,339,182,686	(C)
Personal Income Growth	x	1.0546	(D)
FY 2007 Spending Guideline (C x D)		$1,412,302,061 *	(E)
	Maximum Potential Growth (E - C)	***$73,119,375***	

**** Maximum spending may exceed this amount to the extent that surplus funds are available to pre-fund the County's future retiree benefits obligation as a one-time "down payment" for FY 2007.***

Figure 7. Spending Affordability Committee Definition of Base Spending

Base spending: Total General Fund appropriations less appropriations that do not contribute to growth in County spending, and therefore are not subject to personal income growth, as itemized below.

Appropriations not subject to personal income growth :

Local Matching Appropriations:

- Local Share—State and Federal Grants. The total required County General Fund match for all anticipated grants is based on the level (and match provisions) of grant funding. These funds support State and Federal programs (not County programs).
- Education—Federal/Restricted Program. The required County General Fund match for such funds in the Department of Education is similarly based on the level (and match provisions) of grant funding. These funds support a Federal program (not County programs).

Capital-Related Appropriations:

- The General Fund contribution to the capital budget, if any, is determined annually based on funds that are available and not otherwise committed to supporting County services. Thus, such expenditures may be viewed as one-time outlays, not subject to personal income growth, provided these contributions are not dedicated to funding operating expenses.

Appropriations to Certain Reserve Funds and Contingencies:

- Appropriations to the Revenue Stabilization Reserve Account (RSRA) do not represent expenditures but rather a reserve of funds available in case of an operating deficit. These funds are legally required to equal at least 5% of the General Fund budget.
- Contingency Reserve Appropriations. These funds are appropriated for unanticipated needs (e.g., emergencies) and are not earmarked for a specific purpose or program. As such, this appropriation does not represent an expenditure but rather a reserve for contingencies. If these funds are spent, the nature of the expenditure must be examined to determine its effect on base spending (i.e., one-time vs. ongoing).

Other Appropriations:

- Specific exclusions for one-time, nonrecurring costs or revenues such as spending by the Board of Education for items excluded from the State's maintenance of effort requirement. Such exclusions are determined on a year-to-year, case-by-case basis.

Estimated Final Spending

The Committee continues to believe that the estimated final spending methodology is the most appropriate method for determining base spending.

As in past years, the Committee believes that base spending should reflect all approved and planned spending, or in other words, "estimated final spending," for the fiscal year. This methodology recognizes that certain adjustments in planned spending may occur after the budget is adopted. Such adjustments may include increases for supplemental appropriations, decreases due to federal or State aid reductions impacting the General Fund, or other shortfalls in local funding that are known or estimated prior to the adoption of the guideline. For this year, one anticipated supplemental appropriation (Bill 21-06), totaling $675,960, has been added to the adopted FY 2006 General Fund operating budget. This proposed supplemental appropriation is earmarked for the purchase of external defibrillators for schools and offices and associated costs. Such costs have not been designated as one-time-only by the State for maintenance-of-effort purposes, are expected to continue in future years at least to some extent, and, thus, are not excludable from the Committee's guideline calculation.

The spending guideline includes one addition to the adopted FY 2006 General Fund operating budget—an anticipated supplemental appropriation totaling $675,960.

The most recent revenue projections indicate that revenues will most likely exceed budget estimates; therefore, no reduction due to funding shortfalls is anticipated. Accordingly, FY 2006 total appropriations have been adjusted only to reflect Bill 21-06.

Spending Policy Issues and Recommendations

The Committee recommends that essential ongoing services be funded adequately and that surplus not be used to fund appropriations requiring future commitments.

Again for FY 2007, the Committee reaffirms its general recommendations that the County Executive: **(1) avoid under-funding essential services or programs in order to fund other initiatives; and (2) avoid funding ongoing operating expenses with surplus funds.** Additionally, this year, the Committee adopted a policy related to recommending ongoing operating budget spending in excess of projected economic growth, as well as a stop-gap measure to address the need to pre-fund the County's future retiree benefits obligation, as follows:

The Committee also adopted a general policy that any recommended spending above its guideline should be spending of an ongoing, not one-time-only, nature.

- The FY 2007 Committee adopted a general policy that in cases when it recommends spending above its guideline, such spending should only be of an ongoing nature. This decision derives from the Committee's recognition that its role is not to control spending at large, but only to control the year-to-year growth in spending. Thus, spending that does not contribute to growth in spending, such as spending on one-time-only items, is outside of the Committee's purview.

In response to new accounting standards, Baltimore County will begin in FY 2008 to recognize annually the unfunded liability for certain post-employment benefits.

- Recently-issued Government Accounting Standards Board (GASB) accounting standards (statement number 45 or GASB 45) will change the way state and local governments account for and fund the costs of retiree health and life insurance benefits ("other post-employment benefits" or OPEB). Specifically, Baltimore County (along with other jurisdictions) will have to begin accounting for these benefits on an accrual, rather than the current pay-as-you-go, basis.

Failure to address the increased retiree benefit obligation would put the County's AAA bond rating in jeopardy.

The key finding of a recent cost study is that in order to fully fund this obligation, the County will need to increase spending by an estimated $77.2 million in the first year—a figure that would increase by about 5% annually. Although the standards do not require the County to fund these costs, a sizeable unfunded accrued liability on the County's financial statements would likely negatively impact the County's bond rating and borrowing costs and ability.

The Committee recommends that the County's FY 2007 budget draw on surplus funds for the purpose of pre-funding the OPEB liability.

The Committee recommends that the County include in its FY 2007 budget a contribution toward pre-funding the OPEB liability and that any contribution toward this liability be funded from undesignated, unreserved surplus as an initial "down payment." In future periods, it is likely that the Committee will recommend that this funding be included in base spending since it requires an ongoing commitment.

DEBT GUIDELINES

The Committee adopts two debt guidelines, one pertaining to debt service and the other to total debt outstanding.

The Committee's debt affordability recommendations provide an enhanced system of checks and balances, further demonstrating the County's fiscal responsibility to its citizens, bond-rating agencies, and others in the financial community. The debt guidelines are based on: (1) the County's level of debt service as a percentage of General Fund revenue; and (2) the County's total debt outstanding as a percentage of assessed property value.

The County's financial consultant recently recommended higher target ranges for certain County debt ratios.

Actual debt service expenditures and the amount of total debt outstanding have remained below both the Committee's and the Administration's guidelines. However, the Administration recently updated its policies based upon a September 2004 analysis by the County's financial consultant, Public Resources Advisory Group (PRAG). Based on the recommendations of the consultant, higher target ranges were established for debt to estimated full value, debt per capita, and debt to personal income. In recommending these higher targets, PRAG noted that the County's debt measures were conservative compared to other AAA-bond-rated counties. Thus, according to the analysis, Baltimore County's debt targets could be raised without jeopardizing the County's coveted bond rating.

The Committee adopted the recommendation of the County's financial consultant to increase the County's debt limit from 2.0% to 2.2% of assessed property value.

This year, after considerable study, the Committee adopted the recommendation of the County's financial consultant to raise the debt limit from 2.0% to 2.2% of assessed property value. This change increases the FY 2007 debt limit by approximately 11.3%. The Committee also adopted the widely-accepted practice of including personal property in the assessable base to which this percentage would be applied. Specifically, studies have shown that most other AAA-bond-rated counties that tax personal property include personal property in their debt affordability guidelines. This change increases the FY 2007 debt limit by approximately 5.2%. Both changes, and their cumulative effects, increase the debt limit by approximately 17.0%.

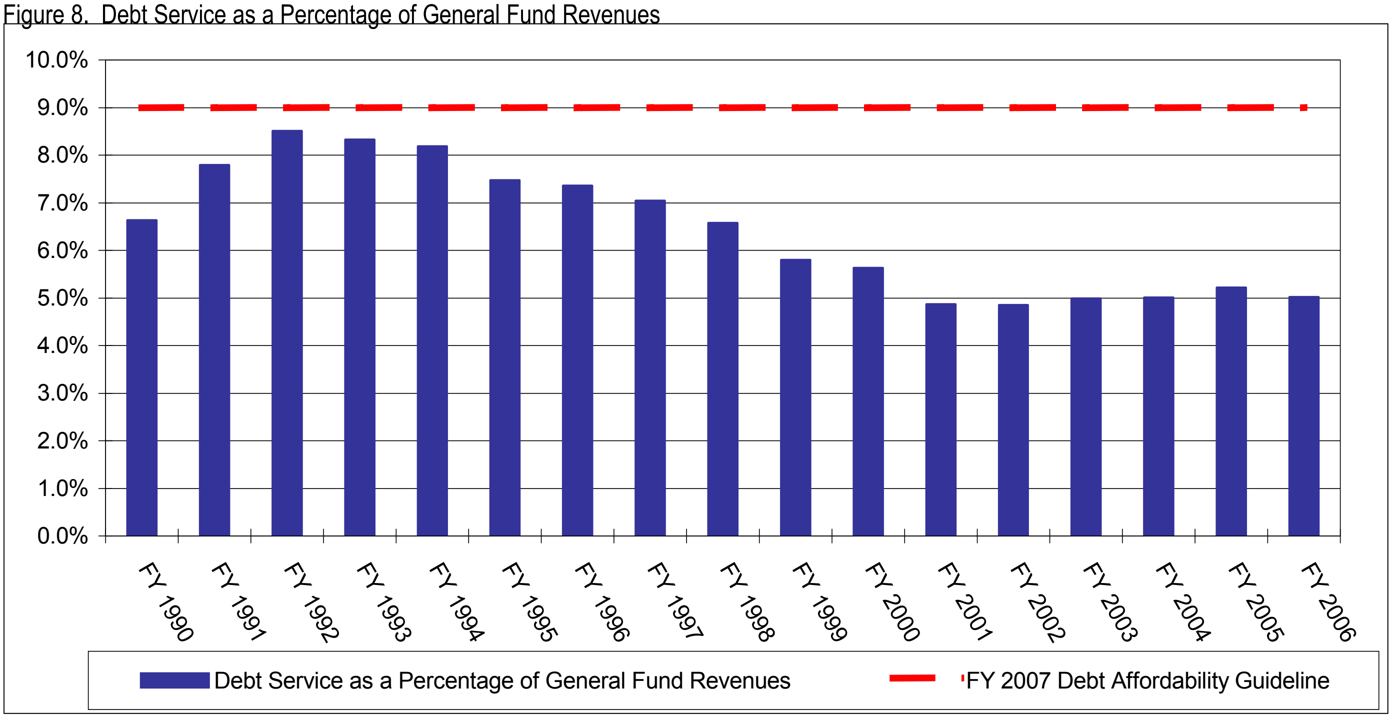
Debt Service Guideline

The Committee recommends that debt service not exceed nine percent of General Fund revenue, or $139,014,000.

The ratio of debt service to General Fund revenue is a debt affordability indicator used not only by Baltimore County but by many other jurisdictions. Credit analysts generally concur that a ratio higher than 1:10 (i.e., over ten percent) suggests that the debt burden is too heavy. The Administration's financial guidelines historically have set a target range for debt service expenditures at eight to nine percent of General Fund revenue. From FY 1990 to FY 2006, the amount spent or budgeted for debt service ranged from 4.9% to 8.5% of General Fund revenue (Figure 8). The Committee has established a policy that debt service should not exceed nine percent of General Fund revenue. **Accordingly, for FY 2007, the Committee recommends that debt service expenditures not exceed $139,014,000.**

The ratio of debt service to General Fund revenues from FYs 1990 through 2006 is shown below in Figure 8. It is notable that the decrease in this ratio, beginning in the mid-to-late 1990s, is not reflective of a reduction in County capital spending, but rather is the result of an increased usage of Pay-As-You-Go (PAYGO) operating budget funds to fund the County's capital budget in recent years. Specifically, from FY 1997 through FY 2006, the County has budgeted $601.2 million in PAYGO funding, compared to $42.5 million in the preceding 10-year period. However, had the County issued bonds in lieu of relying on PAYGO during this same period, the County would have incurred additional interest expense totaling approximately $291.2 million over the life of the bonds.

Figure 8. Debt Service as a Percentage of General Fund Revenues



Note: Excludes debt service related to pension funding, metropolitan district bonds, and component unit capital leases not budgeted under Primary Government; FY 2006 ratio is an estimate.

Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor

Total Debt Outstanding Guideline

Historically, the County's financial policies provided that total debt outstanding not exceed 2% of full property value. Effective for years beginning after 2004, this limit was raised to 2.2%.

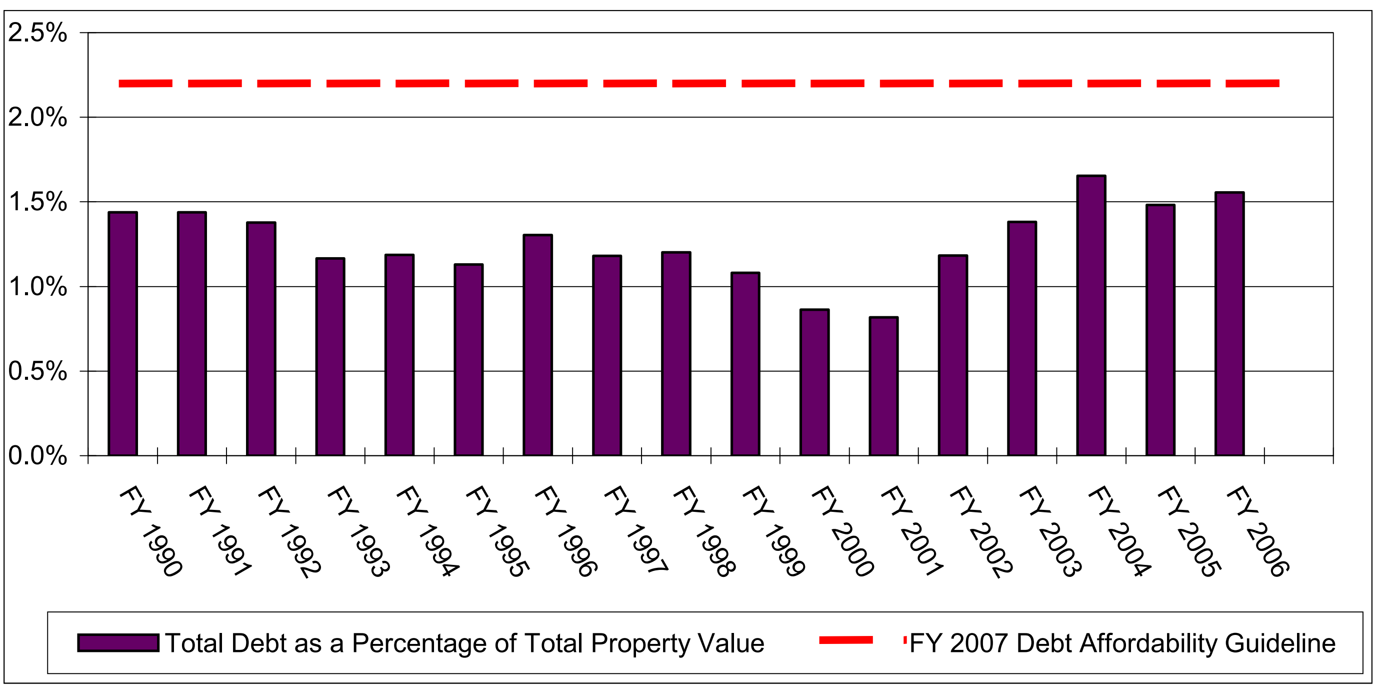
The ratio of total debt outstanding to assessed property value is a second measure of debt affordability. The Administration's financial guidelines historically have set a target range of 1.4% to 2.0% for debt outstanding as a percentage of full value. In 2004 that range was raised to 1.8% to 2.2% based on a recommendation by the County's independent financial consultant.

After reviewing the report of the County's financial consultant, the Committee is in agreement that the limitation on total debt outstanding could be raised from 2.0% to 2.2% without jeopardizing the County's AAA bond rating.

From FY 1990 to FY 2005, total outstanding debt ranged from 0.8% to 1.7% of the county's full property value (Figure 9). Based on a study prepared by the County's independent financial consultant, the Committee has established a policy that total outstanding debt should not exceed 2.2 percent of full property value. **Accordingly, for FY 2007, the Committee recommends that total outstanding debt not exceed $1,374,514,020.**

As indicated previously, while in past years the Committee's guideline was set at 2.0% and applied only to real property, for FY 2007 the Committee guideline is set at 2.2% and includes personal property.

Figure 9. Total Debt as a Percentage of Total Property Value



Note: Excludes debt related to pension funding, metropolitan district bonds, and component unit capital leases not budgeted under Primary Government; FY 2006 debt outstanding is estimated.
Sources: Baltimore County Comprehensive Annual Financial Reports; Baltimore County Office of Budget and Finance; Maryland State Department of Assessments and Taxation

GENERAL FUND REVENUES

FY 2006 General Fund revenues are projected to increase by $87.8 million, or 6.3%, over FY 2005 collections. This forecast also exceeds current-year revenue estimates by $78.3 million.

FY 2006 General Fund revenues are projected to total $1,477.3 million, an increase of $87.8 million, or 6.3%, from FY 2005 totals, exceeding budgeted revenues by $78.3 million and the adopted FY 2006 budget by $26.3 million. The projected revenue growth reflects: higher real property values and new construction supporting strong property tax revenue growth; a strong housing market, which will translate into record-high property-related transaction revenues (i.e., title transfer and recordation tax revenues); and continued strong income tax revenue growth reflecting solid gains in personal income and capital gains distributions.

FY 2007 General Fund revenues are projected to increase by approximately $145.6 million, or 10.4%, over budgeted FY 2006 revenues, and by approximately $67.3 million, or 4.6%, over revised FY 2006 revenue estimates.

FY 2007 General Fund revenues are estimated to reach $1,544.6 million, up approximately $145.6 million, or 10.4%, over budgeted FY 2006 revenues, and $67.3 million, or 4.6%, over revised FY 2006 estimates (Figures 10 and 11). The rate of growth in FY 2007 General Fund revenue, if it materializes as projected, will be below the FY 2004, FY 2005, and FY 2006 growth rates but well above the rates of growth experienced in FY 2002 and FY 2003. General Fund revenue growth in FY 2007 again reflects impressive anticipated revenue gains in the County's two principal revenue sources, property tax and income tax. Higher real property values and new construction will continue to support strong property tax revenue growth, and income tax revenue growth will be supported by the expected solid growth in personal income and employment. Property-related transaction tax revenues are expected to be somewhat lower due to the impact of higher interest rates on the housing and refinancing markets.

The FY 2007 revenue projection is $132.3 million higher than the Committee's spending guideline.

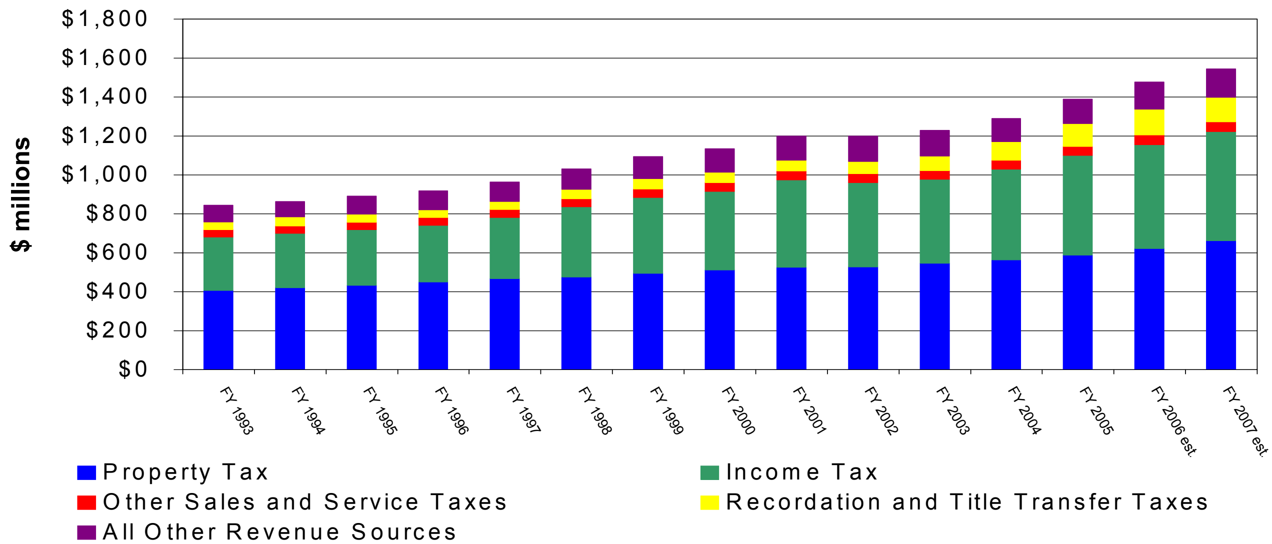
The FY 2007 revenue projection is $132.3 million higher than the Committee's FY 2007 spending guideline. These excess funds, together with other unreserved funds, may be utilized in one or more ways, as follows: as local-share matching funds; for one-time expenditures such as pay-as-you-go contributions to the capital budget in order to reduce the level of programmed borrowing; as a contribution toward the pre-funding of the County's future retiree benefits obligation; to provide short-term tax stabilization; or as a refund to taxpayers in the form of a tax-rate reduction.

Figure 10. General Fund Revenue Forecast, FY 2006-FY 2007

($ in Millions)

Revenue Source	FY 2005 Actual	FY 2006 Budget	FY 05 - FY 06 Bud.	FY 2006 Revised	FY 05- FY 06 Rev.	FY 2007 Estimate	FY 06 Bud. - FY 07	FY 06 Rev. - FY 07
Property taxes	$588.6	$615.5	4.6%	$621.6	5.6%	$661.3	7.4%	6.4%
Income taxes	510.8	509.5	-0.3%	534.3	4.6%	561.1	10.1%	5.0%
Recordation & title transfer taxes	116.5	88.0	-24.5%	133.1	14.2%	126.1	43.3%	-5.3%
Other sales & service taxes	48.0	50.6	5.3%	49.0	2.1%	49.9	-1.3%	1.8%
Licenses & permits	4.2	4.1	-2.8%	4.3	2.4%	4.4	7.8%	2.3%
Fines, forfeitures & penalties	4.7	4.4	-6.6%	4.4	-6.4%	4.5	2.5%	2.3%
Service charges	9.7	10.5	8.5%	10.5	8.2%	11.0	4.5%	4.8%
Interest on investments	7.0	11.4	63.0%	15.1	115.7%	15.0	31.5%	-0.7%
Intergovernmental aid	72.0	78.3	8.7%	78.3	8.8%	83.2	6.3%	6.3%
Other	28.0	26.7	-4.6%	26.7	-4.6%	28.1	5.2%	5.2%
TOTAL	**$1,389.5**	**$1,399.0**	**0.7%**	**$1,477.3**	**6.3%**	**$1,544.6**	**10.4%**	**4.6%**

Figure 11. Baltimore County General Fund Revenues



Source: Baltimore County Comprehensive Annual Financial Report

GENERAL FUND SURPLUS

The FY 2005 General Fund surplus was $237.4 million and included $68.1 million in the RSRA.

For FY 2005, the General Fund surplus totaled $237.4 million. This amount included $68.1 million in the Revenue Stabilization Reserve Account (RSRA), which was $3.7 million more than the minimum requirement (five percent of budgeted revenues) due to investment income that has accrued to the account. The remaining $169.3 million represents an undesignated, unreserved surplus and is equal to 13.1% of budgeted revenues.

The FY 2006 General Fund surplus is estimated to total $263.0 million and includes $70.5 million in the RSRA.

For FY 2006, it is estimated that the General Fund surplus will total $263.0 million. This amount includes $70.5 million in the RSRA, which is $0.5 million more than the minimum required. The remaining $192.5 million represents an undesignated, unreserved surplus and is equal to 13.8% of budgeted revenues (Figure 12).

Figure 12. Estimated General Fund Surplus, FY

($ in Millions)

FY 2005 General Fund Surplus (per Baltimore County Comprehensive Annual Financial Report)		**$ 237.4**
FY 2006 Revenue Estimate (per Adopted Budget)	1,399.0	
FY 2006 Revision	78.3	
FY 2006 Revised Revenue Estimate		1,477.3
FY 2006 General Fund Appropriations (per Adopted Budget)	1,451.0	
FY 2006 Anticipated Supplemental Appropriations	0.7	
FY 2006 Revised General Fund Budget		(1,451.7)
FY 2006 Estimated General Fund Surplus		**$ 263.0**
Revenue Stabilization Reserve Account		$ 70.5
Undesignated Unreserved Surplus		$ 192.5