SPENDING AFFORDABILITY COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2009

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Baltimore County, Maryland

February 15, 2008

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Councilman, 4th District

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SPENDING AFFORDABILITY COMMITTEE

February 15, 2008

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 2009.

For fiscal year 2009, the Committee establishes a base spending guideline of $1,547,593,892, based on a personal income growth forecast of 4.56%. This guideline represents maximum potential growth of $67,492,618 over fiscal year 2008 base spending. The Committee also recommends that debt service not exceed nine percent of fiscal year 2009 estimated General Fund revenues (or $148,932,000) and that total debt outstanding not exceed 2.2% of fiscal year 2009 estimated assessed property value (or $1,809,029,376). 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 do not represent targeted spending levels but rather maximum levels 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 one of caution. Although the local economy has been faring relatively well compared to the national economy, fiscal year 2009 is expected to sustain, at least to some extent, market trends that pose a threat to the county's economy, such as the housing market slowdown.

Effective for fiscal year 2008, the County is required to recognize a liability for other post-employment benefits (OPEB), namely health and life insurance, on an accrual basis rather than the previous pay-as-you-go basis. In recognition of this unfunded liability, the major bond rating agencies signaled that in order for the County to maintain its triple-A bond rating, it should fund this obligation in the same manner as it funds its pension liability. In fiscal year 2007, the Committee addressed the County's intention to fully fund its annual required contribution by allowing a one-time "advance payment" of surplus funds toward the future OPEB obligation. Because the GASB accounting changes did not take effect until fiscal year 2008, this payment was not required and was therefore excluded from the spending guideline. Beginning in fiscal year 2008, however, annual payments to fund the accrued liability became an on-going cost and the Committee began to recognize them in the guideline. To do so, the Committee allowed a five-year phase-in for the incorporation of OPEB accrued liability funding into its spending guideline. This phase-in plan called for the recognition of the additional annual required contribution resulting from the OPEB accrued liability to be included in base spending in 20% increments beginning in fiscal year 2008, to be wholly included in the guideline by fiscal year 2012, and to be maintained as such thereafter. This year, the Committee reaffirmed this phase-in plan and has taken the additional step of calculating the annual phase-in amount using the most recently available actuarial report. Specifically, for fiscal year 2009, all General Fund OPEB accrued liability appropriations up to $25,283,600 (equal to 40% of the most recent available actuarial estimate of the annual required contribution for the OPEB accrued liability) shall be subject to the spending guideline.

Additionally, for the purpose of assessing budgetary compliance with the fiscal year 2009 spending guideline, the Committee is allowing for the temporary exclusion of up to $11 million of the General Fund appropriations required to maintain essential special education services. This year, the Committee also adopted policies affirming its long-standing practices of, 1) omitting Special Funds from its spending guideline, and 2) allowing the guideline to change after issuance in mid-February, based on all supplemental appropriations and budget appropriation transfers occurring after the guideline is issued, provided that such actions comply with the Committee's base-year spending guideline. These policies are further detailed in the body of this report.

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 Gaburick, whose experience and input were again invaluable; Committee member Robert Sweet, for his contribution; and the Baltimore County Economic Advisory Committee, which is chaired by esteemed economist Anirban Basu, CEO, Sage Policy Group, Inc. and 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 in-depth analysis and review of Committee policies and for coordinating the Committee's agenda. Thanks are also due to RESI Research and Consulting—Towson University, which provided personal income forecasting services to the Committee.

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 2009.

Sincerely,

S.G. Samuel Moxley
Chairman, Spending Affordability Committee
Councilman, 1st 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.

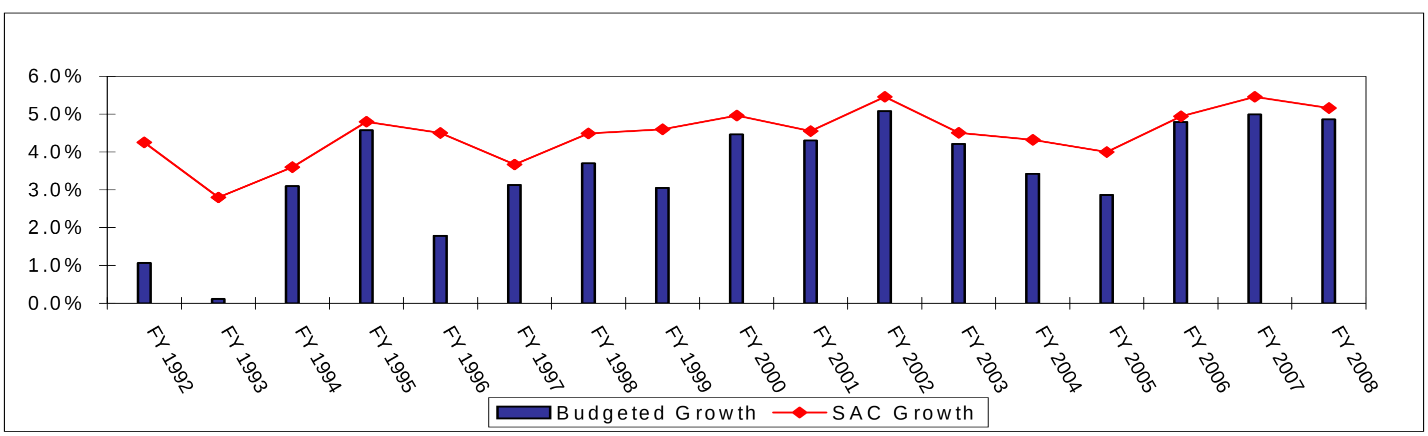
The Spending Affordability Committee submits its report by February 15 of each year in order to provide timely input into the budgeting process.

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 to the County Council and the County Executive relative to the formulation of the County budget. 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.

In formulating its FY 2009 spending guideline, the Committee adopted several policies to ensure the affordability of all ongoing government services.

Prior to making its FY 2009 recommendations, the Committee adopted a number of policies, including policies codifying its long-standing practices of omitting special funds from the spending affordability guideline and updating the guideline after its issuance in mid-February. In addition, the Committee reaffirmed and clarified its policy for a five-year phase-in plan for incorporating other post-employment benefits (OPEB) accrued liability appropriations into the spending guideline and calculated the annual phase-in amount for FY 2009.

Figure 1. SAC Spending Growth and Budgeted Spending Growth Since Committee Establishment



Sources: FY 1992 - FY 2007 SAC Reports; FY 1992 - FY 2006 Adopted Budgets; FY 2007—FY 2008 Council Budget Messages

ECONOMIC OUTLOOK

Baltimore County's personal income growth, the measure used by the Committee to determine the growth in the County's economy, is expected to be 4.56% for FY 2009. This growth rate takes into consideration local economic developments.

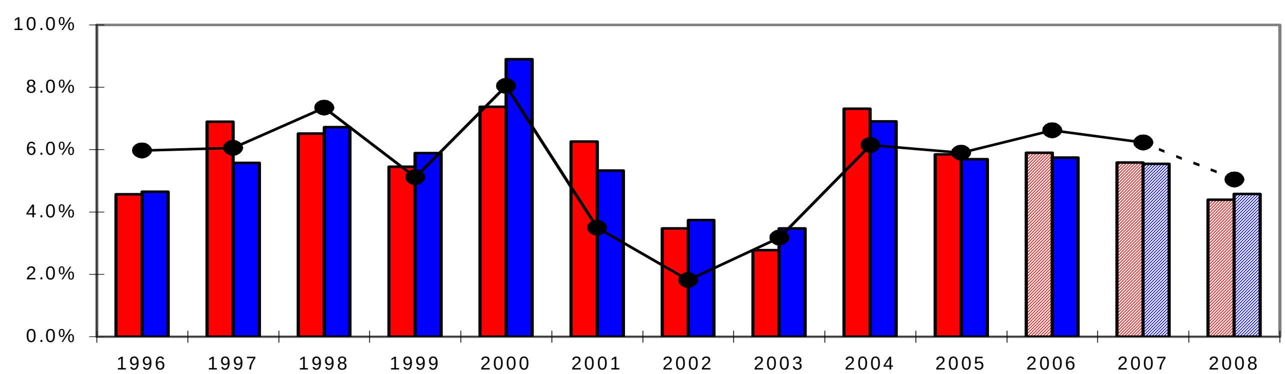
The Committee's FY 2009 recommended 4.56% growth in spending is based on the Baltimore County personal income forecast by RESI Research and Consulting - Towson University (RESI) as of January 15, 2008. This growth rate is 60 basis points below the FY 2008 spending growth rate of 5.16%. As of January 15, 2008, RESI lowered its Baltimore County personal income growth forecast for FY 2008 from 5.16% to 4.82%, which is 15 basis points below its revised Maryland growth forecast of 4.97% for FY 2008. Similarly, RESI projects that FY 2009 personal income growth in the State (4.75%) will exceed County personal income growth (4.56%) by 19 basis points. The higher statewide personal income growth is most likely attributable to accelerated growth in certain rapidly developing counties. Over the 1996 to 2006 period (Figure 2), both County and Maryland personal income increased at an estimated average annual rate of 5.7%, compared to 5.4% in the U.S.

The current economic outlook for the U.S., Maryland, and Baltimore County is mixed, suggesting slower revenue growth compared to recent years.

Prior to adopting its FY 2009 personal income growth rate, the Committee reviewed current and projected economic conditions to ensure that its recommendations would be consistent with the local economic outlook. This review helped to assure that the adopted growth rate for the upcoming fiscal year would be consistent with the best available projections. The recent meeting of the Baltimore County Economic Advisory Committee (BCEAC) helped to identify local economic conditions. The BCEAC members supported the notion that economic growth for the nation, Maryland, and Baltimore County will fall below trend in calendar year 2008. However, the BCEAC panel sees the potential for stronger economic performance for Central Maryland in future years, reflecting the expected growth stimulus of the Federal Government's implementation of the Base Realignment and Closure Commission (BRAC) recommendations. The BCEAC agreed that a major economic impact from BRAC would not likely be felt in 2008 or 2009 but agreed nonetheless that it provides for a more positive local outlook in future years.

While the Base Realignment and Closure Commission (BRAC) recommendations may help stimulate the local economy in the near future, their full impact likely will not be realized for several years.

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



Note: Striped columns and dashed lines represent estimates.

Estimate Sources: County and State - RESI, January 2008; U.S. - Moody's Economy.com, October 2007

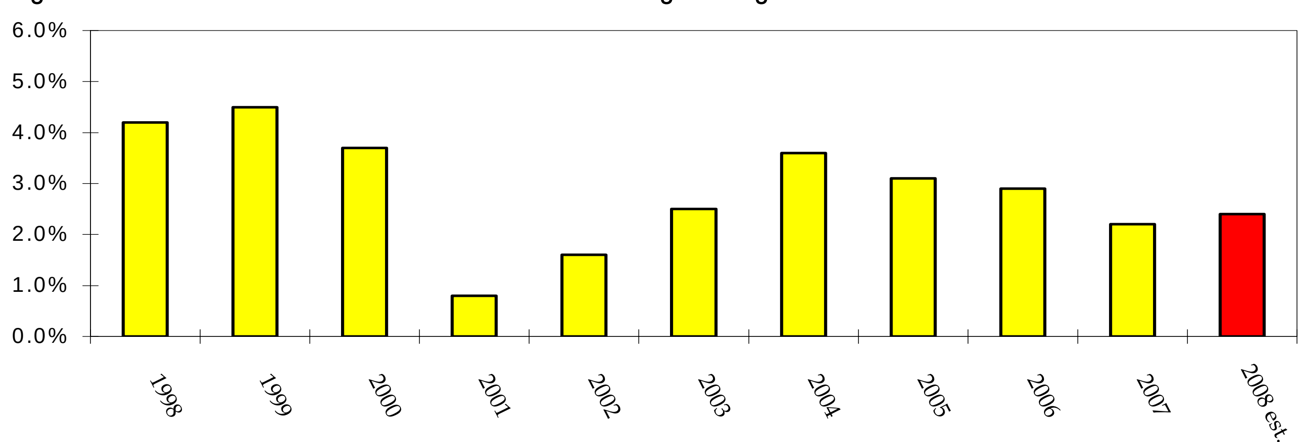
Real Gross Domestic Product (GDP) grew at an average annual rate of 2.9% from 1997 to 2007. For 2008, real GDP growth is expected to slow from this 10-year average to 2.4%.

Projections for the local economy are influenced, to a large degree, by the underlying performance in the national and state economies. Nationally, the housing market continues to decline, financial markets are in turmoil due to increasing numbers of foreclosures and scarce credit, and energy prices have reached record highs, putting pressure on consumers to decrease spending. In light of these factors, many economists have put the odds of a recession in 2008 in the range of 33% to 50%. The last U.S. recession was a brief eight-month downturn from March to November 2001. Emerging from the recession, real GDP grew by an average of 2.7% annually from 2001 to 2007, yielding an annual average of 2.9% over the past 10 years from 1997 to 2007. After increasing by 2.9% in 2006 and 2.2% in 2007, real GDP is projected to increase by 2.4% in 2008, according to the Federal Reserve Bank of Philadelphia's December 2007 *Livingston Survey*, the oldest continuous survey of economists' expectations in the U.S. (Figure 3). Thus, although the possibility of a recession remains, moderate growth is forecast.

County and state labor markets have shown a moderate performance compared to the national labor market. Employment numbers in the county and state have been decreasing while national employment levels rise; however, the county and state have considerably lower unemployment rates compared to the nation.

Relative to the national market, state and local labor markets have shown a moderate performance this year. Employment among Baltimore County and State of Maryland residents decreased by 1.0% and 0.9%, respectively, on a year-over-year basis from December 2006 to December 2007, while national employment increased by 1.0% over that same period. However, the state and local labor markets remain tight, and Baltimore County's and Maryland's December 2007 unemployment rates were 3.5% and 3.4%, respectively – well below the nation's December 2007 unemployment rate of 5.0%. The January 2008 employment forecasts by RESI suggest that in 2008 both Baltimore County and Maryland employment will increase by 1.6%, while U.S. employment will increase by 0.9%. The moderate level of County employment growth, along with relatively small expected increases in wages and salaries, supports the County's personal income growth forecast, which is lower than in recent years.

Figure 3. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's *Livingston Survey,* December 2007

Nationally, consumer confidence has declined in five out of the last six months, and consumers appear increasingly negative in their assessments of the short-term future.

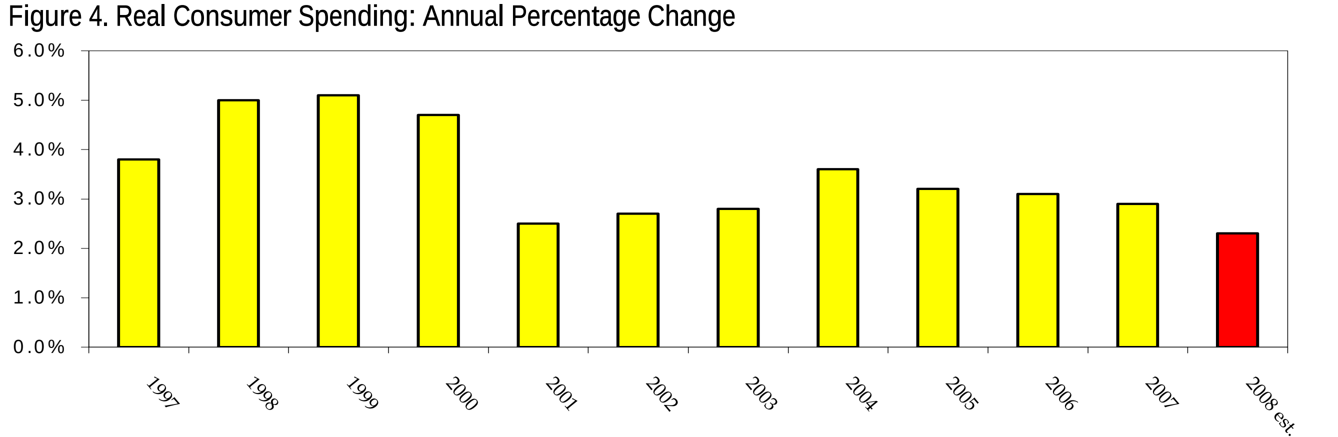
Consumer spending (Figure 4), which typically accounts for slightly more than two-thirds of all U.S. economic activity, is the primary determinate of future economic performance. The level of confidence consumers have about current and future business conditions, in part, determines the strength of consumer spending. Consumer confidence, based on a survey of 5,000 U.S. households, declined slightly in January after falling in four out of the previous five months. January showed a decrease in the Expectations Index, outweighing a small increase in the Present Situation Index. Despite this slight improvement in consumers' assessments of present economic conditions, according to the Conference Board their appraisal of both current business conditions and the job market are "more negative than a year ago." Further, "looking ahead, consumers are quite downbeat about the short-term future and a greater proportion expect business conditions and employment to deteriorate further in the months ahead. In addition, the percentage of consumers anticipating an improvement in their earnings has declined and could potentially impact spending decisions."

The outlook for the local economy is for slower-paced growth than in recent years.

At its most recent meeting, the Baltimore County Economic Advisory Committee concluded that the first half of 2008 will remain slow in Baltimore County, with economic conditions possibly improving in the third and fourth quarters.

While the current expansion is expected to continue, the national economy faces a number of challenges. For example, forecasters participating in the *Survey of Professional Forecasters* adopted a more conservative outlook for consumer spending, GDP, and employment growth for 2008 in their most recent report compared to ealier editions. These forecasts reflect continued slowing in residential construction, turmoil in the housing and financial markets, and high energy prices. The same survey is projecting consumer expenditures to increase by 2.3% in 2008 compared to 2.9% in 2007. State and county economic growth is likely to moderate along with the slowing national growth rate. In this regard, the BCEAC concluded at its January 2008 meeting that the first half of 2008 will remain slow in Baltimore County, with conditions improving in the third and fourth quarters but still yielding a slower-pace year. Specifically, the BCEAC pointed to Baltimore County's weak housing market and slow retail sector, which are not expected to improve in the immediate future. The Spending Affordability Committee's 4.56% growth rate reflects such modest expectations.

Figure 4. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters,* November 2007

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 2009, Baltimore County personal income is forecast to increase by 4.56%.

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 (Figures 5 and 6). As noted previously, personal income growth of 4.56% is based on the January 2008 Baltimore County personal income forecast by RESI Research and Consulting - Towson University (RESI).

Increasing FY 2008 base spending by 4.56% yields a FY 2009 spending guideline of $1,547,593,892, which limits spending growth to $67,492,618 over FY 2008 base spending.

Increasing the FY 2008 base spending level ($1,480,101,274) by personal income growth (4.56%) results in a spending affordability guideline of $1,547,593,892 (Figure 7). This guideline represents a $67,492,618 increase over FY 2008 base spending. **Accordingly, the Committee recommends that FY 2009 base spending not exceed $1,547,593,892.**

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. 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.

Up to $11 million of FY 2009 General Fund appropriations required to maintain essential special education services previously funded by Federal Medicaid funds may be excluded from FY 2009 spending subject to the guideline.

During its deliberations this year, the Committee learned that up to $11 million in Federal funds for special education services will likely be lost in FY 2009 due to a change in Federal Medicaid policy. General Fund appropriations will be necessary to continue providing these essential services. Because this policy change may be temporary, the Committee voted to allow for up to $11 million of FY 2009 General Fund appropriations for these services to be a one-time exclusion from spending subject to the guideline. The Committee will reconsider this issue as part of its FY 2010 deliberations.

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 spending limit is calculated as follows:

General Fund Operating Budget Appropriations (previous fiscal year)
\+ Supplemental Appropriations
\- <u>Appropriations not subject to growth in personal income (see Figure 6 for detail)</u>
Base Spending (previous fiscal year)
x <u>Personal Income Growth</u>
Spending Guideline (new fiscal year)

Figure 6. Spending Affordability Committee Definition of Base Spending

Base spending: Total General Fund appropriations less appropriations 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 Project 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.

Reserve Fund Appropriations:

- 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 General Fund revenues.

- 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).

One-Time-Only Appropriations:

- Specific exclusions for extraordinary or special items that represent 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) are determined on a year-to-year, case-by-case basis.

OPEB Accrued Liability (OAL) Appropriations:

- For fiscal years beginning after June 30, 2007, the County will begin funding its obligation for other post employment benefits (OPEB) on an accrual basis. Due to the significant unfunded OPEB liability, recognition of the additional annual required contribution resulting from the OPEB accrued liability will be phased-in over five years, in 20% increments, until the full amount is recognized by FY 2012. Actual funding in excess of the annual increment will be excluded from the spending guideline.

Figure 7. FY 2009 Spending Guideline

FY 2008 Base Spending			
General Fund Appropriations, Excluding OPEB Accrued Liability	$	1,637,895,570	
General Fund OPEB Accrued Liability (OAL) Appropriation		19,850,000	
Supplemental General Fund Appropriations		669,509	
Total General Fund Appropriations		1,658,415,079	
General Fund Additions:			
Revenue Stabilization Reserve Account (RSRA) Transfer		3,999,962	
Total General Fund		1,662,415,041	(A)
General Fund Exclusions:			
Local Matching Appropriations			
Local Share - State & Federal Grants		(6,927,938)	
Education - Federal/Restricted Program		(44,000)	
Capital Project Appropriations			
PAYGO		(146,875,000)	
Reserve Fund Appropriations			
Contingency Reserve		(1,124,937)	
RSRA Transfer		(3,999,962)	
One-Time-Only Appropriations			
Baltimore County Public Schools		(7,461,930)	
OPEB Accrued Liability (OAL) Appropriations in Excess of Phase-In Amount		(15,880,000)	
Total General Fund Exclusions		(182,313,767)	(B)
FY 2008 Base Spending (A - B)		1,480,101,274	(C)
Personal Income Growth Forecast for FY 2009	x	1.0456	(D)
FY 2009 Spending Guideline (C x D)	$	1,547,593,892	(E)
Maximum Spending Growth (E - C)		***$67,492,618***	

Calculation of the FY 2009 OPEB Accrued Liability Phase-In Amount

According to a five-year phase-in plan adopted by the Committee, FY 2009 spending subject to the guideline shall include General Fund OPEB accrued liability (OAL) appropriations up to 40% of the actuarial estimate of the annual required contribution for the OPEB accrued liability. FY 2009 General Fund OAL appropriations in excess of the 40% phase-in amount may be excluded from spending subject to the guideline. If FY 2009 General Fund OAL appropriations are less than the 40% phase-in amount, the entire amount appropriated for OAL must be included in spending subject to the guideline. Based on the most recent actuarial estimate, the FY 2009 OAL phase-in amount is $25,283,600, calculated as follows:

Actuarial estimate of FY 2009 Annual Required Contribution (ARC) for OPEB	$	148,892,000
- Current Normal Expense (PAYGO) Portion of the ARC		(85,683,000)
OPEB Accrued Liability (OAL) Portion of the ARC		63,209,000
x FY 2009 OAL Phase-In Percentage		40%
FY 2009 OAL Phase-in Amount	$	25,283,600

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, two supplemental appropriations totaling $669,509 (as of February 4, 2008) have been made or proposed to the adopted FY 2008 General Fund operating budget. Of these two supplemental appropriations, one, totaling $437,395, represents required County matching funds (Local Share) and, thus, is also part of the exclusions from base spending.

No reduction in planned spending due to funding shortfalls is anticipated for FY 2008.

The most recent revenue projections indicate that FY 2008 revenues will most likely exceed budget estimates; therefore, no reduction in planned spending due to funding shortfalls is anticipated.

Spending Policy Issues and Recommendations

For FY 2009, the Committee adopted two policies related to its spending guideline.

During its FY 2009 deliberations, the Committee adopted a policy to continue its long-standing practice of omitting Special Fund spending from its guideline calculation.

First, the Committee affirmed its long-standing practice and adopted a policy of omitting Special Funds from its spending guideline. Special Fund spending is supported by revenue derived mostly from Federal and State restricted grants as well as from program fees and other sources. The primary reason for omitting Special Funds from the guideline is that their expenditure does not commit the County to future ongoing expenditures. Additionally, Special Funds do not rely upon County-generated taxes and other charges imposed on County residents. Accordingly, there is no conceptual link between Special Fund expenditures and affordability (as defined by County personal income) and thus little basis for applying the Committee's growth factor to Special Funds.

The Committee also adopted a policy to continue its practice of updating the spending guideline after issuance in mid-February, based on all supplemental appropriations and budget appropriation transfers occurring after the guideline is issued, provided that such actions comply with the Committee's base-year spending guideline.

Second, the Committee adopted a policy regarding the calculation of its spending guideline amount and year-end revision of that figure, again affirming long-standing practice. Specifically, the spending guideline should change after issuance in mid-February, based on all supplemental appropriations and budget appropriation transfers occurring after the guideline is issued, provided that such actions comply with the Committee's base-year spending guideline. However, the spending guideline should not be revised to account for estimated year-end reversions (unspent funds). To do otherwise could provide an incentive for spending beyond prudent levels in one year in order to inflate the spending guideline amount for the following year.

The Committee will continue the five-year phase-in of the additional annual required contribution for the OPEB accrued liability and will calculate the annual phase-in amount, using the most recent available actuarial report on the subject.

The Committee also reaffirmed and clarified its policy regarding the five-year phase-in of additional appropriations for other post-employment benefits (OPEB) accrued liability contributions into the spending guideline. The Committee will continue to allow a phase-in of the increase in annual required contribution (ARC) for the OPEB accrued liability. The Committee will calculate the annual phase-in amount using the most recent available actuarial report. This approach should prevent ambiguity as to the amount that should be included (and excluded) in the spending guideline for each year of the phase-in period. The phase-in will proceed over the established five-year period (FY 2008 to FY 2012) with even incremental annual increases in the amount of additional ARC incorporated into the guideline. However, given the possibility of unexpected, compelling exigencies that call for acceleration or deceleration of the phase-in, the Committee acknowledged that the policy is subject to annual review.

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

In addition to these spending guideline policies, the Committee reaffirms its recommendations that the County Executive: **(1) avoid under-funding essential operating budget items in order to fund other initiatives; and (2) avoid funding ongoing operating expenses with surplus funds.**

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. Actual debt service expenditures and the amount of total debt outstanding have consistently remained below the Committee's guidelines.

Debt Service Guideline

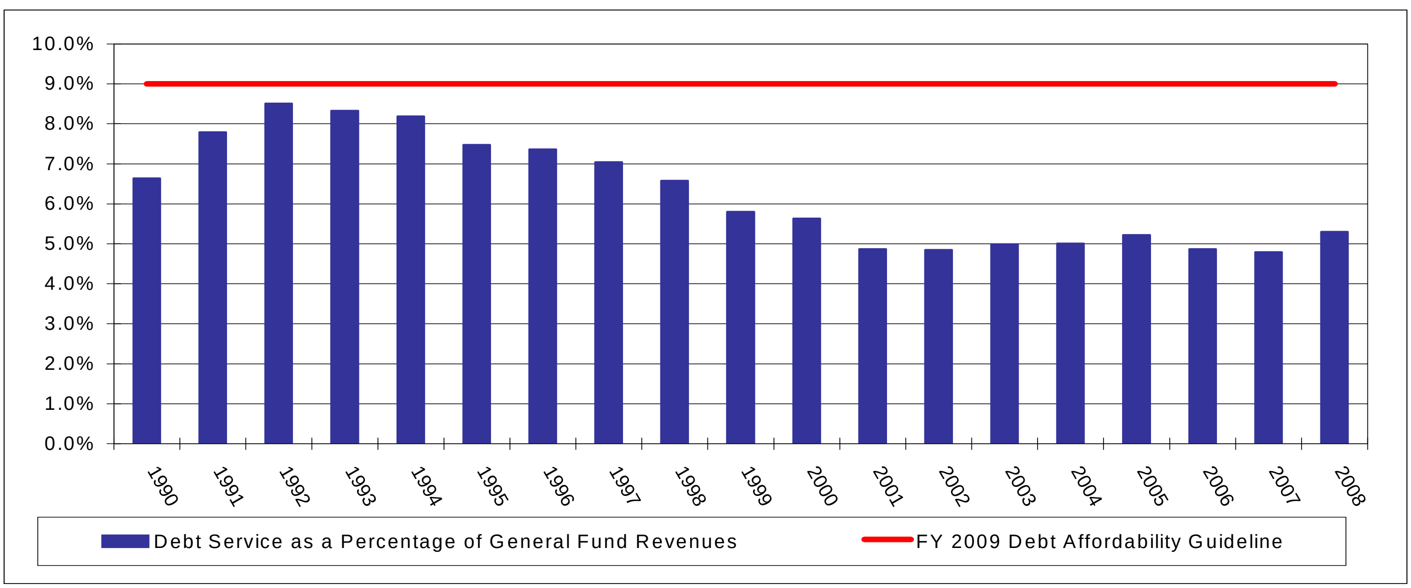
The Committee recommends that debt service not exceed nine percent of General Fund revenue, or $148,932,000.

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 2008, the amount spent or budgeted for debt service ranged from 4.8% 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 2009, the Committee recommends that debt service expenditures not exceed $148,932,000, based on projected revenues totaling $1,654,800,000.**

The decrease in the ratio of debt service to General Fund revenues beginning in the 1990s reflects increased use of PAYGO to fund capital projects, rather than a reduction in County capital spending.

The ratio of debt service to General Fund revenues from FYs 1990 through 2008 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 increased usage of pay-as-you-go (PAYGO) operating budget funds to finance the County's capital budget in recent years. Specifically, from FY 1999 through FY 2008, the County has budgeted $843.6 million in PAYGO funding, compared to $98.1 million in the preceding 10-year period. However, had the County issued bonds in lieu of relying on PAYGO during this same FY 1999—FY 2008 period, the County would have incurred additional interest expense totaling approximately $395.9 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 2008 ratio is an estimate.
Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor

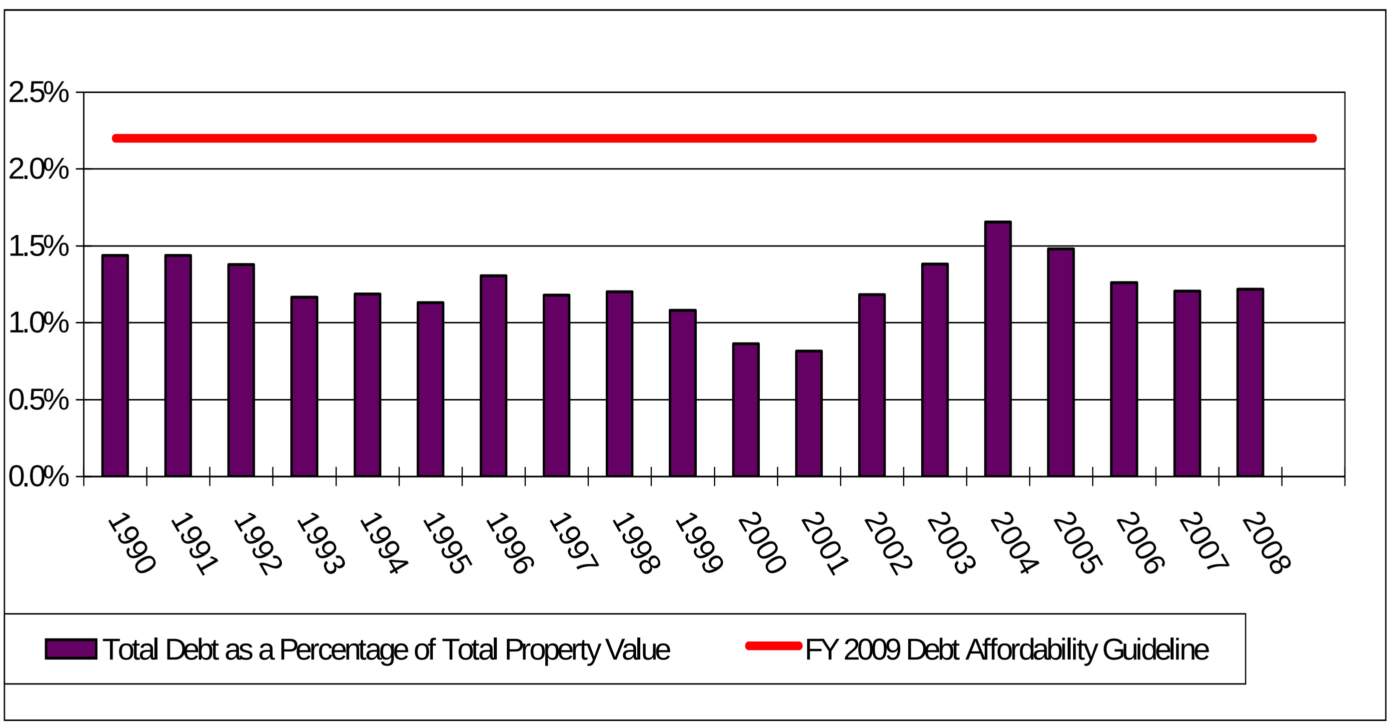
The Committee recommends that total debt outstanding not exceed 2.2 percent of assessed property value, or $1,809,029,376.

Total Debt Outstanding Guideline

The ratio of total debt outstanding to assessed property value is a second measure of debt affordability. Since 2004, the Administration's financial guidelines have set a target range of 1.8% to 2.2% for debt outstanding as a percentage of assessed property value. Prior to FY 2007, the Committee's guideline was set at 2.0% and applied only to real property. Beginning in FY 2007 the Committee raised its limitation on total debt outstanding from 2.0% to 2.2% of assessed property value, including real and personal property, based on a study prepared by the County's independent financial consultant. From FY 1990 to FY 2008, total outstanding debt has ranged from 0.8% to 1.7% of the county's assessed property value (Figure 9).

In accordance with the Committee's policy that total outstanding debt should not exceed 2.2 percent of assessed property value, **the Committee recommends that total debt outstanding during FY 2009 not exceed $1,809,029,376, or 2.2% of assessed property value totaling $82,228,608,000.**

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 2008 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 2008 General Fund revenues are projected to increase by $7.2 million, or 0.5%, over FY 2007. This projection exceeds current-year budgeted revenue estimates by $2.7 million.

FY 2008 General Fund revenues are projected to total $1,602.9 million, an increase of $7.2 million, or 0.5%, over FY 2007 totals. This projection exceeds budgeted FY 2008 revenues by $2.7 million. The projected slow revenue growth reflects lower income tax revenues due to a change in the State's calculation of income tax distributions to the County throughout the fiscal year in addition to a continued decline in property-related transaction tax revenue (i.e., title transfer and recordation tax revenues) due to the slow housing market. High real property values will continue to support strong property tax revenue growth.

FY 2009 General Fund revenues are projected to increase by approximately $54.6 million, or 3.4%, over budgeted FY 2008 revenues.

FY 2009 General Fund revenues are projected to reach $1,654.8 million, up approximately $54.6 million, or 3.4%, over budgeted FY 2008 revenues, and $51.9 million, or 3.2%, over the revised FY 2008 estimate (Figures 10 and 11). The projected rate of growth in FY 2009 General Fund revenue is below the FY 2004 through FY 2007 annual growth rates, but considerably higher than the projected FY 2008 growth rate. General Fund revenue growth in FY 2009 primarily reflects anticipated gains in the County's two principal revenue sources, property and income taxes. Property-related transaction tax revenues are expected to be flat due to continued slowing in the housing market prior to an anticipated increase in activity in early CY 2009. State aid reductions, as well as the State law change in the definition of taxable income, are expected to reduce FY 2009 General Fund revenues by approximately $15 million in total.

The FY 2009 revenue projection is $107.2 million higher than the Committee's spending guideline.

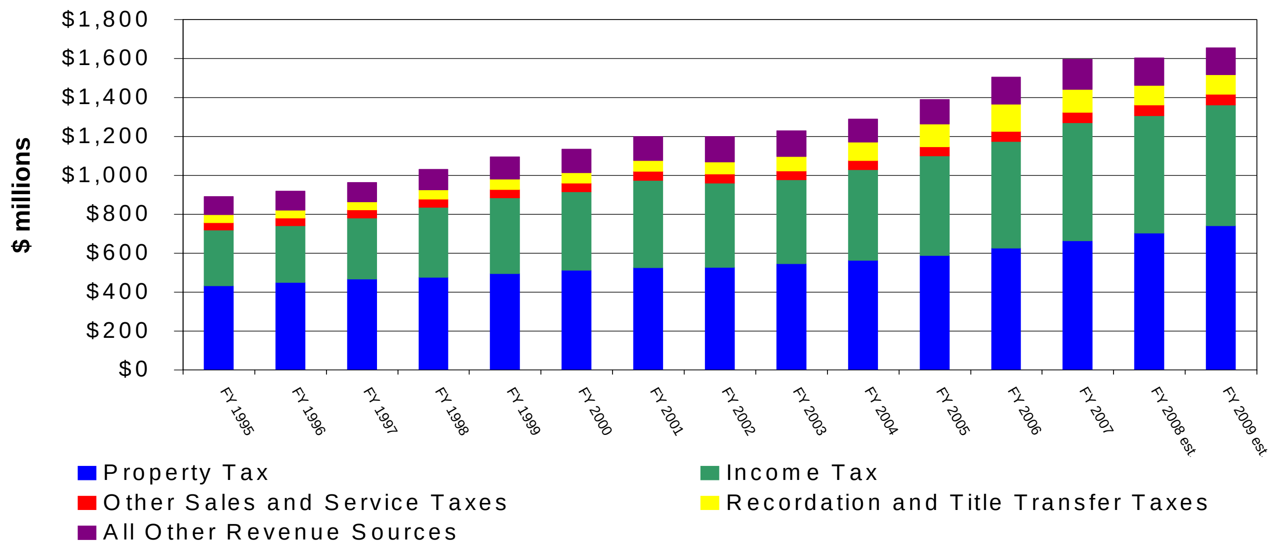
The FY 2009 revenue projection is $107.2 million higher than the Committee's FY 2009 spending guideline. The excess funds, together with other unreserved funds, may be used for spending not subject to the guideline, including local-share matching funds, one-time expenditures such as pay-as-you-go contributions to the capital budget (which reduces programmed borrowing), and funding the County's OPEB accrued liability in excess of the phase-in amount. The funds could also be used 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 2008-FY 2009

($ in Millions)

Revenue Source	FY 2007 Actual	FY 2008 Budget	FY 07 - FY 08 Bud.	FY 2008 Revised	FY 07- FY 08 Rev.	FY 2009 Estimate	FY 08 Bud. - FY 09	FY 08 Rev. - FY 09
Property taxes	$663.3	$700.5	5.6%	$703.1	6.0%	$741.8	5.9%	5.5%
Income taxes	607.9	597.0	-1.8%	604.2	-0.6%	619.5	3.8%	2.5%
Recordation & title transfer taxes	118.2	103.9	-12.1%	100.4	-15.1%	100.4	-3.4%	0.0%
Other sales & service taxes	52.4	54.9	4.8%	54.3	3.6%	56.0	2.0%	3.1%
Licenses & permits	4.0	4.2	4.3%	4.2	4.3%	4.3	2.4%	2.4%
Fines, forfeitures & penalties	4.7	3.9	-17.5%	4.7	-0.5%	4.7	20.5%	0.0%
Service charges	10.6	10.5	-0.9%	10.5	-0.9%	10.5	0.0%	0.0%
Interest on investments	17.4	14.9	-14.4%	12.3	-29.3%	10.4	-30.2%	-15.4%
Intergovernmental aid	80.6	82.5	2.4%	81.2	0.7%	79.2	-4.0%	-2.5%
Other	36.5	27.9	-23.6%	28.0	-23.3%	28.0	0.4%	0.0%
TOTAL	$1,595.7	$1,600.2	0.3%	$1,602.9	0.5%	$1,654.8	3.4%	3.2%

Figure 11. Baltimore County General Fund Revenues



Source: FY 2003 to FY 2007 Baltimore County Comprehensive Annual Financial Reports

GENERAL FUND SURPLUS

The FY 2007 General Fund surplus totaled $271.4 million and included $80.0 million in the RSRA.

For FY 2007, the General Fund surplus totaled $271.4 million. This amount included $80.0 million in the Revenue Stabilization Reserve Account (RSRA), which was $4.1 million more than the minimum requirement (five percent of budgeted revenues). The remaining $191.4 million is equal to 12.6% of FY 2007 budgeted revenues.

The FY 2008 General Fund surplus is estimated to total $215.9 million and includes $84.0 million in the RSRA.

For FY 2008, it is estimated that the General Fund surplus will total $215.9 million. This amount includes $84.0 million in the RSRA, which is $4.0 million more than the minimum required. The remaining $131.9 million represents an undesignated, unreserved surplus and is equal to 8.2% of budgeted revenues (Figure 12).

Figure 12. Estimated General Fund Surplus, FY 2008

($ in Millions)

FY 2007 General Fund Surplus (per Baltimore County Comprehensive Annual Financial Report)		$ 271.4
FY 2008 Revenue Estimate (per Adjusted Budget)	1,600.2	
FY 2008 Revision	2.7	
FY 2008 Revised Revenue Estimate		1,602.9
FY 2008 General Fund Appropriations (per Adopted Budget)	1,657.7	
FY 2008 Anticipated Supplemental Appropriations	0.7	
FY 2008 Revised General Fund Budget		(1,658.4)
FY 2008 Estimated General Fund Surplus		$ 215.9
Revenue Stabilization Reserve Account		$ 84.0
Undesignated Unreserved Surplus		$ 131.9