SPENDING AFFORDABILITY COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2011

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Baltimore County, Maryland

February 12, 2010

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SPENDING AFFORDABILITY COMMITTEE

February 12, 2010

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 (FY) 2011.

For FY 2011, the Committee recommends a base spending guideline of $1,632,011,333 derived from a personal income growth rate of 3.80%. This guideline represents maximum potential growth of $59,746,080 over estimated FY 2010 base spending. The Committee further recommends that total debt outstanding not exceed 2.2% of FY 2011 estimated assessed property value and that debt service not exceed 9% of FY 2011 estimated General Fund revenues. These guidelines are meant to limit spending such that growth in the cost of government services does not exceed 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.

The FY 2011 spending guideline reflects the Committee's long-standing policy of considering anticipated budget cutbacks in the base year that are due to significant economic events. In light of a $144 million projected revenue shortfall for FY 2010 that is directly associated with current economic conditions, for the purpose of calculating the FY 2011 guideline it was necessary to adjust downward the base-year spending amount to reflect a significant amount of anticipated General Fund reversions for FY 2010. In the absence of formal input from the Administration about the specific steps being taken to address the revenue shortfall, the Committee was compelled to estimate final actual base-year spending in order to recommend a spending guideline for the upcoming fiscal year. The Committee felt comfortable utilizing the actual FY 2009 General Fund reversion amount of $43.3 million as its basis for estimating final FY 2010 spending since these funds were previously budgeted but not spent and were included in the FY 2009 base-year amount that was used to calculate the FY 2010 spending guideline.

In determining its fiscal guidelines, the Committee reviewed current and projected conditions of the national, state, and local economies. This review found that the U.S. economy is in the early stages of a prolonged recovery from the worst recession in decades, and that the Maryland economy is not immune to the woes that continue to face the nation. It is not yet known when the economy will fully rebound. The Committee's economic consultant expects the recession to continue in Maryland through calendar year (CY) 2010 and forecasts economic recovery during CY 2011. Last month, the economic consultant reduced its forecast of County personal income growth for FY 2011 to 2.91% from its prior FY 2011 forecast of 3.58%. At its January 25, 2010 meeting, the Baltimore County Economic Advisory Committee continued to express pessimism and predicted that the County's recession would persist in many sectors through the remainder of CY 2010.

The dismal economic outlook generated concern among Committee members about the current and plausible future imbalance between ongoing General Fund revenues and ongoing General Fund expenditures. One Committee member aptly observed that the current FY 2011 revenue projection is nearly $100 million lower than the FY 2011 spending guideline. Accordingly, the Committee emphatically pairs its spending guideline recommendation with a number of highly cautionary fiscal policy recommendations. While the Committee is aware that the Administration may likely have various options available for addressing the depressed revenue outlook, we strongly urge the Administration to adhere to its previously adopted financial policies to ensure that the County maintains sufficient reserves and avoids the slippery slope of funding ongoing operating expenses with one-time sources of funding, such as surplus funds. Budgetary compliance with the Committee's guidance cannot be determined without examining and applying these critically important fiscal policy recommendations.

I would like to thank my fellow Council members who served on the Committee for their time and commitment to this year's challenging and thought-provoking process. I would further like to express my gratitude to Dr. Roy Meyers, whose expertise in the field of public policy and government budgeting practices provided insight to the process, and to new member Carlotta Oliver, who brought a fresh perspective despite joining the Committee in the midst of unprecedented fiscal challenges. Also, I would like to acknowledge the efforts and critical information provided by the Economic Advisory Committee chaired by esteemed economist Anirban Basu. Many thanks are also due to the Committee's staff for its analytical efforts and its forecasts of revenues and expenditures. Additionally, RESI Research and Consulting – Towson University provided personal income forecasting services to the Committee.

We are hopeful that this report will be given careful consideration in the development and review of the County's operating and capital budgets for FY 2011.

Sincerely,

John Olszewski, Sr.

John Olszewski, Sr.
Chairman, Spending Affordability Committee
Councilman, 7th District

INTRODUCTION

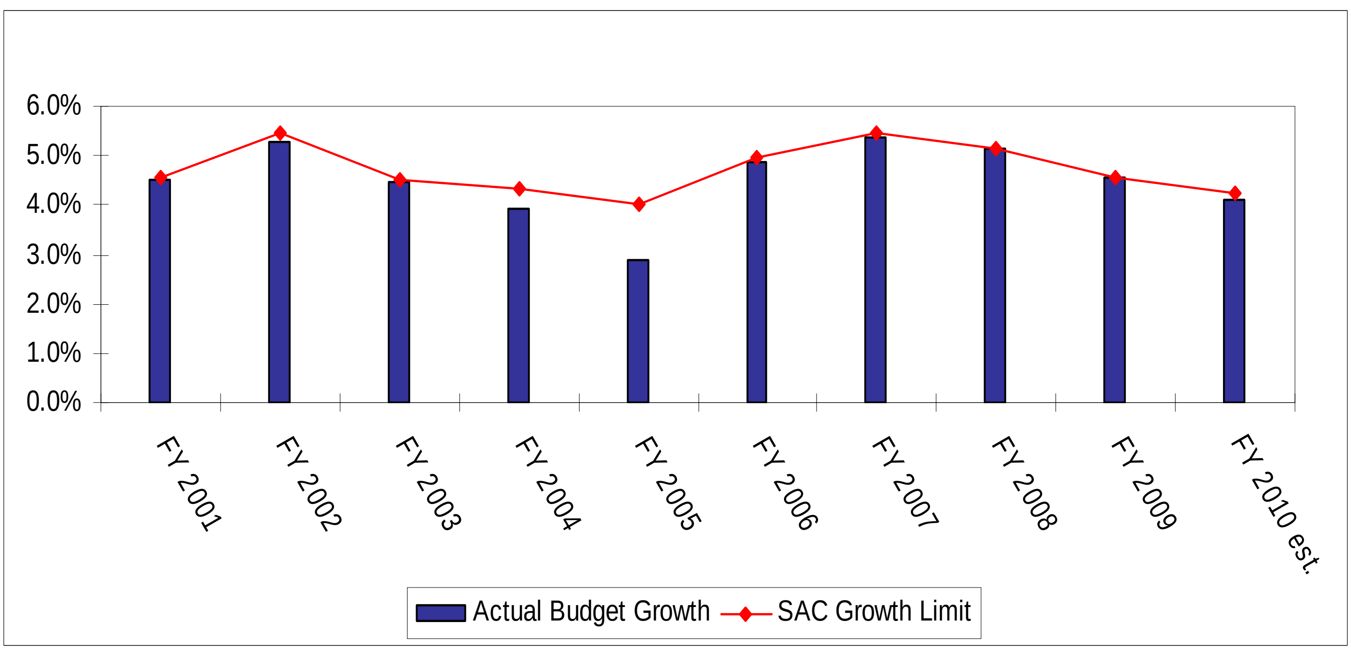
The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed the growth in the County's economy.

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, the law states that the Committee's recommendations may be exceeded by the County Council if a rationale for doing so is provided.

Figure 1. SAC Spending Growth Compliance, Most Recent 10 Years



SPENDING GUIDELINE

The Committee recommends base spending growth of 3.8%, or $59.7 million, for FY 2011.

The spending 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 spending affordability growth factor (Figures 2 and 3). **For fiscal year 2011, the Committee recommends that base spending not exceed $1,632,011,333 based on a County personal income growth rate of 3.8% applied to estimated final FY 2010 base-year spending of $1,572,265,253 (Figure 4). This guideline allows for maximum spending growth of $59.7 million over estimated final FY 2010 spending.**

SPENDING POLICY ISSUES AND RECOMMENDATIONS

The Committee maintained the policy of utilizing a 5-year average of annual personal income growth rates for determining its personal income growth factor.

Last year, the Committee changed its measure of growth in the County's economy from a forecast of personal income growth for the upcoming fiscal year to the average of the annual growth forecasts for the upcoming and current fiscal years and the annual growth estimates for the 3 preceding fiscal years. For FY 2011, the Committee maintains this policy of utilizing a 5-year average of annual personal income growth rates and notes that there are a number of long-term advantages of maintaining this policy. Specifically, the use of 5-year averaging smoothes out economic fluctuations, stabilizing spending growth over time, and it corrects for revisions over time to current and prior year personal income growth forecasts.

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

As in past years, the Committee believes that base-year 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. The Committee has often increased planned spending in the past for supplemental appropriations. For FY 2010, one supplemental appropriation totaling $72,082 was enacted after the budget was adopted, and planned spending will be increased by this supplemental appropriation. However, the County rarely faces revenue shortfalls that require decreasing planned spending. The Committee learned that FY 2010 is one of those rare years when the County will face a significant revenue shortfall, which would reduce the amount of spending planned for ongoing expenditures.

Figure 2. Calculation of the Spending Guideline

The spending guideline for the upcoming fiscal year is calculated by applying the spending affordability growth factor to the current year's estimated base spending (as defined by the Committee). Specifically, the recommended spending limit is calculated as follows:

General Fund Operating Budget Appropriations (current fiscal year)
\+ Supplemental Appropriations
\- Estimated General Fund Reversion due to detrimental economic events
\- <u>Appropriations not subject to growth in personal income (see Figure 3 for detail)</u>
Base Spending (current fiscal year)
x <u>Personal Income Growth Factor</u>
Spending Guideline (upcoming fiscal year)

The Committee's estimate of final spending for FY 2010 is $43.3 million less than the enacted FY 2010 budget.

The Committee learned about this shortfall from its staff, which monitors and forecasts General Fund revenues and expenditures throughout the year. The Committee was concerned when the Administration did not respond to efforts by the Committee's staff to discuss the extent of the revenue shortfall and the spending reductions that would be employed to balance the FY 2010 budget. The Administration eventually indicated that it was unable to provide an estimate of final spending because its plans for addressing the revenue shortfall were not yet finalized. As a result, the Committee is compelled to estimate final spending in the absence of formal input from the Administration. The Committee determined that $43.3 million was an appropriate amount by which to reduce the total appropriation since actual spending for FY 2009 was $43.3 million less than the enacted FY 2009 budget amount and it could be anticipated that a similar level of General Funds will be targeted for reversion without jeopardizing County services in FY 2010.

The Committee is concerned that ongoing General Fund revenues are insufficient to support ongoing General Fund expenditures.

During its deliberations, Committee members also learned that given the current revenue structure, ongoing General Fund revenues are not expected to recover to FY 2008 levels before FY 2013. Committee members expressed concern that FY 2010 spending for ongoing commitments is anticipated to exceed FY 2010 revenue from ongoing sources and that this trend is likely to continue in FY 2011. Accordingly, the Committee finds it important to reaffirm and reinforce its longstanding fiscal policy recommendations, as follows:

The Committee strongly recommends that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall reoccurs in FY 2011.

- The Committee recommends that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall reoccurs in FY 2011. Accordingly, the Committee endorses the Administration's adopted policy of: striving to produce an unreserved General Fund balance (surplus) near 7% of revenues in these volatile economic times including a revenue stabilization reserve equal to 5% of revenues; establishing a floor level for surplus funds at 3% of revenues; and ensuring that the balance of surplus funds does not fall to the 3% floor level for 2 consecutive years.

The Committee also recommends that the County Executive avoid funding ongoing operating expenses with one-time revenue sources and avoid underfunding essential items in FY 2011.

- The Committee recommends that the County Executive submit a General Fund budget that avoids funding ongoing operating expenses with one-time sources of funding, such as surplus funds. The Committee is concerned that the Executive submitted a budget for FY 2010 that funded $8 million of ongoing operating expenses with surplus funds. The Committee warns that if the Executive continues the practice of funding ongoing operating expenses with surplus funds or other one-time revenues, the County may face the prospect of unsustainable budget deficits in the years to come.
- The Committee recommends that the County Executive avoid under-funding essential operating budget items in order to fund other initiatives.

Certain appropriations are not subject to the Committee's spending guideline because they do not represent ongoing County program obligations.

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 that the expenditure 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 earmarked expenditure. Given the nature of these appropriations, they should not be limited by the growth in the County's economy but rather by some other factor, such as available surplus or projected revenues. Accordingly, such appropriations are not subject to the Committee's spending guideline.

Figure 3. Spending Affordability Committee Definition of Base Spending

Base spending: General Fund spending less appropriations not subject to personal income growth, as itemized below.

<u>Appropriations not subject to personal income growth:</u>

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.

Certain 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 are excludable to the extent they represent a reserve for unforeseen needs (e.g., emergencies) and are not earmarked for a specific purpose or program unless the specific purpose or program meets one of the other criteria for exclusion. If contingency reserve 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 Department 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 began funding its obligation for other post employment benefits (OPEB) on an accrual basis. Due to the significant unfunded accrued liability for OPEB, recognition of the additional annual required contribution resulting from the OPEB accrued liability will be phased-in over 10 years, in 10% increments, until the full amount is recognized by FY 2017. Actual funding in excess of the phase-in amount will be excluded from base spending.

Figure 4. FY 2011 Spending Guideline

FY 2010 Base Spending		
General Fund Appropriations, Excluding OPEB Accrued Liability	$	1,649,031,375
General Fund OPEB Accrued Liability Appropriation		24,845,092
General Fund Supplemental Appropriations		72,082
Appropriations Subtotal		1,673,948,549
Estimated General Fund Reversion Due to Revenue Shortfall		(43,305,390)
Estimated Final Spending		1,630,643,159
General Fund Exclusions:		
Local Matching Appropriations		
Local Matching Funds		(7,427,222)
Federal Restricted Funds		(198,428)
Capital Project Appropriations		
PAYGO		(33,122,971)
Reserve Fund Appropriations		
Contingency Reserve		(987,680)
One-Time-Only Appropriations		
Baltimore County Public Schools State-Approved One-Time Costs		(10,759,213)
OPEB Accrued Liability (OAL) Appropriations		
In Excess of Phase-In Amount		(5,882,392)
Total Exclusions		(58,377,906)
FY 2010 Base Spending		1,572,265,253
Personal Income Growth 5-Year Average	x	1.038
FY 2011 Spending Guideline	$	1,632,011,333
Maximum Spending Growth	***$***	***59,746,080***

Calculation of the FY 2010 OPEB Accrued Liability Phase-in Amount

FY 2011 is the fourth year of the 10-year phase-in period for recognizing the OPEB accrued liability (OAL) funding under the spending guideline. Therefore, the phase-in amount for FY 2011 is equal to 40% of the actuarial estimate of the annual OPEB accrued liability. Any FY 2011 General Fund OAL appropriations in excess of the 40% phase-in amount shall be excluded from spending subject to the guideline. If FY 2011 General Fund OAL appropriations are less than the 40% phase-in amount, the entire amount appropriated for OAL shall be included in spending subject to the guideline. The FY 2011 OAL phase-in amount is $25,283,600, calculated as follows:

Estimated Annual OPEB Accrued Liability (OAL)	$	63,209,000
x FY 2011 OAL Phase-In Percentage		40%
FY 2011 OAL Phase-In Amount	$	25,283,600

ECONOMIC GROWTH

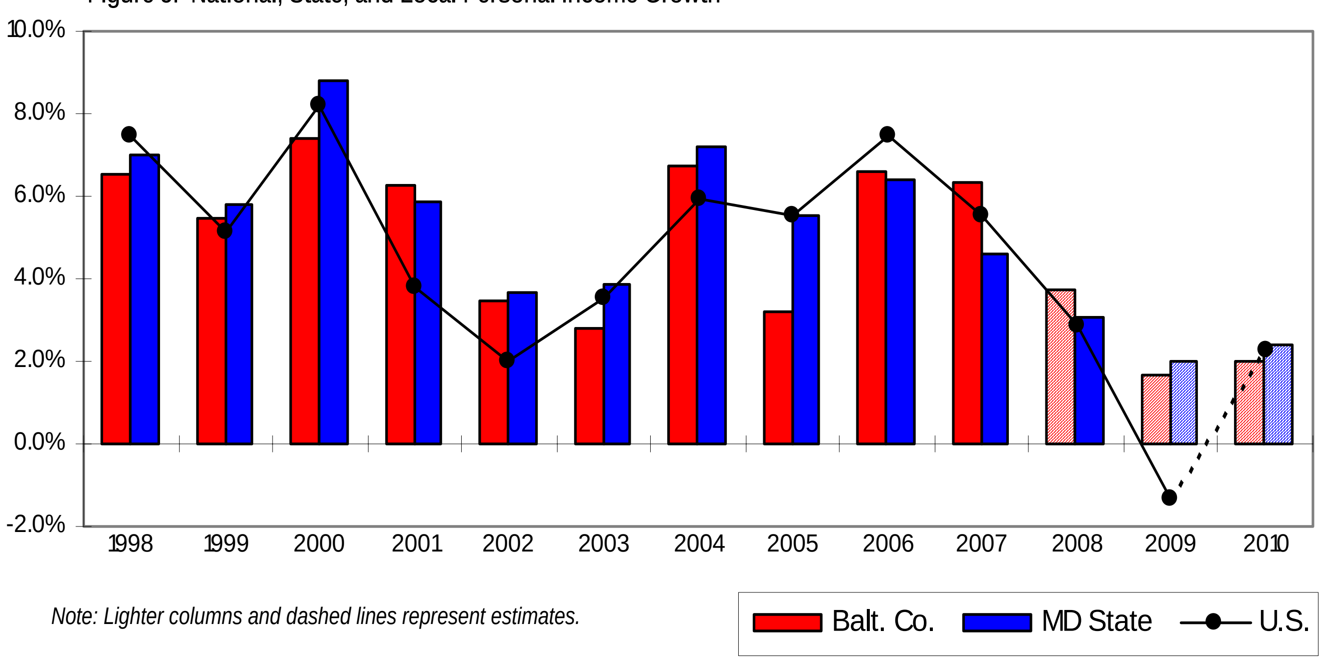
Personal income growth estimates for FY 2010 and FY 2011 remain low compared to historic averages.

Prior to adopting its FY 2011 personal income growth rate, the Committee reviewed current and projected economic conditions to gain an understanding of the basis for the consultant's personal income estimates and forecast. The consultant (RESI Research and Consulting – Towson University) raised its Baltimore County personal income growth forecast for FY 2010 from 0.33% in October 2009 to 1.69% in January 2010, which is 40 basis points below its revised Maryland growth forecast of 2.09% for FY 2010. Similarly, RESI projects that FY 2011 personal income growth in the State (3.31%) will exceed the County personal income growth (2.91%) by 40 basis points. Over the 1998 to 2009 period, estimated County personal income increased at an average annual rate of 5.0%, compared to 5.3% and 4.7% in Maryland and the U.S., respectively (Figure 5).

Despite observed pockets of economic improvement, sentiments expressed by the Baltimore County Economic Advisory Committee on January 25, 2010 were pessimistic.

The January 25, 2010 meeting of the Baltimore County Economic Advisory Committee (BCEAC) provided further insight into local economic conditions. The BCEAC members predicted that the economic downturn will persist in many sectors through the remainder of calendar year (CY) 2010. The panel reported that most companies are hesitant to hire and expects that unemployment will remain high for the foreseeable future, putting additional pressure on the retail sector. On the positive side, it was noted that the housing market may be reaching an equilibrium and there is evidence of limited manufacturing growth due to inventory replenishment. Members also see the potential for stronger economic performance for Central Maryland in future years, reflecting the expected growth resulting from the Federal Government's implementation of the Base Realignment and Closure (BRAC) Commission recommendations. Additionally, members have observed the economic advantages associated with the stability resulting from Maryland's proximity to Washington, D.C., including the local advantage of being home to the Social Security Administration headquarters. Members warned, however, that the near-term outlook for the local, regional, and national economies remains pessimistic.

Figure 5. National, State, and Local Personal Income Growth



Note: Lighter columns and dashed lines represent estimates.

Estimate Source: RESI Research and Consulting—Towson University, January 2010

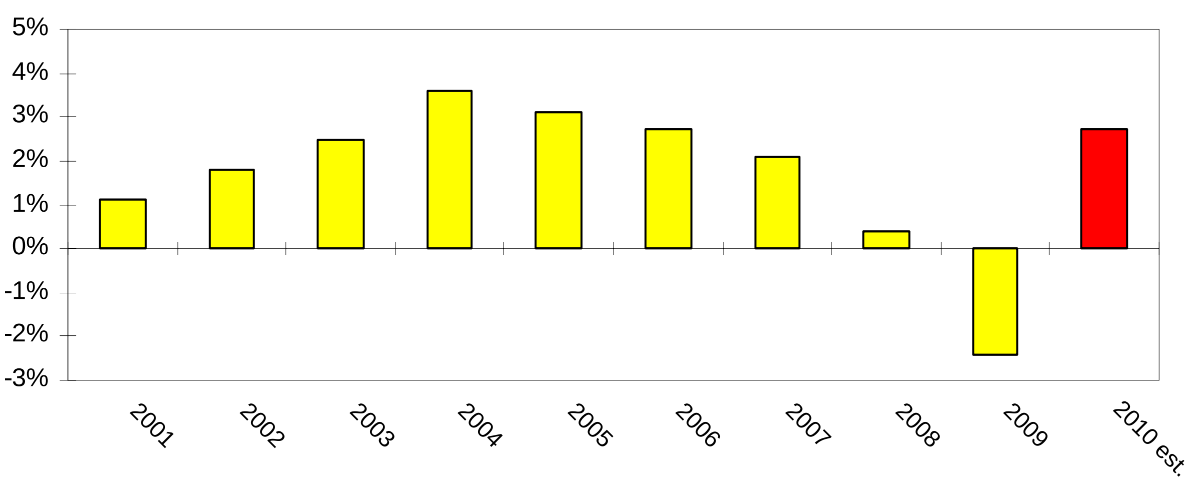
Real Gross Domestic Product (GDP) grew at an average annual rate of 1.9% from CY 2000 to CY 2009. For CY 2010, real GDP is expected to increase by 2.7%.

Projections for the local economy are influenced, to a large degree, by the underlying performance of the national and state economies. Nationally, the housing market is stabilizing and household spending is increasing. In CY 2010, consumer spending is expected to increase after falling for two consecutive years, which had not happened since CY 1932 and 1933. However, unemployment continues to hover around 10% and credit markets remain largely frozen despite unprecedented government efforts through increased spending and policy activity. In December 2008, the National Bureau of Economic Research announced that the U.S. had been in a recession since December 2007. The previous U.S. recession was an eight-month downturn from March to November 2001. Emerging from that recession, real GDP grew by an average of 2.3% annually from CY 2002 to CY 2008, yielding an annual average of 1.9% over the last 10 years from CY 2000 to CY 2009. After increasing by 0.4% in CY 2008 and contracting 2.4% in CY 2009, real GDP is projected to increase by 2.7% in CY 2010, according to the Federal Reserve Bank of Philadelphia's December 2009 *Livingston Survey*, the oldest continuous survey of economists' expectations in the U.S. (Figure 6).

Unemployment rates have risen considerably since this time last year.

Employment decreased by 4.7% among Baltimore County residents, by 4.2% among Maryland residents, and by 3.7% nationally on a year-over-year annual average basis from CY 2008 to CY 2009. Baltimore County's and Maryland's December 2009 unemployment rates were 7.6% and 7.2%, respectively, and averaged 7.5% and 7.1%, respectively, for all of CY 2009. When the national unemployment rate last hit 10% in 1983, the unemployment rate for the full calendar year averaged 9.6% nationally, 7.7% in Baltimore County, and 7.3% in Maryland. The Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* projects a national unemployment rate of 10% in 2010 and 9.2% in 2011. If the trend between the unemployment rates holds, Baltimore County and Maryland are already at or near the upper range of possible unemployment, especially given the proximity to Washington D.C. and its safety net of government jobs.

Figure 6. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Livingston Survey*, December 20009*

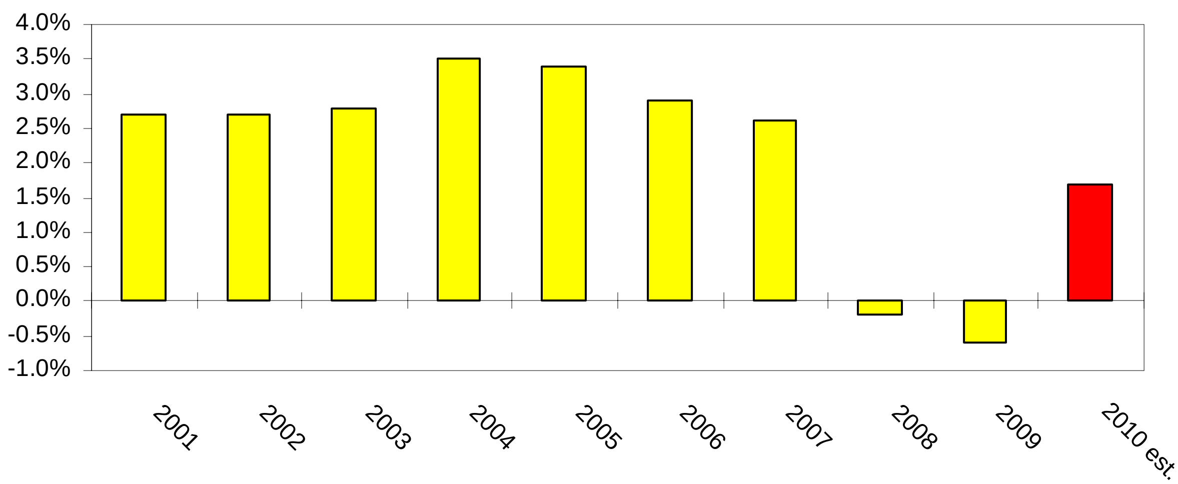
Consumer spending decreased at a rate of 0.6% during CY 2009. Until CY 2008, consumer spending had not declined since CY 1980.

Consumer spending, which typically accounts for slightly more than two-thirds of all U.S. economic activity, is the primary determinant of future economic performance (Figure 7). Consumer spending decreased at a rate of 0.6% during CY 2009. Until CY 2008, consumer spending had not contracted since CY 1980 when it contracted by 0.4%. In December 2009, national unemployment reached its highest level (10%) since June 1983, putting pressure on consumers to decrease spending. Additionally, the level of confidence consumers have about current and future business conditions, in part, determines the strength or weakness of consumer spending. Based on a survey of 5,000 U.S. households by the Conference Board, consumer confidence increased in January 2010 and continued to reflect the resurgence begun in November 2009. The increase in consumer confidence is primarily because the Present Situation Index saw a substantial increase. However, according to the Conference Board, while consumers are more positive regarding income prospects in the short-term, “the number of pessimists continues to outnumber the optimists.” The Conference Board further observed declining expectations of improvements in business conditions and the labor market, reflective of a negative long-term outlook.

Disparate economic indicators such as rising household spending and falling employment levels have led many to expect a weak recovery in CY 2010.

The national economy’s most significant challenge in the coming months is a persistently high unemployment rate. Forecasters participating in the Federal Reserve Bank of Philadelphia’s *Survey of Professional Forecasters* adopted a more pessimistic outlook for employment growth during CY 2010 in the November 2009 report compared to earlier editions. These same forecasters do see more positive trends in consumer spending and GDP during CY 2010, projecting consumer expenditures to expand by 1.7% in CY 2010, compared to contracting by 0.6% in CY 2009. However, a high unemployment rate will do much to depress the positive effects of rebounding spending and GDP growth. These mixed forecasts reflect expanding household spending and a stabilizing housing market in the midst of a still frozen credit market and a weak labor market. The State and County economies are likely to continue to struggle along with the national economy. In this regard, the BCEAC concluded at its January 2010 meeting that CY 2010 will bring further challenges for Baltimore County with no labor market recovery.

Figure 7. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters, November 2009

GENERAL FUND REVENUES AND SURPLUS

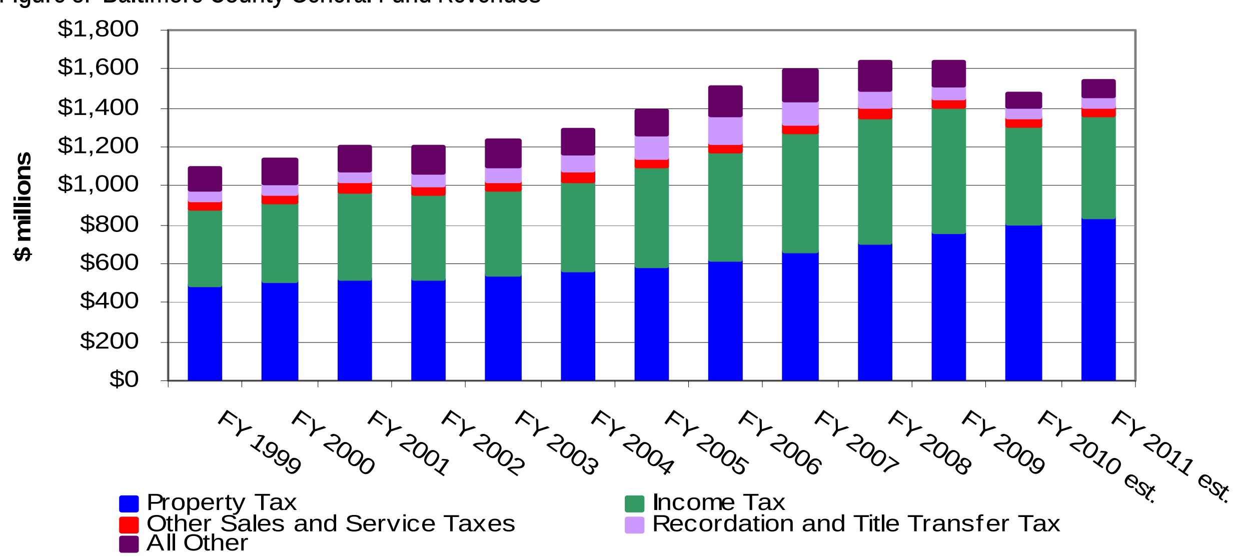
FY 2010 General Fund revenues are projected to decrease by $157.7 million, or 9.6%, from FY 2009 totals. This projection is $144.1 million short of current-year budgeted revenues.

FY 2010 projected revenues total $1,477.7 million, a decrease of $157.7 million, or 9.6%, from FY 2009 totals (Figures 8 and 9). This projection represents a shortfall of $144.1 million, or 8.9%, from FY 2010 budget estimates. The projected revenue shortfall reflects steep reductions in income tax revenues as a result of both the State reconciling an over distribution in FY 2009 and the County receiving a smaller share of weakened FY 2010 local income tax collections, as well as mid-year State aid reductions to the General Fund totaling $21.2 million and lower-than-anticipated property tax revenues. The County is also experiencing the anticipated declines in property-related transaction tax revenues (i.e., title transfer and recordation tax revenues) and moderate declines in various other revenue sources (including investment income, building permit and inspection fees, and service charges) as a result of the continued challenges facing the local and national economies. The Administration assured the Committee that it will address the revenue shortfall in a manner that allows the County to end FY 2010 with a balanced budget.

FY 2011 General Fund revenues are projected to increase by $57.3 million, or 3.9%, over the revised FY 2010 estimate.

FY 2011 General Fund revenues are projected to reach $1,535.0 million, down approximately $86.8 million, or 5.4%, from budgeted FY 2010 revenues, but up $57.3 million, or 3.9%, over the revised FY 2010 estimate. The projected rate of growth in FY 2011 General Fund revenues is below the FY 2004 through FY 2007 annual growth rates, but above the growth rates for FY 2008 through FY 2010. General Fund revenue growth in FY 2011 primarily reflects anticipated gains in the County's property tax revenues combined with a modest rebound in County income tax collections. Property-related transaction tax revenues are forecast to be flat due to the expectation that the housing market will remain slow through the end of CY 2010, with no significant increase in housing prices until the second half of CY 2011. The State aid reductions implemented in FY 2010 (estimated at $42.9 million) are expected to continue in FY 2011 as a result of the State's budget deficit.

Figure 8. Baltimore County General Fund Revenues



Sources: FY 2004 to FY 2009 Baltimore County Comprehensive Annual Financial Reports

Figure 9. General Fund Revenue Forecast, FY 2010-FY 2011

($ Million)

REVENUE SOURCE	FY 2009 Actual	FY 2010 Budget	FY 09 - FY 10 Bud.	FY 2010 Revised	FY 09 - FY 10 Rev.	FY 2011 Estimate	FY 10 Bud.- FY 11	FY 10 Rev.- FY 11
Property taxes	$765.6	$821.8	7.3%	$805.5	5.2%	$840.1	2.2%	4.3%
Income taxes	640.2	597.6	-6.7%	500.0	-21.9%	519.0	-13.2%	3.8%
Recordation & title transfer taxes	65.2	57.0	-12.6%	60.1	-7.8%	60.1	5.4%	0.0%
Other Sales and Service taxes	47.4	51.1	7.8%	44.8	-5.5%	46.6	-8.8%	4.0%
Licenses & permits	3.5	3.1	-11.4%	2.9	-17.1%	3.1	0.0%	6.9%
Fines, forfeitures & penalties	3.4	3.1	-8.8%	2.9	-14.7%	3.1	0.0%	6.9%
Services charges	8.9	9.2	3.4%	8.1	-9.0%	8.4	-8.4%	4.0%
Interest on investments	4.8	3.6	-25.0%	1.2	-75.0%	1.4	-61.1%	16.7%
Intergovernmental aid	70.4	50.4	-28.4%	27.8	-60.5%	27.8	-44.8%	0.0%
Other	26.0	24.9	-4.2%	24.4	-6.2%	25.4	2.0%	4.1%
TOTAL	$1,635.4	$1,621.8	-0.8%	$1,477.7	-9.6%	$1,535.0	-5.3%	3.9%

Note: Totals may not add due to rounding.

The FY 2011 revenue projection is $97 million lower than the Committee's spending guideline.

The FY 2011 revenue projection is $97 million lower than the Committee's FY 2011 spending guideline. In light of this anticipated shortfall, the Committee fully expects the Administration to propose and implement a responsible financial plan that will both minimize the spending in excess of County revenues that is necessary to conduct County business and limit the use of unexpended fund balances.

The FY 2009 General Fund surplus totaled $82.7 million, excluding $84.1 million of RSRA funds.

As of June 30, 2009, the undesignated, unreserved General Fund balance (surplus) totaled $82.7 million, or 5.1% of General Fund revenues. This amount excludes $84.1 million that was designated for the Revenue Stabilization Reserve Account (RSRA). In addition, $52.1 million of General Fund balance was designated as a source of funding for the FY 2010 budget.

If FY 2010 reversions total $43.3 million, $18.1 million from the RSRA would be needed to fund FY 2010 expenditures.

Reversions totaling $43.3 million, as reflected in the guideline calculation, would require $18.1 million from the RSRA in order to fund FY 2010 expenditures, leaving a balance of $66.0 million, or 4.5% of projected FY 2010 revenues, in the RSRA. Any additional reversions and/or use of other unexpended fund balances that are not part of the General Fund would impact projections for both the RSRA and the undesignated, unreserved General Fund balances as of June 30, 2010.

Figure 10. Estimated General Fund Surplus, FY 2010

($ in Millions)

FY 2009 General Fund Surplus (excluding RSRA funds)		$ 82.7
FY 2010 Revenue Estimate (per Adopted Budget)	1,621.8	
FY 2010 Revision	(144.1)	
FY 2010 Revised Revenue Estimate	1,477.7	
FY 2009 General Fund Balance Designated to Fund FY 2010 Appropriations	52.1	
FY 2010 Total Funding		1,529.8
FY 2010 Adopted Budget	(1,673.9)	
FY 2010 Estimated Reversions	43.3	
FY 2010 Estimated Final Spending		(1,630.6)
FY 2010 Estimated General Fund Deficit (drawdown of RSRA)		$ (18.1)

DEBT GUIDELINES

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

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 total debt outstanding as a percentage of assessed property value; and (2) the County's level of debt service as a percentage of total General Fund revenues. Actual debt service expenditures and the amount of total debt outstanding have consistently remained below the Committee's guidelines.

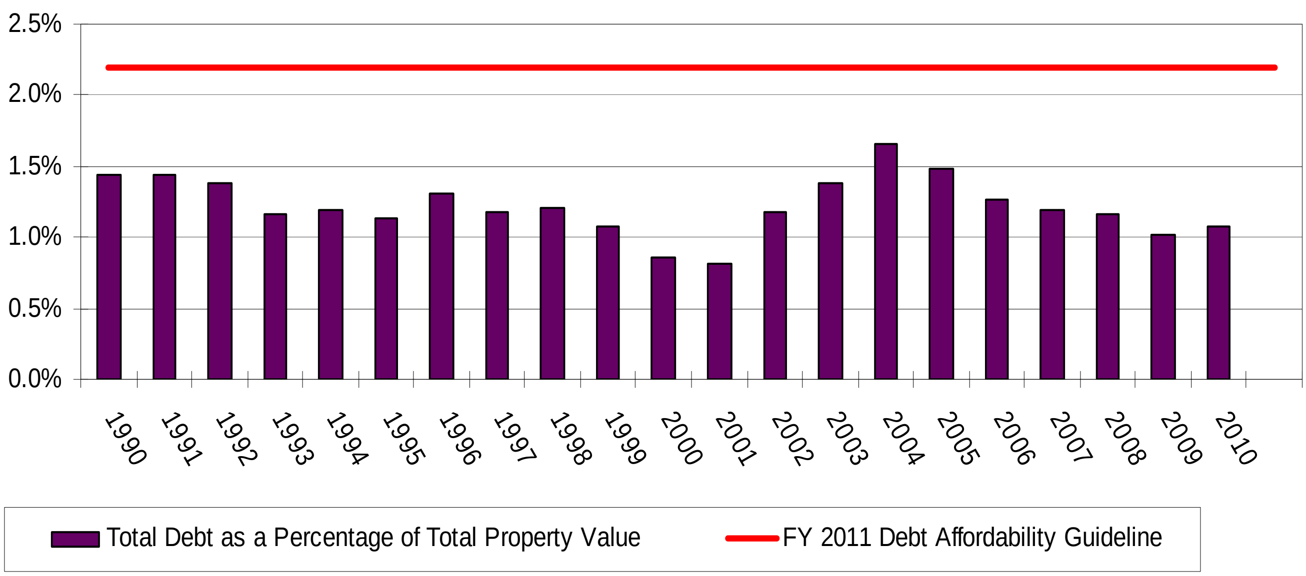
Total Debt Outstanding Guideline

The Committee recommends that total debt outstanding not exceed 2.2% of total assessed property value.

The ratio of total debt outstanding to total assessed property value is a 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 total 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 total 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 2010, total debt outstanding has ranged from 0.8% to 1.7% of the County's total assessed property value (Figure 11).

In accordance with the Committee's policy that total debt outstanding should not exceed 2.2% of total assessed property value, **the Committee recommends that total debt outstanding during FY 2011 not exceed $1,968,601,844, or 2.2% of total assessed property value of $89,481,902,000.**

Figure 11. Total Debt as a Percentage of Total Assessed Property Value



Note: Excludes debt related to pension funding, metropolitan district bonds, and component unit capital leases not budgeted under Primary Government; FY 2010 debt outstanding is an estimate.
Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Maryland State Department of Assessments and Taxation

Debt Service Guideline

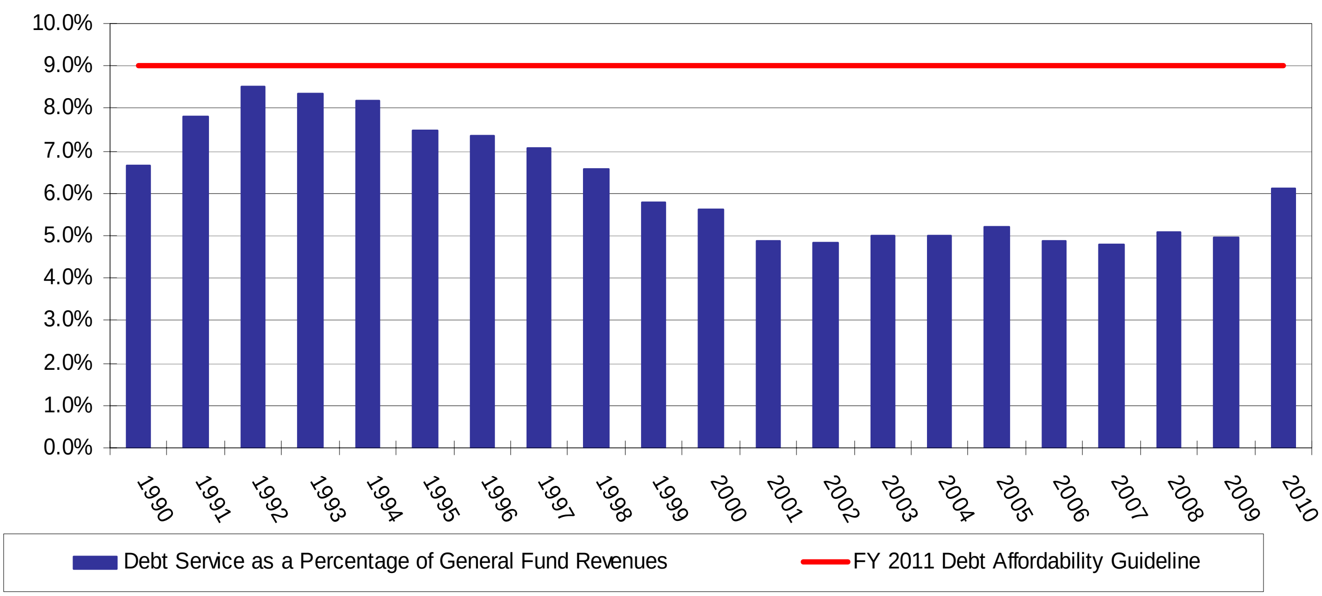
The Committee recommends that debt service not exceed 9% of total General Fund revenues.

The ratio of debt service to total General Fund revenues 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 10%) suggests that the debt burden is too heavy. The Administration's financial guidelines historically have set a target range for debt service expenditures at 8% to 9% of total General Fund revenues. From FY 1990 to FY 2010, the amount spent or budgeted for debt service ranged from 4.8% to 8.5% of total General Fund revenues (Figure 12). The Committee has established a policy that debt service should not exceed 9% of total General Fund revenues. **Accordingly, for FY 2011, the Committee recommends that debt service expenditures not exceed $138,150,000 based on projected revenues totaling $1,535,000,000.**

The decrease in the ratio of debt service to total 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 total General Fund revenues from FYs 1990 through 2010 is shown below in Figure 12. 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. Specifically, from FY 2001 through FY 2010, the County has budgeted $799.8 million in PAYGO funding, compared to $298.3 million in the preceding 10-year period. However, had the County issued bonds in lieu of relying on PAYGO during this same FY 2001-FY 2010 period, the County would have incurred additional interest expense totaling approximately $374.5 million over the life of the bonds.

Figure 12. Debt Service as a Percentage of Total 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 2010 ratio is an estimate.
Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor