SPENDING AFFORDABILITY COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2014

Baltimore County, Maryland

February 15, 2013

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Councilwoman, 2nd District

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SPENDING AFFORDABILITY COMMITTEE

February 15, 2013

Honorable Members of the Baltimore County Council
Honorable Kevin Kamenetz, 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) 2014.

For FY 2014, the Committee recommends a base spending guideline of $1,675,992,885, derived from a personal income growth rate of 3.07%. This guideline represents maximum potential growth of $49,920,425 over estimated FY 2013 base spending. The Committee further recommends that total debt outstanding not exceed 2.2% of FY 2014 estimated assessed property value and that debt service not exceed 9% of FY 2014 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 its guidelines do not represent targets but rather maximum levels not to be exceeded.

In determining its fiscal guidelines, the Committee reviewed current and projected conditions of the national, state, and local economies. This review disclosed some signs of moderate economic growth in the areas of falling unemployment, increased housing activity, and modest gains in personal income. The positive news was tempered, however, by concerns over the federal budget. According to our economic consultant, recent tax increases, particularly the payroll tax, will suppress GDP growth at the national level by 1%, and spending cuts at the federal level are still unresolved. How the federal situation is resolved could have a significant effect on our local and state economies. The Spending Affordability Committee advises caution in these uncertain times and urges continued fiscal prudence in the upcoming years.

Although ongoing County revenues are expected to be sufficient to fund ongoing expenses in FY 2014 for the first time since FY 2009, the County's General Fund operating budget is experiencing both cost pressures and revenue concerns. In FY 2013, the State began shifting a portion of teachers' pension costs to the County. In FY 2014, that cost will be approximately $20 million, and it will increase to nearly $25 million by FY 2016 when fully implemented. Another concern is funding the other post-employment benefits (OPEB) obligation in future years. In FY 2013, the County increased its OPEB funding by almost $30 million over the FY 2012 level, and significant increases in future years will be necessary as the County moves toward fully funding its annual required contribution. Debt service costs are also rising, showing an average annual increase of more than 7% since FY 2009, not including the additional expenditure of bond premium funds. Revenue concerns exist as well, as projected property tax revenue growth is flat for FY 2014, the result of a shrinking assessable base offset by the Homestead Property Tax Credit. In addition, federal budget issues could affect multiple revenue streams. The County will need to address these as well as other pressures in future budget years. The Committee is hopeful that the assessable base has reached bottom and will begin to show signs of growth in the near future and that the situation in Washington will be resolved.

Even with this guarded optimism, alternative approaches to government finance – such as the recent decision to issue pension obligation bonds, which is expected to save the County $342.9 million over the next 30 years – are necessary if the County is to hold the line with property and income tax rates. Fortunately, the County's unassigned surplus is healthy, and when combined with Rainy Day funds, surplus is expected to total nearly $300 million, or 17.9% of the current FY 2013 revenue forecast, by the end of the current fiscal year, up approximately $30 million from total FY 2012 year-end surplus. Total surplus has been increasing in recent years due to higher-than-anticipated revenues, which have allowed the County to minimize its use of surplus funds and build up its reserves.

In addition to operating budget pressures, the County is faced with the prospect of approaching established debt guidelines in future years, a result of both increased capital projects debt and a shrinking assessable base. While the Committee appreciates the significant debt service savings resulting from the Administration's skillful management and maintenance of the County's coveted AAA bond rating through difficult economic times, it is imperative that the Administration keep the Committee promptly informed if plans to modify its debt policies are being considered. In addition, I respectfully request that in the future the Administration provide the Public Resources Advisory Group (PRAG) debt analysis report prior to the Committee convening.

Some members expressed interest in expanding the role of the Committee in the future beyond developing guidelines for spending and debt affordability. For example, the Committee could study how competitive the County is in comparison to its neighbors in matters of tax rates and fees. Another area for analysis could include economic development efforts, particularly smart growth initiatives that focus on the redevelopment of targeted areas in order to expand the tax base.

I would like to thank my fellow Councilmembers who served on the Committee, the Honorable Vicki Almond and the Honorable David Marks, for their time and thoughtful contributions to this year's process. I would also like to give special recognition to Dr. Roy Meyers as he completes his final year on the Committee. His valuable suggestions as well as his expertise in the field of public policy and government budgeting practices continued to benefit the Committee and were greatly appreciated. Thank you, as well, to Mr. Winston Sherman, for his participation in this important process, and to the Honorable Kenneth Oliver for providing additional valued support to the Committee.

I also would like to acknowledge the contribution of Mr. Anirban Basu, who again served the Committee both as its economic consultant and as the Chairman of the Baltimore County Economic Advisory Committee. Many thanks to all members of the Baltimore County Economic Advisory Committee for volunteering their time and providing their insights on the pulse of the local economy. Thank you to County Auditor Lauren Smelkinson and the Fiscal and Policy Analysis Division of the County Auditor's Office for their diligent staff support to the Committee, as well as to the Administration for participating in our discussions. Finally, continued appreciation is due to County employees and labor unions for their cooperation and sacrifices over the years as the County has addressed its cost pressures in a fiscally sound manner.

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 2014.

Sincerely,

Tom Quirk

Tom Quirk
Chairman, Spending Affordability Committee
Councilman, 1st District

INTRODUCTION

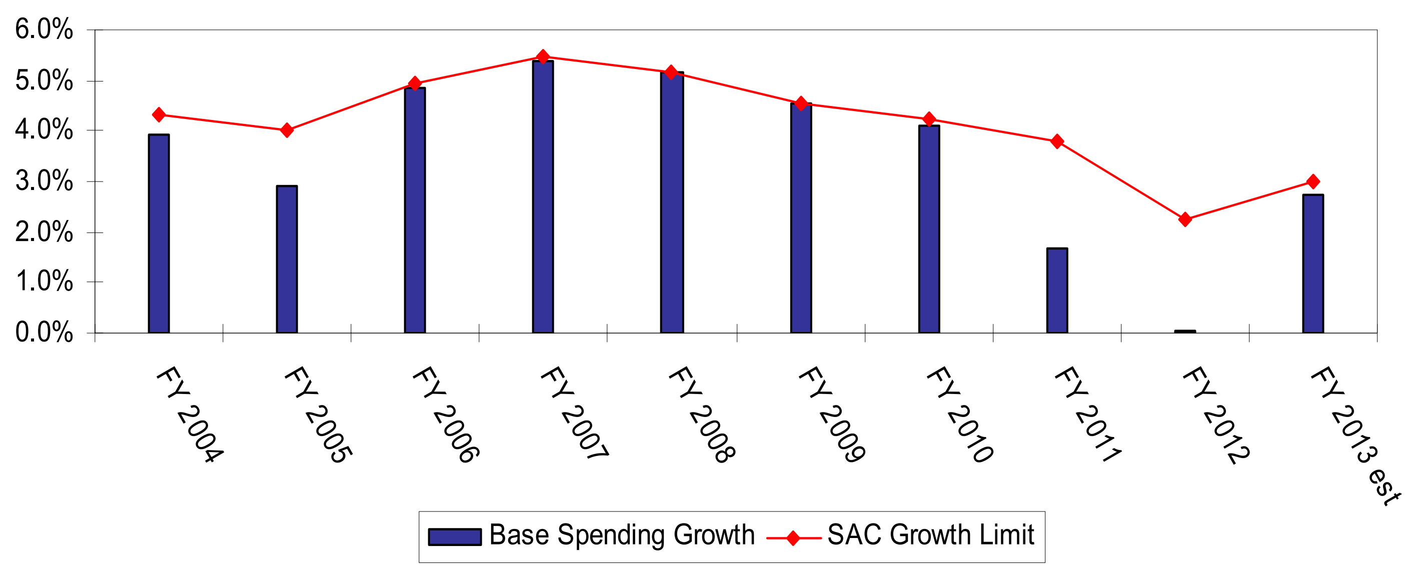
The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed the growth of the County's economy.

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 amounts or growth levels for County spending that should not be exceeded (Figure 1); however, the law states that the County Council may exceed the Committee's recommendations if it provides a rationale for doing so.

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



SPENDING GUIDELINE

The Committee recommends that base spending growth not exceed 3.07%, bringing the FY 2014 spending limit to $1,676.0 million.

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 (FY) 2014, the Committee recommends that base spending not exceed $1,675,992,885 based on an estimated County personal income growth rate of 3.07% applied to estimated final FY 2013 base-year spending of $1,626,072,460 (Figure 4). This guideline allows for maximum spending growth of $49,920,425 over estimated final FY 2013 spending.**

The Committee utilizes a 5-year average of annual personal income growth rates to determine its personal income growth factor.

In FY 2010 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. There are a number of long-term advantages associated with 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 utilizes an "estimated final spending" methodology to determine base-year spending.

Committee policy further provides 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 or decreases due to planned expenditure reductions in response to detrimental economic events that are known or estimated prior to the adoption of the guideline.

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.

Base-year spending would increase with County Council approval of a FY 2013 budget appropriation transfer.

For the current fiscal year, no supplemental appropriations or significant reductions in planned spending are anticipated; however, a proposed General Fund budget appropriation transfer of $800,000 from the Contingency Reserve to Organization Contributions—General Grant Program will be considered for approval by the County Council at its February 19, 2013 legislative session. The effect of such a transfer would be to increase the FY 2013 base-year spending by $800,000, since Committee policy excludes Contingency Reserve appropriations from base spending but includes Organization Contributions—General Grant Program appropriations in base spending.

The Committee modified its policy treatment of off-budget expenditures, which reduced the FY 2014 guideline by $11,154,583.

During its deliberations, the Committee modified its policy for subjecting off-budget expenditures to the spending guideline. Off-budget expenditures include bond premium funds used to offset a portion of debt service expenses. The effect of this decision was to decrease FY 2013 base-year spending by $11,154,583 for the purposes of calculating the FY 2014 guideline. The planned use of off-budget expenditures in FY 2014 is unknown at this time.

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
-	Appropriations not subject to growth in personal income (see Figure 3 for detail)
	Base Spending (current fiscal year)
x	Personal Income Growth Factor
	Spending Guideline (upcoming fiscal year)

SPENDING POLICY RECOMMENDATIONS

Ongoing revenues should be sufficient to fund ongoing expenses in FY 2014 for the first time since FY 2009; however, the Committee continues to urge restraint due to significant cost pressures and revenue concerns.

This year, the Committee learned that ongoing County revenues should be sufficient to fund ongoing expenses in FY 2014 for the first time since FY 2009. The Committee is still aware, however, that the County's General Fund operating budget is experiencing both cost pressures and revenue concerns. For example, a portion of the cost of teachers' pensions is being absorbed by the County; that transfer of cost, which will be approximately $20 million in FY 2014, is ongoing, and is planned to increase to nearly $25 million by FY 2016 when fully implemented. The County has also increased its commitment to funding its other post-employment benefits (OPEB) obligation in future years; the FY 2013 budget includes nearly $30 million more for OPEB expenses than in FY 2012, and OPEB funding is expected to increase in future years as the County moves towards fully funding its annual required contribution. In addition, while the economy is growing modestly, there is concern on the revenue side, particularly due to the potential effect of federal spending cuts on the local economy, as well as the State aid the County receives, which could be at risk if State revenues drop. For these reasons, the Committee reaffirms its conservative fiscal policy recommendations, as follows:

The Committee recommends that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall occurs in FY 2014 or future years. The Committee also recommends that the County Executive avoid underfunding essential items and minimize the use of one-time revenue sources to fund ongoing expenses.

- The Committee recommends that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall occurs in FY 2014 or future years. 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 recommends that the County Executive avoid under-funding essential operating budget items in order to fund other initiatives.

- The Committee recommends that the County Executive strive to submit a General Fund budget that minimizes reliance on one-time sources of funding, such as surplus funds, for ongoing operating expenses.

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.

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.

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 2014 Spending Guideline

FY 2013 Base Spending			
General Fund Appropriations	$	1,648,479,154	
General Fund Supplemental Appropriations		-	
Estimated Final Spending		1,648,479,154	
General Fund Exclusions:			
Local Matching Appropriations			
Local Matching Funds		(6,664,737)	
Federal Restricted Funds		(48,428)	
Capital Project Appropriations			
PAYGO		(13,938,277)	
Reserve Fund Appropriations			
Contingency Reserve		(1,000,000)	(1)
One-Time-Only Appropriations			
Baltimore County Public Schools State-Approved One-Time Costs		(755,252)	
OPEB Accrued Liability (OAL) Appropriations			
In Excess of Phase-In Amount		-	
Total Exclusions		(22,406,694)	
FY 2013 Base Spending		1,626,072,460	
Personal Income Growth 5-Year Average	x	1.0307	
FY 2014 Spending Guideline	$	1,675,992,885	
Maximum Spending Growth	***$***	***49,920,425***	

(1) A proposed General Fund budget appropriation transfer of $800,000 from the Contingency Reserve to Organization Contributions—General Grant Program will be considered for approval by the County Council at its February 19, 2013 legislative session. The effect of such a transfer would be to increase the FY 2013 base-year spending by $800,000, since Committee policy excludes Contingency Reserve appropriations from base spending but includes Organization Contributions—General Grant Program appropriations in base spending. This transfer would result in a revised FY 2014 spending guideline of $1,676,817,445.

ECONOMIC GROWTH

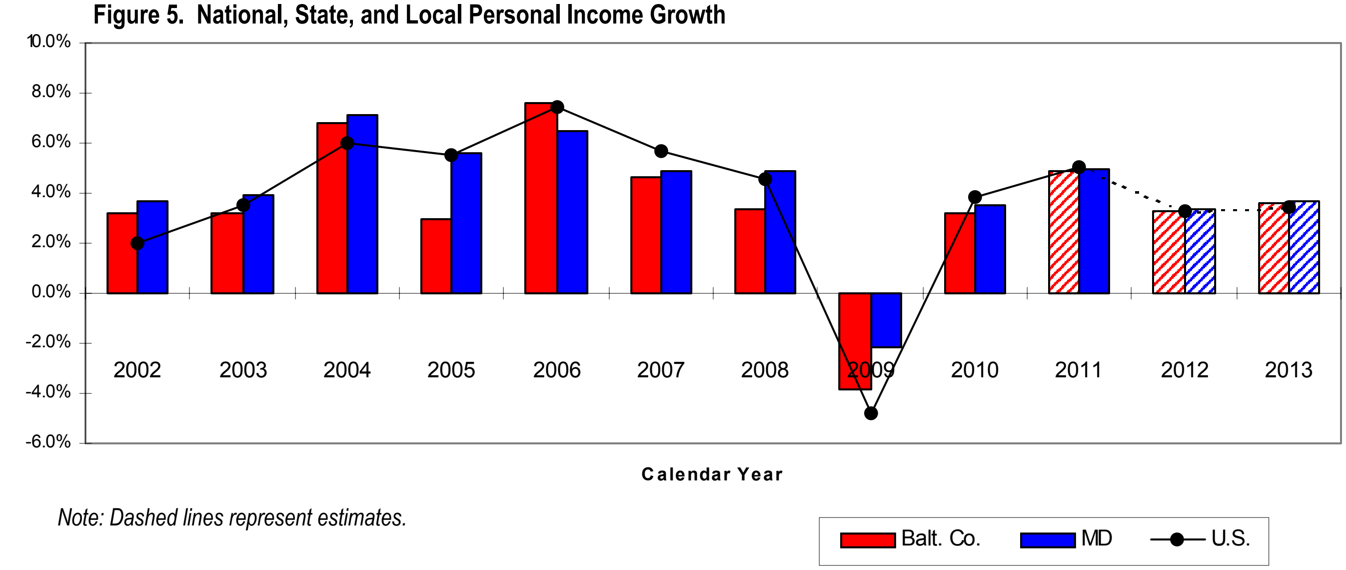
Continued personal income growth is projected, but estimates for FY 2013 and FY 2014 remain low compared to historic averages.

Prior to adopting its FY 2014 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. In its report dated January 14, 2013, the consultant (Sage Policy Group, Inc.) predicts that Baltimore County personal income will grow 3.09% in FY 2013, which is 1 basis point below its Maryland FY 2013 personal income growth forecast of 3.10%. These rates are significantly less than the pre-recession 6.75% growth achieved in the County during FY 2007 and represent a slowdown from the estimated FY 2012 growth rate of 4.01% Similarly, the consultant projects that FY 2014 personal income growth in the State (4.60%) will exceed County personal income growth (4.43%) by 17 basis points. Over the 2002 to 2012 period, estimated County personal income increased at an average annual rate of 3.6%, compared to 4.2% and 3.8% in Maryland and the U.S., respectively (Figure 5).

In light of the mixed performance among various local economic indicators, the Committee's consultant expressed caution regarding the near-term economic outlook in its January 14, 2013 report.

The January 14, 2013 consultant report provided further insight into local economic conditions. The consultant observed that the County experienced progress in the areas of consumer spending and housing; however, much of this improvement does not translate into personal income growth or tax-base formation in the near term. The consultant reported that job growth has slowed recently in Maryland after several months of reasonably solid employment gains early last year. Additionally, County job growth lagged behind state and national levels with an increase of 2,690 jobs between 2011:Q2 and 2012:Q2, or 0.7%. On the residential housing side, sales activity has shown strong growth in recent months. In addition, inventory remains low, positioning the market for further healing and price gains in CY 2013. The consultant also observed a few downside risks to the regional economy in CY 2013 and CY 2014—most notably, potential federal government downsizing and cuts in defense spending due to sequestration, both of which would significantly impact local contractors that depend heavily on federal funds. Additionally, the consultant expects that the increase in taxes, particularly the payroll tax, will decrease GDP growth by 1% in CY 2013. In light of these mixed sentiments, the consultant expressed a cautious near-term outlook for the local, regional, and national economies but expressed optimism for the longer term.

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



Estimate Source: Sage Policy Group, Inc., January 2013

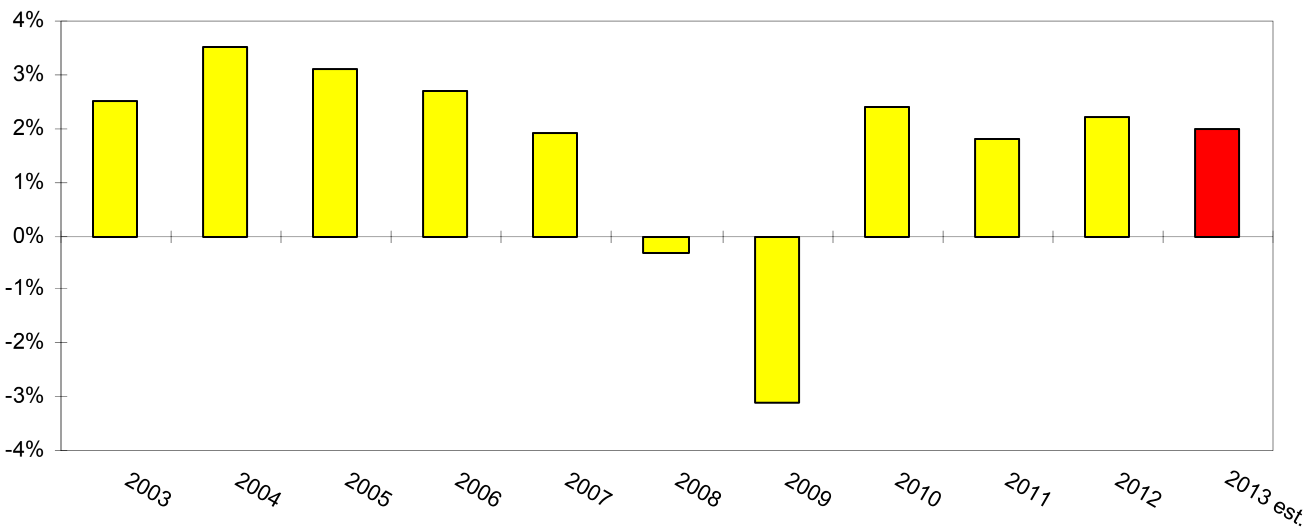
Real Gross Domestic Product (GDP) grew at an average annual rate of 1.7% from CY 2003 to CY 2012. For CY 2013, real GDP is expected to increase by 2.0%.

Projections for the local economy are influenced, to a large degree, by the underlying performance of the national and state economies. Nationally, both the labor market and household spending continue to be unpredictable. Pent-up demand has been hindering recent consumer spending but points to encouraging possibilities for improved growth in the long term. In CY 2013, consumer spending is expected to increase, albeit slowly, for the fourth consecutive year after falling in CY 2008 and CY 2009. However, unemployment remains above pre-recession levels with only moderate growth expected during CY 2013. In addition, the future of federal spending continues to be a source of concern, particularly in this region. While the National Bureau of Economic Research determined that the recent U.S. recession ended in June 2009, the economy remains in recovery, and many sectors are still far from pre-recession performance levels. Over the last decade, real GDP grew by an average of 1.7% annually from CY 2003 to CY 2012, including contractions of 0.3% in CY 2008 and 3.1% in CY 2009. After growing 1.8% in CY 2011 and 2.2% in CY 2012, real GDP is projected to increase by 2.0% in CY 2013, according to the Federal Reserve Bank of Philadelphia's November 2012 *Survey of Professional Forecasters* (Figure 6).

Local and state employment figures are nearing pre-recession levels. Employment growth, however, continues to lag.

Employment increased by 0.8% among Baltimore County residents, by 0.9% among Maryland residents, and by 1.4% nationally on an annual average basis from CY 2011 to CY 2012—a third consecutive increase for the County and the State and the second consecutive increase for the nation. County and State employment figures are nearing pre-recession levels; however, employment growth continues to lag. Baltimore County's and Maryland's December 2012 unemployment rates were 7.2% and 6.7%, respectively, and averaged 7.3% and 6.8%, respectively, for all of CY 2012. Over the past 10 years, the annual unemployment rates in Baltimore County and Maryland were, on average, 130 and 140 basis points below the national rate, respectively. The *Survey of Professional Forecasters* projects a national unemployment rate of 7.8% in CY 2013 and 7.4% in CY 2014. If the trends between the national and local unemployment rates hold, Baltimore County's and Maryland's rates would fall to 6.5% and 6.0%, respectively, in CY 2013, a positive sign for the local economy.

Figure 6. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters*, November 2012*

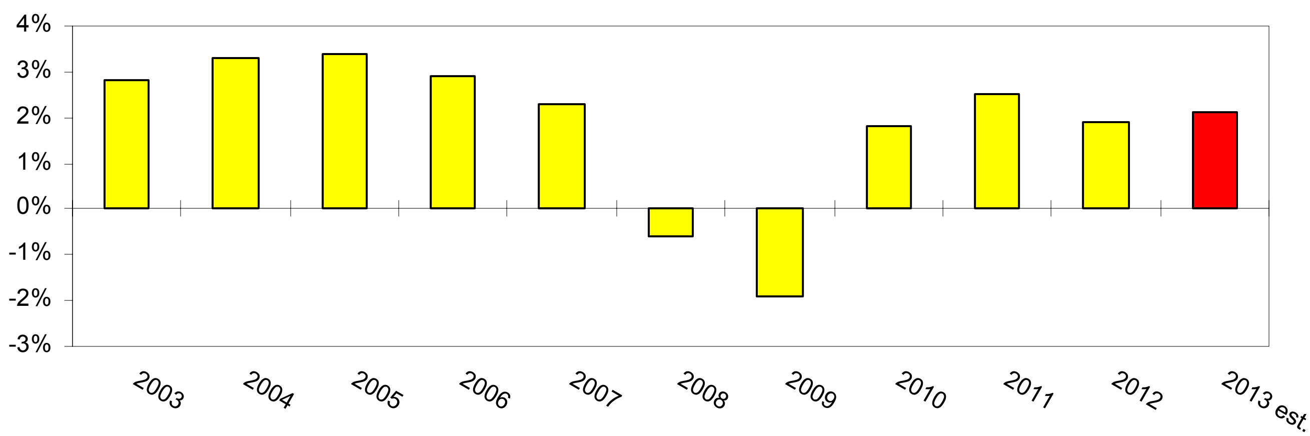
Consumer spending increased at a rate of 1.9% in CY 2012, the third consecutive increase following two annual declines.

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 increased at a rate of 1.9% in CY 2012, the third increase following declines in CY 2008 and CY 2009. In September 2012, national unemployment reached its lowest level (7.8%) since January 2009, indicating some small impetus for increased consumer spending. Consistent with this employment report, based on a survey of 5,000 U.S. households by the Conference Board, consumer confidence posted strong gains in October and November 2012. However, consumer confidence retreated in January, following a decrease in December, with the "Expectations Index" experiencing the bulk of the decline and the "Present Situation index" falling slightly less. The recent declines erased all the gains made through 2012. The Conference Board signaled that consumers' view of current conditions and their financial situations worsened, and optimism about the short-term outlook continued to deteriorate. The Conference Board further noted that "the increase in the payroll tax has undoubtedly dampened consumers' spirits…."

Disparate economic indicators such as rising consumer spending and persistently high unemployment levels have led many to expect a continued slow recovery in CY 2013.

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 November 2012 *Survey of Professional Forecasters* project 7.8% unemployment during CY 2013, reflective of the slow pace of recovery since the 26-year unemployment high of 10.0% in October 2009. The *Survey* anticipates continued growth, albeit slow, in consumer spending and GDP in CY 2013 and future years, with GDP growth expected to reach 2.9% by CY 2015. However, the continued high unemployment rate, an increase in taxes, and tight credit market will temper the positive effects of rebounding spending and GDP growth. A visibly improved rate of recovery is not expected until at least CY 2014. The Maryland and Baltimore County economies are likely to continue to recover slowly along with the national economy, with the biggest threat to the regional recovery being the potential decline in federal spending. In this regard, the Committee's consultant concluded in its January 2013 report that while Baltimore County will see some signs of economic recovery in 2013, the recovery will be far from robust, especially in the beginning half of the year.

Figure 7. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, November 2012

GENERAL FUND REVENUES AND SURPLUS

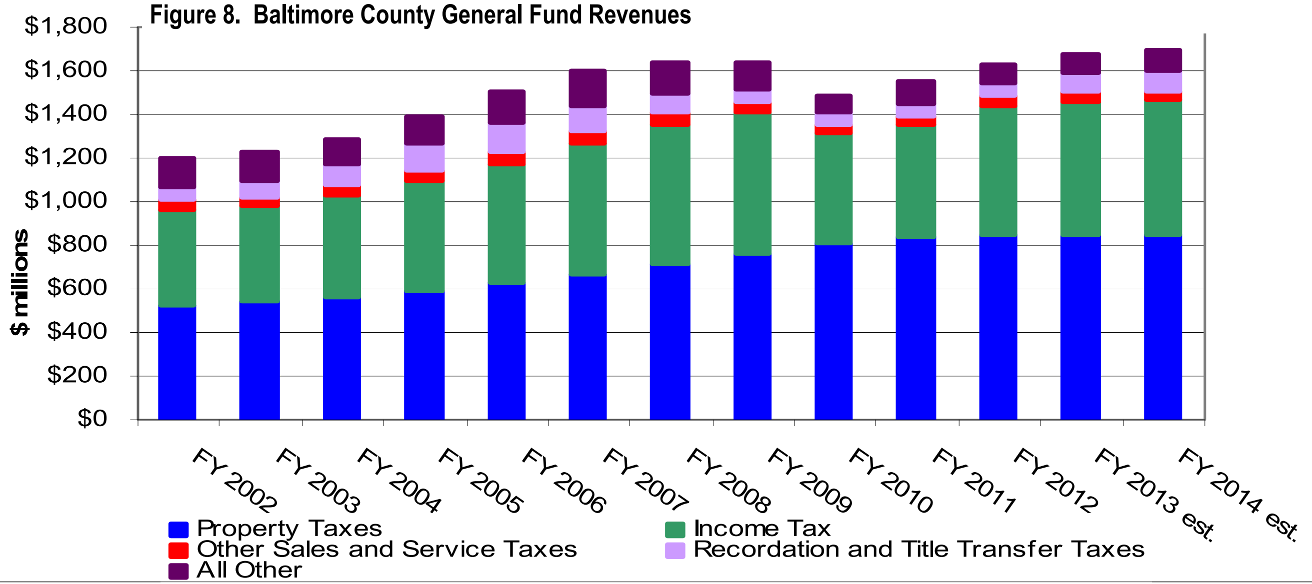
FY 2013 General Fund revenues are projected to increase by $47.7 million, or 2.9%, over FY 2012 totals. This projection is $69.8 million higher than current-year budgeted revenues.

FY 2013 projected revenues total $1,677.7 million, an increase of $47.7 million, or 2.9%, over FY 2012 revenues (Figures 8 and 9). This projection represents an increase of $69.8 million, or 4.3%, over FY 2013 budget estimates. The projected revenue increase is primarily due to higher-than-anticipated income tax revenues resulting from the continued slow but steady economic recovery in the County. In addition, property-related transaction tax revenues (i.e., title transfer and recordation tax revenues) are coming in above expectations. Growth in property tax revenues has slowed significantly because the annual 4% growth limit pursuant to the local Homestead Property Tax Credit Program has caught up with declining assessed values. Higher-than-anticipated revenue collections are expected to allow the County to finish FY 2013 without relying on the $40.6 million in surplus funds budgeted for FY 2013.

FY 2014 General Fund revenues are projected to increase by $13.4 million, or 0.8%, from the revised FY 2013 estimate.

FY 2014 General Fund revenues are projected to reach $1,691.1 million, up approximately $13.4 million, or 0.8%, from the revised FY 2013 revenue estimate and $83.2 million, or 5.2%, over budgeted FY 2013 revenues. The projected slight increase in FY 2014 General Fund revenues, which represents the fourth consecutive year of revenue increases, primarily reflects an anticipated slowdown in income tax revenue growth. Income tax revenues for the current tax year are expected to increase based on the continued economic recovery; however, total income tax revenues are expected to be nearly flat due to higher-than-average reconciling distributions received in FY 2013 that are not expected to be repeated in FY 2014. In addition, property tax revenues are expected to be flat due to falling assessments combined with the last lingering positive effects of the Homestead Property Tax Credit Program. Property-related transaction tax revenues are expected to show modest gains based on the expectation that sales volume will continue to recover in FY 2014 while prices remain flat. The State aid reductions implemented in recent years are generally expected to continue in FY 2014; however, $3.6 million in police aid is expected to be restored and the General Fund will continue to receive an additional $3 million intended to partially offset the teachers' pension costs that were passed on to local jurisdictions beginning in FY 2013.

Figure 8. Baltimore County General Fund Revenues



Sources: FY 2007 to FY 2012 Baltimore County Comprehensive Annual Financial Reports

Figure 9. General Fund Revenue Forecast, FY 2013-FY 2014

($ Million)

REVENUE SOURCE	FY 2012 Actual	FY 2013 Budget	FY 12 - FY 13 Bud.	FY 2013 Revised	FY 12 - FY 13 Rev.	FY 2014 Estimate	FY 13 Bud.- FY 14	**FY 13 Rev.- FY 14**
Property taxes	$845.2	$850.1	0.6%	$849.3	0.5%	$849.3	-0.1%	0.0%
Income taxes	593.2	561.4	-5.4%	611.8	3.1%	616.2	9.8%	0.7%
Recordation & title transfer taxes	63.9	65.5	2.5%	83.4	30.5%	87.6	33.7%	5.0%
Other Sales and Service taxes	43.3	43.9	1.4%	43.4	0.2%	43.4	-1.1%	0.0%
Intergovernmental aid	31.5	37.9	20.3%	36.6	16.2%	42.2	11.3%	15.3%
Services charges	10.1	9.9	-2.0%	11.0	8.9%	11.1	12.1%	0.9%
Fines, forfeitures & penalties	5.1	4.2	-17.6%	3.9	-23.5%	3.9	-7.1%	0.0%
Licenses & permits	4.9	3.7	-24.5%	4.2	-14.3%	4.2	13.5%	0.0%
Interest on investments	1.0	1.1	10.0%	1.1	10.0%	1.1	0.0%	0.0%
Other	31.8	30.2	-5.0%	33.0	3.8%	32.1	6.3%	-2.7%
TOTAL	**$1,630.0**	**$1,607.9**	**-1.4%**	**$1,677.7**	**2.9%**	**$1,691.1**	**5.2%**	**0.8%**

Note: Totals may not add due to rounding.

The FY 2014 revenue projection is approximately $15.1 million higher than the Committee's spending guideline.

The FY 2014 revenue projection is approximately $15.1 million higher than the Committee's FY 2014 spending guideline. This is the first time in 4 years that projected revenues have exceeded the spending guideline. The excess funds, together with unassigned fund balance (surplus), can be used for spending not subject to the guideline, including local-share matching funds and one-time expenditures such as PAYGO contributions to the capital budget (which reduces programmed borrowing).

The FY 2012 General Fund surplus totaled $145.0 million, excluding $84.8 million of RSRA funds.

As of June 30, 2012, the unassigned General Fund balance (surplus) totaled $145.0 million, or 8.8% of the FY 2013 General Fund budget. This amount does not include $84.8 million in the Revenue Stabilization Reserve Account (RSRA). In addition, $40.6 million of General Fund balance was assigned as a source of funding for the FY 2013 budget.

The FY 2013 General Fund surplus is projected to total $214.5 million, excluding $85.1 million in the RSRA.

The projected June 30, 2013 unassigned General Fund balance (surplus), assuming FY 2013 revenues of $1,677.7 million, totals $214.5 million, or 12.8% of projected FY 2013 revenues (Figure 10). This amount, plus an estimated $85.1 million in the RSRA, totals $299.6 million, or 17.9% of projected FY 2013 revenues. The unassigned surplus will be available as a source of funding for the FY 2014 budget.

Figure 10. Estimated General Fund Surplus, FY 2013

($ in Millions)

FY 2012 General Fund Surplus (excluding RSRA funds)		**$ 145.0**
FY 2013 Revenue Estimate (per Adopted Budget)	1,607.9	
FY 2013 Revision	69.8	
FY 2013 Revised Revenue Estimate	1,677.7	
FY 2012 General Fund Balance Designated to Fund FY 2013 Appropriations	40.6	
FY 2013 Total Funding		1,718.3
FY 2013 Adopted Budget		(1,648.5)
FY 2013 Interest Transfer to the RSRA		(0.3)
FY 2013 Estimated General Fund Surplus		**$ 214.5**

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.

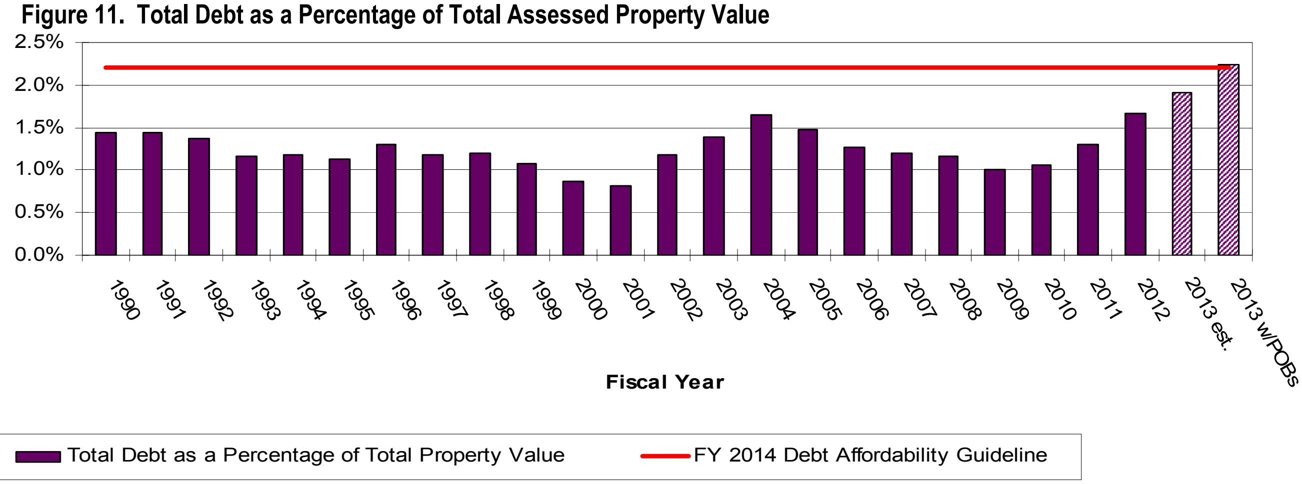
During this year's deliberations, the Committee discussed the possible need to increase debt ratios in the future but did not make any changes to its maximum recommended debt ratios. In November 2012 the County issued $256 million in Pension Obligation Bonds (POBs), representing the present value cost of the decision to lower the Retirement System's assumed rate of return from 7.875% to 7.25%. The Committee's longstanding policy has been to exclude from its debt guidelines debt related to POBs because the pension funding obligation would need to be met by the County regardless of whether such debt was issued. Reflecting the rating agencies' consideration of POBs in their debt analysis, the Committee chose to also show the effect of including the POBs in its debt guidelines. This inclusion would require an increase in the Committee's debt outstanding guideline; however, debt would remain well below the legal debt limit of 4%.

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. Since FY 2007, the Committee's limitation on total debt outstanding has stood at 2.2% of total assessed property value. From FY 1990 to FY 2013, total debt outstanding has ranged from 0.8% (FY 2001) to 1.9% (FY 2013) of the County's total assessed property value (Figure 11). The total debt outstanding ratio has been rising since FY 2009 as the availability of General Fund Pay-As-You-Go contributions to the capital budget has decreased and the assessable base has shrunk. 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 2014 not exceed $1,719,670,062, or 2.2% of total assessed property value of $78,166,821,000.**

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



Note: Excludes debt related to pension obligation bonds (POBs), metropolitan district bonds, and component unit capital leases not budgeted under Primary Government except for FY 2013, which is shown with and without POBs, which were issued in both FY 1988 and FY 2013. FY 2013 debt outstanding is estimated. *Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Maryland State Department of Assessments and Taxation.*

Debt Service Guideline

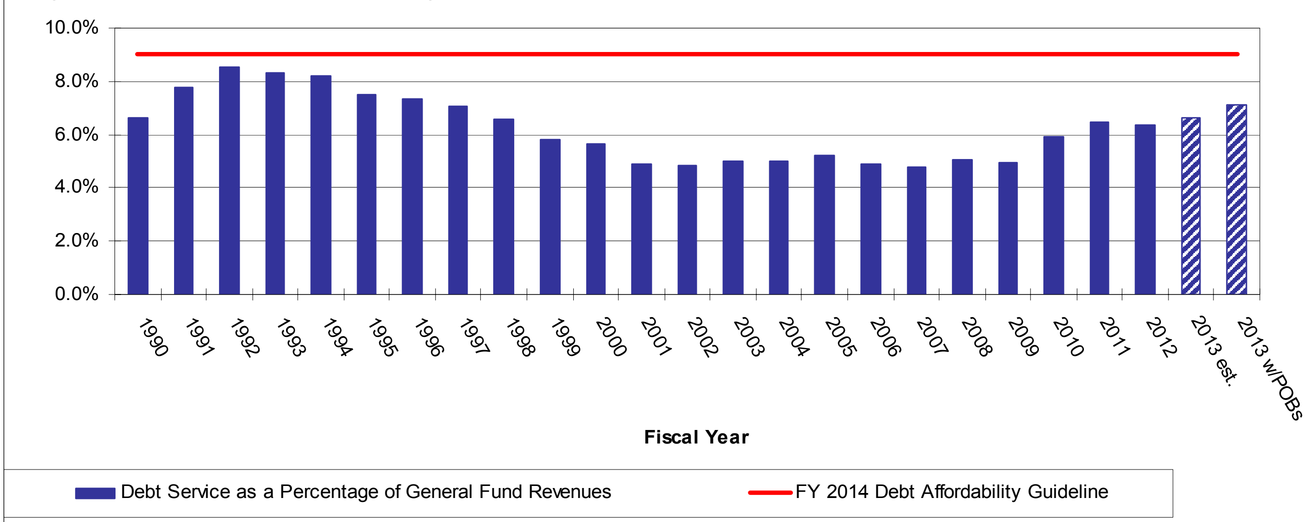
The Committee recommends that debt service not exceed 9% of total General Fund revenues.

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 2013, 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 2014, the Committee recommends that debt service expenditures not exceed $152.2 million based on projected revenues totaling $1,691.1 million.**

The recent rise in the ratio of debt service to total General Fund revenues reflects the challenging economic times, which have resulted in lesser availability of PAYGO funding and a lower General Fund revenues denominator.

The ratio of debt service to total General Fund revenues from FYs 1990 through 2013 is shown below in Figure 12. 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. Such PAYGO usage also allowed the ratio to remain steady, hovering at around 5%, from FY 2001 to FY 2009, despite an aggressive capital budget over that period. In recent years the ratio has been rising, largely due to the challenging economic times, which have resulted in diminished General Fund revenues, and accordingly, less available PAYGO funding to offset the need for debt issuance. The Committee is also aware that budgeted debt service in recent years has not reflected the full amount of the County's debt service cost due to the use of bond premium funds to pay interest costs, which occurs off budget.

Figure 12. Debt Service as a Percentage of Total General Fund Revenues



Note: Excludes debt service related to pension obligation bonds (POBs), metropolitan district bonds, and component unit capital leases not budgeted under Primary Government except for FY 2013, which is shown with and without POBs issued in FY 1988; there is no debt service from the FY 2013 POB issuance until FY 2014. FY 2013 ratio is an estimate. *Sources: Baltimore County Annual Budget Documents; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor.*