SPENDING
AFFORDABILITY
COMMITTEE

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Report of the Spending Affordability Committee

Fiscal Year 2017

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Baltimore County, Maryland

February 12, 2016

BALTIMORE COUNTY SPENDING AFFORDABILITY COMMITTEE

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SPENDING AFFORDABILITY COMMITTEE

February 12, 2016

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) 2017.

For FY 2017, the Committee recommends a base spending guideline of $1,861,466,873, derived from a personal income growth rate of 3.50%. This guideline represents maximum potential growth of $62,948,155 over estimated FY 2016 base spending. The Committee further recommends that total debt outstanding not exceed 2.5% of FY 2017 estimated assessed property value and that debt service not exceed 9.5% of FY 2017 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 economic conditions. Although the national, state, and local economies are expected to continue their modest expansions in CY 2016, the Committee's economic review revealed signs – such as asset price volatility and declining business investment – that the economy could slide into recession in CY 2017 or CY 2018. As recently as last month, the Committee's economic consultant advised that despite accelerating employment growth, low unemployment, and a relatively upbeat consumer, the outlook for CY 2017 is "very murky." Fortunately, any revenue impacts to the County naturally lag a recession's onset, since employment (which drives income tax revenue) is a lagging economic indicator, and since changes to assessed property values affect property tax revenue more gradually (with the reassessment of only one-third of the County's real property tax base occurring each year, and a phase-in of prior-year assessment growth, for tax purposes, that would serve to at least partially offset any declines in assessed values). While we are aware of predictions that a slowing Chinese economy could draw the United States into recession before the CY 2017– 2018 timeframe anticipated by our consultant, we share our consultant's view that the upcoming fiscal year should be favorable, especially in light of lower oil prices and a decent housing recovery.

Last year's Committee was unanimous in its approval of a 4-year guideline phase-in of the FY 2016 employee COLA cost. After evaluating projected revenues and surplus levels for FY 2016 and FY 2017, this year's Committee continues to believe that this phase-in is prudent. Therefore, for FY 2017, at least 50% of the FY 2016 COLA cost, or $25.4 million, must fall within the guideline. For FY 2018, at least 75% must fall within the guideline, and by FY 2019, before the budget is passed onto the next elected County Executive, the full cost of the FY 2016 COLA must fall within the guideline.

The County is facing numerous cost pressures that are not discretionary, including a significant unfunded pension liability and a growing general obligation debt service burden. Additional pressures include health care costs, especially for retired employees, and the recent need to set aside $25 million to cover the estimated loss from refunding taxpayers affected by the United States Supreme Court's Wynne Case ruling. Accordingly, the Committee continues to advise that the County maintain its fiscally conservative budgeting and carefully monitor its future debt issuance, as recommended by the County's debt management consultant. With regard to labor negotiations, the Committee urges both sides to maintain their focus on long-term sustainability. Next year, we plan to reevaluate available revenues and surplus levels again to ensure that the third year of the FY 2016 COLA phase-in remains prudent.

I would like to thank the Administration for its cooperation during this year's process. I would also like to thank the members of this Committee – the Honorable David Marks, the Honorable Julian Jones, Mr. Edwin Crawford, and Mr. Rob Johnson – as well as the Committee staff – County Auditor Lauren Smelkinson and her Fiscal & Policy Analysis division. Thanks are also due to the Council's appointees to the Employees' Retirement System Board of Trustees, Mr. Edwin Crawford and Mr. Fred Hill, whose knowledge and experience have been helpful in providing the Council with insight into the health of the County's retirement fund. Finally, I 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, and of all members of the Baltimore County Economic Advisory Committee, who volunteer their time and provide invaluable insights on the pulse of the local economy.

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 2017.

Sincerely,

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

INTRODUCTION

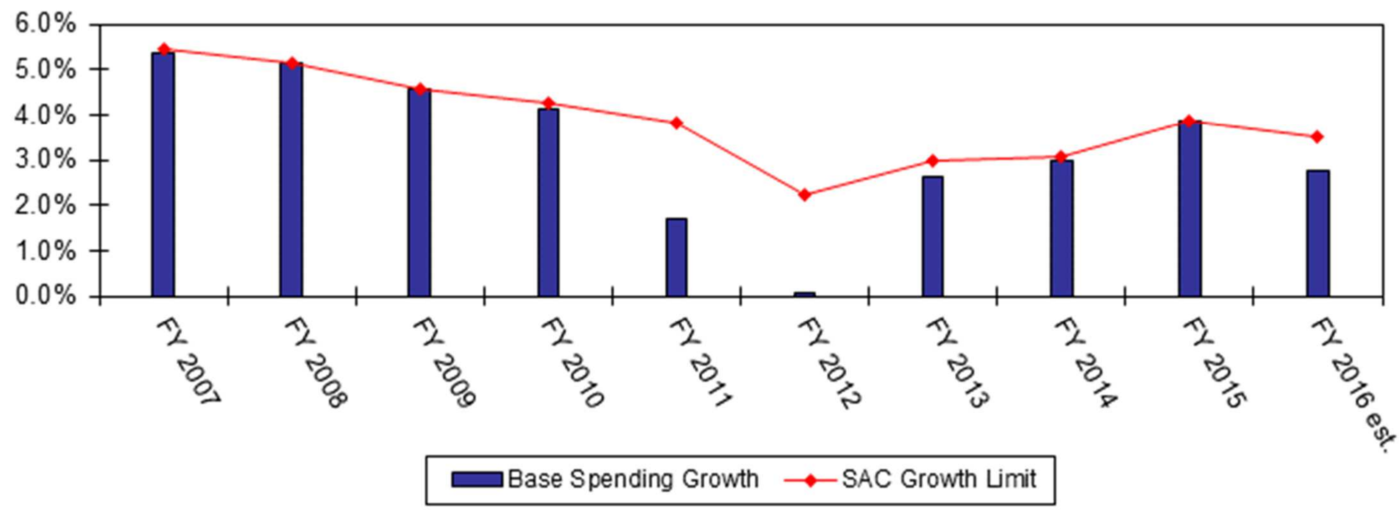
The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed the growth of the County's economy.

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 3.50%, bringing the FY 2017 spending limit to $1,861.5 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) 2017, the Committee recommends that base spending not exceed $1,861,466,873 based on an estimated County personal income growth rate of 3.50% applied to estimated final FY 2016 base-year spending of $1,798,518,718 (Figure 4). This guideline allows for maximum spending growth of $62,948,155 over estimated final FY 2016 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 smooths 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. For the current fiscal year, no significant reductions in planned spending are anticipated. It is currently unclear to what extent a supplemental appropriation or budget appropriation transfer may be necessary to address cleanup costs related to the recent blizzard; in such an event, it would be reasonable to exclude from base spending any appropriations in excess of average annual storm costs.

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 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.

The FY 2016 Committee approved a 4-year phase-in of the FY 2016 COLA. The cost of the FY 2016 COLA in excess of the FY 2017 phase-in amount is an excludable appropriation when determining budgetary compliance with the FY 2017 spending guideline.

During its deliberations last year, the FY 2016 Committee recognized that while an employee cost-of-living adjustment (COLA) would have been affordable under the FY 2012 spending guideline, the County instead focused on ensuring budget stability from FY 2012 to FY 2015. Since that time, surplus has grown significantly and revenues have fully recovered. In light of these factors, recognition of the FY 2016 COLA for County government and component unit employees will be phased-in over 4 years, in 25% increments, until the full amount is recognized by FY 2019 (Figure 3). The cost of the FY 2016 COLA in excess of the FY 2017 phase-in amount of approximately $25.4 million is excludable from base spending at the discretion of the Administration. The Committee further noted that FY 2017 is the first year in which the County's entire appropriation to fund its other post-employment benefits (OPEB) obligation must be included in spending subject to the Committee's guideline, following a 10-year phase-in of the annual required contribution (ARC).

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 both FY 2016 and FY 2017; however, the Committee continues to urge fiscal restraint due to significant cost pressures and revenue concerns.

The Committee has been informed that ongoing County revenues should be sufficient to fund ongoing expenses in both FY 2016 and FY 2017. The County's General Fund surplus, as projected, will total approximately 13% of budgeted revenues by the end of FY 2016 (approximately 8% of budgeted FY 2016 revenues, when excluding the Rainy Day account). However, the Committee is still aware that the County's General Fund operating budget is experiencing both cost pressures and revenue concerns. A particular area of cost pressure is spending on retirement benefits, which is expected to increase in FY 2017 as the County's Retirement System continues its recovery from the asset losses experienced during the recession and continues to bear the increased cost of lowering its assumed rate of return on investments. The Committee is aware that further reductions to the assumed rate of return may be necessary in order to ensure the long-term stability of the System. The annual required contribution (ARC) for retiree health benefits, formally known as other post-employment benefits (OPEB), is short of being fully funded in FY 2016, and this significant cost pressure is only expected to increase over time. Employee salaries also represent an on-going cost pressure. In addition, while the economy is growing modestly, there is concern on the revenue side, particularly in light of the fact that many economists believe that the nation's next recession is just a couple of years away. Further, potential long-term fiscal effects of the County's changing demographics generate concern from both revenue and expenditure perspectives. 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 2017 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 2017 or future years. Accordingly, the Committee endorses the Administration's adopted policy of striving to produce an unreserved General Fund balance (surplus) near 10% of revenues, 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 Federal or other restricted programs (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 annual required contribution (ARC) 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 is excludable from base spending.

Phase-In of COLA in Recognition of Fiscal Responsibility:

- An employee cost-of-living adjustment (COLA) would have been affordable under the FY 2012 spending guideline; however, the County instead focused on implementing cost-saving measures and ensuring future budget stability over the FY 2012 - FY 2015 period. During that time, surplus has grown to historically high levels, and revenues have fully recovered. In light of these factors, recognition of the planned FY 2016 COLA for County government and component unit employees will be phased-in over 4 years, in 25% increments, until the full amount is recognized by FY 2019. The cost of the COLA in excess of the phase-in amount is excludable from base spending.

Figure 4. FY 2017 Spending Guideline

FY 2016 Base Spending		
General Fund Appropriations	$	1,951,782,630
General Fund Supplemental Appropriations		-
Estimated Final Spending		1,951,782,630
General Fund Exclusions:		
Local Matching Appropriations		
Local Matching Funds		(6,191,223)
Capital Project Appropriations		
PAYGO		(101,385,266)
Reserve Fund Appropriations		
Contingency Reserve		(1,000,000)
One-Time-Only Appropriations		
Appropriations in Excess of COLA Phase-In		(38,033,212)
Baltimore County Public Schools State-Approved One-Time Costs		(6,654,211)
Total Exclusions		(153,263,912)
FY 2016 Base Spending		1,798,518,718
Personal Income Growth 5-Year Average (FY 2013 - FY 2017)	x	1.0350
FY 2017 Spending Guideline	$	1,861,466,873
Maximum Spending Growth	***$***	***62,948,155***

Calculation of the FY 2017 COLA Phase-In Amount

FY 2017 is the second year of a 4-year phase-in for recognizing FY 2016 COLA growth under the guideline; at least 50% of the FY 2016 amount budgeted for employee COLAs shall be considered spending subject to the FY 2017 guideline. Thus, the FY 2016 COLA totaling $50.7 million results in a minimum FY 2017 COLA phase-in amount of approximately $25.4 million.

ECONOMIC GROWTH

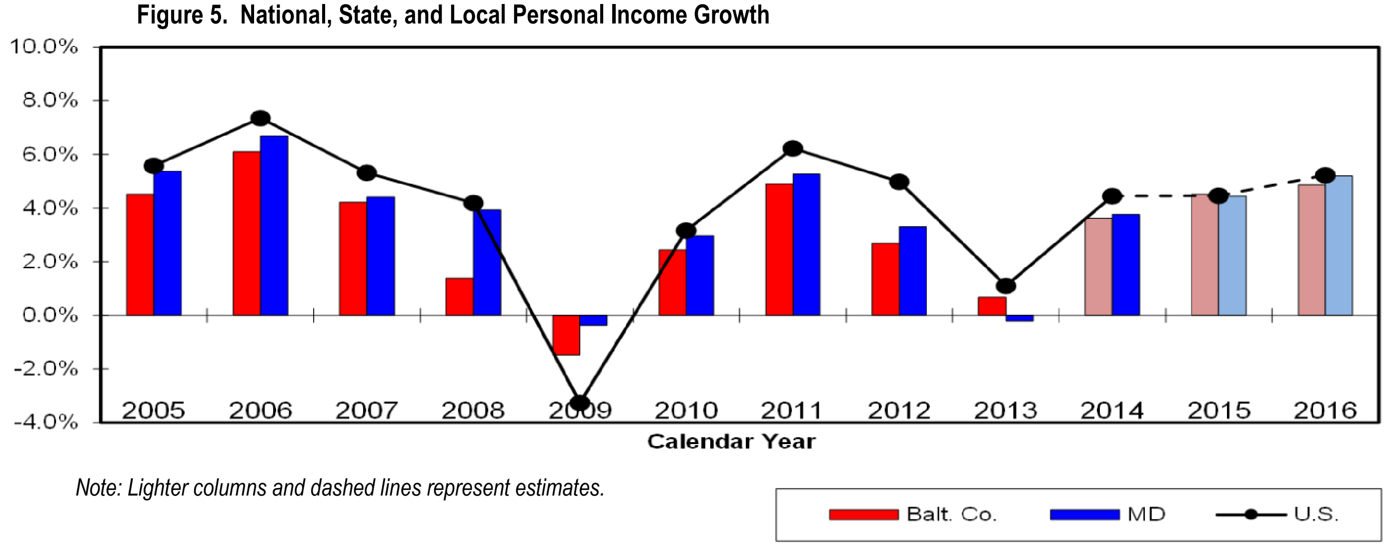
Personal income growth is expected to accelerate slightly in FY 2017.

Prior to adopting its FY 2017 personal income growth rate, the Committee reviewed current and projected economic conditions to gain an understanding of the basis for the personal income estimates and forecast of its consultant (Sage Policy Group, Inc.). In its report dated January 15, 2016, the consultant predicts that Baltimore County personal income will grow 4.57% in FY 2016, which is 27 basis points below its Maryland FY 2016 personal income growth forecast of 4.84%. These rates remain less than the pre-recession 5.67% growth achieved in the County during FY 2006 but represent a modest acceleration from the estimated FY 2015 County growth rate of 4.32%. For FY 2017, the consultant predicts higher growth in both the State (5.28%) and the County (5.09%), with State growth exceeding County growth by 19 basis points. Over the 2005 to 2014 period, estimated County personal income increased at an average annual rate of 2.9%, compared to 3.5% in Maryland and 3.9% in the U.S. (Figure 5).

In light of the mostly positive performance of various local economic indicators, Baltimore County Economic Advisory Committee members predict steady growth for CY 2016.

The January 12, 2016 meeting of the Baltimore County Economic Advisory Committee (BCEAC) provided further insight into local economic conditions. The BCEAC members predicted continued growth in the economy through CY 2016, with some sector representatives expressing optimism for accelerated growth. The panel reported positive signs from the labor market, noting that demand for labor is rising and employers continue converting temporary workers to full-time employees. Wages, which have been stagnant for some time, appear to be trending up. However, there remains some mismatch between job-seekers and open positions, as employers continue to be highly specific and selective in filling positions. On the residential real estate side, sales activity continues to show strong growth countywide, as talk of rising interest rates have driven potential buyers into the market. Inventory and the absorption rate (number of days on market) remain low, and first-time home buyers, as well as homeowners who have finally paid down debts, continue to enter the market. However, the distressed property component of the market has seemingly rebounded, limiting price growth. The residential real estate representative was very optimistic for the local housing market through CY 2016. The manufacturing and retail representatives reported less optimistic news, noting that overall market changes and generational consumer behavioral changes, respectively, are forcing their industries to adapt.

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



Note: Lighter columns and dashed lines represent estimates.

Estimate Source: Sage Policy Group, Inc., January 2016

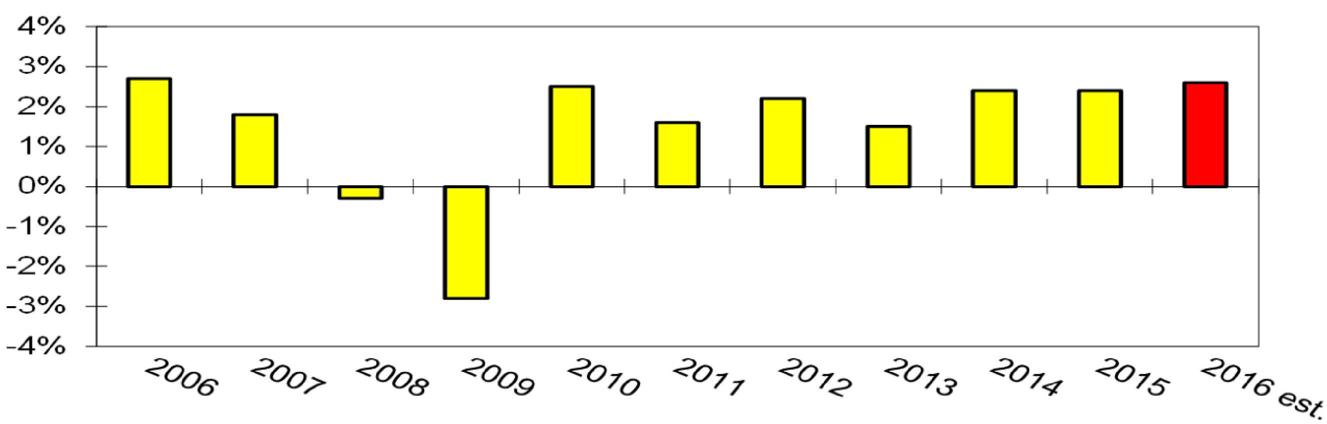
Real Gross Domestic Product (GDP) grew at an average annual rate of 1.4% from CY 2006 to CY 2015. For CY 2016, real GDP is expected to increase by 2.6%.

Projections for the local economy are influenced, to a large degree, by the underlying performance of the national and state economies. With the economy firmly into the mid-cycle stage of recovery and many sectors showing positive growth, a few sectors continue to perform below expectations. While the regional labor market has picked up, employment growth continues to lag behind the national labor market. The lower employment growth may be partially due to the region's labor force participation rate, which is higher than the national rate - presumably a positive sign for both jobs and wage growth for CY 2016. In addition, the federal fiscal issues that previously hindered employment growth in the region appear to be resolved for now, another positive sign for accelerated growth through CY 2016. Real Gross Domestic Product (GDP) is projected to increase by 2.6% in CY 2016, according to the Federal Reserve Bank of Philadelphia's November 2015 *Survey of Professional Forecasters*. Recent economic growth has been driven almost exclusively by consumer spending as business investment has stalled, a strong dollar has hindered exports, and government expenditures are largely flat. Still, CY 2016 is expected to mark the seventh consecutive yearly increase in GDP, following growth of 2.4% in both CY 2014 and CY 2015. Over the last decade, real GDP grew by an average of 1.4% annually from CY 2006 to CY 2015, including contractions of -0.3% in CY 2008 and -2.8% in CY 2009 (Figure 6).

Employment growth in the State and County accelerated in CY 2015 and is expected to show further growth in CY 2016, but continues to lag that of the nation.

Employment increased by 1.9% among Baltimore County residents, by 1.8% among Maryland residents, and by 2.1% nationally on an annual average basis from CY 2014 to CY 2015—the sixth consecutive increase for the State and the fifth consecutive increase for the County and the nation. Employment growth in the State and County accelerated during CY 2015, but lagged that of the nation over the last 3 years. However, the fall in unemployment rates is primarily due to employment growth and further progress is expected in CY 2016. Baltimore County's and Maryland's unemployment rates were 4.9% and 4.6%, respectively, in December 2015 and averaged 5.5% and 5.2%, respectively, for all of CY 2015. For CY 2016, Sage Policy Group, Inc. predicts that County employment will grow 1.7%, compared to population growth of 0.6%. The expectation that County employment growth will exceed population growth is a positive sign for the local economy and should yield further declines in the unemployment rate. In Maryland, employment growth is also projected at 1.7%, exceeding projected population growth of 0.8%, in CY 2016.

Figure 6. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters*, November 2015*

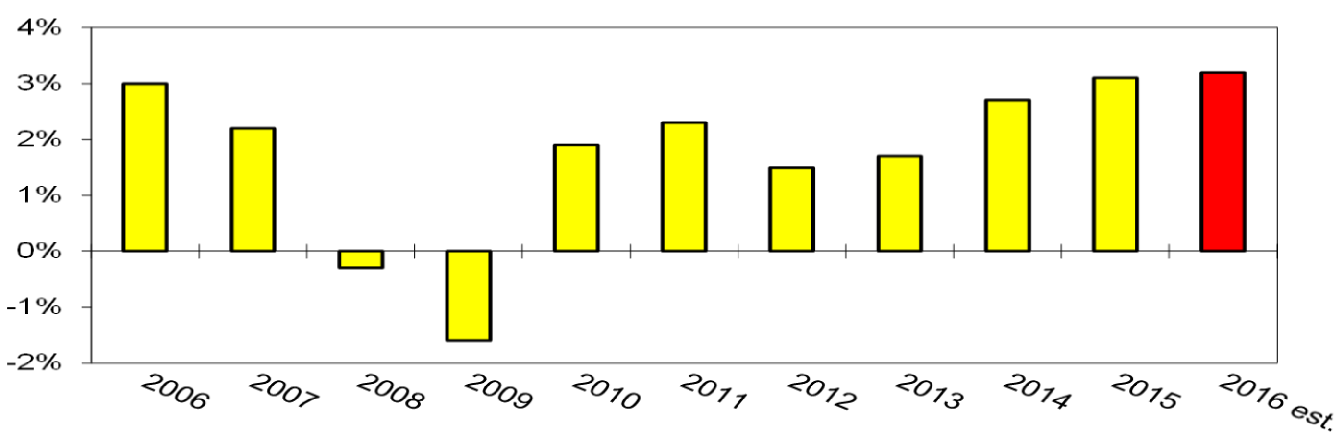
Consumer spending increased at a rate of 3.1% in CY 2015, the sixth consecutive annual increase following two annual declines.

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 3.1% in CY 2015, the sixth consecutive yearly increase, with a 2.2% increase in 2015:Q4. In December 2015, national unemployment maintained its lowest level (5.0%) since May 2008, which, combined with rapidly falling gasoline prices, provides a potential 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 increased moderately in January 2016 following an increase in December 2015, with the "Expectations Index" making up all of the increase while the "Present Situations Index" was unchanged. The Conference Board reported that "consumers' assessment of current conditions held steady, while their expectations for the next six months improved moderately." The Conference Board further noted that "consumers do not foresee the volatility in financial markets as having a negative impact on the economy." In addition, consumers have a more optimistic outlook for the labor market and more consumers expect an increase in their income compared to those who expect a decrease.

Most economic indicators are continuing to show positive gains, leading to increased optimism and expectations of improved performance in CY 2016.

As with the past year, the national economy's most significant challenges in the coming months are stagnant wage growth, adapting to headwinds in the global economy, and uncertainty as to how long consumers can continue to drive the recovery. The Federal Reserve Bank of Philadelphia's November 2015 *Survey of Professional Forecasters* projects 4.8% unemployment during CY 2016, down from 5.3% in CY 2015. The falling unemployment rate is now primarily attributed to employment gains as the labor force has steadied; however, increased employment isn't translating into meaningful wage growth. The *Survey* further anticipates moderate improved growth in GDP and steady growth in consumer spending in CY 2016 and future years. The Maryland and Baltimore County economies are likely to continue to expand modestly along with the national economy, with the biggest threat to the regional recovery being lingering areas of high REO/ foreclosure activity putting a damper on the housing market. In this regard, the Committee's consultant concluded in its January 2016 report that while Baltimore County's outlook for 2016 is much improved, caution should be heeded over the longer-term, as the economy slips into the late-stage of recovery and begins to enter a new pre-recession stage.

Figure 7. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, November 2015

GENERAL FUND REVENUES AND SURPLUS

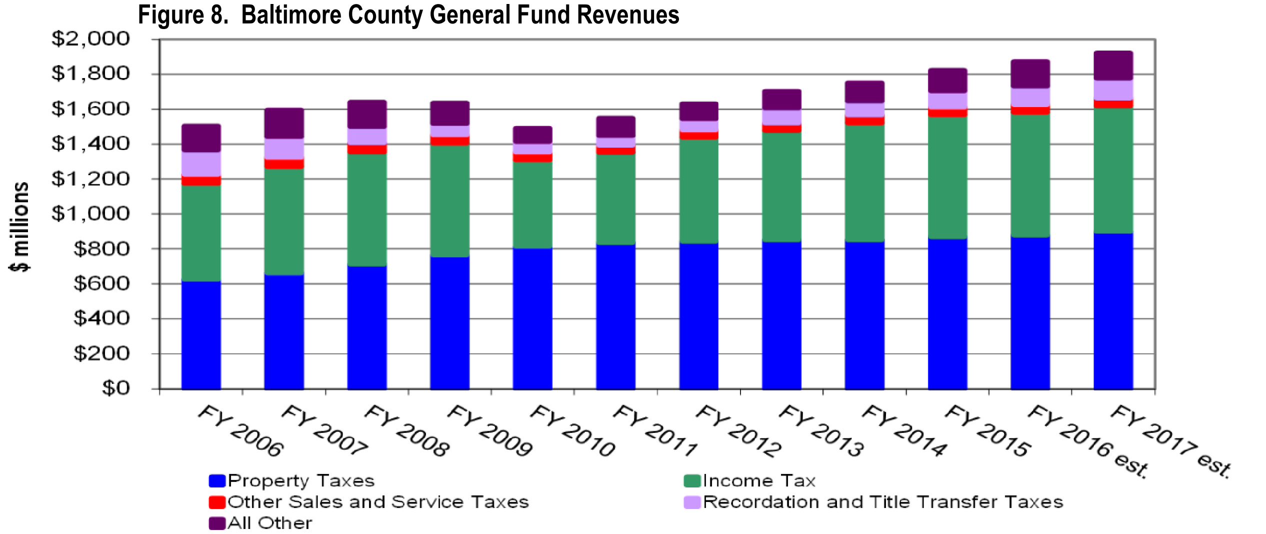
FY 2016 General Fund revenues are projected to increase by $51.4 million, or 2.8%, over FY 2015 totals. This projection is $10.0 million higher than current-year budgeted revenues.

FY 2016 projected revenues total $1,872.1 million, an increase of $51.4 million, or 2.8%, over FY 2015 revenues (Figures 8 and 9). This projection represents an increase of $10.0 million, or 0.5%, over FY 2016 budget estimates. The projected revenue increase primarily reflects new revenue collected from County emergency medical services ambulatory transports, which is estimated to total $21 million in FY 2016, partially offset by a smaller-than-anticipated increase in income tax collections. In addition, property-related transaction tax revenues (i.e., title transfer and recordation tax revenues) are showing strong growth due to increased home sales and rising prices in some areas. Growth in property tax revenues is starting to make a comeback as assessments slowly catch up with recent increases in home prices. Slightly higher-than-anticipated revenue collections may allow the County to finish FY 2016 utilizing less than the $89.6 million in surplus funds budgeted for use during the fiscal year; however, greater-than-budgeted snow removal expenses due to the historic January 2016 blizzard may consume some, if not all, of this additional revenue.

FY 2017 General Fund revenues are projected to increase by $49.7 million, or 2.7%, from the revised FY 2016 estimate.

FY 2017 General Fund revenues are projected to reach $1,921.8 million, up approximately $49.7 million, or 2.7%, from the revised FY 2016 revenue estimate and up $59.7 million, or 3.2%, over budgeted FY 2016 revenues. The modest increase in FY 2017 General Fund revenues is due to the impact of a moderately expanding economy. FY 2017 income tax collections are forecast to increase 2.2% due to continued gains in the job market combined with anticipated modest growth in wages, which have been stagnant in recent years. Growth in property tax revenues is expected to accelerate slightly due to the State's recent reassessment of the County's western region, which showed strong growth that was partially offset by an increase in Homestead Property Tax Credits. This reassessment is the third that has reflected positive growth following four years of decreases; however, there are still some areas where distressed properties are constraining growth. Property-related transaction tax revenues are expected to show modest gains from continued growth in both sales volume and prices. State aid received by the County is expected to moderately increase in FY 2017 as the Governor's proposed budget includes funding to restore a portion of highway user revenues to local governments including approximately $4 million of additional funding for the County, in addition to small increases in other minor sources such as Police aid.

Figure 8. Baltimore County General Fund Revenues



Sources: FY 2009 to FY 2015 Baltimore County Comprehensive Annual Financial Reports

Figure 9. General Fund Revenue Forecast, FY 2016-FY 2017
($ Million)

REVENUE SOURCE	FY 2015 Actual	FY 2016 Budget	FY 15 - FY 16 Bud.	FY 2016 Revised	FY 15 - FY 16 Rev.	FY 2017 Estimate	FY 16 Bud.- FY 17	**FY 16 Rev.- FY 17**
Property taxes	$870.1	$884.3	1.6%	$878.8	1.0%	$901.5	1.9%	2.6%
Income taxes	697.0	718.9	3.1%	701.9	0.7%	717.0	-0.3%	2.2%
Recordation & title transfer taxes	91.4	97.0	6.1%	106.0	16.0%	113.5	17.0%	7.1%
Other Sales and Service taxes	45.5	46.3	1.8%	45.5	0.0%	45.5	-1.7%	0.0%
Intergovernmental aid	43.7	45.2	3.4%	45.5	4.1%	50.0	10.6%	9.9%
Service charges	12.5	11.8	-5.6%	32.5	160.0%	32.5	175.4%	0.0%
Licenses & permits	5.3	4.8	-9.4%	5.3	0.0%	5.3	10.4%	0.0%
Fines, forfeitures & penalties	6.0	5.9	-1.7%	6.0	0.0%	6.0	1.7%	0.0%
Interest on investments	0.6	2.8	366.7%	1.0	66.7%	1.0	-64.3%	0.0%
Other	48.6	45.0	-7.4%	49.6	2.1%	49.6	10.2%	0.0%
TOTAL	**$1,820.7**	**$1,862.1**	**2.3%**	**$1,872.1**	**2.8%**	**$1,921.8**	**3.2%**	**2.7%**

Note: Totals may not add due to rounding.

The FY 2017 revenue projection is approximately $60.3 million higher than the Committee's spending guideline.

The FY 2017 revenue projection is approximately $60.3 million higher than the Committee's FY 2017 spending guideline. The excess funds, together with the unassigned General 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 2015 surplus totaled $140.5 million, excluding $89.3 million in the RSRA.

As of June 30, 2015, the surplus totaled $140.5 million, or 7.5% of FY 2016 budgeted revenues. This amount does not include $89.3 million in the Revenue Stabilization Reserve Account (RSRA). In addition, $89.6 million of surplus was assigned as a source of funding for the FY 2016 budget.

The FY 2016 surplus is projected to total $146.6 million, excluding $93.1 million in the RSRA.

The projected June 30, 2016 surplus, assuming FY 2016 revenues of $1,872.1 million, totals $146.6 million, or 12.9% of FY 2016 budgeted revenues (Figure 10). This amount does not include an estimated $93.1 million in the RSRA. The surplus will be available as a source of funding for the FY 2017 budget.

Figure 10. Estimated General Fund Surplus, FY 2016
($ in Millions)

FY 2015 General Fund Surplus (excluding RSRA funds)		**$ 140.5**
FY 2016 Revenue Estimate (per Adopted Budget)	1,862.1	
FY 2016 Revision	10.0	
FY 2016 Revised Revenue Estimate	1,872.1	
FY 2015 General Fund Balance Designated to Fund FY 2016 Appropriations	89.6	
FY 2016 Total Funding		1,961.7
FY 2016 Adopted Budget		(1,951.8)
FY 2016 Interest Transfer to the RSRA		(3.8)
FY 2016 Estimated General Fund Surplus		**$ 146.6**

DEBT GUIDELINES

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

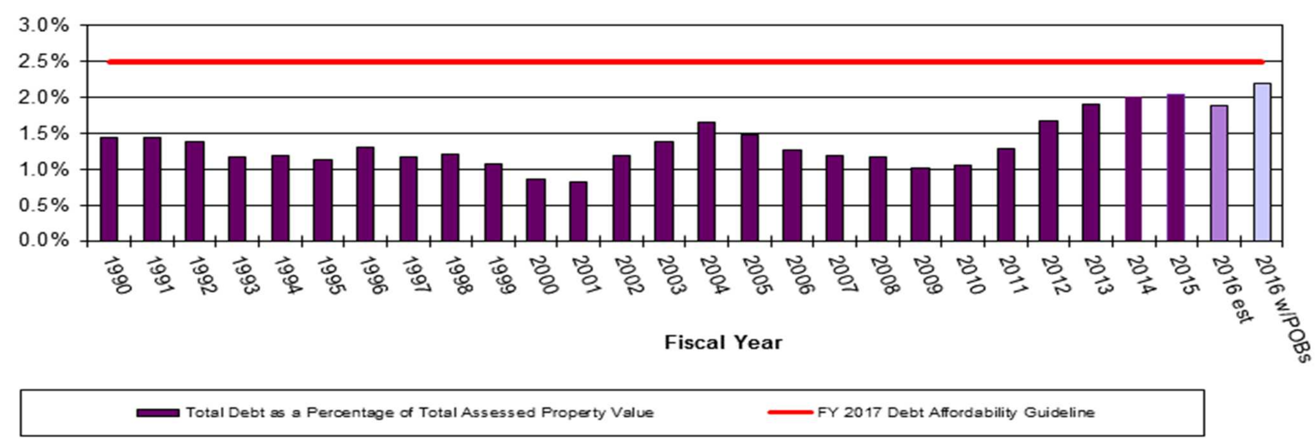
The Committee's debt affordability recommendations provide an enhanced system of checks and balances, further demonstrating the County's fiscal responsibility to its citizens, bond-rating agencies, and others in the financial community. The debt guidelines are based on: (1) the County's total debt outstanding 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 both the Committee's and the Administration's guidelines.

Total Debt Outstanding Guideline

The Committee recommends that total debt outstanding not exceed $2,040,351,625, or 2.5% of total assessed property value of $81,614,065,000.

The ratio of total debt outstanding to total assessed property value is a measure of debt affordability. From FY 1990 to FY 2016, total debt outstanding has ranged from 0.8% (FY 2001) to 2.0% (FYs 2014 and 2015) of the County's total assessed property value (Figure 11). The total debt outstanding ratio, which had been rising since FY 2009, is estimated to decrease slightly in FY 2016 as assessed property values, following 5 years of declines, have begun to increase, while at the same time the County's FY 2016 outstanding debt level is projected to decrease from the FY 2015 level. Beginning in FY 2015, the Committee raised its limitation on total debt outstanding from 2.2% to 2.5% of total assessed property value. **Accordingly, the Committee recommends that total debt outstanding during FY 2017 not exceed $2,040,351,625, or 2.5% of total assessed property value of $81,614,065,000.**

Figure 11. Debt Outstanding 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 2016, which is shown with and without POBs, which were issued in both FY 1988 and FY 2013. FY 2016 debt outstanding is an estimate. *Sources: Baltimore County Comprehensive Annual Financial Reports; Baltimore County Office of Budget and Finance; Maryland State Department of Assessments and Taxation.*

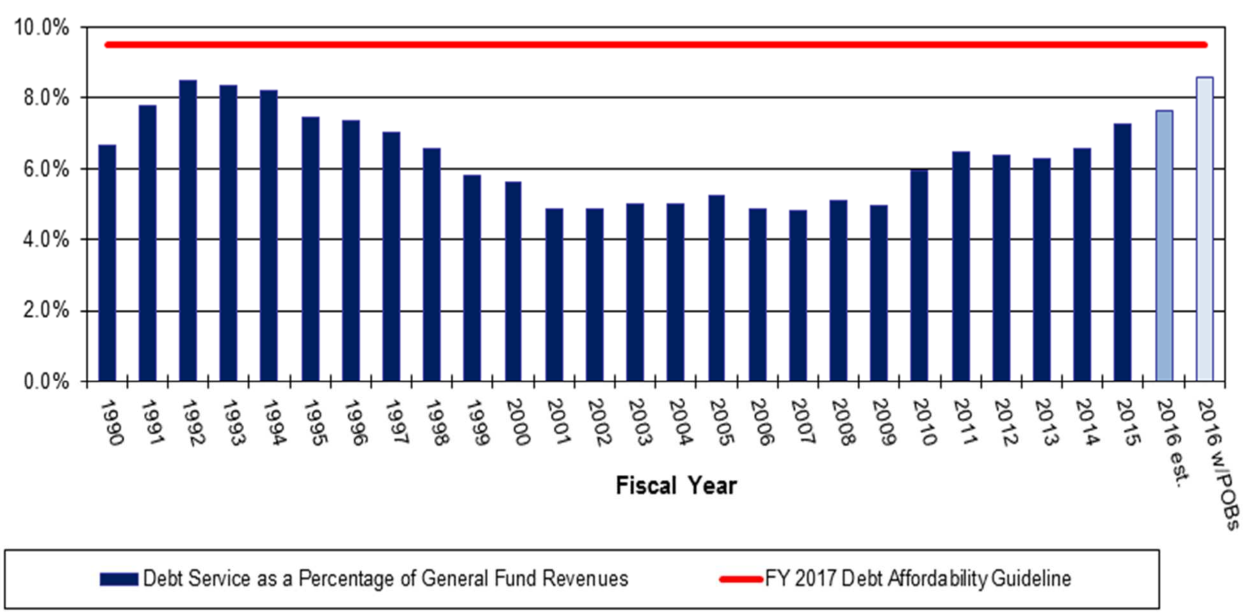
Debt Service Guideline

The Committee recommends that debt service not exceed $182.6 million, or 9.5% of projected revenues totaling $1,921.8 million.

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. From FY 1990 to FY 2016, the amount spent or budgeted for debt service ranged from 4.8% to 8.5% of total General Fund revenues (Figure 12). Beginning in FY 2015, the Committee raised its limitation on total debt service from 9.0% to 9.5% of total General Fund revenues. **Accordingly, for FY 2017, the Committee recommends that debt service expenditures not exceed $182.6 million based on projected revenues totaling $1,921.8 million.**

The ratio of debt service to total General Fund revenues from FY 1990 to FY 2016 is shown below in Figure 12. The decrease in this ratio, beginning in the mid-1990s, is not reflective of a reduction in County capital spending, but rather is the result of increased usage of 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, as increased debt issuance to finance capital projects, along with less available PAYGO, has resulted in additional debt and the associated debt service costs. 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 2016, which is shown with and without POBs issued in both FY 1988 and FY 2013. FY 2016 ratio is an estimate. *Sources: Baltimore County budget documents; Baltimore County Comprehensive Annual Financial Reports; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor.*