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BALTIMORE COUNTY FISCAL DIGEST

GENERAL FUND REVENUES & THE ECONOMY

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August 31, 2016

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September 26, 2016

Honorable Members of the Baltimore County Council

Ladies and Gentlemen:

I hereby submit the Baltimore County Fiscal Digest of General Fund Revenues and The Economy as of August 31, 2016. This report summarizes current economic conditions affecting the County and includes unaudited final FY 2016 revenue totals as well as an updated FY 2017 General Fund revenue projection. As you may be aware, State revenue collections for FY 2016 came in below expectations, and recently, the Board of Revenue Estimates reduced its revenue projections for FY 2017. However, our County General Fund revenue forecast for FY 2017 is not significantly changed from our forecast at budget time because our original forecast was based on more conservative economic assumptions than the State's previous forecast.

Presently, we expect FY 2016 General Fund revenues to total approximately $1,887.3 million, an increase of $66.9 million, or 3.7%, over FY 2015 collections, based on the most recent unaudited financial records. This total represents an over-attainment of $25.2 million, or 1.4%, over budgeted FY 2016 revenues. The 3.7% increase in FY 2016 collections is indicative of a moderately expanding economy, as property-related transaction tax collections came in significantly higher than expected and property and income tax revenues both posted solid gains. Additionally, County emergency medical services ambulatory transports began generating new revenue. This anticipated revenue growth should mean that the County will use less than the $89.6 million in surplus funds budgeted for FY 2016. Current projections of Unassigned General Fund Balance (Surplus) as of June 30, 2016 approximate $140.6 million, not including an additional $93.1 million in the Revenue Stabilization Reserve Account (Rainy Day account). The Surplus projection is just slightly above the June 30, 2015 balance of $140.5 million and is based on the FY 2016 expenditure estimates reported in the Executive's Budget Message on April 14, 2016. It is expected that actual FY 2016 Surplus, which should be available by year-end, will be higher based on final FY 2016 revenues and expenditures.

We project FY 2017 General Fund revenues will total $1,961.8 million, an increase of $74.5 million, or 3.9%, over estimated FY 2016 collections and $99.7 million, or 5.4%, over budgeted FY 2016 revenues. This increase is primarily due to growth in property tax revenues, as residential property values increased 10.9% due to the State's reassessment of the County's western region, combined with a full year of revenue from County emergency medical services ambulatory transports, which the Office of Budget and Finance estimates will total $27.5 million in FY 2017. In addition, income tax collections are anticipated to increase by 2.1%, and property-related transaction tax revenues are also expected to see solid growth. State aid to the County is expected to increase slightly in FY 2017 with moderate increases in highway user revenues and police and health aid.

The Baltimore County Economic Advisory Committee (BCEAC) reported mostly positive news at its July 5, 2016 meeting. The housing market continues to show the strongest growth, with prolonged low interest rates and minimal increases in home values spurring sales. In addition, falling unemployment, facilities expansion, and stable commercial and retail vacancy rates are positive indicators. The BCEAC's economist expects personal income in the County to grow by 3.45% in FY 2017. This projection reflects a deceleration from FY 2016 estimated personal income growth of 4.11%, and in this vein, members expressed some concern regarding the possibility of an upcoming recession, particularly in light of the fact that many economists believe the nation is at or near full employment. Although talk regarding the timing of the next national recession has increased, the County revenue effects of an economic downturn are lagged and would not result in immediate budget pressures.

We will continue to monitor economic activity, revenue collections, and State and federal developments. Our next BCEAC meeting is October 3rd.

Respectfully submitted,

Lauren M. Smelkinson

Lauren M. Smelkinson, CPA
County Auditor

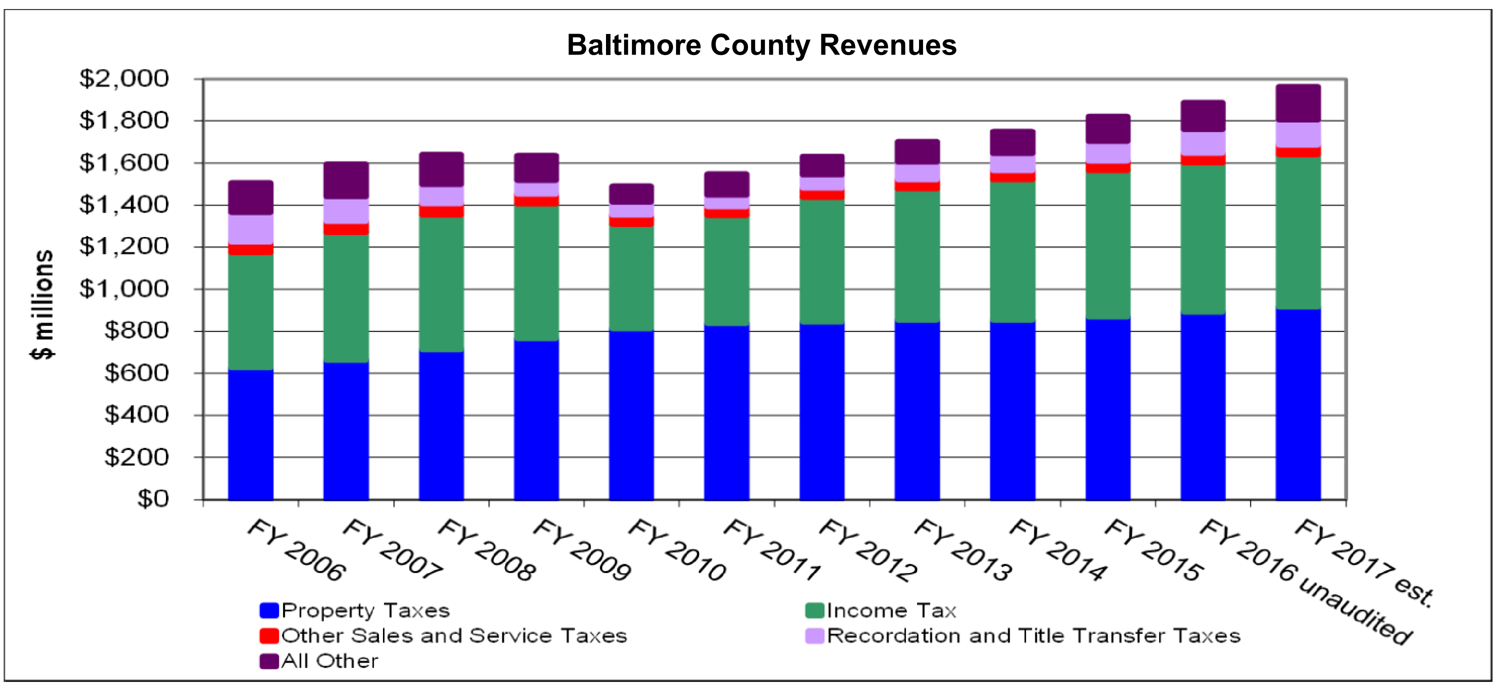
cc: Baltimore County Spending Affordability Committee; Baltimore County Economic Advisory Committee

REVENUE HIGHLIGHTS

Unassigned General Fund Balance (Surplus) as of June 30, 2016 is expected to total approximately $140.6 million, or 7.1% of FY 2017 budgeted General Fund revenues, based on the most recent unaudited financial records. This amount excludes $19.1 million that was assigned as a source of funding for the FY 2017 budget. In addition to the Surplus balance, the Revenue Stabilization Reserve Account (Rainy Day account) balance is expected to total $93.1 million as of June 30, 2016. The expected Surplus balance and Rainy Day amounts together total $233.7 million, or 11.9% of FY 2017 budgeted General Fund revenues. Actual Surplus totals as of June 30, 2016, which will reflect final FY 2016 revenues and expenditures, should be available by the end of the year.

FY 2016 General Fund revenues are expected to total approximately $1,887.3 million, an increase of $66.9 million, or 3.7%, over FY 2015 collections, based on the most recent unaudited financial records. This total represents an over-attainment of $25.2 million, or 1.4%, over budgeted FY 2016 revenues. The anticipated 3.7% increase in FY 2016 General Fund revenues is attributable to several factors including new revenue collected from County emergency medical services ambulatory transports. Property tax revenues are starting to rebound due in part to the State's reassessment of the County's eastern region; such revenues showed modest growth that was partially offset by an increase in Homestead Property Tax credits. Property-related transaction tax revenues showed the most significant year-over-year gain, with growth of 22.1% in FY 2016 due to strong growth in home sales combined with modest sales price increases. These revenue gains are slightly offset by a smaller-than-anticipated increase in income tax collections.

FY 2017 General Fund revenues are projected to reach $1,961.8 million, up approximately $74.5 million, or 3.9%, from unaudited FY 2016 revenues and up $99.7 million, or 5.4%, over budgeted FY 2016 revenues. This projection is in line with budgeted FY 2017 revenues, which total $1,967.3 million. The anticipated increase in FY 2017 General Fund revenues is due to the impact of a moderately expanding economy combined with revenue from a full year of County emergency medical services ambulatory transports, which the Office of Budget and Finance estimates will total $27.5 million in FY 2017. Income tax collections are forecast to increase 2.1% in FY 2017 due to continued employment gains combined with anticipated modest growth in wages, which have been stagnant in recent years. Growth in property tax revenues is expected to accelerate slightly, to 2.6%, due to the State's recent reassessment of the County's western region, which showed strong growth; property tax revenue growth continues to be 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. Property-related transaction tax revenues are expected to show gains from continued growth in both sales volume and prices, though growth is expected to moderate following the 22.1% increase experienced in FY 2016. FY 2017 State aid received by the County is expected to increase slightly, with small increases in highway user revenues and police and health aid.



REVENUE FORECAST & ECONOMIC OUTLOOK

FY 2016 General Fund revenue growth, primarily attributable to strong growth in property-related transaction tax revenues combined with new revenue collected from County EMS ambulatory transports, represents a continuation of the modest growth seen in recent years. FY 2017 revenues are expected to continue to grow, with modest growth in property tax, income tax, and property-related transaction tax revenues, along with a full year of revenue from EMS ambulatory transports.

($ Millions) Revenue Source	Actual FY 2015	FY14-15 Change	Unaudited FY 2016	FY15-16 Change	Est. FY 2017	FY16-17 Change
Property Taxes	$ 870.1	2.0%	$ 892.9	2.6%	$ 915.9	2.6%
Income Tax	696.3	4.3%	709.4	1.9%	724.6	2.1%
Sales & Service Taxes	45.6	2.7%	45.9	0.7%	45.9	0.0%
Recordation Tax	28.5	8.0%	36.7	28.8%	39.3	7.1%
Title Transfer Tax	63.0	17.5%	75.0	19.0%	80.3	7.1%
Intergovernmental	43.7	0.5%	46.6	6.6%	47.2	1.3%
All Other	73.2	19.2%	80.8	10.4%	108.6	34.4%
Total Revenue	$ 1,820.4	4.0%	$ 1,887.3	3.7%	$ 1,961.8	3.9%

The Baltimore County Economic Advisory Committee (BCEAC) expressed mostly positive news concerning the local economy at its July 5, 2016 meeting, but members suggested the broader economic recovery could be entering its later stages. Members reported that many companies have experienced continued growth in 2016, allowing for facilities expansion as well as hiring. Further, the number of home sales in the County is up considerably over last year, and there are positive signs regarding manufacturing. However, members advised that small business growth is flat, while inflationary pressures may threaten future investments. Looking forward, the Committee expressed some optimism for regional growth through 2016. Members' near-term outlook reflects the following factors:

- **Recent reports indicate that the region is seeing some wage growth, and interest rates remain relatively low,** which should encourage consumers to be confident in both the present state of the economy and the future economic outlook. Consumer confidence is critical to the economy because the consumer accounts for roughly two-thirds of total economic activity; it is widely understood that in the present economic climate, the consumer is responsible for driving national economic growth. Members cited the current development projects in Towson, Owings Mills, and White Marsh as evidence of the strength of the County's retail sector. Members also pointed to rapid office space absorption in Towson and Woodlawn as positive signs for local job growth.

- **The County's unemployment rate is falling but remains higher than the State average.** The Committee's Chairman reported that employment trends in the County are stable and positive. Many analysts believe that the nation is at or near full employment, which the Chairman noted is both encouraging and concerning for the County, since full employment typically means "downturn ahead."

- **The Committee's residential real estate representative reported that the County's residential real estate market performed well in recent months and that the high end of the market has begun to accelerate.** Twenty-five homes sold for over $800,000 in June 2016, compared to 14 in June 2015. The residential real estate representative further noted that while sales prices are not increasing as rapidly as the number of sales, the list-to-sale price ratio in the County remains high at 96% and is even higher for homes sold for less than $300,000. The inventory of homes in the $200,000 to $350,000 range remains tight, with an absorption rate of 2.6 months. Members observed that the current low mortgage rates should help stimulate the market, and have again made refinancing a significant player in the market. However, the residential real estate representative suggested that going forward, interest rates are more likely to rise than stay flat and are unlikely to fall any further in the current market.

NATIONAL ECONOMIC INDICATORS

In 2016:Q2, the U.S. economy grew at an annualized rate of 1.1%.

Real U.S. Gross Domestic Product (GDP) in 2016:Q2 increased at an annualized rate of 1.1%. 2016:Q2's performance is a modest acceleration from a meager 0.8% increase in 2016:Q1. Personal consumption expenditures, which continue to drive economic growth, increased (see detailed discussion to follow), and the national trade deficit slightly shrunk as growth in exports outpaced growth in imports during 2016:Q2. Growth in 2016:Q2 was restrained primarily by gross private domestic investment, which decreased at an annualized rate of 9.7%. Residential investment made up a majority of this decrease, falling by 7.7%, while nonresidential investment posted an annualized decrease of 0.9%. In addition, government consumption expenditures fell at an annualized rate of 1.5% in 2016:Q2, with federal and state and local government spending posting annualized decreases of 0.3% and 2.2%, respectively. For all of 2015 real GDP grew by 2.6%, slightly higher than the 2.4% growth in 2014, and exceeding the 10-year average of 1.4%. The August 2016 release of the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* projects real GDP growth of 1.5% for all of 2016, followed by a slight acceleration to 2.3% in 2017. The *Survey of Professional Forecasters* projects GDP growth to remain below 2.5% for the foreseeable future; despite holding steady, the GDP growth rate remains stunted and below pre-recession levels of 3.8% and 3.3% in 2004 and 2005, respectively.

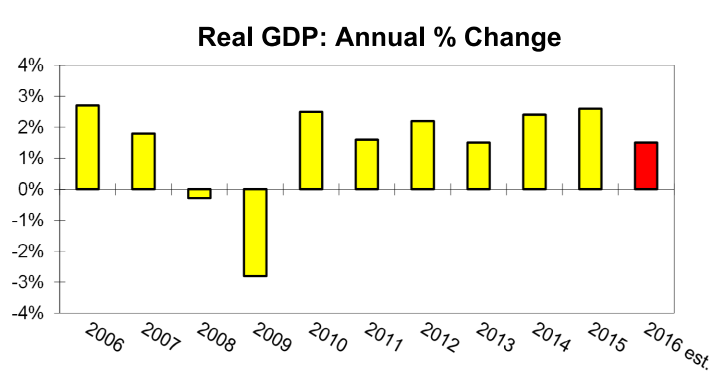
After growing by 2.6% in 2015, real GDP growth is projected to decelerate to 1.5% in 2016 and to accelerate to 2.3% in 2017.

Real consumer spending grew at an annualized rate of 4.4% in 2016:Q2.

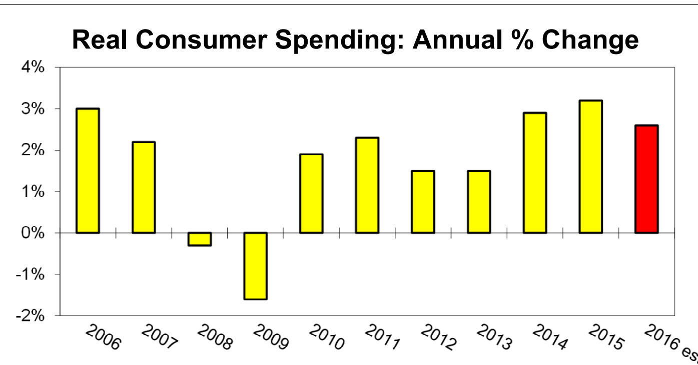
Real consumer spending, which accounts for roughly two-thirds of all U.S. economic activity, increased by 3.2% for all of 2015, the sixth consecutive yearly increase. Consumer spending posted considerable growth during 2016:Q2, increasing at an annualized rate of 4.4%, following an increase of 1.6% in 2016:Q1. During 2016:Q2, consumer spending on durable and non-durable goods accelerated, posting increases of 9.9% and 5.7%, well above a 0.6% decrease and a 2.1% increase during 2016:Q1, respectively. Over the same period, growth in consumer spending on services accelerated from 1.9% to 3.1%. The *Survey of Professional Forecasters* projects that consumer spending will increase by 2.6% for all of 2016.

Consumer confidence increased in August following a slight decrease in July.

Consumer confidence, based on a survey of 5,000 U.S. households by The Conference Board (a well-known economic research organization), increased in August following a slight decrease in July, with the "Expectations Index" responsible for a majority of the increase and the "Present Situation Index" also posting a moderate gain. The Conference Board noted, "[c]onsumers' assessment of both current business and labor market conditions was considerably more favorable than last month." The Board further reported that "[s]hort-term expectations regarding business and employment conditions, as well as personal income prospects, also improved, suggesting the possibility of a moderate pick-up in growth in the coming months."



Estimate Source: *Survey of Professional Forecasters*, August 2016



Estimate Source: *Survey of Professional Forecasters*, August 2016

The Federal Reserve's Federal Open Market Committee (FOMC) held interest rate targets between 0.25% and 0.5% at its July 27, 2016 meeting.

Interest rate targets were maintained between 0.25% and 0.5% at the July 27, 2016 meeting of the Federal Reserve's Federal Open Market Committee (FOMC). The current interest rate target range, which has been in place since the FOMC's December 2015 meeting, follows 7 years with the target range set at 0% to 0.25%, the lowest interest rate target since the FOMC's 1954 inception. The FOMC stated that "economic activity has been expanding at a moderate rate" and added that "[j]ob gains were strong in June following weak growth in May." Additionally, the FOMC noted that "[h]ousehold spending has been growing strongly but business fixed investment has been soft," and inflation continues to remain below the FOMC's 2% goal. The FOMC advised that "with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen." Short-term inflation is expected to remain low, but should rise toward 2% in the medium term, as falling energy and import prices stabilize and the labor market strengthens. The FOMC stated that "future adjustments to the target range...[will depend on] economic conditions relative to its objectives of maximum employment and 2 percent inflation," and it "expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."

The FOMC expects inflation to rise gradually over the medium term and advises that "with gradual adjustments in the stance of monetary policy" moderate economic growth is expected.

INTEREST RATE CHANGE FROM JULY 2015 TO JULY 2016

	Basis Points*
90-Day Treasury Bills	27
10-Year Treasury Bonds	-82
30-Year Conventional Mortgage	-61

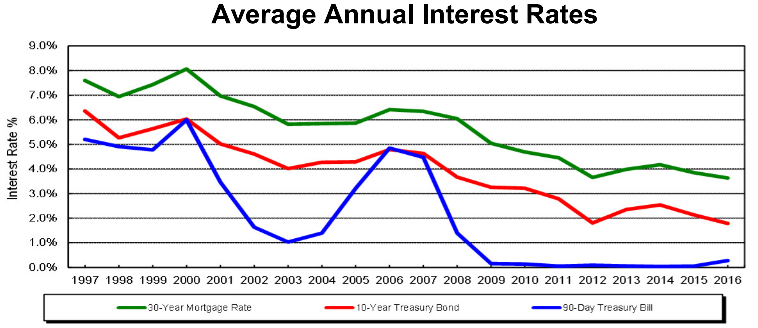
* A basis point is equal to .01 percentage point.

Short-term interest rates are likely to stay between 0.25% and 0.5%. While the FOMC has not given an exact timeframe, it is widely expected that at least one rate increase will occur by the end of 2016. However, the FOMC continues to wait for further evidence toward meeting its objectives.

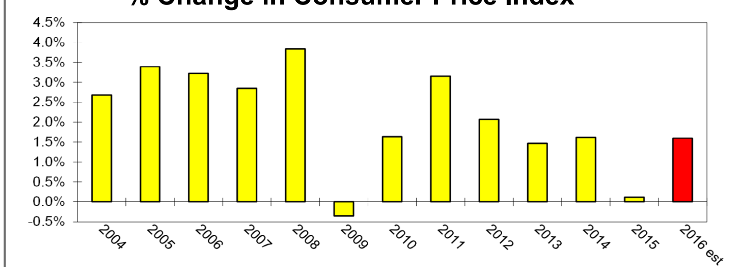
From July 2015 to July 2016, consumer inflation increased by 0.8% and is forecast at 1.6% and 2.3% for CY 2016 and CY 2017, respectively.

Inflation, as measured by the Consumer Price Index-All Urban Consumers (CPI-U), continues to remain low during CY 2016, most recently posting an annual increase of 0.8% from July 2015 to July 2016. The low inflation continues to be primarily driven by transportation prices (e.g., fuel), which have posted year-over-year decreases in each of the last 24 months. These decreases are primarily offset by increases in medical care and medical care services, which increased by 4.0% and 4.1%, respectively, from July 2015 to July 2016. Core inflation (which excludes food and energy inflation) was 2.2% from July 2015 to July 2016. Growth in the CPI-U is expected to average 1.6% in CY 2016, followed by 2.3% in CY 2017, according to the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, August 2016. The *Survey* projects that annual inflation will average 2.2% over the 2016 to 2025 period, after an average actual increase of 2.0% over the 2006 to 2015 period.

Average Annual Interest Rates



% Change in Consumer Price Index



Estimate Source: *Survey of Professional Forecasters*, August 2016

LOCAL ECONOMIC PERSPECTIVE

EMPLOYMENT

Continuing the trend of impressive employment gains in recent months, County year-over-year employment rose in July 2016.

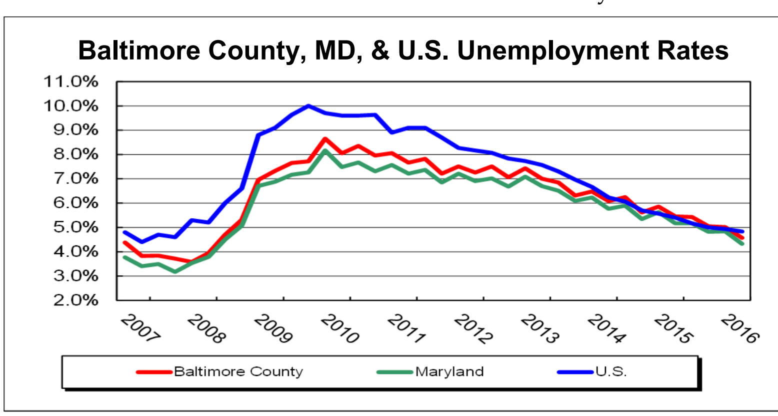
Employment, as measured by place of residence, rose in Baltimore County in July 2016 compared to a year earlier, building on solid year-over-year growth during CY 2016. Over the July 2015 to July 2016 period, Baltimore County residential employment increased by 5,087 persons, or 1.2%, while Maryland residential employment grew by 37,814 persons, or 1.3%. Year-over-year employment growth in the County has continued its pace of strong growth that began during the latter half of CY 2014, posting year-over-year employment increases greater than 4,700 persons, or 1.1%, during 19 of the last 22 months. Additionally, State employment growth accelerated on a year-over-year basis during 2015, increasing annually by 1.4% over 2014, and this pace has largely continued during 2016. The current rate of employment growth is a positive sign; such growth is needed to support the County's economy and to continue to keep pace with population growth.

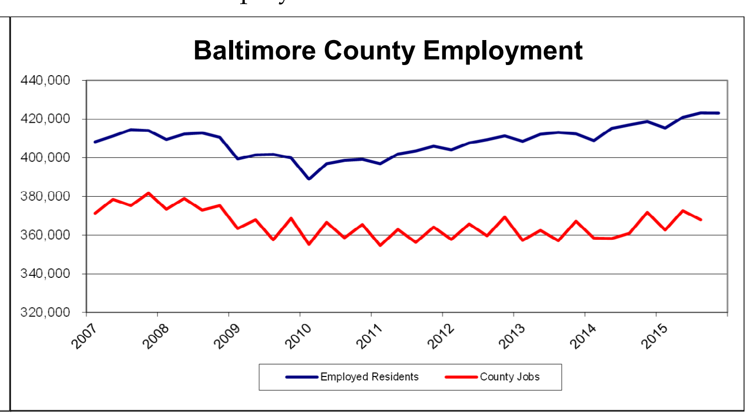
The number of County jobs increased by 2.0% over the 2014:Q4 to 2015:Q4 period, while County employer payrolls rose 7.0%. Further job growth is anticipated for the remainder of 2016.

Jobs data, as measured by place of work, show that from 2014:Q4 to 2015:Q4, the number of jobs in Maryland and Baltimore County increased by 1.7% and 2.0%, respectively, as Maryland and Baltimore County employers added an estimated 44,129 and 7,426 positions, respectively. More encouragingly, payrolls markedly accelerated, rising by 7.1% at the State level and 7.0% in Baltimore County from 2014:Q4 to 2015:Q4, following annualized increases of 3.8% and 3.7%, respectively, from 2014:Q3 to 2015:Q3. Nationally, non-farm payrolls increased by approximately 2.5 million jobs, or 1.8%, from 2015:Q2 to 2016:Q2. However, the pace of national job growth has decelerated in recent months, with the nation adding an average of 153,000 jobs per month in 2016:Q2, down from an average of 219,800 jobs per month in 2016:Q1. Sage Policy Group, Inc. (the Spending Affordability Committee's economic consultant) predicts job growth of 2.0% and 2.2% in the County and Maryland, respectively, in CY 2016, with both forecasts exceeding anticipated national job growth of 1.4%. The County and State forecasts exceed anticipated CY 2016 County and State population growth of 0.6% and 0.8%, respectively.

The County's July 2016 unemployment rate was 4.8%, down from 5.6% a year earlier, due primarily to an increase in the number of residents employed.

The unemployment rate among County residents was 4.8% in July 2016, down from 5.6% a year earlier, but slightly above the State rate of 4.6%. In addition to the year-over-year increase in employed residents, the County labor force has grown in recent months, adding 1,248 workers from July 2015 to July 2016. The falling County unemployment rate, which reflects both an expanding labor force and a growing number of employed residents, is a positive sign for the local economy. As of May 2016, 13 of the 24 local jurisdictions in Maryland had a lower unemployment rate than Baltimore County. Nationally, the seasonally adjusted unemployment rate was 4.9% in July 2016, down from the July 2015 rate of 5.3%, and near what many economists consider to be full employment.





PERSONAL INCOME

The Spending Affordability Committee's economic consultant recently estimated that County personal income growth was 4.11% in FY 2016 and predicted it will be 3.45% and 4.11% in FY 2017 and FY 2018, respectively.

Sage Policy Group, Inc. (Sage), the Spending Affordability Committee's economic consultant, estimates in its July 2016 report that Baltimore County's personal income (PI) increased by 4.11% in FY 2016 following actual increases of 4.30% and 1.93% in FY 2015 and FY 2014, respectively. Sage estimates that the County's PI growth will decelerate to 3.45% in FY 2017, which would be 222 basis points below the County's 10-year high actual growth of 5.67% that occurred in FY 2006. Sage forecasts 3.64% PI growth in Maryland for FY 2017. For FY 2018, Sage forecasts growth of 4.11% in Baltimore County and 4.15% in Maryland.

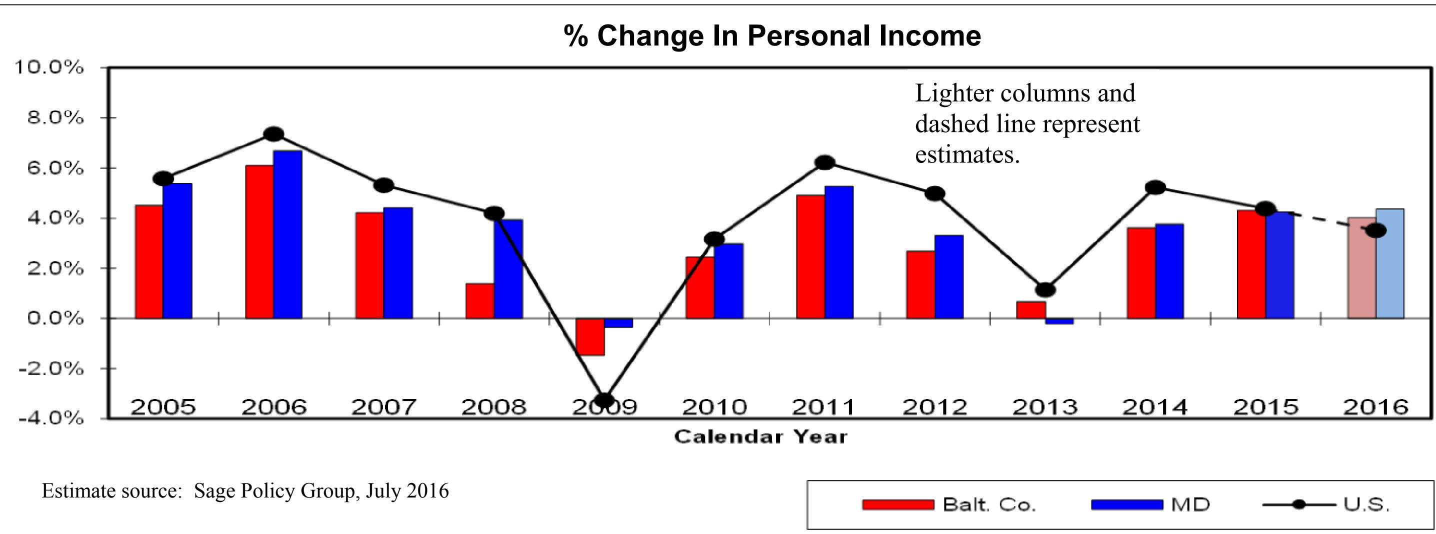
Over the last decade, personal income growth in the County has lagged growth at both the State and national levels.

Over the 2006 to 2015 period, national PI increased 33.3%, higher than both Maryland and Baltimore County PI growth of 30.6% and 24.7%, respectively. PI growth has markedly slowed after posting increases of 38.8%, 45.3%, and 35.3% nationally, in the State, and in the County, respectively, over the 2001-2010 decade. The most recent quarterly reading for Maryland shows that PI increased by 1.1% from 2015:Q4 to 2016:Q1, higher than the national PI increase of 0.3% over the same period. (County data are reported annually.) Nationally, in 2016:Q2, wages and salaries comprised 50.9% of PI, reflecting little change year-over-year. 2016:Q2 old-age/disability/health insurance benefits increased 4.2% over 2015:Q2 levels and comprise 13.4% of PI, compared with 13.2% of PI in 2015:Q2. Meanwhile, unemployment benefits decreased 5.3% over the same period, reflecting continued gains in employment and the overall economy. Wages continue to show modest growth with national average hourly wages most recently increasing by 2.6% in July 2016 from a year earlier. During 2015:Q4, Baltimore County's average weekly wages totaled \$1,063, up 5.0% from 2014:Q4, but below State and national averages of \$1,138 and \$1,089, respectively. The Federal Reserve reported that nominal household wealth increased 3.6% during CY 2015. Most recently, nominal household wealth grew by 1.0% from 2015:Q4 to 2016:Q1, following a 2.6% increase during the previous quarter.

The nation's nominal household wealth grew by 1.0% from 2015:Q4 to 2016:Q1, and increased 3.6% during CY 2015.

For FY 2017, the County's Spending Affordability Committee recommended a maximum spending growth rate of 3.50% based on a 5-year average of Sage's January 2016 estimates/forecasts of annual County PI growth for FY 2013 to FY 2017. Sage's July 2016 forecasts of annual County PI growth for FY 2018 and FY 2019 are 4.11% and 3.70%, respectively. Based solely on these forecasted rates and the estimated growth in prior years, the projected maximum spending growth recommendation is 3.58% for FY 2018 and 3.93% for FY 2019.

For FY 2017, the County's Spending Affordability Committee recommended a spending growth limit of 3.50%.



Estimate source: Sage Policy Group, July 2016

EXISTING HOME SALES

In July 2016, the number of existing home sales totaled 925, a decrease of 12.9% from a year earlier.

The median price of existing homes sold in Baltimore County in July 2016 was $227,000, an increase of 0.9% from July 2015.

Existing home sales in Baltimore County totaled 10,283 units in FY 2016, 16.6% above FY 2015 sales. While home sales showed strong growth year-over-year throughout FY 2016, price growth lagged well behind sales growth, with the average sales price rising just 0.1% from FY 2015 to FY 2016. In July 2016, 925 homes were sold, a decrease of 137, or 12.9%, from a very strong July 2015. The median price of an existing Baltimore County home sold in July 2016 was $227,000, up 0.9% from July 2015, compared to a 3.6% increase state-wide over the same period. At the same time, the active inventory in Baltimore County in July 2016 was down 13.3% from July 2015. In July 2016, the BCEAC residential real estate representative reported primarily positive news for the local housing market. He reported that the absorption rate (i.e., "months of inventory") continues to fall, adding that the market for homes in the $200,000 to $350,000 range is especially tight. He further noted that activity in the high-end market (homes over $800,000) has picked up substantially in recent months.

The number of pending home sales in July 2016 totaled 1,136, an increase of 2.3% from a year earlier.

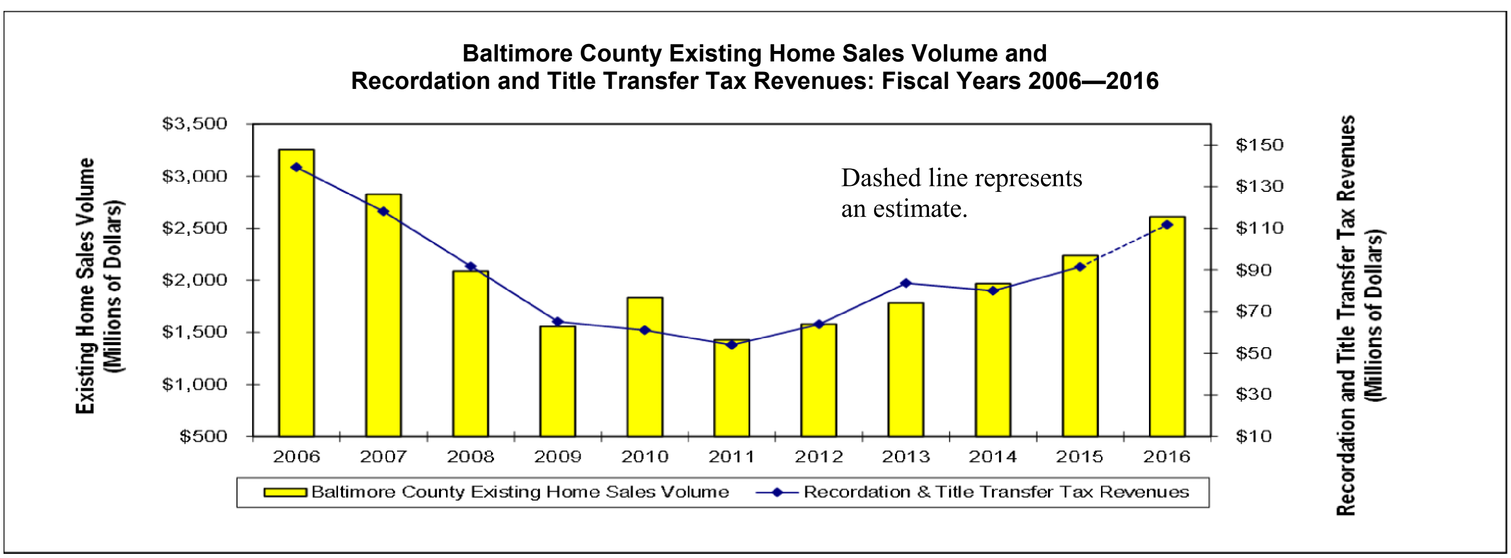
Pending existing home sales in July 2016 totaled 1,136, an increase of 26, or 2.3%, over the total in July 2015, following a 4.1% year-over-year decrease in June 2016. The BCEAC residential real estate representative reported that distressed sales continue to make up a significant share of the market, particularly on the east and west sides of the County. He added that relatively few of these distressed properties are currently listed on the market.

Primarily reflecting lower mortgage interest rates, the monthly mortgage payment for a median-priced County home decreased 6.4% in July 2016 compared to July 2015.

Mortgage interest rates (for 30-year conventional mortgages) in July 2016 were 3.44%, down 61 basis points from July 2015 when rates were 4.05%. The monthly payment for a median-priced Baltimore County home (financed with a 30-year conventional mortgage loan) was $1,012 in July 2016, a 6.4% decrease from the July 2015 level of $1,081 (principal and interest only), reflecting a decrease in mortgage interest rates slightly offset by a modest increase in median home prices. Mortgage rates are anticipated to remain largely flat over the near term, possibly increasing towards the end of CY 2016.

Property-related transaction tax revenues grew by 22.1% in FY 2016 and are expected to grow by 7.1% in FY 2017.

Property-related transaction tax revenues (recordation and title transfer tax revenues) totaled $111.7 million in FY 2016, an increase of 22.1% from FY 2015 but still 19.8% below peak collection levels experienced in FY 2006. These revenues are expected to continue to grow during FY 2017 to $119.6 million, or by 7.1%, largely due to continued demand in the housing market coupled with modest, but rising, home prices and mortgage interest rates.



CONSTRUCTION

The total value of construction permits issued in 2016:Q1 was $232.1 million, or 113.0% above 2015:Q1.

Construction is among the most volatile components of the County's economy. The value of construction permits issued in 2016:Q1 totaled $232.1 million, an increase of $123.1 million, or 113.0%, from 2015:Q1. This permit valuation is 45.4% above the 7-year average of 1st quarter activity. New non-residential construction permits were valued at $60.1 million in 2016:Q1, an increase of $52.0 million, or 646.1%, from 2015:Q1, and were 96.7% above the 7-year average of 1st quarter activity. Five new non-residential construction permits valued at or above $800,000 were issued in the County in 2016:Q1, including permits for a new County elementary school in Lansdowne and the County's new Eastern Family Resource Center in Rossville, both valued at $24.0 million, a 5-story office building in Timonium valued at $10.0 million, and a medical office building in White Marsh and a marketing center for Sparrows Point Terminal in Edgemere, both valued at $800,000.

In 2016:Q1, the total number of new residential building permits increased 13.5%, and the dollar value increased 57.8%, compared to a year earlier.

Residential building permits issued in 2016:Q1 increased by 29, or 13.5%, from the number issued in 2015:Q1: 54 multi-family unit permits compared to 27, and 190 single-family unit permits compared to 188. The total dollar value of the new residential building permits issued in 2016:Q1 increased by $19.6 million, or 57.8%, from 2015:Q1 values, following a 7.9% year-over-year decrease in 2015:Q4. The value of new residential building permits in 2016:Q1 is 38.5% above the 7-year average of 1st quarter activity.

The value of additions, alterations, and repairs activity in 2016:Q1 rose 76.9% from a year earlier to $118.6 million.

Additions, alterations, and repairs (AAR) permit values in 2016:Q1 totaled $118.6 million, up $51.5 million, or 76.9%, from 2015:Q1 and 31.0% above the 7-year average of 1st quarter activity. From 2015:Q1 to 2016:Q1, the value of residential AAR permits increased 15.7%, and the value of non-residential AAR permits increased 97.9%.

Construction employment, which represented 6.4% of County jobs in 2015:Q4, increased by 7.8% from 2014:Q4.

Construction employment increased on an annualized basis by 1,760 jobs, or 7.8%, and represented 6.4% of County jobs during 2015:Q4 (the most recent data available). Over the same period, average weekly wages in the construction sector rose by $85, or 6.8%, and had an average wage rate 21.5% above the County average in 2015:Q4.