



Baltimore County Maryland

**Comprehensive Annual Financial Report
For The
Fiscal Year Ended June 30, 2013**

Baltimore County, Maryland



Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2013

Prepared By The Office Of Budget and Finance

INTRODUCTORY



SECTION

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BALTIMORE COUNTY, MARYLAND
FOR THE YEAR ENDED JUNE 30, 2013
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KEVIN KAMENETZ
County Executive

KEITH DORSEY, Director
Office of Budget and Finance

December 23, 2013

Honorable County Executive and Members of
The Baltimore County Council

The Comprehensive Annual Financial Report (CAFR) of Baltimore County, Maryland (the "County") for the fiscal year ended June 30, 2013 is submitted herewith in accordance with the requirements of Section 516 of the Baltimore County Charter. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data as presented is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds, and that all disclosures are included that are necessary to enable the reader to gain the maximum understanding of the County's financial affairs.

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles as applicable to governmental entities in the United States (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The County's financial statements have been audited by CliftonLarsonAllen LLP, Independent Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the County's financial statements for the fiscal year ended June 30, 2013 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit that the County's financial statements as of and for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section.

The County is required to undergo a federally mandated annual audit called "The Single Audit" which is designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Historic Courthouse | 400 Washington Avenue | Towson, Maryland 21204
www.baltimorecountymd.gov

PROFILE OF THE COUNTY

The Reporting Entity And Its Services

The County is a corporate polity which performs all local governmental functions within its jurisdiction, as there are no incorporated towns, villages, municipalities or other political subdivisions with separate taxing authority. Under home rule charter since 1957, the County is governed by an elected County Executive and a seven-member County Council with each serving separate executive and legislative functions, respectively.

The Community College of Baltimore County, the Board of Education of Baltimore County, and the Board of Library Trustees for Baltimore County are reported as discretely presented component units because they are deemed to be fiscally dependent on the County. The component units are reported separately within the County's financial statements to emphasize that they are legally separate from the County. The County and its component units provide the full range of municipal services contemplated by statute or charter. This includes education, police and fire protection, sanitation, health and social services, public improvements, planning and zoning, recreational and cultural activities, and general administrative services.

Adopted Budget

The annual budget serves as the foundation for the County's financial planning and control. Pursuant to County Charter, the County Executive presents the capital and operating budgets to the County Council during April of each year. The County Council may decrease or delete any items in the budget except those required by the public laws of the State of Maryland and except any provision for debt service on outstanding obligations or for estimated cash deficits. In its deliberations, the Council considers the recommendations of the Spending Affordability Committee (Committee) consisting of 3 members of the County Council and 2 other members from an area of specialty, such as finance, organized labor, etc. On or before February 15 in each year, the Committee submits to the County Council and County Executive a report with recommendations on fiscal goals or growth in the County budget to a level that does not exceed the rate of growth of the County's economy. The budget must be adopted by the affirmative vote of not less than four members of the County Council on or before June 1 each year. The adopted budget becomes effective July 1 and provides the spending authority at the program level for the County's operations.

As demonstrated by the statements and schedules included in the financial section of this report, the County continues to meet its responsibility for sound financial management. A budget-to-actual comparison is provided for the General Fund on page 19 as part of the basic financial statements for the governmental funds. Additional information regarding the County's budget can be found in Note 1 of the notes to the basic financial statements and in schedules provided in the other supplementary information section.

As part of the annual operating budget process, the County develops a six-year Capital Improvement Program (CIP) consisting of the upcoming fiscal year's appropriations (the "Budget Year") and the succeeding five-year program. The CIP is divided into two areas: the Metropolitan District, for all water and sewer projects, and the Consolidated Public Improvements for all other capital projects. A major source of funding for the CIP is borrowed funds. CIP bond appropriations appearing in the Budget Year represent an authorization to borrow money. The cost to service this debt impacts the General Fund and the Metropolitan District Fund and increases with the amount of outstanding debt.

INFORMATION USEFUL IN ASSESSING THE GOVERNMENT'S ECONOMIC CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Economic Condition

The County is situated in the geographic center of Maryland, surrounding the City of Baltimore almost entirely. The County is the largest jurisdiction by population in a metropolitan area with more than 2.6 million people. The City of Baltimore and the County are entirely separate political units.

The County has the third largest land area of any political subdivision in the State of Maryland. Within its 612 square miles (plus an additional 28 square miles of water with over 200 miles of shoreline) are situated at least 29 identifiable, unincorporated communities which, as of 2010, ranged in population from approximately 4,300 to 63,000. The County's overall population grew 6.7% from 754,292 in 2000 to 805,029 in 2010. Today, the County has the third highest population in the State of Maryland and the second highest number of jobs.

Healthcare and education, the sectors that generally report job stability and growth despite economic downturns, are well represented in the County by five regional medical centers and five major colleges and universities. BD Diagnostic Systems shares a zip code with Pay Pal and a large concentration of nationally recognized professional service organizations. Headquarters for the Social Security Administration and Centers for Medicare and Medicaid Services and a corps of IT contractors form the Woodlawn Federal Center. Major operations of T. Rowe Price, Toyota Financial Services, Euler Hermes, Zurich America, Baltimore Life, Farmers Insurance Group, and Bank of America form a powerful finance-insurance community. Manufacturing holds its place with companies such as: General Motors, McCormick and Company, Stanley Black & Decker, Lockheed Martin, AAI and Procter & Gamble.

New Business and Real Estate Activity

The following section highlights a sampling of business and real estate activity in the County from June 2012 to July 2013.

Towson City Center is a \$30 million redevelopment project in downtown Towson that opened in August 2012. The green building's tenants include corporate headquarters for MileOne Automotive, Caves Valley Partners, and Remedi SeniorCare. Other major tenants include the Towson University Institute for Well-Being and WTMD radio station. Cunningham's, a white tablecloth restaurant opened in November 2013. Towson City Center is now fully leased and is estimated to house close to 500 employees.

Towson Square (formerly known as Towson Circle III) is a new mixed-use project in Towson developed by the Heritage Properties/Cordish Company joint venture. The four-acre development now under construction will include a 75,000 square foot, 3,400-seat, 15 screen multiplex cinema atop a 3-story, 850-space garage. The site will also include 6 "new concept" restaurants. The open, pedestrian friendly plaza will include a traffic circle with a European-style fountain, bistro-style outdoor dining areas and landscaping. The County is investing \$6.2 million toward the parking garage and \$2 million for infrastructure improvements, which will leverage \$85 million in private investment. Slated to open in late 2014, the project will bring an estimated 1,530 jobs to the area, 660 on the construction side and another 870 others when the project is operational.

Towson Residential - Since 2008, over 1,200 new luxury residential units in four major projects have been completed. Additional upscale housing already under construction or proposed will add 800 units, in addition to 500 units of privately-developed student apartments.

Towson Retail – Since 2008, Towson has attracted over \$200 million in new private retail/mixed-use investment in downtown Towson, including the \$85 million Towson Square project anchored by Cinemark movie theatres and restaurants, and the \$27 million fully leased Towson City Center. Plans were announced in June 2013 for Towson Row, a major \$300 million project with residential, hotel, retail and student housing.

General Dynamics Information Technology (formerly ViPS), the largest tenant in Towson Commons, has expanded its leased space from 120,000 SF to 146,000 SF to accommodate a consolidation from two other locations in the County.

LA Fitness, a national chain of fitness clubs, is renovating the former movie theater space in Towson Commons to create a new 52,700 SF state-of-the-art facility including an indoor pool. They plan to hire 30 employees.

Over the past several years, Owings Mills has attracted nearly \$700 million in new investment, including the \$550 million Metro Centre at Owings Mills transit oriented development and the planned \$140 million Foundry Row mixed-use project.

Fore Development Company, a Nevada-based multi-family housing developer, constructed Groveton Green, a 226-unit LEED Gold-certified luxury apartment complex on Lakeside Boulevard in Owings Mills. Total investment is \$35 million and the project is 83% leased with construction nearly complete on the last building.

Shekel Scales, a high-tech Israeli firm, opened a new office in Owings Mills earlier this year. The company produces precision scales for the retail trade and health care industries, and plans to hire 30 people in Maryland.

Farmers Insurance Group has invested \$1.6 million in a new Owings Mills facility with plans to create 150 new jobs.

In April 2013 developers announced the \$100 million Greenleigh at Crossroads project, a 200-acre new urbanism town center blending office, retail and a mix of residential styles located off Maryland Route 43 in White Marsh/Middle River.

Atlantic Design, Inc. manufactures equipment that is used to blast, remove and recycle grit created during construction. The family owned company more than doubled the size of its former location in March 2013, by opening a 42,000 SF building at Baltimore Crossroads@95 in the County.

EA Engineering, Science, and Technology, Inc. has consolidated and expanded into a new 64,000 SF LEED building at 226 Schilling Circle in Hunt Valley.

Dunbar Digital Armor, a cyber security division of Dunbar Armored security service, opened a new 7,500 SF facility on Schilling Circle in Hunt Valley in June 2013. Plans include hiring 100 employees.

Prometric (formerly Thomson Prometric), a professionally licensed provider of IT certification exams, signed a lease in Woodlawn, relocating from Anne Arundel County and St. Paul Minnesota.

Kaiser Permanente opened a multi-specialty facility in Halethorpe April 2013. The 4-story, 130,000 SF facility brings together primary care and a number of specialty services in one location. The project also includes a 4-level parking garage. It is the first integrated care facility of its kind in the Baltimore area for the health plan and care provider, which is looking to grow its membership throughout the mid-Atlantic region. Three hundred jobs were created as a result of this new facility.

Beco Management, a Rockville-based real estate management company, purchased two office buildings located at 10451 and 10461 Mill Run Circle adjacent to Owings Mills Mall. The company is investing \$15 million in improvements to the two properties.

T. Rowe Price will increase its workforce by 200-300 workers in the latter half of 2013 and will move into two new buildings (381,000 SF, \$185 million) built in 2008-2009 but not occupied.

PayPal, a division of eBay, Inc., occupied an additional 53,000 SF of space on Schilling Road and now employs over 600 people in Cockeysville and Hunt Valley.

Apex IT Services, an IT solutions provider to federal, state and commercial clients, relocated from Columbia, Maryland to leased office space on Lord Baltimore Drive in Woodlawn. Plans include adding 53 jobs.

Keffa Coffee, a Towson Global Incubator-based importer and distributor of unroasted coffee beans from Ethiopia, leased 1,200 SF of office space on Cromwell Bridge Road in Towson.

Douron Commercial Interiors purchased the property at 10 Painters Mill Road for a new headquarters. The 100,000 SF facility will allow the company to consolidate several warehouses and provide space for a new showroom. The company currently employs approximately 115 people.

Greater Baltimore Board of Realtors, a membership services organization for residential realtors, signed a lease for 7,798 SF of office space at Timonium Two on Greenspring Drive, its new headquarters location.

Advanced Fire Protection, an installer and servicer of fire protection equipment, relocated from Glen Burnie to Monumental Avenue in Halethorpe, bringing 60 new jobs.

NovaTech, an Owings Mills-based company that assembles monitoring systems, relocated into a 26,000 SF facility in Hunt Valley.

Nations Photo Lab, a Hunt Valley photo processing lab, relocated to its newly leased 16,000 SF space in Cockeysville in June 2012.

Triad Isotopes, a firm which supplies hospitals with drugs for diagnostic imaging, has opened a nuclear pharmacy in Baltimore Crossroads@95 with plans to add 11 jobs.

Cole Taylor Equipment Finance, an equipment finance company and a division of Cole Taylor Bank of Chicago, signed a lease for 10,000 SF at 501 Fairmount Avenue in Towson and plans to add 7 jobs.

New tenants at bwtech@UMBC Research & Technology Park:

Fueled by cybersecurity, bwtech@umbc has reached its capacity for the first time. Northrop Grumman and UMBC have expanded the Cync program, a cybersecurity technology incubator initiative, to include three additional companies (Informs – 16,000 SF, GSA Train – 4,500 SF and Hussman Institute for Autism – 40,000 SF). Another recent bwtech tenant is Communications Scientific International, an aerospace technology and services company that provides the U.S. Department of Defense with communications and information systems for satellite, airborne and ground.

Capital Improvements

The availability of convenient transportation access and public infrastructure is critical to business location decisions. The County and the State have moved forward aggressively to construct several road projects to enable key development opportunities. One such project, Baltimore Crossroads @95 (“Crossroads”), is one of the largest development ready land opportunities between Philadelphia and Richmond along I-95. Crossroads has seen significant speculative and tenanted construction of office, flex and industrial buildings. Of the 1.6 million square feet proposed for the business park, 1.1 million square feet has been constructed, housing 1,250 employees and 30 businesses, including: Mid-Atlantic Port Services, Social Solutions, CDS Logistics, Pevco, Alexander’s Mobility (headquarters), American Infrastructure, BGE Home (headquarters), Brinks Home Security, Danfoss Group, International Nutrition, Matthai Material Handling, SAIM School, Surety Recovery Management, TransUnion, United Cerebral Palsy of Central Maryland and XIGroup Auto.

The Maryland Transportation Authority is constructing two express toll lanes on the most congested 10-mile portion of I-95 north of Baltimore City to White Marsh in the County. These lanes will facilitate both regional commuting and interstate commercial and personal travel, and are anticipated to be fully operational in 2014.

In response to an earlier feasibility study jointly funded by the County and the State, the State Highway Administration (SHA) initiated a formal project planning study for the I-795/Dolfield Boulevard area, including a potential interchange at the Pleasant Hill Road/Dolfield Boulevard overpass to provide

improved access to the major employment corridor along Red Run Boulevard on the west side of I-795. The SHA is currently analyzing and developing stormwater management plans, along with completing the environmental documents for the project. The preferred alignment for this road has been chosen, but all planning and environmental work on the project is currently on indefinite hold due to the State's budget constraints.

Dolfield Boulevard, from I-795 to Reisterstown Road, is under construction. The new, four-lane divided highway, which includes sidewalks, will connect Reisterstown Road with Red Run Boulevard and the Owings Mills Town Center. The \$6.5 million project will be more than a half-mile long and was opened to traffic in late 2013.

Construction has begun on the final phase of Owings Mill Boulevard, which will provide improved access from the Owings Mills Growth Area to Liberty Road and areas to the west. Phase I terminated at Winands Road and was opened to traffic in August 2012. Phase II will terminate at Liberty Road and is now under construction.

Recognizing the development potential for the Woodlawn Federal Center business area, the County plans to extend Security Boulevard by .5 miles from its current terminus at the U.S. Centers for Medicare & Medicaid Services to a development opportunity site just to the west.

The Mohrs Lane Bridge over the CSX Railroad, north of Pulaski Highway, was closed in 2007 because of structural deterioration. Demolition was completed by CSX in March 2011 at no cost to the County, which has assumed ownership and plans to rebuild the span. A new bridge is currently being designed with construction scheduled for 2015. The bridge will be part of the future Campbell Boulevard Corridor.

Base Realignment and Closure (BRAC)

As of September 15, 2011, the relocation of all direct Federal jobs identified for movement to Aberdeen Proving Ground and Fort Meade under BRAC 2005 was complete. Approximately 21,000 new Federal jobs came to Maryland in the move. To accommodate these employees, the Army spent more than \$1 billion on construction; added 2.8 million square feet of facilities, including 18 buildings; demolished 140 buildings; improved 9 miles of roads; and upgraded electric, water, and information technology infrastructure.

While the movement of Federal personnel under BRAC is complete, relocations and expansions by private contractors serving the relocated commands is still under way and can be expected to continue over the next several years as new Federal contracts are awarded and companies reassess their need to be closer to their clients now based in Maryland. Although most contractor expansions and relocations to date have settled very close to the APG and Fort Meade installations themselves, the County will continue to be alert for opportunities to attract military contractors with more flexible location requirements.

Industrial Redevelopment

Sparrows Point/Dundalk

The Sparrows Point peninsula, location of a major integrated steel mill for over a century, includes an estimated 3,300 acres of land with deep water, heavy rail and interstate access. The steel mill has had a series of owners since Bethlehem Steel declared bankruptcy and sold off its assets to ISG in 2003. In May 2012, the last steel mill operator, RG, declared bankruptcy and announced that it would lay off all 2,000 remaining workers. In early August, a bankruptcy judge accepted a \$72 million bid from a joint venture of Hilco Industrial LLC and Environmental Liability Transfer Inc. (ELT) to purchase the facility. ELT will be responsible for environmental remediation and longer-term redevelopment of land. Hilco's efforts to secure a new operator for all or part of the steelmaking operation were unsuccessful and in December 2012 ELT/Hilco announced that the mill would be razed to make way for redevelopment of the site.

The County's efforts are now focused on promoting employment-intensive industrial and port-related redevelopment of the peninsula and supporting the laid-off RG workers. A key player in this effort has been the Sparrows Point Partnership, a business advisory group of port officials, and real estate, manufacturing, logistics and distribution executives established in 2012 by County Executive Kevin Kamenetz in the last months of RG operation. The Partnership was charged with helping develop recommendations to produce net new business activity and jobs for Sparrows Point and the entire eastern part of the County. In May 2013, the Partnership released its report, "Common Ground: A Vision for Redeveloping Sparrows Point and Leveraging the Industrial Assets of East Baltimore County." The report highlighted Sparrows Point's exceptional combination of assets: massive acreage of industrially-zoned land with six miles of deep water frontage, service by two Class I freight railroads and direct interstate access. It identified four major market opportunities: port and maritime uses, clean energy, advanced manufacturing and assembly, and distribution, logistics and freight. Work on implementing the Partnership's vision is under way. A major milestone toward realizing the vision will be the Maryland Port Administration's (MPA) acquisition of approximately 500 acres of the property for a new auto import terminal and dredge disposal facility that is key to ensuring ongoing success of the entire Port of Baltimore. Negotiations between MPA and ELT/Hilco are under way.

In terms of providing support for RG workers, the County secured \$1.0 million in grant funds from the Department of Labor, to be used to provide dislocated workers with the needed skills for re-employment. The County is working with the State of Maryland to coordinate delivery of Trade Adjustment Assistance services, and has established a dedicated workforce center for former RG employees.

Essex/Middle River

The U.S. General Services Administration (GSA) auctioned the 1.9 million square foot former GSA Depot facility in Middle River in 2006 for a record \$37.5 million. This higher-than-expected sale price was evidence of the success of the County's waterfront revitalization efforts over the past ten years. Now known as Martin's Landing, the complex is strategically located near the waterfront and just minutes from I-95 along MD43, and across the street from Martin State Airport, a general aviation facility that handles a significant level of corporate air travel. The County is working with the owners, a New York-based investment team, to encourage a quality redevelopment that will incorporate a mix of business, residential and commercial uses. The County and State partnered on a study to determine the feasibility of relocating a nearby MARC commuter rail station to Middle River Station to encourage redevelopment as a major transit-oriented development with direct access to Baltimore, Washington and Aberdeen Proving Ground. Amtrak has also included the area as a future station in its 2010 Northeast Corridor infrastructure master plan.

Technology Locations

bwtech@UMBC

The County and the University of Maryland Baltimore County (UMBC) jointly developed a 71-acre research and technology park adjacent to the UMBC campus. The State and County completed the Park's \$2.3 million infrastructure in 1999. The facility offers companies a setting for research and development in such fields as cyber security, photonics, biotechnology, and computer software development.

The opening of 5520 Research Park Drive, a 110,400 square foot multi-tenant office building, completed the build-out of the five-building, 355,000 SF complex. Almost fully leased, the complex has attracted RMF Engineering to the County to be a lead tenant. Observation Baltimore, Maryland Business Roundtable for Education, Research Triangle Institute, Telcordia and RTGX have also leased space. Tenants located at 5523 Research Drive include: NASA Goddard Earth Sciences and Technology Center, Physicians Practice Inc. and Med IQ, healthcare communications and technology firms; Avande, an IT firm; Converger Technologies and Clear Resolution Consulting, cyber security companies; Audacious Inquiry, a health information systems firm; Cardio Med Devices, a medical equipment firm; and the U.S. Forest Service. Tenants at 5522 Research Park Drive include the U.S.

Geological Survey which occupies 23,500 SF of office and wet lab space. Allegis, a retirement community owner and operator, occupies 100,000SF in the 5525 building.

The UMBC Incubator and Accelerator (bwtech@UMBC South), a successful technology incubator opened in 1998, is less than one mile from bwtech@UMBC. Nearly forty bioscience, information technology and related research companies are now located in the former Lockheed Martin laboratory complex.

Together, these two projects create a critical mass of technology research and development in the southwest area of the County. Marketing efforts draw on UMBC's international reputation as a research institution and location of the facilities near I-95, BWI and the Baltimore-Washington technology corridor and, for cyber companies, close proximity to Fort Meade/NSA.

Enterprise Zones

An enterprise zone is a tool that the State of Maryland offers to local jurisdictions for promoting economic development in certain qualifying areas. The County has three Enterprise Zones - the North Point Zone, located along the industrial North Point corridor in southeast Baltimore County; the Southwest Zone (which was just recertified for an additional ten years in June 2013), located in the Washington Boulevard/Hollins Ferry Road industrial corridor; and the Federal Center at Woodlawn Zone approved in June 2011. These three areas contain over 5,400 acres of industrial and office-zoned land, and over 550 businesses. Since the approval of the first zone in December 1995, 160 businesses in the North Point and Southwest enterprise zones have committed to investing over \$300 million in real property improvements and \$270 million in machinery and equipment. In addition, approximately 3,000 new jobs have been created. The Halethorpe-Arbutus area in the Southwest Enterprise Zone has seen particularly dramatic growth, with almost 3,000 new jobs in a four-year period. The program offers two primary benefits to businesses in the designated zone that make new investments or hire new employees:

1. *Property Tax Credits.* The local jurisdiction provides an annual property tax credit that is phased out over a ten-year period. For the first five years, the credit is equal to 80% of the increase in property tax resulting from the new investment in real property. In the subsequent five years, the credit decreases 10% annually until it is phased-out entirely in the eleventh year.
2. *Income Tax Credits.* For each new, full-time job created in an enterprise zone, the State grants a \$1,000, one-time State income tax credit to the employer. If a worker who is certified as economically disadvantaged fills the new job, the credit can total as much as \$6,000 over three years.

The local property tax credit is applied only to the increased tax liability resulting from the new investment. Therefore, the County experiences no loss in property tax revenue as a result of the program; it simply foregoes a portion of the increase in property tax revenue that results from the new investment. Additionally, the State of Maryland reimburses the County for 50% of the property tax credits to businesses.

Economic Development Financing Assistance

In FY 2013, the County provided financial assistance to 3 companies for various projects with significant economic benefit for the County. In each of these projects, the County has leveraged its investment with additional financial assistance provided by public or private resources. Together, these 3 projects are expected to result in over \$8.5 million in new investment, creating more than 155 new jobs and retaining 100 existing jobs. The Baltimore County Small Business Loan Fund was expanded to include 20 financial institutions which increased its lending capacity to \$12.3 million. The loan program is used to provide financing to small businesses that operate in the County.

Relevant Financial Policies

The County's debt and financial management policies as set forth by the County Executive were recognized by all major rating agencies with the continuation of the County's triple-A credit rating. The policies included target ratios to be met and ceiling or floor ratios. The County will take appropriate corrective action to ensure that ratios do not go above or drop below their respective desired ceiling or floor.

The County's long-term policy was to produce unreserved General Fund fund balance equal to 5% of General Fund revenues each year. The volatility in the national economy and potential changes in intergovernmental aid required the County to take the fiscally prudent step of raising its target level for unreserved General Fund balances during this period to 7% of General Fund revenues. Most of the 7%, an amount equal to 5% of the revenue budget will be placed in the County's Revenue Stabilization Account to protect the County from unforeseen emergencies and future economic downturns which result in major revenue shortfalls. Funds in the account may not be utilized for any other purpose without the specific recommendation of the County Executive and a majority plus one approval of the County Council.

Any unreserved fund balance in excess of the 7% of revenues target level will be retained to provide only short-term tax stabilization. Any excess well above the target level will be eliminated through tax rate reductions or dedicated to one time items such as pay-as-you-go contributions in order to reduce the level of programmed borrowing for capital expenditures.

Major Initiatives

The following are some selected highlights and budget priorities for FY 2013 that are expected to affect future financial position:

Education – The FY 2013 budget continued to make education a top priority in the County. The budget included a \$718 million General Fund appropriation for our public schools system, which is slightly above the “maintenance of effort” level and accounts for nearly 44 cents of every taxpayer's dollar. The County's commitment to fund Baltimore County Public Schools at such a level continued in this budget even with an increase in student population coupled with only a 1% increase in State aid over the FY 2012 funding.

The FY 2013 budget also includes “maintenance of effort” funding for the Community College of Baltimore County (CCBC). Credit hours and Full-Time Equivalent enrollment at CCBC has soared in the past few years. The enrollment growth experienced between FY 2007 and FY 2011 was approximately 36%. The projection for FY 2013 credit enrollment remains a slight decrease over the FY 2012 amounts.

Public Safety – The Fire Department and Office of Information Technology are implementing a new statewide web-based software system known as the electronic Maryland EMS Data System that will allow agencies to either input or upload data, thereby enabling the Maryland Institute for Emergency Medical Services Systems to assist jurisdictions in improving operational efficiency.

Community Conservation and Preservation - The County began construction of a new single stream processing facility which recently was opened for operation in November, 2013. The project gives the County the ability to process its own recyclables for sale in the commodity markets.

The budget was committed to ensuring that County workers have the resources and equipment they need to serve our communities with a \$73 million allocation for capital acquisitions. This includes \$13 million for the County Fire Department to purchase new breathing apparatus, 21 medic units, 12 engines, and two ladder trucks; \$26 million to purchase new heavy equipment for the Department of Public Works Solid Waste, Utilities, and Highways snow removal operations; and \$34 million to purchase new technology and equipment for use throughout County government.

AWARDS AND ACKNOWLEDGEMENTS

The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its CAFR for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This CAFR must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The County has received a Certificate of Achievement for the last 34 consecutive years (fiscal years ended June 30, 1979 – 2012). We believe that our current report continues to conform to the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Financial Operations Division. I would like to express my appreciation to them for their dedication to ensuring the financial integrity of the County and in the preparation of this report.

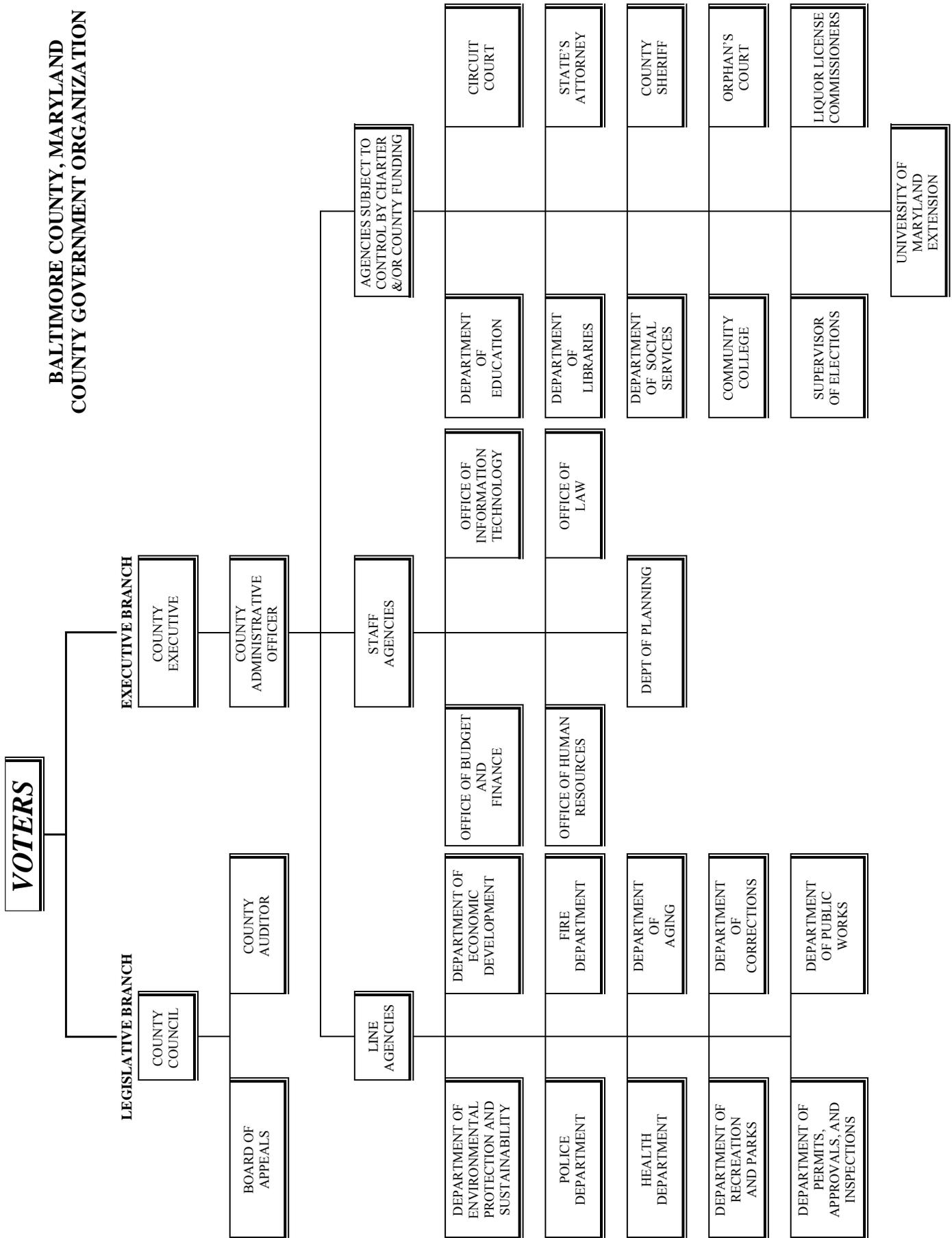
Credit also must be given to the County Executive and the County Council for their support in maintaining the highest standards of professionalism in the management of the County's finances.

Respectfully submitted,

A handwritten signature in cursive script that reads "Keith Dorsey". The signature is written in black ink and is positioned centrally below the text "Respectfully submitted,".

Keith Dorsey, Director
Office of Budget and Finance

**BALTIMORE COUNTY, MARYLAND
COUNTY GOVERNMENT ORGANIZATION**



LIST OF PRINCIPAL OFFICIALS
June 30, 2013

Elective

**County Executive
County Council**

**Kevin Kamenetz
Tom Quirk
Vicki Almond
Todd Huff
Kenneth N. Oliver
David Marks
Cathy Bevins
John Olszewski, Sr.**

Administrative

**Administrative Officer
Director of Budget and Finance
County Attorney
County Auditor
Director of Public Works
Chief of Police
Fire Chief
Director of Aging
Director of Economic Development
Director of Environmental Protection
and Sustainability
Director of Information Technology
Director of Permits, Approvals
and Inspections
Director of Human Resources
Director of Planning
Director of Recreation and Parks
Superintendent of Schools
Director of Health and Human Services
Director of Libraries
President of Community College
Director of Corrections
Administrative Law Judges**

**Fred Homan
Keith A. Dorsey
Michael E. Field
Lauren Smelkinson
Edward C. Adams, Jr.
James W. Johnson
John J. Hohman
Joanne E. Williams
Dan Gundersen

Vincent J. Gardina
Robert R. Stradling

Arnold Jablon
George E. Gay
Andrea VanArsdale
Barry F. Williams
S. Dallas Dance, Ph.D
Dr. Gregory Wm. Branch
James H. Fish
Sandra L. Kurtinitis, Ph.D
Deborah J. Richardson
Lawrence M. Stahl
John E. Beverungen**



Government Finance Officers Association

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Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO