SPENDING
AFFORDABILITY
COMMITTEE

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Table of Contents

Report of the Spending Affordability Committee

Fiscal Year 2026

Baltimore County, Maryland

February 14, 2025

BALTIMORE COUNTY SPENDING AFFORDABILITY COMMITTEE

Honorable Pat Young, Committee Chairman
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Honorable Julian E. Jones, Jr.
Councilman, 4th District

Honorable David Marks
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SPENDING AFFORDABILITY COMMITTEE

February 14, 2025

Honorable Members of the Baltimore County Council
Honorable Katherine A. Klausmeier, County Executive

I am pleased to submit the report of the Spending Affordability Committee (SAC), reflecting the Committee's fiscal policy recommendations for Baltimore County for FY 2026.

For FY 2026, the Committee recommends a base spending guideline of $2,737,161,932, derived from a personal income growth factor of 4.90% and FY 2025 base spending of $2,609,305,941. This guideline provides maximum spending growth of $127,855,991 over the FY 2025 base spending amount. The Committee further recommends that total debt outstanding not exceed 2.5% of FY 2026 estimated assessed property value and that debt service obligations not exceed 10.5% of FY 2026 estimated General Fund revenues; such debt affordability guidelines are now inclusive of component unit capital lease obligations and account for gross rather than net interest costs. Committee guidelines aim to limit spending such that growth in the cost of County government services does not exceed the growth in the County's economy. In making these recommendations, we emphasize that our guidelines do not represent targets, but rather maximum "should not exceed" levels. In the event that an adopted budget exceeds Committee guidelines, the County Council must provide analysis of the over-the-guideline amount and explain the rationale for the decision.

In addition to our spending and debt guidelines, we strongly advise that the Administration adhere to our fiscal policy recommendations. In light of the present, and rapidly changing, landscape of the federal government it is more critical than ever that we recognize the fiscal oversight role each branch of government plays and apply recommendations holistically. While the Committee seeks to ensure that its numerical guidelines are affordable based on conservative forecasting for the upcoming fiscal year, the current situation in Washington is unleashing countless extreme variables, with potentially immense fiscal impacts to the County's tax base and essential operating costs. No forecasting models can yet capture these impacts, so the Committee strongly recommends that the County exercise a profoundly heightened degree of fiscal caution in formulating the FY 2026 budget.

This year, leading up to our January 27, 2025 decision meeting, the Committee again considered several spending guideline options – each aligned with more-than-sufficient projected revenue availability. As Committee Chair, my overarching goal has been to work collaboratively with SAC members and the Administration to reach a consensus that is prudent, fiscally responsible, and takes into account the unique economic climate facing the County and nation. We have also been cognizant of the need to provide flexibility to the incoming County Executive and her Administration. We considered 5-year (FY 2022-FY 2026) Baltimore County personal income forecasts by Sage Policy Group, Inc. and Moody's Analytics, as well as a blended average of both. We unanimously selected the blended average "rounded down" to 4.90%. This 4.90% rate yields growth in line with the Office of Budget and Finance's request, and generates a spending guideline that cautiously falls $65.1 million below forecasted FY 2026 revenues.

As noted, this year's Committee also voted unanimously to adjust our debt affordability guidelines to align to the County's official debt policies and practices (as outlined in the Debt Capacity and Control Analysis, prepared by the County's financial advisor, Public Resources Advisory Group, in consultation with the Office of Budget and Finance). These adjustments involved incorporating component unit capital lease obligations in both the debt and debt service guidelines, required inclusion of gross rather than net interest costs under the debt service guideline, and increased the debt-service-to-revenues ceiling ratio from 9.5% to 10.5%.

This decision was not made lightly. From the Administration's initial request to the unanimous Committee vote to increase the debt-service-to-revenues ceiling ratio, SAC members engaged with the Administration, and poured through reports of increased costs and financial needs associated with current and projected obligations. As shown in the historical debt-service-to-revenues chart on page 13 of this report, applying the component unit capital lease and gross interest cost adjustments in prior years would have resulted in the County exceeding the then-9.5% guideline in FY 2018, FY 2019, FY 2020, FY 2022, and FY 2023. This reality made our actions clear. It is incumbent upon us to ensure our fiscal policies are not in conflict, and to do nothing would have put the County in apparent contradiction of its own guidelines. We received confident assurance from the Office of Budget and Finance Director Kevin Reed that the change to 10.5% would not affect the County's ability to maintain its triple-AAA bond rating, but it would allow the County to meet its capital program goals.

Importantly, I would also like to highlight a number of ongoing fiscal concerns that Committee members have been discussing and raised during this year's deliberations. First and foremost, the County's funding of the Employees' Retirement System is facing mounting pressure. In recent years, as the County has increased employee salary scales in order to remain competitive in retaining and attracting a qualified workforce, the actuarily determined annual required contribution has pushed higher and higher, but not high enough to prevent continued slippage in the System's overall funded status. Despite measured efforts to address this situation, additional budgetary commitments are necessary, along with bargaining solutions that will meet the needs of employees without continuously raising the "high ends" of County salary scales. Second, the County's fund balance has been healthy, but the Office of Budget and Finance has signaled a plan to draw it down to the 10% legal limit in future years, in order to help fund the County's ambitious consolidated public improvements capital program, which was approved by voters. Bond-rating agencies may wish to see a higher fund balance maintained, and with so much current economic uncertainty, the prudent course is to keep reserves as high as possible—slowing projects, if necessary, in order to do so. Third, the Baltimore County Economic Advisory Committee, led by the Spending Affordability Committee's long time economist Dr. Anirban Basu, has been signaling a need for County Government to invigorate the local economy. There are varied potential economic development approaches that can address such an exigency to meet community need and expectations. It is imperative that we rally resources at our disposal through the County's Departments of

Economic & Workforce Development, Housing & Community Development, and our State partners to ensure we are dynamic in our approach.

In the coming days and months, Baltimore County officials, staff, and stakeholders will need to work together if we are to respond effectively to policy adjustments at the federal level. These uncertain changes have the potential to radically alter the fiscal landscape of our County and the region. It is of the utmost importance that we remain fiscally disciplined as a jurisdiction to ensure, above all else, that we continue to meet the needs of our people and communities.

I would like to thank both the legislative and executive branch teams for their spirit of collaboration. Special thanks to: my fellow Committee members, Honorable David Marks, Honor- able Julian Jones, Mr. Edwin Crawford, and Dr. Deborah Carter; Acting County Auditor Elizabeth Irwin, and her office's Fiscal & Policy Analysis team; the Committee's economic consultant, Dr. Anirban Basu of Sage Policy Group, Inc.; and Office of Budget and Finance Director Kevin Reed and his team. Thanks also to the volunteer members of the Baltimore County Economic Advisory Committee, whose contributions continue to be both astute and meaningful.

As in the past, for FY 2026, we are hopeful that this report will receive careful consideration during the development and review of the County's operating and capital budgets.

Sincerely,

Pat Young
Chair, Spending Affordability Committee
Councilmember, 1st District, Baltimore County Council

INTRODUCTION

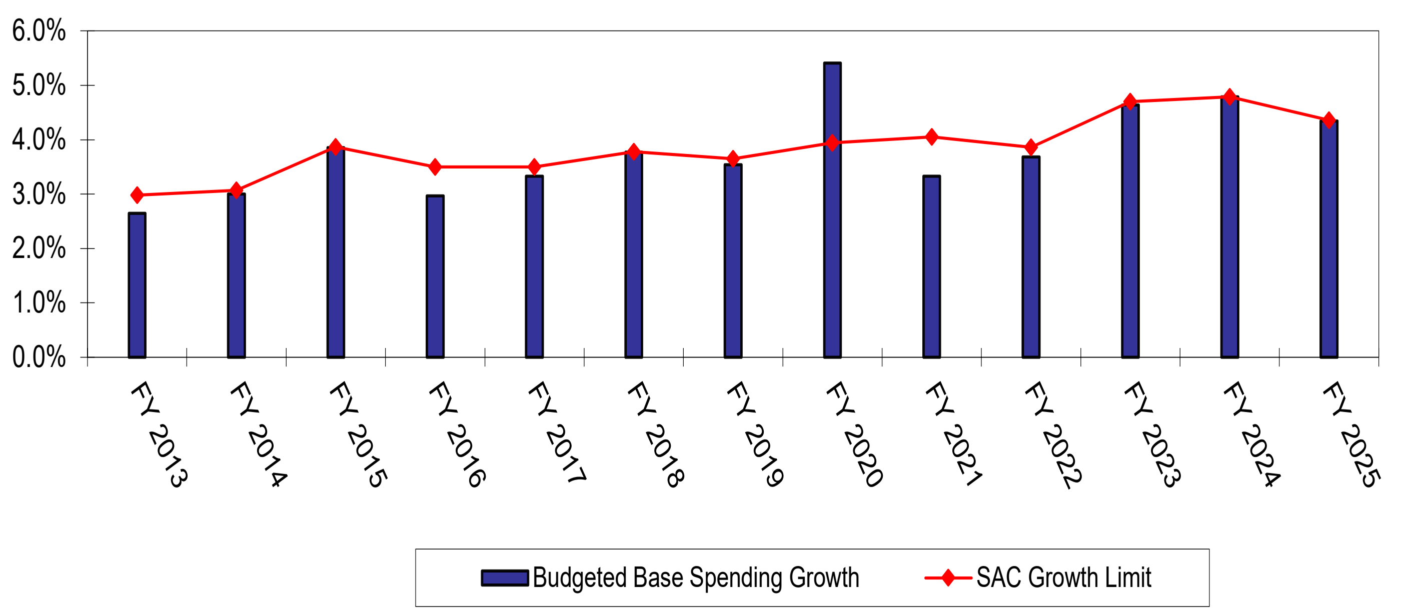
The Baltimore County Spending Affordability Committee was established in order to limit growth in County government spending to a level that does not exceed the growth of the County's economy.

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. The debt guidelines are based on two commonly utilized 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 County Executive ample time to consider the Committee's recommendations before submitting the proposed budget to the County 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. In FY 2020, the final adjusted budget exceeded the spending guideline by approximately $29.4 million; the County Council justified its decision to exceed Committee recommendations based on the County's extraordinary operational and infrastructure needs, paired with the establishment of new and enhanced revenue streams. Actual expenditures for FY 2020 fell under the spending guideline, as the County confronted the COVID-19 pandemic and was able to revert more than $64 million to fund balance by fiscal year-end.

Figure 1. Budgetary Compliance with SAC Spending Guideline



SPENDING GUIDELINE

The Committee recommends that base spending growth not exceed 4.90%, bringing the recommended FY 2026 spending limit to $2,737.2 million.

The spending guideline for a given fiscal year is calculated by multiplying the previous fiscal year's estimated base spending level (as defined by the Committee) by the spending affordability growth factor (Figures 2 and 3). **For FY 2026, the Committee recommends that base spending not exceed $2,737,161,932, calculated by applying an estimated County personal income growth rate of 4.90% to FY 2025 base spending of $2,609,305,941.** This guideline allows for maximum spending growth of $127,855,991 over the FY 2025 base spending amount (Figure 4).

The Committee continued to utilize an average of annual personal income growth estimates to determine its personal income growth factor.

For FY 2026, the Committee maintained its use of an average personal income growth rate as its measure of growth in the County's economy. The average is calculated from annual growth forecasts for the current and upcoming periods and estimates for a designated number of preceding periods. The FY 2026 growth factor is based on a blended 5-year average of County-level personal income forecasts by Sage Policy Group, Inc. and Moody's Analytics. Prior to FY 2010, in determining its growth factor, the Committee utilized a single-year forecast, applicable only to the upcoming fiscal year; from FY 2010 through FY 2017, the growth factor was based on a 5-year average that included three preceding fiscal years; from FY 2018 through FY 2023, the growth factor was based on a 4-year average that included two preceding fiscal years. For FY 2024 and FY 2025, the Committee navigated through the anomalous effects of the heavy infusion of federal transfer payments during FY 2021 by selecting years for inclusion to balance such effects (using a blended 5-year average in FY 2024, and a blended 5-year and 3-year average in FY 2025).

The Committee uses an "estimated final spending" methodology to determine base-year spending.

Committee policy provides that base spending should reflect all approved and planned spending, less exclusions (see Figure 3), or in other words, "estimated final spending" for the current fiscal year. This methodology recognizes that certain modifications to planned spending, such as supplemental appropriations, may occur after the budget is adopted. In calculating the FY 2025 guideline, the Committee made a $9.6 million upward adjustment to base spending to account for recent budgets (over the FY 2022 through FY 2024 period) that did not fully appropriate funds at the guideline-allowable levels, despite the availability of ongoing revenues to support such ongoing spending. As a result of this adjustment, the FY 2025 guideline was not directly affected by FY 2024 supplemental appropriations and appropriation transfers totaling $4.3 million. The adopted FY 2025 budget is $331,096 below the FY 2025 spending guideline; to the extent that supplemental appropriations and/or budget appropriation transfers increase estimated final spending for FY 2025 by $331,096 or a lesser amount, the FY 2026 spending guideline would be increased by the amount multiplied by the 4.90% growth factor.

Certain appropriations are not subject to the Committee's spending guideline because they do not represent ongoing County program obligations. For FY 2026, the Committee again approved excluding for guideline compliance purposes budgeted Retirement System and OPEB Trust Fund contributions in excess of planned actuarially-determined levels.

A budget's compliance with the spending guideline is determined by calculating the budget's base spending amount, which excludes certain appropriations, and by comparing it to the guideline amount. Appropriations that are one-time/non-recurring in nature (such as certain General Fund contributions to the Capital Budget) or that are required to support a State or federal program (such as local share matching appropriations) are excluded from the base spending amount. Similarly, appropriations that represent only a reserve of funds and not an earmarked expenditure, are excluded from base spending. Historically, the Committee's rationale for excluding certain appropriations has been that the growth in such appropriations should not be tied to growth in the County's economy but should instead be guided by some other factor, such as available surplus or projected revenues. Accordingly, such appropriations are not subject to the Committee's spending guideline (Figure 3). In recent years, and again for FY 2026, the Committee was in agreement to exclude, for the purpose of assessing guideline compliance, appropriations above the planned actuarially determined contributions for its two retiree-related trust funds, the Pension Benefits Trust Fund and the Other Post-Employment Benefits (OPEB) Trust Fund.

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 - see Figure 3). 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
	Base Spending (current fiscal year)
x	Personal Income Growth Factor
	Spending Guideline (upcoming fiscal year)

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 10% of budgeted General Fund revenues (with an allowable temporary 7% floor).
- 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, non-recurring 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.

Appropriations to Bolster Funded Status of Retiree Trust Funds:

- Pension Benefits Trust Fund contributions above actuarially-recommended levels and OPEB Trust Fund contributions above actuarially-determined funding levels represent non-recurring commitments that are determined on a year-to-year, case-by-case basis.

Figure 4. FY 2026 Spending Guideline

FY 2025 General Fund Appropriations (Original Adopted Budget)		$ 2,789,022,928	
Supplemental Appropriations		--	
	Estimated Final Spending	$ 2,789,022,928	(A)
General Fund Exclusions:			
Local Matching Appropriations			
Local Matching Funds		(13,303,784)	
Capital Project Appropriations			
PAYGO		(144,321,363)	
Reserve Fund Appropriations			
Contingency Reserve		(2,500,000)	
One-Time-Only Appropriations			
Funding for ERS Above Annual Required Contribution		--	
Funding for OPEB Above Actuary's Recommendation		(6,200,000)	
Baltimore County Public Schools[1]		(13,391,840)	
Total Exclusions		(179,716,987)	(B)
Base Spending (A - B)		$ 2,609,305,941	(C)
Personal Income Growth Factor		x 1.0490	(D)
FY 2026 Spending Guideline (C x D)		$ 2,737,161,932	
	Maximum Growth in Base Spending	***$ 127,855,991***	

[1] Reflects one-time BCPS costs excluded from the State's maintenance of effort requirement.

SPENDING POLICY RECOMMENDATIONS

The Committee's policy recommendations are that the County maintain a sufficient reserve on hand in case an unexpected revenue shortfall occurs, that the County Executive avoid underfunding essential items, and that the budget minimize its reliance on one-time revenue sources to fund ongoing expenses.

The Committee reaffirmed 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. Accordingly, the Committee endorses the County's policy of requiring that the Revenue Stabilization Reserve Account (RSRA) equal 10% of budgeted General Fund revenues, and that the ratio of General Fund balance to revenues does not fall to the floor level of 7% for two consecutive years.
- The Committee recommends that the County Executive avoid underfunding 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.

The Committee's recommendations are designed to ensure that the County's General Fund budget is structurally balanced and fiscally sustainable.

These spending policy recommendations, along with the Committee's spending guideline (see pages 2-4) and usual review of General Fund revenues performance (see pages 10-11), are designed to ensure that the County's General Fund budget is structurally balanced and fiscally sustainable. Specifically, the reserve policy is designed to protect against unanticipated costs or revenue shortfalls. The underfunding policy is designed to ensure that essential costs are not deferred in a given budget year in order to incur new obligations, which when added to the full balance of existing obligations would be unaffordable. The one-time funding policy is designed to ensure that recurring costs are supportable by ongoing streams of revenue. Failure to abide by these recommendations can lead to structural budgetary imbalance, which is not sustainable over the long term.

In FY 2018 and FY 2019, revenue levels were insufficient to keep pace with both budgeted and off-budget recurring expenses. The budgetary decisions leading to this outcome constituted violations of the Committee's (non-binding) policy recommendations. The outcomes of the FY 2020 and FY 2021 budget years (due in part to pandemic-related savings) were to close the full gaps between ongoing revenues and expenses. The FY 2022 budget again anticipated reliance on off-budget funding sources, though the gap was again closed (by both a revenue surplus and budget savings).

After several years of budgetary non-compliance with the Committee's (non-binding) policy recommendations, the County's management practices resulted in a structural financial imbalance beginning in FY 2018. Specifically, in January 2019, audited FY 2018 data revealed that ongoing General Fund revenues were insufficient to fund the County's ongoing operating expenses (inclusive of both on-budget and off-budget recurring expenses). The structural financial imbalance persisted in FY 2019. Although the FY 2020 and FY 2021 adopted operating budgets did not anticipate a return to structural financial balance, FY 2020 and FY 2021 General Fund revenues exceeded ongoing operating expenses (inclusive of both on-budget and off-budget recurring expenses) due to an over-attainment of revenues and budget savings largely attributable to the pandemic. For FY 2022, base spending appropriations were below the spending guideline level, but the adopted budget again suggested structural imbalance: specifically, in FY 2022, recurring off-budget commitments were estimated to total more than $60 million (the General Fund retiree healthcare contribution was more than $30 million underfunded based on the Administration's budget projections, and the General Fund budget did not cover $30 million in debt service interest costs that were paid using debt premium funds). Fortunately, a surplus in the Health Insurance Reserve Fund enabled the transfer of $54 million to the OPEB Trust Fund at the close of FY 2022, and General Fund revenue and expenditure experience resulted in a substantial operating surplus.

The FY 2023 and FY 2024 budgets anticipated a reduced reliance on previous off-budget funding sources, but during those years, the Administration utilized the County's established ARPA grant program for certain essential expenses. Still, ongoing revenues were sufficient to sustain ongoing commitments for FY 2023 and FY 2024. A similar outcome is likely to emerge in FY 2025, although the extent of ongoing costs funded within the ARPA grant program is not yet clear. Fortunately, revenues have continued to perform well.

The Committee endorses the use of excess revenues and/or General Fund surplus (above legally required and target levels) to cover one-time contributions to the Capital Budget ("PAYGO"), the Employees' Retirement System (Pension Trust Fund), and/or the OPEB Trust Fund (towards future retiree healthcare costs).

For FY 2023, base spending appropriations were below the spending guideline level, recurring off-budget debt service commitments (to be paid with debt premium) totaled more than $20 million, and recurring off-budget employee and retiree healthcare costs (to be paid from health insurance reserve and OPEB Trust Fund balances) totaled more than $10 million, based on projected claims costs. Again, revenues outperformed budget expectations, and when combined with budget savings, the structural issues present at the start of the fiscal year self-corrected. A similar scenario played out in FY 2024, when base spending appropriations were again below the spending guideline level, but recurring off-budget commitments were significant, with $14.5 million in debt service funded with off-budget bond premium funds, and an unquantified portion of ongoing expenses being paid with federal Americal Rescue Plan Act (ARPA) funds. Still, though —again— revenues outperformed budget expectations, and the structural issues self-corrected. For FY 2025, ARPA grant funds were again budgeted to cover recurring expenses such as the Towson Loop, as well as dozens of positions and other operating costs, and $30 million in General Fund ongoing expenses were funded with surplus rather than ongoing revenues. Still, it is anticipated that actual revenues will outperform budget expectations, and the structural issues will self-correct.

Ongoing County revenues again are projected to be sufficient to cover guideline-level spending in FY 2026 (see pages 10-11). Consistent with Committee policy, any excess revenues and/or fund balance (above the spending guideline and/or sufficient reserve levels, respectively) should be used for one-time purposes such as PAYGO contributions to the Capital Budget. Additionally, the Committee endorses the use of any excess fund balance (above legally required and target levels) to reduce the amount of the unfunded accrued liability from pension and retiree benefit obligations—provided that bond-rating agencies are comfortable with the County's fund balance target. The Committee is aware that the budgetary consequence associated with having a lower funded status (for pension or retiree benefits) is having a General Fund contribution that is pressured to increase by more from year to year. In this respect, the County's General Fund portion of its Employees' Retirement System (ERS) costs has more than doubled in sixteen years, rising from 3.5% of the General Fund budget in FY 2009 to 7.7% of the General Fund budget in FY 2025.

Because it is not the Committee's role to prescribe how the Executive should comply with the Committee's spending guideline, in light of significant cost pressures both within and outside the General Fund budget, and in light of economic challenges which have become extremely difficult to predict given the current circumstances in Washington, D.C., the Committee continues to urge fiscal restraint with the use of excess revenues and/or General Fund surplus. Further, the Committee again approves, for guideline compliance purposes, the exclusion of appropriations above planned actuarially determined levels for both the Pension (ERS) and the OPEB Trust Funds. The Committee allows for such guideline exclusions in acknowledgement of current County officials' commitment to ensuring solvency of both funds.

ECONOMIC GROWTH

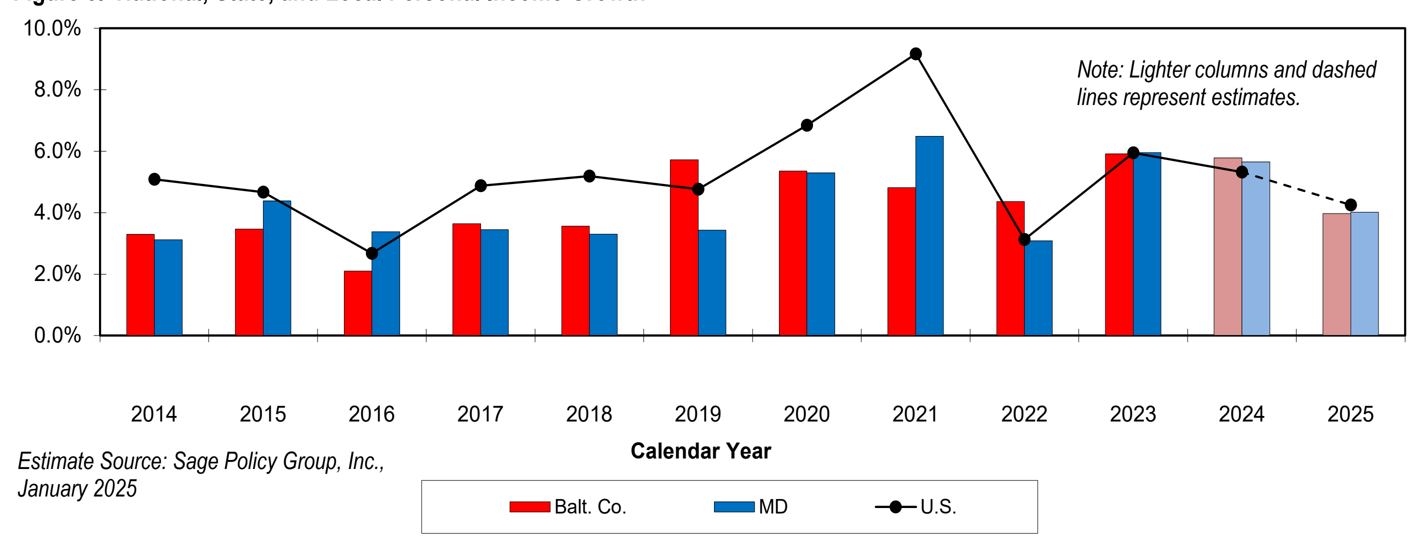
The Committee's economic consultant projects that personal income of Baltimore County residents will continue to post healthy annual growth, in the 4.25% to 4.50% range, during the current and upcoming fiscal years. The Committee's slightly higher adopted growth rate of 4.90% is driven primarily by stronger growth in prior years.

Prior to adopting its FY 2026 growth rate of 4.90% on January 27, 2025, the Committee reviewed current and projected economic conditions both nationally and locally. In its January 15, 2025 report, the Committee's economic consultant, Sage Policy Group, Inc., estimates that in FY 2024, Baltimore County personal income grew 5.91%, in line with a 5.87% growth rate for Maryland, after advancing an estimated 6.80% and 6.17%, respectively, during FY 2023. Sage anticipates that personal income growth will decelerate in both the County and the State to 4.48% and 4.44%, respectively, for FY 2025, and to 4.28% and 4.30%, respectively, for FY 2026. According to Sage, over the 2013 to 2023 period, County personal income increased at an average annual rate of 4.22%, compared to 4.19% in Maryland and 5.23% in the U.S. (Figure 5).

In January 2025, the Baltimore County Economic Advisory Committee expressed diminished concerns regarding the near-term possibility of a recession but collectively predicted a softening of the economy in the coming year.

The January 14, 2025 meeting of the Baltimore County Economic Advisory Committee (BCEAC) provided insight into local economic conditions. The BCEAC's economist (the Chairman and CEO of Sage Policy Group, Inc.) noted that despite prior, consistent predictions of a recession, he no longer expects a recession in the near term. However, he does expect the economy to soften, and members concurred with his outlook. He noted that major forecasters predict lower GDP growth in 2025 than in 2024 due to various factors (e.g., increased inflation, sustained elevated interest rates) even while consumer spending remains strong and retail sales continue to climb. Consumer optimism is seemingly linked to U.S. wage growth continuing to outpace inflation, with average hourly earnings growing 4.0% in 2024, above the inflation (CPI) growth rate of 2.7%. While the U.S. job market remains strong, job growth in Maryland and Baltimore County has lagged behind growth in other parts of the country, and the Chairman noted that many job seekers have left the region or have stopped searching. Still, the BCEAC labor representative reported that there is demand for skilled labor in the County and that baseline pay is rising. From the residential real estate vantage point, home prices remain elevated despite persistently high interest rates – boding well for County property tax revenues – however, while there was an expectation that mortgage rates would decline, rates have in fact increased, causing many potential buyers to rent homes instead of purchasing. While commercial real estate concerns are less prominent in a predominantly suburban – as opposed to urban – market, members noted that commercial real estate has become stagnant, with no new construction occurring in the County – posing a risk to property tax revenues. On another cautionary note, members pointed out that struggling commercial properties ultimately transact for lower values – which can be expected to adversely affect tax revenues. Other issues and trends of concern to BCEAC members include a looming state budget shortfall, increasing credit card debt and delinquencies, the impact of tariffs, and the inevitable revolutionary impact of artificial intelligence on humanity (and the economy).

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



Estimate Source: Sage Policy Group, Inc., January 2025

Recently announced Trump administration actions are likely to have significant economic effects that are not yet reflected in the usual data and forecasts. Because most fiscal impacts of these actions will not be immediate, it is still important to review pre-existing economic indicators and forecasts.

Projections for the local economy are influenced, to a large degree, by the underlying performance of the national and State economies. While currently available economic performance data and forecasts are unlikely to capture much of the rapid disruption to federal agency employment and funding streams presently occurring under the second Trump administration, it is still useful and important to consider such information – particularly given that local fiscal impacts are not immediate. In other words, despite future uncertainty, existing economic indicators remain highly relevant to any discussion of local economic growth.

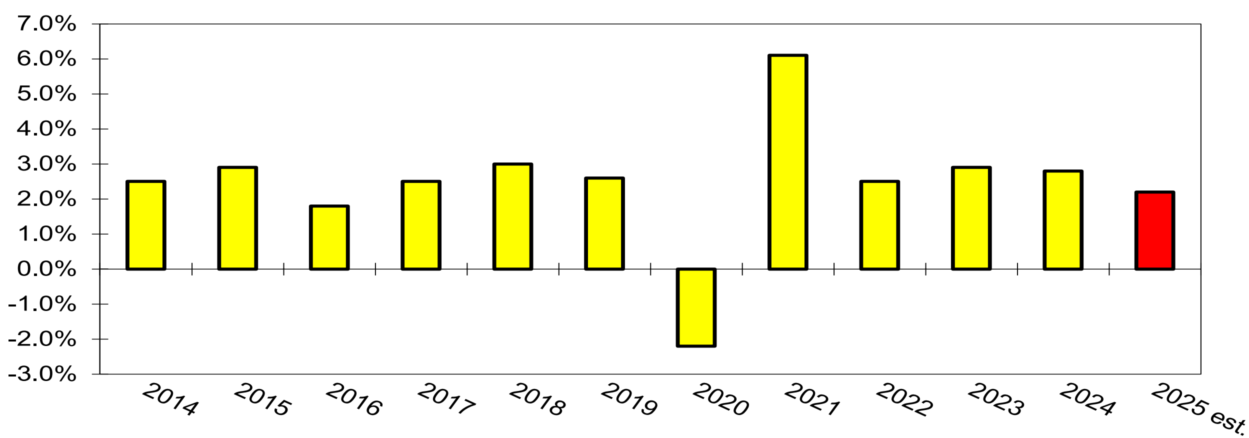
For CY 2025, real GDP is projected to increase by 2.2%, a deceleration from 2.8% growth in CY 2024, and below average growth over the past decade.

Gross Domestic Product (GDP) has remained strong coming out of the pandemic, posting growth of 2.5% in CY 2022 and 2.9% in CY 2023, and marginally beating expectations and remaining stable at 2.8% in CY 2024. Consumer spending, especially on durable goods as well as services, drove much of the recent economic expansion, increasing at 2.5% in CY 2023 and 2.8% in CY 2024. Meanwhile, gross private investment accelerated from 0.1% growth in CY 2023 to 4.0% growth in CY 2024, due in part to the 100-basis-points reduction in the federal funds rate over this period. According to the Federal Reserve Bank of Philadelphia's November 2024 *Survey of Professional Forecasters,* GDP growth is projected to decelerate to 2.2% in CY 2025. Historically, over the last decade (CY 2015 to CY 2024), real GDP grew by an average of 2.5% annually.

Employment growth in the County has been hampered by the shrunken size of the labor force. For CY 2025, the Committee's consultant projects County employment growth of 0.8%.

Employment gains continued in CY 2024, but the actual number of employed residents in December 2024 still had not caught up to pre-pandemic levels in either the County or the State, with 17,693 and 136,586 fewer residents employed, respectively, than in February 2020. The labor force has remained even more shrunken, providing 21,919 fewer workers in the County, and 164,845 fewer workers in the State, though labor force gains are finally starting to occur, with growth averaging 1.0% and 1.1% in the County and State, respectively, in CY 2024. After County and State employment expanded by an estimated 1.3% and 0.7%, respectively, in CY 2024, as of January 15, 2025, Sage projects employment growth of 0.8% and 1.0%, respectively, in CY 2025. Unemployment in the County and State had grown to 2.7% in December 2024, reflective of an undersized labor force greatly affected by retirements and lack of prime-age population growth.

Figure 6. Real Gross Domestic Product: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, *November 2024*

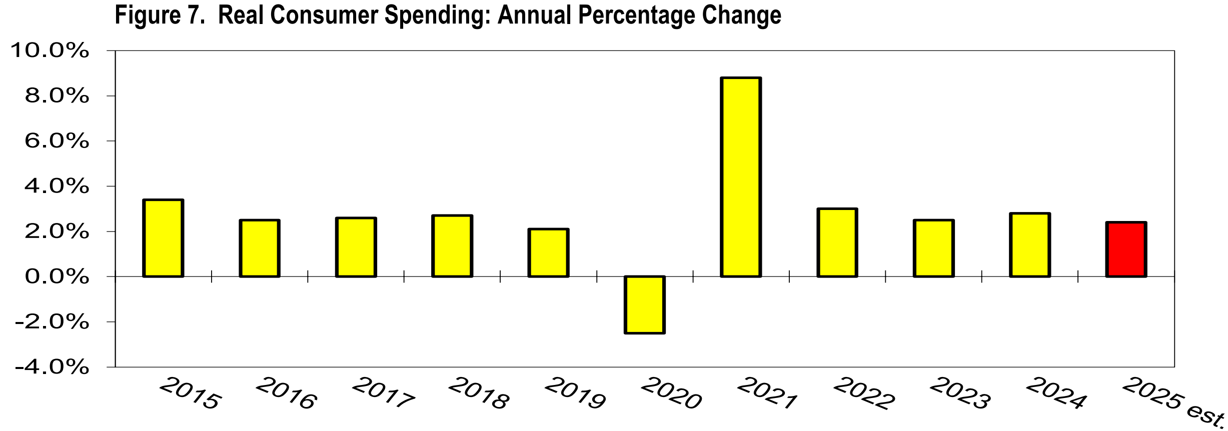
Consumer spending increased at a rate of 2.8% in CY 2024 following growth of 2.5% during CY 2023. Economists expect growth in consumer spending to slow slightly in CY 2025.

Consumer spending, which typically accounts for slightly more than two-thirds of all U.S. economic activity, is widely understood to be the primary determinant of future economic performance (Figure 7). As noted, consumer spending increased at a rate of 2.8% in CY 2024, a modest acceleration from its 2.5% increase during CY 2023. Most recently, in 2024:Q4, consumer spending accelerated to a 4.2% annualized pace, from a 3.7% pace during 2024:Q3. According to the November 2024 *Survey of Professional Forecasters,* consumer spending in CY 2025 is expected to grow by 2.4%, alongside relatively stable consumer confidence (consumer confidence has remained within the same narrow range since 2022). However, a Conference Board survey of 5,000 U.S. households found that consumer confidence decreased in January 2025, marking two straight months of decline; both the “Expectations Index” and the “Present Situation Index” saw decreases. The Conference Board reported that “[a]ll five components of the Index deteriorated but consumers’ assessments of the present situation experienced the largest decline. Notably, views of current labor market conditions fell for the first time since September, while assessments of business conditions weakened for the second month in a row.” On the other hand, “[c]onsumers’ views of their Family’s Current Financial Situation were more positive, and six-month expectations for family finances reached a new series high. The proportion of consumers anticipating a recession over the next 12 months was stable near the series low.” Further, “[a]verage 12-month inflation expectations increased from 5.1% to 5.3% in January, likely reflecting stickier inflation in recent months.”

The U.S. economy has remained resilient, posting solid growth during CY 2024, but it faces several challenges on the horizon.

Generally speaking, in recent years, the U.S. economy has continued to beat expectations, maintaining steady growth since the pandemic-induced recession in 2020. Inflation has hovered around 3%, briefly declining to 2.4% in September but ticking back up again to 2.9% in December. Job growth has persisted above expectations, while unemployment has remained around 4%. The low unemployment rate has been emblematic of a tight labor market and has resulted in wage growth. The Federal Reserve Bank of Philadelphia’s November 2024 *Survey of Professional Forecasters* projects 4.3% unemployment during CY 2025, up from 4.0% in CY 2024. The economy’s growth has been buoyed by increasing retail sales, with some concerns present due to increased delinquencies, credit card debt, and risks to asset prices. Although the November 2024 *Survey* anticipates a modest deceleration in GDP growth during CY 2025, it predicts relatively stable growth the following two years.

Figure 7. Real Consumer Spending: Annual Percentage Change



Estimate Source: Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters, November 2024

GENERAL FUND REVENUES AND SURPLUS

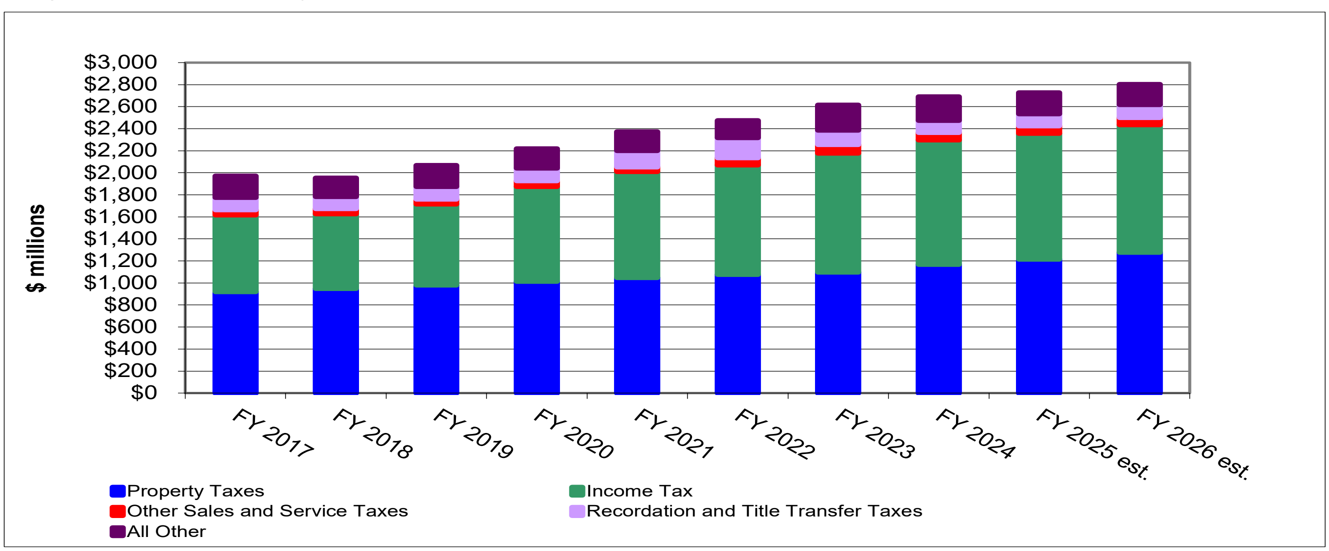
FY 2025 General Fund revenues are projected to increase by $35.6 million, or 1.3%, over FY 2024 actual collections.

FY 2025 projected General Fund revenues total $2,726.3 million, reflecting an increase of $35.6 million, or 1.3%, over actual FY 2024 revenues and exceeding FY 2025 budgeted revenues by $151.7 million, or 5.9% (Figures 8 and 9). The increase is primarily attributable to a forecasted steady increase in property tax revenues of $48.6 million, or 4.2%, due in part to the State's January 2024 reassessment of the County's eastern region. Income tax revenue growth is expected to slow in FY 2025 due to varying factors related to the State's distribution pattern as well as the moderation of inflation-driven wage growth, with anticipated growth of 1.0%, or $11.4 million. Income tax projections have seen a modest downward revision in recent weeks due primarily to uncertainty regarding the impact that new federal employment and tariff policies could have on withholdings, investment returns, and the economy as a whole. Meanwhile, property-related transaction tax revenues are projected to remain flat from FY 2024 to FY 2025, following two consecutive years of declines, as buyers become accustomed to higher home prices and mortgage rates level off.

FY 2026 General Fund revenues are projected to increase by approximately $76.0 million, or 2.8%, over the current FY 2025 estimate.

FY 2026 General Fund revenues are projected to total $2,802.3 million, an increase of $76.0 million, or 2.8%, over the current FY 2025 revenue estimate, and up approximately $227.7 million, or 8.8%, from FY 2025 budgeted revenues. The FY 2026 projected increase is driven primarily by property tax revenues, which are expected to grow steadily for the 12th consecutive year with the State's recent reassessment of the County's western region. Specifically, projected property tax revenues total $1,277.0 million, an increase of $61.9 million, or 5.1%. Income tax revenue growth is expected to remain subdued in FY 2026, with projected growth of 1.4%, or $15.9 million, due to both the continued moderation of inflation-driven wage growth and the uncertainty surrounding new federal employment policies. This anticipated growth is also consistent with the analysis by the Committee's economic consultant that the County's labor market has had little opportunity to expand given the current size of the labor force. Property-related transaction tax revenues are expected to rise slightly in FY 2026, marking the first increase since FY 2022, as steady mortgage interest rates slowly encourage more prospective homebuyers and sellers to re-enter the market.

Figure 8. Baltimore County General Fund Revenues



Sources: FY 2016 to FY 2024 Baltimore County Annual Comprehensive Financial Reports; Baltimore County Office of the County Auditor

Figure 9. General Fund Revenue Forecast, FY 2024-FY 2026

($ in Millions)

REVENUE SOURCE	FY 2024 Actual	FY 2025 Budget	FY 24 - FY 25 Bud.	FY 2025 Revised	FY 24 - FY 25 Rev.	FY 2026 Estimate	FY 25 Bud.- FY 26	**FY 25 Rev.- FY 26**
Property taxes	$1,166.5	$1,199.7	2.8%	$1,215.1	4.2%	$1,277.0	6.4%	5.1%
Income taxes	1,131.1	1,017.7	-10.0%	1,142.5	1.0%	1,158.4	13.8%	1.4%
Recordation & title transfer taxes	109.7	94.9	-13.5%	109.7	0.0%	115.2	21.4%	5.0%
Other Sales and Service taxes	66.6	66.0	-0.9%	66.0	-0.9%	66.0	0.0%	0.0%
Intergovernmental aid	57.9	57.1	-1.4%	55.4	-4.3%	52.6	-7.9%	-5.1%
Interest on investments	53.5	45.8	-14.4%	45.8	-14.4%	41.2	-10.0%	-10.0%
Service charges	52.4	56.1	7.1%	52.4	0.0%	52.4	-6.6%	0.0%
Licenses & permits	5.3	4.5	-15.1%	5.3	0.0%	5.3	17.8%	0.0%
Fines, forfeitures & penalties	4.8	3.8	-20.8%	4.8	0.0%	4.8	26.3%	0.0%
Other	42.9	29.0	-32.4%	29.3	-31.7%	29.3	1.0%	0.0%
TOTAL	**$2,690.7**	**$2,574.6**	**-4.3%**	**$2,726.3**	**1.3%**	**$2,802.3**	**8.8%**	**2.8%**

*Totals may not sum due to rounding.

The FY 2026 revenue projection is $65.1 million above the Committee's recommended FY 2026 spending guideline.

Projected FY 2026 revenues exceed the Committee's recommended spending guideline by $65.1 million. The County's Unassigned General Fund Balance totaled $419.6 million as of June 30, 2024, not including $254.4 million in the Revenue Stabilization Reserve Account (RSRA). Together, these amounts represent $674.1 million, or 26.5% of FY 2025 budgeted General Fund revenues.

The FY 2024 surplus totaled $419.6 million, excluding $254.4 million in the RSRA.

The FY 2025 surplus is expected to total $353.9 million, excluding $257.5 million in the RSRA.

After appropriating a sizable $144.3 million in one-time General Fund Pay-As-You-Go (PAYGO) Contributions to the Capital Budget, the projected June 30, 2025 budgetary surplus, assuming revenues of $2,726.3 million, no supplemental appropriations, and no actions by the Administration to revert appropriations and/or liquidate other funds, totals $353.9 million, or 13.7% of FY 2025 budgeted revenues (Figure 10). This amount does not include an estimated $257.5 million, or 10.0% of FY 2025 budgeted revenues, in the RSRA. The FY 2025 adopted operating budget projected a FY 2025 budgetary surplus of $104.1 million, excluding a projected $257.5 million in the RSRA. The budgetary surplus will be available as a source of funding for the FY 2026 budget.

Figure 10. Estimated General Fund Budgetary Surplus, FY 2025

		($ in Millions)
FY 2024 General Fund Budgetary Surplus (excluding RSRA funds)		**$ 419.6**
FY 2025 Revenue Estimate (per Adopted Budget)	2,574.6	
FY 2025 Revision	151.7	
FY 2025 Revised Revenue Estimate		2,726.3
FY 2025 Adopted Budget		(2,789.0)
FY 2025 Transfer to the RSRA		(3.0)
FY 2025 Estimated General Fund Budgetary Surplus		**$ 353.9**

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 residents, bond-rating agencies, and members of the financial community. The debt guidelines are based on: (1) the County's total debt outstanding as a percentage of total assessed property value, and (2) the County's level of debt service as a percentage of total General Fund revenues.

For FY 2026, the Committee updated its debt affordability recommendations to align to the County's debt policies.

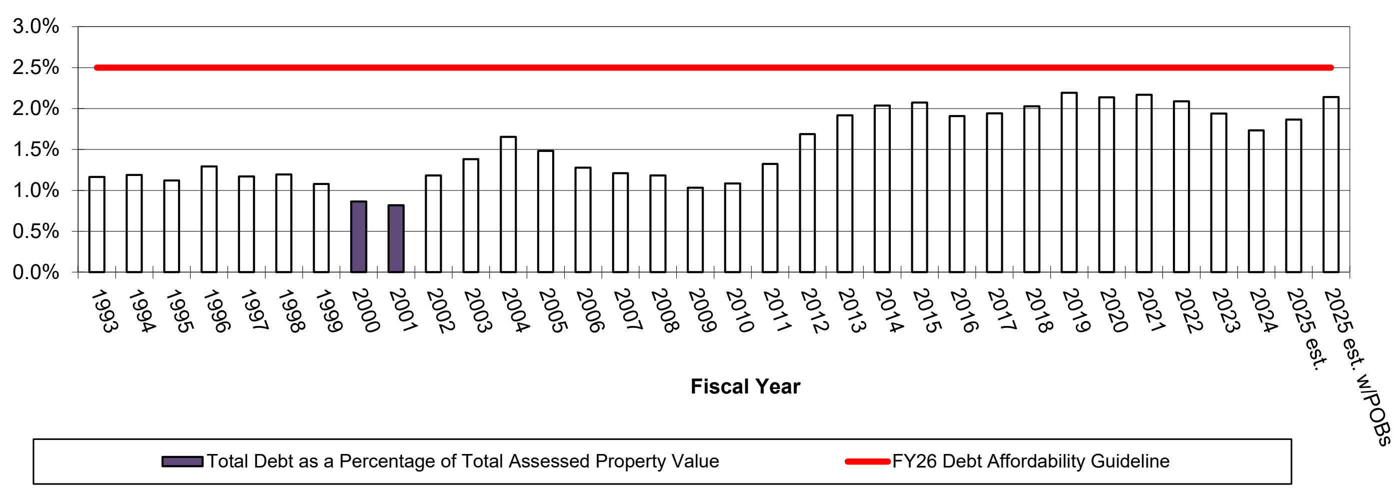
For FY 2026, the Committee unanimously agreed to align its debt affordability recommendations with the County's debt and debt service ceilings, as published jointly in the October 2024 Debt Capacity and Control Analysis by the Office of Budget and Finance and the County's financial advisor, Public Resources Advisory Group. Such ceilings apply to component unit capital leases, as well as General Government capital leases and general obligation debt; previously, the Committee had excluded component unit capital leases from its debt affordability recommendations. Further, the Committee is aware that the Office of Budget and Finance has taken the Committee's recommendation to cease the practice of applying bond premiums off-budget to reduce debt service interest costs; doing so results in higher budgeted debt service costs subject to the debt service guideline. Accordingly, the Committee concurs with the Office's decision to increase the debt service guideline by one percentage point, from 9.5% to 10.5%, to cover these costs (as well as component unit capital lease costs), which to date have been occurring outside the Committee's explicit purview.

Total Debt Outstanding Guideline

The Committee recommends that total debt outstanding not exceed $2,861,254,725, or 2.5% of total assessed property value of $114,450,189,000.

The ratio of total debt outstanding to total assessed property value is a measure of debt affordability. Total assessed property values have been steadily increasing primarily due to rising home values. At the same time, the County's level of total debt outstanding decreased from $2.0 billion in FY 2021 to $1.8 billion in FY 2024, but is estimated to increase in FY 2025 to FY 2021 levels. For FY 2025, the total debt outstanding ratio is estimated at 1.9%, an increase from 1.7% in FY 2024. The inclusion of pension obligation bond (POB) debt, which is being shown for informational purposes only, would increase the ratio to 2.1% (Figure 11). The Committee's recommended limitation on total debt outstanding currently stands at 2.5% of total assessed property value. **Accordingly, the Committee recommends that total debt outstanding during FY 2026 not exceed $2,861,254,725, or 2.5% of total assessed property value of $114,450,189,000.**

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



Note: Excludes debt related to pension obligation bonds (POBs) and Metropolitan District debt, except for FY 2025, which is shown (for informational purposes) with and without POBs, which were issued in Fiscal Years 1988, 2013, and 2017. FY 2025 ratios are estimated. *Sources: Baltimore County Annual Comprehensive Financial Reports; Baltimore County Office of Budget and Finance; Maryland Department of Assessments and Taxation.*

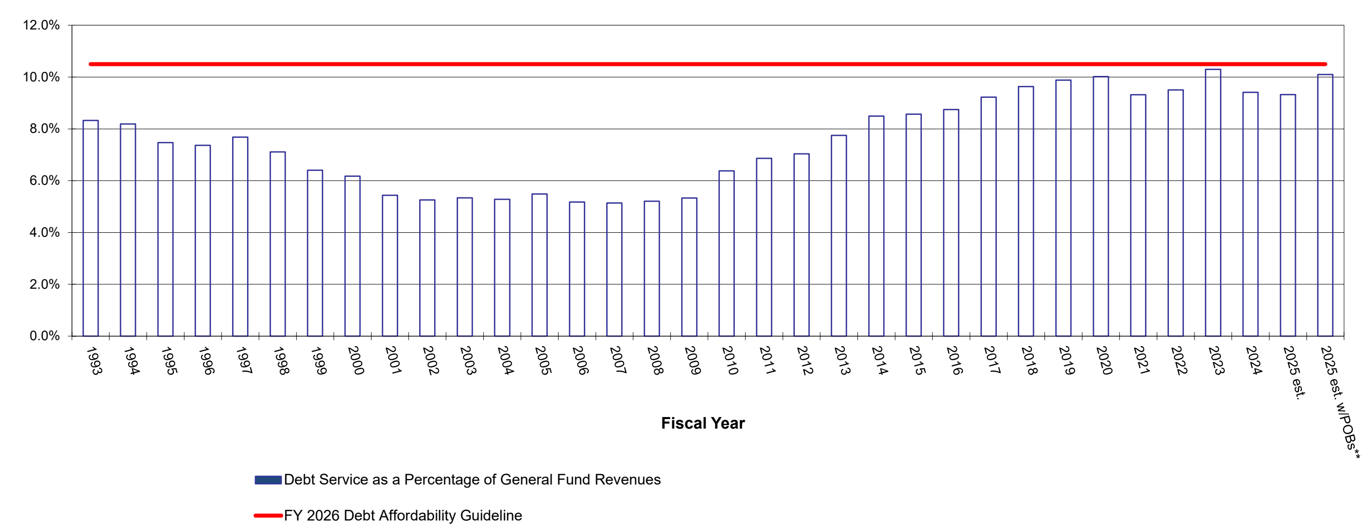
Debt Service Guideline

The Committee recommends that debt service not exceed $294.2 million, based on applying a 10.5% guideline to projected revenues totaling $2,802.3 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. In recent years, debt service related to the County's General Obligation debt has been decreasing, while capital lease payments, particularly for Baltimore County Public Schools technology and school bus financing, have increased. Additionally, over the past few years, the Office of Budget and Finance has been stopping the practice of relying upon bond premiums to cover a portion of debt service costs off-budget. As a result, a greater portion of such debt service costs have been budgeted. The inclusion of Pension Obligation Bond (POB) debt, which is being shown for informational purposes only, would increase the ratio in FY 2025 from 9.3% to 10.1% (Figure 12). As previously explained, the Committee's recommended limitation on debt service now stands at 10.5% of total General Fund revenues. **Accordingly, the Committee recommends that debt service expenditures for FY 2026 not exceed $294.2 million, based on projected revenues totaling $2,802.3 million.**

The ratio of debt service to total General Fund revenues from FY 1993 to FY 2025 (as estimated) 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 a substantial capital budget over that period. Prior to fiscal year 2020, the ratio had been rising steadily, largely a result of the aggressive capital program for school projects. More recently, debt service on consolidated public improvements has declined, though discontinuance of the practice of offsetting a portion of such interest costs by applying bond premiums off-budget has resulted in an increase to the actual debt service budget. Further, component unit capital lease costs, which the Committee historically had excluded from consideration because of the lack of County control over their execution, are now included in the guideline compliance calculation, to align to the County's debt policy/practice.

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



Note: Excludes debt service related to pension obligation bonds (POBs) and Metropolitan District debt, except for FY 2025, which is shown (for informational purposes) with and without POBs, which were issued in Fiscal Years 1988, 2013, and 2017. FY 2025 ratios are estimated.
Sources: Baltimore County budget documents; Baltimore County Annual Comprehensive Financial Reports; Baltimore County Office of Budget and Finance; Baltimore County Office of the County Auditor.