**SPENDING AFFORDABILITY COMMITTEE**
Anne Arundel County
January 31, 2024

The Hon. Steuart Pittman, County Executive
The Hon. Allison Pickard, Chair, County Council
Ms. Christine Anderson, Chief Administrative Officer
Mr. Chris Trumbauer, Budget Officer
Ms. Billie Penley, Controller
The Arundel Center, 44 Calvert Street
Annapolis, Maryland 21401

This report of the Spending Affordability Committee (SAC) for Fiscal 2025 is hereby submitted in accordance with Section 610 of the Anne Arundel County Charter. This section requires in part that "The Committee shall make advisory recommendations to the Office of the Budget, the County Executive, and the County Council relating to spending affordability including County spending levels to reflect the ability of the taxpayer to finance County services and long-term debt." Section 610 also tells the Spending Affordability Committee to "…examine current capital projects, the five-year capital improvement program, per capita wealth, debt service, pay-as-you-go funding and alternative sources of funding."

## Committee Recommendation

The SAC has followed the practice of previous Committees that "spending affordability" can best be determined by estimating the growth in personal income of County residents. The Committee analyzes personal income growth on both a year-over-year and long-term basis. The Committee uses the definition of personal income provided by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), which is "income received by persons from all sources" (e.g., wages, employment benefits, business income, and investment income) whether taxable or not. To avoid placing additional financial burden on County residents, spending growth should remain in-line with personal income growth. Simply put, if County spending were to increase faster than personal income, additional taxes and fees from County residents would likely be needed at some point to support that spending.

Using personal income as a benchmark to guide our analysis, the SAC recommends a Fiscal 2025 spending increase of 4.3% vs. the Fiscal 2024 adjusted base budget. As shown in the table below, this results in a recommended Fiscal 2025 Current Expense (General Fund) budget of $2,050,445,590. This represents an $83.4 million increase over the SAC's Fiscal 2024 recommendation. The Fiscal 2024 recommendation recognized the economic rebound due to low unemployment and better than average wage growth. Our Fiscal 2025 recommendation is based on continued positive economic trends tempered by concern over the real estate market and a lack of growth in the labor force.

With respect to the Capital Budget, County budget policy stipulates that the General Fund Debt Limit be less than 4% of forecasted personal income.[1] Applying the Committee's 4.3% budget growth recommendation to the average of current personal income estimates for Fiscal 2024 results in a forecasted Fiscal 2025 County personal income of $51,437,472,449. Applying the 4% limit to this personal income forecast results in a recommended General Fund Debt Limit of $2,057,498,898. This represents an $84.6 million increase over the SAC's Fiscal 2024 recommendation.

| **Anne Arundel County Spending Affordability Committee Recommendations For Fiscal Year 2025** | |
|---|---|
| **Current Expense Budget Recommendation** | |
| *(Adjusted Base Budget for Current Year x Estimated Personal Income Growth Rate for Budget Year)* | |
| Approved Fiscal 2024 Budget | $2,137,300,400 |
| - Appropriated Fund Balance | (146,789,000) |
| - Rainy Day Fund Contribution | (24,600,000) |
| Committee's Adjusted Base Budget - Fiscal 2024 | $1,965,911,400 |
| Estimated Increase in County Personal Income (Fiscal 2024 to Fiscal 2025) | 4.3% |
| **FY2025 General Fund Appropriation Limit (customary manner)** | **$2,050,445,590** |
| **Capital Budget Recommendation** | |
| *(Personal Income Forecast for Current Year x Estimated Personal Income Growth Rate for Budget Year x Standard)* | |
| Average of Regional Economic Studies Institute (RESI) of Towson University and Moody's Analytics Forecasts for County Personal Income - Fiscal 2024 | $49,316,847,985 |
| Estimated Increase in County Personal Income (Fiscal 2024 to Fiscal 2025) | 4.3% |
| Forecast Personal Income - Fiscal 2025 | $51,437,472,449 |
| Standard Applied in County's Debt Affordability Model | 4.0% |
| **Fiscal 2025 General Fund Debt Limit (customary manner)** | **$2,057,498,898** |

## Background

The State of Maryland contracts with various econometric forecasting firms to provide economic data and personal income forecasts. In addition, the State Board of Revenue Estimates (BRE) develops its own forecast for the State. To supplement this data, the County Budget Office obtained Anne Arundel-specific data and Fiscal 2024 forecasts from Regional Economic Studies Institute (RESI) at Towson University and Moody's Analytics. Additional perspective was provided by the Moody's Analytics forecast for the Baltimore Metropolitan Statistical Area (MSA).

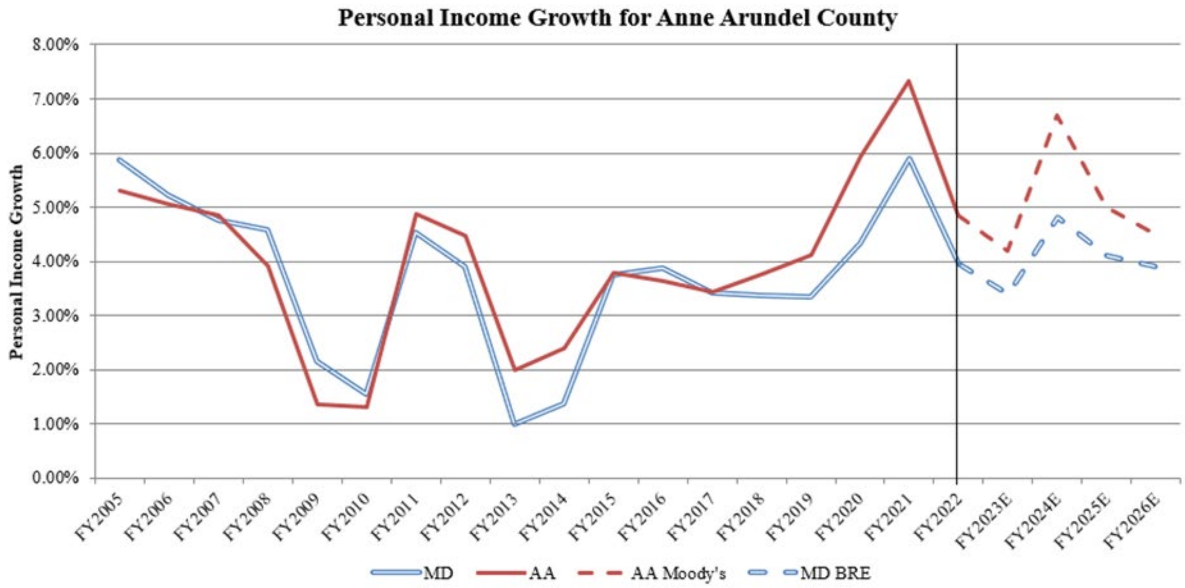
[1] Page 21, Approved Current Expense Budget and Budget Message for Fiscal Year 2022.

The RESI and Moody's estimates are informed by personal income data from the BEA, employment data from the Bureau of Labor Statistics, and population data from the U.S. Census Bureau. The following table summarizes the most recent personal income growth estimates for Maryland, Anne Arundel County, and the Baltimore MSA. As shown, there is a range of estimates from an average 3.6% for the State to 4.0% for the County, and 4.5% for the Baltimore MSA. It should be noted that the State and County averages are lower due to very conservative personal income estimates forecasted by RESI.

**Comparison of Personal Income Forecasts**
**Fiscal Year 2023 - 2026**

| | | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| **State of Maryland** | Board of Revenue Estimates (Dec 2023) | 3.4% | 4.8% | 4.1% | 3.9% |
| | RESI of Towson University (Dec 2023) | 5.2% | 4.3% | 3.2% | 4.1% |
| | **Average** | **4.3%** | **4.5%** | **3.6%** | **4.0%** |
| **Anne Arundel County** | Moody's (Dec 2023) | 4.2% | 6.7% | 5.0% | 4.5% |
| | RESI of Towson University (Dec 2023) | 3.2% | 3.4% | 3.1% | 4.1% |
| | **Average** | **3.7%** | **5.1%** | **4.0%** | **4.3%** |
| **Baltimore Area** | Moody's | 2.5% | 4.5% | 4.5% | 4.3% |

The following graph shows the actual annual growth rates in personal income from Fiscal 2005 to Fiscal 2022 for Maryland and Anne Arundel County as reported by the BEA, along with the Moody's and BRE forecasts for Fiscal 2023 through Fiscal 2026. If viewing in black and white, the double line is Maryland and the solid line is Anne Arundel County. In 2024, the higher (red) dashed line is Anne Arundel County. For the most recent year where data is available (Fiscal 2022), the BEA currently reports that the personal income growth rate in Anne Arundel County was 4.9%. Note that this data is subject to potential updates by the BEA in future reports. The chart below shows the most recent updates for all years, and supersedes any data presented in previous Committee reports.




## Economic Analysis

Coming out of the pandemic, the economy was limited by supply chain issues and a shortage of labor, both of which led to higher inflation due to shortages of goods and the need to pay higher wages. Since the spring of 2022 the Federal Reserve Board raised interest rates 11 times, to reduce inflation to its target 2%. Higher rates would reduce demand, raise unemployment, and potentially induce a mild recession. Instead, the economy remained strong. Unemployment levels are low, inflation has been reduced to 3.1% as of November 2023, supply chains have been restored, and consumer spending remains positive. The median home price in Anne Arundel County is also up 15% year-over-year, from $433,000 in November 2022 to $497,000 in November 2023. Wage growth continues but has slowed to 1.6% for total non-farm employment between the second quarter of 2022 and 2023 according to RESI.

Despite the many positives the Committee is concerned over the decrease in home sales, that has continued since the onset of higher mortgage interest rates. This affects the County's transfer and recordation tax revenue. When comparing the first 11 months of calendar year 2022 to the first 11 months of 2023, home sales have fallen 25% from an average of 763 per month to 571 per month. The County's labor force also fell from a pre-pandemic high of 327,478 to a current level of 315,576, and the labor force participation rate fell from 71% to 65% according to data supplied by RESI. BRE has noted that this trend is statewide in nature. Until the labor force and participation rate grow, it is likely that County income tax revenues will not increase substantially, apart from growth in next taxable income.

## Near Term Outlook

The Committee is generally optimistic about the economy. The low unemployment rate and wage growth bodes well for income tax revenues in the short-term. Real property revenue should also to grow, in part because the County has unused assessable base. In January 2024 the State Department of Assessments and Taxation also announced that Group 3 properties in the County were reassessed at a 22% growth rate compared to three years prior. The lagging real estate market also remain a short-term concern, but if the Federal Reserve Board begins reducing interest rates in 2024, as it has hinted, the real estate sector should rebound.

## SAC Committee Discussion and Analysis

The SAC members applied our collective experience and background in business, economics, finance, and Federal/State/Local government to assess the forecasts that were provided.

As noted above, the Committee members discussed the positive and negative trends in the economy as well as the projections for personal income in the County, State, and Baltimore MSA. The discussion of the economy was positive, as it appears that the Federal Reserve Board has engineered a soft landing for the economy without inducing a recession, and current economic indicators are mostly favorable. There are potential risks on the horizon which could also limit growth or tip the economy into a recession. These concerns included lower home sales and the lack of growth in the labor force and labor participation rate. The Committee was mindful of its purpose to recommend a level of spending growth in accord with the economy. In this way, spending can increase on a sustainable path without unduly burdening County 'residents with large tax or fee increases. The Committee felt that the personal income projections from Moody's Analytics appeared too robust and the RESI forecasts too conservative. A 4.3% rate was discussed as an average of the Moody's Baltimore MSA forecast (4.5%) and the BRE forecast (4.1%).

## Conclusion

After discussion of the various growth rate options in County personal income, the Committee chose to recommend a 4.3% limit for FY 2025. This should allow the County to address spending needs without unduly expanding ongoing operating spending.

The Committee once again extends its appreciation to our County employees, especially to Budget Administrator Hujia Hasim and Budget and Management Analyst Kyle Madden. The quality of governmental services that they provide is second to none. We sincerely hope that the evidence assembled for this report will help manage expectations and inform fair and just analysis of the fiscal decisions facing our elected leaders.

Sincerely,

Dr. David B. Juppe, Chair

## Spending Affordability Committee Membership for Calendar 2023 to 2024

| District | Name | Resolution # | Appointed on | Term Expires |
|---|---|---|---|---|
| 1 | Vacant | | | |
| 2 | Ejaz Younas, Vice Chair | 20-21 | 3/15/2021 | 12/1/2024 |
| 3 | Deborah Ritchie, Secretary | 41-22 | 9/16/2019 | 12/1/2025 |
| 4 | Vacant | | | |
| 5 | Tony Fetter | 36-23 | 9/5/2023 | 9/4/2027 |
| 6 | David Juppe, Chair | 34-19 | 12/2/2022 | 12/1/2026 |
| 7 | Matt Minahan | 48-22 | 9/19/2022 | 12/1/2025 |

**Attachment A**
**Approved Budgets vs. Reported Personal Income Growth**

| Fiscal Year | Spending Affordability Committee Budget Growth Recommendation | General Fund Approved Budget ($ millions) | Year-Over-Year Budget Growth | Actual Personal Income ($ thousands)* | Year-Over-Year Personal Income Growth |
|---|---|---|---|---|---|
| 2008 | 5.50% | 1,160.30 | | 27,436,266 | |
| 2009 | 5.00% | 1,173.60 | 1.15% | 27,805,661 | 1.35% |
| 2010 | 0.00% | 1,180.80 | 0.61% | 28,169,913 | 1.31% |
| 2011 | 1.50% | 1,169.40 | -0.97% | 29,539,915 | 4.86% |
| 2012 | 4.40% | 1,155.60 | -1.18% | 30,857,772 | 4.46% |
| 2013 | 3.50% | 1,218.90 | 5.48% | 31,471,975 | 1.99% |
| 2014 | 4.50% | 1,238.30 | 1.59% | 32,229,650 | 2.41% |
| 2015 | 4.75% | 1,309.70 | 5.77% | 33,448,481 | 3.78% |
| 2016 | 4.50% | 1,346.50 | 2.81% | 34,661,551 | 3.63% |
| 2017 | 3.00% | 1,406.70 | 4.47% | 35,850,579 | 3.43% |
| 2018 | 3.50% | 1,460.80 | 3.85% | 37,200,237 | 3.76% |
| 2019 | 3.75% | 1,524.88 | 4.39% | 38,729,986 | 4.11% |
| 2020 | 3.75% | 1,637.60 | 7.39% | 41,029,881 | 5.94% |
| 2021 | 3.70% | 1,680.50 | 2.62% | 44,035,090 | 7.32% |
| 2022 | 2.00% | 1,747.86 | 4.01% | 46,173,930 | 4.86% |
| 2023 | 3.50% | 1,871.58 | 7.08% | TBD | |
| 2024 | 5.10% | 1,965.91 | 5.04% | TBD | |

*Based on data available from the BEA (https://apps.bea.gov/iTable/index_regional.cfm) as of January 2024. This data is subject to change in future BEA reporting. Also, it should be noted that the BEA reports county and metropolitan area personal income on a Calendar Year basis. Quarterly data is only available at the state level. For analysis purposes, the Budget Office converted this data to a County Fiscal Year basis by averaging the Calendar Year data. For example, the personal income shown above for Fiscal 2020 is the average of the BEA reported data for Calendar 2019 and 2020.

**The Fiscal 2021 recommendation was made in January 2020, prior to onset of the COVID-19 pandemic.

***Data for Calendar 2023 and 2024 is not yet available from BEA as of the date of this report.