SPENDING AFFORDABILITY COMMITTEE
Anne Arundel County
January 31, 2025

The Hon. Steuart Pittman, County Executive
The Hon. Julie Hummer, 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 2026 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 2026 spending increase of 4.9% vs. the Fiscal 2025 adjusted base budget. As shown in the table below, this results in a recommended Fiscal 2026 Current Expense (General Fund) budget of $2,226,429,070. This represents a $176.0 million increase over the SAC's Fiscal 2025 recommendation. The Fiscal 2025 recommendation was based on positive economic growth tempered by a lagging real estate market. Our Fiscal 2026 recommendation is based on continued positive economic trends, including low unemployment, wage growth, and increases in the labor pool. Concerns over the volume of home sales continues, along with the potential loss of income tax related to possible contractor of the federal 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 4.9% budget growth recommendation to the average of current personal income estimates for Fiscal 2025 results in a forecasted Fiscal 2026 County personal income of $56,487,608,609. Applying the 4% limit to this personal income forecast results in a recommended General Fund Debt Limit of $2,259,504,344. This represents a $202.0 million increase over the SAC's Fiscal 2025 recommendation.

Anne Arundel County Spending Affordability Committee Recommendations For Fiscal Year 2026	
Current Expense Budget Recommendation	
(Adjusted Base Budget for Current Year x Estimated Personal Income Growth Rate for Budget Year)	
Approved Fiscal 2025 Budget	$2,312,436,300
- Appropriated Fund Balance	(182,206,300)
- Rainy Day Fund Contribution	(7,800,000)
Committee's Adjusted Base Budget - Fiscal 2025	$2,122,430,000
Estimated Increase in County Personal Income (Fiscal 2025 to Fiscal 2026)	4.9%
FY2026 General Fund Appropriation Limit (customary manner)	**$2,226,429,070**
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 2025	$53,849,007,253
Estimated Increase in County Personal Income (Fiscal 2025 to Fiscal 2026)	4.9%
Forecast Personal Income - Fiscal 2026	$56,487,608,609
Standard Applied in County's Debt Affordability Model	4.0%
Fiscal 2026 General Fund Debt Limit (customary manner)	**$2,259,504,344**

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 2025 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).

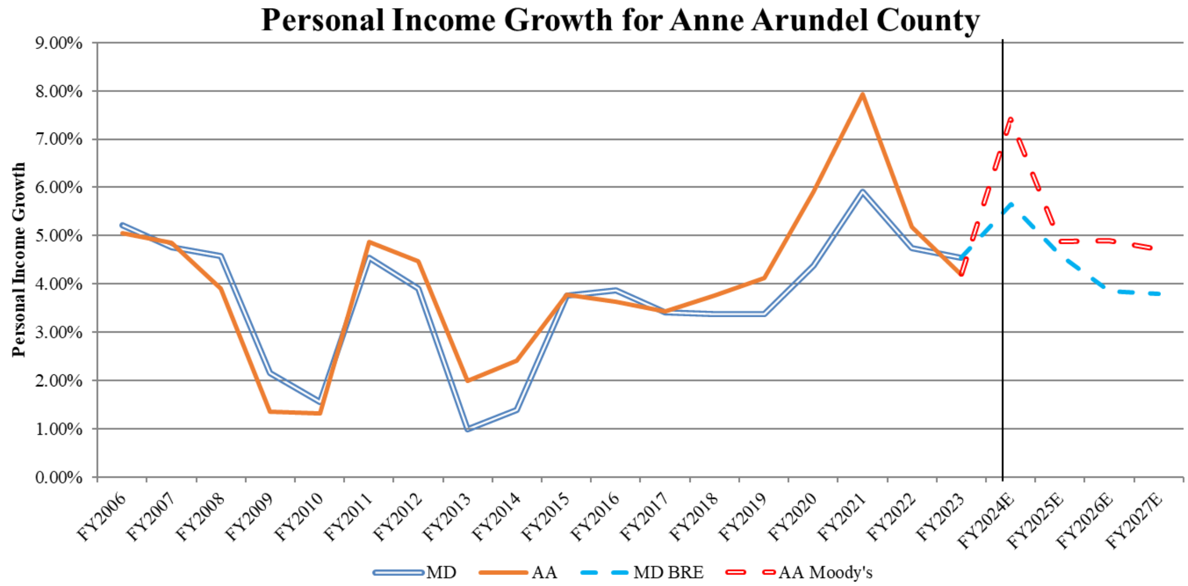
[1] Page 21, Approved Current Expense Budget, and Budget Message for Fiscal Year 2022.

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 4.2% for the State to 4.7% for the County, and 4.5% for the Baltimore MSA.

Comparison of Personal Income Forecasts
Fiscal Year 2024 - 2027

		2024	2025	2026	2027
State of Maryland	Board of Revenue Estimates (Dec 2024)	5.7%	4.6%	3.9%	3.8%
	RESI of Towson University (Dec 2024)	5.8%	5.2%	4.6%	4.5%
	Average	**5.7%**	**4.9%**	**4.2%**	**4.2%**
Anne Arundel County	Moody's (Dec 2024)	7.4%	4.9%	4.9%	4.7%
	RESI of Towson University (Dec 2024)	5.7%	4.7%	4.6%	4.5%
	Average	**6.6%**	**4.8%**	**4.7%**	**4.6%**
Baltimore Area	Moody's (Dec 2024)	7.0%	5.5%	4.5%	4.3%

The following graph shows the actual annual growth rates in personal income from Fiscal 2006 to Fiscal 2023 for Maryland and Anne Arundel County as reported by the BEA, along with the Moody’s and BRE forecasts for Fiscal 2024 through Fiscal 2027. If viewing in black and white, the double line is Maryland and the solid line is Anne Arundel County. In 2024, the higher (orange) dashed line is Anne Arundel County. For the most recent year where data is available (Fiscal 2023), the BEA currently reports that the personal income growth rate in Anne Arundel County was 4.2%. 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

Trends in the economy have been positive. After a flurry of interest rate hikes to combat higher inflation, the Federal Reserve Board cut interest rates 3 times between September and December 2024. Despite the higher rates the country was not thrust into an economic downturn; unemployment remained low, wages continued to grow in real dollars, and consumer spending remained strong. In the County the unemployment rate stood at 2.7% in October 2024, tied for 4th lowest in the State and below the statewide average. Another encouraging sign is that the labor force stood at 319,749 at the same time. While this is below the pre-pandemic high of 332,688 in July 2019, the labor force has been growing throughout 2024 when it began at 311,768 in January. The median home price in Anne Arundel County is also up 4.8% year-over-year, from an average of $458,063 in FY 2023 to $479,831 in FY 2024. Wage growth continues at a strong pace. According to data provided by RESI, the average wage for non-farm employment grew 6.7% between the 2nd quarter of 2023 and the 2nd quarter of 2024 (from $71,802 to $76,596).

Despite the many positives the Committee remains 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. After averaging 739 homes sold per month over the period FY 2017-2020 the County saw home sales fall to an average of 624 per month in FY 2023 and 595 per month in FY 2024. Despite the interest rate cuts by the Federal Reserve Board, mortgage rates remained jut below 7% at the end of December 2024. Another area of concern for the Committee is the intention expressed by the incoming presidential administration to reduce the size of the federal workforce. This may reduce County income taxes in the future, though it may take some time to implement changes.

Near Term Outlook

The Committee remains optimistic about the economy. The unemployment rate remains relatively low and wage growth continues. The Committee is concerned that the next presidential administration intends to reduce the federal workforce, which may have some impact on County income tax revenues. However, any impacts are not expected immediately. Real property revenue should also grow, in part because the County has unused assessable base. In January 2025 the State Department of Assessments and Taxation also announced that Group 1 properties in the County were reassessed at a 22% growth rate compared to three years prior: 13th best in the State and above the statewide average. The lagging real estate market continues to pose short-term concerns. Home sales in the County averaged 595 per month in FY 2024; a -4.7% decrease from FY 2023 and below pre-pandemic levels. The Federal Reserve Board did cut interest rates 3 times in the fall of 2024, but at the close of December mortgage rates remained just below 7%.

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 Committee held a robust discussion of the trends in the economy. By all indications, economic activity remains strong. Unemployment remains at record low levels, wage growth and consumer spending are positive, and inflation is near the Federal Reserve Board's target rate. Moreover, additional interest rate cuts are anticipated in 2025. There are potential risks on the horizon which could also impact specific County revenue sources. These concerns included home sales remaining at their current lower levels, which would constrain growth in Transfer and Recordation tax revenues, and potential cuts in federal employment which could eventually reduce growth in County income taxes. 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 was most appropriate given the wage growth experienced by the County.

Conclusion

After discussion of the various growth rate options in County personal income, the Committee chose to recommend a 4.9% limit for FY 2026. 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%	38,735,101	4.13%
2020	3.75%	1,637.60	7.39%	41,019,963	5.90%
2021	3.70%	1,680.50	2.62%	44,269,370	7.92%
2022	2.00%	1,747.86	4.01%	46,558,166	5.17%
2023	3.50%	1,871.58	7.08%	48,514,779	4.20%
2024	5.10%	1,965.91	5.04%	TBD	
2025	4.30%	2,122.43	7.96%	TBD	

*Based on data available from the BEA (https://apps.bea.gov/iTable/index_regional.cfm) as of January 2025. 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 2023 is the average of the BEA reported data for Calendar 2022 and 2023.

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

***Data for Calendar 2024 and 2025 is not yet available from BEA as of the date of this report.