

## **SPENDING AFFORDABILITY COMMITTEE**

Anne Arundel County

January 31, 2023

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

This report of the Spending Affordability Committee (SAC) for Fiscal 2024 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 2024 spending increase of 5.1% vs. the Fiscal 2023 adjusted base budget. As shown in the table below, this results in a recommended Fiscal 2024 Current Expense (General Fund) budget of \$1,967,029,004. This represents a \$158.0 million increase (8.7%) over the SAC’s Fiscal 2023 recommendation. The Fiscal 2023 recommendation was conservative and reflected the significant uncertainty regarding the financial impacts of coronavirus disease 2019 (COVID-19) on the County. Our Fiscal 2024 recommendation is based in part on better-than-expected County revenues and personal income projections for Fiscal 2022 and 2023.

With respect to the Capital Budget, County budget policy stipulates that the General Fund Debt Limit be less than 4% of forecasted personal income.<sup>1</sup> Applying the Committee’s 5.1% budget growth recommendation to the average of current personal income estimates for Fiscal 2023 results in a forecasted Fiscal 2024 County personal income of \$49,322,156,625. Applying the 4% limit to this personal income forecast results in a recommended General Fund Debt Limit of \$1,972,886,265. This represents a \$154.5 million increase over the SAC’s Fiscal 2023 recommendation.

<b>Anne Arundel County Spending Affordability Committee Recommendations For Fiscal Year 2024</b>	
<b>Current Expense Budget Recommendation</b>	
<i>(Adjusted Base Budget for Current Year x Estimated Personal Income Growth Rate for Budget Year)</i>	
Approved Fiscal 2023 Budget	\$2,157,450,500
- Appropriated Fund Balance	(262,372,000)
- Rainy Day Fund Contribution	(23,500,000)
Committee's Adjusted Base Budget - Fiscal 2023	\$1,871,578,500
Estimated Increase in County Personal Income (Fiscal 2023 to Fiscal 2024)	5.1%
<b>FY2024 General Fund Appropriation Limit (customary manner)</b>	<b>\$1,967,029,004</b>
<b>Capital Budget Recommendation</b>	
<i>(Personal Income Forecast for Current Year x Estimated Personal Income Growth Rate for Budget Year x Standard)</i>	
Average of Regional Economic Studies Institute (RESI) of Towson University and Moody's Analytics Forecasts for County Personal Income -	
Fiscal 2023	\$46,928,788,416
Estimated Increase in County Personal Income (Fiscal 2023 to Fiscal 2024)	5.1%
Forecast Personal Income - Fiscal 2024	\$49,322,156,625
Standard Applied in County's Debt Affordability Model	4.0%
<b>Fiscal 2024 General Fund Debt Limit (customary manner)</b>	<b>\$1,972,886,265</b>

## Background

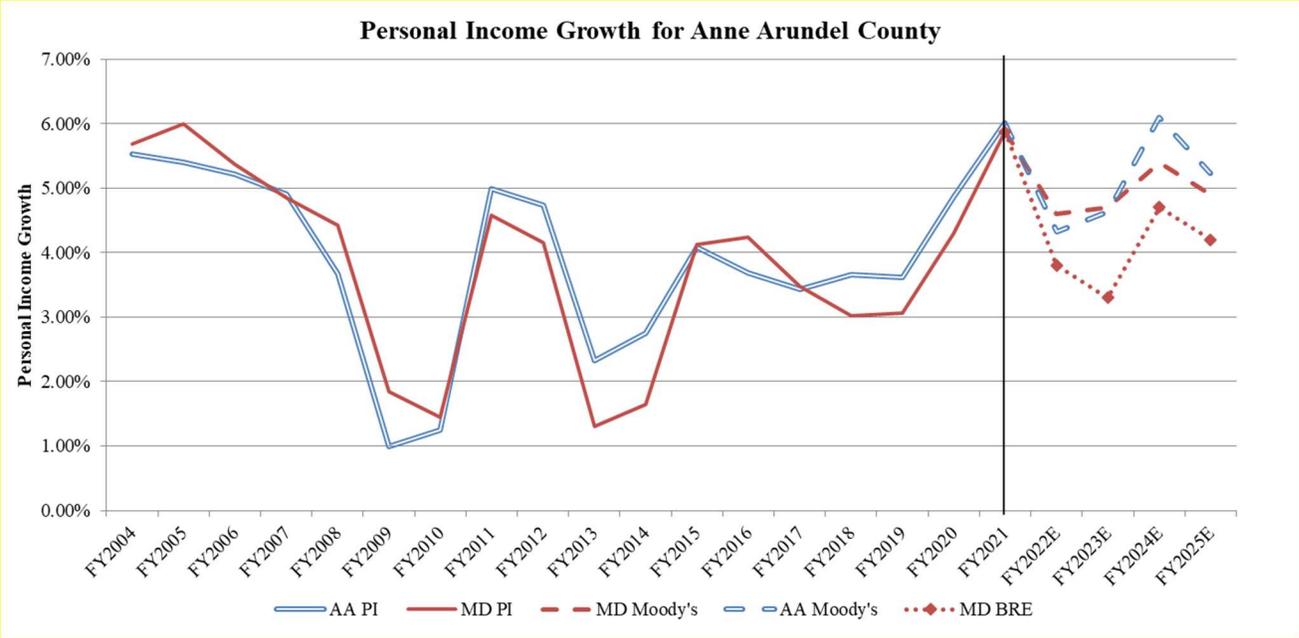
The State of Maryland contracts with four firms (Moody’s, IHS Markit-Global Insight, and the Regional Economic Studies Institute [RESI] of Towson University) to provide economic data and personal income forecasts. In addition, the State Board of Revenue Estimates (BRE) makes its own forecast for Maryland. To supplement this data, the County Budget Office obtained Anne Arundel-specific data and Fiscal 2024 forecasts from RESI and Moody’s.

<sup>1</sup> 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 and Anne Arundel County. On average, these estimates project a 5.1% personal income growth rate for Maryland and a 5.6% growth rate for Anne Arundel County for Fiscal 2024.

<b>Comparison of Personal Income Forecasts</b>					
<b>Fiscal Year 2022 - 2025</b>					
		2022	2023	2024	2025
<b>State of Maryland</b>	Board of Revenue Estimates (Dec 2022)	3.8%	3.3%	4.7%	4.2%
	Moody's (Dec 2022)	4.6%	4.7%	5.4%	4.9%
	IHS-Global Insight (Sep 2022)	4.2%	4.1%	4.9%	4.5%
	RESI of Towson University (Dec 2022)	2.7%	6.3%	5.1%	3.3%
	<b>Average</b>	<b>3.8%</b>	<b>4.6%</b>	<b>5.1%</b>	<b>4.2%</b>
<b>Anne Arundel County</b>	Moody's (Dec 2022)	4.4%	4.6%	6.1%	5.2%
	RESI of Towson University (Dec 2022)	2.7%	6.0%	5.1%	3.4%
	<b>Average</b>	<b>3.5%</b>	<b>5.3%</b>	<b>5.6%</b>	<b>4.3%</b>

The following graph shows the actual annual growth rates in personal income from Fiscal 2004 to Fiscal 2021 for Maryland and Anne Arundel County as reported by the BEA, along with the Moody's and BRE forecasts for Fiscal 2022 through Fiscal 2025. If viewing in black and white, the double line is Anne Arundel County and the solid line is Maryland. In 2024, the higher (blue double) dashed line is Anne Arundel County. For the most recent year where data is available (Fiscal 2021), the BEA currently reports that the personal income growth rate in Anne Arundel County was 4.4%. 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**

The Committee found that the economic data provides mixed signals on current conditions and the future direction of the economy. There are many positives suggesting that the economy is a strong position. The unemployment rate for the County stood at 3.0% in November 2022, which is the 4<sup>th</sup> lowest rate in the State and is comparable with pre-pandemic rates. Similarly, wage growth has been strong. RESI reported that wage growth between the 2<sup>nd</sup> quarter of CY 2021 and CY 2022 was 3.9%. The federal government has indicated that the number of job openings continues to outpace the number of jobs filled each month, so employers continue to have to raise wages to attract and retain employees. The median house price was \$428,000 in CY 2022, an increase of 6.0% over CY 2021.

Offsetting the positive trends are several that raise concerns for the Committee. First, core inflation has been at elevated levels since 2021 and prices continue to grow in the range of 6% annually. The Federal Reserve Board has raised interest rates multiple times since March 2022 to reduce the rate of inflation to its target rate of approximately 2%. While the overall Consumer Price Index has come down recently, supply chain problems, the war in Ukraine, labor shortages, and even extreme weather can continue to affect price growth. Rising interest rates have also negatively impacted the real estate market and all jurisdictions including Anne Arundel have been affected by a decline of at least 20%. Whether the Federal Reserve Board can engineer a soft landing for the economy and constrain inflation remains to be seen. Another indication of a possible economic downturn is found in the yield curve between 3-month and 10-year Treasury rates. When long-term rates decrease below short-term rates for an extended period a recession has often followed within 12-15 months according to Moody’s Analytics. This yield curve inversion has been present since late October 2022. Finally, the labor force participation rate is below 67% and was as high as 70% prior to the Pandemic. This suggests that employers may continue to struggle to fill positions.

## **Near Term Outlook**

The Committee believes that the near-term outlook is positive and outweighs the negative trends outlined above. The State's Board of Revenue Estimates (BRE) noted in fall of 2022 that CY 2022 saw continued growth in both estimated payments and non-withholding. Combined with low unemployment and the observed wage growth, the County should continue to see growth in FY 2024 in income tax revenues; one of the County's largest sources of general fund income. BRE also reduced its estimate of capital gains income, and it can be expected that income tax revenue growth should not be as robust as the prior two years. Real property tax revenue should also continue to rise, largely because of the amount of unused assessable base available to the County due to the Homestead Tax Credit limit. Notwithstanding that, median home prices have generally held, which suggests that the assessable base should not be revised downward by the State Department of Assessments & Taxation. The inventory of homes also remains low and higher construction inflation suggest that home prices should continue to grow, albeit at slower rates. Transfer & Recordation tax revenue is likely to fall due to the slowdown in home sales, but the County has already accounted for this in its FY 2023 revenue estimates.

## **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 provided by the State's four econometric modeling firms.

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 provided by the two forecasting companies. Although the analysis of the County's near-term position is very positive in terms of revenue the Committee has always approached ongoing spending very conservatively. As you know, the purpose of a spending affordability committee is to recommend that growth in government spending not exceed growth in the economy. In this way, spending can increase on a sustainable level without unduly burdening the County's residents with large tax or fee increases. After discussion of both the 5.1% and 6.1% growth rates in County personal income, the Committee chose to recommend the lower limit. This should allow the County to address spending needs which are driven in part by the higher inflation levels seen recently. For example, the County should be able to provide wage increases to allow it to remain competitive in the recruitment and retention of staff. The Committee was concerned that 6.1% represented an unsustainable level of operating budget growth.

## **Conclusion**

Based on the analysis presented above, the SAC recommends an increase of 5.1% in the Fiscal 2024 General Fund budget as compared to Fiscal 2023. This recommendation is less than the personal income growth rate currently forecasted by Moody's for Anne Arundel County (6.1%), and matches the forecast provided by RESI (5.1%). The Committee believes the RESI's estimate is more conservative and therefore more sustainable. The Committee encourages a more conservative approach, allowing budget and policy flexibility in future years.

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,



Ejaz Younas, Chair

### Spending Affordability Committee Membership for Calendar 2022 to 2023

District	Name	Resolution #	Appointed on	Term Expires
1	Nicole Butler	34-19	9/16/2019	12/1/2022
2	Ejaz Younas, Chair	20-21	3/15/2021	12/1/2024
3	Deborah Ritchie, Secretary	41-22	9/16/2019	12/1/2025
4	Vacant			
5	Vacant			
6	David Juppe, Vice Chair	34-19	9/16/2019	12/1/2022
7	Matt Minnehan	48-22	9/19/2022	12/1/2025

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

<b>Fiscal Year</b>	<b>Spending Affordability Committee Budget Growth Recommendation</b>	<b>General Fund Approved Budget (\$ millions)</b>	<b>Year-Over-Year Budget Growth</b>	<b>Actual Personal Income (\$ thousands)*</b>	<b>Year-Over-Year Personal Income Growth</b>
2008	5.50%	1,160.30		27,483,266	
2009	5.00%	1,173.60	1.15%	27,758,138	1.00%
2010	0.00%	1,180.80	0.61%	28,103,186	1.24%
2011	1.50%	1,169.40	-0.97%	29,504,352	4.99%
2012	4.40%	1,155.60	-1.18%	30,903,248	4.74%
2013	3.50%	1,218.90	5.48%	31,622,453	2.33%
2014	4.50%	1,238.30	1.59%	32,488,613	2.74%
2015	4.75%	1,309.70	5.77%	33,811,955	4.07%
2016	4.50%	1,346.50	2.81%	35,058,700	3.69%
2017	3.00%	1,406.70	4.47%	36,251,068	3.40%
2018	3.50%	1,460.80	3.85%	37,552,699	3.59%
2019	3.75%	1,524.88	4.39%	39,092,325	4.10%
2020	3.75%	1,637.60	7.39%	41,173,324	5.32%
2021	3.70%	1,680.50	2.62%	43,646,929	6.01%
2022	2.00%	1,747.86	4.01%	TBD***	
2023	3.50%	1,871.58	7.08%	TBD	

\*Based on data available from the BEA ([https://apps.bea.gov/iTable/index\\_regional.cfm](https://apps.bea.gov/iTable/index_regional.cfm)) as of January 2023. 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 2022 and 2023 is not yet available from BEA as of the date of this report.