Table of Contents



Office of the County Auditor

Lauren M. Smelkinson, CPA
County Auditor

Elizabeth J. Irwin
Deputy County Auditor
Director, Fiscal and Policy Analysis

Carrie B. Vivian
Supervisor, Fiscal & Policy Analysis

Michael R. Walther
Senior Fiscal & Policy Analyst

# BALTIMORE COUNTY FISCAL DIGEST

# GENERAL FUND REVENUES & THE ECONOMY

*Baltimore County, Maryland*

*September 1, 2021*

BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR

LAUREN M. SMELKINSON, CPA
COUNTY AUDITOR

ELIZABETH J. IRWIN
DEPUTY COUNTY AUDITOR

400 WASHINGTON AVENUE
TOWSON, MARYLAND 21204
410-887-3193
410-887-4621 (FAX)

December 10, 2021

Honorable Members of the Baltimore County Council:

I hereby submit the Baltimore County Fiscal Digest of General Fund Revenues and The Economy as of September 1, 2021. This report provides unaudited FY 2021 General Fund revenue totals and an early FY 2022 General Fund revenue projection, as well as a summary of economic conditions affecting the County. Encouragingly, FY 2021 revenues outperformed expectations, and our preliminary FY 2022 total revenue projection (pre-Omicron variant and recent Federal Reserve signaling) exceeds budgeted total revenue by more than $80 million – primarily due to the ongoing underlying strong performance of income tax collections. The County's November 2021 income tax distribution, received from the State last week, keeps the County on track to exceed budgeted revenues for FY 2022.

Unaudited FY 2021 General Fund revenues total approximately $2,364.6 million, up approximately $145.1 million, or 6.5%, from FY 2020 revenues. This total represents an upward revision of $104.0 million from our prior forecast, and a surplus of approximately $202.9 million, or 9.4%, over FY 2021 budgeted revenues, due primarily to significantly higher-than-expected income tax and property-related transaction tax collections. Because of the federal pandemic response, which injected more than $4.0 trillion into the national economy over 18 months, nearly all categories of the County's revenues substantially outperformed expectations. Even with a labor market still attempting to recover to pre-pandemic levels, income tax collections surged as job losses remained primarily constrained to lower-income jobs, and enhanced federal unemployment benefits were taxable for a majority of the fiscal year. In addition, a State legislative change impacted how Pass-Through-Entities (PTEs) report business income; this change is expected to be "net zero" for County revenues and as a result, will likely curtail growth in FY 2022 income tax collections. These factors, as well as the ongoing effects from the January 2020 income tax rate increase, resulted in income tax collections reaching $960.7 million in FY 2021, an increase of $98.0 million, or 11.4%, over FY 2020 collections. Property-related transaction tax revenues soared to record-high levels as near record-low mortgage interest rates drove buyers into the market, while limited housing inventory drove rapid housing sales price growth. Further supporting FY 2021 revenues were property tax collections, which increased by $34.6 million, or 3.4%, over FY 2020 receipts. The estimated (unaudited) Unassigned General Fund Balance (Surplus) as of June 30, 2021 totals $291.7 million, not including an additional $220.8 million in the Revenue Stabilization Reserve Account (Rainy Day account); audited figures will be available in the County's FY 2021 annual comprehensive financial report.

Our preliminary projection (pre-Omicron variant and recent Federal Reserve signaling) is that FY 2022 revenues will total $2,339.1 million, a decrease of approximately $25.5 million, or 1.1%, from FY 2021 collections. The projected decrease does not represent expected performance issues in the County's economy, but rather reflects moderation of an unsustainably vigorous revenue performance. Income tax revenues are expected to retreat modestly, by $24.0 million, or 2.5%, from FY 2021 collections; the job market is expected to make slow gains and wage growth is projected to remain steady, but these two factors aren't expected to offset completely the effects of the aforementioned PTEs filing change. In addition, the housing market is expected to cool somewhat as mortgage interest rates inch back up; this expectation is reflected in an anticipated $22.0 million, or 15.0%, decrease in property-related transaction taxes. The projected decrease in FY 2022 General Fund revenues is slightly offset by continued growth in property tax revenues, which are expected to increase by $25.0 million, or 2.4%, over FY 2021 revenues. Other minor revenue categories are expected to remain relatively flat, and the County is not expected to see a significant increase in State aid to the General Fund during FY 2022.

At its July and October meetings, the Baltimore County Economic Advisory Committee provided positive news concerning the present and near-term state of the local economy, noting that many sectors of the economy have performed well or are positioned for accelerated growth in the coming months. Members reported that the job market remains below pre-pandemic levels and hiring is slower than hoped, but the local employment markets have held up well compared to other northeast markets. The housing market remains red hot, and the Committee's Chairman does not believe it is reflective of a housing bubble. Although pockets in the commercial real estate market continue to struggle, many shopping centers are seeing brisk business. Overall, members expressed optimism as to the prospects of accelerated growth contingent on how quickly vaccines become widely available globally. The Committee will reconvene on January 3, 2022 and offer new insights about the outlook for the local economy.

We will continue to monitor economic activity, revenue collections, and State and federal developments, and will provide our next update in early 2022.

Respectfully submitted,

Lauren M. Smelkinson

Lauren M. Smelkinson, CPA
County Auditor

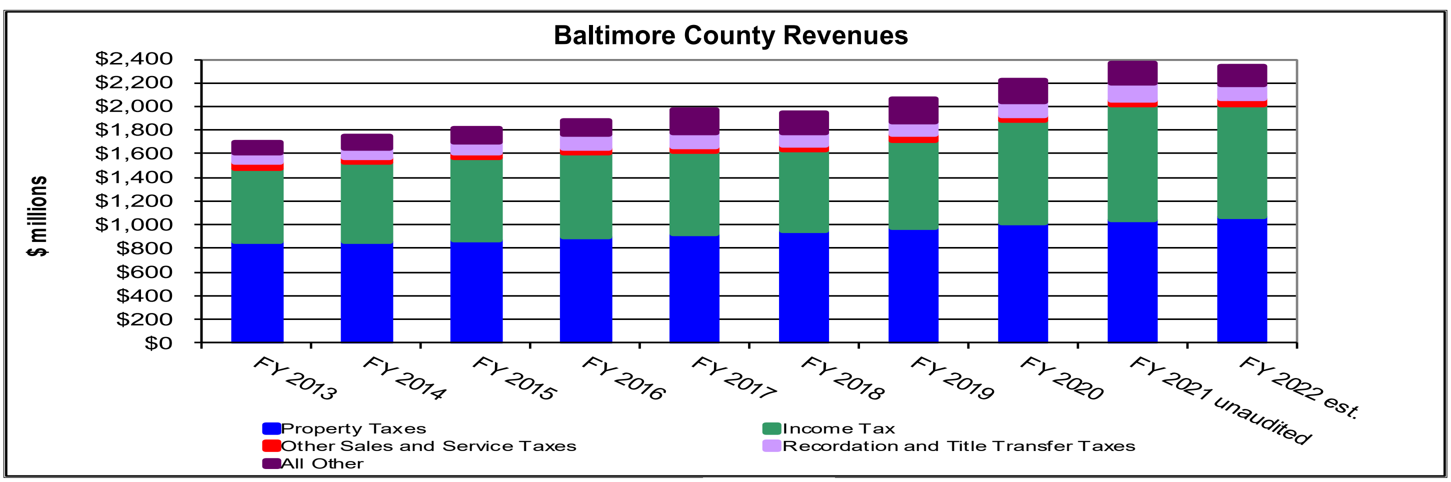
cc: Baltimore County Spending Affordability Committee
Baltimore County Economic Advisory Committee

# REVENUE HIGHLIGHTS

**The estimated (unaudited) Unassigned General Fund Balance (Surplus) as of June 30, 2021** totals $291.7 million, or 12.9% of FY 2022 budgeted revenues. In addition to the Surplus Balance, the estimated Revenue Stabilization Reserve Account (Rainy Day account) totals $220.8 million as of June 30, 2021. The expected Surplus balance and Rainy Day amounts together total at least $512.5 million, or 22.7% of FY 2022 budgeted General Fund revenues. Audited figures will be available in the County's FY 2021 annual comprehensive financial report.

**Despite ongoing hardships and challenges created by the COVID-19 pandemic, County revenues exceeded original expectations during FY 2021.** General Fund revenues (based on unaudited financial records as of September 1, 2021) are expected to total approximately $2,364.6 million in FY 2021, up approximately $145.1 million, or 6.5%, from FY 2020 revenues. This total represents a surplus of approximately $202.9 million, or 9.4%, over FY 2021 budgeted revenues, and an upward revision of $104.0 million from our prior forecast. Notably, while COVID-19 job losses were profound, many of the lost jobs were in lower paying sectors, and unemployment transfer payments more than replaced lost wages for much of the fiscal year. In addition, substantial federal stimulus via various other programs (e.g., stimulus payments, business loans and grants) propped up the overall economy and largely prevented a wide-scale collapse. Income taxes were further driven by the ongoing effects from the January 2020 income tax rate increase. To that end, the primary driver of both the FY 2021 increase and the revision was significantly better-than-anticipated income tax revenue (which increased by $98.0 million, or 11.4%, over FY 2020). The housing market boomed, with historically low mortgage rates and a diminished inventory driving demand and rapid price growth, and as a result, property-related transaction taxes are expected to increase by $31.9 million, or 27.9%, over FY 2020 collections. Total FY 2021 revenue growth also reflects the underlying strong performance of property taxes, which increased by $34.6 million, or 3.4%, due in part to the State's January 2020 reassessment of the County's central region. Further, many businesses and sectors of the economy reopened earlier than anticipated, and remained largely open, lessening declines in other categories, such as sales and service taxes and charges, and licenses and permits.

**FY 2022 General Fund revenues** are projected to total $2,339.1 million, a slight decrease of approximately $25.5 million, or 1.1%, from unaudited FY 2021 revenues, largely due to a moderating of inflated performance in FY 2021. This projection is up $177.4 million from budgeted FY 2021 revenues and $81.7 million from FY 2022 budgeted revenues, primarily due to the ongoing underlying strong performance of income taxes, mainly withholdings. The decrease in FY 2022 General Fund revenues also is primarily attributable to income tax collections, largely due to an expected decrease in the County's November reconciling distribution, stemming from shifts in filing behavior of Pass-Through-Entities (PTEs) derived from legislation implemented at the State level during CY 2021. This legislation created an entity-level tax for PTEs in Maryland, allowing PTEs to pay on behalf of their resident owners in addition to non-resident owners; this change incentivized those with positive income to pay as much of the tax liability during the tax year and not the end, which effectively pushed reportable income back from FY 2022 into FY 2021. While wages are expected to grow, this growth is not anticipated to offset structural issues in the labor market (i.e., labor force participation, lack of accelerated job growth), which is expected to lead to more tepid withholdings growth. FY 2022 income tax collections are projected to total $936.7 million, a decrease of $24.0 million, or 2.5%, from FY 2021 collections. Further contributing to the expected decrease are property-related transaction taxes, which are expected to decrease by $22.0 million, or 15.0%, as the red hot housing market begins to cool. Slightly offsetting the FY 2022 projected revenue decrease is continued strong growth in property tax revenues, which are expected to increase by $25.0 million, or 2.4%, due in part to the State's January 2021 reassessment of the County's eastern region. State aid to the County's General Fund and other minor categories are expected to remain largely flat.



## REVENUE FORECAST & ECONOMIC OUTLOOK

**The FY 2021 General Fund revenue increase resulted primarily from rising income tax collections. In addition, FY 2021 revenues reflect tremendous increases in property-related transaction taxes as the market remained red hot throughout the year.**

**The County's FY 2022 revenue outlook reflects a modest decrease, largely due to a moderating of inflated performance in FY 2021, primarily in income tax and property-related transaction taxes. Partially offsetting the decline in total revenues is continued strong performance in property tax collections.**

| Revenue Source ($ Millions) | Actual FY 2020 | FY19-20 Change | Unaudited FY 2021 | FY20-21 Change | Est. FY 2022 | FY21-22 Change |
|---|---|---|---|---|---|---|
| Property Taxes | $ 1,013.0 | 3.4% | $ 1,047.6 | 3.4% | $ 1,072.6 | 2.4% |
| Income Tax | 862.7 | 17.4% | 960.7 | 11.4% | 936.7 | -2.5% |
| Sales & Service Taxes | 50.6 | 14.5% | 43.4 | -14.2% | 50.6 | 16.6% |
| Recordation Tax | 35.8 | 0.0% | 45.1 | 26.0% | 38.3 | -15.1% |
| Title Transfer Tax | 78.6 | 0.1% | 101.2 | 28.8% | 86.0 | -15.0% |
| Intergovernmental | 49.7 | -5.3% | 51.4 | 3.4% | 49.0 | -4.7% |
| All Other | 129.1 | -9.1% | 115.2 | -10.8% | 105.9 | -8.1% |
| Total Revenue | $ 2,219.5 | 7.3% | $ 2,364.6 | 6.5% | $ 2,339.1 | -1.1% |

**The Baltimore County Economic Advisory Committee (BCEAC)** shared mostly positive news concerning the present and near-term state of the local economy at its July 12, 2021 meeting, noting that while risks to sustained growth remain, many sectors of the economy have continued to perform well or are positioned for accelerated growth in the coming months. The national and local economies continue to support substantially fewer jobs than pre-pandemic months, but hiring continues to generate slow and steady gains. In addition, the County's home sales market boomed, as strong sales growth and exceptional sales price growth have translated into tremendous gains in property-related transaction taxes for the County. Further, business loan volume has increased somewhat as more businesses become confident in the prospects of sustained growth. On the other hand, the commercial real estate market continues to struggle with vacancies (particularly on the retail side), a shift in the in-office presence of the workforce, and inflationary pressures. Looking forward, the Committee expressed optimism as to the prospects for accelerated growth, noting that an elevated household savings rate could spring-load the economy once vaccines become more widely available globally. Members' near-term outlook reflects the following factors:

- **The County's unemployment rate remains elevated compared to pre-pandemic levels, but the County continues to post slow but steady job gains**. The Committee's Chairman reported that leisure and hospitality remains the hardest hit sector in Maryland, but added that the Baltimore-Columbia-Towson Metropolitan Statistical Area (MSA) has held up very well compared to other similar northeast MSAs. However, while the unemployment rate continues to fall, the Committee's Chairman noted that it does not fully reflect the health of the employment sector as the labor force participation rate continues to remain below pre-pandemic levels.

- **The County's housing market remains red hot as sustained record-low interest rates drive sales and a continued low available inventory is driving accelerated price growth.** The Committee's Chairman reported that the County's months of inventory (i.e., the number of months it would take for the current inventory of homes to sell) remains exceptionally low. Often, overheated economic sectors can lead to bubbles; however, the Committee's Chairman stated that he does not believe the current housing market is reflective of a housing bubble.

- **The Committee's commercial real estate representative reported on major changes in the commercial real estate market as the pandemic has accelerated transformations in both the in-office workforce and consumer habits.** Work-from-home arrangements, which were already on an upward trend in recent years, accelerated due to the pandemic, and companies' plans for returns to the office have been put on hold due to the spread of the Delta variant. On the retail side, the Committee's representative reported that business is "brisk," with busy shopping centers; however, retail bankruptcies have negatively affected already struggling malls. The Committee's representative further reported that sharp price increases in certain commodities and supply shortages have effectively put new development on hold.

## NATIONAL ECONOMIC INDICATORS

**In 2021:Q2, the U.S. economy expanded at an annualized rate of 6.6%, continuing a trend of notable growth beginning in the latter half of CY 2020.**

**After plunging in the first half of CY 2020, the U.S. economy continues to expand at a robust pace. Most recently, U.S. Gross Domestic Product (GDP)** increased at an annualized rate of 6.6% in 2021:Q2, following a 6.3% increase in the prior quarter. Due in large part to pent-up demand, personal consumption expenditures have driven the ongoing economic expansion, and with an 11.9% increase, were solely responsible for the entire GDP increase in 2021:Q2 (see detailed discussion below). Slightly offsetting GDP growth was gross private domestic investment, which decreased by 4.0% in 2021:Q2, the second consecutive modest decrease, following substantial business investment and rebuilt inventories during the latter half of CY 2020. This decline was driven by 11.5% and 5.4% decreases in residential fixed investment and nonresidential structures fixed investment, respectively, in addition to a decrease in private inventories. Further offsetting the GDP expansion in 2021:Q2 was a 1.9% decrease in government consumption expenditures, driven by a 10.6% decrease in federal government nondefense spending. Net exports of goods and services posted a slight increase in 2021:Q2, with a 6.6% increase in exports offset by a 6.7% increase in imports. The August 2021 release of the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* projects annual real GDP to grow by 6.1% for CY 2021, followed by a modest slowdown to 4.4% growth in CY 2022.

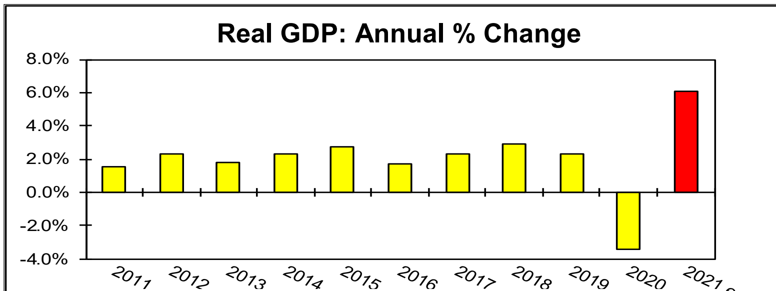
**GDP is projected to grow by 6.1% in CY 2021 followed by 4.4% growth during CY 2022.**

**Real consumer spending increased at an annualized rate of 11.9% in 2021:Q2.**

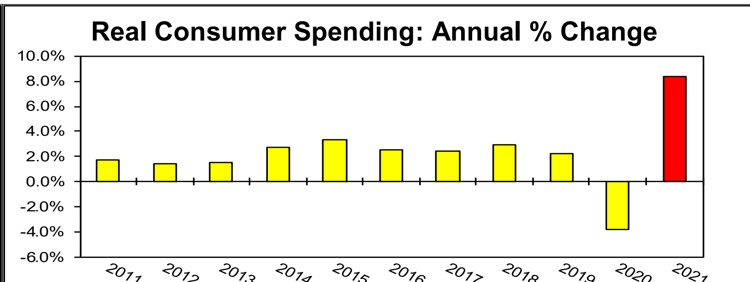
**Real consumer spending**, which accounts for roughly two-thirds of all U.S. economic activity, posted marked growth during 2021:Q2, increasing at an annualized rate of 11.9%, following an increase of 11.4% in 2021:Q1, as consumers responded to growing pent-up demand brought about by the COVID-19 pandemic. During 2021:Q2, consumer spending on goods slowed, albeit still posting notable growth, with nondurable goods posting an annualized increase of 13.7%, following an increase of 15.9% in 2021:Q1, and durable goods posting an annualized increase of 11.3%, following an increase of 50.0% in 2021:Q1. Growth in consumer spending on services accelerated, increasing by 11.3% in 2021:Q2, following an increase of 3.9% in 2021:Q1. The *Survey of Professional Forecasters* projects that consumer spending will grow by 8.4% for all of 2021.

**Consumer confidence decreased again in August following a decrease in July.**

**Consumer confidence,** based on a survey of 5,000 U.S. households by The Conference Board (a well-known economic research organization), decreased again in August, falling to its lowest level since February 2021. The "Expectations Index" was primarily responsible for the decrease, while the "Present Situation Index" also experienced a notable decline. The Conference Board noted that "[c]oncerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb. While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead."



Estimate Source: *Survey of Professional Forecasters*, August 2021



Estimate Source: *Survey of Professional Forecasters*, August 2021

**The Federal Reserve's Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 0 to 1/4 percent at its July 28, 2021 meeting. The FOMC advised that "[t]he path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects on the public health crisis on the economy, but risks to the economic outlook remain."**

**Interest rate targets** were maintained at the 0.0% to 0.25% target range at the July 28, 2021 meeting of the Federal Reserve's Federal Open Market Committee (FOMC). The FOMC stated that "[w]ith progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses." Further, the FOMC advised that "[t]he path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain." The FOMC also advised that it expects to "maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."

INTEREST RATE CHANGE FROM JULY 2020 TO JULY 2021

| | Basis Points* |
|---|---|
| 90-Day Treasury Bills | -8 |
| 10-Year Treasury Bonds | 70 |
| 30-Year Conventional Mortgage | -15 |

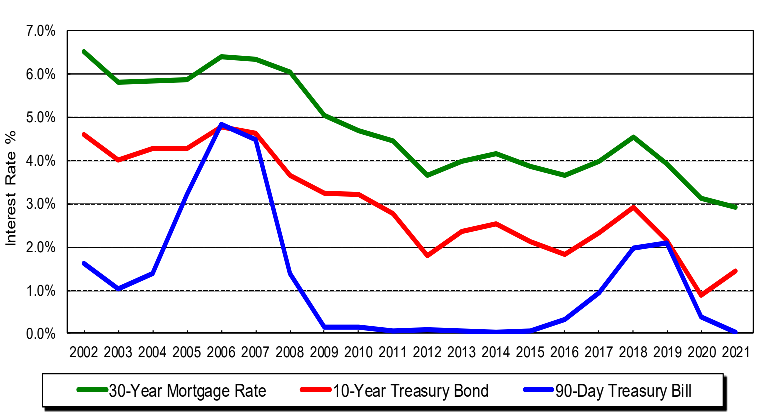
* A basis point is equal to .01 percentage point.

**Short-term interest rates** are likely to remain between the 0.0% to 0.25% target range for the foreseeable future as the COVID-19 Delta variant continues to spread and put a damper on accelerated economic growth.

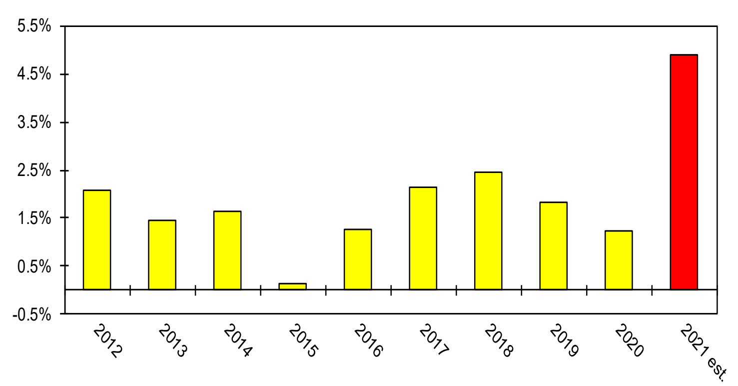
**From July 2020 to July 2021, consumer inflation increased by 5.4%, and is forecast at 4.9% and 2.4% for CY 2021 and CY 2022, respectively.**

**Inflation**, as measured by the Consumer Price Index-All Urban Consumers (CPI-U), accelerated rapidly beginning in Spring 2021, as constrained price growth during CY 2020, pent-up consumer demand, and challenges in the global supply chain have led to surges in the year-over-year prices of goods and services. Most recently, inflation posted an annualized increase of 5.4% in July 2021 compared to a more reasonable 0.5% increase over June 2021. The annualized price growth was driven primarily by gasoline, which increased by 41.8%, and energy, which increased by 23.8%. Core inflation (which excludes food and energy inflation) increased by 4.3% from July 2020 to July 2021. Growth in the CPI-U is expected to average 4.9% in CY 2021 before declining to 2.4% in CY 2022, according to the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, August 2021. The *Survey* projects that annual inflation will average 2.4% over the 2021 to 2030 period, compared to an average actual increase of 1.7% over the 2011 to 2020 period.

**Average Annual Interest Rates**




**% Change in Consumer Price Index**




Estimate Source: *Survey of Professional Forecasters*, August 2021

## LOCAL ECONOMIC PERSPECTIVE

### EMPLOYMENT

**Continuing a modest rebound following an extended period of employment losses, County year-over-year employment grew 3.8% in July 2021.**

**Employment**, as measured by place of residence, has started to rebound somewhat in Baltimore County during the prior few months, following 12 consecutive months of year-over-year losses, but remains well below pre-pandemic levels. The COVID-19 pandemic resulted in significant employment declines in both the State and County, with losses peaking in April 2020, when approximately 10% of Baltimore County and Maryland residents became unemployed. Most recently, over the July 2020 to July 2021 period, Baltimore County residential employment increased by 15,542 persons, or 3.8%. In addition, employment recovered by 6,635 individuals from June 2021 to July 2021. Maryland residential employment experienced a similar pattern, increasing by 100,845 persons, or 3.5%, from July 2020 to July 2021, and recovered 61,582 individuals from June 2021 to July 2021. However, County and State employment remains 21,571 and 169,344 persons, or 4.8% and 5.3%, respectively, below February 2020 employment.

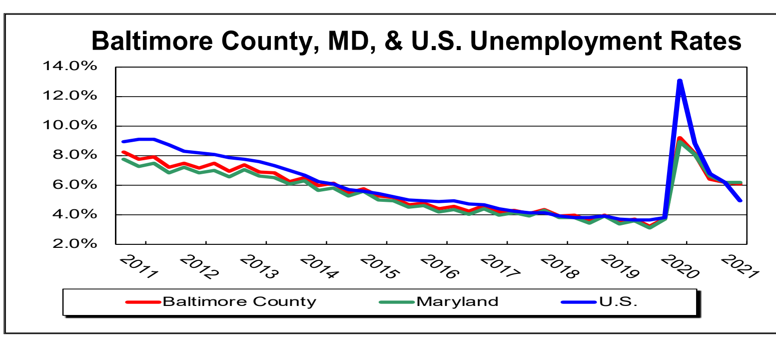
**The County's July 2021 unemployment rate was 5.5%, down from 8.9% a year earlier, but down from its recent peak of 9.6% in May 2020.**

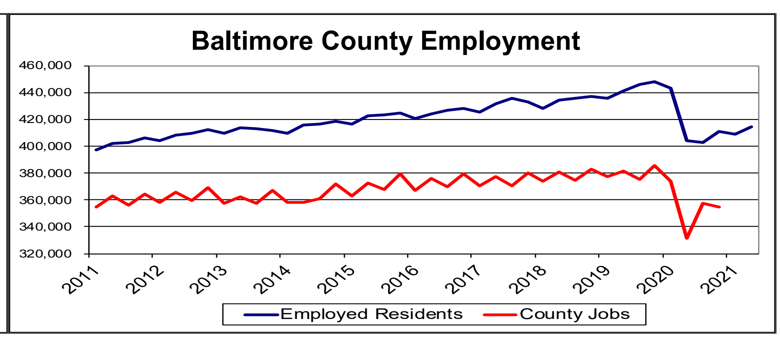
Employment growth that outpaces growth in the labor force drives down the **unemployment rate**. The County's unemployment rate has continued to fall after peaking at 9.6% in May 2020. The unemployment rate among County residents was 5.5% in July 2021, slightly below the State rate of 5.8%, and down significantly from 8.9% a year earlier. However, the falling unemployment rate isn't entirely reflective of the current health of the County's employment market as the labor force continues to remain well below its pre-pandemic level. In July 2021, the County's labor force increased slightly from a year prior (by 474 workers) but remains 13,292 workers, or 2.9%, lower than its peak in February 2020. As of July 2021, 14 of the 24 local jurisdictions in Maryland had a lower unemployment rate than Baltimore County. Nationally, the seasonally adjusted unemployment rate was 5.4% in July 2021, dropping from its recent peak of 14.8% in April 2020, but up from the February 2020 rate of 3.5%.

**The number of County jobs decreased by 8.0% from the 2019:Q4 to 2020:Q4 period.**

**Sage Policy Group has predicted job growth of 3.5% in Baltimore County during CY 2021, following numerous COVID-19 induced job losses.**

**Jobs** data, as measured by place of work, greatly lag resident employment data and do not yet provide information on the County's current pace of economic recovery. The most recent jobs data show that from 2019:Q4 to 2020:Q4, the number of jobs in the County and Maryland decreased by 8.0% and 6.9%, respectively, as Baltimore County and Maryland employers dropped an estimated 30,834 and 187,802 positions, respectively. County job losses in 2020:Q4 were driven by the private sector, which saw a decrease of 24,410 jobs from 2019:Q4, primarily in the leisure and hospitality industry. Nationally, non-farm payrolls increased by approximately 11.4 million jobs, or 8.5%, from 2020:Q2 to 2021:Q2. In its July 2021 report, Sage Policy Group, Inc. (the Spending Affordability Committee's economic consultant) has predicted job growth of 3.5% and 2.6% in the County and Maryland, respectively, in CY 2021 compared to anticipated national job growth of 2.1%. The County and State forecasts exceed anticipated population growth of 0.9% and 0.8%, respectively.



## PERSONAL INCOME

**The Spending Affordability Committee's economic consultant recently forecasted that County personal income will increase by 2.37% in FY 2022, followed by an acceleration to 4.63% in FY 2023.**

Sage Policy Group, Inc. (Sage), the Spending Affordability Committee's economic consultant, forecasts in its July 2021 report that Baltimore County's personal income (PI) will increase by 2.37% in FY 2022, down slightly from predicted growth of 2.58% in its April 2021 report. The July 2021 forecast follows an estimated increase of 7.18% in FY 2021 (up from predicted 4.85% growth in the April 2021 forecast) and 4.42% in FY 2020. Notably, FY 2021 PI estimates are boosted by substantial amounts of federal stimulus during the first two quarters. Looking forward, Sage predicts that the County's PI growth will accelerate to 4.63% in FY 2023. Sage's Maryland outlook is for similar growth (2.64% in FY 2022 and 4.66% in FY 2023,). For FY 2024, Sage predicts PI growth of 3.97% in Baltimore County and 4.05% in Maryland.

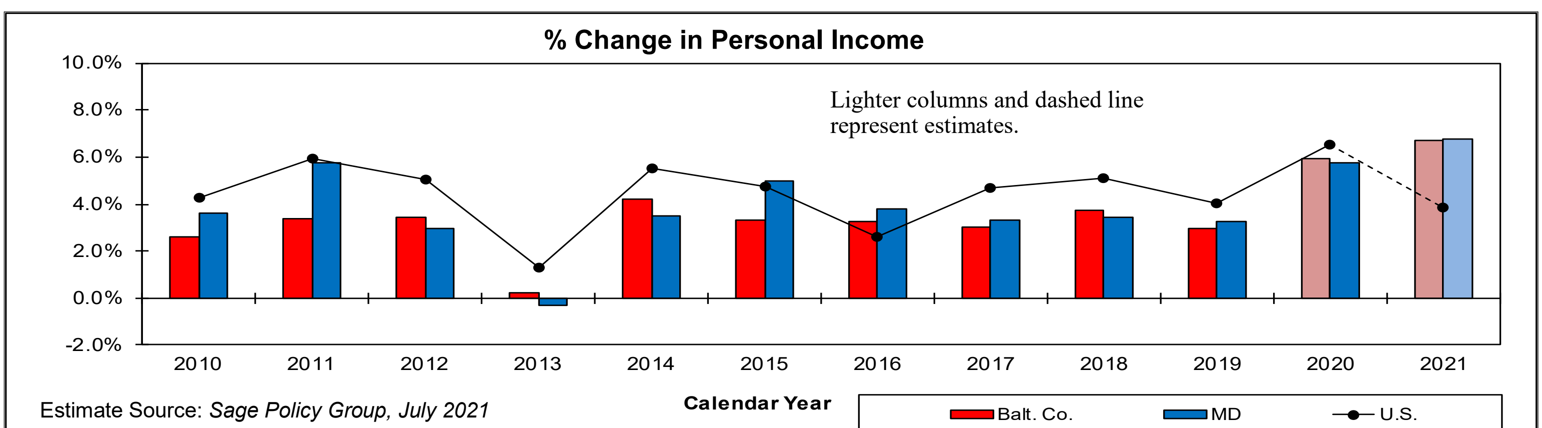
**Over the last decade, personal income growth in the County has lagged growth at both the State and national levels.**

**The nation's nominal household wealth increased by 3.8% from 2020:Q4 to 2021:Q1, following a 6.5% increase during the previous quarter.**

Over the 2010 to 2019 10-year period, national PI advanced 46.3%, exceeding both Maryland and Baltimore County PI growth of 35.0% and 31.0%, respectively. National PI growth accelerated from 39.7% during the 2001-2010 decade, whereas regional PI growth has slowed after posting increases of 44.9% in Maryland and 34.3% in the County over the same period. The most recent quarterly reading for Maryland shows that seasonally-adjusted PI increased by 10.7% from 2020:Q4 to 2021:Q1, slightly below the national PI increase of 11.9% over the same period. (County data are reported annually.) Nationally, in 2021:Q2, wages and salaries comprised 49.0% of PI, above its share in 2020:Q2 of 44.1%, while the composition of unemployment benefits fell to 2.3% of PI from 5.1% over the same period, reflecting both gains in the job market and the end of federally-enhanced unemployment benefits programs. "Other" government social benefits, which include economic impact payments, comprised 4.7% of PI in 2021:Q2, down from compositions of 11.8% and 9.0% in 2021:Q1 and 2020:Q2, respectively, reflecting the enormous impact direct federal stimulus to households had on national PI in those quarters. Nationally, wage rates continue to rise modestly, with private average hourly wages most recently increasing to $30.54, or 4.0%, in July 2021 from a year earlier. During 2021:Q1, Baltimore County's average weekly wages totaled $1,246, up 9.3% from 2020:Q1, but remained below both the national and the State averages of $1,310 and $1,359, respectively. The Federal Reserve reported that nominal total household wealth increased by 3.8% from 2020:Q4 to 2021:Q1, following a 6.5% increase during the previous quarter.

**For FY 2022, the County's Spending Affordability Committee recommended a maximum spending growth rate of 3.86%.**

For FY 2022, the County's Spending Affordability Committee, which convened in January 2021, recommended a maximum spending growth rate of 3.86% based on a 4-year average of Sage's January 2021 estimates/forecasts of annual County PI growth for FY 2019 to FY 2022. Based on Sage's July 2021 forecasts of annual County PI growth for FY 2023 and FY 2024, and the estimated growth in prior years, the projected maximum spending growth recommendation is 4.65% for FY 2023 and 4.54% for FY 2024.



## EXISTING HOME SALES

**In FY 2021, the number of existing home sales totaled 12,343 units, an increase of 16.9% from a year earlier.**

**Existing home sales** in Baltimore County totaled 12,343 units in FY 2021, 16.9% above FY 2020 sales. The housing market has surged through nearly the entirety of the pandemic. Prospective buyers looking to take advantage of historically low interest rates, combined with a rapidly shrinking inventory of available homes, led to increased home sales and put tremendous pressure on home sale values. Most recently, in July 2021, 1,232 homes were sold in the County, a slight increase of 33 units, or 2.8%, over July 2020, while the median price of an existing home sold increased 10.9% to $305,000. Additionally, the more volatile average sales price rose 14.1%, to $368,979, over the same period. The active inventory in Baltimore County in July 2021 fell by 497, or 33.1%, from July 2020. Of concern in the long term is that an overheated market has the potential to foreshadow a looming bubble; however, the BCEAC Chairman stated in July that he does not believe the current market is reflective of a housing bubble.

**The median price of existing homes sold in Baltimore County in July 2021 was $305,000, an increase of 10.9% over July 2020.**

**The number of pending home sales in July 2021 totaled 1,268 units, an increase of 6.5% over a year earlier.**

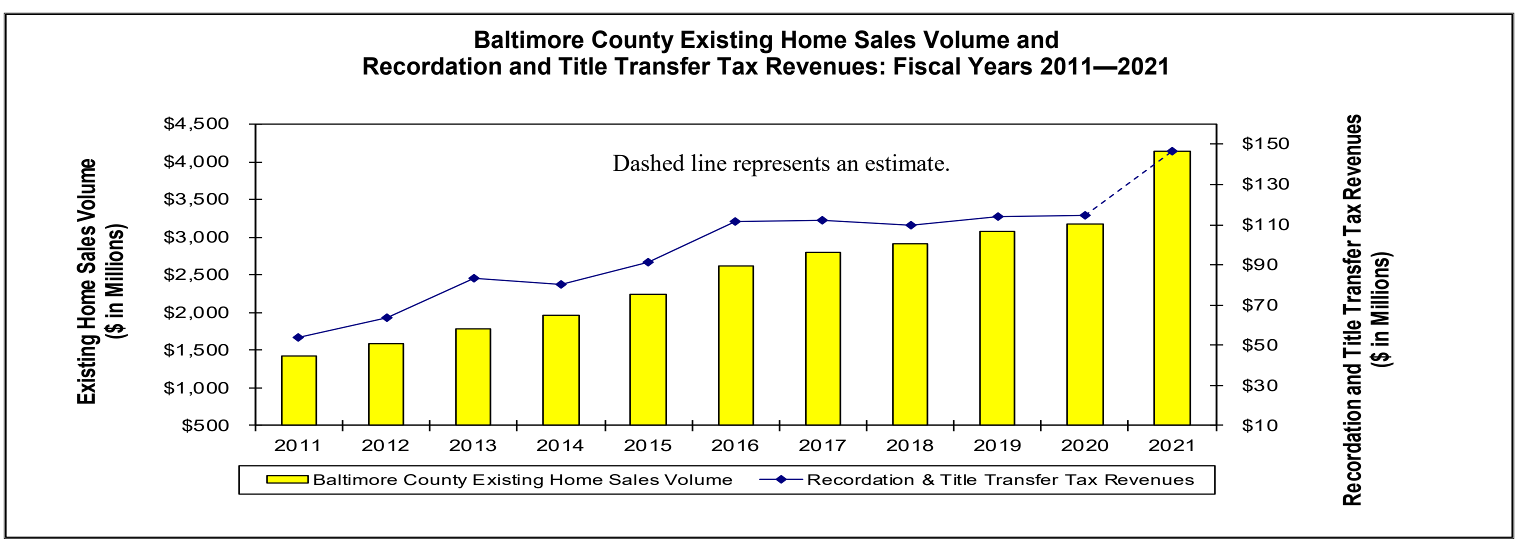
**Pending existing home sales** in July 2021 totaled 1,268 units, an increase of 77, or 6.5%, over July 2020, following an 11.3% year-over-year increase in June 2021. The County's months of inventory (i.e., the time needed to sell the entire inventory of homes at the current sales pace) was 0.9 in July 2021, down from 1.7 in July 2020. This suggests that home sales should remain strong in the coming months but at a decelerated pace of growth.

**Reflecting higher median sales prices, the monthly mortgage payment for a median-priced County home increased 8.8% in July 2021 compared to July 2020.**

**Mortgage interest rates** for a 30-year conventional mortgage were 2.87% in July 2021, down 15 basis points from July 2020 when rates were 3.02%. The monthly payment for a median-priced Baltimore County home ($305,000) financed with a 30-year conventional mortgage loan was $1,265 in July 2021, an 8.8% increase over the July 2020 level of $1,162 (principal and interest only), reflecting a significant increase in median sales prices, slightly offset by a modest decrease in mortgage interest rates. Mortgage rates have continued to fall during the prior 12-month period and remain near record low levels. Rates likely will begin to increase somewhat moderately through the remainder of the year.

**Property-related transaction tax revenues totaled $146.3 million in FY 2021, a 27.9% increase over FY 2020.**

**Property-related transaction tax revenues** (recordation and title transfer tax revenues) totaled $146.3 million in FY 2021, an increase of 27.9% over FY 2020 collections of $114.4 million. These revenues are expected to decline somewhat in FY 2022 as the housing market, including both sales and homes sales prices, begins to stabilize following substantial surges during FY 2021. Notably, this expected revenue decline would not be reflective of poor performance and concern in the housing market, but a moderating to the still strong levels the County has seen in recent years.



**The total value of construction permits issued in 2021:Q2 was $301.7 million, 2.3% below the 7-year average of 2nd quarter activity.**

## CONSTRUCTION

The construction industry, among the most volatile components of the County's economy, has rebounded in CY 2021, following a slowdown in the first half of CY 2020 with the onset of the COVID-19 pandemic. The value of construction permits issued in 2021:Q2 totaled $301.7 million. This valuation reflects an increase of $99.6 million, or 49.3%, over 2020:Q2, but is slightly (2.3%) below the 7-year average of 2nd quarter activity. Details of 2021:Q2 permit valuation/issuance by permit type are as follows:

**In 2021:Q2, the total value of non-residential building permits increased by 394.7%, over 2020:Q2.**

**New non-residential** construction permits were valued at $91.2 million, an increase of $72.8 million, or 394.7%, over 2020:Q2, and 23.2% above the 7-year average of 2nd quarter activity. Five new non-residential construction permits valued above $1.0 million were issued in the County in 2020:Q4 (the most recent reporting period available), including permits for a two-story factory building in Perry Hall/White Marsh ($16.0 million), a one-story bank in Pikesville ($12.0 million), a church in Rossville ($1.5 million), a crematory in Cockeysville/Timonium ($1.3 million), and a one-story shop building in Middle River ($1.2 million).

**In 2021:Q2, the total number of residential building permits increased by 78.2%, while the dollar value increased by 58.9% compared to a year earlier.**

**New residential** building permits issued totaled 237, an increase of 104, or 78.2%, over 2020:Q2. These permits were all single-family permits, the same as in the previous year. The value of new residential building permits issued totaled $60.6 million, an increase of $22.5 million, or 58.9%, over 2020:Q2 values, following a 63.3% year-over-year increase in 2020:Q1. The value of new residential building permits was 6.2% below the 7-year average of 2nd quarter activity.

**The value of additions, alterations, and repairs activity in 2021:Q2 increased by 3.0% from a year earlier to $149.9 million.**

**Additions, alterations, and repairs** (AAR) permit values totaled $149.9 million, an increase of $4.4 million, or 3.0%, over 2020:Q2, but were 12.0% below the 7-year average of 2nd quarter activity. From 2020:Q2 to 2021:Q2, the value of residential AAR permits increased by 158.2%, while the value of non-residential AAR permits decreased by 10.7%.

**Construction employment, which represented 6.8% of County jobs in 2020:Q4, decreased by 1.9% from 2019:Q4.**

**Construction employment** decreased on an annualized basis by 476 jobs, or 1.9%, and represented 6.8% of County jobs during 2020:Q4. Over the same period, average weekly wages in the construction sector were $1,562, an increase of $124, or 8.6%, and were 16.3% above the County average wage in 2020:Q4.

**Value of Baltimore County Construction Permits: April through June**