



**SPENDING AFFORDABILITY
ADVISORY COMMITTEE
REPORT**

Fiscal Year 2008

Spending Affordability Advisory Committee

Fiscal Year 2008



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Gale Benson, Assistant Budget Administrator
Raymond Brown, Chief Operating Officer, Department of Education
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Sharon Greisz, CPA, Director of Finance
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Keith Zumbrun, Acting County Auditor

**Howard County Maryland
Spending Affordability
Advisory Committee
Report for Fiscal Year 2008**

February 2007

I. Purpose

County Executive Ken Ulman renewed the Spending Advisory Committee in December 2006. His charge to the committee was to:

1. Review in detail the status and projections of revenues and expenditures for the county, not only for fiscal year 2008, but also for fiscal years 2009 through 2012.
2. Evaluate future county revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data which the committee considers applicable.
3. Evaluate expenditure levels with consideration of the long-term obligations facing the county, and the best way to pay for them.
4. The committee shall present to the County Executive, on or before March 1, 2007 a report including:
 - a. Projections of revenue for the upcoming fiscal year
 - b. A recommended level of new county debt authorization.
 - c. The anticipated effect of the committee's budget recommendations on future budgets.
 - d. Other findings and/or recommendations that the committee deems appropriate.

II. The Challenges Facing the County

Economic conditions in the county remained constant over the past few years although the housing market has shown signs of slowing. However, the county has essentially recovered from the difficult fiscal period of FY2003-2004.

Over the past several years, the effect of the capital gains bubble has dissipated and the local economy has participated in the national economic expansion. While economic conditions have stabilized, the slowing real estate market will continue to cause challenging budget times for state and local governments, and Howard County is no exception. The demands for additional spending, particularly in education and public safety, have not slowed. In addition, there is an added requirement to begin funding the county's "Other Past Employment Benefits" (OPEB) required by a new accounting standard (GASB 45). The

State of Maryland although experiencing growth in sales and income taxes, the FY08 state budget submitted by the governor was only 2.5% greater than the 07 budget. However, even with the current growth, the state projects deficits in future years.

The challenge the capital budget poses is also daunting. Despite the efforts of the county government to slow the pace of new development, the county continues to face pressures to fund needed schools, school renovations, community college enhancements, parks, facilities for fire and other county services, transportation improvements, storm drains and infrastructure maintenance. The level of funding requested for capital expenditures is likely to translate into future debt service payments in the operating budget far beyond what the county can afford. This leaves the questions; -- what level of service can the county provide to county residents and still maintain a level of taxes and fees citizens will pay. How many bonds can the county afford to include in the budget without jeopardizing its bond ratings or impacting the ability to afford other services? These are the issues the committee discussed during its deliberations.

III. Background and Forecasts

A. Background

In Howard County, spending affordability committees have been presenting reports to county executives since the late 1980's. During that time the Howard County economy has gone through several economic cycles. The changing local and national economy has made it clear: that the county must carefully monitor the use of tax dollars and attempt to accurately project future revenue growth. This committee's task has been to assess the county's ability to repay bond debt without compromising its ability to fund other needed expenditures. This review is an important element of the budget process and includes recommendations of the committee regarding how much new debt the county can issue without overburdening itself with debt service payments.

In past reports, the county has examined four statistical measures often used by rating agencies to determine debt capacity. However, the committee decided that while retaining the measures as guidelines for comparison purposes, the guidelines would not be the central focus of the report. Those measures, which are listed in Appendix I of this report, indicate that the county can afford a certain level of debt, but they do not take into

account other spending needs of the county, and what impact increased debt service payments would have on other services. Instead, the committee reviewed a computer model, developed by the budget office that made projections of general fund revenue growth and future levels of spending for county agencies. This model was modified this year to show funding levels for OPEB. The committee looked at different growth scenarios to determine what different levels of debt and different funding levels for OPEB-would have on the ability of the county to balance the budget within those parameters and maintain a reasonable fund balance. The committee used this model to reach its conclusions and recommendations for this report. The complete model is included in Appendix II.

B. How the Committee approached its task

The committee examined the current economic conditions in the county to determine future revenue growth. In particular the committee considered the impact of personal income growth, real and personal property taxes, and the impact of the national and state economy. As part of its task, the committee met with Dr. Daraus Irani Director of Applied Economics and Human Services at the Regional Economic Studies Institute (RESI) at Towson University. RESI presented information relating to the labor force, housing statistics, unemployment, and other economic data for Howard County and the State of Maryland (see Appendix III). Dick Story, CEO of the Howard County Economic Development Authority presented information regarding Howard County's current and future economy. Kent Menser, Howard County's Executive Director of Base Realignment & Closure (BRAC) provided information regarding BRAC's anticipated impact on the county. The committee also heard a presentation by Howard Levenson, Supervisor of Assessments for Howard County, in which he discussed the process for assessments and property taxation as well as trends in assessments for the county and statewide. The committee also received information from Moody's Investors Services. regarding the credit rating process, rating criteria in general, and factors relating to the determination of Howard County's credit rating and the committee held a conference call with Lisa Cole and Alicia Stephens, analysts with Moody's. In addition, Jeff Bronow from the Department of Planning and Zoning presented information on the county's demographics and planned growth.

C. The National and Local Economy

Most economists are predicting the economy will continue to show reasonable growth during calendar year 2007. Most of them also believe healthy job growth will continue to be a strong factor in the continued economic expansion. The housing market growth has slowed though there are some indications that home sales have increased in recent months. The questions the committee had to consider were how these changes affect the Howard County economy, and how will they affect the revenues the county collects?

Eighty five percent of the county's general fund revenues come from local property and income taxes. These two revenues largely determine the level of budget expenditures. Because of the way the assessment process works in Maryland and because of the five percent assessment growth cap the county has implemented, property tax revenues are not subject to short term fluctuations in the economy. This leaves the income tax and the growth in personal income that largely determines income tax growth, as the primary revenue affected by short-term economic changes.

The committee met with Dr. Darius Irani, Director of Applied Economics and Human Services with RESI at Towson University who presented the projections of the Institute for the national, state and local economy. Personal income growth is a primary driver of income tax revenue. RESI is projecting Maryland personal income to grow by 5.3% in 2007 and 5.7% in 2008. Economy.com is projecting Maryland personal income growth of 6% in 2006 and 4% in 2007. The Bureau of Revenue Estimates in the Maryland Comptroller's Office projects personal income growth of 5.7% in 2007 and 5.6% in 2008. The University of Maryland (Dr. Mahlon Straszheim, Economics Department) forecast is 6.0% for 2007 and 6.1% for 2008. A comparison of macroeconomic forecasts appears in Appendix III.

Dr. Irani noted that Howard County personal income continues to out perform the State of Maryland. Personal income levels are expected to continue their growth and do not show signs of slowing. Economic growth continues to be strong in the county; consequently strong income growth is anticipated with a 6.30% increase in personal income for FY2007 and 6.75% for FY2008. A forecast of Howard County and Maryland personal income appears in Appendix III.

The other revenue source that has provided General Fund revenue growth is the recordation tax, a tax levied on instruments transferring title to real or personal property recorded with the Clerk of the Circuit Court. This revenue source is sensitive to the level of housing activity. As noted, there has been some slowdown in the level of housing activity, this revenue declined in the current year. In general, based on discussions with economists, business leaders and representatives of the real estate industry, it is expected that while the rate of growth of housing activity has slowed it appears that the market has leveled and will remain positive in FY2008.

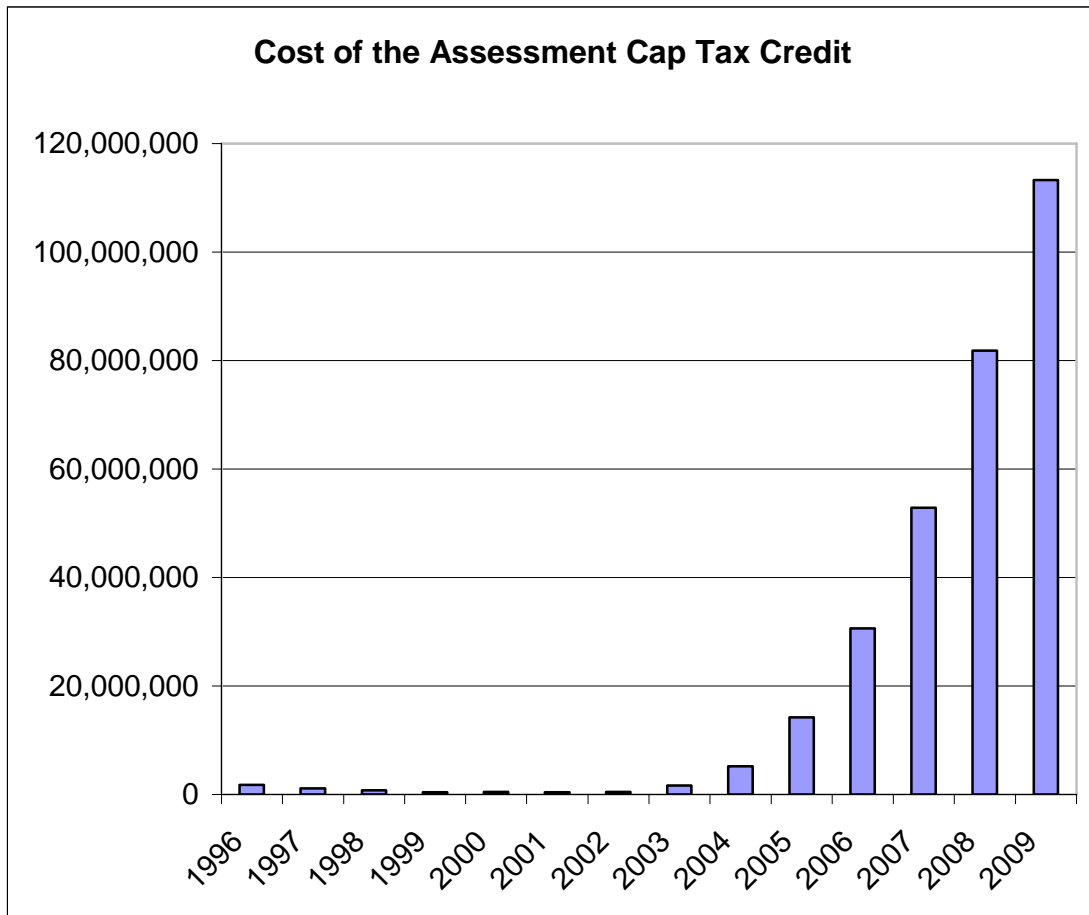
IV. Revenue Estimates

A. Property Tax - Real Property

Property tax growth is governed by growth in the assessable base of the county. Maryland uses a triennial assessment process. In that process one third of the county is reassessed each year and the assessment adjustment increase is phased in over a three-year period. This means any change in the base occurs in a predictable manner. For the upcoming fiscal year, the properties were assessed in the second assessment area covering the western section of the county west of Columbia and south to Laurel. The county has in place a five percent annual growth cap on assessment increases that can be taxed in any one year for homeowner occupied properties. If a triennial reassessment increase on a property is more than 15 percent, it will take more than three years to fully phase in the increase. This year the residential portion of the assessable base in the first reassessment area grew by an average of 55 percent from reassessments. This growth will be phased in at 5 percent a year. If these properties remain with the same owner, it will take fifteen years for most of those properties to be fully phased in. During this same time those properties will be assessed up to three more time before this assessment increase is fully implemented. This means the county can expect about a 5 percent increase in the assessable base of this area for at least the next fifteen fiscal years and probably longer. The outlook is for housing prices to continue to increase because of continued low interest rates, and excess demand for housing but at a single digit pace as opposed to the double digit pace of the past several years.

Because the reassessments of existing property for Fiscal 2008 are already complete,

most of the real property assessable base has already been determined. The only unknown factor is the amount of new construction that will be added to the base between now and July 1, 2007. Based on a projection of that new growth, the reassessments of existing property, the phase in of reassessed property from previous years, and the new construction that has been added to the base during the past year, the County Budget Office is projecting a full value real property assessable base of \$39.4 billion. This is a 17.9 percent increase over last year's base. However, because of the five percent cap on assessment increases the county's revenue growth will not reach these levels. The chart below shows the effect of the five percent cap. It shows how much revenue is being deferred into a future fiscal year as a result of taxes paid at the lower cap adjusted level rather than the full phased in value. The amounts shown for Fiscal Years 2008 and 2009 are estimates.



B. Corporate Personal Property

Corporate Personal Property is the depreciated value of equipment of businesses in the county and the value of property and equipment for railroads and public utilities such as

telephone and energy. Corporate spending for new equipment is the largest driving factor of this revenue. Past history indicates this to be a volatile revenue source with large spikes in growth followed by a more normal growth pattern. Because of the economic uncertainty during the past year, corporate spending for new equipment was deferred. This resulted in lower personal property assessments as older equipment continued to depreciate. While corporate spending on replacement equipment is projected to increase as the economy improves, the resulting increase in personal property assessments are expected to lag into the future. Personal property growth for utilities, particularly those associated with telecommunications and long distance markets, has in fact shown declining values. Consequently the Budget Office is projecting that revenue from personal property taxes will grow by only 3.9 percent in Fiscal Year 2008.

Summary- Property Taxes

Overall the total assessable base is projected to increase by 17.9 percent – from \$34.7 billion to \$40.9 billion. However, because of the phase in of the 5 percent cap, revenues from property taxes are projected to grow by 6.8 percent. A one-cent increase in the tax rate on real property with an equivalent increase in the corporate rate of 2.5 cents will generate an additional \$4,323,000 in revenue.

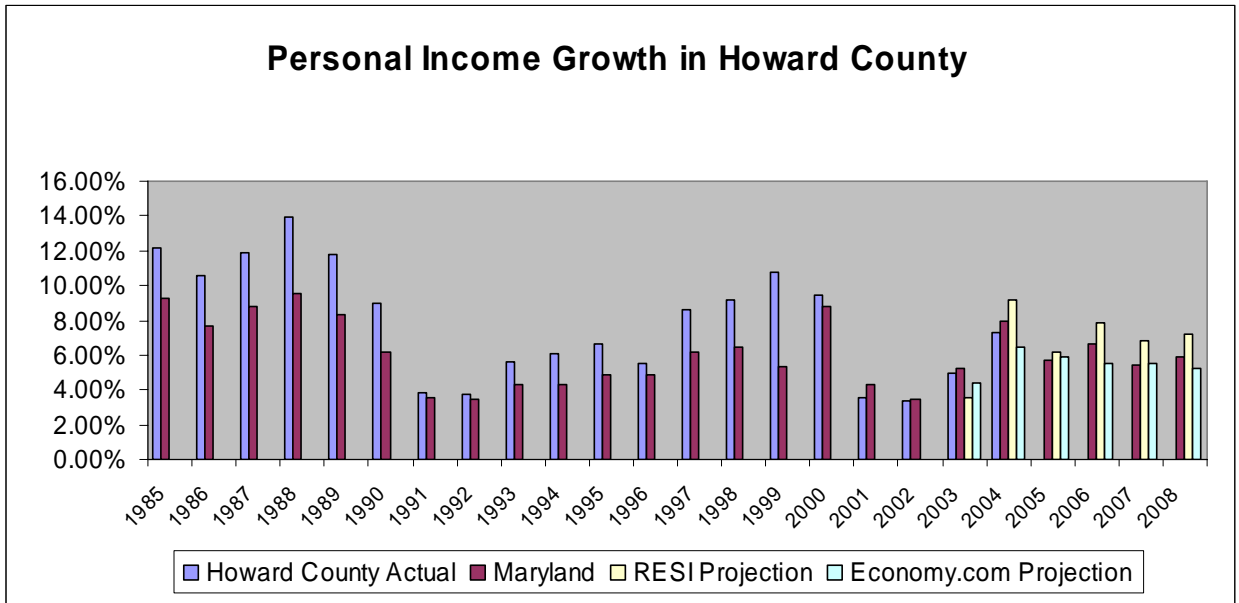
C. Local Income Tax

The local income tax is the most difficult revenue to project and, at the same time, one of the most important. This tax is the second largest revenue source in the county and the most economically sensitive. Most of the surpluses the county generated several years ago came from the income tax. Conversely, the revenue shortfalls the county has experienced have occurred because of shortfalls in income tax collections.

Revenue from income tax is derived primarily from two different sources. The first is wages, salaries and commissions paid to Howard County residents, including transfer payments such as social security and pension payments. These types of income are included in the calculation of personal income and are more predictable and easier to project than the other sources. Other sources include interest income, business profits, and capital gains from the sale of property and stocks. These are not included in the calculation of personal income and are more volatile.

In large measure, the budget challenges the county faced during several recent fiscal years were caused by the large decrease in capital gains. The “capital gains bubble” of the 1990’s is finally gone, and growth in personal income again primarily drives growth in the income tax.

Presented below are two projections for personal income growth in Howard County. The first projection was developed by RESI, and the second by Economy.com. This data includes the last few years of personal income growth in the county and the state. The following chart shows the actual and projected growth in personal income by these two firms.



Based on the available data, the estimate is that personal income in Howard County will grow an average of between 5 percent and 7 percent per year. The revenue model presented to the committee assumes income tax growth of 6.49% in FY08.

D. Other Revenues

Property and income taxes make up about 85 percent of the county's general fund revenues. Other local taxes, state revenues, licenses, permits, charges for services, and investment income account for most of the remaining revenues. Over the past several

years these other revenues have been relatively stable, and they generally grow as the county expands and with the rate of inflation. There are two exceptions to this rule in recent years - recordation tax and interest income. However, with the recent slowdown in the housing market recordation tax revenue has declined. This decline in recordation tax in FY2007 was offset by an increase in interest income. These changes were included in the estimates for these other revenues and the county is projecting this category of Other Revenues will grow at about 4 percent a year.

Revenue Summary

Following is a summary of revenues projected for both Fiscal Year 2007 and Fiscal Year 2008. The long-term projections for revenue are shown on the summary page of the model listed in Appendix II.

Summary of Revenue Projections

(Numbers are shown in thousands)

	FY 2007 Budget	FY 2007 Estimated	FY 2008 Projected	Percent Change*
Property Tax	\$321,052	\$334,604	\$356,323	6.49%
Income Tax	293,637	293,637	312,723	6.49%
Other Local Taxes	31,688	28,500	25,775	-9.56%
State Share Tax	16,797	16,797	17,070	1.60%
Other – see below	26,561	26,623	28,261	6.15%
Investment Income	4,940	8,650	9,750	12.72%
Inter-fund	18,213	18,213	20,177	10.78%
Subtotal	712,888	727,024	770,079	5.92%
Prior Years	21,282	21,282	37,740	77.33%
Total	\$734,170	\$748,306	807,819	7.95%

*FY 2007 Estimate to FY 2008 Projected Other includes Licenses & Permits, Funds from Other Agencies, Charges, Fines, and miscellaneous.

V. Projected Operating Budget Expenditures

The committee did not consider specific budget requests or requests to fund unmet operating budget needs from agencies. The committee understands that inflationary and growth

pressures for increases in employee salaries and for increases in operating costs will impact on next year's budget. However, the committee realizes the decision on how to allocate available resources is not its mission. That is the role the County Executive and County Council play in the budget process.

Instead, the committee reviewed the Budget Office's growth assumptions and projections for operating budget spending through Fiscal Year 2015 and used those assumptions in a model to project expenditures. Those assumptions are as follows:

1. Education spending would grow at an average pace of seven percent a year.
2. Non-education employee costs would increase at an average pace of five percent per year including cost of living, annual step increase and benefit costs.
3. Costs other than salary and debt service would grow at 4.0 percent a year.
4. Debt Service costs based on a 4.3% interest rate will grow depending on the amount of bonds included in the budget as projected in the model shown in Appendix II. Costs include a bond sale of \$100 million in FY08.
5. The County maintains a fund balance sufficient to fill the Rainy Day Fund to mandated levels.

One new item that has been added into the FY 2008 and future expenditure estimates is an amount to begin the funding for Other Post Employment Benefits (OPEB). The committee reviewed various scenarios to fund OPEB annual contribution from a large initial contribution to phasing in funding over a number of years. The committee reviewed these OPEB contributions along with different amounts of bond authorization to determine an amount of bonding the county could afford.

The projection of expenditures and revenues appears on Appendix II. The Committee understands these projections are based on broad assumptions and the actual amount included in the budget for these purposes in any year may be different. Overall, the county will have to keep total spending within these broad projected amounts if the level of bond funding recommended in this report is to be affordable without tax increases.

VI. Conclusions and Recommendations

In the near term, the economic news for Howard County appears to be very good. Economic expansion is taking place, and the housing market remains stable. Driven by government spending on homeland security and defense, and by strong private sector spending led by the expansion of the Dreyer's ice cream plant, commercial real estate construction has continued at a strong pace of growth. Commercial real estate vacancy rates have dropped to previous low levels, and the unemployment rate is so low that a shortage of labor is noted as a potential problem in the county. BRAC related employment should begin in the next few years. All of this economic activity should translate into strong revenue growth for the county.

One message that the committee would like to make is that while the economic news may be good today, the county should not and cannot assume that this level of growth will remain at this level for the longer term. Over that longer-term period, the county must make assumptions on what revenue growth is likely to be and then keep spending within those bounds. There still are limited resources available to fund the county's needs. The committee understands tough choices and decisions must be made about the capital and operating budgets so affordable levels are maintained. The county has real needs to build, renovate and expand schools and to maintain its infrastructure of roads, storm drains, buildings, facilities and parks. At the same time the county needs to fund operating costs of schools, libraries, parks, public safety services, and public transportation and to pay county employees reasonable and competitive wages. The new added costs to fund the county's OPEB liability will continue for the foreseeable future. The committee understands that the more bonds the county issues, the higher debt service payments will be; consequently, fewer funds will be available to pay for those operating costs.

The county has a strong, well-balanced economy that plays a leadership role in the State of Maryland. Factors such as location, wealth, a low crime rate, and a robust quality of life should help to maintain that position. Individuals and families move to the county and pay premium house prices because of the schools and quality of life in Howard County.

Thus the question remains of how to continue the balance between resources and demands, what

level of debt can the county afford and how does that translate into bonds authorized in the budget? Using the model in Appendix II, the committee looked at several different scenarios for future debt levels.

The committee concluded that the county's economy remains strong and as interest rates remain relatively low, it is possible to increase the level of debt authorized in the budget in order to help maintain the high levels of service and quality of life the County now enjoys. However, it was also the clear message of the Committee to the County Executive and County Council that this situation will not exist forever, and future economic changes may require the County to reduce future bond expenses. After looking at several levels of bond authorizations in the model, it became clear that one hundred million dollars of new bonds each year supported by general fund revenues was an affordable level if it can keep other current operating spending to the levels projected in the model. The expenditure model is especially sensitive to changes in the level of spending for the Board of Education, the biggest component (54%) of the county budget. The model is based on 7% increases in the Board of Education budget each year and the amount of OPEB funding from FY2008-2015. Furthermore, the projected revenues do not provide much of a "cushion" in future years when compared to the projected expenditures. The projections provide enough to contribute to the Rainy Day Fund, but very little excess revenue capacity exists. Based on all of the factors considered, including the county's capital needs, the committee concluded that there was no significant reason not to allow this increase to \$100 million in bonds.

The Spending Affordability Committee makes the following recommendations for Fiscal Year 2008:

- **Based on reasonable economic projections, the county's revenues will continue to grow in the long term by between five and seven percent a year. The county needs to keep average overall annual spending increases within the parameters of these revenues.**

- **The county must continue to carefully monitor expenditures to ensure that spending stays within budgeted levels, and must also continuously monitor revenues to identify any variations from projected levels. The county must continue to provide OPEB funding and determining the effect of that funding on the funding available for debt service.**

•To the extent there are changes in economic conditions, the assumptions underlying the committee’s recommendations also may change. Consequently, the county must continue to closely monitor economic conditions and to evaluate revenue and expenditures on an ongoing basis.

•The committee wishes to make a strong statement on spending, that is, the premise of the recommendation on a bond funding level of \$100 million is that the other spending assumptions are adhered to. To the extent that those levels deviate from what is assumed in the model, the debt service on the bonds becomes more of an issue in terms of overall affordability.

• If overall spending can be kept to these levels, then the county can authorize up to one hundred million dollars in bonds supported by general revenues in the budget each year. The committee does not see any significant changes in economic conditions which would necessitate deviating from this recommendation.

• These recommendations need to be re-evaluated each year. As the economy cycles through periods of growth and recession, these levels of funding will have to be re-evaluated. The committee believes that next year we will again want to reconsider the assumptions and potentially the recommendations.

Appendix I – Howard County Debt Measures

Appendix I: Howard County Debt Measures

In order to determine Howard County's relative debt position, the Committee in past years has evaluated Howard County's debt based on measures used and data published by Moody's Investors Service and International City/County Management Association publications. The measures used by the County are as follows:

1. Debt measured as a percent of the County's assessable base. The County Charter limit currently is at 12% of assessed value. Since the State of Maryland has moved from the 40% cash value assessment of real property, to full cash value assessment, to remain consistent with the Charter limitation, County debt should not exceed 4.8% of the full value assessment.
2. Debt measured against the population on a per-capita basis. Per-capita debt of \$1,200 (unadjusted for inflation over the past 10 years), which may be considered excessive by rating agencies.
3. Per-capita debt measured as a percent of the jurisdiction's per-capita personal income. This measure should not exceed 10% in the view of many analysts.
4. Debt Service as a percent of current revenues. Ten percent or below is considered an appropriate level, with 15% and above as a danger point

Following is the County's position as of June 30, 2006. [The comparable position for FY 2005 is shown in brackets]

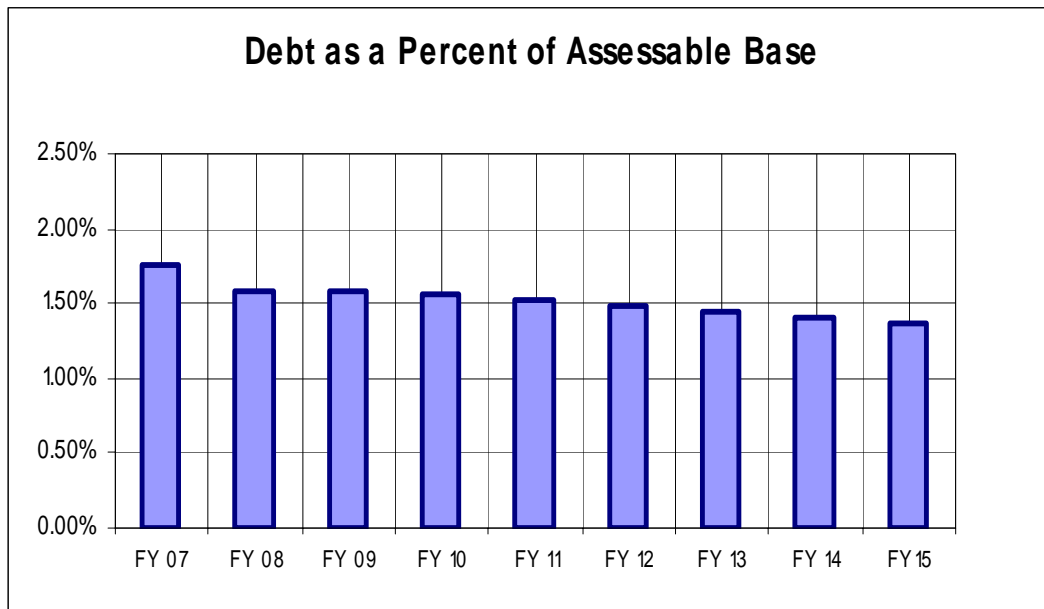
Update of the Bond Affordability Measures

1. **The County's general obligation debt as a percent of the assessable base.**
As of June 30, 2006[2005], Howard County had an assessable base of **\$31,244,707,400**[\$27,275,980,110] and a General Obligation Debt of **\$541,324,000** [\$490,405,567] not including excise tax funded debt. This meant that the ratio of debt to base was **1.73%** [1.80%] of assessed value versus the 4.8% limit. This remains below the Charter-mandated limit
2. **Debt measured against the population on a per-capita basis.**
As of June 30, 2006[05], Howard County had a population of **276,287** [272,584] and a General Obligation Debt of **\$541,324,000** [\$490,405,567] generating a per-capita debt of **\$1,959.28** [\$1,799.10]
3. **Per-capita debt measured as a percent of per-capita income.**
For 2006[05], Howard County residents had an estimated per-capita personal income of **\$53,182**[\$51,132] and a per-capita debt of **\$1,959.28** [\$1,749.77] equaling a per-capita debt of **3.68%** [3.43%] of per-capita income, with 10% being the threshold of concern.
4. **Debt Service as a percent of current revenues.**
In FY 2006 [05], the County received **\$768,492,757** [\$681,064,654] in current revenues from the General Fund, Fire and Rescue Fund, and Environmental Fund, and paid debt service of **\$60,893,193**[\$60,728,815]. Thus, debt service equaled **7.92 %** [8.92%] of current revenues. This maintains the County below the 12% level of concern.

Measure #1: Howard County's General Fund Debt as a Percent of the Assessable Base.

Warning Level is: The Charter limit of 4.8% of assessed value at 100%.
(In thousands)

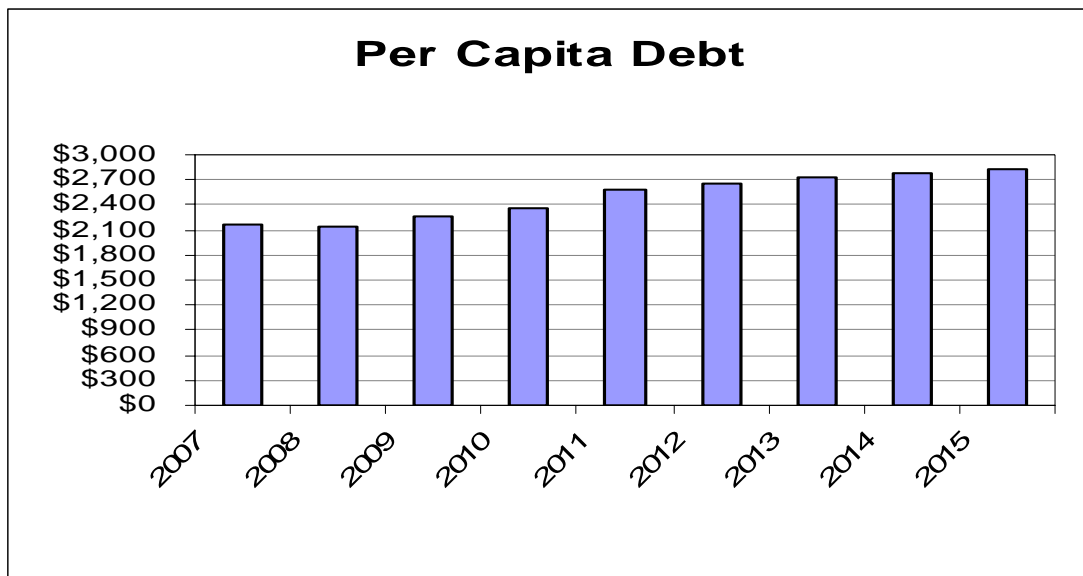
Fiscal Year	County Assessable Base	G.O. Debt at Projected Bonds Sales	Debt as Percent of Base
2007	34,762,380	591,144,000	1.76%
2008	40,912,612	610,448,000	1.59%
2009	43,571,932	649,927,000	1.58%
2010	46,404,107	687,161,000	1.56%
2011	49,420,374	723,388,000	1.53%
2012	52,632,699	756,163,000	1.49%
2013	56,053,824	786,118,000	1.45%
2014	59,697,323	814,133,000	1.41%
2015	63,577,649	841,273,000	1.36%



Measure #2: Debt Measured Against the Population on a Per-Capita Basis

A Warning Level: General Obligation Debt Per-Capita of greater than \$1,200.

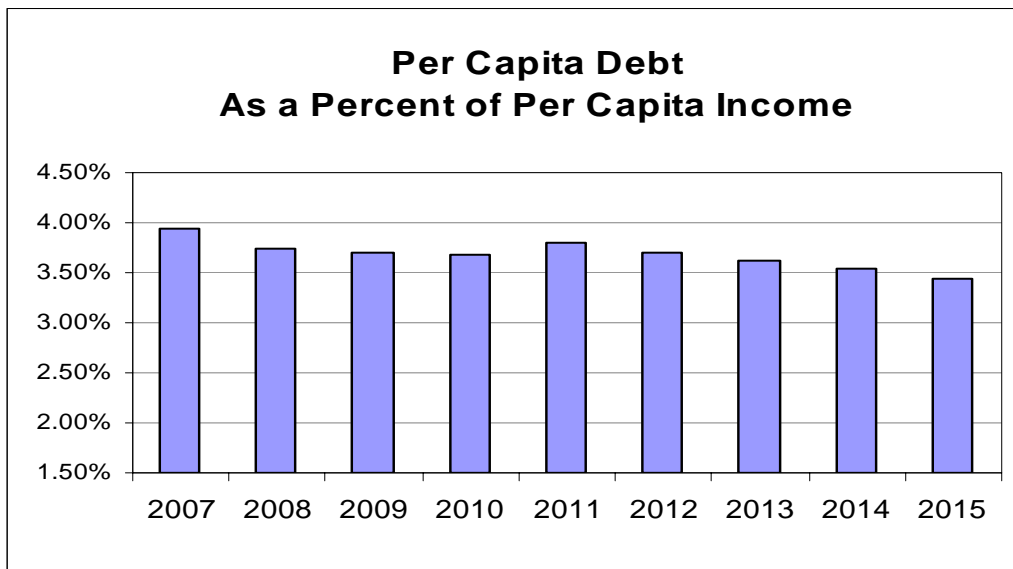
Fiscal Year	Population	Per Capita Debt
2007	280,646	2,175
2008	284,314	2,147
2009	287,982	2,257
2010	291,650	2,356
2011	294,114	2,571
2012	296,578	2,651
2013	299,042	2,722
2014	302,442	2,782
2015	305,842	2,833



Measure # 3: Per-Capita General Obligation Debt Measured As a Percent of Per-Capita Personal Income

A Warning Level Is: Per-Capita Debt that is equal to 10% of the per capita income for the County.

Fiscal Year	Population	Personal Income (thousands) (estimates)	Per-Capita Debt as a Percent of Per Capita Income
2007	280,646	15,501,140	3.94%
2008	284,314	16,308,460	3.74%
2009	287,982	17,547,903	3.70%
2010	291,650	18,688,517	3.68%
2011	294,114	19,903,270	3.80%
2012	296,578	21,196,983	3.71%
2013	299,042	22,468,802	3.62%
2014	302,442	23,816,930	3.53%
2015	305,842	25,245,946	3.43%

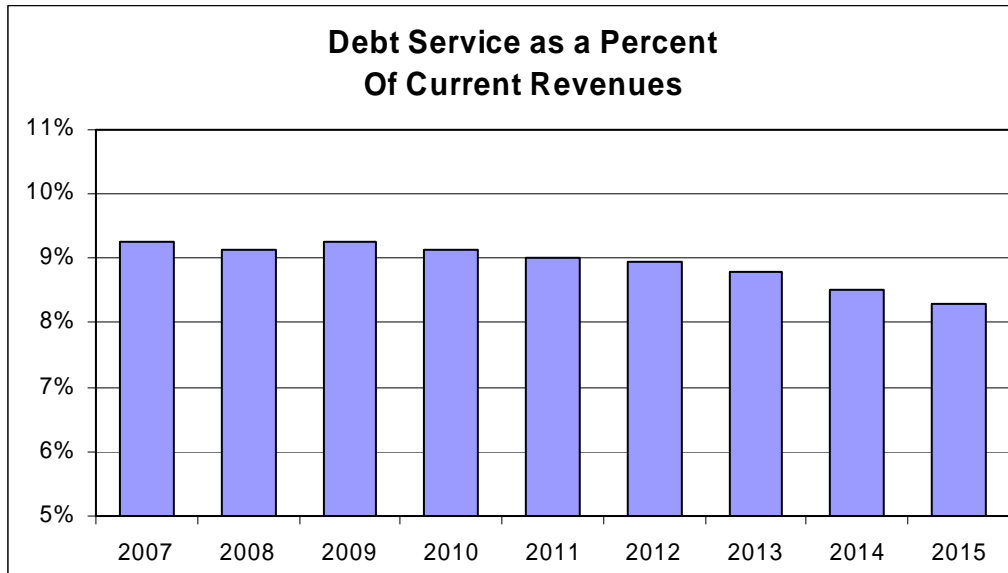


Measure #4: General Obligation Debt Service as a Percent of Current Revenue

A Warning Level is: Debt service as a percent of current revenues more than 15%. In the past reports, Howard County has used 12% as a target level. The Following Chart indicates the impact of approving \$100 million per year of bonds in the capital budget.

(Numbers are in thousands.)

Fiscal Year	Projected Current Revenue	Projected Bond Sales	Projected Debt Service	Percent of Revenue
2007	797,307,405	65,000,000	73,833,043	9.26%
2008	873,849,177	89,000,000	79,883,382	9.14%
2009	923,470,376	92,000,000	85,644,353	9.27%
2010	976,049,186	95,000,000	89,075,627	9.13%
2011	1,031,823,274	96,000,000	92,980,041	9.01%
2012	1,090,931,849	97,000,000	97,520,670	8.94%
2013	1,153,579,127	98,000,000	101,289,367	8.78%
2014	1,219,981,993	99,000,000	104,029,114	8.53%
2015	1,290,370,795	89,000,000	107,099,908	8.30%



Appendix II
Howard County Revenue/Expenditure Growth
Projection Model

Appendix II:

Education Growth Rate	7.00%
Property Tax Growth Rate	6.50%
Income Tax Growth Rate	6.00%
Other Taxes Growth Rate	4.00%
Bond Interest Rate	4.30%

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Bond Sale	58,000,000	65,000,000	89,000,000	92,000,000	95,000,000	96,000,000	97,000,000	98,000,000	99,000,000	99,000,000
Bonds in Budget	85,281,000	90,485,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Debt Service	62,775,803	64,250,120	74,226,236	79,987,207	83,418,481	87,322,895	91,863,524	95,632,221	98,371,968	100,692,278
TOTAL General Fund BUDGET	658,741,722	734,170,000	780,397,222	840,988,159	896,674,484	955,189,815	1,016,103,261	1,072,567,516	1,133,529,690	1,202,303,768
Revenue	710,619,019	734,170,000	807,818,780	854,164,095	903,283,615	955,347,446	1,010,536,262	1,069,041,970	1,131,068,416	1,196,832,129
Difference	51,877,297	0	27,421,558	13,175,936	6,609,131	157,631	(5,567,000)	(3,525,546)	(2,461,274)	(5,471,639)
Expenditure Percentage Increase	9.55%	11.45%	6.30%	7.76%	6.62%	6.53%	6.38%	5.56%	5.68%	6.07%
Revenue Percentage Increase	12.10%	3.31%	10.03%	5.74%	5.75%	5.76%	5.78%	5.79%	5.80%	5.81%

Revenue Estimates--Summary

Revenue	Audited FY06	Approved FY07	Estimated FY08	Projected FY09	Projected FY10	Projected FY11	Projected FY12	Projected FY13	Projected FY14	Projected FY15
Property Taxes	\$ 313,062,412	321,052,420	356,323,285	379,484,299	404,150,778	430,420,578	458,397,916	488,193,781	519,926,376	553,721,591
Income Tax	283,064,779	293,636,500	312,722,873	331,486,245	351,375,420	372,457,945	394,805,422	418,493,747	443,603,372	470,219,575
Other Local Taxes	33,672,182	31,687,574	25,775,000	26,806,000	27,878,240	28,993,370	30,153,104	31,359,229	32,613,598	33,918,142
State Shared Taxes	15,298,806	16,797,213	17,069,548	17,581,634	18,109,083	18,652,356	19,211,927	19,788,284	20,381,933	20,993,391
Other--See Below	42,405,253	47,843,292	66,000,854	67,980,880	70,020,306	72,120,915	74,284,543	76,513,079	78,808,471	81,172,725
Investment Income	6,274,325	4,939,908	9,750,000	10,042,500	10,343,775	10,654,088	10,973,711	11,302,922	11,642,010	11,991,270
Interfund Reimbursements	16,841,262	18,213,093	20,177,220	20,782,537	21,406,013	22,048,193	22,709,639	23,390,928	24,092,656	24,815,436
General Fund Revenue	\$710,619,019	\$734,170,000	\$807,818,780	\$854,164,095	\$903,283,615	\$955,347,446	\$1,010,536,262	\$1,069,041,970	\$1,131,068,416	\$1,196,832,129

Notes:

1. Other includes Licenses & Permits, Funds Other Agencies, Charges for Services, Fines/Forfeitures, Money & Property, Appropriation Prior Year.
2. Property tax revenue growth rate is estimated at 6.50%.
3. Income tax revenue growth rate is estimated at 6.0%.
4. All other revenues grow at a rate of 3.00%.

OUT YEAR PROJECTIONS

	FY05 Actual	FY06 Audit	FY07 Budget	FY08 Estimated	FY09	FY10	FY11	FY12	FY13	FY14	FY15
EDUCATION											
Board Of Education	334,590,015	362,590,015	393,710,890	421,270,652	450,759,598	482,312,770	516,074,664	552,199,890	590,853,882	632,213,654	676,468,610
Debt Service	0	0	0	0	0	0	0	0	0	0	1
Community College	15,925,918	17,060,732	20,369,595	21,795,467	23,321,149	24,953,630	26,700,384	28,569,411	30,569,269	32,861,965	35,326,612
Debt Service	0	0	0	0	0	0	0	0	0	0	1
SUBTOTAL:	350,515,933	379,650,747	414,080,485	443,066,119	474,080,747	507,266,400	542,775,048	580,769,301	621,423,152	665,075,619	711,795,224

PUBLIC SAFETY											
Department of Police	55,406,861	61,049,057	70,943,018	74,035,108	77,153,463	80,300,719	83,479,804	86,658,889	89,837,974	94,006,456	98,368,356
Department of Corrections	9,929,916	11,058,693	12,159,645	12,723,853	13,314,239	13,932,020	14,578,466	15,254,907	15,962,734	16,703,405	17,478,443
SUBTOTAL:	65,336,777	72,107,750	83,102,663	86,758,961	90,467,703	94,232,739	98,058,270	101,913,796	105,800,708	110,709,861	115,846,799

PUBLIC FACILITIES											
Dept. Of Public Works	35,989,102	39,025,904	43,489,240	45,311,439	47,209,988	49,188,087	51,249,068	53,396,404	55,633,713	57,964,766	60,393,489
Insp. Licenses & Permits	5,307,816	5,879,487	6,730,595	7,047,943	7,380,253	7,728,232	8,092,618	8,474,185	8,873,743	9,292,140	9,730,264
Department of Planning & Zoning	4,589,303	5,212,510	5,851,573	6,128,352	6,418,223	6,721,805	7,039,747	7,372,727	7,721,457	8,086,682	8,469,182
Soil Conservation	607,060	644,304	717,484	751,529	787,189	824,541	863,665	904,646	947,572	992,534	1,039,630
Subtotal	46,493,281	50,762,205	56,788,892	59,239,263	61,795,654	64,462,665	67,245,098	70,147,962	73,176,484	76,336,121	79,632,565

COMMUNITY SERVICES											
Citizen Services	5,210,442	5,906,776	7,248,990	7,575,195	7,916,078	8,272,302	8,644,555	9,033,560	9,440,071	9,864,874	10,308,793
Health Department	6,446,128	6,875,085	7,427,036	7,872,658	8,345,018	8,845,719	9,376,462	9,939,050	10,535,393	11,167,516	11,837,567
Mental Health Authority	233,094	249,411	289,411	298,093	307,036	316,247	325,735	335,507	345,572	355,939	366,617
Transportation Svcs/Coordination	4,053,555	4,739,333	5,419,435	5,582,018	5,749,479	5,921,963	6,099,622	6,282,610	6,471,089	6,665,221	6,865,178
Cooperative Extension	325,264	349,168	390,723	405,981	421,834	438,307	455,423	473,207	491,686	510,886	510,886
Dept. Of Library	10,837,558	11,731,497	12,907,935	13,553,332	14,230,998	14,942,548	15,689,676	16,474,159	17,297,867	18,162,761	19,070,879
Grants - in - Aid	3,309,890	3,602,074	3,992,342	4,112,112	4,235,476	4,362,540	4,493,416	4,628,219	4,767,065	4,910,077	5,057,379
Social Services	431,006	465,078	500,349	518,387	537,074	556,436	576,495	597,278	618,810	641,118	664,230
Recreation & Parks	10,361,263	11,415,066	12,660,193	13,205,847	13,775,019	14,368,723	14,988,015	15,633,998	16,307,823	17,010,691	17,743,851
Subtotal	41,208,200	45,333,488	50,836,414	53,123,623	55,518,013	58,024,784	60,649,398	63,397,588	66,275,376	69,289,083	72,425,402

GENERAL GOVERNMENT											
County Executive	645,753	692,552	916,048	959,377	1,004,756	1,052,281	1,102,053	1,154,181	1,208,773	1,265,948	1,325,828
County Administration	7,383,803	7,927,794	9,271,958	9,693,832	10,134,901	10,596,039	11,078,159	11,582,216	12,109,206	12,660,175	13,236,213
Dept. Of Finance	5,017,918	5,571,733	6,622,254	6,910,653	7,211,612	7,525,678	7,853,421	8,195,438	8,552,349	8,924,804	9,313,479
Office Of Law	2,440,659	2,527,502	2,902,767	3,044,422	3,192,990	3,348,808	3,512,230	3,683,626	3,863,387	4,051,921	4,249,654
Economic Development	839,708	902,321	1,024,608	1,071,740	1,121,040	1,172,608	1,226,548	1,282,969	1,341,986	1,403,717	1,468,288
Technology & Communication	1,014,727	1,133,770	754,592	785,304	817,266	850,528	885,145	921,170	958,662	997,680	1,038,285
Revenue Authority			200,000	200,000							
Performance Awards	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,003	500,006	500,006
Tuition Reimbursement	74,961	68,832	75,000	75,000	75,000	75,000	75,000	75,001	75,003	75,006	75,006
Subtotal	17,917,529	19,324,504	22,267,227	23,240,328	24,057,565	25,120,942	26,232,556	27,394,601	28,609,369	29,879,256	31,206,759

CAPITAL / RESERVES											
Paygo Funds	5,200,224	13,393,000	21,282,000	7,739,594	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000
Debt Service	59,554,007	62,775,803	64,250,120	74,226,236	79,987,207	83,418,481	87,322,895	91,863,524	95,632,221	98,371,968	100,692,278
Contingency Reserves	0	0	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
OPEB	0	0	0	10,000,000	18,000,000	26,000,000	34,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Subtotal	64,754,231	76,168,803	87,032,120	93,465,830	112,987,207	124,418,481	136,322,895	146,863,524	150,632,221	153,371,968	155,692,278

LEGISLATIVE & JUDICIAL											
County Council	2,416,338	2,524,867	3,069,259	3,214,435	3,366,478	3,525,712	3,692,478	3,867,133	4,050,048	4,241,615	4,442,244
Circuit Court	1,944,276	1,731,807	2,246,244	2,346,763	2,451,781	2,561,498	2,676,125	2,795,882	2,920,998	3,051,712	3,188,276
State's Attorney	4,775,820	5,238,815	6,024,764	6,318,772	6,627,129	6,950,532	7,289,718	7,645,457	8,018,555	8,409,860	8,820,262
Orphans Court	39,759	50,023	56,756	57,324	57,897	58,476	59,061	118,712	357,322	1,432,861	7,178,636
Sheriff	4,238,249	4,561,297	5,436,620	5,687,248	5,949,430	6,223,699	6,510,612	6,810,751	7,124,726	7,453,176	7,796,768
Board of Elections	1,684,801	1,287,416	3,228,556	3,878,556	3,628,556	3,828,556	3,678,556	4,378,556	4,178,556	4,278,556	4,278,556
Subtotal	15,099,243	15,394,225	20,062,199	21,503,099	22,081,271	23,148,474	23,906,550	25,616,490	26,650,205	28,867,782	35,704,741

TOTAL General Fund BUDGET	601,325,194	658,741,722	734,170,000	780,397,222	840,988,159	896,674,484	955,189,815	1,016,103,261	1,072,567,516	1,133,529,690	1,202,303,768
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Revenue	633,911,550	710,619,019	734,170,000	807,818,780	854,164,095	903,283,615	955,347,446	1,010,536,262	1,069,041,970	1,131,068,416	1,196,832,129
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Difference	32,586,356	51,877,297	0	27,421,558	13,175,936	6,609,131	157,631	-5,567,000	-3,525,546	-2,461,274	-5,471,639
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Expenditure Percentage Increase		9.55%	11.45%	6.30%	7.76%	6.62%	6.53%	6.38%	5.56%	5.68%	6.07%
Revenue Percentage Increase		12.10%	3.31%	10.03%	5.74%	5.75%	5.76%	5.78%	5.79%	5.80%	5.81%

BOND AFFORDABILITY COMMITTEE
GENERAL COUNTY BONDS
PROJECTED DEBT SERVICE
Debt Measure #4 Debt as a Percent of Current Revenues

Interest rate 4.30%

	Fiscal Year	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
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Current debt service:										
Principal	Principal	41,580,000	41,450,000	42,080,789	38,972,526	38,675,000	37,695,000	35,785,000	32,760,000	29,895,000
Interest	Interest	22,670,111	21,143,729	19,594,601	19,229,682	16,302,021	14,618,000	13,017,000	11,427,000	9,933,000
Total	Current Debt Service	64,250,111	62,593,729	61,675,390	58,202,208	54,977,021	52,313,000	48,802,000	44,187,000	39,828,000
Projected debt service:										
Spring 04 Bond Sale	50,000,000		0	0	0	0	0	0	0	0
Spring 05 Bond Sale	60,000,000		0	0	0	0	0	0	0	0
Spring 06 Bond Sale	90,000,000		6,754,359	6,754,359	6,754,359	6,754,359	6,754,359	6,754,359	6,754,359	6,754,359
Spring 07 Bond Sale	65,000,000		4,878,148	4,878,148	4,878,148	4,878,148	4,878,148	4,878,148	4,878,148	4,878,148
Spring 08 Bond Sale	89,000,000			6,679,310	6,679,310	6,679,310	6,679,310	6,679,310	6,679,310	6,679,310
Spring 09 Bond Sale	92,000,000				6,904,456	6,904,456	6,904,456	6,904,456	6,904,456	6,904,456
Spring 10 Bond Sale	95,000,000					7,129,601	7,129,601	7,129,601	7,129,601	7,129,601
Spring 11 Bond Sale	96,000,000						7,204,649	7,204,649	7,204,649	7,204,649
Spring 12 Bond Sale	97,000,000							7,279,698	7,279,698	7,279,698
Spring 13 Bond Sale	98,000,000								7,354,746	7,354,746
Spring 14 Bond Sale	99,000,000									6,679,310
Spring 15 Bond Sale	89,000,000									
new Debt:	100,000,000									
	1,020,000,000									
		0								
Subtotal New Debt		0	0	11,632,507	18,311,817	25,216,273	32,345,874	39,550,524	46,830,221	54,184,968
Total Projected Debt Service		0	64,250,111	74,226,236	79,987,207	83,418,481	87,322,895	91,863,524	95,632,221	100,692,278

**Howard County, Maryland
Projected Future Bond Sales**

Fiscal Year	Authorized But UnSold Bonds	+	Current Year Budget	=	Total Unsold Bonds at Start of Fiscal Year	New Debt Sold (Excl Excise)	Sold as % of Total
2014-2015	216,553,772		100,000,000		316,553,772	99,176,264	31%
2013-2014	215,354,215		100,000,000		315,354,215	98,800,443	31%
2012-2013	213,607,373		100,000,000		313,607,373	98,253,158	31%
2011-2012	211,063,552		100,000,000		311,063,552	97,456,179	31%
2010-2011	207,359,140		100,000,000		307,359,140	96,295,587	31%
2009-2010	201,964,626		100,000,000		301,964,626	94,605,487	31%
2008-2009	194,108,921		100,000,000		294,108,921	92,144,295	31%
2007-2008	182,669,131		<u>100,000,000</u> 800,000,000		282,669,131	88,560,210	31%
<u>Actuals:</u>							
2006-2007	157,184,131		90,485,000		247,669,131	65,000,000	26%
2005-2006	129,878,131		85,281,000		215,159,131	57,975,000	27%
2004-2005	108,030,131		78,068,000		186,098,131	56,220,000	30%
2003-2004	69,002,215		79,362,000		148,364,215	40,334,084	27%
2002-2003	76,140,215		47,862,000		124,002,215	55,000,000	44%
2001-2002	66,206,705		43,352,000		109,558,705	33,418,490	31%
2000-2001	61,687,705		27,039,000		88,726,705	22,520,000	25%
1999-2000	67,222,705		25,000,000		92,222,705	30,535,000	33%
1998-1999	62,855,705		29,367,000		92,222,705	25,000,000	27%
1997-1998	81,224,705		27,631,000		108,855,705	46,000,000	42%
						Average	31%

Appendix III

Howard County and Maryland Personal Income Forecast – RESI
Comparison of Macroeconomic Forecasts – Bureau of Revenue Estimates

HOWARD COUNTY AND MARYLAND PERSONAL INCOME FORECASTS
(MILLIONS OF CURRENT DOLLARS)

QUARTER	HOWARD COUNTY PERSONAL INCOME ESTIMATE		HOWARD COUNTY PERSONAL INCOME FORECAST		MARYLAND PERSONAL INCOME HISTORY		MARYLAND PERSONAL INCOME FORECAST	
		PERCENT CHANGE		PERCENT CHANGE		PERCENT CHANGE		PERCENT CHANGE
FY 1994								
1993:3	\$6,420	1.50%			\$124,444	0.62%		
1993:4	\$6,518	1.53%			\$126,883	1.96%		
1994:1	\$6,615	1.49%			\$126,758	-0.10%		
1994:2	\$6,711	1.46%			\$129,251	1.97%		
FY CHANGE		6.11%				4.28%		
FY 1995								
1994:3	\$6,821	1.63%			\$130,870	1.25%		
1994:4	\$6,944	1.80%			\$132,515	1.26%		
1995:1	\$7,065	1.75%			\$133,753	0.93%		
1995:2	\$7,186	1.71%			\$134,673	0.69%		
FY CHANGE		6.67%				4.82%		
FY 1996								
1995:3	\$7,283	1.35%			\$135,450	0.58%		
1995:4	\$7,353	0.96%			\$136,585	0.84%		
1996:1	\$7,422	0.95%			\$138,469	1.38%		
1996:2	\$7,492	0.93%			\$139,953	1.07%		
FY CHANGE		5.48%				3.51%		
FY 1997								
1996:3	\$7,604	1.50%			\$141,573	1.16%		
1996:4	\$7,762	2.07%			\$143,242	1.18%		
1997:1	\$7,918	2.01%			\$146,306	2.14%		
1997:2	\$8,073	1.96%			\$147,737	0.98%		
FY CHANGE		6.12%				5.16%		
FY 1998								
1997:3	\$8,245	2.13%			\$149,175	0.97%		
1997:4	\$8,433	2.29%			\$152,085	1.95%		
1998:1	\$8,620	2.21%			\$154,303	1.46%		
1998:2	\$8,806	2.15%			\$157,716	2.21%		
FY CHANGE		8.76%				5.95%		
FY 1999								
1998:3	\$9,001	2.22%			\$160,027	1.47%		
1998:4	\$9,205	2.27%			\$161,960	1.21%		
1999:1	\$9,407	2.19%			\$164,625	1.65%		
1999:2	\$9,608	2.14%			\$166,021	0.85%		
FY CHANGE		9.14%				6.42%		
FY 2000								
1999:3	\$9,870	2.72%			\$168,178	1.30%		
1999:4	\$10,195	3.29%			\$170,617	1.45%		
2000:1	\$10,518	3.17%			\$176,498	3.45%		
2000:2	\$10,839	3.06%			\$179,203	1.53%		
FY CHANGE		11.28%				6.41%		
FY 2001								
2000:3	\$11,054	1.98%			\$182,368	1.77%		
2000:4	\$11,157	0.94%			\$185,696	1.82%		
2001:1	\$11,260	0.92%			\$189,279	1.93%		
2001:2	\$11,361	0.90%			\$191,472	1.16%		
FY CHANGE		8.23%				7.82%		

Sources: RESI, Bureau Of Economic Analysis

HOWARD COUNTY AND MARYLAND PERSONAL INCOME FORECASTS
(MILLIONS OF CURRENT DOLLARS)

QUARTER	HOWARD COUNTY PERSONAL INCOME ESTIMATE		HOWARD COUNTY PERSONAL INCOME FORECAST		MARYLAND PERSONAL INCOME HISTORY		MARYLAND PERSONAL INCOME FORECAST	
		PERCENT CHANGE		PERCENT CHANGE		PERCENT CHANGE		PERCENT CHANGE
FY 2002								
2001:3	\$11,461	0.87%			\$192,199	0.38%		
2001:4	\$11,557	0.84%			\$193,677	0.77%		
2002:1	\$11,652	0.82%			\$196,818	1.62%		
2002:2	\$11,747	0.81%			\$198,778	1.00%		
FY CHANGE		3.54%				4.36%		
FY 2003								
2002:3	\$11,845	0.84%			\$199,364	0.29%		
2002:4	\$11,947	0.86%			\$200,335	0.49%		
2003:1	\$12,048	0.84%			\$201,716	0.69%		
2003:2	\$12,148	0.83%			\$205,273	1.76%		
FY CHANGE		3.39%				3.23%		
FY 2004								
2003:3	\$12,311	1.34%			\$207,741	1.20%		
2003:4	\$12,540	1.86%			\$210,750	1.45%		
2004:1	\$12,768	1.82%			\$216,263	2.62%		
2004:2	\$12,994	1.77%			\$219,568	1.53%		
FY CHANGE		5.47%				5.90%		
FY 2005								
2004:3	\$13,222	1.75%			\$221,759	1.00%		
2004:4	\$13,451	1.73%			\$227,544	2.61%		
2005:1			\$13,636	1.37%	\$230,107	1.13%		
2005:2			\$13,840	1.50%	\$233,004	1.26%		
FY CHANGE				6.99%		6.80%		
FY 2006								
2005:3			\$14,114	1.98%	\$237,110	1.76%		
2005:4			\$14,345	1.64%	\$240,561	1.46%		
2006:1			\$14,624	1.94%	\$244,803	1.76%		
2006:2			\$14,767	0.98%	\$246,765	0.80%		
FY CHANGE				6.84%		6.23%		
FY 2007								
2006:3			\$15,015	1.68%	\$250,125	1.36%		
2006:4			\$15,263	1.65%			\$253,447	1.33%
2007:1			\$15,476	1.40%			\$256,173	1.08%
2007:2			\$15,737	1.69%			\$259,673	1.37%
FY CHANGE				6.30%				5.18%
FY 2008								
2007:3			\$16,000	1.67%			\$263,172	1.35%
2007:4			\$16,269	1.68%			\$266,750	1.36%
2008:1			\$16,546	1.70%			\$270,434	1.38%
2008:2			\$16,829	1.71%			\$274,181	1.39%
FY CHANGE				6.75%				5.41%
FY 2009								
2008:3			\$17,133	1.81%			\$278,256	1.49%
2008:4			\$17,451	1.86%			\$282,520	1.53%
2009:1			\$17,777	1.87%			\$286,890	1.55%
2009:2			\$18,119	1.92%			\$291,492	1.60%
FY CHANGE				7.37%				6.01%
FY 2010								
2009:3			\$18,468	1.93%			\$296,169	1.60%
2009:4			\$18,819	1.90%			\$300,844	1.58%
2010:1			\$19,174	1.89%			\$305,549	1.56%
2010:2			\$19,540	1.90%			\$310,390	1.58%
FY CHANGE				7.83%				6.48%

Sources: RESI, Bureau Of Economic Analysis

COMPARISON OF MACROECONOMIC FORECAST

	Economy.com (Nov)	Sage (Nov)	UMD (Nov)	RESI (Nov)
Maryland Employment				
2003	0.3%	0.3%	0.3%	0.3%
2004	1.2%	1.2%	1.2%	1.1%
2005	1.4%	1.4%	1.5%	1.5%
2006	1.2%	1.3%	1.3%	1.9%
2007	1.0%	1.5%	1.4%	1.6%
2008	1.1%	1.5%	1.3%	2.4%
2009	1.3%			3.1%

Maryland Personal Income				
2003	3.8%	3.8%	3.8%	3.8%
2004	7.2%	7.2%	7.2%	7.2%
2005	6.3%	6.3%	6.3%	6.3%
2006	6.6%	6.6%	6.5%	6.6%
2007	5.5%	5.9%	6.0%	5.3%
2008	5.0%	5.9%	6.1%	5.7%
2009	5.0%			6.3%

Maryland Wages and Salaries				
2003	4.0%	4.0%	4.0%	4.0%
2004	5.7%	5.7%	5.7%	5.7%
2005	5.6%	5.6%	5.6%	5.6%
2006	7.6%	7.5%	7.5%	7.4%
2007	5.4%	5.8%	6.4%	5.3%
2008	5.1%	5.7%	5.9%	6.1%
2009	5.3%			7.3%