

SPENDING AFFORDABILITY ADVISORY COMMITTEE REPORT



Fiscal Year 2018

**Spending Affordability
Advisory Committee**

Steve W. Sachs, Chair of the Spending Affordability Committee

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Andrew E. Clark
Richard Clinch Ph.D.
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Beverly Davis, Howard County Public School System
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Holly Sun, Budget Administrator
Larry Twele, Howard County Economic Development Authority

**Howard County Maryland
Spending Affordability
Advisory Committee
Report for Fiscal Year 2018**

March 2017

Purpose

County Executive Allan Kittleman renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in December 2016. 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 2018, but also for fiscal years 2019-2022.
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 that 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. Evaluate different options of a courthouse capital project given the project’s size and potential use of a new financing and business arrangement.

The committee shall present to the County Executive, on or before January 23, 2017, a report evaluating different financing options of a courthouse capital project with recommendations.

The Committee shall present to the County Executive on or before March 1, 2017, a report including:

- a. Projections of General Fund 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.

EXECUTIVE SUMMARY

While the County appears to be fiscally healthy, there are storm clouds on the horizon. On the revenue side, slower economic growth is not likely to keep pace with growing demands. Changing demographics, likely cuts in federal and state expenditures, and possible cuts to the federal workforce all affect the County's long term outlook. As the county ages and changes, there are challenges that we will have to meet: maintaining our great schools; continuing capital investment; providing for safe communities; and paying our existing obligations. At the same time, we are committed to sustaining the quality of life and advantages that distinguish the County.

Without any change to current revenue structures, additional revenue sources, and projected expenditure (capital and operating), county services and capital needs will outpace the revenue growth, making current patterns of spending unsustainable. For example, continuing to provide education funding in excess of Maintenance of Effort (MOE) will compromise other needs in the County. The challenge for policy makers is to sustain the current level of services, while sustaining fiscal balance so that the needs of the population are met.

It is important for community leaders and the government to understand and craft policies based on forecasted slower growth, demographic changes, and ongoing obligations.

SUMMARY OF RECOMMENDATIONS

Below is a list of the recommendations voted on by the Committee. Details regarding these recommendations are incorporated within Section II of the report.

- 1) FY 2018 projected revenue increase of 3.9% (\$40.6 million) over FY 2017 budget.
- 2) FY 2018 authorized General Obligation level of \$85 million (excluding courthouse).
- 3) Multi-year projection of 3.3% in FY 2019 and 3.6%-3.7% through FY 2023.
- 4) Other Recommendations:
 - a) Structural Deficit Analysis
 - b) Ambulance/EMS Fee
 - c) Transfer Tax
 - d) Stormwater Remediation Fee
 - e) Howard County Public School System
 - f) Maintenance of Effort
 - g) Other Post-Employment Benefits
 - h) Use of Fund Balance
 - i) General Obligation Bond Study
 - j) Revenue/Expenditure Multi-Year Projections
 - k) Partnership/Commercial Base Development
 - l) IT Investment
 - m) Collaboration, Communication, and Engagement

INTRODUCTION

The Committee is tasked with making recommendations to the County Executive on revenue projections, the debt ceiling, long-term fiscal outlook, and other observations and recommendations on County revenue and spending patterns, as appropriate. Also, the Committee is tasked with providing recommendations on financing and delivering the new courthouse capital project. The Courthouse report has been presented separately to the County Executive and County Council and is not discussed in detail here.

The Committee met multiple times from December 2016 through February 2017. During that time, the Committee listened to and discussed presentations from economists, county agencies, and local educational institutions. These meetings helped the Committee develop a better understanding of the County's economic and revenue outlook, debt affordability, demographic trends, economic development, long-term planning, operating and capital needs.

Through these discussions, it became increasingly clear that the County faces significant challenges to both its capital improvement program (CIP) budget and operating budget not only in the upcoming fiscal year but future years as well:

- Funding levels and funding growth are not keeping up with the significant CIP needs, including delayed maintenance and infrastructure needs;
- General fund revenues are expected to maintain a relatively moderate growth rate in coming years, which makes it difficult to meet various service needs and cost increases;
- These challenges will remain and grow more severe in the next decade with the demographic trends (featuring an aging population and a growth in school age population) and housing development (showing a shift to multi-family houses with lower income and higher demands on average).

These challenges have significant implications on the County's service delivery capacities for its residents and businesses. Recognizing these issues, the Committee believes the County must seek a combination of the following options to meet the continuous service needs:

- **Revenue growth options:** transfer tax increase and reallocation opportunity; ambulance fees; and continued promotion on commercial tax base development;
- **Expenditure discipline and prioritization:** balance the needs between education and all other services of the county; address long-term liabilities such as retiree health benefits; tighten fund balance policies;
- **Process change and innovative approach** to maintain and enhance services and results: use of technology; school class size reconsideration to free up funding for school CIP and operating needs;
- **Commitment to long-term planning:** work in collaboration with education entities and develop long-term projections and plans, which connect operating and CIP budgets and reflect long-term differences between revenue growth and expenditure needs;
- **Collaboration and communications** with other partners and the public: work in collaboration with other government entities and key stakeholders to develop realistic budget and realistic long-term CIP plans; engage/educate the public and seek input on service prioritization and fund raising options.

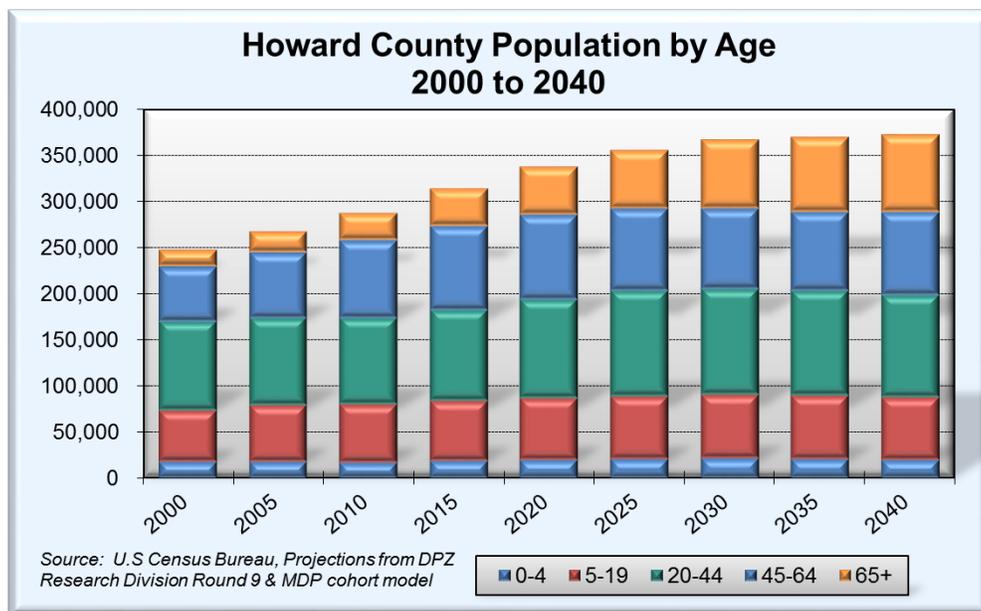
This report summarizes all major finds and recommendations of the Committee, and provides detailed background information on the economic and revenue outlook, debt indicators, and the County's multi-year projection.

I. DEMOGRAPHIC AND ECONOMIC TRENDS AND LONG-TERM SUSTAINABILITY

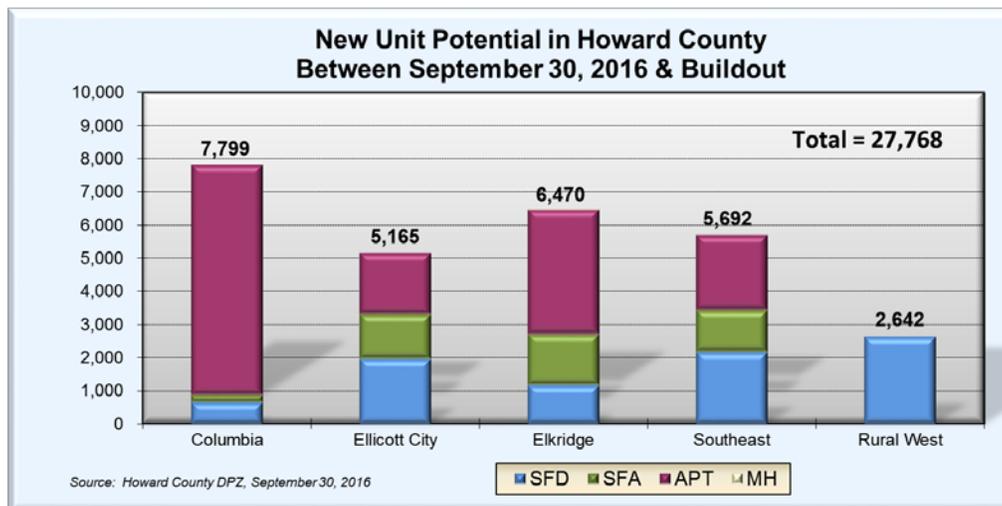
Last year, the Committee delved into three key demographic and economic trends that it believed would have significant impact on the County's near and long term fiscal state. This year, the County's Department of Planning and Zoning's presentation to the Committee reemphasized those concerns and the message is the trends remain the same.

First and importantly, the County's population continues to grow older. Reports by the U.S. Census Bureau and the Maryland Department of Planning project that the population over the age of 65 will double by 2050 nationally. The Department of Community Resources and Services that manages the Office of Aging and Independence did a similar study of the aging population and is projecting that the population over the age of 65 can double within the County by 2025.

As residents retire, they will collect less taxable income. This means less potential income tax revenue for the County. This also means that the County will need to find ways to continue to provide core services to an aging population with decreased resources.



The second economic trend is a continued shift in planned residential development activity from single-family housing to attached and multi-unit housing, which usually features lower resident income and higher number of persons per unit. Historically, this has meant lower revenues per resident generated and against higher associated government expenditures. With the increasing population and families moving to the County, the County and HCPSS are experiencing strain on financial resources to match the need.



(SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment; MH – Mobile Homes)

The third trend is the moderating County resident employment growth. The County has experienced more growth than the rest of the state since 2001. However, the growth in employed County residents has slowed over the last two years. The County’s growth has been driven by professional, technical, management, and federal contracting sectors while education and health services are beginning to expand to meet County needs. Spending decisions by the new federal administration will have an outsize impact on the County. The Administration has stated that it will reduce federal employment and spending, two major contributors to the State and County’s economy.

II. SUMMARY OF RECOMMENDATIONS

1. Projections of Revenue for the Upcoming Fiscal Year

FY 2018 projected revenue is \$1.09 billion, an increase of 3.9% (\$40.6 million) over the approved FY 2017 budget (excluding use of fund balance). The County is required by law to adopt a balanced budget. Unless the County realizes additional revenues, spending must stay within that amount. The Committee believes that it is imperative that the County deliberately consider a range of revenue and expenditure options in order to position itself for a period of limited revenue growth. The County also needs to monitor revenues closely, and make necessary expenditure adjustments swiftly.

2. A Recommended Level of New County Debt Authorization

The Committee recommends limiting authorized new General Obligation bonds in FY 2018 to \$85 million, excluding one-time cost of the new courthouse project. In an effort to continue to manage capital spending in order to maintain the debt service at 10% of revenues, the Committee has recommended the authorized spending limit at \$85 million two years in a row. This represents the lowest authorized bond level in the past decade. The Committee’s recommendation to lower the GO Bond authorization from historical levels was made to help the County maintain its AAA bond rating in future years and keep the County’s overall debt burden at a reasonable level without impacting its capacity to support priorities identified in the operating budget.

3. The Anticipated Effect of The Committee’s Budget Recommendations on Future Budgets

A multi-year revenue and expenditure model developed by the Budget Office indicates that **County General Fund revenues will likely show a growth of 3.3% in FY 2019 and 3.6~ 3.7% growth in the out years**

through FY2023. The Committee suggests that the County develop a multi-year fiscal plan that strategically balances service needs and resources to build a sound fiscal structure that supports our priorities.

4. Other Recommendations that the Committee Deems Appropriate

Structural Deficit Analysis

After discussing the demographic and economic trends and listening to various presentations on County needs, the Committee recommends that the County perform a thorough analysis of its operating and capital structure. This includes a review of revenue sources and targeting increases where necessary, looking at potential new revenue streams, curtailing expenditures, and finding ways to be more lean and efficient with fewer resources. Howard County is growing, and is growing at a relatively fast pace. However, the Committee is concerned that with stagnant revenue sources and increasing spending growth, the County will not be prepared to meet demand in the future, which is why it is recommending that this analysis be performed.

Revenue

Unless there are changes to the current revenue structure, a thorough examination of projected expenditure (capital and operating), and additional revenue sources considered, core services and capital needs will outpace the revenue growth. Options for additional revenues are:

- **Ambulance/EMS Fee:** Last year, the Committee continued the conversation of implementing an Ambulance/Emergency Transportation service fee in the County. The Committee recommended the County create a task force to evaluate the potential of this fee as a revenue source to the County. The County has hired an independent consultant to review the potential of this fee, to study how other jurisdictions implement the fee, and to recommend safety nets that the County would offer to ensure that all residents have access to ambulance and emergency services. If the findings of the consultant are favorable to the County, then the Committee recommends that the County move forward with creating the fee.
- **Transfer Tax:** The Committee had an in-depth discussion in regards to the Transfer Tax, which is primarily designated to CIP. The current tax distribution formula set by the State allocates 25% to school capital projects, 25% to Parks construction, 25% to agricultural land preservation, 12.5% to housing, and 12.5% to fire and rescue services. During the course of the meetings, the Committee frequently heard from various County departments, the need for new construction and other unmet capital projects. After careful deliberation, the Committee recommends that the County increase the Transfer Tax from 1.0% to 1.25% and submit the necessary legislation to the County's State Delegation for FY 2019 to meet unmet capital spending needs in the County. The increase in the tax will net approximately \$6.5 million in annual revenue and can leverage approximately \$80 million in capital over 20 years if using bond financing or fund \$130 million capital projects in 20 years if using cash funding. This will help relieve pressure on some of the critical needs.

The Committee also discussed the creation of a County taskforce every four years that will review the revenue and uses of the Transfer Tax and to recommend any changes to the formula as needed. The Committee recommends that this taskforce be comprised of representatives of all appropriate stakeholders including County and State officials, private citizens, and individuals from business areas that are directly impacted by the Transfer Tax formula. Currently, all changes to the Transfer Tax must be made at the State level. The Committee is recommending that the County Executive in collaboration

with the County Council, submit legislation to the State Delegation to assign the management of the tax to the County.

- **Storm Water Remediation Fee:** Last year, the Committee recommended that the County not remove the Storm Water Remediation Fee prior to implementation of an alternative fee structure. The Committee would like to acknowledge the County for not removing the fee and ensuring that there is a mechanism in place to meet federal mandates in the County's effort to restore its portion of the Chesapeake Bay watershed.

Expenditure Control

- **Howard County Public School System (HCPSS):** Education remains the County's top budget and policy priority. County funding to HCPSS is approximately 58% of the total General Fund, including debt service and retiree health benefits for HCPSS. Total County funding spent on education is almost two-thirds of the County's General Fund, this is more than five times the funding used for public safety. County spending per pupil reached \$10,138 according to the latest available data, ranked No. 2 in Maryland (only after Worcester). HCPSS' FY 2018 request for County funding is \$64 million, or 11.4% more than its FY 2017 budget. It is also \$23 million more than the anticipated total County revenue growth for FY 2018 of \$40.6 million. Meeting the full request of HCPSS' request will not only crowd out other agencies, but will eliminate available revenues for other services. Amid the growing needs of HCPSS, the County must also balance the needs for other core services and capital projects with a particular emphasis on deferred maintenance needs. The Committee encourages HCPSS to acknowledge the reality of a limited resource increase and actively look into other options beyond significant funding increases to address service needs.
- **Maintenance of Effort (MOE) Contribution:** In FY 2018, HCPSS' MOE increase is \$7.7 million for a total \$569.9 million in total County funding. As indicated in last year's Committee report, while the County has been able to fund in excess of the MOE amount in certain years, it has no fiscal requirement to fund over that amount. In fact, each year that the County increases the MOE beyond required contribution, it permanently increases the baseline for subsequent years. As a result, without significant revenue growth or new sources of revenue, any future decision to fund HCPSS beyond MOE necessarily will reduce the ability to fund other County needs. Furthermore, future economic down turns would further stress the situation.
- **Other Post Employment Benefit (OPEB) Contribution beyond PAYGO:** The Committee recommends that the County continue its multi-year phase-in plan towards fully funding OPEB liabilities and resist the temptation to reallocate funding from this obligation towards other operating needs. Steering away from the incremental funding plan could significantly impact the current discount rate and increase the overall cost of covering the OPEB liabilities. Also, it would negatively impact the teachers of the school system because 66% of OPEB funding is obligated for retiree health benefits of Howard County teachers.
- **Use of Fund Balance:** Last year, the Committee recommended that the County Executive consider implementing more restrictive policies on using prior year fund balances. The Committee is again recommending that the County not use more than 50% of the prior year unassigned fund balance in the upcoming fiscal year. Also, the County is encouraged to establish policy to protect and grow its fund balance to keep in line with other AAA rated governments. Such practice can help the County prepare for potential swings in revenues and unforeseen risks, and help minimize the volatility in PAYGO funding in capital projects.

Multi-Year Planning

- **General Obligation Bond Study:** The Committee would like to applaud the County for taking first steps towards correcting its historical practice of significantly overestimating capital funding in its CIP plans, and using a more practical and methodical process of planning. Last year, the Committee charged the County to conduct a thorough review of existing authorized GO bonds in order to determine whether some could be closed to open up some debt capacity. The County did commence a review of GO bonds and was able to close out a portion of them. When the Committee met last year, the County had approximately \$381 million in authorized but unissued bonds. This year, that number decreased to \$317 million. The Committee discussed in more detail the amount of authorized but unissued debt and asked the County to study this debt and further review what else can be closed. Also, for the sake of transparency, the Committee recommends that the County establish a concise written guideline on how debt is issued and spent in the county.
- **Revenue/Expenditure Multi-Year Projections:** As with the capital budget, the County has begun to develop multi-year projections and to develop a multi-year fiscal plan in order to prioritize resources to help support strategic priorities and achieve targeted policy results. The Committee recommends that the County continue this practice and include all stakeholders of County revenues such as the Howard County Public School System, the largest source of General Fund expenditures, the Howard County Community College, and the Howard County Library into its fiscal planning. In doing so, the County as a whole, would better align revenue trends, anticipate shortfalls and other needs due to the economic climate, and better plan based on the needs of the County.

Other / Innovative Approaches

- **Partnership / Commercial Base Development:** The Committee recommends that the County, in cooperation with the Economic Development Authority, continue to aggressively pursue new business and employees in the technology and businesses. As further discussed below, the County's commercial base continues to grow above the State average. The County should continue to seek opportunities to leverage resources to attract businesses, increase support for entrepreneurship, innovation, and small business programs to diversify the employment base.
- **IT Investment for Efficiency & Productivity:** Last year the Committee recommended that the County pursue the integration of the SAP technology across County operations. The Committee is further recommending that the County continue its efforts to invest and incorporate new technologies in order to enhance efficiency.

Communications and Engagement

- **Collaboration, Communications and Engagement:** It is important that the County engage and educate the public about the challenges the County faces, and seek their input regarding potential options, and solutions. The Committee additionally recommends that the County strengthen its partnership with all key stakeholders including education entities in discussing the long-term challenges and develop strategic plans jointly.

We would like to thank all the Committee members for their time and effort providing insight and thoughtful ideas that will help continue to move this County forward. We also want to thank all of the presenters who shared valuable information and analysis with the Committee.

III. DETAILS / BACKGROUND

1. Economic Outlook

The Howard County Budget Office retained Richard Clinch, PhD, Director of the Jacob Finance Institute at the University of Baltimore, to prepare a County personal income projection through Fiscal Year 2019 and a report on overall national, state and regional economic trends and their expected impact on the County's economy and government finances. Dr. Clinch reported the following key findings to the County's Spending Affordability Committee:

National Economy

- The national economic recovery remained strong in 2016, real gross domestic product increased at an annual rate of 1.9 percent in the fourth quarter (advance release) and 3.5 percent in the third quarter of 2016, up from 1.4 percent in the second quarter and 0.8 percent in the first quarter, and unemployment has been at or below 5 percent throughout 2016, with the nation at or approaching full employment.
- According to Moody's Economy.com, U.S. real GDP is projected to grow by 1.5 percent in 2016, by 2.9 percent in 2017 and 2.8 percent in 2018, with the Maryland Board of Revenue Estimates (BRE) forecasting growth in real GDP of 1.6 percent in 2016, 2.3 percent in 2017, and 2.6 percent.
- According to Moody's Economy.com, U.S. employment is projected to grow by 1.8 percent in 2016, by 1.6 percent in 2017 and by 1.5 percent in 2018, with the Maryland BRE forecasting generally slower employment growth, of 1.7 percent, 1.3 percent and 1.2 percent respectively.

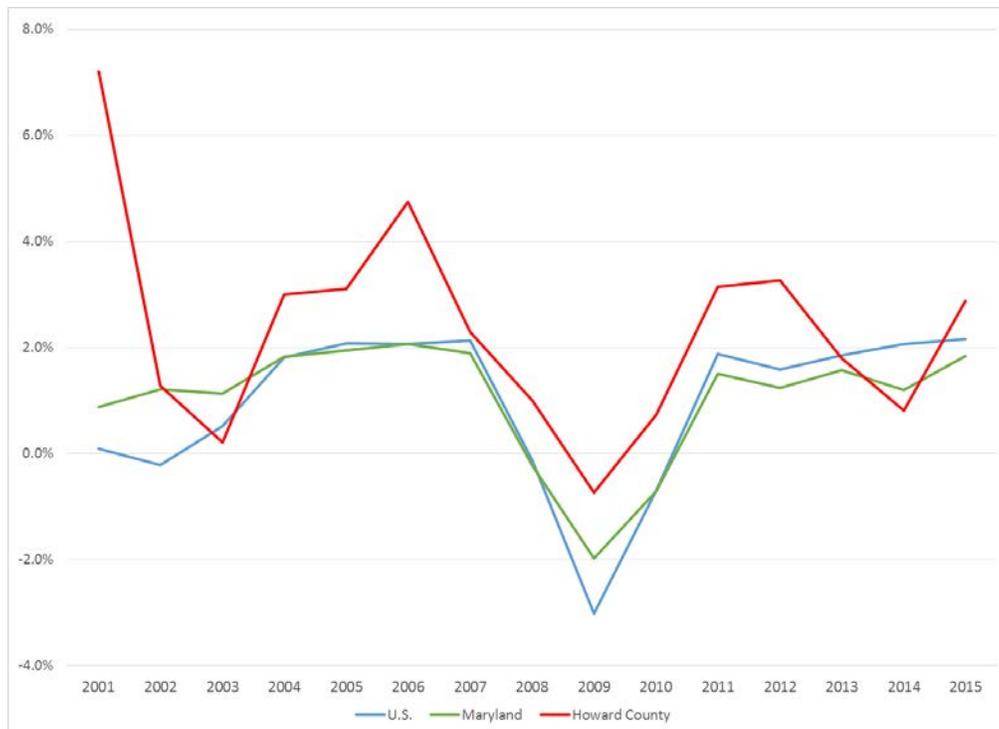
State Economy

- Maryland has lagged the nation throughout the recovery from the Great Recession, with the state ranked 34th in employment growth and 37th in growth in Gross State Product over the past five years. This lagging recovery was driven by the effects of federal budget sequestration and slow growth in federal spending in Maryland's federal dependent economy. While 2016 was a good year for the Maryland economy, with the national recovery finally taking hold, 2017 is beginning with significant risks to Maryland's economy. In its first week of office, the incoming Trump administration implemented a federal hiring freeze and has set a goal of reducing federal spending. While defense and homeland security spending, which are important to the State's economy, are exempted from the hiring freeze and are less likely to be cut, uncertainty over federal hiring and spending are likely to be a drag on the State's economy, at least in the near term. As a result, both the Maryland Board of Revenue Estimates and Moody's Economy.com projections for future growth are less than the estimates included in last year's report.
- The Board of Revenue Estimates (BRE) forecasts State employment growth of 1.6 percent in 2016, 1.0 percent in 2017, 0.8 percent in 2018, and 0.5 percent in 2019. The Board of Revenue Estimates forecast is for personal income to increase by 3.3 percent in 2016, 4.0 percent in 2017, 4.2 percent in 2018 and 4.1 percent in 2019.
- Moody's Economy.com predicts stronger growth in Maryland compared to BRE estimate. Nevertheless, Moody's also forecasts a slowdown with employment increasing by 2.0 percent in 2016, by 1.4 percent in 2017, by 0.8 percent in 2018 and by 1.0 percent in 2019 with personal income growth of 4.6 percent, 4.4 percent, 5.1 percent and 4.8 percent respectively.

Howard County Economy

- Howard County has outperformed the nation and the state in terms of economic, employment and population growth over the past decade,
 - In terms of population growth, the County is one of the fastest growing jurisdictions in Maryland and is attracting a highly educated, high income resident base;
 - Howard County's labor force has expanded more rapidly than the state since 2000, outpacing the state in all but two of the last sixteen years; however, the gap between the County and state narrowed in the last two years. In terms of the growth in the number of employed residents, the County has also outpaced the state in terms of growth since 2001, with the number of employed County residents increasing more rapidly than the state level in all but three of the last sixteen years; however, in the last two years, the growth in the County's employed workforce has more closely tracked Maryland's growth;
 - Employment growth has been driven by the County's Professional and Technical Services and Management of companies sectors, which are largely driven by federal contracting in the County. The county also experienced an influx of manufacturing jobs, despite the slow national and state recovery in this sector. Educational services and Health care and social services employment is also growing, likely to meet the expanding needs of the County's growing population.
 - Real estate activity in the County has recovered to pre-recession levels and both residential and non-residential permitting activity improved.

Chart: Total Employment Growth – U.S., Maryland, and Howard County



- While population growth, employment and real estate trends all improved in 2016, there are reasons for caution in the coming year. The incoming Trump administration has indicated plans to reduce

federal spending, which is likely to impact regional income, spending and employment growth. In light of the State and County’s dependence federal spending and the uncertain impacts of the new administration, continued caution is warranted in fiscal planning; and

- County personal income is projected to grow by 3.8 percent in FY2016, 3.8 percent in FY2017, 4.3 percent in FY2018, 4.4 percent in FY2019 and by 4.3 percent in FY2020. On an annual basis, County personal income is projected to grow by 3.4 percent in 2016, 4.2 percent in 2017, 4.4 percent in 2018, 4.5 percent in 2019 and by 4.1 percent in 2020.

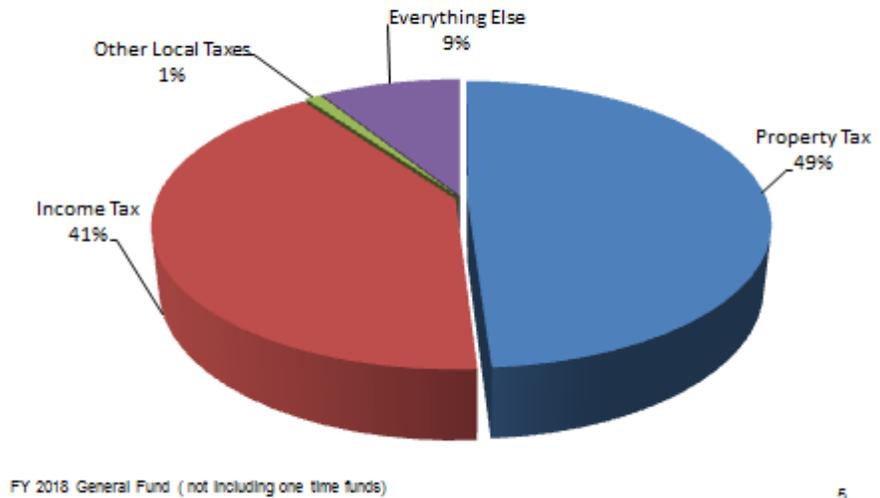
Chart: Personal Income Growth – U.S., Maryland, and Howard County



2. Revenue Outlook

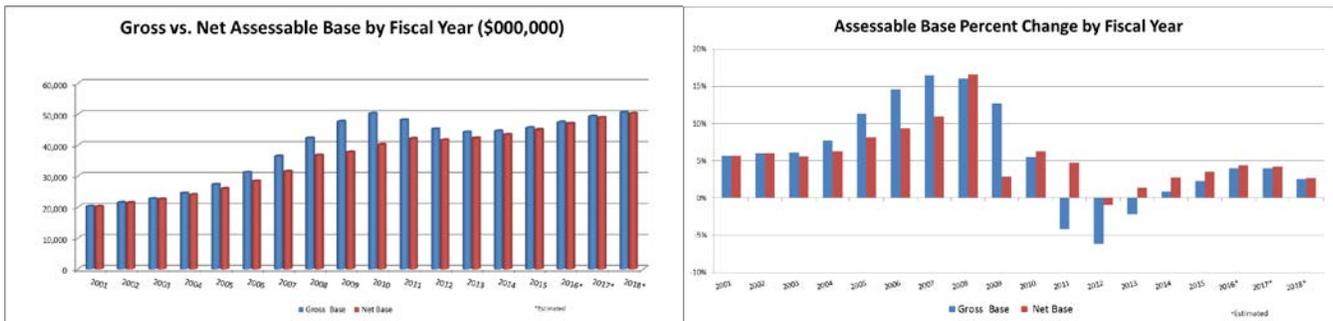
Howard County’s General Fund revenues rely primarily on two sources, property tax (49%) and income tax (41%). These two revenue sources have made up approximately 90% of overall revenues over the last few years and the trend will continue going into FY 2018. The County forecast for General Fund growth in FY 2018 over FY 2017 budget is 3.9%.

Property Taxes and Income Taxes Represent 90% of General Fund Revenues



Property Tax reassessment has continued in a straight year. The State Department of Revenue assessed full value, or 2.0% on average in trend and was reassessed at only 3.0% for the fifth straight year and was reassessed at only 2.5% over FY 2017, continuing the trend.

The County's net real property tax growth continues to benefit from diminishing credits from assessments subject to the Homestead Tax Credit. As the County continues to expand, new construction will continue to contribute to the growth in total property taxes each year.



Income Taxes are expected to continue a moderate growth in FY 2018. After a weak performance in FY 2015 in which the County experienced minimal growth suffering from the lagged impact of the fiscal cliff, FY 2016 experienced a surprisingly strong growth. However, the higher-than-expected growth did not reflect the economic reality, which featured a relatively slow employment growth (1.6% in CY2016) and still moderate personal income growth (estimated at 3.4% in 2016) in the County. Rather, it was partially attributable to the impact of the State's distribution formula (which resulted in over distribution). It is also important to keep in mind as there is high uncertainty associated with federal spending, which impacts county income tax related to both federal employment and federal contracts. Until the new federal administration's vision is finalized and impact can be determined, the County needs to exercise caution when estimating its FY 2018 income tax growth. The County is projecting that income tax revenues will be approximately 3.5% higher than FY 2017 Estimate.

In its growth projection, the County has taken into account the negative impact of the Wynne case. According to the latest information provided the State Comptroller's Office, the County is looking at historical liabilities of \$8 million based on processed and approved cases. All counties will begin installment payments for these historical liabilities in FY 2020. In addition, the County is estimating annual revenue

losses of approximately \$1.5- \$2.0 million from tax payers filing tax return applications based on the Wynne case results.

Other revenues are projected to either stay relatively flat or experience minor growth. Overall, taxes such as Recordation, Hotel/Motel, Transfer Tax, et al., will grow at approximately 2%. The Governor's FY 2018 proposed budget increased direct State Aid to the County by 3.5% over FY 2017. Furthermore, the Governor's budget increased direct aid to education entities by 2.6%.

3. Debt Indicators

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 published by Moody's Investor Service and International City/County Management Association publications. Four measures have been used to evaluate the County's debt burden and debt affordability:

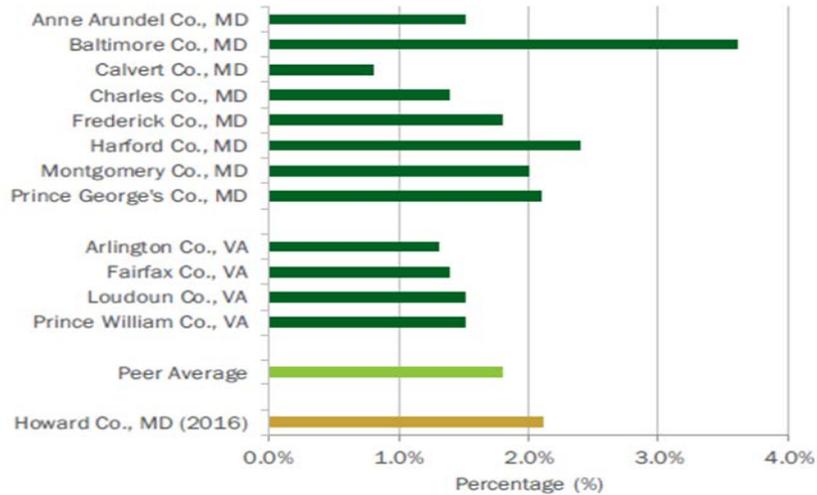
- Debt measured as a percent of the county's assessable base. The current County charter limit is set at 4.8 percent of assessed value.
- Debt measured against the population on a per capita basis. Per capita debt exceeding \$1,200 (unadjusted for inflation over the past 10 years) may be considered excessive by rating agencies.
- Per capita debt measured as a percent of the jurisdiction's per capita personal income. This measure should not exceed 10 percent in the view of many analysts.
- Debt Service as a percent of current revenues. This is the most important debt indicator among the four listed. Ten percent or below is considered an appropriate level, with 15 percent and above regarded a danger point.

The latest values of these four debt indicators are listed below. (Note: The previous year's measures are shown in brackets []).

Measure #1: Debt as a Percent of the Assessable Base

As of June 30, 2016, [2015], Howard County had an assessable base of **\$47,641,613,341** [\$45,731,165,307] and a General Obligation (GO) Debt of **\$1,075,162,952** [\$1,055,649,063]. This means that the ratio of debt to base was **2.26%** [2.31%] of assessed value versus the 4.8% limit. Preliminary projections indicate that this measure will remain relatively low in coming years.

Debt to Assessed Value Peer Comparative (2015)



Measure #2: Debt measured against the population on a per-capita basis.

As of June 30, 2016, [2015], Howard County had a population of **313,414** [308,705] and a General Obligation Debt of **\$1,075,162,952** [\$1,055,649,063] generating a per-capita debt of **\$3,430** [\$3,420].

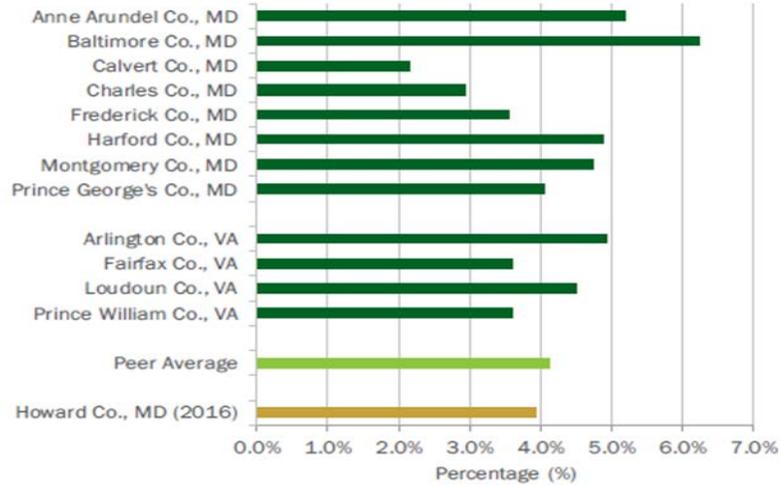
Debt per Capita Peer Comparative (2015)



Measure #3: Per-capita debt measured as a percent of per-capita income – 10% limit.

For 2016[2015], Howard County residents had an estimated per-capita personal income of **\$71,190** [\$69,610] and a per-capita debt of **\$3,430**[\$3,420] equaling a per-capita debt of **4.82%** [4.91%] of per-capita income.

Debt to per Capita Income Peer Comparative (2015)

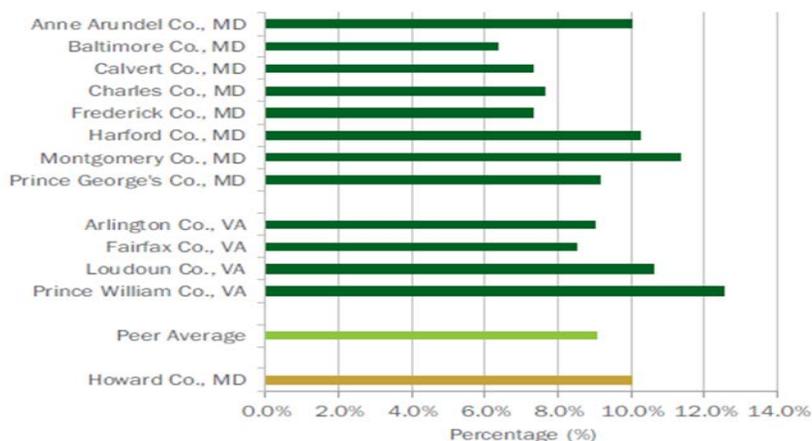


Measure #4: Debt Service as a percent of current revenues.

In FY 2016 [2015], the County received **\$1,168,111,061** [\$1,118,247,455] in revenues from the General Fund, Fire and Rescue Fund, and Environmental Service Fund and paid debt service of **\$105,941,303** [\$100,250,194]. Thus, debt service equaled **9.07%** [8.96%] of current revenues. This debt indicator is the most important measure of the four, indicating not only debt affordability but also the ability of the General Fund to support other strategic priorities (after dedicating resources to debt obligations).

This indicator is projected to grow continuously partly driven by existing authorized but not issued GO bonds and increased current and future capital needs from HCPSS and the County. Adding the proposed new courthouse project will likely cause the County to slightly exceed the 10% policy target two years in a row to 10.2% around FY 2022-FY 2023. After that, this indicator is expected to trend down and fall below 10%. It is worth noticing that 10% is a self-imposed policy ceiling and exceeding it temporarily is not predicted to cause any changes in county credit ratings. Nevertheless, the Committee is aware of the tight debt capacity based on current revenue streams and CIP needs.

Debt Service vs. Expenditures Peer Comparative (2015)



Committee Recommendation: Keeping Bond Authorization at Affordable Level

A recent study by the County's Department of Finance shows that County debt level, in comparison to its peers, is above average in three out of the four measures. The study supports the Committee's recommendation for the County to continue to lower debt limit. As it has done in the past, the Committee continues to urge the County to curtail the issuance of debt, prioritize affordable and necessary projects instead of desirable projects, and continue to review and cancel authorized but unissued debt that is no longer relevant in order to reduce the overall debt burden.

4. Multi-Year Projections

The County's budget office developed multi-year projections based on historical trends and anticipated drivers of revenue growth and expenditures. Preliminary projections show that General Fund revenue growth during FY 2018 will be 3.9% over the FY 2017 budgeted level, and continue a moderate growth of approximately 3.3%-3.7% per year during the FY 2019~FY 2023 period. This level of growth is still regarded as solid growth and should be considered the "new norm" moving forward.

The Committee continues to be concerned that this level of revenue growth may not meet the expenditure demands in future years. Major cost drivers include increased needs in education, growth in compensation and fringe benefits for employees, debt service, and increasing needs of the community. It is imperative that the County continue to work with key stakeholders to find ways to live within its means while supporting critical services. It is time for the County, as a whole, to review core processes and services and find efficiencies in order to reduce costs instead of simply raising more revenues to meet service needs. At the same time, find ways to use the County's excellent resources to continue to attract high quality businesses, employees, and residents.

As in all models, the multi-year projection scenarios listed are based on a set of assumptions that could change when new information becomes available or the impact of changes in policy are considered. Nevertheless, this modelling provides a tool useful in identifying the affordable level of growth and understanding the implications of different scenarios.

Howard County Revenue/Expenditure Growth Projection Model

The County's Budget Office develops multi-year projections for its General Fund. The following model shows updated FY 2016 actuals and FY 2018 revenue projections as of February 2017. The model also includes preliminary projections for FY 2019 – FY 2023. In terms of expenditures, the County is required to pass a balanced budget annually with the expenditures staying within projected revenues. It is important to note that while these projections are based on logical assumptions today, the County still faces uncertainty in regards to federal employment and spending, two economic factors that the County is reliant on.

Details of the multi-year revenue projections and one of the many possible expenditure scenarios that match the projected revenue growth are shown below.

General Fund Multi-Year Projections

(\$ in thousands)	Actual	Budget	Estimate	Projected					
	FY16	FY17	FY17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Property Taxes	499,903	511,434	518,210	531,695	547,595	565,693	585,493	605,992	626,992
Income Taxes	433,404	430,586	431,892	446,826	464,727	485,628	507,530	530,331	554,248
Other Local Taxes	33,272	32,338	33,294	33,728	34,400	35,000	35,700	36,500	37,300
State Shared Taxes	2,078	1,606	1,606	1,627	1,680	1,600	1,600	1,600	1,600
Charges / Permits	44,042	34,081	34,958	36,434	36,746	37,433	37,917	38,496	39,081
Investments/Transfers	45,541	39,439	39,488	39,818	40,518	40,918	41,419	41,819	42,319
Total Revenues	1,058,240	1,049,484	1,059,448	1,090,128	1,125,666	1,166,273	1,209,658	1,254,738	1,301,540
Education	593,986	614,029	614,029	637,809	658,601	681,926	707,293	733,590	760,953
Public Safety	120,846	127,243	127,243	132,171	136,481	141,531	146,796	152,359	158,042
Public Works	63,330	66,646	66,646	69,227	71,484	74,129	76,886	79,745	82,719
Community Services	68,063	64,183	64,183	66,669	68,842	71,389	74,045	76,798	79,662
General Government	26,351	27,680	27,680	28,752	29,689	30,788	31,933	33,120	34,356
Legislative & Judicial	25,220	26,719	26,719	27,754	28,659	29,719	30,824	31,970	33,163
Debt Service	105,612	106,557	106,557	110,684	114,292	118,521	122,930	127,500	132,256
NonD / Other	16,210	16,427	16,427	17,063	17,619	18,271	18,951	19,656	20,389
Total Expenditures	1,019,618	1,049,484	1,049,484	1,090,128	1,125,666	1,166,273	1,209,658	1,254,738	1,301,540

Note: expenditure projections are shown for illustration purpose and do not represent long-term fiscal plans.