



County Council Briefing on Revenues

5/1/2024



Deep Appreciation for All Partners !

- FY25 Proposed Budget reflects diligent work & collaboration involving all county agencies, education entities and other stakeholders
- From \$86M Gap to a Balanced Proposed Budget supporting all major strategic priorities

Key Updates from March 12th Revenue Briefing to County Council

General Fund Revenue Growth Excluding Use of Fund Balance (\$ in Millions):

SAAC 3/1 Projected General Fund Revenue Growth Projections	50.6
Adjustments Based on New Information Available	
Development Fee Adjustments for Cost Recovery Based on Fee Study & Commercial Mechanical Inspection Fee	2.1
Interest Income Adjustment	1.5
Other Updates (debt service recoveries, etc.)	<u>1.2</u>
Subtotal	4.8
Proposed Property Tax Rate Shift from Fire Fund	20.1
FY25 Proposed General Fund Revenue Growth	75.5

Proposed Tax Rate Shift (Changes)

- FY25 Proposed Budget assumes the following tax rate changes

Property Tax Rates Walkthrough (\$ per \$100 of assessable value)				
	FY24		FY25 Proposed	Change
Real Property				
County Tax (General Fund)	1.014		1.044	0.030
Fire Tax (Fire Fund)	<u>0.236</u>		<u>0.206</u>	<u>(0.030)</u>
Total	1.25		1.25	0.000
Personal Property				
County Tax (General Fund)	2.535		2.61	0.075
Fire Tax (Fire Fund)	<u>0.59</u>		<u>0.515</u>	<u>(0.075)</u>
Total	3.125		3.125	0.000

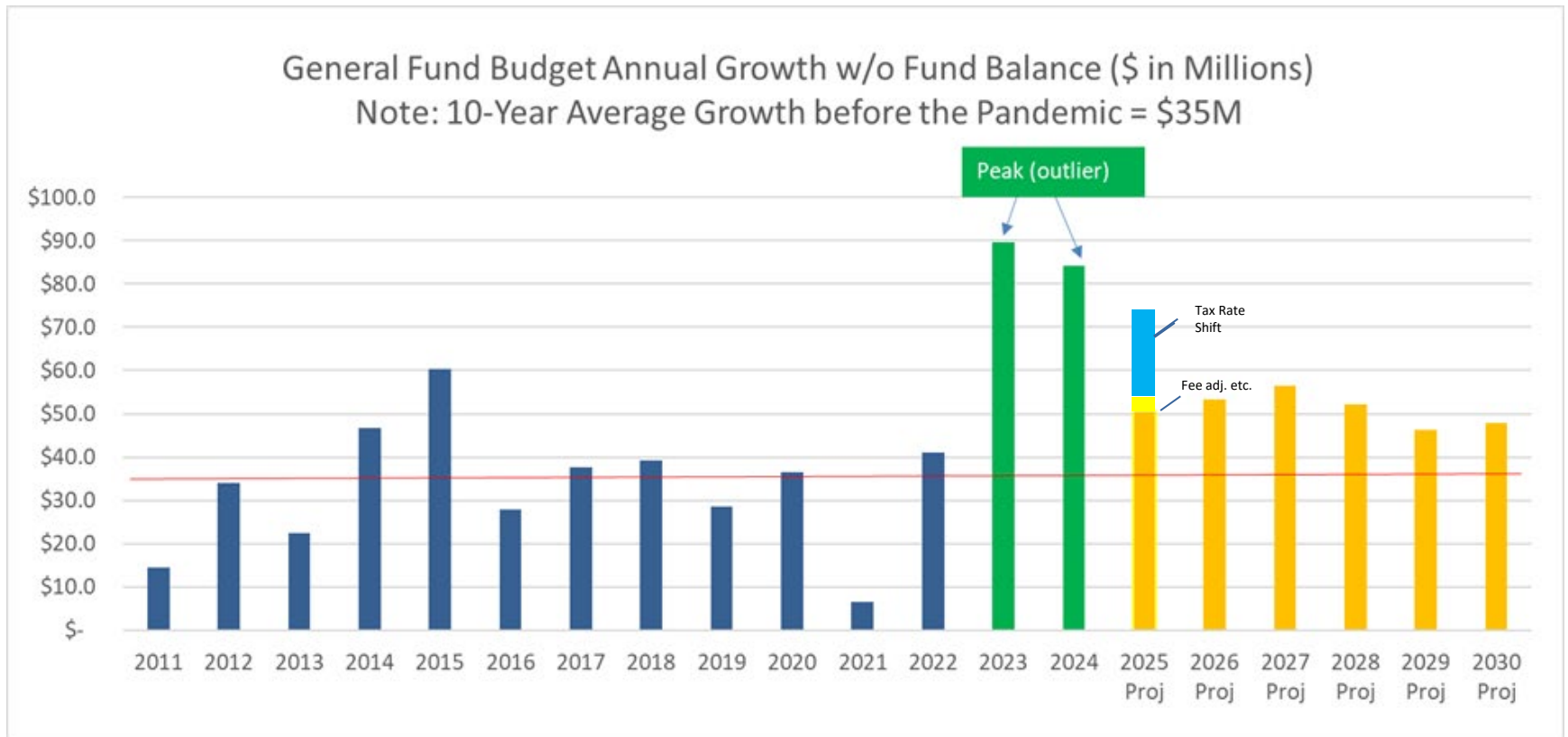
- For both residential and commercial property taxpayers, the proposed rate changes above are **cost neutral (\$0 net impact)**

Proposed Property Tax Rate Changes (Continued)

- The \$20.1 million generated in General Fund from the proposed tax rate changes allows the County to direct much-needed funding to support priority needs, including:
 - \$47 million above State mandated Maintenance-of-Effort in recurring County Funding growth to HCPSS, the biggest discretionary expenditure item in FY 25 Proposed Budget.
- The proposed shift is possible thanks to relatively strong assessment growth in recent years that provides extra capacity in the Fire Fund.
 - Fire Fund is expected to maintain financial solvency while supporting critical needs including new fire stations in next 5-6 years.

County Revenue Growth In Transition to Normalization

- Without latest proposal of tax rate shift and fee adjustments etc., revenue growth in FY 25 would have been just slight over \$50 million
- Transition towards more sustainable growth (historical trend 3-4%)
- Previous peak performance primarily driven by temporary factors



PAYGO (Use of Fund Balance)

- FY 2025 Proposed Budget also includes \$196.4 million Use of Fund Balance (\$95.9 million growth) to support **non-recurring** priorities
 - \$ 111.9M CIP PAYGO (N. Laurel Pool, HCPSS systemic renovation, Elkridge Community Center, etc.)
 - \$84.6M Operating PAYGO
 - \$5M for one-time HCPSS expenditures pending MSDE approval
 - \$79.6M various other one-time initiatives



SAAC County Council Briefing & Preliminary Fiscal Outlook

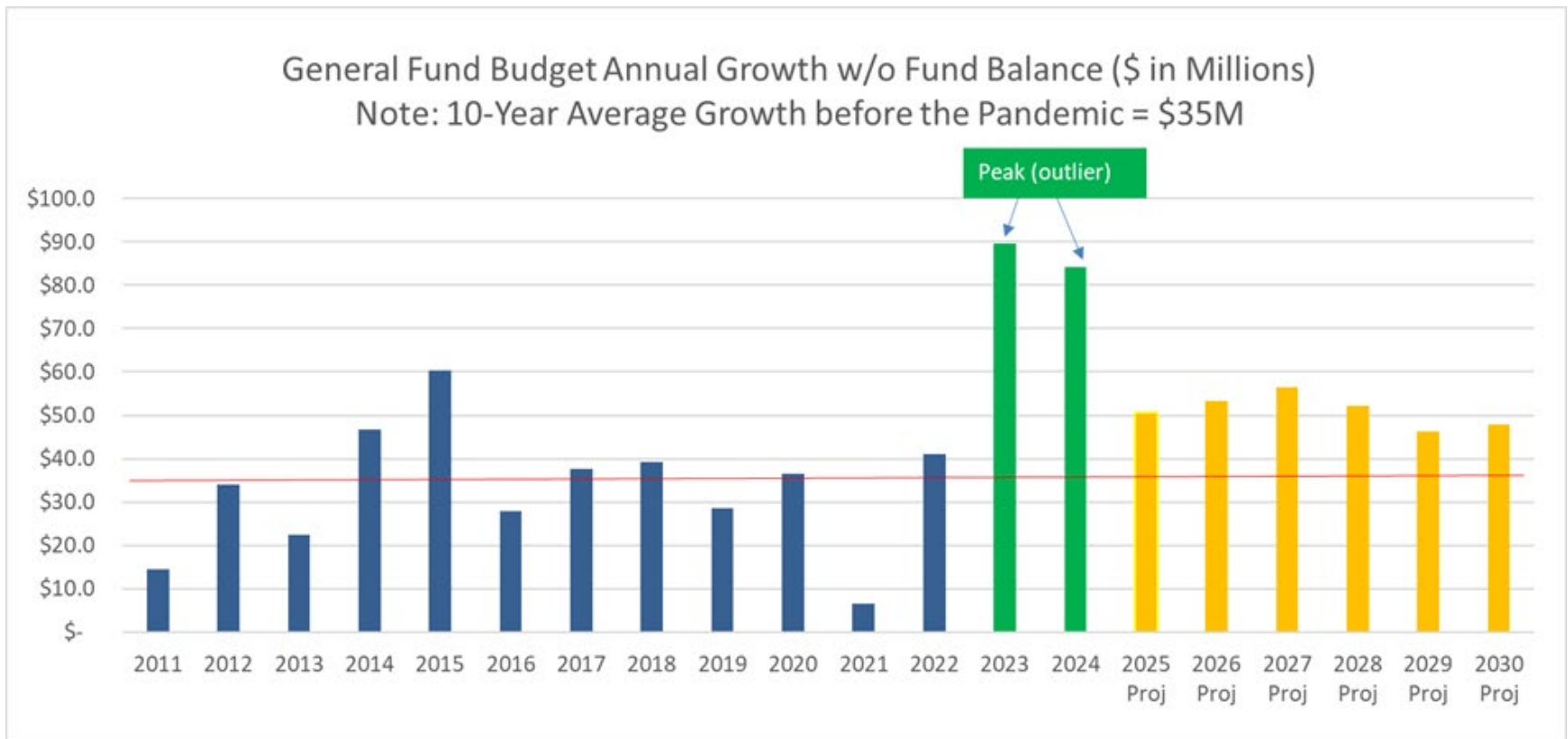
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Spending Affordability Advisory Committee

- The Spending Affordability Advisory Committee (SAAC) has been established by Executive Order annually since 1987. The Committee is composed of members with diverse backgrounds and expertise tasked to provide independent, non-partisan and data-based analysis and advice to County leaders.
- Committee report is due to County Executive by March 1, including:
 - revenue projections for the upcoming fiscal year,
 - recommended new debt authorization
 - multi-year revenue and expenditure projections
 - policy recommendations for the County’s long-term fiscal well-being.

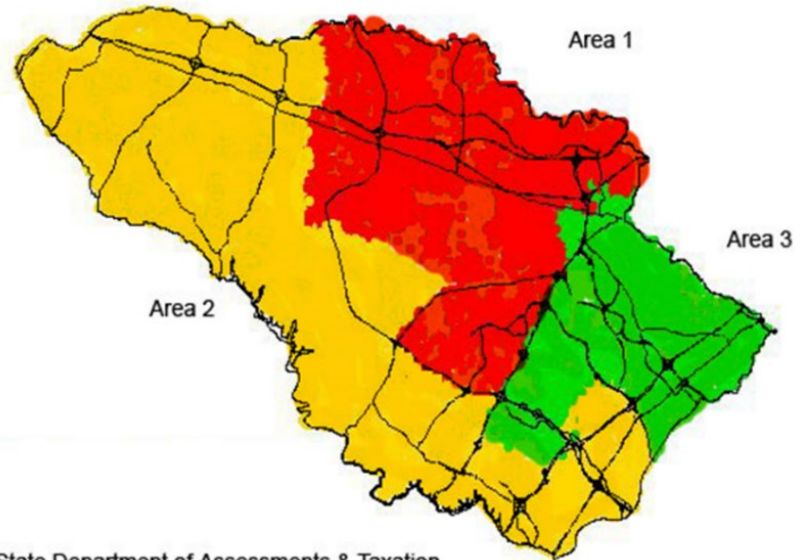
County Revenue Growth In Transition to Normalization

- FY 2025 revenue growth is projected at \$50.6 million (3.7%)
- Transition towards more sustainable growth (historical trend 3-4%)
- Previous peak performance primarily driven by temporary factors

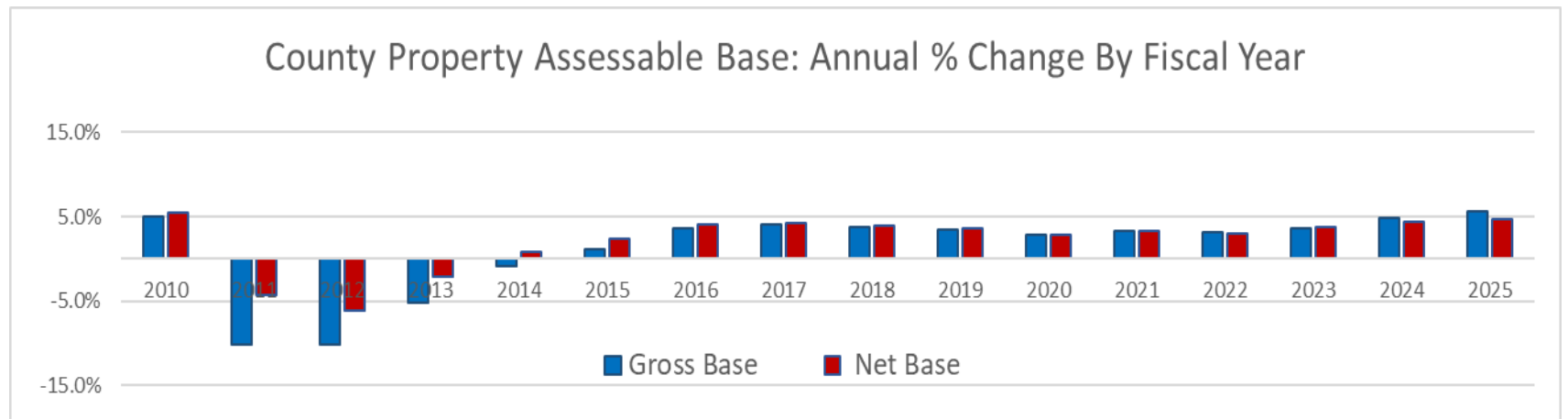


Assessable Base Continues a Strong Growth - 4.8% Projected in FY2025 (with Homestead)

- F25 reassessment growth (for 1/3 of areas per year)
 - Area 3: 6.8% per year (FY25-27 phase-in)
- Total assessment growth history:
 - 15-year avg. growth: 2.2% per Year
 - 5-year avg. growth: 3.6% per year



State Department of Assessments & Taxation



Reassessment Strong; Mitigation Factors

Reassessment continuous the strong reassessment; However,

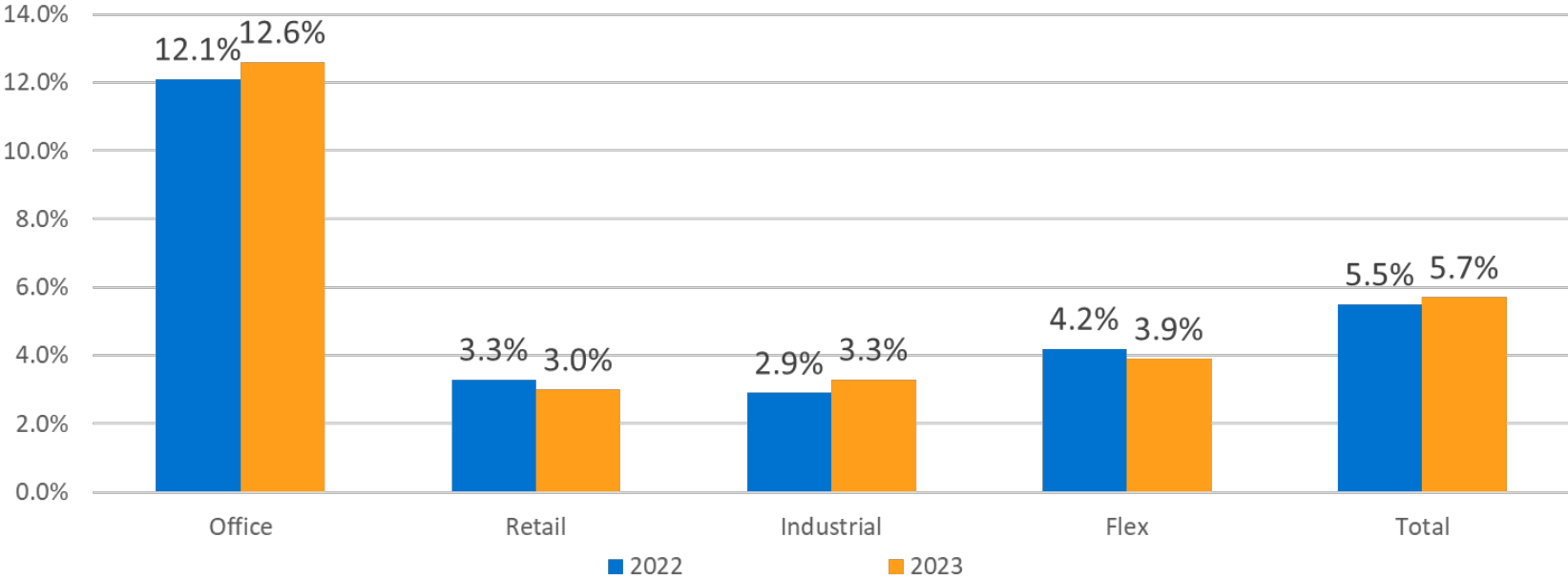
- Revenues are impacted by Homestead Credit (capping taxable growth of owner-occupied houses at 5%) and other tax credits
- Commercial real property reassessment growth lagged State average in this period
- Personal property assessment decreased from two years ago

Reassessment Triennial Change in Full Cash Value (Total)														
January 1, 2011 through January 1, 2024														
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Gr. 2	Gr. 3	Gr. 1	Gr. 2	Gr.3	Gr. 1	Gr. 2	Gr. 3	Gr. 1	Gr. 2	Gr. 3	Gr. 1	Gr. 2	Gr. 3
Anne Arundel	-16.6%	-12.6%	-1.9%	9.9%	10.8%	11.5%	12.4%	8.9%	7.9%	10.8%	6.0%	7.9%	17.4%	22.0%
Baltimore City	-8.7%	-6.8%	-3.1%	7.0%	9.6%	10.9%	6.2%	3.6%	8.4%	9.1%	4.1%	6.6%	21.6%	17.9%
Baltimore	-13.6%	-14.5%	-8.1%	1.2%	6.4%	12.4%	8.5%	6.6%	10.9%	8.1%	7.2%	11.1%	16.4%	23.3%
Harford	-15.3%	-5.8%	-6.5%	1.6%	3.1%	3.2%	6.0%	4.5%	5.8%	5.6%	6.3%	9.6%	16.0%	22.0%
Howard	-18.8%	-8.7%	2.5%	8.1%	10.5%	9.0%	6.1%	5.9%	8.5%	8.3%	9.3%	10.8%	20.4%	20.5%
Montgomery	-14.5%	-8.6%	4.1%	11.0%	18.7%	11.1%	7.8%	8.4%	6.9%	7.6%	9.2%	11.1%	19.7%	21.0%
Prince George's	-28.7%	-24.8%	-10.6%	5.3%	19.5%	24.7%	13.5%	17.5%	16.8%	13.3%	13.4%	15.8%	22.7%	23.0%
State Average	-17.9%	-13.0%	-3.6%	4.7%	10.8%	10.9%	8.2%	7.7%	9.1%	8.9%	8.1%	12.0%	20.6%	23.4%

Note: % change in the table represent full value changes from three years ago **before three-year phase-in.**

Commercial Property Vacancy Rates

Howard County Commercial Vacancy Rates (Q4)

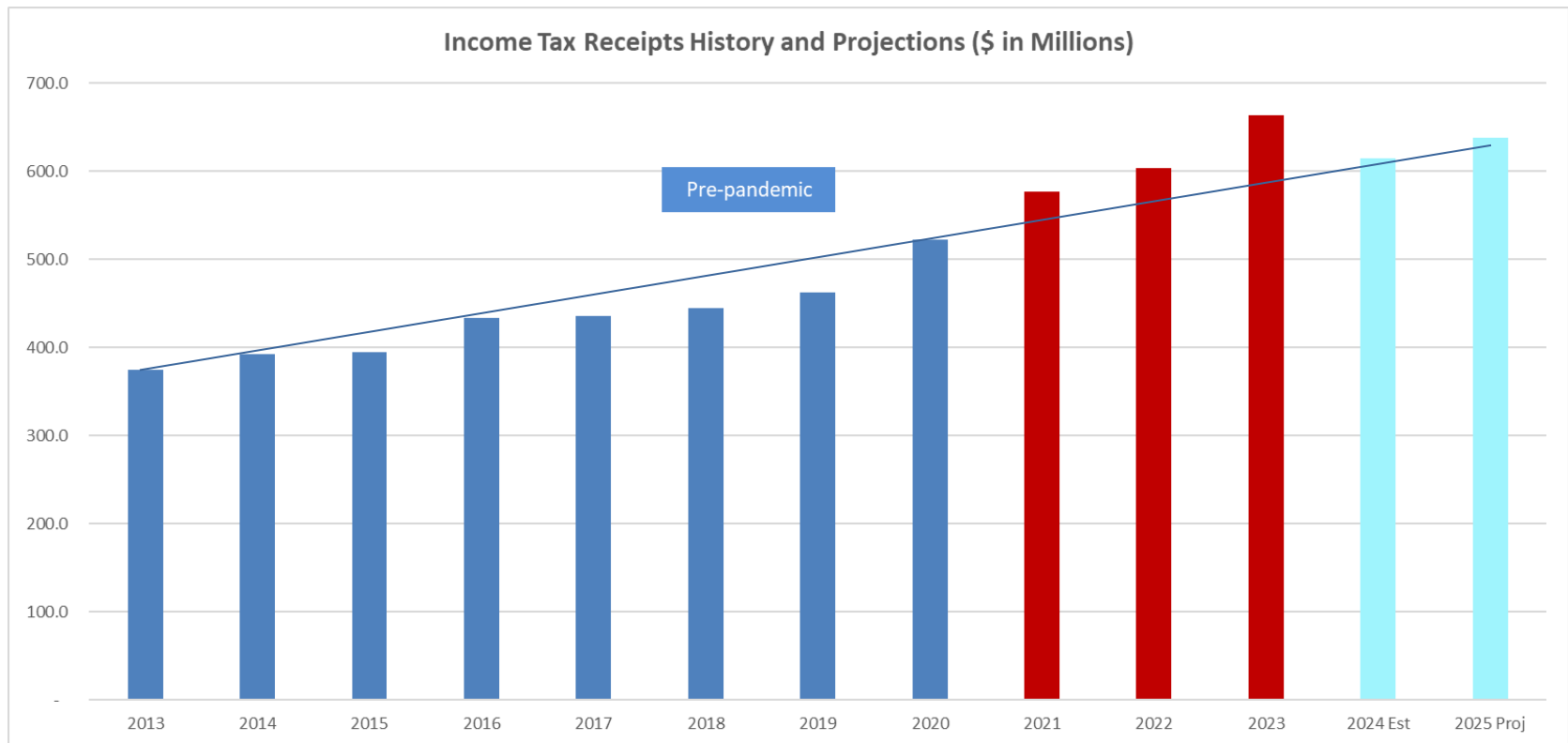


Vacant Available Direct and Sublet Vacancy Rate

Source: Bureau of Labor Statistics

County Income Tax Annual Growth History

- FY24 YTD: **-11% (-\$43M)**
- Pre-Pandemic: 3.4% (5-year average)
- Pandemic: 8.4% on average

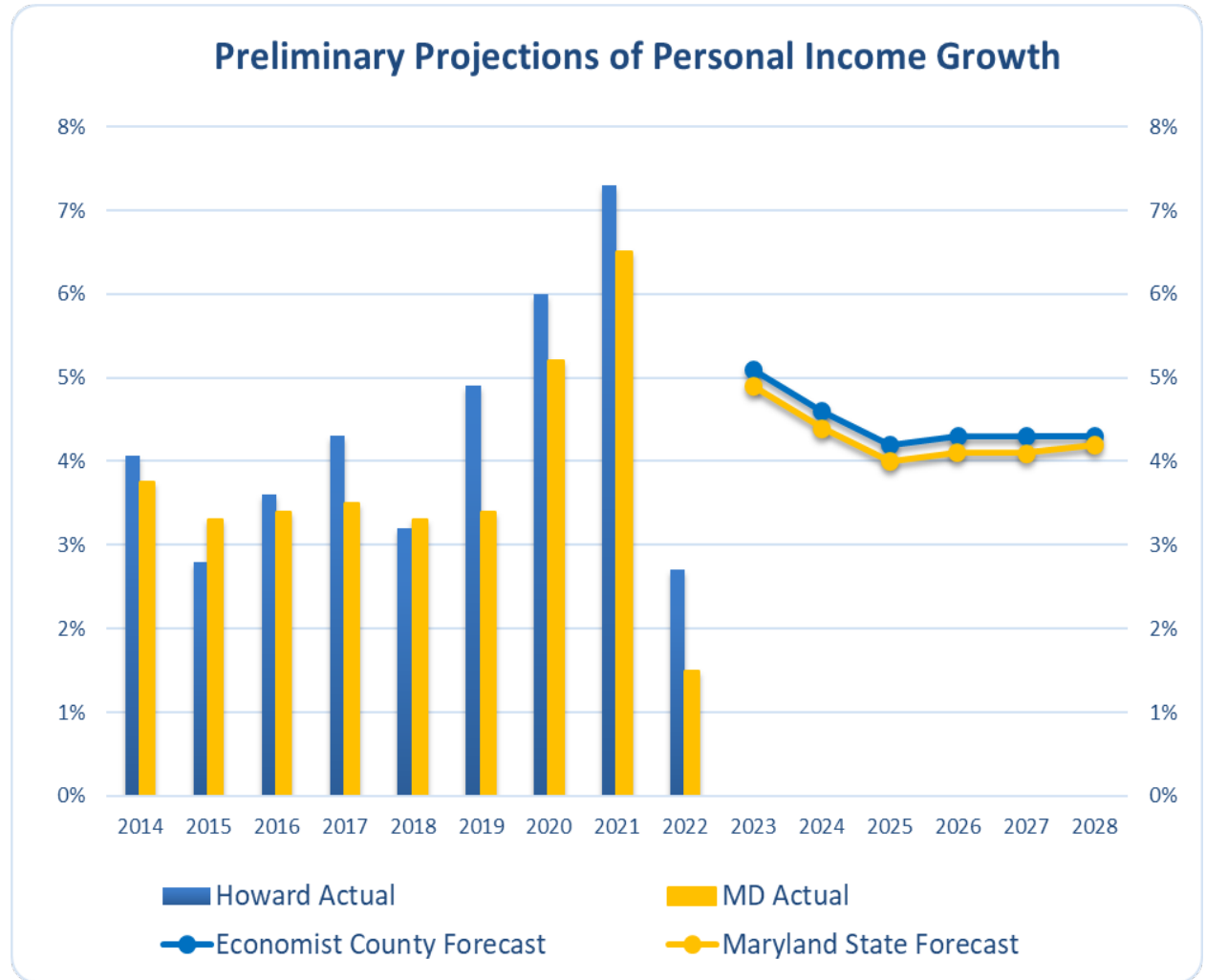


Income Tax- Solid Base Overall But High Volatility in Individual years

- Historically 3-4% growth largely in line with personal income
- Abnormally high distribution during the pandemic
 - Disconnect between tax receipts and personal income growths
 - Multiple temporary factors (Federal stimulus, capital gains, inflation, legislative and policy changes impact, etc.)
- Further complication due to the lagging (distribution & reconciliation)
- Following a corrective downward adjustment currently, future growth expected to recover to around 4% over the next few years based on economic trend (absent recession)

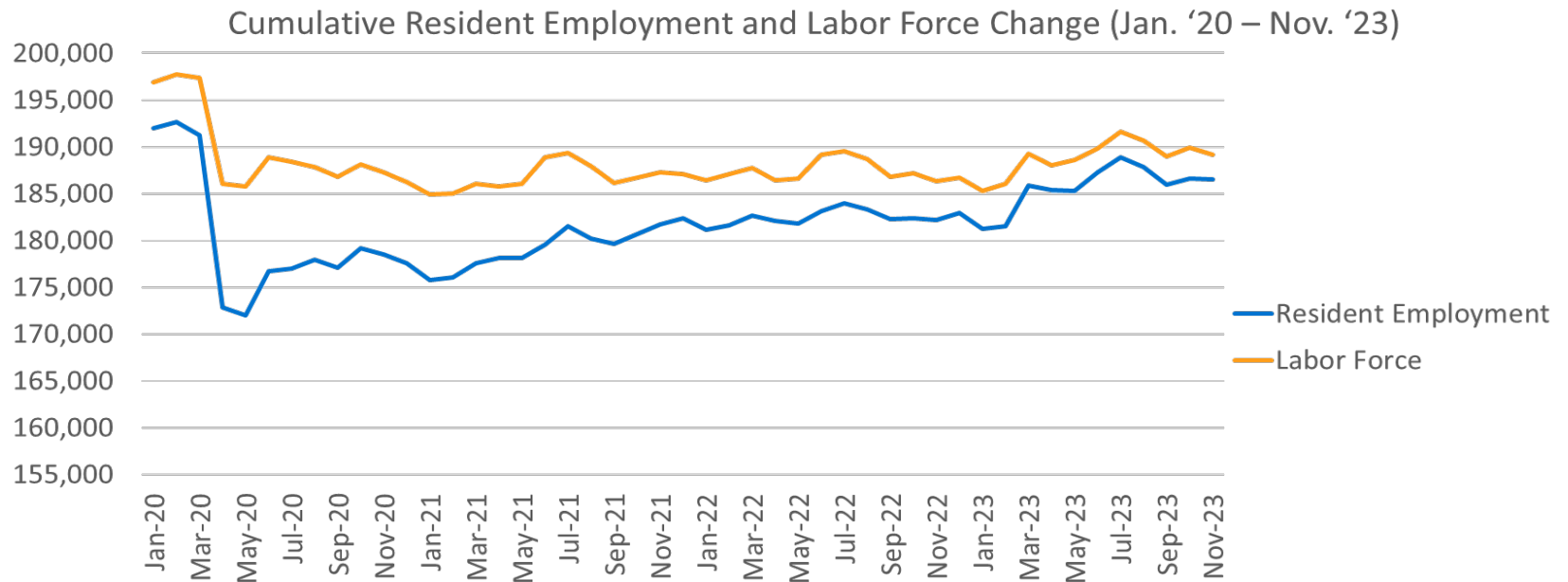
Personal Income Growth in Howard County

- County actual personal income experienced a weaker growth of 2.7% in CY 2022.
- The Jacob France Institute at the University of Baltimore projects:
 - Slightly over 4% growth on average in next several years



Some Concerns

- Employment has improved but remains below pre-pandemic level
- Workforce participation, domestic migration (net income loss)
- The State just reported state revenue write-down of \$255M, quoting withholding income tax deceleration, decrease in estimated income, and significant downside risks on forecast

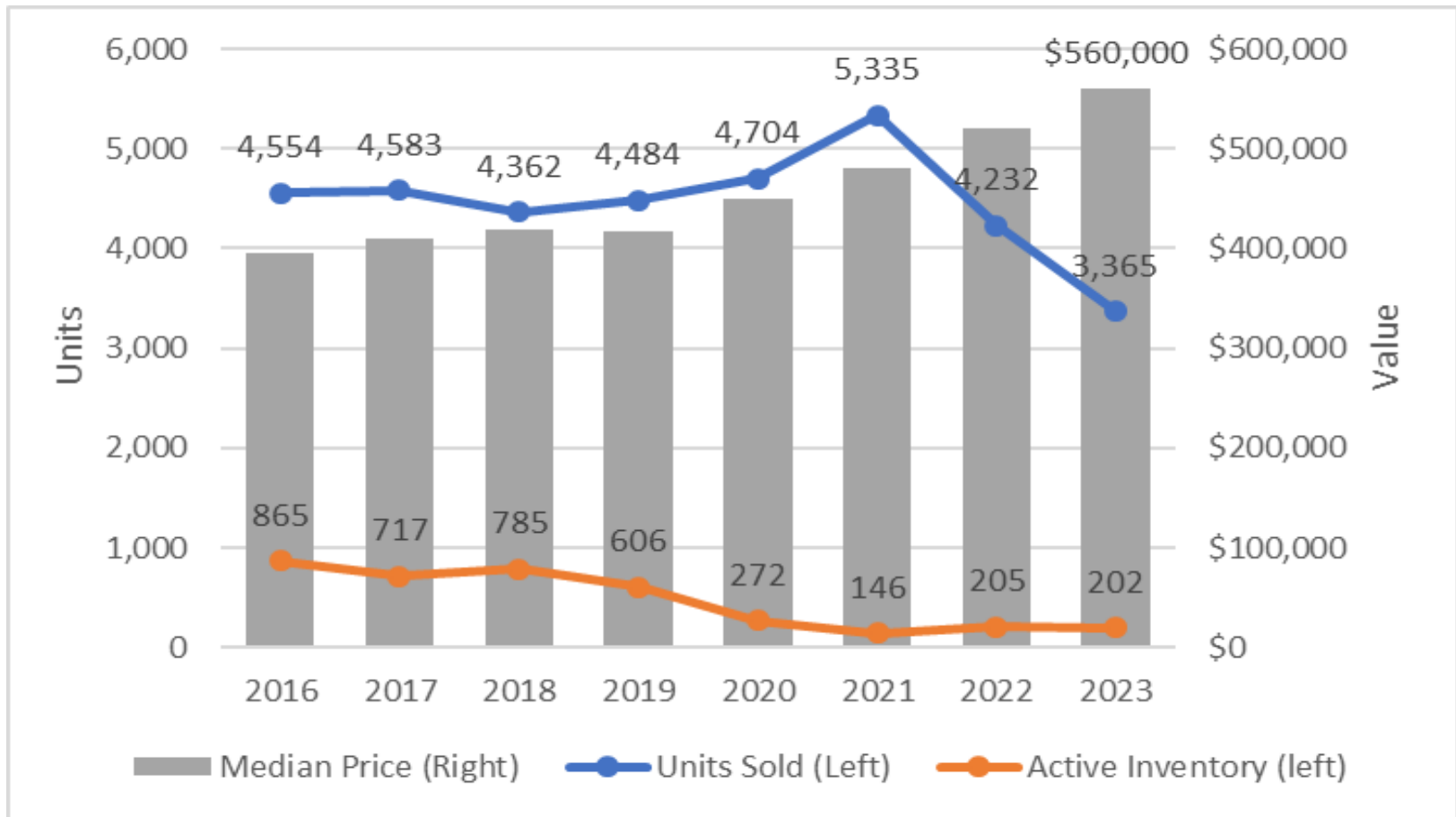


Source: Bureau of Labor Statistics

Other Key Revenues

- Transfer & Recordation taxes, building permits, and development-related charges
 - Double-digit decreases experienced in both FY2023 and current fiscal year amid housing market corrections
 - Some recovery expected in FY2025, assuming mortgage rate decreases

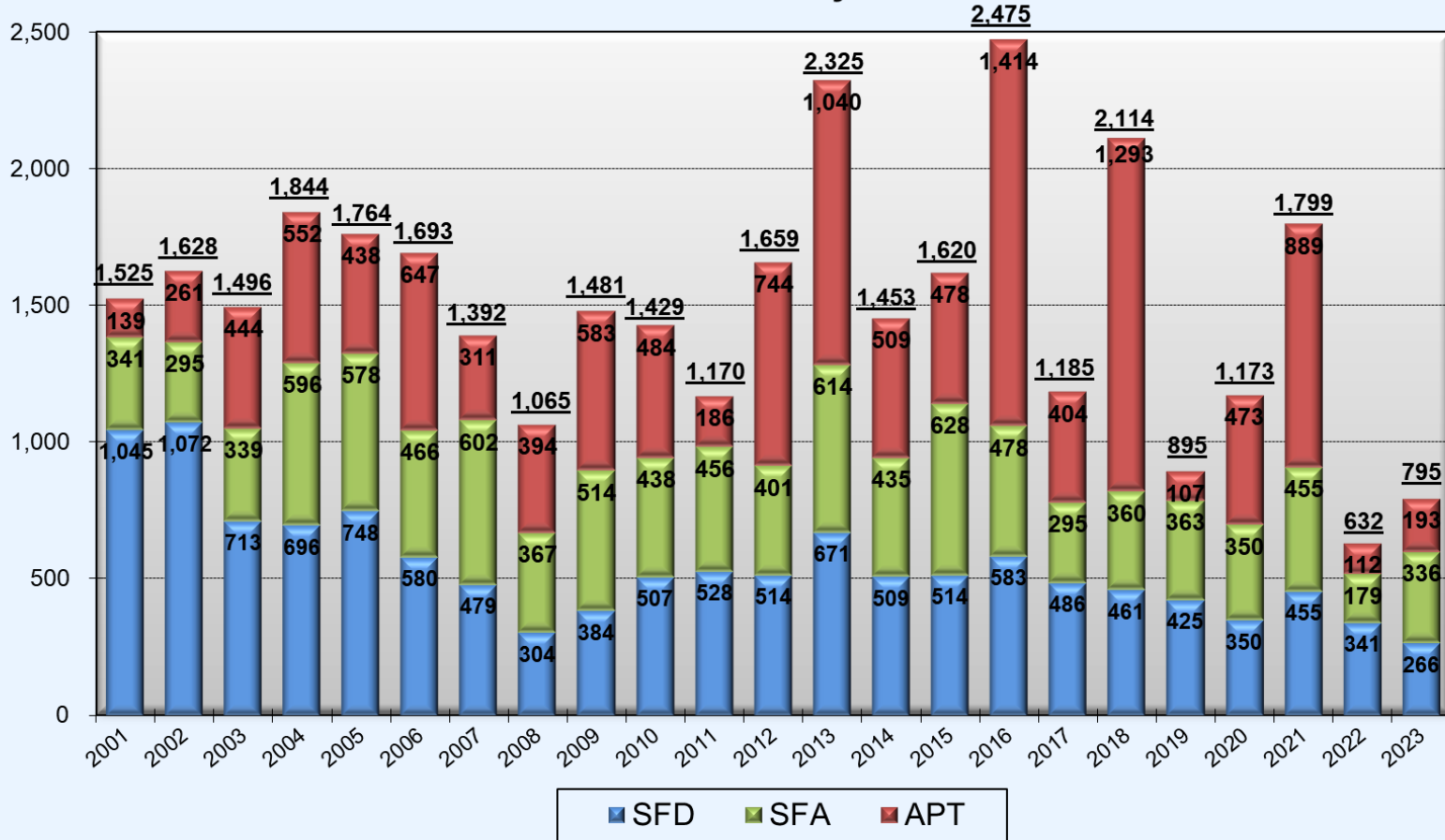
Howard County Residential Units Market



- Units Sold – down by more than 20% in 2023
- Median Sales Price – growth of 7% in 2023
- Inventory low – most houses are sold within 10 days

Residential Building Permits Issued Decreased Significantly

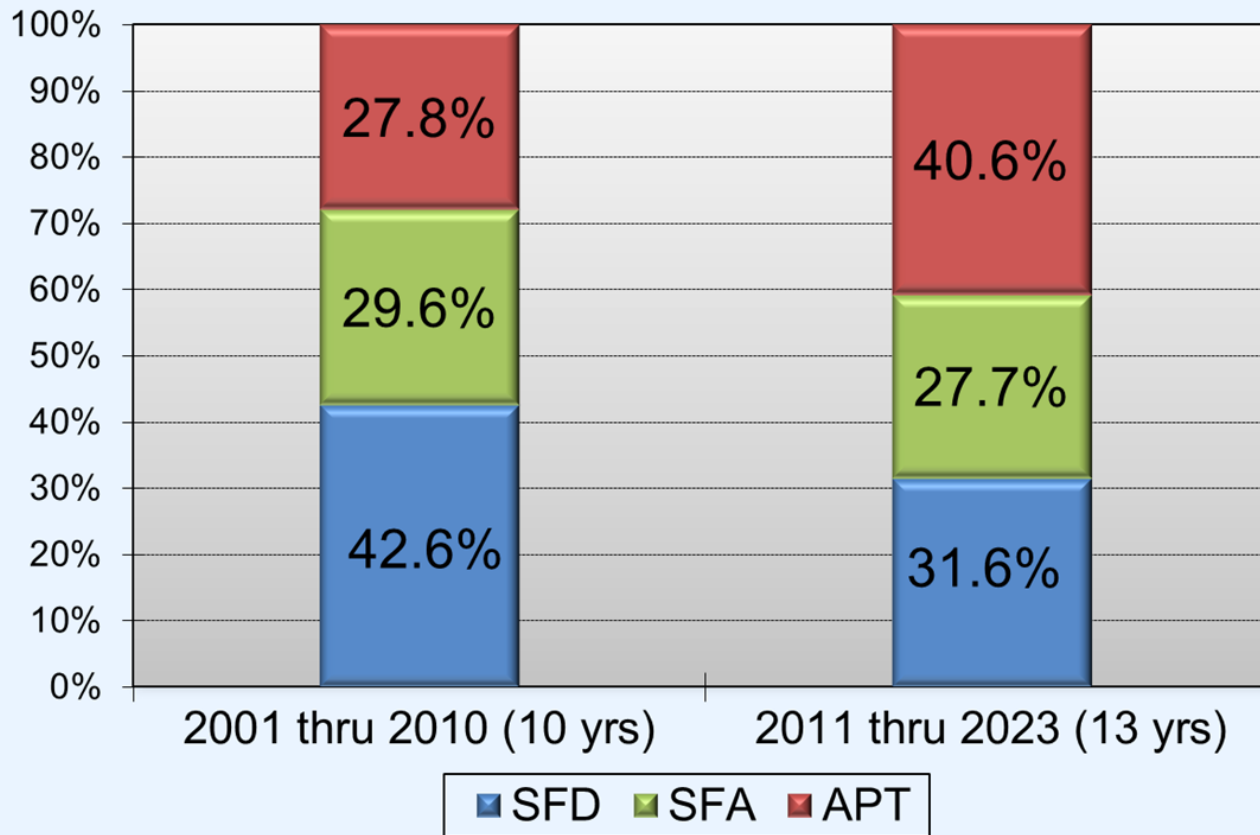
Residential Building Permits Issued 2001 through 2023
Howard County



Source: Howard County Department of Inspections, Licenses and Permits (not showing small number of mobile homes)

New Residential Units – Change of Type

**Residential Building Permits Issued - Percentage Unit Type
Howard County**



Source: Howard County Department of Inspections, Licenses and Permits

FY2025 Operating Budget Projected Gap: **\$77M** (based on BOE proposal: **\$86M**)

\$ in Millions	FY 2025
Revenues - Projected Growth	50.6
Requested Expenditure (County Funding) Growth	
HCPSS Superintendent's Proposal (original req. \$41.3M, adj. for updated MOE)	40.7
HCC + HCLS	4.7
Debt Services (non-discretionary) + OPEB (retirement health benefit)	9.0
All Other Agencies (including funding to non-profits etc.)	<u>73.0</u>
Expenditures - Requested Growth	127.4
Gap	(76.8)

- Note: the projected gap was developed before Board of Education voted on HCPSS budget request (which added another \$8.8M to the gap)
- The County needs to address and balance multiple critical needs
 - education needs, all other service needs, non-discretionary obligations, comp. & classification study in progress (first in 25 years), COVID/economic recovery needs in post-grants era

FY2026–2030 Revenue Projections: 3.3% Growth on Avg.

Preliminary Multi-Year Projections Excluding Use of Fund Balance(\$ in Millions)								
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY26-30
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Avg. %
Property Taxes	646.3	678.7	709.2	737.6	759.7	774.9	790.4	3.1%
Income Tax	622.1	636.5	662.0	688.4	716.0	744.6	774.4	4.0%
Other local taxes	25.0	29.7	31.0	31.6	32.3	32.9	33.6	2.5%
State Shared Taxes	4.6	5.6	4.1	4.1	4.1	4.1	4.1	-5.4%
Charges / Permits / Intergov.	26.6	28.7	28.4	28.7	28.9	29.1	29.3	0.4%
Transfers /Recoveries / Invest.	60.6	56.6	54.0	54.2	55.3	56.4	57.5	0.4%
Total Revenues	1,385.2	1,435.8	1,488.7	1,544.7	1,596.3	1,642.0	1,689.3	3.3%
% Growth		3.7%	3.7%	3.8%	3.3%	2.9%	2.9%	

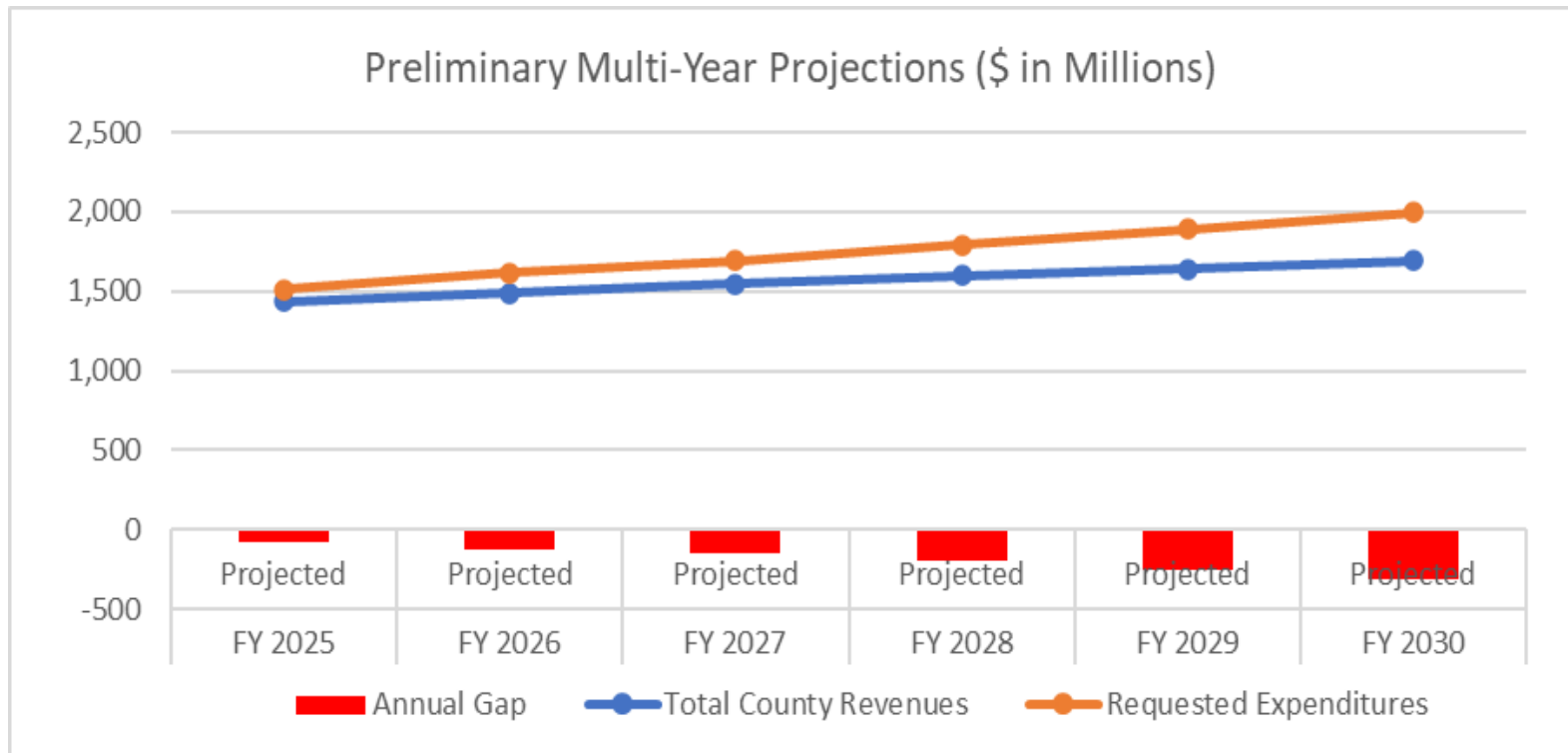
- This multiyear projection assumes
 - Continued growth in property taxes, primarily due to lapped impact of reassessment phase-in
- The projection does not assume
 - Economic recession, housing market plunge or stocks market downturn
- Long term concerns
 - Demographic, development and housing trends (e.g., new development slowdown, house affordability, aging population, net income loss from moving)

Multi-Year Projections (Before Actions)

Expenditure needs (projected by all government entities and agencies in aggregate) continue to outpace revenue growth:

- annual gap (deficit) to close: **\$77~\$306 Millions** per year

County government will work with all stakeholders collaboratively and deliver a balanced and sustainable budget annually.



CIP Outlook: Extremely Challenging

Preliminary CIP requests exceed bond capacity significantly

Preliminary GO bond requests received from all agencies for FY 2025 and out years exceed debt capacity significantly.

Agency GO requests per Planning Board version

- FY25 Request: \$165M
- FY26-FY30 Request (Annual Avg): \$180M

Reference

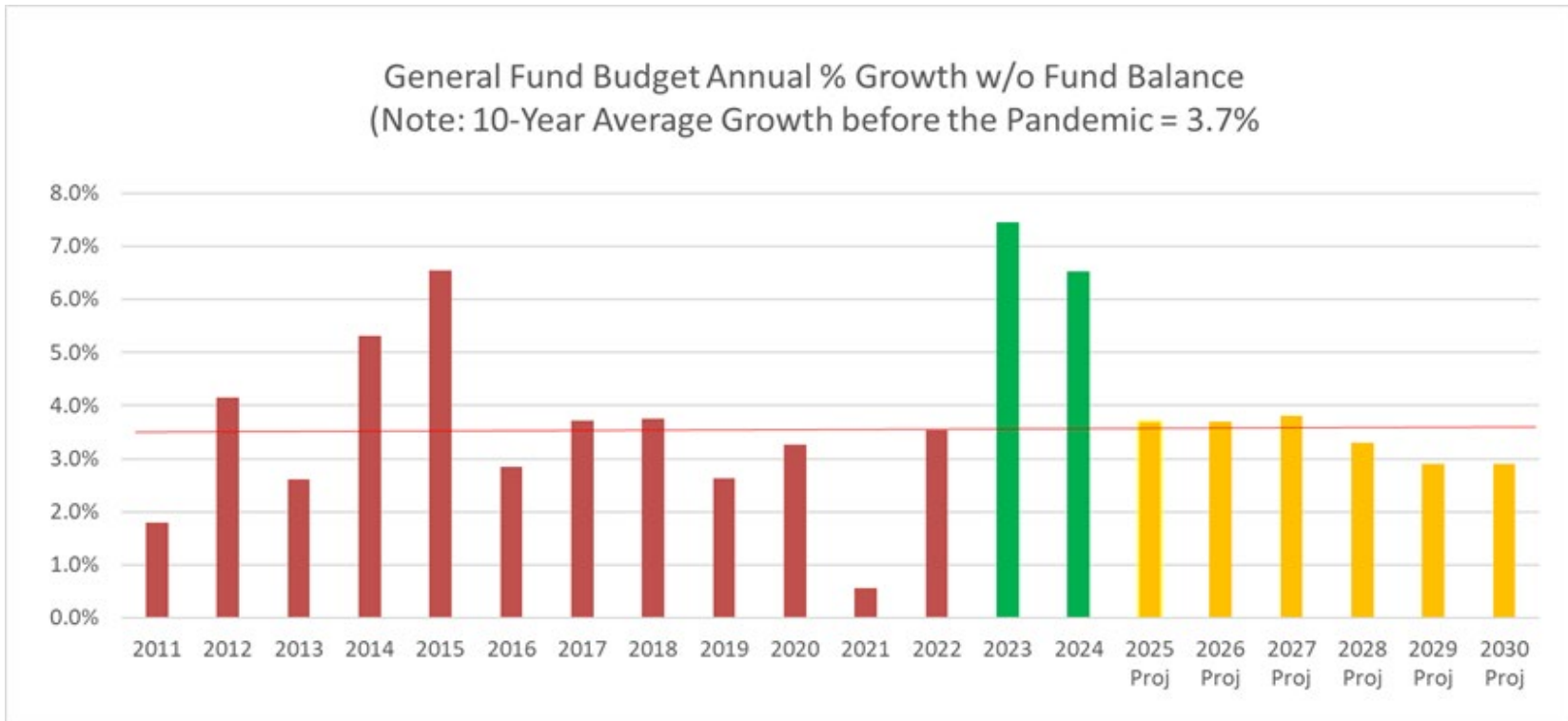
- FY21-24 Approved: \$72.5~\$75.5M

Projected Gap: \$90-\$105M per year

In addition: some projects are running out of capacity from designated revenues such as watershed fees or transfer tax

SAAC Key Recommendations - Revenues

The County's operating expenditures should be limited to no more than the projected 3.7% increase for FY 2025, representing a normalization of annual revenue growth.



SAAC Key Recommendations – Long-Term

The County should develop long-term spending plans based on less than the projected revenue growth (avg. 3.3% in FY26-30)

- Both County and Maryland economy have been lagging and is projected to continue trailing the national economy in employment and economic growth
- The Howard County workforce and economic base both remain below pre-pandemic levels, despite a strong national recovery
- The pace of development in the County has slowed dramatically as residential permitting activity remains well below historical norms
- With slowing of residential development, the rate of population growth has also slowed and can be expected to remain below historical norms in the near term
- While a national recession appears to have been avoided to date, a national economic slowdown becomes increasingly likely with each out year.

SAAC Key Recommendations - Other

Capital Budget

- Prioritize annual CIP budget to address maintenance needs of the aging infrastructure and backlog
- Use designated resources to lower General fund debt burden

Operating Budget

- Prioritize annual operating budget to support existing services
- Balance service needs as a full-service county
- Limit above-MOE funding and encourage realistic HCPSS planning
- Maintain/increase reserve and address long-term liabilities
- Recover costs while managing burden
- Promote commercial base

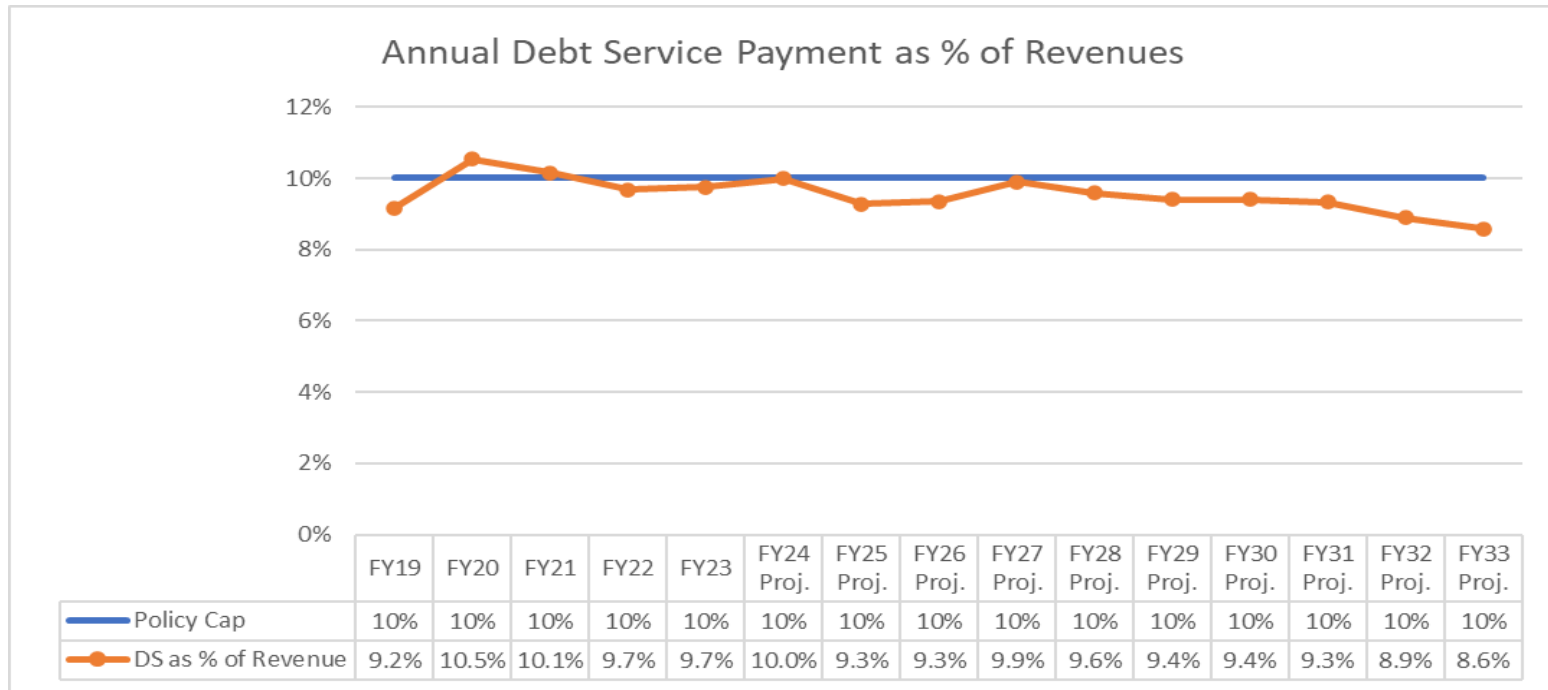
Other

- A balanced multi-year fiscal plan together with stakeholders

SAAC Key Recommendations – New GO Debt

The County’s new GO bond authorization should not exceed \$70 million for FY 2025.

- Debt service payment as % of revenues has shown some improvement
- Need continued fiscal discipline and debt control given the risks



Source: Finance Department. The projection assumes a 4.5% interest rate and \$90 million new GO in the next 10 years.