



County Council Briefing on
FY 26 Revenues & Overview

5/5/2025

Challenges in Developing FY26 Budget

- Significant Federal grants/loans in the air

- Federal announcement of mass reduction of workforce and contracts/spending

- State shift of costs to local
 - \$8M+ shift per Governor's proposal alone; other proposals

- Tariffs (impact on cost and supply chains)

- Stocks market

“Economy losing momentum. Risks going up quickly.” – Anirban Basu, regional economist

FY26 Proposed General Fund Budget

FY26 Projected Revenue Growth Excluding Use of Fund Balance: \$71.7M (4.9%)

	General Fund Budget (\$ in millions)			
	FY25 Approved	FY26 Proposed	Chg \$	Chg %
Total	1,656.9	1,630.8	(26.1)	-1.6%
Use of Fund Balance*	196.1	98.3	(97.8)	-49.9%
Total w/o Use of FB	1,460.8	1,532.5	71.7	4.9%
* Per County Charter, use of fund balance is limited to one-time non-recurring items only.				

This proposal does not assume any tax increases, understanding the challenges that many county residents and businesses are going through.

Proposed Total Budget vs SAAC Recommendations

SAAC Recommendation: **\$58.4 M growth or 4%**

- Caution urged amid emerging Federal actions and escalating risks from National and State actions, acknowledging unknowns

Proposed Budget: **\$71.4M growth, 4.9%**

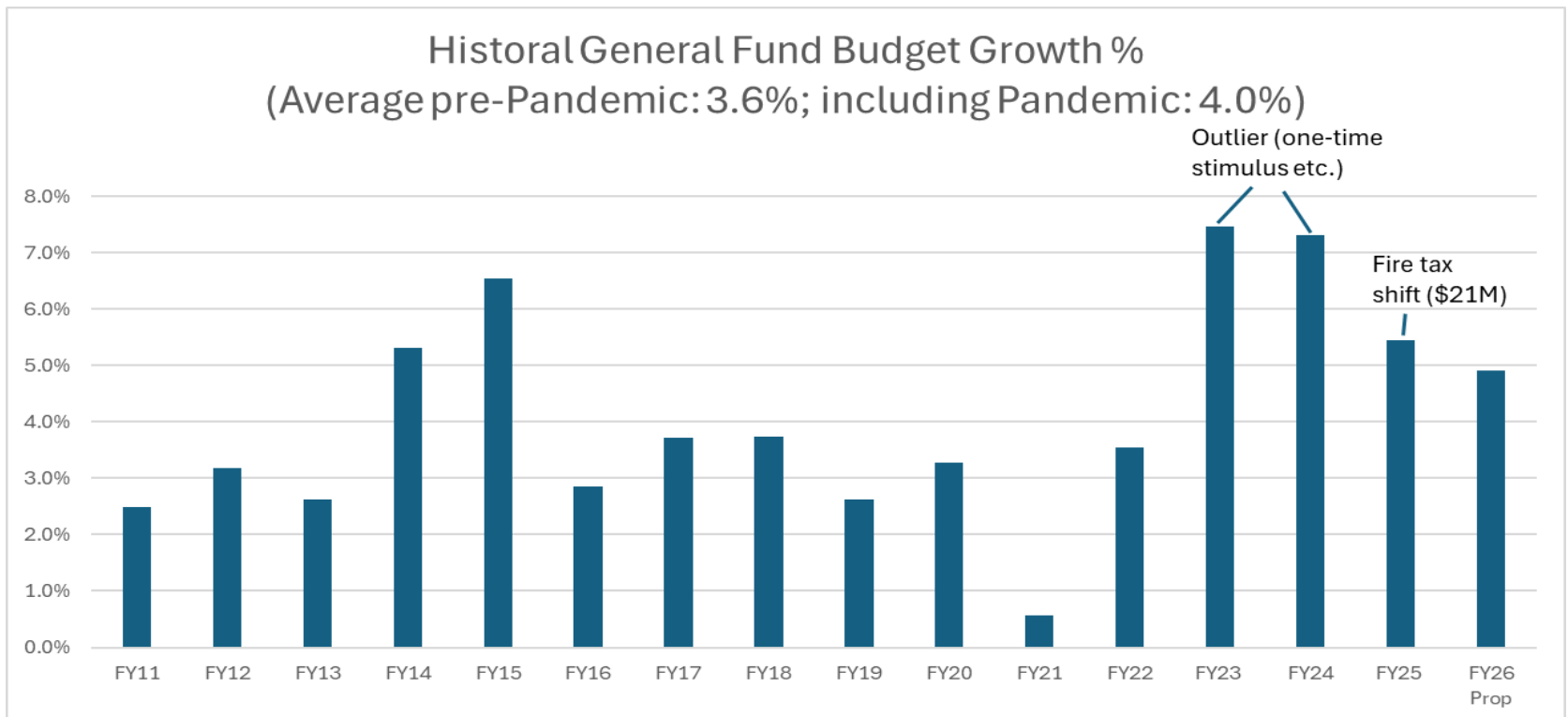
- Updated forecast based on additional YTD collection data, latest market information, and policy decisions (e.g., proposed 911 fee increase of 75 cents per line to recover cost)
- Recession not assumed

This forecast features high uncertainties or risks given rapidly changing Federal policies and actions with continued significant impact.

For reference: State March BRE forecast predicts State General Fund revenue growth of only 1.0% in FY26, with Income Tax growth of 2.6%

Proposed Total Budget vs Historical Growth

- FY26 proposed growth of \$71.7M or 4.9% represents continuous transition from stimulus-driven unprecedented high growths primarily in Income Tax during the Pandemic, but remains higher than historical average.



Actual Revenue Growth Has Slowed Down

- After experiencing unprecedented growth during the beginning of Pandemic period driven by one-time factors, the pace of actual revenue growth has shown signs of normalization
- **Actual** (audited) General Fund revenue growth:
 - FY22: \$38M
 - FY23: \$106M
 - FY24: \$12M

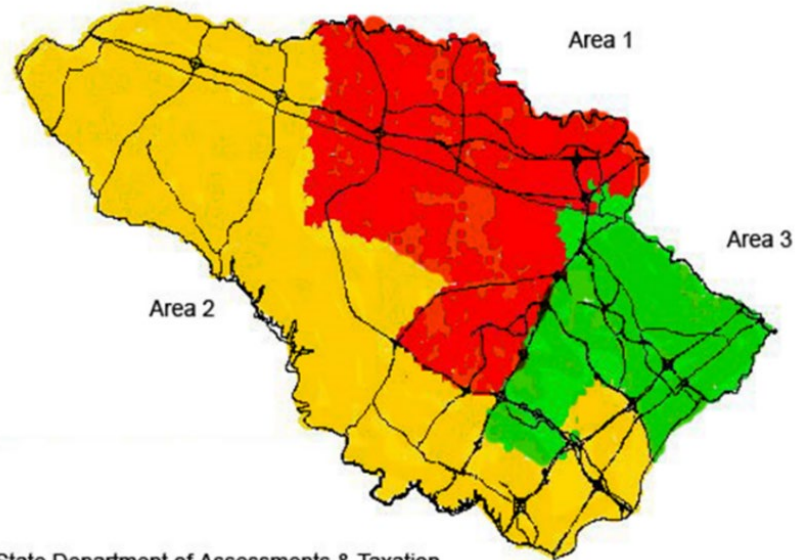
FY 26 Revenue Summary

	FY 2025	FY 2026	\$	%
	Budget	Proposed	Change	Change
Property Tax	698.0	729.9	31.8	4.6%
Income Tax	635.9	662.2	26.3	4.1%
Recordation Tax	19.3	19.0	(0.3)	-1.6%
Other local taxes	9.1	8.9	(0.2)	-1.9%
State Shared Taxes	5.6	6.1	0.6	10.1%
Other Agency Rev.	10.3	13.4	3.1	29.8%
Permit/licen/Charge/Misc	22.2	20.6	(1.6)	-7.2%
Interfund Reimbursements	48.4	48.3	(0.1)	-0.3%
Use of Money & Property	12.0	24.1	12.1	100.9%
Total Revenues	1,460.8	1,532.5	71.7	4.9%

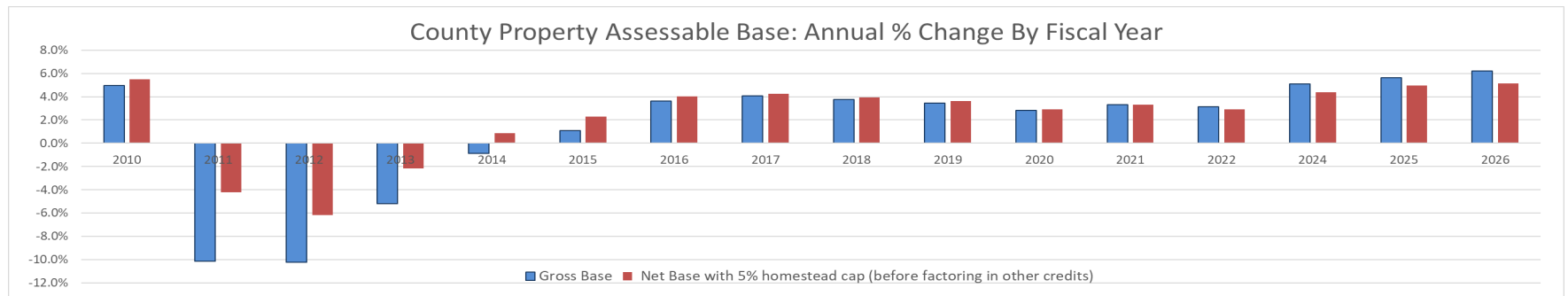
- Key increases: property tax, income tax, interest income (under Use of Money & Property), and 911 fees (under Other Agency Rev.).
- Flat/minor decreases: other taxes, weak building permits fees and charges of boarding prisoners

Property Tax Remains Strong: 4.6% Projected (with Homestead & Other Credits)

- F26 reassessment growth (for 1/3 of areas per year) before credit
 - Area 1: 6.5% per year (FY26-28 phase-in)
- Total assessment growth history:
 - 15-year avg. growth: 2.2% per Year



State Department of Assessments & Taxation



Property Tax Growth Key Factors

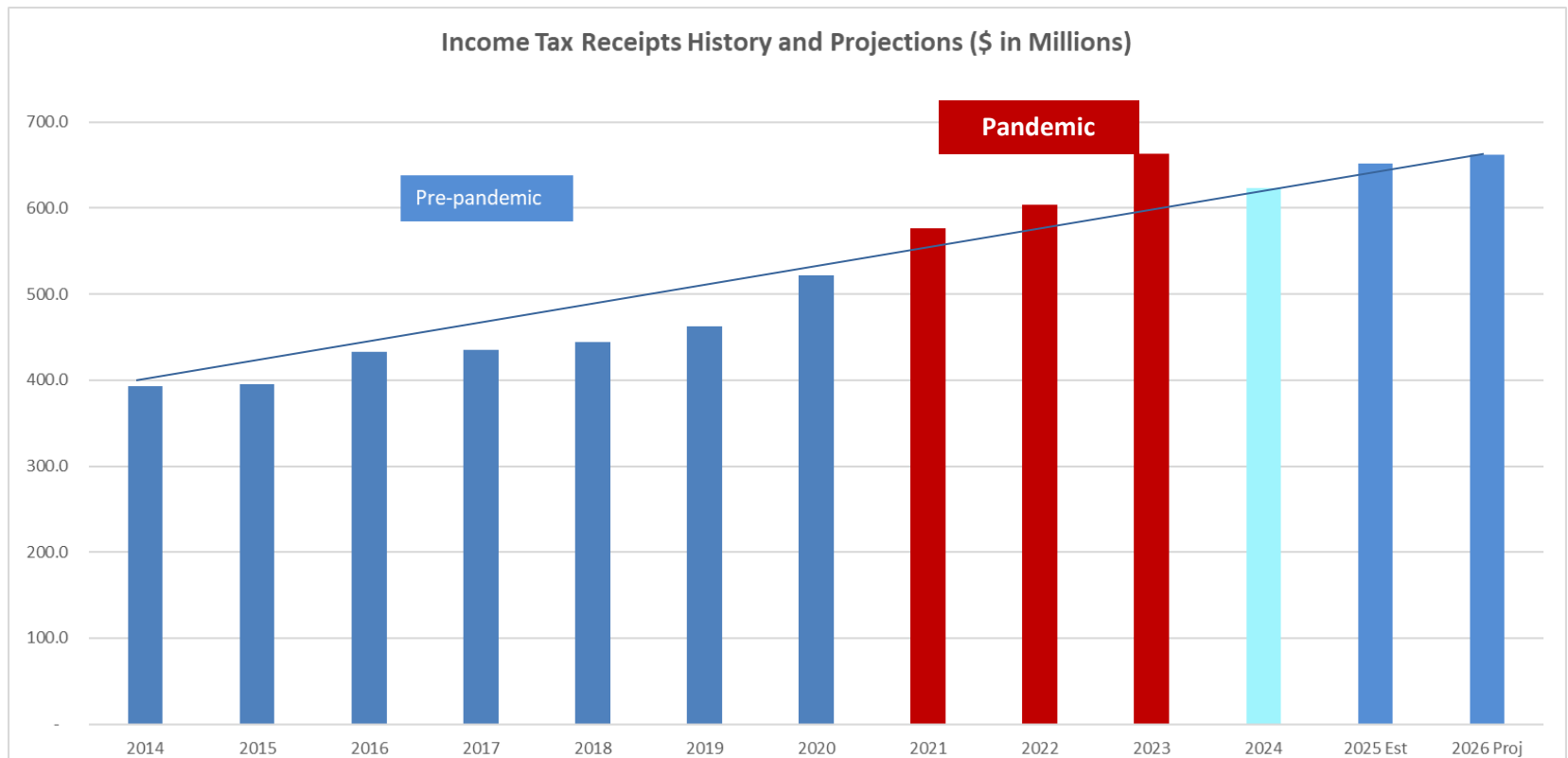
Property Tax revenues benefits from Maryland's triennial assessment and three-year phase-in arrangement

Net gains are mitigated by a few factors:

- Homestead Credit (capping taxable growth of owner-occupied houses at 5%) and other tax credits
- Commercial real property reassessment growth (averaging 4% per year) lagged State average in this period
- Uncertainties: real estimate market, commercial base (office vacancy rate etc.), new construction slowdown, economic and Federal impact on business (both real and personal properties)

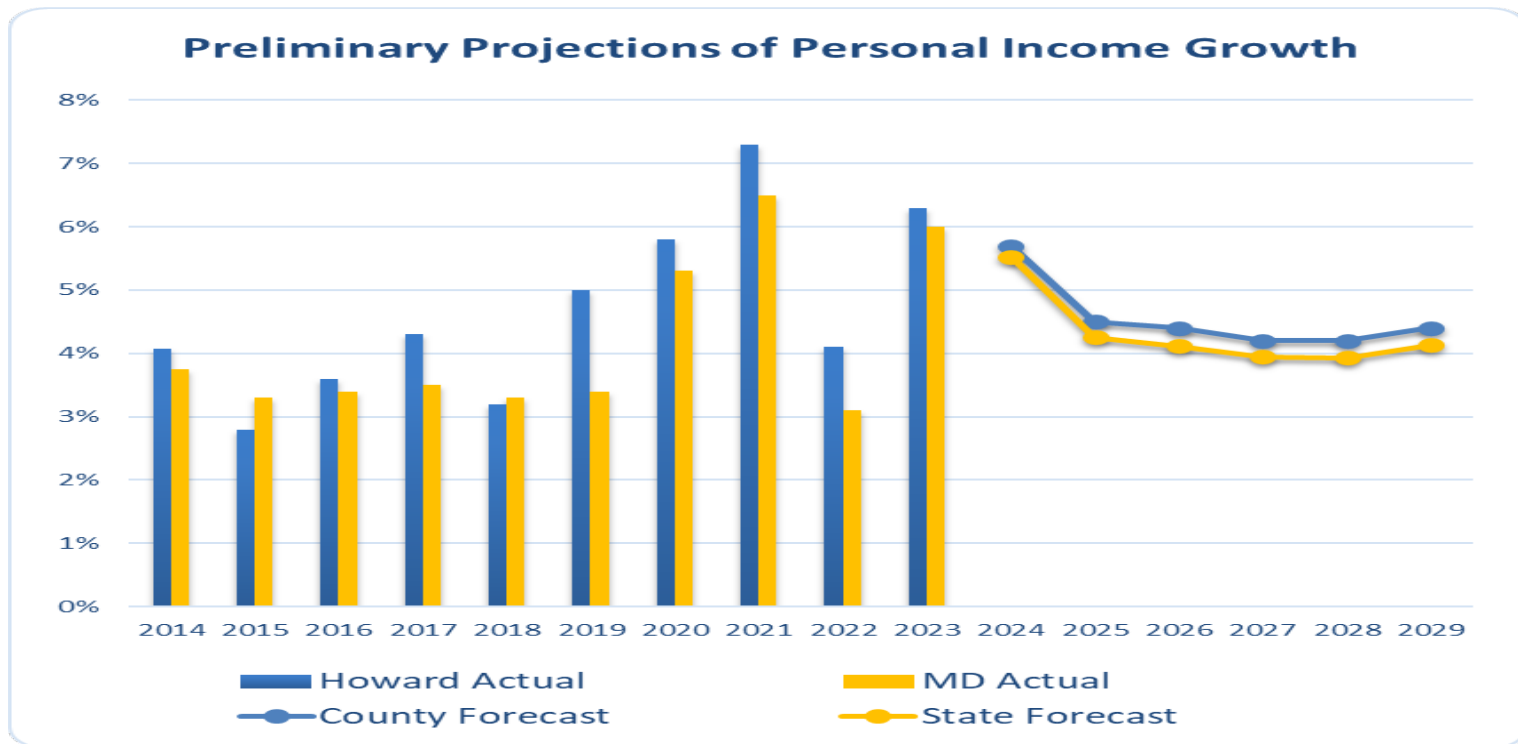
County Income Tax Annual Growth History

- Pre-Pandemic: 3.4% (5-year average)
- Pandemic: 4.6~10.6% driven by temporary factors
- FY24: **-6% (-\$40M)** corrective adjustment



Personal Income Growth in Howard County

- Solid fundamentals BEFORE federal actions
 - A preliminary forecast in January by the Jacob France Institute at the University of Baltimore indicated 4%+ annual growth in next few years, after coming down from the peak in pandemic
- Risks not accounted for
 - This projections did NOT factor in potential impact from Federal actions including mass reductions of workforce and contracts/spending



County Personal Income– High Risks Exposure

Howard County Residents' Reliance on Federal Spending

Item	Number
Federal Employment 2023, by place of residence	
Federal Jobs (# of jobs)	19,044
Federal Jobs (% of employment)	10.8%
Federal Procurement 2024	
Federal Procurement (Bil \$s)	\$6.1B
Federal Procurement (\$ per capita)	\$18,003

Approx. 1 / 4

of County Workforce are reliant on federal spending, directly or indirectly

If 20% of these Federal-related employment are terminated during FY25 – FY26, that's equivalent of a **loss of 5%** of total workforce:

- A large portion might be permanent loss (retirement, moving out, unemployment, lower salaries)

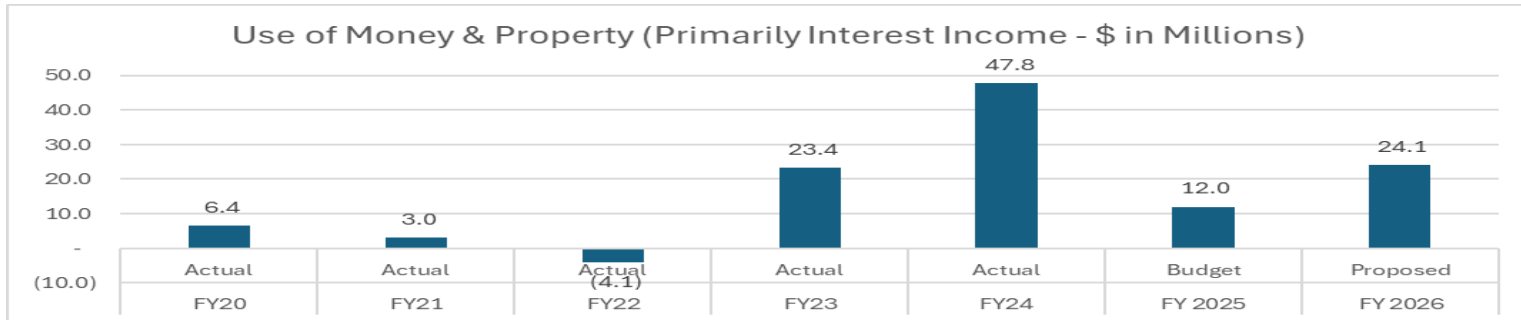
Difficult to predict the timing and scope of the impact of Federal actions as well as the rising concerns on economic downturn.

County Income Tax Key Assumptions

FY 2026 projected income tax (4.1% growth from FY25 budget) is apprx. 6.2% growth from FY24 actual), assuming:

- Relatively strong baseline growth if not Federal impact (4% growth each year or 8% combined in FY25 ~ FY26)
- Potential impact of Federal actions and economic slowdown (-2.5% in FY25 ~ FY26 combined)
- Normalization of state reconciliation for prior distribution

Interest Income



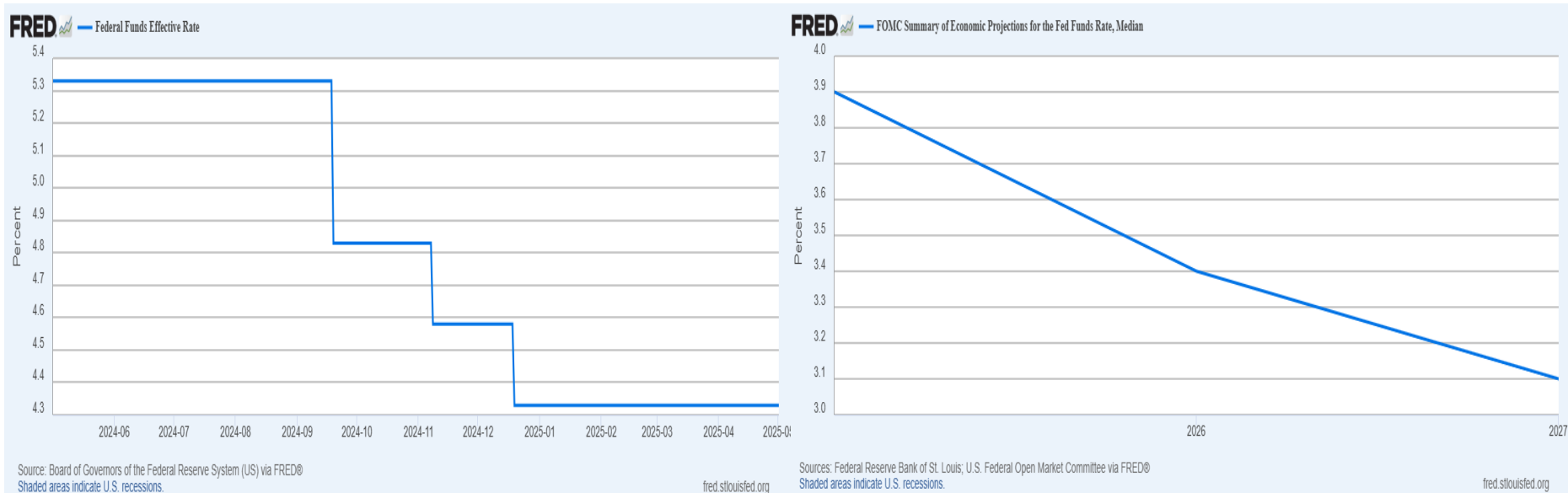
- Interest income was only a few million dollars a few years ago
- FY24 spike due to historically high interest rate caught everybody off guard (all big counties in MD budgeted at a few to several millions and ended up with \$20-\$50M)

FY24 County Name	Interest on Investments	
	Budget	Actual
Howard County	4,000,000	43,238,178
Anne Arundel County	1,650,000	50,750,786
Baltimore County	4,489,300	53,526,000
Montgomery County	9,233,720	31,857,016
Frederick County	2,750,011	19,460,354
Harford County	6,900,000	8,526,430
Carroll County	4,347,049	11,440,780
Anne Arundel County	1,650,000	50,750,786

- Revenue forecast adjusted higher considering continued delay in the Federal Reserve’s reduction of rates.

Interest Rate Trend

Federal funds rate remains high historically but already started to level off from peak (see below – 1 year actual rate and three year industry forecast)



Other Taxes, Permits & Charges

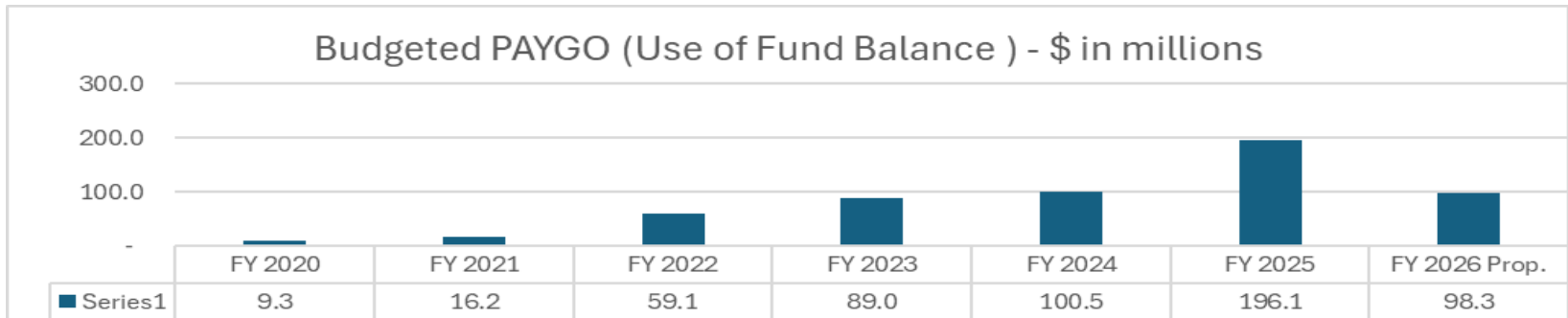
- Transfer & Recordation taxes, building permits, and development-related charges
 - Double-digit decreases experienced in both FY23 and FY24
 - Revenues are mostly flat or show slight decrease from current year budget with concerns on the real estate market and the economy

PAYGO (Use of Fund Balance)

- FY 26 Proposed Budget also includes \$98.3 million Use of Fund Balance, which can only be used to support **non-recurring** priorities per Charter
 - \$ 74.8M CIP PAYGO (\$18.7M for HCPSS systemic renovation, Elkridge Community Center, road resurfacing, etc.)
 - \$23.5M Operating PAYGO (\$1.5M for one-time HCPSS expenditures pending MSDE approval, and \$22M various other one-time initiatives)
- Budgeted PAYGO in FY26 is significantly lower than FY25 Budget (\$196.1 million)
 - less surplus available as the County transitions from stimulus-fueled unusually high growth during the pandemic to normalization.

PAYGO (Surplus) Outlook

- Historically high PAYGO in recent years resulted from unanticipated surplus during the Pandemic driven by various one-time factors (e.g., Federal stimulus in FY21-22, state over-distribution of income tax in FY23, interest rate spike in FY24)

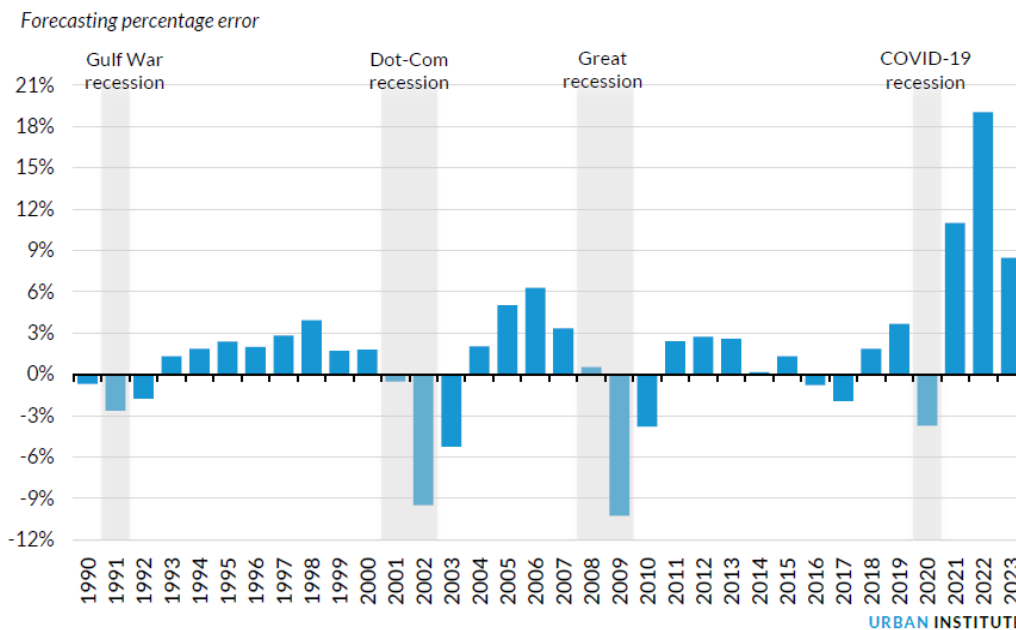


- Surplus/PAYGO is expected to decline continuously and towards pre-pandemic level
 - Income Tax, which accounts for 90+% of surplus during the pandemic, ended up with only \$1.7 million variance between actual and budget in FY24, as receipts have come down from the peak
 - Interest Income, which showed an unexpected bump in FY24, is trending down as interest rates finally started to decrease while budgeted forecast has been adjusted up
 - Current macro environment – Federal actions and the overall economic outlook – features increased downside risks rather than upside risks

Significant Forecast Variances Common During the Pandemic Period

FIGURE 1

Median State Revenue Forecast Errors for Big 3 Revenue Sources, Fiscal Years 1990–2023



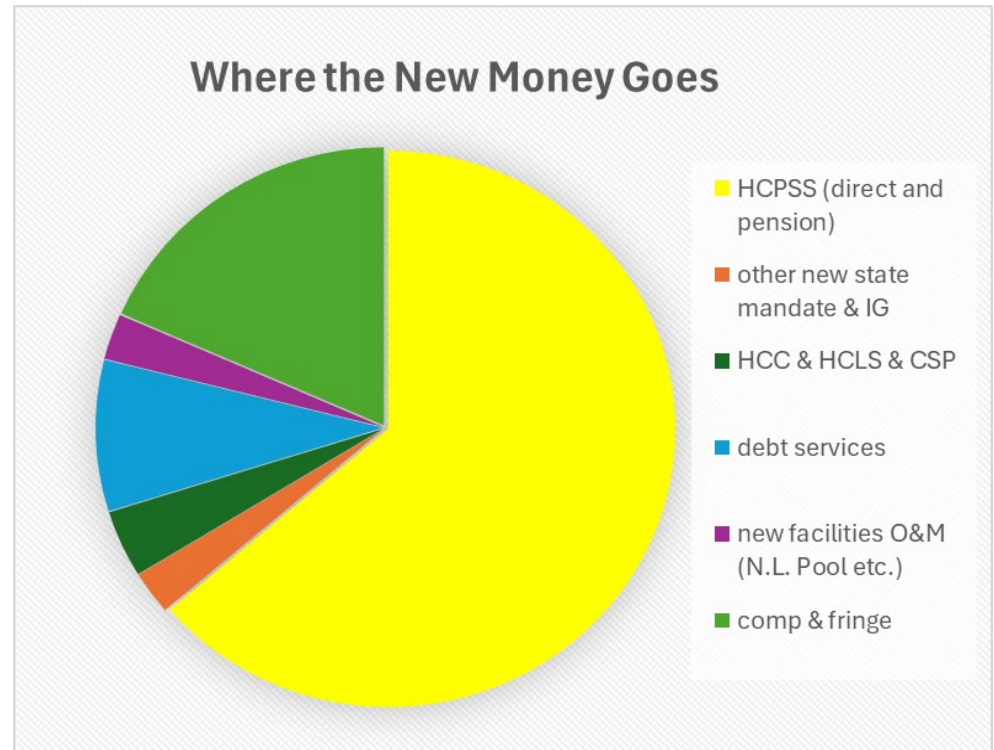
Source: NASBO Fall Fiscal Surveys; analysis by the author.

Notes: Forecasting error is the sum of personal income, corporate income, and sales taxes.

- Urban Institute research showed that during the Pandemic period, median state revenue forecast errors across the nation jumped 8~19% in 2021-2023 (averaging **13%**), almost three times of typical range of 4~5%.

FY26 Revenue Growth – Where the \$ Goes

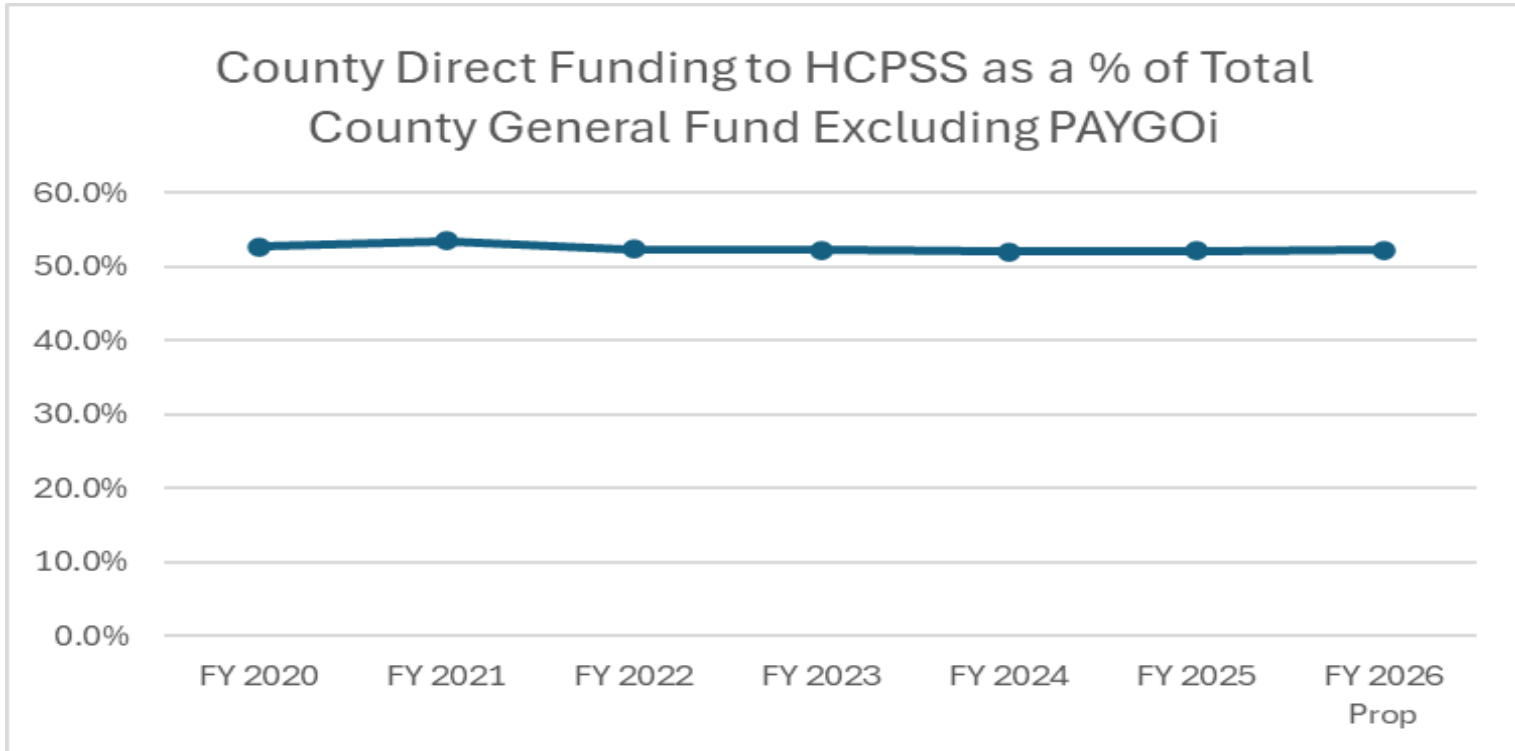
- **64%** of \$71.7M new revenues: support HCPSS needs
 - \$39 million direct funding to HCPSS
 - \$6.7 million funding teachers' pension liabilities
- The rest: all other public services
 - Mostly **mandates or non-discretionary costs** with no/little flexibility (*direct impact on services & employees*)



		share
HCPSS (direct and pension)	45.7	64%
other new state mandate & IG	1.8	3%
HCC & HCLS & CSP	2.8	4%
debt services	6.3	9%
new facilities O&M (N.L. Pool etc.)	1.9	3%
comp & fringe (net of savings)	13.2	18%

County Direct Funding to HCPSS

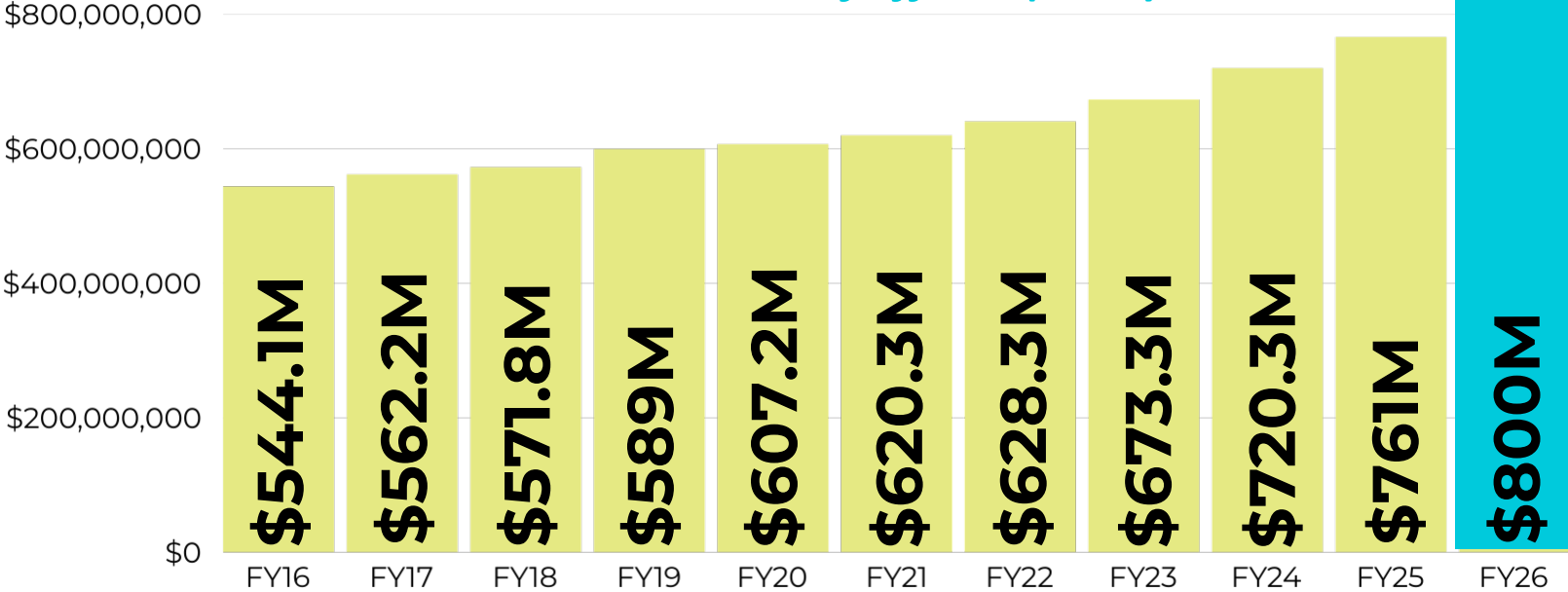
County Direct Funding to HCPSS As a Share of County Total General Fund excluding PAYGO Has Remained Stable at 52~52.5% in last several years.



In addition, the County also funds in its own budget: financing of school capital projects, school employee OPEB (retirement health benefit), and teachers pension liabilities

County Direct Funding to HCPSS FY26 Operating Budget

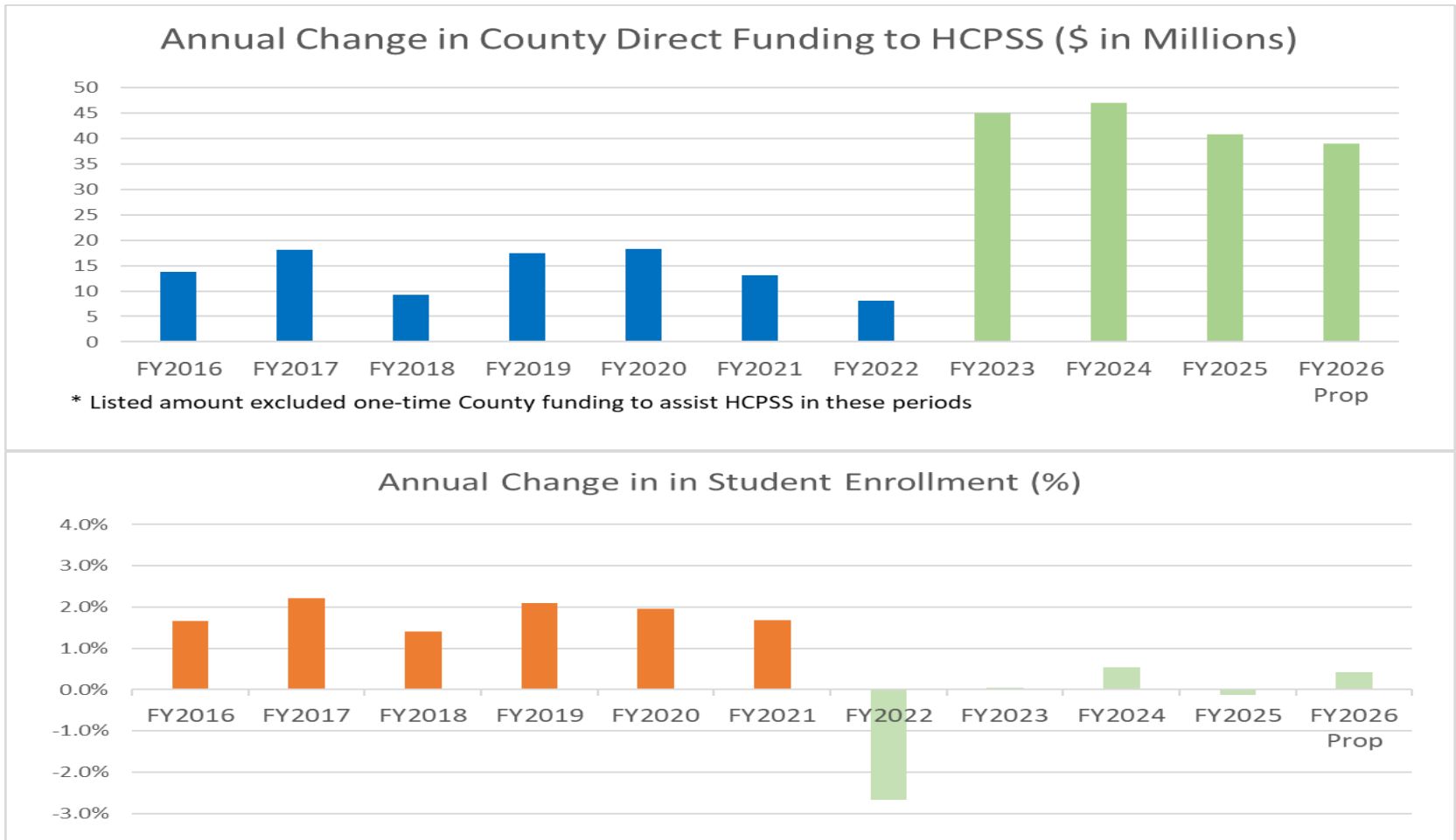
Operating increase: **5.1%**, **\$39.3M** over
Maintenance of Efforts (MOE)



*excluding one-time funding to HCPSS

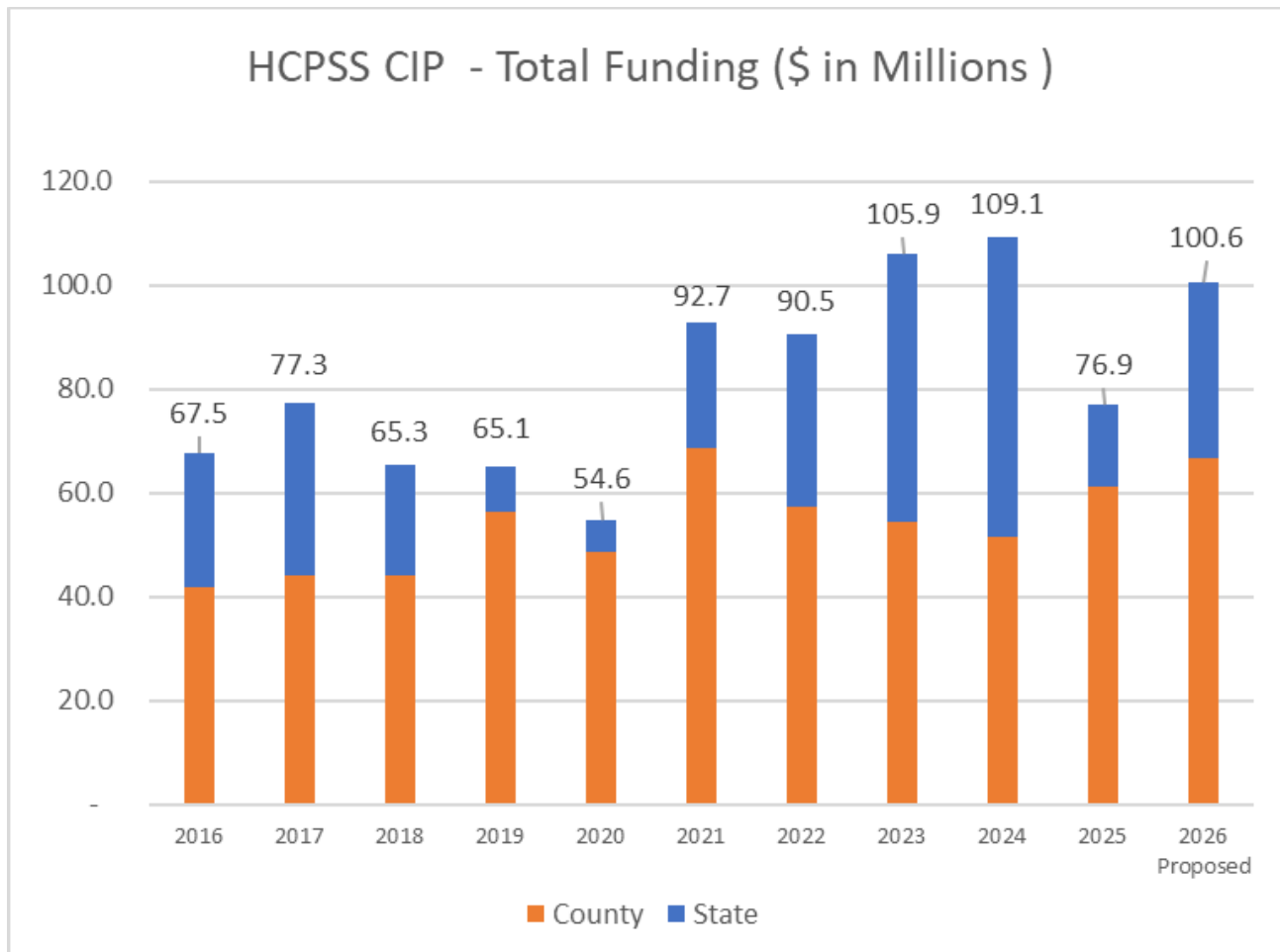
County Direct Funding vs Enrollment Change

County funding to HCPSS operating budget has increased significantly in recent years despite lower enrollment, demonstrating significant County efforts to increase County support to K-12 education

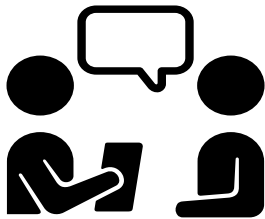


County Also Fully Funded HCPSS FY26 CIP Budget

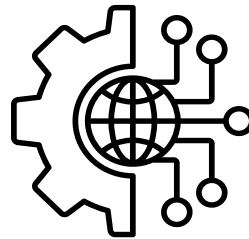
County funding to HCPSS CIP in FY26: \$66.7M



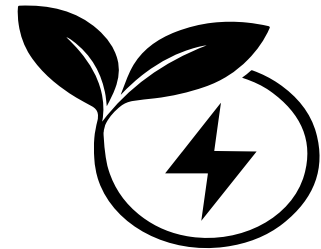
Multiple Cost Saving Measures Taken by the County (county agencies)



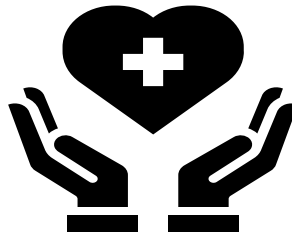
Freezing **3%**
civilian positions
cross county
agencies



Reducing IT/ mobile comms,
and county transportation
costs



Closing various
buildings in selected
days to save on
energy, custodial
and security costs



Reducing employer healthcare
premium contributions; and
using health benefit fund reserves
to lower increase in benefit cost



Reducing travel,
printing, and
training costs (-10%)

Higher Than Normal Risks in FY26

- Proposed budget has not factored in:
 - Potential recession
 - More severe impact from Federal reduction of workforce or contractors
 - Shift of permanent cost to General Fund due to potential Federal grant cuts (grant-funded positions or programs)
 - Potential emergency needs such as severe snow events