

**SPENDING AFFORDABILITY
ADVISORY COMMITTEE
REPORT**

FISCAL YEAR 2022

**Spending Affordability
Advisory Committee**

Committee Members

Tonya Aikens, Howard County Library System
Todd Arterburn
Richard Clinch, Ph.D.
Lynn Coleman, Howard Community College
Piet de Dreu, Howard County Association of Realtors
Joan Driessen, Association of Community Services, Howard County
Howie Feaga, Farm Bureau
Dan Gick
Ellen Flynn Giles
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Daraius Irani, Ph.D.
Barbara K. Lawson
Milton Matthews, Columbia Association
Leonardo McClarty, Howard County Chamber of Commerce
Steven Poynot (Committee Vice Chair)
Jahantab Siddiqui, Howard County Public School System
Joshua Tzucker
Chao Wu, Ph.D., Howard County Board of Education

Government Officials

Holly Sun, Ph. D, Budget Administrator (Committee Chair)
Craig Glendenning, Howard County Auditor
Rafiu Ighile, Director, Department of Finance
Jennifer Jones, Deputy Chief of Staff
Patrick Pope, Internal Auditor
Lonnie R. Robbins, Chief Administrative Officer
Larry Twele, Howard County Economic Development Authority

**Howard County Maryland
Spending Affordability
Advisory Committee
Report for Fiscal Year 2022**

March 1st, 2021

Purpose

County Executive Calvin B. Ball, Ed. D., renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in November 2020. The County Executive’s 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 2022, but also for fiscal years 2023-2027.
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.

The Committee shall present to the County Executive on or before March 1, 2021, a report including:

- a. Projected General Fund revenues for the upcoming fiscal year;
- b. Recommended new County debt (General Obligation bonds) authorization;
- c. An analysis of the long-term fiscal outlook including multi-year projections; and
- d. Other findings and/or recommendations that the Committee deems appropriate.

EXECUTIVE SUMMARY

The County continues to face critical fiscal challenges - spending requests are significantly outpacing resources while slower economic growth is the new norm. This combination makes each additional dollar of debt less affordable. With both revenues and debt capacity stressed, the pandemic has added additional economic uncertainties. Howard County must execute rigorous fiscal discipline. We must make the hard choices between needs vs. wants, collaborate with stakeholders on long-term strategies to prioritize the needs of our community and maintain strong fiscal stewardship to avoid escalating long-term liabilities at the cost of future services.

In the capital budget, for example, years of deferring the allocation of sufficient funds to infrastructure maintenance throughout the County (e.g., roads, storm drainage, and systemic renovation of facilities, etc.) have created significant backlogs. These unmet operating costs ultimately turn into unavoidable capital projects (rebuilding/replacement), that place a long-term burden on future budgets. To sort out what are “the needs” among the competing requests will be a challenge, but given tight resource constraints, it must happen.

Fiscal gaps continue to grow in both operating and capital improvement program (CIP) budgets:

- **County Operating Budget:** Requested funding increases in FY 2022 by different agencies and entities is equivalent to 2.3 times that of projected revenue growth. Education entities’ requests alone add up to nearly the entire revenue growth projected for FY 2022. Multi-year projections indicate that, without corrective action, the County will have accumulated annual deficits of between \$36¹ and \$118 million over the next six years. To close the widening gap between projected revenues and expenditures and live within our means will require significant reductions to requested expenditures.
- **County Capital Budget:** Funding requests for capital projects for FY 2022-2027 are approximately double projected new debt capacity over the same period. All forecasted debt-burden indicators have been steadily rising, and one critical measure - annual principal and interest payments for financing capital projects as a share of total revenues – exceeded the County policy ceiling of 10% for the first time in FY 2020 and is still increasing. A rising debt burden results in significantly less capacity to authorize new CIP debt in the future.

Howard County is in the midst of a demographic and economic transition. In the decades between 1970 and 2000, the County experienced strong growth in population and jobs as Columbia and the rest of the County were developed, creating strong revenue growth. As a result, the County became accustomed to growing both operations and capital spending. However, as the County built out, this growth slowed in the 2000s resulting in less growth in population, and income and property tax, however, the County continued to increase spending. For years, the County managed to cope with its fiscal challenges primarily through the adoption of saving strategies with relatively manageable service impacts (e.g., limiting training, initiating hiring freezes, and some efficiency gains through better use of information technology and process improvements). Additional steps have included delaying services, repairs, and purchases; using one-time measures (e.g., transferring and/or utilizing one-time funds to temporarily bridge the gap); and raising the school surcharge and transfer taxes, etc., in support of infrastructure projects.

After years of implementing such strategies, all of the proverbial ‘low-hanging fruit’ has been stripped and

¹ The \$36 million projected gap in FY 2022 was updated to \$64 million as of March 1, 2021, based on the Board of Education’s Approved FY 2022 budget request, which was released on February 25, 2022, after the SAAC voted on this report.

one-time solutions are opportunistic but not sustainable. There are only three concrete solutions: raising taxes, cutting spending/services, or growing the tax base. Raising taxes is unattractive and undesirable given the ongoing pandemic, resulting economic pain, and our relatively high tax burden compared to peer counties. Cutting spending through staff and service reductions directly impacts residents and businesses at a time of increased demand. Expanding our tax base is the optimal long-term strategy but will not address our current situation.

The County is at a crossroads. There are hard, and unavoidable, decisions that must be made for not only FY 2022 but also for the rest of the decade.

On the positive side, the current crisis has revealed the opportunity for change. The FY 2022 budget cycle provides the County with the chance to:

- **Focus on needs vs. wants:** a careful assessment of what is essential and critical must be conducted. This includes encouraging a healthy debate in the community on tradeoffs, as many requests will have to be given up or scaled back based on fiscal reality.
- **Take a proactive, strategic, and comprehensive long-term approach:** Develop a vision and an associated long-term fiscal plan to align the County with developing trends. This cohesive and connected multi-year fiscal plan should balance resources and expenditures, connect capital and operating budgets, as well as account for the projected impact of today's decisions on future budgets. Linking fiscal planning with policies, legislation, and general plan development is a must.
- **Innovate:** COVID has changed our community in many ways. New patterns of commuting, work-from-home, remote learning, and on-demand mobile shopping will inevitably change everything from the delivery of public services to how we design buildings and plan for parking. These changes, if accurately assessed and implemented, can impact our long-term budget trajectory in a positive direction.
- **Enhance communications and engagement:** Conduct more outreach to educate the public on the County's fiscal conditions and long-term outlook; engage the stakeholders in the discussion of prioritization, tradeoffs, and policy implications; and develop informed choices together.

The world is changing. The operations and fiscal planning of our County government need to change along with it. Our post-pandemic future will not be the same as our pre-pandemic past. The Committee encourages the County leadership to embrace these looming challenges as opportunities and work with all stakeholders to shape the future of our great County while maintaining sound financial stewardship.

Howard County also needs to embrace the economic reality of slower revenue growth, which is the new norm. As the County developed in the 1970s through the early 2000s, County population growth drove significant growth in personal incomes. This population and personal income growth translated into significant increases in income and property tax revenues. During this period, the County became accustomed to supporting the continuous expansion of services. As the County matured in the 2000s, however, population and personal income growth slowed leading to slower growth in revenues but requests for both operational and capital spending continued to expand. This led to the development of a structural deficit as revenue growth slowed but the requests for spending grew. The County has adapted to this structural deficit with a series of short-term fixes, including reductions in needed investments in roads and other infrastructure. With the recent recession and the declining inventory of developable land, slower

revenue growth will continue into the future and this needs to be translated into reduced growth in annual spending.

Chart 1. County Personal Income, Population and Per Capita Personal Income Growth by Decade (1970-2019)

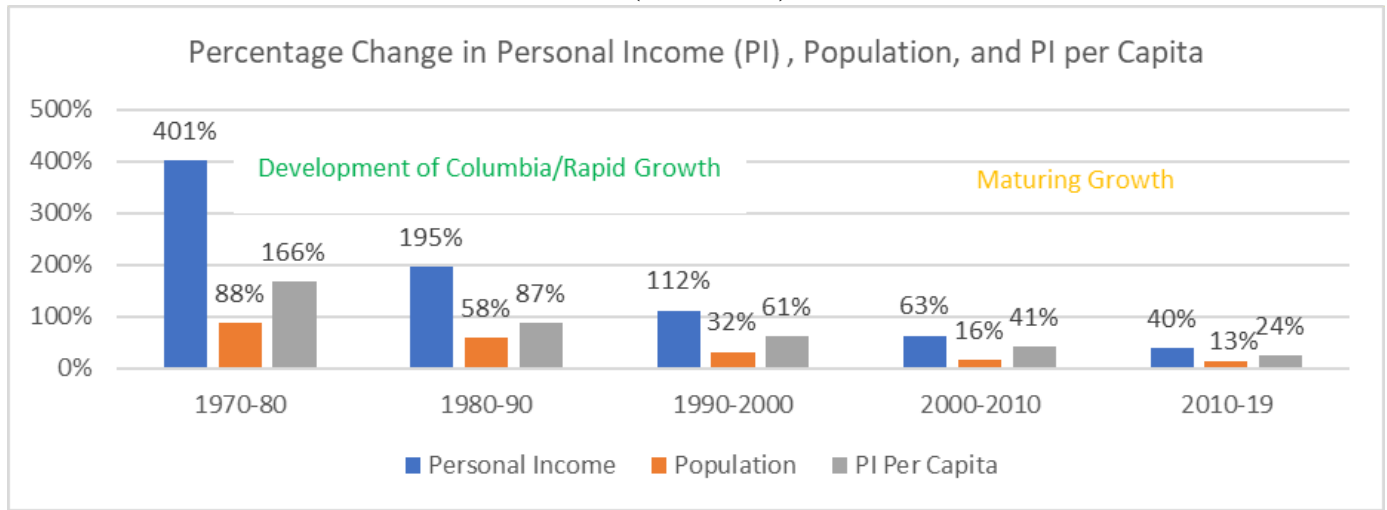
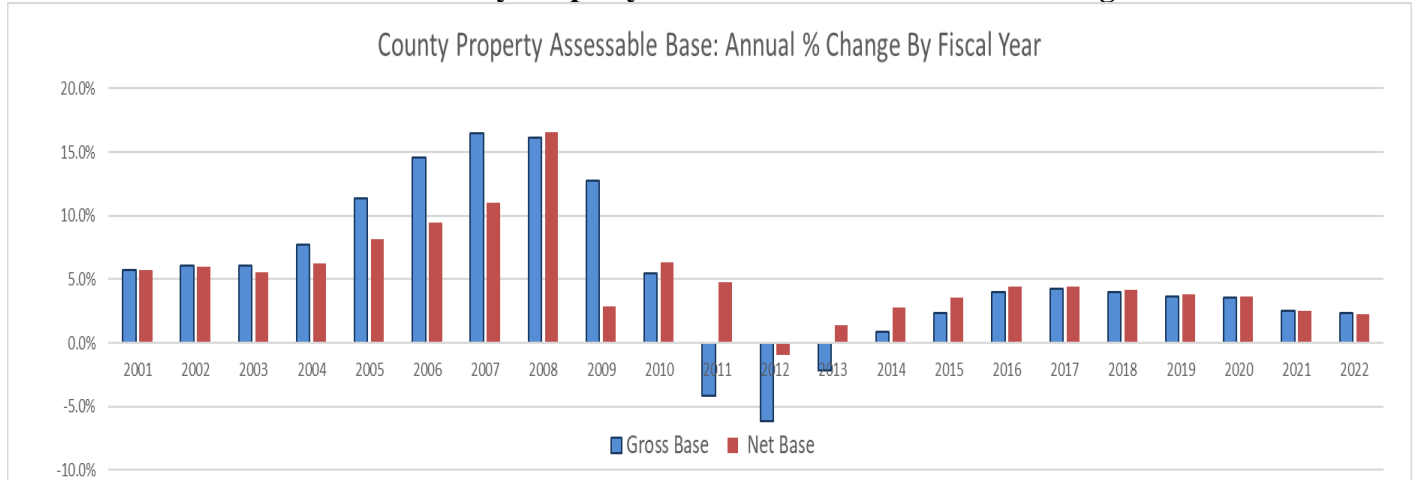


Chart 2. County Property Assessable Base Annual % Change



KEY RECOMMENDATIONS

The Spending Affordability Advisory Committee (“Committee”) is tasked with making recommendations to the County Executive on revenue projections, General Obligation (GO) bond authorizations, long-term fiscal outlook, and County revenue and spending patterns. The Committee met from November 2020 through late February 2021. During that time, the Committee was briefed by economists, multiple County agencies, and local educational institutions. These meetings helped the Committee develop a better understanding of the County’s economic outlook, the needs of individual agencies, revenue sources, debt level, demographic trends, and economic development, as well as long-term fiscal projections and various operating and capital needs. In particular, the longer timeframe (with meetings starting in November) allowed the Committee to digest more information on capital budgets, the impact of the COVID-19, and other important subjects.

In last year’s report, the Committee raised concerns that the County’s revenue growth is not keeping up with its expenditure needs. This leaves significant gaps to close not only in FY 2022 but also in future years. The slowdown of revenue growth and anticipated future weakening is attributable to both the economic cycle and the County’s changing demographics, housing and business development, and regulatory environment.

Considering the pandemic and its economic impact, our fiscal outlook is severe. The operating and capital budgets both continue to see requests significantly exceeding revenues and debt capacity. Most saving strategies have already been tapped and our debt burden now exceeds the County’s policy ceiling. With debt less affordable, the County must make hard decisions to control expenditures and prioritize competing infrastructure requests.

The following recommendations of the Committee reflect our collective input and a desire to assist the County in making needed decisions to address community priorities while staying within our means and ensuring the County’s long-term sustainability.

1. Projections of Revenue for FY 2022

The Committee recommends a budget based on total projected General Fund revenues of \$1.2 billion in FY 2022, an increase of 2.3% (\$26.7 million) over the FY 2021 budget.

The County is required by law to adopt a balanced budget. The Committee concurs with the Budget Office’s projection for FY 2022 of a revenue increase of no more than 2.3% over the FY 2021 budget.

Property tax is the largest revenue source of the County’s General Fund. Property and personal income taxes combined make up approximately 90% of total General Fund revenues. The assessable base for properties will maintain a moderate growth of 2.3% based on the latest State data. The real estate outlook is mixed. There are indications of a strong housing market, but that is offset by a weakening in commercial properties, especially for restaurants and hotels, the retail sector, and office buildings. Also, due to the triennial reassessment cycle in Maryland, the impact of the pandemic on real property taxes will not be fully realized for a few years.

Income tax revenue is expected to realize growth over FY 2021’s budgeted level. This is largely attributable to the federal stimulus packages which have buoyed personal income. Additionally, industry sectors that faced the most severe retraction due to COVID, such as hospitality, also have the lowest income tax base, which also limited the overall impact on County revenues. Somewhat paradoxically, during the height of the

pandemic shut down, both the County and the State experienced stronger than normal income tax revenue growth largely due to increased and expanded unemployment insurance. However, this unusual phenomenon was temporary and ephemeral, rather than reflecting the economic reality. Moreover, the Governor recently announced a plan to exempt unemployment insurance from both State and local income taxes. As a result, income tax revenue performance will likely be mitigated by downward adjustments for calendar year 2020 tax collections in the second half of FY 2021 and FY 2022.

Other taxes, fees, and charges have suffered varying levels of impact during the pandemic. Those directly linked to lodging and entertainment, such as hotel taxes (which dropped 60% in this period) and admission and amusement taxes (which slumped 80%), are not expected to fully recover in the foreseeable future. Other revenue sources, after a decline, are expected to show improvement in FY 2022.

Uncertainties will remain high for the FY 2022 forecast. As shared by numerous economists and forecasters, actual revenue performance will be contingent upon multiple factors, including the vaccine, the continued impact of the pandemic, and federal and State policies. All these factors will affect the pace of economic recovery. With so many uncertainties, the Committee recommends that the County be cautious in its fiscal planning by exercising discipline and implementing steps to manage and control spending for the long term.

The County must approve a balanced budget each year. Current projections reveal a funding gap of \$36 million in FY 2022. Requested funding increases of \$62.7 million from County agencies and education entities exceed projected revenues by \$36 million and must be reduced to reconcile with projected revenue growth.

Chart 3. FY 2022 General Fund Projected Revenue Growth vs Requested Funding Growth²

FY2022 General Fund Projected Gap (\$ in Millions)				
Projected Funding Growth	26.7	2.3%	26.7	2.3%
Requested Expenditure (County Funding) Growth				
HCPSS	22.1	SI Request	50.1	BOE Request
HCC	2.4		2.4	
HCLS	1.5		1.5	
Debt Services (fixed)	3.9		3.9	
P3 Annual Service Payment (fixed)	9.9		9.9	
All Other Agencies	22.9		22.9	
Total Requested Funding Growth	62.7	5.4%	90.7	7.8%
Gap	(36.0)		(64.0)	

SI - HCPSS Supt's Proposed Request (1/21); BOE - HC Board of Education's Approved Request (2/25)

2. A Recommended Level of New County Debt Authorization

The Committee recommends new authorized GO bonds in FY 2022 total no more than \$50 million.

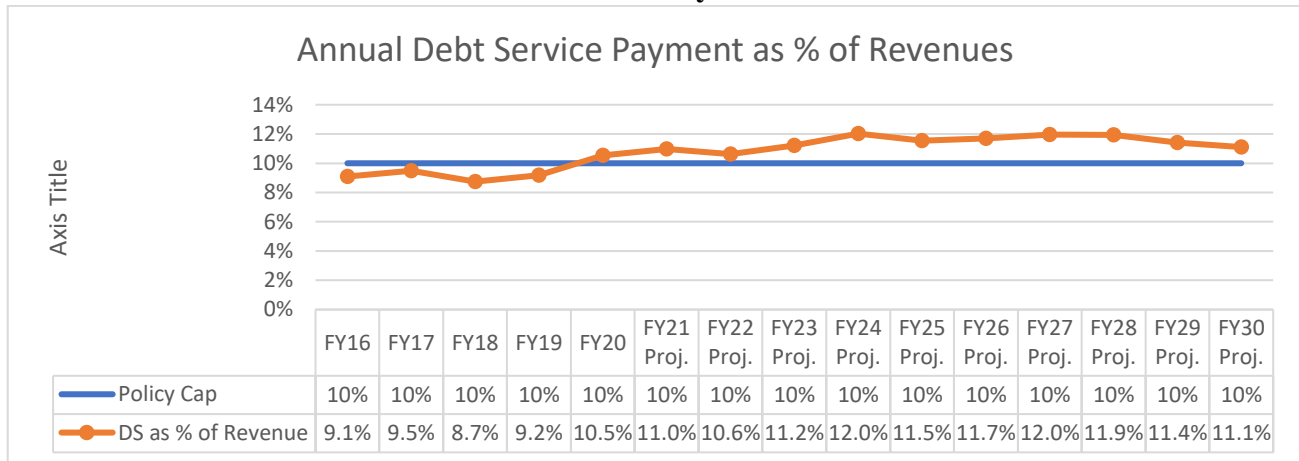
The Committee recommends that the County lower its new GO bond authorization to \$50 million in FY 2022 and strengthen its debt control. Last year, the Committee recommended a new debt ceiling of \$70 million, however, the County approved an FY 2021 capital budget that included \$75.2 million. This year's reduced

² The \$36 million projected gap in FY 2022 was updated to \$64 million as of March 1, 2021, based on the Board of Education's Approved FY 2022 budget request, which was released on February 25, 2021, after the SAAC voted on this report.

debt ceiling reinforces the Committee’s concerns about the County’s growing overall debt and its shrinking capacity to take on new debt.

We find it alarming that all debt burden measures continue to escalate. Specifically, in FY 2020, debt service payments as a percentage of total revenues exceeded the County policy ceiling of 10% for the first time. This is projected to continue for the next decade. A higher debt burden increases the County’s long-term liabilities inevitably spilling into increased spending obligations for future budgets. Debt management is one of the key factors used by rating agencies in evaluating creditworthiness. Most importantly, a growing share of the total funding designated to debt service payments means fewer resources available in the annual budget to support all other needs and services for the entire County.

Chart 4. Annual Debt Service Payment As a % of Revenues



The County must control its new debt issuance and keep capital budget spending in line with available resources. It is imperative that the County carefully assess need and weigh what is nondiscretionary against what is desirable - but not essential.

The total new debt requests received from agencies and education entities for FY 2022-2027 capital budget totaled \$791.2 million. This is equivalent to \$132 million per year, compared to the annual \$70-\$90 million approved historically (FY 2021: \$75.2 million). Based on the County’s fiscal reality and debt capacity, total requests must be cut in half.

The County has received competing requests to: refurbish, renovate, or build completely new schools; construct new community college buildings; authorize new library branches; construct a multifaceted solution for flooding in Ellicott City; and create new facilities such as the East Columbia 50+ Center. All these projects have worthy and valuable community support and are often focal points of electoral concerns. At the same time, there are pressing needs for maintaining various aging, and less politically attractive, infrastructure – roads and sidewalks, storm drainage, and renovation of existing buildings. County infrastructure, much of which is over 50 years old, has accumulated significant backlogs of required maintenance. Many of the buildings, such as the Detention Center, have deteriorated so significantly that they require replacement despite intermittent patching and fixes.

The shrinking debt capacity will support only half of the total projects requested over the next six years. The County must make critical decisions on prioritization of needs vs. wants. It must also turn its focus onto long-term costs and benefits rather than short-term “solutions” that temporarily lower costs but inevitably

lead to much more costly solutions.

The Committee is disappointed that the County did not follow last year’s recommendation that any new or additional revenues designated to CIP (e.g., the School Surcharge Fee and Transfer Tax increases) be used to provide relief in the overall debt burden rather than incurring additional debt. We also want to reemphasize that each new project only increases the ongoing operations burden to staff, maintain, and operate the facility. The County must take control of its overall debt burden to avoid crowding out the capacity in its operating budget to support various service priorities. This action is also important to preserving the County’s AAA credit rating, allowing the County to borrow at the most favorable terms and maintaining its standing as an efficient and well-managed government.

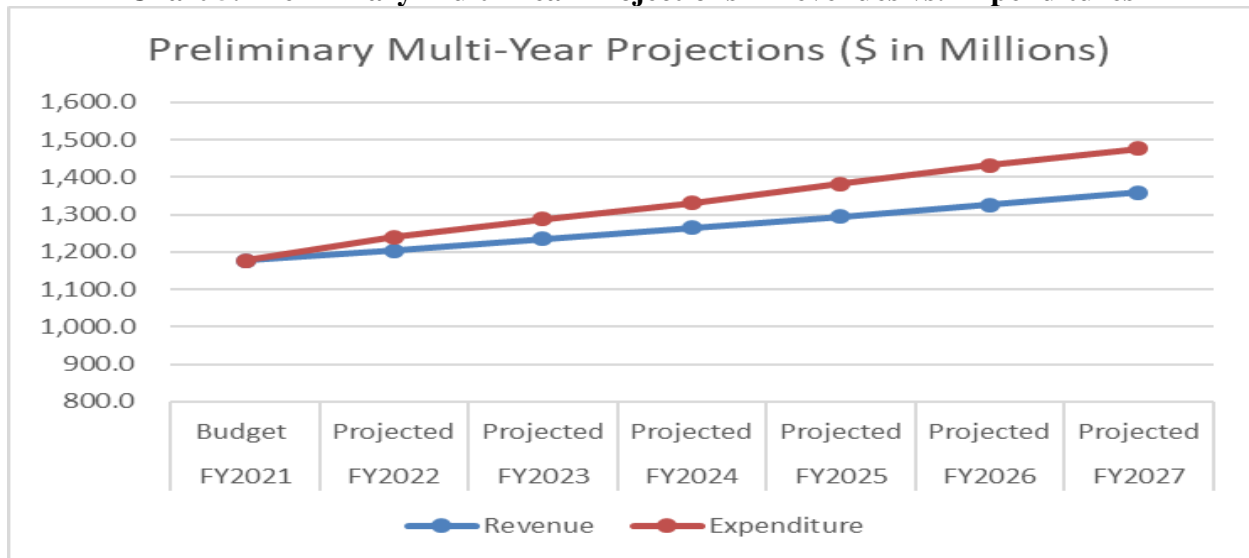
3. Long-Term Fiscal Outlook and Issues

The Committee recommends using a 5-year revenue projection of 2.2% on average.

A preliminary multi-year revenue and expenditure model developed by the Budget Office suggests that General Fund revenues will likely grow on average 2.5% annually through FY 2027. Future revenue growth is contingent upon variables which include: the pandemic, the economic recovery, federal and State policies, as well as the potential impact of the County’s own regulatory changes, and long-term development and demographic trends (such as an aging population and a residential development shift to multi-family units). Given the uncertain nature of these factors, the Committee recommends that the County be prudent and lower the projected rate of revenue growth for FY 2023–FY 2027 to 2.2% per year,

A review of projected multi-year expenditures, based on input from all departments, agencies, and education entities, demonstrates that projected expenditures will continue to exceed projected revenues every year for the next six years. The annual deficit is projected to range between \$36³ million (equivalent to 6.7 cents in new property tax or an average of \$300 per household/year) and \$118 million (equivalent to 21.9 cents of new property tax or an average of \$1,000 per household/year). Without corrective action, the cumulative deficit is projected to grow to \$465 million by FY 2027.

Chart 5. Preliminary Multi-Year Projections – Revenues vs. Expenditures



³ The \$36 million projected gap in FY 2022 was updated to \$64 million as of March 1, 2021, based on Board of Education’s Approved FY 2022 budget request, which was released on February 25, 2021, after the SAAC voted on this report.

Preliminary Multi-Year General Fund Projections (\$ in Millions)							
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
	Budget	Projected	Projected	Projected	Projected	Projected	Projected
Revenue	1,176.5	1,203.3	1,235.2	1,264.8	1,295.2	1,326.4	1,358.3
Revenue Growth		2.3%	2.7%	2.4%	2.4%	2.4%	2.4%
Expenditure	1,176.5	1,239.3	1,287.4	1,330.9	1,382.6	1,431.4	1,476.1
Expenditure Growth		5.3%	3.9%	3.4%	3.9%	3.5%	3.1%
Gap		(36.0)	(52.2)	(66.1)	(87.4)	(105.1)	(117.8)
Accumulative Gap Absent Actions		(36.0)	(88.2)	(154.3)	(241.7)	(346.8)	(464.5)

The County is required by law to balance its annual budget and close any funding gaps. As indicated earlier, the County has largely exhausted saving strategies with manageable service impacts and one-time spending adjustments. Additional revenue options, if considered, would be difficult in the current environment, given the already high tax burden in the County. While there may be some limited options for grant funding to address infrastructure, the County has no choice but to focus on prioritization to limit spending, implementation of innovative efficiencies in service delivery to lower costs, and employment of effective strategies to grow its tax base.

The Committee, again, recommends that the County proactively work on developing a sustainable multi-year fiscal plan based on prioritizing needs vs. wants to be better prepared for the challenges of the near-term and future years. The multi-year plan needs to balance and prioritize service needs while maintaining the County’s sound financial stewardship.

4. Other Recommendations that the Committee Deem Appropriate

4.1. Capital Budget

- Pause on All New CIP Projects Given the Severe Debt Constraints:** The infrastructure requests exceed what the County can afford. The next six years of CIP requests are twice the projected funding available if annual authorization is consistent with historical levels. Given the uncertainty of the revenue picture and service needs due to the pandemic, the County should consider pausing new projects (even if shovel-ready) to avoid the additional debt obligation and maintenance down the road. This is especially important at a time when the County is having difficulty keeping up with its infrastructure maintenance needs.
- Reduce New Debt Issuance Over the Next Six Years to Avoid Continued Escalation of the Debt Burden:** All debt burden measures have been escalating. Specifically, in FY 2020, debt service payments as a percentage of total revenues exceeded the County policy ceiling of 10% for the first time and are projected to remain above that ceiling through the next decade. A higher debt burden increases the long-term liabilities, increasing spending obligations in future budgets. Debt management is also one of the key factors evaluated by the rating agencies to assign favorable credit ratings. But most importantly, a growing share of income designated to debt service payments means fewer resources are available to support all other needs and services in the annual budget.

- Prioritize in Annual CIP Budget to Address On-going Maintenance Needs and Backlog:** Agency presentations reveal an increasing and alarming gap between annual maintenance funding and the associated capital investment necessary to maintain existing infrastructures across the County. As a result, the critical maintenance backlog has steadily grown. Road resurfacing is a prime example of this effect. To adequately maintain the 1,090 miles of roadways and keep up with the annual wear and tear, the County needs to invest an estimated \$12.5-\$14.3 million per year. Actual annual investment on road resurfacing has averaged only \$5.6 million over the past 10 years and dropped to a low of \$1.5 million in FY 2021. As a result, the 2020 inventory of the roadwork backlog identified the need for maintenance funding of more than \$51 million and the Pavement Condition Index (PCI) of County roads has been steadily declining. These data indicate that we have serious issues with deteriorating roadway infrastructure across the County and the fix will obligate us to greater expense in the out years, because of the higher costs associated with structural repair and replacement. Similar situations exist for other maintenance needs including storm drainage and systemic renovation of buildings and facilities. Each year of delay in addressing necessary maintenance only obligates us to more expenses in the future, leading the Committee to recommend a minimum guaranteed annual allocation for critical infrastructure projects.
- Use Designated Resources to Lower General Fund Net Debt Burden Rather Than Expand or Add Projects:** In last year's report, the Committee recommended that "new or enhanced funding designated for capital projects be applied to reduce the total debt supported by non-designated funding in operating budget funds, rather than be used to increase new debt or expand capital projects." The Committee is disappointed that newly increased resources in the FY 2021 approved CIP budget were used to add new projects rather than relieving the burden on the General Fund. Once completed, each additional project brings an increase in the annual operating budget for staffing, operations, and maintenance. With the overall debt capacity shrinking, failing to use new or enhanced revenue options strategically to mitigate the burden on the annual operating budget further limits future debt funding.
- Fully Account for Operating Budget Impact of CIP in the Annual Operating Budget and Multi-Year Planning:** Last year, the Committee recommended that the County analyze and quantify the impact of capital projects on the operating budget expenditures. The Committee is pleased that the County has already included an estimate of operating budget impact (staffing, operating and maintenance costs, and debt-service payments) of planned CIP projects in both its current CIP budget book and its multi-year operating budget expense projections. Such analysis must be included in the annual discussion and decision-making related to the capital budget; otherwise, the associated impact of additional annual costs in the operating budget can easily be overlooked and use up the capacity to fund other necessary services in future years.

4.2 Operating Budget

- Balance Service Needs as A Full-Service County:** Howard County is a full-service jurisdiction that needs to balance service needs across the community. This means we must provide for all our citizens. For the foreseeable future, the County needs to focus on continued assistance to residents, businesses, and organizations impacted by the pandemic and economic downturn. While the unemployment rate has dropped from a peak in April 2020, it remains much higher than the pre-pandemic level. And, while any negative impact on income tax revenue has, so far, been limited, a

large portion of the job losses during this pandemic impacted lower-wage and vulnerable populations disproportionately, which has only magnified disparity and equity issues that must be addressed. Continuous assistance from local government will be critical to assist both residents and businesses in recovery, especially given the uncertainties on the timing and amount of future federal and State grants. In the long run, the County will continue to experience demographic changes - including a significant increase in our aging population with reduced incomes and increased demands for assistance and services. The County must be able to address both short- and long-term needs and balance the needs resulting from changing demographics within the community.

- **Fund the Howard County Public School System (HCPSS) at State-Mandated Level:** County funding to HCPSS, including the County's assumption of annual debt service payments and contributions for other post-retirement benefits (OPEB), accounts for approximately 58% of the total General Fund budget. Total County spending on education, including HCPSS, Howard Community College (HCC), and Howard County Library System (HCLS), represents approximately 64% of the General Fund budget.

The Superintendent's FY 2022 budget request to the County is \$22.1⁴ million higher than the amount approved in the FY 2021 budget and represents nearly the County's entire projected revenue increase for the coming year. This amount is also \$39.6 million higher than the State-mandated Maintenance of Effort (MOE) calculation, which, based on a pandemic-related 2.8% reduction in school year 2020/21 reported student enrollment, reflects a reduction of \$17.5 million. Although the Governor has proposed that counties be mandated to hold the school systems harmless and match last year's appropriation, the final decision on FY 2022 MOE will be determined by the General Assembly. It should be noted that these figures do not reflect the Board of Education's official budget request for FY 2022, as this decision will not be made until the end of February, or the possible impact of the Kirwan Commission recommendations in Spring 2021.

To fully fund the Superintendent's budget request would require a significant cut to all other County services or a major tax increase. Either of these options would greatly impact a significant number of County residents, still coping with the pandemic. The Committee believes we must avoid this trade-off. We recommend that the County fund HCPSS at the formula-driven State-mandated MOE. Any County funding above MOE increases the base used to calculate the next year's MOE and, when coupled with a projected enrollment recovery by next fall, a sizeable increase over MOE would contribute to even more significant funding obligations in FY 2023 and beyond. In addition, given the current and ongoing changes in the operating facilities across all sectors, a comprehensive review of HCPSS schools' design capacity and facility utilization assessments – in recognition of changes in student/teacher staffing ratios, technological improvements, and virtual-instruction opportunities – would be invaluable in developing cost-saving options and implementing further instructional and operational innovations across the system. The Committee recommends that HCPSS, like all other entities and agencies in the County, prioritize and innovate to live within their means.

HCPSS is among the school districts with the highest annual investment per student in the State and the nation.

⁴ The Board of Education's (BOE) FY 2022 budget was released on February 25 after the SAAC voted on this report. The BOE's request for County funding is \$50.1 million higher than the amount approved for the BOE in the County's FY 2021 budget, including \$18 million in one-time County funding to close the HCPSS Health Fund deficit. The BOE's requested increase in County funding exceeds the entire increase to the County in projected FY 2022 revenue. The BOE's requested increase is also \$67.6 million higher than the current official calculation of State-mandated Maintenance of Effort (MOE).

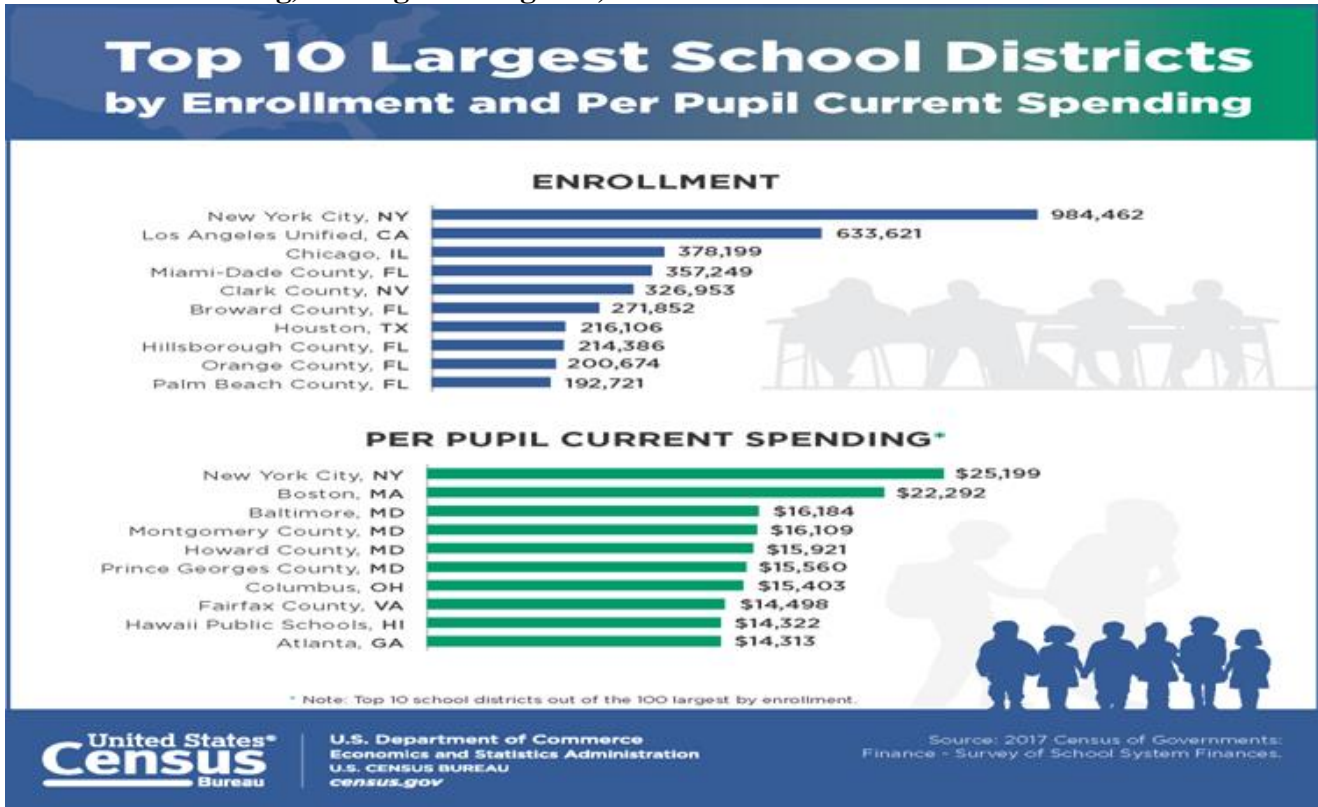
Chart 6. Per Pupil Local Funding for Public Schools in Maryland

Exhibit 7.5 Local Funding for Public Schools in Fiscal 2019

County	2018 Total Enrollment	Local Appropriation	Per Pupil	Ranking by Per Pupil Funding		
Allegany	8,070.0	\$30,424,308	\$3,770	1.	Worcester	\$13,528
Anne Arundel	81,010.0	687,140,500	8,482	2.	Montgomery	10,807
Baltimore City	75,180.0	278,412,181	3,703	3.	Howard	10,603
Baltimore	110,012.0	816,970,718	7,426	4.	Kent	9,572
Calvert	15,499.0	126,367,666	8,153	5.	Talbot	9,251
Caroline	5,517.0	14,436,087	2,617	6.	Anne Arundel	8,482
Carroll	24,827.0	192,391,000	7,749	7.	Calvert	8,153
Cecil	14,684.0	82,463,528	5,616	8.	Carroll	7,749
Charles	26,319.0	182,148,600	6,921	9.	Queen Anne's	7,584
Dorchester	4,549.0	19,252,162	4,232	10.	Garrett	7,496
Frederick	41,456.0	272,386,838	6,571	11.	Baltimore	7,426
Garrett	3,662.0	27,449,975	7,496	12.	Charles	6,921
Harford	36,878.0	245,815,645	6,666	13.	Harford	6,666
Howard	56,594.0	600,053,881	10,603	14.	Frederick	6,571
Kent	1,800.0	17,228,878	9,572	15.	St. Mary's	6,092
Montgomery	158,107.0	1,708,627,645	10,807	16.	Prince George's	5,982
Prince George's	127,646.0	763,562,900	5,982	17.	Cecil	5,616
Queen Anne's	7,501.0	56,884,381	7,584	18.	Washington	4,518
St. Mary's	17,044.0	103,825,525	6,092	19.	Dorchester	4,232
Somerset	2,731.0	9,881,620	3,618	20.	Allegany	3,770
Talbot	4,396.0	40,668,750	9,251	21.	Baltimore City	3,703
Washington	21,810.0	98,530,760	4,518	22.	Somerset	3,618
Wicomico	14,903.0	44,164,012	2,963	23.	Wicomico	2,963
Worcester	6,408.0	86,685,293	13,528	24.	Caroline	2,617
Total	866,603.0	\$6,505,772,853	\$7,507			

Source: Maryland State Department of Education; Local School Budgets; Department of Legislative Services

Chart 7. Howard County Ranked No. 5 in Per Pupil Spending (Including Federal, State and Local Funding) Among the Largest 1,000 School Districts in the United States



4.3 Reserves and One-Time Funding

- **Increase County Fund Balance:** The Committee recommends that the County agree to set aside or save at least 50% of any prior year surplus to build reserves, limiting that which could be used in the following fiscal year. Before the pandemic, the County was on course to fund a policy reserve on top of the County Charter-mandated 7% Rainy Day Fund. In FY 2021, however, the County depleted its policy reserve to bridge a very real fiscal gap and minimize the impact of service reductions during the pandemic. As the County heads into a still uncertain economic future with multiple unknowns, it must replenish and increase its policy reserve and maintain a healthy fund balance. This will equip the County with the needed capacity to withstand potential economic challenges and unforeseen risks. Growing the fund balance is also critical to maintaining the County’s AAA bond rating, as it demonstrates ability to weather a crisis without drastic service cuts or dipping into its Charter-mandated stabilization fund (which is now equivalent to only 3.5 weeks of cash flow), reducing the County’s “savings account” to a dangerously low level.
- **Use One-Time Funding Only for Non-Recurring Expenditures or to Reduce Debt Issuance:** The County should commit to limiting the use of one-time funding to only non-recurring expenditures. This principle currently applies to the use of prior year surpluses (PAYGO) which, per County Charter, can only be used on one-time expenses except in an emergency when approved by a super-majority of the County Council. It should also govern the application of funds from unsustainable revenue sources, such as an unexpected bump in revenues from capital gains, a one-time inflow of funds from delayed tax code reconciliation (FY 2020), and/or transfers from other funds. Using one-time funding to support on-going expenditures that increase the base creates a deficit before the next fiscal year even starts, exacerbating funding challenges in the following year, when the one-time funding is gone but the expenses – increased by inflation - remain. In addition, the County should try to use one-time funding to reduce long-term costs, such as: using cash PAYGO to fund infrastructure needs and/or reduce new debt issuance and associated interest costs; or making one-time investments that can generate on-going permanent savings.

4.4 Long-term Planning

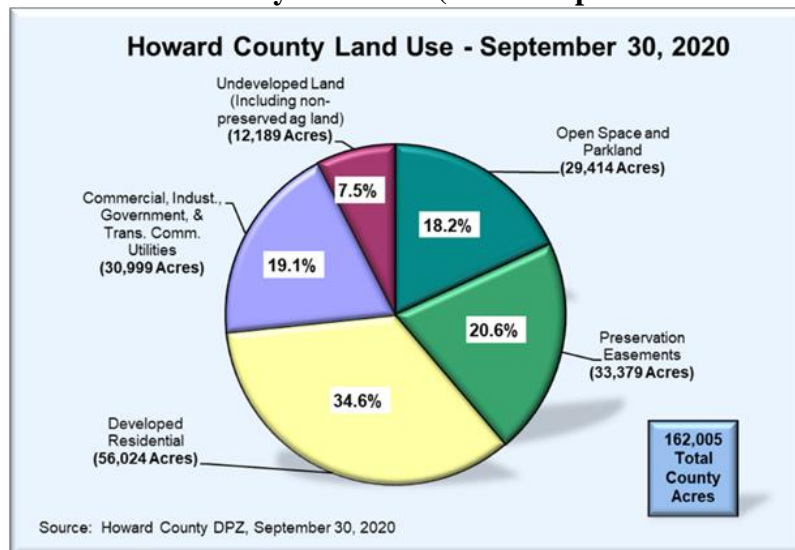
- **Multi-Year Projections and Strategic Planning:** The County should develop multi-year projections and enhance its multi-year fiscal planning processes. In recent years, the County has developed a multi-year projection of both revenues and expenditures, incorporating input from all stakeholders of revenues such as County agencies, the HCPSS, the HCC, and the HCLS. Beginning with FY 2021, these multi-year projections also account for projected operating budget impacts of capital projects. These projections have generated important information, revealing an increasing gap between revenues and expenditures, and demonstrating that, over time, a point will be reached – in fact, now - where expenditures can only be reduced so much before they adversely impact services.

While acknowledging the County’s efforts and progress in multi-year planning, the Committee believes that it is time for the County to work with all stakeholders and develop a long-term fiscal plan. A continuing funding gap and increased difficulty in finding solutions to balance the budget make it important to engage stakeholders in collaborative prioritization to distinguish needs from wants and make the difficult but necessary choices between competing needs. It also requires a more comprehensive and sophisticated exercise to understand the vision that will drive the fiscal plan, align CIP and operating budgets, link today’s decisions with future impact, and ensure a more cohesive approach in developing budgets, policies, legislation, and a general plan that will engage all in an

effort towards a clarified direction for priorities. This is not a light undertaking but is essential - and must engage the public in a process that is transparent and collaborative.

- **Ensure General Plan Is Connected with Fiscal Plan:** The County is currently in the process of updating its General Plan. The Committee believes that this effort is especially significant as the County is in a period of transition to a new normal in which not much is certain. The inventory of undeveloped land dropped to 7.5%, so the County will no longer benefit from the strong population and development growth that was characteristic of years past. This slowed growth means an associated reduction in the growth of personal income and property tax revenue. Instead, the community must adapt to a gradual growth era and make smart planning decisions including focusing on redevelopment and vertical construction. The County is transitioning from growth to sustainable maintenance - a natural evolution as a community matures.

Chart 8. Howard County Land Use (Undeveloped Land = 7.5%)



- Moreover, what has worked for the County in the past will no longer work moving forward; and the post-pandemic development needs will not be the same as pre-pandemic needs. In developing the General Plan, the County should focus on designing it to support long-term strategic priorities and improve the County’s fiscal outlook, taking into full consideration housing, demographics, employment, land use, mobility, and business trends. For example, as discussed below, the development of the General Plan should help grow the commercial base.

The Committee recommends that, in updating the General Plan, the County be creative in implementing strategies to maximize revenue streams in the long run. This could mean considering zoning laws that allow for more commercial development, reexamining height restrictions, or reassessing parking ratios as we have seen more people logging-in rather than driving to their jobs. Addressing how acres of parking lots can be repurposed for vertical redevelopment to provide new economic opportunities will be important for the years to come. Priority should be given to protecting existing commercially zoned land and designating new parcels of land for development in the upcoming master plan. Additionally, incentives to encourage redevelopment and parcel assemblage should be considered.

We also recommend taking into consideration potential long-term or permanent changes in work and life patterns that will inform and could reshape the types of development that will flourish in the County over the next 10 years.

- **Develop and Execute Strategies to Promote the Commercial Base:** Commercial base growth in the County has exceeded the residential growth rate for years, and both economists and the Howard County Economic Development Authority (EDA) indicate that compared to residential properties, the commercial base typically generates more net fiscal benefits (when comparing revenues generated to cost of services delivered). Boosting commercial-base development is one of the most promising strategies to help rebalance the expenditure needs and fiscal resources. The County should continue to build on its current strengths in developing and implementing comprehensive strategies to promote, retain, and expand its commercial base.

The County must continue to provide needed assistance to local businesses and work to improve the County’s business environment. Besides using the new General Plan to promote commercial base development, an efficient and predictable development process is critical to sending the message that the County welcomes investment. Moreover, legislation that adds an undue cost burden relative to neighboring jurisdictions or hinders local development will force investors to look elsewhere. The Committee suggests the County, working in collaboration with EDA and business partners, explore options to improve the County’s competitiveness in terms of attracting and retaining businesses to facilitate the long-term growth of its business community and commercial base.

Furthermore, as businesses grow, the demand for housing in will continue to be strong in the years ahead. If the County is to remain competitive with neighboring jurisdictions in the Baltimore and Washington region, adequate housing for the local workforce is paramount. Existing businesses will not have the incentive to grow, nor will new businesses wish to locate in the County if housing for their workers is in short supply. In addition, efforts will need to be made to provide adequate affordable housing to accommodate the full range of worker salaries along with the associated service needs.

4.5 Standing Committee

- **Spending Affordability Advisory Committee (SAAC):** The Committee applauds the County’s decision to expand the timeframe for the work of the FY 2022 SAAC. The increased number of meetings allowed the members to benefit from more comprehensive presentations and in-depth discussions that informed the Committee’s recommendations. However, the Committee renews its recommendation to make the Committee a standing committee to remain informed about the County budget and economic-related decisions throughout the fiscal year.
- **Outreach and on-going meetings:** In some years, members of the Committee met with various County organizations, businesses, and the media to engage and educate the public regarding the County’s financial health and the challenges it faces, such as those cited in this report, and seek their input regarding potential options and solutions. The Committee recommends that the County and the Committee collaborate in strengthening efforts to educate the public on the County’s long-term fiscal outlook and continuing challenges. Making the Committee a standing committee with regularly scheduled meetings and ongoing communication with the County and its residents would help in these community outreach efforts.

We would like to thank all the Committee members for their time and effort in providing invaluable perspective, insight, questions, and contributions that will inform County decision-makers as they tackle today’s challenges and opportunities and prepare for the future. We also want to thank all the presenters who shared critical information and informed analysis with the Committee.

II. APPENDIX - DETAIL / BACKGROUND

1. Economic Outlook

The Howard County Budget Office retained the Jacob France Institute (JFI) at the University of Baltimore to prepare a County personal income projection through FY 2023 and a report on overall national, State, and regional economic trends and their expected impact on the County's economy and government finances. This report was prepared to provide personal income and economic data to inform the Committee in their review. The key findings of this analysis are as follows:

National Economy

Calendar 2020 brought substantial economic dislocations. The onset of the coronavirus pandemic ended the longest economic expansion on record and brought on an economic recession, with 2020 U.S. real GDP falling by 3.5% and employment by 5.8%, exceeding the declines that occurred in the Great Recession. Unprecedented levels of federal payments to individuals in response to the pandemic maintained personal income levels nationally; however, the loss in jobs and incomes will continue to be a drag on the national economy through the rest of this year. However, with the rollout of the coronavirus vaccine and continued fiscal stimulus, the national economy is projected to recover in the latter part of the year. Both Moody Economy.com and the Maryland Board of Revenue Estimates (BRE) are projecting a U.S. economic recovery starting in the second half of 2021:

- Moody's Economy.com forecasts that U.S. real GDP will grow by 3.5% in 2021, 5.0% in 2022, and 3.8% in 2023, and U.S. employment is projected to grow by 0.4% in 2021, by 3.0% in 2022, and by 2.9% in 2023.
- The December 2019 BRE report projects growth in U.S. real GDP of 6.1% in 2021 and 5.5% in 2022 with non-agricultural employment increasing by 2.9%, and 3.4% respectively.

State Economy

As in the last two recessions, Maryland's reliance on federal employment and spending cushioned the state somewhat from the effects of the Coronavirus recession; job losses and high unemployment will be a drag on state growth through the rest of this year. However, economic conditions are expected to improve with the national recovery, projected for the second half of 2021. Both Moody Economy.com and the BRE are projecting the Maryland economy to recover in the third and fourth quarters of 2021:

- The BRE forecast Maryland employment to experience a decline of 5.7% in 2020, with stronger post-COVID-recession growth of 3.4% in 2021, 2.8% in 2022, slowing to less than 1% in 2023 and 2024. The BRE forecast is for Maryland personal income to increase by 4.9% in 2020, 0.6% in 2021, with annual growth of more than 4% in 2022-24.
- Moody's Economy.com forecasts an employment decline of 6.0% in Maryland employment in 2020, with slow growth (0.6%) in 2021, 2.5% in 2022 and 2.4% in 2023. Moody's forecasts that Maryland personal incomes will increase by 5.0% in 2020, by 1.3% in 2021, and return to growth of about 4% or higher in 2022-24.

Howard County Economy:

Along with the national and Maryland economy, economic activity in the County is likely to have slowed at the end of 2020, and growth in 2021 will depend on the timing and strength of the overall recovery from the pandemic. While County economic conditions are expected to improve with the national and State economic recovery, there are substantial reasons for concern about future growth. These include:

- **Timing effects of recent economic declines.** There is a lag between when income is earned and the County collects taxes on that income. Furthermore, federal payments to individuals in the second half

of 2020 led to personal incomes actually growing in the second half of 2020. These two factors combined mean that the fiscal impacts of the recession on County revenue collection will not be felt until mid-2021. As a result of these delayed effects, County income tax revenues are likely to be suppressed in 2021 and into 2022, calling for renewed caution in current spending decisions.

- County Labor Force Participation and Employment Declined More than Maryland's in 2020.**
 Personal income growth is strongly influenced by the growth of the County's labor force and base of employed residents. As the County's workforce and base of employed residents increases, the earnings of these workers drive County personal income growth and personal income tax revenues. Over the long term, the County has grown more rapidly than the State since 2001 in both of these measures (Chart A-1 and A-2). While long-term growth in the County's resident labor force and base of employed residents has been strong, the County's labor force declined by 2.8% in 2020, compared to a 1.8% decline statewide. Similarly, the County's base of employed residents declined by 5.3% in 2020, by slightly more than the Maryland decline of 5.2%.

Chart A-1. Maryland and Howard County Labor Force, 2001-19

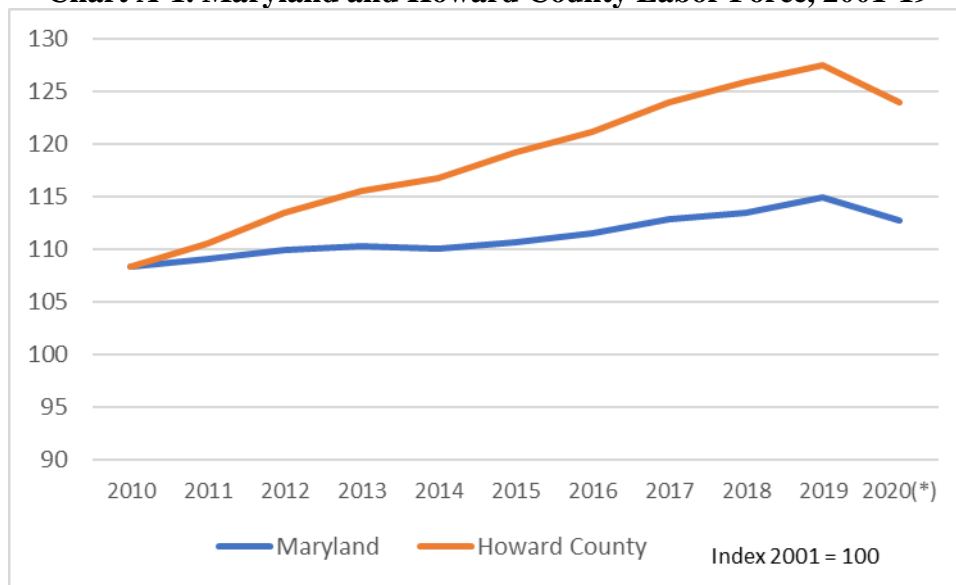
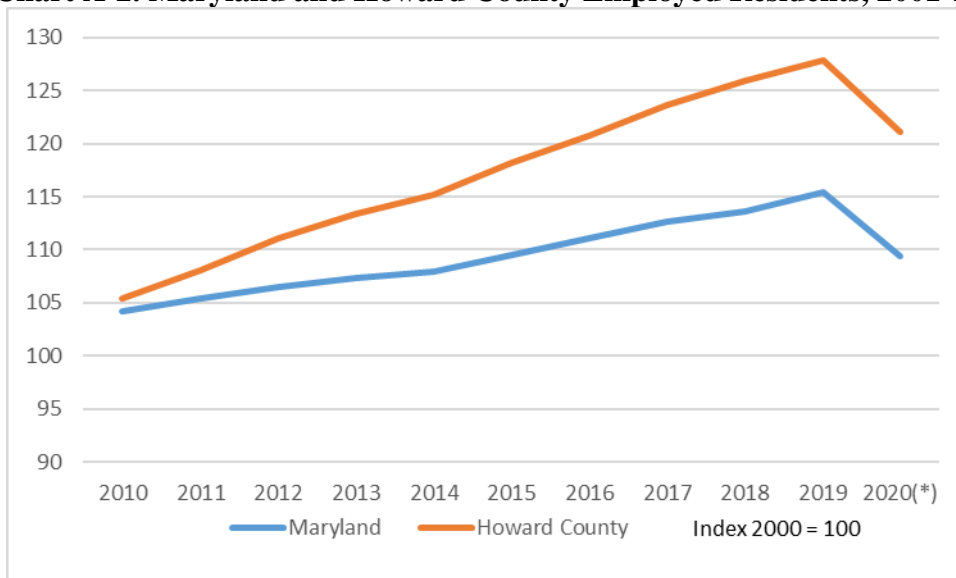


Chart A-2. Maryland and Howard County Employed Residents, 2001-19



- ***The pace of development activity is slowing.*** Since 2010, the County’s labor force has expanded by 14.5% and the base of employed residents by 14.9%, driven by strong population growth. This contributes to County revenues through both income and property taxes, which together account for the majority (90%) of County revenues. Despite housing prices hitting record highs in 2020 and inventory falling to record lows, the number of housing units authorized for construction decreased in 2020 for the second year in a row. Development activity has been impacted by the decline in available land for development as well as regulatory issues (APFO, development fees, etc.). As the County continues to mature and the pace of residential development activity slows, growth in the County’s labor force can be expected to slow, negatively impacting County personal income growth and the resulting income and property tax revenue growth in coming years.

As a result of these conditions, the JFI developed two personal income growth scenarios: 1) A baseline scenario based on the model used for prior projections – but with growth projected to track Maryland’s rate of growth in 2023 and 2024 due to the impacts of APFO; and 2) A lower projection – based on the lowest growth projections from the BRE’s and Moody’s forecasts and with the County tracking growth in Maryland personal income and larger impacts of APFO on population growth. The results of the JFI’s personal income projections analysis⁵ are as follows:

Baseline Scenario – Based on APFO and Blended Projections for State Growth

- Based on the JFI’s Baseline personal income projections - County personal income is projected to grow by 4.5% in FY 2020, 3.1% in FY 2021, 2.5% in FY 2022, 3.9% in FY 2023, and 4.0% in FY 2024. On a calendar year basis, County personal income is projected to grow by 5.1% in 2020, 1.2% in 2021, 3.8% in 2022, 4.0% in 2023; and 4.0% in 2024.

Lower Growth Scenario – Based on APFO and Lower Projections for State and County Growth

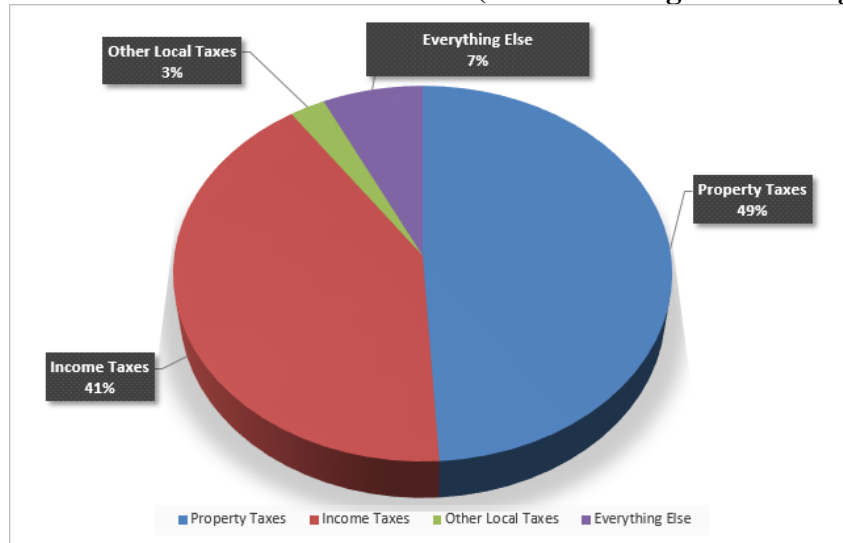
- Based on the JFI’s Lower State and County Growth personal income projections - County personal income is projected to grow by 4.4% in FY 2020, 2.7% in FY 2021, 2.0% in FY 2022, 3.5% in FY 2023, and 3.8% in FY 2024. On a calendar year basis, County personal income is projected to grow by 4.9% in 2020, 0.6% in 2021, 3.3% in 2022, 3.8% in 2023, and 3.8% in 2024.

2. Revenue Outlook

Howard County’s General Fund revenues rely primarily on two sources, property tax (49%) and personal 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 into FY 2022. The County forecast for General Fund growth in FY 2022 over the FY 2021 budget is 2.3%.

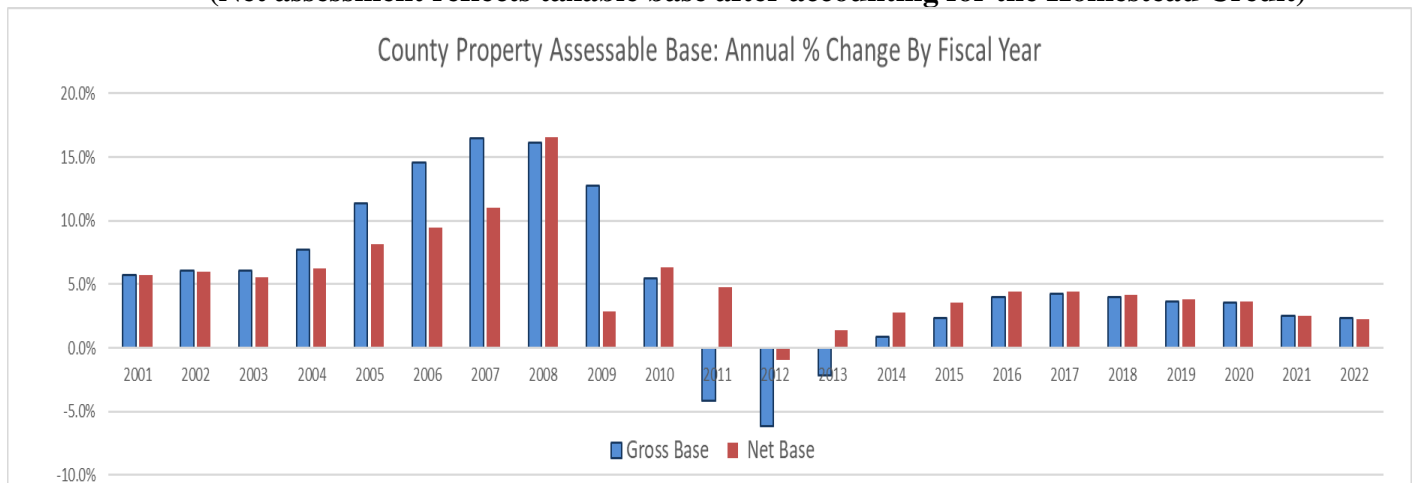
⁵ It is important to note that at this time, both the BRE and Moody’s are predicting personal income growth in Maryland in 2021 – of 0.6% and 1.3% respectively – and since this drives the County projections, Howard County personal income is projected to grow in 2021 as well. This is based on current economic conditions and could change based on the trajectory of the national recovery.

Chart A-3. General Fund Revenue Structure (FY 2021 Budget Excluding One-Time Funds)



Property tax reassessment value has continued to slow and lags below the State average for the fifth straight year. The net assessable base for FY 2022 is projected to grow at 2.3% over FY 2021, continuing the County’s slow property tax growth experienced in recent years. The State Department of Assessments and Taxation reassessment of Group 3 in 2020 showed 8.3% growth or an average increase of 2.8% per year over the three-year phase-in. The full-value reassessment of 11% (State 9.7%) for the commercial base continues to outpace the growth of the residential base and remains a significant driver of the overall annual property tax assessment growth for the County. In coming years, the assessable base is expected to benefit from the strong housing market but will feel the impact of a weakening commercial market in retail, hotel, and office buildings. In addition, the four-year residential development moratorium, based on more restrictive conditions is scheduled to take effect in FY 2022, This will result in the pause and/or delay of a sizable portion of projected new development and the generation of associated revenues.

Chart A-4. County Assessable Base Annual Percentage Change History (Net assessment reflects taxable base after accounting for the Homestead Credit)

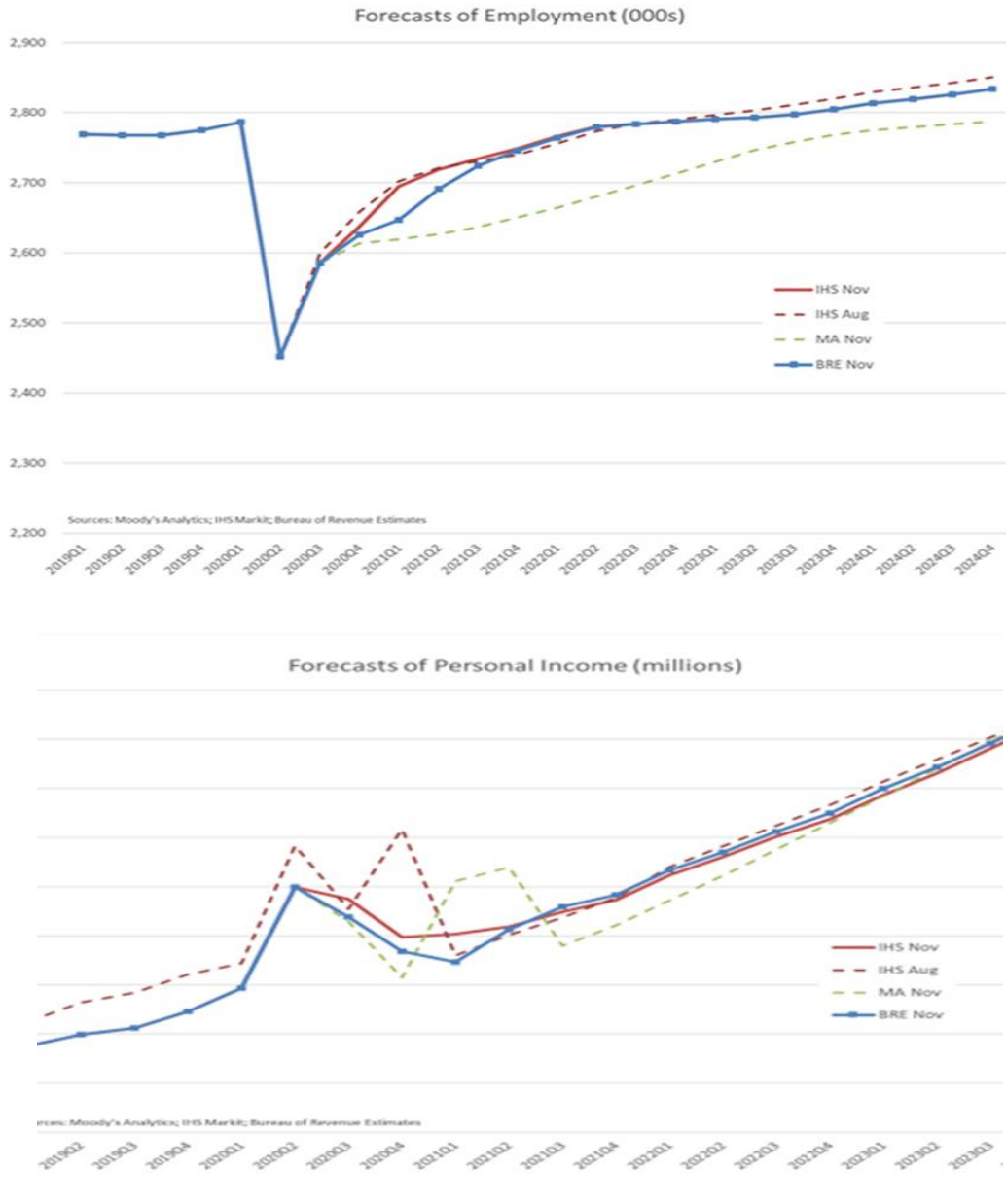


Personal income taxes experienced surprisingly strong growth in FY 2020 thanks to a one-time inflow from the delayed reconciliation of the impact of the Federal Tax Cuts and Jobs Act (TCJA) passed in 2017. In addition, rapid issuance of pandemic-related payments and significant federal stimulus packages, especially the increased and expanded taxable unemployment insurance eligibility and coverage, have not only kept

State and local income taxes from decreasing during the pandemic months but contrary to historical experience in a typical recession, resulted in a temporary bump in the growth of tax receipts.

Such a temporary boom is not a true reflection of economic reality and is expected to be short-lived. The severe job loss experienced during the pandemic is expected to be followed by a gradual recovery in the labor market, with consultants to both the State and the County are predicting a 2-to-4-year timeframe before a return to pre-pandemic employment levels. In addition, the Governor recently proposed to exempt unemployment insurance from both State and local income taxes. If passed by State legislators, a downward adjustment in income tax receipts can be expected in late FY 2021 and FY 2022 for both refunds and withholding. The economic outlook features uncertainties contingent on multiple factors, including the pandemic, economic recovery, and federal and State policies.

Chart A-5: State Consultants' Forecast of Employment and Personal Income Changes in Maryland (Source: State Comptroller's Office)



Other revenues, overall, are projected to experience some level of recovery from the negative impact experienced during the pandemic in CY 2020. Some revenues, such as Hotel/Motel Tax and Admission and Amusement Taxes, suffered significant losses in this period and are not expected to fully recover in the foreseeable future. Recordation tax, building permits, as well as development fees and charges, have also experienced a decline so far, but are expected to see some improvement in FY 2022 and beyond.

3. Debt Indicators

The Committee relies on established measures used and published by Moody’s Investor Service and in International City/County Management Association publications to assess the County’s relative debt position. The following four (4) specific measures have been used to evaluate the County’s debt burden and debt affordability:

- Debt measured as a percentage of the County's assessable base. The current County charter limit is set at 4.8% of the 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 percentage of the jurisdiction's per capita personal income. This measure should not exceed 10% in the view of many analysts.
- Debt Service as a percentage of current revenues. This is the most important debt indicator among the four listed. Anything below the County’s 10% policy ceiling, considered an appropriate level, with 15% and above regarded as a dangerous and unsustainable.

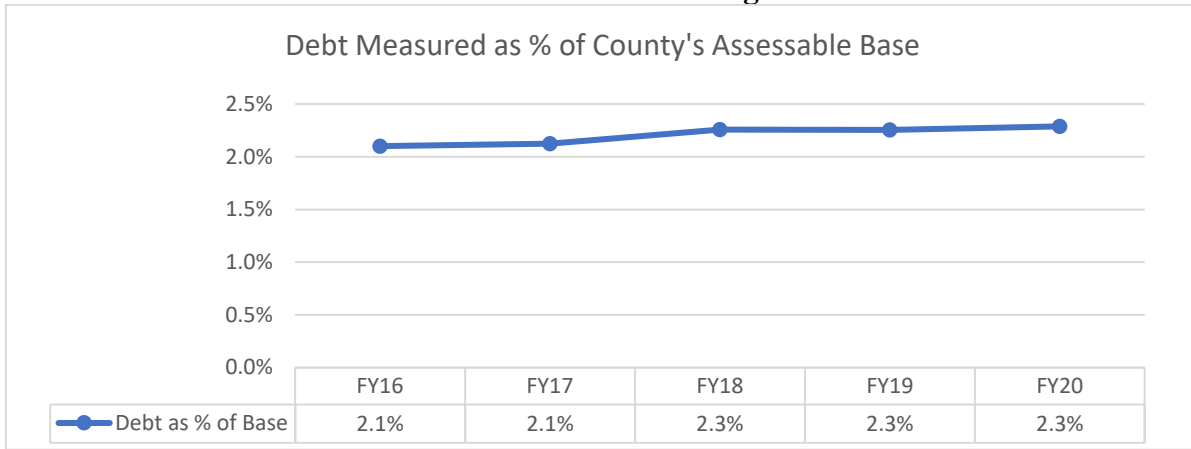
The Committee is concerned that all four (4) measures of debt burden have been increasing in the past several years. In particular, debt service as a percentage of revenues exceeded the County policy ceiling of 10% for the first time in FY 2020 and is expected to continue to increase. The Committee recommends that the County monitor its debt level closely and commit to reducing new debt in coming years to avoid escalating long-term liabilities and leaving an ever-shrinking share of the operating budget available to support all other services of the County.

The latest values of these four (4) debt indicators are listed below. (Note: To provide context, the prior year’s measures are shown in brackets’ []).

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

As of June 30, 2020 [2019], Howard County had an assessable base of **\$55.2 billion** [\$53.4 billion] and an outstanding GO debt of **\$1.26 billion** [\$1.2 billion]. The ratio of debt to assessable base was **2.29%** [2.25%] of assessed value vs. the 4.8% limit. Preliminary projections indicate that this measure will remain relatively constant in coming years.

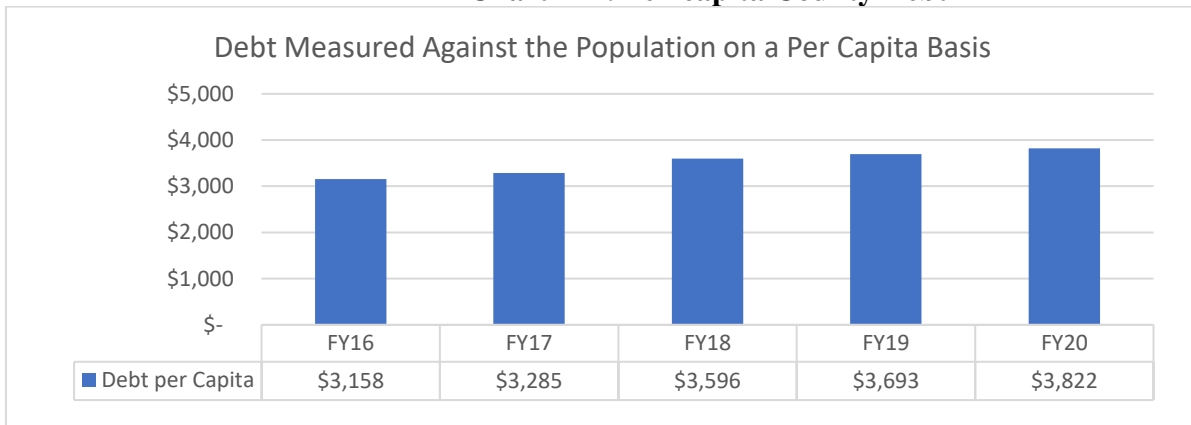
Chart A-6. Debt as a Percentage of the Assessable Base



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

As of June 30, 2020 [2019], Howard County had a population of **330,376** [325,960] and a GO debt of **\$1.26 billion** [\$1.2 billion] generating a per-capita debt of **\$3,822** [\$3,693].

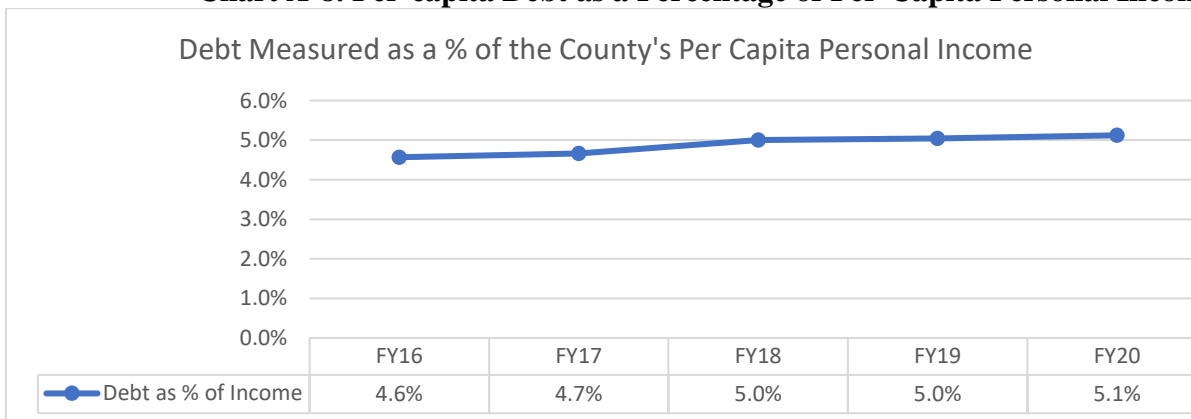
Chart A-7. Per-capita County Debt



Measure #3: Per-capita debt measured as a percentage of per-capita income.

As of June 30, 2020 [2019], Howard County residents had an estimated per-capita personal income of **\$74,633** [\$73,258] and a per-capita debt of **\$3,822** [\$3,693] equaling a per-capita debt of **5.12%** [5.04%] of per-capita income.

Chart A-8. Per-capita Debt as a Percentage of Per-Capita Personal Income

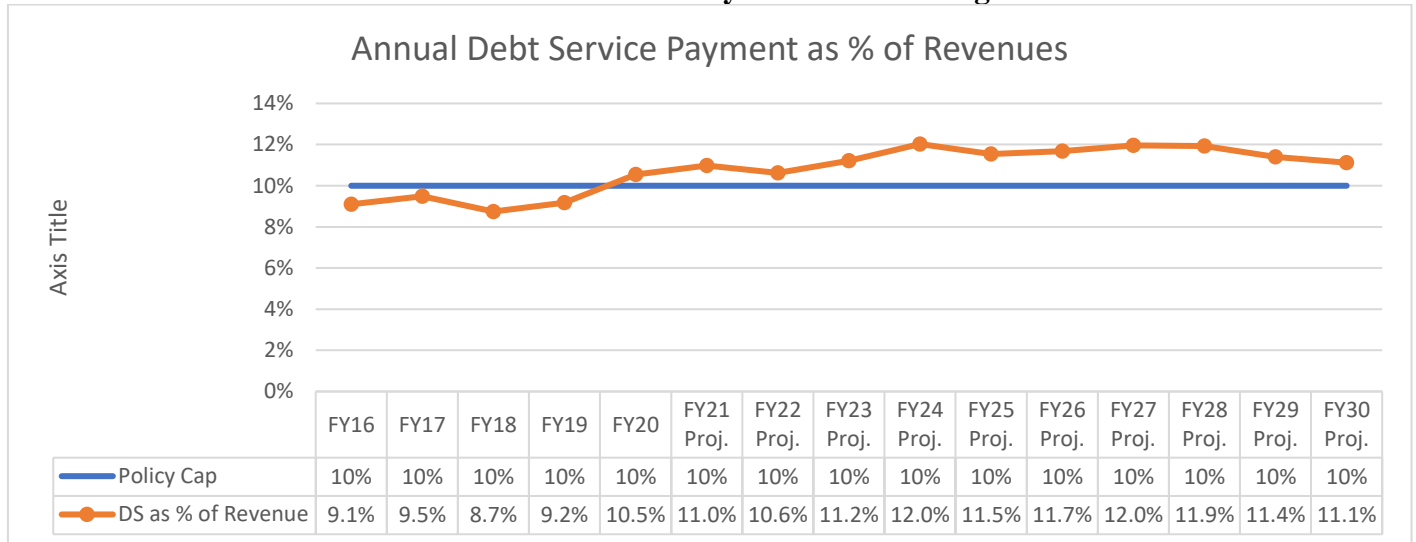


Measure #4: Debt Service as a percentage of current revenues.

In FY 2020 [2019], the County received **\$1.38 billion** [\$1.36 billion] in revenues from the General, Fire and Rescue, and Environmental Service funds combined, and paid debt service of **\$145.6 million** [\$125.0 million]. Thus, debt service equaled **10.54%** [9.17%] of current revenues. This debt indicator is the most important measure of the four utilized for County operating budget and long-term planning. It indicates not only debt burden and debt affordability, but also the ability of the operating budget to support all other service needs (after the required dedication of resources to debt obligations).

This indicator is projected to grow continuously as it is partially driven by existing obligations in the pipeline (some authorized GO bonds are not yet issued due to the lag between authorization, construction, and debt issuance); significant current and future infrastructure funding requests for education entities and the County; and a slowdown in revenue growth. The County already exceeded its 10% policy ceiling in FY 2020 and expects to see this indicator stay above 10% in FY 2022 – FY 2030. After that point, this indicator is expected to begin a downward trend and settle below 10%. Although 10% is a self-imposed County policy ceiling and exceeding it temporarily is not predicted to cause an immediate change in County credit ratings, it worth noting that 10% is a policy ceiling commonly adopted by governments to manage and control the impact of the debt burden on the operating budget. The Committee is concerned with the tightening of this debt capacity indicator, given currently limited revenue streams, and encourages the County to closely monitor this indicator and avoid having it rise much higher and/or remain above the policy ceiling for too long.

Chart A-9. Annual Debt Service Payment as Percentage of Revenues



Note: Projections assume a 4.5% interest rate, \$90 million in new GO bonds per year in out years based on historical levels, \$80.5 million WIFIA loan in FY 2027, and the impact of outstanding previously authorized bonds issued through FY2027.

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. Absent actions each year to reconcile expenditures with resources available, preliminary projections indicate the County will continue to see a deficit between its projected revenues and requested expenditures, with the annual gap predicted to increase from \$36⁶ million in FY 2022 to \$118 million in FY 2027.

⁶ The projected \$36 million gap in FY 2022 was updated to \$64 million as of March 1, 2021, based on Board of Education’s Approved FY 2022 budget request, which was released on February 25, 2021, after the SAAC voted on this report.

**Chart A-10. Preliminary Multi-Year General Fund Projections
(Before Corrective Actions to Balance Revenues and Expenditures)**

Preliminary Multi-Year General Fund Projections (\$ in Millions)							
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
	Budget	Projected	Projected	Projected	Projected	Projected	Projected
Revenue	1,176.5	1,203.3	1,235.2	1,264.8	1,295.2	1,326.4	1,358.3
Revenue Growth		2.3%	2.7%	2.4%	2.4%	2.4%	2.4%
Expenditure	1,176.5	1,239.3	1,287.4	1,330.9	1,382.6	1,431.4	1,476.1
Expenditure Growth		5.3%	3.9%	3.4%	3.9%	3.5%	3.1%
Gap		(36.0)	(52.2)	(66.1)	(87.4)	(105.1)	(117.8)
Accumulative Gap Absent Actions		(36.0)	(88.2)	(154.3)	(241.7)	(346.8)	(464.5)

County revenue projections rely primarily on the performance of property and income taxes. Property tax receipts will likely maintain a gradual increase due to the triennial reassessment cycle which spreads the impact of changes over time, and the gradual build-out of the County coupled with the impact of regulatory changes that will further reduce or defer new development. Historically volatile income tax revenues will likely experience some recovery as employment levels return to pre-pandemic levels in future years. These gains, however, will be partially offset by the cessation of one-time federal stimulus payments, which have created an artificial increase in revenues already received in FY 2021 and, potentially, into FY 2022. In addition, a slowdown in population growth due to diminishing developable land and less new development will likely drag down personal income tax receipts, which have historically benefited from both wage growth and population growth in the County.

Revenue forecasts for the next several years will feature significant uncertainties due to critical factors such as the length and impact of the pandemic and federal, State, and local policies. Based on the current recommendation from the Committee, projected General Fund revenue growth was adjusted down slightly to 2.2% per year during the FY 2023 - FY 2027 period to account for various unknowns.

Chart A-11. Preliminary Multi-Year General Fund Revenue Projections

Preliminary Multi-Year Revenue Projections - 2.2% Average Growth							
Revenues (\$ in Millions)	Budget	Projected					
	FY21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Property Taxes	585.5	597.0	609.0	621.2	633.6	646.2	659.2
Income Taxes	464.3	494.8	504.0	516.6	529.6	543.0	556.7
Other Local Taxes	22.3	26.5	29.1	29.7	30.3	30.9	31.5
State Shared Taxes	3.7	2.7	2.7	2.7	2.7	2.7	2.7
Charges / Permits	28.8	29.1	30.5	30.9	31.4	31.8	32.2
Investments/Recoveries	19.8	20.4	20.8	21.22	21.7	22.1	22.6
Other Financing / Transfers	35.9	24.0	24.7	25.5	26.2	27.0	27.8
Total Excluding FB	1,167.9	1,194.6	1,220.9	1,247.8	1,275.5	1,303.8	1,332.8
% Growth		2.3%	2.2%	2.2%	2.2%	2.2%	2.2%

On the expenditure side, total projected requests, incorporating input from all departments and agencies including education entities, continue to exceed projected revenues in this period before any corrective action. Major cost drivers include rising requests from education entities, compensation and fringe benefit costs for all employees and retirees, increasing debt service payments to finance education and infrastructure projects, new operating and maintenance costs for completed capital projects, and various needs of the

community - especially given the impact from the pandemic and economic downturn. The County will have extremely limited flexibility in new resources available, however, after fulfilling a few known commitments, including State-mandated annual MOE funding growth to HCPSS, the growing debt service payments to fund education and other capital projects, and the annual payments scheduled to begin in FY 2022 for the new courthouse.

The County is required by law to adopt a balanced budget each year. Trying to prioritize needs vs. wants in evaluating all competing requests while staying within means will remain a challenge for decision-makers in the next several years.

For illustration purposes, the following are two of the many possible scenarios that would balance revenues and expenditures in the next six years:

Chart A-12. Expenditure Projection – Balanced Scenarios to Match Revenue Projection

Scenario 1 - MOE in FY 2022 Matches Actul Enrollment Growth							
Expenditures - Matching Revenues	FY21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
(\$ in Millions)	Budget	Projected	Projected	Projected	Projected	Projected	Projected
HCPSS MOE*	620.3	602.8	628.1	636.3	644.6	652.9	661.4
Debt Service**	121.9	125.6	141.3	147.5	155.2	160.0	165.2
P3 Annual Payment***		9.7	10.7	10.8	10.9	11.0	11.2
All Other (HCPSS above MOE funding, HCC, HCLS, and 26 County agencies)****	425.7	456.5	440.7	453.3	464.8	479.8	494.9
All Other \$ Growth		30.8	(15.7)	12.5	11.6	15.0	15.1
All Other % Growth		7.2%	-3.4%	2.8%	2.6%	3.2%	3.1%
Total Excluding FB	1,167.9	1,194.6	1,220.9	1,247.8	1,275.5	1,303.8	1,332.8
% Growth		2.3%	2.2%	2.2%	2.2%	2.2%	2.2%
Scenario 2 - MOE in FY22 Adjusted to Hold School Funding Harmless							
Expenditures - Matching Revenues	Budget	Projected					
(\$ in Millions)	FY21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
	Budget	Projected	Projected	Projected	Projected	Projected	Projected
HCPSS MOE/Harmless*	620.3	620.3	646.4	654.8	663.3	671.9	680.6
Debt Service**	121.9	125.6	141.3	147.5	155.2	160.0	165.2
P3 Annual Payment***		9.7	10.7	10.8	10.9	11.0	11.2
All Other (HCPSS above MOE funding, HCC, HCLS, and 26 County agencies)****	425.7	439.0	422.5	434.8	446.1	460.9	475.7
All Other \$ Growth		13.3	(16.5)	12.3	11.3	14.8	14.9
All Other % Growth		3.1%	-3.8%	2.9%	2.6%	3.3%	3.2%
Total Excluding FB	1,167.9	1,194.6	1,220.9	1,247.8	1,275.5	1,303.8	1,332.8
% Growth		2.3%	2.2%	2.2%	2.2%	2.2%	2.2%

Notes for the models above:

*HCPSS MOE figures are based on the following assumptions:

- FY 2022 MOE in Scenario 1 is based on the current official MOE calculation utilizing actual enrollment as of September 30, 2020, which dropped by 2.8% from the prior year. FY 2022 MOE in Scenario 2 is based Governor’s proposal to require local governments hold all Maryland school systems harmless for this year’s MOE funding], despite any pandemic-related enrollment drops.
- FY23 MOE tentatively assumes a 4.2% growth based on preliminary student enrollment projections in FY2022 Superintendent’s Proposed Budget, which shows an enrollment growth of 340 from the current fiscal-year budgeted level but 4.2% higher than actual enrollment in the current year. Actual MOE amount for FY23 will not be available until fall of 2021.

- MOE in out years assume 1.3% growth per year, largely in line with the preliminary long-term projections in the HCPSS Feasibility Study released in June 2020, which predicted 1.1 to 1.3% annual enrollment growth in general in the next 10 years.

****Debt Service Payment**

- Projection assumptions: 4.5% interest rates for GO bonds; existing (authorized but unissued) debt issued throughout FY27; budgeted GO debt of \$90 million per year based on historical CIP budgets.
- Debt service payments as a share of total General Fund revenues are projected to increase from 10.4% in FY 2021 budget to 12.4% in FY 2027. This represents a shift of \$24~\$26 million from the rest of the operating budget towards debt service payment, holding everything else unchanged.

******P3 Annual Payment**

- The amount is based on a 30-year contract with scheduled payments beginning in FY 2022 for the new courthouse project. The project was approved in 2017 to replace the existing building, constructed in 1843, to address security and capacity deficiencies, using an award-winning Public-Private-Partnership (P3) delivery with completion scheduled in 2021. The cost includes capital financing (debt service payments) and operating and maintenance.

****** All Other**

- After fulfilling the above-mentioned key nondiscretionary obligations mandated by law, contract, or debt retirement schedule, what is left from the annual revenues are available to support all other services of the County (including any above-MOE funding to HCPSS).
- FY23 will likely see a significant reduction in the funding for all other services in the County after fulfilling mandated/committed expenditures, due to both escalating debt payment and expected MOE growth based on the expected post-pandemic recovery in student enrollment growth. In scenario 2, all other services in total will receive less total funding than the FY 2021 budgeted level.

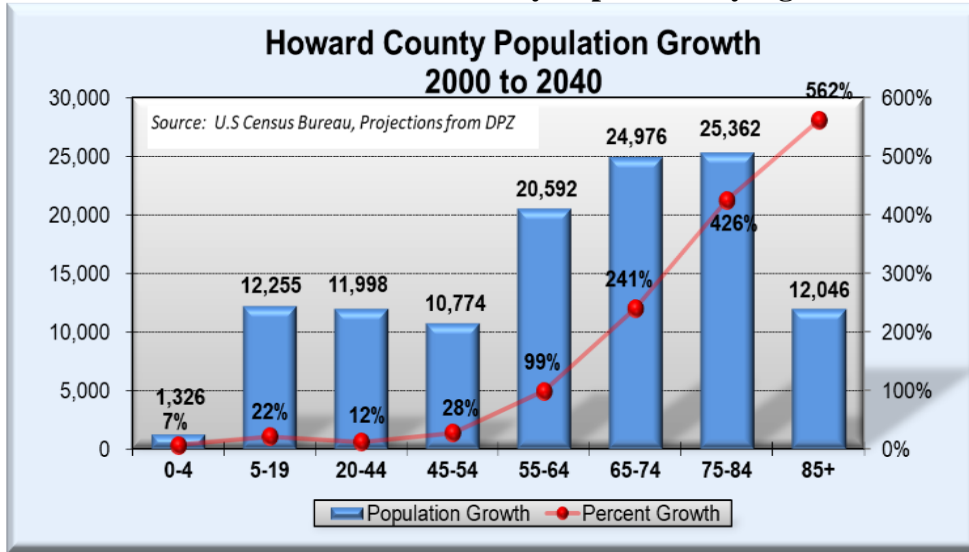
As in all models, the multi-year projection scenarios listed are based on a set of assumptions that could change when new information becomes available. The models were intended to identify long-term trends, inform budget development, and provide opportunities to take proactive actions and explore options to achieve a sustainable budget in a long run. They do not represent official fiscal plans. Both operating and CIP budgets are developed on an annual basis subject to the annual budget review and approval process.

5. Demographic and economic development trends

The Count Department of Planning and Zoning’s presentation on key demographic and economic trends continues to emphasize the concerns that the Committee has voiced over the last few years regarding their long-term impact. These trends will have a significant effect on the County’s near- and long-term fiscal condition and should inform the development of the operating and capital budgets to allow for proactive actions to address and cope with changing needs and/or priorities.

The County’s population has been aging rapidly. While this is a national trend, the County’s population is aging faster than our neighboring jurisdictions. The latest reports indicate that the population over the age of 55+ will more than double over the next two decades. An aging population requires careful planning to ensure incorporating both reduced revenue impact and increased service needs into the County’s long-term projections and fiscal planning.

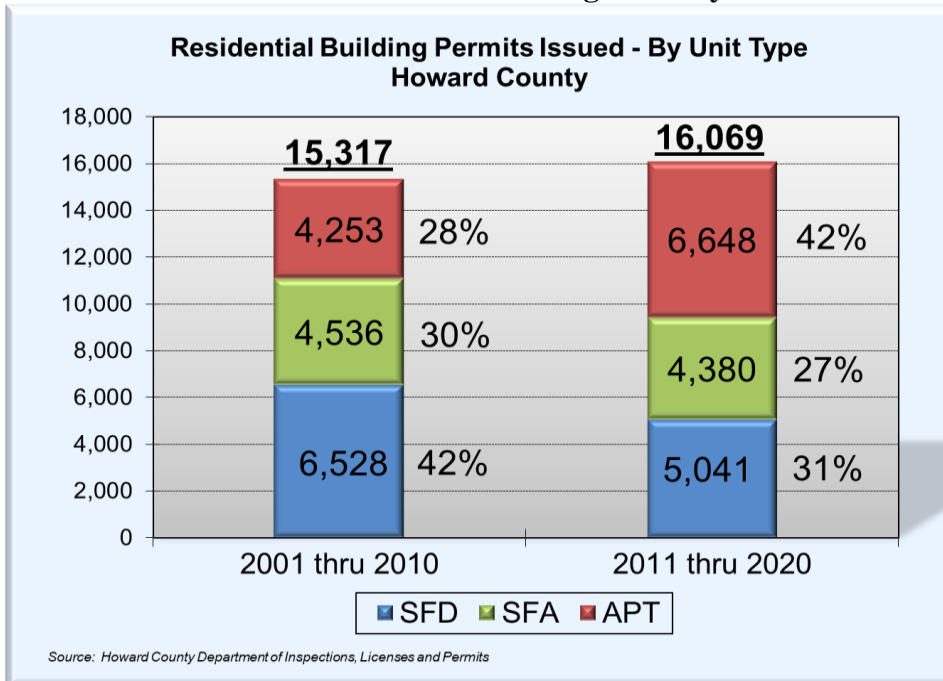
Chart A-13. County Population by Age



Source: US Census Bureau, DPZ & MDP cohort model

Another land-use trend the Committee noted is the continued shift of planned development activity from single- to multi-family housing. The main factor contributing to this shift is the limited amount of available land for single-family detached residential development and the current development policies and the resulting zoning in the Columbia Village Centers and the Route 1 and Route 40 corridors.

Chart A-14. Residential Permits Issued – A Shift from Single Family Detached to Multi-Family Units



Source: Howard County Department of Inspections, Licenses and Permits

Note: SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment

One more issue observed over the last two years is a continued drop in new building permits issued and new units proposed in pre-submission community meetings. This may impact not only current-year revenues but also the various revenues associated with new development and the associated permits and fees in FY 2022 and beyond. Since the development process typically takes two to three years to complete, the impact on the County's budget could be delayed and not reflected until a few years out.

Chart A-15. Residential Building Permits Issued in 2001 -2020

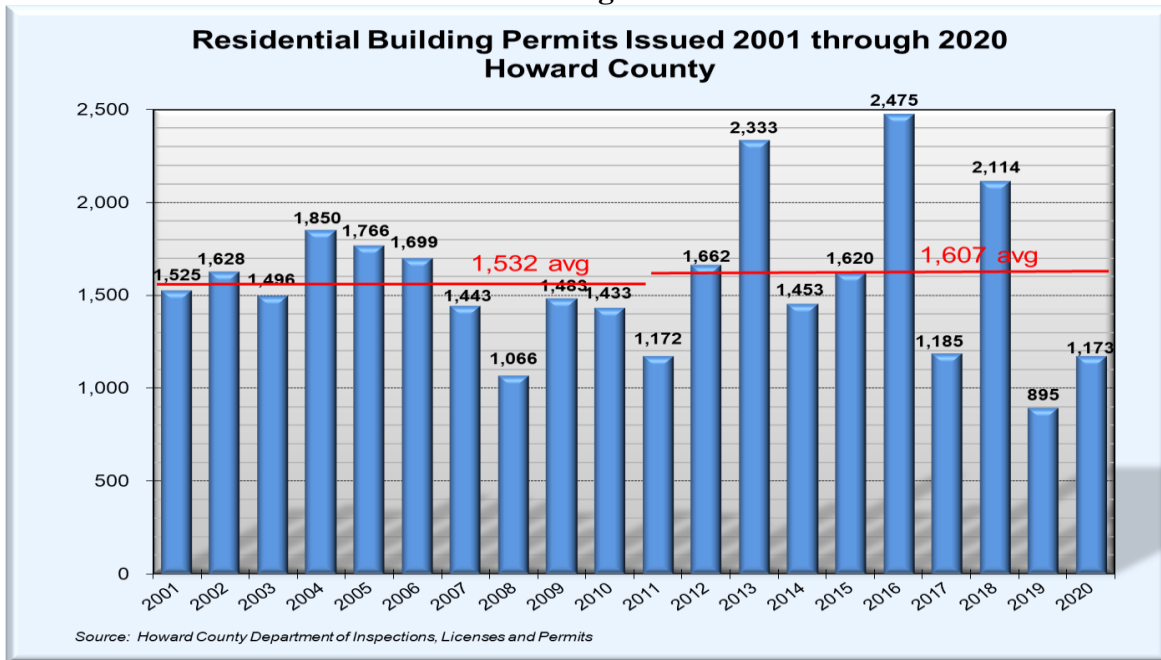
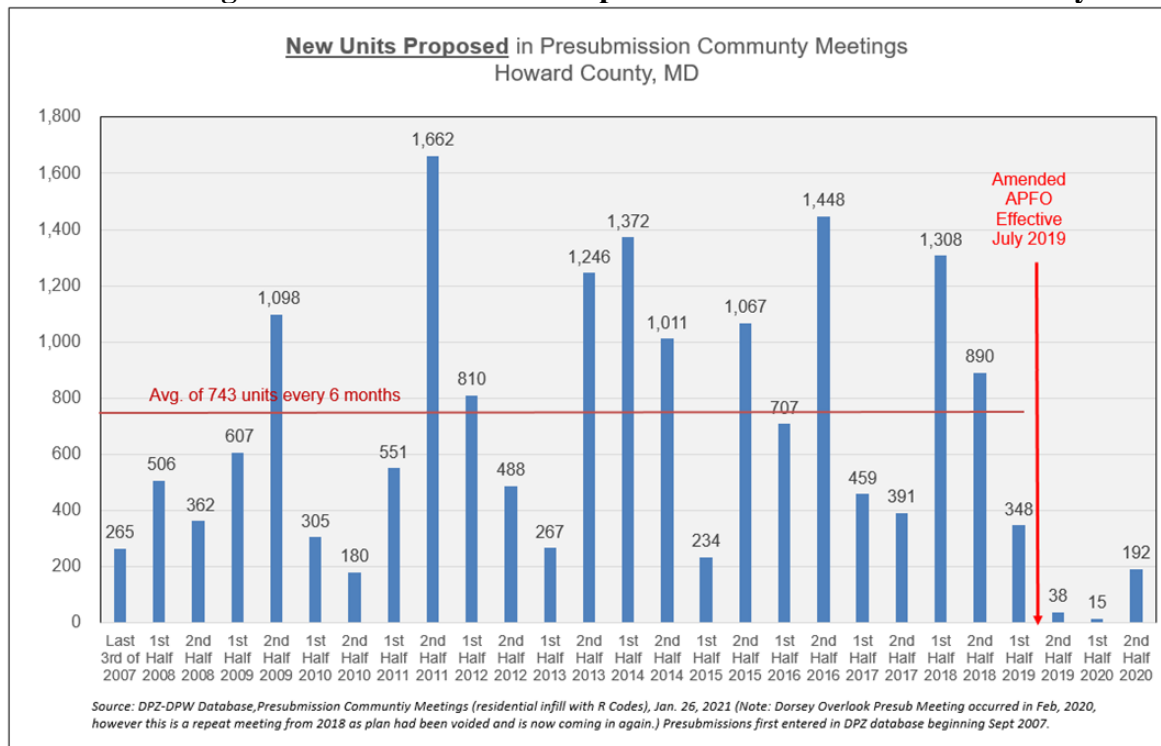


Chart A-16. Leading Indicator - New Units Proposed in Presubmission Community Meetings



(SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment