Howard County
MARYLAND

# County Economic & Fiscal Outlook

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# National Economic Outlook

- Some economic indicators remain solid, but multiple risks have been rising:
  - Housing market
  - Stocks market
  - Factory activity
  - Trade war
  - Global economic slowdown
  - Interest rate
  - Federal policies/actions (budget deficit $305 billion, shutdown, etc.)

- Recession possibilities
  - Alarming signals: In the 115th month of economic expansion, just five months away from the longest in history. Treasury yield curve is not reversed yet but has been flattening
  - Recession probably in 2019: WSJ economists survey – 25%; DUKE CFO Global Business Outlook – about 50%
  - Recession probably in 2020: WSJ economists survey – 50%; JP Morgan – 60%; DUKE CFO Global Business Outlook -82%

# State & Municipalities Revenue Outlook

- The State recently lowered its FY2019 revenue forecast by $18 million and cut its FY2020 revenue projections by $55 million.
  - “We must plan for the **inevitable** economic downturn that will occur in the future.” – Comptroller Peter Franchot, Dec 12, 2018

- The State projected stagnation in wage growth and permanent, long-term employment, with estimated job growth averaging 0.6% per year in next three years.

- Montgomery County recently announced a plan to trim $44 million to close a mid-year budget gap

- Nationwide, latest National League of Cities survey report shows:
  - “General Fund expenditures are outpacing revenues”
  - Cities are estimating 0.4% annual revenue growth vs. 2.4% expenditure growth on average

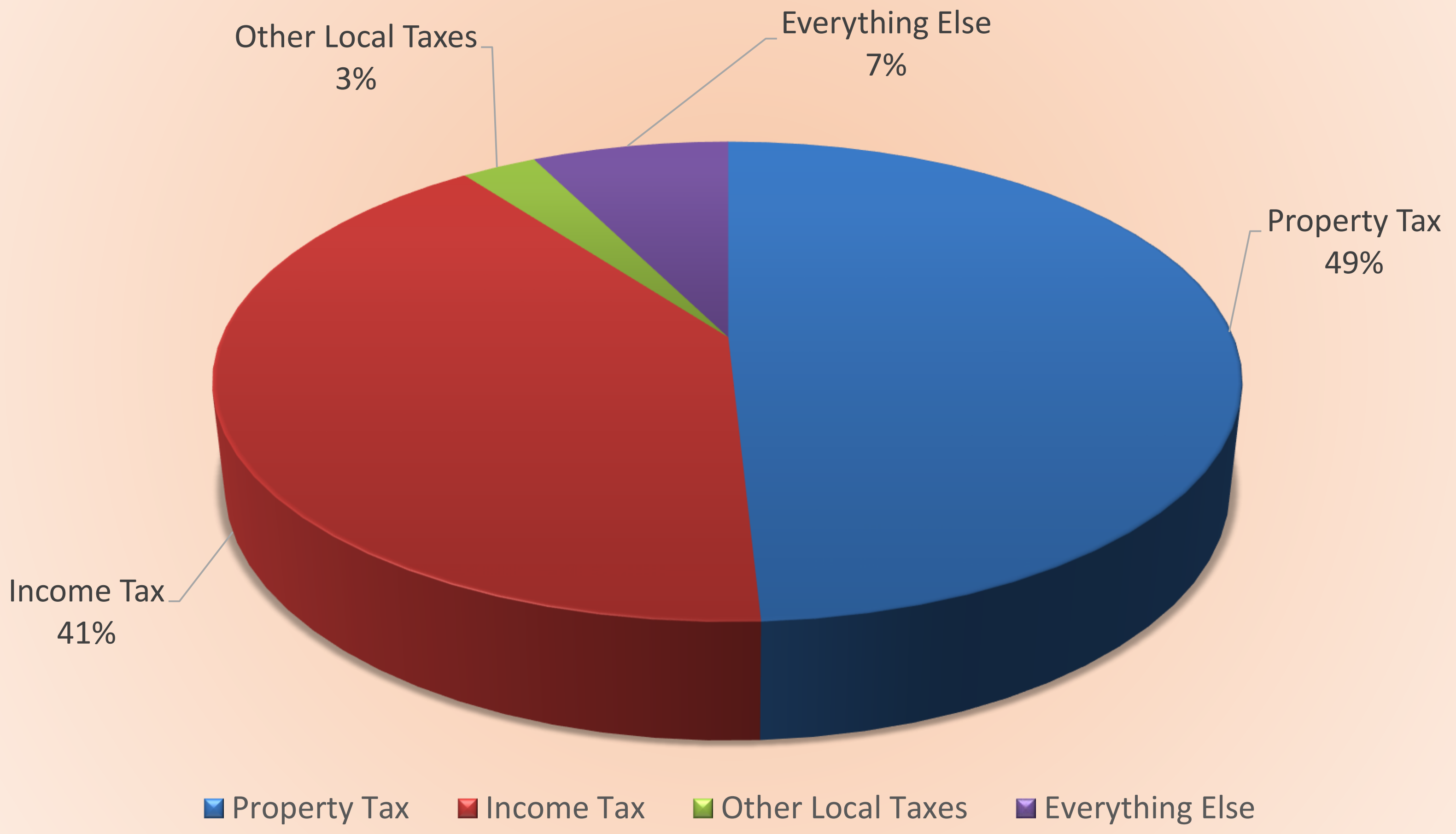
# County Revenue Outlook – Three Parts

- **Baseline growth** expected to maintain a moderate growth pattern, before APFO impact or economic recession impact.
  - FY17 actual total revenue growth: $19 million (1.8%)
  - FY18 actual total revenue growth: $14 million (1.3%)

- **APFO legislation impact -** significant revenue loss expected in foreseeable future
  - Per 2018 consultant study, annual forgone revenues during moratorium due to APFO are estimated at
    - $15-16 million per year in General Fund (real property taxes, income taxes, recordation taxes, fees & charges)
    - $18-$19 million per year in CIP budget (transfer taxes, school surcharge, road excise taxes, etc.)

- **Recession risks** in next two years
  - During last two economic downturns, County revenue plunged by $35 million ($26-$43 million) on average.

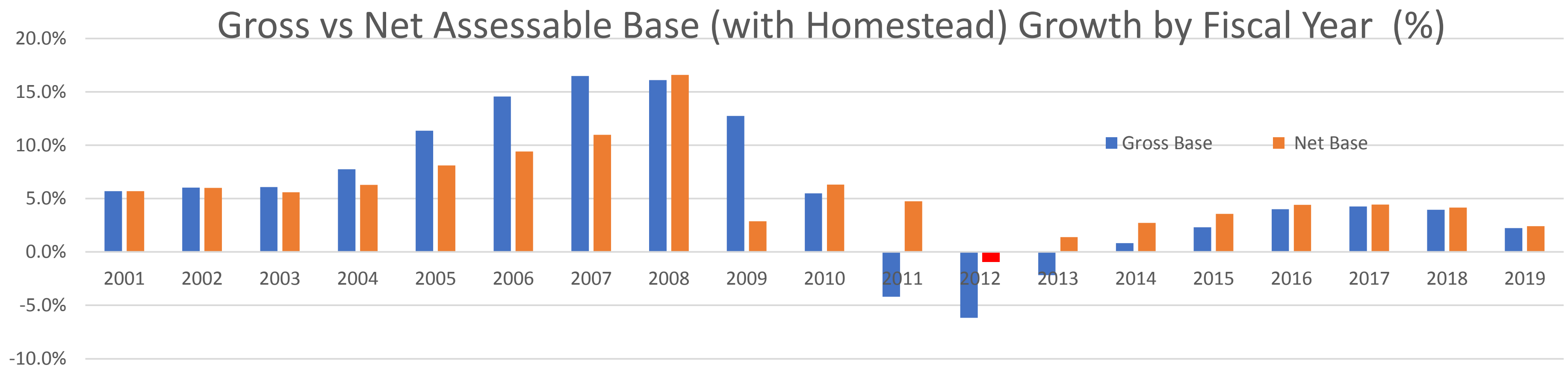
# County General Fund Revenue Structure: 90% from Property Taxes and Income Taxes

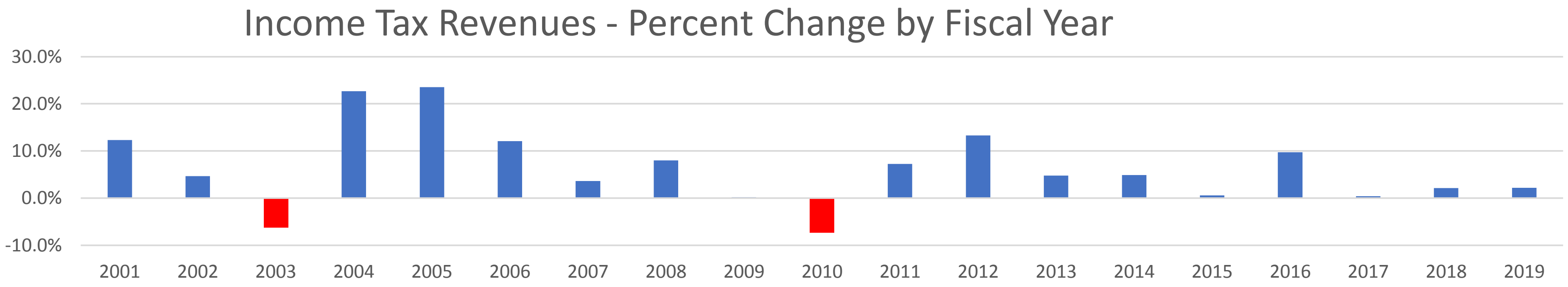



FY 2019 General Fund (not including one time funds)

# County Revenue Growth Has Shown A Slowdown

- Total General Fund Revenue Growth < 2% in past two years (FY17: $19M; FY18: $14M)
- Both Property Tax base and Income Tax base have entered a moderate growth stage.

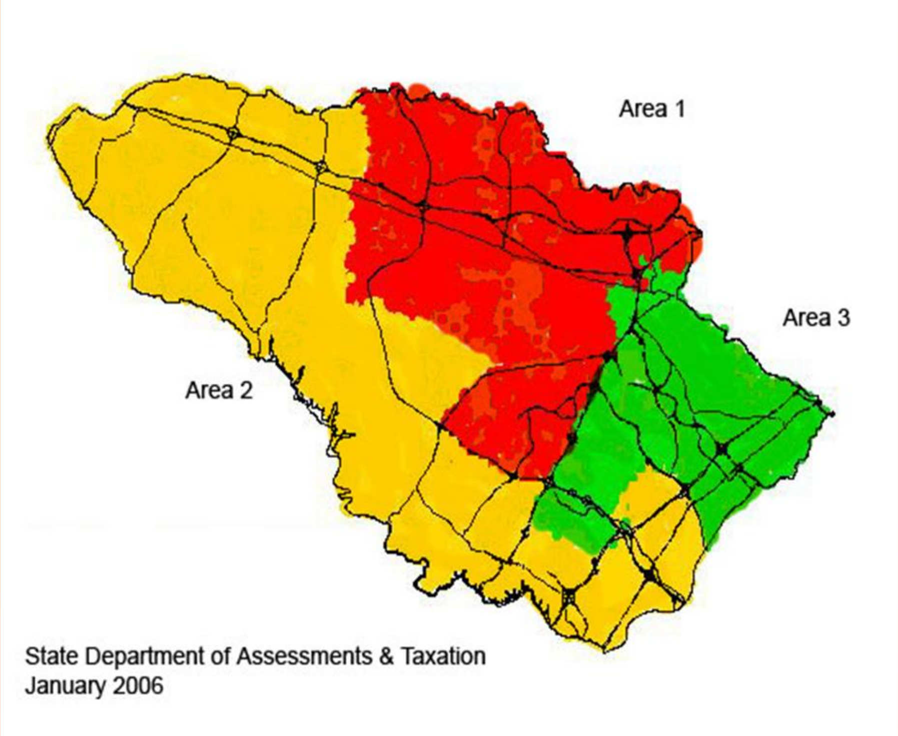


# Property Assessable Base Growth: 2.4% Estimated

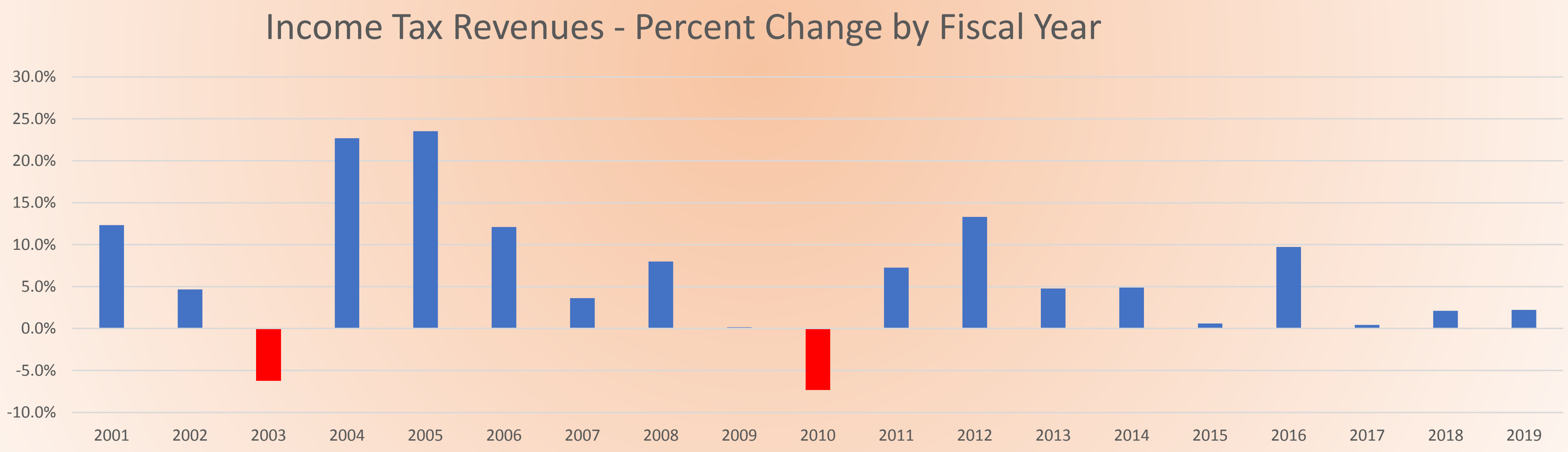
- Total County FY20 property assessable base estimated to grow by 2.4%, per State Department of Assessment and Taxation.
  - County real property reassessment growth has been lagging behind state average 5 years in a row
  - Group 1: 2.8% per year  (8.5% before 3-year phase-in)
  - Group 3: 2.0% per year (5.9% before 3-year phase-in)
  - Group 2: 2.0% per year (6.1% before 3-year phase-in)

- County real property tax rate (1.014% general + 0.176% fire) is the 2nd  highest in MD counties.



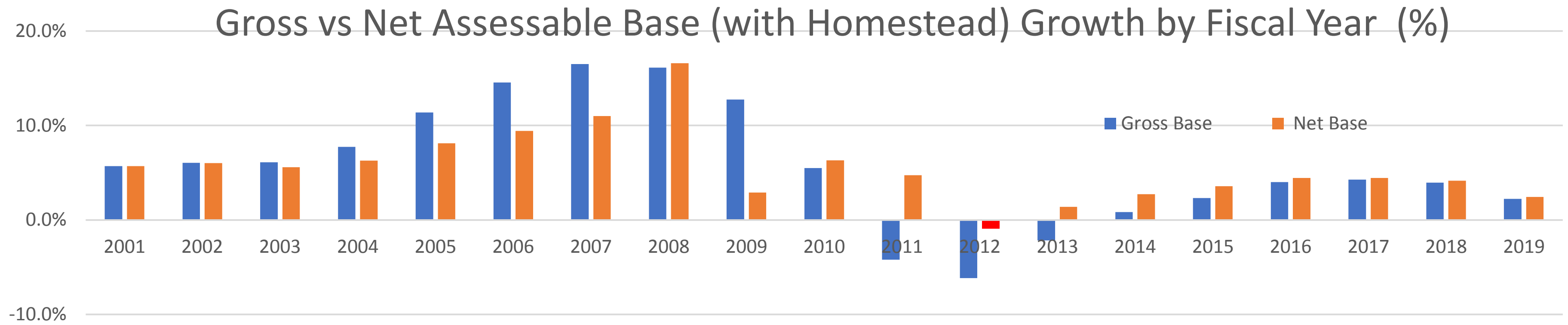
# Income Tax

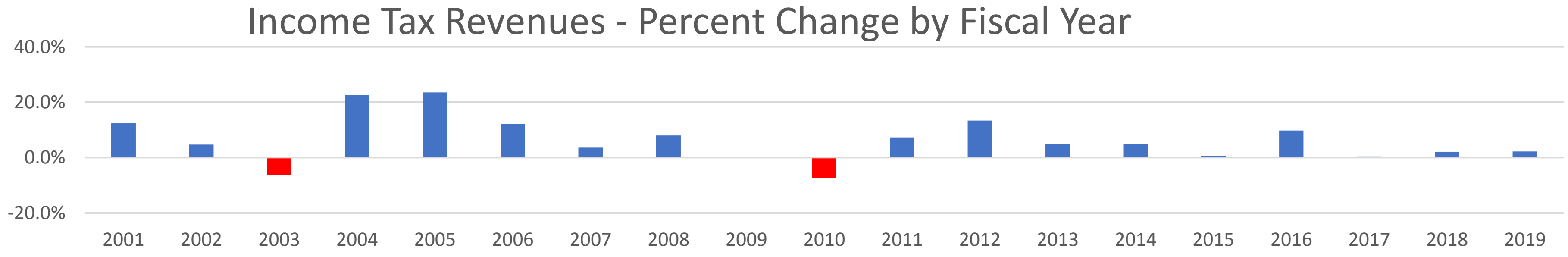
- Income tax revenue growth is relatively volatile but generally has been trending down in past decade.
- FY 2019 budget already factored in $8 million estimated revenue gain as a result of the new Federal tax law; actual impact will depend on consumer behaviors and market factors, etc.
- County income tax rate (3.2%) is at the highest level in the State



# What Makes Next (Potential) Recession Different?

- During last economic downturns, County Property Tax decline and Income Tax decline did NOT occur at the same time.
- During last house market crash, County Property Tax experienced minimum reduction thanks to Homestead Tax Credit. Homestead credit has largely disappeared (from $102.2 million in 2011 to $1.2 million in FY20), implying a "hard landing" during the next market crash.



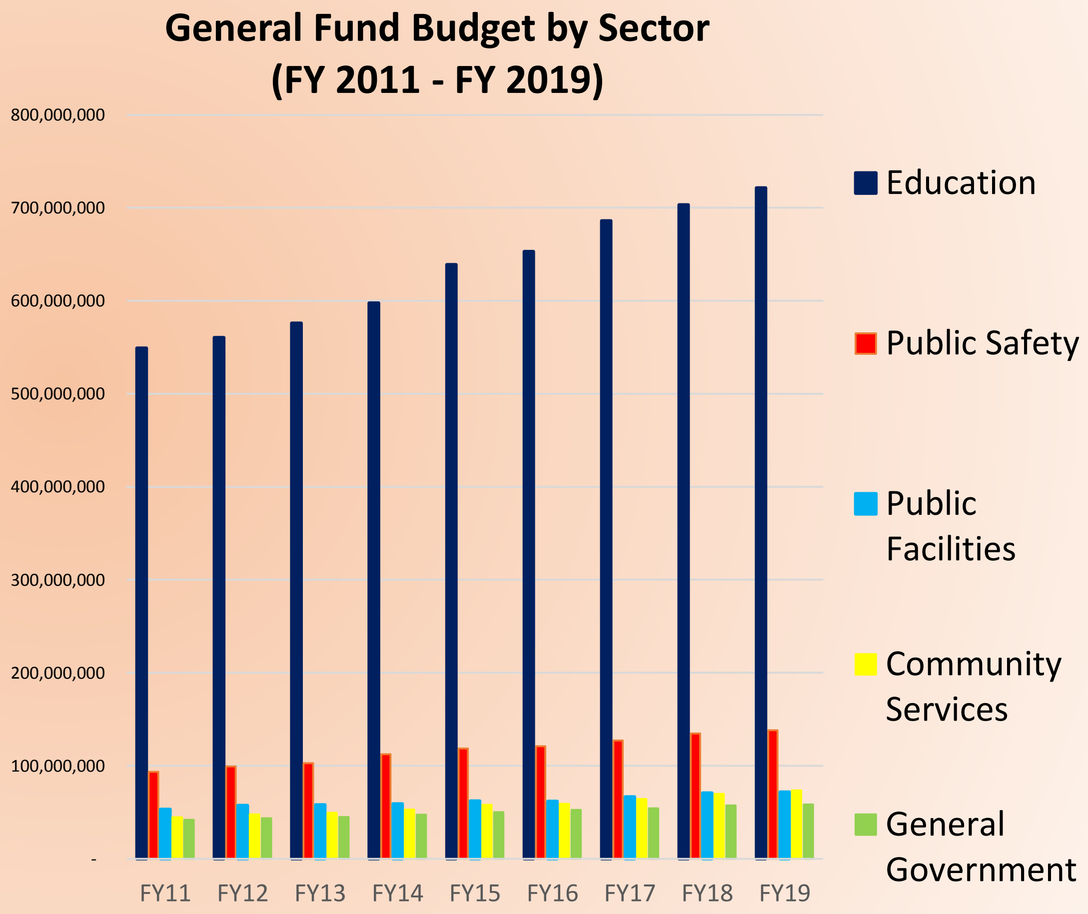



# General Fund Expenditure Structure

- Education remains the County's No. 1 priority; its funding is FIVE times the funding to public safety, 2nd priority.

- County funding on education, including debt services for capital projects and contribution to retiree health benefits of education entities, represents **64%** of the General Fund operating budget.

- Howard County ranked 3nd among all 24 counties in Maryland for County spending per pupil for public schools. County spending per student totaled $10,321 per year, 41% higher than the State average of $7,323.
    - No.1. Worcester: $13,526
    - No.2. Montgomery: $10,599
    - No.3. Howard: $10,321



# Long-Term Drivers

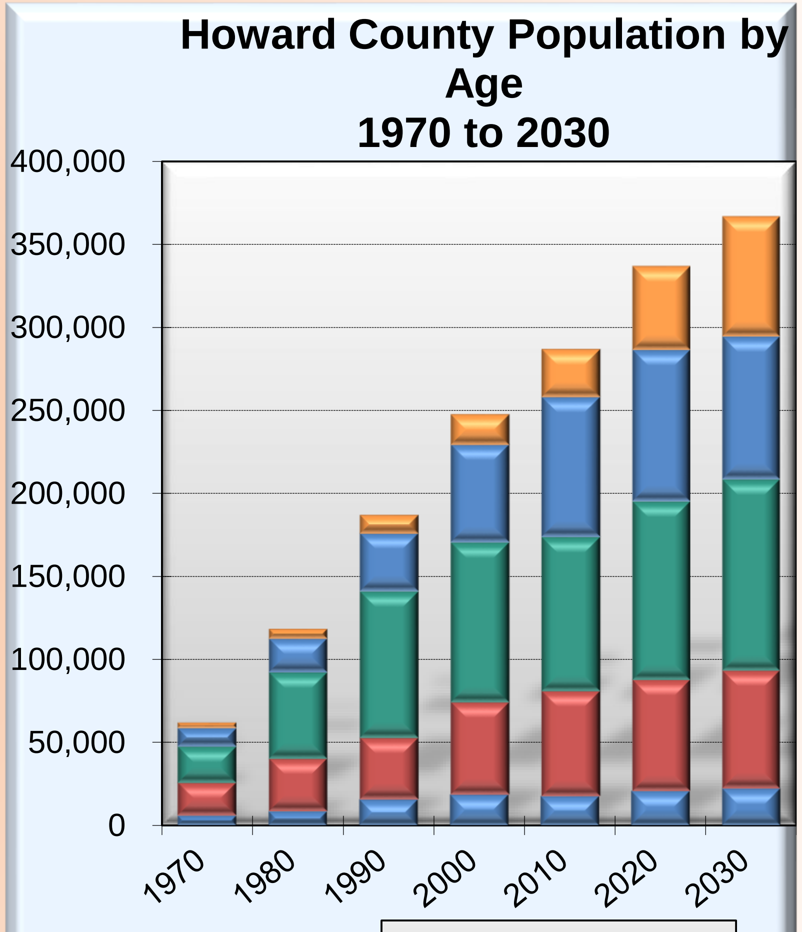
- Population growth
  - Student enrollment growth has averaged 1.6% per year since 2011, at 2% more recently
  - County total population growth has averaged 1.7% per year since 2011, at 1.9% more recently, demanding ALL services

    ( public safety, snow removal, health & human services, etc.)
  - 65+ growth at 7-8% per year; to double between 2010 and 2030 and expected to exceed school age group in 10 years

- Debt services payments for capital projects and retiree health benefit costs grow fast, taking an increasing share of resources

- Cost of providing same level of services continue to grow, driven by salaries, pension, healthcare, etc.

- Future revenue growth limited by new development capacity and regulation, aging population, and housing shift to multi-family units.




*Source: U.S Census Bureau, Projections from DPZ Research Division Round 9*

# A (Significant) Structural Gap Anticipated in Next 6 Years

- County Operating Budget (same-same service scenario w/o enhancement/initiatives)
  - *Without recession: $25-30 million gap per year*

  Annual cost/expenditure growth for same level of service will likely DOUBLE revenue growth. (Mandates such as *MOE contribution to HCPSS & debt services alone already exceed total revenue growth)*

  - *With recession: $60-$65 million gap based on recent history*

- County Capital Budget: *$100-$140 million gap* each year between infrastructure needs and resources for GO bonds alone, before account for APFO impact
  - *Total GO bonds authorization: $90-$95 million per year based on maximum affordability*
  - *Total GO requests for out years: $196-$236 million per year (in FY19 approved CIP), more than doubling potential resources available*
    - BOE FY20 request alone includes $92-135M funding per year in next 6 years
    - Other competing needs: roads / transportation, Ellicott City flood mitigation & restoration, North Laurel pool, detention center, senior center, fire and police stations, parks facilities, stormwater, HCC and HCPL, etc.

# Overall Trend In Line with SAAC Warnings Last Year

The County's Spending Affordability Advisory Committee (SAAC) is a citizen advisory group consisting of experts with diversified background tasked to provide independent, non-partisan and data-based analysis and advice to County Executive.

The FY19 Committee last year reduced County FY19 revenue projections from 2.0% to 1.75%, quoting rising economic and political risks in the horizon and  pointing out that:

"It became increasingly clear that in FY 2019 and subsequent fiscal years, the County faces **significant challenges** to funding both its capital improvement program (CIP) and operating budgets. The Committee expects the County to experience **continued slow revenue growth** which will **not** keep pace with the increasing demand for services and capital investment. …Without changes to County revenues or expenditures, current patterns of spending are **unsustainable** in the long-term. "

**"These challenges will remain and grow more severe in the next decade**, as demographic trends (featuring an aging population and a continued growth in school-age population) and residential construction trends (showing a shift to multi-family housing drawing lower income residents and generating higher service demands, on average) continue."

# County Strategies

- Acknowledge fiscal reality, look at all options and balance different needs
- Do best to mitigate impact and avoid severe service cuts or significant tax increases even during economic downturn
- Transform ways of doing business and focus on
  - *Innovation and productivity/efficiency (through IT, process, reorg, partnership etc.)*
  - *permanent/long-term solutions*
- Start now and develop sustainable long-term plans
  - *County agencies (excluding education entities) already instructed to provide*
    - FY20: same service request and 2% reduction options
    - Multi-year reduction options & innovative savings ideas for planning purpose
- Communicate, collaborate and manage expectations

# How Much Is $123 Million Increase in County Funding?

$123 million increase of County funding to HCPSS (as requested by the Superintendent) is NINE times of the County's TOTAL General Fund revenue growth in FY18.

For illustration purpose, the amount is equivalent of:

A. Raising real property tax rate by 24 cents & personal property tax rate by 60 cents, which means: Increasing a median Howard County household's annual real property tax payment by $1,030, and increasing a business owner's personal property tax payment by one fourth (24%).

or

B. Eliminating County Police Department (plus Circuit Ct., Orphans Ct. and Soil Conservation).

or

C. Eliminating County's services in public facilities and health and human services altogether (Public works, recreation & parks, community resources and services, health , social services, community service partnerships grants to non-profits, etc.)

# Concept of Budget

vs

- A plan to allocate <u>scarce</u> resources based on projected revenues

- Tips
  - Prioritize (importance, effectiveness)
  - Look hard at saving opportunities; focus on efficiency/ accountability/ innovative solutions
  - Use a multi-year framework
  - Be realistic, collaborate…and make it work