

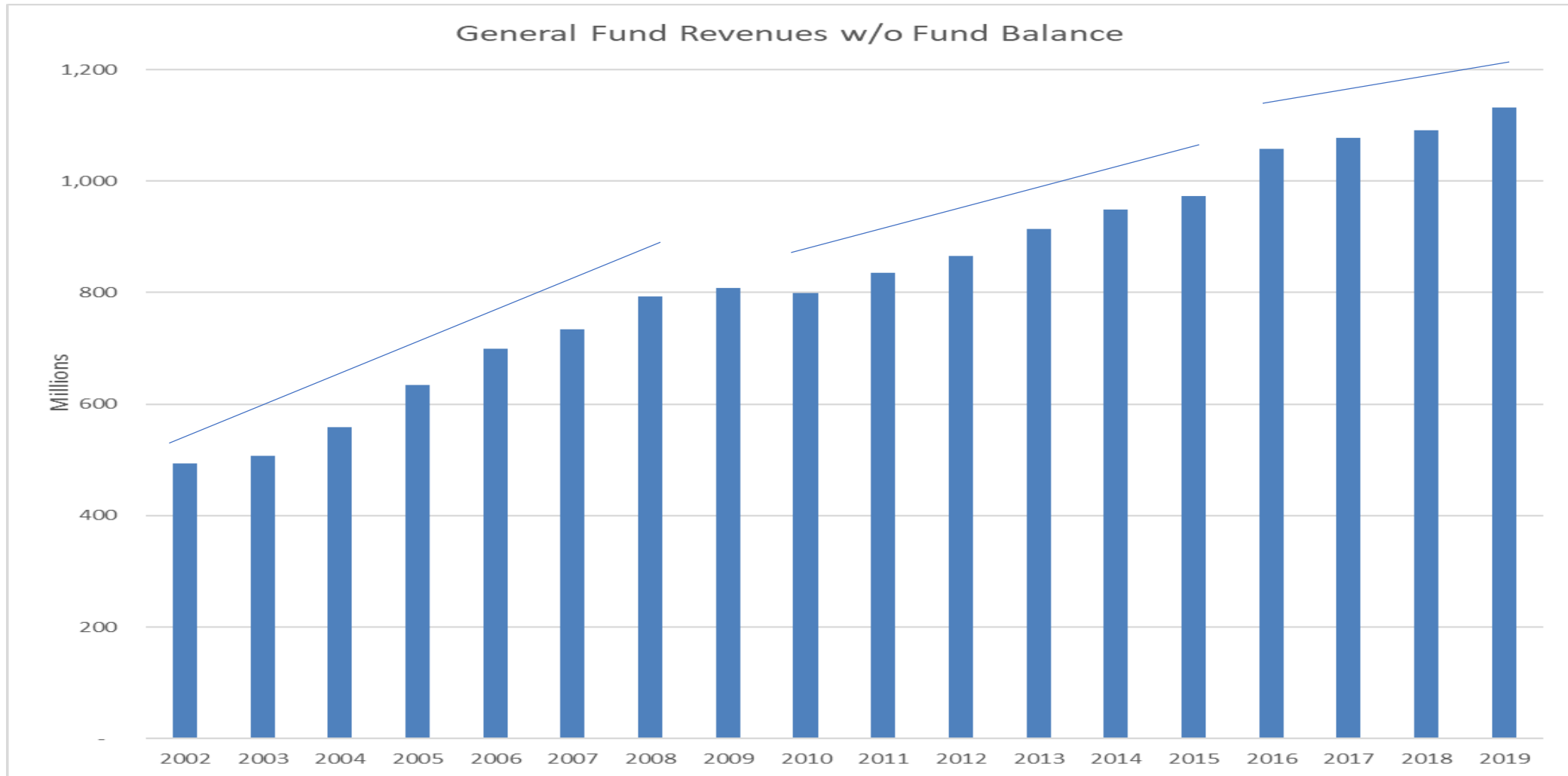


County Economic & Fiscal Outlook

Holly Sun, Ph.D.
Budget Administrator

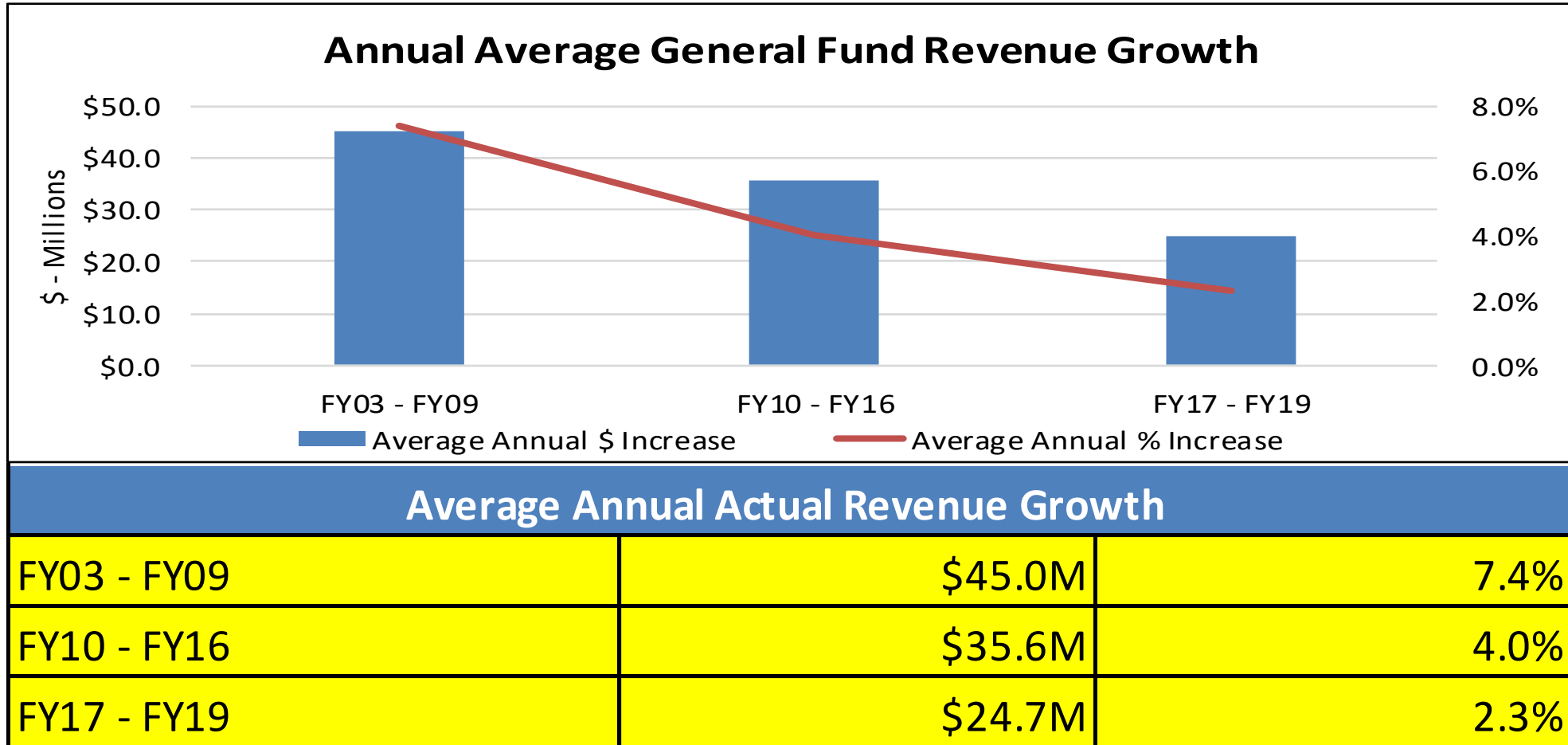
January 14, 2020

County Revenue Growth Has Slowed Down to A More Moderate Pattern

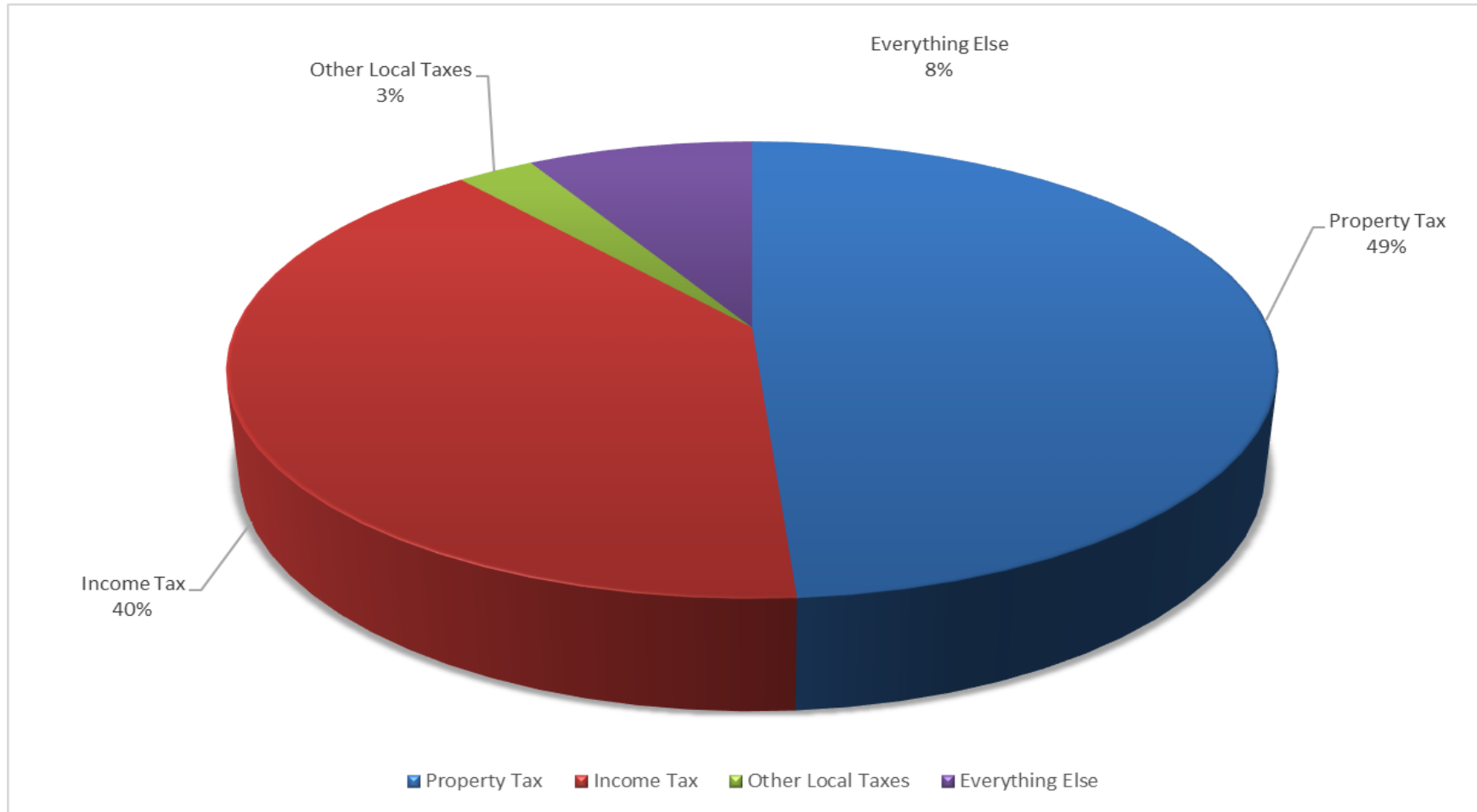


Revenue Growth In Recent Years Has Averaged 2~3% Per Year

Revenue growth has slowed from an annual average of above 7% over a decade ago to less than 3% in recent years.



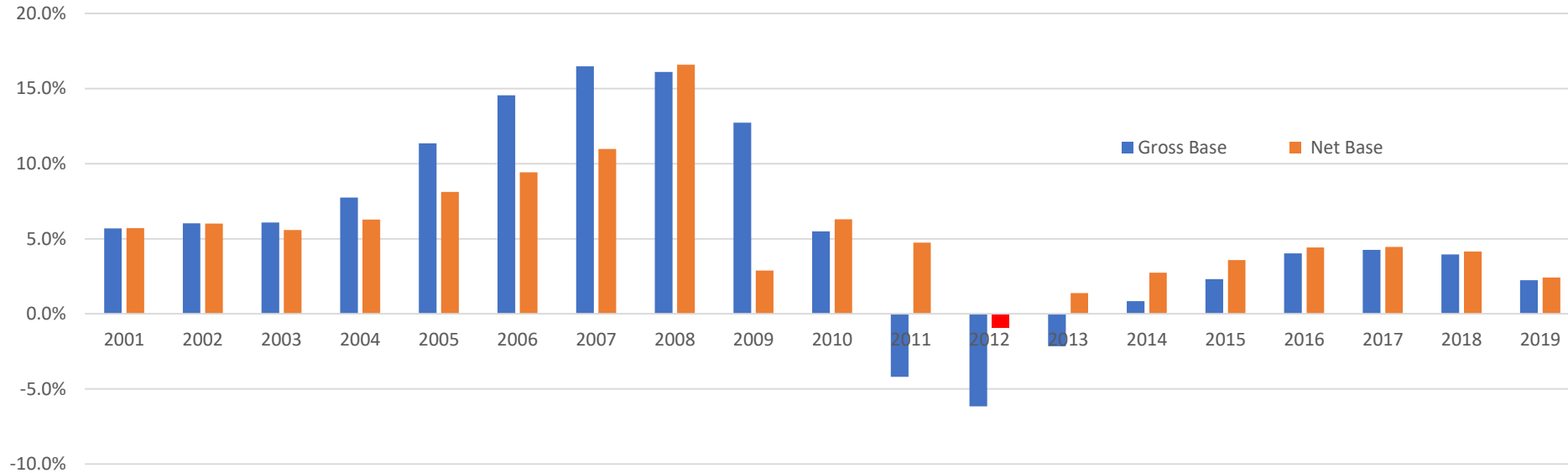
County Revenues: 90% from Property Taxes and Income Taxes



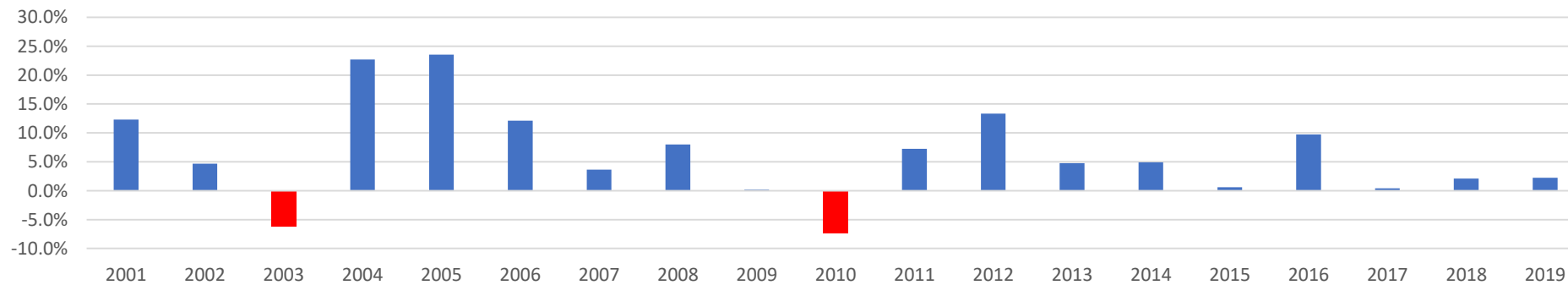
FY 2020 General Fund (not including one time funds)

Both Property Tax Base & Income Tax Base Have Entered A Moderate Growth Stage

Gross vs Net Assessable Base (with Homestead) Growth by Fiscal Year (%)

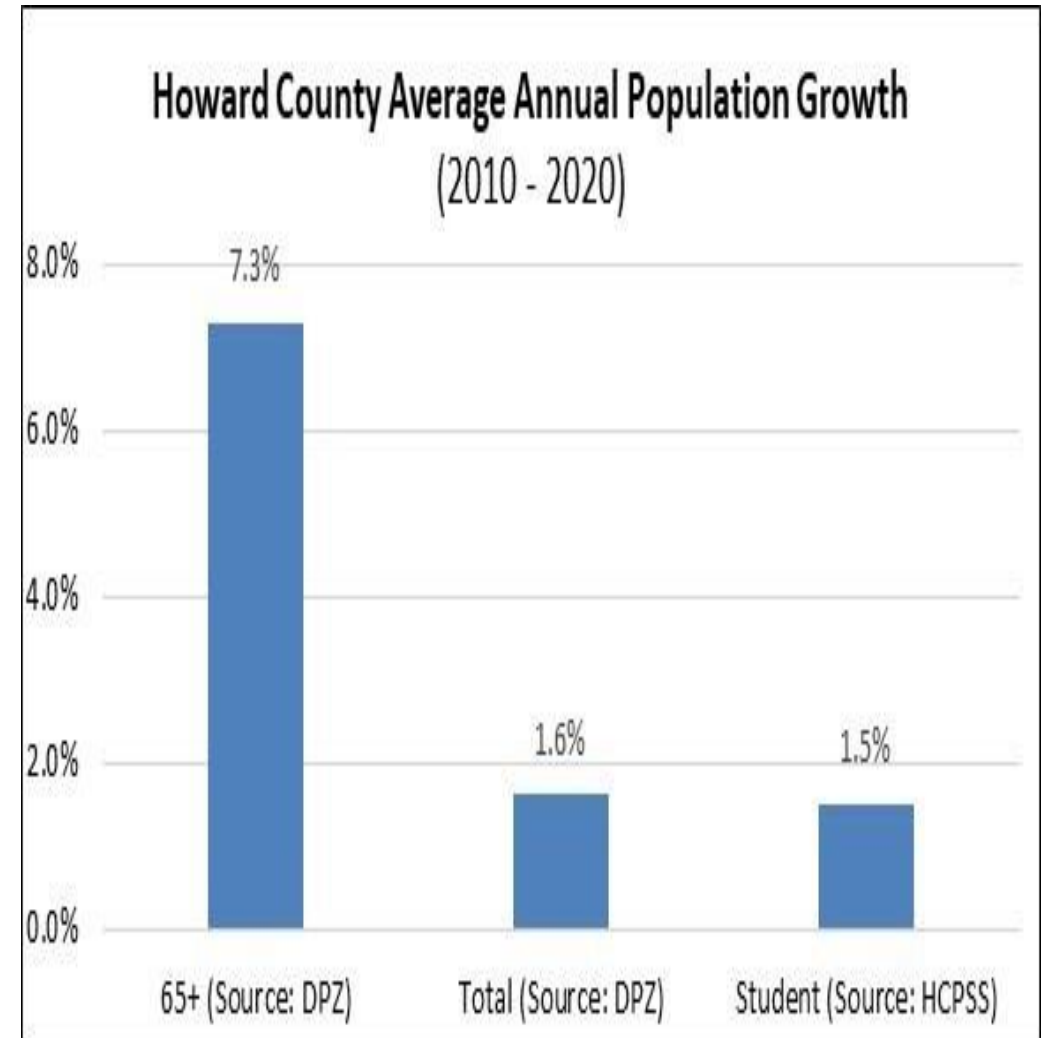


Income Tax Revenues - Percent Change by Fiscal Year



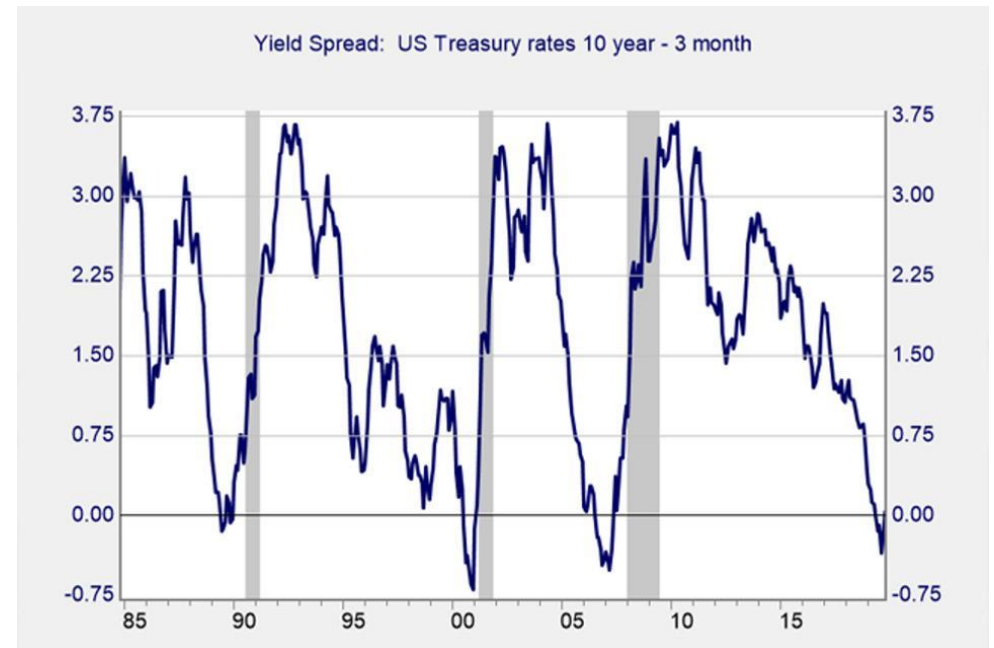
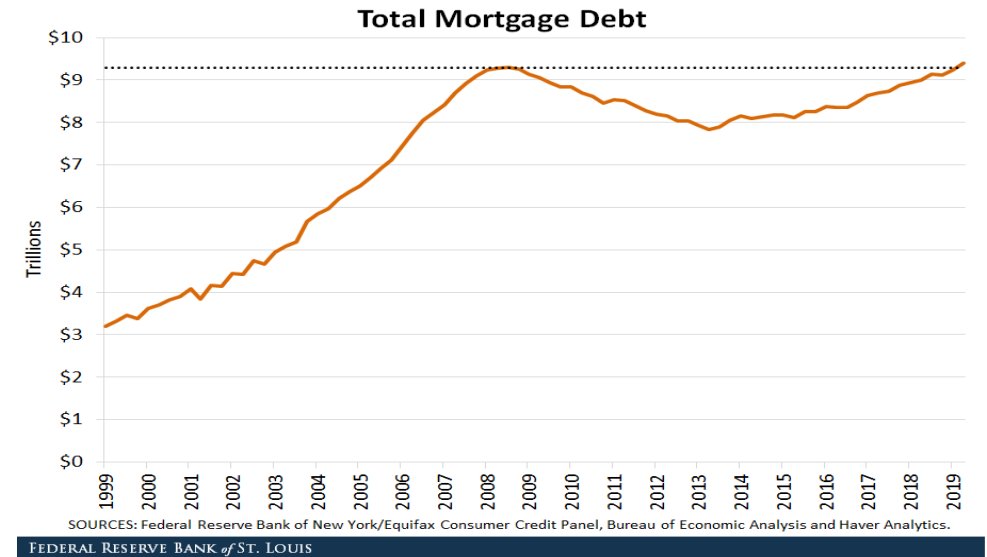
Why Revenue Growth Has Been Moderate in Recent Years?

- **National Factor**
 - The economic recovery from last recession has not featured a significant growth in jobs, wages, real estate or productivity
- **Demographic changes**
 - Faster growth in aging population with rising demands and lower income
 - People moving into the County averaged less income than those moving out
- **Housing portfolio**
 - A continued shift from single to multi-family units that feature a lower taxable base



National Economic Outlook

- Good News – Less recession talks... at least for the immediate future
- The Question – How long will that last? Key Risks:
 - Stocks market
 - Consumer debt (auto, mortgage, and credit card)
 - Corporate debt
 - Federal policies/actions (budget deficit, government debt, etc.)
 - Inverted yield curve months ago
- The Concerns didn't go away
 - Recent *National League of Cities* report shows: projected average revenue growth of -0.8% vs average expenditure growth of 2.3%; almost two-thirds of finance officers in large cities are predicting a recession in 2020.
 - Recent *National Association of Business Economists* survey shows two-thirds of economists expecting a recession to start by end of 2020.



County Revenue Outlook –

FY21: Moderate Growth (close to FY20); FY22-23: Significant Challenges

- **FY 21:** Revenues expected to maintain a moderate growth, with economic downturn risks likely delayed further into the future
- **Beyond FY 21**
 - **APFO legislation impact** - significant revenue loss expected in foreseeable future. Per consultant study, annual forgone revenues during moratorium:
 - **-\$15~16 million** per year in operating budget revenues (real property taxes, income taxes, recordation taxes, fees & charges)
 - **-\$18~\$19 million** per year in designated CIP budget revenues (transfer taxes, school surcharge, road excise taxes, etc.)
 - **Economic downturn/recession risks in next few years**
During last two economic downturns, County revenues dropped \$26M-\$43M

What Makes Next Downturn/Recession Different?

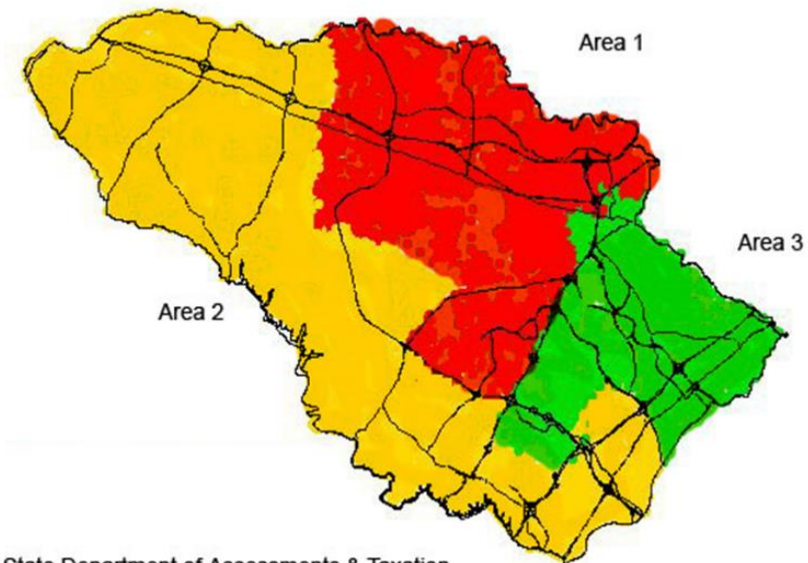
- **No Cushion From Homestead Any More... “Hard landing” Expected in Future Housing Slump**
During last house market crash, County Property Tax avoided dramatic reductions thanks to Homestead Tax Credit (which capped taxable base growth to 5%). Homestead credit has largely disappeared (dropping from \$102.2 million in 2011 to \$0.7 million in 2021), implying a “hard landing” during the next market crash.

Gross vs. Net Assessable Base - Percent Change by Fiscal Year



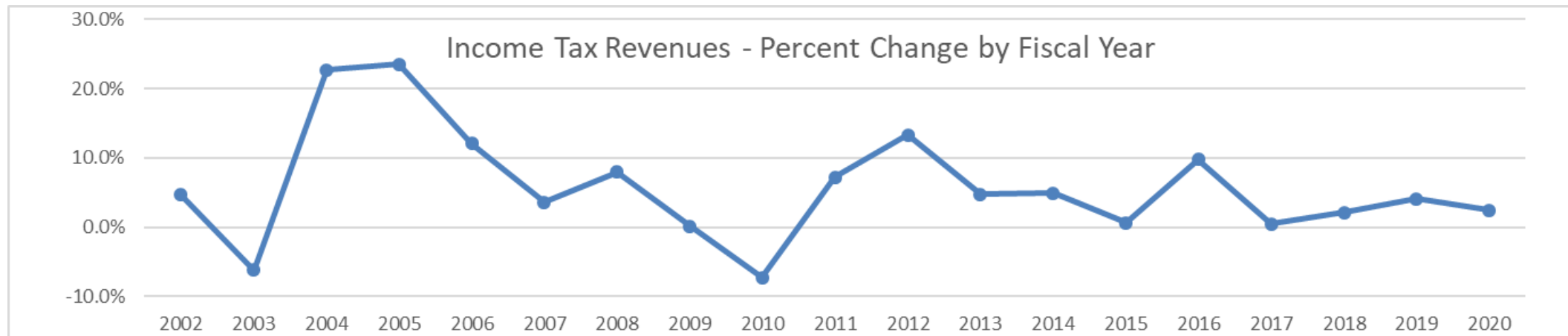
Property Assessable Base Growth: 2.5% Projected in FY21

- Total County FY21 property assessable base estimated to grow by 2.5%, per State Department of Assessment and Taxation.
- Reassessment growth remains moderate; it has lagged behind state average 6 years in a row
 - Area 2: 2.8% per year (FY21-23 phase-in)
 - Area 1: 2.8% per year (FY20-22 phase-in)
 - Area 3: 2.0% per year (FY19-21 phase-in)



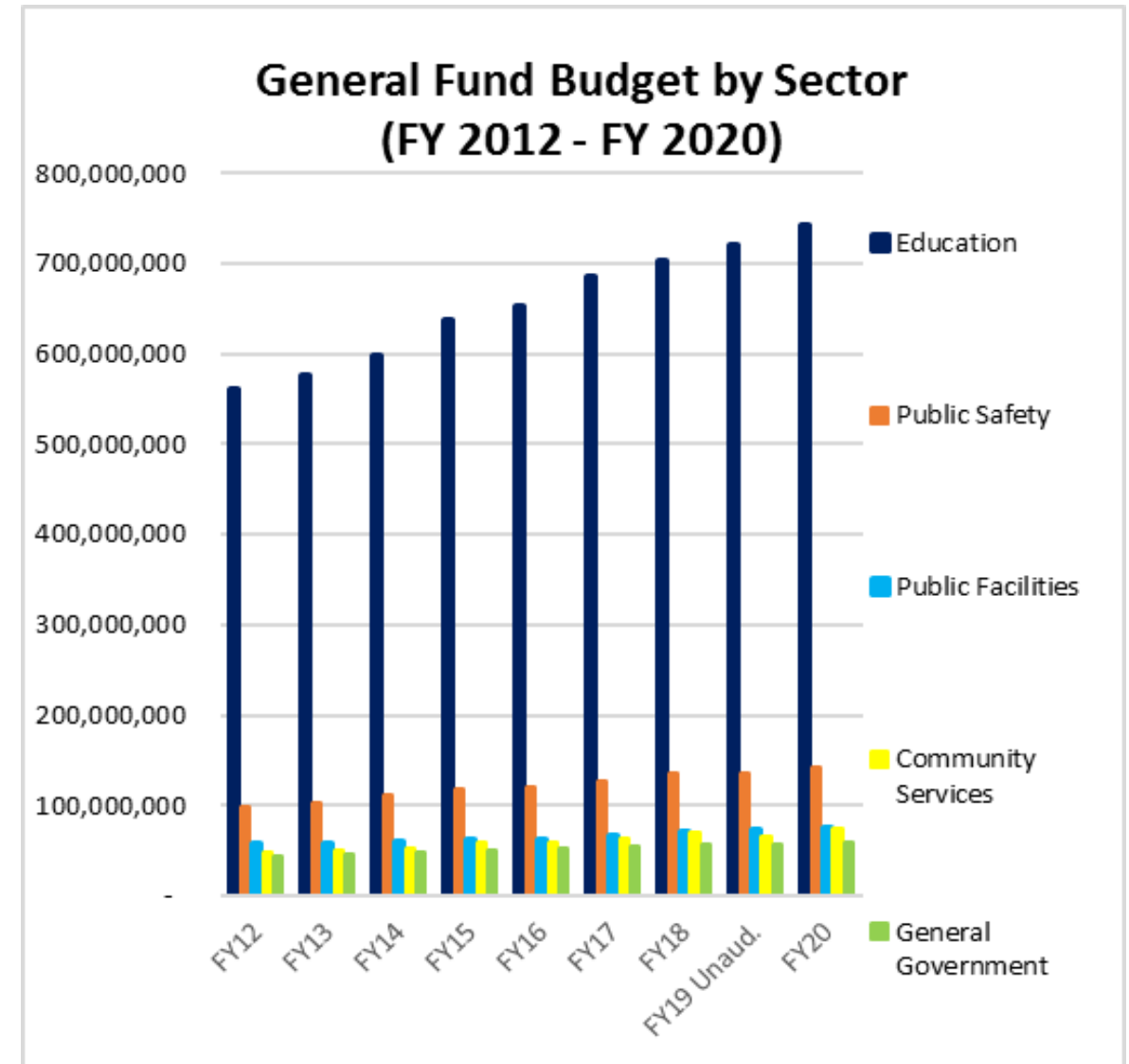
Personal Income Tax Growth: Remains Positive But Nothing Close To Years Ago

- Income tax revenue growth has been volatile and generally has been trending down
- Growth impacted by: tight labor market, demographic changes, housing portfolio, income disparity, Federal tax law changes
- Last economist's forecast of County personal income growth (to be updated by Feb.)
 - FY2021 – 2.4% with mild recession; 3.1% without recession



General Fund Expenditure Structure – Education #1 Priority

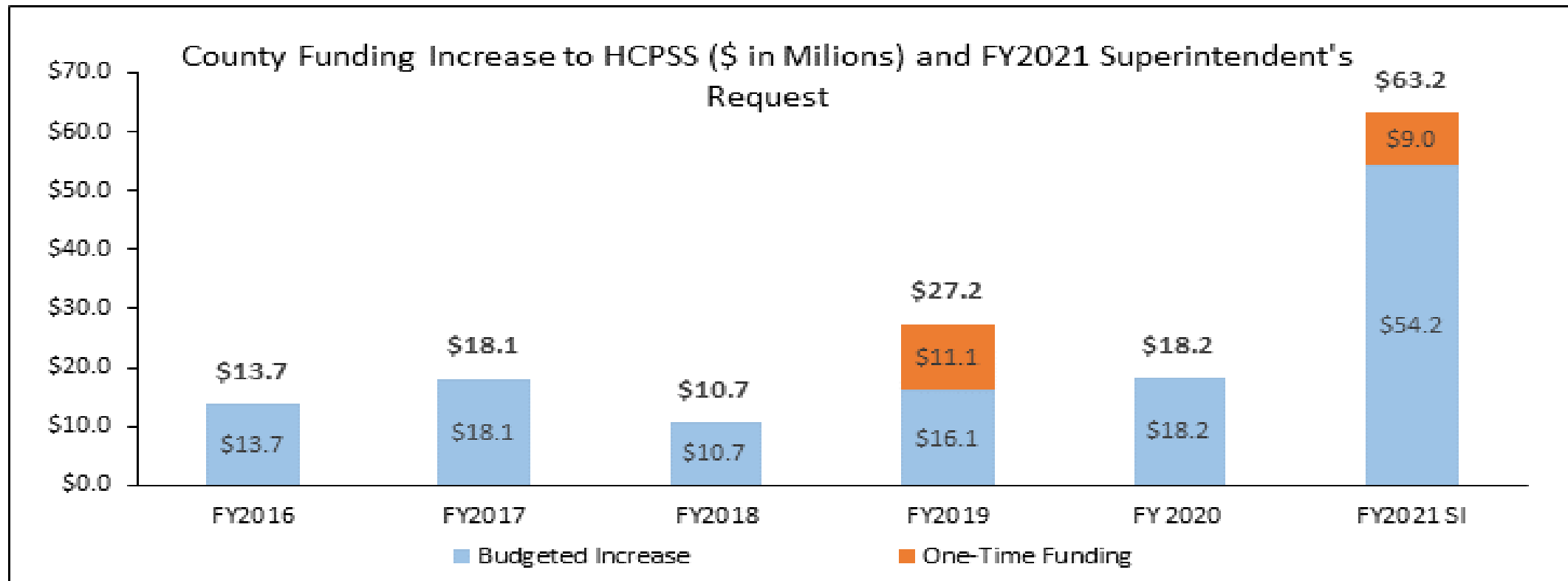
- **Education remains the County’s No. 1 priority;** County funding to education is five times its funding to public safety.
- County funding to education (HCPSS, HCC and HCLS) equals approximately **2/3** of the total General Fund budget.
- Latest State data shows that for county spending per pupil, Howard County ranked **3rd** among all 24 counties in Maryland. County spending per student in Howard County totaled **\$10,603**, 41% higher than the State average of \$7,507.



How Much Is the Requested \$63.2M Increase in County Funding?

The requested \$63.2 million increase of County funding to HCPSS (per Superintendent Proposed Budget) is nearly double the \$36.5M in County-wide total revenue growth in FY2020.

The proposed increase, including \$54.2M on-going revenues and \$9 million one-time funding, is nearly the four-year total County funding growth to the HCPSS budget during FY2016-2020.



How Much Is the Requested \$54.2M Increase in On-going Revenues?

In FY 2020 County budget, total revenue growth was \$36.5 million. Of the total growth

- The majority was allocated to HCPSS budget and debt payments for infrastructure projects
- Less than ¼ was allocated to HCC, HCLS and 26 county agencies to support all other services

Assuming FY 2021 revenue growth mirrors that of FY 2020, based on Superintendent’s proposed budget, all other services (except HCPSS) would have to be reduced by (\$27.6) million. The County has to maintain sound fiscal stewardship and respond to various service needs throughout the County.

(\$ - Millions)	FY 2020 Budget	FY 2020 Alternative
HCPSS - direct appropriation	18.2	54.2
Debt payments (mandated)	9.9	9.9
HCCC, HCLS & 26 agencies	8.4	(27.6)
Total	36.5	36.5

Tax Burden Of County Residents Is Relatively High

- County Property Tax rate (including fire tax): 2nd highest in the State
- County Income Tax Rate: the highest allowed in the State
- Recently increased taxes/fees
 - Fire tax and new ambulance fee (restricted for fire/rescue services);
 - Trash fee (restricted for trash removal/disposal); and
 - School facility surcharge tax (restricted for school capital projects)
- The County will continue to explore revenue options but also has to balance the needs to maintain the affordability of County tax payers

DLS Report Showed that Howard County Toped the List in Term of County Taxation Efforts to Fund School System

County Taxation Efforts to Fund School Systems as Measured by Appropriation/Wealth (Source: DLS)								
Rank	County	2013	2014	2015	2016	2017	2018	2019
1	Howard	1.75%	1.79%	1.83%	1.86%	1.82%	1.78%	1.81%
2	Charles	1.53%	1.62%	1.64%	1.68%	1.66%	1.66%	1.69%
3	Calvert	1.47%	1.56%	1.58%	1.57%	1.54%	1.57%	1.61%
4	Carroll	1.45%	1.46%	1.46%	1.50%	1.51%	1.50%	1.51%
5	Frederick	1.40%	1.46%	1.43%	1.43%	1.42%	1.44%	1.45%
6	Montgomery	1.40%	1.42%	1.39%	1.42%	1.45%	1.43%	1.43%
7	Prince George's	1.31%	1.35%	1.38%	1.45%	1.46%	1.46%	1.44%
8	Baltimore	1.32%	1.38%	1.39%	1.41%	1.39%	1.42%	1.44%
9	Harford	1.34%	1.35%	1.34%	1.36%	1.36%	1.34%	1.35%
10	Cecil	1.17%	1.27%	1.32%	1.39%	1.37%	1.37%	1.35%
11	Anne Arundel	1.28%	1.32%	1.29%	1.32%	1.32%	1.32%	1.29%
12	St. Mary's	1.18%	1.24%	1.28%	1.33%	1.37%	1.33%	1.33%
13	Washington	1.23%	1.26%	1.27%	1.26%	1.24%	1.24%	1.25%
14	Allegany	1.17%	1.20%	1.19%	1.20%	1.20%	1.20%	1.20%
15	Somerset	1.03%	1.19%	1.20%	1.19%	1.21%	1.21%	1.22%
16	Queen Anne's	1.00%	1.11%	1.19%	1.23%	1.24%	1.23%	1.21%
17	Garrett	1.08%	1.10%	1.12%	1.18%	1.20%	1.18%	1.18%
18	Dorchester	1.05%	1.10%	1.13%	1.17%	1.17%	1.17%	1.17%
19	Worcester	0.93%	1.04%	1.12%	1.13%	1.15%	1.14%	1.16%
20	Baltimore City	1.10%	1.15%	1.12%	1.11%	1.06%	1.07%	1.04%
21	Kent	1.08%	1.10%	1.04%	1.09%	1.05%	1.06%	1.07%
22	Wicomico	0.94%	1.01%	1.02%	1.06%	1.06%	1.07%	1.06%
23	Caroline	0.82%	0.86%	0.89%	0.91%	0.92%	0.92%	0.92%
24	Talbot	0.72%	0.74%	0.76%	0.80%	0.81%	0.83%	0.90%
	State Average	1.20%	1.25%	1.27%	1.29%	1.29%	1.29%	1.30%
Note: Effort equals local appropriation to school system divided by local wealth.								