1. COVID-19 & RECESSION FISCAL IMPACT

COVID-19 and Recession Fiscal Impact in FY 20 and FY 21

The COVID-19 pandemic and recession pose significant fiscal challenges to Howard County, leaving difficult decisions to make in a climate of significantly diminished revenues. Ultimately, the administration has chosen to make modest revenue enhancements to avoid painful layoffs, minimize service reductions, and maximize available support to HCPSS.

FY20 Revenue Impact: Multiple County revenues are impacted directly, including income tax, recordation tax, hotel/motel tax, admission and amusement tax, interest income, fees and charges. In the current fiscal year alone, revenue losses are estimated at around $35 million.

- Most of the taxes and fees listed above are expected to experience weak to no revenue collections during the pandemic months, with estimated total revenue loss of $10M or more.
- Income tax is expected to suffer a significant impact. The State Comptroller's Office estimated an income tax withholding decrease of -22% each month during the pandemic statewide. If that is materialized in Howard County, then COVID-19 impact on Income Tax alone would exceed $35 million. An income tax loss of $20-$30 million is more likely, but details won't be available for months due to a lag in data, especially given the delay in income tax filing.

FY21 Revenue Impact: In FY21, the County is expected to experience a revenue decrease (-0.5%) from FY 20 budget, based on the following assumptions:

- A weak performance in multiple taxes, fees and charges due to expected continuous impact at least during the first few to several months;
- Income Tax at pre-pandemic level;
- Interest Income a significant decrease.

The pandemic is unprecedented, and the magnitude and length of its economic impact as well as the path to an economic recovery are both uncertain. As a result, there is a high uncertainty/risk on the revenue forecast for FY 2021.

Expenditure Impact

- Over $6 million cost incurred or obligated in the last two months, including purchase and distribution of supplies (including PPE), overtime, hazard pay, teleworking IT cost, etc.;
- More expenditures expected in coming months;
- Rising service needs from the community (jobless, businesses, vulnerable groups) for assistance.

Federal Aid

- None of the known Federal aid can be used to cover revenue loss of local governments;
- The Coronavirus Relief Fund (CRF) established under the CARES Act will allocate the first 50% to local health department ($28.4 million for Howard County). COVID-19 health related expenditures can be drawn down on a reimbursable base through the local health departments;
- The County is in the process of developing a CARES Act Spending Plan to submit to the State for potential reimbursement of qualified expenses.

2. THE $28.5M ISSUE(s) - RECORDATION TAX & POLICY RESRRVE

The FY21 Proposed Budget includes $21 million in new revenues expected from a restructuring of the recordation tax and $7.5 million use of policy reserve.

Why the Proposed Recordation Tax Change and Use of Policy Reserve Is Needed?

In FY 2021, Howard County is expected to experience a revenue decrease due to COVID-19 and recession impacts (e.g., income tax, interest income, recordation tax, hotel tax, admission and amusement tax, charges and permits, etc.). Additionally, the County is required to fund multiple obligated cost increases, such as MOE growth ($10.4 million) to HCPSS, contracted salary increases, acturial determined benefit cost increases, and debt service payments to finance capital projects.

To account for negative revenue growth caused by the COVID-19 pandemic, fund obligated cost increases, avoid significant reductions in services to county residents and support to strategic priorities like education, the proposed FY 2021 budget includes $21 million new revenues assumed from potential Recordation Tax changes and $7.5 million of policy reserve, pending County Council approval.

Recordation Tax Change ($21 Million): The County recordation tax rate, at $2.5 per $500 of transactions, is the lowest among all 24 counties in Maryland and has not been adjusted since 1992. The proposed restructuring will provide needed resources to support fundamental services during significant fiscal challenges due to an unprecedented pandemic and sharp recession. Moreover, the Recordation Tax is assessed on a per-transaction basis (as opposed to annually), impacts only property sale and some refinancing transactions, provides a tax break to all qualifying transactions under $300,000 and generates over half of new revenues realized from transactions exceeding $1 million.

Policy Reserve ($7.5 Million): In FY 2017, the County established a contingency policy reserve in line with best practices per the suggestion of the County Financial Advisor. The reserve, created on top of Charter-mandated 7% stabilization account, was intended to provide the County with enhanced flexibility during unforeseen natural disasters or economic shocks to help mitigate impact on services. As of June 30, 2019, the County had $7.5 million in this policy reserve. The proposed FY 21 budget includes use of this reserve to help avoid the interruption or significant reduction in County services and address the significant impact of COVID-19 and economic recession. Using one-time funding from prior surplus for recurring expenditures requires 2/3 of County Council approval to temporarily lift a Charter restriction that mandates use of reserve on one-time non-recurring expenditures only.

What is the Impact of Not Approving the Recordation Tax Change and the Use of Policy Reserve?

If the assumed new resources – $21 million from recordation tax changes or $7.5 million policy reserve - are not approved, then the County will be forced to either reduce expenditures by up to $28.5 million from the proposed FY21 budget or raise up to $28.5 million from other resources, likely property tax.

Provided on the next page is a list of reduction actions that may risk being taken if the recordation tax restructuring and use of Policy Reserve aren't approved. The County already implemented hiring freezes across the board except sworn officers and other saving strategies, leaving agencies with little to no discretionary expenditures to reduce from. The expected impact on services to residents will be broad and devastating. Also, large-scale layoffs of hard-working county employees would be unavoidable under such a scenario. The administration is strongly opposed to taking any of the actions listed below, except debt service savings recently achieved through terrific teamwork.

Potential Risks/Actions To Close An Up To $28.5M Gap			
		$ in Millions	**Estimated Impact**
Large-Scale Layoff, including:		(16.9)	Reduce Police sworn officers & Police services by 29%; or reduce all Non-Police County employees and services by 18% across the County
Layoff	(9.4)		Reduce Police sworn officers & Police services by 16%; or reduce all Non-Police County employees and services by 10% across the County
Layoff (for $7.5M)	(7.5)		Reduce Police sworn officers & Police services by 13%; or reduce all Non-Police County employees and services by 8% across the County
Debt service payment savings		(3.2)	None; refinancing and lower interest rate savings
Remove above MOE contribution to HCPSS		(2.7)	HCPSS local funding = MOE level ($10.4 million growth)
Remove COLA for all County employees		(2.0)	Break all existing collective bargaining agreements; all County employees affected
Furlough 3 days (except sworn positions)		(1.2)	All County employees except sworn positions impacted
Remove 2% growth for HCC or HCLS		(1.1)	HCC and HCLS local funding growth = 0%
Remove all new efforts, including:		(1.4)	Sheriff, Police, Transportation, Health, Rec & Park, UMD, Orphans Ct., and Soil Conservation
Remove new efforts at Sheriff	(0.4)		Remove: 8 deputy sheriffs (funded partial year) to address security needs at the new courthouse
Remove new efforts at Rec. and Parks	(0.3)		Remove: conversion of 11 contingent positions to permanent status for pay and benefits equity
Remove new efforts at Transportation	(0.2)		Remove: Local match for state funding for 2 buses; a new route connecting HCPSS central office with Columbia Mall; free access to RTA for 5 high school students
Remove new efforts at Health	(0.2)		Remove: CAREAPP portal (previously funded with one-time funding) connecting customers to social and healthcare services; 1 environmental health constituent liaison to help businesses; and software upgrade no longer supported by the vendor
Remove new efforts at Police	(0.1)		Remove: 1 senior dispatcher and 1 emergency communications operator for the next Gen. 911 system
Remove all other new efforts	(0.1)		Remove: 1 Watershed Academy program co-ordinator (previously funded with one-time funding), 1 adm. position to support Orphans Court, and 1 contingent (0.5 year) on plan reviews at Soil Conservation
Total		**(28.5)**	

The development of the Executive Proposed FY 2021 budget already incorporated various saving strategies, including a Countywide hiring freeze impacting all vacancies except sworn positions, and a slowdown in spending in contractual services and supplies. The proposed budget also incorporated savings or reduction items with no or little direct impact on services from agency-submitted 2% reduction strategies. What remains is non-discretionary expenditures primarily in the form of personnel costs for existing employees for delivering existing services. As a result, further significant reductions will inevitably impact both services and employees significantly.

In the past few years, the County has already implemented multiple rounds of saving strategies, including abolishing positions, freezing vacancies, restructuring, and lowering or delaying operating expenditures in an attempt to address various challenges varying from a mid-year revenue shortfall to a significant slowdown in revenues. Hence, most agencies today live with a bare-bones budget struggling to maintain existing level of services or to cope with community needs, which continue to grow together with the population.

Alternatively, the County can increase Property Tax rates to raise revenues. Currently, 90% of General Fund revenues come from Property Taxes and Income Taxes. The County Income Tax Rate of 3.2% is already the highest allowed by the State. To generate the needed $21 million in revenues absent new funding from the Recordation Tax, the County would have to increase the Real Property Tax rate by 4 cents from 1.014 per $100 of property value to 1.054 per $100 of property value. Unlike the Recordation Tax, the Property Tax impacts all County residents and is applicable annually rather than per transaction.

What Would Happen If Forecasted Revenues in FY 2021 Proposed Budget is Not Materialized?

If the County experiences a mid-year revenue shortfall, then the County may have to apply multiple additional saving strategies with potential service impact that the administration tried to avoid in the proposed budget. Such strategies may include furloughs or a reduction of services.

The proposed budget did not include such actions partly due to a desire to avoid/minimize impact on services or employees, and partly due to the needs to keep some flexibility in case the County experience a mid-year revenue shortfall given the significant uncertainty on the economy. If some of the cuts listed in the table on page 2 with significant service and employee impact are included in FY 21 adopted budget, then during a potential mid-year revenue downturn the County would have no choice but either implementing large-scale (additional) layoffs or access its 7% Charter-mandated reserve (equivalent of 3.5 weeks of cash) to support on-going expenditures.

The former (large-scale layoffs) would result in a significant service reduction to residents and businesses and add additional jobless to the historically high unemployment situation of the County.

The latter (digging into the Charter-mandated stabilization reserve) would represent the first such attempt in the County's history and leave the county with a dangerously low level of reserve (less than a couple of weeks), which would risk not being able to make normal payroll and contract payments in time and jeopardizing the County's long-time AAA credit ratings. Tapping into the stabilization reserve would also create a huge structural deficit in future years, when the County has to not only using future revenue collections to close the hole created by using one-time funding (from rainy day fund) to support on-going expenses in FY 21, but also has to pay back to the stabilization account the amount "borrowed" in FY 21 in order to meet the Charter-mandated 7% level. This decision will make future budgets very challenging.

3. FUNDING DECISIONS WITH DIRECT IMPACT ON HCPSS OPERATING OR HCPSS CIP BUDGET

New Funding Assumed from Proposed Recordation & Transfer Tax Changes

Revenue Forecast ($ in millions)		
	Transfer Tax	**Rec Tax**
FY19 Actual	31.3	21.1
FY21 Base	32.8	21.1
COVID-19 / economy impact	(9.6)	(6.2)
Adjusted after impact	23.2	14.9
Estimated increase from tax change (CR84 & CR85)	**11.6**	**20.9**
Total FY21 Proposed	**34.9**	**35.9**

Recordation Tax Change Implications on HCPSS Operating Budget

The FY21 Executive Proposed Budget in the General Fund provided a $13.1 million increase of County funding to HCPSS budget, including $10.4 million MOE contribution and $2.7 million above MOE. The proposed budget included $28.5 million new resources from anticipated the recordation tax restructuring ($21 million) and use of policy reserve ($7.5 million), both pending County Council approval. Without either new funding resource, above MOE contribution to HCPSS in FY21 would be unaffordable and the County will have to make significant service reductions across the County.

Transfer Tax Change Implications on HCPSS CIP Budget, Other CIP Projects and the Housing Ren. Fund

FY21 Executive Proposed CIP budget provides $68.7 million in County funding to HCPSS capital budget to keep all three high-priority projects on schedule – new HS #13, Talbott Spring ES replacement, and Hammond HS renovation/addition, while providing continued support to school systemic renovation. The capital contribution to HCPSS was made possible by including a one-time boost from $19.7 million in Transfer Tax backed bond based on assumed Transfer Tax increase from $1.0% to 1.5% (per CR84-20202 and HB1454), which was used to support Hammond HS Renovation/Addition ($13.9 million) and Systemic Renovation ($5.8 million). This transfer tax rate change is pending County Council approval. Without such a proposed tax increase, HCPSS CIP budget will be reduced by $19.7 million, impacting priority school projects directly.

FY21 Executive Proposed CIP budget also included $3.6 million of Recreation and Parks projects supported by designated Transfer Tax PAYGO, and $1.2 million of Fire capital projects supported by designated Transfer Tax PAYGO, based on assumed tax increase. Without such a proposed tax increase, relevant capital projects in Recreation and Parks and Fire Departments need to be reduced to less than $700,000 respectively in FY 2021.

Moreover, FY21 proposed operating budget in the Community Renewal Program Fund assumed $5.5 million Transfer Tax revenues based on assumed Transfer Tax increase, without which FY 21 Community Renewal Program Fund appropriation will be reduced by $2.4 million.