

# Howard County Preliminary FY 2022 Fiscal Outlook

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# The County's Significant CIP Challenge: The Ask vs The Available

CIP needs/requests SIGNIFICANTLY exceed the affordable level.

## The Available

Authorized General Obligation (GO) Bonds in annual approved CIP budget:

- FY21: \$75.2M
- FY20: \$89.8M
- FY19: \$97.4M
- FY18: \$96.3M

## The Ask

Requested GO bonds/loan from County agencies and education entities for FY22-27:

- FY22-27 average: \$131M (FY22: \$117M)

## The Gap:

**\$42~\$62M** per year (based on projected \$70~90M annual debt ceiling)

**1/3 to half** of total requests



# The County's Significant CIP Challenge:

## \$42~\$62M Gap Per Year in GO Bonds/Loan

Based on FY22 – 27 requests collected from County agencies and education entities,  
GO bonds/loan Gap: \$42~\$62M per year; \$251~\$371M in 6 years

| \$ in Millions  | FY22         | FY23         | FY24         | FY25         | FY26         | FY27         | 6-Year Total      | Avg Per Year      |                |
|---|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|-------------------|----------------|
| <b>Request</b>  | <b>117.5</b> | <b>195.7</b> | <b>105.1</b> | <b>104.5</b> | <b>133.2</b> | <b>135.3</b> | <b>791.2</b>      | <b>131.9</b>      |                |
| BONDS   | 117.5        | 120.7        | 105.1        | 104.5        | 133.2        | 135.3        | 716.2             | 119.4             |                |
| WIFIA Loan  |              | 75           |              |              |              |              | 75.0              | 12.5              |                |
|   |              |              |              |              |              |              |                   |                   |                |
| <b>Funding Gap Based On Different Affordable Ceilings</b> |              |              |              |              |              |              | <b>6-Year GAP</b> | <b>Annual GAP</b> | <b>vs Req.</b> |
| Scenario1.\$90M (6 Year=\$540M)                           | (27.5)       | (105.7)      | (15.1)       | (14.5)       | (43.2)       | (45.3)       | (251.2)           | (41.9)            | -32%           |
| Scenario2.\$80M (6 Year =\$480M)                          | (37.5)       | (115.7)      | (25.1)       | (24.5)       | (53.2)       | (55.3)       | (311.2)           | (51.9)            | -39%           |
| Scenario3.\$70M (6 Year=\$420M)                           | (47.5)       | (125.7)      | (35.1)       | (34.5)       | (63.2)       | (65.3)       | (371.2)           | (61.9)            | -47%           |



# CIP Request Breakdown – GO (& WIFIA Loan)

| Request Breakdown (excluding projects funded by other identified/designated sources like Transfer Tax, School Surcharge, Downtown Columbia tax increment, and State aid., etc.) - \$ in millions |              |              |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | FY22         | FY23         | FY24         | FY25         | FY26         | FY27         | 6-Year Total |
| HCPSS  | 51.9         | 50.2         | 27.4         | 37.0         | 40.1         | 35.4         | 241.8        |
| HCC  | 17.8         | 16.8         | 15.4         | 3.0          | 10.9         | 4.8          | 68.7         |
| HCLS   | 0.5          | 0.5          | 2.6          | 0.3          | 5.4          | 33.0         | 42.2         |
| <b>Subtotal Education</b>  | <b>70.2</b>  | <b>67.5</b>  | <b>45.4</b>  | <b>40.2</b>  | <b>56.3</b>  | <b>73.1</b>  | <b>352.7</b> |
| <b>Ellicott City Safe &amp; Sound*</b>   | <b>6.7</b>   | <b>80.9</b>  | <b>10.5</b>  | <b>-</b>     | <b>20.0</b>  | <b>-</b>     | <b>118.1</b> |
| East Columbia 50+ Center   | 2.9          | 2.2          | -            | -            | -            | -            | 5.1          |
| Detention Center   | 2.4          | 3.8          | 0.9          | 0.9          | 0.9          | 1.0          | 9.7          |
| Systemic Renvoation  | 4.8          | 4.7          | 5.0          | 11.6         | 8.7          | 8.7          | 43.4         |
| IT Infrastructure  | 3.8          | 3.8          | 3.8          | 3.8          | 3.8          | 3.8          | 22.8         |
| North Laurel Pool  | -            | -            | 14.4         | -            | -            | -            | 14.4         |
| Public Safety Education Center   | 2.1          | -            | -            | -            | 3.8          | 7.0          | 12.9         |
| Fleet modernization & highway shops  | 1.0          | 2.4          | 2.3          | 25.8         | -            | -            | 31.5         |
| Recreation and Parks   | 1.9          | 1.4          | 0.3          | 4.5          | 18.0         | 4.0          | 30.1         |
| Bridge   | 2.1          | 1.2          | 1.0          | 1.0          | 1.0          | 1.0          | 7.4          |
| Road Construction etc.   | 1.7          | 3.7          | 6.1          | 3.0          | 3.0          | 27.1         | 44.6         |
| Sidewalk   | 5.0          | 6.4          | 4.9          | 4.9          | 3.6          | 3.7          | 28.3         |
| Stormdrainage  | 4.4          | 12.6         | 4.3          | 3.6          | 4.3          | 4.3          | 33.5         |
| Traffic  | 2.2          | 2.2          | 3.5          | 4.4          | 3.8          | 0.5          | 16.6         |
| Other  | 6.2          | 2.9          | 2.8          | 1.0          | 6.0          | 1.2          | 20.0         |
| <b>Subtotal Other County Projects</b>  | <b>40.6</b>  | <b>47.3</b>  | <b>49.2</b>  | <b>64.3</b>  | <b>56.7</b>  | <b>62.2</b>  | <b>320.3</b> |
| <b>Total Request</b>   | <b>117.5</b> | <b>195.7</b> | <b>105.1</b> | <b>104.5</b> | <b>133.1</b> | <b>135.3</b> | <b>791.1</b> |

\* including WIFIA loan from the Federal government with a 30-year term and lower interest rates

# Table Clarification

- Education and Ellicott City Safe & Sound Projects requests combined alone (\$471M in 6 years) would essentially use 100% of resources under funding Scenario 2 (\$80M per year)
- The table already excluded projects or project components funded through *assumed* level of designated resources (e.g., transfer taxes, school surcharge, state grants, etc.)

Example: FY22 total HCPSS CIP request is \$108M, including

- \$40.2M state aid
- \$67.9M County funding
  - \$16M designated County funding from T-tax and surcharge
  - \$51.9M County GO bonds (shown in prior table)

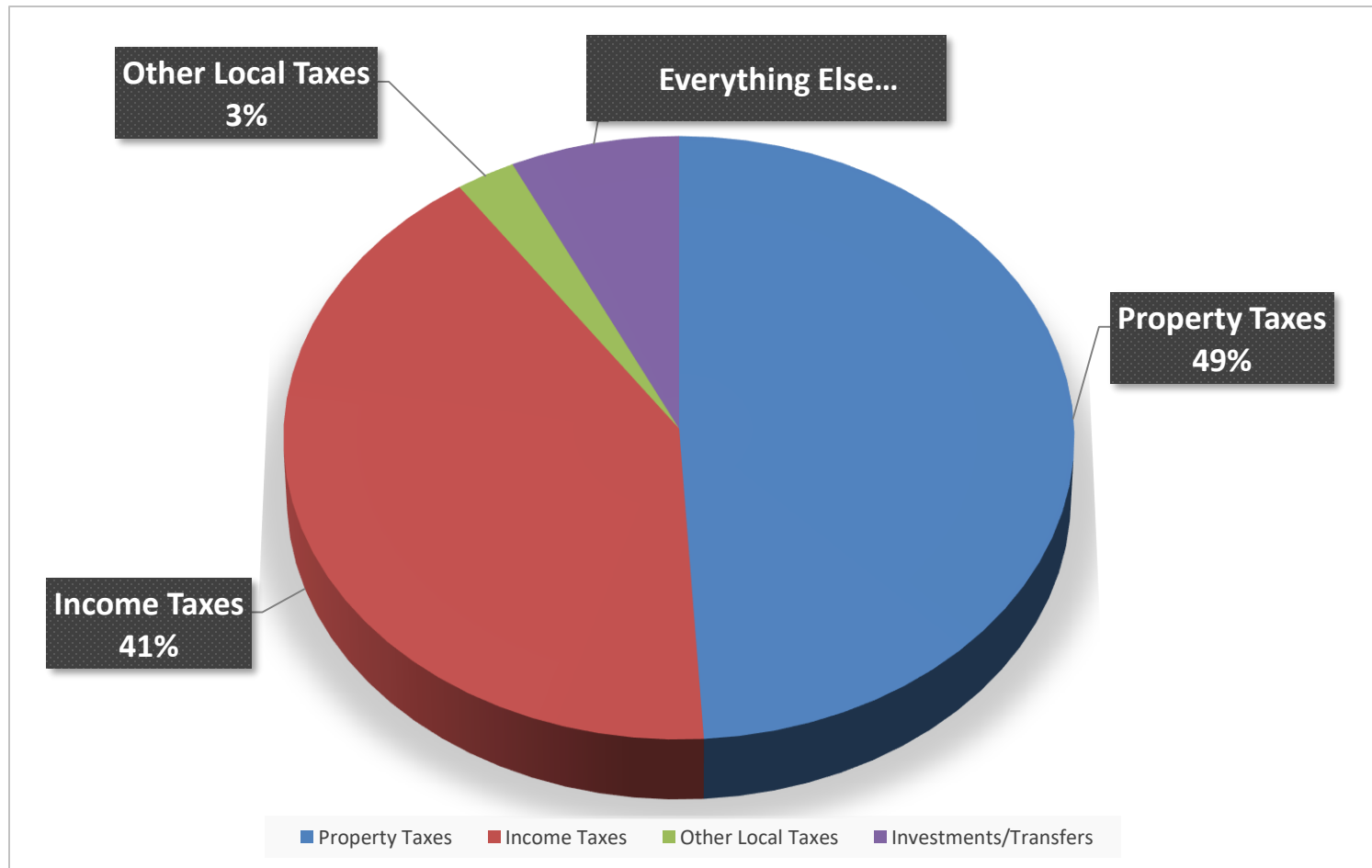


# Issues Related to CIP

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- Funding constraint and the significant gap requires collective efforts
  - Prioritize, and eliminate/reduce/delay *many* projects to beyond six years, or
  - Explore new resources
    - Seek for Federal and state funding
    - New County resources not feasible in general in current economic climate (Note: both school surcharge and transfer taxes were already raised in recent years)
- How to balance maintaining existing & fundamental infrastructure and address new project needs
- The cost dilemma of delaying projects
  - interest rate risks
  - rapid acceleration of construction cost

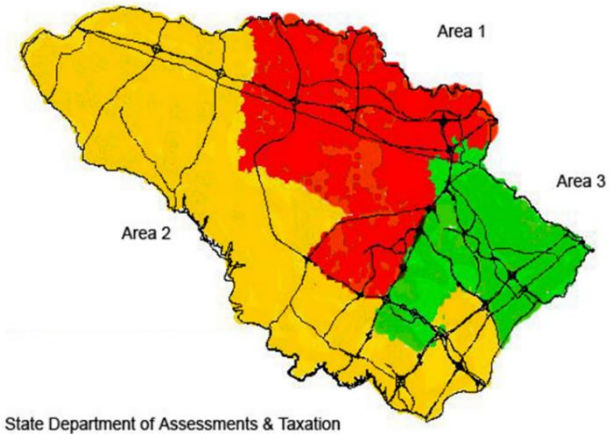
# Property Taxes and Income Taxes Represent 90% of General Fund Revenues



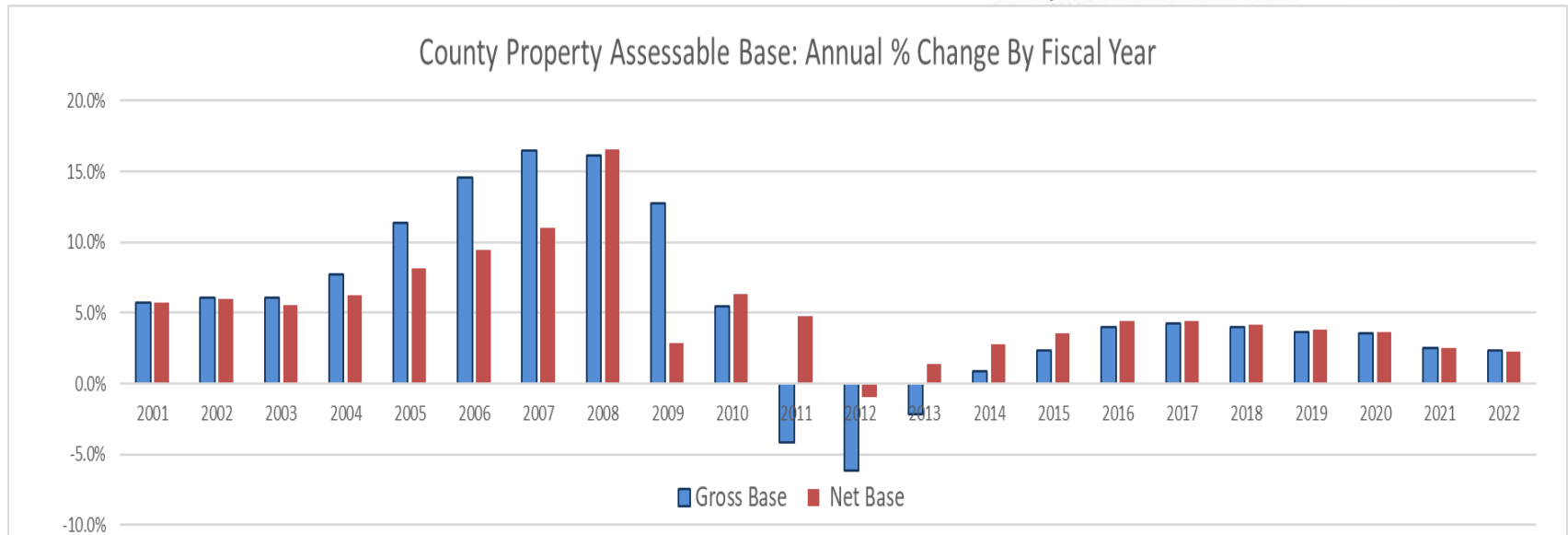
FY 2021 General Fund (not including one time funds)

# Property Assessable Base Maintains A Moderate Growth of 2.3% in FY2022 Per State Projections

- Reassessment growth (for 1/3 of areas per year) remains moderate
  - Area 3: 3.1% per year (FY22-24 phase-in)
  - Area 2: 2.8% per year (FY21-23 phase-in)
  - Area 1: 2.8% per year (FY20-22 phase-in)



State Department of Assessments & Taxation





# Property Base Growth Benefited from Continued Strong Commercial Base Development

Commercial base reassessment in the County has maintained a double-digit triennial growth (before three-year phase-in), which continued to outperform the state average and outpace residential base reassessment in the County.

| Reassessment Triennial Change in Full Cash Value (Commercial) |             |             |             |              |              |              |              |              |              |             |              |              |
|---|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|
| January 1, 2010 through January 1, 2021                       |             |             |             |              |              |              |              |              |              |             |              |              |
|   | 2010        | 2011        | 2012        | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2019        | 2020         | 2021         |
|   | Gr. 1       | Gr. 2       | Gr. 3       | Gr. 1        | Gr. 2        | Gr.3         | Gr. 1        | Gr. 2        | Gr. 3        | Gr. 1       | Gr. 2        | Gr. 3        |
| Anne Arundel  | 3.0%        | -0.7%       | -1.9%       | 14.4%        | 23.0%        | 13.8%        | 22.4%        | 21.1%        | 14.1%        | 8.7%        | 17.2%        | 9.0%         |
| Baltimore City  | 3.8%        | 1.0%        | -0.1%       | 7.5%         | 10.3%        | 14.4%        | 21.4%        | 9.5%         | 8.5%         | 12.6%       | 9.9%         | 1.1%         |
| Baltimore   | 4.0%        | 1.3%        | 3.1%        | 15.4%        | 12.2%        | 10.3%        | 16.1%        | 10.3%        | 11.7%        | 12.7%       | 12.0%        | 4.4%         |
| Harford   | 0.1%        | -1.7%       | 9.2%        | 6.4%         | 12.9%        | 14.7%        | 9.6%         | 5.4%         | 6.5%         | 3.0%        | 5.2%         | 2.4%         |
| <b>Howard</b>   | <b>2.3%</b> | <b>0.4%</b> | <b>3.1%</b> | <b>17.0%</b> | <b>17.6%</b> | <b>13.4%</b> | <b>16.5%</b> | <b>14.0%</b> | <b>15.5%</b> | <b>9.9%</b> | <b>14.0%</b> | <b>11.1%</b> |
| Montgomery  | 8.1%        | -1.8%       | 1.9%        | 23.1%        | 31.4%        | 34.4%        | 20.9%        | 17.8%        | 17.4%        | 16.5%       | 16.5%        | 14.4%        |
| Prince George's   | 10.5%       | 0.7%        | 3.6%        | 16.1%        | 8.9%         | 13.8%        | 15.7%        | 11.5%        | 10.6%        | 12.4%       | 13.1%        | 15.1%        |
| State Average   | 5.0%        | -0.8%       | 1.1%        | 11.4%        | 16.3%        | 18.6%        | 16.1%        | 13.6%        | 12.7%        | 12.5%       | 13.5%        | 9.7%         |

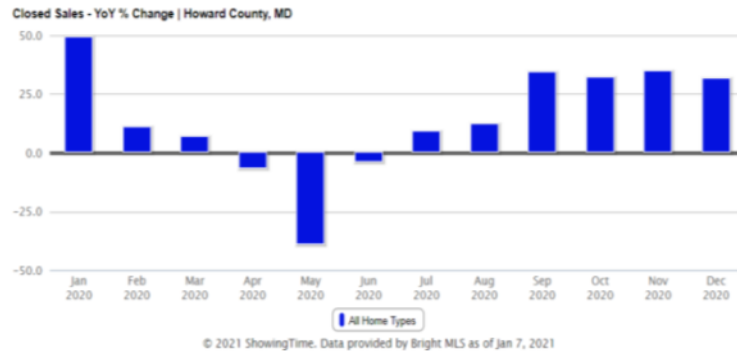
Note: % change in the table represent full value changes from three years ago before three-year phase-in.



# Factors Impacting Property Taxes In FY 2022 and Beyond

- Positive

- Strong housing market (with low mortgage rates and low inventory)



- Negative

- Expected weakening in commercial base (retail/mall, hotel, and office buildings)
- Expected impact on personal property taxes (business equip.)
- Potential foreclosure

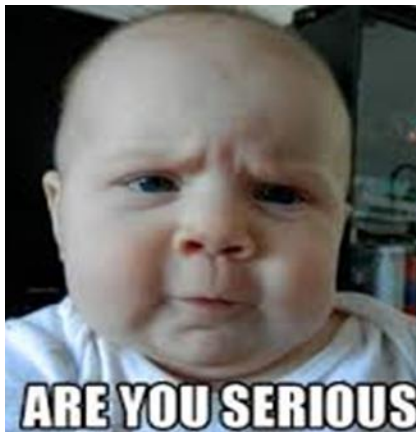
# Factors Impacting Property Taxes In FY 2022 and Beyond

- Uncertain
  - Timing (lagged impact of economic changes on taxable base or County property taxes)
  - Medium-term issue: moratorium impact of the APFO amendment on new development and assessment value
  - Long-term issue: lack of land for new development

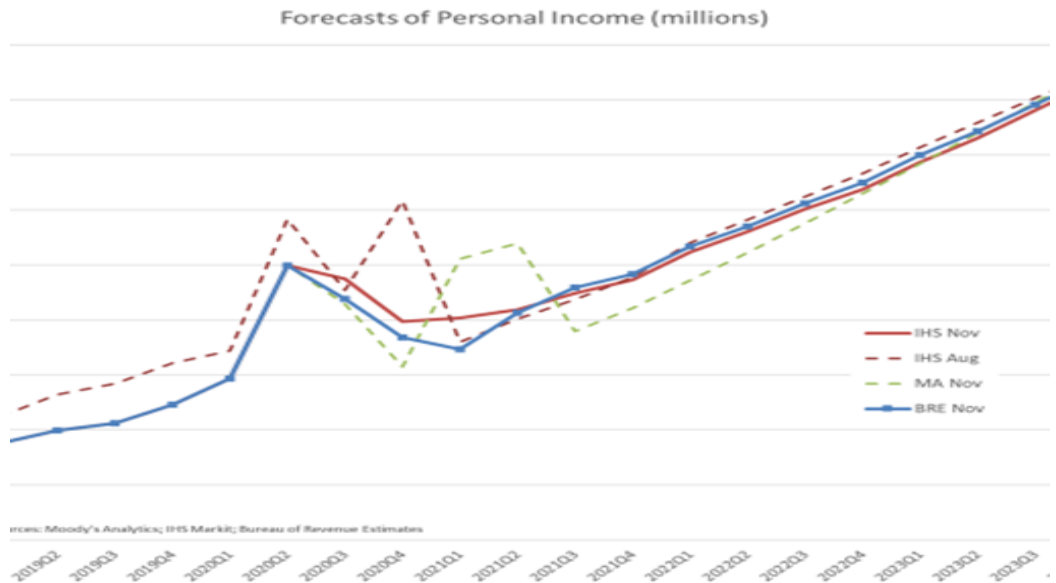
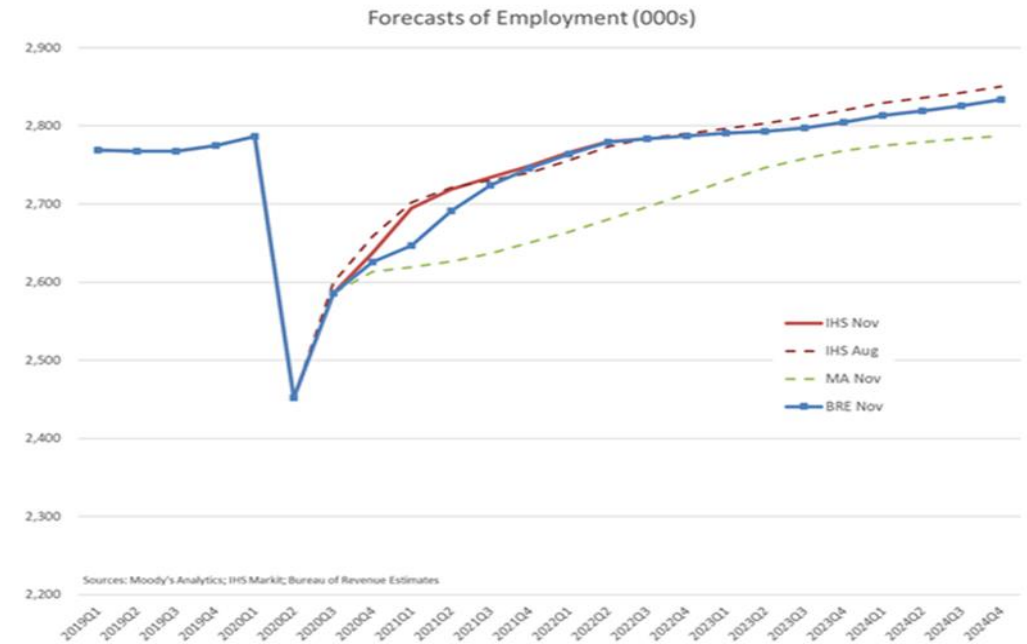
# The Puzzle On Income Tax So Far

When employment went  
down...

Personal income went up!



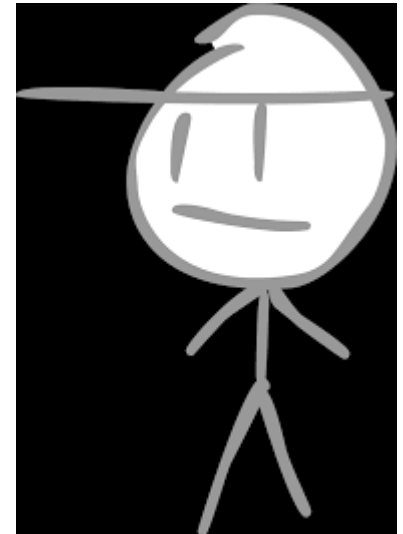
Source: MD State BRE  
(Forecasts of Employment and  
Personal Income in 2019-2024)



# The Puzzle on Income Tax So Far (continued)

- County Income Tax Actual Growth
  - 3-Year Avg. in FY17-19: 2.2%
  - FY20\*: 12.8%
  - Pandemic months: 4-5%

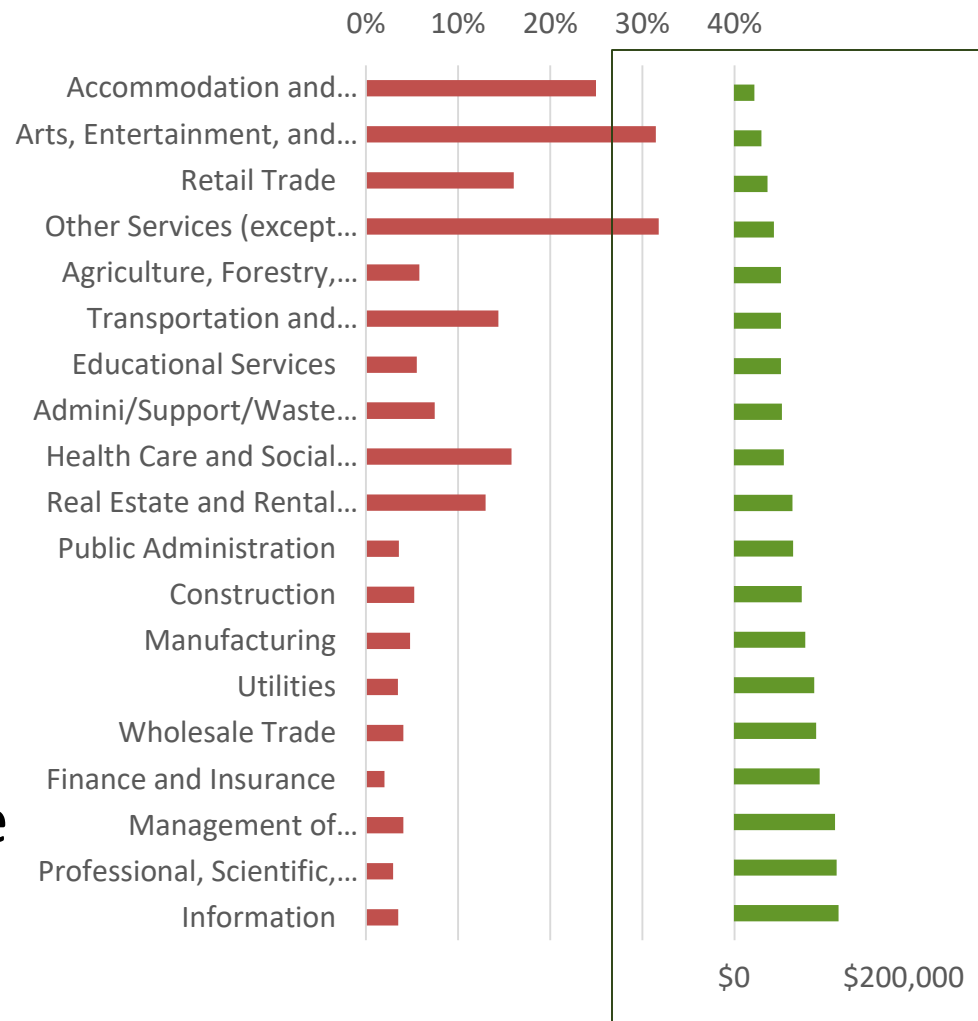
\*FY20 included one-time lagged reconciliation from federal tax law change two years before
- Reference - Income Tax Growth in DC
  - Pre-pandemic growth: 3.3%
  - Pandemic months: 6-8%



# What Happened?

## Some Explanation

- **Federal Stimulus**
  - esp. unemployment insurance (UI)
- Lower wage jobs hit the hardest in the pandemic
  - red bar: UI %
  - green bar: average salary
- Progressive income tax structure in MD & income disparities

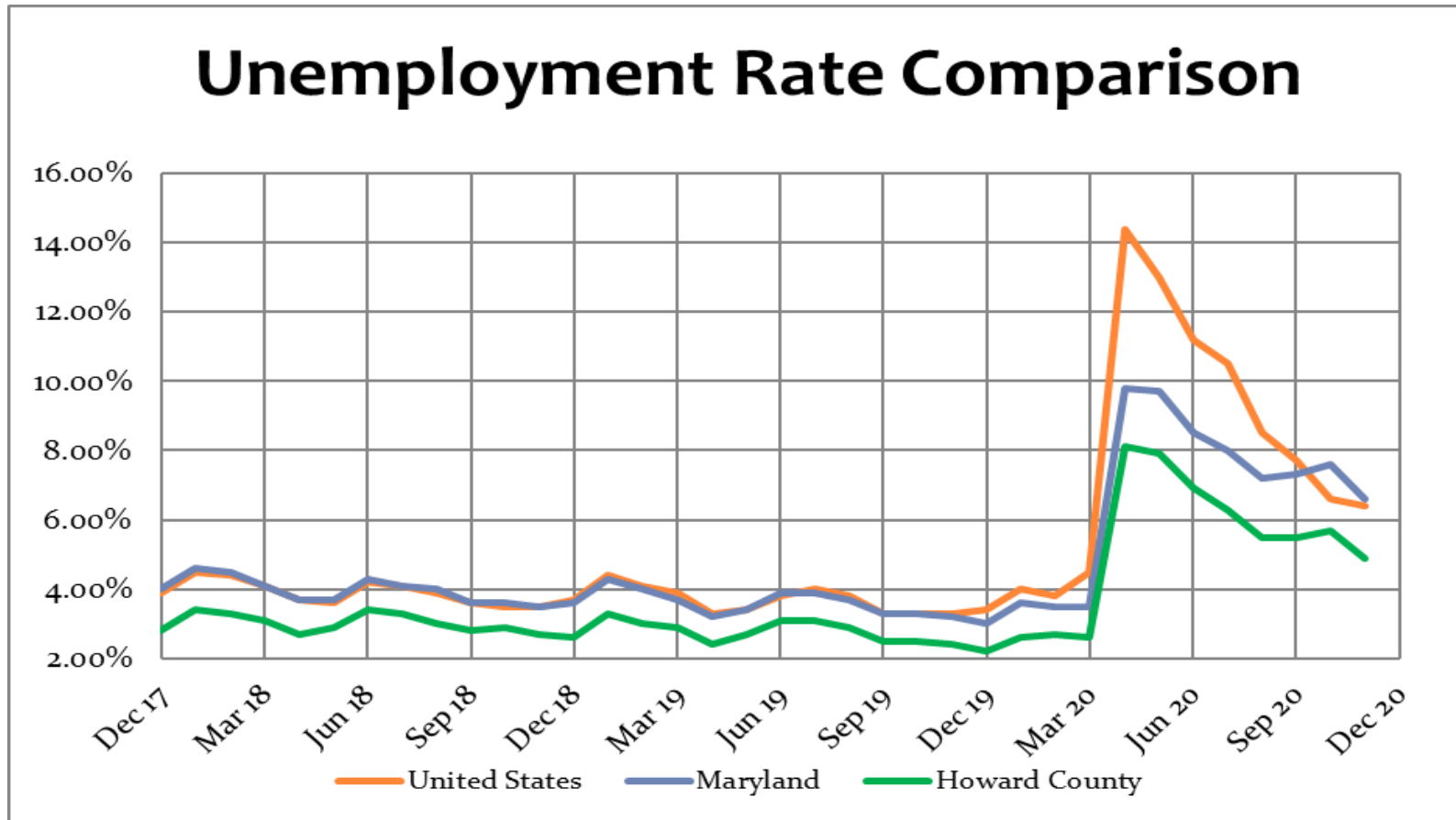


# What Does That Mean – For 2022?

- FY20-22 will see very strange income tax curves delinked from the economic fundamentals (what came up... will come down)
- Lagged impact (tax filing, refund and reconciliation)
- Both state and local economists anticipate that employment recovery will take 2-3 years
- The impact (amount and timing uncertain ) of refund and Governor's plan of exempting UI from withholding of state and local income taxes
- Economic recovery pace will be contingent on:
  - Vaccine / Pandemic
  - Federal Stimulus
  - Other Federal and State policy changes



# Unemployment Rate Has Come Down From the Peak But Still Above Pre-Pandemic Level

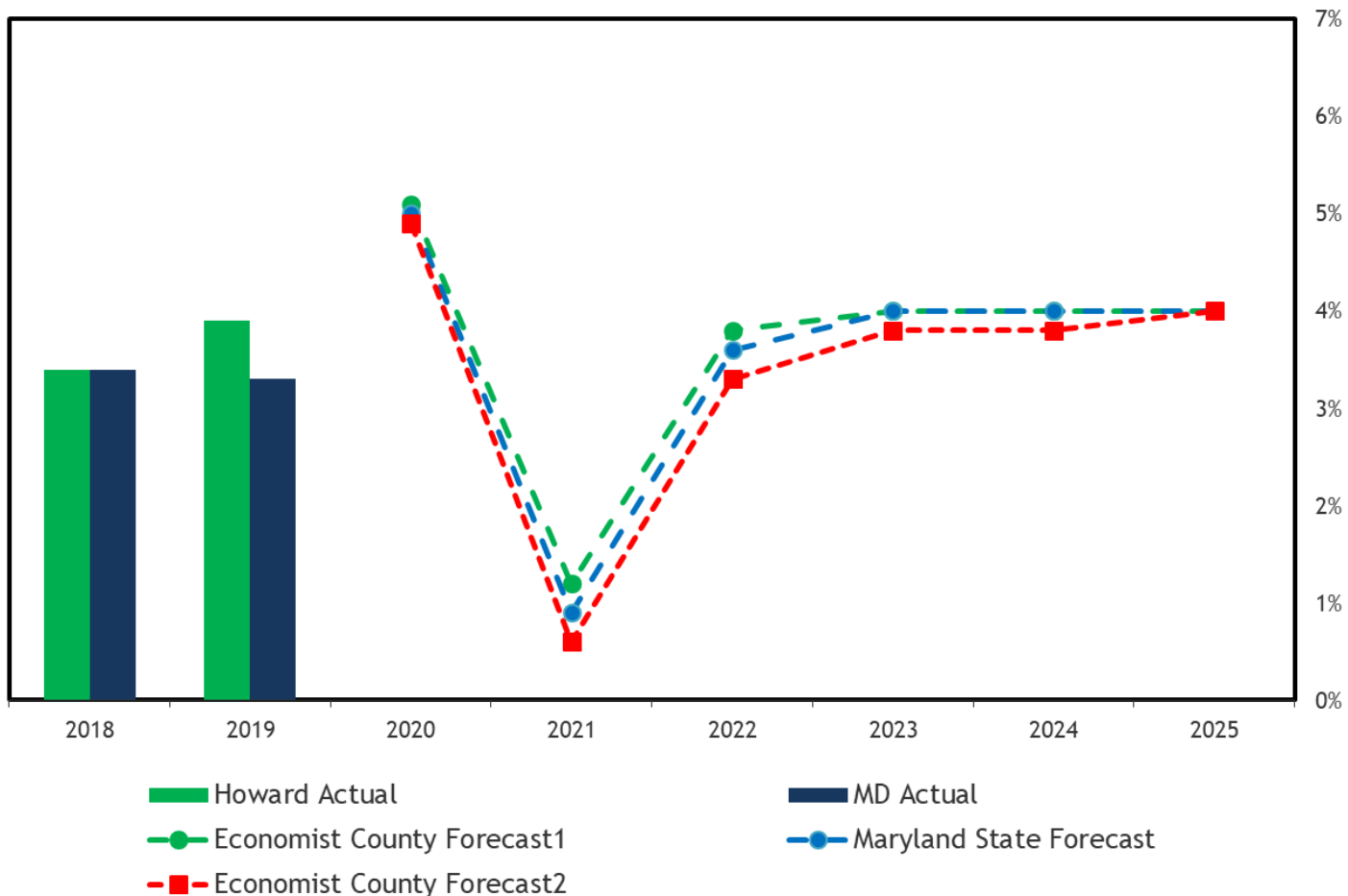




# Personal Income Growth in Howard County

- A preliminary forecast by the Jacob France Institute at the University of Baltimore indicates a weaker growth of 0.6-1.2% in CY2021 followed by a ✓ shaped recovery.

Preliminary Projections of Personal Income Growth



# FY 2022 Revenue Projections: \$26.7M Growth (2.3%)

Projected Revenue Growth in FY 2022 From FY 2021 Budget  
(\$ in millions):

|                             |                |             |
|-----------------------------|----------------|-------------|
| Property Taxes              | \$ 11.5        | 2.0%        |
| Income Tax                  | \$ 30.5        | 6.6%        |
| Other Local Taxes           | \$ 4.1         | 18.4%       |
| State Shared Taxes          | \$ (0.9)       | -25.5%      |
| Charges for Svcs./Permits   | \$ 0.3         | 1.1%        |
| Recoveries/Investment       | \$ 0.6         | 3.3%        |
| Other Financing/Transfers   | \$ (11.9)      | -33.1%      |
| Prior Year Funds*           | \$ (7.5)       | -46.3%      |
| <b>Total Revenue Growth</b> | <b>\$ 26.7</b> | <b>2.3%</b> |

\* FY2021 budget included use of \$7.5M reserve for recurring expenditures (requiring 4+ council votes). Projected gross revenue growth in FY 2022 before netting this impact was \$34.2M (3.0%).

# FY 2022 Challenges Related to FY2021 Budget Decisions

- FY2021 approved budget included sizable one-time solutions to mitigate the impact on services during an unprecedented pandemic. This include:
  - \$11.5M one-time funding (\$7.5M use of reserve and \$4M transfers) to cover on-going recurring expenditures
  - Multiple non-sustainable reductions (e.g., reduction of snow removal and risk management funding, un-funding nearly all civilian vacancies across County agencies, etc.); at least a portion of these need to be restored in FY 2022

These one-time measures, while assisting in closing the gap in FY 2021 budget, added additional challenges to FY 2022



# FY 2022 Operating Budget Challenge: **\$36M** Gap

- Requested funding growth is 2.3 X projected revenue growth
- \$26M requests from education entities (= essentially total revenue growth)
- \$14M expenditure growth are non-discretionary (debt services, P3 payment)

| <b>FY2022 General Fund Projected Gap (\$ in Millions)</b> |               |             |
|---|---------------|-------------|
| <b>Projected Funding Growth</b>                           | <b>26.7</b>   | <b>2.3%</b> |
| Requested Expenditure (County Funding) Growth             |               |             |
| HCPSS (SI Proposal)                                       | 22.1          |             |
| HCC   | 2.4           |             |
| HCLS  | 1.5           |             |
| Debt Services (mandated)                                  | 3.9           |             |
| P3 Annual Service Payment (mandated)                      | 9.9           |             |
| All Other Agencies  | <u>22.9</u>   |             |
| <b>Total Requested Funding Growth</b>                     | <b>62.7</b>   | <b>5.4%</b> |
| <b>Gap</b>  | <b>(36.0)</b> |             |

# Clarifications

- HCPSS FY2022 Request (Superintendent's FY22 Budget Proposal)

- Proposed FY22 total HCPSS budget growth: \$13.8M, 1.5%
- Proposed FY22 County funding growth **\$22.1M, 3.6%**  
(assuming flat state aid and adjustments in other resources)

FY22 formula-driven MOE growth of County funding based on enrollment data: **(\$17.5M), (2.8%)**

# Issues Related to Operating Budget

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- No “low hanging fruits” any more
- County agencies are already in hiring freeze, with many departments struggling to cope with service needs with less staff or resources
- Revenue options unfeasible in current economic climate
- Any further reductions may risk direct impact on people & services
- One-time short-term solutions have a significant side effect (creating structural deficit) on future budgets

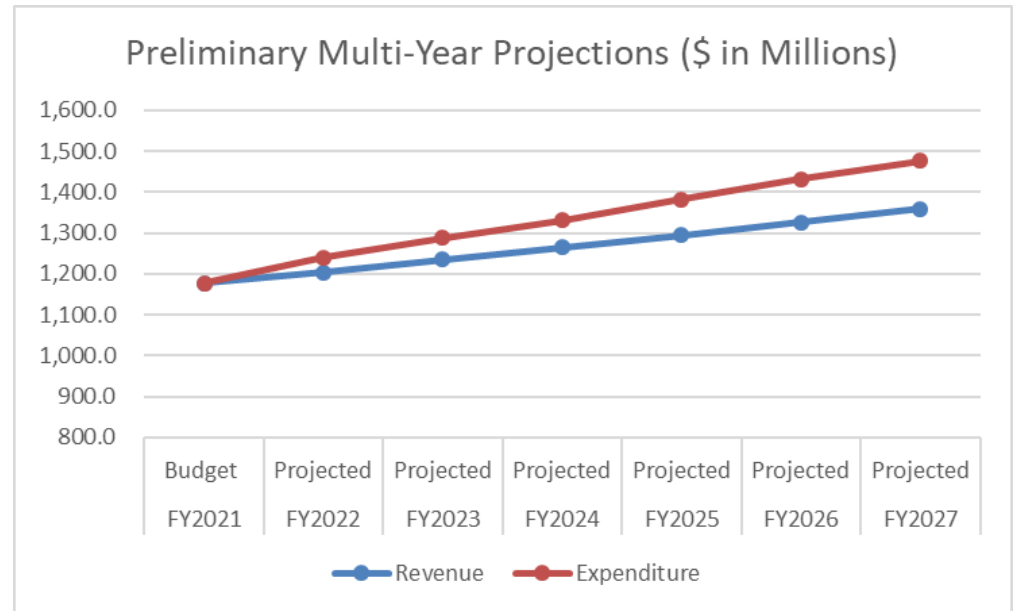
# Clarifications on FY20 Surplus

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- Surplus primarily resulted from one-time reconciliation in Income Tax
- Can only be used on one-time non-recurring expenses per County Charter
- Need to replenish and grow policy reserve (depleted in developing FY21 budget) to maintain AAA rating and enhance the capacity in time of unknowns
- Already utilized \$6.5M (CB3-2021) for pandemic assistance program; and will likely use more for rest of this calendar year and beyond where needed
- Potential needs to use some of the surplus to bridge part of the significant CIP project gaps to keep a couple of high-priority projects moving

# Multi-Year Projections (Before Actions)

- Projected expenditure needs (by all government entities and agencies collectively) continue to outpace revenue growth with anticipated annual gap of \$36M~\$118M in next six years



| 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)   |



# Multi-Year Revenue Projections: 2.5% Growth on Avg.

| Preliminary Multi-Year Revenue Projections |                |                |                |                |                |                |                |             |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| (\$ in Millions)                           | FY21           | FY 22          | FY 23          | FY 24          | FY 25          | FY 26          | FY 27          | FY23-27     |
|  | Budget         | Projected      | Projected      | Projected      | Projected      | Projected      | Projected      | Avg %       |
| Property Taxes                             | 585.5          | 597.0          | 609.0          | 621.2          | 633.6          | 646.2          | 659.2          | 2.0%        |
| Income Taxes                               | 464.3          | 494.8          | 509.6          | 524.9          | 540.6          | 556.9          | 573.6          | 3.0%        |
| Other Local Taxes                          | 22.3           | 26.5           | 29.1           | 29.7           | 30.3           | 30.9           | 31.5           | 3.6%        |
| State Shared Taxes                         | 3.7            | 2.7            | 2.7            | 2.7            | 2.7            | 2.7            | 2.7            | 0.0%        |
| Charges / Permits                          | 28.8           | 29.1           | 30.5           | 30.9           | 31.4           | 31.8           | 32.2           | 2.1%        |
| Investments/Recoveries                     | 19.78          | 20.43          | 20.79          | 21.22          | 21.66          | 22.11          | 22.57          | 2.0%        |
| Other Financing / Transfers                | 35.9           | 24.0           | 24.7           | 25.5           | 26.2           | 27.0           | 27.8           | 3.0%        |
| Use of Fund Balance                        | 16.2           | 8.7            | 8.7            | 8.7            | 8.7            | 8.7            | 8.7            | 0.0%        |
| <b>Total Revenues</b>                      | <b>1,176.5</b> | <b>1,203.3</b> | <b>1,235.2</b> | <b>1,264.8</b> | <b>1,295.2</b> | <b>1,326.4</b> | <b>1,358.3</b> | <b>2.5%</b> |
| <b>% Growth</b>                            |                | 2.3%           | 2.7%           | 2.4%           | 2.4%           | 2.4%           | 2.4%           |             |
| <b>Total Excluding FB</b>                  | <b>1,160.4</b> | <b>1,194.6</b> | <b>1,226.5</b> | <b>1,256.1</b> | <b>1,286.5</b> | <b>1,317.7</b> | <b>1,349.6</b> | <b>2.5%</b> |
| <b>% Growth</b>                            |                | 3.0%           | 2.7%           | 2.4%           | 2.4%           | 2.4%           | 2.4%           |             |

## Factors Impacting Multi-Year Projections

- Economic recovery pace
- Federal/State actions
- Lagged impact on revenues (e.g., commercial base, Income Tax, etc.)
- APFO amendment impact (e.g., Income, property, transfer and rec ... taxes )
- Demographic trends
- Land / development trends