

# Howard County Preliminary FY 2023 Fiscal Outlook

Holly Sun, Ph.D  
Budget Office of Howard County  
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# The County's CIP Outlook: Positive Progresses Made In Fiscal Planning

CIP needs/requests continued to exceed predicted bond capacity, but the gap has been narrowing in a positive trend.

## What's Available (New GO Bonds Authorized)

Authorized General Obligation (GO) Bonds in annual approved CIP budget have been trending down each year in acknowledgement of escalating debt burden and limited resources:

- FY22: \$72.5M
- FY21: \$75.2M
- FY20: \$89.8M
- FY19: \$97.4M
- FY18: \$96.3M

## What's Requested (New GO Bonds)

Requested GO bonds/loan from County agencies and education entities for FY23-FY28, although still higher than projected debt capacity, aligned more closely with projected resources :

- FY23-28 Average: \$95.1M (FY23 Request: \$87.5M)

Reference – FY22 request received:

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

**Projected Gap: \$20-\$25M** per year on average

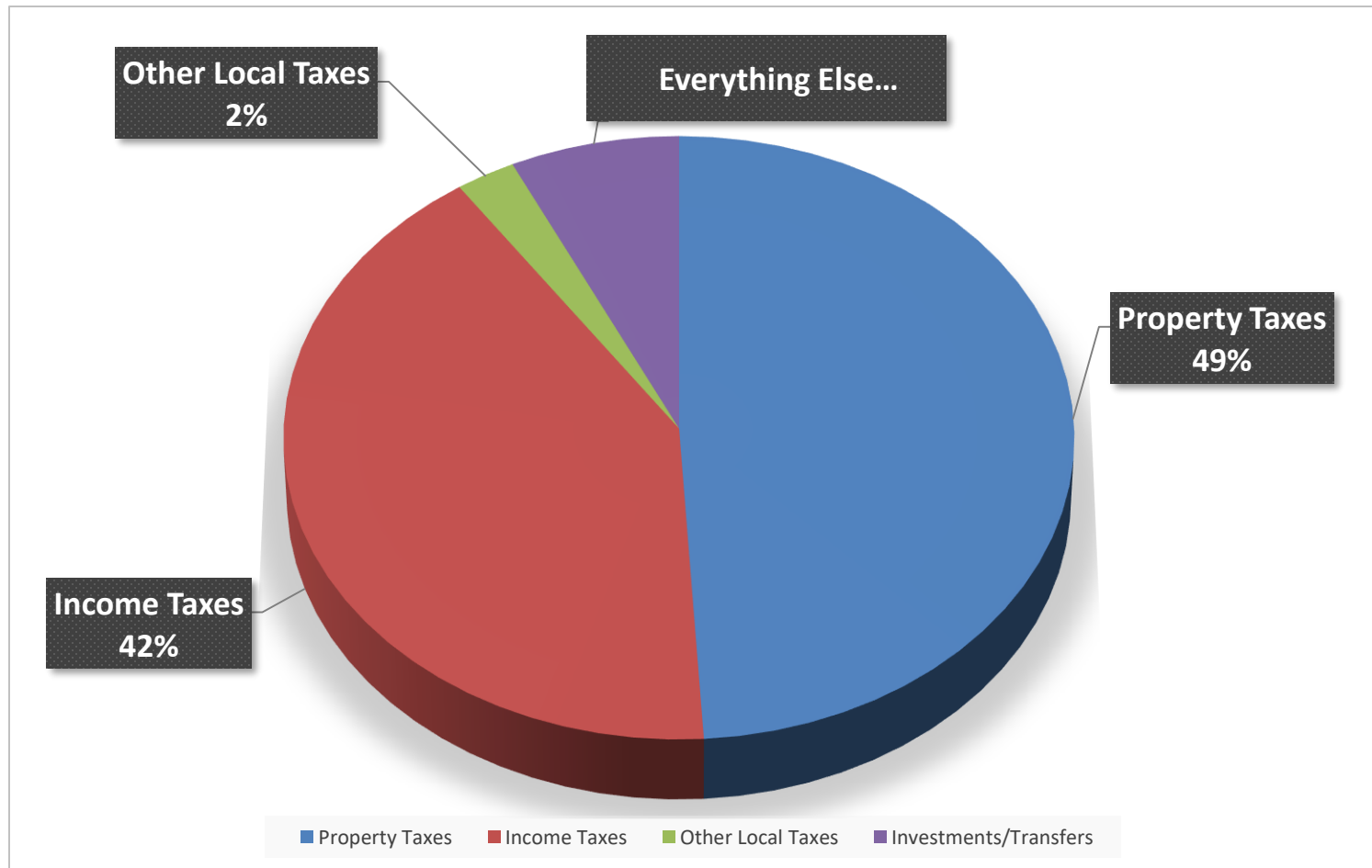


# Strategies & Benefiting Factors; Challenges

- Prudent and Strategic Use of Cash PAYGO (One-Time Funding)
  - \$30M assigned fund balance at end of FY2021 to enhance/support HCPSS systemic renovation in coming years
  - \$60M assigned fund balance at end of FY2021 to:
    - Continue sustainable investment to road resurfacing in coming years
    - Mitigate debt burden while keeping critical projects moving in FY23 (e.g., Ellicott City Safe and Sound)
- Improved Revenue Streams From Designated Sources
  - State Aid to school projects and other County CIP
  - School Surcharge and Transfer Taxes (benefiting from rate increases authorized a few years ago by local legislations)
- Challenges Remain
  - Balance Competing Infrastructure Needs Across the County While Keeping the County's Financial Solvency (with debt service as % of revenues projected to increase and stay above policy cap of 10% in next several years)
  - Construction cost Increases



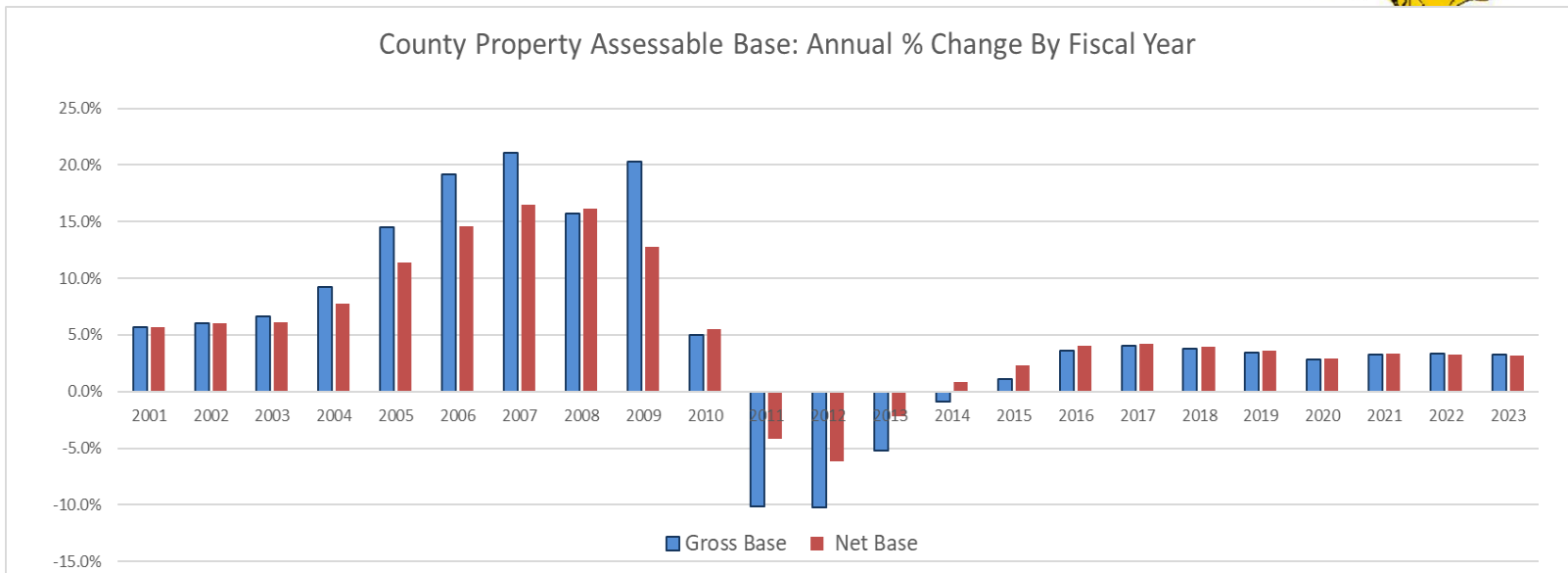
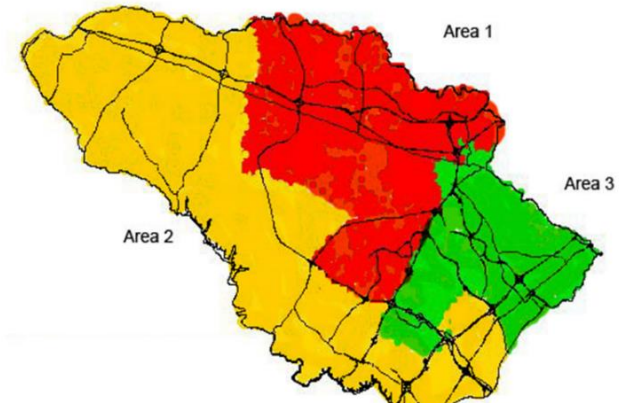
# Property Taxes and Income Taxes Represent 91% of General Fund Revenues



FY 2022 General Fund (not including one time funds)

# Property Assessable Base Maintains A Moderate Growth of 3.3% in FY2023

- Reassessment growth (for 1/3 of areas per year) remains moderate
  - Area 1: 3.6% per year (FY23-25 phase-in)
  - Area 3: 3.1% per year (FY22-24 phase-in)
  - Area 2: 2.8% per year (FY21-23 phase-in)



# Total Reassessment Growth Improved Commercial Base Growth Slowed Down

Total reassessment (full value before three-year phase-in) improves continuously but lags behind the State average

Commercial base reassessment has softened (from double-digit growth to 5.7%) and falls behind the State average of 9.7%.

Reassessment Triennial Change in Full Cash Value (Total)													
January 1, 2010 through January 1, 2022													
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Gr. 1	Gr. 2	Gr. 3	Gr. 1	Gr. 2	Gr.3	Gr. 1	Gr. 2	Gr. 3	Gr. 1	Gr. 2	Gr. 3	Gr. 1
Anne Arundel	-17.9%	-16.6%	-12.6%	-1.9%	9.9%	10.8%	11.5%	12.4%	8.9%	7.9%	10.8%	6.0%	7.9%
Baltimore City	-2.6%	-8.7%	-6.8%	-3.1%	7.0%	9.6%	10.9%	6.2%	3.6%	8.4%	9.1%	4.1%	6.6%
Baltimore	-13.2%	-13.6%	-14.5%	-8.1%	1.2%	6.4%	12.4%	8.5%	6.6%	10.9%	8.1%	7.2%	11.1%
Harford	-14.3%	-15.3%	-5.8%	-6.5%	1.6%	3.1%	3.2%	6.0%	4.5%	5.8%	5.6%	6.3%	9.6%
<b>Howard</b>	<b>-19.8%</b>	<b>-18.8%</b>	<b>-8.7%</b>	<b>2.5%</b>	<b>8.1%</b>	<b>10.5%</b>	<b>9.0%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>8.5%</b>	<b>8.3%</b>	<b>9.3%</b>	<b>10.8%</b>
Montgomery	-17.0%	-14.5%	-8.6%	4.1%	11.0%	18.7%	11.1%	7.8%	8.4%	6.9%	7.6%	9.2%	11.1%
Prince George's	-18.4%	-28.7%	-24.8%	-10.6%	5.3%	19.5%	24.7%	13.5%	17.5%	16.8%	13.3%	13.4%	15.8%
State Average	-16.1%	-17.9%	-13.0%	-3.6%	4.7%	10.8%	10.9%	8.2%	7.7%	9.1%	8.9%	8.1%	12.0%

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



# Factors Impacting Property Taxes In FY 2023 and Beyond

- Positive
  - Strong housing market (strong sales price; transaction limited by inventory)
- Other
  - Triennial assessment (lagged impact over a few years)
- Negative
  - Weakening in commercial base (retail/mall, hotel, and office buildings)
  - Expected impact on personal property taxes (business equip.)

# The Puzzle on Income Tax ...Continues

- County Income Tax Actual Growth
  - 5-year Avg. in FY15-19: 3.4%
  - 3-Year Avg. in FY17-19: 2.2%
  - FY20\*: 12.8%
  - FY21 (Pandemic): 10.6%
  - FY22 YTD: (10.8%)

\*FY20 included one-time lagged reconciliation from federal tax law change





# What Happened?

## Some Explanation

- **Federal Stimulus**
  - esp. unemployment insurance (UI)
- Lower wage jobs hit the hardest in the pandemic
- Progressive income tax structure in MD & income disparities
- Stocks Market
- Inflation
- Other one-time factors (e.g., legislative changes)

# What Does That Mean – For 2023?

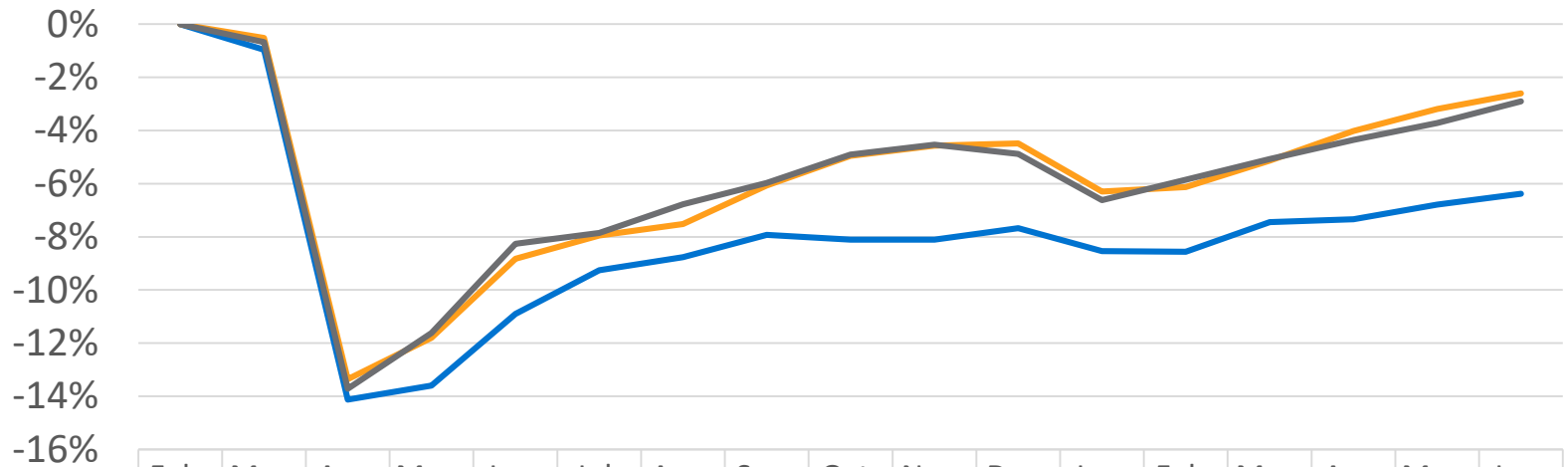
- As indicated last year,  
“FY20-22 (and FY23) will see very strange income tax curves delinked from the economic fundamentals (what came up... will come down)”
- Lagged impact (tax filing, refund and reconciliation), including refund to the withholding taken in earlier UI distribution that the Governor later announced to exempt
- Both state and local economists anticipate that employment recovery will take 2-3 years; County employment still 6-7% below pre-pandemic level
- Economic recovery pace will be contingent on:
  - Vaccine / Pandemic
  - Federal Stimulus and other policy changes



# County Employment Remains 6-7% below Pre-Pandemic Level

## Pre-Pandemic Level

Employment Change (Feb. 20' – June '21)



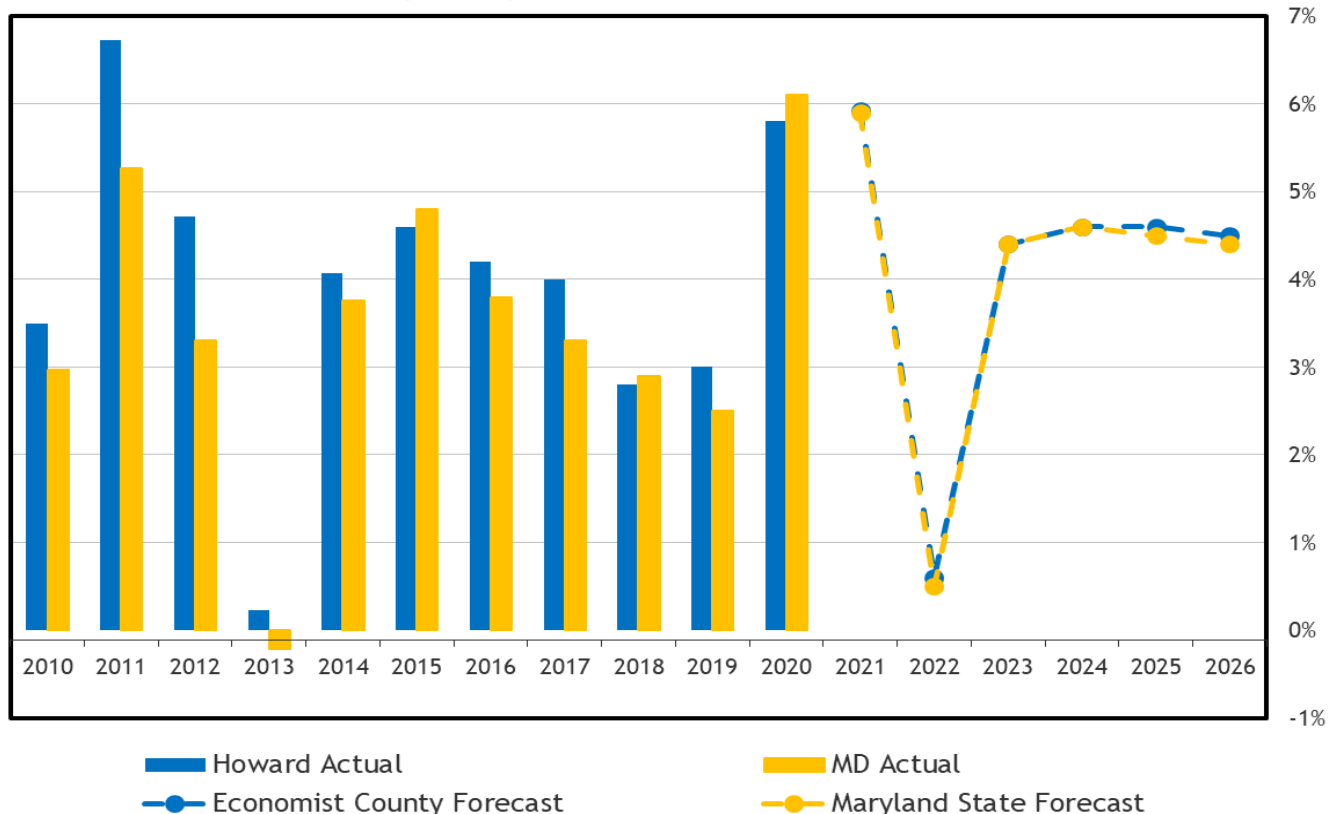
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Howard County	0.0%	-1.0%	-14.1	-13.6	-10.9	-9.3%	-8.8%	-7.9%	-8.1%	-8.1%	-7.7%	-8.5%	-8.6%	-7.5%	-7.3%	-6.8%	-6.4%
Maryland	0.0%	-0.5%	-13.4	-11.8	-8.8%	-7.9%	-7.5%	-6.1%	-5.0%	-4.6%	-4.5%	-6.3%	-6.1%	-5.1%	-4.0%	-3.2%	-2.6%
US	0.0%	-0.7%	-13.7	-11.6	-8.3%	-7.9%	-6.8%	-6.0%	-4.9%	-4.5%	-4.9%	-6.6%	-5.9%	-5.1%	-4.4%	-3.7%	-2.9%

Source: Bureau of Labor Statistics

# 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% in CY2022 followed by a ✓ shaped recovery with approximately 4.5% growth on average in coming years. This forecast is in line with State estimate.

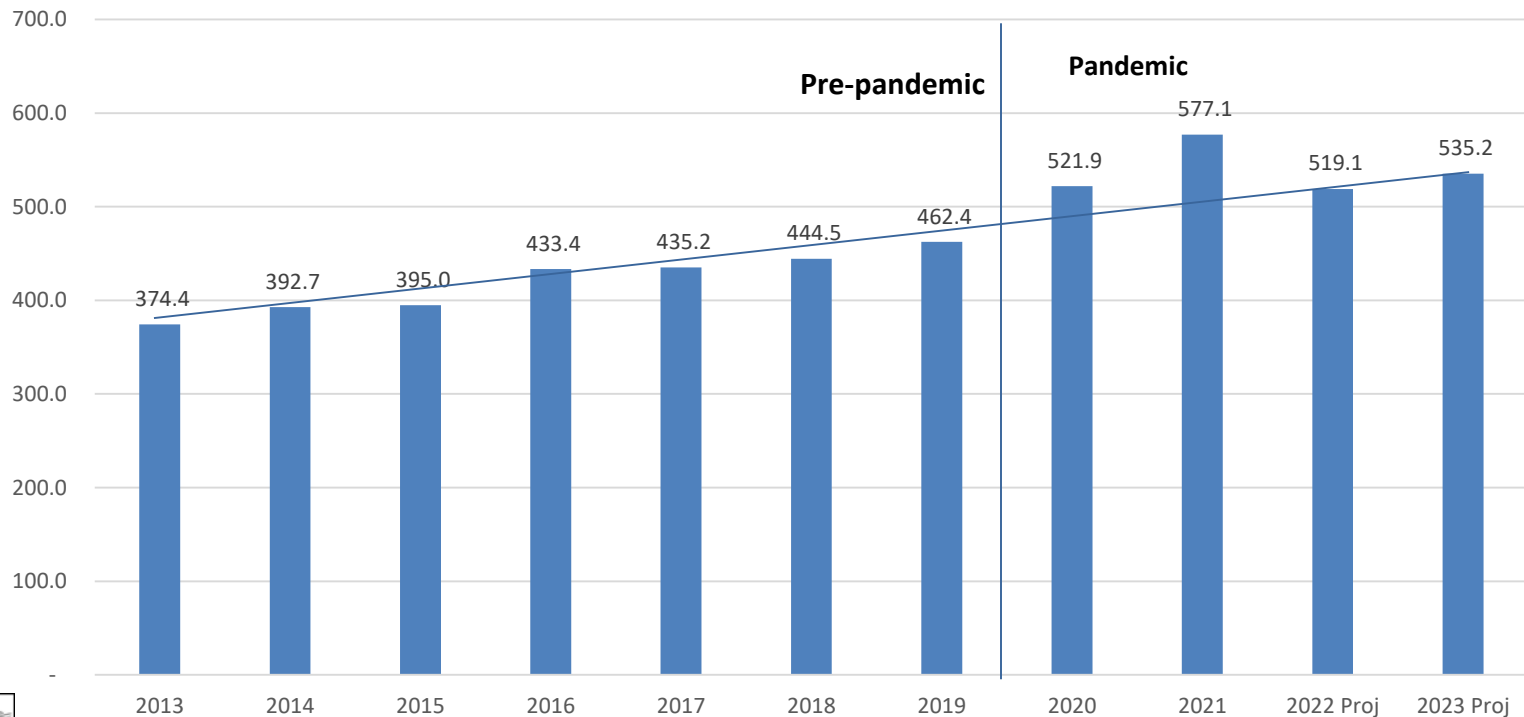
### Preliminary Projections of Personal Income Growth



# Income Tax Growth in Howard County

- The double-digit growths in FY2020 and 2021 were
  - **three ~ four times** of historical average and personal income growth
  - **NOT** reflecting economic reality (personal income or employment)
- Some level of corrections is expected in FY 2022 (and possibly FY 2023) before resuming normal growth in out years
- FY 2023 Projection: 3.5% growth from FY22 Estimated or 8.7% from FY22 Budget

Income Tax Receipts History and Projections (\$ in Millions)



# FY 2023 Revenue Projection

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

Property Taxes	\$ 21.1	3.5%
Income Tax	\$ 42.9	8.7%
Other local taxes	\$ 13.8	54.3%
State Shared Taxes	\$ 0.1	3.4%
Charges / Permits / Intergov.	\$ 3.4	11.6%
Interfund transfers /Recoveries	\$ (1.5)	-3.0%
<b>Total Revenue Growth vs FY22 Budget</b>	<b>\$ 79.8</b>	<b>6.6%</b>

- Projected strong budget growth is a once in decades phenomenon
  - **Pre-Pandemic Actual Revenue Growth Five-Year Average: \$37M (3.6%)**
  - **Pre-Pandemic Actual Revenue Growth Three-Year Average: \$25M (2.3%)**
- FY 2023 growth represents an unusual spike driven by unique factors (federal stimulus, stocks market, surprise surge in prior year base due to significantly higher, rather than lower performance during an pandemic/recession, etc.) and is unsustainable.
- FY 2023 projection will continue to feature high uncertainties due to a skewed base highly disconnected with employment or personal income reality and many unknowns (pandemic, labor market, stocks market, etc.)

# FY 2023 Operating Budget Challenge: **\$112M** Gap (vs. \$36M Anticipated in FY 2022)

- When projected revenues increase... the budget gap increases, too

\$ in Millions	FY 2023
<b>Revenues - Projected Growth</b>	<b>79.8</b>
Requested Expenditure (County Funding) Growth	
HCPSS SI Proposal (excluding \$12.5M one-time County funding in FY22)	120.0
HCC + HCLS	7.3
Debt Services (non-discretionary)	16.2
All Other Agencies (including funding to non-profits etc.)	<u>48.0</u>
<b>Expenditures - Requested Growth</b>	<b>191.5</b>
<b>Gap</b>	<b>(111.7)</b>

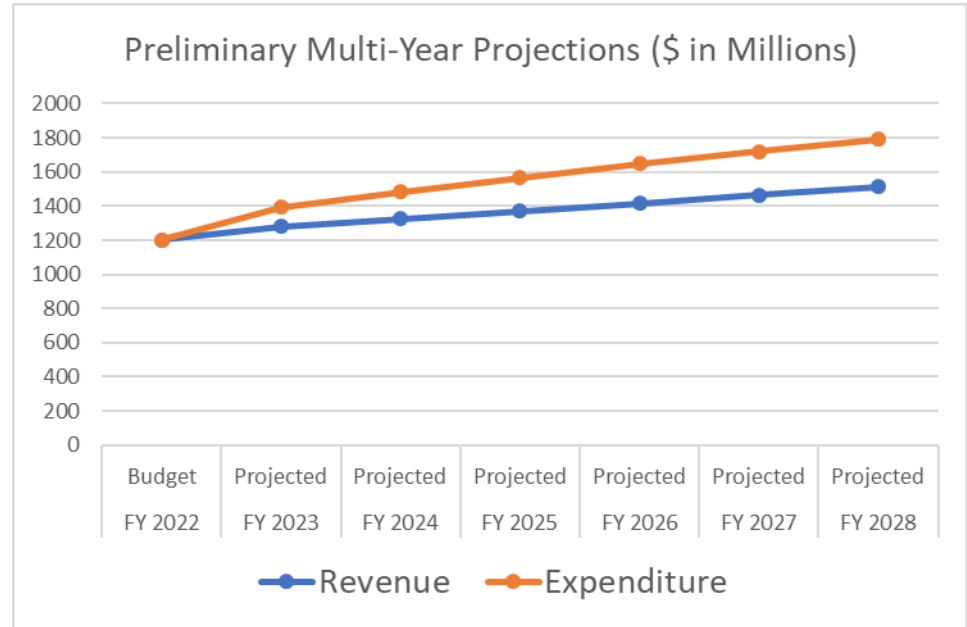
Note:

\* HCPSS projection includes both anticipated blueprint (Kirwan) implementation cost gap (\$17.7M assuming \$20.9M increase in State aid vs \$38.6M implementation cost) and non-blueprint funding needs (\$102.3M)

\* All other agencies request includes annualization of cost for the Body Worn Camera program as well as restore funding to temporary cuts in FY22 (vacancies frozen across county agencies and funding removed for snow removal, healthcare, risk management and fleet etc. in FY22)

# Multi-Year Projections (Before Actions)

- Projected expenditure needs (by all government entities and agencies collectively) continue to outpace revenue growth with anticipated annual gap now growing into \$112~\$279M (last year's projection: \$36M~\$118M)



Preliminary Multi-Year General Fund Projections Excluding One-Time (\$ in Millions)								
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Six-Year Growth
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	from FY22 Base
Revenue	1201.4	1281.2	1325.4	1371	1416.3	1463.2	1511.7	<b>310.3</b>
Growth %		6.6%	3.4%	3.4%	3.3%	3.3%	3.3%	
Expenditure	1201.4	1392.9	1482.4	1565.5	1646.7	1719.1	1790.4	<b>589.0</b>
Growth %		15.9%	6.4%	5.6%	5.2%	4.4%	4.1%	
<b>Gap</b>	-	<b>(111.7)</b>	<b>(157.0)</b>	<b>(194.5)</b>	<b>(230.4)</b>	<b>(255.9)</b>	<b>(278.7)</b>	
<b>Accumulative Gap</b>	-	<b>(111.7)</b>	<b>(268.7)</b>	<b>(351.5)</b>	<b>(424.9)</b>	<b>(486.3)</b>	<b>(534.6)</b>	



# FY2024–2028 Revenue Projections: 3.4% Growth on Avg.

Preliminary Multi-Year Projections (\$ in Millions)								
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY24-28
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Avg. %
Property Taxes	600.9	622.0	642.9	664.1	684.0	704.6	725.7	3.1%
Income Tax	492.3	535.2	556.6	578.9	602.0	626.1	651.2	4.0%
Other local taxes	25.4	39.2	40.0	40.8	41.6	42.4	43.3	2.0%
State Shared Taxes	3.7	3.9	4.0	4.0	4.1	4.2	4.3	2.0%
Charges / Permits / Intergov.	29.4	32.8	32.7	33.0	33.2	33.5	33.8	0.6%
Interfund transfers /Recoveries	49.6	48.1	49.2	50.2	51.3	52.4	53.5	2.1%
<b>Total Revenue Growth vs FY22 Budget</b>	<b>1,201.4</b>	<b>1,281.2</b>	<b>1,325.4</b>	<b>1,371.0</b>	<b>1,416.3</b>	<b>1,463.2</b>	<b>1,511.7</b>	<b>3.4%</b>
% Growth		6.6%	3.5%	3.4%	3.3%	3.3%	3.3%	

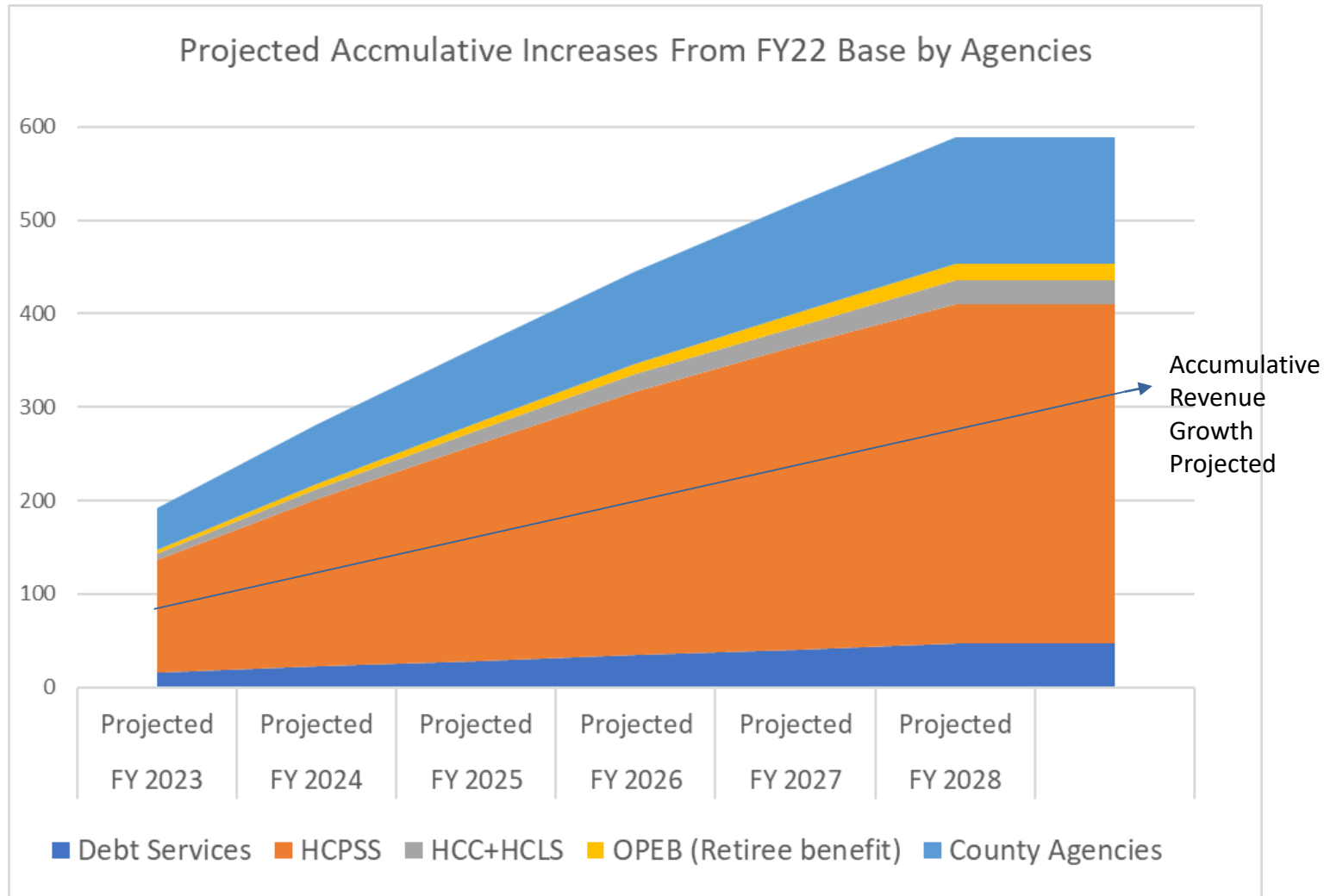
## Positive Factors

- Improving labor market
- Strong housing market
- Federal/State stimulus

## Uncertainties / Risks

- Pandemic, economic recovery pace, Federal/State actions
- Lagged impact on revenues (e.g., commercial property base, Income Tax reconciliation/refund)
- Stocks market
- New development slowdown due to legislative actions (impact on Income, property, transfer & recordation taxes)
- Demographic and housing trends

# FY2024-2028 Expenditure Projections: 5.2% Growth on Avg.



- |  |          |
|--|----------|
| Accumulative requested funding growth from FY22 base:  | \$589M   |
| (Accumulative projected revenue growth from FY22 base: | \$310M ) |

# Next Steps

- County will be working with all stakeholders in next 2~3 months and put together County Executive Proposed FY 2023 Budget
  - Proposed CIP: April 1; Proposed Operating Budget: April 18, 2022
- County already reached out to HCPSS to schedule budget meetings between Exec Office and school leadership in next few weeks
- Will send follow-up questions shortly for clarifications on Superintendent's Proposed FY 2023 Budget and HCPSS preliminary multi-year projections on state aid, Blueprint implementation cost, and non-Blueprint cost increases
  - Blueprint implementation cost and revenue assumptions
    - State mandates and individual school system program designs/decisions
    - State aid vs total implementation cost – “unfunded mandates”
  - Compensation
  - Other Service Support – maintenance vs enhancement (new positions, contracts, services)