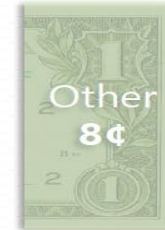


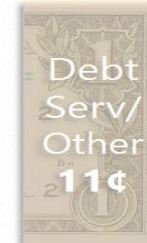
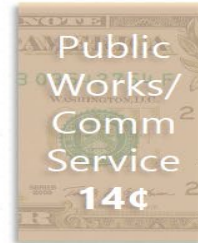
FY 2026 SAAC Report Highlight



Howard County
General Fund Revenue & Expenses
FY 2025



\$1.5 billion
General Fund
Revenue



\$909 Million



\$183 Million



\$200 Million



\$169 Million



Howard County Outlook Key Takeaways

Howard County General Fund revenues rely primarily on Property Taxes & Income Taxes. These are driven by:

- Population/workforce growth
- Economic growth (jobs & business)
- Assessment / Real estate

Risk factors (High for FY26)

- State job growth slowdown
- Population out-migration
- **Federal and State actions (policy changes)**



Exposure to High Risks at Federal Level

Howard County's Reliance on Federal Spending	
Item	Number
<u>Federal Employment 2023, By Place of Residence</u>	
Federal Jobs (# of Jobs)	19,044
Federal Jobs (% of Employment)	10.8%
<u>Federal Procurement 2024</u>	
Federal Procurement (Bil \$s)	\$6.1
Federal Procurement (\$s per capita)	\$18,003
Source: BEA, Census and FPDS	

The County is heavily reliant on Federal employment (directly or indirectly)

- For illustrative purpose, loss of 3-5% employment = loss of **\$20~\$33M** income taxes in the base

County also receives significant grants (typically **\$25-\$35M** per year) and loans from the Federal government, this funds:

- Housing, health and human services, public safety, workforce development, transportation, Ellicott City Safe & Sound etc.



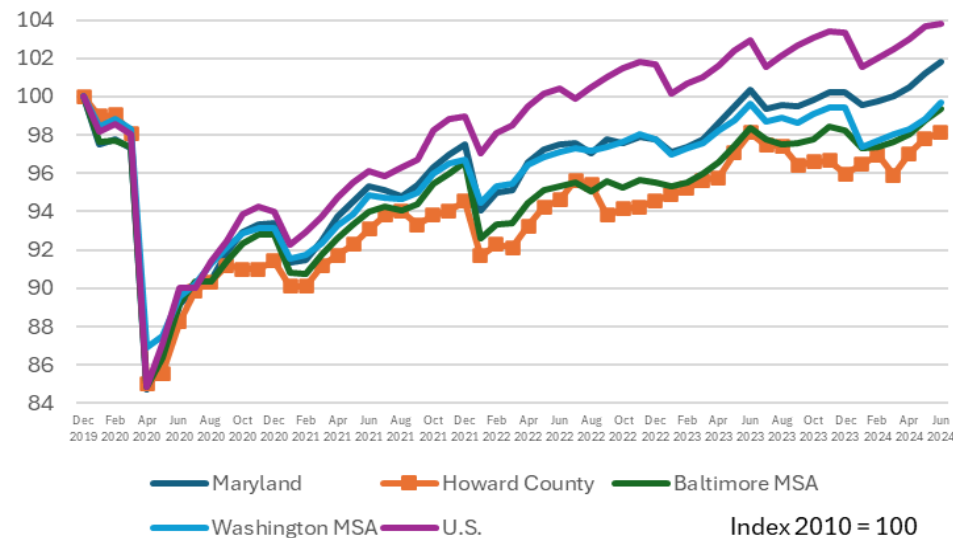
Exceptional Risks & Challenges in Developing FY26 Budget

The Good

- Educated workforce
- High median income (\$145K)
- Strong property base for now thanks to triennial reassessment phase-in (lagging & smoothing)

The Bad (trends in recent years)

- Population growth only 0.8%; aging
- New houses growth <0.7%
- Home sales down 2+ years
- Out-migration (Net loss of income)
- Employment still below pandemic level (see below)



The Ugly (new & evolving)

- State shift of costs to local
 - **\$8M+** shift per Governor's proposal alone; other proposals
- Federal impact (significant)
 - Mass reduction of workforce and contracts/spending
 - Other policy changes



Rising Risks Warrant A Matching Level of Budgetary Caution

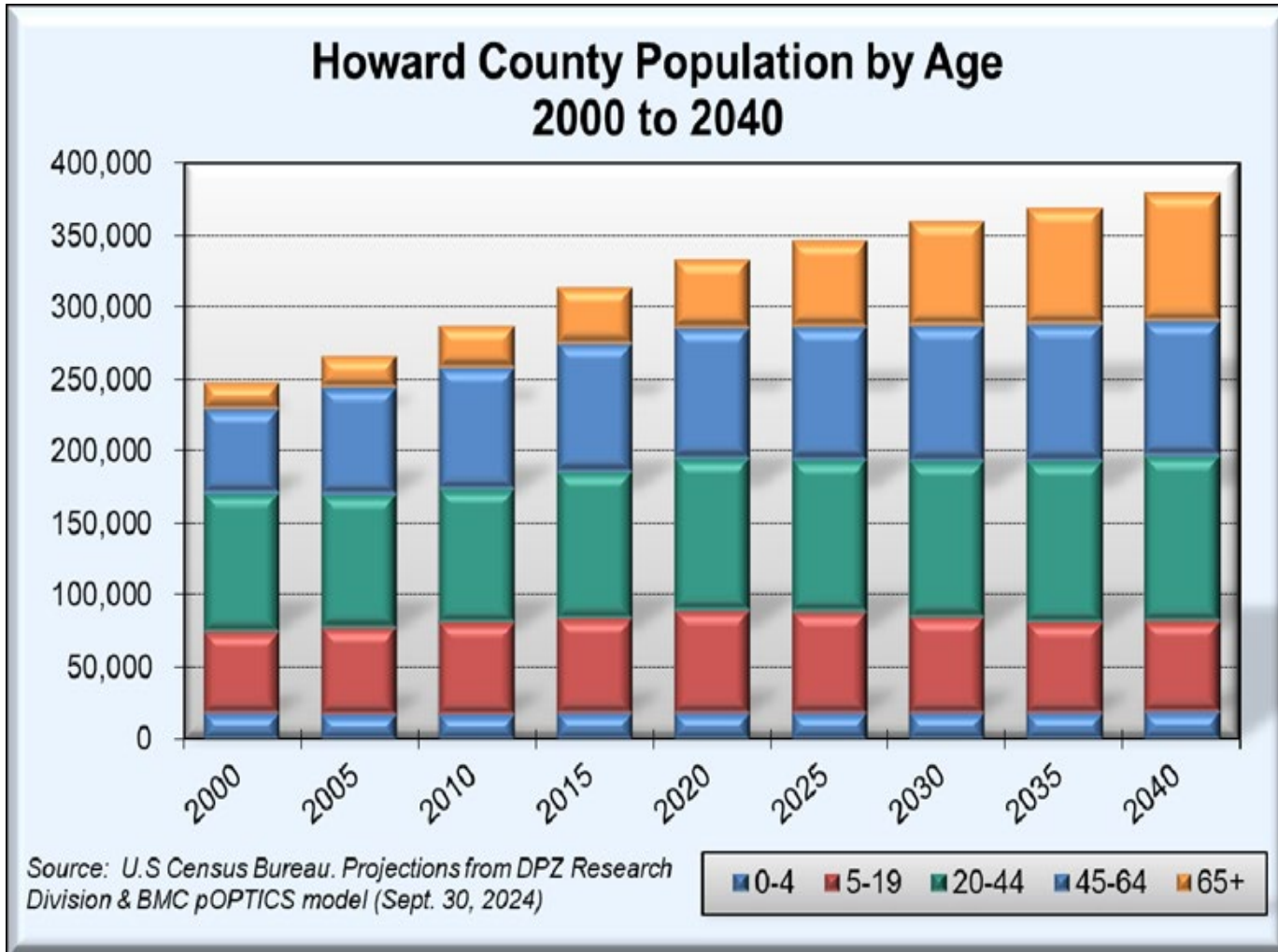
“The County is at the doorstep of facing an operating budget “double whammy” of lower income tax revenues and higher expenses, as a result of external federal and state developments wholly outside its control.” – FY26 SAAC Report

Committee suggest extra caution with a few key recommendations:

- FY26 Revenue Growth of 4% (\$58M)
 - Assess Federal and State potential actions' impact
- FY26 New GO Bonds Ceiling of \$25M
 - Pause non-essential new projects until dusts settle, esp. given that any new or expansion of projects will incur long-term obligations (debt) as well as future operating cost to staff, operate and maintain such facilities
 - Protect the County's AAA rating and long-term financial sustainability
- FY27 – FY31 Revenue Growth Projected at 3.6% per Year on Average



Demographic Trends Provide Opportunity to Re-examine/Resize Budget



Demographic trends

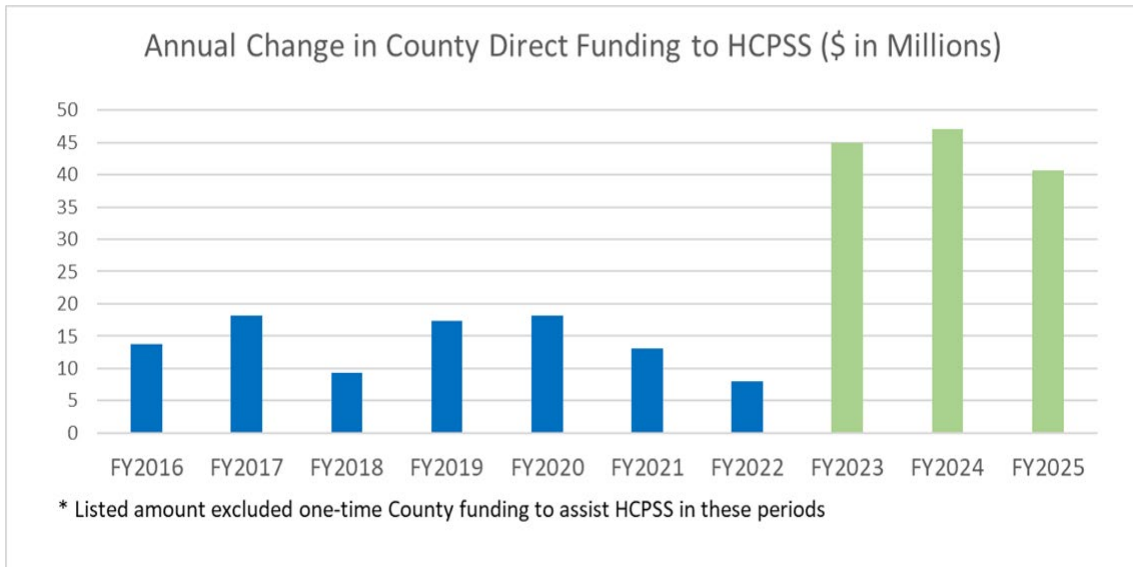
- Rapid growth of the 65+ group
- Continued decrease of the <19 group (in line with HCPSS projected flat to decrease of student enrollment in next decade)

These trends suggest:

- Rising needs for the seniors
- Likely slowdown of income (taxes)
- Opportunities to reexamine and realign resources for HCPSS, including new capital projects



Enrollment Trends Provide Opportunity to Reexamine Options to Deliver Results Based on Economic Reality



- Significant HCPSS spending increases in recent years are unsustainable, especially given the huge funding challenges/risks currently
- Student enrollment has dropped and remains about 1,500 lower than pre-pandemic level (2019); HCPSS now has more seats available than students enrolled.

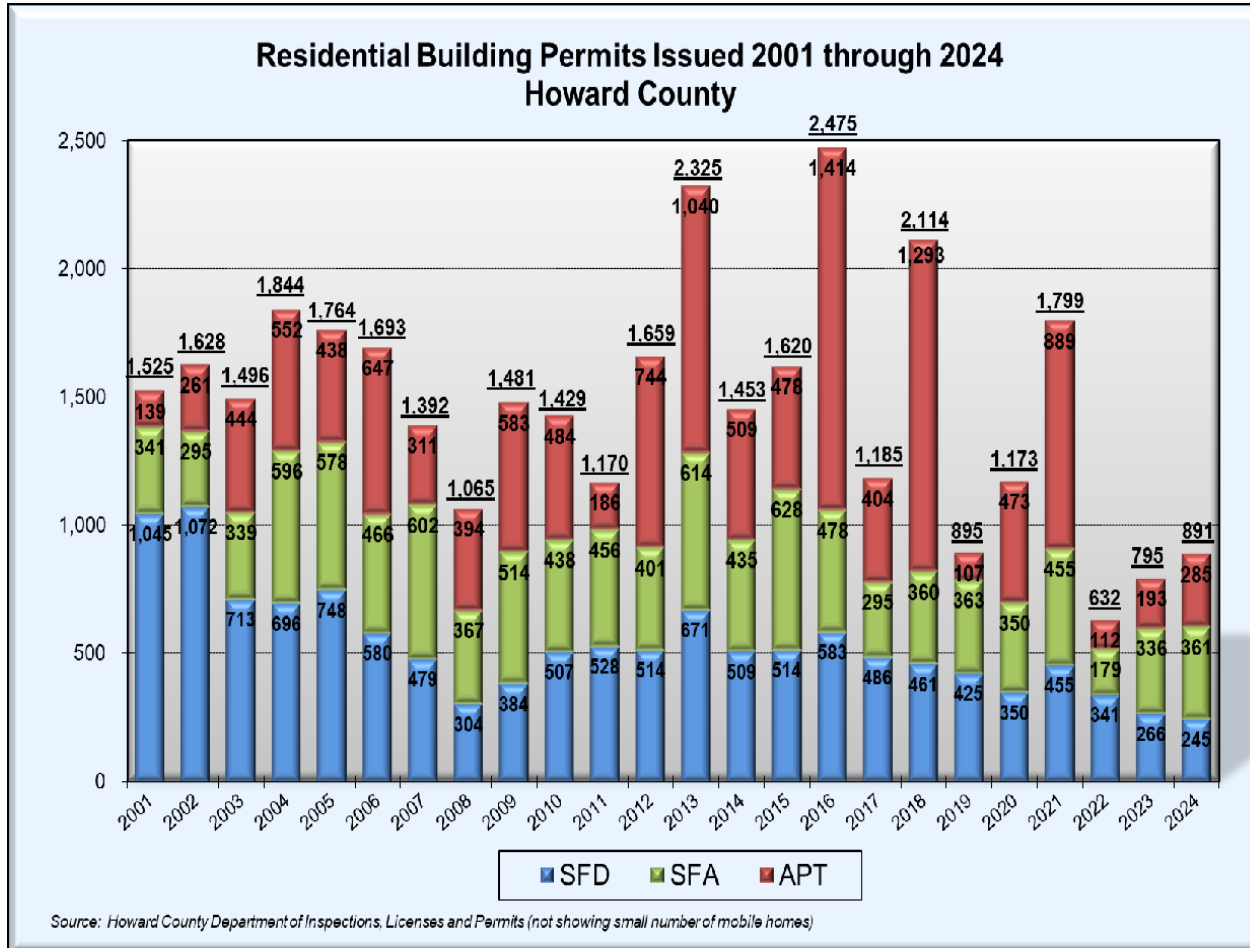
	Student Enrollment	County Funding to HCPSS (\$ in millions)	Per Student County Funding	HCPSS General Fund Total (\$ in millions)	Per Student GF Funding
2020 (Pre-pandemic)	57,907	\$ 607.2	\$ 10,486	\$ 887.7	\$ 15,330
2025	57,566	\$ 761.0	\$ 13,220	\$ 1,142.9	\$ 19,853
2020- 2025# change	(341)	\$ 153.8	\$ 2,734	\$ 255.2	\$ 4,524
2020- 2025 %change	-0.6%	25.3%	26.1%	28.7%	29.5%

Implication - HCPSS

- Realistic fiscal planning
- Explore options to reallocate existing capacity and maximizing efficiency to minimize new permanent structure and free up spending on deferred maintenance



Promoting Development is Key to Long-Term Sustainability



Residential new construction and permits in recent years have dropped to the lowest level in last two decades, due to:

- lack of developable land, market, and regulatory constraints.

Implication

- A slowdown of future revenues directly tied to development (property taxes, income taxes, transfer and recordation taxes, school surcharges etc.), which need to be sustained to fund operating & infrastructure needs



Promoting Development is Key to Long-Term Sustainability (continued)

- Promoting future development through a successful implementation of HoCo By Design will be the key to mitigate or reverse the structural decline in revenue:
 - major higher-density re-zoning in targeted areas
 - easing of the development regulatory environment in order to deliver more homes more quickly
 - policies needed to incentivize the delivery of new housing that will appeal to the working-age professionals so necessary to a thriving community
- Pathways to homeownership will enable the County to build upon its successful history of attracting highly educated young professionals, who will form the next wave of Howard County leadership



Other Recommendations

- Assess the Ellicott City Safe and Sound project (>\$277M as of FY25):
 - Need a complete and transparent assessment of cost and funding options
- Limit Pay-As-You-Go (PAYGO) outlays to
 - Essential/critical (i.e., “must-have” projects), and not to any new “nice-to-have” projects.
 - Reducing debt financing, and not to add projects with future obligations
- Prioritize maintenance of the County’s AAA ratings
- Assess the potential impact of the State’s actions or economic situation:
 - Blueprint and proposed state shifting of pension obligations etc.; forecasted continuation of State out-migration; and risks on the State’ credit rating (negative outlook)
- Complete a review of underutilized County and HCPSS brick-and-mortar assets, with an eye to repurposing, consolidation, or divestiture.



Appendix



County Net Out-Migration with Net Income Loss

Migration Has Turned Negative

2010-19 – Gained 21,350 Residents from Migration

2020-23 – Net Out Migration AND Net Income Loss

Gaining From Maryland and High-Cost States

In Maryland In-Migration from Montgomery and Prince George’s Counties and Baltimore City

Outmigration to Anne Arundel, Carroll and Frederick

Losing to DE, FL, Southern States, and VA

Table 3: Howard County Migration Trends

Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total In-Migration (Returns)	11,075	15,413	12,106	11,416	12,051	12,280	11,445
In-State	7,067	9,696	7,606	7,203	7,521	7,677	7,086
Other State and Foreign	4,008	5,717	4,500	4,213	4,530	4,603	4,359
Average Income	\$85,610	\$79,296	\$75,065	\$80,321	\$85,625	\$84,477	\$93,315
Total Out-Migration (Returns)	10,966	15,131	11,536	11,545	12,222	12,365	12,760
In-State	6,346	8,796	6,862	6,846	7,176	7,368	7,189
Other State and Foreign	4,620	6,335	4,674	4,699	5,046	4,997	5,571
Average Income	\$83,524	\$90,564	\$82,615	\$90,778	\$93,684	\$97,657	\$115,905
Net In-Migration	109	282	570	(129)	(171)	(85)	(1,315)
In-State	721	900	744	357	345	309	(103)
Other State and Foreign	(612)	(618)	(174)	(486)	(516)	(394)	(1,212)
Income Difference	\$2,086	(\$11,268)	(\$7,550)	(\$10,457)	(\$8,059)	(\$13,180)	(\$22,590)

Source: IRS



FY 2026: Requests Exceed Projected Resources Growth Significantly

Operating Budget FY26 Gap: **\$79M**

- FY26 expenditure requests exceeded projected revenues by \$79 million.
- HCPSS (Superintendent's Proposal) alone asks for \$67 million growth in recurring county funding, higher than 100% of projected total revenue growth of the County.

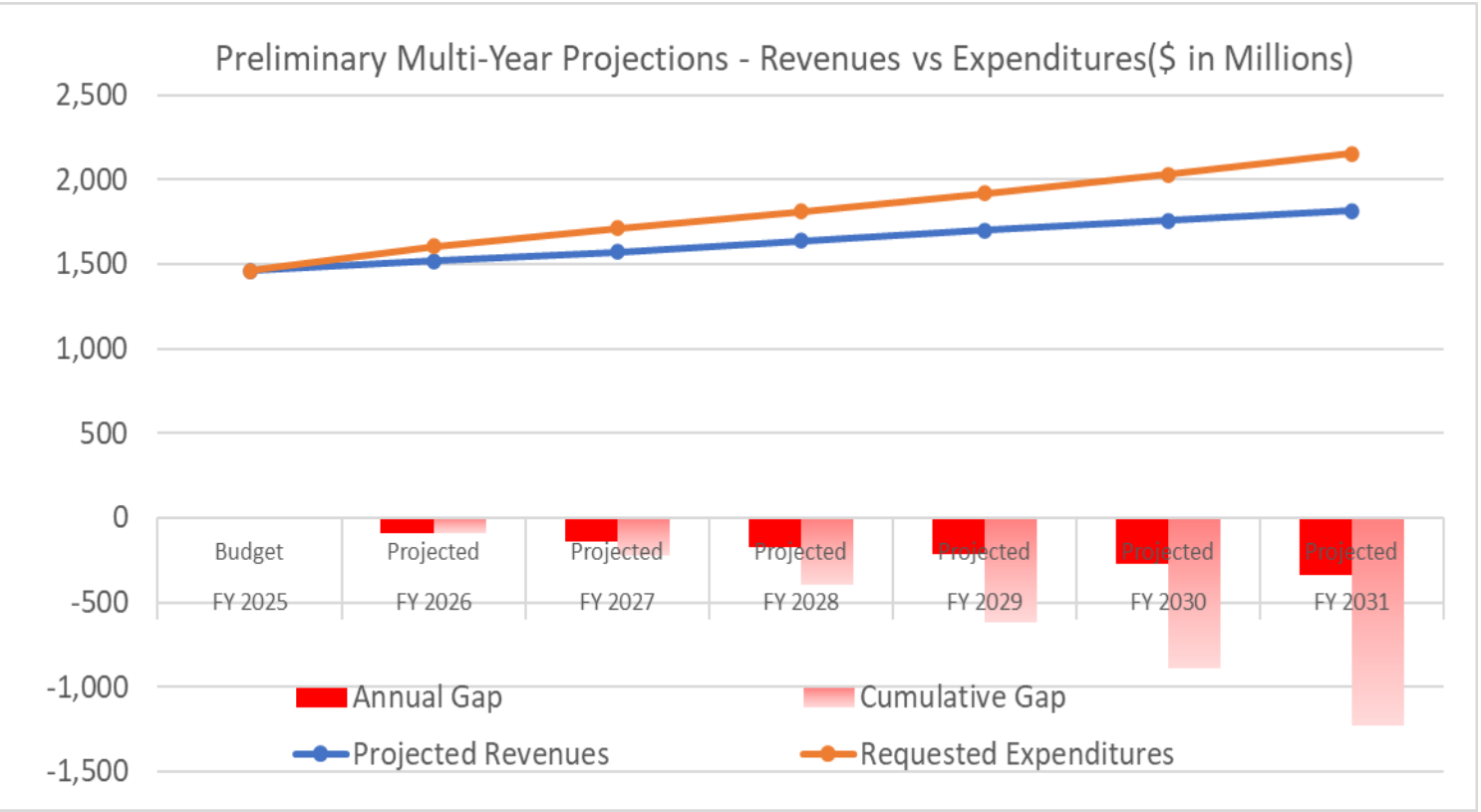
Note: HCPSS Proposal shown in SAAC report did not reflect latest BOE actions – BOE approved request as of 3/4/2025 added another \$44 million on top of Superintendent's Proposal, which brought total BOE requested recurring local funding growth to \$107M (plus \$3.6 M one-time funding request).

Capital Budget FY26-31 Gap: **\$55-\$60M** per year on average

\$ in Millions	FY 2026
Revenues - Projected Growth	58.4
Requested Expenditure (County Funding) Growth	
HCPSS Superintendent proposal	66.8
HCC + HCLS	4.5
Debt Services (non-discretionary) + OPEB (retirement health benefit)	8.0
All Other Agencies (including funding to non-profits etc.)	58.0
NEW - state proposed cost shift & legislative changes (Inspector General etc.)	9.0
NEW - potential cost shift or new/emergency service needed related to Fed. actions	TBD
Expenditures - Requested Growth*	137.3
Gap*	(78.9)

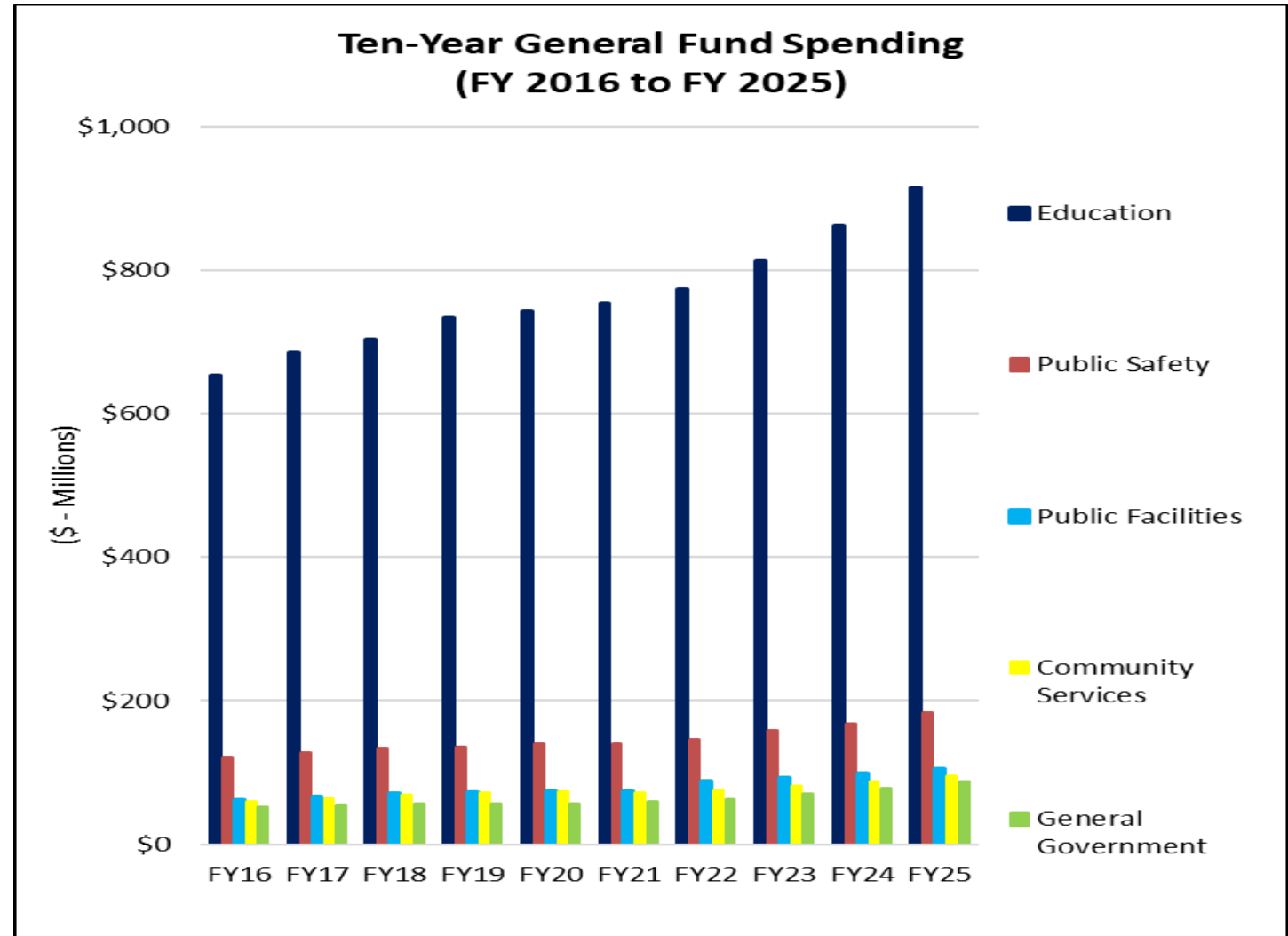
Multi-Year Model: Requests Exceed Projected Resources Growth Significantly

Operating Budget Multi-Year Projected Gap: **\$88 million to \$338 million** per year during FY 2026-2031 (Absent Action)



Operating Budget Structure

- County funding to education (HCPSS, HCC and HCLS) constitutes about 2/3 of the total General Fund budget and is five times public safety funding
- County funding support includes direct appropriation and also annual expenditure on *retiree health benefit & debt financing of infrastructure projects* for education entities

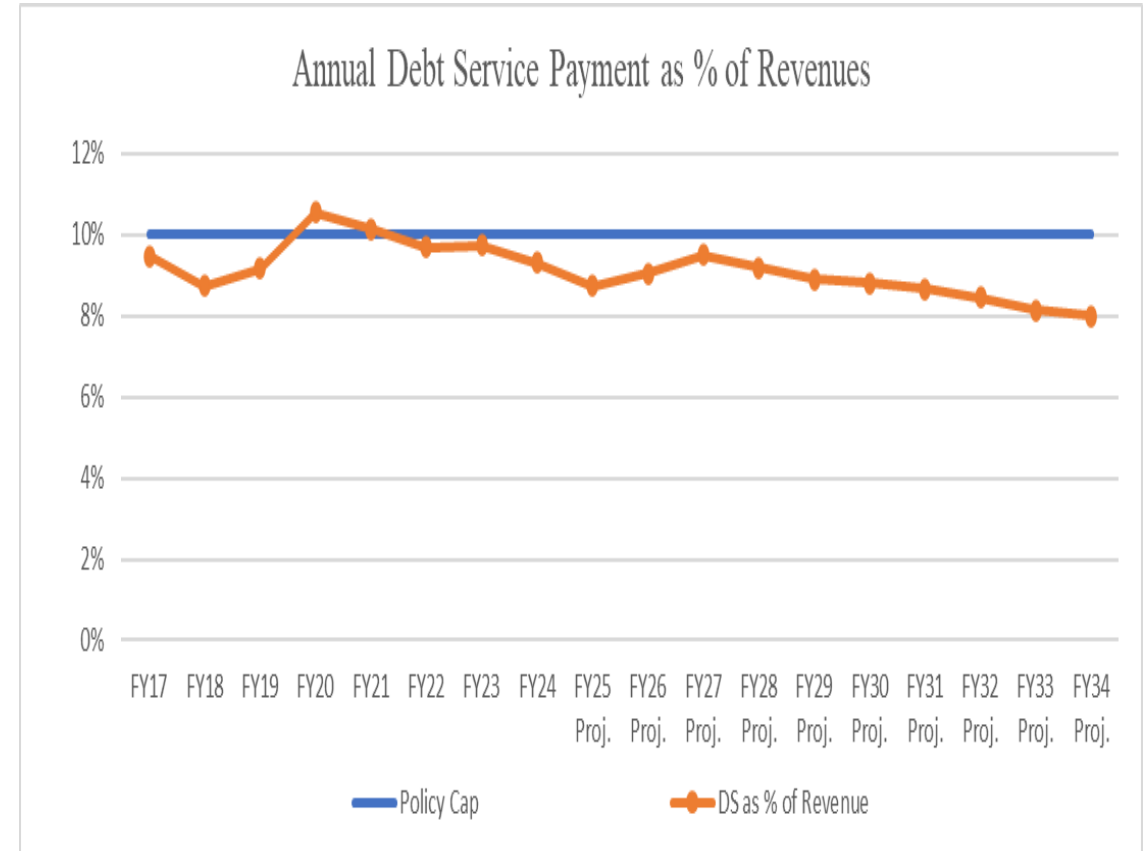


CIP Debt Control Needed

Debt service payment as a % of County revenues exceeded policy ceiling of 10% in FY 2020 and FY 2021. This debt burden indicator has shown improvement in recent years but remains close to policy ceiling.

According to County Financial Advisor, County debt burden is above peer AAA rated jurisdictions

A higher ratio of budget spent on debt service payments = less funding available to support all other service needs in operating budget



Long-Term Development Trend

- Less development with county approaching build out and lack of developable land (6.6% left)
- Transition from SFD to SFA and multifamily dwellings

