

**SPENDING AFFORDABILITY
ADVISORY COMMITTEE
REPORT**

FISCAL YEAR 2026

**Spending Affordability
Advisory Committee**

Committee Chair

Holly Sun, Ph.D., Budget Administrator

Committee Members

Todd Arterburn (Committee Vice Chair)*

Angela Brade, Howard County Library System

Richard Clinch, Ph.D.*

Ellen Flynn Giles*

Barbara Glenn, Ph.D., Howard County Farm Bureau*

Brian Hull, Howard County Public School System

Steve Hunt*

Daraius Irani, Ph.D.*

Jimmie Jennings, Howard County Association of Realtors*

Barbara K. Lawson*

Shawn MacInnes, Columbia Association*

Meg Ricks, Howard County Board of Education

Kristi Simon, Howard County Chamber*

Tyria Stone, Ph.D., Howard Community College

Joshua Tzucker*

**Voting members*

Advisors (Government Officials)

Angela Cabellon, Chief of Staff

Raul Delerme, Deputy Chief Administrative Officer

Brandee Ganz, Chief Administrative Officer

Lisa Geerman, Acting County Auditor

Rafiu Ighile, Director, Department of Finance

Jennifer Jones, CEO, Economic Development Authority

**Howard County Maryland
Spending Affordability
Advisory Committee
Report for Fiscal Year 2026**

March 1, 2025

Purpose

County Executive Calvin B. Ball, Ed. D., renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in December 2024. The County Executive’s charge to the committee was to:

1. Review in detail the status and projections of revenues and expenditures for the County, not only for fiscal year 2026, but also for fiscal years 2027-2031.
2. Evaluate future County revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data that the Committee considers applicable.
3. Evaluate expenditure levels with consideration of the long-term obligations facing the County, and the best way to pay for them.

The committee shall present to the County Executive on or before March 1, 2025, a report including:

- a. Projected General Fund revenues for the upcoming fiscal year;
- b. Recommended new County debt (General Obligation bonds) authorization;
- c. An analysis of the long-term fiscal outlook including multi-year projections; and
- d. Other findings and/or recommendations that the Committee deems appropriate

EXECUTIVE SUMMARY

Howard County continues to experience a level of prosperity that few communities in the country enjoy, but there are underlying risks that threaten its financial well-being going forward. These exceptional risks, both external and internal, pose challenges to the county's revenues. The Committee recommends that these risks warrant adopting a matching level of budgetary caution. Fiscal Year 2026 annual spending growth should be limited, therefore, to \$58.4 million (4.0%), which will result in a budget of \$1.51 billion for FY26. Mid-range revenue growth projections should be forecasted at 3.6% annually on average during FY 2027-2031. Finally, capital project outlays for FY2026 should be limited to \$25.0 million in new General Obligation (GO) bonds given the unprecedented level of uncertainty at all levels of government (local, State, and federal) and a national and state economy that could easily tip into recession. As the many economic variables settle over the next year and numerous issues begin to clarify, the County will be better positioned for additional capital investments in future years. Our guiding principles should be, "What do we have? What do we need? And for how long do we need it?"

Elevated risk levels notwithstanding, Howard County continues to enjoy the highest median family income in the state and tenth highest in the nation, at approximately \$145,000 per household. As a result, Howard County is able to look forward to revenue and budget increases while others face decreases. Approximately 45% of total County's General Fund operating revenues are from income taxes. The County is, however, heavily dependent on direct federal employment (nearly 11% of our workforce) as well as both direct (in-County) and indirect (commuting) employment via contracting and consulting. Proposed actions in Washington to reduce federal spending and employment, the full extent of which cannot yet be reliably forecast, will potentially have an outsized impact on Howard County's employment and revenue picture. The Committee also notes that severe budget pressures in Annapolis are producing various proposals to pass down State of Maryland expenses to the local subdivisions – Howard County included – as well as income tax and estate tax proposals that may affect many higher earners who currently reside in Howard County. An ever more muscular state-tax regime on these high earning residents has the potential to exacerbate continued State-level out-migration of educated high income residents, with resulting impacts on County population and a potential significant loss in County tax revenues. 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. Property taxes, at 47% of County revenues, will buoy the total revenue picture for the next several years, as any major increases in assessments work their way through the 3-year cycle, and the 5% cap on any taxable base increases for owner-occupied properties eventually catches up with assessments. A simple pictorial summary of the ins-and-outs of the county budget is included at the end of the executive summary.

At the local level, Howard County faces both opportunities and risks. In the past year, the County adopted a new 20-year master plan – HoCo By Design – a visionary look at how the county can grow for the next two decades. If successfully implemented, this aspirational plan will increase population and revenues that could power the County forward for another generation. The County's housing stock (and by extension, population) has stalled at a growth rate of less than 1% per year for the past five years, a result of a nearly exhausted amount of openly developable land, and housing policies limiting new housing construction. HoCo By Design anticipates addressing this stasis by focusing on major higher-density re-zoning in

targeted areas, an easing of the development regulatory environment that will deliver more homes more quickly, and the development of governmental 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. The realization of this plan will require bold and substantial legislative and executive commitment, with the County's future budgetary situation very much in the balance. Failure to execute the plan will bring the potential for stagnation and a reduction in County services, since we cannot deliver this year's level of services with next year's revenues unless we grow the tax base.

The Howard County Public School System (HCPSS) continues to enjoy a well-earned reputation for producing outstanding graduates, which has been a key County strength and has driven population growth for nearly a half century. However, a combination of the unexpectedly slow County population growth in the past 6-8 years, a national and global trend toward lower birth rates, and a migration to private and home-school education driven by Covid and personal choice (HCPSS now enrolls about 92% of eligible County students, down from 96%), has resulted in an enrollment decline of 1,500 (K-12) students to about 56,000 students since the 2019-20 peak. Enrollment is projected to remain steady (at best) for the next 10 years or more. These trends have led to a healthier capacity situation where, after decades of systemic overcrowding, the system as a whole now has more seats available than students enrolled. HCPSS now has the opportunity to consider ways to reallocate the existing capacity, such as through a system-wide redistricting that can more effectively utilize its underenrolled schools, along with a highly-targeted expansion of seats (including leveraging cost-effective mobile classrooms as needed) where crowding is most acute and redistricting can't properly remedy the situation. This should have the impact of reducing the pressure on the County for major capital spending and long-term debt commitment on new schools, and free up some capital spending for major accumulated deferred maintenance on schools (e.g. roofs, HVAC replacements, windows) and aging public infrastructure, which together total several hundred million dollars.

Despite the decline in enrollment, the HCPSS operating budget has increased by approximately 30% over the past five years, and HCPSS (the Superintendent's proposed budget, which is still under review by Board of Education) has requested an increase of nearly 9% in recurring County funding for FY 2026. Public education (K-12) spending now accounts for 56% of the County's annual budget. The projected flat enrollment for the next decade, along with the potential loosening of the State's Blueprint spending targets given statewide revenue shortfalls, provides the opportunity to "right-size" the HCPSS operating budget as well. This current spending trend, of around 6% annual increases on average over the past five years, is unsustainable. Over time, HCPSS spending per pupil cannot exceed the earnings growth of County residents without squeezing out other needed spending in a full-service County.

This is becoming even more important in a County where birthrates and projected school enrollment is down, only 30% of households currently have children in the public schools, and where nearly all of the County's projected forward-looking growth is now expected in the 60+ age group. As this trend continues, the pressure to spend on that growing demographic will increase significantly. This will need to be balanced with an eye on the reality of retired (or nearly retired) fixed-income residents paying much less in taxes than working-age residents, and

the imperative to keep Howard County attractive and affordable for young professionals and families.

The Committee wishes to point out several other areas of key importance and provides these recommendations:

a) The Ellicott City Safe and Sound project has grown into a \$277 million project and is likely to require additional increases, warranting a complete and transparent assessment of the likely cost-to-complete and a review of financing options for inclusion in debt service.

b) Limit Pay-As-You-Go (PAYGO) outlays to essential/critical (i.e., “must-have” projects), and not to any new “nice-to-have” projects.

c) Authorize a thorough assessment of how potential State actions on issues like Blueprint and the shifting of pension obligations will impact the County budget.

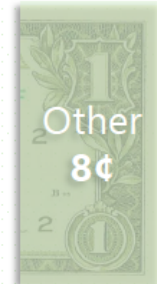
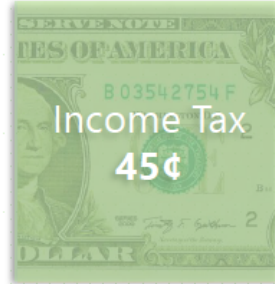
d) Examine how the forecasted State out-migration will impact a small county like Howard.

e) Assess how a potential downgrade of the State’s bond rating, currently on credit watch, could roll down and impact Howard County, and prioritize maintenance of the County’s AAA credit ratings.

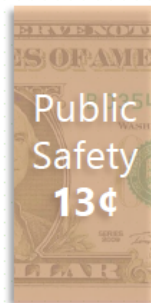
f) Complete a review of underutilized County and HCPSS brick-and-mortar assets, with an eye to repurposing, consolidation, or divestiture.

The Committee wishes to thank the County Council, County Executive, HCPSS and staff, all of whom have made the preparation of this report possible.

Howard County
General Fund Revenue & Expenses
FY 2025



\$1.5 billion
General Fund
Revenue



\$909 Million

\$183 Million

\$200 Million

\$169 Million

KEY RECOMMENDATIONS

The Spending Affordability Advisory Committee (“Committee”) is tasked with making recommendations to the County Executive on revenue projections, General Obligation (“GO”) bond authorizations, long-term fiscal outlook, and other issues impacting the County’s fiscal health. The Committee met from January 2025 through late February 2025. During that time, the Committee was briefed by economists, financial experts, business representatives, multiple County agencies, and local educational institutions. These meetings helped the Committee develop a better understanding of the County’s economic outlook, revenue sources, debt level, demographic trends, and economic development, as well as long-term fiscal projections and various operating and capital needs.

The following recommendations of the Committee reflect our collective input and desire to assist the County in making the decisions which will address community priorities while staying within our means and ensuring the County’s long-term sustainability.

1. Projection for General Fund Revenues in the Upcoming Fiscal Year (FY 2026)

The Committee recommends developing a General Fund budget of no more than \$1.519 billion (reflecting 4% growth, excluding use of Fund Balance) for FY 2026.

The County is required by law to adopt a balanced budget. Facing emerging risks from the federal government, including likely workforce and funding reductions, the Committee voted to be cautious given these uncertainties and keep spending growth in FY 2026 at no more than 4%. This projected 4% growth represents a slowdown from the strong performance in the early Covid-period that was driven by temporary factors, but largely comparable with prior year budget growth (excluding tax rate shift and fee adjustment) and slightly higher than pre-Covid average budget growth of 3.6~3.7% per year.

Howard County’s economy and income is heavily dependent on direct and indirect professional federal employment. Like many other jurisdictions in the DC metropolitan area, Howard County has a disproportionately high exposure to risks posed by the evolving federal actions. Based on Census 2023 data, around 10.8% of employed County residents are federal employees. In addition, many people work in private companies, nonprofits, and government entities that receive either federal contracts or federal grants. As a result, income taxes could suffer a sizable impact from any large-scale workforce and funding reduction at the federal level, although the magnitude cannot be reliably quantified. Moreover, potential job and wage loss coupled with already high and increasing living expenses can have a broad economic impact and affect other revenues, too, such as transfer and recordation taxes, and hotel/motel taxes, etc.

Chart 1. County Employment Exposure to Federal Spending

Howard County's Reliance on Federal Spending	
Item	Number
<u>Federal Employment 2023 - By Place of Work</u>	
Federal Jobs (# of Jobs)	3,176
Federal Jobs (% of Employment)	1.8%
<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	

On the positive side, property tax will likely remain strong at projected 4.4% growth in FY 2026. Property tax is the largest annual revenue source for the County’s General Fund. The combination of property (47%) and personal income (45%) taxes makes up approximately 92% of total General Fund revenues in the current FY 2025 budget. The remaining 8% is generated from construction permits, licenses, and fees, etc. In accordance with the latest MD State Department of Assessment and Taxation data, reassessment growth will likely remain strong in the foreseeable future due to the lagging and smoothing impact of Maryland’s triennial assessment model. Net revenue gain, however, will be mitigated by an increase in forgone revenues from the Homestead Tax Credit, which caps the annual growth of the taxable base for County property taxes at 5% for owner-occupied property, and other applicable tax credits and rebates. For example, more credit will be given through the Aging in Place Credit based on CB52-2022, which provided easier eligibility criteria, an increased credit term, and a higher credit ceiling.

While growth in residential property assessment remains strong for now, uncertainties exist regarding the future housing market, which may be impacted by continuing high mortgage rates, housing affordability, and any potential economic shocks. There are also concerns around both the weakening of the personal property tax base and that of commercial real properties as office building space leases expire. In addition, due to market conditions and regulatory constraints, new building permits issued in the past three years represent the lowest level in the last 20 years. This indicates a slowdown of new construction in coming years that also may mitigate total assessment base growth.

Income tax revenue is the second largest source of the General Fund revenue. During and post Covid, this revenue source has experienced unusually high volatility with actual annual growth ranging between -6% (FY24) to 10.6% (FY21). The significant drop in FY 2024 is due to rightsizing of the base and lagged reconciliation from the unusually high funding distribution in recent years driven by temporary factors including federal stimulus, capital gains and inflation. The County’s personal income base appears solid and is projected to maintain over 4% growth in the next few years, absent new federal and State actions or policies. However, the evolving and

potentially large-scale reduction of the workforce and contracts at the federal level casts a shadow on the income tax outlook with a potentially significant negative impact in the foreseeable future.

The Committee recommends that the County exercise extra caution in budgeting amid elevated financial uncertainties and limit the addition of any new recurring expenditures.

New recurring expenditures, once initiated, remain in the County’s base. This adds to the County’s funding challenges in future years. Expenditure growth requests continue to be more than double the projected revenue growth for FY 2026. As a result, the County faces a potential fiscal gap of nearly \$79 million between projected revenue growth and requested spending increases, before accounting for potential new spending needs to either bridge the gap for possible federal grant cuts or any potential General Assembly policy changes. Expenditure requests from all parties must be reduced significantly to align with projected revenues. County government should continue to engage in candid dialogue with all its stakeholders to manage expectations and prioritize needs over wants. It should urge all entities to develop plans based on fiscal realities and prudent action.

Chart 2. FY 2026 General Fund Projected Revenue Growth vs Requested Funding Growth

\$ 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)

2. Recommended New County Debt (General Obligation “GO” Bonds) Authorization

The Committee recommends that new authorized GO bonds in FY 2026 total no more than \$25 million.

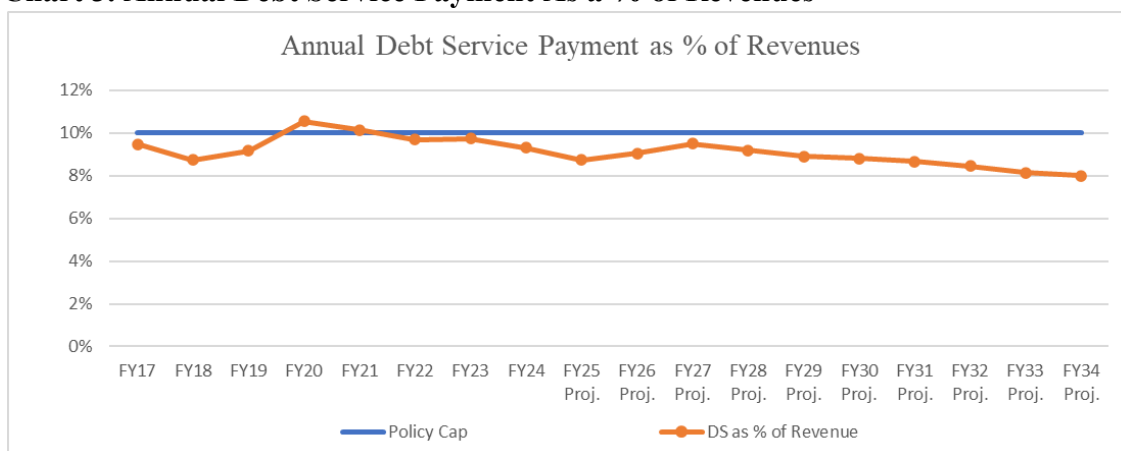
The Committee recommends that the County keep its new GO bond authorization to not more than \$25 million in FY 2026 until the uncertainties of federal and State actions and their potential sizable impact on the County’s affordability is determined. Last year, encouraged by the County’s improving debt indicators, the Committee increased the recommended new GO bond ceiling to \$70 million for FY 2025. The County’s approved FY 2025 Capital Investment Project (CIP) budget authorized \$89 million in GO bonds, the highest in the last five years, as well as the \$15 million Maryland Resiliency Loan for the Ellicott City Safe and Sound project, and \$111.7 million in Pay-As-You-Go (PAYGO) funding.

The Committee urges the County to maintain its fiscal discipline and debt management practices, given the County’s huge risk exposure to federal actions, for both revenue forecasts and expenditure requests. Uncertainties on revenue forecasts, as evidenced by the -6% drop in actual FY 2024 income tax revenues, could change projected debt indicators. In addition, local governments will likely be expected to act as an economic and social stabilizer for the community, which will demand resources to not only maintain existing services but also respond promptly to emerging needs and provide assistance to impacted residents, nonprofits, and businesses, which will further limit the capacity to support increased debt financing.

The Committee urges the County to tighten its debt controls and prioritize maintenance of its AAA ratings. A higher debt burden increases the County’s long-term liabilities and impacts future budgets. The County’s financial advisor noted that a drop in fund reserves and an increase in long-term liabilities are among the top risks for the County’s AAA credit ratings. According to this advisor, a number of the County’s key debt indicators, including debt service payments as a percentage of revenues, are already above State and peer medians for AAA-rated counties. This AAA credit rating not only lowers borrowing costs but also carries with it a clear indication of investors’ confidence in Howard County’s current financial well-being and its long-term economic and financial future. Some neighboring jurisdictions, including Maryland State and Prince George’s County, were recently put under a negative rating outlook.

The Committee acknowledges the overall improvement of the County's debt indicators in recent years, thanks to consistent debt control and the surprisingly robust performance of revenues during the Covid pandemic shutdown aftermath. Both the actual and projected debt service payments as a percentage of revenues have been now settled at a level just below the County’s policy ceiling of 10%. But the following challenges remain: (1) interest rates are still relatively high, which will make borrowing costly; (2) a growing share of the total funding designated to debt service payments would mean fewer resources available in the annual budget to support all other services.

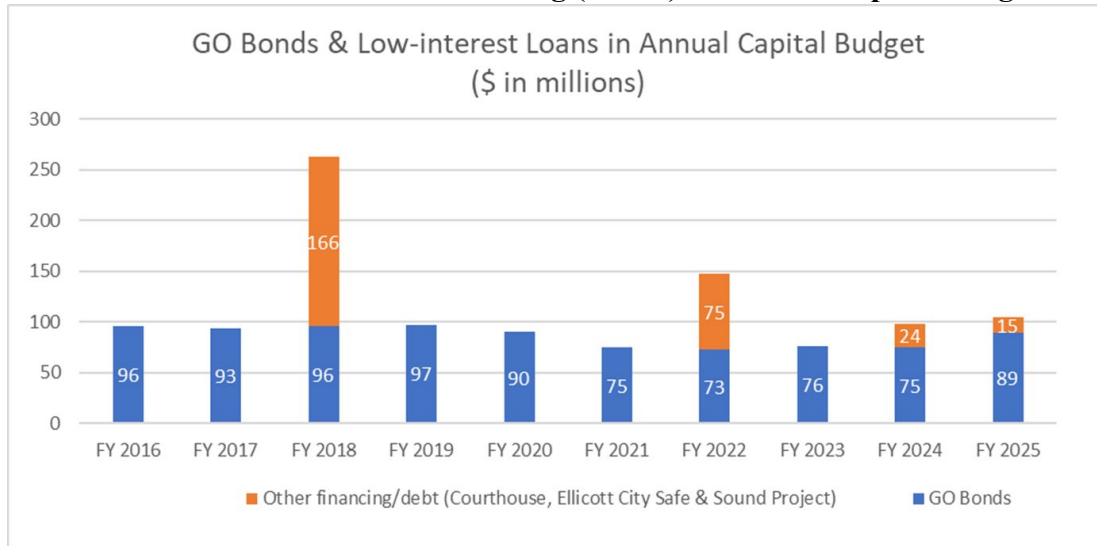
Chart 3. Annual Debt Service Payment As a % of Revenues



Source: Finance Department. The projection assumes a 4.5% interest rate and \$90 million new GO debt in the next 10 years plus \$75 million WIFIA loan in FY2026 and issuance of authorized but unissued bonds through FY2034.

The Committee notes that the County’s GO debt capacity has been constrained by other loans and financing sources in recent years, including various low-interest loans for the Ellicott City Safe and Sound project. These factors will continue to impact the available capacity for GO bond authorization.

Chart 4. GO Bonds and Other Financing (Loans) in Annual Capital Budget



The County’s Capital Budget must be kept in line with fiscal reality and debt capacity. The County must control its new debt issuance and keep capital-budget spending in line with available resources. According to the Budget Office, preliminary GO bond requests received from all agencies for FY 2026 total \$112 million, and requests for FY 2027-2031 average \$147 million per year. These GO debt requests far exceed the County’s historical and projected debt capacity, especially in these uncertain times. The County also faces additional funding constraints, as various designated CIP revenues (e.g., transfer tax) have experienced double-digit decreases recently and are expected to remain weak.

The Committee recommends that the County pause any new projects which are not mission-critical, prioritize infrastructure maintenance, and use PAYGO to reduce new debt rather than expanding CIP scope. The Committee recommends that in FY 2026 capital-project planning, priority be given to addressing critical and overdue maintenance and severe backlogs across the County. The Committee wants to reemphasize that each new project increases the ongoing operational burden to staff, maintain, and operate a new or expanded facility each year going forward. The County must take control of its overall debt burden as well as its commitment of the on-going annual operating funds required to support any new capital projects in order to avoid crowding out the capacity in its operating budget to support all other service priorities. These questions are essential to our planning process: “What do we have? What do we need? And for how long do we need it?”

3. Long-Term Fiscal Outlook, Including Multi-Year Projections

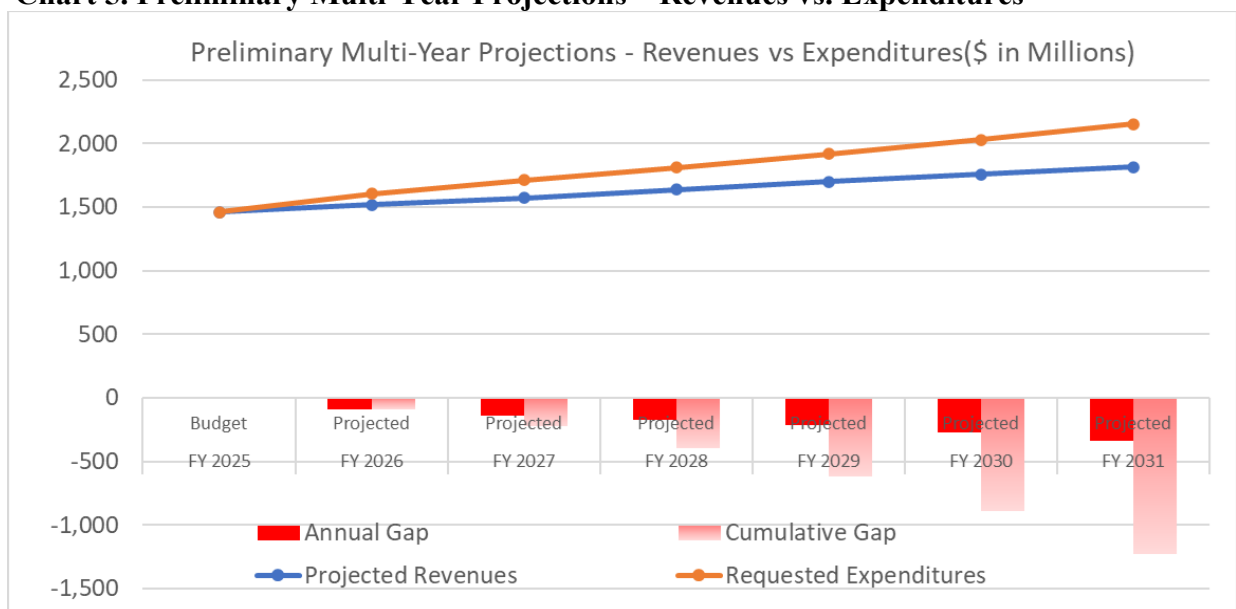
The Committee recommends adopting a revenue projection of 3.6% growth, on average, during FY 2027-2031.

A preliminary multi-year revenue and expenditure model developed by the Budget Office suggests that General Fund revenues will likely grow, on average, by 3.6% annually during FY 2027-2031. FY 2027 ~2029 growth is expected to maintain relatively robust growth at 3.6-4.0% largely due to the lagging and smoothing impact of Maryland’s triennial property tax assessment cycle. Future assessment growth is expected to slow down and gradually approach historical levels (which have averaged around 2% before the pandemic) unless the implementation of HoCo by Design adds significant new development to the base.

Future growth is contingent upon multiple variables, such as: federal and State policy changes, tariffs, inflation, mortgage rates, stock market performance, the potential impact of local regulatory changes, and long-term development and demographic trends (e.g., an aging population, a shift in office-space demand, and a residential development shift to multi-family units). This projection does not factor in potential economic shocks such as a recession or other risks.

The Committee recommends that the County collaborate with all stakeholders to close a sizable funding gap projected over the next six years. The latest multi-year economic model, based on input from all departments, agencies, and educational institutions, demonstrates that anticipated expenditure requests will continue to significantly exceed projected revenues. The annual deficit is projected to range between \$88 million and \$338 million, absent any gap-closing strategies. Without corrective action, the cumulative deficit could exceed \$1.2 billion by FY 2031.

Chart 5. Preliminary Multi-Year Projections – Revenues vs. Expenditures



Preliminary Multi-Year General Fund Projections Excluding One-Time (\$ in Millions)								
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	6-Year Growth
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	from FY25 Base
Projected Revenues	1,460.8	1,519.2	1,574.2	1,637.0	1,700.0	1,757.3	1,816.6	
Growth \$		58.4	55.0	62.8	63.1	57.3	59.3	355.9
Growth %		4.0%	3.6%	4.0%	3.9%	3.4%	3.4%	
Requested Expenditures	1,460.8	1,607.1	1,713.3	1,810.6	1,917.2	2,030.0	2,155.0	
Growth \$		146.3	106.2	97.3	106.6	112.8	125.0	694.2
Growth %		10.0%	6.6%	5.7%	5.9%	5.9%	6.2%	
Annual Gap		(87.9)	(139.1)	(173.6)	(217.2)	(272.7)	(338.4)	
Cumulative Gap		(87.9)	(227.0)	(400.7)	(617.9)	(890.6)	(1,229.0)	

The County is required by law to balance its annual budget and close any funding gaps. In the current environment, additional revenue options are limited given the already high tax burden in the County, as well as potential new needs related to the impact of federal workforce and funding reductions. Both the County and educational institutions have to focus on the prioritization of need and the development of sustainable long-term plans based on fiscal reality.

4. Other Findings and/or Recommendations that the Committee Deems Appropriate

4.0. Financial Big Picture

- **Use Extra Prudence in a Time of High Uncertainty and Exceptional Risks:** Howard County faces exceptional risks that will challenge its revenue situation in the next several years. With elevated risks including large-scale workforce and funding reductions at the federal level and a potentially sizable shift of costs and unfunded mandates from the State government, local governments should use increased prudence in fiscal planning. This includes: conservative forecasts; expenditure tightening; lowering new debt authorization; pausing of new programs and new projects in general; a focus on maintaining core services and responding to potential needs for assisting impacted residents, nonprofits, and businesses; keeping an adequate reserve against risks; and prioritizing efforts to maintain hard-earned AAA credit ratings from all three agencies. The County can navigate through these difficult times if it adheres to sound financial principles and exercises prudence.

The Committee also recommends monitoring federal and State actions and policy changes closely to assess potential impacts and make needed adjustments in both revenue and expenditure planning. Those external impacts might include multi-aspect actions and policy changes in the federal government (employment, contracts, and grants, etc.) as well as the potential shifting of State education pension obligations and other mandates (Blueprint, etc.) to local governments as indicated in the Governor’s proposed budget and a number of proposed new State laws and regulations.

- **Make It a Priority to Maintain the County’s AAA Rating:** In a time of uncertainty with disproportionately high risk exposure to federal actions, Howard County needs to manage the challenges while maintaining its AAA credit ratings. Maintaining these AAA ratings, which the County has been enjoying for decades, not only saves us money, but separates the County from many of its peers as it raises investors’ confidence in the

County's economic future. According to the County's financial advisors, maintaining adequate reserves and keeping its long-term liabilities - including debt - under control are among the top factors that credit rating agencies will assess and monitor.

4.1 Capital Budget

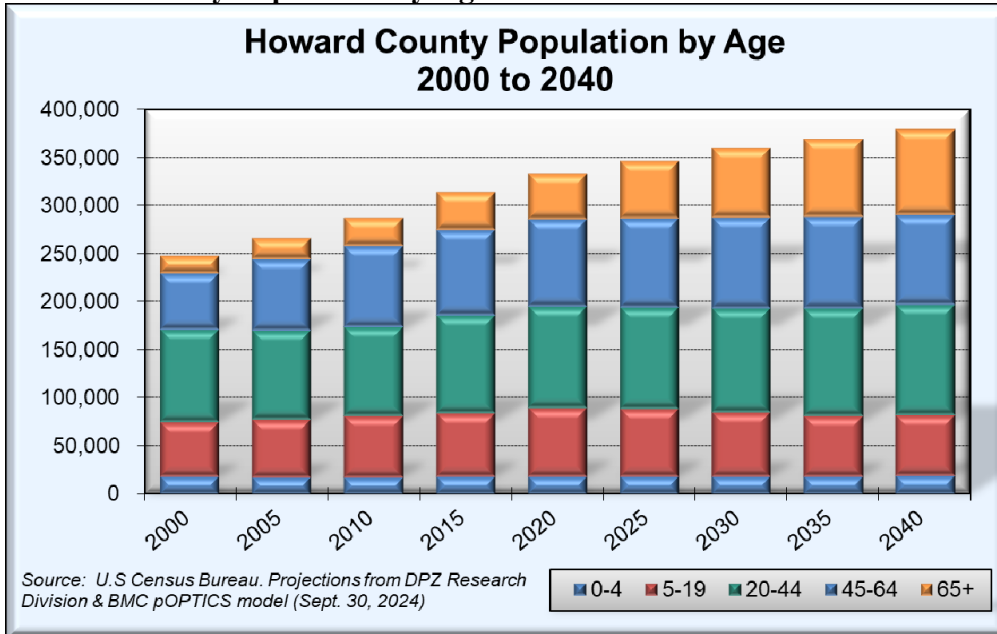
- **Pause All New Non-Critical Projects Until the Impact of Federal and State Actions Can be Assessed:** Given the exceptional risks from federal and State actions on the County's affordability and a significant gap between agency-submitted requests and funding realities, the Committee recommends a pause on any new projects that are not critical in nature, and focus on existing projects and address deferred maintenance. Each financed new project or expansion adds to required annual debt service payments for a 20-year obligation, and once completed, requires new annual operating funds for staffing, operations, and maintenance that impact future budgets.
- **Prioritize Annual CIP Budget to Address Maintenance Needs and Backlogs:** The community has significant maintenance needs ranging from road resurfacing and pond repairs to systemic renovations, repair and replacement of water and sewer systems, and the replacement of deteriorating old buildings that have exceeded their usable life (such as the Detention Center). These needs will only grow, as much of the existing infrastructure is now over 50 years old, and the longer the delay, the higher the cost, especially with continued inflation.
- **Use PAYGO Only for Reducing Debt, Not for Increasing Total Projects:** The County appropriated \$111.7 million CIP PAYGO in FY 2025 budget on top of GO bonds and other debt. Future appropriation of CIP PAYGO should be applied to reduce current capital debt, limit new GO bond authorization to mitigate the impact of debt service on the annual operating budget, or to address capital maintenance backlogs.
- **Maximize Efficiency/Effectiveness of Existing Resources:** Project managers are encouraged to explore opportunities for strategic use of limited funding to deliver results in a less costly manner. For example,
 - Both the County and educational entities can review the existing inventory and examine how these assets could be better utilized.
 - HCPSS is encouraged to reevaluate the request for additional school seats included in the current multi-year HCPSS CIP plan, given the flat enrollment projections for future years. Demographics indicate that individual school overcrowding will continue to be temporary and situational, and that the allocation of mobile classrooms remains a viable option.
 - Given the fact that HCPSS currently has more seats than total students, but faces overcrowding at some individual schools, the HCPSS and Board of Education should collaborate with communities to seek operational options, including redistricting, to minimize the costly investment in building new schools and additions that may not be needed in the future.

- **Properly Reflect and Manage the Ellicott City Safe and Sound Project Costs.** This project was initiated after two devastating flash floods in 2016 and 2018 to mitigate future risks or damages. It is a huge project with total project appropriation already exceeding \$277 million as of FY 2025. So far only one-fourth of the funding has come from federal or State grants, the balance is from the County, either through GO bonds, PAYGO, or low-interest federal or State loans. It is worth noting that while those loans enjoy slightly lower interest rates than GO bonds, they are not free; they also increase County debt, addition long-term obligations with direct impact on policy-limited debt service ratios. The Committee recommends caution in continuing such sizable investments, given various competing infrastructure priorities and a largely uncertain affordability outlook.

4.2. Operating Budget

- **Pause All Non-Critical New Programs Until the Impact of Federal and Actions Becomes Known:** This is not a good time to add new, recurring expenses. The FY 2026 budget should focus on maintaining existing core services that attract and retain residents and businesses. The Committee also wants to remind leaders of both the County and educational entities that funding any new positions or programs adds recurring costs to the base, obligating future budget resources, which may not be sustainable without significant revenue growth or tax increases.
- **Resize And Rebalance Allocations Based on Enrollment & Demographic Shifts:** Howard County is a full-service jurisdiction that needs to balance service needs across the community. Updated demographic data indicate that the 65+ group will remain the fastest growing category in both the near and long future, while the 5-19 group will show a slight decrease over the next two decades, which is consistent with the HCPSS projection of a roughly flat student enrollment growth in the next decade. The County needs to rebalance service needs based on shifted demographics featuring diversified demands and growing needs for the elderly.

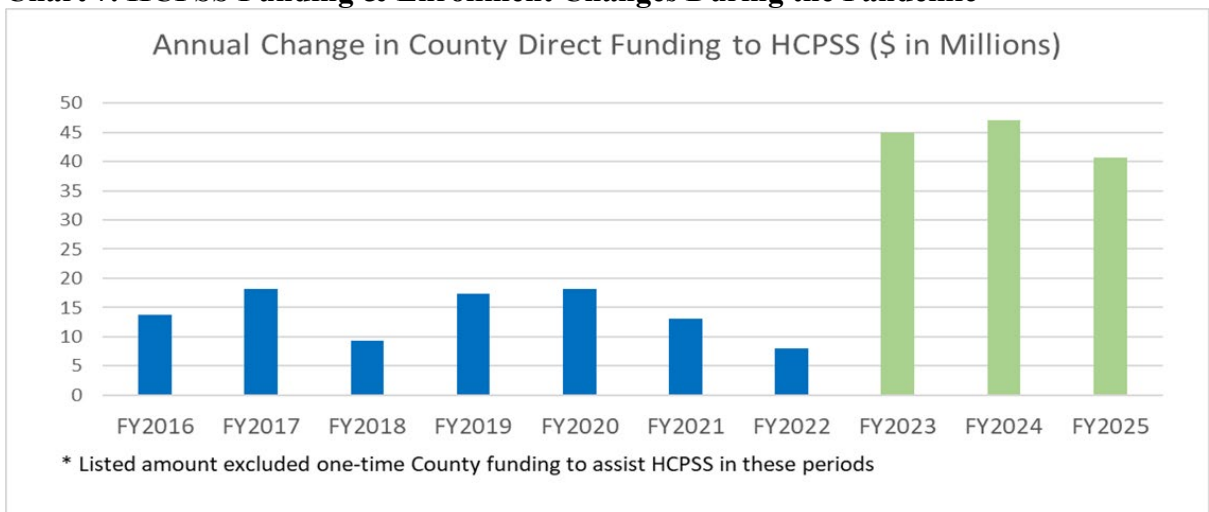
Chart 6. County Population by Age



Source: US Census Bureau, DPZ & BMC pOptics model

County funding to HCPSS has increased by 25% since SY 2019-20, despite a more than 2% decline in K-12 enrollment. Such a high growth rate is unsustainable, especially in the current fiscal landscape, and has yet to result in an accompanying growth in the achievement of key education-performance indicators of HCPSS. The Superintendent’s FY26 request of \$66.8 million new recurring county funding (8.8%) - exceeding 100% of total projected County revenue growth - is not affordable. School leaders are encouraged to develop a realistic budget, as do other government agencies, that still maintains core services.

Chart 7. HCPSS Funding & Enrollment Changes During the Pandemic



From Pre-Pandemic to FY2025 - HCPSS Enrollment and Budget Change					
	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%

- **Maintain Adequate Reserves Against Uncertainties:** Fund reserves are critical to providing the flexibility to handle economic shocks or natural disasters; they are also deemed one of the most important factors in credit rating assessment, according to the County’s financial advisor. The Committee encourages the County to limit the total amount of PAYGO used to ensure keeping an adequate reserve level against risks and helping preserve its AAA rating status. The County should also limit the use of one-time funding to one-time investments on mission-critical priorities, such as: providing assistance to address unforeseen impacts from federal actions, reducing long-term costs, or increasing the tax base.

4.2 Long-term Planning

- **Promoting Growth (Development) Is the Key:** The Committee recommends a full commitment to the implementation of the new approved 20-year master plan (HoCo By Design), to maximize economic growth. A successful implementation of HoCo By Design will be critical to reverse the existing trend, which features the lowest level of building permits for new constructions in the past two decades – likely resulting from the combination of nearly exhausted developable land, high and increasingly unaffordable housing prices, and regulatory policies limiting development. Once fully implemented, new developments - including redevelopment - are expected to create new opportunities to attract and retain residents and businesses, which could further sustain income taxes, property taxes, transfer and recordation taxes, school surcharges, and other County revenues directly related to development growth and population growth of the County.
- **Retain and Attract Businesses:** The County must also continue to provide needed assistance to local businesses and work to improve the County’s business environment, exploring options to improve the County’s regional competitiveness in attracting and retaining businesses. Economists and the Howard County Economic Development Authority (HCEDA) indicated that increases in the commercial base typically generate promising net fiscal benefits. Boosting growth in commercial base development is one of the most effective strategies to address increased expenditure needs in the future.
- **Develop A Balanced Multi-Year Fiscal Plan Without a Deficit:** In recent years, the County has developed multi-year projections for both revenues and expenditures, incorporating input from County agencies and educational institutions. This is a sound practice. However, these projections continue to reveal an increasingly large and significant gap between projected revenues and requested funding – between \$88 million and \$338 million per year over the next six years. The Committee recommends that the County work with all stakeholders to jointly develop a “HoCo Dollars & Sense” multi-

year plan, to close projected gaps and match spending with available resources. All parties, including County agencies and educational institutions, should be required to submit a balanced same-service base scenario utilizing projected resources available. This requires dialogue with all stakeholders, including educational entities, to prioritize collectively and to understand the implications and the trade-offs based on fiscal reality. It also requires connecting the operating budget, the capital budget, the general plan, and existing and planned legislative changes with consideration of the long-term fiscal impact. This exercise is essential to moving towards a sustainable and predictable long-term plan.

4.3 Other

- **Standing Committee:** The Committee would like to thank all of the speakers for their contributions to the briefings delivered to the Committee, covering various economic topics and budgetary perspectives of various agencies, organizations, and institutions, from January through February. The Committee acknowledges that most of the information presented will not be available until early in the calendar year. Still, the Committee renews its recommendation to make the Committee a standing committee to remain informed about the County budget and economic-related decisions throughout the fiscal year, especially during this time of change and uncertainty.
- **Outreach and on-going meetings:** In some years, members of the Committee have met with various County organizations, businesses, and the media to engage and educate the public regarding the County's financial health and the challenges it faces as well as to seek their input regarding potential options and solutions. The Committee recommends that the County and the Committee collaborate in strengthening efforts to educate elected officials, the public and key stakeholders on the County's long-term fiscal outlook, and the exploration of options and alternatives for funding, investment, and expenditures.

We would like to thank all the Committee members for their time and effort in providing invaluable perspective, insight, questions, and contributions that will inform County decision-makers as they tackle today's challenges and opportunities in preparing for the future.

Appendix-I. Economic Outlook and Personal Income Forecast

The Howard County Budget Office retained Richard Clinch, PhD, Director of the Jacob France Institute at University of Baltimore to prepare a County personal income projection through Fiscal Year 2031 and a report on overall national, State and regional economic trends and their expected impact on the County's economy and government finances. This report was prepared to provide personal income and economic data to inform the County's Spending Affordability Committee.

The County budget is driven by two main revenue sources: income taxes, which account for 30% of all revenues and 38% of general fund revenues; and property taxes, which account for 39% of all revenues and 42% of general fund revenues. Together, these two revenues sources account for 69% of all revenues and 80% of general fund revenues

These two revenue sources are significantly impacted by both national and state economic conditions and three key internal factors in the County:

- **Population/Workforce Growth** – which drives both property taxes and income taxes.
- **Employment Growth** – which directly drives property tax revenues though commercial property taxes and indirectly drives income taxes by providing employment and income to the 54% of employed County residents that work in the County.
- **Real Estate Conditions** – which directly drives property tax revenues but also contributes one-time fees and revenues such as the recordation tax (1% of revenues).

The JFI analyzed trends in overall national and state economic conditions and in each of the three County revenue drivers and also prepared a projection of County personal income, which is the core driver of income tax revenues. The analysis generated five key findings:

Key Finding #1: The Maryland economy has lagged the national recovery. With today's uncertain federal employment and spending situation, this slow growth is expected to continue in the near term, which could negatively impact Howard County's recovery and growth.

- Moody's Economy.com projects that Maryland Gross State Product will grow by 1.8% annually between 2024 and 2029, lagging national Gross Domestic Product (GDP) growth of 2.2%.
- Moody's Economy.com projects that Maryland non-farm employment will grow by 0.4% annually through 2029, slightly lagging projected national employment growth of 0.5%.

Key Finding #2: Both Maryland and Howard County population growth have slowed, and the County's workforce and base of employed residents remain below pre-recession levels. In addition, the County's population is aging. Moderating population growth and an aging population will contribute to slower personal income growth in the near term.

- Population growth in the County has slowed since 2020. Howard County has gone from one of the fastest growing Counties in Maryland to the middle of counties in the State.
- Howard County is aging, with residents over the age of 65 experiencing the strongest growth and the share of the prime working population declining slightly. The County is

projected to continue to add older residents, and the prime working population is projected to continue to decline as a share of the total population over the next ten years.

- Both the County’s labor force and the number of employed residents fell in the pandemic recession and have yet to recover to pre-pandemic levels.

Key Finding #3: Both Maryland and Howard County employment growth has lagged and is projected to continue to lag the nation in the recovery from the Covid Recession.

- Maryland and Howard County were more severely impacted by the pandemic-related economic slowdown than the nation and are expected to continue to lag the nation in the ongoing current expansion. Reductions in federal spending are expected to negatively impact employment growth in the near term.
- County employment remains below pre-pandemic levels. After being one of the fastest growing counties in job growth in the pre-Covid 2014-19 period, County employment is only projected to increase by 4% through 2028.

Key Finding #4: Real estate activity in the County is slowing and the County remains in the midst of a transition from historically rapid housing, population, and personal income growth to a “new norm” of slower growth.

- Residential housing sales fell by 37% since 2021 and the number of new permits issued for new housing units fell from 1,735 in 2021 to 668 (through October) in 2024 and the share of multi-family housing units has increased over the past five years.
- As the inventory of available land is declining, development activity is shifting to more dense types of development, and the number of multi-family units is increasing in its share of permits issued. This will impact both the pace and patterns of development and residential and employment growth. As a result, future growth in incomes and government revenues is likely to be slower than historical levels.

Key Finding #5: While current projections are for the County to experience 4.3% annual growth in personal income on average through 2029, caution remains warranted in near and long-term fiscal planning due to continued economic uncertainty especially in terms of the potential impact of expected cuts in the federal spending that drives the State and County economies. The projections in this report are based on current economic conditions – which can be negatively impacted by federal spending decisions – please see the Risk Factors section of this report (below).

Risk Factors

The Howard County Budget Office asked the JFI to assess and describe potential risk factors that could impact the analysis and projections in this report. While the JFI is projecting continued stable personal income growth for the County through 2029 absent economic/policy changes, it identified two potential risk factors that could negatively impact this stable projected growth.

Risk Factor #1: Continued Slow Maryland Growth

Recent patterns of slow growth at the State level represent a significant risk factor to the projections in this report. The Maryland economy has finally recovered from the Covid Recession but has experienced slow growth in both population and employment. Over the past five years, Maryland was ranked 49th out of 50 states and the District of Columbia in employment growth, 39th in GDP growth and 30th in population growth. These issues are linked. Slow population growth is leading to worker shortages, with Maryland having 3.1% unemployment in December 2024, the 10th lowest unemployment rate in the nation. The Maryland Workforce Exchange lists 87,868 job openings for 33,936 candidates – or .39 candidates per job.¹ This lack of workers is considered a barrier to business and economic growth. Similarly, lower employment growth is leading to lower levels of employment driven population growth, as reduced employment growth negatively impacts the attraction and retention of workers. Furthermore, the State of Maryland is facing a record structural budget deficit and is proposing increases in taxes on high income individuals. Maryland is already a high tax state, ranked 46th nationally in terms of tax climate by the Tax Foundation.² Maryland is currently experiencing a net out-migration of higher income and better educated residents, and soon to be made State tax decisions may generate further out-migration. ***As Maryland’s highest income county and having among the highest levels of educational attainment in the State, projected population, employment, and personal income growth in Howard County could be negatively impacted by continued slow employment and population growth and potential increased out migration at the State level.***

Risk Factor #2: Maryland and County Reliance on Federal Spending

Maryland and Howard County are significantly exposed to possible reductions in federal spending. Maryland is one of the states that is most reliant on federal spending:

- The federal government accounts for 236,052 jobs located in Maryland, accounting for 8.1% of total employment in the State, the fifth highest number of federal jobs and the fourth highest federal share of employment in the nation.
- A total of 326,879 Maryland residents are employed by the federal government, accounting for 10.2 percent of Maryland’s employed workforce, the fifth highest level of federal employment and the second highest share of residents employed by the federal government.
- The federal government purchases \$69.4 billion in goods and services from Maryland companies or \$11,082 per Maryland resident – the fourth highest level of federal purchases and per capita federal purchases in the nation.

Howard County is similarly reliant on federal spending -19,044 Howard County residents, or 10.8% of employed residents, work for the federal government directly. The federal government also purchases \$6.1 billion in goods and services from Howard County suppliers, making federal procurement a core driver of the County economy. With a high concentration of professional services workers residing in the County, many County residents are likely to be supported by federal spending across the region, further increasing the County’s exposure to federal spending.

¹ JFI download from MWE - January 21, 2025.

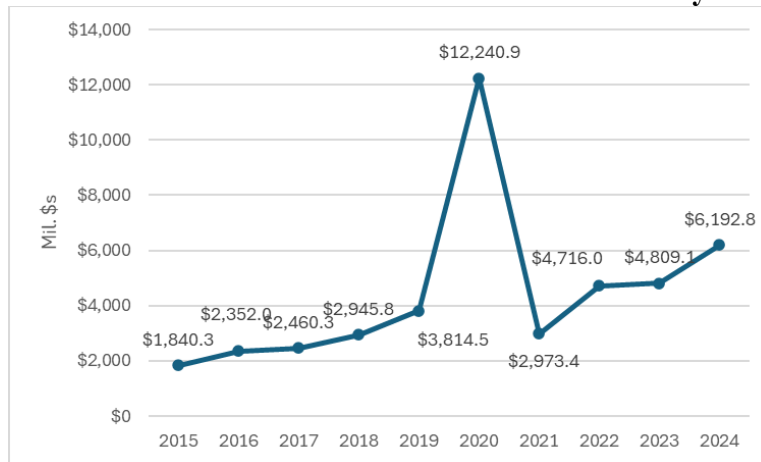
² <https://taxfoundation.org/statetaxindex/states/maryland/>.

Over the past ten federal fiscal years, Federal government purchases in Howard County have more than tripled, from \$1.8 billion in FFY2014 to \$6.1 billion in FFY2024.

AI-1. County Employment Reliance on Federal Spending

Howard County's Reliance on Federal Spending	
Item	Number
Federal Employment 2023 - By Place of Work	
Federal Jobs (# of Jobs)	3,176
Federal Jobs (% of Employment)	1.8%
Federal Employment 2023. By Place of Residence	
Federal Jobs (# of Jobs)	19,044
Federal Jobs (% of Employment)	10.8%
Federal Procurement 2024	
Federal Procurement (Bil \$s)	\$6.1
Federal Procurement (\$s per capita)	\$18,003
Source: BEA, Census and FPDS	

AI-2. Federal Procurement in Howard County



The changes and reductions in federal employment and procurement proposed by the new administration have the significant potential to negatively impact both the Maryland and Howard County economies and represent a significant risk factor to the projections in this report.

The report below does not account for the two risks above due to their significant uncertainties and hard to predict nature.

National Economic Trends and Outlook

The national economy remains strong and continues to grow but at a slower pace.

According to the U.S. Bureau of Economic Analysis, real GDP grew at an annual rate of 2.3% in the fourth quarter, down from 3.1% in the third quarter and increased by 2.8% overall in 2024. According to Moody's Economy.com, U.S. real GDP is projected to grow by 2.1% in 2025, 2.0% in 2026, 2.1% in 2027, and 2.3% in 2028 and 2029; and U.S. employment is projected to grow by 0.9% in 2025, by 0.5% in 2024, and by 0.4% in 2027 through 2029.

Maryland Economic Trends and Outlook

The State continues to lag the nation in economic and population growth.

According to Moody's, Maryland has enjoyed a slight revival this year, but the state remains a chronic underperformer. Job growth has improved, but the state remains one of just four states nationally that has yet to recover all its pandemic-induced losses. Maryland's lagging economic performance is highlighted in the December 12, 2024, Maryland Board of Revenue Estimates (BRE) presentation which reports that:

- The Maryland economy continues to show resilience but is growing below its pre-pandemic trend and is lagging the US.
- Maryland private sector employment has been weak, and the state's economy and most demographics are growing slower.
- Federal government tax and spending decisions remain an elevated risk to the Maryland economy.³

In terms of Maryland's recent economic performance, according to Moody's Economy.com:

- Maryland is ranked 49th in terms of job growth over the past five years.
- Maryland is ranked 39th in Gross State Product (GSP) growth over the past five years.
- Maryland's population grew by only 0.3% annually over the past five years.

Moody's outlook for Maryland indicates: "Maryland will slow in step with the U.S. this year and early next. Healthcare will make only slow progress, and the federal government will hold back growth. Persistent out-migration will relegate MD to a below-average performer in the long run."

Both Moody's and the Board of Revenue Estimates are projecting slower than national employment growth in Maryland:

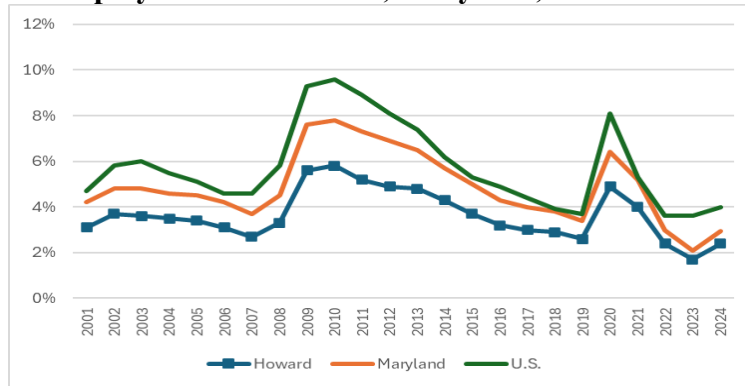
- The **Board of Revenue Estimates** forecasts that Maryland employment will grow by 0.5% in 2024, 0.4% in 2025 and fall to 0.1% 2026-28 and its forecast for personal income is for growth of 5.2% in 2024, 3.9% in 2025, 3.7% in 2026, 3.8% in 2027, and by 4.1% in 2028.
- **Moody's Economy.com** forecasts Maryland employment growth of 0.7% in 2024, 1.2% in 2025, 0.4% in 2026, 0.2% in 2027, and 0.1% in 2028-29 and forecasts personal income growth of 4.8% in 2024-25, 4.6% in 2026, 4.3% in 2027-28, and 4.2% 2029.

Labor Market Comparison - County, State, and National

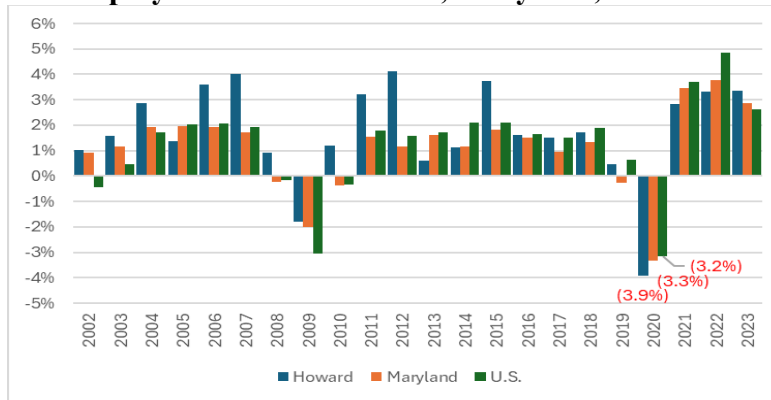
³ https://www.mdbre.gov/BRE_reports/FY-2025/Board-Presentation-December-2024.pdf.

Unemployment rates in both Maryland (3.0%) and Howard County (2.4%) remain well below the national average (4.0%). However, Howard County's workforce contracted more than the State or nation's workforce in 2020 and 2021 and still remains below pre-Covid Recession levels. Howard County experienced larger job losses than both the State and nation in 2020 and recovered more slowly. Personal income growth in the County exceeded the State and nation in 2022 and 2023 after lagging the nation for much of the 2017-21 period.

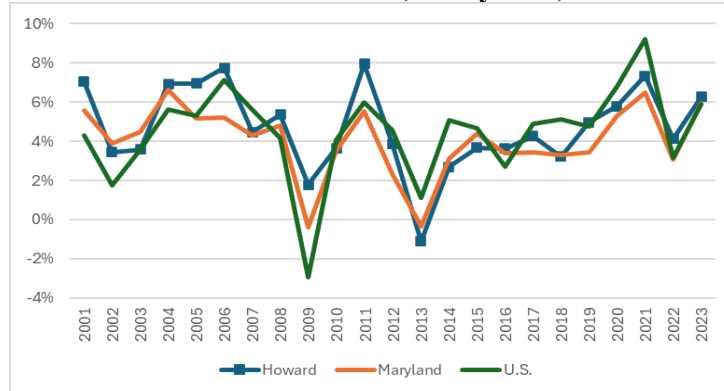
AI-3. Unemployment Rate – U.S., Maryland, and Howard County



AI-4. Total Employment Growth – U.S., Maryland, and Howard County



AI-5. Personal Income Growth – U.S., Maryland, and Howard County



Because the County’s revenues are largely driven by population, employment, and real estate conditions, the JFI analyzed recent and long-term trends in each.

Howard County Population and Incomes

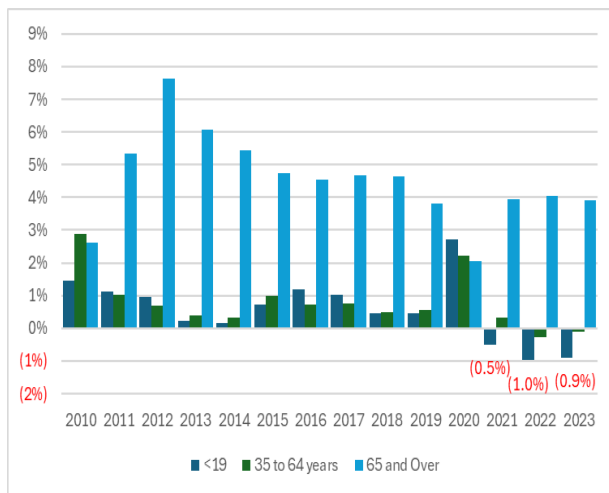
County population growth has slowed. Between 2010 and 2020, Howard County experienced 15% population growth, the second highest (after Frederick County) in Maryland. Since 2020, the County population has grown by 1.0% (14th highest).

Howard County is aging, with residents over the age of 65 experiencing the strongest growth and the County experiencing a slight decrease in the working population. The share of the County population that is 65 and older has doubled between 2001 and 2023 from 8% to 16% and is projected to continue to grow to 19% of population in 2033. The share of the working age population (ages 35 to 64) declined slightly and is projected to fall continuously through 2033.

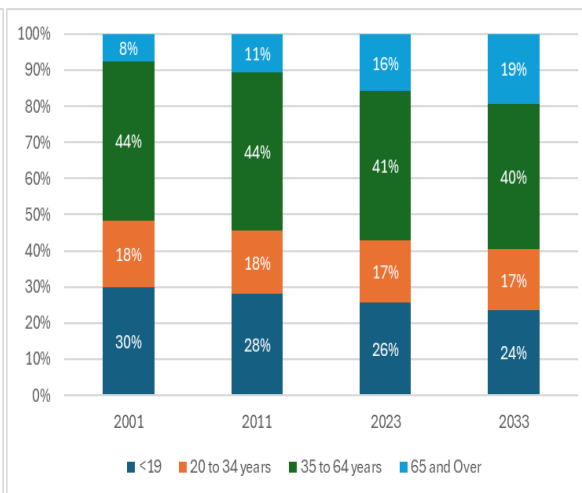
Howard County is experiencing an out-migration of residents with a net loss in income. Recent (2020-23) Howard County population growth is driven entirely by “natural change” with the County experiencing small net out-migration of residents. Over the past seven years (2015-22), the County gained households from in-State migration and lost households⁴ to out-of-state migration; however, in 2021-22 Howard County lost households to in-State out-migration for the first time in recent history. In general, in-migrants have had lower incomes than out-migrants and the average incomes of out-migrants is growing more rapidly than for in-migrants.

Howard County remains a high-income jurisdiction. The County has the highest median income in Maryland and the 10th highest median household income in the United States. The County has the second lowest poverty rate (5.6%) in the State of Maryland.

AI-6. Annual Change in Population (2010-22) AI-7. Share of Population, By Age Cohort



Source: JFI Analysis of Lightcast Data



Source: JFI Analysis of Lightcast Data

⁴ IRS data on migration are for returns – which can be individuals or households.

AI-8. 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

Howard County Resident Labor Force Growth & Employment Growth

Howard County continues to lag in the recovery of its workforce from the Covid Recession.

While long-term growth in the County's resident labor force and base of employed residents has been strong, the County's workforce has not yet recovered from the Covid-19 Recession:

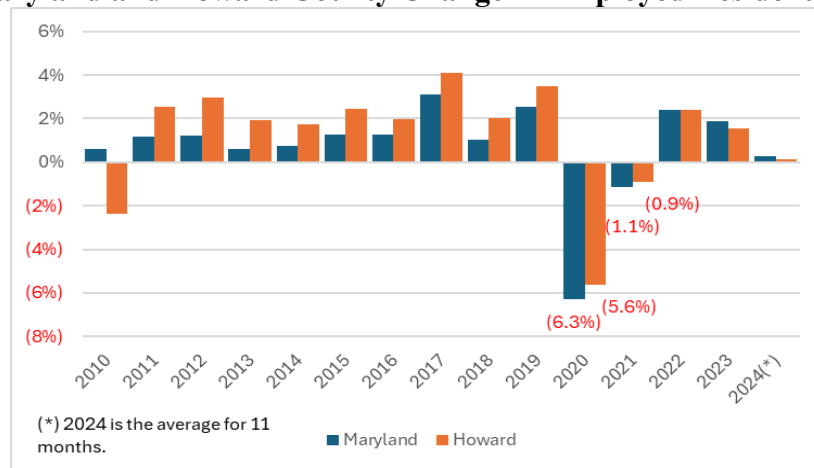
- **The County's labor force is still below pre-Covid recession levels.**
- **The County's employed residents still remain 2.6% below pre-Covid levels.**
- Labor Force Participation in Howard County remains above both U.S. and Maryland levels but declined from 2016 through 2021 – recovering in 2021 and 2022 but falling in 2023 (Figure 11).

Over the past decade, growth in the Howard County labor force has outpaced Statewide growth. However, in recent years the County workforce situation has lagged in the recovery, and future workforce growth and the resulting personal income growth will be restrained by 1) a slower pace of residential development activity; 2) a low rate of housing turnover; and 3) an aging population and declines in the share of County population in their prime earning years. These factors are expected to negatively impact long-term County personal income growth and resulting income tax revenue growth in the near term.

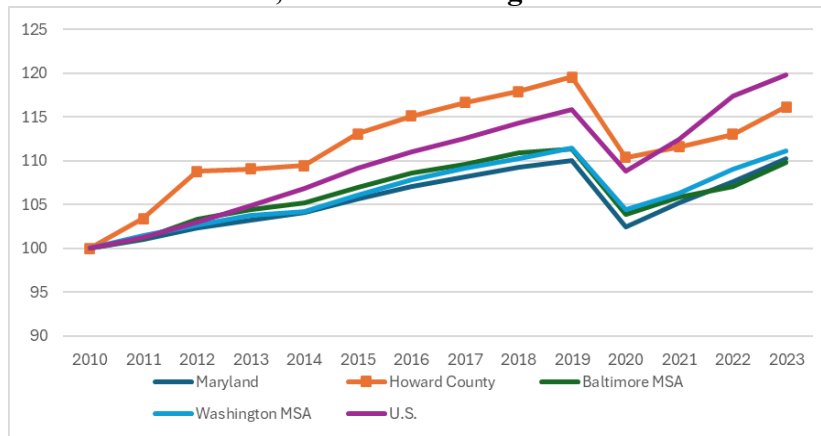
The impact of the pandemic on the County's economy is broad, with nearly every sector of the County economy still having employment below pre-pandemic levels, with total County employment still below pre-pandemic levels. Based on employment projections for Howard

County from Lightcast, County employment growth is projected to remain slow over the next five years, with the County projected to surpass pre-pandemic levels in 2026.

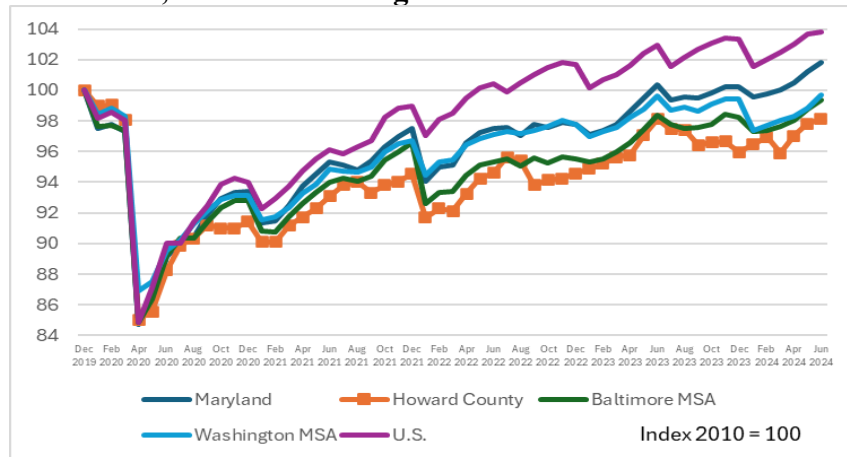
AI-9. Maryland and Howard County Change in Employed Residents, 2010-24



AI-10. Employment Growth in Howard County Compared to the U.S., Maryland, the Baltimore Metro Area, and the Washington Metro Area – 2010-23



AI-11. Employment Growth in Howard County Compared to the U.S., Maryland, the Baltimore Metro Area, and the Washington Metro Area – December 2019-June 2024

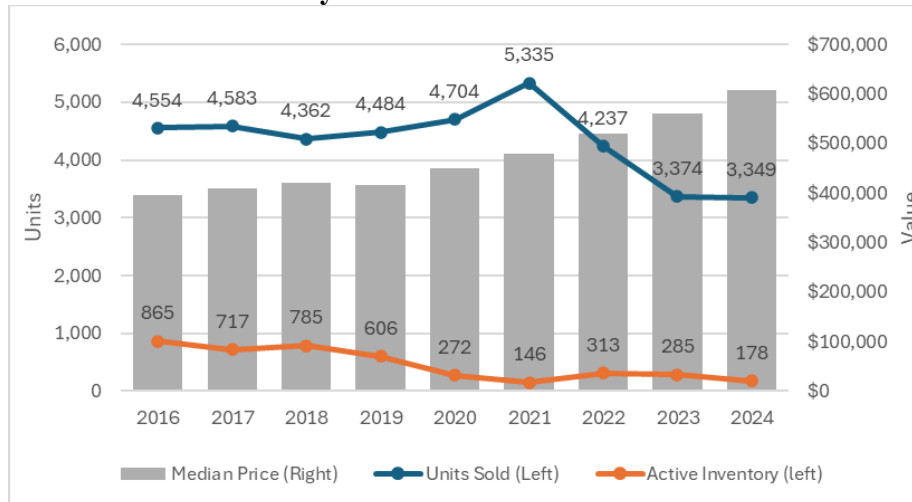


Howard County Real Estate Trends

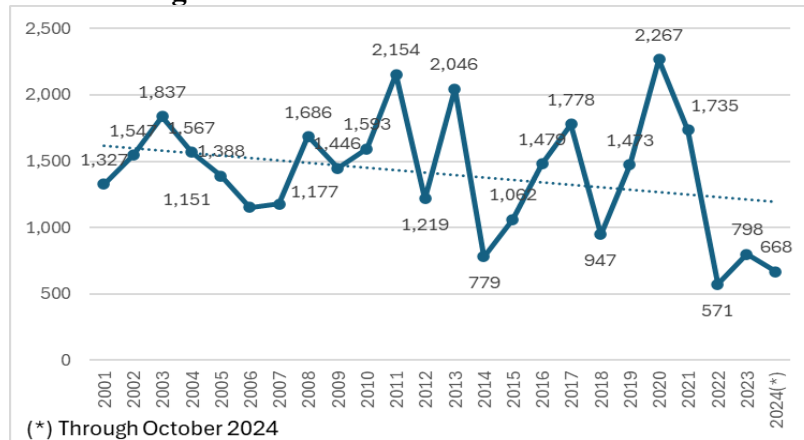
The Howard County real estate market remains slow. Real estate activity drives property tax revenues. Growth in residential real estate activity is driven by population growth and increases in residential property values are indicative of growth in resident incomes and population growth. Similarly, growth in non-residential real estate activity is both driven by and supports County economic and employment growth. In 2024, the number of housing units sold was 37% below the levels in 2021, with 2024 home sales of 3,349 units well below historical levels. Over the past five years, Howard County home prices have increased by 46%, with the County median sales price of \$607,000 being the second highest in the State (after Montgomery County). The active inventory of houses for sale in the County remains below average monthly sales and the County has the lowest inventory on hand (0.6 months) of all Maryland counties.

With the combined influences of policy changes (APFO, Impact Fees), a shortage of developable land, and higher than historical mortgage rates, housing permitting activities fell to 668 units (through October 2024), the second lowest level of permitting activity in recent history. One important trend in permitting activity is the increase in the share of multi-family dwellings in residential permitting activities, which is important because the residents of rental properties (mostly multi-family units) tend to have lower household incomes than residents of owner-occupied units (mostly single-family housing) but only slightly lower household sizes. As a result, this increase in the share of multifamily housing may have consequences for long-term household income growth in the County and resulting County income tax growth. Non-residential permitting activity declined substantially in 2023 and 2024 – coming off of higher than historic levels for 2018-22 levels.

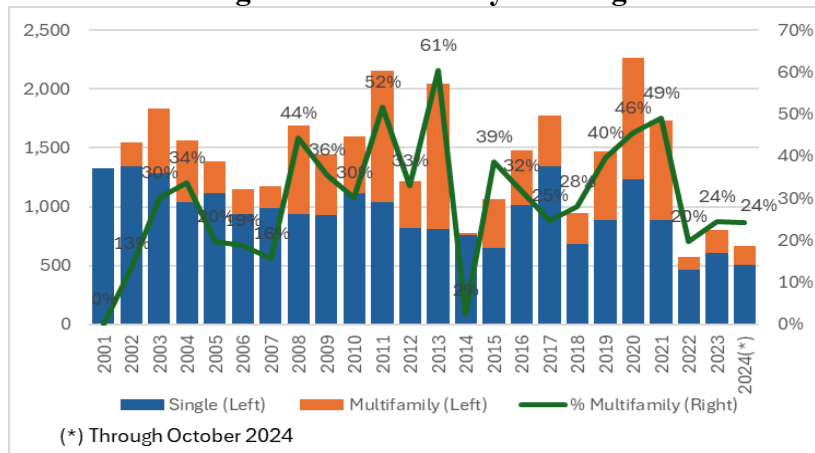
AI-12: Howard County Residential Real Estate Market 2016-2023



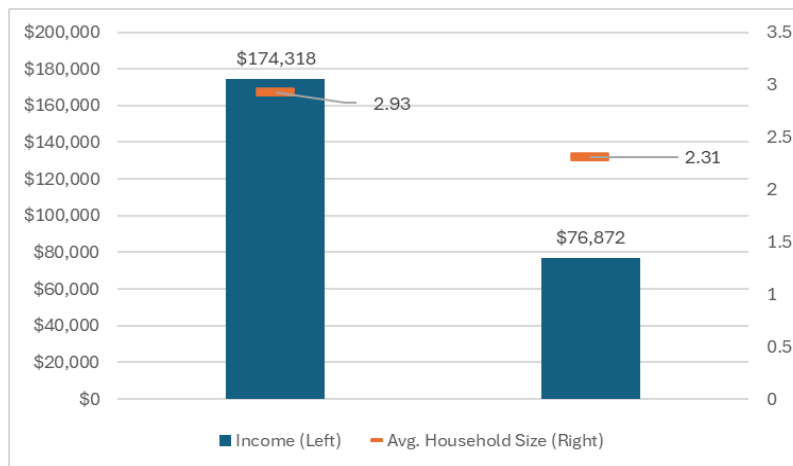
AI-13. New Housing Units Authorized for Construction - Howard County



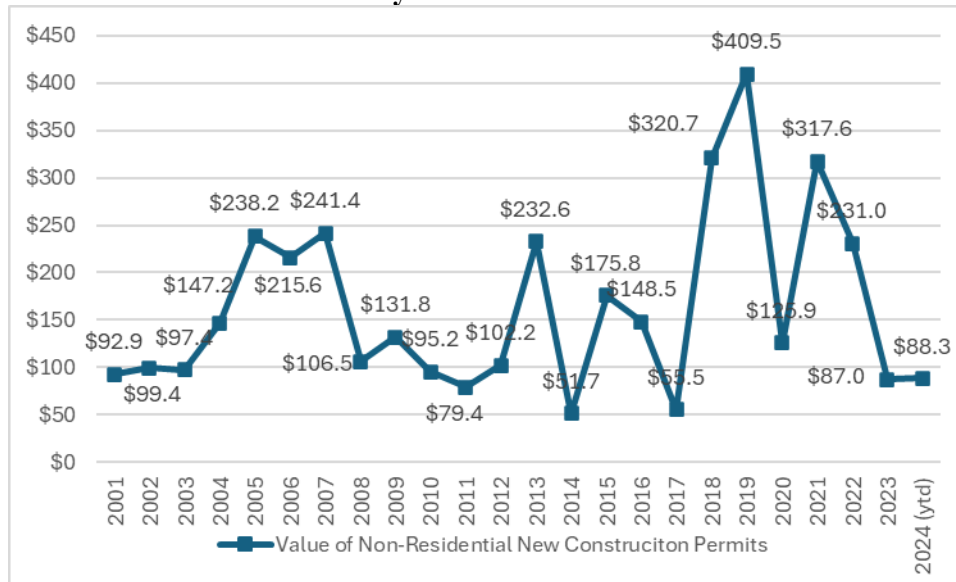
AI-14. Single and Multifamily Housing Permits



AI-15. Median Household Income and Household Size - Owner vs. Renter Occupied Housing Units



AI-16. Value of Howard County Non-Residential New Construction Permits



Howard County will need to continue to adapt to a fundamental change in real estate conditions that will impact both residential and employment growth. As the inventory of available land continues to decline, development activity will need to shift to more dense types of development. This is already occurring, as demonstrated with the growth in the share of multifamily residential permitting. This will impact both the pace and patterns of development, residential and employment growth, and the resulting growth in incomes and government revenues. *As a result, going forward, Howard County can expect to experience slower rates of residential and personal income growth than in prior decades.*

Howard County Personal Income Projections

The JFI developed its personal income growth projection based on both long-term patterns of growth and the relationship of County to State personal income. Traditionally, Howard County has experienced stronger population growth and attracted higher income residents than Maryland overall, resulting in stronger personal income growth. However, near term projections were again adjusted to reflect the impact of anticipated slower population growth resulting from the combined impact of policy decisions, such as the Adequate Public Facilities Ordinance, and the declining base of property available for residential development. As a result of these factors, a reduction in the rate of population growth is expected in the near to intermediate term. Furthermore, changing patterns of residential development favoring multi-family development combined with the County’s aging population can be expected to slow the rate of personal income growth. Based on these projections:

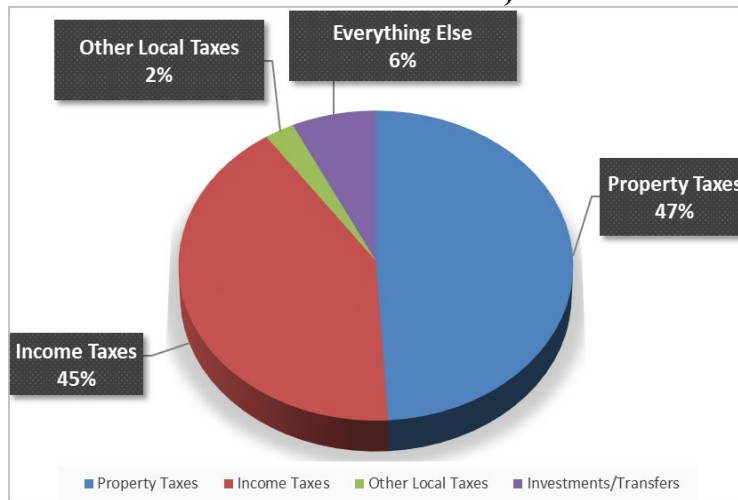
On a calendar year basis, County personal income is projected to grow by 5.7% in 2024, 4.5% in 2025, 4.4% in 2026, 4.2% in calendar 2027 and 2028 and by 4.4% in 2029.

These projections did not account for risk factors such as potential impact from state slowdown or Federal actions, which are discussed separately earlier in the report.

Appendix-II. Revenue Outlook

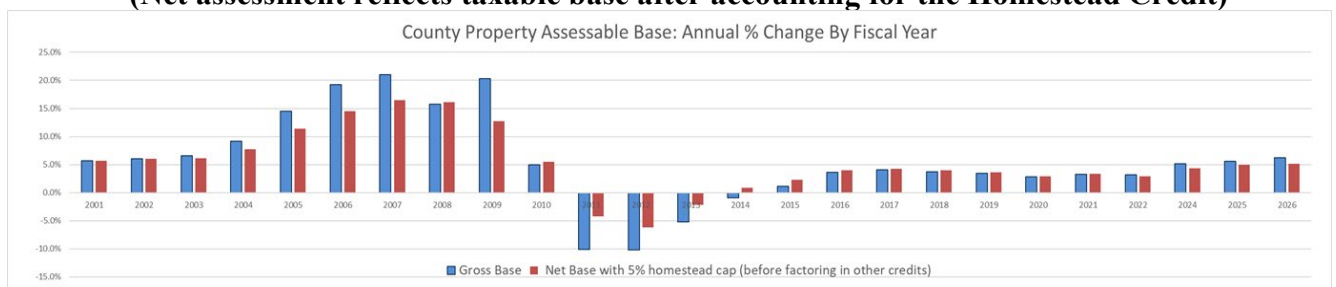
Howard County’s General Fund revenues rely primarily on two sources, property tax and personal income tax. The County forecast for General Fund growth in FY 2026 over the FY 2025 budget is 4%.

Chart AII-1. General Fund Revenue Structure (FY 2025 Budget, Excluding One-Time Funds)



Property tax reassessment value has shown relatively strong growth due to a robust housing market in recent years and the lagging impact of the State’s triennial reassessment cycle. In coming years, the assessable base is expected to maintain relatively strong growth in residential reassessment, which may be partially offset by uncertainties or negative impact from the commercial market.

Chart AII-2. County Assessable Base Annual Percentage Change History (Net assessment reflects taxable base after accounting for the Homestead Credit)



Personal income taxes are recovering from a -6% downward adjustment in FY 2024. The County’s personal income base remains solid with projected growth of over 4% in general in the next few years, absent economic shocks. Its immediate outlook, however, is shadowed by high uncertainties related to newly initiated and potentially large-scale Federal reductions of workforce and fundings, which will likely have direct and indirect impact on county employment, income, and economic activities. Income tax revenues in FY 2026 are tentatively

assumed at 3.3% growth from FY 2025 budget. The economic outlook features uncertainties contingent on multiple factors, including federal and State policies.

Other revenues, overall, are projected to see a moderate increase. Interest income is projected to perform well continuously. The real estate-transaction-related revenues, including recordation taxes, are expected to stabilize after experiencing double-digit decreases amid housing market corrections two years in a row.

Appendix-III. Debt Indicators

The following four (4) commonly used measures have been tracked to evaluate the County’s debt burden and debt affordability:

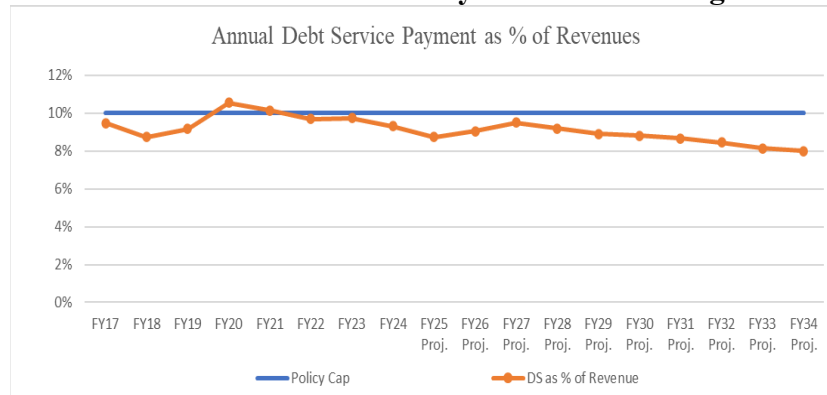
- Debt Service as a percentage of current revenues. This is the most important debt indicator among the four listed. The County has a policy ceiling of 10%.
- Debt measured as a percentage of the County's assessable base. The current County charter limit is set at 4.8% of the assessed value of real and personal property.
- Debt measured against the population on a per capita basis. Per capita debt exceeding \$1,200 (unadjusted for inflation over the past 10 years) may be considered excessive by rating agencies.
- Per capita debt measured as a percentage of the jurisdiction's per capita personal income. This measure should not exceed 10% in the view of many analysts.

All four (4) measures of debt burden have shown improvements, thanks to debt management and strong revenue growth. The Committee recommends that the County continue its strong fiscal discipline and monitor its debt level closely to avoid escalating long-term liabilities.

Measure #1: Debt Service as a percentage of current revenues.

In FY 2024, debt service equaled 9.3% of revenues. This debt indicator indicates not only debt burden and debt affordability, but also the ability of the operating budget to support all other service needs. The County exceeded its self-imposed policy ceiling of 10% in FY 2020 and FY 2021 but showed improvement in FY 2022 to FY 2024 dropping down to 9.3%. Although 10% is a self-imposed County policy, it is a policy ceiling commonly adopted by governments to manage and control the impact of the debt burden on the operating budget. The Committee encourages the County to closely monitor its overall debt burden and keep its long-term liabilities under control.

Chart AIII-1. Annual Debt Service Payment as Percentage of Revenues

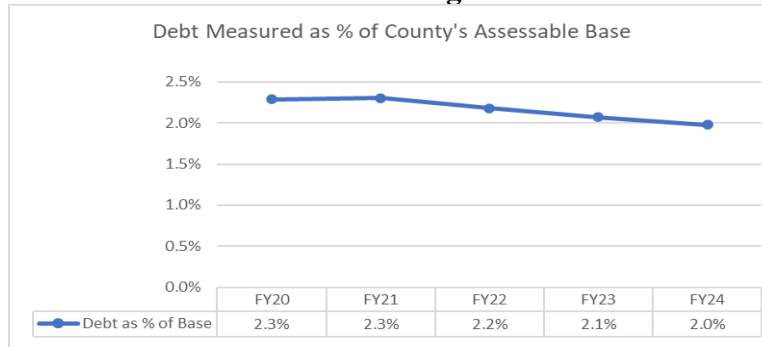


Source: Finance Department. The projection assumes a 4.5% interest rate and \$90 million new GO debt in the next 10 years plus \$75 million WIFIA loan in FY2026 and issuance of authorized but unissued bonds through FY2034.

Measure #2: Debt as a Percentage of the Assessable Base

As of June 30, 2024, Howard County had an assessable base of \$64.0 billion and an outstanding GO debt of \$1.27 billion. The ratio of debt to assessable base was 2.0% of the assessed value vs. the 4.8% limit. Preliminary projections indicate that this measure will remain relatively constant.

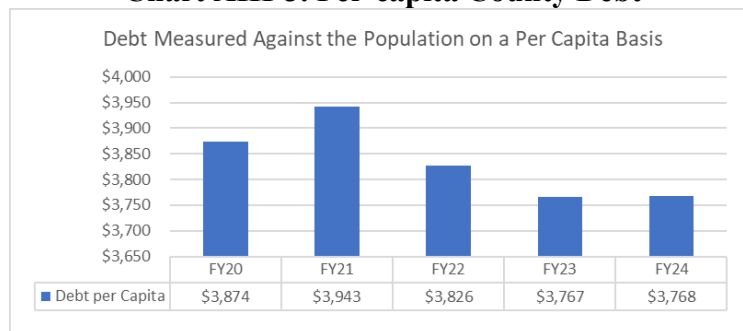
Chart AIII-2. Debt as a Percentage of the Assessable Base



Measure #3: Debt measured against the population on a per-capita basis.

As of June 30, 2024, Howard County had a population of 336,001 and a GO debt of \$1.27 billion, generating a per-capita debt of \$3,768.

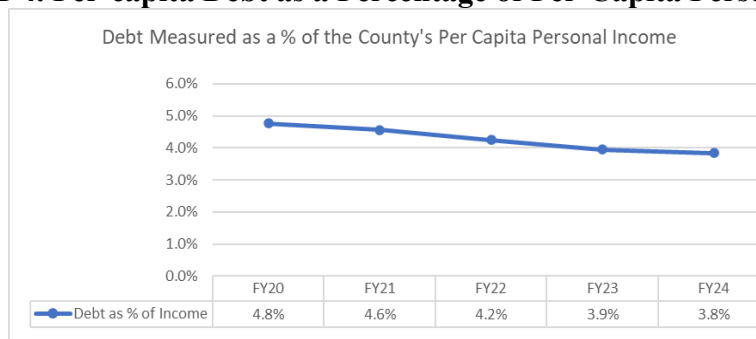
Chart AIII-3. Per-capita County Debt



Measure #4: Per-capita debt measured as a percentage of per-capita personal income.

As of June 30, 2024, Howard County residents had an estimated per-capita personal income of \$98,237 and a per-capita debt of \$3,768 equaling a per-capita debt of 3.8% of per-capita income.

Chart AIII-4. Per-capita Debt as a Percentage of Per-Capita Personal Income



Appendix-IV. Multi-Year Projections

The County Budget Office developed multi-year projections based on historical trends and anticipated drivers of revenue growth and expenditure. Absent actions each year to reconcile expenditures with resources available, preliminary projections indicate that requested expenditures will continue to outpace projected revenues, with the annual gap predicted to increase from \$88 million in FY 2026 to \$338 million in FY 2031.

**Chart AIV-1 Preliminary Multi-Year General Fund Projections
(Before Corrective Actions to Balance Revenues and Expenditures)**

Preliminary Multi-Year General Fund Projections Excluding One-Time (\$ in Millions)								
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	6-Year Growth
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	from FY25 Base
Projected Revenues	1,460.8	1,519.2	1,574.2	1,637.0	1,700.0	1,757.3	1,816.6	
Growth \$		58.4	55.0	62.8	63.1	57.3	59.3	355.9
Growth %		4.0%	3.6%	4.0%	3.9%	3.4%	3.4%	
Requested Expenditures	1,460.8	1,607.1	1,713.3	1,810.6	1,917.2	2,030.0	2,155.0	
Growth \$		146.3	106.2	97.3	106.6	112.8	125.0	694.2
Growth %		10.0%	6.6%	5.7%	5.9%	5.9%	6.2%	
Annual Gap		(87.9)	(139.1)	(173.6)	(217.2)	(272.7)	(338.4)	
Cumulative Gap		(87.9)	(227.0)	(400.7)	(617.9)	(890.6)	(1,229.0)	

County revenue projections rely primarily on the performance of property and income taxes. Property taxes will likely maintain a strong growth in the next few years due to the triennial reassessment cycle which spreads the impact of changes over time. Historically volatile income tax revenues are projected to grow at an average of 4% in the next six years, close to projected personal income growth in this period. These projections, however, do not assume any potential economic shocks. In addition, a slowdown in population growth due to diminishing developable land and less new development will likely drag down personal income tax receipts in the long run, which have historically benefited from both wage growth and population growth in the County. Projected General Fund revenue growth in FY 2026 - FY 2031 period is shown below.

Chart AIV-2. Preliminary Multi-Year General Fund Revenue Projections

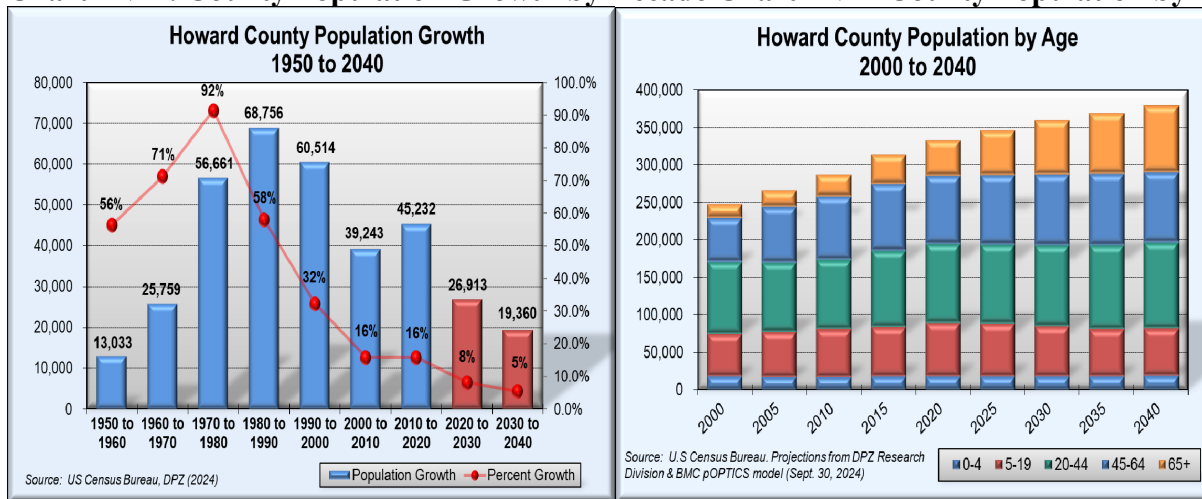
Preliminary Multi-Year Projections Excluding Use of Fund Balance(\$ in Millions)								
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY27-31
	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Avg. %
Property Taxes	698.8	729.6	761.7	795.2	827.0	851.8	877.3	3.8%
Income Tax	635.9	657.1	683.4	710.7	739.1	768.7	799.5	4.0%
Other local taxes	29.2	29.6	31.5	32.5	33.4	34.4	35.5	3.7%
State Shared Taxes	5.6	6.0	4.6	4.6	4.6	4.6	4.6	-4.8%
Charges / Permits / Intergov.	32.4	32.0	32.0	32.0	32.0	32.0	32.0	0.0%
Transfers / Recoveries / Invest.	58.9	64.9	61.0	62.0	63.9	65.8	67.7	0.9%
Total Revenues	1,460.8	1,519.2	1,574.2	1,637.0	1,700.0	1,757.3	1,816.6	3.6%
% Growth		4.0%	3.6%	4.0%	3.9%	3.4%	3.4%	

On the expenditure side, total projected requests, incorporating input from all departments and agencies including educational institutions, continue to exceed projected revenues in this period before any corrective action. The County is required by law to adopt a balanced budget each year. Trying to prioritize needs vs. wants in evaluating all competing requests while staying within means will remain a challenge for decision-makers in the next several years.

Appendix-V. Demographic and development trends

The presentation by the County’s Department of Planning and Zoning on changes in key demographic and economic trends will have a significant effect on the County’s near- and long-term fiscal condition and should inform the development of the operating and capital budgets to allow for proactive actions to address and cope with changing needs and/or priorities. As the chart below shows, the County’s population growth has slowed down significantly with the annual growth predicted to drop even further to less than 1% in 2020-2030 and approximately 0.5% per year in 2030-2040. The County’s population has also been aging rapidly. The population over the age of 65+ in the County is projected to more than double over the next two decades. The 5-19 group, however, has shown a decrease since the pandemic and is projected to decline continuously in the next two decades, largely in line with the student population trends. Such demographic shifts require a reassessment and adjustment of expenditure allocation to better align with changing needs of the community.

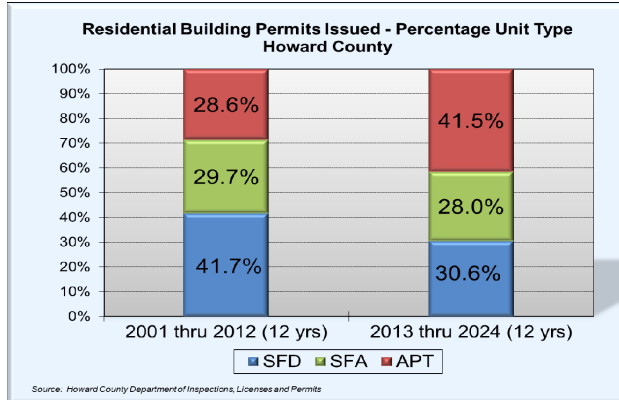
Chart AV-1. County Population Growth by Decade **Chart AV-2 County Population by Age**



Source: US Census Bureau, DPZ & BMC Optics model

A notable land-use trend is the continued shift of planned development activity from single- to multi-family housing, due to the limited amount of available land and regulatory impact. Another concern in recent years is a continued drop in new building permits issued (see below). The economic impact of a continued drop must be factored into revenues associated with new development and associated permits and fees in future fiscal planning, since the development process typically takes two to three years to complete.

Chart AV-3. Residential Permits Issued – A Shift from SF to MF Units



Note: SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment

Chart AV-4. Residential Building Permits Issued in 2001 -2024

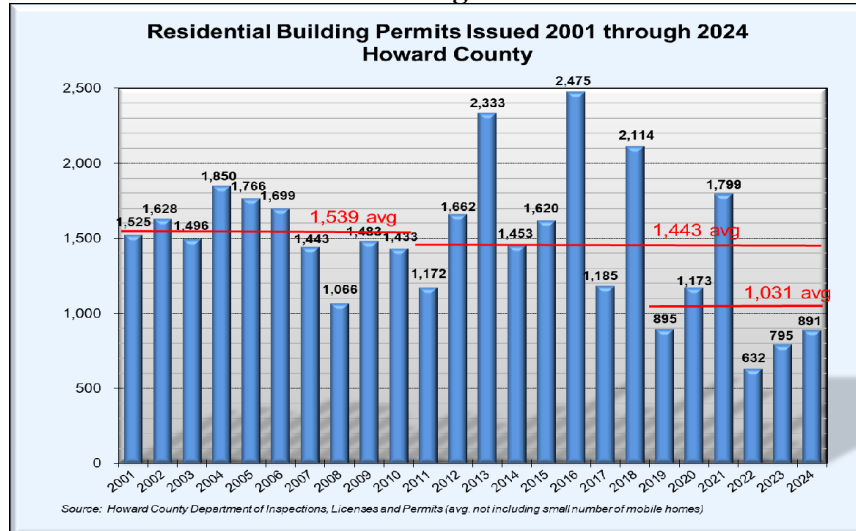


Chart AV-5. Residential Building Permits Issued in 2001 -2024 by Type

