



# Howard County

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M A R Y L A N D

**SPENDING AFFORDABILITY  
ADVISORY COMMITTEE  
REPORT**



**Fiscal Year 2015**

**Spending Affordability  
Advisory Committee**

### **Citizen Committee Members**

Frank Aquino, Board of Education  
Nina Basu, Esquire  
Camilla Carroll  
Richard Clinch, PhD  
Allen Cornell  
Reese K. Feuerman  
Ryan Frederick  
James Kwak  
Dr. Clarence Lam  
Steve Poynot  
A. Nayab Siddiqui  
Doug Siglin  
Todd Snyder, Esquire  
Eileen Straughan  
Edward Waddell, CPA

### **Government Officials**

Gale Benson, Assistant Budget Administrator  
Lynn Coleman, CPA, Dean of Administration, Howard Community College  
Camille Jones, Chief Operating Officer, Department of Education  
Craig Glendenning, CPA, County Auditor  
Stanley Milesky, Director of Finance  
Lonnie R. Robbins, Chief Administrative Officer  
Ken P. Roey, Chief Facilities Officer, Department of Education  
Joshua Russin, Deputy Chief of Staff  
Raymond S Wacks, Budget Administrator, Chair of Committee

**Howard County Maryland  
Spending Affordability  
Advisory Committee  
Report for Fiscal Year 2015**

**March 2014**

**Purpose**

County Executive Ken Ulman renewed the Spending Advisory Committee in January 2014. His 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 2015, but also for fiscal years 2016 through 2019.
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 which 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 a report including:

- a. Projections of revenue for the upcoming fiscal year
- b. A recommended level of new county debt authorization
- c. The anticipated effect of the committee's budget recommendations on future budgets
- d. Other findings and/or recommendations that the committee deems appropriate

## **Conclusion and Recommendations**

While the economic recovery is well underway, Howard County still faces challenges as it deals with the “new normal” in projecting revenue growth and the continued demands for increased spending. It is clear that a substantial portion of the county economy is tied to the presence of the federal government and the level of federal spending especially in the area of cyber-security. Regardless of the concentration on cyber-security, which is not expected to be reduced, it appears likely that there will be some curtailment of federal spending or at least slower future growth in other areas of the federal budget. At the same time, there are mitigating circumstances that could shelter the county from the effects of those reductions. As both Mr. Kent Menser, the County’s liaison to Fort Meade, and Dr. Richard Clinch, an economist with the Battelle Technology Group, have reported to the committee, activities at Fort George Meade associated with the nation’s cyber-security efforts have substantially increased in the past five years and are on track for continued growth. Mr. Menser reported that since 2005, Fort Meade has added 22,000 jobs, and he projects growth to continue despite the federal budget predicaments. Dr. Clinch estimates that federal agencies located at Fort Meade employ 12,500 county residents, while an additional 39,000 county residents have jobs attributed to Fort Meade’s mission. He commented that since cyber-attacks are a “threat-driven crisis to the security of the United States” the government cannot easily afford to curtail spending for this purpose and that cyber security expenditures will likely continue to be centered at Fort Meade for the foreseeable future. While the committee understands the impact of Fort Meade spending on the county, it understands that there is other federal spending which impacts the county and is concerned that a reduction in those outlays could affect its economic health.

Despite the recession, Howard County has managed to maintain its fiscal integrity. Even with the collapse of the housing market and the stagnation of revenue growth, the county was able to maintain essential services without accessing its “Rainy Day” funds. The county has a strong, well-balanced economy that plays a leadership role in the state of Maryland and is able to brave the economic storm afflicting the country. Factors such as location, wealth, a low crime rate, and a healthy quality of life have helped maintain this competitive advantage. Individuals and families moved to the county and paid premium house prices because of the high-caliber public schools and quality of life here. While this is good news, the county will still have to be vigilant and wary in projecting revenues and setting spending limits in the upcoming and future fiscal years.

As the economy recovers, the committee believes some of the county's revenues will not show the same recovery. While personal income growth and income tax revenues are rebounding, property taxes will show tepid growth, and real estate based revenues such as development fees and charges are expected to be near flat for at least the remainder of much of this decade. As a result, the future near-term growth rate in revenues is expected to be slower than pre-recession levels. However, as revenue growth rates decrease, it appears that demand for services will continue to grow rapidly, resulting from the county's appeal as a residential destination.

Given the limited resources available to the county and the lower expected growth rate in revenues, the committee understands tough choices and decisions must be made about the capital and operating budgets so affordable levels are maintained. These tough choices must be made while recognizing the need to build, renovate, and expand schools, and maintain the county's infrastructure of roads, storm drains, buildings, facilities, and parks.

In addition to those typical funding requirements, the county faces certain extraordinary funding challenges, such as balancing the need to maintain or expand current levels of service while paying for the rapidly expanding costs of retiree pensions and health care. During the 2012 legislative session, the Maryland General Assembly made a decision to transfer a portion of the teachers' pension system cost from the state to the counties, to be phased in over four years. The additional cost to the county was \$12.45 million in fiscal year (FY) 2014 and will increase to \$14.9 million in FY 2015. It is projected that costs will grow to more than \$24 million a year by FY 2017. This obligation is putting pressure on the county to balance the budget without reducing important services including education, public works and public safety.

Over the past 10 years the county has come to recognize that it was not adequately funding retiree health costs for both county government and Board of Education employees. The county maintains a post-employment health insurance program for retired county employees who have worked for more than 15 years. The program requires the County to pay a percentage of the retirees' health insurance premium.

In addition, the county is required by accounting rules to disclose the obligation to pay future retiree costs. According to the latest valuation from the actuaries, the county, College and Department of

Education have a total OPEB liability of \$717.2 million but are funded at only about \$33.0 million. While the county should be paying \$73.8 million per year as its annual required contribution (ARC), the county and the Board of Education pay only the current cost portion of the program at about \$17 million a year. The expense projection model the committee is using phases in the additional OPEB contributions above current costs and projects the county will reach full funding of the ARC by FY 2020.

While balancing resources and demands, what level of debt can the county afford and how does that translate into bonds authorized in the budget? Using the expenditure/revenue projection model in Appendix II, the committee looked at several different scenarios for future expenditure and debt levels. The committee used growth rates for expenditures and revenues that reflect the actual results of the past few years.

The committee determined that the most significant factor in determining the ability of the county to balance the budget within existing revenues was the level of spending on education. The committee had extensive discussions about what that level should be. County governments in Maryland do not have full budgetary discretion in funding education. The state-required Maintenance of Effort will increase funding for classroom operations by about one percent annually, based on student enrollment. The committee did not believe that this level of funding increase could sustain Howard County's first class school system. In the projection model the committee used a growth rate of 4% a year, not including increases in teacher pension costs.

The committee discussed the implications of the authorized debt levels on revenue streams and the need to maintain essential infrastructure to ensure that the county maintains its quality of life. As happened last year, the majority of the committee believed this is not the time to reduce spending on critical infrastructure needs. While construction costs are starting to increase, interest rates remain low. Postponing essential repairs and improvements that will have to be done in future years when costs are higher will not serve the long-term interests of the county.

The committee found that relatively small changes in levels of bond authorization do not have a substantial impact on total spending levels because bond costs are amortized over a 20-year period. The committee believes that one hundred twenty million dollars (\$120,000,000) of new bonds each year supported by general fund revenues continues to be an affordable level. The committee believes

that the assumptions used in the revenue/expenditure projection model are sustainable and reasonable given the best information available at this time. Changing economic conditions could affect those assumptions in the future.

The Spending Affordability Committee reached the following conclusions and makes the following recommendations for Fiscal Year 2015:

- 1. Based on reasonable economic projections, the county's total revenues are in a period of slower growth in property taxes and stronger growth in income taxes. However, the County needs to be concerned about the potential impact of the reduction in federal spending and will have to monitor revenues carefully to reflect the new reality.**
- 2. Based on current economic trends and outlooks, spending levels will need to be monitored continuously, with appropriate changes made as conditions warrant. The committee wishes to make a strong statement that the county needs to keep spending increases within the parameters of projected revenues.**
- 3. The committee recommends a bond level funding of \$120 million to meet outstanding capital needs. Even at this level, county leaders will have to make some difficult decisions to keep spending within realistic and reasonable levels. The county must continue to carefully monitor expenditures to ensure that the spending stays within budgeted levels and must continuously observe revenues to identify any variations from projected levels. Increased inflation is often one of the outcomes of recovery and such pressures need to be carefully monitored because of the potential impact on spending.**
- 4. The committee members are very concerned about the operating expenses facing the county. Among the most critical are the county's OPEB liability, growing health care costs, and the level of education funding. Committee members share the opinion that county officials should be mindful of these significant expenses and should make pragmatic future spending projections. In addition, county leaders need to seek opportunities in every area to find efficiencies that achieve reduced costs or increased net revenues in both the short and long term.**

5. **To the extent there are changes in economic conditions, the assumptions underlying the committee’s recommendations may also change. Consequently, the county must continue to closely monitor economic conditions and to evaluate revenue and expenditures on an ongoing basis.**

## **The Challenges Facing the County**

### **A. The Challenge of a Changing Revenue Pattern**

As the “Great Recession” that began in 2008 has receded, the recovery seems to be gathering steam in Howard County. Over the past six years, the county had the challenge of managing and balancing budgets through the worst recession faced by most of us in our lifetimes. While Howard County may have been better positioned than many other jurisdictions to avoid the worst consequences of the recession, it did not escape its impact. Housing prices and sales declined, unemployment doubled, and many businesses closed. As a result, Howard County’s budget revenues contracted and the size of the budget fell. In response, the county implemented budget savings including conditional hiring freezes, furloughs, and spending cuts to ensure that it ended the year with a balanced budget. During this past year the county was able return to more normal spending patterns and was able to suspend many of the spending cutbacks that had been put in place.

For the past year the economy has been in a period of recovery. Unemployment has declined to its lowest level since 2008 and residential housing prices have returned to near 2007 levels. This year the area of the county that was reassessed showed the first increase in residential assessments since 2008, and there has been an increase in personal income and income tax collections. However, the recession will continue to have an impact on the county for many years to come. Prior to the recession the county had two strong and growing revenue sources to absorb the demands for services: the property tax and the income tax. They made up almost 90% of general fund revenues and together provided revenue growth of greater than 5% a year. It is likely there will be slow growth in property tax revenues for at least the remainder of this decade. Because of the triennial system of property assessment in use in this state, and the way increases in property value are phased in over several years, it is projected the assessable base will grow by only about three percent a year.

As a result of the collapse of the housing boom, and the resulting declines in housing values and assessable base, there is only one large revenue source left: the income tax. Thus, the county faces a new reality in its understanding of revenue growth. For at least the remainder of this decade, revenue growth will likely be slower than it has been over the last ten years. Additionally, because the income

tax is more sensitive to short-term changes in the economy, revenues will be more volatile, and county leaders will have to be careful in their spending decisions. Given the limited resources available to the county and the lower expected growth rate in revenues, tough choices and decisions must be made about the capital and operating budgets so affordable levels can be maintained. These tough choices must be made while recognizing the significant needs to build, renovate, and operate schools and to maintain its infrastructure of roads, storm drains, buildings, facilities, and parks.

## **B. The Challenge of Funding Retiree Benefits**

The county faces the additional challenge of maintaining or expanding current levels of service while paying for the rapidly expanding costs of retiree pensions and health care.

In 2012 the Maryland General Assembly made a decision to transfer a portion of the teachers' pension system cost from the State to the Counties to be phased in over four years. In FY 2014 the additional cost to the County was \$12.45 million and will increase to \$14.9 million in FY 2015. It is projected that costs will grow to near \$24 million a year by FY 2017. This obligation is putting pressure on the County to balance the budget without reducing important services including education, public works and public safety.)

Over the past ten years the county has come to recognize that it was not adequately funding retiree health costs for both county and education employees. The county maintains a post-employment health insurance program for retired county employees who have worked in the county for more than 15 years, whereby the county will pay a percentage of the retiree's health insurance premium. The county is required by accounting rules to disclose the obligation to pay future retiree costs. According to the latest valuation from the actuaries, the county, college and Department of Education have a total OPEB liability of \$717.2 million, but are funded at only about \$33.0 million. While the county should be paying \$73.8 million per year as its annual required contribution (ARC), the county and the Board of Education pay only the current cost portion of this program for current retirees at about \$17 million a year.) The preceding is almost word for word in the summary and introduction section. It should be shortened and made more concise in that section and kept the way it is here. The expense projection model the committee is using phases in the additional OPEB contribution above Paygo at an increasing level and projects that the county will reach full funding of the ARC by FY 2020. The committee also heard presentations that predicted that health care expenses for current employees will continue to

increase as a percentage of the budget as the population of retired employees grows larger as a percent of the county work force.

The challenge of funding the capital budget is also daunting. Despite the recession, the county continues to face pressures to fund needed school renovations, community college enhancements, park expansions, facilities for fire and other county services, transportation improvements, storm drains and infrastructure maintenance. The level of funding requested for capital expenditures is likely to translate into future debt service payments which will strain the ability of the county to fund them and raises the following questions:

**What level of service can the county provide to county residents while maintaining both its pension obligation and a level of taxes and fees citizens are willing and able to pay?**

**How many bonds can the county afford to include in the budget without unduly burdening future cash flows, jeopardizing its bond ratings, or impacting the ability to afford other services?**

These are some of the key issues the committee discussed during its deliberations.

## **Background and Forecasts**

### **Background**

Howard County spending affordability committees have been presenting reports to county executives and the county council since the late 1980's. During that time the county's economy has gone through several economic cycles, making it clear that the county must carefully monitor the use of tax dollars and attempt to project future revenue growth accurately. With this in mind, the committee's task has been to assess the county's ability to repay bond debt and gauge overall expenditure levels without compromising its ability to maintain a balanced budget within available revenues. It is also the committee's responsibility to watch overall spending levels in the operating budget. This review is an important element of the budget process and includes recommendations regarding overall spending levels as well as the amount of new debt the county can assume without overburdening itself with debt service payments.

In past reports, the committee has examined four statistical measures often used by rating agencies to determine debt capacity. The measures have been retained as guidelines for comparison purposes but

are no longer the central focus of the report and are now listed in Appendix I. They indicate that the county can afford a certain level of debt, but they do not take into account other spending needs or what impact increased debt service payments would have on other services. Further, these measures may not adequately take into account near term changes in future tax revenues. Therefore, the committee reviewed a financial model developed by the budget office, which projects general fund revenue growth and future levels of spending for county agencies based on certain assumptions. The committee looked at different growth scenarios to determine what different levels of debt and funding/spending levels in the operating budget would have on the ability of the county to balance the budget and maintain a reasonable fund balance. The committee used this model to reach its conclusions and recommendations for this report. A printout of the budget office's projection is included in Appendix II.

### **How the Committee Approached its Task**

The committee began by examining the current economic conditions in the county to determine the potential for future revenue growth. Renee Mierczak, the supervisor of assessments for Howard County, discussed the process of assessments and property taxation as well as trends in assessments for the county and state. Jeff Bronow, the chief of research in the Department of Planning and Zoning, presented information on the county's demographics and planned growth in the context of the county's General Plan. He noted that according to projections, development over the next two decades will include more multi-dwelling households with lower assessed value than were built during the past decade when more single-family houses were built. This could impact the level of revenue growth for the county. Kent Menser, executive director of the Howard County Base Realignment and Closure Office and deputy coordinator of the Fort Meade Regional Growth Management Committee, discussed the potential and real impact of Fort Meade and the Cyber Command based there and its impact on the Howard County economy. Dr. Richard Clinch, a research economist for the Battelle Technology Partnership Practice, presented his analysis of the national, state and county economies and discussed his projections for growth in personal income in the county.

The committee also reviewed the expenditure challenges facing the county. Ken Roey, the chief facility officer for the Department of Education, discussed the budget challenges facing the school system infrastructure. Lynn Coleman, the dean of administration at Howard Community College, discussed the operating and capital challenges the college faces. James Irvin, the county director of Public Works, talked about the facility and infrastructure challenges facing the county. James Caldwell, the county's storm water manager, discussed the challenge of complying with the federal and

state mandates to remediate storm water runoff. Chief of Police William McMahon presented the challenges he faces in maintaining public safety as well as what changes may be necessary to maintain and expand police service as the county grows and changes. County Budget Director Raymond Wacks briefed the committee on the current fiscal situation and the details of pension and retiree health insurance funding for county and Board of Education employees.

### **The National and Local Economy**

Dr. Richard Clinch, a Research Economist for the Battelle Technology Partnership Practice, was retained to prepare a review of the national, state and local economies, as well as a county personal income projection. He was asked to emphasize their expected impact on county finances. The key findings of this analysis are as follows:

- *The national economy ended 2012 with a period of domestic political conflict over the budget and taxes coupled with international economic uncertainty, especially in Europe, that put the national recovery at risk. Reductions in domestic political and international economic uncertainty led to a continuing slow and steady economic recovery, with both economic activity and employment improving in 2013. Gross domestic product (GDP) increase by 1.9%, national employment increased by 1.7%, and the national unemployment rate fell from 7.8% in December 2012 to 6.6% in January 2013;*
- *Maryland, because of its reliance on federal spending, was spared the worst of the Great Recession and fared better than most other states; however, reductions in federal spending and employment hampered Maryland's economic recovery in 2013;*
- *Howard County has outperformed the nation and the state in terms of economic, employment and population growth over the past decade. While overall employment fell with the recession, the County employment base fully recovered by 2011 and the County actually added jobs in the high wage professional services, education and health care sectors;*
- *While Howard County continues to be significantly exposed to the declining federal employment and contracting sectors, there are reasons to believe that expected ongoing weakness in these sectors will have continue to have less of an impact on the County than the State as a whole. Howard County's population of highly educated federal and federal contractor employees residing in and the expanding base of high technology, national and cyber security, and research and development federal contractors located in the County are less likely to be as significantly impacted by continuing reductions in federal spending in the near term; and*
- *Personal income in Howard County is projected to grow by 3.8% in FY 2013, 4.7% in FY2014, 6.6% in FY2015 and 6.7% in FY2016. On an annual basis, County personal income is projected to grow by 3.0% in 2013, 6.4% in 2014, 6.8% in 2015 and 6.6% in 2016.*

Ninety percent of the county's general fund revenues come from local property (49%) and income taxes (42%). These two sources largely determine the level of budget expenditures. Because of the way the assessment process works in Maryland and because of the five percent assessment growth cap the county has implemented, property tax revenues are not as sensitive to short-term fluctuations in the

economy. Growth in personal income, which affects income tax growth, is influenced by short-term economic changes. The other revenue sources that have provided general fund revenue growth over the past few years have been real estate-based revenues, such as the recordation tax and development-based licenses, fees, and charges. For FY 2014 the budget office expects these revenues to be at levels comparable to FY 2015.

Based on their own experience, as well as discussions with economists, business leaders, and representatives of the real estate industry, committee members believe that despite the projections of a national and local recovery, the county should be vigilant in projecting revenue growth, particularly with regard to the impact of federal employment. Recent events have shown how quickly economic conditions can change.

## **Revenue Estimates**

### **Property Tax - Real Property**

Property tax growth is governed by growth in the assessable base of the county. Maryland uses a triennial assessment process. In that process one third of the county's residential and commercial/industrial property is reassessed each year, and the assessment adjustment increase is phased in over a three-year period. This means any change in the base occurs in a predictable manner. The county has a 5 percent annual growth cap on assessment increases that can be taxed in any one year for homeowner occupied properties. Thus, if a triennial reassessment increase on a property is more than 15 percent, it will take more than three years fully to phase in the increase. In contrast, when a property assessment decreases, the reduction takes place immediately and remains level until the property is reassessed three years later.

For most of the past thirty years, surging housing prices led to substantial and sustained increases in assessed value. In some years there were increases of up to 74%. That growth was phased in at 5 percent a year. As a result, there is a gain in taxable value from prior years that has not been realized in the taxable assessable base. While this gain may be degraded by declines in assessable value, it is still likely that there are at least several years of deferred growth to be phased in. However, the era of large increases in the assessable base caused by the bubble in the real estate market is clearly over. For the upcoming fiscal year, properties were assessed in Area I, which covers the western and southern tiers of the county, including the rural west and south to the Route 1 corridor near Savage and Laurel. In this area, residential property assessments increased by an average of 6 percent - the first increases in

the residential assessable base since 2008 - and will be phased in by a 2 percent increase over each of the next three years. This is the second time Area I has been reassessed since house prices began to fall. There were also sizable increases in commercial real property assessments, causing a general increase in the assessable base for Area I. Howard County was one of only eight counties in the state that showed an increase in the assessable base. After discussions with officials at the Department of Assessment and Taxation, the Budget Office projects that residential assessments in Area III, due to be reassessed in the fall of 2014 for the FY 2016 fiscal year, will increase by an additional 6 percent. If that increase happens, it will be phased in with 2 percent growth in that area for FY 2016, 2017 and 2018.

What will be the effect of this dramatic change in assessments? A combination of the triennial assessment process and the five percent cap on growth in taxable assessable base has worked to smooth out and defer much of the growth of the last several years. However, just about all of that deferred assessment increase has been depleted. In FY 2010, the peak, the county deferred \$105 million in revenue because of the assessment cap. The Budget Office estimates that in FY 2015 the value of this credit deferment will fall to \$7.4 million. The difference between the full assessed value and the value after deducting the Homestead Tax Credit is referred to as the difference between the gross base and the net assessable base.

The portion of the real property assessable base that consists of commercial and industrial property is assessed using the estimated cash flow from the profits generated from that property. Commercial property is not subject to the same 5 percent cap as residential property. Any increases in this portion of the base are phased in over a three-year period regardless of the size of the increase. However, the owners of commercial and industrial property have been vigilant in seeking assessment appeals when the cash flow and profits from their property decline.

Because the reassessments of existing property for Fiscal 2015 are already complete, most of the real property assessable base has already been determined. The only unknown factor is the amount of new construction that will be added to the base between now and July 1, 2014. Based on a projection of that new growth, the reassessments of existing property, the phase-in of reassessed property from previous years, and the new construction that has been added to the base during the past year, the Budget Office is projecting a full value real property assessable base of \$43.5 billion. This is a 2.03 percent increase over last year's base. However, because of the phase-in of the 5 percent cap on assessments for long-

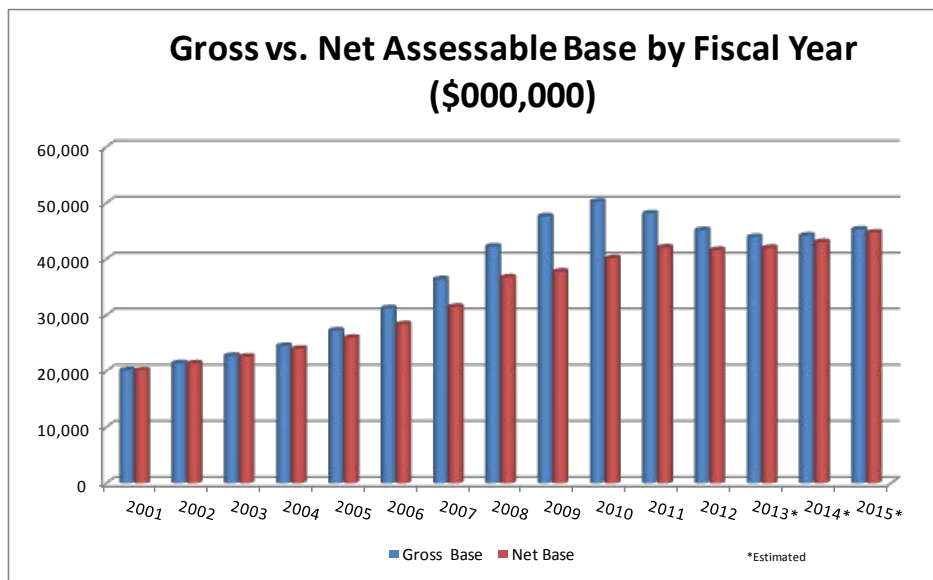
time residents, increases in commercial property and new construction, the Budget Office is projecting 1.9 percent increase in revenue for FY 14 from real property.

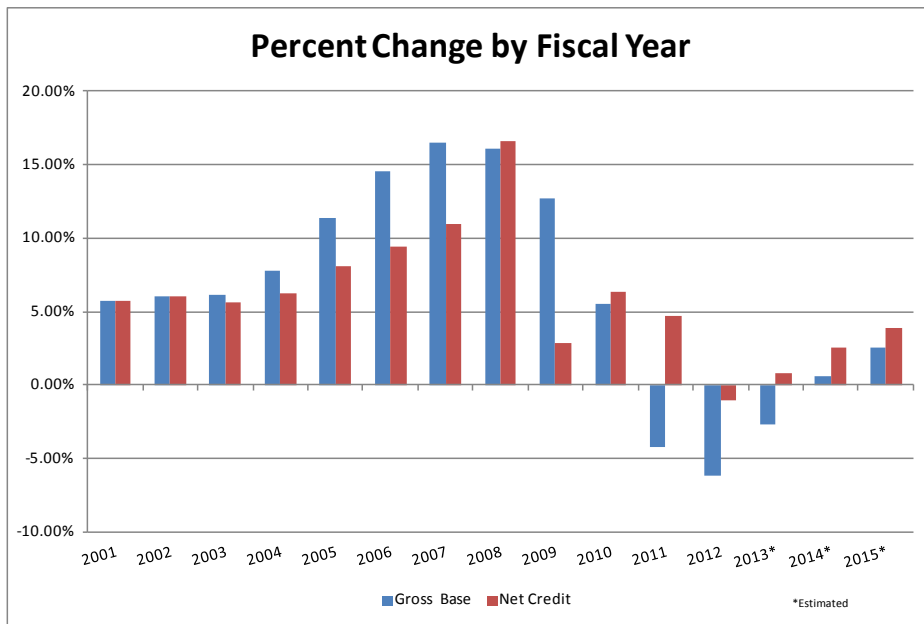
### Corporate Personal Property

Corporate personal property is the depreciated value of equipment owned by businesses in the county and the value of property and equipment for railroads and public utilities such as telephone and energy. Corporate spending for new equipment is the largest driving factor of (this revenue) What revenue? Need referent. History indicates this to be a volatile revenue source with large spikes in growth followed by flat revenues or declines in periods of economic recession. Because of the cutback in federal spending and the uncertainty of its effect on the local economy, the Budget Office is projecting that revenue from personal property taxes will show only marginal growth in FY 2015.

### Summary- Property Taxes

Overall, the total assessable base for both real and personal property is projected to increase by 1.08 percent from \$44.2 billion to \$45.0 billion. However, because of the phase-in of the 5 percent cap, revenues from property taxes are projected to grow by 3.0%. So the revenue increases more than the base? See above. A one-cent increase in the tax rate on real property with an equivalent increase in the corporate rate of 2.5 cents will generate an additional \$4,739,416 in revenue.





## Local Income Tax

According to the Budget Office, local income tax is the most difficult revenue to project and, at the same time, the most important. It is the second largest revenue source in the county and the most economically sensitive. Most of the surpluses the county has generated in the past decade have come from growth higher than predicted in the income tax. Conversely, the revenue shortfalls the county has experienced have occurred because of shortfalls in income tax collections.

Revenue from income tax is derived from several different sources. The first is wages and salaries paid to Howard County residents, including transfer payments such as social security and pension payments. These types of income are included in the calculation of personal income and are more predictable and easier to project than other types. Because of the large number of Howard County residents employed in federal, state, or local government jobs, as well as residents working for corporations that do contract work for the federal government, there is a large pool of salaried workers providing some predictability in projecting that portion of personal income.

Other revenue sources include interest income, business profits, and capital gains from the sale of property and stocks. Such factors are not included in personal income and are more volatile. The committee is concerned that the stock market rise that fueled capital gains growth over the past two years is not sustainable in the long run, and that when the inevitable bear market occurs, it will have a detrimental impact on income tax revenues.

Dr. Clinch's report projected personal income growth in Howard County of 5.6 percent in FY 2015 and 5.7 percent in FY 2016. In support of these projections, he cites the following:

*Howard County, with its large number of residents employed directly by the federal government (13%) and in the government dependent professional services sector, and large base of federal contracting activity, appears to be at substantial risk from continuing reductions in federal spending. However, much of federally supported activity in Howard County is concentrated in research, defense, cyber security, and homeland security activities associated with NSA/Fort Meade. These activities are expected to continue to grow in the near term. Thus, while the Maryland economy continues to be at risk from continuing reductions in federal spending, Howard County, because of its strong linkages to Ft. Meade and its national, cyber and homeland security emphasis, is likely to be far less significantly impacted. Indeed, the projected growth in these activities is likely to continue to support county population, job and income growth in the near term.*

Because of these factors, the committee feels that a 4.5 percent growth in income tax revenues going forward is a reasonable projection.

### **Other Revenues**

Property and income taxes make up about 90 percent of the county's general fund revenues. Other local taxes, state revenues, licenses, permits, charges for services, and investment income account for most of the remaining revenues. Over the past several years these other revenues have been relatively stable, they generally grow as the County expands, and with the rate of inflation. However, with the collapse of the real estate bubble and the credit crises there are two exceptions to this rule - development based revenues and interest income. The County expects that based on current collection patterns in FY 2015 these revenues will remain near level with the amount budgeted in FY 2014. These changes are reflected in the estimates for these other revenues and the county is projecting.

## Revenue Summary

Following is a summary of revenues projected for both Fiscal Year 2014 and Fiscal Year 2015. The long-term projections for revenue are shown on the summary page of the model listed in Appendix II.

### Summary of Revenue Projections

	FY 2014 Budget	FY 2014 Estimated	FY 2015 Projected	Percent change
Property Tax	\$ 460,005,210	\$ 459,680,487	\$ 473,470,902	3.00%
Income Tax	370,000,000	390,800,000	410,340,000	5.00%
Other Local Taxes	27,078,864	30,130,000	31,033,900	3.00%
State Shared Taxes	1,521,000	1,494,298	1,539,127	3.00%
Other	31,370,204	33,314,688	34,314,129	3.00%
Investment Income	599,890	580,890	598,317	3.00%
Inter fund	32,939,051	33,791,855	34,805,611	3.00%
Subtotal	923,514,219	949,792,218	986,101,986	3.82%
Prior Years	46,325,000	-	-	
Total	969,839,219	949,792,218	986,101,986	3.82%

## Appendix I: Howard County Debt Measures

In order to determine Howard County's relative debt position, the committee in past years has evaluated Howard County's debt based on measures used and data published by Moody's Investor Service and International City/County Management Association publications. The measures used by the county are as follows:

1. Debt measured as a percent of the county's assessable base. The county charter limit currently is at 12 percent of assessed value. Because the state of has moved from the 40 percent cash value assessment of real property to full cash value assessment, ,county debt should not exceed 4.8 percent of the full value assessment in order to remain consistent with the Charter limitation.
2. Debt measured against the population on a per capita basis. Per capita debt of \$1,200 (unadjusted for inflation over the past 10 years) Debt above this level may be considered excessive by rating agencies.
3. Per capita debt measured as a percent of the jurisdiction's per capita personal income. This measure should not exceed 10 percent in the view of many analysts.
4. Debt Service as a percent of current revenues. Ten percent or below is considered an appropriate level, with 15 percent and above as a danger point.

Following is the county position as of June 30, 2013 [The comparable position for FY 2012 is shown in brackets]

### Update of the Bond Affordability Measures

#### **Measure #1: Debt as a Percent of the Assessable Base**

As of June 30, 2013[2012], Howard County had an assessable base of **\$44,201,087,307** [\$45,177,520,098] and a General Obligation Debt of **\$951,863,000**[\$835,168,000]. This meant that the ratio of debt to base was **2.15%** [1.84%] of assessed value versus the 4.8% limit.

#### **Measure #2: Debt measured against the population on a per capita basis.**

As of June 30, 2013[12], Howard County had a population of **297,732** [294,256] and a General Obligation Debt of **\$951,863,000** [\$835,168,000] generating a per capita debt of **\$3,197** [\$2,838].

#### **Measure #3: Per capita debt measured as a percent of per capita income.**

For 2013[12], Howard County residents had an estimated per capita personal income of **\$73,761** [\$73,761] and a per capita debt of **\$3,197** [\$2,838] equaling a per capita debt of **4.33%** [3.84%] of per capita income.

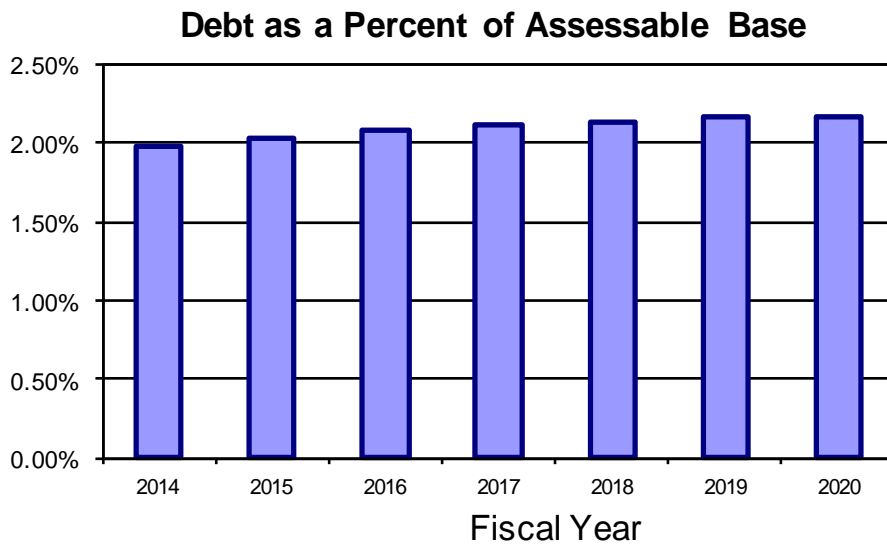
#### **Measure #4: Debt Service as a percent of current revenues.**

In FY 2013 [12], the county received **\$1,013,779,871** [\$965,106,726] in current revenues from the General Fund, Fire and Rescue Fund, and Environmental Fund, and paid debt service of **\$90,070,081** [\$91,581,420]. Thus, debt service equaled **8.88%** [9.49%] of current revenues.

**Measure #1: Howard County’s General Fund Debt as a Percent of the Assessable Base**

**Warning Level: Debt above the Charter limit of 4.8% at full cash value.**

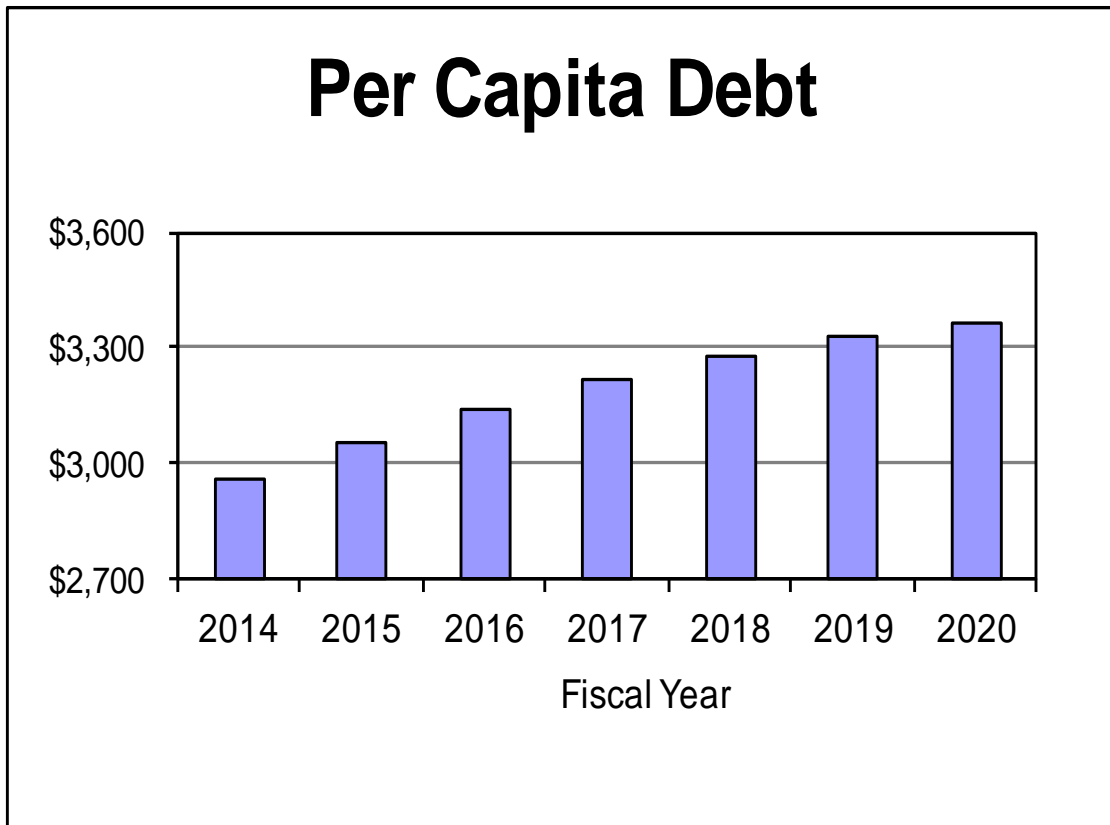
		Assessable Base	Percent of Base
FY	2014	44,200,210,734	1.98%
FY	2015	44,918,071,229	2.03%
FY	2016	45,647,803,655	2.08%
FY	2017	46,389,605,419	2.11%
FY	2018	47,143,677,220	2.14%
FY	2019	47,910,223,096	2.16%
FY	2020	48,689,450,485	2.17%



**Measure #2: Debt Measured Against the Population on a Per Capita Basis**

Warning Level: General Obligation Debt Per Capita of greater than \$1,200.

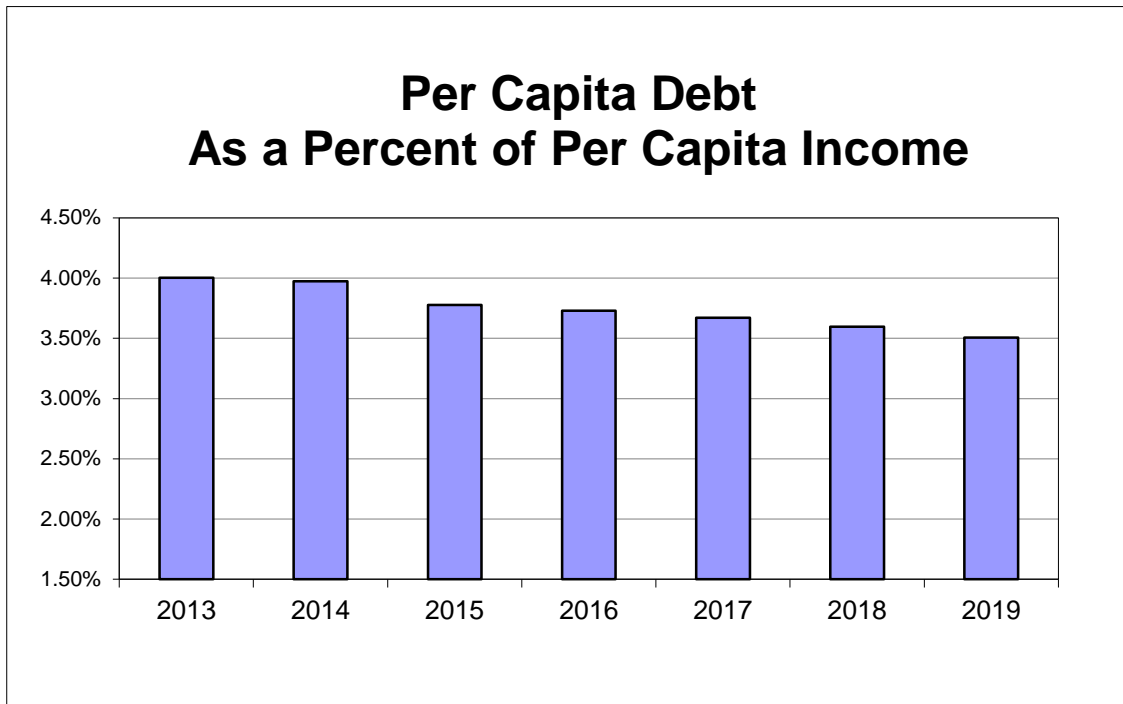
		Estimated Population	G.O. Debt Per Capita
FY	2014	295,884	2,961
FY	2015	298,843	3,056
FY	2016	301,831	3,139
FY	2017	304,850	3,214
FY	2018	307,898	3,279
FY	2019	310,977	3,329
FY	2020	314,087	3,366



**Measure #3: Per Capita General Obligation Debt Measured As a Percent of Per Capita Personal Income**

Warning Level: Per capita debt that is equal to 10% of per capita income for the county.

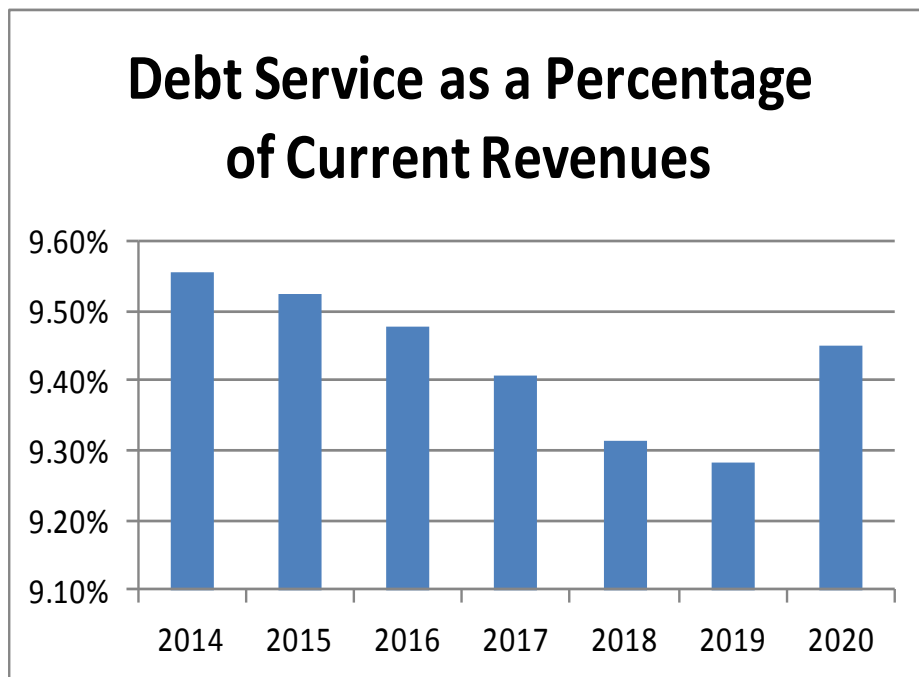
		Estimated Population	HoCo Personal Income	Personal Income Per Capita	G.O Per Capita Debt as a Percentage of Per Capita Income
FY	2013	290,311	20,595,000,000	70,941	4.00%
FY	2014	293,214	21,624,750,000	73,751	3.97%
FY	2015	296,146	22,705,987,500	76,672	3.78%
FY	2016	299,108	23,841,286,875	79,708	3.73%
FY	2017	302,099	25,033,351,219	82,865	3.67%
FY	2018	305,120	26,285,018,780	86,147	3.60%
FY	2019	308,171	27,599,269,719	89,558	3.51%



#### Measure #4: General Obligation Debt Service as a Percent of Current Revenue

Warning Level: Debt service as a percent of current revenues more than 15%. In past reports, Howard County has used 12% as a target level.

		Projected New Debt Service	Projected Revenue	Debt Service/Current Revenues
FY	2014	97,013,171	1,015,507,038	9.55%
FY	2015	99,556,753	1,045,333,444	9.52%
FY	2016	102,839,339	1,085,157,151	9.48%
FY	2017	105,054,296	1,116,760,426	9.41%
FY	2018	107,064,169	1,149,376,687	9.31%
FY	2019	109,809,927	1,183,040,551	9.28%
FY	2020	115,061,014	1,217,787,877	9.45%



Appendix II  
Howard County Revenue/Expenditure Growth  
Projection Model



General Fund Forecast - FY15 thru FY20							
			OUT YEAR PROJECTIONS				
	FY14	Estimated	FY16	FY17	FY18	FY19	FY20
EDUCATION	Budget	FY15					
Board Of Education	497,485,719	517,385,148	538,080,554	559,603,776	581,987,927	605,267,444	629,478,142
Teacher Pension Payment	12,448,477	14,909,000	17,284,000	24,189,190	24,914,866	25,662,312	26,432,181
Total Board of Education	509,934,196	532,294,148	555,364,554	583,792,966	606,902,793	630,929,756	655,910,323
Community College	29,131,683	30,296,950	31,508,828	32,769,181	34,079,949	35,443,147	36,860,873
Dept. Of Library	17,676,124	18,383,169	19,118,496	19,883,236	20,678,565	21,505,708	22,365,936
<b>SUBTOTAL:</b>	<b>556,742,003</b>	<b>580,974,267</b>	<b>605,991,878</b>	<b>636,445,383</b>	<b>661,661,306</b>	<b>687,878,610</b>	<b>715,137,131</b>
<b>PUBLIC SAFETY</b>							
Department of Police	96,614,674	99,996,188	103,496,054	107,118,416	110,867,561	114,747,925	118,764,103
Department of Corrections	15,621,589	16,051,183	16,492,590	16,946,136	17,412,155	17,890,989	18,382,992
<b>SUBTOTAL:</b>	<b>112,236,263</b>	<b>116,047,370</b>	<b>119,988,644</b>	<b>124,064,553</b>	<b>128,279,716</b>	<b>132,638,915</b>	<b>137,147,094</b>
<b>PUBLIC FACILITES</b>							
Dept. Of Public Works	44,499,237	45,722,966	46,980,348	48,272,307	49,599,796	50,963,790	52,365,294
Insp. Licenses & Permits	6,986,691	7,178,825	7,376,243	7,579,089	7,787,514	8,001,671	8,221,717
Dept. of Planning & Zoning	6,949,393	7,140,501	7,336,865	7,538,629	7,745,941	7,958,955	8,177,826
Soil Conservation	629,127	646,428	664,205	682,470	701,238	720,522	740,337
<b>Subtotal</b>	<b>59,064,448</b>	<b>60,688,720</b>	<b>62,357,660</b>	<b>64,072,496</b>	<b>65,834,489</b>	<b>67,644,938</b>	<b>69,505,174</b>
<b>COMMUNITY SERVICES</b>							
Citizen Services	9,463,958	9,724,217	9,991,633	10,266,403	10,548,729	10,838,819	11,136,886
Health Department	9,084,838	9,334,671	9,591,374	9,855,137	10,126,154	10,404,623	10,690,750
Mental Health Authority	400,000	411,000	422,303	433,916	445,849	458,109	470,707
Transportation Svcs/Coord.	7,715,078	7,927,243	8,145,242	8,369,236	8,599,390	8,835,873	9,078,860
University of MD Extension	450,011	462,386	475,102	488,167	501,592	515,386	529,559
Community Service Partner.	8,096,574	8,319,230	8,548,009	8,783,079	9,024,614	9,272,790	9,527,792
Social Services	532,589	547,235	562,284	577,747	593,635	609,960	626,734
Recreation & Parks	17,046,021	17,514,787	17,996,443	18,491,345	18,999,857	19,522,353	20,059,218
<b>Subtotal</b>	<b>52,789,069</b>	<b>54,240,768</b>	<b>55,732,390</b>	<b>57,265,030</b>	<b>58,839,819</b>	<b>60,457,914</b>	<b>62,120,516</b>
<b>GENERAL GOVERNMENT</b>							
County Executive	1,121,974	1,152,828	1,184,531	1,217,106	1,250,576	1,284,967	1,320,304
County Administration	9,652,077	9,917,509	10,190,241	10,470,472	10,758,410	11,054,267	11,358,259
Dept. Of Finance	7,408,708	7,612,447	7,821,790	8,036,889	8,257,903	8,484,996	8,718,333
Office Of Law	3,566,274	3,664,347	3,765,116	3,868,657	3,975,045	4,084,359	4,196,678
Economic Development	2,113,810	2,171,940	2,231,668	2,293,039	2,356,098	2,420,890	2,487,465
Technology & Communication	235,846	242,332	248,996	255,843	262,879	270,108	277,536
Tuition Reimbursement	0	0	0	0	0	0	0
<b>Subtotal</b>	<b>24,098,689</b>	<b>24,761,403</b>	<b>25,442,342</b>	<b>26,142,006</b>	<b>26,860,911</b>	<b>27,599,586</b>	<b>28,358,575</b>
<b>CAPITAL / RESERVES</b>							
<b>Debt Service</b>	<b>97,087,324</b>	<b>100,364,592</b>	<b>104,067,284</b>	<b>107,324,722</b>	<b>110,965,603</b>	<b>115,260,198</b>	<b>122,331,433</b>
Contingency Reserves	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
<b>OPEB</b>	<b>5,000,000</b>	<b>10,000,000</b>	<b>15,000,000</b>	<b>20,000,000</b>	<b>25,000,000</b>	<b>30,000,000</b>	<b>35,000,000</b>
<b>Subtotal</b>	<b>104,087,324</b>	<b>112,364,592</b>	<b>121,067,284</b>	<b>129,324,722</b>	<b>137,965,603</b>	<b>147,260,198</b>	<b>159,331,433</b>
<b>LEGISLATIVE &amp; JUDICIAL</b>							
County Council	3,702,229	3,804,040	3,908,651	4,016,139	4,126,583	4,240,064	4,356,666
Circuit Court	2,521,224	2,590,558	2,661,798	2,734,997	2,810,210	2,887,491	2,966,897
State's Attorney	7,358,404	7,560,760	7,768,681	7,982,320	8,201,834	8,427,384	8,659,137
Orphans Court	58,885	58,449	60,057	61,708	63,405	65,149	66,940
Sheriff	6,947,419	7,138,473	7,334,781	7,536,488	7,743,741	7,956,694	8,175,503
Board of Elections	2,611,739	2,690,091	2,770,794	2,853,918	2,939,535	3,027,721	3,118,553
<b>Subtotal</b>	<b>23,197,900</b>	<b>23,842,372</b>	<b>24,504,762</b>	<b>25,185,570</b>	<b>25,885,308</b>	<b>26,604,503</b>	<b>27,343,696</b>
<b>Grand Subtotal</b>	<b>932,215,696</b>	<b>972,919,493</b>	<b>1,015,084,959</b>	<b>1,062,499,760</b>	<b>1,105,327,152</b>	<b>1,150,084,663</b>	<b>1,198,943,609</b>
Pay Go, Non-Dept & Transfer Out							
<b>TOTAL GF BUDGET</b>	<b>932,215,696</b>	<b>972,919,493</b>	<b>1,015,084,959</b>	<b>1,062,499,760</b>	<b>1,105,327,152</b>	<b>1,150,084,663</b>	<b>1,198,943,609</b>
Revenue	949,792,218	986,101,985	1,023,891,844	1,063,225,739	1,104,170,509	1,146,796,021	1,191,175,318
<b>Difference</b>	<b>17,576,522</b>	<b>13,182,492</b>	<b>8,806,885</b>	<b>725,980</b>	<b>-1,156,644</b>	<b>-3,288,642</b>	<b>-7,768,291</b>
Expenditure Percentage Increase	6.45%	4.37%	4.33%	4.67%	4.03%	4.05%	4.25%
Revenue Percentage Increase	3.96%	3.82%	3.83%	3.84%	3.85%	3.86%	3.87%

Revenue Estimates-Summary								
	Audited	Estimated	Projected	Projected	Projected	Projected	Projected	Projected
Revenue	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Property Taxes	448,064,888	459,680,487	473,470,902	487,675,029	502,305,280	517,374,438	532,895,671	548,882,541
Income Tax	374,358,092	390,800,000	410,340,000	430,857,000	452,399,850	475,019,843	498,770,835	523,709,376
Other Local Taxes	29,354,292	30,130,000	31,033,900	31,964,917	32,923,865	33,911,580	34,928,928	35,976,796
State Shared Taxes	1,422,086	1,494,298	1,539,127	1,585,301	1,632,860	1,681,846	1,732,301	1,784,270
Other--See Below	31,929,459	33,314,688	34,314,129	35,343,552	36,403,859	37,495,975	38,620,854	39,779,480
Investment Income	686,344	580,890	598,317	616,266	634,754	653,797	673,411	693,613
Interfund Reimb. & Transfers	27,794,654	33,791,855	34,805,611	35,849,779	36,925,272	38,033,031	39,174,021	40,349,242
<b>SubTotal</b>	913,609,815	949,792,218	986,101,985	1,023,891,844	1,063,225,739	1,104,170,509	1,146,796,021	1,191,175,318
Prior Years Funds	0	0						
<b>General Fund Revenue</b>	<b>\$ 913,609,815</b>	<b>\$ 949,792,218</b>	<b>\$ 986,101,985</b>	<b>\$ 1,023,891,844</b>	<b>\$ 1,063,225,739</b>	<b>\$ 1,104,170,509</b>	<b>\$ 1,146,796,021</b>	<b>\$ 1,191,175,318</b>

Notes:

1. Other includes Licenses & Permits, Funds Other Agencies, Charges for Services, Fines/Forfeitures & Misc. revenues
2. Property tax revenue growth rate is estimated at 4.5%.
3. Income tax revenue growth rate is estimated at 6.0%.
4. All other revenues grow at a rate of 3.00%.