Fiscal Impact Study Frequently Asked Questions – September 5, 2019

What is a fiscal impact study?

A fiscal impact study estimates the revenues generated from new development and the operating and capital costs required to serve new development. The net fiscal impacts are the revenues minus the costs. If revenues are greater than costs, then net fiscal surpluses result (also referred to as net revenues), and if costs are greater than revenues, then net fiscal deficits result. All major and minor revenues and costs are evaluated. This includes all capital costs such as the cost to build new schools, parks, libraries, fire stations and other capital facilities. The fiscal report details all the revenue and all the operating and capital costs that have been evaluated and the methodologies used to evaluate each.

A fiscal impact study is different than an economic impact study. Whereas a fiscal impact study measures the impact to the County's budget, an economic impact study measures the impact of new development on the broader economy such as the number of new jobs created, and the amount of direct, indirect and induced monetary stimulus to the local and regional economies.

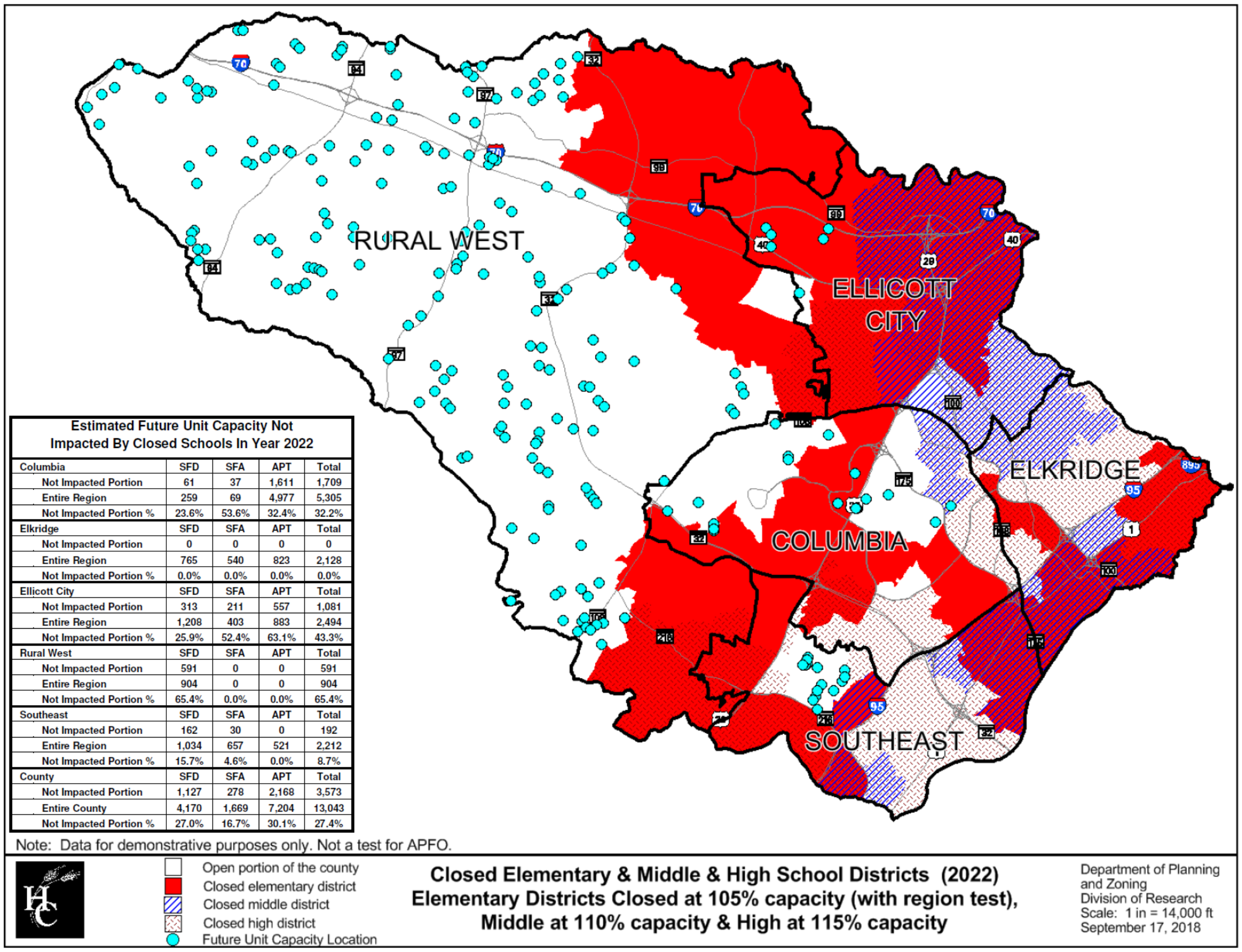
Why was this fiscal impact study done?

The FY2019 Spending Affordability Advisory Committee recommended that Howard County issue a request for proposals to hire an economic consultant to conduct a fiscal impact analysis to study the effects of recent amendments to the Adequate Public Facilities Ordinance (APFO). Urban Analytics, a fiscal and economic consulting firm located in Alexandria, Virginia, was selected to conduct the fiscal study. The purpose of the study was to help the County develop accurate revenue and expenditure projections accounting for the APFO amendments, providing important information for long-term planning purposes.

The fiscal study focused on APFO amendments adopted in early 2018. The amendments imposed more restrictive school capacity test standards designated to take effect after the beginning of 2019. School capacity utilization rates, a standard used to determine whether a school district is closed to new development, were lowered from 115% to 105% for elementary school districts and regions and from 115% to 110% for middle school districts. A new high school district test was added, closing high school districts to new development at 115% capacity utilization. The new school capacity chart implementing these changes was adopted by the County Council on July 1, 2019.

The recent changes to the school capacity test result in closing a significant portion of the County to new development, triggering significantly less residential growth and less commercial growth than projected in *PlanHoward 2030*, which was adopted in 2013.

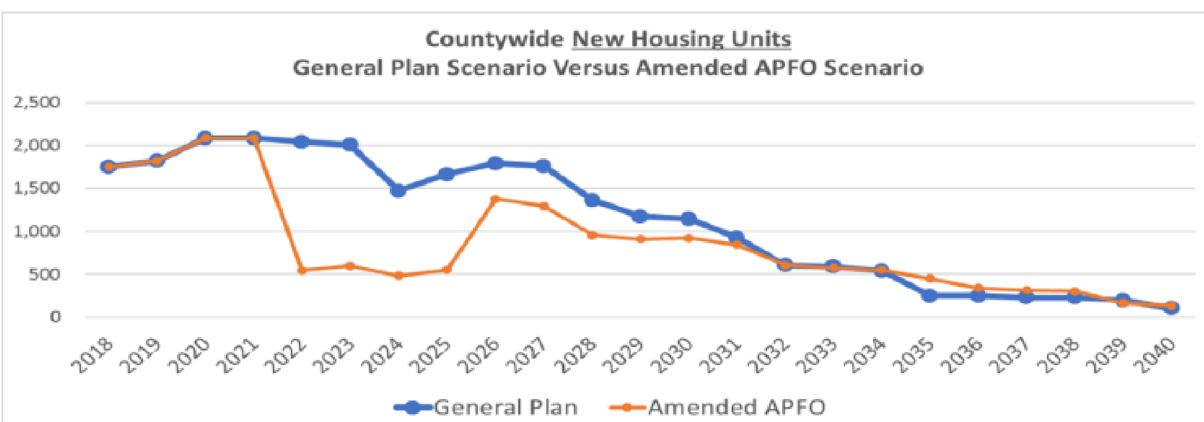
The map below shows the portions of the County closed to new development based on the school capacity chart adopted by the County Council on July 1, 2019. The colored portions of the map represent the elementary, middle and high school districts closed to new development. The table below the map (Table 5) shows future residential development for the adopted General Plan projections compared to the impact from the amendments to APFO.



Estimated Future Unit Capacity Not Impacted By Closed Schools In Year 2022

Columbia	SFD	SFA	APT	Total
Not Impacted Portion	61	37	1,611	1,709
Entire Region	259	69	4,977	5,305
Not Impacted Portion %	23.6%	53.6%	32.4%	32.2%
Elkridge	**SFD**	**SFA**	**APT**	**Total**
Not Impacted Portion	0	0	0	0
Entire Region	765	540	823	2,128
Not Impacted Portion %	0.0%	0.0%	0.0%	0.0%
Ellicott City	**SFD**	**SFA**	**APT**	**Total**
Not Impacted Portion	313	211	557	1,081
Entire Region	1,208	403	883	2,494
Not Impacted Portion %	25.9%	52.4%	63.1%	43.3%
Rural West	**SFD**	**SFA**	**APT**	**Total**
Not Impacted Portion	591	0	0	591
Entire Region	904	0	0	904
Not Impacted Portion %	65.4%	0.0%	0.0%	65.4%
Southeast	**SFD**	**SFA**	**APT**	**Total**
Not Impacted Portion	162	30	0	192
Entire Region	1,034	657	521	2,212
Not Impacted Portion %	15.7%	4.6%	0.0%	8.7%
County	**SFD**	**SFA**	**APT**	**Total**
Not Impacted Portion	1,127	278	2,168	3,573
Entire County	4,170	1,669	7,204	13,043
Not Impacted Portion %	27.0%	16.7%	30.1%	27.4%

Table 5: New Housing Units – General Plan vs. APFO – *Trend Line*



Source: Howard County, Maryland, Department of Planning; University of Baltimore, Jacob France Institute; Artemel & Associates, Inc.; Urban Analytics, Inc.

What are the results of the APFO fiscal impact study?

The net fiscal impact of the 2018 APFO amendments is a projected reduction of $63 million in net revenues to the County during the first six years and a projected $152 million reduction over 20 years. According to the study, the net reduction in revenue occurs because new development generates more revenues than expenditures incurred, and less new development will result in less net revenue to the County. Both residential and non-residential development generate positive fiscal results. All numbers in the study reflect a constant dollar analysis without assuming inflation or price increases over the 20 years.

Why is new housing development fiscally positive in Howard County?

The report indicates that new housing is fiscally positive because new homes are generally more expensive than existing homes and thus generate relatively higher property and income tax revenues. This is because new homes tend to: (1) be larger than existing homes, (2) use more expensive and better quality building materials today than were used in the 1970s, 1980s and 1990s and thus have higher assessed values, (3) be built on land that is more expensive to acquire and develop today than in previous years, leading to more expensive homes and higher assessed values, and (4) require higher household incomes to qualify for the mortgages to purchase more expensive houses.

Furthermore, the Maryland tax structure allows counties to assess both property tax and local income tax collected by place of residence. This tax structure is unique—most counties in the United States do not have a direct local income tax and may rely on other forms of local revenues such as local retail sales tax. Additionally, the County's Capital Improvement Plan (CIP) is supported by funding sources that are reliant on new development—school surcharge, road excise tax, and transfer tax.

Have there been fiscal impact studies done before in Howard County?

Yes. Fiscal impact studies were conducted as part of the last three General Plans in 1990, 2000, and 2012. All these reports indicate that new growth "pays for itself" given the same reasons stated in the answer to the question above. Fiscal impact studies have also been done for larger scale planned communities in Howard County including Turf Valley, Maple Lawn, Emerson, and Downtown Columbia.

What will be the impact of school redistricting?

The Howard County Public School System (HCPSS) is currently undergoing a redistricting effort to be effective starting with the 2020/21 school year. The redistricting is expected to be systemwide and comprehensive**.** The Board of Education is expected to vote on a redistricting plan in November 2019. To the extent that the redistricting results in capacity being used at currently underutilized schools, the foregone net revenues projected in the fiscal impact study may change.

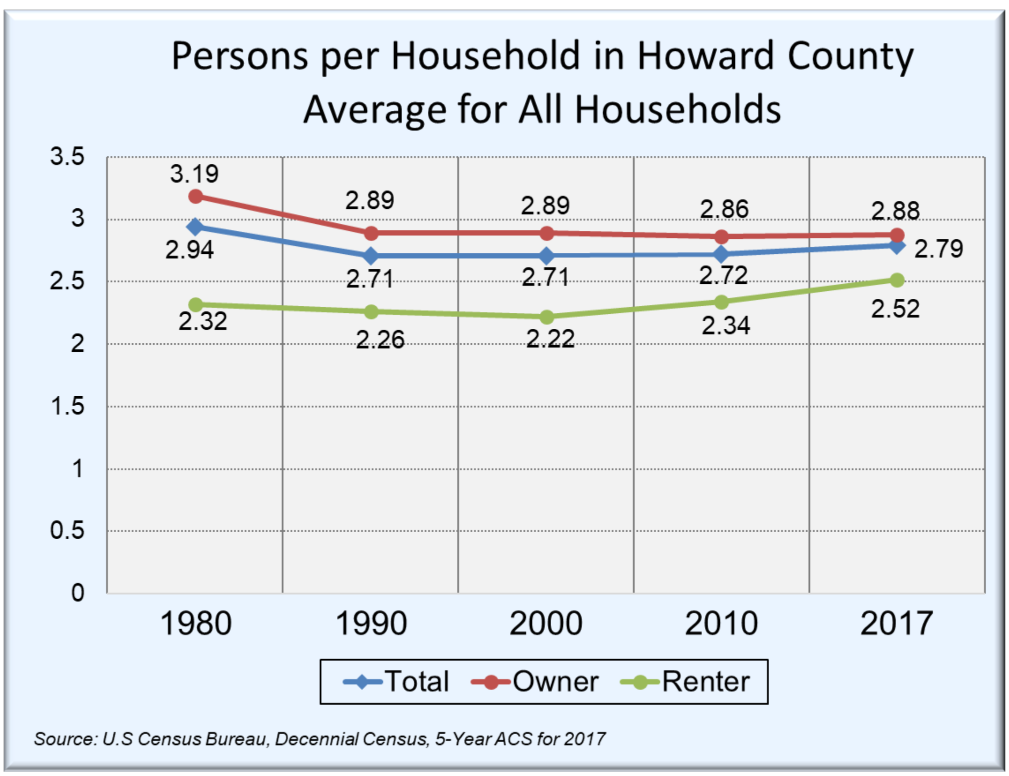
How can a newly built house with two school children be fiscally positive given the high cost for public education (which takes up about 60% of the County budget)?

According to Census data, approximately 30% of all households in Howard County have school-aged children *at any given time*. So, there are years where a household with children residing in the home may receive more in services than they pay in taxes and years where those children no longer reside in the home, thereby lowering the cost of government services for that household. Therefore, if one does a "back of the envelope" calculation, or even a more detailed calculation, there is the possibility that an average valued new house built in Howard County, with two school age children, may not be fiscally positive in individual years, but aggregated over time, the results may be positive. These averages and life-cycles must be considered when conducting fiscal impact studies.

If new growth is fiscally positive, why is it that we continue to have school overcrowding issues and the lack of sufficient funding for new school construction?
This is also a common question. Four things may be considered to help address this question:

1) *Not all schools in Howard County are over-capacity.* This link provides information on capacity utilization rates for all schools in Howard County. The overall school utilization is 97% for elementary schools, 100% for middle schools, and 102% for high schools. The HCPSS has built an average of one new school per year since APFO began in 1992 to accommodate new growth. The current comprehensive redistricting effort should help in better balancing capacity among existing schools. The current FY2020 to FY2029 HCPSS Capital Improvement Plan includes five new schools and six school replacements, renovations and additions.

2) *The average number of persons per household is increasing in Howard County*. There are currently about 120,000 homes in Howard County. Like in most places across the United States, average household size has steadily decreased over time during the second half of the 20th century. This was mainly due to the increasing prominence of the nuclear family as a social unit, couples having fewer children and increasing wealth enabling faster new household formation. This trend in decreasing household size has reversed in Howard County since 2000, as shown in the chart below. The increase is more pronounced for rental housing. Though on average new growth is fiscally positive as indicated in the fiscal impact study, as residents per household increase, the overall cost of government services increases, which could reduce the net fiscal impact of new homes over time. Furthermore, increasing household sizes in the more than 120,000 existing homes in Howard County results in higher government service costs.



3) *Howard County's infrastructure is aging.* Population growth began in earnest in the County in the 1960s. Some of the older County infrastructure is in need of replacement or renovation and this need will grow in the years ahead. An increasing portion of the HCPSS capital budget is going towards replacing and renovating older schools. The need to replace older infrastructure, and the lack of sufficient funding to do so, is a problem all over the United States at all levels of government—local, state, and federal. A further significant issue facing states and localities is that the federal government is not subsidizing state and local infrastructure to the same extent as it had in the middle decades of the 20^{th} century. So, relatively more funding is required at the state and local levels to rebuild.

4) *Levels of service have increased.* Howard County residents have received increasing levels of service over time. For example, in the late 1990s public school class sizes were reduced to an average 19 children per classroom for first and second graders. Full-day kindergarten (versus half-day) at all elementary schools was phased in during the 2000s, and pre-K education has expanded over time and is offered at more schools. Gifted and talented and special education offerings have also expanded compared to past decades. New schools are larger and have more amenities than in the past. Similar service level improvements have occurred in other government sectors: improved roads and road safety, improved park facilities and programs, the provision of maintained County open space, and improved fire and police protection. It is human nature to strive improve upon the past, and this particularly occurs in jurisdictions with higher median incomes, such as Howard County.

Do other jurisdictions in Maryland have similar fiscal results as Howard County?

Yes. Fiscal impact studies conducted in other Maryland counties, including Baltimore County, Anne Arundel County, Queen Anne's County, and Charles County, show that new growth "pays for itself," on average, due to the same reasons stated above. In particular, the local income tax levied by all Maryland counties helps to offset costs for services for residential development.

What will happen when growth slows in Howard County as a result of land constraints?

This is an important question. In general, growth tends to "subsidize" the cost of services to existing land uses. This "subsidy" becomes less over time, as the existing base grows, and new growth becomes a smaller percentage of economic activity. However, the fiscal structure of Howard County (and most other growing counties in the United States) has been established by incorporating new growth for decades, and growth can be considered "built-into" the fiscal viability of the County. For example, the importance of one-time revenues paid by new development—building excise tax, school surcharge, and transfer tax—are substantial and important revenues to help pay for the on-going debt service of new infrastructure and other operating needs. So, when growth slows or comes to a stop, this can disrupt the fiscal structure of the County, leading to imbalances. As a result, service levels will need to drop, County government will need to do more with less, and/or taxes and fees will need to be raised.

Table 5 on Page 2 above shows that under current General Plan policy and existing zoning, residential growth is projected to slow as land use capacity for new residential development diminishes (blue line). With the recent amendments to APFO this will happen sooner and more sharply than planned (orange line). This is also the case for non-residential development. Policy makers will need to respond to this and adjust the fiscal structure of the County to enable a fiscally sustainable future. This change to the fiscal structure will inevitably occur, sooner or later, as land is a limited resource. Having a solutions-driven community conversation around future land use policy is an important and proactive approach to address the fiscal challenges that lie ahead.