Appendix B

Appendix B includes the following reference information relating to the Fiscal Year 2025 Approved Operating Budget:

January 2, 2024

The Honorable Angela D. Alsobrooks, County Executive
The Honorable Jolene Ivey, Chair, County Council

In accordance with Subtitle 10, Division 1A of the County Code, the Spending Affordability Committee (SAC) has reviewed the preliminary projections of the County's Office of Management and Budget (OMB) for General Fund revenues for FY 2024 and FY 2025. This letter summarizes the Committee's major findings and recommendations for FY 2025. A detailed discussion of OMB's assumptions on various revenues is provided in the appendix to this letter.

Overview

Exhibit 1 shows a projected general fund shortfall of -$171.1 million for FY 2025. The effects of the pandemic continue to affect the budget. Federal stimulus ended and revenues are returning to normal growth trends. Higher interest rates continue to impact home sales and transfer & recordation taxes. The County must also contribute millions more to the Board of Education based on the State Blueprint for Maryland's Future initiative. County personnel costs and operating expenses also grow. A shortfall is projected to worsen in future years. **For FY 2025 the Committee recommends that the County budget be balanced to match the revenue estimate through ongoing spending reductions, which may be increased due to additional revenue and limited use of fund balance for one-time spending. The Committee recommends increasing the policy-mandated reserve to 4% in FY 2025, which should only be used in emergencies.**

Exhibit 1

Prince George's County
General Fund Outlook
($ in Millions)

	FY 2023 Unaudited	**FY 2024 Approved**	**FY 2025 Forecast**
County-Sourced Revenue	$2,419.1	$2,562.0	$2,516.2
Outside Aid Revenue	1,765.3	1,951.6	2,034.3
Total Revenue	**$4,184.4**	**$4,513.6**	**$4,550.5**
County Agency & Non-D Expenditures	$1,438.6	$1,543.9	$1,619.7
Education & Library Expenditures	2,689.7	2,969.7	3,102.0
Estimated Cost Containment			-171.1
Total Expenditures	**$4,128.4**	**$4,513.6**	**$4,550.6**
Surplus/(Deficit)	**$56.0**	**$0.0**	**$0.0**

Source: Prince George's County Office of Management and Budget

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- General Fund revenues are estimated at $4.551 billion in FY 2025; an increase of $36.9 million, or 0.8% over the FY 2024 approved budget. Most growth is expected from real property, interest income and education aid. The County's assessable property base subject to taxation continues to increase though the Homestead Tax Credit limits general fund revenue growth to a 3% rate for FY 2025. Higher interest rates have boosted investment earnings and the Board of Education continues to receive higher levels of State aid through the Blueprint for Maryland's Future initiative. Revenue decreases occur in transfer & recordation taxes because higher interest rates have reduced home sales and State Disparity Grant aid is anticipated to decline based on lower disparities in tax year 2022 following the end of federal pandemic aid and reduced capital gains. The forecast assumes no use of fund balance in FY 2025.

- OMB projects that General Fund expenditures will reach $4.722 billion in FY 2025, an increase of $208.1 million or 4.6% over the FY 2024 approved budget. This projection is based on FY 2024 estimated expenditures and preliminary FY 2025 assumptions of compensation annualization, fringe benefits, public safety classes, increased contributions to public education spending, additional debt service obligations, grant support, Workers' Compensation and Other Post Employment Benefit expenses and other discretionary spending.

- These projections were developed prior to the January 2024 release of the Governor of Maryland's proposed FY 2025 budget, which will be modified by legislative action. The projections therefore do not include the potential impact from State budget cuts, modifications to statutory aid programs, or budgetary enhancements. Final action on the State budget will not be known until late March or early April. In addition, the County won't have full clarity on the mandated amount of County spending required by the Blueprint for Maryland's Future until the proposed FY 2025 budget is due in March. However, the State may still adjust the formulas during the spring based on updated wealth and enrollment data.

Required Committee Recommendations

Section 10-112.22 of County Code stipulates the duties and responsibilities of the SAC. The January 1st letter to the County Executive and County Council is required to address the following elements:

1. A ceiling on general fund spending allocations.
2. Separate maximum general fund spending allocations for:
    a. The Board of Education.
    b. Debt Service.
    c. All other general government expenditures.
3. Appropriate levels of general fund reserves and fund balance.

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Exhibit 2 summarizes the Committee's recommendations, including a ceiling on general fund spending of $4.551 billion, with the proviso that this ceiling may be increased to the extent that additional revenue is recognized or the relaxation of spending obligations and to allow for use of limited amounts of fund balance only to fund one-time expenditures that do not increase ongoing operating budget commitments.

Exhibit 2

Prince George's County
FY 2025 Spending Ceiling Recommendation
($ in Millions)

	FY 2023 Unaudited	FY 2024 Budget	FY 2025 Projected	FY 2025 Projected v. FY 2024 Budget
Debt Service Obligations	$ 172.7	$ 174.5	$ 185.5	6.3%
Board of Education	2,534.9	2,800.0	2,929.8	4.6%
Other (less cost containment	1,420.8	1,539.1	1,435.3	-6.7%
TOTAL	**$ 4,128.4**	**$ 4,513.6**	**$ 4,550.6**	**0.8%**
% Change		31.0%	0.8%	

		FY 2024 Budget	FY 2025 Projected	FY 2025 Projected v. FY 2024 Budget
Board of Education				
County Contribution	$ 847.0	$ 943.1	$ 991.9	5.2%
Outside Aid	1,687.9	1,857.0	1,937.9	4.4%
TOTAL	**$ 2,534.9**	**$ 2,800.0**	**$ 2,929.8**	**4.6%**
% Change		33.8%	4.6%	

Notes:
1. Debt service amounts do not include Certificates of Participation (COP) payments shown under "Other".
2. The Board of Education FY 2025 amount is based on OMB's preliminary recommendation based on the assumption that total and special enrollments return to pre-pandemic levels. This assumption may be revised as additional data and projections become available.

Source: Prince George's County Office of Management and Budget

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Board of Education: $2.930 billion for the Board of Education – an increase of $129.8 million or 4.6% over the FY 2024 approved budget. This increase assumes outside aid of $1.938 billion from Federal and State aid and Board sources; an increase of $80.9 million, or 4.4% over the FY 2024 approved budget. The FY 2025 forecast includes a projected County contribution of $991.9 million, representing an increase of $48.9 million or 5.2% above the FY 2024 approved budget. Increased County contributions are required in future years under the multi-year Blueprint for Maryland's Future initiative.

Debt Service: $185.5 million for debt service – an increase of $11.0 million or 6.3% above the FY 2024 budget, based on existing and anticipated bond sales and estimated higher interest rates than in previous years. The County will receive the lowest possible interest rates if it continues to maintain its AAA bond rating.

Other: $1.435 billion for remaining General Fund expenditures – a decrease of -$103.8 million or -6.7% below the FY 2024 budget. This spending category includes all General Fund support for County services and operations except for payments to the Board of Education and the debt service listed in the preceding paragraphs. Funding to support these expenditures are generated from various revenue sources, with the majority coming from County property and income taxes. Because spending on the Board of Education is mandated and debt service is a function of debt service obligations and the capital budget, this category is forced to absorb the majority of spending reductions required in order to balance the budget.

Exhibit 3 summarizes the Committee's recommendation for reserves and fund balance. In January 2023 the Committee recommended that the policy-mandated reserve be increased from 2% of general fund spending to 5%, phased-in over a three-year period. This reserve was increased to 3% in FY 2024 and the Committee recommends the continuation of this phase-in to 4% in FY 2025. With respect to fund balance the Committee recommends limited use for one-time purposes in FY 2025 to protect the County's bond rating and to require the County to balance the operating budget through the adoption of reductions in spending unless additional revenues are recognized or spending obligations are relaxed. This recommendation is predicated upon the need to address the gulf between revenues and spending that increases over the FY 2025-2030 forecast period.

Economic Outlook

Although the COVID pandemic ended, the effects of federal budgetary and monetary policy continue to affect the County budget. After raising interest rates 11 times to constrain inflation, for now the Federal Reserve Board appears to have engineered a soft landing. After a high of 9.1% in June 2022, inflation has fallen to 3.1% as of November 2023. The rise in interest rates was expected to cool consumer demand and wage growth, while increasing unemployment and potentially causing a mild recession. Instead, wage growth has tempered, unemployment has remained at record low levels and consumer demand has kept the economy from experiencing a downturn though mild negative impacts have been observed in the housing market.

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Exhibit 3

Prince George's County
FY 2025 Reserve and Fund Balance Recommendation
($ in Millions)

Fund Balance	FY 2023 Unaudited	FY 2024 Budget	FY 2024 Estimate	FY 2025 Forecast
Committed (5%)[1]	$206.4	$225.7	$225.2	$227.5
Committed (2%3%/4%)[2]	82.6	135.4	135.1	182.0
Unassigned[3]	397.1	268.3	269.0	219.9
Total	**$686.1**	**$629.4**	**$629.3**	**$629.4**
Percent of General Fund Spending	16.6%	14.0%	14.0%	13.8%

Notes:
1. Section 806 of the County Charter requires a contingency reserve equal to 5% of the general fund.
2. The County maintains an additional policy-mandated reserve which was set at 2% until the Spending Affordability Committee recommended a three-year phase-in to 5% starting in FY 2024. In FY 2024 the policy-mandated reserve was set at 3% of general fund spending. The Committee is recommending that this reserve be increased to 4% for FY 2025.
3. In FY 2023 $7.4 million of unassigned balance was assigned to the Stormwater Management Enterprise Fund. In FY 2024 $56.7 million of unassigned balance is applied to the operating budget of which approximately $15 million was for one-time purposes.

Source: Prince George's County Office of Management and Budget

One major negative effect of higher interest rates has been a large contraction in home sales as mortgage rates rose to as high as 8%. Home sales in the County have fallen approximately 30% from a high of 991 homes per month sold in FY 2021. Due to limited inventory, the median home price rose by 14.4% between FY 2021 and 2023. As discussed below, the drop in home sales has significantly reduced transfer & recordation tax revenue. Other effects of federal pandemic policy also impact the FY 2025 budget. Stimulus spending and capital gains boosted the County's income disparity and led to a large increase in Disparity Grant revenue in FY 2024. Tax year 2022 data will no longer reflect the same level of disparity and should result in lower State grant funds. Federal legislation also implemented a three-year enhancement in the Medicare match for emergency transports, which ends in FY 2024.

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Revenue

In this section, revenue changes in FY 2025 are compared to the FY 2024 December estimate, unless noted otherwise. In addition, the FY 2024 estimate is compared to the FY 2023 unaudited level. **Exhibit 4** shows OMB's preliminary revenue projections for FY 2024 and FY 2025.

Major sources of revenue changes:

- **Real Property Tax** revenues are expected to increase in FY 2024 and FY 2025, by 3.8% and 3.7% respectively. In January 2023 the State Department of Assessments & Taxation (SDAT) reported that the County's assessable base grew by 22.7%. The FY 2025 forecast assumes 3.7% growth, to $1.049 billion. Based on inflation, the Homestead Tax Credit was set at a 3.0% growth rate. The forecast also assumes that new construction adds to the assessable base.

- **Personal Property Tax r**evenue is estimated to increase by $0.9 million, or 1.0% in FY 2025 based on the assessable base provided in February 2023 by SDAT plus a nominal level of growth. This estimate will be adjusted when updated data is received in 2024.

- **Income Tax** receipts decreased from $777.0 million in FY 2022 to $737.9 million in FY 2023. The end of federal stimulus funding and a presumed decrease in capital gains revenue brought an end to what was in retrospect a bubble in this revenue source. Over the past 20 years net taxable income has grown an average of 3.8% per year, and the estimate for FY 2024 and 2025 assume that revenue returns to the pre-pandemic growth trend. This includes $763.6 million in FY 2024 and $790.2 million for FY 2025.

- The **State Income Disparity Grant** increases eligible jurisdiction's per capita income tax level to 75% of the statewide average, though statutory caps limit the total amount provided by the State. The forecast assumes $70.0 million in FY 2025. In FY 2024 the County benefitted from a higher disparity in per capita income that was reflected in tax year 2021 data. A contraction in tax year 2022 data is expected now that federal stimulus dollars and high levels of capital gains have ended, therefore reducing the Disparity Grant to historical levels.

- **Transfer and Recordation Tax** revenues grew to $241.6 million in FY 2022, fueled by growth in home sales and the median price. But as mortgage rates rose, the County saw a decline in this source to $171.0 million in FY 2023. Home sales have continued to decrease to below 700 per month, leading to a revised estimate of $153.5 million for FY 2024. With the reduction in inflation, it is expected that the Federal Reserve Board should begin reducing interest rates in the fall of 2024. This should translate into more attractive mortgage interest rates and spur the lagging real estate market. The FY 2025 forecast is assuming that pent-up demand leads to a 7.2% increase in transfer and recordation tax revenue. Based on the expected amount of revenue generated by the recordation tax in FY 2025, the forecast assumes that $10.5 million of the recordation tax will be designated to the Housing Investment Trust Fund.

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Exhibit 4

Prince George's County
FY 2025 General Fund Revenue
($ in Millions)

($ in Millions)			Dec-23	Dec-23	FY 2024-2025	
	FY 2023	FY 2024	FY 2024	FY 2025	Dec Est. vs Dec Est.	
County Sourced Revenues	**Unaudited**	**Approved**	**Estimated**	**Forecast**	**$ Change**	**% Change**
Real Property Tax	$974.6	$993.4	$1,011.4	$1,049.2	$37.8	3.7%
Personal Property Tax	91.5	89.2	91.5	92.4	0.9	1.0%
Income Tax	737.9	777.2	763.6	790.2	26.6	3.5%
Disparity Grant	43.7	98.5	98.5	70.0	-28.5	-28.9%
Transfer Tax	128.3	152.1	114.5	122.5	8.0	7.0%
Recordation Tax	42.7	52.4	39.0	42.0	3.0	7.7%
Energy Tax	79.0	88.3	88.3	89.2	0.9	1.0%
Telecommunications Tax	14.2	12.2	14.0	14.0	0.0	0.0%
Other Local Taxes	27.8	24.6	27.8	28.3	0.5	1.7%
State-Shared Taxes	7.9	9.7	9.2	9.5	0.3	3.2%
Licenses and Permits	83.8	81.1	79.7	80.2	0.6	0.7%
Use of Money and Property	41.0	10.9	32.2	32.2	0.0	0.0%
Charges for Services	66.4	69.7	69.6	52.5	-17.1	-24.5%
Intergovernmental Revenue	41.1	36.3	49.3	36.6	-12.7	-25.7%
Miscellaneous Revenue	17.7	9.8	8.0	7.4	-0.7	-8.5%
Other Financing Sources	0.0	56.7	56.7	0.0	-56.7	-100.0%
Subtotal County Sources	**$2,397.4**	**$2,562.0**	**$2,553.3**	**$2,516.2**	**-$37.1**	**-1.5%**
Subtotal w/o Fund Balance	**$2,397.4**	**$2,505.3**	**$2,496.5**	**$2,516.2**	**$19.7**	**0.8%**
Outside Aid						
Board of Education	$1,682.2	$1,857.0	$1,857.0	$1,937.9	$80.9	4.4%
Community College	73.2	85.1	85.1	86.8	1.7	2.0%
Library	9.9	9.6	9.6	9.6	0.1	1.0%
Subtotal Outside Aid	**$1,765.3**	**$1,951.6**	**$1,951.6**	**$2,034.3**	**$82.7**	**4.2%**
Grand Total General Fund	**$4,162.8**	**$4,513.6**	**$4,504.9**	**$4,550.5**	**$45.6**	**1.0%**

Source: Prince George's County Office of Management and Budget

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- **Energy Tax** revenue increases based on growth in consumption two years prior to the budget year. Rates grew significantly for FY 2024 based on consumption growth after the economy re-opened. A return to nominal growth is projected for FY 2025 with revenue growth of $0.9 million. This boosts the FY 2025 level to $89.2 million from this source. A portion of the energy tax is dedicated to the County contribution to k-12 funding.

- **Telecommunications Tax** revenues have declined over a number of years, as technology has changed and the base fails to capture data plans, Internet-based calls, pre-paid cell phones etc. Revenue levels appear to have stabilized in the range of $14.0 million, of which 10% is dedicated to debt service on school renovation and systemic renovation projects and the balance is dedicated to the County contribution to k-12 funding.

- **Other Local Taxes** revenues are expected to grow by $0.5 million or 1.7% in FY 2025. Some growth in hotel/motel taxes and the Admissions & Amusement tax are expected as the hospitality and entertainment industry sectors return to pre-pandemic levels.

- **License and Permit** revenues are expected to grow by $0.6 million, or 0.7% in FY 2025. Gaming revenue has been declining in FY 2024 and is expected to remain relatively flat in FY 2025.

- **Charges for Services** is estimated at $52.5 million, a decrease of -$17.1 million below FY 2024. This is due to the end of a three-year enhancement of the Medicare match for emergency transports that was authorized by federal coronavirus stimulus legislation. Since FY 2024 is the final year of the higher match, this revenue source returns to pre-pandemic levels.

- **Intergovernmental Revenues** are projected to decrease by -$12.7 million due to one-time federal recoveries for pandemic-related spending by the County. FEMA reimbursements estimated at $12.2 million in FY 2024 are not expected in the forecast year. A one-time enhancement in State aid for police also returns that formula to its statutory provisions and results in a decrease of -$3.3 million in FY 2025.

- **Miscellaneous Revenues** decrease slightly to $7.4 million in FY 2025. The bulk of this source comes from the Automated Speed Enforcement and Red-Light Camera programs, both of which have been declining as drivers modify their behavior.

- **Other Financing Sources** consist of transfers and use of fund balance. In FY 2024, $56.7 million in fund balance was used in support of the operating budget (of which about $15.0 million was for one-time purposes). The forecast assumes no use of fund balance in FY 2025.

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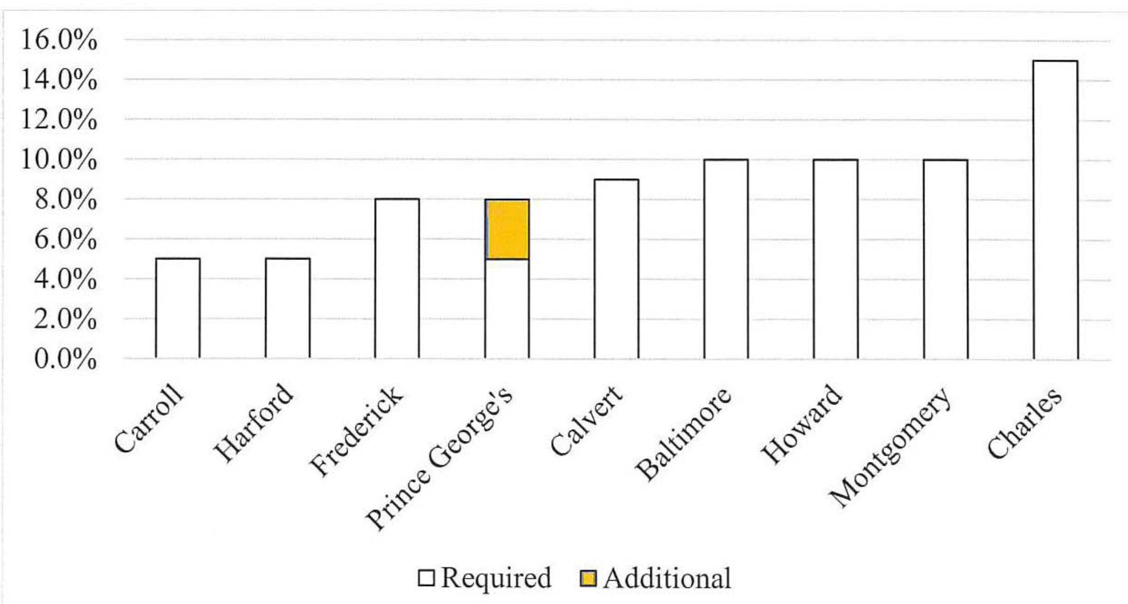
- **Outside Aid** revenues are projected to increase in FY 2024 and FY 2025 as State aid to the Board of Education grows following passage of the Blueprint for Maryland's Future initiative. State aid for the Memorial Library and Community college grow more modestly in both years based on the provisions of the State aid formulas. Outside aid is estimated at $1.95 billion in FY 2024 and $2.03 billion in FY 2025.

Fund Balance and Reserve Levels

In its January 2023 letter to the County Executive and County Council, the Committee recommended a phased-in increase of the policy-mandated reserve from 2% of general fund spending to 5% over a three-year period. The County's FY 2024 budget reflected the increase from 2% to 3%. The Committee's intent is for the County to achieve a combined 10% in reserves to better position it against a future economic downturn and to be able to retain its AAA bond rating. **Exhibit 5** shows the County reserve fund requirements compared with the other Counties in Maryland that have AAA bond ratings from Moody's, Fitch and S & P Global Ratings.

Exhibit 5

Required Reserve Fund Levels in Selected Maryland Counties
Having AAA Ratings from all Rating Agencies



Source: Prince George's County Office of Management and Budget

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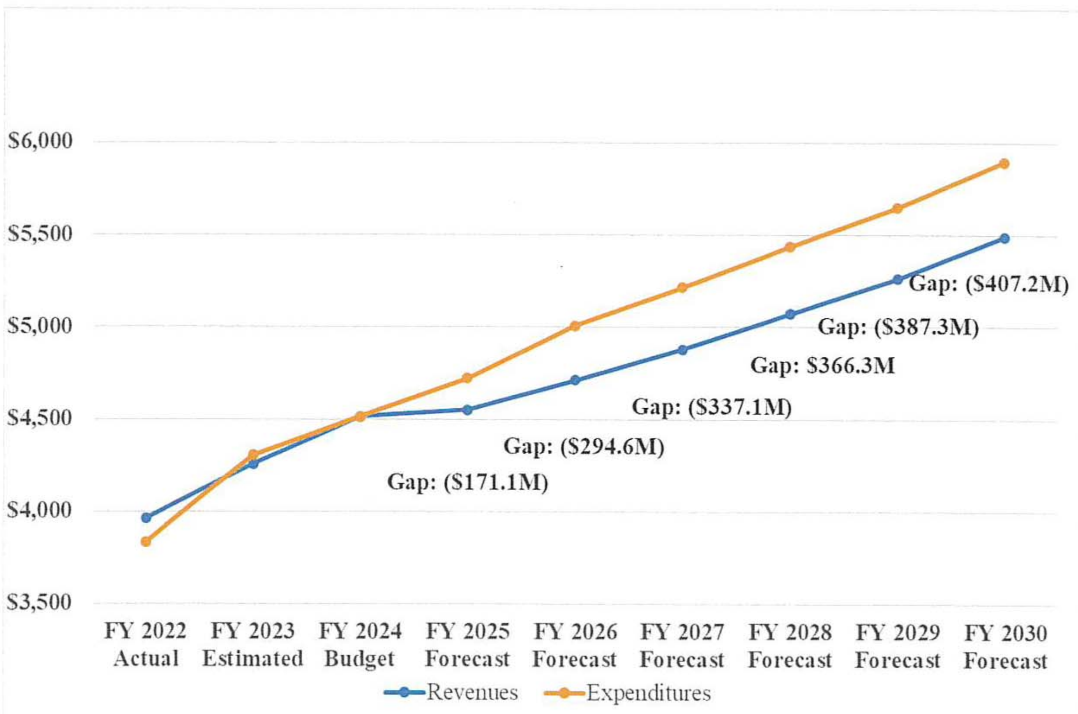
Forecast of Revenues and Expenditures

Exhibit 6 illustrates the long-term forecast of General Fund revenues and spending. As noted, a shortfall of -$171 million is projected for FY 2025, growing to -$407 million by FY 2030. Revenue growth averages 3.8% annually in the forecast but is outpaced by 4.5% annual growth in spending. In part this is driven by State-mandated spending on k-12 education.

Exhibit 6

Prince George's County
General Fund Forecast: FY 2025-FY 2030
($ in Millions)



Source: Prince George's County Office of Management and Budget

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Challenges and Potential Risks

Prince George's County will continue to experience fiscal challenges and risks during the forecast period, including the following.

- An ongoing structural deficit that more than doubles between FY 2025 and 2030. The County must balance its budget through spending cuts in the short-term, but also identify additional sources of revenue. Of particular concern, the current projections do not anticipate an economic downturn which would have the likely effect of reducing County revenues at some point in the future.

- The potential for large cuts in State aid programs. In November 2023 the Department of Legislative Services reported that revised revenue estimates and additional spending requirements result in a structural shortfall in the range of 1 billion dollars. In the past the State has addressed its shortfalls through a combination of revenue increases and cuts to entitlement programs, agencies and local aid. While the forecast cannot anticipate the magnitude of any potential State aid reductions, any revenue loss would have the effect of putting additional pressure on the County budget.

- Other unfunded spending pressures may also stress County finances. This includes unanticipated State mandated spending related to the Blueprint for Maryland's Future, future collective bargaining agreements and shortfalls in the Stormwater Management Enterprise Fund which are projected to increase in coming years.

Conclusion and Recommendations

Projections of the County budget indicate a shortfall of -$171 million in FY 2025, extending into the out years of the forecast. There are many potential risks in the forecast which may exacerbate this projected shortfall. This includes the potential loss of State aid, mandated education spending levels, costs associated with the next round of collective bargaining negotiations, and shortfalls in the Stormwater Management Enterprise Fund. The Federal Reserve Board has appeared to engineer a soft landing without causing a recession, and while it is good news that inflation has decreased, unemployment is at record low levels and consumer spending has not fallen, it is not apparent that there can be an expectation for significantly better economic performance until interest rates are reduced and the real estate sector recovers from the effects of higher mortgage rates. In the short-term the County will need to make difficult decisions to reduce ongoing operating spending without using additional fund balance other than for limited one-time purposes. Increasing the reserve level to 10% is also important to better position the County against uncertainty and help it to retain its AAA bond rating.

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The Committee's recommendations include the following:

- **General Fund operating spending should be limited to $4.55 billion in FY 2025, with exceptions allowed for a limited use of fund balance in support of one-time spending as well as to the extent that additional revenues are identified.**

- **The current forecast projects a shortfall of -$171 million in FY 2025, growing to -$407.2 million by FY 2030. To address the ongoing structural deficit between revenues and spending, the Committee recommends that the County balance the FY 2025 budget through the adoption of spending cuts without the use of fund balance to support ongoing operations. The Committee is also concerned about unbudgeted spending pressures that the County may face, including upcoming collective bargaining negotiations, shortfalls in the Stormwater Management Enterprise Fund, unanticipated contribution levels due to the State's Blueprint for Maryland's Future initiative or to address other needs.**

- **To ensure that the County has adequate reserves in advance of the next economic downturn, and to retain its AAA bond rating, the Committee supports the continuation of its January 2023 recommendation to increase the level of the policy-mandated reserve from 3% in FY 2024 to 4% in FY 2025 and eventually to 5% in FY 2026. This would give the County a combined reserve of 9% in the next budget year. It is the Committee's intent that reserves only be used in case of emergencies and not to support ongoing spending.**

- **Conservative revenue estimating should be continued. By adhering to conservative budget estimates, the County will be better able to absorb any decreases in revenues, such as unanticipated State aid cuts or an economic downturn.**

The Committee wishes to thank both the Executive and Legislative Branches of government for the opportunity to review the County's forecast. We believe that we have performed due diligence in reviewing revenue estimates for FY 2024 and FY 2025 and believe them to be reasonable.

Respectfully,

Robert R. Hagans Jr., Chairman

Terri K. Bacote-Charles

Terri K. Bacote-Charles, Member

Stephen A. Brayman, Member

Brad Frome, Member

Henry W. Mosley, Member

Detailed Discussion of Revenue Projections

Property Tax

- The County has experienced double digit growth in assessments since 2016. Based on payments to-date real property taxes are projected to increase by 3.8% in FY 2024. Slightly lower growth of 3.7% is projected for FY 2025 based on the Homestead Tax Cap which is set at 3% next year. New construction accounts for expansion of the tax base above 3%. Personal property taxes are expected to provide $91.5 million in FY 2024, based on funding received in FY 2023. Growth of 1% is projected for FY 2025.

- Real property tax revenues are primarily impacted by assessment changes and the homestead tax credit. In FY 2023 and FY 2024, the County's real property tax rate remains at $1.00 per $100 of assessable value and includes $0.04 dedicated to the local school board.

Exhibit 7 shows that gross real property assessments in the County are projected to increase by 6.9% in FY 2025. After factoring in homestead exemptions, real property assessments are projected to increase by 6.3%.

Exhibit 7

Prince George's County
Projections of Real Property Assessments Subject to County Taxes
($ in Millions)

	Estimate FY 2024	Estimate FY 2025	$ Change	% Change
Gross Assessment	$1,197.1	$1,279.9	$82.8	6.9%
Homestead Tax Credit	96.1	109.3	13.1	13.7%
Net Assessment	**$1,100.9**	**$1,170.6**	**$69.7**	**6.3%**

Source: State Department of Assessments and Taxation

- Each January SDAT reassesses one-third of the properties in the County. Any assessment growth is phased in over the next three fiscal years, while any decrease is immediately realized. For FY 2022, Group 3's reassessed values increased 13.4%, Group 1 realized a gain of 15.8% in assessed value for FY 2023 and Group 2's assessment for FY 2024 rose by 22.7%. The FY 2025 assessable base for Group 3 will be reported in January 2024.

- The homestead tax credit ensures that the annual percentage growth of the taxable assessment value for principal residential homes will not surpass the growth of the Consumer Price Index (CPI) in the County, with a maximum increase of 5.0%. In June 2023, the CPI increased by 3.0% thus the homestead tax credit cap is set at 103% for FY 2025. Higher mortgage rates have caused home sales to fall below 700 per month (compared to 1,000 a month as recently as FY 2021). As of November 2023, the median home price in the County was $419,900. Unrealized revenues attributable to the homestead tax credit had been decreasing because higher inflation raised the cap in FY 2023 and 2024 to the maximum 5% level in the County Charter (State law allows for a cap up to 10%). With a lower cap level of 3% the revenue loss has grown to $108.8 million for FY 2025.

- The personal property tax rate is $2.50 per $100 of assessable value and includes $0.10 dedicated to the local school board in FY 2024 and FY 2025.

Income Tax

- Income tax revenue grew substantially in FY 2021 and 2022 due to federal stimulus funding and capital gains, reaching a high of $777.0 million in FY 2022. The end of aid led income tax revenue to fall to $737.9 million in FY 2023, however this is consistent with longer term growth trends in net taxable income. The forecast for FY 2024 and 2025 assumes annual growth of 3.5%. The revised projection for FY 2024 is $763.6 million and $790.2 million for FY 2025.

- The Income Disparity Grant is calculated by the State based on income and population data, to bring each eligible jurisdiction's per capita income tax level to 75% of the statewide average, although there are certain caps in statute that limit jurisdictions from receiving the full amount of the formula. In FY 2023, the County received a $43.7 million grant based on State law changes that distribute 75% of the uncapped grant amount to Counties that levy the maximum 3.2% local income tax rate. Tax Year 2021 data included the effects of federal stimulus aid and capital gains coming out of the pandemic, which greatly broadened the income tax disparity. As a result, the County received $98.5 million from the State in FY 2024. It is expected that Tax Year 2022 data should have less disparity due to the end of the federal aid programs and reduced capital gains. The FY 2025 forecast assumes $70.0 million from the grant, but the actual amount will not be known until the Comptroller's Office releases Tax Year 2022 local income tax data in late December 2023.

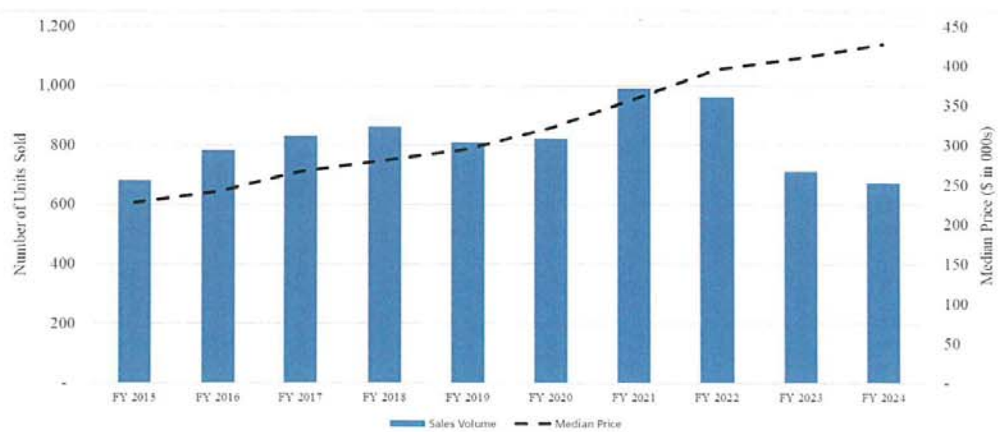
Transfer and Recordation Taxes

- To address high inflation following the pandemic the Federal Reserve Board raised interest rates 11 times since the spring of 2022. Home sales, which had grown strongly when interest rates were low, began to decline as mortgage rates rose. The median home price also increased at this time because the available inventory of homes for sale decreased as many potential purchasers chose to stay in their existing homes which have historically low mortgage interest rates. **Exhibit 8** illustrates the trends in home sales and the median home price in the County. Transfer and recordation tax revenue decreased from a high of $241.6 million in FY 2022 to $171.0 million in FY 2023. Some of this decline in revenue available to the general fund is also explained by legislation that dedicates the greater of $10.0 million or 20% of the recordation tax to the Housing Investment Trust Fund. FY 2023 was the first year of this change and $10.7 million was allocated to this purpose.

- For FY 2024, the approved budget estimated revenue of $204.6 million, however this figure is now revised to $153.5 million based on year-to-date attainment. The FY 2025 forecast assumes 7% growth in this revenue source on the basis that the Federal Reserve Board is expected to begin lowering interest rates now that inflation is growing at rates closer to its target.

Exhibit 8

Prince George's County
Median Sales Price and Sales Volume
($ in Millions)



Note: FY 2024 is based on the average of July 2023-November 2023 data

Source: Metropolitan Regional Information System

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- Foreclosure data following the pandemic has slowly continued to climb, but not to levels since prior to 2020. As seen in **Exhibit 9**, there were 860 foreclosures in the County in the second quarter of Calendar Year 2023 compared with more than 3,500 foreclosures statewide. Before the pandemic County foreclosures averaged over 1,500 per quarter, compared with nearly 6,700 per month statewide. The second quarter data also shows that County foreclosures comprised 24% of all foreclosures statewide. This level is consistent with pre-pandemic trends.

Exhibit 9

Prince George's County
County Foreclosures Relative to Statewide Foreclosures

Period	County	State	County as a % of State Foreclosures
Q1 2022	299	1,693	18%
Q2 2022	400	1,434	28%
Q3 2022	520	2,443	21%
Q4 2022	402	2,172	19%
Q1 2023	628	2,806	22%
Q2 2023	860	3,512	24%

Source: Maryland Department of Housing and Community Development

Energy Tax

Following the pandemic, energy demand grew as businesses re-opened. Since budget rates are determined by total consumption and sales of the calendar year two years prior to that fiscal year, the increase in energy demand translated into higher rates for the FY 2024 budget. Energy tax revenue is estimated at $88.3 million in FY 2024, an increase of $9.3 million or 11.7%. The forecast assumes more modest growth in energy demand following the normalization of the economy, based on a 1% growth rate in consumption and sales. Revenue of $89.2 million is projected for FY 2025.

Telecommunications Tax

Telecommunication tax revenues have continued to experience ongoing declines, from a high of $50.1 million in FY 2007 to $14.2 million in the FY 2023 unaudited budget. The statute that authorizes the tax is imposed on phone calls. The cause of the decline is likely caused by greater use of data (texting and email), as well as changes in technology such as Voice Over Internet Protocol, pre-paid cell phones etc. The FY 2025 forecast assumes $14.0 million, which is roughly at the same level as the FY 2023 unaudited level. After many years of steep declines this revenue source appears to have stabilized at this level.

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes have largely rebounded to pre-pandemic levels after the shutdown of the economy negatively affected the entertainment and hospitality industries. After re-opening in FY 2022 revenue began to grow and reached $27.8 million in the FY 2023 unaudited budget. Revenue from these sources is expected to grow slightly in FY 2025.

State-Shared Taxes

Highway User Revenues were anticipated to increase in FY 2025, based on changes in State law that mandated that an increased percentage of certain transportation revenues be shared with local jurisdictions through FY 2027. The level would have been reduced slightly in FY 2028 and beyond. However, in December 2023 the State disclosed that large revenue shortfalls due in part to more electric vehicle purchases and more fuel-efficient vehicles generally, had led to large, forecasted decreases in motor fuel tax revenue. To balance the budget for its proposed capital program the State announced the elimination of certain State and local capital projects as well as a proposed cut in Highway User Revenues to hold funding level at the FY 2024 amount. The County expects to lose -$1.5 million due to this action, which levels funds this source.

Licenses and Permits

License and permit revenues is generally level funded across FY 2024 and 2025 in the forecast. Gaming revenue has been declining through the first five months of the current fiscal year, leading to a write down of about -$2 million from this source. For FY 2025 this revised lower level is carried into the next year. Business license revenue and Building & Grading Permit revenue are projected to increase nominally based on year-to-date attainment.

Use of Money and Property

Higher interest rates have benefitted the County, as it realized about $41 million in revenue from this category in the FY 2023 unaudited budget. Most of this was due to investment earnings. The current estimate for FY 2024 assumes slightly lower levels of interest income which is carried forward into the FY 2025 projection. It is assumed that the Federal Reserve Board will begin reducing interest rates now that inflation is close to its target level.

Charges for Services

Charges for services are projected to decrease by about -$17 million, chiefly due to the end of an enhanced Medicare match for emergency transportation expenses. The higher rate was authorized for three years by federal pandemic stimulus legislation which ends at the close of FY 2024. Most other revenue sources otherwise grow slowly or are level funded in the forecast.

Intergovernmental Revenues

Intergovernmental revenues are projected to decrease by -$12.7 million, to $36.6 million in FY 2025. The County benefitted from FEMA reimbursement for prior pandemic expenses, presently estimated at more than $12 million. The State also had included a one-time increase in Police Aid in its FY 2024 budget. The forecast assumes no added federal recoveries are received and that the Police Aid program is funded at the statutory level. Because the State is facing a large cash shortfall in its projected FY 2025 forecast, it will bear watching if any State aid reductions are proposed in January 2024 that may reduce the County projection.

Miscellaneous Revenues

Miscellaneous revenues fluctuate each year. The FY 2023 unaudited budget for example, reflects a $7.5 million settlement that was not expected when the budget was approved. The FY 2024 approved budget assumed that $9.8 million would be attained. Through the first quarter of FY 2024, speed enforcement and red-light camera revenue are approximately $0.8 million below the first quarter of FY 2023. This has resulted in a revision of FY 2024 revenue to $8.0 million and a forecast of $7.4 million in FY 2025. The forecast assumes that these revenues continue to decline slightly as drivers modify their behavior.

Other Financing Sources

Other financing sources include the use of fund balance and transfers from other funds. The FY 2024 Approved Budget included the use of $56.7 million in fund balance. Given the projected imbalance between revenues and spending for FY 2025, some use of fund balance for one-time spending may be needed.

Board of Education Aid

Board of Education aid is projected at $1.857 billion in FY 2024 and is estimated to grow by $80.9 million, or 4.4% based on the Blueprint for Maryland's Future formulas. However, the actual aid amounts will not be known until the State reports County-by-County wealth and enrollment data which is needed to calculate the County's educational effort index.

Community College Aid

Outside aid for Prince George's Community College is projected to grow by $1.7 million in FY 2025 based on the State formula which increases by student enrollment and future appropriations to higher education.

Library Aid

Library aid is expected to grow slightly in FY 2025 from the FY 2024 level, to an estimated $9.6 million. State library aid is based on a per capita formula.

TABLE OF SUPPLEMENTALS AND TRANSFERS FISCAL YEAR 2024

This section explains changes made to the FY 2024 operating budget during the fiscal year. As indicated in the Budget Guide, supplemental appropriations, and transfers of appropriations from one agency to another can occur only if recommended by the County Executive and approved by the County Council. In FY 2024, the County Council approved one bill and two resolutions changing appropriation levels during the fiscal year. Additionally, there are two supplemental legislative actions pending before the County Council (as of September 30,2024) which further impact General and Grant fund appropriations.

The supplemental bill (CB-037-2024) provides supplementary appropriations in the General Fund and Internal Service Fund to cover unanticipated and vital costs needed to meet year end operational requirements. The largest component of this legislation incorporates the FY 2024 budget reconciliation transfer request from the Board of Education (previously passed by the County Council in October 2023). It is primarily driven by the increase in outside sources revenue comes from federal, State and use of additional Board fund balance. The remaining portion of the legislation supports the following: (1) Personnel Board - $7,200 for an increase in board member stipends per CB-25-2020; (2) Circuit Court - a net increase of $600,000 for additional jury fees; (3) Office of the State's Attorney - $549,600 for projected overages in compensation and operating expenses; (4) Police Department - a net increase of $8,493,300 to support projected increases in overtime and holiday premium and associated fringe costs; (5) Fire/EMS Department - a net increase of $5,288,200 for anticipated overtime expenditures and other salary requirements; (6) Office of the Sheriff - $4,770,700 for anticipated overtime expenditures and other salary requirements; (7) Department of Health - $1,222,800 to pay a settlement to the Maryland Department of Health as a result of an audit finding; and (8) Department of Housing and Community Development - a net increase of $140,000 to cover a rent stabilization study, a Department of Housing and Urban Development repayment and additional transfer of $50,000 to the Redevelopment Authority to cover insurance premiums and legal services costs; (9) Board of Elections - $751,500 for additional costs for the election, and (10) Non-Departmental - Operating Expenditures - $11,662,300 to support $661,200 for a legal settlement on behalf of the Department of Corrections, $900,000 for anticipated expenditures for the public safety tower (funded from payments from Radio One) and the use of assigned fund balance for: (a) an additional $5.9 million payment towards the County's Other Post-Employment Benefit (OPEB) requirements, (b) $3.0 million transfer to the County's Risk Management Fund, and (c) $1,201,100 for use of public safety surcharge balance for applicable municipalities.

This legislation includes several intradepartmental reallocations between characters for the following agencies: (1) Board of Elections - to support salary requirements for temporary elections personnel; (2) Department of Corrections - to support an anticipated increase in their food services contract; and (3) Department of Permitting, Inspections and Enforcement - to support additional temporary staffing for the department.

This legislation also transfers $1,193,300 from the Non-Departmental - Contingency to the Office of Law ($537,700) and Department of Permitting, Inspections and Enforcement ($655,600) to support the applicable salary and fringe adjustments resulting from anticipated class of work studies for attorney and engineer positions respectively.

Also the legislation includes the reallocation of video lottery terminal (VLT) and Rosecroft funds between various agencies and Non-Departmental - Grants and Transfers based on the revised allocation set in CR-85-2023. The appropriation of Rosecroft funds partially offsets some of the changes to the original VLT spending plan.

This legislation also reallocates $150,000 between characters to the Fleet Management Internal Service Fund to reflect increased costs for parts and outsourced services based on the number of vehicles needing repair. Overall, the Fiscal Year 2024 Internal Service Fund Budget (Information Technology and Fleet Management) as expressed by CB-63-2023 remains $73,579,900.

Grant Fund adjustments reflect additional Federal, State or other funds received by County agencies that were not included in the approved budget.

GENERAL FUND SUPPLEMENTALS AND TRANSFERS OF APPROPRIATION

CB-063-2023	$4,513,632,600

Adopted Fiscal Year 2024 General Fund Budget (Effective 7/1/2023)

CB-037-2024	$46,959,300

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the General Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2024 Budget.

CB-103-2024 (Currently pending before the County Council as of 9/30/2024)	$0

An act concerning supplementary appropriations for the purpose of declaring the reallocation of agency appropriations in the General Fund to assist in the fiscal year end closing process for the Approved Fiscal Year 2024 Budget.

TOTAL REVISED FY 2024 GENERAL FUND BUDGET	$4,560,591,900

INTERNAL SERVICE FUNDS

CB-063-2023	$73,597,900

Adopted Fiscal Year 2024 Internal Service Fund Budget (Effective 7/1/2023)

CB-37-2024	$0

An act concerning supplementary appropriations for the purpose of declaring an intradepartmental transfer of appropriation in the Fleet Management Internal Service Fund in the Approved Fiscal Year 2024 Budget.

GRANT FUNDS

CB-063-2023	$286,983,600

Adopted Fiscal Year 2024 Grant Funds Budget (Effective 7/1/2023)

CR-109-2023	$13,434,793

A resolution concerning supplementary appropriation of federal, State and other funds for the purpose of appropriating funding from grants in the amount of 13,434,793 for the Office of Human Resources Management, Circuit Court, Office of State's Attorney, Police Department, Fire Department, Department of Corrections, Department of Family Services, Health Department, Department of Social Services, Department of Public Works and Transportation and Department of Housing and Community Development.

CR-015-2023	$16,721,782

A resolution concerning supplementary appropriation of federal, State and other funds for the purpose of appropriating funding from grants in the amount of $16,721,782 for the Police Department, Department of Family Services, Health Department, Department of Public Works and Transportation, Department of Housing and Community Development and Department of the Environment.

CR-081-2024 (Currently pending before the County Council as of 9/30/2024)	$6,706,154

A resolution concerning supplementary appropriation of Federal, State and other funds for the purpose of appropriating funding from grants in the amount of $6,706,154 for the Fire/EMS Department, Department of Corrections, Department of Family Services, Health Department, Department of Social Services, Department of Public Works and Transportation, Department of the Environment, Office of Homeland Security, and the Circuit Court.

TOTAL REVISED FY 2024 GRANT FUNDS BUDGET	$323,846,329