January 3, 2023

The Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Thomas E. Dernoga, Chair, County Council

In accordance with Subtitle 10, Division 1A of the County Code, the Spending Affordability Committee has reviewed the preliminary projections of the County's Office of Management and Budget (OMB) for General Fund revenues for FY 2023 and FY 2024. This letter summarizes the Committee's major findings and recommendations for FY 2024. A detailed discussion of OMB's assumptions on various revenues is provided in the appendix to this letter.

Overview

Exhibit 1 shows the general fund outlook for FY 2024, which projects a $62.0 million shortfall between revenues and spending. Although the economy has fully re-opened following the pandemic, the economy is affected by supply chain problems, a national reduction in the labor force and the effects of the war in Ukraine. High inflation has affected the costs of goods and services and resulted in high wage growth. Outyear projections show an imbalance between revenues and spending through FY 2028. The County will face difficult decisions to produce balanced budgets in the near term. **The Committee recommends a spending ceiling of $4.464.1 billion in FY 2024, with the proviso that the County use unassigned balance for one-time purposes such as Pay-as-you-go (PAYGO) capital. The County will also need to constrain spending so that shortfalls projected for FY 2025 and beyond do not worsen.**

Exhibit 1

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

	FY 2022 Unaudited	FY 2023 Approved	FY 2024 Forecast
County-Sourced Revenue	$2,362.1	$2,350.6	$2,479.1
Outside Aid Revenue	2,038.1	1,876.0	1,923.0
Total Revenue	**$4,400.2**	**$4,226.6**	**$4,402.1**
County Agency and Non-D Expenditures	1,329.0	1,434.1	1,543.5
Education and Library Expenditures	2,932.9	2,792.6	2,920.6
Total Expenditures	**$4,261.9**	**$4,226.6**	**$4,464.1**
Surplus/(Deficit)	**$138.3**	**$0.0**	**-$62.0**

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

- General Fund revenues are estimated at $4.402 billion in FY 2024; an increase of $175.5 million, or 4.2% over the FY 2023 approved budget. Most of the growth is expected from additional real property, income, and transfer and recordation taxes and outside education aid. The County's assessable property base continues to increase though the Homestead Tax Credit limits growth to the maximum 5% rate for FY 2024. Income tax revenues are being driven by wage growth, as employers continue to compete for workers and offer salaries that offset the effects of higher inflation. The County is also facing larger contributions to the Board of Education under the State's Blueprint for Maryland's Future initiative.

- OMB projects that General Fund expenditures will reach $4.464 billion in FY 2024, an increase of $237.4 million or 5.6% over the FY 2023 budget. This projection is based on FY 2023 estimated expenditures and preliminary FY 2024 assumptions of compensation per collective bargaining results, fringe benefits, public safety classes, contributions to public education spending, additional debt service obligations, costs related to the Capital Improvement Program, and other discretionary spending.

- These projections were developed prior to the January 2023 release of the Governor of Maryland's proposed FY 2024 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.

Economic Outlook

Following the pandemic, the economy re-opened but businesses found they were unable to meet consumer demand due to a combination of supply chain problems and labor shortages. This was caused in part by COVID-related lockdowns in China, which manufactures many of the parts and finished products consumed in the U.S., but also by a labor force reduced by retirements, workers impacted by COVID, and other factors. To attract workers employers began offering higher wages. Combined with the scarcity of goods, higher wages induced inflation. Year-over-year consumer prices rose above 5% in the spring of 2021 and eclipsed 7% by December. To combat inflation the Federal Reserve Board began raising the federal fund rate in March 2022 followed by six additional rate hikes through December 2022. Although inflation has come down from its high of 9.1% in June 2022 it remained above 7% at the close of the calendar year. The U.S. unemployment rate was at 3.5% before the pandemic, rising above 14% in April 2020. It fell to the pre-pandemic level in September 2022. Demands for higher wages continues to be an issue and could limit efforts to constrain price growth.

Real estate activity had been strong since the pandemic. Record low interest rates also induced the millennial generation to enter the housing market. Combined with low housing inventory, home prices began to rise. Mortgages rates rose to nearly 7% after the Federal Reserve Board raised the federal fund lending rate seven times in Calendar Year (CY) 2022, as it attempts to rein in inflation. This has caused average monthly sales to fall from an average of 962 per month in FY 2022 to 751 per month, during the first five months of FY 2023. The median price has held up in the current fiscal year and may continue at higher levels because construction inflation has also been high. If the available inventory of homes for sale continues to climb the median home price can be expected to decrease. The approved FY 2023 budget anticipated a decline in transfer and recordation tax revenue based on rising interest rates.

Revenue

In this section, revenue changes in FY 2024 are compared to the FY 2023 December estimate, unless noted otherwise. In addition, the FY 2023 estimate is compared to the FY 2022 unaudited level. **Exhibit 2** shows OMB's preliminary revenue projections for FY 2023 and FY 2024.

Major sources of revenue changes:

- **Real Property Tax** revenues are expected to increase in FY 2023 and FY 2024, by 2.9% and 4.6% respectively. In January 2022 the State Department of Assessments & Taxation (SDAT) reported that the County's assessable base grew by 15.8%. The FY 2024 forecast assumes 4.4% growth, to $993.4 million. The Homestead Tax Credit was again set at the maximum 5.0% growth rate due to inflation. Offsetting the growth is an assumption of lost revenue due to tax credits approved for affordable housing projects.

- **Personal Property Tax r**evenue is estimated to increase by $1.4 million, or 1.7% in FY 2024 based on the assessable base provided in February 2022 by SDAT. This estimate will be adjusted when updated data is received in 2023.

- **Income Tax** receipts increased to $777.0 million in FY 2022. Wage growth has continued to rise as employers continue to compete for employees and employees demand higher wages to counteract higher costs of goods and services due to inflation. The FY 2023 estimate is revised upward to $788.4 million. Although employer withholding has continued to grow, it is expected that capital gains income will offset some of that growth. The FY 2024 forecast assumes that wage growth will continue into the next fiscal year, but it will begin to moderate as inflation is projected by Moody's Analytics to fall to an average rate of 4.0% growth in CY 2023. FY 2024 revenue is projected at $838.7 million.

Exhibit 2

Prince George's County
FY 2024 General Fund Revenue
($ in Millions)

($ in Millions) County Sourced Revenues	FY2022 Unaudited	FY2023 Approved	FY2023 Dec. Est.	FY2024 Dec. Est.	FY2023-FY2024 $ Change	FY2023-FY2024 % Change
Real Property Tax	923.4	951.7	950.0	993.4	41.7	4.4%
Personal Property Tax	84.2	79.9	80.5	81.3	1.4	1.7%
Income Tax	777.0	777.0	788.4	838.7	61.7	7.9%
Disparity Grant	36.3	43.7	43.7	44.6	0.9	2.0%
Transfer Tax	168.5	144.0	144.0	152.1	8.1	5.7%
Recordation Tax	73.2	43.2	43.2	52.4	9.2	21.4%
Energy Tax	74.9	73.9	73.9	75.3	1.5	2.0%
Telecommunications Tax	13.4	12.2	12.2	12.2	0.0	0.0%
Other Local Taxes	24.8	23.7	23.7	24.6	0.9	3.8%
State-Shared Taxes	8.5	8.0	8.2	9.6	1.6	20.3%
Licenses and Permits	76.5	72.4	79.0	78.3	6.0	8.2%
Use of Money and Property	-1.6	3.1	2.8	2.9	-0.1	-4.0%
Charges for Services	57.4	68.8	64.7	69.5	0.7	1.0%
Intergovernmental Revenue	36.4	39.3	39.3	34.6	-4.7	-12.0%
Miscellaneous Revenue	9.3	9.8	9.7	9.5	-0.3	-3.1%
Other Financing Sources	0.0	0.0	0.0	0.0	0.0	NA
Subtotal County Sources	**2,362.1**	**2,350.6**	**2,363.3**	**2,479.1**	**128.5**	**5.5%**
Subtotal w/o Fund Balance	**2,362.1**	**2,350.6**	**2,363.3**	**2,479.1**	**128.5**	**5.5%**
Outside Aid						
Board of Education	1,958.2	1,783.2	1,783.2	1,828.4	45.2	2.5%
Community College	70.8	82.9	82.9	84.5	1.7	2.0%
Library	9.0	9.9	9.9	10.0	0.1	1.0%
Subtotal Outside Aid	**2,038.1**	**1,876.0**	**1,876.0**	**1,923.0**	**47.0**	**2.5%**
Grand Total General Fund	**4,400.2**	**4,226.6**	**4,239.3**	**4,402.1**	**175.5**	**4.2%**

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

- The **State Income Disparity Grant** increases each 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 $44.6.3 million in FY 2024. In FY 2023 the County benefitted by a higher population reported by the 2020 Census and a law change that now provides 75% of the uncapped grant to jurisdictions with a 3.2% local income tax rate. The actual growth rate will not be known until the State releases local income tax data for Tax Year 2021.

- **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 factored in a decrease in transfer and recordation tax revenue. A change in County law also began dedicating 20% of Recordation tax revenue to the Housing Investment Trust Fund (HIST). The FY 2023 approved budget remains at $187.2 million. The FY 2024 forecast assumes growth in the median price because construction inflation has grown in the last two fiscal years. The FY 2024 projection is $204.6 million net of the dedication to the HIST.

- **Energy Tax** revenue has remained in the low $70 million range after decreasing during the pandemic. The FY 2022 unaudited attainment was $74.9 million. The FY 2023 estimate is at $73.9 million. The FY 2024 forecast assumes a 2% increase, to $75.3 million based on inflation.

- **Telecommunications Tax** revenues have declined over a number of years, likely due to a shift in use of texting and emails instead of calls, which are subject to the tax. A small decrease from the FY 2022 unaudited level is expected, from $13.4 million down to $12.2 million in FY 2023. The forecast level funds the revenue estimate because the rate of decline has slowed. This implies that there may be a base level of calls annually that are subject to the tax.

- **Other Local Taxes** revenues are expected to grow by $0.9 million or 3.2% in FY 2024. Both hotel/motel taxes and the Admissions & Amusement tax fell sharply during the pandemic, but both returned to pre-pandemic levels in FY 2022. Nominal growth in both revenue sources is estimated.

- **License and Permit** revenues are expected to grow by $6.0 million, or 8.2% in FY 2024. This is due largely to the gaming forecast, which continues to perform well since the pandemic. Building and Grading revenue is also increased to align with FY 2022 attainment.

- Revenue from **Charges for Services** is estimated at $69.5 million, an increase of $0.7 million above the FY 2023 approved budget. The forecast reflects a full year of revenue from the 9-1-1 fee increase that was passed in the fall of 2022, offset by lower estimates of health fee revenue based on the FY 2022 unaudited level.

- **Intergovernmental Revenues** are projected to decrease by $4.7 million due to one-time State aid received in FY 2023 as part of a proposal by the Governor to enhance the Police Aid formula. Although the legislation failed, the additional funding remained in the budget.

- **Miscellaneous Revenues** are expected to decrease slightly to $9.5 million in FY 2024, about $0.2 million below FY 2023. 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. No use of fund balance was expected for FY 2023. At present there is a projected imbalance of $62 million between revenues and spending, hence the use of unassigned balance for one-time expenses.

- **Outside Aid** revenues are projected to increase in FY 2023 and FY 2024 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 $1.88 billion in FY 2023 and $1.92 billion in FY 2024.

Spending Ceilings

The Committee recommends an overall General Fund spending ceiling of $4.464.1 billion in FY 2024, an increase of $237.5 million or 5.6% above the FY 2023 budget. Actual spending for certain items supported by designated revenue resources could change based on budgeted or actual revenues received. The County proposes General Fund spending allocations for the Board of Education, debt service and all other general government expenditures as shown in **Exhibit 3**.

Board of Education: $2.754.1 billion for the Board of Education – an increase of $123.9 million or 4.7% over the FY 2023 approved budget. This increase assumes outside aid of $1.828.4 billion from Federal and State aid and Board sources; an increase of $45.2 million, or 2.5% over the FY 2023 approved budget. The FY 2024 forecast includes a projected County contribution of $925.7 million, representing an increase of $78.7 million or 9.3% above the FY 2023 approved budget. Higher County contributions are required under the multi-year Blueprint for Maryland's Future initiative.

Debt Service: $188.4 million for debt service – an increase of $9.0 million or 5.0% above the FY 2023 budget, based on existing and anticipated bond sales and estimated interest rates. The County will receive the lowest possible interest rates if it continues to maintain its AAA bond rating.

Other: $1.521.6 billion for the remaining General Fund expenditures – an increase of $104.6 million or 7.4% above the FY 2023 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.

Exhibit 3

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

	FY 2022 Unaudited	FY 2023 Budget	FY 2024 Projected	FY 2024 Projected v. FY 2023 Budget
Debt Service Obligations	$ 163.1	$ 179.4	$ 188.4	5.0%
Board of Education	2,363.7	2,630.2	2,754.1	4.7%
Other	1,735.2	1,417.0	1,521.6	7.4%
TOTAL	**$ 4,262.0**	**$ 4,226.6**	**$ 4,464.1**	**5.6%**
% Change		22.6%	5.6%	
		FY 2023 Budget	**FY 2024 Projected**	FY 2024 Projected v. FY 2023 Budget
Board of Education				
County Contribution	$ 816.9	$ 847.0	$ 925.7	9.3%
Outside Aid	1,546.8	1,783.2	1,828.4	2.5%
TOTAL	**$ 2,363.7**	**$ 2,630.2**	**$ 2,754.1**	**4.7%**
% Change		25.6%	4.7%	

Notes:
1. Debt service amounts do not include Certificates of Participation (COP) payments shown under "Other".
2. The Board of Education FY 2024 amount is based on OMB's preliminary recommendation based on the assumption that the County will fall under Tier 2 of the Blueprint for Maryland's Future local share funding formula which will yield additional State formula funding.

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

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Fund Balance and Reserve Levels

Exhibit 4 shows the projected County Charter-mandated 5% Reserve, the policy-required 2.0% and the Unassigned Fund Balance.

Exhibit 4

Prince George's County
General Fund
Projected Ending Fund Balance
($ in Millions)

	FY 2022 Approved	FY 2023 Approved	FY 2023 Estimated	FY 2024 Forecast
Revenues	$3,794.6	$4,226.6	$4,239.3	$4,402.1
Expenditures	3,794.6	4,226.6	4,240.3	4,464.1
Surplus/(Deficit)	0.0	0.0	-1.0	-62.0
Fund Balance				
Restricted (5%)	$189.7	$211.3	$212.0	$220.1
Committed (2%)	75.9	84.5	84.8	88.0
Unassigned	81.3	250.1	336.0	262.7
Total	**$346.9**	**$546.0**	**$632.8**	**$570.8**
Fund Balance as % of General Fund Revenues	9.1%	12.9%	14.9%	13.0%

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

Notes:
The FY 2022 unaudited expenditures are based on draft annual comprehensive financial report (ACFR) data from the Office of Finance. Revenues and expenditures assume revised FY 2022 outside aid figures for the Education sector. Finally, the FY 2022 estimated unassigned fund balance includes use of $32.0 million in fund balance designated for OPEB and Risk Management.

Both the Charter-mandated 5% Restricted Reserve (County Charter Section 806) and the policy-required 2.0% Operating Reserve are established to provide the County with the ability to address unexpected risks or events such as dramatic economic downturns or natural and man-made disasters. They are important to the County's fiscal position considering the various revenue/tax caps and limitations on the County.

In its October 3, 2022, letter the Committee recommended that the policy-required reserve be increased from 2% to 5% phased-in over three years. The Committee finds that a higher level of reserves is justified based on a review of the drop in revenue in two of the last three recessions. **Exhibit 5** shows that revenue fell by more than 10% after the 1991 and 2008 recessions. When reserves are insufficient to cover revenue shortfalls, budget cuts or tax increases are necessary to balance the budget. Cutting services or asking residents to pay more during an economic downturn are difficult options. The Committee also reviewed reserve levels in the other 23 counties. **Exhibit 6** shows that 13 of the 24 counties have reserves ranging from 10% - 20%.

Exhibit 5

Prince George's County
Revenue Volatility Following Prior Recessions

	County-Sourced Revenue in the Proposed Budget	Actual Revenue	Variance	% Variance
FY 1991	757,020,633	642,073,980	(114,946,653)	-15.2%
FY 1992	702,907,116	664,258,846	(38,648,270)	-5.5%
FY 2002	1,014,052,400	1,012,561,813	(1,490,587)	-0.1%
FY 2008	1,517,626,600	1,330,690,544	(186,936,056)	-12.3%
FY 2009	1,537,845,600	1,454,085,679	(83,759,921)	-5.4%
FY 2020	2,139,952,000	2,071,238,081	(68,713,919)	-3.2%

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

Exhibit 6

Reserve Fund Levels in Maryland by County

0%	5%	6%-9%	10%	11%-15%	15%-20%
Dorchester	Carroll	Anne Arundel	Baltimore	Charles	Allegany
Somerset	Harford	Baltimore City	Caroline	Queen Anne's	Cecil
Talbot		Calvert	Garrett	Worcester	St. Mary's
		Frederick	Howard		Washington
		Kent	Montgomery		Wicomico
		Prince George's (7%)			

Source: Maryland Association of Counties

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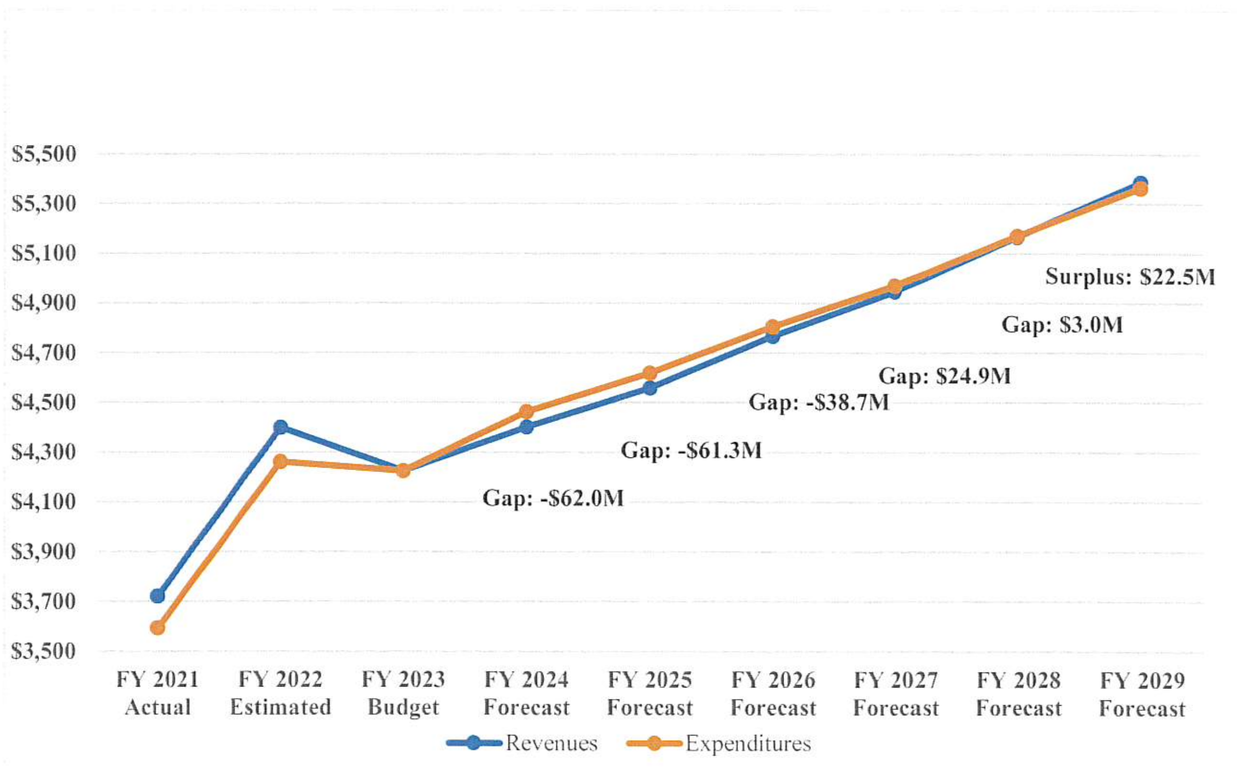
Forecast of Revenues and Expenditures

Exhibit 7 illustrates the long-term forecast of General Fund revenues and spending. As noted, a shortfall of $62.0 million is projected for FY 2024, but remains at about this level in the projection for FY 2025. Revenue is anticipated to increase faster than spending in the later years of the forecast, though a small surplus is not expected until FY 2029.

Exhibit 7

Prince George's County
General Fund Forecast: FY 2024-FY 2029
($ in Millions)



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

Challenges and Potential Risks

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

- In the short-term year-over-year inflation continues to exceed 7% and some economists project a potential mild recession in the next 12-15 months. While inflation is estimated to decline to 4% for CY 2023, higher costs will reduce the County's purchasing power and additional spending may be required to attract and retain employees and maintain agency operations and services. Moreover, even a mild recession may reduce revenue from the income tax if unemployment increases and could impact transfer and recordation taxes if home sales slow further.

- The estimated FY 2024 operating budget exceeds revenue by $62.0 million, and a similar shortfall is projected for FY 2025. The County will need to constrain ongoing spending growth so that the projected deficit does not worsen.

- While the pandemic's effects on the economy are reduced, vaccination rates in the rest of the world are lower than in the U.S. There is a risk of new variants of COVID affecting the economy until vaccines are updated. If supply chains are disrupted, higher inflation could again become an issue.

- The County also continues to face large unfunded liabilities including a pension system that is approximately 62% funded, $2.4 billion for Other Post-Employment Benefits; and approximately $173 million to address an identified risk management fund deficit.

Conclusion and Recommendations

Projections of the County budget indicate a shortfall of $62.0 million in FY 2024, extending into the out years of the forecast. Against this backdrop, the current economic news is mixed. Inflation has been trending downward but is still higher than the target rate of the Federal Reserve Board. Unemployment remains low and consumer spending remains positive, but rising interest rates have tempered home sales, and there is concern that there is potential for a recession. Even a mild recession could exacerbate the shortfall by lowering General Fund revenues due to higher unemployment or further dampening home sales. The County will need to make difficult decisions to constrain ongoing spending growth. Because of the economic uncertainty the Committee supports an increase in the policy-required reserve, from the current 2% level to a higher 5% level. This will help better position the County to be able to continue providing needed services to residents during the next economic downturn. More than ever, the County should be conservative in its approach to revenue forecasting and prudently manage the operating budget.

The Committee's recommendations include the following:

- **General Fund operating spending should be limited to $4.464 billion in FY 2024.**

- **The current forecast projects no use of fund balance in FY 2023. A projected shortfall of $62.0 million between revenues and spending in FY 2024 will necessitate the use of unassigned balance for one-time purposes. However, every effort should be made to reduce ongoing spending in the FY 2024 proposed budget. Gaps are projected in each year of the forecast through FY 2028 and the near-term economic outlook is uncertain. Therefore, the Committee does support the limited use of unassigned balance for one-time purposes such as PAYGO capital.**

- **The Committee does not feel that the County has adequate reserves to maintain operations during an economic downturn. In addition to maintaining the Charter-required 5.0% the Committee had recommended in its October 2022 letter that the policy-required 2.0% reserve be phased-in to the 5.0% level during FY 2024-2026. Given the likelihood of a recession in the near-term and the size of the unassigned balance the Committee recommends that the policy-required reserve be increased to 5.0% as part of the FY 2024 proposed budget.**

- **The County should be commended for making progress on the unfunded liability in its Pension Funds and the Risk Management Fund but needs to continue to reduce them. A long-term plan is also needed to begin addressing the County's unfunded OPEB liability.**

- **Conservative revenue estimating should be continued. By adhering to conservative budget estimates, the County will be better able to absorb any decreases in revenues, inflation-driven spending growth or increases in service demands.**

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 2023 and FY 2024 and believe them to be reasonable.

Respectfully,

Robert R. Hagans Jr., Chairman

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 4.5% in FY 2022 and billings grow by2.9% in FY 2023. Higher growth of 4.6% is expected in FY 2024 based on the tax cap, which rises by the maximum 5.0% based on inflation over the past year. Some of the increase is offset by tax credits approved by the County for affordable housing. Personal property taxes are expected to decrease by 4.4% in FY 2023, based on the assessable base reported by the State Department of Assessments & Taxation (SDAT). For FY 2024 the personal property tax is estimated to increase by 1% due to a projected economic slowdown.

- 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 8 shows that gross real property assessments in the County are projected to increase by 5.9% in FY 2024. After factoring in homestead exemptions, real property assessments are projected to increase by 5.4%.

Exhibit 8

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

	Estimate FY 2023	Estimate FY 2024	$ Change	% Change
Gross Assessment	$1,129.4	$1,195.7	$66.3	5.9%
Homestead Tax Credit	98.5	98.4	-0.1	-0.2%
Net Assessment	**$1,227.9**	**$1,294.1**	**$66.2**	**5.4%**

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 2021, Group 2's reassessed values increased by 13.3%, Group 3's reassessed values increased 13.4% for FY 2022 and Group 1 realized a gain of 15.8% in assessed value for FY 2023. The Group 2 re-assessment for FY 2024 will be publicized in January 2023.

- 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 2022, the CPI increased by 9.0% thus the homestead tax credit cap is set at 105% for FY 2024. Higher mortgage rates have tempered the growth in assessments and home sales have fallen. The median home price in the County remains at about $400,000 because inventory remains low and there is a demand for housing. Unrealized revenues attributable to the homestead tax credit have decreased for three consecutive years (FY 2022, FY 2023 and FY 2024). In FY 2023 and FY 2024 higher inflation resulted in the Homestead Tax Credit growing at 5% in each year, which was a higher rate than the growth in property assessments. Based on SDAT estimates released in July 2022, the homestead tax credit is expected to result in a revenue loss of $84.7 million in FY 2024.

- 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 2023 and FY 2024.

Income Tax

- FY 2022 revenue grew to $777.0 million, which is $38.6 million greater than the $738.3 million received in FY 2021. High inflation since the fall of 2021 and a smaller labor force since the pandemic have required employers to pay higher wages to attract and retain employees. Receipts of $788.4 million are forecasted for the current fiscal year, which is slightly higher than the prior year level. The County did not receive a Tax Year 2021 reconciliation distribution in November 2022, which typically would have been in the $30+ million range. The State Board of Revenue Estimates reported in December 2022 that employer withholding was higher by 6.9% for Calendar Year (CY) 2022, suggesting that employers continue to be squeezed by inflation-driven wage growth. The FY 2024 forecast assumes income tax receipts of $838.7 million.

- The Income Disparity Grant is calculated by the State based on income and population data, to bring each 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 2022, the County received a $36.3 million grant, which increased to $43.7 million in FY 2023.The growth was due to actual 2020 census data plus a change in the formula. The FY 2024 forecast assumes that the formula will grow 2%, but the actual amount will not be known until the Comptroller's Office releases Tax Year 2021 local income tax data.

Transfer and Recordation Taxes

- Real estate sales grew strongly during the pandemic, as employees working from home began buying larger homes with space for home offices and students taking online classes. Because interest rates were still at historically low levels and the inventory of homes was relatively low, the median price grew quickly. Sales peaked at approximately 1,000 per month and the median home price reached $400,000. Since March 2022 the Federal Reserve Board raised the federal fund rate seven times, which resulted in mortgage rates climbing to nearly 7% before declining to 6.5% in December 2022. Because rising rates were expected to depress home sales the FY 2023 approved budget incorporated a 20% decrease. **Exhibit 9** illustrates the trends in home sales and median home price in the County. Moreover, FY 2023 was also the first year that County legislation went into effect that dedicated 20% of the Recordation Tax to the Housing Investment Trust Fund.

- The FY 2024 forecast builds from the FY 2023 base and assumes growth due to construction inflation, which is expected to increase the cost of home construction. The forecast assumes $152.1 million in Transfer Tax revenue and $52.4 million from the Recordation Tax.

Exhibit 9

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

Note: FY 2023 is based on the average of July 2022-November 2022 data

Source: Metropolitan Regional Information System

- There was a moratorium on foreclosures throughout the pandemic which ended in the summer of 2021. No foreclosure data was reported by the State for Q2 CY 2020 through Q4 CY 2021. **Exhibit 10** includes foreclosure data reported for the first two quarters of CY 2022.

For CY 2022 foreclosures averaged 350 in the County, which is well below the average of 1,234 in FY 2019. Statewide foreclosures averaged 1,564 during the same period which is below the CY 2019 average of 5,243. As a percent of statewide foreclosures, the County represented 28% of the total in 2Q of CY 2022. This is consistent with the historical rate.

Exhibit 10

Prince George's County
Foreclosure Relative to Statewide Foreclosures

Period	County	State	County as a % of State Foreclosures
Q1 CY 2022	299	1,693	18%
Q2 CY 2022	400	1,434	28%

Source: Maryland Department of Housing and Community Development

Energy Tax

Energy tax revenue reached a high of $83.9 million in FY 2019 before contracting during the pandemic due to limited business activity. Since then, revenue has grown at a rate of approximately 2% per year in FY 2021 and FY 2022. The forecast assumes continued growth at 2% per year, yielding $75.3 million in FY 2024. Because energy costs have increased in FY 2023 it will bear watching to see if this results in higher tax revenue.

Telecommunications Tax

Telecommunication tax revenues have continued to experience ongoing declines, from a high of $50.1 million in FY 2007 to $13.4 million in the FY 2022 unaudited budget. The statute that authorizes the tax is imposed on phone calls. The cause of the decline is not entirely known but may be related to greater use of texting and email which may not be taxed. The FY 2024 forecast assumes $12.2 million, which is the same level as the FY 2023 estimate. The rate of decline slowed between FY 2021 and FY 2022. The forecast assumes that there is a core level of calls that are made that will continue to be taxed.

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes – fell by 42.4% in FY 2021 due to pandemic-related closures of concerts and other events in addition to reductions in business and personal travel. The re-opening of the economy led to an 85.2% rebound in revenue in the FY 2022 unaudited budget, to $24.8 million. This is primarily related to the admissions and amusement tax, which rebounded from $3.6 million to $12.0 million in FY 2022. Hotel and motel taxes similarly grew from $6.0 million in FY 2021 to $9.2 million in FY 2022 as travel increased. The FY 2024 forecast assumes 2% growth in these revenue sources. Penalties and Interest on Property Taxes and Trailer Camp revenue in FY 2024 are largely based on the FY 2022 unaudited level.

State-Shared Taxes

State-shared tax revenues grew by $1.4 million or 17.6% in FY 2024, compared to the FY 2023 estimated budget. Chapter 240 of the Laws of Maryland of 2022 increases the local share of highway user revenues for FY 2024 through FY 2027. Beginning in FY 2028 the percent of revenue shared with local jurisdictions returns to the level provided in FY 2024.

Licenses and Permits

License and permit revenues are projected to decrease by 0.8%, to $78.3 million in FY 2024. The largest change is a decrease of $1.4 million in gaming revenue. Although this source has been growing since the pandemic, in part due to a law change, revenue in the current fiscal year had a large one-time increase in the fall of 2022 that is not expected to continue. Business license revenue is also forecasted to decline by $0.5 million to be consistent with FY 2022 unaudited levels.

Use of Money and Property

Revenue in this category comes largely from property rental, commissions, and charges. Growth of $0.1 million is projected. The estimate for FY 2024 is $2.9 million.

Charges for Services

Charges for services are projected to grow 7.4%, from $64.7 million in FY 2023 to $69.5 million in FY 2024. The largest change is an increase in the 9-1-1 fee, from $0.75 cents per line to $1.40 per line effective July 1, 2023. Although the County passed a Resolution to raise the fee in the fall of 2022, the Emergency Number Systems Board interprets State law to mean that increases can only go into effect at the beginning of a fiscal year. Sheriff's Charges are also anticipated to grow by $1.0 million (to $2.0 million) based on the collection of evictions revenue at pre-pandemic levels.

Intergovernmental Revenues

Intergovernmental revenues are projected to decrease by $4.7 million, to $34.6 million in FY 2024. The current fiscal year has two sources of one-time revenue. This includes $4.4 million in police aid that the Governor added to the FY 2023 budget along with legislation to permanently increase a portion of the State aid grant. The legislation failed but the funds were allowed to remain in the budget. There is also $0.5 million for grants to businesses affected by construction of the purple line transit project.

Miscellaneous Revenues

Miscellaneous revenues are projected to increase slightly in FY 2023 by $0.4 million or -3.9%. Speed enforcement and red-light camera revenue and other fine revenues are projected to decrease by $0.5 million, consistent with long-term trends. Sales and miscellaneous collections vary from year to year. The FY 2024 forecast assumes $9.5 million in miscellaneous revenue income, which is consistent with the last two fiscal years.

Other Financing Sources

Other financing sources include the use of fund balance and transfers from other funds. No use of fund balance was assumed in the FY 2023 budget. Given the projected imbalance between revenues and spending for FY 2024, some use of fund balance for one-time spending may be needed.

Board of Education Aid

Board of Education aid is projected at $1.783 billion in FY 2023 and is estimated to grow by $45.2 million, or 2.5% 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 $1.6 million in FY 2024 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 2024 from the FY 2023 level, to an estimated $10.0 million. State library aid is based on a per capita formula.