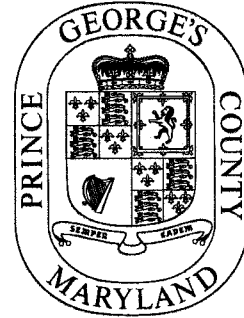


Prince George's County

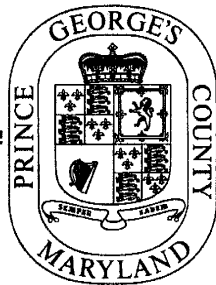


Jack B. Johnson
County Executive

Proposed Operating Budget

Fiscal Year 2010

PROPOSED
FISCAL YEAR 2010
OPERATING BUDGET
PRINCE GEORGE'S COUNTY, MARYLAND



COUNTY EXECUTIVE

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Prince George's County Elected Officials

Jack B. Johnson
County Executive

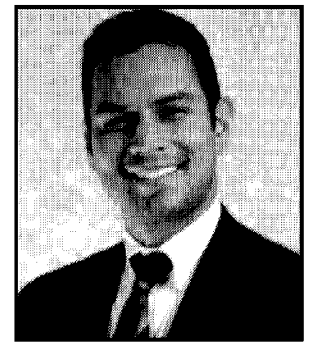
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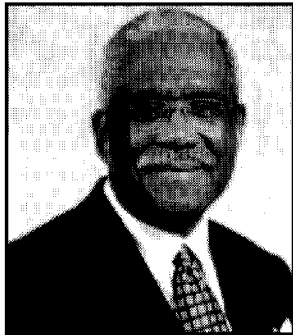
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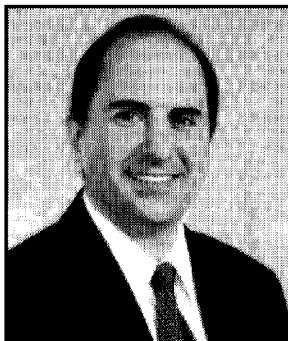
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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
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**Prince George's County
Maryland**

For the Fiscal Year Beginning

July 1, 2008

A handwritten signature in black ink, appearing to read "M. L. Runt".

President

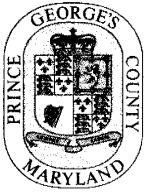
A handwritten signature in black ink, appearing to read "Jeffrey R. Emsw".

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to Prince George's County for its annual budget for the fiscal year beginning July 1, 2008.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



THE PRINCE GEORGE'S COUNTY GOVERNMENT

OFFICE OF THE COUNTY EXECUTIVE



Jack B. Johnson
County Executive

March 15, 2009

The Honorable Marilyn Bland
and Members of the County Council
County Administration Building
Upper Marlboro, Maryland 20772

Dear Chairwoman Bland and Members of the County Council:

I am pleased to submit my proposed FY 2010 Operating and Capital Budgets to you for your consideration and approval. Despite the significant fiscal challenges we face from the worst national and local economic conditions during the last 70 years, we will continue to implement our vision for strengthening our communities and serving our citizens.

FY 2010 Budget Challenges

While we were able to benefit from a strong economy by investing in our communities for a number of years, it is clear to everyone that those times are over. The deterioration of the housing market and associated weakening of other segments of the economy have significantly impacted the County's revenue outlook. Total General Fund revenue for FY 2010 is projected at \$2.58 billion, which is \$93.3 million less than the FY 2009 approved budget. This represents a decrease of 3.5 percent from this year's approved budget. This is in contrast to FY 2008 when the budget grew by \$263.2 million, representing an 11.1 percent increase.

The FY 2010 proposed budget includes total County source revenues of \$1.48 billion. This is a decrease of \$59.2 million or 3.8 percent below the FY 2009 budget. These County source revenues are the funds that pay for all County services, including the County contributions to the Board of Education, Community College and Library. Obviously, with significantly fewer resources to pay for County services, this budget includes a significant reduction to County agency budgets. Virtually all County budgets are lower in FY 2010 than in FY 2009. For instance, the budgets for criminal and civil justice agencies, including the Department of Corrections, Office of the Sheriff, and the Circuit Court, have declined by an average of 6.4 percent below FY 2009. The budgets for human service agencies, including the Health Department and the Departments of Family Services and Social Services, have declined by an average of 11.5 percent.

Outside aid to the Board of Education, Community College and Library also declined significantly, by \$34.1 million or 3 percent. The fiscal challenges are widespread and the revenue constraints have significantly impacted the Maryland State budget. The FY 2010 State budget attempts to address a budget gap of approximately \$1.9 billion and the impacts on the County are significant.

The revenue decline is driven primarily by the sharp declines in the housing market. The County has continued to experience year-over-year decreases of 20 to 40 percent in sales of existing homes. Median home sale prices have been steadily declining, with prices consistently at approximately 20 percent lower than the same period a year ago. Housing related revenues such as transfer and recordation taxes are down by over \$50 million from last year; building and construction permits have also declined. Other revenues are also impacted by the national and regional economic distress. Income tax revenues are also projected to decrease as a result of stagnating incomes and lower levels of employment. Interest rates are exceedingly low in the current economy and the County's projected interest income is \$10 million less than the FY 2009 level, or a reduction of 50 percent.

In January 2009, the County's Spending Affordability Committee projected a revenue shortfall of \$102.3 million for FY 2010. This gap was driven by falling revenues and rising underlying expenditure increases. When annualized, the FY 2009 pay increases become part of the FY 2010 base. In addition, certain operating costs and utilities are expected to increase in FY 2010. Also, the County's fringe benefit costs

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continue to rise, increasing at an overall rate of 5.7 percent. While this is lower than previous years, the lower rate of increase is largely due to lower associated compensation costs from furloughs and the large number of vacancies. These fringe benefit expenditure increases include the County's contribution to the employee retirement systems and the continuing escalation in health benefit costs.

As a result of certain revenue reductions and additional spending requirements imposed on the counties in the Governor's budget, another \$11 million was added to the gap, resulting in a deficit of \$113.3 million. These include the transfer of costs for the State Department of Assessments and Taxation from the State to the County, at a cost of \$4.7 million, and a new requirement that counties repay the State over ten years for the use of an income tax reserve account that is held by the State. This will cost the County approximately \$3.6 million in reduced revenue in FY 2010.

The County's challenge during this year's budget preparation process has been to identify the various means necessary to bridge the gap and produce a balanced budget. In order to close the gap, we were required to take several difficult and necessary measures. First, all agencies were required to submit 10 percent reductions to their base budgets. While we did not incorporate all of the reductions, we did include \$14.4 million in agency reductions. Second, we will continue in FY 2010 with a county-wide hiring freeze, which has been in effect since January 2008. The elimination of funding for County vacant positions will result in savings of \$29 million. Third, there are no cost of living adjustments or merit increases in the budget. Fourth, we will again implement a two-week furlough of County employees, resulting in savings of \$17.5 million. Fifth, we will implement a Reduction-in-Force, eliminating approximately 310 filled positions, thus, saving the County \$20 million. While this is a difficult action, and one we do not take easily, it is necessary under these economic and fiscal conditions. These lay-offs, combined with vacancies due to the year-long hiring freeze, will result in an approximate 18 to 20 percent vacancy rate by the end of FY 2010.

The position reductions are spread evenly throughout County agencies and represent a reduction of approximately 5 percent of the County's authorized position complement. Each department and agency has been tasked with developing a plan for the reductions. Over half of the positions are in public safety, including the Police and Fire Departments, where, outside the Board of Education, half of all jobs are held in the County government. Additional position reductions take place in all County agencies, including the Department of Corrections and the Office of the Sheriff.

In addition, another \$8.8 million in savings is achieved through a variety of specific actions including a 20 percent reduction in the 2009 bond sale, savings in payments to non-profit and outside entities, and overtime savings.

Finally, we are reducing the County contribution to the Board of Education by \$23.6 million below the Maintenance of Effort level. While this is a difficult action, it is necessary in light of available revenues. In these extraordinary times, we simply do not have the resources to provide funding at the same per pupil amount as in the past. In light of that fact, we are preparing a waiver of the Maintenance of Effort requirement to submit to the Maryland State Department of Education. Finally, while the Board of Education budget is approximately 3.5 percent lower than the FY 2009 budget, this is a lower level of reduction than almost all County agencies, which are sustaining an average 6.6 percent reduction below the FY 2009 level.

While there are no cost of living or merit increases included in the budget for County employees, it is certainly our intention to again provide our employees with cost of living and merit increases as soon as our economy improves and our local revenues begin to experience normal growth. Unfortunately, with \$94 million less in revenue than we had available a year ago, we simply cannot afford to increase salary levels.

Sound Fiscal Management

This budget has been constructed without jeopardizing sound fiscal management principles. The proposed budget continues to adhere to the Charter-mandated reserve of 5 percent of the General Fund. The budget uses a minimal amount of fund balance to balance the budget. While the County's fund balance has declined during the last several years as the economy began to deteriorate, we have been extremely judicious in our use of the undesignated reserves. At the end of FY 2010 we will be very close to the 2 percent reserve mandated by the County's fiscal policy, and our plan is to rebuild the reserves on a long term basis. The

proposed budget contains only \$8 million in pay-go capital projects. This funding continues a long-term commitment to complement traditional General Obligation Bonds in funding the County's capital program by providing direct funding of projects that will not incur additional debt service.

Commitments to Our Communities

In spite of these difficult times, there are certain commitments which must continue. For instance, the proposed budget includes \$12 million for the Prince George's Hospital System as this is mandated by the 2008 State legislation with a State match of \$12 million.

The *Livable Communities Initiative* continues to represent our vision of government, residents, and businesses of our County working together to create and maintain a community that is clean, safe, promotes educational excellence, and is economically vibrant. This vision continues to guide our budget decisions. Our top priorities remain education and public safety.

We have provided funding for one Police recruit class in FY 2010. While we are experiencing a difficult fiscal period, we must continue the extraordinary progress we have made in reducing crime and making our communities safer. The additional recruit class will provide 42 new officers who will be trained and available for duty during the fiscal year. Given our economic situation, only about half of the officers lost through attrition can be replaced.

We also must continue our investments in economic development. We have celebrated a number of successes – including M Square, Konterra, Steeplechase, and National Harbor. However, more must be done to expand our tax base through commercial tax revenue. As such, the FY 2010 budget contains sustainable amounts of funding for our economic development partners – Prince George's County Economic Development Corporation, Prince George's County Conference and Visitor's Bureau, and the Prince George's Financial Services Corporation. These entities are critical to expanding our economic base by attracting and retaining businesses, attracting visitors and conventions, and providing loans and other financial resource to businesses. These activities are even more critical in these difficult economic times.

Capital Improvement Program

The proposed FY 2010 capital budget includes approximately \$65 million in new bond sales for capital projects. This is a significant reduction from the FY 2009 level of \$110 million. We have significantly scaled back our capital program in light of the current economic climate. Consequently, only those projects that are critical will be funded in FY 2010.

In the Board of Education, funding is provided for several major projects, including the Greenbelt Middle School renovation, the Laurel High School Auditorium and Classroom Addition, and the Planning for the Sub region VI Elementary School. Science classroom projects are funded at Bowie High School and Laurel High School. In addition, \$3 million is included for major repairs of school facilities. Accordingly, the budget request includes funding for certain south County schools in need of immediate attention.

We have invested heavily in our transportation network since this remains a priority area for the capital budget, despite limited funding. There are several significant countywide projects which continue to receive funding, including bridge repair and replacement, road resurfacing, street lights and traffic signals, and improvements to reduce traffic congestion. In addition, there is specific funding for the Mount Oak Road/Church Road/Woodmore Road intersection. We are still trying to secure additional transportation funds through the American Recovery & Reinvestment Act (ARRA) that was signed into law in February.

The Community College will receive \$4.8 million in funding for the Center for Health Studies. Funding is also provided to the Department of Corrections for replacement of the kitchen facility and expansion of the housing units.

Funding is again provided for the continuation of the interoperable public safety communications system. Five million dollars is provided for repairs and renovation of County buildings. While funding is

limited, we are able to provide some funds for renovation of facilities, including police stations, fire stations, and libraries.


Additional Considerations

At this time, the State budget has not been finalized. There are several pending actions which could significantly influence this budget. First, as you know, the General Assembly is considering additional reductions to State Aid to local jurisdictions. It is possible that even this extremely constrained budget could be subject to further reductions. Second, there are several measures under consideration by the General Assembly which could improve our fiscal situation. These include the transfer of funding from the Maryland-National Capital Park and Planning Commission to the County, as well as certain statutory changes which could positively impact the County's revenues. Because these matters are still under consideration, none of these items are included in the proposed budget. However, it is our intention to submit revisions to the proposed budget to the County Council as needed, pending General Assembly action. To the extent that additional revenue becomes available, it is our first priority to reduce or eliminate the number of layoffs of County employees.

This budget, while more challenging than any faced by the County in many years, represents a prudent and sensible fiscal approach. Despite the huge fiscal challenges, we believe we have developed a budget that continues to meet the core needs of our citizens for County services while maintaining the proper fiscal discipline that we need during the current economic circumstances.

I am confident that you will share in the main priorities outlined in this budget. I look forward to working with you in the coming weeks as the County Council reviews the budget in greater detail. Thank you in advance for your thoughtful consideration and your commitment to serve the citizens and residents of Prince George's County.

Sincerely,



JACK B. JOHNSON
County Executive

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