Appendix B

Appendix B includes the following reference information relating to the Fiscal Year 2026 Approved Operating Budget:

January 2, 2025

The Honorable Tara H. Jackson, Acting 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 2025 and FY 2026. This letter summarizes the Committee's major findings and recommendations for FY 2026. 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 -$127.6 million for FY 2026. The economy has remained strong, with low unemployment and positive wage growth. However, higher interest rates impact home sales and transfer & recordation taxes. Mandatory county contributions to k-12 continue to grow. There are also unknown factors such as potential State aid cuts and impacts on the economy and federal employment by the next presidential administration. County personnel costs and operating expenses also continue to grow. A shortfall is projected to worsen in future years.

Exhibit 1

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

	FY 2024 Unaudited	FY 2025 Approved	FY 2026 Forecast
County-Sourced Revenue	$2,592.8	$2,600.3	$2,654.6
Outside Aid Revenue	1,902.5	1,988.3	2,099.0
Total Revenue	**$4,495.3**	**$4,588.6**	**$4,753.6**
County Agency & Non-D Expenditures	$1,677.9	$1,752.2	$1,899.6
Education & Library Expenditures	2,768.9	2,836.4	2,981.6
Estimated Cost Containment			-$127.6
Total Expenditures	**$4,446.8**	**$4,588.6**	**$4,753.6**
Surplus/(Deficit)	**$48.5**	**$0.0**	**$0.0**

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

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For FY 2026 the Committee recommends that the County budget be balanced to match the revenue estimate through ongoing spending reductions. The Committee does not support the use of unassigned fund balance in FY 2026. These recommendations are supported by the rating agencies and are key to maintaining the County's AAA bond rating. The Committee also recommends increasing the policy-mandated reserve to 5% in FY 2026, the last year of a three-year phase-in, which should only be used in emergencies.

- General Fund revenues are estimated at $4.753.6 billion in FY 2026; an increase of $165.0 million, or 3.6% over the FY 2025 approved budget. Most growth is expected from real property tax, income tax and outside 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 2026. Wage growth has continued to be strong, and unemployment has remained relatively low. 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, use of money and property, intergovernmental revenues and other financing sources. Higher mortgage rates continue to constrain monthly home sales in the County. Rate cuts by the Federal Reserve Board, while providing some benefit to the housing market, will reduce interest on County investments. The forecast assumes a 10% cut in State aid, due to a large projected State budget deficit. No use of unassigned fund balance is factored into the FY 2026 forecast.

- OMB projects that General Fund expenditures will reach $4.881 billion in FY 2026, an increase of $292.6 million or 6.4% over the FY 2025 approved budget. This projection is based on FY 2025 estimated expenditures and preliminary FY 2026 assumptions of compensation annualization, fringe benefits, information technology requirements, mandated increased contributions to public education spending and additional debt service obligations.

- These projections were developed prior to the January 2025 release of the Governor of Maryland's proposed FY 2026 budget, which will be modified by legislative action. The projections assume a 10% reduction in State aid, given the magnitude of the State's projected shortfall. 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 2026 budget is due in March. However, the State may still adjust the formulas during the spring based on updated wealth and enrollment data.

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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.

Exhibit 2 summarizes the Committee's recommendations, including a ceiling on general fund spending of $4.754 billion.

Board of Education: $2.943 billion for the Board of Education – an increase of $144.6 million or 5.2% over the FY 2025 approved budget. This increase assumes outside aid of $2.002 billion from Federal and State aid and Board sources; an increase of $113.3 million, or 6.0% over the FY 2025 approved budget. The FY 2026 forecast includes a projected County contribution of $941.1 million, representing an increase of $31.3 million or 3.4% above the FY 2025 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 $10.5 million or 5.7% above the FY 2025 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: $1.615 billion for remaining General Fund expenditures – an increase of $9.9 million or 0.6% above the FY 2025 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 the $127.6 million in spending reductions required to balance the budget.

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Exhibit 2

Prince George's County
FY 2026 Spending Ceiling Recommendation
($ in Millions)

	FY 2024 Unaudited	FY 2025 Budget	FY 2026 Projected	FY 2026 Projected v. FY 2025 Budget
Debt Service Obligations	$ 170.6	$ 184.3	$ 194.8	5.7%
Board of Education	2,731.2	2,798.8	2,943.4	5.2%
Other (less cost containment)	1,545.0	1,605.5	1,743.0	8.6%
TOTAL	**$ 4,446.8**	**$ 4,588.6**	**$ 4,881.2**	**6.4%**
% Change		3.2%	6.4%	

	FY 2024 Unaudited	FY 2025 Budget	FY 2026 Projected	FY 2026 Projected v. FY 2025 Budget
Board of Education				
County Contribution	$ 943.1	$ 909.8	$ 941.1	3.4%
Outside Aid	1,788.1	1,889.0	2,002.3	6.0%
TOTAL	**$ 2,731.2**	**$ 2,798.8**	**$ 2,943.4**	**5.2%**
% Change		2.5%	5.2%	

Notes:
1. Debt service amounts do not include Certificates of Participation (COP) payments shown under "Other". COPs are primarily sold to finance the County's vehicle fleet.
2. The Board of Education FY 2026 amount is based on OMB's preliminary recommendation based on the 6-year projection model. This assumption may be revised as additional enrollment data and projections become available.

Source: Prince George's County Office of Management and 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 4% in the current fiscal year. The Committee recommends the completion of this phase-in to 5% in FY 2026.

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Exhibit 3

Prince George's County
FY 2026 Reserve and Fund Balance Recommendation
($ in Millions)

Fund Balance	FY 2024 Unaudited	FY 2025 Budget	FY 2026 Forecast
Committed (5%)[1]	$228.0	$229.4	$237.7
Committed[2]	136.8 (3%)	183.5 (4%)	237.7 (5%)
Unassigned	354.9	271.9	209.5
Total	**$719.7**	**$684.8**	**$684.9**
Percent of General Fund Spending	16.0%	14.9%	14.4%

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. The policy-mandated reserve was set at 3% of general fund spending in FY 2024, and 4% in FY 2025. The Committee is recommending that this reserve be increased to 5% for FY 2026.

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

Economic Outlook

Currently the economy remains strong by all indications. Unemployment has been at record low levels, at 3.5% in the County in October 2024 and 3.1% statewide. Inflation has decreased, standing at 2.7% in November 2024. This has spurred the Federal Reserve Board to cut interest rates twice in the fall of 2024, with additional rate cuts expected in calendar year 2025. Wage growth has risen higher than inflation, increasing the purchasing power of consumers, and the Comptroller's Office has surmised that wage growth has specifically helped residents in the lower to mid-income brackets.

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 has also risen 5.8% per year since FY 2021. As discussed below, the drop in home sales has significantly reduced transfer & recordation tax revenue.

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Revenue

In this section, revenue changes in FY 2026 are compared to the FY 2025 December estimate, unless noted otherwise. Also, the FY 2025 estimate is compared to the FY 2024 unaudited level.

Major sources of revenue changes:

- **Real Property Tax** revenues are expected to increase in FY 2025 and FY 2026, by 3.4% and 3.9% respectively. In January 2024 the State Department of Assessments & Taxation (SDAT) reported that the County's assessable base grew by 23.0%. The FY 2026 forecast assumes 3.9% growth in revenue, to $1.114 billion. Based on inflation, the Homestead Tax Credit was set at a 3.0% growth rate in FY 2026. 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 2026 based on the assessable base provided in February 2024 by SDAT plus a nominal level of growth. This estimate will be adjusted when updated data is received in 2025.

- **Income Tax** receipts rose from $737.9 million in FY 2023 to $788.4 million in FY 2024. Wage growth has continued to drive the increase in tax revenue, and a larger than expected distribution closing out tax year 2023 was received in November 2024. Based on the FY 2024 unaudited level of revenue and year-to-date attainment, the income tax is expected to grow by more than 5% in the current year and in line with the long-term growth trend of 3.9% in net taxable income for FY 2026. The forecast projects $829.2 million in FY 2025 and $861.6 million for FY 2026.

- 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 $62.6 million in FY 2026. In part this is due to the expectation that income disparities statewide approach historical levels, thus slightly reducing County aid, and a 10% reduction in State aid presumed for all programs due to the large deficit facing the State.

- **Transfer and Recordation Tax** revenues decreased in FY 2023 and 2024 due to the dampening effects of higher mortgage rates on average monthly home sales. Limited inventory has continued to increase the median home price which on average has grown 5.8% annually since FY 2021. The FY 2025 Approved Budget assumed that interest rate cuts by the Federal Reserve Board would spur home sales, but through November 2024 this has not been the case. Mortgage rates have remained above 6.5%, though home sales have averaged 723 per month through the first five months of this fiscal year. In the five years prior to the pandemic, home sales averaged 800 per month. The forecast assumes $154.6 million in transfer and recordation tax revenue in FY 2025 and 2026. Based on the expected amount of revenue generated by the recordation tax in FY 2026, the forecast assumes that $10.0 million of the recordation tax will be designated to the Housing Investment Trust Fund.

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- **Energy Tax** rates are 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 following the pandemic. Higher rates on electricity boosted estimated revenue to $93.6 million in FY 2025. The forecast assumes more modest growth in consumption and inflation, resulting in projected revenue of $94.6 million in FY 2026.

- **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 etc. Revenue levels appear to have stabilized in the range of $14.0 million, of which 9% is dedicated to debt service on school renovation and systemic renovation projects, 90% to the County contribution to k-12 funding and 1% for administrative expenses.

- **Other Local Taxes** revenues are expected to grow by $0.4 million or 1.4% in FY 2026. Some growth in hotel/motel taxes and the Admissions & Amusement tax are expected.

- **License and Permit** revenues are expected to grow by $0.4 million, or 0.6% in FY 2026. Nominal growth is forecasted across all revenue sources.

- **Charges for Services** are estimated at $72.5 million, an increase of $0.2 million above FY 2025. A small amount of growth is assumed across all revenue categories.

- **Intergovernmental Revenues** are projected to decrease by -$22 million due to one-time federal recoveries for pandemic-related spending by the County, one-time spending in FY 2025 from the federal American Rescue Plan Act and an assumed 10% cut in State aid programs. It is also assumed that the State ends a discretionary police aid grant, as part of its cost containment efforts. Revenue is projected to decline from $55.6 million in FY 2025 to $33.5 million in FY 2026.

- **Miscellaneous Revenues** decrease slightly to $7.9 million in FY 2026. 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 2025, $34.9 million in unassigned fund balance was used in support of the operating budget (of which about $7.8 million was for one-time purposes). The forecast assumes no use of unassigned fund balance in FY 2026.

- **Outside Aid** revenues are projected to increase in FY 2025 and FY 2026 as State aid to the Board of Education grows following passage of the Blueprint for Maryland's Future initiative. Outside sources for the Memorial Library grow modestly in the forecast. A reduction in State aid is assumed to impact the Community College formula. In total, outside aid is estimated at $1.988 billion in FY 2025 and $2.099 billion in FY 2026.

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Exhibit 4 shows OMB's preliminary revenue projections for FY 2025 and FY 2026.

Exhibit 4

Prince George's County
FY 2026 General Fund Revenue
($ in Millions)

($ in Millions)	FY 2024	FY 2025	FY 2025	FY 2026	FY 2026 Vs. Dec. Forecast	
County Sourced Revenues	**Unaudited**	**Approved**	**Dec Est**	**Dec Forecast**	**$ Change**	**% Change**
Real Property Tax	$1,037.1	$1,049.2	$1,072.6	$1,114.5	$42.0	3.9%
Personal Property Tax	93.4	92.4	92.4	93.3	0.9	1.0%
Income Tax	788.4	790.2	829.2	861.6	32.3	3.9%
Disparity Grant	98.5	69.3	69.3	62.6	-6.7	-9.7%
Transfer Tax	111.0	122.5	115.2	115.2	0.0	0.0%
Recordation Tax	34.5	42.0	39.4	39.4	0.0	0.0%
Energy Tax	87.4	89.2	93.6	94.6	0.9	1.0%
Telecommunications Tax	13.5	14.0	14.0	14.0	0.0	0.0%
Other Local Taxes	34.8	31.2	31.0	31.4	0.4	1.4%
State-Shared Taxes	9.0	10.9	11.1	12.6	1.5	13.3%
Licenses and Permits	74.7	79.3	76.4	76.8	0.4	0.6%
Use of Money and Property	43.5	37.2	27.6	24.6	-3.0	-10.8%
Charges for Services	93.1	72.1	72.3	72.5	0.2	0.3%
Intergovernmental Revenue	62.3	52.3	55.6	33.5	-22.1	-39.7%
Miscellaneous Revenue	11.6	8.4	8.6	7.9	-0.7	-7.9%
Other Financing Sources	0.0	40.0	5.1	0.0	-5.1	-100.0%
Subtotal County Sources	**$2,592.8**	**$2,600.3**	**$2,613.3**	**$2,654.6**	**$41.2**	**1.6%**
Subtotal w/o Fund Balance	**$2,592.8**	**$2,565.4**	**$2,613.3**	**$2,654.6**	**$41.2**	**1.6%**
Outside Aid						
Board of Education	$1,807.9	$1,889.0	$1,889.0	$2,002.3	$113.3	6.0%
Community College	85.1	89.8	89.8	87.1	-2.7	-3.0%
Library	9.5	9.5	9.5	9.6	0.1	1.0%
Subtotal Outside Aid	**$1,902.5**	**$1,988.3**	**$1,988.3**	**$2,099.0**	**$110.7**	**5.6%**
Grand Total General Fund	**$4,495.3**	**$4,588.6**	**$4,601.6**	**$4,753.6**	**$151.9**	**3.3%**

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

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Unfunded Liabilities

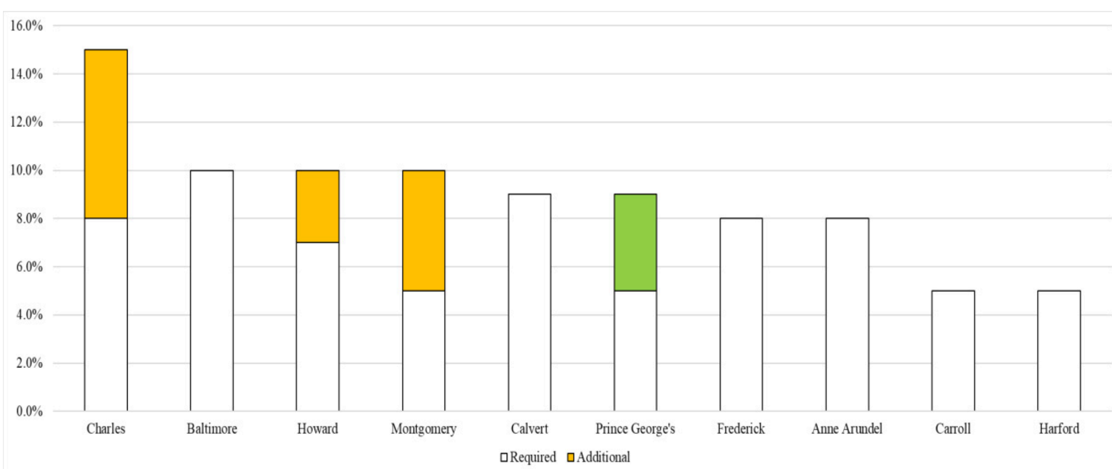
In September 2024 the Committee was briefed on the level of Unfunded Liabilities owed by the County at the close of FY 2023. This included $1.8 billion to fully fund all pension plans, $1.7 billion for retiree health care (a.k.a. Other Post-Employment Benefits or OPEB) and $203 million for the County Risk Management Fund. The pension plans receive annual funding in the budget, based on a long-term plan to achieve full funding. Annual funding is also included in each budget for the Risk Management Fund, but the liability continues to climb. There is no funding in the budget to address the $1.7 billion OPEB liability.

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%, and the FY 2025 approved budget increases the balance to 4% of spending. 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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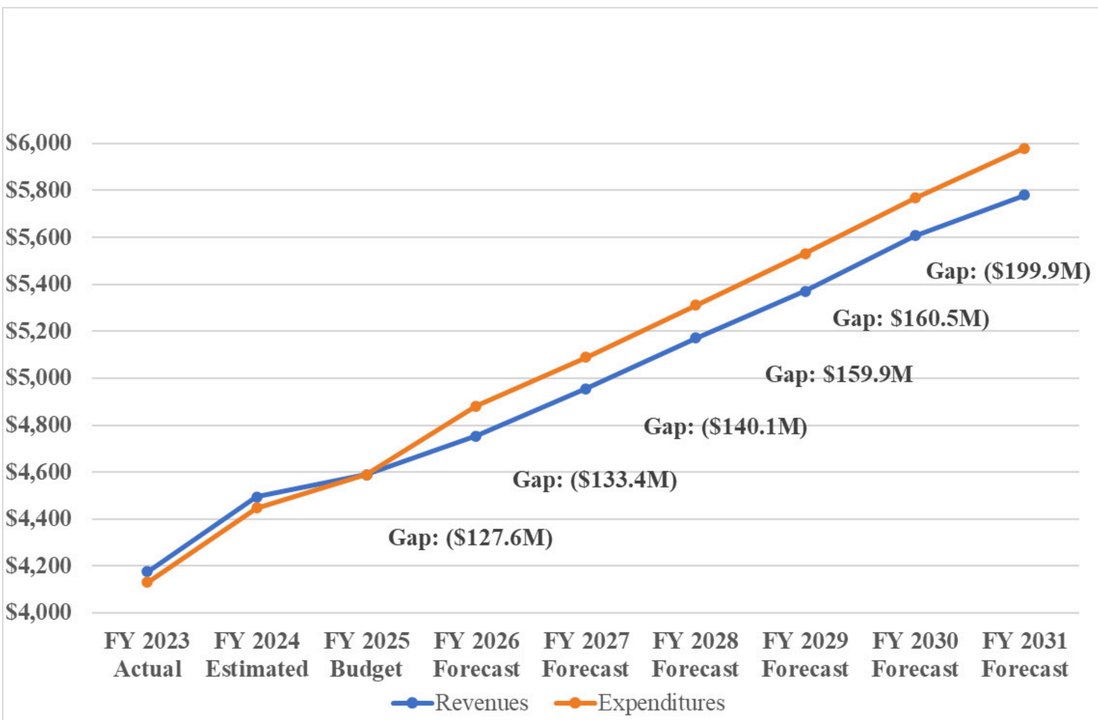
Forecast of Revenues and Expenditures

Exhibit 6 illustrates the long-term forecast of General Fund revenues and spending. As noted, a shortfall of -$128 million is projected for FY 2026, growing to -$200 million by FY 2031. Revenue growth averages 4.0% annually in the forecast but is outpaced slightly by 4.1% annual growth in spending. This suggests that once the County can resolve the existing structural imbalance, it may see sustainable revenue and spending growth in the outyears of the forecast.

Exhibit 6

Prince George's County
General Fund Forecast: FY 2026-FY 2031
($ 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 in the range of $160 million. The County must balance its budget through spending cuts in the short-term, but if those are not ongoing reductions then it will not make appreciable progress on resolving the shortfall. Any ongoing sources of revenue would also help to reduce the shortfall. 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 and potentially worsening the fiscal outlook.

- The potential for large cuts in State aid programs. In December 2024 the Department of Legislative Services advised the Maryland General Assembly's Spending Affordability Committee that revised revenue estimates and additional spending requirements result in a shortfall of $2.95 billion dollars in the projected FY 2026 budget. This is more than 10% of the State's general fund budget. 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. The forecast currently assumes a 10% reduction in State aid.

- The newly elected President has suggested a variety of new policies such as large tariffs on imports, the deportation of illegal immigrants and large reductions in federal spending and/or the federal workforce, to include possible reductions of large elements of the federal government away from the greater Washington D.C. area. Tariffs and labor shortages associated with deportations would have the likely effect of increasing County costs. Cuts in federal spending, especially to the federal workforce, could reduce County income tax revenue and spending for goods and services. There is no way to estimate any potential impacts until specific policies are adopted and implemented.

Conclusion and Recommendations

Projections of the County budget indicate a shortfall of -$126.7 million in FY 2026, growing to an estimated -$200 million by FY 2031. There are potential risks in the forecast which may exacerbate this shortfall. This includes the potential loss of State aid, large unfunded liabilities and the economic effects of policy choices by the next presidential administration. The economic news remains positive however, and the Federal Reserve Board has cut interest rates by a combined 75-basis points in the fall of 2024. Unemployment remains low and wages have continued to grow. In the short-term the County will need to make difficult decisions to reduce ongoing operating spending without using fund balance. 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 $4.754 billion in FY 2026.**

- **The current forecast projects a shortfall of -$127 million in FY 2026, growing to --$200 million by FY 2031. To address the ongoing structural deficit between revenues and spending, the Committee recommends that the County balance the FY 2026 budget through the adoption of spending cuts without the use of unassigned fund balance to support ongoing operations.**

- **To ensure that the County has adequate reserves for the next economic downturn, and to retain its AAA bond rating, the Committee supports the completion of its January 2023 recommendation to increase the level of the policy-mandated reserve from 4% in FY 2025 to 5% in FY 2026. This would give the County a combined reserve of 10% 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.**

- **The County should develop a plan to reduce its unfunded liabilities for the Risk Management Fund, which totaled -$203 million at the end of FY 2023, and its OPEB liability of -$1.7 billion.**

- **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.**

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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 2025 and FY 2026 and believe them to be reasonable.

Respectfully,

Henry W. Mosley, Chair

Stephen A. Brayman, Member

Brad Frome, Member

Robert R. Hagans Jr., Member

Appendix 1

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 3.4% in FY 2025, which adjusts for a one-time payment of $12 million to MGM following the conclusion of its appeal of its property tax assessment. Growth of 3.9% is projected for FY 2026 based on the Homestead Tax Cap which is set at 3% next year. The forecast also assumes new construction but reflects an increase from an artificially lower base due to the one-time MGM payment. Personal property taxes are expected to provide $92.4 million in FY 2025, based on assessable base data received from the State Department of Assessments and Taxation (SDAT) in February 2024. 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 2025 and FY 2026, 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 7.0% in FY 2026. After factoring in homestead exemptions, real property assessments are projected to increase by 5.9%.

Exhibit 7

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

	Estimate FY 2025	Estimate FY 2026	$ Change	% Change
Gross Assessment	$127,927.9	$136,844.4	$8,916.5	7.0%
Homestead Tax Credit	11,307.7	13,339.2	2,031.5	18.0%
Net Assessment	**$116,620.2**	**$123,505.2**	**$6,885.0**	5.9%

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 2023, Group 1's reassessed values increased 15.8%. Group 2 realized a gain of 22.7% in assessed value for FY 2024 and Group 3's assessment for FY 2025 rose by 23.0%. The FY 2026 assessable base for Group 1 will be reported in January 2025.

- 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 2024, the CPI increased by 3.0% thus the homestead tax credit cap is set at 103% for FY 2026. Higher mortgage rates have caused home sales to fall from a high of 991 per month in FY 2021 to a low of 664 per month in FY 2024. Mortgage rates have fluctuated but remained above 6.5% in the current year. Sales have rebounded to 723 per month through November 2024. As of November 2024, the median home price in the County was $450,196. 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 $135.5 million for FY 2026.

- 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 2025 and FY 2026.

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. Wage growth has been slightly stronger than the long-term growth trend though, as FY 2024 revenue reached $788.4 million. The forecast for FY 2025 is assuming an increase to $829.2 million based on year-to-date attainment. Current year revenue growth has been higher than expected, in part because of a $47 million reconciling payment from tax year 2023. Representatives from the Comptroller's Office believe lower and middle-income wage growth is the main contributing factor. The FY 2026 forecast assumes that wage growth returns to the long-term trend of 3.9%, which is consistent with the County forecast for personal income growth from Moody's Analytics.

- 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 2024, the County received $98.5 million. Tax year 2022 data reflected a greater level of income disparity due to the end of federal pandemic aid and capital gains income. It is assumed that tax year 2023 data will reflect disparity levels in-line with historical trends. The State is also facing a cash deficit in FY 2026 of nearly $3 billion dollars; thus, it is expected that some level of reductions in State aid are likely. The FY 2026 forecast assumes a 10% across-the-board cut in aid, but the exact impact, if any, will not be known until the State's FY 2026 allowance is submitted in January 2025. Disparity grant revenue is estimated at $62.6 million.

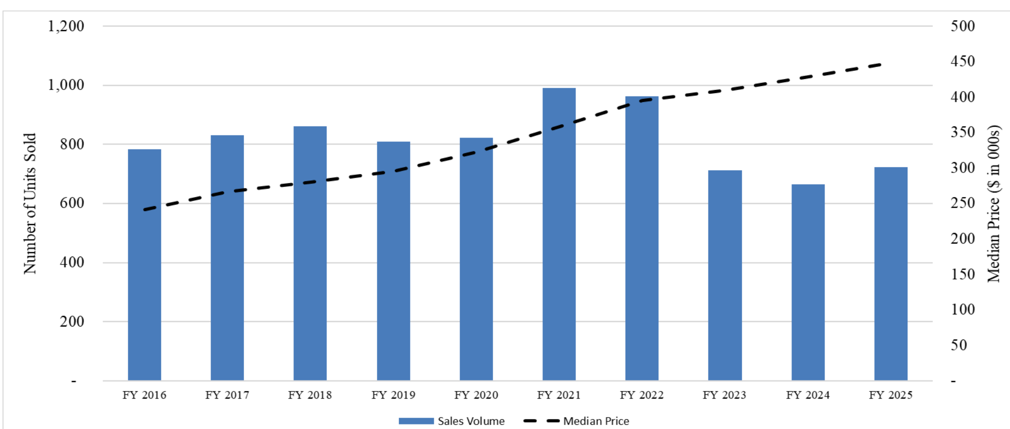
Transfer and Recordation Taxes

- Since 2022, higher mortgage interest rates have suppressed the volume of monthly home sales. The number of active homes for sale is also below historical levels. According to Moody's Analytics a number of homeowners are reluctant to sell their homes because they had locked in very low mortgage rates. Transfer and recordation tax revenue has decreased, from $171.0 million in FY 2023 to $145.4 million in FY 2024. **Exhibit 8** illustrates the trends in home sales and the median home price in the County. The median home price has grown 5.8% annually, on average since FY 2021. The volume of sales has declined from a high of 991 per month in FY 2021 to a low of 664 per month in FY 2024. Year-to-date home sales have averaged 723 per month in FY 2025. County law also dedicates the greater of $10.0 million or 20% of the recordation tax to the Housing Investment Trust Fund. The distribution is estimated at $10.0 million in each of FY 2025 and 2026.

- For FY 2025, the approved budget estimated revenue of $164.5 million, however this figure is now revised to $154.6 million based on year-to-date attainment. The FY 2026 forecast assumes level funding for this revenue source on the basis that fewer cuts in interest rates are expected from the Federal Reserve Board in 2025. Despite a 50-basis point rate cut in September 2024, mortgage rates have remained between 6.5% and 7%. Higher rates and lower inventory have constrained transfer and recordation tax revenue based on lower volume of monthly sales.

Exhibit 8

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



Note: FY 2025 is based on the average of July 2024-November 2024 data

Source: Metropolitan Regional Information System

- Foreclosure data following the pandemic has fluctuated. As seen in **Exhibit 9**, there were 573 foreclosures in the County in the first quarter of Calendar Year 2024 relative to more than 2,500 foreclosures statewide. Before the pandemic County foreclosures averaged over 1,500 per quarter, compared with nearly 6,700 per month statewide. The first quarter data also shows that County foreclosures comprised 23% 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%
Q3 2023	686	3,083	22%
Q4 2023	585	2,810	21%
Q1 2024	573	2,507	23%

Source: Maryland Department of Housing and Community Development

Energy Tax

Energy tax unit rates are determined by the total consumption and sales in the calendar year two years prior to the budget. Following the pandemic, energy demand grew as businesses re-opened. Energy tax revenue grew 10.7% in FY 2024. The rate of growth has moderated since then, but electricity rates, which make up the largest component of the energy tax, have continued to increase at higher rates. The cost of electricity and consumption are both growing. Revenue is projected at $93.6 million in FY 2025 and $94.6 million for FY 2026.

Telecommunications Tax

Telecommunication tax revenues have continued to experience ongoing declines, from a high of $50.1 million in FY 2007 to $13.5 million in the FY 2024 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 2026 forecast assumes $14.0 million, which is roughly at the same level as the FY 2024 unaudited level. After many years of steep declines this revenue source appears to have stabilized.

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. The admissions and amusement tax rose sharply in FY 2024, from $11.8 million to $18.2 million. Most of this growth is from the Washington Commanders. The forecast assumes $15.0 million from admissions and amusement taxes in FY 2026, and slower growth from the other local tax sources.

State-Shared Taxes

State law mandates that an increased percentage of certain transportation revenues be shared with local jurisdictions through FY 2027. Estimates from the Maryland Department of Transportation suggest that the County will receive $10.3 million from this source in FY 2025 and $11.6 million in FY 2026. These estimates are subject to change based on the actual amount of tax and fee revenue received by the State's Transportation Trust Fund. The State did increase certain transportation fees at the 2024 legislative session, so cuts are not expected in this revenue source.

Licenses and Permits

License and permit revenues is generally level funded across FY 2025 and 2026 in the forecast. However, the FY 2025 estimate was revised downward by a net $3 million. Building and grading permit revenue has declined relative to FY 2024, but this was partially offset by a new gaming revenue grant of $3 million per year per Chapter 410 of the Laws of Maryland of 2024.

Use of Money and Property

Higher interest rates have benefitted the County, as it realized about $43.5 million in revenue from this category in the FY 2024 unaudited budget. Most of this was due to investment earnings. Since the Federal Reserve Board has cut rates twice in the fall of 2024 by a combined 75 basis points, the current estimate for FY 2025 assumes slightly lower levels of interest income. Interest revenue is now assumed to be $26 million in the current fiscal year. The pace of rate cuts is likely to decrease in calendar year 2025 but lower investment income is still anticipated, at $23 million in FY 2026.

Charges for Services

Charges for services are projected to remain level funded in FY 2026, at $72.5 million.

Intergovernmental Revenues

Intergovernmental revenues are projected to decrease to $33.5 million in FY 2026. Of this, $14.5 million is due to one-time federal fund sources. This includes the final use of $10.2 million of American Rescue Plan Act funding which must be obligated by the end of December 2024, and a final $4.3 million in FEMA reimbursements for County expenses during the pandemic. The forecast also assumes the end of discretionary police aid as well as a 10% reduction in State aid from the police aid and health formulas and the teacher retirement supplemental grant. Since the

State is facing a $3 billion cash shortfall in its projected FY 2026 budget, the County is assuming some level of reductions to State aid programs.

Miscellaneous Revenues

Miscellaneous revenues fluctuate each year. The FY 2024 unaudited budget totaled $11.6 million. The FY 2025 and FY 2026 forecast assumes $8.6 million and $7.9 million respectively. Revenue from speed enforcement and redlight cameras continues to deteriorate over time, as driver behavior changes. These sources make up the bulk of miscellaneous revenues.

Other Financing Sources

Other financing sources include the use of fund balance and transfers from other funds. The FY 2025 Approved Budget included the use of $34.9 million in unassigned fund balance. Use of unassigned fund balance in FY 2026 is unlikely based on concerns by one of the bond rating agencies over the use of fund balance to support ongoing operating costs.

Board of Education Aid

Board of Education aid is projected at $2.0 billion in FY 2026 and is estimated to grow by $113.3 million, or 6.0% 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 required funding level.

Community College Aid

Outside aid for Prince George's Community College is projected to decrease by -$2.7 million in FY 2026. As noted, all State aid programs are estimated to be reduced by 10%, though the actual impact will not be known until the 2025 legislative session. Community college aid is based on a formula which increases by student enrollment and appropriations to higher education.

Library Aid

Library aid is expected to grow slightly in FY 2026 from the FY 2025 level, to an estimated $9.6 million. State library aid is based on a per capita formula.

TABLE OF SUPPLEMENTALS AND TRANSFERS FISCAL YEAR 2025

This section explains changes made to the FY 2025 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 2025, the County Council approved two bills (with a third-year end close bill pending) and one resolution (with a second resolution pending) changing appropriation levels during the fiscal year.

The first supplemental bill (CB-022-2025) provides additional appropriation authority totaling $10,785,900 in the General Fund. The additional resources will increase the Fiscal Year 2025 General Fund Budget from $4,588,593,200 as expressed in CB-45-2024 to $4,599,379,100. The legislation appropriates additional use of unassigned fund balance (increase of $10.8 million) as the revenue source.

American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Fund (SLFRF) Agency

Reallocations in the General Fund and Internal Service Fund:

Under the SLFRF grant program, the County was required to obligate 100% of the ARPA funds by December 31, 2024, and expend 100% of the funds by December 31, 2026. To meet the obligation deadline, the County moved $44.8 million in Police Department sworn salary expenditures from the General Fund to the ARPA grant. Based on this action, this legislation reallocates approximately $44.8 million in appropriation from the Police Department to various agency operating budget appropriations to allow the agencies to spend their remaining SLFRF projects within the General Fund.

Other General Fund Adjustments:

This legislation increases the expenditure appropriation by (1) $6,814,000 to support additional funding needs for the FY 2025 snow and ice control season as administered by the Department of Public Works and Transportation; (2) $3.0 million for a PAYGO (“pay-as-you-go”) transfer to the Strategic IT Initiatives capital project (#8.23.0002) under Non-Departmental that did not occur as budgeted in FY 2024; (3) $400,000 transfer to the Fair Election Special Revenue Fund that did not occur in FY 2024 as budgeted; and (4) $571,900 to address projected overages in the Department of the Environment due to additional overtime costs in the Animal Services Division, large employee leave payouts and lower-than-anticipated staff attrition.

Internal Service Fund Adjustments:

This legislation also includes a transfer of $737,800 from the General Fund to the Information Technology Internal Service Fund to reflect the transfer in of remaining former SLFRF project funds for the Office of Information Technology to support IT digitization and cybersecurity projects. Overall, the Fiscal Year 2025 Internal Service Fund Budget (Information Technology and Fleet Management) as expressed by CB-45-2024 increases from $76,573,200 to $77,311,000.

Special Revenue Fund Adjustments:

This legislation also includes a net adjustment of $5,048,900 to Special Revenue Fund reflect changes to the (1) Drug Enforcement and Education Special Revenue Fund to primarily reallocate resources to the proper expense character (net increase of $15,200); (2) Fair Election Special Revenue Fund to reflect a transfer of $400,000 from the General Fund that did not occur in FY 2024 (the $400,000 transfer-in is 100% offset by removal of the appropriated fund balance revenue allocation); (3) Housing Investment Trust Fund to reflect a transfer in of $4.1 million from the remaining former SLFRF project funds primarily support the Affordable Housing - Right of First Refusal and Housing Rehab Assistance programs; and (4) Transportation Services Improvement Special Revenue Fund to reflect the PAYGO transfer of $900,000 to the Bus Mass Transit/Metro Access 2 (#4.66.0006) capital project (this capital project currently has spending appropriation in the current year but the $900,000 in special revenue funding was not transferred to the project in FY 2024). Overall, the Fiscal Year 2025 Special Revenue Fund Budget as expressed by CB-45-2024 increases from $293,539,100 to $298,588,000.

Enterprise Fund Adjustments:

Finally, this legislation also includes a transfer of $1,486,200 from the General Fund to the Stormwater Management Enterprise Fund to reflect the transfer in of remaining former SLFRF project funds for the Department of the Environment to support a flood study. Overall, the Fiscal Year 2025 Enterprise Fund Budget (Solid Waste, Stormwater Management and Local Water Quality) as expressed by CB-45-2024 increases from $262,062,700 to $263,548,900.

The second supplemental bill (CB-054-2025) provides additional appropriation authority totaling $131,475,500 in the General Fund. The additional resources will increase the Fiscal Year 2025 General Fund Budget from $4,599,379,100 as expressed in CB-45-2024 and amended in CB-22-2025 to $4,730,854,600. The legislation appropriates additional income tax receipts ($26,684,000) and Board of Education outside sources ($104,791,500) as the revenue sources.

This legislation reallocates $17.2 million from Non-Departmental - Contingency to various agencies to cover the annualized impact of cost-of-living adjustments (COLA) and merit adjustments that were not originally budgeted at the agency level in FY 2025 as well as accounting for other costs that were not originally anticipated. The branch and agency adjustments include the following: (1) $2,600 for the Personnel Board due to COLA and merit increases; (2) $218,200 for the Office of Law due to COLA and merit increases and a recovery adjustment to align to anticipated expenses; (3) $621,600 for the Board of Election to account for special election expenses; (4) $2,274,000 for the Office of Central Services to reflect snow expenses, fourth quarter custodial expenses for three new buildings, COLA and merit increases and a transfer to the Fleet Management Internal Service Fund; (5) $1,037,700 for the Circuit Court primarily due to COLA and merit increases and additional operating expenses; (6) $556,900 primarily for the Office of the State's Attorney due to COLA and merit increases and new position classifications for Assistant State's Attorneys and additional operating expenses; (7)

$34,396,000 for the Police Department due additional costs for holiday premium, overtime and shift differential as well as COLA and merit increases; (8) $2,539,100 for the Office of the Sheriff due to COLA and merit increases; (9) $393,900 for the Department of Social Services due to COLA and merit increases and other operating expenses; (10) (-$1,000,000) reduction for the Department of Public Works and Transportation to align with updated spending projections; (11) $2,625,100 for the Department of Permitting, Inspections and Enforcement due to COLA and merit increases, upgrades to Engineer positions due to OHRM Engineer Class Study, lower-than-anticipated staff attrition, and overages in temporary staffing and contractual services; (12) $226,100 for the Department of Housing and Community Development to transfer additional funding the Redevelopment Authority related to the Property Management Fund; and (13) $104,791,500 for the Board of Education to align to the reconciliation letter approved by the County Council in Fall of 2024.

This legislation also includes a transfer of $520,000 from the General Fund to the Fleet Management Internal Service Fund to cover additional costs needed for autobody, parts and the garage. Overall, the Fiscal Year 2025 Internal Service Fund Budget (Information Technology and Fleet Management) as expressed by CB-45-2024 and amended by CB-22-2025 increases from $77,311,000 to $77,831,000.

The third supplemental bill (CB-082-2025) transfers $17.2 million in appropriation authority between certain departments and Non-Departmental in the General Fund. The Fiscal Year 2025 General Fund Budget as expressed in CB-45-2024 and amended in CB-22-2025 and CB-54-2025 remains $4,730,854,600. This legislation reallocates $17.2

million to cover the shortfall in Non-Departmental and other agencies due to unanticipated costs. This bill is pending Council approval.

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

GENERAL FUND

CB-045-2024 $4,588,593,200

Adopted Fiscal Year 2025 General Fund Budget (Effective 7/1/2024)

CB-022-2025 $10,785,900

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 2025 Budget.

CB-054-2025 $131,475,500

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the General Fund and Internal Service Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

CB-082-2025 $0

An act concerning supplementary appropriations for the purpose of transferring appropriating within the General Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

TOTAL REVISED FY 2025 GENERAL FUND BUDGET $4,730,854,600

INTERNAL SERVICE FUND

CB-045-2024 $76,573,200

Adopted Fiscal Year 2025 Internal Service Fund Budget (Effective 7/1/2024)

CB-022-2025 $737,800

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the Internal Service Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

CB-054-2025 $520,000

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the Internal Service Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

TOTAL REVISED FY 2025 INTERNAL SERVICE FUND BUDGET $77,831,000

<u>SPECIAL REVENUE FUND</u>

CB-045-2024 $293,539,100

Adopted Fiscal Year 2025 Special Revenue Fund Budget (Effective 7/1/2024)

CB-022-2025 $5,048,900

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the Special Revenue Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

SPECIAL REVENUE FUNDS BUDGET $298,588,000

<u>ENTERPRISE FUNDS</u>

CB-045-2024 $262,062,700

Adopted Fiscal Year 2025 Enterprise Fund Budget (Effective 7/1/2024)

CB-022-2025 $1,486,200

An act concerning supplementary appropriations for the purpose of declaring additional revenue and appropriating to the Enterprise Fund to provide for costs that were not anticipated and included in the Approved Fiscal Year 2025 Budget.

TOTAL REVISED FY 2025 ENTERPRISE FUND $263,548,900

<u>GRANT FUNDS</u>

CB-045-2024 $302,570,900

Adopted Fiscal Year 2025 Grant Funds Budget (Effective 7/1/2024)

CR-046-2025 $15,061,198

A resolution concerning supplementary appropriation of federal, State and other funds or the purpose of appropriating funding from grants in the amount of $15,061,198 for the Office of Human Resources Management, Circuit Court, Office of the State’s Attorney, Police Department, Fire/EMS Department, Office of the Sheriff, Office of Homeland Security, Department of Family Services, Health Department, Department of Social Services, Department of Public Works and Transportation and Department of Housing and Community Development.

CR-095-2025 $5,966,472

A resolution concerning supplementary appropriation of federal, State and other funds for the purpose of appropriating funding from grants in the amount of $5,966,472 for the Circuit Court, Office of the State’s Attorney, Fire/EMS Department, Office of Homeland Security, Department of Family Services, Health Department, Department of Social Services, Department of Public Works and Transportation, Department of Housing and Community Development and Non-Departmental.

TOTAL REVISED FY 2025 GRANT FUNDS BUDGET $323,598,570

PRINCE GEORGE'S COUNTY
SEMPER EADEM
MARYLAND