



# PRINCE GEORGE'S COUNTY GOVERNMENT

## Office of the County Executive

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County Executive

To the Residents, Citizens, and Businesses of Prince George's County:

It is my pleasure to work in collaboration with the County Council on the adoption of the proposed budget for FY 2025. The FY 2025 proposed operating budget from all sources totals \$5.46 billion, an increase of \$54 million or 1 percent over the FY 2024 budget.

The budget maintains a vision for investing in our Administration's Proud Priorities of education, safe neighborhoods, economic development, quality of life and environment, healthy communities, and youth development, while also addressing a projected budget shortfall of \$171 million dollars. In our FY 2025 budget, we reaffirm our commitment to the programs and priorities that Prince Georgians depend on, while making necessary reductions to maintain the fiscal health of our County. By exercising fiscal discipline now, we reduce our dependence on fund balance, helping to protect our credit rating, and setting up our County for a stronger future.

We have a shortfall in this year's budget for a number of reasons. Localities across the nation are normalizing their budgets as pandemic-era federal aid and state aid programs wind down. In addition to this loss of aid, our program commitments have increased year over year. This includes funding for stormwater management programs, and an increasing amount of funding due for Kirwan. We proudly support the Blueprint for Maryland's future and believe that education is the great equalizer. But the current funding formula is difficult to sustain.

In addition to rising expenses, revenues have decreased as well. Revenue from income tax declined, however there are signs that this revenue is beginning to return to the pre-pandemic growth pattern. Next, revenue from transfer and recordation taxes, which includes real property sales, also declined. This is a major source of revenue for our County.

Instead of accepting deeper cuts, my administration has fought hard to reduce the deficit so that we could continue to provide services that residents depend on. We fought for the passage of legislation in the General Assembly to allow us flexibility in the use of telecommunications and energy tax revenue. Because we expect those bills to successfully pass, we will be able to count these tax revenues towards our commitment under Kirwan instead of providing it in addition to our mandated commitment.

Even with this successful effort, we still must address a sizable shortfall in our County budget. To minimize the impact on services and residents, we spread reductions across County agencies and froze hiring of over 870 positions. In terms of services provided by the government, this approach will have impacts. However, by taking this approach we protect services that matter to residents and continue to build capacity in key areas.

We are committed to providing a world-class environment for our students to learn in Prince George's County public schools. This year, PGCPSS will receive more than \$2.8 billion dollars in funding, of which our county contribution is more than \$941 million dollars to the school system. This allows us to meet our obligations under Kirwan. In addition to providing historic levels of funding to the Prince George's County Public School System, we are also moving forward with phase two of our public private partnership program, building an additional 8 new schools for students in record time.

I take the safety and security of our community seriously, and I know this is a top concern among Prince Georgians as well. This year, we are providing the Prince George’s County Police Department \$397.6 million to serve and protect our community. This represents a 2 percent increase in their budget that will allow the department to hire new recruits and new crime scene investigators. Our Fire and Emergency Medical Services department will receive \$279.6 million, an increase of 7.1 percent. This funding will help the Fire department hire new staff and provide services to residents across Prince George’s County. Our States’ Attorney’s Office will receive \$26.6 million, a 2.9 percent increase in funding and our Sheriff’s Office will receive \$59.9 million, an increase of 3.6 percent. We have chosen to minimize the impact of this year’s budget shortfall on public safety because these programs are so important to the health and safety of every Prince Georgian.

We’ve also funded key programs to support a high-performance County government. This includes funding for the upcoming presidential election, investments in IT and cybersecurity, positions to support our proposed new Office of Procurement and seasonal positions in the Office of Human Resources Management to conduct public safety background investigations as we continue to build up our Police and Fire departments. We’ve also provided additional funding to continue building out our modernized permitting program with the Department of Permitting, Inspections, and Enforcement.

This year we are building on our track record of investment in healthcare. This includes funding for Health and Human Services, as well as funding to address the mental and behavioral health crisis. We’re providing \$32.4 million to the Health Department, as well as \$20.7 million for Mental and Health Crises, and Addiction and Substance abuse programing. We’re also funding senior services and veterans’ services.

As we all know, the climate crisis is taking a toll on communities across the nation in terms of increased storm damage, flooding, and fire. We’re investing in beautification and the environment across Prince George’s County, including funds for storm water management and our Climate Action Plan that includes new electric buses, bike share improvements, litter removal, and flood mitigation. Additionally, we’re investing in our award-winning composting program and continuing to provide street sweeping on roads across the County.

Finally, we are keeping up our investments in economic development. This includes funding for expansion of the Central Avenue Connector Trail, which will provide trail access to 300,000 residents, and \$45.6 million for the Department of Public Works and Transportation Capital Improvement Program. We’ve also set aside funds for planning the new FBI Headquarters at Greenbelt, as well as \$28.1 million for the Housing Investment Trust Fund, which is working to preserve affordability across our County.

This is a difficult budget cycle, but we are targeting our investments in priorities that matter most to the future of our County while protecting our long-term fiscal health. Our Fiscal Year 2025 budget balances the priorities of our residents with the realities of a sizeable budget shortfall. We’ve worked hard to develop a budget that provides residents the services they depend on without jeopardizing our fiscal future.

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## **FY 2025 Proposed Budget – All Funds**

The proposed FY 2025 budget for all operating funds is \$5.5 billion, an increase of \$54.0 million or 1.0% over the FY 2024 budget. The General Fund accounts for 83.7% of all spending in FY 2025 and will increase by \$61.1 million or 1.4 %. This fund supports most County government services and programs including education, public safety, general government, public works, the environment, and other critical services.

The Internal Services Fund totals \$76.6 million in FY 2025, an increase of \$3.0 million or 4.0% over the FY 2024 budget.

The County's Enterprise Fund totals \$262.5 million, a decrease of -2.5% below the FY 2024 budget. This fund accounts for 4.8% of total FY 2025 spending. The Enterprise Fund supports various water quality programs and meets State mandates.

Special Revenue Funds account for \$287.9 million or 5.3% of all spending in FY 2025. Spending in this fund is projected to increase by \$12.5 million or 4.5%. There are changes in several changes, the largest being \$12.5 million in the Housing Investment Trust Fund. Spending in the current year is much slower than expected and the unspent fund balance is expected to be used in FY 2025. The Drug Enforcement & Education Fund increase by \$2.5 million to support Police Department operations, debt service decreases by -\$3.9 million based on the repayment of County debt, and the Transportation Services Improvement Fund rises by \$0.9 million to provide funding toward a mass transit capital project.

Grant funding accounts for 4.8% of all spending and is estimated to total \$260.6 million in FY 2025. This is a decrease of -\$15.7 million or -5.7% below the FY 2024 budget. County agencies will continue to diligently seek new sources of revenue and will likely exceed the budgeted amount before the end of the year.

The chart below provides a summary of all operating funds in FY 2025:

	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Proposed	Change FY 24 – FY 25
<b>Revenues</b>					
General Fund	\$4,174,680,345	\$4,513,632,600	\$4,519,903,200	\$4,574,690,000	1.4%
Internal Service Fund	68,688,143	73,597,900	73,205,400	76,573,200	4.0%
Enterprise Fund	203,514,886	269,367,100	204,650,300	262,501,700	-2.5%
Special Revenue Fund	266,954,291	275,434,800	265,107,500	287,939,100	4.5%
Grant Program Fund	304,855,877	276,347,200	270,274,800	260,627,000	-5.7%
<b>Total</b>	<b>\$5,018,693,542</b>	<b>\$5,408,379,600</b>	<b>\$5,333,141,200</b>	<b>\$5,462,331,000</b>	<b>1.0%</b>
<b>Expenditures</b>					
General Fund	4,130,887,798	\$4,513,632,600	\$4,525,885,300	\$4,574,690,000	1.4%
Internal Service Fund	66,423,819	73,597,900	73,866,400	76,573,200	4.0%
Enterprise Fund	200,507,107	269,367,100	266,456,400	262,501,700	-2.5%
Special Revenue Fund	246,160,601	275,434,800	258,094,800	287,939,100	4.5%
Grant Program Fund	306,373,260	276,347,200	270,754,100	260,627,000	-5.7%
<b>Total</b>	<b>\$4,950,352,585</b>	<b>\$5,408,379,600</b>	<b>\$5,395,057,000</b>	<b>\$5,462,331,000</b>	<b>1.0%</b>

## General Fund Revenues

### General Fund – County Sources

County-sourced revenues – taxes, fees, licenses and permits, service charges, use of money and property etc. – represent resources used to fund most government programs and services, including the County's contribution to the Board of Education, Memorial Library System, and the Community College.

In FY 2025, County sources are projected to be \$2.59 billion, an increase of \$26.9 million or 1.1% over the FY 2024 budget. These revenues account for 56.6% of the total General Fund revenues for FY 2025.

Real property taxes represent the largest portion of County-sourced funding for government operations. In FY 2025, receipts are projected to total \$1.05 billion, an increase of \$55.8 million or 5.6% over the FY 2024 budget. Excluding the revenue allocated to the school system, the County's real property tax revenues are projected to increase by \$53.6 million or 5.6% in FY 2025 over the FY 2024 budget.

Personal property tax revenues are projected to be \$92.4 million, an increase of \$3.2 million or 3.6% above the FY 2024 approved budget. Excluding the additional revenue assigned to the school system, the County's personal property tax revenues are projected to grow by \$3.1 million or 3.6% in FY 2025.

Income tax revenues are projected to total \$859.5 million in FY 2025, including the State Income Disparity Grant. This represents a decrease of -\$16.2 million or -1.8% below the FY 2024 budget. Income tax receipts total \$790.2 million and the Income Disparity Grant totals \$69.3 million in FY 2025. The change in income tax revenues is \$13.0 million over the FY 2024 budget or 1.7%. The FY 2024 approved budget is likely overstated, as growth in net taxable income returns to pre-pandemic growth trends. Unemployment remains at record low levels and wage growth continues albeit at more modest rates of growth. Relative to the estimated FY 2024 attainment of \$763.6 million the FY 2025 budget proposes 3.5% growth in income tax revenue. Funding from the State Income Tax Disparity Grant is expected to decline by -\$29.2 million or -29.7% in FY 2025. Tax year 2021 data significantly increased the per capita income tax disparity and drove the County share of the formula to a record \$98.5 million level. Tax year 2022 data reflects the end of federal stimulus funds and higher capital gains levels related to the pandemic, and as a result the disparity narrowed more closely to historical disparity levels. This smaller disparity reduces the amount of State aid that the County receives.

The national real estate has uniformly been impacted by the 12 interest rate hikes adopted by the Federal Reserve Board since the spring of 2022. While intended to address higher than desired levels of inflation, these increases also raised mortgage interest rates to the 6% to 7% level. Home sales in the County have fallen by 30% compared to the peak in Calendar Year 2021. The inventory of homes remains low, which has maintained a higher median home price, but the higher price is not enough to offset the loss of sale volume. Transfer & recordation tax revenue is estimated to decrease by -\$40.1 million in FY 2025, or -19.6% compared to the FY 2024 approved budget. Attainment from these sources is on pace for approximately \$153.5 million in the current fiscal year. With inflation at lower levels, the Federal Reserve Board is widely expected to begin reducing interest rates in FY 2025, though the timing and size of any such reductions is not known. A nominal level of growth in transfer & recordation taxes revenue is expected once rates begin to decline. In accord with County law, \$10.5 million of the Recordation tax is credited to the Housing Investment Trust Fund.

Revenue from other local taxes is estimated to climb \$6.5 million, or 5.2%. This is largely due to revisions in the telecommunications sales tax and hotel-motel taxes in line with actual FY 2023 attainment.

Revenue from licenses and permits is \$1.0 million, or 2.2% higher than the FY 2024 budget. Building and grading permit revenue is \$2.1 million higher than the FY 2024 budget based on actual attainment. Liquor license revenue was overestimated in the FY 2024 approved budget based on a post-pandemic backlog of license renewals that artificially inflated actual FY 2022 revenue levels.

Use money and property increases by \$26.3 million, or 242.1% to reflect higher interest income received in FY 2023 and continuing into the current fiscal year. This is due to the higher interest rates adopted by the Federal Reserve Board. Interest income is expected to remain at current levels throughout FY 2025 based on the term of County investments.

Charges for Services grow by \$2.4 million, or 3.5% in FY 2025. This is mostly due to continuation of the higher Medicare reimbursement for emergency transportation services, higher jury reimbursements from the State in accordance with recent law changes and a small increase in 9-1-1 revenue related to a proposed 1-cent per month fee increase to maintain cost recovery. These increases are offset by lower estimates for corrections charges and cable franchise fees, based on actual attainment.

Revenues from Licenses & Permits is projected to increase by \$6.0 million, or 8.2% in FY 2025 compared to the FY 2024 budget. This is mostly due to combined growth in gaming revenues which have performed strongly since the pandemic as well as revenue from Building & Grading Permits. Smaller growth is expected from liquor licenses, health permits and street use permits.

Intergovernmental revenues are projected to increase by \$15.5 million or 42.7% above the FY 2024 budget. Unspent federal American Rescue Plan Act funds of \$10.2 million are appropriated in support of government operations. Aid in the State budget is also slightly higher. The Governor continued a discretionary enhancement to the Police Aid formula, which adds \$3.9 million to County general funds and the health formula is \$0.2 million above the FY 2024 approved budget level.

The FY 2025 budget is balanced using \$27.8 million of fund balance. Of this, \$7.8 is being applied to one-time purposes such as capital projects, which includes the strategic information technology initiatives in the Office of Information Technology CIP project (\$3,000,000). Another \$3,775,700 represents debt service payments to support the University of Maryland Medical System which end in FY 2025. Additionally, \$1,000,000 is allocated to support a local business bond fund. The FY 2025 budget also includes the use of \$5.1 million of assigned fund balance from public safety & behavioral health surcharge revenue which is being applied to debt service on a behavioral health-related project. Finally, there is a one-time \$50,000 reimbursement to the Arts and Humanities Council.

### **General Fund – Outside Sources**

Outside-sourced revenues include State Aid and other revenues (e.g., federal aid, fees, charges, tuition revenue) generated by the Board of Education, Community College and Library. In FY 2025 Outside Aid is estimated to total \$1.99 billion, an increase of \$34.1 million over the FY 2024 approved budget. Outside Aid accounts for 43.3% of total General Fund revenues in FY 2025.

### **Spending Affordability Committee Guidelines**

The County's Spending Affordability Committee (SAC) is a truly dedicated citizen committee of exceptional professionals who have been invaluable assets to Prince George's County for many years. The SAC recommendation for the FY 2025 General Fund budget is \$4.550.5 billion.

At \$4.57 billion, the FY 2025 proposed budget is consistent with the Committee's recommendation. In its January 2024 letter to the County Executive and County Council, closing the estimated -\$171 million gap between revenue and spending was recommended, but the Committee also recognized that some level of fund balance may be necessary to balance the budget. The use of \$27.8 million in unassigned fund balance to support the FY 2025 budget fits with the recommendation in the January letter and represents half of the use of fund balance in FY 2024. This demonstrates the progress that the County is making toward ensuring structurally balanced spending in future years.

I unequivocally endorse the Committee's recommendations. This includes the limited use of fund balance, the increase in County reserves, and conservative forecasting. I would like to emphasize that the proposed FY 2025 budget includes not only the Charter-mandated 5.0% reserve but also includes the second-year phase-in of an increase of the policy-required reserve by one percentage point to stand at 4.0% in the proposed budget. SAC had recommended increasing the policy-required reserve to 5.0% by FY 2026. The Committee also recommended that the County continue to project revenues cautiously and conservatively. I share the Committee's recommendations to continue with these important efforts. These practices are essential to us maintaining the County's Triple-A bond rating from the major rating agencies.

