

October 1, 2025

The Honorable Aisha N. Braveboy, County Executive  
The Honorable Edward P. Burroughs III, 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 revenue for the next fiscal year (FY). This letter summarizes the Committee's preliminary findings and recommendations on spending limits for FY 2027.

**Based upon a review of various economic and revenue information and trends, the Committee concurs with the preliminary OMB General Fund revenue projection of \$5.0 billion in FY 2027, an increase of \$136.5 million or 2.8% above the FY 2026 Estimated Budget.** Projected County-sourced revenue of \$2.77 billion in FY 2027 represents growth of \$33.3 million or 1.2%. (See **Exhibit 1**). Based upon the forecasted revenues, the Committee's preliminary spending limit recommendation is \$5.0 billion. In prior years the Committee recommended closing projected shortfalls through spending reductions, as a means of trying to achieve longer term structural balance. The outyear forecast illustrates that the County has made progress in closing the gap between ongoing revenues and spending. Continued progress is essential to attain sustainable budgeting. The Committee further recommends no use of unassigned balance to support ongoing spending in FY 2027.

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**Exhibit 1**

**Prince George's County**  
**Summary of Current and Projected General Fund Revenue**  
(\$ in Millions)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 24-25	FY 25-26	FY 26-27
	Actual	Unaudited	Estimated	Forecast	% Change	% Change	% Change
County-Sourced Revenues							
Subtotal County-Sources	\$2,595.7	\$2,687.6	\$2,735.8	\$2,769.1	3.5%	1.8%	1.2%
Subtotal w/o Fund Balance	2,595.7	2,687.6	2,731.3	2,769.1	3.5%	1.6%	1.4%
Outside Aid							
Subtotal Outside Aid	1,903.5	2,088.1	2,086.6	2,189.8	9.7%	-0.1%	4.9%
<b>Grand Total</b>	<b>\$4,499.1</b>	<b>\$4,775.8</b>	<b>\$4,822.3</b>	<b>\$4,958.9</b>	<b>6.1%</b>	<b>1.0%</b>	<b>2.8%</b>
<b>Grand Total w/o Fund Balance</b>	<b>4,499.1</b>	<b>4,775.8</b>	<b>4,817.9</b>	<b>4,958.9</b>	<b>6.1%</b>	<b>0.9%</b>	<b>2.9%</b>

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

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The FY 2027-FY 2032 forecast shows a deficit projected at \$91.6 million in FY 2027 growing to \$157.9 million by FY 2032. Expenses, which increase on average by 3.8% per year, outpace revenues needed to operate core government services. The County's largest revenue source, the real property tax, is limited to the lesser of inflationary growth or 5%. Federal cutbacks to employment, higher unemployment and federal tax law changes are expected to constrain income tax growth. And higher mortgage rates serve to limit revenue growth from transfer and recordation taxes. Absent changes in the current revenue structure, the County is likely to be persistently in a position where spending will need to be constrained.

The County also faces State mandates to increase its local contribution to school operating budgets based on the Blueprint for Maryland's Future legislation, pay for collectively bargained personnel compensation and increasing debt service expenses to meet capital needs. The loss of the AAA bond rating from one of the three bond rating agencies may also result in higher debt service.

While the County continues to make progress on its unfunded pension liabilities, no annual appropriations are being made to offset the \$1.7 billion unfunded liability for Other Post Employment Benefits (OPEB) to pay retiree health care costs, even though the County does budget for the annual cost of retiree healthcare. Moreover, the County's risk management unfunded liability continues to grow. The Committee feels strongly that the County begin to address the OPEB liability because failure to do so could further affect future bond ratings. Additional funding should also be directed to risk management liabilities.

With the FY 2026 phase-in of the policy reserve to 5%, the Committee is satisfied that the combined 10% in reserves represents a sufficient level of funding available for emergency purposes, which can be used to maintain government operations following an economic downturn. The Committee does not support the use of any unassigned fund balance to pay for any ongoing operating budget expenses in FY 2027. When County debt was downgraded in 2025 it was stipulated that a return to a higher rating would be predicated on combined fund balances reaching 30%; a level attained by peer governments with AAA bond ratings.

## **Required Committee Recommendations**

Section 10-112.22 of County Code stipulates the duties and responsibilities of the SAC. The October 1<sup>st</sup> letter to the County Executive and County Council is required to include the following:

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 \$4.959 billion, with the proviso that this ceiling may be increased to the extent that additional revenue is recognized or estimated to be recognized.

**Exhibit 2**  
**Prince George’s County**  
**FY 2027 Spending Ceiling Recommendation**  
(\$ in Millions)

	<b>FY 2025 Unaudited</b>	<b>FY 2026 Budget</b>	<b>FY 2027 Projected</b>	<b>FY 2027 Projected v. FY 2026 Budget</b>
Debt Service Obligations <sup>1</sup>	\$ 186.9	\$ 197.7	\$ 211.0	6.7%
Board of Education	2,903.6 <sup>2</sup>	2,950.6	3,081.8	4.4%
Other (less cost containment)	1,629.5	1,667.6	1,666.1 <sup>3</sup>	-0.1%
<b>TOTAL</b>	<b>\$4,720.0</b>	<b>\$ 4,816.0</b>	<b>\$ 4,958.9</b>	<b>3.0%</b>
<b>% Change</b>		2.0%	3.0%	
	<b>FY 2025 Unaudited</b>	<b>FY 2026 Budget</b>	<b>FY 2027 Projected</b>	<b>FY 2027 Projected v. FY 2026 Budget</b>
<u>Board of Education</u>				
County Contribution	\$ 909.8	\$ 969.6	\$ 999.6	3.1%
Outside Aid	1,993.8	1,981.0	2,082.2	5.1%
<b>TOTAL</b>	<b>\$2,903.6</b>	<b>\$ 2,950.6</b>	<b>\$ 3,081.8</b>	<b>4.4%</b>
<b>% Change</b>		1.6%	4.4%	

Notes:

1. Debt service amounts do not include Certificates of Participation payments shown under “Other”.
2. The Board of Education (BOE) FY 2025 unaudited amount assumes budgeted outside aid, as its Annual Comprehensive Financial Report has not been completed at this time. The BOE FY 2027 amount is based on OMB’s preliminary recommendation based on statutory adjustments to certain per pupil programs. This assumption may change as additional enrollment data and projections become available.
3. Other spending is projected to be \$91.6 million higher but was adjusted downward to reflect the Committee’s recommendation that spending be reduced to match projected general fund revenues. Spending growth is driven by required k-12 contributions, employee compensation & merit increases and fringe benefit expense.

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

## Economic Outlook

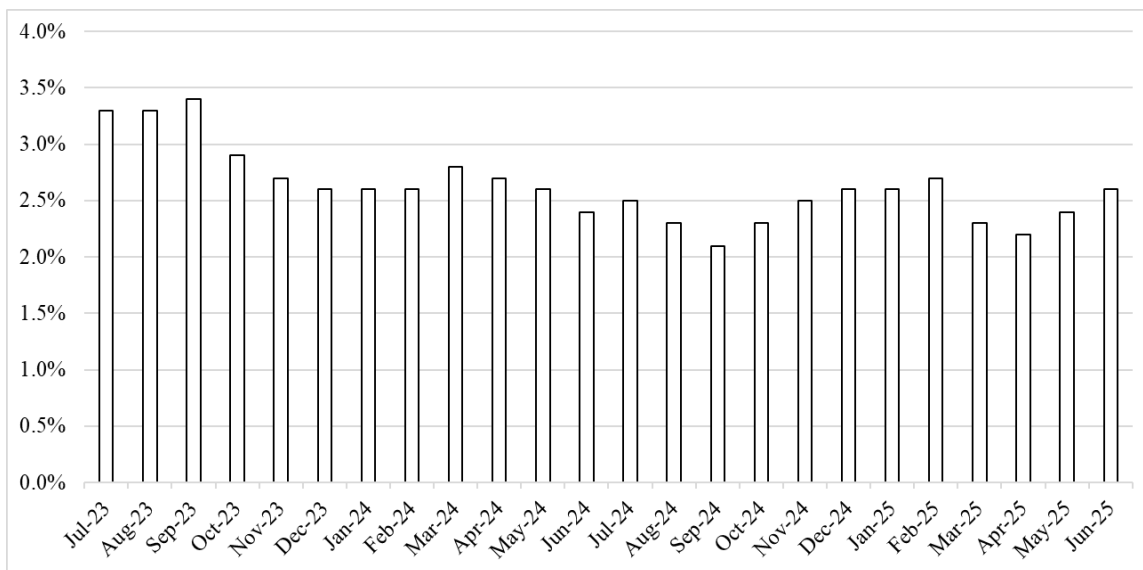
All indications are for a slowing economy. The new federal Administration has undertaken a number of measures, including the varying application of tariffs, reductions in federal spending and employment levels, and the apprehension of undocumented immigrants. As expected, tariffs have begun to cause higher inflation for goods and services. Job growth has decreased, and businesses, faced with rising costs, have scaled back wage growth. A consultant estimated that Prince George's County residents lost nearly 6,000 federal jobs by the end of March 2025. The real estate market has been essentially flat for three years, as home sales per month have averaged less than 700. Mortgage rates are projected to remain at current levels during the forecast period, in part because of high national debt levels, which influence 10-year treasury rates and subsequently 30-year mortgage rates. While it is widely expected that the Federal Reserve Board will begin cutting interest rates to boost the labor market, if inflation continues to climb, the path forward for federal monetary policy will become more difficult. There is a possibility of a period of stagnant economic growth and higher inflation (i.e., so-called "stagflation").

**Exhibit 3** shows the trend in personal consumption expenditures. By September 2024 the rate of growth declined to near the 2% target rate used by the Federal Reserve Board, and three rate cuts were adopted in the fall. Since the imposition of tariffs in 2025, the price index has continued to rise. It stood at 2.6% in June 2025.

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### Exhibit 3

#### Personal Consumption Expenditure Price Index July 2023 – June 2025



Source: Bureau of Economic Analysis

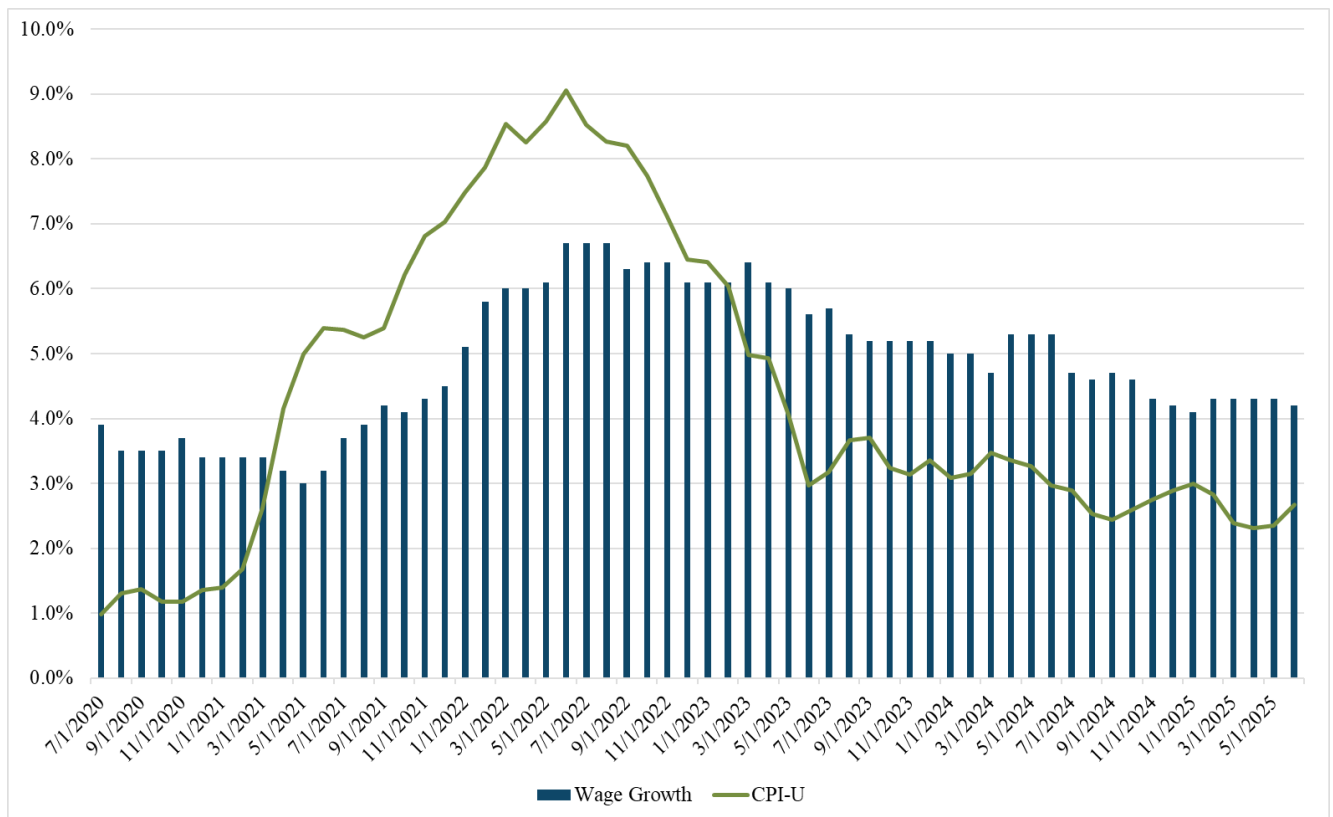
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**Exhibit 4** shows the three-month average of median wage growth compared to inflation. During the pandemic, supply chain shortages caused the prices of goods to increase, with inflation reaching 9% in 2022. Salary growth did not keep pace with inflation, therefore workers lost purchasing power during this period. Nominal wage growth remained higher in 2023 but has since fallen nearer the 4% range in 2025. Although inflation fell significantly after interest rates were increased, tariffs placed on multiple countries by the U.S. has resulted in inflationary growth in prices. The combination of slowing wage growth and higher costs means that real purchasing power is decreasing.

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**Exhibit 4**

**Three-Month Moving Average of Median Wage Growth vs. Year-Over-Year  
Change in the Consumer Price Index  
July 2020 – June 2025**

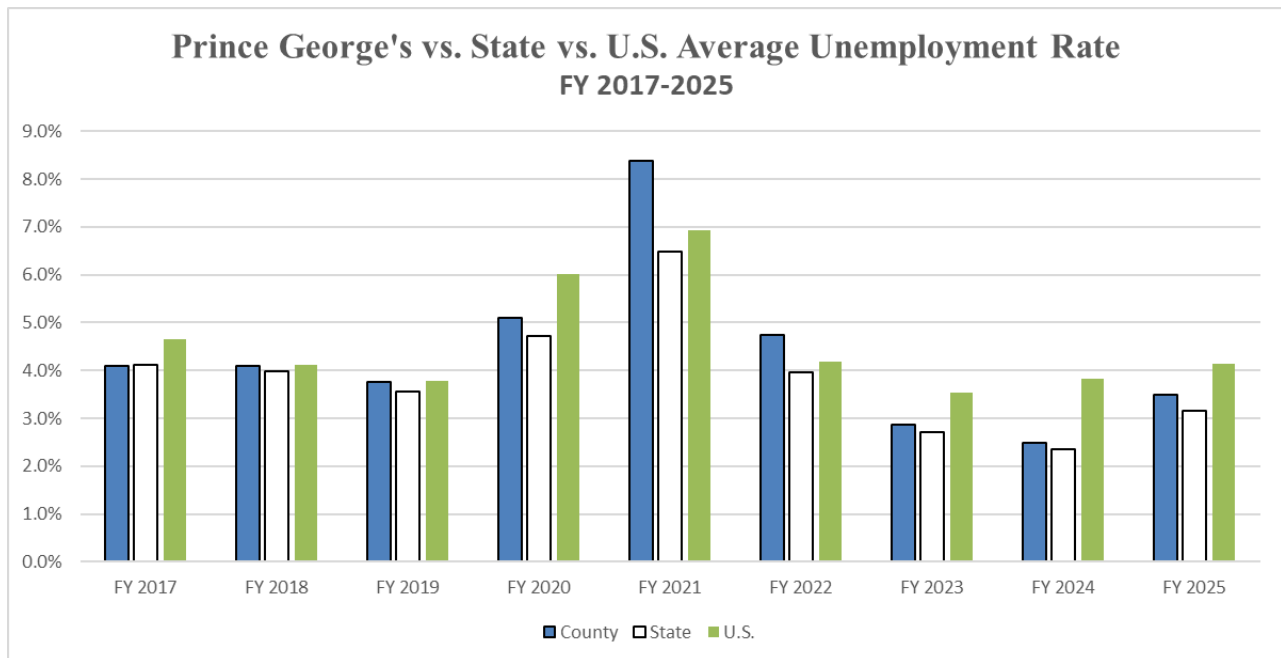


**Exhibit 5** compares the annualized rates of unemployment for the County, State and U.S. The average unemployment rate in the County peaked at 8.4% in FY 2020 while the economy was largely closed during the pandemic. Rates fell to all-time lows in FY 2023 and FY 2024 when the economy was fully re-opened but not all workers re-entered the workforce. The average unemployment level rose in the County to 3.5% in FY 2025, which is still below pre-pandemic levels. The rising level of unemployment is another indicator of a slowing economy.

A larger gap between the State and County rates opened up in FY 2020. The County had a larger reliance on the Leisure & Hospitality industry sector than the overall State workforce. The gap returned to normal historical differences in FY 2023 and FY 2024 but has since begun to re-appear in FY 2025. Industry specific data is not yet available for calendar year 2025. Since the pandemic, the U.S. unemployment rate has been consistently higher than both the County and the State.

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**Exhibit 5**  
**Unemployment Rate**  
**Prince George's County vs. State of Maryland vs. U.S.**  
**FY 2017 – FY 2025**



Source: Maryland Department of Labor

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**Exhibit 6** shows County labor force data for the last two years. The number of employed residents has averaged 492,000 during this period. A drop to 485,000 employed in May 2025 is likely due to losses of federal employment. At no time has the County approached the pre-pandemic high of approximately 530,000 employed residents. Unemployment fell to record low levels starting in 2022, but the number of unemployed has since grown to nearly 22,000 in June 2025, again most likely due to federal reductions in employment. This is the higher level of unemployment since 2018.

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### Exhibit 6

#### Prince George's County Labor Force Trends July 2023 – June 2025



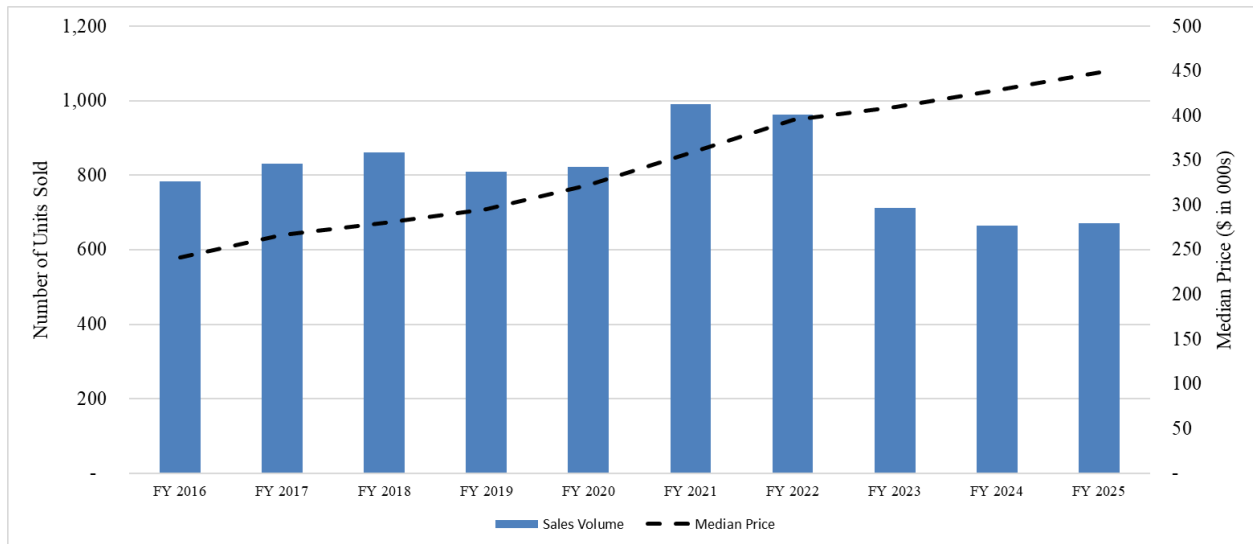
Source: Maryland Department of Labor

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**Exhibit 7** illustrates trends in average monthly home sales in the County as well as the median sale price. After interest rates were raised multiple times in 2022 to address high inflation, 30-year mortgage rates rose to a range of 6.5% - 7.0%. As a result, home sales fell from by 1/3, from an average of 1,000 per month to below 700 per month. Despite a 50% growth in the median price between 2019 and 2025, the drop in sales volume is the main driver of transfer and recordation tax revenue. After peaking at \$241 million in FY 2022, transfer and recordation taxes have fallen to \$145 million and \$141 million in FY 2024 and FY 2025 respectively. Mortgage rates are forecasted to remain in the 6.5%-7.0% range during the forecast period, in part based on the relationship of rates to 10-year treasury rates which in turn are expected to remain elevated as the nation's debt continues to grow as a percent of gross domestic product.

## Exhibit 7

### Prince George's County Median Sales Price and Sales Volume FY 2016 – FY 2025



Source: Metropolitan Regional Information Systems

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Following a moratorium during the pandemic, the number of foreclosures declined significantly in both the County and on a statewide basis. In the last full fiscal year of data, FY 2019, the average was about 1,400 foreclosures per quarter. This declined to around 600 per quarter in FY 2023 and FY 2024, and the first 3 quarters of FY 2025. Of concern, however, is that the number of foreclosures in the 3<sup>rd</sup> quarter of FY 2025 rose to 836 events in the County. Throughout this period the County continues to account for roughly 21%-24% of all foreclosures statewide.

## Revenue Outlook

OMB projects that County-sourced General Fund revenue will increase in FY 2027 by \$33.3 million, or 1.2% exclusive of the use of fund balance.



## **Major County-Sourced Revenue**

### **Property Tax**

Real property tax revenues are projected to increase by 4.1% in FY 2027 to \$1,173.5 million compared with the FY 2026 budget. Per the County Charter, the Homestead Tax Credit is to be set at 3% for the next fiscal year. At this level the County has \$139.6 million of unrealized property tax revenue. The projection is higher than the tax credit cap to account for new construction which adds to the existing base and commercial property not being subject to homestead limitations.

Personal property tax revenues are projected to grow by \$0.9 million, or 1.0% in FY 2027 to \$91.3 million. This is based on the March 2025 estimate of the assessable base of personal property in the County for FY 2026, with some expectation for growth in the value of the base.

### **Income Tax**

Revenue for FY 2027 is estimated at \$889.5 million, which is \$26.2 million or 3.0% above the FY 2026 estimated budget of \$863.3 million. Ongoing reductions of positions by the federal government is expected to impact the estimated 73,000 County residents who are federal employees, as well as an undetermined number of federal contractors. The forecast assumes the loss of 5,000 positions but also is predicated on roughly one-half of those former employees finding alternative employment during the fiscal year. After adjustments are made to the employment base, the projection adds growth of 4.0% which is the long-term average growth rate in Net Taxable Income for the County.

The Disparity Grant is estimated to decline by -\$10.8 million, or -15.8%. The County receives a grant because its income tax per capita is below 75% of the statewide average. However, for FY 2026 only the General Assembly added one-time funds to the Disparity Grant Counties to offset actions that required Counties to pay the State for additional teacher retirement and other costs. The FY 2027 forecast removes these one-time funds. Because the actual grant amount cannot be determined until tax data for all 24 jurisdictions is distributed, the forecast assumes a 1% increase in the adjusted base. This accounts for nominal growth in net taxable income and assumes that the per capita income tax disparity remains at the FY 2026 level.

### **Transfer and Recordation Taxes**

Transfer & Recordation tax revenue is projected at a net \$146.6 million in FY 2027, essentially flat relative to the estimated FY 2026 budget. Home sales are down 33% from the 2021 peak due to higher mortgage rates. Although interest rates have been reduced by the Federal Reserve Board, and additional rate cuts are expected in 2025, mortgage rates are not expected to decrease. These longer-term rates track 10-year Treasury rates, and the increasingly high ratio of debt to gross domestic product is expected to keep rates at current or slightly higher levels over the coming years.

## **Other County-Sourced Revenue**

**Telecommunications Taxes:** The forecast assumes growth of \$6.5 million, or 14.4%. Legislation enacted in 2025 (CB-18-2025) repealed the 9% sales tax and instead imposed a \$3.50 per line per month excise tax. Since the change was expected to take time to implement, the FY 2026 budget does not reflect a full year of revenue at \$45.3 million. The increase fully annualizes the expected level of revenue to be collected, estimated at \$51.9 million.

**Use of Money and Property:** As the Federal Reserve Board cuts interest rates, the County's interest earned on short-term investments can be expected to decline. The FY 2027 forecast assumes that interest rates are reduced three times in FY 2026 but then are held level to determine the effect on unemployment. If inflation continues to rise the Board may be unlikely to adopt additional rate cuts. Interest income is assumed to decrease by -\$5.0 million, or -20.0% in FY 2027.

**Charges for Services:** Medicare reimbursement for emergency transportation services is projected to decline by -\$18.0 million, or -55.2%. The rate of reimbursement had been temporarily increased during the pandemic, then extended to September 30, 2025. Legislation has been introduced to continue the higher reimbursement rate, but at the time the forecast was developed nothing was enacted. The forecast assumes that the rate returns to the lower pre-pandemic level for FY 2027. If federal legislation is passed to extend the rate it would add about \$17 million per year to general fund revenues.

**Intergovernmental Revenue:** Revenue declines by -\$9.6 million, or -20.5%. The FY 2026 budget includes a \$5.0 million intergovernmental fund transfer from the Maryland-National Capital Park and Planning Commission for the purpose of developing a recreational facility. This item appears to be a one-time revenue source and is not carried forward into the FY 2027 budget. The County is also losing -\$4.8 million, which is the remainder of a two-year phaseout of the Teacher Retirement Supplemental Grant which was repealed by the State by Chapter 604 of the Acts of Maryland of 2025.

**Other Financing Sources** The forecast does not presently assume any use of fund balance for FY 2027. Use of \$5.0 million of assigned fund balance is assumed from revenue from the Public Safety & Behavioral Health surcharge to make a lease payment for SCBA equipment that was purchased for the Fire Department.

## **Outside Aid Revenue**

**Board of Education, Community College and Library** aid is expected to grow due to formula changes in State law. The Blueprint for Maryland's Future is estimated to increase State aid for the Board of Education by approximately \$101.2 million dollars in FY 2027, with continued growth in the out years. Outside aid to the Community College is assumed to grow by 2%, and aid to the Memorial Library is projected to rise by 1%. State aid to the library only grows on a per capita basis.

## **Preliminary Revenue Forecast**

**Exhibit 8** summarizes the General Fund forecast for FY 2026 and FY 2027. Overall, revenue is expected to increase by \$136.5 million or 2.8%. Most growth is based on State aid to the Board of Education which grows according to the statutory formulas under the Blueprint for Maryland's Future program. County-sourced revenue is projected to climb \$33.3 million or 1.2%. Most of the County's tax and fee revenue growth is found in the real property tax and income tax. Smaller increases are also found in the personal property tax, transfer & recordation taxes, energy tax, telecommunications tax, State shared taxes and licenses & permits. This growth is offset by lower estimates from the Disparity Grant, Use of Money & Property, Intergovernmental Revenue, Miscellaneous Revenue and Use of Fund Balance.

The largest risk to the forecast comes from the loss of federal employment. Data through the first quarter of 2025 has not shown a significant change in federal employment data yet, but the relocation of the U.S. Department of Agriculture, for example, was not announced until later in the year. OMB estimates a loss of -\$3.2 million in income tax revenue for every 1,000 federal jobs lost. As noted, the forecast has built in estimates of federal job losses, but it is difficult to predict what actions the federal government will take over the next 18 months.

## **Fiscal Outlook**

As seen in **Exhibit 9**, the County closed FY 2024 with General Fund revenues above spending by \$55.4 million, resulting in an unassigned balance of \$358.5 million. The combination of the 5% Charter-required reserve, 3% policy reserve and unassigned balance totaled 16.3% of expenditures. The FY 2025 budget is similarly projected to close with a \$55.8 million surplus of revenues to expenditures, allowing the County to forego the planned use of \$34.9 million of unassigned fund balance. The unassigned fund balance projects to rise to \$401.5 million at the same time that the policy reserve was raised to 4% as part of the phase-in to 5%. Combined balances are projected to grow to 16.5% of spending. In FY 2026 the policy reserve is phased up to 5% so that total reserves equal 10% of spending. Only \$4.4 million of unassigned balance was used in FY 2026 for one-time spending.

**Exhibit 8**

**Prince George's County  
Current and Projected General Fund Revenue  
FY 2024 – FY 2027  
(\$ in Millions)**

(\$ in Millions)	FY 2024	FY 2025	FY 2026	FY 2026	FY 2026		FY 2027	FY 2027	
					Approved-Forecast			Estimated-Forecast	
County Sourced Revenues	Actual	Unaudited	Approved	Sept Est.	\$ Change	% Change	Forecast	\$ Change	% Change
Real Property Tax	\$1,037.1	\$1,095.5	\$1,114.5	\$1,127.5	\$13.0	1.2%	\$1,173.5	\$46.0	4.1%
Personal Property Tax	93.4	87.3	93.3	90.4	-3.0	-3.2%	91.3	0.9	1.0%
Income Tax	788.4	910.7	861.6	863.3	1.8	0.2%	889.5	26.2	3.0%
Disparity Grant	98.5	69.3	68.3	68.3	0.0	0.0%	57.5	-10.8	-15.8%
Transfer Tax	111.0	106.6	115.2	110.0	-5.2	-4.5%	111.1	1.1	1.0%
Recordation Tax	34.5	35.1	39.4	35.0	-4.4	-11.1%	35.5	0.5	1.3%
Energy Tax	87.4	94.6	99.5	99.5	0.0	0.0%	100.5	1.0	1.0%
Telecommunications Tax	13.5	14.4	45.3	45.3	0.0	0.0%	51.9	6.5	14.4%
Other Local Taxes	34.8	35.2	34.4	33.2	-1.2	-3.4%	33.2	0.0	0.0%
State-Shared Taxes	9.0	10.4	12.9	12.2	-0.7	-5.3%	13.0	0.8	6.8%
Licenses and Permits	74.7	82.3	76.7	78.0	1.3	1.7%	81.4	3.4	4.3%
Use of Money and Property	43.6	20.9	31.0	31.0	0.0	0.0%	26.2	-4.8	-15.5%
Charges for Services	95.9	60.3	74.5	73.4	-1.1	-1.4%	54.9	-18.6	-25.3%
Intergovernmental Revenue	62.3	46.2	40.8	46.9	6.2	15.2%	37.3	-9.6	-20.5%
Miscellaneous Revenue	11.6	13.8	11.6	11.2	-0.4	-3.5%	7.4	-3.8	-34.2%
Other Financing Sources	0.0	5.1	10.4	10.4	0.0	0.0%	5.0	-5.4	-52.0%
<b>Subtotal County Sources</b>	<b>\$2,595.7</b>	<b>\$2,687.6</b>	<b>\$2,729.4</b>	<b>\$2,735.8</b>	<b>\$6.4</b>	<b>0.2%</b>	<b>\$2,769.1</b>	<b>\$33.3</b>	<b>1.2%</b>
<b>Subtotal w/o Fund Balance</b>	<b>\$2,595.7</b>	<b>\$2,687.6</b>	<b>\$2,725.0</b>	<b>\$2,731.3</b>	<b>\$6.4</b>	<b>0.2%</b>	<b>\$2,769.1</b>	<b>\$37.8</b>	<b>1.4%</b>
<b>Outside Aid</b>									
Board of Education	\$1,807.9	\$1,993.8	\$1,981.0	\$1,981.0	\$0.0	0.0%	\$2,082.2	\$101.2	5.1%
Community College	86.1	85.0	96.1	96.1	0.0	0.0%	98.0	1.9	2.0%
Library	9.5	9.3	9.5	9.5	0.0	0.0%	9.6	0.1	1.0%
<b>Subtotal Outside Aid</b>	<b>\$1,903.5</b>	<b>\$2,088.1</b>	<b>\$2,086.6</b>	<b>\$2,086.6</b>	<b>\$0.0</b>	<b>0.0%</b>	<b>\$2,189.8</b>	<b>\$103.2</b>	<b>4.9%</b>
<b>Grand Total General Fund</b>	<b>\$4,499.1</b>	<b>\$4,775.8</b>	<b>\$4,816.0</b>	<b>\$4,822.3</b>	<b>\$6.4</b>	<b>0.1%</b>	<b>\$4,958.9</b>	<b>\$136.5</b>	<b>2.8%</b>

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

**Exhibit 9**

**Prince George's County  
General Fund Pro Forma  
FY 2024 – FY 2026  
(\$ in Millions)**

	<b>FY 2024 Actual</b>	<b>FY 2025 Unaudited</b>	<b>% Change</b>	<b>FY 2026 Approved</b>	<b>\$ Change</b>	<b>% Change</b>
Revenues	\$4,499.1	\$4,775.8	6.1%	\$4,816.0	\$40.2	0.8%
Expenditures	4,443.8	4,720.0	6.2%	4,816.0	95.9	2.0%
Surplus/(Deficit)	55.4	55.8		0.0		
<b>Fund Balance</b>	<b>FY 2024 Actual</b>	<b>FY 2025 Unaudited</b>		<b>FY 2026 Approved</b>		
Charter (5%)	\$228.0	\$236.0		\$240.8		
Policy	136.8 3.0%	141.6 4.0%		192.6 5.0%		
Unassigned	358.5	401.5		341.3		
<b>Total</b>	<b>\$723.4</b>	<b>\$779.1</b>		<b>\$774.7</b>		
Fund Balance as % of General Fund Expenditures	16.3%	16.5%		16.1%		

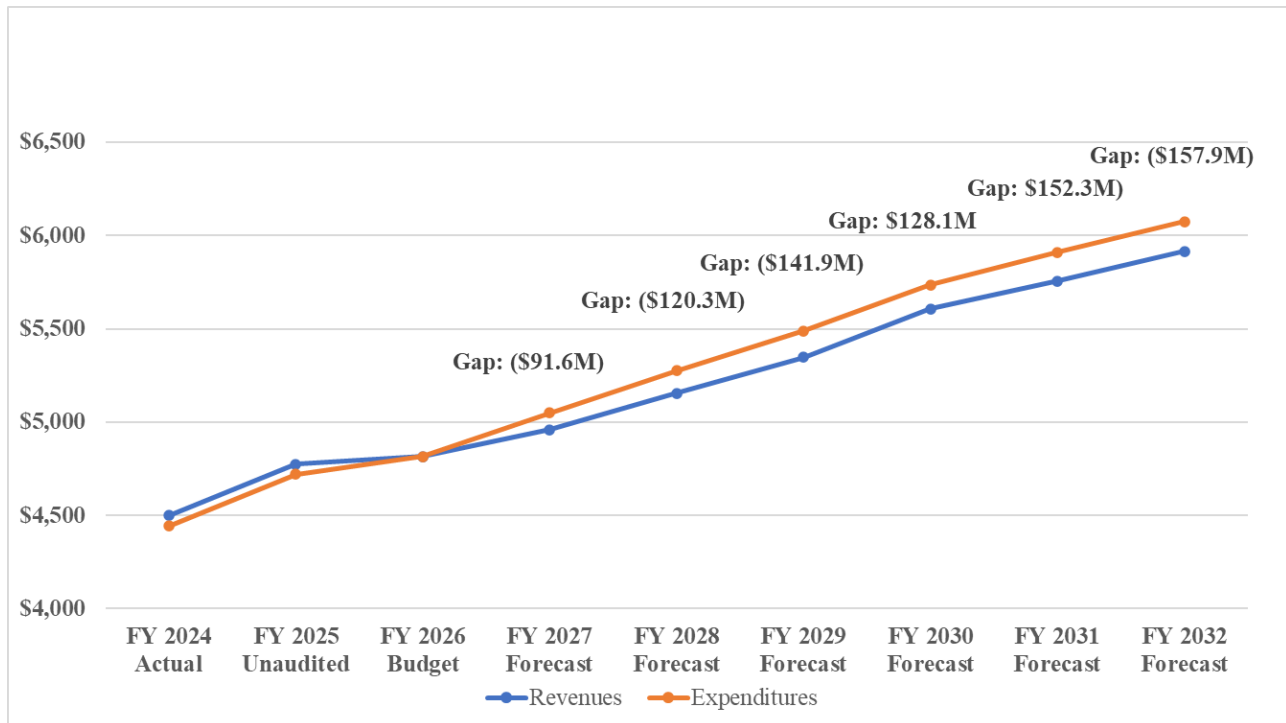
The FY 2025 estimated expenditures are based on unaudited EOY spending as of 9/9/2025. FY 2026 includes \$4.4 million from Unassigned Balance in the Approved Budget.

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

**Exhibit 10** illustrates the gap between ongoing revenues and spending between FY 2027 and FY 2032. Income and property tax revenue continue to represent the largest components of County-sourced revenue. Lower inflation at the end of FY 2025 again results in a 3% Homestead Tax Credit level for FY 2027. Spending for education, employee compensation, fringe benefits and baseline operating needs grow at faster levels than revenue. Exhibit 10 shows that there continues to be a structural shortfall between ongoing revenues and spending. A gap of \$91.6 million is projected for FY 2027, growing to \$157.9 million by FY 2032. Although the shortfall is significant, it is smaller than the gap projected last year for the FY 2023-2031 period. This is due in part to building off of the FY 2026 spending base, which included higher levels of unfunded vacant positions.

**Exhibit 10**

**Prince George's County General Fund Forecast  
FY 2024 Actual – FY 2032 Estimated  
(\$ in Millions)**



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

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## Unfunded Liabilities

The Committee reviewed trends in the level of unfunded liabilities for the FY 2020-FY 2024 period. At the end of FY 2024 the County had \$3.8 billion in unfunded liabilities, consisting of pensions, retiree health care (a.k.a. OPEB) and Risk Management which pays for workers' compensation claims and other obligations. The Committee notes the following:

- \$1.9 billion in liabilities are related to pension funding, which are 59.8% funded (compared with 58.9% funded at the end of FY 2023). Most of this liability rests with the police and fire pensions. The County makes annual contributions to each plan, and many plans, are expected to be fully funded by 2045.

- \$210 million in Risk Management liabilities, which have grown by \$40.1 million since FY 2020. Agency budgets include funding for risk management expenses, but costs have continued to grow.

**The Committee is concerned that there is no plan for addressing the \$1.7 billion OPEB unfunded liability, even though a number of other County governments have fully funded their liability or are making annual contributions. The Committee recommends that general funds be appropriated toward the OPEB unfunded liability beginning in FY 2027. There is also concern about rising Risk Management liabilities, and recommends consideration be given to increasing annual agency contributions to the Risk Management Fund.**

## **Liquidity**

The Committee reviewed trends in the ratio of County assets to County liabilities for the FY 2020-FY 2024 period. In FY 2024, the County's assets were 3.01 times greater than the County's liabilities which is a significant decrease from FY 2020 during which assets were 3.78 times greater than liabilities. This decrease in the County liquidity ratio is largely attributable to increasing Enterprise Fund liabilities, like stormwater and solid waste management. This decrease was cited as one of the factors that led Moody's to downgrade the County's bond rating from Aaa to Aa1. Moody's indicated in its rating that in order for the County's credit rating to increase, its overall fund balances would need to exceed 30%, which is a level similar to other AAA-rated governments. Moody's calculated the balances for the County at 20.3% using the FY 2024 financial report.

**Although the Committee is not authorized to make recommendations for revenue increases, the decrease in liquidity and subsequent bond rating downgrade may lead to higher borrowing costs. Debt service on general obligation bonds is paid from the General Fund. Moreover, because the Stormwater Management Enterprise Fund is operating in a net negative financial position, the General Fund has previously transferred funds to the Stormwater Management Enterprise Fund so that it could close out a fiscal year with a positive fund balance. Because of these impacts to General Fund spending, the Committee is concerned about the current level of the dedicated stormwater property tax rate.**

## OPEB Liabilities

The Committee reviewed trends regarding the level of unfunded OPEB liabilities for the FY 2020-FY 2024 period. OPEB is the County's largest liability with no funding plan. At the end of FY 2024 the County had \$1.7 billion in liabilities, which are 6.5% funded. The County currently pays \$44.1 million in general funds toward the normal cost of retiree health care, which satisfies annual expenses but makes no progress on reducing the level of this unfunded liability. The committee notes the following:

- As seen in **Exhibit 11**, of the 11 counties responding to a survey on OPEB unfunded liabilities five counties reported funding their OPEB liability at 100%. All responding counties, except Talbot and Prince George's, make annual general fund contribution to their fund.
- As seen in Exhibit 11, Prince George's has the lowest funding level compared with other Counties and is significantly less funded than Counties with AAA ratings from all 3 bond rating agencies.
- The most recent rating report from S&P Global Ratings identifies OPEB liabilities as a downside scenario that could potentially lower the County's bond rating in the future.

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### Exhibit 11

#### OPEB Unfunded Liabilities and Funding Mechanisms in Other Counties

	Percent Funded	Dedicated Funding?	Source
Anne Arundel	77.7%	Yes	General Funds
Baltimore	10.0%	Yes	General Funds
Caroline	100.0%	No	No unfunded liability
Carroll	100.0%	Yes	General Funds
Cecil	100.0%	No	No unfunded liability
Harford	90.6%	Yes	General, Highway & Enterprise Funds
Prince George's	6.5%	No	
Queen Anne's	42.0%	Yes	General Funds
Talbot	51.9%	No	Developing a funding plan
St. Mary's	96.5%	Yes	General Funds
Washington	100.0%	Yes	General & Enterprise Funds
Wicomico	100.0%	No	No unfunded liability
Triple AAA rated			

Source: Maryland Association of Counties

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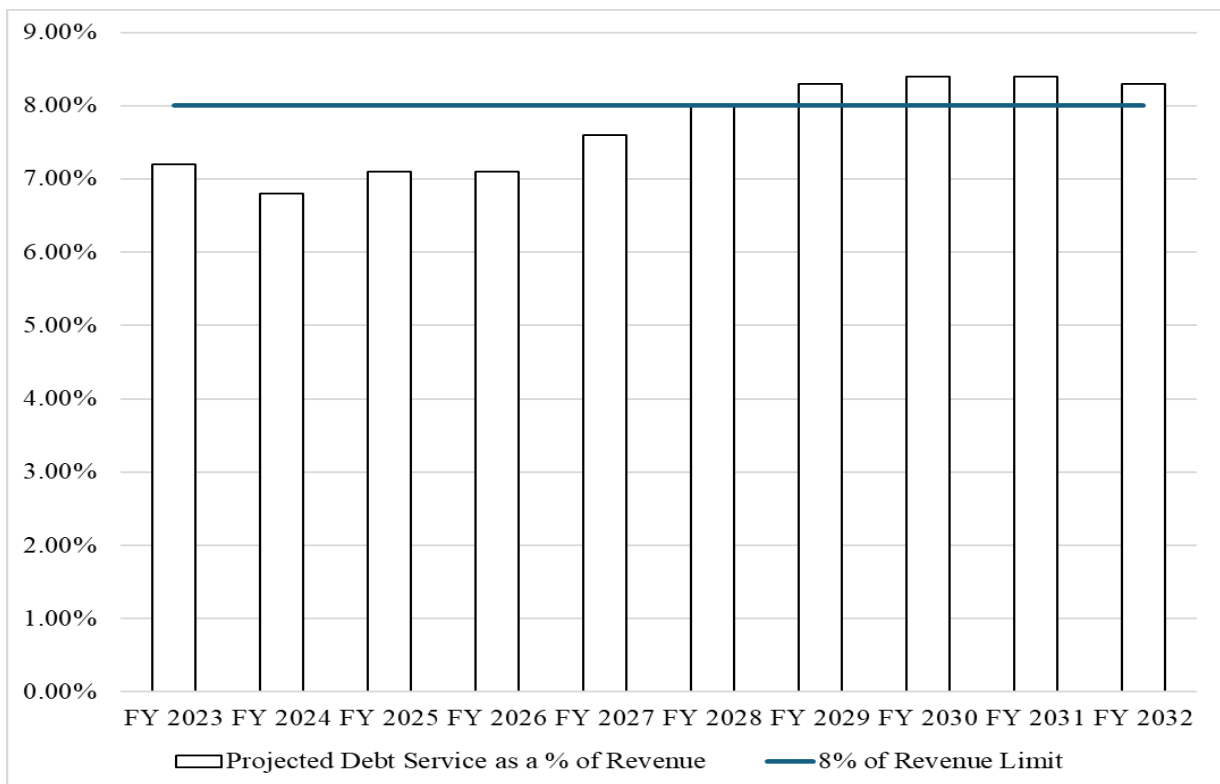
**The Committee is concerned that there is no dedicated annual funding to address the OPEB unfunded liability, despite paying millions for the annual cost for retiree healthcare. Other AAA rated counties are at or near full funding of their OPEB liabilities and/or making dedicated annual contributions toward OPEB. The Committee recommends that the County establish an annual general fund appropriation in agency budgets for this purpose beginning in FY 2027.**

## Debt Service

The County has adopted a debt service coverage limit policy wherein debt service will not exceed 8% of revenues. **Exhibit 12** shows that with the projected FY 2026 General Obligation debt issuance, the County will exceed the limit by FY 2028.

**Exhibit 12**

### County Debt Service as a Percentage of Revenues



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

However, it is not unusual for the debt analysis to show this trend until modifications are made by OMB to the amount of the bond sale based on capital cash flow needs.

**The Committee recommends that the County continue to modify bond issuance levels to remain below the 8% debt service to revenues debt service coverage limit.**

## **Fund Balance and Reserve Fund Levels**

The County's reserve levels are now at 10% of spending, to better prepare for the next economic downturn. This consists of the Charter-required 5% reserve and 5% in the policy reserve. The Committee has consistently recommended that the County limit its use of fund balance. In FY 2026 the County used \$4.4 million of unassigned balance for one-time purposes. While this action did not worsen the imbalance between ongoing revenues and spending, any use of balance, even for one-time purposes, reduces the County's liquidity. Lower liquidity levels have already resulted in a rating downgrade by one of the three bond rating agencies. The Committee therefore continues to advocate against use of fund balance in the FY 2027 budget.

**The Committee recommends that the County not use any fund balance in FY 2027.**

## **Conclusion and Recommendations**

All indications point to a slowing economy. Costs are rising, in part due to the effects of tariffs, unemployment is rising and wage growth is slowing. Changes to federal tax policy are also expected to have a negative effect on County income tax revenues. Budget actions taken in formulating the FY 2026 have reduced the gap between ongoing revenues and spending, but a -\$91.6 million shortfall is still projected for FY 2027. The imbalance is estimated to widen to -\$157.9 million by FY 2032. The County has reserves totaling 10% of spending, in addition to unassigned balance.

Although the County does pay millions each year for the annual cost of retiree healthcare, the Committee is concerned that the County is not actively funding its \$1.7 billion OPEB liability, while most other Counties are budgeting for this expense or have achieved 100% funding. A similar concern exists over the growing risk management liability. The Committee believes that the County should budget additional funding toward the risk management shortfall.

The Committee's recommendations for FY 2027 are as follows:

- **Based upon a preliminary review of various economic information and revenue trends, the Committee recommends a preliminary General Fund revenue projection of \$4.958 billion in FY 2027, an increase of \$136.5 million or 2.8% above the FY 2026 budget. This includes spending from County-sourced revenue of \$2.769 billion, which rises by an estimated \$33.3 million or 1.2%. This is predicated on constraining spending in the operating budget. The Committee does not support the use of fund balance in FY 2027.**

- **Now that reserve balances have reached 10% of spending the Committee recommends that they only be used for emergency purposes, such as a significant unplanned decrease in revenues where use of the reserves would be needed to maintain government operations. Forgoing use of fund balance will help maintain liquidity.**
- **The Committee recognizes that the County does pay the normal cost for retiree healthcare but is also concerned about the \$1.7 billion unfunded OPEB liability. Moreover, the risk management liability has continued to grow larger in recent years. The Committee recommends that the County begin to appropriate general funds in FY 2027 toward the OPEB liability and increase the level of funding toward the risk management liability.**

The Committee wishes to thank both the Executive and Legislative Branches of government for the opportunity to review the County's economic and revenue forecasts. We believe that we have performed adequate due diligence in reviewing the revenue estimates for FY 2027 and believe them to be reasonable.

Respectfully,

Brad Frome, Chair



Stephen A. Brayman, Member



Stephen J. McGibbon, Member



Henry W. Mosley, Member



BF/SAB/SJM/HWM/dbj