January 1, 2018

The Honorable Rushern L. Baker, III, County Executive
The Honorable Dannielle M. Glaros, Chair, County Council

In accordance with Subtitle 10, Division 1A of the County Code, the Spending Affordability Committee has reviewed the preliminary projections of the County's Office of Management and Budget (OMB) for General Fund revenues for FY 2017 through FY 2019. This letter summarizes the Committee's major findings and recommendations for FY 2019. A detailed discussion of OMB's assumptions on various revenues is provided in the appendix to this letter.

I. OVERVIEW

As shown in Table 1, OMB is projecting the County will face a potential General Fund budget gap of $9.5 million in FY 2019 based on preliminary revenue projections. The County must stay vigilant in planning for spending that aligns with the projected revenues. The Committee recommends a spending ceiling of $3,353 billion in FY 2019 based on projected revenues. This level of spending would not include any use of fund balance and would maintain the 7% Charter-required and policy-required reserves, which is essential to the County keeping its AAA bond rating.

Table 1

General Fund Outlook
($ in millions)

	FY 2017 Unaudited	FY 2018 Budget	FY 2018 Estimate	FY 2019 Forecast
County-Source Revenues	$ 1,870.7	$ 1,931.7	$ 1,971.8	$ 2,007.0
Outside Aid Revenues	1,314.5	1,319.9	1,319.9	1,346.3
Total Revenues	**$ 3,185.1**	**$ 3,251.5**	**$ 3,291.6**	**$ 3,353.3**
County Agency & Non-D Expenditures	$ 1,035.3	$ 1,131.1	$ 1,129.6	$ 3,144.9
Education & Library Expenditures	2,068.4	2,120.4	2,120.4	217.8
Total Expenditures	**$ 3,103.7**	**$ 3,251.5**	**$ 3,250.0**	**$ 3,362.8**
Surplus/(Deficit)	**$ 81.4**	**$ -**	**$ 41.6**	**$ (9.5)**

- OMB projects that General Fund revenues will reach $3.353.3 billion in FY 2019, an increase of $101.8 million or 3.1% from the FY 2018 budget. The growth is primarily attributable to an increase in property tax collections, transfer tax, recordation tax, licenses and permits, as well as $36.0 million generated from the MGM National Harbor (including the collection of real property taxes, personal property taxes, admissions and amusement taxes, hotel taxes, video lottery terminal and table game revenues) and a 2.0% increase in Outside Aid for the local school board, library and community college.

- OMB projects that General Fund expenditures will reach $3.362.8 billion in FY 2019, an increase of 3.4% or $111.2 million from the FY 2018 budget, before any corrective actions. This projection is based on FY 2018 estimated expenditures and preliminary FY 2019 assumptions of growth in compensation per collective bargaining results, merit payments, fringe benefits, increased staffing, public safety classes, contributions to the education sector, additional debt service obligations costs related to the Purple Line and new Regional Medical Center projects, as well as other discretionary spending.

- OMB developed these projections prior to the January 2018 release of the Governor of Maryland's proposed FY 2019 budget. OMB also developed these projections prior to any final decisions of the General Assembly, which often differ from the Governor's proposal and are not available until next spring. The projections therefore do not include the potential impact from State budget adjustments.

II. ECONOMIC OUTLOOK

The County's economic outlook has improved modestly and remains stable. Contributing to the stability is the County's housing market as evidenced by the growth in assessments, sales price and volume of residential homes. However, the County continues to face risks from high foreclosure activity and rising interest rates. Potential budget actions at the Federal and State government levels, and weak employment growth could impact the local job market that has recently experienced consecutive gains.

III. REVENUES

Table 2 shows OMB's preliminary revenue projections for FY 2018 and FY 2019.

Table 2

Spending Affordability Committee Recommendations
FY 2019 Geneal Fund Revenue
($ in millions)

($ in millions)	FY 2017 Unaudited	FY 2018 Budget	FY 2018 Estimate	% Change FY 2018 Estimate v. FY 2017 Unaudited	FY 2019 Forecast	% Change FY 2018 Budget	% Change FY 2018 Estimate
COUNTY SOURCE REVENUES							
Real Property Tax	$ 741.0	$ 770.8	$ 790.8	6.7%	$ 825.8	7.1%	4.4%
Personal Property Tax	86.2	76.2	86.2	0.1%	87.7	15.2%	1.7%
Income Tax Receipts	559.4	601.8	572.3	2.3%	595.2	-1.1%	4.0%
Income Disparity Grant	26.6	30.9	30.9	15.9%	30.9	0.0%	0.0%
Transfer Tax	113.4	108.2	128.7	13.5%	117.8	8.8%	-8.5%
Recordation Tax	46.6	43.4	54.6	17.1%	50.5	16.3%	-7.5%
Energy Tax	71.9	70.4	70.4	-2.1%	72.4	2.8%	2.8%
Telecommunications Tax	29.3	31.1	27.8	-5.0%	27.8	-10.4%	0.0%
Other Local Taxes	28.5	31.6	31.0	8.9%	31.8	0.7%	2.7%
State-shared Taxes	3.6	3.5	3.3	-6.8%	3.3	-5.5%	-1.5%
Licenses and Permits	47.6	54.9	55.2	16.1%	56.9	3.5%	2.9%
Use of Money and Property	2.3	5.3	2.6	13.4%	2.7	-49.2%	2.2%
Charges for Services	49.0	44.0	48.8	-0.5%	49.7	12.9%	1.9%
Intergovernmental Revenue	47.5	32.3	37.8	-20.3%	36.6	13.3%	-3.3%
Miscellaneous Revenue	17.9	14.2	18.1	1.0%	18.1	27.0%	0.0%
Other Financing Sources	-	13.1	13.1	100.0%	-	-100.0%	-100.0%
Subtotal County Sources	$ 1,870.7	$1,931.7	$ 1,971.8	5.4%	$ 2,007.0	3.9%	1.8%
OUTSIDE AID							
Board of Education	$ 1,233.0	$1,236.3	$ 1,236.3	0.3%	$ 1,261.0	2.0%	2.0%
Community College	73.1	75.1	75.1	2.7%	76.6	2.0%	2.0%
Library	8.3	8.5	8.5	2.8%	8.7	2.0%	2.0%
Subtotal Outside Aid	$ 1,314.5	$1,319.9	$ 1,319.9	0.4%	$ 1,346.3	2.0%	2.0%
GRAND TOTAL	$ 3,185.1	$3,251.5	$ 3,291.6	3.3%	$ 3,353.3	3.1%	1.9%
TOTAL w/o Fund Balance	$ 3,185.1	$3,238.4	$ 3,278.5	2.9%	$ 3,353.3	3.5%	2.3%

Major sources of revenue changes:

In this section, all revenue changes in FY 2019 are compared to the FY 2018 estimated level, unless noted otherwise. In addition, the FY 2018 estimate is compared to the FY 2017 unaudited level.

Real Property Tax Revenues are expected to increase in both FY 2018 and FY 2019. Real property tax revenues are estimated to increase by 6.7% in FY 2018 from the FY 2017 unaudited level, driven by year-to-date collections as a result of growth in the County's assessable base and a full year of MGM revenues. Revenues are projected to further increase by 4.4% in FY 2019 due to strong growth in the assessable base. The County is anticipating

$9.9 million in property tax revenues in FY 2018 from MGM National Harbor and $10.7 million in FY 2019.

- **Personal Property Tax Revenues** are estimated to remain flat in FY 2018 from the FY 2017 unaudited level. Collections are estimated to increase by 1.7% in FY 2019 from the FY 2018 estimated level. The FY 2018 estimate reflects a full year of anticipated MGM revenues totaling $1.3 million and the FY 2019 forecast includes $1.5 million of revenues generated from MGM National Harbor.

- **Income Tax** receipts are projected to increase by 2.3% in FY 2018 from the FY 2017 unaudited level. The estimate reflects the expectation that current year receipts will mirror the performance observed in FY 2017. Revenues are projected to decrease by 1.1% in FY 2019 from the FY 2018 budget. Compared to the FY 2018 estimated level, FY 2019 revenues are projected to increase by 4.0% based on year-to-date collections and assumes continued wage growth and the expansion of the labor force.

- The **State Income Disparity Grant** brings each jurisdiction's per capita income tax level to 75% of the State average. In FY 2018, the State increased the County's disparity grant by $4.2 million, to $30.9 million from the FY 2017 level. The disparity grant is projected to remain unchanged at $30.9 million in FY 2019.

- **Transfer and Recordation Tax** revenues are projected to increase by 14.6% in the FY 2018 estimate from the FY 2017 unaudited level. The anticipated increase in FY 2018 reflects strong year-to-date collections and a one-time $23.2 million from MGM related to the sale of the casino to MGM Real Estate Investment Trust. Revenues are projected to decrease by $15.1 million or 8.6% in FY 2019. The FY 2019 projection adopts the experience of price and volume observed in FY 2017 and excludes the one-time uptick in collections related to the MGM transaction. To date in FY 2017, the housing market trends reflect continued growth in home sales volume as well as a stabilization of home sales price.

- **Energy Tax** revenues are expected to decrease in FY 2018 and slightly increase in FY 2019. FY 2018 revenues are projected to decrease by $1.5 million or 2.1% from the FY 2017 unaudited level. FY 2019 revenues are projected to increase by $2.0 million or 2.8%.

- **Telecommunications Tax** revenues in FY 2018 are projected to decrease by $1.5 million or 5.0% from the FY 2017 unaudited level. Revenues are projected to remain flat in FY 2019, reflecting stabilization of landline service.

- **Admissions and Amusement Tax Revenues** in FY 2018 are projected to increase by 11.0% from the FY 2017 unaudited level. In FY 2019, revenues are projected increase by $0.5 million or 3.2%. Included in the total projected revenues of $17.2 million in FY 2019 are anticipated collections of $1.7 million to be generated from the 3,000-seat entertainment theatre at MGM National Harbor.

- **Hotel Tax Revenues** are projected to increase by $0.9 million or 9.0% in FY 2018 from the FY 2017 unaudited level. The FY 2018 estimate reflects a full year of anticipated collections from the hotel at MGM National Harbor. Revenues are further projected to increase by $0.4

million or 3.9% in FY 2019. Included in the total projected revenues of $11.3 million in FY 2019 are $0.9 million of collections from the hotel rooms at the MGM National Harbor.

- **License and Permit Revenues** are projected to increase by $7.7 million or 16.1% in FY 2018 from the FY 2017 unaudited level. This is driven by a full year of anticipated MGM National Harbor gaming revenues. FY 2019 revenues are further projected to increase by $1.6 million or 2.9% from the FY 2018 estimated level. The growth in this category is driven by increases in building and business license permit revenues generated from development projects in the pipeline as well as gaming revenues. The FY 2019 forecast includes $21.1 million generated from video lottery terminals and table games at MGM National Harbor. This is a $0.6 million increase from the FY 2018 estimated level.

- **Intergovernmental Revenues** are projected to decrease by $9.7 million or 20.3% in FY 2018 from the FY 2017 unaudited level. This is driven by a decrease in the local health grant and M-NCPPC project charges. FY 2019 revenues are projected to further decrease by $1.2 million or 3.3% from the FY 2018 estimated level. This decrease is primarily due to the anticipated reduction in M-NCPPC project charges of $1.9 million.

- **Miscellaneous Revenues** in FY 2018 are expected to increase by $0.2 million or 1.0% from the FY 2017 unaudited level. The anticipated growth in gross revenues assumes an increase in paid fines for the Red Light Program (RLP) and the Automated Speed Enforcement (ASE) program, which offset anticipated reduction in other miscellaneous receipt collections. Gross revenues are projected to remain flat in FY 2019, from the estimated FY 2018 level.

- **Other Financing Source** total $13.1 million in FY 2018, a 100% increase from the FY 2017 unaudited level. This funding includes a $9.5 million transfer from Fund Balance, $3.5 million from Economic Development Transfer and $62,400 transfer from the Stadium Impact Grant fund. The $9.5 million transfer from Fund Balance reflects $5 million allocated to the Housing Investment Trust Fund, $2.2 million for various one-time initiatives, $1.5 million to the Department of Housing and Community Development for the single Family Rehabilitation Program and $0.9 million to provide a one-time technology improvement for the Library. FY 2019 forecast assumes no use of other financing sources.

- **Outside Aid** revenues are projected to increase in FY 2018 from the FY 2017 unaudited level by 0.4%. FY 2019 revenues are projected to further increase by 2.0% from the FY 2018 estimate. The increase in FY 2019 is primarily driven by an anticipated growth in school enrollment for the Board of Education.

IV. SPENDING CEILINGS

The Committee recommends an overall General Fund spending ceiling of $3,353 billion in FY 2019, an increase of $101.8 million or 3.1% from the FY 2018 budget. Actual spending for certain items supported by designated revenue resources could change based on budgeted or actual revenues received. Please note that if total revenues decrease, the loss would have to be offset by reductions elsewhere in the budget in order to maintain a balance between expenditures and available revenues.

The County proposes General Fund spending allocations for the Board of Education, debt service and all other general government expenditures as shown in Table 3. Since these allocations are consistent with expected available revenues, the Committee can recommend them as defined by Section 10-112.22 of the Prince George's County Code. However, the Committee notes that many other allocations would also be consistent with expected revenues. The allocation of these revenues is the County's decision. The Committee's recommendations are solely based on consistency with expected revenues.

Table 3

FY 2019 General Fund
Spending Ceiling Recommendation
($ in millions)

	FY 2017 Budget	FY 2018 Budget	FY 2019 Recommendation	$ Change FY18-FY19	% Change FY18-FY19
Board of Education	$ 1,923.9	$ 1,975.4	$ 2,024.6	$ 49.2	2.5%
Debt Service	110.8	120.1	144.3	24.2	20.1%
Other	1,082.2	1,156.0	1,184.4	28.4	2.5%
Total	**$ 3,116.9**	**$ 3,251.5**	**$ 3,353.3**	**$ 101.8**	**3.1%**

Board of Education: $2.025 billion for the Board of Education – an increase of $49.2 million or 2.5% from the FY 2018 approved budget. This increase assumes Outside Aid of $1.261 billion from Federal aid, State aid and Board sources, an increase of $24.7 million or 2.0% from the FY 2018 approved budget. The recommended FY 2019 budget includes a projected County contribution of $763.6 million, representing an increase of $24.4 million or 3.3% from the FY 2018 approved budget. Included in the recommended County contribution is approximately $1.7 million in video-lottery terminal revenues from MGM National Harbor, in accordance with local legislation requiring fifty percent of local gaming revenue (up to $25 million) to be allocated for public education purposes. The County is not obligated to provide funding above the mandatory MOE contribution level.

Debt Service: $144.3 million for debt service – an increase of 20.1% or $24.2 million from the FY 2018 budget, based on existing and anticipated bond sales and favorable interest rates. The current interest rate is dependent upon the County maintaining its AAA rating, which is contingent upon maintaining the required reserves.

Other: $1.184.4 billion for the remaining General Fund expenditures – an increase of $28.4 million or 2.5% from the FY 2018 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.

V. FUND BALANCE

Table 4 shows the projected and recommended General Fund ending fund balance with a breakdown between the County Charter-mandated 5% Restricted – Economic Stabilization Reserve, the policy-required 2.0% Committed - Operating Reserve and the Unassigned Fund Balance[1].

Table 4

General Fund
Ending Fund Balance Projections

	FY 2017 Unaudited	FY 2018 Estimate	FY 2019 Recommended
Restricted - Economic Stabilization	$ 157.5	$ 164.6	$ 167.7
Committed - Operating Reserve	63.0	65.8	67.1
Unassigned	169.1	191.3	187.0
Total	**$ 389.6**	**$ 421.7**	**$ 421.7**

- As depicted in Table 1, the forecast would result in a surplus of $41.6 million in FY 2018 and a deficit of $9.5 million in FY 2019 if no actions are taken. Table 4 shows that if the County remains within the spending ceiling as depicted in Table 3, the fund balance forecast would result in an ending fund balance of $421.7 million in FY 2018 and remain flat in FY 2019. If the County does not follow the recommendations, then the fund balance will further decrease by $9.5 million to $412.2 million in FY 2019.

- The Committee recommends County spending consistent with projected revenues of $3,353.3 billion, as shown in the fourth column of Table 1. This level of spending would not include any use of fund balance and would maintain the 7% Charter-required and policy-required reserves.

- The County's maintenance of the Charter-required 5.0% restricted reserve for economic stabilization and policy-required 2.0% committed operating reserve is a significant factor in maintaining the County's AAA bond ratings. If the County fails to maintain the required reserves in FY 2019, the increased exposure to financial risk during this period of economic uncertainty could adversely impact its bond ratings. In addition, the County would have less flexibility and capacity in addressing unpredicted circumstances, such as a drastic economic downturn, major Federal or State policy changes or a natural disaster.

[1] "Restricted - Economic Stabilization" used to be called "Contingency Reserve"; "Committed – Operating Reserve" used to be called "Operating Reserve"; and "Unassigned" used to be called "Undesignated Fund Balance". The change in terminology matches the Comprehensive Annual Financial Report (CAFR) and reflects the latest Governmental Accounting Standards Board (GASB) 54 requirement. Both the Charter-mandated 5% Restricted Reserve (County Charter Section 806) and the policy-required 2.0% Operating Reserve are established to provide the County with the ability to address unexpected risks or events such as dramatic economic downturns or natural and man-made disasters. They are important to the County's fiscal position considering the various revenue/tax caps and limitations on the County.

VI. CHALLENGES AND POTENTIAL RISKS

Prince George's County will continue to experience fiscal challenges in FY 2019, with expenditures projected to grow at a faster pace than revenues.

- Projected expenditures will exceed projected revenues by $9.5 million (Table 1). OMB projects that total revenues will increase by $101.8 million or 3.1% from the FY 2018 budget. However, OMB projects that the costs of delivering the same level of service as in FY 2018 will increase by $111.2 million or 3.4% from the FY 2018 budget.

- The FY 2019 budget includes $36.0 million of projected revenues related to the MGM facility. This reflects the second full year of operations and includes an additional $1.9 million of MGM revenues from the FY 2018 estimated level. The MGM Casino at National Harbor opened on December 8, 2016.

- The County faces long-term liabilities in FY 2019 and beyond, including: greater debt service requirements; increased County contributions to Other Post-Employment Benefits (OPEB); an ongoing risk management fund deficit; and higher healthcare and pension costs.

- Use of reserves for ongoing operating costs could cause Wall Street to lower the County's bond rating due to weak budget management. It would also minimize the County's capacity and flexibility to deal with risks and long-term liabilities in the future.

- As noted earlier, the projections do not factor in the potential impact of any budget adjustments that may be proposed by the Governor and adopted by the Maryland General Assembly in the upcoming 2018 legislative session.

- The impending changes at the Federal level and major reductions during the Federal budget process could negatively impact both the County's revenues (e.g., loss of income tax and grant revenues) and expenditures (e.g., rising service demands related to increases in the unemployment rate).

VII. RECOMMENDATIONS AND CONCLUSION

- The Committee continues to strongly urge the County to preserve the Charter-required 5.0% contingency reserve and the policy-required 2.0% operating reserve.

- The Committee strongly urges the County to develop and implement a balanced FY 2019 budget without the use of fund balance. The County needs to stay vigilant in developing a spending plan with consideration of the fiscal challenges facing the County and to meet projected revenues. A shortfall in revenues could result in the use of fund balance to balance the FY 2019 budget.

- Since the County's revenue-raising abilities are very limited due to statutory requirements, the Committee strongly urges the continuation of conservative revenue estimates. By adhering to conservative budget estimates, the County will be better able to absorb any decreases in revenues from potential State and Federal funding cuts, the impact of the Federal tax reform, unrealized revenues from County sources or increases in service demands.

The Committee wishes to thank both the Executive and Legislative Branches of government for the opportunity to review the County's forecast. We believe that we have performed due diligence in reviewing revenue estimates for FY 2018 and FY 2019 and believe them to be reasonable.

Respectfully,

Robert R. Hagans Jr., Chairman

Terri K. Bacote-Charles, Member

Stephen A. Brayman, Member

Henry W. Mosley, Member

Christopher M. Wood, Member

APPENDIX: Detailed Discussion of Revenue Projections

Property Tax

- Property tax revenues total $877.0 million in FY 2018, an increase of 3.6% compared to the FY 2017 unaudited level. This increase is due to the stability in the housing market and related upward reassessment valuations. Real property taxes are projected to increase by 6.7% in FY 2018 from the FY 2017 unaudited level and further increase by 4.4% in FY 2019, compared to the FY 2018 estimated level. Personal property taxes are expected to increase by 13.2% in FY 2018 from the FY 2017 unaudited level, and further increase by 4.2% in FY 2019. The projected FY 2019 property tax revenues include anticipated collections of $10.7 million of real property taxes and $1.6 million of personal property taxes to be generated from MGM National Harbor.

- Real property tax revenues are primarily impacted by assessment changes and the homestead tax credit. In FY 2018 and FY 2019, the County's real property tax rate is $1.00 per $100 of assessable value and includes $0.04 dedicated to the local school board.

  Table 5 shows that total real property assessments in the County are projected to increase by 5.7% in FY 2019. After factoring in homestead exemptions, real property assessments are projected to increase by 4.0%.

Table 5

Projections of Real Property Assessments
Subject to County Taxes
($ in millions)

	Estimate FY 2018	Forecast FY 2019	$ Change	% Change
Gross Assessment	$ 87,376.7	$ 92,370.2	$ 4,993.5	5.7%
Homestead Tax Credit	(5,382.4)	(7,096.7)	(1,714.3)	31.9%
Net Assessment	$ 81,994.3	$ 85,273.5	$ 3,279.2	4.0%

Source: *State Department of Assessment and Taxation*

Note: Numbers may not add due to rounding.

- By January of each year, the State Department of Assessments and Taxation (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. In 2015, Group 3's reassessed values increased by 19.5%. In 2016, Group 1's reassessed values increased by 24.7%. In 2017, Group 2's reassessed values increased by 13.5%. The upward trend reflects recent stability in the County's real estate market and an increase in the reassessments of Group 2 properties. OMB's preliminary projections are that Group 3's reassessed values will increase by 12% in 2018. SDAT will release official estimates of Group 3's reassessed values in January 2018.

- 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 2017, the CPI increased by 2.0% from the same period in the prior year. The homestead tax credit cap will be set at 102% in FY 2019, a 1.0% increase from FY 2018. The upward reassessments in past years, reflects stability in the County's real estate market. Unrealized revenues attributable to the homestead tax credit have been decreasing. However, the combination of the recent recovery in the County's housing market and a maximum increase limit of 5.0% in annual assessments, has translated into significant revenue loss. Based on SDAT estimates released in November 2017, the homestead tax credit is expected to result in a revenue loss of $53.8 million in FY 2018.

- 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 2018 and FY 2019.

Income Tax

- Income tax receipts are projected to increase by $12.9 million or 2.3% in FY 2018 from the FY 2017 unaudited level due to improvements in the County's employment and income levels. Receipts in FY 2019 are projected to increase by 4.0% based on a 4.0% baseline growth of quarterly distributions and anticipates continues wage growth and expansion of the labor force

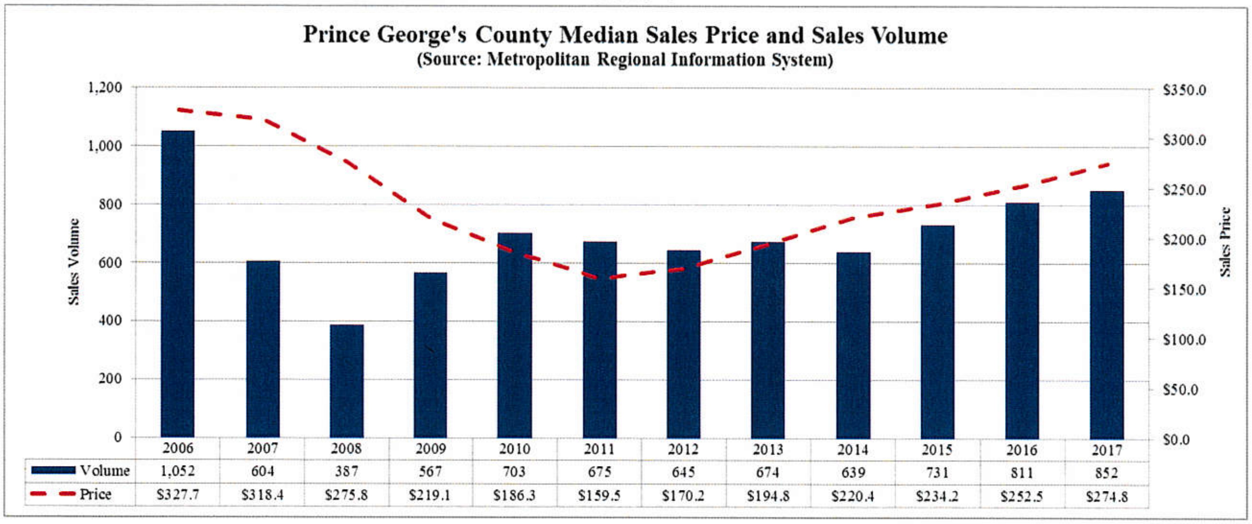
- The State Income Disparity Grant is calculated by the State based on income and population data, to bring each jurisdiction's per capita income tax level to 75% of the State average. In FY 2016, the County received a $23.1 million disparity grant and the amount increased to $26.6 million in FY 2017. In FY 2018, the County budget includes $30.9 million for the disparity grant based on the State's FY 2018 budget. The State Income Disparity Grant is expected to remain unchanged at $30.9 million in FY 2019.

Transfer and Recordation Taxes

- Transfer taxes are projected to increase by 13.5% in FY 2018 from the FY 2017 unaudited level and decrease by 8.5% in FY 2019. Recordation taxes are expected to increase by 17.1% in FY 2018 from the FY 2017 unaudited level and decrease by 7.5% in FY 2018. The FY 2018 increase reflect strong year-to-date collections and a one-time property transfer by MGM National Harbor. The FY 2019 projection excludes the one-time transfer experienced in FY 2018.

- Table 6 below indicates that the County's real estate market continue to show signs of growth and will likely continue to improve over the next 12 months. Between calendar year 2016 and 2017, the average median home sales price increased by 8.8% to $274,800, while sale volume increased by 5.1%.

Table 6



- Foreclosures in the first three quarters of calendar year 2017 totaled 4,899, a decrease of 20.2% from the same period in 2016. The County currently has the largest number of foreclosures in the State based on quarterly reports of foreclosure activities in Maryland. However, the large number of foreclosure events in the judicial process and rising mortgage rates appears to be slowing down given the recent recovery in the County's housing market.

Energy Tax

Energy tax revenues are projected to decrease by $1.5 million or 2.1% in FY 2018, from the FY 2017 unaudited level, based on year-to-date collections. This revenue is expected to increase by $2.0 million or 2.8% in FY 2019.

Telecommunications Tax

The telecommunications tax receipts are expected to decrease by $1.5 million or 5.0% in FY 2018 from the FY 2017 unaudited level. Revenues are projected to remain stable in FY 2019, reflecting stabilization of landline service.

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes - are projected to increase by 8.9% in FY 2018 from the FY 2017 unaudited level and increase by 2.7% in FY 2019. Included in the total projected revenues of $31.8 million in FY 2019 are $2.6 million from the 3,000-seat entertainment theatre and hotel rooms sited at MGM National Harbor.

State-Shared Taxes

The County's projection tentatively assumes that State-shared tax revenues will decrease by $0.2 million or 6.8% in FY 2018, compared to the FY 2017 unaudited level. This is primarily due to reduced collections of taxes on corporate. In FY 2019, collections are projected to decrease by $50,000 or 1.5%.

Licenses and Permits

License and permit revenues are projected to increase by $7.7 million or 16.1% in FY 2018 and expected to increase by $1.6 million or 2.9% in FY 2019. The FY 2019 increase is primarily driven by projected increase in building and business licenses permits collections as well as additional video lottery and table games revenues. Video lottery terminal and table games revenues are forecasted to total $21.1 million in FY 2019. This is an increase of $0.6 million or 3.1% from the FY 2018 estimated level.

Use of Money and Property

Receipts from the use of money and property are expected to increase by $0.3 million or 13.4% in FY 2018 from the FY 2017 unaudited level primarily due to the growth in rental property income. Use of money and property revenues are projected to increase by 2.2% in FY 2019.

Charges for Services

Charges for services are projected to decrease by $0.2 million or 0.5% in FY 2018 from the FY 2017 unaudited level. In FY 2019, collection are forecasted to increase $0.9 million or1.9%, due to anticipated increased collections of health fees, Local 911 fees, cable franchise and other service charges.

Intergovernmental Revenues

Intergovernmental revenues are projected to decrease by $9.7 million or 20.3% in FY 2018, from the FY 2017 unaudited level driven by a decrease in the local health grant. In FY 2019, revenues will further decline by $1.2 million or 3.3%. The decline is primarily due to a $1.9 million reduction in project charges revenue from the Maryland – National Capital Park and Planning Commission (M-NCPPC).

Miscellaneous Revenues

Miscellaneous revenues are projected to increase in FY 2018 by $0.2 million or 1.0% from the FY 2017 unaudited level and remains flat in FY 2019.

Other Financing Sources

Other financing sources generally include the use of fund balance and transfers in from other funds. The FY 2018 estimated revenue total includes $13.1 million in the use of other financing sources as reflected in the FY 2018 budget. This total includes $9.5 million in the use of fund balance for one-time initiatives including a $5 million contribution to the Housing Investment Trust Fund, $1.5 million for the Housing Rehabilitation Assistance Program, $0.9 million for technology improvements for the Memorial Library System and $2.2 million for other various investments. Additionally, the FY 2018 estimate includes a $3.5 million transfer from the Economic

Development Incentive fund and $62,000 transfer from the Stadium Impact Grant fund. No use of fund balance is assumed in the Committee's recommended revenue projections for FY 2019.

Board of Education (BOE) Aid

Board of Education aid is projected to remain unchanged from the FY 2018 budget and will increase by 2.0% in FY 2019. The increase in FY 2019 is primarily due to anticipated growth in school enrollment and does not include any potential impact from any State budget adjustments.

Community College Aid

Outside aid for Prince George's Community College is projected to remain unchanged in FY 2018 from the FY 2018 budget and increase by 2.0% in FY 2019.

Library Aid

Library aid is expected to remain unchanged in FY 2018 from the FY 2018 budgeted level and increase by 2.0% in FY 2019.