Appendix B

Appendix B includes the following reference information relating to the Fiscal Year 2021 Approved Operating Budget:

PROUD PRIORITIES, PROUD RESULTS

OPERATIONAL RELATIONSHIPS

Focus Area	Proud Priorities, Proud Results Policy Initiative	Key Agency Objective (s)	Supporting Agency Objectives		
Education	Access to Universal Pre-Kindergarten and Early Childhood Support Programming	177.1.1	171.2.1		
	Expansion of School Based Health Centers				
	5,000 Proud Partners/Volunteers for PGCPS (Community Engagement for our Schools)				
Youth Development	Child Health and Wellness (i.e. Child Hunger, Child Obesity, etc.)				
	Summer Youth Employment Program (SYEP)	122.1.2	995.1.1		
	Youth Sports				
Quality of Life	Resource Recovery	154.2.1			
	Priority Government Operations Reform – Permitting	168.1.1	126.1.1		
	Priority Government Operations Reform – Procurement	131.1.1			
	Priority Government Operations - Human Resources	122.1.1			
	Vision Zero	166.1.2			
	Top 10 Customer Service Requests with Updated Service Standards	113.1.1	119.2.1		
Economic Development	Access to healthy foods		137.2.2		
	Growing the Commercial Tax Base				
	Support the new construction and the preservation of existing housing	178.2.1 / 178.2.2	178.4.1	190.2.1	178.3.1
	Creating a Diversified Housing Market with Investments	168.2.1			
	Increase the number of CBSB/CBB business qualified as prime contractors	131.1.1			
Healthy Communities	Beautification	166.2.1			
	Veterans – Expanding Outreach Services				
	Restoring the Health of County Waters	154.1.1			
	Flood Management	154.1.2	126.2.1	166.4.1	154.4.1
	Assess and identify opportunities for seniors				
Safe Neighborhoods	Reduction in gun violence, through special enforcement efforts and attention to emerging threats	150.1.1			
	Public Safety Communications/Next Generation 911	157.1.1			
	Improve Recruitment Process (Public Safety)	122.1.1			
	Re-Entry	156.1.1			
	Implement Body Worn Cameras for patrol officers	150.2.1			

TABLE OF SUPPLEMENTALS AND TRANSFERS
FISCAL YEAR 2020

This section explains changes made to the FY 2020 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 2020, the County Council approved one bill and three resolutions changing appropriation levels during the fiscal year. This legislation provides supplementary appropriations and transfers surplus appropriations between various agencies and within various agencies in the General Fund to cover unanticipated and vital costs needed to meet year end operational requirements and an additional appropriation in the Special Revenues Fund. The additional resources will support the following: (1) Office of the County Executive operating expenses; (2) additional legal support for the Personnel Board; (3) additional operating expenses for the Office of Central Services; (3) Fire/EMS Department overtime, fringe costs and additional operating needs as a result of a scabies outbreak along with medical supplies and fire apparatus parts; Office of Homeland Security operating expenses; (4) additional appropriation and reallocation of appropriation within the Department of Permits, Inspection and Enforcement to support clean lot services and online records management system; (5) reallocation of appropriation within the Department of Health to provide temporary staffing support services for residents; and (6) other non-departmental expenses to support an additional Other post-employment benefits (OPEB) contribution. The additional resources are supported by sworn attrition savings in the Police Department and savings in Debt Service in Non-Departmental. The additional OPEB contribution is supported by additional use of fund balance.

The legislation also reduces the approved County revenue appropriation by a net decrease of $42.4 million to align with revised revenue projections for FY 2020 as a result of the COVID-19 pandemic impact on the economy. The largest components of this decrease include Income Tax Receipts ($11.1M), Admissions and Amusement ($7.4M), Table Games ($6.4M), Local Health Grant ($4.6M) and Fines and Forfeitures - ASE ($3.3M). The decrease in revenues are 100% offset by an increase in the Use of Fund Balance. The Fiscal Year 2020 General Fund budget as expressed by CB-27-2019 increases the budget from $3,631,989,800 to $3,641,989,800. The increase in revenue totals $10 million. The increase in revenue totals $5 million for the Special Revenues Fund to support the awarding of loans to small businesses adversely impacted by the COVID-19 pandemic.

Grant Fund adjustments reflect additional Federal, State or other funds received by County agencies that were not included in the approved budget. The new funding includes $180.9 in grant resources dedicated to support the County's COVID-19 response including $158.8 million through the Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Relief Fund (CRF) of 2020.

GENERAL FUND SUPPLEMENTALS AND TRANSFERS OF APPROPRIATION

CB-27-2019 $3,631,989,800

Adopted Fiscal Year 2020 General Fund Budget (Effective 7/1/2019)

CB-30-2020 $10,000,000

An act concerning supplementary appropriations, Intradepartmental transfer of appropriations and Interdepartmental transfer of appropriations for the purpose of declaring additional revenue and appropriating to the general fund to provide for cost that were not anticipated and included in the approved fiscal year 2020 Budget and transferring surplus appropriations between various agencies.

TOTAL REVISED FY 2020 GENERAL FUND BUDGET $3,641,989,800

SPECIAL REVENUE FUND SUPPLEMENTAL

CB-27-2019 $215,146,800

Adopted Fiscal Year 2020 General Fund Budget (Effective 7/1/2019)

CB-30-2020 $5,000,000

An act concerning supplementary appropriations for the Special Revenue Fund.

TOTAL REVISED FY 2020 SPECIAL REVENUE FUND BUDGET $220,146,800

GRANT FUND SUPPLEMENTALS

CB-27-2019 $239,134,300

Adopted Fiscal Year 2020 Grant Funds Budget (Effective 7/1/2019)

CR-86-2019 $5,513,041

A resolution concerning supplementary appropriation of federal, state and other funds for the purpose of appropriating funding from grants in the amount of $5,513,041 to the Department of Corrections, Department of Social Services and Department of Family Services.

CR-42-2020 $196,202,121

A resolution concerning supplementary appropriation of Federal, state and other funds for the purpose of appropriating funding from grants in the amount of $196,202,121 to the Circuit Court, Office of the State's Attorney, Fire/EMS Department, Department of Public Works and Transportation, Health Department, Department of Social Services, Department of Family Services, Department of Housing and Community Development, Department of Homeland Security, Police Department, Office of the Sheriff and Department of Corrections.

CR-89-2020 $410,255

A Resolution concerning Supplementary Appropriations of Federal, State and other funds for the purpose of appropriating funding from grants in the amount of $410,255 to the Office of the State's Attorney, Department of Family Services, Department of Housing and Community Development and Health Department.

TOTAL REVISED FY 2020 GRANT FUNDS BUDGET $441,259,717

January 1, 2020

The Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Todd M. Turner, 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 2019 through FY 2021. This letter summarizes the Committee's major findings and recommendations for FY 2021. 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 $13.7 million in FY 2021 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 $3,768.9 billion in FY 2021 based on projected revenues. This level of spending would include the use of fund balance totaling $30.0 million to support the County's commitment to the Purple Line and various one-time expenditures. At this level of funding 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 2019 Unaudited	FY 2020 Budget	FY 2020 Estimate	FY 2021 Forecast
County-Source Revenues	$ 2,058.6	$ 2,145.5	$ 2,166.0	$ 2,245.2
Outside Aid Revenues	1,441.5	1,486.5	1,486.6	1,523.7
Total Revenues	**$ 3,500.1**	**$ 3,632.0**	**$ 3,652.6**	**$ 3,768.9**
County Agency & Non-D Expenditures	$ 1,210.8	$ 1,291.0	$ 1,259.3	$ 1,363.1
Education & Library Expenditures	2,137.4	2,341.0	2,341.0	$ 2,419.5
Total Expenditures	**$ 3,348.3**	**$ 3,632.0**	**$ 3,600.3**	**$ 3,782.6**
Surplus/(Deficit)	**$ 151.8**	**$ -**	**$ 52.3**	**$ (13.7)**

- OMB projects that General Fund revenues will reach $3,768.9 billion in FY 2021, an increase of $136.9 million or 3.8% from the FY 2020 budget. The growth is primarily attributable to an increase in property tax, income tax, use of money and property and charges for services revenues. The forecast includes $44.3 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 2.5% increase in Outside Aid for the local school board, library and community college.

- OMB projects that General Fund expenditures will reach $3,782.6 billion in FY 2021, an increase of $150.6 million or 4.1% from the FY 2020 budget, before any corrective actions. This projection is based on FY 2020 estimated expenditures and preliminary FY 2021 assumptions of compensation per collective bargaining results, merit payments, fringe benefits, public safety classes, contributions to the education sector, additional debt service obligations costs related to the Capital Improvement Program and the new Regional Medical Center projects, as well as other discretionary spending.

- OMB developed these projections prior to the January 2020 release of the Governor of Maryland's proposed FY 2021 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 2020 and FY 2021.

Table 2

FY 2021 General Fund Revenue
Spending Affordability Committee

($ in millions)	FY 2019 Unaudited	FY 2020 Budget	FY 2020 Estimate	% Change FY 2020 Estimate v. FY 2019 Unaudited	FY 2021 Forecast	% Change FY 2020 Budget	% Change FY 2020 Estimate
COUNTY SOURCE REVENUES							
Real Property Tax	$ 813.2	$ 855.7	$ 855.7	5.2%	$ 882.3	3.1%	3.1%
Personal Property Tax	82.9	89.9	84.6	2.0%	85.4	-5.1%	0.9%
Income Tax Receipts	635.9	627.5	648.6	2.0%	673.9	7.4%	3.9%
Income Disparity Grant	34.1	36.2	36.2	6.2%	36.8	1.7%	1.7%
Transfer Tax	117.7	128.0	128.0	8.8%	132.6	3.6%	3.6%
Recordation Tax	51.3	53.2	53.2	3.7%	55.1	3.6%	3.6%
Energy Tax	83.9	78.7	78.7	-6.2%	93.3	18.5%	18.6%
Telecommunications Tax	20.8	23.6	20.8	-0.2%	20.0	-15.1%	-3.8%
Other Local Taxes	28.6	31.4	29.2	2.0%	29.7	-5.3%	1.7%
State-shared Taxes	5.1	3.5	3.5	-32.0%	3.6	2.1%	2.9%
Licenses and Permits	64.7	64.7	68.7	6.2%	70.7	9.3%	2.9%
Use of Money and Property	21.2	11.0	21.3	0.4%	21.7	97.7%	1.9%
Charges for Services	50.0	52.6	52.6	5.2%	62.8	19.3%	19.4%
Intergovernmental Revenue	35.2	35.5	31.0	-12.0%	30.9	-13.0%	-0.3%
Miscellaneous Revenue	13.9	16.4	16.4	17.9%	16.4	-0.2%	0.0%
Other Financing Sources	-	37.5	37.5	0.0%	30.0	-20.0%	-20.0%
Subtotal County Sources	$ 2,058.6	$ 2,145.5	$ 2,166.0	5.2%	$ 2,245.2	4.6%	3.7%
Subtotal Outside Aid	1,441.5	1,486.5	1,486.6	3.1%	1,523.7	2.5%	2.5%
GRAND TOTAL	$ 3,500.1	$ 3,632.0	$ 3,652.6	4.4%	$ 3,768.9	3.8%	3.2%

Major sources of revenue changes:

In this section, all revenue changes in FY 2021 are compared to the FY 2020 estimated level, unless noted otherwise. In addition, the FY 2020 estimate is compared to the FY 2019 unaudited level.

- **Real Property Tax Revenues** are expected to increase in both FY 2020 and FY 2021. Real property tax revenues are estimated to increase by 5.2% in FY 2020 from the FY 2019 unaudited level, driven by year-to-date collections as a result of growth in the County's assessable base. Revenues are projected to further increase by 3.1% in FY 2021 due to strong growth in the assessable base. The County is anticipating $10.5 million in property tax revenues in FY 2020 from MGM National Harbor and $10.7 million in FY 2021.

- **Personal Property Tax Revenues** are estimated to increase in FY 2020 from the FY 2019 unaudited level by 2.0%. Collections are estimated to further increase by 0.9% in FY 2021 from the FY 2020 estimated level. The FY 2020 estimate anticipates MGM revenues totaling $85.4 million and the FY 2021 forecast includes $0.8 million of revenues generated from MGM National Harbor. The decrease in MGM revenues is the result of depreciation.

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- **Income Tax** receipts are projected to increase by 2.0% in FY 2020 from the FY 2019 unaudited level. The estimate reflects the expectation that current year receipts will experience an increase based on the recent changes in income tax laws at the federal level. Revenues are projected to increase by 3.9% in FY 2021 from the FY 2020 estimate. The FY 2020 estimate is based on strong 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 2020, the State increased the County's disparity grant by $2.1 million, to $36.2 million from the FY 2019 level. The disparity grant is projected to increase to $36.8 million in FY 2021.

- **Transfer and Recordation Tax** revenues are projected to increase by 7.2% in the FY 2020 estimate from the FY 2019 unaudited level. Revenues are projected to further increase by $6.5 million or 3.6% in FY 2021. The FY 2010 projection adopts the experience of price and volume observed in FY 2019. To date in FY 2019, 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 2020 and increase in FY 2021. FY 2020 revenues are projected to decrease $5.2 million or 6.2% from the FY 2019 unaudited level. FY 2021 revenues are projected to increase by $14.6 million or 18.6% assuming an increase in energy consumption.

- **Telecommunications Tax** revenues in FY 2020 are projected to decrease by 0.2% from the FY 2019 unaudited level. Revenues are projected to further decrease in FY 2021. The projected 3.8% decrease in FY 2021, reflects the historical trend of declining collections.

- **Admissions and Amusement Tax Revenues** in FY 2020 are projected to increase by 2.0% from the FY 2019 unaudited level. In FY 2020, revenues are expected to increase by $0.3 million or 2.0%. Included in the total projected revenues of $15.6 million in FY 2021 are anticipated collections of $2.0 million to be generated from the 3,000-seat entertainment theatre at MGM National Harbor.

- **Hotel Tax Revenues** are projected to increase by 4.7% in FY 2020 from the FY 2019 unaudited level. Revenues are further projected to increase by $0.2 million or 2.0% in FY 2021. Included in the total projected revenues of $10.6 million in FY 2021 are $1.4 million of collections from the hotel rooms at the MGM National Harbor.

- **License and Permit Revenues** are projected to increase by $4.0 million or 6.2% in FY 2020 from the FY 2019 unaudited level. This change is the result of an increase in various building and business license permits, video lottery terminal and table game casino revenues generated from MGM National Harbor. FY 2021 revenues are projected to increase by $2.0 million or 2.9% from the FY 2020 estimated level. The growth in this category is driven by increases in building and business license permit revenues. The FY 2021 forecast includes $28.9 million generated from video lottery terminals and table games at MGM National Harbor. This is a $0.9 million increase from the FY 2020 estimated level.

- **Intergovernmental Revenues** are projected to decrease by $4.2 million or 12.0% in FY 2020 from the FY 2019 unaudited level. The decrease in FY 2020 reflects the return to normal growth after a one-time payment received in FY 2019 in other local revenues. FY 2021 revenues are projected to decrease by $0.1 million or 0.3% from the FY 2020 estimated level. This decrease is primarily due to the anticipated reduction in (Maryland-National Capital Park and Planning Commission) M-NCPPC project charges of $0.1 million.

- **Miscellaneous Revenues** in FY 2020 are expected to increase by $2.5 million or 17.9% from the FY 2019 unaudited level. The anticipated increase is due to an increase in the Red-Light Program (RLP) and the Automated Speed Enforcement (ASE) program. Gross revenues are projected to remain relatively flat in FY 2021, from the estimated FY 2020 level.

- **Other Financing Source** total $37.5 million in FY 2020, a 100% increase from the FY 2019 unaudited level. This funding includes a $36.9 million transfer from Fund Balance and $0.6 million transfer from the Stadium Impact Grant fund. The use of fund balance reflect $20.0 million allocated for the Maryland Purple Line capital project, $5.0 million to the support the new Regional Medical Hospital, $4.1 million to Bank of America for COP payment, $2.5 million for Hampton Park economic development project, $3.8 million for the Redevelopment Authority capital projects, $0.6 million for IT switches for the Circuit Court, $0.4 million for one-time Non-Departmental grants, $0.3 million for the Northern Gateway Revitalization program and $0.3 million to Baden Library for the bond bill match. The FY 2021 forecast assumes $20.0 million of fund balance as part of the three-year agreement to support the funding of the Maryland Purple Line capital project, which began in FY 2019. Additionally, $10 million will support various one-time expenditures in FY 2021.

- **Outside Aid** revenues are projected to increase in FY 2020 from the FY 2019 unaudited level by 3.1%. FY 2021 revenues are projected to further increase by 2.5% from the FY 2020 estimate. The increase in FY 2021 is primarily driven by anticipated growth in school enrollment for the Board of Education.

IV. SPENDING CEILINGS

The Committee recommends an overall General Fund spending ceiling of $3,768.9 billion in FY 2021, an increase of $136.9 million or 3.8% from the FY 2020 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 2021 General Fund
Spending Ceiling Recommendation
($ in millions)

	FY 2019 Unaudited	FY 2020 Budget	FY 2021 Forecast	$ Change FY20-FY21	% Change FY20-FY21
Board of Education	$ 2,093.4	$2,183.1	$2,257.7	$ 74.6	3.4%
Debt Service	128.6	136.6	158.6	22.0	16.1%
Other	1,278.2	1,312.3	1,352.6	40.3	3.1%
Total	**$ 3,500.1**	**$3,632.0**	**$3,768.9**	**$ 136.9**	**3.8%**

Board of Education: $2,257.7 million for the Board of Education – an increase of $74.6 million or 3.4% from the FY 2020 approved budget. This increase assumes Outside Aid of $1,431.6 million from Federal aid, State aid and Board sources, an increase of $34.9 million or 2.5% from the FY 2020 approved budget. The recommended FY 2021 forecast includes a projected County contribution of $826.1 million, representing an increase of $39.7 million or 5.0% from the FY 2020 approved budget. Included in the recommended County contribution is approximately $0.5 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.

Debt Service: $158.6 million for debt service – an increase of $22.0 million or 16.1% from the FY 2020 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: \$1,352.6 million for the remaining General Fund expenditures – an increase of \$40.3 million or 3.1% from the FY 2020 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 2019 Unaudited	FY 2020 Estimate	FY 2021 Recommended
Restricted - Economic Stabilization	\$ 172.1	\$ 182.6	\$ 188.4
Committed - Operating Reserve	68.9	73.1	75.4
Unassigned	235.6	236.3	198.2
Total	**\$ 476.6**	**\$ 492.0**	**\$ 462.0**

- As depicted in Table 1, the forecast would result in a balanced budget in FY 2020 and a deficit of \$13.7 million in FY 2021 if no actions are taken. If the County does not follow the recommendations, then the fund balance will further decrease by \$13.7 million to \$448.3 million in FY 2021.

- The Committee recommends County spending consistent with projected revenues of \$3,768.9 million, as shown in the fourth column of Table 1. This level of spending includes \$30 million in the use of fund balance and would maintain the 7% Charter-required and policy-required reserves.

[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.

- 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 2021, 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.

VI. CHALLENGES AND POTENTIAL RISKS

Prince George's County will continue to experience fiscal challenges in FY 2021, with expenditures projected to grow at a faster pace than revenues.

- Projected expenditures will exceed projected revenues by $13.7 million (Table 1). OMB projects that total revenues will increase by $136.9 million or 3.8% from the FY 2020 budget. However, OMB projects that the costs of delivering the same level of service as in FY 2020 will increase by $150.6 million or 4.1% from the FY 2020 budget.

- The FY 2021 forecast includes $44.3 million of projected revenues related to the MGM facility. This includes an additional $2.7 million of MGM revenues from the FY 2020 estimated level.

- The County faces long-term liabilities in FY 2021 and beyond, including: greater debt service requirements; increased County contributions to Other Post-Employment Benefits (OPEB); an ongoing risk management fund deficit; and higher pension costs.

- Use of reserves for ongoing operating costs could cause Wall Street to lower the County's bond rating. A reduction in the bond rating would increase bonding cost. It would also minimize the County's capacity and flexibility to deal with risks and long-term liabilities in the future. Consideration should be given to restrict the use of reserves to fund one-time costs for major projects.

- 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 2020 legislative session.

- Any impeding changes in the Federal tax laws, 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).

- The Committee recommends caution in the evaluation at economic growth over the next few years. Given the behavior of recent market and economic indicators, there appears to be a higher risk of recession than in the recent past. The County needs to be prepared to use fund balance in the event these factors hinder the collection of revenues or increase expenditures.

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 also strongly urges the County to develop and implement a balanced FY 2021 budget without any additional use of the use of fund balance beyond the $30 million commitment for the Purple Line and one-time expenditures. 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 additional use of fund balance to balance the FY 2021 budget.

- With competing demands for additional and better services for the County, the Committee recommends that the County continue to improve its use of strategic planning and performance management in prioritizing resource allocations.

- 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 2020 and FY 2021 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

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APPENDIX: Detailed Discussion of Revenue Projections

Property Tax

- Property tax revenues total $940.3 million in FY 2020, an increase of 4.9% compared to the FY 2019 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 5.2% in FY 2020 from the FY 2019 unaudited level and further increase by 3.1% in FY 2021, compared to the FY 2020 estimated level. Personal property taxes are expected to increase by 2.0% in FY 2020 from the FY 2019 unaudited level, and further increase by 0.9% in FY 2021. The projected FY 2021 property tax revenues include anticipated collections of $11.2 million of real property taxes and $0.8 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 2020 and FY 2021, 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 3.8% in FY 2021. After factoring in homestead exemptions, real property assessments are projected to increase by 3.1%.

Table 5

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

	Estimate FY 2020	Forecast FY 2021	$ Change	% Change
Gross Assessment	$ 9,799.4	$ 10,168.2	$ 368.8	3.8%
Homestead Tax Credit	(730.4)	(818.7)	(88.3)	12.1%
Net Assessment	$ 9,068.9	$ 9,349.5	$ 280.5	3.1%

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 2017, Group 2's reassessed values increased by 13.5%. In 2018, Group 3's reassessed values increased 17.5%. In 2019, Group 1's reassessed value increased 16.8%. Group 2's reassessed values increased by 13.3% in 2020 based on the recent assessments released by SDAT in December 2019.

- 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 2019, the CPI decreased by 1.0% from the same period in the prior year. The homestead tax credit cap will be set at 102% in FY 2021, a 1.0% decrease from FY 2020. 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 2019, the homestead tax credit is expected to result in a revenue loss of $88.3 million in FY 2021.

- 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 2020 and FY 2021.

Income Tax

- Income tax receipts are projected to increase by $12.7 million or 2.0% in FY 2020 from the FY 2019 unaudited level due to improvements in the County's employment and income levels. Receipts in FY 2021 are projected to increase by 3.9% based on the recent changes in income tax laws at the federal level, continued wage growth and expansion of the labor force.

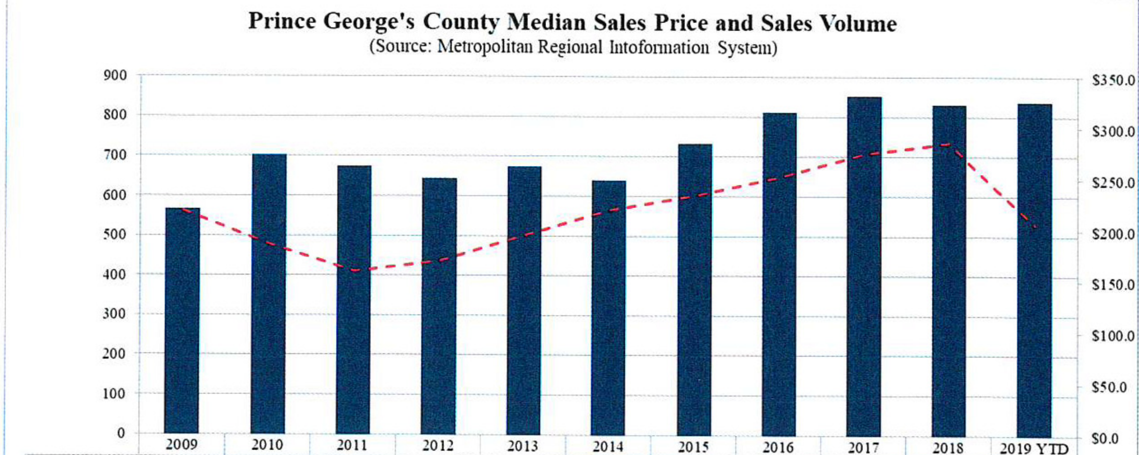
- The State Income Disparity Grant is calculated by the State based on income and population data, to bring each jurisdiction's per capita income tax level to 75% of the State average. In FY 2018, the County received a $30.9 million in the disparity grant and the amount increased to $34.1 million in FY 2019. In FY 2020, the County budget includes $36.2 million for the disparity grant based on the State's FY 2020 budget. The State Income Disparity Grant is expected to increase to $36.8 million in FY 2021.

Transfer and Recordation Taxes

- Transfer taxes are projected to increase by 8.8% in FY 2020 from the FY 2019 unaudited level and increase by 3.6% in FY 2021. Recordation taxes are expected to increase by 3.7% in FY 2020 from the FY 2019 unaudited level and increase by 3.6% in FY 2021.

- 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 November 2018 and November 2019, the average median home sales price increased by 7.3% to $306,000, while sale volume decreased by 0.9%.

Table 6



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Volume	567	703	675	645	674	639	731	811	852	830	838
Price	$218.9	$186.3	$159.5	$170.2	$194.8	$220.4	$234.2	$252.5	$274.8	$286.1	$206.0

- Though the third quarter of calendar year 2019, foreclosures totaled 3,952, a decrease of 17.2% from the same period in 2018. 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 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 $5.2 million or 6.2% in FY 2020, from the FY 2019 unaudited level, based on year-to-date collections. This revenue is expected to increase by 18.5% in FY 2021.

Telecommunications Tax

The telecommunications tax receipts are expected to decrease by 0.2% in FY 2020 from the FY 2019 unaudited level. Revenues are projected to decrease in FY 2021, reflecting the historical trend of declining collections.

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes - are projected to increase by 2.0% in FY 2020 from the FY 2019 unaudited level and increase by 1.7% in FY 2021. Included in the total projected revenues of $29.7 million in FY 2021 are $3.4 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 $1.6 million or 32.0% in FY 2020, compared to the FY 2019 unaudited level. This is primarily due to reduced collections of taxes on corporate assets. In FY 2021, collections are projected to increase by $0.1 million or 2.9%.

Licenses and Permits

License and permit revenues are projected to increase by $4.0 million or 6.2% in FY 2020 and expected to increase by $2.0 million or 2.9% in FY 2021. The FY 2021 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 $28.9 million in FY 2021. This is an increase of $0.9 million or 3.2% from the FY 2020 estimated level.

Use of Money and Property

Receipts from the use of money and property are expected to increase by 0.4% in FY 2020 from the FY 2019 unaudited level primarily due to an increase in commission and charges and property rental. Use of money and property revenues are projected to increase by 1.9% in FY 2021.

Charges for Services

Charges for services are projected to increase by $2.7 million or 5.2% in FY 2020 from the FY 2019 unaudited level. The increase is the result of an increase in revenues primarily related to emergency transportation fee, cable franchise and corrections charges. In FY 2021, collections are forecasted to increase $10.1 million or 19.4%, due to anticipated increased collections of local 911 fees and health fees.

Intergovernmental Revenues

Intergovernmental revenues are projected to decrease by $4.2 million or 12.0% in FY 2020, from the FY 2019 unaudited level driven by a decrease in the other local intergovernmental revenues. The decrease in other local intergovernmental revenues is the return to normal growth after a one-time payment received in FY 2019. In FY 2021, revenues will decline by $0.1 million or 0.3%. The decline is primarily due to a $0.1 million reductions in project charges revenue from the M-NCPPC.

Miscellaneous Revenues

Miscellaneous revenues are projected to increase in FY 2020 by $2.5 million or 17.9% from the FY 2019 unaudited level and slightly increase in FY 2021. The increase in the FY 2021 projection is primarily due to an increase in the RLP and the ASE programs.

Other Financing Sources

Other financing sources generally include the use of fund balance and transfers in from other funds. The FY 2020 estimated revenue total includes $36.9 million in the use of other financing sources as reflected in the FY 2020 budget. This total includes a $36.9 million transfer from Fund Balance and $0.6 million transfer from the Stadium Impact Grant fund. The $33.6 million transfer from Fund Balance reflects $20.0 million allocation to the Maryland Purple Line capital project, $5.0 million to the support the new Regional Medical Hospital, $4.1 million for Certificate of Participation payment, $2.5 million for Hampton Park economic development project and $2.0 million for the Redevelopment Authority capital projects. Additionally, the FY 2020 estimate includes a $0.6 million transfer from the Stadium Impact Grant fund. The FY 2021 forecast assumes $30.0 million of fund balance, of which $20.0 million is dedicated to the funding of the Maryland Purple Line capital project, which began in FY 2019 as part of the three-year agreement. The remaining $10.0 million reflects funding for undefined one-time expenses.

Board of Education (BOE) Aid

Board of Education aid is projected to remain unchanged from the FY 2020 budget and will increase by 5.0% in FY 2021. The increase in FY 2021 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 2020 from the FY 2020 budget and increase by 2.5% in FY 2021.

Library Aid

Library aid is expected to remain unchanged in FY 2020 from the FY 2020 budgeted level and increase by 2.5% in FY 2021.

PRINCE GEORGE'S COUNTY
SEMPER EADEM
MARYLAND