Appendix B

Appendix B includes the following reference information relating to the Fiscal Year 2022 Approved Operating Budget:

PRINCE GEORGE'S COUNTY
SEMPER EADEM
MARYLAND

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			

January 12, 2021

The Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, 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 2021 and FY 2022. This letter summarizes the Committee's major findings and recommendations for FY 2022. A detailed discussion of OMB's assumptions on various revenues is provided in the appendix to this letter.

Overview

As shown in **Exhibit 1**, OMB is projecting that the County will face a General Fund gap of $43.3 million in FY 2022 based on preliminary revenue projections. The global coronavirus pandemic has limited business activity and public gatherings and resulted in high unemployment and an economic slowdown. As a result, the County has relied upon fund balance since FY 2020 to support spending during this extraordinary time. **The Committee recommends a spending ceiling of $3,724.29 billion in FY 2022, which relies on the use of $43.3 million in unassigned fund balance. Reliance on reserves to support spending should not continue in FY 2023 and the County will need to make the necessary adjustments to spending with that goal in mind.**

Exhibit 1

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

	FY 2020 Unaudited	FY 2021 Estimate	FY 2022 Forecast
County-Sourced Revenue	$ 2,069.3	$ 2,080.7	$ 2,086.9
Outside Aid Revenue	$ 1,366.3	$ 1,561.3	$ 1,594.0
Total Revenue	**$ 3,435.7**	**$ 3,642.0**	**$ 3,680.9**
County Agency & Non-D Expenditures	$ 1,253.8	$1,269.9	$ 1,219.1
Education & Library Expenditures	2,220.8	2,444.5	2,505.1
Total Expenditures	**$ 3,474.6**	**$3,714.4**	**$ 3,724.2**
Surplus/(Deficit)	**$ (38.9)**	**$ (72.4)**	**$ (43.3)**

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

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 2

- OMB projects that General Fund revenues will essentially be flat in FY 2022 at $3,680.9 billion; an increase of $38.9 million (1.1%) over the FY 2021 budget. The growth is primarily attributable to an increase in revenue from the property tax, transfer and recordation taxes, gaming activity, and a post-pandemic rebound in admissions & amusement and hotel taxes. These gains are estimated to be offset by a decrease in the income tax due to high unemployment. Income tax revenue in FY 2020 and FY 2021 have been artificially boosted through federal transfer payments from a variety of unemployment compensation programs. One-time federal disaster recovery also ends in FY 2021.

- OMB projects that General Fund expenditures will reach $3,724.2 billion in FY 2022, an increase of $9.8 million or 0.3% over the FY 2021 budget. This projection is based on FY 2021 estimated expenditures and preliminary FY 2022 assumptions of compensation per collective bargaining results, fringe benefits, public safety classes, contributions to public education spending, additional debt service obligations, costs related to the Capital Improvement Program, and other discretionary spending.

- OMB developed these projections prior to the January 2021 release of the Governor of Maryland's proposed FY 2022 budget, which will be modified by legislative action. The projections therefore do not include the potential impact from State budget cuts or modifications to statutory aid programs. Final action on the State budget will not be known until late March or early April.

Economic Outlook

Economic activity is mixed as the coronavirus pandemic continues to impact employment and business activity. Although the Food and Drug Administration has approved vaccines, distribution to the general population will still take months and will continue into FY 2022. The unemployment rate for the County stood at 9.0% in November 2020, the second highest rate in the State, although income tax revenue has not been affected in the prior and current fiscal years due to federal unemployment compensation support that was extended into March 2021 through stimulus legislation. This, along with an extension of the paycheck protection program, should maintain income tax withholding levels in FY 2021. Federal support will not extend into FY 2022 however, and some economists predict that it could take years before full employment is regained.

Residential real estate activity has also remained strong, both in terms of units sold and the median sale price, but the effect of the pandemic on commercial real estate is less certain. Business failures, particularly in the leisure and hospitality sector (which has fallen from 13.4% of County employment to 7.4% of the average County employment between the second quarter of 2019 and 2020), as well as new patterns in telework, may be expected to suppress personal property taxes and commercial real estate activity.

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 3

Revenue

In this section, all revenue changes in FY 2022 are compared to the FY 2021 December estimate, unless noted otherwise. In addition, the FY 2021 estimate is compared to the FY 2020 unaudited level. **Exhibit 2** shows OMB's preliminary revenue projections for FY 2021 and FY 2022.

Exhibit 2

Prince George's County
FY 2021 General Fund Revenue
($ in Millions)

	FY 2020 Unaudited	FY 2021 Approved	FY 2021 Dec. Est.	FY20-FY21E % Change	FY 2022 Forecast	FY21E-FY22 % Change
County Sourced Revenues						
Real Property Tax	851.8	882.3	893.4	4.9%	911.3	2.0%
Personal Property Tax	77.8	85.4	76.0	-2.3%	68.0	-10.5%
Income Tax	644.9	598.6	647.4	0.4%	598.3	-7.6%
Disparity Grant	36.2	27.0	35.9	-0.7%	31.8	-11.5%
Transfer Tax	121.9	122.9	110.0	-9.7%	122.0	10.9%
Recordation Tax	50.7	51.6	42.0	-17.2%	49.0	16.7%
Energy Tax	71.7	93.3	71.0	-1.0%	72.4	2.0%
Telecommunications Tax	17.9	20.0	15.0	-16.2%	14.5	-3.4%
Other Local Taxes	23.2	21.3	6.2	-73.5%	21.7	252.3%
State-Shared Taxes	7.0	7.3	6.6	-5.5%	7.1	7.0%
Licenses and Permits	51.6	52.1	51.5	-0.2%	63.5	23.2%
Use of Money and Property	16.5	11.9	18.1	9.4%	18.3	1.3%
Charges for Services	54.1	62.8	56.9	5.2%	60.6	6.5%
Intergovernmental Revenue	33.0	43.2	38.6	17.1%	33.7	-12.9%
Miscellaneous Revenue	11.0	11.3	12.0	9.2%	14.7	22.7%
Other Financing Sources	55.1	63.6	72.4	31.2%	43.3	-40.2%
Subtotal County Sources	**2,124.5**	**2,154.4**	**2,153.1**	**1.3%**	**2,130.2**	**-1.1%**
Subtotal Outside Aid	**1,366.3**	**1,560.0**	**1,561.3**	**14.3%**	**1,594.0**	**2.1%**
Grand Total General Fund	**3,490.8**	**3,714.4**	**3,714.4**	**6.4%**	**3,724.2**	**0.3%**

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

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 4

Major sources of revenue changes:

- **Real Property Tax Revenues** are expected to increase in both FY 2021 and FY 2022, by 4.9% and 2.0% respectively. In January 2021 the State Department of Assessments & Taxation reported that the County's assessable base grew 13.4%. Home sales continued to surpass 1,000 units sold through November 2020, and the median price through the first five months of FY 2021 is $352,000. FY 2022 growth is limited to 2.0% based on concerns that the effect of the pandemic on unemployment could increase tax delinquencies and foreclosures.

- **Personal Property Tax Revenues** are estimated to decrease in both FY 2021 and FY 2022 by -2.3% and -10.5% respectively. There is concern over the level of pandemic-related business failures and their impact on FY 2022 collections.

- **Income Tax** receipts were expected to decrease by 7.2% in the approved FY 2021 budget, but 3 different unemployment compensation support programs helped to maintain income tax withholding despite the largest and fastest drop in employment. Additional stimulus legislation was enacted in December 2020 to extend unemployment support into March 2021 and provide $600 stimulus checks. The December estimate conservatively projects income tax revenue equal to the FY 2020 unaudited level. After federal support ends in FY 2021 the effects of high unemployment will be felt. In November 2020 the County had a 9.0% unemployment rate.

- The **State Income Disparity Grant** increases each jurisdiction's per capita income tax level to 75% of the statewide average. The disparity grant is projected to decrease by $4.1 million in FY 2022 based on the sunset of a provision in State law that granted additional funds to jurisdictions with a 3.2% local income tax rate. For FY 2022 the rate returns to 60% but could increase to 75% for FY 2023 if the legislature overrides the veto of legislation from the 2020 session.

- **Transfer and Recordation Tax** revenues are currently on pace to decline by nearly 12.0% in the current fiscal year compared to the FY 2020 unaudited level. However, the year-to-date attainment doesn't match real estate trends, which through November 2020 exhibit strong sales in FY 2021 and a median price of $352,000. The estimate may be revised upward as additional attainment data is received. Revenues are projected to increase to $171.0 million in FY 2022 based on market trends.

- **Energy Tax** revenues appear overstated in the approved FY 2021 budget and seem more likely to yield revenue more consistent with the FY 2020 unaudited level of $71.7 million. Business closures related to the pandemic are likely having some influence on reduced demand for energy. The forecast for FY 2022 assumes inflationary growth, to $72.4 million. This estimate may be revised depending upon faster economic growth or conversely, if commercial real estate occupancy does not rebound due to teleworking trends.

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 5

- **Telecommunications Tax** revenues in FY 2021 are projected to decrease by 16.2% from the FY 2020 unaudited level as consumers continue a long-term trend of abandoning land lines for mobile phones. Revenues are projected to further decrease in FY 2022, by -3.4%, reflecting the historical trend of declining collections.

- **Admissions and Amusement Tax Revenues** are projected to fall by 96.0% in FY 2021 due to the closure of entertainment venues to slow the spread of the coronavirus. As vaccine distribution occurs during the spring and summer the forecast assumes that pre-pandemic revenue attainment levels of approximately $11.3 million will be reached in FY 2022.

- **Hotel Tax Revenues** are also affected by the pandemic and are expected to fall by nearly 73% to $2.3 million relative to the $8.4 million in the FY 2020 unaudited revenue. A recovery to $7.0 million in FY 2022 is based on a degree of expected recovery tempered by concerns over the future of business travel and potential hotel closures.

- **License and Permit Revenues** are expected to be consistent with the FY 2020 unaudited level of $51.6 million. There are changes in the components of this revenue source. Building and grading permits, street use permits, and business license activity are all slightly down relative to the prior fiscal year, but this is expected to be offset by higher than expected gaming revenue. In the approved FY 2021 budget it was assumed that there would be no Video Lottery Terminal (VLT) revenue in the current fiscal year but the casinos partially re-opened in June 2020. The forecast now assumes $3.7 million in VLT revenue though this could change if the pandemic causes further restrictions on casino operations.

- Revenue from **Charges for Services** are expected to climb slightly, by a net $2.8 million, from $54.1 million in the FY 2020 unaudited budget to $56.9 million in FY 2022. A projected $4.5 million increase in 9-1-1 revenue is related to legislative changes passed at the 2018 legislative session. However, the increase is offset by a decrease of approximately $2.0 million in emergency transportation fee revenue. Calls for emergency service continue to be requested but transportation to the hospital has declined, likely due to concerns about the coronavirus.

- **Intergovernmental Revenues** are projected to increase by $5.6 million or 17.1% in FY 2021 from the FY 2020 unaudited level. This is due primarily to the expectation of receiving $5.0 million from the Federal Emergency Management Agency (FEMA) related to the pandemic. FY 2022 revenues are projected to decrease by a corresponding $5.0 million to reflect the end of this one-time revenue.

- **Miscellaneous Revenues** are expected to increase by $1.0 million, or 9.2% over the FY 2020 unaudited level, based on higher violations under the Automated Speed Enforcement (ASE) program. Both the ASE and the Red-Light Program are projected to grow modestly in FY 2022. Miscellaneous receipts are also forecasted to return to historical trend levels.

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 6

- **Other Financing Source** are based on the assumed use of $72.4 million of unassigned fund balance in FY 2021, a 31.2% increase from the FY 2020 unaudited level. The FY 2022 forecast assumes the use of another $43.3 million in fund balance due to the extraordinary circumstances facing the County. Combined reserves will have been reduced for three years (FY 2020-2022).

- **Outside Aid** revenues are projected to increase in FY 2021 from the FY 2020 unaudited level by 14.3%. FY 2022 revenues are projected to further increase by 2.1% from the FY 2021 estimate. The increase in both years is driven primarily by anticipated growth in State aid to the Board of Education.

Spending Ceilings

The Committee recommends an overall General Fund spending ceiling of $3,724.2 billion in FY 2022, an increase of $9.8 million or 0.3% from the FY 2020 budget. Actual spending for certain items supported by designated revenue resources could change based on budgeted or actual revenues received. The County proposes General Fund spending allocations for the Board of Education, debt service and all other general government expenditures as shown in **Exhibit 3**.

Board of Education: $2,339.7 million for the Board of Education – an increase of $61.6 million or 2.7% from the FY 2021 approved budget. This increase assumes Outside Aid of $1,498.9 million from Federal aid, State aid and Board sources, an increase of $36.6 million, or 2.5% from the FY 2021 approved budget. The recommended FY 2022 forecast includes a projected County contribution of $840.8 million, representing an increase of $25.0 million or 3.1% from the FY 2021 approved budget.

Debt Service: $172.8 million for debt service – an increase of $16.0 million or 10.2% from the FY 2021 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.

Other: $1,211.7 million for the remaining General Fund expenditures – a decrease of $67.7 million or -5.3% below the FY 2021 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.

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 7

Exhibit 3

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

	FY 2020 Unaudited	FY 2021 Budget	FY 2022 Projected	FY 2022 Recommended v. FY 2021 Budget
Debt Service Obligations	$ 132.9	$ 156.8	$ 172.8	10.2%
Board of Education	2,072.3	2,278.1	2,339.7	2.7%
Other	1,187.8	1,279.5	1,211.7	-5.3%
TOTAL	**$ 3,393.0**	**$ 3,714.4**	**$ 3,724.2**	**0.3%**
% Change		7.8%	0.3%	

		FY 2021 Budget	FY 2022 Projected	FY 2022 Recommended v. FY 2021 Budget
Board of Education				
County Contribution	$ 786.5	$ 815.8	$ 840.8	3.1%
Outside Aid	1,285.8	1,462.3	1,498.9	2.5%
TOTAL	**$ 2,072.3**	**$ 2,278.1**	**$ 2,339.7**	**2.7%**
% Change		8.8%	2.7%	

Notes:
1. Debt service amounts do not include Certificates of Participation (COP) payments shown under "Other".
2. The FY 2022 amount for the Board of Education is based on OMB's 6-year projection. The CEO's proposed operating budget released on December 10, 2020 includes $815.8 million in County Contribution and $1.46 million in outside aid.

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

Fund Balance

Exhibit 4 shows the projected County Charter-mandated 5% Reserve, the policy-required 2.0% and the Unassigned Fund Balance.

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 8

Exhibit 4

Prince George's County
General Fund
Projected Ending Fund Balance
($ in Millions)

Fund Balance	FY 2020 Unaudited	FY 2021 Estimate	FY 2022 Forecast
Restricted (5%)[1]	$ 182.1	$ 182.1	$ 184.0
Committed (2%)[2]	72.8	$ 72.8	$ 73.6
Unassigned[3]	182.7	110.3	64.3
Total	**$ 437.6**	**$ 365.3**	**$ 322.0**

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

Notes:
[1] Per Governmental Accounting Standards Board (GASB) Statement No. 54 the Contingency Reserve was renamed "Restricted - Economic Stabilization".
[2] Per GASB 54 the Operating Reserve was renamed the "Committed – Operating Reserve".
[3] Per GASB 54 Undesignated Fund Balance was renamed "Unassigned Fund Balance".

[1, 2] 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.

As depicted in Exhibit 1, the forecast would result in the use of $72.4 million of unassigned balance in support of the current year budget as well as $43.3 million that will help balance the FY 2022 budget. During this extraordinary time the use of fund balance is warranted, but the Committee is concerned that the combined cash balances will be reduced to an estimated 8.7% of revenues. Although the County cannot predict the pace of the post-pandemic economic recovery, it can take actions to rein in spending so that balances are not drawn down in FY 2023 and beyond. **Therefore, the Committee recommends County spending at the level of $3,724.2 million, as shown in Exhibit 3. This level of spending assumes the use of $43.3 million of unassigned fund balance while maintaining the 7% Charter-required and policy-required reserves.**

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 9

Challenges and Potential Risks

Prince George's County will continue to experience fiscal challenges and risks during the forecast period, including the following.

- While projected expenditures will exceed projected revenues by $43.3 million in FY 2022, this structural imbalance is estimated to widen to nearly $500.0 million by FY 2027. This is an unsustainable trend that is much worse than projected in prior years. The County will need to look at a combination of revenue enhancements and spending constraint to address the problem without unduly reducing services needed by the County's residents;

- The County also continues to face large unfunded liabilities including a pension system that is only 60% funded, Other Post-Employment Benefits; and $144 million to address an identified risk management fund deficit;

- Revenue projections do not assume any reductions in local aid, which may occur as the State continues to face a large General Fund structural deficit of its own. Moreover, spending mandates for additional k-12 education aid and any other requirements will further strain County resources.

- Finally, the pace and magnitude of the post-pandemic economic recovery will pose challenges if the County isn't able to regain full employment on an expeditious basis. While federal aid was pivotal in supporting the FY 2020 and FY 2021 budgets, this support is unlikely to continue after the current fiscal year.

Conclusion and Recommendations

The Committee recognizes that the nation is facing an extraordinary period, as the economic effects of the coronavirus pandemic continue to be felt even as vaccines have begun to be distributed. The County should be applauded for its prudent use of fund balance during the pandemic, while maintaining its 5% contingency reserve and 2% operating reserve, and without drastic reductions in vital services. As noted, the Committee is concerned with the drawdown of these balances and the large structural imbalance between ongoing tax and fee revenue and operating spending. **The Committee's recommendations include the following:**

- **General Fund operating spending should be limited to 3,724.2 billion in FY 2022;**

- **Use of cash balance to support the FY 2022 budget remains justified but every effort should be taken to bring General Fund spending in line with projected revenues in FY 2023 and beyond;**

Honorable Angela D. Alsobrooks, III, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
January 12, 2021
Page 10

- **The County is urged to preserve the Charter-required 5.0% contingency reserve and the policy-required 2.0% operating reserve;**

- **The County should develop a long-term plan to address its pension, other post-employment benefits, and risk management fund deficits; and**

- **Conservative revenue estimating should be continued. By adhering to conservative budget estimates, the County will be better able to absorb any decreases in revenues from potential State and Federal funding actions, 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 2021 and FY 2022 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

9

Appendix 1

Detailed Discussion of Revenue Projections

Property Tax

- Property tax revenues are projected at $969.4 million in FY 2021, an increase of 4.3% compared to the FY 2020 unaudited level. The County has experienced double digit growth in assessments in each of the last 3 years and based on payments to-date real property taxes are projected to increase by 4.9% in FY 2021 from the FY 2020 unaudited level and further increase by 1.0% in FY 2022. Lower growth is expected in FY 2022 based on the tax cap and an assumption of the delayed effects of additional foreclosures related to the high unemployment levels induced by the pandemic. Personal property taxes are expected to decrease by 2.3% in FY 2021 from the FY 2020 unaudited level, and further fall by 7.6% in FY 2022 because of pandemic related business closures.

- Real property tax revenues are primarily impacted by assessment changes and the homestead tax credit. In FY 2021 and FY 2022, 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.

Exhibit 5 shows that total real property assessments in the County are projected to increase by 5.1% in FY 2022. After factoring in homestead exemptions, real property assessments are projected to increase by 4.5%.

Exhibit 5

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

	Estimate FY 2021	Forecast FY 2022	$ Change	% Change
Gross Assessment	$1,025.8	$ 1,077.8	$ 52.1	5.1%
Homestead Tax Credit	-82.3	-92.1	-9.8	11.9%
Net Assessment	$943.5	$985.7	$ 42.3	4.5%

Source: State Department of Assessments and Taxation

- 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 2019 Group 1's reassessed values increased by 16.8%. Group 2's reassessed values increased by 13.3% in 2020, and Group 3's reassessed values increased 13.4% in January 2021.

- 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 2020, the CPI decreased by 1 percentage point from the same period in the prior year. The homestead tax credit cap will be set at 101% in FY 2022. The upward reassessment 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 October 2020, the homestead tax credit is expected to result in a revenue loss of $92.9 million in FY 2022.

- 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 2021 and FY 2022.

Income Tax

- Despite high unemployment levels in the County in FY 2020 and FY 2021 due to the pandemic, support for unemployment compensation programs has maintained income tax receipts through increased transfer payments. Receipts of $647.4 million are forecasted for the current fiscal year, though a recent announcement by the Comptroller to defer business filing dates by 3 months will delay collections. With the end of federal support in FY 2021, it is expected that it could take several years for the County to regain full employment levels. As such, the FY 2022 forecast assumes that income tax receipts decrease by $49.1 million.

- 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 2020, the County received a $36.2 million grant, which decreased slightly to $35.9 million in FY 2021 due to minor changes in population and income tax receipts. The Disparity Grant is expected to decline by $4.1 million, to $31.8 million in FY 2022, because a provision that awarded 67.5% of a county's uncapped grant for jurisdictions with a 3.2% piggyback tax rate ends in FY 2021. The rate returns to 60.0% in FY 2022 and beyond.

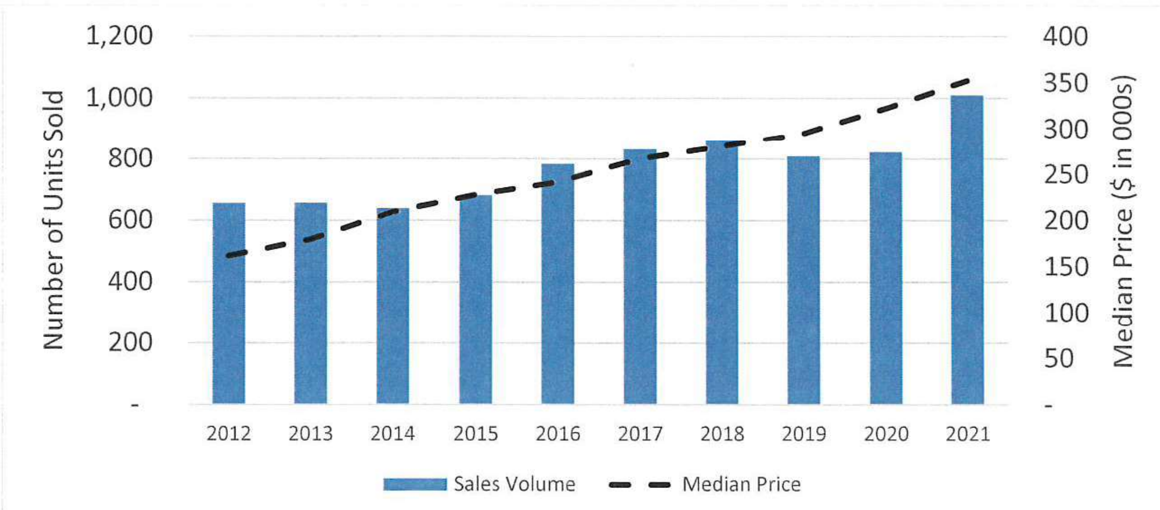
Transfer and Recordation Taxes

- Despite strong real estate activity and an increase in the median home price, transfer taxes are down 24% in the first quarter of FY 2021 relative to the first quarter of FY 2020. Revenue is projected to decrease from $121.9 million in the FY 2020 unaudited budget to $110.0 million in FY 2021 before increasing to $122.0 million in FY 2022. Recordation taxes are expected to decrease to $42.0 million in FY 2021 from the FY 2020 unaudited level of $50.7 million, and increase to $49.0 million in FY 2022.

- **Exhibit 6** below indicates that the County's real estate market continue to show signs of growth. In FY 2021 the average median home sales price increased by 9.4% to $352,000, while sale volume is growing by 22.8%. The inventory of homes for sale is at its lowest level in 10 years however, so growth in the construction industry will be necessary for continued strength in this area.

Exhibit 6

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



Source: Metropolitan Regional Information System

- Though the first quarter of calendar year 2020, foreclosures totaled 870, a decrease of 40.6% from the same period in 2019. A moratorium on foreclosures has been in effect for most of calendar year 2020. Federal, State, and County grants have aided landlords and tenants but will likely not continue into FY 2022. Foreclosure trend data should not appreciably change in the near-term.

Energy Tax

Energy tax revenue is projected to remain flat with the FY 2020 unaudited budget because the pandemic has limited business activity and resulted in less usage of energy. A 2.0% increase is estimated for FY 2022 based on an expected increase in energy use as the economy begins to recover as well as inflationary cost increases.

Telecommunications Tax

Telecommunication tax revenues are projected to decrease by $2.9 million or 16.2% in FY 2021, from the FY 2020 unaudited level, based on year-to-date collections. This revenue is expected to continue decreasing by 3.4% in FY 2022 as consumers continue the long-term trend of abandoning land lines for mobiles phones.

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes - are projected to decrease by 73.5% in FY 2021 from the FY 2020 unaudited level as the pandemic has resulted in the closure of concert and other entertainment venues and reduced travel and hotel activity. These taxes are anticipated to return to the historical level of approximately $22 million in FY 2022 once vaccine distribution has been completed in the spring and summer of CY 2021.

State-Shared Taxes

State-shared tax revenues will decrease by $0.4 million or -5.5% in FY 2021, compared to the FY 2020 unaudited level because of a decrease in transportation-related revenues that support highway user revenue capital grants. For FY 2022 these revenues are projected to grow $0.5 million based on the estimate for the program in the draft Consolidated Transportation Program.

Licenses and Permits

License and permit revenues are projected to be flat in FY 2021 and expected to increase by $12.0 million, or 23.2% in FY 2022. Building and grading permits, business and other licenses, and gaming revenue have all been suppressed during the pandemic. Gaming revenue is expected to rebound to historical levels on the assumption that distribution of the coronavirus vaccine by spring/summer of 2021 will result in the full casino activity.

Use of Money and Property

Receipts from the use of money and property are expected to increase by $1.6 million, or 9.4% in FY 2021 from the FY 2020 unaudited level primarily due to expected interest income. an increase in commission and charges and property rental. Use of money and property revenues are projected to increase by 1.3% in FY 2022 based on expected interest income.

Charges for Services

Charges for services are projected to increase by $2.8 million or 5.2% in FY 2021 from the FY 2020 unaudited level. The increase is the result of additional 9-1-1 revenue related to State legislation passed at the 2018 session that charged the fee against each line instead of each bill, offset by a decrease of about $2.0 million in emergency transportation fee revenue. Calls for service are still being made but transportation to the hospital is being declined during the pandemic. In FY 2022, collections are forecasted to increase $3.7 million or 6.5%, due largely to an anticipated rebound in emergency transportation fee collections in line with historical attainment.

TABLE OF SUPPLEMENTALS AND TRANSFERS FISCAL YEAR 2021

This section explains changes made to the FY 2021 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 2021, the County Council approved two bills 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 supported the following: (1) remaining year deep cleaning costs and the purchase of thermal machines related to COVID-19 mitigation and detection in the Office of Central Services; (2) reallocation of appropriation within the Police Department to pay for anticipated remaining legal expenses and increased telecommunication expenses and (3) COVID-19 related activities for the remaining half of the year for the Department of Health. Outside of the spending character reallocations, these costs are initially supported by the additional use of fund balance. It is anticipated that subsequent supplemental legislation will reduce compensation from the Fire/EMS Department to reflect the transfer of eligible expenditures from the General Fund to the FY 2020 Coronavirus Aid, Relief an Economic Security Act (CARES) grant and thereby reduce the use of fund balance set in this bill. Additionally, this legislation reconciled with the final Board of Education adopted on June 25, 2020 by reflecting $41.4 million in additional Board of Education outside aid sources. There is also $2.4 million transferred from the General Fund to the Information Technology Internal Service Fund technical and communications improvements for both COVID-19 vaccination registration and appointment scheduling.

The second supplemental bill (CB-37-2021) supported the following: (1) additional personnel expenses in the offices of the County Executive, Ethics and Accountability, Finance and Central Services along with the Board of License Commissioners; (2) overtime costs due to COVID-19 related activity in the Office of Homeland Security; (3) additional COVID-19 related invoices for the Office of Central Services; (4) COVID-19 hotel expenses to shelter the homeless in the Department of Social Services; (5) higher-than-anticipated expenses for contractual expenses in the Department of Permitting, Inspections and Enforcement; and (6) unanticipated operating expenses in the Department of Housing and Community Development. Additionally, the legislation included a reallocation within the Office of Human Resources Management to reflect the transfer of contracted public safety investigators from compensation to operating expenses. Outside of the spending character reallocations, these costs are initially supported by the additional use of fund balance.

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 included grant resources dedicated to providing stimulus relief as part of the County's COVID-19 response including $176.6 million through the American Rescue Plan (ARP) Act of 2021.

GENERAL FUND SUPPLEMENTALS AND TRANSFERS OF APPROPRIATION

CB-24-2020 **$3,714,400,900**
Adopted Fiscal Year 2021 General Fund Budget
(Effective 7/1/2020)

CB-24-2021 **$57,508,400**
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 costs that were not anticipated and included
in the Approved Fiscal Year 2021 Budget and transferring surplus appropriation between
various agencies.

CB-37-2021 **$6,962,900**
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 costs that were not anticipated and included in the Approved Fiscal Year 2021 Budget and transferring surplus appropriation between various agencies.

TOTAL REVISED FY 2021 GENERAL FUND BUDGET **$3,778,872,200**

<u>INTERNAL SERVICE FUND SUPPLEMENTAL</u>

CB-24-2020 **$61,232,700**
Adopted Fiscal Year 2020 Internal Service Fund Budget
(Effective 7/1/2020)

CB-24-2021 **$2,400,000**
An act concerning supplementary appropriations for
the Internal Service Fund.

TOTAL REVISED FY 2021 INTERNAL SERVICE FUND BUDGET **$63,632,700**

<u>GRANT FUNDS SUPPLEMENTALS</u>

CB-24-2020 **$252,467,700**
Adopted Fiscal Year 2021 Grant Funds Budget
(Effective 7/1/2020)

CR-12-2021 **$82,201,001**
A resolution concerning supplementary
appropriation of federal, state and other
funds for the purpose of appropriating funding from grants in the amount of $82,201,001 to the Office of the State's Attorney, the Judicial Branch/Circuit Court, the Board of Elections, the Health Department, the Non-Departmental budget, and the Department of Housing and Community Development.

CR-64-2021 **$94,261,781**
A resolution concerning supplementary
appropriation of federal, state and other
funds for the purpose of appropriating funding from grants in the amount of $94,261,781 for the Office of State's Attorney, Department of Corrections, Circuit Court, Police Department, Office of the Sheriff, Fire Department, Department of Housing and Community Development, Department of Family Services, Department of Public Works and Transportation, Health Department, Non-Departmental and Department of Social Services.

CR-67-2021 **$176,626,110**
A resolution concerning supplementary
appropriation of federal, state and other funds for the purpose of appropriating funding from grants in the amount of $176,626,110 for Non-Departmental.

TOTAL REVISED FY 2021 GRANT FUNDS BUDGET **$605,556,592**

PRINCE GEORGE'S COUNTY
SEMPER EADEM
MARYLAND