January 1, 2016

The Honorable Rushern L. Baker, III, County Executive
The Honorable Derrick Leon Davis, Chairman, 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 2015 through FY 2017. This letter summarizes the Committee's major findings and recommendations for FY 2017. 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 $64.2 million, or approximately 2.1% of FY 2017 preliminary revenue projections. The Committee is concerned about the County's ability to afford its planned spending given the recurring fiscal challenges facing the County, as evidenced by the operating deficit of approximately $7 million in FY 2015. The Committee recommends a spending ceiling of $3.089 billion in FY 2017 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.

Table 1

General Fund Outlook
($ in millions)

	FY 2015 Unaudited	FY 2016 Budget	FY 2016 Estimate	FY 2017 Forecast
County-Source Revenues	$ 1,636.4	$ 1,704.8	$ 1,738.4	$ 1,781.2
Outside Aid Revenues	1,247.6	1,245.6	1,245.6	1,307.6
Total Revenues	**$ 2,884.0**	**$ 2,950.4**	**$ 2,984.0**	**$ 3,088.8**
County Agency & Non-D Expenditures	$ 959.9	$ 985.3	$ 1,002.4	$ 996.3
Education & Library Expenditures	1,930.6	1,965.1	1,965.1	2,156.7
Total Expenditures	**$ 2,890.5**	**$ 2,950.4**	**$ 2,967.5**	**$ 3,153.0**
Surplus/(Deficit)	**$ (6.5)**		**$ 16.5**	**$ (64.2)**

- OMB projects that General Fund revenues will reach $3.089 billion in FY 2017, an increase of $138.4 million or 4.7% from the FY 2016 budget. Excluding the use of Other Financing Sources (including the fund balance), revenues increase by 4.9% from the FY 2016 budget. The growth is primarily attributable to an increase in property tax collections, income tax receipts and the initial influx of new or net additional revenues of $15.8 million generated from the MGM Casino at the National Harbor (including the collection of real property taxes, personal property taxes, admissions and amusement taxes, hotel taxes and gaming license revenues) and a significant increase in Outside Aid for the local school board.

- OMB projects that General Fund expenditures will reach $3.153 billion in FY 2017, an increase of 6.9% or $202.6 million from the FY 2016 budget, before any corrective actions. This projection is based on FY 2016 estimated expenditures and preliminary FY 2017 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 2016 release of the Governor of Maryland's proposed FY 2017 budget. OMB also developed these projections prior to any final decisions of the General Assembly, which often differ from the Governor's proposal and that 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 from the prior year. However, the recent stability in the County's housing market, evidenced by signs of growth in the sales price and sales volume of residential homes continues to face risk from high foreclosure activity. Potential budget actions at the State government level 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 2017.

Table 2

FY 2017 GENERAL FUND REVENUES

($ in millions)	Unaudited FY 2015	Budget FY 2016	Estimate FY 2016	% Change FY16 Estimate v. FY15 Unaudited	Forecast FY 2017	% Change Budget FY 2016	% Change Estimate FY 2016
COUNTY SOURCE REVENUE							
Real Property Tax	$ 650.7	$ 699.6	$ 699.6	7.5%	$ 733.9	4.9%	4.9%
Personal Property Tax	67.0	70.8	70.8	5.6%	$ 67.6	-4.5%	-4.5%
Income Tax Receipts	523.6	527.8	536.1	2.4%	$ 542.6	2.8%	1.2%
Income Disparity Grant	21.7	23.1	23.1	6.4%	$ 23.1	-0.1%	0.0%
Transfer Tax	83.7	86.1	98.2	17.3%	$ 102.1	18.6%	4.0%
Recordation Tax	34.3	37.0	43.0	25.2%	$ 44.7	20.8%	4.0%
Energy Tax	66.7	63.4	69.3	3.8%	$ 64.4	1.6%	-7.0%
Telecommunications Tax	31.3	34.7	33.5	7.0%	$ 31.1	-10.4%	-7.0%
Other Local Taxes	21.9	26.0	26.0	18.6%	$ 30.5	17.2%	17.2%
State-Shared Taxes	3.6	4.0	3.8	5.3%	$ 3.8	-4.6%	0.5%
Licenses and Permits	24.2	29.5	30.0	24.2%	$ 37.5	27.0%	24.9%
Use of Money and Property	4.0	3.8	4.0	0.0%	$ 4.6	22.1%	14.8%
Charges for Services	42.38	39.0	40.1	-5.4%	$ 39.7	1.7%	-1.1%
Intergovernmental Revenue	39.8	40.9	41.2	3.6%	$ 41.2	0.8%	0.0%
Miscellaneous Revenue	14.6	14.2	14.7	0.2%	$ 14.4	1.5%	-1.8%
Other Financing Sources	6.8	5.0	5.0	-25.9%	$ -	-100.0%	-100.0%
Subtotal - County Sources	**$ 1,636.4**	**$ 1,704.8**	**$ 1,738.4**	**6.2%**	**$ 1,781.2**	**4.5%**	**2.5%**
Subtotal w/o Other Financing Sources	1,629.6	1,699.8	1,733.3	6.4%	$ 1,781.2	4.8%	2.8%
OUTSIDE AID REVENUE							
Board of Education	$ 1,165.0	$ 1,163.8	$ 1,163.8	-0.1%	$ 1,226.5	5.4%	5.4%
Community College	74.6	73.8	73.8	-1.0%	72.9	-1.3%	-1.3%
Library	8.0	8.0	8.0	0.6%	8.2	1.7%	1.7%
Subtotal - Outside Aid	**$ 1,247.6**	**$ 1,245.7**	**$ 1,245.6**	**-0.2%**	**$ 1,307.6**	**5.0%**	**5.0%**
TOTAL	**$ 2,884.0**	**$ 2,950.5**	**$ 2,984.0**	**3.5%**	**$ 3,088.8**	**4.7%**	**3.5%**
TOTAL w/o Other Financing Sources	2,877.2	2,945.5	2,979.0	3.5%	3,088.8	4.9%	3.7%

Major sources of revenue changes:

In this section, all revenue changes in FY 2017 are compared to the FY 2016 estimated level, unless noted otherwise.

- **Property Tax**
  - Revenues are expected to increase in both FY 2016 and FY 2017.
  - **FY 2016 property taxes** are projected to increase by $52.6 million or 7.3%, from the FY 2015 unaudited level. The significant increase in projected FY 2016 property tax revenues, compared to historical trends, is primarily driven by the County Council approved increase in the Real Property Tax rate from $0.96 to $1.00 per $100 of assessable value, and an increase in the Personal Property Tax rate from $2.40 to $2.50 per $100 of assessable value, effective

July 1, 2015. In FY 2016, real property tax revenues are estimated to increase by $48.9 million or 7.5% from the FY 2015 unaudited level, driven by year-to-date collections as a result of growth in the County's assessable base. Personal property tax revenues are estimated to increase by 5.6% in FY 2016, compared to the FY 2015 unaudited level. The rate increases were authorized due to the passage of Maryland Senate Bill 848 in 2012 that allowed for the setting of a property tax rate higher than the rate authorized under the County's Charter.

  - **FY 2017 property taxes** are projected to increase by $31.1 million or 4.0%, from the FY 2016 estimated level. Real property tax revenues are projected to increase by 4.9%, reflecting continued growth in the County's assessable base and anticipated new revenues of $2.0 million to be generated from the MGM Casino at the National Harbor. Personal property tax revenues are expected to decrease by 4.5% in FY 2017. The projection includes anticipated new revenues of $0.3 million from the MGM Casino at the National Harbor.

- **Income Tax**
  - FY 2016 receipts are projected to increase by 2.4% from the FY 2015 unaudited level, based on year-to-date collections in the first-quarter of the fiscal year and assuming potential improvement in the County's labor market.

  - FY 2017 revenues are projected to increase by 2.8% from the FY 2016 budget. The increase assumes a 3.0% baseline growth rate for quarterly distributions and the potential negative impact of the U.S. Supreme Court's decision of the *Brian Wynne, Et. Ux v. Maryland State Comptroller of the Treasury lawsuit*[1]. FY 2017 revenues are expected to increase by 1.2% from the FY 2016 estimated level. The positive but lower growth assumption in FY 2017 reflects an anticipated drop in delinquent tax payments which the State has advised are volatile. Delinquent receipts had elevated since FY 2012 when the State's Motor Vehicle Administration (MVA) began to assist the Comptroller of Maryland and the Department of Labor, Licensing and Regulation (DLLR) collect outstanding state tax liabilities and unpaid unemployment insurance contributions by holding the renewal of the driver's license and/or vehicle registration of customers with outstanding liabilities. FY 2016 year-to-date delinquency collections to the County are down $3.9 million or 12.7% from the same period in FY 2015.

  - State Income Disparity Grant: This grant brings each jurisdiction's per capita income tax level to 75% of the State average. In FY 2014 and FY 2015, the County received $21.7 million in disparity grants from the State. In FY 2016, the State increased disparity funding to $23.1 million. The disparity grant is projected to remain unchanged in FY 2017.

- **Transfer Tax and Recordation** Tax Revenues are projected to increase by 19.7% in the FY 2016 estimate, from the FY 2015 unaudited level. The anticipated increase in FY 2016 reflects strong year-to-date collections, based on stable growth in the median sales price and

[1] On May 18th, 2015, the U.S. Supreme Court ruled that Maryland's income tax law that allows residents to take credits against the State tax on income earned outside the State, but not against County tax on income earned outside the State, was unconstitutional. A Maryland resident (Brian Wynne) had earlier sued the State on the basis that the tax credit provision should be extended to the County. Based on fiscal impact estimates provided by the State Comptroller's office, the County's preliminary income tax projections temporarily assume a revenue impact of $1.5 million in FY 2017 to account for the potential liabilities from protective claims of taxpayers.

sales volume of homes in the County. Assuming sustained stability in the County's housing market, FY 2017 revenues are projected to increase by 4.0% or $5.6 million.

- **Energy Tax Revenues** in FY 2016 are projected to increase by 3.8% or $2.6 million from the FY 2015 unaudited level. FY 2017 revenues are projected to decrease by 7.0% or $4.9 million, assuming part of the growth experienced in FY 2016 is attributable to one-time gains, the impact of formula-driven higher tax rates passed by the County Council for FY 2016, and the potential for warmer weather in CY 2016 and CY 2017. FY 2016 year-to-date revenues are $9.8 million above the budgeted level, primarily driven by higher electricity tax collections.

- **Telecommunications Tax Revenues** in FY 2016 are projected to increase by 7.0% or $2.2 million from the FY 2015 unaudited level, primarily due to the rate increase (effective July 1, 2015) from 8% to 9% on the gross receipts for telecommunications services. Revenues are projected to decrease by 7.0% in FY 2017, reflecting a return to the historical trend of declining usage of landline service by telephone subscribers and the increased usage of wireless and other communication technologies, many of which are non-taxable.

- **Admissions and Amusement Tax Revenues** in FY 2016 are projected to increase by 12.7% from the FY 2015 unaudited level. In FY 2017, revenues are projected increase by 23.2% or $4.4 million. Included in the total projected revenues of $18.0 million in FY 2017 are anticipated new collections of $4.1 million to be generated from a 3,000-seat entertainment theatre at the MGM Casino at the National Harbor.

- **Hotel Tax Revenues** are projected to increase by 42.6% or $2.4 million in FY 2016, from the FY 2015 unaudited level, driven by a County Council approved increase in the hotel tax rate from 5% to 7% (effective July 1, 2015). Revenues are further projected to increase by 13.2% or $1.1 million in FY 2017. Included in the total projected revenues of $9.3 million in FY 2017 are anticipated new collections of $0.9 million from the hotel rooms to be sited at the MGM Casino at the National Harbor.

- **License and Permit Revenues** are projected to increase by 24.2% or $5.8 million in FY 2016 from the FY 2015 unaudited level. FY 2017 revenues are further projected to increase by $7.5 million or 24.9% from the FY 2016 estimated level. The significant growth in this category is driven by anticipated new gaming license revenues of $8.6 million from over 3,000 video lottery terminals and 160 tables at the MGM Casino at the National Harbor.

- **Intergovernmental Revenues** are projected to increase by 3.6% in FY 2016 from the FY 2015 unaudited level, and remain flat in FY 2017.

- **Miscellaneous Revenues** in FY 2016 are expected to increase by 0.2% from the FY 2015 unaudited level, primarily due to flat growth in fines collected from the County's Automated Speed Enforcement (ASE) Program. Revenues are projected to decrease by 1.8% or $0.3 million in FY 2017 from the FY 2016 estimate as a result of road users changing their driving habits to avoid speeding fines and the number of fines that are actually paid by violators continues to decline.

- **Outside Aid** in the aggregate in FY 2016 is expected to remain flat compared to the FY 2015 unaudited level. Outside aid in FY 2017 is projected to increase by 5.0% from the FY 2016 budget. The increase in FY 2017 is primarily driven by a projected 5.4% increase in funding to the local school board, compared to the FY 2016 budget. Outside Aid funding for Prince George's Community College is projected to decrease by 1.3% in FY 2017 and assumes the of the use of fund balance of $3.9 million. In FY 2017, Outside Aid funding for the Memorial Library System is projected to increase by 1.7%, compared to the FY 2016 estimate.

IV. SPENDING CEILINGS

The Committee recommends an overall General Fund spending ceiling of $3.089 billion in FY 2017 – an increase of 4.7% or $138.4 million from the FY 2016 budget, based on projected revenues. Actual spending for certain items supported by designated revenue resources could change based on budgeted or actual revenues received. For example, certain revenues from the MGM Casino at the National Harbor are earmarked for funding of the school system. This funding is contingent upon the opening of the MGM facility before the end of CY 2016. With a decrease in total revenues, any expenditure increases would have to be offset by reductions elsewhere 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. How to allocate these revenues is the County's decision. The Committee's recommendations are solely based on consistency with expected revenues.

Table 3

FY 2017 General Fund
Spending Ceiling Recommendations
($ in millions)

	Budget FY 2015	Budget FY 2016	Recommended FY 2017	$ Change FY16-FY17	% Change FY16-FY17
Board of Education	$ 1,795.3	$ 1,833.1	$ 1,913.8	$ 80.7	4.4%
Debt Service	88.8	98.9	109.0	10.1	10.2%
Other	973.2	1,018.4	1,066.0	47.6	4.7%
TOTAL	**$ 2,857.2**	**$ 2,950.4**	**$ 3,088.8**	**$ 138.4**	**4.7%**

Board of Education: $1.914 billion for the Board of Education – an increase of 4.4% or $80.7 million from the FY 2016 approved budget. This increase assumes Outside Aid of $1.227 billion from Federal aid, State aid and Board sources, an increase of 5.4% or $62.7 million from the FY 2016 approved budget. The Board of Education's FY 2017 proposed budget includes $24.0 million in use of fund balance and assumes a mandatory County contribution of $797.3 million that meets the State's Maintenance of Effort (MOE). The recommended FY 2017 budget includes a projected County contribution of $687.3 million, representing an increase of $18.0 million or 2.7% from the FY 2016 approved budget. Included in the recommended County contribution is approximately $2.3 million in video-lottery terminal revenues from the MGM Casino at the 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: $109.0 million for debt service – an increase of 10.2% or $10.1 million from the FY 2016 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: $1.066 billion for the remaining General Fund expenditures – an increase of 4.7% or $47.6 million from the FY 2016 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 comes 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[2].

Table 4

General Fund

Ending Fund Balance Projections
($ in millions)

	FY 2015 Unaudited	FY 2016 Estimate	FY 2017 Recommended
Restricted - Economic Stabilization	$ 144.5	$ 148.4	$ 154.4
Committed - Operating Reserve	57.8	59.4	61.8
Unassigned	16.1	27.2	18.7
TOTAL	**$ 218.4**	**$ 234.9**	**$ 234.9**

[2] "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.

- As depicted in Table 1, the forecast would result in a surplus of $16.5 million in FY 2016 and a deficit of $64.2 million in FY 2017 if no actions are taken. Table 4 shows that this forecast would result in an ending fund balance of $234.9 million in FY 2016, which would further drop to $170.7 million in FY 2017 if no actions are taken. This level of fund balance would be $45.5 million lower than the Charter-required and policy-required level. The County's maintenance of the Charter-required 5.0% restricted reserve for economic stabilization and policy-required 2.0% committed operating reserve was a significant factor in maintaining the County's AAA bond ratings. If the County fails to maintain the required reserves in FY 2017, 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.

- The Committee recommends County spending consistent with projected revenues of $3.089 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.

VI. CHALLENGES AND POTENTIAL RISKS

Prince George's County will continue to experience fiscal challenges in FY 2017, with expenditures projected to grow at a faster pace than revenues. A large portion of the issue reflects a structural imbalance that cannot be solved through one-time adjustments.

- Total revenues are projected to increase by 4.7% or $138.4 million from the FY 2016 budget which continues to lag behind the cost increase for delivering the same level of service as of FY 2016. Total expenditures are currently projected to increase by 6.9% or $202.6 million from the FY 2016 budget. Projected expenditures will exceed projected revenues by $64.2 million (Table 1).

- Approximately 11% of the projected revenue increase comes from the MGM facilities that are still under construction. Opening delays or otherwise less than anticipated revenues could increase the projected deficit.

- On top of immediate expenditure pressures, the County also faces long-term liabilities in FY 2017 and beyond, including: greater debt service requirements; increased mandatory County contributions to Other Post-Employment Benefits (OPEB); an ongoing risk management fund deficit; and higher healthcare and pension costs.

- Further depletion of reserves for ongoing operating costs could cause Wall Street to lower the County's bond rating due to weak budget management. This may jeopardize the County's fiscal integrity and borrowing capacity in a tight credit market, and increase the cost of borrowing funds. 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 2016 legislative session.

- Despite the passage of a two-year spending bill in Washington, D.C in October 2015, potential volatility in the Federal government's 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 strongly urges 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 2017 budget without the use of fund balance. The Committee is concerned about the County's ability to afford its planned spending given the recurring fiscal challenges facing the County, as evidenced by the operating deficit of approximately $7 million in FY 2015.

- 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, 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 2016 and FY 2017 and believe them to be reasonable.

Respectfully,

Tanya R. Curtis, CPA

Norman L. Carter III, CPA

Barbara K. Atrostic, Ph.D.

APPENDIX: Detailed Discussion of Revenue Projections

Property Tax

Property tax revenues total $801.5 million in FY 2017, an increase of 4.0% compared to the FY 2016 budget. This increase is due the stability in the housing market and related upward reassessment valuations. Real property taxes are projected to increase by 7.5% in FY 2016 from the FY 2015 unaudited level and further increase by 4.9% in FY 2017, compared to the FY 2016 estimated level. Personal property taxes are expected to increase by 5.6% in FY 2016 from the FY 2015 unaudited level, but will decrease by 4.5% in FY 2017. The projected FY 2017 property tax revenues include anticipated new collections of $2.0 million of real property taxes and $0.9 million of personal property taxes to be generated from the MGM Casino at the National Harbor.

- Real property tax revenues are projected to increase by 7.5% in FY 2016 primarily driven by a rate increase from $0.96 to $1.00 per $100 of assessable value and further increase by 4.9% in FY 2017, based on anticipated growth in the County's real property assessable base. The rate increases were authorized due to the passage of Maryland Senate Bill 848 in 2012 that allowed for the setting of a property tax rate higher than the rate authorized under the County's Charter. The law required that the additional revenue generated as a result of the increase in the property tax rate be used for the sole purpose of funding the approved budget of the local school board. As a result of this provision, an additional $30.8 million in property tax revenues is projected to be generated and directed to the Prince George's County Public Schools (PGCPS) system as part of the annual County's Contribution in the approved FY 2016 budget. In FY 2017, $31.7 million in property taxes is projected to be generated and included in the County's Contribution to the school board.

- Real property tax revenues are primarily impacted by assessment changes and the homestead tax credit. Table 5 shows that total real property assessments in the County are projected to increase by 4.9% in FY 2017. After factoring in homestead exemptions, real property assessments are projected to increase by 3.6%.

Table 5

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

	Estimate FY 2016	Forecast FY 2017	$ Change	% Change
Gross Assessment	$ 76,612.6	$ 80,381.0	$ 3,768.4	4.9%
Homestead Tax Credit	(2,827.1)	(3,906.0)	(1,078.9)	38.2%
Net Assessment	$ 73,785.5	$ 76,475.0	$ 2,689.6	3.6%

Source: *Office of Management and Budget*

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 2014, Group 2's reassessed values increased by 5.3%.

- In 2015, Group 3's reassessed values increased by 19.5%.

- In 2016, Group 1's reassessed values increased by 24.7%. The upward trend reflects recent stability in the County's real estate market and an increase in the reassessment valuation of Group 1 properties.

- 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 2015, the CPI was unchanged from the same period in the prior year. This zero-percent increase in the CPI means that the homestead tax credit cap would be effectively set at 100% in FY 2017. Due to the downward reassessments in past years, 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 February 2015, the homestead tax credit is expected to result in a revenue loss of $27.1 million in FY 2016. Preliminary information provided by SDAT in December 2015 projects revenue loss attributed to the homestead tax credit of $39.6 million in FY 2017.

Income Tax

- Income tax receipts are projected to increase by 2.4% in FY 2016 from the FY 2015 unaudited level due to the potential improvement in the County's employment and income levels. Receipts in FY 2017 are projected to increase by 1.2% based on a 3.0% baseline growth of quarterly distributions offset by the negative impact of the *Brian Wynne, Et. Ux v. Maryland State Comptroller of the Treasury* lawsuit[3], potential weakness in wage growth and a downward revision in delinquency payments.

- 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 2014 and FY 2015, the County received $21.7 million in disparity grants from the State. In 2015, the General Assembly changed the cap provisions which increased the grant funding to $23.1 million. The Disparity Grant is expected to remain unchanged in FY 2017.

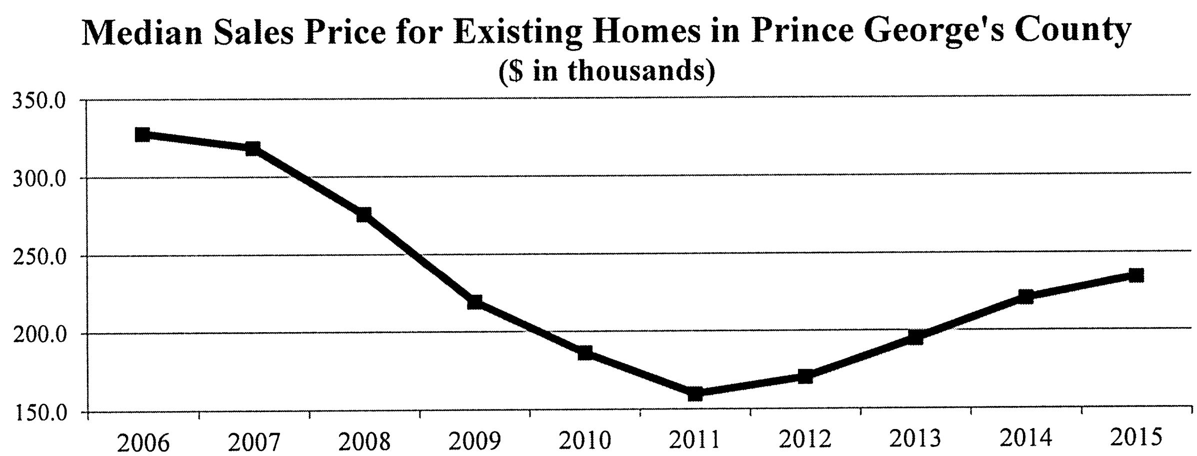
[3] On May 18th, 2015, the U.S. Supreme Court ruled that Maryland's income tax law that allows residents to take credits against the State tax on income earned outside the State, but not against County tax on income earned outside the State, was unconstitutional. A Maryland resident (Brian Wynne) had earlier sued the State on the basis that the tax credit provision should be extended to the County. Based on fiscal impact estimates provided by the State Comptroller's office, the County's preliminary income tax projections temporarily assume a revenue impact of $1.5 million in FY 2017 to account for the potential liabilities from protective claims of taxpayers.

Transfer and Recordation Taxes

- Transfer taxes are projected to increase by 17.3% in FY 2016 from the FY 2015 unaudited level and further increase by 4.0% in FY 2017. Recordation taxes are expected to increase by 25.2% in FY 2016 from the FY 2015 unaudited level and further increase by 4.0% in FY 2017. The increases reflect strong year-to-date collections ($21.0 million higher in FY 2016, compared to the same period in FY 2015) and assume stable growth in the median sales price and a more stabilized sales volume in the housing market.

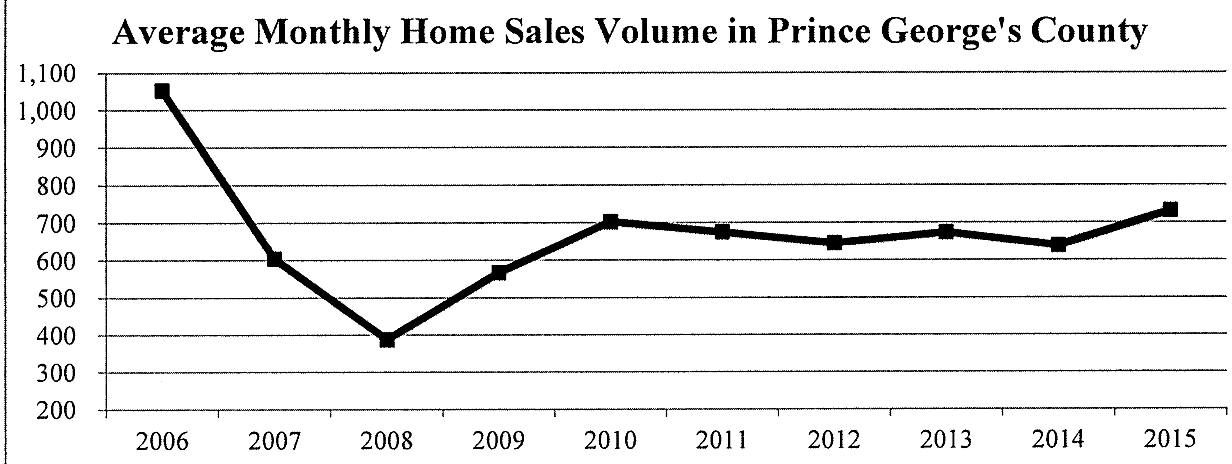
- Tables 6 and 7 below indicate that the County's real estate market shows signs of stabilization but will likely continue to fluctuate over the next 12 months. In CY 2015, the median sales price increased by 6.3% and the sales volume increased by 14.4%, compared to the same period in CY 2014. However, the pace of rapid gains in market valuations has slowed down, with the average sales price stabilizing at $241,200 in the last six months of CY 2015.

Table 6



Source: ***Metropolitan Regional Information Systems***

Table 7



Source: ***Metropolitan Regional Information Systems***

- Foreclosures in the first three quarters of calendar year 2015 totaled 7,116, a decrease of 14.4% from the same period in 2014. 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 increase by 3.1% in FY 2016, from the FY 2015 unaudited level, based on year-to-date collections partly attributable to a formula-driven increase in applied electricity tax rates. This revenue is expected to decrease by 7.0% or $4.9 million in FY 2017, assuming part of the growth in FY 2016 is due to one-time gains and a projected drop in electricity and natural gas tax rates.

Telecommunications Tax

The telecommunications tax is expected to increase by 7.0% in FY 2016 from the FY 2015 unaudited level, primarily as a result of an increase in the tax rate from 8% to 9% on the gross receipts for telecommunication service, effective July 1, 2015. However, revenues are projected to decrease by 7.0% in FY 2017 to realign with the historical trend of declining revenue in the past several years as a result of the continued market shift from landlines to wireless and other communication services (some of which are non-taxable).

Other Local Taxes

Other local taxes - admissions and amusement tax, hotel/motel tax, and other taxes - are projected to increase by 18.6% in FY 2016 from the FY 2015 unaudited level and increase by 17.2% in FY 2017. The significant revenue growth in FY 2016 primarily reflects the increase in the hotel/motel tax rate from 5% to 7% (effective on July 1, 2015). Included in the total projected revenues of $30.5 million in FY 2017 are anticipated new collections of $4.3 million to be generated from a 3,000-seat entertainment theatre and hotel rooms sited at the MGM Casino at the National Harbor.

State-Shared Taxes

In November 2015, Maryland's Spending Affordability Committee released preliminary projections of an ending General Fund surplus of $521.0 million in FY 2016 and an ending General Fund surplus of $216.0 million in FY 2017, driven by a better-than-expected surplus, strategic budget actions and stable economic outlook. Despite the improvements surrounding State aid and the State's forecast of eliminating the structural deficit by the end of the current fiscal year, the County's projection tentatively assumes that State-shared tax revenues will increase by 5.3% in FY 2016, compared to the FY 2015 unaudited level and increase by 0.5% in FY 2017.

Licenses and Permits

License and permit revenues are projected to increase by 24.2% in FY 2016 reflecting fee increases and are expected to significantly increase by 24.9% in FY 2017, driven by anticipated new gaming license revenues of $8.6 million from over 3,000 video lottery terminals and 160 tables at the MGM Casino at the National Harbor.

Use of Money and Property

Receipts from the use of money and property are expected to remain flat in FY 2016 from the FY 2015 unaudited level primarily due to lower growth forecasts for its largest revenue component – interest income. Gross interest income is offset by net unrealized appreciation (representing unrealized capital gains if an investment asset is sold) to derive net interest income. In the past several years, the low interest-rate environment has generated minimal yields on the investment of idle County cash. However, the Federal Reserve's reduction of bond-buying purchases in recent years and the historic decision to raise its key interest by 0.25% in December 2015, signaled confidence in the national economy. This could provide the impetus for higher interest rates and investment yields in FY 2016 and FY 2017. Use of money and property revenues are projected to increase by 14.8% in FY 2017, based on an anticipated increase in interest income revenues by 30.3% or $0.6 million.

Charges for Services

Charges for services are projected to decrease by 5.4% in FY 2016 and further decrease by 1.1% in FY 2017, due to anticipated lower collections of Local 911 fees, Emergency Transportation fees and Other Service Charges.

Intergovernmental Revenues

Intergovernmental revenues are projected to increase by 3.6% in FY 2016, from the FY 2015 unaudited level and remain flat in FY 2017, with no expected change in the amount of project charges received from the Maryland – National Capital Park and Planning Commission (M-NCPPC).

Miscellaneous Revenues

Miscellaneous revenues are projected to remain flat in FY 2016 from the FY 2015 unaudited level and further decrease by 1.8% in FY 2017. The decrease is mainly due to reduced fines collected from the County's Automated Speed Enforcement (ASE) Program, which started in September 2011 with a phased-in approach. Projections for ASE gross revenues are $8.4 million in FY 2016 and $8.5 million in FY 2017.

Other Financing Sources

Other financing sources generally include use of fund balance and transfer-in from other funds. The FY 2016 estimated revenues include no use of fund balance and $5.0 million in additional transfers. This is $1.8 million below the unaudited FY 2015 level. No use of fund balance is assumed in the Committee's recommended revenue projections for FY 2017.

Board of Education (BOE) Aid

Board of Education aid in FY 2016 is projected to decrease by 0.1% from the FY 2015 estimated level and will increase by 5.4% in FY 2017, from the FY 2016 budget. The increase in FY 2017 is primarily due to anticipated growth in school enrollment and the State's preliminary proposal to increase funding to public schools across the State by $181.7 million in the upcoming fiscal year. The FY 2017 projection is provided in the BOE FY 2017 proposed budget prior to the January 2016 release of the Governor's FY 2017 budget and 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 the State budget adjustments.

Community College Aid

Outside aid for Prince George's Community College is projected to decrease by 1.0% in FY 2016 and further decrease by 1.3% in FY 2017.

Library Aid

Library aid is expected to increase by 0.6% in FY 2016 and increase by 1.7% in FY 2017.