

October 5, 2021

The Honorable Angela Alsobrooks, 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 revenue for fiscal year (FY) 2023. This letter summarized the Committee's preliminary findings and recommendations for FY 2023.

Based upon a review of various economic and revenue information and trends, the Committee recommends a preliminary General Fund revenue projection of \$3.93 billion in FY 2023, an increase of \$133.9 million or 3.5% above the FY 2022 Approved Budget excluding use of fund balance. (See **Exhibit 1**). While the FY 2023 forecast does not assume use of fund balance, a recommendation may be made in the Committee's January 1st letter. The forecast maintains the County's policy of keeping the General Fund balance above the Charter-mandated 5% and policy required 2% level (7.0% of total revenues). Maintaining this level of General Fund balance has been cited as a factor in the County's bond rating by the three rating agencies.

Exhibit 1

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

	FY 2020 Actual	FY 2021 Unaudited	FY 2022 Approved	FY 2023 Forecast	FY 20-21 % Change	FY 21-22 % Change	FY 22-23 % Change
County-Sourced Revenues							
Subtotal County Sources	\$2,109.0	\$2,205.7	\$2,177.6	\$2,244.3	4.6%	-1.3%	3.1%
Subtotal w/o Fund Balance	2,071.2	2,205.7	2,134.2	2,244.3	6.5%	-3.2%	5.2%
Outside Aid							
Subtotal Outside Aid	1,405.8	1,582.9	1,617.1	1,684.2	12.6%	2.2%	4.2%
Grand Total	\$3,514.8	\$3,788.5	\$3,794.6	\$3,928.5	7.8%	0.2%	3.5%
Grand Total w/o Fund Balance	3,477.0	3,788.5	3,751.3	3,928.5	9.0%	-1.0%	4.7%

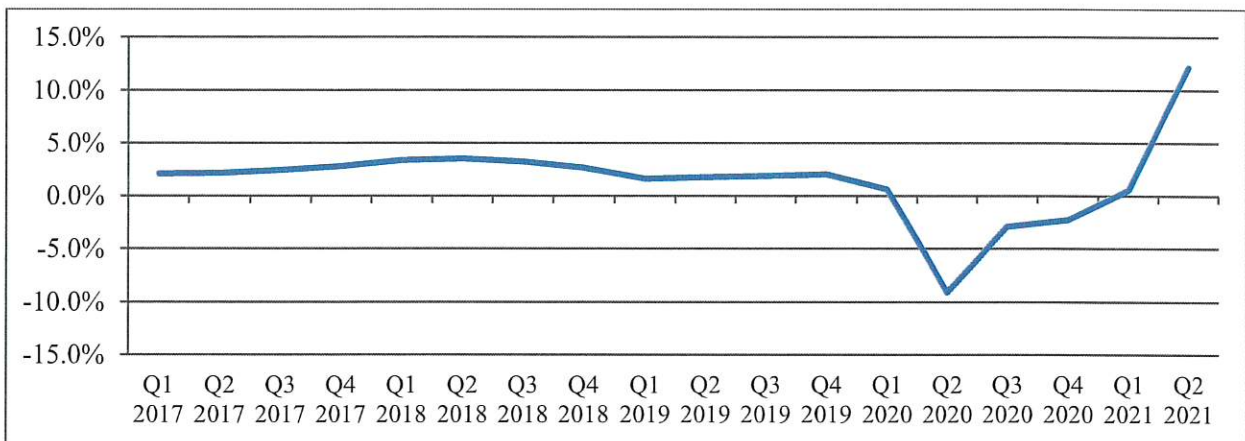
Source: Prince George's County Office of Management and Budget

Economic Outlook

The coronavirus pandemic, which led to government mandated shutdowns and stay-at-home orders in early Calendar Year (CY) 2020 resulted in large negative effects on the national and global economy. The advent of a vaccine allowed for economic and social activity to largely resume, but with incomplete vaccination efforts and the arrival of a more contagious variant the crisis has not been completely resolved. Supply chain problems and efforts to attract workers has spurred wage and inflationary pressures. Whether this is a short-term problem as the Federal Reserve Bank opines, or a longer-term problem remains to be seen. **Exhibit 2** shows that U.S. Gross Domestic Product (GDP) fell by 9.1% in the second quarter of CY 2020, reflecting the immediate impact of the nationwide shutdowns. Growth began in the first quarter of CY 2021, and as the economy re-opened during distribution of the vaccine GDP rebounded at a 12.2% rate in the second quarter of CY 2021.

Exhibit 2

National Gross Domestic Product CY 2017 1st Quarter – CY 2021 2nd Quarter

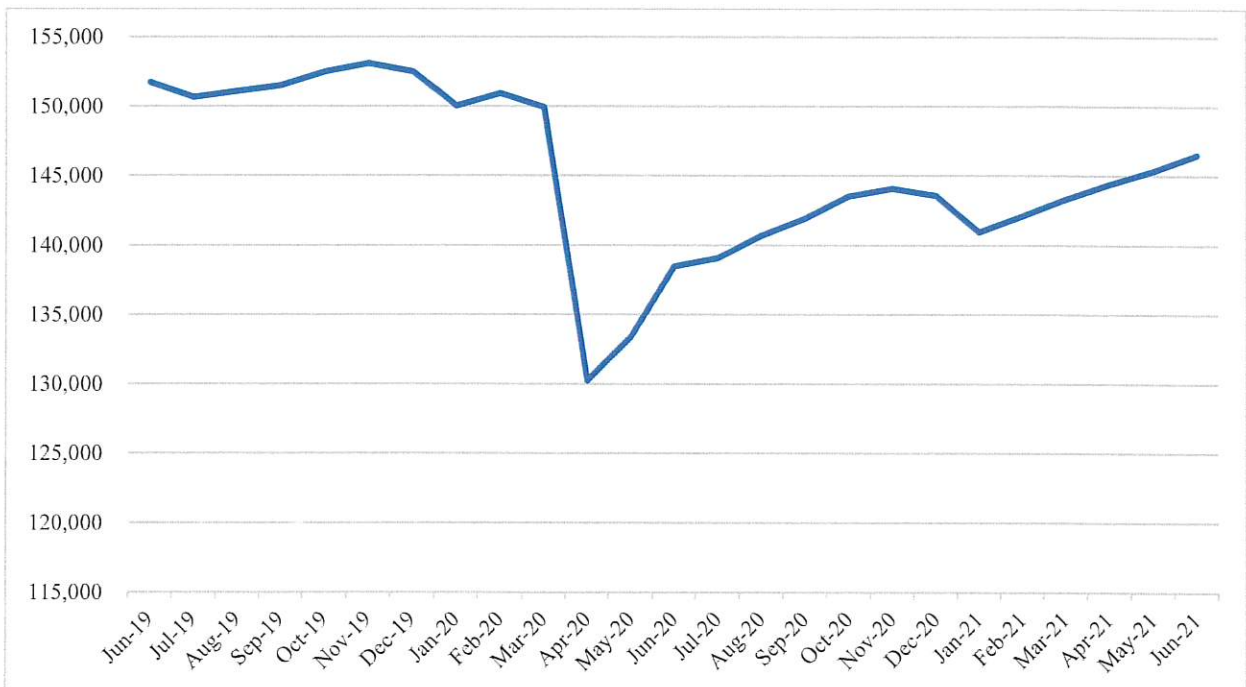


Source: Bureau of Economic Analysis

As seen in **Exhibit 3** 20.7 million jobs were lost in March and April 2020, which was an unprecedented decline in employment due to the pandemic. Since then, 16.3 million jobs have since been restored. The leisure and hospitality sector continues to be the hardest hit industry, and the resurgence of the virus may continue to slow the recovery of travel, hotels and restaurants.

Exhibit 3

**United States Non-Farm Monthly Payroll Employment Change
CY 2019 3rd Quarter – CY 2021 2nd Quarter
(in Thousands)**

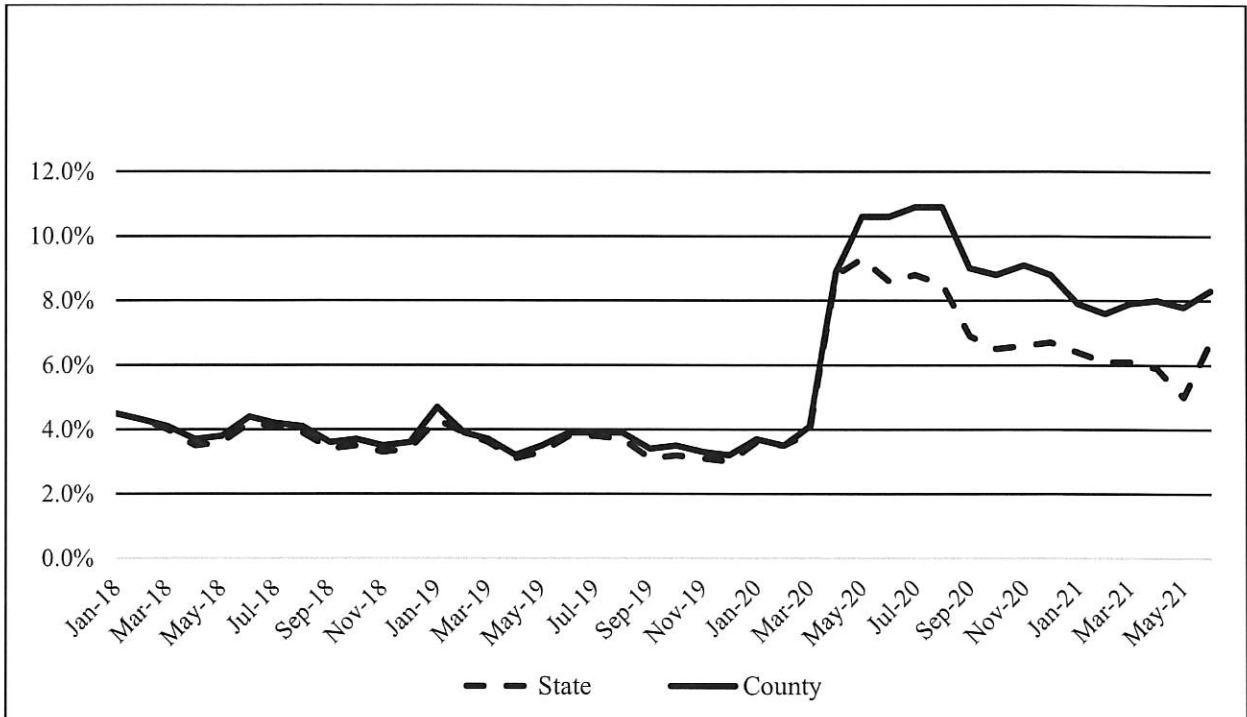


Source: Bureau of Labor Statistics

Exhibit 4 compares the unemployment rate in the County with the statewide average. The County's unemployment rate had been at or below 4.0% from March 2019 to March 2020. It rose to 9.7% in April 2020 before peaking at 10.9% in August 2020. Since then, the rate has fluctuated and stood at 7.9% in July 2020. By contrast the State unemployment rate peaked at 9.3% in May 2020 and has generally declined. The July 2020 rate stood at 5.8% statewide. Unlike prior years, when the County unemployment rate mirrored the statewide trend, the County rate has on average been about 2 percentage points worse than the State.

Exhibit 4

**Unemployment Rate
Prince George's County vs. State of Maryland
January 2018 – July 2021**

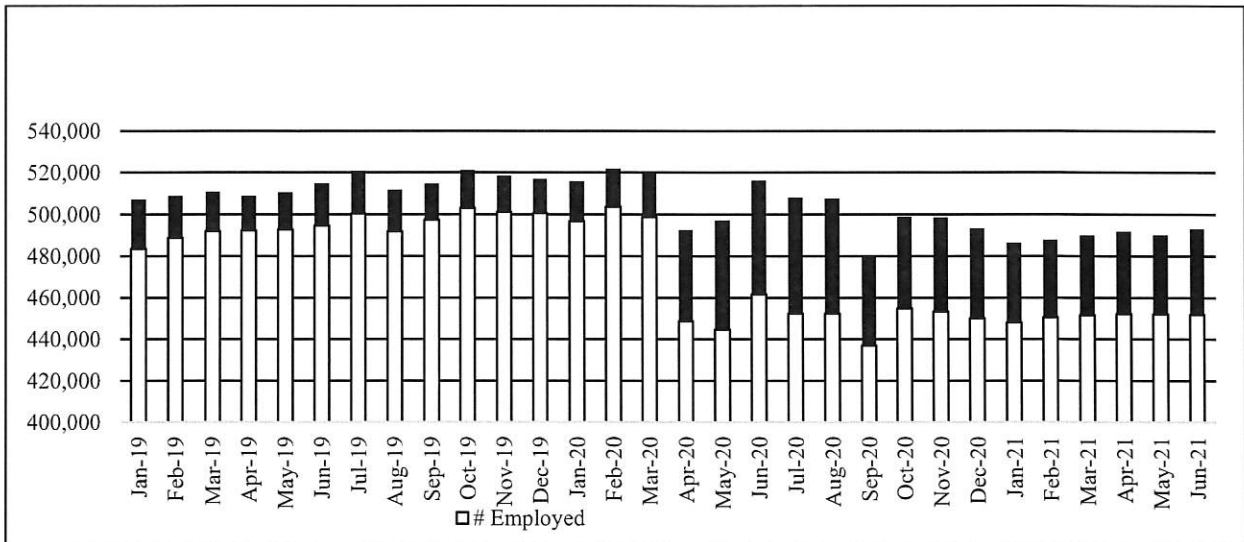


Source: Maryland Department of Labor

Of greater concern are the labor force trends identified in **Exhibit 5**. As shown, the total County labor force, consisting of the entire pool of employed and unemployed residents, stood at 522,032 in February 2020. Of this amount, 503,742 or 96.5% were employed and 18,290 or 3.5% were unemployed. By June 2021 the labor force decreased by 27,148 to 493,028; or -5.2%. Anecdotally, research has suggested that greater numbers of minorities and females have left the labor force due to reasons such as job losses, caregiver responsibilities, and the unavailability of childcare. To some extent these residents may receive entitlements through the social safety net, but this trend could have longer term effects on the County share of the income tax and other revenues now that enhanced benefits have expired.

Exhibit 5

**Prince George's County Labor Force Trends
 January 2019 – June 2021**

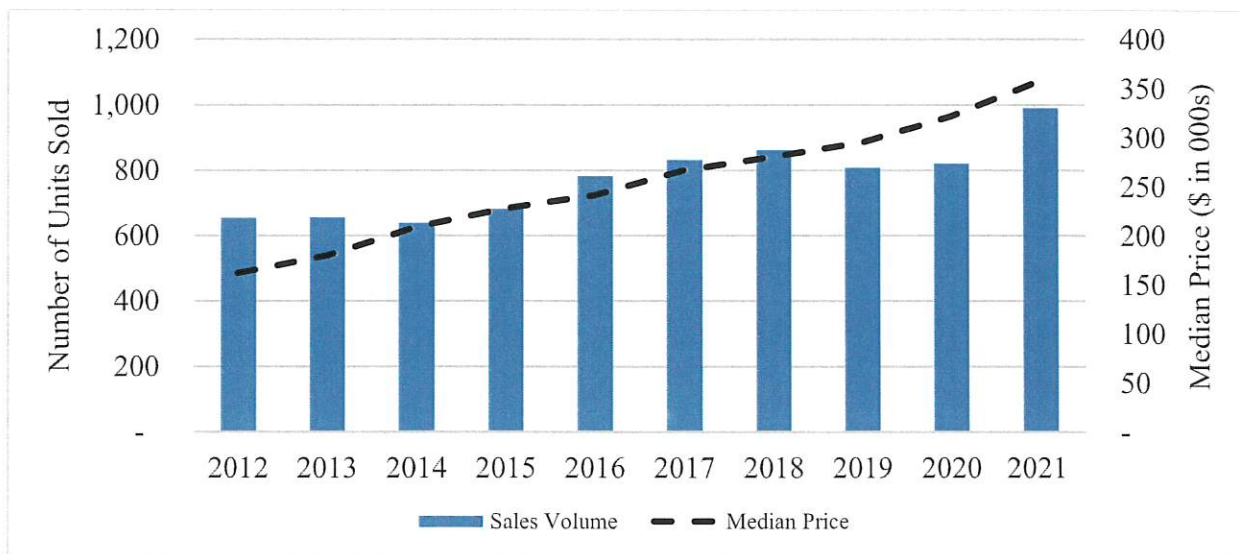


Source: Maryland Department of Labor

The real estate market continues to post strong results, which is illustrated in **Exhibit 6**, due in part to low interest rates that remain at approximately 3% on average for a 30-year mortgage. As a result, the average number of homes sold in the County in FY 2021 grew 20.6% over FY 2020; an average of 69 more homes sold per year. The median home price has similarly continued to escalate by 11.2% in FY 2021, to an average of \$358,000. The median price actually stood at \$386,000 in July 2021, which is slightly below the median price in Anne Arundel and Howard counties. The demand for housing has reduced the active inventory of homes for sale to half of the level seen in FY 2020, but building permits remain at healthy levels (approximately 2,500 issued annually). The reduction in available inventory is a function of sales volume and the pace at which homes are selling (on average 17 days, which also is half of FY 2020 levels). A moratorium on foreclosures has been in effect since the beginning of the pandemic, therefore no data has been reported by the State since the first quarter of CY 2020. The moratorium has since ended, as well as a ban on the eviction of renters, though federal funds for delinquent rent is still being allocated by the State and County.

Exhibit 6

**Prince George's County
Median Sales Price and Sales Volume
FY 2012 – FY 2021
(\$ in Millions)**



Source: Metropolitan Regional Information Systems

Revenue Outlook

OMB projects that the total County General Fund revenue will increase in FY 2023 by \$133.9 million, or 3.5% exclusive of the use of fund balance.

Major County-Sourced Revenue

Property Tax

Real property tax revenues are projected to increase by 2.5% in FY 2023 to \$935.2 million relative to the FY 2022 budget, based on the continued strength of the market through July 2021. Home sales and the median price have continued to grow. The major factors affecting property tax revenues for the County are assessed values, the County's Homestead Tax Credit and the County's tax rate. The homestead credit will be at 5% which will provide additional property tax revenue in FY 2023.

Personal property tax revenues are projected to grow by \$11.9 million, or 16.3% in FY 2023. There was a substantial increase in revenue in FY 2021 which may reflect business improvements and the use of federal stimulus dollars for business property acquisition. However, there will be some loss of personal property taxes due to the closure of 2 coal-fired generating plants at Chalk Point. There may be business closures due to ongoing effects of the pandemic. After reaching a level of \$81.2 million in FY 2020, attainment grew to an estimated \$93.9 million in FY 2021. The FY 2023 forecast estimates \$85.0 million for this revenue source.

Income Tax

Income tax revenue trends defied expectations during the pandemic. Despite high levels of unemployment that averaged 8.8% in FY 2021, revenue attainment was approximately \$90 million higher than projected. Federal stimulus served as a counter cyclical revenue that maintained businesses and jobs and provided additional unemployment compensation. The growth in transfer payments is reflected in median household income, but with the end of extended federal benefits in September 2021 Moody's projects that personal income will decline in the current fiscal year. Income growth is projected to resume in FY 2023 based on Moody's forecast of personal growth. The forecast also takes into consideration the effects of Chapter 39 of 2021 (the RELIEF Act) which makes unemployment compensation exempt from the income tax. After reaching a record high of \$738.3 million in FY 2021 the income tax is estimated to decrease in the current fiscal year before returning to the \$747.3 million level in FY 2023.

The Disparity Grant is expected to rise by 4% in FY 2023 as economic recovery continues, raising the disparity in income tax revenues, particularly in Prince George's County which continue to have a higher unemployment rate. The County benefitted from a one-time grant of \$3.5 million from Chapter 39 which is not carried forward into the forecast.

Transfer and Recordation Taxes

Record numbers of home sales and a rising median sale price combined to provide \$203.9 million to the County General Fund. The number of building permits issued annually remains in the range of 2,500, along with strong consumer demand, suggesting that recent trends will continue. Revenue attainment for the first 2 months of FY 2022 indicates that a return to revenue levels consistent with those seen in FY 2020 is likely. Transfer and recordation revenue attainment was \$172.7 in FY 2020, rising to \$203.9 million in FY 2021. The FY 2022 Approved budget was based on \$174.4 million. Beginning in FY 2023, County law provides that 20% of the recordation tax will be dedicated to fund housing programs. The forecast assumes an approximate reduction of \$10.0 million in recordation tax revenue for a combined FY 2023 yield for transfer and recordation taxes at \$167.5 million.

Other County-Sourced Revenue

Admissions and Amusement Tax Revenues were impacted by the pandemic, as most entertainment venues closed. Casinos, sporting events, and concerts have re-opened. Revenue fell from \$11.2 million in FY 2020 to an estimated \$3.6 million in FY 2021. As activity phases in, revenue estimates for FY 2022 and FY 2023 are projected at \$8.3 million and \$8.4 respectively.

Hotel Tax Revenues were negatively affected by the pandemic due to reductions in business and leisure travel. Revenue fell from \$8.5 million in FY 2020 to \$5.9 million in FY 2021. While the travel industry has begun to rebound, it has encountered difficulties hiring staff and business travel may not immediately recover to pre-pandemic levels. FY 2022 revenue is projected at \$7.0 million, with growth to \$7.1 million in FY 2023. Travel and hospitality trends require further monitoring to see how quickly this industry sector recovers.

License and Permit Revenues grew 14.6% in FY 2021 to \$59.2 million. This was due to an increase in building permit revenue of \$4.6 million and \$3.6 million in greater table game revenue. Liquor and health license revenue were both lower than projected. Growth to \$70.5 million is expected in FY 2022 due to Chapter 692 of 2021 which modified the gaming “hold harmless” provision to require payment from State sources instead of the County’s share of video lottery terminal (VLT) revenue. As a result, the County share of VLT revenue increases from \$6.0 million in FY 2021 to an estimated \$14.4 million in FY 2022. License and permit revenue is estimated to slightly decrease to \$68.9 million in FY 2023 based on actual revenue experience for business and liquor licenses.

Intergovernmental Revenues are expected to decrease from approximately \$40 million in FY 2021 and 2022 to about \$33 million in FY 2023, mostly due to the end of federal emergency assistance related to the pandemic, but also due to the overestimation of State grant funds. Most State grant funds are legally mandated and are not expected to change in the forecast.

Miscellaneous Revenues in FY 2021 totaled \$9.7 million and are expected to decline to \$8.0 million in FY 2023. The largest sources of revenue are from red light and speed camera enforcement, and both revenues have seen a multiyear decline in annual attainment as drivers modify their behavior.

Other Financing Sources includes the use of fund balance. In FY 2022 \$43.3 million of fund balance was assumed in balancing the budget. The forecast does not presently assume any use of fund balance, but some use may be recommended by the Committee for FY 2023.

Outside Aid Revenue

Board of Education, Community College and Library aid is expected to grow due to formula changes in State law. The Blueprint for Maryland’s Future is estimated to increase State aid for the Board of Education by more than \$60 million dollars in FY 2023, with continued growth in the out years. Similarly, the Cade formula will increase State aid to 29% per Full-time Equivalent Student at public colleges and universities. The library formula provides a per capita grant amount and is expected to see minimal growth in FY 2023.

Preliminary Revenue Forecast

Exhibit 7 summarizes the General Fund forecast for FY 2022 and FY 2023. The largest changes are related to the income tax and State aid to the Board of Education, offset by the assumption that fund balance will not be used to balance the FY 2023 budget. The American Rescue Plan Act is providing \$176.6 million to the County in two tranches across FY 2021 and 2022, which will help mitigate continued health care expenses, address stormwater infrastructure, provide re-employment incentives, fund premium pay for certain County employees, and address housing and other needs. The State’s budget is on a stronger financial footing due to additional federal aid and a higher Medicaid matching rate. Thus, the likelihood of reductions in State aid in FY 2023 appear minimal.

Exhibit 7

Prince George’s County Current and Projected General Fund Revenue FY 2020 – FY 2023 (\$ in Millions)

	FY 2020 Actual	FY 2021 Estimated	FY 2022 Approved	FY 2022 Estimated	FY 2023 Forecast	FY 2022 Est vs \$ Change	FY 2023 Forecast % Change
County Sourced Revenues							
Real Property Tax	848.4	868.3	912.6	911.0	935.2	22.6	2.5%
Personal Property Tax	81.2	93.9	73.1	85.0	85.0	11.9	16.3%
Income Tax	644.9	738.3	633.5	691.7	747.3	113.8	18.0%
Disparity Grant	36.2	35.9	36.3	37.0	37.7	1.5	4.0%
Transfer Tax	121.9	143.6	123.4	123.4	125.9	2.5	2.0%
Recordation Tax	50.7	60.3	51.0	51.0	41.6	-9.4	-18.4%
Energy Tax	71.7	73.6	72.4	72.4	73.9	1.4	2.0%
Telecommunications Tax	17.9	13.4	13.5	12.2	10.9	-2.6	-19.0%
Other Local Taxes	23.3	13.2	18.7	18.8	19.1	0.4	2.2%
State-Shared Taxes	7.0	7.6	7.3	7.5	7.6	0.3	4.3%
Licenses and Permits	51.6	59.2	70.5	67.0	68.9	-1.6	-2.3%
Use of Money and Property	17.3	4.0	8.5	5.5	5.6	-2.9	-34.3%
Charges for Services	55.1	44.2	59.9	43.7	44.5	-15.4	-25.7%
Intergovernmental Revenue	33.0	40.2	40.4	33.9	33.1	-7.3	-18.0%
Miscellaneous Revenue	11.0	9.7	13.2	8.4	8.0	-5.2	-39.2%
Other Financing Sources	37.8	0.0	43.3	43.3	0.0	-43.3	-100.0%
Subtotal County Sources	2,109.0	2,205.7	2,177.5	2,211.7	2,244.3	66.7	3.1%
Subtotal w/o Fund Balance	2,071.2	2,205.7	2,134.2	2,168.4	2,244.3	110.0	5.2%
Outside Aid							
Board of Education	1,322.8	1,503.7	1,526.3	1,526.3	1,587.3	61.1	4.0%
Community College	74.3	70.8	81.5	81.5	87.5	6.0	7.4%
Library	8.7	8.4	9.3	9.3	9.4	0.1	1.0%
Subtotal Outside Aid	1,405.8	1,582.9	1,617.1	1,617.1	1,684.2	67.1	4.2%
Grand Total General Fund	3,514.8	3,788.5	3,794.6	3,828.8	3,928.5	133.9	3.5%
Total w/o Fund Balance	3,477.0	3,788.5	3,751.3	3,785.5	3,928.5	177.2	4.7%

Source: Office of Management and Budget

There are downside risks to the forecast, as the future direction of the economy remains uncertain, tied in part to efforts to resolve the pandemic and future variants. The County's labor force has shrunk by 30,000 and needs to rebound, and the unemployment rate is the highest in the State at 7.9%. Historically it has taken the County longer to return to full employment. Wage growth and inflation also raise concerns in the short-term, resulting in spending pressure on the operating and capital budgets as well as the County's ability to attract and retain employees.

Fiscal Outlook

As seen in **Exhibit 8**, the County closed FY 2020 with General Fund revenues below spending by \$37.8 million, resulting in an unassigned balance of \$176.2 million. The combination of the 5% restricted reserve, 2% committed reserve and unassigned balance totaled 12.4% of revenue. Due to higher income tax attainment in FY 2021, and lower than budgeted spending, the County expects to be able to forgo any use of fund balance and to increase the overall General Fund balance to 13.5% of revenue. The FY 2022 Approved Budget anticipated using \$43.3 million of unassigned balance to support spending, which leaves the County in roughly the same financial position as FY 2020.

Exhibit 9 illustrates the gap between ongoing revenues and spending between FY 2023 and FY 2028. In the short-term there is a shortfall of \$128.2 million to resolve between FY 2023 general fund revenues and spending. The exhibit suggests that there will be a gap between revenues and spending throughout the forecast period, but the gap closes by FY 2028 due in part to an assumed return to full employment and growth in the income tax.

Exhibit 8

**Prince George’s County
 General Fund Outlook
 FY 2020 – FY 2022
 (\$ in Millions)**

	FY 2020	FY 2021	%	FY 2022	%	
	Actual	Estimated	Change	Approved	\$ Change	
					Change	
Revenues	\$3,477.4	\$3,788.5	8.9%	\$3,794.6	\$6.1	0.2%
Expenditures	3,515.1	3,706.7	5.5%	3,794.6	87.9	2.4%
Surplus/(Deficit)	-37.8	81.8		0.0	-81.8	-100.0%
Fund Balance	FY 2020	FY 2021		FY 2022		
	Actual	Estimate		Estimate		
Restricted (5%)	\$182.1	\$189.4		\$189.7		
Committed (2%)	72.8	75.8		75.9		
Unassigned	176.2	247.8		204.1		
Total	\$431.1	\$513.0		\$469.7		
Fund Balance as % of General Fund Revenues	12.4%	13.5%		12.4%		

*Note: the FY 2021 estimate totals are preliminary as of September 2021

Source: Office of Management and Budget

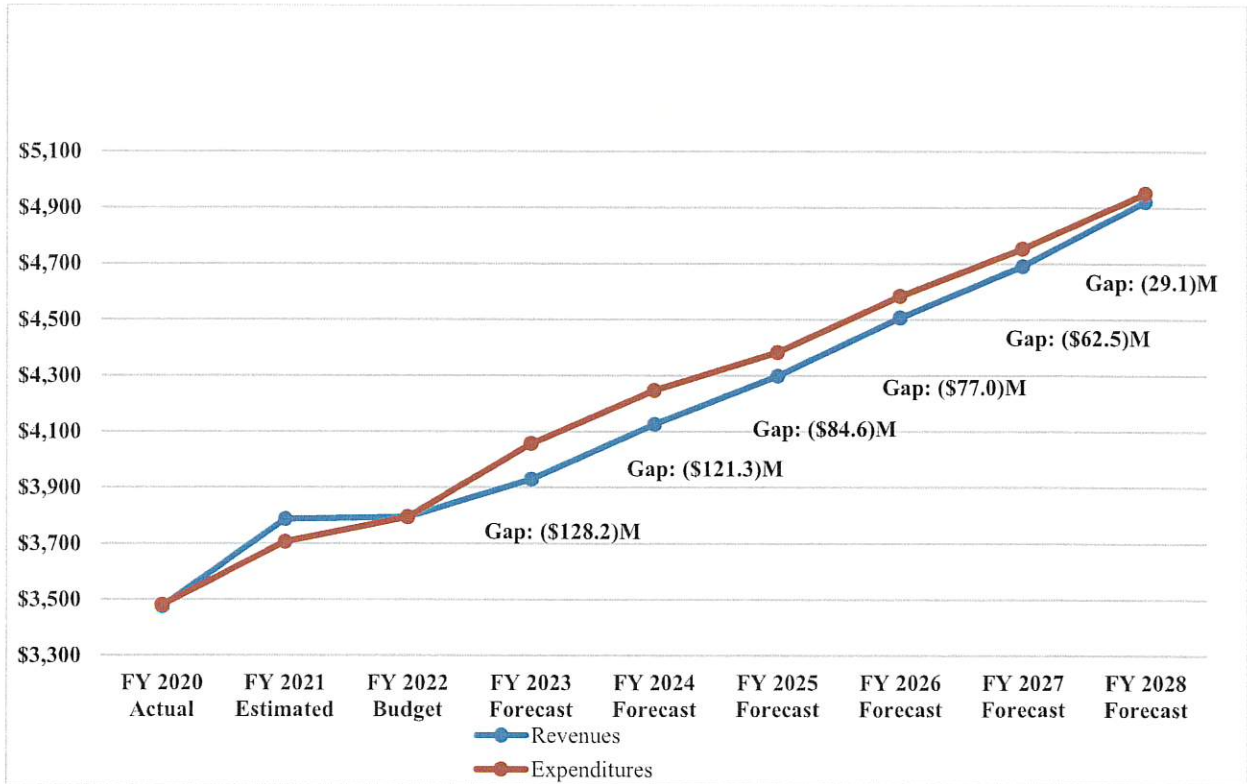
Conclusion and Recommendations

The Committee is cautiously optimistic that an improving economy and nationwide vaccination rates will result in a stronger revenue outlook for the County in FY 2023. Real estate activity remains positive, and the County will also benefit from the full share of casino revenue.

Based upon a preliminary review of various economic information and revenue trends, the Committee recommends a preliminary General Fund revenue projection of \$3.93 billion in FY 2023, an increase of \$133.9 million or 3.5% above the FY 2022 budget excluding the use of fund balance.

Exhibit 9

**Prince George's County
 General Fund Revenues vs. Expenditures
 FY 2020 – FY 2028**



Source: Office of Management and Budget

The committee reviewed County policy relating to the level of reserves, including the 5% restricted reserve and the 2% committed reserve. **The Committee plans to continue its study of reserve levels and may make recommendations in the future to increase the level of reserves to be higher than 7%.**

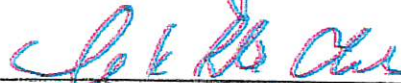
The Honorable Angela Alsobrooks, County Executive
The Honorable Calvin S. Hawkins, II, Chair, County Council
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The Committee wishes to thank both the Executive and Legislative Branches of government for the opportunity to review the County's economic and revenue forecast. We believe that we have performed adequate due diligence in reviewing the revenue estimates for FY 2023 and believe them to be reasonable.

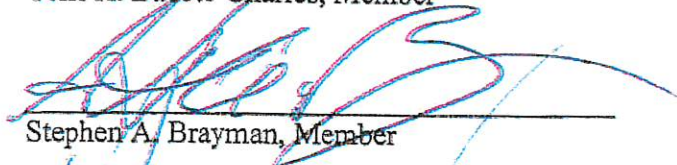
Respectfully,



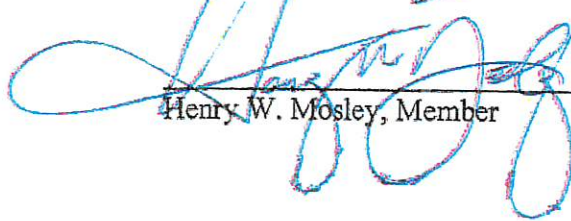
Robert R. Hagans Jr., Chairman



Terri K. Bacote-Charles, Member



Stephen A. Brayman, Member



Henry W. Mosley, Member