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"Prince George's Proud"

*Presentation for the  
Prince George's County Council Winter Retreat*

# Prince George's County Financial Overview

January 8, 2024



# Agenda

- Economic Outlook
- Long-Term Fiscal Outlook
- General Fund Outlook

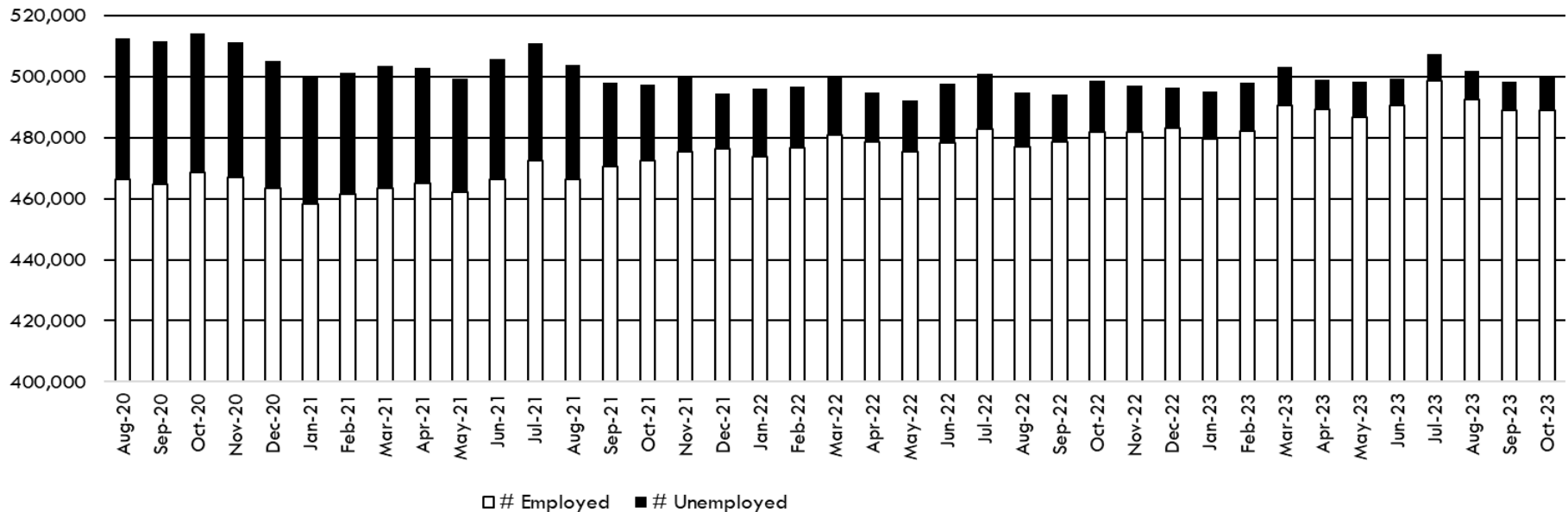
# **Economic Outlook**

# County Labor Force

- The County labor force (number of employed and unemployed) fell by approximately 34,000 during the pandemic and still has not rebounded.
- Some portion of the workforce retired, died, or has stopped looking for employment.
- Similar trends are found statewide.

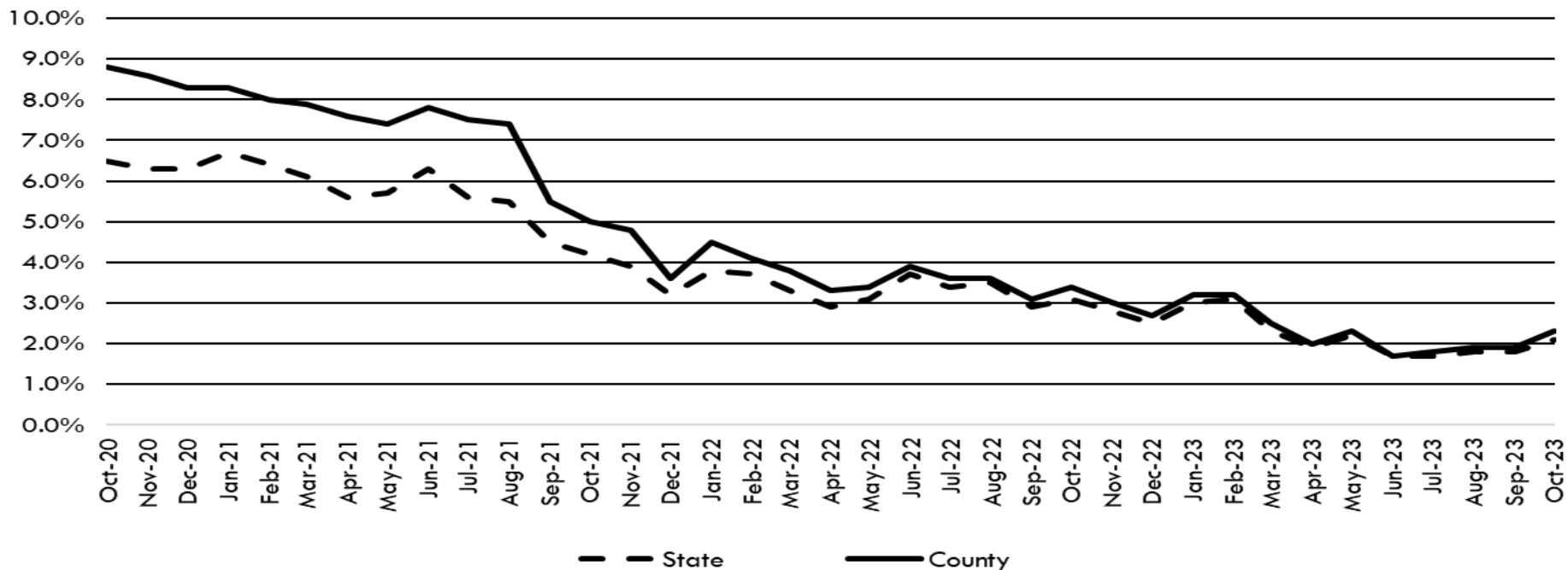
## Prince George's County Labor Force Trends

(Source: Maryland Department of Labor)



# Unemployment Rate: County vs. State

Unemployment Rate: County vs. State  
(Source: Maryland Department of Labor)



- The unemployment rate remains at record low levels. The County had the 5th highest unemployment rate in the State in October 2023 at 2.3% compared to 2.1% statewide.
- The gap between the County and the State is back to pre-pandemic levels (10 to 20 basis points).

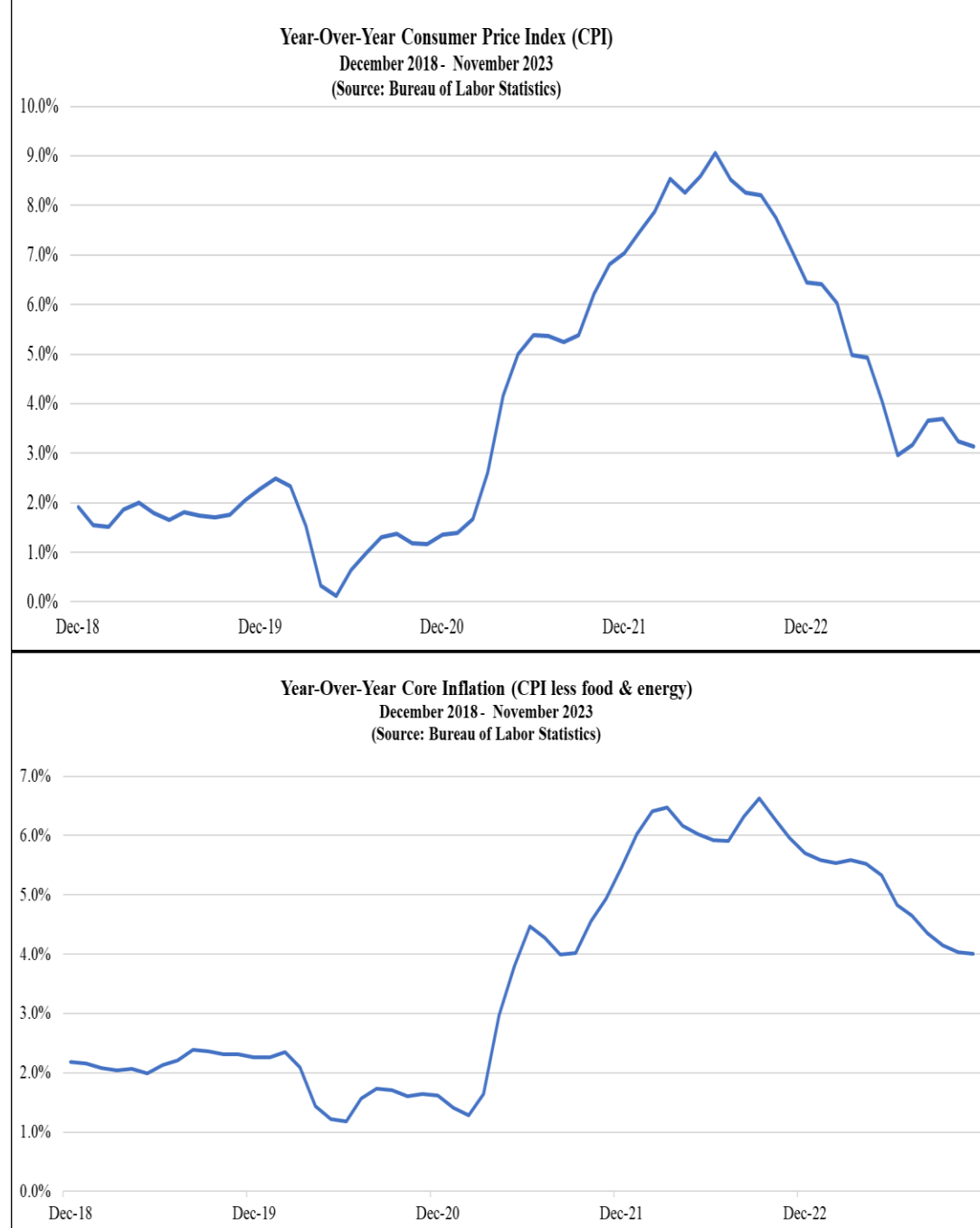
# Average Annual County Employment by Sector

Industry	4Q CY 2021 Jobs	4Q CY 2022 Jobs	4Q 2021-4Q 2022 Change	% Change
Federal Government	29,768	30,356	588	2.0%
State Government	18,091	21,159	3,068	17.0%
Local Government	40,190	40,711	521	1.3%
Natural Resources & Mining	107	125	18	16.8%
Construction	27,381	27,841	460	1.7%
Manufacturing	7,046	6,554	-492	-7.0%
Trade, Transportation & Utilities	61,179	60,105	-1,074	-1.8%
Information	2,422	2,734	312	12.9%
Financial Activities	10,306	10,197	-109	-1.1%
Professional & Business Services	39,654	39,552	-102	-0.3%
Education & Health Services	32,463	31,234	-1,229	-3.8%
Leisure & Hospitality	31,326	32,892	1,566	5.0%
Other Services	8,348	8,610	262	3.1%
Unclassified	39		-39	-100.0%
<b>Total:</b>	<b>308,320</b>	<b>312,070</b>	<b>3,750</b>	<b>1.2%</b>

- County jobs grew by 3,750 or 1.2% between the fourth quarter of 2021 and 2022, which is about 14,000 jobs below pre-pandemic levels.
- Leisure and Hospitality industry jobs grew 5% but were still 5,000 jobs below pre-pandemic levels.

# National CPI Growth

- Inflation hit a high of 9% coming out of the pandemic.
- After 11 interest rate hikes by the Federal Reserve Board, Inflation grew at a year-over-year rate of 3.1% in Nov. 2023.
- Core inflation (less energy and food) is also lower but still grew during this period at 4.0% in Nov. 2023.
- Although still above the target 2% rate, the trend in inflation has spurred discussion of interest rate cuts in 2024.



# County Wage Growth

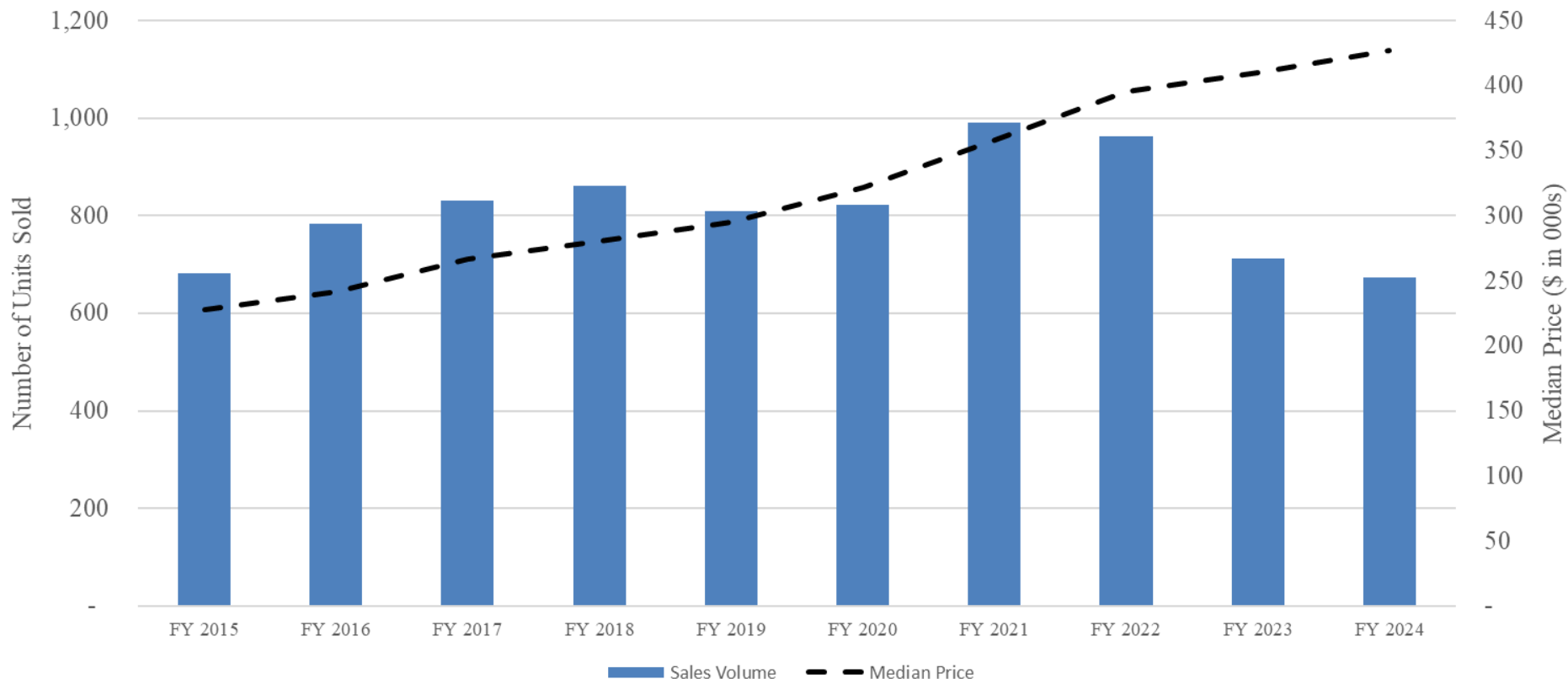
- Wages grew strongly as the economy re-opened and employers competed for labor.
- Wage growth has tempered but remains strong for the lowest wage jobs.

Industry	4Q CY 2019 Avg Weekly Wage	4Q CY 2020 Avg Weekly Wage	4Q CY 2021 Avg Weekly Wage	4Q CY 2022 Avg Weekly Wage	4Q21- 4Q22
Federal Government	2,310	2,388	2,505	2,519	1%
State Government	1,121	1,255	1,370	1,154	-16%
Local Government	1,344	1,463	1,513	1,553	3%
Natural Resources & Mining	1,067	1,324	1,225	1,131	-8%
Construction	1,494	1,625	1,655	1,695	2%
Manufacturing	1,209	1,325	1,334	1,358	2%
Trade, Transportation & Utilitie	841	926	971	1,009	4%
Information	1,611	1,865	2,205	1,643	-25%
Financial Activities	1,203	1,393	1,454	1,490	2%
Professional & Business Service	1,508	1,673	1,675	1,696	1%
Education & Health Services	1,110	1,278	1,330	1,264	-5%
Leisure & Hospitality	503	503	585	639	9%
Other Services	833	953	982	1,018	4%
Unclassified	0	951	852	0	na
<b>Total:</b>	<b>1,202</b>	<b>1,348</b>	<b>1,397</b>	<b>1,400</b>	<b>0.2%</b>
		12.1%	3.6%	0.2%	



# Housing Trends- Median Sales Price & Volume

- Through the first 5 months of the fiscal year home sales have averaged 673 units sold per month and a median price of \$427,129.
- Transfer and Recordation tax revenue has decreased due to higher mortgage rates, from a high of \$241 million in FY 2022 to an estimated \$154 million in FY 2024.

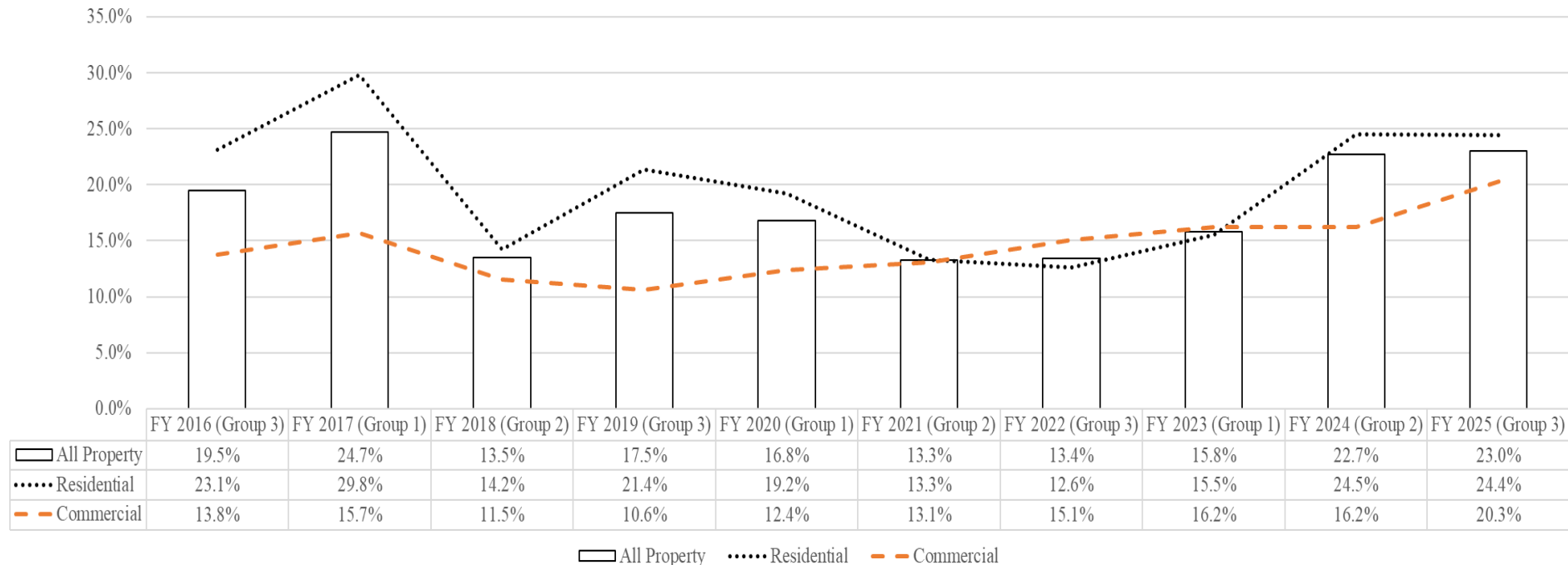


# Change in Statewide Assessment Values FY 2016 – FY 2025

- For 2023 (FY 2025) the County is 15<sup>th</sup> in statewide assessed value growth at 23.4%.
- Due to inflation the Homestead Tax Credit grew at the maximum 5% rate in FY 2024 but grows at 3% in FY 2025 due to lower inflation.

Percent Change in Group Reassessments before Annual Phase-In  
FY 2016 - FY 2025

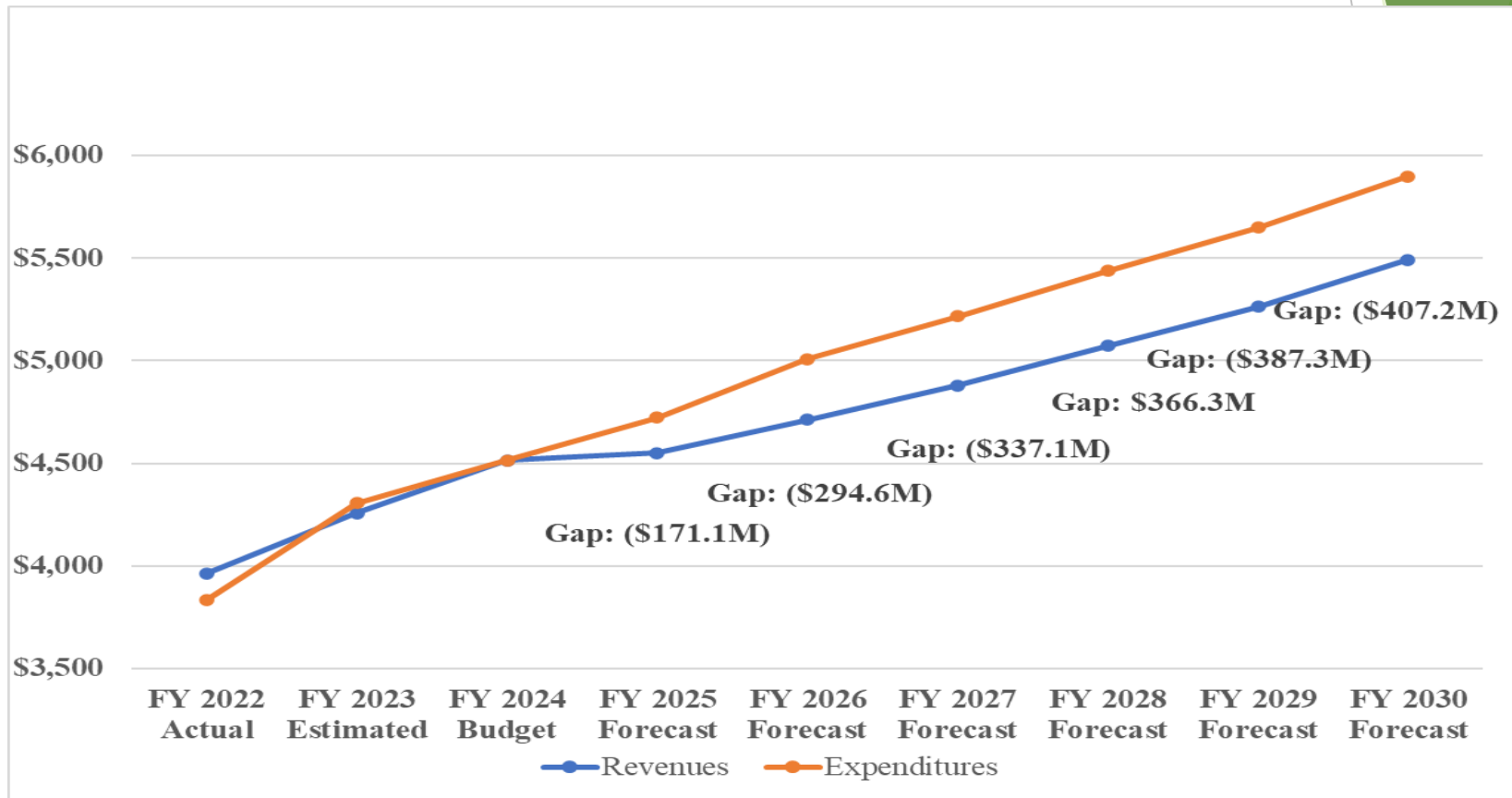
(Source: Maryland State Department of Assessments and Taxation)



# **Long-Term Fiscal Outlook**

# General Fund: Six Year Forecast

- There is a structural gap between revenues and spending of -\$171 million in FY 2025.
- The projected shortfall grows to -\$407 million by FY 2030.



# Fiscal Challenges: A Structural Budget Gap

Assuming no use of fund balance in FY 2025, a structural gap between revenue growth and expenditure growth is expected throughout the FY 2025-2030 forecast due to the factors below:

- Revenue growth ranges from 3.5% to 4.3% per year.
- Expenditure growth of 3.9% to 6.0% per year, primarily driven by:
  - Local k-12 contributions required by the Blueprint for Maryland's Future.
  - Debt Service.
  - Fringe Benefit Costs – pensions, healthcare, workers compensation, OPEB, etc.
- No COLA/Merits based on collective bargaining negotiation results (agencies must absorb the annualization of FY 2024 compensation enhancements).
- Public Safety personnel costs and recruitment classes to partially keep up with attrition.
- Annual new debt between \$185.5 million and \$232.5 million between FY 2025-2030 for debt service costs.

# Fiscal Challenges

- Demands for additional funding for the Education sector (primarily the Board of Education) to support the local share of the Blueprint for Maryland's Future, wage adjustments, pension costs and education initiatives.
- Annual debt service payments continue to increase.
- The next round of negotiated collective bargaining costs could worsen the fiscal outlook.
- Homes sales have fallen more than 30% due to higher mortgage rates, dampening transfer & recordation tax revenue until interest rates are reduced by the Federal Reserve Board.

# **General Fund Outlook**

# General Fund Fiscal Summary

(\$ in millions)

	<b>FY 2022</b>	<b>FY 2023</b>	<b>%</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>%</b>
	<b>Actual</b>	<b>Unaudited</b>	<b>Change</b>	<b>Estimated</b>	<b>Forecast</b>	<b>Change</b>
Revenues	\$3,964.6	\$4,184.4	5.5%	\$4,504.9	\$4,550.5	1.0%
Expenditures	3,835.7	4,128.4	7.6%	4,521.7	4,550.5	0.6%
Surplus/(Deficit)	128.8	56.0		-16.8	0.0	
<b>Fund Balance</b>	<b>FY 2022</b>	<b>FY 2023</b>		<b>FY 2024</b>	<b>FY 2025</b>	
	<b>Actual</b>	<b>Estimate</b>		<b>Estimate</b>	<b>Estimate</b>	
Committed (5%)	\$214.9	\$206.4		\$226.1	\$227.5	
Committed (2%/3%/4%)	86.0	82.6		135.7	182.0	
Unassigned	336.6	397.1		250.8	203.1	
<b>Total</b>	<b>\$637.5</b>	<b>\$686.1</b>		<b>\$612.6</b>	<b>\$612.6</b>	
Fund Balance as % of General Fund Expenditures	16.1%	16.6%		13.6%	13.5%	

- In FY 2024, a -\$17 million gap is estimated based on preliminary revenue estimates and projected spending. OMB will continue to update its expenditure projections as the year progresses.
- In the FY 2025 forecast spending is assumed at the SAC recommended level.

\*The FY 2023 unaudited expenditures are based on the draft annual comprehensive financial report (ACFR) from the Office of Finance. Revenues and expenditures assume revised FY 2023 outside aid figures for the Education sector. Finally,



# FY 2025 Revenue Forecast vs. FY 2024 Estimated Budget

(\$ in Millions)	FY 2023	FY 2024	Dec-23 FY 2024	Dec-23 FY 2025	FY 2024-2025 Dec Est. vs Dec Est.	
<b>County Sourced Revenues</b>	<b>Unaudited</b>	<b>Approved</b>	<b>Estimated</b>	<b>Forecast</b>	<b>\$ Change</b>	<b>% Change</b>
Real Property Tax	\$974.6	\$993.4	\$1,011.4	\$1,049.2	\$37.8	3.7%
Personal Property Tax	91.5	89.2	91.5	92.4	0.9	1.0%
Income Tax	737.9	777.2	763.6	790.2	26.6	3.5%
Disparity Grant	43.7	98.5	98.5	70.0	-28.5	-28.9%
Transfer Tax	128.3	152.1	114.5	122.5	8.0	7.0%
Recordation Tax	42.7	52.4	39.0	42.0	3.0	7.7%
Energy Tax	79.0	88.3	88.3	89.2	0.9	1.0%
Telecommunications Tax	14.2	12.2	14.0	14.0	0.0	0.0%
Other Local Taxes	27.8	24.6	27.8	28.3	0.5	1.7%
State-Shared Taxes	7.9	9.7	9.2	9.5	0.3	3.2%
Licenses and Permits	83.8	81.1	79.7	80.2	0.6	0.7%
Use of Money and Property	41.0	10.9	32.2	32.2	0.0	0.0%
Charges for Services	66.4	69.7	69.6	52.5	-17.1	-24.5%
Intergovernmental Revenue	41.1	36.3	49.3	36.6	-12.7	-25.7%
Miscellaneous Revenue	17.7	9.8	8.0	7.4	-0.7	-8.5%
Other Financing Sources	0.0	56.7	56.7	0.0	-56.7	-100.0%
<b>Subtotal County Sources</b>	<b>\$2,397.4</b>	<b>\$2,562.0</b>	<b>\$2,553.3</b>	<b>\$2,516.2</b>	<b>-\$37.1</b>	<b>-1.5%</b>
<b>Subtotal w/o Fund Balance</b>	<b>\$2,397.4</b>	<b>\$2,505.3</b>	<b>\$2,496.5</b>	<b>\$2,516.2</b>	<b>\$19.7</b>	<b>0.8%</b>
<b>Outside Aid</b>						
Board of Education	\$1,682.2	\$1,857.0	\$1,857.0	\$1,937.9	\$80.9	4.4%
Community College	73.2	85.1	85.1	86.8	1.7	2.0%
Library	9.9	9.6	9.6	9.6	0.1	1.0%
<b>Subtotal Outside Aid</b>	<b>\$1,765.3</b>	<b>\$1,951.6</b>	<b>\$1,951.6</b>	<b>\$2,034.3</b>	<b>\$82.7</b>	<b>4.2%</b>
<b>Grand Total General Fund</b>	<b>\$4,162.8</b>	<b>\$4,513.6</b>	<b>\$4,504.9</b>	<b>\$4,550.5</b>	<b>\$45.6</b>	<b>1.0%</b>

# FY 2025 Forecast

## Revenue Assumptions

- Real property taxes increase by \$37.8 million, or 3.7% based on a 3% increase in the Homestead Tax Credit less property tax credits. Some level of base growth is also expected due to new construction.
- Income tax revenue grows \$26.6 million, or 3.5%, based on the long-term growth trend in net taxable income.
- Disparity Grant aid is projected to fall by -\$28.5 million or -28.9% based on a smaller income tax disparity in tax year 2022.
- Transfer & Recordation taxes grow a combined \$11 million or 7.2%. After decreasing in FY 2023 some growth is expected based on the expectation that interest rates will begin to decrease in FY 2025 and that sales will increase due to pent up demand.
- Charges for services decreases due to the end of the enhanced Medicare match for emergency transports.
- No use of fund balance is assumed in FY 2025, which reduces revenue by -\$56.7 million.
- Aid to the Board of Education increases \$80.9 million, or 4.4%, based on State formulas through the Blueprint for Maryland's Future Fund.

# Gaming Revenue Update

- At MGM/National Harbor gross gaming revenue is down -6.9% compared to November 2022.
  - Table Game (TG) revenue is down -11.6%.
  - Video Lottery Terminal (VLT) revenue is down -3.2%.
- The current FY 2024 estimate assumes total net revenue to the County from VLTs and table games of \$34.2 million, down -\$1.9 million or -5.3% compared to the approved budget.
- The FY 2025 forecast assumes \$34.3 million, which is essentially flat compared to the revised FY 2024 estimate.

# Spending Affordability Committee

## Recommendations Include:

- FY 2025 General Fund spending growth recommended at 0.8%.
  - An increase of \$37 million above FY 2024, to \$4.55 billion.
  - Requires spending reduction of \$171 million.
    - Excludes debt service and contribution to the Board of Education.
  - Limited use of unassigned fund balance for one-time purposes is authorized.
- Continue phased-increase of County Reserves.
  - FY 2025 Charter reserve 5% and 4% policy reserve (9% total).

# Summary

- The economic outlook is optimistic. Inflation has been reduced, employment remains low, and consumer spending continues.
- During the COVID era, the General Fund experienced artificially high revenue growth due to federal stimulus and capital gains income.
- Revenue is expected to return to longer-term trends, but spending outpaces revenues by \$171 million in FY 2025. The deficit grows through the FY 2030 forecast period.
- Constraining growth is challenged by the commitments of the State-mandated Blueprint for Maryland's Future, employee compensation, and stormwater funding needs.
- State and Local governments are facing a loss of revenue following the end of federal stimulus spending. The County budget will have to reduce to adjust to this new reality.