

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

PRINCE GEORGE'S COUNTY FINANCIAL OVERVIEW



January 7, 2019

Agenda

- ▶ Economic Outlook
- ▶ Long-Term Fiscal Outlook
- ▶ General Fund Outlook
- ▶ Capital Improvement Program Outlook

Economic Outlook

County Jobs Growth

- The County had an average net gain of 776 jobs or 0.2% compared to 0.8% with the State of Maryland in the first quarter of 2018 compared to the same time the previous year.

Jurisdiction	1Q 2017	1Q 2018	\$ CHANGE	% CHANGE
Maryland	2,611,491	2,631,121	19,630	0.8%
Prince George's	314,393	315,169	776	0.2%
Anne Arundel	265,843	266,514	671	0.3%
Baltimore City	333,857	340,262	6,405	1.9%
Baltimore	370,552	373,740	3,188	0.9%
Howard	167,701	168,817	1,116	0.7%
Montgomery	464,407	467,029	2,622	0.6%

Annual Average County Employment by Sector

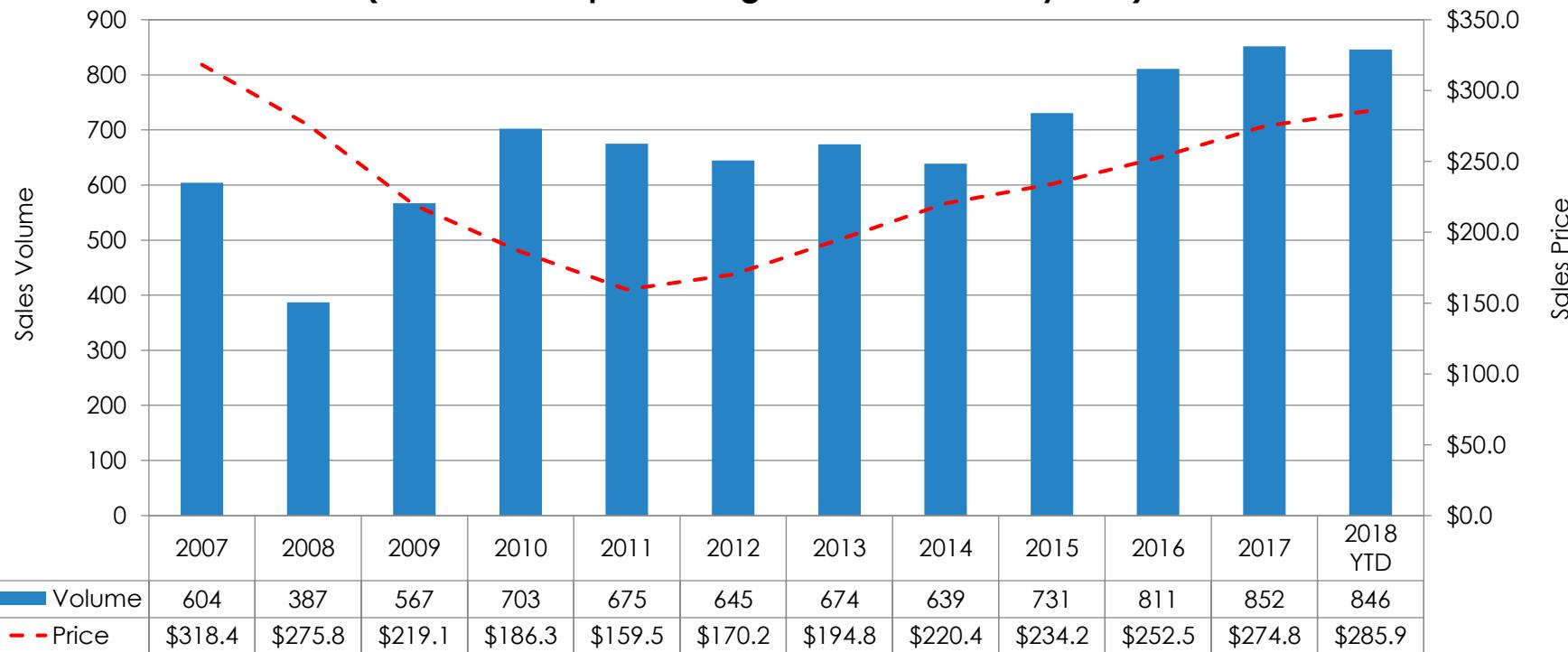
- The County had an average net gain of 776 jobs or 3.4% between the first quarter of 2017 to the first quarter of 2018.
- The County experienced employment increases in the Education and Health Services, Construction, Professional Services, State, Financial Activities and the Federal sectors.

Prince George's County - 1st Quarter - Employment Growth 2017 to 2018				
Industry	1Q 2017 - Quarterly Average Employment	1Q 2018 - Quarterly Average Employment	# Change	% Change
Education and Health Services	33,782	34,386	604	1.8%
Construction	25,465	26,058	593	2.3%
Professional and Business Services	39,674	40,199	525	1.3%
State Government	21,233	21,582	349	1.6%
Financial Activities	11,198	11,427	229	2.0%
Federal Government	27,040	27,055	15	0.1%
Natural Resources and Mining	111	95	-16	-14.4%
Information	3,660	3,635	-25	-0.7%
Other Services	8,878	8,786	-92	-1.0%
Manufacturing	7,750	7,588	-162	-2.1%
Leisure and Hospitality	34,085	33,766	-319	-0.9%
Trade, Transportation, and Utilities	59,994	59,732	-262	-0.4%
Local Government	41,492	40,856	-636	-1.5%
Total Employment	314,393	315,169	776	0.2%

Housing Trends – Median Home Sales Price & Volume

- The average median home sales price from January to November increased from \$274,300 in calendar year 2017 to \$285,900 in calendar year 2018. The sales volume decreased by 14.0% during in the same period.

Prince George's County Median Sales Price and Sales Volume
(Source: Metropolitan Regional Information System)

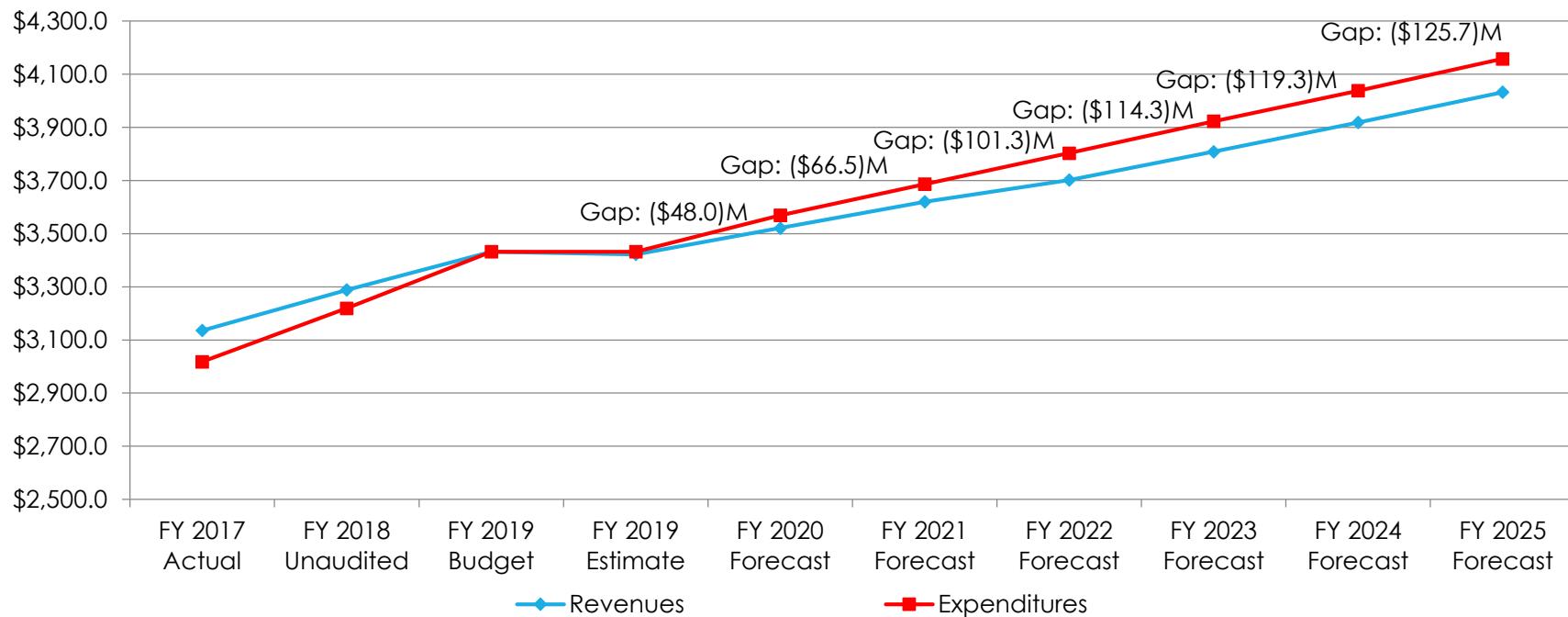


Long-Term Fiscal Outlook

General Fund: Six Year Forecast

- In the absence of structural change, an annual budget gap of \$48.0 – \$125.7 million is projected between FY 2020 - FY 2025, even after new revenues of \$36~\$42 million annually are added from the expanded National Harbor complex.

General Fund Revenues and Expenditures FY 2017 - FY 2025 (\$ in millions)



Fiscal Challenges: A Structural Budget Gap

- A structural gap between revenue growth and expenditure growth is expected to grow based on the factors below:
 - Revenue growth of \$73M~\$100M per year.
 - Expenditure growth of \$110~\$116M per year, primarily driven by:
 - Debt Service (\$220M new GO Bond = approximately \$15M new annual debt service payments)
 - Maintenance of Effort (MOE) contribution to the Board of Education
 - Fringe Benefit Costs – pensions, healthcare, workers compensation, OPEB, etc.
 - COLA/Merits based on collective bargaining negotiation results
 - Public Safety personnel costs and new recruitment classes
 - Additional staffing – At-Large County Council members and support staff as well as limited new staffing for SAO, Sheriff, certain General Government and HHS agencies
 - Various operating expenses (gas/oil, utilities, contract cost increases, leases, equipment replacement costs, etc.)

Fiscal Challenges: Education Funding and Long-Term Obligations

- Demands for additional funding for the Education sector (primarily the Board of Education) to support wage adjustments, pension costs and education initiatives.
- Under-funded pension plans — 58.2% funded (FY 2016) for all pension plan combined.
 - The funded ratio of the County's pension plans continue to improve and recover from the losses experienced in previous fiscal years. The County has made a concerted effort to increase the funded status of the pension plans by increasing employee contribution rates, increasing the vesting timeframe, modifying the retirement eligibility and establishing benefit caps. Additional measures will be explored in future collective bargaining negotiations.
 - Projected funded ratio of 100% reached by:
 - Deputy Sheriff's Supplemental – FY 2025
 - General Supplemental Plans – FY 2033
 - Police, Fire Service, Deputy Sheriff's Comprehensive and Correctional Officers' Plan – FY 2045.
- Other Post Employment Benefits – The County must adhere to a strict funding plan to maintain the status of this fund.
- Annual debt service payments will likely exceed the policy cap of 8% of General Fund revenues by FY 2022.

General Fund Outlook

General Fund Fiscal Summary

General Fund Outlook (\$ in millions)

	FY 2018 BUDGET	FY 2018 UNAUDITED	FY 2019 BUDGET	FY 2019 ESTIMATE	FY 2020 PROJECTED
Revenues	\$ 3,251.5	\$ 3,288.2	\$ 3,432.0	\$ 3,422.0	\$ 3,521.0
% Change		1.1%		-0.3%	
Expenditures	\$ 3,251.5	\$ 3,215.0	\$ 3,432.0	\$ 3,422.0	\$ 3,569.0
% Change		-1.1%		-0.3%	
Surplus/(Deficit)		\$ 73.2		\$ -	\$ (48.0)
Fund Balance					
Restricted (5%)	\$ 163.5		\$ 171.1		
Committed (2%)	\$ 65.4		\$ 68.4		
Unassigned	\$ 232.1		\$ 188.5		
Total	\$ 461.0		\$ 428.0		

- In FY 2018, the County anticipates a \$73.2 million surplus. Unaudited revenues increased by \$36.7 million or 1.1% over the budget. Expenditures are \$36.5 million or 1.1% under the FY 2018 budget. The overall fund balance total for the three major components is expected to totals \$461.0 million.
- In FY 2019, revenues and expenditures are estimated to be \$10 million less than the approved budget. The FY 2019 budget includes the planned use of \$33.0 million in fund balance with \$20 million allocated for the Purple Line.
- The preliminary SAC FY 2020 forecast projects a \$48.0 million deficit. Revenues are estimated to be \$89.0 million or 2.6% over the FY 2019 budget. The expenditure forecast is \$137.0 million above the FY 2019 budget and \$139.2 million above the FY 2019 estimated level. In FY 2020, the revenue projection includes a planned use of \$20 million of fund balance to support the County's contribution for the Purple Line.

Preliminary FY 2020 SAC Recommendations

(\$ in millions)	FY 2020 General Fund Revenue								% Change FY 2019 Budget	% Change FY 2019 Estimate		
	Spending Affordability Committee				% Change FY 2019 Unaudited	FY 2020 Forecast						
	FY 2018 Unaudited	FY 2019 Budget	FY 2019 Estimate	FY 2019 Estimate v. FY 2018 Unaudited								
COUNTY SOURCE REVENUES												
Real Property Tax	\$ 778.4	\$ 825.8	\$ 819.4	5.3%		\$ 855.7	3.6%		4.4%			
Personal Property Tax	83.1	88.2	88.2	6.1%		89.9	2.0%		2.0%			
Income Tax Receipts	567.9	600.5	600.5	5.7%		627.5	4.5%		4.5%			
Income Disparity Grant	30.9	34.1	34.1	10.4%		35.6	4.5%		4.5%			
Transfer Tax	138.5	126.7	124.3	-10.3%		128.0	1.0%		3.0%			
Recordation Tax	56.8	52.6	51.6	-9.1%		53.2	1.0%		3.0%			
Energy Tax	77.0	72.4	72.4	-6.0%		75.7	4.7%		4.7%			
Telecommunications Tax	25.2	27.8	25.6	1.7%		23.6	-15.4%		-8.0%			
Other Local Taxes	28.7	32.1	31.0	8.2%		31.4	-2.4%		1.1%			
State-shared Taxes	3.5	3.4	3.4	-0.8%		3.5	2.8%		2.8%			
Licenses and Permits	60.3	58.7	61.7	2.2%		63.5	8.2%		3.0%			
Use of Money and Property	5.4	3.1	7.9	46.5%		9.0	193.1%		14.1%			
Charges for Services	51.0	49.7	49.7	-2.6%		52.6	5.9%		5.9%			
Intergovernmental Revenue	34.6	36.1	36.1	4.1%		34.4	-4.6%		-4.6%			
Miscellaneous Revenue	16.3	19.0	14.4	-11.6%		15.0	-21.3%		3.8%			
Other Financing Sources	-	33.7	33.7	0.0%		20.0	-40.6%		-40.6%			
Subtotal County Sources	\$ 1,957.6	\$ 2,063.9	\$ 2,053.9	4.9%		\$ 2,118.7	2.7%		3.2%			
OUTSIDE AID												
Board of Education	\$ 1,772.1	\$ 1,225.5	\$ 1,225.5	-30.8%		\$ 1,270.0	3.6%		3.6%			
Community College	73.8	73.1	73.1	-0.9%		73.9	1.0%		1.0%			
Library	8.0	8.0	8.0	0.0%		8.4	4.8%		4.8%			
Subtotal Outside Aid	1,330.7	1,368.1	1,368.1	2.8%		1,402.3	2.5%		2.5%			
GRAND TOTAL	\$ 3,288.2	\$ 3,432.0	\$ 3,422.0	4.1%		\$ 3,521.0	2.6%		2.9%			

Note: Numbers may not add due to rounding.

Preliminary FY 2020 Projections

- The County's overall fiscal outlook is cautiously optimistic; yet, we have not returned to pre-recession growth rates. The County has experienced modest economic gains. However, the slow pace of our economic recovery combined with our long term fiscal challenges requires us to continue to exercise fiscal prudence.

\$ in millions	FY 2019 Budget	FY 2020 Forecast	\$ Change	% Change
Revenues	\$ 3,432.0	\$ 3,521.0	\$ 89.0	2.6%
Expenditures	3,432.0	3,569.0	137.0	4.0%
Gap	\$ -	\$ (48.0)		

*The FY 2020 Forecast reflects preliminary projections before final comments from the County's Spending Affordability Committee.

- The FY 2020 projected revenue growth is \$89.0 million or 2.6% over the FY 2019 budget. Expenditures are expected to increase \$137.0 million or 4.0% above the FY 2019 budget. The preliminary forecast estimates a projected budget gap of approximately \$48.0 million. This shortfall is attributable to the fact that projected revenue growth lags behind required cost increases for county agencies, non-departmental expenditures (including an increase in debt service payments), the County's contribution to the Board of Education, Library and College, and contributions to meet the County's requirements for pension plans.

FY 2020 Projected Budget Gap - Expenditures

The FY 2020 forecast projects a \$48.0 million deficit. The expenditure forecast is \$137.0 million above the FY 2019 budget. The higher forecast for FY 2020 reflects the following:

- Annual awarding of compensation enhancements (merits and COLAs)
- Fringe (5% annually for health plans) and operating expense adjustments (2% for Gen Govt.)
- Public Safety – assumes 26 additional police officers and maintains authorized sworn strength for all public safety units
- Education sector average annual contribution increase of 4.0% for Board of Ed., 2.5% for Community College, 2.5% for Library;
- Assumes anticipated debt service costs for current outstanding debt as well as the \$307 million general obligation bond debt issuance planned for FY 2019
- OPEB/Worker's Compensation obligations in Non-Departmental
- The new pension actuary study reduced the expected rate of return from 7.5% to 7.25% and has had the effect of increasing pension contribution by \$16M per year
- Non-Departmental – grant support for DDA service providers for FY 2020; continued VLT investments; increase insurance premiums by 3% annually; anticipated debt schedule for COPS (based on \$25M annually); 1.5% annual inflationary increase for utilities (electricity, fuel, oil, gas, coal, water & sewage)
- Through the FY 2020 budget process, the County will align revenues and expenditures for a balanced budget

Capital Improvement Program Outlook

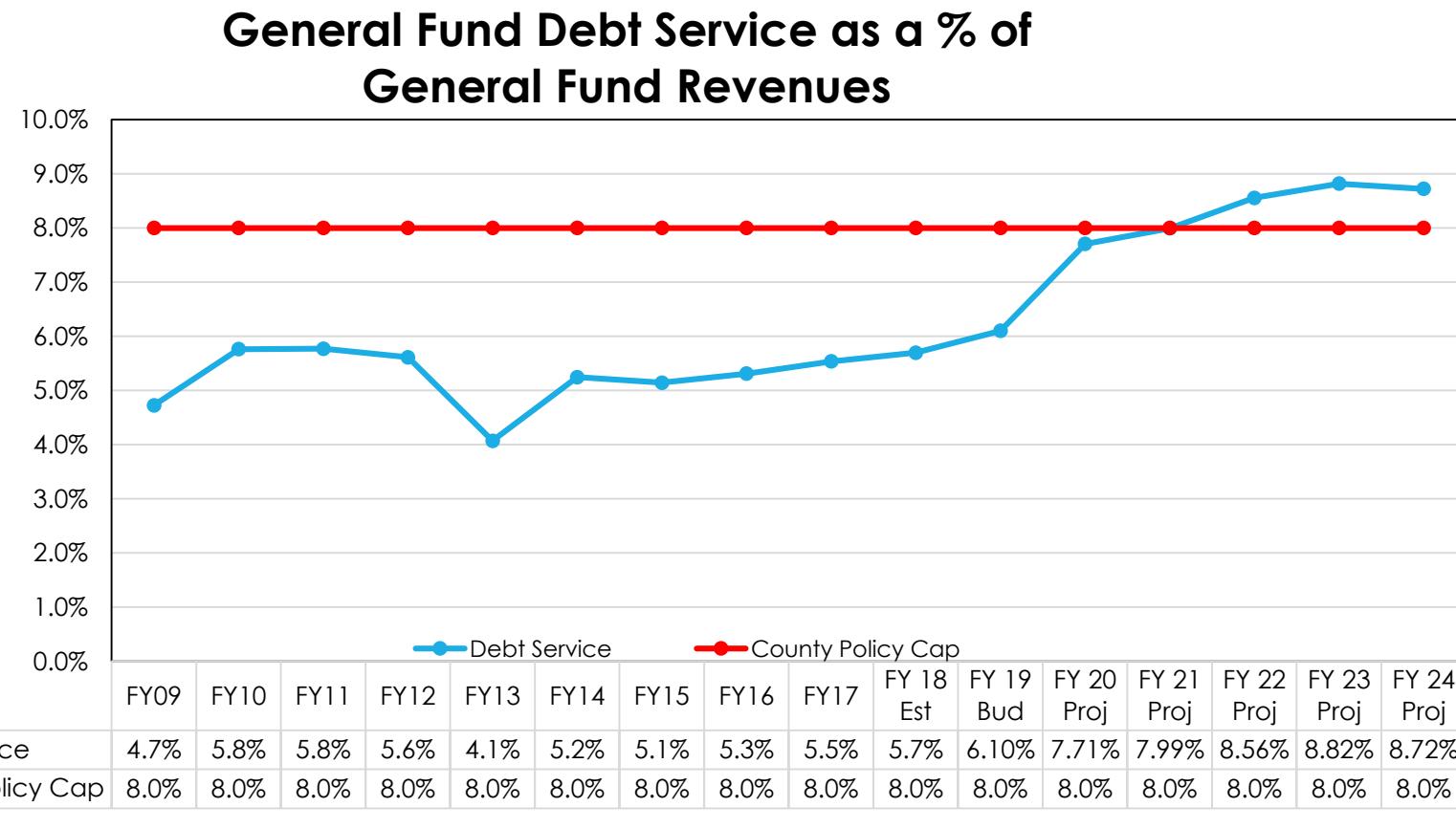
CIP Debt Limit Changes

- Last year, the CIP program called for \$2.075 billion of general obligation debt. This included \$897.0 million above what could be supported with the current debt limit.
 - The County Executive and County Council took action to reduce the program making it more affordable.
 - This gap was largely addressed and additions were limited.



- The current CIP program calls for \$1.516 billion of general obligation debt over the next five years.
- A concerted effort to maintain the affordable strategy should continue.

General Fund Debt Service Projections



What Could Increase Debt Service %

- New Projects
- Need for additional Education and Public Works Funds
- Increasing Interest Rates

What Could Reduce the Debt Service %

- Use of additional bond financing savings (Premium)
- Use of P3 as a mechanism for school construction

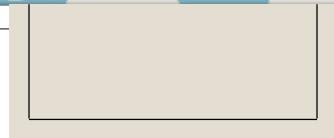
FY 2020 and Future Actions

FY 2020 Actions

- For the FY 2020-FY 2025 Proposed CIP Program, OMB's proposal will control the capital program so that it is more feasible and affordable for the near future. OMB will work with County agencies to program funds for projects under construction and other high priority projects.

Possible Future Actions

- Defer projects.
- Review debt policy limits.
- Identify ways to reduce the financial demands of the Board of Education by:
 - Reducing school construction costs;
 - Increase the State's contribution toward the funding for school projects; and
 - Identify other models to finance school construction projects.
- Evaluate the terms of County debt issuances – both longer and shorter terms for debt issuances.



Q & A

