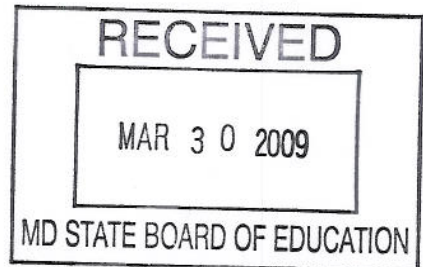


## CONTENTS OF FY2010 REQUEST FOR MAINTENANCE OF EFFORT WAIVER

- A. Joint signature letter from Prince George's County Executive and County Council
- B. Additional statements pertaining to waiver request



### ATTACHMENTS

1. FY 2009 Approved Operating Budget and CB-51-2008

CB-51-2008 represents the revised expenditure plan for FY2009, based on the Council's adoption of a revised budget due to an ascertained revenue shortfall of \$48 million. Also included is a copy of the FY2009 Approved Budget.

2. Statutory Provisions Regarding Revenues

Included are the legal provisions which limit Prince George's County's ability to raise revenues, including TRIM, and the requirement that new or increased fees and taxes must be approved by referendum.

3. FY2010 Proposed Operating Budget

Included is a copy of the County Executive's FY2010 Proposed Operating Budget, which represents the expenditure plan for the upcoming fiscal year.

4. PowerPoint—FY09/FY10 Revenues and Economic Indicators

This presentation provides narrative and graphical information in support of the County's request pertaining to:

- historical budgetary and revenue trends;
- specific revenue and expenditure details regarding the FY2010 budget;
- economic indicators
- data on specific County revenues, including property taxes, income taxes, and transfer and recordation taxes;
- impacts of the Maryland State budget; and
- historical and projected data on the County's fund balance

The attachment presents evidence regarding Prince George's County's continuous economic decline. Specific revenue categories are identified which demonstrate that the housing market and regional and national economies have driven significant revenue reductions culminating in a FY 2010 budget that is \$93.3 million or 3.5% below the FY 2009 Approved level. In addition, State budget actions have contributed to permanent reductions in local revenues available to support County operations and the County's contribution to the Board of Education. The continuing reduction in the County's available fund balance is further support for the decline in the County's fiscal condition. The County's request for the waiver from the State's Maintenance of Effort (MOE) requirement is based on the conclusion that the county's fiscal condition significantly impedes the county's ability to fund the MOE.

5. Comprehensive Annual Financial Reports (FY2006-2008)

Included are copies of the county's Comprehensive Annual Financial Reports for the last three fiscal years.





Jack B. Johnson  
County Executive

# THE PRINCE GEORGE'S COUNTY GOVERNMENT

## OFFICE OF THE COUNTY EXECUTIVE



March 24, 2009

Mr. James H. DeGraffenreidt, Jr.  
President  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, MD 21201-2595

Dear Mr. DeGraffenreidt:

Pursuant to Section 5-202(d)(7) of the Education Article of the Maryland Code, Prince George's County is requesting a waiver from the State's maintenance of effort (MOE) requirement as defined under Section 5-202(d). This request is based on the County's fiscal condition which prevents us from funding the MOE requirement without seriously impairing other County services including public safety, human services, environmental programs and other services critical to our citizens.

The MOE requirement for FY 2010 is \$609,503,920. We are requesting a waiver of \$23,628,720 based on the proposed budget contribution amount of \$585,875,200. This waiver is critical in helping to alleviate the County's financial burden, and in helping to preserve the County's fiscal integrity in a most difficult financial time.

The County's General Fund revenues have been decreasing significantly due to the slumping housing market and economy. Compared with an average annual increase of \$115 million or 8.3% between FY 2001 and FY 2008, the County's proposed General Fund budget for FY 2010 represents an unprecedented \$93.3 million or 3.5% decrease from the FY 2009 budget. In other words, we have \$93 million less to pay for all County services than we had one year ago.

As a result of the severe national and local economic conditions, resulting in a revenue shortfall of \$48 million in FY 2009, the County took the unusual step of legislatively reducing the approved budget for the first time since 1991-1992. Many significant budgetary reductions took place as part of this action, including a 10-day furlough for virtually all 5,900 County employees, deferral of hiring of public safety employees, reductions in County overtime, deferrals of various capital projects, and reductions in County grants to non-profit organizations.

In FY 2010 County source revenues, which are the funds that pay for virtually all County services, including the County contribution to the Board of Education are projected to decrease by \$59.2 million or 3.8%. Major declines include:

- Transfer and Recordation Tax Receipts are projected to decrease by \$53.8 million or 36.9%, due to the slumping real estate market.

14741 Governor Oden Bowie Drive, Upper Marlboro, Maryland 20772  
(301) 952-4131 ■ TDD (301) 985-3894



- Income Tax Receipts are projected to decrease by \$23.3 million or 5.6%, due to projected continuous job losses, lower salary growth, lower prior-year reconciliation payments, and the extended personal income exemptions.
- Interest Income is projected to decrease by \$10.9 million or 50.1%.
- Building Permit Fees are projected to decrease by \$8.2 million or 51.6%.
- Highway User Revenues and the State Health Grant are projected to decrease by \$3.5 million or 12.0%, and \$1.2 million or 13.8%, respectively, due to reductions in State aid.
- Other County Source Revenues, such as telecommunications taxes, admission and amusement taxes, and hotel and motel taxes, are also expected to decline.

Outside aid, or Federal, State, and other sources for the Board of Education, the Community College, and the Library, is anticipated to decrease by \$34.1 million or 3.0% in FY 2010. This includes a \$5.4 million reduction in State aid to the Board of Education and a \$0.7 million reduction in State aid to the Library.

To address its own deficit, the State has imposed additional fiscal pressure on the County by mandating new expenditures beginning in FY 2010, such as the annual \$4.7 million for payment of the costs for the State Department of Assessments and Taxation. State aid reductions initiated in FY 2009 enacted during 2007 special session, such as the permanent elimination of the \$7.7 million electricity deregulation grant, have exacerbated the fiscal hardship of the County in FY 2010. These reductions permanently reduced County revenues by \$53.3 million, or about 2% of the budget.

Furthermore, the State has revised its revenue estimates for FY 2009 and FY 2010 downward by another \$1 billion. It is now certain that additional reduction in the State aid will impact counties throughout the State. These reductions in state aid will require Prince George's County to identify additional reductions to County services.

Due to the significant revenue and expenditure challenges, the County was projected to have a General Fund fiscal gap of \$113.3 million in FY 2010. The County has now taken necessary measures to balance the budget, including: significant reductions in County agency spending; elimination of all employee salary increases, including cost of living or merit increases; a 10 day furlough of County employees; continuation of a county-wide hiring freeze in effect since January 2008; further reductions in overtime; and a reduction in force of about 307 county employees or about 5% of the workforce. With the elimination of filled positions and the continuation of the hiring freeze, the County expects to experience a vacancy rate of 18-20% by the end of FY 2010, resulting in significant service reductions. However, there remains a significant gap left even after taking all of these actions, necessitating the reduction in spending for public education. Additional anticipated State aid cuts will further complicate matters and will require greater reductions in staffing.

Prince George's County faces numerous statutory restrictions on raising additional revenues. In addition to the County Charter provision known as "TRIM", which prohibits the County from raising the property tax rate above the current level, at 96 cents per \$100 of assessed value, the County also has one of the lowest Homestead Tax Credit caps among local jurisdictions in Maryland. Many of the County's major tax rates, such as income tax and transfer



Mr. James H. DeGraffenreidt, Jr.

Page 3

tax, have reached the maximum rates authorized by the State. In addition, the County Charter requires that virtually all tax and fee increases be approved by the voters in a referendum, further restricting the County's ability to raise revenue. As a result of these strict statutory limitations, the County now has no remaining taxing authority.

In addition, the County's transfer tax is dedicated to education. All of the proceeds of this revenue source must be provided to the Board of Education. This tax is suffering the largest declines of virtually all other revenue sources in the County, a projected decline of 33.6% or about \$34 million in FY 2010. The loss of this magnitude of revenue simply cannot be made up from the other General County revenues.

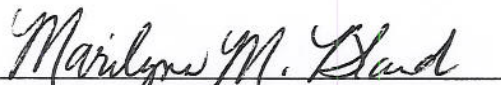
In the event that the MOE waiver is not granted, the County will almost certainly have to resort to an additional reduction in force, including many reductions in Public Safety agencies, in order to balance the FY 2010 budget. This will result in further service reductions. This would be in addition to the layoff of over 300 employees included in the proposed Budget. It could result in additional layoffs of four hundred people beyond those currently proposed.

Based on the facts above, we request that the State Board of Education grant the County a temporary waiver of the MOE requirement in FY 2010. Prince George's County has made a strong commitment to improving the education of our children. Over the last six years, this Administration and the County Council have made education our number one priority. When the economy was in a better condition, the County fully funded the Board of Education's budget requests for the last three consecutive years. During the period of FY 2006 – FY 2009, the County contribution to the Board of Education exceeded the maintenance of effort requirement by a combined \$78.6 million.

The current economic and revenue circumstances simply do not allow the County the means to meet the MOE requirement.

Thank you very much for your consideration in this matter.

Sincerely,

  
Marilynn M. Bland  
Chairperson, Prince George's Council

  
JACK B. JOHNSON  
County Executive

Attachments:

1. CB-51-2008
2. Statutory Provisions Regarding Revenues
3. FY 2010 Proposed Operating Budget
4. PowerPoint – FY09/FY10 Revenues and Economic Indicators
5. Comprehensive Annual Financial Reports (FY2006-2008)

## **ADDITIONAL STATEMENTS PERTAINING TO MOE WAIVER REQUEST**

### Local Board of Education

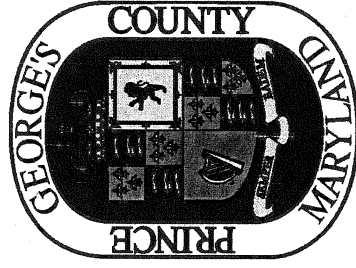
It is not known at this time whether the local Board of Education supports or opposes the MOE Waiver Request.

### Federal Fiscal Stabilization Act and American Recovery and Reinvestment Act

Funding amounts under these federal programs are not completely known at this time. Because of the extreme fiscal circumstances under which the County is currently operating, the budgeted level of funding for public schools is based on what is affordable in light of local revenues. This level of funding for the County public school system is based solely on current fiscal conditions and estimated County revenues for FY 2010 and hence is determined independently of potential additional funds.

# FY 2010 Waiver of Maintenance of Effort

March 2009



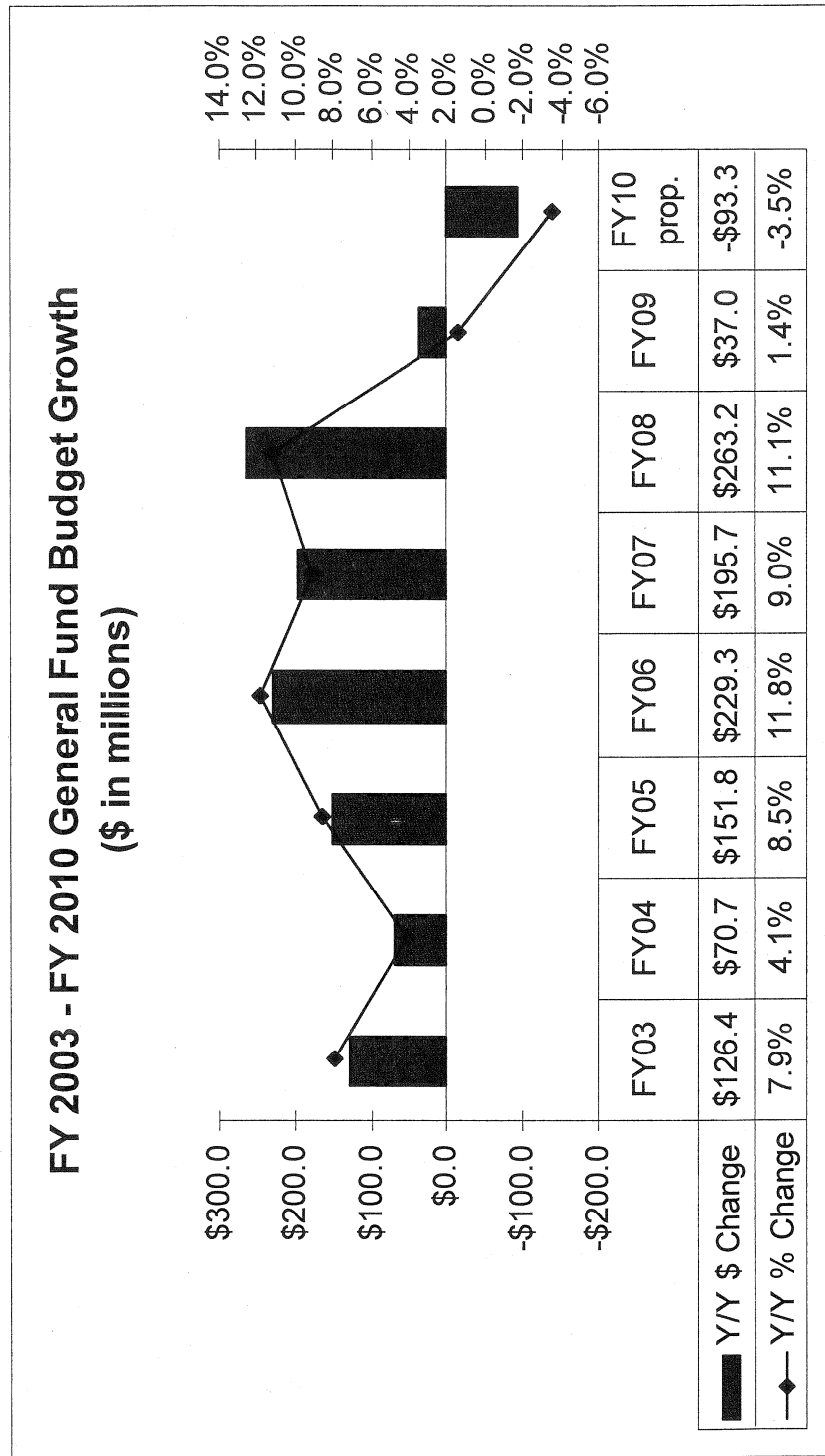
Jack B. Johnson  
County Executive

# General Fund Budget Overview



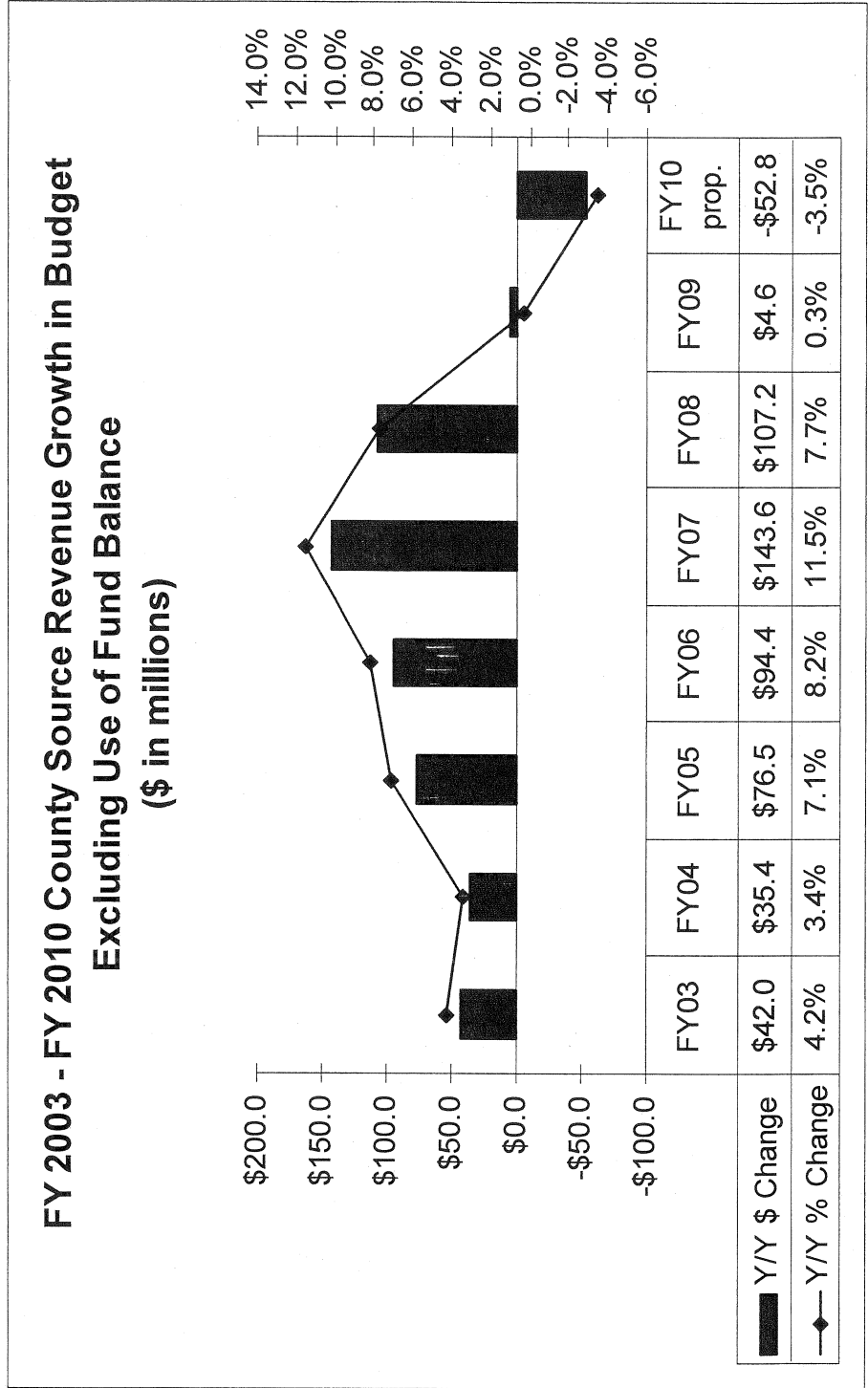
# General Fund Growth in the Budget

- General Fund annual budget growth averaged \$172.9 million or 8.7% between FY03 and FY08.
- The growth slowed significantly in FY09 to \$37.0 million or 1.4%.
- A year-over-year decline of \$93.3 million or 3.5% is projected for FY10.



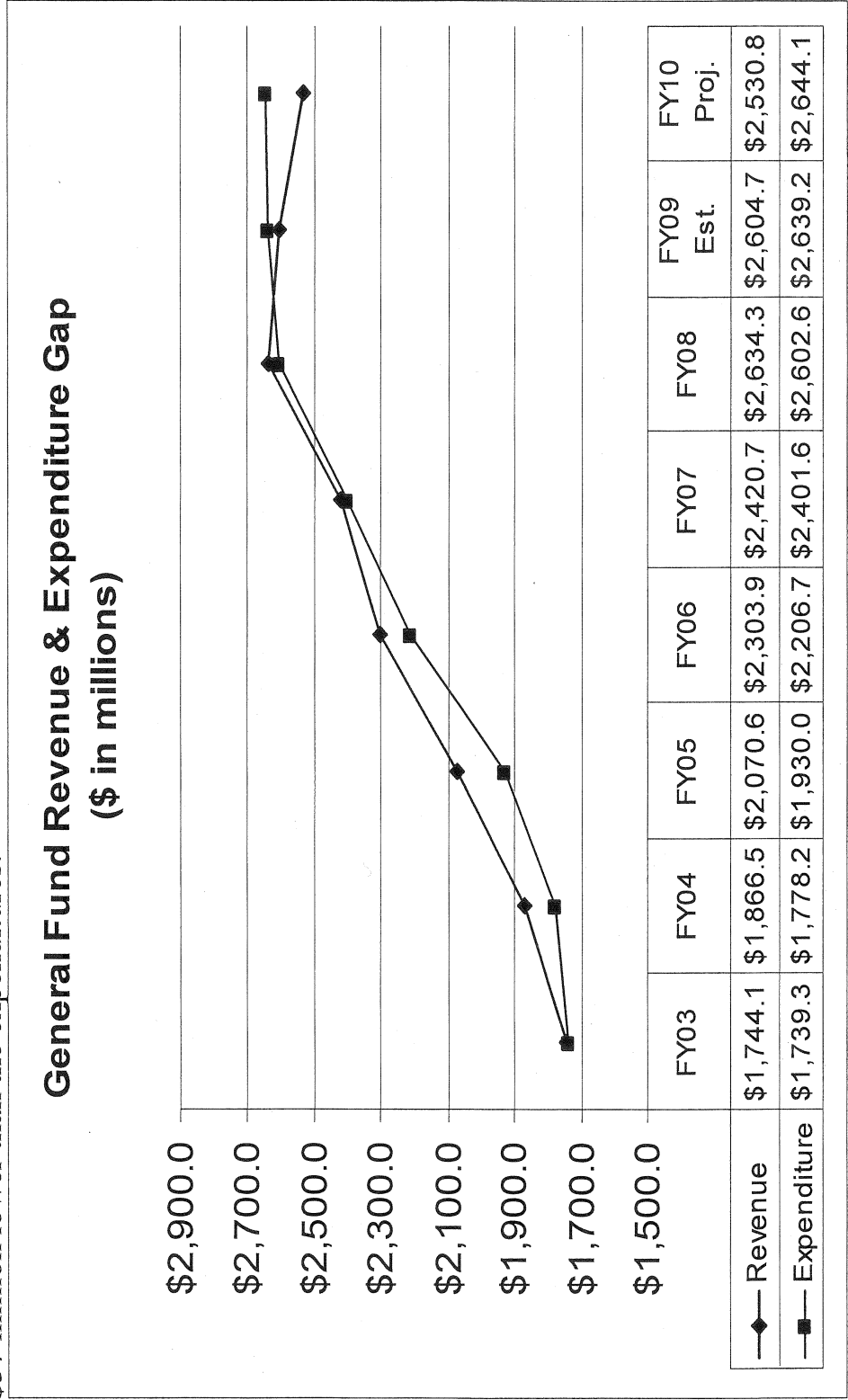
# County Source Revenue Growth in the Budget

- County source revenue growth averaged \$83.2 million or 7.0% between FY03 and FY08.
- The growth slowed significantly in FY09 to \$4.6 million or 0.3%.
- A year-over-year decline of \$52.8 million or 3.5% is projected for FY10.



# General Fund Gap

- The projected gap is \$113.3 million for FY10 and \$34.5 million for FY09, based on year-to-date performance.
- The FY08 revenue is higher than expenditures due to significant use of fund balance by the Board of Education, which is included in the total County revenues. Excluding the \$69 million use of fund balance, FY08 revenue is \$37 million lower than the expenditures.



Surplus/(Deficit)	\$4.7	\$88.3	\$140.6	\$97.2	\$19.1	\$31.7	(\$34.5)	(\$113.3)
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# Actions to Close FY10 Gap in Proposed Budget

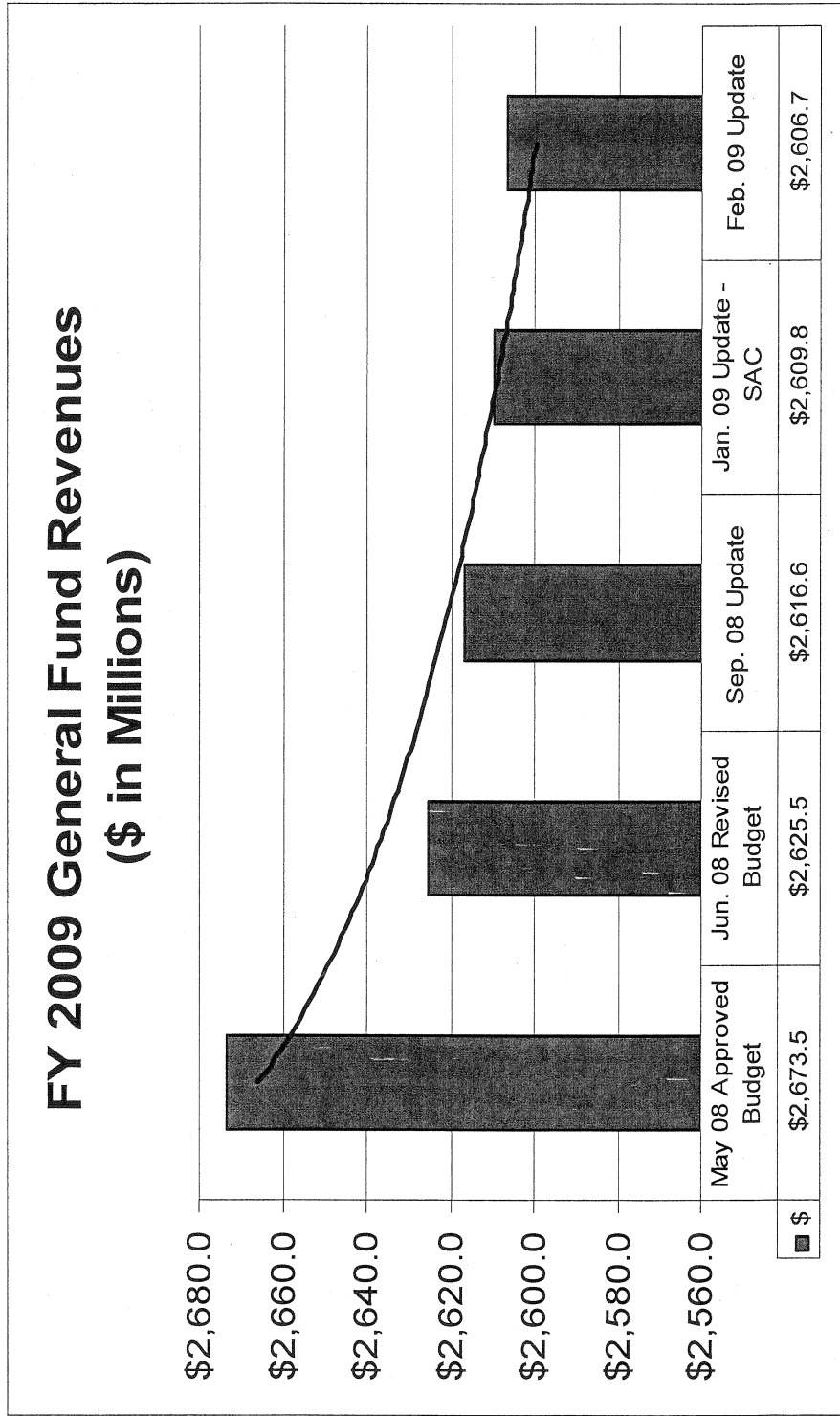
- The Spending Affordability Committee projected a fiscal gap of \$102.3 million in December 2008.
- The gap increased to \$113.3 million after factoring in the Governor's proposed budget in January 2009.
- Various actions, including a hiring freeze, agency reductions, no salary increases for County employees, bond sale reduction, BOE contribution reduction, furloughs, and RIF, are taken to balance the budget.

	<u>Expenditures</u>	<u>Revenues</u>	<u>Gap</u>
<b>FY 2010 Projections by Spending Affordability Committee</b>	<b>\$2,683.9</b>	<b>\$2,581.6</b>	<b>(\$102.3)</b>
State Cuts, Governor's Budget - County Source Revenues		(6.3)	
State Aid Reductions, Board of Education (BOE)	(44.5)	(44.5)	
County Payment for State Department of Assessments and Taxation (SDAT)	4.7		
<b>Revised After Governor's Budget</b>	<b>\$2,644.1</b>	<b>\$2,530.8</b>	<b>(\$113.3)</b>
Additional savings from vacancies/hiring	(29.0)		
Savings from 10% Agency Reductions	(14.4)		
State Aid Added Back from Stimulus Package	49.3	49.3	
Furloughs	(17.5)		
Reduction in Force (RIF)	(20.0)		
Miscellaneous Savings (Reduce bond sale, overtime, Non-Departmental)	(8.8)		
Reduce BOE County Contribution from \$609 million to \$586 million	(23.6)		
<b>FY 2010 General Fund Proposed Budget</b>	<b>\$2,580.1</b>	<b>\$2,580.1</b>	<b>\$0.0</b>

# FY09 & FY10 Revenue Overview

## FY 2009 General Fund Revenues (See Details on the Next Page)

- Due to continuous declines in the housing market and economy, the County's revenue for FY09 has been deteriorating since May 2008.





FY 2009 General Fund Revenue Projection

(\$ in millions)

	May-08 FY 2009 Approved Budget	Jun-08 FY 2009 Revenue Update for Revised Budget	Sep-08 FY 2009 Revenue Update	Jan-10 FY 2009 Update for SAC	Feb-10 FY 2009 Revenue Update
<b>COUNTY SOURCE REVENUES</b>					
Property Tax	653.7	653.7	653.9	659.1	659.1
Income Tax Receipts	415.5	397.9	401.7	410.5	410.0
Income Disparity Grant	21.7	21.7	21.7	21.7	21.7
Transfer Taxes	100.8	83.3	75.7	69.9	68.3
Recordation Taxes	45.2	36.6	29.5	28.7	25.8
Energy Tax	60.3	62.7	64.3	62.7	64.0
Telecommunications Tax	47.3	47.3	48.1	45.7	45.5
Other Local Taxes	20.1	20.1	20.9	19.6	19.8
State-shared	29.5	29.5	28.1	27.1	25.9
<b>Subtotal Taxes</b>	<b>1,394.1</b>	<b>1,352.8</b>	<b>1,344.0</b>	<b>1,345.0</b>	<b>1,340.2</b>
Licenses and Permits	23.5	20.1	21.3	16.8	15.7
Use of Money and Property	22.9	19.7	19.9	20.1	20.9
Charges for Services	29.7	29.7	28.8	26.2	27.2
Intergovernmental Revenue	31.6	31.6	33.3	33.3	34.3
Miscellaneous	5.3	5.3	3.0	3.0	3.0
Other Financing Sources	31.4	31.4	31.4	31.4	31.4
<b>Subtotal Other Sources</b>	<b>144.5</b>	<b>137.7</b>	<b>137.7</b>	<b>130.8</b>	<b>132.5</b>
<b>Subtotal County Sources</b>	<b>1,538.5</b>	<b>1,490.5</b>	<b>1,481.7</b>	<b>1,475.8</b>	<b>1,472.7</b>
<b>OUTSIDE AID</b>					
Board of Education	1,064.4	1,064.4	1,064.4	1,064.4	1,064.4
Community College	62.4	62.4	62.4	61.5	61.5
Library	8.1	8.1	8.1	8.1	8.1
<b>Subtotal Outside Aid</b>	<b>1,134.9</b>	<b>1,134.9</b>	<b>1,134.9</b>	<b>1,134.0</b>	<b>1,134.0</b>
<b>GRAND TOTAL</b>	<b>2,673.5</b>	<b>2,625.5</b>	<b>2,616.6</b>	<b>2,609.8</b>	<b>2,606.7</b>

Note:  
The numbers may not add due to rounding.

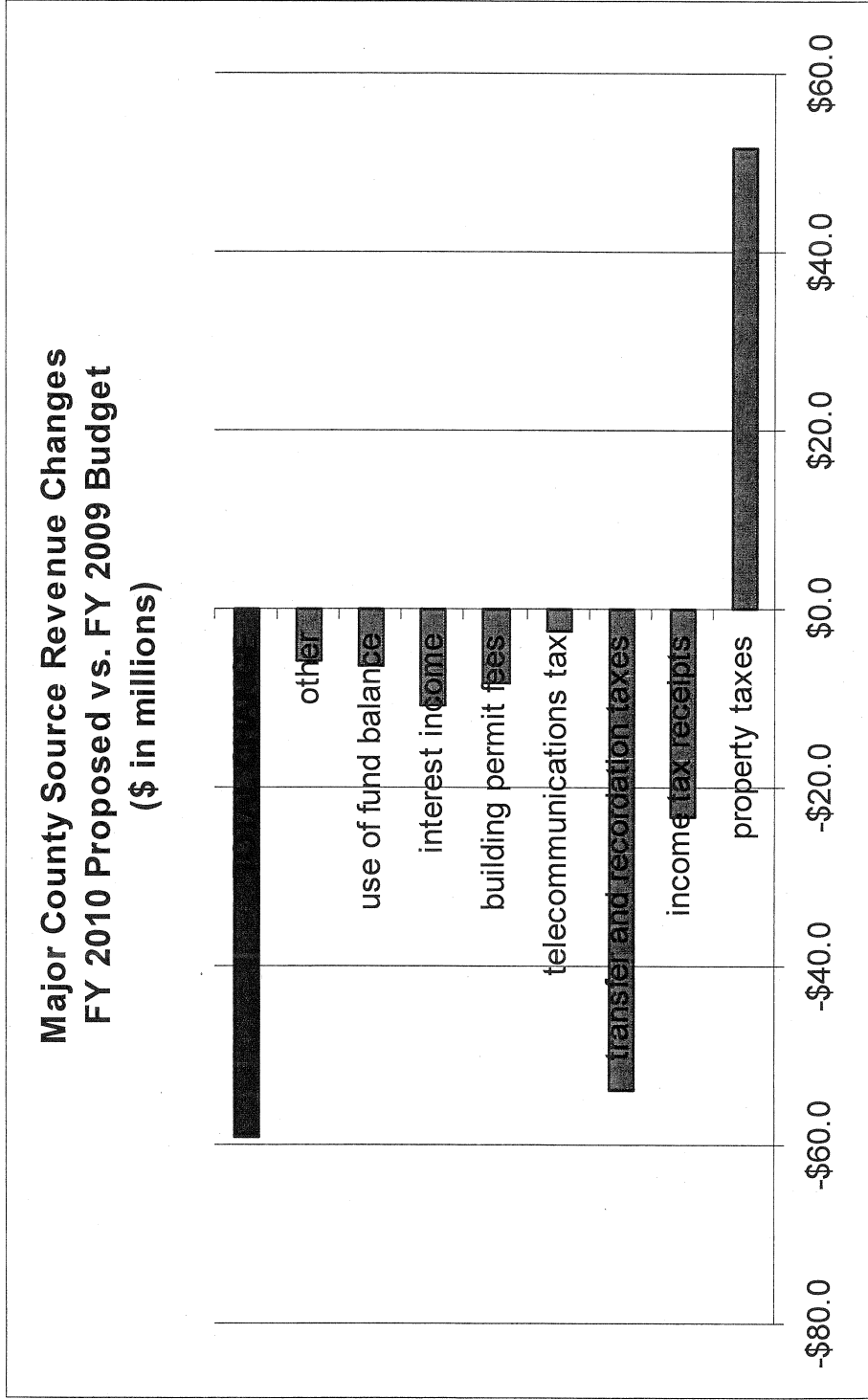
# FY 2010 Proposed General Fund Revenues

- The proposed FY10 revenue (\$2,580.1 million) is \$93.9 million lower than the FY09 budget. It is also lower than the latest FY09 revenue projection (\$2,606.7 million) by \$26.6 million.
- Income tax receipts are expected to decrease by \$23.3 million or 5.3% due to rising unemployment, slower income growth, lower prior-year payments, and extended tax exemptions.
- Transfer and recordation taxes are projected to decrease by \$53.8 million or 36.9%; interest income (included in Other Revenues) by \$10.9 million or 50.1%; building permit fees (included in Other Revenues) by \$8.2 million or 51.6%.
- State aid to the Board of Education is expected to decline by \$5.4 million. In addition, no fund balance is included for the Board of Education, compared with \$28.9 million in FY09.

Revenues (\$ in millions)	FY 2010		
	FY 2009 Approved	FY 2010 Proposed	\$ Change % Change
<u>County Sources</u>			
Property Taxes	653.7	705.3	51.6 7.9%
Income Taxes	437.2	413.9	-23.3 -5.3%
Transfer & Recordation Taxes	145.9	92.1	-53.8 -36.9%
Telecommunications Taxes	47.3	44.8	-2.4 -5.2%
State Shared Taxes	29.5	26.0	-3.5 -12.0%
Intergovernmental Revenues	31.6	31.8	0.3 0.8%
Other Revenues	193.3	165.4	-27.9 -14.4%
<b>Subtotal - County Sources</b>	<b>1,538.5</b>	<b>1,479.4</b>	<b>-59.2</b> <b>-3.8%</b>
<u>Outside Aid</u>			
Board of Education	1,064.4	1,031.5	-32.9 -3.1%
Community College	62.4	60.5	-1.9 -3.0%
Library	8.1	8.7	0.7 8.1%
<b>Subtotal - Outside Aid</b>	<b>1,134.9</b>	<b>1,100.8</b>	<b>-34.1</b> <b>-3.0%</b>
<b>Total</b>	<b>2,673.5</b>	<b>2,580.1</b>	<b>-93.3</b> <b>-3.5%</b>

Note: Numbers may not add due to rounding.

# Major County Source Revenue Changes FY 2010 Proposed vs. FY 2009 Budget

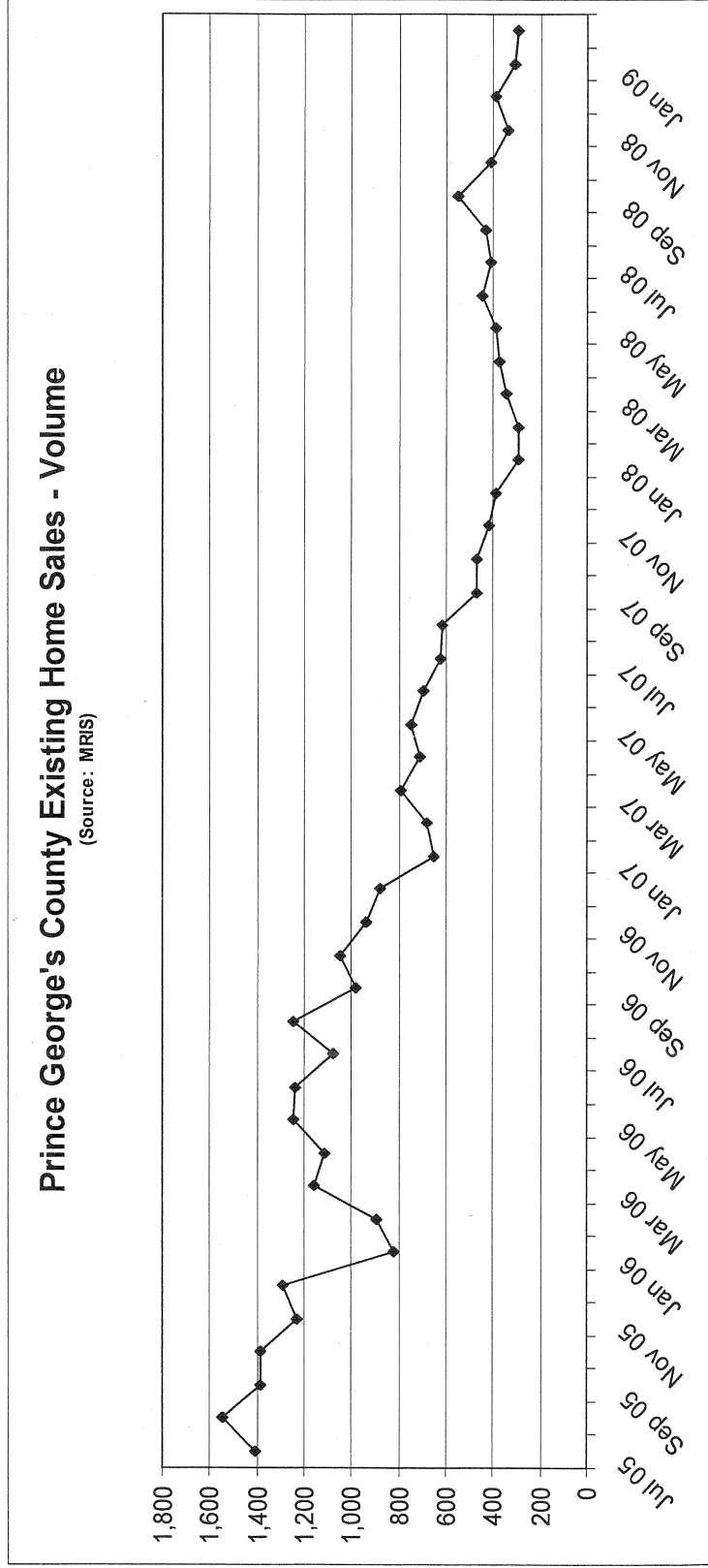




Major Economic Indicators  
&  
Revenues

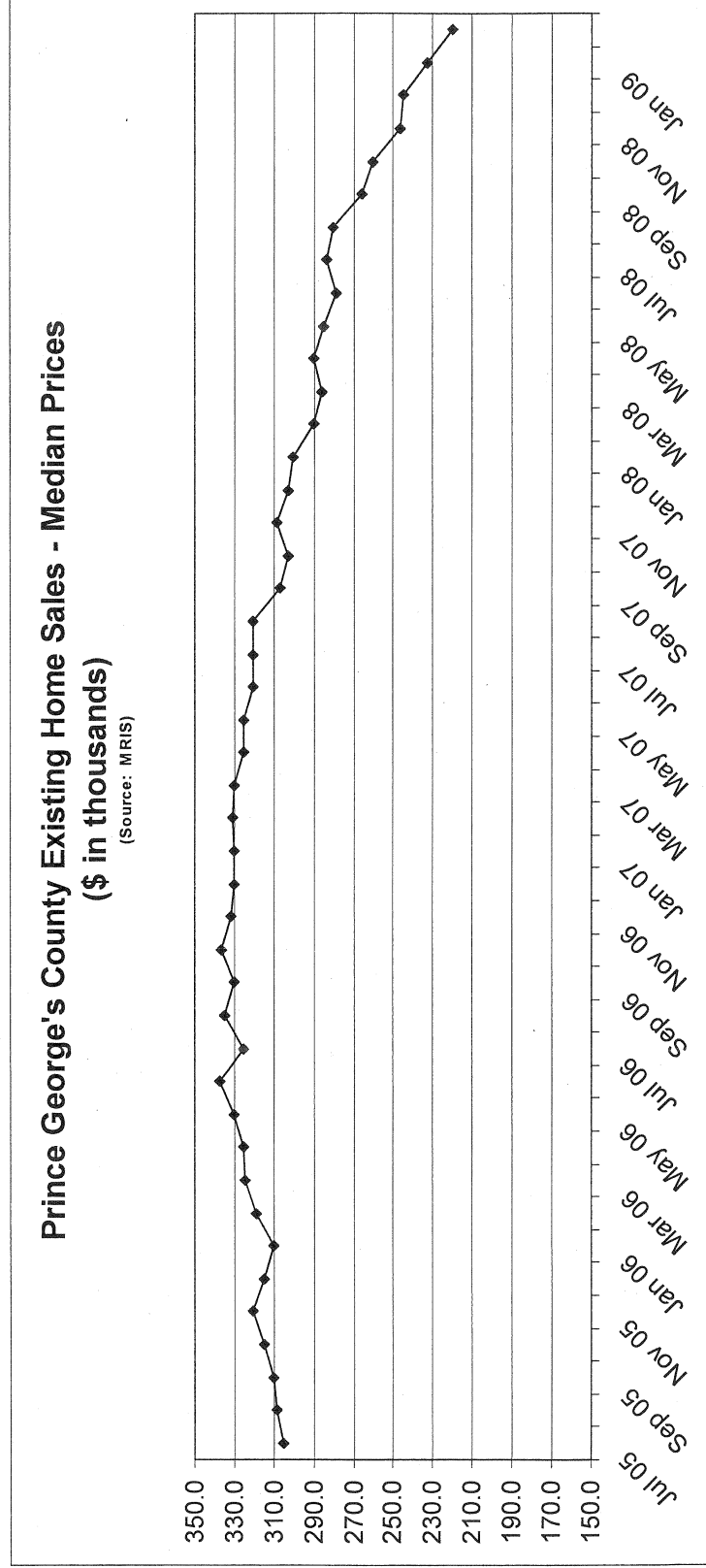
# County Housing Market – Units Sold

- Existing home sales volume in the County has been decreasing since mid 2005.
- Monthly sales volume has decreased from 1,404 in July 2005 to 292 in February 2009.



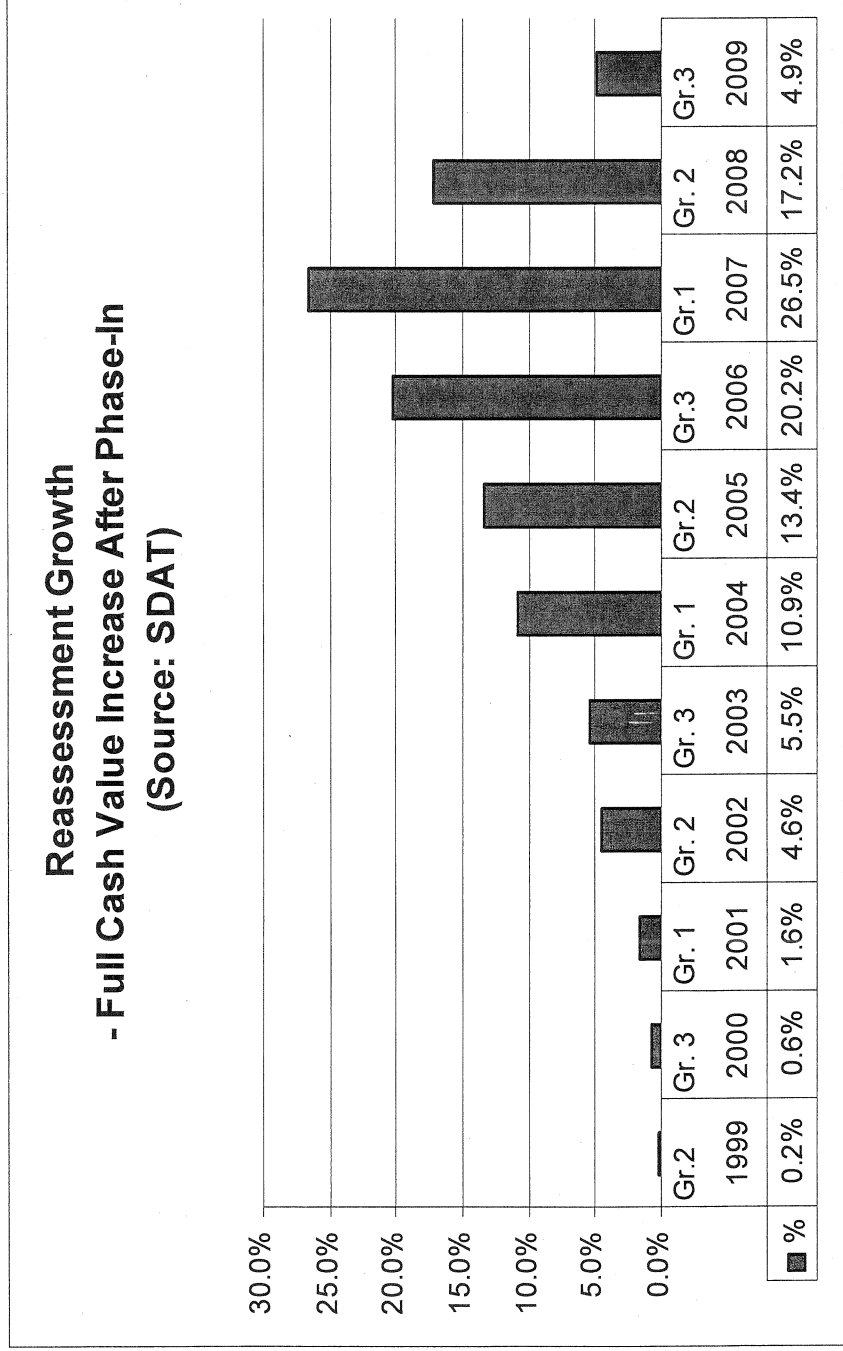
# County Housing Market – Median Price

- Existing home sales price in the County has been decreasing since mid 2006.
- Median sales price has decreased from \$337,500 in June 2006 to \$220,000 in February 2009.



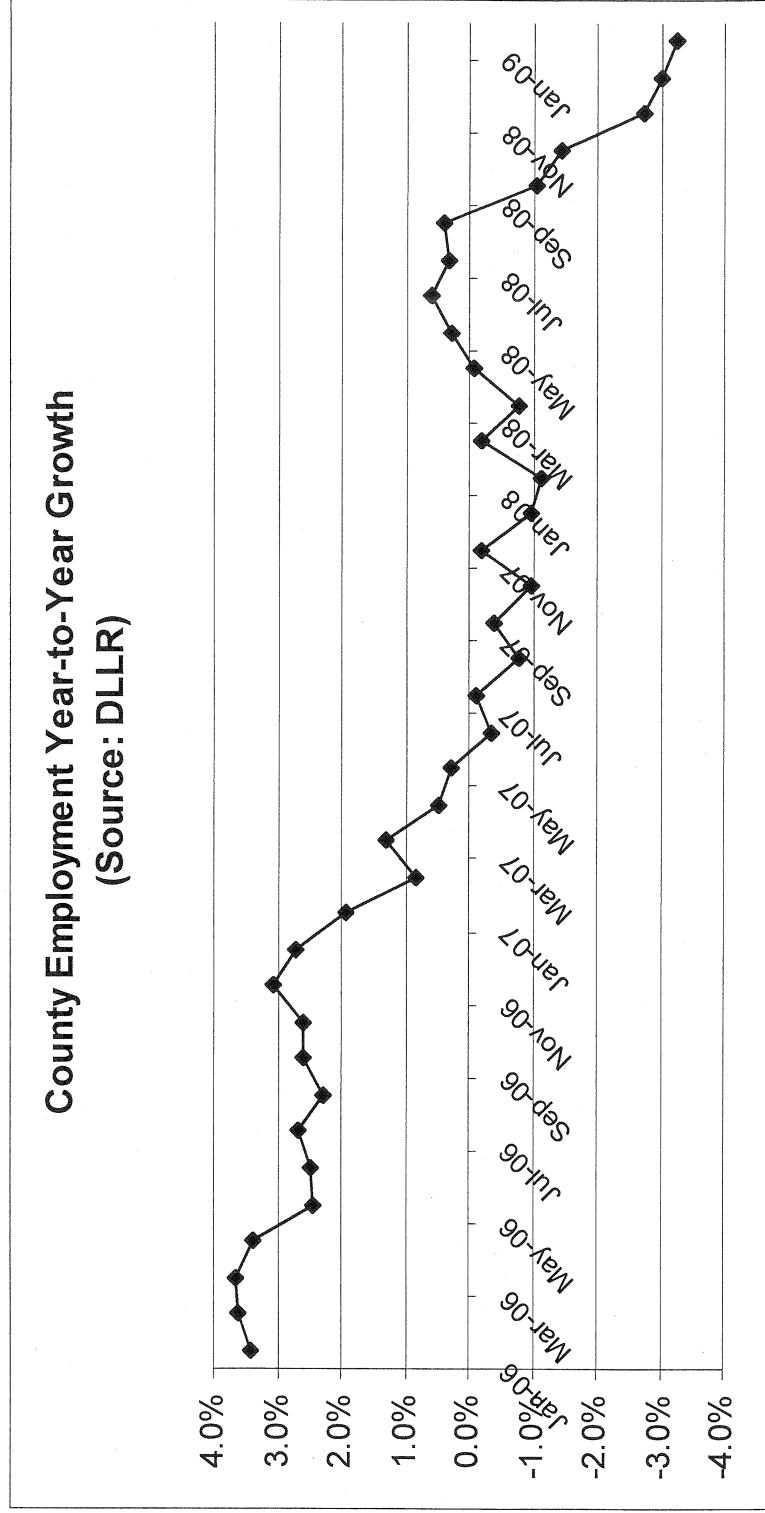
# Real Property Tax Base Reassessment Growth

- County property base growth has slowed down significantly based on the Jan. 2009 reassessment data for Group 3.
- This trend is expected to continue in the upcoming years due to the continuous decline in property values in the deteriorating housing market.



# County Employment Growth

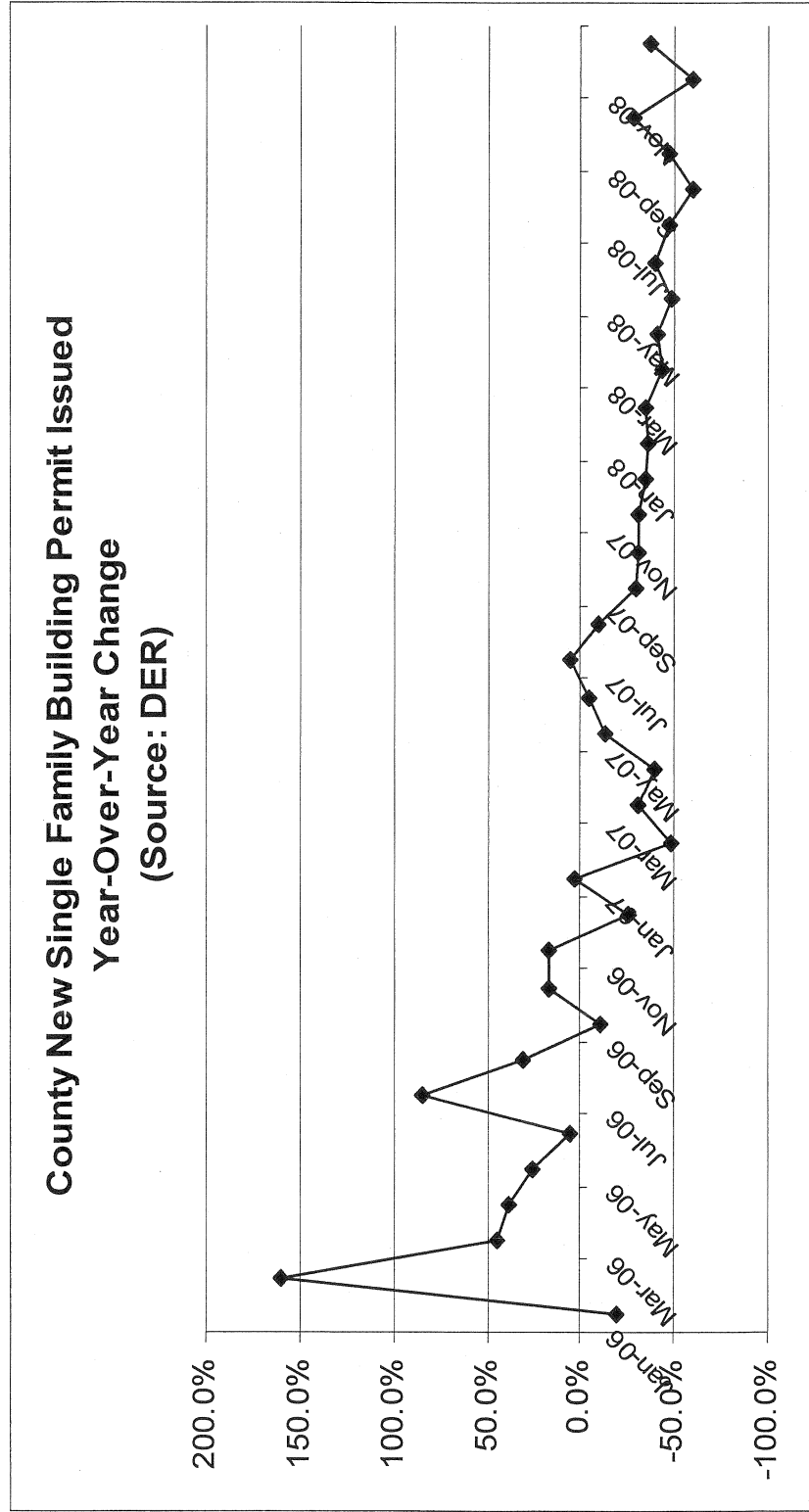
- County employment has been declining since 2008.
- The trend is expected to continue due to the economic downturn.





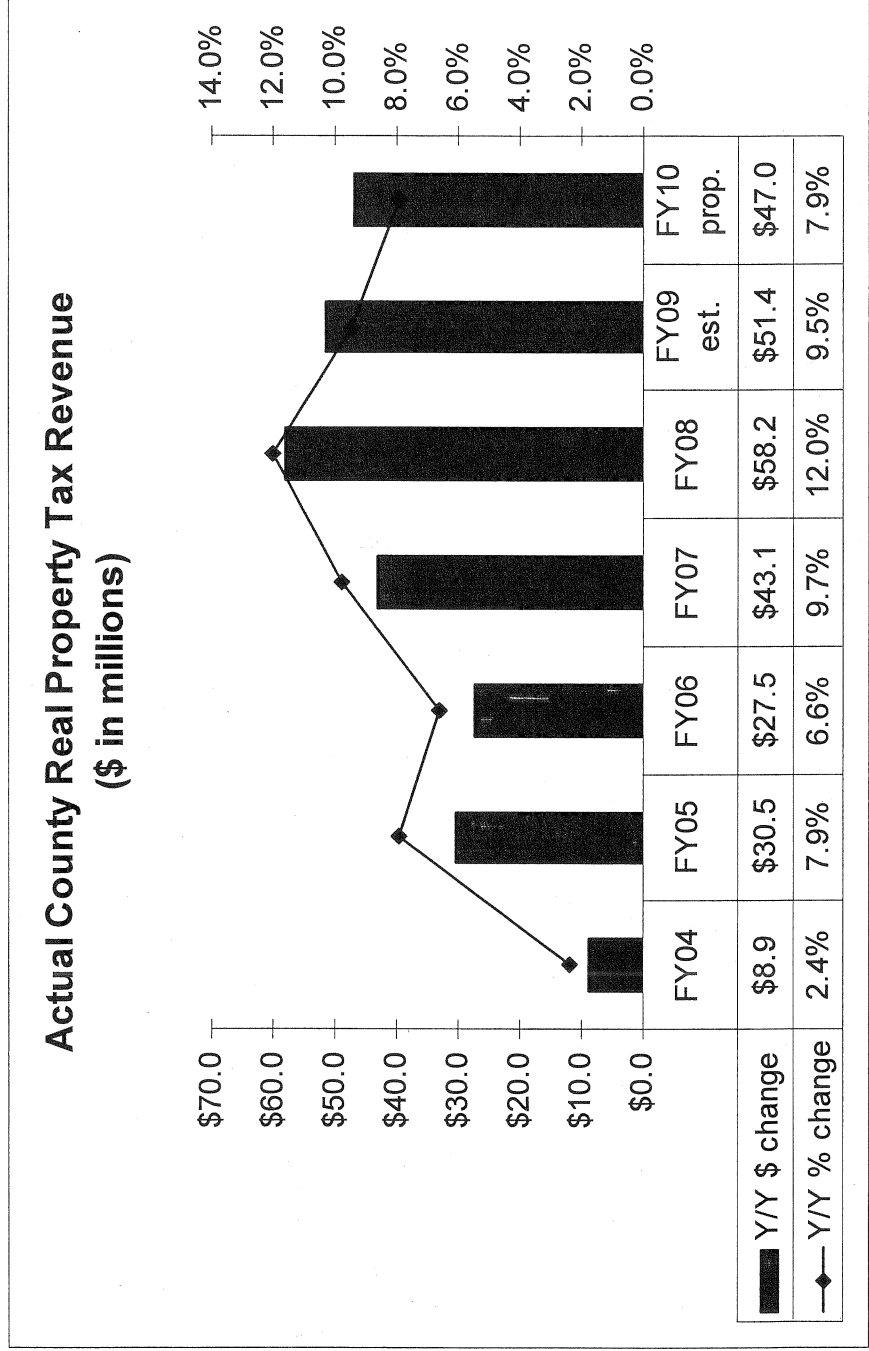
# Building Permits Issued

- The number of building permits issued has been declining since 2007.
- The trend is expected to continue due to the economic downturn.



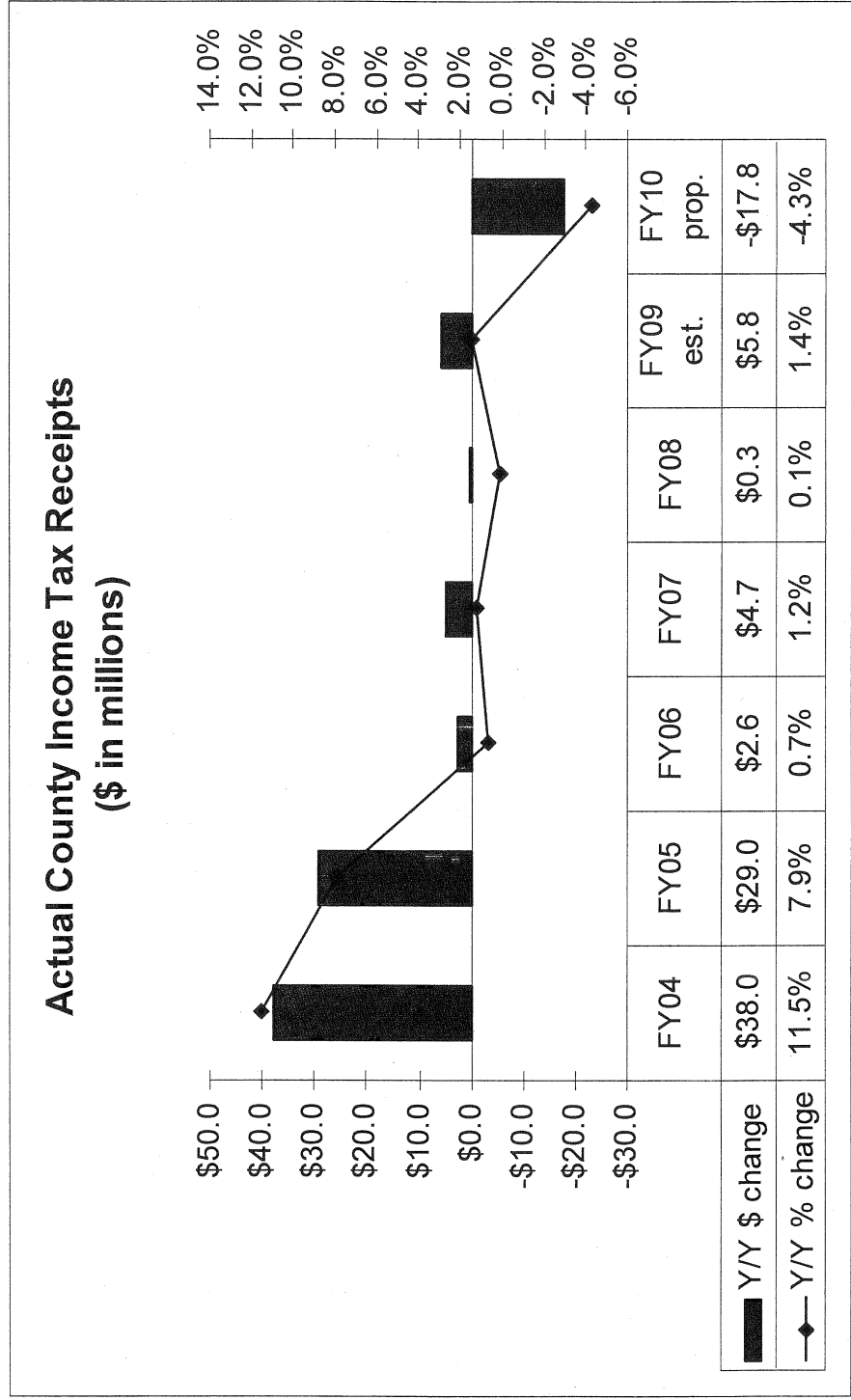
# Property Tax Revenues

- The growth of County real property tax revenues has been slowing in recent years. The trend is expected to continue in the upcoming years.



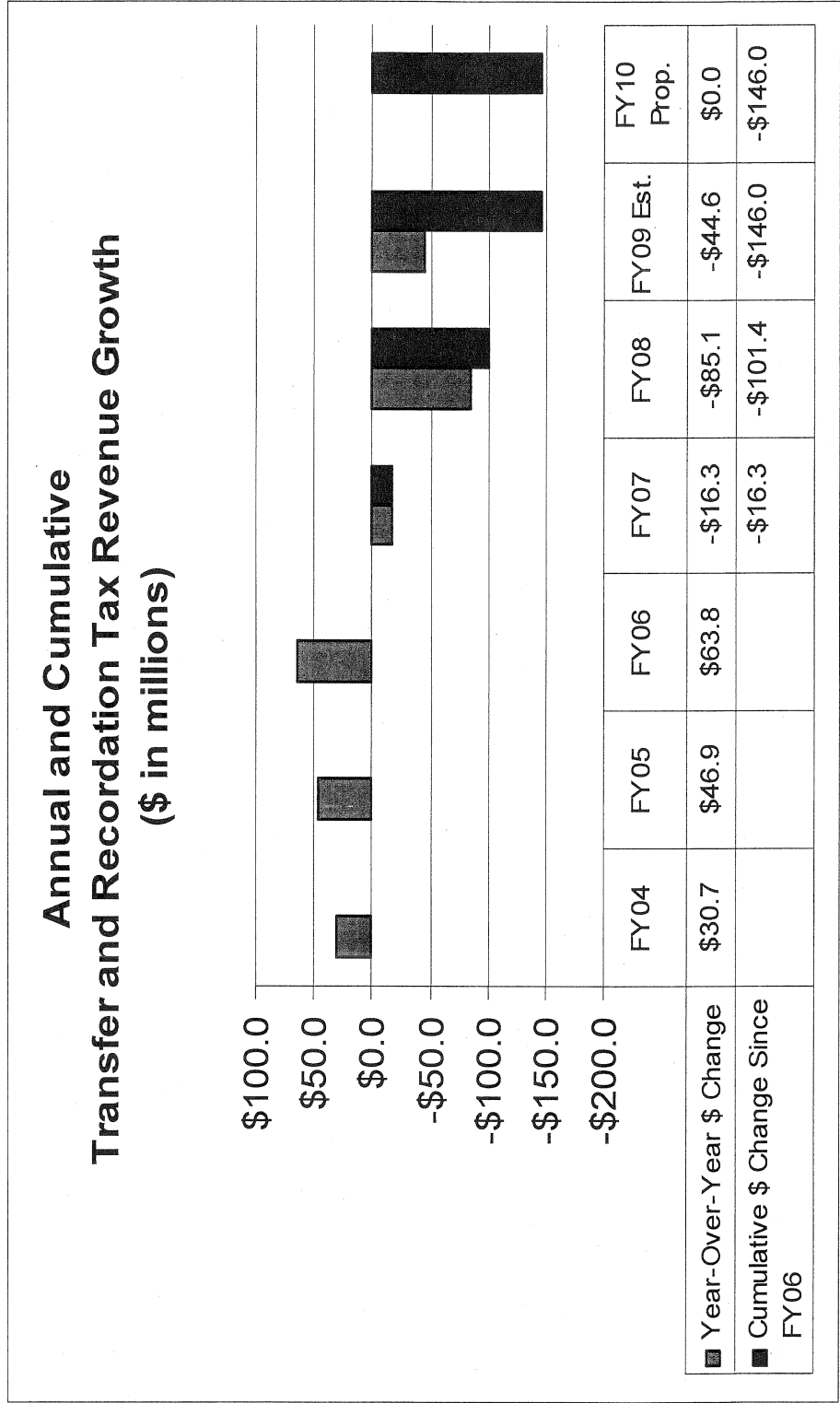
# Income Tax Receipts

- County income tax receipts are expected to decrease significantly in FY10 due to rising unemployment, slower income growth, lower prior-year reconciliation payments, and extended tax exemptions.



# Transfer & Recordation Tax Revenues

- County transfer and recordation tax revenues are expected to decrease by \$146.0 million (or over 60%) from the FY06 level.



# FY 2010 State Budget Impacts

- County revenue loss due to State budget totals \$11.4 million in FY10.
- Total State budget impact on the County (including expenditure increases) is projected to be a negative \$16.1 million.

<b>FY 2010 GOVERNOR'S PROPOSED BUDGET IMPACT ON PRINCE GEORGE'S COUNTY</b>				
(\$ IN MILLIONS)	FY 2009	FY 2010	GAIN/(LOSS)	
Foundation Aid	\$ 516.3	\$ 491.1	\$ (25.2)	
Geographic Cost of Education Index (GCEI)	23.6	39.1	15.4	
Guaranteed Tax Base	24.9	6.8	(18.0)	
Compensatory Education	189.0	184.7	(4.3)	
Non-Public Placement	28.4	29.9	1.5	
Supplemental Grant	-	25.1	25.1	
Other Education Aid	139.6	139.6	0.1	
<b>SUBTOTAL EDUCATION AID</b>	<b>\$ 921.7</b>	<b>\$ 916.4</b>	<b>\$ (5.4)</b>	
Community College Aid	\$ 23.7	\$ 23.9	\$ 0.2	
Library Aid	6.5	5.8	(0.7)	
Local Health Grant	9.0	7.7	(1.3)	
Local Jail Reimbursement	2.6	2.0	(0.6)	
Other Aid	67.8	67.7	(0.1)	
<b>SUBTOTAL OTHER DIRECT AID</b>	<b>\$ 109.7</b>	<b>\$ 107.2</b>	<b>\$ (2.5)</b>	
Reimbursement of Income Tax Reserve Account	-	(3.6)	(3.6)	
<b>SUBTOTAL OTHER REVENUE LOSS</b>	<b>\$ -</b>	<b>\$ (3.6)</b>	<b>\$ (3.6)</b>	
<b>TOTAL REVENUE LOSS</b>	<b>\$ 1,031.4</b>	<b>\$ 1,020.0</b>	<b>\$ (11.4)</b>	
Transfer of SDAT Costs	\$ -	\$ 4.7	\$ (4.7)	
<b>TOTAL NEW EXPENSE INCREASE</b>	<b>\$ -</b>	<b>\$ 4.7</b>	<b>\$ (4.7)</b>	
<b>GRAND TOTAL COUNTY IMPACT</b>	<b>\$ 1,031.4</b>	<b>\$ 1,015.3</b>	<b>\$ (16.1)</b>	



# 2007 Special Session Impact

- The extended income tax exemption and the elimination of the electricity deregulation grant has a permanent impact on the County.

<b>2007 MARYLAND SPECIAL SESSION IMPACT</b>			
<b>ON COUNTY REVENUES</b>			
<b>(\$ in Millions)</b>	<b>FY 2008</b>	<b>FY 2009</b>	
Income Tax Receipts	\$ (7.6)	\$ (15.3)	
Electricity Deregulation Grant	\$ -	\$ (7.7)	
Highway User Revenue	\$ 0.5	\$ (1.0)	
Outside Aid to BOE	\$ -	\$ (29.3)	
<b>TOTAL</b>	<b>\$ (7.1)</b>	<b>\$ (53.3)</b>	

Source: Maryland Department of Legislative Services

# General Fund Expenditure Plans

# FY 2010 Proposed General Fund Expenditures

- County government expenditures (not including the Board of Education) decline by \$29 million.
- Education and library expenditures (including BOE, Community College and Library) decline by \$64.3 million.

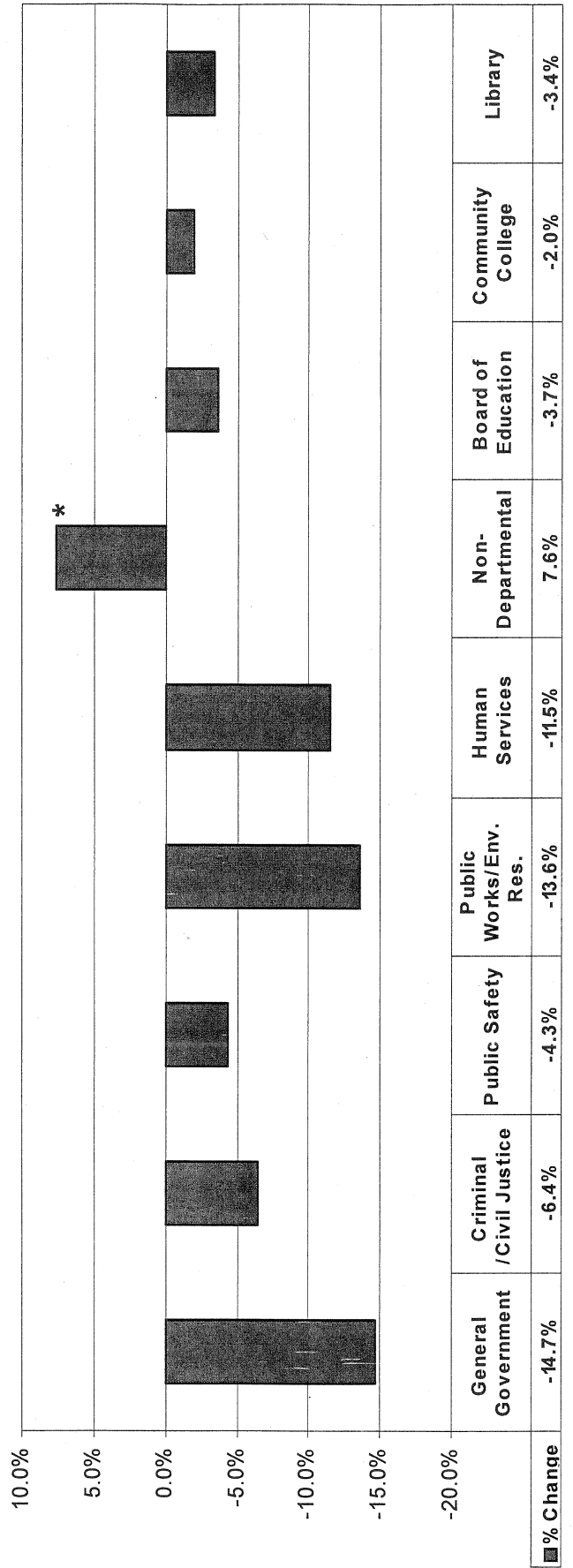
Expenditures (\$ in millions)	FY 2009		FY 2010		Change	%
	Approved	Proposed	Approved	Proposed		
<u>County Government</u>						
General Government	74.2	63.3	-10.9	-14.7%		
Criminal/Civil Justice	133.0	124.5	-8.5	-6.4%		
Public Safety	402.6	385.3	-17.3	-4.3%		
Public Works/Env. Res.	25.5	22.0	-3.5	-13.6%		
Human Services	36.0	31.8	-4.1	-11.5%		
Non-Departmental	203.7	219.1	15.4	7.6%		
<b>Subtotal - County Government</b>	<b>875.0</b>	<b>846.0</b>	<b>-29.0</b>	<b>-3.3%</b>		
<u>Education/Library</u>						
Board of Education	1,678.9	1,617.4	-61.5	-3.7%		
Community College	92.9	91.0	-1.9	-2.0%		
Library	26.7	25.7	-0.9	-3.4%		
<b>Subtotal - Education/Library</b>	<b>1,798.5</b>	<b>1,734.1</b>	<b>-64.3</b>	<b>-3.6%</b>		
<b>Total</b>	<b>2,673.5</b>	<b>2,580.1</b>	<b>-93.3</b>	<b>-3.5%</b>		

Note: Numbers may not add due to rounding.

# FY 2010 Proposed Expenditure Growth

- The largest decline is in General Government (-14.7%); Public Works and Environmental Resources declines by 13.6%; Human Services declines by 11.5%; Criminal/Civil Justice (including Sheriff, Corrections, Courts) declines by 6.4%; Public Safety declines by 4.3% and the Board of Education declines by 3.7%.

**FY 2010 Proposed General Fund Expenditure  
% Growth by Function**



\* \$17.5 million one-time resources were used in FY09, resulting in a large increase in FY10.

# Fund Balance

- Fund balance has been declining since a high in FY07 of \$275 million, and is now projected in FY10 to fall to \$167 million or 6.5% of expenditures, below the 7% level (5% required by County charter, and 2% required by policy).
- The undesignated fund balance will be eliminated, in addition to a portion of the 2% Operating Reserve.

