County of Fairfax, Virginia

General Fund Revenue Overview

This section includes:

FY 2009

Adopted Budget Plan

SUMMARY OF GENERAL FUND REVENUE

Category	FY 2007 Actual	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan	FY 2009 Adopted Budget Plan	Over the FY 2009 Advertised Budget Plan Increase/ (Decrease)	Percent Change
Real Estate Taxes - Current and Delinquent	$1,896,010,205	$1,971,563,147	$1,978,548,858	$2,046,377,538	$67,828,680	3.43%
Personal Property Taxes - Current and Delinquent	522,348,807	518,229,349	513,608,398	514,328,938	720,540	0.14%
Other Local Taxes	480,451,990	478,056,828	501,920,190	498,010,954	(3,909,236)	-0.78%
Permits, Fees and Regulatory Licenses	30,778,483	27,412,072	27,737,101	27,907,777	170,676	0.62%
Fines and Forfeitures	14,834,607	14,629,327	17,275,488	18,275,488	1,000,000	5.79%
Revenue from Use of Money/Property	95,618,646	81,090,960	68,427,596	32,268,252	(36,159,344)	-52.84%
Charges for Services	58,088,619	58,231,605	62,469,561	62,469,561	0	0.00%
Revenue from the Commonwealth and Federal Governments[1]	131,022,823	129,643,320	119,505,786	113,505,786	(6,000,000)	-5.02%
Recovered Costs/ Other Revenue	7,450,514	7,909,194	7,482,007	7,482,007	0	0.00%
Total Revenue	**$3,236,604,694**	**$3,286,765,802**	**$3,296,974,985**	**$3,320,626,301**	**$23,651,316**	**0.72%**
Transfers In	2,408,050	2,530,299	2,216,089	9,054,492	6,838,403	308.58%
Total Receipts	**$3,239,012,744**	**$3,289,296,101**	**$3,299,191,074**	**$3,329,680,793**	**$30,489,719**	**0.92%**

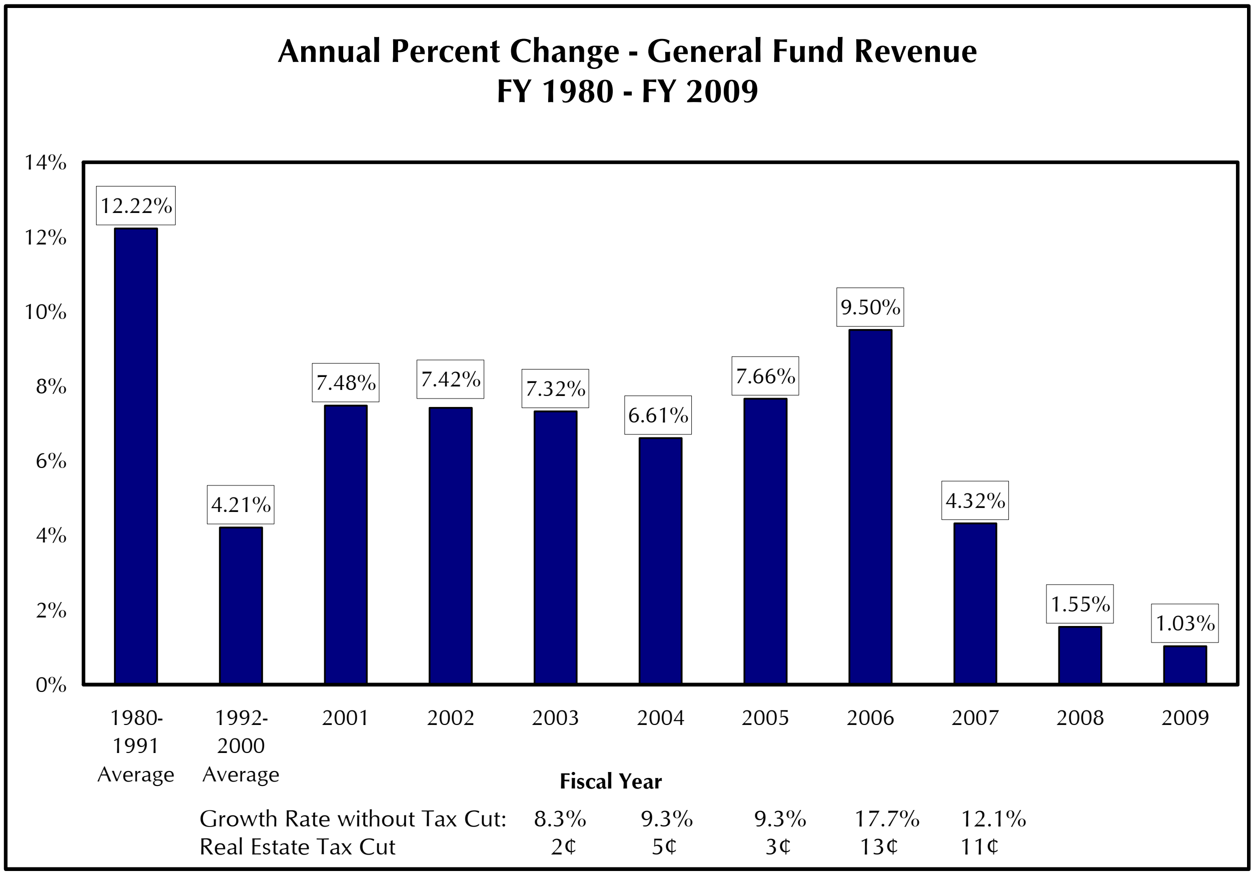
[1] The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

As reflected in the preceding table, FY 2009 General Fund revenues are projected to be $3,320,626,301, an increase of $23,651,316, or 0.7 percent, over the FY 2009 Advertised Budget Plan. This net increase is primarily due to a $67.8 million increase in Real Estate Tax revenue attributable to a $0.03 increase in the Real Estate Tax rate partially offset by a $36.2 million decrease in Investment Income due to the declining interest rates and an estimated $6.0 million reduction in state-aid to localities related to a state budgetary shortfall. In addition to the Real Estate Tax revenue shown above, the projected value of one penny of the Real Estate Tax rate ($22.8 million) is allocated to Fund 318, Stormwater Management Program, and Fund 319, The Penny for Affordable Housing Fund.

Incorporating Transfers In, FY 2009 General Fund receipts are anticipated to be $3,329,680,793. The Transfers In to the General Fund total $9.1 million and includes $5.2 million from Fund 105, Cable Communications for use of County rights of way and indirect support provided by the County's General Fund agencies. In addition, in order to offset General Fund expenditure requirements, the FY 2009 Transfers In include $1.0 million from Fund 144, Housing Trust Fund; $2.0 million from Fund 312, Public Safety Construction; $0.8 million from Fund 503, Department of Vehicle Services and $0.1 million from Fund 505, Technology Infrastructure Services.

General Fund Revenue Overview

The following chart shows General Fund revenue growth since FY 1980. From FY 1980 to FY 1991, average annual General Fund revenue growth exceeded 12 percent per year. From FY 1992 to FY 2000, however, General Fund revenues grew at an average annual rate of only 4.2 percent. Moderate growth rates ranging from 6.6 percent to 7.7 percent were experienced during the period from FY 2001 to FY 2005. General Fund revenue rose 9.5 percent in FY 2006 due to the strong overall economy – the real estate market, business spending, and a nearly 160 percent increase in interest on investments. Revenue growth moderated in FY 2007 to 4.3 percent as the housing market experienced an abrupt turnaround. FY 2008 revenue is projected to decelerate further to 1.6 percent and a substantial slowing is estimated for FY 2009 due to a decrease in residential assessments. The growth rates below are after Real Estate Tax rate reductions totaling 34 cents from FY 2002 through FY 2007.



Fees and Charges Review

A thorough review of the County's fees and charges in the General Fund was conducted during the fall of 2008. Fees and user charges were compared to state maximum rates and to those of surrounding jurisdictions. As a result of this review, General Fund fee increases, totaling $4.7 million in revenue, are included in the FY 2009 Budget. The bulk of the additional revenue is the result of an approved increase to the Emergency Medical Services (EMS) Transport Fee structure, which is expected to generate an additional $3.5 million in FY 2009. Current General Fund fees to be raised also include Fire Marshal Fees, parking garage fees, various parking violation fines, police report and photo fees, and taxi cab licenses. These increases will raise cost recovery in FY 2009, while maintaining consistency with surrounding jurisdictions. A more detailed discussion of these adjustments can be found in the following narrative.

Economic Indicators

Recent indicators suggest that the national economy has slowed considerably. Economic growth of 0.6 percent in the fourth quarter of 2007 was the weakest since 2002. The economy faired just slightly better in the first quarter of 2008, advancing 0.9 percent, adjusting for inflation. The U.S. economy has lost 324,000 jobs so far in 2008 and the jobless rate rose 0.5 percentage points to 5.5 percent in May.

To stimulate the economy, the Federal Reserve cut the federal funds rate by 75 basis points to 3.5 percent on January 22, 2008. Just eight days later, the Fed lowered the rate a half a point to 3.0 percent. The 75 basis point reduction was the largest cut in nearly 24 years and it was also the first time since immediately after September 11, 2001 that the Federal Reserve took action outside of a regularly scheduled meeting. Since the beginning of 2008, the Federal Reserve has cut the federal funds rate 2.25 percentage points from 4.25 percent to 2.00 percent as of May 2008. Further cuts to boost the economy may be suspended as inflationary pressures rise.

Despite the housing slowdown, the local economy continued to expand in 2007. Gross County Product (GCP), adjusted for inflation, grew at an estimated 4.2 percent rate in 2007, the lowest rate of growth in five years. The County continues to generate new jobs but at a much slower rate than in the past few years. In March 2008, there were an estimated 4,944 more full-time jobs in the County than there were in March 2007. This indicates that the County economy is continuing to expand, albeit at a rate of only 0.8 percent, significantly below recent levels. The County's Coincident Index, which represents the current state of the County's economy, fell in March 2008 for the third time in six months. In addition, the County's Leading Index was negative for the fifth consecutive month compared to the same month the prior year. According to Dr. Stephen Fuller of George Mason University, "The economy's outlook, as reflected in the Leading Index, is not encouraging".

Housing Market

The slowdown in the County's residential housing market which began in mid-2006 worsened in 2007. The number of homes sold dropped to 13,557 from 16,314 in 2006. Based on Metropolitan Regional Information System (MRIS) data, the overall average sales price fell 0.2 from 2006. The number of homes for sale each month stabilized in 2007. On average, there were approximately 7,300 homes for sale each month of 2006 and 2007. This level represents over twice as many homes for sale compared to 2005. While the number of homes on the market leveled off, it took longer to sell a home in 2007. In 2007, a home in Fairfax County was on the market an average of 88 days prior to selling according to MRIS, compared to 63 days in 2006 and to just 21 days in 2005.

Nonresidential Market

The nonresidential real estate market began to soften in 2007. Leasing activity in 2007 was the lowest in five years, down 13 percent from 2006. Nearly 2.5 million square feet of office space was delivered in 2007 bringing the total County inventory to 107.2 million square feet. Due to the additional office space, the County's direct office vacancy rose from the year-end 2006 rate of 7.7 percent to 9.2 percent at year-end 2007. Including sublet space, the 2007 overall office vacancy rate was 10.9 percent, up 1.7 percentage points over the 9.2 percent at year-end 2006. An additional 4.3 million square feet of new space in 26 buildings was under construction at the end of 2007 and the office vacancy rate is likely to rise further as this space comes on-line. According to the Economic Development Authority (EDA), 14 of the 26 buildings under construction were 100 percent speculative. EDA anticipates that new building starts will be limited to build-to-suit, or pre-leased projects until most of the current speculative building is absorbed.

Real Estate Tax Revenue

Current and Delinquent Real Estate Tax revenue comprises over 61 percent of total County General Fund revenues and residential real estate makes up nearly three quarters of the total real estate base. As such, the decline in the residential market is the driving force in the overall revenue change. FY 2009 Real Estate property values were established as of January 1, 2008 and reflect market activity through calendar year 2007. The Real Estate Tax base is projected to increase 0.51 percent in FY 2009, and is made up of a 1.02 percent decrease in total equalization (reassessment of existing residential and non-residential properties), and an increase of 1.53 percent for new construction. The FY 2008 and FY 2009 General Fund revenue estimates discussed in this section are based on a review of all relevant indicators, including the Fairfax County Economic Index, consultations with the County's economic advisor, Dr. Stephen Fuller, actual FY 2007 collections, and FY 2008 year-to-date trends.

MAJOR REVENUE SOURCES

The following major revenue categories discussed in this section comprise 98.5 percent of total FY 2009 General Fund revenue. Unless otherwise indicated, comparative data are presented relative to the FY 2009 Advertised Budget Plan. The revenue estimates for all General Fund Revenue categories are shown in the Summary Schedule of General Fund Revenues in the section of this volume entitled "Financial, Statistical and Summary Tables."

					Change from the FY 2009 Advertised Budget Plan	
Category	FY 2007 Actual	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan	FY 2009 Adopted Budget Plan	Increase/ (Decrease)	Percent Change
Real Estate Tax - Current	$1,884,685,393	$1,959,665,123	$1,966,650,834	$2,034,479,514	$67,828,680	3.45%
Personal Property Tax - Current	508,315,189	509,375,160	504,754,209	505,474,749	720,540	0.14%
Paid Locally	297,001,245	298,061,216	293,440,265	294,160,805	720,540	0.25%
Reimbursed by Commonwealth	211,313,944	211,313,944	211,313,944	211,313,944	0	0.00%
Local Sales Tax	159,224,006	162,983,388	170,704,662	166,795,426	(3,909,236)	-2.29%
Recordation/Deed of Conveyance Taxes	41,658,070	27,618,419	33,304,953	33,304,953	0	0.00%
Gas & Electric Utility Taxes	45,367,938	45,936,936	46,600,265	46,600,265	0	0.00%
Telephone Utility & Mobile Telephone Taxes	27,802,828	0	0	0	0	--
Communications Sales Tax	20,847,380	57,804,984	56,872,048	56,872,048	0	0.00%
Transient Occupancy Tax	25,110,144	20,912,038	21,957,640	21,957,640	0	0.00%
Business, Professional and Occupational License Tax-Current	132,541,948	138,903,962	145,154,640	145,154,640	0	0.00%
Cigarette Tax	9,818,764	9,128,342	9,818,764	9,818,764	0	0.00%
Permits, Fees and Regulatory Licenses	30,778,483	27,412,072	27,737,101	27,907,777	170,676	0.62%
Fines and Forfeitures	14,834,607	14,629,327	17,275,488	18,275,488	1,000,000	5.79%
Interest on Investments	92,075,833	77,712,416	65,044,789	28,885,445	(36,159,344)	-55.59%
Charges for Services	58,088,619	58,231,605	62,469,561	62,469,561	0	0.00%
Revenue from the Commonwealth and Federal Governments[1]	131,022,823	129,643,320	119,505,786	113,505,786	(6,000,000)	-5.02%
Total Major Revenue Sources	**$3,182,172,025**	**$3,239,957,092**	**$3,247,850,740**	**$3,271,502,056**	**$23,651,316**	**0.73%**

[1] The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

General Fund Revenue Overview

REAL ESTATE TAX-CURRENT

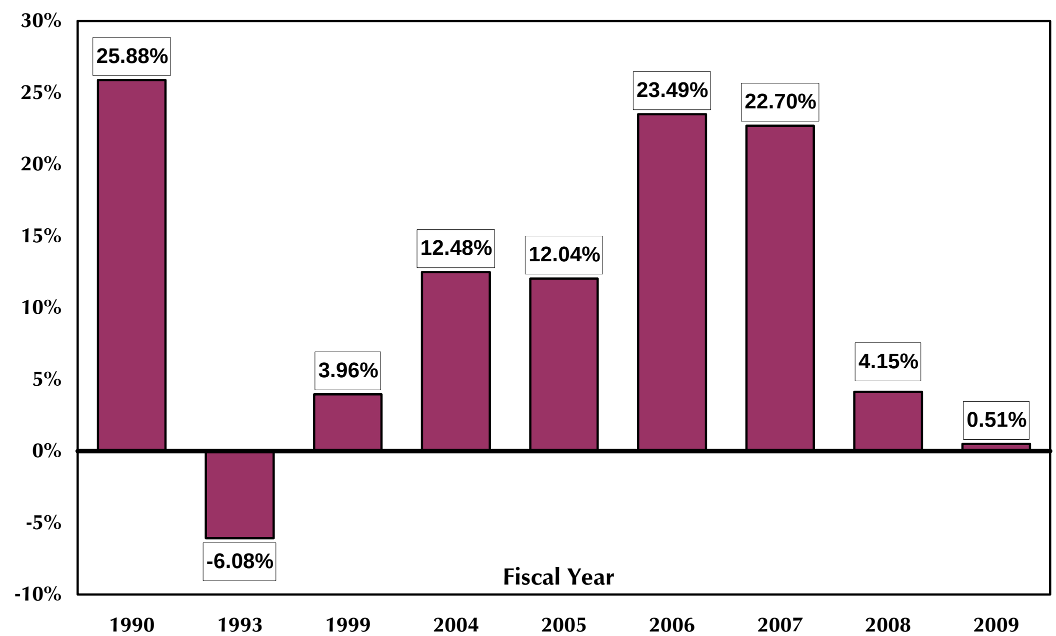
FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$1,884,685,393	$1,959,665,123	$1,966,650,834	$2,034,479,514	$67,828,680	3.45%

The FY 2009 estimate for Current Real Estate Taxes is $2,034,479,514 and represents an increase of $67,828,680, or 3.5 percent over the FY 2009 Advertised Budget Plan. The increase is the result of the adoption of a $0.03 increase in the Real Estate Tax rate. The total revenue associated with the additional $0.03 increase in the Real Estate Tax rate is $68,549,220 which includes the increase in the Real Estate Tax revenue shown above and an increase of $720,540 in Personal Property Tax receipts. The Real Estate Tax impacts two classes of personal property: mobile homes and non-vehicle Public Service Corporation property.

The FY 2009 value of assessed real property represents an increase of 0.51 percent, as compared to the FY 2008 Real Estate Land Book and is comprised of a net decrease in equalization of 1.02 percent offset with an increase of 1.53 percent in new growth. The FY 2009 figures reflected in this document are based on final assessments for Tax Year 2008 (FY 2009), which were established as of January 1, 2008. In addition to the revenue shown in the table above, the projected value of one penny on the real estate tax rate ($22.8 million) is allocated to both the Stormwater Management Program and The Penny for Affordable Housing Fund. Throughout FY 2009, Real Estate Tax revenues will be adjusted as necessary to reflect changes in exonerations, tax abatements, and supplemental assessments, as well as, any differences in the projected collection rate of 99.61 percent

The following chart shows changes in the County's assessed value base in FY 1990, FY 1993, FY 1999, and from FY 2004 to FY 2009.

Percentage Change in Real Estate Assessed Value
FY 1990 - FY 2009



	1990	1993	1999	2004	2005	2006	2007	2008	2009
Equalization	**18.27%**	**-6.48%**	**1.77%**	**9.94%**	**9.54%**	**20.80%**	**19.76%**	**2.47%**	**-1.02%**
Res	19.01	-3.74	0.04	14.55	11.29	23.09	20.57	–0.33	-3.38
NonRes	16.54	-13.22	7.12	-2.94	3.74	12.74	16.64	13.57	7.00
Growth	**7.61**	**0.40**	**2.19**	**2.54**	**2.50**	**2.69**	**2.94**	**1.68**	**1.53**
	25.88%	**-6.08%**	**3.96%**	**12.48%**	**12.04%**	**23.49%**	**22.70%**	**4.15%**	**0.51%**

General Fund Revenue Overview

FY 2009 Estimated Real Estate Assessments and Tax Levy

	Assessed Value	FY 2009 Tax Levy at $0.92/$100 of Assessed Value
FY 2008 Real Estate Book	$228,499,236,560	$2,033,643,205
FY 2009 Equalization	($2,331,973,980)	($21,454,161)
FY 2009 Normal Growth	3,502,582,060	32,223,755
TOTAL FY 2009 REAL ESTATE BOOK	**$229,669,844,640**	**$2,112,962,571**
Exonerations	($969,198,550)	($8,916,627)
Certificates	(40,531,965)	(372,894)
Tax Abatements	(265,775,296)	(2,445,133)
Subtotal Exonerations	($1,275,505,811)	($11,734,654)
Supplemental Assessments	$748,852,022	$6,889,439
Tax Relief	($3,210,816,019)	($29,539,507)
Local Assessments	**$225,932,374,832**	**$2,078,577,849**
Public Service Corp.	$1,044,360,753	$9,608,119
TOTAL	**$226,976,735,585**	**$2,088,185,968**

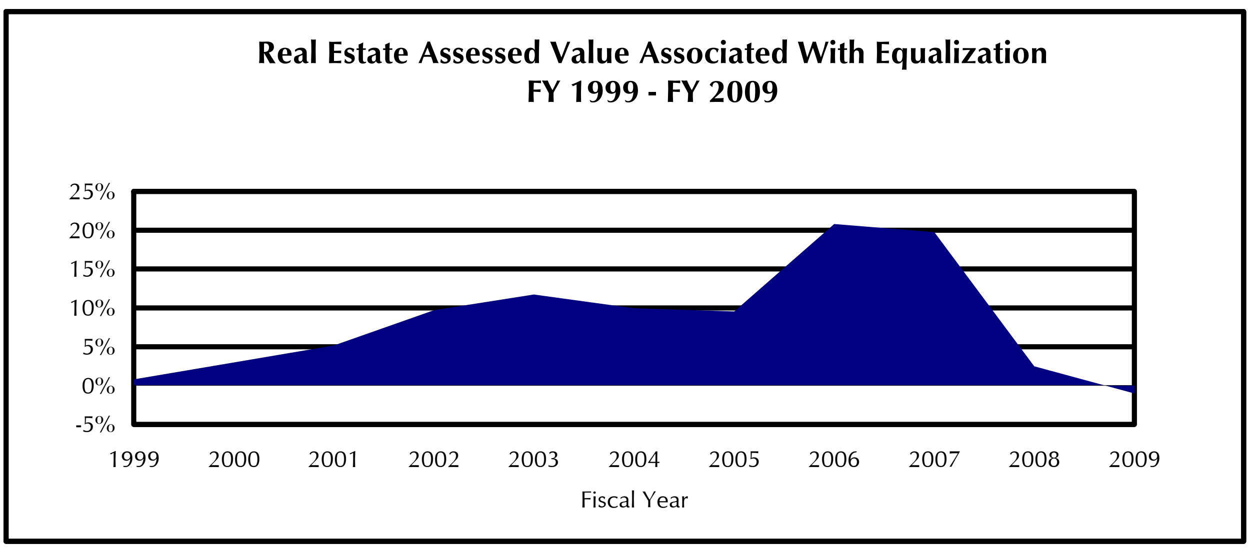
The FY 2009 **Main Assessment Book Value** is $229,669,844,640 and represents an increase of $1,170,608,080, or 0.51 percent, over the FY 2008 main assessment book value of $228,499,236,560. The modest rise in FY 2009 continues the deceleration trend that began in FY 2008. Dramatic changes in assessment growth have occurred before. Following a 25.88 percent increase in FY 1990, the assessment base rose 16.8 percent in FY 1991 but then declined 0.96 percent in FY 1992. Assessments continued to fall in FY 1993 and FY 1994, at rates of 6.08 percent and 1.38 percent, respectively. After the recession, the value of real property increased at modest annual rates, averaging 2.5 percent from FY 1995 through FY 1999. During this period, growth in assessments just slightly exceeded the corresponding 2.2 percent average annual rate of inflation. It was not until FY 1999 that the assessment base exceeded its FY 1991 level. In FY 2000 and FY 2001, assessments grew at moderate rates of 6.3 percent and 8.9 percent, respectively. From FY 2002 through FY 2007, the assessment base experienced double digit advances.

The overall increase in the assessment base includes **equalization,** the reassessment of existing properties, and **normal growth**, which is associated with construction of new properties in Fairfax County. The FY 2009 assessment base reflects a decrease of 3.38 percent in the values of existing residential properties and a 7.00 percent increase in nonresidential properties. The decline in residential properties is the second consecutive decrease. Residential property experienced modest 0.77 percent growth due to new construction, while new growth in nonresidential properties increased 4.11 percent. As a result of these changes, the residential portion of the total assessment base dropped from 77.2 percent in FY 2008 to 74.84 percent in FY 2009. The table below reflects changes in the Real Estate Tax assessment base from FY 2002 through FY 2009.

Main Real Estate Assessment Book Base Changes (in millions)

Assessed Base Change Due To:	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Equalization	$8,522.9	$11,699.8	$11,428.5	$12,322.2	$30,124.7	$35,328.9	$5,410.2	($2,332.0)
% Change	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.47%	-1.02%
Residential	11.26%	16.27%	14.55%	11.29%	23.09%	20.57%	-0.33%	-3.38%
Nonresidential	5.92%	0.52%	-2.94%	3.74%	12.74%	16.64%	13.57%	7.00%
Normal Growth	$3,456.3	$3,409.4	$2,916.1	$3,235.4	$3,889.0	$5,258.1	$3,683.6	$3,502.6
% Change	3.94%	3.42%	2.54%	2.50%	2.69%	2.94%	1.68%	1.53%
Residential	2.83%	3.01%	2.60%	2.49%	2.62%	3.01%	1.00%	0.77%
Nonresidential	6.63%	4.41%	2.36%	2.54%	2.93%	2.67%	4.38%	4.11%
Total % Change	13.64%	15.14%	12.48%	12.04%	23.49%	22.70%	4.15%	0.51%

Equalization, or reassessment of existing residential and nonresidential property, represents a net decline in value of $2,331,973,980, or 1.02 percent, in FY 2009. The decline in total equalization is due to a decrease in residential property partially offset with an increase in nonresidential property values. FY 2009 is the second consecutive year that existing residential properties fell in value compared to the prior year. The reduction in residential values corresponds to a persistent deterioration of the residential housing market that began in calendar year 2006. The slide in the number of homes sold continued and median and average home sale prices fell lower than 2006. Changes in the Fairfax County housing market mirror the changes experienced in the region and the nation. Changes in the assessment base as a result of equalization are shown in the following graph. The reduction in the tax levy associated with the overall 1.02 percent decrease in equalization is $21,454,161 based on a tax rate of $0.92 per $100 of assessed value.



Residential equalization declined notably from FY 1992 through FY 1994 due to the recession and then remained essentially flat from FY 1995 through FY 2000. Following a moderate increase in FY 2001 of 5.13 percent, residential equalization rose at double digit rates from FY 2002 through FY 2007 due to strong demand but a limited supply of housing. Strong job growth, the easy availability of credit and profit lead speculation contributed to price appreciation in the local housing market. In FY 2008 and FY 2009, overall residential equalization declined 0.33 percent and 3.38 percent, respectively, as the inventory of homes for sale grew and home prices fell in the County as they did throughout the Northern Virginia area. In FY 2009, the majority of residential properties in the County will receive a reduction in value; however, a few neighborhoods maintained value or rose modestly. It should be noted that the County's median assessment to sales ratio is in the low 90 percent range, well within professional standards that assessments should be between 90 percent to 110 percent of the sales prices experienced in a neighborhood.

Overall, single family property values declined 3.12 percent FY 2009. The value of single family homes has the most impact on the total residential base because they represent over 71 percent of the total. The value of condominium properties fell 4.54 percent in FY 2009 due in part to an overabundance of new condos in the area. The value of townhouse properties in FY 2009 fell 4.96 percent after rising slightly in FY 2008. Changes in residential equalization by housing type since FY 2004 are shown in the following table. It should be noted that changes represented in this chart are for the category as a whole. Individual neighborhoods and properties may have increased or decreased by different percentages based on neighborhood selling prices.

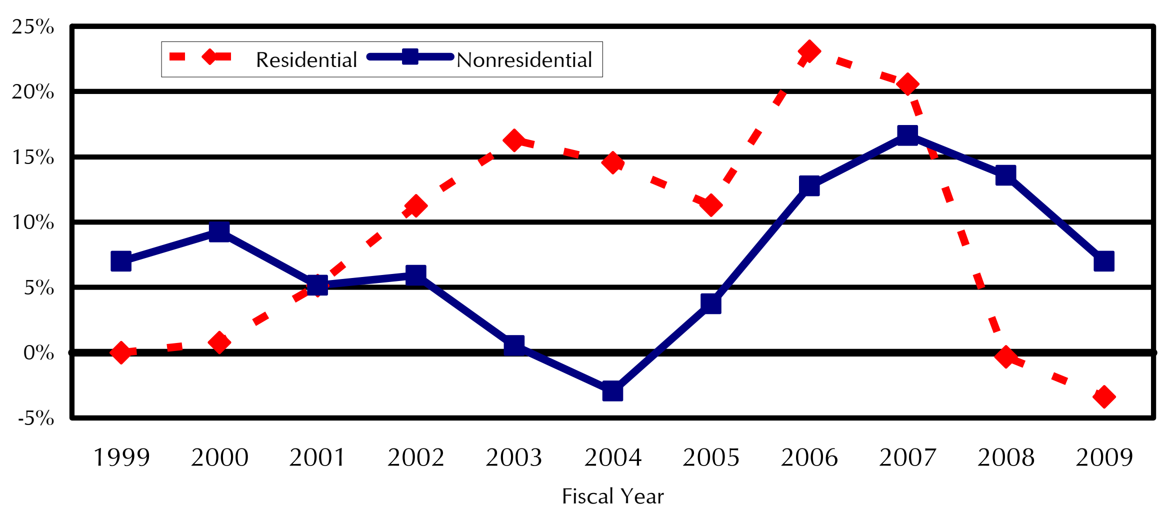
Residential Equalization Changes

Housing Type/ (Percent of Base)	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**
Single Family (71.2%)	14.15%	11.20%	22.21%	20.37%	-0.43%	-3.12%
Townhouse/Duplex (19.7%)	17.00%	12.99%	26.08%	22.69%	0.64%	-4.96%
Condominiums (8.3%)	20.09%	16.24%	33.49%	25.97%	-2.23%	-4.54%
Vacant Land (0.6%)	23.23%	15.19%	26.32%	25.44%	3.86%	7.66%
Other (0.2%)[1]	2.58%	4.89%	5.30%	9.67%	2.97%	6.46%
Total Residential Equalization (100%)	**14.55%**	**11.29%**	**23.09%**	**20.57%**	**-0.33%**	**-3.38%**

[1] Includes, for example, affordable dwelling units, recreational use properties, and agricultural and forestal land use properties.

As a result of the decline in residential equalization, the mean assessed value of all residential property in the County is $524,076. This is a decrease of $18,333 from the FY 2008 value of $542,409. At the current Real Estate tax rate of $0.92 per $100 of assessed value, the typical residential annual tax bill will decrease, on average, $5.94 in FY 2009 to $4,821.50.

Residential vs. Nonresidential Equalization
FY 1999 - FY 2009



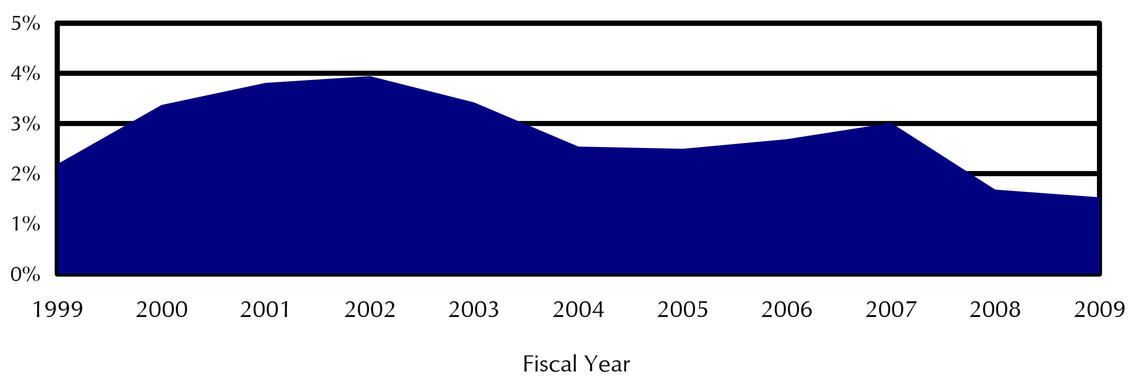
Nonresidential equalization rose at a reduced pace of 7.00 percent in FY 2009, down from 13.57 percent in FY 2008. Office Elevator properties (mid- and high-rises), which comprise 39.2 percent of the total nonresidential tax base increased 5.68 percent. This compares to an increase of 15.93 percent in FY 2008. The deceleration reflects the rise in office vacancy rates over the year. The County's direct office vacancy rate as of year-end 2007 was 9.2 percent up from 7.7 percent at the end of 2006 according to the Fairfax County Economic Development Authority. Including sublet space, the year-end 2007 office vacancy rate was 10.9 percent, 1.7 percentage points higher than year-end 2006. Hotel property values were the only category to rise at a higher rate in FY 2009 than in FY 2008, accelerating from 9.58 percent in FY 2008 to 11.28 percent in FY 2009. While the Retail category increased a moderate 7.76 percent in FY 2009, the value of Regional Malls increased a tepid 1.86 percent. Nonresidential equalization changes by category since FY 2004 are presented in the following table.

Nonresidential Equalization Changes

Category (Percent of Base)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	2009
Apartments (17.4%)	3.86%	1.86%	11.21%	11.65%	22.59%	6.41%
Office Condominiums (3.8%)	15.63%	13.59%	18.01%	1.96%	13.76%	4.78%
Industrial (6.4%)	-1.29%	5.26%	8.89%	12.61%	14.34%	14.08%
Retail (11.4%)	2.91%	7.91%	10.99%	18.56%	7.56%	7.76%
Regional Malls (3.2%)	6.95%	3.00%	4.06%	2.24%	12.90%	1.86%
Office Elevator (39.2%)	-10.73%	3.27%	18.81%	24.16%	15.93%	5.68%
Office - Low Rise (4.4%)	-6.27%	5.42%	17.56%	23.94%	10.18%	9.16%
Vacant Land (5.0%)	-6.55%	7.15%	10.07%	21.88%	14.99%	7.67%
Hotels (3.9%)	-6.23%	4.48%	15.34%	25.54%	9.58%	11.28%
Other (5.3%)	6.00%	5.15%	8.52%	12.19%	10.05%	7.63%
Nonresidential Equalization (100%)	**-2.94%**	**3.74%**	**12.74%**	**16.64%**	**13.57%**	**7.00%**

Normal Growth of $3,502,582,060 or 1.53 percent, over the FY 2008 assessment book value results from new construction, new subdivisions, and rezonings. This level of growth is similar to the 1.68 percent experienced in FY 2008 but lower than that experienced the last 13 years and is a result of the low level of new residential construction due to the softening housing market. In FY 2009, the residential property base experienced a 0.77 percent increase due to new construction; while nonresidential properties rose 4.11 percent as a result of new construction. The rate of new nonresidential construction growth is the highest in four years. For the 10 years prior to FY 1998, the value of property added to the tax base due to new residential and nonresidential construction ranged from 1.93 percent to 3.94 percent (see the graph below).

Real Estate Assessed Value Associated With Normal Growth FY 1999 - FY 2009



In addition to the final equalization and normal growth adjustments in the Main Assessment Book, the following projected adjustments were made to the FY 2009 Real Estate Tax revenue estimate:

Additional Assessments expected to be included in the new Real Estate base total $748.9 million and include both prorated assessments and additional supplemental assessments. Prorated assessments are supplemental assessments that include assessments which are made during the year for new construction that is completed subsequent to finalizing the original assessment book. Additional supplemental assessments may also result due to changes in ownership or tax exempt status. The total value of the supplemental assessments will be closely monitored based on new construction and building permit activity.

Exonerations, Certificates and Tax Abatements are anticipated to reduce the Real Estate assessment base by $1,275.5 million in FY 2009, an increase of $291.0 million over FY 2008 due to FY 2008 exonerations being lower than forecasted and adjusted downward as part of the *FY 2008 Third Quarter Review*. Each $100.0 million change in the level of exonerations, certificates and tax abatements is equivalent to a change of $0.9 million in tax levy.

Tax Relief for the Elderly and Disabled is projected to reduce the Real Estate assessment base in FY 2009 by $3,210.8 million. The reduction in revenue due to the Tax Relief program is approximately $29.5 million at the 0.92/$100 tax rate. In FY 2009, the income limits of the Tax Relief program provide 100 percent exemption for elderly and disabled taxpayers with incomes up to $52,000; 50 percent exemption for eligible applicants with income between $52,001 and $62,000; and 25 percent exemption if income is between $62,001 and $72,000. The allowable asset limit in FY 2008 is $340,000 for all ranges of tax relief. The Board of Supervisors expanded the Real Estate Tax Relief Program for the Elderly and Disabled in each year from FY 2001 through FY 2006. In addition, since FY 2005, tax relief benefits are prorated based on the portion of the year an applicant is 65 or becomes disabled. The table below shows income and asset thresholds for the Tax Relief Program for the Elderly and Disabled since FY 2000.

Real Estate Tax Relief for the Elderly and Disabled

	Income Limit	Asset Limit	Percent Relief
FY 2000	Up to $30,000	$150,000	100%
	Over $30,000 to $35,000		50%
	Over $35,000 to $40,000		25%
FY 2001	Up to $35,000	$150,000	100%
	Over $35,000 to $40,000		50%
	Over $40,000 to $46,000		25%
FY 2002	Up to $40,000	$150,000	100%
	Over $40,000 to $46,000		50%
	Over $46,000 to $52,000		25%
FY 2003	Up to $40,000	$160,000	100%
	Over $40,000 to $46,000		50%
	Over $46,000 to $52,000		25%
FY 2004	Up to $40,000	$190,000	100%
	Over $40,000 to $46,000		50%
	Over $46,000 to $52,000		25%
FY 2005	Up to $40,000	$240,000	100%
	Over $40,000 to $46,000		50%
	Over $46,000 to $52,000		25%
FY 2006	Up to $52,000	$340,000	100%
through	Over $52,000 to $62,000		50%
FY 2009	Over $62,000 to $72,000		25%

The FY 2008 local assessment base of $225,932,374,832 is derived from the main assessment book and subsequent adjustments discussed above. From this local assessment base, a local tax levy of $2,078,577,849 is calculated using a tax rate of $0.92 per $100 of assessed value. Based on an expected local collection rate of 99.61 percent, revenue from local assessments is estimated to be $2,070,471,395. In FY 2009, every 0.01 percentage point change in the collection rate on the locally assessed Real Estate Tax levy yields a revenue change of $0.2 million, while every penny on the tax rate yields $22.8 million in revenue.

Added to the local assessment base is an estimated $1,044,360,753 in assessed value for Public Service Corporations (PSC) property. Using a rate of $0.92 per $100 of assessed value, the tax levy on PSC property is $9,608,199. The collection rate on PSC property is expected to be 100.0 percent.

The total assessment base, including Public Service Corporations, is $226,976,735,585 with a total tax levy of $2,088,185,968 at the $0.92 per $100 assessed value tax rate. Estimated FY 2009 revenue from the Real Estate Tax, including receipts from Public Service Corporations, totals $2,070,471,395 at the $0.92 per $100 assessed value rate. Of this amount, the value of one cent on the Real Estate Tax rate, $22,800,000, has been directed to Fund 318, Stormwater Management Program, and $22,800,000 has been directed to Fund 319, The Penny for Affordable Housing Fund. Total General Fund revenue from the Real Estate Tax is $2,034,479,514 which reflects an overall collection rate of 99.61 percent. The total collection rates experienced in this category since FY 1994 are shown in the following table:

Real Estate Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1994	99.15%	**2002**	99.65%
1995	99.32%	**2003**	99.67%
1996	99.47%	**2004**	99.61%
1997	99.56%	**2005**	99.62%
1998	99.54%	**2006**	99.62%
1999	99.50%	**2007**	99.64%
2000	99.63%	**2008 (estimated)**	99.61%
2001	99.53%	**2009 (estimated)**[1]	99.61%

[1] In FY 2009, every 0.1 percentage point change in the collection rate yields a revenue change of $2,078,578.

The Commercial/Industrial percentage of the County's FY 2009 Real Estate Tax base is 21.06 percent, a gain of 1.83 percentage points over the FY 2008 level and the second consecutive increase. Commercial/Industrial property values as a percentage of the Real Estate Tax base have increased as a result of new office construction, rising nonresidential values and declines in residential property values. The Commercial/Industrial percentage is based on Virginia land use codes and excludes multi-family rental apartments, which make up 4.1 percent of the County's Real Estate Tax base in FY 2009. Fairfax County's historical Commercial/Industrial percentages are detailed in the following table:

Commercial/Industrial Percentages

Fiscal Year	Percentage	Fiscal Year	Percentage
1994	20.94%	**2002**	24.84%
1995	19.59%	**2003**	21.97%
1996	19.04%	**2004**	19.14%
1997	19.56%	**2005**	18.20%
1998	20.47%	**2006**	17.36%
1999	21.84%	**2007**	17.22%
2000	24.32%	**2008**	19.23%
2001	25.37%	**2009**	21.06%

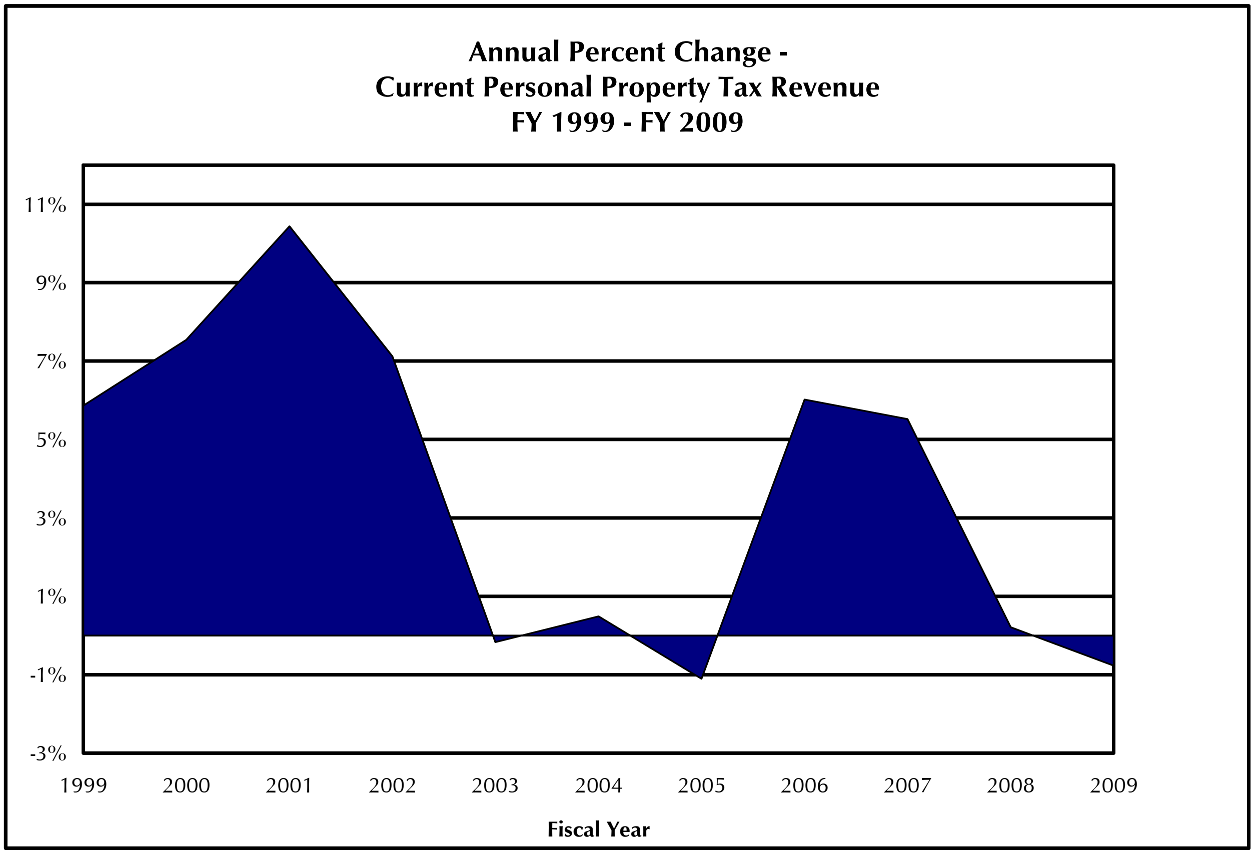
PERSONAL PROPERTY TAX-CURRENT

	FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
Paid Locally	$297,001,245	$298,061,216	$293,440,265	$294,160,805	$720,540	0.24%
Reimbursed by State	211,313,944	211,313,944	211,313,944	211,313,944	0	0.00%
Total	$508,315,189	$509,375,160	$504,754,209	$505,474,749	$720,540	0.14%

The FY 2009 estimate for Personal Property Tax revenue of $505,474,749 represents an increase of $720,540, or 0.1 percent, over the FY 2009 Advertised Budget Plan estimate. The additional revenue is the result of the adoption of a $0.03 increase in the Real Estate Tax rate, which is levied on mobile homes and non-vehicle Public Service Corporations properties.

The vehicle portion of the Personal Property Tax is comprised of two parts, that which is paid by citizens locally and that which is reimbursed by the Commonwealth of Virginia to the County as a result of the Personal Property Tax Relief Act (PPTRA) of 1998. The PPTRA reduces the Personal Property Tax paid on the first $20,000 of the value for vehicles owned by individuals. In FY 1999, the first year of implementation, taxpayers were billed for the entire amount of tax levy and received a refund of 12.5 percent of the tax on the first $20,000 of the value of their personal vehicle from the Commonwealth of Virginia. Vehicles valued less than $1,000 were refunded 100 percent. From FY 2000 to FY 2002, the PPTRA reduced the Personal Property Taxes paid by citizens by 27.5 percent, 47.5 percent, and 70 percent, respectively with an offsetting reimbursement paid to the County by the Commonwealth. Under the original approved plan, taxes paid by individuals were to be reduced by 100 percent in FY 2003. However, due to the State's lower than anticipated General Fund revenue growth, the reimbursement rate remained at 70 percent in FY 2003 and held this rate through FY 2006. The 2004 General Assembly approved legislation that capped statewide Personal Property Tax reimbursements at $950 million in FY 2007 and beyond. Fairfax County's allocation has been set at $211.3 million based on the County's share of statewide tax year 2005 collections. Each year County staff must determine the reimbursement percentage based on the County's fixed reimbursement of and an estimate of the number and value of vehicles that will be eligible for tax relief. As the number and value of vehicles in the County vary, the percentage attributed to the state will vary. Based on a County staff analysis, the effective state reimbursement percentage was 66.67 percent and 67.00 percent in FY 2007 and FY 2008, respectively and will be set at 68.50 percent in FY 2009. The reimbursement percent has increased in FY 2009 due to fewer new vehicle purchases which has reduced the projected total value of vehicles in the County's tax base.

The Personal Property Tax consists of two major components: vehicles and business personal property. Both components are sensitive to changes in the national and local economies. The vehicle component represents about 68 percent of the Personal Property Tax base in FY 2009. Annual percentage changes in total Personal Property Tax revenues are shown in the following graph.



Total Personal Property Tax revenues experienced average annual growth of 5.0 percent from FY 1999 to FY 2004. In FY 2004, Personal Property Taxes increased a modest 0.5 percent, which was due to the stalled economy coupled with an enhanced computer depreciation schedule that reduced business levy. In FY 2005, Personal Property Tax revenue fell 1.1 percent from the FY 2004 level as a result of faster depreciation of vehicles and a decrease in the business levy due to a reduced equipment purchases. FY 2006 Personal Property recovered and receipts grew 6.0 percent. Average vehicle levy rose a robust 8.4 percent due to strong new car purchases in 2005. FY 2007 Personal Property receipts increased 5.5 percent because of a higher than projected collection rate due in part to the change in the method of receiving the State's share of the tax. FY 2007 was the first year that the State's share of the Personal Property Tax was capped at $211.3 million. One hundred percent of these funds are received in scheduled installments and reimbursement is no longer linked to the payment by the individual taxpayer. Prior to the cap, the State's share was only reimbursed to the County after the bill had been paid by the taxpayer.

As part of the *FY 2008 Third Quarter Review*, the FY 2008 estimate for Personal Property Tax receipts was increased $3,154,260 over the fall estimate primarily due to a reduction in anticipated exonerations and an increase in the projected collection rate. Overall, Personal Property Tax receipts are expected to increase a slight 0.2 percent in FY 2008.

Personal Property Tax revenue is projected to drop in FY 2009. The vehicle component, which comprises over 74 percent of total Personal Property levy, is the cause of this decrease. Vehicle volume is forecast to drop 0.3 percent in FY 2009. Current economic conditions are impacting purchases. The Virginia Automobile Dealers Association reported that new model vehicle registrations in Fairfax County fell 8.8 percent in 2007. Consumers are less able to finance vehicles with home equity lines of credit or mortgage refinancing due to the housing downturn. Because fewer new vehicles are being purchased and existing vehicles in the County's tax based have depreciated, the average vehicle levy is expected to increase just 0.5 percent based on an analysis of vehicles in the County valued with information from the National Automobile Dealers' Association (NADA). Incorporating changes in volume and average vehicle levy, the overall vehicle component of the

Personal Property Tax base is expected to fall 0.1 percent in FY 2009. Changes in vehicle volume and levy since FY 2000 are shown in the following table.

Personal Property Vehicles

Fiscal Year	Growth in Vehicle Volume	Average Vehicle Levy	Growth in Average Levy
FY 2000	4.2%	$336	4.9%
FY 2001	4.5%	$359	6.9%
FY 2002	2.3%	$369	2.8%
FY 2003	3.0%	$372	0.8%
FY 2004	-0.7%	$389	4.6%
FY 2005	1.4%	$379	-2.6%
FY 2006	-0.9%	$411	8.4%
FY 2007	-0.6%	$431	4.9%
FY 2008 (est.)	-0.1%	$424	-1.6%
FY 2009 (est.)	-0.3%	$426	0.5%

Business Personal Property, which is partially offsetting the vehicle component's decline, is primarily comprised of assessments on furniture, fixtures and computer equipment. Due to continued but slowing economic growth in the County, business levy is expected to increase a modest 2.0 percent in FY 2009.

In accordance with assessment principles and the Code of Virginia, which require that property is taxed at fair market value, the Department of Tax Administration (DTA) annually reviews the depreciation rate schedule for computer hardware due to the speed with which computer values change. To reflect market trends, the computer depreciation schedule was adjusted in each year from FY 1999 to FY 2001, in FY 2003, and again in FY 2004. Based on current trends, the computer depreciation schedule was not adjusted in FY 2005 through FY 2008 and will not be adjusted in FY 2009. Previous and current computer depreciation schedules are shown in the following table. The percentages from the depreciation schedule are applied to the original purchase price of the computer equipment to determine its fair market value. Personal Property Taxes are then levied on this value. Fairfax County's FY 2009 computer depreciation schedule reduces the value upon which the tax is levied more rapidly than any other Northern Virginia locality.

Computer Depreciation Schedules
FY 1998 - FY 2009
Percent of Original Purchase Price Taxed

Year of Acquisition	FY 1998	FY 1999	FY 2000	FY 2001 and FY 2002	FY 2003	FY 2004 through FY 2009
1	80%	65%	60%	60%	55%	50%
2	55%	45%	40%	40%	35%	35%
3	35%	30%	30%	25%	20%	20%
4	10%	10%	10%	10%	10%	10%
5 or more	10%	2%	2%	2%	2%	2%

Personal Property Tax revenue estimates are based on a tax rate of $4.57 per $100 of valuation for vehicles and business property, and an increased rate of $0.92 per $100 of valuation for mobile homes and non-vehicle Public Service Corporations properties. The following table details the estimated assessed value and associated levy for components of the Personal Property Tax.

FY 2009 Estimated Personal Property Assessments and Tax Levy

Category	FY 2009 Assessed Value	Tax Rate (per $100)	FY 2009 Tax Levy	Percent of Total Levy
Vehicles				
Privately Owned	$9,018,510,594	$4.57	$332,754,722	65.2%
Business Owned	488,591,465	4.57	18,066,591	3.5%
Leased	831,988,435	4.57	27,722,238	5.4%
Subtotal	$10,339,090,494		$378,543,551	74.1%
Business Personal Property				
Furniture and Fixtures	$1,601,260,919	$4.57	$73,121,653	14.3%
Computer Equipment	645,703,845	4.57	29,508,303	5.8%
Machinery and Tools	78,563,138	4.57	3,590,335	0.7%
Research and Development	7,327,387	4.57	334,862	0.1%
Subtotal	$2,332,855,289		$106,555,153	20.9%
Public Service Corporations				
Equalized	$2,379,314,097	$0.92	$21,889,690	4.3%
Vehicles	10,900,679	4.57	498,161	0.1%
Subtotal	$2,390,214,776		$22,387,851	4.4%
Other				
Mobile Homes	$23,503,313	$0.92	$209,091	0.0%
Other (Trailers, Misc.)	13,563,421	4.57	478,260	0.1%
Subtotal	$37,066,734		$687,351	0.1%
Penalty for Late Filing			$2,427,081	0.5%
TOTAL	**$15,099,227,293**		**$510,600,987**	**100.0%**

FY 2009 Personal Property Tax assessments including Public Service Corporations are $15,099,227,293 with a total tax levy of $510,291,888. Personal Property Tax revenue collections are projected to be $505,474,749 reflecting an overall collection rate of 98.0 percent. Total collection rates experienced in this category since FY 1994 are shown in the following table:

Total Personal Property Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1994	95.6%	**2002**	96.3%
1995	96.8%	**2003**	96.8%
1996	97.2%	**2004**	96.9%
1997	97.3%	**2005**	97.9%
1998	97.3%	**2006**	98.1%
1999	97.3%	**2007**	98.3%
2000	97.3%	**2008 (estimated)**	98.0%
2001	97.1%	**2009 (estimated)**[1]	98.0%

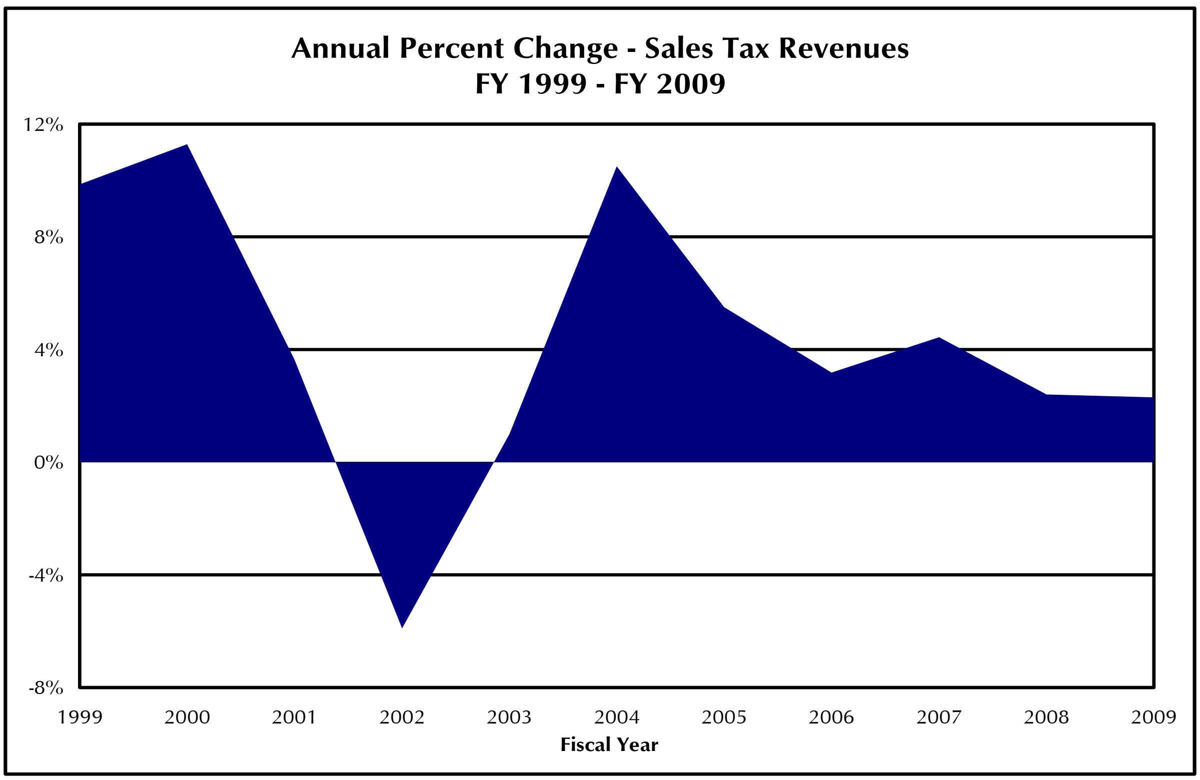
[1] Each 0.1 percentage point change in the collection rate on the local tax levy will impact revenues by approximately $0.5 million, and each penny on the tax rate yields a revenue change of $1.1 million.

LOCAL SALES TAX

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$159,224,006	$162,983,388	$170,704,662	$166,795,426	($3,909,236)	-2.29%

The FY 2009 estimate for Sales Tax receipts of $166,795,426 represents a decrease of $3,909,236, or 2.3 percent from the FY 2009 Advertised Budget Plan based on current forecasts for County retail sales from Moody's Economy.com. As the chart below illustrates, from 2005 through FY 2007, Sales Tax Receipts experienced moderate growth, increasing at an average annual rate of 4.4 percent. Recent Sales Tax receipts have been impacted by declines in purchases of new furniture and fixtures which usually coincide with home purchases, a lack of spending financed by home equity lines of credit, and a pullback of spending as consumers feel less wealthy due to declines in homeowner equity. In addition, the Consumer Confidence Index has fallen in nine of the first 10 months of FY 2008 and consumer spending is more restrained when economic uncertainty intensifies.

As part of the *FY 2008 Third Quarter Review*, the estimate for Sales Tax receipts was lowered $1.2 million based on collections through March 2008 representing 2.4 percent growth over FY 2007. During the first six months of FY 2008, Sales Tax collections were increasing at a rate of 3.5 percent so the Sales Tax projection of 3.1 percent included in the FY 2008 Adopted Budget Plan was not adjusted during the fall revenue review. After the fall review, Sales Tax collections weakened considerably and fell lower than the prior year in February and March. Consequently, fiscal year-to-date growth for the first eight months of FY 2008 was only 2.4 percent. The revised FY 2008 Sales Tax estimate assumed that monthly collections for the remainder of the year would continue to increase at an average rate of 2.4 percent. However, since the *FY 2008 Third Quarter Review,* Sales Tax receipts have continued to show weakness and for the first eleven months of the fiscal year are up just 1.8 percent which could result in a deficit of approximately $0.9 million at fiscal year-end. The FY 2008 deficit in Sales Tax receipts is expected to be offset with increased revenue in other categories such as delinquent tax collections. The FY 2009 estimate reflects growth of 2.3 percent and is based on a forecast of County retail sales from Moody's Economy.com. The FY 2009 Sales Tax estimate will be assessed during the fall 2008 revenue review to determine if an adjustment is warranted.



RECORDATION/DEED OF CONVEYANCE TAXES

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$41,658,070	$27,618,419	$33,304,953	$33,304,953	$0	0.00%

The FY 2009 estimate of $33,304,953 for Recordation and Deed of Conveyance Taxes represents no change from the FY 2009 Advertised Budget Plan. The FY 2009 estimate is comprised of $26,569,818 in Recordation Tax revenues and $6,735,135 in Deed of Conveyance Tax revenues. Recordation and Deed of Conveyance Taxes are levied in association with the sale or transfer of real property located in the County. Recordation Taxes are also levied when mortgages on property located in the County are refinanced, making Recordation Tax revenues more sensitive to interest rate fluctuations than Deed of Conveyance Taxes. Home values and interest rate projections are used in an econometric model that assists in developing estimates for these categories.

Between FY 2000 and FY 2005, receipts from Recordation and Deed of Conveyance Taxes increased considerably due to strong home sales and rising prices. Increased mortgage refinancing due to low mortgage rates also enhanced Recordation collections. During this period, revenues from Recordation and Deed of Conveyance Taxes increased at average annual rates of 33.4 percent and 18.3 percent, respectively. In FY 2006 as the number of home sales declined and prices stabilized, these categories began to moderate and rose a combined 5.6 percent. Weakness in these categories due to the County's softening real estate market that began in the second half of FY 2006 continued through FY 2007. Revenue for Recordation and Deed of Conveyance Taxes decreased a combined 18.9 percent in FY 2007 from the FY 2006 level.

The FY 2008 estimate for Deed of Conveyance and Recordation which represents a decrease of 33.7 percent from the FY 2007 level was revised downward $5.7 million as part of the *FY 2008 Third Quarter Review*. Early in the fiscal year, collections were tracking to the FY 2008 Adopted Budget Plan estimate; therefore the estimate was not revised during the fall 2007 review of revenue. Since the fall review, the rate of decline for Recordation and Deed of Conveyance Tax receipts has accelerated. Through the first seven months of FY 2008, Recordation and Deed of Conveyance Tax receipts were down a combined 23.9 percent. Since that time, collections have posted even sharper declines and during the period from January through April 2008 falling a combined 44.4 percent due to a continued weakening of the County's housing market. The revised FY 2008 estimate of $27.6 million assumes that receipts will drop at an average rate of 45.0 percent during the final two months of the fiscal year based on recent trends. The *FY 2008 Revised Budget Plan* estimate is comprised of $22,127,223 in Recordation Tax revenues and $5,491,196 in Deed of Conveyance Tax revenues. No change has been made to the FY 2009 estimate at this time. However, staff will continue to closely monitor these categories and if the current trends for these categories continue any necessary FY 2009 adjustment will be included in an upcoming budget review.

One recent development that may impact these categories is the passage of the federal Economic Stimulus Act of 2008. The Act included a temporary increase in the dollar limit for mortgages that Freddie Mac, Fannie Mae, and the Federal Housing Administration could purchase or guarantee from $417,000 to a maximum of $729,750 in high cost areas such as the Washington, DC metropolitan region with a goal of making mortgages more available in markets with high house prices. With the loan limit temporarily raised to $729,750, the number of homebuyers eligible to qualify for home loans and mortgage refinancings may increase since more potential homebuyers can qualify for fixed-rate mortgages on houses in the County where average home prices exceed the previous limit and refinancing existing loans may be advantageous to many creditworthy borrowers that utilized non-traditional mortgages in order to purchase their house.

CONSUMER UTILITY TAXES - GAS AND ELECTRIC

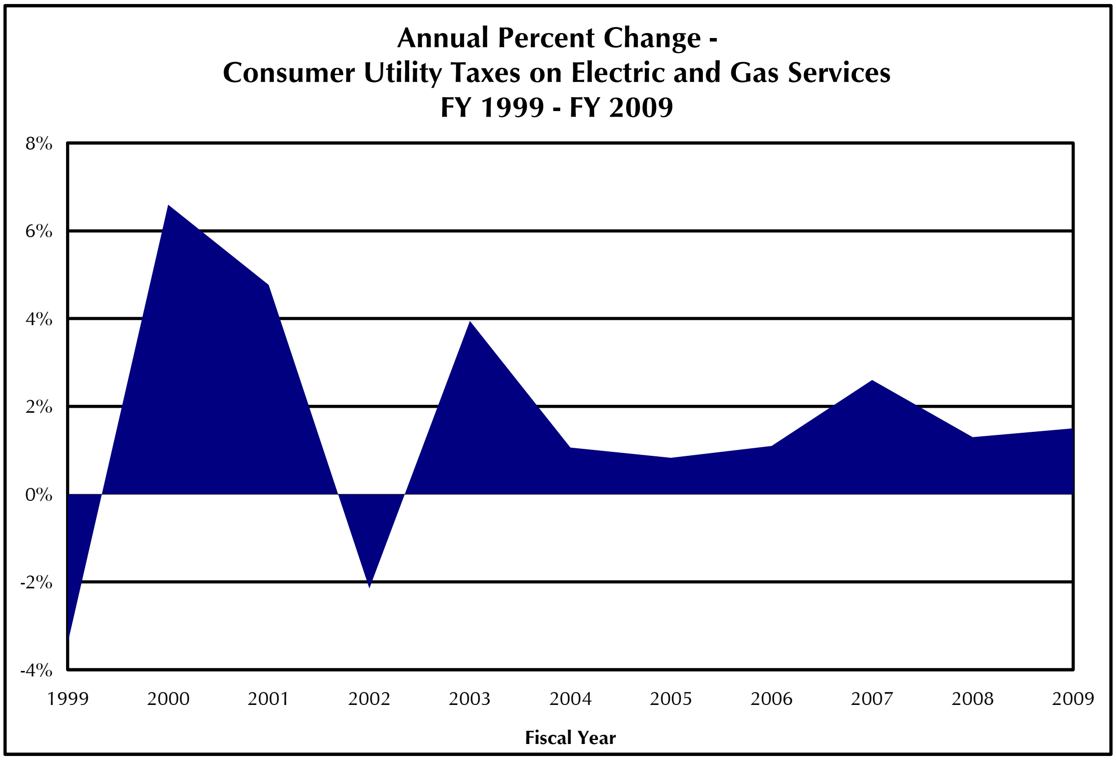
FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$45,367,938	$45,936,936	$46,600,265	$46,600,265	$0	0.00%

The FY 2009 estimate for Consumer Utility Taxes on gas and electric services of $46,600,265 represents no change from the FY 2009 Advertised Budget Plan and an increase of $663,329, or 1.4 percent, over the *FY 2008 Revised Budget Plan*. The FY 2009 estimate is comprised of $37,304,843 in taxes on electric service and $9,295,422 in taxes on gas service. County residents and businesses are subject to Consumer Utility Taxes based on their consumption of electricity and gas services. Tax rates by customer class are shown in the table below.

CONSUMER UTILITY TAXES ON ELECTRICITY AND NATURAL GAS

ELECTRICITY		NATURAL GAS	
Electric Power Customer Class	**Monthly Tax FY 2001 - FY 2009**	**Natural Gas Customer Class**	**Monthly Tax FY 2001 - FY 2009**
Residential	$0.00605 per kWh	**Residential**	$0.05259 per CCF
Minimum	+$0.56 per bill	Minimum	+$0.56 per bill
Maximum	$4.00 per bill	Maximum	$4.00 per bill
Master Metered Apartments	$0.00323 per kWh	**Master Metered Apartments**	$0.01192 per CCF
Minimum	+$0.56 / dwelling unit	Minimum	+$0.56 / dwelling unit
Maximum	$4.00 / dwelling unit	Maximum	$4.00 / dwelling unit
Commercial	$0.00594 per kWh	**Nonresidential**	$0.04794 per CCF
Minimum	+ $1.15 per bill	Minimum	+ $0.845 per bill
Maximum	$1,000 per bill	Maximum	$300 per bill
Industrial	$0.00707 per kWh	**Nonresidential Interruptible**	$0.00563 per CCF
Minimum	+$1.15 per bill	Minimum	+$4.50 per meter
Maximum	$1,000 per bill	Maximum	$300 per meter

Revenue from Consumer Utility Taxes on gas and electric services from FY 1999 to FY 2003 was unstable, ranging from down 3.4 percent to up 6.6 percent. Since FY 2003, annual growth in Consumer Utility Tax revenue has averaged 1.4 percent. The *FY 2008 Revised Budget Plan* reflects an increase of 1.3 percent over FY 2007 receipts based on current collection trends. FY 2009 is projected to rise at a rate of 1.4 percent, the average rate experienced over the last several years.



COMMUNICATIONS SALES AND USE TAX

	FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
Telephone Utility Tax	$20,454,258	$0	$0	$0	$0	
Mobile Telephone Tax	7,348,570	0	0	0	0	
Communications Tax	20,847,380	57,804,984	56,872,048	56,872,048	0	
Total	$48,650,208	$57,804,984	$56,872,048	$56,872,048	$0	0.00%

The FY 2009 Budget estimate for the Communications Sales and Use Tax is $56,872,048 and represents no change from the FY 2009 Advertised Budget Plan estimate. This statewide tax was first implemented in January 2007 after the 2006 Virginia General Assembly session approved legislation that changed the way in which taxes are levied on communications services. Based on this legislation, local taxes on land line and wireless telephone services were replaced with a 5 percent Statewide Communication Sales and Use Tax. In addition to the communications services previously taxed, the 5 percent Communication Sales and Use Tax applies to satellite television and radio services, internet calling and long-distance telephone charges. As part of this legislation, local E-911 fees were repealed and replaced with a statewide $0.75 per line fee. These rates were meant to provide revenue neutrality with FY 2006 receipts. All communications taxes are remitted to the State for distribution to localities based on the locality's share of total statewide FY 2006 collections of these taxes. Based on analysis by the Virginia Auditor of Public Accounts, Fairfax County's share has been set at 18.93 percent. Receipts during FY 2007 were lower than anticipated and resulted in a year-end shortfall of $5.9 million. However, in the fall of 2007, the Virginia Department of Taxation learned that errors in reporting the tax by two large communications providers had resulted in an under-collection of the statewide tax during FY 2007 and part of FY 2008. These providers remitted back taxes and have corrected the errors going forward. As a result, the FY 2008 estimate was increased $2.9 million during the fall 2007 revenue review.

As part of the *FY 2008 Third Quarter Review* the estimate for Communications Sales and Use Tax was increased $0.9 million based on a payment of back taxes received in March 2008. The FY 2009 estimate requires that monthly receipts average $4.7 million. This amount has been met or exceeded in the last six monthly distributions from the State after adjustment for back taxes.

TRANSIENT OCCUPANCY TAX

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$25,110,144	$20,912,038	$21,957,640	$21,957,640	$0	0.00%

The FY 2009 estimate for Transient Occupancy Tax of $21,957,640 reflects no change from the FY 2009 Advertised Budget Plan and an increase of $1,045,602, or 5.0 percent, over the *FY 2008 Revised Budget Plan* estimate. Transient Occupancy Taxes are charged as part of a hotel bill and remitted by the hotel to the County. Prior to FY 2005, the Transient Occupancy Tax rate was 2.0 percent, the maximum allowed by State law. Legislation enacted by the 2004 Virginia General Assembly permitted the Board of Supervisors to levy an additional 2 percent Transient Occupancy Tax beginning in FY 2005. A portion, 25 percent, of the additional 2.0 percent must be appropriated to a nonprofit convention and visitors' bureau located in the County. FY 2007 receipts of $25.1 million reflect a change recommended by County auditors to account for receipts received through August 15th each year in the previous fiscal year since these collections represent taxes levied during the previous fiscal year. Therefore, FY 2007 receipts represent five quarterly payments from hotels. From FY 2008 forward, receipts will reflect four quarterly payments for the revised time period. In FY 2009, receipts are projected to grow 5.0 percent based on moderate increases in tourism, hotel occupancy and room rates.

CIGARETTE TAX

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$9,818,764	$9,128,342	$9,818,764	$9,818,764	$0	0.00%

The FY 2009 estimate for Cigarette Tax revenue of $9,818,764 reflects no change from the FY 2009 Advertised Budget Plan estimate. Fairfax County and Arlington County are the only counties in Virginia authorized to levy a tax on cigarettes. The maximum rate authorized is the greater of 5.0 cents per pack or the rate levied by the Commonwealth. The County's rate was 5.0 cents per pack until September 2004 when the state tax on cigarettes was raised from 2.5 cents to 20 cents per pack and the County followed suit. Likewise, on July 1, 2005, the County raised the rate to 30 cents per pack in concert with the rise in the State rate. As a result of these increases, Cigarette Taxes rose from $1.9 million in FY 2004 to $10.4 million in FY 2006. Cigarette Tax revenue fell 5.4 percent in FY 2007 suggesting s drop in consumption due to health concerns or the purchase of cigarettes in surrounding counties that cannot levy a local cigarette tax. FY 2008 collections through February 2008 were down 7.0 percent compared to the corresponding period of FY 2007. As a result, the estimate for Cigarette Tax revenue was lowered $0.7 million from the fall 2007 revenue review as part of the *FY 2008 Third Quarter Review*. The FY 2009 estimate will be monitored and if consumption trends continue to decline, the estimate will be adjusted during the fall 2009 revenue review.

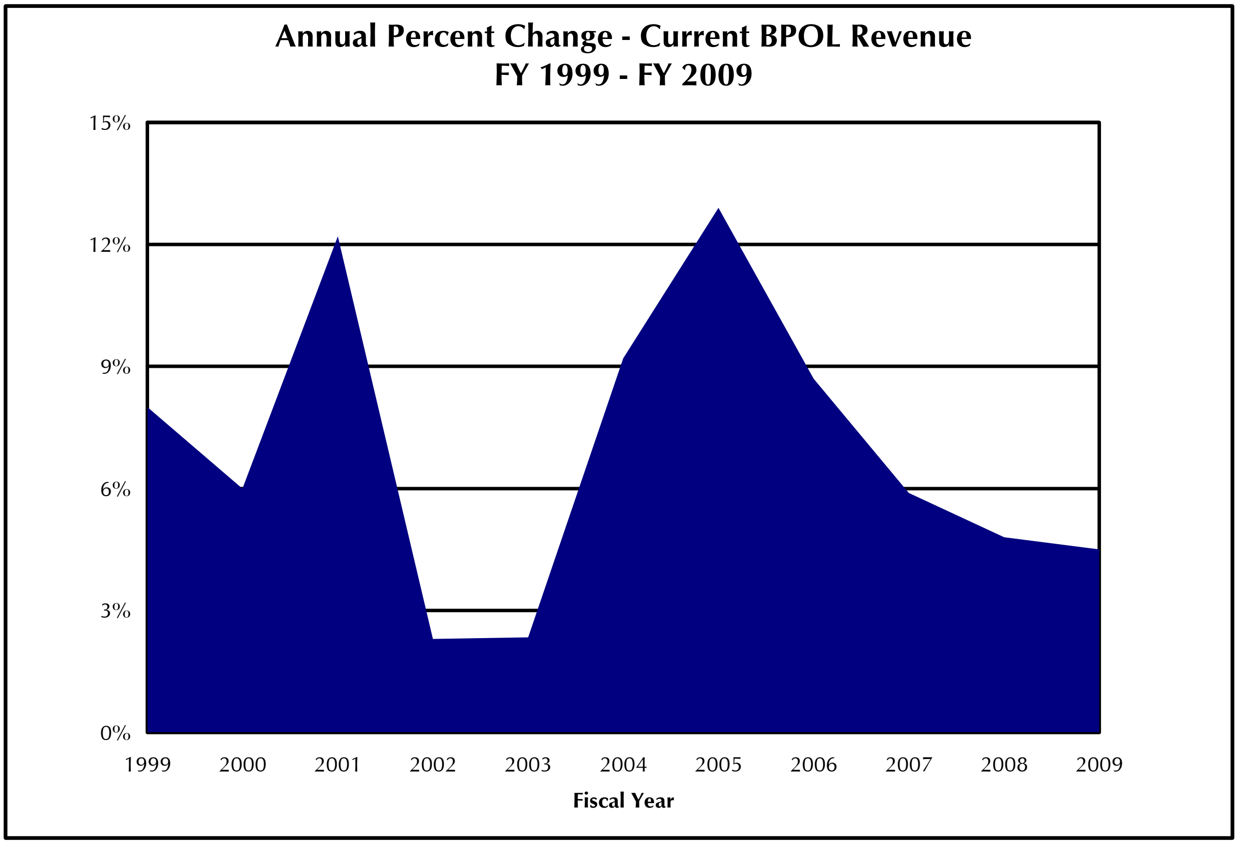
BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$132,541,948	$138,903,962	$145,154,640	$145,154,640	$0	0.00%

The FY 2009 estimate for Business, Professional and Occupational License Taxes (BPOL) of $145,154,640 reflects no change from the FY 2009 Advertised Budget Plan and represents an increase of $6.3 million, or 4.5 percent, over the *FY 2008 Revised Budget Plan*.

As shown in the chart below, BPOL receipts experienced healthy growth in FY 2004 through FY 2006, averaging 10.2 percent per year. This strong growth reflected increases in federal government procurement spending, as well as the robust housing market. In FY 2007, growth in BPOL receipts moderated to 5.9 percent. Revenue in the Consultant category, which represents over a quarter of total BPOL receipts, rose

11.0 percent in FY 2007 while the Retail category (20 percent of total BPOL receipts) rose a slight 1.5 percent over FY 2006. As would be expected, the cooling residential housing market took a toll on real estate related businesses. The combined Real Estate Broker and Money Lender category, which comprises 2.8 percent of BPOL receipts fell 17.0 percent while the Builder and Developer component (0.5 percent of total BPOL) registered a steep decline of 38.1 percent in FY 2007.



Since County businesses file and pay their BPOL taxes simultaneously on March 1 each year based on their gross receipts during the previous calendar year, little actual data was available during the *FY 2008 Third Quarter Review* in order to revise the FY 2008 estimate. Based on initial tax year 2007 BPOL returns; however, FY 2008 receipts are anticipated to be higher than originally projected. This increase is expected to help offset a projected short-fall in revenue from EMS Transport Fees which is discussed later in this section. No change has been made to the FY 2009 estimate at this time in order to evaluate final FY 2008 year-end BPOL receipts. Any necessary FY 2009 adjustment will be included in an upcoming budget review.

PERMITS, FEES AND REGULATORY LICENSES

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$30,778,483	$27,412,072	$27,737,101	$27,907,777	$170,676	0.62%

The FY 2009 estimate for Permits, Fees and Regulatory Licenses of $27,907,777 reflects an increase of $170,676 or 0.6 percent over the FY 2009 Advertised Budget Plan and is the result of additional Fire Marshal Fee revenue. The FY 2009 Advertised Budget Plan included an increase in Fire Marshal Fees from $96 per hour per inspector to $120. Fire Marshal fees, which are charged for acceptance testing of fire systems in new and existing buildings, as well as for inspections of building occupancy and review of evacuation plans, The hourly rate increase was expected to generate additional revenue of $0.7 million in FY 2009. During budget deliberations, the Board of Supervisors directed that the cost recovery rate for the proposed Fire Marshal Fee be increased from approximately 87 percent at the proposed $120 per hour rate to over 90 percent. The adopted Fire Marshal Fee was increased to $128 per hour per inspector which will provide an estimated 92 percent cost recovery rate and additional revenue of $0.2 million in FY 2009.

Nearly three quarters of the Permits, Fees and Regulatory Licenses category are revenues from Land Development Services (LDS) Fees for building permits, site plans and inspection services. Twenty-three individual fee categories comprise Land Development Services (LDS) Fee revenue. Changes in LDS Fee revenue typically track closely to the current condition of the real estate market and construction industry, as well as the size and complexity of projects submitted to LDS for review. One of the most important indicators of workload, and accordingly revenue, is the quantity of building permits issued by LDS. During the first 10 months FY 2008, the number of new residential building permits issued is down 18 percent from the prior year. In addition, nonresidential permits issuances fell 55 percent during the 10 months of FY 2008 to 81 permits from the 180 issued during the corresponding period of FY 2007.

The FY 2009 estimate for LDS Fees is unchanged from the FY 2009 Advertised Budget Plan; however, as a result of the decrease in permitting activity and the declining residential real estate market, an appropriate adjustment will be made, if necessary, during the fall 2009 revenue review after several months of actual FY 2009 collections have been received. The FY 2009 LDS Fee revenue estimate represents a 1.0 percent decrease from the *FY 2008 Revised Budget Plan* estimate based on declining permitting activity.

FINES AND FORFEITURES

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$14,834,607	$14,629,327	$17,275,488	$18,275,488	$1,000,000	5.79%

The FY 2009 estimate for Fines and Forfeitures of $18,275,488 represents an increase of $1.0 million, or 5.8 percent, over the FY 2009 Advertised Budget Plan estimate. This increase is the result of an additional $1.0 million in anticipated receipts from General District Court Fines. The County's Audit Committee reviewed the practice of how County police write traffic tickets. The Committee found that a portion of the tickets had been written citing the Code of Virginia, when the ticket could have been written using the Fairfax County Code. When a ticket is written pursuant to the Fairfax County Code, the County receives the revenue from the fine; otherwise, the fine goes to the Commonwealth. The Board of Supervisors directed that it shall be the County's ticketing policy that whenever a particular citation is identical under both codes, that the citation be written pursuant to the Fairfax County Code resulting in the County receiving revenue from the fine. According to the Board Auditors, this change could result in an additional $1.0 million to $3.0 million annually. The FY 2009 Advertised Budget Plan initially included an additional $1.0 million in General District Court Fines revenue resulting from the changes to the ticket writing process. Based on preliminary indications of the number of tickets that could be written using County citations, the FY 2009 General District Court Fines estimate was increased an additional $1.0 million.

In addition, all County fees and charges were reviewed in order to maximize revenue and increase cost recovery in FY 2009 while maintaining consistency with surrounding jurisdictions. As a result of this exercise, estimates for receipts from Parking Violations have been increased a total of $155,000 in FY 2009, which was included as part of the FY 2009 Advertised Budget Plan estimate. The increase in revenue is primarily due to the fine imposed for unauthorized parking in a handicap spot which will be raised from the current $250 to the state allowed maximum of $500. In addition, fines for a few other parking violations will be increased modestly in accordance with the Code of Virginia.

As part of the *FY 2008 Third Quarter Review*, the estimate for Fines and Forfeitures was decreased $1.3 million to $14,629,327 from the FY 2008 Fall Estimate. The decrease is attributable to lower than anticipated General District Court Fines. Through the first eight months of FY 2008, receipts from General District Court Fines were down nearly 15 percent compared to the same period of FY 2007.

General Fund Revenue Overview

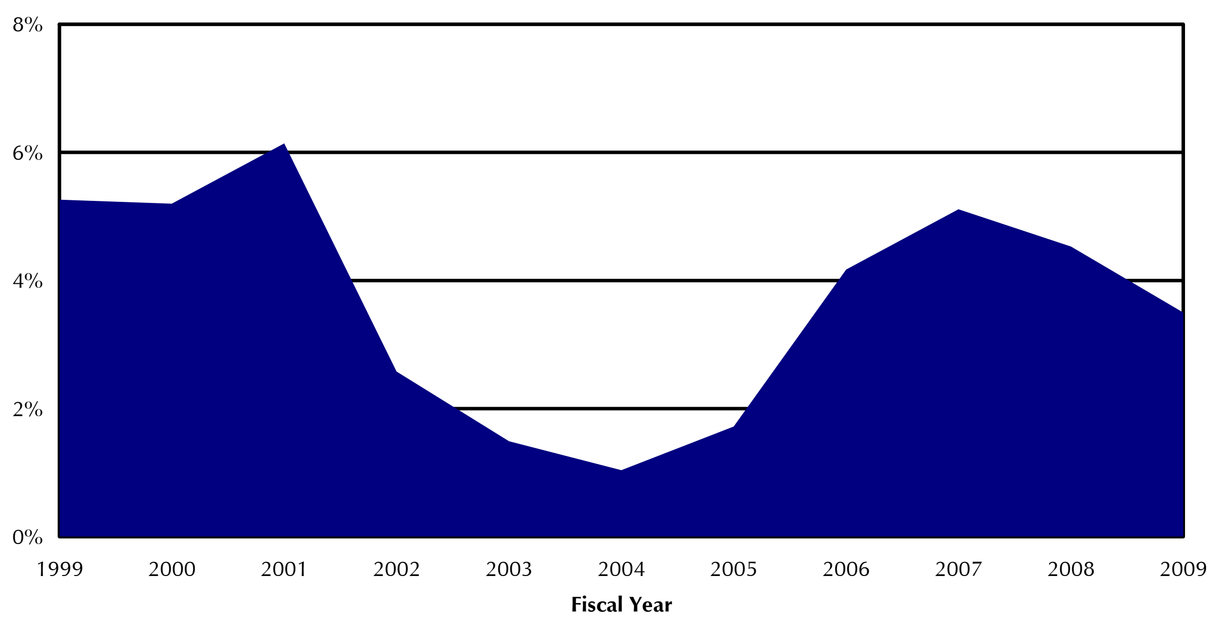
INTEREST ON INVESTMENTS

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$92,075,833	$77,712,416	$65,044,789	$28,885,445	($36,159,344)	-55.59%

The FY 2009 estimate of $28,885,445 for Interest on Investments represents a decline of $36.2 million, or 55.6 percent, from the FY 2009 Advertised Budget Plan estimate resulting from a decline in the anticipated yield earned on investments. Revenue from this category is a function of the amount invested, the prevailing interest rates earned on investments, and the percentage of the total pooled investment portfolio attributable to the General Fund.

Revenue from Interest on Investments is highly dependent on Federal Reserve actions. From 2001 to 2004, the Federal Reserve reduced interest rates from 6.5 percent to 1.0 percent in order to stimulate economic growth. During this period, revenue from Investment Interest fell from $56.3 million in FY 2001 to $14.8 million in FY 2004. From June 2004 through June 2006, the Federal Reserve increased rates by a quarter point at each of its meetings in an effort to stem inflation. The federal funds rate reached 5.25 percent in June 2006. As a result of higher rates, the annual average yield on County investments was 5.1 percent in FY 2007 and revenue from Interest on Investments was a record high of $92.1 million.

Average Annual Yield Earned on Investments
FY 1999 - FY 2009



The Fed held rates steady until September 2007, reducing the rate to 4.25 percent by December. In a surprise move, the Fed cut the federal funds rate by 75 basis points to 3.5 percent on January 22, 2008. The Federal Reserve cited a weakening economic outlook, deteriorating financial market conditions and a deepening housing contraction as reasons for the reduction. The 75 basis point decrease was extraordinary because it was the largest cut in almost 24 years and it was also the first time since immediately after September 11, 2001 that the Fed took action outside of a regularly scheduled meeting. Eight days later at a scheduled meeting the Fed reduced the rate further to 3.0 percent. The Federal Reserve continued to lower the federal funds rate in order to stimulate economic growth and, in March and April, the Fed reduced the federal funds rate an additional 100 total basis points to 2.0 percent.

As part of the *FY 2008 Third Quarter Review*, the FY 2008 estimate for Interest on Investments was decreased $4.4 million from the fall estimate to $77.7 million as a direct result of these rate reductions by the Federal Reserve. The FY 2008 estimate reflects an estimated yield of 4.29 percent and an average portfolio of $2,422.9 million. The average annual yield has been bolstered by investments made early in the fiscal year before rate reductions.

The FY 2009 Adopted Budget Plan estimate of $28.9 million is based on a projected average yield of 1.50 percent, a portfolio size of $2,397,677,088 and a General Fund percentage of 70.0 percent. All available resources are pooled for investment purposes and the net interest earned is distributed among the various County funds, based on the average dollars invested from each fund as a percentage of the total pooled investment. Total Interest on Investments for all funds is estimated to be $35,965,156. During FY 2009, Interest rate adjustments by the Federal Reserve may require changes to the Interest on Investments estimate

CHARGES FOR SERVICES

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$58,088,619	$58,231,605	$62,469,561	$62,469,561	$0	0.00%

The FY 2009 estimate for Charges for Services revenue of $62,469,561 represents no change from the FY 2009 Advertised Budget Plan estimate and represents and increase of $4.2 million over the *FY 2008 Revised Budget Plan*. The increase over the FY 2008 revised level is primarily the result of additional projected revenue generated from School-Age Child Care (SACC) fees and Emergency Medical Services (EMS) Transport fees coupled with additional receipts related to approved increases to various Charges for Services resulting from a review of County fees and charges. SACC fees of $26.8 million comprise 42.8 percent of the total Charges for Services category. In FY 2009, SACC revenue is projected to grow $0.3 million over the FY 2008 estimate due to a base fee adjustment to address salary increases. Revenue from EMS Transports is estimated to increase $0.2 million over the FY 2008 level based on projected growth in the number of transports.

In addition, as a result of the review of County fees and charges, estimates for various Charges for Services categories have been increased a total of $3,863,948 in FY 2009, which was included as part of the FY 2009 Advertised Budget Plan estimate. EMS Transport rates were approved to increase from the current rate structure. Basic ambulance transport (BLS) is increasing from $300 to $400; Advance Life Support 1 (ALS-1) transport from $400 to $500; and Advance Life Support 2 (ALS-2) transport from $550 to $675. In addition, the current charge of $7.50 per mile transported is increasing to $10.00 per mile transported. The adopted EMS Transport fee increases are estimated to generate an additional $3,465,948 in FY 2009. The changes to the current EMS Transport fees will bring the County's rate structure inline with neighboring jurisdictions and will maximize Medicare reimbursement from the federal government, as well as, from private health insurance providers. Parking garage fees at the Public Safety Center will increase from $0.50 per one-half hour with a maximum of $6.00 per day to $2.00 per hour with a maximum of $10.00 per day resulting in additional revenue of $375,000 in FY 2009. Lastly, the current $5.00 fee for finger printing services will be increased to the state maximum of $10.00 for the first finger print card and $5.00 for each successive card resulting in an estimated $23,000 in additional revenue.

The *FY 2008 Third Quarter Review* estimate for Charges for Services of $58,231,605 represents an increase of $0.2 million from the FY 2008 Fall Estimate due to an increase in the estimated revenue from EMS Transport Fees partially offset by a reduction in estimated County Clerk Fees revenue. As a part of the *FY 2008 Third Quarter Review*, the estimate for EMS Transport Fees was increased $1.0 million over the fall 2007 estimate based on FY 2008 collections through February 2009 which were up 11.2 percent over revenue collected during the same period of FY 2007. However, since that time revenue from EMS Transport Fees has dropped and collections through the first 10 months of FY 2008 are only up 0.2 percent over revenue collected during the same period of FY 2007. Staff is currently working with the contracted billing company to determine the reasons for the decline. Any shortfall in FY EMS Transport Fees at fiscal year-end is anticipated to be offset by an increase in FY 2008 BPOL receipt. Also during the *FY 2008 Third Quarter Review*, the revenue estimate for County Clerk Fees was reduced $0.8 million due to lower than expected receipts as a result of the declining real estate market.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT[1]

FY 2007 Actual	FY 2008 Revised	FY 2009 Advertised	FY 2009 Adopted	Increase/ (Decrease)	Percent Change
$131,022,823	$129,643,320	$119,505,786	$113,505,786	($6,000,000)	-5.02%

[1] Excludes Personal Property Taxes that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998. See the "Personal Property Tax - Current" heading in this section.

The FY 2009 estimate for Revenue from the Commonwealth and Federal Governments of $113,505,786 represents a decrease of $6.0 million or 5.0 percent from the FY 2009 Advertised Budget Plan estimate. The decrease is associated with an estimated $6.0 million reduction in Revenue from the Commonwealth due to a reduction in state aid to localities. Due to a downward adjustment to projected state General Fund revenue, the 2008 Virginia General Assembly approved a $50.0 reduction in state aid to localities in FY 2009 and FY 2010. County staff estimates that the County's reduction could be as much as $6.0 million. The Virginia Department of Planning and Budget is not required to release the locality-by-locality reduction list until 30 days after the enactment of the Appropriation Act on July 1, 2008; therefore, at the time of the County's budget adoption, an official figure was not yet known. Localities had been given flexibility as to how the cut is to be implemented. A locality may take the total reduction from one program; reduce multiple state aid programs; or reimburse the state in aggregate for its share of the cut, thereby keeping the state aid at an unreduced level. Each locality may use a combination of the three options, but must decide before August 30, 2008 how the reduction should be apportioned.

As part of the *FY 2008 Third Quarter Review*, the FY 2008 estimate for revenue from the Commonwealth and Federal Government was raised $10.4 million over the estimate made during the fall 2008 revenue review. Of this increase, $3.0 million is associated with additional state revenue for the Comprehensive Services Act due to increases in the number and cost of youth served; $2.8 million is for Foster Care and Adoption services; and federal revenue of $2.2 million is for the Child Care Assistance and Referral program. Also, $0.6 million in additional state and federal funding is for various programs including auxiliary grants, Brain Injury Services, Language Translation Services and the Healthy Families Fairfax program. The $8.6 million in additional revenue listed above will be fully offset with increased expenditure requirements. In addition, an increase of $1.4 million represents federal reimbursement for holding illegal criminal aliens in the County under the State Criminal Alien Assistance Program (SCAAP) and $0.4 million is associated with a reimbursement received from the Federal Emergency Management Agency (FEMA) for costs incurred by the County during the June 2006 flooding in Huntington.