Fairfax County FY 2010 Budget

Financial Forecast

This section includes:

Financial Forecast Summary

The following forecast provides preliminary revenue and disbursement projections for FY 2011 through FY 2013. The forecast assumes no change in the recommended General Fund Real Estate Tax rate of $1.04 per $100 of assessed value. Economic assumptions used to develop the forecast are detailed below; however, final FY 2009 revenues are not yet available and property assessments for FY 2011 have not begun. As such, this forecast will be revised in the summer of 2009 to help guide the development of the FY 2011 budget. This forecast projects that County General Fund revenue will decrease 2.8 percent in FY 2011 and 0.1 percent in FY 2012, primarily as a result of a projected continued decline in residential and nonresidential property values. Revenue growth is projected to rise a modest 1.9 percent in FY 2013.

Total FY 2010 Disbursements are projected to decline 2.7 percent from the FY 2009 level. Projected revenue each year from FY 2011 through FY 2013 is below the FY 2010 approved level of disbursements. Therefore, even maintaining the reduced FY 2010 level of disbursements would result in shortfalls of approximately $110 million in FY 2011 and FY 2012 and over $50 million in FY 2013.

In order to provide funding for basic compensation and inflationary adjustments, as well as support of County obligations in debt service, Metro and other transfers, County disbursements are anticipated to require funding increases of approximately 5 percent annually. Under this scenario, without additional changes in spending and/or revenue enhancements, a shortfall of approximately $275 million would occur in FY 2011.

Revenue Forecast

Overall Economic Assumptions

The national economy has officially been in recession since December 2007 and indicators do not point to a recovery until sometime in 2010. The national economy shrank at a preliminary annual rate of 5.7 percent in the first quarter of 2009, after decreasing 6.3 percent in the fourth quarter of 2008. The national unemployment rate rose to 9.4 percent in May 2009. While there has been some recent improvement, Consumer Confidence fell to record lows early in 2009.

While the region and the County are faring better than much of the country, there are increasing signs of economic weakness. Moody's Economy.com estimates that Gross County Product (GCP), adjusted for inflation, grew at slight 1.3 percent rate in 2008, the lowest rate of growth in six years. The average annual job loss in Northern Virginia in 2008 was 4,100. However, in December 2008, Northern Virginia job loss was estimated to be 15,100. While figures have not yet been released for the County, Fairfax County's share of the job loss could be as much as half or 7,550 jobs.

Because Real Estate Tax revenue comprises nearly 64 percent of total FY 2010 County General Fund revenues and residential real estate makes up nearly three quarters of the total real estate base, assumptions as to the length and extent of the downturn are critical to this forecast. Economic projections for the national and local economies were reviewed from a variety of sources in the development of these revenue estimates, such as the Blue Chip Economic Forecasts that incorporates economic projections from a panel of approximately 50 forecasters, Kiplinger, Global Insight, National City and the National Association of Realtors. For forecasts of the state and Northern Virginia economies, staff reviewed information from Chmura Economics & Analytics. Fairfax County specific projections are obtained from Moody's Economy.com and George Mason University's Center for Regional Analysis.

Moody's Economy.com predicts that Fairfax County's economy will be essentially flat in 2009 on an inflation adjusted basis. Modest growth of 0.5 percent is anticipated in 2010, after which the economy is projected to rise moderately from 3.2 to 4.8 percent per year. Dr. Stephen Fuller from the Center for Regional Analysis forecasts that the County's economy will not reaccelerate by the end of 2009. Dr. Fuller predicts moderate growth from 2010 through 2013 fueled by federal spending. Economy.com predicts job losses in Fairfax County for 2009 and 2010. Job growth is projected to be strong in 2011 and 2012 as the economy improves and proposed facility changes from Base Realignment and Closure (BRAC) should be well underway. BRAC is expected to result in the transfer of 19,000 Department of Defense jobs to Fort Belvoir by September 15, 2011. Another 7,500 contractor jobs are expected to be created.

The County's Leading Index, which is designed to forecast the performance of the County's economy nine to twelve months in advance, has declined seventeen months in a row on a monthly over-the-year basis. According to Dr. Fuller, "...there are continuing signs that the recovery will be slow. "

Residential Housing Market

Housing prices in the County fell precipitously in 2008. According to data from the Metropolitan Regional Information System (MRIS), the average price of homes sold in Fairfax County during the year fell 17.8 percent compared to the drop of just 0.2 percent in 2007. Price declines have continued into 2009. On a monthly over-the-year basis, average price declines ranged from 10.4 percent to 23.6 percent during the first five months of 2009. These decreased prices will be a factor in determining FY 2011 assessments. The S&P Case-Shiller Home Price Index for the Washington Metropolitan Area also showed a decline in the prices for existing single family homes of over 18 percent in 2008. This index uses a repeat sales price technique that matches each price change of the same home over a 20-year period. As of May 2009, this Index projects an additional decline of 18 percent for the area in 2009.

While not the dominant factor in County-wide assessments, foreclosures did impact assessments in neighborhoods with a high concentration level of foreclosed homes. Foreclosures peaked in September 2008 with 2,257 homes still owned by the mortgage lender. As of April 2009, this figure had declined to 1,347. However, a federal moratorium on foreclosures has recently been lifted and more foreclosures are expected over the next year.

The economic downturn is projected to negatively impact FY 2011 residential assessments and the impact is expected to linger in FY 2012. As such, this forecast includes a projected drop of 6.0 percent in the value of residential property in FY 2011 and a further decline of 2.0 percent in FY 2012. Assessments are projected to rise a modest 0.75 percent in FY 2013.

Nonresidential Real Estate

Direct and sublet office vacancy rates hit five-year highs at the end of 2008. The County's direct office vacancy rose to 12.1 percent as of year-end 2008, up from 9.2 percent at year-end 2007. Including sublet space, the overall office vacancy rate was 14.5 percent, up 3.6 percentage points over the 10.9 percent at year-end 2007. This increase was due in part to an additional 4.0 million square feet of new office space that was delivered in 2008. With the additional space, the County's office space inventory rose to 111.2 million square feet at year-end 2008. At the end of 2008, 13 buildings with nearly 1.8 million square feet of space were under construction. Roughly 37 percent of the space under construction is speculative development. This is down significantly from year-end 2007 when 59 percent of the total space under construction was speculative. New construction is expected to be limited to build-to-suit type projects until the credit markets recover. Vacancies rates are expected to continue to rise due to decreased demand and new space coming on-line, but rates are expected to rise at a slower pace than in 2008 due to the decline in speculative development. In FY 2010, high-rise office property, which represents nearly 40 percent of the total nonresidential real estate base, fell in value by 6.6 percent. Until current space is absorbed and vacancy rates diminish, office properties are expected to continue to decline. Retail property values will be impacted by the bankruptcy of several large retail establishments and decreased tourism and business travel will affect hotel property values. Overall, nonresidential values are projected to experience declines of 4.0 and 2.0 in FY 2011 and FY 2012, respectively. Nonresidential values are expected to remain level in FY 2013.

New Construction

The Real Estate Tax base will also be impacted by new construction in the County. Normal Growth or new construction increased the tax base by just 0.57 percent in FY 2010. Building permits issued, an indicator of future construction, declined 28 percent from July through December 2008 compared to the same period of 2007. Residential construction is projected to be slim during the forecast period with a slight acceleration in FY 2013 partly due to construction in the Tysons Corner area. Office construction has already slowed and nonresidential growth is projected to be lower in FY 2011 and FY 2012. During 2008, new office deliveries surpassed 3.9 million square feet, the highest one year total since 2001, the height of the IT/telecom boom. Currently, there are twelve office buildings with 1.4 million square feet of space due to deliver by the end of 2009 (FY 2011 assessments) and only one building totaling 427,000 square feet due to deliver during 2010 (FY 2012 assessments). The extension of Metrorail to Dulles will impact new construction around Metro stations beginning with FY 2013 assessments. In Tysons Corner alone, 37 million square feet of commercial and retail space is projected due to the construction of Metrorail to Dulles. Overall, increases to the Real Estate Tax base due to new construction are projected to be 0.50 percent in FY 2011, 0.55 percent in FY 2012, and 0.95 percent in FY 2013.

Total Real Estate

In FY 2010, the total Real Estate Tax base fell a record 9.95 percent as both residential and nonresidential property values declined. In FY 2011, the total Real Estate Tax base is expected to drop 5.00 percent due to continued weakness in both categories. The real estate base is anticipated to decline 1.45 percent in FY 2012. As the housing market stabilizes, the overall real estate tax base is projected to rise 1.50 percent in FY 2013.

Personal Property Taxes

Personal Property Tax revenue, which represents nearly 15 percent of total General Fund revenue, is anticipated to experience a drop of 4.66 percent in FY 2010 due to a decline in vehicle purchases and business levy resulting from the downturn in the economy. The Virginia Automobile Dealers Association reported that new model vehicle registrations in Fairfax County fell 20.0 percent in 2008. Consumers are cautious about the future and credit conditions are tighter than they have been in many years. Forecasts of nationwide vehicle purchases indicate another dismal year for car sales during 2009; therefore, only slight growth of 0.5 percent is anticipated in FY 2011. As the economy improves, moderate growth is anticipated in FY 2012 of 1.50 percent and 2.00 percent in FY 2013.

Other Major Revenue Categories

Business, Professional and Occupational License revenue is projected to decrease 4.0 percent in FY 2009 and 2.0 percent in FY 2010. Growth in FY 2011 is expected to rise to 2.0 percent based on slight improvement in the economy. As job growth accelerates due to improvements in the economy and BRAC impacts, BPOL is expected to rise 4.0 percent in FY 2012 and FY 2013. Sales tax receipts are expected to decline in FY 2009 and FY 2010 and then rise a modest 1.0 percent in FY 2011. Moderate increases of 3.0 percent and 4.0 percent are projected in FY 2012 and FY 2013, respectively. This improvement is based on Economy.com's estimated growth in Fairfax County retail sales and disposable income. Recordation and Deed of Conveyance taxes, which are paid for recording deeds, are anticipated to rise 1.0 percent during the forecast due to modest projected increases in home sales and mortgage refinancings.

Land Development Services Building and Permit fee revenue is projected to increase $5.5 million, or 31.7 percent, in FY 2010 as a result of a rise in fees in order to increase cost recovery. Construction activity and revenue are forecasted to rise a modest 1.0 percent in FY 2011 through FY 2013. Other Permit and Fees and Regulatory Licenses categories are expected to experience modest growth throughout the forecast period.

In attempts to stimulate the economy, the Federal Reserve cut the federal funds rate from 4.25 percent at the beginning of 2008 to a target rate of just 0.0 to 0.25 percent at year-end. These reductions have severely impacted the yield earned on County investments. The yield earned on County investments is projected to be 0.50 percent in FY 2010. Modest increases of just 25 basis points per year are anticipated throughout the forecast period.

Due to budget shortfalls in FY 2009 and FY 2010, the Commonwealth of Virginia reduced funding to localities in both years. Thus far, County funding has been reduced $5.7 million in FY 2009 and $9.4 million in FY 2010. The FY 2010 revenue estimate includes $1.2 million in flexibility for additional State reductions that may occur during FY 2010. State funding throughout the forecast is maintained at the reduced FY 2010 level. Revenue from the Federal government is also expected to remain even with FY 2010 throughout the forecast period. Since the majority of the revenue from the state and federal governments are reimbursements associated with expenditure requirements, any additional increase in revenue is expected to be more than offset with expenditure increases. While the federal economic stimulus plan will provide funding to the County for specific projects, the vast majority will be directed to funds other than the General Fund; therefore, the American Recovery and Reinvestment Act of 2009 will have little impact on this forecast.

Based on the assumptions and estimates detailed above, General Fund revenues are projected to experience declines of 2.80 percent in FY 2011 and 0.11 percent in FY 2012. Revenue is anticipated to rise 1.85 percent in FY 2013. Revenue growth rates for individual categories are shown in the following table:

PROJECTED REVENUE GROWTH RATES

Category	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Real Estate Tax - Assessment Base	0.51%	-9.95%	-5.00%	-1.45%	1.50%
Equalization	-1.02%	-10.52%	-5.50%	-2.00%	0.55%
Residential	-3.38%	-12.55%	-6.00%	-2.00%	0.75%
Nonresidential	7.00%	-4.51%	-4.00%	-2.00%	0.00%
Normal Growth	1.53%	0.57%	0.50%	0.55%	0.95%
Personal Property Tax - Current[1]	-0.62%	-4.66%	0.50%	1.50%	2.00%
Local Sales Tax	-2.93%	-2.50%	1.00%	3.00%	4.00%
Business, Professional and Occupational, License (BPOL) Taxes	-4.00%	-2.00%	2.00%	4.00%	4.00%
Recordation/Deed of Conveyance	-31.85%	1.81%	1.00%	1.00%	1.00%
Interest Rate Earned on Investments	1.50%	0.50%	0.75%	1.00%	1.25%
Building Plan and Permit Fees	-15.00%	31.70%	1.00%	1.00%	1.00%
Charges for Services	6.91%	0.29%	2.00%	2.00%	2.00%
State/Federal Revenue[1]	-3.72%	-5.57%	0.00%	0.00%	0.00%
TOTAL REVENUE	**-0.25%**	**0.81%**	**-2.80%**	**-0.11%**	**1.85%**

[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.

Disbursement Forecast

The FY 2010 Adopted Budget Plan includes a decrease in total disbursements of $22.2 million from the *FY 2009 Revised Budget Plan* and the elimination of 306 County regular merit positions. Maintaining this reduced level of disbursements would result in shortfalls each year through FY 2013 due to projected revenue declines in FY 2011 and FY 2012. At the FY 2010 level of disbursements and projected revenue shown above, shortfalls of approximately $110 million in FY 2011 and FY 2012 and $50 million in FY 2013 would result.

In order to fund basic requirements including but not limited to compensation and benefits, contract inflationary adjustments, fuel, utilities, and debt service, disbursement requirements are forecasted to increase approximately 5 percent each year. In addition, to support requirements for School operations, the transfer to Schools is also projected to increase 5 percent each year. This increase in disbursement requirements in combination with a projected decline in revenue results in a forecasted FY 2011 shortfall of approximately $275 million.