General Fund Revenue Overview

This section includes:

SUMMARY OF GENERAL FUND REVENUE

Category	FY 2005 Actual	FY 2006 Adopted Budget Plan	FY 2006 Revised Budget Plan[1]	FY 2007 Advertised Budget Plan	Over the FY 2006 Revised Budget Plan Increase/ (Decrease)	Over the FY 2006 Revised Budget Plan Percent Change
Real Estate Taxes - Current and Delinquent	$1,637,904,220	$1,776,082,251	$1,770,769,093	$1,978,876,398	$208,107,305	11.75%
Personal Property Taxes - Current and Delinquent[2]	473,930,757	481,988,939	492,352,392	523,082,795	30,730,403	6.24%
Other Local Taxes	463,173,399	461,103,072	488,490,766	506,185,209	17,694,443	3.62%
Permits, Fees and Regulatory Licenses	27,961,574	32,543,251	32,108,389	33,546,014	1,437,625	4.48%
Fines and Forfeitures	15,523,328	12,276,152	14,972,768	15,241,666	268,898	1.80%
Revenue from Use of Money/Property	30,198,542	41,615,533	65,080,993	70,687,031	5,606,038	8.61%
Charges for Services	47,537,672	49,458,631	52,715,205	55,566,690	2,851,485	5.41%
Revenue from the Commonwealth and Federal Governments[2]	129,924,908	124,597,386	126,847,818	129,054,000	2,206,182	1.74%
Recovered Costs/ Other Revenue	7,247,017	6,591,348	6,819,695	7,209,208	389,513	5.71%
Total Revenue	**$2,833,401,417**	**$2,986,256,563**	**$3,050,157,119**	**$3,319,449,011**	**$269,291,892**	**8.83%**
Transfers In	1,666,444	2,604,307	2,604,307	2,408,050	(196,257)	-7.54%
Total Receipts	**$2,835,067,861**	**$2,988,860,870**	**$3,052,761,426**	**$3,321,857,061**	**$269,095,635**	**8.81%**

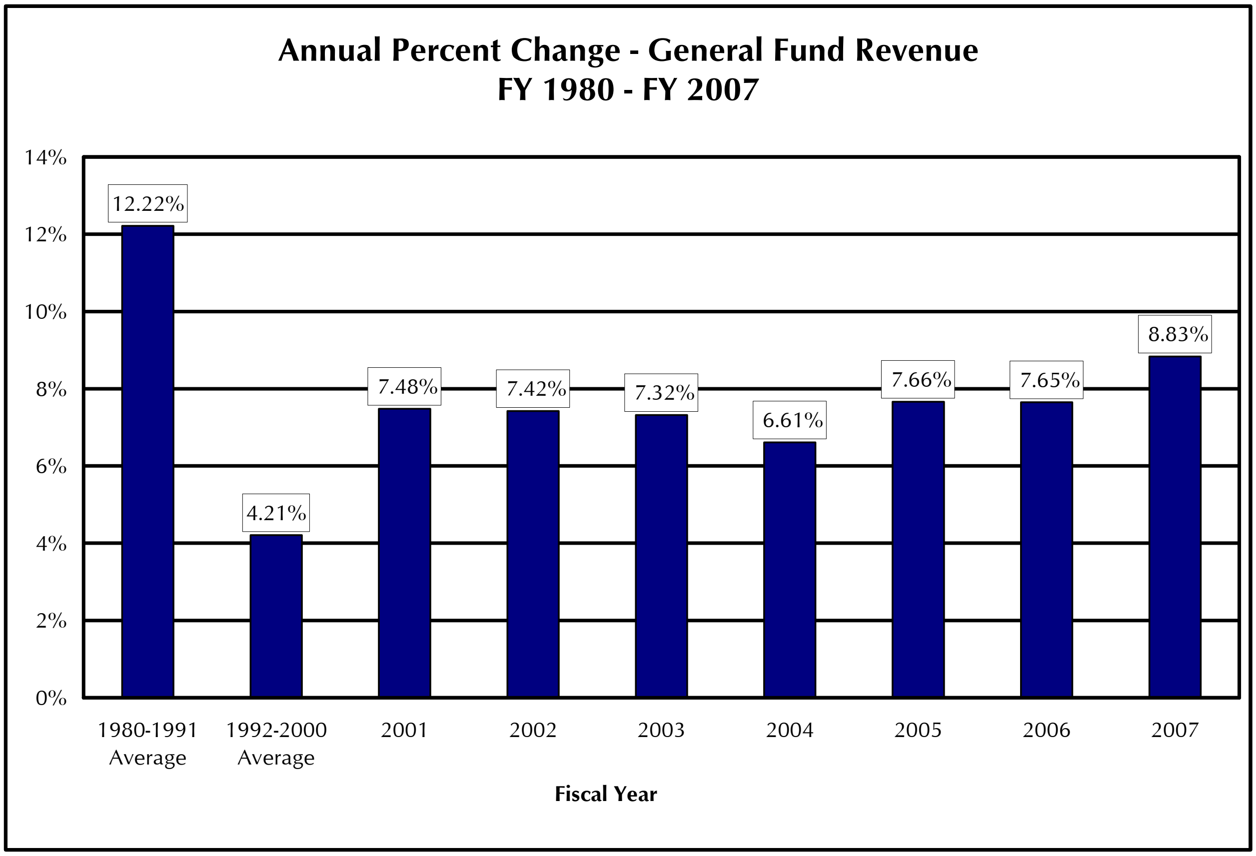
[1] FY 2006 revenue estimates were revised as part of a fall 2005 review of revenues. Explanations of these changes can be found in the following narrative. The *FY 2006 Third Quarter Review* will contain further adjustments as necessary.

[2] 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 2007 General Fund revenues are projected to be $3,319,449,011, an increase of $269,291,892, or 8.8 percent, over the *FY 2006 Revised Budget Plan*. This revenue increase is primarily due to an 11.75 percent increase in Real Estate Tax revenue. Growth in Real Estate Tax revenue is the result of a 22.7 percent rise in the Real Estate assessment base partially offset with a $0.07 reduction in the Real Estate Tax rate from $1.00 per $100 of assessed value to a proposed rate of $0.93 per $100 of assessed value. In addition, Real Estate Tax revenue reflects the allocation of the projected value of one penny of the Real Estate Tax rate ($21.9 million) to Fund 318, Stormwater Management Program, and Fund 319, The Penny for Affordable Housing Fund.

Incorporating Transfers In, FY 2007 General Fund receipts are anticipated to be $3,321,857,061. The Transfers In to the General fund reflect $2.4 million from Fund 105, Cable Communications for use of County rights of way and indirect support provided by the County's General Fund agencies.

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. Revenue growth in FY 2006 and FY 2007 is projected to be 7.7 percent and 8.8 percent, respectively. The growth rates below are after Real Estate Tax rate reductions totaling 30 cents since FY 2002.



Economic Indicators

The national economy, as measured by real Gross Domestic Product, rose 3.5 percent in 2005, down from 4.2 percent in 2004. Consumer, business and government spending; however, slowed during the fourth quarter of 2005 and economic growth slowed to just 1.1 percent, the weakest pace in three years.

Inflation hit a five year high of 3.4 percent in 2005 reflecting higher prices for fuel oil, gasoline, natural gas, and electricity. Core inflation, which excludes energy and food products, rose just 2.2 percent, suggesting that most businesses did not pass on higher energy costs by raising prices of other goods and services. The Federal Reserve raised interest rates eight times during 2005 and again in January 2006, from 2.25 percent at the beginning of 2005 to 4.50 percent in order to keep inflation in check. Despite rising short-term interest rates, long-term mortgage interest rates have remained low, averaging 5.9 percent in 2005.

Consumer confidence has varied considerably over the past year. In January 2005, the Consumer Confidence Index was at a 3-year high at 105.1 but then fell in September to its lowest level in nearly 2 years due to hurricane Katrina and soaring gas prices. The Consumer Confidence Index rebounded in January 2006 to 106.3, the highest level since June 2002.

The local economy also expanded in 2005 but at a more moderate rate than 2004. After advancing 7.6 percent in 2004, Gross County Product (GCP) grew at an estimated 6.5 percent in 2005. The County's November 2005 Coincident Index rose 3.2 percent over November 2004, the second smallest monthly over the year gain of the year. The County's Leading Index increased in November following two monthly declines (on a monthly over the year basis). Dr. Stephen Fuller of George Mason University and the County's economic advisor, projects that the County's expansion will continue through 2006, but at a growth rate lower than its 2004-2005 peak.

Housing Market

The mean residential assessed value of a home in Fairfax County is $540,746 in FY 2007, an increase of more than 20 percent over the FY 2006 value of $448,491. FY 2007 represents the sixth year of double digit increases in Fairfax County residential assessments. Since FY 2001, the mean assessed value of a home in Fairfax County has risen approximately 160 percent. The combination of strong job growth fueled by federal government spending, a limited supply of homes and historically low interest rates have all contributed to rising home prices and therefore residential assessments.

While the 2005 housing market was strong, there are signs of cooling. According to the Northern Virginia Association of Realtors (NVAR), the number of home sold was down in 2005, but average sales prices continued their robust upward trend. A total of 17,532 single family homes were sold in Fairfax County in 2005, down 11.0 percent from 19,697 in 2004, while the average sales price of single family homes rose to $607,138, an increase of 22.7 percent over 2004. Based on NVAR data, the number of condominiums sold fell by 5.3 percent but their average sales price rose over 28 percent from $246,754 in 2004 to $316,509 in 2005.

In addition to the lower volume of home sales, another sign of a cooling market is the increasing time it takes for a home to sell in the area. In December 2005, a home in Fairfax County was on the market an average of 38 days according to the Metropolitan Regional Information System (MRIS), a significant increase over the average of 20 days for all of 2004. The inventory of homes for sale is rising bringing more normalcy to the market. The number of active listings was 4,218 in December 2005, over three times as many as in December 2004 when there were 1,227 homes listed. As a result, multiple bids are not as common and in December homes were selling for an average of 96.7 percent of their list price compared to 98.6 percent in December 2004.

This cooling trend in the housing market is expected to continue into 2006 as job growth slows and the economy expands but at a reduced pace. However, the supply of housing is expected to remain limited as job growth exceeds new home construction. Mortgage interest rates are expected to remain low throughout the coming year. The combination of these factors indicates continued home price appreciation in 2006, but at a decelerated rate from 2005.

Nonresidential Market

The nonresidential real estate market continued to improve in 2005. During the first half of 2005, 4.9 million square feet of office space was leased, down from the 5.3 million square feet leased during the last half of 2004 but demand for office space remains strong and total leased space in 2005 is expected to exceed 10 million square feet for the third consecutive year. The County's overall office vacancy rate declined from the 8.6 percent at year-end 2004 to 7.6 percent as of mid-year 2005. Including sublet space, the mid-year 2005 office vacancy rate was 10.1 percent, down from 11.6 percent in 2004. Continued improvement in office vacancy rates are expected during the coming year. Based on the current rate of absorption, there is only about an 18 month supply of office space available. During 2006, however, 14 buildings totaling 1.2 million square feet of space are due to be completed.

Real Estate Tax Revenue

Incorporating the 7 cent reduction in the Real Estate Tax rate, current and delinquent FY 2007 Real Estate Tax revenues in Fairfax County comprise 59.6 percent of General Fund revenue and are the driving force of the overall revenue change. FY 2007 Real Estate property values were established as of January 1, 2006 and reflect market activity through calendar year 2005. The Real Estate Tax base is projected to increase 22.70 percent in FY 2007, and is comprised of a 19.76 percent rise in total equalization (reassessment of existing residential and non-residential properties), and new construction of 2.94 percent.

General Fund Revenue Overview

The FY 2006 and FY 2007 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 2005 collections, and FY 2006 year-to-date trends.

MAJOR REVENUE SOURCES

The following major revenue categories comprise 98.2 percent of total FY 2007 General Fund revenue and are discussed in this section. Unless otherwise indicated, comparative data are presented relative to the *FY 2006 Revised 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."

Category	FY 2005 Actual	FY 2006 Adopted Budget Plan	FY 2006 Revised Budget Plan[1]	FY 2007 Advertised Budget Plan	Change from the FY 2006 Revised Budget Plan: Increase/ (Decrease)	Change from the FY 2006 Revised Budget Plan: Percent Change
Real Estate Tax - Current	$1,628,278,309	$1,769,203,013	$1,763,889,855	$1,970,516,720	$206,626,865	11.71%
Personal Property Tax - Current[2]	454,391,979	473,788,380	484,151,833	511,075,879	26,924,046	5.56%
Paid Locally	263,234,277	271,633,751	281,997,204	296,898,767	14,901,563	5.28%
Reimbursed by Commonwealth	191,157,702	202,154,629	202,154,629	214,177,112	12,022,483	5.95%
Local Sales Tax	147,781,944	158,222,129	158,222,129	166,133,236	7,911,107	5.00%
Recordation/Deed of Conveyance Taxes	48,674,084	34,867,317	48,674,084	48,674,084	0	0.00%
Vehicle Decal Fee	19,802,772	20,250,310	20,250,310	20,655,316	405,006	2.00%
Consumer Utility Tax	84,676,016	85,422,983	85,422,983	86,277,213	854,230	1.00%
Mobile Telephone Tax	11,513,349	11,330,000	11,513,349	11,858,749	345,400	3.00%
Transient Occupancy Tax	14,629,545	14,270,184	18,195,782	19,404,176	1,208,394	6.64%
Business, Professional and Occupational License Tax-Current	115,117,435	113,528,190	120,873,307	126,916,972	6,043,665	5.00%
Cigarette Tax	6,061,050	11,532,018	11,532,018	11,532,018	0	0.00%
Permits, Fees and Regulatory Licenses	27,961,574	32,543,251	32,108,389	33,546,014	1,437,625	4.48%
Interest on Investments	27,110,409	38,329,212	61,923,037	67,508,268	5,585,231	9.02%
Charges for Services	47,537,672	49,458,631	52,715,205	55,566,690	2,851,485	5.41%
Revenue from the Commonwealth and Federal Governments[2]	129,924,908	124,597,386	126,847,818	129,054,000	2,206,182	1.74%
Total Major Revenue Sources	**$2,763,461,046**	**$2,937,343,004**	**$2,996,320,099**	**$3,258,719,335**	**$262,399,236**	**8.76%**

[1] FY 2006 revenue estimates were revised as part of a fall 2005 review of revenues. Explanations of these changes can be found in the following narrative. The *FY 2006 Third Quarter Review* will contain further adjustments as necessary.

[2] 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.

REAL ESTATE TAX-CURRENT

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$1,628,278,309	$1,769,203,013	$1,763,889,855	$1,970,516,720	$206,626,865	11.71%

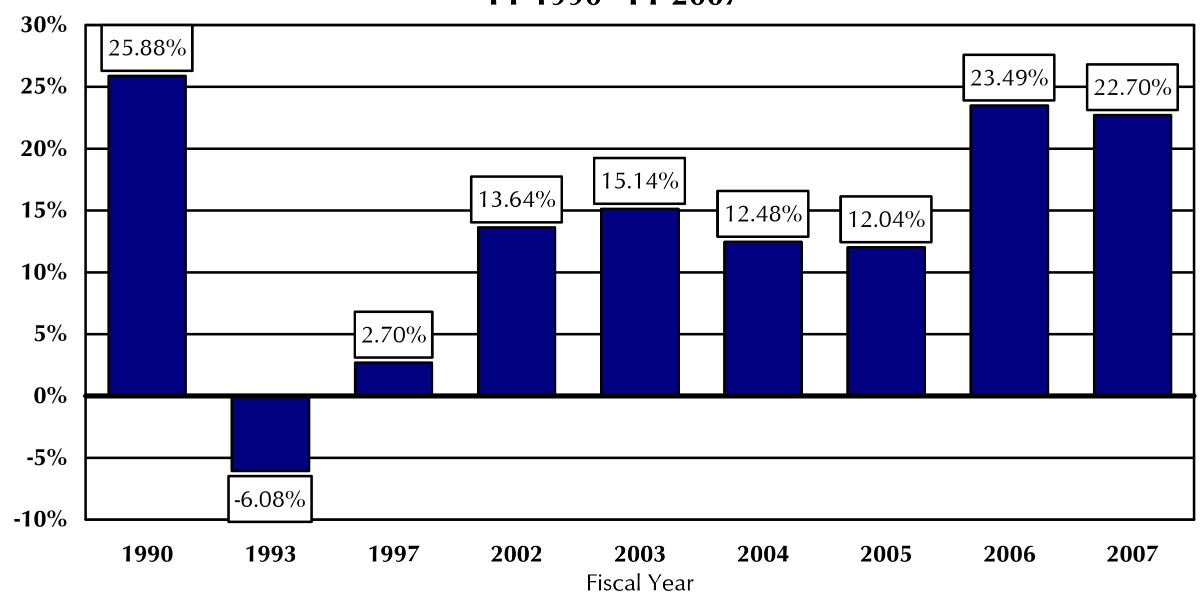
The FY 2007 Advertised Budget Plan estimate for Current Real Estate Taxes is $1,970,516,720, and represents an increase of $206,626,865, or 11.71 percent, over the *FY 2006 Revised Budget Plan*. This increase is the result of a 22.70 increase in the FY 2007 valuation of real property, as compared to the FY 2006 Real Estate Land Book, partially offset with a $0.07 reduction in the Real Estate Tax rate. In addition, FY 2007 Real Estate Tax revenue reflects the allocation of the value of one penny of the Real Estate Tax rate ($21.9 million) to both the Stormwater Management Program and The Penny for Affordable Housing Fund.

The FY 2007 Advertised Budget Plan includes a Real Estate Tax rate reduction of $0.07 to $0.93 per $100 of assessed value in FY 2007 from the $1.00 per $100 of assessed value in FY 2006. The loss in revenue associated with this reduction in the Real Estate Tax rate is $152,989,074. This reduction represents a loss of $151,615,240 in Real Estate Tax revenue and a loss of $1,373,834 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 2006 Real Estate Tax estimate was decreased a net $5.3 million as part of the *FY 2005 Carryover Review* to reflect a revenue decrease of $5.8 million associated with the Board of Supervisors' expansion of the Tax Relief Program for the Elderly and Disabled to the maximum asset and income limitations allowed by the state. This revenue decrease was partially offset with an increase of $0.5 million due to final assessment of Public Service Corporation property by the State.

The following chart shows changes in the County's assessed value base in FY 1990, FY 1993, FY 1997, and from FY 2002 to FY 2007.

Percentage Change in Real Estate Assessed Value
FY 1990 - FY 2007



	1990	1993	1997	2002	2003	2004	2005	2006	2007
Equalization	**18.27%**	**-6.48%**	**0.57%**	**9.70%**	**11.72%**	**9.94%**	**9.54%**	**20.80%**	**19.76%**
Res	19.01	-3.74	-0.23	11.26	16.27	14.55	11.29	23.09	20.57
NonRes	16.54	-13.22	3.27	5.92	0.52	-2.94	3.74	12.74	16.64
Growth	**7.61**	**0.40**	**2.13**	**3.94**	**3.42**	**2.54**	**2.50**	**2.69**	**2.94**
Total	**25.88%**	**-6.08%**	**2.70%**	**13.64%**	**15.14%**	**12.48%**	**12.04%**	**23.49%**	**22.70%**

The FY 2007 value of assessed real property is comprised of an increase in equalization of 19.76 percent and an increase of 2.94 percent in new growth. The FY 2007 figures reflected herein are based on the final assessments for Tax Year 2006 (FY 2007), which was established as of January 1, 2006. Throughout FY 2007, 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.

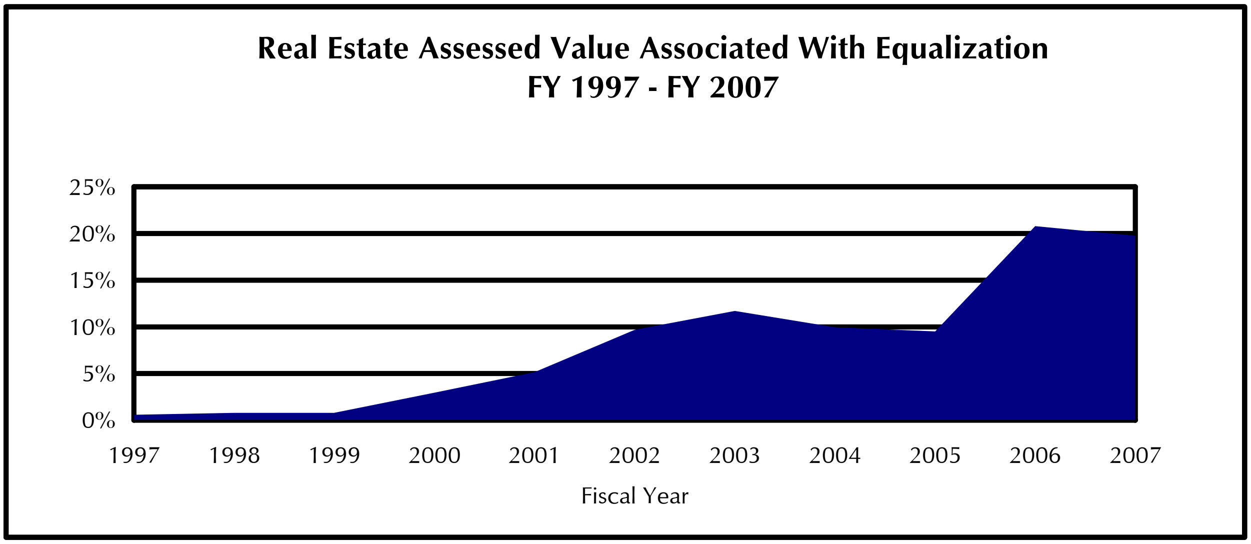
The FY 2007 **Main Assessment Book Value** is $219,405,403,770 and represents an increase of $40,586,977,620, or 22.70 percent, over the FY 2006 main assessment book value of $178,818,426,150. The FY 2007 increase is the second consecutive year that the assessments base rose in excess of 20 percent. Prior to FY 2006, the last time assessments rose over 20.0 percent was in FY 1990 when the assessment base rose 25.88. Following the FY 1990 increase, the assessment base rose 16.8 percent in FY 1991 but then declined an average of 2.8 percent from FY 1992 to FY 1994. 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 has 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 2007 assessment base reflects an increase of 20.57 percent in the values of existing residential properties and a 16.64 percent increase in nonresidential properties. The rise in nonresidential properties is the largest percentage increase in value since FY 1990 when nonresidential property values rose 16.54 percent. Both residential and nonresidential properties experienced moderate growth due to new construction at 3.01 percent and 2.67 percent, respectively. As a result of these changes, the residential portion of the total assessment base rose slightly from 79.3 percent in FY 2006 to 79.9 in FY 2007. The table below reflects changes in the Real Estate Tax assessment base from FY 2000 through FY 2007.

Main Real Estate Assessment Book Base Changes
(in millions)

Assessed Base Change Due To:	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Equalization	$2,241.4	$4,139.5	$8,522.9	$11,699.8	$11,428.5	$12,322.2	$30,124.7	$35,328.9
% Change	2.96%	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%
Residential	0.77%	5.13%	11.26%	16.27%	14.55%	11.29%	23.09%	20.57%
Nonresidential	9.24%	5.15%	5.92%	0.52%	-2.94%	3.74%	12.74%	16.64%
Normal Growth	$2,556.9	$3,067.6	$3,456.3	$3,409.4	$2,916.1	$3,235.4	$3,889.0	$5,258.1
% Change	3.37%	3.81%	3.94%	3.42%	2.54%	2.50%	2.69%	2.94%
Residential	2.12%	2.46%	2.83%	3.01%	2.60%	2.49%	2.62%	3.01%
Nonresidential	6.97%	7.22%	6.63%	4.41%	2.36%	2.54%	2.93%	2.67%
Total % Change	6.33%	8.94%	13.64%	15.14%	12.48%	12.04%	23.49%	22.70%

Equalization, or reassessment of existing residential and nonresidential property, represents an increase in value of $35,328,915,900, or 19.76 percent, in FY 2007. The increase in total equalization is due to increases in both residential and nonresidential property values. FY 2007 marks the sixth year of double digit growth in residential properties, which results from continued strong demand for homes in the County primarily due to job growth and a limited supply of existing homes. This trend mirrors that which is occurring in the region and the nation. Changes in the assessment base as a result of equalization are shown in the following graph. The increase in the tax levy associated with the overall 19.76 percent increase in equalization is $328,558,918 based on a tax rate of $0.93 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 2005. During the 10 years ending FY 2005, residential assessment increases due to equalization averaged 5.9 percent. In FY 2006, overall residential equalization increased 23.09 percent. This trend continued in FY 2007 as residential equalization grew 20.57 percent, reflecting the continued strength of the housing market in the County and throughout the Northern Virginia area. As a result of the sustained increases in sales price, the majority of residential properties in the County will receive valuation increases. 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.

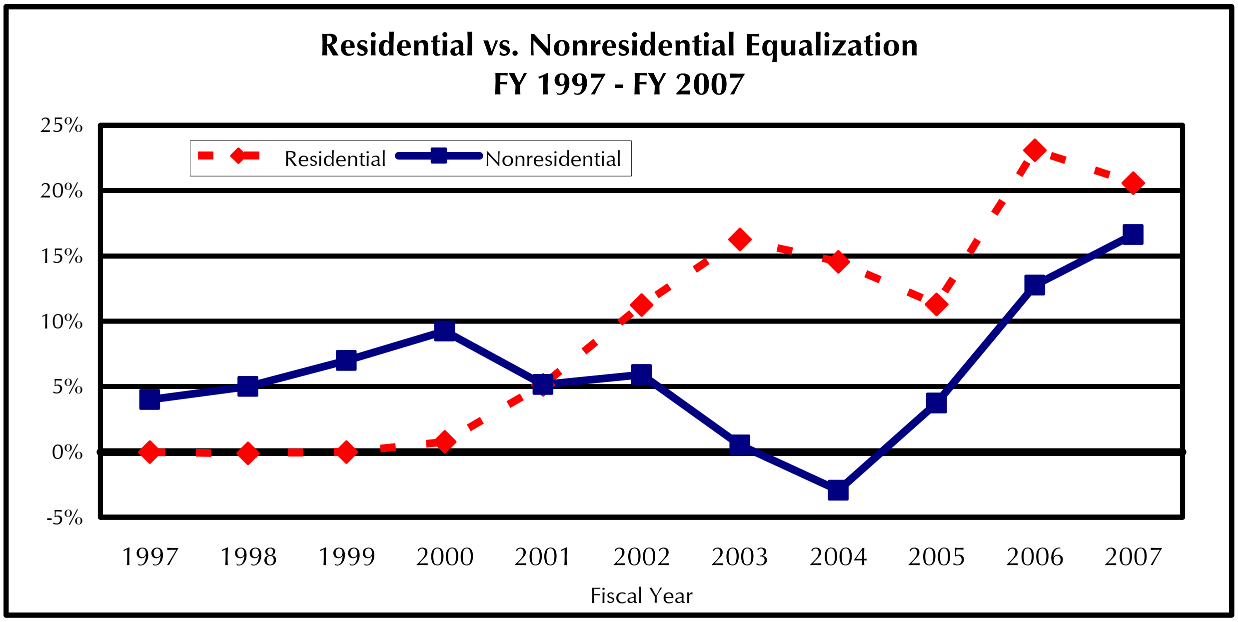
All types of residential property experienced significant increases in value in FY 2007. The value of single family homes has the most impact on the total residential base because they represent 72 percent of the total. Changes in residential equalization by housing type since FY 2002 are shown in the 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/ (FY 2007 Percent of Base)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Single Family (72.0%)	12.08%	16.14%	14.15%	11.20%	22.21%	20.37%
Townhouse/Duplex (19.3%)	10.98%	18.56%	17.00%	12.99%	26.08%	22.69%
Condominiums (7.9%)	10.30%	21.19%	20.09%	16.24%	33.49%	25.97%
Vacant Land (0.6%)	7.90%	15.23%	23.23%	15.19%	26.32%	25.44%
Other (0.2%)[1]	5.73%	3.00%	2.58%	4.89%	5.30%	9.67%
Total Residential Equalization (100%)	**11.26%**	**16.27%**	**14.55%**	**11.29%**	**23.09%**	**20.57%**

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

Based on the increase in residential equalization, the mean assessed value of all residential property in the County is $540,746. This is an increase of $92,255 over the FY 2006 value of $448,491. Compared to FY 2006, the typical residential annual tax bill will increase, on average, $544.03 in FY 2007 to $5,028.94 based on the reduced tax rate of $0.93 per $100 of assessed value.



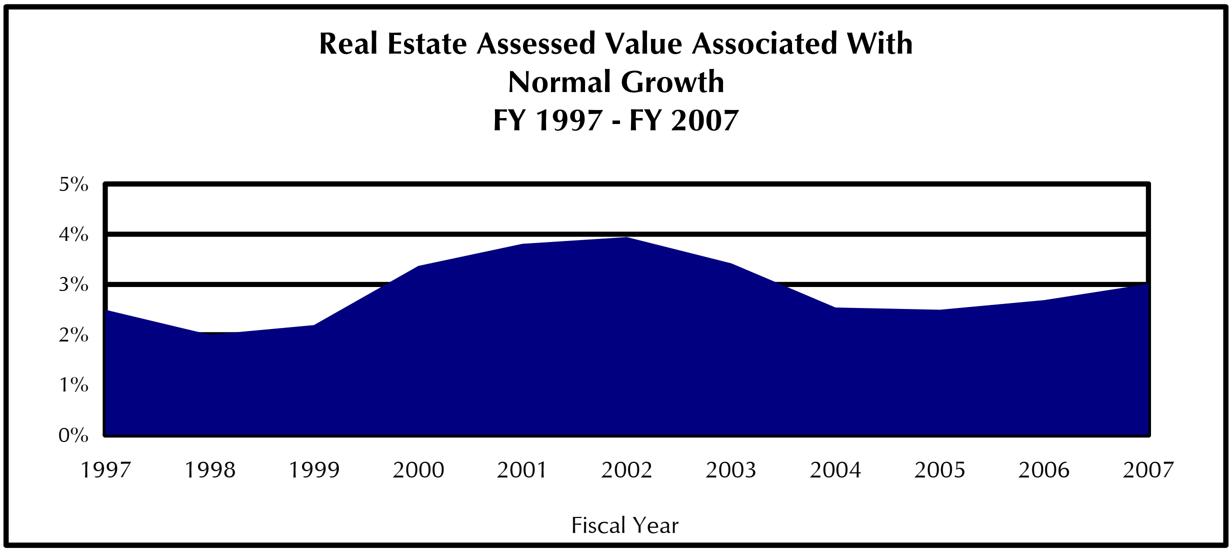
Nonresidential equalization experienced a strong increase of 16.64 percent in FY 2007 after rising a robust 12.74 percent in FY 2006. Due to improving office vacancy rates and recent sales activity, the value of Office Elevator properties (mid- and high-rises), which comprise 39.3 percent of the nonresidential tax base, rose 24.16 percent in FY 2007. The Economic Development Authority reported that the office vacancy fell to the lowest level since 1996 from 8.6 percent as of year-end 2004 to 7.6 percent at mid-year 2005. Including sublet space, the office vacancy rate fell from 11.6 percent as of year-end 2004 to 10.1 percent at mid-year 2005. Fueled by an increase in defense contracting, near record levels of office leasing occurred in 2005. The value of Low Rise Office property increased at an equally brisk pace as compared to Office Elevator property, advancing 23.94 percent in FY 2007. Hotel property assessment experience strong growth of 25.54 percent in FY 2007. The value of Regional Malls increased 2.24 percent, while other retail properties advanced 18.56 percent in FY 2007. Nonresidential equalization changes by category since FY 2002 are presented in the following table.

Nonresidential Equalization Changes

Category (FY 2007 Percent of Base)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Apartments (15.9%)	6.53%	9.59%	3.86%	1.86%	11.21%	11.65%
Office Condominiums (3.4%)	4.95%	7.75%	15.63%	13.59%	18.01%	1.96%
Industrial (7.0%)	7.25%	2.08%	-1.29%	5.26%	8.89%	12.61%
Retail (12.2%)	2.84%	1.91%	2.91%	7.91%	10.99%	18.56%
Regional Malls (2.0%)	2.20%	0.34%	6.95%	3.00%	4.06%	2.24%
Office Elevator (39.3%)	6.54%	-2.48%	-10.73%	3.27%	18.81%	24.16%
Office - Low Rise (4.8%)	7.30%	1.46%	-6.27%	5.42%	17.56%	23.94%
Vacant Land (5.3%)	6.36%	-0.08%	-6.55%	7.15%	10.07%	21.88%
Hotels (4.1%)	6.58%	-15.39%	-6.23%	4.48%	15.34%	25.54%
Other (6.0%)	6.35%	3.02%	6.00%	5.15%	8.52%	12.19%
Nonresidential Equalization (100%)	5.92%	0.52%	-2.94%	3.74%	12.74%	16.64%

Normal Growth of $5,258,061,720 or 2.94 percent, over the FY 2006 assessment book value results from new construction, new subdivisions, and rezonings. This level of growth is on par with the rates experienced in FY 2006 and FY 2005, but lower than the 3.64 percent average experienced during FY 2000 through FY 2003 (see following graph). During the construction boom of the 1980s, average growth of 6.9 percent was experienced. Since FY 1995, the value of property added to the tax base due to new construction has ranged from

1.93 percent to 3.94 percent. In FY 2007, the residential property base experienced a 3.01 percent increase due to new construction, while nonresidential properties rose 2.67 percent as a result of new construction. The total rate of growth due to new construction is consistent with activity in the housing and commercial building industry throughout the Washington metropolitan area.



In addition to the final equalization and normal growth adjustments in the Main Assessment Book, the following projected adjustments were made to the FY 2007 Real Estate Tax revenue estimate:

Additional Assessments expected to be included in the new Real Estate base are prorated assessments under the Norfolk Plan of $575.5 million and additional supplemental assessments of $78.5 million. The Norfolk Plan assessments are supplemental assessments, which are made during the year for new construction that is completed subsequent to finalizing the original assessment book. 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 $1,150.3 million in FY 2007, an additional $130.6 million over FY 2006. This increase is due to rising property values and an increase in tax abatements associated with the County's revitalization effort. 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 2007 by $2,583.4 million. As part of the *FY 2005 Carryover Review*, the Board of Supervisors raised the income and asset limitations to the maximum allowed by the state. In FY 2007, 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 2007 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, as part of the FY 2005 budget, the Board of Supervisors approved the proration of elderly and disabled tax relief benefits based on the portion of the year an applicant is 65 or becomes disabled. Previously, an applicant turning 65 or becoming disabled was not eligible for tax relief until the following year. 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%
&	Over $52,000 to $62,000		50%
FY 2007	Over $62,000 to $72,000		25%

The FY 2006 local assessment base of $216,325,699,675 is derived from the main assessment book and subsequent adjustments discussed above. From this local assessment base, a local tax levy of $2,011,829,007 is calculated using a tax rate of $0.93 per $100 of assessed value. Based on an expected local collection rate of 99.61 percent, revenue from local assessments is estimated to be $2,003,982,873. In FY 2007, every 0.1 percentage point change in the collection rate on the locally assessed Real Estate Tax levy yields a revenue change of $2.0 million, while every penny on the tax rate yields $21.9 million in revenue.

Added to the local assessment base is an estimated $1,111,166,340 in assessed value for Public Service Corporations (PSC) property. Using a rate of $0.93 per $100 of assessed value, the tax levy on PSC property is $10,333,847. The collection rate on PSC property is expected to be 100.0 percent.

The total assessment base, including Public Service Corporations, is $217,436,866,015 with a total tax levy of $2,022,162,854 at the $0.93 per $100 assessed value tax rate. Estimated FY 2007 revenue from the Real Estate Tax, including receipts from Public Service Corporations, totals $2,014,316,720 at the $0.93 per $100 assessed value rate. Of this amount, the value of one cent on the Real Estate Tax rate, $21,900,000, has been directed to Fund 318, Stormwater Management Program, and $21,900,000 has been directed to Fund 319, The Penny for Affordable Housing Fund. Total General Fund revenue from the Real Estate Tax is $1,970,516,720, which reflects an overall collection rate of 99.61 percent. The total collection rates experienced in this category since FY 1991 are shown in the following table:

Real Estate Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1992	98.87%	**2000**	99.63%
1993	99.03%	**2001**	99.53%
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 (estimated)**	99.61%
1999	99.50%	**2007 (estimated)[1]**	99.61%

[1] In FY 2007, every 0.1 percentage point change in the collection rate yields a revenue change of $2,011,830.

The Commercial/Industrial percentage of the County's Real Estate Tax base is 17.22 percent, a small drop of 0.14 percentage points from the FY 2006 level of 17.36 percent. While FY 2007 marks the sixth consecutive decline in the Commercial/Industrial percentage the rate of decline has slowed considerably as the value of commercial properties has risen significantly over the past two years. The Commercial/Industrial percentage is based on Virginia land use codes and excludes multi-family rental apartments, which comprises 3.0 percent of the County's Real Estate Tax base in FY 2007. The portion of the Real Estate Tax base associated with multi-family rental apartments fell from 3.3 percent in FY 2006 due to the large number of condo conversions that took place during the year. Fairfax County's historical Commercial/Industrial percentages are detailed in the following table:

Commercial/Industrial Percentages

Fiscal Year	Percentage	Fiscal Year	Percentage
1992	25.66%	**2000**	24.32%
1993	22.82%	**2001**	25.37%
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%

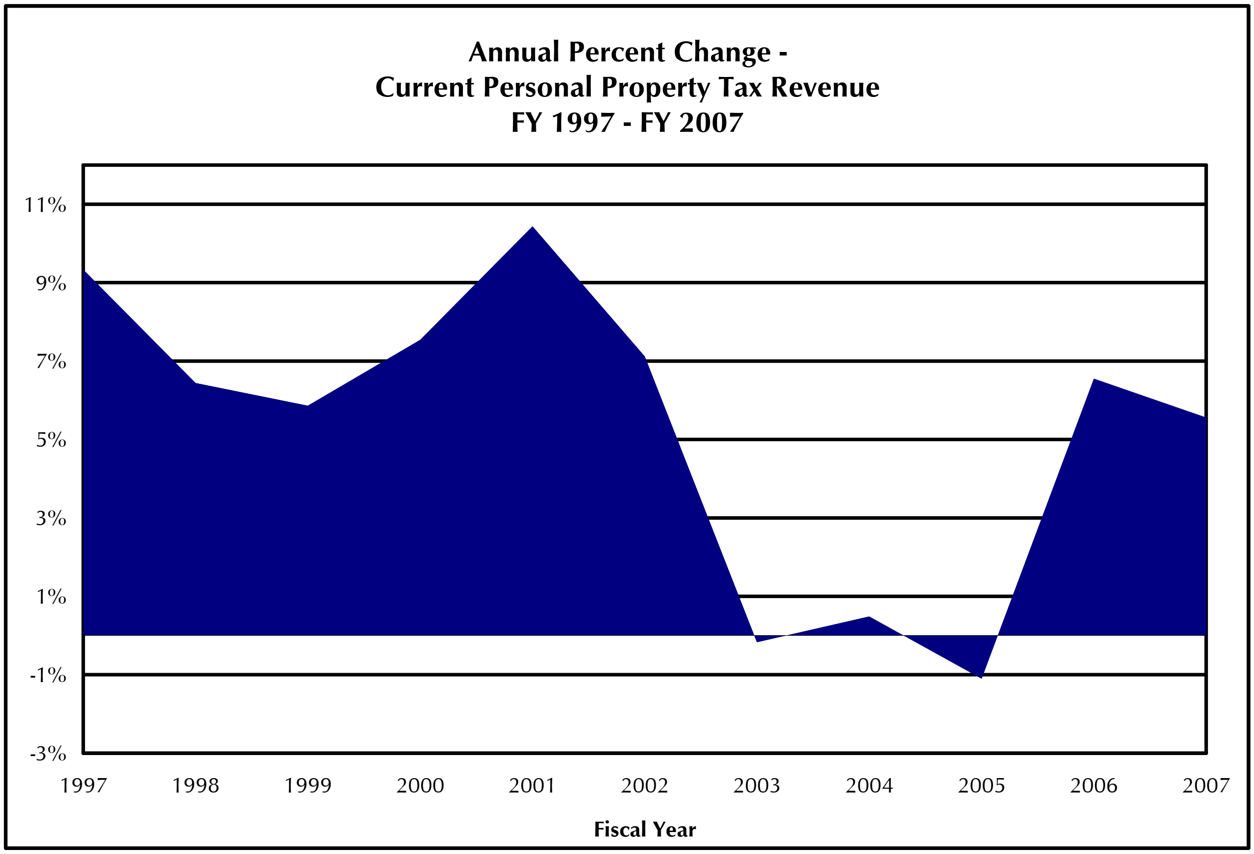
PERSONAL PROPERTY TAX-CURRENT

	FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
Paid Locally	$263,234,277	$271,633,751	$281,997,204	$296,898,767	$14,901,563	5.28%
Reimbursed by State	191,157,702	202,154,629	202,154,629	214,177,112	12,022,483	5.95%
Total	$454,391,979	$473,788,380	$484,151,833	$511,075,879	$26,924,046	5.56%

The FY 2007 Advertised Budget Plan estimate for Personal Property Tax revenue of $511,075,879 represents an increase of $26,924,046, or 5.6 percent, over the *FY 2006 Revised Budget Plan*. This increase is primarily the result of a projected increase in vehicle levy based on a preliminary valuation of vehicles in the County. The increase is partially offset by a $0.07 reduction in the Real Estate Tax rate from the FY 2006 rate of $1.00 to the proposed rate of $0.93 per $100 of assessed value. The Real Estate Tax rate impacts two classes of personal property: mobile homes and non-vehicle Public Service Corporation property. The FY 2007 Personal Property revenue reduction associated with the $0.07 Real Estate Tax decrease is $1.4 million.

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 FY 2004. The 2004 General Assembly approved legislation that continued the 70 percent reimbursement rate through FY 2006, but will cap statewide Personal Property Tax reimbursements at $950 million in FY 2007. Each locality will receive a percentage allocation from this fixed amount determined by the locality's share of statewide tax year 2005 collections. In FY 2007, the effective state subsidy is expected to be between 60 and 70 percent. Thus, the taxpayer's share of the tax is expected to increase above 30 percent in FY 2007. As the number of vehicles in the County increase, the total state subsidy will not change; therefore the percentage paid by the state for each vehicle will decrease over time requiring the taxpayer to pick up a larger share of the Personal Property Tax.

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. Annual changes in total Personal Property Tax revenues are shown in the following graph.



Total Personal Property Tax revenues experienced average annual growth of 7.8 percent from FY 1997 to FY 2002. In FY 2003, Personal Property Taxes declined 0.2 percent and rose a slight 0.5 percent in FY 2004. This flattening of revenue was partially due to the stalled economy. In addition, the computer depreciation schedule was adjusted in FY 2003 and FY 2004, which reduced business levy and resulted in revenue reductions of $4.6 million and $1.0 million, respectively. In FY 2005, Personal Property Tax revenue declined 1.1 percent from the FY 2004 level. The decrease in FY 2005 was due to a higher than anticipated depreciation of vehicles and a decrease in the business levy from the prior year. The assessment of FY 2005 business property was based on equipment owned by businesses as of January 1, 2004. Analysis of business filings for FY 2005 indicated that depreciation of currently owned equipment outpaced the purchase of new equipment during calendar year 2003. The FY 2006 Personal Property tax estimate was increased $9.3 million during the fall 2005 revenue review and represents a 6.5 percent increase over FY 2005 actual receipts. The estimate was raised to reflect an increase in anticipated vehicle levy as a result of robust new car sales during the first half of 2005 due in part to generous dealer incentives including "employee pricing."

Personal Property Tax revenue is expected to continue to increase at a moderate rate in FY 2007. The vehicle component, which represents 75 percent of total Personal Property levy, is the driver of this increase. The FY 2007 estimate incorporates an increase of 5.9 percent in the average vehicle levy from $409 to $433. This increase is based on a preliminary analysis of vehicles in the County valued with information from the National Automobile Dealers' Association (NADA). The volume of vehicles, however, is projected to increase a modest 0.7 percent in FY 2007. The number of new vehicle purchases is expected to slow considerably as dealer incentives pushed up sales in the first half of 2005 that might otherwise have happened late in 2005 or early 2006. High fuel prices are also expected to reduce new automobile purchases of SUVs and other lower gas mileage vehicles. Incorporating changes in average levy and volume, the overall vehicle component of the Personal Property Tax base is expected to rise 5.6 percent in FY 2007. Changes in vehicle volume and levy since FY 1998 are shown in the following table.

Personal Property Vehicles

Fiscal Year	Growth in Vehicle Volume	Average Vehicle Levy	Growth in Average Levy
FY 1998	2.6%	$315	1.6%
FY 1999	3.2%	$320	1.7%
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 (est.)	1.9%	$409	7.9%
FY 2007 (est.)	0.7%	$433	5.9%

Business Personal Property is primarily comprised of assessments on furniture, fixtures and computer equipment. Based on continued economic growth, businesses are expected to expand and the purchases of business equipment are projected to increase. In FY 2007, the number of businesses is projected to increase 0.9 percent while average levy is expected to rise 3.0 percent reflecting growth in employment and increased business investment.

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 or FY 2006 and will not be adjusted in FY 2007. 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 2007 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 2007
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 2007
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 a proposed rate of $0.93 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 2007 Estimated Personal Property Assessments and Tax Levy

Category	FY 2007 Assessed Value	Tax Rate (per $100)	FY 2007 Tax Levy	Percent of Total Levy
Vehicles				
Privately Owned	$9,574,022,290	$4.57	$350,428,111	66.8%
Business Owned	542,042,672	4.57	20,021,665	3.8%
Leased	683,536,984	4.57	23,501,844	4.5%
Subtotal	$10,799,601,946		$393,951,620	75.1%
Business Personal Property				
Furniture and Fixtures	$1,613,177,476	$4.57	$73,659,583	14.0%
Computer Equipment	665,602,821	4.57	30,417,561	5.8%
Machinery and Tools	84,980,367	4.57	3,883,603	0.7%
Research and Development	7,843,442	4.57	358,446	0.1%
Subtotal	$2,371,604,106		$108,319,193	20.6%
Public Service Corporations				
Equalized	$1,802,023,700	$0.93	$18,020,237	3.4%
Vehicles	10,000,600	4.57	462,027	0.1%
Subtotal	$1,812,024,300		$18,482,264	3.5%
Other				
Mobile Homes	$25,655,586	$0.93	$239,082	0.0%
Other (Trailers, Misc.)	10,835,368	4.57	397,884	0.1%
Subtotal	$36,490,954		$636,966	0.1%
Penalty for Late Filing			$3,355,414	0.6%
TOTAL	**$15,019,721,306**		**$524,745,457**	**100.0%**

FY 2007 Personal Property Tax assessments including Public Service Corporations are $15,019,721,306 with a total tax levy of $524,745,457. Personal Property Tax revenue collections are projected to be $511,075,879, reflecting an overall collection rate of 97.4 percent. Total collection rates experienced in this category since FY 1992 are shown in the following table:

Total Personal Property Tax Collection Rates

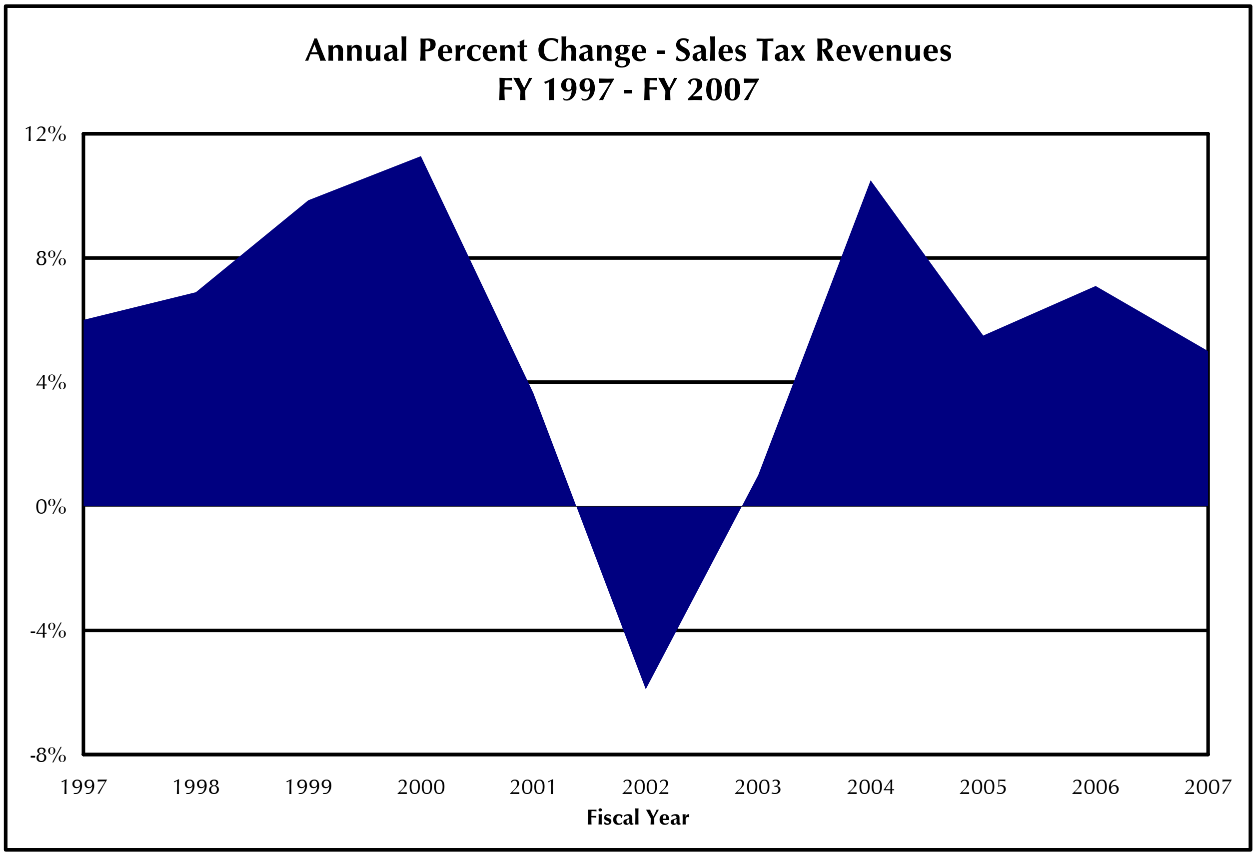
Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1992	94.4%	**2000**	97.3%
1993	96.0%	**2001**	97.1%
1994	95.6%	**2002**	96.3%
1995	96.8%	**2003**	96.8%
1996	97.2%	**2004**	96.9%
1997	97.3%	**2005**	97.9%
1998	97.3%	**2006 (estimated)**	97.4%
1999	97.3%	**2007 (estimated)**[1]	97.4%

[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 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$147,781,944	$158,222,129	$158,222,129	$166,133,236	$7,911,107	5.00%

The FY 2007 Advertised Budget Plan estimate for Sales Tax receipts of $166,133,236 represents an increase of $7.9 million, or 5.0 percent, over the *FY 2006 Revised Budget Plan* based on the expectation of moderate economic expansion.



As shown in the chart above, Sales Tax receipts experienced annual increases ranging from 5.6 percent to 11.3 percent during the period FY 1997 to FY 2001. In FY 2002, Sales Tax receipts dropped 5.9 percent from the level achieved in FY 2001. This decrease was only the second time in 30 years that Sales Tax receipts had fallen from their previous year's level (in FY 1991, Sales Tax revenues dropped 4.5 percent from FY 1990.) In FY 2003, Sales Tax receipts rose just 1.0 percent above FY 2002. As a result of the robust economy, Sales Tax receipts rebounded in FY 2004, rising 10.5 percent. Sales Tax receipts moderated in FY 2005, growing 5.5 percent over FY 2004. The FY 2006 estimate for Sales Tax receipts represents growth of 7.1 percent over the FY 2005 actual. During the fall 2005 revenue review, actual year-to-date Sales Tax collections were not available to determine if the estimate for Sales Tax should be adjusted. Due to a computer system change at the Virginia Department of Taxation, monthly Sales Tax receipts for all localities were estimated for the months of September, October and November at 5.5 percent over the respective month from the year before. Upon completion of the system change, the December 2005 distribution to each locality was adjusted to reflect actual receipts during the period. Based on actual collections through the first six months of FY 2006, Sales Tax receipts are increasing at a rate of just 2.6 percent over the same period of FY 2005 compared to the 7.1 percent included in the FY 2006 estimate. Sales Tax from purchases made during the holidays can have a dramatic effect on year-to-date collections and tax receipts for December will not be received by the County until late February. During the *FY 2006 Third Quarter Review*, Sales Tax receipts will be reviewed to determine if an adjustment to the estimate is necessary. In

FY 2007, Sales Tax receipts are expected to increase a moderate 5.0 percent as a result of continued but temperate economic growth projected for 2006 and 2007.

RECORDATION/DEED OF CONVEYANCE TAXES

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$48,674,084	$34,867,317	$48,674,084	$48,674,084	$0	0.00%

The FY 2007 Advertised Budget Plan estimate of $48,674,084 reflects no change from the *FY 2006 Revised Budget Plan*. The FY 2007 estimate is comprised of $38,869,512 in Recordation Tax revenues and $9,804,572 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 Tax revenues. Home value and interest rate projections are used in an econometric model that assists in developing estimates for these categories.

Receipts from Recordation and Deed of Conveyance Taxes have grown significantly since FY 2000 due to continued strong demand relative to housing supply in the County as well as rising median sales prices. Increased mortgage refinancing due to low mortgage rates have also boosted Recordation collections. From FY 2000 through FY 2005, revenues from Recordation and Deed of Conveyance Taxes have increased on an average annual basis of 33.4 percent and 18.3 percent, respectively. During the 2004 General Assembly, the Commonwealth of Virginia increased the State tax on recording deeds from 15 cents to 25 cents per $100 of value of the property being recorded. The Code of Virginia allows cities and counties to levy a local Recordation Tax at one-third the State rate so the County's Recordation Tax was increased from 5 cents to 8.33 cents per $100 of value effective September 1, 2004.

The FY 2006 estimate for Recordation and Deed of Conveyance was increased $13.8 million during the fall 2005 revenue review. The increase is due to rising home values and strong home buying activity. Through January 2006, FY 2006 Deed of Conveyance Tax receipts are up 9.3 percent over the same period of FY 2005. Recordation Tax revenues are up 34.3 percent through the first seven months of FY 2006. Absent the increase in the Recordation Tax rate from 5 cents to 8.33 cents per $100 of value, which was not in effect for first two months of FY 2005, Recordation Tax collections are up 17.1 percent. The disparity between growth in Deed of Conveyance Tax revenue and the growth in Recordation Taxes adjusted for the rate increase indicates that mortgage refinancing activity has remained strong. Mortgage refinancing activity continues to remain elevated because holders of Adjustable Rate Mortgages (ARM) and non-traditional mortgages are converting to fixed-rate mortgages as interest rates move upwards. Non-traditional mortgages include hybrid loans, which have fixed rates for a set period of time (1-10 years) and then convert to an ARM. In FY 2007, Recordation and Deed of Conveyance receipts are expected to remain at their FY 2006 level because home values and interest rates are projected to increase while mortgage refinancing is anticipated to moderate.

VEHICLE DECAL FEE

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$19,802,772	$20,250,310	$20,250,310	$20,655,316	$405,006	2.00%

The FY 2007 Advertised Budget Plan estimate of $20,655,316 for Vehicle Decal Fee revenue represents growth of 2.0 percent over the *FY 2006 Revised Budget Plan.* This growth rate is consistent with historical trends.

Since FY 2004, County taxpayers with no previous tax delinquencies have received their vehicle decal along with their Personal Property Tax bill. Previously, County taxpayers could purchase a Vehicle Decal only after the Personal Property tax bill had been paid. This change reduces County expenditures by an estimated $0.5 million per year. Vehicle Decal Tax rates remain unchanged in FY 2005 and FY 2006 at $25 for passenger vehicles; $18 for motorcycles; and $23 for certain passenger vehicles used for compensation, e.g., taxis. The renewal date for vehicle decals is October 5, the same due date for payment of Personal Property Taxes.

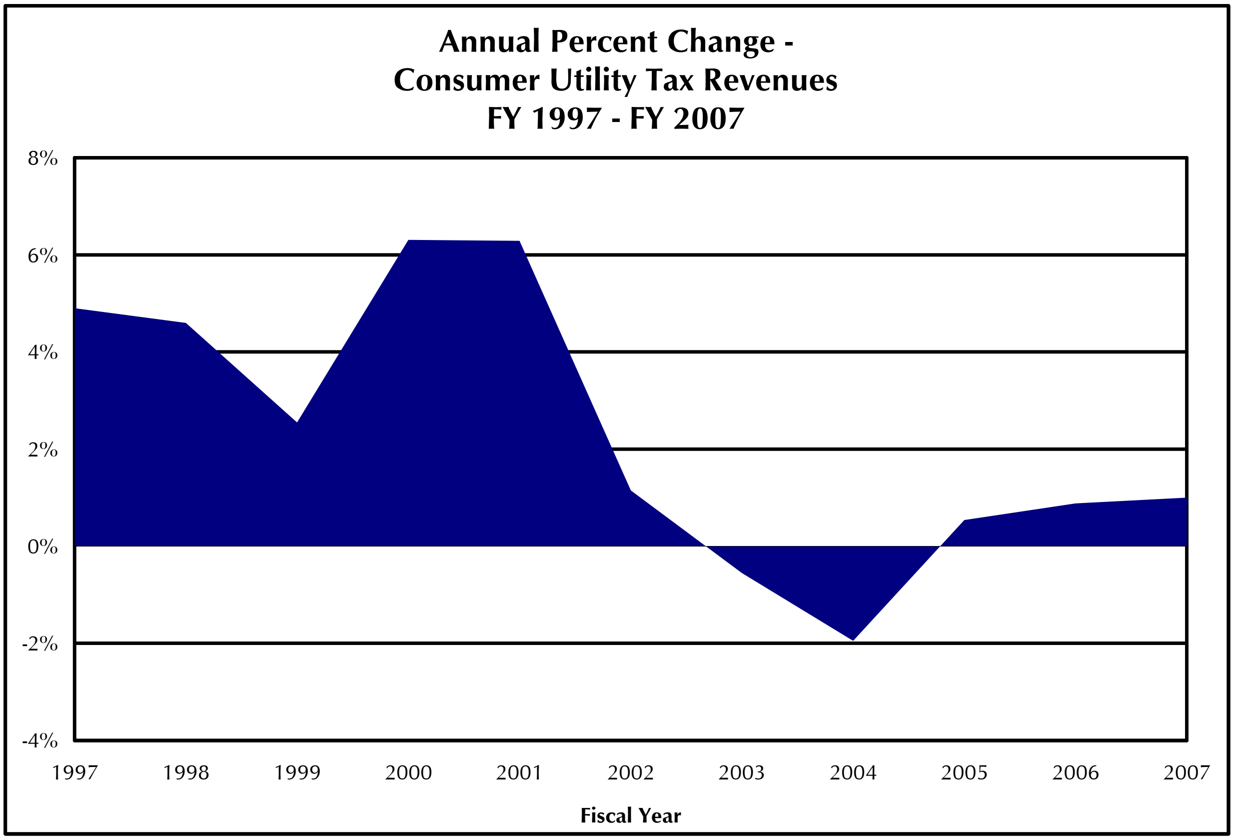
CONSUMER UTILITY TAX

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$84,676,016	$85,422,983	$85,422,983	$86,277,213	$854,230	1.00%

The FY 2007 Advertised Budget Plan estimate for Consumer Utility Taxes of $86,277,213 reflects an increase of 1.0 percent over the *FY 2006 Revised Budget Plan.* County residents and businesses are subject to Consumer Utility Taxes based on their consumption of electricity, gas, and telephone services. The FY 2007 estimate is comprised of $36,044,102 in taxes on electric service, $40,532,108 in taxes on telephone service, and $9,701,003 in taxes on gas service.

Between FY 1996 and FY 2001, Consumer Utility Tax revenues rose at an average annual rate of 4.9 percent. However, since FY 2000, Consumer Utility Tax revenue growth has slowed considerably with an average annual growth rate of only 1.1 percent. Growth fell to 1.2 percent in FY 2002 and then decreased 0.6 percent and 2.0 percent in FY 2003 and FY 2004, respectively. The decline in total Consumer Utility Tax revenue is due to decreases in telephone utility taxes. Prior to FY 2002, taxes on telephone service grew at a faster rate than other consumer utilities; however, increased use of cell phones, cable Internet access, and phoning over the Internet (VoIP) have all diminished the telephone utility tax base. In FY 2003 and FY 2004, receipts from telephone utility taxes fell 4.7 percent and 5.0 percent, respectively. This trend in telephone usage continued and when combined with modest growth in taxes from gas and electric utilities, total Consumer Utility Taxes grew a slight 0.5 percent in FY 2005 over FY 2004 actual collections. Based on year-to-date collections the *FY 2006 Revised Budget Plan* projection reflects no change from the Adopted Plan. FY 2007 Consumer Utility Tax revenue is expected to increase 1.0 percent based on recent historical trends and anticipated population growth.

For the third year, legislation has been proposed during the current Virginia General Assembly that would considerably change the manner in which taxes on telecommunications services would be levied. Under the proposed legislation, local taxes on telephone land lines and mobile telecommunications plus E-911 fees would be repealed and replaced with a 5 percent State tax. In addition to the existing telecommunications services currently taxed in the state, the proposed flat 5 percent State tax would apply to satellite television bills, internet calling and long-distance services. The new State tax would be remitted to a State fund for distribution to localities. At this time, there is not enough information for the County to determine if the State Tax distribution would be revenue neutral with the County's current telecommunications taxes. Staff continues to monitor the status of this legislation.



MOBILE TELECOMMUNICATIONS TAX

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$11,513,349	$11,330,000	$11,513,349	$11,858,749	$345,400	3.00%

The FY 2007 Advertised Budget Plan estimate for Mobile Telecommunication Tax receipts is $11,848,749, an increase of $345,400, or 3.0 percent over the *FY 2006 Revised Budget Plan*. In FY 2004, the Board of Supervisors authorized a tax of ten percent on a consumer's gross charges up to a maximum of $30 per month for mobile local telecommunications. The maximum monthly rate is $3 per bill, or $36 per year. During the 2005 fall review, the FY 2006 estimate for Mobile Telecommunication Taxes was increased 1.6 percent to $11,513,349, a level consistent with actual FY 2005 receipts and collections during the first half of FY 2006. Growth of 3.0 percent over the FY 2006 estimate is projected for FY 2007.

TRANSIENT OCCUPANCY TAX

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$14,629,545	$14,270,184	$18,195,782	$19,404,176	$1,208,394	6.64%

The FY 2007 Advertised Budget Plan estimate for Transient Occupancy Tax of $19,404,176 reflects an increase of $1,208,394 or 6.6 percent over the FY *2006 Revised Budget Plan*. 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. During the fall 2005 review, the Transient Occupancy Tax revenue estimate was increased $3.9 million or 27.5 percent based on year-to-date collections. The FY 2007 estimate is based on a statistical model using Gross County Product as a predictor and the anticipated opening of three new hotels, which are currently under construction.

CIGARETTE TAX

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$6,061,050	$11,532,018	$11,532,018	$11,532,018	$0	0.00%

The FY 2007 Advertised Budget Plan estimate for Cigarette Tax revenue of $11,532,018 reflects no change from the *FY 2006 Revised Budget Plan*. Fairfax County is authorized by the Code of Virginia to levy a Cigarette Tax at a rate not to exceed 5 cents per pack of 20 cigarettes or the amount levied under State law, whichever is greater. Until 2004, the State tax on cigarettes was 2.5 cents per pack so the maximum the County could levy was 5 cents per pack. During the 2004 General Assembly, the State tax on cigarettes was raised to 20 cents per pack effective September 1, 2004 and to 30 cents per pack as of July 1, 2005. This change allowed the Fairfax County Board of Supervisors to raise the County tax on cigarettes equal to the State rate. After a public hearing, the County Cigarette Tax was increased to 20 cents per pack as of September 1, 2004 and to 30 cents per pack as of July 1, 2005.

The current FY 2006 Cigarette Tax estimate represents no change from the FY 2006 Adopted Budget Plan, which reflects a full year at the new 30 cents per pack tax rate. The FY 2007 estimate assumes no growth over FY 2006 based on the historical trends of this tax category.

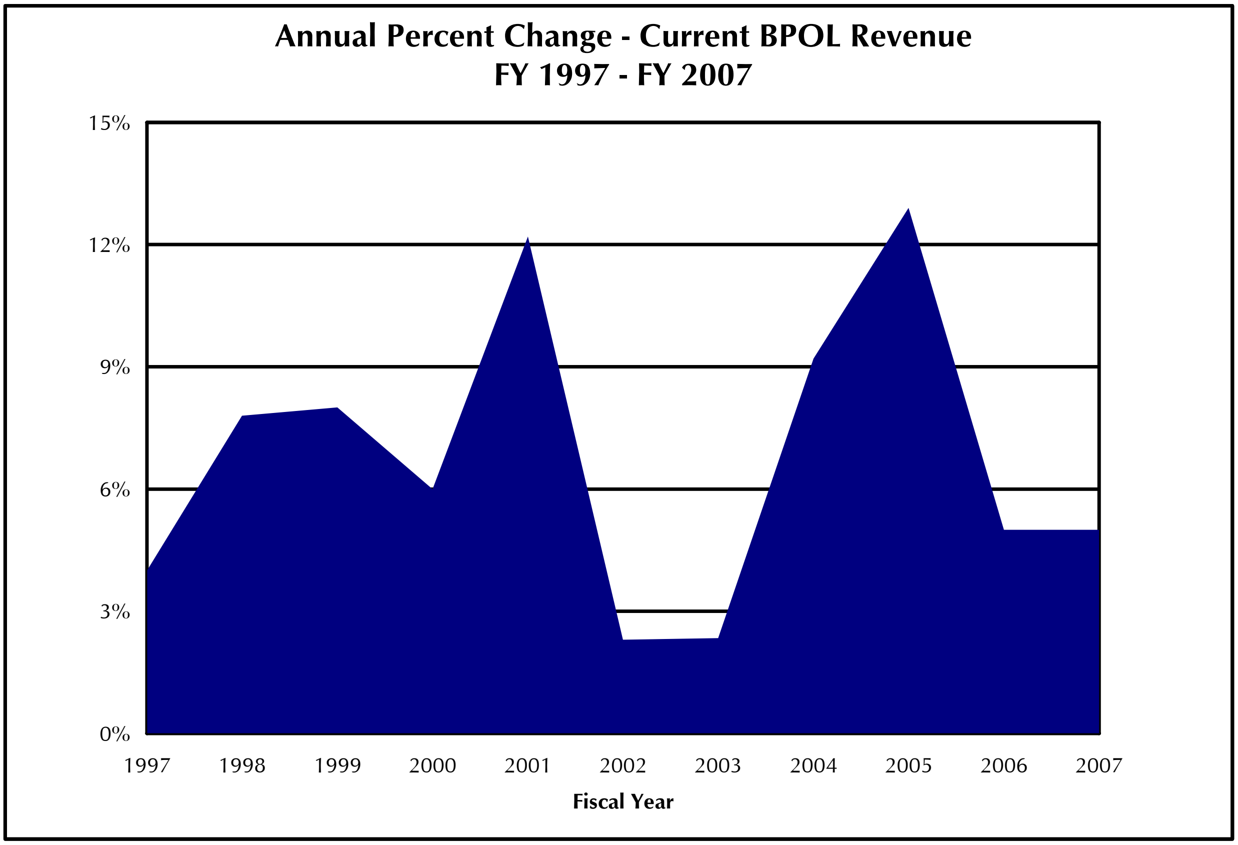
BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$115,117,435	$113,528,190	$120,873,307	$126,916,972	$6,043,665	5.00%

The FY 2007 Advertised Budget Plan estimate for Business, Professional and Occupational License Taxes (BPOL) is $126,916,972, an increase of $6,043,665, or 5.0 percent, over the *FY 2006 Revised Budget Plan*. This rate is consistent with continued moderate economic expansion.

In FY 2005, BPOL receipts experienced robust growth of 12.9 percent over FY 2004. Reflecting increased federal procurement and defense related spending, the Consultant category, which represents over 23 percent of total BPOL receipts, grew at a rate of 14.0 percent. Buoyed by the strength of the housing market, receipts from Real Estate Brokers grew 40.8 percent in FY 2005, while the combined Retail/Wholesale category, which comprises approximately 23 percent of total BPOL receipts, grew at a rate of 6.3 percent. Based on FY 2005 actual receipts and an econometric model using Sales Tax receipts and mortgage interest rates as predictors, the FY 2006 estimate for BPOL receipts was increased $7,345,117 as part of the fall 2005 revenue review, reflecting growth of 5.0 percent over the FY 2005 level.

Businesses file and pay their BPOL Taxes simultaneously on March 1 each year based on their gross receipts during the previous calendar year. As a result, there is little actual data available at this time to further refine estimates for FY 2006 and develop projections for FY 2007. Most business categories are expected to experience growth in FY 2006 and FY 2007 but at lower rates due to projections for somewhat slower economic growth than in FY 2005. Federal procurement spending in the County is expected to increase but not at the peak pace of 2004. In addition rising interest rates will constrain growth in the Real Estate Broker category. Overall, BPOL receipts are projected to increase 5.0 percent in FY 2007 based the model mentioned above which incorporates forecasts of Sales Tax receipts and mortgage interest rates.



PERMITS, FEES AND REGULATORY LICENSES

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$27,961,574	$32,543,251	$32,108,389	$33,546,014	$1,437,625	4.48%

The FY 2007 Advertised Budget Plan estimate for Permits, Fees and Regulatory Licenses is $33,546,014, an increase of $1,437,625, or 4.5 percent, over the *FY 2006 Revised Budget Plan* estimate. This increase is primarily the result of a Land Development Services fee increase for building permit and inspection fees, the major component of the Permit, Fees, and Regulatory Licenses category.

In FY 2006, the fee structure for Land Development Services was realigned to increase cost recovery. Prior to FY 2006, fees had not been adjusted since FY 1996 and cost recovery was approximately 75.3 percent in FY 2005. Over FY 2006 and FY 2007, the cost recovery will be increased to approximately 90 percent. In FY 2007, the proposed increase in fees is projected to generate an additional $1.4 million in revenue.

Twenty-three individual fee categories comprise Land Development Services (LDS) Fee revenue. Changes in LDS Fee revenue are a reflection of the housing 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 consequently revenue, is the number of building permits issued by LDS. Single family permits issued during the first 6 months of FY 2006 total 1,041, down 26.8 percent, or 381 permits from the same period of FY 2005. The number of nonresidential building permits issued so far this fiscal year is down 1.3 percent or just 1 permit from the same period in FY 2005. While the number of permits is down, revenue for the first six months of FY 2006 is up 11.4 percent due to the fee increase. The FY 2006 estimate for LDS fees of $25.2 million, representing an increase of 14.8 percent over FY 2005 actual receipts, was not adjusted during the fall 2005 revenue review.

Adjustments in other categories resulted in a $0.4 million decline in the FY 2006 estimate for Permits, Fees and Regulatory Licenses during the fall 2005 revenue review. This net decrease reflects lower than anticipated Zoning Fee revenue partially offset by modest increases in other categories based on FY 2006 year-to-date collections.

INTEREST ON INVESTMENTS

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$27,110,409	$38,329,212	$61,923,037	$67,508,268	$5,585,231	9.02%

The FY 2007 Advertised Budget Plan estimate of $67,508,268 for Interest on Investments represents an increase of $5,585,231, or 9.0 percent, over the *FY 2006 Revised Budget Plan* estimate. 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. During 2001, the Federal Reserve reduced interest rates 11 times from 6.5 percent to 1.75 percent in order to stimulate economic growth. Rates were stable in 2002 until November when the federal funds rate was dropped to 1.25 percent. The Fed cut rates again in June 2003 to 1.0 percent. During this period, revenue from Investment Interest fell from $56.3 million in FY 2001 to $17.8 million in FY 2003. In FY 2004, the annual average yield on the County's portfolio was just 1.04 percent and Interest on Investments dropped again to $14.8 million. This category began to increase as the Fed began to gradually increase interest rates. In FY 2005, the annual average yield increased to 1.72 percent and revenue from Interest on Investments increased to $27.1 million or 83.7 percent over FY 2004.

The federal funds rate remained at 1.0 percent until June 2004 when the Fed began to raise rates to keep inflation in check. Since June 2004, the Fed has increased rates by a quarter point at each of its last 14 meetings. The federal funds rate now stands at 4.50 percent. The FY 2006 estimate for Interest on Investments was increased $23.6 million, from $38.3 million to $61.9 million, during the fall 2005 review of revenue as a result of these increases. The FY 2006 estimate reflects an average yield of 3.8 percent up from the 3.0 percent included in the FY 2006 Adopted Budget Plan.

Many economists believe that interest rates are close to a "neutral" rate which would neither fuel inflation nor constrain economic growth; therefore, the FY 2007 estimate assumes that the Federal Reserve will not continue to increase rates at the current pace. The FY 2007 estimate includes a projected yield of 4.15 percent and an average portfolio size of $2,322,265,576, representing 5.0 percent growth over the FY 2006 portfolio size. 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 $96,422,789 and the General Fund percentage is projected to be 70.0 percent in FY 2007.

CHARGES FOR SERVICES

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$47,537,672	$49,458,631	$52,715,205	$55,566,690	$2,851,485	5.41%

The FY 2007 Advertised Budget Plan estimate of $55,566,690 for Charges for Services reflects an increase of $2,851,485, or 5.4 percent, over the *FY 2006 Revised Budget Plan*. This increase is primarily the result additional revenue generated from the Emergency Medical Services (EMS) Transport, School-Age Child Care (SACC) fees, and additional Elderly Day Cares Fees.

The Board of Supervisors approved an EMS Transport fee that became effective in April 2005. The fee is anticipated to generate $6.6 million in FY 2006; the first full year of billing. In FY 2007, the revenue estimate is approximately $8.0 million, an increase of $1.4 million over FY 2006 based on projected transports and collections.

SACC fees of $25.6 million comprise 46.0 percent of the total Charges for Services category. In FY 2006, SACC revenues are projected to rise $1.2 million over the FY 2006 estimate due to a 2.0 percent base fee adjustment to address salary increases and the addition of four new SACC classrooms, two at Oak Hill Elementary School and two at West Fairfax Elementary School.

Elderly Day Care Fees are expected to increase $86,850 in FY 2007 primarily due to the first full year of operations for the Little River Glen Adult Day Care Center. Other Charges for Services are projected to experience modest increases based on historic trends.

The FY 2006 estimate for Charges for Services was increased $3.3 million during the fall 2005 review primarily due to an increase in County Clerk Fees based on year-to-date collections, which were higher than anticipated due to the continued increases in home values and high mortgage refinancing activity.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT[1]

FY 2005 Actual	FY 2006 Adopted	FY 2006 Revised	FY 2007 Advertised	Increase/ (Decrease)	Percent Change
$129,924,908	$124,597,386	$126,847,818	$129,054,000	$2,206,182	1.74%

[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 2007 Advertised Budget Plan estimate for Revenue from the Commonwealth and Federal Governments is $129,054,000 and represents an increase of $2,206,182, or 1.7 percent, over the *FY 2006 Revised Budget Plan* estimate. House Bill 599 state revenues are anticipated to increase $522,428 due to revised projections of State General Fund revenue growth which is the basis for the total appropriation for this program. An increase of $360,433 is the result of cost of living increases for state responsible positions, while an increase of $124,991is associated with additional state reimbursements for the Health Department. In addition, revenue from the Commonwealth is projected to increase $1.2 million for the Child Care Assistance and Referral (CCAR) program, which will be entirely offset by increased expenditures.

During the fall 2005 review, FY 2006 revenue estimates for Revenue from the Commonwealth and Federal Government were increased $2,250,432 over the FY 2006 Adopted Budget Plan. This increase is primarily due to State reimbursement of its share of actual County expenditures associated with the Adult Detention Center, Juvenile Detention Center, Health Department and Constitutional Officers. In addition, $0.7 million was due to federal reimbursement under the Criminal Alien Assistance Program based on notification received in November 2005 from the U.S. Department of Justice for holding illegal criminal aliens in the County jail during FY 2005. This revenue had not been budgeted as the funding had been slated for elimination.