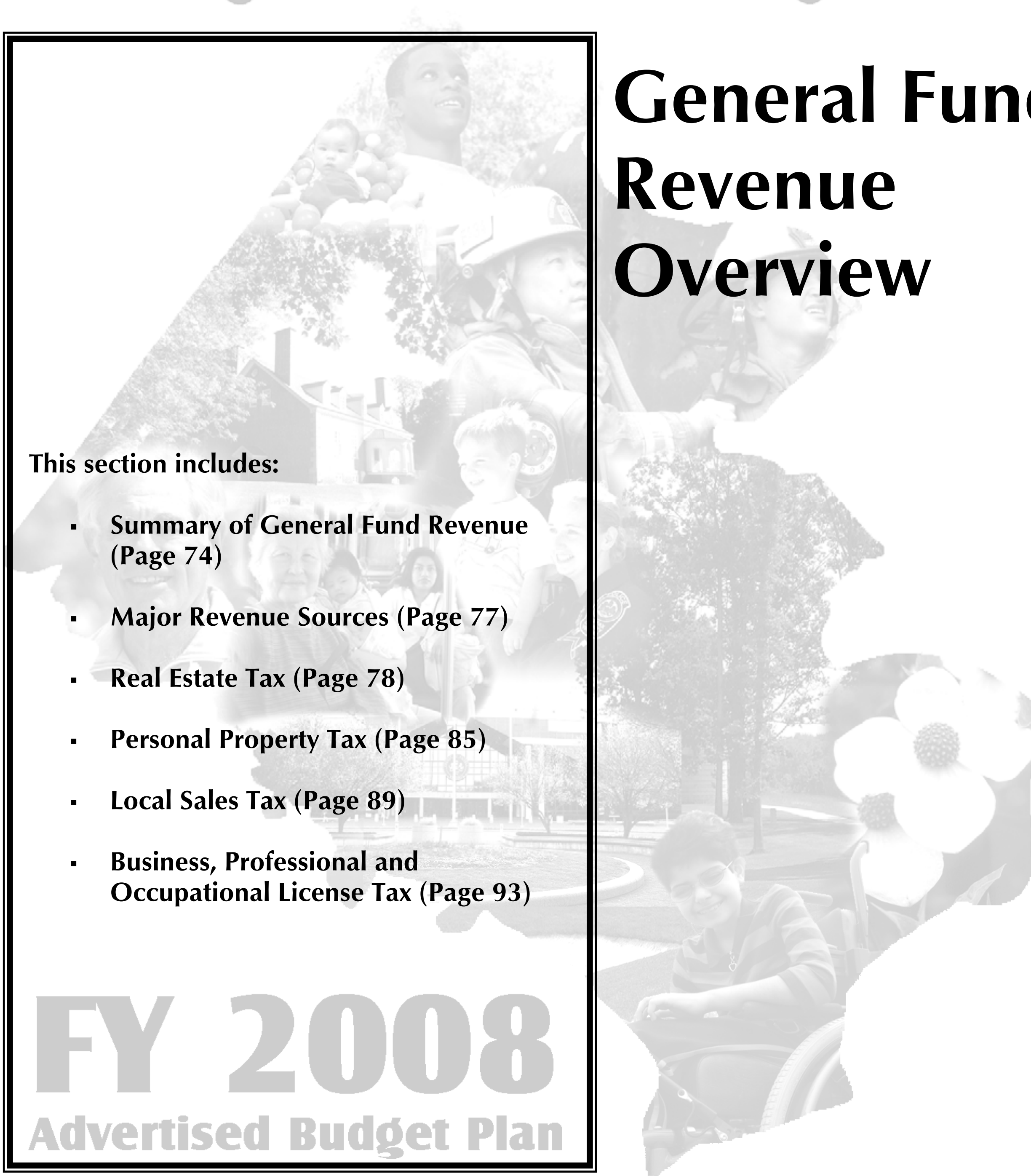
County of Fairfax, Virginia



General Fund Revenue Overview

This section includes:

FY 2008

Advertised Budget Plan

SUMMARY OF GENERAL FUND REVENUE

Category	FY 2006 Actual	FY 2007 Adopted Budget Plan	FY 2007 Revised Budget Plan[1]	FY 2008 Advertised Budget Plan	Over the FY 2007 Revised Budget Plan: Increase/ (Decrease)	Over the FY 2007 Revised Budget Plan: Percent Change
Real Estate Taxes - Current and Delinquent	$1,783,844,578	$1,892,239,118	$1,891,956,361	$1,968,062,309	$76,105,948	4.02%
Personal Property Taxes - Current and Delinquent[2]	497,554,711	515,667,824	510,673,886	513,468,829	2,794,943	0.55%
Other Local Taxes	498,105,451	488,866,064	470,748,532	483,128,815	12,380,283	2.63%
Permits, Fees and Regulatory Licenses	31,621,985	33,546,014	33,457,680	33,530,341	72,661	0.22%
Fines and Forfeitures	15,077,117	15,241,666	14,295,939	14,321,557	25,618	0.18%
Revenue from Use of Money/Property	73,226,569	74,366,689	92,795,521	92,018,072	(777,449)	-0.84%
Charges for Services	57,537,996	55,878,477	56,140,459	57,326,303	1,185,844	2.11%
Revenue from the Commonwealth and Federal Governments[2]	137,915,622	129,054,000	119,705,287	120,014,223	308,936	0.26%
Recovered Costs/ Other Revenue	7,767,349	7,209,208	7,499,476	7,612,840	113,364	1.51%
Total Revenue	**$3,102,651,378**	**$3,212,069,060**	**$3,197,273,141**	**$3,289,483,289**	**$92,210,148**	**2.88%**
Transfers In	2,604,307	2,408,050	2,408,050	2,530,299	122,249	5.08%
Total Receipts	**$3,105,255,685**	**$3,214,477,110**	**$3,199,681,191**	**$3,292,013,588**	**$92,332,397**	**2.89%**

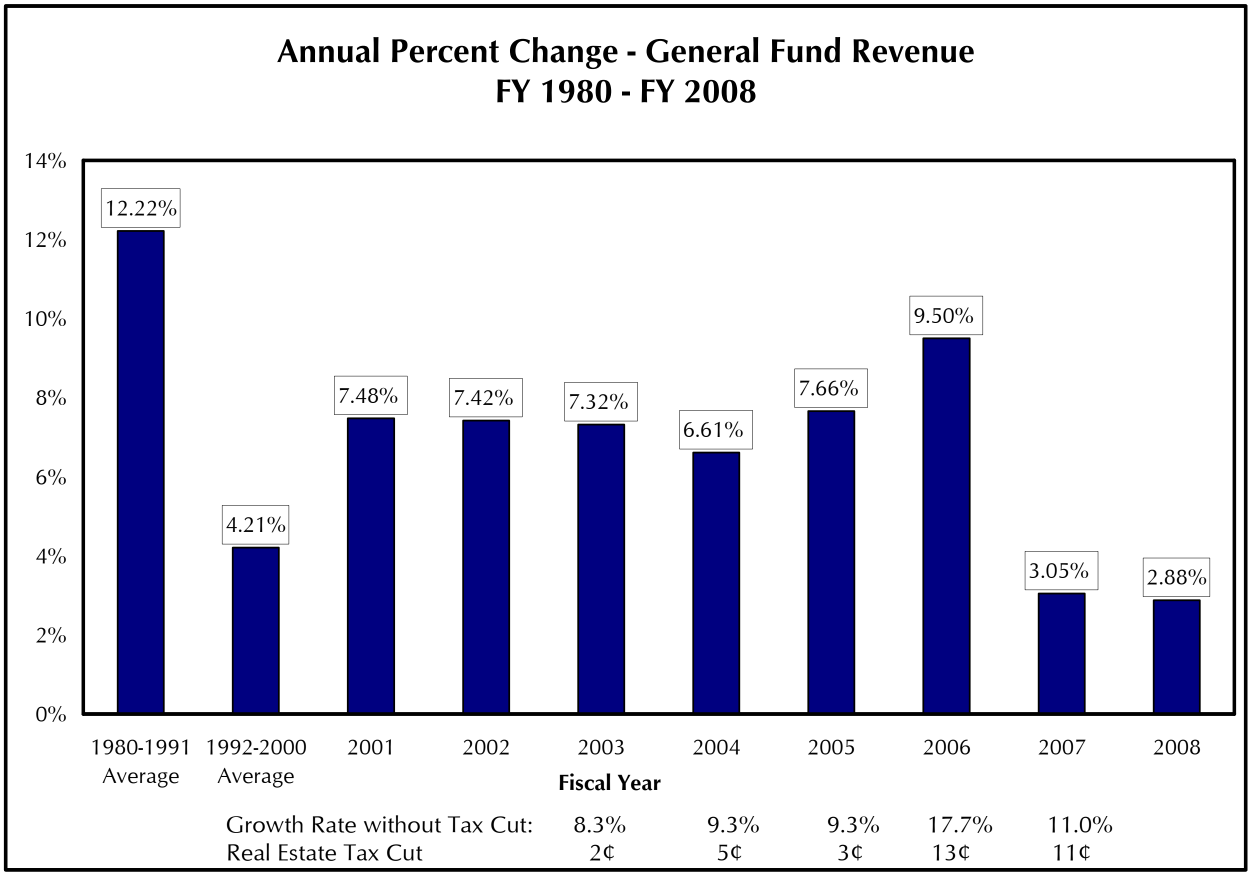
[1] FY 2007 revenue estimates were revised as part of a fall 2006 review of revenues. Explanations of these changes can be found in the following narrative. The *FY 2006 Third Quarter Review* will contain further adjustments as necessary.

[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 2008 General Fund revenues are projected to be $3,289,483,289, an increase of $92,210,148, or 2.9 percent, over the *FY 2007 Revised Budget Plan*. This revenue increase is primarily the result of a 4.0 percent increase in Real Estate Tax revenue. Growth in Real Estate Tax revenue is the result of a 4.15 percent increase in the Real Estate assessment base. In addition to the Real Estate Tax revenue shown above, the projected value of one penny of the Real estate Tax rate ($22.7 million) is allocated 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 $3,292,013,588. The Transfers In to the General Fund reflects $2.5 million from Fund 105, Cable Communications for use of County rights of way and indirect support provided by the County's General Fund agencies.

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 is expected to substantially moderate in FY 2007 and FY 2008 with projected rates of 3.1 percent and 2.9 percent, respectively. The growth rates below are after Real Estate Tax rate reductions totaling 34 cents from FY 2002 through FY 2007.



Economic Indicators

The national economy, as measured by real Gross Domestic Product, rose 3.4 percent in 2006, the strongest rate in two years. The rise was attributed to increased consumer spending which more than offset weakened investment in home building. U.S. inflation rose at a rate of 3.2 percent in 2006, after rising to a five year high in 2005. The Federal Reserve kept the federal funds rate at 5.25 percent from June 2006 through January 2007. The statement from the January 2007 Federal Open Market Committee meeting indicated that inflationary pressures are likely to moderate further. Consumer confidence posted gains from November 2006 to January 2007 fueled primarily by the favorable U.S. job market. Despite declines in manufacturing and housing related jobs, the U.S. economy added 1.8 million jobs during 2006 and ended the year with a favorable 4.5 percent unemployment rate.

The local economy continued to expand in 2006. After advancing a revised 6.1 percent in 2005, Gross County Product (GCP), adjusted for inflation, grew at an estimated 6.8 percent in 2006. The County's Coincident Index, which represents the current state of the County's economy rose in November compared to November 2005. This was the 36th consecutive month that the Coincident Index increased over the same month the prior year. The County's Leading Index experienced uneven performance during 2006 with offsetting losses and gains. Dr. Stephen Fuller of George Mason University and the County's economic advisor indicates that the County's economy is in transition from the fast growth of the past three years to a slower growing expansion.

Housing Market
After six years of double-digit growth in Fairfax County residential assessments, the housing market reversed course in 2006. The number of homes listed for sale increased dramatically, the number of homes sold dropped and prices fell marginally. On average, there were over twice as many homes for sale each month in 2006 compared to 2005; although in a few months, the number of active listings was four times as many as the same month the prior year. While the number of homes on the market climbed, homes took longer to sell. In December 2006, a home in Fairfax County was on the market an average of 97 days according to the Metropolitan Regional Information System (MRIS), compared to the 2005 average of 21 days and the December 2005 average of just 15 days. The increase in the inventory of homes for sale brought more balance to the market as sellers negotiated in order to sell their home. During the last half of 2006, homes were selling for just 93 percent of their list price compared to an average of over 99 percent for all of 2005. Overall, preliminary figures from the Northern Virginia Association of Realtors (NVAR), indicate that the number of homes sold in Fairfax County in 2006 was down over 34 percent to 15,181 from the 23,114 homes sold in 2005.

These changes in the residential market brought a rapid end to double-digit price appreciation. In 2005, the average home sales price rose nearly 23 percent over 2004. Price appreciation decelerated to just 5 to 7 percent during the first four months of 2006 and by May, the average price of a home sold rose just 0.6 percent over May 2005. From July to year-end, the average sales price fell each month compared to the same month in 2005. As a result of the housing market decline, the mean residential assessed value of a home in Fairfax County fell to $542,744 in FY 2008, a decrease of 0.33 percent from the FY 2007 value of $544,541.

The slowdown in the residential housing market is expected to continue into 2007 as job growth slows and the economy expands at a reduced pace. Based on Stephen Fuller's projections, 17,300 net new jobs are expected to be created in Fairfax County in 2007, an 11.3 percent decrease from the 19,500 jobs created in 2006. Mortgage interest rates are expected to increase moderately but remain relatively low on a historical basis throughout the coming year. Recovery in the residential housing market is likely to be gradual and most economists do not expect to see any price appreciation until mid- to late 2007.

Nonresidential Market
The 2006 nonresidential real estate market was robust. Leasing activity during 2006 totaled 10.8 million square feet, the third highest total recorded by the Fairfax County Economic Development Authority. An additional 1.7 million square feet of office space was delivered in 2006 bringing the total County inventory to 105.2 million square feet. Due to the rise in office space, the County's direct office vacancy rose from the mid-year 2006 rate of 7.3 percent to 7.7 percent at year-end 2006, but still slightly down from the 7.8 percent recorded at year-end 2005. Including sublet space, the year-end 2006 overall office vacancy rate was 9.2 percent, down from 9.7 percent at year-end 2005. An additional 5.8 million square feet of new space is scheduled to be added to the market within the next 18 months, the most new construction in six years. A small up-tick in the office vacancy rate is likely in 2007 as this space comes on-line. As of the end of the end of 2006, 32 buildings were under construction. According to the Economic Development Authority, 22 of these buildings were 100 percent speculative, an indication of business confidence in the Fairfax County economy.

Real Estate Tax Revenue
Current and delinquent FY 2008 Real Estate Tax revenues in Fairfax County comprise 59.8 percent of total General Fund revenue and are the driving force of the overall revenue change. FY 2008 Real Estate property values were established as of January 1, 2007 and reflect market activity through calendar year 2006. The Real Estate Tax base is projected to increase 4.15 percent in FY 2008, and is made up of a 2.47 percent rise in total equalization (reassessment of existing residential and non-residential properties), and new construction of 1.68 percent. The FY 2007 and FY 2008 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 2006 collections, and FY 2007 year-to-date trends.

MAJOR REVENUE SOURCES

The following major revenue categories comprise 98.0 percent of total FY 2008 General Fund revenue and are discussed in this section. Unless otherwise indicated, comparative data are presented relative to the *FY 2007 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 2006 Actual	FY 2007 Adopted Budget Plan	FY 2007 Revised Budget Plan[1]	FY 2008 Advertised Budget Plan	Change from the FY 2007 Revised Budget Plan: Increase/ (Decrease)	Change from the FY 2007 Revised Budget Plan: Percent Change
Real Estate Tax - Current	$1,772,129,121	$1,883,879,440	$1,880,240,905	$1,956,346,853	$76,105,948	4.05%
Personal Property Tax - Current[2]	481,746,584	503,660,908	498,470,010	501,264,953	2,794,943	0.56%
Paid Locally	277,509,629	292,346,964	287,156,066	289,951,009	2,794,943	0.97%
Reimbursed by Commonwealth	204,236,955	211,313,944	211,313,944	211,313,944	0	0.00%
Local Sales Tax	152,475,529	166,133,236	158,588,505	164,139,098	5,550,593	3.50%
Recordation/Deed of Conveyance Taxes	51,395,097	48,674,084	35,152,053	33,304,953	(1,847,100)	-5.25%
Gas & Electric Utility Taxes	44,239,144	45,745,105	45,163,431	45,936,936	773,505	1.71%
Telephone Utility & Mobile Telephone Taxes	59,031,941	52,390,857	26,974,513	0	(26,974,513)	-100.00%
Communications Sales Tax	0	0	26,974,513	53,949,026	26,974,513	100.00%
Transient Occupancy Tax	18,683,140	19,404,176	19,916,227	20,912,038	995,811	5.00%
Business, Professional and Occupational License Tax-Current	125,169,480	130,253,143	131,427,954	137,999,352	6,571,398	5.00%
Cigarette Tax	10,381,450	11,532,018	10,381,450	10,381,450	0	0.00%
Permits, Fees and Regulatory Licenses	31,621,985	33,546,014	33,457,680	33,530,341	72,661	0.22%
Interest on Investments	70,058,334	71,187,926	89,574,910	88,777,592	(797,318)	-0.89%
Charges for Services	57,537,996	55,878,477	56,140,459	57,326,303	1,185,844	2.11%
Revenue from the Commonwealth and Federal Governments[2]	137,915,622	129,054,000	119,705,287	120,014,223	308,936	0.26%
Total Major Revenue Sources	**$3,012,385,423**	**$3,151,339,384**	**$3,132,167,897**	**$3,223,883,118**	**$91,715,221**	**2.93%**

[1] FY 2007 revenue estimates were revised as part of a fall 2006 revenue review. 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.

General Fund Revenue Overview

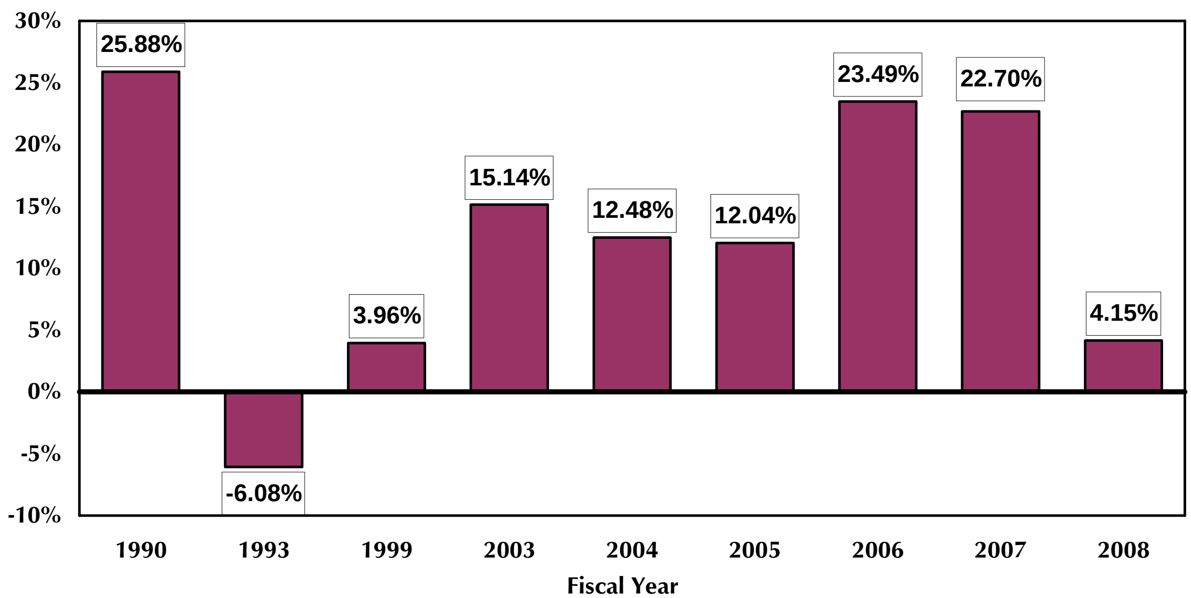
REAL ESTATE TAX-CURRENT

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$1,772,129,121	$1,883,879,440	$1,880,240,905	$1,956,346,853	$76,105,948	4.05%

The FY 2008 Advertised Budget Plan estimate for Current Real Estate Taxes is $1,956,346,853, and represents an increase of $76,105,948, or 4.1 percent, over the *FY 2007 Revised Budget Plan*. This revenue increase is the result of a 4.15 percent increase in the FY 2008 value of assessed real property and is comprised of a rise in equalization of 2.47 percent and an increase of 1.68 percent in new growth. The FY 2008 figures reflected in this document are based on final assessments for Tax Year 2007 (FY 2008), which was established as of January 1, 2007. In addition to the revenue shown in the table above, the projected value of one penny on the real estate tax rate ($22.7 million) is allocated to both the Stormwater Management Program and The Penny for Affordable Housing Fund. Throughout FY 2008, 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 2003 to FY 2008.

Percentage Change in Real Estate Assessed Value
FY 1990 - FY 2008



	1990	1993	1999	2003	2004	2005	2006	2007	2008
Equalization	**18.27%**	**-6.48%**	**1.77%**	**11.72%**	**9.94%**	**9.54%**	**20.80%**	**19.76%**	**2.47%**
Res	19.01	-3.74	0.04	16.27	14.55	11.29	23.09	20.57	-0.33
NonRes	16.54	-13.22	7.12	0.52	-2.94	3.74	12.74	16.64	13.57
Growth	**7.61**	**0.40**	**2.19**	**3.42**	**2.54**	**2.50**	**2.69**	**2.94**	**1.68**
	25.88%	**-6.08%**	**3.96%**	**15.14%**	**12.48%**	**12.04%**	**23.49%**	**22.70%**	**4.15%**

The FY 2008 **Main Assessment Book Value** is $228,499,236,560 and represents an increase of $9,093,832,790, or 4.15 percent, over the FY 2007 main assessment book value of $219,405,403,770. Prior to FY 2008, assessments had experienced double-digit increases for six consecutive years. The FY 2008 rise is the lowest increase in nine years and represents an abrupt deceleration from the 22.70 percent advance in FY 2007. 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.

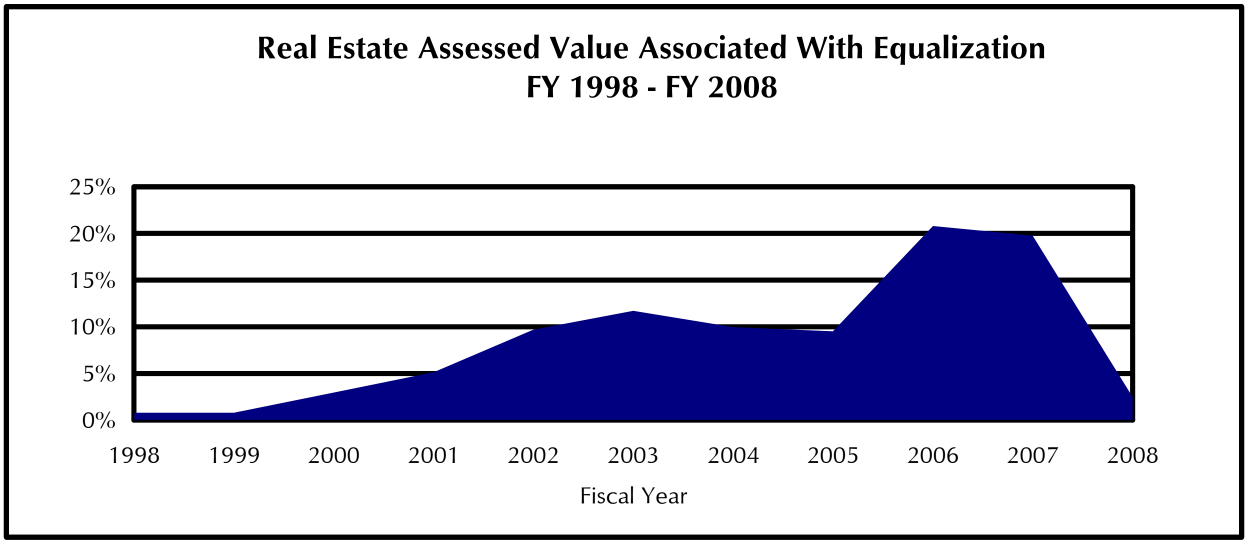
The overall increase in the assessment base includes **equalization,** the reassessment of existing properties, and **normal growth**, which is associated with construction of new properties in Fairfax County. The FY 2008 assessment base reflects a slight decrease of 0.33 percent in the values of existing residential properties and a 13.57 percent increase in nonresidential properties. The decline in residential properties is the first decrease in value since FY 1998 when residential property values fell 0.50 percent. Residential property experienced modest 1.0 percent growth due to new construction, while new growth in nonresidential properties increased 4.38 percent. As a result of these changes, the residential portion of the total assessment base dropped from 79.9 percent in FY 2007 to 77.2 percent in FY 2008. The table below reflects changes in the Real Estate Tax assessment base from FY 2001 through FY 2008.

Main Real Estate Assessment Book Base Changes
(in millions)

Assessed Base Change Due To:	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Equalization	$4,139.5	$8,522.9	$11,699.8	$11,428.5	$12,322.2	$30,124.7	$35,328.9	$5,410.2
% Change	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.47%
Residential	5.13%	11.26%	16.27%	14.55%	11.29%	23.09%	20.57%	-0.33%
Nonresidential	5.15%	5.92%	0.52%	-2.94%	3.74%	12.74%	16.64%	13.57%
Normal Growth	$3,067.6	$3,456.3	$3,409.4	$2,916.1	$3,235.4	$3,889.0	$5,258.1	$3,683.6
% Change	3.81%	3.94%	3.42%	2.54%	2.50%	2.69%	2.94%	1.68%
Residential	2.46%	2.83%	3.01%	2.60%	2.49%	2.62%	3.01%	1.00%
Nonresidential	7.22%	6.63%	4.41%	2.36%	2.54%	2.93%	2.67%	4.38%
Total % Change	8.94%	13.64%	15.14%	12.48%	12.04%	23.49%	22.70%	4.15%

Equalization, or reassessment of existing residential and nonresidential property, represents an increase in value of $5,410,223,780, or 2.47 percent, in FY 2008. The increase in total equalization is due to an increase in nonresidential property values partially offset with a slight decrease in residential property values. FY 2008 is the first year in 10 years that existing residential properties fell in value compared to the prior year. The reduction in residential values corresponds to changes in the residential housing market that occurred over calendar year 2006. The number of homes listed for sale increased dramatically, the number of homes sold dropped and prices fell marginally. The region and the nation experienced similar changes in the housing market over the past year. 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 2.47 percent increase in equalization is $48,150,992 based on a tax rate of $0.89 per $100 of assessed value.

General Fund Revenue Overview



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. Profit lead speculation, especially in the condo market, contributed to price appreciation in the local housing market. In FY 2008, overall residential equalization declined 0.33 percent as the inventory of homes for sale grew and home prices fell marginally in the County as they did throughout the Northern Virginia area. In FY 2008, the majority of residential properties in the County will receive no change in value or a valuation decrease. 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 0.43 percent FY 2008. 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 2.23 percent in FY 2008 due in part to increased supply of new condos in the area. The value of townhouse properties in FY 2008 rose a slight 0.64 percent. Changes in residential equalization by housing type since FY 2003 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.

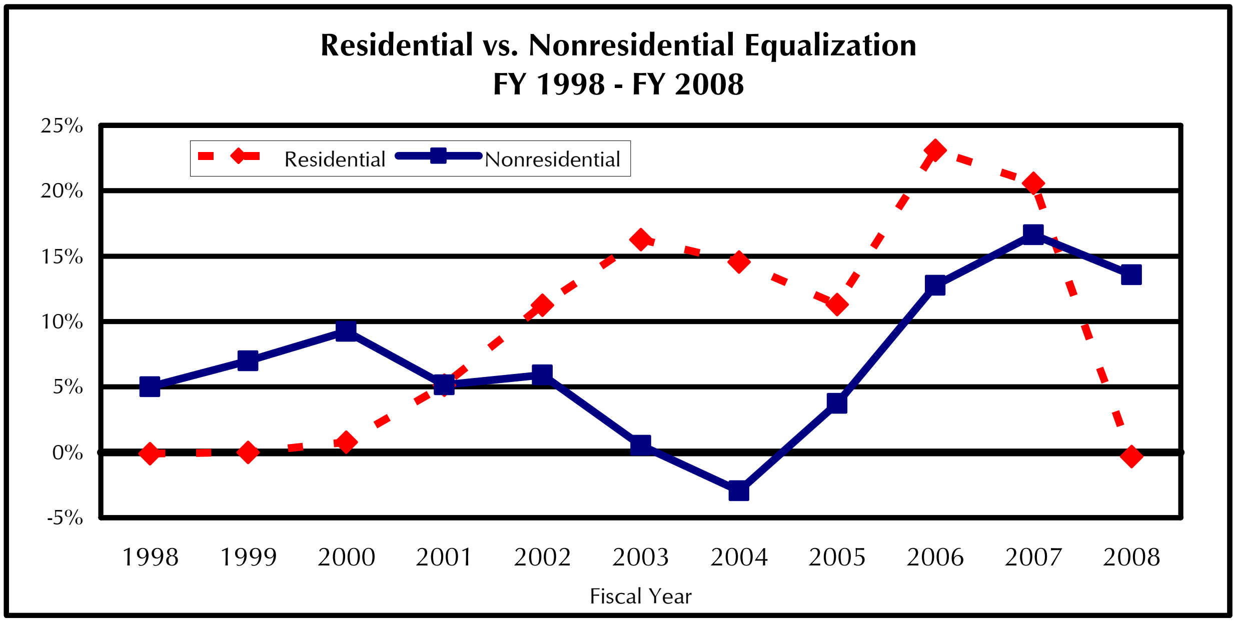
Residential Equalization Changes

Housing Type/ (FY 2008 Percent of Base)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Single Family (71.2%)	16.14%	14.15%	11.20%	22.21%	20.37%	-0.43%
Townhouse/Duplex (19.7%)	18.56%	17.00%	12.99%	26.08%	22.69%	0.64%
Condominiums (8.3%)	21.19%	20.09%	16.24%	33.49%	25.97%	-2.23%
Vacant Land (0.6%)	15.23%	23.23%	15.19%	26.32%	25.44%	3.86%
Other (0.2%)[1]	3.00%	2.58%	4.89%	5.30%	9.67%	2.97%
Total Residential Equalization (100%)	**16.27%**	**14.55%**	**11.29%**	**23.09%**	**20.57%**	**-0.33%**

[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 $542,744. This is a decrease of $1,797 from the FY 2007 value of $544,541. Compared to FY 2007, the typical residential annual tax bill will decrease, on average, $15.99 in FY 2008 to $4,830.42 based on the current Real Estate tax rate of $0.89 per $100 of assessed value.

General Fund Revenue Overview



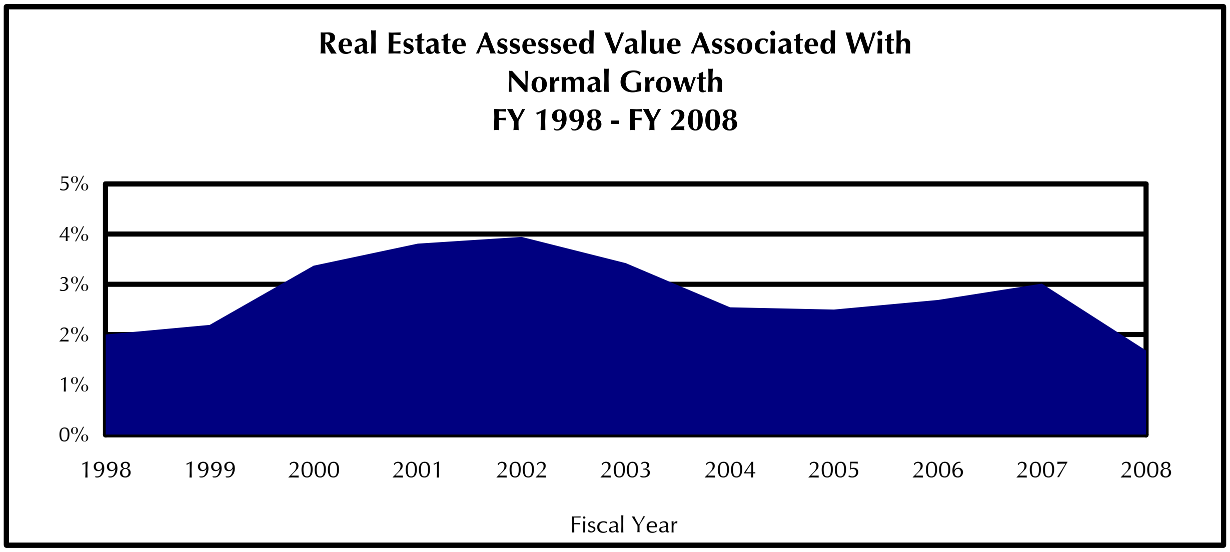
Nonresidential equalization rose 13.57 percent in FY 2008, the third consecutive year of double-digit increases. Office vacancy rates continued to decline in 2006 contributing to a 15.9 percent increase in the value of Office Elevator properties (mid- and high-rises). These properties make up 39.9 percent of the total nonresidential tax base. The Economic Development Authority reported that the office vacancy fell from 7.8 percent in 2005 to 7.7 percent as of year-end 2006. In addition, sublet space is at a four-year low and declining. Including sublet space, the office vacancy rate fell from the 9.7 percent recorded at year-end 2005 to 9.2 percent at the end of 2006. The value of Apartment properties increased 22.59 percent in FY 2008 due in part to rising occupancy rates. Hotel property assessment experienced moderate growth of 9.58 percent in FY 2008. The value of Regional Malls increased 12.90 percent, while other retail properties advanced 7.56 percent in FY 2008. Nonresidential equalization changes by category since FY 2003 are presented in the following table.

Nonresidential Equalization Changes

Category (FY 2008 Percent of Base)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Apartments (16.2%)	9.59%	3.86%	1.86%	11.21%	11.65%	22.59%
Office Condominiums (3.8%)	7.75%	15.63%	13.59%	18.01%	1.96%	13.76%
Industrial (6.9%)	2.08%	-1.29%	5.26%	8.89%	12.61%	14.34%
Retail (11.4%)	1.91%	2.91%	7.91%	10.99%	18.56%	7.56%
Regional Malls (3.6%)	0.34%	6.95%	3.00%	4.06%	2.24%	12.90%
Office Elevator (39.9%)	-2.48%	-10.73%	3.27%	18.81%	24.16%	15.93%
Office - Low Rise (4.4%)	1.46%	-6.27%	5.42%	17.56%	23.94%	10.18%
Vacant Land (4.4%)	-0.08%	-6.55%	7.15%	10.07%	21.88%	14.99%
Hotels (3.9%)	-15.39%	-6.23%	4.48%	15.34%	25.54%	9.58%
Other (5.5%)	3.02%	6.00%	5.15%	8.52%	12.19%	10.05%
Nonresidential Equalization (100%)	0.52%	-2.94%	3.74%	12.74%	16.64%	13.57%

General Fund Revenue Overview

Normal Growth of $3,683,609,010 or 1.68 percent, over the FY 2007 assessment book value results from new construction, new subdivisions, and rezonings. This level of growth is 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 2008, the residential property base experienced a 1.00 percent increase due to new construction; while nonresidential properties rose 4.38 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).



In addition to the final equalization and normal growth adjustments in the Main Assessment Book, the following projected adjustments were made to the FY 2008 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 $550.0 million and additional supplemental assessments of $40.4 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 $1,275.2 million in FY 2008, an additional $124.9 million over FY 2007. This increase is due to rising nonresidential property values and an increase in tax abatements associated with the County's revitalization efforts. 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 2008 by $3,099.7 million. The reduction in revenue due to Tax Relief program is approximately $27.5 million at the 0.89/$100 tax rate. In FY 2008, 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, 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%
through	Over $52,000 to $62,000		50%
FY 2008	Over $62,000 to $72,000		25%

The FY 2008 local assessment base of $224,714,815,577 is derived from the main assessment book and subsequent adjustments discussed above. From this local assessment base, a local tax levy of $1,999,961,786 is calculated using a tax rate of $0.89 per $100 of assessed value. Based on an expected local collection rate of 99.61 percent, revenue from local assessments is estimated to be $1,992,161,935. In FY 2008, 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 $22.7 million in revenue.

Added to the local assessment base is an estimated $1,076,957,200 in assessed value for Public Service Corporations (PSC) property. Using a rate of $0.89 per $100 of assessed value, the tax levy on PSC property is $9,584,918. The collection rate on PSC property is expected to be 100.0 percent.

The total assessment base, including Public Service Corporations, is $225,791,772,777 with a total tax levy of $2,009,546,704 at the $0.89 per $100 assessed value tax rate. Estimated FY 2008 revenue from the Real Estate Tax, including receipts from Public Service Corporations, totals $2,001,746,853 at the $0.89 per $100 assessed value rate. Of this amount, the value of one cent on the Real Estate Tax rate, $22,700,000, has been directed to Fund 318, Stormwater Management Program, and $22,700,000 has been directed to Fund 319, The Penny for Affordable Housing Fund. Total General Fund revenue from the Real Estate Tax is $1,956,346,853 which reflects an overall collection rate of 99.61 percent. The total collection rates experienced in this category since FY 1993 are shown in the following table:

Real Estate Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
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**	99.62%
1999	99.50%	**2007 (estimated)**	99.61%
2000	99.63%	**2008 (estimated)[1]**	99.61%

[1] In FY 2008, every 0.1 percentage point change in the collection rate yields a revenue change of $2,009,547.

The Commercial/Industrial percentage of the County's Real Estate Tax base is 19.23 percent, a significant increase of 2.01 percentage points over the FY 2007 level and the first increase in seven years. The Commercial/Industrial percentage is based on Virginia land use codes and excludes multi-family rental apartments, which comprises 3.5 percent of the County's Real Estate Tax base in FY 2008. The portion of the Real Estate tax base associated with multi-family rental apartments rose from 3.0 percent in FY 2007 due to a valuation increase of 22.59 percent and several condominium projects that reverted back to rental apartments as the condo market softened. Fairfax County's historical Commercial/Industrial percentages are detailed in the following table:

Commercial/Industrial Percentages

Fiscal Year	Percentage	Fiscal Year	Percentage
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%
2000	24.32%	**2008**	19.23%

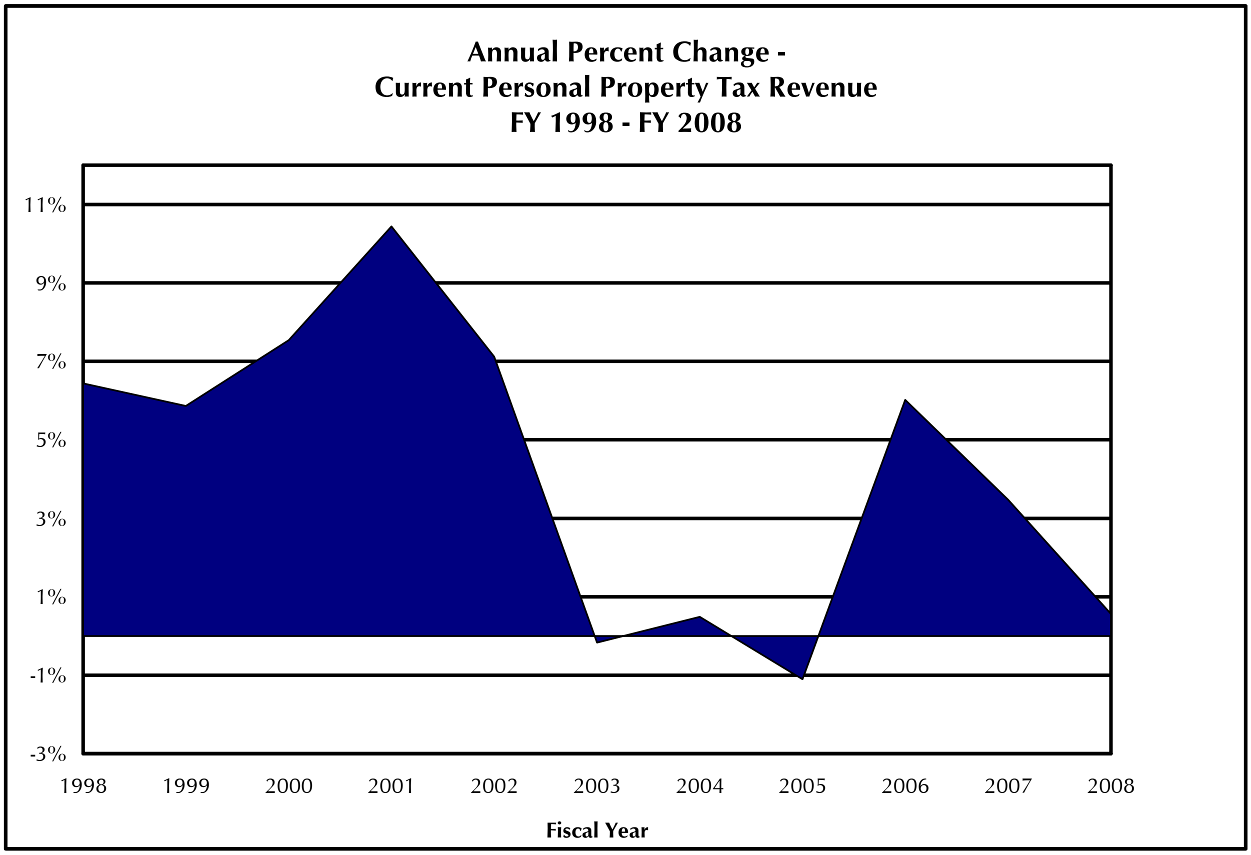
PERSONAL PROPERTY TAX-CURRENT

	FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
Paid Locally	$277,509,629	$292,346,964	$287,156,066	$289,951,009	$2,794,943	0.96%
Reimbursed by State	204,236,955	211,313,944	211,313,944	211,313,944	0	0.00%
Total	$481,746,584	$503,660,908	$498,470,010	$501,264,953	$2,794,943	0.56%

The FY 2008 Advertised Budget Plan estimate for Personal Property Tax revenue of $501,264,953 represents an increase of $2,794,943, or 0.6 percent, over the *FY 2007 Revised Budget Plan*. This increase is primarily the result of projected increases in both Business Personal Property and Public Service Corporation levies partially offset by a decrease in vehicle levy based on analysis of vehicles currently in the County valued with information the National Automobile Dealers Association.

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 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. 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. In FY 2007, the effective state reimbursement percentage was 66.67 percent and the taxpayer's share of the tax increased from 30 percent to 33.33 percent. The effective rate of state reimbursement has not yet been determined for FY 2008, but is expected to range from 65 to 67 percent.

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 75 percent of the Personal Property Tax base in FY 2008. 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 6.1 percent from FY 1998 to FY 2003. 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 declined 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 rebounded and receipts grew 6.0 percent. Average vehicle levy rose a robust 8.4 percent due to strong new car purchases in 2005. New vehicle purchases slowed in 2006 and the FY 2007 estimate for Personal Property Taxes was reduced as part of the fall 2006 revenue review. The estimated volume of vehicles is expected to fall 0.1 percent in FY 2007 and average vehicle levy is projected to rise 4.6 percent. Overall, Personal Property Tax receipts are expected to increase 3.5 percent in FY 2007.

Personal Property Tax revenue growth is anticipated to be relatively flat in FY 2008. The vehicle component, which makes up approximately 75 percent of total Personal Property levy, is the basis for this lackluster increase. The FY 2008 estimate contains a decrease of 0.9 percent in the average vehicle levy from $430 to $426. This drop is based on an analysis of vehicles in the County valued with information from the National Automobile Dealers' Association (NADA). The types of vehicles being purchased are impacting the declining average vehicle levy. Sustained high fuel prices are pushing consumers away from purchases of expensive SUVs to less expensive, more fuel efficient vehicles. In addition, the volume of vehicles is projected to decrease a modest 0.5 percent in FY 2008. Incorporating changes in average levy and volume, the overall vehicle component of the Personal Property Tax base is expected to fall 0.3 percent in FY 2008. 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 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	0.9%	$411	8.4%
FY 2007 (est.)	-0.1%	$430	4.6%
FY 2008 (est.)	0.5%	$426	-0.9%

Business Personal Property, which is offsetting the vehicle component's decline, is primarily comprised of assessments on furniture, fixtures and computer equipment. Due to continued economic expansion in the County, the number of businesses is expected to grow along with a rise in the purchases of business equipment. In FY 2008, the number of businesses is projected to increase 1.4 percent while the average levy is also expected to improve 1.8 percent signaling further advances in both employment and business investments in the County.

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 2007 and will not be adjusted in FY 2008. 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 2008 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 2008
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 2008
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 recommended rate of $0.89 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 2008 Estimated Personal Property Assessments and Tax Levy

Category	FY 2008 Assessed Value	Tax Rate (per $100)	FY 2008 Tax Levy	Percent of Total Levy
Vehicles				
Privately Owned	$9,401,689,239	$4.57	$339,763,239	66.0%
Business Owned	532,885,591	4.57	19,542,917	3.8%
Leased	690,079,397	4.57	23,185,311	4.5%
Subtotal	$10,624,654,227		$382,491,467	74.3%
Business Personal Property				
Furniture and Fixtures	$1,572,976,089	$4.57	$73,323,943	14.2%
Computer Equipment	651,040,690	4.57	30,752,084	6.0%
Machinery and Tools	82,255,173	4.57	3,759,061	0.7%
Research and Development	7,647,638	4.57	349,497	0.1%
Subtotal	$2,313,919,590		$108,184,585	21.0%
Public Service Corporations				
Equalized	$2,185,824,045	$0.89	$19,453,834	3.8%
Vehicles	10,828,892	4.57	494,880	0.1%
Subtotal	$2,196,652,937		$19,948,714	3.9%
Other				
Mobile Homes	$26,361,965	$0.89	$257,911	0.1%
Other (Trailers, Misc.)	9,496,940	4.57	381,425	0.1%
Subtotal	$35,858,905		$639,336	0.1%
Penalty for Late Filing			$3,357,006	0.7%
TOTAL	**$15,171,085,659**		**$514,621,108**	**100.0%**

FY 2008 Personal Property Tax assessments including Public Service Corporations are $15,171,085,659 with a total tax levy of $514,621,108. Personal Property Tax revenue collections are projected to be $501,264,953 reflecting an overall collection rate of 97.4 percent. Total collection rates experienced in this category since FY 1993 are shown in the following table:

Total Personal Property Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
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**	98.1%
1999	97.3%	**2007 (estimated)**	97.4%
2000	97.3%	**2008 (estimated)**[1]	97.4%

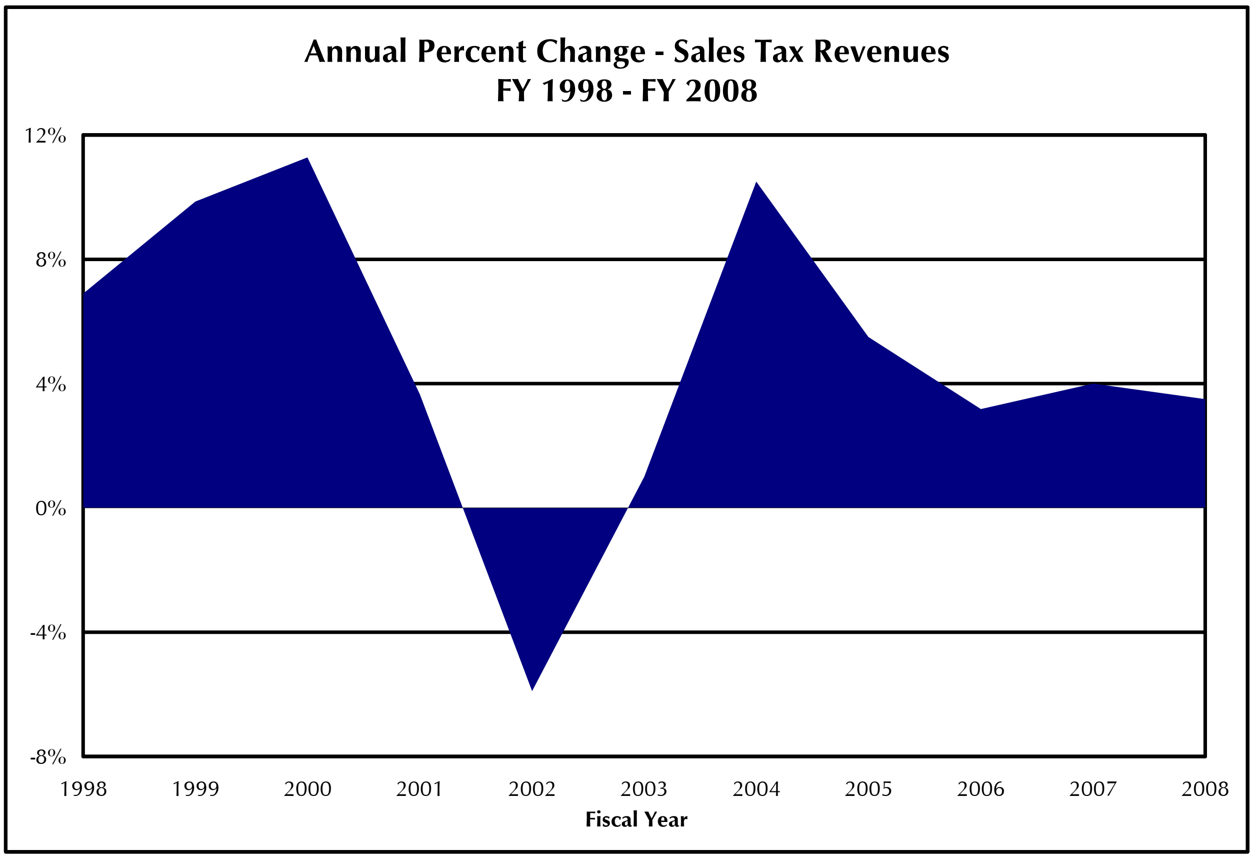
[1] Each 0.1 percentage point change in the collection rate on the local tax levy will impact revenues by approximately $0.5 million, and each penny on the tax rate yields a revenue change of $1.1 million.

General Fund Revenue Overview

LOCAL SALES TAX

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$152,475,529	$166,133,236	$158,588,505	$164,139,098	$5,550,593	3.50%

The FY 2008 Advertised Budget Plan estimate for Sales Tax receipts of $164,139,098 represents an increase of $5.6 million, or 3.5 percent, over the *FY 2007 Revised Budget Plan*. As shown in the chart below, Sales Tax receipts experienced annual increases ranging from 6.9 percent to 11.3 percent during the period FY 1998 to FY 2001. In FY 2002, Sales Tax receipts fell 5.9 percent from the level reached in FY 2001. This decline 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 grew a slight 1.0 percent above FY 2002. Sales Tax receipts posted a sharp turnaround in FY 2004, increasing 10.5 percent as a result of the strengthening economy. Over the next two fiscal years, Sales Tax receipts moderated and registered growth of 5.5 percent and 3.2 percent in FY 2005 and FY 2006, respectively.



During the fall 2007 revenue review, the FY 2007estimate for Sales Tax receipts was revised downward $7.6 million due to lower than projected FY 2006 actual receipts and FY 2007 year-to-date collections. The *FY 2007 Revised Budget Plan* estimate corresponds to a gain of 4.0 percent over FY 2006 collections. During the first four months of FY 2007, Sales Tax receipts increased at a rate of just 3.0 percent over the same period of FY 2006; however, average growth during the next two months was 9.2 percent. Combined, Sales Tax receipts during the first six months of FY 2007 are up 5.0 percent over the first half of FY 2006. Sales Tax from purchases made during the holidays can have a significant effect of year-to-date collections and tax receipts for December will not be received by the County until late February. During the *FY 2007 Third Quarter Review*, Sales Tax receipts will be reviewed to determine if further adjustment to the estimate is necessary. In FY 2008, Sales Tax receipts are expected to rise 3.5 percent over the FY 2007 estimate based on more moderate economic growth and employment projections.

RECORDATION/DEED OF CONVEYANCE TAXES

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$51,395,097	$48,674,084	$35,152,053	$33,304,953	($1,847,100)	-5.25%

The FY 2008 Advertised Budget Plan estimate of $33,304,953 reflects a decrease of $1.8 million, or 5.3 percent, from the *FY 2007 Revised Budget Plan*. The FY 2008 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 grew significantly due to strong home sales and rising prices. Increased mortgage refinancing due to low mortgage rates also enhanced Recordation collections. From FY 2000 through FY 2005, 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.

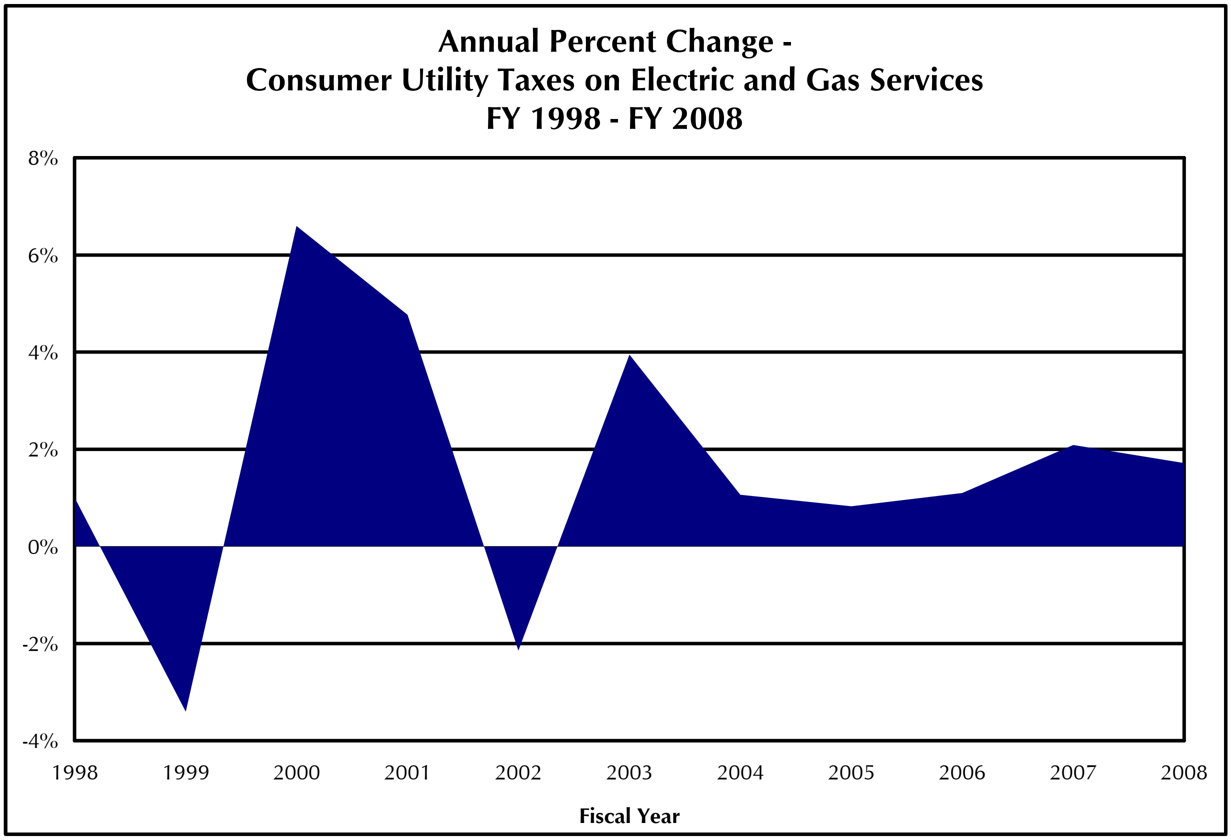
Weakness in these categories due to the County's softening real estate market that began in the second half of FY 2006 continued into FY 2007. During the fall 2006 revenue review, the FY 2007 estimates for Recordation and Deed of Conveyance were lowered a total of $13.5 million Through the first six months of FY 2007, Recordation and Deed of Conveyance Tax revenues are down 29.7 percent and 31.2 percent, respectively. January 2007 marked the 13th consecutive month these categories posted a decline from the same month the prior year. In FY 2008, Recordation Tax receipts are expected to decline further due to anticipated reductions in mortgage refinancing activity. The FY 2008 estimate for Deed of Conveyance is held at the FY 2007 level based on forecasts of a similar number of home sale transactions and little change in home prices.

CONSUMER UTILITY TAXES - GAS AND ELECTRIC

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$44,239,144	$45,745,105	$45,163,431	$45,936,936	$773,505	1.71%

The FY 2008 Advertised Budget Plan estimate for Consumer Utility Taxes on gas and electric services is $45,936,936 and represents an increase of $0.8 million, or 1.7 percent, over the *FY 2007 Revised Budget Plan.* County residents and businesses are subject to Consumer Utility Taxes based on their consumption of electricity and gas services. The FY 2008 estimate is comprised of $36,773,829 in taxes on electric service and $9,163,107 in taxes on gas service. The FY 2008 Advertised Budget Plan estimate is based on current and historical trends.

As shown in the chart below, revenue from Consumer Utility Taxes on gas and electric services from FY 1998 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 1.7 percent. The FY 2007 Revised Budget Plan estimate was reduced $0.6 million during the fall 2006 revenue review based lower than projected collections and reflects an increase of 2.1 percent over FY 2006 receipts. Revenue in FY 2008 is projected to rise at a rate of 1.7 percent, the average rate experienced over the last several years.



COMMUNICATIONS SALES AND USE TAX

	FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
Telephone Utility Tax	$43,657,925	$40,532,108	$20,166,321	$0	($20,166,321)	
Mobile Telephone Tax	15,374,016	11,858,749	6,808,192	0	($6,808,192)	
Communications Tax	0	0	26,974,513	53,949,026	$26,974,513	
Total	$59,031,941	$52,390,857	$53,949,026	$53,949,026	$0	0.00%

The FY 2008 Advertised Budget Plan estimate for the Communications Sales and Use Tax is $53,949,026 and represents no growth over the County's estimated FY 2007 revenue from the taxes replaced by this new statewide tax. Legislation was approved during the 2006 Virginia General Assembly session which considerably changed the manner 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 effective January 1, 2007. In addition to the communications services currently being 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 have been repealed and replaced with a statewide $0.75 per line fee. All communications taxes will be 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 is scheduled to receive approximately 18.93 percent of the collections of the stateside Communications Sales and Use Tax. During the fall 2006 revenue review, the estimate for the Consumer Utility Tax on telephones and the Mobile Telephone Tax were increased a net $1.6 million to reflect FY 2006 actual receipts and current collection trends for the first half of FY 2007 when these taxes were in effect. At this time, there is not enough information for the County to determine if the Communications Sales and Use Tax distribution will be revenue neutral with the County's current communications taxes so the FY 2008 Advertised Budget Plan assumes no growth in overall revenue from the taxes impacted by the legislative change. Staff is continuing to actively monitor the revenue implications of this replacement tax.

TRANSIENT OCCUPANCY TAX

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$18,683,140	$19,404,176	$19,916,227	$20,912,038	$995,811	5.00%

The FY 2008 Advertised Budget Plan estimate for Transient Occupancy Tax of $20,912,038 reflects an increase of $1.0 million over the *FY 2007 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. As part of the *FY 2006 Carryover Review*, the FY 2007 estimate was increased $0.5 million based on actual FY 2006 receipts and current trend data including the opening of a new hotel with 149 additional rooms in the Tysons Corner area. The FY 2008 Advertised Budget Plan estimate corresponds to 5.0 percent growth over the FY 2007 estimate and is based on projected rising hotel room rental rates in the County and the expected completion of a 96 room hotel in the Herndon vicinity in the spring of 2007.

CIGARETTE TAX

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$10,381,450	$11,532,018	$10,381,450	$10,381,450	$0	0.00%

The FY 2008 Advertised Budget Plan estimate for Cigarette Tax revenue of $10,381,450 reflects no change from the *FY 2007 Revised Budget Plan*. Since FY 2005, the County's tax on cigarettes has been 30 cents per pack. Until 2004, the County was authorized by the State to tax cigarettes at the maximum of 5.0 cents per pack or the state rate which was 2.5 cents until September 2004. During the 2004 General Assembly session, 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.

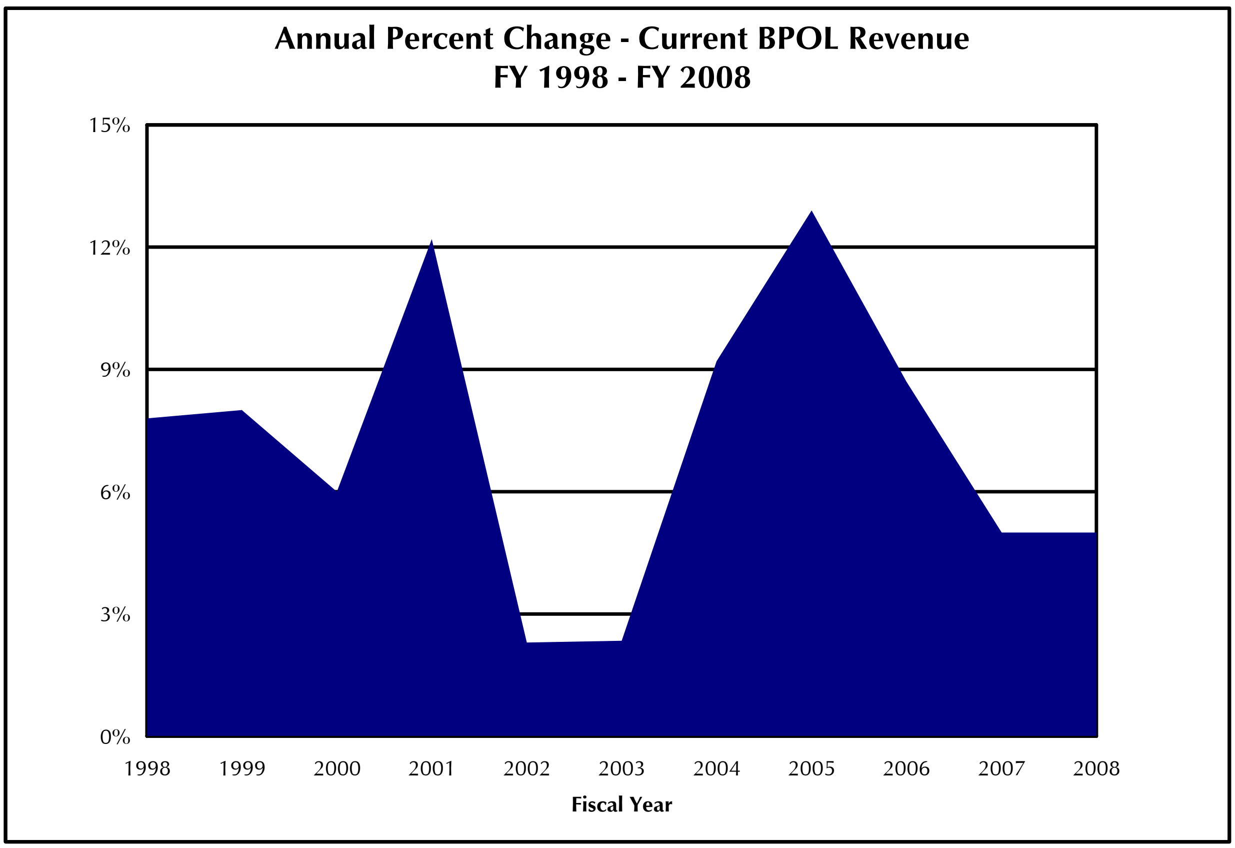
During the fall 2006 revenue review, the FY 2007 estimate for Cigarette Tax revenue was lowered $1.2 million to the FY 2006 actual level based on current collection trends. Prior to the rate increases, Cigarette Tax revenue was relatively stable year-to-year and this trend is expected to continue.

BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$125,169,480	$130,253,143	$131,427,954	$137,999,352	$6,571,398	5.00%

The FY 2008 Advertised Budget Plan estimate for Business, Professional and Occupational License Taxes (BPOL) is $137,999,352 and represents an increase of $6.6 million, or 5.0 percent, over the *FY 2007 Revised Budget Plan*.

As shown in the chart below, BPOL receipts experienced healthy growth from FY 2004 through FY 2006. In FY 2006, BPOL revenue rose 8.7 percent over FY 2005 which experienced a robust gain of 12.9 percent. Reflecting continued increases in federal procurement spending in the County, the Consultant category, which represents nearly a quarter of total BPOL receipts, grew 15.3 percent over FY 2005. The Retail category, which comprises approximately 20 percent of total BPOL receipts, increased a moderate 4.2 percent in FY 2006. During the fall 2006 revenue review, the FY 2007 estimate was raised $1.2 million, representing growth of 5.0 percent over actual FY 2006 receipts.



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 hone estimates for FY 2007 and develop projections for FY 2008. Most business categories are expected to experience growth in FY 2007 and FY 2008 but at lower rates than the last three years as the economy expands but at a slower rate. In addition, decreasing home sales and stagnant home prices will hinder growth in real estate related categories such as Real Estate brokers and money lenders. Overall, BPOL receipts are projected to increase 5.0 percent in FY 2007 and FY 2008.

PERMITS, FEES AND REGULATORY LICENSES

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$31,621,985	$33,546,014	$33,457,680	$33,530,341	$72,661	0.22%

The FY 2008 Advertised Budget Plan estimate for Permits, Fees and Regulatory Licenses is $33,530,341, and reflects an increase of $72,661 over the *FY 2007 Revised Budget Plan*. The increase is attributable to adjustments made in various Permits, Fees and Regulatory Licenses categories based on current and historical trends.

The largest component of the Permits, Fees and Regulatory Licenses category are the revenues from Land Development Services (LDS) Fees, which are projected to comprise over 79 percent of the category's total revenue. 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 $1.7 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 measures of workload, and consequently revenue, is the number of site and subdivision plans completed by LDS. During the first half of FY 2007, the number of Site and Subdivision plans is down 3.4 percent from the same period of FY 2006. However, LDS revenue is up 5.3 percent during this period due to the FY 2007 fee increase. The FY 2008 Advertised Budget Plan estimate for LDS Fees reflects no change from the FY 2007 level based on a projection that building activity will be similar between the two years.

During the fall 2006 revenue review, the FY 2007 estimate Permits, Fees and Regulatory Licenses was lowered $88,334 primarily due to a decrease of $139,952 in estimated Fire Marshall Fees based on current collection trends partially offset by an increase of $54,487 in Food Operating Permit due to changes in the fee structure, which became effective in FY 2007.

INTEREST ON INVESTMENTS

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$70,058,334	$71,187,926	$89,574,910	$88,777,592	($797,318)	-0.89%

The FY 2008 Advertised Budget Plan estimate of $88,777,592 for Interest on Investments represents a decrease of $0.8 million, or 0.9 percent, from the *FY 2007 Revised Budget Plan*. 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 greatly 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 lowered further to 1.25 percent. The Fed continued to cut rates 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. As the Federal Reserve began to increase the federal funds rates, County Interest on Investments rose. In FY 2005, the annual average yield increased to 1.72 percent and revenue from Interest on Investments grew to $27.1 million or 83.7 percent over FY 2004. From June 2004 through June 2006, the Fed increased rates by a quarter point at each of its meetings from 0.25 percent to 5.25 percent in June 2006.

Since then, the fed has held interest rates steady through January 2007. As a result of the rate increases by the Fed, the annual average yield on County investments was 4.17 in FY 2006 and revenue from Interest on Investments was $70.1 million, a gain of 158 percent over FY 2005. During the fall 2006 revenue review, the FY 2007 estimate for Interest on Investments was increased $18.4 million to $89,574,910 and reflects an average yield of 5.12 percent.

At their January meeting, the Fed indicated that "overall, the economy seems likely to expand at a moderate pace over coming quarters" and many economists expect rates to remain relatively stable in the short-term. The FY 2008 estimate includes an estimated yield of 5.10 percent and an average portfolio size of $2,520,937,816, representing 4.6 percent growth over the average FY 2007 portfolio. 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 $128,567,829 and the General Fund percentage is projected to be 69.0 percent in FY 2008.

CHARGES FOR SERVICES

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$57,537,996	$55,878,477	$56,140,459	$57,326,303	$1,185,844	2.11%

The FY 2008 Advertised Budget Plan estimate for Charges for Service revenue of $57,326,303 reflects an increase of $1.2 million over the *FY 2007 Revised Budget Plan*. This increase is primarily the result of additional projected revenue generated from School-Age Child Care (SACC) fees and Emergency Medical Services (EMS) Transport fees.

SACC fees of $26.5 million comprise 46.3 percent of the total Charges for Services category. In FY 2008, SACC revenue is projected to rise $0.7 million over the FY 2007 estimate due to a 2.0 percent base fee adjustment to address salary increases and the opening of a new SACC classroom at Key Center. Revenue from EMS Transports is anticipated to increase $0.2 million over the FY 2007 level based on projected growth in the number of transports.

During the fall 2006 revenue review, the FY 2007 Charges for Services estimate was raised a net $0.3 million primarily due to an increase of $2.5 million in EMS Transport fees based on prior year actual receipts and current collection trends offset with a reduction of $2.0 million in Clerk Fees due to lower than expected receipts as a result of the weakening residential real estate market.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT[1]

FY 2006 Actual	FY 2007 Adopted	FY 2007 Revised	FY 2008 Advertised	Increase/ (Decrease)	Percent Change
$137,915,622	$129,054,000	$119,705,287	$120,014,223	$308,936	0.26%

[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 2008 Advertised Budget Plan estimate for Revenue from the Commonwealth and Federal Governments of $129,054,000 represents a net gain of $0.3 million, or 0.3 percent, over the *FY 2007 Revised Budget Plan* estimate. Law Enforcement (HB 599) funding is expected to increase $0.4 million due to revised projections of State General Fund revenue growth which is the basis for the total appropriation for this program. An increase of $0.4 million is the result of cost of living increases for state responsible positions. State reimbursement for expenses of the Fairfax County Health Department is projected to increase $0.2 million, or 2.0 percent. These increases are offset with a decrease in federal reimbursement under the Criminal Alien Assistance Program for holding illegal criminal aliens in the County jail as this funding is not guaranteed.

As part of the *FY 2006 Carryover Review*, the FY 2007 estimate for revenue from the Commonwealth and Federal Government was lowered $10.4 million from the FY 2007 Adopted Budget Plan estimate due to a reduction in state and federal funds for the Child Care Assistance and Referral (CCAR) program. This decrease to FY 2007 revenue was partially offset by adjustments made as part of the fall 2006 revenue review. During the fall review, reimbursement from the Commonwealth for expenses associated with the Health Department and Law Enforcement funding were increased $0.6 million and $0.1 million, respectively, based on the first quarterly payments received. In addition, the estimate for Library State Aid was raised $0.1 million due to additional funding included in the Governor's budget above the current formula appropriation.

In November 2006, Governor Kaine announced the availability of $3.4 million in one-time State funding to partially restore the reduction to the Child Care Assistance and Referral program in FY 2007. This and other adjustments, as necessary, will be made as part of the *FY 2007 Third Quarter Review*.