County of Fairfax, Virginia

Financial Forecast

This section includes:

FY 2008

Advertised Budget Plan

Financial Forecast

The following forecast provides preliminary projections for FY 2009 and FY 2010 by maintaining the FY 2008 Advertised Budget Plan Real Estate Tax rate of $0.89 per $100 of assessed value and limiting increases in County expenditures and the transfer to the Fairfax County Public Schools to revenue growth. The current forecast projects County General Fund revenue growth of 1.86 percent in FY 2009 and 2.40 percent in FY 2010. These modest rates of growth are due to a projected decline in residential real estate property assessments in FY 2009 and no change in residential values in FY 2010. Excluding Real Estate Tax revenue, all other categories are anticipated to increase 2.3 percent in both FY 2009 and FY 2010, respectively. This forecast shows shortfalls of $48.2 million in FY 2009 and $56.1 million in FY 2010. This forecast will be updated during the spring and presented to the Board of Supervisors in July 2007 in time for the Board to set growth limits for FY 2009 County and School spending.

Revenue Assumptions

Real Gross Domestic Product advanced at a 3.4 percent rate 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. At their January 2007 meeting, the Federal Reserve indicated that inflationary pressures are likely to moderate further. 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. National economic growth is expected to slow during the forecast period. Most economists expect that the national economy will achieve a "soft landing" that is, the economy's growth rate will slow but not so much as to cause a recession.

Growth in the Fairfax County economy, as measured by real Gross County Product (GCP) advanced 6.8 percent in 2006. Dr. Stephen Fuller, the County's economic advisor, projects more moderate economic growth in each year 2007 through 2010 as the economy transitions from the fast growth of the last three years to a slower growing expansion. 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. Dr. Fuller's projects that job growth will remain fairly steady in 2008 with 17,600 new jobs, but forecasts job growth to fall to 16,300 in 2009 and 14,000 in 2010.

Changes in the 2006 residential housing market brought a rapid end to the six year stretch of double-digit price appreciation in the County. 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. 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.

As a result of the housing market decline, the mean residential assessed value of a home in Fairfax County fell for the first time in 10 years from $544,541 in FY 2007 to $542,744 in FY 2008, a decrease of 0.33 percent. Since most economists do not anticipate any home price appreciation until late 2007, the valuation of residential property is projected to fall 1.5 percent in FY 2009. Recovery is expected to be gradual and will vary by housing type. The Forecast includes no overall increase in FY 2010 residential property valuation due to equalization. New residential construction will continue at a measured pace in FY 2009 and FY 2010 as job growth slows and the economy expands at a reduced rate. Mortgage interest rates are expected to remain relatively low on a historical basis throughout the forecast period and are not expected to affect the affordability of homes.

FY 2009 and FY 2010 FINANCIAL FORECAST

(millions)

	FY 2006 ACTUAL	FY 2007 REVISED	FY 2008 ADVERTISED	FY 2009 FORECAST	FY 2010 FORECAST
Available Beginning Balance	$120.36	$105.41	$27.91	$0.00	$0.00
Reserves Balance	57.17	63.48	65.50	66.38	68.00
REVENUE:					
Real Estate Taxes	$1,783.84	$1,891.96	$1,968.06	$1,999.36	$2,049.06
Personal Property Taxes[1]	497.55	510.67	513.47	526.00	538.85
Other Local Taxes	498.11	470.75	483.13	498.62	514.79
Permits, Fees, and Licenses	31.62	33.46	33.53	33.60	33.67
Fines and Forfeitures	15.08	14.30	14.32	14.46	14.61
Revenue from Use of Money/Property	73.23	92.80	92.02	91.89	91.59
Charges for Services	57.54	56.14	57.33	58.47	59.64
Revenue from the Commonwealth[1]	89.90	88.47	89.37	89.92	90.49
Revenue from the Federal Govt.	48.02	31.23	30.65	30.65	30.65
Recovered Costs/Other Revenue	7.77	7.50	7.61	7.61	7.61
TOTAL REVENUE	$3,102.65	$3,197.27	$3,289.48	$3,350.59	$3,430.94
TRANSFERS IN	2.60	2.41	2.53	2.59	2.66
TOTAL RECEIPTS	$3,105.26	$3,199.68	$3,292.01	$3,353.18	$3,433.60
TOTAL AVAILABLE	**$3,282.79**	**$3,368.57**	**$3,385.43**	**$3,419.56**	**$3,501.60**
DIRECT EXPENDITURES:					
Personnel Services	$599.38	$673.21	$695.84	$708.77	$725.77
Operating Expenses	343.31	377.23	350.48	356.99	365.55
Worked Performed for Others	(43.63)	(43.00)	(43.42)	(44.22)	(45.28)
Capital Equipment	2.83	5.40	1.39	1.42	1.45
Fringe Benefits	165.23	191.27	199.58	203.29	208.16
TOTAL DIRECT EXPENDITURES	**$1,067.13**	**$1,204.11**	**$1,203.87**	**$1,226.24**	**$1,255.64**
TRANSFERS OUT:					
Schools	$1,431.34	$1,533.22	$1,586.60	$1,616.07	$1,654.83
G O Debt (County)	98.72	110.69	113.37	125.09	130.02
G O Debt (Schools)	130.28	142.27	147.86	163.14	169.56
CSB	90.98	97.94	101.09	102.97	105.44
Metro	21.32	20.32	20.32	23.36	26.87
Paydown Construction	65.09	43.97	25.18	20.00	20.00
County Transit	26.39	31.00	34.67	35.31	36.16
Other Transfers	82.89	78.15	73.73	75.10	76.90
Stormwater Management Program[2]	17.90	0.00	0.00	0.00	0.00
Housing Flexibility Fund[2]	17.90	0.00	0.00	0.00	0.00
Information Technology	19.16	13.50	12.36	12.50	12.50
Revenue Stabilization	44.81	0.00	0.00	0.00	0.00
TOTAL TRANSFERS OUT	$2,046.76	$2,071.05	$2,115.17	$2,173.54	$2,232.27
TOTAL DISBURSEMENTS	**$3,113.90**	**$3,275.16**	**$3,319.05**	**$3,399.78**	**$3,487.92**
ENDING BALANCE	$168.89	$93.41	$66.38	$19.78	$13.68
Managed Reserve	63.48	65.50	66.38	68.00	69.76
Reserve for Board Consideration	0.00	21.82	0.00	0.00	0.00
TOTAL AVAILABLE	**$105.41**	**$6.09**	**$0.00**	**($48.21)**	**($56.08)**

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

[2]As of the FY 2007 Adopted Budget Plan, one penny of the Real Estate Tax rate dedicated to these funds will be reflected as revenue in the funds rather than as a transfer from the General Fund.

The nonresidential real estate market continued to improve in FY 2006. FY 2008 nonresidential property assessments experienced double-digit increases for the third consecutive year. Office vacancy rates dropped slightly from 7.8 at the end of 2005 to 7.7 percent as year-end 2006. Sublet space fell to its lowest level in four years. As a result of improving office vacancy rates and recent sales activity, the value of Office Elevator properties (mid- and high-rises), which comprise 39.9 percent of the nonresidential tax base, rose 15.93 percent in FY 2008. Office vacancy rates are expected to stabilize during the forecast period as new office space is delivered. As of year-end 2006, there was 5.8 million square feet in 32 buildings under construction, the largest amount of new construction in six years. Speculative building has risen over the past year and of the 32 buildings under construction, 22 are 100 percent speculative. The additional supply of new space is expected to restrain rent increases and the value of office property is expected to rise at more moderate rates during the forecast period.

The nonresidential real estate market in Fairfax County is expected to experience moderate growth through the forecast period.

The Retail and Regional Malls categories rose 7.56 and 12.90 percent, respectively in FY 2008. Growth in these categories is expected to be lower during FY 2008 and FY 2009 in response to slower growth in the economy. The value of multi-family rental apartment properties rose 22.59 percent in FY 2008 as occupancy rates increased. Overall, the value of existing nonresidential properties is anticipated to experience moderate increases of 6.50 percent in FY 2009 and 5.50 percent in FY 2010.

In addition to equalization, the remaining increase in Real Estate value is due to new construction or normal growth. New construction is expected to increase at lower rates during FY 2009 and FY 2010 as a result of slower job growth and diminishing buildable land in the County. Overall, increases due to new construction are projected to be 1.30 percent in FY 2009 and 1.20 percent in FY 2010 compared to an increase of 1.68 percent in FY 2008. Incorporating equalization and new construction, the real estate tax base is expected to experience an overall increase of 1.60 percent in FY 2009 and 2.50 percent in FY 2010 compared to the 4.15 percent increase experienced in FY 2008.

The FY 2008 and FY 2009 Forecast assumes that the projected value of one penny of the Real Estate Tax rate will continue to be dedicated to The Penny for Affordable Housing Fund and the Stormwater Management Program. The estimated value of the penny is $23.1 million in FY 2009 and $23.7 million in FY 2010.

FY 2008 Current Personal Property Tax revenue, which represents 15.6 percent of total FY 2008 General Fund revenue, is anticipated to experience growth of 0.6 percent in FY 2008. Based on the Personal Property Tax Relief Act (PPTRA) of 1998, the Virginia General Assembly approved a plan to eliminate the Personal Property Tax on vehicles owned by individuals. Under the originally approved plan, taxes paid by individuals were to be reduced on the first $20,000 of value over a five-year period ending in FY 2003. However, due to the State's lower than anticipated General Fund revenue growth and the unanticipated growth in required PPTRA funding, the reimbursement rate was capped at 70 percent beginning in FY 2002. The 2004 General Assembly approved legislation that continued a 70 percent reimbursement rate in FY 2006, but limited statewide Personal Property Tax reimbursements to $950 million in FY 2008 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. In FY 2007, the effective state reimbursement percentage was 66.7 percent, which has increased the taxpayer's share of the tax from 30.0 percent to 33.3 percent. The Forecast assumes that Personal Property Taxes will increase at a rate of 2.5 percent in FY 2009 and FY 2010.

Business, Professional and Occupational License revenue is projected to increase 5.0 percent each year of the forecast period, while Sales Tax receipts are projected to rise 4.0 percent. Recordation and Deed of Conveyance taxes, which are paid for recording deeds are anticipated to fall over 31 percent in FY 2007 and to decline 5.3 percent in FY 2008, as the housing market continues to cool. During the forecast period, these taxes are projected to remain level with FY 2008.

Interest earned on investments is expected to decrease in FY 2009 and FY 2010 based on a forecast of gradual decline in interest rates which will partially offset with growth in the County's investment portfolio. From June 2006 through January 2007, the Federal Reserve has held the federal funds rate steady at 5.25 percent. Changes in the federal funds rate will directly impact the yield earned on the County's investment portfolio. Due to an average annual yield increase from 1.72 percent to 4.17 percent, interest earned on County investments rose from $27.1 million in FY 2005 to $70.1 million in FY 2006. Based on current interest rates, the yield on the County investments is expected to be 5.12 percent in FY 2007 and 5.10 percent in FY 2008. During the forecast period, the yield on investments is projected to decline slightly with average annual yield projections of 4.85 percent in FY 2009 and 4.60 percent in FY 2010.

Excluding revenues from the Commonwealth of Virginia associated with the reimbursement of Personal Property Taxes, FY 2008 Revenue from the Commonwealth and Federal Government is expected to remain at essentially the same level as FY 2008. Revenue from the Commonwealth and Federal Governments is expected to slightly rise 0.5 percent each year of the forecast. Since the majority of the revenue from the state and federal governments are reimbursements associated with expenditure requirements, any additional increase in revenue is expected to be more than offset with expenditure increases.

The Permits, Fees and Regulatory Licenses category is projected to remain at their FY 2007 level from FY 2008 through FY 2010. It should be noted that the expectation that LDS's Building and Permit fee revenue will not increase assumes a continuation of the same level of building activity projected to be achieved in FY 2007 and should not be viewed as a reduction. Other Permit and Fees and Regulatory Licenses categories are expected to experience modest growth during the forecast period.

In total, General Fund revenues are projected to increase 1.86 percent in FY 2009 and 2.40 percent in FY 2010. Revenue growth rates for individual categories are shown in the following table:

REVENUE GROWTH RATES

Category	FY 2007	FY 2008	FY 2009	FY 2010
Real Estate Tax - Assessment Base	22.70%	4.15%	1.60%	2.50%
Equalization	19.76%	2.47%	4.60%	4.60%
Residential	20.57%	-0.33%	-1.50%	0.00%
Nonresidential	16.64%	13.57%	6.50%	5.50%
Normal Growth	2.94%	1.68%	1.30%	1.20%
Personal Property Tax - Current[1]	3.47%	0.56%	2.50%	2.50%
Local Sales Tax	4.00%	3.50%	4.00%	4.00%
Business, Professional and Occupational, License (BPOL) Taxes	5.00%	5.00%	5.00%	5.00%
Recordation/Deed of Conveyance	-31.60%	-5.25%	0.00%	0.00%
Interest Rate Earned on Investments	5.12%	5.10%	4.85%	4.60%
Building Plan and Permit Fees	7.00%	0.00%	0.00%	0.00%
Charges for Services	-2.43%	2.11%	2.00%	2.00%
State/Federal Revenue[1]	-13.20%	0.26%	0.46%	0.47%
TOTAL REVENUE	**3.05%**	**2.88%**	**1.86%**	**2.40%**

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

Disbursement Assumptions

Direct Expenditures

As previously mentioned, for the purposes of this forecast, increases in County expenditures and the transfer to the Fairfax County Public Schools have been held to revenue growth in FY 2009 and FY 2010. Inflationary pressures alone are expected to outstrip revenue growth projections of 1.86 percent and 2.40 percent in FY 2009 and FY 2010, respectively. In addition, other basic costs of operating County government will have to be accommodated within this overall increase for FY 2009 and FY 2010, such as funding pay for performance for employees, market rate adjustments for contractors, rising health care and energy costs, and required contributions for retirement. The Board of Supervisors has identified priorities for the next several years, including public safety and gang prevention; affordable housing; environmental protection; strong investment in education; transportation improvements; and revenue diversification to reduce the burden on homeowners. Having these clearly defined priorities will enable the County to focus budget strategies on those initiatives that will result in the greatest return on investment, while balancing the cost to taxpayers.

One of the Board of Supervisors' main priorities is strong investment in education as all its schools are among the top in the nation.

Transfers Out

School Transfer
The Financial Forecast includes an increase in the School transfer of 1.86 period in FY 2009 and 2.40 percent in FY 2010. The FY 2009 School transfer maintains, as part of the FY 2008 base, the additional $8.0 million that was added in FY 2008 to address the Fairfax County Public Schools' Initiatives for Excellence teacher pay proposal.

Transportation
The transfer requirements of $23.4 million and $26.9 million in FY 2009 and FY 2010, respectively, for Metro Operations and Construction reflect annual increases of 15.0 percent based on projected inflationary increases and regional infrastructure requirements for Metrorail and Metrobus service. Increases in County Transit have been held to 1.86 percent and 2.40 percent in FY 2009 and FY 2010, respectively.

Debt Service
The Debt Service requirements reflect increases required to support the level of bond sales proposed in the FY 2008 – 2012 Advertised Capital Improvement Program (With Future Fiscal Years to 2017).

Paydown
Paydown capital construction includes transfers from the General Fund to support construction and renovation of capital facilities. In FY 2009 and FY 2010, the projected annual transfer for Paydown construction is $20.0 million per year.

Transfer to Fairfax-Falls Church Community Services Board
The General Fund transfer supporting the Fairfax-Falls Church Community Services Board represents growth of 1.86 percent in FY 2009 and 2.40 percent in FY 2010.

Information Technology
The transfer for information technology (IT) has been held at $12.5 million in each of the forecast years. A private sector advisory group established by the County Executive to investigate the condition of the County's IT resources, Information Technology Advisory Group (ITAG), recommended in the early nineties that annual spending of $15 million to $20 million was required to meet basic IT requirements. The $12.50 million transfer may not be sufficient during the forecast period due to the need for major renovation of the County's corporate systems that is anticipated in FY 2009.

Stormwater Management Program and The Penny for Affordable Housing Fund
The dedication of the value of one penny of the Real Estate Tax rate to Fund 318, Stormwater Management Program and Fund 319, The Penny for Affordable Housing Fund has been maintained in FY 2009 and FY 2010 and is reflected as revenue in these funds rather than as a transfer from the General Fund.

Other Transfers
Transfers to funds other than the ones mentioned above have been increased by the projected revenue growth rates of 1.86 and 2.40 percent in FY 2009 and FY 2010, respectively.