Financial Forecast

This section includes:

FINANCIAL FORECAST

The Financial Forecast for FY 2004 has been developed in accordance with Budget Guidelines adopted by the Board of Supervisors on April 29, 2002. These guidelines serve as an important tool in the process of budget development. As resolved by the Board, the guidelines:

1. Limit the increases in County expenditures and the County's Transfer to the Fairfax County Public Schools to the projected rate of increase in revenues.

2. Direct the County Executive to develop a budget for FY 2004 that includes a reduction in the Real Estate tax rate if Real Estate assessments continue to increase significantly.

3. Require that available County balances, not necessary to support expenditures of a critical nature or to address the Board's policy on the Revenue Stabilization fund, be utilized as follows:

    - One-half will be allocated to the Schools to support non-recurring requirements.

    - The remaining one-half will be allocated based on a review of paydown construction requirements or other non-recurring requirements.

4. Direct that non-recurring funds be allocated for non-recurring uses only.

The current Financial Forecast reflects these guidelines. County revenue growth is projected at 6.68 percent in FY 2004. This is similar to the rate estimated for FY 2002 and FY 2003. The Real Estate tax base is estimated to increase 9.50 percent, a slower rate of growth than the 15.14 percent rate achieved in FY 2003 due to anticipated moderation in the real estate market. Growth in other revenue categories that had been restrained by the current economic slowdown is projected to increase moderately in FY 2004.

Pressures faced by the County such as population growth and State mandates cannot easily be accommodated within the current level of revenue growth. Additional resources will also be required in order to keep our communities safe and secure in the aftermath of the events on September 11th. The County will continue to be challenged in order to balance these increasing service requirements and infrastructure needs within the constraints of projected revenue growth. The forecast for FY 2004 limits increases in County expenditures and the transfer to the Schools to the revenue growth rate anticipated in FY 2004 in accordance with the Board's guidelines. However, the forecast for FY 2004 shows a deficit of $23.6 million. Revenue estimates will be reviewed and revised as necessary to adjust to changes in the local economy. The FY 2004 budget will be developed using these revised projections and County spending will be adjusted to eliminate any deficit.

FINANCIAL FORECAST

FY 2004 FINANCIAL FORECAST
(millions)

	FY 2001 ACTUAL	FY 2002 ADOPTED	FY 2002 REVISED	FY 2003 ADVERTISED	FY 2004 FORECAST
Available Beginning Balance	$88.48	$45.06	$34.91	$0.00	$0.00
Reserves Balance	0.00	0.00	43.66	46.46	48.85
REVENUE:					
Real Estate Taxes	$1,086.00	$1,226.14	$1,229.73	$1,384.76	$1,515.66
Personal Property Taxes[1]	437.32	446.18	467.94	469.24	483.07
Other Local Taxes	360.37	372.20	353.86	355.20	364.46
Permits, Fees, and Licenses	31.91	33.89	28.99	29.35	29.47
Fines and Forfeitures	9.12	11.60	10.02	11.00	11.55
Revenue from Use of Money/Property	58.94	44.67	27.84	32.74	37.27
Charges for Services	32.75	33.00	34.11	34.91	36.58
Revenue from the Commonwealth[1]	82.66	93.43	90.67	79.95	81.22
Revenue from the Federal Govt.	36.89	38.77	37.42	38.82	39.60
Recovered Costs/Other Revenue	5.43	5.78	5.58	5.68	5.90
TOTAL REVENUE	$2,141.37	$2,305.66	$2,286.16	$2,441.64	$2,604.77
TRANSFERS IN	1.68	2.91	4.61	3.17	3.24
TOTAL RECEIPTS	$2,143.06	$2,308.58	$2,290.77	$2,444.80	$2,608.02
TOTAL AVAILABLE	**$2,231.54**	**$2,353.64**	**$2,369.34**	**$2,491.26**	**$2,656.87**
EXPENDITURES:					
Personnel Services	$450.91	$483.01	$479.02	$513.70	$548.03
Fringe Benefits	108.58	111.52	112.51	120.67	128.73
Operating Expenses	273.47	306.94	316.84	309.01	329.65
Capital Equipment	7.07	3.95	6.82	3.78	4.04
Worked Performed for Others	(30.47)	(32.36)	(31.89)	(31.80)	(33.92)
TOTAL EXPENDITURES	**$809.55**	**$873.05**	**$883.30**	**$915.37**	**$976.53**
TRANSFERS OUT:					
Schools	$988.00	$1,078.09	$1,079.91	$1,167.86	$1,245.89
G O Debt (County)	94.67	98.01	98.01	100.09	105.10
G O Debt (Schools)	95.25	105.53	105.53	113.60	121.56
CSB	67.94	74.37	74.59	78.40	83.64
Metro	12.67	11.45	11.45	12.27	13.50
Paydown Construction	22.00	7.97	7.51	4.21	15.00
County Transit	15.90	16.06	16.06	16.74	21.86
Other Transfers	23.96	29.57	31.21	27.94	29.81
Information Technology	18.39	13.40	12.79	5.92	15.00
Revenue Stablization	4.64	0.00	2.51	0.00	0.00
TOTAL TRANSFERS OUT	$1,343.43	$1,434.44	$1,439.58	$1,527.04	$1,651.35
TOTAL DISBURSEMENTS	**$2,152.98**	**$2,307.49**	**$2,322.88**	**$2,442.41**	**$2,627.88**
ENDING BALANCE	$78.56	$46.15	$46.46	$48.85	$28.99
Managed Reserve	43.66	46.15	46.46	48.85	52.56
TOTAL AVAILABLE	**$34.91**	**$0.00**	**$0.00**	**$0.00**	**($23.57)**

[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.

REVENUE ASSUMPTIONS

The FY 2004 revenue estimates are based on a review of current and projections of economic conditions. Projecting growth in County revenues, however, has been especially complicated by several factors: the slow economy, the unprecedented number of interest rate reductions, and especially the events of September 11th. The U.S. economy, as measured by the Gross Domestic Product (GDP) experienced a weak 1.1 percent increase in 2001, a drop of 3 percentage points below the 4.1 percent achieved in 2000. Most economists are forecasting modest economic growth for calendar year 2002. Slight economic growth is also projected for the local economy. In March for the first time in more than a year, Fairfax County's Leading Index of the economy has a value above the level achieved during the same month a year earlier. The Leading Index is designed to forecast the performance of the County's economy nine to twelve months in advance. The recent changes in the Leading Index indicate that the economy is starting to improve but based on the average annual trend, the re-acceleration will be modest.

Total General Fund revenues are projected to increase 6.68 percent in FY 2004. This rate of growth over FY 2003 is the result of an anticipated slowing in Real Estate assessment increases, offset by projected rising rates of growth in other revenue categories as the economy improves. It should be noted that Real Estate assessment changes for FY 2003 reflected in this discussion are based on final assessments established as of January 1, 2002.

The Financial Forecast assumes an overall increase in real estate values of 9.50 percent in FY 2004 compared to the 15.14 percent increase experienced in FY 2003 Total equalization, or the reassessment of existing property, is anticipated to increase 7.50 percent in FY 2004. Housing in Fairfax County has experienced substantial price appreciation during the past two years driven by high demand, coupled with a tight supply, and low mortgage rates. Residential equalization rose 16.27 percent in FY 2003. In FY 2004, mortgage interest rates are expected to remain low by historical standards but the demand for housing is expected to ease somewhat. Bidding wars that characterized the first half of 2001 are not anticipated in 2002. Thus, it is expected that the rate of increase in residential housing values reached a peak in FY 2003. Residential equalization is still projected to rise a robust 10.00 percent in FY 2004.

In FY 2003, existing nonresidential property experienced uneven changes in assessed value. The value of apartments rose 9.59 percent for FY 2003 reflecting the demand for lower price housing. This trend is expected to continue into FY 2004. Due to rising office vacancy rates, increased supply and recent sales activity, the value of mid- and high-rise office buildings, which comprise over 40 percent of the nonresidential tax base, fell 2.48 percent in FY 2003. The amount of sublet space on the market increased considerably during 2001. Space leased or purchased in anticipation of business expansion was no longer needed as the economy slowed. The Economic Development Authority reported that the office vacancy rate climbed to 6.4 percent at the end of 2001, up from 3.5 percent at year-end 2000. Including sublet space, the office vacancy rate rises to 12.5 percent. Low-rise offices fared somewhat better than mid- and high-rises, increasing 1.46 percent. The office vacancy rate is expected to rise over the next year as new buildings are completed. As a result of the increased space available, office property is expected to experience a slight decline in value in FY 2004. Much of this new space, approximately two-thirds, is pre-leased which will soften the impact on the market to an extent. Hotel property experienced a 15.39 percent drop in value in FY 2003. Already impacted by the sluggish economy, hotel occupancy rates fell precipitously during the fourth quarter of 2001 as a result of September 11th. While occupancy rates are expected to slowly increase, any growth in hotel values is expected to be slight. The Retail and Regional Malls categories rose modestly in FY 2003, increasing 1.91 and 0.34 percent, respectively. The abundance of retail space is anticipated to restrain the growth in these categories during FY 2004. Overall, existing nonresidential properties are anticipated to increase 0.50 percent in FY 2004.

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 a lower rate during FY 2004 as a result of economic conditions. Office construction will primarily be build-to-suit and no new hotel projects are anticipated. Residential construction is anticipated to be moderate. Overall, an increase of 2.00 percent due to new construction is projected for FY 2004 compared to 3.42 percent in FY 2003.

FINANCIAL FORECAST

The FY 2003 revenue estimate for Current Personal Property Tax revenue represents base growth of 1.6 percent, offset by an estimated $4.9 million as a result of revisions in the County's FY 2003 depreciation schedule for computer equipment. In FY 2004, Personal Property Tax revenues, which represent 19.2 percent of total General Fund revenue, are expected to increase 3.0 percent. Both the vehicle and business components are anticipated to experience moderate growth in FY 2004 as business activity increases and the vehicle market remains healthy.

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 over a five-year period. 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. In FY 2000 and FY 2001, the PPTRA reduced the Personal Property Taxes paid by citizens by 27.5 percent and 47.5 percent, respectively, with an offsetting reimbursement paid to the County by the Commonwealth. The percentage reduction in taxes paid by citizens is anticipated to be 70.0 percent in FY 2002 and FY 2003. It should be noted that the PPTRA has no impact on the assessment or projection of total Personal Property Tax revenues; therefore, no assumption as to the rate of tax relief has been made for FY 2004.

Business activity and consumer spending are expected to be moderate in FY 2004 and BPOL Tax revenues and Sales Tax receipts are both projected to increase 3.0 percent. This increase represents a rebound in both of these categories compared to FY 2002 and FY 2003 when growth was constrained due to the slow economy and the aftermath of September 11th.

Interest earned on Investments is expected to increase in FY 2004 based on a forecast of rising interest rates. During CY 2000, the Federal Reserve lowered interest rates 11 times, leading to a significant reduction in the yield earned on the County's investment portfolio. The average annual yield on investments fell from 6.2 percent in FY 2001 to an anticipated 2.5 percent in FY 2002. The Federal Reserve made no changes in interest rates during meetings held in January 2002 through May 2002. Based on the *Blue Chip Financial Forecast* of interest rates, the average yield on County investments is expected to rise to 3.0 percent in FY 2003 and to 3.5 percent in FY 2004.

Excluding revenues from the Commonwealth of Virginia associated with the reimbursement of Personal Property Taxes; Revenue from the Commonwealth and Federal Government is expected to decline 7.3 percent in FY 2003. This reduction is due to one time construction reimbursement from the State received in FY 2002 and reductions in funding to localities as a result of budget cuts necessary to balance the Commonwealth's FY 2003 budget deficit. As the economy begins to improve, modest growth of 1.7 percent is expected in Revenue from the Commonwealth and Federal Government in FY 2004.

Building and Permit fee revenue is anticipated to decline 11.5 percent in FY 2002. This revenue is a reflection of the construction industry, as well as the size and complexity of projects submitted for review. The slowdown in FY 2002 is indicated by current year-to-date revenues, a decline in major site and subdivision plans submitted, and a reduction in the number of applications for planning and zoning. These fees are anticipated to rise by 1.7 percent in FY 2003. In FY 2004, Building and Permit fee revenue is projected to stabilize and remain at the FY 2003 level. It should be noted that the expectation that Building and Permit fee revenue will not increase in FY 2004 assumes a continuation of the same level of building activity projected to be achieved in FY 2003 and should not be viewed as a further reduction.

Revenue growth rates in these and other categories such as Automobile Licenses, Consumer Utility taxes and Charges for Services are shown in the following table:

REVENUE GROWTH RATES

Category	FY 2002	FY 2003	FY 2004
Real Estate Tax - Assessment Base	13.64%	15.14%	9.50%
Equalization	9.70%	11.72%	7.50%
Residential	11.26%	16.27%	10.00%
Nonresidential	5.92%	0.52%	0.50%
Normal Growth	3.94%	3.42%	2.00%
Personal Property Tax - Current[1,2]	7.32%	1.57%	3.00%
Local Sales Tax	-6.31%	1.47%	3.00%
Business, Professional and Occupational, License (BPOL) Taxes	-2.37%	0.00%	3.00%
Recordation/Deed of Conveyance	14.76%	-22.67%	0.00%
Automobile Licenses	2.25%	2.02%	2.30%
Consumer Utility Taxes	2.66%	2.01%	2.00%
Building Plan and Permit Fees	-11.52%	1.72%	0.00%
Charges for Services	4.14%	2.34%	4.79%
State/Federal Revenue[1]	7.14%	-7.28%	1.73%
TOTAL REVENUE	**6.76%**	**6.80%**	**6.68%**

[1] The portion of the 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] Including the adjustment to the computer depreciation schedule, Personal Property Tax revenues are anticipated to grow 0.48 percent in FY 2003.

DISBURSEMENT ASSUMPTIONS

Direct Expenditures

As noted earlier, increases in County expenditures presented herein reflect the projected growth in County revenues. As such, direct expenditures increase 6.68 percent in FY 2004. The projected direct expenditure funding level, requirements associated with pay for performance, market rate adjustments, health insurance, retirement plan increases, and inflationary growth will leave little flexibility for expansion of services necessitated by population growth or new facilities. In order to provide for compensatory and inflationary increases, as well as cost requirements associated with future new facilities, reductions will be required in other parts of the County's budget in order to stay within the Budget Guidelines.

Transfers Out

School Transfer
The Financial Forecast includes an increase in the School transfer consistent with the rate of revenue growth as directed by the Budget Guidelines.

Metro
The transfer requirements for Metro Operations and Construction reflect annual increases of 10.0 percent based on projected inflationary increases for continued Metrorail and Metrobus service.

Debt Service
The Debt Service requirements reflect increases required to support the level of bond sales approved by the Board of Supervisors as part of the FY 2003 - 2007 Capital Improvement Program (With Future Years to 2012). This level of funding will support bond sales of $221.1 million in FY 2003.

Paydown
Paydown capital construction includes transfers from the General Fund to support construction and renovation of capital projects. The projected annual transfer for paydown construction is $15.0 million. It should be noted that the County's paydown construction program had been constrained in the early and mid-1990's based on budget limitations, deferring maintenance and repair costs and new construction of necessary public improvements. The projected level of paydown funding through FY 2004 will provide for essential maintenance and repair in order to protect and extend the operation of County facilities.

Transfer to Fairfax-Falls Church Community Services Board
The General Fund transfer supporting the Fairfax-Falls Church Community Services Board is consistent with the rate of revenue growth as directed by the Budget Guidelines.

Information Technology
The General Fund supports the County's investment in major Information Technology (IT) initiatives. Based on a recommendation from the County's Information Technology Advisory Group, the Financial Forecast includes a $15.0 million IT transfer in FY 2004. The County's Information Technology Advisory Group (ITAG), a private sector advisory group established by the County Executive to investigate the condition of the County's IT resources, recommended significant increases in County support of the IT infrastructure. Identifying a total requirement of $95 million, the ITAG recommended annual spending of $15 to $20 million.

Other Transfers/County Transit
An increase of 6.68 percent has been included for other transfers in FY 2004. A total of $21.9 million is included for County Transit in FY 2004 based on a projected increase in costs associated with the CONNECTOR bus system and an increase in Commuter Rail contributions. Pending the availability of sufficient funding during FY 2004 budget development, funding of $4.0 million has been included as a planning factor for the purchase of replacement buses. Based on the age of the fleet and planned replacement, an estimated 11 to 15 buses will require replacement in FY 2004. Thereafter, annual funding in the amount of $4.0 to $5.0 million will be needed to provide for replacement of approximately 15 buses per year.