General Fund Revenue Overview

This section includes:

SUMMARY OF GENERAL FUND REVENUE

Category	FY 2004 Actual	FY 2005 Revised Budget Plan	FY 2006 Advertised Budget Plan	FY 2006 Adopted Budget Plan	Over the FY 2006 Advertised Budget Plan Increase/ (Decrease)	Percent Change
Real Estate Taxes - Current and Delinquent	$1,500,730,717	$1,634,408,508	$1,829,158,341	$1,776,082,251	($53,076,090)	-2.90%
Personal Property Taxes - Current and Delinquent[1]	473,868,582	468,039,817	472,530,713	481,988,939	9,458,226	2.00%
Other Local Taxes	408,231,887	449,797,295	457,219,946	461,103,072	3,883,126	0.85%
Permits, Fees and Regulatory Licenses	28,675,370	27,578,867	32,543,251	32,543,251	0	0.00%
Fines and Forfeitures	13,272,803	12,891,542	13,101,324	12,276,152	(825,172)	-6.30%
Revenue from Use of Money/Property	17,917,632	29,197,173	36,317,943	41,615,533	5,297,590	14.59%
Charges for Services	42,529,744	44,730,140	48,757,342	49,458,631	701,289	1.44%
Revenue from the Commonwealth and Federal Governments[1]	140,196,638	123,889,219	122,335,318	124,597,386	2,262,068	1.85%
Recovered Costs/ Other Revenue	6,492,301	6,591,348	6,591,348	6,591,348	0	0.00%
Total Revenue	**$2,631,915,674**	**$2,797,123,909**	**$3,018,555,526**	**$2,986,256,563**	**($32,298,963)**	**-1.07%**
Transfers In	1,396,150	1,666,444	2,104,307	2,604,307	500,000	23.76%
Total Receipts	**$2,633,311,824**	**$2,798,790,353**	**$3,020,659,833**	**$2,988,860,870**	**($31,798,963)**	**-1.05%**

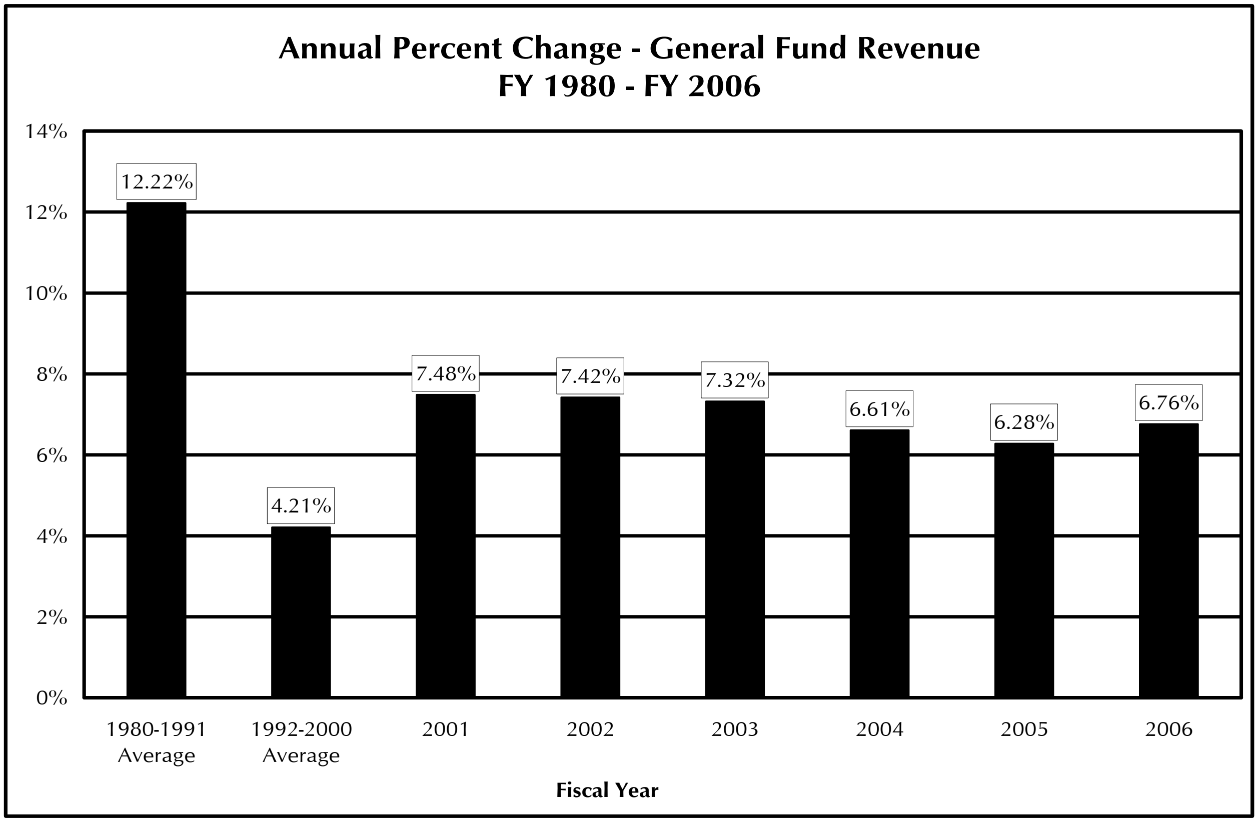
[1] The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

As reflected in the preceding table, FY 2006 General Fund revenues are projected to be $2,986,256,563, a decrease of $32,298,963, or 1.1 percent, from the FY 2006 Advertised Budget Plan. This revenue decrease is primarily the result of a $0.03 reduction in the Real Estate Tax rate from the proposed $1.03 per $100 of assessed value included in the FY 2006 Advertised Budget Plan to $1.00 per $100 of assessed value. The FY 2006 Real Estate Tax rate represents a total reduction of 13 cents compared to the FY 2005 rate of $1.13 per $100 of assessed value. The 13 cent reduction in the Real Estate tax rate results in a tax savings of over $578 for the typical homeowner.

The reduction in revenue from the decrease in the FY 2006 Real Estate tax rate is partially offset by increases in Personal Property Taxes, Other Local Taxes and Interest on Investment. Incorporating Transfers In, FY 2006 General Fund receipts are expected to be $2,988,860,870. The Transfer In to the General Fund reflects $2.1 million from Cable Communications for use of County rights of way and indirect support provided by General Fund agencies.

General Fund Revenue Overview

The following chart depicts 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 a pace of only 4.2 percent annually. Moderate growth rates ranging from 6.6 percent to 7.5 percent were experienced during the period FY 2001 and FY 2004. Revenue growth in FY 2005 and FY 2006 is projected to be 6.3 percent and 6.8 percent, respectively. The growth rates below are after Real Estate Tax rate reductions totaling 23 cents since FY 2002.



Economic Indicators

Real economic growth, as measured by the Gross Domestic Product (GDP), increased 3.1 percent in the first quarter of 2005, a pace lower than the 4.4 percent annual growth rate recorded in 2004. The slowdown in economic growth is attributed to a decline in consumer spending which was exceptionally strong in 2004. The Consumer Confidence Index, an indicator of future consumer spending, fell in both April and May 2005. The U.S. Leading Index of Economic Indicators decreased in April 2005 for the fourth consecutive month. The recent weakness of the Leading Index is consistent with the economy continuing to expand in the near term, but at a somewhat slower pace.

Fairfax County's economic growth is also expected to slow in 2005 compared to 2004. Gross County Product, an estimate of the goods and services produced in the County, is anticipated to increase a revised 5.2 percent in 2005, a decrease of 1.0 percentage points from the 6.2 percent growth rate experienced in 2004. Despite the slowdown in the growth rate, Fairfax County's economy is expected to remain healthy. An estimated 25,000 net new jobs were created in Fairfax County in 2004 and job creation is expected to be strong in 2005. In addition, the unemployment rate remains low with just 2.4 percent of Fairfax County's labor force without jobs.

As reported in the May 2005 issue of the *Fairfax County Economic Index*, the Coincident Index, which represents the current state of the Fairfax County economy, has exceeded last year's same-month values for 16 consecutive months.

Fairfax County's economic growth is expected to moderate in 2005. Economic forces that fueled robust growth in 2003 and 2004, such as rapid federal spending, low interest rates and federal tax cuts are expected to dissipate resulting in more measured growth during the latter part of 2005 and into 2006. The Federal Reserve began to increase short-term interest rates in June 2004 after holding the federal funds rate at 1 percent for 11 months. From June through May 2005, the Federal Reserve raised the federal funds rate by 200 basis points to 3.0 percent. The Fed indicated that gradual increases in interest rates will continue. The pace of tightening may accelerate if inflation rises abruptly. Fairfax County's Leading Index, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased in March 2005 for the fourth consecutive month. However, gains in the Index have slowed which indicates that the economy is transitioning from acceleration to a pattern of more stable growth. The moderating of the County's economy, according to Dr. Stephen Fuller is primarily due to an increase in energy costs.

Housing Market

The mean residential assessed value in Fairfax County is $444,766 in FY 2006, an increase of more than 23 percent over the FY 2005 value of $361,334. This increase mirrors that of the surrounding area. Residential assessments rose 24 percent in Arlington and 21.3 percent in Alexandria. FY 2006 represents the fifth year of double digit increases in Fairfax County residential assessments. Since FY 2001, the mean assessed value of a home in Fairfax County has risen approximately 114 percent. During this period, spending by the federal government was increased significantly as a result of post-September 11, 2001 homeland security spending. Job growth created a demand for housing that far exceeded the supply of available homes. These factors along with historically low interest rates have propelled home prices upward.

An anticipated gradual rise in mortgage interest rates from the current 5.8 percent to 7 percent by year-end 2006 and slower economic growth are expected to cool the housing market a bit in 2006. Continued job growth will sustain the demand for housing and supply is expected to remain tight. The combination of these factors indicate home price appreciation in 2005, but at a decelerated pace. While in the short-term there is little risk of price declines, the rapid rise in housing values over the past several years has raised concerns of a potential housing "bubble." The rise in home prices has been much faster than the rise in incomes. By comparing home prices to incomes, the Local Market Monitor estimated that homes in the Washington Area are overpriced by 17 percent. As housing prices have consistently risen for a number of years, analysts believe speculative purchases have increased. Buyers may be willing to offer more for a home when there is the expectation of continued robust increases in the future. The current level of price appreciation is not expected to continue. While a decline is not expected in the short-run, one must remain mindful that residential assessments rose 15.5 percent, 19.0 percent and 13.1 percent in FY 1989, FY 1990, and FY 1991, respectively, only to be followed by a decline of 1.9 percent and 3.7 percent in FY 1992 and FY 1993.

Nonresidential Market

The nonresidential real estate market improved significantly in 2004. Leasing of office space was near record levels during 2004 with 10.8 million square feet of office space leased, up from 10.6 million square feet during 2003. The County's overall office vacancy rate declined from the 11.2 at year-end 2003 to 8.6 percent as of year-end 2004. Including sublet space, 2004 year-end office vacancy rate was 11.6 percent, down from 15.6 percent in 2003. Continued improvement in office vacancy rates are expected during the coming year. Based on the current rate of absorption, there is only about a one year supply of office space.

Real Estate Tax Revenue

Incorporating the 13 cent reduction in the Real Estate Tax rate, current and delinquent FY 2006 Real Estate Tax revenues in Fairfax County comprise 59.5 percent of General Fund Revenue and are the driving force of the overall revenue change. FY 2006 Real Estate property values were established as of January 1, 2005 and reflect market activity through calendar year 2004. The Real Estate Tax base is projected to increase 23.49 percent in FY 2006, and is comprised of a 20.80 percent rise in total equalization (reassessment of existing residential and non-residential properties), and new construction of 2.69 percent.

The FY 2005 and FY 2006 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 2004 collections, and FY 2005 year-to-date trends.

MAJOR REVENUE SOURCES

The following major revenue categories comprise 98.4 percent of total FY 2006 General Fund revenue and are discussed in this section. Unless otherwise indicated, comparative data are presented relative to the FY 2006 Advertised 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."

					Change from the FY 2006 Advertised Budget Plan	
Category	FY 2004 Actual	FY 2005 Revised Budget Plan	FY 2006 Advertised Budget Plan	FY 2006 Adopted Budget Plan	Increase/ (Decrease)	Percent Change
Real Estate Tax - Current	$1,493,005,588	$1,627,529,270	$1,822,279,103	$1,769,203,013	($53,076,090)	-2.91%
Personal Property Tax - Current	459,439,408	451,839,258	464,330,154	473,788,380	9,458,226	2.04%
Paid Locally	262,421,619	259,447,897	266,067,294	271,633,751	5,566,457	2.09%
Reimbursed by Commonwealth	197,017,789	192,391,361	198,262,860	202,154,629	3,891,769	1.96%
Local Sales Tax	140,070,124	150,687,742	158,222,129	158,222,129	0	0.00%
Recordation/Deed of Conveyance Taxes	30,865,542	41,910,288	32,014,191	34,867,317	2,853,126	8.91%
Vehicle Decal Fee	19,503,579	19,853,245	20,250,310	20,250,310	0	0.00%
Consumer Utility Tax	84,219,305	85,422,983	85,422,983	85,422,983	0	0.00%
Mobile Telephone Tax	8,313,833	11,000,000	10,300,000	11,330,000	1,030,000	10.00%
Transient Occupancy Tax	7,221,578	13,991,060	14,270,183	14,270,183	0	0.00%
Business, Professional and Occupational License Tax-Current	101,997,399	108,122,086	113,528,190	113,528,190	0	0.00%
Cigarette Tax	1,899,798	6,246,510	11,532,018	11,532,018	0	0.00%
Permits, Fees and Regulatory Licenses	28,675,370	27,578,867	32,543,251	32,543,251	0	0.00%
Interest on Investments	14,758,923	25,975,290	33,031,622	38,329,212	5,297,590	16.04%
Charges for Services	42,529,744	44,730,140	48,757,342	49,458,631	701,289	1.44%
Revenue from the Commonwealth and Federal Governments[1]	140,196,638	123,889,219	122,335,318	124,597,386	2,262,068	1.85%
Total Major Revenue Sources	**$2,572,696,829**	**$2,738,775,958**	**$2,968,816,794**	**$2,937,343,003**	**($31,473,791)**	**-1.06%**

[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.

REAL ESTATE TAX-CURRENT

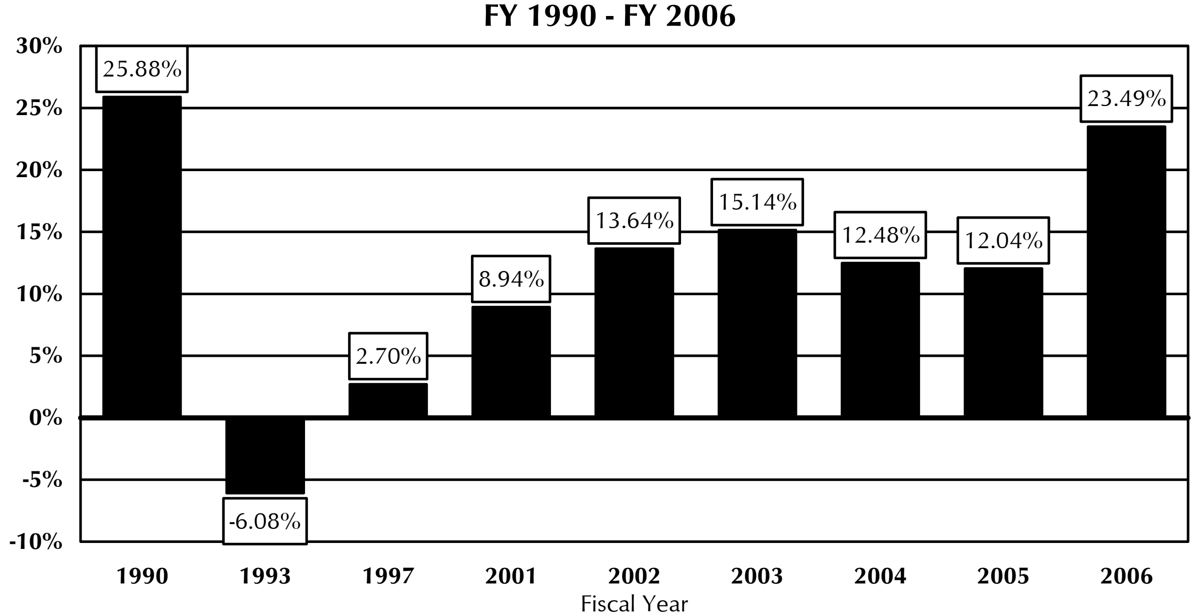
FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$1,493,005,588	$1,627,529,270	$1,822,279,103	$1,769,203,013	($53,076,090)	-2.91%

The FY 2006 estimate for Current Real Estate Taxes is $1,769,203,013, and represents a decrease of $53,076,090, or 2.9 percent, from the FY 2006 Advertised Budget Plan. This net decrease is the result of the adoption of a $0.03 reduction in the Real Estate Tax rate in addition to the $0.10 reduction proposed by the County Executive. The Real Estate Tax rate is reduced from the $1.13 per $100 dollars of assessed value in FY 2005 to $1.00 per $100 of assessed value in FY 2006.

The loss in revenue associate with the adoption of the additional $0.03 reduction in the Real Estate tax rate is $53,733,028. This reduction represents a loss of $53,076,090 in Real Estate Tax revenue and a loss of $656,938 in Personal Property Tax receipts. The Real Estate Tax impacts two classes of personal property: mobile homes and non-vehicle Public Service Corporation property.

The FY 2006 value of assessed real property is comprised of an increase in equalization of 20.80 percent and an increase of 2.69 percent in new growth. The FY 2006 figures reflected herein are based on the final assessments for Tax Year 2005 (FY 2006), which was established as of January 1, 2005. Throughout FY 2006, 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 1997, and from FY 2001 to FY 2006.

Percentage Change in Real Estate Assessed Value
FY 1990 - FY 2006



	1990	1993	1997	2001	2002	2003	2004	2005	2006
Equalization	**18.27%**	**-6.48%**	**0.57%**	**5.13%**	**9.70%**	**11.72%**	**9.94%**	**9.54%**	**20.80%**
Res	19.01	-3.74	-0.23	5.13	11.26	16.27	14.55	11.29	23.09
NonRes	16.54	-13.22	3.27	5.15	5.92	0.52	-2.94	3.74	12.74
Growth	**7.61**	**0.40**	**2.13**	**3.81**	**3.94**	**3.42**	**2.54**	**2.50**	**2.69**
Total	**25.88%**	**-6.08%**	**2.70%**	**8.94%**	**13.64%**	**15.14%**	**12.48%**	**12.04%**	**23.49%**

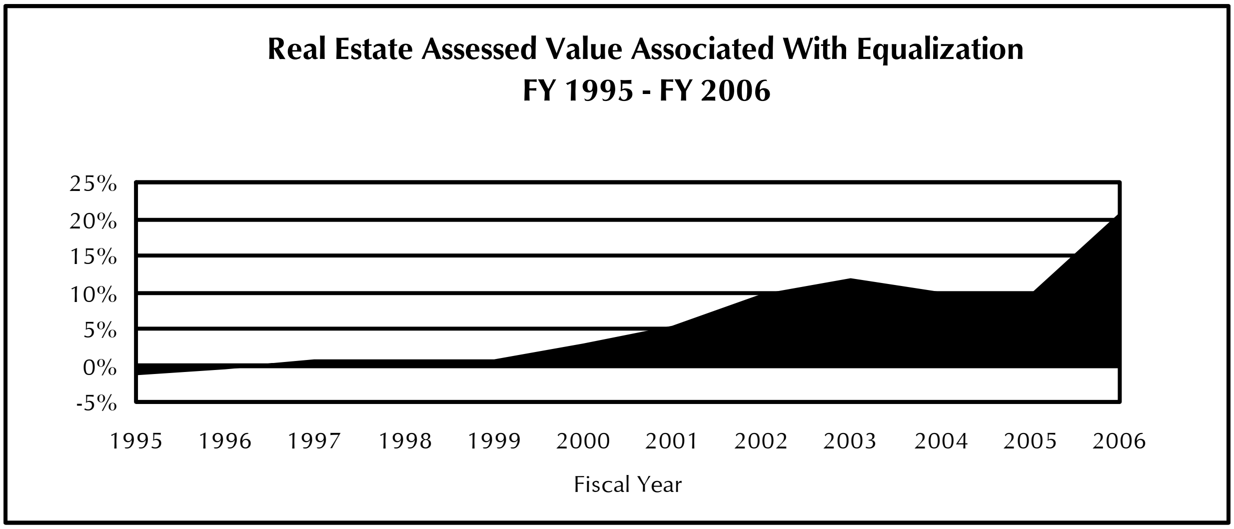
The FY 2006 **Main Assessment Book Value** is $178,818,426,150 and represents an increase of $34,013,679,480, or 23.49 percent, over the FY 2005 main assessment book value of $144,804,746,670. The FY 2006 increase is the largest since FY 1990 when the assessments base rose 25.88 percent. Following the FY 1990 increase, the assessment base rose 16.8 percent in FY 1991 but then declined an average of 2.8 percent from FY 1992 to FY 1994. After the recession, the value of real property increased at modest annual rates, averaging 2.5 percent from FY 1995 through FY 1999. During this period, growth in assessments just slightly exceeded the corresponding 2.2 percent average annual rate of inflation. It was not until FY 1999 that the assessment base exceeded its FY 1991 level. In FY 2000 and FY 2001, assessments grew at moderate rates of 6.3 percent and 8.9 percent, respectively. From FY 2002 through FY 2006, the assessment base has experienced double digit advances.

The overall increase in the assessment base includes **equalization,** the reassessment of existing properties, and **normal growth**, which is associated with construction of new properties in Fairfax County. The FY 2006 assessment base reflects an increase of 23.09 percent in the values of existing residential properties and a 12.74 percent increase in nonresidential properties. The rise in nonresidential properties is the largest percentage increase in value since FY 1990 when nonresidential property values rose 16.54 percent. Both residential and nonresidential properties experienced moderate growth due to new construction at 2.62 percent and 2.93 percent, respectively. As a result of these changes, the residential portion of the total assessment base rose from 77.9 percent in FY 2005 to 79.3 percent in FY 2006. The table below reflects changes in the Real Estate Tax assessment base from FY 2000 through FY 2006.

Main Real Estate Assessment Book Base Changes
(in millions)

Assessed Base Change Due To:	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Equalization	$2,241.4	$4,139.5	$8,522.9	$11,699.8	$11,428.5	$12,322.2	$30,124.7
% Change	2.96%	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%
Residential	0.77%	5.13%	11.26%	16.27%	14.55%	11.29%	23.09%
Nonresidential	9.24%	5.15%	5.92%	0.52%	-2.94%	3.74%	12.74%
Normal Growth	$2,556.9	$3,067.6	$3,456.3	$3,409.4	$2,916.1	$3,235.4	$3,889.0
% Change	3.37%	3.81%	3.94%	3.42%	2.54%	2.50%	2.69%
Total % Change	6.33%	8.94%	13.64%	15.14%	12.48%	12.04%	23.49%

Equalization, or reassessment of existing residential and nonresidential property, represents an increase in value of $30,124,671,005, or 20.80 percent, in FY 2006. The increase in total equalization is due to increases in both residential and nonresidential property values. FY 2006 marks the fifth year of double digit growth in residential properties, which results from continued strong demand for homes in the County primarily due to job growth and a limited supply of existing homes. This trend mirrors that which is occurring in the regional and the nation. Changes in the assessment base as a result of equalization are shown in the following graph. The increase in the tax levy associated with the overall 20.80 percent increase in equalization is $301,246,710 based on a tax rate of $1.00 per $100 of assessed value.



Residential equalization declined notably from FY 1992 through FY 1994 due to the recession and then remained essentially flat from FY 1995 through FY 2000. Following a moderate increase in FY 2001 of 5.13 percent, residential equalization rose at double digit rates from FY 2002 through FY 2005. During the 10 years ending FY 2005, residential assessment increases due to equalization averaged 5.9 percent. In FY 2006, overall residential equalization increased 23.09 percent. This increase reflects the strength of the housing market in the County and throughout the Northern Virginia area. As a result of the sustained increases in both sales volume and sales price, the majority of residential properties in the County will receive valuation increases. It should be noted that the County's median assessment to sales ratio is in the low 90 percent range, well within professional standards that assessments should be between 90 percent to 110 percent of the sales prices experienced in a neighborhood.

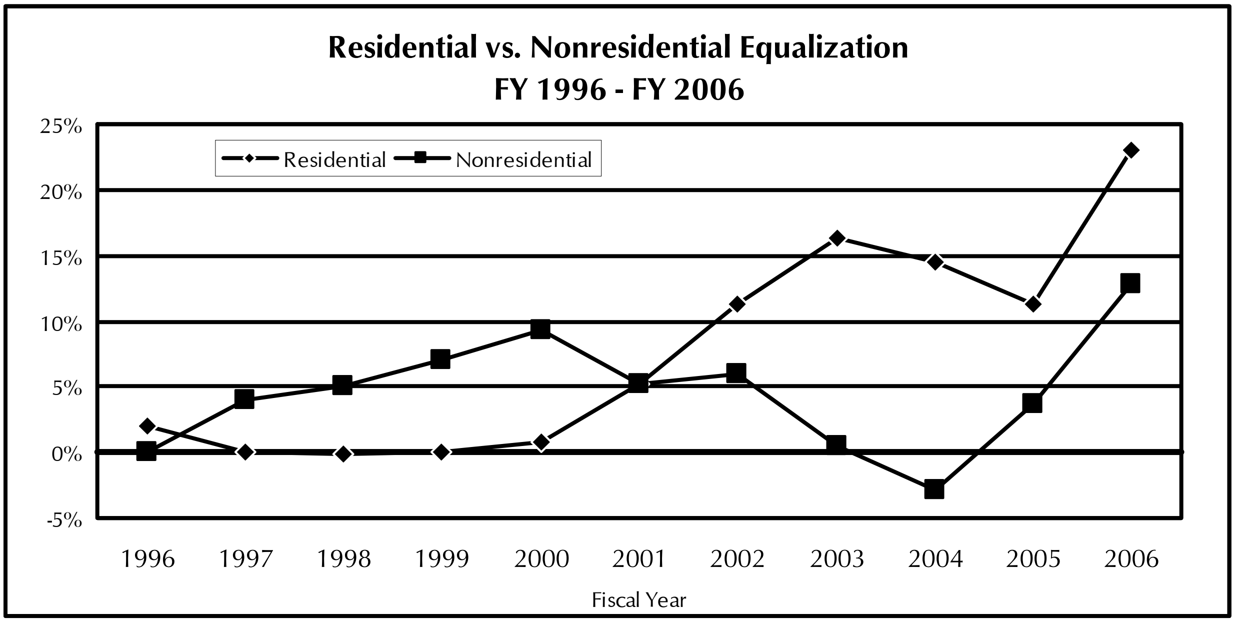
All types of residential property experienced significant increases in value in FY 2006. The value of single family homes has the most impact on the total residential base because they represent nearly 74 percent of the total. Changes in residential equalization by housing type since FY 2001 are shown 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/ (Percent of Base)	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Single Family (73.2%)	6.43%	12.08%	16.14%	14.15%	11.20%	22.21%
Townhouse/Duplex (18.5%)	2.22%	10.98%	18.56%	17.00%	12.99%	26.08%
Condominiums (6.5%)	1.17%	10.30%	21.19%	20.09%	16.24%	33.49%
Vacant Land (1.3%)	9.84%	7.90%	15.23%	23.23%	15.19%	26.32%
Other (0.5%)[1]	1.38%	5.73%	3.00%	2.58%	4.89%	5.30%
Total Residential Equalization (100%)	**5.13%**	**11.26%**	**16.27%**	**14.55%**	**11.29%**	**23.09%**

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

Based on the increase in residential equalization, the mean assessed value of all residential property in the County is $444,766. This is an increase of $83,432 over the FY 2005 value of $361,334. Compared to FY 2005, the typical residential annual tax bill will increase, on average, $364.59 in FY 2006 to $4,447.66 based on the reduced tax rate of $1.00 per $100 of assessed value.

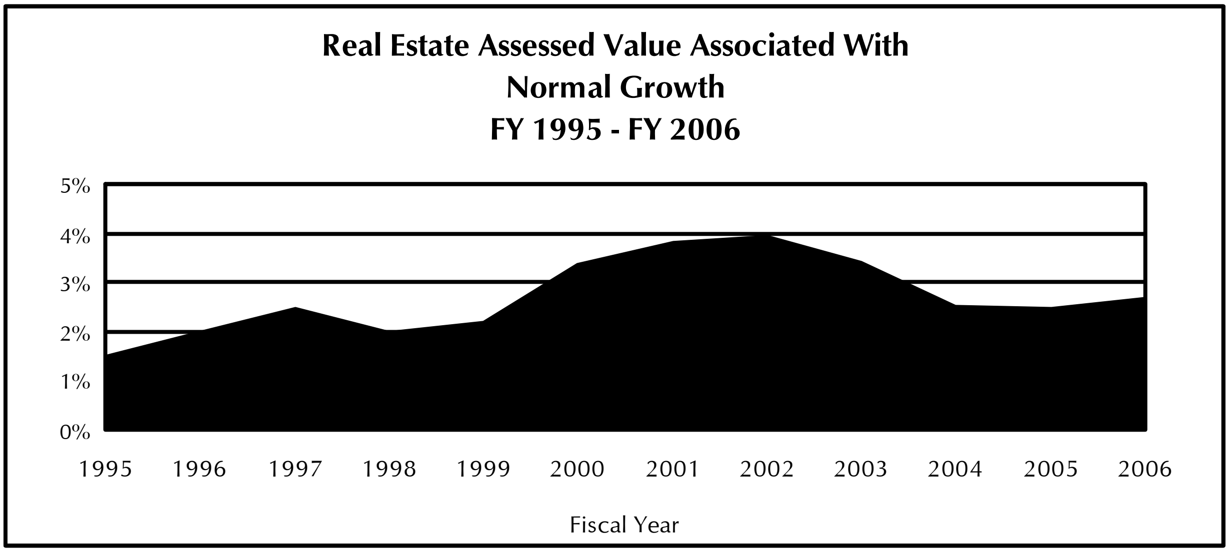


Nonresidential equalization experienced a robust increase of 12.74 percent in FY 2006 after rising just 3.74 percent in FY 2005 and declining 2.94 percent in FY 2004. Due to improving office vacancy rates and recent sales activity, the value of Office Elevator properties (mid- and high-rises), which comprise 37.2 percent of the nonresidential tax base, rose 18.81 percent in FY 2006. The Economic Development Authority recently reported that the office vacancy fell below double digits to 8.6 percent at year-end 2004 from 11.2 percent as of year-end 2003. Including sublet space, the office vacancy rate fell from 15.6 percent as of year-end 2003 to 11.6 percent at of year-end 2004. Fueled by an increase in defense contracting, near record levels of office leasing occurred in 2004. During 2004, 10.8 million square feet of office space was leased, up from 10.6 million square feet during 2003. The value of Low Rise Office property increased at a somewhat lower pace than Office Elevator property, advancing 17.56 percent in FY 2006. Hotel property rebounded from two years of declining assessments in FY 2003 and FY 2004 to 4.48 percent in FY 2005 and 15.34 percent in FY 2006. The value of Regional Malls increased 4.06 percent, while other retail properties advanced 10.99 percent in FY 2006. Nonresidential equalization changes by category since FY 2001 are presented in the following table.

Nonresidential Equalization Changes

Category (Percent of Base)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Apartments (18.3%)	3.54%	6.53%	9.59%	3.86%	1.86%	11.21%
Office Condominiums (2.8%)	2.08%	4.95%	7.75%	15.63%	13.59%	18.01%
Industrial (7.6%)	7.46%	7.25%	2.08%	-1.29%	5.26%	8.89%
Retail (14.2%)	2.73%	2.84%	1.91%	2.91%	7.91%	10.99%
Regional Malls (2.7%)	0.87%	2.20%	0.34%	6.95%	3.00%	4.06%
Office Elevator (37.2%)	6.74%	6.54%	-2.48%	-10.73%	3.27%	18.81%
Office - Low Rise (3.6%)	6.05%	7.30%	1.46%	-6.27%	5.42%	17.56%
Vacant Land (3.8%)	5.96%	6.36%	-0.08%	-6.55%	7.15%	10.07%
Hotels (3.8%)	7.16%	6.58%	-15.39%	-6.23%	4.48%	15.34%
Other (6.0%)	2.62%	6.35%	3.02%	6.00%	5.15%	8.52%
Nonresidential Equalization (100%)	5.15%	5.92%	0.52%	-2.94%	3.74%	12.74%

Normal Growth of $3,889,008,475, or 2.69 percent, over the FY 2005 assessment book value results from new construction, new subdivisions, and rezonings. This level of growth is on par with the rates experienced in FY 2004 and FY 2005, but lower than the 3.64 percent average experienced during FY 2000 through FY 2003 (see following graph). During the construction boom of the 1980s, average growth of 6.9 percent was experienced. Since FY 1995, the value of property added to the tax base due to new construction has ranged from 1.93 percent to 3.94 percent. In FY 2006, the residential property base experienced a 2.62 percent increase due to new construction. This is somewhat lower than the 2.93 percent advance in nonresidential properties. The total rate of growth due to new construction is consistent with activity in the housing and commercial building industry throughout the Washington metropolitan area.



In addition to the final equalization and normal growth adjustments in the Main Assessment Book, the following projected adjustments were made to the FY 2005 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 $556.4 million and additional supplemental assessments of $75.9 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 $1,019.7 million in FY 2006, an additional $319.7 million over FY 2005. This increase is due to rising property values and an increase in tax abatements associated with the County's revitalization effort. Each $100.0 million change in the level of exonerations, certificates and tax abatements is equivalent to a change of $1.0 million in tax levy.

Tax Relief for the Elderly and Disabled is projected to reduce the Real Estate assessment base in FY 2006 by $1,880.4 million. In FY 2006, the income limits of the Tax Relief program provide 100 percent exemption for elderly and disabled taxpayers with incomes up to $40,000; 50 percent exemption for eligible applicants with income between $40,001 and $46,000; and 25 percent exemption if income is between $46,001 and $52,000. The allowable asset limit in FY 2006 is $240,000 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 2005. 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. Income and asset eligibility limits for the Tax Relief Program have not been adjusted in FY 2006. 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%
FY 2006	Over $46,000 to $52,000		25%

The FY 2006 local assessment base of $176,550,594,911 is derived from the main assessment book and subsequent adjustments discussed above. From this local assessment base, a local tax levy of $1,765,505,950 is calculated using a tax rate of $1.00 per $100 of assessed value. Based on an expected local collection rate of 99.61 percent, revenue from local assessments is estimated to be $1,758,620,476. In FY 2006, every 0.1 percentage point change in the collection rate on the locally assessed Real Estate Tax levy yields a revenue change of $1.8 million, while every penny on the tax rate yields $17.9 million in revenue.

Added to the local assessment base is an estimated $1,058,253,657 in assessed value for Public Service Corporations (PSC) property. Using a rate of $1.00 per $100 of assessed value, the tax levy on PSC property is $10,582,537. The collection rate on PSC property is expected to be 100.0 percent.

The total assessment base, including Public Service Corporations, is $177,608,848,568 with a total tax levy of $1,776,088,487 at the $1.00 per $100 assessed value tax rate. Estimated FY 2006 revenue from the Real Estate Tax, including receipts from Public Service Corporations, totals $1,769,203,013 at the $1.00 per $100 assessed value tax rate, and reflects an overall collection rate of 99.61 percent. The total collection rates experienced in this category since FY 1991 are shown in the following table:

Real Estate Tax Collection Rates

Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1991	98.96%	**1999**	99.50%
1992	98.87%	**2000**	99.63%
1993	99.03%	**2001**	99.53%
1994	99.15%	**2002**	99.65%
1995	99.32%	**2003**	99.67%
1996	99.47%	**2004**	99.61%
1997	99.56%	**2005 (estimated)**	99.61%
1998	99.54%	**2006 (estimated)**[1]	99.61%

[1] In FY 2006, every 0.1 percentage point change in the collection rate yields a revenue change of $1,829,371.

The Commercial/Industrial percentage of the County's Real Estate Tax base is 17.36 percent, a drop of 0.84 percentage points from the FY 2005 level of 18.20 percent. FY 2006 marks the fifth consecutive decline in the Commercial/Industrial percentage and is due to the larger increases experienced in the residential portion of the Real Estate Tax base. The Commercial/Industrial percentage is based on Virginia land use codes and excludes multi-family rental apartments, which comprises 3.3 percent of the County's Real Estate Tax base in FY 2006. Fairfax County's historical Commercial/Industrial percentages are detailed in the following table:

Commercial/Industrial Percentages

Fiscal Year	Percentage	Fiscal Year	Percentage
1991	26.25%	**1999**	21.84%
1992	25.66%	**2000**	24.32%
1993	22.82%	**2001**	25.37%
1994	20.94%	**2002**	24.84%
1995	19.59%	**2003**	21.97%
1996	19.04%	**2004**	19.14%
1997	19.56%	**2005**	18.20%
1998	20.47%	**2006**	17.36%

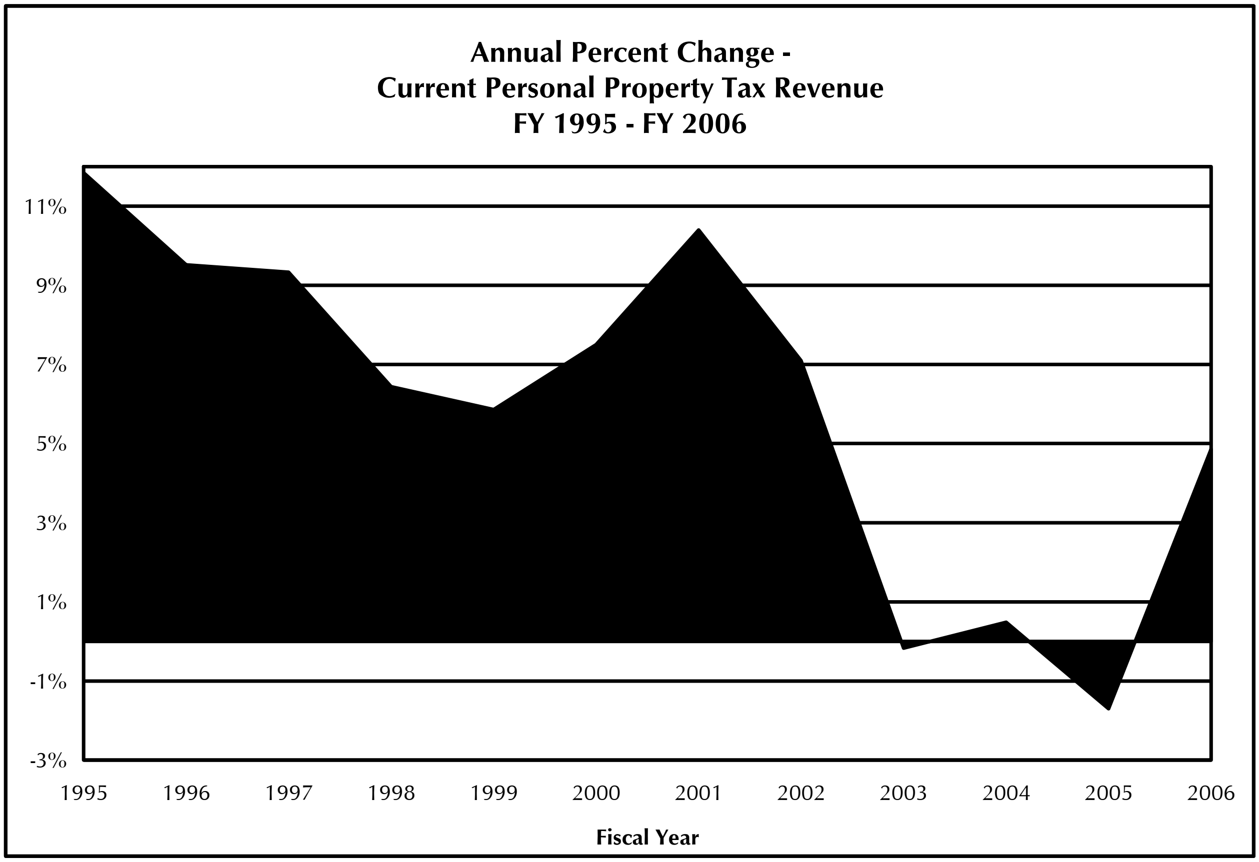
PERSONAL PROPERTY TAX-CURRENT

	FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
Paid Locally	$262,421,619	$259,447,897	$266,067,294	$271,633,751	$5,566,457	2.09%
Reimbursed by State	197,017,789	192,391,361	198,262,860	202,154,629	3,891,769	1.96%
Total	$459,439,408	$451,839,258	$464,330,154	$473,788,380	$9,458,226	2.04%

The FY 2006 Adopted Budget Plan estimate for Personal Property Tax revenue of $473,788,380 represents an increase of $9,458,226, or 2.0 percent, over the FY 2006 Advertised Budget Plan. This increase is primarily the result of a projected increase in vehicle levy based on a preliminary valuation of vehicles in the County. The increase is partially offset by the additional 3 cent reduction in the Real Estate Tax rate from the $1.03 included in the FY 2006 Advertised Budget Plan to $1.00 per $100 of assessed value. The Real Estate Tax rate impacts two classes of personal property: mobile homes and non-vehicle Public Service Corporation property. The FY 2006 Personal Property revenue reduction associated with the additional 3 cent Real Estate Tax decrease is $0.7 million.

The vehicle portion of the Personal Property Tax is comprised of two parts, that which is paid by citizens locally and that which is reimbursed by the Commonwealth of Virginia to the County as a result of the Personal Property Tax Relief Act (PPTRA) of 1998. The PPTRA phases out the Personal Property Tax 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 will continue a 70 percent reimbursement rate through FY 2006, but will cap Personal Property Tax reimbursement in FY 2007 at approximately the FY 2005 level. In subsequent years, the State reimbursement is not expected to cover 70 percent of the Personal Property Taxes paid by residents. In FY 2006, the PPTRA has no impact on the assessment or projection of Personal Property Tax revenues; therefore, for purposes of this narrative, aspects of the total Personal Property Tax will be discussed.

The Personal Property Tax consists of two major components: vehicles and business personal property. Both components are sensitive to changes in the national and local economies. Annual changes in total Personal Property Tax revenues are shown in the following graph.



Total Personal Property Tax revenues experienced average annual growth of 10.2 percent during the period FY 1995 through FY 1997. During FY 1998 through FY 2000, however, average annual growth moderated to 6.6 percent. Strong job growth and business expansion pushed total Personal Property Tax growth to 10.4 percent in FY 2001 and 7.1 percent in FY 2002. In FY 2003, Personal Property Taxes declined 0.2 percent and rose a slight 0.5 percent in FY 2004. This flattening of revenue was partially due to the stalled economy. Fiscal year Personal Property revenue lags the assessment of property. Revenue in FY 2004 was based on vehicles assessed as of January 1, 2003 and business equipment owned as of January 1, 2003. A decrease in business levy during FY 2003 and FY 2004 was also due to adjustments in the computer depreciation schedule which resulted in revenue reductions of $4.6 million and $1.0 million, respectively. In FY 2005 Personal Property Tax revenue is projected to fall $7.6 million, or 1.7 percent, from FY 2004 actual revenue. This decrease is primarily associated with a reduction in business levy. The assessment of FY 2005 business levy is based on equipment owned by businesses as of January 1, 2004. Analysis of actual business filings indicates that depreciation of currently owned equipment outstripped the purchase of new equipment during calendar year 2003.

Personal Property Tax revenue is expected to rebound in FY 2006, with overall growth of 4.9 percent. The vehicle component, which represents 74.0 percent of total Personal Property levy, is the driver of this increase. The FY 2006 estimate incorporates an increase of 4.8 percent in the average vehicle levy from $378 to $396. This increase is based on a preliminary analysis of vehicles in the County valued with information from the National Automobile Dealers' Association (NADA). According to NADA, the value of used vehicles has not declined to the extent that they have historically. NADA has also indicated that new model vehicle sales have slowed. The demand for new vehicles has declined due to rolled back incentives by automakers. During the coming year, cash that had been made available from mortgage refinancing will diminish which will further restrain the demand for vehicles. Based on this information, the volume of vehicles in FY 2006 is projected to increase a modest 1.3 percent. Incorporating changes in average levy and volume, the overall vehicle component of the Personal Property Tax base is expected to rise 4.8 percent in FY 2006. Changes in vehicle volume and levy since FY 1998 are shown in the following table.

Personal Property Vehicles

Fiscal Year	Growth in Vehicle Volume	Average Vehicle Levy	Growth in Average Levy
FY 1998	2.6%	$315	1.6%
FY 1999	3.2%	$320	1.7%
FY 2000	4.2%	$336	4.9%
FY 2001	4.5%	$359	6.9%
FY 2002	2.3%	$369	2.8%
FY 2003	3.0%	$372	0.8%
FY 2004	-0.7%	$389	4.6%
FY 2005 (est.)	2.0%	$378	-2.6%
FY 2006 (est.)	1.3%	$396	4.8%

Business Personal Property is primarily comprised of assessments on furniture, fixtures and computer equipment. Based on the improved economy, businesses are expected to expand and the purchases of business equipment are projected to increase. In FY 2006, the number of businesses is projected to expand 0.2 percent while average levy is expected to rise 5.9 percent reflecting growth in employment and increased business investment.

In accordance with assessment principles and the Code of Virginia, which require that property is taxed at fair market value, the Department of Tax Administration (DTA) annually reviews the depreciation rate schedule for computer hardware due to the speed with which computer values change. To reflect market trends, the computer depreciation schedule was adjusted in each year from FY 1999 to FY 2001, in FY 2003, and again in FY 2004. Based on current trends, the computer depreciation schedule was not adjusted in FY 2005 and will not be adjusted in FY 2006. 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 2006 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 2006
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 2006
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 $1.00 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 2006 Estimated Personal Property Assessments and Tax Levy

Category	FY 2006 Assessed Value	Tax Rate (per $100)	FY 2006 Tax Levy	Percent of Total Levy
Vehicles				
Privately Owned	$8,836,027,406	$4.57	$320,525,815	65.7%
Business Owned	491,424,060	4.57	19,568,895	4.0%
Leased	610,472,918	4.57	21,081,760	4.3%
Subtotal	$9,937,924,384		$361,176,470	74.0%
Business Personal Property				
Furniture and Fixtures	$1,504,494,747	$4.57	$68,790,211	14.1%
Computer Equipment	603,019,542	4.57	27,595,711	5.7%
Machinery and Tools	86,297,260	4.57	4,057,448	0.8%
Research and Development	6,249,137	4.57	293,805	0.1%
Subtotal	$2,200,060,686		$100,737,175	20.6%
Public Service Corporations				
Equalized	$2,201,114,700	$1.00	$22,011,147	4.5%
Vehicles	10,191,672	4.57	465,759	0.1%
Subtotal	$2,211,306,372		$22,476,906	4.6%
Other				
Mobile Homes	$18,056,505	$1.00	$180,565	0.0%
Other (Trailers, Misc.)	8,277,350	4.57	297,685	0.1%
Subtotal	$26,333,855		$478,250	0.1%
Penalty for Late Filing			$3,181,013	0.7%
TOTAL	**$14,375,625,297**		**$488,049,814**	**100.0%**

FY 2006 Personal Property Tax assessments including Public Service Corporations are $14,375,625,297 with a total tax levy of $488,049,814. Personal Property Tax revenue collections are projected to be $473,788,380, reflecting an overall collection rate of 97.0 percent. Total collection rates experienced in this category since FY 1991 are shown in the following table:

Total Personal Property Tax Collection Rates

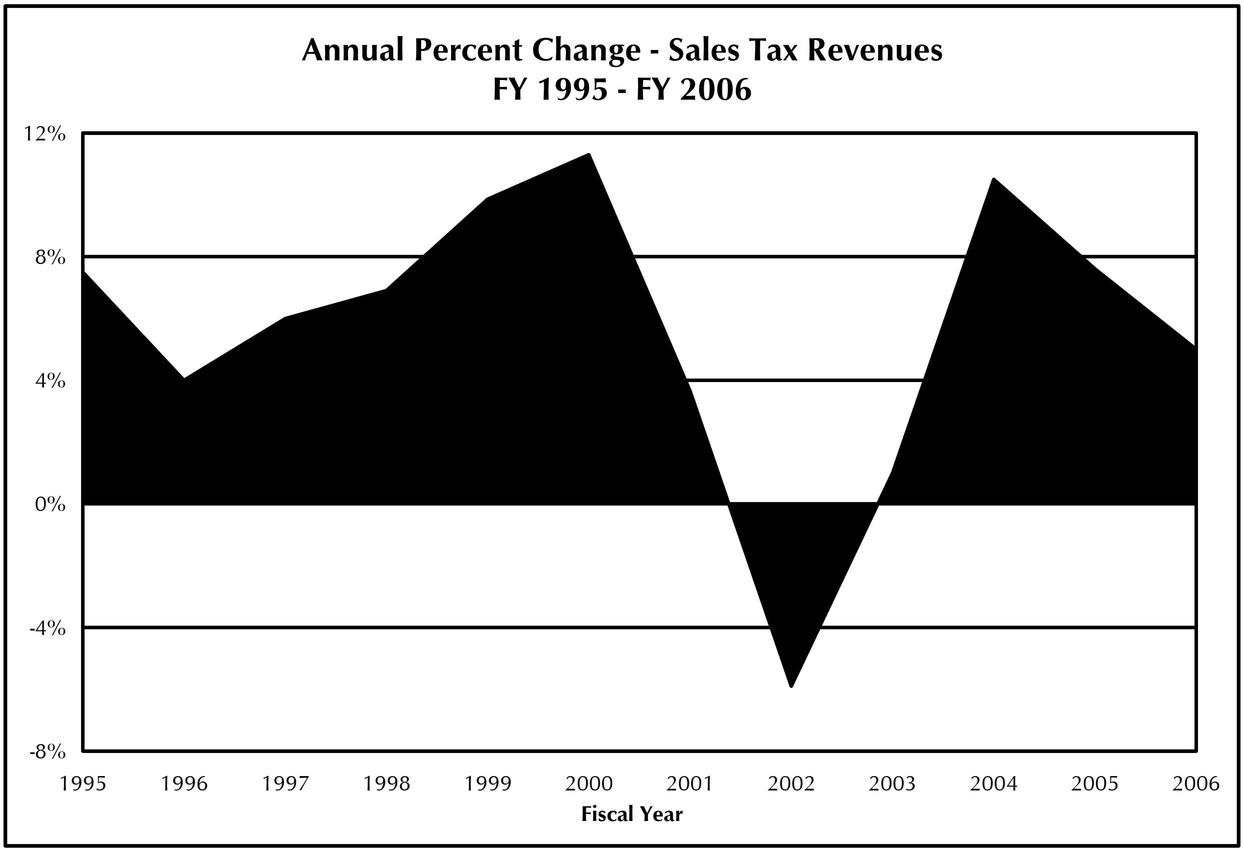
Fiscal Year	Collection Rate	Fiscal Year	Collection Rate
1991	95.5%	**1999**	97.3%
1992	94.4%	**2000**	97.3%
1993	96.0%	**2001**	97.1%
1994	95.6%	**2002**	96.3%
1995	96.8%	**2003**	98.8%
1996	97.2%	**2004**	96.9%
1997	97.3%	**2005 (estimated)**	97.0%
1998	97.3%	**2006 (estimated)[1]**	97.0%

[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 $1.0 million.

LOCAL SALES TAX

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$140,070,124	$150,687,742	$158,222,129	$158,222,129	$0	0.00%

The FY 2006 estimate for Sales Tax receipts of $158,222,129 reflects no change from the FY 2006 Advertised Budget Plan and represents an increase of $7.5 million, or 5.0 percent over the *FY 2005 Revised Budget Plan*. This rate of projected growth reflects moderation from the 7.6 percent increase anticipated for FY 2005.



As shown in the chart above, Sales Tax receipts experienced annual increases ranging from 3.7 percent to 11.3 percent during the period FY 1995 to FY 2001. In FY 2002, Sales Tax receipts dropped 5.9 percent from the level achieved in FY 2001. This decrease was only the second time in 30 years that Sales Tax receipts had fallen from their previous year's level (in FY 1991, Sales Tax revenues dropped 4.5 percent from FY 1990.) In FY 2003, Sales Tax receipts rose just 1.0 percent above the FY 2002 level. As a result of the robust economy, Sales Tax receipts rebounded in FY 2004, rising 10.5 percent. The estimate for FY 2005 Sales Tax receipts was revised upward by $6.9 million during the 2004 fall revenue review to reflect a rate of growth of 7.6 percent, the rate experienced during the first four months of the fiscal year. While growth in tax receipts for the first six months moderated slightly to 7.3 percent; the last four months have advanced just 3.1 percent. Overall FY 2005 collections are currently up 5.5 percent. In FY 2006, consumer spending is anticipated to continue to slow somewhat due to rising interest rates and energy prices; therefore, growth is expected to continue but at a rate of 5.0 percent in FY 2006.

RECORDATION/DEED OF CONVEYANCE TAXES

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$30,865,542	$41,910,288	$32,014,191	$34,867,317	$2,853,126	8.91%

The FY 2006 estimate of $34,867,317 reflects an increase of $2,853,126 over the FY 2006 Advertised Budget Plan as a result of continued strong real estate market activity. The FY 2006 estimate is comprised of $27,169,349 in Recordation Tax revenues and $7,697,968 in Deed of Conveyance Tax revenues. Recordation and Deed of Conveyance Taxes are levied in association with the sale or transfer of real property located in the County. Recordation Taxes are also levied when mortgages on property located in the County are refinanced, making Recordation Tax revenues more sensitive to interest rate fluctuations than Deed of Conveyance Tax revenues. Interest rate projections are used in an econometric model that assists in developing estimates for these categories.

Receipts from Recordation and Deed of Conveyance Taxes have grown significantly since FY 2001 due to continued strong demand relative to housing supply in the County as well as rising median sales prices. Increased mortgage refinancing due to low mortgage rates have also boosted Recordation collections. During the 2004 General Assembly, the Commonwealth of Virginia increased the State tax on recording deeds from 15 cents to 25 cents per $100 of value of the property being recorded. The Code of Virginia allows cities and counties to levy a local Recordation Tax at one-third the State rate so the County's Recordation Tax was increased from 5 cents to 8.33 cents per $100 of value effective September 1, 2004. Anticipated FY 2005 revenue of $6.2 million from this rate increase was set aside by the Board of Supervisors for Real Estate Tax relief in FY 2006.

As a result of the Recordation Tax rate increase and higher than expected collections, the FY 2005 estimate for Recordation and Deed of Conveyance was increased $23.6 million during the *FY 2005 Third Quarter Review*. Through April 2005, FY 2005 Deed of Conveyance Tax receipts are up 33.0 percent over the same period of FY 2004. Recordation Tax revenues are up 63.5 percent through the first 10 months of FY 2005. The increase is due to the tax rate increase, rising home values and strong home buying activity. Absent the increase in the Recordation Tax rate from 5 cents to 8.33 cents per $100 of value, Recordation Tax collections are up 8.7 percent. The disparity between growth in Deed of Conveyance Tax revenue and the growth in Recordation Taxes adjusted for the rate increase indicates that mortgage refinancing has slowed. In FY 2006, Recordation and Deed of Conveyance receipts are expected to fall from their FY 2005 level because interest rates are projected to increase and mortgage refinancing is anticipated to slow further.

VEHICLE DECAL FEE

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$19,503,579	$19,853,245	$20,250,310	$20,250,310	$0	0.00%

The FY 2006 estimate of $20,250,310 for Vehicle Decal Fee revenue reflects no change from the FY 2006 Advertised Budget Plan and represents growth of 2.0 percent over the *FY 2005 Revised Budget Plan.* This growth rate is consistent with historical trends.

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

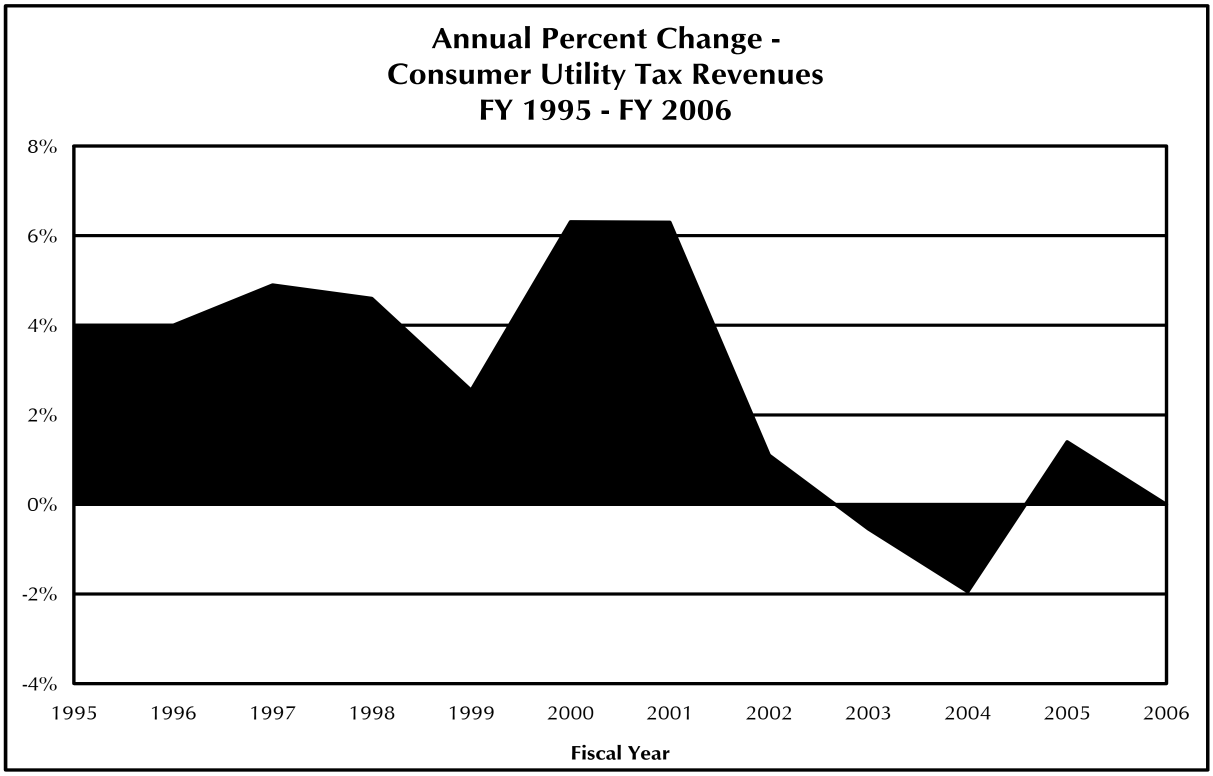
CONSUMER UTILITY TAX

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$84,219,305	$85,422,983	$85,422,983	$85,422,983	$0	0.00%

The FY 2006 estimate for Consumer Utility Taxes of $85,422,983 reflects no change from the FY 2006 Advertised Budget Plan. County residents and businesses are subject to Consumer Utility Taxes based on their consumption of electricity, gas, and telephone services. The FY 2006 estimate is comprised of $35,687,230 in taxes on electric service, $40,130,799 in taxes on telephone service, and $9,604,954 in taxes on gas service.

From FY 1996 through FY 2001, Consumer Utility Tax revenues rose at an average annual rate of 4.9 percent. Growth slowed considerably to just 1.2 percent in FY 2002 and then fell 0.6 percent and 2.0 percent in both FY 2003 and FY 2004, respectively. The decline in total Consumer Utility Tax revenue is due to decreases in telephone utility taxes. Prior to FY 2002, taxes on telephone service grew at a faster rate than other consumer utilities; however, increased use of cell phones, cable Internet access, and phoning over the Internet (VoIP) have all diminished the telephone utility tax base. In FY 2003 and FY 2004, receipts from telephone utility taxes fell 4.7 percent and 5.0 percent, respectively. This trend in telephone usage is expected to continue and when combined with modest growth in taxes from gas and electric utilities, total Consumer Utility Taxes are expected to grow a slight 1.4 percent in FY 2005 over FY 2004 actual collections. The FY 2005 projection reflects a decrease of $0.5 million estimated during the fall 2004 revenue review as compared to the Revised Budget Plan and is based on year-to-date collections. FY 2006 Consumer Utility Tax revenue is expected to remain at the FY 2005 level.

It should be noted that legislation was carried over from the 2005 Virginia General Assembly that would considerably change the manner in which taxes on telecommunications services would be levied. Under the proposed legislation, local taxes on telephone land lines and mobile telecommunications plus E-911 fees would be repealed and replaced with a 5 percent State tax and a State E-911 fee of 75 cents per line. The new State tax would be remitted to a State fund for distribution to localities. At this time, there is not enough information for the County to determine if the State Tax distribution would be revenue neutral with the County's current telecommunications taxes. The Auditor of Public Accounts has been tasked with collecting tax revenue from Virginia localities and information from telecom companies during 2005 in order to determine the impact of this proposal.



MOBILE TELECOMMUNICATIONS TAX

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$8,313,833	$11,000,000	$10,300,000	$11,330,000	$1,030,000	10.00%

The FY 2006 estimate for Mobile Telecommunication Tax receipts is $11,330,000, an increase of $1,030,000 million, or 10 percent over the FY 2006 Advertised Budget Plan. In FY 2004, the Board of Supervisors authorized a tax of ten percent on a consumer's gross charges up to a maximum of $30 per month for mobile local telecommunications (1994 Virginia Acts, Chapter 560 of the Code of Virginia, Section 58.1-3812 as amended). The maximum monthly rate is $3 per bill, or $36 per year. During the *FY 2005 Third Quarter Review*, the FY 2005 estimate for Mobile Telecommunication Taxes was increased from $10.0 million to $11.0 million based on actual FY 2004 receipts and collections during the first nine months of FY 2005. Moderate growth of 3.0 percent over the FY 2005 estimate is projected for FY 2006.

TRANSIENT OCCUPANCY TAX

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$7,221,578	$13,991,060	$14,270,183	$14,270,183	$0	0.00%

The FY 2006 estimate for Transient Occupancy Tax of $14,270,183 reflects no change from the FY 2006 Advertised Budget Plan and represents an increase of $279,123, or 2.0 percent, over the *FY 2005 Revised Budget Plan*. 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. Transient Occupancy Taxes are charged as part of a hotel bill and remitted by the hotel to the County. Revenue from the additional 2 percent tax is required to be spent for tourism promotion. No more than 75 percent of the new revenue may be spent by Fairfax County for tourism promotion and the remaining 25 percent must be appropriated to a nonprofit convention and visitors' bureau located in the County.

CIGARETTE TAX

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$1,899,798	$6,246,510	$11,532,018	$11,532,018	$0	0.00%

The FY 2006 estimate for Cigarette Tax revenue of $11,532,018 reflects no change from the FY 2006 Advertised Budget Plan and an increase of $5,285,508, or 84.6 percent, over the *FY 2005 Revised Budget Plan*. The increase represents a rise in the Cigarette Tax rate from 20 cents per pack to 30 cents per pack effective July 1, 2005. Fairfax is authorized by the Code of Virginia to levy a Cigarette Tax at a rate not to exceed 5 cents per pack of 20 cigarettes or the amount levied under State law, whichever is greater. Until 2004, the State tax on cigarettes was 2.5 cents per pack so the maximum the County could levy was 5 cents per pack. During the 2004 General Assembly, the State tax on cigarettes was raised to 20 cents per pack effective September 1, 2004 and to 30 cents per pack as of July 1, 2005. This change allowed the Fairfax County Board of Supervisors to raise the County tax on cigarettes equal to the State rate. After a public hearing, the County Cigarette Tax was increased to 20 cents per pack as of September 1, 2004 and to 30 cents per pack as of July 1, 2005.

During the fall 2004 revenue review, the FY 2005 estimate for Cigarette Tax revenue was increased $4.3 million to reflect the change in the tax rate. This revenue was set aside by the Board of Supervisors for Real Estate Tax relief in FY 2006.

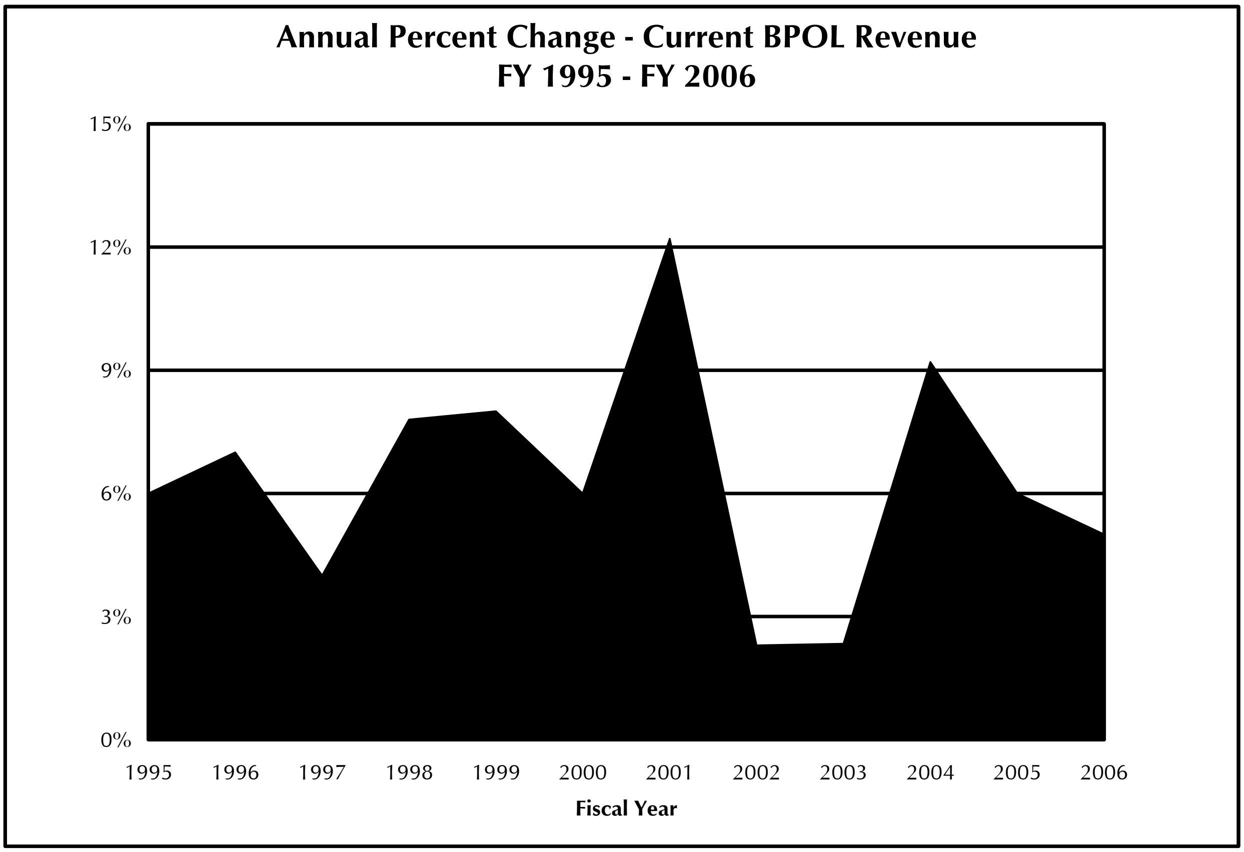
BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$101,997,399	$108,122,086	$113,528,190	$113,528,190	$0	0.00%

The FY 2006 estimate for Business, Professional and Occupational License Taxes (BPOL) reflects no change from the FY 2006 Advertised Budget Plan and represents an increase of $5,406,104, or 5.0 percent, over the *FY 2005 Revised Budget Plan*. This increase is consistent with continued economic expansion but at a decelerated rate from FY 2005 projected growth of 6.0 percent.

In FY 2004, BPOL receipts experienced robust growth of 9.2 percent over FY 2003. Reflecting increased federal procurement spending, the Consultant category, which represents nearly 23 percent of total BPOL receipts, grew at a rate of 20.5 percent. Receipts from Realtors and Money Lenders grew 17.6 percent in FY 2004, while the combined Retail/Wholesale category, which comprises approximately 24 percent of total BPOL receipts, grew at a rate of 7.2 percent.

Federal spending in the County is expected to remain strong, and the Money Lenders and Realtors category is expected to experience moderate growth in FY 2005 and FY 2006. Based on these assumptions and an econometric model using Sales Tax receipts and mortgage interest rates as predictors, FY 2005 BPOL receipts are projected to grow 6.0 percent over actual FY 2004 receipts. In FY 2006, the rate of economic expansion is expected to slow and BPOL revenues are expected to experience growth of 5.0 percent. Historical and projected changes in BPOL receipts are presented in the following graph.



PERMITS, FEES AND REGULATORY LICENSES

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$28,675,370	$27,578,867	$32,543,251	$32,543,251	$0	0.00%

The FY 2006 estimate for Permits, Fees and Regulatory Licenses reflects no change from the FY 2006 Advertised Budget Plan and represents an increase of $4,964,384, or 18.0 percent, over the *FY 2005 Revised Budget Plan* estimate. This increase is primarily the result of a Land Development Services fee increase for building permit and inspection fees, the major component of the Permit, Fees, and Regulatory Licenses category.

In FY 2006, the fee structure for Land Development Services has been realigned to increase cost recovery. Fees have not been adjusted since FY 1996 and cost recovery is currently approximately 75.3 percent. Over the next two fiscal years, the cost recovery will be increased to approximately 90 percent. In FY 2006, the proposed increase in fees is projected to increase revenue by $4.2 million. For more information, see Volume 1 of the FY 2006 Adopted Budget Plan.

Twenty-three individual fee categories comprise Land Development Services (LDS) Fee revenue. Changes in LDS revenue are a reflection of the housing market and construction industry, as well as the size and complexity of projects submitted to LDS for review. One of the most important indicators of workload, and consequently revenue, is the number of building permits issued by LDS. Single family permits issued during the first ten months of FY 2005 total 2,344, down 5.6 percent, or 139 permits, year-to-date. The number of nonresidential building permits issued, however, so far this fiscal year is up 12.1 percent or 15 permits from the same period in FY 2004. The FY 2006 estimate for LDS fees reflects no change from the FY 2006 Advertised Budget Plan estimate of $25.2 million and represents an increase of 20 percent, or $4.2 million over the *FY 2005 Revised Budget Plan*.

The FY 2006 estimate for Permits, Fees and Regulatory Licenses also includes Zoning Fees of $1,830,450, an increase of $652,976, or 55.5 percent, over the *FY 2005 Revised Budget Plan* estimate and is the result of a fee increase proposed to be effective July 1, 2005.

INTEREST ON INVESTMENTS

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$14,758,923	$25,975,290	$33,031,622	$38,329,212	$5,297,590	16.04%

The FY 2006 estimate of $38,329,212 for Interest on Investments represents an increase of $5,297,590, or 16.0 percent, over the FY 2006 Advertised Budget Plan estimate. Revenue from this category is a function of the amount invested, the prevailing interest rates earned on investments, and the percentage of the total pooled investment portfolio attributable to the General Fund.

Revenue from Interest on Investments is highly dependent on Federal Reserve actions. During 2001, the Federal Reserve reduced interest rates 11 times from 6.5 percent to 1.75 in order to stimulate economic growth. Rates were stable in 2002 until November when the federal funds rate was dropped to 1.25 percent. The Fed cut rates again in June 2003 to 1.0 percent. During this period, revenue from Investment Interest fell from a historic high of $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.

The federal funds rate remained at 1.0 percent until June 2004 when the Fed began to raise rates to keep inflation in check. The Fed raised interest rates by 25 basis points five times in 2004 and three times in 2005. The federal funds rate now stands at 3.0 percent. The FY 2005 estimate for Interest on Investments was increased $7.9 million, from $18.1 million to $26.0 million, during the fall 2004 review of revenue as a result of these increases. The $26.0 million FY 2005 estimate reflects an average yield of 2.23 percent up from the 1.40 percent included in the FY 2005 Adopted Budget Plan.

The FY 2006 estimate assumes that the Federal Reserve will continue to gradually increase interest rates at what the Fed calls "a measured pace." The FY 2006 estimate includes a projected yield of 3.0 percent and an average portfolio size of $1,878,130,621, representing 5.0 percent growth over the FY 2005 projection. 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 projected to be $57,864,313 and the General Fund percentage is projected to be 67.0 percent in FY 2006.

CHARGES FOR SERVICES

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$42,529,744	$44,730,140	$48,757,342	$49,458,631	$701,289	1.44%

The FY 2006 estimate of $49,458,631 for Charges for Services reflects an increase of $0.70 million, or 1.4 percent, over the FY 2006 Advertised Budget Plan. This increase is due to an additional $2.0 million in revenue generated by the opening of 13 additional School-Age Child Care (SACC) classrooms and $0.50 million generated by the expansion of the Club 78 after school program for middle school students. These increases were partially offset by the transfer of the Athletic Service Application Fee revenue from the General Fund to Fund 303, County Construction, to be used for enhanced athletic field maintenance.

SACC fees of $24.3 million comprise 49 percent of the total Charges for Services category. In FY 2006, SACC revenues are projected to rise $2.4 million over the FY 2005 estimate due to a 1.5 percent base fee adjustment to address salary increases and the addition of 13 additional SACC classrooms.

The FY 2005 estimate for Charges for Services was increased $2.4 million during the *FY 2005 Third Quarter Review* due to an increase Clerk Fees based on year-to-date collections, which were higher than anticipated due to continued strong home sales and mortgage refinancing activity.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT[1]

FY 2004 Actual	FY 2005 Revised	FY 2006 Advertised	FY 2006 Adopted	Increase/ (Decrease)	Percent Change
$140,196,638	$123,889,219	$122,335,318	$124,597,386	$2,262,068	1.85%

[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 2006 estimate for Revenue from the Commonwealth and Federal Governments is $124,597,386 and represents an increase of $2,262,068, or 1.9 percent, over the FY 2006 Advertised Budget Plan estimate. Law Enforcement (HB 599) funding is anticipated to increase $593,495 due to revised projections of State General Fund revenue growth which is the basis for the total appropriation for this program. An increase of $328,862 is the result of cost of living increases for state responsible positions, while an increase of $89,000 is associated with additional public library funding. In addition, revenue from the Commonwealth is projected to increase $1.3 million for the Child Care Assistance and Referral (CCAR) program, which will be entirely offset by increased expenditures.

During the *FY 2005 Third Quarter Review*, FY 2005 revenue estimates for Revenue from the Commonwealth and Federal Government were increased $912,116 over the FY 2005 Fall Estimate. Additional revenue of $0.8 million was anticipated for the CCAR program and $0.1 million from the Community Service Block Grant. These increases will be entirely offset by increased expenditures.