FY 2011

ADOPTED BUDGET PLAN

Financial Forecast

This section includes:

Financial Forecast Summary

The following forecast provides preliminary revenue and disbursement projections for FY 2012 through FY 2014. The forecast assumes no change in the General Fund Real Estate Tax rate of $1.09 per $100 of assessed value. Economic assumptions used to develop the forecast are detailed below. It should be noted that FY 2012 property values will be based on calendar year 2010 real estate market activity. Since limited actual data is available, this forecast will be updated throughout the year to help guide the development of the FY 2012 budget. This forecast projects that County General Fund revenue will decrease 2.3 percent in FY 2012, and rise 0.5 percent in FY 2013 and 2.8 percent in FY 2014.

Total FY 2011 Disbursements are projected to decline 2.7 percent from the FY 2010 level. Projected revenue each year from FY 2012 through FY 2014 is below the FY 2011 approved level of disbursements. Therefore, even maintaining the reduced FY 2011 level of disbursements would result in shortfalls of approximately $144 million in FY 2012, $128 million in FY 2013 and nearly $38 million in FY 2014.

In order to provide funding for basic compensation and inflationary adjustments, as well as support of County obligations in debt service, Metro and other transfers, County disbursements are anticipated to require funding increases of approximately 5 percent annually. Under this scenario, without additional changes in spending and/or revenue enhancements, a shortfall of approximately $310 million would occur in FY 2012. With limited revenue growth anticipated over the next few years and funding requirements estimated to be approximately 5 percent annually, deficits of $467 million in FY 2013 and $559 million in FY 2014 would be projected.

Revenue Forecast

Economic Indicators and Assumptions

Economic projections for the national and local economies were reviewed from a variety of sources in the development of these revenue estimates, such as the Blue Chip Economic Forecasts that incorporates economic projections from a panel of approximately 50 forecasters, Kiplinger, Global Insight, National City and the National Association of Realtors. For forecasts of the state and Northern Virginia economies, staff reviewed information from Chmura Economics & Analytics and George Mason University's Center for Regional Analysis. Projections specific to Fairfax County are obtained from Moody's Economy.com.

Many economists believe that the national economy, which slid into recession in December 2007, is now recovering, but the strength and sustainability of the recovery is not certain. After contracting in the first and second quarters of 2009, economic growth in the third quarter rose 2.2 percent. As much as 1.5 percentage points of this growth rate was attributed to the Cash for Clunkers program, which boosted vehicle purchases through the end of September. The economy soared at a revised rate of 5.6 percent in the fourth quarter of 2009, the fastest pace in six years. The rate of growth slowed to a more sustainable 3.0 percent during the first quarter of 2010. Once the impact of government stimulus programs like the first time homeowner tax credit expire in early 2010, continued economic recovery and job growth will depend on the strength of consumer and business expenditures. Consumer spending will continue to be constrained as long as unemployment remains high. The unemployment rate has remained at 9.7 percent during the first three months of 2010. Most economists expect that real Gross Domestic Product growth will average 3.0 percent in calendar year 2010, well below rates historically achieved when coming out of a deep recession.

While the region and the County are faring better than much of the country, there are continued signs of economic weakness. Moody's Economy.com estimates that Gross County Product (GCP), adjusted for inflation, rose at a revised rate of 0.9 percent in 2009, the slowest pace since 2002. While the County's unemployment rate fell from 5.2 percent in June 2009 to 4.7 percent in December, it was at a record high of 5.5 percent in each of the first three months of 2010. Economists expect a rise in the unemployment rate in the early stages of economic recovery. As the economy starts to improve, people who had become discouraged and stopped looking for work return to the labor market and are once again counted as unemployed. Even so, the current unemployment rate equates to approximately 33,000 unemployed residents. Based on revised information from the Bureau of Labor Statistics information, the Northern Virginia area lost 19,700 jobs as of December 2009. Based on preliminary information, the rate of job loss has slowed to approximately 10,000 during the first three months of 2010. Job growth is projected to be strong in 2011 and 2012, as the economy improves and proposed facility changes from Base Realignment and Closure (BRAC) should be well underway. BRAC is expected to result in the transfer of 19,000 Department of Defense jobs to Fort Belvoir by September 15, 2011. Another 7,500 contractor jobs are expected to be created.

The Metropolitan Washington Area Leading Index, which is designed to forecast the performance of the metro area economy six to eight months in advance, has been higher on a month over the year basis for nine of the last eleven months through March 2010. According to George Mason University's Center for Regional Analysis, the Index is "providing a clear signal that the local economy is moving into its expansion stage following its worst economic performance since 1991."

Because Real Estate Tax revenue comprises over 62 percent of total FY 2011 County General Fund revenues and residential real estate makes up over three quarters of the total real estate base, assumptions as to the length and extent of the downturn are critical to this forecast.

Residential Housing Market

The housing market showed signs of stabilizing in 2009. After rising just 3.1 percent in 2008, the number of homes sold in 2009 in Fairfax County rose 9.4 percent from 13,979 in 2008 to 15,298 based on information from the Metropolitan Regional Information System (MRIS). This was the highest level of sales since 2006. The average number of days it took to sell a home was lower in every month of 2009 compared to the same month in 2008. However, the price of homes sold during the year fell 6.4 percent after dropping nearly 18 percent in 2008. Another sign of stabilization is the decline in the number of net foreclosures, which fell in ten out of 12 months in 2009. As of March 2010, the number of properties owned by the mortgage lender totaled 705, down from 1,566 in March 2009, a 55 percent reduction. However, many homeowners are "underwater" – owing more on their homes than the homes are worth, which will increase the risk of additional foreclosures during the year.

While there are signs of strengthening, there are concerns regarding the housing market once government measures to keep interest rates low and boost sales expire in 2010. The U.S. Treasury and the Federal Reserve purchased mortgage-backed securities during 2009, resulting in historic low mortgage interest rates. Their support of the mortgage market ended during the first quarter of 2010. In addition, home purchases under the homebuyer tax credit program must be completed by June of 2010. Housing market activity during the second half of the year will be a better measure of its sustainable strength.

After double digit increases from FY 2002 through FY 2007, residential assessments have fallen for four consecutive years. During the last housing slump, it took approximately nine years for home values to recover to their previous peak. The current declines in home values have been much steeper and an additional decline of 2.50 is expected in FY 2012. Very modest increases are anticipated in FY 2013 and FY 2014 of 0.5 percent and 2.00 percent, respectively. These rates are considerably below the average annual increase of 4.6 percent in the mean assessed value of residential property that was experienced from FY 1985 through FY 2001.

Nonresidential Real Estate

Nonresidential property values experienced a record decline of 18.29 percent in FY 2011 with all categories decreasing in value. During calendar year 2009, the lack of available credit for refinancing, construction and sales of commercial property pushed values downward. Businesses stressed from the recession were able to renegotiate leases downward, consolidate space or vacate space altogether lessening demand for retail, industrial, and office space. During the economic downturn, consumers and businesses have cut back on spending and travel which reduces the income streams of hotels, restaurants and retail establishments, resulting in lower property values. Office Elevator properties (mid- and high-rises), which comprise approximately 38 percent of the total nonresidential tax base, decreased 24.31 percent, compared to the 6.62 percent decrease in FY 2010. Rental rates declined, while office vacancy rates rose. The County's direct office vacancy rate at mid-year 2009 was 14.0 percent, up from 12.1 percent at the end of 2008 and the highest level since mid-year 1993. Including sublet space, the overall office vacancy rate was 16.4 percent, up 1.9 percentage points over the 14.5 percent at year-end 2008, and the highest on record since year-end 2003. The supply of space over the last few years has outstripped demand. Over the past four years, office space has increased a net 9.1 million square feet to 112.6 million square feet, with over 18 million square feet of available space. While speculative development has been a driving force in new office development over the past several years, the lack of available credit has brought speculative development to a standstill. At the end of 2009, only 0.6 million square feet of office space was under construction. The reduction in office construction activity will help bring down the vacancy rates during 2010. Changes in nonresidential property values over the next several years are anticipated to be similar to what occurred in the 1990s. After falling 13.22 percent in FY 1993, nonresidential property values fell moderately the next two years. In this current forecast, nonresidential values are projected to experience declines of 13.00 and 8.00 percent in FY 2012 and FY 2013, respectively. Nonresidential values are expected to rise 3.00 percent in FY 2014 as the demand for office space rises with employment gains.

New Construction

The Real Estate Tax base will also be impacted by new construction in the County. Building permits issued, an indicator of future construction, declined approximately 19 percent from July through December 2009 compared to the same period of 2008. Residential construction is projected to be slim during the forecast period with a slight acceleration in FY 2013, partly due to construction in the Tysons Corner area. Office construction has already slowed. Only two new projects had broken ground by mid-2009. Both of these buildings were build-to-suit and are completely pre-leased. The extension of Metrorail to Dulles will impact new construction around Metro stations beginning with FY 2013 assessments. In Tysons Corner alone, 37 million square feet of commercial and retail space is projected due to the construction of Metrorail to Dulles. Based on current activity, new construction will add no value to the overall real estate base in FY 2012. In FY 2013 and FY 2014, moderate increases are expected, with values rising 0.70 and 1.00 percent, respectively, due to new construction.

Total Real Estate

In FY 2011, the total Real Estate Tax base fell 9.20 percent, as both residential and nonresidential property values declined. Based on the assumptions above, the total Real Estate Tax base is expected to drop 5.00 percent in FY 2012 due to continued weakness, especially in nonresidential properties. The real estate base is anticipated to decline 0.65 percent in FY 2013 as a result of a modest increase in residential properties, offset with a decrease in nonresidential property values. As the economy expands, the overall real estate tax base is projected to rise 3.20 percent in FY 2014.

Personal Property Taxes

Personal Property Tax revenue, which represents over 15 percent of total General Fund revenue, is anticipated to experience a slight rise of 0.13 percent in FY 2011 due to modest increases in vehicle volume and levy. The Virginia Automobile Dealers Association reported that new model vehicle registrations in Fairfax County rose 7.4 percent in 2009, due in part to the Cash for Clunkers program; however, since the trade-in vehicles were destroyed, the program did not increase the total volume of vehicles in the County. Forecasts of nationwide vehicle purchases indicate a moderate increase for car sales during 2010. Personal Property Taxes are expected to rise 2.0 percent in each of the forecast years, FY 2012 through FY 2014.

Other Major Revenue Categories

Sales tax receipts fell 4.4 percent in FY 2009 and are projected to decline an additional 5.3 percent in FY 2010. This will be the first time that Sales Tax receipts have fallen in two consecutive years. Due to the anticipated sluggish recovery, Sales Tax receipts are expected to remain level in FY 2011. Sales Tax receipts are expected to grow at 3.0 percent during the forecast period. This rate is lower than historical trends, as a recent increase in savings over spending is anticipated to be a long lasting trend in behavior and non-taxable Internet sales continue to rise. Business, Professional and Occupational License (BPOL) revenue is projected to decrease 2.5 percent in FY 2010 based on decline in sales tax receipts and employment in calendar year 2009. BPOL receipts are expected to remain at this level in FY 2011. As job growth accelerates due to improvements in the economy and BRAC impacts, BPOL is expected to rise 4.0 percent in FY 2012 through FY 2014. Recordation and Deed of Conveyance revenues, which are paid for recording deeds, are anticipated to rise 1.0 percent during the forecast period due to modest projected increases in home sales and mortgage refinancings.

Land Development Services Building and Permit fee revenue is projected to increase 5.20 percent in FY 2010, as a rise in fees has offset the significant decline in construction activity. No change in building activity is anticipated in FY 2011. Construction activity and revenue are forecasted to rise a modest 1.0 percent in FY 2012 through FY 2014. Other Permit and Fees and Regulatory Licenses categories are expected to experience modest growth throughout the forecast period.

Revenue from Interest on Investments is highly dependent on Federal Reserve actions. The federal funds rate has remained unchanged since the end of 2008, when it was set at 0.0 to 0.25 percent, its lowest in history. The average annual yield is anticipated to be 0.94 percent in FY 2010. This rate was enhanced by investments that matured early in the year. Yield earned on investments is anticipated to be 0.75 percent in FY 2011. Modest increases of just 25 basis points per year are anticipated throughout the forecast period.

Due to budget shortfalls since FY 2009, the Commonwealth of Virginia has significantly reduced funding to localities. In FY 2009, the state reduced funding to Fairfax County by approximately $6.5 million. Based on actions taken by the 2008, 2009 and 2010 General Assembly, FY 2010 funding to Fairfax County has been reduced $12.2 million including cuts to state reimbursable salaries, HB599 Law Enforcement Funding and a $3.9 million "flexible" cut which requires the County to choose the funding stream in which to make the reduction or to remit payment to the state. The state's FY 2010 – FY 2012 Biennium Budget included a "flexible" cut for FY 2011 which the County estimates will be approximately $4.8 million. No "flexible" cut was included in FY 2012, but Fairfax County's HB599 Law Enforcement Funding is scheduled to be reduced an additional of $2.5 million. For purposes of this forecast, funding from the Commonwealth has been held at the FY 2011 level throughout the forecast period. Revenue from the federal government is also expected to remain even with FY 2011 throughout the forecast period. Since the majority of the revenue from the federal government represents reimbursements associated with expenditure requirements, any additional increase in revenue is expected to be more than offset with expenditure increases.

Based on the assumptions and estimates detailed above, General Fund revenues are projected to experience a decline of 2.28 percent in FY 2012 and modest increases of 0.53 percent and 2.83 percent in FY 2013 and FY 2014, respectively. Revenue growth rates for individual categories are shown in the following table:

PROJECTED REVENUE GROWTH RATES

Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Real Estate Tax - Assessment Base	-9.95%	-9.20%	-5.00%	-0.65%	3.20%
Equalization	-10.52%	-8.98%	-5.00%	-1.35%	2.20%
Residential	-12.55%	-5.56%	-2.50%	0.50%	2.00%
Nonresidential	-4.51%	-18.29%	-13.00%	-8.00%	3.00%
Normal Growth	0.57%	-0.22%	0.00%	0.70%	1.00%
Personal Property Tax - Current[1]	-5.37%	0.13%	2.00%	2.00%	2.00%
Local Sales Tax	-5.26%	0.00%	3.00%	3.00%	3.00%
Business, Professional and Occupational, License (BPOL) Taxes	-2.54%	0.00%	4.00%	4.00%	4.00%
Recordation/Deed of Conveyance	-1.28%	0.00%	1.00%	1.00%	1.00%
Interest Rate Earned on Investments	0.94%	0.75%	1.00%	1.25%	1.50%
Building Plan and Permit Fees	5.20%	0.00%	1.00%	1.00%	1.00%
Charges for Services	1.63%	4.23%	2.00%	2.00%	2.00%
State/Federal Revenue[1]	-13.62%	-5.32%	0.00%	0.00%	0.00%
TOTAL REVENUE	**-0.35%**	**-2.48%**	**-2.28%**	**0.53%**	**2.83%**

[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 Forecast

The FY 2011 Adopted Budget Plan includes a decrease in total disbursements of $92.2 million from the *FY 2010 Revised Budget Plan* and net reduction of 176 regular merit positions. Maintaining this reduced level of disbursements would result in shortfalls each year through FY 2014 due to projected revenue declines in FY 2012, as well as one time balances used to offset FY 2011 requirements. At the FY 2011 level of disbursements and projected revenue shown above, shortfalls of approximately $144 million in FY 2012, $128 million in FY 2013 and $38 million in FY 2014 would result.

In order to fund basic requirements including, but not limited to, compensation and benefits, contract inflationary adjustments, fuel, utilities, and debt service, disbursement requirements are forecasted to increase approximately 5 percent each year. In addition, to support requirements for School operations, the transfer to Schools is also projected to increase 5 percent each year. This increase in disbursement requirements, in combination with a projected decline in revenue, results in a forecasted FY 2012 shortfall of approximately $310 million. Moreover, with limited revenue growth anticipated over the next few years and funding requirements estimated to be approximately 5 percent annually, deficits of $467 million in FY 2013 and $559 million in FY 2014 would be projected.

FY 2012 Projected Deficits

The table below shows projected FY 2012 deficits based revenue projections shown above and various expenditure scenarios.

FY 2012 PROJECTED DEFICITS

At the FY 2011 Level of Disbursements	$144 million
Adding Potential Compensation Increases for County and School Employees	$244 million
Covering Compensation and Limited Expenditure Requirements -- Estimated at 5% Over FY 2011 Disbursements	$310 million