FY 2012
ADVERTISED BUDGET PLAN

Financial Forecast

This section includes:

Financial Forecast Summary

The following forecast provides preliminary revenue and disbursement projections for FY 2013 through FY 2015. 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 2013 property values will be based on calendar year 2011 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 2013 budget. This forecast projects that County General Fund revenue will increase 3.00 percent in FY 2013, 3.25 percent in FY 2014 and 3.40 percent in FY 2015.

Total FY 2012 Disbursements are projected to decline 0.5 percent from the *FY 2011 Revised Budget Plan* level. While currently projected FY 2013 revenue would exceed the FY 2012 level of disbursements by $64 million, once County and school compensation is restored, along with other limited expenditure requirements, a shortfall approaching $105 million would result.

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 Financial Forecasts* that incorporates economic projections from a panel of approximately 50 forecasters, Kiplinger, Global Insight, 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 Analytics.

The longest recession since the Great Depression officially ended in June 2009. Based on the advance estimate of Gross Domestic Product at the end of 2010, the national economy recovered the ground that was lost during the recession and has now moved into an expansion phase. The economy is expected to grow between 3.0 and 3.5 percent in 2011. This, however, is not enough to make a significant dent in the national unemployment rate, which is currently at 9.0 percent. Gains in employment during late 2010 have been primarily in the private sector, which indicates a sustainable recovery. Pent-up demand drove the consumer during the 2010 holiday season and preliminary estimates indicate that retail sales rose at a rate of 6.6 percent in 2010. Consumer Confidence rose in January 2011 to a level not seen since the spring of 2010.

Economic indicators also show improving economic conditions on local level. Moody's Analytics estimates that Gross County Product (GCP), adjusted for inflation, rose at a preliminary rate of 2.6 percent in 2010. The County's unemployment rate dropped to 4.6 percent in September, after reaching a record high of 5.5 percent in February 2010. The rate remained at 4.6 percent through November, just slightly above the 4.5 percent rate recorded in November 2009. The current unemployment rate equates to approximately 27,800 unemployed residents. A good indication that the County's unemployment rate will decline further is the drop in initial claims for unemployment. For the period November 2010 through the first 3 weeks of January 2011, initial claims for unemployment fell approximately 20.0 percent from the same period a year earlier.

Since February 2010, the Northern Virginia area has experienced job growth each month, and, in November 2010, there were 5,000 more jobs than in November 2009. George Mason University's Center for Regional Analysis projects job growth in Northern Virginia of approximately 22,000 per year throughout the forecast period. Forecasts from Moody's Analytics show job growth of about 14,000 per year for Fairfax County alone.

Residential Housing Market

While fewer homes sold in 2010, sales prices rose. Based on preliminary information from the Metropolitan Regional Information System (MRIS), the number of homes sold fell 7.8 percent from 15,298 to 14,100. However, the average price of homes sold during the year rose an estimated 8.9 percent, after dropping 6.4 percent in 2009. The Case-Shiller home price index for the Washington Metropolitan recorded a 3.5 percent increase in November, the strongest showing of all metro areas. Another positive sign for the residential market is the recent decline in mortgage delinquencies. As of the third quarter of 2010, 2.1 percent of prime loans and 17.5 percent of subprime loans were 90 or more days past due. This is a drop from the second quarter, when the percentages were 2.4 percent and 19.4 percent, respectively.

During the housing slump, the mean assessed value of residential property fell over 20 percent from its peak value in FY 2007 through FY 2011. In FY 2012, residential assessments rose 2.34 percent, the first increase in five years. A continuation of this trend is anticipated for the forecast period, with increases of 2.35 percent in FY 2013, 2.70 percent in FY 2014 and 3.00 percent in FY 2015. These rates are still below the average annual increase of 4.6 percent that was achieved from FY 1985 through FY 2001, prior to the double digit increases experienced from FY 2002 through FY 2007.

Nonresidential Real Estate

After experiencing a record decline of 18.29 percent in FY 2011, nonresidential real estate values rebounded, rising 3.73 percent. Much of this increase was the result of multi-family apartment properties, which make up nearly 20 percent of the nonresidential base. Apartment values rose 14.54 percent, reflecting strong rental income and rising occupancy rates. Hotel properties also experienced double digit growth in FY 2012 at 11.35 percent. Office Elevator properties (mid- and high-rises), the largest component of the nonresidential tax base, experienced a modest rise of 1.88 percent after falling over 24 percent in FY 2011. During the past year, lease rates stabilized and office vacancy rates declined. The direct office vacancy rate as of year-end 2010 decreased to 13.3 percent, down from a 16-year high of 13.9 percent at the end of 2009. Including sublet space, the overall office vacancy rate was 15.3 percent, down from 16.4 percent. Office space in the County at the end of 2010 totaled 113.2 million and absorption of space reached an all time high of 13.5 million square feet. Office vacancy rates are expected to continue to decline during 2011, as the demand for office space continues to rise with employment gains. During the forecast period, the values of all types of nonresidential values are projected to rise at a moderate pace, with an overall increase of 3.75 percent in FY 2013 and 4.00 percent increases in FY 2014 and FY 2015.

New Construction

The Real Estate Tax base will also be impacted by new construction in the County. Residential building permits issued, an indicator of future construction, rose 11 percent from July through December 2010 compared to the same period of 2009. 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 totally 175,000 square feet are scheduled to deliver in 2011. The extension of Metrorail to Dulles will impact new construction around Metro stations beginning with FY 2013 assessments. Based on current activity, new construction is projected to add 0.65 percent to the overall real estate base in FY 2013. In FY 2014 and FY 2015, values are expected to rise 0.75 each year as a result of construction activity.

Total Real Estate

In FY 2012, the total Real Estate Tax base rose 3.27 percent, the first increase in three years. Both residential and nonresidential property values increased. Based on the assumptions above, the total Real Estate Tax base is expected to continue to rise at a similar 3.35 percent rate in FY 2013, with modest increases in both residential and nonresidential property values.

Personal Property Taxes

Current Personal Property Tax revenue, which represents over 15 percent of total General Fund revenue, is anticipated to experience an increase of 4.9 percent in FY 2012 as a result of an increase of 4.5 percent in vehicle levy, partially due to an increase in new vehicle purchases. Based on information from the Virginia Automobile Dealers Association, new model vehicle registration in Fairfax County rose 19.5 percent in calendar year 2010. Increases are anticipated to moderate and Personal Property Taxes are expected to grow 2.5 percent in each of the forecast years, FY 2013 through FY 2015.

Other Major Revenue Categories

Sales tax receipts are projected to decline 2.53 percent in FY 2011. As the economy improves, an up-tick in consumer spending is expected and Sales Tax receipts are projected to grow 2.0 percent in FY 2012 and 3.0 percent in each year during the forecast period. These rates are lower than historical expansion trends. Consumers are expected to restrain credit spending until household debt levels are reduced. In addition, the share of Internet sales, which is often not taxed, is anticipated to continue to rise. Business, Professional and Occupational License (BPOL) revenue is projected to rise 2.0 percent in FY 2012. As job growth accelerates due to improvements in the economy, BPOL is expected to rise 3.5 percent in FY 2013 through FY 2015. 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 in FY 2012 is projected to remain at the FY 2011 level. Construction activity and revenue are forecasted to rise a modest 1.0 percent in FY 2013 through FY 2015. Other permits, licenses, and user fees are also 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. In a January 2010 statement, the Fed remained cautious on the state of the recovery, which suggests the federal funds rate will not change in the near term. The average annual yield on County investments is anticipated to be 0.60 percent in FY 2012. Modest increases of 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. Funding in FY 2009 and FY 2010 to Fairfax County has been reduced $17.0 million, including cuts to state reimbursable salaries, HB599 Law Enforcement Funding and a $3.9 million “flexible” cut each year, which required 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 includes a “flexible” cut for FY 2011 and FY 2012 of $4.5 million. In addition, Fairfax County’s HB599 Law Enforcement Funding is scheduled to be reduced each year. For purposes of this forecast, funding from the Commonwealth has been held at the FY 2012 level through FY 2015. Revenue from the federal government is also expected to remain even with FY 2012 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 moderate increases of 3.00 percent, 3.25 percent and 3.40 percent from FY 2013 through FY 2015, respectively. Revenue growth rates for individual categories are shown in the following table:

PROJECTED REVENUE GROWTH RATES

Category	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Real Estate Tax - Assessment Base	-9.20%	3.27%	3.35%	3.75%	4.00%
Equalization	-8.98%	2.67%	2.70%	3.00%	3.25%
Residential	-5.56%	2.34%	2.35%	2.70%	3.00%
Nonresidential	-18.29%	3.73%	3.75%	4.00%	4.00%
Normal Growth	-0.22%	0.60%	0.65%	0.75%	0.75%
Personal Property Tax - Current[1]	-2.29%	4.89%	2.50%	2.50%	2.50%
Local Sales Tax	-2.53%	2.00%	3.00%	3.00%	3.00%
Business, Professional and Occupational, License (BPOL) Taxes	0.00%	2.00%	3.50%	3.50%	3.50%
Recordation/Deed of Conveyance	-0.60%	1.65%	1.00%	1.00%	1.00%
Interest Rate Earned on Investments	0.75%	0.60%	0.85%	1.10%	1.35%
Building Plan and Permit Fees	-8.49%	0.00%	1.00%	1.00%	1.00%
Charges for Services	0.39%	2.47%	1.75%	1.75%	1.75%
State/Federal Revenue[1]	-9.04%	3.74%	0.00%	0.00%	0.00%
TOTAL REVENUE	**-3.07%**	**2.85%**	**3.00%**	**3.25%**	**3.40%**

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

Disbursement Forecast

General Fund Disbursements in the FY 2012 Advertised Budget Plan total $3,376,351,675, a decrease of $17,909,818 or 0.53 percent from the *FY 2011 Revised Budget Plan* and an increase of $68,232,761 or 2.06 percent over the FY 2011 Adopted Budget Plan. The funding increases are tied to required disbursement allocations to fund infrastructure-related obligations for capital and IT-related projects, contract rate increases, County insurance, Metro/CONNECTOR increases, and benefit-related increases. The recommended General Fund Transfer to Schools in FY 2012 is equal to the FY 2011 level.

At the FY 2012 level of disbursements and projected revenue shown above, no shortfalls are projected for the forecast period, FY 2013 through FY 2015. However, 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 modest increases in revenue, results in a forecasted FY 2013 shortfall of approximately $105 million. Moreover, with limited revenue growth anticipated over the next few years and funding requirements estimated to rise approximately 5 percent annually, deficits of $170 million in FY 2014 and $235 million in FY 2015 would be projected. While these projected shortfalls are less severe than those projected in recent years, the challenges that accompany them will be no less daunting, as the County's General Fund and General Fund supported spending has already been cut by more than $180 million and nearly 500 positions have been eliminated over the past two years.