FY 2013
Adopted Budget Plan

Financial Forecast

This section includes:

Financial Forecast Summary

The following forecast provides preliminary revenue and disbursement projections for FY 2014 through FY 2016. The forecast assumes no change in the General Fund Real Estate Tax rate of $1.075 per $100 of assessed value. Economic assumptions used to develop the forecast are detailed below. It should be noted that FY 2014 property values will be based on calendar year 2012 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 2014 budget. This forecast projects that County General Fund revenue will increase 2.79 percent in FY 2014, 3.18 percent in FY 2015 and 3.25 percent in FY 2016.

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,* which 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 national economy expanded at a rate of 3.0 percent in the fourth quarter of 2011 but decelerated in the first quarter of 2012 to 1.9 percent. The consensus from the June 2012 *Blue Chip Financial Forecasts* projects the economy will grow 2.9 percent per year from 2013 through 2016. The May 2012 employment report showed lackluster job growth and the U.S. jobless rate showed little change at 8.2 percent. Employment growth slowed in the second quarter of 2012, indicating that economic recovery will continue to be restrained.

The local economy is improving but slowly. Moody's Analytics estimates that Gross County Product (GCP), adjusted for inflation, rose at a rate of 2.9 percent in 2011. The County's unemployment rate remains low at 4.1 percent as of March 2012, down from 4.4 percent in March 2011. The current unemployment rate equates to approximately 26,000 unemployed residents. Annual employment in the Northern Virginia area in 2011 was 1.329.2 thousand, an increase of 25,000 jobs, or 1.9 percent, over 2010. This was the highest rate of growth since 2005 when job creation rose 2.5 percent. Job growth has continued during the first quarter of 2012 with 23,000 more jobs in March 2012 than in March 2011.

A significant downside risk to this forecast is the potential impact of federal deficit reduction measures on direct federal revenue to the County and federal spending in the area. The Budget Control Act of 2011 established caps on discretionary spending through 2021. If lawmakers cannot agree on measures to meet these spending caps, automatic across-the-board cuts would be applied (sequestration). The automatic cuts, which first take effect in January 2013, would require approximately $60 billion annually in both defense and nondefense reductions. Since no Congressional action is expected prior to the November 2012 presidential election, major spending reductions have not been included in the forecast.

Residential Housing Market

The number of homes sold in 2011 fell for the second consecutive year, but average sales prices rose. Based on information from the Metropolitan Regional Information System (MRIS), the number of homes sold fell 9.0 percent from 13,894 to 12,640. However, the average price of homes sold during the year rose 3.1 percent. This rate may overstate the improvement in the residential market as the MRIS data is impacted by the mix of homes sold. The Washington Metropolitan Area Case-Shiller home price index recorded a 1.0 percent increase in March 2012. This index tracks sales prices of the same homes over time and therefore eliminates changes due to a difference in the mix of homes sold. Regardless of the measure, home prices in Fairfax are stable. There are other signs that point to a stable residential market. For instance, the number of net foreclosures in Fairfax County fell in 2011 to their lowest level since the Department of Tax Administration started tracking detailed foreclosure statistics in April 2008. Throughout the first quarter of 2012, new record lows were achieved. The number of county-wide net remaining foreclosures in March was 606, down from 694 in March 2011. At their peak in September 2008, net remaining foreclosures in the County totaled 2,257. The number of serious mortgage delinquencies also continues to decline. As of the first quarter of 2012, 1.1 percent of prime loans and 6.1 percent of subprime loans were 90 or more days past due, compared to 1.5 percent and 9.6 percent, respectively, in the first quarter of 2011.

In FY 2013, residential values rose for the second consecutive year, albeit a slight 0.71 percent. Residential values are anticipated to experience a slow upward climb during the forecast period, with projected increases of 1.0 percent in FY 2014 and 1.5 percent in both FY 2015 and FY 2016.

Nonresidential Real Estate

Nonresidential real estate values also increased for the second straight year, rising 8.21 percent. Office elevator properties (mid- and high-rises), the largest component of the nonresidential tax base at nearly 38 percent, rose 11.34 percent. The County's total office space inventory at the end of 2011 was 113.6 million square feet, a modest increase of 475,000 square feet over 2010. Even with a rise in rental rates, total leasing activity during 2011 topped 11.5 million square feet, down from the record 13.6 million square feet of leasing activity in 2010, but well above the five-year average of 10.8 million square feet. Office vacancy rates rose at year-end 2011, but the increase was directly related to Base Realignment and Closure Act (BRAC) movements during the last half of 2011. The relocation of several defense related government agencies left more than a million square feet of vacant space on the market at the end of the year when they relocated to Fort Belvoir. The consolidation of these agencies is sparking additional construction, as 10 million square feet of office development is in the pipeline in the surrounding area. The area around Fort Belvoir will also benefit by a large infrastructure investment by the federal government for transportation improvements.

Multi-family apartment properties, which make up over 21 percent of the nonresidential base, experienced an increase of 12.60 percent in FY 2013. Demand for apartments was strong during the year, which increased rental income. Reflecting rising consumer spending, retail property values increased 7.16 percent in FY 2013. The values of all types of nonresidential properties are projected to rise at a moderate pace, with an overall increase of 6.00 percent during the forecast period.

New Construction

The Real Estate Tax base will also be impacted by new construction in the County. New office construction activity increased dramatically in 2011, spurred by the construction of the Metro Silver line in Tyson Corner and the Dulles corridor. At the end of 2011, there were nine buildings totaling 1.6 million square feet under construction. More than 73 percent of the new activity was 100 percent speculative. This interest in speculative development reflects confidence in the stability of the Fairfax County office market. New construction will continue to be strong during the forecast period based on the number of recent building permits issued. From January 2012 through April 2012, total new building permits rose 26 percent from 324 in 2011 to 407 thus far in 2012. New multi-family building permits have been especially strong, rising 130 percent to 124 from the 54 issued during the same time the previous year. Residential construction is projected to be relatively modest during the forecast period, with a slight bump in FY 2015, partly due to construction in the Tysons Corner area. Based on current activity, total new construction is projected to add 0.80 percent to the overall real estate base in FY 2014. In FY 2015 and FY 2016, values are expected to rise 0.90 each year as a result of construction activity.

Total Real Estate

Based on the assumptions above, the total Real Estate Tax base is expected to rise 3.10 percent in FY 2014, 3.60 percent in FY 2015 and 3.70 percent in FY 2016.

Personal Property Taxes

Current Personal Property Tax revenue, which represents approximately 16 percent of total General Fund revenue, is anticipated to experience an increase of 5.9 percent in FY 2013 as a result of an increase of 4.9 percent in vehicle levy. This robust growth is the result of an increase in the number of new model purchases and significantly lower depreciation of existing vehicles. Based on information from the Virginia Automobile Dealers Association, new model vehicle registration in Fairfax County rose 8.7 percent in calendar year 2011. In addition, a reduction in the supply of new vehicles increased prices of both new and used automobiles. The decrease in supply was a result of the earthquake and tsunami in Japan, which not only impacted Japanese automakers but also U.S. automakers that rely on parts from Japan. The disruption in production is diminishing and increases in Personal Property Taxes are anticipated to moderate to 2.5 percent per year during the forecast period.

Other Major Revenue Categories

Sales tax receipts are projected to rise a moderate 3.4 percent in FY 2012. As the economy continues to improve, an up-tick in consumer spending is expected, and Sales Tax receipts are projected to return to its pre-recession growth trend, which averaged 4.3 percent from FY 1998 through FY 2008. This rate is projected for FY 2013 and each of the forecast years, FY 2014 through FY 2016. Business, Professional and Occupational License (BPOL) revenue is projected to rise 4.0 percent in FY 2012. As job growth accelerates due to improvements in the economy, BPOL is expected to rise 4.5 percent in FY 2013 through FY 2016. 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.

Due to the redevelopment around the Tysons area and Fort Belvoir, construction activity and building permit fee revenue are forecasted to grow approximately 3.0 percent in FY 2014 through FY 2016. 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. The Fed stated in January 2012 that "Economic conditions…are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014." The average annual yield on County investments is anticipated to be 0.60 percent in FY 2013. This forecast holds that rate steady for FY 2014, with modest increases of 15 basis points in FY 2015 and FY 2016.

Due to budget shortfalls since FY 2009, the Commonwealth of Virginia significantly reduced funding to localities. From FY 2009 through FY 2012, funding to Fairfax County has been reduced approximately $32 million, including cuts to state reimbursable salaries, Law Enforcement Funding and a "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. Except for the continuation of the "flexible" cut, few additional funding reductions were approved in FY 2013; however, previous cuts were not restored. For the purposes of this forecast, funding from the Commonwealth has been held at the FY 2013 level through FY 2016. In addition, revenue from the federal government is assumed to remain even with FY 2013 throughout the forecast period.

Based on the assumptions and estimates detailed above, General Fund revenues are projected to experience moderate increases of 2.79 percent, 3.18 percent and 3.25 percent from FY 2014 through FY 2016, respectively. Revenue growth rates for individual categories are shown in the following table:

PROJECTED REVENUE GROWTH RATES

Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Real Estate Tax - Assessment Base	3.27%	3.27%	3.10%	3.60%	3.70%
Equalization	2.67%	2.53%	2.30%	2.70%	2.80%
Residential	2.34%	0.71%	1.00%	1.50%	1.50%
Nonresidential	3.73%	8.21%	6.00%	6.00%	6.00%
Normal Growth	0.60%	0.74%	0.80%	0.90%	0.90%
Personal Property Tax - Current[1]	2.32%	5.87%	2.50%	2.50%	2.50%
Local Sales Tax	3.38%	4.30%	4.30%	4.30%	4.30%
Business, Professional and Occupational, License (BPOL) Taxes	4.00%	4.50%	4.50%	4.50%	4.50%
Recordation/Deed of Conveyance	5.10%	-7.58%	1.00%	1.00%	1.00%
Interest Rate Earned on Investments	0.65%	0.60%	0.60%	0.75%	0.90%
Building Plan and Permit Fees	6.53%	-0.42%	3.00%	3.00%	3.00%
Charges for Services	0.10%	4.60%	1.00%	1.00%	1.00%
State/Federal Revenue[1]	-4.70%	2.30%	0.00%	0.00%	0.00%
TOTAL REVENUE	1.01%	3.56%	2.79%	3.18%	3.25%

[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

Under the assumption that annual disbursements in FY 2014 through FY 2016 will remain at the FY 2013 level, coupled with the projected revenue shown above, no shortfalls are projected for the forecast period. 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 2014 shortfall of approximately $127 million. Moreover, with limited revenue growth anticipated over the next few years and funding requirements estimated to rise approximately 5 percent annually, deficits of $198 million in FY 2015 and $272 million in FY 2016 would be projected.