

FY 2014 Third Quarter Review
Attachment II – General Fund Receipts / Transfers In

**SUMMARY OF GENERAL FUND REVENUE
AND TRANSFERS IN**

| Category | FY 2013 Actual | FY 2014 Revised Budget Plan as of FY 2013 Carryover | FY 2014 Fall Estimate ¹ | FY 2014 Third Quarter Budget Estimate | Change from the FY 2014 Fall Estimate | |
|--|------------------------|--|--|---|--|-------------------|
| | | | | | Increase/ (Decrease) | Percent Change |
| Real Estate Taxes - | | | | | | |
| Current & Delinquent | \$2,123,406,700 | \$2,207,982,016 | \$2,216,599,964 | \$2,216,599,964 | \$0 | 0.00% |
| Personal Property Taxes - | | | | | | |
| Current & Delinquent ² | 564,947,212 | 547,381,366 | 565,622,236 | 565,622,236 | 0 | 0.00% |
| Other Local Taxes | 530,960,414 | 526,607,627 | 521,969,977 | 517,879,930 | (4,090,047) | -0.78% |
| Permits, Fees and Regulatory Licenses | 38,201,352 | 36,870,254 | 38,688,569 | 38,688,569 | 0 | 0.00% |
| Fines and Forfeitures | 14,131,523 | 14,863,219 | 14,217,784 | 14,217,784 | 0 | 0.00% |
| Revenue from Use of Money/Property | 17,511,082 | 16,936,422 | 14,963,799 | 14,963,799 | 0 | 0.00% |
| Charges for Services | 72,674,073 | 72,690,493 | 74,509,001 | 74,509,001 | 0 | 0.00% |
| Revenue from the Commonwealth and Federal Governments ² | 120,964,781 | 121,569,888 | 122,726,379 | 120,247,049 | (2,479,330) | -2.02% |
| Recovered Costs/ Other Revenue | 15,297,940 | 14,945,437 | 15,030,165 | 15,030,165 | 0 | 0.00% |
| Total Revenue | \$3,498,095,077 | \$3,559,846,722 | \$3,584,327,874 | \$3,577,758,497 | (\$6,569,377) | -0.18% |
| Transfers In | 6,770,457 | 23,870,596 | 23,870,596 | 23,870,596 | 0 | 0.00% |
| Total Receipts | \$3,504,865,534 | \$3,583,717,318 | \$3,608,198,470 | \$3,601,629,093 | (\$6,569,377) | -0.18% |

¹ FY 2014 revenue estimates were increased a net \$24.5 million as part of a fall 2013 review of revenues. Explanations of these changes can be found in the following narrative.

² 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.

Total receipts, including Transfers In, are estimated at \$3,601,629,093 and reflect a decrease of \$6,569,377, or 0.2 percent, from the FY 2014 fall estimate. FY 2014 Transfers In totaling \$23.9 million remain unchanged from the FY 2014 fall estimate. As noted in the FY 2015 Advertised Budget Plan, FY 2014 revenue estimates were increased a net \$24.5 million as part of a fall 2013 revenue review prior to Third Quarter during the development of the FY 2015 budget. These adjustments were based on actual FY 2013 receipts and collections through the first several months of FY 2014. Revenue changes made during the fall revenue review are discussed throughout this Attachment. Any impact to FY 2015 revenue estimates from these FY 2014 adjustments is already included in the FY 2015 Advertised Budget Plan.

General Fund revenue estimates included in the *FY 2014 Third Quarter Review* are decreased \$6.6 million, or 0.2 percent, from the FY 2014 fall estimate. This decrease is the result of a \$2.7 million decrease in Sales Tax receipts and a \$1.3 million decrease in Recordation taxes based on actual year-to-

date collections. In addition, there is a net decrease of \$2.5 million in Revenue from the Commonwealth and Federal Government associated with adjustments in expenditures.

Refining revenue estimates has been challenging this year as a result of several factors. One such challenge has been the federal budget issues including federal agency furloughs that were implemented beginning in the summer 2013, as well as, the federal shutdown which occurred in October. As a result of the federal furloughs and shutdown, staff anticipated changes in consumer behavior which in turn impact County revenue receipts in categories such as sales tax and personal property taxes. Sales tax receipts in FY 2014, for example, have ranged from an increase of 15.4 percent to a decrease of 10.1 percent. Another factor impacting County revenues this fall has been the increase in mortgage interest rates. Currently, 30-year fixed mortgage rates are 4.43 percent, a whole percentage point higher than the 3.41 percent rate this time last year. Consequently, County revenues in the areas of recordation taxes and Clerk Fees, which are collected at the time of refinancing, have been impacted. Based on Circuit Court figures, the number of mortgage refinancings has declined over 62 percent since the beginning of FY 2014. Complicating matters further is the impact of the extremely cold and inclement weather experienced in the region this winter because it negatively impacts consumer spending. Because many revenue categories are sensitive to economic conditions, there is the potential that actual receipts may deviate from the revenue estimates included in this Attachment. It should be noted that little information is available concerning Business, Professional, and Occupational License (BPOL) Taxes, since filings and payments are not due until March 1, with additional time required to process returns. In addition, revenue from the Bank Franchise Tax is not received until late May or early June so there is no information currently available to help estimate FY 2014 receipts. All revenue categories are closely monitored with respect to collections and the effects of changes in economic activity. Any necessary FY 2015 revenue adjustments will be included in the Add-On Review.

REAL ESTATE TAX-CURRENT

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$2,114,366,872 | \$2,203,290,102 | \$2,207,638,949 | \$2,207,638,949 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Current Real Estate Taxes of \$2,207,638,949 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 Real Estate estimate was increased \$4.3 million as a result of the following adjustments. Lower projected exonerations and tax relief are expected to increase revenue by \$2.3 million and \$1.1 million, respectively. Higher supplemental assessments are expected to increase revenue by \$0.6 million. In addition, final Public Service Corporation assessments by the Commonwealth of Virginia were \$0.3 million more than anticipated.

PERSONAL PROPERTY TAX-CURRENT

| | FY 2013 | FY 2014 | FY 2014 | FY 2014 | Increase/ | Percent |
|----------------------------|----------------|----------------------|----------------------|----------------------|-------------------|----------------|
| | Actual | Revised as of | Fall Estimate | Third Quarter | (Decrease) | Change |
| | | FY 2013 | | Estimate | | |
| | | Carryover | | | | |
| Paid Locally | \$344,013,118 | | \$336,773,834 | \$344,047,700 | \$344,047,700 | \$0 0.0% |
| Reimbursed by State | 211,313,944 | | 211,313,944 | 211,313,944 | 211,313,944 | 0 0.0% |
| Total | \$555,327,062 | | \$548,087,778 | \$555,361,644 | \$555,361,644 | \$0 0.0% |

The *FY 2014 Third Quarter Review* estimate for Current Personal Property Taxes of \$555,361,644 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 Personal Property Tax estimate was increased a net \$7.3 million, or 1.3 percent. The number and average value of vehicles is expected to be higher than originally projected, increasing revenue by \$5.2 million. In addition, no increase in Business Personal Property had been included in the FY 2014 Adopted Budget Plan due to concerns over the impact of sequestration. However, filings indicate an increase in business personal property of 0.8 percent, a revenue increase of \$1.3 million. Omitted assessments are anticipated to increase revenue by \$1.2 million, while higher exonerations are expected to decrease revenue by \$0.4 million. Total FY 2014 Personal Property Tax revenue is projected to be level with FY 2013 receipts.

LOCAL SALES TAX

| | FY 2013 | FY 2014 | FY 2014 | FY 2014 | Increase/ | Percent |
|--|----------------|----------------------|----------------------|----------------------|-------------------|----------------|
| | Actual | Revised as of | Fall Estimate | Third Quarter | (Decrease) | Change |
| | | FY 2013 | | Estimate | | |
| | | Carryover | | | | |
| | \$166,893,847 | | \$167,774,109 | \$165,036,857 | (\$2,737,252) | -1.6% |

The *FY 2014 Third Quarter Review* estimate for Sales Tax of \$165,036,857 represents a decrease of \$2.7 million, or 1.6 percent, from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate for Sales Tax receipts was decreased \$3.6 million, reflecting growth of just 0.5 percent over the FY 2013 level based on collection trends. February receipts for December retail sales included a refund for taxes paid prior to the beginning of FY 2014 based on a state audit. The refund impacted several localities. Fairfax County's share of the refund was \$1.5 million. Even without the refund, Sales Tax receipts for December 2013 retail sales – a critical holiday spending month – would have been down 1.4 percent compared to December 2012. Because of this decline and continued inclement weather in January and February, Sales Tax receipts are anticipated to be \$165.0 million in FY 2014, a decline of 1.1 percent from the FY 2013 actual of \$166.9 million.

BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

| | FY 2013 | FY 2014 | FY 2014 | FY 2014 | Increase/ | Percent |
|--|----------------|----------------------|----------------------|----------------------|-------------------|----------------|
| | Actual | Revised as of | Fall Estimate | Third Quarter | (Decrease) | Change |
| | | FY 2013 | | Estimate | | |
| | | Carryover | | | | |
| | \$156,170,308 | | \$156,170,308 | \$156,170,308 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Business, Professional and Occupational License (BPOL) Taxes of \$156,170,308 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate for BPOL Taxes was lowered \$4.5 million to the same level

achieved in FY 2013. The estimate was based on actual FY 2013 receipts and an econometric model that uses Sales Tax receipts and employment in the County as predictors. Since County businesses file and pay their BPOL taxes simultaneously on March 1 each year based on their gross receipts during the previous calendar year, little actual data is available at this time to help estimate FY 2014 receipts. Therefore, the FY 2014 BPOL estimate has not been adjusted further during the Third Quarter review. However, given the reduction in sales tax, BPOL receipts have the potential to be lower than projected at the end of the fiscal year.

DELINQUENT TAXES - REAL ESTATE/PERSONAL PROPERTY/BPOL

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$21,806,704 | (\$2,773,234) | \$22,462,871 | \$22,462,871 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Delinquent Taxes represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate for delinquent taxes was increased \$25.2 million. The FY 2014 Adopted Budget Plan had included baseline delinquent collections of \$9.9 million in delinquent Real Estate Taxes, \$9.3 million in delinquent Personal Property Taxes and \$3.2 million in delinquent Business Professional and Occupational Licenses (BPOL), offset by potential refunds totaling \$25 million during FY 2014. These potential refunds result from a significant number of appeals in each of these revenue categories by commercial taxpayers. At this time, the appeals are not expected to be resolved by the end of FY 2014. However, since these appeals are still pending, the County's Litigation Reserve, which was established as part of the *FY 2012 Carryover Review* at \$5.0 million, has been increased by \$25.0 million.

RECORDATION/DEED OF CONVEYANCE TAXES

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$33,655,517 | \$28,968,635 | \$28,465,957 | \$27,113,162 | (\$1,352,795) | -4.8% |

The *FY 2014 Third Quarter Review* estimate for Deed of Conveyance and Recordation Taxes of \$27,113,162 represents a decrease of \$1.4 million from the FY 2014 fall estimate. Recordation and Deed of Conveyance Taxes are paid when homes are sold. Recordation taxes are also paid when homes are refinanced. Based on collection trends, the FY 2014 estimate for Deed of Conveyance Tax was increased \$0.8 million during the fall 2013 revenue review. Due to historic low mortgage rates, mortgage refinancing has been strong over the past several years. Staff anticipated a decline in refinancings and the FY 2014 fall revenue estimate for Recordation Taxes was lowered \$1.3 million, a decrease of 18.7 percent from the actual FY 2013 receipts. However, mortgage refinancing has declined more than anticipated and Recordation Tax receipts through January are down 23.5 percent. It is anticipated that receipts will continue to fall at this rate for the remainder of the fiscal year.

COMMUNICATIONS SALES AND USE TAX

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$47,933,955 | \$48,526,451 | \$46,802,582 | \$46,802,582 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for the Communications Tax of \$46,802,582 represents no change from the FY 2014 fall estimate and reflects a 2.4 percent decrease from FY 2013 actual receipts. During the fall 2013 revenue review, the FY 2014 estimate was reduced \$1.7 million based on collection trends.

CIGARETTE TAX

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$8,329,640 | \$9,051,472 | \$7,951,980 | \$7,951,980 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Cigarette Tax of \$7,951,980 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate was decreased \$1.1 million, reflecting a 4.5 percent decrease from FY 2013 based on collection trends.

TRANSIENT OCCUPANCY TAX

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$18,990,201 | \$20,768,589 | \$18,026,269 | \$18,026,269 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for the Transient Occupancy Tax of \$18,026,269 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate was decreased \$2.7 million, reflecting a 5.1 percent decrease from FY 2013 based on collection trends.

INVESTMENT INTEREST

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$13,297,996 | \$12,585,530 | \$10,631,656 | \$10,631,656 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Investment Interest of \$10,631,656 represents no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 estimate was decreased \$2.0 million due to lower than projected yield on investments. The projected annual yield was lowered from the 0.53 percent included in the FY 2014 Adopted Budget Plan to 0.40 percent based on the current yield earned on investment instruments.

PERMITS, FEES AND REGULATORY LICENSES

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$38,201,352 | \$36,870,254 | \$38,688,569 | \$38,688,569 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Permits, Fees and Regulatory Licenses of \$38,688,569 represents no change from the FY 2014 fall estimate. Land Development Services (LDS) fees for building permits, site plans, and inspection services make up over two-thirds of the Permits, Fees, and Regulatory Licenses category. Changes in LDS fee revenue typically track closely to the current conditions of the real estate market and construction industry, as well as the size and complexity of projects submitted to LDS for review. During the fall 2013 revenue review, the LDS revenue estimate was increased \$1.4 million to \$28.3 million, the same level achieved in FY 2013 based on collection trends and increased permitting activity. In addition, the estimate for Zoning Fees was increased \$0.2 million to \$2.7 million based on collection trends.

CHARGES FOR SERVICES

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$72,674,073 | \$72,690,493 | \$74,509,001 | \$74,509,001 | \$0 | 0.0% |

The *FY 2014 Third Quarter Review* estimate for Charges for Services of \$74,509,001 reflects no change from the FY 2014 fall estimate. During the fall 2013 revenue review, the FY 2014 Charges for Services estimate was raised a net \$1.8 million due to increases of \$1.1 million in EMS Transport fee revenue, \$0.8 million in Police Reimbursement revenue, and \$0.6 million in County Clerk fees. These increases were based on prior year actual receipts and collection trends and were offset with a reduction of \$0.3 million in Courthouse Maintenance fees and Court Security fees, as well as a reduction of \$0.3 million in Recreation Classes fees.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT¹

| FY 2013 Actual | FY 2014 Revised as of FY 2013 Carryover | FY 2014 Fall Estimate | FY 2014 Third Quarter Estimate | Increase/ (Decrease) | Percent Change |
|---------------------------|--|----------------------------------|---|---------------------------------|---------------------------|
| \$120,964,781 | \$121,569,888 | \$122,726,379 | \$120,247,049 | (\$2,479,330) | -2.0% |

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 2014 Third Quarter Review* estimate for Revenue from the Commonwealth and Federal Government of \$120,247,049 reflects a net decrease of \$2,479,330, or 2.0 percent, from the FY 2014 fall estimate. A decrease in revenue of \$1.6 million is associated with the Comprehensive Services Act program based on anticipated expenditures in FY 2014. In addition, a decrease of \$1.0 million to both revenue and expenditures is associated with the Adoption Subsidy Program due to a decline in program spending. Additional funding of \$0.1 million is associated with the Public Assistance programs and will

be offset with a rise in expenditures. All of the adjustments to Revenue from the Commonwealth and Federal Government result in no net impact to the General Fund. More information about the adjustments can be found in the Administrative Adjustments Section of this document.

During the fall 2013 revenue review, the FY 2014 Revenue from the Commonwealth was increased \$0.4 million for Compensation Board related reimbursable salaries based on FY 2013 actual receipts and FY 2014 collection trends. FY 2014 Revenue from the Federal Government was increased \$0.7 million for funds received for the Criminal Alien Assistance Program.