FY 2012-FY 2014 Forecast

BUDGET COMMITTEE MEETING

OCTOBER 26, 2010

Economic Outlook

Current Conditions - National Economy

- Great Recession (December 2007 – June 2009)
  - more severe and recovery weaker than last 3 recessions
- 8 million jobs lost during the recession
  - Net employment growth of only 723,000 jobs since low in Dec. 2009
  - Unemployment rate of 9.6% as of August 2010
- Economy expanded by a slight 1.7% in the 2nd quarter of 2010 after rising 3.7% in the 1st quarter of 2010
  - Much of the growth in the 1st quarter was the result of the homebuyers tax credit
- Consumer Confidence remains dismal
- Low Inflation – 1.1% in September

Current Conditions – Local Economy

- Northern Virginia lost over 41,000 jobs during the downturn (from peak in April 2008 to low in February 2010)
- NoVa. experiencing job growth each month since April 2010 compared to 2009
  - 17,500 more jobs in August 2010 compared to August 2009
  - This represents 78% of the total 22,300 jobs created statewide in August
- Fairfax County's Unemployment Rate at 4.9% in August
  - Down from a high of 5.5% in January and February 2010
  - Nearly 30,000 unemployed residents
  - 1,776 initial claims for unemployment insurance in September
    - Decline of 6.5% from September 2009

Future of the Economy is Uncertain

- Government stimulus efforts ending
  - Cash for Clunkers in 2009
  - Homebuyer tax credit in late 2009 through 2010
- Problems with the foreclosure process may stall housing recovery
  - Expectant buyers of foreclosed properties in limbo
- In September, 873 foreclosed properties in the County
  - Down from 981 in September 2009
  - Up 168 properties from the March 2010 low of 705
  - Foreclosures peaked in September 2008 at 2,257
  - Serious Delinquencies (90+ days past due) on the rise
  - 550 Notices of Trustee's Sale in September

Future of the Economy is Uncertain

- Recovery depends on the consumer spending
  - Represents 70% of the economy
  - Job creation needed to raise consumer spending

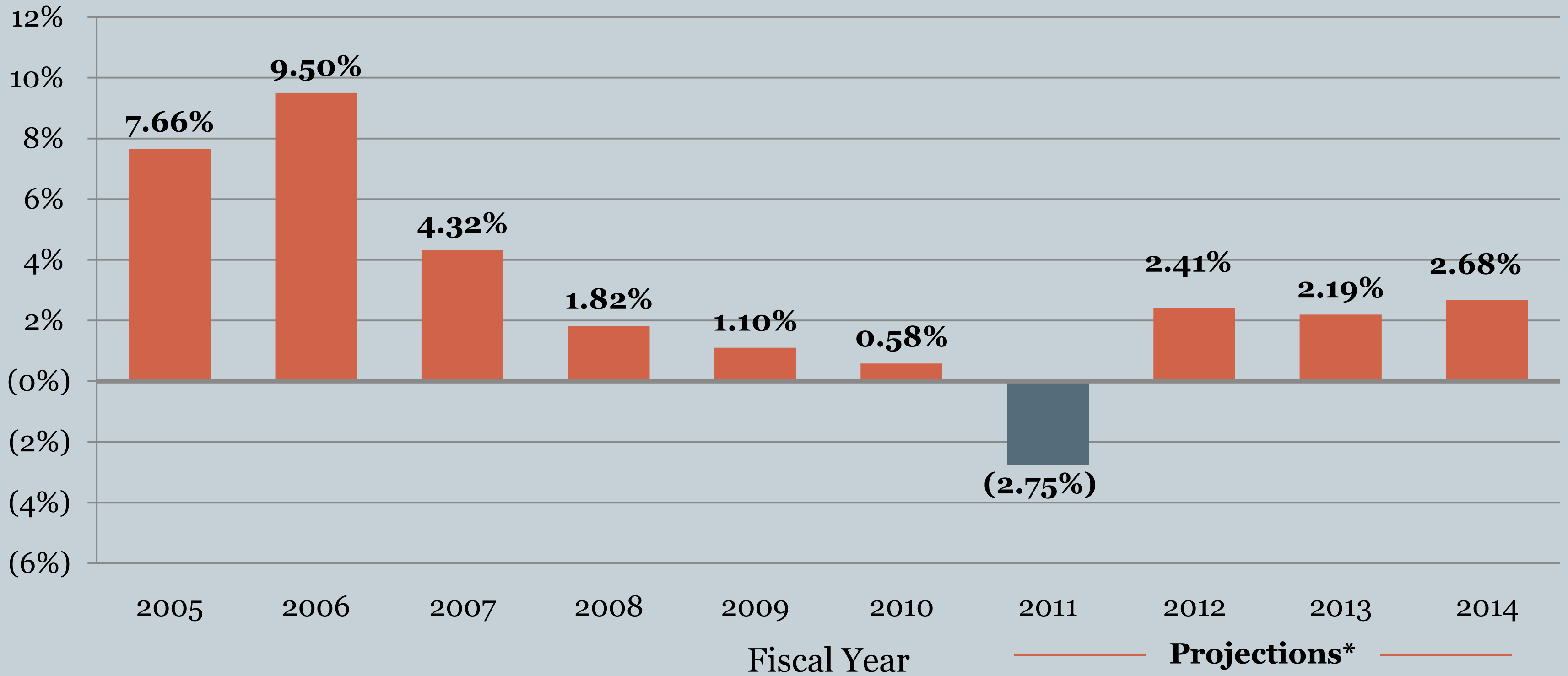
- Modest economic growth will restrain job creation
  - Consensus of Blue Chip Forecasters – national economic growth below 3% until the 3rd quarter of 2011 with just over 3% growth expected in 2012

Future of Local Economy is Uncertain

- Moody's Analytics projections for Fairfax County at odds
  - Economic Growth in 2010 and 2011 of nearly 4% each year
  - Employment projected to decline in 2010 and rise slightly in 2011
  - Increase in home prices in 2010 (FY 2012 assessments) to be followed by a decline in 2011 (FY 2013 assessments)
- GMU's Center for Regional Analysis projections for the area – overly optimistic
  - Leading Index rising
  - Strong job growth through 2014

Revenue

Percent Change in General Fund Revenue



*FY 2011 percentage represents fall 2010 revised revenue estimates.
Previously Projected Revenue Growth: FY 2011, (2.48%); FY 2012, (2.28%); FY 2013, 0.53%; FY 2014, 2.83%.

Real Estate Tax Base

	1991	1992	1993	1994	1995	1996	1997
Equalization	11.51%	(2.75)%	(6.48)%	(2.46)%	(1.29)%	0.36%	0.57%
- Residential	13.06	(1.90)	(3.74)	(0.52)	0.01	0.49	(0.23)
- Nonresidential	7.85	(4.80)	(13.22)	(7.86)	(5.28)	(0.09)	3.27
Growth	5.26	1.79	0.40	1.08	1.97	2.16	2.13
TOTAL	**16.77%**	**(0.96)%**	**(6.08)%**	**(1.38)%**	**0.68%**	**2.52%**	**2.70%**
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Equalization	0.80%	1.77%	2.96%	5.13%	9.70%	11.72%	9.94%
- Residential	(0.50)	0.04	0.77	5.13	11.26	16.27	14.55
- Nonresidential	5.05	7.12	9.24	5.15	5.92	0.52	(2.94)
Growth	1.93	2.19	3.37	3.81	3.94	3.42	2.54
TOTAL	**2.73%**	**3.96%**	**6.33%**	**8.94%**	**13.64%**	**15.14%**	**12.48%**
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Equalization	9.54%	20.80%	19.76%	2.47%	(1.02)%	(10.52)%	(8.98)%
- Residential	11.29	23.09	20.57	(0.33)	(3.38)	(12.55)	(5.56)
- Nonresidential	3.74	12.74	16.64	13.57	7.00	(4.51)	(18.29)
Growth	2.50	2.69	2.94	1.68	1.53	0.57	(0.22)
TOTAL	**12.04%**	**23.49%**	**22.70%**	**4.15%**	**0.51%**	**(9.95)%**	**(9.20)%**

PROJECTIONS	2012		2013		2014		
	Previous	Current	Previous	Current	Previous	Current	
Equalization	(5.00)%	1.97%	(1.35)%	1.55%	2.20%	2.40%	
- Residential	(2.50)	3.33	0.50	2.00	2.00	3.00	
- Nonresidential	(13.00)	(2.35)	(8.00)	0.00	3.00	0.50	
Growth	0.00	0.35	0.70	0.50	1.00	0.60	
TOTAL	**(5.00)%**	**2.32%**	**(0.65)%**	**2.05%**	**3.20%**	**3.00%**	

Real Estate Revenue: Residential Equalization

Residential

- Approximately 73.1% of total base
- Declined 4 consecutive years
- A 3.3% increase is projected for FY 2012

Residential Equalization Percent Changes

Housing Type (Percent of Base)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012[2]
Single Family (72.4%)	20.37	(0.43)	(3.12)	(11.34)	(5.50)	
Townhouse/Duplex (18.4%)	22.69	0.64	(4.96)	(16.06)	(4.44)	
Condominiums (7.8%)	25.97	(2.23)	(4.54)	(19.51)	(10.45)	
Vacant Land (0.9%)	25.44	3.86	7.66	(7.08)	(6.68)	
Other (0.5%)[1]	9.67	2.97	6.46	(4.99)	(3.60)	
Total Residential Equalization (100%)	**20.57**	**(0.33)**	**(3.38)**	**(12.55)**	**(5.56)**	**3.33**

[1] Includes affordable dwelling units and agricultural and forestal land use properties.
[2] Previous FY 2012 projection for residential equalization was a decline of 2.50%.

Residential Real Estate – MRIS Statistics

- Fairfax County - First 9 Months of 2010
  - Number of homes sold has fallen 6% from 10,969 to 10,308
  - Average price of homes has risen 10.4% from $415,265 to $458,482
    - Increases have slowed – Average sales price up 9% in September; Median sales price up 4.1%
  - Average days on the market has dropped in each month compared to the same month the prior year
    - 52 day in September 2010 compared to 62 days a year ago

Residential Real Estate – Concerns

- As of September 2010, 873 foreclosed homes in Fairfax County
  - Down from 981 in September 2009
  - Up from 705 in March 2010
  - Foreclosures peaked in September 2008 at 2,257
- Serious Delinquencies on the Rise:

Percentage of Loans 90+ Days Delinquent
Fairfax County

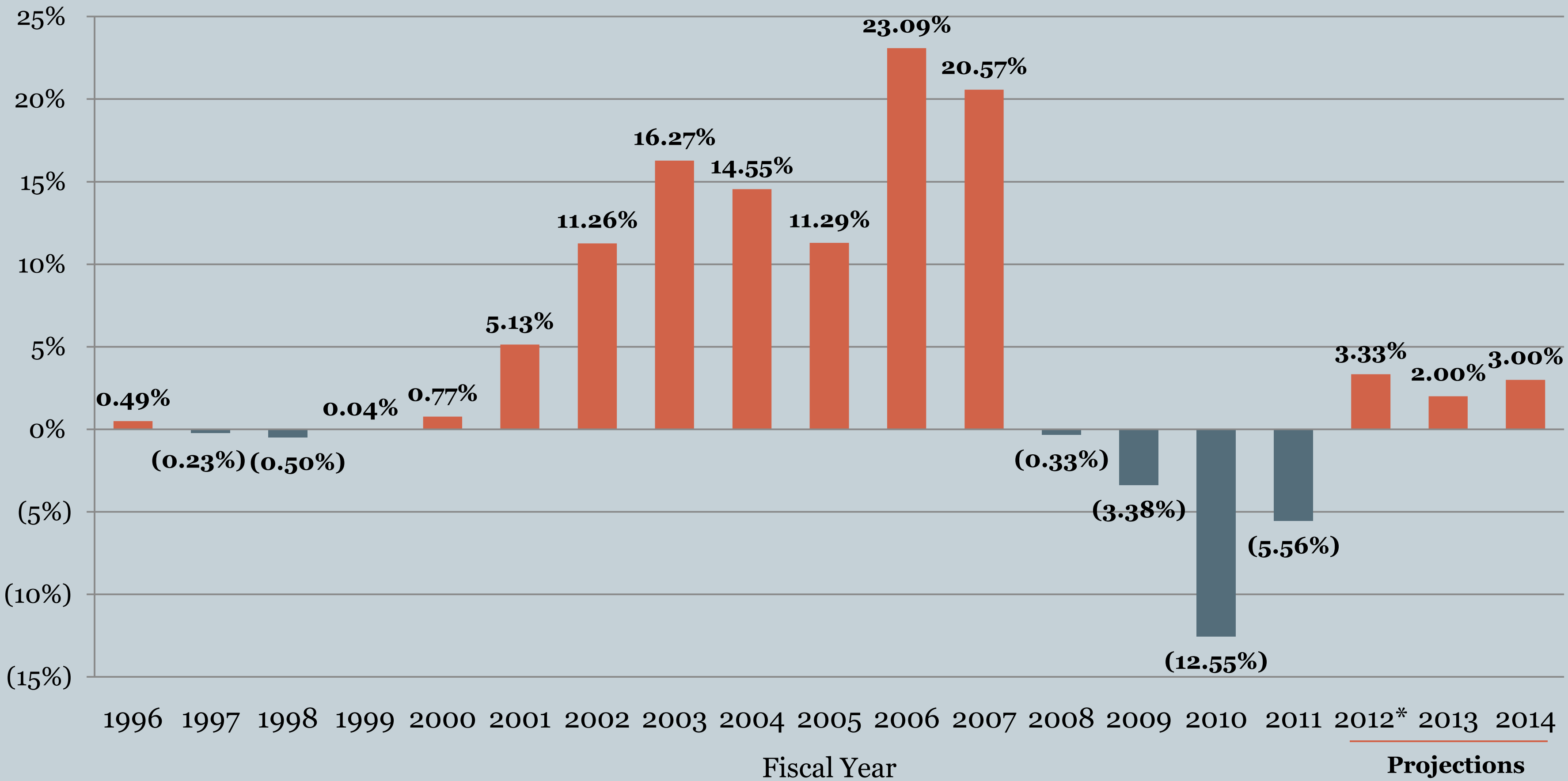
Type of Loan (% of all loans)	June 2009	June 2010
Prime Loans (94.5%)	1.89%	2.36%
Subprime Loans (5.5%)	16.67%	19.38%

Source: Federal Reserve Bank of Richmond

Expectations for the Residential Real Estate Market

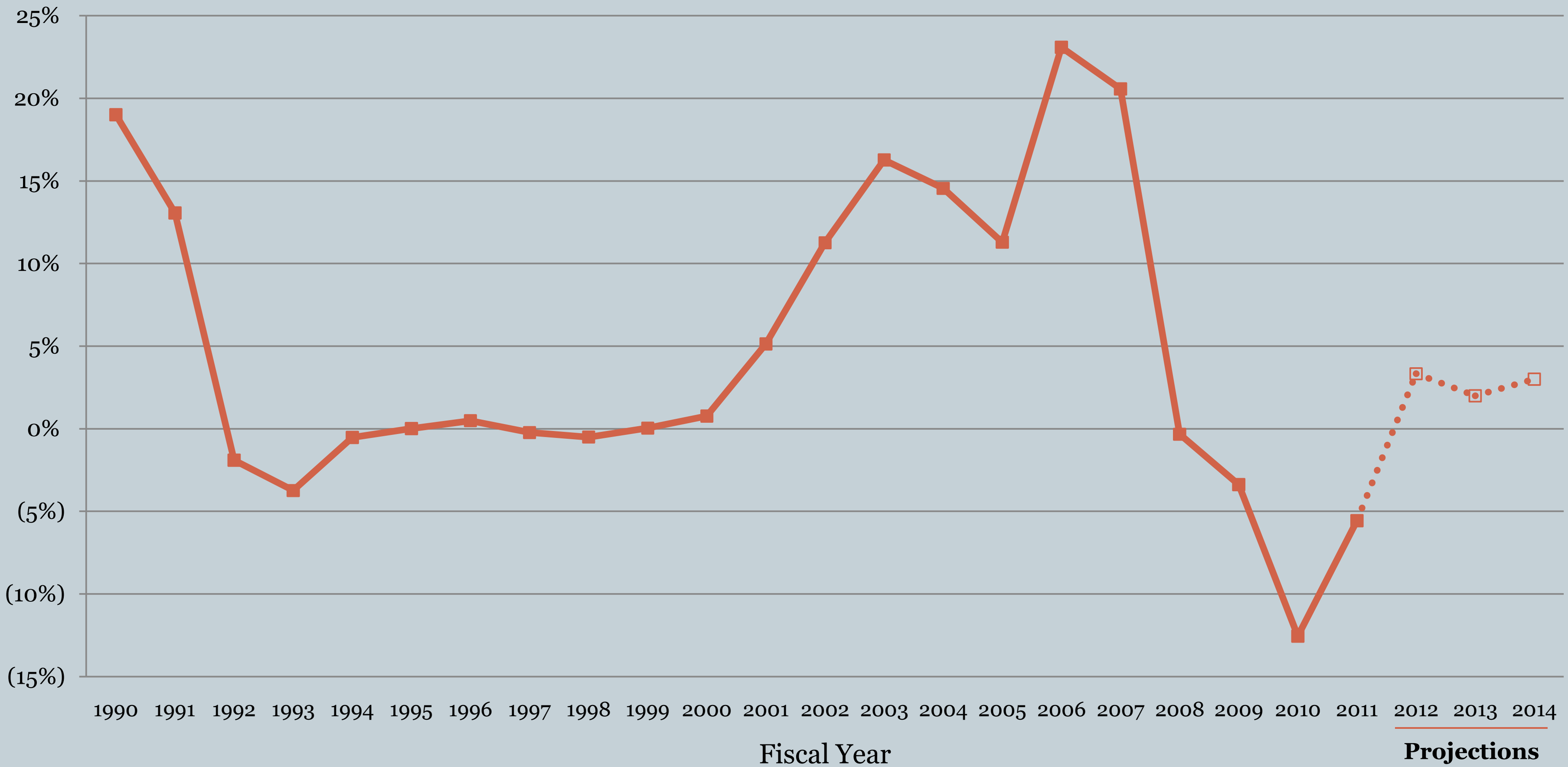
- Cautiously optimistic that values have stabilized
- Foreclosures may increase somewhat over the next year as serious delinquencies have risen
- Very modest increases through FY 2014
- Interest rates will remain favorable
- Stringent qualification requirements for loans

Annual Changes in Residential Equalization



* Previous projections for residential equalization: FY 2012, (2.50%); FY 2013, 0.50%; FY 2014, 2.00%.

Annual Changes in Residential Equalization



Impact on Typical Fairfax County Household

Fiscal Year	Mean Assessed Value of Residential Property	Real Estate Tax Rate per $100	Tax per Household	
FY 2002	$234,749	$1.23	$2,887.41	
FY 2003	$276,945	$1.21	$3,351.03	
FY 2004	$321,238	$1.16	$3,726.36	
FY 2005	$361,334	$1.13	$4,083,07	
FY 2006	$448,491	$1.00	$4,484.91	
FY 2007	$544,541	$0.89	$4,846.41	
FY 2008	$542,409	$0.89	$4,827.44	
FY 2009	$524,076	$0.92	$4,821.50	
FY 2010	$459,228	$1.04	$4,775.97	
FY 2011	$432,439	$1.09	$4,713.59	
FY 2012	$446,839	$1.09	$4,870.55	+$156.96

Projected value of "One Penny" on FY 2012 Real Estate Revenue = $19.10 million
Each penny change = $45 on the tax bill

Real Estate Revenue:
Nonresidential Equalization

Nonresidential

- A 2.35% decline is projected for FY 2012 versus the 13.0% decrease previously projected

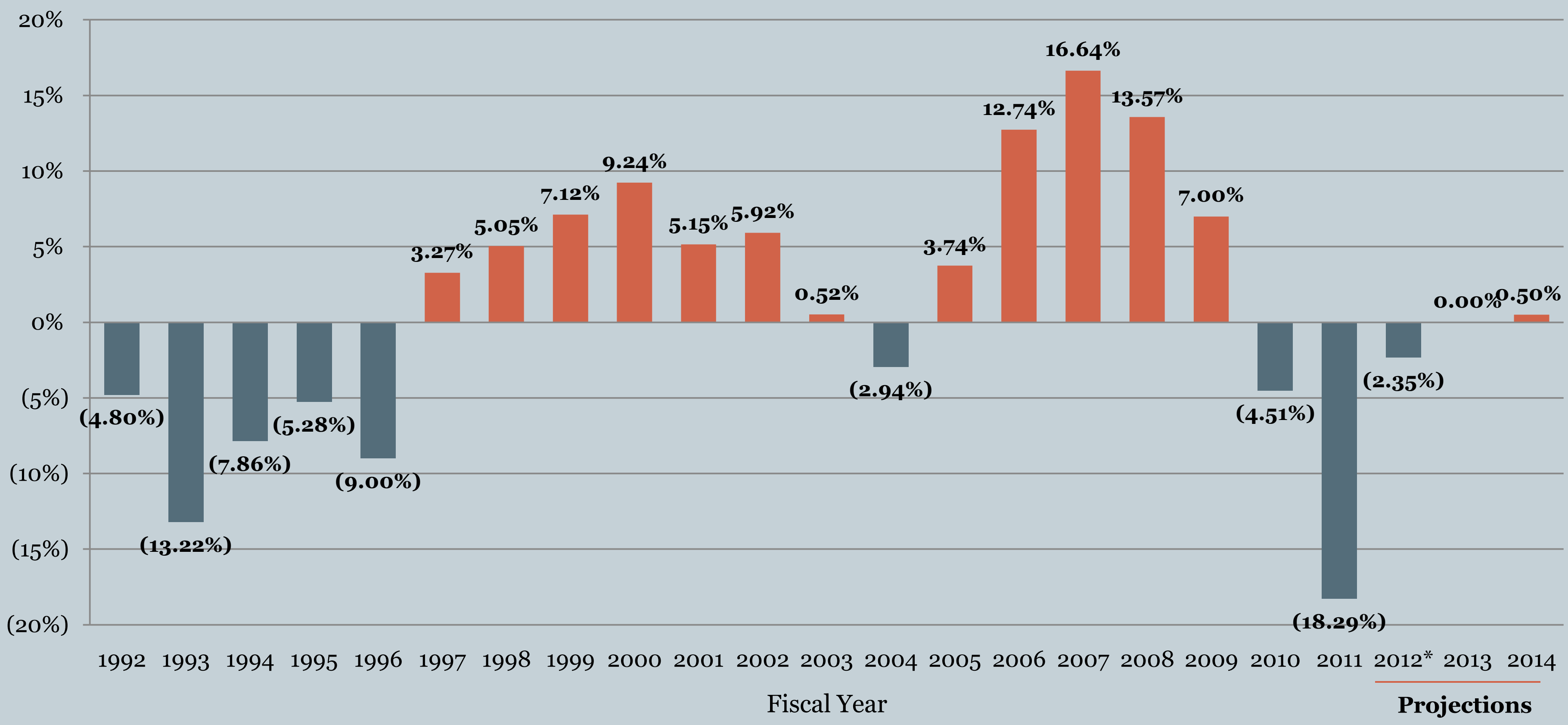
Nonresidential Equalization Percent Changes

Category (Percent of Base)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Apartments (17.4%)	11.65	22.59	6.41	(6.96)	(12.69)	
Office Condominiums (4.6%)	1.96	13.76	4.78	(1.10)	(7.57)	
Industrial (6.6%)	12.61	14.34	14.08	(1.08)	(23.48)	
Retail (16.0%)	18.56	7.56	7.76	(2.33)	(16.07)	
Office Elevator (37.6%)	24.16	15.93	5.68	(6.62)	(24.31)	
Office – Low Rise (4.0%)	23.94	10.18	9.16	(3.35)	(23.86)	
Vacant Land (4.3%)	21.88	14.99	7.67	(3.87)	(26.53)	
Hotels (3.5%)	25.54	9.58	11.28	(7.06)	(34.03)	
Other (6.0%)	12.19	10.05	7.63	(2.07)	(12.84)	
Total Nonresidential Equalization (100%)	**16.64**	**13.57**	**7.00**	**(4.51)**	**(18.29)**	**(2.35)**

Nonresidential Real Estate

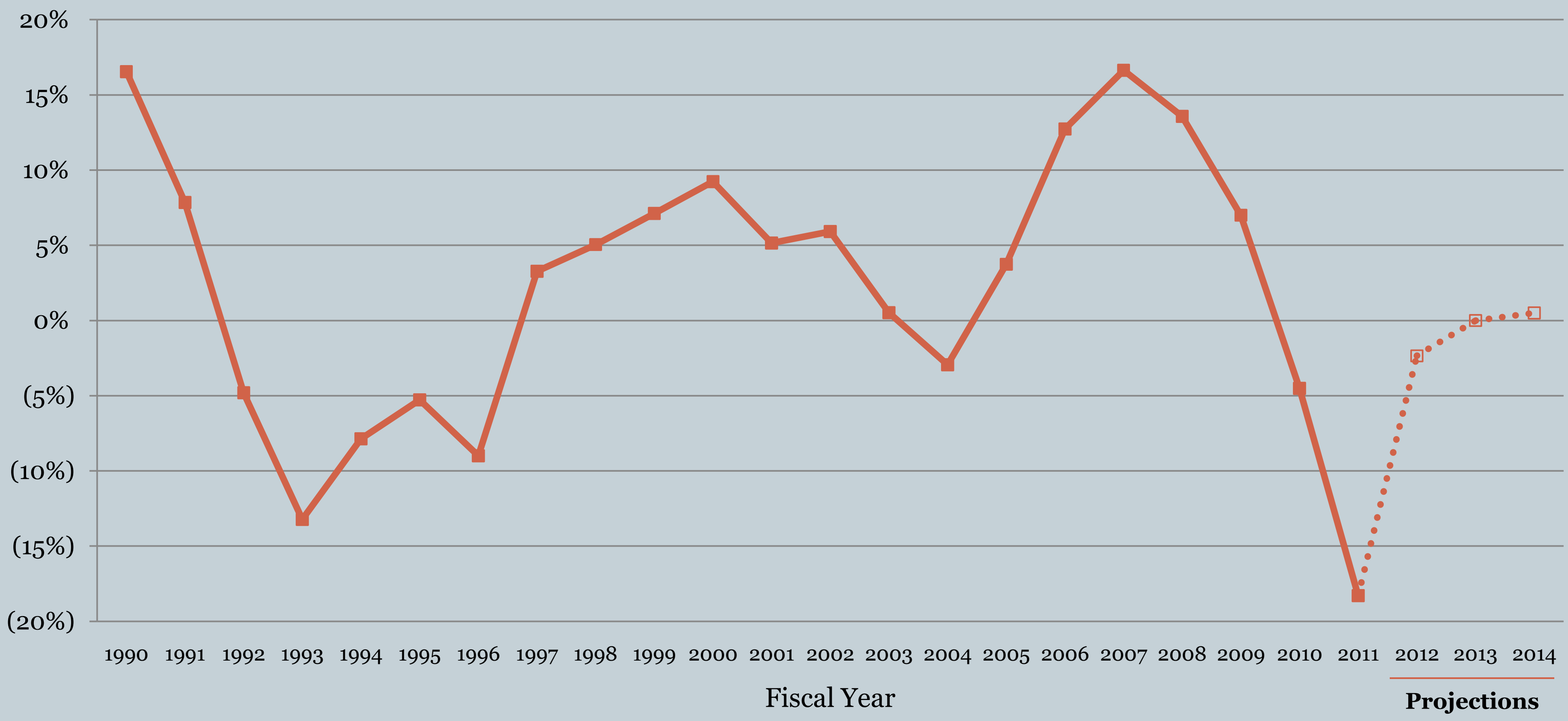
- Fairfax County's Office Vacancy Rates at Mid-year 2010
  - Dropped for the first time in 3 years
  - Direct – 13.3% from 13.9%
  - Including sublet space – 15.7% down from 16.4%
- Total 113.0 million square feet of office space in the County
  - Only 341,100 square feet of space under construction
- Demand for Space Rising
  - Leasing averaged 10.2 million square feet over the last 5 years
  - Through the 3rd quarter of 2010, leased 9.2 million square feet
- Lease rates stable
  - Incentives that had been offered are not as prevalent

Annual Changes in Nonresidential Equalization



*Previous projections for nonresidential equalization: FY 2012, (13.00%); FY 2013, (8.00%); FY 2014, 3.00%.

Annual Changes in Nonresidential Equalization



Expectations for the Nonresidential Real Estate Market

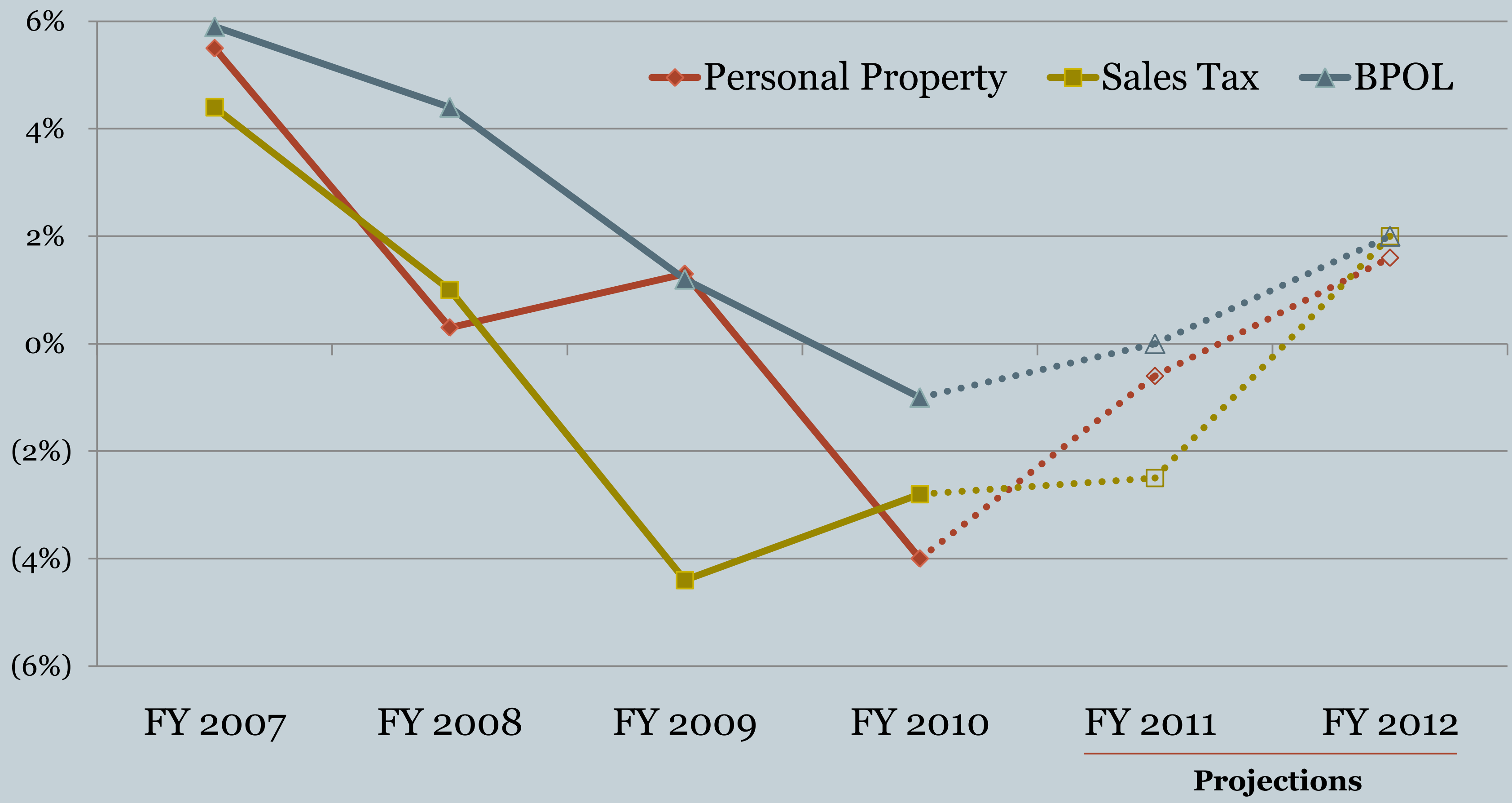
- Office vacancy will continue to slowly decline
  - Currently little new construction
  - Demand on the up-tick
- Job growth required before values rise
- Nonresidential values are projected to decrease 2.35% in FY 2012, remain level in FY 2013, grow a slight 0.5% in FY 2014

Summary
Annual Growth in Major Revenue Categories

(Dollars in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*	FY 2012*
Real Estate	$1,884.7	$1,962.3	$2,035.7	$2,105.6	$2,005.9	$2,047.8
Percent Change	6.4%	4.1%	3.7%	3.4%	(4.7)%	2.1%
Personal Property	$508.3	$509.7	$516.5	$496.0	$493.1	$501.2
Percent Change	5.5%	0.3%	1.3%	(4.0)%	(0.6)%	1.6%
Sales Tax	$159.2	$160.9	$153.9	$149.5	$145.8	$150.1
Percent Change	4.4%	1.0%	(4.4)%	(2.8)%	(2.5)%	2.0%
BPOL	$132.5	$138.3	$139.9	$138.5	$138.5	$141.3
Percent Change	5.9%	4.4%	1.2%	(1.0)%	0.0%	2.0%
Recordation & Deeds	$41.7	$29.9	$25.0	$24.8	$25.0	$25.3
Percent Change	(19.0)%	(28.2)%	(16.4)%	(0.7)%	1.0%	1.0%
Investment Interest	$92.1	$78.2	$36.5	$16.8	$16.8	$20.5
Yield	5.1%	4.5%	2.0%	0.8%	0.8%	1.0%
Total General Fund	**4.3%**	**1.8%**	**1.1%**	**0.6%**	**(2.8)%**	**2.4%**

*Projections. FY 2011 represents revised estimates as of the fall 2010.

Percent Change in Select Revenue Categories



Personal Property Tax – Current
$493.1 million, 15.1% of General Fund

- Approximately 950,000 vehicles in the County
- Vehicle component comprises 73% of total receipts
- Automotive market
  - New model vehicle registrations are up 22% through September, but represent a small portion of total County vehicles
  - Used vehicle depreciation expected to back to historical rates
- Growth Projected: (0.6%) FY 2011; 1.6% FY 2012

Sales Tax
$148.1 million, 4.5% of General Fund

- Sales Tax receipts continue to fall
  - Receipts were down 4.4% in FY 2009 and 2.8% in FY 2010
  - Expected to fall 2.5% in FY 2011

- Factors impacting Sales Tax
  - Low Consumer Confidence
  - Decline in durable good sales
  - Job losses
  - Loss of credit

- Growth Projected: (2.5%) FY 2011; 2.0% FY 2012

BPOL

$138.5 million, 4.3% of General Fund

- Actual FY 2010 BPOL receipts fell 1.0%
  - First decline since FY 1992
- Potential decline in federal contracting
  - The Consultant and Business Service Occupation categories represented 46.5% of total FY 2010 BPOL receipts
- Lower Sales Tax receipts indicate a decline in retail sector
- Growth Projected: 0.0% FY 2011; 2.0% FY 2012

Deed of Conveyance / Recordation Taxes

$24.8 million, 0.8% of General Fund

- FY 2010 actual collections declined 16.4%
  - Fourth consecutive annual decrease
- Year-to-date collections are up 1.5%
  - Impacted by homebuyer tax credit that has now expired
  - 30-year fixed rate mortgages
    - A record low of 4.35% in September
- Mortgage rates will not be an impediment to home purchases or mortgage refinancing
- Growth Projected: 1.0% FY 2011; 1.0% FY 2012

Investment Interest

$16.8 million, 0.5% of General Fund

- Federal Funds Target Rate at 0% to 0.25% since December 2008
  - No increase expected until late 2011
  - Treasury bills yielding low rates due to Federal Reserve actions

Fiscal Year	Yield	Investment Income (millions)
2007	5.11%	$92.1
2008	4.46%	$78.2
2009	2.10%	$36.5
2010	0.80%	$16.8
2011*	0.80%	$16.8
2012*	1.00%	$20.5

*Estimate

Revenue from the Commonwealth

$89.0 million, 2.7% of General Fund

- Actions by the Commonwealth have reduced County revenue by $25.9 million over the past 3 years
  - $6.5 million in FY 2009
  - $10.5 million in FY 2010
  - $8.9 million in FY 2011
- FY 2011 Adopted Budget includes <u>no</u> reserve for additional state cuts in FY 2011
- Additional funding reductions are likely in FY 2012
  - Federal stimulus funds used to balance FY 2010 and FY 2011 budgets

General Fund Revenue Summary

	FY 2012	FY 2013	FY 2014
% Change	2.41%	2.19%	2.68%
$ Change (millions)	$78.3	$72.5	$90.9

Disbursements

County Disbursements Perspective

- Since FY 2009, General Fund disbursements have decreased $44.5 million or 1.3%
- During the past two years, the County has:
  - Eliminated 481 net positions
  - Maintained the contribution to Schools at 53+% of total budget (including debt service)
  - Held compensation flat
  - Funded required increases in debt service ($14.8 million) and health care/retirement, etc. ($44.2 million)

Projected Disbursement Increases

(in millions)

FY 2011 Base	FY 2012	FY 2013	FY 2014
Retirement	$15.0	$15.0	$7.5
Health Insurance	$4.4	$3.0	$3.0
OPEB ARC	$10.1	$7.0	$1.4
Limited-Term Adjustments	$3.5	$0.0	$0.0
Workers Compensation	$8.0	$0.0	$0.0
Debt Service	$4.0	$10.9	$9.2
Information Technology	$6.8	$0.0	$0.0
ERP Project	$9.0	$9.0	$0.0
Contract Rate Increases	$4.1	$4.1	$4.1
Metro/CONNECTOR	$0.0	$5.0	$0.0
Compensation	$0.0	TBD	TBD
Inflation	$0.0	TBD	TBD
Population Increases	$0.0	TBD	TBD
TOTAL	**$64.9**	**$54.0**	**$25.2**

Benefits

Requirement	FY 2012 Cost Increase
Retirement	$15.0 million
FY 2012 includes funding for anticipated increased employer contribution rates, based on actuarial analysis, as investment performance during the economic downturn continues to place upward pressure on rates. In addition, the systems' five-year analysis of actuarial assumptions will be completed in the fall. An increase of $15.0 million is included for FY 2013 and a $7.5 million increase is included for FY 2014.	
Health Insurance & Other Benefits	$4.4 million
FY 2012 increase assumes 10% health insurance premium increases in CY 2012, as well as increases in other benefit categories based on year-to-date experience. For FY 2013-14, $3 million is included for projected 10% health insurance premium increases.	
OPEB Requirements	$10.1 million
FY 2012 increase brings General Fund OPEB (Other Post-Employment Benefits) contribution to $20 million. An additional increase of $7 million is included in FY 2013, and a $1.4 million increase is included in FY 2014. Increases in the Annual Required Contribution (ARC) of 5% are assumed each year. With these increases, it is projected that the County will fully fund the ARC beginning in FY 2013. Based on the latest actuarial valuation (July 1, 2009), the County's total OPEB liability is $441.3 million with an ARC of $32.6 million.	

Benefits

Requirement	FY 2012 Cost Increase
Limited-Term Adjustments	$3.5 million
FY 2012 includes funding for benefits expenses associated with the expected status adjustment of some limited-term positions in accordance with legislative and regulatory requirements.	
Workers Compensation & Self-Insurance	$8.0 million
FY 2012 increase is primarily attributable to Workers Compensation requirements based on actual experience and the latest estimates for self-insurance losses.	

Debt Service

Requirement	FY 2012 Cost Increase
Debt Service	$4.0 million
Based on current debt service commitments and the forecasted debt service as identified in the FY 2011-FY 2015 Adopted Capital Improvement Program. Includes general obligation bond sales of $279.26 million in FY 2012 ($155 mil for Schools and $124.26 mil for County purposes), $251.71 million in FY 2013 ($130 mil Schools/$121.71 mil County) and $210.05 million in FY 2014 ($130 mil Schools/$80.05 mil County). Assumes financing support for PPEA/other projects under construction or in negotiation.	

Other Requirements

Requirement	FY 2012 Cost Increase
Information Technology	$6.8 million
FY 2012 funding increases General Fund contribution for IT Projects to $10 million and maintains this level through FY 2014.	
ERP Project	$9.0 million
Includes an additional $9.0 million in FY 2012 and FY 2013, based on requirements associated with the legacy system replacement project.	
Contract Rate Increases	$4.1 million
Assumes contract rate increases ranging from 2.1-4.0% annually, driven primarily by personnel costs.	
Metro/CONNECTOR	$5.0 million (in FY 2013)
Includes additional $5.0 million in FY 2013 based on anticipated requirements.	

Reserves Used for FY 2011

Reserve	**Amount** (in millions)
Retirement Reserve	$20.0
Reserve for FY 2011	$12.9
Third Quarter Reductions	$35.0
Total	**$67.9**

FY 2012 Shortfall

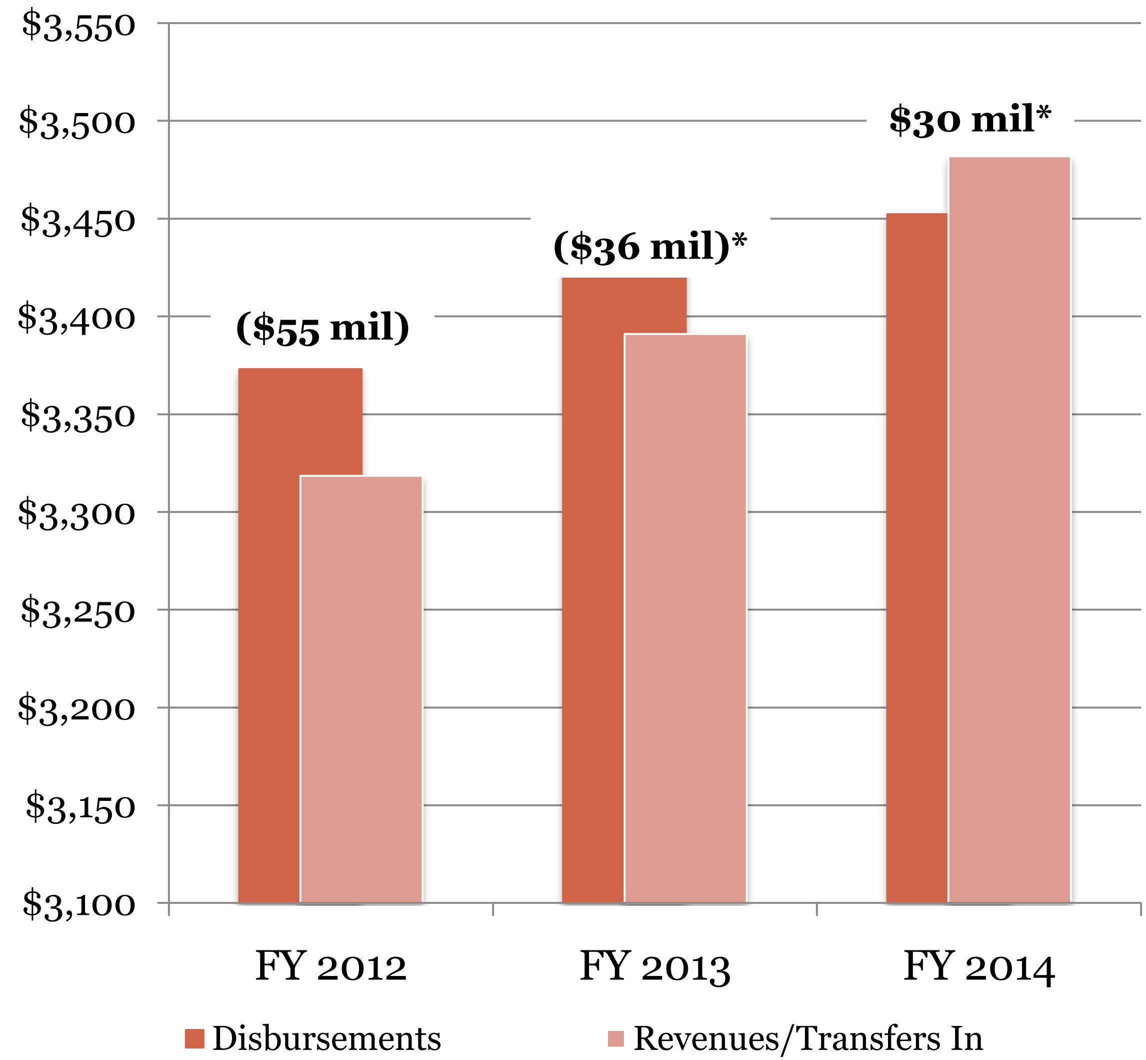
	Amount (in millions)
Additional Revenue	$78.3
Disbursement Increases	($64.9)
Balances used in FY 2011	($67.9)
Total	**($54.5)**

Items not Included

- The Forecast does not include:
  - Increases in School Operating Transfer
    - Each 1% in transfer is $16.1 million
  - Compensation Increases
  - Costs related to infrastructure requirements including Capital Construction and Rail to Dulles

Projected Shortfalls

If the School Operating Transfer is held at the FY 2011 level and funding is not included for Compensation, the $55 million shortfall in FY 2012 falls to $36 million by FY 2013 and a surplus of $30 million is projected in FY 2014.



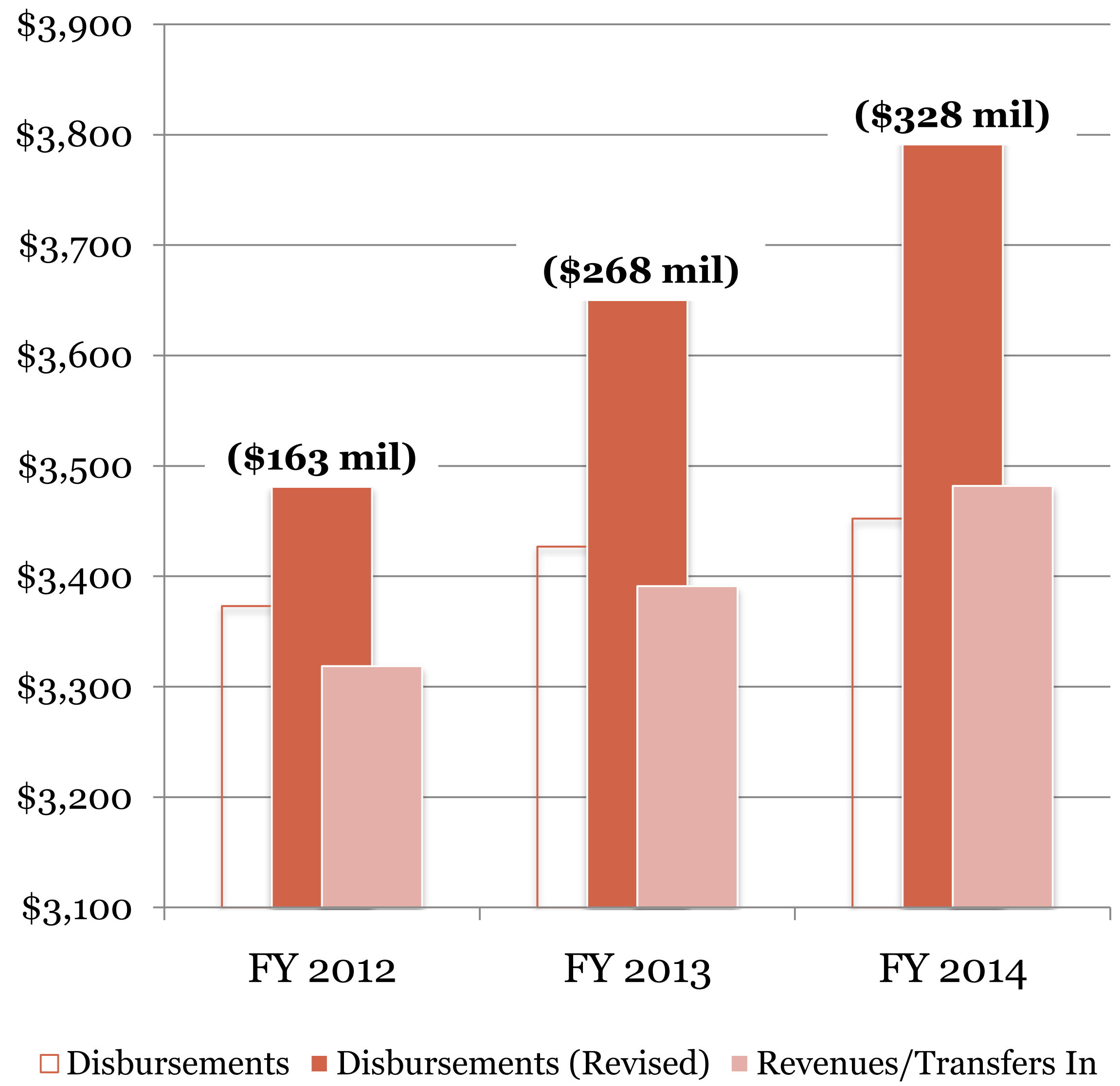
* For illustrative purposes only, FY 2013 and FY 2014 do not include increases to the School Operating transfer or funding for compensation.

Compensation

- Funding of the County's compensation program would cost approximately $32.6 million in FY 2012, including:
  - 2% increase for all employees
  - Refined Pay for Performance program
  - Merit Increments for Public Safety
- Funding of the FCPS compensation program would cost approximately $76.0 million in FY 2012, including:
  - 2% increase for all employees
  - Merit Increments

Revised Shortfalls

If increases are included for compensation for both County and Schools, the FY 2012 shortfall is projected to be $163 million and the shortfall increases to $328 million by FY 2014.



Challenges Ahead

- Economic growth uneven
- Real Estate market will continue to see fluctuations
- Need to see continued job growth
- Potential state reductions
- "New normal" results in growth of 2-2.5% over next few years
- Long-term considerations:
  - Compensation and Health Care
  - County infrastructure