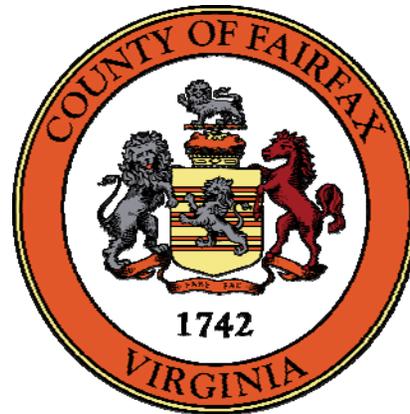


Board of Supervisors' Retreat

June 29, 2009



FY 2011 Financial Forecast

Revenue and Economic Outlook



National Economy

- Officially in recession since December 2007
 - More than twice as long as previous downturns in 1990-91 and 2001

- Few positive Indicators
 - Economy contracted 5.7% in the 1st quarter of 2009 after decreasing 6.3 in the 4th quarter of 2008
 - 7 million jobs lost since the beginning of the recession
 - Unemployment rate of 9.4% as of May 2009
 - Consumer Confidence hit record lows early in 2009 but has rebounded somewhat
 - Over the 12 months ending May 2009, the Consumer Price Index has fallen 1.3%

Northern Virginia / Fairfax County Economy

- Number of jobs in Northern Virginia declined 19,600 in April 2009 compared to a year earlier
- Fairfax County's unemployment rate was 4.5% in April
 - During the last two downturns, unemployment never exceeded 4.0%
- Unemployment insurance payments to County residents through May have exceed the total payments in 2007 and nearly that of 2008
- Initial unemployment claims for unemployment rose 61% (6,033 claims) from February 2008 to February FY 2009
 - Fairfax County/Fairfax City/Falls Church claims rose 62% (1,872 claims)

Fairfax County's Housing Market

- Price declines have continued into 2009
 - Average price down double digits in each month

- Approximately 1,300 foreclosed homes are currently owned by the mortgage lender, down from a high of 2,257 in September 2008

- Market Positives
 - Sales of homes have risen over 23% during the first quarter of 2009
 - Average number of days to sell a home has fallen each month since November after rising for 41 consecutive months



Homes Sold in Fairfax County

	<i>(FY 2009)</i> <u>2007</u>	<i>Percent</i> <u>Change</u>	<i>(FY 2010)</i> <u>2008</u>	<i>Percent</i> <u>Change</u>	<i>(FY 2011)</i> <u>2009</u>	<i>Percent</i> <u>Change</u>
1st Quarter	3,304	0.5%	2,171	(34.3%)	2,683	23.6%
2 nd Quarter	3,836	(16.9%)	3,804	(0.8%)		
3 rd Quarter	3,241	(17.4%)	4,004	23.5%		
4 th Quarter	3,195	(28.7%)	3,154	(1.3%)		
TOTAL	13,557	(16.9%)	13,979	3.1%		

- The number of homes sold in the County peaked in 2004 at 25,717
- The number of sales during the first quarter of 2004 was 4,105.

Active Listings



Active Listings - Fairfax County*

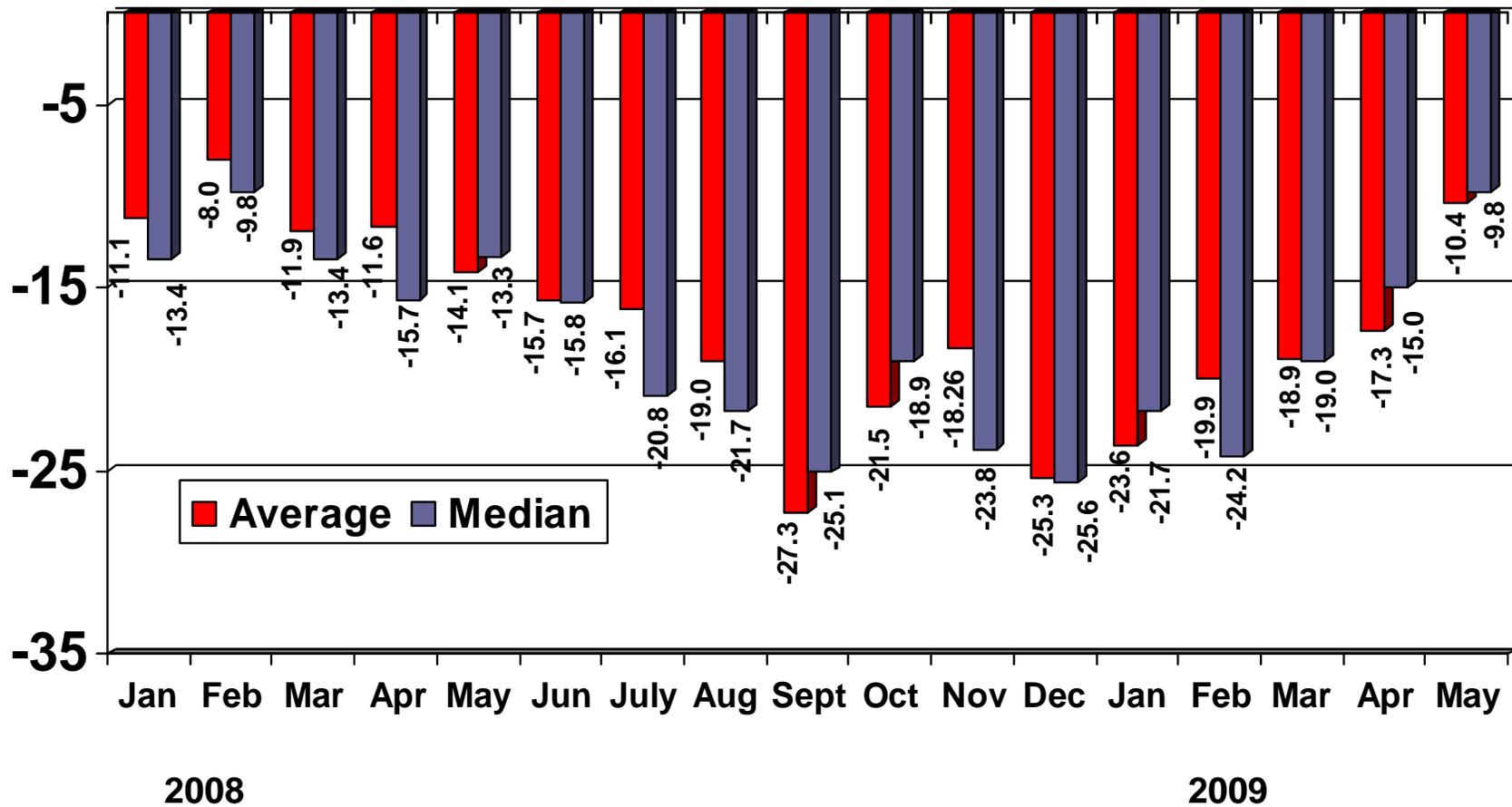
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
March	1,534	6,542	6,183	8,014	6,105
June	3,181	9,153	8,309	8,235	
Sept	5,165	8,455	8,438	7,106	
Dec	4,218	5,420	6,915	5,967	

*Figures represent the end of each quarter

- Average monthly listings were 1,910 in 2004, the peak sales year

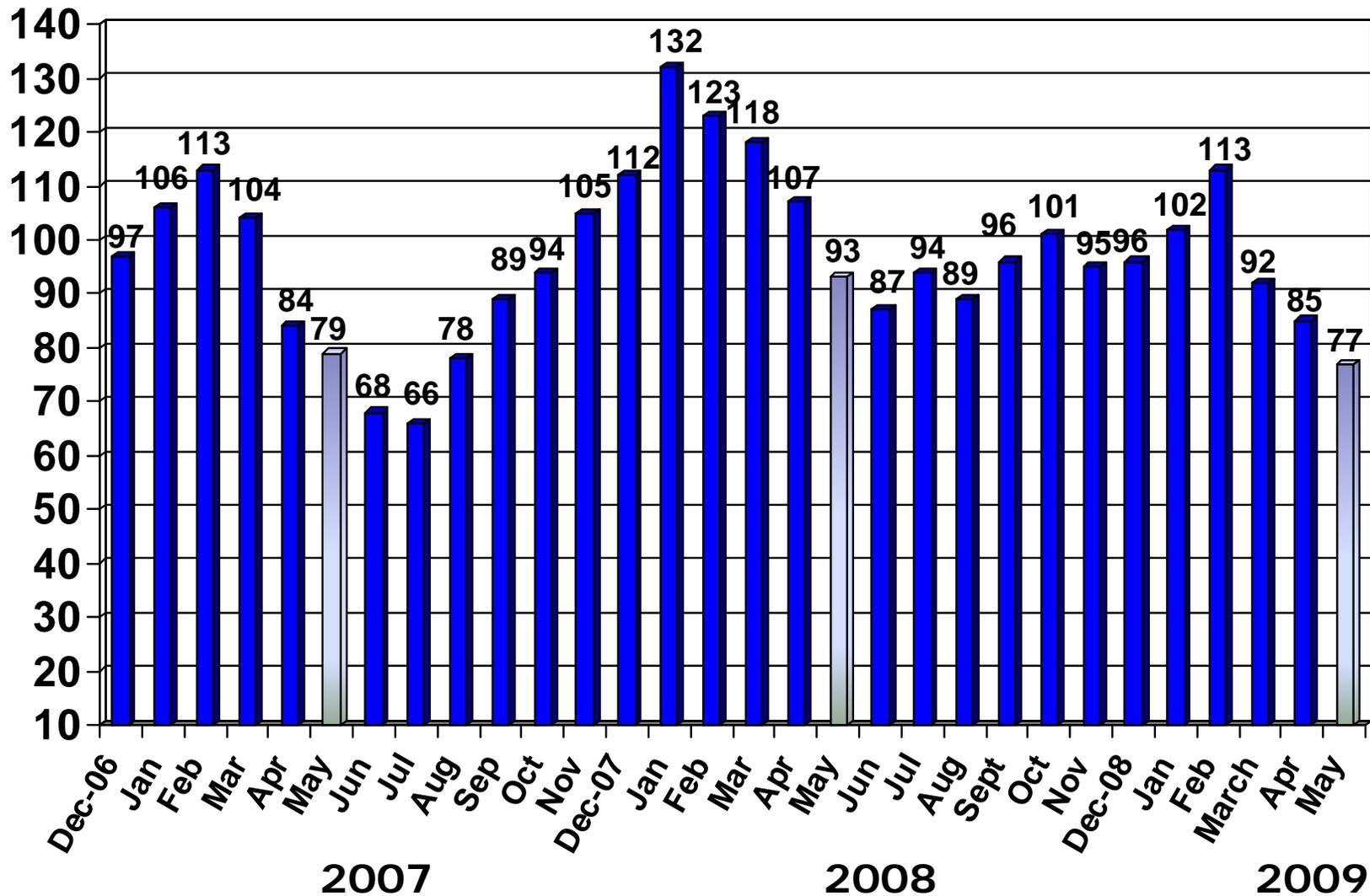
Source: Metropolitan Regional Information Systems (MRIS)

Percent Change in Average and Median Sales Price from Same Month Prior Year



Source: Metropolitan Regional Information Systems (MRIS)

Average Days to Sell a Home in Fairfax County



Source: Metropolitan Regional Information Systems (MRIS)

Foreclosures by Supervisor District

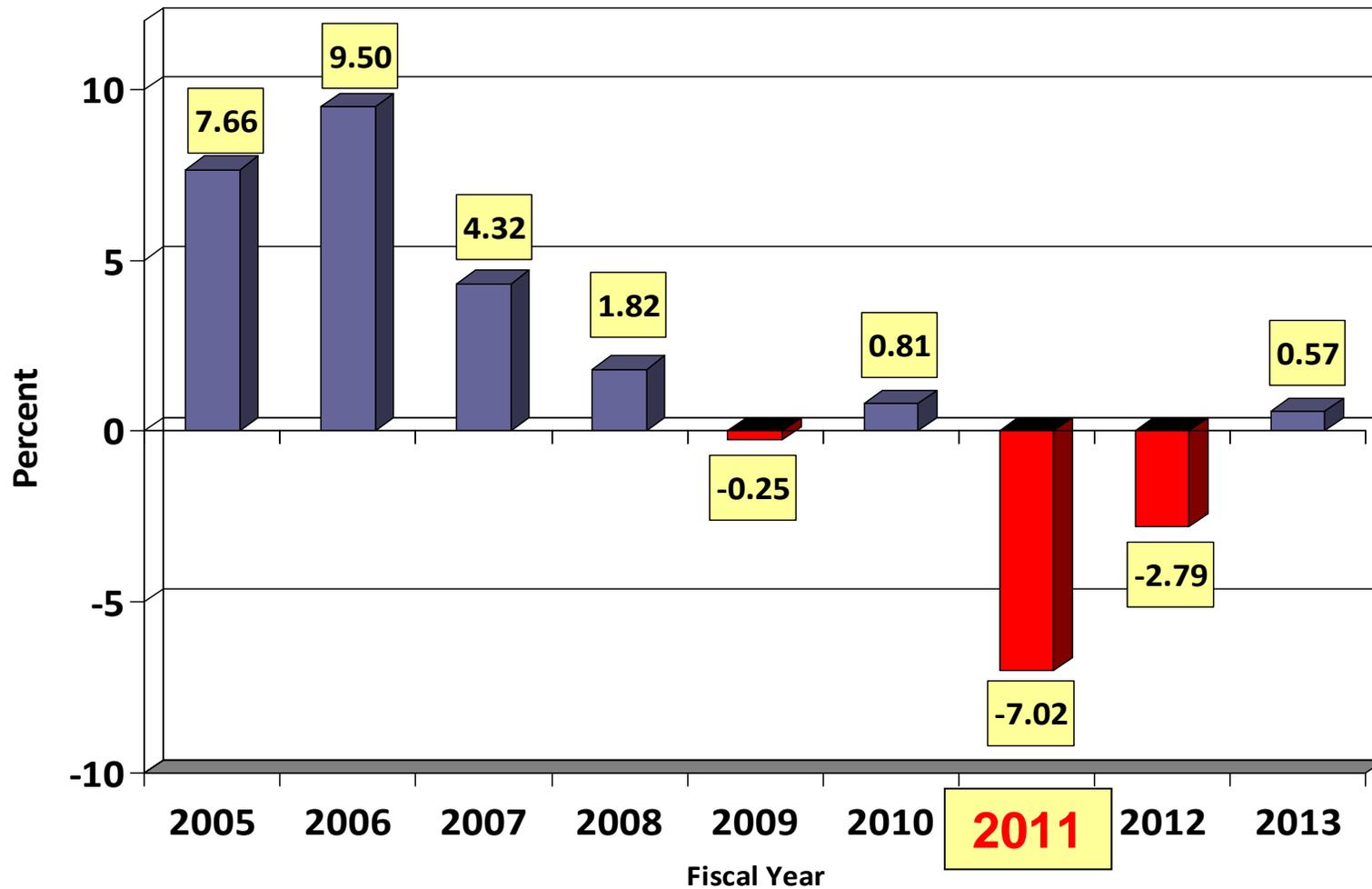
District	Aug 2008	Sept 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009
Braddock	235	239	234	220	209	200	185	169	152
Dranesville	223	233	224	209	177	148	136	123	115
Hunter Mill	134	146	142	131	123	117	97	80	62
Lee	323	360	358	363	340	330	294	262	219
Mason	265	300	283	280	255	233	213	193	160
Mt. Vernon	313	320	331	327	301	274	272	250	217
Providence	176	197	214	216	208	181	161	147	128
Springfield	149	162	163	161	149	153	134	116	95
Sully	299	300	295	275	246	239	231	226	199
TOTAL	2,117	2,257	2,244	2,182	2,008	1,875	1,723	1,566	1,347

Source: Department of Tax Administration

County Revenue



Percent Change in General Fund Revenue



Without the 12 cent real estate tax rate increase and other revenue enhancements, revenue in FY 2010 would have declined 8.1%.

Real Estate Tax Base

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Equalization	11.51%	(2.75)%	(6.48)%	(2.46)%	(1.29)%	0.36%	0.57%	0.80%	1.77%	2.96%
- Residential	13.06	(1.90)	(3.74)	(0.52)	0.01	0.49	(0.23)	(0.50)	0.04	0.77
- Nonresidential	7.85	(4.80)	(13.22)	(7.86)	(5.28)	(0.09)	3.27	5.05	7.12	9.24
Growth	<u>5.26</u>	<u>1.79</u>	<u>0.40</u>	<u>1.08</u>	<u>1.97</u>	<u>2.16</u>	<u>2.13</u>	<u>1.93</u>	<u>2.19</u>	<u>3.37</u>
TOTAL	16.77%	(0.96)%	(6.08)%	(1.38)%	0.68%	2.52%	2.70%	2.73%	3.96%	6.33%

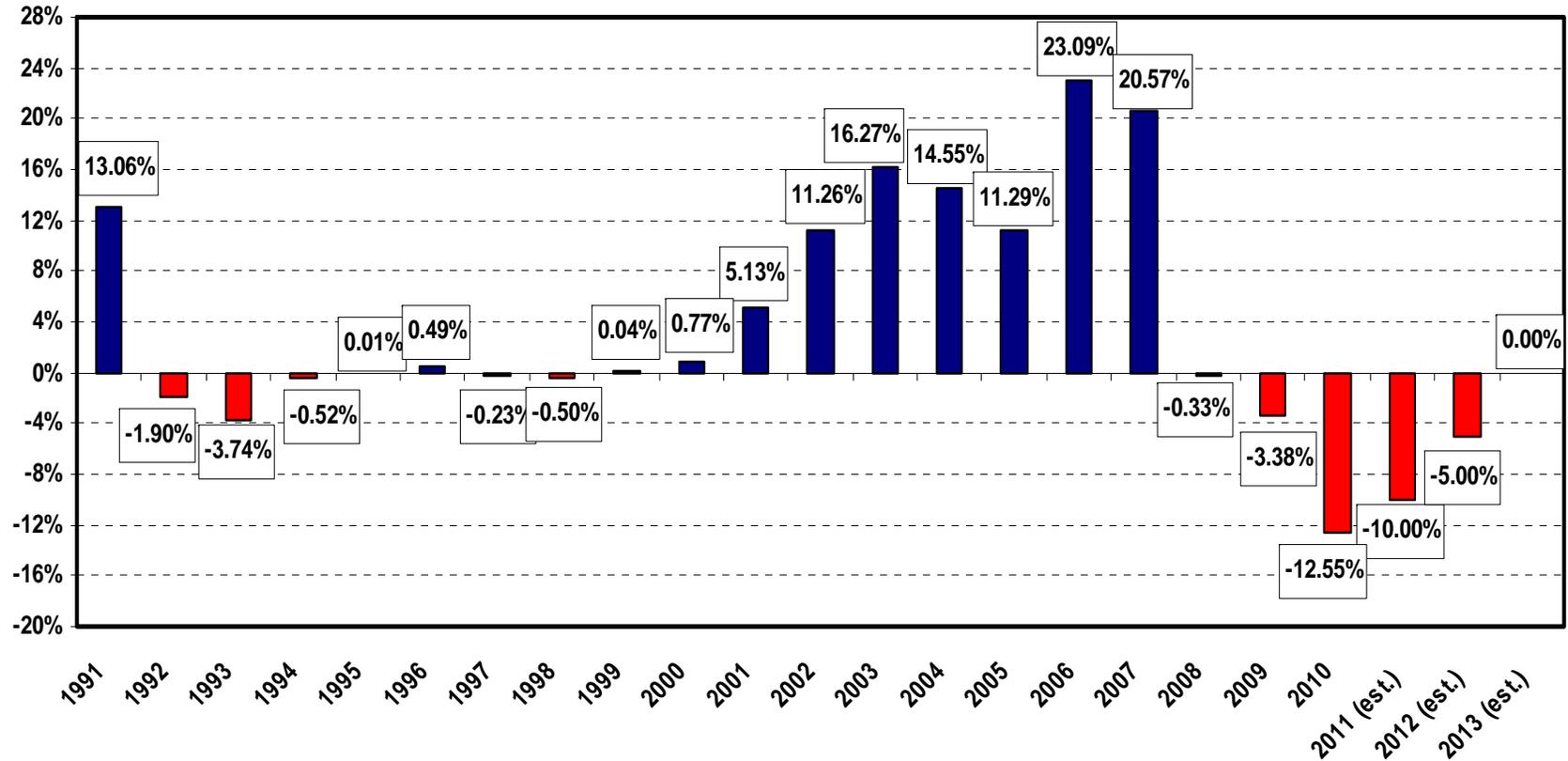
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Equalization	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.47%	(1.02)%
- Residential	5.13	11.26	16.27	14.55	11.29	23.09	20.57	(0.33)	(3.38)
- Nonresidential	5.15	5.92	0.52	(2.94)	3.74	12.74	16.64	13.57	7.00
Growth	<u>3.81</u>	<u>3.94</u>	<u>3.42</u>	<u>2.54</u>	<u>2.50</u>	<u>2.69</u>	<u>2.94</u>	<u>1.68</u>	<u>1.53</u>
TOTAL	8.94%	13.64%	15.14%	12.48%	12.04%	23.49	22.70%	4.15%	0.51%

FORECAST						
	2010	2011	2012	2013	2014	2015
Equalization	(10.52)%	(12.15)%	(6.25)%	(1.20)%	1.55%	2.75%
- Residential	(12.55)	(10.00)	(5.00)	0.00	2.00	3.00
- Nonresidential	(4.51)	(18.00)	(10.00)	(5.00)	0.00	2.00
Growth	<u>0.57</u>	<u>0.15</u>	<u>0.25</u>	<u>0.50</u>	<u>1.10</u>	<u>1.10</u>
TOTAL	(9.95)%	(12.00)%	(6.00)%	0.50%	3.35%	4.35%

**Projected Value of one penny
in FY 2011 = \$18.1 million**



Annual Changes in Residential Equalization: FY 1990 – FY 2013



Real Estate Revenue: Residential Equalization



Residential

- Approximately 73.1% of total base
- Residential values decreased 12.55% in FY 2010
- A 10.00% decline is projected for FY 2011

Residential Equalization Percent Changes

Housing Type (Percent of Base)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Single Family (72.1%)	11.20	22.21	20.37	(0.43)	(3.12)	(11.34)	
Townhouse/Duplex (18.1%)	12.99	26.08	22.69	0.64	(4.96)	(16.06)	
Condominiums (8.3%)	16.24	33.49	25.97	(2.23)	(4.54)	(19.51)	
Vacant Land (1.0%)	15.19	26.32	25.44	3.86	7.66	(7.08)	
Other (0.5%) ¹	4.89	5.30	9.67	2.97	6.46	(4.99)	
Total Residential Equalization (100%)	11.29	23.09	20.57	(0.33)	(3.38)	(12.55)	(10.00)

¹ Includes affordable dwelling units and agricultural and forestal land use properties.

Impact on Typical Fairfax County Household

<u>Fiscal Year</u>	<u>Mean Assessed Value of Residential Property</u>	<u>Real Estate Tax Rate Per \$100</u>	<u>Tax Per Household</u>
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*	\$413,305	\$1.04	\$4,298.37 (\$477.60)
FY 2011*	\$413,305	\$1.15	\$4,753.01 (\$22.97)

* Estimate

Expectations for the Residential Real Estate Market

- Continued decline in residential values through FY 2013
- Number of sales will continue to rise
- Rising interest rates – but still favorable
- Stricter lending standards

Nonresidential Real Estate



Nonresidential property values are projected to decline 18% in FY 2011

- 51 buildings with 4.5 million square feet stand empty in Northern Virginia
- Fairfax County's Office Vacancy Rates Year-end 2008
 - 12.1%
 - 14.5% with sublet space
- Commercial foreclosures
 - 2 recent foreclosures – Lincoln Park III and Monument III
 - Potentially more as properties financed in 2005 through commercial mortgage backed securities will need to find new financing by next year

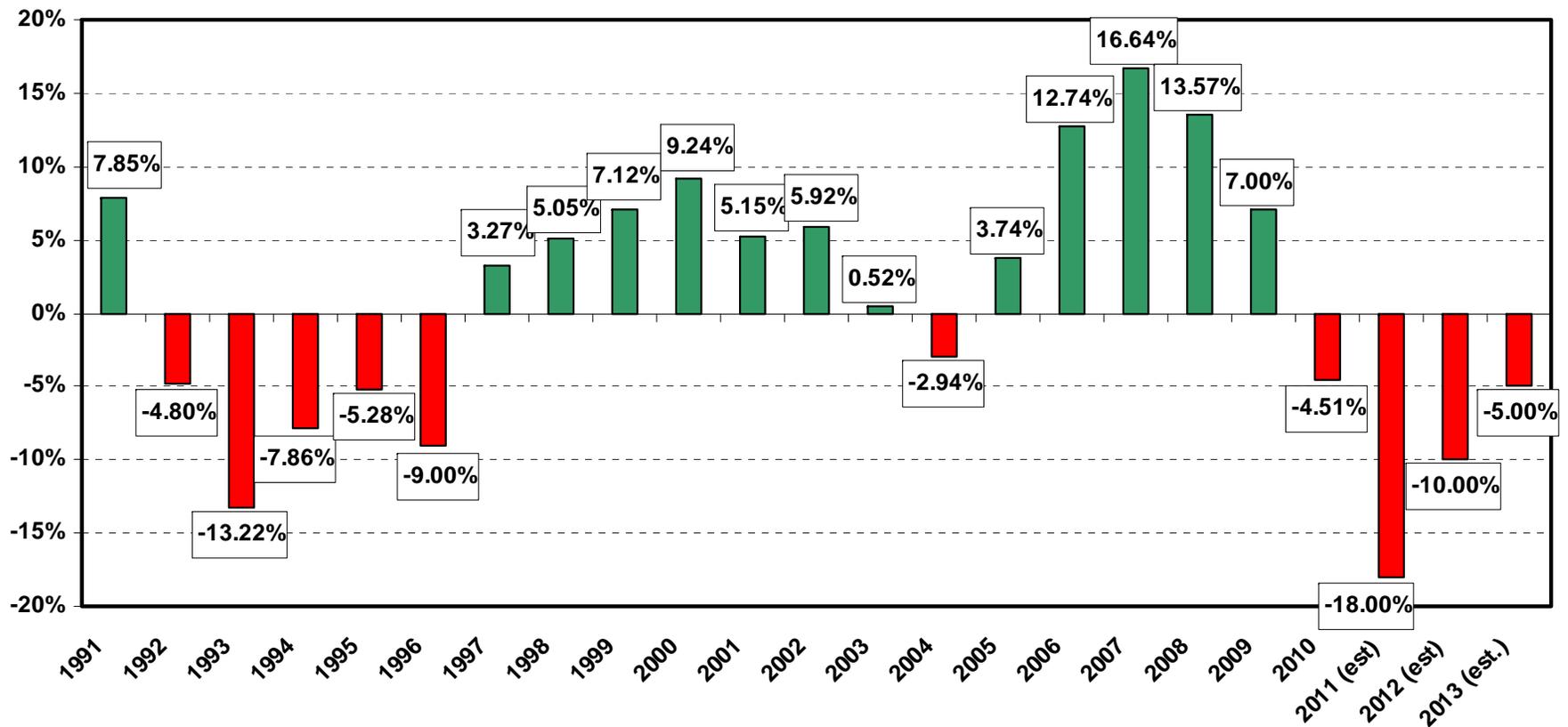
Nonresidential Real Estate



- Total 111.2 million square feet of office space
 - 4 million sq feet of new space delivered during 2008
- As of year-end 2008, 13 buildings were under construction – 1.8 million sq. ft. of space
- Speculative development
 - Of the 13 buildings, 7 are 100% speculative
 - Represents 660,000 square feet or 37% of the space under construction
- Direct available office space topped 13.4 million sq. ft. in 2008, a record year-end amount
 - An amount equal to over half of the total space in Tysons

Annual Increases in Nonresidential Equalization: FY 1990 – FY 2013

Nonresidential Equalization



Real Estate Revenues: Equalization Components

Nonresidential Equalization Percent Changes

Category (Percent of Base)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Apartments (15.6%)	1.86	11.21	11.65	22.59	6.41	(6.96)	
Office Condominiums (4.0%)	13.59	18.01	1.96	13.76	4.78	(1.10)	
Industrial (7.0%)	5.26	8.89	12.61	14.34	14.08	(1.08)	
Retail (12.0%)	7.91	10.99	18.56	7.56	7.76	(2.33)	
Regional Malls (3.0%)	3.00	4.06	2.24	12.90	1.86	0.20	
Office Elevator (39.9%)	3.27	18.81	24.16	15.93	5.68	(6.62)	
Office – Low Rise (4.2%)	5.42	17.56	23.94	10.18	9.16	(3.35)	
Vacant Land (4.7%)	7.15	10.07	21.88	14.99	7.67	(3.87)	
Hotels (4.1%)	4.48	15.34	25.54	9.58	11.28	(7.06)	
Other (5.5%)	5.15	8.52	12.19	10.05	7.63	(2.07)	
Nonresidential Equalization (100%)	3.74	12.74	16.64	13.57	7.00	(4.51)	(18.00)

Real Estate Revenues: Commercial / Industrial Percentage



- **Commercial/Industrial percentage of total real estate assessment base:**
 - FY 1990 = 26.76% (highest rate in 2 decades)
 - FY 2000 = 24.32%
 - FY 2005 = 18.20%
 - FY 2006 = 17.36%
 - FY 2007 = 17.22%
 - FY 2008 = 19.23%
 - FY 2009 = 21.06%
 - FY 2010 = 22.67%

Expectations for the Nonresidential Real Estate Market

- Office Vacancy will continue to tick up through 2009
– less construction should temper the increase
- Job loss / Job growth – major determining factor
- Financing challenges will continue
- Non-residential values are projected to decline in FY 2011 through FY 2013
- Current forecast is for values to stabilize in FY 2014
 - Nonresidential values fell for 5 straight years during the 1990s recession

Other County Revenue



Annual Growth in Major Revenue Categories (Dollars in millions)

Category	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009*	FY 2010*	FY 2011*
Real Estate	\$1,628.3	\$1,772.1	\$1,884.7	\$1,962.3	\$2,036.4	\$2,101.5	\$1,849.3
Percent Change	9.1%	8.8%	6.4%	4.1%	3.8%	3.2%	(12.0%)
Personal Property	\$454.4	\$481.7	\$508.3	\$509.7	\$513.2	\$482.9	\$485.3
Percent Change	(1.1%)	6.0%	5.5%	0.3%	0.7%	(5.9%)	0.5%
Sales Tax	\$147.8	\$152.5	\$159.2	\$160.9	\$154.2	\$148.1	\$149.6
Percent Change	5.5%	3.2%	4.4%	(1.0%)	(4.1%)	(4.0%)	1.0%
BPOL	\$115.1	\$125.2	\$132.5	\$138.3	\$139.7	\$136.9	\$139.7
Percent Change	12.9%	8.7%	5.9%	4.4%	1.0%	(2.0%)	2.0%
Recordation & Deeds	\$48.7	\$51.4	\$41.7	\$29.9	\$24.5	\$24.5	\$24.7
Percent Change	57.8%**	5.6%	(19.0%)	(28.2%)	(18.1%)	0.0%	1.0%
Investment Interest Yield	\$27.8	\$70.1	\$92.1	\$78.2	\$36.7	\$10.8	\$12.7
	1.7%	4.2%	5.1%	4.5%	2.0%	0.50%	0.75%

* Preliminary estimates as of June 2009

** Recordation Tax rate increased from \$0.05/\$100 value to \$0.0833/\$100 value in FY 2005

Personal Property Tax – Current \$482.9 million, 14.5% of General Fund

- Approximately 945,000 vehicles in the County
- Vehicle component comprises nearly 74% of total receipts
- Automotive market trending downward
 - New taxable titles in Virginia have fallen to their lowest levels since April 1991.
 - New model vehicle registrations in Fairfax during the first 5 months of the year have fallen 10% from the same period of 2008
 - Used vehicle values have fallen to May 2002 levels – due to weak demand.
 - Bankruptcy of automakers may flood the market with vehicles further lowering prices
- Growth Projected: (5.9%) FY 2010; 0.5% FY 2011

Collection Rates

Real Estate and Personal Property Taxes

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>
2000	99.63%	97.3%
2001	99.53%	97.1%
2002	99.65%	96.3%
2003	99.67%	96.8%
2004	99.61%	96.9%
2005	99.62%	97.9%
2006	99.62%	98.1%
2007	99.64%	98.3%
2008	99.66%	98.0%
2009*	99.61%	98.0%
2010*	99.61%	98.0%

*Estimate

Sales Tax

\$148.1 million, 4.5% of General Fund

- Sales Tax receipts have worsened significantly over the past 3 months
 - Down 1.8% year-to-date through March 2009
 - Average decline of 11.8% from April through June
 - Expect receipts to be down 4.1% in FY 2009

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

- Growth Projected: (4.0%) FY 2010; 1.0% FY 2011

Business, Professional and Occupational Licenses, (BPOL), \$136.9 million, 4.1% of General Fund

- Preliminary figures show that BPOL receipts were higher in FY 2009 than originally projected
 - Stronger first half of calendar year 2008 tempered the downturn in the final quarter of the year

- Economic decline will impact FY 2010 BPOL receipts
 - Lower Sales Tax receipts indicates decline in retail sector
 - BPOL receipts from housing sector will remain low
 - Consultant category flattening

- Growth Projected: (2.0%) FY 2010; 2.0% FY 2011

Deed of Conveyance / Recordation Taxes

\$24.5 million, 0.7% of General Fund

- Early FY 2009 collection trends indicated a decline of nearly 32%
- Mortgage refinancing surged in early 2009 and receipts are expected to be down 18.1% below FY 2008
- Fed purchased mortgage-backed securities to relax the credit crunch and lower interest rates
 - 30-year fixed rate fell below 5.0% from March through May 2009
 - As of mid-June rates had risen to 5.59%
- Higher rates are reducing mortgage refinancing and are expected to dampen demand for home purchases
- Harder to qualify based on tighter lending standards
- Growth Projected: 0.0% FY 2010; 1.0% FY 2011

Investment Interest

\$10.8 million, 0.3% of General Fund

- Current Market is Impacting Portfolio Diversification
 - Treasury bills yielding low rates due to Federal Reserve actions
 - Rates from Freddie Mac and Fannie Mae are no longer higher than T-bills since the federal government had to intervene to prevent failure
 - Little commercial paper being offered
 - Large percentage of the portfolio is currently invested in CDs

Fiscal Year	Yield	Investment Income (millions)
2007	5.11%	\$92.1
2008	4.46%	\$78.2
2009*	2.00%	\$36.7
2010*	0.50%	\$10.8
2011*	0.75%	\$12.7

*Estimate

Revenue from the Commonwealth

\$95.6 million, 2.9% of General Fund

- Actions by the Commonwealth have reduced County revenue by \$15.1 million over the past 2 years
 - \$5.7 million in FY 2009
 - \$9.4 million in FY 2010

- Further slowing of state revenues will require additional FY 2010 cuts
 - Year-to-date through April, State revenue is down 8.6%, the largest drop on record

- FY 2010 Adopted Budget includes \$1.2 million in reserve for further state cuts during the year

FY 2011 Revenue Shortfall

- Revenue loss of \$232.5 million or a decrease of 7.02%
- Prior to any funding requirements to support County budget

FY 2011 Disbursement Projections



FY 2011 Disbursement Assumptions

No Growth

- No pay increases for County Employees
 - County
 - Pay For Performance \$15m
 - Merit \$5m
 - 2% market rate adjustment \$19m
 - Schools
 - Step \$37m
 - 2% market rate adjustment \$35m
- No increase in Schools Transfer
- No increase in capital funding
- No increase in IT funding
- No increase in Metro/CONNECTOR funding

FY 2011 Disbursement and Balance Requirements

□ Projected increase in employer contribution for retirement based on investment loss to remain in corridor	\$35.0 million
□ Projected debt service requirements	\$19.3 million
□ County \$ 5.1	
□ Schools \$14.2	
□ One time balances used in FY 2010 which are not recurring	\$15.8 million
□ Other (contract rate increases, utilities, workers compensation, etc.)	<u>\$13.0 million</u>
TOTAL REQUIRED	\$83.1 million

FY 2011 Projected Deficit

FY 2011 projected deficit = \$315.6 million

Deficit due to:

Loss of Revenue \$232.5 million

Disbursement/balance requirements \$83.1 million

Includes No funding for salary adjustments/inflation!!!

FY 2009 Projected Balances

FY 2010 Budget Status



FY 2009 Budget

- Revenues: Potential increase of **\$30.0m** or 1% above estimates
 - BPOL \$10.0m
 - Interest on Investments \$8.0m
 - Additional Public Assistance/
Lower State Revenue Cut \$8.0m
 - Recordation/Deed of Conveyance \$4.0m

- Disbursements: Potential of **\$20.0m** balance
 - Employee Benefits, Fire/Police, Family Services, LDS

- FY 2009 Carryover Requirements
 - Replenish Revenue Stabilization Reserve **\$18.7 million**
 - Other Requirements

FY 2010 Adopted Budget Plan

- Total Disbursements \$3.3 Billion
 - Decrease of \$92 million from FY 2009 Revised Budget
 - Decrease of \$22 million from FY 2009 Adopted Budget
- Includes reductions of \$90.7 million and 306 positions

Program Area	Positions Reduced
Legislative/Executive	81
Public Safety	64
Parks, Rec., & Libraries	57
Community Development	26
Health and Welfare	26
Public Works	9
Judicial Administration	6
Other	37

- Board restored \$22.7 million or 218 positions, including 139 in Public Safety and 62 in Health and Welfare

Summary of Position Changes FY 1991 – FY 2010

Authorized Positions - All Funds

	From	To	Abolished	New Facilities	Other Changes	Other Reviews	Total Change	Positions Per 1,000 Citizens ¹
FY 1991 to FY 1992	11,164	11,124	(153)	41	20	52	(40)	13.57
FY 1992 to FY 1993	11,124	10,628	(588)	0	13	79	(496)	12.58
FY 1993 to FY 1994	10,628	10,685	(88)	62	56	27	57	12.46
FY 1994 to FY 1995	10,685	10,870	(157)	94	131	117	185	12.48
FY 1995 to FY 1996	10,870	11,016	(49)	60	76	59	146	12.38
FY 1996 to FY 1997	11,016	10,782	(477)	150	(14)	107	(234)	11.90
FY 1997 to FY 1998	10,782	10,802	(56)	4	43	29	20	11.72
FY 1998 to FY 1999	10,802	10,911	(35)	26	41	77	109	11.62
FY 1999 to FY 2000	10,911	11,108	(17)	106	26	82	197	11.59
FY 2000 to FY 2001	11,108	11,317	0	25	107	77	209	11.58
FY 2001 to FY 2002	11,317	11,385	(2)	14	39	17	68	11.45
FY 2002 to FY 2003	11,385	11,498	(48)	70	1	90	113	11.40
FY 2003 to FY 2004	11,498	11,443	(124)	49	0	20	(55)	11.25
FY 2004 to FY 2005	11,443	11,547	(4)	56	0	52	104	11.23
FY 2005 to FY 2006	11,547	11,742	(21)	163	50	3	195	11.34
FY 2006 to FY 2007	11,742	11,936	0	159	16	19	194	11.48
FY 2007 to FY 2008	11,936	12,024	0	70	0	18	88	11.52
FY 2008 to FY 2009 Revised	12,024	12,101	0	0	33	44	77	11.53
FY 2009 RBP to FY 2010 Adopted	12,101	11,795	(308)	0	2	0	(306)	11.17
Total	11,164	11,795	(2,127)	1,149	640	969	631	

FY 2011 Budget Strategy

FY 2011 Deficit	\$315.6 million
11 cents increase in real estate tax rate will hold residential taxpayer flat	\$199.1 million
Vehicle Registration Fee	\$ 27.0 million
Other actions	TBD