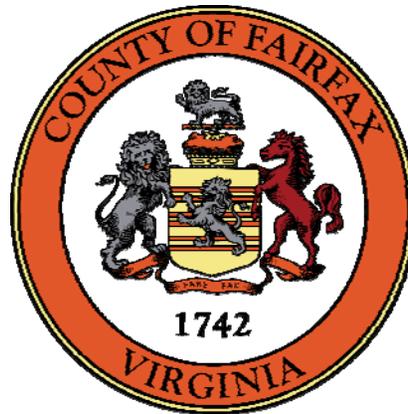


***Joint Meeting of the
Fairfax County Board of Supervisors and the
Fairfax County School Board***

September 29, 2009



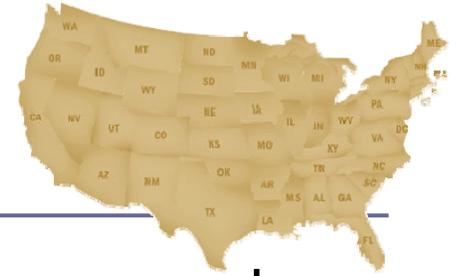
Fiscal Outlook

*Preliminary information for planning purposes only.
No Board of Supervisors action has been taken.*

Revenue and Economic Outlook

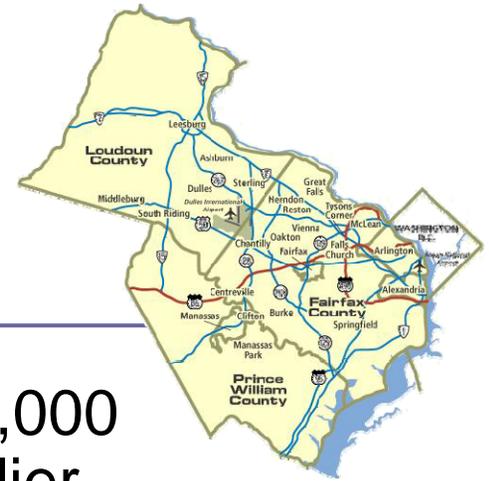


National Economy



- Federal Reserve has indicated that the economy may have bottomed out but unemployment may continue to rise through mid-2010
 - Unemployment rate of 9.7% as of August 2009
 - As of August 2009, a net of 6.9 million jobs lost since the beginning of the recession
 - Economy contracted 1.0% in the 2nd quarter of 2009 after decreasing 5.7% in the 1st quarter of 2009 and 6.3% in the 4th quarter of 2008
 - Consumer Confidence hit record lows early in 2009 but has rebounded somewhat
 - Inflation in check

Northern Virginia / Fairfax County Economy



- Number of jobs in Northern Virginia declined 13,000 or 1.0% in August 2009 compared to a year earlier
 - 10th straight month of job losses
- Fairfax County's unemployment rate was 4.8% in July
 - During the last two downturns, unemployment never exceeded 4.0%
- Total unemployment insurance claims in Fairfax County rose 116% to 5,818 claims from July 2008 to July 2009
- Federal procurement spending increased to \$17.0 billion in Fairfax County in FY 2008 for a gain of 24.2 percent over FY 2007

Fairfax County's Housing Market

- Price declines continue in 2009
 - Average price down double digits in each month January through May
 - Declines moderated considerably in June, July, and August

- Approximately 969 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 11% during the first 8 months 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%) | 4,146 | 9.0% |
| 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*

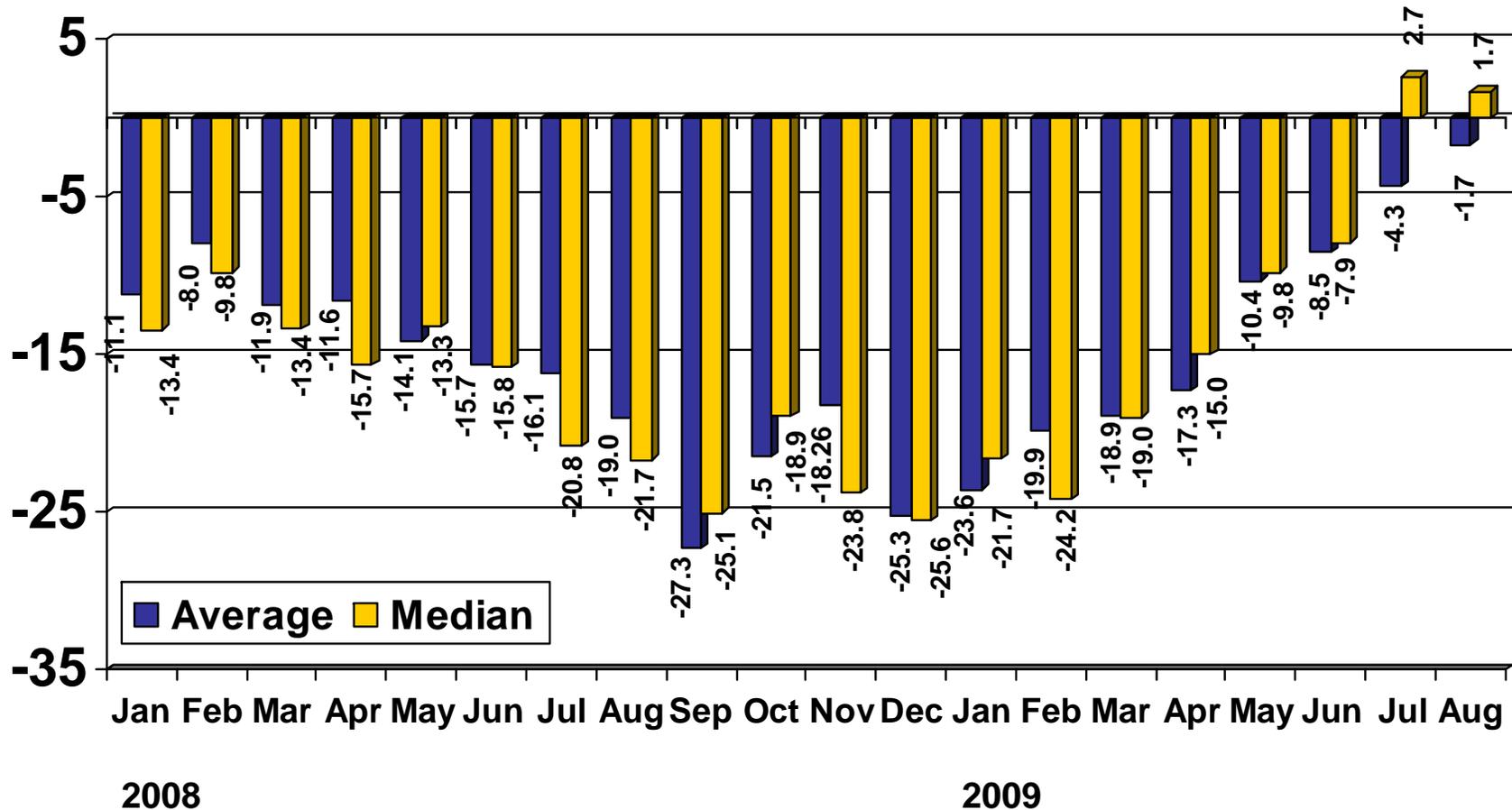
| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|-------|-------------|-------------|-------------|-------------|-------------|
| March | 1,534 | 6,542 | 6,183 | 8,014 | 6,105 |
| June | 3,181 | 9,153 | 8,309 | 8,235 | 5,721 |
| Sept | 5,165 | 8,455 | 8,438 | 7,106 | |
| Dec | 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

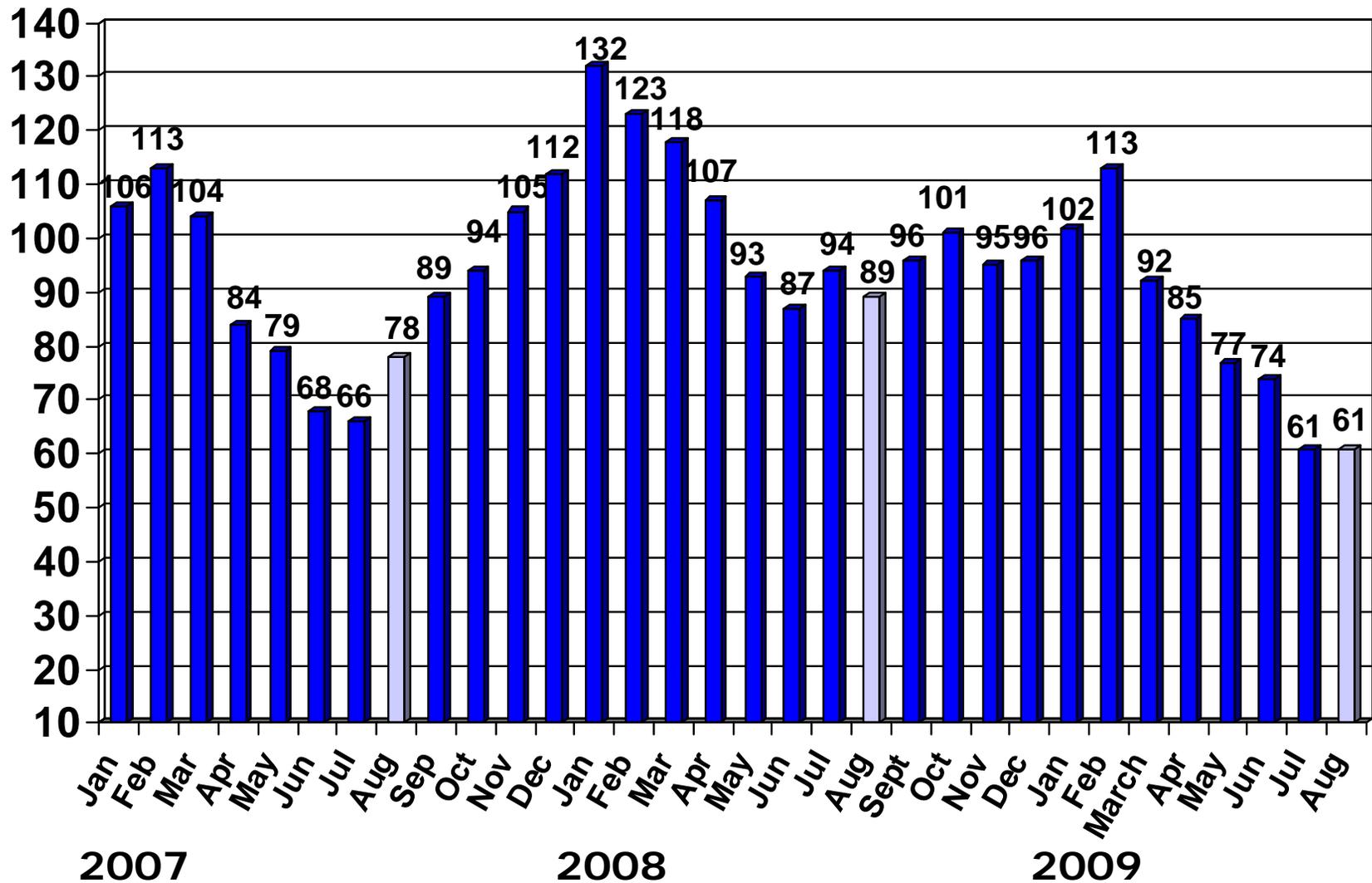
Source: Metropolitan Regional Information Systems (MRIS)

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

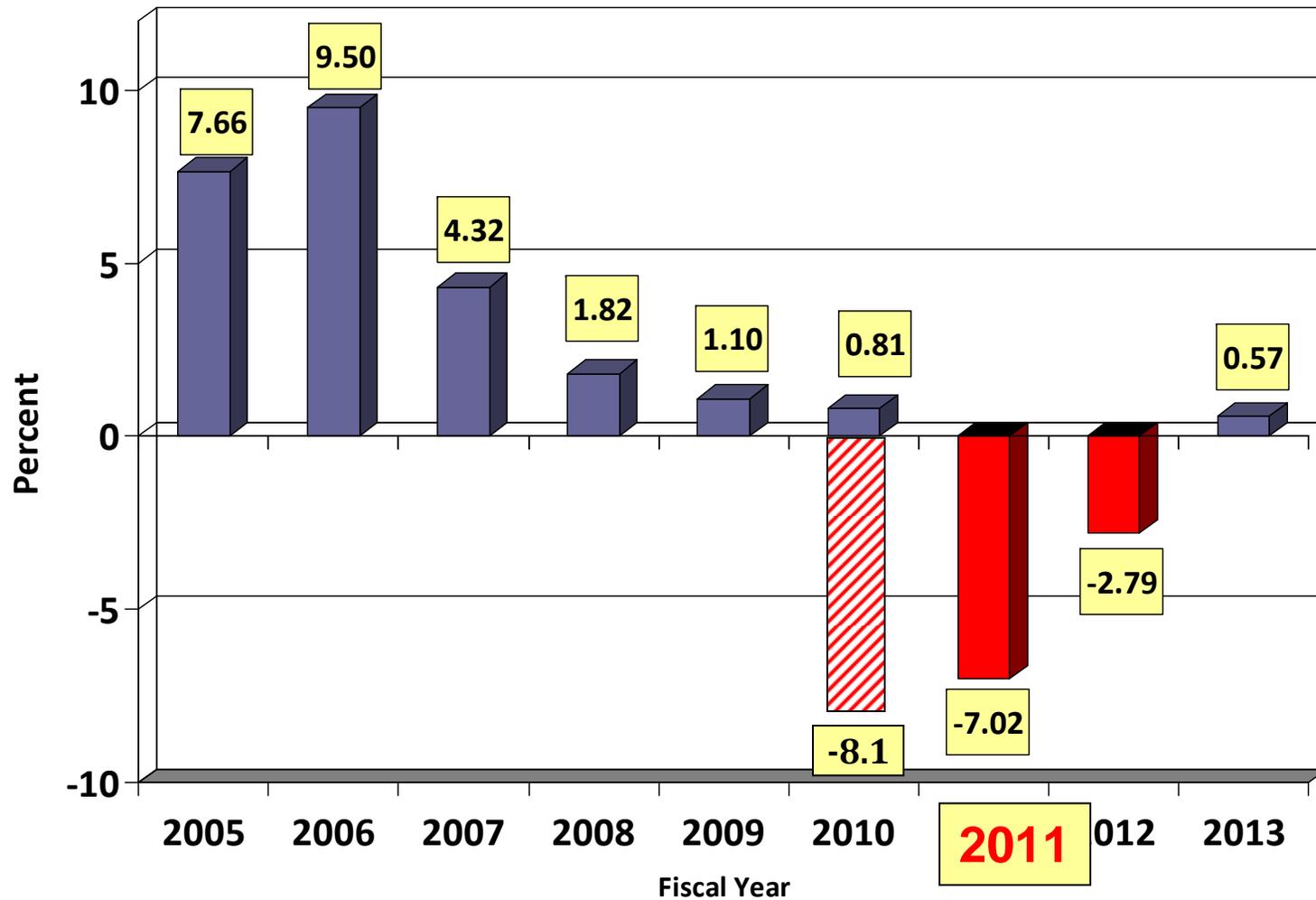
| District | Sept 2008 (peak) | 12-month Average April 2008 to March 2009 | April 2009 | May 2009 | June 2009 | July 2009 | August 2009 |
|--------------|------------------|---|--------------|--------------|--------------|------------|-------------|
| Braddock | 239 | 215 | 152 | 114 | 103 | 90 | 104 |
| Dranesville | 233 | 212 | 115 | 102 | 87 | 86 | 86 |
| Hunter Mill | 146 | 121 | 62 | 58 | 70 | 64 | 77 |
| Lee | 360 | 330 | 219 | 183 | 165 | 141 | 127 |
| Mason | 300 | 239 | 160 | 142 | 128 | 117 | 128 |
| Mt. Vernon | 320 | 291 | 217 | 183 | 170 | 152 | 156 |
| Providence | 197 | 171 | 128 | 112 | 95 | 81 | 89 |
| Springfield | 162 | 139 | 95 | 89 | 81 | 62 | 67 |
| Sully | 300 | 263 | 199 | 161 | 131 | 128 | 135 |
| TOTAL | 2,257 | 1,981 | 1,347 | 1,144 | 1,030 | 921 | 969 |

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%.

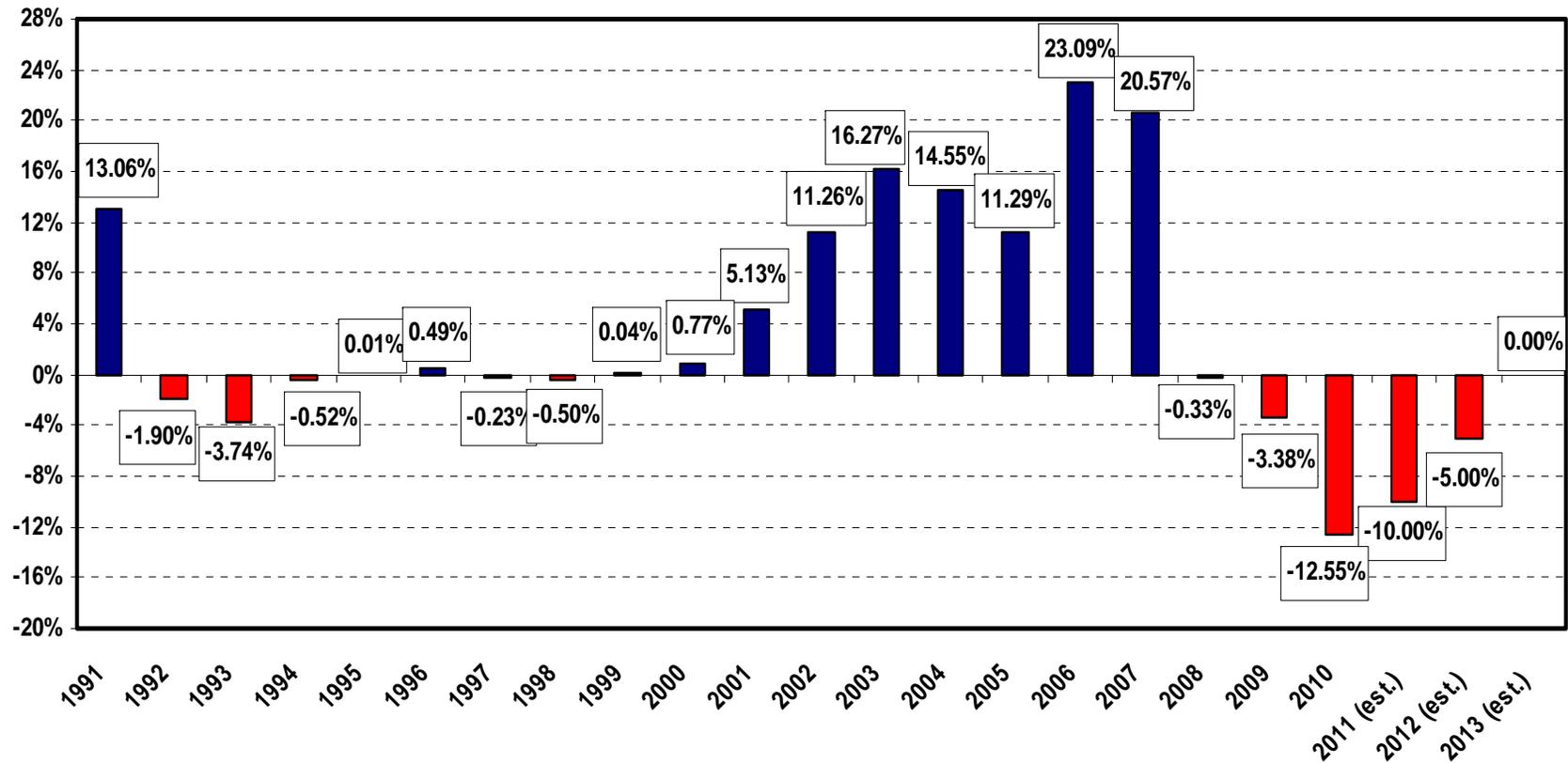
Real Estate Tax Base

| | 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% |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | |
| 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 | | | | | | | | | |
| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | | | | |
| 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 2012
- Number of sales will continue to rise
- Mortgage rates expected to remain 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 at 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

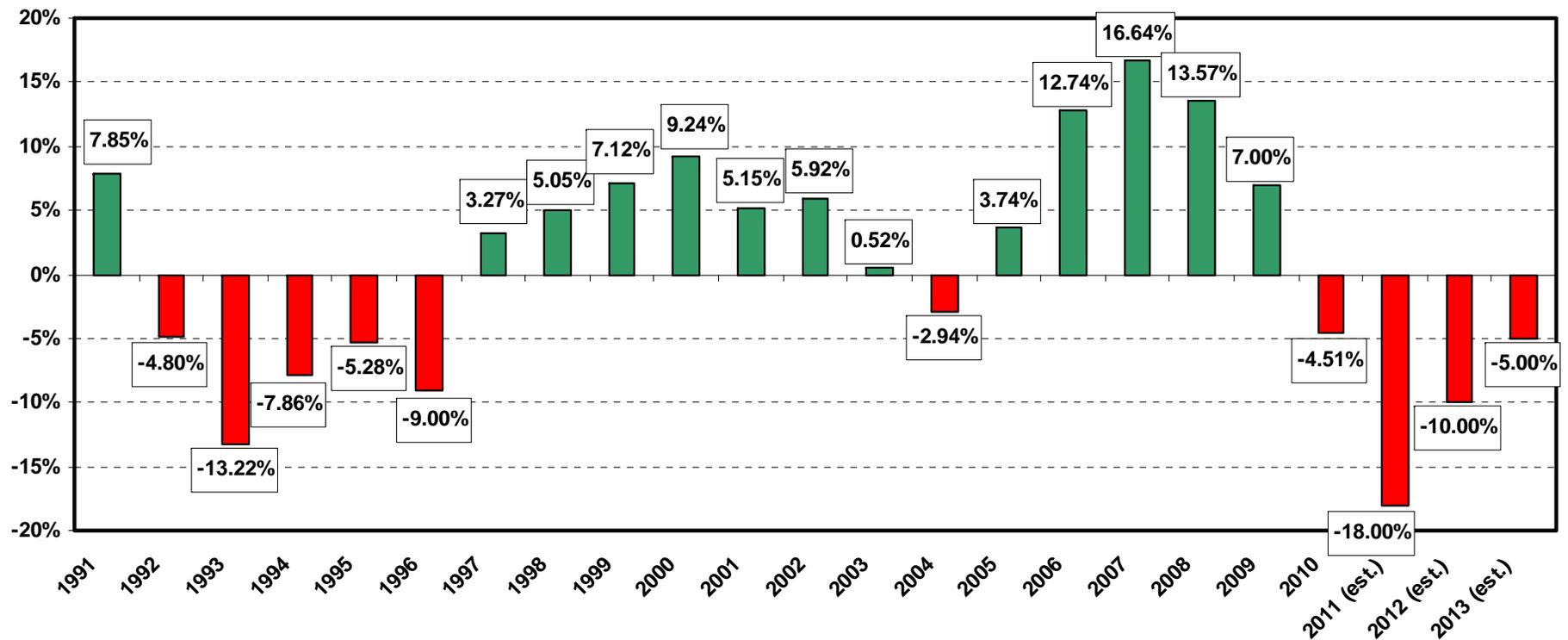
Nonresidential Real Estate



- 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 | \$2,035.7 | \$2,101.5 | \$1,849.3 |
| Percent Change | 9.1% | 8.8% | 6.4% | 4.1% | 3.7% | 3.2% | (12.0%) |
| Personal Property | \$454.4 | \$481.7 | \$508.3 | \$509.7 | \$516.5 | \$482.9 | \$485.3 |
| Percent Change | (1.1%) | 6.0% | 5.5% | 0.3% | 1.3% | (6.5%) | 0.5% |
| Sales Tax | \$147.8 | \$152.5 | \$159.2 | \$160.9 | \$153.9 | \$148.1 | \$149.6 |
| Percent Change | 5.5% | 3.2% | 4.4% | 1.0% | (4.4%) | (3.8%) | 1.0% |
| BPOL | \$115.1 | \$125.2 | \$132.5 | \$138.3 | \$140.0 | \$136.9 | \$139.7 |
| Percent Change | 12.9% | 8.7% | 5.9% | 4.4% | 1.2% | (2.2%) | 2.0% |
| Recordation & Deeds | \$48.7 | \$51.4 | \$41.7 | \$29.9 | \$25.0 | \$24.5 | \$24.7 |
| Percent Change | 57.8%** | 5.6% | (19.0%) | (28.2%) | (16.4%) | (2.0%) | 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% |

**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
 - New model vehicle registrations are down 2.8% through August
 - July and August registrations were up 10.8% due to cash for clunkers
 - Used vehicle values are stabilizing due to lower inventory
 - Trade-ins under Cash for Clunkers were destroyed
 - Fleet vehicles are being held longer
- Growth Projected: (6.5%) 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% |

*Estimates

Sales Tax

\$148.1 million, 4.5% of General Fund

- Sales Tax receipts have worsened
 - FY 2009 receipts were down 4.4% in FY 2009
 - Down 6.3% for the first 2 months of FY 2010

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

- Growth Projected: (3.8%) FY 2010; 1.0% FY 2011

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

- Actual FY 2009 BPOL receipts were higher than expected – up 1.2%
 - 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
 - Payroll employment (jobs) has declined in the retail, financial, and construction sectors but risen in the professional/business services sector

- Growth Projected: (2.2%) FY 2010; 2.0% FY 2011

Deed of Conveyance / Recordation Taxes

\$24.5 million, 0.7% of General Fund

- FY 2009 actual collections declined 16.4%
 - Third consecutive annual decrease
- Fed purchased mortgage-backed securities to relax the credit crunch and lower interest rates
 - 30-year fixed rate mortgages
 - Fell below 5.0% in April and May
 - Rose to 5.4% in June
 - As of mid-September, rates were just slightly above 5.0%
- Lower rates will may encourage more home purchases and mortgage refinancing, but:
 - Harder to qualify based on tighter lending standards
 - First time home buyer tax credit ends November 30
- Growth Projected: (2.0%) 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 | 2.10% | \$36.5 |
| 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
- Governor Kaine's additional FY 2010 reductions are at least \$4.1 million for Fairfax County
- FY 2010 Adopted Budget includes \$1.2 million in reserve for state cuts in FY 2010
- Additional funding reductions are expected in FY 2011 when Virginia's FY 2010-FY 2012 Biennium Budget is released in December

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 and Budget Strategy



FY 2011 Disbursement Assumptions

No Growth

- No pay increases for County Employees
- If employee compensation was fully funded for FY 2011, the cost would be:
 - County
 - Pay For Performance \$15 million
 - Merit \$5 million
 - 2% market rate adjustment \$19 million
 - Schools
 - Step \$39.5 million
 - 2% market rate adjustment \$35 million
- 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 | \$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 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 |

*Preliminary information for planning purposes only.
No Board of Supervisor action has been taken.*