



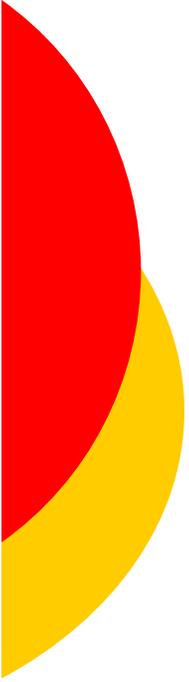
Fiscal Outlook



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

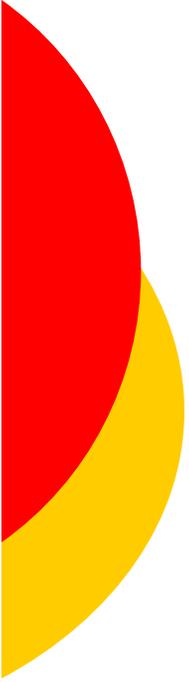
**Edward L. Long, Jr.
Deputy County Executive**

July 18, 2008



Risks to Worsening Economic Outlook

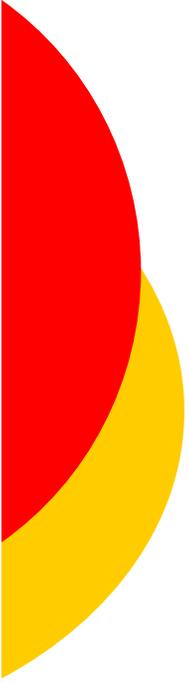
- Threat of recession
- Consumer Confidence
- Impact of the housing market slowdown on the broader economy especially job growth
- Tighter lending standards and affect on consumer spending especially on autos and other durable goods
- Rising energy costs
- State budget cuts impacting local jurisdictions



Consumer Confidence – June 2008

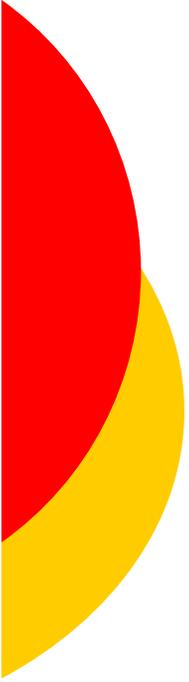
- Consumer Confidence Index June 2008 = 50.4
 - lowest since February 1992
 - fifth lowest ever

- University of Michigan's Index of Consumer Sentiment 56.4
 - lowest since May 1980
 - third lowest ever



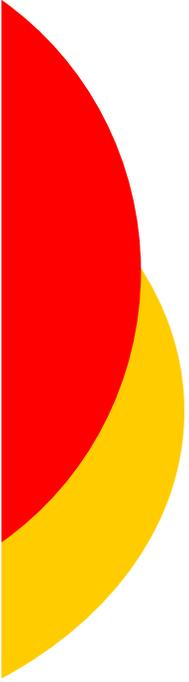
Job Growth – Fairfax County

- 5,700 net new jobs in calendar year 2007
- 4,000 net new jobs for 12 months ending April 2008
- Initial claims for unemployment insurance rising
 - Up 39% from last year



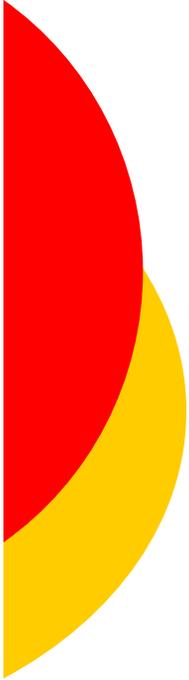
Federal Procurement Contracts in Fairfax County

- Federal Procurement Contracts in Fairfax County rose an average of 17.7% per year from FY 2001 through FY 2004
- Since FY 2004, growth has been just 4.6%
- No significant growth is anticipated for the next few years impacting job creation



Consumer Credit

- Delinquencies – 1st Quarter 2008
 - 6.4% of all mortgages were considered delinquent, up from 4.8% last year
 - 13.5% of subprime loans were “seriously delinquent” compared to 1.8% for prime loans
- Weak economy affecting other credit lines
 - Home equity lines of credit delinquencies were the highest since 1997
 - Credit card delinquencies the rose above its five year average rate
- No impact on FY 2008 collection rates
 - Real Estate – 99.6%
 - Personal Property – 98.0%



Energy Prices

- County's Cost to Purchase Gasoline

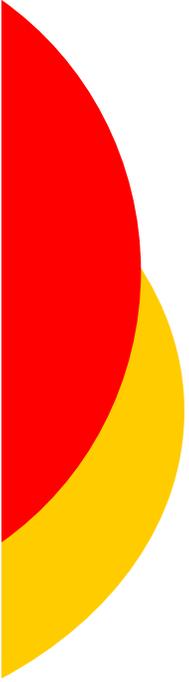
	January 2008	July 2008
Unleaded	\$2.32	\$3.53
Diesel	\$2.70	\$4.13

- Total Cost of Gasoline

- FY 2007: \$19.3 million
- FY 2008: \$27.2 million
- FY 2009 projected: \$40.6 million

- Electricity costs projected to rise \$2.0 million in FY 2009 due to fuel factor increase on July 1

- 16% to 25% for non-streetlight accounts
- 5% to 13% for streetlights



State Budget

- State Budget cut \$50 million from aid to localities in both FY 2009 and FY 2010
 - County's reduction expected to be \$4.0 million each year based on preliminary State information
- June 2008 Revenue Briefing
 - State's FY 2008 General Fund revenue growth is expected to be 1.5% to 2.0% over FY 2007
 - Recent trends indicate a risk to FY 2009 State revenue
 - Withholding tax collections rising just 2.6%
 - Sales Tax increasing 1.4%

Homes Sold in Fairfax County

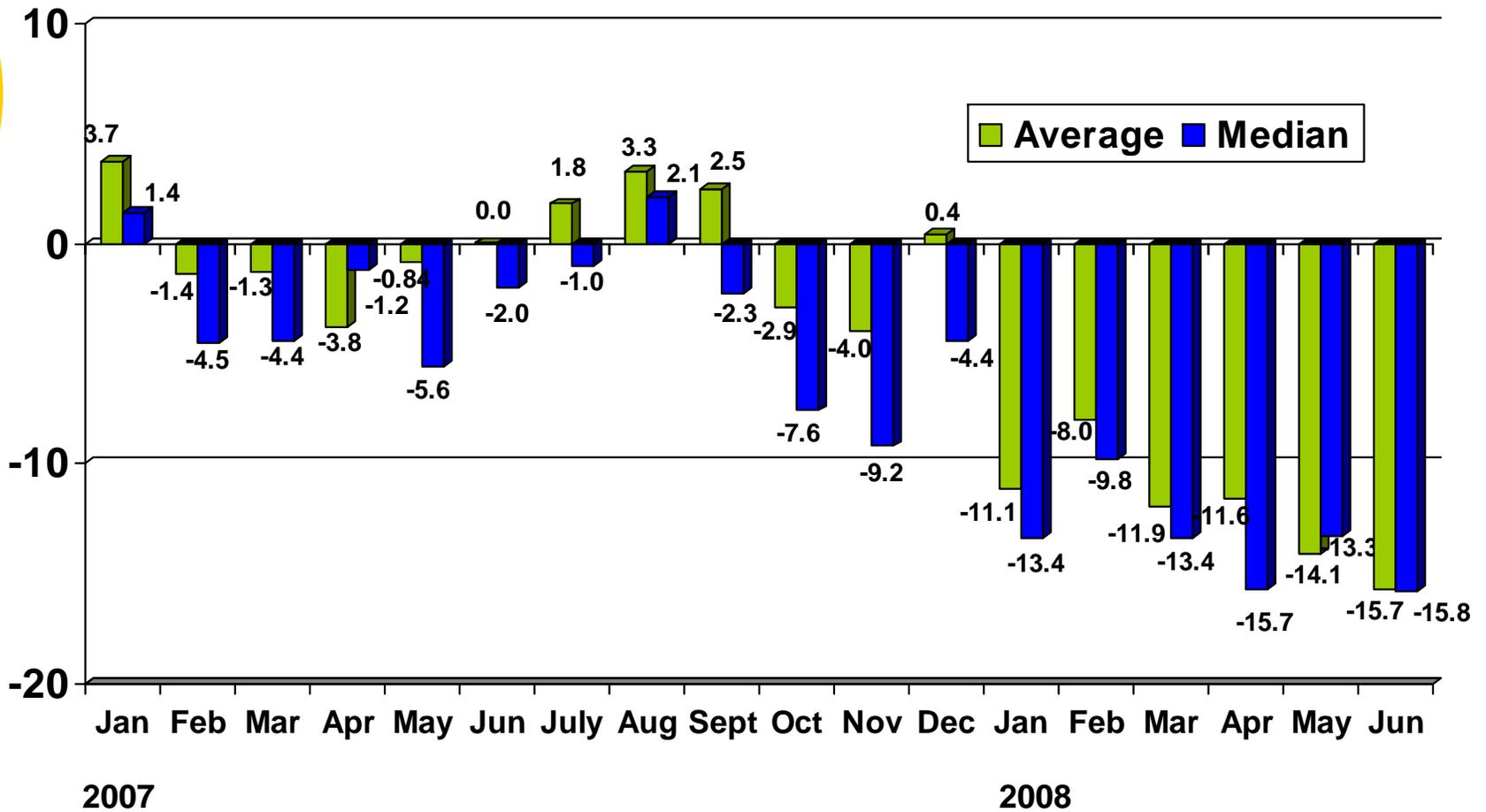


	<u>2006</u>	<u>Percent Change</u>	<u>2007</u>	<u>Percent Change</u>	<u>2008</u>	<u>Percent Change</u>
1 st Quarter	3,289	(22.9%)	3,304	0.5%	2,171	(34.3%)
2 nd Quarter	4,617	(32.3%)	3,836	(16.9%)	3,804	(0.8%)
3 rd Quarter	3,926	(40.6%)	3,241	(17.4%)		
4 th Quarter	4,482	(17.2%)	3,195	(28.7%)		
TOTAL	16,314	(29.4%)	13,557	(16.9%)		

Source: Metropolitan Regional Information Systems (MRIS)

Note: Home Sales in 2005 were down 10.1% from the peak of 25,717 in 2004

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



Source: Metropolitan Regional Information Systems (MRIS)

Average Sales Price to List Price



Sales to List Price - Fairfax County*

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
March	101.0%	97.0%	94.6%	91.3%
June	100.4%	96.0%	95.4%	92.9%
Sept	98.0%	93.8%	92.7%	
Dec	96.7%	93.5%	90.6%	

*Figures represent the end of each quarter

Source: Metropolitan Regional Information Systems (MRIS)

Active Listings



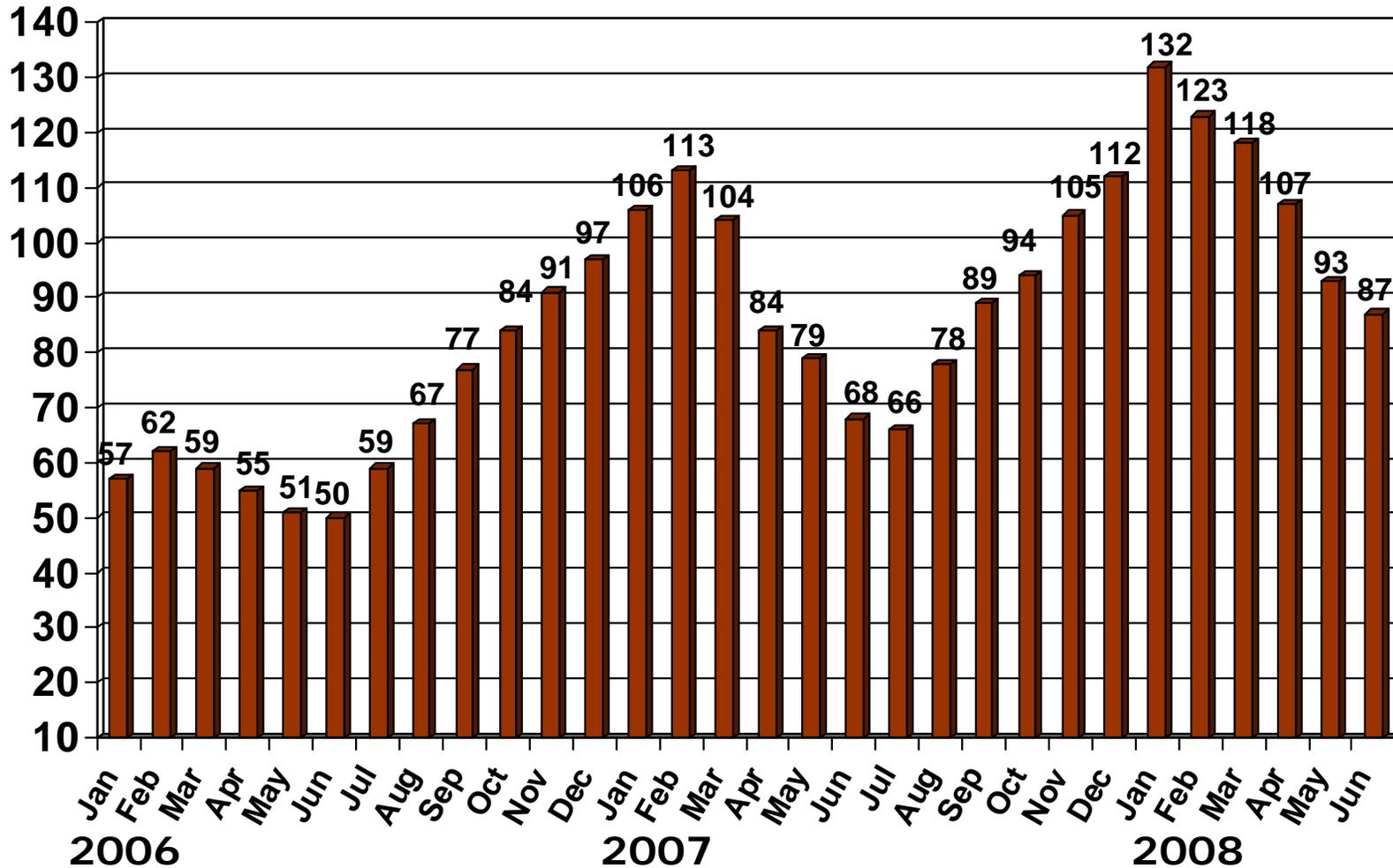
Active Listings - Fairfax County*

	2004	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
March	1,568	1,534	6,542	6,183	8,014
June	2,799	3,181	9,153	8,309	8,235
Sept	2,755	5,165	8,455	8,438	
Dec	1,227	4,218	5,420	6,915	

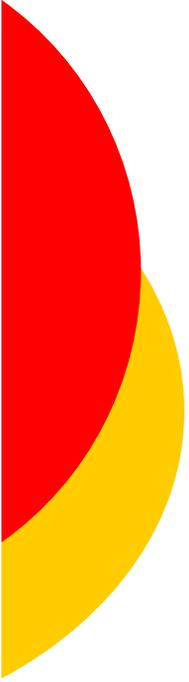
*Figures represent the end of each quarter

Source: Metropolitan Regional Information Systems (MRIS)

Average Days to Sell a Home in Fairfax County

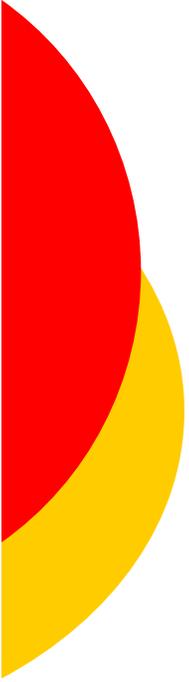


Source: Metropolitan Regional Information Systems (MRIS)



Differences in Foreclosure Statistics

- County is collecting various foreclosure statistics
 - RealtyTrac – all foreclosure filings
 - GMU Study – Notice of Impending Auction
 - Department of Tax Administration – property owned by bank
- All data show a significant increase



Foreclosure Statistics – RealtyTrac

- RealtyTrac statistics represent foreclosure filings – default notices, auction notices (notice of sale), and bank repossessions
 - A leading indicator – owners in distress
 - Widely reported national, state and local statistics
 - Shows a trend over time
 - Counts the same property as it goes through the foreclosure process
 - Shows an 8 fold increase in the first 5 months of 2008 compared to the same period of 2007
 - Foreclosure filings have accelerated in 2008 indicating that bank owned property may increase

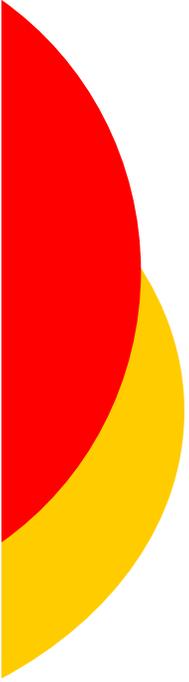
RealtyTrac Foreclosure Statistics

	Foreclosure Filings*		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
1 st Quarter	121	347	3,518
2 nd Quarter	128	640	3,881
3 rd Quarter	229	1,818	
4 th Quarter	<u>115</u>	<u>1,722</u>	
Total	593	4,527	

Source: Realtytrac

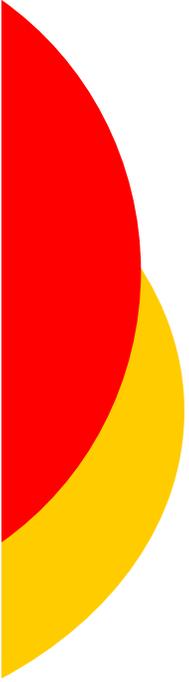


*Foreclosure filings include default notices, auction sale notices and bank repossessions that occur during the month



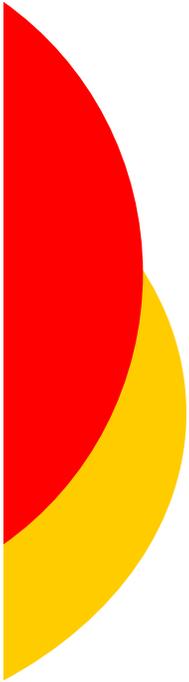
Foreclosure Statistics – GMU Study

- GMU purchased detailed data from RealtyTrac
 - Eliminated duplicative addresses
 - Defined foreclosure as properties that had received a “notice of sale”
 - Found that from March 2007 through February 2008, there were 2,058 properties in Fairfax County in foreclosure, i.e. had received a “Notice of Sale”
 - 22% of these foreclosures were in Herndon, Centreville, Lorton and the Route 1 corridor
 - Potential hot spots for new foreclosures also include the Falls Church section of Fairfax County and Vienna

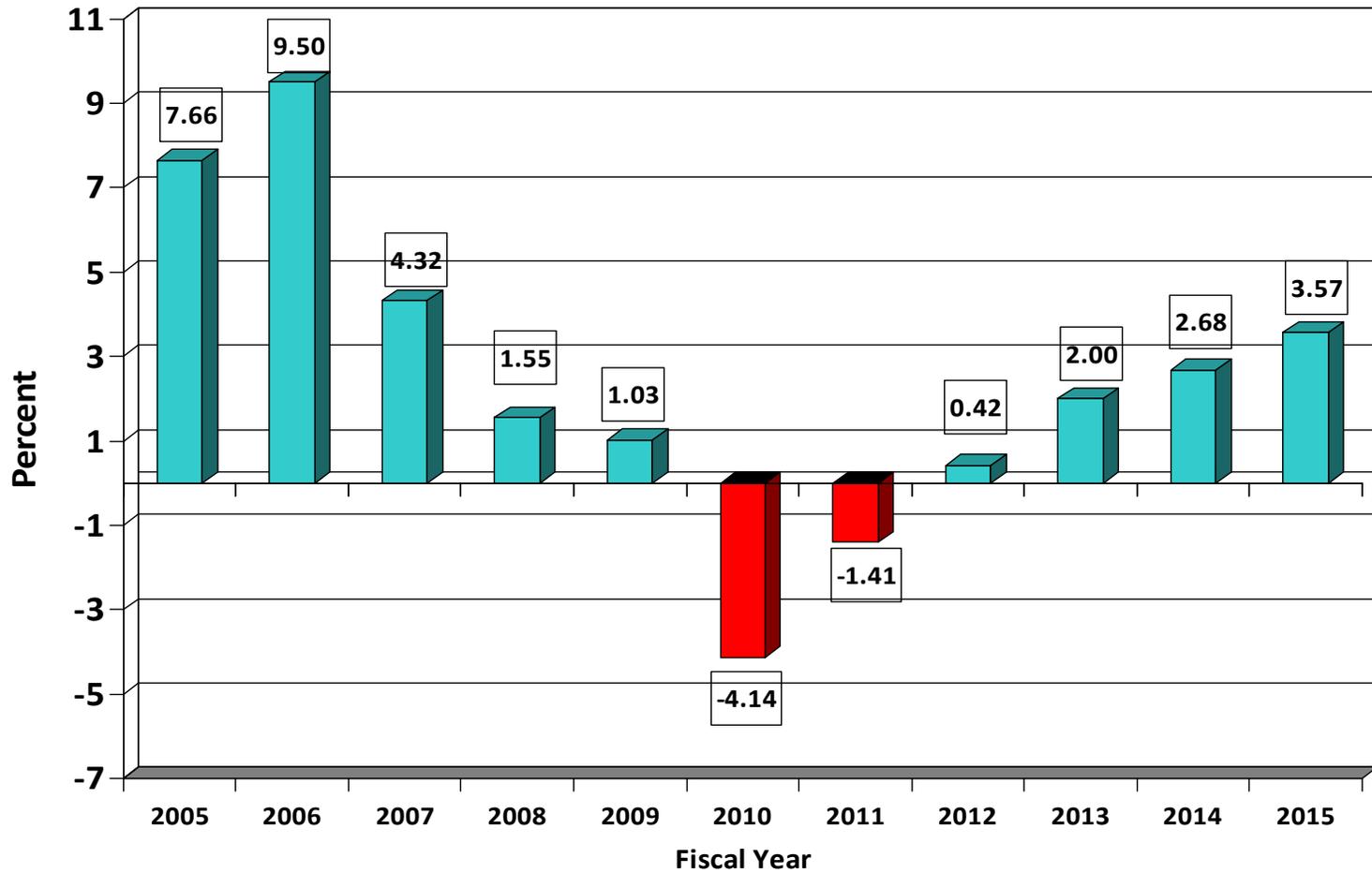


Foreclosure Statistics – Department of Tax Administration

- DTA statistics represent a net number of “known” bank owned properties at a point in time
 - A lagged indicator - homes have completed the foreclosure process
 - Originally collected to determine vacant properties that might fall into disrepair
 - Banks are not required to record the deed after repossession
 - Virginia finance officials indicate that many banks do not record a deed in order to avoid recordation taxes
 - At the end of June 2008, 1,900 properties were owned by mortgage lenders compared to 200 in January 2006



Revenue Growth Rates



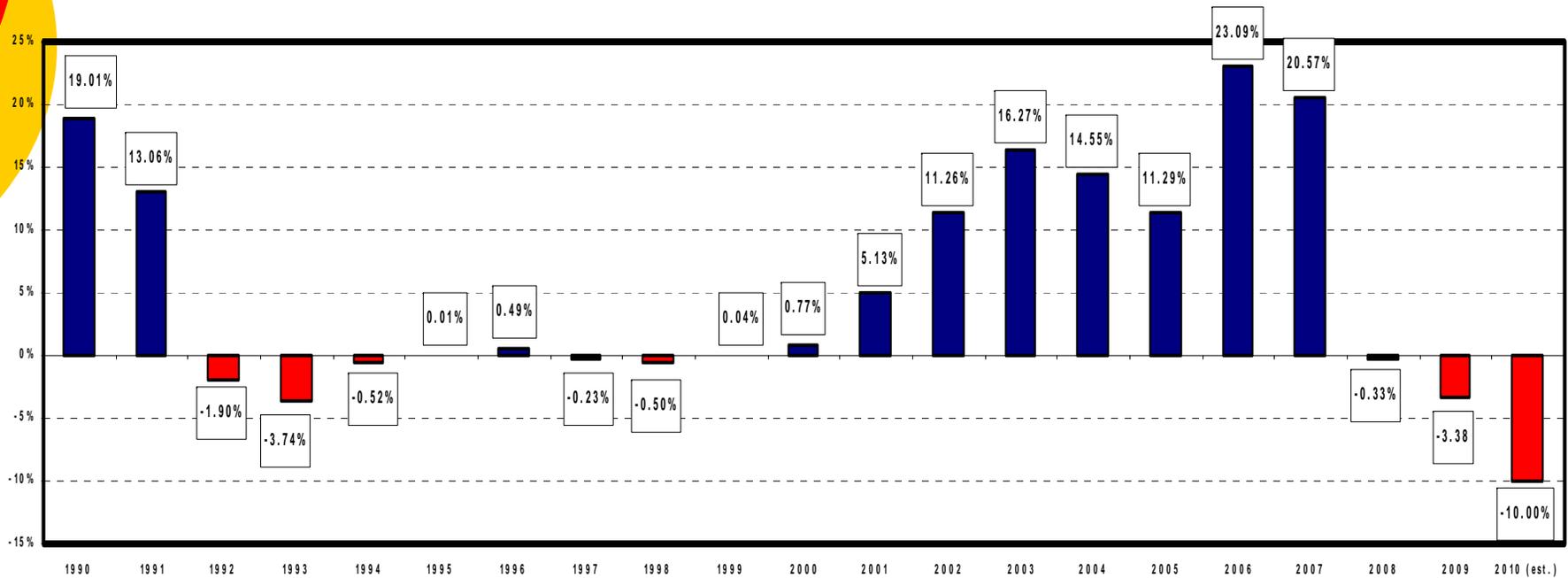
Real Estate Tax Base

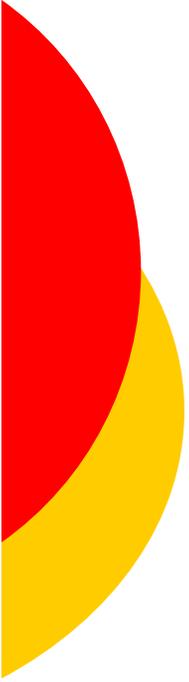
	1991	1992	1993	1994	1995	1996	1997	1998	1999	
Equalization	11.51%	(2.75)%	(6.48)%	(2.46)%	(1.29)%	0.36%	0.57%	0.80%	1.77%	
- Residential	13.06	(1.90)	(3.74)	(0.52)	0.01	0.49	(0.23)	(0.50)	0.04	
- Nonresidential	7.85	(4.80)	(13.22)	(7.86)	(5.28)	(0.09)	3.27	5.05	7.12	
Growth	5.26	1.79	0.40	1.08	1.97	2.16	2.13	1.93	2.19	
TOTAL	16.77%	(0.96)%	(6.08)%	(1.38)%	0.68%	2.52%	2.70%	2.73%	3.96%	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Equalization	2.96%	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.47%	(1.02)%
- Residential	0.77	5.13	11.26	16.27	14.55	11.29	23.09	20.57	(0.33)	(3.38)
- Nonresidential	9.24	5.15	5.92	0.52	(2.94)	3.74	12.74	16.64	13.57	7.00
Growth	3.37	3.81	3.94	3.42	2.54	2.50	2.69	2.94	1.68	1.53
TOTAL	6.33%	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	(8.10)%	(4.05)%	(1.45)%	1.15%	2.30%	3.25%				
- Residential	(10.00)	(5.00)	(2.00)	1.00	2.00	3.00				
- Nonresidential	(2.50)	(1.50)	0.00	1.50	3.00	4.00				
Growth	0.35	0.45	0.60	0.75	0.80	1.40				
TOTAL	(7.75)%	(3.60)%	(0.85)%	1.90%	3.10%	4.65%				

**Projected Value of one penny
in FY 2010 = \$21.1 million**



Annual Changes in Residential Equalization: FY 1990 – FY 2010



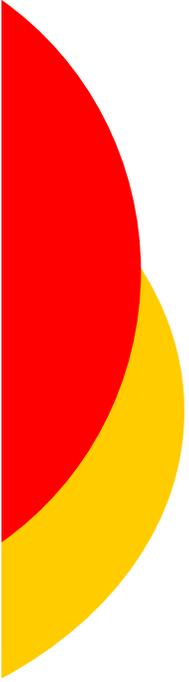


FY 2010 Mean Assessed Value of Residential Property

- Based on current projections the mean assessed value of residential property will fall from \$524,076 in FY 2009 to \$471,668 in FY 2010

Fiscal Year	Mean Assessed Value of Residential Property
2004	\$321,238
2005	\$361,334
2006	\$448,491
2007	\$544,541
2008 ¹	\$542,409
2009 ¹	\$524,076
2010 ¹	\$471,668

¹Estimated

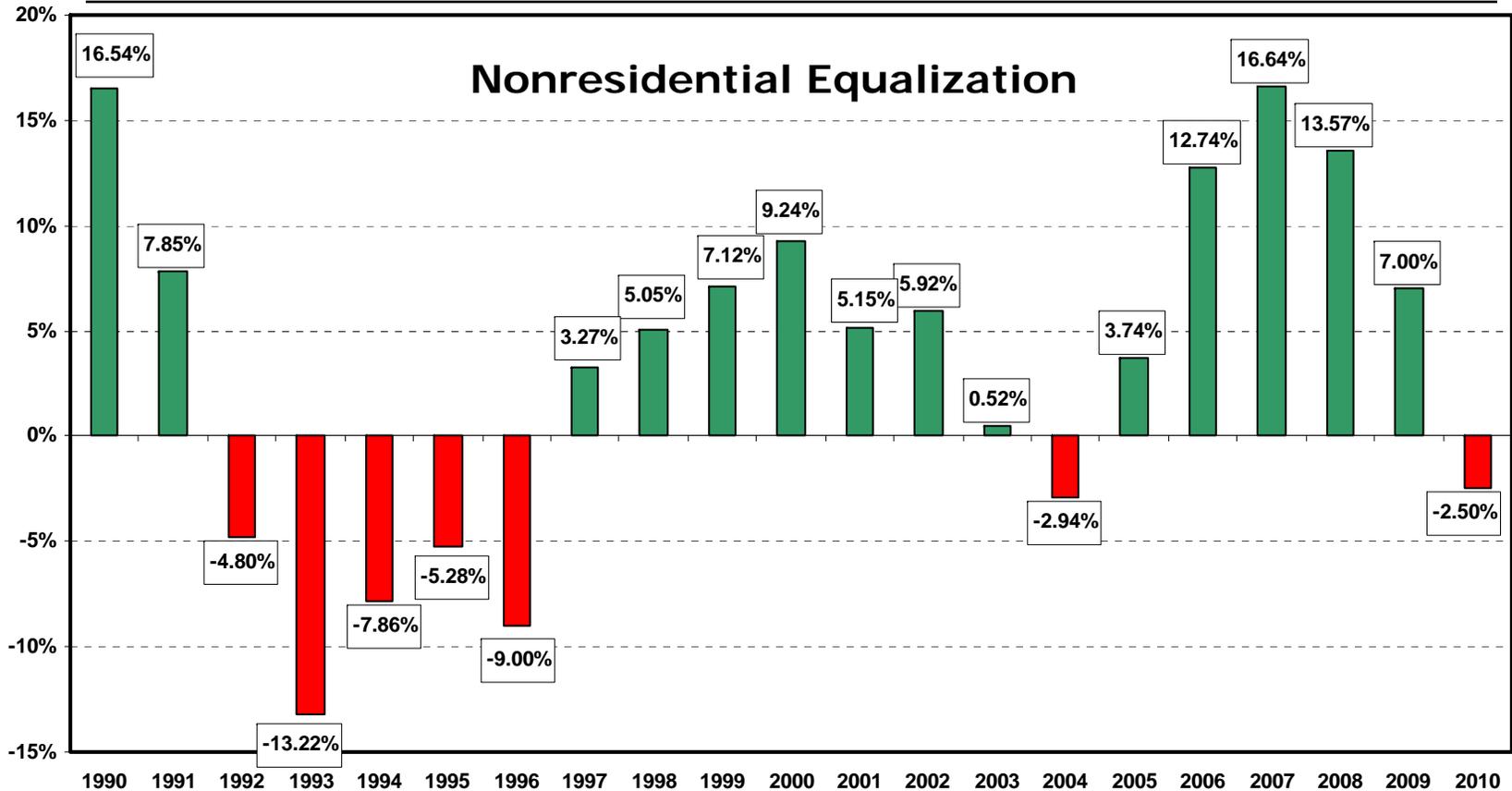


Nonresidential Real Estate Weakening

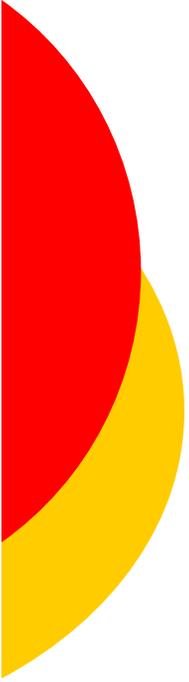


- Nonresidential values are projected to fall 2.50% in FY 2010
- Office Vacancy rates rising
 - As of year-end 2007 9.2%, 10.9% with sublets
 - Submarket rates (direct rate/with sublets):
 - Reston 8.6%/9.7%,
 - Tysons 9.4%/11.3%,
 - Dulles 14.1%/17.0%
- 8.0 million square feet of office space recently delivered or under construction
 - 80% or 6.4 million square feet is speculative
 - 72% of the speculative space, 4.6 million s.f., is vacant
 - Negatively impacts lease rates and vacancy rates

Annual Increases in Nonresidential Equalization: FY 1990 – FY 2010

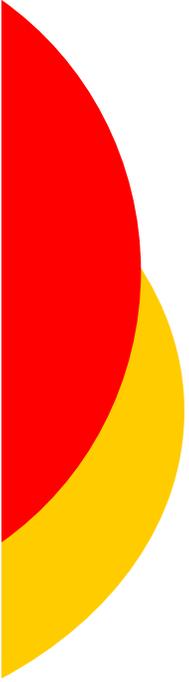


Note: FY 2010 is projected



Economic Slowdown Impacts Other County Revenue Sources

- Tighter credit and fewer cash out refinancings means lower Personal Property Taxes
 - FY 2008 receipts were flat with FY 2007 (up 0.1%)
 - New model vehicle registrations in the County during the first half of 2008 are down 20%
 - Kiplinger projects that vehicle sales in 2008 will be the lowest in a decade
- Lower consumer confidence results in lower Sales Tax receipts
 - FY 2008 Sales Tax receipts were up just 1.1%
- Fewer home sales and refinancings have a direct impact on Recordation and Deed of Conveyance Revenues
 - FY 2008 receipts were down 28%, or \$11.7 million from FY 2007



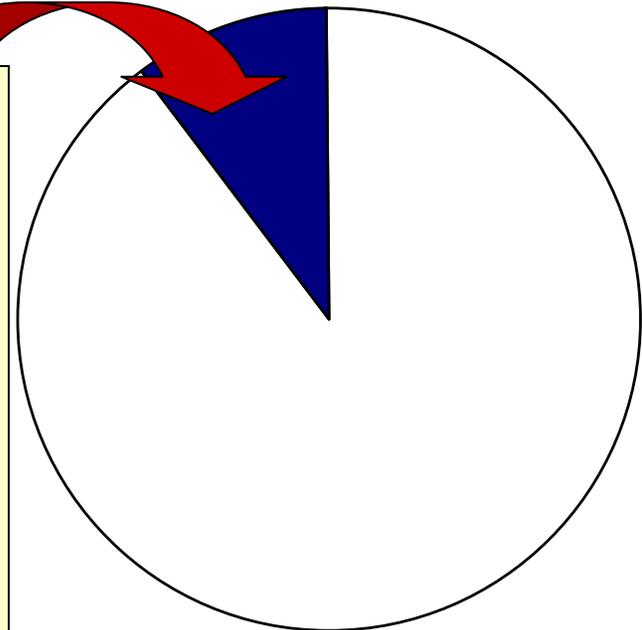
FY 2010 Deficit: \$350 Million

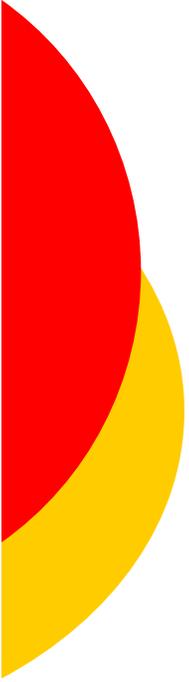
- Revenue loss of nearly \$140 million projected
- One-time balances applied in FY 2009
- Anticipated Requirement of 5% increase in FY 2010
 - No expansion of service
 - Funds planned compensation increases and moderate increases in selected utility and contract accounts

Perspectives: **\$350 Million**

- \$350 million equivalent to:
 - 10% of the County's General Fund Budget
 - 22% of Non-School Budget
 - The combination of:

**Public Works +
Judicial Administration +
Community Development +
Parks/Recreation/Libraries +
Central Services +
Legislative-Executive Functions
=
\$346 million or 10.3% of
General Fund Budget**





Fiscal Outlook Summary

FY 2010 to FY 2012

- Residential assessments are expected to fall through FY 2012 with modest appreciation for several years afterward
- Non-residential equalization is expected to fall in FY 2010 and FY 2011 and remain steady in FY 2012
- Non-real estate revenue categories will experience very modest increases
- Projected revenue stream cannot sustain expenditure requirements