

FY 2005 Third Quarter Review

Attachment II – General Fund Receipts / Transfers In

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

Category	FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate ¹	Over the FY 2005	FY 2005 Third Quarter	Over the FY 2005	Percent Change
				Revised		Increase/ (Decrease)	
Real Estate Taxes - Current and Delinquent	\$1,500,730,717	\$1,624,508,427	\$1,625,676,472	\$1,168,045	\$1,634,408,508	\$8,732,036	0.54%
Personal Property Taxes - Current and Delinquent ²	473,868,582	470,193,777	462,509,245	(7,684,532)	468,039,817	5,530,572	1.20%
Other Local Taxes	408,231,887	403,123,507	442,425,105	39,301,598	449,797,295	7,372,190	1.67%
Permits, Fees and Regulatory Licenses	28,675,370	26,943,956	27,578,867	634,911	27,578,867	0	0.00%
Fines and Forfeitures	13,272,803	12,380,594	12,891,542	510,948	12,891,542	0	0.00%
Revenue from Use of Money/Property	17,917,632	21,105,450	29,197,173	8,091,723	29,197,173	0	0.00%
Charges for Services	42,529,744	42,533,320	42,348,392	(184,928)	44,730,140	2,381,748	5.62%
Revenue from the Commonwealth and Federal Government ²	140,196,638	120,940,760	122,977,103	2,036,343	123,889,219	912,116	0.74%
Recovered Costs/ Other Revenue	6,492,301	6,226,214	6,591,348	365,134	6,591,348	0	0.00%
Total Revenue	\$2,631,915,674	\$2,727,956,005	\$2,772,195,247	\$44,239,242	\$2,797,123,909	\$24,928,662	0.90%
Transfers In	1,396,150	1,666,444	1,666,444	-	1,666,444	0	0.00%
Total Receipts	\$2,633,311,824	\$2,729,622,449	\$2,773,861,691	\$44,239,242	\$2,798,790,353	\$24,928,662	0.90%

¹ FY 2005 revenue estimates were revised as part of a fall 2004 review of revenues. Explanation of these changes can be found in the following narrative. These figures are included in the FY 2006 Advertised Budget Plan.

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 \$2,798,790,653 and reflect an increase of \$24,928,662 or 0.9 percent over the FY 2005 Fall Estimate. FY 2005 Transfers In totaling \$1,666,444 million remain unchanged from the FY 2005 Fall Estimate.

As noted in the FY 2006 Advertised Budget Plan, \$44.2 million in revenue adjustments were made prior to Third Quarter during development of the FY 2006 Budget. These adjustments are reflected in the FY 2005 Fall Estimate discussed throughout this Attachment. The net increase of \$44.2 million in adjustments includes \$54.1 million in additional revenue, offset by reductions totaling \$9.9 million. Increases include \$17.3 million in Recordation and Deed of Conveyance taxes; \$6.9 million in Sales Tax receipts based on collections in the first four months of FY 2005; \$8.5 million in Business, Professional and Occupational License (BPOL) tax revenues based on FY 2004 receipts and business trends expected in FY 2005; \$7.9 million in Investment Interest based an increase in yield; \$1.2 million in Real Estate Taxes due to a revised estimate of exonerations; and, \$2.0 million in Revenue from the Commonwealth and Federal Government. The offsetting decreases include a \$9.2 million reduction in anticipated Current Personal Property Tax receipts primarily due to a decrease in business levy partially offset with an increase in vehicle levy; a \$0.5 million decrease in Consumer Utility Tax receipts based on year-to-date collections; as well a net reduction in Charges for Services categories totaling \$0.2 million. These adjustments are discussed in more detail in the following narrative. Any impact to FY 2006 revenue estimates from these FY 2005 adjustments is already included in the FY 2006 Advertised Budget Plan.

General Fund revenue included in the *FY 2005 Third Quarter Review* is increased a net \$24.9 million. This increase is due to \$8.7 million in additional Real Estate Tax revenue due to refinements in estimates for exonerations, supplemental assessments, and tax relief. Increases of \$6.4 million in Recordation Taxes and \$2.4 million in Clerk Fee revenue are due to strong real estate market activity which continues to grow beyond projections. Current and Delinquent Personal Property Tax revenue is anticipated to increase a net \$5.5 million and Mobile Telephone tax receipts are expected to increase \$1.0 million based on year-to-date collections. In addition, Revenue from the Commonwealth / Federal Government is expected to increase \$0.9 million as a result of increased reimbursable expenditures. In total, since FY 2004 Carryover, the FY 2005 estimate of revenues has increased a net \$69.1 million, or 2.5 percent.

FY 2005 General Fund revenues are showing the effects of exceptionally strong economic growth in calendar year 2004. Economic conditions combined with increased federal procurement spending have created 25,000 net new jobs in Fairfax County. Continued low interest rates have kept home sales and mortgage refinancings up higher than anticipated. The economic forces that fueled robust growth in 2004; however, are expected to moderate in 2005. The timing of this moderation is critical in projecting fiscal year-end receipts. A number of revenue categories are extremely sensitive to economic conditions and there is the potential that actual receipts may deviate from the revenue estimates included in this Attachment. For example, Recordation and Deed of Conveyance Taxes experienced significant growth during the first eight months of the fiscal year, but could experience a moderation or slow-down in activity for the remainder of the year. The level of home sales and mortgage refinancing will greatly impact the receipts in these categories for the rest of the fiscal year. Also, monthly Sales Tax receipts have experienced significant monthly variation making projections of final year-end receipts difficult. These and all other revenue categories are closely monitored with respect to revenue collections and economic activity impacts. Any necessary FY 2006 revenue adjustments will be included in the Add-On Review.

REAL ESTATE TAX-CURRENT

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$1,493,005,588	\$1,617,629,189	\$1,618,797,234	\$1,627,529,270	\$8,732,036	0.54%

The *FY 2005 Third Quarter Review* estimate of \$1,627,529,270 for Current Real Estate Tax revenue represents an increase of \$8,732,036, or 0.5 percent, over the FY 2005 Fall Estimate. During the fall revenue review, the estimate for Real Estate Taxes was increased a net \$1.2 million. A revised estimate of exonerations increased revenue by \$1.8 million. This increase was offset by a reduction in the projected collection rate from 99.65 percent to 99.61 percent, the rate achieved in FY 2004. This change yielded a decrease in revenue of \$0.6 million.

The *FY 2005 Third Quarter Estimate* is increased an additional \$8.7 million over the FY 2005 Fall Estimate. This increase is due to adjustments in supplemental assessments, exonerations and tax relief. Supplemental assessments are \$3.4 million higher than anticipated as a result of current construction activity in the County. Exonerations are less than expected resulting in an additional \$0.9 million. In addition, tax relief has reduced the tax base by less than expected and accounts for an additional \$4.7 million in revenue. In FY 2005, the allowable asset limit to qualify for the Tax Relief for the Elderly and Disabled program was increased from \$190,000 to \$240,000 for all ranges of tax relief. During the development of the FY 2005 budget, staff estimated that total tax relief in FY 2005 would be \$19.7 million. Based on current experience; however, tax relief is expected to reduce the real estate tax based by \$15.0 million. These increases in revenue are partially offset by a reduction of \$0.3 million in Public Service Corporation levy based on the final State assessments. The anticipated Real Estate collection rate remains at 99.61 percent, the same rate incorporated in the FY 2006 Advertised Budget Plan estimate. Each 0.10 percent change in the collection rate generates \$1.6 million.

PERSONAL PROPERTY TAX-CURRENT

	FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
Paid Locally	\$262,421,619	\$256,042,780	\$260,417,325	\$259,447,897	(\$969,428)	-0.37%
Reimbursed by State	\$197,017,789	\$205,950,438	\$192,391,361	\$192,391,361	0	0.00%
Total	\$459,439,408	\$461,993,218	\$452,808,686	\$451,839,258	(\$969,428)	-0.21%

The *FY 2005 Third Quarter Review* estimate for Current Personal Property Taxes of \$451,839,258 represents a decrease of \$969,428 from the FY 2005 Fall Estimate. This reduction is based on the final Public Service Corporation (PSC) property assessments from the State.

During the fall review of revenues, the FY 2005 estimate for Personal Property Taxes was reduced a net \$9.2 million due to decreases in business and PSC levy and a reduction in the projected collection rate partially offset by an increase in vehicle levy. Business Personal Property is comprised of assessments on furniture, fixtures, and computer equipment. Based on actual business filings, the depreciation of currently owned equipment outstripped the purchase of new equipment resulting in a decrease in levy of \$9.4 million. In addition, PSC levy was projected to fall \$2.7 million due to changes in the State's computer depreciation schedule used to value PSC property and a reduction in the expected PSC collection rate from 100 percent to

97.0 percent based on rates achieved the last two years. The collection rate on locally assessed property was reduced from 97.3 percent to 97.0 percent, the rate achieved in FY 2004 resulting in an estimated revenue decrease of \$1.0 million. These decreases were offset by an increase of \$3.9 million in vehicle levy attributed to an increase in the number of vehicles in the County.

PERSONAL PROPERTY TAX-DELINQUENTS

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$14,429,174	\$8,200,559	\$9,700,559	\$16,200,559	\$6,500,000	67.01%

The *FY 2005 Third Quarter Review* estimate for Delinquent Personal Property Taxes of \$16,200,559 represents an increase of \$6.5 million over the FY 2005 Fall Estimate. Revenue from delinquent taxes is a function of previous years' collections on current Personal Property Taxes, current economic conditions, and staff collection efforts. The current robust economy enhances the collection of both business and individual delinquent accounts. Collections of delinquent taxes have also been impacted by continued aggressive staff collection efforts and innovative collection methods such as the collaboration between the Department of Tax Administration and the Virginia Department of Motor Vehicles whereby a "hold" is placed on State vehicle license renewals until County Delinquent Personal Property Taxes are paid.

LOCAL SALES TAX

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$140,070,124	\$143,803,000	\$150,687,742	\$150,687,742	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Sales Tax receipts remains unchanged from the FY 2005 Fall Estimate. During the fall revenue review, the Sales Tax estimate was increased \$6.9 million to \$150.7 million based on year-to-date growth through November 2004 of 7.6 percent. Since the fall, Sales Tax revenue has experienced significant monthly variation. From December through March, monthly Sales Tax revenue has ranged from down 1.4 percent to up 14.8 percent. Year-to-date, Sales Tax receipts are rising 6.8 percent. Due to the considerable monthly variation, no change has been made during the *FY 2005 Third Quarter Review*; however, if Sales Tax receipts continue to grow at the current 6.8 percent rate, a decrease of \$1.1 million would occur at the end of FY 2005.

BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSE TAX-CURRENT

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$101,997,399	\$99,593,631	\$108,122,086	\$108,122,086	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Business, Professional and Occupational License (BPOL) Taxes of \$108,122,086 represents no change from the FY 2005 Fall Estimate. During the fall revenue review, the estimate for BPOL revenue was increased \$8.5 million based on actual FY 2004 receipts and projected trends in business activity. In FY 2004, BPOL receipts experienced a 9.2 percent increase over FY 2003 due primarily to growth in receipts from the Consultant category, as well as, Realtors, Money Lenders and Retail establishments. Home buying, mortgage refinancing and retail sales continued to grow during calendar year 2004, the basis for the FY 2005 BPOL estimate. Based on these trends and an econometric model using Sales Tax receipts and mortgage interest rates as predictors, the FY 2005 estimate for BPOL was increased to \$108.1 million during the fall revenue review, representing growth of 6.0 percent over the FY 2004 level.

Since businesses file and pay their BPOL Taxes simultaneously on March 1, there is little information about current collections. However, actual BPOL billing data for FY 2005 may be available in time to make any necessary adjustments to the FY 2006 estimate during the Add-on Review Process.

RECORDATION/DEED OF CONVEYANCE TAXES

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$30,865,542	\$18,274,531	\$35,538,098	\$41,910,288	\$6,372,190	17.93%

The *FY 2005 Third Quarter Review* estimate for Deed of Conveyance and Recordation Taxes of \$41,910,288 reflects an increase of \$6,372,190, or 17.9 percent, over the FY 2005 Fall Estimate. Deed of Conveyance Taxes are projected to be \$8,520,073 and Recordation Taxes are projected to be \$33,390,215.

Due to higher than anticipated year-to-date receipts, Deed of Conveyance Tax revenue was increased \$2.7 million during the fall review. In addition, Recordation Taxes were increased \$14.6 million based on a combination of a fee increase and higher than expected mortgage refinancing activity. During the 2004 General Assembly, the Commonwealth of Virginia increased the State tax on recording deeds from 15 cents to 25 cents per \$100 of value of the property being recorded. The Code of Virginia allows cities and counties to levy a local Recordation Tax at one-third the State rate so the County's Recordation Tax was increased from 5 cents to 8.33 cents per \$100 of value effective September 1, 2004. In addition, absent the rate increase Recordation Tax revenue like Deed of Conveyance Taxes rose more than anticipated due to real estate market activity.

Since the fall review, mortgage interest rates have remained low contributing to continued strong mortgage refinancing. Controlling for the rate change, Recordation Tax revenue through February 2005 is up 8.8 percent over FY 2004. The *FY 2005 Third Quarter Review* estimate; therefore, includes additional anticipated revenue of \$6.4 million. The *FY 2005 Third Quarter Review* estimate for Deed of Conveyance represents no change from the FY 2005 Fall Estimate of \$8.5 million.

The rise in Recordation Tax revenue attributed to the tax rate increase is estimated to be \$10.8 million. This increase in revenue has been set aside by the Board of Supervisors in a reserve for FY 2006 budget development.

CIGARETTE TAX

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$1,899,798	\$1,922,003	\$6,246,510	\$6,246,510	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Cigarette Tax revenues represents no change from the FY 2005 Estimate. During the fall revenue review, the estimate for Cigarette Tax revenues was increased \$4.3 million due to the increase in the Cigarette tax rate from 5 cents per pack to 20 cents per pack as approved by the Board of Supervisors on August 2, 2004 to be effective September 1, 2004. The FY 2006 Advertised Budget Plan includes an increase of \$5.3 million in Cigarette Tax revenue resulting from a rate increase to 30 cents per pack effective July 1, 2005. The revenue increases resulting from raising the Cigarette Tax rate were set aside by the Board of Supervisors in a reserve for FY 2006 budget development.

CONSUMER UTILITY TAX

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$84,219,305	\$85,892,727	\$85,422,983	\$85,422,983	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Consumer Utility Taxes represents no change from the FY 2005 Estimate. During the fall revenue review, the estimate for Consumer Utility Taxes was decreased \$0.5 million based on FY 2004 actual receipts and FY 2005 year-to-date collections. The decline in total Consumer Utility Tax revenue is due to decreases in telephone utility taxes resulting from increased use of cell phones, cable Internet access, and phoning over the Internet (VoIP).

MOBILE TELECOMMUNICATIONS TAX

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$8,313,833	\$7,200,000	\$10,000,000	\$11,000,000	\$1,000,000	10.00%

The *FY 2005 Third Quarter Review* estimate for Mobile Local Telecommunications Tax represents an increase of \$1.0 million over the FY 2005 Fall Estimate. During the fall revenue review, the estimate for Mobile Local Telecommunications Tax revenues was increased \$2.8 million to \$10.0 million based FY 2004 receipts and average collections during the first four months of FY 2005. Since the fall, collections have risen at a faster rate resulting in additional projected revenue of \$1.0 million

PERMITS, FEES AND REGULATORY LICENSES

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$28,675,370	\$26,943,956	\$27,578,867	\$27,578,867	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate of \$27,578,867 reflects no change from the FY 2005 Fall Estimate. During the fall revenue review, Permits, Fees and Regulatory Licenses were increased a net 0.6 million based on year-to-date collections in various categories. The primary contributor to the increase in the fall estimate was the Fire Marshall Fees, which were increased \$633,444. In addition, Acceptance Test Overtime Fees and Fire Prevention Code Permits were increased \$65,903 and \$35,417, respectively. Offsetting these increases was a reduction of \$0.1 million in anticipated Zoning Fee revenue.

Fees charged by the Department of Public Works and Environmental Services (DPWES) for planning, building, and site permits are the major component of this category and are projected to be \$21.0 million in FY 2005. The FY 2005 estimate for DPWES fees has remained unchanged since the FY 2005 Adopted Budget Plan.

FINES AND FORFEITURES

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$13,272,803	\$12,380,594	\$12,891,542	\$12,891,542	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Fines and Forfeitures of \$12,891,542 represents no change from the FY 2005 Fall Estimate. During the fall revenue review, the FY 2005 estimate for Fines and Forfeitures was increased a net \$0.5 million based on an evaluation of prior year actual receipts and collections-to-date for each revenue category. Based on this analysis, General District Court Fines and Court Security Fees were both increased \$0.2 million. In addition, Administrative Fees charged for collection of delinquent taxes were increased \$0.1 million.

INTEREST ON INVESTMENTS

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$14,758,923	\$18,122,686	\$25,975,290	\$25,975,290	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Interest on Investments of \$25,975,290 represents no change from the FY 2005 Fall Estimate. During the fall revenue review, the FY 2005 estimate for Interest on Investment was increased \$7,852,604 due to an increase in the projected yield from 1.40 percent to 2.23 percent. Since June 2004, the Federal Reserve has raised interest rates six times and as of February 2005, the federal funds rate now stands at 2.50 percent. No change during the *FY 2005 Third Quarter Review* is recommended based on interest earned year-to-date and a projection for the remainder of the fiscal year.

CHARGES FOR SERVICES

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$42,529,744	\$42,533,320	\$42,348,392	\$44,730,140	\$2,381,748	5.62%

The *FY 2005 Third Quarter Review* estimate for Charges for Services of \$44,730,140 represents an increase of \$2,381,748 over the FY 2005 Fall Estimate due to an increase in projected Clerk Fees. Clerk fees are estimated to rise \$2.4 million in FY 2005 based on year-to-date collections which are higher than anticipated due to continued strong home sales and mortgage refinancing activity.

During the fall revenue review, the estimate for Charges for Services was decreased a net \$0.2 million primarily due to a decline in Recreation Fee revenue of \$0.2 million as a result of lower than anticipated collections from class fees.

RECOVERED COSTS / OTHER REVENUE

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$6,492,301	\$6,226,214	\$6,591,348	\$6,591,348	\$0	0.00%

The *FY 2005 Third Quarter Review* estimate for Recovered Costs/Other Revenue of \$6,591,348 represents no change from the FY 2005 Fall Estimate. During the fall revenue review, this category was increased a net \$365,134. Litigation Proceeds were increased \$129,000 as a result of revenue received from various court settlements. Contract Rebate revenue was increased \$104,853 based on year-to-date receipts. An increase of \$76,524 in revenue from charges for the use of the County's database of Circuit Court records (CPAN) was due to a monthly fee increase. The remainder of the net increase, \$54,757, was due to refinements in various estimates based on year-to-date receipts.

REVENUE FROM THE COMMONWEALTH/FEDERAL GOVERNMENT¹

FY 2004 Actual	FY 2005 Revised as of Carryover	FY 2005 Fall Estimate	FY 2005 Third Quarter	Increase/ (Decrease)	Percent Change
\$140,196,638	\$120,940,760	\$122,977,103	\$123,889,219	\$912,116	0.74%

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 2005 Third Quarter Review* estimate for Revenue from the Commonwealth and Federal Government represents a net increase of \$912,116, or 0.7 percent, over the FY 2004 Fall Estimate. Additional revenue of \$0.8 million is anticipated for the Child Care Assistance and Referral Program and \$0.1 million from the Community Service Board Block Grants. These increases will be entirely offset by increased expenditures.

During the fall revenue review, the estimate for Revenue from the Commonwealth and Federal Government was increased \$2.0 million. An increase of \$0.9 million was associated with a salary adjustment for State reimbursable positions as of December 2004. In addition, State Law Enforcement (HB599) funding was increased \$0.7 million and Health Department funding was increased \$0.2 million based on revised State estimates. In addition, an increase of \$0.2 million in FY 2005 is associated with State reimbursement for expenses relating to the February 2004 Presidential Primary.