



Fiscal Outlook

Legislative Breakfast Meeting

Fairfax County Board of Supervisors
and the
Fairfax County Delegation to the General Assembly

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Fiscal Outlook

What a Difference a Year Makes

Major Economic Factors

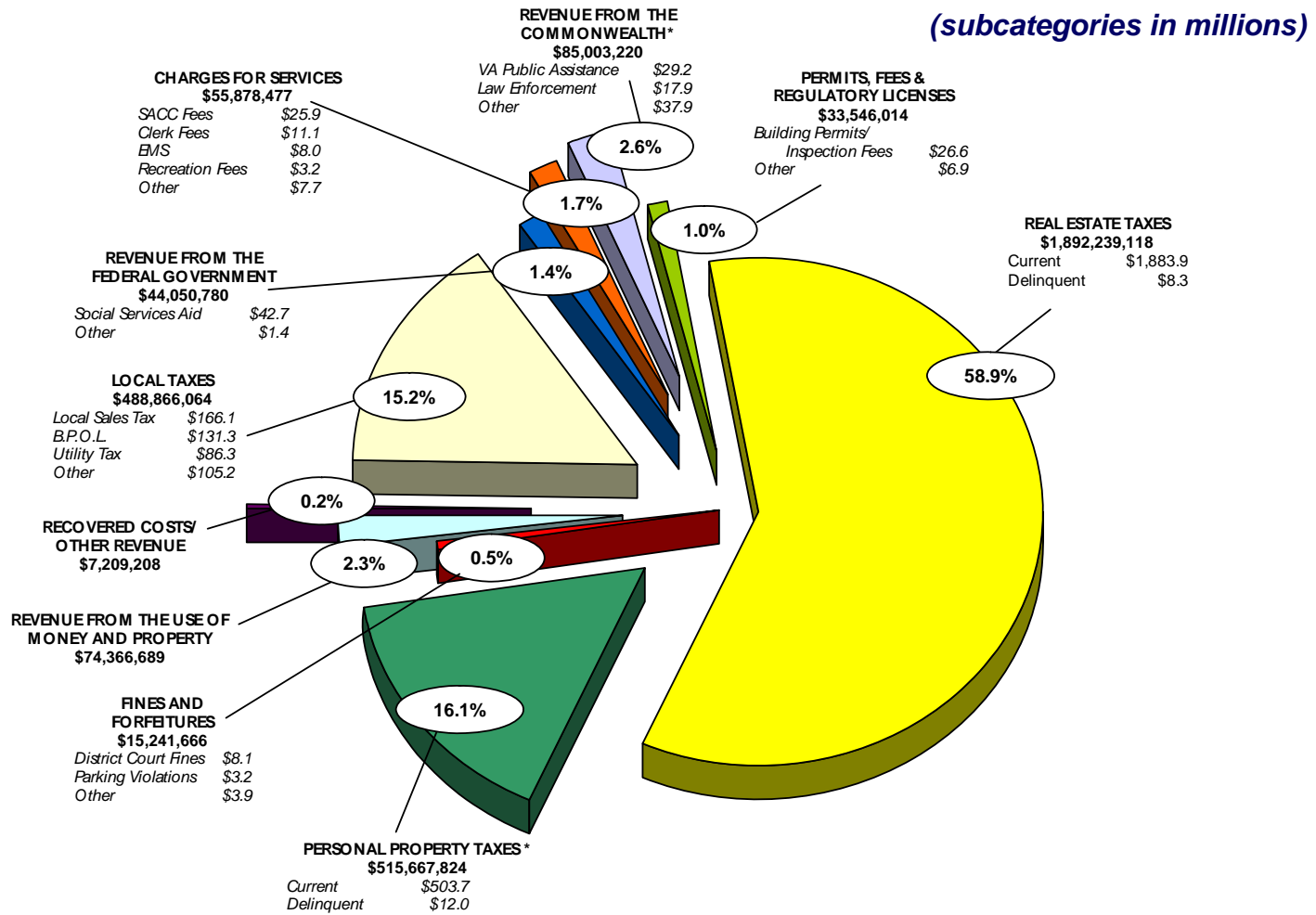
- Job Growth
- Federal Spending
- Real Estate Market

Comparison of Decline in early 1990s versus today



December 2006						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
						1
3	4	5	6	7	8	
10	11	12	13	14	15	
17	18	19	20	21		
24	25	26	27	28		
31						

FY 2007 General Fund Receipts ("Where It Comes From")



FY 2007 GENERAL FUND RECEIPTS = \$3,212,069,060

For presentation purposes, Personal Property Taxes of \$211,313,944 that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property Taxes category.

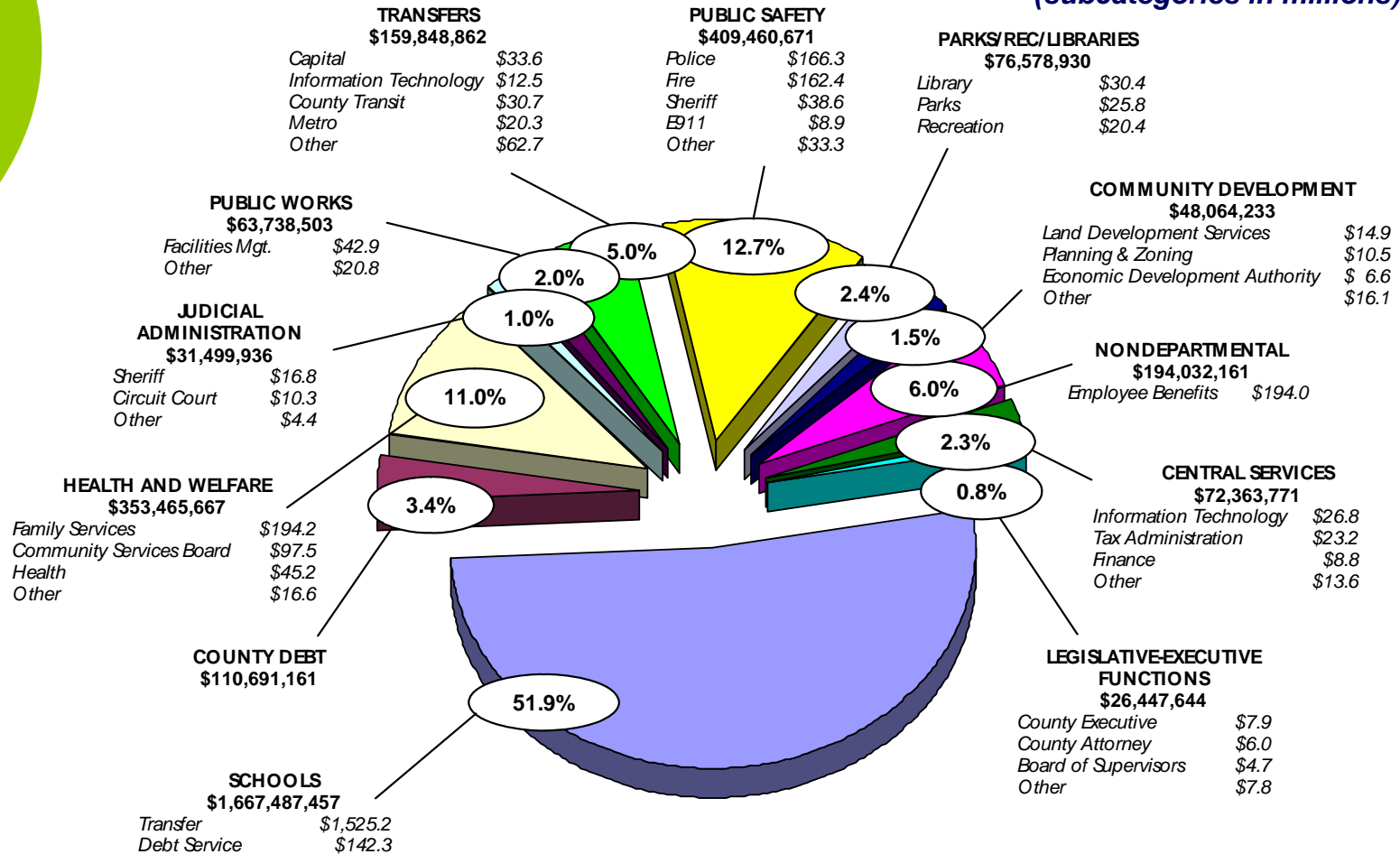


General Fund Receipts

- County continues to be overly dependent on real estate taxes – 60% of total revenues
- Personal Property Taxes (16.1%) and Local Taxes (15.2%), such as sales, BPOL, and utilities, reflect very moderate increases
- County cannot tax income

FY 2007 General Fund Disbursements ("Where It Goes")

(subcategories in millions)



FY 2007 GENERAL FUND DISBURSEMENTS = \$3,213,678,996



General Fund Disbursements

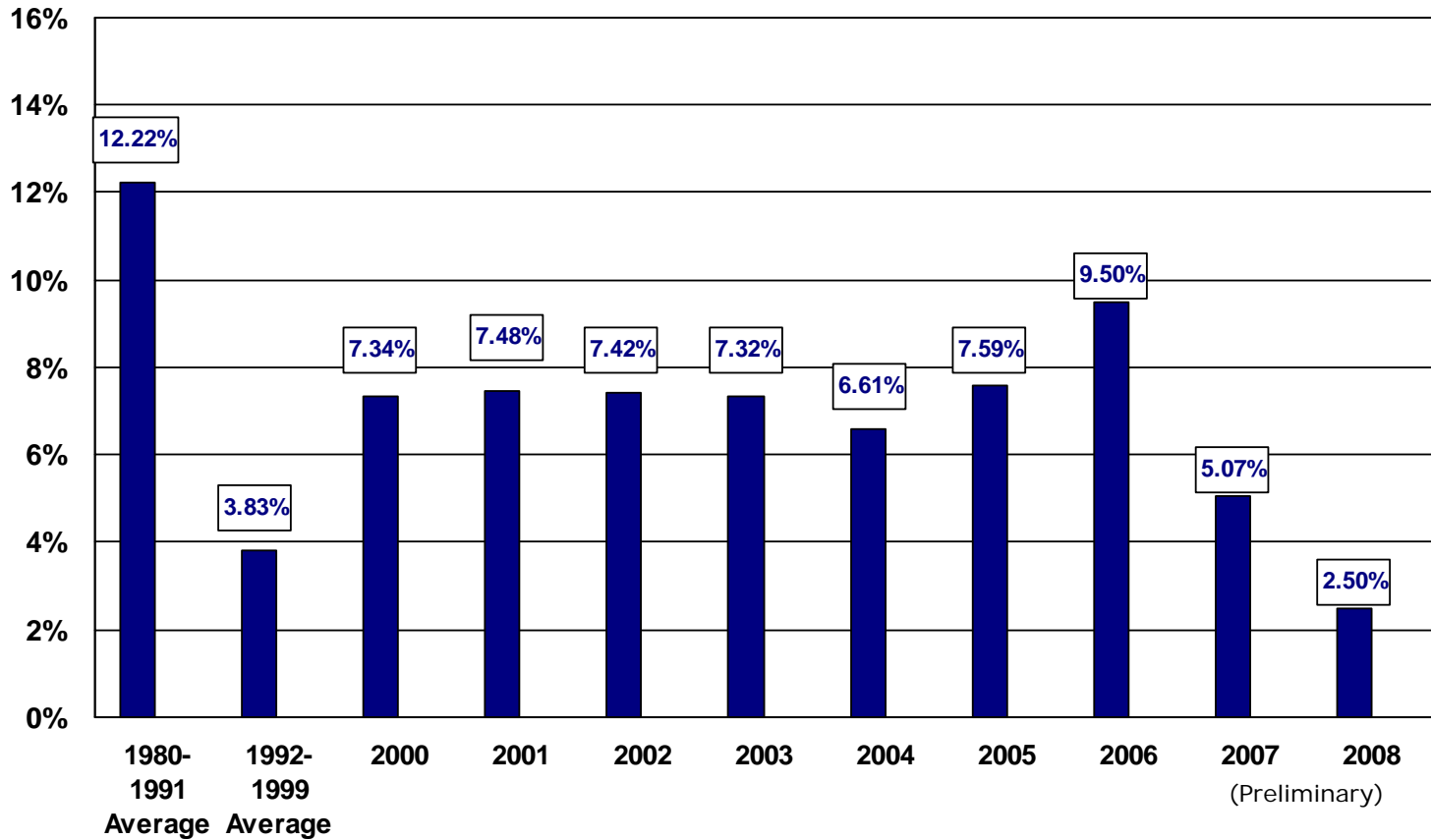
- Schools represent 51.9% of disbursements:
 - Includes annual bond sales of \$155 million
 - Board of Supervisors' FY 2008 Budget Guideline of 3.5%
 - Other General Fund services provided --\$57.6 million School Crossing Guards, School Resource Officers, Clinic Room Aides, etc.

- Growing pressure to address public safety staffing requirements (12.7%)

- Health and Welfare requirements to address childcare and elderly service issues (11.0%)

- Dedicated Pennies on Real Estate Tax:
 - Affordable Housing
 - Stormwater Management

General Fund Revenue Growth



Growth rate without tax cut:	8.3%	9.3%	9.3%	17.7%	11.0%
Real estate tax cut	2¢	5¢	3¢	13¢	11¢



Changing in Economic Factors

○ Job Growth

- Last year: Expected 25,000 new jobs in 2005 and 22,000 in 2006
- Now: 2005 job rose 22,000 & expect 16,000 in 2006

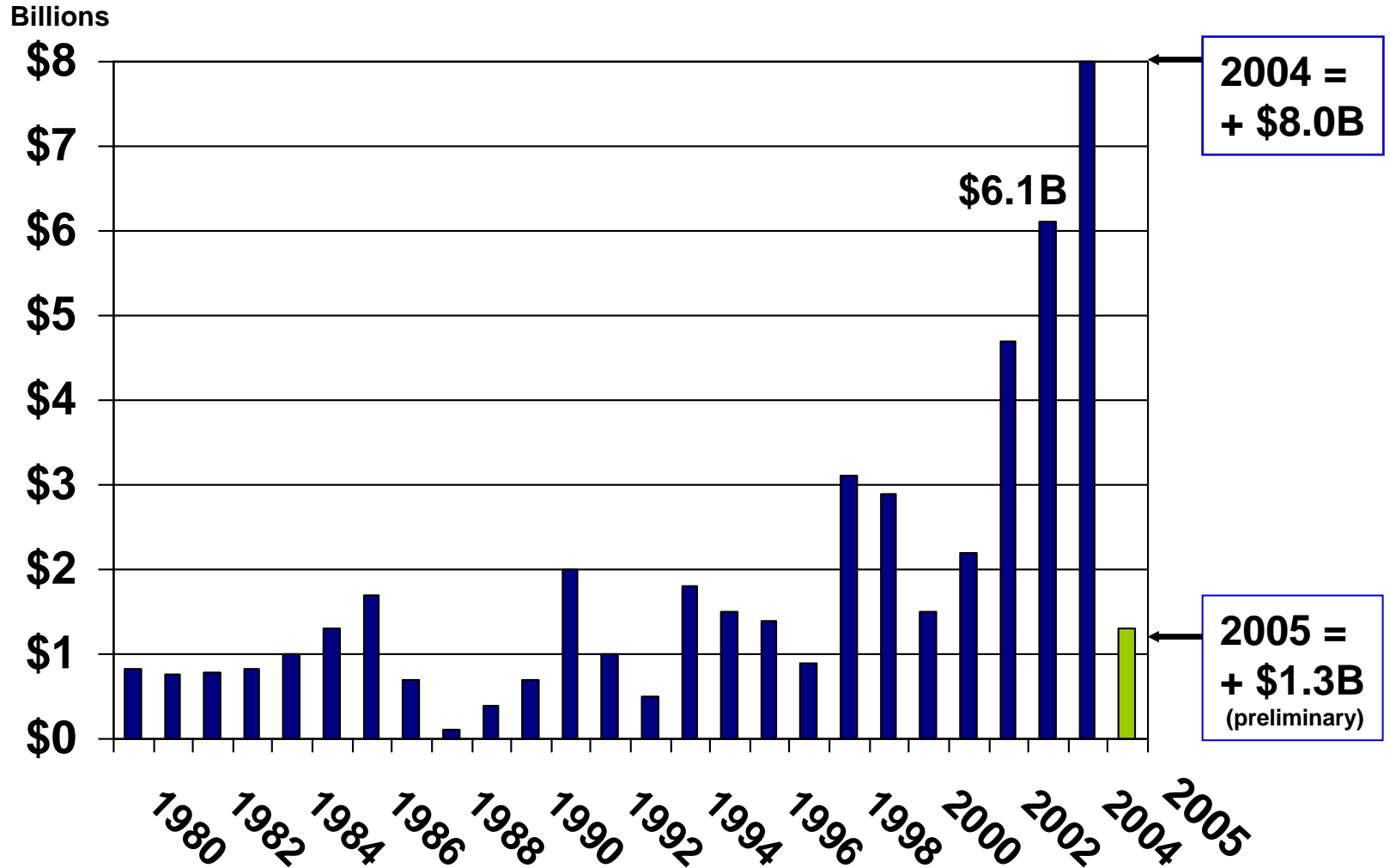
○ Federal Procurement Spending

- Last year: 2004 area spending rose \$8.0 billion (18% increase) and 2005 forecast to increase 15%
- Now: 2005 estimates revised to increase \$1.3 billion (2.5% growth)

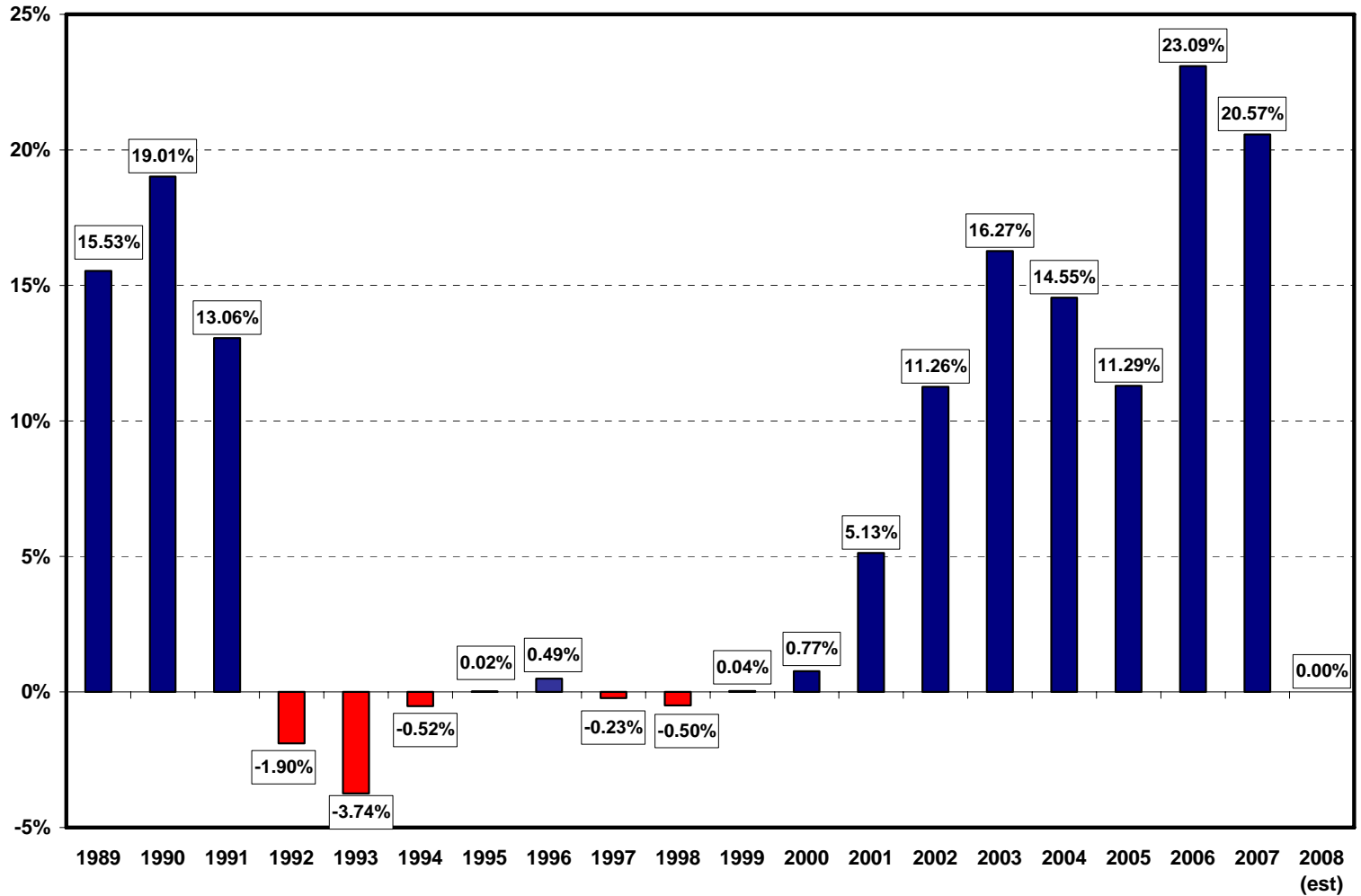
○ Real Estate Market

- Last year: Robust market with anticipation of at least double digit increases in assessments
- Now: Residential market contracting, no growth anticipated for residential assessments

Annual Change in Federal Procurement Spending - Washington Metro Area



Annual Changes in Residential Equalization FY 1989 – FY 2008



Real Estate Tax Base

	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Equalization	15.04%	18.27%	11.51%	(2.75%)	(6.48%)	(2.46%)	(1.29%)	0.36%	0.57%	0.80%
- Residential	15.53%	19.01%	13.06%	(1.90%)	(3.74%)	(0.52%)	0.01%	0.49%	0.23%	(0.50%)
- Nonresidential	13.81%	16.54%	7.85%	(4.80%)	(13.22%)	(7.86%)	(5.28%)	(0.09%)	3.27%	5.05%
Growth	9.54%	7.61%	5.26%	1.79%	0.40%	1.08%	1.97%	2.16%	2.13%	1.93%
TOTAL	24.58%	25.88%	16.77%	(0.96%)	(6.08%)	(1.38%)	0.68%	2.52%	2.70%	2.73%

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*
Equalization	1.77%	2.96%	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.00%
- Residential	0.04%	0.77%	5.13%	11.26%	16.27%	14.55%	11.29%	23.09%	20.57%	0.00%
- Nonresidential	7.12%	9.24%	5.15%	5.92%	0.52%	(2.94%)	3.74%	12.74%	16.64%	10.00%
Growth	2.19%	3.37%	3.81%	3.94%	3.42%	2.54%	2.50%	2.69%	2.94%	1.30%
TOTAL	3.96%	6.33%	8.94%	13.64%	15.14%	12.48%	12.04%	23.49%	22.70%	3.30%

* Preliminary

**Estimated value of one penny
in FY 2008 = \$22.6 million**



Current Housing Market is Cooling

- Real estate market is cyclical
- Pattern of housing market cooling is similar to 1990 (FY 1992 assessments)
 - Number of home sales has declined
 - Inventory of homes for sale is up
 - Homes are remaining on the market longer
 - Sales Prices are weakening
- From FY 1992 to FY 2000 residential assessments were negative or flat



Home Sales are Declining

■ Number of Homes Sold in Fairfax County

	CY 2004	CY 2005	Change
Single Family	19,697	17,532	(5.3%)
Condos	5,165	4,891	(11.0%)

	2005 Jan – Oct	2006 Jan – Oct	Change
Single Family	15,010	9,905	(34.0%)
Condos	4,113	2,999	(27.1%)

Listings and Sales

Number of Homes Sold - Fairfax County

	<u>2005</u>	<u>2006</u>	<u>% Change</u>
March	1,675	1,386	(17.3%)
June	2,737	1,680	(38.6%)
Sept	1,422	1,072	(24.6%)

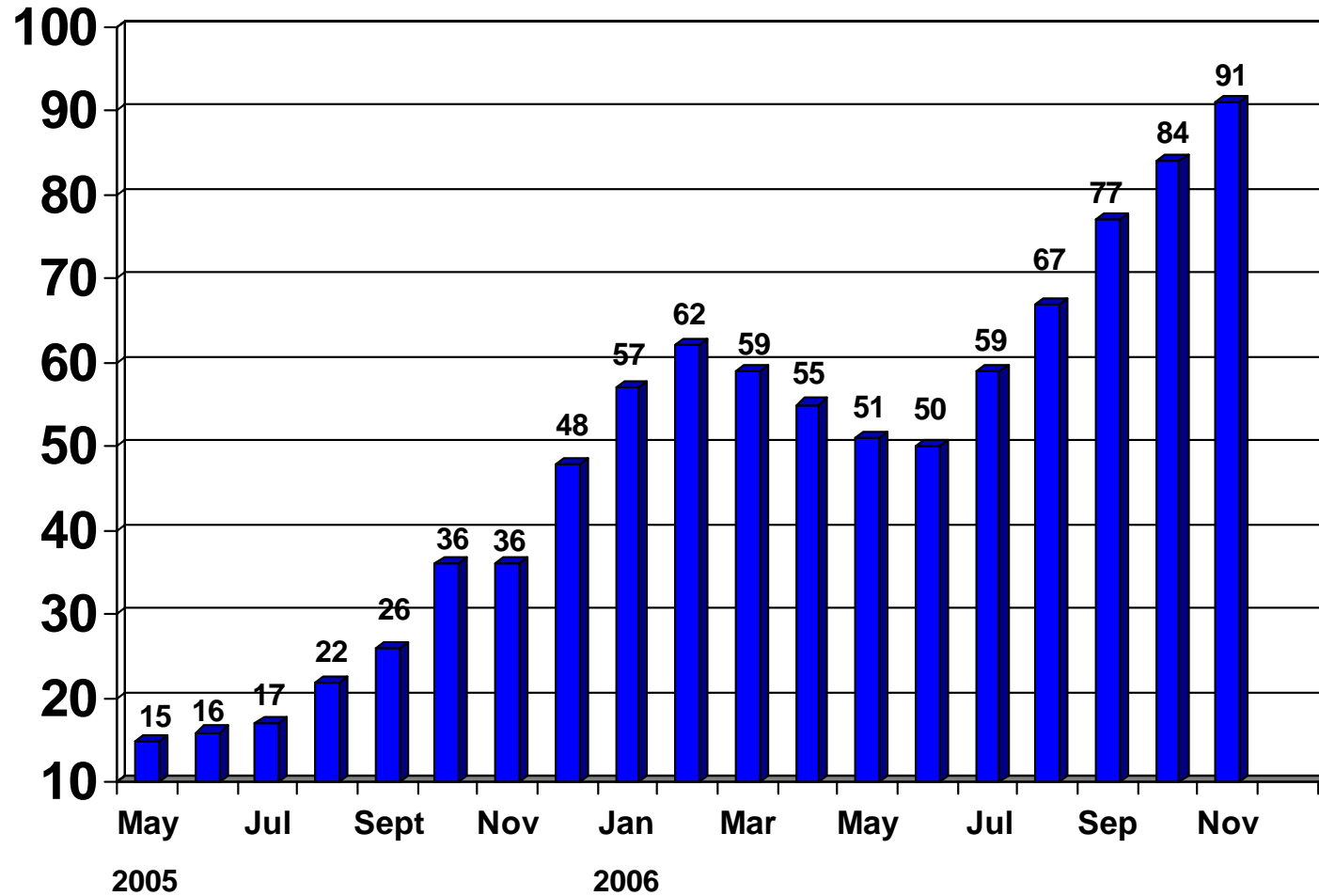


Active Listings - Fairfax County

	<u>2005</u>	<u>2006</u>	<u>% Change</u>
March	1,534	6,542	326.5%
June	3,181	9,153	187.7%
Sept	5,165	8,455	63.7%



Average Days to Sell a Home in Fairfax County



Sales Prices Weakening – Fairfax County

Average Sales Price Change

	<u>2005</u>	<u>2006</u>
March	21.5%	6.2%
June	20.9%	2.3%
Sept	22.9%	(6.0%)

Average Sales Price to List Price

	<u>2005</u>	<u>2006</u>
March	100.9%	97.3%
June	100.4%	96.0%
Sept	98.0%	93.8%

Source: Metropolitan Regional Information Systems (MRIS)

Home Sales and Active Listings Northern Virginia

Then

	June 1989	October 1990	Percent Change
Number of Sales	1,847	1,590	(13.9%)
Active Listings Remaining	10,876	18,450	69.6%
Homes Sold/Total Listings	14.5%	7.9%	

Now

	June 2005	October 2006	Percent Change
Number of Sales	6,187	2,359	(61.9%)
Active Listings Remaining	8,123	19,779	143.5%
Homes Sold/Total Listings	43.2%	10.7%	

Data include Fairfax County, Arlington County, Alexandria, Falls Church, Fairfax City, Prince William County, Loudoun County and Fauquier County.

Source: Northern Virginia Association of Realtors and Multiple Regional Information Services (MRIS)

Change in Average Price – Northern Virginia

Then

	June 1988	June 1989	Percent Change	December 1990	Percent Change
Average Sales Price	\$166,000	\$179,800	8.3%	\$176,000	(2.11%)

FY 1992
Fairfax County
Residential
Equalization
Down 1.90%

Now

	2004	2005	Percent Change	Y-T-D 2006	Percent Change
Average Sales Price	\$417,210	\$513,641	23.1%	\$512,941	(0.14%)

Northern Virginia includes: Fairfax County, Arlington, Falls Church, Fairfax City, Prince William County, Loudoun County and Fauquier County.

Source: Northern Virginia Association of Realtors and Multiple Regional Information Services (MRIS)



Differences in the Economy Job Creation in Fairfax County

Then

	<u>1990</u>	<u>1991</u>
Employment	371,492	366,704
Change in jobs	(2,711)	(4,788)
Percent Change	(0.7%)	(1.3%)

Now

	<u>2005</u>	<u>2006 est.</u>
Employment	580,129	596,129
Change in jobs	22,559	16,000
Percent Change	4.0%	2.8%

Source: Stephen Fuller, GMU Center for Regional Analysis



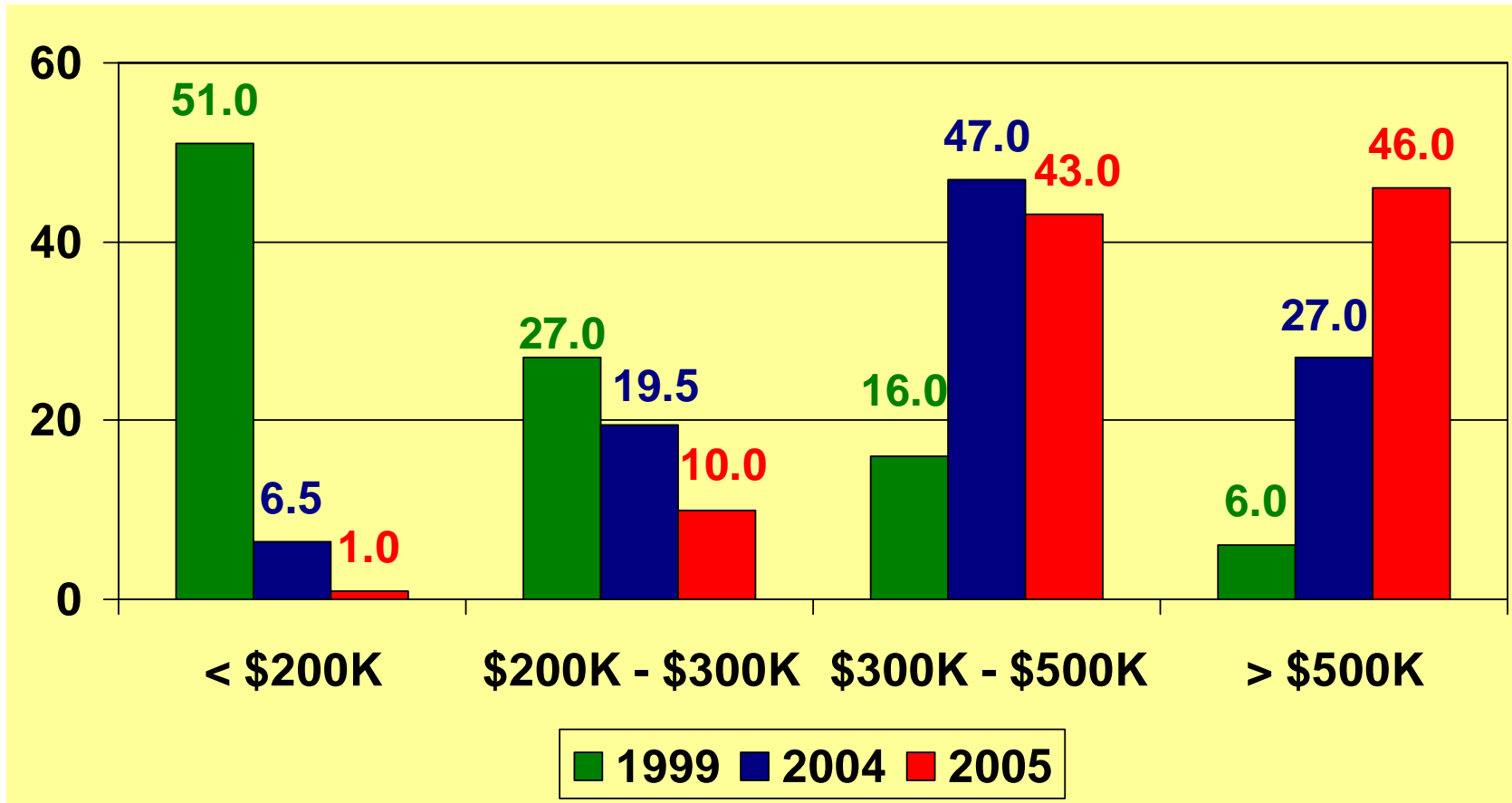
Causes of Declining Market

- FY 1992 Real Estate market declined due to a loss of jobs – decline in the demand for housing
- Current decline is the result of unsustainable price appreciation over several years
 - Profit lead speculation especially in the condo market contributed to this rise
- Homes are less affordable
 - Since 2001, values have increased 160%
- Incomes have not kept up with house prices
 - Since 2001, income has risen 9%

% of Houses Sold by Price Range in Fairfax County

All Units

Percent





Fairfax County Residential Real Estate

- Mean assessed value of residential property rose from \$208,126 in FY 2001 to \$540,746 in FY 2007:
 - A 160% increase, or an average of 17.3% per year
- Tax rate reduced from \$1.23/\$100 of assessed value in FY 2002 to \$0.89/\$100 in FY 2007
- Tax increase even with tax rate reduction:
 - Typical household will pay \$4,813 in real estate taxes in FY 2007, an increase of \$328, or 7.3% over FY 2006 and \$1,925, or 66.7%, over FY 2002
 - Without tax cuts, typical household would have paid an additional \$3,512 in real estate taxes since FY 2002

Impact on Typical Fairfax County Household

<u>Fiscal Year</u>	Mean Assessed Value of Residential <u>Property</u>	Real Estate Tax Rate <u>Per \$100</u>	<u>Tax Per Household</u>
FY 2001	\$208,126	\$1.23	\$2,559.95
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	\$540,746	\$0.89	\$4,812.64

Differences in the Economy

Mortgage Interest Rates

- 1990 - 10.13% and 2.1 points
- 1991 – 9.25% and 2.0 points
- 1992 – 8.39% and 1.7 points

- 2005 – 5.87% and 0.6 points

- December 2006 (first week) – 6.11% and ½ point
 - Down from 6.32% last year
 - Rates have dropped in each of the last 4 months





Expectations for FY 2008

Residential Assessments

- No growth in residential assessments expected in FY 2008
- Cautiously optimistic that values will not decline in FY 2008 because the economy is stronger
 - Job growth versus job losses
 - Low mortgage interest rates
 - Home appreciation continued for a portion of the year
- Market rebalance
 - Unsustainable price appreciation
 - Investor speculation



Looking Ahead to FY 2009 Residential Market

- Most economists expect the overall national housing market to begin to improve in 2007
- Areas with the highest appreciation over the last several years are expected to be slower to recover
- *Money Magazine* predicts that Washington Area home prices will decline further in 2007 and that the trough will not occur until mid-2008
- Stephen Fuller forecasts that area home prices will show some improvement in 2007
- Moody's Economy.com predicts that single family home prices in Fairfax County will fall each year from 2006 – 2008 and rise just 0.5% in 2009.
- FY 2009 residential equalization is expected to be flat to slightly negative



Expectations for the Nonresidential Real Estate Market

- Nonresidential property values are expected to increase 10.0% in FY 2008
- Office Vacancy rates continue to decline
 - Vacancy rates fell to 7.3% as of mid-year 2006, down from 7.8% at year-end 2005 (12.1% in 2002)
 - Including sublet space, vacancy rate is 8.9%, down from 9.7% at year-end 2005
- Sublet space is at a 4 year low and declining
- 3.5 million sq. ft. in 29 buildings under construction
 - 3.4% increase to the County's 104.4 million sq. ft.
- Speculative development is on the rise
 - Of the 29 buildings, 13 are 100% speculative
 - Speculative space = 2.1 million sq. ft.



Nonresidential Real Estate Commercial / Industrial Percentage

- Commercial/Industrial percentage of total real estate assessment base:
 - FY 1990 = 26.76% (highest rate in over a decade)
 - FY 1996 = 19.04%
 - FY 2001 = 25.37%
 - FY 2002 = 24.84%
 - FY 2003 = 21.97%
 - FY 2004 = 19.14%
 - FY 2005 = 18.20%
 - FY 2006 = 17.36%
 - FY 2007 = 17.22%
 - FY 2008 (est) = 18.50%

- Will gradually rise as residential values stabilize and nonresidential values increase moderately

Looking Ahead to FY 2009 and Beyond Nonresidential Market

- Speculative building may lead to an excess supply
- Slowdown in Federal procurement spending will impact the demand for office space
- Values will continue to rise into FY 2009 but at a more moderate rate than FY 2007 and FY 2008





Other Revenue Categories

- Personal Property Tax revenue (\$481.7m) rose 6.0% in FY 2006
 - Growth falling to 3.5% in FY 2007 and to 0.6% in FY 2008
 - Fewer new vehicle purchases
 - Shift away from expensive SUVs to higher gas mileage vehicles
- Sales Tax revenue (\$152.5m) increased 3.2% in 2006
 - Similar increases of 3.5% are expected in FY 2007 and FY 2008
- Investment Interest (\$70.1m)
 - Yield was 4.2% in FY 2006
 - Portfolio is now earning 5.2%+
- Recordation and Deed of Conveyance Taxes (\$51.4 m) rose 7.8% in FY 2006
 - Year-to-date collections are down over 33% due to the slowdown in the housing market
 - In FY 2005, Fairfax County contributed \$133 million to Virginia's total \$572.3 million in Recordation & Deed of Conveyance Taxes (23%)



Summary Outlook

- Cooling of the residential market will continue in the near-term
- Duration and extent of cooling is uncertain
- Residential equalization expected to decrease further in FY 2009
- Non-residential equalization expected to show positive growth in FY 2008 and FY 2009
- Speculative buildings may pose a threat to growth
- Non-real estate revenue categories will experience modest growth
- Expenditure requirements will be difficult to address (Schools, Public Safety, Human Services, etc.)
- GASB 45 requirements will present an additional fiscal challenge
- Budgets for FY 2008 and FY 2009 will be extremely constrained