Prince William County Adopted Projections Of General County Revenue Fiscal Years 2011-2015

Prince William County, Virginia

Fiscal Year 2011 – 2015 Projections of General County Revenue

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Prepared by the Department of Finance

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Christopher E. Martino
Director of Finance

May 28, 2010

TO: Melissa S. Peacor
County Executive

FROM: Christopher E. Martino
Director of Finance

RE: Revenue Committee Report, Fiscal Year 2011 – 2015

I am pleased to present the FY2011-2015 Projections of General County Revenue. This report was prepared in accordance with the County's *Principles of Sound Financial Management* as part of our responsibility to citizens to carefully plan for the funding of services, including the provision and maintenance of public facilities.

During the development of the revenue forecast, the Revenue Committee sought input from public and private sector representatives associated with the County's major revenue sources. These discussions assisted the Committee in identifying and interpreting important local, state, and national economic conditions and trends.

A real estate tax rate of $1.236 was adopted for FY2011 in order to achieve an average 2.5% or $74 increase in the average, existing residential tax bill. Due to declining commercial real estate values, commercial tax bills will decrease an average of 15.8%.

The tax rate is projected to increase to $1.261 in FY2012 based on the adopted revenue policy of limiting future tax bill increases by projected inflation rates (3.0% in FY2012).

Average residential real estate values stabilized in calendar year 2009, while commercial values continued to struggle and declined an average of 17.4%. The commercial real estate market typically follows the residential market by one or two years.

Aside from the County's commercial real estate market, the County is experiencing signs that the local economy is stabilizing. Sales tax and Business, Professional, and Occupational License (BPOL) tax revenue recovered during FY2010 and the FY2011 forecast shows small revenue increases. Although personal property tax revenue is projected to decrease 11% during FY2010 due to the struggling automotive industry, it is projected to stabilize during FY2011.

Other County revenue sources are projected to continue their decline into FY2011. Although home sales volume has decreased from the prior year, recordation tax revenue from refinance activity increased during FY2010 due to unprecedented mortgage rates, which were consistently lower than 5.0%. However, the recordation tax forecast for FY2011 anticipates that homeowners who are able to refinance already did so during FY2010. As a result, refinance activity will decline dramatically as mortgage rates slowly increase and recordation tax revenue will decrease for the fifth straight year in FY2011.

I recommend these revenue estimates be used in preparing the 2011 Fiscal Plan, the Capital Improvement Plan for FY2011-2016, and other financial plans.

I would like to thank the members of the Revenue Committee, the participants from the business community, and all others who contributed to the preparation of this report.

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INTRODUCTION

Calendar year 2009 witnessed signs that the current recession, arguably the worst since the Great Depression, had finally reached the bottom. However, trepidation still exists that economic growth may be W-shaped, with another downturn waiting in the wings, or L-shaped, with growth tepid at best. The year began with the economy and confidence in freefall; with a sense of emergency gripping housing, banking and financial markets; with investors and consumers in a state of near panic. As 2009 progressed, consumers continued to hold off on spending for big ticket items like houses and cars, and also reversed or moderated long-held spending patterns, preferring to save against their dwindling wealth. The national unemployment rate reached 10% by December 2009. Over 7 million jobs were lost since the start of the downturn. Some areas of the economy, however, recently began to expand and equity prices have moved well off their lows. The nation's Gross Domestic Product (GDP) advanced at a robust rate of 5.7% in the Fourth Quarter (but that preliminary number will almost assuredly be adjusted downward in the coming weeks), following a more moderate (but positive) 2.2 in the Third Quarter. The Dow Jones Industrial Average, which peaked at over 14,100 in October 2007, lost over 30% of its value between October 2008 and March 2009, bottoming to 6,440 on March 9, 2009. Since that time, however, the Dow has regained not all, but significant ground lost in the downturn. By December 31, 2009 the Dow Jones stood above 10,400.

Housing prices, both nationally and locally, which had tumbled throughout the previous two years, also reached a nadir in February and March and then began to show improvement throughout the spring and summer selling season, albeit not anywhere near levels seen at the peak in 2005. Nevertheless, housing starts, both nationally and locally, remained at extremely low levels and those houses that were selling, particularly in Prince William County, were at the more modest price ranges. The recent downturn was experienced nationwide, but perhaps most acutely in those communities that saw the most dramatic increases in housing markets over the past several years. It is a maxim in certain economic circles that commercial construction markets will mirror residential markets some 12-18 months latter. So it has happened in Prince William County, with rising vacancy rates and stalled projects in office, industrial and retail construction. Throughout 2009, commercial construction in the county continued on a downward spiral, likewise adding pressure on the County's already challenged budget.

The federal government has poured billions upon billions of dollars into a sagging financial market (the wisdom of this is still debatable); stimulus plans were put into effect to stanch the bleeding in the nation's auto industry; incentives were offered and expanded upon to encourage home buying. In Northern Virginia, and in Prince William County, unemployment, while on a troubling upswing, continues to be substantially lower than the national rate. The predominance of the federal government and Prince William County's enviable proximity to it should greatly ameliorate the downturn in economic activity locally. However, the importance of real estate tax revenue in Prince William County's fiscal considerations, particularly from residential real estate, serves as a major cautionary note over the next several years and factors into all fiscal discussions.

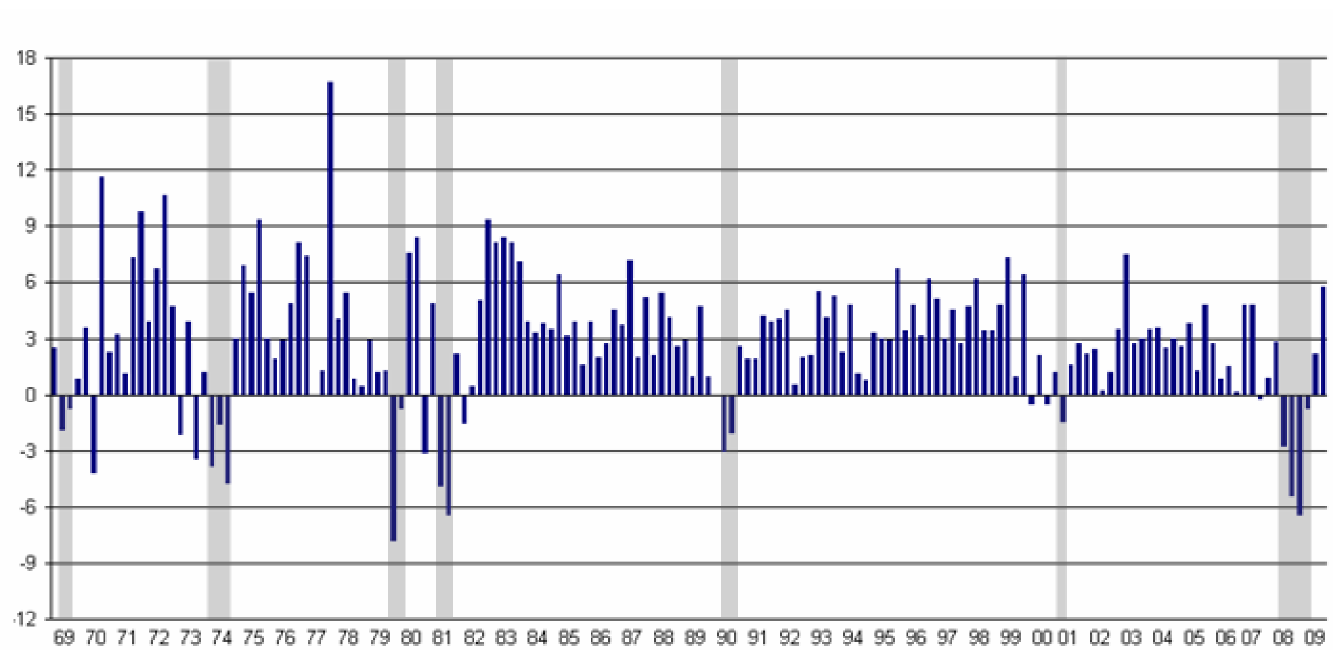
Prince William County's economic outlook is challenging in the short-term with modest but cautionary expectations in following years. The length and breath of the current economic uneasiness is difficult to predict. Prince William County's economy in 2006 and 2007, while marking the housing downturn, still enjoyed growth in other sectors due to the effects of federal spending, continued job growth and steady retail sales. During 2008 and 2009 job growth and retail spending in the county moderated and/or declined. 2010 offers more of the same. The housing downturn has rippled through the national, regional and local economies. Commercial properties have followed suit and can offer no remedy in the near-term. Likewise, continued stagnation can be expected in revenues from business licenses and sales taxes. Faced with economic uncertainty and the real possibility of declining net worth, the consumer has pulled back from large ticket purchases. County services, however, will still be needed and expected, and in some cases at levels at or higher than in boom times. Providing these services in an environment of diminished resources will test the County over the next few years.

REVIEW OF THE ECONOMY IN 2009 AND OUTLOOK FOR 2010

The United States

Real Gross Domestic Product (GDP) is the broadest measure of economic activity in the United States and is a reliable indication of the overall strength and performance of the national economy. In late 2008, the Bureau of Labor Statistics formally declared the U.S. economy to be in recession. Most economists agree that the current downturn began in the first quarter 2008, and, by accepted definitions, ended during the third quarter 2009, with a modest 2.2% expansion. The fourth quarter GDP rate improved further at 5.7%. Although a preliminary number, it is a strong indication of economic turnaround. Due to the particular severity of the most recent recession and the magnitude of federal deficit spending, the current upswing is met with a larger degree of skepticism than might otherwise greet such a robust quarterly expansion. In addition, a large part of the dramatic 4th Quarter expansion has been attributed to a slowing pace of business inventory drawdown, and may not signal continued growth at this pace. With consumers having pulled back from large ticket spending, and to date not inclined to reverse that sentiment, fears are that a second downturn may occur. The following graph presents GDP quarter-to-quarter growth (in the blue bars) and periods of recession (in the shaded areas) from 1947 to 2009 (4th Quarter).

Figure 1. United States Gross Domestic Product



Source: Bureau of Labor Statistics

Virginia

John Layman, Chief Economist and Director of Revenue Forecasting in Virginia's Department of Taxation, addressed the Prince William County Revenue Committee on December 3, 2009 and presented a summary of the economic outlook for the Commonwealth. Mr. Layman noted that the Virginia economy performed worse than expected, and that productivity, income and employment fell short of last year's forecasts. The commonwealth's real gross domestic product, measured on a fiscal year basis, declined in FY2009 by 1.6%--the first annual decline since 1975. Employment in the Commonwealth, forecast to decline by 1.0%, actually fell by 2.3% during Fiscal Year 2009, more than double the forecast. Personal income, forecast to increase by 3.1%, actually grew by only 1.6% during the fiscal year while wages and salaries, forecast to increase by 2.4% actually grew by only 0.7%. In Fiscal Year 2009, Virginia shed 53,800 jobs, over half of which were related to the housing market. Job losses accelerated in the second half of the year, led by a pullback in professional and business services and construction. Similar to national and local conditions, the current severe economic downturn in the housing market has adversely affected the state's economy. As a result of these economic conditions and a worsening employment scenario throughout the state, Mr. Layman noted that total General Fund Revenue collections in the commonwealth essentially collapsed during the second half of the year. Revenue collections declined an unprecedented eleven consecutive months in fiscal year 2009. Fiscal Year 2009 revenue collections finished $298.8 million (2%) below the forecast.

A major driver of the fiscal year 2009 revenue shortfall was unexpected growth in individual refunds. Compared to fiscal year 2008, the commonwealth issued 28.8% more refunds between April and June 2009, with June's total 110.2% above the prior year. At the same time, income tax withholding and sales tax collections (83 percent of total revenues) finished a combined 0.6% below forecast. Other sources of revenue also fell short of forecasts. Revenue from transportation-related sources declined precipitously, including motor fuel tax collections, which have declined for 5 straight years, and revenue from new vehicle sales and titles, which appear to have bottomed out during the summer.

Several interim and revised scenarios were presented to outgoing Governor Kaine during summer 2009. Looking ahead, the State's economic outlook included the following assumptions:

- real GDP will slowly begin growing in the second half of calendar year 2009.
- The labor market will gradually improve, with job growth turning positive in the fourth quarter of 2010. The national unemployment rate is expected to peak at 10.3 percent.
- total personal income growth will slow further in fiscal year 2010.
- do not expect a robust consumer recovery.
- the housing market will remain a drag on growth; however, home sales, housing starts, and building permits have stabilized, which hit bottom in the second quarter of 2009.
- the turmoil in the financial sector and stock markets has subsided; however, some instability remains.

Based on these comments, the Virginia August interim revenue forecast included a blend of standard and pessimistic outlooks which include:

- payroll withholding and retail sales tax – 80% of the Commonwealth's general fund revenues – are forecast to track to the State's pessimistic, alternative revenue scenario
- lower personal and corporate income resulting in lower income tax revenue
- a reduction in the general sales tax revenue forecast, which will directly affect education - particularly local education funding
- total state taxes and fees are expected to decline again in FY2010, falling by 2.8%.

the severe recession is likely to end in FY2010; however, the principal revenue drivers, employment and income, are expected to be sluggish moving forward into FY2011.

Prince William County

In 2009, Prince William County's economy, already suffering through the most severe downturn in the housing market in 17 years, bore mixed signs that, while the housing market appeared to stabilize, other parts of the economy, notably commercial real estate, retail activity and unemployment rates, continued to be troubled. The real estate market, which bottomed out in the first quarter, appeared to strengthen, but was still plagued with high numbers of foreclosures. In 2006 a total of 249 foreclosures were recorded in Prince William County. This number increased by over ten-fold in 2007 (2,805) and doubled again in 2008 (6,549). In 2009, a total of 3,490 foreclosures were filed on Prince William County homes, a decrease of 47% from 2008, but still over 13 times the number in 2006.

According to data from Metropolitan Regional Information Systems (MRIS), the average sales price of homes sold in December 2009 in Prince William County was $259,985—an increase of 22% year-over-year and 27.2% since February 2009's $204,378, the low point of the current downturn. Despite the recent upswing, December's average sale price represents a decline of over $198,000 (43%) in the average sale price since December 2005, when the average home in Prince William County sold for over $458,000. Nevertheless, improving sales prices and decreasing inventories of homes for sale suggests that the County's real estate market may be slowly stabilizing. If in fact this represents the much anticipated turnaround in the local real estate market, expectations should be tempered with the probability that the market moving forward will see much more modest appreciation of home values over longer periods of time. Notwithstanding the positive trends, the scarcity and cost of financing for jumbo mortgage loans has severely crimped the market for higher bracket houses in the County.

A gradually stabilizing residential real estate market has not to date translated into expansion in other segments of the Prince William economy. Large ticket retail and automobile sales have been for the most part flat during the year. At-place jobs and wages slowed or reversed their rates of growth—particularly in trades closely related to housing. Commercial and residential construction projects were cancelled or put on hold, particularly in the first half of the year. Nevertheless, to date, unemployment remains well below the state and national rates. Prince William County still boasts a highly educated, skilled and adaptable workforce.

Population and Cost of Living

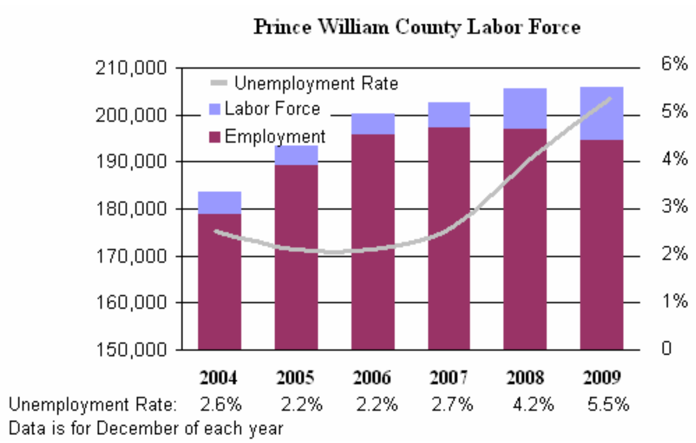
Prince William County's population was estimated at 395,485 by December 2009, an increase of 1.2% year-over-year. The County population is estimated to have grown by 114,672 persons (40.8%) since April 2000 when the population was 280,813 persons. The average annual growth rate is 4.19% since 2000. Since 2007, however, the unprecedented increase in the number of foreclosures has, in all likelihood, meant an increase in the number of vacant properties in the County. The impact of foreclosures on the County's population is difficult to ascertain and will probably be mitigated as the housing market recovers. The Metropolitan Washington Council of Governments projects in its Round 7.2 Cooperative Forecast of Population, Housing and Employment that Prince William County will grow to over 486,000 by 2020 (23.1%) and to 542,484 persons by 2030 (37.2%).

According to the Council for Community and Economic Research, the County's 1st Quarter 2007 cost of living rating was 120.7 for all costs. This compares to 136.9 for Northern Virginia. The cost of housing was 156.4 in Prince William County and 209.8 in Northern Virginia.

Labor Force

The Prince William County civilian labor force, as reported by the Virginia Employment Commission was 205,742 in December 2009, an increase of less than 200 employed persons (0.1%) since December 2008 and a five-year increase of 22,235 (12.1%). Employed persons in the labor force (194,468) decreased by 2,401 (1.2%) since 2008 but increased 15,742 (8.8%) in the last five years. Unemployed persons in the County (11,274) grew by 2,584 (29.7%) since December 2008, a sharp increase, but still trending below the national and state rates. The December 2009 unemployment rate for Prince William County was 5.5%, compared to 4.2% in December 2008. National and state unemployment rates were 9.7% and 6.7% respectively in December 2009.

Figure 2. Prince William County Labor Force Components



Source: Virginia Employment Commission

Job Market

According to data from the U.S. Department of Labor and the Virginia Employment Commission, Prince William County has outpaced regional, state and national economies in businesses and job growth over the last five years but has had mixed results when comparing growth over the last year. In 2009 (2nd Quarter) there were 7,212 establishments reported in Prince William County, a growth rate of 3.6% since 2008 (2nd Quarter) and 23.9% since 2004 (2nd Quarter). By comparison, Northern Virginia establishments grew by 2.2% in one year and 17.6% since 2004; statewide, establishments grew by 0.3% in the last year and 12.7% since 2004.

At-place employment in Prince William County (102,578 in the 2nd Quarter 2009) declined by 2,314 (-2.2%) year-over-year, but increased by 18,887 (22.6%) since 2004. By comparison, Northern Virginia employment declined by over 24,000 jobs (-2.1%) in the last year but grew by 8.0% since 2004. Employment in the Commonwealth declined by over 125,000 jobs (-3.4%) in the last year but grew by 3.0% since 2004.

The average weekly wage in Prince William County ($773 in the 2nd Quarter 2009) grew by 0.9% in the last year and 34.7% since 2004. At-place average weekly wages in Northern Virginia ($1,236) grew by 1.5% in the last year and 25.4% since 2004. In Virginia, weekly wages ($899) grew by 1.6% in the last year and 28.8% since 2004.

The impact of the housing downturn continues to be acutely felt in those industries related to housing. Construction employment, for example, declined in Prince William County by over 6,300 net jobs (-39.8%) between September 2005 and June 2009. Likewise, jobs in finance and insurance and real estate experienced a net loss of over 764 jobs (-20.2%) since their respective peak months of the real estate boom.

Figure 3. At-Place Establishments, Jobs and Wage One Year Growth 2008-09

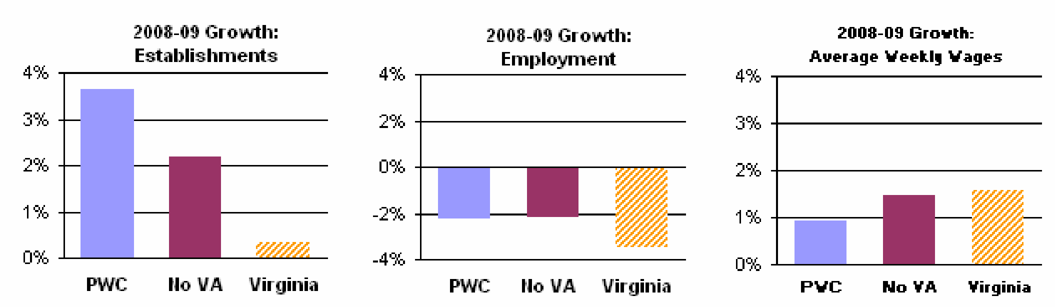
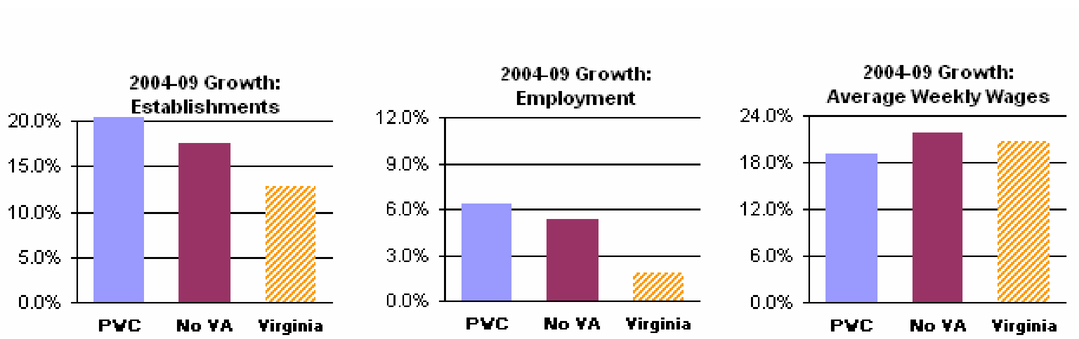


Figure 4. At-Place Establishments, Jobs and Wage Five Year Growth 2004-09



Source: Virginia Employment Commission

Commercial (Non-residential) Property

During the course of 2009, Prince William County's commercial (non-residential) property, like that in Northern Virginia, experienced significant declines as vacancy rates increased, and many new projects were cancelled or delayed. Insomuch as Prince William County's commercial inventory is a part of the region's inventory, it is affected by general conditions in the region's economy. Overbuilding during the last economic expansion was in part responsible for an oversupply of office, and industrial inventory as the economy began to worsen.

Prince William County's close proximity to the Federal Government and affiliated contractor industries has largely isolated it from severe economic downturns. Not only has this relationship provided some insulation from inevitable business cycle troughs, it has also provided the County with a demand base for its housing and retail trade. Nevertheless, the outlook for new commercial development over the next few years is troubled as the current cycle plays out. On the positive side, the Base Realignment and Closing Act (BRAC) designated both Quantico Marine Corps Base and Fort Belvoir Army Base as recipients of additional personnel as the Department of Defense consolidates bases around the nation. Some 18,000 additional positions are expected between the two bases. Prince William County's location between the two has meant an increased demand for office and flex product in the Potomac Communities corridor, particularly from contractors servicing the bases and Defense and Homeland Security activities.

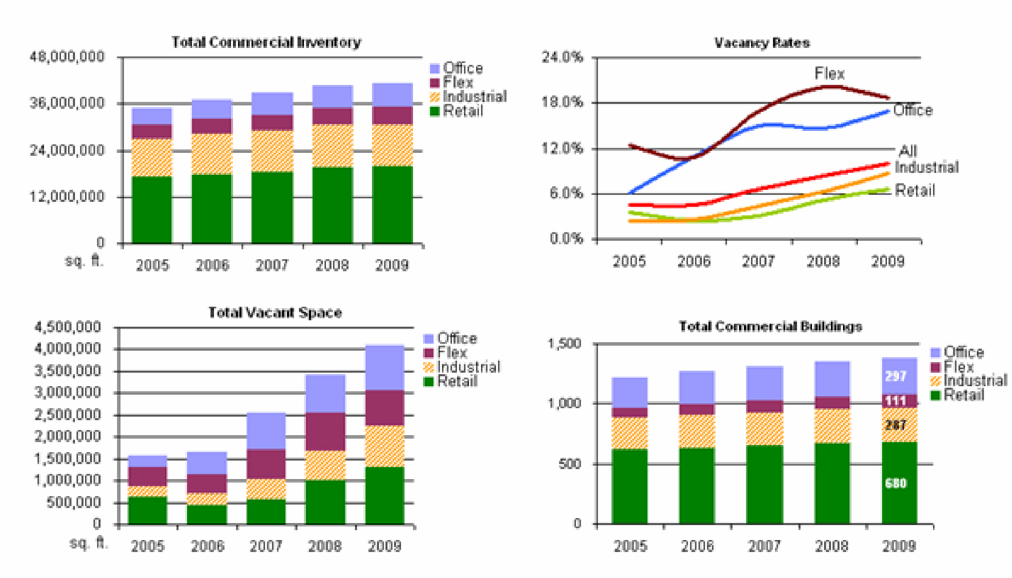
According to Costar Realty Group, a multiple listing service for commercial property, 2009 was a year in which growth rates in the Prince William County commercial inventory slowed from previous years, probably in response to an overbuilt supply—both locally and regionally, increased vacancy rates and cautionary economic conditions. In December 2009, the Prince William County commercial inventory included 41.2 million square feet of space in 1,375 buildings, with 4.1 million square of vacant space—a vacancy rate of 10%. Since 2005, some 6.5 million square feet of commercial space has been added to the inventory, a growth rate of 18.7%. Vacant space has also increased since 2005, from 1.6 million square feet in December 2005, to 4.1 million square feet in December 2009—a growth rate of 163% in four years.

In 2009, 604,591 net new square feet of commercial space (including retail) was added, compared to over 1.9 million the previous year. This represents a growth rate of 1.5% in the past year, down from an annual average increase of 4.7% over the last 4 years. A net total of 28 new commercial buildings (including retail) were added in 2009.

In 2009, nine net new office buildings were added to the inventory; 318,662 net new square feet of office space were added, an annual growth rate of 5.5%, compared to an annual average of 12.1% since 2004. One net new Flex building was added in 2009 with 100,000 net new square feet, an annual growth rate of 2.3%, compared to an annual average of 6.2% since 2004. Three net new industrial buildings were added in 2009; 48,715 net new square feet of Industrial space were added, an annual growth rate of 0.7%, compared to the annual average of 2.2% since 2004. Fifteen net new retail buildings were added in 2009, with 137,214 net new square feet of space; retail space grew by 1.5% in 2009 compared to an annual average of 3.9% since 2004.

Vacant space and vacancy rates climbed, notably in industrial space, largely the result of a dramatic increase in supply over the last four years that clearly outpaced economic expansion. In 2009, indications are that a weakened economy also added to vacant space in the County's inventory. At the same time tightened lending resources and standards added new challenges to potential start-up projects. In December 2009 a total of 4.1 million square feet of vacant space (including retail) was reported by Costar, a vacancy rate of 10.0%. This represents an increase of over 700,000 square feet since December 2008, when the total vacancy rate was 8.4%. In December 2009, 1,031,271 square feet of vacant office space were reported, an increase of 21.8% since 2008. The office vacancy rate was 16.8% in December 2009, compared to 14.6% a year earlier. Costar reported 836,666 square feet of vacant Flex space in Prince William County in December 2009, a decrease of 5.2% since 2008. The flex vacancy rate was 18.7% in December 2009, compared to 20.2% the previous year. Costar reported 949,306 square feet of vacant industrial space in Prince William County for December 2009, an increase of 40.2% since 2008. The industrial vacancy rate was 8.7% in December 2009, compared to 6.2% in December 2008. Costar reported 1,288,460 square feet of vacant retail space in December 2009, an increase of 29.0% since 2008; the retail vacancy rate was 6.5% in December 2009, compared to 5.1% in December 2008.

Figure 5. Commercial (Non-Retail) Inventory in Prince William County



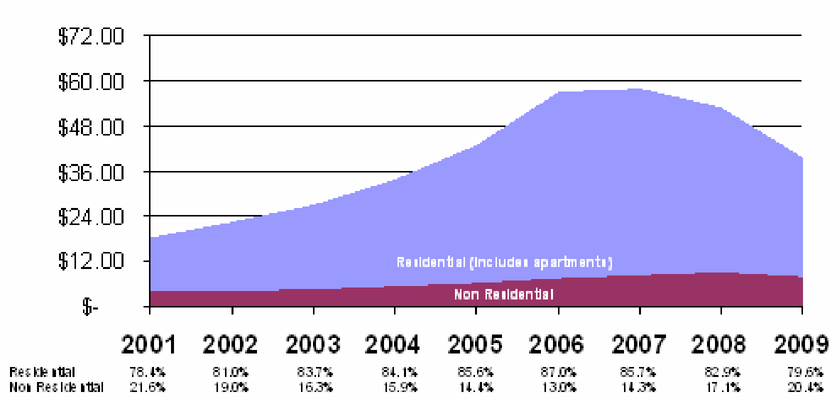
Source: Costar Realty Group

Residential Housing

Prince William County depends heavily on residential housing and consumer spending to maintain its prosperity and levels of local government services. During the most recent period of prosperity, Prince William County participated and benefited greatly from the unprecedented run-up in home values. In 2001, all residential land (including apartments) in the County was valued at $14.48 billion and accounted for 78.4% of the total Land Book value of all properties in the County. By 2006, at the height of the most recent real estate boom, residential properties (including apartments) were valued at $49.56 billion and accounted for 87.0% of total Land Book values. This represents an increase of over 240% in five years. Nonresidential land properties, by comparison, increased during the same period from approximately $3.65 billion in 2001 to $6.98 billion in 2006, an increase of 91.3%.

The current downturn in the housing market has resulted in deflated annual assessments of real estate—this summer's increases notwithstanding. In January 2009 all residential properties (including apartments) were valued at $31.55 billion – a decrease of over $12 billion, or -27.8% from 2008. Since 2006, the total residential assessed property value has decreased by 36.3%. Residential properties (including apartments) currently account for 79.6% of the total Land Book value. The average assessed value of a home in Prince William County decreased from $429,7905 in 2006 to $248,955 in 2009 (January 1, 2009)--a decline of over $180,000, or 42.1% in three years. Single family homes declined in average assessment by $196,873 (-40.4%) since 2006 and townhouses by $157,192 (-47.6%). While this reflects assessed value as of January 1, 2009, arguably the low point of the housing downturn, it reflects the dramatic devaluing of real estate in Prince William County since 2006 and highlights the magnitude of the challenges in this important source of tax revenue.

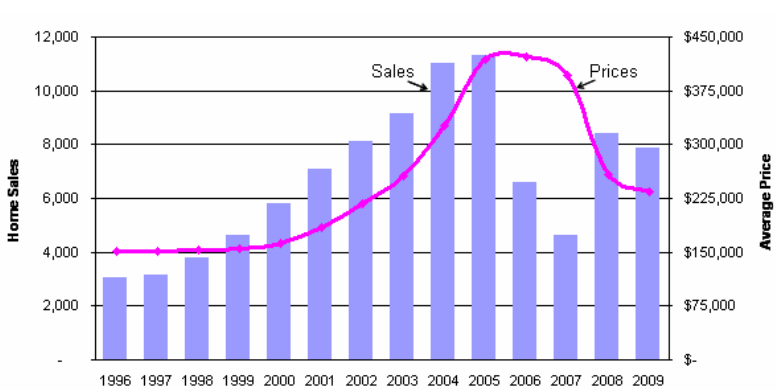
Figure 6. Land Book Values (in billions) in Prince William County



Source: Prince William County Office of Assessments

According to data from Metropolitan Regional Information Systems (MRIS), home sales in 2009 (single family, townhouses and condominiums) in Prince William County totaled 7,862 - a 6.4% decrease from the 8,398 units sold in 2008 but a 69.4% increase over the trough year of 2007 when only 4,642 homes were sold in the County. In the five-year period 2001-2005 an average of 9,334 homes were sold annually in the County; in the four year period 2006-2009, an average of 6,868 homes were sold annually (approximately 74% of the 2001-2005 average). The average sale price of homes sold in 2009 was $233,526—a decline of over $24,000, or 9.5%, from the previous year, when the average sold price was $257,927. It is important to note that much of the decline in average home sale prices occurred during the first quarter of the year. The summer 2009 selling season showed evidence of a market that bottomed out and grew healthier as the season progressed.

Figure 7. Home Sales and Average Sale Prices in Prince William County

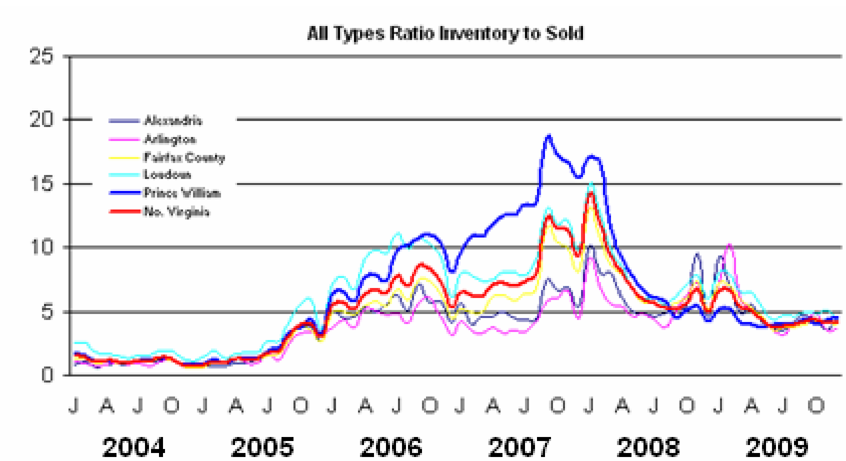


Source Metropolitan Regional Information System

The period 2004-2005 can be seen as the high water mark for the most recent housing boom. In December 2004, for example, the inventory of unsold properties averaged 823 homes on the market with an average "days on the market" of 25 - less than a month. A total of 990 homes were sold that month for an average sale price of $458,627; the ratio of inventory to sales was 0.73, less than one home on the market for every home sold. By December 2007, however, an average of 5,475 homes on the market was reported, with an average "days on the market" of 140 - nearly five months. A total of 354 sales were reported for an average sale price of $349,634 - 24% lower than the December 2004 average sale price. The ratio of homes on the market to homes sold stood at 15.47 in December 2007.

Officials of the Prince William Association of Realtors (PWAR), addressing the Prince William County Revenue Committee, reflected on conditions in the market during the year, noting a rather robust selling season in 2009, but continued difficulties in their industry. According to MRIS data for Prince William County, the average sale price for an existing home in 2009 (December) was $259,585—a 22.4% increase from December 2008, but still a decrease of nearly $200,000 since the December 2005 high point of the recent boom. Detached homes increased in pricing by 25.9% in 2009. In 2009, the average price increasing as the year progressed from a low of $204,378 in February to an average sale price of $259,985 in December—an increase of over $55,000 (21.4%). As the volume of homes sold increased during 2008, the ratio of homes on the market to homes sold steadily improved. In December 2009, the ratio was 4.69, compared to 4.26 one year earlier. Average "days on the market" stood at 35 in December 2009—a marked improvement from a year earlier when it was 108.

Figure 8. Ratio of Homes on the Market to Sales in Prince William County 2004-2009



Source Metropolitan Regional Information System

Foreclosure activity in Prince William County increase substantially from 2007-2008 and while the rate of increase subsided somewhat during 2009, total numbers are still high by historic standards. At least three factors contributed to the increase since 2006: speculation by investors, particularly towards the end of the recent real estate boom; secondly, homeowners (some first-time buyers) leveraging equity and easy credit via adjustable rate mortgages (ARMs); and third, purchases by workers in industries closely tied to housing with increased earning and borrowing powers. During the recent market run-up, there was a rush to take advantage of historically low interest rates and participate in the rapid increase in local property values. Relaxed underwriting by lenders also fueled the buying frenzy.

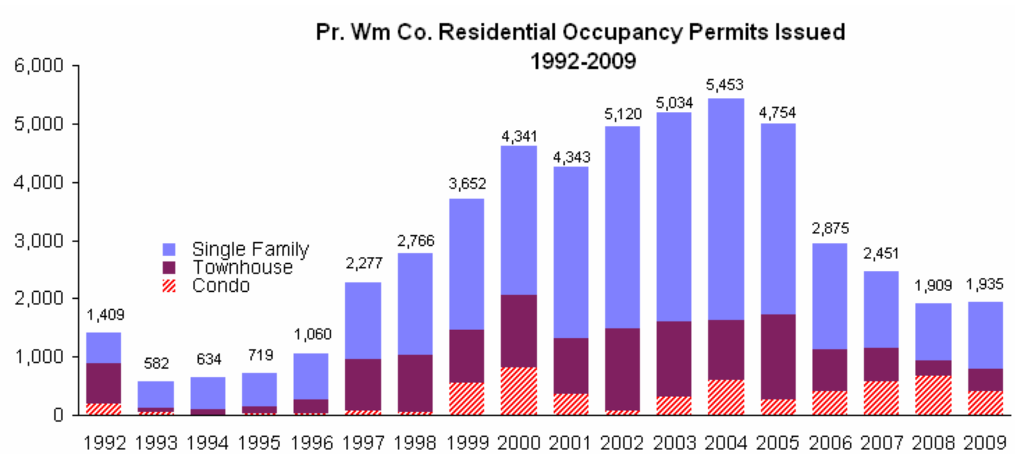
The following numbers indicate the severity of the foreclosure crisis since 2006:

- 2006: 249
- 2007: 2,805
- 2008: 6,549
- 2009: 3,490

While the number of foreclosures in 2009 dropped by 47% since 2008, it is still over thirteen times the number of foreclosures in 2006. Any hope for a return to historic notions of a healthy residential real estate market will be predicated on the continued decline of foreclosed properties in the county. And once that goal is reached, prospects are for more moderate rates of growth in home prices over the long-term.

The number of permits issued for new housing construction reflects continuing troubles in the housing market. In 2009, a total of 1,935 residential occupancy permits (not including multi-family rentals) were issued for new homes: 1,152 single family homes, 381 townhouses and 402 condominiums. This represents a slight increase of 1.6% since 2008 but a 59% decrease since the peak year of 2004, during which time over 5,400 permits were issued. The chart below depicts the annual levels of Prince William County building permits since 1992.

Figure 9. Residential Unit Building Permits in Prince William County



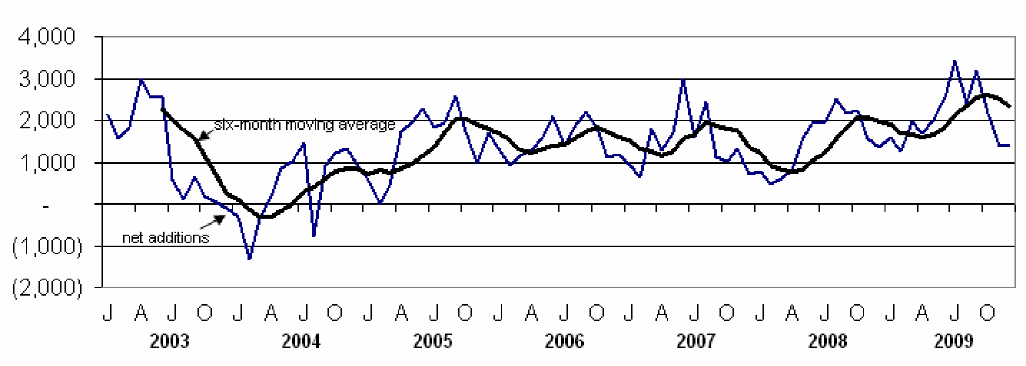
Source: Prince William County Department of Public Works

Vehicles

Vehicle additions are important to Prince William County in two ways. First, personally-owned vehicles are the County's primary source of personal property tax revenue. Second, the inventory of vehicles in the County provides a barometer of local consumer demand. Month-by-month additions tend to be volatile and exhibit seasonal patterns. Therefore, the following graph includes a six-month moving average that shows the annual trend in net vehicle additions. Since January 2003, net additions peaked in April 2003 before plummeting to a net loss of over 1,000 in February 2004, and more recently peaked in June 2007 at around 3,000. In February 2008, the lowest recent trough was reached at 467 net new vehicles, with a positive trend following through August 2008, during which time over 2,500 net new vehicles were reported. This was followed by a moderating trend through the first four months of 2009 with a total of 1,691 net vehicles added in April. From May through October 2009, over 2,000 net vehicles were added, boosted, no doubt, by the federal cash-for-clunkers program, which ended in autumn. November and December 2009 moderated net vehicles at less than 1,500 per month.

With an uncertain economic outlook, many potential buyers may be reluctant to take on additional debt in the form of new car payments. The downturn trend towards the end of 2009 in the net number of vehicles purchased may well be a leading indicator of reduced buying activity in Prince William County but a prediction of a long-term trend is premature.

Figure 10. Net Vehicle Additions in Prince William County

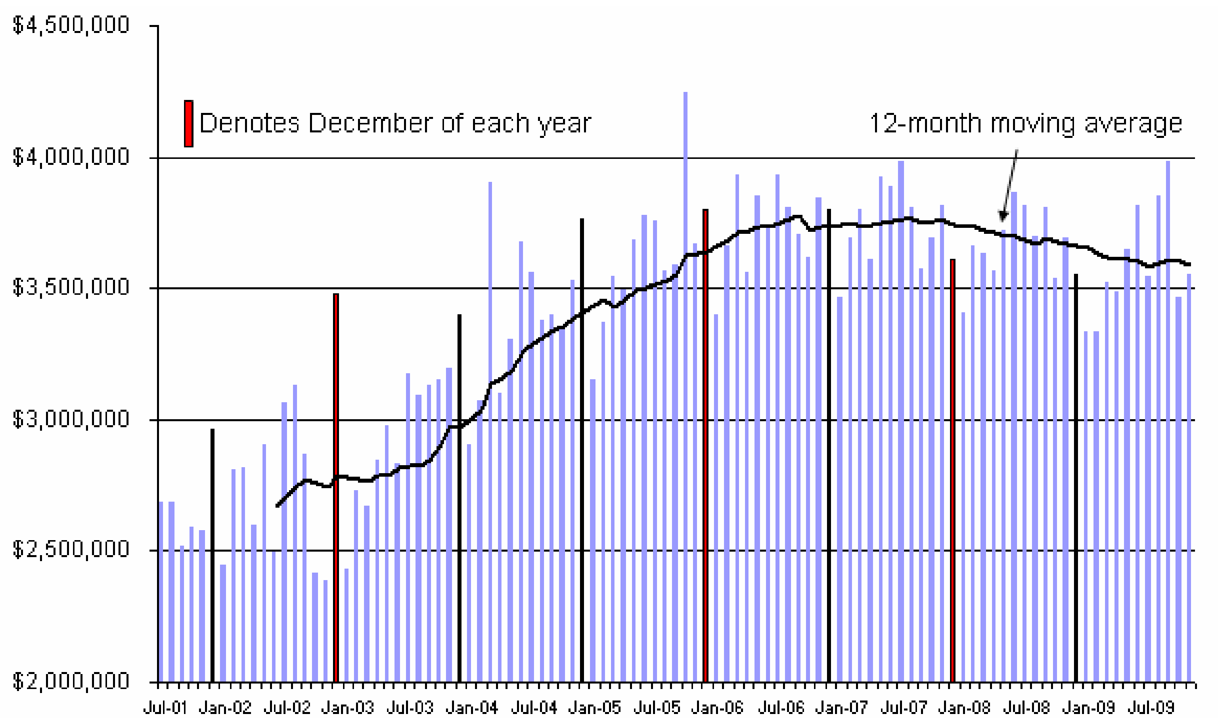


Source: Virginia Department of Taxation

Retail Sales Tax Revenue

Retail sales tax revenue provides financial resources to Prince William County and serves as an indicator of consumer demand. During the five year period from July 2001 through June 2006, growth of sales tax revenue in the County exhibited remarkable strength, as seen in the twelve-month moving average line in the graph below. The robust rate of growth in retail sales was largely a result of population growth, extremely low unemployment levels and a general positive economic environment. In addition, it is believed that part of this growth was driven by decoration of new homes and renovation of existing homes in a booming housing market in the County.

Figure 11. Retail Sales Tax Revenue (seasonally adjusted)



Source: Virginia Department of Taxation

Since July 2006, however, seasonally adjusted sales tax revenue has slowly declined from the previous five years of growth, yet still with revenue over $3.4 million per month. This trend may be the result of the recent housing market downturn, in combination with higher energy prices and concerns over economic trends. Near-term expectations are for this trend to slowly increase in conjunction with the recovering economy and the County's stabilizing real estate market.

It is important to note that the Washington metropolitan area is considered one of the wealthiest in the nation. The 2008 American Community Survey reports that among communities with populations of 250,000 or more, nine of the top twenty counties for median household income were in the greater Washington metropolitan region. Prince William County ranked sixteenth in the nation in 2008 with a median household income of $88,724. This typically translates into high rates of disposable income and buying power which should offset some of the inhibiting trends of an uncertain economic outlook. However, the consumer, after the shocks of the recent downturn and with uncertain prospects for the near future, has pulled back in a big way. Faced with reduced savings and retirement plans, and lowered expectations with regard to home values, consumers will remain conservative.

Conclusions

Calendar year 2009 marked what is hoped to be the end of the economic recession and perhaps a sense of modest growth to come. Major economic hurdles and pitfalls remain nationally, statewide and locally. Prince William County saw a bottoming out of the residential real estate market, followed by healthy growth, yet a large number of foreclosed properties continue to plague the County's inventory of homes for sale. The commercial real estate market has become a troubled arena, and recent flat or declining activity in the retail activity and auto sales have yet to show signs of sustained growth. Other economic conditions are more positive: exceptional human capital, a relatively diverse local business community, and the County's enviable position as an integral part of Northern Virginia. Historically, the County has outpaced economic growth in the region and in the Commonwealth. Continued strains on the housing market, however, will present challenges. With continued job growth both in the County and the region, demand for housing should grow - eventually.

Until the cycle completely runs its course, the residential and commercial real estate sectors will continue to adversely impact County revenues. Prince William County as part of the Washington D.C. Metropolitan area, and the Northern Virginia economy in particular, has shown remarkable resilience during the ups and downs of the normal business cycle. Federal Government spending and related job production have in the past provided a continuous stimulation to the local economy and largely insulated area jurisdictions from even the severest of downturns. However, the unprecedented growth in valuation of land in the County and the region has come to an end and in should not be anticipated to return at that level. Moderate growth may return, but probably not at the rate experienced in the recent run-up. Challenges are evident in the short-term, but the County is well-placed for moderate growth in subsequent years.

HISTORY OF THE REAL ESTATE TAX RATE

During calendar year 2006, the County's average assessed value of residential properties began depreciating (3.8% in 2006) after five consecutive years of double-digit appreciation increases ranging from 17.5% in 2001 to 27.2% in 2005. On April 24, 2007, the Prince William Board of County Supervisors adopted the FY08 budget, which was supported by a real estate tax rate of $0.787. Although the real estate tax rate increased nearly three cents ($0.029) from the FY07 adopted rate of $0.758, the average residential tax bill was held flat with no increase.

As the sub-prime mortgage crisis became evident during calendar year 2007 and foreclosures rose throughout the County (there were over 2,800 foreclosures), the average assessed value of residential properties depreciated 14.7%. On April 29, 2008, the Board of County Supervisors adopted the FY09 budget, which was developed based on the average residential tax bill increasing by 5.0% from the prior year. The adopted real estate tax rate of $0.97 equalized the 14.7% decrease in average, residential assessed values while increasing the average residential tax bill 5.0%.

During calendar year 2008, the U.S. economy spiraled into recession largely through an industry-wide credit crisis that originated with the implosion of sub-prime mortgages. Foreclosures in the County exploded with 6,549 in 2008 – more than doubling those that occurred in 2007. Due to the foreclosures and subsequent bank sales (approximately 70% of all residential sales were bank sales and another 5% were short sales), residential properties depreciated 30.1% on average during 2008 with properties in some neighborhoods depreciating 50%-60%.

On April 28, 2009, the Board of County Supervisors adopted the FY2010 Fiscal Plan. The adopted FY2010 real estate tax rate of $1.212 ensured that virtually no residential homeowners experienced an increase in their tax bill, provided there were no improvements made to the home that added value such as an addition or finished basement. The adopted real estate tax rate of $1.212 had the following impacts on property owners:

- the "average" real estate tax bill on existing, residential properties decreased $420 or 12.2%;
- the "average" real estate tax bill on commercial properties increased 6.4%.

FY2011 Proposed Real Estate Tax Rate and Average Tax Bill

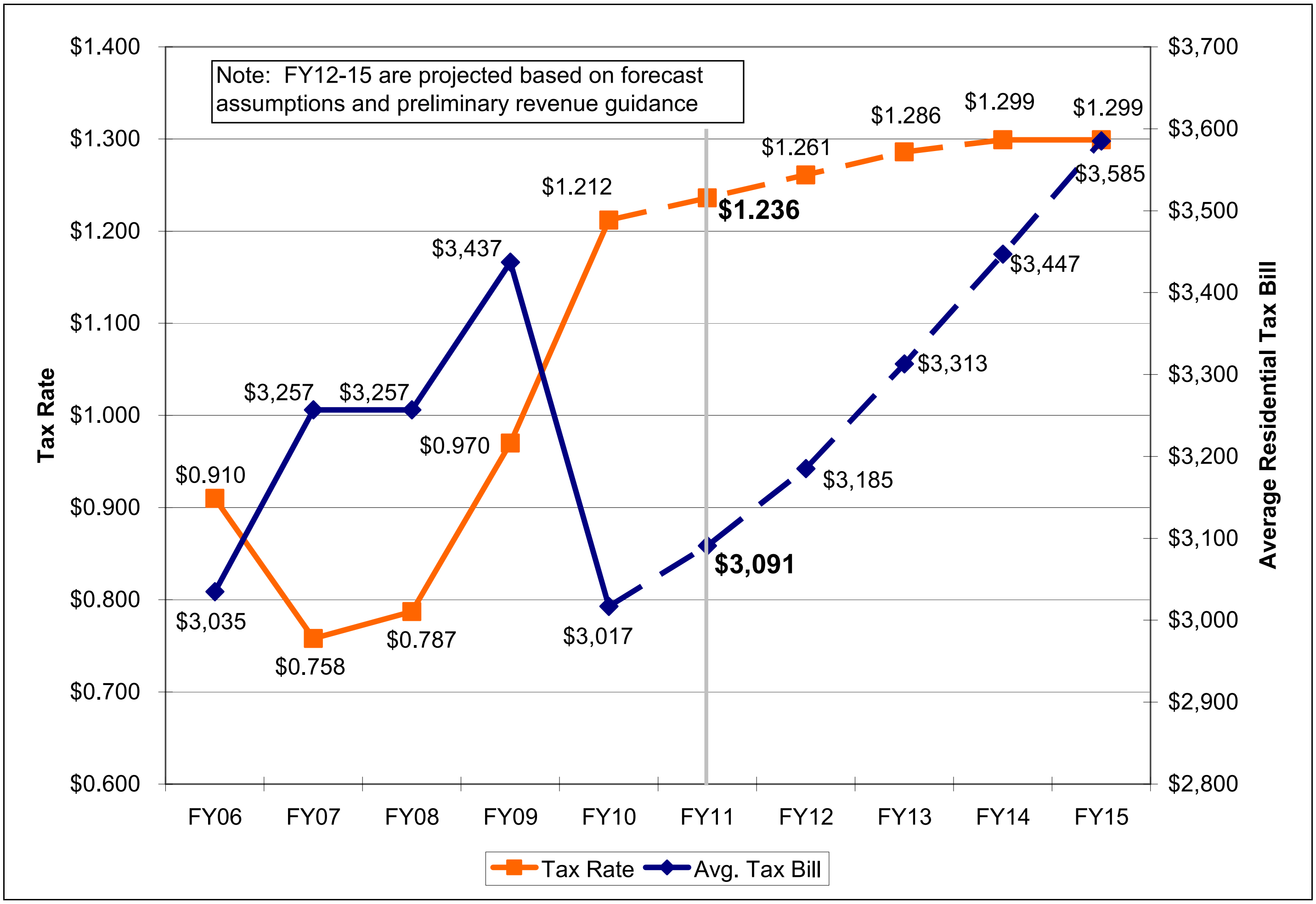
During calendar year 2009, Prince William County's residential real estate market stabilized as banks better managed their properties for sale instead of flooding the market, which was the case during calendar year 2008. As a result, sales prices stabilized and even small increases were experienced during the second half of calendar year 2009. Although residential prices found a bottom as average assessed values increased 0.4%, commercial real estate values decreased an average 17.4% in assessed value due to virtually no available credit from banks for acquisitions in addition to high vacancy rates because of the national and local economy.

On April 27, 2010, the Board of County Supervisors adopted the FY2011 Fiscal Plan. The adopted real estate tax rate of $1.236 has the following tax bill impacts on property owners:

- the "average" real estate tax bill on existing, residential properties will increase $74 or 2.5%;
- the "average" real estate tax bill on existing, commercial properties will decrease 15.8%.

The following chart illustrates the recent history of the County's real estate tax rate and average residential real estate tax bill:

Figure 12. FY2011-2015 Proposed Real Estate Tax Rates and Average Tax Bill



The real estate tax rate increased to $1.236 in FY2011. This is an increase of $0.478 from the tax rate of $0.758 adopted in FY2007. However, during that same four year period, the average residential tax bill will have decreased by $166 or 5.1% (from $3,257 to $3,091). The average tax bill is proposed to increase beyond FY2011 based on the projected inflation rates of 3.0% for FY2012 and 4.0% annually in FY2013-2015. It is important to note that the average, existing residential tax bill will not return to FY2007 levels until FY2013 – a period of six years.

MAJOR REVENUE SOURCES AND KEY ASSUMPTIONS

The following sections of this report contain the key assumptions that were the topic of discussion at one or more Revenue Committee meetings. The comments and insights from private sector participants contributed greatly to the formation of these assumptions. Other references and information sources were used to supplement the assumptions derived in the committee discussions.

Major revenue sources are identified as those summarized below:

Table 1. Summary of General Revenue Estimates by Major Category (Thousands)

Real Estate Tax Rate:		$1.212	$1.236	$1.261	$1.286	$1.299	$1.299
	% to Total (FY2011)	**FY2010 Revised Est.**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Real Estate Taxes	**65.96%**	$476,987	$474,782	$488,675	$517,508	$550,339	$585,887
Personal Property Taxes	**16.05%**	115,385	115,545	114,535	119,215	124,365	130,825
Sales Tax	**6.26%**	44,600	45,050	45,950	47,790	49,700	51,690
Consumer Utility Tax	**1.81%**	12,780	13,050	13,320	13,650	14,030	14,490
Communications Sales Tax	**2.67%**	18,700	19,200	19,390	19,780	20,370	20,980
BPOL Tax	**2.80%**	19,930	20,130	20,530	21,150	21,780	22,650
Investment Income	**1.80%**	13,250	12,990	16,690	21,490	28,110	32,020
All Other	**2.64%**	19,592	19,008	19,319	19,911	20,556	21,285
Total General Revenue	**100.00%**	$721,224	$719,755	$738,409	$780,494	$829,250	$879,827
Increase over Prior Year		-7.17%	-0.20%	2.59%	5.70%	6.25%	6.10%
School Portion		$405,912	$405,476	$416,062	$439,866	$467,450	$496,061
County Portion		310,912	310,389	318,457	336,638	357,690	379,546
Transportation Fund		4,400	3,890	3,890	3,990	4,110	4,220
Total General Revenues		$721,224	$719,755	$738,409	$780,494	$829,250	$879,827

Table 2. Revenue Estimates by Category

Acct. Code	GENERAL REVENUE SOURCE	FY2011 ESTIMATE	FY2012 ESTIMATE	FY2013 ESTIMATE	FY2014 ESTIMATE	FY2015 ESTIMATE
0010	REAL ESTATE TAXES	$466,833,000	$481,303,000	$509,589,000	$542,322,000	$578,216,000
	ROLLBACK SUPPLEMENT	100,000	100,000	100,000	100,000	100,000
0020	REAL ESTATE TAX EXONERATIONS	(8,405,000)	(8,786,000)	(9,302,000)	(9,899,000)	(10,554,000)
	SUBTOTAL	458,528,000	472,617,000	500,387,000	532,523,000	567,762,000
0041	R/E TAXES - PUBLIC SERVICE	15,139,000	14,673,000	15,114,000	15,419,000	15,573,000
0021	REAL ESTATE TAX DEFERRAL	(1,000,000)	(1,000,000)	(500,000)	(250,000)	(250,000)
0025	LAND REDEMPTION	315,000	315,000	315,000	315,000	315,000
0160	REAL ESTATE PENALTIES	1,800,000	2,070,000	2,192,000	2,332,000	2,487,000
TOTAL - - REAL ESTATE		**474,782,000**	**488,675,000**	**517,508,000**	**550,339,000**	**585,887,000**
0071	PERSONAL PROPERTY TAXES	115,310,000	114,310,000	118,950,000	124,050,000	130,440,000
0072	P/P - PRIOR YEAR	75,000	75,000	75,000	75,000	75,000
0081	P/P TAX DEFERRAL	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)
0170	P/P PENALTIES	1,160,000	1,150,000	1,190,000	1,240,000	1,310,000
TOTAL - - PERSONAL PROPERTY		**115,545,000**	**114,535,000**	**119,215,000**	**124,365,000**	**130,825,000**
0210	**LOCAL SALES TAX**	**45,050,000**	**45,950,000**	**47,790,000**	**49,700,000**	**51,690,000**
0220	**CONSUMER UTILITY TAX**	**13,050,000**	**13,320,000**	**13,650,000**	**14,030,000**	**14,490,000**
0223	**COMMUNICATIONS SALES TAX**	**19,200,000**	**19,390,000**	**19,780,000**	**20,370,000**	**20,980,000**
0235	**BPOL TAXES - LOCAL BUSINESSES**	**20,130,000**	**20,530,000**	**21,150,000**	**21,780,000**	**22,650,000**
0510	**INVESTMENT INCOME**	**12,990,000**	**16,690,000**	**21,490,000**	**28,110,000**	**32,020,000**
0140	INTEREST ON TAXES	1,377,000	1,409,000	1,486,000	1,576,000	1,676,000
0222	CABLE FRANCHISE TAX	0	0	0	0	0
0250	MOTOR VEHICLE LICENSE FEE	6,930,000	7,030,000	7,170,000	7,320,000	7,520,000
0260	RECORDATION TAX	5,260,000	5,260,000	5,400,000	5,550,000	5,710,000
0261	ADDITIONAL TAX ON DEEDS	1,790,000	1,860,000	1,950,000	2,050,000	2,150,000
All OTHER REVENUE OVER $1.5 MILLION		**15,357,000**	**15,559,000**	**16,006,000**	**16,496,000**	**17,056,000**
0215	DAILY EQUIPMENT RENTAL TAX	200,000	220,000	242,000	266,000	293,000
0230	BANK FRANCHISE TAX	655,000	675,000	695,000	715,000	735,000
0236	BPOL TAXES - PUBLIC SERVICE	1,050,000	1,071,000	1,103,000	1,136,000	1,170,000
0270	TRANSIENT OCCUPANCY TAX	1,175,000	1,200,000	1,240,000	1,285,000	1,340,000
0520	INTEREST PAID TO VENDORS	(350,000)	(350,000)	(350,000)	(350,000)	(350,000)
0521	INTEREST PAID ON REFUNDS	(50,000)	(55,000)	(55,000)	(55,000)	(55,000)
1301	ABC PROFITS	0	0	0	0	0
1302	STATE WINE TAX	0	0	0	0	0
1303	ROLLING STOCK TAX	92,500	94,000	96,000	98,000	100,000
1304	PASSENGER CAR RENTAL TAX	750,000	772,000	795,000	820,000	845,000
1305	MOBILE HOME TITLING TAX	35,000	36,000	37,000	38,000	39,000
1700	FED PAYMENT IN LIEU OF TAXES	86,000	90,000	95,000	100,000	105,000
MISC.	ALL OTHER GENERAL REVENUE	7,000	7,000	7,000	7,000	7,000
ALL OTHER REVENUE UNDER $1.5 MILLION		**3,650,500**	**3,760,000**	**3,905,000**	**4,060,000**	**4,229,000**
TOTAL GENERAL REVENUE		**$719,754,500**	**$738,409,000**	**$780,494,000**	**$829,250,000**	**$879,827,000**

REAL ESTATE REVENUE

Real estate revenues are broken down into the following categories: general real estate tax, public service tax, real estate tax deferral, land redemption, and real estate penalties.

Real Estate Taxes – 010 / 020

The real estate tax is the single largest revenue source for Prince William County contributing approximately 66.0% of general revenues (FY2011 forecast). It is levied on all land, improvements, and leasehold interests on land or improvements (collectively called "real property") except that which has been legally exempted from taxation by the Prince William County Code and the Code of Virginia. The revenue summary for the general real estate tax applies only to real property assessed locally, which includes residential, commercial and industrial, and agricultural and resource land property types. The following tables show a ten-year history of this revenue source and the five-year revenue forecast:

Table 3. Revenue Summary – Real Estate Taxes – 010 / 020

Revenue History	Tax Rate[1]	Actual Revenue	Percent Change
FY2001	$1.340	$208,663,095	7.7%
FY2002	1.300	230,638,558	10.5%
FY2003	1.230	266,546,217	15.6%
FY2004	1.160	304,997,838	14.4%
FY2005	1.070	348,048,638	14.1%
FY2006	0.910	380,232,314	9.2%
FY2007	0.758	419,468,402	10.3%
FY2008	0.787	438,809,461	4.6%
FY2009	0.970	493,304,534	12.4%
Current Estimate	**Tax Rate**	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$1.212	$459,924,000	(6.8%)
FY2010 (Revised Estimate)	1.212	459,747,306	(6.8%)
Forecast Revenue	**Tax Rate**	**Revenue Estimate**	**Percent Change**
FY2011	$1.236	$458,528,000	(0.3%)
FY2012	1.261	472,617,000	3.1%
FY2013	1.286	500,387,000	5.9%
FY2014	1.299	532,523,000	6.4%
FY2015	1.299	567,762,000	6.6%

Note that public service properties including railroads, utilities, etc. are not assessed locally. Rather, these properties are assessed by the State Corporation Commission and the Virginia Department of Taxation. Therefore, real estate revenues from these properties are not included in the above table.

[1] The real estate tax rate in prior years is as follows:
1987 - $1.42
1988 - $1.30
1989 – 1990 - $1.38
1991 – 2000 - $1.36

Residential Real Estate

Following a battered residential real estate market due to regionally unparalleled foreclosure rates, the credit crisis, and general economic weakness in 2008, Prince William County's market stabilized in 2009. Following a nearly 30% decline in values in 2008, average existing home value increased approximately 0.4% in 2009. Factors contributing to the stabilization of values included the $8,000 first time home buyer tax credit program, continued low mortgage rates (approximately 5.0%), lower foreclosure rates, and financial institution's decisions not to flood the market with foreclosed homes. In 2009, there were approximately 3,500 foreclosures of residential properties compared to over 6,500 in 2008, a decrease of 46%.

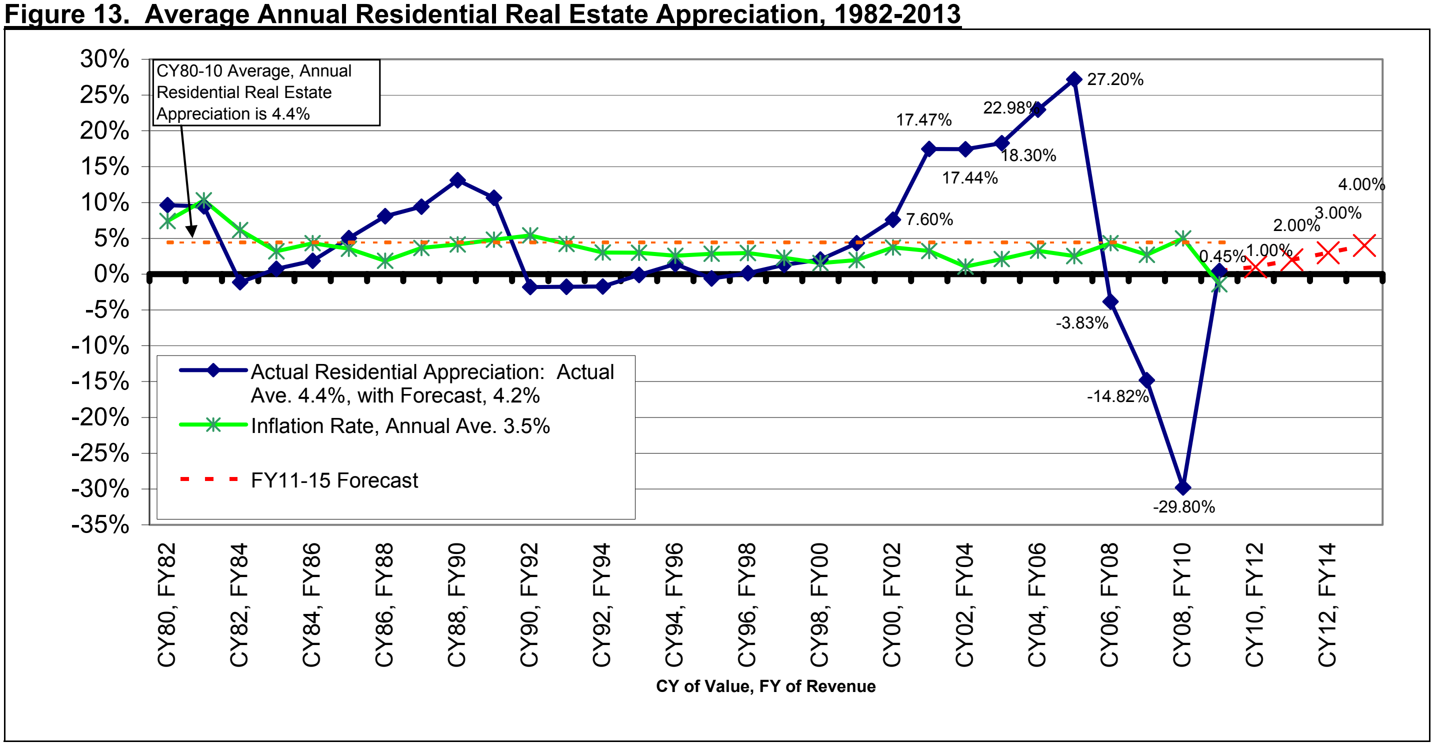
The average number of days on the market declined from 108 days to 42 days. The inventory of homes on the market also declined dramatically during calendar year 2009 as a growing number of realtors are expressing concerns over a lack of home supply. Bank owned properties and short sales made up approximately two thirds of all sales in 2009.

The residential real estate market consists of four property types: single-family homes, townhouses, residential condominiums, and apartments. Duplex units are included within the townhouse category. The apartment category consists of units within rental apartment communities and apartment buildings with five or more units.

Residential Market Value Changes

The following chart shows a history of actual residential appreciation (excluding rental apartments) from calendar year 1980 through 2009 and the General Revenue Committee's estimates thereafter.

Figure 13. Average Annual Residential Real Estate Appreciation, 1982-2013



The following table shows the expected change in market value for residential and apartment properties during the forecast period.

Table 4. Residential Market Value Changes

Revenue Year	Single-Family, Townhouse, and Condominium	Apartments
FY2011	0.4%	-20.8%
FY2012	1.0%	-5.0%
FY2013	2.0%	0.0%
FY2014	3.0%	3.0%
FY2015	4.0%	5.0%

The strengths of the Washington D.C. area, which are relatively low unemployment (compared to national and state unemployment rates) and anemic but nevertheless stable job growth expectations, are countered by improving but still relatively high foreclosure rates in Prince William County.

The residential market is forecast to gradually stabilize as the excess supply of foreclosed properties is absorbed over the course of the next twelve months depending on how economic uncertainties unfold. Residential properties in Prince William County are expected to recover in value gradually by increments of 1% over the next four years.

Residential market change in Prince William County is somewhat stronger than neighboring Northern Virginia jurisdictions:

Table 5. Comparison of Estimated Residential Market Value Changes from 2009 to 2010

	Prince William County	Loudoun County	Fairfax County	City of Alexandria	Arlington County
All Residential (Excluding Rental Apartments)	0.4%	-2.9%	-5.6%	-5.0%	-2.5%

Apartments Market Value Change

The apartment market has continued to experience relatively stable rents and occupancy levels in Prince William County. Despite stability in Prince William, values experienced a sharp drop mainly due to an annualized 190 basis point increase in overall capitalization rates according to the fourth quarter 2009 Korpacz Investor Survey. The reason for this sharp increase is directly tied to the scarcity of credit available to investors and does not reflect on the desirability of apartments as an investment category. Appreciation is estimated to resume at a rate of approximately 3% in fiscal year 2014 (FY2014) and 5% in FY2015.

Residential New Construction Units

Growth is defined as the change in assessed value due to the subdivision of land and the construction of new residential units. Construction taking place in one calendar year affects real estate revenues two fiscal years later. For example, construction that occurred in calendar year 2009 will be reflected in the County's January 1, 2010 landbook which provides the basis for real estate tax revenue received in FY2011. The following table summarizes the expected number of newly constructed residential units during the forecast period, and the previous five year activity:

Table 6. Residential Growth – Number of Units

Revenue Year	Total Residential Units	Single-Family	Townhouse	Condominium	Apartments
FY2006(a)	5,644	3,619	1,107	254	664
FY2007(a)	6,178	3,780	1,343	518	537
FY2008(a)	4,420	2,556	1,135	278	451
FY2009(a)	2,889	1,406	531	768	184
FY2010(a)	1,978	1,060	278	456	184
FY2011(est.)	2,044	1,167	302	575	0
FY2012	2,400	1,300	350	550	200
FY2013	2,600	1,450	400	550	200
FY2014	2,800	1,600	450	550	200
FY2015	3,000	1,750	500	550	200

(a) - actual

Construction of approximately 2,050 residential units was completed during calendar year 2009 which will generate revenue for FY2011. There were approximately 250 more single family, townhouse, and condominium units constructed in 2009 than 2008. The volume of new home starts is expected to increase as the economy stabilizes and the inventory of foreclosed homes diminishes during the remainder of the forecast period. Despite not having any newly constructed apartment units in 2009, construction of new apartment units is forecast to resume in 2010 and remain stable at around 200 units during the entire forecast period. Construction of a significant number of apartment projects in recent years has been driven by federal tax credit incentives.

Residential Values Per New Unit

The average assessed value of a new home constructed during 2009 was $311,923, a 5.8% decrease over the average assessed value of homes built in 2008 which was $330,995. It should be noted that the overall assessed value of a new home is affected by the mix of single family, townhouse, and condominium units constructed in any given year.

The average assessed value of a new single family home was $359,100 in 2009, a 7.4% decrease over the average assessed value of $387,959 in 2008.

In 2009, the average assessed value of a new condominium unit was $247,700 compared to $242,976 in 2008 and the average value of a new townhouse unit declined from $258,170 to $251,900 – a 2.4% decrease.

Table 7. New Residential Assessed Value per New Unit

Revenue Year	Overall Residential (Excludes Apts.)	Single-Family	Townhouse	Condominium	Apartment
FY2006(a)	$447,974	$493,565	$332,477	$301,754	$79,622
FY2007(a)	548,355	616,954	421,251	377,304	92,237
FY2008(a)	531,957	610,977	408,275	343,586	97,017
FY2009(a)	427,378	525,384	344,824	305,035	106,202
FY2010(a)	330,995	387,959	258,170	242,976	99,885
FY2011(est.)	311,923	359,100	251,900	247,700	93,600
FY2012	304,755	348,300	244,300	240,300	93,600
FY2013	309,281	351,800	246,700	242,700	96,400
FY2014	319,879	362,400	254,100	250,000	99,300
FY2015	330,625	373,300	261,700	257,500	102,300

(a) – actual

Commercial Real Estate

The troubles of the commercial real estate market remains rooted in the same reasons as last year - scarcity of investment credit and an uncertain economic outlook.

Calendar year 2009 market activity in Prince William County is forecast to result in commercial properties depreciating 17.4% on average, which will impact FY2011 real estate tax revenue. The industrial and retail sectors experienced the greatest levels of depreciation followed in order of magnitude by hotel/motel and office properties. Office properties were affected by excess inventory as a result of recent construction as well as weak demand. A discussion of commercial property vacancy rates is available in the introduction section on pages 6-8 (Figure 5: Commercial (Non-Retail) Inventory in Prince William County provides inventory and vacancy rate data for each commercial real estate sector). The commercial property outlook for calendar year 2010 (FY2012 revenue) remains weak as the credit crunch and commercial foreclosure activity are anticipated to continue over most of 2010. Commercial depreciation for FY2012 is forecast at -10% followed by no change in FY2013 and slight appreciation in FY2014 (3.0%) and FY2015 (5.0%).

Average assessed values per square foot for FY2011 are determined based on the added building value resulting from new construction completed during calendar year 2009.[2] These unit values are then adjusted to reflect the general appreciation of commercial properties during the remainder of the forecast period.

Table 8. Commercial Market Value Changes

Revenue Year	Commercial
FY2006(a)	15.7%
FY2007(a)	17.3%
FY2008(a)	10.9%
FY2009(a)	4.3%
FY2010(a)	-15.2%
FY2011	-17.4%
FY2012	-10.0%
FY2013	0.0%
FY2014	3.0%
FY2015	5.0%

(a) - actual

Commercial properties are categorized into five property types: retail, office, hotel, industrial, and special purpose. For FY2011 (calendar year 2009 market activity), approximately 926,000 square feet of commercial space was added to the assessment rolls. Growth is expected to be anemic during the forecast period.

Retail

New construction in the retail sector accounted for approximately 58% of all commercial/industrial growth for FY2011, adding nearly 535,000 square feet to the tax base. Some notable newly constructed properties include a Wal-Mart at Manassas Mall and two Walgreen pharmacies. The turmoil in the residential market in 2008 undoubtedly caused retail growth to moderate in 2009 as the sector tends to lag residential markets by one or two years. Shopping center capitalization rates decreased noticeably in 2009. Capitalization rates for premium shopping centers in 2010 are approximately 7%.

[2] Note that increases or decreases in dollars per square foot from one year to the next are not indicative of appreciation trends. Unit values are based on the contributory value of the new buildings in a category divided by the added square footage in that category. Building values per square foot vary widely among different building types within each category and the types of new buildings within categories vary from one year to the next.

Nearly half of the assessed value within the commercial/industrial tax base is within the retail sector. Retail properties are forecast to depreciate approximately 25% for fiscal 2011. The retail sector is anticipated to remain anemic until residential new construction increases and valuation trends turn positive.

Industrial

Construction of industrial properties accounted for approximately 7% of all new commercial construction for FY2011, adding approximately 69,000 square feet to the commercial/industrial base. This represents a significant decline from previous years and is directly linked to the continued, struggling economy. Both rents and occupancy levels of industrial properties in general experienced sharp declines in 2009. The oversupply of warehouse space in all submarkets suggests that growth within the sector will likely remain weak for foreseeable future.

Existing industrial properties are forecast to depreciate approximately 25% for fiscal year 2011.

Hotels

In 2009, the completion of Candlewood Suites in Manassas and Value Palace in Gainesville added 95,362 square feet (213 rooms) to Prince William County's hotel inventory.

The hotel market valuation for 2010 is forecast to decline 23% due to decreased business and pleasure travel activity caused by the economic recession. For the near future, assessed values of hotels are expected to stay depressed due to economic conditions.

Office Buildings

Construction of several new office buildings and condominiums completed during calendar year 2009 added approximately 217,000 square feet to the commercial base. Growth within the office sector is expected to be sustained at a lower rate during the forecast period since absorbing newly constructed unoccupied space remains a challenge for the office sector. The net effects of over-building and the recession have been higher office vacancies and naturally lower rents. The calendar year 2009 vacancy rate for office space in general was approximately 15%. It is anticipated that no speculative building will take place during calendar year 2010. The overall depreciation rate for office buildings in 2009 is currently forecast at 19%.

Special Use

Properties within the special use category comprise taxable schools, healthcare facilities, high-technology data center properties and other types of properties that have no foreseeable alternate uses. Approximately 10,000 square feet of miscellaneous commercial properties was constructed in calendar year 2009 (FY2011).

A summary of commercial growth and assessed values per square foot during the forecast period is shown below.

Table 9. Commercial New Construction Value per Square Foot

Revenue Year	Retail	Office	Hotel	Industrial	Misc. Properties
FY2006(a)	$109	$ 96	$106	$60	n/a
FY2007(a)	81	105	84	66	n/a
FY2008(a)	85	110	88	69	n/a
FY2009(a)	98	110	108	89	n/a
FY2010(a)	102	114	112	93	n/a
FY2011(est.)	90	99	89	58	85
FY2012	90	99	89	58	85
FY2013	93	102	92	60	88
FY2014	95	105	94	62	90
FY2015	98	108	97	63	93

Table 10. New Commercial Construction Square Footage

Revenue Year	Total Commercial	Retail	Office	Hotel	Industrial	Misc. Properties
FY2006(a)	1,807,573	661,639	170,153	197,911	644,456	--
FY2007(a)	1,732,978	563,714	106,775	0	1,040,984	--
FY2008(a)	2,731,438	566,090	1,028,850	115,002	915,098	106,398
FY2009(a)	3,572,737	644,119	948,518	174,793	1,623,988	181,319
FY2010(a)	2,833,958	1,295,731	276,813	56,013	1,175,139	30,262
FY2011(est.)	925,785	534,842	216,832	95,362	68,557	10,192
FY2012	566,000	350,000	100,000	56,000	50,000	10,000
FY2013	751,000	400,000	125,000	56,000	150,000	20,000
FY2014	876,000	450,000	150,000	56,000	200,000	20,000
FY2015	1,026,000	500,000	200,000	56,000	250,000	20,000

(a) - actual

Real Estate Exonerations

Estimated real estate tax exonerations are deducted from the gross local real estate tax revenue to arrive at the net local real estate tax revenue.

Exonerations are decreases in revenue due to assessment reductions, changes in tax liability, or tax relief programs. Assessment reductions are typically caused by appeals of assessed values and account for the majority of exonerations. Changes in tax liability occur when a property changes from a taxable to a tax-exempt status. Taxes are also exonerated for properties whose owners qualify for the Tax Relief Program for the Elderly and Disabled.

In December 2004, the Board of County Supervisors made changes to eligibility requirements, which enables more households to participate in the Tax Relief Program for Elderly and Disabled Persons. The current eligibility requirements for senior citizens are:

- be 65 years of age or older as of December 31, 2010 – tax relief is prorated for applicants who turn 65 during calendar year 2010;
- have a gross household income from all sources of not more than $74,200 (in determining income, the first $10,000 of income earned by any relative living in the household other than the owner(s) or spouse is excluded);

- have a combined financial net worth for the applicant and spouse residing in the household of not more than $340,000, excluding the residence for which the exemption is sought and up to 25 acres of land which it occupies;

- own and occupy the home as their sole dwelling.

Public Service Taxes - 041

Public service taxes are levied on non-locally assessed properties. The State Corporation Commission (SCC) assesses all telecommunications companies, water companies, intrastate pipeline distribution companies, and electric light and power companies. The Virginia Department of Taxation assesses railroads and interstate pipeline transmission companies.

Table 11. Revenue Summary – Public Services Taxes – 041

Revenue History	Tax Rate	Actual Revenue	Percent Change
FY2001	$1.340	$11,762,173	0.8%
FY2002	1.300	11,537,837	(1.9%)
FY2003	1.230	11,084,790	(3.9%)
FY2004	1.160	10,976,245	(1.0%)
FY2005	1.070	13,372,595	21.8%
FY2006	0.910	11,413,498	(14.7%)
FY2007	0.758	10,277,509	(10.0%)
FY2008	0.787	11,401,499	10.9%
FY2009	0.970	14,275,190	25.2%
Current Estimate		**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$1.212	$17,123,000	20.0%
FY2010 (Revised Estimate)	1.212	16,489,897	15.5%
Forecast Revenue		**Revenue Estimate**	**Percent Change**
FY2011	$1.236	$15,139,000	(8.2%)
FY2012	1.261	14,673,000	(3.1%)
FY2013	1.286	15,114,000	3.0%
FY2014	1.299	15,419,000	2.0%
FY2015	1.299	15,573,000	1.0%

Historically, all market value changes within the public service classification have been attributable to new construction growth. Revenue growth during fiscal year 2005 was significantly higher than in past years (despite a reduction in the real estate tax rate) due to the completion of Virginia Power's facility at Possum Point. Recent growth in public service property revenue in FY2009 (10.9%) and FY2010 (15.6%) is attributed to increases in Prince William County's real estate tax rate.

Because the performance of the commercial real estate market serves as a barometer for public service assessed values, the assessed value of public service properties decreased 7.6% in FY2010 and is forecast to decrease 10.0% in FY2011 and another 5.0% in FY2012. Growth within public service properties is expected to stabilize at a rate of 1.0% per year during FY2013-2015.

Table 12. Public Service – Changes in Assessed Value

	FY11	FY12	FY13	FY14	FY15
Public Service Growth (est.)	-10.00%	-5.00%	1.00%	1.00%	1.00%

Real Estate Tax Deferrals – 021

If unpaid real estate taxes at the end of a fiscal year are less than at the beginning of that fiscal year, the amount of the reduction is recorded as revenue in real estate tax deferrals.

If unpaid real estate taxes at the end of a fiscal year are more than at the beginning of that fiscal year, the amount of the increase is recorded as negative revenue in real estate tax deferrals. Real estate taxes collected after becoming more than three years delinquent are accounted for as land redemption revenue.

Table 13. Revenue Summary – Real Estate Tax Deferrals – 021

Revenue History	Actual Revenue	Percent Change
FY2001	$1,467,386	58.1%
FY2002	1,072,000	(26.9%)
FY2003	724,347	(32.4%)
FY2004	587,945	(18.8%)
FY2005	810,324	37.8%
FY2006	235,971	(70.9%)
FY2007	(244,825)	(203.8%)
FY2008	483,032	297.3%
FY2009	(715,210)	(248.1%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$(4,000,000)	(459.3%)
FY2010 (Revised Estimate)	(1,000,000)	(39.8%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$(1,000,000)	0.0%
FY2012	(1,000,000)	0.0%
FY2013	(500,000)	50.0%
FY2014	(250,000)	50.0%
FY2015	(250,000)	0.0%

On December 10, 1996, the Board of County Supervisors approved an initiative to decrease the percentage of unpaid property taxes at fiscal year end, as compared to the current year levy, from 11% in FY1996 to 6% in FY2003. With the adoption of the FY2002 budget, additional collection resources were provided to the Finance Department and the amount of total unpaid property taxes as a percentage of the total levy was revised to 5.5% by FY2005.

At the end of FY2009, the percentage of unpaid property taxes compared to the FY2009 levy was 2.2%. This remains unchanged from the FY2008 unpaid property tax percentage of 2.2% and remains the County's best unpaid property tax rate since data was first collected in 1971. The unpaid property tax percentage is anticipated to increase in FY2010 through FY2015 due to foreclosure activity in the County's real estate market as well as the current economic recession. As a point of reference, during the economic recession in FY1992, the amount of unpaid real estate taxes increased $6.4 million on a much smaller tax base.

The revenue forecast is made by estimating collections of unpaid personal property taxes up to five years delinquent. This revenue category varies depending on the amount of unpaid taxes at the end of one year compared to the previous year due to:

1. voluntary payment of taxes,
2. County resources allocated to collection efforts, and
3. the success of those collection efforts.

Land Redemption – 025

Land redemption is the recognition of real estate taxes collected after being more than three years delinquent. The *Code of Virginia* allows Prince William County to pursue the collection of delinquent real estate taxes for twenty years.

Table 14. Revenue Summary – Land Redemption – 025

Revenue History	Actual Revenue	Percent Change
FY2001	$ 718,462	(43.8%)
FY2002	818,871	14.0%
FY2003	1,039,775	27.0%
FY2004	347,818	(66.5%)
FY2005	461,405	32.7%
FY2006	327,255	(29.1%)
FY2007	245,304	(25.0%)
FY2008	237,913	(3.0%)
FY2009	128,418	(46.0%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$ 319,000	148.4%
FY2010 (Revised Estimate)	150,000	(53.0%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$ 315,000	110.0%
FY2012	315,000	0.0%
FY2013	315,000	0.0%
FY2014	315,000	0.0%
FY2015	315,000	0.0%

This revenue category varies depending on the amount of unpaid taxes three years and older, and the level of success in collecting these past due amounts. The FY2011 to FY2015 estimate assumes 20% of the prior year's unpaid land redemption taxes will be collected annually. Thirty percent is approximately equal to the percentage collected in the past. A variety of methods is used to enforce the collection of those taxes, including filing suit to force the sale of the property for unpaid taxes. Unpaid land redemption taxes, at the end of each fiscal year, are estimated as follows:

Table 15. Unpaid Land Redemption Taxes

FY2009	$1,411,000
FY2010	1,575,000
FY2011	1,575,000
FY2012	1,575,000
FY2013	1,575,000
FY2014	1,575,000
FY2015	1,575,000

Real Estate Penalties – 160

Prince William County assesses a 10% penalty on the late payment of real estate taxes. The penalty becomes due as the first and second half real estate taxes and supplemental real estate taxes become delinquent.

Table 16. Revenue Summary – Real Estate Penalties – 160

Revenue History	Actual Revenue	Percent Change
FY2001	$ 767,409	(24.2%)
FY2002	1,026,456	33.8%
FY2003	1,046,982	2.0%
FY2004	1,234,854	17.9%
FY2005	1,375,110	11.4%
FY2006	1,550,598	12.8%
FY2007	1,842,422	18.8%
FY2008	1,952,229	6.0%
FY2009	2,160,303	10.7%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$1,771,000	(18.0%)
FY2010 (Revised Estimate)	1,600,000	(25.9%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$1,800,000	12.5%
FY2012	2,070,000	15.0%
FY2013	2,192,000	5.9%
FY2014	2,332,000	6.4%
FY2015	2,487,000	6.6%

Revenue from real estate penalties is estimated by applying a fixed percentage (approximately 0.44%) to the real estate revenue forecast excluding public service properties. The fixed percentage is based on recent historical data of real estate penalty revenues as a percentage of total real estate revenues excluding public service properties.

PERSONAL PROPERTY REVENUE

The personal property tax is assessed on vehicles, mobile homes, and business personal property. Approximately 85% of personal property tax revenue is forecast in FY2011 to be generated by motor vehicles, trailers, and motor homes. The remaining 15% is forecast to be received from taxes levied on business equipment.

Certain classifications of property do not generate a tax bill because of their extremely low tax rate, such as farm equipment, vehicles that qualify for elderly tax relief, vanpool vans, handicapped-equipped vehicles, and vehicles used by fire and rescue volunteers to answer emergency calls. In addition, some vehicles are tax exempt such as those used as daily rentals, vehicles owned by certain military personnel, and vehicles owned by non-profit organizations.

Table 17. Revenue Summary – Personal Property Tax – 071 /079 / 1308

Revenue History	Actual Revenue	Percent Change
FY2001	$ 66,030,775	12.7%
FY2002	75,804,001	25.7%
FY2003	85,015,356	12.2%
FY2004	94,949,873	11.7%
FY2005	98,256,579	3.5%
FY2006	113,102,335	15.1%
FY2007	124,238,439	9.8%
FY2008	126,770,945	2.0%
FY2009	129,389,732	2.1%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$119,725,000	(7.5%)
FY2010 (Revised Estimate)	115,200,000	(11.0%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$115,310,000	0.1%
FY2012	114,310,000	(0.9%)
FY2013	118,950,000	4.1%
FY2014	124,050,000	4.3%
FY2015	130,440,000	5.2%

Personal Property Tax on Vehicles – 071 / 079 / 1308

Personal property tax revenue from vehicles is estimated based on the percentage change in average assessed value per vehicle and the percentage change in the number of units billed. Generally, the assessed value of taxable vehicles is obtained from standard pricing guides. Prince William County uses the trade-in values published in the National Automobile Dealers Association (NADA) value guide for new and older vehicles.

Car Tax Relief

A portion of the tax due on personal use vehicles is paid by the Commonwealth directly to Prince William County under the Personal Property Tax Relief Act (PPTRA). Through tax year 2005 (fiscal year 2006), the Commonwealth paid the County 70% of the tax due on the first $20,000 of assessed value for qualified vehicles.

During the 2004 State budget sessions, legislation was enacted that changes how the amount of car tax relief is calculated under the PPTRA. The legislation capped the amount reimbursed to the County, which began in tax year 2006 (fiscal year 2007). Capping the car tax at a set dollar amount ($950 million state-wide) will reduce the percentage of the tax on qualifying vehicles paid by the Commonwealth in each successive year. To compensate, the County must increase the share of the tax paid by the taxpayer or face declining revenue. The five-year revenue forecast assumes the County will increase the share paid by taxpayers so that overall personal property tax revenue from qualifying vehicles remains the same as it would under the current PPTRA program. The percentage of tax relief for qualifying vehicles in fiscal year 2011 (tax year 2010) is 64.0%.

Change in Average Vehicle Value

The average assessed value per vehicle decreased 13.1% between FY2009 and FY2010 based on automobile market activity that occurred during calendar year 2008. Automobile sales plunged 18% nationally due to rising gas prices ($4 per gallon during spring 2008) and the collapse of the financial industry.[3] As consumers sold gas consuming sport utility vehicles (SUV) and trucks in favor of more fuel efficient vehicles, trade-in values of these vehicles depreciated at accelerated rates as they sat on car lots. As credit froze throughout the financial industry, auto loans were granted only to those buyers with the lowest credit risk. As a result, inventories at both new and used car dealerships grew as sales declined. In an attempt to clear these inventories and make way for new 2009 models, car dealers increased incentives and/or lowered prices, further depressing values.

As the economic recession grew and consumer confidence plummeted, consumers typically postponed large, discretionary purchases such as new automobiles in an effort to reduce spending and increase savings. Therefore, a greater portion of County residents retained their existing vehicles which depreciated in value instead of replacing them with newer, more expensive vehicles. The continued downturn in the County's housing market, particularly the new construction of higher valued homes whose residents tend to own higher valued vehicles, has also contributed to lower average vehicle values.

The FY2011 (tax year 2010) forecast assumes no increase (0.0%) in average assessed values based on automobile market activity that occurred during calendar year 2009. Automobile sales declined an additional 21% in calendar year 2009 compared to 2008. This marked the lowest total of light-vehicle sales in the United States since 1970.[4] Although sales decreased dramatically, automobile industry-wide inventories plummeted as manufacturers responded to market dynamics which occurred in calendar year 2008 by eliminating brands and models as well as eliminating dealerships. By better managing inventories, automakers have dramatically reduced cash incentives (as much as 20%) offered to consumers for the purchase of new cars.[5] This has helped stabilize used car prices. In addition, lower gas prices has caused some used truck and SUV values to appreciate in value compared to what their values experienced in 2008. These gains in truck and SUV values will offset normalized depreciation rates on passenger cars such as compact vehicles and mid-sized sedans.

The auto industry has cautious optimism for calendar year 2010, which establishes NADA values for tax year 2011 and personal property revenue in FY2012. Credit for the purchase of automobiles has loosened and will most likely continue into calendar year 2010 as the national economy slowly improves. However, it is anticipated that Prince William County's average values will decrease 2.0% as cars, trucks, and SUVs all depreciate at a normalized rate of 12-14% per year while new car sales will increase, but not enough to offset the depreciation of existing vehicles. The forecast for FY2013-2015 is based on the assumption that new car sales will continue to slowly increase and offset the depreciation of existing vehicles in the County.

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[3] Michelle Krebs and Bill Visnic, *2008 U.S. Auto Sales Are Worst Since 1992*, Edmunds.com, January 5, 2009.
[4] Author Unknown, *Auto Industry Believes 2009 Close Bodes Well for 2010*, Edmunds.com, January 5, 2010.
[5] Ibid

Table 18. Average Assessed Value per Vehicle

	Dollar Value	Percent Increase
FY2006(a)	$ 9,502	9.8%
FY2007(a)	9,998	5.2%
FY2008(a)	9,843	(1.6%)
FY2009(a)	10,070	2.3%
FY2010(a)	8,750	(13.1%)
FY2011	8,750	0.0%
FY2012	8,575	-2.0%
FY2013	8,773	2.3%
FY2014	8,976	2.3%
FY2015	9,184	2.3%

(a) – actual

Change in Number of Vehicle Units Billed

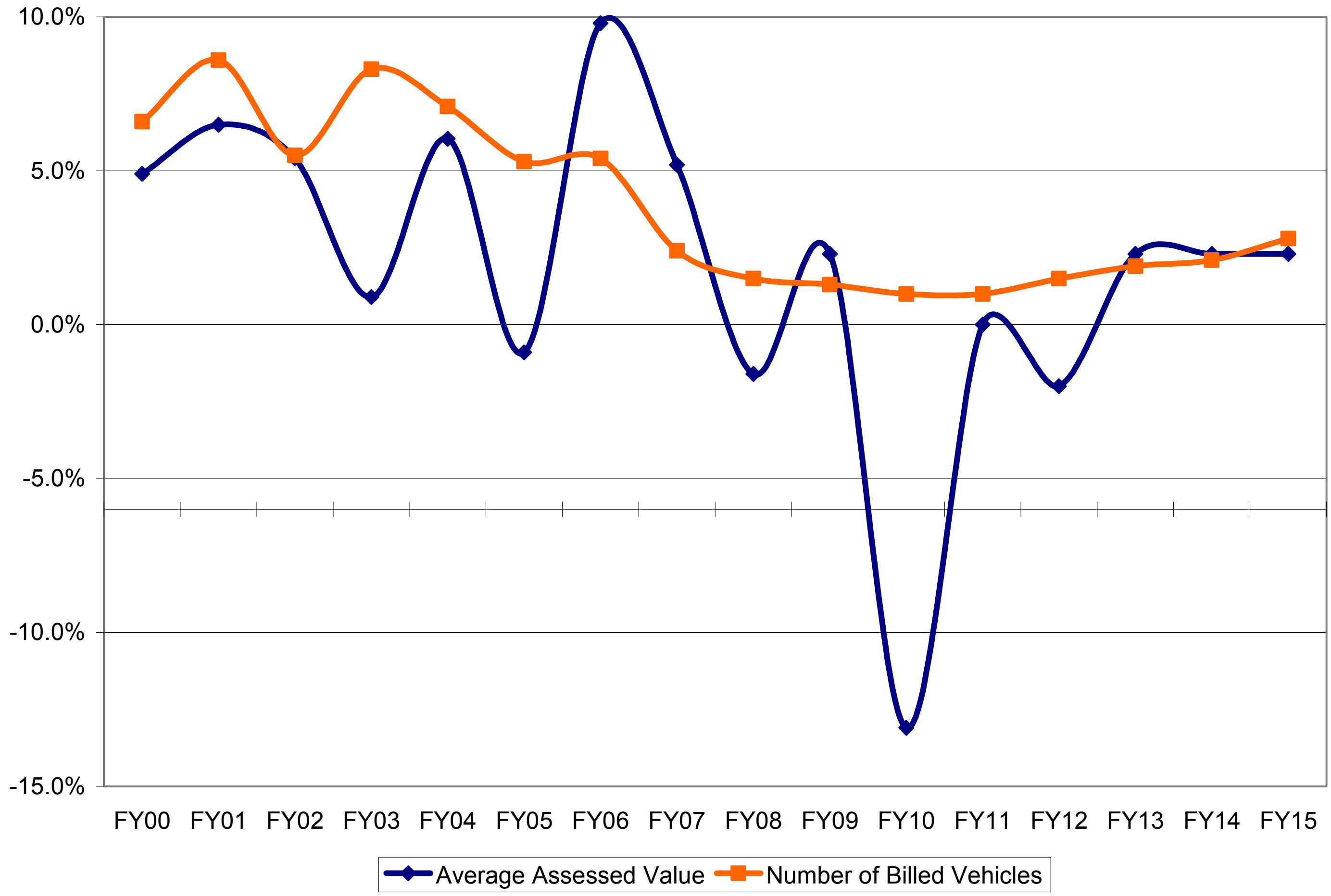
The percentage change in the number of vehicle units billed increased by 1.0% between FY2009 and FY2010. The FY2011 (tax year 2010) forecast assumes a 1.0% increase in the number of vehicle units billed due to slow population growth resulting from the marked slowdown in new residential home construction. Despite the current real estate market, the increase in vehicle units billed during FY2012-2015 is due to gradual population growth and slow growth in the number of businesses and business vehicles as the economy recovers.

Table 19. Percent Change in Number of Vehicle Units Billed

FY2006(a)	5.4%
FY2007(a)	2.4%
FY2008(a)	1.5%
FY2009(a)	1.3%
FY2010(a)	1.0%
FY2011	1.0%
FY2012	1.5%
FY2013	1.9%
FY2014	2.1%
FY2015	2.8%

(a) – actual

Figure 14. Annual Percent Changes in Average Assessed Vehicle Value and Number of Billed Vehicles



Business Personal Property Tax

The business portion of the personal property tax is levied on all general office furniture and equipment, machinery and tools, equipment used for research and development, heavy construction equipment, and computer equipment located in Prince William County as of January 1st of each year. Each business is required to file a return annually declaring the item, its original cost, and year of purchase. Therefore, the assessed value is determined from its original cost, year of purchase, and use of the equipment.

The County has three depreciation schedules for the following classes of business equipment:

1. General Business Equipment - Assessed at 85% of its original cost in the year acquired. Thereafter, the percentage decreases by 10% increments. If still held after eight years, its assessed value remains constant at 10% of the original cost.

2. Heavy Equipment - Assessed at 80% of its original cost in the year acquired. Thereafter, the percentage decreases by 15% increments. If still held after five years, its assessed value remains constant at 10% of original cost.

3. Computer Equipment and Peripherals - Assessed at 50% of cost in the first year, 35% the second year, 20% the third year, 10% the fourth year, and 5% the fifth and subsequent years.

General business equipment and heavy equipment account for 75% and 11% of taxes on business equipment respectively. Taxes on computer equipment comprise 12% and taxes from machinery and tools account for the remaining 2%.

Taxes from business equipment are expected to decrease by 2.5% in FY2011 and decrease another 2.5% in FY2012 before stabilizing in FY2013 (0.0%). Similar to homeowners, business defer purchases of new equipment during times of economic recession. Therefore, business equipment depreciates according to the above schedules. Business personal property tax revenue from heavy equipment, in particular, has decreased dramatically due to the decline in residential and commercial real estate markets. Heavy equipment from construction companies that have gone out of business due to the economy has been sold to other firms located outside the County. Taxes from business equipment is forecast to increase 3.0% in FY2014 and by 5.0% in FY2015.

Personal Property Prior Year – 072

This account records changes to prior year personal property taxes as a result of changes in estimated allowance for uncollectible taxes. These revenues are slightly less than $100,000 a year, and are therefore not addressed in as much detail as the major revenue sources.

Table 20. Revenue Forecast – Personal Property Prior Year - 072

Forecast Revenue	Revenue Estimate	Percent Change
FY2011	$75,000	0.0%
FY2012	75,000	0.0%
FY2013	75,000	0.0%
FY2014	75,000	0.0%
FY2015	75,000	0.0%

Personal Property Deferrals – 081

If unpaid personal property taxes at the end of a fiscal year are less than at the beginning of that fiscal year, the amount of the reduction is recorded as revenue in personal property tax deferrals.

If unpaid personal property taxes at the end of a fiscal year are more than at the beginning of that fiscal year, the amount of the increase is recorded as negative revenue in personal property tax deferrals.

Table 21. Revenue Summary – Personal Property Deferrals – 081

Revenue History	Actual Revenue	Percent Change
FY2001	$ 2,027,000	13,613.3%
FY2002	2,275,000	12.2%
FY2003	4,342,000	90.9%
FY2004	2,089,762	(51.9%)
FY2005	1,878,762	(10.1%)
FY2006	3,818,762	203.3%
FY2007	(88,148)	(102.3%)
FY2008	(620,783)	(604.3%)
FY2009	(771,845)	(24.3%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$(1,050,000)	(36.0%)
FY2010 (Revised Estimate)	(1,000,000)	(29.6%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$(1,000,000)	0.0%
FY2012	(1,000,000)	0.0%
FY2013	(1,000,000)	0.0%
FY2014	(1,000,000)	0.0%
FY2015	(1,000,000)	0.0%

On December 10, 1996, the Board of County Supervisors approved an initiative to decrease the percentage of unpaid property taxes at fiscal year end, as compared to the current year levy, from 11% in FY1996 to 6% in FY2003. With the adoption of the FY2002 budget, additional collection resources were provided to the Finance Department and the amount of total unpaid property taxes as a percentage of the total levy was revised to 5.5% by FY2005.

At the end of FY2009, the percentage of unpaid property taxes compared to the FY2009 levy was 2.2%. This remains unchanged from the FY2008 unpaid property tax percentage of 2.2% and remains the County's best unpaid property tax rate since data was first collected in 1971. The unpaid property tax percentage is anticipated to increase in FY2010 through FY2015 due to the current economic recession. As a point of reference, during the economic recession in FY1992, the amount of unpaid personal property taxes increased $1.1 million on a much smaller tax base.

The revenue forecast is made by estimating collections of unpaid personal property taxes up to five years delinquent. This revenue category varies depending on the amount of unpaid taxes at the end of one year compared to the previous year due to:

1. voluntary payment of taxes,
2. County resources allocated to collection efforts, and
3. the success of those collection efforts.

Personal Property Penalties - Current Year – 170

Prince William County assesses a 10% penalty on the late payment of personal property taxes.

Table 22. Revenue Summary – Personal Property Penalties – Current Year – 170

Revenue History	Actual Revenue	Percent Change
FY2001	$1,327,065	13.7%
FY2002	1,339,702	1.0%
FY2003	1,543,641	15.2%
FY2004	1,662,928	7.7%
FY2005	1,561,623	(6.1%)
FY2006	1,829,485	10.8%
FY2007	1,153,220	(40.0%)
FY2008	1,223,942	6.1%
FY2009	1,442,088	17.8%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$1,160,000	(19.6%)
FY2010 (Revised Estimate)	1,150,000	(20.3%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$1,160,000	0.9%
FY2012	1,150,000	(0.9%)
FY2013	1,190,000	3.5%
FY2014	1,240,000	4.2%
FY2015	1,310,000	5.6%

A significant decrease in personal property penalty revenue occurred in FY2007. This is due to the revised PPTRA legislation discussed on pages 29 and 30. The 10% personal property penalty on late payments applies only to the local share of what is delinquent. The penalty is not applied to the portion paid by the Commonwealth.

Personal property penalty revenue is projected to decrease approximately 20% in FY2010 due to the dramatic decline in average assessed vehicle values previously discussed on page 30 as well as decreases in business tangible personal property.

LOCAL SALES TAX REVENUE

Local Sales Tax – 210

Prince William County, by adopted ordinance, has elected to levy a 1% general retail sales tax. This tax is levied on the retail sale or rental of tangible property, excluding motor vehicle sales and trailers, vehicle rentals, boat sales, gasoline sales, natural gas, electricity, and water, and the purchases by organizations that have received tax exemption.

The tax revenue is collected by the Virginia Department of Taxation, and is distributed to the County monthly. There is a two-month lag between the date of sale and the actual receipt of funds. For example, local sales taxes collected by businesses in November must be remitted to the Department of Taxation by the retail business no later than December 30th. The Department of Taxation then remits the sales tax to the locality in the third week of January. Despite the timing lag, sales tax revenues are accrued to the month in which they were collected by the businesses.

The four incorporated towns within Prince William County share in the local sales tax based on the ratio of school age population in the towns to the school age population of the entire County based on the latest state-wide school census. The current formula deducts 1.02% from the County's gross tax to be sent to the four towns. Thus, the County realizes 98.98% of the monthly sales taxes collected.

Table 23. Revenue Summary – Local Sales Tax – 210

Revenue History	Actual Revenue	Percent Change
FY2001	$31,603,038	8.8%
FY2002	33,443,678	5.8%
FY2003	35,223,965	5.3%
FY2004	40,721,074	15.6%
FY2005	43,856,656	7.7%
FY2006	46,648,646	6.4%
FY2007	47,921,402	2.7%
FY2008	46,155,437	(3.7%)
FY2009	45,055,466	(2.4%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$43,430,000	(3.6%)
FY2010 (Revised Estimate)	44,600,000	(1.0%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$45,050,000	1.0%
FY2012	45,950,000	2.0%
FY2013	47,790,000	4.0%
FY2014	49,700,000	4.0%
FY2015	51,690,000	4.0%

Prince William County's sales tax revenue in the first eight months of FY2010 is currently 0.9% less than the amount of sales tax revenue that was generated during the first eight months of FY2009. This pattern is running counter to the previously anticipated continuation of the downward trend of reduced sales tax revenue as identified in the FY2010 adopted forecast. The flattening of this revenue appears to be signaling an end to the long decline in this revenue source. The forecast anticipates a slow reversal in this trend resulting in a relatively small increase in the projected FY2011 and FY2012 Prince William County sales tax revenue. At the national level, it appears that economic pressures will continue to degrade sales tax revenues and are not expected to ease in the near future and will prevent these revenues from beginning to return to a normal upward trend until after FY2012.

In spite of this changing pattern, the reversal of this trend is expected to be slower than prior recoveries. Consequently, it is expected that sales tax revenue will not fully return to a normal growth rate of 4% until at least FY2013 when the increases will be due principally to population growth and price inflation. Most prior year's growth in sales tax revenue normally ranges between 5% and 8% growth.

During calendar 2009, neighboring jurisdictions experienced a similar period of dramatically decelerating sales tax revenue in the first half of the calendar year. All four Northern Virginia jurisdictions' first half of calendar 2009 sales tax revenues reflect actual significant declines in sales tax revenue when compared to the same period in the prior year. The second half of the calendar year reflects the commencement of a change toward a recovery period for three (including Prince William County) of the four jurisdictions.

Table 24. Percent of Sales Tax Change in Neighboring Jurisdictions, Compared to Same Period in Prior Year[6]

	Calendar Year 2009			
	QTR 1	**QTR 2**	**QTR 3**	**QTR 4**
Alexandria	(21.0%)	(2.2%)	4.5%	1.8%
Arlington	21.2%	(5.1%)	3.1%	(16.1%)
Fairfax County	(9.3%)	(7.4%)	(5.5%)	(2.9%)
Prince William County	(4.6%)	(1.8%)	1.0%	(0.9%)

The factors believed to have contributed to the County's stagnant sales tax revenue are:

- growing levels of unemployment and unease about future employment prospects (the national unemployment rate increased from 7.1% in December 2008 to 9.7% in December 2009; the Virginia unemployment rate increased from 5.1% in December 2008 to 6.7% in December 2009; the County's unemployment rate increased from 4.2% in December 2008 to 5.5% in December 2009)[7];

- reset levels of interest rates on many existing variable rate mortgages of Prince William residents, resulting in significant increases in mortgage payment amounts which in turn decreases the funds many residents have available for retail expenses;

- a sharp decline in new and existing home sales and the associated impact of furnishing residences;

- a dramatic, general tightening of available credit;

- significant degradation of the national and regional economies which may be beginning to improve in Prince William County;

- continuing low consumer confidence which may be easing in Prince William County.

[6] Virginia Department of Taxation, Monthly Sales Tax Reports
[7] Virginia Employment Commission

CONSUMER UTILITY REVENUE

Consumer Utility Tax - 220

Prince William County levies a consumer utility tax on electric and natural gas utilities. The County does not tax water and sewer services. Effective January 1, 2001, the Code of Virginia required Prince William County to convert its existing tax on purchasers of natural gas and electricity from a dollar-based tax to a consumption-based tax.

The levy for electricity consumption based on kilowatt hours (kWh)[8] is:

> **Residential users**: $1.40 minimum billing charge plus the rate of $0.01509 on each kWh delivered monthly by a service provider not to exceed $3.00 per month.
> **Commercial users**: $2.29 minimum billing charge plus the rate of $0.013487 on each kWh delivered monthly to commercial consumers, not to exceed $100.00 monthly.

The levy for natural gas consumption based on 100 units of cubic feet (CCF)[9] is:

> **Residential consumers:** $1.60 minimum billing charge plus the rate of $0.06 on each CCF delivered monthly to residential consumers, not to exceed $3.00 per month.
> **Commercial consumers:** $3.35 minimum billing charge plus the rate of $0.085 on each CCF delivered monthly to commercial consumers, not to exceed $100.00 monthly.

Since consumer utility taxes are capped, inflation and utility rate increases are not a factor in the five year forecast.

Prior to January 1, 2007, Prince William County's consumer utility tax was also levied on wired and cellular telephone service. With the advent of the Virginia communications sales and use tax (please see page 40 for details), the County's consumer utility tax is no longer levied on telecommunication services. This change occurred during the second half of FY2007. Fiscal year 2008 was the first full-year the consumer utility tax was levied only on electric and natural gas utilities.

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[8] Kilowatt hours (kWh) delivered means 1000 watts of electricity delivered in a one-hour period by an electric provider to an actual consumer, except that in the case of eligible customer-generators (sometimes called cogenerators) as defined in Va. Code § 56-594, it means kWh supplied from the electric grid to such customer-generators, minus the kWh generated and fed back to the electric grid by such customer-generators.
[9] CCF means the volume of gas at standard pressure and temperature in units of 100 cubic feet.

Table 25. Revenue Summary – Consumer Utility Tax – 220

Revenue History	Actual Revenue	Percent Change
FY2001	$17,806,197	9.8%
FY2002	19,246,918	8.1%
FY2003	20,257,043	5.2%
FY2004	22,869,727	12.9%
FY2005	25,451,681	11.3%
FY2006	26,295,481	3.3%
FY2007	18,521,861	(29.6%)
FY2008	12,353,990	(33.3%)
FY2009	12,595,964	2.0%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$12,700,000	0.8%
FY2010 (Revised Estimate)	12,780,000	1.5%
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$13,050,000	2.1%
FY2012	13,320,000	2.1%
FY2013	13,650,000	2.5%
FY2014	14,030,000	2.8%
FY2015	14,490,000	3.3%

Electricity and Gas Revenue Growth

The following chart shows the history of electric and gas utility growth in Prince William County as well as the projected growth rates included in the five year revenue forecast for FY2011-2015. The growth rates reflect the projected increase in new, residential housing units during the forecast period as well as the belief that the inventory of foreclosed properties will slowly decrease and the homes that are sold become habitable again. Please refer to page 21 for a history of new housing units in the County. As seen in Table 6, the number of new residential units drastically decreased in FY2009 (CY2007) and FY2010 (CY2008) before slowly increasing as the real estate market recovers and builders resume construction activities.

Table 26. Percent Change in Revenue Growth from Electricity and Gas Utilities

	Electric Utilities	Gas Utilities
FY2004(a)	5.3%	5.9%
FY2005(a)	4.6%	7.1%
FY2006(a)	5.7%	5.0%
FY2007(a)	3.2%	6.0%
FY2008(a)	2.2%	0.5%
FY2009(a)	1.4%	3.2%
FY2010(Proj.)	1.5%	4.6%
FY2011	1.5%	3.5%
FY2012	1.5%	3.5%
FY2013	2.0%	3.5%
FY2014	2.5%	3.5%
FY2015	3.0%	4.0%

COMMUNICATIONS SALES AND USE TAX

Communications Sales and Use Tax Revenue - 223

On April 17, 2006, the Governor of Virginia approved House Bill 568 and revised the taxation of communication services in the Commonwealth. Prior to the new legislation, localities were authorized to levy taxes on landline and wireless telephone services through the consumer utility tax as well as cable television service through cable franchise taxes.

The new legislation applies a statewide communications sales and use tax to communication and video services. The communications sales and use tax, which became effective on January 1, 2007, is 5% on the following services:

Services Previously Taxed Locally:

- Landline Telephone Services
- Wireless Telephone Services
- Cable Television Services

Services Not Previously Taxed:

- Satellite Television Services
- Voice Over Internet Protocol Services (VOIP)
- Paging Services

Due to the new Virginia communications sales and use tax, Prince William County no longer has the authority to levy the following taxes and fees:

- Local consumer utility tax on landline and wireless telephone service
- Cable franchise fees
- Local E-911 tax (please note that E-911 revenue is not included in the general revenue projection)

Similar to general sales tax revenue, telecommunications sales and use tax revenue is collected by the Virginia Department of Taxation and distributed to Prince William County monthly. As enumerated in Section 58.1-662 of the Code of Virginia, the telecommunications revenue will be distributed to localities according to the percentage of telecommunications and cable television tax revenue each locality received relative to the statewide total in FY2006. In FY2006, the County accounted for 4.64% of statewide telecommunications and cable television tax revenue. Therefore, the County has received 4.64% of the statewide telecommunications sales and use tax each month since January 1, 2007. It is important to note that the FY2007 actual represented only a half-year levy of the new communications tax. Fiscal year 2008 represented the first, full-year the tax was implemented.

Table 27. Revenue Summary – Communications Sales and Use Tax – 223

Revenue History	Actual Revenue	Percent Change
FY2007	$ 9,132,861	--
FY2008	20,475,575	124.2%
FY2009	18,770,086	(8.3%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$20,000,000	6.6%
FY2010 (Revised Estimate)	18,700,000	(0.4%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$19,200,000	2.7%
FY2012	19,390,000	1.0%
FY2013	19,780,000	2.0%
FY2014	20,370,000	3.0%
FY2015	20,980,000	3.0%

The FY2011 forecast was determined by examining actual monthly revenue received during FY2010. It is important to note that the Department of Taxation granted a total of $19.5 million in communication tax refunds and accrued interest statewide. The refunds occurred because telecommunication service providers incorrectly applied the tax on services that were exempt from the tax. The refunds were issued to service providers in the form of credits towards future taxes over a four month period, thereby reducing monthly distributions to localities during FY2009 and FY2010. The impact of these refunds to Prince William County's revenue was $0.5 million in FY2009 and $0.4 million in FY2010.

The FY2011 forecast is based upon the first remittance of communications tax revenue since the refunds to service providers were completed by the Department of Taxation in October 2009 (FY2010). The average monthly distribution amount over the past five months was approximately $1.6 million since normalized distributions resumed in November 2009. No revenue growth is projected during FY2011 because any revenue growth will be due to statewide activity – not Prince William County growth in communication services.

BPOL REVENUE

BPOL Tax Revenue – 235

The Business, Professional, and Occupational License (BPOL) tax is imposed on commercial and home occupational businesses operating in Prince William County. The County has adopted a multiple tax rate schedule according to the type of business activity subject to the tax. The BPOL tax is levied only on businesses with annual gross receipts (from the prior calendar year) greater than $100,000. New businesses are taxed based on an estimate if gross receipts are greater than $100,000 for the current year. The BPOL tax is levied on both full-time as well as part-time businesses, as long as the business meets or exceeds the $100,000 threshold.

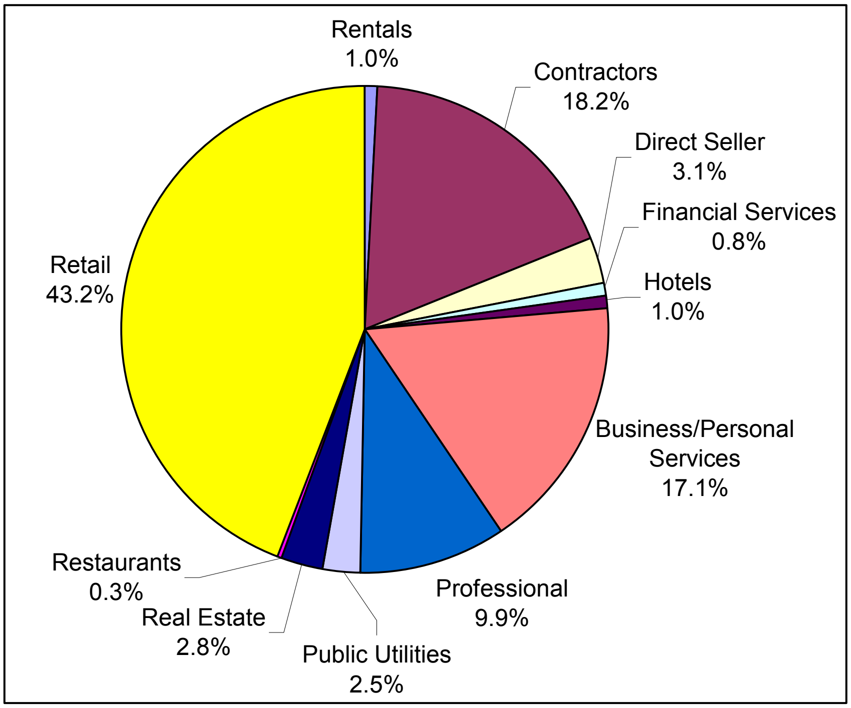
The basis for FY2010 BPOL tax revenue is gross revenue receipts from calendar year 2009. Therefore, forecasting 2010 gross receipts (FY2011) has a one-year lag in which actual prior year figures on which to base an estimate are unavailable.

Table 28. Revenue Summary – BPOL Tax Revenue – 235

Revenue History	Actual Revenue	Percent Change
FY2001	$11,806,197	14.8%
FY2002	13,384,468	13.4%
FY2003	14,836,449	10.8%
FY2004	17,563,465	18.4%
FY2005	19,533,652	11.2%
FY2006	23,071,409	18.1%
FY2007	22,808,968	(1.1%)
FY2008	21,173,489	(7.2%)
FY2009	19,930,513	(5.9%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$19,150,000	(3.9%)
FY2010 (Revised Estimate)	19,930,000	0.0%
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$20,130,000	1.0%
FY2012	20,530,000	2.0%
FY2013	21,150,000	3.0%
FY2014	21,780,000	3.0%
FY2015	22,650,000	4.0%

The following table shows the sources of BPOL revenue during FY2009:

Figure 15. FY2009 BPOL Composition



Almost 90% of FY2009 BPOL revenue was generated by four sectors of the County's local economy: retail, contractors, personal services, and professional services. The following table summarizes the FY2009 actual and projected growth rates in FY2010 and FY2011 for each of these economic sectors:

BPOL revenue from contractors is anticipated to stabilize in FY2011 after bottoming out in FY2010 due to the prolonged slowdown in the real estate market, particularly commercial construction. New home construction in the County has declined dramatically as builders are competing with foreclosed properties for sales. The forecast also includes the assumption that homeowners will slowly resume plans for home renovation projects (impacting general contractors) after canceling them during calendar years 2008 and 2009.

The BPOL forecast for the retail sector (on a calendar year basis) is consistent with the retail sales tax forecast for FY2011 because over 75% of sales tax revenue is derived from retail sales, which includes food and household goods purchases. Please refer to page 36 and 37 for a discussion of the sales tax forecast.

INVESTMENT INCOME

Investment Income – 0510

Investment income represents interest receipts, interest accrual, and gains or losses from the sale of investments for Prince William County's share of earnings on the "general" cash investment portfolio. The general portfolio consists of those funds that are not restricted. The general fund available cash constitutes 56-58% of the total pooled investments. All funds are invested in accordance with the County's investment guidelines of legality, safety, liquidity, and yield.

Table 29. Revenue Summary – Investment Income – 510 / 515

Revenue History	Actual Revenue	Percent Change
FY2001	$13,061,177	47.8%
FY2002	7,800,441	(40.3%)
FY2003	5,448,326	(30.2%)
FY2004	2,999,989	(44.9%)
FY2005	9,324,045	210.8%
FY2006	12,740,165	36.6%
FY2007	20,970,386	64.6%
FY2008	24,125,140	15.0%
FY2009	18,383,224	(23.8%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$12,680,000	(31.0%)
FY2010 (Revised Estimate)	13,250,000	(27.9%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$12,990,000	(2.0%)
FY2012	16,690,000	28.5%
FY2013	21,490,000	28.8%
FY2014	28,110,000	30.8%
FY2015	32,020,000	13.9%

To forecast investment income, the average portfolio yield and portfolio size are projected to determine the current or estimated future year's investment revenue. The general fund share is calculated based on the prior year actual share of cash balances available to invest.

Portfolio Yield

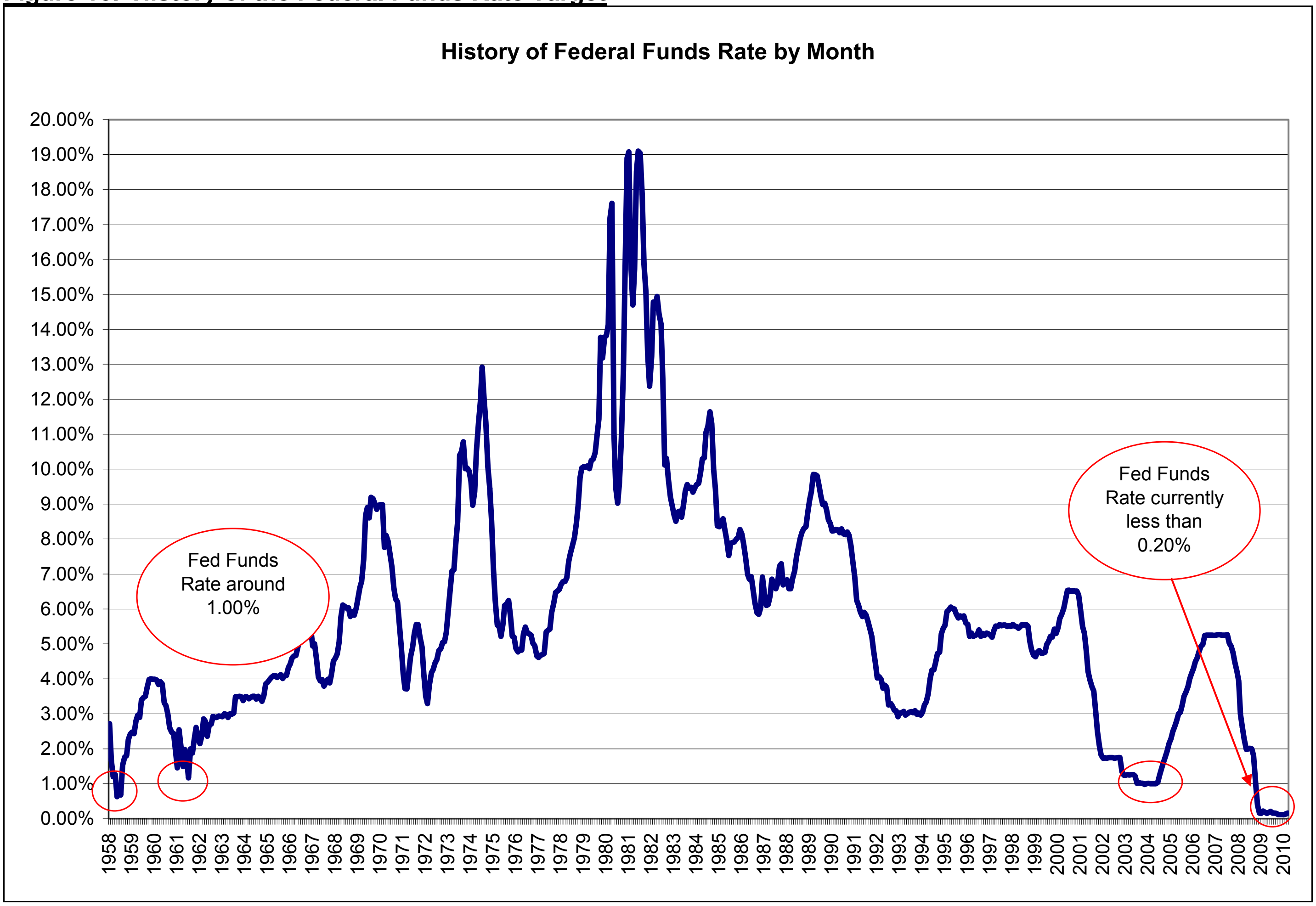
The downdraft in the national housing market and the accompanying re-pricing of sub-prime loans and securities collateralized with sub-prime loans has caused significant turmoil in both equity and debt markets since August 2007. Unprecedented upheaval occurred in the credit and financial markets with the September 2008 bankruptcy of Lehman Brothers, the AIG liquidation/rescue, the acquisition of Merrill Lynch by Bank of America, and the purchase of Wachovia by Wells Fargo. In response, Congress eventually passed the Emergency Economic Stabilization Act.

The TARP, stimulus bill and various other administration endeavors have resulted in an enormous increase in government spending, government debt, and the budget deficit. This will not be a benign governmental expansion and the vast majority of economists are expecting various consequences from this action ranging from moderate inflation growth to hyper-inflation to currency devaluation or some combination thereof.

In response to the unstable markets, the Federal Reserve Board (FRB) reduced the Target Fed Funds rate range at 0.00% - 0.25% in December 2008. The FRB continues to hold interest rates low and took no action in its latest meeting held January 27, 2010.

The following graph presents a history of the Fed Funds rate target since 1958, when the rate stood at record lows:

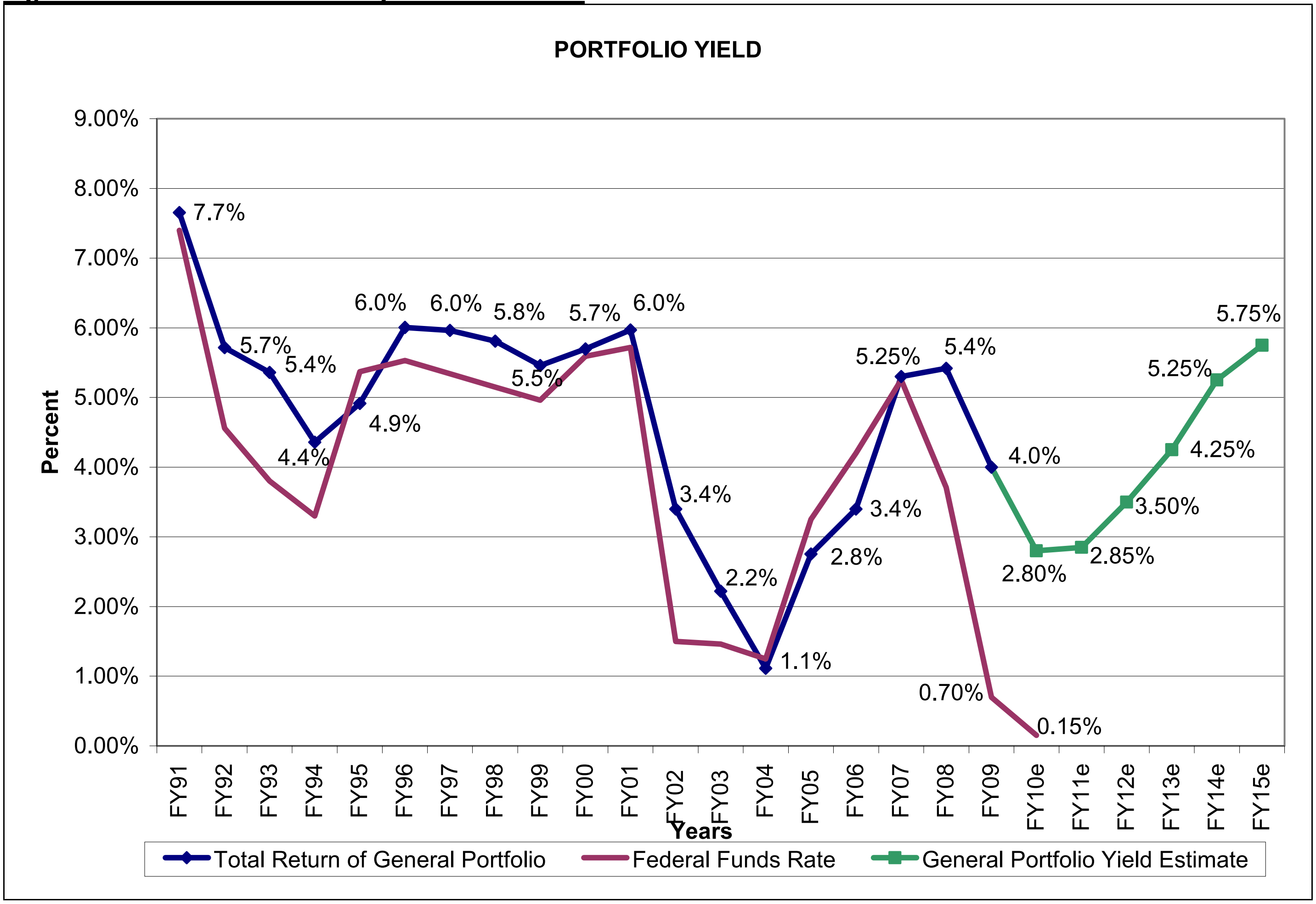
Figure 16. History of the Federal Funds Rate Target



The Federal Funds rate trend has a leading relationship to the average yield of Prince William County's portfolio. The timing of securities purchases, cash flow requirements, the general interest rate environment at the time of purchasing securities, and the securities' duration primarily determine the portfolio's yield. The County's general portfolio carries an asset mix that is held over a period of time based on yields that were available at the time of the purchases. The County portfolio's total return and yields do change to reflect swings in the market price of securities and to reflect the replacement of maturing securities at current market conditions.

State laws and the County's adopted investment policy govern the investment process, how funds can be invested, and which securities can be purchased. The following graph presents a history of the County's portfolio yield as well as the projected yield for FY11-15 juxtaposed against the Fed Funds average rate target history:

Figure 17. Prince William County's Portfolio Yield



Most forecasting sources provide interest rate information up to four quarters beyond current dates. Therefore, the final half of FY2011 is an estimate without authoritative source data as a basis for projection. Unemployment numbers are now in excess of 10% nationally and the national housing market is still seriously damaged. Credit appears to be somewhat more available as banks are demonstrating a greater willingness to lend but is far from what might be considered "normal." Interest rates should continue low for the near term which will aid in supporting an economic recovery. How long the Fed can keep rates at these record low levels is a key question going forward.

Prince William County's investment strategy addresses the requirements of legality, safety and liquidity by investing in a diversified portfolio with specific security types, financial institutions, and sufficient liquidity to meet anticipated operating requirements. In addition, the County seeks to match its cash flow needs to the overall maturity structure of the portfolio and, in that context, maximize yield.

The portfolio management process has been stressed over the last two years due to unprecedented occurrences in the debt and equity markets. In spite of those challenges, the County has managed to maintain its attention to safety and liquidity as well as produce good, if not excellent, returns. The County expects those challenges to continue. Going forward the risks of volatile interest rates and ultimately inflation will be areas around which the portfolio must be managed. To gain some protection against inflation, the County has begun to purchase Treasury Inflation Protected Securities (TIPS), and additions in that area will continue at a slow and measured pace. A large volume of step-up agency securities have also been purchased as a hedge against rising interest rates. The general portfolio mix is expected to be rather stable barring significant sudden market changes.

It is important to note that the County's portfolio currently contains no direct investments in commercial paper, asset-backed commercial paper, or mortgage backed securities.

Portfolio Size

The average total dollar value of the portfolio is affected by the increase in County revenues and fund balance. Therefore, the revenue forecast itself becomes a key determinate of interest income. The following table shows the forecasted growth in the portfolio. Increases in portfolio size typically came from additions to fund balance as well as a portion of annual revenue growth.

Table 30. Average Portfolio Size

	Value
FY2011	$814,000,000
FY2012	851,000,000
FY2013	903,000,000
FY2014	956,000,000
FY2015	994,000,000

ALL OTHER REVENUE SOURCES

All other revenue is detailed as follows in "Revenues Over $1.5 Million" and "Revenues Under $1.5 Million", totaling "All Other Revenues" in Tables 1 and 2.

REVENUE SOURCES OVER $1.5 MILLION

Interest on Taxes - 140

Delinquent personal property and real estate tax accounts incur interest at 10% of the unpaid amount the first year. Subsequent years are incurred at 10% or the Internal Revenue Service (IRS) delinquent tax rate, whichever is greater.

Table 31. Revenue Summary – Interest on Taxes – 140

Revenue History	Actual Revenue	Percent Change
FY2001	$2,027,000	(12.3%)
FY2002	2,049,420	1.1%
FY2003	2,003,030	(2.3%)
FY2004	1,303,362	(34.9%)
FY2005	1,219,674	(6.4%)
FY2006	1,230,197	0.9%
FY2007	1,252,785	1.8%
FY2008	1,476,714	17.9%
FY2009	1,495,957	1.3%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$1,332,000	(11.0%)
FY2010 (Revised Estimate)	1,332,000	(11.0%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$1,377,000	3.4%
FY2012	1,409,000	2.3%
FY2013	1,486,000	5.5%
FY2014	1,576,000	6.1%
FY2015	1,676,000	6.3%

The revenue estimate is computed by multiplying the fixed percentage of 0.24% by the combined estimate for gross current year real estate tax revenue and personal property tax revenue (excluding public service revenue).

Although the long-term historical average is 0.70%, recent history suggests the collection rate has improved, thereby decreasing interest on taxes revenue. Interest on taxes as a percentage of real estate and personal property tax revenues was 0.32% in FY04, 0.27% in FY05, 0.20% in FY06, 0.23% in FY07, 0.26% in FY08, and 0.24% in FY09.

Interest on taxes revenue is projected to decline 11.0% in FY2010 due to decreased real estate and personal property tax revenue. Real estate tax revenue is projected to decrease $33.6 million (FY2010 projected vs. FY2009 actual) due to the County's adopted revenue policy where average residential real estate tax bills decreased 12.2%. Personal property tax revenue is projected to decrease $14.2 million due to fewer new (more expensive) cars being purchased by County residents. They are retaining older, existing vehicles that continue to depreciate in value due to the economic recession.

Motor Vehicle License Fee - 250 / 259

Section 46.2-752 Virginia Code Annotated authorizes the County to levy a vehicle license fee. The amount of the license tax cannot be greater than the annual or one-year fee imposed by the Commonwealth on motor vehicles. The adopted, local fee is $24 per year for each passenger car and truck normally garaged or parked in the County. The adopted fee per year for each motorcycle is $12.

In May 2009, the Board of County Supervisors eliminated the distribution of vehicle decals to County residents as part of FY2010 budget reductions. However, the motor vehicle license fee will continue to be levied in conjunction with the personal property tax.

Table 32. Revenue Summary – Motor Vehicle License Fee – 250 / 259

Revenue History	Actual Revenue	Percent Change
FY2001	$4,686,385	15.3%
FY2002	5,141,812	9.7%
FY2003	5,441,534	5.8%
FY2004	5,829,319	7.1%
FY2005	6,274,625	7.6%
FY2006	6,641,428	5.8%
FY2007	6,533,798	(1.6%)
FY2008	6,650,854	1.8%
FY2009	6,874,316	3.4%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$6,870,000	(0.1%)
FY2010 (Revised Estimate)	6,900,000	0.4%
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$6,930,000	0.4%
FY2012	7,030,000	1.4%
FY2013	7,170,000	2.0%
FY2014	7,320,000	2.1%
FY2015	7,520,000	2.7%

The license fee revenue forecast is derived by multiplying the decal fee by the estimated billable units in the County.

Recordation Tax - 260

A recordation tax is levied when a legal instrument regarding real property such as a deed or deed of trust is recorded with the Clerk of the Circuit Court. This tax is charged for transfers in ownership of property, deeds of trust, and mortgage refinancings.

On April 28, 2004, the Commonwealth of Virginia increased the State recordation tax rate from $0.15 per $100 of value to $0.25 per $100 of value effective September 1, 2004 (FY2005). Section 58.1-814 of the Virginia Code grants Prince William County the authority to levy an optional, local recordation tax rate equal to one-third of the State recordation tax rate. Therefore, the local recordation tax rate increased from $0.05 per $100 of value to $0.083 per $100 of value. The forecast depicted below reflects only Prince William County's share of recordation tax revenue and does not include the state portion of recordation revenue.

Table 33. Revenue Summary – Recordation Tax – 260

Revenue History	Actual Revenue	Percent Change
FY2001	$ 2,815,940	32.8%
FY2002	4,272,952	51.7%
FY2003	6,473,394	51.5%
FY2004	7,937,447	22.6%
FY2005	15,562,384	96.1%
FY2006	18,619,777	19.6%
FY2007	12,525,249	(32.7%)
FY2008	8,897,108	(29.0%)
FY2009	7,975,907	(10.4%)
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$ 9,210,000	15.5%
FY2010 (Revised Estimate)	5,960,000	(25.3%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$ 5,260,000	(11.7%)
FY2012	5,260,000	0.0%
FY2013	5,400,000	2.7%
FY2014	5,550,000	2.8%
FY2015	5,710,000	2.9%

Recordation tax revenue is driven by home sales, home sale price appreciation, and refinance activity.

Fiscal Year 2010 recordation tax revenue is projected to decrease 25.3% from FY2009 revenue. Through the first half of FY2010 (July through December 2009), residential unit sales decreased 27.6% compared to the same period in FY2009 as fewer foreclosed homes are being sold by banks who are doing a better job managing their inventories. The purchase price of the homes sold during the first half of FY2010 increased an average of 5-7% compared to average purchase prices a year ago as approximately 40% of home sales were bank sales of foreclosed properties in FY2010 compared to approximately 70% during FY2009. Refinance activity remains especially attractive for homeowners who can qualify in a tight credit market. Thirty-year fixed rate mortgages were consistently below 5.0% during the first half of FY2010 and any homeowner who qualified will most likely refinance during FY2010. Based on analysis conducted by Freddie Mac, approximately 75% of mortgage applications in December 2009 were attributed to refinancings.[10]

The FY2011 revenue forecast anticipates that refinance activity will decrease nearly 25% from FY2010 activity as mortgage rates increase from the all-time lows currently being experienced. The forecast also reflects the belief that continued home sale price appreciation (2% on a FY2011 adjusted basis) will occur as banks continue to slowly unload their inventories of foreclosed properties and remove them from balance sheets. The number of homes sold during FY2011 is projected to remain flat (no increase) as many homeowners owe more on their mortgage that what their home is worth and are unable to 'move-up' in the housing market. Mortgage rates are also projected to increase, thereby eliminating some potential homebuyers from entering the market. Significant declines in refinance activity, small home price appreciation, and flat unit sales results in recordation tax revenue decreasing 11.7% in FY2011. After FY2011, sales price increases will offset continued declines in refinance activity and equilibrium is achieved in FY2012.

On October 26, 2004, the Board of County Supervisors adopted Resolution 04-1034, which earmarks a portion of recordation tax revenues for transportation purposes in the County. Beginning in FY2006, recordation tax

[10] "Refi & ARM Share Data" at http://www.freddiemac.com/news/finance/refi-arm_archives.htm

revenues generated by the rate increase of $0.033 in addition to 56.75% of recordation tax revenues generated from the base rate of $0.05 will be used to improve County roads. The remaining amount of recordation tax revenue is retained by the County government as general revenue. The following table identifies the portion of recordation tax revenues designated for transportation and general revenue use in each year of the forecast:

Table 34. Revenue Summary – Recordation Tax Designated for Transportation and General Revenue Use

Forecast Revenue	Recordation Tax Revenue for Transportation Use	General County Government Revenue	Total Recordation Tax Revenue
FY2011	$3,890,000	$1,370,000	$5,260,000
FY2012	3,890,000	1,370,000	5,260,000
FY2013	3,990,000	1,410,000	5,400,000
FY2014	4,110,000	1,440,000	5,550,000
FY2015	4,220,000	1,490,000	5,710,000

Tax on Deeds – 261

The tax on deeds is imposed when real estate deeds of conveyance (not deeds of trust) are recorded with the Clerk of the Circuit Court. The tax on deeds is levied when:

- property ownership changes
- property ownership is conveyed in any manner
- a legal instrument is recorded with a transfer amount

The tax on deeds rate is $1.00 per $1,000 of value. The State and locality each receive half of the revenue generated by this tax (equal to $0.50 per $1,000 of value). The revenue forecast depicted below reflects only Prince William County's share of revenues.

Table 35. Revenue Summary – Tax on Deeds – 261

Revenue History	Actual Revenue	Percent Change
FY2001	$1,183,922	26.4%
FY2002	1,581,489	33.6%
FY2003	2,098,654	32.7%
FY2004	2,775,718	32.3%
FY2005	3,929,185	41.6%
FY2006	4,121,652	4.9%
FY2007	2,618,084	(36.5%)
FY2008	2,630,427	0.5%
FY2009	2,692,742	2.4%
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	$3,720,000	38.1%
FY2010 (Revised Estimate)	1,750,000	(35.0%)
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	$1,790,000	2.3%
FY2012	1,860,000	3.9%
FY2013	1,950,000	4.8%
FY2014	2,050,000	5.1%
FY2015	2,150,000	4.9%

Consistent with the recordation tax forecast, revenue growth attributed to the tax on deeds is expected to increase in FY2011 due to projected increases in sales prices and stable sales volume (2% increase in prices combined with no increase in sales). It is important to note that the tax on deeds is not levied on mortgage refinancings.

Cable Franchise Tax – 222

The cable franchise tax was based on cable company gross receipts. This fee was not a regulatory fee, but a general revenue tax authorized by Congress in 1984. On July 1, 1996, the Board of County Supervisors adopted a 3% cable television franchise fee for the FY97 budget. The Code of Virginia (§ 58.1-3818.3) authorized the County to adopt by ordinance a franchise fee at a maximum rate of 5%. The Board of County Supervisors approved an increase from 3% to 5% effective July 1, 1997.

On April 17, 2006, the Governor of Virginia approved House Bill 568 and revised the taxation of communication services in the Commonwealth. Effective January 1, 2007, the new Virginia communications sales and use tax (please refer to page 40 for additional information) replaced Prince William County's cable franchise tax. The local cable franchise tax has been eliminated because the County no longer has the authority to levy it.

Table 36. Revenue Summary – Cable Franchise Tax – 222

Revenue History	Actual Revenue	Percent Change
FY2001	$2,243,491	15.3%
FY2002	3,149,770	40.4%
FY2003	2,700,496	(14.3%)
FY2004	2,957,028	9.5%
FY2005	3,251,899	10.0%
FY2006	3,430,604	5.5%
FY2007	2,021,222	(41.0%)
FY2008	--	--
FY2009	--	--
Current Estimate	**Adopted/Revised Revenue**	**Percent Change**
FY2010 (Adopted Budget)	--	--
FY2010 (Revised Estimate)	--	--
Forecast Revenue	**Revenue Estimate**	**Percent Change**
FY2011	--	--
FY2012	--	--
FY2013	--	--
FY2014	--	--
FY2015	--	--

REVENUE SOURCES UNDER $1.5 MILLION

Listed below are several County general revenue sources estimated to be less than $1.5 million each. Even though these sources sometimes have large changes in revenue on a percentage basis, such changes have an insignificant impact on revenues throughout the forecast period. For fiscal years 2009 – 2013, most revenue categories are increased annually except as noted in the individual revenue sources. The forecast and a description of each revenue source follows.

Table 37. Miscellaneous Revenue Sources

Revenue Source	Actual FY2007	Actual FY2008	Actual FY2009	Revised Estimate FY2010	Forecast FY2011
Daily Rental Equipment Tax - 215	$ 190,389	$ 171,224	$ 201,241	$ 225,000	$ 200,000
Bank Franchise Tax – 230	670,471	640,681	793,541	700,000	655,000
BPOL Taxes- Public Service–236	1,184,033	1,178,279	1,225,482	1,050,000	1,050,000
Transient Occupancy Tax – 270	1,317,654	1,355,664	1,275,384	1,200,000	1,175,000
Misc. Business Licenses - 380	6,800	6,400	7,800	9,300	7,000
Interest Paid to Vendors – 520	(312,834)	(789,690)	(618,822)	(400,000)	(350,000)
Interest Paid on Refunds – 521	(34,194)	(374,534)	(49,024)	(45,000)	(50,000)
ABC Profits – 1301	160,440	160,440	0	0	0
State Wine Tax – 1302	168,172	168,172	0	0	0
Rolling Stock Tax – 1303	76,203	79,367	101,088	92,415	92,500
Passenger Car Rental Tax – 1304	848,026	794,864	792,475	700,000	750,000
Mobile Home Titling Tax – 1305	88,048	54,929	37,568	32,000	35,000
Federal Pymt in Lieu of Taxes - 1700	81,063	104,586	85,419	86,000	86,000
Other Revenue – 1150, 514	8,469	1,554	1,153	0	0
Total Miscellaneous Revenue	$4,653,247	$3,551,936	$3,853,305	$3,649,715	$3,650,500

Daily Rental Equipment Tax - 215

The County levies a daily rental tax of 1% on certified short-term rental businesses. The tax applies to businesses that rent items held by users for less than 91 consecutive days. Examples of such businesses include bowling alleys, video rental stores, hardware stores, and equipment rental stores. They are required to collect 1% of the daily rent and remit it to the County quarterly.

Bank Franchise Tax -230

The County levies a bank franchise tax on the net capital of each bank, trust, or bank holding company, excluding savings banks, which operate in the County. The tax is based on 0.8% of the net capital multiplied by the percentage of deposits on hand at that branch compared to its statewide deposits. The Virginia Department of Taxation audits the tax.

BPOL Taxes - Public Service – 236

The Business, Professional, and Occupational License (BPOL) tax is imposed on public utility companies that operate in the County. The tax of $0.29/$100 of assessed value was identical to the County's BPOL tax on other businesses, but is authorized under separate statutes. The Commonwealth repealed the tax for electric companies and replaced it with the Corporate Net Income Tax and the declining Consumption Tax. The State set the latter at a maximum of $0.50/$100 of assessed value. If a locality's rate is below the maximum, the

State receives the difference. Therefore, the Board of County Supervisors increased this tax only for electric companies from \$0.29/\$100 of assessed value to \$0.50/\$100 of assessed value effective January 1, 2001.

Transient Occupancy Tax – 270

The County levies a transient occupancy tax of 5% of the amount charged for the occupancy of hotels, motels, boarding houses and travel campgrounds. However, charges for rooms rented by the same individual or group for thirty or more days are exempt. This tax also does not apply to miscellaneous charges such as in room telephone usage, movie rentals, etc. The tax is remitted directly to the County on a quarterly basis in August, November, February, and May by hotels, motels and campgrounds. The general revenue share of this tax is 40%. The remaining 60% is budgeted for tourism-related purposes such as the Convention Visitors' Bureau (CVB). Board appropriation is based on requirements submitted by the CVB. The Transient Occupancy tax is based on forecasts for number of hotel rooms in the County, occupancy rates, and room rates.

Miscellaneous Business Licenses - 380

The County levies a business license fee to trash haulers and septic tank installers operating in the County. The Public Health Department issues these licenses. This has been reclassified as other revenue.

Interest Paid to Vendors - 520

When a vendor with whom the County does business overpays for any reason, or when a performance bond is repaid to a developer, the refunded amount includes interest. This interest is recorded as negative revenue.

Interest Paid on Refunds - 521

The County must pay interest on taxpayer refunds based on delinquent taxes that were erroneously assessed. This interest is recorded as negative revenue.

ABC Profits - 1301

Two-thirds of Alcohol Beverage Control Commission (ABC) store profits are distributed quarterly to counties, cities, and towns based on the locality's percentage of total State population from the latest census. Three subtractions are made from ABC profits before distribution: (i) costs of care and rehabilitation, (ii) payments to the State for its provision of general fund services, and (iii) warehouse costs. Beginning in FY09, ABC profit revenue is no longer distributed to localities in order to provide additional State mental health services following the tragedy that occurred at the Virginia Polytechnic Institute (Virginia Tech) in April 2007.

State Wine Tax – 1302

The State wine tax is a tax levied on each bottle of wine sold in ABC stores and all retail outlets. The tax rate is \$0.40 per liter. Sixty-six percent of the wine tax collected is retained by the State, twelve percent is kept by the ABC, and twenty-two percent is distributed quarterly to counties, cities and towns based on the locality's percentage of total State population from the latest census. Beginning in FY09, State wine tax revenue is no longer distributed to localities in order to provide additional State mental health services following the tragedy that occurred at the Virginia Polytechnic Institute (Virginia Tech) in April 2007.

Rolling Stock Tax - 1303

The rolling stock of railroads, freight car companies and certified vehicle carriers doing business in the state is taxed at the rate of \$1.00 on each \$100 of assessed value. This tax is levied in lieu of the personal property tax. Revenues are distributed to counties, cities, and incorporated towns based on: (i) the percentage of track miles located in the locality versus the State-wide total or (ii) vehicle miles operated by a carrier in the locality versus the State-wide total.

Passenger Car Rental Tax - 1304

Automobiles rented on a daily basis are often moved from location to location and have no fixed sites for personal property taxation. In lieu of the local personal property tax, the Department of Motor Vehicles collects a tax for short-term rentals from leasing companies located in the County. The State remits four percent of the rental fee for passenger cars rented for less than twelve months to the County.

Mobile Home Titling Tax - 1305

The Mobile Home Titling Tax is a 3% tax on mobile homes titled in the Commonwealth. The vendor pays the tax to the Department of Taxation who remits it to the locality where the home is registered.

Federal Payment in Lieu of Taxes - 1700

The Federal Government owns a substantial amount of land in Prince William County. Because land owned by the Federal Government is not taxable by the County, the Federal Government makes a payment in lieu of taxes to the County.

APPENDIX A - GENERAL PROPERTY TAX RATES

Type of Tax	Adopted FY2010	Adopted FY2011
	(Tax per $100 Assessed Value)	
Real Estate		
Base Rate	$1.2120	$1.2360
Fire and Rescue Levy	0.0746	0.0761
Gypsy Moth Levy	0.0025	0.0025
Personal Property		
General Class	3.70	3.70
Heavy Equipment and Machinery	3.70	3.70
Mining and Manufacturing Tools	2.00	2.00
Programmable Computer Equipment Peripherals used for Business	1.25	1.25
Mobile Homes	1.2120	1.2360
Research and Development	1.00	1.00
Emergency Volunteer Vehicles	0.00001	0.00001
Auxiliary Volunteer Fire	0.00001	0.00001
Vehicles Modified for Disabled	0.00001	0.00001
Van Pool Vans	0.00001	0.00001
Farmer's Machinery and Tools	0.00001	0.00001
Aircraft (small scheduled)	0.00001	0.00001
Aircraft (all other aircraft)	0.00001	0.00001
Watercraft privately owned for recreational use	0.00001	0.00001
Privately Owned Recreational Campers, Travel Trailers, Motor Homes, and Horse Trailers	0.00001	0.00001
Personal Property owned by certain Elderly and Handicapped Persons	0.00001	0.00001

BUSINESS AND OTHER TAX RATES

Type of Tax	Adopted FY2010	Adopted FY2011
Business, Professional and Occupational Licenses	(Tax per $100 Prior Year Gross Receipts-Only on businesses with annual gross receipts greater than $100,000)	
Professional, Financial & Real Estate Services	$0.33	$0.33
Electric and Natural Gas	0.50	0.50
Public Utilities – All Others	0.29	0.29
Business, Personal, Repair & Other Services	0.21	0.21
Retail Merchants	0.17	0.17
Contractors, Builders & Developers	0.13	0.13
Wholesale Merchants	0.05	0.05
Hotels and Motels	0.26	0.26
Other Taxes	(Tax based on % of Gross Receipts)	
Transient Occupancy Tax	5.0%	5.0%
Daily Equipment Rental Tax	1.0%	1.0%

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