

# CITY COUNCIL RETREAT

November 20, 2004

## FISCAL OUTLOOK

FY 2006 Operating Budget and

FY 2006 to FY 2011 Capital

Improvement Program

Chapter I

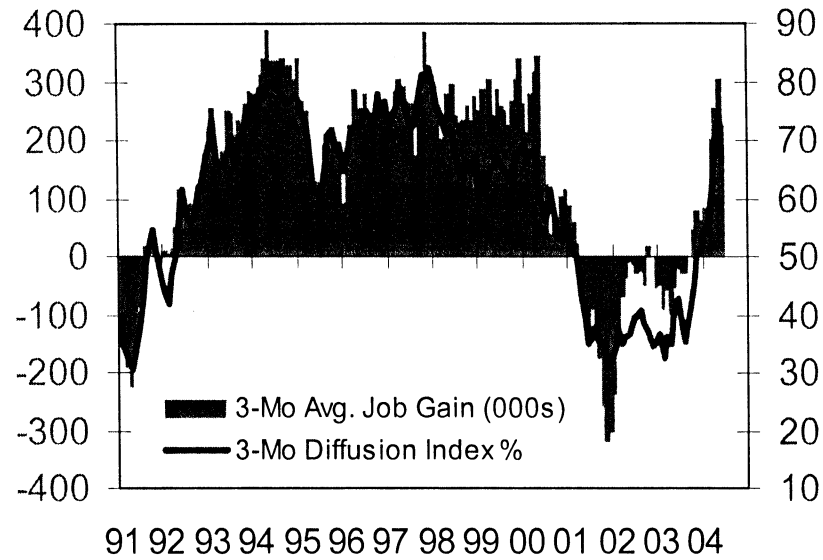
# Highlights

- National Economy Outlook Positive
- Regional and City Economy Strong
- Strong Real Estate Tax Base Growth
- Double-digit Residential Assessment Increases likely in 2005
- Future Real Estate Market Cycle?
- Significant FY 2005 Operating Budget Pressures
- Demands on CIP Increasing, including Construction Price Increases

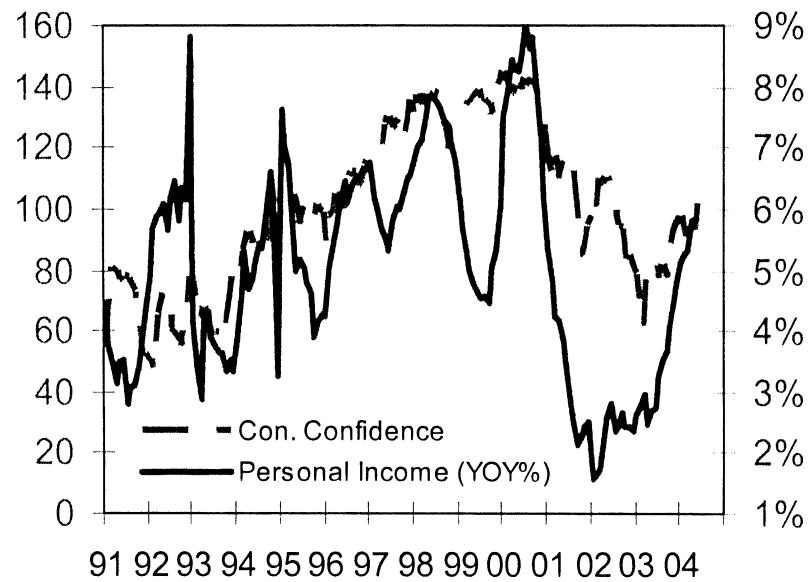
# National Economy Positive, but ...

- Positive Job Growth
- Positive Income Growth
- Inflation Low, but Turning Up
- Rising Interest Rates
- Oil Price and Trade Deficit Concerns

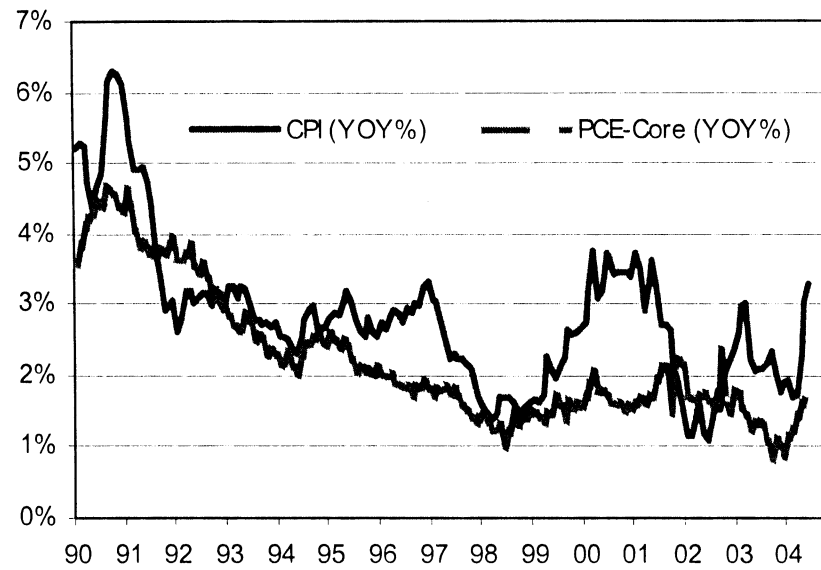
### Job Growth Picked Up Broadly in Q2...



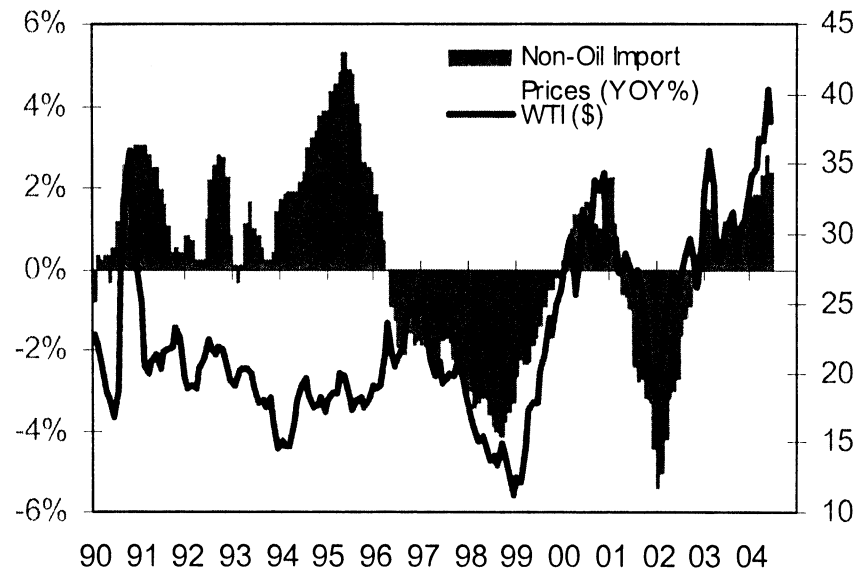
### ...Helping Confidence and Income



### “Headline” Inflation Moved Up in Q2...

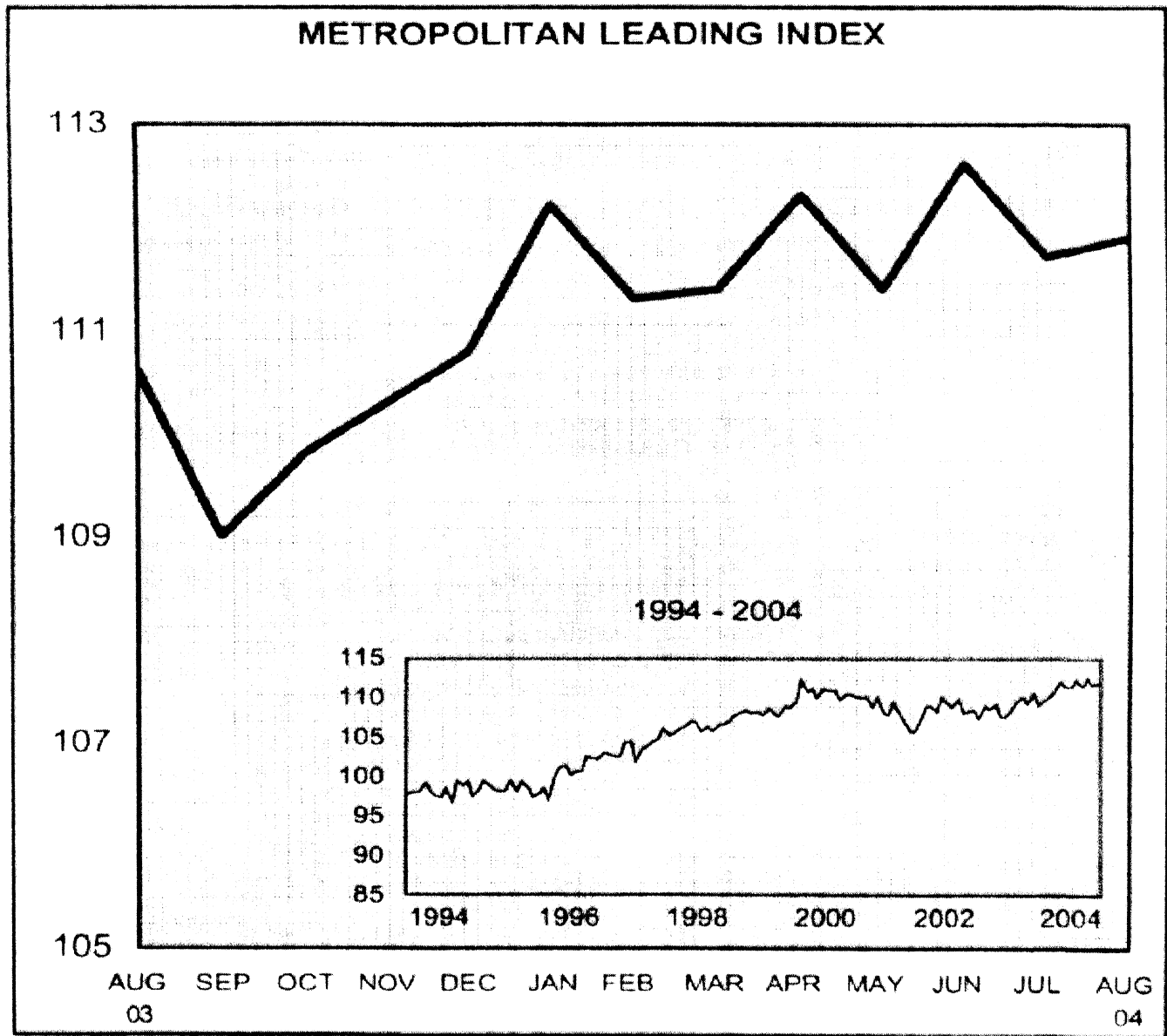


### ...Spurred in Part by Low \$ and High Oil



# Strong Regional Economy

- Exceptional Job Growth
  - Grows State and Local Tax Revenues
  - Increases Housing Prices
  - Negatively Impacts Affordable Housing
  - Stresses Transportation Capacity



Source: Center for Regional Analysis, George Mason University.  
 Compiled by the Fairfax County Department of Management and Budget.

# Washington Area Employment Picture

- Creating two times as many payroll jobs as any other metro area in the U.S
- Creating High Quality Jobs
  - High Income
  - Office-using
  - Professional Services



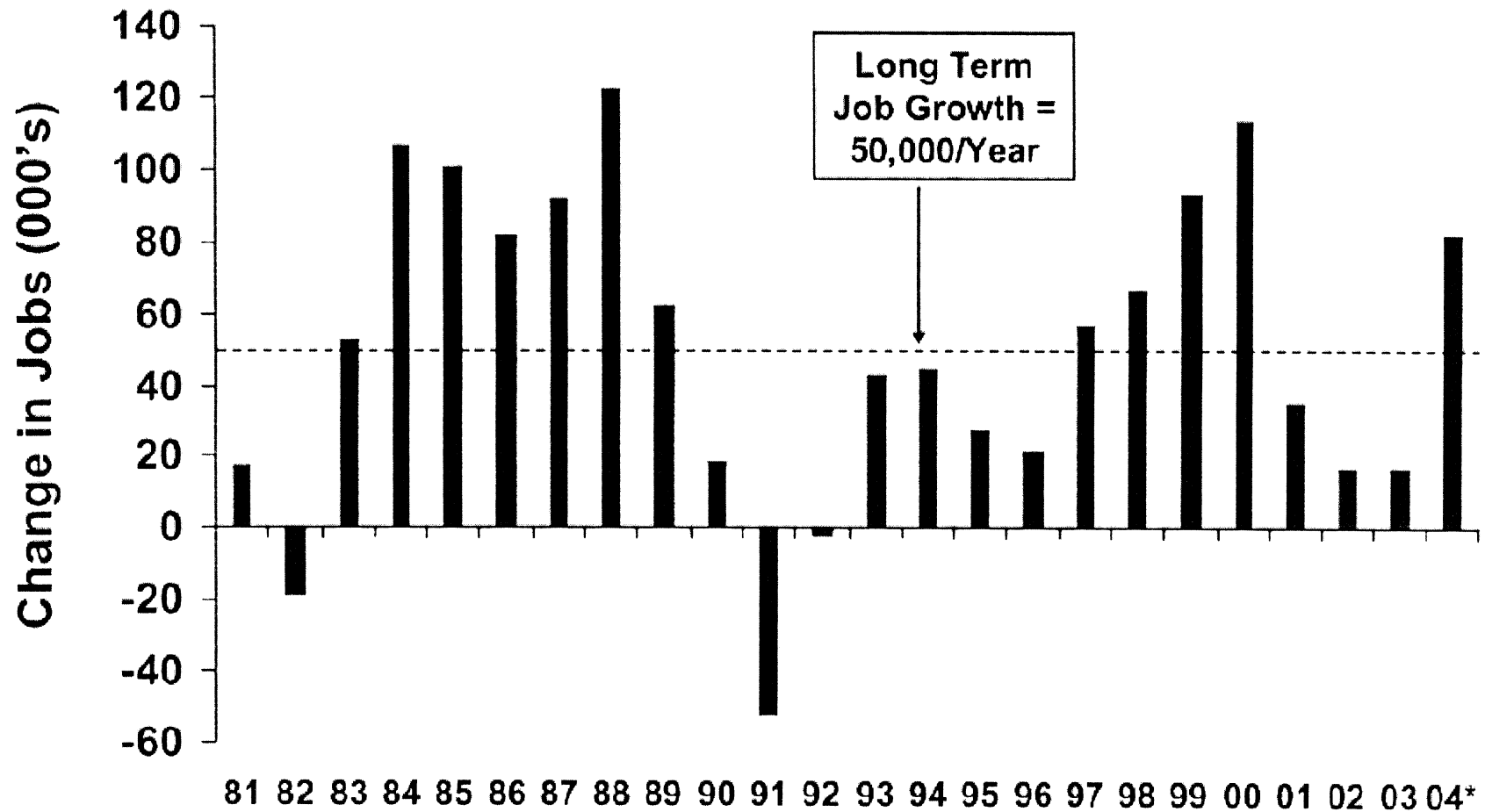
# Washington Area Job Growth

- Metro area job growth continues to surge
- 82,000 payroll jobs created in the 12 months ending June 2004
- 2.9% rate of growth here, compared to 1.1% nationally
- Level of growth is 1.5 times more than the region's annual average of 50,000 new payroll jobs over the past 25 years

Source: Delta Associates



# Job Growth in the Washington Area 1981 through June 2004

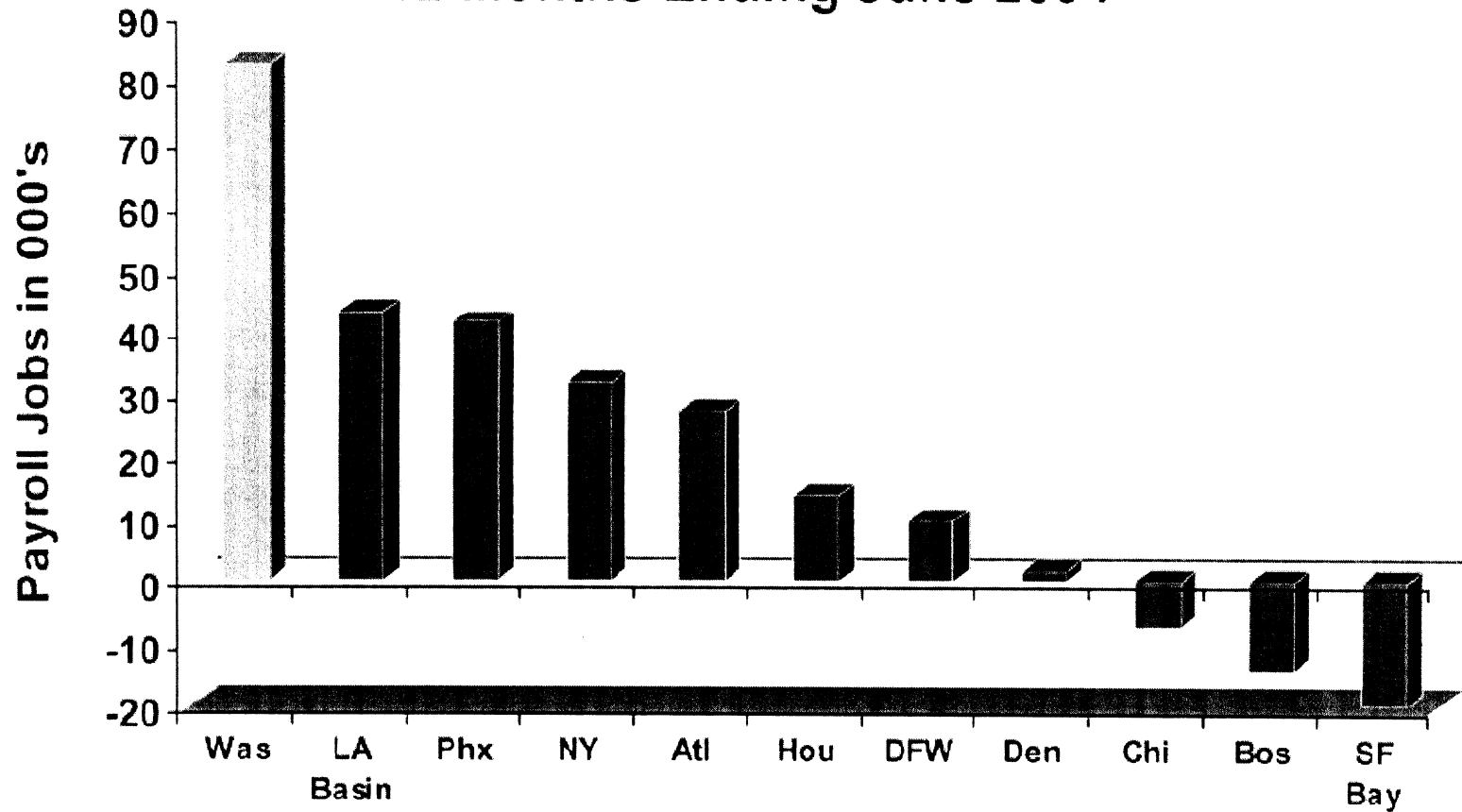


Source: Bureau of Labor Statistics, August 2004.

\*12 Months Ending June 2004



# Job Growth Large Metro Areas 12 Months Ending June 2004



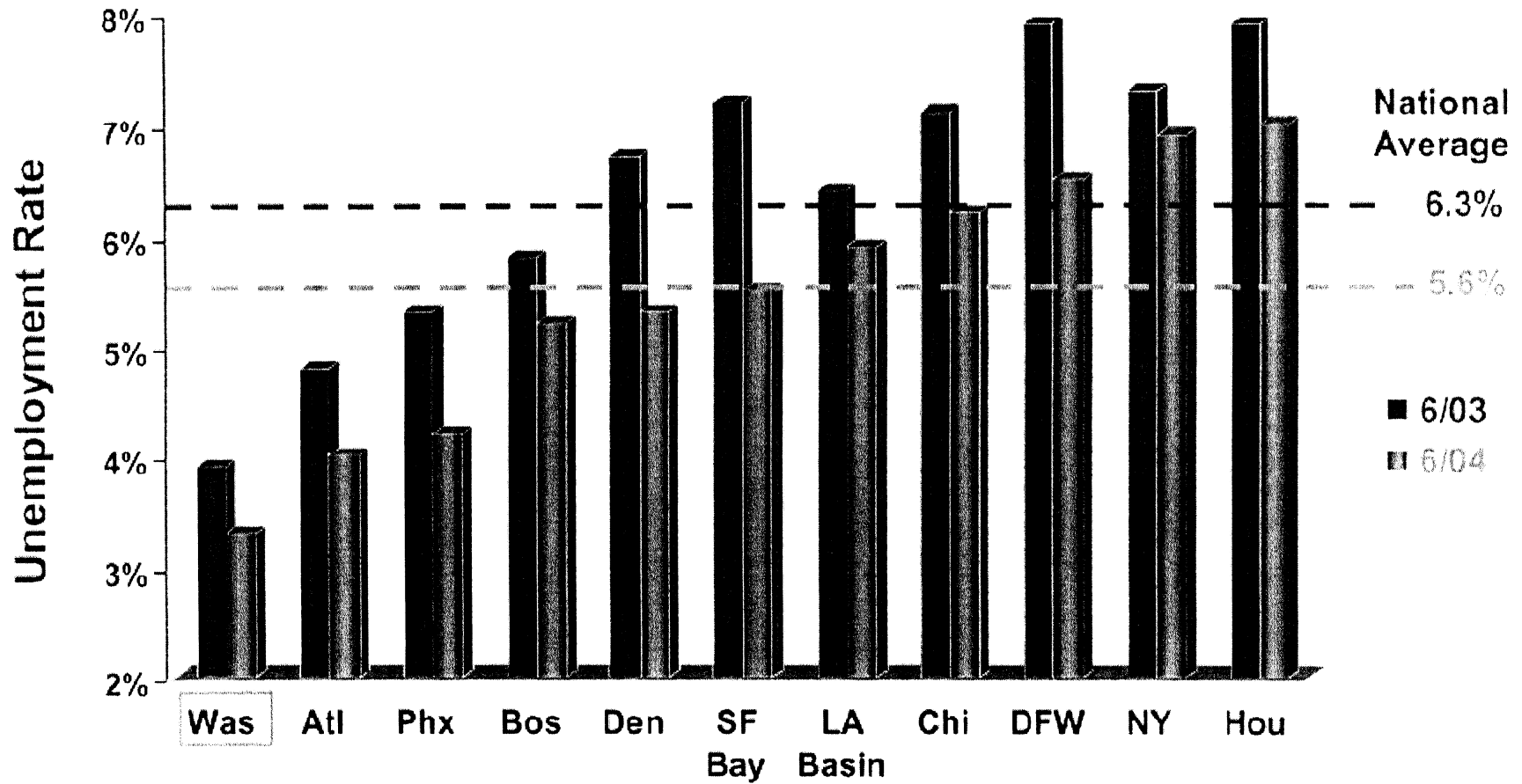
Source: Bureau of Labor Statistics; August 2004.

# Unemployment Rates Declining

- National unemployment at 5.1%
- Washington metro unemployment remains the lowest in the country
- Down to 3.3%, from 3.9% a year earlier
- Area unemployment peaked at 4.0% in June 2002 and has been declining since then
- City unemployment rate at 1.8%



# Unemployment Rates Large Metro Areas June 2003 vs. June 2004



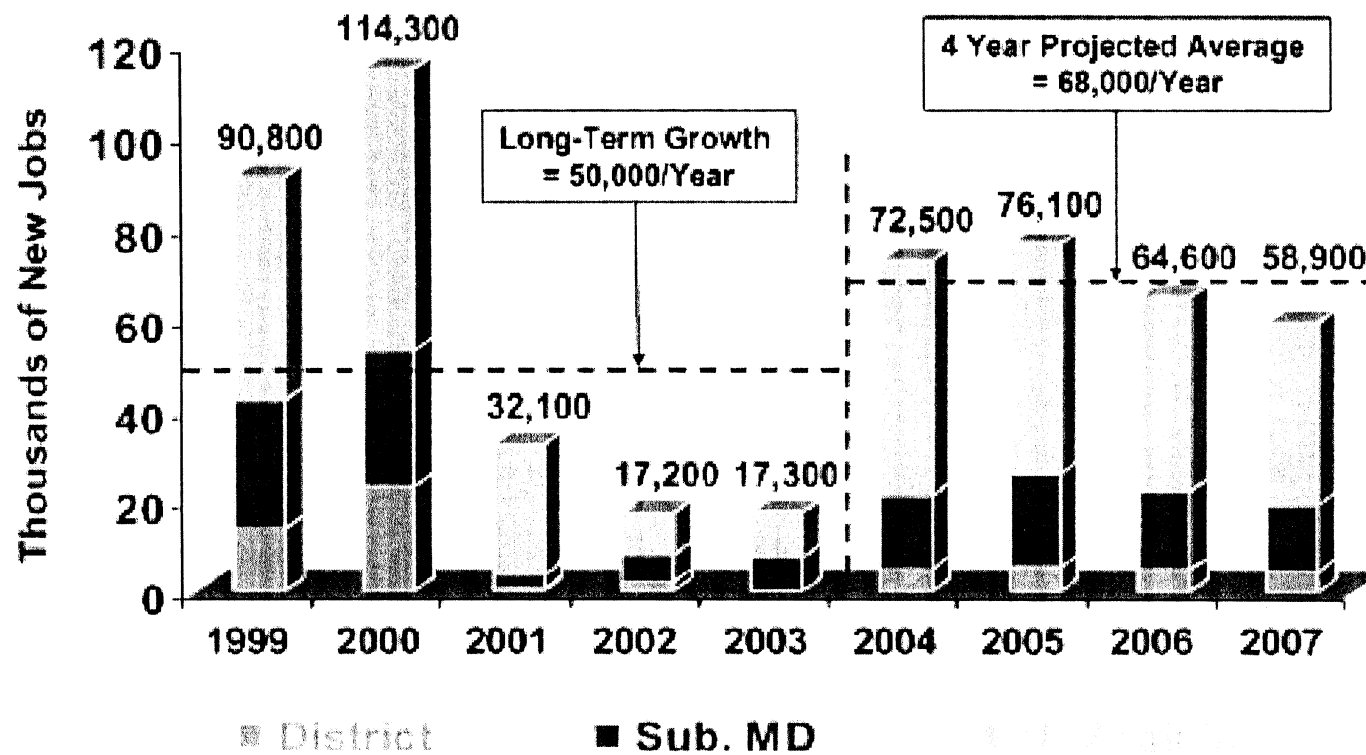
Source: Bureau of Labor Statistics; Delta Associates; August 2004.

# Area Job Growth Forecast

- Government contractors will continue to grow as federal government procurement increases
- Tech sector benefits directly from government spending and private tech firms will continue to thrive
- Federal outsourcing to private sector continues
- Food services and construction sectors will continue to add jobs to support the growing population



# Projected Job Growth Washington Metro Area 2004-2007



Source: Dr. Stephen Fuller and Delta Associates, August 2004.

# Benchmarking City Metrics

	U.S.	VA	Alexandria
Unemployment <sup>1</sup>	5.4%	3.3%	1.8%
	DC Area	Northern VA	Alexandria
Office Vacancy <sup>2</sup>	10.9%	13.4%	9.3%
Apartment Vacancy <sup>3</sup>	2.1%	1.7%	2.1%
Hotel <del>Vacancy</del> <sup>Rental Occupancy</sup>	72.4%	—	71.9%
Hotel ADR <sup>4</sup>	\$124	—	\$108

All data is as of 9/30/04

<sup>1</sup> Virginia Economic Commission

<sup>2</sup> Grubb and Ellis

<sup>3</sup> Delta Associates

<sup>4</sup> Smith Travel Resources - data is for September 2004



# Residential Tax Base History

## Annual Percentage Change 1988 - 2004



# Assessment Projections

- Residential Assessments = +15% to +18%
- Condominium Assessments Higher
- Condominium Conversions Starting
- All Commercial Sectors Positive
- Total Real Estate Tax Base Growth = +15% to +18%
- Tax Rate of \$0.995 = Revenue Growth of \$33M to \$40M



The 40 Richest People Under 40

ROBERT NARDIELLI  
HOW THE G.E. WAY  
REVIVED HOME DEPOT

# FORTUNE

SEPTEMBER 27, 2004

**REAL ESTATE**

## IS THE HOUSING BOOM OVER?

Million-dollar condos. Speculators everywhere. Here's why the bubble is going to pop.

**MORTGAGES**  
Strategies to Beat Rising Rates

THEY SAID PRICES WOULD GO UP FOREVER!!... AND WE BELIEVED IT!!



# Hot or Not?

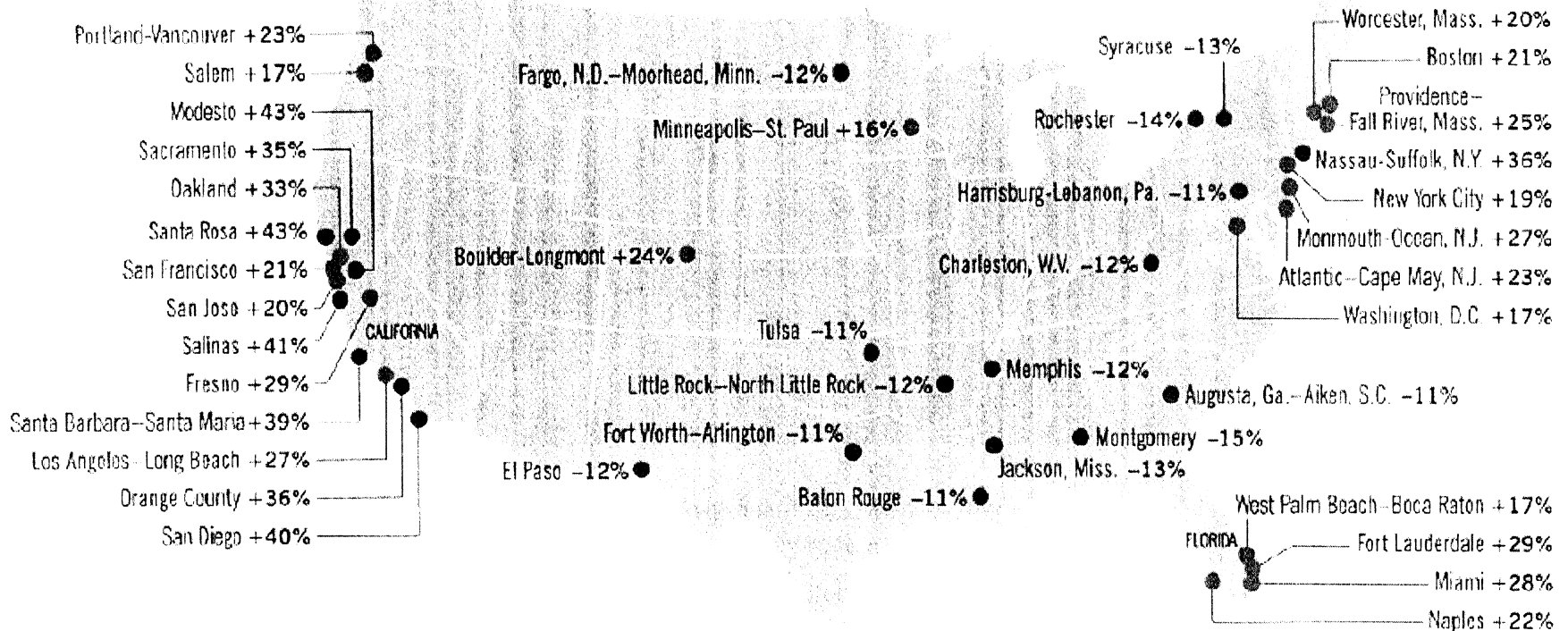
The most overvalued markets are concentrated on the coasts.

To calculate whether a market is overvalued or undervalued, Ingo Winzer of The Local Market Monitor compares home prices to incomes.

## Metro areas that are ...

OVERPRICED BY

- 15%–24%
- 25%–34%
- 35% or more
- UNDERPRICED



# Real Estate Tax Relief

- Fairfax, Prince William and Arlington Counties have already announce their intent to lower their RE tax rates for 2005
- City Senior and Disabled Tax Relief Indexed
- AHOP Program expansion to be crafted and proposed as part of FY 2006 budget

# Personal Property Tax Issues

- 2004 Tax Base dropped 3% due to falling used car prices
- \$3.2 Million Shortfall in FY 2005
- Expected to continue in FY 2006
- 70% State-paid Tax Relief Continues
- FY 2007 State Budget Cap and Cash Flow Impact

# Other Local Tax Revenues

- Sales, Meals and Hotel Taxes Exhibit Positive Growth
- “Talk Taxes” Legislation Pending
- Recordation tax rate increase of FY 2005 should yield \$1.4 million of additional revenue in FY 2005 and \$1.7 million in FY 2006

# Intergovernmental Revenues - State

## Virginia Could Spend Years in the Red

Despite New Revenue, Warner Draft Predicts Shortfalls Emerging With 2007 Budget

*By Michael D. Shear*

Washington Post Staff Writer  
Sunday, November 7, 2004;

RICHMOND, Nov. 6 -- Virginia is heading into a decade of the decade despite recent economic growth, according to preliminary projections from state budget staff.

The early budget analysis shows a \$1 billion surplus this year and a \$31 million shortfall next year, but they fear that decisions made in the coming months could balloon the shortfalls to nearly \$1 billion by 2007.

## N.Va. Boom Sparks Economic Recovery

Legislators Advised To Control Spending

*By Michael D. Shear*

Washington Post Staff Writer  
Wednesday, November 10, 2004; Page B01

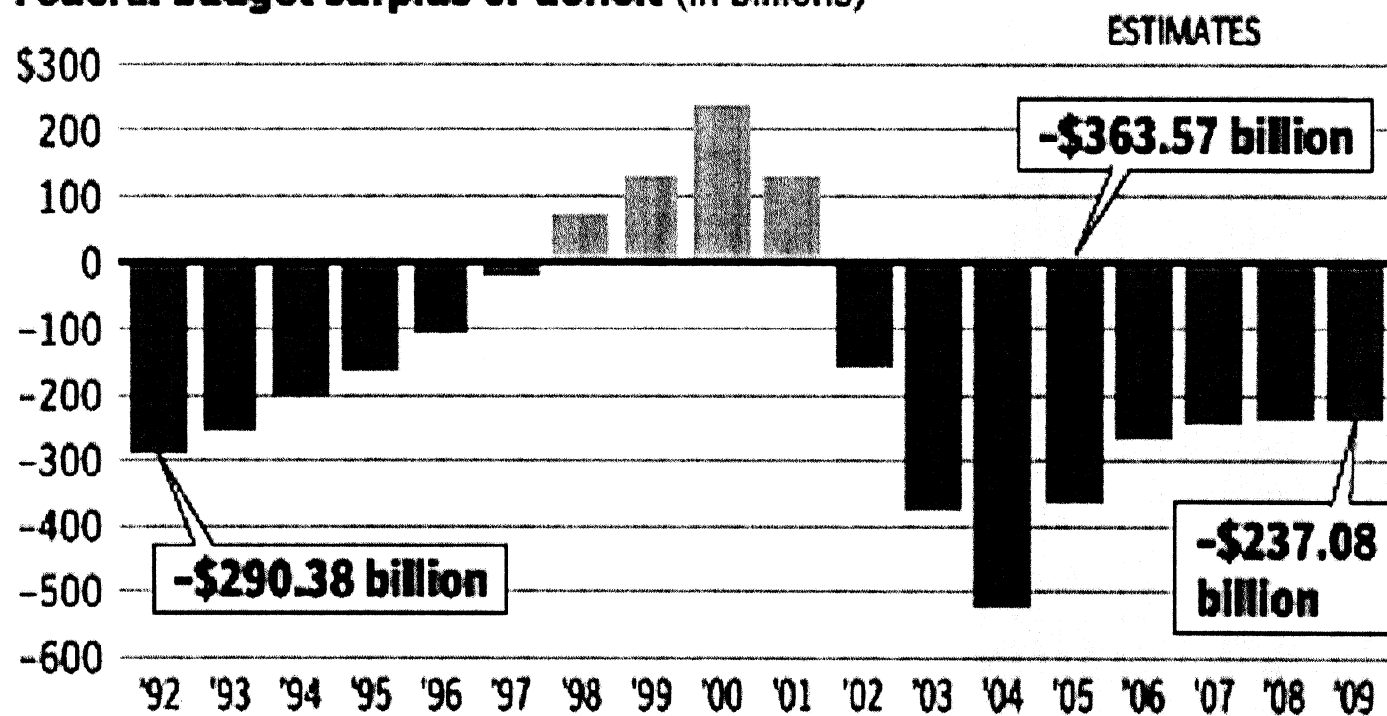
CHARLOTTESVILLE, Nov. 9 -- Dramatic growth in federal defense and anti-terrorism spending in Northern Virginia has fueled a rapid economic recovery in the commonwealth and boosted tax collections, economists told state lawmakers Tuesday.

But the rosy outlook is tempered by two realities, the economists and the House of Delegates budget staff said: The rest of the state is not experiencing the same prosperity as Northern Virginia, and growing state expenses are gobbling up the money as fast as it comes in.



# Intergovernmental Revenues - Federal

**Federal budget surplus or deficit (in billions)**



SOURCE: White House Office of Management and Budget

THE WASHINGTON POST

# Environmental Fees

- Solid Waste Rate Review
- Sanitary Sewer Rate to \$0.80 to fund third year of five year self-sufficiency plan
- Below market sanitary sewer connection fee at end of three year base rate cap, major increase planned for FY 2006

# Conclusion

- Local Revenue Outlook Strong
  - Positive Tax Revenue Growth
  - 2005 = +15% to +18% Assessment Increase
  - 2005 = Consider Tax Relief Initiatives
  - 2006 = Further Assessment Increases, but how long can market sustain continued large home and condo value increases?
- State Outlook Positive/Stable – How is Surplus Used?
- Federal Grant Revenue Reductions Likely