



**FY 2015 SECOND QUARTER REVENUE UPDATE,
CURRENT ECONOMIC OUTLOOK &
FY 2016-2020 GENERAL REVENUE FORECAST**

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Director of Finance
February 17, 2015

Overview

- ▶ FY 2015 2nd Quarter Revenue Update
- ▶ Current Economic Outlook
 - National
 - State
 - Regional
 - Local
 - Guest Presentation by Christine Chmura, Ph.D, President & Chief Economist, Chmura Economics & Analytics
- ▶ FY 2016-2020 Revenue Forecast
 - Five Year Revenue Forecasting Process
 - Current Situation
 - ▶ Residential
 - ▶ Commercial
 - ▶ Apartments
 - ▶ Personal Property
 - Revenue Forecast



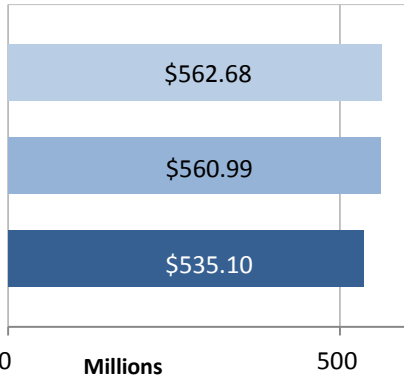
FY 2015 SECOND QUARTER REVENUE UPDATE:

Projected Net Surplus = \$1.9 million


Projected Forecast Accuracy = 99.8%

→ *FY 2015 Revenues At-A-Glance*

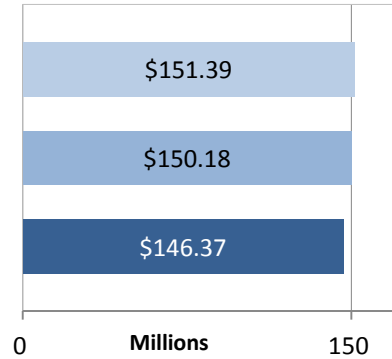
REAL ESTATE




- FY 2015 2nd Qtr. Adj.
- FY 2015 Adopted
- Prior FY Actual

 **+\$1.7M**

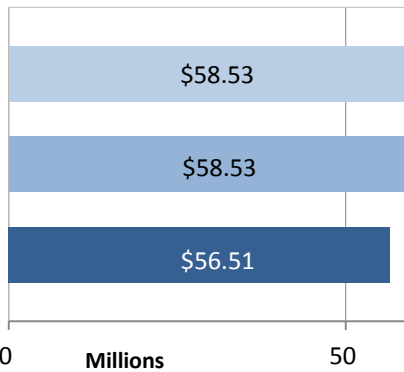
PERSONAL PROPERTY



- FY 2015 2nd Qtr. Adj.
- FY 2015 Adopted
- Prior FY Actual

 **+\$1.2M**

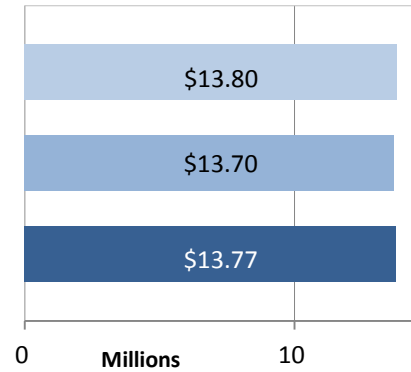
SALES TAX




- FY 2015 2nd Qtr. Adj.
- FY 2015 Adopted
- Prior FY Actual



CONSUMER UTILITY TAX

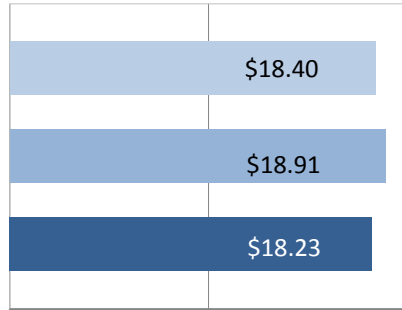


- FY 2015 2nd Qtr. Adj.
- FY 2015 Adopted
- Prior FY Actual

 **+\$100k**

→ *FY 2015 Revenues At-A-Glance*

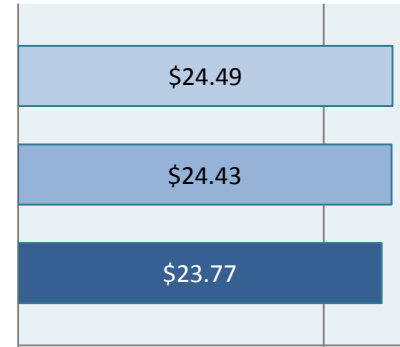
COMMUNICATIONS TAX



- FY 2015 2nd Qtr Adj
- FY 2015 Adopted
- Prior FY Actual

↓ -\$510k

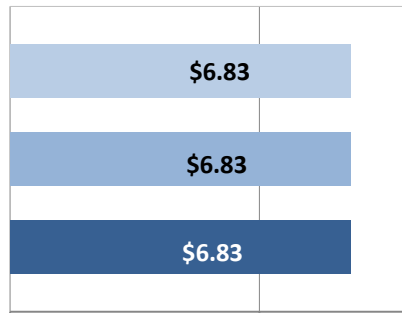
BPOL TAX



- FY 2015 2nd Qtr Adj
- FY 2015 Adopted
- Prior FY Actual

↑ +\$58k

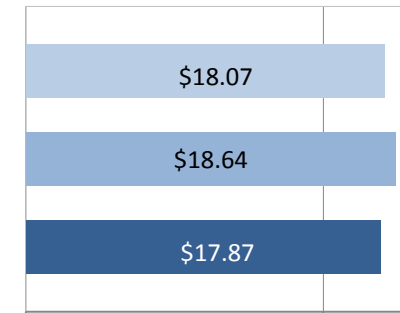
INVESTMENT INCOME



- FY 2015 2nd Qtr Adj
- FY 2015 Adopted
- Prior FY Actual



ALL OTHER REVENUE



- FY 2015 2nd Qtr Adj
- FY 2015 Adopted
- Prior FY Actual

↓ -\$569k

FY 2015 2nd Quarter Revenue Update

June 30, 2015 – Projected

Category of General Revenues	Prior Year FY 2014 Year-End	Fiscal Year 2015			\$ change from Adopted	% change from Adopted	
		Adopted*	Q1 Revised	Q2 Revised			
Real Property Taxes	\$535,098,018	\$560,992,089	\$560,992,089	\$562,684,753	\$1,692,664	0.30%	General Property Taxes: 0.41% Variance
Personal Property Taxes	146,371,041	150,180,000	151,180,000	151,390,000	\$1,210,000	0.81%	
Sales Tax	56,510,664	58,525,000	58,525,000	58,525,000	\$0	0.00%	Other Revenue Sources -0.65 Variance
Consumer Utility Tax	13,765,596	13,700,000	13,700,000	13,800,000	\$100,000	0.73%	
Communications Tax	18,229,981	18,910,000	18,400,000	18,400,000	-\$510,000	-2.70%	
BPOL Tax	23,772,169	24,427,000	24,427,000	24,485,000	\$58,000	0.24%	
Investment Income	6,834,816	6,831,000	6,831,000	6,831,000	\$0	0.00%	
All Other	17,865,182	18,642,500	18,340,500	18,074,000	-\$568,500	-3.05%	
Total General Revenues	\$818,447,467	\$852,207,589	\$852,395,589	\$854,189,753	\$1,982,164	0.23%	

*Does not include Transportation's portion of Recordation = \$4,660,000



CURRENT ECONOMIC OUTLOOK



Current Economic Situation: National



•**S&P 500:** December 31, closed at 2,058.90; Up 180% from 2009 low; lost some ground to start out 2015

•**GDP:** 2.6% in Q4 2014 (preliminary), following 5.0% in Q3; expanding, but muted 4th Quarter--economy fueled by continued consumer activity

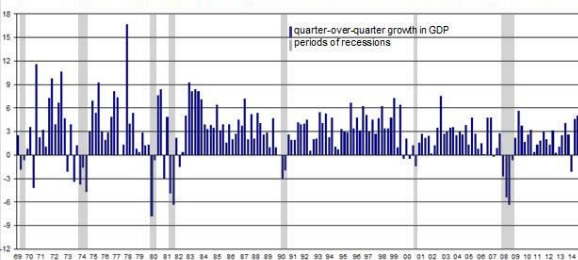
•**U.S. Unemployment Rate:** 5.6% in December 2014, compared to 6.7% one year earlier; 2.77 million net new jobs in 2014

•**First Time Unemployment Claims:** Currently bound between 275,000 and 300,000, improvement over 2013

•**New Home Sales:** 2014 new home units sold averaged 433,000 with very little volatility; still well below pre-recession levels

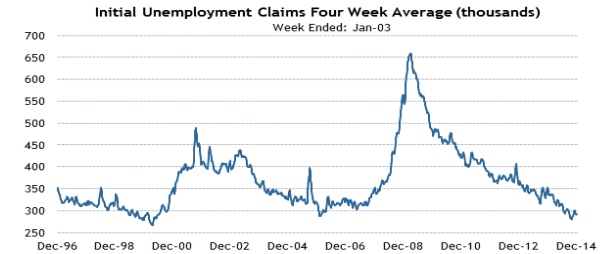
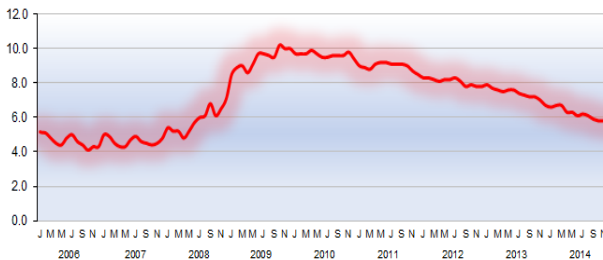
•**Retail Sales:** Decreased 0.9% annually in December; appeared to trail off during Q4 2014, primarily due to plummeting gasoline prices; 16.5 million new auto sales in 2014 -- best year since 2006

U.S. Gross Domestic Product and Recessions 1969 - 2014



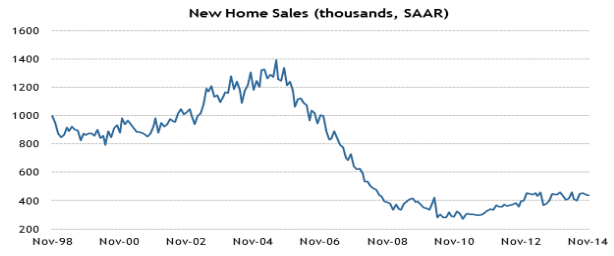
Source: U.S. Bureau of Labor Statistics

National Unemployment Rates 2006 - Present



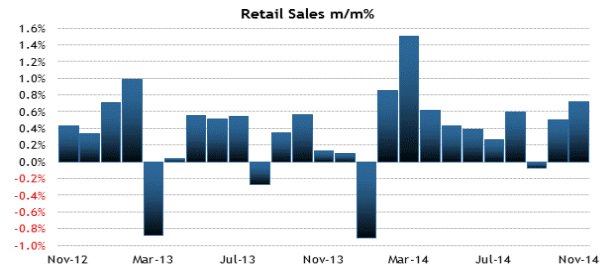
Source: Department of Labor; updated 01/08/15

Briefing.com



Source: Census Bureau; updated 12/23/14

Briefing.com

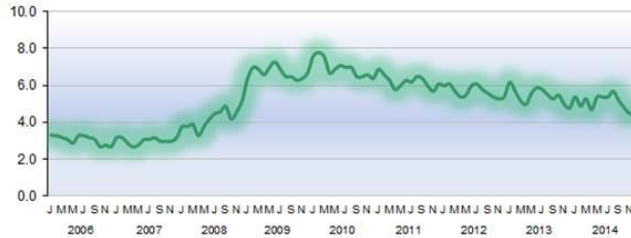


Source: Census Bureau; updated 12/11/14

Briefing.com

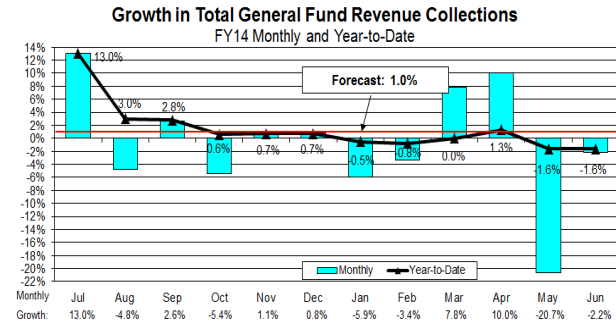
Current Economic Situation: State

Virginia Unemployment Rates 2006 - Present



Source: Virginia Employment Commission

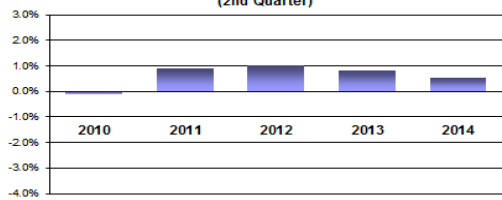
- **Unemployment:** 4.5% in December 2014 compared to 4.8% one year earlier
- **Employment:** Net gain of 19,000 (+0.5%) Y-O-Y in Q2; 2014 leading private sector gains were leisure, hospitality, and retail; declines in professional and business services



Source: Virginia Secretary of Finance

- **Total State General Fund Revenue:** Collections were short of the forecast by \$438 million in FY 2014; falling 1.6%, behind the official forecast of 1.0% growth; weak growth in withholdings due to slowdown in federal hiring and reduced federal contracting

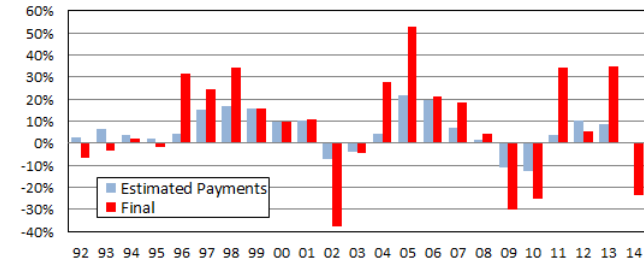
Virginia Year-Over-Year Growth Rate Employment (2nd Quarter)



Source: Virginia Employment Commission

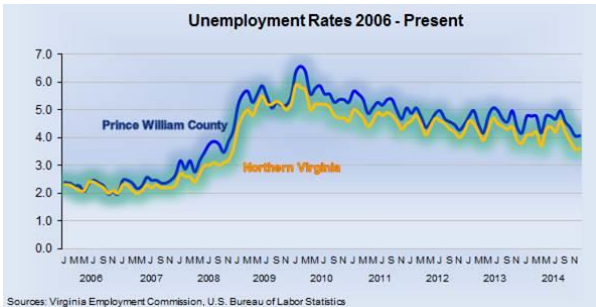
- **Estimated & Final Payments:** Total non-withholding collections fell 10.1% in FY 2014 compared with the annual estimate of 4.2% growth

Growth in Estimated and Final Payments, FY92-14
Percent Growth Over the Prior Year

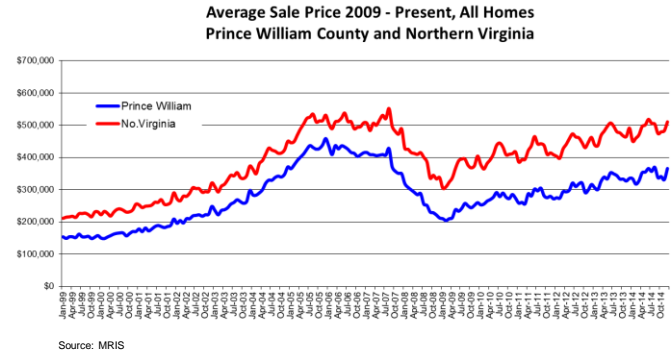


Source: Virginia Secretary of Finance

Current Economic Situation: Regional

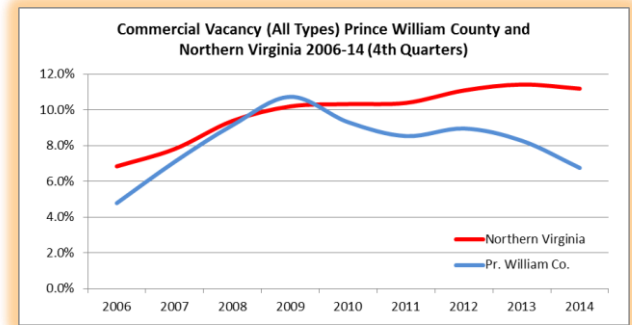
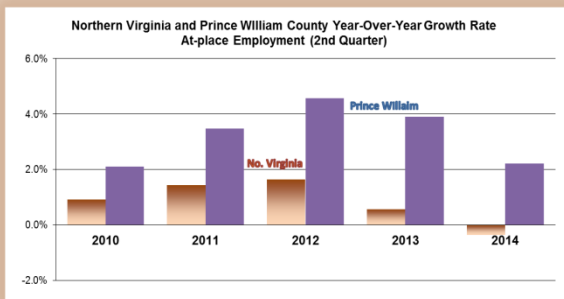


- **Unemployment:** 3.6% in December 2014 compared to 3.8% one year earlier; PWC 4.1% in December 2014
- **Employment:** Net loss of 4,116 (-0.4%) Y-O-Y in Q2; 2014 declines in professional and business services; PWC 2.2% increase Y-O-Y

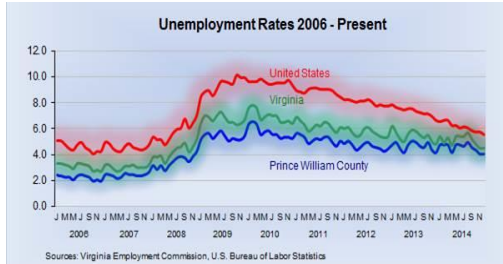


- **Average Sale Price:** \$510,378 in December 2014 for Northern Virginia; PWC was \$365,727

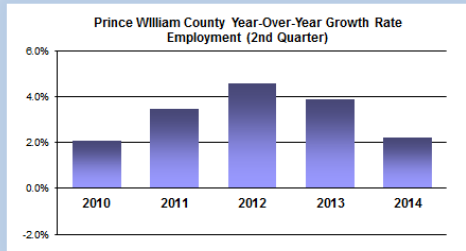
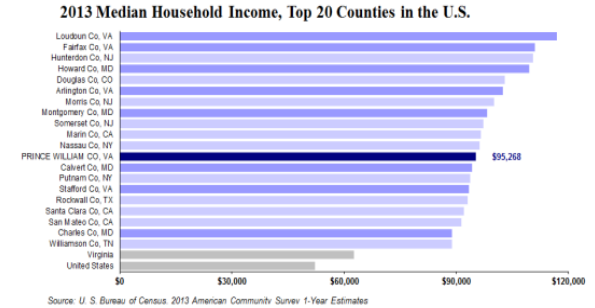
- **Commercial Vacancy:** 11.2% 4th Quarter 2014, compared to 11.4% one year earlier and 6.8% in 2006; PWC 6.8% in 4th Quarter 2014



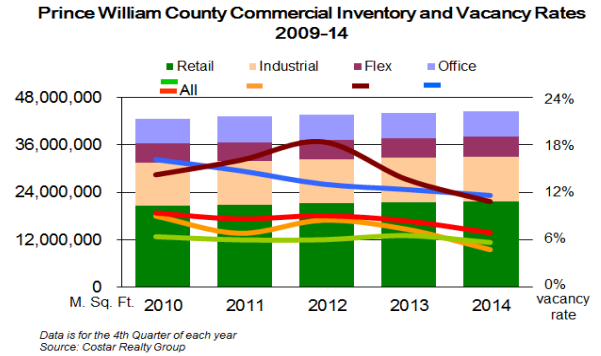
Current Economic Situation: Local



- **Unemployment Rate:** 4.1% December 2014 compared to 4.4% one year earlier; still below the national and state rates and at its lowest level since the end of the economic downturn
- **At-place Employment:** 120,630 in Q2 2014 up 2.2% Y-O-Y; up 17.4% since 2009

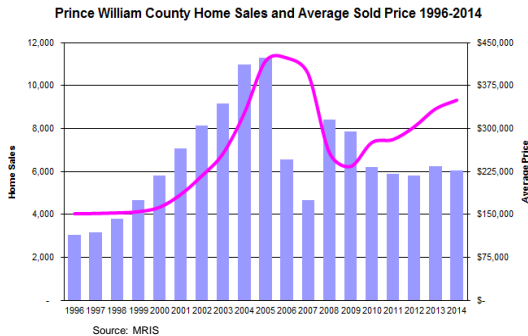


- **Housing Market Values:** Still growing, moderately; Average sale price, December 2014: \$365,727; increase of 9.0% over December 2013

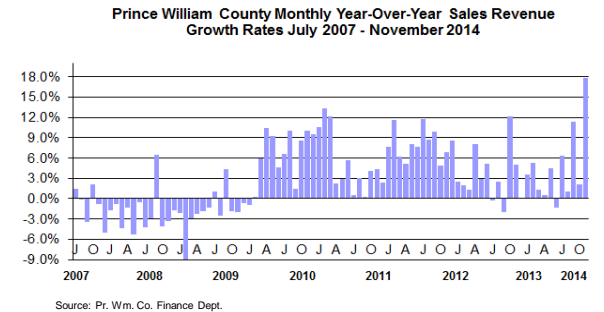


- **Median Household Income:** \$95,268; 12th in U.S., 4th in Virginia; Metropolitan Washington DC: 9 of top 20 wealthiest counties in United States

- **Office, Industrial, Flex and Retail Commercial Vacancy Rates:** Market still in absorption phase; improving Y-O-Y. Total vacancy rate 6.8% in December 2014 compared to 8.3% one year earlier; total new construction continues at a generally reduced level from peak



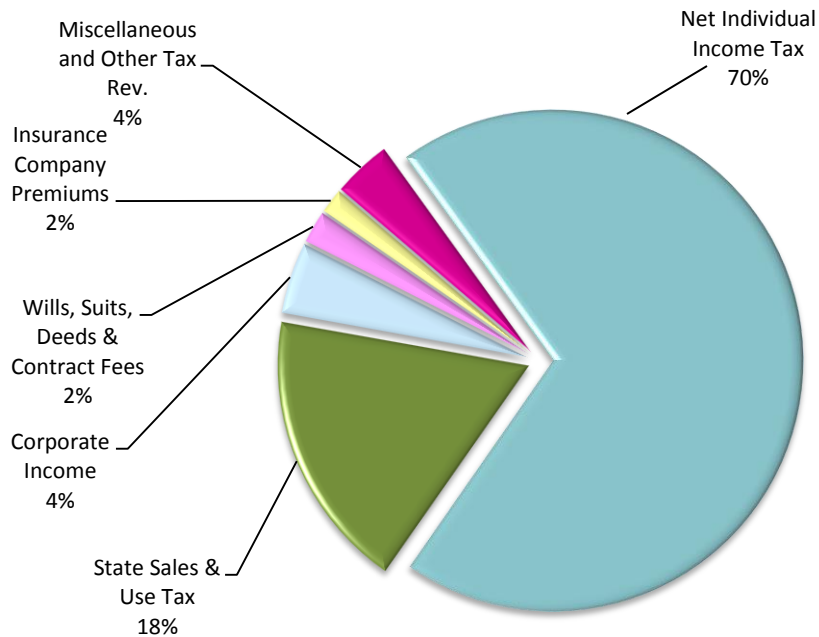
- **Sales Tax:** Positive monthly Y-O-Y growth 13 out of last 14 months; November 2014 up 17.8% compared to November 2013



General Fund

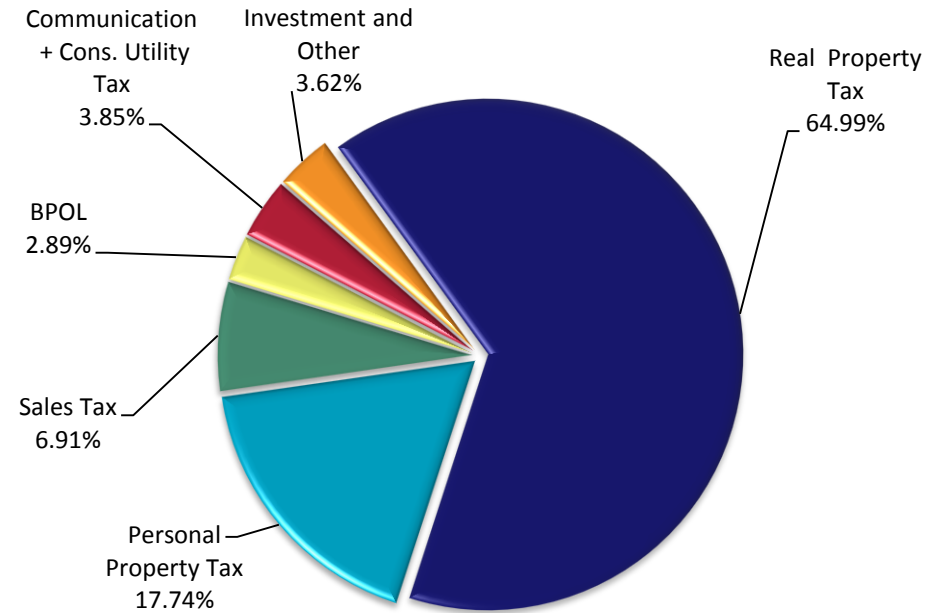
Revenue Base Comparison

Virginia



Individual Income Tax, Sales & Use Tax Comprise Over 88% of Virginia Revenue

Prince William County

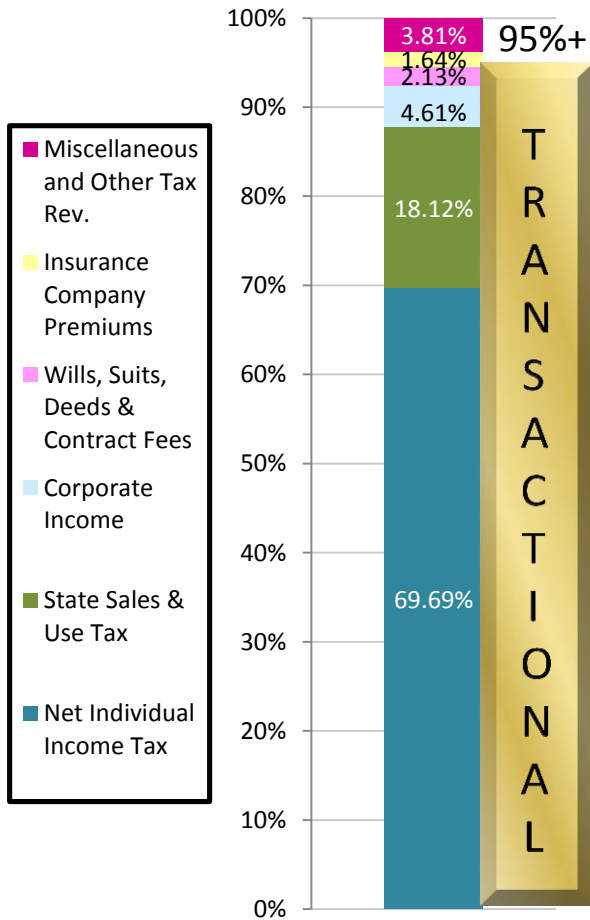


Real Property, Personal Property, and Sales Taxes Comprise Over 89% of County Revenue

County Revenue Sources Generally Far More Stable Than State and Federal Sources

Virginia

Prince William County



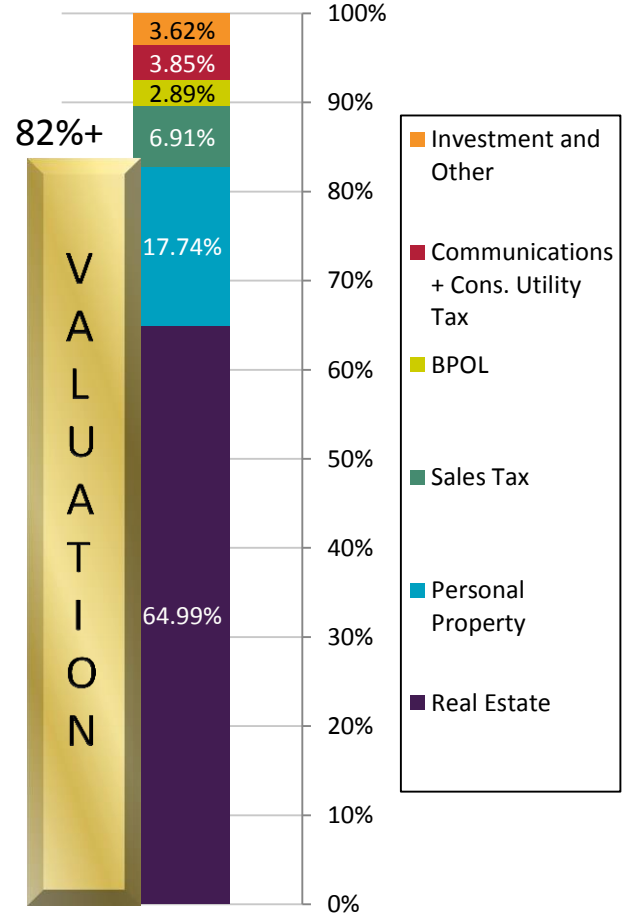
TAX

Revenue Earnings Income Sales

Asset Value

- VIRGINIA DRIVERS:**
- Employment
 - Job Growth
 - Sales Growth
 - Real Wage Growth
 - Economic Expansion
 - Accommodative fiscal and monetary policy

- PWC DRIVERS:**
- Population Growth
 - Low Interest Rates
 - Expanding Citizen Net Worth
 - Moderate Inflation
 - Growing Real Estate Demand

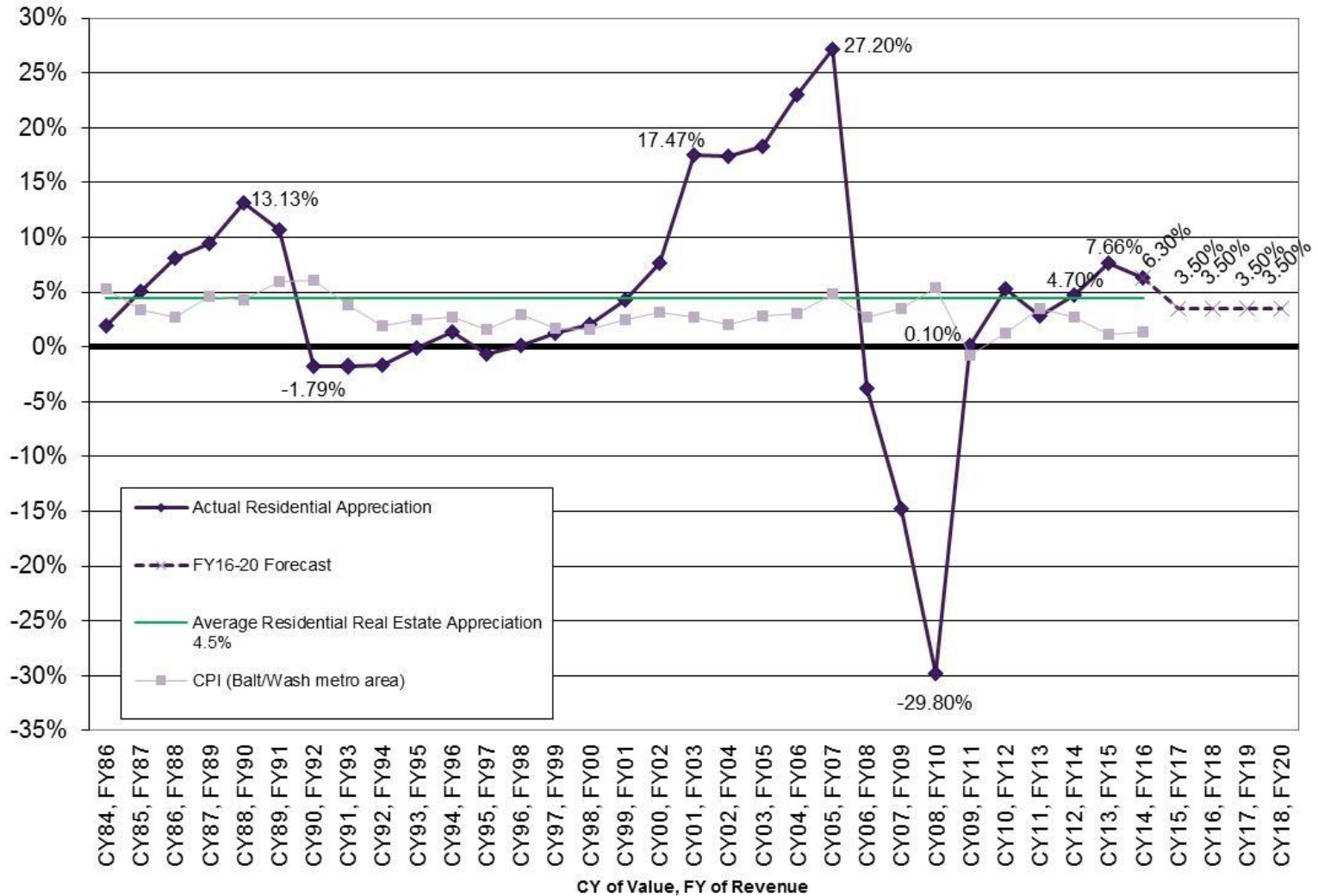




**DR. CHRISTINE CHMURA,
CHMURA ECONOMICS & ANALYTICS**



PWC History of Residential Real Estate Assessment Changes



Current Economic Situation:

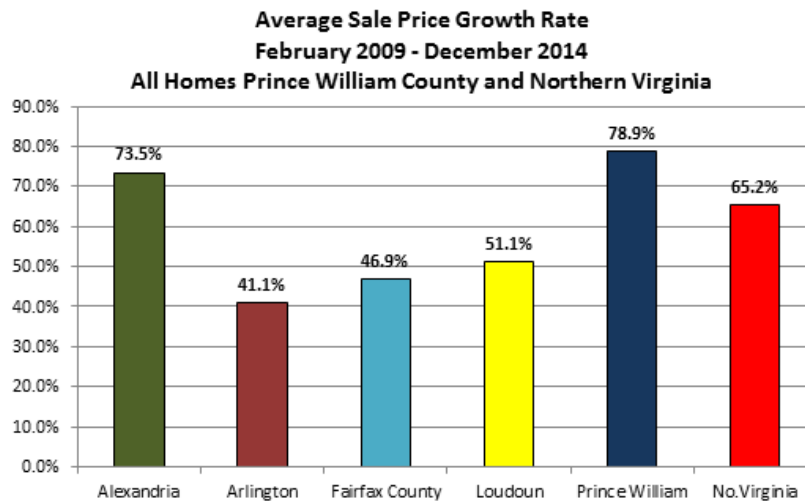
Residential Real Estate Market Outperforms Major Northern Virginia Peers

Peak to Trough (December 2005 – February 2009)

Peak Home Sale Price -- Dec. 2005	\$ 458,627
Trough Home Sale Price -- Feb. 2009	<u>204,378</u>
Variance from Peak	\$(254,249) -55.4%

December 2014

Current Home Sale Price -- Dec. 2014	\$ 365,727
Variance from Peak	\$ (92,900) -20.3%
Variance from Trough	\$ 161,349 +78.9%





FY 2016-2020 REVENUE FORECAST





FIVE YEAR REVENUE FORECASTING PROCESS



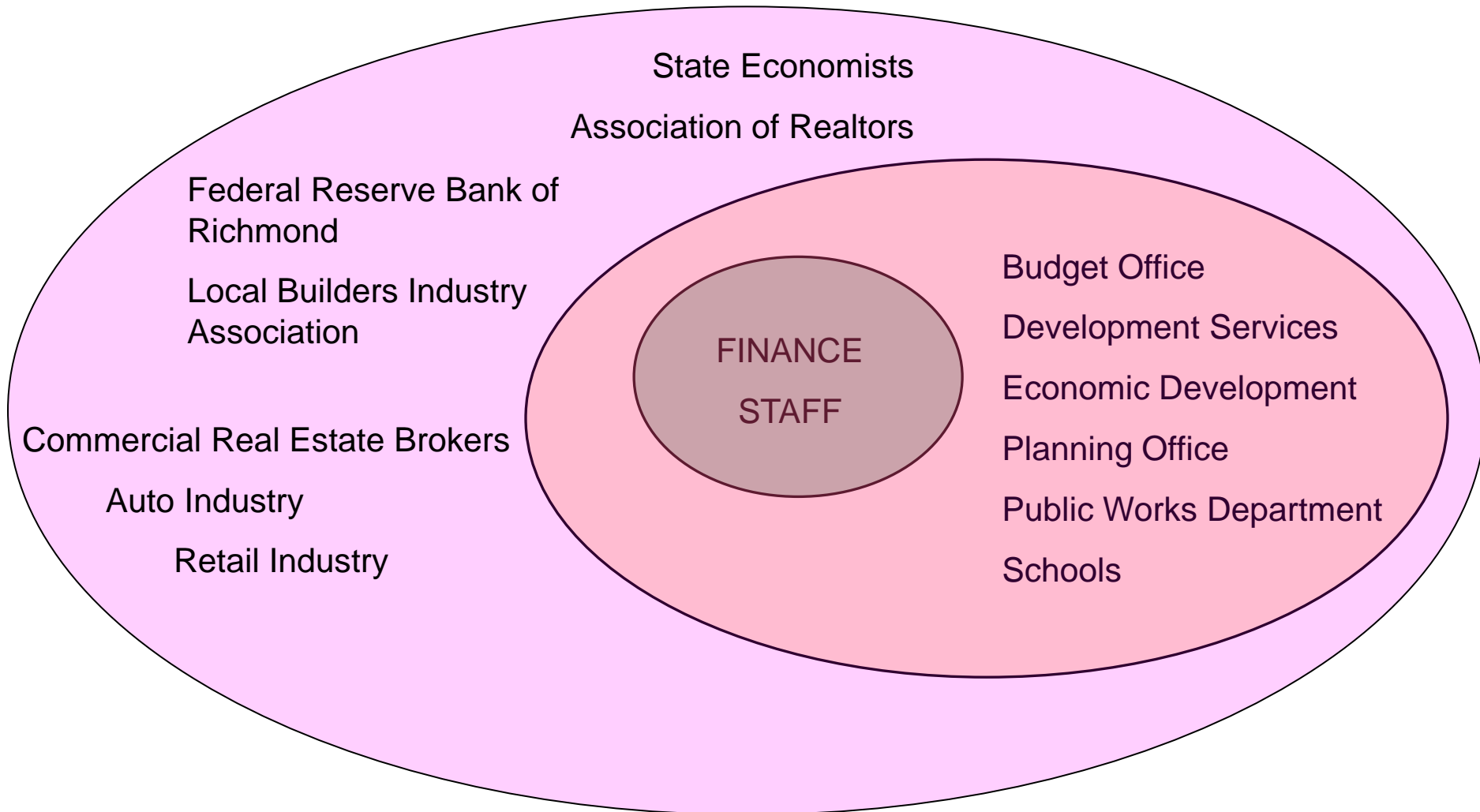
▶ *Multi-Year Revenue Forecasting*

- ▶ The Five-Year Plan sets forth multi-year revenue and expenditure forecasts
 - The FY 2015-2019 forecast was developed in January 2014
- ▶ Currently the Commonwealth prepares a two year revenue forecast
- ▶ Prince William County is the only jurisdiction in the region to prepare a five-year revenue forecast
 - Every other local government jurisdiction in this region prepares one-year forecasting

▶ *Revenue Forecasting Process*

- ▶ Identify Major Revenue Sources
- ▶ Ongoing Analysis of U.S., State, Regional and Local Trends
- ▶ Reliance on Knowledgeable Partners (Subject Matter Experts)
- ▶ Develop Projections
 - Data driven
 - Conservative assumptions
- ▶ Monitor Trends and Update Accordingly

Internal and External Partners



▶ *Residential Real Estate Assessments*

- ▶ The Virginia Constitution requires properties to be assessed at fair market value as of January 1 (tax year)
- ▶ Board cannot adopt separate rates for residential and commercial real estate
- ▶ Metropolitan Regional Information Systems (MRIS) is the service the County uses to monitor residential sales throughout the year
- ▶ The Assessments Office continuously studies the sales market and collects information about properties to estimate fair market value as of January 1 of each year

▶ *Residential Real Estate Assessments (cont'd)*

- ▶ Sales occurring from January 1st to December 31st of each year are analyzed to determine if market values of residential properties should change
- ▶ Since the assessment is as of January 1st, sales occurring in the last quarter of the year are weighted more heavily
- ▶ December 2014 average sales price of \$365,727 was higher than the average of all other months

▶ *Real Estate Revenue Drivers*

- ▶ Equalization (change in value of existing properties)
 - Residential
 - Commercial (retail, office, industrial, flex)
 - Apartments
 - Agricultural
- ▶ Growth (new value added through construction)
 - New residential units constructed
 - Value of new residential units
 - Square footage of new commercial construction completed
 - Value of new construction per square foot

▶ *Real Estate Revenue Drivers (cont'd)*

- ▶ Real Estate Market Metrics
 - Average Sales Price
 - Average Number of Days on the Market
 - Ratio of Active Listings to Sales (Months of Inventory)
 - Foreclosures
 - Inventory
- ▶ External Factors
 - 30-Year Mortgage Rates
 - Unemployment rate
 - Credit environment

▶ *Commercial Real Estate Assessments*

- ▶ The Virginia Constitution requires properties to be assessed at fair market value as of January 1 (tax year)
- ▶ The frequency of sales of comparable properties are not as prevalent in the commercial market as they are in the residential market
- ▶ As a result, Prince William County utilizes the “income” approach to valuing commercial property
- ▶ National and regional capitalization rate information is analyzed to determine if market values of income producing properties should change
- ▶ Income & expense information is gathered from County businesses to assess their “market value”
- ▶ Lease rates are valued at the “market rate” as of January 1 of the tax year

▶ *Commercial Revenue Drivers*

- ▶ **Commercial Real Estate Market Metrics**
 - Vacancy rates
 - Lease rates per sq. ft.
 - Prevailing capitalization rates
 - Size and composition of commercial construction pipeline
 - Income & expense data for each commercial property
 - Market sales
 - Additional weighting is given to information received closest to the assessment valuation date (January 1st)

▶ *Personal Property Revenue Drivers*

▶ Personal Property Metrics

- Average value of vehicles located in the County
- Number of additional vehicles entering the County
- Business equipment replacement rate
- New commercial development



CURRENT SITUATION



▶ *Current Situation: Residential Values*

- ▶ Housing values for existing improved residential properties were higher than anticipated this year
 - Average value = \$331,768

- ▶ Housing values are recouping value lost during the recession due to:
 - Healthy demand; particularly under the \$450k price point
 - Stable but slow growth in new housing units
 - PWC's home affordability advantage relative to most nearby jurisdictions
 - ▶ Average sales price of home in PWC = \$365,727 (Dec. 2014)
 - ▶ Average sales price of home in Region = \$510,378 (Dec. 2014)

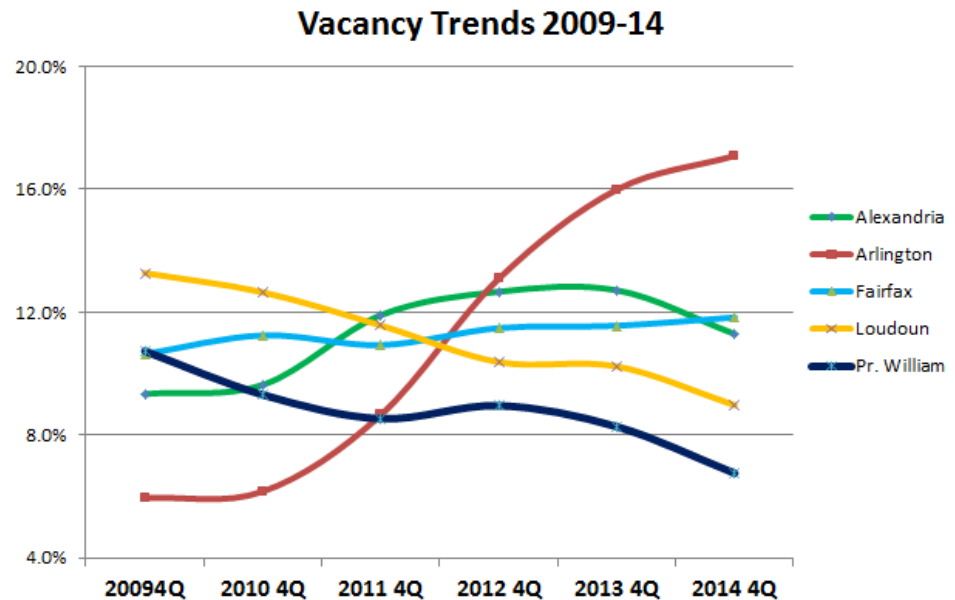
- ▶ Residential values appear to be appreciating faster than surrounding jurisdictions

- ▶ Forecast of residential value appreciation:
 - FY 16 → 6.3%

- ▶ Forecast of new residential units (growth):
 - FY 16 → 1,150

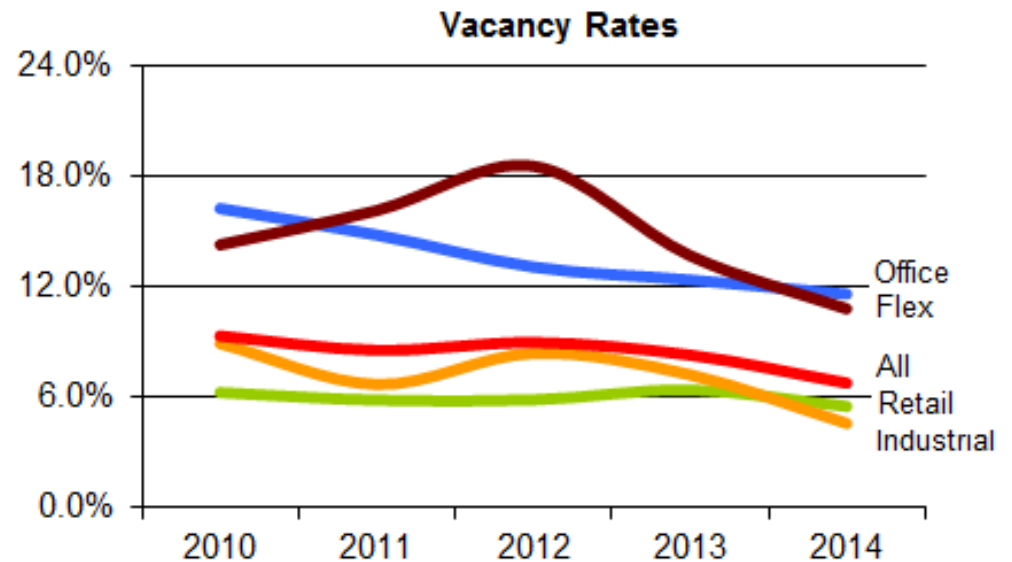
▶ *Current Situation: Commercial Values*

- ▶ Commercial values grew at a rate slightly higher than previously forecast
- ▶ Among a group with unusually divergent commercial vacancy trends, PWC has the lowest rate at 6.8%
- ▶ Forecast of commercial value appreciation:
 - FY16 → 4.1%

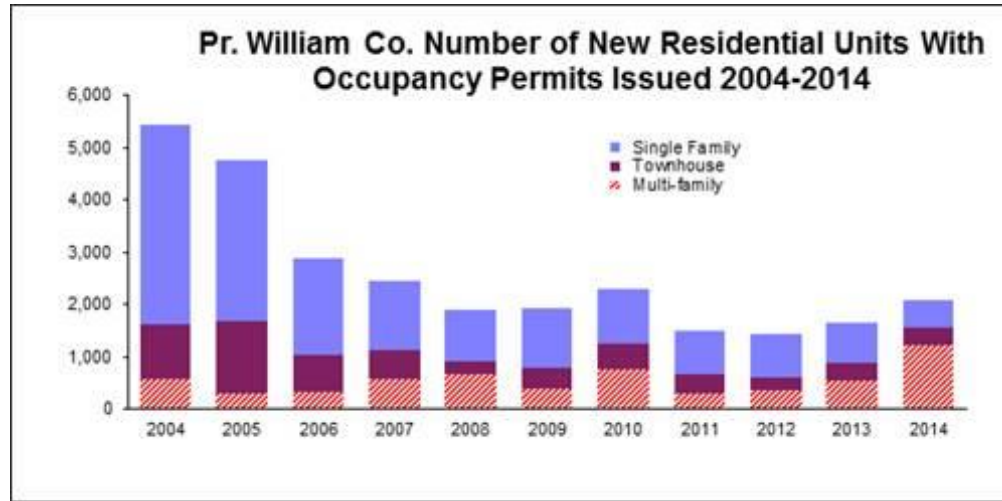


▶ *Current Situation: Commercial Vacancy Snapshot*

- ▶ Continued improvement as total vacancy falls to 6.8%
 - Down 1.5% Y-O-Y
- ▶ Small construction pipeline
- ▶ Rents – somewhat soft
- ▶ Total 2014 vs. 2013
 - Vacant square feet:
 - ▶ 2014: 3.01m
 - ▶ 2013: 3.65m
- ▶ Industrial 2014 vs. 2013
 - Vacant square feet:
 - ▶ 2014: 517k
 - ▶ 2013: 816k



▶ *Current Situation: Apartments*

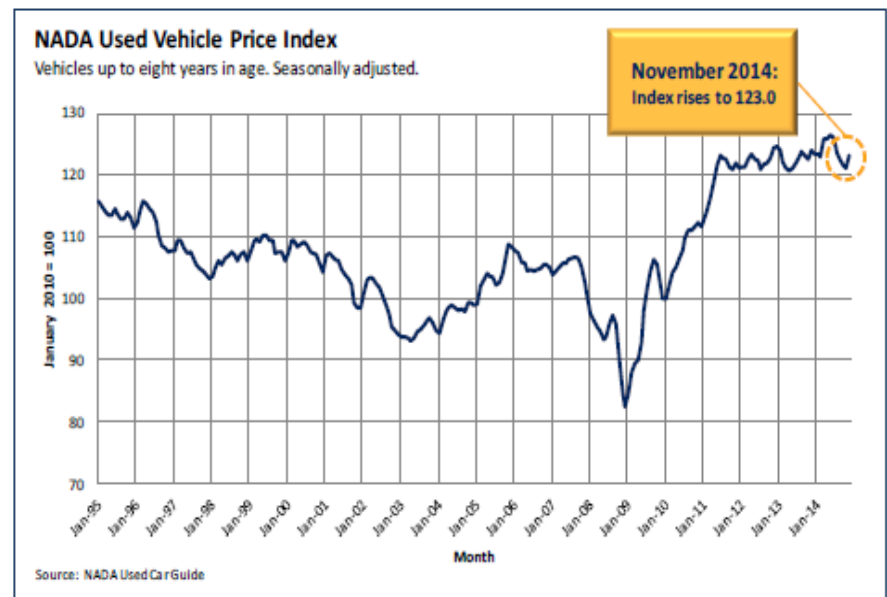


- ▶ Forecast of apartment value appreciation:
-FY16 → 2.7%
- ▶ Over 2,500 new taxable units expected over FY16/FY17 (CY14/CY15)

- ▶ Following demand driven apartment construction we expect the market to equalize

▶ *Current Situation: Personal Property*

- ▶ Used car values have leveled out relative to the 2009 to 2012 period
- ▶ Historically, assessment values have grown by 2.6% per year
 - 2013-2014 → 0%
 - 2014-2015 → projected .5%
- ▶ Business equipment tax expected to increase 10% for FY 2016 then return to more normal levels
 - Success with data centers





REVENUE FORECAST



▶ *BOCS Tax Policy Meets Revenue Drivers*

- ▶ Appreciation/growth forecasts developed for all revenue sources
 - Real Estate Tax
 - Personal Property Tax
 - Sales Tax
 - Consumer Utility Tax
 - BPOL Tax
 - Investment Income
 - All Other
- ▶ Apply BOCS Tax Policy to Residential Revenues

▶ *BOCS Tax Policy Impacts Available Revenues*

▶ Key Drivers

- Real estate appreciation = 6.3%
- Commercial appreciation = 4.1%
- Apartment appreciation = 2.7%

▶ BOCS Tax Policy

- Average residential tax bills grow by CPI-U (as calculated @ 12/17/14) = 1.3%

▶ Result

- Average residential tax bill increases 1.3%
- Average commercial tax bill decreases .79%
- Tax rate reduced to \$1.094
- \$21.1 million reduction in planned revenue for FY 16 based on prior projection

→ *FY 2016-2020 Real Estate Revenue Forecast*

(\$ in 000s)	FY 16 Forecast	FY 17 Forecast	FY 18 Forecast	FY 19 Forecast	FY 20 Forecast
Real Estate Taxes	\$572,351	\$586,956	\$600,555	\$614,856	\$629,301
Percent Change in Revenue	1.79%	2.55%	2.32%	2.38%	2.35%
Residential Appreciation	6.30%	3.50%	3.50%	3.50%	3.50%
New Residential Units	1,150	1,250	1,300	1,350	1,400
Commercial Appreciation	4.10%	3.00%	3.00%	3.00%	3.00%
New Commercial S.F.	174,367	412,687	210,000	190,000	190,000
Apartment Appreciation	2.70%	3.50%	3.00%	3.00%	3.00%
New Apartment Units	1,593	1,028	300	300	300

→ *FY 2016-2020 Personal Property Revenue Forecast*

(\$ in 000s)	FY 16 Forecast	FY 17 Forecast	FY 18 Forecast	FY 19 Forecast	FY 20 Forecast
Personal Property Taxes	\$ 157,550	\$ 164,110	\$ 171,590	\$ 179,260	\$ 187,250
Percent Change in Revenue	4.76%	4.16%	4.56%	4.47%	4.46%
Assessed Value Growth	0.50%	2.64%	2.64%	2.64%	2.64%
Billable Unit Growth	2.08%	2.04%	2.29%	2.23%	2.19%
Business Tangible	10.00%	1.50%	2.00%	2.00%	2.00%

→ *FY 2016-2020 Other Revenue Sources*

(\$ in 000s)	FY 16 Forecast	FY 17 Forecast	FY 18 Forecast	FY 19 Forecast	FY 20 Forecast
Sales Tax	\$ 60,280	\$ 62,090	\$ 63,952	\$ 65,870	\$ 67,847
%Change	3.0%	3.0%	3.0%	3.0%	3.0%
Consumer Utility Tax	\$ 13,940	\$ 14,150	\$ 14,430	\$ 14,720	\$ 15,090
%Change	1.0%	1.5%	2.0%	2.0%	2.5%
Communication Tax	\$ 18,600	\$ 18,780	\$ 18,970	\$ 19,160	\$ 19,350
% Growth	1.0%	1.0%	1.0%	1.0%	1.0%
BPOL Tax	\$ 25,220	\$ 25,977	\$ 26,886	\$ 27,961	\$ 29,079
%Change	3.0%	3.0%	3.5%	4.0%	4.0%
Investment Income	\$ 6,342	\$ 6,797	\$ 7,989	\$ 8,456	\$ 8,505
%Change	-7.4%	7.2%	17.5%	5.8%	0.6%
All Other	\$ 23,518	\$ 23,916	\$ 24,159	\$ 24,730	\$ 25,302
%Change	2.5%	1.7%	1.0%	2.4%	2.3%

Revenue Trends Going Forward:

Things to Watch Closely for FY 2016

- ▶ **Residential Sector**
 - Values growing faster than surrounding jurisdictions
 - ▶ Valuation trend ahead of Adopted 5% increase in second year of Five-Year Plan (FY 2016) – closer to a 6.3% increase
 - New home and apartment construction still occurring but at a relatively modest level
- ▶ **Commercial Sector**
 - Continued improving vacancy rates
 - ▶ Valuations bolstered by Industrial sector
- ▶ **Personal Property**
 - Number of vehicle units continues to grow each year
 - Used car values have leveled out
- ▶ **Investment income is projected to remain constrained**
 - Federal monetary policy
 - Shrinking portfolio size

FY 2016-2020 Revenue Forecast

BOCS Guidance: 1.3% Tax Bill Increase (CPI-U)

Real Estate Tax Rate:	\$1.148	\$1.094	\$1.071	\$1.048	\$1.026	\$1.004
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(\$ in 000s)	% to Total (FY 16)	FY 15 Revised	FY 16	FY 17	FY 18	FY 19	FY 20
Real Estate Taxes	65.20%	\$562,685	\$572,351	\$586,956	\$600,555	\$614,856	\$629,301
Personal Property Taxes	17.95%	151,390	157,550	164,110	171,590	179,260	187,250
Sales Tax	6.87%	58,525	60,280	62,090	63,952	65,870	67,847
Consumer Utility Tax	1.59%	13,800	13,940	14,150	14,430	14,720	15,090
Communications Sales Tax	2.12%	18,400	18,600	18,780	18,970	19,160	19,350
BPOL Tax	2.87%	24,485	25,220	25,977	26,886	27,961	29,079
Investment Income	0.72%	6,831	6,342	6,797	7,989	8,456	8,505
All Other	2.68%	22,734	23,518	23,916	24,159	24,730	25,302
Total General Revenue	100.00%	\$858,850	\$877,801	\$902,776	\$928,531	\$955,013	\$981,724
School Portion		\$487,914	\$498,688	\$512,907	\$527,553	\$542,613	\$557,801
County Portion		366,276	374,363	385,019	396,007	407,310	418,703
Transportation Fund		4,660	4,750	4,850	4,970	5,090	5,220
Total General Revenue		\$858,850	\$877,801	\$902,776	\$928,531	\$955,013	\$981,724