Prince William County

Revenue & Expenditures REPORT

4th Quarter

FY 2023

Published 10/23/2023

PRINCE WILLIAM COUNTY

4th Quarter FY 2023 Revenues

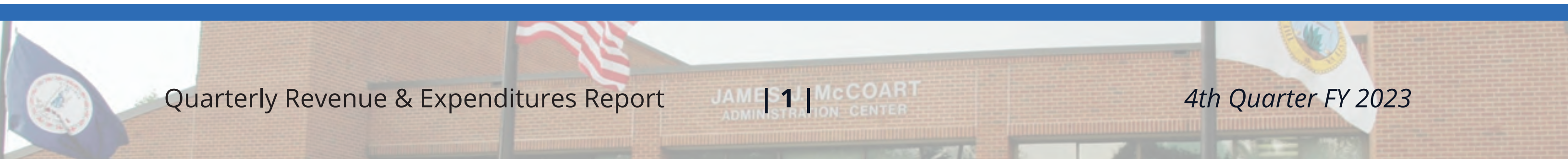
Section 2.09 of the ***Principles of Sound Financial Management*** requires quarterly updates to the Board of County Supervisors (BOCS) within 45 days of the end of each quarter on the County's General Fund budget and trends with revenue projections through the end of the fiscal year.

The revised FY 2023 Adopted Budget estimated general revenues to be $1.277 billion, a $28.2 million increase over the original adopted budget of $1.25 billion. This reflects post-budget-adoption actions taken by the Board of County Supervisors in August 2022 by Resolution No. 22-391 and in December 2022 by Resolution No.22-584.

FY 2023 pre-close and unaudited general revenues are expected to produce a surplus of $43.9 million from the revised adopted FY 2023 budget as follows:

General Revenue Sources	Prior Year FY 2022	Current Year FY 2023						
	Year-End	Adopted Forecast	Q1 Revised	Q2 Revised	Q3 Revised	Q4 Preliminary Unaudited	$ Change Q4/Adopted	% Change Q4/Adopted
Real Property Tax	$779,557,813	$811,330,000	$811,330,000	$811,330,000	$799,259,000	$789,128,361	(22,201,639)	-2.74%
Personal Property Tax	255,618,918	248,900,000	248,900,000	248,900,000	278,340,000	279,574,084	30,674,084	12.32%
Motor Vehicle License Tax	12,813,864	12,000,000	12,000,000	12,000,000	12,274,000	12,947,079	947,079	7.89%
Local Sales Tax	88,000,334	91,000,000	91,000,000	91,000,000	94,000,000	94,844,799	3,844,799	4.23%
Food and Beverage Tax		30,000,000	30,000,000	30,000,000	35,000,000	40,984,363	10,984,363	36.61%
Consumer Utility Tax	15,278,138	13,675,000	13,675,000	13,675,000	13,675,000	15,407,848	1,732,848	12.67%
Communications Sales and Use Tax	12,347,160	12,680,000	12,680,000	12,680,000	12,680,000	12,434,177	(245,823)	-1.94%
BPOL Tax	32,910,130	29,000,000	29,000,000	29,000,000	29,000,000	34,636,305	5,636,305	19.44%
Investment Income	7,638,016	12,000,000	12,000,000	12,000,000	20,000,000	21,905,605	9,905,605	82.55%
All Other Revenue	16,903,868	17,133,000	17,133,000	17,133,000	17,476,950	19,840,265	2,707,265	15.80%
TOTAL GENERAL REVENUES	**$ 1,221,068,242**	**$1,277,718,000**	**$ 1,277,718,000**	**$ 1,277,718,000**	**$ 1,311,704,950**	**$ 1,321,702,885**	**$ 43,984,885**	**3.4%**

Notes:
1. On August 2, 2022, the Board of County Supervisors approved via Resolution No. 22-391 to budget and appropriate an additional $12,500,000 million of General Revenues by eliminating the Grocery Tax Repeal provision included in the adopted budget.
2. On December 13, 2022, the Board of County Supervisors approved via Resolution No. 22-584 to budget and appropriate $15,650,000 of the projected FY 23 General Revenue surplus to authorize amendments to the Police Pay Plan in accordance with the County's Adopted Comp Policy, ADC Gap Pay and hiring bonuses.
3. On July 25, 2023, The Board of County Supervisors approved via Resolution No. 23-377 to transfer, budget, and appropriate $1,200,000 from FY 2023 savings to Development Services for a one-time fee reduction program for residential solar projects.



In accordance with the Board of County Supervisors' adopted Principles of Sound Financial Management, any general revenue surplus, once audited by the County's external auditors, will be applied in the following order:

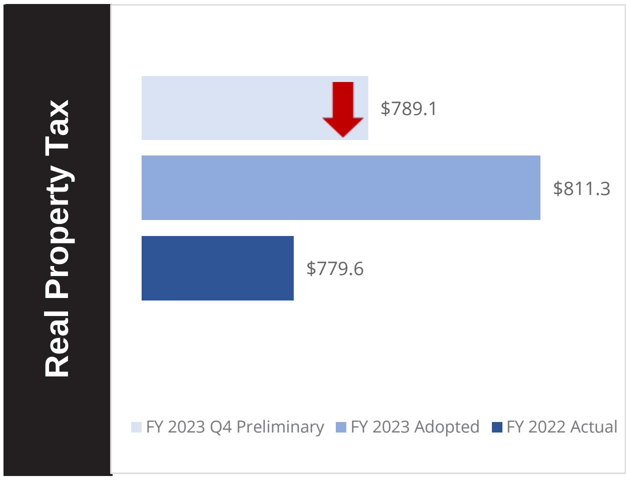
1. Maintain unassigned fund balance at the required 7.5% of general fund revenues;
2. Split with the School Division in accordance with the County-School Revenue Sharing Agreement;
3. Maintain the revenue stabilization fund reserve at the required 2% of general fund revenues;
4. Maintain the capital reserve at the required 2% of capital projects fund appropriations;
5. Replenish the economic development opportunity fund (EDOF) reserve to the $3 million required year-end balance; and
6. Add any remaining surplus to the capital reserve to support the County's triple-AAA/Aaa bond rating and provide a funding source to meet the 10% cash-to-capital requirement and support the County's Six-Year Capital Improvement Program to minimize the need for additional borrowing.

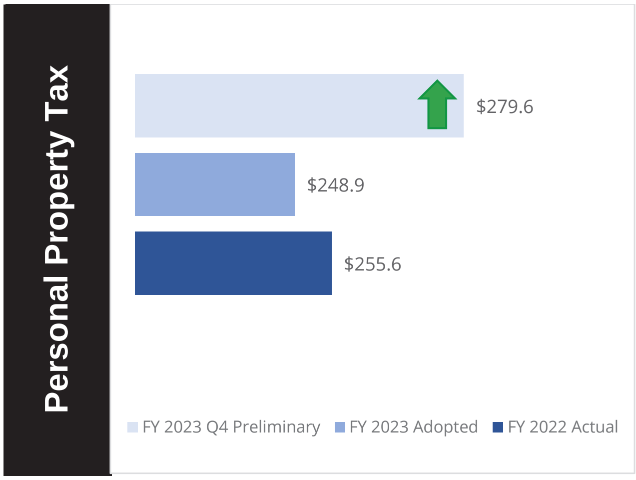
Revenues At-A-Glance

Variances from the FY 2023 Revised Adopted Budget are as follows:

Real Property Tax revenue received and recorded on a net basis is $789.1 million, a shortfall of $22.2 million versus the adopted forecast of $811.3 million. While gross real estate tax receipts collected were consistent with the FY 2023 forecast, real estate tax relief, exonerations and lawsuit reserves are key components that influence net property tax proceeds.

Personal Property Tax revenue received and recorded is $279.6 million, a surplus of $30.7 million. The surplus was propelled by an increase in new taxable business tangible property, led by continued growth in the data center industry and elevated prices for new and used vehicles at the time of assessment. The economic impacts of the COVID-19 pandemic led the Prince William Board of County Supervisors to adjust the fair market value assessment ratio to offset the situationally inflated appreciation of vehicles, providing temporary relief to residents. The 2022 personal property tax assessment of vehicles utilized an 80% ratio against the assessed value according to the National Automobile Dealers Association (NADA) pricing guide, deemed to be more reflective of true fair market value.



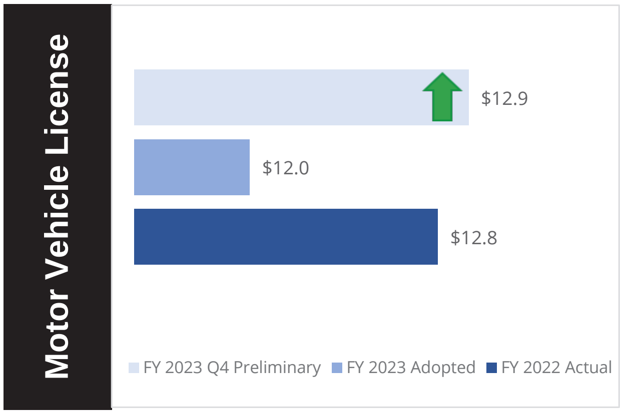


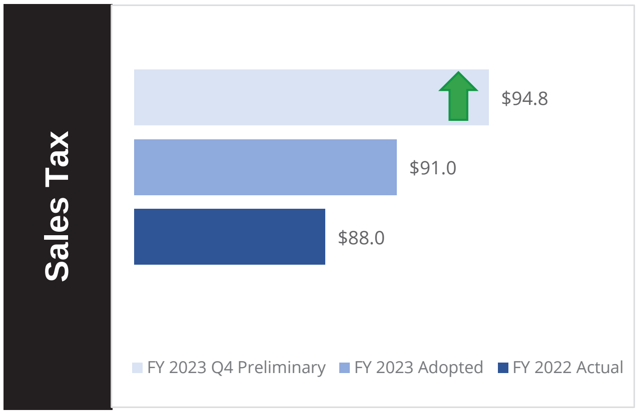
Dollar amounts expressed in millions

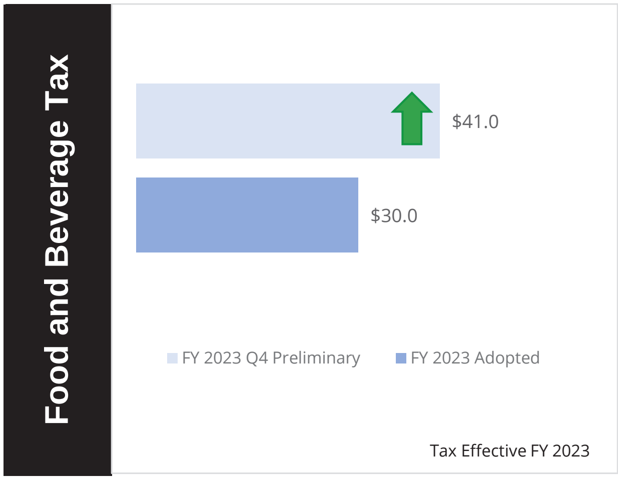
Motor Vehicle License Tax revenue received and recorded is $12.9 million, a surplus of $900 thousand versus the adopted forecast. Despite the surplus, collections were marginally higher by $100 thousand when compared to FY 2022 receipts of $12.8 million. The modest year-over-year increase suggests tepid growth in registered vehicles during FY 2023.

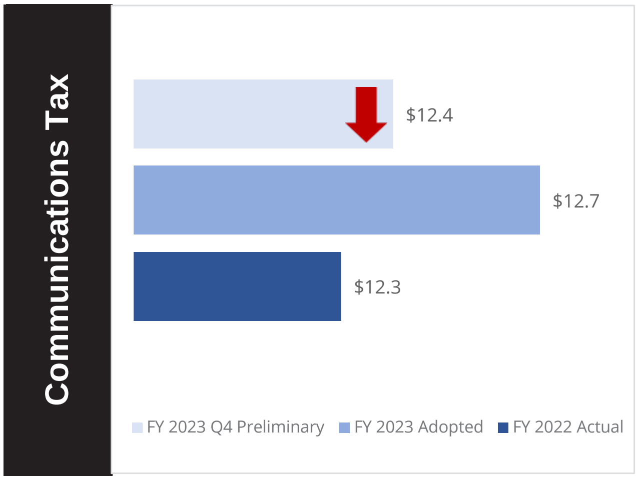
Local Sales Tax revenue received and recorded is $94.8 million, a surplus of $3.8 million. While consumer demand within the goods sector began to soften in the second half of FY 2023, the presence of relatively consistent spending behavior, underpinned by existing strength within the regional labor market, supported the trajectory of tax receipts collected throughout FY 2023.

Food and Beverage Tax received and recorded is $41.0 million, a surplus of $11.0 million. The backdrop propelling collections was akin to Local Sales Tax – consistent spending behavior sustained by existing strength within the regional labor market.







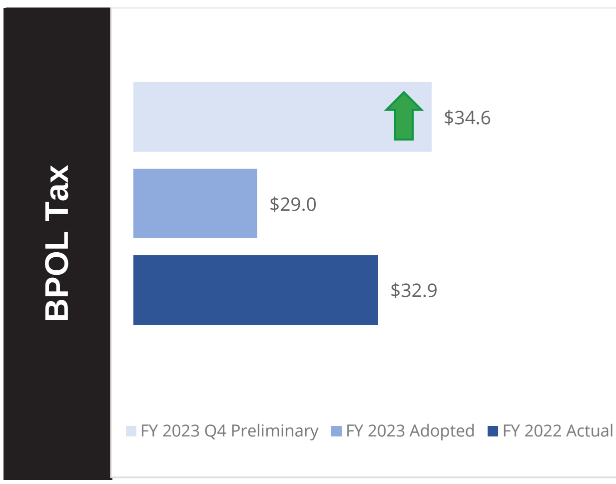


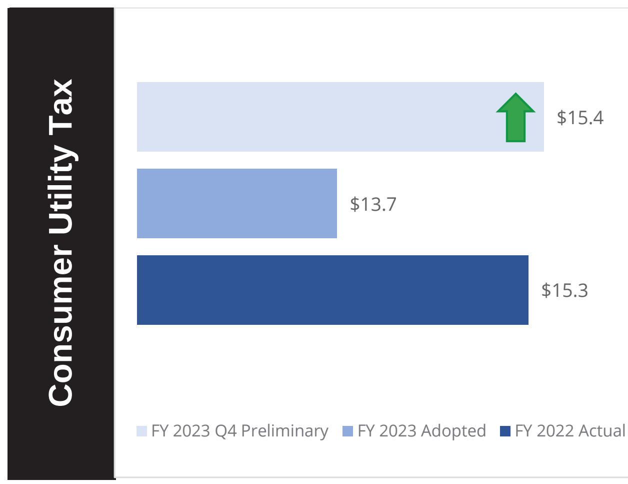
Dollar amounts expressed in millions

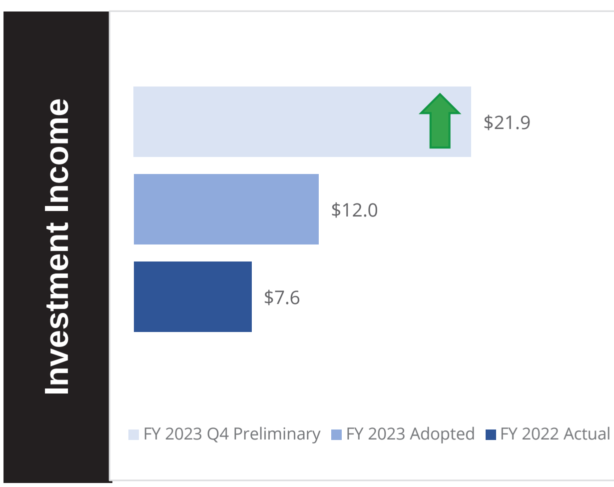
Business, Professional and Occupational License (BPOL) Tax revenue received and recorded is $34.6 million. While receipts from this revenue stream produced a surplus of $5.6 over the adopted forecast of $29 million, the pace of collections grew $1.7 million when compared to FY 2022 revenue of $32.9 million. Given the level of BPOL revenue generated is dependent on the consumption of goods and services, the narrative that drove FY 2023 collections is analogous to Local Sales Tax and Food and Beverage Tax – firm consumer spending patterns reinforced by a robust labor market.

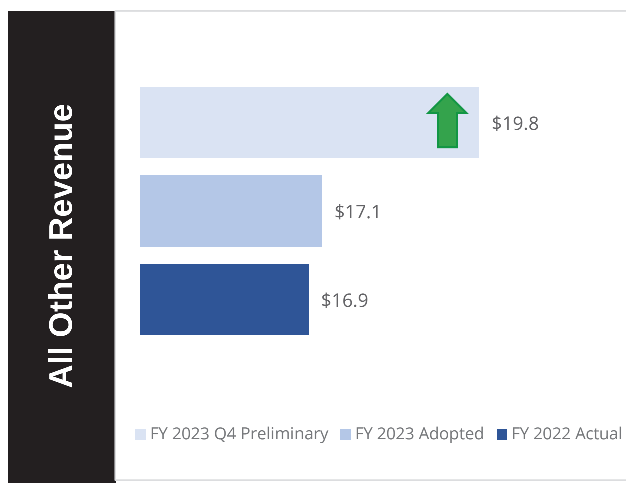
Investment Income received and recorded through is $21.9 million, a surplus of $9.9 million. Seeking to tame inflationary pressure, the Federal Reserve has raised the Federal Funds rate from near 0% to an upper bound of 5.50% over the past sixteen months. The result has been a sharp increase in returns on cash/cash equivalent investments, the primary driver of investment income throughout FY 2023.

All Other Revenue received and recorded is $19.8 million, a surplus of $2.7 million. Underpinned by strong services sector spending over the past twelve months, Transient Occupancy Tax generated $614 thousand of additional revenue, while Bank Franchise Tax and Consumption Tax contributed $784 thousand and $597, respectively, to the overall surplus. Tax on Deeds produced a shortfall of $935 thousand, driven primarily by a year-over-year decrease in units sold of -24.7% and a median sold price that rose a mere 1.4%.









Dollar amounts expressed in millions

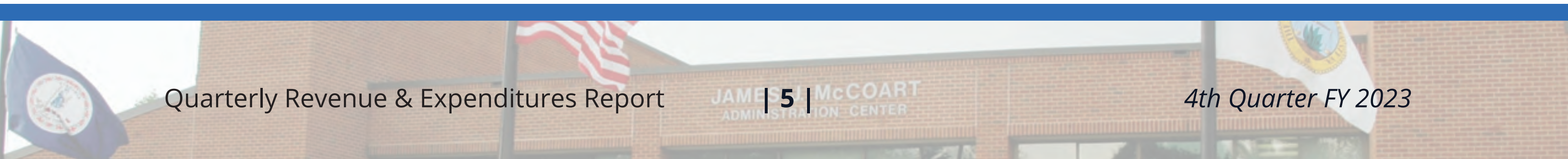
Looking Ahead

Economy At-A-Glance

Indicator	Prior Qtr [1] 03/31/2023	Prior Year 6/30/2022	Current [1] 06/30/2023	Trend: Negative	Slightly Negative	Neutral	Slightly Positive	Positive	Notes
General									
Consumer Price Index (CPI)	5.0%	9.1%	3.0%		●				Measures prices paid by consumers for a basket of goods and services.
Gross Domestic Product (GDP)	1.1%	-0.9%	2.4%			●			Measures the final market price for goods and services produced within the U.S.
Federal Funds Rate	4.83%	1.58%	5.08%			●			Target interest rate set by the Federal Open Market Committee (FOMC). Establishes baseline lending rates and short term rates of return.
S&P 500 Index	4,109	3,785	4,450			●			Considered the best single gauge of large-cap U.S. equities. The index contains 500 leading companies and captures approximately 80% of available market capitalization.
Unemployment Rate									
National	3.5%	3.6%	3.6%			●			Tracks the number of unemployed persons as a percentage of the total U.S. labor force.
Virginia	3.2%	2.8%	2.7% (P)			●			Tracks the number of unemployed persons as a percentage of the total VA labor force.
Prince William County	2.7%	2.8%	2.6% (P)			●			Tracks the number of unemployed persons as a percentage of the total PWC labor force.
Average Weekly Wages [2]									
National	$1,334	$1,418	$1,385			●			Tracks the average weekly monetary compensation paid to an employee in the U.S. Excludes bonus payments.
Virginia	$1,380	$1,424	$1,416			●			Tracks the average weekly monetary compensation paid to an employee in VA. Excludes bonus payments.
Prince William County	$1,218	$1,184	$1,193			●			Tracks the average weekly monetary compensation paid to an employee in PWC. Excludes bonus payments.
Employment Establishments [3]									
Virginia	330,128	303,402	337,394			●			Tracks the total number of physical locations where business, services, or industrial operations are performed in Virginia.
Region	96,717	94,175	98,962			●			Tracks the total number of physical locations where business, services, or industrial operations are performed in Northern Virginia.
Prince William County	10,909	10,144	11,092			●			Tracks the total number of physical locations where business, services, or industrial operations are performed in Prince William County.
Revenue									
Retail Sales: National	-1.0%	1.0%	0.2%		●				Retail sales tracks the resale of new and used goods to the general public for personal or household consumption.
Sales and Use Tax: Virginia	8.5%	13.8%	6.0%			●			Tracks the percentage of state collections for sales and use tax.
Sales and Use Tax: Prince William County	6.9%	11.6%	6.3%			●			Tracks the percentage of collections for sales and use tax in Prince William County. Current sales tax rate is 6.0%.
Revenue Collections: Virginia	0.6%	17.8%	-3.4%			●			Aproximately 88% of Virginia's revenue consists of net individual income tax and sales tax.
Vehicles									
National Automobile Sales	15.4	13.7	15.4			●			Tracks the total number of year-to-date light-vehicle sales in the U.S. on a Seasonally Adjusted Annual Rate basis.
Real Estate Market: Prince William County									
Average Sold Price	$552,672	$576,136	$586,301			●			Reflects the average sold price for a home.
Closed Sales	425	744	560			●			Reflects the number of closed home sales.
Average Days on Market	21	8	11			●			Reflects the average time a home is on the market from listing to closing.
Ratio of Homes on the Market to Homes Sold	0.88	0.85	0.74			●			A ratio > 1 suggests supply of homes on the market exceeds current demand. A ratio < 1 suggests supply of homes on the market is below current demand.
Occupancy Permits Issued	208	327	222			●			Establishes that a property is suitable for habitation after meeting the requirements of the Uniformed Statewide Building Code.
Building Permits Issued	227	278	266			●			Tracks the number of new building permits issued for residential dwellings.
Commercial Vacancy Rate	4.1%	4.1%	3.8%			●			Tracks the percentage of vacant store front property by square feet.

1 Reflects data available as of the date displayed
2 Average Weekly Wages lags current and prior period by 2 quarters
3 Employment Establishments lags current and prior period by 2 quarters
(R): Revised
(P): Preliminary

Negative	Slightly Negative	Neutral	Slightly Positive	Positive



National, State, and Local Trends

National As recent data points to easing inflation and a resilient, albeit slowing, economy, many investors and economists have begun to embrace the idea of a rare "soft landing" – a scenario in which the economy gradually cools without falling into a recession. But some market observers are quick to counter this outcome by suggesting the 525 basis points of interest rate increases implemented by the Federal Reserve have yet to be felt by the broader economy. Bill Dudley, former President of the Federal Reserve Bank of New York, believes three questions must be considered when assessing the possibility of a soft landing. One, because monetary policy typically works with long and variable lags, will the cumulative impact of interest rate increases continue to mount? Two, will the Federal Reserve's current policy stance be restrictive enough to dampen economic growth? And three, is the current unemployment rate of 3.6% consistent with benign inflation? Dudley suggests the Federal Reserve's ability to move markets through advance communication of future policy initiatives has led to "considerable evidence that lags have shortened, meaning that the economy has felt nearly all of the impact of the Fed's actions." As Dudley points out, market expectations that the Federal Reserve's rate tightening cycle is coming to an end have begun to ease financial conditions. One has to look no further than key U.S. equity indices that have drifted higher over the past several months and tightening credit spreads (a measurement of compensation investors demand to purchase various forms of debt instruments) as examples. Even the housing market, typically interest rate sensitive, has flashed signals that a trough has formed, and a mild recovery has ensued. On the second question, Dudley references the persistent strength of the labor market and the demand for investment spawned by the Biden administration's infrastructure, semiconductor and climate change initiatives having created a "compelling case" that the neutral Federal Funds rate (a level that neither dampens or stimulates economic growth) "may not be as restrictive as currently believed and the Fed may have to take its target rate higher than 5.25% to 5.50% to push up the unemployment rate significantly." Finally, regarding whether the current unemployment rate is consistent with stable inflation, Dudley highlights the steep challenge facing the Federal Reserve - "As I see it, this is the only plausible path to a soft landing. The unemployment rate did not rise in any of the three Fed tightening campaigns that ended in soft landings (1965-66, 1984-85 and 1993-95). And in every one of the 11 episodes in which the rate increased by at least a half percentage point, it ultimately rose much more and led to a recession."

Consumer Price Index (CPI) Inflationary pressure remained on a path of moderation throughout the quarter as softening demand continued to spread, albeit slowly, through the broader economy. According to Bloomberg Economics, the June CPI report affirmed disinflation has steadily become more widespread as the percentage of categories with prices rising faster than 4% has been declining since the beginning of 2022. Approximately 42% of spending categories indicate annualized monthly price growth is above 4%, down from 69% in February 2022. Simultaneously, deflation has been expanding, with 44% of spending categories experiencing monthly price declines. Headline CPI for June rose 0.2% versus a 0.1% gain in May. Measured year-over-year, inflation rose 3.0%, compared to May's rate of 4.0%. Core inflation, which excludes food and energy and scrutinized to assess signs of progress, increased 0.2% compared to 0.4% in May, while on a year-over-year basis core CPI for June was 4.8% versus 5.3% the previous month. Core goods prices fell -0.1% in June compared to 0.6% in May, driven in part by a decline in used car and truck prices of -0.5% and a flat reading of 0.0% in new vehicle prices. Year-over-year, used-vehicles have fallen -5.2%. And while new-vehicle prices posted a year-over-year price gain of 4.1%, a clear disinflationary trend has taken hold over the past several months. Core services prices rose 0.3% in June, the slowest monthly pace over the first half of 2023, versus 0.4% the prior month. Carrying an index weight equal to roughly one-third of overall CPI, the shelter category (includes rental housing costs) is a significant driver of not only services inflation but the entire CPI basket. The combination of easing rental housing costs and the impulse from declines in new lease prices that are anticipated to filter into CPI reports in the months ahead should place a measure of downward pressure on inflation during the second half of 2023.

Gross Domestic Product (GDP) U.S. economic growth accelerated at a pace during the quarter that surpassed many analysts' projections. While interest rate sensitive categories such as residential investment and durable goods exhibited mediocre growth, speculation has begun to mount that the Biden administration's expansionary fiscal policy initiatives may be enhancing growth in other sectors. Whether the Federal Reserve's long-run inflation objective is challenged by what has become known as Bidenomics remains uncertain. But, without question, sixteen months of aggressive interest rate increases are filtering through to the broader economy. According to the "advance" estimate, the U.S. economy grew at a 2.4% annualized pace during the quarter, higher than the consensus estimate of 1.8% and the prior quarter's mark of 2.0%. Final sales to domestic purchasers, a key metric utilized to assess trends in consumption behavior, declined to 2.3% from 3.5% the previous quarter. And while spending on services grew a modest 2.1%, overall consumer spending fell sharply to 1.6% from 4.2% the prior quarter. Nonresidential fixed investment increased 7.7%, propelled by strong growth in structures and equipment. A contributing factor behind the sharp rise is believed to be fiscal support for U.S. semiconductor manufacturing. In a note, Bloomberg Economics summarized the future trajectory of U.S. economic growth by saying "This GDP report likely spurs more optimism about prospects of a soft landing. If the recession we predict for this year is delayed to 2024 rather than averted, then the Fed ultimately will have to hike more than currently anticipated — and the most likely culprit would be Bidenomics."

Labor Market A deceleration in jobs added to the U.S. labor market during the quarter, coupled with downward revisions in prior months, points to a cooling trend as the cumulative impact of interest rate increases over the past fifteen months have laid the foundation for the pace of hiring to step-down as economic growth slows during the second half of 2023. Still, current employment growth exceeds Federal Reserve Chairman Powell's recently cited 100,000 per month gain as being consistent with population growth, a scenario that could underpin inflationary pressure in segments of the U.S. economy if recent monthly wage gains and hours worked persist. Nonfarm payrolls for June increased 209,000 versus 306,000 in May while private payroll growth of 149,000 disappointed versus the consensus estimate of 200,000. The unemployment rate dipped slightly to 3.6% in June from 3.7% the previous month. The labor force grew by a modest 133,000 workers and the labor force participation rate remained flat at 62.6% in June compared to the prior month. The participation rate among the prime-age working population rose to 83.5% from 83.4%, buoyed by modest increases in participation rates for prime-age men (82.2%) and women (77.8%). A slight decline in the participation rate among individuals 55 and over (38.3%) suggests this segment of the population will be a diminishing source of labor supply. Job gains in June were spread across a variety of sectors, led by government (60k), health care (41k), social assistance (24k), and construction (23k). Industries that shed workers included retail (-11k), building material and garden equipment and supplies dealers (-10k), Furniture, transportation and warehousing (-7k), and home furnishings, electronics, and appliance retailers (-5k).

Retail Sales Spending patterns throughout the quarter indicate the U.S. consumer exercised restraint on discretionary spending, foreshadowing the potential for spending to diminish further as the remainder of the current calendar year progresses. Though consumers have defied expectations on more than one occasion for a broader pullback in consumption over the past year, the key difference at this point is how the cumulative impact of Federal Reserve interest rate increases could alter spending habits for the foreseeable future. Retail increased 0.2% in June preceded by a 0.5% rise in May. The median estimate in a Bloomberg survey called for a 0.5% increase in June. Measured on a quarter-over-quarter basis, retail sales posted a flat reading of 0.0%. The June report revealed that while spending within specific discretionary categories such as clothing (0.6%), electronics (1.1%) and internet sales (1.9%) were firm, spending at restaurants and bars rose a mere 0.1%. Auto sales managed to post a modest increase of 0.3%. But a recent Federal Reserve survey denoted the rejection rate for vehicle loans exceeded the application rate for the first time since the survey began in 2013. Excluding vehicle sales, retail sales rose 0.2% but, according to a Bloomberg Economics estimate, were down -0.6% on an annualized basis for the quarter compared to a 2.2% gain the previous quarter. Control-group sales, (excludes food services, auto dealers, building-material stores, and gasoline stations) utilized as a barometer for underlying spending trends, rose 0.6% versus 0.3% in May. However, Bloomberg Economics estimate showed the quarterly gain on an annualized basis fell to 2.1% compared to 5.1% the prior quarter.

Automobile Industry The National Automobile Dealers Association (NADA) reported Seasonally Adjusted Annual Rate (SAAR) new light-vehicle sales of 15.4 million units through June, an increase of 13.0% over the same period last year. Consumer demand, improving new-vehicle supply and rising manufacturer incentive spending have collaborated to propel sales growth over the first half of 2023. NADA projects new light-vehicle inventory on the ground and in-transit reached 1.81 million units at the beginning of June, with a modest increase anticipated for month end versus the beginning of the month. J.D. Power estimates average incentive spending per unit is projected to total $1,798 for June, an increase of 95.9% compared to one year prior. Despite improving inventory levels, lofty new-vehicle prices and financing rates have kept average monthly payments high and are expected to dampen new-vehicle sales potential. However, as NADA noted, strong demand from retail and fleet customers will act as a tailwind to partially offset the possibility of future sales weakness. Though new-vehicle prices have remained elevated, the trajectory of used-vehicle values has followed a different path. As of June, the Manheim Used Vehicle Value Index was down -10.3% over the first half of 2023 versus the same period one year ago. “The wholesale market story for the first half of 2023 can be summed up in one word: volatile,” said Cox Automotive Chief Economist Jonathan Smoke. “The result, however, is not unexpected. Larger upswings during the first quarter and a downward trajectory that began in the second half of March have brought us to roughly where we expected to be at this point in the year. The good news is that the worst of this is likely behind us. Used retail sales held steady in June and are showing signs of strengthening – inventory levels are generally balanced between supply and demand.”

State The Secretary of Finance’s May revenue report noted fiscal year-to-date general fund revenues were tracking above the updated December forecast by $948.0* million. The Commonwealth’s updated forecast encompasses proposed policy changes, including the recently adopted Pass-Through Entity Tax relief package, and originally assumed a recession during the first half of 2023. The Commonwealth’s current outlook calls for a mild recession in FY 2024. Individual income tax withholding (61% of general fund revenues) and sales tax collections (19% of general fund revenues), the two largest general revenue sources, provided mixed results through May. While withholding collections increased 6.7% on a fiscal-year-to-date basis versus the same period one-year prior, actual collections are down $112.4 million compared to projections. Sales tax receipts collected through April rose 3.1% after adjusting for the termination of both the Accelerated Sales Tax program and sales tax on groceries imposed by the state. However, the dollar value of collections reflected a shortfall of $185.8 million versus the forecast. “The revenue forecast we put forward in December continues to accurately predict the state’s finances; Virginians can rest assured that our economic position remains strong,” said Governor Glenn Youngkin. “There continues to be plenty of money in the system for commonsense priorities to lower costs and cut taxes for families and local businesses while making critical investments in shared goals like the transformation of Virginia’s behavioral health system.”

*On July 19, the Office of the Governor issued a press release claiming preliminary results for FY 2023 indicated general fund revenues produced a surplus of $3 billion versus the official revenue forecast and a $1.5 billion surplus compared to the revised December projection.

Virginia’s seasonally adjusted unemployment rate moved lower during the quarter, falling to 2.7% in June from 3.2% in March. The Virginia Employment Commission’s June report disclosed Virginia’s labor force increased by 13,757 workers to 4,588,082, while the number of unemployed residents decreased by 9,354 to 125,054. The number of employed Virginians increased 23,111 to 4,463,028. The Commission reported employment rose in six of eleven major categories, led by job gains in Government (6,000), Manufacturing (900), Trade, Transportation, and Utilities (700) and Education and Health Services (300). The largest number of jobs lost occurred in Construction (-3,200), Information (-1,000) and Leisure and Hospitality Services (-900).

Local Prince William County’s labor market retained a relatively healthy profile over the quarter, highlighted in part by a modest decrease in the unemployment rate to 2.6% in June from 2.7% at the end of the prior quarter. The number of employed residents increased to 4,118, buoyed by a labor force that grew to 263,632 from 259,597. The total number of unemployed citizens grew by 898 from April through June but when measured on a on a quarter-over-quarter basis, Bureau of Labor Statistics data indicated a net decrease of 83. While the availability of granular data to assess the overall state of the County's job market is limited, a leading indicator that can be utilized to measure labor market conditions are monthly initial claims for unemployment insurance. During the quarter, average initial claims per month decreased to 393 versus a per month average of 513 over the previous quarter. Considering the downward trajectory of claims over the quarter, a reasonable conclusion can be made that evidence of broad-based labor market weakness has yet to emerge.

Prince William County Real Estate Market

Residential Sales Activity The following highlights are based on Metropolitan Regional Information Systems (MRIS) data for the quarters ended June 2023 and June 2022.

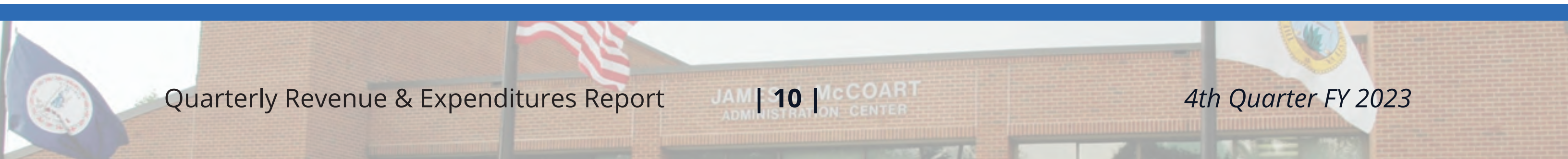
Category	June 2023	June 2022	Increase/(Decrease)
Median Sold Price	$550,000	$542,500	1.4%
Units Sold	560	744	-24.7%
Active Listings	412	634	-35.0%
Average Days on Market	11	8	37.5%
New Listings	507	973	-47.9%

Recent measurements of housing market activity, such as pending sales of existing homes and new home sales, suggest that while the residential real estate sector has stabilized, affordability remains a challenge for many potential buyers amid elevated prices, high financing rates and a dearth of inventory. "The recovery has not taken place, but the housing recession is over," Lawrence Yun, National Association of Realtors chief economist, said in a statement. "Given the ongoing job additions, any meaningful decline in mortgage rates could lead to a rush of buyers later in the year and into the next." At the time of this writing, Freddie Mac's Primary Mortgage Survey indicates the average 30-year fixed rate mortgage stands at 6.81%, down 15 basis points from the survey's 2023 high-mark of 6.96 in mid-July. In a note, Freddie Mac said "Higher interest rates continue to dampen activity in interest rate-sensitive sectors, such as housing. However, overall U.S. consumer confidence is unwavering, surging to a two-year high in the Conference Board's Consumer Confidence Index for July 2023. Rising consumer confidence often leads to greater spending, which could drive more consumers into the housing market." Virginia Realtors current monthly Flash Survey indicated the organization's Buyer Activity Index decreased to 59 from 63 in May. Approximately 40% of realtors assessed buyer activity in their local market as "high" or "very high", while roughly 22% rated buyer activity as "low" or "very low". According to Virginia Realtors, a separate index that measures realtors' opinions about how the market will be performing three months in the future remained unchanged at 57 in June from the prior month. Approximately 32% of survey participants thought buyer activity over the next three months would be strong in their respective markets versus 33% in May.

Commercial Sector For the quarter ended June 2023, Costar Realty Group (Costar) reported the County's commercial inventory included 54.8 million square feet (sq. ft.) of space in 2,224 properties with 2.1 million sq. ft. of vacant space. The vacancy rate was 3.8% compared to 4.1% at the end of the prior quarter. Highlights from Virginia Realtors Q2 2023 statewide commercial real estate report are as follows:

- Office: "There was a big bump in office absorption in Virginia in the second quarter thanks to the completion of Amazon's first two towers at its HQ2 site in Arlington. Other than those two buildings, overall absorption continues to be sluggish. There was little movement in office vacancies which remain elevated, however rents are still climbing. The office construction pipeline in Virginia slowed down significantly with the delivery of the Amazon towers. The office market continues to face multiple headwinds as workers have been slow to return to the office, vacancies remain a big factor, and higher interest rates have complicated refinancing options as a swell of office loans are facing maturity in the coming year."

- Retail: “The retail commercial real estate (CRE) market remains competitive in many parts of Virginia. In most metro areas in the state rents continue to rise, net absorption remains positive, and vacancies are trending down. Retail-supporting employment has been relatively stagnant in recent months, specifically Arts & Entertainment jobs.”
- Industrial: “The industrial market continues to strengthen amid slowdowns in other CRE sectors. Robust demand and limited availability of industrial space continues to push up rents in most regions in Virginia. Vacancy rates remain very low, and this will likely continue as much of the construction pipeline is either build-to-suit or leased up quickly upon delivery.”



4th Quarter FY 2023 Expenditures

General Information

The Board of County Supervisors (BOCS) adopted the ***Principles of Sound Financial Management***; the County government's guiding financial policies. The Principles require that the BOCS receive a quarterly general fund revenue and expenditure update within 45 days of the end of each quarter.

The County's fiscal year runs from July 1 to June 30. The BOCS adopted a FY 2023 general fund budget of $1.47 billion.

- $715.1 million adopted School transfer, in accordance with the County-Schools revenue sharing agreement.
- $757.0 million adopted County government general fund budget, including transfers.

In accordance with State Code, the County cannot exceed the annual legal appropriation. As a result, the County general fund budget will always have a year-end surplus.

County agencies may have revenue sources other than local taxes that support the general fund expenditure budget. These include charges for services, federal and state revenue, court fines, and fees.

Fourth Quarter Summary

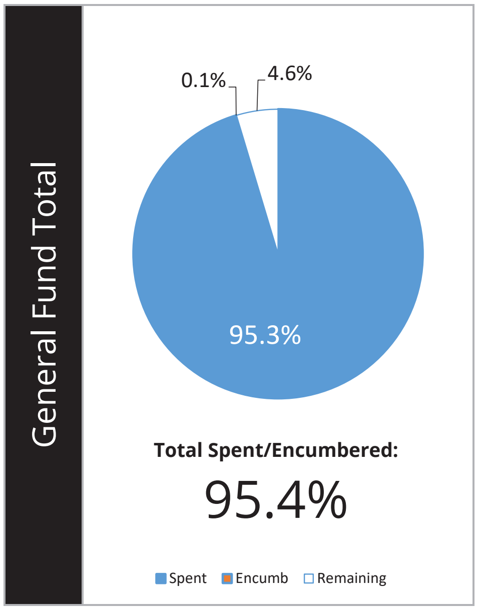
1. *General Fund Reporting* – This report includes only unrestricted general fund expenditures. It does not include restricted funds within the general fund such as recordation tax designated for mobility, transient occupancy tax mandated for tourism, cable franchise capital grant, proffers, grants, or criminal forfeitures.
2. *Revised FY 2023 Budget* – As of June 30, 2023, the revised County government unrestricted general fund budget, excluding transfers, was $724.2 million.
3. *Fourth Quarter General Fund Expenditures* – As of June 30, 2023, 95.3% of the expenditure budget was spent.
4. *Remaining Encumbrances in FY 2023* – An additional $0.5 million of the pre-audit general fund expenditure budget was obligated for encumbrances. Therefore, 95.4% of the FY 2023 expenditure budget was either spent or obligated for encumbrances in the fiscal year.

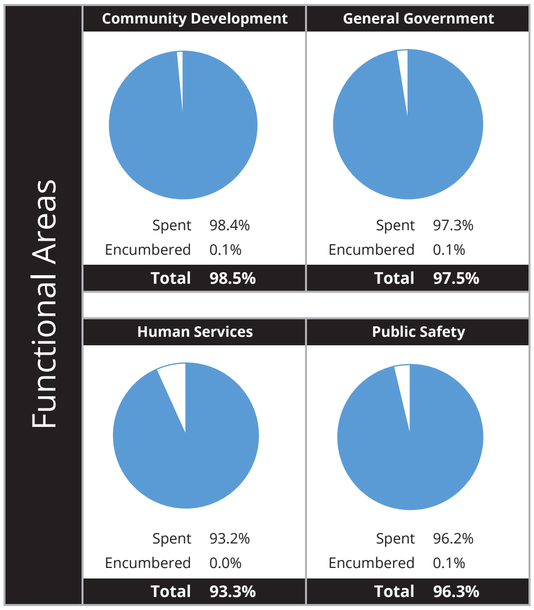
5. *FY2023 Unrestricted General Fund Expenditure Savings* – **The County government pre-audit unrestricted general fund expenditure savings is $33.3 million or 4.6% of the final budget.** Total expenditure savings includes $14.2 million of atypical transactions at the end of the fiscal year resulting in general fund savings. First, $8.0 million of Fire & Rescue salary expenses were shifted from the County's general fund to the CARES Act fund. Second, $6.2 million of Adult Detention Center expenditure savings were swept back to the County's general fund as authorized by the Board of County Supervisors during FY 2024 budget adoption. Please note agency expenditure savings are offset by projected agency revenue shortfalls detailed below.

6. *Agency Revenue Shortfall* – **General fund agency revenue is projected to be $10.3 million below budget.** The projected agency revenue shortfall primarily occurs in the Human Services functional area ($7.7 million) due to Social Services special education private day school placements as well as Community Services and Area Agency on Aging reimbursements from the Commonwealth and federal government. Additionally, court fines received by the General District Court are projected to be $1.3 million below budget. Lastly, revenue received by the Department of Parks, Recreation, and Tourism (DPRT) is also projected to be $0.7 million below budget. DPRT revenue has improved each year since the pandemic (there was a $5.1 million revenue shortfall in FY2021) and revenue is projected to further improve.

7. *Pre-audit General Fund Operating Surplus* – **Excluding general revenue, the net general fund operating surplus from agency operations is $23.0 million** ($33.3 million expenditure savings less $10.3 million agency revenue shortfall). This represents 3.2% of the general fund budget.

8. *Agency Variances* – Notable variances are reported based on the 'Spent %' column on the following pages. Encumbrances are not included in the agency detailed tables and charts.





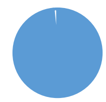
*Totals may not add due to rounding

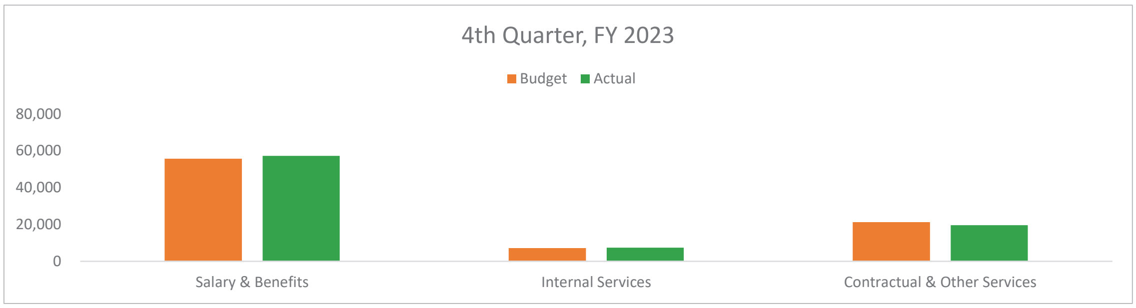
Community Development Functional Area

(Dollar amounts expressed in thousands)

Departments & Agencies

- Economic Development
- Library
- Parks, Recreation & Tourism
- Planning
- Public Works
- Transportation

Functional Area	Spending Category	Budget	Actual	Spent %
Community Development	Salary & Benefits	55,723.18	57,268.46	
	Internal Services	7,199.32	7,418.34	
	Contractual & Other Services	21,279.41	19,574.82	
	Reserves & Contingencies	(3,857.44)	(5,180.86)	
		80,344.47	**79,080.76**	**98.43%**

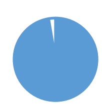


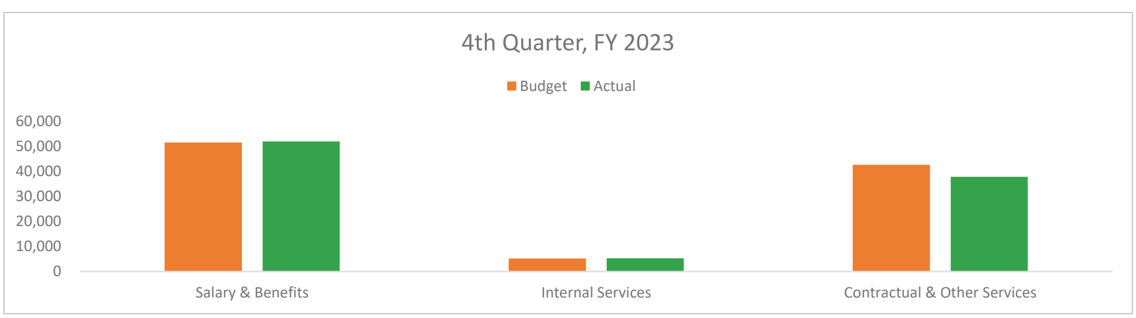
General Government Functional Area

(Dollar amounts expressed in thousands)

Departments & Agencies

- Board of County Supervisors
- County Attorney
- Elections
- Executive Management
- Facilities & Fleet Management
- Finance
- Human Resources
- Human Rights
- Management & Budget

Functional Area	Spending Category	Budget	Actual	Spent %
General Government	Salary & Benefits	51,575.03	52,053.78	
	Internal Services	5,231.59	5,278.49	
	Contractual & Other Services	42,720.97	37,892.05	
	Reserves & Contingencies	(4,054.97)	(2,313.69)	
		95,472.62	**92,910.62**	**97.32%**



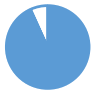
Human Services Functional Area

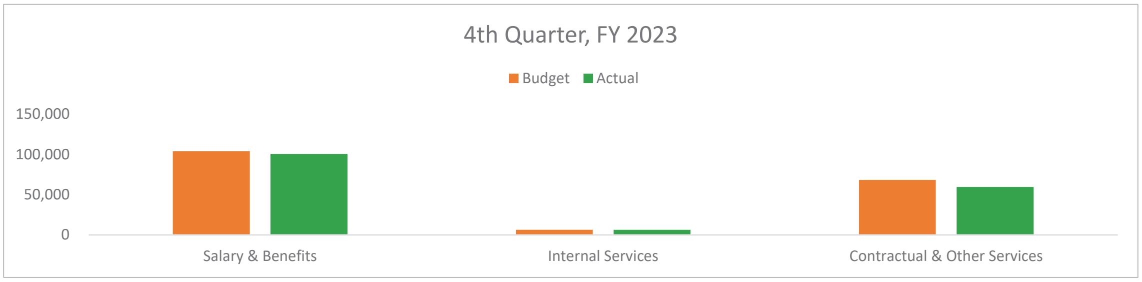
(Dollar amounts expressed in thousands)

Departments & Agencies

- Aging
- Community Services
- Cooperative Extension Service
- Public Health
- Social Services

Functional Area	Spending Category	Budget	Actual	Spent %
Human Services	Salary & Benefits	103,833.09	100,579.44	
	Internal Services	6,467.76	6,445.70	
	Contractual & Other Services	68,397.47	59,585.13	
	Reserves & Contingencies	0.00	0.00	
		178,698.32	**166,610.27**	**93.24%**





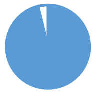
Public Safety Functional Area

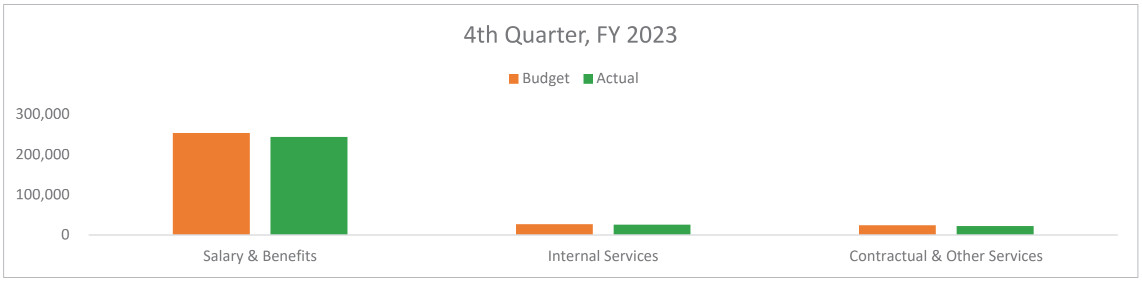
(Dollar amounts expressed in thousands)

Departments & Agencies

- Circuit Clerk Court
- Circuit Court Judges
- Commonwealth's Attorney
- Criminal Justice Services
- Fire & Rescue
- General District Court
- Juvenile & Domestic Relations Court
- Juvenile Court Service Unit
- Magistrates
- Police
- Public Safety Communications
- Sheriff

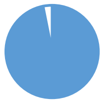
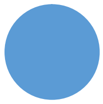
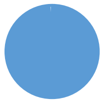
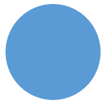
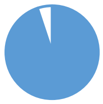
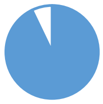
Functional Area	Spending Category	Budget	Actual	Spent %
Public Safety	Salary & Benefits	253,374.60	244,312.17	
	Internal Services	26,964.93	25,850.33	
	Contractual & Other Services	23,890.53	22,502.21	
	Reserves & Contingencies	0.00	(64.58)	
		304,230.05	**292,600.13**	**96.18%**

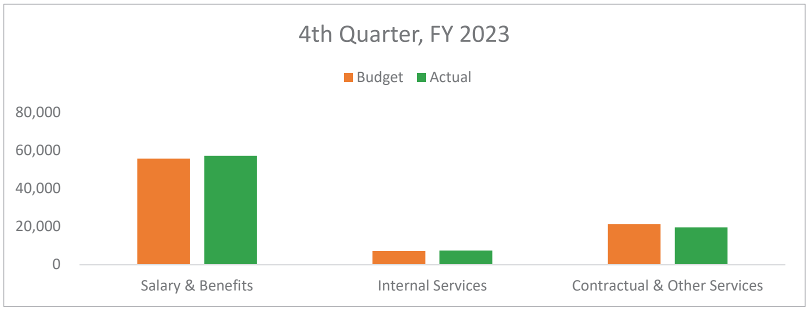


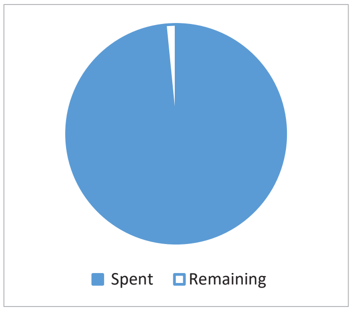


Community Development Functional Area

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Economic Development	Salary & Benefits	2,782.09	2,940.61	
	Internal Services	170.24	169.84	
	Contractual & Other Services	1,809.21	1,501.12	
	Reserves & Contingencies	0.00	0.00	
		4,761.55	**4,611.56**	**96.85%**
Library	Salary & Benefits	16,427.70	16,474.86	
	Internal Services	1,862.98	1,859.67	
	Contractual & Other Services	3,326.27	3,227.36	
	Reserves & Contingencies	0.00	0.00	
		21,616.95	**21,561.89**	**99.75%**
Parks, Recreation & Tourism	Salary & Benefits	26,849.40	27,378.93	
	Internal Services	3,612.93	3,945.29	
	Contractual & Other Services	11,063.62	10,328.42	
	Reserves & Contingencies	(154.00)	(733.06)	
		41,371.94	**40,919.58**	**98.91%**
Planning	Salary & Benefits	1,563.53	1,588.20	
	Internal Services	207.84	202.53	
	Contractual & Other Services	1,175.41	1,130.95	
	Reserves & Contingencies	0.00	0.00	
		2,946.78	**2,921.69**	**99.15%**
Public Works	Salary & Benefits	3,551.13	3,609.28	
	Internal Services	947.80	851.35	
	Contractual & Other Services	1,016.95	832.53	
	Reserves & Contingencies	(168.49)	(219.46)	
		5,347.40	**5,073.69**	**94.88%**
Transportation	Salary & Benefits	4,549.32	5,276.58	
	Internal Services	397.53	389.66	
	Contractual & Other Services	2,887.95	2,554.44	
	Reserves & Contingencies	(3,534.95)	(4,228.34)	
		4,299.85	**3,992.34**	**92.85%**



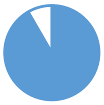
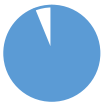
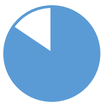
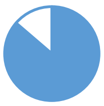
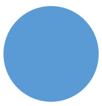
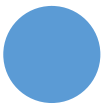
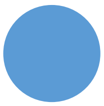
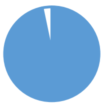
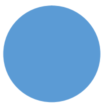


Notable Variances

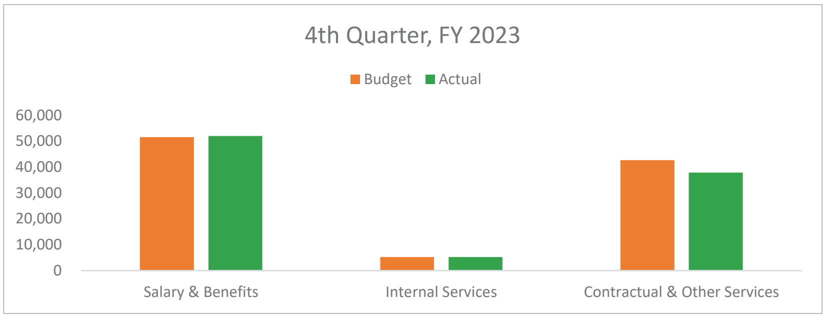
1. **Transportation** - Cost recovery of staff salary and benefit expenses to capital projects exceeded the budgeted amount by $0.7 million.

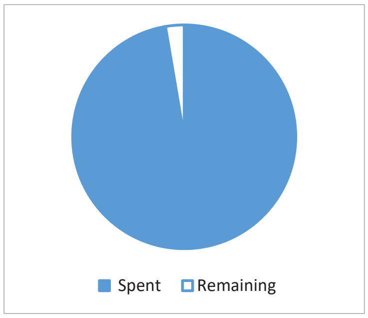
General Government Functional Area

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Board of County Supervisors	Salary & Benefits	3,293.22	3,227.95	
	Internal Services	372.40	372.34	
	Contractual & Other Services	1,945.12	1,542.42	
	Reserves & Contingencies	0.00	0.00	
		5,610.74	**5,142.71**	**91.66%**
County Attorney	Salary & Benefits	4,696.21	4,469.74	
	Internal Services	316.46	316.00	
	Contractual & Other Services	200.21	134.25	
	Reserves & Contingencies	(176.93)	(195.03)	
		5,035.96	**4,724.96**	**93.82%**
Elections	Salary & Benefits	1,863.32	2,049.03	
	Internal Services	246.89	250.22	
	Contractual & Other Services	2,379.19	1,492.41	
	Reserves & Contingencies	0.00	0.00	
		4,489.40	**3,791.66**	**84.46%**
Executive Management	Salary & Benefits	4,592.88	4,341.58	
	Internal Services	311.00	310.27	
	Contractual & Other Services	1,330.35	729.13	
	Reserves & Contingencies	0.00	0.00	
		6,234.22	**5,380.98**	**86.31%**
Facilities & Fleet Management	Salary & Benefits	10,995.19	11,031.43	
	Internal Services	1,476.58	1,509.64	
	Contractual & Other Services	29,749.65	27,835.04	
	Reserves & Contingencies	(2,665.29)	(955.16)	
		39,556.13	**39,420.95**	**99.66%**
Finance	Salary & Benefits	19,221.56	20,000.09	
	Internal Services	1,956.08	1,968.07	
	Contractual & Other Services	6,169.03	5,322.71	
	Reserves & Contingencies	(523.31)	(523.31)	
		26,823.37	**26,767.56**	**99.79%**
Human Resources	Salary & Benefits	4,527.54	4,467.62	
	Internal Services	392.67	392.67	
	Contractual & Other Services	797.67	798.37	
	Reserves & Contingencies	(689.46)	(640.20)	
		5,028.43	**5,018.46**	**99.80%**
Human Rights Office	Salary & Benefits	773.62	792.67	
	Internal Services	51.60	51.60	
	Contractual & Other Services	62.70	14.57	
	Reserves & Contingencies	0.00	0.00	
		887.93	**858.84**	**96.72%**
Management & Budget	Salary & Benefits	1,611.49	1,673.67	
	Internal Services	107.89	107.68	
	Contractual & Other Services	87.05	23.15	
	Reserves & Contingencies	0.00	0.00	
		1,806.44	**1,804.50**	**99.89%**

General Government Functional Area *(Continued)*



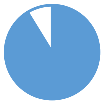
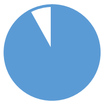
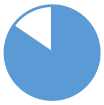
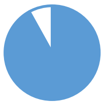
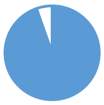


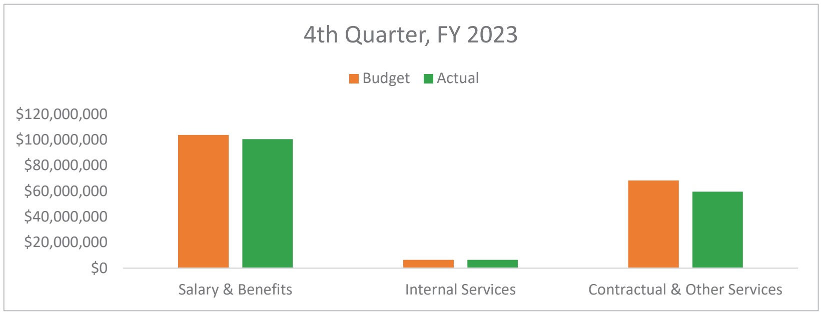
Notable Variances

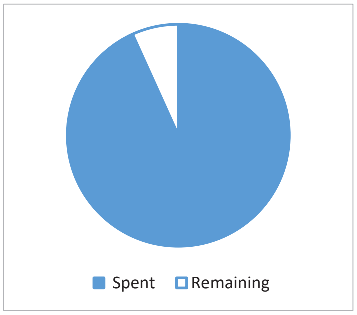
1. **County Attorney** - Salary & Benefits is underspent because two FTE vacancies await the implementation of Collective Bargaining, and two FTE vacancies await BOCS action on the PWC Health Department.
2. **Elections** - Contractual & Other Services is underspent due to the budget including an increase of $40K in encumbrances. Additionally, the office was unable to spend $90,000 allocated for digitizing records due to lack of state-certified contractor for the task.
3. **Executive Management** - Salary & Benefits is underspent due to the County Executive vacancy during the first half of the fiscal year as well as the vacant Communications Director. Contractual & Other Services is underspent primarily due to $0.5 million in grant revenue issued at the end of the fiscal year for the Community Safety initiative.

Human Services Functional Area

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Aging	Salary & Benefits	3,531.69	3,974.90	
	Internal Services	298.31	296.35	
	Contractual & Other Services	5,618.42	4,348.22	
	Reserves & Contingencies	0.00	0.00	
		9,448.41	**8,619.47**	**91.23%**
Community Services	Salary & Benefits	51,667.50	47,825.01	
	Internal Services	2,919.89	2,892.71	
	Contractual & Other Services	16,268.68	14,429.65	
	Reserves & Contingencies	0.00	0.00	
		70,856.07	**65,147.37**	**91.94%**
Cooperative Extension Service	Salary & Benefits	1,042.60	936.93	
	Internal Services	150.14	150.23	
	Contractual & Other Services	137.22	37.37	
	Reserves & Contingencies	0.00	0.00	
		1,329.96	**1,124.52**	**84.55%**
Public Health	Salary & Benefits	1,706.80	1,338.53	
	Internal Services	77.62	78.63	
	Contractual & Other Services	3,096.66	3,071.50	
	Reserves & Contingencies	0.00	0.00	
		4,881.09	**4,488.66**	**91.96%**
Social Services	Salary & Benefits	45,884.50	46,504.07	
	Internal Services	3,021.80	3,027.78	
	Contractual & Other Services	43,276.49	37,698.40	
	Reserves & Contingencies	0.00	0.00	
		92,182.79	**87,230.25**	**94.63%**



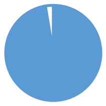
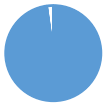
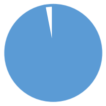
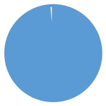
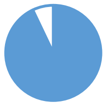
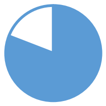
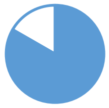
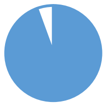
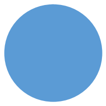


Notable Variances

1. **Aging** - Contractual & Other Services is underspent because Senior Centers and the Adult Day Healthcare center operated at a reduced capacity in FY23 with a slow increase in participants throughout the year as COVID restrictions related to distancing and capacity in confined spaces were lifted in July 2022. This resulted in under collection of revenue and minimal expenditures for those programs/services. Additionally, there was a reduced number of participants in the Veterans program.
2. **Community Services** - Approximately $3.6 million in new state project funding, $2.4M for Salary & Benefits and $1.2M for one-time operating for state-mandated training and a regional project for building improvements for the Regional Chantilly Crisis Stabilization (CSU) Facility, was received but not spent in FY23.
3. **Cooperative Extension Service** - Salary & Benefits is underspent due to vacancies. Contractual & Other Services is underspent because the department received additional grants in FY23 that will be spent in FY24.
4. **Public Health** - Salaries and Benefits is underspent due to vacant positions budgeted to support the soft rollout of a County local health department.
5. **Social Services** - Contractual & Other Services is underspent due to excess state and federal funding received for mandated services. Demand in CSA and Refugee Resettlement grew, but funding for services outpaced the growth for additional services. This and a procedural administrative change in HUD funding resulted in $3.0 million in expenditure savings. There was a corresponding revenue shortfall of $2.4 million due to reimbursements not received.

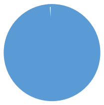
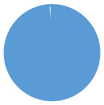
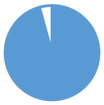
Public Safety Functional Area

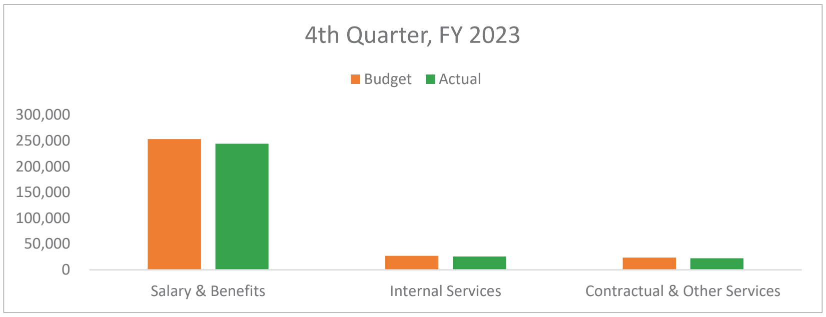
(Dollar amounts expressed in thousands)

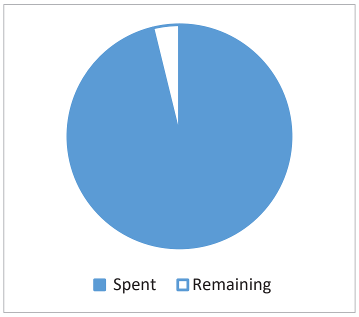
Department	Spending Category	Budget	Actual	Spent %
Circuit Court Clerk	Salary & Benefits	4,517.23	4,442.62	
	Internal Services	280.71	281.76	
	Contractual & Other Services	868.24	792.05	
	Reserves & Contingencies	0.00	0.00	
		5,666.19	**5,516.43**	**97.36%**
Circuit Court Judges	Salary & Benefits	1,577.95	1,564.50	
	Internal Services	79.69	79.69	
	Contractual & Other Services	120.34	95.01	
	Reserves & Contingencies	0.00	0.00	
		1,777.98	**1,739.20**	**97.82%**
Commonwealth Attorney	Salary & Benefits	8,170.85	7,981.59	
	Internal Services	577.99	573.11	
	Contractual & Other Services	476.52	387.49	
	Reserves & Contingencies	0.00	0.00	
		9,225.36	**8,942.18**	**96.93%**
Criminal Justice Services	Salary & Benefits	5,383.17	5,387.48	
	Internal Services	435.27	426.20	
	Contractual & Other Services	591.25	503.74	
	Reserves & Contingencies	0.00	0.00	
		6,409.68	**6,317.43**	**98.56%**
Fire & Rescue	Salary & Benefits	99,887.39	91,981.28	
	Internal Services	7,687.67	7,924.52	
	Contractual & Other Services	6,901.02	6,472.77	
	Reserves & Contingencies	0.00	0.00	
		114,476.08	**106,378.57**	**92.93%**
General District Court	Salary & Benefits	997.55	818.47	
	Internal Services	36.86	36.86	
	Contractual & Other Services	251.17	184.36	
	Reserves & Contingencies	0.00	0.00	
		1,285.57	**1,039.68**	**80.87%**
Juvenile & Domestic Relations Ct	Salary & Benefits	414.71	333.35	
	Internal Services	43.95	43.95	
	Contractual & Other Services	100.31	88.44	
	Reserves & Contingencies	0.00	0.00	
		558.96	**465.73**	**83.32%**
Juvenile Court Service Unit	Salary & Benefits	1,182.84	1,098.55	
	Internal Services	86.83	88.60	
	Contractual & Other Services	413.95	402.72	
	Reserves & Contingencies	0.00	0.00	
		1,683.62	**1,589.87**	**94.43%**
Magistrates	Salary & Benefits	89.73	92.14	
	Internal Services	20.13	20.13	
	Contractual & Other Services	9.81	6.95	
	Reserves & Contingencies	0.00	0.00	
		119.67	**119.22**	**99.62%**

Public Safety Functional Area *(Continued)*

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Police	Salary & Benefits	105,695.66	105,602.40	
	Internal Services	15,588.06	14,304.24	
	Contractual & Other Services	10,667.49	10,408.87	
	Reserves & Contingencies	0.00	0.00	
		131,951.21	**130,315.50**	**98.76%**
Public Safety Communications	Salary & Benefits	11,997.57	11,813.01	
	Internal Services	677.98	669.92	
	Contractual & Other Services	2,006.38	2,004.85	
	Reserves & Contingencies	0.00	0.00	
		14,681.92	**14,487.78**	**98.68%**
Sheriff	Salary & Benefits	13,459.93	13,196.78	
	Internal Services	1,449.81	1,401.37	
	Contractual & Other Services	1,484.06	1,154.97	
	Reserves & Contingencies	0.00	(64.58)	
		16,393.80	**15,688.54**	**95.70%**





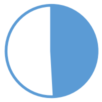
Notable Variances

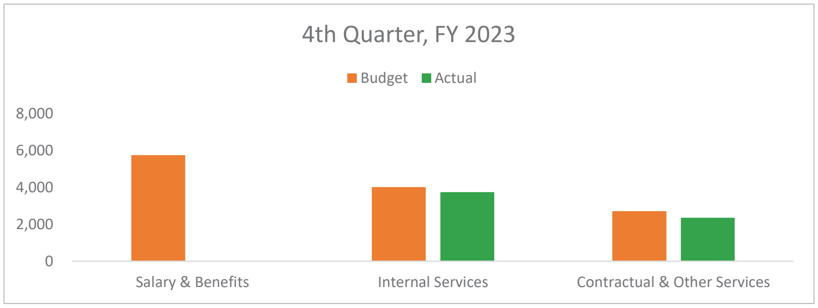
1. **Fire & Rescue** - DFR year-end salary savings are a result of a shift of nearly $8.0 million from emergency personnel expenses to CARES Act funding.
2. **General District Court** - Salary & Benefits is underspent due to vacancies as well as not fully utilizing the local salary supplement due to state vacancies.
3. **Juvenile & Domestic Relations Court** - Salary & Benefits is underspent due to not fully utilizing the local salary supplement as a result of updated state salary information.
4. **Juvenile Court Service Unit** - Salary & Benefits is underspent due to vacancies.
5. **Sheriff** - Salary & Benefits and Contractual & Other Services are both underspent due to vacancies.

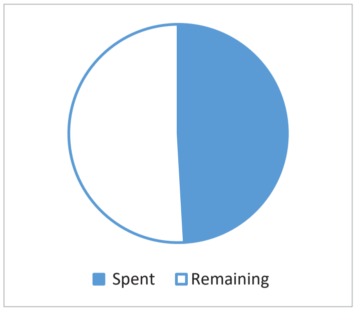
Non-Departmental

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Non-Departmental	Salary & Benefits	5,747.24	28.43	
	Internal Services	4,019.44	3,739.16	
	Contractual & Other Services	2,714.00	2,359.43	
	Reserves & Contingencies	0.00	0.00	
		12,480.68	**6,127.02**	**49.09%**







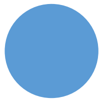
Notable Variances

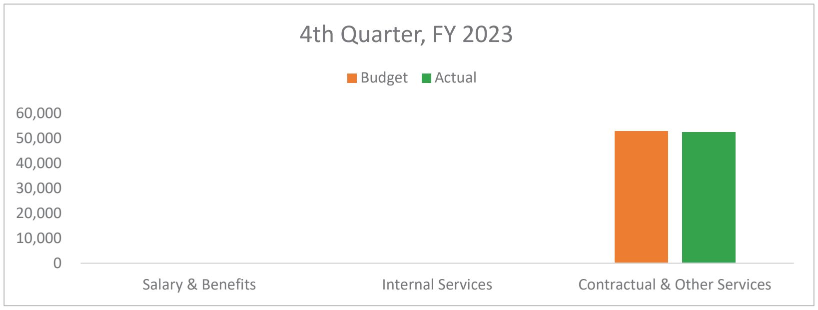
1. **Non-Departmental** - Savings are the result of Board authorization via Res. No. 23-218 to recover the FY23 operating surplus in the Adult Detention Center budget to the general fund. The amount recovered was approximately $6.2 million.

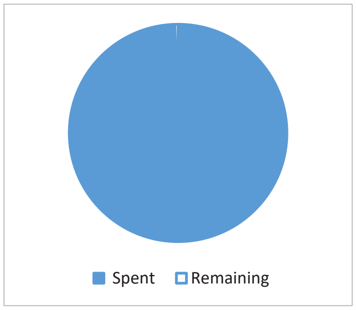
Debt Service

(Dollar amounts expressed in thousands)

Department	Spending Category	Budget	Actual	Spent %
Debt Service	Salary & Benefits	0.00	0.00	
	Internal Services	0.00	0.00	
	Contractual & Other Services	52,937.78	52,686.36	
	Reserves & Contingencies	0.00	0.00	
		52,937.78	**52,686.36**	**99.53%**







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