Prince William
Finance

Estimate of General Revenue

Adopted FY 2024-2028

PRINCE WILLIAM COUNTY
Office of the County Executive
Christopher J. Shorter, County Executive

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DATE:	June 2, 2023
TO:	Board of County Supervisors
FROM:	Michelle L. Attreed, CFO MLA
THRU:	Christopher J. Shorter County Executive CS
RE:	Revenue Committee Report Fiscal Year 2024-2028

I am pleased to present the Adopted FY 2024–2028 Estimate of General Revenue. This report was prepared in accordance with the County's Principles of Sound Financial Management as part of the responsibility to citizens to carefully plan for the funding of programs and services, including the provision and maintenance of public facilities and infrastructure.

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

Signs of slowing economic activity for a second consecutive quarter is precisely the intended consequence policy makers are seeking to achieve to align inflation with the Federal Reserve's 2.0% annual target. Whether the Fed's long-run inflation objective is met remains uncertain. With broader calls by economists and Federal Reserve staff for some form of a recession later this year, the nation's central bank faces the daunting task of navigating the U.S. economy through a maze of uncertainty in the months ahead.

Following a vigorous pace of job gains during January and February, a softer March employment report points to the beginning of a cooling trend in the months ahead for the U.S. labor market. Fallout from the recent banking sector disruption and the cumulative impact of interest rate increases over the past year have laid the foundation for the pace of hiring to step-down as economic growth slows during the second half of 2023. While Prince William County's unemployment rate increased modestly to 2.7% from 2.4% on a quarter-over-quarter basis, the County's labor market retained a relatively healthy profile over the first three months of 2023.

Recent measurements of housing market activity, such as pending and existing home sales, suggest affordability remains a challenge for many potential buyers despite mortgage rates drifting lower since the peak in late October/early November. Freddie Mac's Primary Mortgage Survey indicates the average 30-year fixed rate mortgage stands at 6.43%, approximately the median, within a range that reached a high of 6.73% and low of 6.09% over the quarter. In a note, Freddie Mac said “with the rate of inflation decelerating rates should gently decline over the course of 2023.” “Virginia’s spring housing market is off to a slow start, resulting in some downward pressure on price levels; however, the state’s tight level of inventory is keeping prices somewhat insulated in many markets,” said Virginia Realtors Chief Economist Ryan Price.

Average residential real estate values grew by 6.6% while commercial values increased 18.1% during calendar year 2022 (tax year 2023). New taxable business tangible property, mainly from data centers, continues to grow and be a positive driver of personal property tax revenue. After a surge in market values for vehicles during 2021, driven by strong consumer demand, lean inventory levels, and new-vehicle manufacturing challenges, the automobile industry is returning to an environment of normal depreciation. Though new vehicle prices remain elevated, the trajectory of used-vehicles has followed a different path. As of March, Consumer Price Index data revealed used cars and trucks have fallen 11.2% year-over-year.

The Board of County Supervisors adopted a real estate tax rate of $0.966 for FY 2024 and an increase of $0.65 in the business tangible property tax rate for computer & peripheral equipment to $2.15 from $1.65.

The revenue estimates contained in this document are used to support the Adopted FY 2024 Fiscal Plan, the Adopted FY 2024-2029 Capital Improvement Plan (CIP) and other financial undertakings.

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

Prince William County

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The Revenue Committee Expresses its Appreciation to the Public and Private Sector Business Community for Assistance in the Development of this Report

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ECONOMY AT-A-GLANCE

The County's revenues are affected, in varying degrees, by economic conditions at the national, state, and local levels. The table below identifies some of the key indicators for the national, regional, and local economies and reflects the quarter-over-quarter trends.

Indicator	Prior [1] 12/31/2022	Current [1] 03/31/2023	Trend				
General							
Consumer Price Index (CPI)	6.5%	5.0%	●				
Gross Domestic Product (GDP)	2.9%	1.1%			●		
Federal Funds Rate	4.33%	4.83%			●		
S&P 500 Index	3,853	4,109			●		
Unemployment Rate							
National	3.5%	3.5%			●		
Virginia	3.1% (R)	3.2% (P)			●		
Prince William County	2.4% (R)	2.7% (P)			●		
Underemployment Rate							
National	6.5%	6.5%			●		
Virginia	5.7%	5.7%			●		
Participation Rate							
National	62.3%	62.3%			●		
Virginia	63.7%	63.7%			●		
Prince William County	69.5%	69.5%			●		
Average Weekly Wages [2]							
National	$1,294	$1,334		●			
Virginia	$1,316	$1,380		●			
Prince William County	$1,096	$1,218		●			
Employment Establishments [3]							
Virginia	320,590	330,128			●		
Region	94,958	96,717			●		
Prince William County	10,639	10,909			●		
Revenue							
Retail Sales: National	-1.1%	-1.0%		●			
Sales and Use Tax: Virginia	13.2%	8.5%			●		
Sales and Use Tax: Prince William County	7.6%	6.9%			●		
Revenue Collections: Virginia	0.8%	0.6%			●		
Vehicles							
National Automobile Sales	13.7	15.37 [4]			●		
Real Estate Market: Prince William County							
Average Sold Price	$519,617	$552,672			●		
Closed Sales	350	425			●		
Average Days on Market	30	21			●		
Ratio of Homes on the Market to Homes Sold	1.14	0.88			●		
Occupancy Permits Issued	301	208			●		
Building Permits Issued	115	227			●		
Commercial Vacancy Rate	4.3%	4.1%			●		

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
4 Measurement includes April sales. A March report was not produced.
(P): Preliminary (R): Revised

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

REAL ESTATE TAX RATE AND MAJOR REVENUE SOURCES

FY 2024 Adopted Real Estate Tax Rate and Average Tax Bill

On April 25th, the Board of County Supervisors (BOCS) adopted a real estate tax rate of $0.966 which equates to an average real estate flat tax bill of $4,850 on existing residential properties.

Major Revenue Sources

Major Revenue Sources ($ in 000s)	**% to Total (FY 2024)**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**	**FY 2028 Forecast**
Real Estate Tax Rate:		$0.966	$0.966	$0.966	$0.966	$0.966
Real Estate Taxes	61.2%	$862,420	$934,538	$982,742	$1,031,576	$1,083,141
Personal Property Taxes	22.0%	$309,988	$326,875	$338,764	$351,079	$363,848
Motor Vehicle License	0.9%	$12,500	$12,500	$12,500	$12,500	$12,500
Sales Tax	6.7%	$93,730	$96,542	$99,438	$102,421	$105,494
Consumer Utility Tax	1.0%	$14,500	$14,650	$14,800	$14,950	$15,100
Communications Sales Tax	0.9%	$12,360	$12,050	$11,750	$11,460	$11,170
BPOL Tax	2.4%	$34,000	$35,020	$36,071	$37,153	$38,267
Investment Income	1.4%	$19,840	$20,070	$21,090	$23,090	$21,260
Food and Beverage Tax	2.3%	$32,000	$32,960	$33,949	$34,966	$36,015
All Other	1.2%	$16,924	$17,352	$17,838	$18,328	$18,734
Total General Revenue	100.0%	$1,408,262	$1,502,557	$1,568,942	$1,637,523	$1,705,529
School Portion		$805,948	$859,913	$897,905	$937,154	$976,074
County Share General Revenue		$602,314	$642,644	$671,036	$700,368	$729,455
Total General Revenue		**$1,408,262**	**$1,502,557**	**$1,568,942**	**$1,637,523**	**$1,705,529**

Key Assumptions

The following sections of this report contain the key assumptions that were the topic of discussion at the Revenue Committee Meetings. The comments and insights from public and private sector participants contributed to the formation of these assumptions.

FY 2024 - 2028 GENERAL COUNTY REVENUE ESTIMATE BY CATEGORY						
REVENUE SOURCE	OBJ*	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast
Real Estate (Gross Local Revenue)	40010	$ 887,156,000	$ 959,900,000	$ 1,008,786,000	$ 1,058,298,000	$ 1,110,532,000
Real Estate Exonerations	40020	$ (10,000,000)	$ (10,000,000)	$ (10,000,000)	$ (10,000,000)	$ (10,000,000)
Real Estate Tax Relief	40015	$ (36,336,000)	$ (37,336,000)	$ (38,336,000)	$ (39,336,000)	$ (40,336,000)
Real Estate		$ 840,820,000	$ 912,564,000	$ 960,450,000	$ 1,008,962,000	$ 1,060,196,000
Real Estate-Public Service	40041	$ 19,743,000	$ 19,940,000	$ 20,140,000	$ 20,341,000	$ 20,545,000
Real Estate Tax Deferral	40021	$ (500,000)	$ (500,000)	$ (500,000)	$ (500,000)	$ (500,000)
Land Redemption	40025	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Real Estate Penalties	40160	$ 2,157,000	$ 2,334,000	$ 2,452,000	$ 2,573,000	$ 2,700,000
TOTAL REAL ESTATE		$ 862,420,000	$ 934,538,000	$ 982,742,000	$ 1,031,576,000	$ 1,083,141,000
Business Tangibles - Current Year	40073	$ 108,190,000	$ 115,537,000	$ 120,893,000	$ 126,479,000	$ 132,317,000
Business Tangibles - Prior Year	40074	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Vehicles - Current Year	40075	$ 198,157,000	$ 207,656,000	$ 214,147,000	$ 220,833,000	$ 227,722,000
Personal Property Tax Deferral	40081	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)
Personal Property Penalties	40170	$ 4,141,000	$ 4,182,000	$ 4,224,000	$ 4,266,500	$ 4,309,000
TOTAL PERSONAL PROPERTY		$ 309,988,000	$ 326,875,000	$ 338,764,000	$ 351,078,500	$ 363,848,000
MOTOR VEHICLE LICENSE	40250	$ 12,500,000	$ 12,500,000	$ 12,500,000	$ 12,500,000	$ 12,500,000
LOCAL SALES TAX	40210	$ 93,730,000	$ 96,542,000	$ 99,438,000	$ 102,421,000	$ 105,494,000
CONSUMER UTILITY TAX	40220	$ 14,500,000	$ 14,650,000	$ 14,800,000	$ 14,950,000	$ 15,100,000
BPOL TAXES - LOCAL BUSINESSES	40235	$ 34,000,000	$ 35,020,000	$ 36,071,000	$ 37,153,000	$ 38,267,000
INVESTMENT INCOME	40510	$ 19,840,000	$ 20,070,000	$ 21,090,000	$ 23,090,000	$ 21,260,000
COMMUNICATIONS SALES TAX	41339	$ 12,360,000	$ 12,050,000	$ 11,750,000	$ 11,460,000	$ 11,170,000
FOOD AND BEVERAGE TAX	40211	$ 32,000,000	$ 32,960,000	$ 33,948,800	$ 34,966,000	$ 36,015,000
Interest on Taxes	40140	$ 1,984,000	$ 2,138,000	$ 2,241,000	$ 2,346,000	$ 2,457,000
Daily Rental Equipment Tax	40215	$ 755,000	$ 770,000	$ 785,000	$ 801,000	$ 817,000
Consumption Tax	40221	$ 1,700,000	$ 1,720,000	$ 1,740,000	$ 1,757,000	$ 1,775,000
Bank Franchise Tax	40230	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
Tax on Deeds	40261	$ 2,300,000	$ 2,300,000	$ 2,400,000	$ 2,500,000	$ 2,500,000
Transient Occupancy Tax	40270	$ 1,794,000	$ 1,848,000	$ 1,905,000	$ 1,960,000	$ 2,018,000
Cigarette Tax	40280	$ 4,635,000	$ 4,774,000	$ 4,917,000	$ 5,065,000	$ 5,217,000
Interest Paid to Vendors	40520	$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)
Interest Paid on Refunds	40521	$ (20,000)	$ (20,000)	$ (20,000)	$ (20,000)	$ (20,000)
Rolling Stock Tax	41303	$ 90,000	$ 90,000	$ 90,000	$ 90,000	$ 90,000
Passenger Car Rental Tax	41304	$ 1,545,000	$ 1,591,000	$ 1,639,000	$ 1,688,000	$ 1,739,000
Manufactured Home Tilting Tax	41305	$ 36,000	$ 36,000	$ 36,000	$ 36,000	$ 36,000
Peer-to-Peer Vehicle Sharing Tax	41306	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Federal Payment in Lieu of Taxes	41700	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Undistributed & Miscellaneous	41150	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
ALL OTHER REVENUE		$ 16,924,000	$ 17,352,000	$ 17,838,000	$ 18,328,000	$ 18,734,000
TOTAL GENERAL REVENUE		**$ 1,408,262,000**	**$ 1,502,557,000**	**$ 1,568,941,800**	**$ 1,637,522,500**	**$ 1,705,529,000**

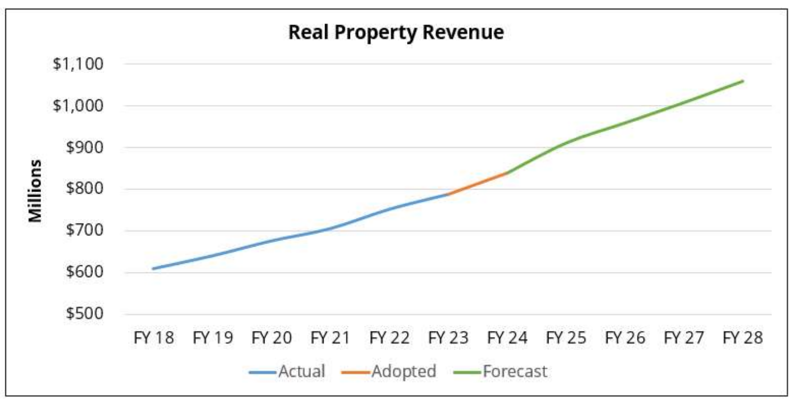
Real Property Revenue

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

Real Estate Taxes

The real estate tax is the largest revenue source for Prince William County, comprising approximately 61% of the general revenue forecast for FY 2024. This tax is levied on all land, improvements, and leasehold interests on land or improvements (collectively called "real property") except that which has been legally exempted from taxation by the Prince William County Code and the Code of Virginia. The revenue summary for the general real estate tax applies only to real property assessed locally[1]. The graph below shows a five-year history of this revenue source and the five-year revenue forecast.

Fiscal Year	Actual	% Change
FY 18	$ 610,486,700	3.81%
FY 19	$ 641,139,857	5.02%
FY 20	$ 677,034,332	5.60%
FY 21	$ 706,631,877	4.37%
FY 22	$ 753,029,682	6.57%
Fiscal Year	**Forecast**	**% Change**
FY 23 Adopted	$ 788,859,000	4.76%
FY 23 Revised (Q3)	$ 788,859,000	4.76%
FY 24 Adopted	**$ 840,820,000**	**6.59%**
FY 25	$ 912,564,000	8.53%
FY 26	$ 960,450,000	5.25%
FY 27	$ 1,008,962,000	5.05%
FY 28	$ 1,060,196,000	5.08%



[1] Real property includes residential, apartments, commercial & industrial, and agricultural and resource land property types.

Residential Real Estate

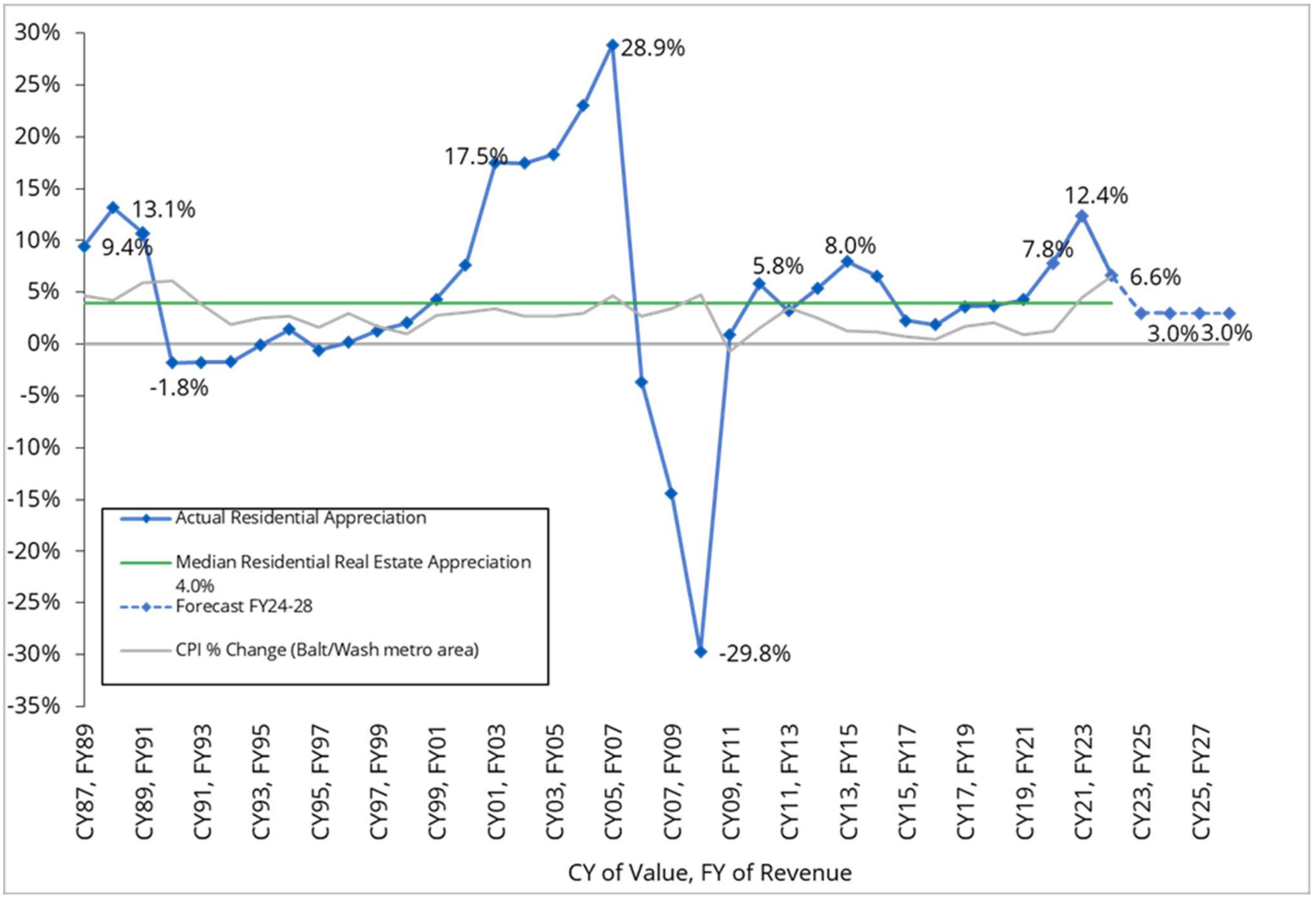
During calendar year 2022 (CY 2022) the residential market appreciated at 6.6% following a 12.4% increase in 2021. Appreciation occurred across all residential property types.

In 2022, foreclosures, bank owned property, and short sales combined were up from historic lows of 2021 but remained less than 1% of all residential sales transacted. The average number of days on the market increased slightly from 19 days in December 2021 to 30 days in December 2022. By March 2023, the average number of days on the market fell to just 21 days. Average sales prices were 97.3% of the original listed price compared to 100.1% in 2021, indicating a softer yet still strong seller's market.

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

Residential Appreciation

The following chart shows a history of actual residential appreciation (excluding rental apartments) from calendar year 1987 through 2023 and the Revenue Committee's estimates for years thereafter.



Expected changes in appreciation for residential and apartment properties during the forecast period are as follows:

Residential Appreciation **Fiscal Year**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Calendar Year Activity	2022	2023	2024	2025	2026
Landbook Year (Real Estate)	2023	2024	2025	2026	2027
Residential	7%	3%	3%	3%	3%
Apartments	6%	4%	3%	3%	3%

While current labor market fundamentals are expected to permit median household incomes to remain healthy for the near future, the presence of higher interest rates will place additional pressure on affordability. Based on the foregoing, Prince William County's residential market is projected to experience slower appreciation over the forecast period.

Apartments Market Value Change

Apartments appreciated 6.2% during 2022, driven primarily by rental rate growth, decreasing vacancy rates, and compressed capitalization rates reflected in local 2022 apartment sales. Factors that limited further appreciation include some increased operating expenses. Appreciation is projected to continue as demand for apartments is expected to remain strong due to affordability challenges presented by residential real estate.

Residential New Construction Units

Growth is defined as the change in assessed value due to the subdivision of land and the construction of new residential units. Construction taking place in one calendar year impacts real estate revenues two fiscal years later. For example, construction that occurred in calendar year 2022 is reflected in the County's landbook on January 1, 2023, providing the basis for real estate tax revenue projected to be received in Fiscal Year 2024.

The table below summarizes the expected number of newly constructed residential units during the forecast period.

Residential Units Completed Fiscal Year	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Calendar Year Activity	2022	2023	2024	2025	2025
Landbook Year (Real Estate)	2023	2024	2025	2026	2026
Single Family	489	500	500	500	500
Townhouse	603	600	600	600	600
Condominium	208	200	200	200	200
Apartments	145	517	300	300	300

The volume of new home starts is expected to remain near current levels. Construction of new apartment units added approximately 145 units in 2022 (FY 2024). Volume is expected to peak at approximately 517 units in 2023 as multiple apartment projects are completed. New home starts should proceed to level off during the remaining forecast period due to uncertainty of when planned units will come online.

Residential Values per New Unit

The average assessed value of a new home (all types) built during calendar year 2022 is approximately $634,000. It should be noted that the overall assessed value of a new home is influenced by the mix of single-family, townhouse, and condominium units constructed in any given year.

The average assessed value of a new single-family home is projected to be approximately $821,000 in 2022. The average assessed values of a new townhouse and condominium unit are estimated to be $551,000 and $434,000, respectively.

Commercial Real Estate

Calendar year 2022 market activity in Prince William County resulted in an overall appreciation of approximately 18% in commercial property values. Property types impacted most by the pandemic, such as those in the hospitality and retail sectors, showed improvements in vacancies and collections. The strongest performing properties were concentrated in the industrial sector, which appreciated by approximately 19%. Overall, the commercial appreciation rate is expected to slow during the forecast period as most of the recovery from pandemic related value losses took place in 2021 and 2022.

The commercial appreciation forecast for FY 2024–2028 is as follows:

Commercial Appreciation					
Fiscal Year	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Calendar Year Activity	2022	2023	2024	2025	2025
Landbook Year (Real Estate)	2023	2024	2025	2026	2026
Commercial	18%	6%	4%	4%	4%

Average assessed values per square foot for FY 2024 are determined based on the recognition of building values from new construction completed during calendar year 2022[2] . These unit values are adjusted to reflect the general appreciation of commercial properties during the remainder of the forecast period.

Commercial properties are categorized into the following property types: retail, industrial, hotel, office, special use, and miscellaneous. For FY 2024 (calendar year 2022 market activity), approximately 1.1 million square feet of commercial space, excluding data centers, was added to the assessment rolls. New commercial space added can vary significantly from year to year due to a variety of factors, including project delays and changing dynamics of the commercial environment.

Retail

As economic conditions in the County improved during 2022, the retail sector began to stabilize after encountering an acute impact levied by the pandemic in the previous year. In 2022 rents stabilized and collection losses declined compared to 2021. There were 160,000 square feet of retail space added during the year. Due to persistent low demand for shopping center space, we do not foresee any new construction in this sub-category during the forecast period.

Industrial

During 2022 the industrial sector remained the strongest commercial category in Prince William County, as well as regionally. Rents are robust while vacancies are low as industrial space is at a premium. Though the industrial market was healthy pre-COVID, the impact on supply-chains proliferated by the pandemic have only increased the sector's popularity with investors. These properties, both vacant and improved, are very much in demand with logistics companies. Last-mile warehousing has entered the County and will dominate much of the growth over the next few years. Another industrial submarket, self-storage, has and will continue to see growth. Construction of industrial properties added approximately 420,000 square feet to the commercial/industrial base in 2022. The current pipeline includes planned projects that should add 700,000 – 1,000,000 square feet in calendar year 2023 and beyond.

Hotels

Hotel properties began to stabilize in 2021. While economy hotels have demonstrated resilience after experiencing sharp downturns during peak COVID

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

surges, limited service and extended stay hotels are expected to take another two years to reach pre-pandemic occupancy levels as business travel resumes. In 2022 one hotel was completed in Western Prince William (Haymarket) and one additional hotel is expected to be completed in 2023.

Office Buildings

Office rents and vacancies in the County remained stable in 2022. The Kaiser Permanente Medical Center in Woodbridge was completed in 2022 and added 244,000 square feet.

Special Use

Properties within the special use category comprise nursing homes, healthcare facilities, and other types of properties that have no foreseeable alternative use. Several subsectors in the special use category have seen significant COVID recoveries. The Jiffy Lube Live Amphitheatre has been operating at a near normal level, while senior housing communities have seen increased occupancy and growth in the County, with 241,000 square feet added in 2022 and several planned projects in the near-term development pipeline.

Miscellaneous

Miscellaneous includes golf courses, taxable schools, and other property types that do not fit in one of the major categories. There was no new construction in this category in 2022.

Data Centers

Retail data centers are valued based on the amount of megawatt power available for the exclusive use of tenants in the property. In 2022, appreciation was driven by robust sales prices for vacant land. Expectations are for growth to continue at a strong pace in both buildouts of existing data centers as well as new properties. The County added approximately 270 megawatts of retail data center capacity during 2022, accounting for approximately 75% of the commercial growth in 2021. Data centers have been one of the few commercial beneficiaries of the pandemic, with online traffic increasing due to a significant shift toward remote work, education, and shopping. Proximity to critical network infrastructure in Loudoun County, namely MAE-East, has established Prince William County as a desirable location to build and/or expand data center capacity.

Real Estate Exonerations

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

Exonerations are decreases in revenue due to assessment reductions, changes in tax liability, or tax relief programs. Assessment reductions are typically caused by appeals of assessed values. Changes in tax liability occur when a property transfers from a taxable to a tax-exempt status. Taxes are also exonerated on properties whose owners qualify for the Tax Relief Program for the Elderly and Disabled or the Tax Relief Programs for Disabled Veterans and Surviving Spouses. Tax relief is expected to increase approximately 3% in each year of the forecasting period.

During the budget process, the BOCS directed staff to research and recommend additional tax relief programs for surviving spouses of members of the armed forces killed in the line of duty[3] and explore lifting the moratorium on tax exemptions by designations or expanding the Community Partner Program.

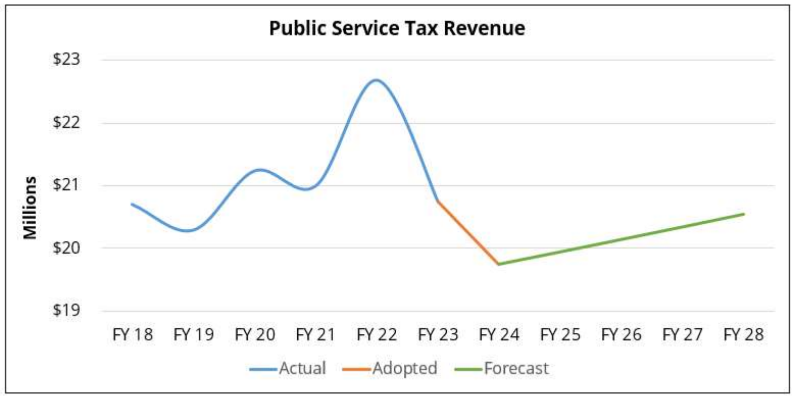
Public Service Taxes

State-valued public service companies are assessed by the State Corporation Commission (SCC) and the Virginia Department of Taxation but taxed locally. The SCC assesses all telecommunications companies, water companies, intrastate gas pipeline distribution companies, and electric light and power corporations. The Virginia Department of Taxation assesses railroads and interstate pipeline transmission companies. Assessment values are provided to the County in September of each year.

Historically, most changes within the public service classification have been attributable to new construction growth. Public service market values are not subject to the same market changes as other real estate properties.

[3] Code of Virginia §58.1-3228.2

Fiscal Year		Actual	% Change
FY 18	$	20,706,349	3.54%
FY 19	$	20,295,824	-1.98%
FY 20	$	21,241,234	4.66%
FY 21	$	21,002,409	-1.12%
FY 22	$	22,687,794	8.02%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	20,741,000	-8.58%
FY 23 Revised (Q3)	$	20,844,000	-8.13%
FY 24 Adopted	**$**	**19,743,000**	**-5.28%**
FY 25	$	19,940,000	1.00%
FY 26	$	20,140,000	1.00%
FY 27	$	20,341,000	1.00%
FY 28	$	20,545,000	1.00%



Real Estate Tax Deferrals

Under the modified accrual basis of accounting (required for Governmental Funds, including the General Fund), revenues must be recorded when susceptible to accrual, meaning that to be considered revenue of the reporting period, the amount must be both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the County considers the availability period for all significant revenue sources to be 60 days after the end of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes billed prior to fiscal year end, but not collected within 60 days after year-end, are reflected as deferred inflows of resources.

Land Redemption

Land redemption is the recognition of real estate taxes collected after being more than three years' delinquent. The Code of Virginia allows Prince William County to pursue the collection of delinquent real estate taxes for twenty years. This revenue category varies depending on the amount of unpaid taxes three years and older, and the level of success in collecting these past due amounts. A variety of methods are used to enforce the collection of back taxes, including filing suit to force the sale of the property for unpaid taxes. Unpaid land redemption taxes, as of June 30, 2022, were $904,885.

Real Estate Penalties

Prince William County assesses a penalty on the past due payment of real estate taxes on the unpaid original tax balance. Interest at the rate of 10% per annum is added to any unpaid balance beginning on the first day of the month following the original due date.

Fiscal Year		Actual	% Change
FY 18	$	1,418,348	6.87%
FY 19	$	1,444,430	1.84%
FY 20	$	1,626,344	12.59%
FY 21	$	1,341,817	-17.49%
FY 22	$	2,140,993	59.56%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	2,030,000	-5.18%
FY 23 Revised (Q3)	$	2,397,000	11.96%
FY 24 Adopted	**$**	**2,157,000**	**-10.01%**
FY 25	$	2,334,000	8.21%
FY 26	$	2,452,000	5.06%
FY 27	$	2,573,000	4.93%
FY 28	$	2,700,000	4.94%

Interest on Taxes

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

Fiscal Year		Actual	% Change
FY 18	$	1,594,517	11.05%
FY 19	$	1,284,426	-19.45%
FY 20	$	1,266,688	-1.38%
FY 21	$	1,560,484	23.19%
FY 22	$	2,059,846	32.00%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	1,791,000	-13.05%
FY 23 Revised (Q3)	$	1,600,000	-22.32%
FY 24 Adopted	**$**	**1,984,000**	**24.00%**
FY 25	$	2,138,000	7.76%
FY 26	$	2,241,000	4.82%
FY 27	$	2,346,000	4.69%
FY 28	$	2,457,000	4.73%

Personal Property Revenue

Personal Property revenues are broken down into the following categories: vehicles, motor vehicle license fee, business tangible property, personal property prior year, deferral, and penalties.

Vehicles

The personal property tax is assessed on vehicles, trailers, mobile homes, and business tangible property. Approximately 75% of personal property tax revenue is derived from vehicles and trailers.

The County has effectively exempted the personal property tax on several classifications of personal property by adopting a tax rate of 0.001%. These classifications include farm equipment, vanpool vans, aircraft, boats, motor homes, camping trailers, horse trailers, and one vehicle owned by qualifying senior citizens and disabled persons or used by a volunteer and auxiliary fire and rescue company member who regularly responds to calls or performs other duties for a volunteer fire company. Other personal property is exempt by federal or state law or is granted a local property exemption. These classifications include personal property used exclusively by churches, personal property owned by federal, state, or local governments, the personal property of non-profit organizations specifically enumerated in state law, and the personal property of not-for-profits granted property tax exemption by either the Virginia General Assembly or the BOCS. Rental vehicles, rental equipment, and the personal property of banks and insurance companies is also exempt because these organizations pay an alternative tax.

Car Tax Relief

The County receives a fixed amount of $54.3 million each year as reimbursement from the Commonwealth pursuant to the Personal Property Tax Relief Act (PPTRA), §58.1-3524 of the Code of Virginia, for providing tangible personal property tax relief on qualifying vehicles. Each year, County staff must determine the reimbursement percentage based on the County’s fixed reimbursement from the state and an estimate of the number and value of vehicles that will be eligible for tax relief. For tax year 2023 (FY 2024), the reduction in the property tax on qualifying vehicles is estimated to equal 38% of the personal property tax on the first $20,000 of assessed value. Qualifying vehicles with an assessed value of $1,000 or less receive relief equal to 100% of the tangible personal property tax.

Personal Property Tax Estimate on Vehicles

Personal property tax revenue from vehicles is estimated based on the number of vehicles present in the county and their estimated average assessed value.

Virginia law requires localities to use a nationally recognized pricing guide as the basis for the assessment of vehicles. Prince William County contracts with the J.D. Power National Automobile Dealers Association (NADA), as approximately 95% of all vehicles in the County can be assessed using the J.D. Power NADA car value guide. Vehicles are assessed using the clean trade-in value for automobiles, trucks, and vans. Newer vehicles not listed in the January guide are assessed at a percentage of cost, or if cost information is unavailable a percentage of the manufacturer's suggested retail price (MSRP). Vehicles older than those listed in the guide are valued at a percentage of cost, a percentage of the prior year's assessment, or other method that is representative of the value. Trailers are assessed using a depreciation schedule[4].

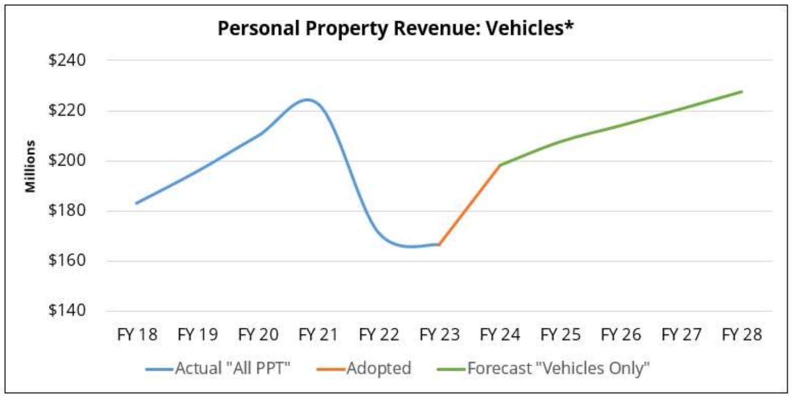
Normally, all assessments are 100% of the indicated value. However, during Fiscal Year 2023, the economic impacts of the COVID-19 pandemic led the BOCS to downwardly adjust the fair market value assessment ratio to 80%[5] to offset the situationally inflated appreciation of vehicles, providing temporary relief to residents. As reported by Jonathan Banks, Vice President & General Manager of Vehicle Valuations at J.D. Power "as we go further into 2023, we will enter an environment of normal depreciation." After used-vehicle prices appreciated by a historic 44%, the industry is now seeing average used vehicles down double digits from the peak.

*Previously, the County had combined the reporting of all Personal Property Tax revenues (Vehicle and Business Tangible). To provide greater transparency, these two revenue sources are now separated. The chart and table below provide total revenue generated for FY 2018 through FY 2021. Beginning with FY 2022, the data only reflects the vehicle portion.

[4] Trailer depreciation schedule: pwcva.gov/department/tax-administration

[5] BOCS April 26, 2022, Res. No. 22-230

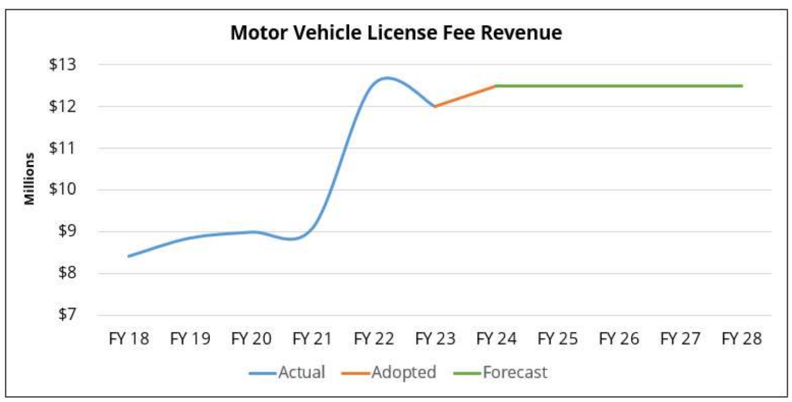
Fiscal Year		Actual	% Change
FY 18	$	182,970,452	2.29%
FY 19	$	195,606,549	6.91%
FY 20	$	209,704,787	7.21%
FY 21	$	222,643,365	6.17%
FY 22	$	171,226,400	
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	166,400,000	-2.82%
FY 23 Revised (Q3)	$	188,805,000	10.27%
FY 24 Adopted	**$**	**198,157,000**	**4.95%**
FY 25	$	207,656,000	4.79%
FY 26	$	214,147,000	3.13%
FY 27	$	220,833,000	3.12%
FY 28	$	227,722,000	3.12%



Motor Vehicle License Fee

Section 46.2-752 of the Code of Virginia authorizes the County to levy a vehicle license fee[6]. The amount of the license fee cannot be greater than the annual or one-year fee imposed by the Commonwealth on motor vehicles. The adopted, local fee is $33 per year for each passenger car and truck normally garaged or parked in the County. The adopted fee per year for each motorcycle is $20. The license fee revenue forecast is based upon an estimate of billable units in the County.

Fiscal Year		Actual	% Change
FY 18	$	8,845,474	5.19%
FY 19	$	8,986,829	1.60%
FY 20	$	9,086,293	1.11%
FY 21	$	12,549,722	38.12%
FY 22	$	12,813,864	2.10%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	12,000,000	-6.35%
FY 23 Revised (Q3)	$	12,274,000	-4.21%
FY 24 Adopted	**$**	**12,500,000**	**1.84%**
FY 25	$	12,500,000	0.00%
FY 26	$	12,500,000	0.00%
FY 27	$	12,500,000	0.00%
FY 28	$	12,500,000	0.00%



[6] On April 28, 2020, the BOCS increased the vehicle license fee effective FY 2021 to $33 from $24 for passenger cars and trucks and to $20 from $12 for motorcycles. The prior rates were in place since 2006.

Business Tangible Property

Approximately 30% of personal property tax revenue is derived from business tangible property (BTP). The business portion of the personal property tax is levied on all general office furniture and equipment, (heavy) machinery and tools, equipment used for research and development, and computer equipment and peripherals.

Business owners are required to report business tangible property for the purpose of taxation annually to the Director of Finance. This includes property located in Prince William County on January 1 that was used or available for use in business. The annual filing includes a detailed listing of the asset(s), original cost information, and year(s) of purchase. Based on filings, assessments are derived by the Director of Finance who applies an assessment factor to the property's original capitalized cost. These factors vary according to the year of purchase and represent the normal devaluation of property that occurs as equipment ages, reflecting both technological and functional obsolescence.

Computer equipment and peripherals and heavy equipment and machinery account for approximately 50% of the taxable property value on business equipment while taxes on furniture and fixtures account for the remaining 50%.

The Code of Virginia 58.1-13506 identifies the classification of tangible personal property for taxation purposes and classifies computer equipment for which the board may establish separate tax rates as:

- Programmable computer equipment and peripherals employed in a trade or business (Section A27)
- Programmable computer equipment and peripherals used in a data center (Section A43)

For Tax Year 2023 (Fiscal 2024), the BOCS adopted a general property tax rate of $2.15 per $100 of assessed value for both classes.

Taxes collected from business tangible property are expected to rise over the forecasting period, driven by an increase in the tax rate from $1.65 to $2.15[7]. Tax

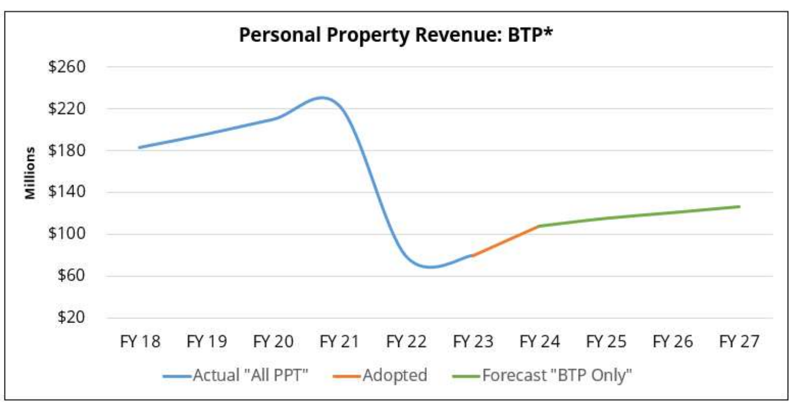
[7] On April 26, 2022, the BOCS adopted to increase the tax rate to $1.65 from $1.50. The forecast included proposed increases in the tax rate over a 3-year period as follows: FY 2023 $1.65, FY 2024 $1.80, FY 2025-2027 $2.00.

revenue generated by computer equipment and peripherals, specifically equipment located in data centers, is anticipated to underpin overall revenue growth.

Northern Virginia continues to be the largest data center hub in the United States, containing approximately 52% of the primary market inventory. According to CBRE, the primary market supply in Northern Virginia grew 17% year-over-year, however, the rate of growth began slowing in the second half of 2022 due to supply constraints and macroeconomic conditions. Despite the current economic climate, the construction pipeline within the United States primary markets increased 153% year-over-year. Data center real estate specialists expect the pace of digital transformation to keep increasing as companies continue to adapt to a hybrid workforce and Private Cloud and Private 5G networks are top priority for Fortune 500 companies. From 2020-2023, the digital infrastructure transformational curve has been pulled forward to provide end-users with improved connectivity and reliability via fiber enhancements, improved wireless networks and growth of cloud adoption. Mobile phones, computers and laptops, televisions, and wearable devices heavily rely on data centers for performance, quality, and speed, and thus supporting continued demand for data centers supply.

*Previously, the County had combined the reporting of all Personal Property Tax (Vehicle and Business Tangible). To provide greater transparency, these two revenue sources are now being separated. The chart and table below provide total revenue generated for FY 2018 through FY 2021. Beginning with FY 2022, the data only reflects the business tangible portion.

Fiscal Year	**Actual**	**% Change**
FY 18	$ 182,970,452	2.29%
FY 19	$ 195,606,549	6.91%
FY 20	$ 209,704,787	7.21%
FY 21	$ 222,643,365	6.17%
FY 22	$ 79,155,726	
Fiscal Year	**Forecast**	**% Change**
FY 23 Adopted	$ 80,000,000	1.07%
FY 23 Revised (Q3)	$ 86,100,000	8.77%
FY 24 Adopted	**$ 108,190,000**	**25.66%**
FY 25	$ 115,537,000	6.79%
FY 26	$ 120,893,000	4.64%
FY 27	$ 126,479,000	4.62%
FY 28	$ 132,317,000	4.62%



Personal Property Prior Year

Changes to prior year personal property taxes because of changes in estimated allowance for uncollectible taxes are recorded as a separate revenue line for accounting purposes. These revenues are less than $500,000 a year and are therefore not addressed in detail.

Personal Property Deferrals

Under the modified accrual basis of accounting (required for Governmental Funds, including the General Fund), revenues must be recorded when susceptible to accrual, meaning that to be considered revenue of the reporting period, the amount must be both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the County considers the availability period for all significant revenue sources to be 60 days after the end of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes billed prior to fiscal year end, but not collected within 60 days after year-end, are reflected as deferred inflows of resources.

Personal Property Penalties - Current Year

Prince William County assesses a 10% penalty on the late payment of personal property taxes. The personal property penalty on late payments applies only to the local share of the delinquency. The penalty is not applied to the portion paid by the Commonwealth through the PPTRA.

Personal property penalty revenue is projected to increase in each year of the FY 2024– 2028 forecast period due to the increase in the estimate of personal property taxes billed each year.

Local Sales Tax

Prince William County, by adopted ordinance, has elected to levy a 1% local sales and use tax on the sale, lease, or rental of tangible property, excluding motor vehicle sales and trailers, vehicle rentals, boat sales, gasoline sales, natural gas, electricity, and water, and the purchases by organizations that have received tax-exempt status. The Virginia Department of Taxation administers, collects, and distributes monthly the local sales and use tax for Prince William County.

The four incorporated towns within Prince William County (Dumfries, Haymarket, Occoquan, and Quantico) share in the local sales tax based on the ratio of school age population in the towns to the school age population of the entire County according to the latest statewide school census. The share ratio is based on demographics research from the Weldon Cooper Center for Public Service. After the distribution of the incorporated town's share, the County realizes approximately 98% of the monthly local sales and use taxes collected.

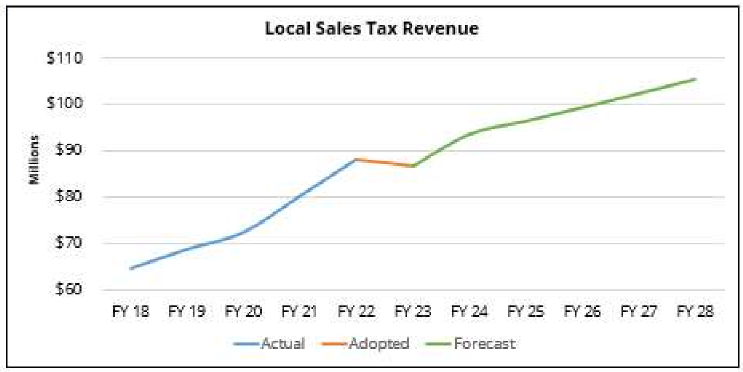
As Gross Domestic Product (GDP) has steadily declined over the course of FY 2023, measurements of inflationary pressure such as wage growth, the Consumer Price Index (CPI) and Personal Consumption Expenditures have remained elevated. Prices, as measured by the CPI and GDP Price Index, rose to levels significantly higher than forecast at the time the FY 2023 budget was being constructed. In Virginia, overall payroll employment growth has been robust, supported by higher-than-expected gains in leisure and hospitality services that offset lower growth in other employment sectors. Labor market strength has allowed consumer spending to remain resilient despite higher prices for goods and services, demonstrated by collections of sales and use taxes for the Commonwealth that were 9.4% above the official revenue forecast of 6.5% growth in FY 2022. But as Federal Reserve interest rate increases over the past fourteen months slowly extract a toll on consumer spending behavior, the U.S. economy is potentially vulnerable to falling into a recession. In the context of prior recessions, the Commonwealth forecast assumes a recession that is significantly less severe and shorter than the Great Recession. Instead, the forecast suggests an economic downturn similar to the 2001 Recession, which lasted about three quarters.

Though Prince William County's sales tax collection profile has remained stable, downside risk to the forecast could emerge if an acute pullback in consumption takes hold. Applying a conservative approach for FY 2024 and the outyears, projected revenues increase to $93.7 million.

The factors that contribute to the County's sales tax revenue are:

- a healthy and diverse local economy
- continued growth in the number of retail establishments
- a high level of household income – median household was $118,117 [8])
- low unemployment
- wage growth
- continued population growth
- increase in registered remote sellers[9]

Fiscal Year		Actual	% Change
FY 18	$	64,565,705	2.45%
FY 19	$	68,699,741	6.40%
FY 20	$	72,320,380	5.27%
FY 21	$	80,111,594	10.77%
FY 22	$	88,000,334	9.85%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	86,900,000	-1.25%
FY 23 Revised (Q3)	$	94,000,000	6.82%
FY 24 Adopted	**$**	**93,730,000**	**-0.29%**
FY 25	$	96,542,000	3.00%
FY 26	$	99,438,000	3.00%
FY 27	$	102,421,000	3.00%
FY 28	$	105,494,000	3.00%



Consumer Utility Tax

Prince William County levies a consumer utility tax on electric and natural gas utilities. The County does not tax water and sewer services. Effective January 1, 2001, the Code of Virginia [10] required Prince William County to convert its existing tax on purchasers of natural gas and electricity from a dollar-based tax to a consumption-based tax.

Since consumer utility taxes are capped, inflation and utility rate increases are not a factor in the five-year forecast. As reported by the Office of Real Estate Assessments, the FY 2024-2028 forecast reflects stable growth in new residential housing units.

The levy for *electricity*[11] consumption based on kilowatt-hours (kWh) is:

[8] Source: U.S. Census Bureau 2021 American Community Survey (ACS) 1-Year Estimate.
[9] Effective July 1, 2019, HB 1722/SB 1083 - Remote Sales & Use Tax Collection.
[10] Code of Virginia §58.1-3814.
[11] Prince William County, VA-Code of Ordinances Sec. 26-111.

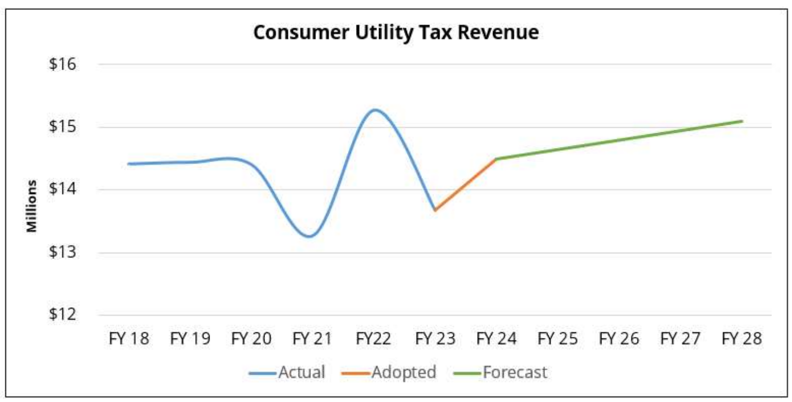
- Residential users: $1.40 minimum billing charge plus the rate of $0.01509 on each kWh delivered monthly by a service provider not to exceed $3.00 per month.
- Commercial users: $2.29 minimum billing charge plus the rate of $0.013487 on each kWh delivered monthly to commercial consumers, not to exceed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

The levy for *natural gas*[12] consumption based on 100 units of cubic feet (CCF) is:

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

The FY 2024 - 2028 forecast is based on a normal historical revenue trend and a conservative 1% increase in the out years.

Fiscal Year		Actual	% Change
FY 18	$	14,417,046	1.56%
FY 19	$	14,443,344	0.18%
FY 20	$	14,407,996	-0.24%
FY 21	$	13,266,498	-7.92%
FY 22	$	15,278,138	15.16%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	13,675,000	-10.49%
FY 23 Revised (Q3)	$	13,675,000	-10.49%
FY 24 Adopted	**$**	**14,500,000**	**6.03%**
FY 25	$	14,650,000	1.03%
FY 26	$	14,800,000	1.02%
FY 27	$	14,950,000	1.01%
FY 28	$	15,100,000	1.00%



Communications Sales and Use Tax

Under legislation enacted by the 2006 General Assembly, House Bill 568, the Virginia communications sales and use tax, also referred to as the communications sales tax, replaced most of the previous state and local taxes and fees on communications services, effective on January 1, 2007.

[12] Prince William County, VA-Code of Ordinances Sec. 26-112.

The communications sales tax, imposed on the charge for sale of telecommunications services at the rate of 5%, is collected from consumers by their service providers and remitted to the Virginia Department of Taxation each month. Services subject to the tax include, but are not limited to:

- Landline, wireless and satellite telephone services (including but not limited to local, intrastate, interstate, and international service) including Voice Over Internet Protocol (VOiP).
- Cable television (including but not limited to basic, extended, premium, pay-per-view, video on demand, digital, high definition, video recorder, music services and fees for additional outlets).
- Satellite television and satellite radio.

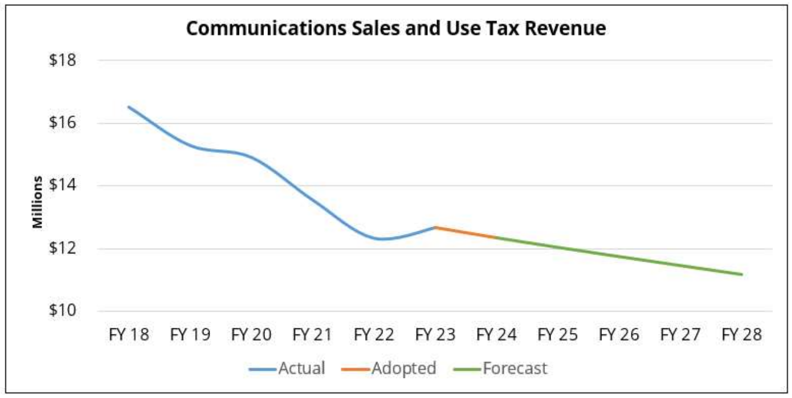
As enumerated in § 58.1-662 of the Code of Virginia, the communications sales and use tax revenue will be distributed by Virginia Tax to localities according to the percentage of telecommunications and cable television tax revenue each locality received in 2006 relative to the statewide total. The County's current allocation is 4.6% of the statewide telecommunications sales and use tax.

This revenue source continues to decline as landline usage decreases. Preliminary results from the National Center for Health Statistics' July – December 2022 National Health Interview Survey (NHIS), released May 2023, indicate that the percentage of adults and children living in wireless-only households have been increasing since 2003. The survey states that over the six-month period, 72.6% of adults lived in households that did not have a landline telephone but did have at least one wireless telephone.

Additionally, as part of the Commonwealth's biennium budget, an annual deposit[13] to the Commonwealth's general fund of $2 million is appropriated to cover the direct cost of administration incurred by the Commonwealth's Department of Taxation, further reducing the revenue that is allocated to the localities. Revenues are projected to decline in FY 2024 and the outyears as this revenue source has yet to level out.

[13] 2018 Appropriation Act, Chapter 2 paragraph KK.

Fiscal Year		Actual	% Change
FY 18	$	16,509,503	-3.09%
FY 19	$	15,289,789	-7.39%
FY 20	$	14,914,152	-2.46%
FY 21	$	13,560,708	-9.07%
FY 22	$	12,347,160	-8.95%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	12,680,000	2.70%
FY 23 Revised (Q3)	$	12,680,000	2.70%
FY 24 Adopted	**$**	**12,360,000**	**-2.52%**
FY 25	$	12,050,000	-2.51%
FY 26	$	11,750,000	-2.49%
FY 27	$	11,460,000	-2.47%
FY 28	$	11,170,000	-2.53%



Business, Professional, and Occupational License Tax

The Business, Professional, and Occupational License (BPOL) tax is imposed on commercial and home occupational businesses operating in Prince William County. The County has adopted a multiple tax rate schedule according to the type of business activity subject to the tax. The BPOL tax is currently levied on[14]:

- County businesses with annual gross receipts (from the prior calendar year) greater than $500,000;
- New businesses in the County based on an estimate if gross receipts are greater than $500,000 for the current year; and
- Building contractors located outside the County but performing work within the boundaries of Prince William County when the amount of work in the County exceeds the $500,000 threshold.

BPOL tax revenue is made up of the following components: retail (42%), building construction (17%), business services (19%), professional services (14%), and hotels and other (5%).

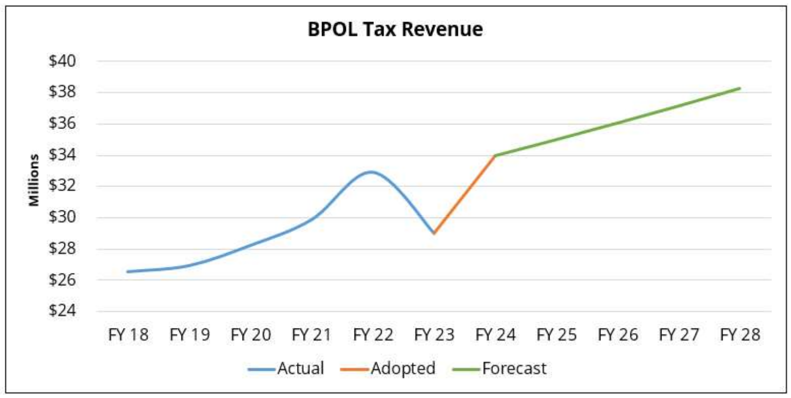
The number of active accounts that reported gross receipts above the threshold in 2022 increased by 5.7% reflecting an improvement from 2021 decrease of 3%. The basis for the FY 2023 BPOL tax revenue is business gross receipts from calendar year 2022.

[14] On November 21, 2017, the BOCS amended Prince William County, VA-Code of Ordinances Sec. 11.1-17 to increase the gross receipts threshold for business from $400,000 to $500,000 for FY 2018 and subsequent license years thereafter.

In response to the lasting negative economic impact of the COVID-19 health emergency, the County's Department of Economic Development established the Restore Retail Grant for customer-facing small businesses including retail, restaurants/food service, arts & entertainment, event venues, personal services, and child program businesses.

The trajectory of business recovery continues to play a large role in the growth of this revenue source. The FY 2024-2028 forecast reflects a conservative increase in total revenues.

Fiscal Year		**Actual**	**% Change**
FY 18	$	26,553,957	4.79%
FY 19	$	26,945,229	1.47%
FY 20	$	28,236,279	4.79%
FY 21	$	29,882,073	5.83%
FY 22	$	32,910,130	10.13%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	29,000,000	-11.88%
FY 23 Revised (Q3)	$	29,000,000	-11.88%
FY 24 Adopted	**$**	**34,000,000**	**17.24%**
FY 25	$	35,020,000	3.00%
FY 26	$	36,071,000	3.00%
FY 27	$	37,153,000	3.00%
FY 28	$	38,267,000	3.00%



Investment Income

Investment income represents interest receipts, interest accrual, and gains or losses from the sale of investments for Prince William County's share of earnings on the General Pool "general" investment portfolio. When compared to proceeds from County bond issuances, which have strict requirements as to how they are spent, the general portfolio consists of invested funds that are classified as unrestricted. All monies are invested in accordance with the Code of Virginia and the BOCS Adopted Investment Policy that sets the County's investment guidelines based on the core principles of legality, safety, liquidity, and yield.

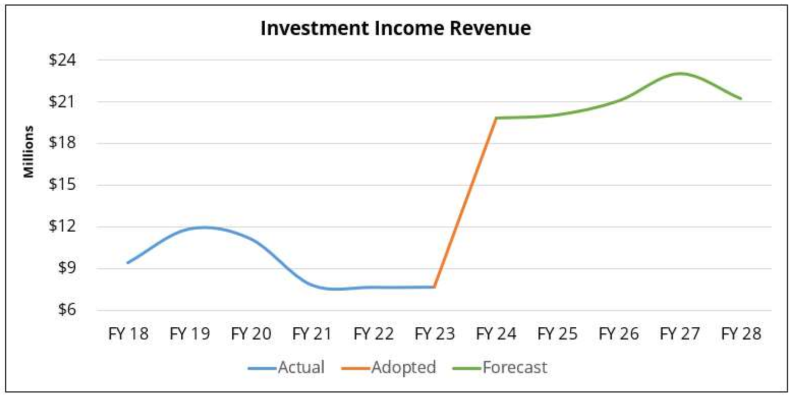
Prince William County's investment strategy addresses these guidelines by investing in a diversified group of assets comprised of cash and cash equivalents, U.S. Government and Agency securities, and high-quality Municipal and Corporate bonds while maintaining sufficient liquidity to meet anticipated operating requirements. In addition, the County seeks to maximize yield, without compromising protection of principal, by constructing a maturity profile that strives to accurately assess forthcoming cash flow commitments.

The investment income forecast is fabricated by projecting an average portfolio yield and total dollar value of the portfolio to develop an estimate of investment income for future fiscal years. The general fund share is calculated based on the prior year's actual share of cash balances available to invest.

Because the average total dollar value of the portfolio is impacted by a combination of County revenues and expenses, the revenue forecast itself becomes a key determinate of interest income. Furthermore, the projected average portfolio values also consider historical revenue trends in the first and second halves of the fiscal year. Increases in portfolio size typically come from additions to fund balance/year-end savings, as well as a portion of annual revenue growth. Based on the general portfolio's historic trajectory, a growth factor was applied to FYs 2024-2028 that will facilitate a reasonable expansion of portfolio assets. The general portfolio's forecast average balance for FY 2024 is $1.74 billion and is projected to reach $2.06 billion by FY 2028.

Prince William County's portfolio earnings yield is broadly correlated to the Federal Funds Rate and current holdings in the portfolio. Persistent inflationary pressure has led the Federal Reserve to raise the Federal Funds rate from a level near zero to a range of 5.00% - 5.25% over the past fourteen months. While inflation has cooled from a peak of 9.1% in June 2022, led primarily by a decrease in energy and goods prices, price pressures will not necessarily follow a linear decline given the presence of firm consumer spending within the services sector and a labor market that remains relatively strong. While the need for interest rates to remain higher for longer to reestablish the Federal Reserve's 2.0% annual inflation target is a theme policymakers have leaned into for months, officials could be confronted with a quandary yet to materialize under the current cycle of interest rate increases – the need to address full employment in concert with price stability. The profile of a potential recession, financial system instability and a fragile geopolitical landscape pose unique challenges to the U.S. economy, any of which would introduce varying degrees of downside risk to the investment income forecast. Moving forward through the current economic climate, the County's general portfolio yield will be shaped by the interest rate environment at the time securities are purchased, the weighted average maturity of portfolio assets, and future cash flow obligations.

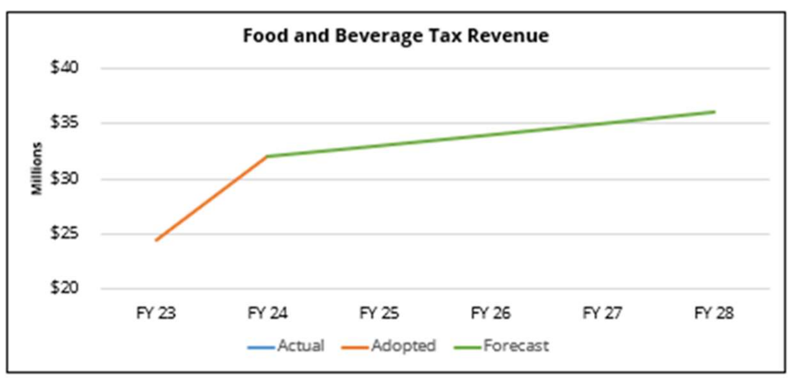
Fiscal Year		Actual	% Change
FY 18	$	9,424,113	0.07%
FY 19	$	11,893,648	26.20%
FY 20	$	11,180,034	-6.00%
FY 21	$	7,804,185	-30.20%
FY 22	$	7,638,016	-2.13%
Fiscal Year		**Forecast**	**% Change**
FY 23 Adopted	$	7,650,000	0.16%
FY 23 Revised (Q3)	$	20,000,000	161.85%
FY 24 Adopted	**$**	**19,840,000**	**-0.80%**
FY 25	$	20,070,000	1.16%
FY 26	$	21,090,000	5.08%
FY 27	$	23,090,000	9.48%
FY 28	$	21,260,000	-7.93%



Food and Beverage Tax

Effective July 1, 2022, Prince William County began levying a tax on the purchase of prepared food and beverages. The Food and Beverage tax is 4% of the total cost of food and beverages sold by restaurants and other businesses that meet the definition of restaurants. The current forecast is estimated to generate $30-40 million annually throughout the five-year forecasting period. The U.S. restaurant industry made significant strides in its recovery from the impact of COVID restrictions and pandemic-related closures, according to the NPD Group. Off-premises, primarily drive-thru and delivery was a default beneficiary of pandemic restrictions, and visits for both order modes remain up. Still, restaurant decision makers cite inflation and difficulty acquiring food and supplies as business challenges[15]. Locally, impacts associated with restaurant closures and limited service, along with inflationary pressures on food prices, provide some uncertainty.

Fiscal Year		Forecast	% Change
FY 23 Adopted	$	24,500,000	
FY 23 Revised (Q3)	$	35,000,000	
FY 24 Adopted	**$**	**32,000,000**	**-8.57%**
FY 25	$	32,960,000	3.00%
FY 26	$	33,948,800	3.00%
FY 27	$	34,966,000	3.00%
FY 28	$	36,015,000	3.00%



[15] Agency Forward Restaurant Survey – Nationwide Insurance

ALL OTHER REVENUE SOURCES

Listed below are additional general revenue sources estimated in total to be less than $20 million. The forecast and a description of each revenue source follows:

FY 2024 - 2028 GENERAL COUNTY REVENUE ESTIMATE BY CATEGORY: ALL OTHER REVENUE						
REVENUE SOURCE	OBJ*	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast	FY 2028 Forecast
Daily Rental Equipment Tax	40215	$ 755,000	$ 770,000	$ 785,000	$ 801,000	$ 817,000
Consumption Tax	40221	$ 1,700,000	$ 1,720,000	$ 1,740,000	$ 1,757,000	$ 1,775,000
Bank Franchise Tax	40230	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
Tax on Deeds	40261	$ 2,300,000	$ 2,300,000	$ 2,400,000	$ 2,500,000	$ 2,500,000
Transient Occupancy Tax	40270	$ 1,794,000	$ 1,848,000	$ 1,905,000	$ 1,960,000	$ 2,018,000
Cigarette Tax	40280	$ 4,635,000	$ 4,774,000	$ 4,917,000	$ 5,065,000	$ 5,217,000
Interest Paid to Vendors	40520	$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)
Interest Paid on Refunds	40521	$ (20,000)	$ (20,000)	$ (20,000)	$ (20,000)	$ (20,000)
Undistributed & Miscellaneous	41150	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Rolling Stock Tax	41303	$ 90,000	$ 90,000	$ 90,000	$ 90,000	$ 90,000
Passenger Car Rental Tax	41304	$ 1,545,000	$ 1,591,000	$ 1,639,000	$ 1,688,000	$ 1,739,000
Manufactured Home Titling Tax	41305	$ 36,000	$ 36,000	$ 36,000	$ 36,000	$ 36,000
Peer-to-Peer Vehicle Sharing Tax	41306	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Payments in Lieu of Taxes	41700	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
ALL OTHER REVENUE		$ 16,924,000	$ 17,352,000	$ 17,838,000	$ 18,328,000	$ 18,734,000

Daily Rental Equipment Tax

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

Bank Franchise Tax

The County levies a bank franchise tax on the net capital of each bank, banking association, savings bank, or trust company that operates in the County. The tax is based on 0.8% of the net capital multiplied by the percentage of deposits on hand at that branch compared to its statewide deposits.

Consumption Tax

The Consumption Tax is imposed on public utility companies that operate in the County. The tax of $0.29/$100 of assessed value was identical to the County's BPOL tax on other businesses but was authorized under separate statute. The Commonwealth repealed the tax for electric companies and replaced it with the Corporate Net Income Tax and the declining Consumption Tax. The State set the latter at a maximum of $0.50/$100 of assessed value. If a locality's rate is below the maximum, the State receives the difference. Therefore, the BOCS increased this tax only for electric companies from $0.29/$100 of assessed value to $0.50/$100 of assessed value effective January 1, 2001.

Tax on Deeds

The tax on deeds is imposed when real estate deeds of conveyance (not deeds of trust) are recorded with the Clerk of the Circuit Court. It is important to note that the tax on deeds is not levied on mortgage refinancing. Instead, tax on deeds is levied when any one of the following conditions is satisfied:

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

The tax on deeds rate is $1.00 per $1,000 of value. The State and locality each receive half of the revenue generated by this tax (equal to $0.50 per $1,000 of value). The revenue forecast reflects only Prince William County's share of revenues. Growth in this revenue source over the last two years has been driven more by price appreciation and less by sales activity as the local housing market has remained challenged by limited inventory. The average 30-year fixed rate mortgage began 2022 at 3.1%and peaked in late October at 7.1% and ended the year at 6.4%. Homebuyer uncertainty surrounding affordability, ongoing inflation, and an impending recession factor into the conservative projection in the five-year forecast.

Transient Occupancy Tax

The County levies a transient occupancy tax (TOT) of 5% of the amount charged for the occupancy of hotels, motels, boarding houses, travel campgrounds and other facilities offering guest rooms rented out for continuous occupancy for periods of 30 days or less. This tax does not apply to miscellaneous charges such as in-room telephone usage, movie rentals, etc. The general revenue share of this tax is 40% and the remaining 60% is budgeted for tourism-related purposes. Appropriation by the BOCS is based on budgetary requirements requested by the Department of Parks, Recreation, and Tourism (DPRT). The transient occupancy tax forecast is based on the number of hotel rooms, occupancy rates, room rates and tourism related events.

There is an additional 3%[16] transient occupancy tax on the amount of the charge for the occupancy of any room or spaced occupied in the County, as a member of the Northern Virginia Transportation Authority (NVTA), with 2% earmarked for public transportation purposes and 1% used for any transportation purpose. [Note: This revenue is not included in the general revenue estimate.]

While the severity of the impact imposed upon the hospitality and tourism industry by the pandemic has been well documented, Northern Virginia is seeing a rebound, largely because of increased room rates, although occupancy has increased as well in the County as one new hotel was added. As reported in the Department of Parks, Recreation and Tourism Annual Report 2022 staff employ marketing strategies to increase tourism and attract sporting tournaments, and large-scale special events such as the Solheim Cup, slated to be held in the County in 2024.

As projected, FY 2023 revenues have returned to pre-pandemic levels (FY 2019). A conservative growth rate of 3% growth is forecast in the outyears. The U.S. Travel Association reports that both domestic leisure and business travel continue to improve, however a mild recession and inflation-adjusted spending may contain spending per trip.

[16] §58.1-1744 (Effective May 21, 2021); Local transportation transient occupancy tax. Prior to May 1, 2021, rate of 2%.

Interest Paid to Vendors

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

Interest Paid on Refunds

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

Rolling Stock Tax

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

Passenger Car Rental Tax

Motor vehicles rented daily are often moved from location to location and have no fixed site for personal property taxation. In lieu of the local personal property tax, the Virginia Department of Taxation administers and collects a tax for short-term rentals from rental businesses, automobile dealerships and other establishments located in the County. The State remits 4% of the rental fee for motor vehicles rented for a period of less than twelve months to the County.

Manufactured Home Titling Tax

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

Peer-to-Peer Vehicle Sharing Tax

The 2020 Senate Bill 735 created the Virginia Motor Vehicle Rental and Peer-to-Peer (PTP) Vehicle Sharing Tax effective October 1, 2020. For PTP vehicle owners that list no more than ten different vehicles on any combination of vehicle sharing platforms at any one time, the PTP Tax will be levied at a rate of 7%[17] of the gross proceeds collected from the shared vehicle driver. An amount equal to 3% will be distributed quarterly to the County. The tax on large fleets, more than ten vehicles, will be the same as the Motor Vehicle Rental Tax (Passenger Car Rental Tax).

Payments in Lieu of Taxes (PILT)

Payments in Lieu of Taxes (PILT) are Federal payments to local governments that help offset losses in property taxes due to nontaxable Federal lands within their boundaries. The formula used to compute this payment is based on population, revenue-sharing payments, and the amount of Federal land within an affected county. On December 29, 2022, the U.S. Department of the Interior announced the President signed the Consolidated Appropriations Act, 2023 (P.L.117-328) which appropriated full funding for PILT. Payments are normally remitted to localities prior to June 30th. Also included in PILT are funds received from the U.S. Fish and Wildlife Service.

Cigarette Tax

Effective July 1, 2021, Code of Virginia § 58.1-3830 authorized counties to levy a cigarette tax not to exceed two cents ($0.02) per cigarette sold or $0.40 per pack. The Northern Virginia Cigarette Tax Board (NVCTB) is the mechanism to collect and enforce cigarette taxes for Northern Virginia municipalities. On November 9, 2021, the BOCS authorized through Ordinance No. 21-61 the levy of a cigarette tax of $0.40 per pack effective January 1, 2022, and delegated the NVCTB powers to administer, collect and enforce the County's Cigarette Tax Ordinance. The NVCTB started to deposit Cigarette Tax revenues for Prince William County effective February 2022. Currently the projected revenue for FY 2024 is expected to generate $4.5 million.

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[17] §58.1-1736(D)(1) and (2)). Effective July 1, 2021.