Prince William
Finance

Estimate of General Revenue

Adopted FY 2023-2027

PRINCE WILLIAM COUNTY

Office of the County Executive
Elijah T. Johnson, Acting County Executive

DATE:	June 29, 2022
TO:	Board of County Supervisors
FROM:	Michelle L. Attreed, CFO JMPA
THRU:	Elijah T. Johnson Acting County Executive
RE:	Revenue Committee Report Fiscal Year 2023-2027

I am pleased to present the Adopted FY 2023–2027 Estimate of General Revenue. This report was prepared in accordance with the Board'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.

Following national and state trends, widespread demand for workers has underpinned Prince William County's strengthening labor market. The County's unemployment rate for April fell to a current year low of 2.4% from 2.7% in December.

The Federal Reserve has embarked on what is expected to be a series of interest rate increases meant to tame inflationary pressure permeating through the U.S. economy. The Federal Funds rate was increased in March by 0.25%, followed by a second 0.50% hike in May and a 0.75% hike on June 15, marking the largest rate hike since 1994. Though the inflation-fighting credibility of the most powerful financial institution in the world has been called into question by some market observers, Fed Chair Powell and his colleagues have been able to escalate a tightening of financial conditions since the beginning of the year by simply communicating the Federal Reserve's intent to prioritize price stability.

As reported by Virginia REALTORS®, economic headwinds continue to mount in both Virginia and nationally as inflation remains a huge concern with interest rate hikes which has caused all forms of borrowing to become more expensive, including mortgages. This upward pressure on mortgage rates will likely cool off demand in Virginia's housing market in the coming months. However, despite cooling demand, home prices around Virginia have not yet started to drop. While statewide supply is down, Prince William County is one area with significant inventory growth compared to last May. "Because the state's inventory is so low and demand remains relatively strong, we do not expect that Virginia home prices will fall," says Virginia REALTORS® 2022 President Denise Ramey. "Rather, the price growth will likely moderate from the rapid pace of the last couple years as interest rates continue climbing, pushing more buyers on the sidelines."

While acute health impacts from COVID-19 have begun to recede, significant challenges faced by many members of the community in the wake of the pandemic remain. Prince William County Government has persistently served residents and businesses by seeking available avenues to disburse the County's allocation of funds issued by the U.S. Government to support relief efforts. The County received the second, and final, $45.7 million installment of federal funds issued through the American Rescue Plan Act of 2021 (ARPA) in June 2022. The Board of County Supervisors continues to provide economic relief to vulnerable residents and businesses while continuing the County's emergency response efforts, as needed, to combat COVID-19, recognizing the County's "essential workers" that face/faced elevated risk due to the nature of their work, and investing in eligible community priorities consistent with the Board-adopted Strategic Plan and other directives to create lasting and transformative impacts.

Average residential real estate values grew by 12.4% while commercial values increased 10.7% during calendar year 2021 (tax year 2022). New taxable business tangible property, mainly from data centers, continues to grow and be a positive driver of personal property tax revenue. Furthermore, a surge in assessed values for vehicles during 2021, driven by strong consumer demand, lean inventory levels and high wholesale prices due to new-vehicle manufacturing challenges is also expected to contribute to this revenue source. To provide relief to taxpayers and offset recent and temporary appreciation in automobile values, the BOCS approved that the 2022 personal property tax assessment of vehicles will use an 80% ratio against the assessed value according to the NADA pricing guide.

The Board adopted a real estate tax rate of $1.03 for FY 2023 and an increase of $0.15 increase in the business tangible property tax rate for computer & peripheral equipment. To further diversify and strengthen the County's revenue base, the Board also approved a food and beverage tax. At the time of budget adoption, discussion regarding the Grocery Tax Repeal were still ongoing. The forecast included a provision for the potential state budget action related to the elimination of the sales tax on groceries. On June 21st, Governor Youngkin signed the Virginia State Budget, eliminating the 1.5% state grocery tax while leaving the local 1% grocery tax intact.

The revenue estimates contained in this document are used to support the Adopted FY 2023 Fiscal Plan, the Adopted FY 2023-2028 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] 12/31/2021	Current [1] 3/31/2022	Trend					Notes
General								
Consumer Price Index (CPI)	7.0%	8.5%	•					Measures prices paid by consumers for a basket of goods and services.
Gross Domestic Product (GDP)	6.9%	-1.4%			•			Measures the final market price for goods and services produced within the U.S.
Federal Funds Rate	0.07%	0.33%			•			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	4,766	4,530			•			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	3.9%	3.6%				•		Tracks the number of unemployed persons as a percentage of the total U.S. labor force.
Virginia	3.3% (R)	3.0% (P)				•		Tracks the number of unemployed persons as a percentage of the total VA labor force.
Prince William County	2.7% (R)	2.6% (P)				•		Tracks the number of unemployed persons as a percentage of the total PWC labor force.
Average Weekly Wages [2]								
National	$1,241	$1,251		•				Tracks the average weekly monetary compensation paid to an employee in the U.S. Excludes bonus payments.
Virginia	$1,257	$1,264		•				Tracks the average weekly monetary compensation paid to an employee in VA. Excludes bonus payments.
Prince William County	$1,056	$1,088		•				Tracks the average weekly monetary compensation paid to an employee in PWC. Excludes bonus payments.
Employment Establishments [3]								
Virginia	293,625	299,224			•			Tracks the total number of physical locations where business, services, or industrial operations are performed in Virginia.
Region	93,287	94,409			•			Tracks the total number of physical locations where business, services, or industrial operations are performed in Northern Virginia.
Prince William County	9,869	9,997			•			Tracks the total number of physical locations where business, services, or industrial operations are performed in Prince William County.
Revenue								
Retail Sales: National	-1.90%	0.50%			•			Retail sales tracks the resale of new and used goods to the general public for personal or household consumption.
Sales and Use Tax: Virginia	14.8%	15.2%				•		Tracks the percentage of state collections for sales and use tax.
Sales and Use Tax: Prince William County	13.6%	12.3%				•		Tracks the percentage of collections for sales and use tax in Prince William County. Current sales tax rate is 6.0%.
Revenue Collections: Virginia	14.1%	14.5%				•		Aproximately 88% of Virginia's revenue consists of net individual income tax and sales tax.
Vehicles								
National Automobile Sales	14.94 M	14.01 M		•				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 Sales Price	$494,217	$551,269		•				Reflects the average sold price for a home.
Closed Sales	654	641			•			Reflects the number of closed home sales.
Average Days on Market	19	9			•			Reflects the average time a home is on the market from listing to closing.
Ratio of Homes on the Market to Homes Sold	0.28	0.37		•				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	341	258			•			Establishes that a property is suitable for habitation after meeting the requirements of the Uniformed Statewide Building Code.
Building Permits Issued	202	376			•			Tracks the number of new building permits issued for residential dwellings.
Commercial Vacancy Rate	5.3%	4.6%			•			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

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

Real Estate Tax Rate and Major Revenue Sources

FY 2023 Adopted Real Estate Tax Rate and Average Tax Bill

The FY 2023 adopted real estate tax rate of $1.03 has the following tax bill impacts on property owners:

- Average real estate tax bill on existing, residential properties will increase $172 or 3.7%; and
- Average real estate tax bill on existing, commercial properties will increase 10.7%.

Major Revenue Sources

($ in 000s)	% to Total (FY 2023)	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Real Estate Tax Rate:		$1.030	$1.030	$1.030	$1.030	$1.030
Real Estate Taxes	64.9%	$811,330	$862,494	$899,899	$938,886	$979,536
Personal Property Taxes	19.9%	$248,900	$263,450	$270,460	$279,047	$288,484
Motor Vehicle License	1.0%	$12,000	$12,200	$12,400	$12,600	$12,800
Sales Tax	6.8%	$85,400	$88,400	$91,500	$95,000	$98,000
Groceries Tax Repeal	-0.9%	-$11,000	-$15,000	-$15,000	-$15,000	-$15,000
Consumer Utility Tax	1.1%	$13,675	$13,812	$13,950	$14,090	$14,231
Communications Sales Tax	1.0%	$12,680	$12,360	$12,050	$11,750	$11,460
BPOL Tax	2.3%	$29,000	$30,450	$31,973	$33,572	$35,251
Investment Income	0.6%	$7,650	$9,690	$10,880	$12,150	$13,090
Food and Beverage Tax	2.0%	$24,500	$24,500	$24,500	$24,500	$24,500
All Other	1.2%	$15,433	$15,650	$15,932	$16,123	$16,321
Total General Revenue	100.0%	$1,249,568	$1,318,006	$1,368,544	$1,422,718	$1,478,673
School Portion		$715,128	$754,295	$783,217	$814,222	$846,245
County Portion		$534,440	$563,711	$585,326	$608,496	$632,428
Total General Revenue		$1,249,568	$1,318,006	$1,368,544	$1,422,718	$1,478,673

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 2023 - 2027 GENERAL COUNTY REVENUE ESTIMATE BY CATEGORY						
REVENUE SOURCE	**OBJ**	**FY 2023 Forecast**	**FY 2024 Forecast**	**FY 2025 Forecast**	**FY 2026 Forecast**	**FY 2027 Forecast**
Real Estate (Gross Local Revenue)	40010	$ 834,859,000	$ 887,688,000	$ 926,789,000	$ 967,465,000	$ 1,009,798,000
Real Estate Exonerations	40020	$ (12,000,000)	$ (13,000,000)	$ (14,000,000)	$ (15,000,000)	$ (16,000,000)
Real Estate Tax Relief	40015	$ (34,000,000)	$ (35,000,000)	$ (36,000,000)	$ (37,000,000)	$ (38,000,000)
Real Estate		$ 788,859,000	$ 839,688,000	$ 876,789,000	$ 915,465,000	$ 955,798,000
Real Estate-Public Service	40041	$ 20,741,000	$ 20,948,000	$ 21,157,000	$ 21,369,000	$ 21,583,000
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	$ 2,030,000	$ 2,158,000	$ 2,253,000	$ 2,352,000	$ 2,455,000
TOTAL REAL ESTATE		$ 811,330,000	$ 862,494,000	$ 899,899,000	$ 938,886,000	$ 979,536,000
Business Tangibles - Current Year	40073	$ 80,000,000	$ 84,000,000	$ 88,200,000	$ 93,933,000	$ 100,508,000
Personal Property Combined Prior Year	40072	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Vehicles - Current Year	40075	$ 166,400,000	$ 176,800,000	$ 179,452,000	$ 182,144,000	$ 184,876,000
Personal Property Tax Deferral	40081	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)	$ (1,000,000)
Personal Property Penalties	40170	$ 3,000,000	$ 3,150,000	$ 3,307,500	$ 3,470,000	$ 3,600,000
TOTAL PERSONAL PROPERTY		$ 248,900,000	$ 263,450,000	$ 270,459,500	$ 279,047,000	$ 288,484,000
MOTOR VEHICLE LICENSE	40250	$ 12,000,000	$ 12,200,000	$ 12,400,000	$ 12,600,000	$ 12,800,000
LOCAL SALES TAX	40210	$ 85,400,000	$ 88,400,000	$ 91,500,000	$ 95,000,000	$ 98,000,000
GROCERY TAX REPEAL	40200	$ (11,000,000)	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)	$ (15,000,000)
CONSUMER UTILITY TAX	40220	$ 13,675,000	$ 13,812,000	$ 13,950,000	$ 14,090,000	$ 14,231,000
BPOL TAXES - LOCAL BUSINESSES	40235	$ 29,000,000	$ 30,450,000	$ 31,973,000	$ 33,572,000	$ 35,251,000
INVESTMENT INCOME	40510	$ 7,650,000	$ 9,690,000	$ 10,880,000	$ 12,150,000	$ 13,090,000
COMMUNICATIONS SALES TAX	41339	$ 12,680,000	$ 12,360,000	$ 12,050,000	$ 11,750,000	$ 11,460,000
FOOD AND BEVERAGE TAX	40211	$ 24,500,000	$ 24,500,000	$ 24,500,000	$ 24,500,000	$ 24,500,000
Interest on Taxes	40140	$ 1,791,000	$ 1,904,000	$ 1,980,000	$ 2,061,000	$ 2,147,000
Daily Rental Equipment Tax	40215	$ 541,000	$ 552,000	$ 563,000	$ 574,000	$ 585,000
Consumption Tax	40221	$ 1,400,000	$ 1,400,000	$ 1,400,000	$ 1,400,000	$ 1,400,000
Bank Franchise Tax	40230	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
Tax on Deeds	40261	$ 3,400,000	$ 3,400,000	$ 3,500,000	$ 3,500,000	$ 3,500,000
Transient Occupancy Tax	40270	$ 1,600,000	$ 1,648,000	$ 1,697,000	$ 1,748,000	$ 1,800,000
Cigarette Tax	40280	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
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	$ 1,500,000	$ 1,545,000	$ 1,591,000	$ 1,639,000	$ 1,688,000
Manufactured Home Tilting Tax	41305	$ 36,000	$ 36,000	$ 36,000	$ 36,000	$ 36,000
Peer-to-Peer Vehicle Sharing Tax	41306	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
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		$ 15,433,000	$ 15,650,000	$ 15,932,000	$ 16,123,000	$ 16,321,000
TOTAL GENERAL REVENUE		**$ 1,249,568,000**	**$ 1,318,006,000**	**$ 1,368,543,500**	**$ 1,422,718,000**	**$ 1,478,673,000**

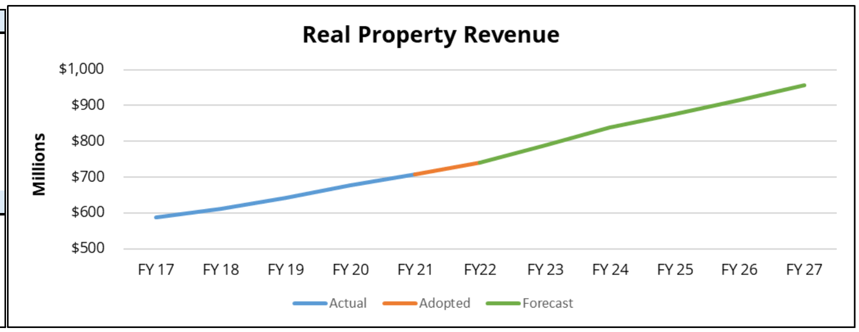
Real Property Revenue

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 single largest revenue source for Prince William County, contributing approximately 64.9% of general revenues (FY 2023 forecast). 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.

FY	Actual	% Change
FY 17	$ 588,085,866	3.25%
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 Adopted	$ 739,934,000	4.71%
FY 22 Revised (Q2)	$ 738,634,000	4.53%
Forecast		
FY 23	$ 788,859,000	6.80%
FY 24	$ 839,688,000	6.44%
FY 25	$ 876,789,000	4.42%
FY 26	$ 915,465,000	4.41%
FY 27	$ 955,798,000	4.41%



Residential Real Estate

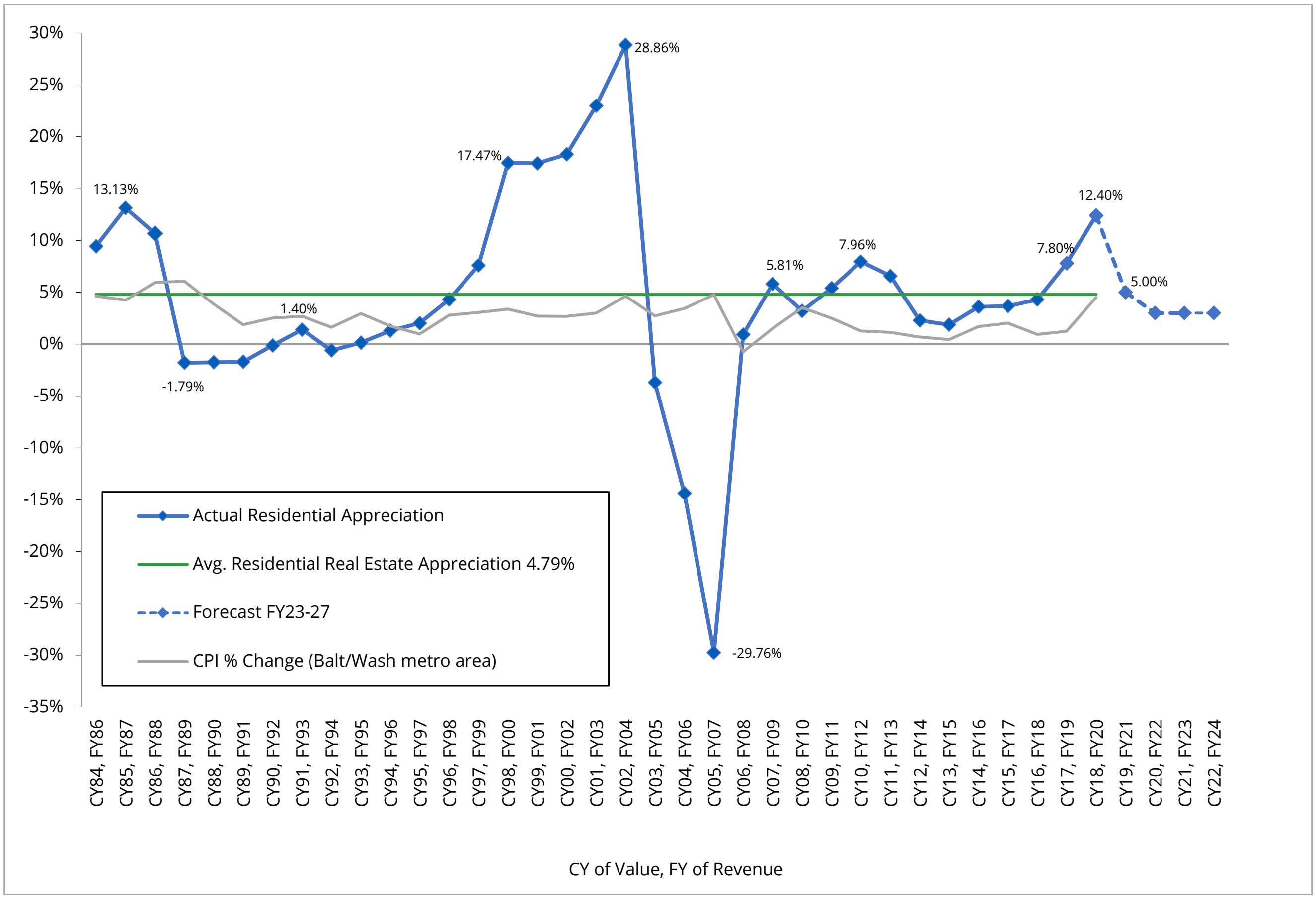
During calendar year 2021 (CY 2021) the residential market appreciated at a faster pace than any year since 2005. This rapid rate of appreciation was primarily fueled by low interest rates and low housing inventories. Appreciation was across the board. Following a 7.8% increase in values in 2020, the average existing home value increased approximately 12.4% in 2021. In 2021, foreclosures, bank owned property, and short sales combined remained less than 0.5% of all sales transacted. The average number of days on the market increased slightly from 13 days in 2020 to 19 days in 2021. Average sale price transacted at 100.1% of original listing price, indicating a very 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.

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

Residential Appreciation

The following chart reflects actual residential appreciation (excluding rental apartments) from calendar year 1984 through 2021 and the Revenue Committee's estimates for forecast years thereafter.



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

Fiscal Year	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Calendar Year Activity	2021	2022	2023	2024	2025
Landbook Year (real estate)	2022	2023	2024	2025	2026
Appreciation					
Residential	12.4%	5.0%	3.0%	3.0%	3.0%
Apartments	15.2%	3.0%	3.0%	3.0%	3.0%

While current labor market fundamentals are expected to permit median household incomes to remain relatively healthy for the foreseeable future, the presence of rising 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 15.2% during 2021, driven primarily by rental rate growth, decreasing vacancy rates, and compressed capitalization rates reflected in local 2021 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 affects real estate revenues two fiscal years later. For example, construction that occurred in calendar year 2021 will be reflected in the County's land book on January 1, 2022, which provides the basis for real estate tax revenue projected to be received in FY 2023.

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

Fiscal Year	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Calendar Year Activity	2021	2022	2023	2024	2025
Landbook Year (real estate)	2022	2023	2024	2025	2026
Residential Units Completed					
Single Family	567	600	600	600	600
Townhouse	611	500	500	500	500
Condominium	70	100	100	100	100
Apartments	172	460	300	300	300

The volume of new home starts is expected to remain near current levels. Construction of new apartment units added approximately 172 units in 2021 (FY 2023). Volume is expected to peak at approximately 460 units in 2022 as multiple apartment projects, accounting for as many as 6,000 planned units, are in the pipeline. 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 2021 is approximately $581,000. 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 $703,000 in 2021. The average assessed value of a new townhouse and a condominium unit are estimated to be $490,000 and $386,000, respectively.

Commercial Real Estate

Calendar year 2021 market activity in Prince William County resulted in an overall appreciation of approximately 10.7% in commercial property values. Property types impacted most by the pandemic, such as those in the hospitality and retail sectors, showed improvements in vacancy and collections. The strongest performing properties were once again in the industrial sector, which showed approximately 20% appreciation. 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.

The commercial appreciation forecast for FY 2023–2027 is as follows:

Fiscal Year	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Calendar Year Activity	2021	2022	2023	2024	2025
Landbook Year (real estate)	2022	2023	2024	2025	2026
Commercial	10.7%	5.0%	4.0%	4.0%	4.0%

Average assessed values per square foot for FY 2023 are determined based on the recognition of building values from new construction completed during calendar year 2021[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 2023 (calendar year 2021 market activity), approximately 1.6 million square feet of commercial space, including powered shell warehouse 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 Prince William County improved during 2021, the retail sector began to stabilize after encountering an acute impact levied by the pandemic in the previous year. In 2021 rents were stable and collection losses declined compared to 2020. There was a modest 31,000 square feet of self-standing retail space added during the year. Due to persisting low demand for shopping center space, we do not foresee any new construction in this sub-category during the forecast period.

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.

Industrial

During 2021 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 doing well 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 870,000 square feet to the commercial/industrial base in 2021. The current pipeline includes planned projects that should add roughly 700,000 square feet in calendar year 2022 and beyond.

Hotels

Hotel properties began to stabilize in 2021. While economy hotels have demonstrated resilience after experiencing sharp downturns during peak COVID 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 2021 one hotel was completed in the County. One additional hotel is expected to be completed in 2022.

Office Buildings

Office rents and vacancies in the County have remained stable. The type of office tenants that are prevalent in the County are not as likely to transition to telework, therefore we do not anticipate any significant lasting impact from the pandemic. The Kaiser Permanente Medical Center, currently under construction in Woodbridge, is scheduled to be completed in summer 2022.

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 several planned projects in the near-term development pipeline.

Miscellaneous

Miscellaneous category includes golf courses, taxable schools, and other property types that do not fit in one of the major categories. Golf Courses continued to see increased use throughout 2021 following 2020's "year of resurgence", as described by the National Golf Foundation.

Data Centers

Retail data centers are valued by the megawatt power available for the exclusive use of tenants in the property. In 2021, appreciation was mainly driven by robust sales prices for vacant land. Expectations are for continued strong growth in both buildouts of existing data centers as well as new properties. The County added another 56 megawatts of retail data center capacity during 2021, 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 considerably due to a significant shift toward remote work, education, and shopping. Prince William County's proximity to critical network infrastructure in Loudoun County, namely MAE-East, makes it a desirable location to build and/or expand data center capacity.

Real Estate Exonerations/Tax Relief

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[3]. Tax Relief is expected to increase approximately 3% in each year of the forecasting period.

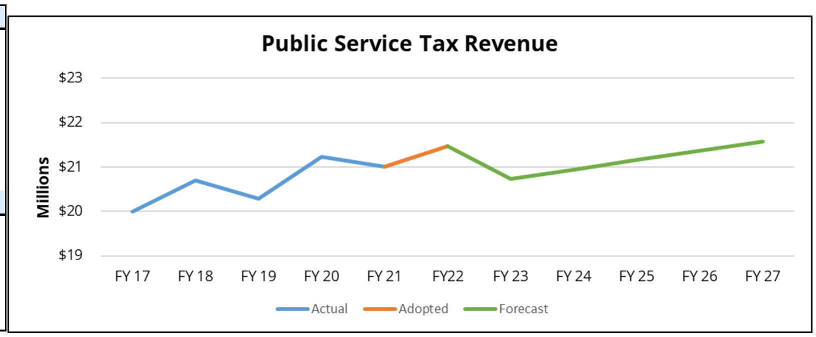
Public Service Taxes

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] Prince William County 2021 Annual Report Real Estate Assessments Office

FY		Actual	% Change
FY 17	$	19,998,125	6.20%
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 Adopted	$	21,476,000	2.25%
FY 22 Revised (Q2)	$	21,476,000	2.25%
		Forecast	
FY 23	$	20,741,000	-3.42%
FY 24	$	20,948,000	1.00%
FY 25	$	21,157,000	1.00%
FY 26	$	21,369,000	1.00%
FY 27	$	21,583,000	1.00%



Real Estate Tax Deferrals

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

The revenue forecast methodology considers an estimate of collections of unpaid taxes up to five years' delinquent. This revenue category varies depending on the amount of unpaid taxes at the end of one year compared to the previous year due to 1) voluntary payment of taxes, 2) County resources allocated to collection efforts, and 3) the success of those collection efforts.

Land Redemption

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, 2021, were $803,150.

Real Estate Penalties

Prince William County assesses a penalty on the late 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.

FY		Actual	% Change
FY 17	$	1,327,220	6.58%
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 Adopted	$	1,799,000	34.07%
FY 22 Revised (Q2)	$	2,385,000	77.74%
		Forecast	
FY 23	$	2,030,000	-14.88%
FY 24	$	2,158,000	6.31%
FY 25	$	2,253,000	4.40%
FY 26	$	2,352,000	4.39%
FY 27	$	2,455,000	4.38%

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.

FY		Actual	% Change
FY 17	$	1,435,853	5.09%
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 Adopted	$	1,680,000	7.66%
FY 22 Revised (Q2)	$	1,680,000	7.66%
		Forecast	
FY 23	$	1,791,000	6.61%
FY 24	$	1,904,000	6.31%
FY 25	$	1,980,000	3.99%
FY 26	$	2,061,000	4.09%
FY 27	$	2,147,000	4.17%

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. This amount is included in the personal property revenue estimate for each year. The County has opted to allocate its reimbursement amount from the Commonwealth on a per vehicle basis. The amount of tax relief allocated to each vehicle changes from year-over-year based on the number and value of qualifying vehicles. For tax year 2022 (FY 2023), the reduction in the property tax on qualifying vehicles is equal to 45% of the tax on the first $20,000 of assessed value. The reduction in the property tax is equal to 100% of the tax for qualifying vehicles assessed at $1,000 or less.

Personal Property Tax Estimate on Vehicles

Personal property tax revenue from vehicles is estimated based on the percentage change in average assessed value per vehicle and the percentage change in the number of units billed. The assessed value of taxable vehicles is obtained from standard pricing guides in accordance with State law. Prince William County uses the clean trade-in values published in the National Automobile Dealers Association (NADA) value guide, which covers most vehicles. Vehicles older than years covered in the guidebook are based on a percentage of cost, depreciated by 10% for each subsequent year, or are set at a minimum value based on the model year depending on the information available. Vehicles newer than years covered in the guidebook are based on a percentage of cost. Trailers are assessed based on a percentage of cost.

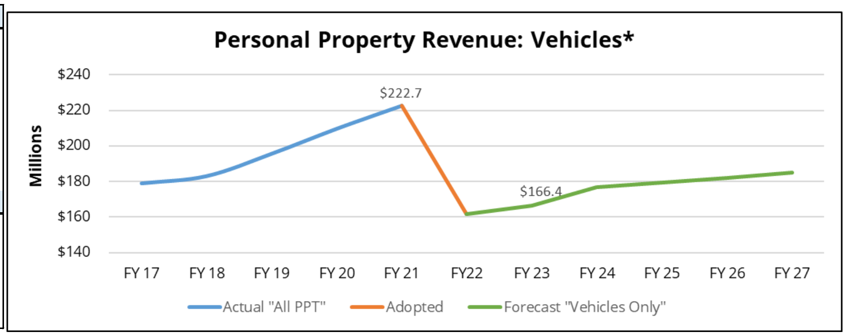
All major vehicle valuation services, including NADA, indicated the per-unit average value increased from January 2021 to January 2022. Generally, vehicles depreciate year-over-year; however, COVID-19 altered this conventional trend. Factors that have driven market value increases are strong consumer demand , low inventory levels and high wholesale prices due to new-vehicle manufacturing challenges. In order to provide relief to taxpayers and offset recent and temporary appreciation in automobile values, the BOCS approved, in accordance with Section 58.1-3503(B), VA Code Ann., that the 2022 personal property tax assessment of vehicles, as defined by Section 58.1-3503(A)(3), Section 58.1-3503(A)(4), and Section 58.1-3503(A)(10), VA Code Ann., will use an 80% ratio against the assessed value according to the NADA pricing guide[4].

While NADA anticipates the pandemic's impact on the automobile market may ease by early 2023, the trade group acknowledges supply-side risks remain a high-water mark for the

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

industry to overcome. The combination of lean vehicle inventory and overall inflationary pressure circulating through the U.S. economy present unique challenges to forecast future growth for this revenue source. Accordingly, the FY 2023 estimate reflects moderate growth over the forecasting period[5].

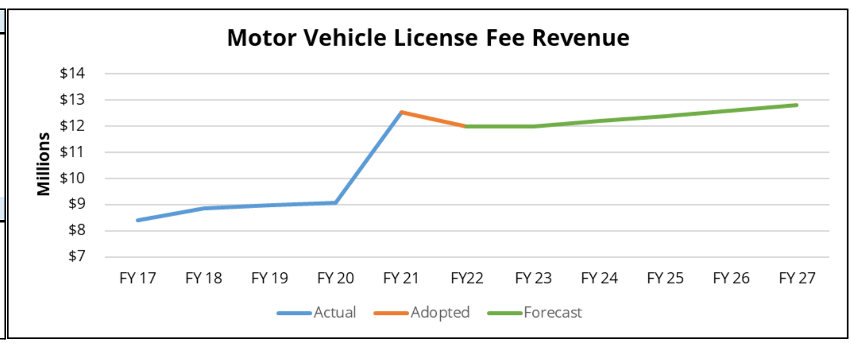
FY		Actual	% Change
FY 17	$	178,876,546	5.87%
FY 18	$	182,970,452	2.29%
FY 19	$	195,606,549	6.91%
FY 20	$	209,704,787	7.21%
FY 21	$	222,643,365	6.17%
FY 22 Adopted	$	161,500,000	
FY 22 Revised (Q2)	$	170,594,000	
Forecast			
FY 23	$	166,400,000	-2.46%
FY 24	$	176,800,000	6.25%
FY 25	$	179,452,000	1.50%
FY 26	$	182,144,000	1.50%
FY 27	$	184,876,000	1.50%



Motor Vehicle License Fee

Section 46.2-752 of the *Code of Virginia* authorizes the County to levy a vehicle license fee. 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[6] 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 derived by multiplying the license fee by the estimated billable units in the County.

FY		Actual	% Change
FY 17	$	8,408,654	1.79%
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 Adopted	$	12,000,000	-4.38%
FY 22 Revised (Q2)	$	12,000,000	-4.38%
Forecast			
FY 23	$	12,000,000	0.00%
FY 24	$	12,200,000	1.67%
FY 25	$	12,400,000	1.64%
FY 26	$	12,600,000	1.61%
FY 27	$	12,800,000	1.59%



[5] Previously, the County had combined 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 2017 through FY 2021. Beginning with FY 2022, the data only reflects the vehicle portion.

[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 25% of personal property tax 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 Commissioner of Revenue. This includes property located in Prince William County on January 1 that was used or available for use in business. The annual filing is due by March 1 and includes a detailed listing of the asset(s), original cost information, and year(s) of purchase. Businesses may request a 30-day extension for their filing and many of the larger filers take advantage of this, hence, valuation estimates are not available until mid-April.

Based on filings, assessments are derived by the Commissioner of Revenue 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; the assessment factors are consistent among all classes of business personal property. Assessments begin at 50% of cost for items purchased in the immediate prior year and decrease by 10% annually to a minimum of 10% for items purchased 5 or more years ago. The declining nature of these factors is intended to reflect both technological and functional obsolesce. The Board annually reviews and affirms the assessment ratios used by the Commissioner of the Revenue to assess tangible personal property. This is typically completed in January as part of the personal property tax rate affirmation.

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)

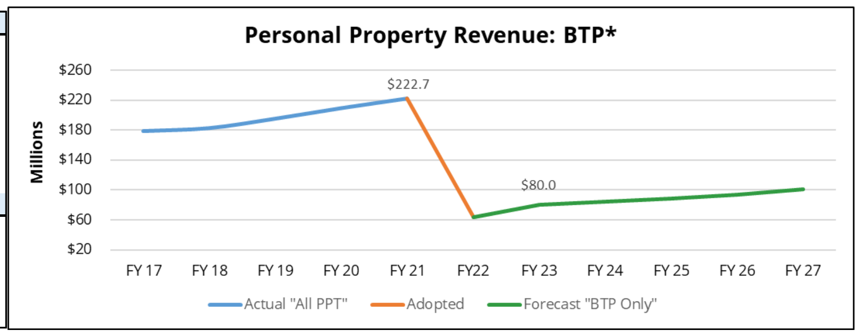
The County has continued to tax both classes at a general property tax rate of $1.65 per $100 of assessed value for tax year 2022 (FY 2023)[7].

[7] On April 27, 2021, the BOCS adopted to increase the tax rate to $1.50 from $1.35.
The current forecast includes a proposed increase in the tax rate over a 3-year period as follows: FY 2023 $1.65, FY 2024 $1.80, FY 2025-2027 $2.00.

Northern Virginia continues to be the largest data center market in the United States with 48% of the primary market inventory of data centers in the United States. According to CBRE, historical supply growth of data centers, including what is under construction, prerelease, or newly delivered, remained relatively high through 2020. Overall demand outpaced new supply. Data center real estate specialists indicate that the pandemic has had minimal effect on the Northern Virginia market. If anything, there has been an acceleration of the data center market because it has caused a lot of smaller corporations to shift their workload to the cloud or to a more virtual environment, thereby increasing the demand for data center. (Source: BAE urban economics, Data Center Market Study, prepared for Prince William County, Virginia)

As noted in the chart below, taxes from business tangible property are expected to increase throughout the five-year plan although at a slower rate[8]. The growth is driven by an increase in the tax rate and increases in the revenue generated by the tax on computer equipment and peripherals, specifically equipment located in data centers assuming continued development.

FY		Actual	% Change
FY 17	$	178,876,546	5.87%
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 Adopted	$	63,431,000	
FY 22 Revised (Q2)	$	77,576,000	
		Forecast	
FY 23	$	80,000,000	3.12%
FY 24	$	84,000,000	5.00%
FY 25	$	88,200,000	5.00%
FY 26	$	93,933,000	6.50%
FY 27	$	100,508,000	7.00%



Personal Property Prior Year

This account is used to record changes to prior year personal property taxes because of changes in estimated allowance for uncollectible taxes. These revenues are less than $500,000 a year and are therefore not addressed in detail.

Personal Property Deferrals

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

[8] Previously, the County had combined 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 2017 through FY 2021. Beginning with FY 2022, the data only reflects the business tangible portion.

The revenue forecast is made by estimating collections of unpaid taxes up to five years' delinquent. This revenue category varies depending on the amount of unpaid taxes at the end of one year compared to the previous year due to: 1) voluntary payment of taxes, 2) County resources allocated to collection efforts, and 3) the success of those collection efforts.

Personal Property Penalties - Current Year

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

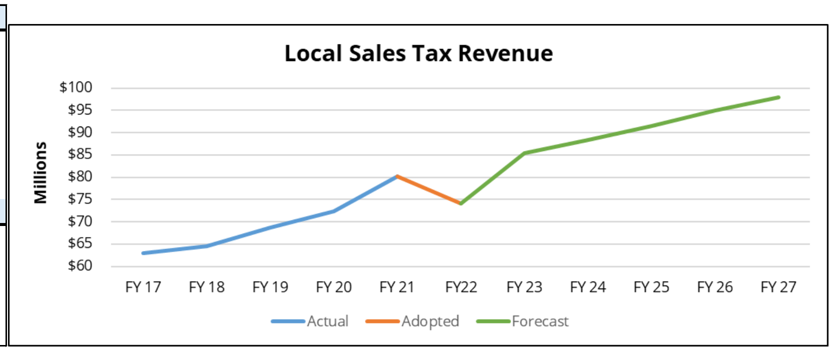
Personal property penalty revenue is projected to increase in each year of the FY 2023– 2027 forecast period due to the increase in the estimate of personal property taxes billed each year.

Local Sales Tax

Prince William County, by adopted ordinance, has elected to levy a 1% general retail sales tax. This tax is levied 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. Sales tax revenue is collected by the Virginia Department of Taxation and is distributed to the County monthly. There is a two-month lag between the date of sale and the actual receipt of funds by the 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. Therefore, the County realizes approximately 98% of the monthly sales taxes collected.

FY	Actual		% Change
FY 17	$	63,021,936	4.08%
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 Adopted	$	74,150,000	-7.44%
FY 22 Revised (Q2)	$	82,500,000	2.98%
	Forecast		
FY 23	$	85,400,000	3.50%
FY 24	$	88,400,000	3.50%
FY 25	$	91,500,000	3.50%
FY 26	$	95,000,000	3.50%
FY 27	$	98,000,000	3.50%



Retail activity, as reflected by sales tax revenue, increased 10.7% in FY 2021, above the 3% forecast growth rate. In the wake of the pandemic, consumers continued to shift their purchases from brick-and-mortar to online purchases. The forecast for FY 2022 was adjusted in Q2 to align with actual year-to-date receipts from the Commonwealth and serves as the basis for a projected increase of up to $82.5 million for FY22. Through the application of a historically consistent forecast methodology, while demonstrating awareness of the fluid nature of recent price increases for goods and services, a conservative growth rate of 3.5% is estimated for FY 2023 and the remaining forecast period.

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

- a resilient local economy
- continued growth in the number of retail establishments;
- a high level of household income – median household was $107,707[9]);
- low unemployment;
- wage growth;
- continued population growth; and
- increase in registered remote sellers[10].

Grocery Sales Tax Repeal

Governor Youngkin included in his Day-One Game Plan Legislative Agenda a proposal related to sales tax exemption on food purchased for human consumption and essential personal hygiene products, in short "grocery tax". Under current law, both food purchased for human consumption and essential personal hygiene products are taxed at the reduced rate of 2.5%. The rate of tax levied on these items is comprised of 1.0% local option tax and 1.5% state sales tax. If a reduction or elimination of the tax is adopted during the special session of the 2022 General Assembly, it would become effective July 1, 2022. The elimination of the sales tax has not occurred as of the date of this report, but there is ongoing discussion which makes the elimination a possibility. The County is closely monitoring the situation during the state's legislative session. It is estimated the elimination of this tax will reduce County revenue by $11.0-$15.0 million annually. The adopted revenue forecast incorporates a provision for a potential reduction in revenues over FY 2023 - 2027 in anticipation of the passage of this proposal by the General Assembly[11].

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*[12] 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.

[9] Source: U.S. Census Bureau 2016-2020 American Community Survey (ACS) 5-Year Estimate.
[10] Effective July 1, 2019 HB 1722/SB 1083 - Remote Sales & Use Tax Collection.
[11] On June 1, 2022, the Virginia General Assembly passed the state budget, eliminating the 1.5% state tax on groceries but kept intact the 1% local grocery tax.
[12] Code of Virginia §58.1-3814.

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 2023-2027 forecast reflects a stable forecast in new residential housing units.

The levy for *electricity*[13] consumption based on kilowatt-hours (kWh) is:

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

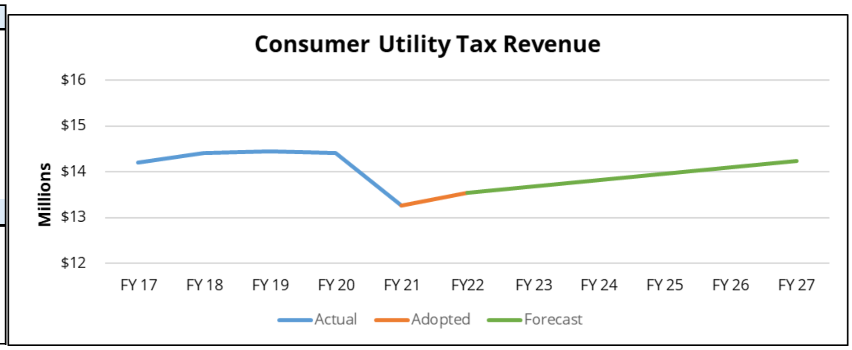
The levy for *natural gas*[14] consumption based on 100 units of cubic feet (CCF) is:

- 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.

Consumer utility revenue received during FY 2021 exhibited inconsistent remittance from the utility providers, leading staff to recalibrate the FY 2022 forecast to reflect future uncertainty of utility tax receipts. On August 10, 2021, Governor Northam signed House Bill 7001, the Budget Bill. The budget carved out a utility assistance fund to help provide direct assistance to residential utility customers with accounts over 60 days in arrears as of August 31, 2021. Funds were distributed directly to utility companies for the purpose of efficiently providing direct assistance to customers.

Staff will continue to closely monitor this revenue source and make appropriate adjustments to the FY 2022 forecast. The FY 2023 - 2027 forecast has been increased by 1.0 percent to reflect this revenue stream's modest recovery.

FY	Actual	% Change
FY 17	$ 14,195,902	1.57%
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 Adopted	$ 13,540,000	2.06%
FY 22 Revised (Q2)	$ 13,540,000	2.06%
	Forecast	
FY 23	$ 13,675,000	1.00%
FY 24	$ 13,812,000	1.00%
FY 25	$ 13,950,000	1.00%
FY 26	$ 14,090,000	1.00%
FY 27	$ 14,231,000	1.00%



[13] Prince William County, VA-*Code of Ordinances* Sec. 26-111.
[14] Prince William County, VA-*Code of Ordinances* Sec. 26-112.

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.
The communications sales tax, imposed on the charge for sale of communications services at the rate of 5%, is generally collected from consumers by their service providers and remitted to the Virginia Department of Taxation each month on the following services:

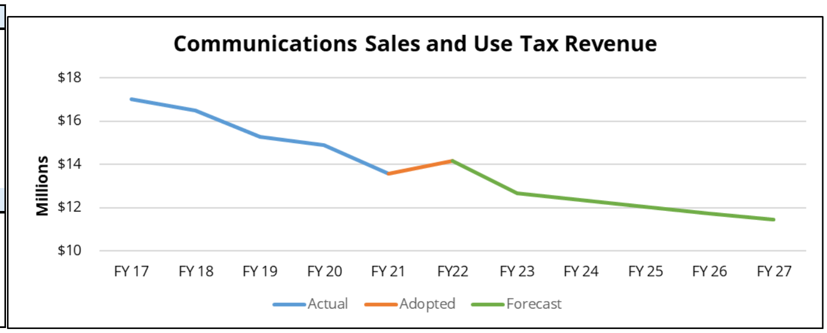
- Landline Telephone
- Wireless Telephone
- Cable Television
- Satellite Television
- Paging
- Voice Over Internet Protocol

As enumerated in § 58.1-662 of the *Code of Virginia*, the communications sales and use tax revenue will be distributed 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 2021 National Health Interview Survey (NHIS), released May 2022, indicate that the number of American homes with only wireless telephones continues to grow. The survey states that over two-thirds of American homes (68.0%) had only wireless telephones.

Additionally, as part of the Commonwealth's 2020--2022 biennium budget an annual deposit[15] to the Commonwealth's general fund was 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. The annual deposit to the Communications Sales and Use Tax Trust Fund is expected to continue. Revenues are projected to decline in FY 2023 and the outyears as this revenue source has yet to level out.

FY		Actual	% Change
FY 17	$	17,035,603	-2.60%
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 Adopted	$	14,180,000	4.57%
FY 22 Revised (Q2)	$	13,000,000	-4.13%
		Forecast	
FY 23	$	12,680,000	-2.46%
FY 24	$	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%



[15] 2018 Appropriation Act, Chapter 2 paragraph KK.

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[16]:

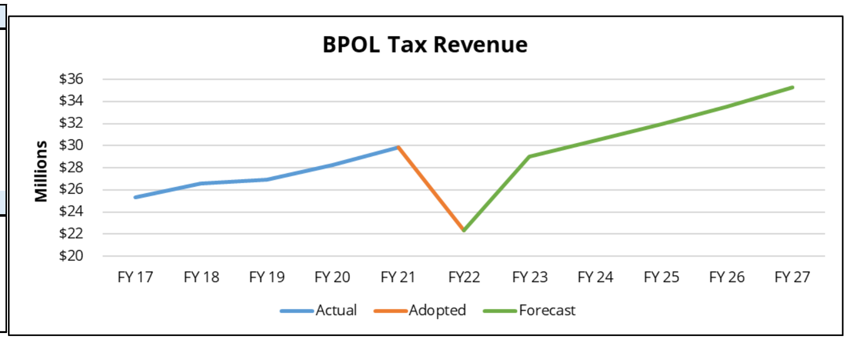
- County businesses with annual gross receipts (from the prior calendar year) greater than $500,000;
- New businesses in the County based on an estimate if gross receipts are greater than $500,000 for the current year; and
- Building contractors located outside the County but performing work within the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

BPOL revenue is made up of the following components: retail (41%), building construction (19%), business services (21%), professional services (10%), and hotels and other (9%).
The number of active accounts that reported gross receipts above the threshold in 2021 decreased by 3%, reflecting an improvement from 2020's decrease of 17%. The basis for the FY 2023 BPOL tax revenue is business gross receipts from calendar year 2022.

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 will play a large role in the growth of this revenue source. The FY 2023-2027 forecast reflects a conservative increase in total revenues.

FY	Actual	% Change
FY 17	$ 25,340,993	1.10%
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 Adopted	$ 22,375,000	-25.12%
FY 22 Revised (Q2)	$ 28,000,000	-6.30%
	Forecast	
FY 23	$ 29,000,000	3.57%
FY 24	$ 30,450,000	5.00%
FY 25	$ 31,973,000	5.00%
FY 26	$ 33,572,000	5.00%
FY 27	$ 35,251,000	5.00%



[16] 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.

BPOL Taxes - Public Service

The Business, Professional, and Occupational License (BPOL) tax is imposed on public utility companies that operate in the County and generates approximately $450 thousand annually.

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 from $0.29/$100 of assessed value to $0.50/$100 of assessed value effective January 1, 2001.

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[17] 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.

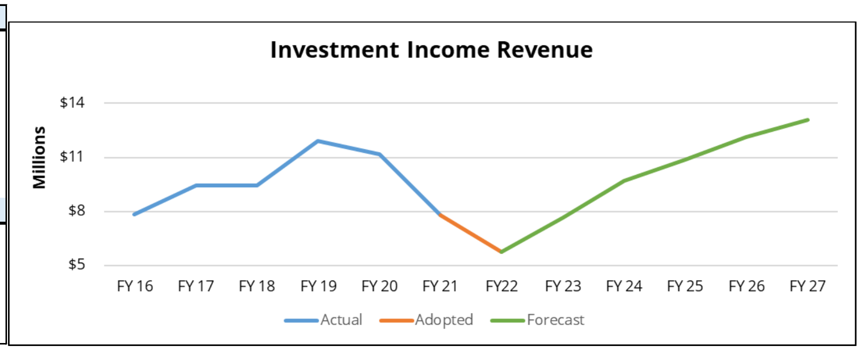
The investment income forecast is fabricated by projecting an average portfolio yield and total dollar value of the portfolio to develop an estimate of investment income for future fiscal years. The general fund share is calculated based on the prior year actual share of cash balances available to invest.

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

[17] Amended and adopted by the BOCS on December 15, 2020.

2023-2027 that will permit a reasonable expansion of portfolio assets. The general portfolio's forecast average balance for FY 2023 is $1.50 billion and is projected to reach $1.76 billion by FY 2027.

FY		Actual	% Change
FY 17	$	9,417,266	20.23%
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 Adopted	$	5,750,000	-26.32%
FY 22 Revised (Q2)	$	6,000,000	-23.12%
		Forecast	
FY 23	$	7,650,000	27.50%
FY 24	$	9,690,000	26.67%
FY 25	$	10,880,000	12.28%
FY 26	$	12,150,000	11.67%
FY 27	$	13,090,000	7.74%



Prince William County's portfolio earnings yield is broadly correlated to the Federal Funds Rate and current holdings in the portfolio. Surging inflationary pressure compelled the Federal Reserve to begin removing monetary accommodation in late 2021 through the reduction of Treasury and Mortgage-Backed Security purchases and telegraph an increase to the Federal Funds Rate in March 2022 following the Financial Open Market Committee's meeting in January. Currently, financial markets anticipate the Federal Reserve to embark on a series of interest rate increases to the Federal Funds Rate during 2022. While COVID-19, the path of inflation, and an unpredictable geopolitical landscape pose unique risks to economic stability moving forward, the current trajectory of inflation and growth should facilitate a tightening of financial conditions. Given the absence of any sustained disruption(s) during 2022, a gravitation toward monetary policy normalization should support interest rates at levels consistent with the investment income forecast for FY 2023. 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 maturity horizon of portfolio assets, and future cash flow obligations.

Food and Beverage Tax

As authorized by §58.1-3833 of the Code of Virginia, counties may levy a tax on food and beverages sold, for human consumption. The General Assembly, in its 2020 session, amended the enabling legislation removing the voter referendum requirement. On April 26, 2022, the BOCS approved a food and beverage tax at a rate of 4%[18]. Effective July 1, 2022, the County will begin levying the tax on the purchase of prepared food and beverages.

Based on analysis of pre-pandemic FY 2019 and FY 2020 taxable sales generated by restaurants, the adopted food and beverage tax at a rate of 4% is estimated to generate $24.5 million annually throughout the proposed five-year plan. The restaurant industry continues to navigate its way through the pandemic and is reshaping the industry's sales, operations,

[18] Seller retains 3% of the total tax collected to offset the cost of collection, if remitted timely.

workforce, menus, and use of technology. Despite the challenges, consumers' pent-up demand for restaurant services remains high. Locally, impacts associated with restaurant closures and limited service, along with inflationary pressures on food prices, provide some uncertainty, warranting a conservative forecast.

All Other Revenue Sources

Additional Revenue Sources

Listed below are additional general revenue sources estimated to be less than $5 million each. The forecast and a description of each revenue source follows:

Revenue Source		FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Daily Rental Equipment Tax	40215	$ 541,000	$ 552,000	$ 563,000	$ 574,000	$ 585,000
Consumption Tax	40221	$ 1,400,000	$ 1,400,000	$ 1,400,000	$ 1,400,000	$ 1,400,000
Bank Franchise Tax	40230	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
Tax on Deeds	40261	$ 3,400,000	$ 3,400,000	$ 3,500,000	$ 3,500,000	$ 3,500,000
Transient Occupancy Tax	40270	$ 1,600,000	$ 1,648,000	$ 1,697,000	$ 1,748,000	$ 1,800,000
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	$ 1,500,000	$ 1,545,000	$ 1,591,000	$ 1,639,000	$ 1,688,000
Manufactured Home Titling Tax	41305	$ 36,000	$ 36,000	$ 36,000	$ 36,000	$ 36,000
Peer-to-Peer Vehicle Sharing Ta	41306	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Payments in Lieu of Taxes	41700	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Cigarette Tax	40280	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
Total Revenue		$ 13,642,000	$ 13,746,000	$ 13,952,000	$ 14,062,000	$ 14,174,000

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.

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. The tax on deeds is levied when:

- property ownership changes;
- property ownership is conveyed in any manner; or
- 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. Despite recent increases in 30-year mortgage rates, they remain at historical lows. Prince William County's housing market remains challenged by lack of inventory, however as reported by Virginia Realtors is amongst the most competitive markets in the Commonwealth[19]. Uncertainty surrounding affordability and a rising interest rate environment 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 fewer than 30 consecutive days. 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. The transient occupancy tax forecast is based on number of hotel rooms, occupancy rates, room rates and tourism related events.

There is an additional 3%[20] 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, a measure of healing began to take hold during 2021 as the availability and distribution of COVID-19 vaccines helped facilitate the sector's recovery

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[19] Virginia Realtors "Where are the Most Competitive Housing Markets So Far in 2022 in Virginia?"
[20] §58.1-1744 (Effective May 21, 2021); Local transportation transient occupancy tax. Prior to May 1, 2021, rate of 2%.

process. As reported by the Department of Parks, Recreation and Tourism, the County expects to see FY 2023 revenues in this category return to pre-pandemic levels. A conservative growth rate of 3% growth is forecast in the outyears barring any future surges of COVID-19.

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%[21] 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, receipt sharing payments, and the amount of Federal land within an affected county. On December 7, 2021, the U.S. Department of the Interior announced funding for the PILT program will continue at the 2021 rate under Section 101 of the Continuing Appropriations Act, 2022 (P.L.117-70). 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 Board of County Supervisors 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 began remitting Cigarette Tax revenues for Prince William County effective February 2022. It is estimated that implementing a cigarette tax at $0.40 per pack will generate approximately $3.0 million annually.

Consumption Tax

Authorized by the Code of Virginia §§58.1-2900 through 58.1-2907, this tax is levied on consumers of electricity and gas and is in addition to the Consumer Utility Tax. The tax replaced the states local license tax pursuant to §58.1-3731 levied on corporations furnishing heat, light, or power by means of electricity and/or natural gas. Rates are set by the state and are based on usage. Annually, this tax generates approximately $1.4 million.

[21] §58.1-1736(D)(1) and (2)). Effective July 1, 2021.