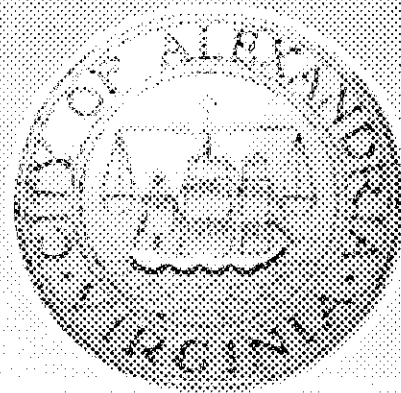


City of Alexandria



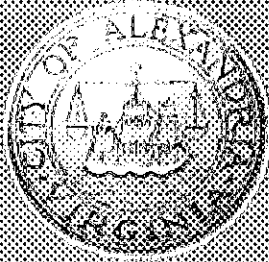
Financial Issues
City Council Retreat
November 3, 2001

*Economic
and
Revenue Outlook*



City Council Retreat

November 3, 2001

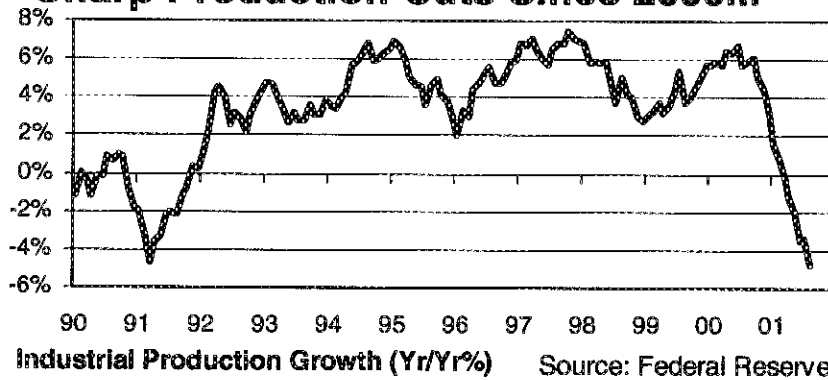


Economy - National

- Did events of 9/11 tip the economy into a recession?
- GDP decreased at 0.4% which is weakest quarterly showing since 1991
- Earlier signs of growth reversed
- Pace of Federal Reserve interest rate cuts most aggressive since 1961
- Lowest interest rates since 1962
- Airline travel down 25%

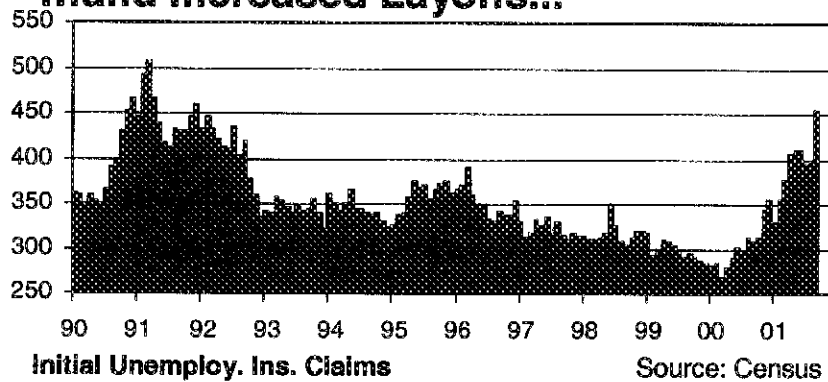
Business Correction Underway Prior to Sept. 11...

Sharp Production Cuts Since 2000...



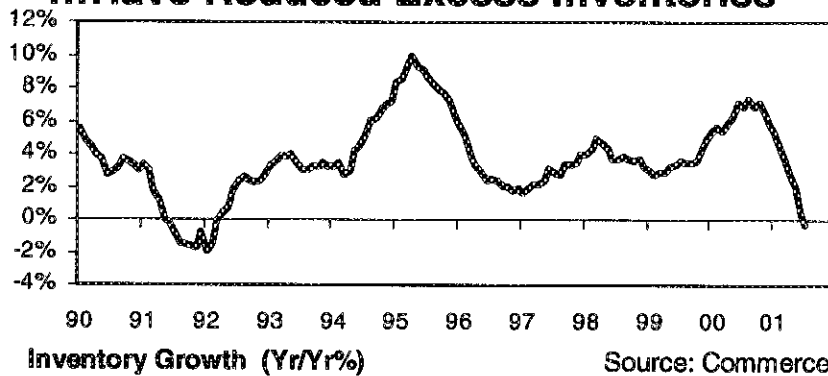
- ◆ Businesses began responding vigorously to slowing sales by cutting output last year.

...and Increased Layoffs...



- ◆ There also were significant layoffs in an attempt to keep costs under control. The aggressive production and job cuts were underway prior to the September 11 tragedy.

...Have Reduced Excess Inventories

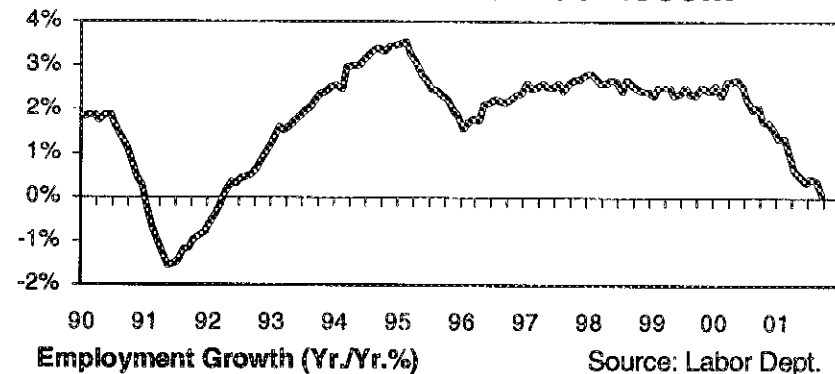


- ◆ These corrective measures were effective in helping to bring excess inventories under control.

...Consumers Also Have Cut Back

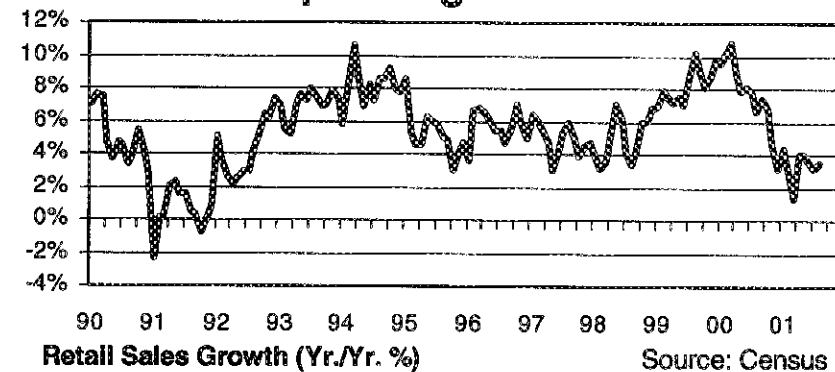
◆ The job cuts began at a time of relatively tight labor markets, but slowed personal income growth. As with production, this process began in 2000.

Jobs Have Declined Since 2000...



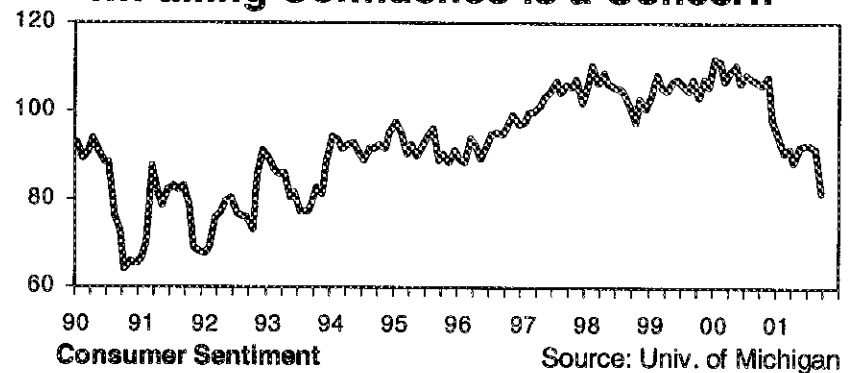
◆ The slowdown in income growth, along with the increasing interest rates in the first half of last year slowed consumer spending.

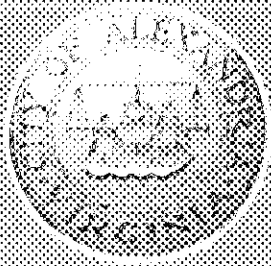
...As Has Spending...



◆ Consumer confidence slipped from the highs of last year, but stayed well above the lows of the last recession. More recently, confidence began falling after the September 11th attacks.

...Falling Confidence is a Concern



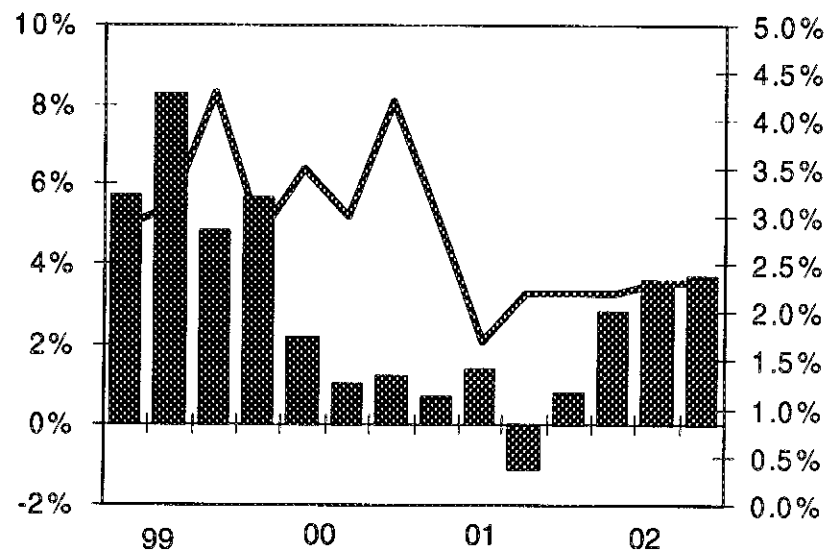


What Comes Next?

- Increase in Defense and other Federal spending
- Another Federal Reserve rate cut?
- Rebound in consumer and investor confidence?
- Low inflation?
- Short-lived recession?
- Impact if more incidents occur?

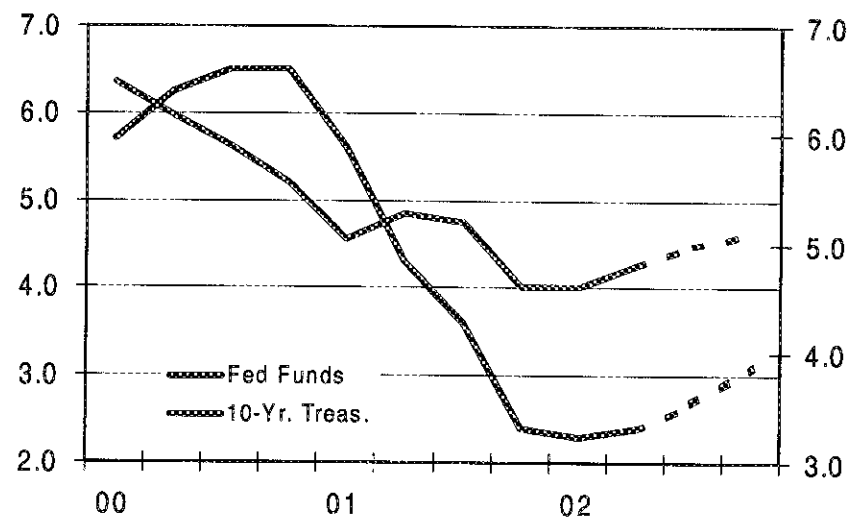
The Consensus Forecast

Real Growth & Inflation



Real GDP (Bar Left) CPI (Line Right)

Interest Rates / Yields

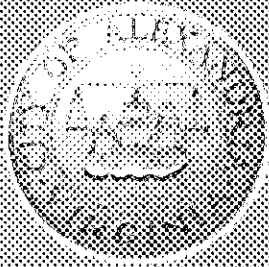


Fed Funds (Dark) 10-Yr. Treasury (Light)

Macro Economic Forecast	Actual				Forecast					
	4Q00	1Q01	2Q01	3Q01	4Q	1Q02	2Q	3Q	4Q	1Q03
Real GDP	1.0	1.3	0.5	1.4	-1.1	0.8	2.8	3.6	3.7	3.6
Consumer Price Index	2.9	4.2	3.1	1.7	2.2	2.2	2.2	2.3	2.3	2.4
Interest Rate Forecast										
Fed Funds	6.47	5.59	4.34	3.6	2.4	2.3	2.4	2.7	3.1	3.6
10-Year Treasury	5.57	5.05	5.27	5.1	4.6	4.6	4.8	5.0	5.1	5.4

Source: Blue Chip Financial Forecasts, October 2001





Economy - Virginia

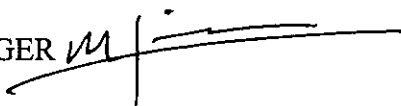
- Parallels national economy, but grows faster
- Economy has slowed
- Individual income tax revenues = -6.8%
+8.9% budgeted
- Corporate income taxes = -38.1%
+41.5% budgeted
- Sales tax 0.3% growth (pre 9/11)
+7.7% budgeted

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 15, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK JINKS, ASSISTANT CITY MANAGER 

SUBJECT: REVISION OF *FINANCIAL ISSUES* RETREAT CHART

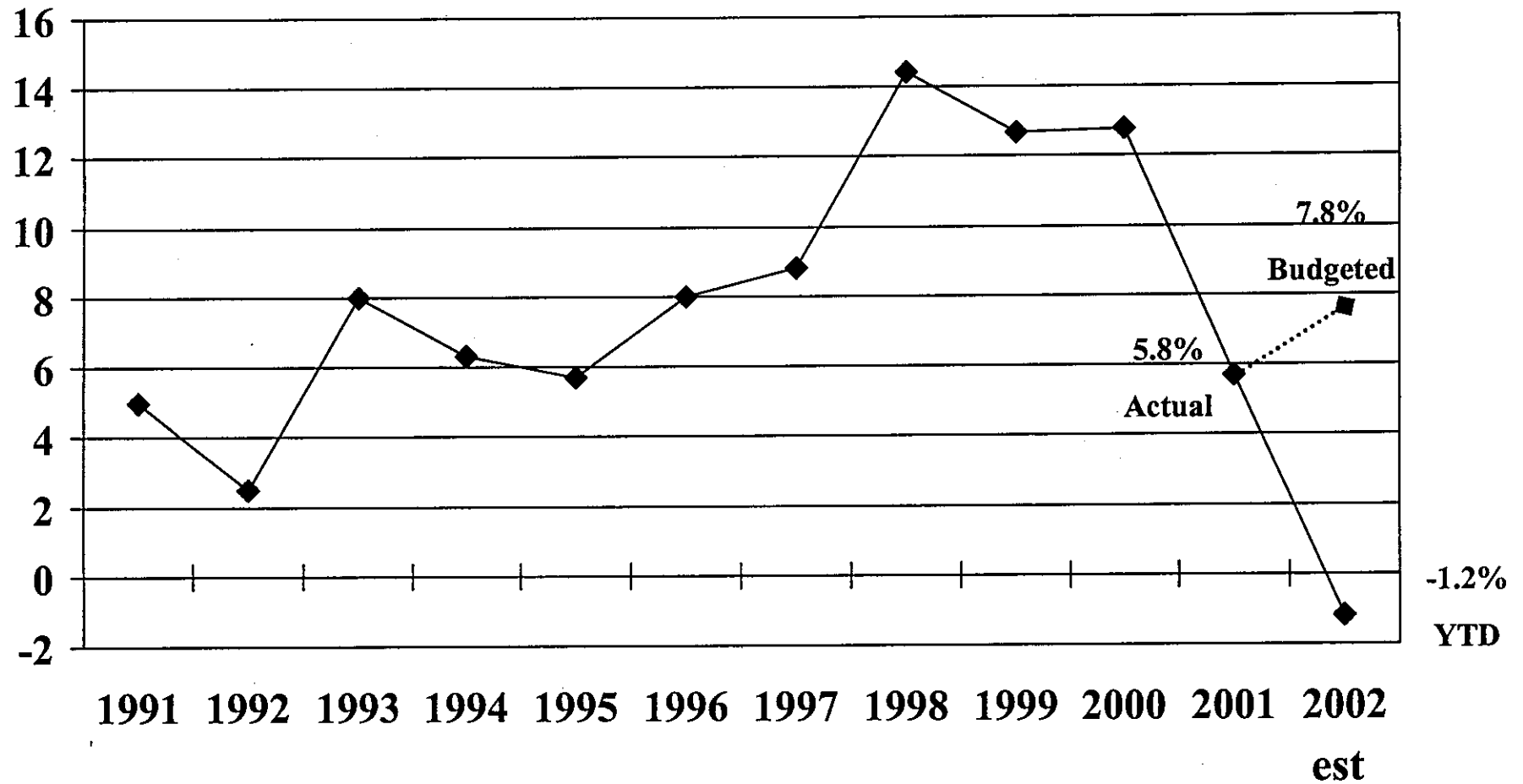
For your retreat notebooks, attached you will find a revised chart "Percent Growth in State Individual Income Tax," which should replace the chart on page nine of the *Financial Issues* presentation. The original chart mixed sales and income tax data. This chart fixes that problem. However, you can see that the drop off in income taxes and the budgeted versus year-to-date receipts for individual income taxes is very close to the trend depicted on the original chart.

Attachment

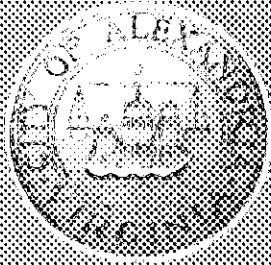
cc: Philip Sunderland, City Manager

Percent Growth in State Individual Income Tax*

(Revised)



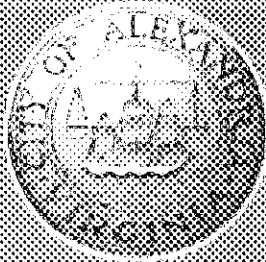
* Excludes Corporate Income Taxes



Economy – Northern Virginia

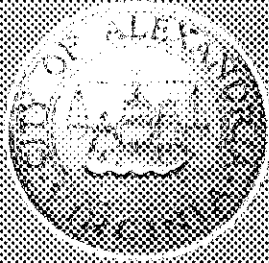
- Office vacancy rates = 5.6%*
- Vacancy with office sublease = 10.5%*
- Vacancy rate leads metropolitan area
- Metropolitan “coincident index” down
- Fairfax County sales tax = -6.4%
- IT and telecom sector problems continue

* Source: Delta Associates September 2001 Report



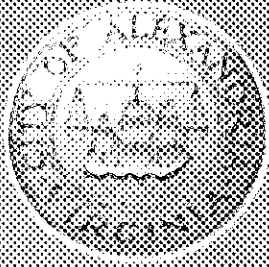
City Revenue Budget

- FY 2001 ending results = +\$1.8 million
- Rates of growth slowed in FY 2001:
 - Personal Property (+7.36%)
 - Sales (+4.7%)
 - Restaurant Meals (+7.0%)
 - Business License (+9.1%)
- Conservative FY 2002 revenue budget
- However, shortfalls in some FY 2002 revenue categories likely

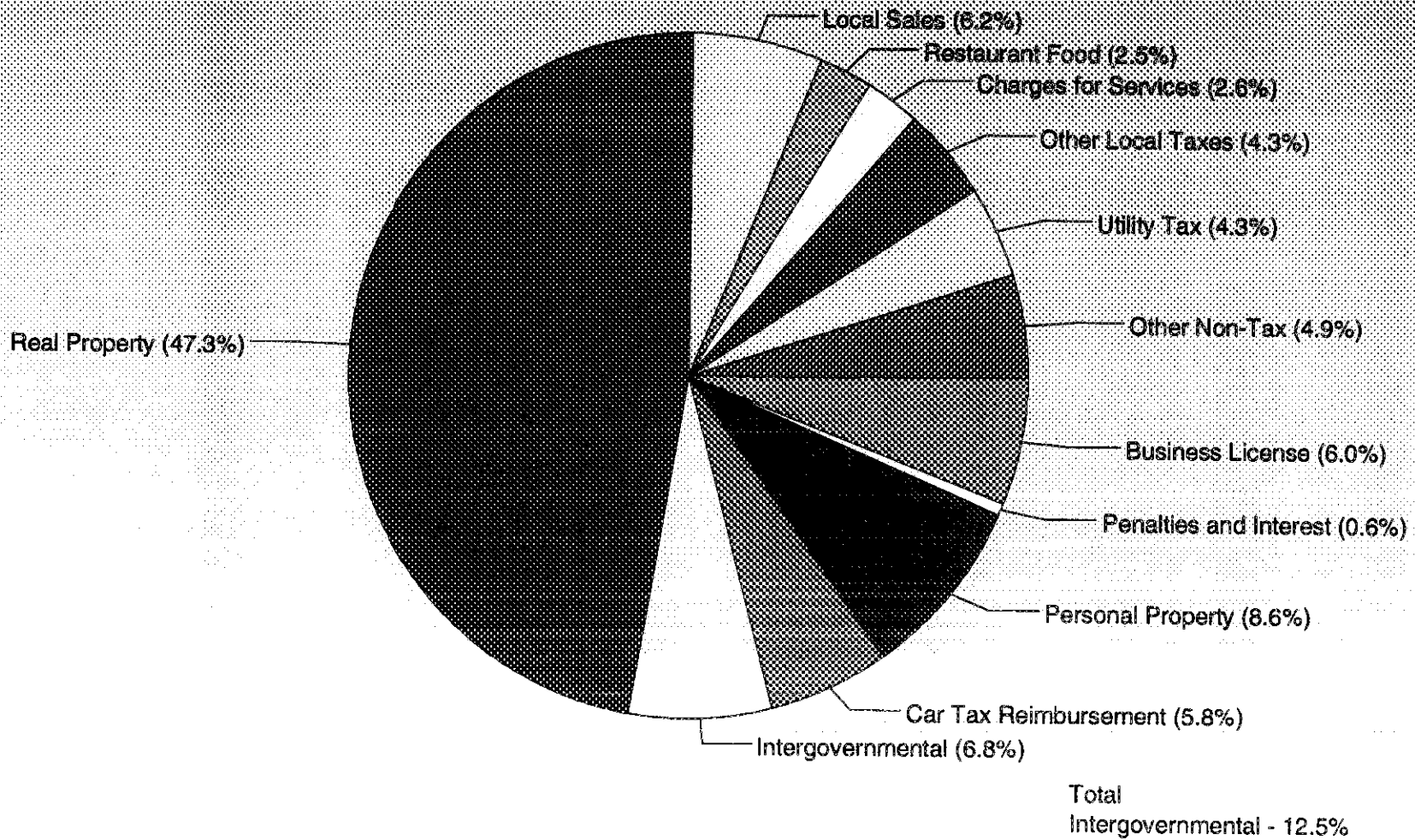


Real Estate Tax Revenues

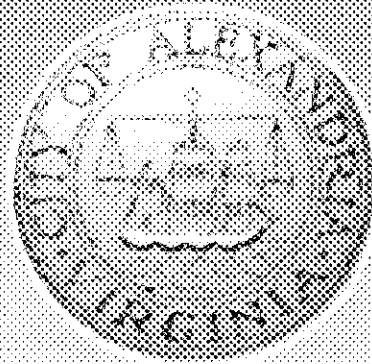
- Tax base grew 10.1% last year
 - Appreciation = +6.9%, New growth = +3.2%
 - Average residential = +9.35%
- Tax base growth of 10% for 2002 projected
- Very strong residential market in 2001
- +12% residential reassessment based on YTD sales trends
 - But will market demand soften before December 31st?
- Commercial properties will appreciate but, hotels likely to decline in value
- Office vacancy rates to rise in 2002 to double digit levels



General Fund Revenues

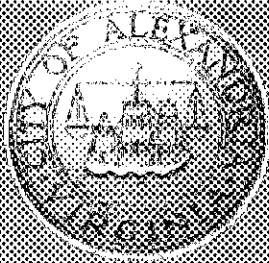


*Expenditure Challenges
In FY 2003 and Beyond*



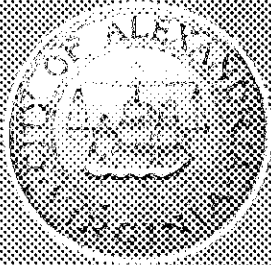
*Operating Expenditures,
And
Capital Improvement Program*

*City Council Retreat
November 3, 2001*



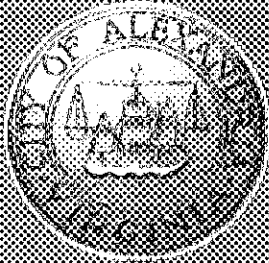
FY 2002 Contingency Planning

- Economic and revenue erosion and uncertainty created the need to develop contingency plans
- 3% Operating budget contingency plan
- 15% Capital budget contingency plan
- Public Safety agencies exempted from targets
- Some additional public safety expenditures likely
- Contingency plans will be reviewed and implemented as necessary
- Vacant non-critical positions being held open



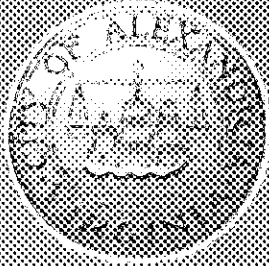
FY 2003 Operating Budget

- **Primary City Budget Drivers**
 - City step increase: \$2.5 million
 - City COLA: \$1.5 million for each 1%
 - Local CPI-U now at 2.8%
 - Benefits
 - Health Insurance: Increase of \$1.0 to \$1.5 million
 - VRS: FY 2003 contribution will remain stable
 - Debt service increases \$2.3 million primarily from July 2001 bond sale

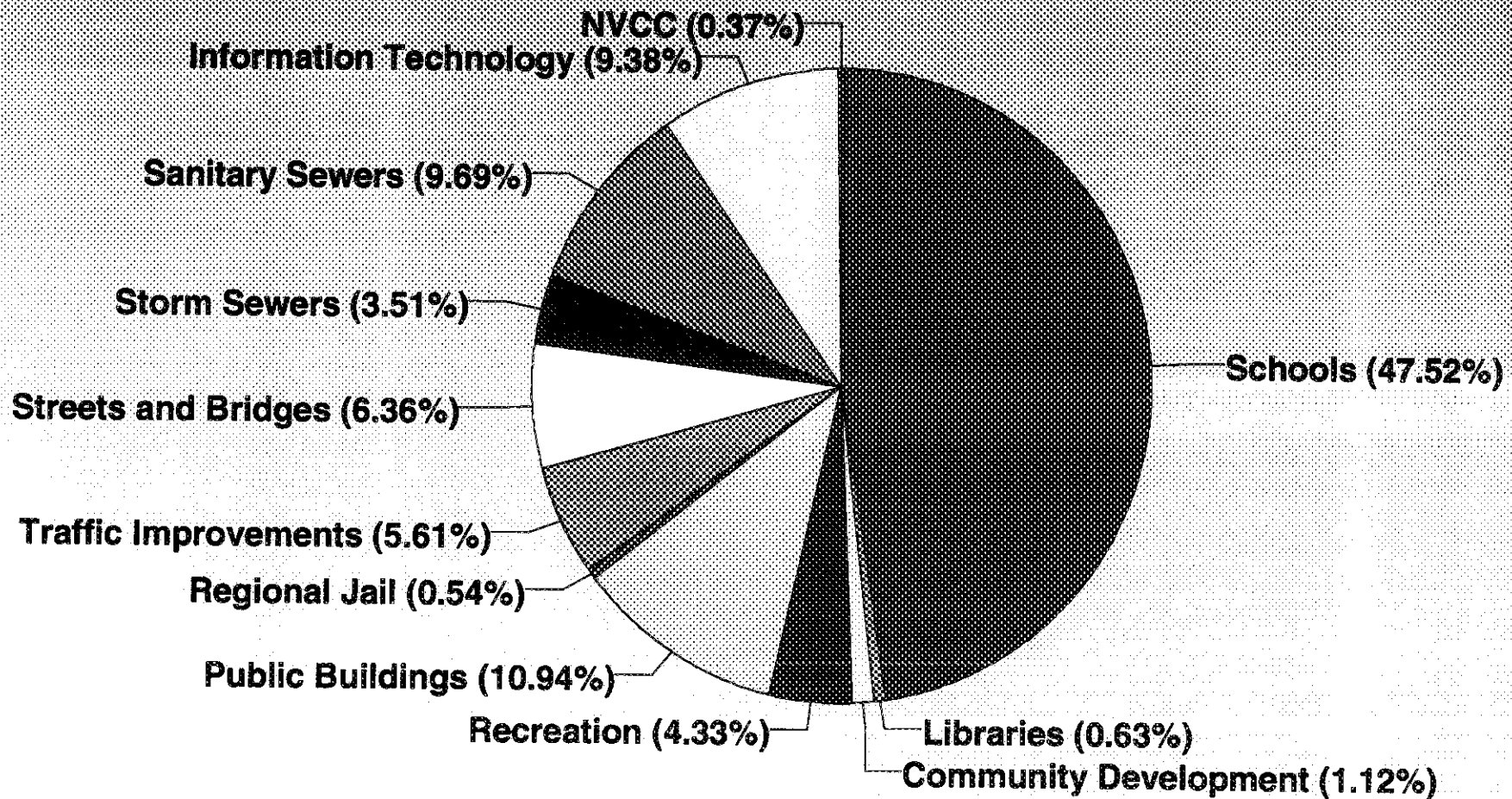


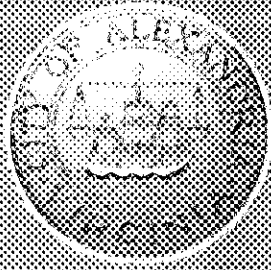
Current Capital Improvement Program FY 2002 – 2007

- CIP Totaled \$197.3 million in local funding
- Represented a 26.3% increase over the prior CIP
- Increased Cash Capital Contributions
 - From \$12.0 million in FY 2002 to \$14.0 million in FY 2003
 - Total of \$82.6 million through FY 2007
- Additional bonding of \$38.5 million previously planned in FY 2004 and beyond
- Current CIP provided increased funding for school capital, sewers, public buildings
- Reductions planned in FY 2002 with rescheduling primarily to FY 2004



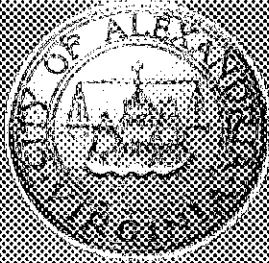
Current Capital Improvement Program FY 2002 – 2007





Current Capital Improvement Program FY 2002 – 2007

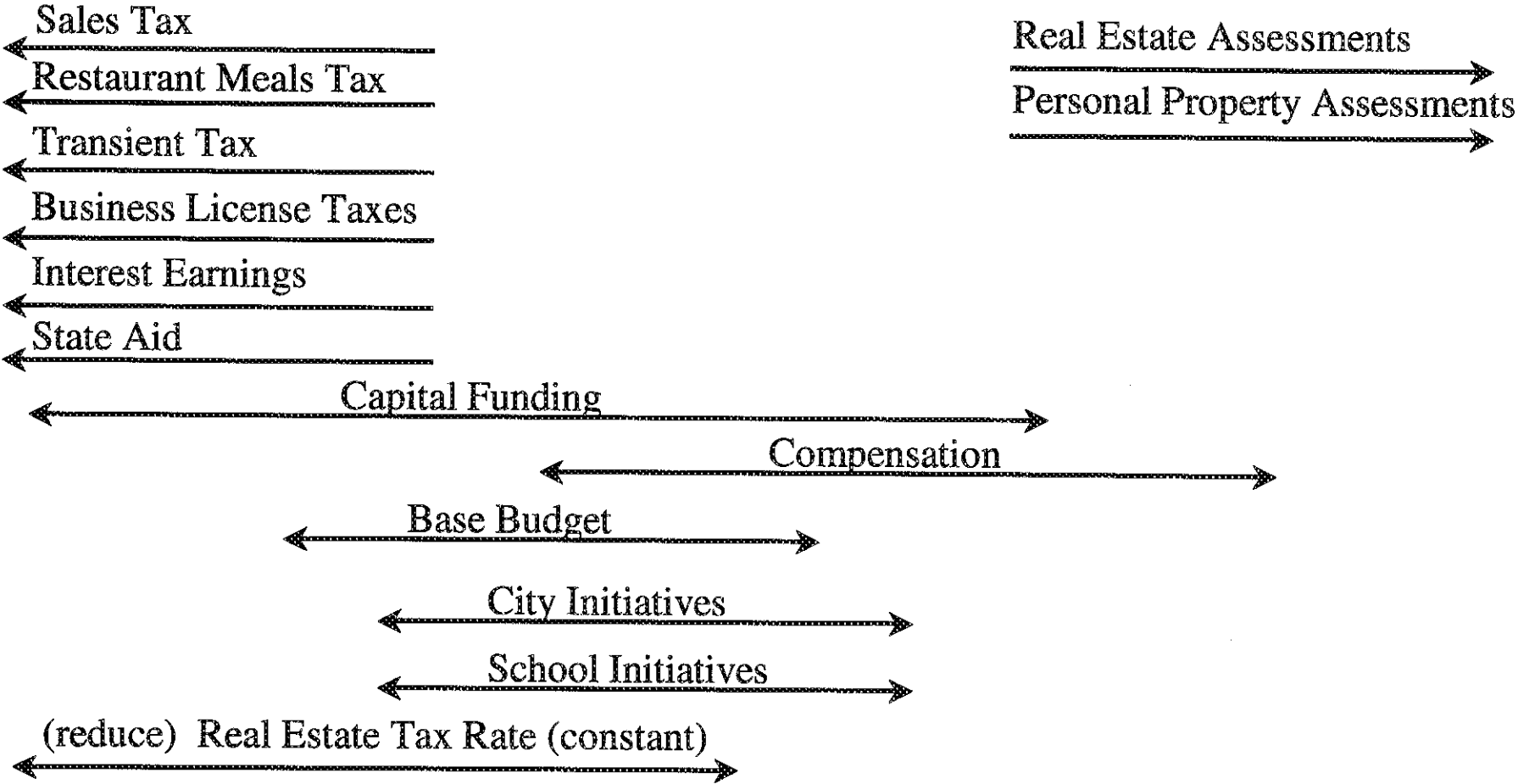
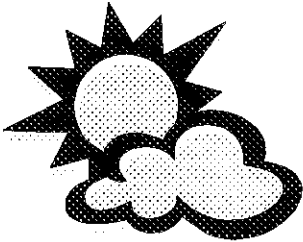
- Updated CIP will have to consider
 - Schools capital
 - Public Safety Center
 - Metrorail/bus capital
 - Health Department
 - Requests to increase current CIP funding plans
 - Citizen interests
 - New or revised project cost estimates
 - Health and safety concerns
 - State or federal mandates
- Deferring projects in current CIP may be necessary to later years or beyond FY 2008

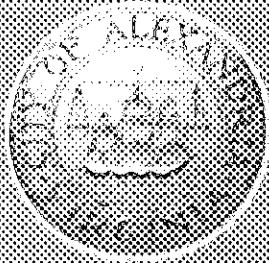


Conclusion: What does the revenue and economic picture mean?

- A great deal of uncertainty for some time
- Timing of tax receipts makes forecasting difficult
- Real Estate Assessments will increase in real terms
- Lower rates of growth and likely some revenue category declines
- Reduced State Aid likely
- Conservative budgeting necessary by City and Schools for both Operating and Capital Budgets

Budget Balancing Factors





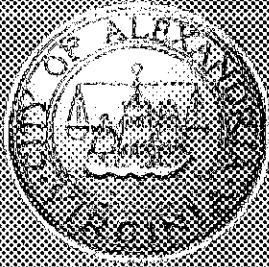
FY 2003 Budget Priorities and Initiatives

- **Public Health & Safety**
 - Community safety and internal security
- **Economic Development**
 - Initiatives to retain and encourage additional economic activity
- **Affordable Housing**
 - Begin implementation of Task Force Report
- **Development Process**
 - Improve the development process
 - Increase fees to recover cost associated with the development process
- **Social and Community Services Planning**
 - Assess based on new Census information
 - United Way “Working Poor Report”



FY 2003 School Operating Budget

- **Primary School Budget Drivers**
 - School step increase: \$2.7 million
 - School COLA: \$1.04 million for each 1%
 - Health insurance increase of 10% (\$0.4 million)
 - Enrollment
 - FY 2001 – Actual Enrollment = 11,167
 - FY 2002 – Enrollment Budgeted = 11,637
 - FY 2002 – Actual Enrollment = 11,104
 - FY 2003 – Projected Enrollment = 11,320
 - Budget savings for FY 2003 due to enrollment decline of 317
 - Projection methodology under review



FY 2003 School Operating Budget – cont'd

- Budget Initiatives and Concerns Under Discussion
 - Restructured Compensation Pilot Program
 - Performance Evaluation Program (\$0.9 million)
 - Athletic Advisory Committee Recommendations
 - Reductions in State Funding (\$0.5 million)
 - Differentiated Resources (\$0.4 to \$0.6 million)
 - ESL Staffing Formula
 - Available Fund Balance (\$1.5 million)