


City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 30, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

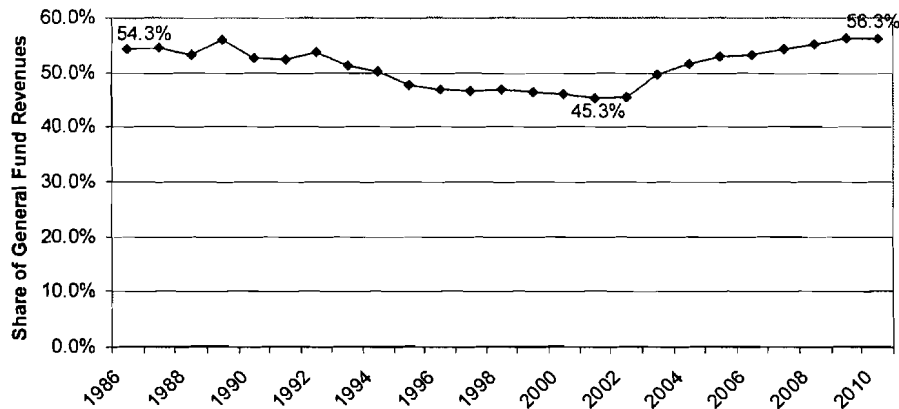
FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: FY 2010 AND FY 2011 REVENUE ESTIMATES

Effect on decline in Real Estate Assessments on Revenues

It is important to emphasize the importance of revenues from real property taxes on the City's General Fund revenues. The share of the General Fund revenues from real property taxes made up over half the budget in 1986 and makes up over half the budget in 2010. As such, the City's overall revenue forecast is highly dependent on the condition of the real estate market.

Revenues from Real Estate
as Share of Total General Fund Revenues



In the FY 10 Approved budget, the City anticipated a decrease of 5% in Calendar Year (CY) 2010 assessments. We now anticipate that assessment decreases will exceed 5% in CY 2010. The chart below shows the effect of different assessment scenarios on 2010 and 2011 revenues. The City's assessment decrease is now expected to range between 5.74% and 9.38% in CY 2010 and from 2% to 8% in CY 2011.

| Effect of Changes in Appraised Value on Revenue Estimates | | | |
|---|---|------------|---|
| | FY 10 Revenue Change from CY 2010 | | FY 11 Revenue Change from CY 2011 |
| | Current Est. | | FY 10 Approved |
| | | -8% | (32,110,342) |
| -9.38% | (6,689,195) | -2% | (23,795,631) |
| -8.07% | (4,688,744) | -5% | (24,052,108) |
| | | -8% | (21,434,710) |
| -5.74% | (1,128,970) | -2% | (12,786,385) |
| Estimate for FY 2010 Approved Real Estate revenues = \$296.3 million | | | |

While the final assessment numbers for CY 2010 remain uncertain, for the purposes of figuring preliminary revenue estimates for FY 2011, we will use a baseline assessment decrease of 8.07% in CY 2010 and 5% in CY 2011.

At the current tax rate of 90.3 cents per \$100 of assessed property value, each 1% decrease in assessments beyond 5% in CY 2010 decreases revenues by approximately \$1.5 million in FY 2010 and \$3 million in FY 2011.

FY 10 Revenue Outlook

The City of Alexandria budgeted conservatively for FY 2010, anticipating a decrease of 5.0% in CY 2010 real estate assessments and flat to modestly increasing revenues in other areas based on the anticipated economic recovery and additional sales tax and business license revenues from BRAC construction. As shown above, the likely decrease in the assessed value of Alexandria property will probably exceed 5%. At our midrange estimate of an 8.07% decrease, FY 2010 real estate revenues would be \$4.7 million below budget. While it's too early to predict other revenues with much precision, the aggregate total of most other revenues at this early date appears to be close to the budgeted amounts. The net result is an expected revenue shortfall of \$4.4 million. The table below shows changes in important revenue sources.

Millions of Dollars

| | FY 2010 Approved | FY 2010 Projected | Change |
|--|---------------------|----------------------|---------------|
| Real Property Taxes | \$296.3 | \$291.6 | -\$4.7 |
| Personal Property Tax | 31.3 | 31.5 | 0.2 |
| Sales Tax | 24.1 | 24.1 | 0.0 |
| Utility Tax | 10.6 | 10.6 | 0.0 |
| Business license tax | 30.1 | 30.5 | 0.4 |
| Recordation | 3.1 | 3.8 | 0.7 |
| Transient Lodging | 11.0 | 11.0 | 0.0 |
| Restaurant Food | 15.2 | 15.0 | -0.2 |
| Communications | 11.8 | 11.4 | -0.4 |
| Interest on General Fund Investments | 1.1 | 1.1 | 0.0 |
| Intergovernmental | 53.4 | 52.6 | -0.8 |
| Total including others not mentioned above* | \$530.0 | \$525.6 | -\$4.4 |

*In the most pessimistic scenario, total real estate tax revenues would decrease by \$6.7 million and total revenues by \$6.4 million. In the most optimistic scenario, real estate tax revenues would decrease by \$1.1 million and total revenues by \$0.8 million.

In the Intergovernmental Revenues category, the decrease of \$1.3 in intergovernmental transfers proposed by the governor is partially offset by the Federal government's subsidy of Alexandria's "Build America" bonds, issued this summer. The estimate of the Communications' Sales and Use tax was reduced by Alexandria's share of a State refund for overpayment of taxes. On the positive side, Recordation revenue is much stronger than expected, mostly as a result of a wave of refinancings and a somewhat better than expected volume of residential sales.

FY 2011 Revenue Outlook

The City's preliminary revenue outlook for FY 2011 is based on an expected decrease of 5% in real estate assessments in CY 11. This is the mid-point of a wide range of possible assessments for CY 2010. The residential real estate market will probably remain weak through next year. Some of the federal government's support for the residential real estate market will likely be withdrawn, and the economic recovery may increase interest rates. On the commercial side, during the last significant downturn in the commercial real estate market, after a double digit decline in assessments in 1992, assessments decreased more moderately over the next several years. If history repeats itself, then commercial real estate assessments will fall again in CY 2011, but at a slower pace. The net result is an expected decrease of \$20.6 million compared to FY 2010 revenues.

The table below shows the City's preliminary estimates for FY 2011 General Fund revenues, including real estate.

Millions of Dollars

| | FY 2010 Approved | FY 2011 Projected | \$ Change | % Change |
|--|---------------------|----------------------|----------------|--------------|
| Real Property Taxes (1) | \$296.3 | \$272.2 | -\$24.1 | -8.1% |
| Personal Property Tax (2) | 31.3 | 31.5 | 0.2 | 0.6% |
| Sales Tax | 24.1 | 24.7 | 0.6 | 2.7% |
| Utility Tax | 10.6 | 10.7 | 0.1 | 0.9% |
| Business license tax | 30.1 | 30.8 | 0.7 | 2.3% |
| Recordation | 3.1 | 3.2 | 0.1 | 3.2% |
| Transient Lodging | 11.0 | 11.4 | 0.4 | 3.6% |
| Restaurant Food | 15.2 | 15.3 | 0.1 | 0.7% |
| Communications | 11.8 | 11.6 | -0.2 | -1.7% |
| Interest on General Fund Investments | 1.1 | 1.6 | 0.5 | 45.5% |
| Intergovernmental Revenues (2) | 29.8 | 28.5 | -1.3 | -4.4% |
| Fund Balance | 3.6 | 4.9 | 1.3 | 36.1% |
| Total including others not mentioned above(3) | \$530.0 | \$509.4 | -\$20.6 | -3.9% |

(1) Assumes 5% CY 2011 assessment reduction

(2) Includes U.S. subsidy of Alexandria's "Build America" bonds

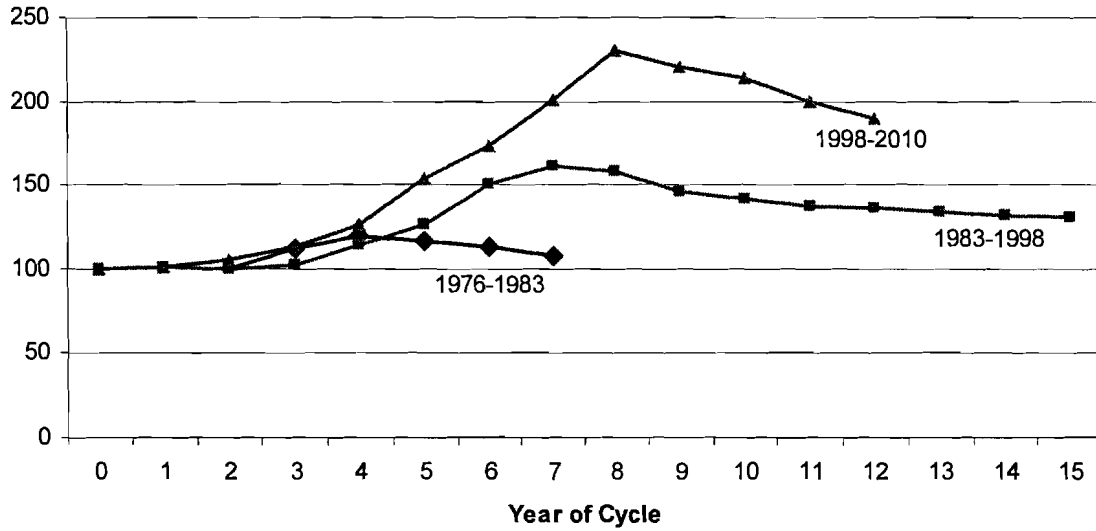
(3) In the pessimistic scenario, real estate tax revenues would decrease by up to \$32.1 million and total revenues by up to \$28.6 million. In the optimistic scenario, real estate tax revenues would decrease by as little as \$12.8 million and total revenues by \$9.3 million.

Most of the City's revenue projections for FY 2011 are based on the average annual rates of increase over the last ten year period. The exception is the intergovernmental revenues category which is uncertain, given significant shortfalls in the state's revenues. According to a Weldon-Cooper analysis of the State's August revenue forecast, while FY 2011 revenues are supposed to grow by around 3.8% compared to FY 2010, there is a probable state government revenue/expenditure gap of \$1.5 billion. Funding from the State's Rainy Day fund and federal stimulus revenue made up much of the gap in FY 2010; neither source will be able to contribute as much in FY 2011.

Beyond FY 11

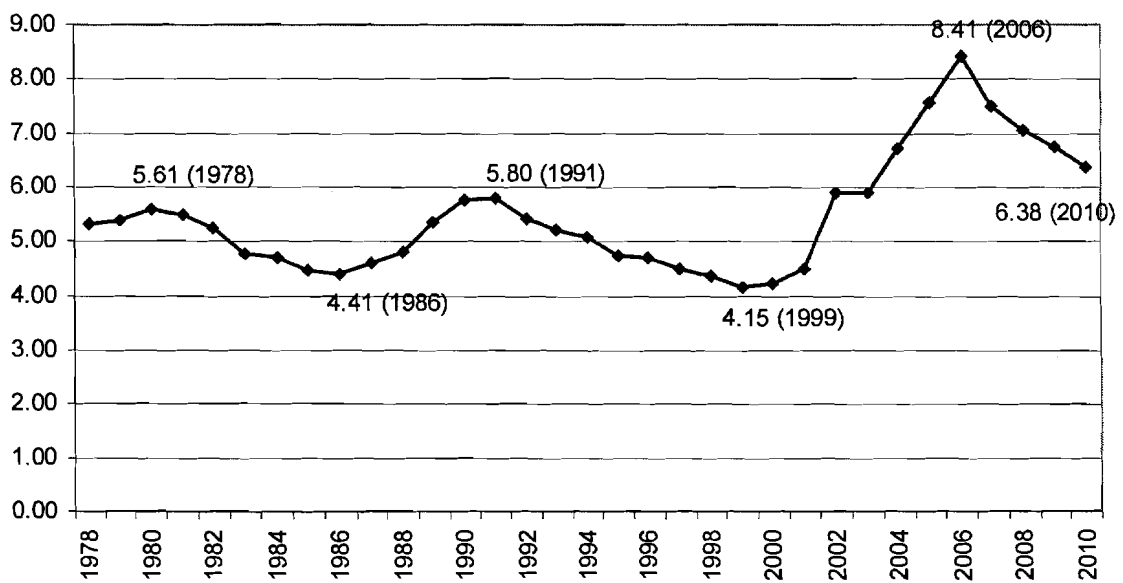
The City's revenues will continue to be dependent upon the condition of the Real Estate market. The chart below shows the current residential real estate cycle for single family homes compared to the previous cycles, where 100 equals of the value of the average home at the beginning of each cycle. If history repeats itself, the downward leg of the current residential real estate cycle may have several more years to run.

**Alexandria Single Family Dwellings
Average Value by cycle
Beginning of Cycle = 100**



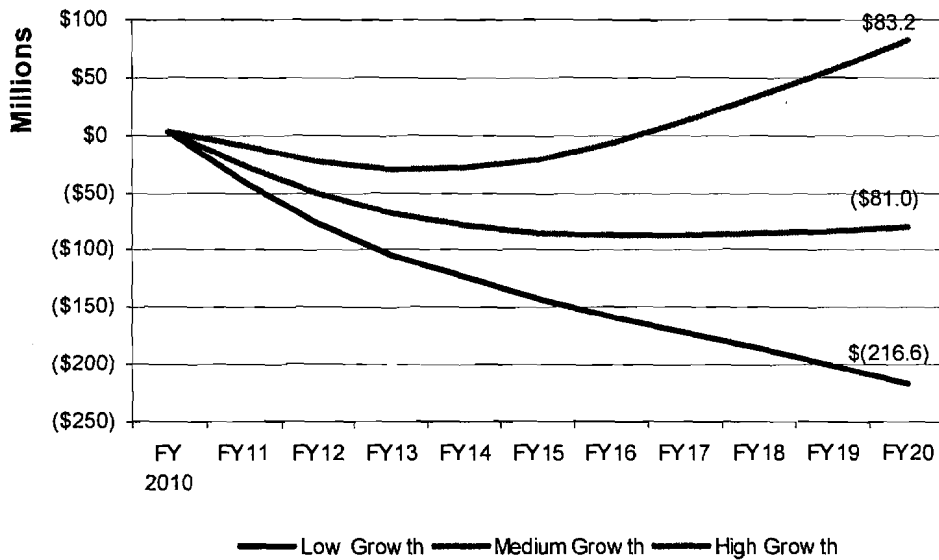
The chart below shows home values as a multiple of per capita income from 1978 to the present. From the chart, it is apparent that four years after the real estate market peaked in 2006, the multiple continues to be above its previous high in 1992.

**Alexandria's Average Home Value
as a Multiple of Average Per Capita Personal Income**



The graph below from the long-term budget model also includes forecast expenditures assuming current policies. The medium growth scenario includes real estate growth assumptions of -8.1% for CY 2010, -5.0% for CY 2011, 0% for CY 2012, 3.0% for CY 2013, 5.3% for CY 2014, and 6% for CY 2015 and beyond. All scenarios assume long-term expenditure growth of 4.2% annually, including an annual market rate adjustment of 2% after FY 11 (but not in FY 11) and annual health care cost increases of 8%. Except in the high-growth scenario, without expenditure reductions or tax changes, the long-term budget is strategically out of balance. In the high growth scenario, the budget will come back into balance in FY 2017.

Budget Balance Projection FY10-FY20

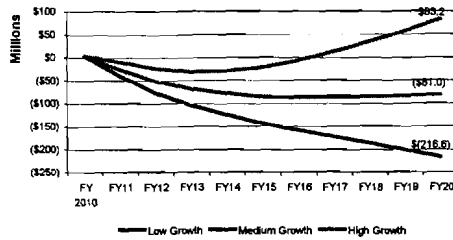


The model allowing users to change assumptions will be made available to Council and members of the public. See the attachment for information on the current assumptions and the broad range of options available to users. The highlighted boxes can be changed.

Attachment 1

- Go to:
- [Revenues](#)
- [Expenditures](#)
- [Policy Options](#)

Budget Balance Projection
FY10-FY20



| Average Annual Rate of Change FY 2010 to FY 2020 | | | |
|--|-------|--------|------|
| Alternative Revenue Growth Scenarios | | | |
| | Low | Medium | High |
| Average Revenue Growth | 1.5% | 3.2% | 5.0% |
| Average Expenditure Growth | 4.2% | 4.2% | 4.2% |
| Balance | -2.7% | -1.0% | 0.8% |

Revenues

| General Fund Revenue Category | | Annual Growth Rate | | | Current Tax Rate | Input Tax Rate |
|-------------------------------|-------|--------------------|--------|-------|------------------|----------------|
| | | Low | Medium | High | | |
| Real Property | CY 10 | -9.4% | -8.1% | -5.7% | 0.903 | 0.903 |
| | CY 11 | -8.0% | -5.0% | -2.0% | 0.903 | 0.903 |
| | CY 12 | -1.3% | 0.0% | 1.3% | 0.903 | 0.903 |
| | CY 13 | -1.3% | 3.0% | 4.3% | 0.903 | 0.903 |
| | CY 14 | 4.3% | 5.3% | 7.0% | 0.903 | 0.903 |
| CY 15 through CY 20 | 4.3% | 6.0% | 8.0% | 0.903 | 0.903 | |

| Personal Property | | Annual Growth Rate | | | Current Tax Rate | Input Tax Rate |
|-------------------------------------|--|--------------------|-------------|-------------|------------------|--|
| | | Low | Medium | High | | |
| Personal Property | | 2.0% | 4.0% | 6.0% | \$4.75 | \$4.75 |
| Penalties & Interest | | 0.0% | 1.0% | 2.0% | | |
| Local Sales | | 2.0% | 4.0% | 6.0% | | |
| Utility | | 2.0% | 3.0% | 4.0% | | |
| Communications Sales & Use | | 1.0% | 3.0% | 5.0% | | |
| Business License | | 3.0% | 5.0% | 7.0% | | |
| Professional | | | | | \$ 0.58 | \$ 0.58 per \$100 |
| Finance Services | | | | | \$ 0.35 | \$ 0.35 per \$100 |
| Personal Services | | | | | \$ 0.35 | \$ 0.35 per \$100 |
| Business Services | | | | | \$ 0.35 | \$ 0.35 per \$100 |
| Retail | | | | | \$ 0.20 | \$ 0.20 per \$100 |
| Motor Vehicle License | | 1.0% | 2.0% | 3.0% | \$33 | \$33 |
| Recordation | | 4.0% | 6.0% | 8.0% | 0.83 | 0.83 per \$1 thousand sales price |
| Tobacco | | 0.0% | 1.0% | 2.0% | 0.80 | 0.80 cents per pack |
| Transient Lodging | | 3.0% | 5.0% | 7.0% | 6.5% | 6.5% also includes \$1 per room charge |
| Restaurant Food | | 3.0% | 5.0% | 7.0% | 4% | 4% |
| Other Miscellaneous Taxes | | 1.0% | 2.0% | 3.0% | | |
| Licenses, Permits, and Fees | | 3.0% | 4.0% | 5.0% | | |
| Fines and Forfeitures | | 1.0% | 2.0% | 3.0% | | |
| Use of Money and Property | | 0.0% | 2.0% | 4.0% | | |
| Charges for Services | | 3.0% | 4.0% | 5.0% | | |
| Intergovernmental | | 0.0% | 3.0% | 5.0% | | |
| Miscellaneous Non-tax | | 0.0% | 1.0% | 2.0% | | |
| Total Average Revenue Growth | | 1.5% | 3.2% | 5.0% | | |

| Use of fund balance each year | FY 10 | FY11 | FY 12 | FY 13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Current (millions of dollars) | \$3.60 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 |
| Change | | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 | \$3.61 |

Expenditures

| | | | |
|--|--------|---------|---------------|
| Total Average Expenditure Growth | 4.2% | | |
| Incorporate population growth into model? | No | | |
| Expected Population Growth | 0.00% | 0.60% | |
| Absorption | 25.0% | | |
| Personnel | Base % | FY 2011 | FY 12 - FY 20 |
| Market Rate Adjustment (MRA) | 2.0% | 0.0% | 2.0% |
| Sleep | 1.6% | 1.6% | 1.6% |
| Health Care Increase | 8.0% | 8.0% | 8.0% |
| Non-Personnel | | | |
| Cash Capital Expenditures (change from current projection) | | | 0.0% |
| Schools | | | |
| Average Enrollment Increase | 1.4% | 3.7% | 3.7% |
| Absorption | 25% | 20% | 20% |
| Personnel | | | |
| MRA | 2.0% | 0.0% | 2.0% |
| Sleep & Turnover Savings | 1.6% | 1.6% | 1.6% |

Policy Options

1. The table below allows you to see the long-term effects on the budget of increasing or decreasing budgeted allocations by strategic plan category in FY 11.

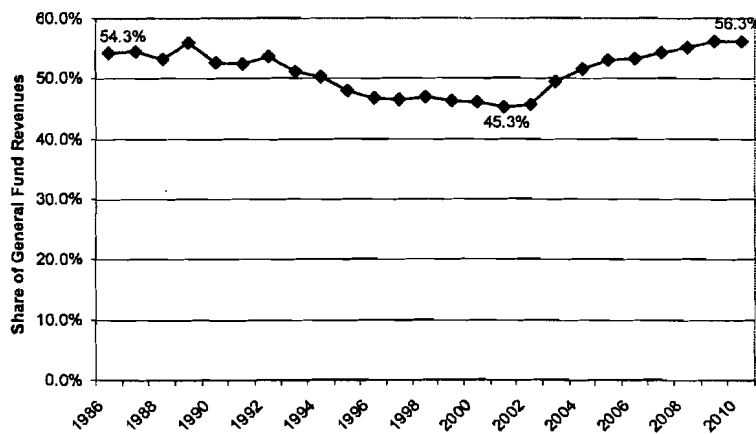
| | |
|-----------------------------------|----|
| Finance and Operations | 0% |
| Public Safety and Quality of Life | 0% |
| Education and Youth | 0% |
| Economic Development | 0% |
| Transportation | 0% |
| Community Development | 0% |
| Health and Environment | 0% |

Revenue Outlook



- FY 2010
- FY 2011
- Beyond FY 2011

Revenues from Real Estate as Share of General Fund Revenues 1986-



City of Alexandria

FY 2011 Council Retreat

Effect of Changes in Assessed Values on Revenue Estimates

| CY 2010 | FY 10 Revenue Change from Current Est. | CY 2011 | FY 11 Revenue Change from FY 10 Approved |
|---|--|---------|--|
| | -9.38% (6,689,195) | | -8% (32,110,342) |
| | | | -2% (23,795,631) |
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City of Alexandria

FY 2011 Council Retreat

FY 2010 Revenue Outlook

Millions of Dollars

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City of Alexandria

FY 2011 Council Retreat

FY 2011 Preliminary Revenue Outlook

Millions of Dollars

| | FY 2010 Approved | FY 2011 Projected | \$ Change | % Change |
|--|---------------------|----------------------|----------------|--------------|
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| Fund Balance | 3.6 | 4.9 | 1.3 | 36.1% |
| Total including others not mentioned above(3) | \$530.0 | \$509.4 | -\$20.6 | -3.9% |

(1) Assumes 5% CY 2011 assessment reduction

(2) Includes U.S. subsidy of Alexandria's "Build America" bonds

(3) In the pessimistic scenario, real estate tax revenues would decrease by up to \$32.1 million and total revenues by up to \$28.6 million. In the optimistic scenario, real estate tax revenues would decrease by as little as \$12.8 million and total revenues by \$9.3 million.



City of Alexandria

FY 2011 Council Retreat

FY 2011 Downside Risks

- Weaker than expected real estate market
- Further reductions in State/Federal intergovernmental aid
- Double dip recession slows economic activity

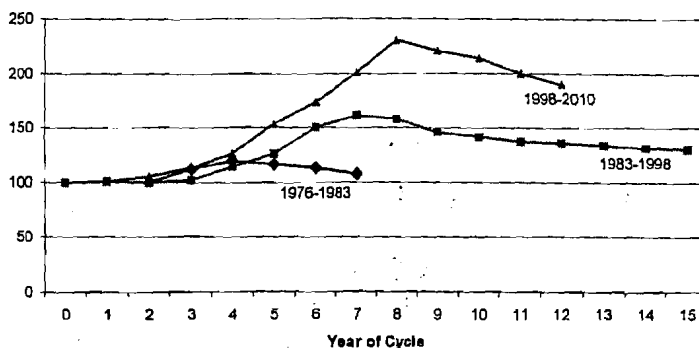


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011 Real Estate Cycles in Alexandria

**Alexandria Single Family Dwellings
Average Value by cycle
Beginning of Cycle = 100**

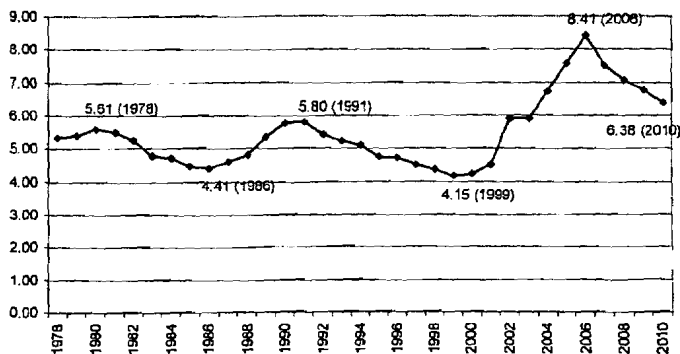


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011 Real Estate Cycles in Alexandria

**Alexandria's Average Home Value
as a Multiple of Average Per Capita Personal Income**

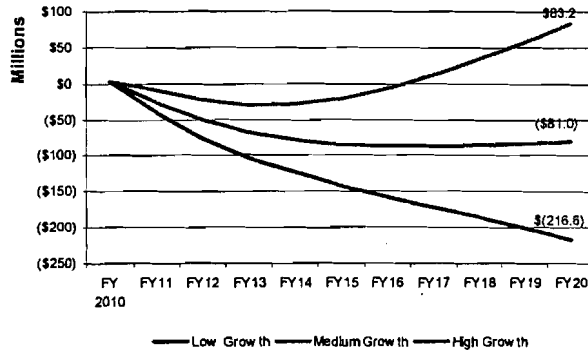


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011

Budget Balance Projection
FY10-FY20



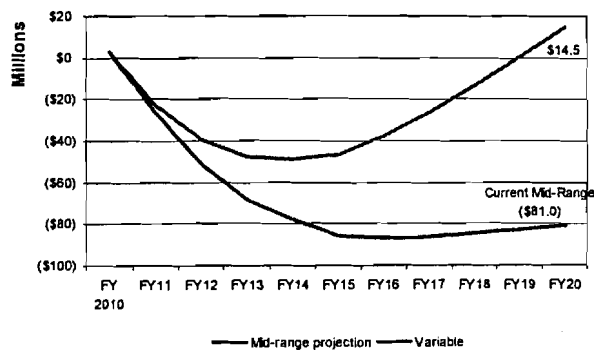
City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011

Assumes Reduced Market Rate Adjustment from 2% to 0%
for FY 2012 and Beyond

Budget Balance Projection
FY10-FY20

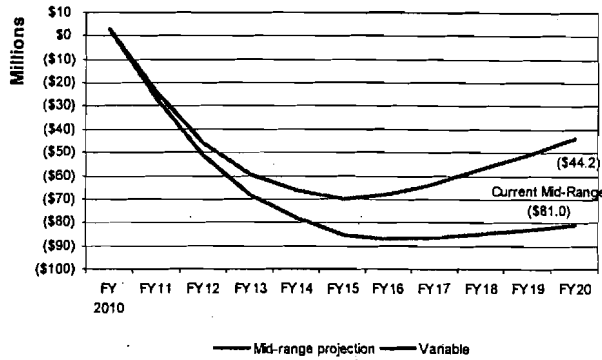


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011
Assumes School Enrollment Growth
at 0% Annually (Mid-range currently at 3.7%)

Budget Balance Projection
 FY10-FY20



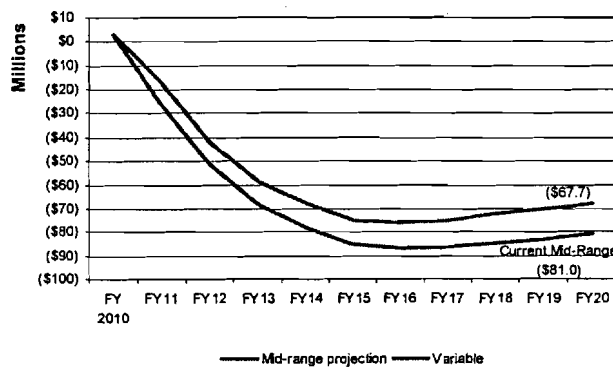
City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011

Increases to Non-Real Estate Taxes (+1% point on most tax rates)

Budget Balance Projection
 FY10-FY20

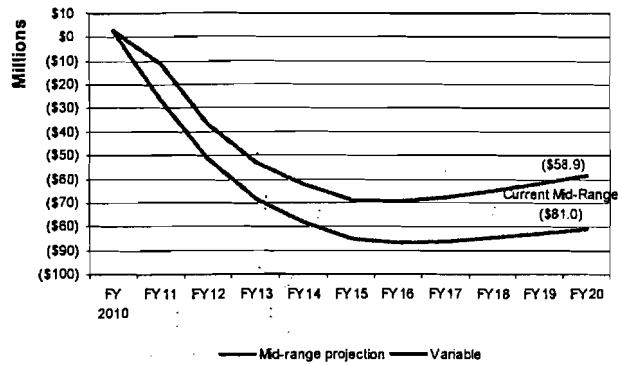


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011
Real Estate Tax Rate to 95.3 cents
in all years (up 5.0 cents per \$100 from 90.3 cents)

Budget Balance Projection
 FY10-FY20

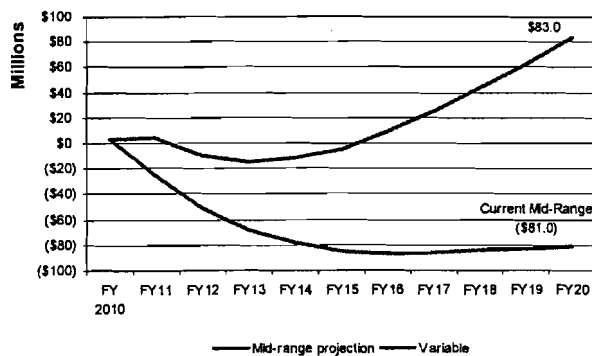


City of Alexandria

FY 2011 Council Retreat

Beyond FY 2011
All changes described above

Budget Balance Projection
 FY10-FY20

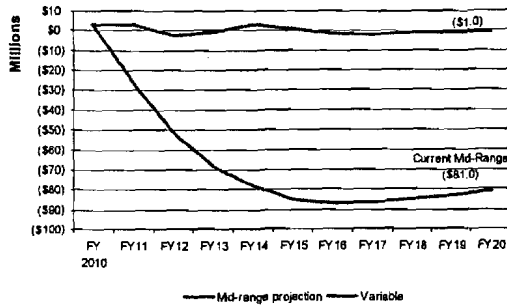


City of Alexandria

FY 2011 Council Retreat

**Beyond FY 2011
Required Change to Real Estate Assessments Projection
to Balance Budget**

**Budget Balance Projection
FY10-FY20**



| | Midrange RE Growth | RE Growth for Balance | Tax Rate |
|---------------|-----------------------|--------------------------|----------|
| CY 10 | -8.1% | -1.5% | 0.903 |
| CY 11 | -5.0% | 1.5% | 0.903 |
| CY 12 | 0.0% | 6.6% | 0.903 |
| CY 13 | 3.0% | 7.6% | 0.903 |
| CY 14 | 5.3% | 7.2% | 0.903 |
| CY 15 - CY 20 | 6.0% | 4.5% | 0.903 |



City of Alexandria

FY 2011 Council Retreat