


City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 8, 2010
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER 
SUBJECT: MONTHLY FINANCIAL REPORT FOR THE PERIOD ENDING OCTOBER 31, 2010

ISSUE: Receipt of the City's Monthly Financial Report for the period ending October 31, 2010.

RECOMMENDATION: That City Council receive the following Monthly Financial Report for the period ending October 31, 2010.

DISCUSSION: This report includes highlights of the City's financial condition and provides fiscal year (FY) 2011 financial information on revenues and expenditures of the General Fund for the period ending October 31, 2010. Detailed economic, revenue, and expenditure charts are also available from the City of Alexandria website at alexandriava.gov/financialreports.

ECONOMIC HIGHLIGHTS:

- **The national economy grew at a slightly faster pace in the 3rd quarter.** The annualized rate of growth in the GDP increased to 2.5 percent, still below the long-term average rate of growth.
- **Alexandria's economy is relatively strong compared to the national economy.** Transient Lodging and Meals Tax collections are stronger than last year, while Sales Tax collections have improved recently.
- **The volume of sales in the residential real estate market is extremely slow.** However, the average calendar year-to-date price increased 3.5% compared to last year.
- **Over the last three months, the number of foreclosures in Alexandria reached its highest level in over two years.** These foreclosures are generally focused in lower value condominiums and in certain areas of the City.
- **Detailed analysis of sales tax collections and the City's foreclosure situation are available in Attachments 4 and 5 of the Monthly Financial Report.**

REVENUE HIGHLIGHTS:

Year-to-Date Revenues: As of October 31, 2010, actual General Fund revenues totaled \$101.1 million, which is 7.7 percent higher than FY 2010 revenues for the same period last year. Most of this increase is related to the early payment of real estate taxes.

- **Business License Tax:** The increase in this category reflects a change in the timing of payments due to an increase in the number of businesses on quarterly payment plans.
- **Licenses and Permits:** The category decrease is due to the transfer of approximately \$3.8 million in new construction fees from the General Fund to a special revenue account beginning July 1, 2010, where they will be used to cover the cost of Code Enforcement's New Construction Division, which is now self-financed from these permit fees.

EXPENDITURE HIGHLIGHTS:

Year-to-Date Expenditures: As of October 31, 2010, actual General Fund expenditures totaled \$153.4 million, an increase of \$4.5 million, or 3.0 percent, above expenditures for the same period last year. Personnel expenditures remain on par with last year. These personnel expenditures are just slightly higher than the budget primarily because turnover savings are deducted from the budget on the first day of the fiscal year, while the savings are realized during the year. Also, funds to pay for the implementation of pay adjustments due to the Watson Wyatt Study, which were effective July 1, 2010, are yet to be appropriated in a supplemental appropriation ordinance, now scheduled for December. Non-personnel spending increased 4.8 percent. For most departments, differences in spending patterns for non-personnel this early in the year reflect the timing of bill payments and not necessarily changes in spending patterns. We are closely monitoring and controlling these expenditures to be at or below budget.

- **Debt Service:** The increase reflects budgeted debt service for bonds issued in June 2009.
- **Schools:** The City will provide approximately 76 percent of the estimated funds required to operate the City public school system in FY 2011.

ATTACHMENTS:

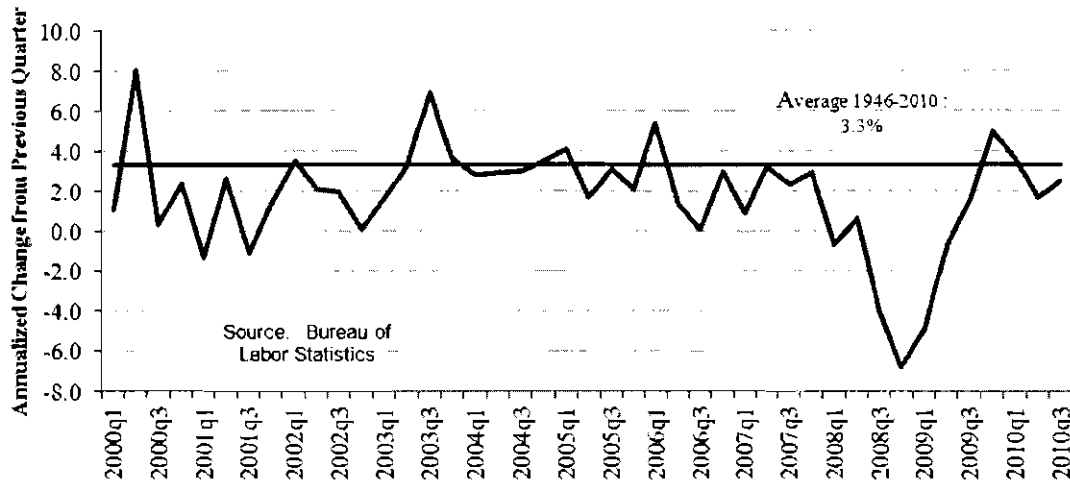
- Attachment 1: The Economy
- Attachment 2: Revenues
- Attachment 3: Expenditures
- Attachment 4: Sales Tax Analysis
- Attachment 5: Foreclosures Analysis

STAFF:

- Bruce Johnson, Chief Financial Officer
- Laura Triggs, Finance Director
- Ray Welch, Comptroller
- Melinda Barton, Public Information Specialist
- Eric Eisinger, Budget Analyst

The national economy grew faster during the 3rd quarter. The rate of growth increased to a 2.5 % annualized rate from a 1.7% annualized rate in the 2nd quarter. This is below the long-term average growth rate since 1946, though well above the average growth rate of 1.7 % since 2000.

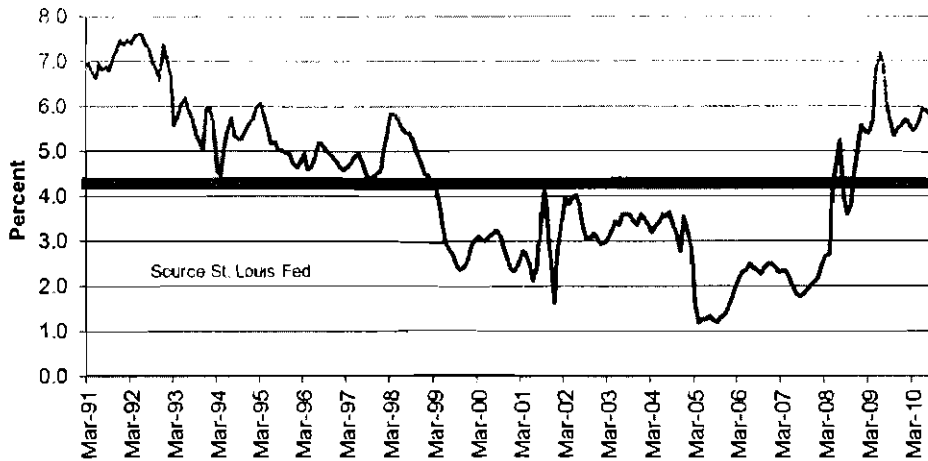
**GDP Change by Quarter
2001- 3rd quarter 2010**



The increase reflected positive contributions from consumption and federal government spending that was partially offset by a decrease in residential housing construction.

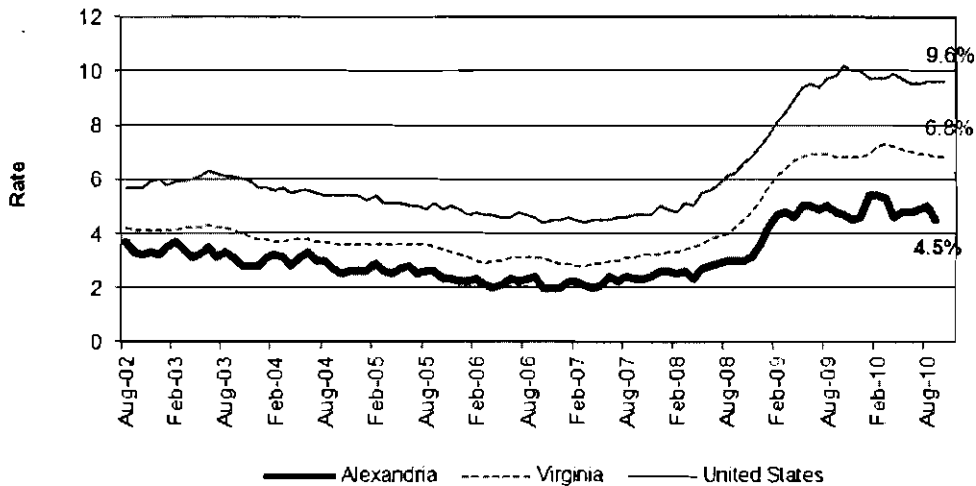
The graph below shows a three month trailing average of the savings rate since 1991. The graph shows that the savings rate has plateaued at least temporarily at a level above its long-term average, but it is no longer increasing. Since there's a tradeoff between spending and saving, the fact that the savings rate is no longer increasing is healthy for short-term economic growth. Americans may be poised to start spending again.

Personal Savings Rate
3 month trailing average
1991- September 2010



The economy added 151,000 jobs in October, the biggest monthly increase since early this year. The national unemployment rate of 9.6 % has remained unchanged since August, while Virginia's unemployment rate of 6.8 % was the same as that of one year earlier. Alexandria's unemployment rate of 4.5 % is less than its rate of 4.8 % one year ago.

Unemployment Rate - U.S., Virginia, and Alexandria

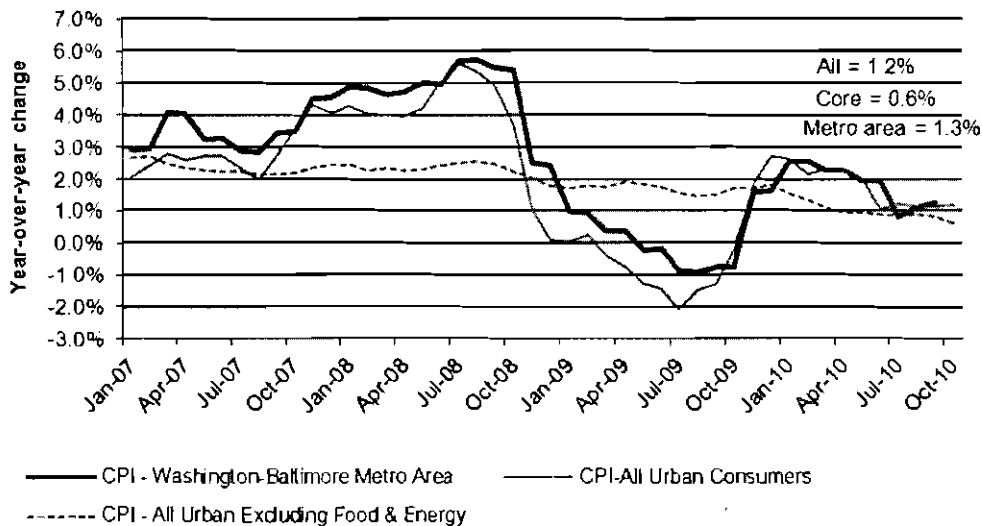


Source: U.S. Department of Labor, Bureau of Labor Statistics

The Federal Reserve announced a program to purchase \$600 billion in treasury debt, enough to purchase all newly issued United States treasury debt for the next six months. Ideally, this will reduce interest rates and stimulate economic growth. Policy makers are worried about the potential for decreasing prices, which makes it harder to pay off debt and may cause consumers to defer consumption. The core Consumer Price Index excluding food and energy increased by just 0.6% last month, well below the 2%

level of inflation targeted by the Fed. Most of the top line increase in the consumer price index came from energy and food costs. Motor fuel costs increased by 9.7% year-over-year in October, while food costs increased 1.4%. Housing costs, which make up over 40% of the index declined 0.2% year-over-year.

Annual Change in Consumer Price Index



Source: U.S. Department of Labor, Bureau of Labor Statistics

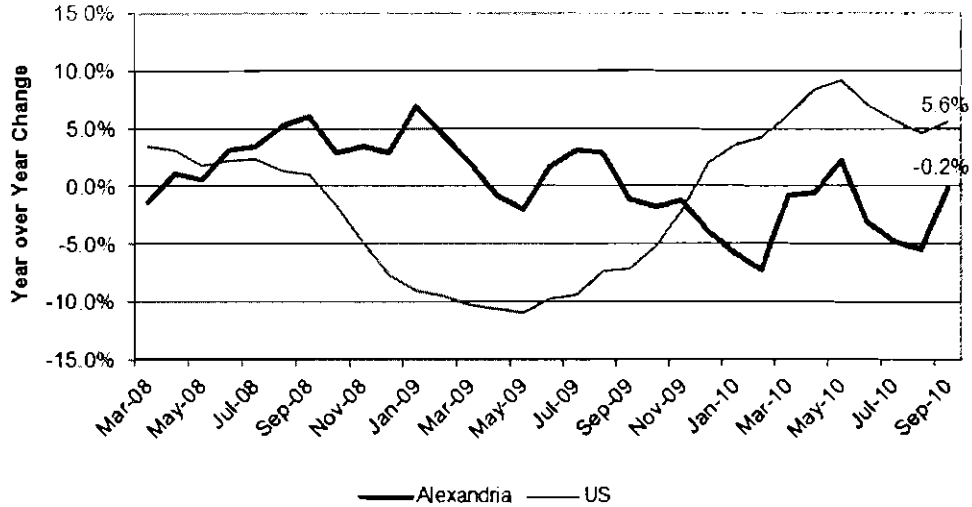
Virginia has announced its first quarter revenue results. Through September, individual tax withholding, a good proxy for employment and wages, is up 4.4% compared to last year. Overall revenues growth is up 3.6% compared to last year, less than the forecasted increase of 4.2%. However, the State is optimistic it will reach its overall revenues target. For all of 2010, General Fund Revenue collections barely exceeded FY 2005 collections and were substantially less than FY 2006 collections.

Local Economy

Based on City revenues, the local economy continues to expand. The year-over-year change in sales tax revenues has nearly turned positive. Attachment 4 includes an analysis of retail sales in the City over the last few years. The analysis shows that since 2006, the restaurant, lodging, and food and beverage stores sectors have performed relatively well, while the home furnishings, and building and garden store sectors have fared relatively poorly. Overall, sales in categories we normally think of as retail sales have decreased in Alexandria by approximately 8.7% from the first half of 2006 to the first half of 2010. There are at least four primary reasons for the decline. Some of the decrease relates to the recession which has had a major impact on retail sales, particularly in sectors related to housing and construction. Some of the decline relates to the fact that until two years ago, the State was annually allocating hundreds of thousands of dollars in sales tax that should have gone to Fairfax County. The decline may also be caused by the migration of retail sales to the Internet that are no subject to sales tax. Also, some of the decrease can be traced to the decline of Landmark Mall.

For more detailed information regarding sales tax revenues, see Attachment 4 of this month's report.

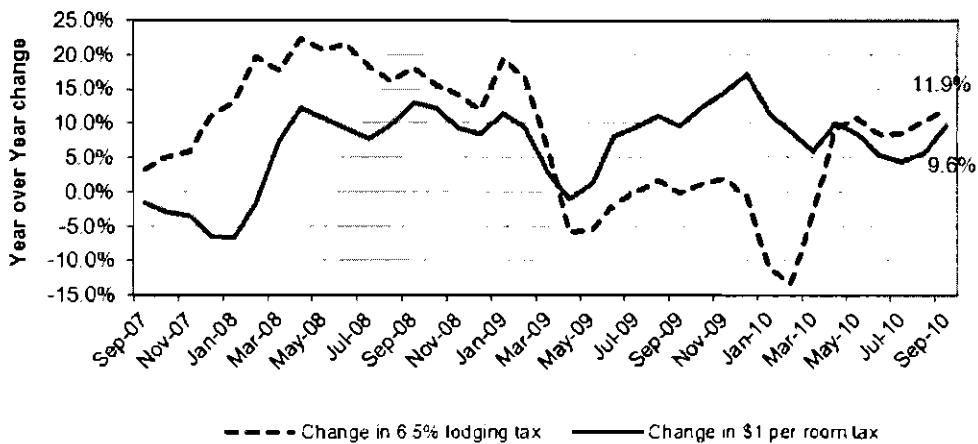
**Annual Change in U.S. Retail Sales
& Alexandria Sales Tax Collections**
3 month trailing average



Source: Finance Department

Transient lodging receipts have moved strongly higher compared to last year. The fact that the 6.5% lodging tax has increased more than the \$1 room tax is an indication that room rates have risen.

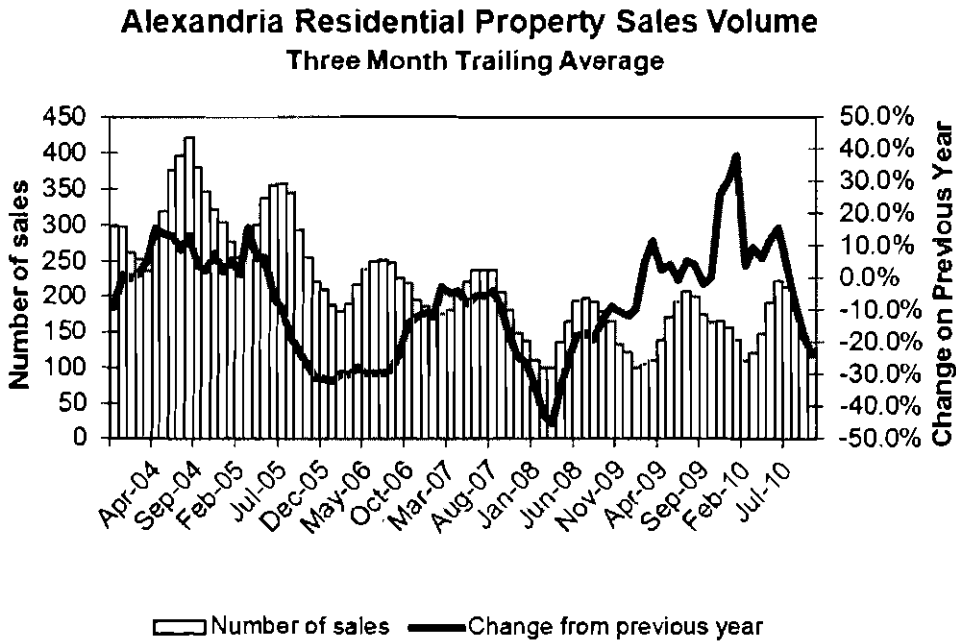
Annual Change in Transient Lodging Tax Receipts
3 month trailing average



Source: Finance Department

Real Estate

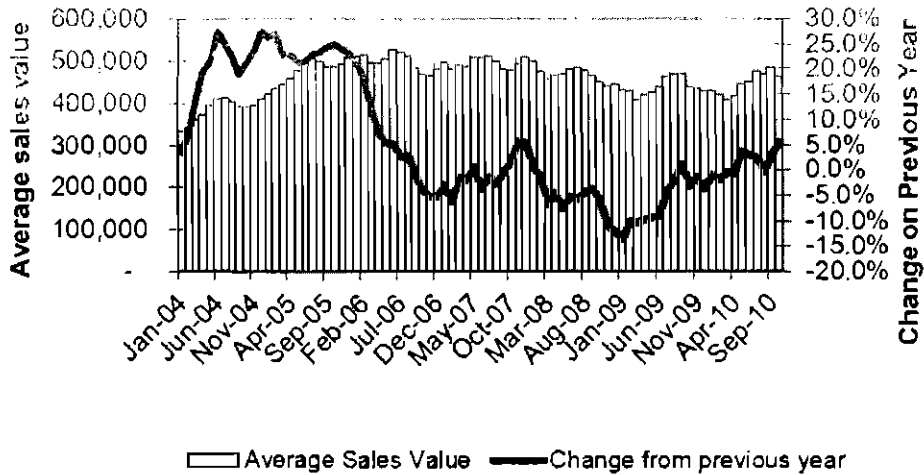
The hangover from the expiration of the homebuyers' tax credit continues. The graph below shows the volume of sales is around 20% below last year's pace. Last year's sales volume was artificially high due to the perceived expiration of the tax credit at the end of November. Still, the number of homes sold in October was at the lowest level of any October in the last decade.



Source: Department of Real Estate Assessments

The average sales price of a home in Alexandria in October rose by 5.5% over last year on a three month trailing average. That's at least partially due to a change in the sales mix; the expiration of the homebuyers' tax credit had a greater dampening effect on sales in the lower end of the market, increasing the overall average sales price.

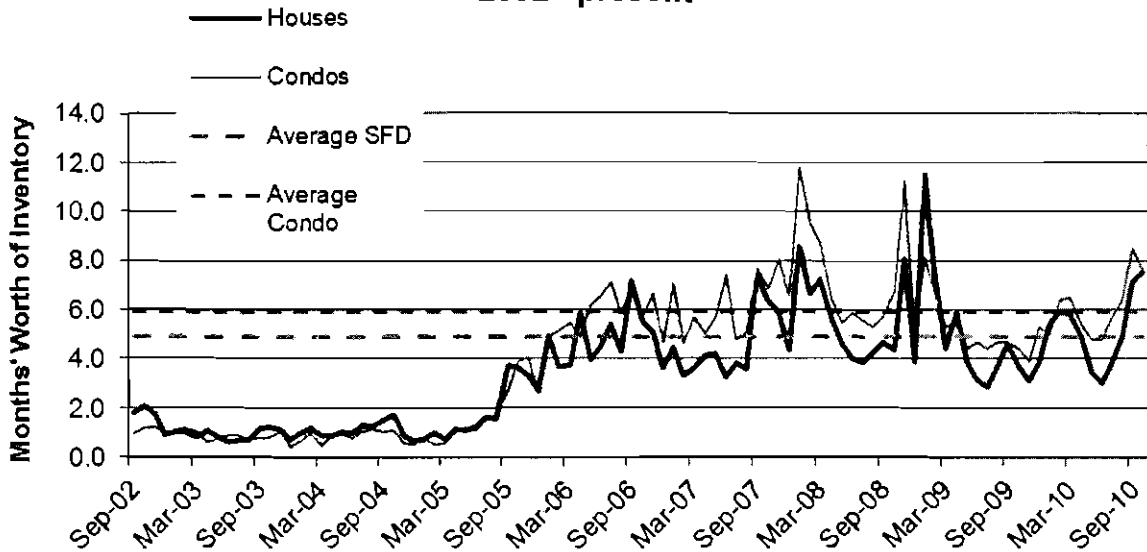
Alexandria Residential Property Average Sales Value Three Month Trailing Average



Source: Department of Real Estate Assessments

The number of months' worth of inventory in October continued to be well above the long-term averages. The graph below shows the long-term average for single family homes is around 4.9 months, while the long-term average for condos is around 5.9 months. Many real estate analysts consider a balanced market to be 4-6 months; anything above that level tends to favor buyers over sellers and may put downward pressure on prices.

Months' Worth of Inventory 2002 - present

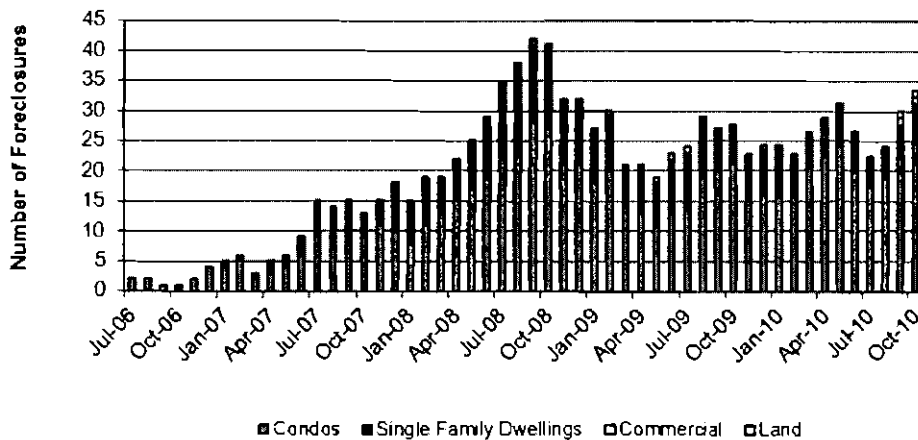


Source: Metropolitan Regional Information Systems

The number of foreclosures in the City increased on a three month moving average for the third month in a row to their highest level in over two years. Attachment 5 includes an analysis of City foreclosures. The analysis concluded that with all the uncertainty in the real estate market, it is difficult to estimate the seriousness of the foreclosure problem in Alexandria. For the last several years, the government has created a variety of programs to help homeowners facing foreclosure to modify their loans and keep their homes. The programs have helped some homeowners, but in other cases, have only delayed foreclosures. Many banks have held back distressed properties, fearing to create a glut of homes for sale which would depress real estate values further. However, it is likely that Alexandria's economic advantages such as its low unemployment, proximity to Washington, DC, and relatively prosperous economy will make it immune to the worst of the problems facing the national real estate market. The predominance of foreclosures in Alexandria are in condominiums, and of those, most are lower value properties. A large number of the City's foreclosures are centered in several condo complexes, primarily in the West End of the City which have seen significant value declines. However, the fact that Alexandria's real estate market has performed relatively well to date may insulate the City from the worst of any foreclosure problems. Clearly that has been the case to date, as the City's current foreclosure rate is about 1/3 the national average and better than all but Arlington's in the Northern Virginia region.

For more information regarding the City's foreclosure situation, see Attachment 5.

New Foreclosures in Alexandria 3 month trailing average

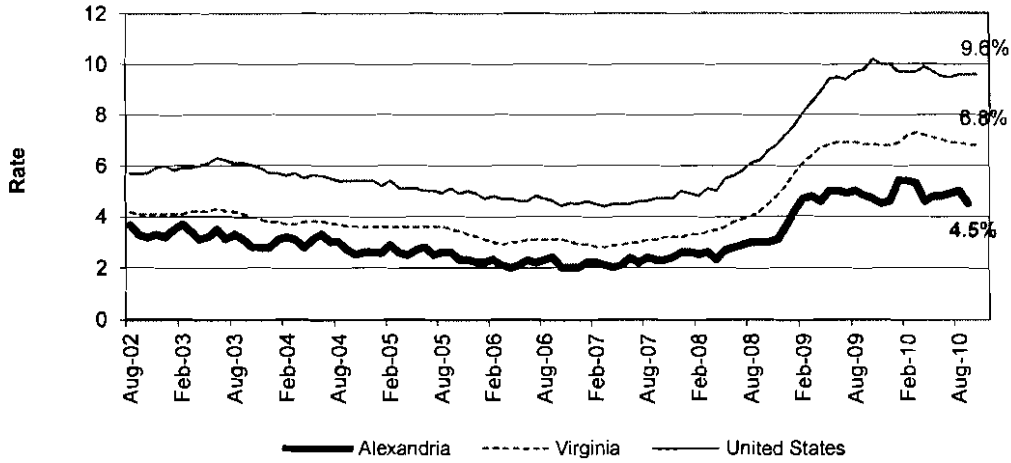


Source: Department of Real Estate Assessments

There are some green shoots in the City's multi-family real estate market. The November 19 issue of the *Washington Business Journal* contained an article entitled "Multi-family market in boom bode as money flows in for top projects." The article's sidebar detailed several projects that recently have announced financing or groundbreaking including two in Alexandria. The first is The Asher, a 206-unit building near the Braddock Road Metro station, and the second is the second phase of the Carlyle Square apartment project, a 344-unit building at 601 Holland Lane.

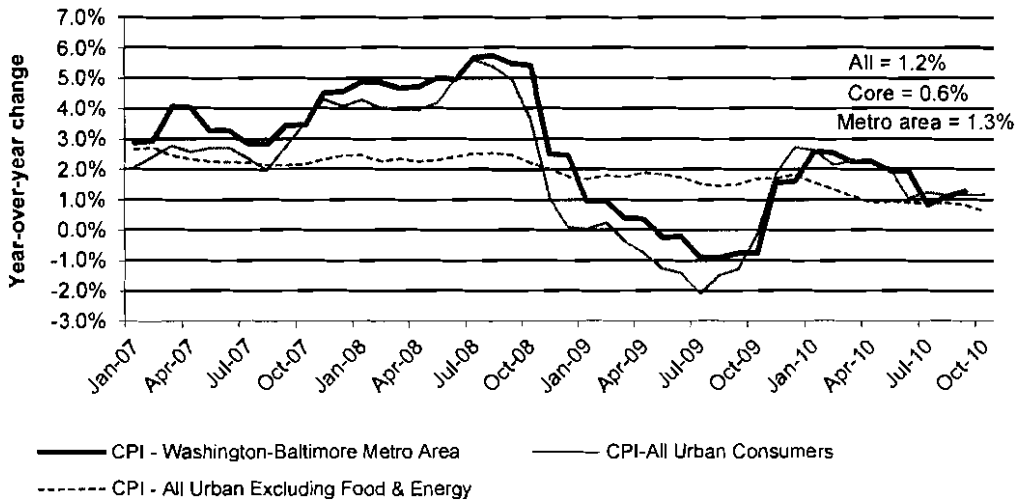
Attachment 1 - The Economy

Unemployment Rate - U.S., Virginia, and Alexandria



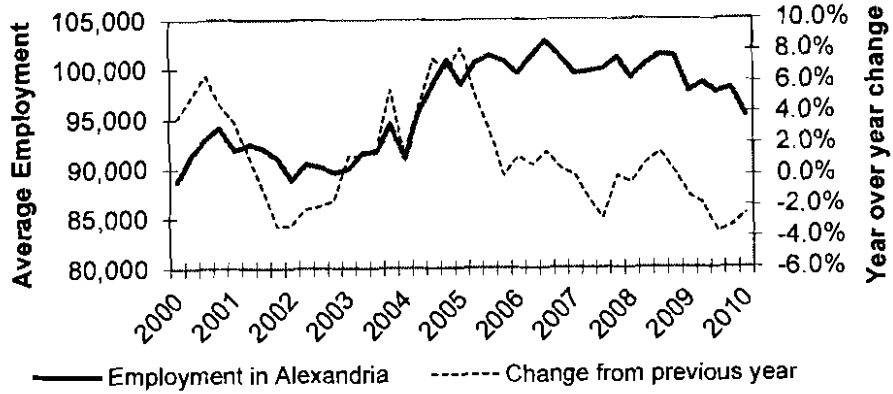
Source: U.S. Department of Labor, Bureau of Labor Statistics
 U.S., Virginia through October, 2010; Alexandria through September, 2010

Annual Change in Consumer Price Index



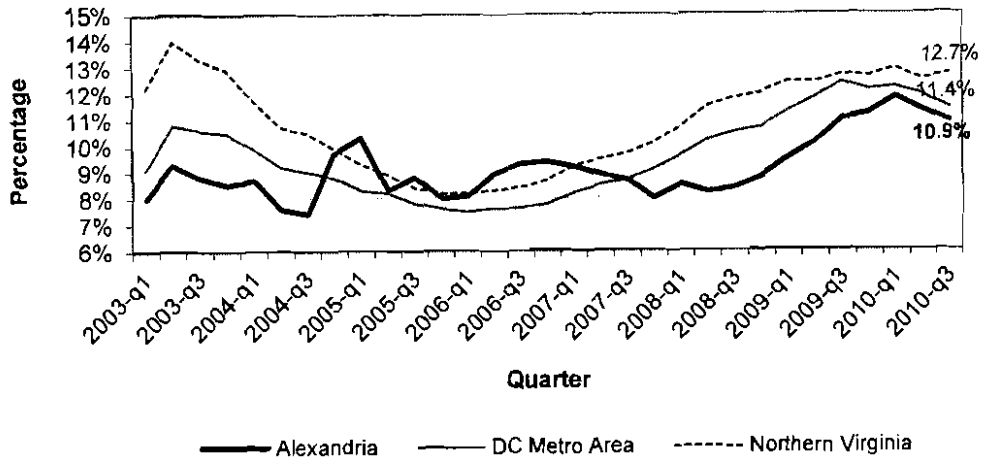
Source: U.S. Department of Labor, Bureau of Labor Statistics
 Through October 2010

Employment in Alexandria by quarter



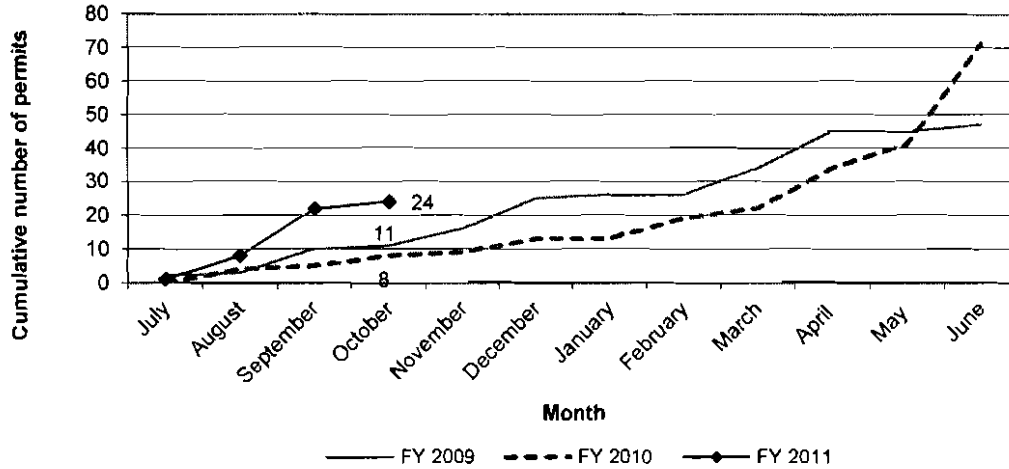
Source: Virginia Employment Commission
Through 1st quarter 2010

Office Vacancy Rates



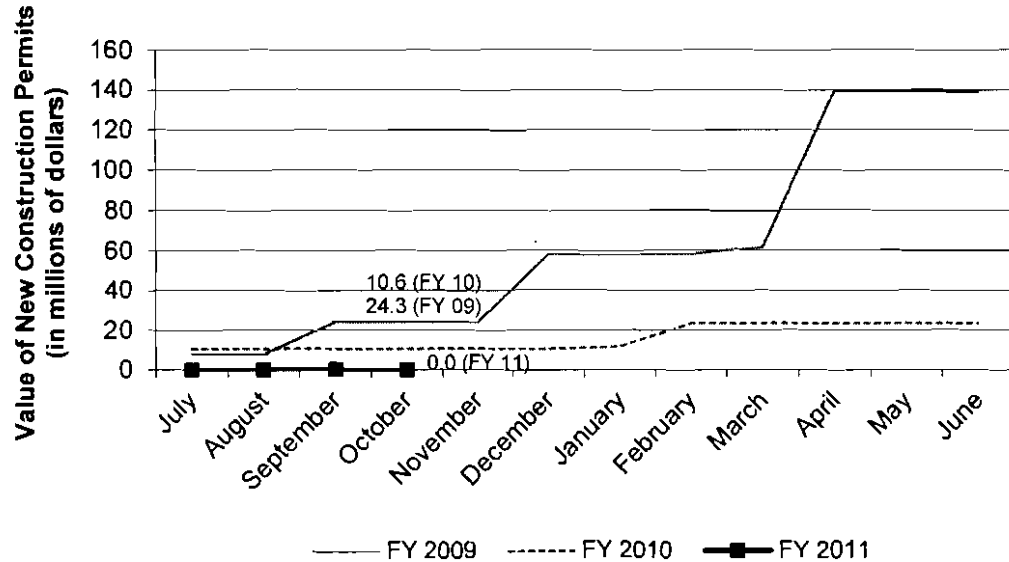
Source: CoStar
Through 3rd quarter, 2010

**Cumulative Number of New 1 & 2 Family Residential Building Permits
FY 2008-FY 2010**



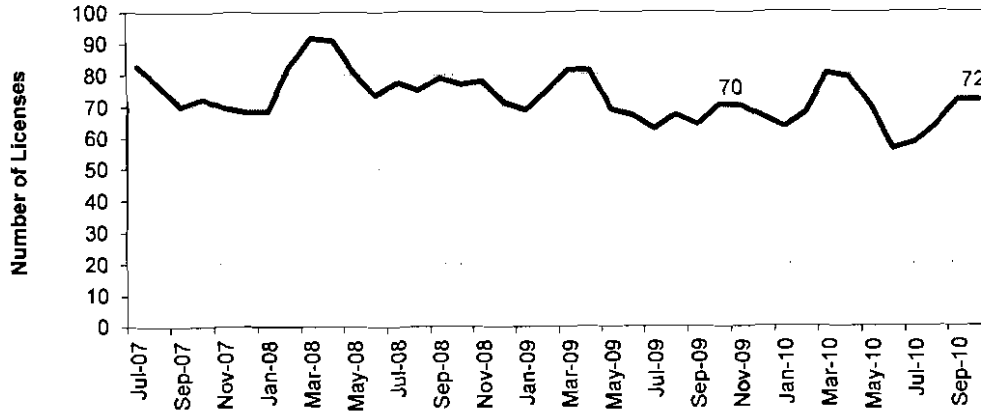
Source: Code Administration
Through October, 2010

**Cumulative Value of Commercial Property New Construction Permits
FY 2009-FY 2011**



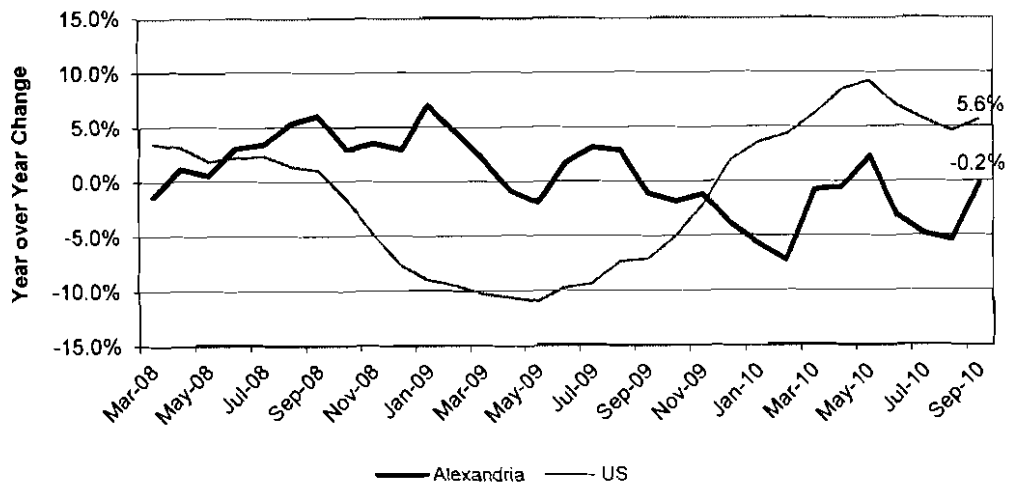
Source: Code Administration
Through October, 2010

Number of New Business License Applications
Three Month Trailing Average



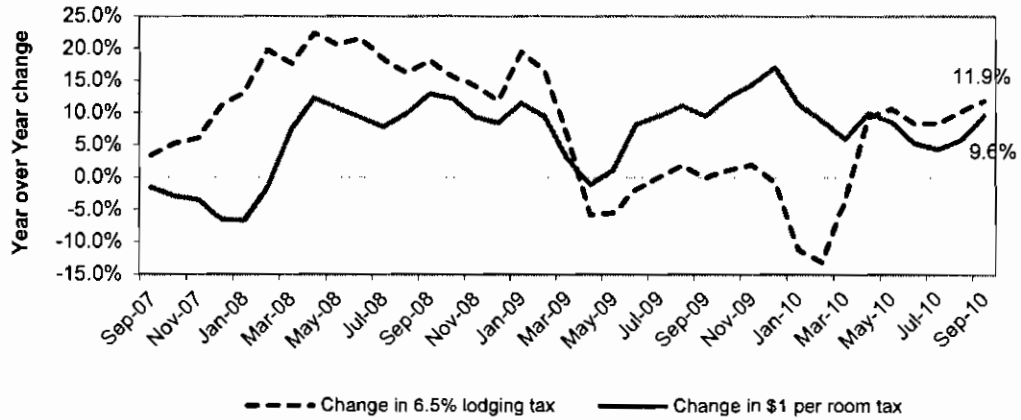
Source: Finance Department
Through October, 2010

**Annual Change in U.S. Retail Sales
& Alexandria Sales Tax Collections**
3 month trailing average



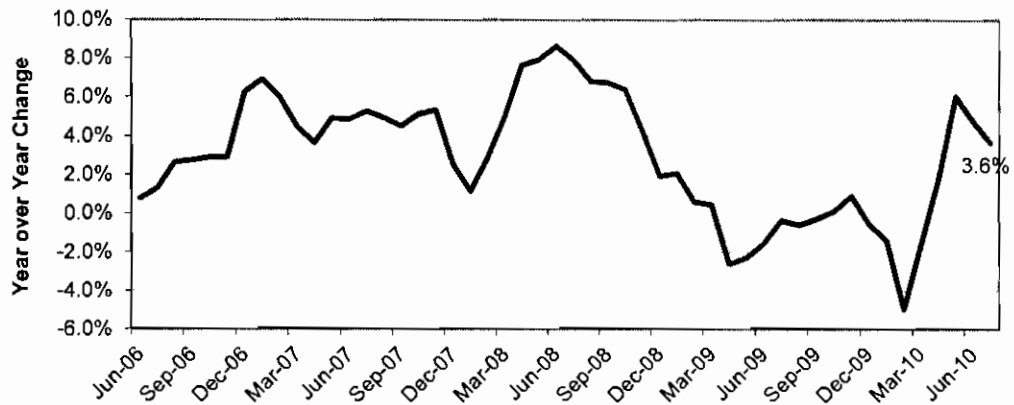
Source: Finance Department
Through September 2010

Annual Change in Transient Lodging Tax Receipts
3 month trailing average



Source: Finance Department
Through September 2010

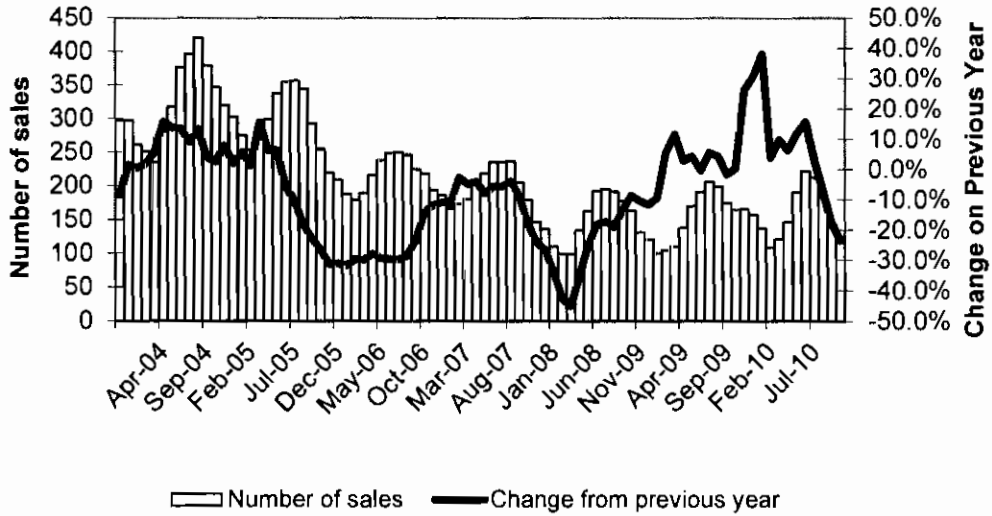
Annual Change in Meals Tax Revenue Per 1 % of Tax
3 month trailing average



Source: Finance Department
Through July 2010*

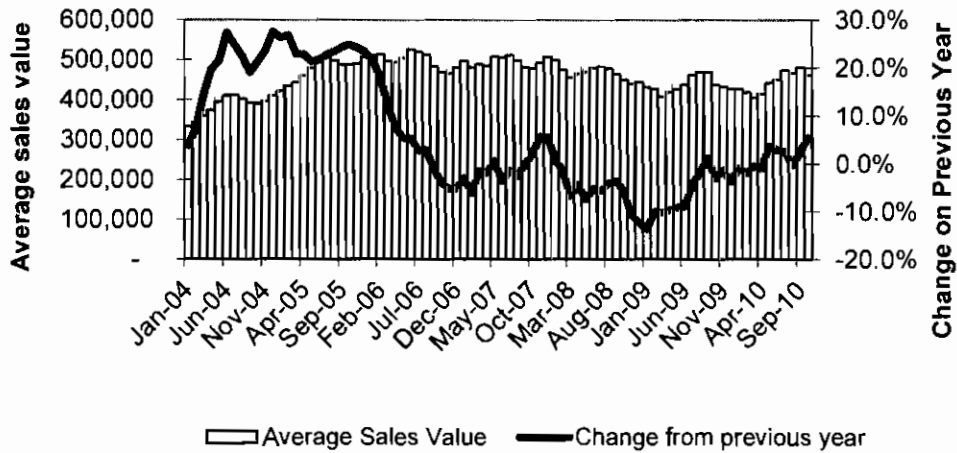
*Meals tax collections typically lag because there are restaurants that miss the filing and paying deadlines each month.

Alexandria Residential Property Sales Volume
Three Month Trailing Average



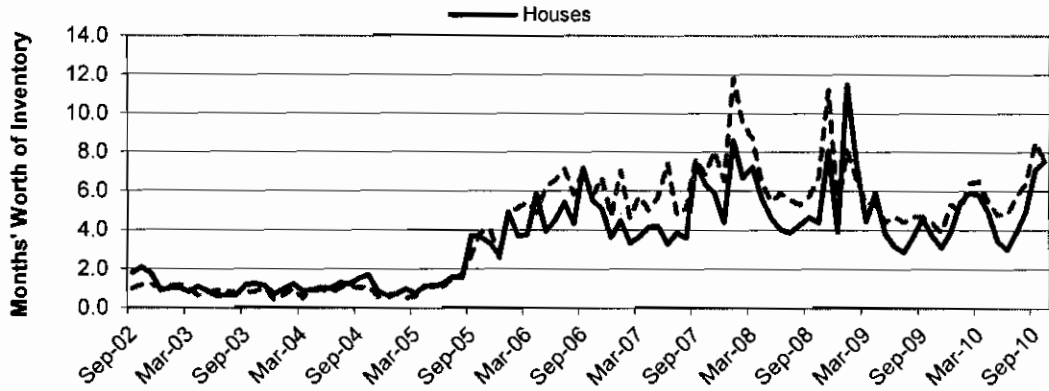
Source: Department of Real Estate Assessments
Through October 2010

Alexandria Residential Property Average Sales Value
Three Month Trailing Average



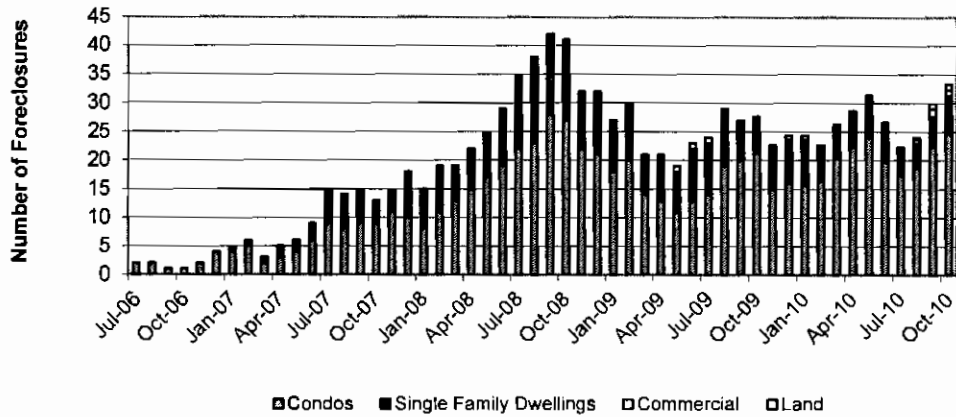
Source: Department of Real Estate Assessments
Through October 2010

**Months' Worth of Inventory
2002 - present**



Source: Metropolitan Regional Information Systems
Through October 2010

**New Foreclosures in Alexandria
3 month trailing average**

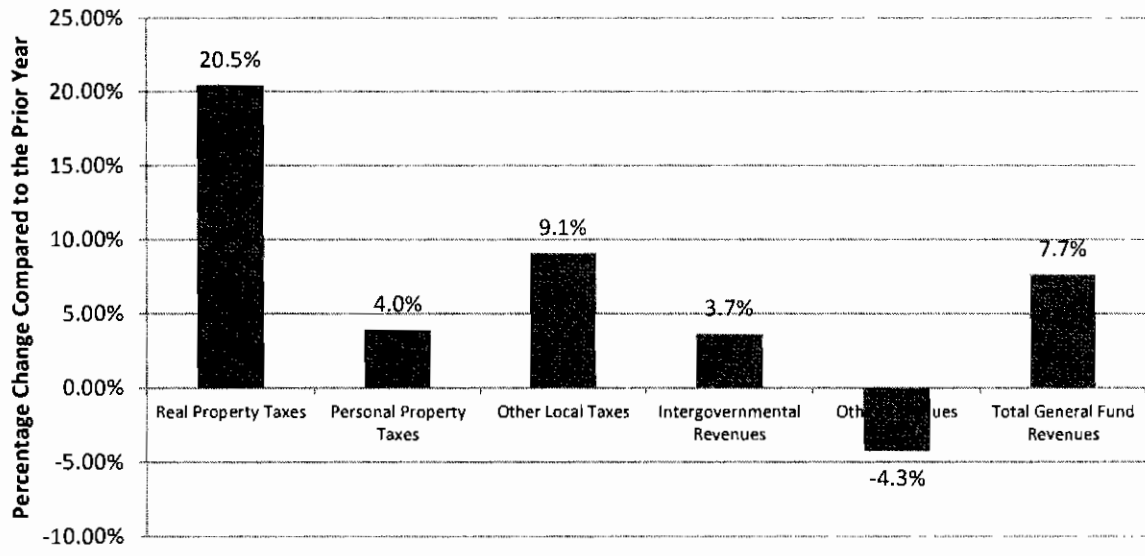


Source: Department of Real Estate Assessments
Through October 2010

CITY OF ALEXANDRIA, VIRGINIA
COMPARATIVE STATEMENT OF REVENUES
GENERAL FUND
FOR THE PERIODS ENDING OCTOBER 31, 2010 AND OCTOBER 31, 2009

| | A | B | C | D=C/B | E | F=(C-E)/E |
|---|--------------------------------|-----------------------------|-------------------------------------|--------------|-------------------------------------|--------------|
| | FY2010 PRE-AUDIT ACTUALS | FY2011 REVISED BUDGET | FY2011 REVENUES THRU 10/31/10 | % | FY2010 REVENUES THRU 10/31/09 | % |
| | | | | OF BUDGET | | CHANGE |
| General Property Taxes | | | | | | |
| Real Property Taxes..... | \$ 302,666,192 | \$ 296,237,904 | \$ 22,680,076 | 7.7% | \$ 18,825,944 | 20.5% |
| Personal Property Taxes..... | 32,923,178 | 32,300,000 | 30,871,334 | 95.6% | 29,696,124 | 4.0% |
| Penalties and Interest..... | 1,631,548 | 1,870,000 | 362,023 | 19.4% | 335,514 | 7.9% |
| Total General Property Taxes | \$ 337,220,918 | \$ 330,407,904 | \$ 53,913,433 | 16.3% | \$ 48,857,582 | 10.3% |
| Other Local Taxes | | | | | | |
| Local Sales and Use Taxes..... | \$ 22,744,483 | \$ 23,500,000 | \$ 3,724,122 | 15.8% | \$ 3,818,674 | -2.5% |
| Consumer Utility Taxes..... | 10,462,233 | 10,500,000 | 2,755,804 | 26.2% | 2,649,476 | 4.0% |
| Communication Sales and Use Taxes..... | 11,315,541 | 11,600,000 | 2,057,211 | 17.7% | 1,695,570 | 21.3% |
| Business License Taxes..... | 30,295,624 | 30,200,000 | 1,520,238 | 5.0% | 458,268 | 231.7% |
| Transient Lodging Taxes..... | 10,824,410 | 11,100,000 | 2,710,885 | 24.4% | 2,550,339 | 6.3% |
| Restaurant Meals Tax..... | 14,908,999 | 15,400,000 | 3,762,469 | 24.4% | 3,646,031 | 3.2% |
| Tobacco Taxes..... | 2,910,382 | 2,900,000 | 749,640 | 25.8% | 766,320 | -2.2% |
| Motor Vehicle License Tax..... | 3,172,254 | 3,200,000 | 2,441,801 | 76.3% | 2,402,201 | 1.6% |
| Real Estate Recordation..... | 3,313,547 | 3,800,000 | 970,444 | 25.5% | 963,938 | 0.7% |
| Admissions Tax..... | 1,125,172 | 1,200,000 | 298,280 | 24.9% | 280,607 | 6.3% |
| Other Local Taxes..... | 3,298,706 | 3,030,000 | 228,038 | 7.5% | 217,854 | 4.7% |
| Total Other Local Taxes | \$ 114,371,331 | \$ 116,430,000 | \$ 21,218,932 | 18.2% | \$ 19,449,278 | 9.1% |
| Intergovernmental Revenues | | | | | | |
| Revenue from the Fed. Government..... | \$ 8,804,712 | \$ 8,335,988 | \$ 1,992,534 | 23.9% | \$ 889,018 | 124.1% |
| Personal Property Tax Relief from the Commonwealth..... | 23,578,531 | 23,578,531 | 11,789,265 | 50.0% | 11,789,265 | 0.0% |
| Revenue from the Commonwealth..... | 20,082,668 | 19,769,080 | 5,208,805 | 26.3% | 5,641,840 | -7.7% |
| Total Intergovernmental Revenues | \$ 52,465,911 | \$ 51,683,599 | \$ 18,990,604 | 36.7% | \$ 18,320,123 | 3.7% |
| Other Governmental Revenues And Transfers In | | | | | | |
| Fines and Forfeitures..... | \$ 3,941,372 | \$ 4,646,020 | \$ 1,422,565 | 30.6% | \$ 1,316,836 | 8.0% |
| Licenses and Permits..... | 4,811,588 | 1,802,010 | 838,465 | 46.5% | 1,657,228 | -49.4% |
| Charges for City Services..... | 13,803,578 | 14,902,302 | 3,240,628 | 21.7% | 2,897,420 | 11.8% |
| Revenue from Use of Money & Prop..... | 3,033,638 | 4,010,000 | 1,205,939 | 30.1% | 1,214,542 | -0.7% |
| Other Revenue..... | 787,960 | 783,700 | 242,514 | 30.9% | 173,273 | 40.0% |
| Transfer from Other Funds..... | 1,301,560 | 1,446,713 | - | 0.0% | - | 0.0% |
| Total Other Governmental Revenues | \$ 27,679,696 | \$ 27,590,745 | \$ 6,950,111 | 25.2% | \$ 7,259,299 | -4.3% |
| TOTAL REVENUE | \$ 531,737,876 | \$ 526,112,248 | \$ 101,073,080 | 19.2% | \$ 93,886,282 | 7.7% |
| Appropriated Fund Balance | | | | | | |
| General Fund..... | - | 5,499,291 | - | - | - | 0.0% |
| Reappropriation of FY 2010 Encumbrances And Other Supplemental Appropriations.... | - | 2,007,557 | - | - | - | 0.0% |
| TOTAL | \$ 531,737,876 | \$ 533,619,096 | \$ 101,073,080 | 18.9% | \$ 93,886,282 | 7.7% |

Change in Year-to-date Revenues Through October FY 2011 Compared to FY 2010



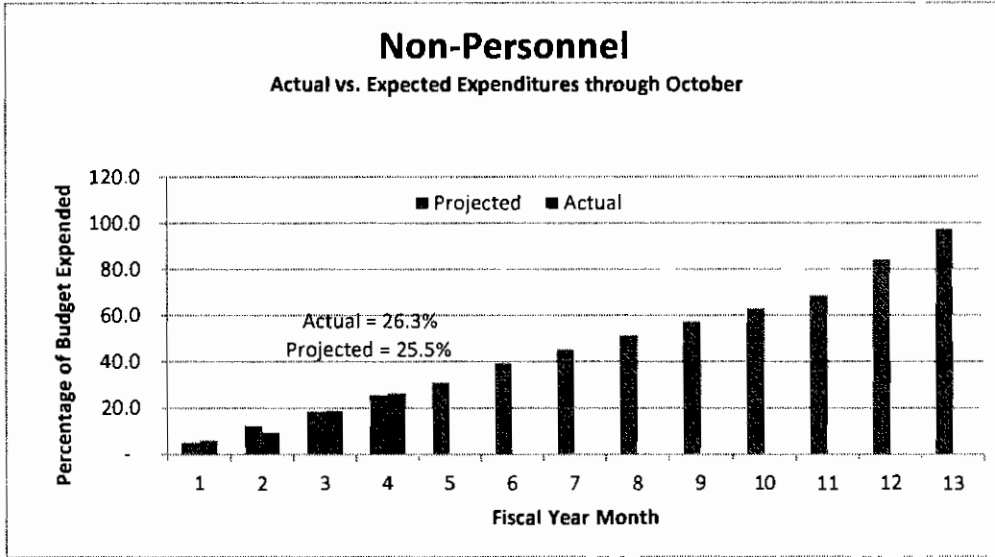
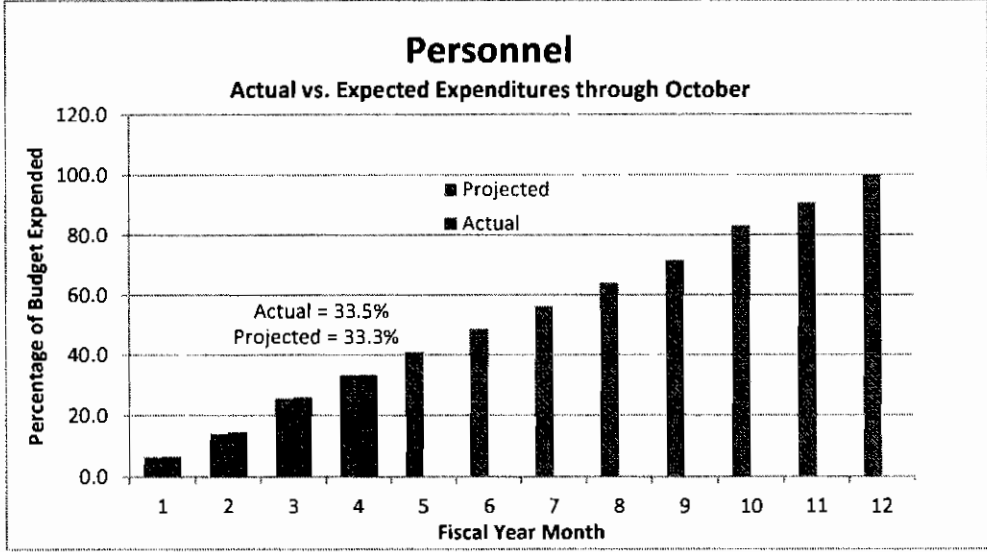
33.33% of Fiscal Year Completed
33.33% of Payrolls Processed

Attachment 3

COMPARATIVE STATEMENT OF EXPENDITURES & TRANSFERS BY FUNCTION
GENERAL FUND
FOR THE PERIODS ENDING OCTOBER 31, 2010 AND OCTOBER 31, 2009

| FUNCTION | A | B | C | D=C/B | E | F=(C-E)/E |
|--|--------------------------------|-----------------------------|---|----------------------------|---|-----------------------------|
| | FY2010 PRE-AUDIT ACTUALS | FY2011 REVISED BUDGET | FY2011 EXPENDITURES THRU 10/31/10 | % OF BUDGET EXPENDED | FY2010 EXPENDITURES THRU 10/31/09 | % EXPENDITURES CHANGE |
| Legislative & Executive..... | \$ 7,117,967 | \$ 7,691,064 | \$ 2,359,037 | 30.7% | \$ 2,430,607 | -2.9% |
| Judicial Administration..... | \$ 37,436,864 | \$ 38,723,575 | \$ 13,548,837 | 35.0% | \$ 13,291,129 | 1.9% |
| Staff Agencies | | | | | | |
| Information Technology Services..... | \$ 6,413,983 | \$ 7,148,254 | \$ 2,221,225 | 31.1% | \$ 2,083,700 | 6.6% |
| Management & Budget..... | 1,102,234 | 1,185,929 | 350,150 | 29.5% | 370,768 | -5.6% |
| Finance..... | 8,589,975 | 10,052,825 | 2,580,697 | 25.7% | 2,838,643 | -9.1% |
| Real Estate Assessment..... | 1,467,395 | 1,680,223 | 481,160 | 28.6% | 460,781 | 4.4% |
| Human Resources..... | 2,847,170 | 2,715,276 | 852,534 | 31.4% | 963,622 | -11.5% |
| Planning & Zoning..... | 5,453,956 | 5,450,708 | 1,721,533 | 31.6% | 1,811,860 | -5.0% |
| Economic Development Activities..... | 3,239,109 | 3,833,611 | 1,726,032 | 45.0% | 1,581,294 | 9.2% |
| City Attorney..... | 2,294,946 | 2,998,772 | 713,336 | 23.8% | 767,208 | -7.0% |
| Registrar..... | 1,014,068 | 1,128,653 | 382,879 | 33.9% | 364,943 | 4.9% |
| General Services..... | 11,369,943 | 11,775,206 | 3,304,739 | 28.1% | 3,286,081 | 0.6% |
| Total Staff Agencies | \$ 43,792,779 | \$ 47,969,457 | \$ 14,334,285 | 29.9% | \$ 14,528,900 | -1.3% |
| Operating Agencies | | | | | | |
| Transportation & Environmental Services..... | \$ 26,308,499 | \$ 27,729,543 | \$ 9,514,451 | 34.3% | \$ 9,412,448 | 1.1% |
| Fire and Code Administration..... | 39,338,983 | 35,977,978 | 13,389,153 | 37.2% | 13,415,448 | -0.2% |
| Police and Emergency Communications..... | 51,980,201 | 52,622,677 | 17,767,093 | 33.8% | 18,143,485 | -2.1% |
| Transit Subsidies..... | 5,168,369 | 8,245,933 | 3,730,105 | 45.2% | 3,672,478 | 1.6% |
| Mental Health/Mental Retardation/ Substance Abuse..... | 521,429 | 509,972 | 299,581 | 58.7% | 203,272 | 47.4% |
| Health..... | 7,598,198 | 8,108,471 | 2,366,664 | 29.2% | 1,352,075 | 75.0% |
| Human Services..... | 11,254,019 | 12,538,147 | 4,799,502 | 38.3% | 4,983,889 | -3.7% |
| Historic Resources..... | 2,597,967 | 2,501,575 | 865,650 | 34.6% | 872,451 | -0.8% |
| Recreation..... | 18,150,627 | 19,091,680 | 6,727,657 | 35.2% | 6,768,279 | -0.6% |
| Total Operating Agencies | \$ 162,910,292 | \$ 167,325,976 | \$ 59,459,856 | 35.5% | \$ 58,823,825 | 1.1% |
| Education | | | | | | |
| Schools..... | \$ 165,555,960 | \$ 167,886,567 | \$ 40,161,571 | 23.9% | \$ 40,124,980 | 0.1% |
| Other Educational Activities..... | 12,304 | 12,229 | 6,115 | 50.0% | 6,152 | -0.6% |
| Total Education | \$ 165,568,264 | \$ 167,898,796 | \$ 40,167,686 | 23.9% | \$ 40,131,132 | 0.1% |
| Capital, Debt Service and Miscellaneous | | | | | | |
| Debt Service..... | \$ 34,844,533 | \$ 37,660,704 | \$ 7,018,070 | 18.6% | \$ 3,231,945 | 117.1% |
| Non-Departmental..... | 9,042,601 | 10,381,943 | 5,783,275 | 55.7% | 6,994,038 | -17.3% |
| Cash Capital..... | 4,295,000 | 5,545,000 | 5,545,000 | 100.0% | 4,400,038 | 26.0% |
| Contingent Reserves..... | - | 507,314 | - | 0.0% | - | - |
| Total Capital, Debt Service and Miscellaneous | \$ 48,182,134 | \$ 54,094,961 | \$ 18,346,345 | 33.9% | \$ 14,626,021 | 25.4% |
| TOTAL EXPENDITURES | \$ 465,016,300 | \$ 483,701,829 | \$ 148,216,046 | 30.6% | \$ 145,831,614 | 3.0% |
| Cash Match (Mental Health/Mental Retardation/ Substance Abuse, Human Services and Library and Transfers to the Special Revenue Fund)..... | 41,469,222 | 34,257,741 | - | - | - | - |
| Transfer to Housing..... | 1,471,393 | 1,601,388 | 470,832 | 29.4% | 422,991 | 11.3% |
| Transfer to Library..... | 6,074,971 | 6,248,349 | 2,082,575 | 33.3% | 2,024,788 | 2.9% |
| Transfer to DASH..... | 7,907,789 | 7,807,789 | 2,602,336 | 33.3% | 2,566,077 | 1.4% |
| TOTAL EXPENDITURES & TRANSFERS | \$ 521,939,675 | \$ 533,619,096 | \$ 153,371,789 | 28.7% | \$ 148,844,470 | 3.0% |
| Total Expenditures by Category | | | | | | |
| Salaries and Benefits..... | \$ 180,224,174 | \$ 180,732,360 | \$ 60,545,113 | 33.5% | \$ 60,310,795 | 0.4% |
| Non Personnel (includes all school funds)..... | 341,715,501 | 352,886,736 | 92,826,676 | 26.3% | 88,534,675 | 4.8% |
| Total Expenditures | \$ 521,939,675 | \$ 533,619,096 | \$ 153,371,789 | 28.7% | \$ 148,844,470 | 3.0% |

19

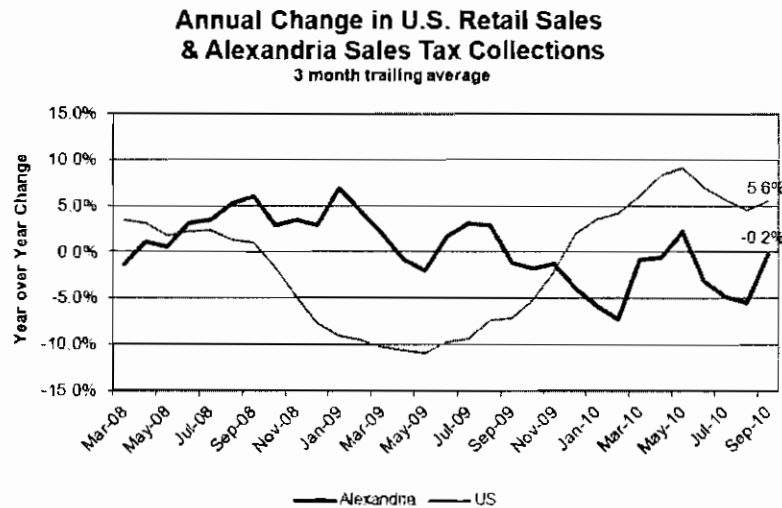


Summary

In an October 18 work session on revenues, Council asked for some additional analysis regarding sales tax revenues. Sales tax collections have been sluggish over the last several years. The analysis shows that since 2006, the restaurant, lodging, and food and beverage stores sectors have performed relatively well, while the home furnishings, and building and garden store sectors have fared relatively poorly. Overall, sales in categories we normally think of as retail sales have decreased in Alexandria by approximately 8.7% from the first half of 2006 to the first half of 2010. There are at least four primary reasons for the decline. Some of the decrease relates to the recession which has had a major impact on retail sales, particularly in sectors relating to housing and construction. Some of the decline relates to the fact that until two years ago, the State was annually allocating hundreds of thousands of dollars in sales tax to Alexandria that should have gone to Fairfax County. The decline may also be caused by the migration of retail sales to the Internet that are not subject to sales tax. Finally, some of the decrease can be traced to the decline of Landmark Mall.

Comparing Alexandria’s Sales Tax Collections to National Retail Sales

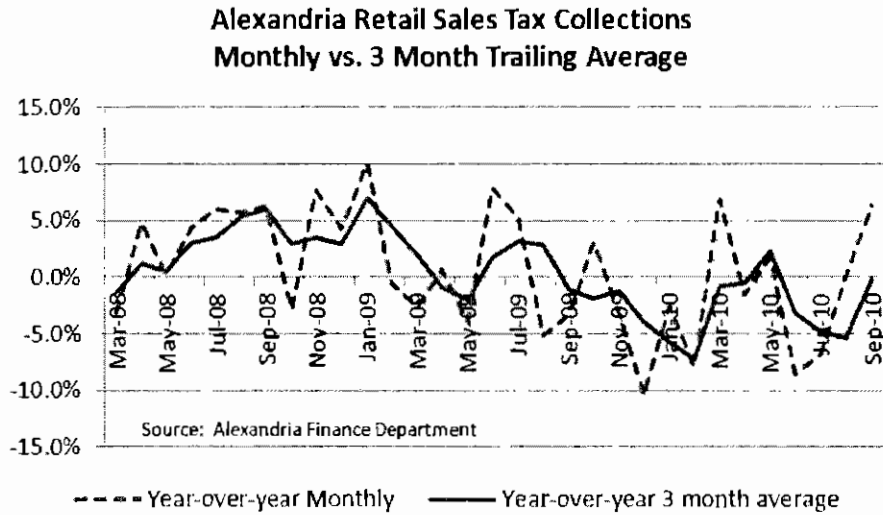
The graph below shows the City’s retail sales collections in comparison to national retail sales as measured by the Census Bureau. The graph is included in Attachment 1 of the Monthly Financial Report. The graph appears to show that Alexandria’s retail sales collections compare unfavorably with national U.S. retail sales. Since about December 2009, the year-over-year rate of change (on a 3 month trailing average) has been stronger nationally than in Alexandria, although the gap appears to be closing.



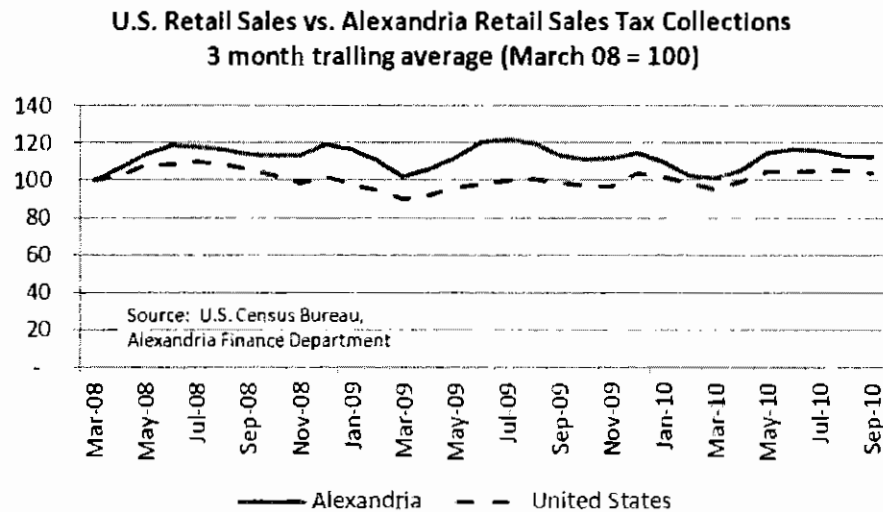
Source: Census Bureau, Alexandria Finance Department

There are some differences in what the two data series measure. U.S. retail sales include sales of gasoline and automobiles and online sales, none of which are included in Alexandria’s sales tax collections. On the other hand, Alexandria’s retail sales tax collections include the sales tax on hotel rooms, which is not included in national retail sales tax figures. Also, Alexandria’s sales tax data relies on merchants to file their sales tax reports on time with the state. If merchants do not, then sales tax collections become

inconsistent on a month-to-month basis, which is why the City uses a three month trailing average. The graph below shows the inconsistencies in monthly sales tax collections. The dotted line in the graph below shows June and July retail sales were well below those of last year, while September's were far better than last year's retail sales. The three month trailing average smooths out some of these inconsistencies.



The graph below indexes U.S. Retail Sales and Alexandria Retail Sales to 100 as of March, 2008, providing a direct comparison and a different perspective on the City's retail sales tax collections. It is apparent from the two graphs that one reason why Alexandria's retail sales collections have not recovered as strongly as the United States' retail sales is that at least since March, 2008, there was less decline from which Alexandria had to recover. Alexandria's retail sales were 12.7% higher in the 3 months ending September 2010 than in the 3 months ending March 2008, while national sales were 4.1% higher. (There is a seasonal component to retail sales.)



Comparing Alexandria's Sales Tax Collections to Virginia's Sales Tax Collections¹

The table and charts below directly compare the City's sales tax collections to the State's sales tax collections by overall sector. The data is organized by North American Industry Classification (NAICS) category which is used by the federal government to classify business establishments. The table and charts look similar; the differences are the relative importance of accommodation and food services (23% of taxable sales in Alexandria compared to 16% statewide), and the Wholesale Trade and Manufacturing sectors (4% of taxable sales in Alexandria compared to 10% Statewide)

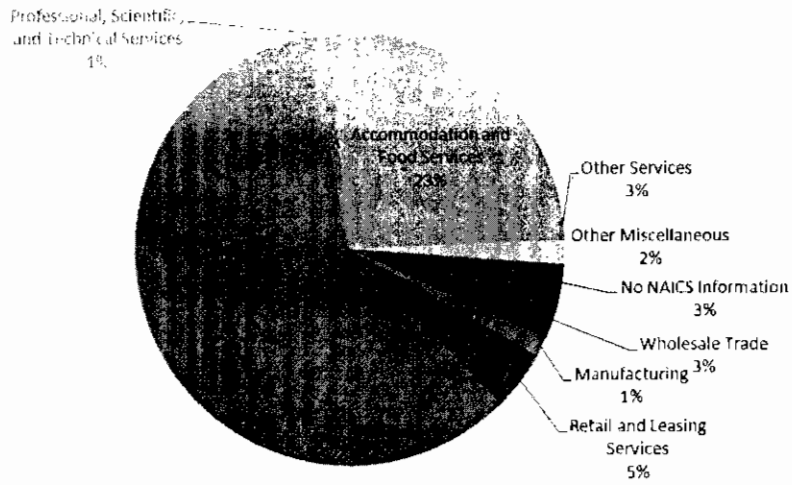
Taxable Sales by Sector: Alexandria vs. State

| | Alexandria | State |
|--|------------|-------|
| Retail Sales | 59% | 62% |
| Accommodation & Food | 23 | 16 |
| Retail & Leasing Services | 5 | 2 |
| Other Services | 3 | 2 |
| Wholesale Trade | 3 | 6 |
| No Information | 3 | 2 |
| Other Miscellaneous | 2 | 3 |
| Manufacturing | 1 | 4 |
| Professional, Technical, and Scientific Services | 1 | 1 |
| Construction | 0 | 2 |
| Total | 100% | 100% |

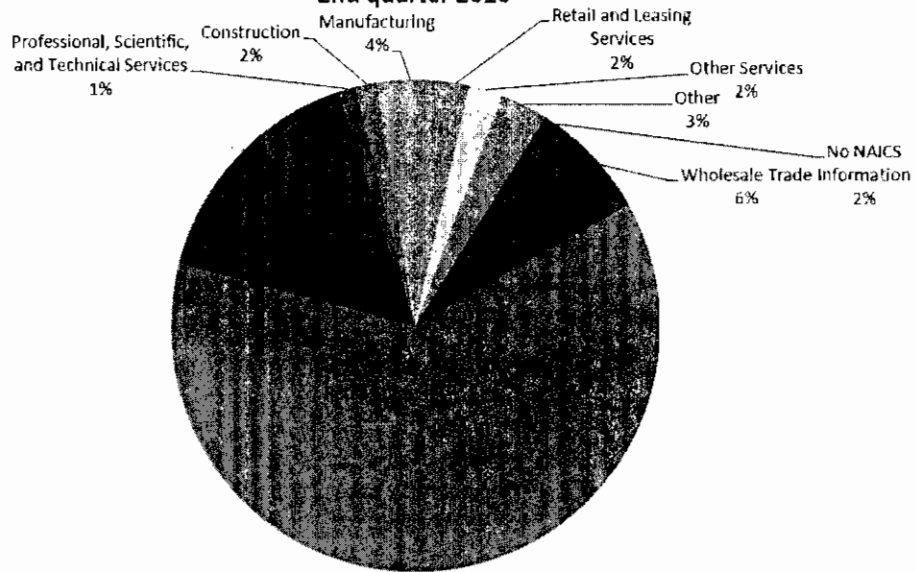
Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

¹ Much of the data in this analysis is taken from the Virginia Department of Taxation and can be found on the Weldon Cooper Center for Public Service's website. There are some major limitations to the data. The data was sorted differently before 2005, so only comparisons from 2006 forward are useful. Also, over time, the State has gradually refined its method of collecting sales data and the categories to which business establishments have been assigned which may account for some of the change in retail mix from 2006 to the present. The data are not configured to allow users to allocate taxable sales geographically within the City, nor is it possible to see which specific businesses fall into each category.

Taxable Sales by Sector in Alexandria 2nd quarter 2010



Taxable Sales by Sector in Virginia 2nd quarter 2010



Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

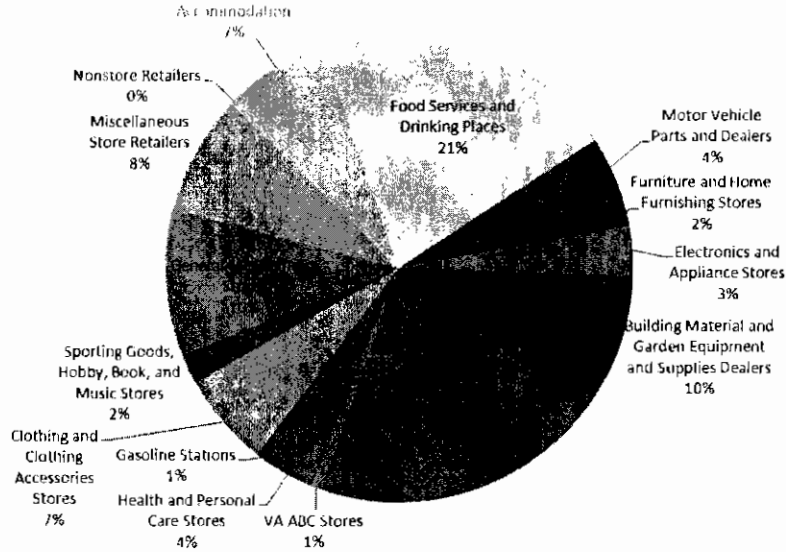
The table and charts below further break down taxable sales in Alexandria by the important retail, lodging, and restaurant sectors, and exclude all other sectors. They provide a comparison between the pre-recession sales of 2006 and the present. The lodging and restaurant sectors and food service sectors have increased since 2006.

Retail Sales by Sector (as a share of the total) -- Alexandria

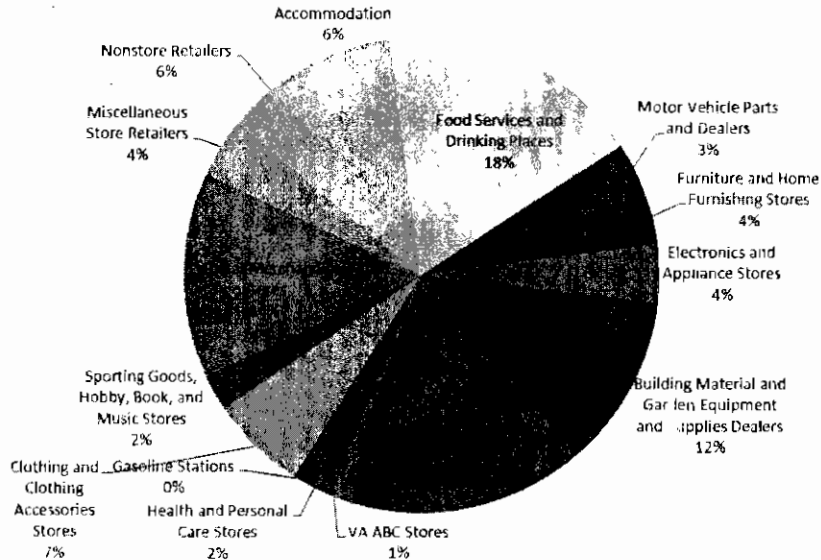
| | Change in share | 2nd quarter '06 | 2nd quarter '10 |
|------------------------------|------------------------|-----------------------------------|-----------------------------------|
| Miscellaneous Retail | +4% | 4% | 8% |
| Food Services/Drinking | +3 | 18 | 21 |
| Food/Beverage Stores | +3 | 17 | 20 |
| Health & Personal Care | +2 | 2 | 4 |
| Accommodation | +1 | 6 | 7 |
| Motor Vehicle Parts/Dealers | +1 | 3 | 4 |
| Gasoline Stations | 0 | 0 | 1 |
| Clothing | 0 | 7 | 7 |
| Sporting Goods/Hobby | 0 | 2 | 2 |
| ABC Stores | 0 | 1 | 1 |
| Electronic & Appliance | -1 | 4 | 3 |
| Furniture & Home Furnishings | -2 | 4 | 2 |
| Building/Equipment/Supplies | -2 | 12 | 10 |
| General Merchandise | -4 | 14 | 10 |
| Non-Store Retail | -6 | 6 | 0 |
| Total | - | 100% | 100% |

Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

Retail Sales by Sector-Alexandria 2nd quarter - 2010



Retail Sales by Sector - Alexandria 2nd quarter - 2006



Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

The chart and graphs show a modest increase in the share of the importance of both restaurants and grocery stores in the City from 2006 to 2010. Food and Beverage Store sales and Food Service and Drinking Places increased their share of the total from 35% to 41%.

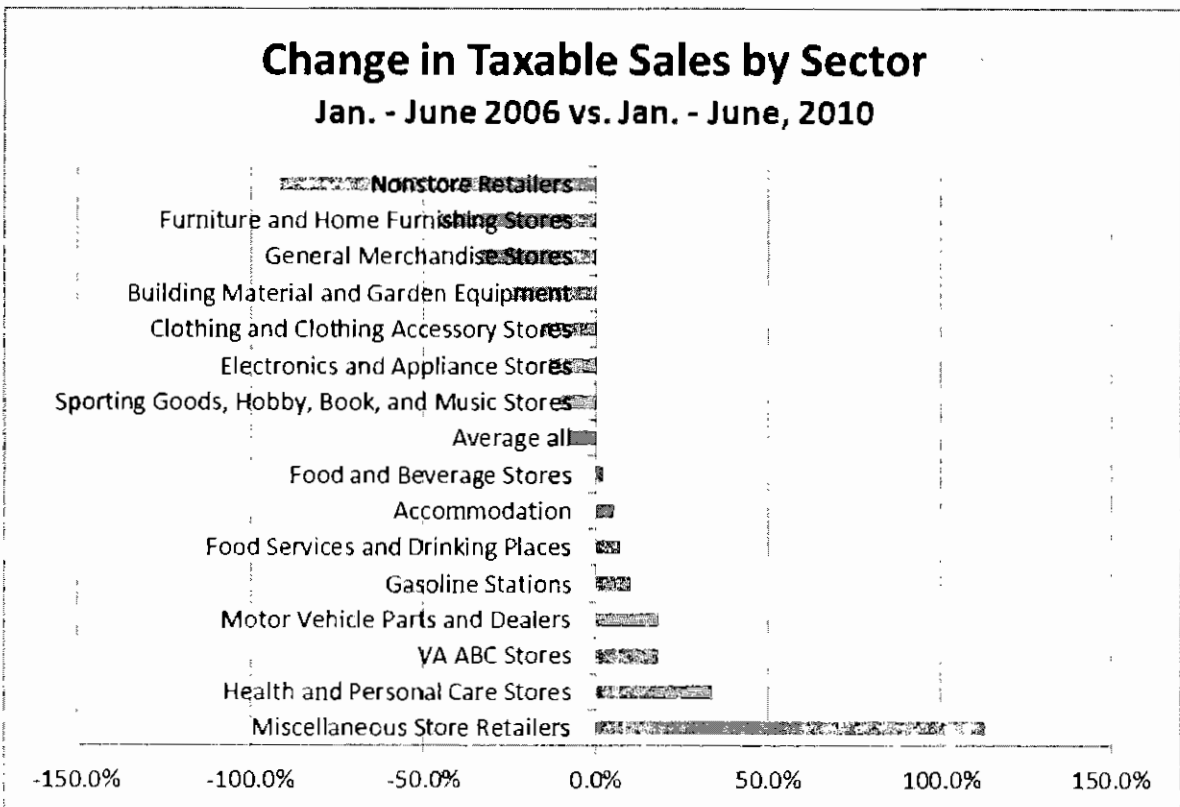
Some of the negative changes clearly are related to the housing bust; the share of building materials and garden supplies decreased from 12% to 10%, and the share of furniture and home furnishings decreased from 4% to 2%.

The decrease in General Merchandise stores from 14% to 10% is probably partially attributable to the fact that Virginia was erroneously assigning sales tax from a Fairfax County department store to Alexandria and also to the departure of Lord and Taylor from Landmark Mall.

Changes in technology have also impacted the retail mix. The biggest category decrease is attributable to Non-store Retailers; from 6% to 0%. The NAICS category "Non-store Retail" includes mail order catalog shopping, door-to-door sales, electronic (internet) shopping, and newspaper delivery service providers, among other establishments. It is likely that the accelerating shift to the internet favors non-taxable electronic shopping at the expense of other forms of retail. The Census Bureau reports that the national share of electronic shopping and mail order houses increased from around 3.8% of all retail sales in 2006 to 5.8% in 2010. That increase has been driven by an increase in internet sales, which by federal law are not subject to sales tax. However, the data do not include information on specific businesses that fit into this category, so it is not definitively possible to explain the decrease.

Comparing retail sales by sector pre-recession to post-recession

The chart below shows the percentage change in taxable sales within the retail sector from the first six months of 2006 to the first six months of 2010.



Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

It is worth noting again the effect of the Internet on the “Electronics and Appliance” and “Sporting Goods, Hobby, Book, and Music Stores” sectors. The “Motor Vehicles” category does not include automobiles which by Virginia law are not subject to sales tax; it includes auto parts.

Comparing the Number of Sales Tax Generating Businesses by Sector - Pre-recession vs. Post-recession

The chart below shows the change in the number of businesses in Alexandria by sector from the 2nd quarter 2006 compared to the 2nd quarter 2010. They are presented in the same order as the sectors shown in the table above for taxable sales by sector.

| Number of Businesses by Sector | | | | |
|---|---------|---------|----------|----------|
| | q2-2006 | q2-2010 | # Change | % Change |
| Miscellaneous Store Retailers | 236 | 232 | -4 | -1.7% |
| Health and Personal Care Stores | 18 | 26 | 8 | 44.4% |
| VA ABC Stores | 5 | 5 | 0 | 0.0% |
| Motor Vehicle Parts and Dealers | 32 | 28 | -4 | -12.5% |
| Gasoline Stations | 29 | 33 | 4 | 13.8% |
| Food Services and Drinking Places | 307 | 302 | -5 | -1.6% |
| Accommodation | 19 | 19 | 0 | 0.0% |
| Food and Beverage Stores | 75 | 113 | 38 | 50.7% |
| Sporting Goods, Hobby, Book, and Music Stores | 94 | 60 | -34 | -36.2% |
| Electronics and Appliance Stores | 12 | 11 | -1 | -8.3% |
| Clothing and Clothing Accessory Stores | 114 | 105 | -9 | -7.9% |
| Building Material and Garden Equipment | 28 | 16 | -12 | -42.9% |
| General Merchandise Stores | 20 | 25 | 5 | 25.0% |
| Furniture and Home Furnishing Stores | 92 | 71 | -21 | -22.8% |
| Nonstore Retailers | 45 | 55 | 10 | 22.2% |

Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service

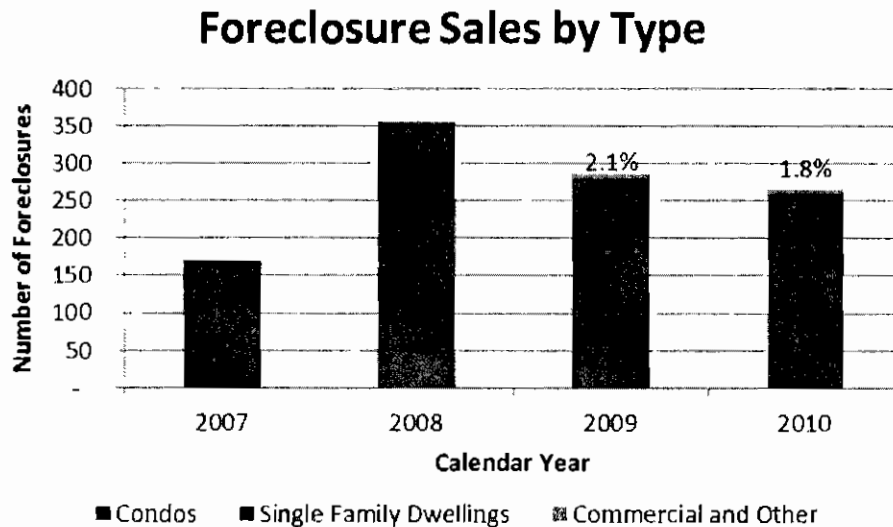
According to the *Quarterly Census of Employment and Wages*, the number of retail positions in the City decreased 10.1% from 8,165 in the first quarter of 2006 to 7,336 in the first quarter of 2010.

Summary

In last month's Monthly Financial Report presentation, it was promised that OMB would provide additional analysis of foreclosures in the City of Alexandria. Attachment 5 includes this additional analysis. With all the uncertainty in the real estate market, it is difficult to estimate the seriousness of the foreclosure problem in Alexandria. For the last several years, the government has created a variety of programs to help homeowners facing foreclosure to modify their loans and keep their homes. The programs have helped some homeowners, but in other cases, have only delayed foreclosures. Many banks have held back distressed properties, fearing to create a glut of homes for sale which would depress real estate values further. However, it is likely that Alexandria's economic advantages such as its low unemployment, proximity to Washington, DC, and relatively prosperous economy will make it immune to the worst of the problems facing the national real estate market. The predominance of foreclosures in Alexandria are in condominiums, and of those, most are lower value properties. A large number of the City's foreclosures are centered in several condo complexes primarily in the West End of the City which have seen significant value declines. However, the fact that Alexandria's real estate market has performed relatively well to date may insulate the City from the worst of any foreclosure problems. Clearly that has been the case to date, as the City's current foreclosure rate is about 1/3 the national average and better than all but Arlington's in the Northern Virginia Region.

Background

Since the collapse of the housing bubble in 2006, the number of foreclosures in the City has risen from negligible to measureable levels. The graph below shows the number of total foreclosures by type and by calendar year from 2007 to the end of October 2010.



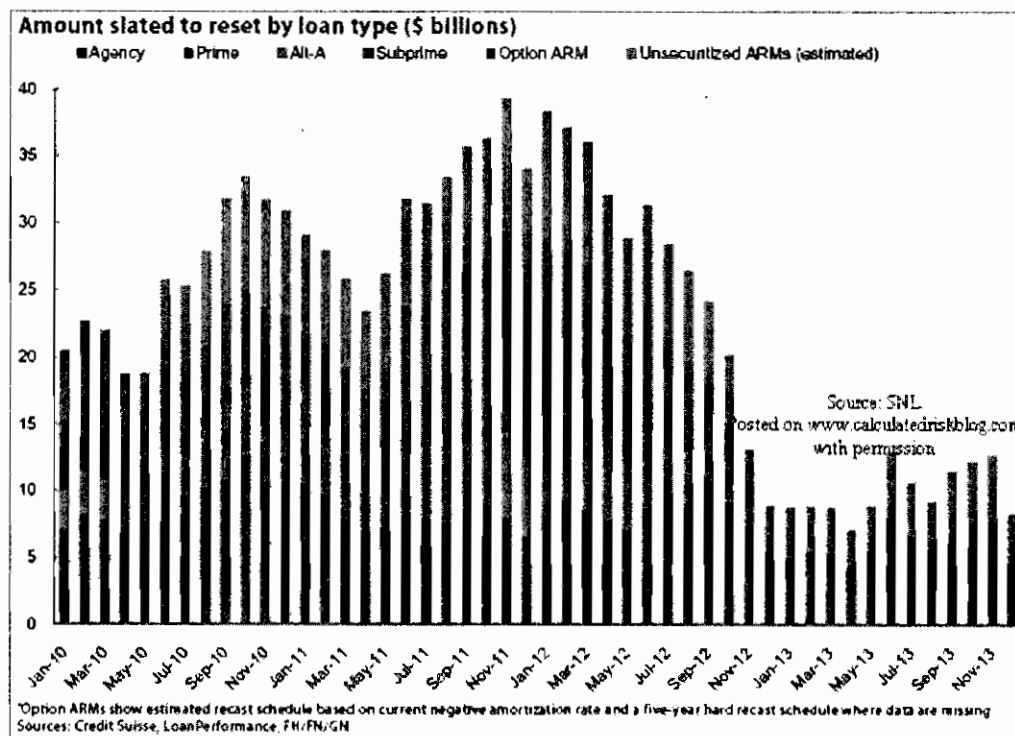
Source: Department of Real Estate Assessments

The total rate of foreclosure sales remains low in comparison with the rest of the country and most other area jurisdictions. During the peak year of 2008, the total rate of foreclosure sales was 229 condos out of 19,190 total parcels or 1.2%; the total rate among single family dwellings was 124 out of 20,927 parcels or 0.5%. According to RealtyTrac, which puts together the best measure for cross-jurisdictional comparisons, Alexandria's rate of foreclosures is lower than that of any other Northern Virginia jurisdiction except Arlington. The table below shows the foreclosure rates among area jurisdictions.

| Foreclosure Rate by Jurisdiction Oct-2010 | |
|---|-------------------|
| Alexandria | 1/1085 properties |
| Arlington County | 1/2290 |
| Fairfax County | 1/734 |
| Loudoun County | 1/444 |
| Prince William | 1/332 |
| Virginia | 1/577 |
| National | 1/389 |

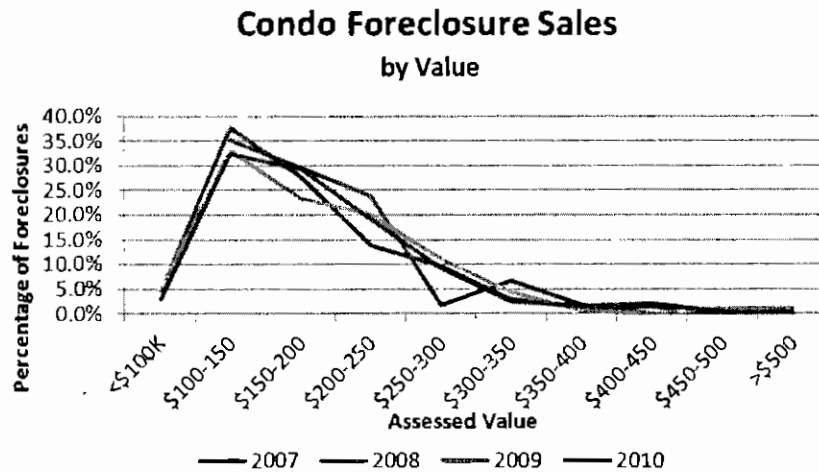
Source: RealtyTrac (www.realtytrac.com/trendcenter/)

For several years, housing market analysts have predicted that the number of foreclosures could increase dramatically. The Credit-Suisse created chart shown below which appeared on the financial blog Calculated Risk shows the amount of adjustable rate mortgages including option-arms scheduled to reset over the next three years. According to the chart, the number of resets is expected to peak during early 2012.

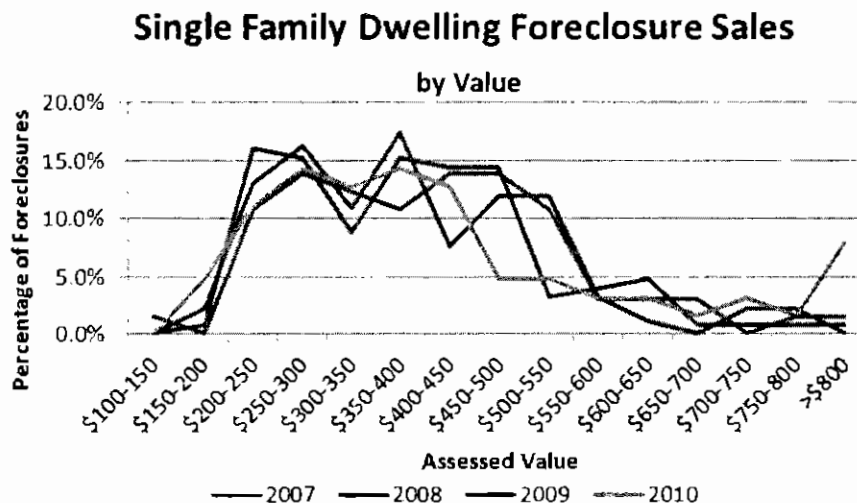


However, with interest rates at historic lows, continuing low unemployment and a fairly stable housing market in Alexandria particularly for single family homes, it is likely that most of these borrowers will be able to refinance their mortgages when they come due, if they have not already. According to the Mortgage Bankers Association, the average interest rate on a 30 year fixed rate mortgage was 4.46% as of the week of November 17, 2010. The Federal Reserve is actively pursuing policies to keep mortgage rates low.

Foreclosures by Value . The graph below show the percentage of condo foreclosure sales for the last four years by value range based on Calendar Year 2010 assessments. It is apparent from the graph that the foreclosures are concentrated in the lower range of values and that the pattern has changed little over the last four years, including the current year.



The graph below shows the percentage of single family dwelling foreclosure sales for the last four years by value range based on Calendar Year 2010 assessments. Again, the graph reveals that the pattern has changed little over the last four years. There is a slight uptick in 2010 foreclosure sales exceeding \$800,000, and it's possible it has to do with the lack of financing available for high end homes which may have made it impossible for the affected owners to sell their homes at the value necessary to pay off their mortgages, but it represents only a half dozen homes or so and may also be an anomaly.



The table below shows the average value of foreclosed condos and single family dwellings compared to the average assessed value of all properties in Alexandria in CY 2010.

| Property Type | Average Value of Foreclosure Sales by Year | | | | CY 10 City Average Assessment |
|---------------|--|-----------|-----------|-----------|-------------------------------|
| | 2007 | 2008 | 2009 | 2010 | |
| Condo | \$187,528 | \$179,857 | \$190,803 | \$188,456 | \$269,695 |
| Single Family | \$411,241 | \$389,890 | \$387,816 | \$440,483 | \$612,749 |

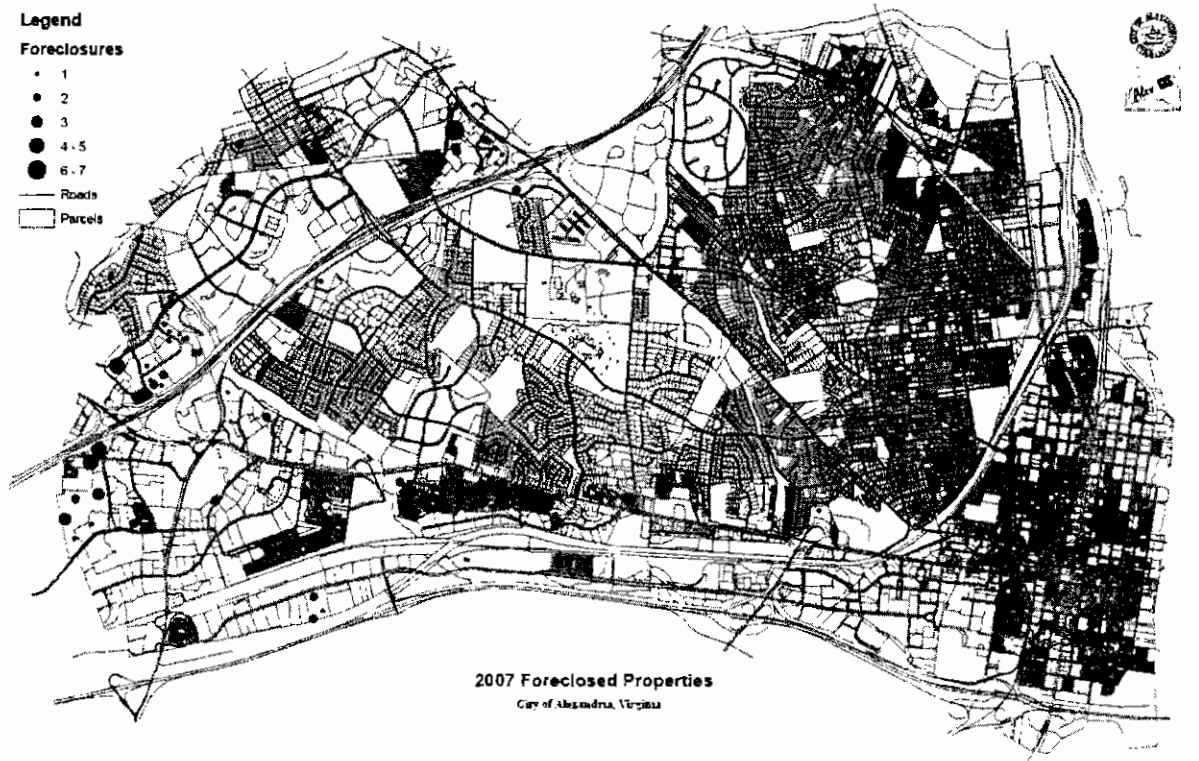
Source: Department of Real Estate Assessments

Again, it is evident that the foreclosures are concentrated at the lower end of the market with few signs of any change in pattern from 2007 to the present.

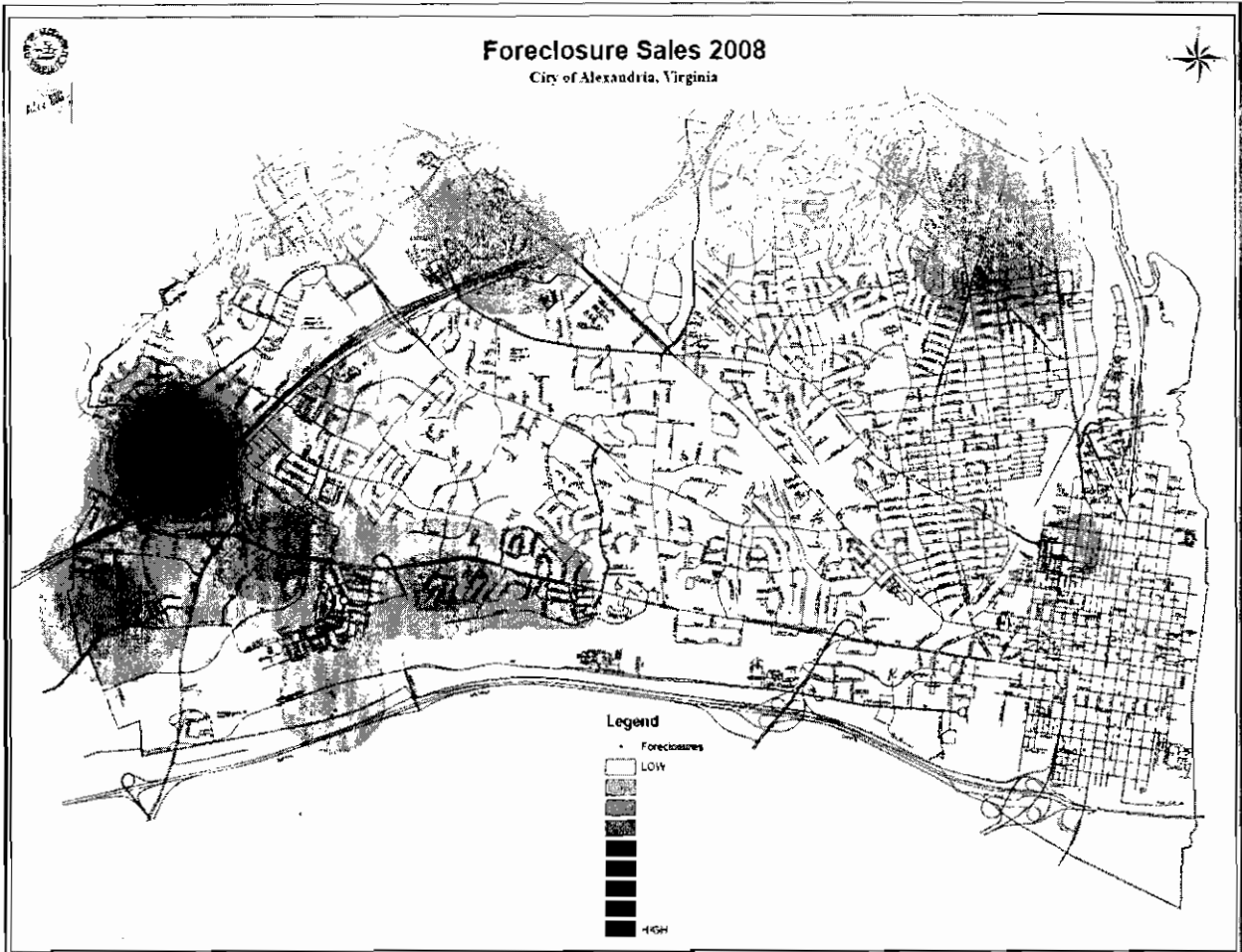
Foreclosures by Geography

The following maps show the distribution of foreclosures around the City from 2007, 2008, 2009, and 2010. A cursory glance at the four maps shows that the foreclosures are centered around several condo complexes, mainly in Alexandria's West End, and that the pattern has changed little since 2007.

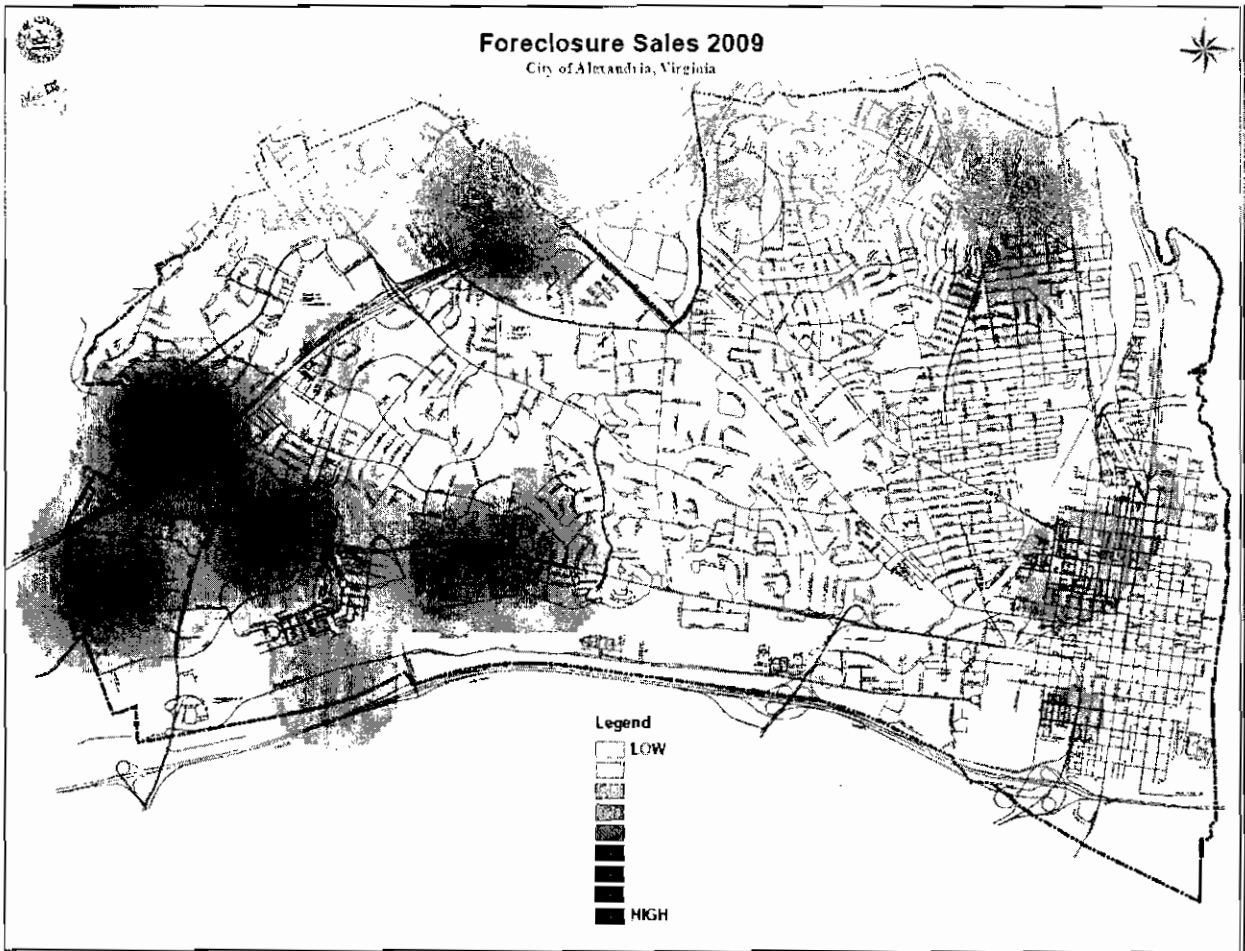
2007



Source: Department of Real Estate Assessments, Department of Planning & Zoning



Source: Department of Real Estate Assessments, Department of Planning & Zoning



Source: Department of Real Estate Assessments, Department of Planning and Zoning



Source: Department of Real Estate Assessments, Department of Planning and Zoning

Through October 31, nearly half of the City's condo foreclosures in 2010 have been centered in just seven condo complexes. While the value of the average Alexandria condo decreased by approximately 26% between 2006 and 2010, the value of a random sampling of fifteen properties in those seven condo complexes decreased by 42%.

Outlook for Future Foreclosures

According to recent information released by the mortgage research firm LPS Applied Analytics, the average number of days delinquent for loans in foreclosure nationally is 492 days and that nearly 20% of loans that have been delinquent more than two years are still not in foreclosure. Those numbers suggest additional distressed properties are eventually going to hit the market. More recently, many banks have begun a moratorium on foreclosures to sort out title problems, a situation that has also kept distressed homes off the market. Home values will not settle to their natural level until the housing market is allowed to clear.

There is clearly a connection between the drop in home values and the number of foreclosures. If government efforts to support home values through tax credit programs, extraordinarily low interest rates, foreclosure moratoriums, and relaxed lending standards (such as the increase in the maximum FHA loan in the DC area several years ago) are withdrawn or unsuccessful, the real estate market could take another leg down. It has already begun to do in some national real estate indexes, though not in the City of Alexandria to date. Declining home values might then lead to more foreclosures. Clearly, the biggest risks in Alexandria are in lower priced condominiums. However, might the foreclosure problem spread if the average condo value in the City dropped another 16% as it has in the most distressed condo complexes in the City? City Staff will continue to monitor this market.

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12-14-10

Monthly Financial Report

Through October 2010

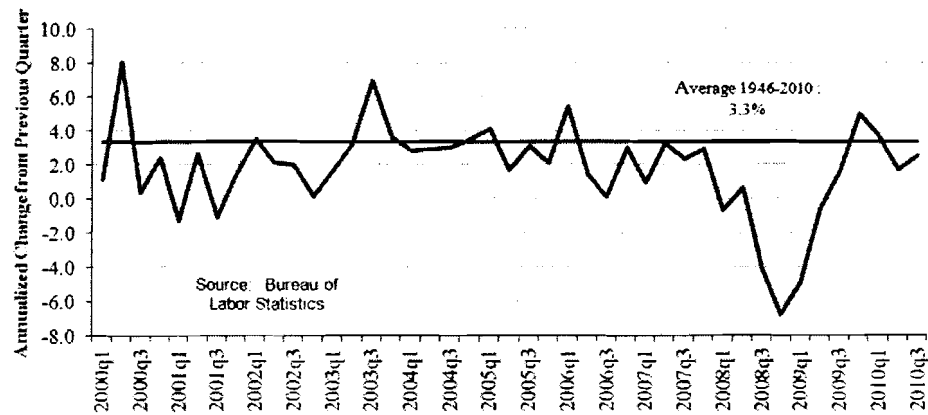


City of Alexandria

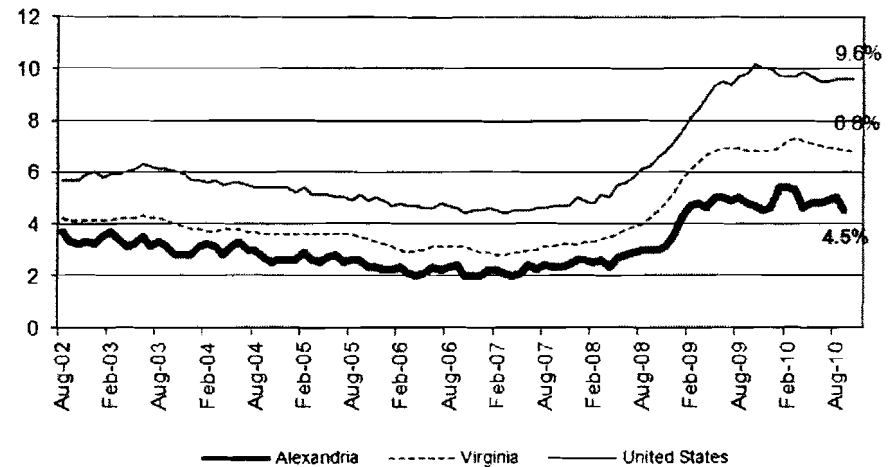
Monthly Financial Report

Economic Indicators

**GDP Change by Quarter
2001- 3rd quarter 2010**

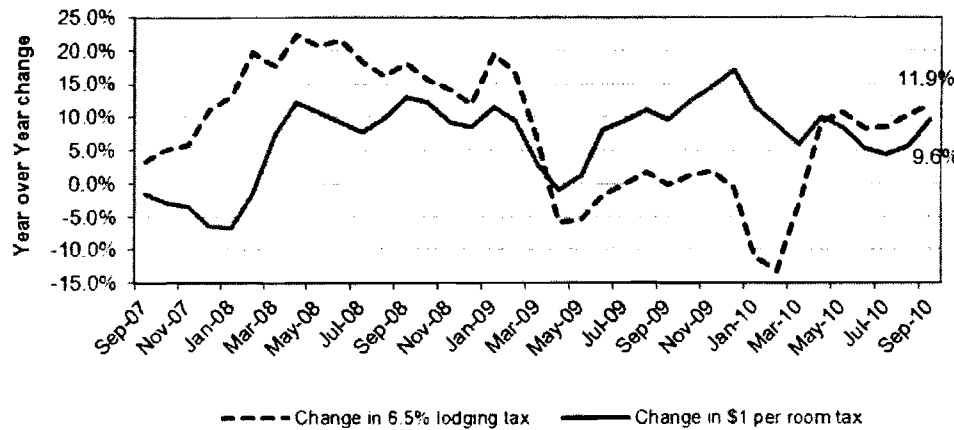


Unemployment Rate - U.S., Virginia, and Alexandria

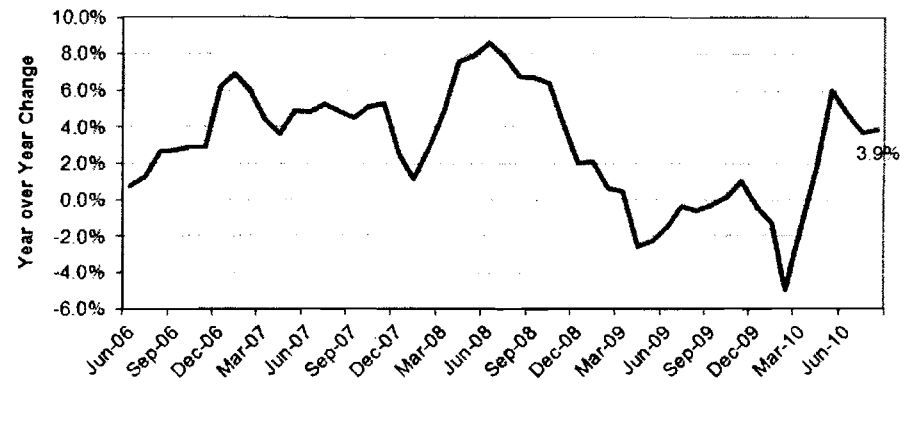


Economic Indicators

Annual Change in Transient Lodging Tax Receipts
3 month trailing average



Annual Change in Meals Tax Revenue Per 1 % of Tax
3 month trailing average

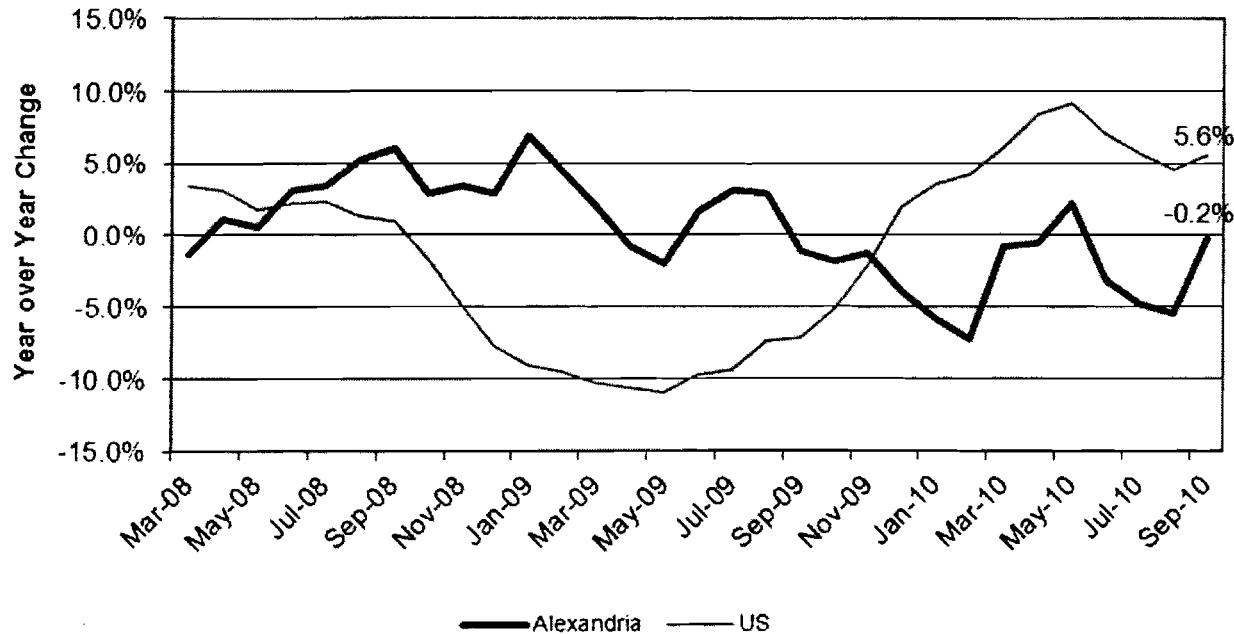


City of Alexandria

Monthly Financial Report

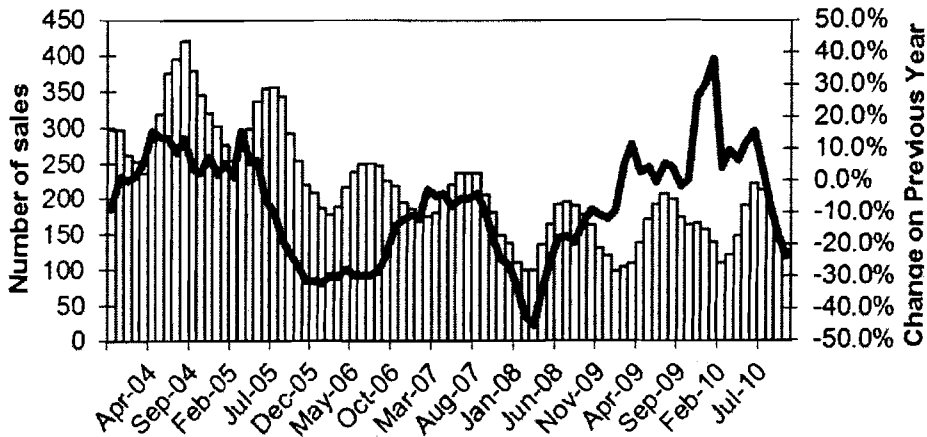
Economic Indicators

**Annual Change in U.S. Retail Sales
& Alexandria Sales Tax Collections**
Through September 3 month trailing average



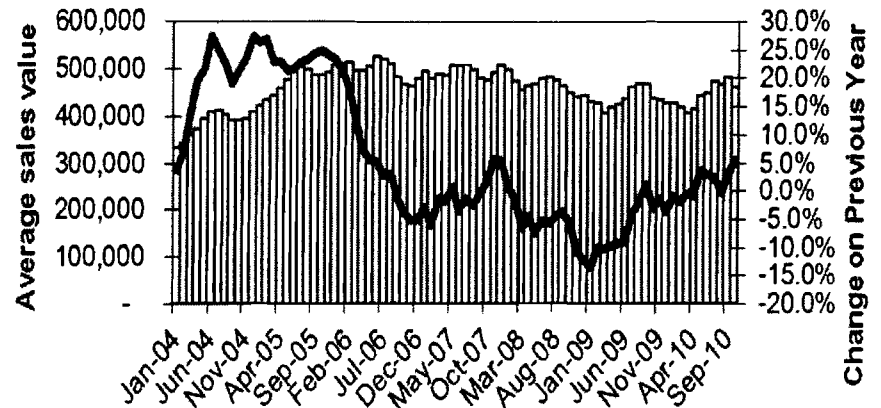
Economic Indicators

Alexandria Residential Property Sales Volume
Three Month Trailing Average



□ Number of sales — Change from previous year

Alexandria Residential Property Average Sales Value
Three Month Trailing Average



□ Average Sales Value — Change from previous year

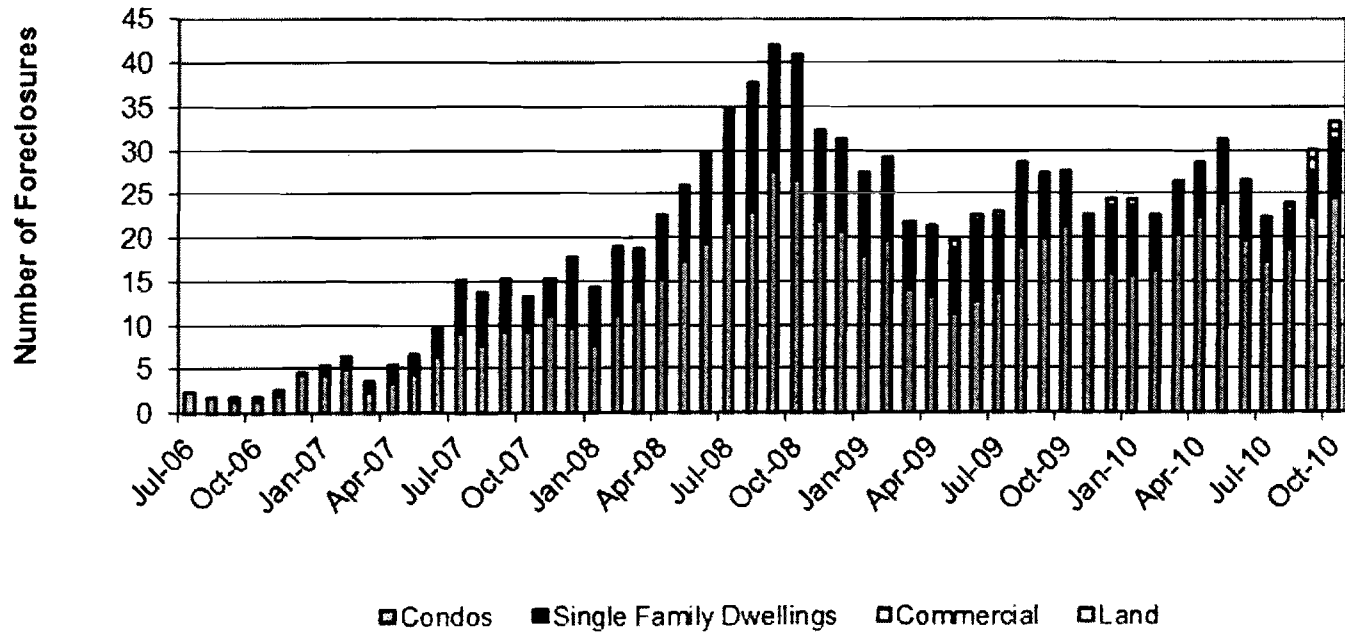


City of Alexandria

Monthly Financial Report

Economic Indicators

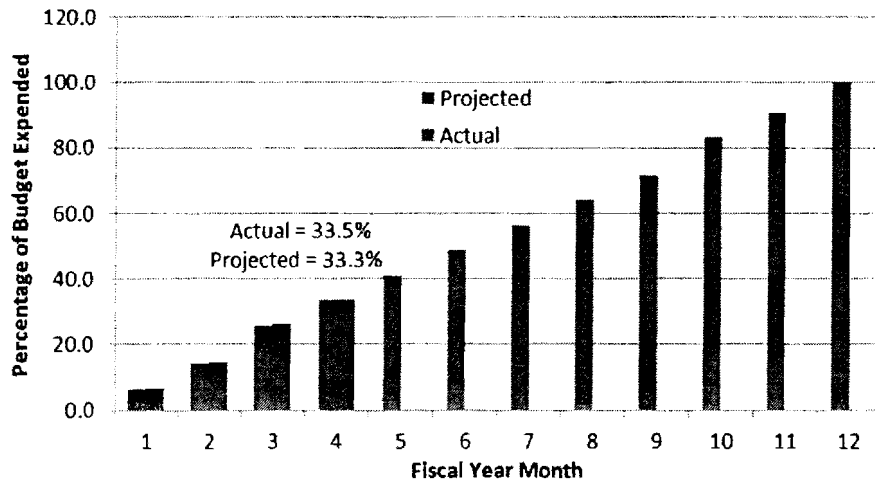
New Foreclosures in Alexandria 3 month trailing average



Expenditure Highlights

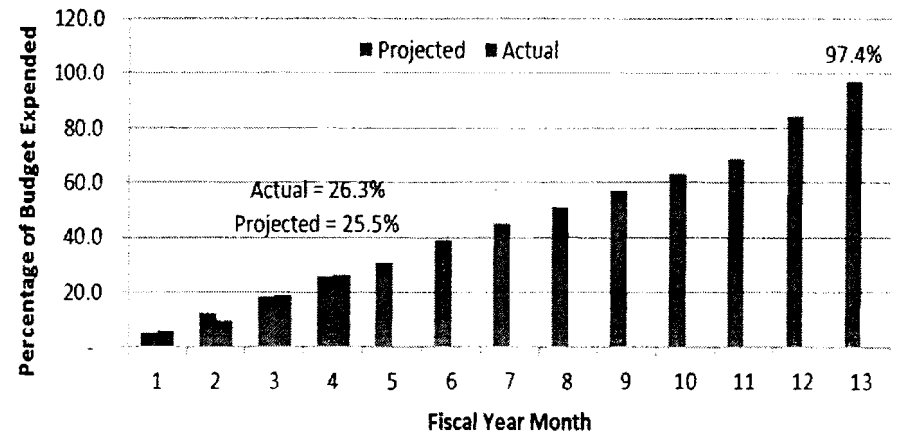
Personnel

Actual vs. Expected Expenditures through October



Non-Personnel

Actual vs. Expected Expenditures through October

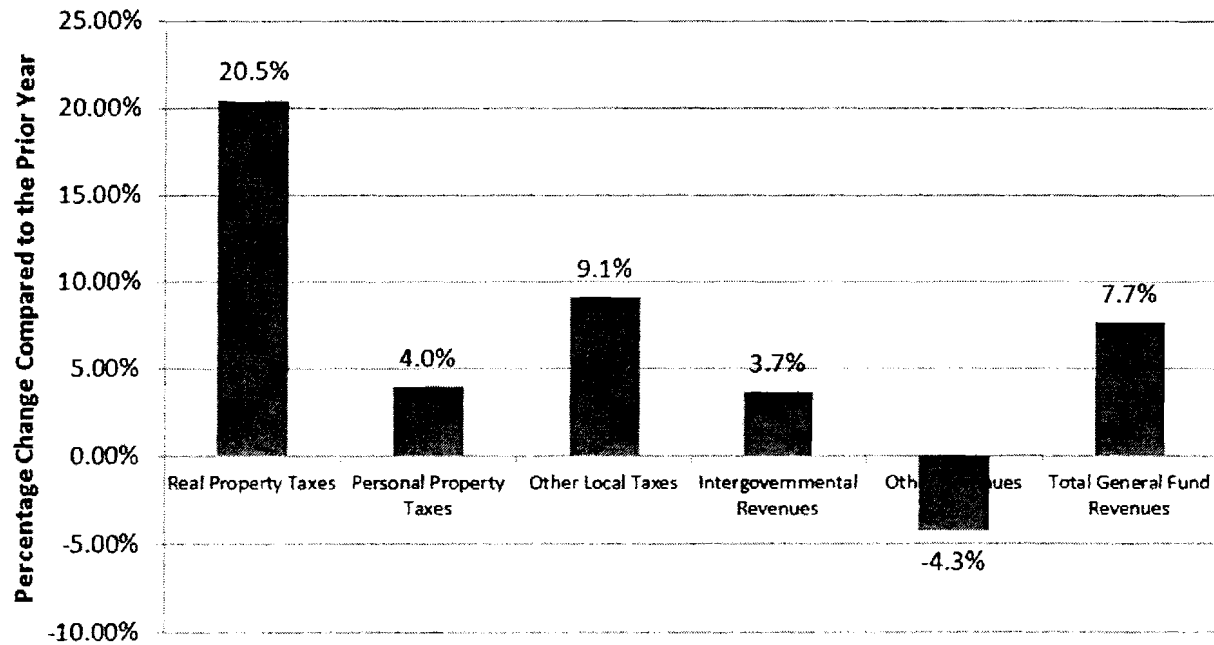


City of Alexandria

Monthly Financial Report

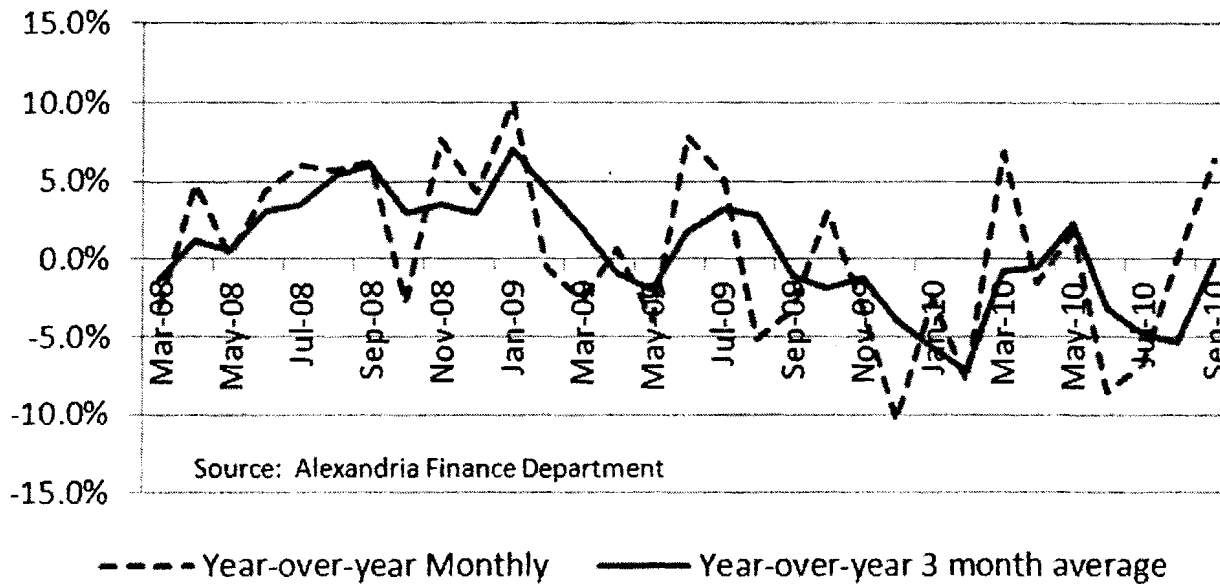
Revenue Highlights

**Change in Year-to-date Revenues Through October
FY 2011 Compared to FY 2010**



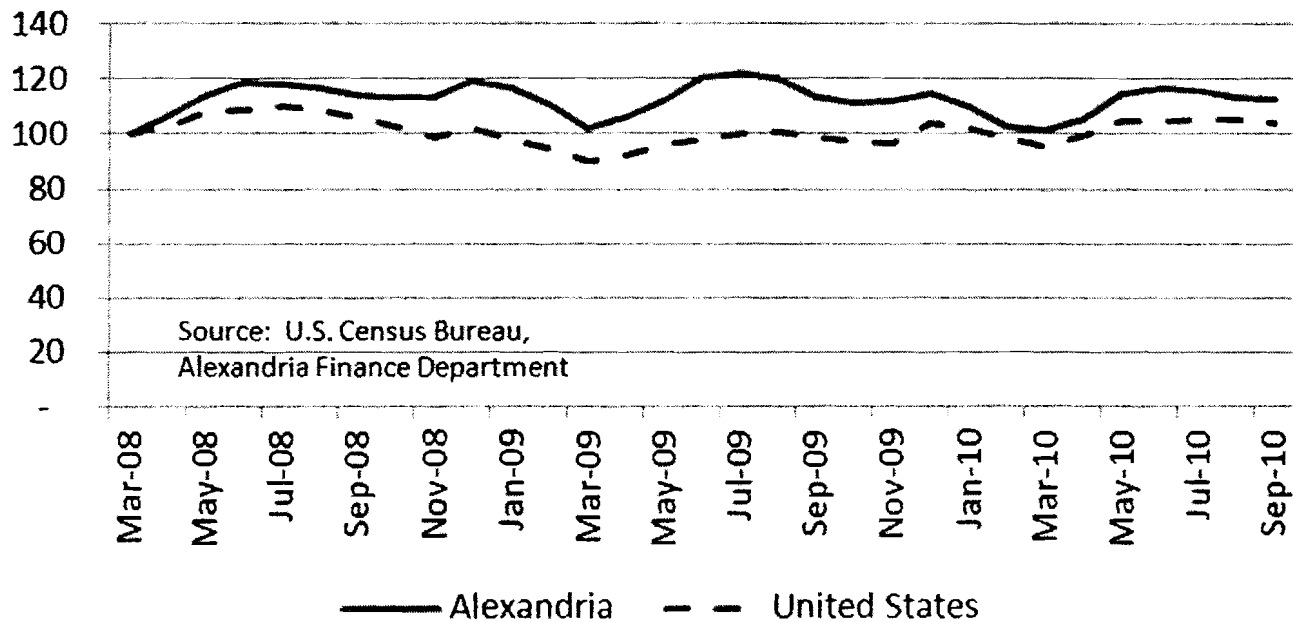
Sales Tax Analysis

**Alexandria Retail Sales Tax Collections
Monthly vs. 3 Month Trailing Average**



Sales Tax Analysis

U.S. Retail Sales vs. Alexandria Retail Sales Tax Collections
3 month trailing average (March 08 = 100)



Retail Analysis

Share of Taxable City Sales by Retail Sector 2nd quarter '06 to 2nd quarter '10

| Type of Establishment | 2nd quarter '06 | 2nd quarter '10 | Change |
|------------------------------|-----------------|-----------------|------------|
| Hospitality | 24% | 28% | 4% |
| Food Services/Drinking | 18% | 21% | 3% |
| Accommodation | 6% | 7% | 1% |
| Regular Consumption | 19% | 26% | 7% |
| Food & Beverage Stores | 17% | 20% | 3% |
| ABC Stores | 0% | 1% | 1% |
| Health & Personal Care | 2% | 4% | 2% |
| Gasoline Stations | 0% | 1% | 1% |
| Episodic Consumption | 33% | 27% | -6% |
| Clothing & Accessories | 7% | 7% | 0% |
| Sporting Goods/Hobby | 2% | 2% | 0% |
| General Merchandise | 14% | 10% | -4% |
| Miscellaneous Retail | 4% | 8% | 4% |
| Non-Store Retail | 6% | 0% | -6% |
| Durable Goods | 23% | 19% | -4% |
| Motor Vehicle Parts/Dealers | 3% | 4% | 1% |
| Furniture & Home Furnishings | 4% | 2% | -2% |
| Electronics | 4% | 3% | -1% |
| Building /Equipment/Supplies | 12% | 10% | -2% |

Source: Virginia Department of Taxation/Weldon Cooper Center for Public Service



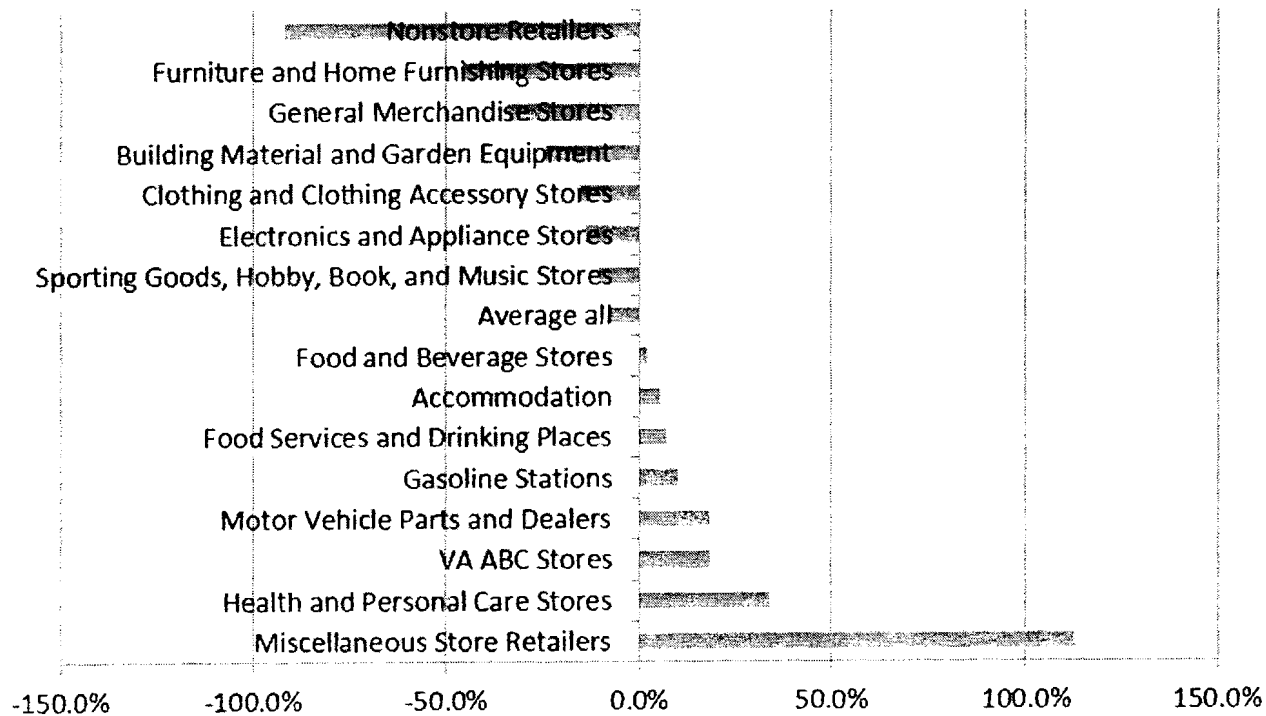
City of Alexandria

Monthly Financial Report

Sales Tax Analysis

Change in Taxable Sales by Sector

Jan. - June 2006 vs. Jan. - June, 2010



Foreclosure Analysis

Foreclosure Rates in October 2010

| Jurisdiction | New Foreclosure Filings |
|-----------------------|--------------------------------|
| Alexandria | 1/1085 properties |
| Arlington County | 1/2290 |
| Fairfax County | 1/734 |
| Loudoun County | 1/444 |
| Prince William County | 1/332 |
| Virginia | 1/577 |
| National | 1/389 |

Source: RealtyTrac (www.realtytrac.com/trendcenter/)

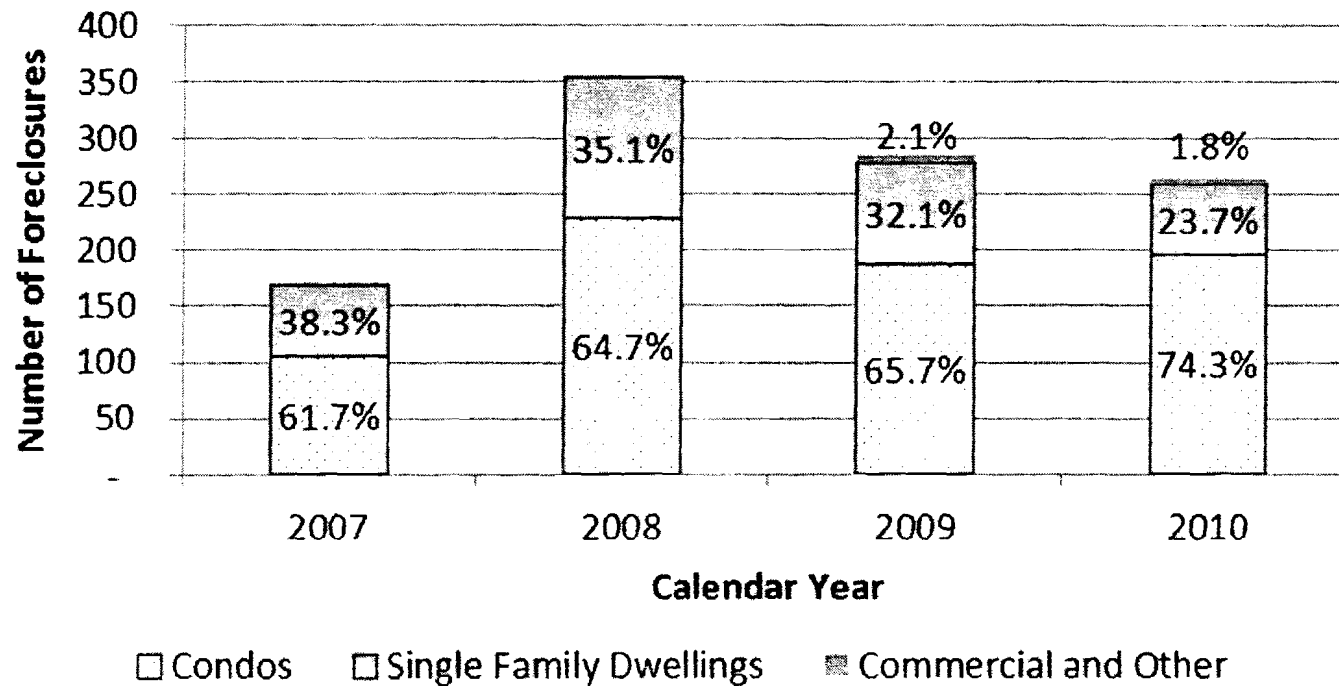


City of Alexandria

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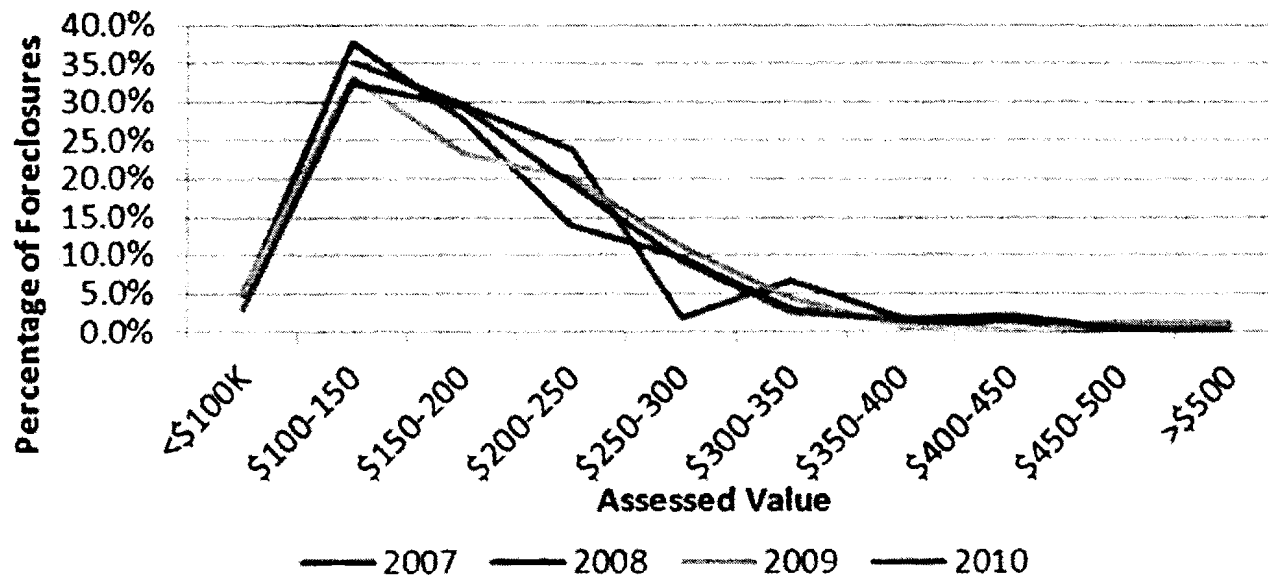
Foreclosure Analysis

Foreclosure Sales by Type



Foreclosure Analysis

Condo Foreclosure Sales by Value



Foreclosure Analysis

Mapped 2007 Foreclosure Sales

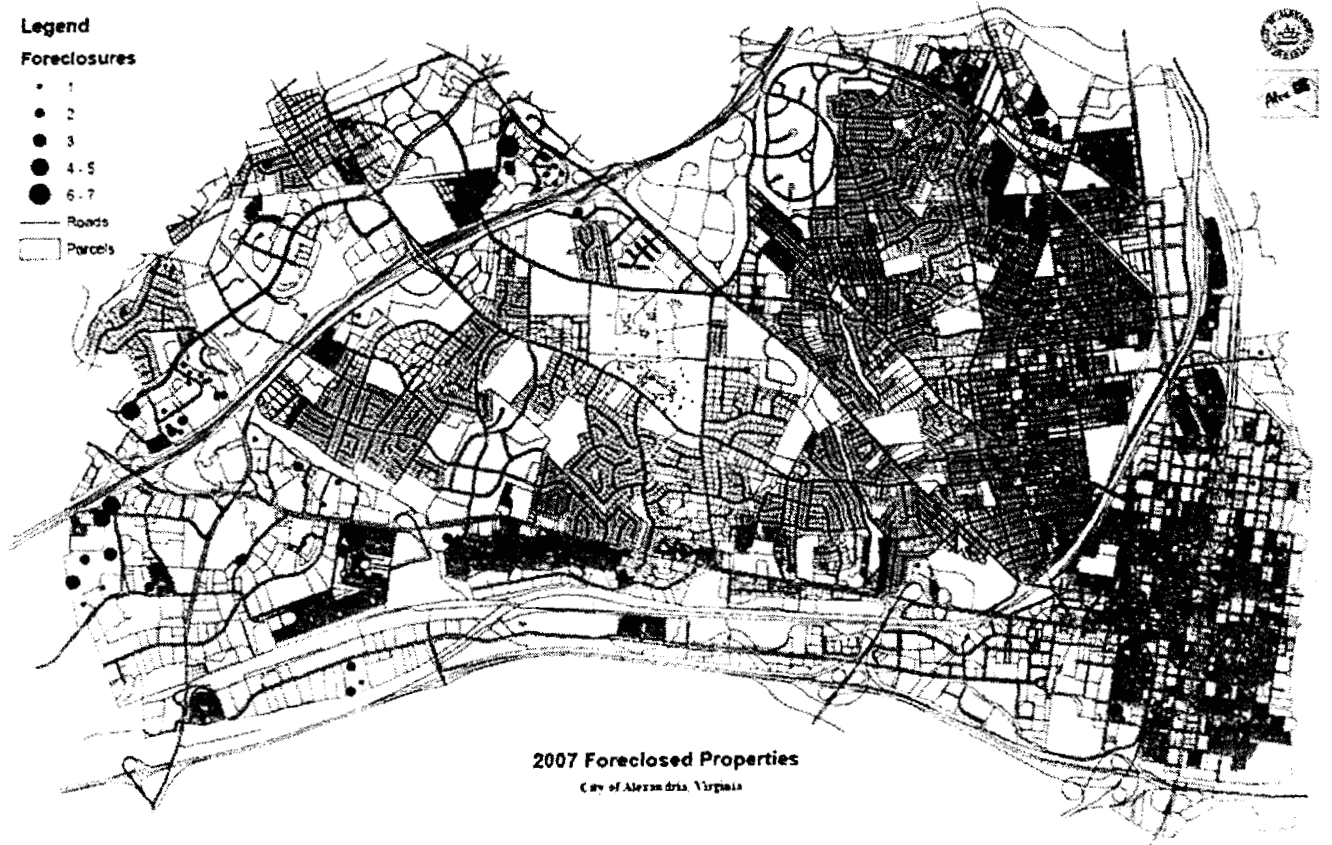
Legend

Foreclosures

- 1
- 2
- 3
- 4-5
- 6-7

— Roads

□ Parcels



2007 Foreclosed Properties
City of Alexandria, Virginia

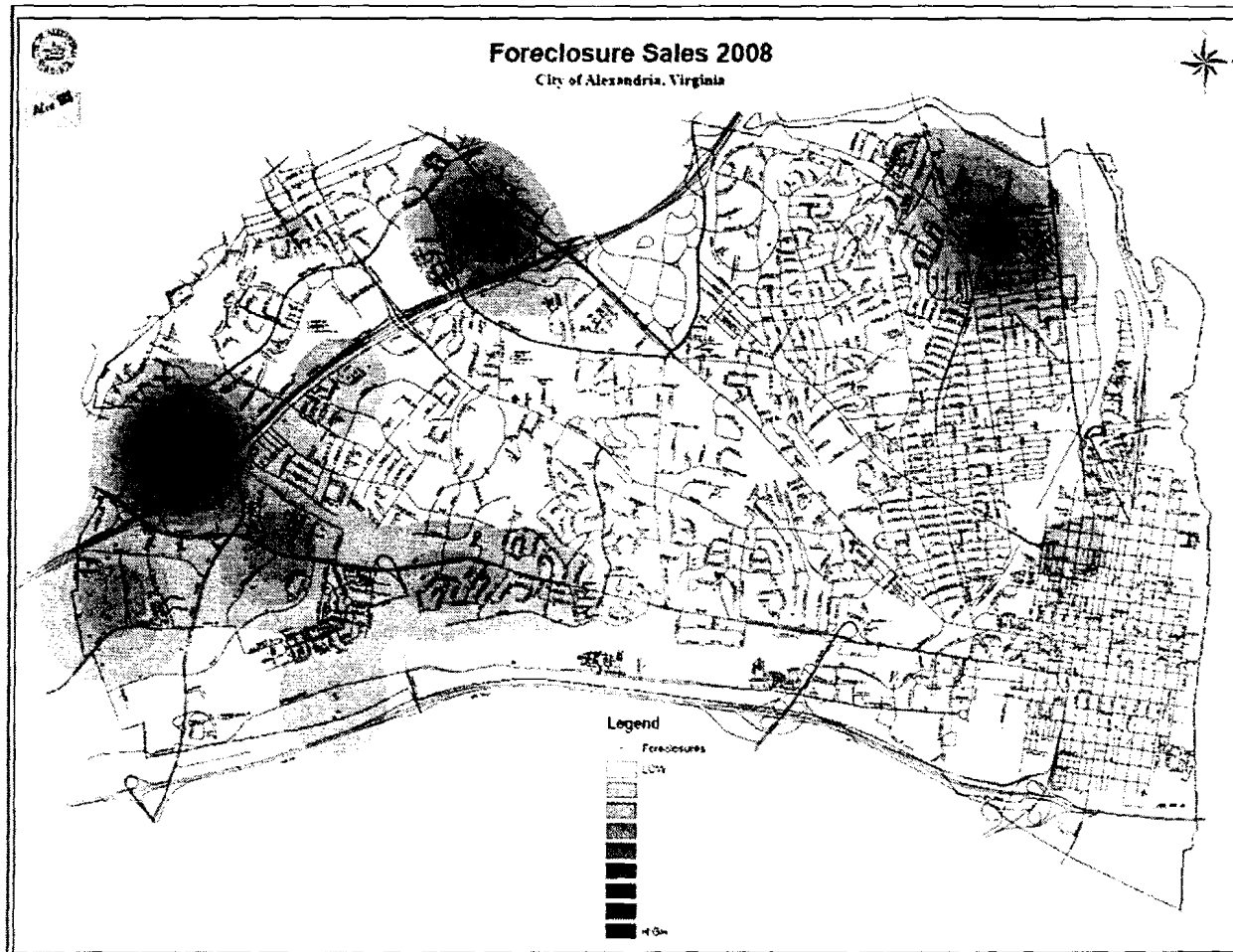


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Foreclosure Analysis

Mapped 2008 Foreclosure Sales

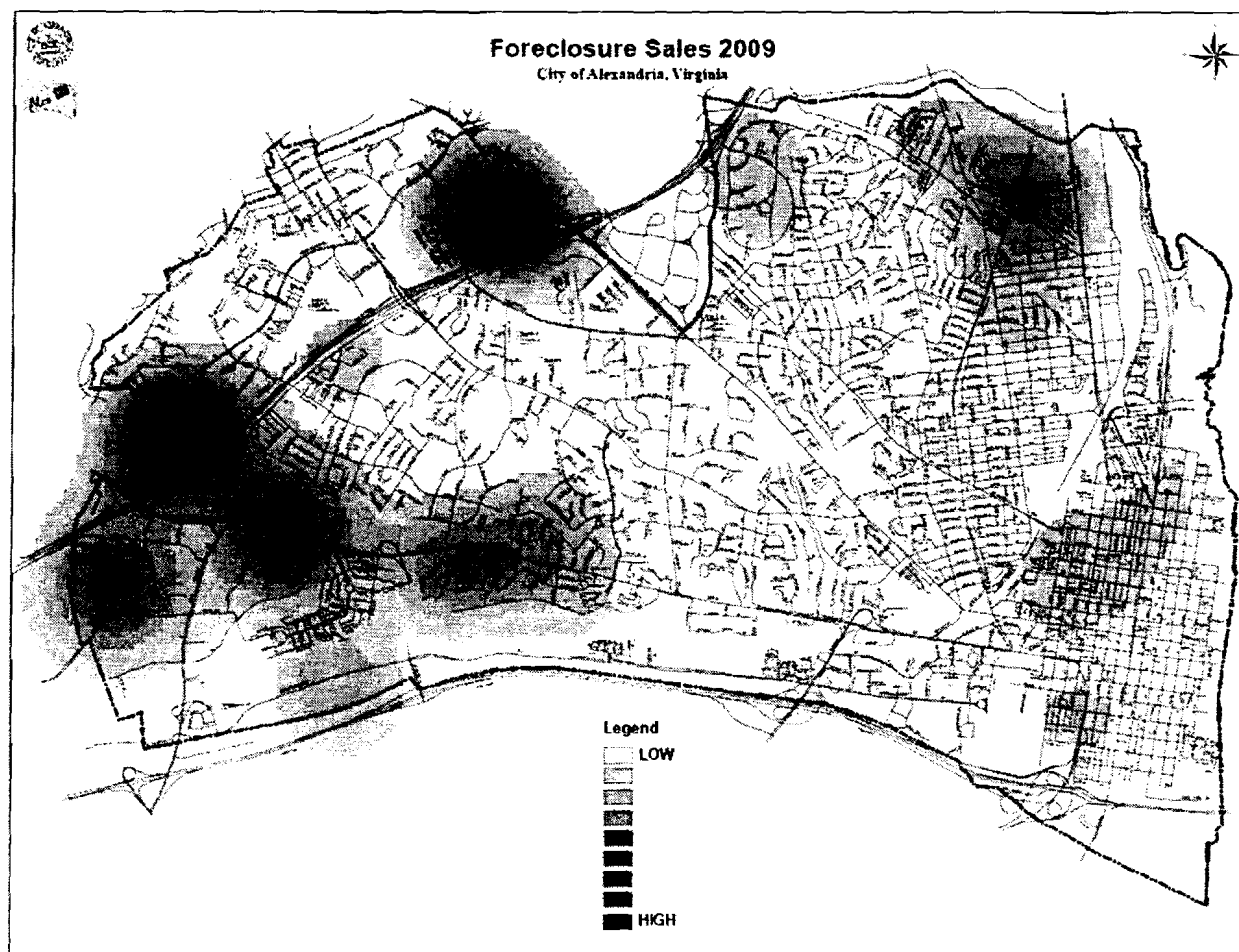


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Foreclosure Analysis

Mapped 2009 Foreclosure Sales

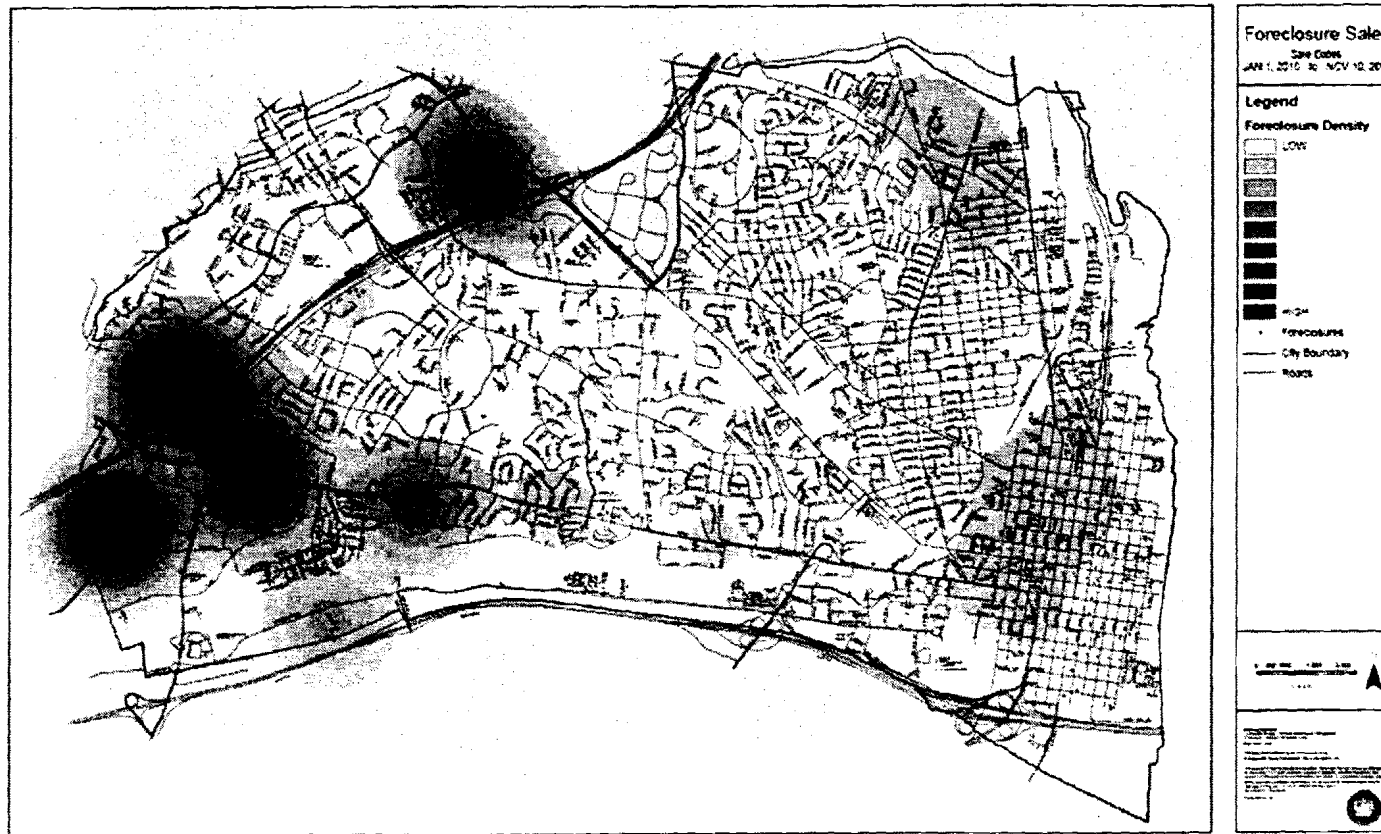


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Foreclosure Analysis

Mapped 2010 Foreclosure Sales (through October)



City of Alexandria

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