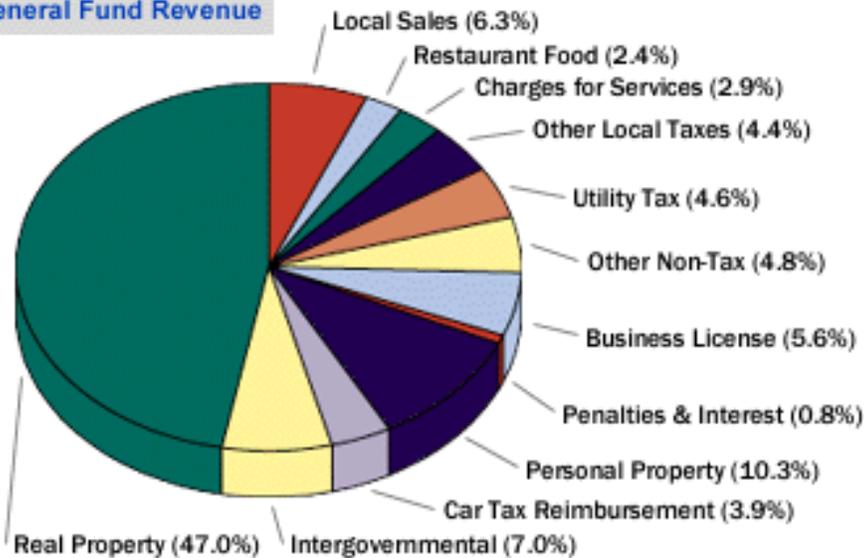


REVENUES

The economic and fiscal health of the City improved significantly in FY 2000, evidenced by the City's growing employment base, rising residential and business incomes and low unemployment rate. Revenue derived from local taxes grew 8.2%. Figure A shows the distribution of General Fund revenue projected for FY 2001.

Figure A **General Fund Revenue**



The City's real property tax base, as of January 1, 2000 increased by about 9% compared to January 1, 1999. Real property tax revenue is the City's primary source to fund programs and services, and comprises approximately 47% of the General Fund revenue. Substantial growth in the City's real property tax base has occurred over the past several years which has enabled the City to recover from the decrease in the tax base of the early 1990s. This year, new construction added \$507 million to the tax base, the largest such increase in the City's history, while appreciation of existing residential and commercial properties added \$608 million to the tax base. The assessed value of existing residential condominiums increased for the first time in nearly a decade.

While the number of home sales is down slightly for the first six months of 2000, sale prices have continued to increase which should be reflected in the 2001 assessments. Commercial property should continue to appreciate, reflecting increasing office and apartment rents, as well as new commercial construction.

Almost 30% of the City's General Fund revenue comes from sales, restaurant meals, personal property and business license taxes, all of which are sensitive to the economy. If the rate of growth in consumer and business spending slows down later this year, as predicted in national forecasts, the City will see an immediate impact on these local taxes.

In FY 2000, revenue from the state and federal government (intergovernmental revenue) became the second largest source of General Fund revenue, largely due to the continued phase-in of the state's "car tax" legislation. During calendar year 2000, the state will reimburse localities for 47.5% of the tax assessed on the first \$20,000 of a vehicle's value (the taxpayer pays the other 52.5%). It is unlikely that additional state revenue will be available to the City, given the State's commitment to use most of its additional revenues to pay for further reductions in the car tax, to reduce the sales tax on food and to pay for existing transportation and education commitments. In addition, state revenue growth is expected to slow in the coming year.

EXPENDITURES

While City revenues are growing at a rate greater than

Did You Know?

* In January, the *Ladies' Home Journal* named Alexandria as one of the country's "Best Cities for Women." Alexandria was the only one of the ten top rated cities to receive a perfect score for "quality of life." The City ranked ninth in a list of 200 cities based on low crime rates, good public schools, well-paying jobs, dependable health and child care, a significant number of women in local government, and quality of life.

* The City offers real estate tax relief assistance to seniors and to permanently and totally disabled residents who own or rent their residences and who are income eligible. (For more information, call the Finance Department at (703) 838-4570.



inflation, expenditure pressures are growing even faster. The City faces numerous and increasing demands for service and facilities, including growing City and Schools capital improvement requirements. Figure B shows the distribution of General Fund expenditures projected for the FY 2001 operating budget.

In April, Transportation and Environmental Services workers and other City staff hauled away tons of abandoned property, brush and trash in the City's annual spring clean-up.

The FY 2001 - FY 2006 Approved Capital Improvement Program (CIP) is one of the most ambitious in the City's history, 32% larger than the FY 2000 - FY 2005 CIP, and calls for \$156.2 million in City-funded public improvements. Major facility improvements include expansion of the City's two middle schools to accommodate a faster growing student population, relocation or replacement of the City's 56-year-old main Health Department facility, and renovations of the Ramsay and Durant Recreation Centers and the Burke Library and Community Learning Center.

Funding is included for highway and transit projects, including the City's share of capital improvements to the Metrorail system and for the City's sanitary sewer system and other environmental projects. Figure C shows the distribution of CIP funding for FY 2001-2006.

The City sold \$55 million in bonds in June, and plans future bond issuances in FY 2001 and FY 2003 to fund capital projects. Paying the debt service on these bonds will have a significant impact on future City budgets, with debt service increasing from \$8.9 million in FY 2000 to approximately \$18 million in FY 2004.

Given the many demands on City revenues, in December 1999, City Council agreed to look into the establishment of a private, non-profit City-sponsored capital development office to raise private monies for certain City capital projects, including the acquisition of land for open space. The office would seek funding from institutional donors, bequests of individuals, foundations and other sources.

Employee compensation comprises approximately 57% of the City's and 84% of the Schools' total operating budget. Since ongoing regional labor shortages in many occupations make it increasingly difficult for the City and the Schools to attract and retain employees, compensation will be a major issue in the development of future City budgets.

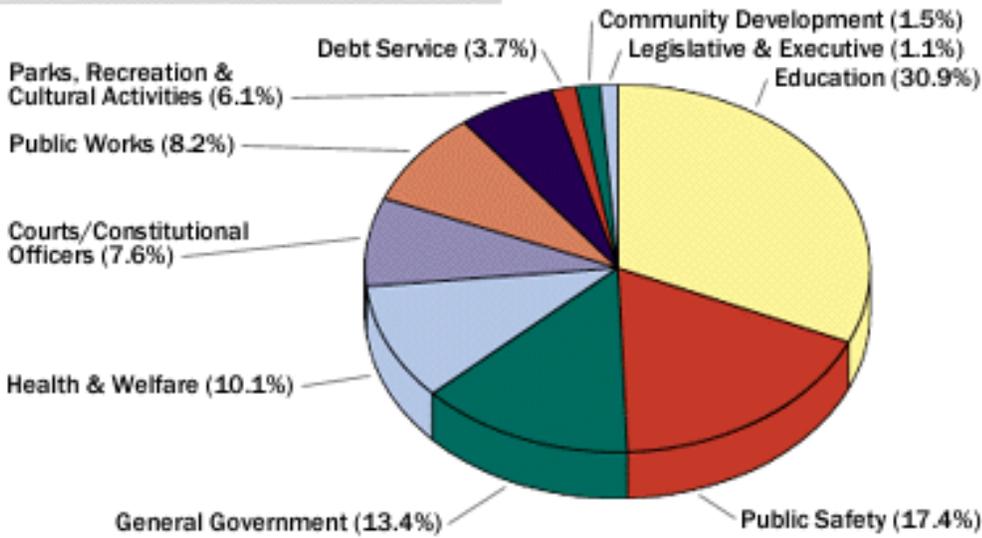
Did You Know?

* Last December, Alexandria received a 1999 National League of Cities Innovation Award for the City's "Call to Community Program," a program to engage residents in dialogue about race relations and cultural issues. The award is given annually in recognition of outstanding initiatives to improve race relations, enhance citizen participation in government and celebrate community.

* In June, the nation's two most recognized municipal bond rating agencies—Moody's Investors Service and Standard & Poor's—reaffirmed the City's two triple-A bond ratings, following a comprehensive independent professional review of the City's finances, economy and fiscal management. Alexandria is one of 29 cities in the United States with these two top bond ratings, which enabled the City in June to borrow money at a very low, tax-exempt interest rate of 5.3%.

* For the 10th consecutive year, the City received a Distinguished Budget Presentation Award for its 1999 Fiscal Budget from the Government Finance Officers Association.

Figure B General Fund Operating Budget

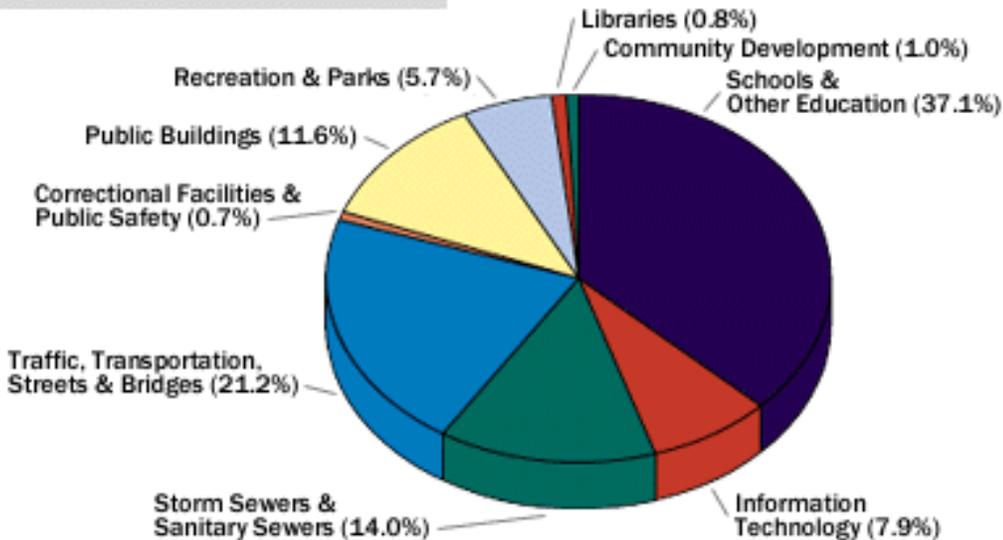


Over the last decade, the City and the Schools have deferred new initiatives and capital projects to achieve a balanced budget. Current unfunded capital projects include needed renovations at fire stations, the Public Safety Center and school facilities. The City also must devise alternative ways of funding solid waste collection and disposal services, largely due to competition from the growth of mega-landfills and transfer facilities in the Virginia-Maryland-DC region and the additional costs of meeting federally-mandated environmental protection measures.

Did You Know?

* The City received its 22nd consecutive Certificate of Achievement for Excellence in Financial Reporting in May from the Government Finance Officers Association for producing an exemplary FY 1999 Comprehensive Annual Financial Report.

Figure C Capital Improvement Plan



City government agencies have worked to implement cost-effective service delivery systems, and to achieve cost savings without reducing services to citizens. Limited sources of revenue and increasing demands for services and facilities will

continue to force the City to make difficult choices about expanding or adding services. The challenge facing the City Council and the community is to determine which of the many competing priorities to fund with limited available resources.



Renovations at the Ramsay Recreation Center and the Torpedo Factory Arts Center are scheduled to be completed by the end of 2000.