

REVENUE

The slowdown in the regional economy and the City that began near the end of fiscal year 2001 continued into fiscal year 2002, and was exacerbated by the events of September 11. As a result, some local City tax revenues declined. The closure of National Airport and its phased reopening over much of FY 2002 caused a substantial drop in business and tourism related taxes. The number of City hotel and motel rooms increased from 3,984 to 4,064, where as the City's hotel occupancy rate dropped from 74% in FY 2002 to 66% in FY 2002.

Did You Know?

* This year Alexandria's Burke and Herbert Bank is celebrating its 150th birthday. The bank, founded on August 14, 1852, is the oldest existing bank in Virginia.

The overall real estate tax base for 2002 increased \$1.64 billion or by 11.2%, largely because of higher single-family and multi-family residential property values. This increase enabled the City Council to reduce the real estate tax rate by 3 cents from \$1.11 to \$1.08, and

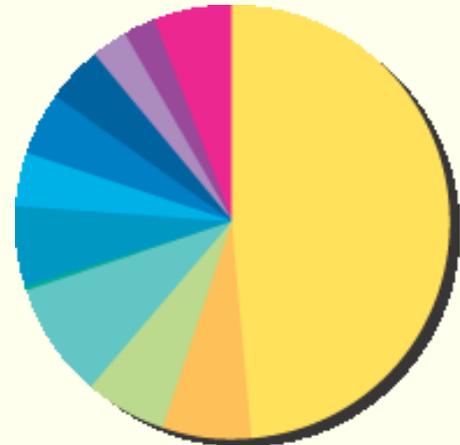
expand the real estate tax relief program for the elderly and disabled. Real property tax revenue accounts for 48.6% of General Fund revenues and remains the City's primary source for funding programs and services. Tax revenues from sales, restaurant meals, personal property and business license taxes account for almost 22.9% of the General Fund revenues.

City intergovernmental revenues are down as State support to localities was reduced due to state income tax, sales tax and transportation-related revenue shortfalls, and the increasing cost of providing car tax relief. State budget problems will continue for the foreseeable future, causing additional reductions in intergovernmental revenue aid to the City in FY 2003 and FY 2004, and reduced state-funded investments in street, highway and transit systems.

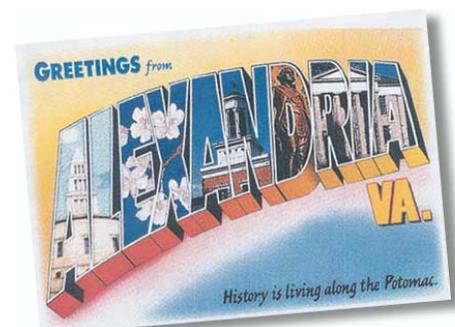
MARKETING EFFORTS

To lessen the loss in tourism and business travel to the City and improve revenues, the City partnered with the Alexandria Convention and Visitors Association, the Alexandria Hotel Association, the Old Town Business Association, and increased marketing efforts to entice groups, families and individuals, particularly tourists living within driving distance of the City, to visit, shop and dine in Alexandria. City Council authorized the continuation of the King Street based DASH About free shuttle, on an ongoing basis on Friday nights and on weekends.

General Fund Revenue



Real property:	48.6%
Intergovernmental:	6.6%
Car Tax Reimbursement:	6.1%
Personal Property:	8.6%
Penalties & Interest:	0.3%
Business License:	6.0%
Other non-tax:	4.0%
Utility Tax:	6.0%
Other Local Taxes:	4.2%
Charges for Services:	2.7%
Restaurant Food:	2.4%
Local Sales:	5.9%



In tandem with these promotions, the City provided free parking at meters on City streets and in City parking garages and lots in the evenings, on weekends and holidays from mid- October through the end of December. Many local businesses noted an increase in customers derived from these free parking efforts. Free parking was provided again for the 2002 holiday season.

In an effort to recover more of the costs associated with new development, the City Council approved increases in development related fees such as sewer connection, planning and new building fire inspection fees. Voluntary developer contributions to the City's Housing Trust Fund substantially increased in order to help the City preserve as well as create additional affordable housing opportunities for its resident

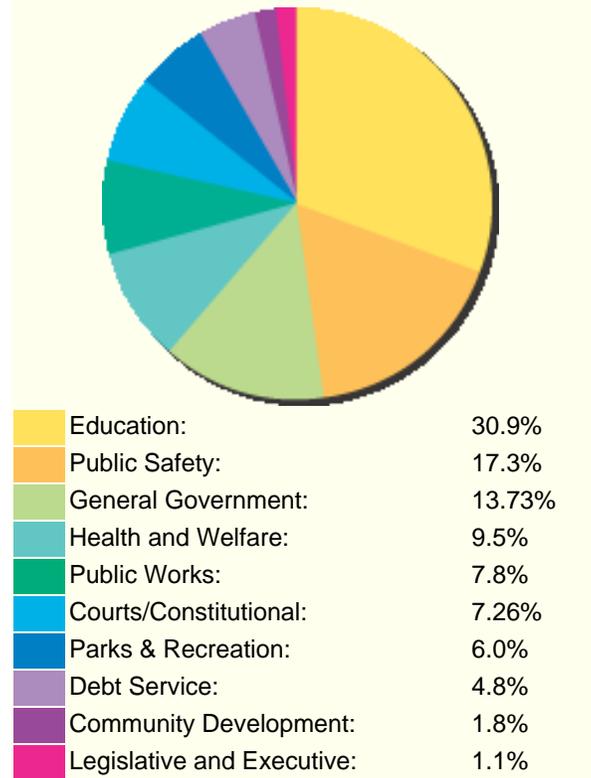
EXPENDITURES

After September 11 and in light of the uncertainty in the economy and the losses of tourism-based revenue, City departments developed contingency plans to freeze and then not spend 2% of their overall operating budgets. Capital budget savings were also identified, and a selective hiring freeze was put in place resulting in a savings of nearly \$6 million. The cost saving measures implemented by departments in the fiscal year provided an offset for revenue losses, and helped to keep the City's budget in balance. The Alexandria City Public Schools also undertook cost saving measures during FY 2002 which resulted in keeping its budget in balance in FY 2002 in spite of state education aid losses.

The approved FY 2003 General Fund operating budget totals \$373.2 million, which is an increase of 6.6% compared to FY 2002. This budget contains only a few major areas of expenditure increases, primarily in employee compensation, public safety initiatives and cash capital funding of the first year of the six-year Capital Improvement Program (CIP).

The budget includes funding for nine additional police officer positions to improve the Police Department's capacity to respond to calls for service, as well as nine deputy sheriff positions to address the post-September 11 need for improved security at the Public Safety Center.

General Fund Operating Expenditures



To increase the protection of City residents as well as to enhance the City's ability to respond to emergency calls and incidents, the federal government agreed to provide \$8 million in onetime funding primarily to purchase new equipment and to provide training for City first responders.

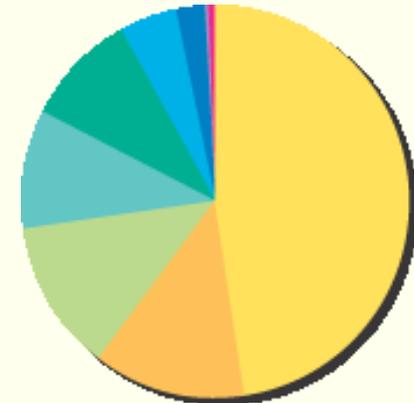
Using a combination of general fund, Housing Trust Fund, and HUD money, a new \$1 million annual fund was established to implement new affordable housing initiatives. Also \$3.5 million has been committed to assist with the funding of offsite housing units of the Samuel Madden Homes

(Downtown) redevelopment project.

The City's funding of its six-year Capital Improvement Program of \$183.8 million includes \$54.7 million in local funding for projects in FY 2003, including \$19.6 million for School capital projects such as expansion and renovation of the George Washington Middle School, and other school expansion and improvement projects. Funding is also included (\$1.2 million) for the expansion of the Duncan Library, as well as \$0.2 million for the construction of the first skateboard park for City youth at Lockett Park. There is \$3.0 million for a portion of the purchase and outfitting of a new Health Department facility in the West End, as well as funds which were used to purchase the long-boarded up Datatel office building on Mt. Vernon Avenue.

For the upcoming FY 2004 operating budget and CIP, the City will be faced with the probable slow growth of many business and consumer tax revenues, as well as commercial property tax revenues. State reductions will continue to be a problem for both the Schools and the City. Rising employee health insurance costs and the need to keep City and School employee compensation competitive also will create budget pressures, as will the need for funding of expanded public safety programs and facilities. The capital needs of the City School system, including T.C. Williams High School and Minnie Howard 9th Grade Center will have a significant impact on the City's CIP in FY 2004 and beyond, as will increasing City obligations of its share of the increasing transit capital projects of the regional Metrorail and Metrobus system. These growing capital needs when funded, unless alternate sources of capital funding become available, will likely result in the delay or cancellation of many otherwise meritorious City and School capital projects.

FY 2003-FY 2008 CIP



Schools & Other Education:	47.6%
Storm & Sanitary Sewers:	12.7%
Traffic, Transit, Streets and Bridges:	12.5%
Public Buildings:	9.8%
Information Technology Plan:	9.4%
Recreation & Parks:	4.8%
Community Development:	2.4%
Libraries:	0.3%
Regional Public Safety:	0.6%