Five Year Plan Updated

MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-Year Financial Plan

The City has long included estimates of the City's future revenues and expenditures and corresponding surpluses and shortfalls in its annual operating budget. Last year staff presented to City Council a more robust forecast model in order to improve projections of the City's long-term financial health through the FY 2015 budget process and presented the Five-Year Financial Plan to City Council in November 2014. The revenue and expenditure assumptions have since been updated to reflect the decisions made in the FY 2016 budget development process and ongoing monitoring of the economic climate. The updated Five year plan combines projections of future revenues and expenditures based on historical analysis and economic indicators with planned or expected changes such as approved Capital Improvement Program (CIP) out-year funding, the Alexandria City Public Schools (ACPS) five-year financial forecast, the expiration of grants, and future changes in programmed service delivery. The updated model also includes the ability to layer various policy options under consideration on top of the baseline forecast in order to examine their individual and collective impact on the City's financial future.

Multi-year Forecasts

The multi-year forecast model presented in November was improved to include the impact on the operating budget of projects in the CIP, the impact on future operating budgets of past or current policy changes, and a more detailed estimate of future economic growth based on specific land use and development plans underway or under consideration. The economic development projections include the estimated impact of the National Science Foundation on transient occupancy taxes and the impact of planned other new construction throughout the City on real estate property values and other revenue sources.

The multi-year forecast also include the growth of Potomac Yard and its effect on the General Fund budget. While most of the revenues from Potomac Yard development are set aside into a special fund to pay the principal and interest on debt that is scheduled to be issued for the building of the Potomac Yard Metrorail station, a percentage of the revenue resulting from Potomac Yard appreciation will be applied to the General Fund to cover the costs of City services for the new development. This is one of the major revenue changes from the last five year model presented at the City Council retreat in November 2014 along with the addition of revenue transferred from the permit fee fund to the General Fund as reimbursement for indirect administrative costs incurred by the City government in support of permit fee-funded development review direct costs. Other significant differences from the November 2014 model are that Capital Improvement Program (CIP) cash capital and debt service funding in the operating budget have been reduced from the amounts included in the out-years of the FY 2015-2024 approved ten-year CIP and that departmental operating budgets have been reduced from the projected 4% rate of expenditure growth included in the November model through the combination of efficiency reductions and service reductions outlined in the operating budget. As a result, the $16.1 million projected shortfall in FY 2016, then subsequent $31.0 million gap, has been eliminated to achieve a balanced budget, and the $19.1 million projected shortfall for FY 2017 has been reduced to $8.3 million. The shortfalls in FY 2018 and FY 2019 have been reduced from $24.9 million and $34.5 million to $16.4 million and $26.2 million respectively, however the shortfall in FY 2020 remains approximately $34 million.

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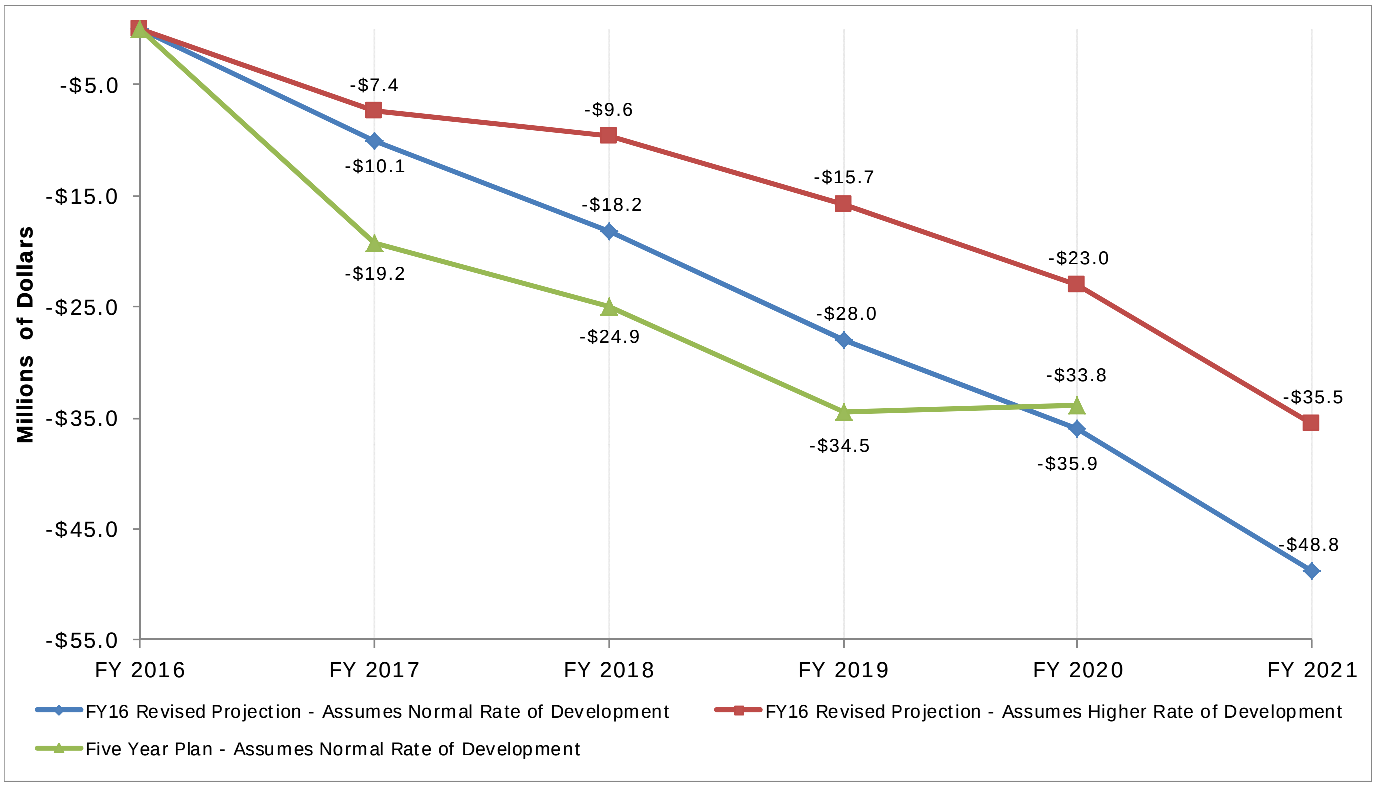
MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-year Forecast for FY 2017 to FY 2021

The charts on the following pages display the anticipated future surpluses or shortfalls resulting from expenditures in the FY 2016 budget growing at a fixed rate and revenues growing at a medium rate of growth. They also show the impact of planned development on revenues by adjusting the medium growth baseline.



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BUDGET IMBALANCE UNDER THE BASELINE ASSUMPTION

The City's revenues and expenditures are structurally out of balance. The City's revenues are not expected to keep up with current service expenditures going forward, resulting in a fiscal imbalance. The structural imbalance is estimated to be $10.1 million in FY 2017, growing to $48.8 million by FY 2021. Over the period FY 2017 to FY 2021, the cumulative deficit is expected to total over $141.0 million.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	394,106,409	405,506,932	417,460,785	430,039,525	443,179,802
Personal Property	44,298,600	44,741,586	45,189,002	45,640,892	46,097,301
Sales Tax	25,755,000	26,012,550	26,272,676	26,535,402	26,800,756
Utility Tax	12,625,000	12,751,250	12,878,763	13,007,550	13,137,626
Business License Tax	33,330,000	33,663,300	33,999,933	34,339,932	34,683,332
Recordation Tax	4,888,000	5,083,520	5,286,861	5,498,335	5,718,269
Transient Lodging	11,615,000	11,731,150	11,848,462	11,966,946	12,086,616
Restaurant Food	17,927,500	18,106,775	18,287,843	18,470,721	18,655,428
Communications Sales Tax	10,945,000	10,890,275	10,835,824	10,781,645	10,727,736
Other Local Taxes	11,190,980	11,202,171	11,213,373	11,224,586	11,235,811
Federal Revenue	9,650,382	9,650,382	9,650,382	9,650,382	9,650,382
State Revenue	46,415,240	46,415,240	46,415,240	46,415,240	46,415,240
Other Revenue	41,033,076	42,079,420	43,152,445	44,252,832	45,381,279
Total Revenue	**663,780,187**	**677,834,551**	**692,491,586**	**707,823,989**	**723,769,578**

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	220,074,537	225,298,301	232,497,497	239,855,445	247,719,651
City Non-Personnel	88,426,016	90,222,264	92,225,354	94,270,237	96,392,251
Other Costs	46,107,570	48,314,569	50,629,178	53,056,621	55,602,381
Debt Service	71,298,039	76,319,473	80,271,566	81,976,233	83,031,350
Cash Capital	18,083,546	17,906,599	18,420,652	18,959,547	19,834,481
Transit Subsidies	24,004,945	25,043,616	26,135,741	27,284,285	28,492,387
Schools	204,141,439	210,673,965	217,415,532	224,372,829	231,552,760
Total Expenditures	672,136,092	693,778,788	717,595,520	739,775,197	762,625,261
Operating Impact from CIP	1,770,456	2,234,083	2,872,680	3,922,879	9,958,804
Total Expenditures	**673,906,548**	**696,012,871**	**720,468,200**	**743,698,076**	**772,584,065**

Shortfall/Surplus $ (Millions)	FY 17	FY 18	FY 19	FY 20	FY 21
Revenues	$663.8	$677.8	$692.5	$707.8	$723.8
Expenditures	$673.9	$696.0	$720.5	$743.7	$772.6
Annual Deficit	($10.1)	($18.2)	($28.0)	($35.9)	($48.8)
Cumulative Deficit	($10.1)	($28.3)	($56.3)	($92.2)	($141.0)

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BUDGET IMBALANCE INCLUDING PLANNED DEVELOPMENT

The planned development forecast includes the National Science Foundation project which is projected to be completed in 2017 and is expected to fill approximately 90,000 additional hotel room nights annually. It also includes impacts of other development projects on real estate property values and other revenue sources. The structural imbalance is estimated to be $7.4 million in FY 2017, growing to $35.5 million by FY 2021. Over the period FY 2017 to FY 2021, the cumulative deficit is expected to total over $91.3 million.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	395,968,419	412,457,316	428,169,306	441,318,470	454,844,036
Personal Property	44,298,600	44,741,586	45,189,002	45,640,892	46,097,301
Sales Tax	25,755,000	26,012,550	26,272,676	26,535,402	26,800,756
Utility Tax	12,625,000	12,751,250	12,878,763	13,007,550	13,137,626
Business License Tax	33,330,000	33,663,300	33,999,933	34,339,932	34,683,332
Recordation Tax	4,888,000	5,083,520	5,286,861	5,498,335	5,718,269
Transient Lodging	12,460,471	13,307,596	13,440,672	13,575,079	13,710,830
Restaurant Food	17,927,500	18,106,775	18,287,843	18,470,721	18,655,428
Communications Sales Tax	10,945,000	10,890,275	10,835,824	10,781,645	10,727,736
Other Local Taxes	11,190,980	11,202,171	11,213,373	11,224,586	11,235,811
Federal Revenue	9,650,382	9,650,382	9,650,382	9,650,382	9,650,382
State Revenue	46,415,240	46,415,240	46,415,240	46,415,240	46,415,240
Other Revenue	41,033,076	42,079,420	43,152,445	44,252,832	45,381,279
Total Revenue	**666,487,668**	**686,361,380**	**704,792,318**	**720,711,067**	**737,058,026**

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	220,074,537	225,298,301	232,497,497	239,855,445	247,719,651
City Non-Personnel	88,426,016	90,222,264	92,225,354	94,270,237	96,392,251
Other Costs	46,107,570	48,314,569	50,629,178	53,056,621	55,602,381
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Operating Impact from CIP	1,770,456	2,234,083	2,872,680	3,922,879	9,958,804
Total Expenditures	**673,906,548**	**696,012,871**	**720,468,200**	**743,698,076**	**772,584,065**

Shortfall/Surplus $ (Millions)	FY 17	FY 18	FY 19	FY 20	FY 21
Revenues	$666.5	$686.4	$704.8	$720.7	$737.1
Expenditures	$673.9	$696.0	$720.5	$743.7	$772.6
Annual Deficit	($7.4)	($9.6)	($15.7)	($23.0)	($35.5)
Cumulative Deficit	($7.4)	($17.1)	($32.8)	($55.7)	($91.3)

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REVENUE GROWTH ASSUMPTIONS

Several different scenarios of General Fund revenue growth have been developed for the period FY 2017 through FY 2021 based on varying assumptions about the rate of increase for each of the revenue categories listed below. Each scenario is based on FY 2016 Approved tax and fee rates.

	Medium Growth	
Category	Base	Planned Dev. Impact
Real Estate Assessments	3.0%	3.5%
Personal Property	1.0%	1.0%
Other Local Taxes	0.9%	1.2%
Licenses, Permits & Fees	1.0%	1.0%
Fines and Forfeitures	3.0%	3.0%
Charges for Services	4.0%	4.0%
Use of Money and Property	0.5%	0.5%
Intergovernmental	0.0%	0.0%
Total Weighted Growth Rate	**2.2%**	**2.6%**

The medium growth scenario: These assumptions are based on the annualized historic rates of growth in revenues from FY 2010 to FY 2014, the last year for which we have full data. It is assumed that the slow rate of growth will continue because of constrained federal spending and a sluggish economy. It does not anticipate another economic downturn within the next five years, which would make future shortfalls larger if one were to occur.

The planned development impact scenario: This takes into account the impact of new development expected to come about in Alexandria over the next five years. This includes the National Science Foundation project which is projected to be completed in 2017 and is expected to fill approximately 90,000 additional hotel room nights annually. It also includes impacts of other development projects on real estate assessments, sales taxes, business license taxes, the transient lodging tax, and the restaurant meals tax.

The estimates are conservative because it is difficult to accurately quantify the effects of future economic development and some of the development may be delayed. However, even under conservative estimates, under the base medium scenario, new development increases the annualized growth rate in revenues from 2.2% to 2.6% annually. By FY 2021, this equates to over $13 million dollars in additional tax revenue annually.

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EXPENDITURE GROWTH ASSUMPTIONS

The general expenditure growth rates assumes that City programs and services will continue mostly unchanged over the next five years. City operations excluding the ACPS transfer, CIP funding and transit subsidies comprise 53% of the FY 2015 General Fund budget and are largely driven by personnel costs. The baseline forecast assumes the City workforce is unchanged in the next five years, and that salaries and benefit costs will continue to grow at a rate consistent with recent history.

Annualized Increases

Category	Growth
City Personnel	3.0%
City Non-Personnel	2.2%
Other Costs	4.8%
Cash Capital	4.7%
Debt Service	3.9%
Transit Subsidies	4.4%
Schools	3.2%
Total Weighted Growth Rate	**3.3%**
Growth Rate with CIP Impact	**3.6%**

Expenditure growth is generally based on historic rates of growth in the various categories from FY 2010 to FY 2014, the last year for which a full year's data is available, as well as on the best information available regarding future growth in costs.

City Personnel includes salary and benefits. Due to policy changes in recent years, increases in the City's personnel costs have slowed. The City consults with outside advisers to project future projections in benefit categories such as health care and pension costs. Inflation in health care costs has slowed slightly, and the increase in stock prices and other asset classes has slowed growth in pension costs.

City Non-Personnel: In recent years, inflation has slowed, which has allowed the City to reduce its assumptions for increases in non-personnel costs.

Other costs: This category includes the City's General Fund match for state and federal grants.

Cash Capital and Debt Service: Cash Capital and Debt Service reflect the numbers included in the CIP budget.

Transit Subsidies: Includes subsidies to DASH and WMATA. In recent years, these have grown more than the rate of inflation.

CIP Impacts: Through the CIP, the City is now modelling the long-term impacts of Capital Budget decisions on the operating budget. By FY 2019, the CIP impact on operating expenditures adds approximately $10.0 million to total expenditures. Information regarding the additional operating budget impact of specific projects is included in the CIP budget document.