



Five Year Financial Planning Model Updated

MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-Year Financial Planning Model

The City has long used multi-year financial forecasting as a planning and communication tool. In calendar year 2014, as part of the FY 2015 budget process, the City developed its forecast model from a static estimate of future revenues and expenditures based on current services to a multi-layered forecasting tool that allowed for more dynamic modeling of a greater number of variables and scenarios. Staff updated the model for the FY 2016 budget and has most recently updated it for FY 2017-2021 preliminary estimates for the November 2015 City Council annual retreat. The revenue and expenditure assumptions have since been updated to reflect the decisions made in the FY 2017 budget development process and ongoing monitoring of the economic climate. The updated five year financial planning model combines projections of future revenues and expenditures based on historical analysis and economic indicators with planned or expected changes such as the proposed 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 financial planning model presented in November 2015 includes 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 includes 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. Other significant differences from the November 2015 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 2017-2026 proposed ten-year CIP and 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 \$22.4 million projected shortfall in FY 2017, has been eliminated to achieve a balanced budget, and the \$28.6 million projected shortfall for FY 2018 has been reduced to \$13.2 million. The shortfalls in FY 2019 and FY 2020 have been reduced from \$36.8 million and \$43.4 million to \$22.5 million and \$29.2 million respectively, and the shortfall in FY 2021 has been reduced from \$53.6 million to \$41.4 million. Future expenditures and shortfalls do not include full-year leased space costs proposed for partial year funding by ACPS in FY 2017. The City's proposed FY 2017 budget includes \$3.0 million for partial year funding in a School Enrollment Capacity Planning Contingent. If plans for leasing the space proceed as proposed by ACPS, the cost to the General Fund (and future shortfalls) could increase by \$3-4 million.

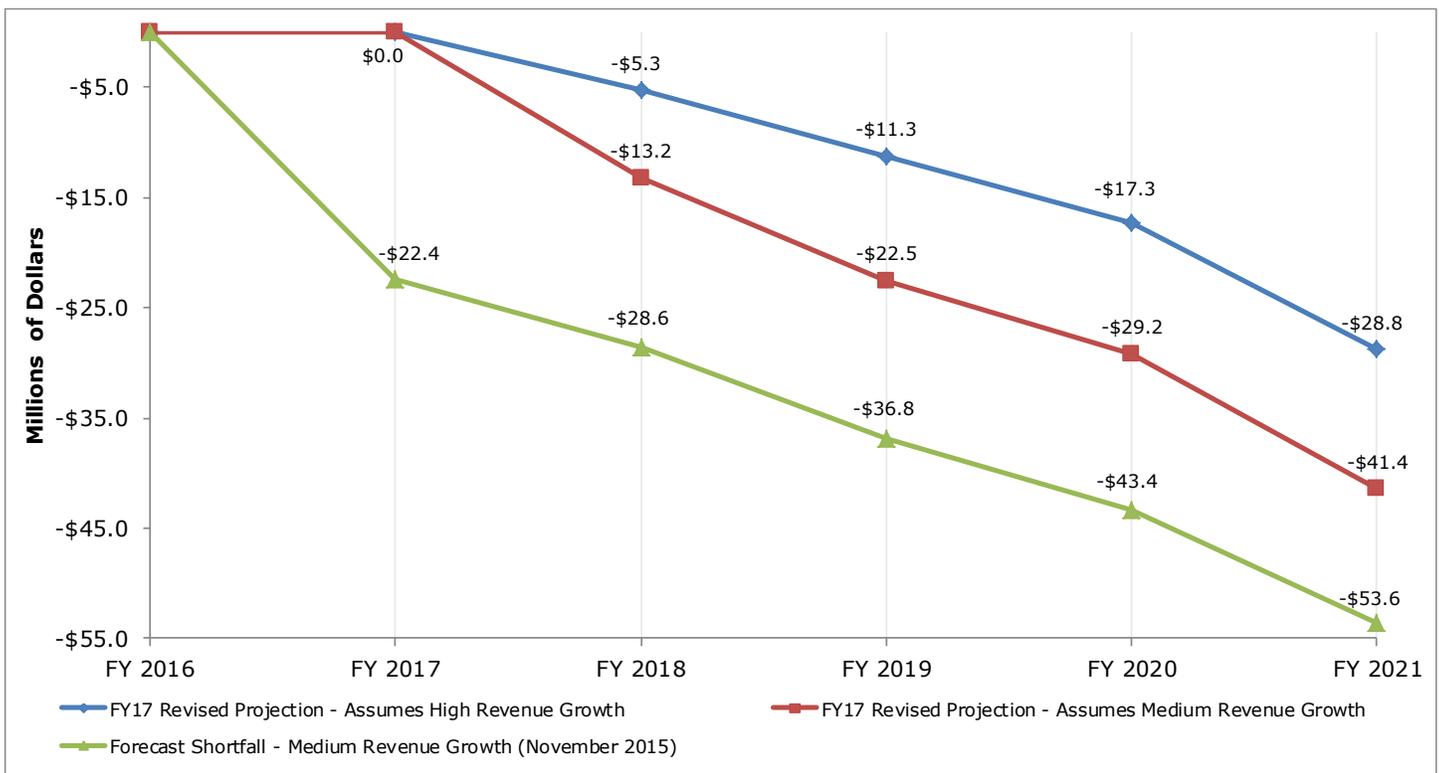


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Five-year Forecast for FY 2017 to FY 2021

The charts below display's the anticipated future surpluses or shortfalls resulting from expenditures in the FY 2017 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 revenue and expenditure growth rates 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 \$13.2 million in FY 2018, growing to \$41.4 million by FY 2021. Over the period FY 2018 to FY 2021, the cumulative deficit is expected to total over \$106.3 million.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	394,960,796	406,332,798	416,354,906	426,926,569	437,804,135
Personal Property	45,750,000	46,170,000	46,751,400	47,344,428	47,949,317
Sales Tax	26,900,000	27,438,000	27,986,760	28,546,495	29,117,425
Utility Tax	13,100,000	13,493,000	13,897,790	14,314,724	14,744,165
Business License Tax	34,000,000	34,232,969	34,489,716	34,748,389	35,009,002
Recordation Tax	5,300,000	5,353,000	5,406,530	5,460,595	5,515,201
Transient Lodging	12,000,000	12,120,000	12,241,200	12,363,612	12,487,248
Restaurant Food	18,800,000	19,176,000	19,559,520	19,950,710	20,349,725
Communications Sales Tax	10,300,000	10,248,500	10,197,258	10,146,271	10,095,540
Other Local Taxes	11,442,154	11,466,966	11,476,273	11,493,259	11,517,893
Federal Revenue	9,600,382	9,600,382	9,600,382	9,600,382	9,600,382
State Revenue	46,326,968	46,326,968	46,326,968	46,326,968	46,326,968
Other Revenue	43,108,627	44,782,653	47,185,831	49,871,269	52,712,433
Total Revenue	671,588,927	686,741,236	701,474,534	717,093,672	733,229,434

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	223,662,673	227,526,640	234,373,044	241,489,062	248,886,739
City Non-Personnel	90,991,519	93,008,405	95,104,872	97,230,033	99,418,498
Other Costs	45,124,949	45,991,487	46,874,876	47,775,448	48,693,537
Debt Service	69,073,431	78,362,098	84,798,496	88,851,672	90,602,471
Cash Capital	18,702,504	18,356,450	18,972,978	18,697,873	19,847,808
Transit Subsidies	20,472,378	21,561,425	22,733,192	23,995,063	25,355,131
Schools	203,561,472	211,710,000	216,523,000	221,782,000	226,299,000
Total Expenditures	671,588,926	696,516,506	719,380,459	739,821,152	759,103,185
Operating Impact from CIP	-	3,357,826	4,639,592	6,442,946	15,501,049
Total Expenditures	671,588,926	699,874,332	724,020,051	746,264,098	774,604,234

Shortfall/Surplus	\$ (Millions)	FY 17	FY 18	FY 19	FY 20	FY 21
Revenues		\$671.6	\$686.7	\$701.5	\$717.1	\$733.2
Expenditures		\$671.6	\$699.9	\$724.0	\$746.3	\$774.6
Annual Deficit		\$0.0	(\$13.2)	(\$22.5)	(\$29.2)	(\$41.4)
Cumulative Deficit		\$0.0	(\$13.2)	(\$35.7)	(\$64.9)	(\$106.3)



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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 \$5.3 million in FY 2018, growing to \$28.8 million by FY 2021. Over the period FY 2018 to FY 2021, the cumulative deficit is expected to total over \$62.7 million.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	394,960,796	413,218,992	426,625,860	437,898,670	449,418,899
Personal Property	45,750,000	46,170,000	46,751,400	47,344,428	47,949,317
Sales Tax	26,900,000	27,712,380	28,266,628	28,831,960	29,408,599
Utility Tax	13,100,000	13,493,000	13,897,790	14,314,724	14,744,165
Business License Tax	34,000,000	34,575,299	34,834,613	35,095,873	35,359,092
Recordation Tax	5,300,000	5,353,000	5,406,530	5,460,595	5,515,201
Transient Lodging	12,000,000	12,241,200	12,363,612	12,487,248	12,612,121
Restaurant Food	18,800,000	19,367,760	19,755,115	20,150,218	20,553,222
Communications Sales Tax	10,300,000	10,248,500	10,197,258	10,146,271	10,095,540
Other Local Taxes	11,442,154	11,466,966	11,476,273	11,493,259	11,517,893
Federal Revenue	9,600,382	9,600,382	9,600,382	9,600,382	9,600,382
State Revenue	46,326,968	46,326,968	46,326,968	46,326,968	46,326,968
Other Revenue	43,108,527	44,782,653	47,185,831	49,871,269	52,712,433
Total Revenue	671,588,827	694,557,100	712,688,260	729,021,866	745,813,832

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	223,662,673	227,526,640	234,373,044	241,489,062	248,886,739
City Non-Personnel	90,991,519	93,008,405	95,104,872	97,230,033	99,418,498
Other Costs	45,124,949	45,991,487	46,874,876	47,775,448	48,693,537
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Shortfall/Surplus	\$(Millions)	FY 17	FY 18	FY 19	FY 20	FY 21
Revenues		\$671.6	\$694.6	\$712.7	\$729.0	\$745.8
Expenditures		\$671.6	\$699.9	\$724.0	\$746.3	\$774.6
Annual Deficit		\$0.0	(\$5.3)	(\$11.3)	(\$17.3)	(\$28.8)
Cumulative Deficit		\$0.0	(\$5.3)	(\$16.6)	(\$33.9)	(\$62.7)



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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 2017 proposed tax and fee rates.

Annualized Increases

Category	Medium Growth	
	Base	Planned Dev. Impact
Real Estate Assessments	2.6%	3.3%
Personal Property	1.2%	1.2%
Sales Tax	2.0%	2.3%
Utility Tax	3.0%	3.0%
Business License Tax	0.7%	1.0%
Recordation Tax	1.0%	1.0%
Transient Lodging	1.0%	1.3%
Restaurant Food	2.0%	2.3%
Communications Sales Tax	-0.5%	-0.5%
Other Local Taxes	0.2%	0.2%
Intergovernmental	0.0%	0.0%
Other Revenue	5.2%	3.0%
Total Weighted Growth Rate	2.2%	2.8%

The medium growth scenario: These assumptions are based on the annualized historic rates of growth in revenues from FY 2011 to FY 2015, 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 high growth 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 and other economically sensitive taxes such as 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 2.3% to 2.7% annually. By FY 2021, this equates to over \$12.6 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 2017 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	2.7%
City Non-Personnel	2.2%
Other Costs	1.9%
Cash Capital	1.5%
Debt Service	7.0%
Transit Subsidies	5.5%
Schools	2.7%
Total Weighted Growth Rate	3.2%
Growth Rate with CIP Impact	3.4%

Expenditure growth is generally based on historic rates of growth in the various categories from FY 2011 to FY 2015, 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 2021, the CIP impact on operating expenditures adds approximately \$15.5 million to total expenditures. Information regarding the additional operating budget impact of specific projects is included in the CIP budget document.