November 16, 2010
City of Virginia Beach

“The future ain’t what it used to be…”
~ Yogi Berra

FIVE YEAR FORECAST
FY 2012 Through FY 2016
Overview

- Instant Voting
- Economic Indicators
- Revenue Forecast
- Capital Improvement Program
- School Forecast
- City Forecast
- Combined Forecast
Instant Voting

- This voting system is anonymous.

- At the end of this presentation are a series of questions that will test certain assumptions and change the forecast.

- Wait until I say voting is open.

- Press the number on your keypad that corresponds to your answer (the keypad will turn on when you push the button).

- You can only select one answer.

- We will let you know when voting is closed.

- The results will display up here on the screen.
Warm Up Question #1

I have been on the School Board or City Council for:

1. 0 to 2 years
2. 2 to 4 years
3. 5 to 10 years
4. 11 to 15 years
5. Over 15 years
6. I can’t remember
Warm Up Question #2

Last year’s forecast indicated the recession would have a very slow recovery as indicated by the graph below. Where do you think we are on the graph today?

1. We are still falling
2. At the bottom, but beginning recovery
3. Definitely in recovery
Warm Up Question #3

How likely is a “double-dip recession”?

1. Very likely in the next 12 months: 6%
2. Less likely every month: 29%
3. Depends upon policies from Washington D.C.: 69%
4. Not likely at all: 0%
Economic Outlook

- Regionally and nationally this will be a slow recovery.

- There is general agreement that by the end of this forecast we will be seeing a return to growth patterns of 2007:
  - Retail sales by the end of next summer
  - Commercial rents and vacancies in the next 12 to 18 months
  - Non-farm related jobs should recover by 2013
  - Existing housing prices should begin to recover value by 2015
  - Individual net worth by 2017
Consumer Price Index (CPI) vs. State-Local Price Index (SLPI)

Source: Bureau of Labor Statistics
Bureau of Economic Analysis
Congressional Budget Office
Consumer Confidence

> 90 indicates stable economy
< 50 indicates contracting economy

Source: The Conference Board
Unemployment continues to plague the City, State and Country, but Virginia Beach is doing better than most.

Source: Virginia Employment Commission and Bureau of Labor Statistics
Projections are from the Congressional Budget Office (CBO) and Department of Energy (DOE)
Employment Gains and Losses in Virginia Beach - 2000 to 2009

-36.0%  - Agriculture, Forestry, Fishing & Hunting
-23.9%  - Information
-22.9%  - Construction
-9.60%  - Professional and Technical Services
-36.0%  - Real Estate and Rental and Leasing
-12.7%  - Accommodation and Food Services
-15.1%  - Finance and Insurance
-21.3%  - Arts, Entertainment, and Recreation
39.5%   - Health Care and Social Assistance

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages
Today, the average age in Virginia Beach is 34.3 years, up from the 1990 Census of 28.9 years. If this continues, by 2016 the average age will be 36.3 years.

Source: US Census Bureau, American Community Survey
Income Inflow Compared to Income Outflow in Virginia Beach

In 2008, people moving into Virginia Beach made up only 93% of those moving out.

Source: Internal Revenue Service
Total Federal Budget Deficit (in Billions)

2009: -$1,600
2010: -$1,400
2011: -$1,200
2012: -$1,000
2013: -$800
2014: -$600
2015: -$400
2016: -$200

Projected

Source: Congressional Budget Office
Estimated Direct Department of Defense Spending in Virginia Beach

Projections assume a 10% reduction in DOD spending each year beginning in 2011 through 2013.

Source: US Census Bureau, Consolidated Federal Funds Report and the Department of Management Services
Revenues
Change in Real Estate Assessments
(Combined Residential and Commercial)

Source: Virginia Beach Real Estate Assessor’s Office
Home Foreclosures and Bankruptcies

Bankruptcies

Source: US Bankruptcy Court, Eastern District of Virginia

Foreclosures

Source: Commissioner of Revenue

*2010 data is through September
Real Estate Taxes

Percent of Total Revenue = 27.2%
Change Between FY 2011 and FY 2012 = -2.6%
Change Between FY 2011 and FY 2012 = -$12.4 Million
Average Age of Vehicles and Used Vehicles as a Percentage of Levies

Average Age of Vehicles Registered in Virginia Beach

Used Car Values as a Percentage of Total Levies

Source: Commissioner of Revenue
Personal Property Taxes

Percent of Total Revenue = 7.3%
Change Between FY 2011 and FY 2012 = 3.6%
Change Between FY 2011 and FY 2012 = $4.3 Million
General Sales Tax

Percent of Total Revenue = 3.1%
Change Between FY 2011 and FY 2012 = 3.9%
Change Between FY 2011 and FY 2012 = $2.0 Million
Utility Tax, Telecommunications Tax, and Cable Franchise Fee

Percent of Total Revenue = 3.1%
Change Between FY 2011 and FY 2012 = - 1.2%
Change Between FY 2011 and FY 2012 = - $0.6 Million
Business License (BPOL)

Percent of Total Revenue = 2.5%
Change Between FY 2011 and FY 2012 = 2.6%
Change Between FY 2011 and FY 2012 = $1.1 Million
Capital Improvement Program Funding

- Debt Financing
- Fund Balance
- Operating Budget CIP Allocations
- State and Federal Revenue
- Other

Millions

- $250
- $200
- $150
- $100
- $50
- $0

Fiscal Year

- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016

Projected
Operating Budget CIP Allocations
(Pay-as-you-Go Financing)
Net Debt Per Capita

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Source: Department of Management Services
School Forecast
Key School Revenue Assumptions

- Student enrollment is estimated to stop declining and to flatten out. Revenues are based on March 31st Average Daily Membership (ADM).

- Federal Impact Aid/Department of Defense funding will remain flat in the first three years and decrease in the last two years.

- State share Sales Tax projected to increase of 3.9% each year.

- No changes in any of the components of State funding - 2.3% annual growth – No changes are projected in the SOQ standards.

- No Changes to the City/Schools Revenue Sharing Formula Policy.
School Revenues

- Revenue Sharing Formula
- State Revenue
- Federal Revenue
- Other Local Revenue
- Fund Balance

Millions of Dollars

Fiscal Year:
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016

Key School Expenditure Assumptions

- All current educational programs would continue - no additions or expansions.

- Changes in staffing levels based on enrollment (calculated at 22:1).

- VRS contributions to increase 10% in year’s 2 & 3.

- Health Insurance – increase 7% each year – jumps to 12.5% in year 4 due to the Federal Health Care Bill phased in cost increases.
Key School Expenditure Assumptions (Continued)

- No Compensation increases included.

- The VRS life insurance at .059% of payroll throughout the forecast period.

- Slight increases are projected for fuel and utilities.

- No changes in Federal or State mandates have been included in the forecast.
Total Expenditures Per Pupil

Please Note That Figures For Each Year Include Debt Service

Source: Virginia Beach School System
School Fringe Benefit Costs

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<th>Fiscal Year</th>
<th>Millions</th>
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All Other School Operating Costs

Millions

Fiscal Year


$140 $150 $160 $170 $180 $190 $200

School VRS Rate

Fiscal Year

2003 2005 2007 2009 2011 2013 2015
City Forecast
Forecast of City Revenues and Expenses
(excludes Water and Sewer)

FY 2012 has a deficit of just over $19 million.
City Revenue Assumptions

- All current City Council Dedications remain in place.
- Charges for services have been increased by inflation to continue to cover roughly the same portion of expenditures as in the current budget.
- City only State Revenue - 1.8% decrease in FY 2012 - 0.2% increase in last four years. This anticipates continued reductions in aid to localities.
- No change in Federal revenue over the forecast period
- Hotel, Restaurant Meals and Amusement taxes are projected to increase by 5.2% between FY 2011 and FY 2012.
- No assumption of continued use of fund balance to support the Operating Budget.
City Revenues

- Revenue Sharing Formula
- Federal Revenue
- Charges for Service and Other Revenues
- Other Local Taxes
- State Revenue
- Fund Balance

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Key City Expenditure Assumptions

- All current City services and programs continue, though operating costs were held to small inflationary increases through the forecast period.

- No pay increases are included in any of the five years.

- Retirement costs are anticipated to increase by 2% every other year beginning in 2013.

- Health Insurance increases 7% each year and jumps to 12.5% in 2014 due to anticipated cost increases related to the Federal Health Care Bill.
Key City Expenditure Assumptions
(Continued)

- SPSA rates are expected to increase as the City’s capped rate increases, however; there is a significant increase in 2016 related to the elimination of the capped rate under the current contract.

- Debt Service is anticipated to increase based on approved CIP projects – Debt is reserved in the last three years of the forecast.

- City Council policies that drive costs are reflected as currently adopted.
City Expenditures Per Capita

Fiscal Year

City Salary Costs

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<td>2016</td>
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City Fringe Benefit Costs

Millions

Fiscal Year


$60 $70 $80 $90 $100 $110 $120 $130
All Other City Operating Expenditures

Fiscal Year

Millions

Combined Forecast (City and Schools)

Expenditures

Revenue

Projected

Fiscal Year


Millions

$1,500 $1,550 $1,600 $1,650 $1,700 $1,750 $1,800 $1,850

54
Four Key Expenditure Assumptions Driving the Deficit:

1. The City has four new facilities opening during the forecast period.

2. Both City and Schools have increases in retirement costs.

3. Both City and Schools will see increasing health care costs related in part to the Health Care Reform.

4. The costs to dispose of residential trash will significantly increase in the last year of the forecast.
Threats to the Forecast

- **Federal Budget**
  - Decreasing defense spending by 10%
  - Closure of Joint Forces Command (JFCOM)
  - Deficit reduction
  - Elimination of stimulus spending

- **State Budget**
  - 6% reduction to State agencies
  - VRS accounting gimmick
  - State elimination of local taxing authority

- **Storm Water Total Maximum Daily Load (TMDL)**

- **Health Care Costs**

- **Retirement Costs**
Forecast
Ways to Modify the Forecast
Revenue Question:

Over the next 5 years do you believe the economy will:

1. Beat the forecast 31%
2. Remain within forecast assumptions 38%
3. Get worse 25%
4. Unsure 6%
26% of all our revenue comes from the State. Do you think that over the forecast period the State will:

1. Increase its financial commitment to Schools and the City
2. Same commitment to Schools and the City as shown in forecast
3. Reduce its financial commitment to Schools and the City
Revenue Question:

8% of all our revenue is Federal. Do you think that over the forecast period the Federal Government will:

1. Increase its financial commitment to Schools and the City
2. Same commitment to Schools and the City as shown in forecast
3. Reduce its financial commitment to Schools and the City
Expenditure Question:

City and Schools continuously improve efficiency. Do you believe that they can continue to do so?

1. Easily, both can save an additional 1%
2. We should set a goal of reducing costs by 2%
3. No, while both should strive to remain efficient both have reached a point where choices among services would have to be made to reduce the budget
Expenditure Question:

Should the City and School System set aside funding to ensure compensation remains competitive?

1. No additional funding should be provided until the economy improves
2. Set aside 1% of total payroll each year of the forecast
3. Decrease funding for total compensation by 1% each year
4. Need to wait to see what service reductions may need to be made with the Budget
Expenditure Question:

What single service is likely to experience the most increase in demand over the next 5 years and should be considered for increased funding?

1. Public Safety 11%
2. Education K-12 17%
3. Human Service programs 33%
4. Infrastructure maintenance 39%
Expenditure Question:

Pay-go funding for capital projects continues to decline. What would be a good strategy?

1. Not really a problem, we can address it when the economy recovers

2. City and Schools should provide additional cash funding of $2.5 million each year

3. Both City and Schools should provide additional pay-go funding of $5 million each year
Expenditure Question:

Overall, expenditures in the forecast are:

1. Too conservative to maintain quality of life and address critical issues. Expenditures need to increase more.
2. Just about right given where the economy is likely to be.
3. Too optimistic, we should be able to reduce expenditures by focusing on core services.
4. Unsure
Debt Question:

Debt per capita is almost at $2,400, to address major School and City construction projects should we consider increasing the limit?

1. Yes, on the theory that spending on infrastructure will generate private sector jobs
2. No, we need to prioritize projects
3. Yes, but only for projects that bring revenues to support the increased debt service costs
4. Would need more information
Revenue Question:

**IF** revenues in the City/School Formula had to be increased in order to preserve services, which one might you consider?

1. Real Estate tax rate, but not increase the average taxpayer’s bill
2. Consider an increase in Personal Property taxes on vehicles
3. Consider reinstating the boat tax
4. Would not consider any increase
5. Need to wait and see what service reductions may need to be made with the Budget
Discussion Question:

The most significant threat to the financial position of the City and Schools in the next 18 months is:

1. State Budget reductions due to the slow economy and the loss of the Stimulus funds
2. Reductions in Federal defense spending
3. State elimination of local funding streams (Business License (BPOL) or Machinery and Tools)
4. Storm Water TMDL
5. Health care costs
6. VRS retirement costs
Discussion Question:

What should the City and School System be working on jointly?

1. Form a consolidation committee to look for **new** opportunities to eliminate duplication between the City and School programs
2. Work together to push for State funding for transportation and Schools
3. Examine debt indicators in terms of City and School long range capital needs
4. Meet together once a quarter to hear briefings of joint interest
5. Jointly form a government reform and restructuring citizens committee, similar to the one formed by the Governor
Discussion Question:

Overall the forecast is helpful?

1. Helps to set the long term financial picture as we head into budget season. **59%**

2. Would like to spend more time discussing long term financial strategies **41%**

3. Confirms my own understanding of the economy **0%**

4. Not really helpful **0%**
Conclusion

- The economy is improving although very slowly.
- There are major threats on the horizon, many beyond our control, and the shock of which could stall any local recovery.
- We will face tough choices.