Purpose

- To forecast the outcomes of existing laws, policies, guidance, and trends
- To explore what those outcomes will likely mean to city/school finances
- To provide information to the city council and school board to guide policy decisions
Economy
Risks in the Next Five Years

• Fiscal Cliff
  – Federal Deficit
  – Sequestration
  – Tax Hikes

• States ability to support transportation and education funding requirements

• European Debt Crisis
  – Global Economy & Banking
Real Gross Domestic Product

Source: US Bureau of Economic Analysis  
Year-Quarter
Consumer Confidence

> 90 indicates stable economy
< 50 indicates contracting economy

Source: The Conference Board
Consumer Price Index

Source: Bureau of Economic Analysis and the Congressional Budget Office
Note: Core inflation does not include energy or food
Comparison of Unemployment

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Virginia Beach</th>
<th>Virginia Beach Metropolitan Statistical Area</th>
<th>Virginia</th>
<th>United States</th>
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<tbody>
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<td>3.0%</td>
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<td>7.0%</td>
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<td>7.0%</td>
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<tr>
<td>2011</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
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<tr>
<td>2012</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
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<tr>
<td>2013</td>
<td>8.0%</td>
<td>8.0%</td>
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<td>2014</td>
<td>8.0%</td>
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<td>8.0%</td>
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<td>2017</td>
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<td>8.0%</td>
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<td>2018</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
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Source: US Bureau of Labor Statistics and the Congressional Budget Office
Labor Force in the Military

Source: US Census Bureau, American Community Survey
Median Household Income

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>United States</th>
<th>State of Virginia</th>
<th>Virginia Beach - MSA</th>
<th>Virginia Beach</th>
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<tr>
<td>2005</td>
<td>$58,545</td>
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<td>2006</td>
<td>$61,333</td>
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<td>2007</td>
<td>$61,462</td>
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<td>2008</td>
<td>$65,776</td>
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<td>2009</td>
<td>$59,298</td>
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<tr>
<td>2010</td>
<td>$64,212</td>
<td>$64,212</td>
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<td>$64,614</td>
<td>$64,614</td>
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</table>

Source: US Census Bureau, American Community Survey
Residential Building Permits

Source: Virginia Beach Planning Department
Revenues
Conditions for Next Five Years

**Favorable**
- Consumer confidence
- State budget ended with a surplus last two years
- Housing market trends
- Tourism continues to strengthen
- Local employment is improving
- Economy-based local taxes are improving
- Dedicated Real Estate taxes for education and road construction

**Unfavorable**
- Defense spending
- Federal cuts to social programs
- Potential for Federal tax increases
- Potential for relocation of Naval units/ships
- Continued reduction in State support to education and localities
Change in Assessed Values

Source: Real Estate Assessor’s Office
Estimated Months of Supply of Short Sales & REOs Existing Homes

Based on Average Sales in the Last 12 Months in Hampton Roads: 2007-2012*

Source: Real Estate Information Network and Old Dominion University Economic Forecasting Project. Information deemed reliable but not guaranteed.

*Data are through September 2012
## Average Price of Existing Short Sale, REOs, and Non-Distressed Residential Homes Sold

**Hampton Roads: 2006-2012**

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Distressed Sales</th>
<th>Short Sales</th>
<th>REO Sales</th>
<th>Short Sale Price as a Percent of Price of Non-Distressed Sales</th>
<th>REO Price as a Percent of Price of Non-Distressed Sales</th>
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<tbody>
<tr>
<td>2006</td>
<td>$250,254</td>
<td>$241,666</td>
<td>$120,817</td>
<td>96.6</td>
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<td>2007</td>
<td>$261,723</td>
<td>$237,897</td>
<td>$163,421</td>
<td>90.9</td>
<td>62.4</td>
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<tr>
<td>2008</td>
<td>$255,852</td>
<td>$239,110</td>
<td>$184,462</td>
<td>93.5</td>
<td>72.1</td>
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<tr>
<td>2009</td>
<td>$243,902</td>
<td>$239,913</td>
<td>$164,229</td>
<td>98.4</td>
<td>67.3</td>
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<tr>
<td>2010</td>
<td>$251,572</td>
<td>$231,211</td>
<td>$151,612</td>
<td>91.9</td>
<td>60.3</td>
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<td>2011</td>
<td>$236,358</td>
<td>$212,967</td>
<td>$135,304</td>
<td>90.1</td>
<td>57.3</td>
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<td>2012*</td>
<td>$238,886</td>
<td>$188,852</td>
<td>$135,693</td>
<td>79.1</td>
<td>56.8</td>
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</table>

Source: Real Estate Information Network and Old Dominion University Economic Forecasting Project. Information Deemed Reliable But not Guaranteed. REOs represent Bank Owned Homes. * Information provided here is for YTD September 2012.
Real Estate Revenue

Source: Department of Management Services and the City Real Estate Assessor’s Office
Personal Property Revenue

Source: Commissioner of the Revenue and Department of Management Services
Beginning in September 2013, Amazon has agreed to collect state sales tax on its Virginia customers.
Utility Taxes

Source: Department of Management Services and the Virginia Department of Taxation
Business License (BPOL)

Source: Department of Management Services

Fiscal Year: 2009 to 2018

Millions: $0.0 to $60.0

2009: $40.0
2010: $35.0
2011: $30.0
2012: $35.0
2013: $40.0
2014: $30.0
2015: $30.0
2016: $30.0
2017: $30.0
2018: $30.0
Cable Franchise Revenue

Source: Department of Management Services
Automobile License Revenue

Source: Department of Management Services
Cigarette Tax Revenue

Source: Department of Management Services
Amusement Tax Revenue

Source: Department of Management Services
Hotel Tax Revenue

Source: Department of Management Services
Restaurant Tax Revenue

Source: Department of Management Services
Summary of Revenues

• Real Estate assessments are projected to fall in the early years of the forecast, but growth in all other tax revenues basically make up the lost real estate tax revenue.

• As the economy strengthens so shall our revenues.

• How the Federal Budget resolves itself is our biggest threat.
Budget Drivers
VRS Reforms

• Mandated Shift of 1% to employees beginning in FY 2013 and for the next four years – offset with mandated 1% pay raise.

• Unfunded Liability for Teachers pension is estimated at over $800 million and for city employees at over $600 million.
  – General Assembly has been artificially lowering the VRS rate for teachers to aid their budget.
  – VRS Board actuarially sets rate for city employees.
  – Beginning with the FY 2013 CAFR the City must show these unfunded liabilities on our balance sheet.
Federal Health Care Reform

• Beginning in January 2014 we must:
  – Cover part-time employees working 30 or more hours per week (the forecast assumes this will add 91 employees to health care coverage).
  – Pick up employees who do not currently have health insurance (the forecast assumes 50% of the roughly 2500 opt-outs will choose city health insurance rather than an exchange).
  – Pay reinsurance fees estimated at $60 per member (estimated to add nearly $2 million to the plan costs).

• Intended to bring down health care costs and cover more people.
SPSA Tipping Fee

• As a part of the City’s agreement with SPSA we have had a reimbursement for a capped tipping fee, the value of which has been roughly $10 million annually.

• Beginning in FY 2015, this cap is eliminated resulting in a loss of revenue to Solid Waste of $10 million.

• In FY 2018 SPSA as we know it will cease to exist.
Pay Increases

• The mandated VRS 1% pay raise and its offset of 1% shift to employees of retirement costs is included in the forecast.

• The forecast does not include any pay increases, beyond the mandated VRS pay increase for the next five years.

• The last pay increase for City employees was 2.5% in FY 2012 and for School employees it was 2.0% in FY 2013 (School employees received a ½% pay raise in FY 2012 as well).
  – Prior to these the last increase was in FY 2009.
Pay-go Funding to the CIP

• Substantially diverted to the Operating Budget during the recession.

• The current CIP shows what maybe proving to be too aggressive a schedule to bring it back given the slow economic recovery.

• City Council dedication of 2 cents of real estate tax rate to shore up funding for road construction which had lost funding due to State budget reductions.
School Forecast
City Council provided one-time funding of $9.2 million from the general fund balance.

Source: Department of Management Services
School Revenues –
State Share Sales Tax

Source: Virginia Beach City Public Schools
School Revenues –
State Aid and Federal

Source: Virginia Beach City Public Schools
## School Expenditures – Assumptions

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>VRS Mandated Pay Increase</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Pay Increase</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Mandated VRS Rate Change</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other VRS Rate Change</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Health Insurance</td>
<td>9.07%</td>
<td>16.91%</td>
<td>11.85%</td>
<td>8.11%</td>
<td>8.64%</td>
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<tr>
<td>Increase in Risk Management</td>
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<td>7.0%</td>
<td>5.0%</td>
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<tr>
<td>Inflation</td>
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<td>1.27%</td>
<td>1.28%</td>
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<td>Increase in Utility Costs</td>
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<td>2.1%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
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<tr>
<td>Increase in Fuel Costs</td>
<td>7.0%</td>
<td>3.0%</td>
<td>2.0%</td>
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<td>0.0%</td>
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<tr>
<td>Change in Staff (Change in FTE’s)</td>
<td>-16.99</td>
<td>-2.08</td>
<td>-22.05</td>
<td>-8.56</td>
<td>+5.76</td>
</tr>
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</table>
School Expenditures – Salaries

Source: Virginia Beach City Public Schools
School Forecast

Source: Virginia Beach City Public Schools
City Forecast
City Revenue –
Fees and Other Local Revenue

Fiscal Year
- Non-Revenue Receipts
- Miscellaneous Revenue
- Revenue From the Use of Money & Property
- Fines and Forfeitures
- Charges for Services
- Permits, Privilege Fees, and Licenses

Source: Department of Management Services
City Revenue – State and Federal

Fiscal Year

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<tr>
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<td>$0.0</td>
<td>$0.0</td>
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</table>

Source: Department of Management Services
## City Expenditure – Assumption

<table>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>VRS Mandated Pay Increase</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Pay Increase</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Mandated VRS Rate Change</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>-1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other VRS Rate Change</td>
<td>0.0%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>0.0%</td>
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<tr>
<td>Health Insurance (Percentage Change)</td>
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<td>15.3%</td>
<td>12.4%</td>
<td>8.7%</td>
<td>10.1%</td>
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<tr>
<td>Inflation</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
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<tr>
<td>Pay-As-You-Go (Percentage Change)</td>
<td>45.0%</td>
<td>0.0%</td>
<td>15.0%</td>
<td>-3.0%</td>
<td>0.0%</td>
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</tbody>
</table>
City Forecast

![City Forecast Graph]

- Expenditures (blue line)
- Revenues (red line)

**Source:** Department of Management Services

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Expenditures ($M)</th>
<th>Revenues ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2009</td>
<td>$700.0</td>
<td>$750.0</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$750.0</td>
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<td>FY 2011</td>
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<td>FY 2015</td>
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<td>FY 2016</td>
<td>$1,050.0</td>
<td>$1,100.0</td>
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<td>FY 2017</td>
<td>$1,100.0</td>
<td>$1,150.0</td>
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<tr>
<td>FY 2018</td>
<td>$1,150.0</td>
<td>$1,200.0</td>
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</tbody>
</table>

Forecasted Expenditures and Revenues for the upcoming fiscal years:
- FY 14: Expenditures - $900.0, Revenues - $950.0
- FY 15: Expenditures - $950.0, Revenues - $1,000.0
- FY 16: Expenditures - $1,000.0, Revenues - $1,050.0
- FY 17: Expenditures - $1,050.0, Revenues - $1,100.0
- FY 18: Expenditures - $1,100.0, Revenues - $1,150.0
Conclusions
Key Issues

• Near Term
  – Losses in real estate revenues are nearly made up by increases in other economy driven revenues.
  – Impact of rising health care and VRS rates.
  – Impact of potentially no pay raises.
  – Continued struggle with housing values.
  – Continued reliance on fund balance to maintain services.
  – Slow growth of economy.

• Long Term
  – Federal Budget, deficit reduction and tax policies.
  – Right sizing of the Navy in terms of number of ships and the size of the ships.
  – The need for the State to partner with localities for transportation and education.
Sensitivity Analysis - Testing the Assumptions

• The Big Drivers of the Forecast:
  – Health Care Costs
  – No Pay Increase
  – Sequestration & the Fiscal Cliff
  – Use of Fund Balance

• What would changing the assumptions staff made mean on the forecast?
State & Federal revenues are held flat due to uncertainty over sequestration. Do you feel that it is more realistic to show revenue growth or loss in FY 2014?

1. I feel it is more realistic that federal and state revenues will decline.

2. I feel that there will be little impact on these revenues.

3. Due to the nature of programs potentially affected, I feel sequestration will be less of an impact and these revenues may increase.
Health Care costs, short of redesigning the plans are beyond our control, but we could ask employees to assume more of the costs by lowering the employer contribution.

1. Employees as direct beneficiaries of the plan should assume a greater percentage of the costs.
2. As employers we should assume a greater percentage of the costs.
3. Would only consider redesigning the coverage offered.
The forecast assumes no pay increase for the City and School employees other than the 1% VRS mandated increase.

- I disagree with the assumption, we can’t go 5 years with no pay increase other than the VRS mandated increase.
The forecast shows a use of fund balance, but lowers the use as the economy improves. Do you agree with that strategy or would you prefer a different strategy?

1. Agree

2. Reduce use by another 50% each year.

3. Disagree with using fund balance in the budget.
Key Issues

• **Near term**
  - Losses in real estate revenues are nearly made up by increases in other economy driven revenues.
  - **Impact of rising health care and VRS rates.**
  - Impact of potentially no pay raises.
  - **Continued decline of real estate tax assessment.**
  - Continued reliance on fund balance to maintain services.
  - **Slow growth of economy.**

• **Long term**
  - **Federal Budget, deficit reduction and tax policies.**
  - Right sizing of the Navy in terms of number of ships and the size of the ships.
  - **The need for the State to partner with localities for transportation and education.**