Five Year Forecast

FY 2014 THROUGH FY 2018

Table of Contents

Introduction

The purpose of this report is to provide City Council, the School Board and interested residents with an understanding of the long range impacts of current City and School expenditure policies, demographic changes, and our current revenue streams. The forecast projects the impact of current policies and practices and does not assume any change in tax rates, any potential for future salary adjustments, nor any new construction projects beyond that included in the FY 2012-13 Approved Capital Improvement Program (CIP).

As with all forecasts, the outcomes are based on the assumptions made about the next five years. As the assumptions shift, the forecast itself will change. Each year of the forecast period is a standalone snapshot of that point in time with the cumulative deficit being reflected only in the last year of the forecast. For example, fixing a deficit in year one of the forecast lowers each of the following year's deficits by a like amount. Likewise, a shift in a major revenue stream in one year of the forecast would impact all of the following year's forecasts by similar amounts.

To the extent possible, this forecast reflects what is currently happening in the City's economy. In developing this report, staff reviewed national economic and demographic trend data, reviewed regional and State reports such as Old Dominion University's (ODU's) Annual State of the Region Report, and met with leading regional economists and city leaders to validate assumptions and trend data. However, this is a forecast of the future, and that is always subject to change.

This year's forecast has some unique challenges. We are clearly experiencing modest improvement in our local economy. All revenues, particularly consumer driven revenues, are improving. Though real estate assessments continue to decline, it is less of a decline than last year's forecast assumed. In fact, according to ODU's Annual State of the Region report, housing prices regionally have fallen as far as they will and are beginning to show signs of improvement. According to ODU's Economic Forecasting Project, median sale prices of existing residential homes sold has increased by 1.09% regionally (YTD September 2001 to YTD September 2012) and in Virginia Beach by 1.86%. Yet due to the lag in assessing properties, this forecast shows the fifth year of declining assessments and therefore declining revenues. We will discuss this in more detail in the "Revenues" section of this report. It is important to note that this forecast assumes continued use of fund balance to offset the impact of declining real estate tax revenue on City and

School programs. However, both systems are reducing reliance on this revenue source as real estate tax revenues improve.

The City, like the rest of the country, is facing the possible impacts from the "Federal Fiscal Cliff." As you are aware, this "cliff" is comprised of expiring tax cuts, automatic cuts to defense and entitlements called sequestration, and the Federal deficit. How this will play out, now that the election is over, is subject to much debate. The regional economists felt that it would be dealt with by the lame duck Congress, or at worst, kicked further down the road. Because of the uncertainty on how this will all be resolved, this forecast makes no attempt to reflect this impact. We have assumed what may be a "best case" scenario of flat Federal and State revenues over the next five years. Again, we will discuss this in greater detail in the "Conclusions and Threats" section of the report.

The remainder of the report is dedicated to discussing the next five years for both the City and School system. Both sections, "City Forecast" and "School Forecast", will discuss revenues that are unique to each system. It is important to note that local tax revenues are being shared and will be discussed in the "Revenues" section of this report. The "City Forecast" and "School Forecast" sections will discuss the expenditure assumptions made and the impact on personnel and operating costs. To the extent possible, City and School staff has worked to make similar expenditure assumptions. As was discussed with last year's report, rising health care and retirement costs are the primary drivers of the projected deficit over the next five years. The urban inflation rate, used for government expenditures, should remain relatively stable for the next five years.

This report hopefully sets the framework for the upcoming FY 2013-14 budget discussions and the impact that choices and policies can have on long term sustainability. It is provided with an understanding that there are real threats looming, only a couple of which are mentioned in the "Introduction" section. These threats can substantially change this forecast and are mostly beyond the control of the City Council and the School Board. The City will be placed in a reactive mode; however, staff will present a balanced budget at the end of March and recommend changes necessary to achieve that balance, be it cuts in services, changes in policies, or adjustments in revenues. These recommendations will be made with an eye to long term sustainability and hopefully resolution of the uncertainty in the Federal and State budgets.

Demographic and Economic Indicators

The City of Virginia Beach, like much of the country, is experiencing demographic and economic trends that will have impacts on service delivery over the next five years and well into the future. As a City, it is important to recognize these trends and begin to plan for their impacts on our community.

Demographic Indicators

The City of Virginia Beach is experiencing the same demographic trends as many other cities across the country. Residents are getting older and there is more ethnic and cultural diversity within the community. While overall population growth slowed from 2000 to 2010, 2011 saw the second largest single year increase in population in the last 15 years at 0.74%. One year does not make a trend, but it will be interesting to see if higher levels of population growth occur over the next few years. Despite this growth in 2011, the forecast maintains a 0.3% annual increase in population over the forecast period.

According to a recent analysis from the Weldon Cooper Center at the University of Virginia, from 2005 to 2009 using annual averages, Virginia Beach had the second highest in-migration and out-migration of any locality in the State. Over this four year span, the City had an annual average of 45,866 people move into the City, while 42,390 people moved out. Being a community that has such a large military presence may explain this high level of migration; however, this equates to approximately 1% of the City's population, which is a relatively high rate of turnover.

While the City's population increased in 2011, the School system continues to experience declining enrollment. In 2009, student enrollment fell below 70,000 students for the first time since 1990. The Schools are projecting that enrollment will dip below 69,000 students in the current school year and below 68,000 students during the forecast period.

The trend that may have the single largest impact is the aging of the City's population. As the population ages, the needs of these residents will have to be met in order to maintain the long term viability of the City as a community for a lifetime. This trend is certainly not particular to Virginia Beach, as many cities across the country will need to be prepared to modify service delivery for the aging population. The bottom line is that municipal services will have to shift to serve this growing customer base.

The National Association of Area Agencies on Aging (n4a) has conducted research and identified the ten best practices for communities in preparing for the aging population boom. According to their research, communities who are looking to prepare for the needs of their more senior residents should provide:

- Preventive health care
- Nutrition education
- Age appropriate fitness programs and recreational facilities
- Safe driving assistance, including larger, easier-to-read road signage, grooved lane dividers, reflective road markings, dedicated left-turn lanes, and transportation options available for people who cannot or do not want to drive
- Special planning and training for public safety personnel and other first responders
- Home modification programs
- Tax assistance and property-tax relief
- Re-training and lifelong learning opportunities
- Community engagement opportunities
- A single point of access to all aging information and services in the community

While this list isn't all inclusive, many of the services and programs described are currently being provided by the City of Virginia Beach. The City has begun to address this demographic trend through tax relief programs, volunteer opportunities, recreational programs, and lifelong learning opportunities in order to help residents enjoy their "golden years".

Economic Indicators

Nationally, the economy has grown over the past 12 quarters in terms of Real Gross Domestic Product (GDP). While some raised concerns of a possible "double-dip" recession, the economy has been able to withstand several threats and continues on a pattern of modest growth.

The most significant factor contributing to GDP growth is that consumers continue to spend. Personal consumption has grown for 11 consecutive quarters, including a 2% growth in the recently released 3rd quarter of 2012 report. While we have not seen significant sustained growth in spending, consumers have not turned off the spigot as they did during the recession.

Another positive sign about the economy is the Consumer Confidence Index. In October, consumer confidence climbed over 70 for only the third time since the recession began (other two occasions were February 2011 and February 2012). While this is an improvement over where this index has been at times during the recession, it still has not risen to 90 (which is the level that indicates a stable economy) since January of 2007.

The unemployment rate had shown little improvement until recently. Nationally the unemployment rate fell to 7.8% in September, which was the first time the rate has fallen below 8% for 43 consecutive months. At the State level, the unemployment rate in Virginia fell to 5.9% in September, while the rate in Virginia Beach was 5.6%. Another positive note for Virginia Beach is that civilian employment has already risen back above the levels that were seen prior to the recession which signals good news for job seekers in Virginia Beach.

Locally incomes are also growing. In 2011, median household income grew for the second consecutive year while per capita income, which has not yet been released for 2011, grew in 2010. While neither of these measures have made it back to the levels seen prior to the recession, their growth helps to signify the economic rebound that is occurring in the City and the region.

The inflation rate has moderated over the past year. According to the Congressional Budget Office, the rate of inflation (both total and core) will remain around 2% over the next five years. However, inflation could ramp up due to the various rounds of quantitative easing that have put a lot of liquidity in the market. As the economy grows, the Federal Reserve Bank will play a significant role in ensuring inflation will remain in check.

Since FY 2009-10, real estate assessments have declined 18.8% if the 3% decline projected by the Real Estate Assessor's Office for FY 2013-14 is included. Despite the trend of lost value in the City's real estate assessments, from August 2011 to August 2012, the median sale price for existing residential homes increased 1.86% from $215,000 to $219,000 in Virginia Beach according to the Real Estate Information Network and Old Dominion University's Economic Forecasting Project. This is the first positive news about the local housing market since the recession began. Unfortunately, real estate assessments tend to lag by at least a year and the Real Estate Assessor is not projecting assessment growth until FY 2016-17.

Another positive sign is the projected decline in foreclosures in Virginia Beach. If the current trend holds for the remainder of 2012, it would be the second consecutive year of declining foreclosures. While the number of foreclosures remains high, it hopefully signals that market stabilization isn't too far away.

Another important factor related to housing is the amount of disposable income that is now being consumed by housing costs. Optimally, homeowners and renters would spend 30% or less of their income on housing. However, in Virginia Beach the trend is that more and more people are paying in excess of 30% of their income on housing costs. In 2011, 54.9% of renters and 39.9% of homeowners with a mortgage are spending in excess of 30% of their income on housing in Virginia Beach. This is up from 47% for renters and 30.5% for owners with a mortgage in 2005. The net result is that people are spending more on housing and the value of the asset is continuing to decline.

While housing has been a drag on the local economy over the past several years, planned reductions in military spending could be the next economic shoe to drop. The City of Virginia Beach and the entire Hampton Roads region is highly dependent on military spending. As the recent Annual State of the Region Report from ODU pointed out, "the private sector became proportionately less important, economically speaking, in Hampton Roads over the past decade. That is, our economy became less diversified between 2001 and 2010." In 2001, the private sector accounted for 63.22% of all wages in the region, but in 2010, this number declined to 59.08%.

The *2011 Budget Control Act* (Public Law 112-25) established a "Super Committee" that was responsible for recommending ways to lower the budget deficit by $1.2 trillion over the next 10 years. Due to the failure of the Super Committee to pass these spending cuts, the law requires $1.2 trillion in reduced Federal spending – half from defense and half from nondefense over the next 10 years. Congress still has until the end of the year to reach a deal that would avert a budget sequester.

According to the law, on January 2, 2013, the President must issue an order cutting government spending by the sequestered amount. This would mean almost $55 billion from the Department of Defense (DoD) alone.

According to the National Military Family Association, the following could happen under sequestration:

- DoD funds that are not committed to contracts by January 2, 2012 would be subject to sequestration
- Funding for war operations in Afghanistan would also be subject to cuts
- The President can exclude military personnel accounts, which includes about one-third of the defense budget, from sequestration

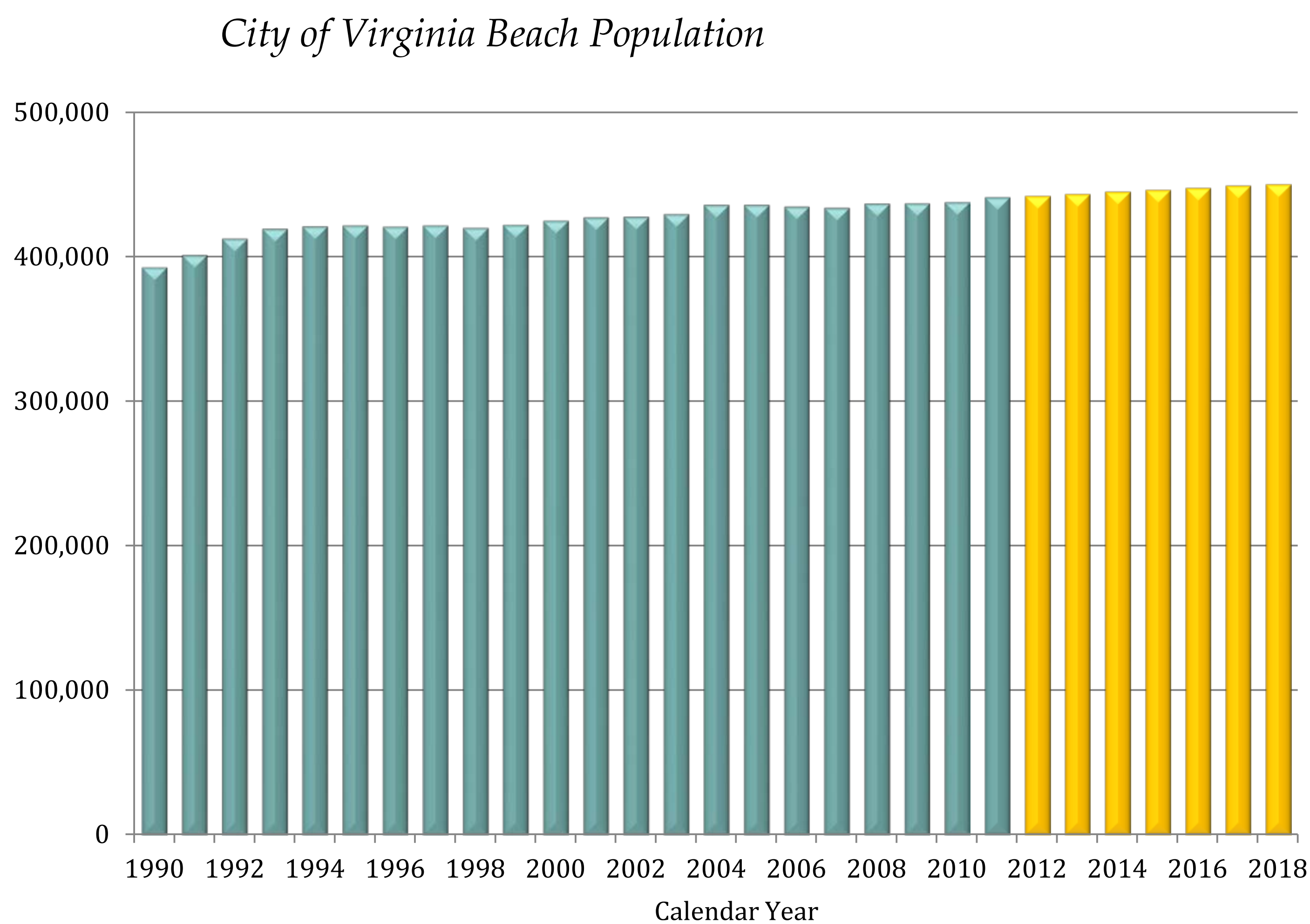
At this point, there is nothing to indicate that Congress is working to avoid these automatic spending cuts. However, many pundits believe that Congress will act at some point to delay or eliminate many of these automatic spending reductions.

In addition to the cuts that could occur as a result of sequestration, Congress has already approved $487 billion in reduced defense spending that will occur over the next 10 years ($259 billion over the first five years).

There is a great deal of uncertainty about the potential impacts of sequestration. According to ODU's Annual State of the Region Report, most of the cuts in military spending will impact the Army, Marines, and Air Force. Due to the large Navy presence in our City and region, we may not experience the massive cuts if the budget sequester does in fact occur.

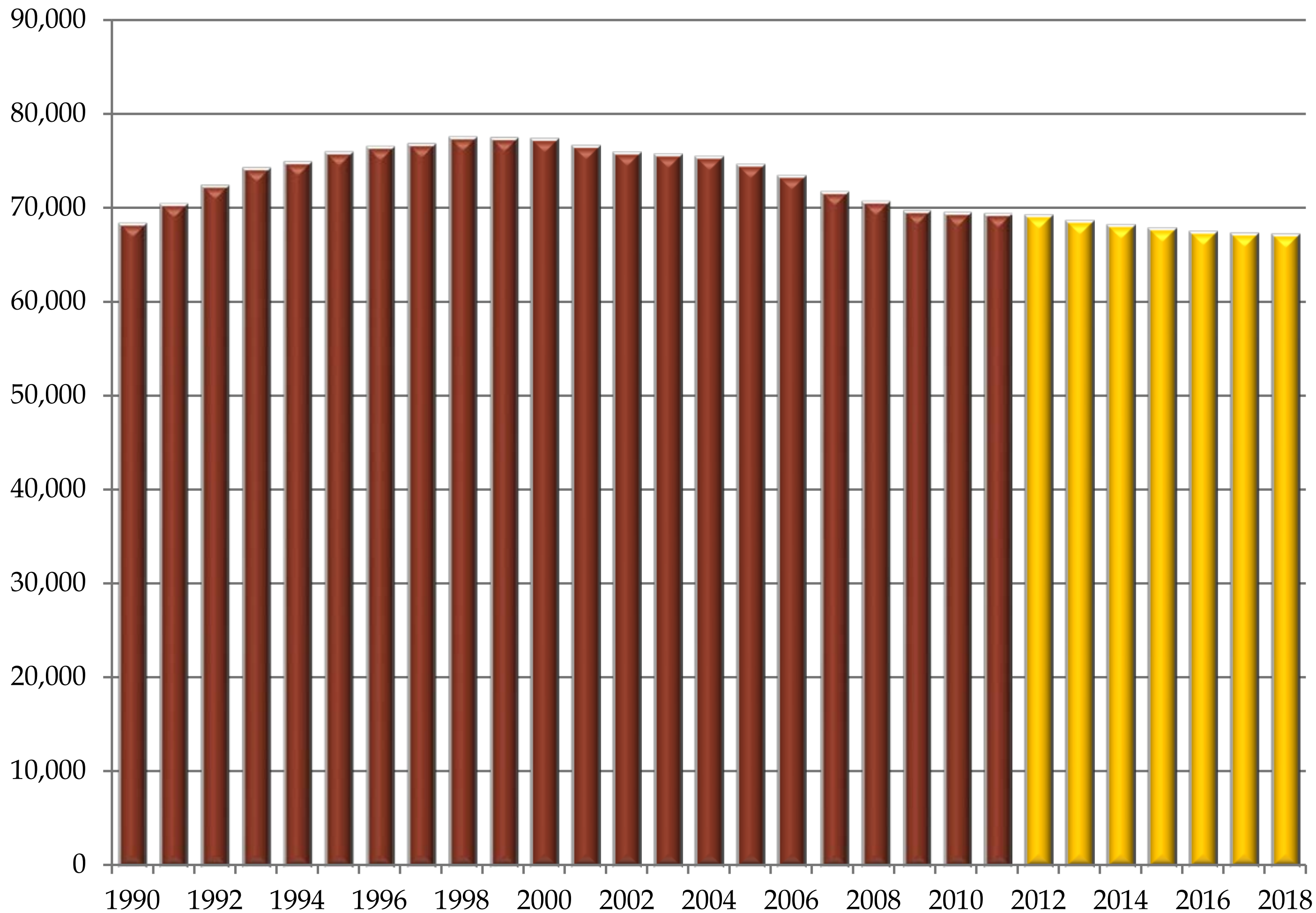
What concerns this forecast regarding the budget sequester are the cuts to non-defense programs that could occur beginning in January. These cuts would impact programs supported in part or fully by the Federal government in Human Services, Education, Housing and Neighborhood Preservation, and the Courts. We will outline the specific programs that could experience cuts in the "Appendix" section of this document.

After an increase of 8.2% in the population between 1990 and 2000, the City experienced its lowest growth rate for any decade with only 3% growth from 2000 to 2010. The annual growth rate from 2012 to 2018 for population is expected to be 0.3%.



Source: US Census Bureau, the Weldon Cooper Center and the Department of Management Services

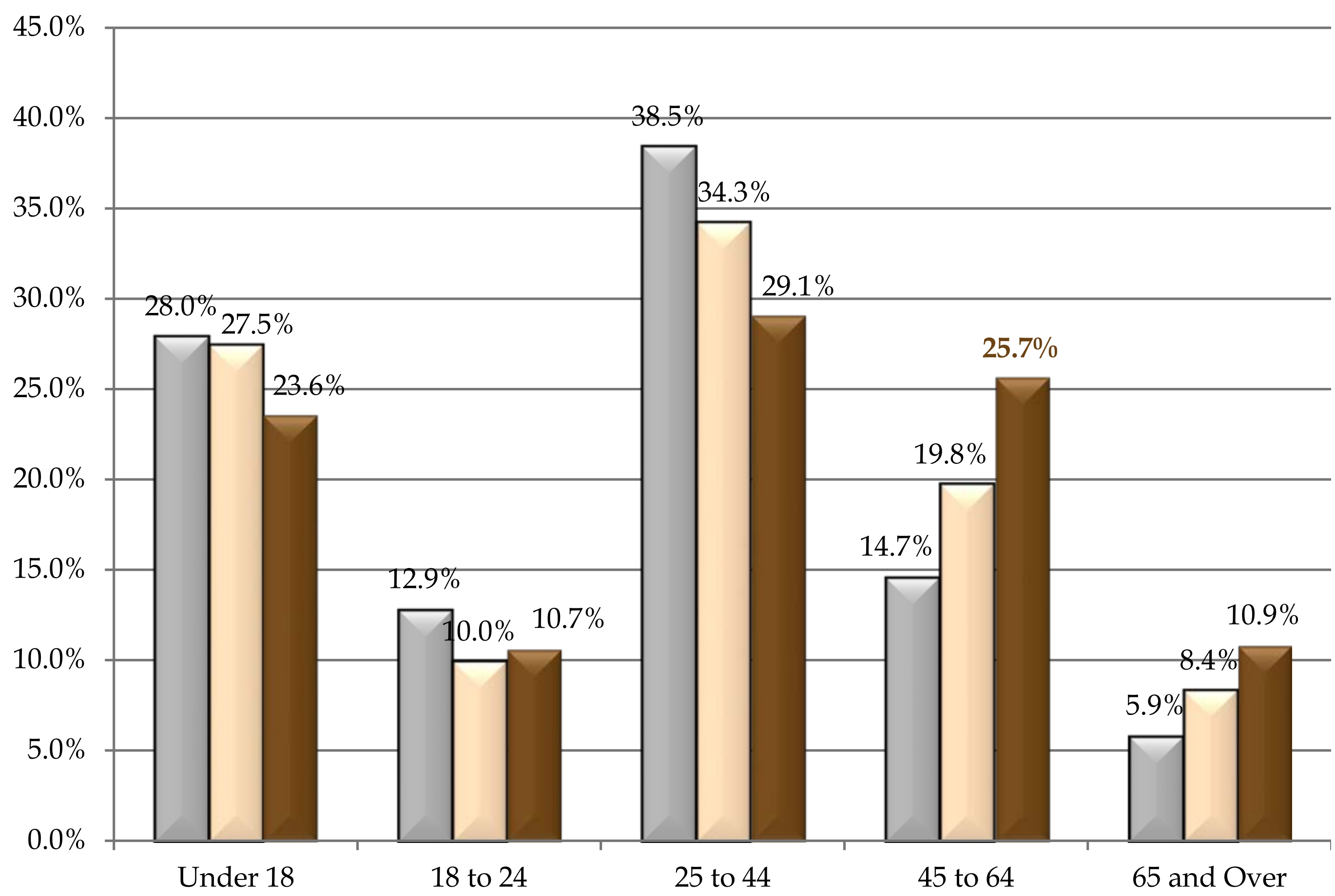
Student Enrollment Virginia Beach City Public Schools



Student enrollment experienced a significant decrease from 1998 to 2011 dropping 10.5%. The Virginia Beach City Public Schools is projecting that this trend will continue and enrollment will decline an additional 3% from the 2011-12 School year through the 2017-18 School year.

Like the rest of the country, over the last twenty years Virginia Beach has experienced growth in the older population age groups. Over the same time period, younger segments of the population have declined. The most rapidly growing segment of the population from 1990 to 2011 was persons age 45 to 64.

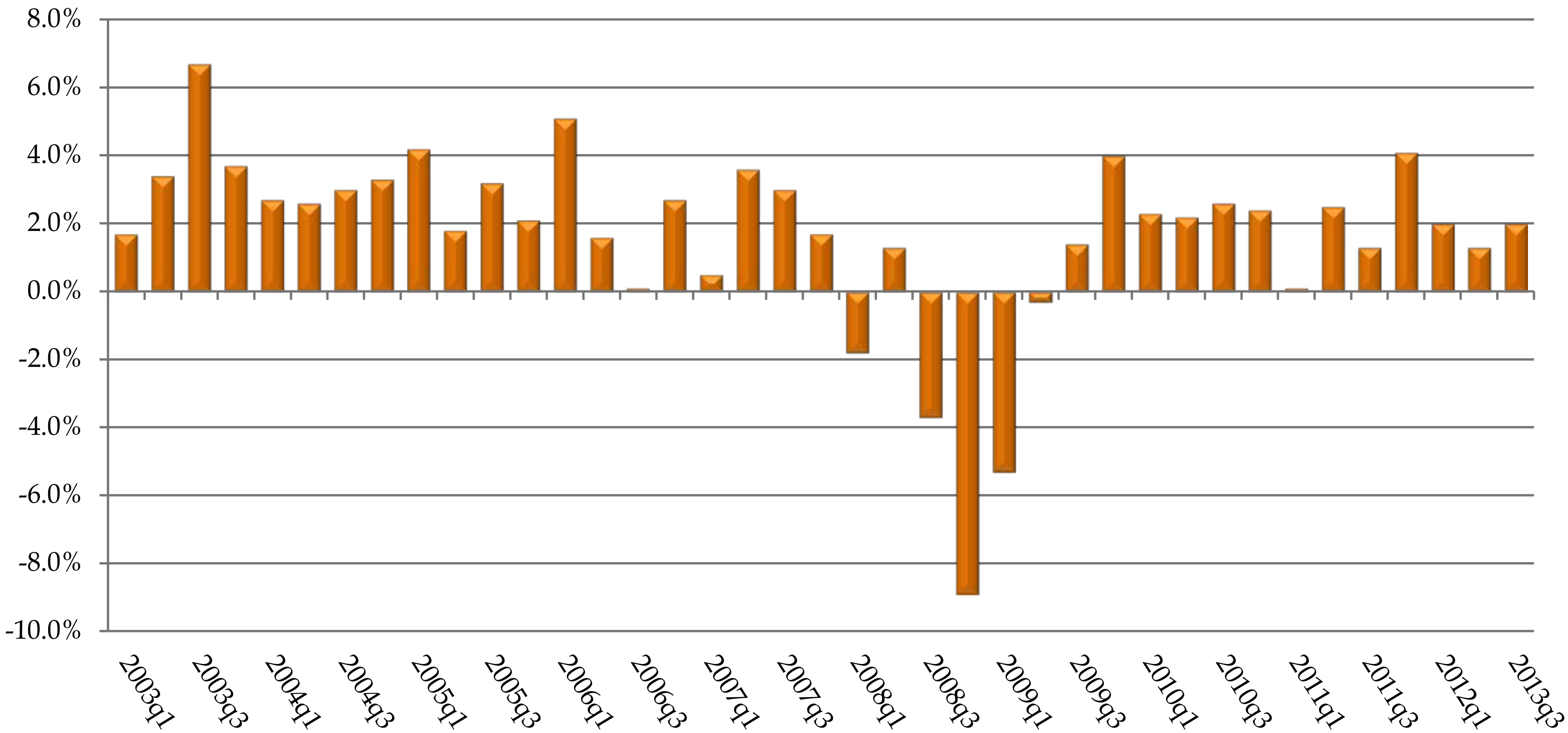
Proportion of the Population by Age



Source: US Census Bureau

Percent Change in Real Gross Domestic Product (GDP) – 2003 to Present

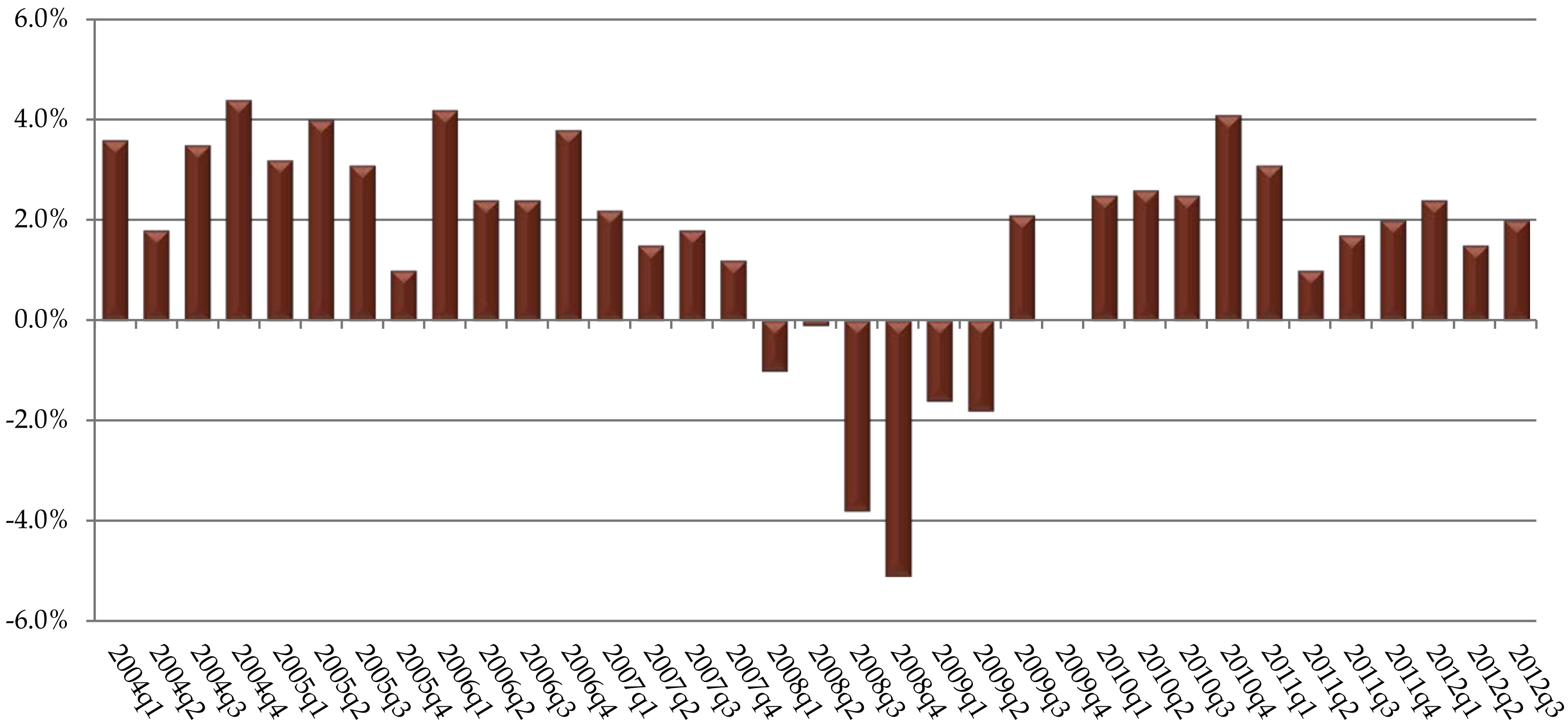
As this graph illustrates, real GDP has grown for 13 consecutive quarters. While growth in the GDP has not been as robust coming out of this recession, the continual growth of the economy is a positive indication.



Source: US Bureau of Economic Analysis

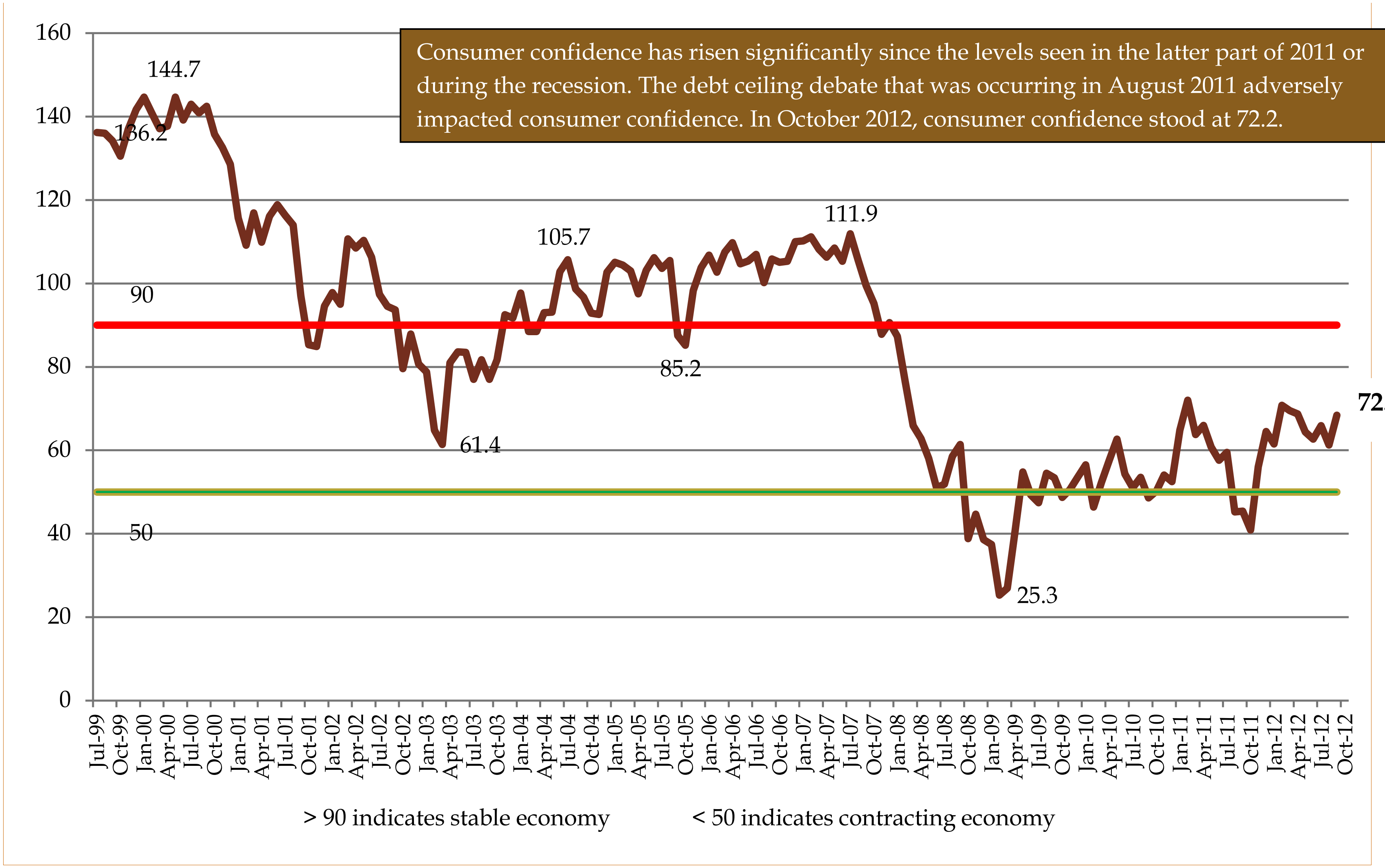
Percent Change in National Consumer Spending – 2003 to Present

Consumer spending has grown for 11 consecutive quarters. It makes up the largest portion of GDP and has a similar pattern to the GDP shown on the previous page. Consumer spending is one of the most critical components in maintaining or restoring a strong economy.

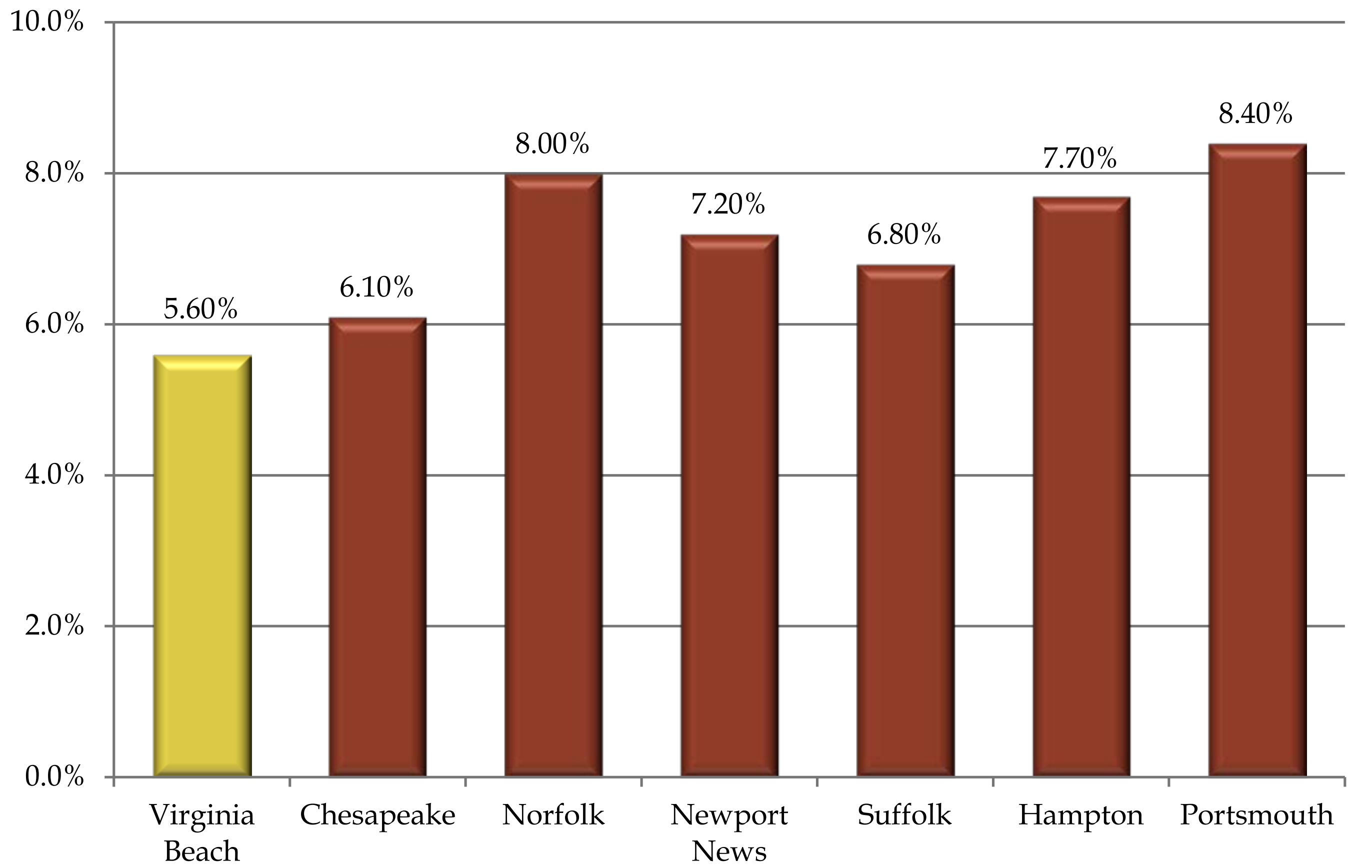


Source: US Bureau of Economic Analysis

Consumer Confidence



Regional Average Monthly Unemployment Rate's for 2012 through September

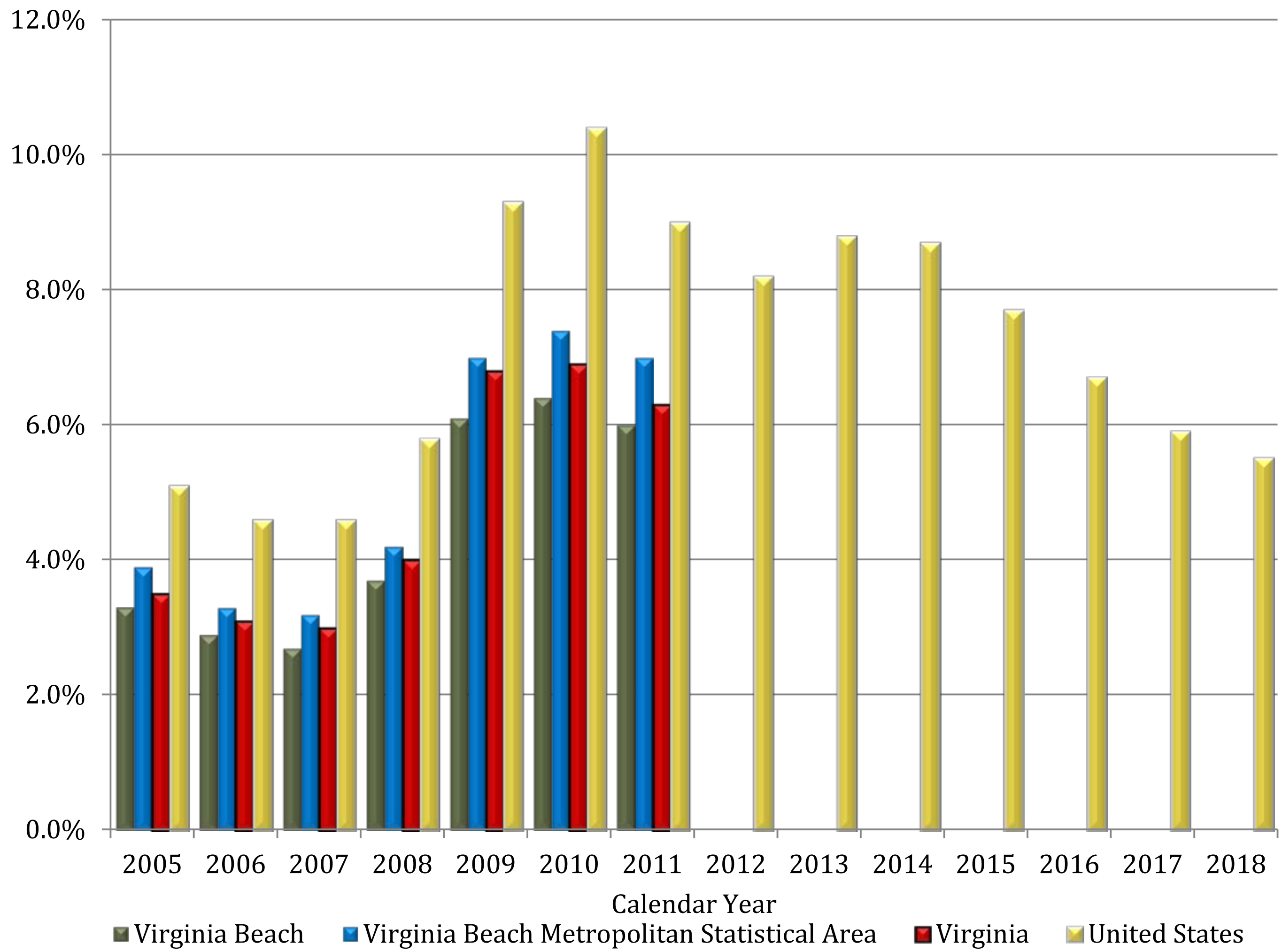


Locally, Virginia Beach still has the lowest average monthly unemployment rate of any city in Hampton Roads for 2012. When comparing the 2012 data with 2011, each month's rate has declined when compared to the same month for the previous year.

Source: US Bureau of Labor Statistics

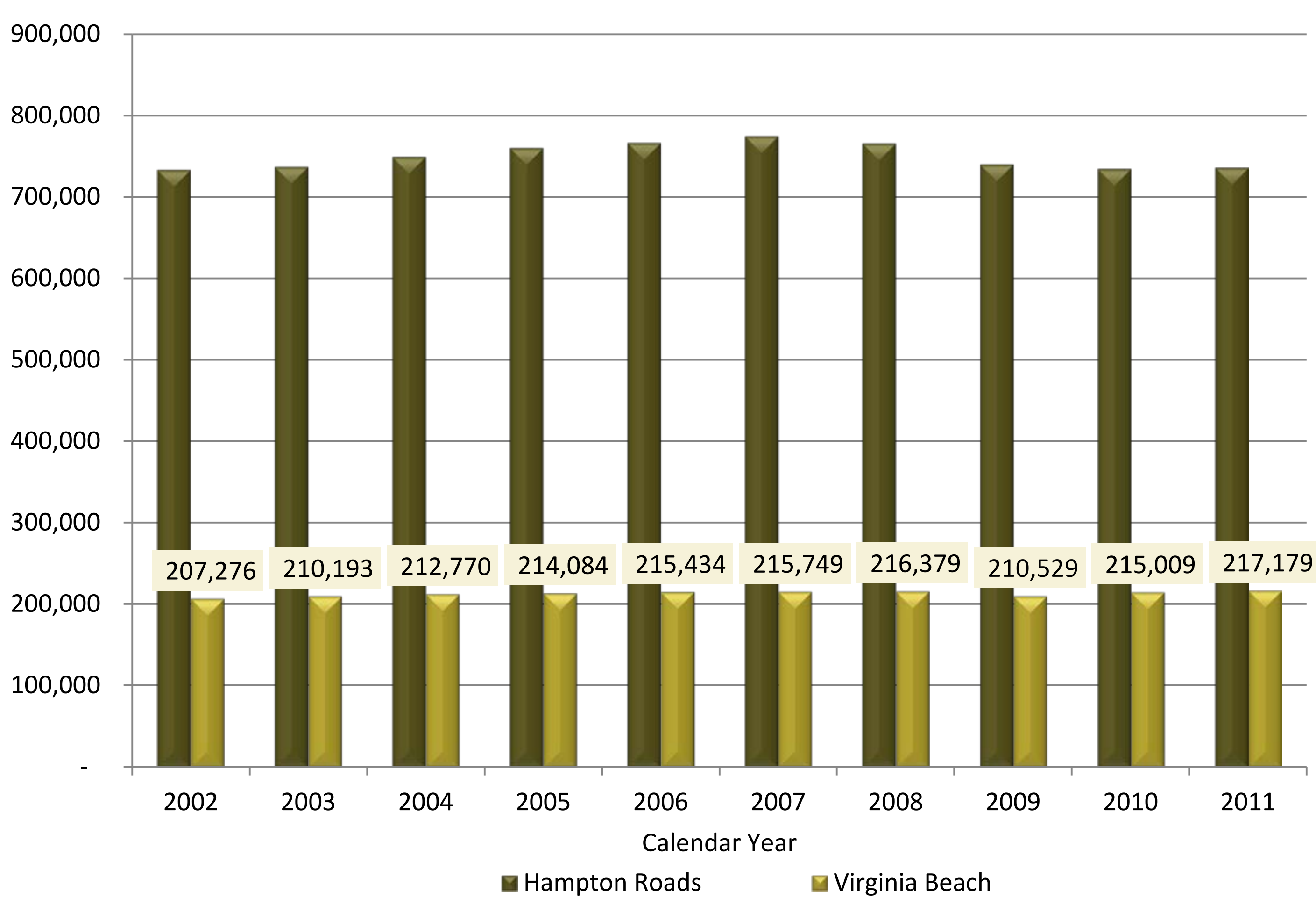
A Comparison of National, State, and Local Unemployment Rates

National unemployment fell below 8% for the first time in 43 months in September. The State and the region continues to perform better than the nation in terms of unemployment; however, this could change if planned spending cuts for national defense come to fruition. According to the Congressional Budget Office (CBO), the national unemployment rate is projected to decline over the next five years.



Source: US Bureau of Labor Statistics and the Congressional Budget Office

Comparison of Average Monthly Civilian Employment (Jobs)



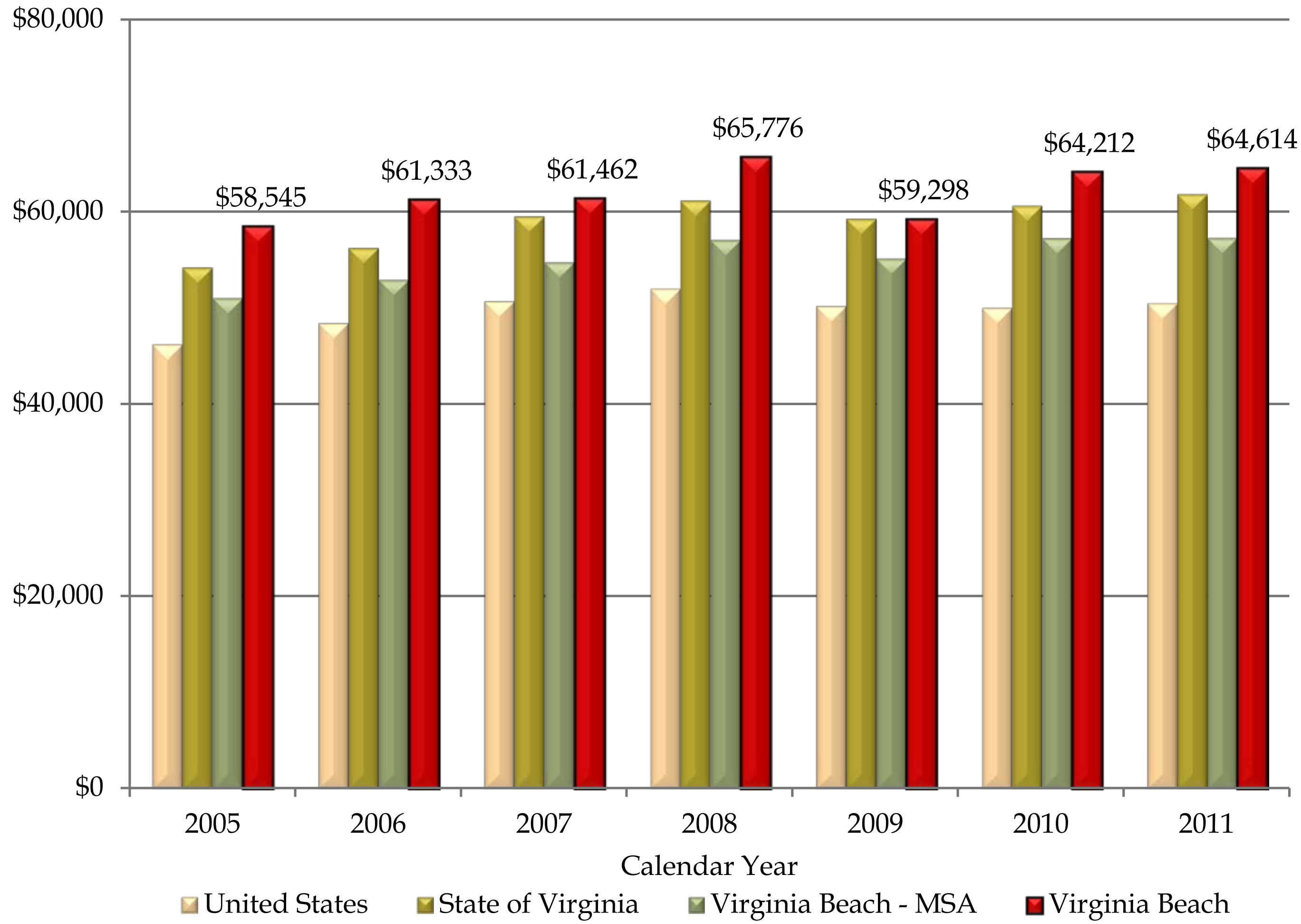
Source: US Department of Labor

This graph shows civilian employment in Hampton Roads and Virginia Beach. While the region experienced declines in employment for three consecutive years from 2008 to 2010, the City experienced only one year of declining civilian employment (2009). Regional employment remains below its pre-recession level; however, Virginia Beach has already exceeded its previous high for employment which occurred in 2008.

After declining in 2009, median household income in Virginia Beach grew for the second consecutive year. Despite this growth, median household income remains more than $1,000 below its high which occurred in 2008.

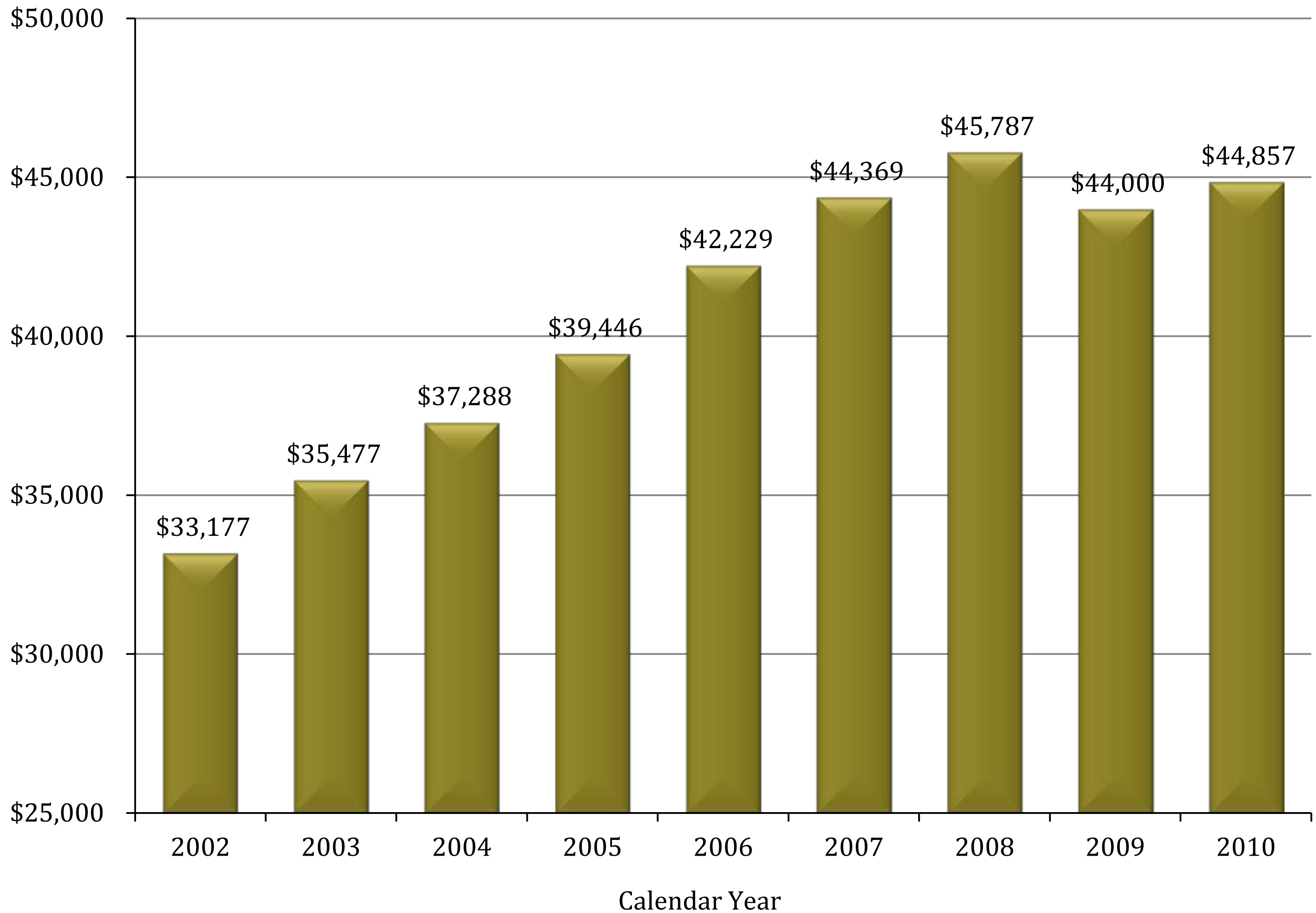
Median household income in Virginia Beach also remained higher than the same measure when compared to the nation, State, and region.

Median Household Income



Source: US Census Bureau, American Community Survey

Per Capita Income

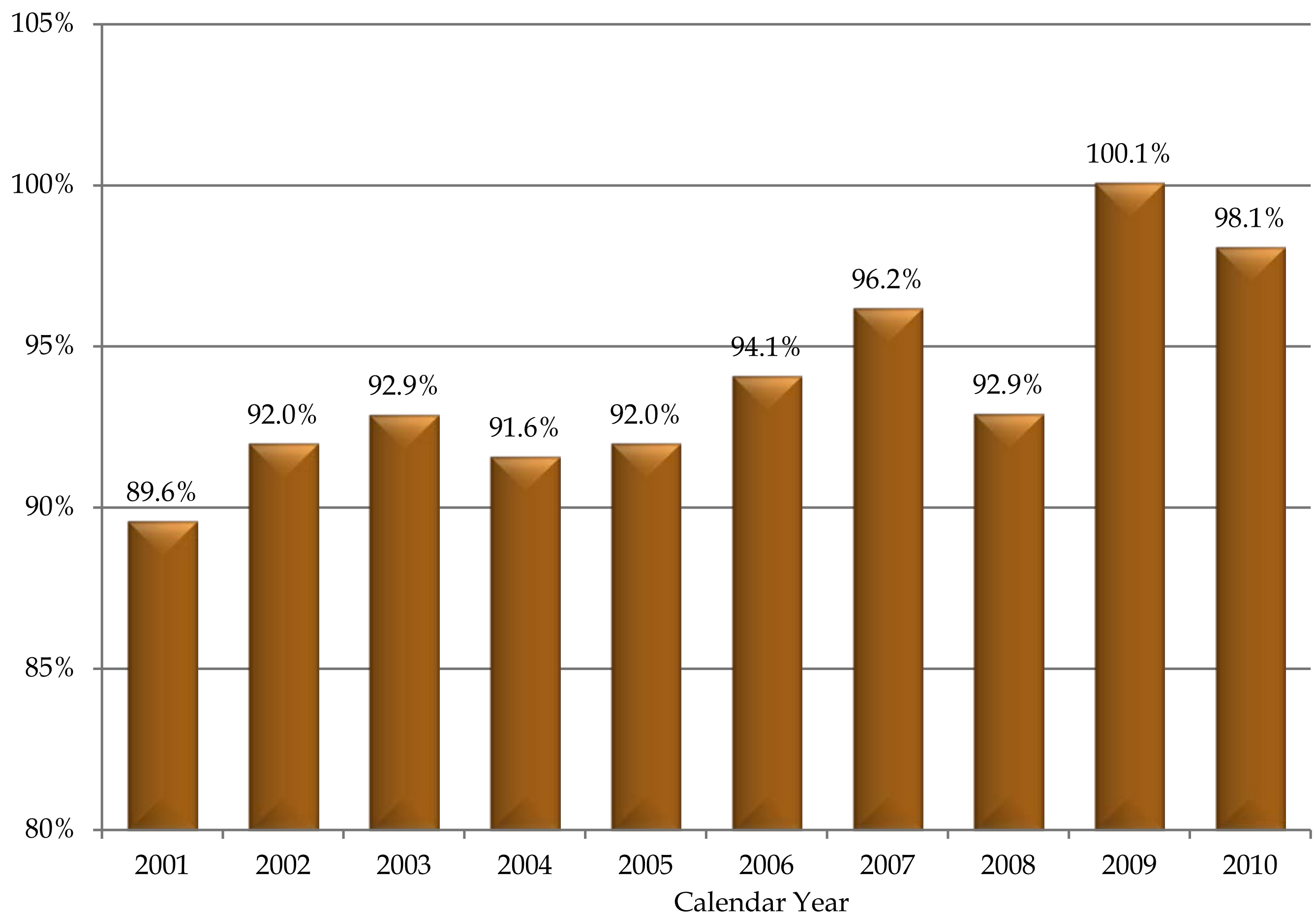


Source: US Bureau of Economic Analysis

Despite declining in 2009, per capita income bounced back in 2010. While not achieving the same level as 2008, there was an increase of 49% from 2002 to 2010.

Over the past ten years, there is only one year (2009) in which the incomes of people moving into the City have exceeded the incomes of the people moving out.

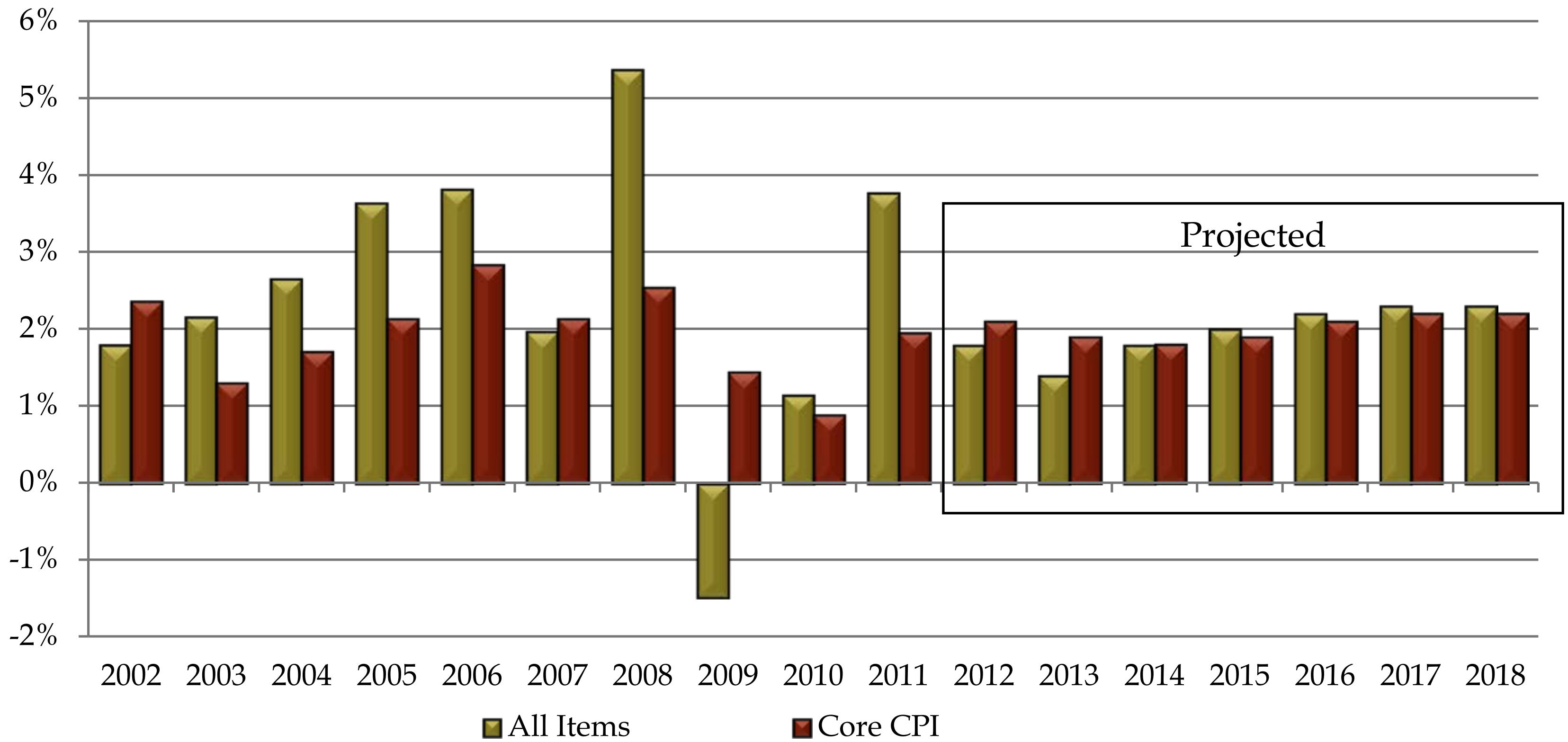
Income of People Moving into Virginia Beach
as a Percentage of the Income of People Moving Out



Source: Internal Revenue Service and Management Services

Change in Consumer Price Index (CPI)

While inflation increased from 2010 to 2011, the Congressional Budget Office (CBO) is projecting that inflation will decline in 2012 and then level out over the remainder of the forecasted period. Please note that the figures for 2002 through 2011 are annual percent changes from August to August, while the figures for 2012 to 2018 are calendar year projections from the CBO.

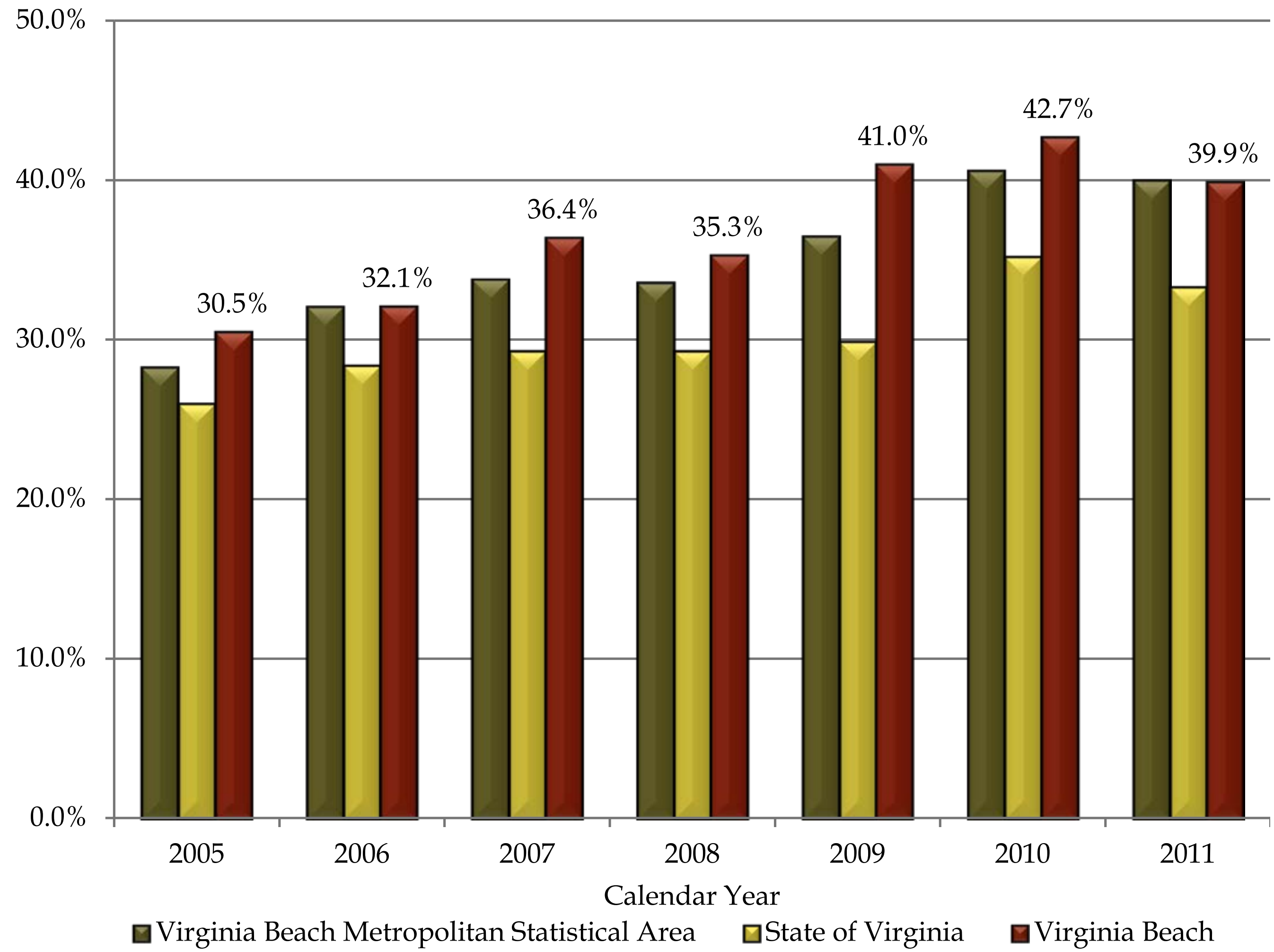


Source: Bureau of Economic Analysis and the Congressional Budget Office

Note: Core inflation does not include energy or food

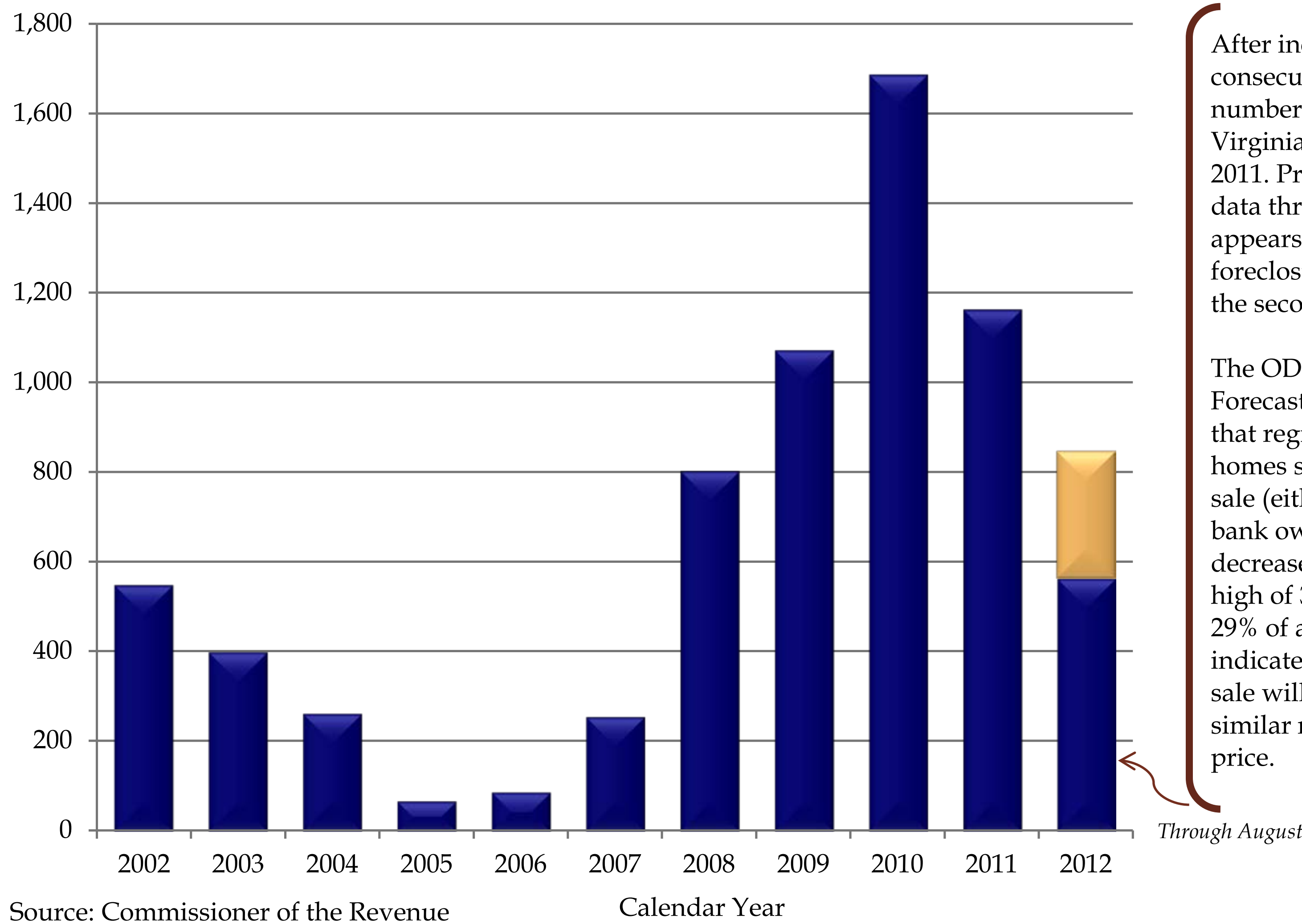
Monthly Owner Costs of Housing Units with a Mortgage Exceeding 30% of Household Income

The graph illustrates the growth in the percentage of homeowners whose mortgage exceeds 30% of their household income. The percentage of homeowners expending more than 30% of their household income for housing costs declined from 2010 to 2011. As housing costs grow as a percentage of the family budget, there is less disposable income for food, clothing, transportation, healthcare, entertainment and other goods and services.



Source: US Census Bureau, American Community Survey

Foreclosures in Virginia Beach

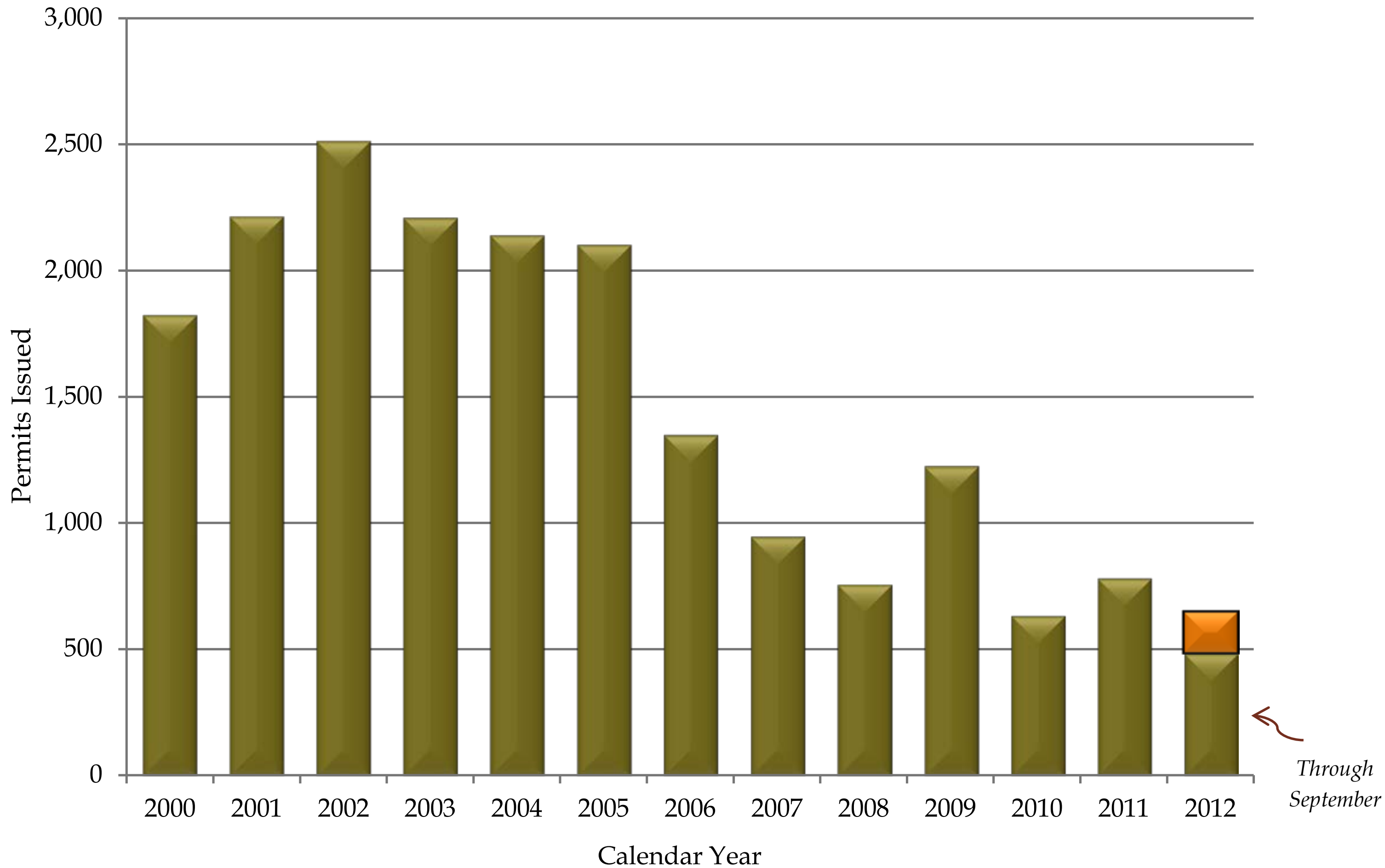


Source: Commissioner of the Revenue

After increasing for five consecutive years, the number of foreclosures in Virginia Beach declined in 2011. Projecting 2012 (using data through August) it appears that the number of foreclosures will decline for the second consecutive year.

The ODU Economic Forecasting Project indicates that regionally the number of homes sold as a distressed sale (either a short sale or a bank owned home) has decreased from last year's high of 34% of all sales to 29% of all sales. They also indicated that a bank owned sale will be sold at 56.8% of a similar non-distressed sale price.

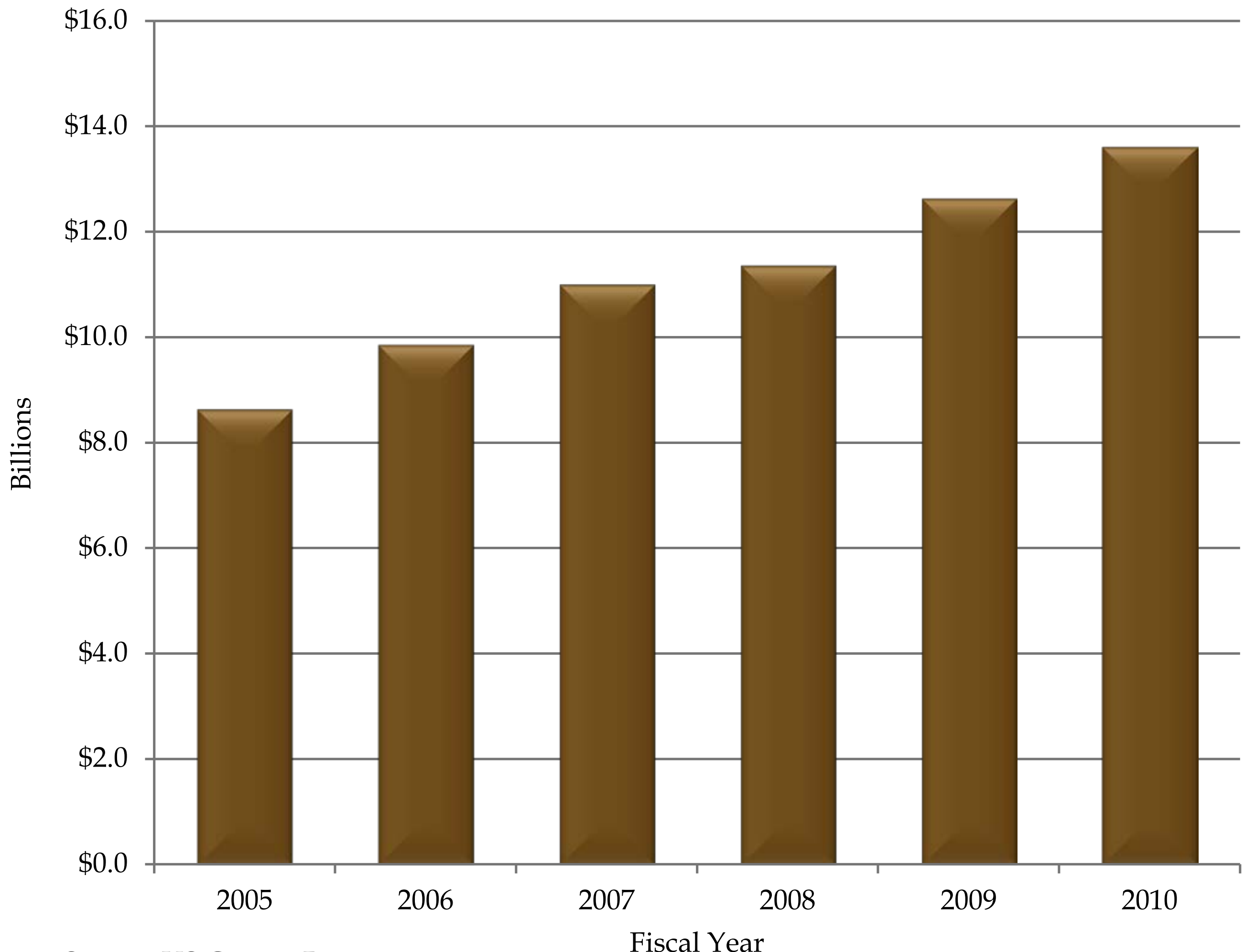
Residential Building Permits



Source: Virginia Beach Planning Department

Residential building permits have not yet reached their pre-recession levels. This may be due, in part, to the existing inventory of single family residential homes.

Department of Defense Spending in Virginia Beach

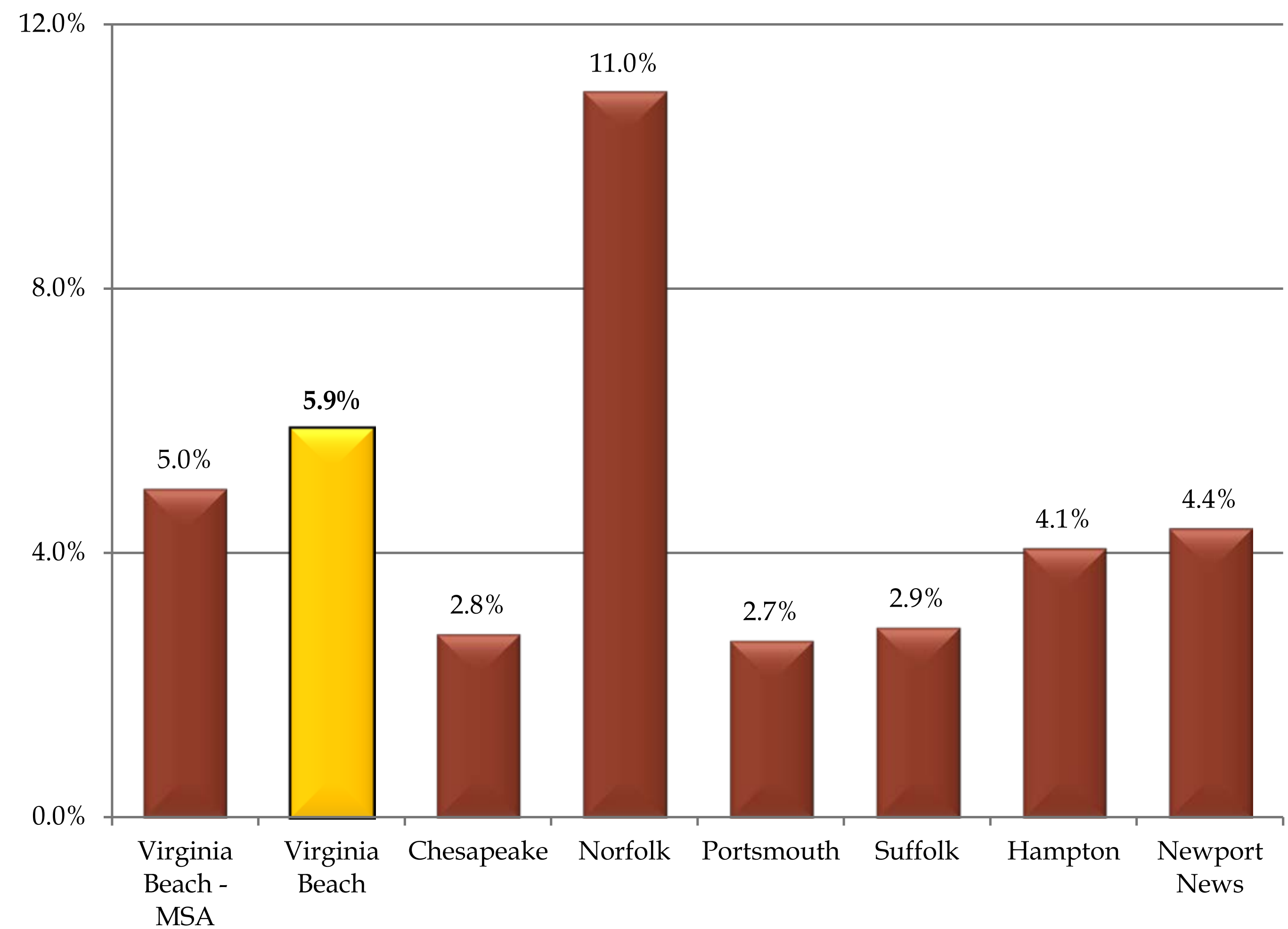


Source: US Census Bureau

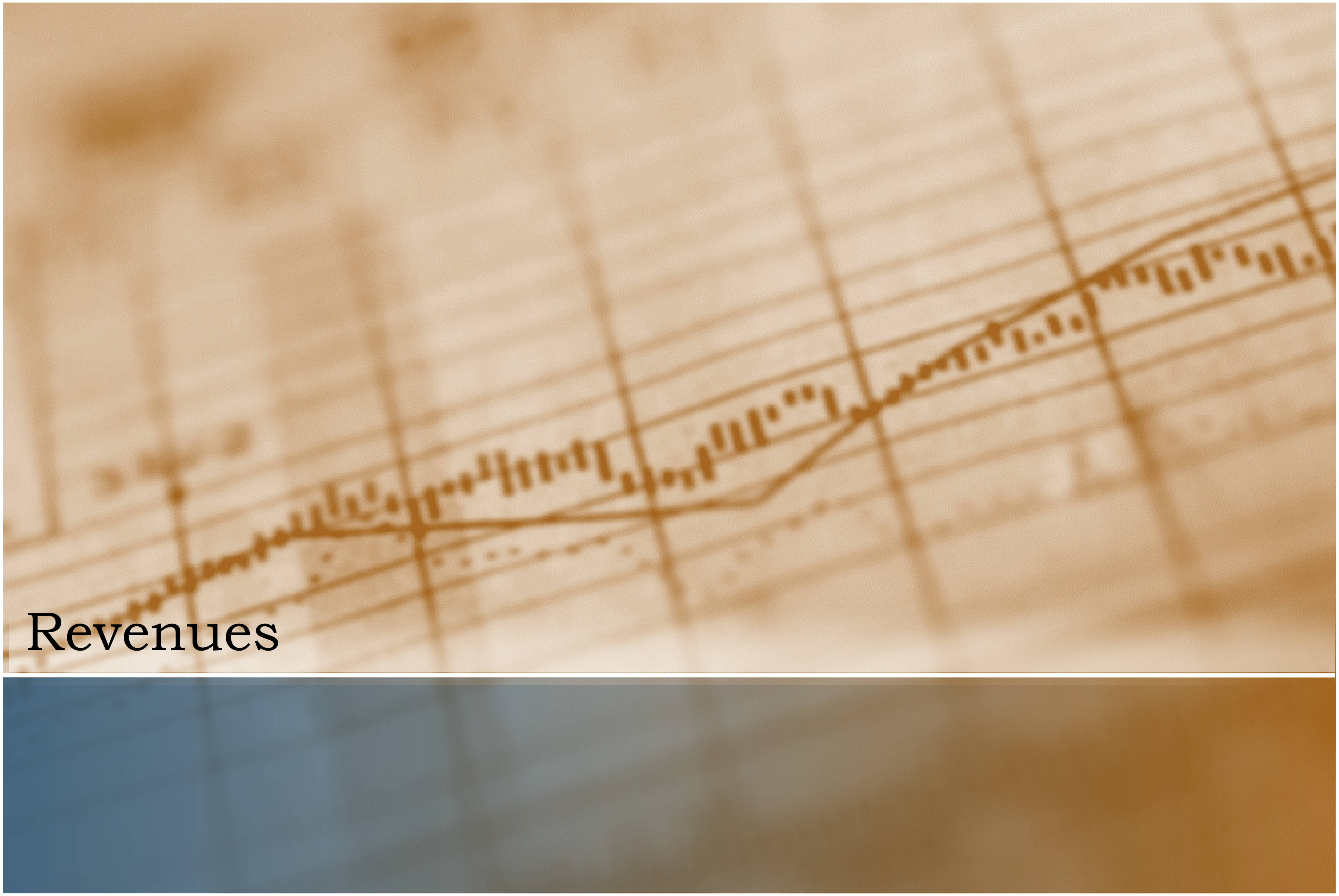
Direct Department of Defense spending grew in Virginia Beach significantly over the past five years. The continuation of this trend is highly dependent on sequestration and other deficit reduction measures enacted by Congress.

Percentage of the Labor Force in the Military – 2011

Sequestration or any other significant reduction in defense spending will impact military related jobs in the region. Both Norfolk and Virginia Beach stand to be hit the hardest. Of potentially greater concern than sequestration would be the potential loss of carrier groups and other naval assets through the Quadrennial Defense Review.



Source: US Census Bureau, American Community Survey



Revenues

Revenues

Five years ago, in FY 2008-09, the City of Virginia Beach's adopted budget was based on revenues of a growing economy. As displayed by charts in the previous section, unemployment was lower, median household income was higher, per capita income was higher and foreclosures had just begun increasing. Most of the economic data indicating a slowing economy was not available at the time the FY 2008-09 budget was adopted. Below is a chart that compares total City revenues from the FY 2008-09 amended budget with the adopted FY 2012-13 budget:

Revenue	FY 2008-09	FY 2012-13	Change
Real Estate Tax	$ 506,261,981	$ 474,312,812	$ (31,949,169)
Personal Property Tax	135,568,880	132,412,895	(3,155,985)
General Sales Tax	56,040,158	54,098,252	(1,941,906)
Utility Tax	49,045,450	44,979,473	(4,065,977)
Business License	43,180,830	42,423,932	(756,898)
Automobile License	8,960,647	9,627,435	666,788
Cigarette Tax	13,199,518	12,153,510	(1,046,008)
Amusement Tax	5,597,076	5,800,563	203,487
Hotel Room Tax	24,133,253	26,608,521	2,475,268
Restaurant Tax	48,745,131	55,155,356	6,410,225
Other Tax*	16,143,498	16,690,556	547,058
Other Local Revenues**	215,877,888	274,677,740	58,799,852
State Revenue	513,633,249	442,109,756	(71,523,493)
Federal Revenue	106,910,488	120,604,286	13,693,798
Non-Revenue Receipts	4,478,456	2,835,095	(1,643,361)
Specific Fund Reserves	17,489,914	52,903,829	35,413,915
Total	**$ 1,765,266,417**	**$ 1,767,394,011**	**$ 2,127,594**

* Other Tax includes: Franchise tax- Cox Cable, Bank Net Capital tax, City tax on deeds and City tax on wills

** Other Local Revenues include: Permits, Privilege Fees, From Use of Money, Charges for Service, Miscellaneous Revenue and Fines and Forfeitures

Over the last five years, the two biggest losses in terms of revenue have been in real estate taxes and State revenue. Real estate revenue has decreased $31.9 million (net of the $28.8 million from the six-cent rate increase) and State revenue has decreased $71.5 million for a combined loss of $103.4 million over this five year period. The largest revenue increase over this five year period is found in other local revenues. These revenue sources increased a total of $58.7 million over this five year period. This increase seemingly offsets half of the revenue lost from real estate and the State; however, a large part of this increase is attributable to storm water and sewer rate increases. These increases were programmed to address a Federal sewer consent decree and the known backlog of storm water projects and as a result, did not benefit services offered citywide. The second largest increase is in the use of fund balance or specific fund reserves. In FY 2012-13, the City of Virginia Beach used $52.9 million in fund balance or $35.4 million more than the amount used in FY 2008-09. The City of Virginia Beach's bottom line revenue is similar to what was budgeted five years ago; however, the City is much more reliant on fund balance to equal that level of revenue.

Sources of Local Government Revenue

Virginia Beach			
FY	State Aid	Local Revenue	Federal Revenue
2002	30.1%	62.9%	7.0%
2003	29.7%	63.5%	6.8%
2004	28.5%	64.0%	7.5%
2005	29.0%	63.5%	7.5%
2006	29.6%	63.0%	7.4%
2007	29.5%	64.0%	6.5%
2008	28.7%	64.8%	6.4%
2009	29.2%	64.8%	6.0%
2010	28.8%	65.4%	5.8%
2011	26.0%	66.4%	7.6%

Sources of Local Government Revenue

Statewide			
FY	State Aid	Local Revenue	Federal Revenue
2002	34.8%	58.3%	6.9%
2003	33.9%	59.1%	7.6%
2004	32.6%	59.0%	8.4%
2005	33.2%	59.3%	7.5%
2006	32.2%	60.5%	7.3%
2007	33.0%	60.2%	6.8%
2008	32.5%	60.9%	6.5%
2009	32.8%	60.5%	6.7%
2010	30.6%	60.6%	8.8%
2011	30.6%	61.4%	8.0%

State revenue totals 25% and real estate revenue is 27% of the total revenue collected by the City. These are the City's two largest sources of revenue. State revenue is difficult to project and can be almost impossible to capture all the variables that will enter into the equation with the opening of the General Assembly session. Previously mentioned in this report is a discussion of sequestration and the potential trickle down impact that it could have on the Commonwealth of Virginia. With so many unknowns at the State level, it is assumed that the best case scenario would be 0% growth over the forecasted period in State revenue. This is assumed to be the best case scenario compared to the alternative of State cuts.

As displayed in the previous tables, the State Aid to localities decreasing is not a trend unique to the City of Virginia Beach but a trend that is occurring statewide. As long as the economy remains slow, it appears that the State will continue to balance the budget in part by reducing aid to the localities, primarily in education.

Fortunately real estate revenue, the largest City revenue source, is more predictable than State revenue. Variables such as revenue collected, foreclosures, housing trends, assessments and assessment rates can be collected and analyzed to determine a projected monetary value. The City's Real Estate Assessor is projecting real estate to **decline 3%** in FY 2013-14, **decline 1%** in FY 2014-15, **<u>no change</u>** in FY 2015-16, increase **1%** in FY 2016-17 and **increase 2%** in FY 2017-18. This projection of real estate is better than what was estimated in the Five Year Forecast presented to City leaders last November. Below is a table that displays last year's projection to this year's forecast projection:

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Last Year's Projection	-5.5%*	-3.0%	-3.0%	0.0%	1.0%	--
This Year's Projection	--	-3.0%	-1.0%	0.0%	1.0%	2.0%

* At the time of budget adoption, this was only a 3.7% decrease in assessments

This year's Five Year Forecast assumes smaller decreases and more growth in real estate revenue compared to last year's Five Year Forecast. Real estate revenues are projected to decrease significantly the first couple of years of the forecast before increasing the last two years of the forecasted period. By FY 2017-18, real estate revenues are estimated to be $2.5

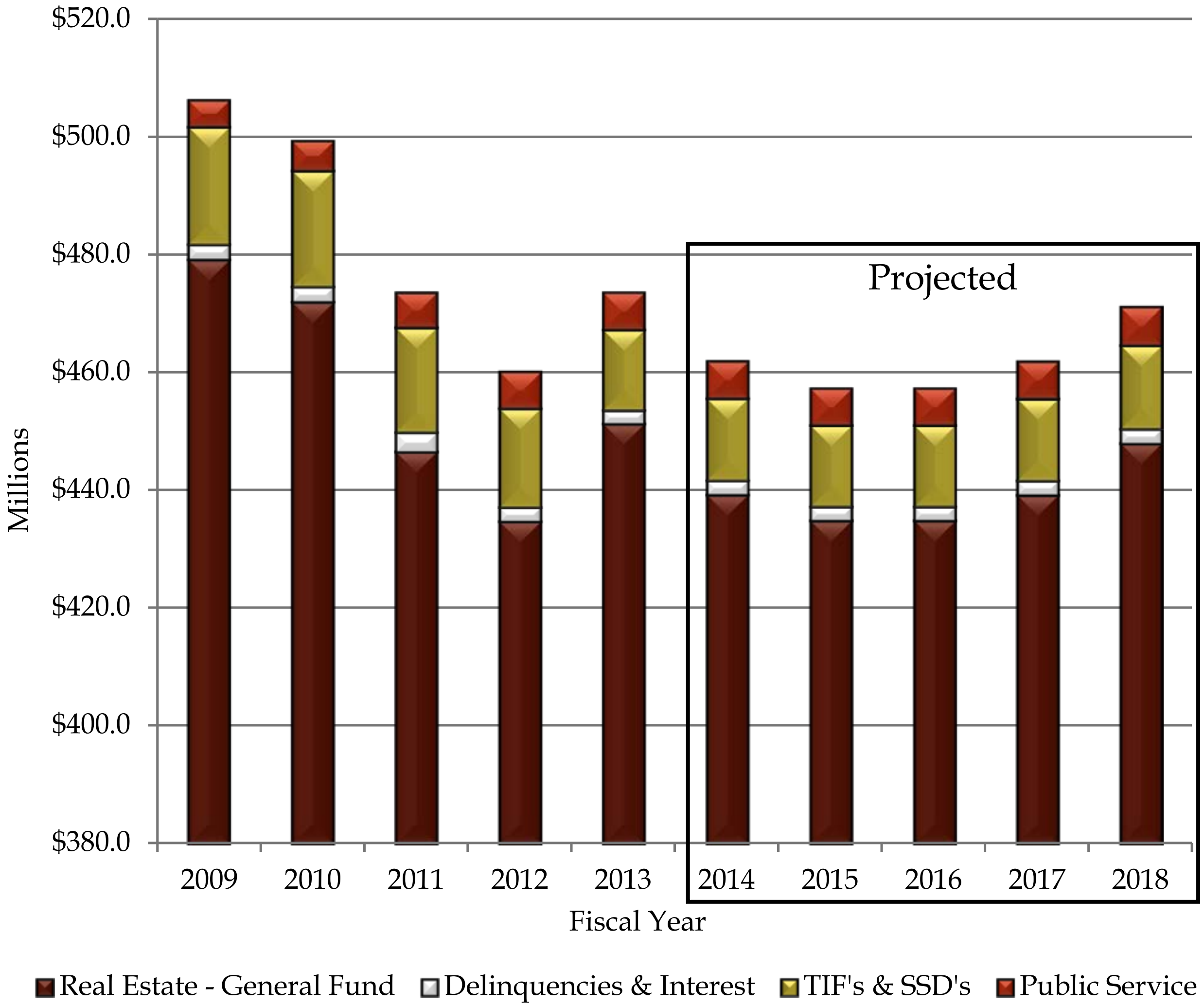
million less than the amount adopted in the FY 2012-13 Operating Budget. This is a significant improvement compared to last year's Five Year Forecast that anticipated a loss of $44.2 million in real estate revenue over a five year period. Several elements contribute to this improvement including, City Council increasing the tax rate to .95 cents and real estate assessments decreasing less than anticipated in FY 2012-13 (3.7%).

Although real estate revenues look bleak over the next five years, upward trends in consumer spending indicate increases in other tax revenues. Several revenues are anticipated to return to and, in several cases exceed, their FY 2008-09 levels during the forecast period. Anticipated growth in these revenues significantly improves the financial forecast for the City over the next five years compared to what was estimated a year ago. Below is a table displaying the overall net change in revenues between each year of the forecast period.

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Net Change in Millions	$ (13.8)	$ 2.8	$ 14.9	$ 25.6	$ 21.4

The following pages will briefly touch on each source of revenue; discuss their trend, and some of the factors impacting their projected trend over the next five years.

Real Estate Tax Revenue



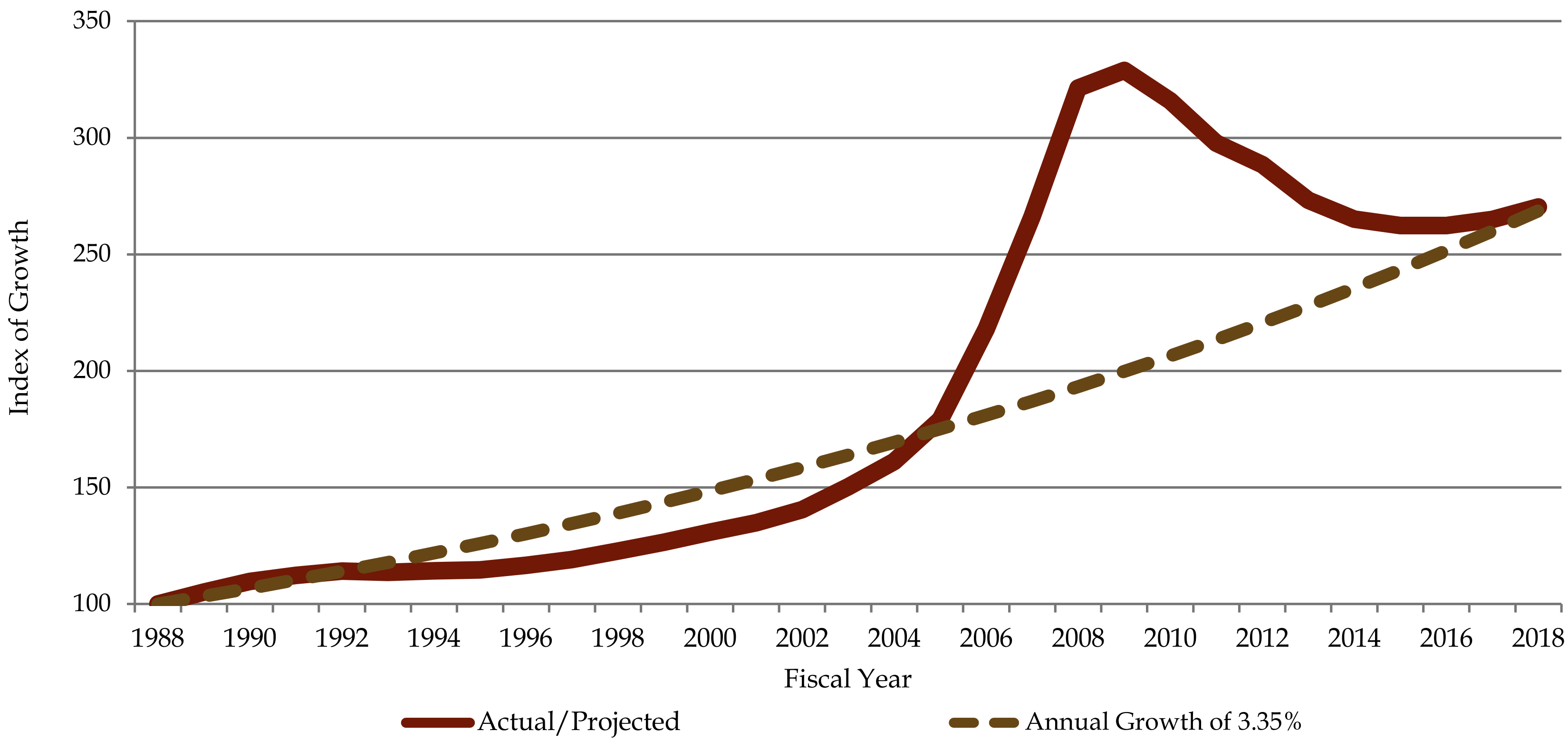
While real estate assessments are expected to decline the first two years of the forecast, revenue is expected to increase the final two years as assessments are projected to grow by 1% and then 2% in FY 2017-18. In FY 2012-13, City Council adopted a six cent increase in the real estate tax rate in order to provide funding for Schools, transportation, and line of duty pay. As this graph illustrates, despite the six cent increase in the rate, the amount of revenue projected in FY 2013-14 is only slightly higher than the revenue generated in FY 2011-12. In FY 2014-15, real estate revenue is expected to decline below the FY 2011-12 collections. These projections are based on assessment projections provided by the City Assessor's Office along with collection data and State assessment trends for public service real estate.

Source: Department of Management Services and the City Real Estate Assessor's Office

Actual and Projected Real Estate Appreciation/Depreciation

Versus 3.35% Annual Growth

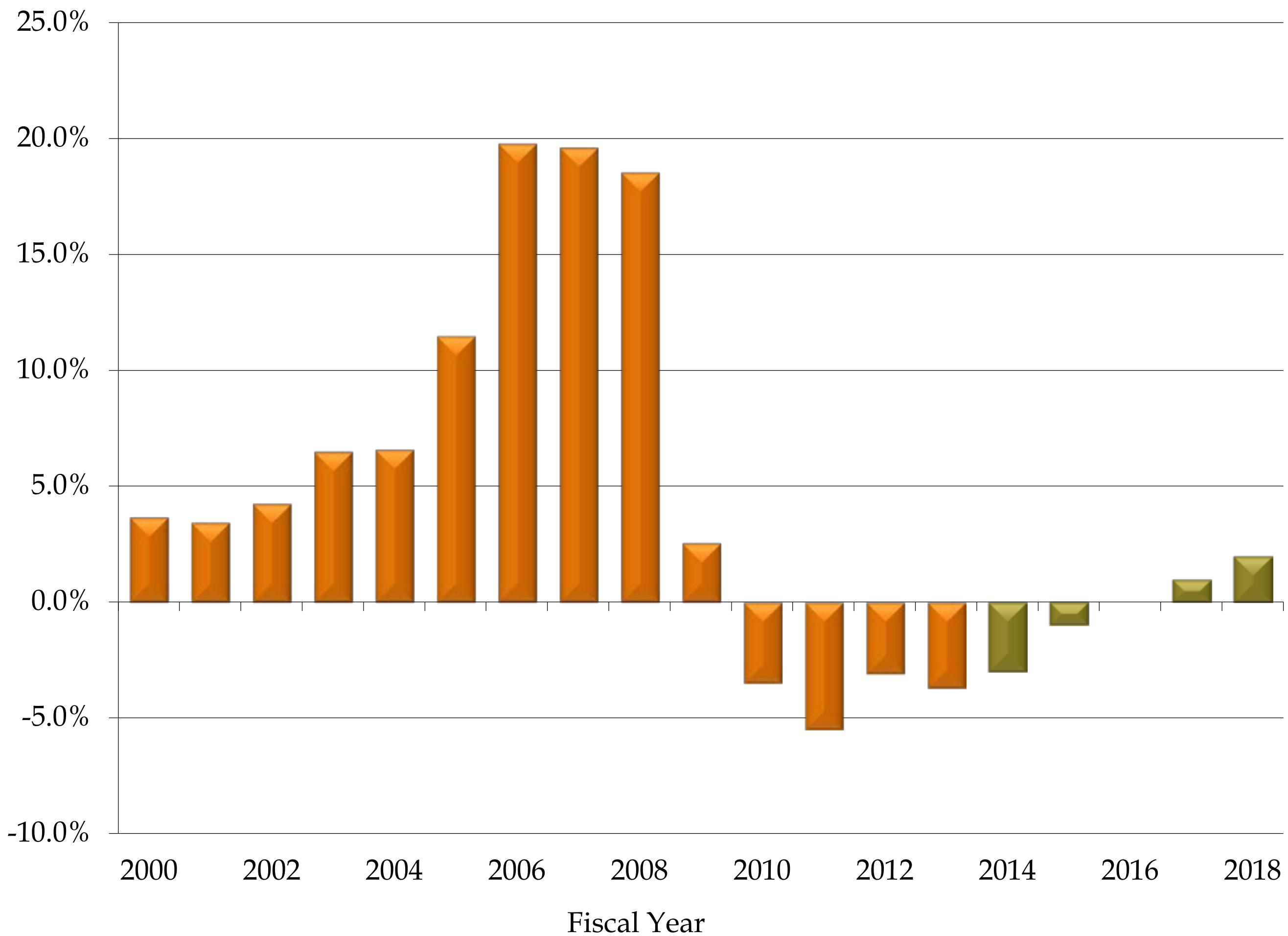
Research by Robert Shiller, a noted economics expert on real estate from Yale University, indicates that 3.35% represents the long-term average for real estate appreciation. By plotting this 3.35% growth rate against actual observed appreciation/depreciation, it illustrates that from 1991 through 2004 real estate values underperformed the trends. Beginning in 2005, real estate values exceeded the long-term average growth rate but appear to be moving back toward the trend in the latter years of the forecast that Shiller describes.



Source: Department of Management Services

Change in Total Assessed Value

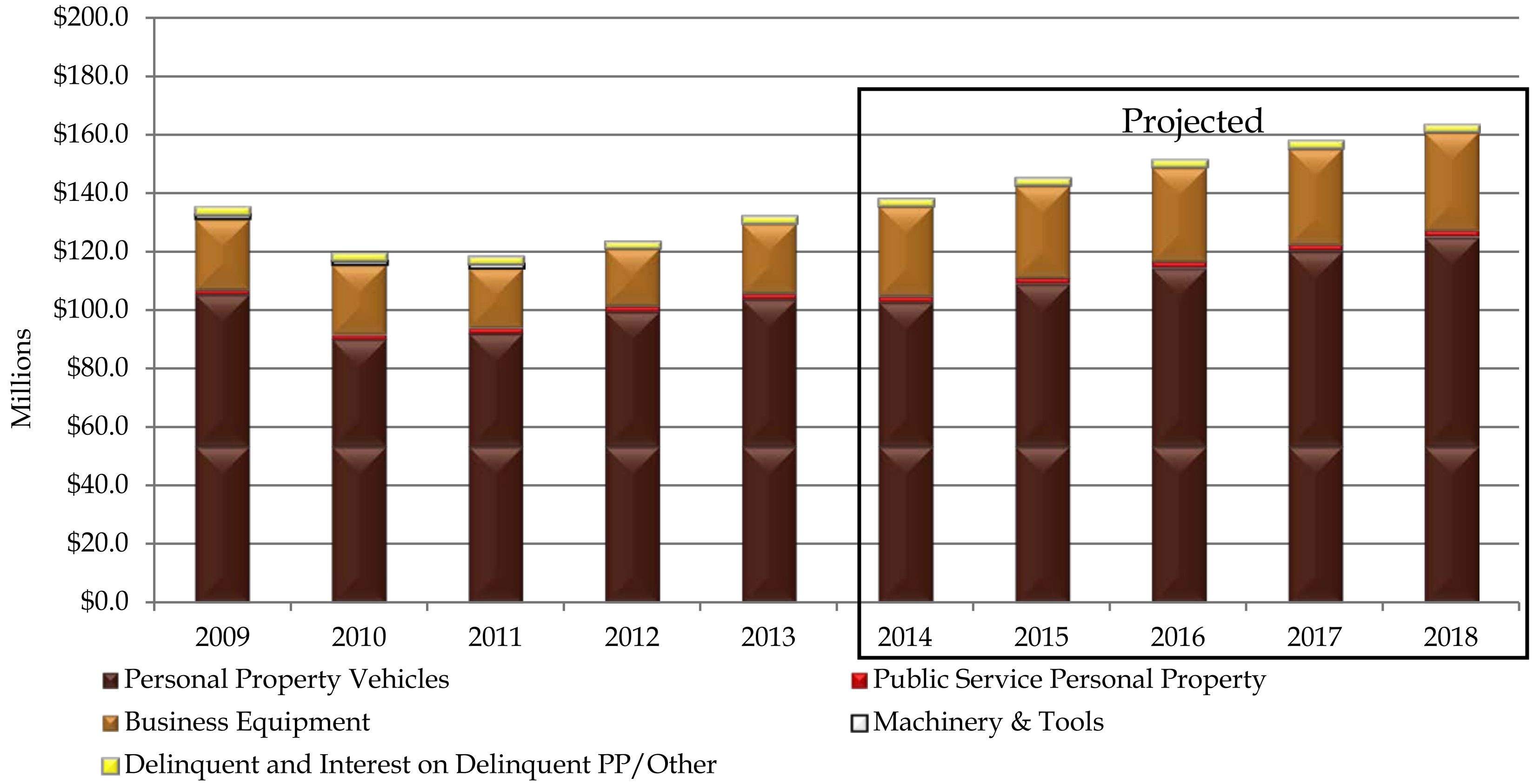
As this graph illustrates, real estate assessment increased dramatically in the mid and late 2000's. However, assessments declined 15.8% from FY 2009-10 to FY 2012-13 and are anticipated to decline another 4% over the next two years before bottoming out in FY 2015-16 then increasing the last two years of the forecast.



Source: Real Estate Assessor's Office

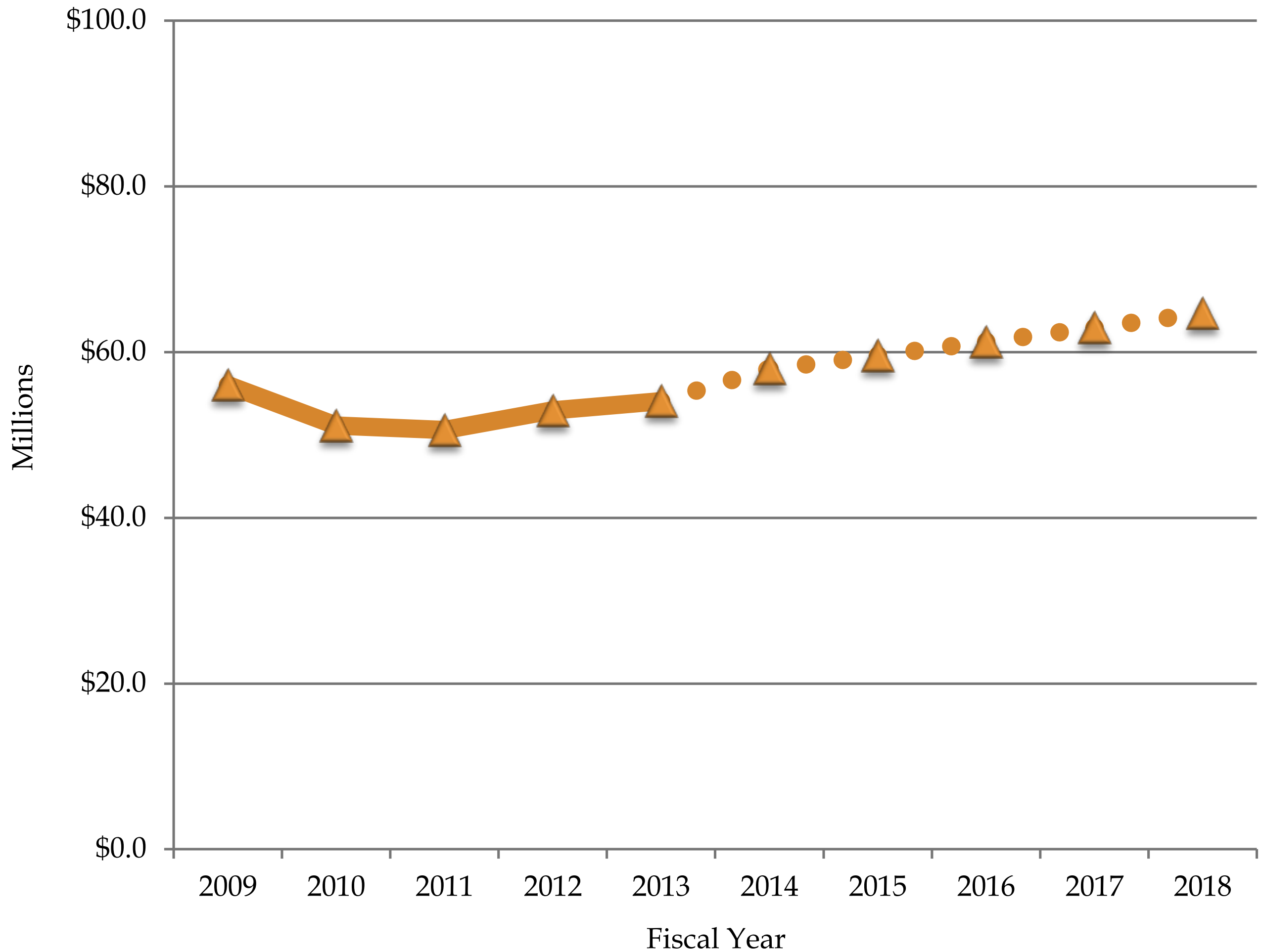
Personal Property Tax Revenue

Personal property tax revenue consists of several components. The three largest components are personal property taxes associated with vehicles, business equipment and personal property paid by the Commonwealth. Combined personal property is anticipated to grow by around 4% each year of the forecast.



Source: Commissioner of the Revenue and Managment Services

General Sales Tax

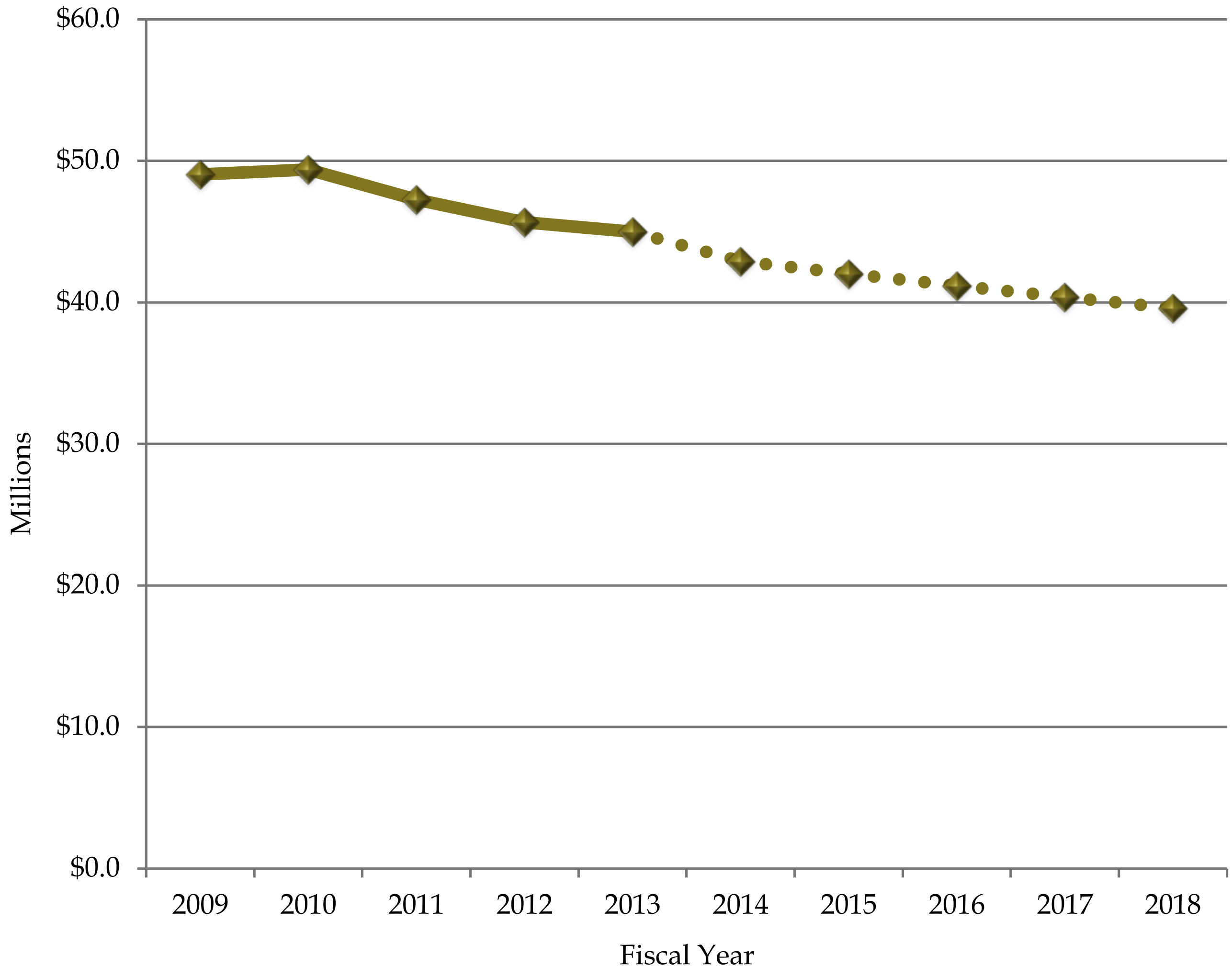


Source: Department of Management Services

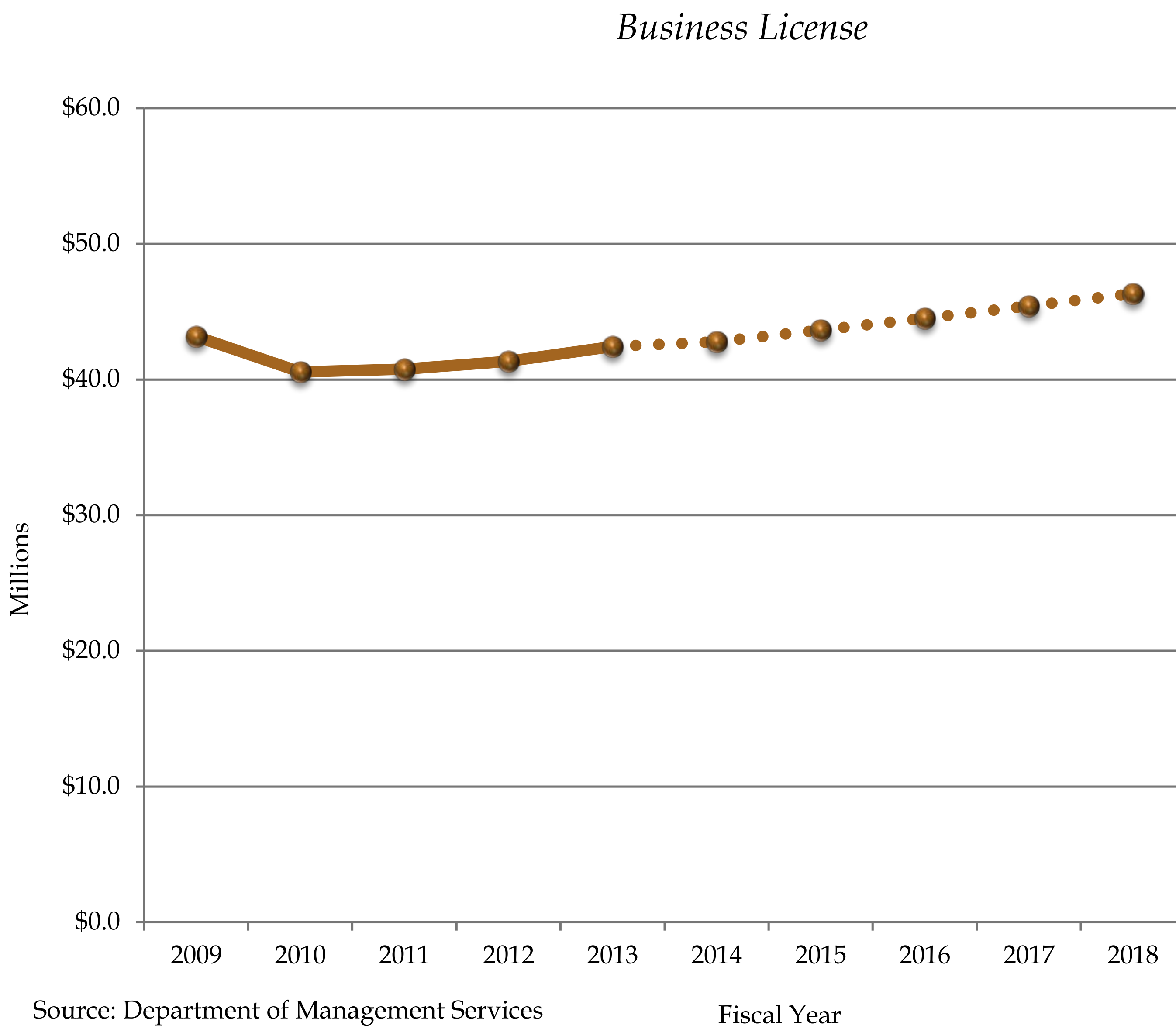
Based on revenues collected and the steady level of national consumer spending. General Sales tax is forecasted to grow over the forecasted period. Currently this revenue is on pace to exceed the amount budgeted for in FY 2012-13. Comparing budget to budget General Sales tax revenue is estimated to grow by 7% in FY 2013-14 and at a yearly rate of 3% throughout the remainder of the forecast.

Utility tax consists of water taxes, electric and gas utility tax, electric/gas consumption tax, and the Virginia Telecommunications tax. Three of these revenue sources are anticipated to grow slightly over the forecasted period; however, telecommunications tax, the largest of the four, is anticipated to decline at a rate of 8% in FY 2013-14 and decline at an annual rate of 5% over the forecasted period. Utility taxes in total are anticipated to decline at an average rate of 2% per year. Reasons for this decline in telecommunications tax include the decreasing number of households that have both a landline and a cell phone along with large exonerations of the tax by the State.

Utility Taxes



Source: Department of Management Services and the Virginia Department of Taxation

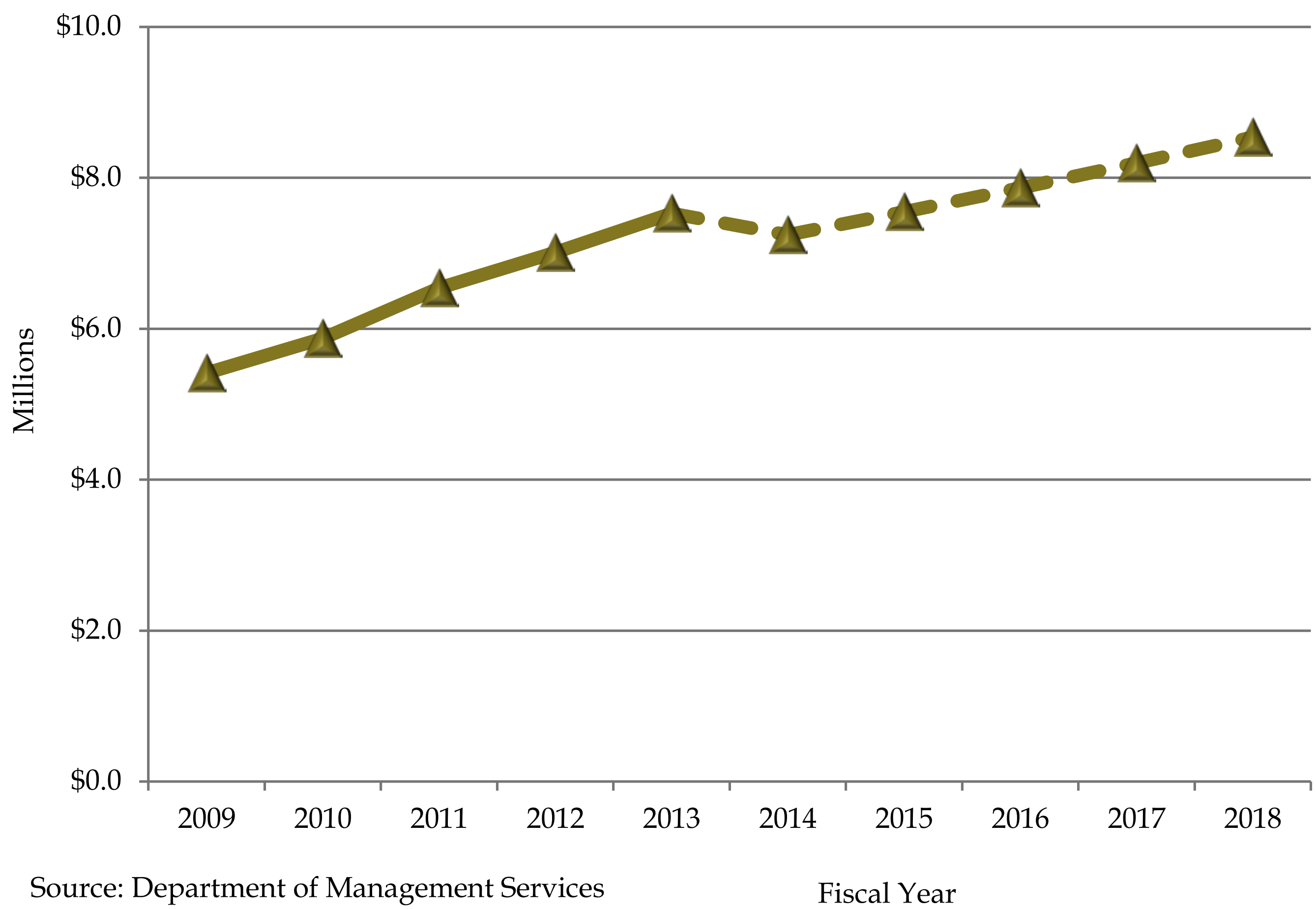


Source: Department of Management Services

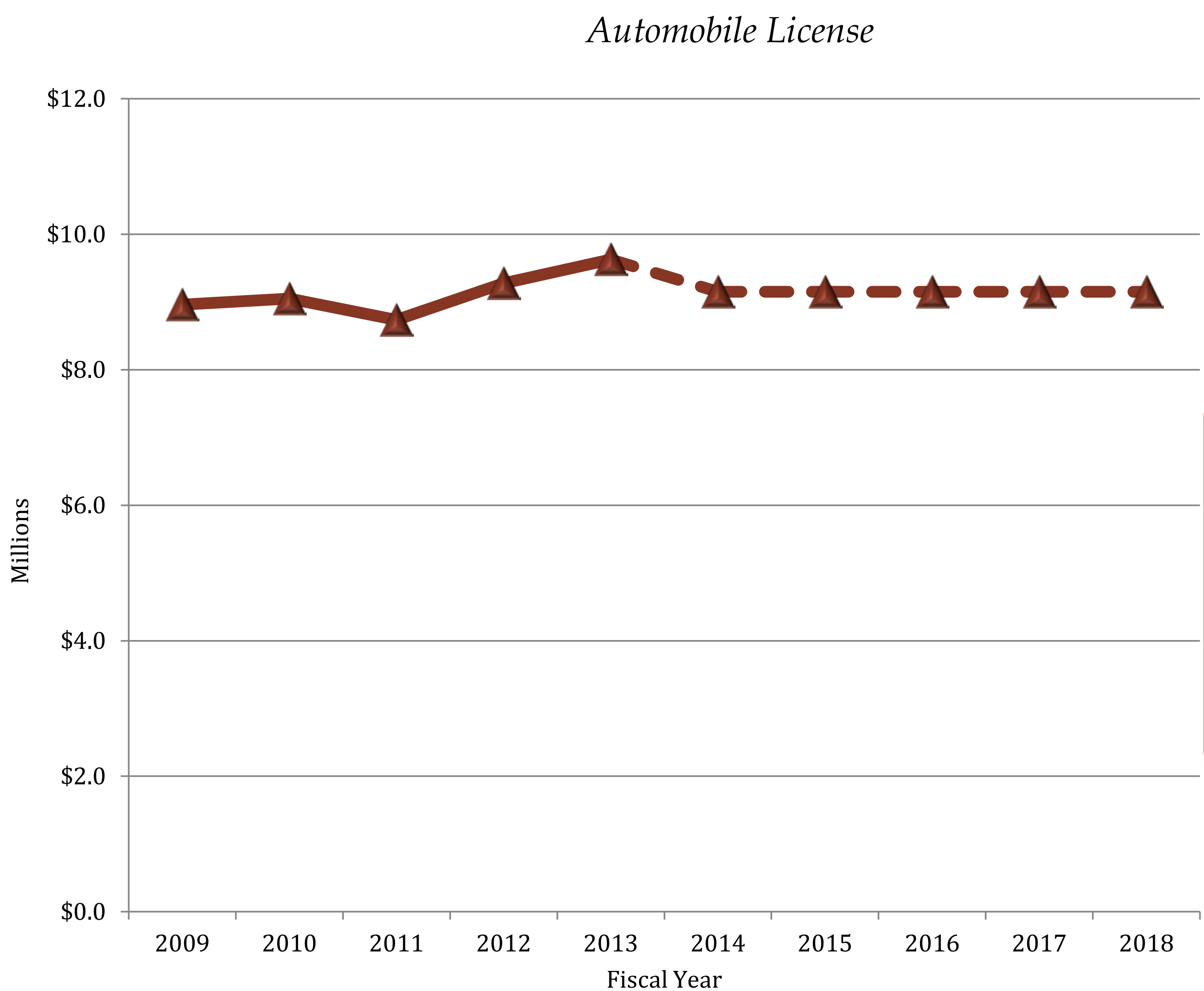
Business License revenue has proven difficult to predict over the last few years. Actual revenue realized has been higher than budgeted revenues. Following this trend, Business, Professional and Occupational License (BPOL) tax revenue has been estimated 1% higher in FY 2013-14 and increases at an average of 2% each year over the remainder of the forecast.

During the recession, Cable Franchise tax grew at a rate greater than 7% per year. Over the forecasted period, the growth in this revenue is anticipated to slightly slow down. After the initial decline of 4% in FY 2013-14, Cable Franchise tax revenue is anticipated to increase annually by 4% the remainder of the forecast.

Cable Franchise Tax



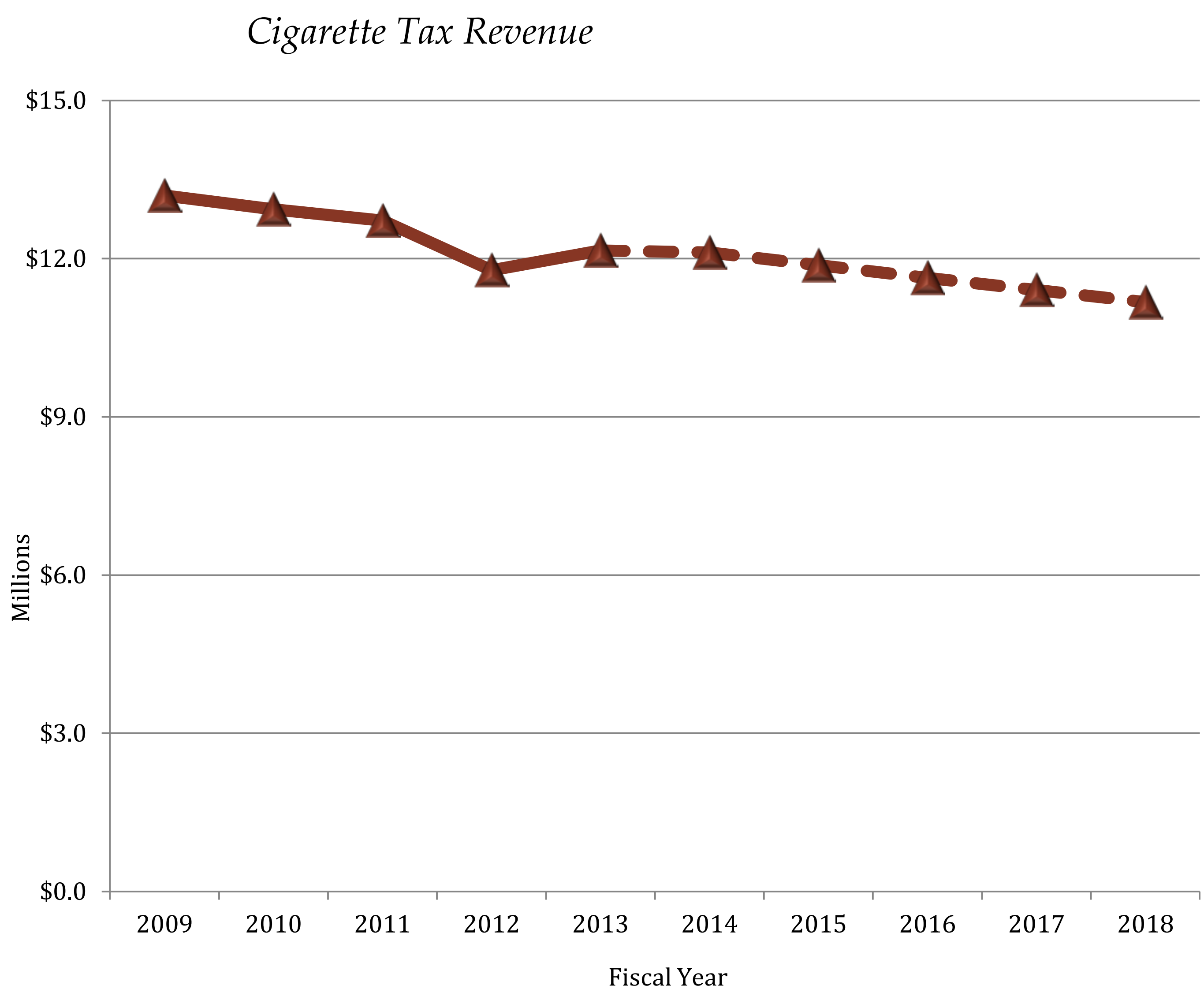
Source: Department of Management Services



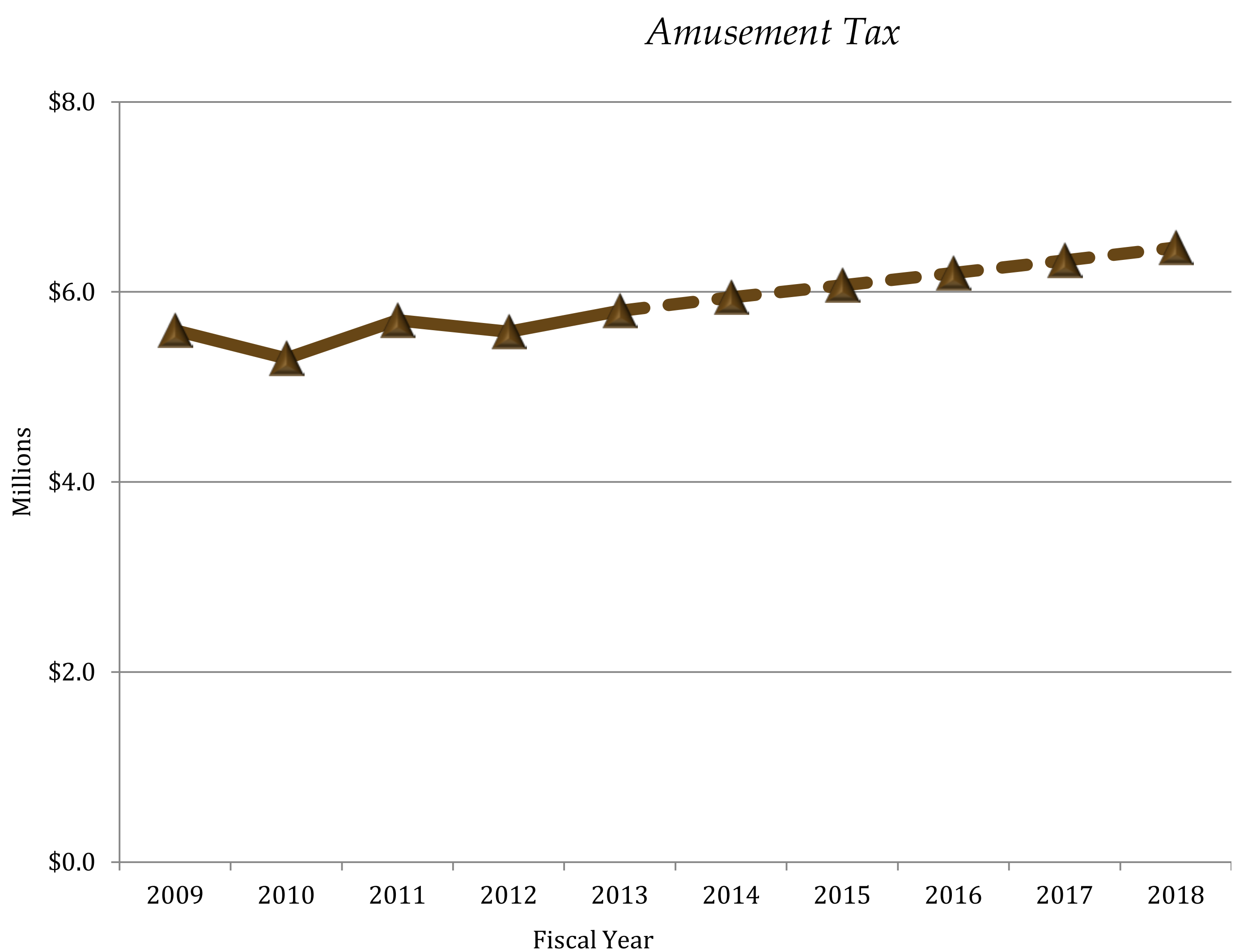
Automobile license revenue is anticipated to decrease 5% in FY 2013-14 and remain flat for the remainder of the forecasted period. The reason for the decrease is an adjustment for actual collections in FY 2011-12, causing the need to adjust estimated revenue.

Source: Department of Management Services

Cigarette Tax revenue continues to decline. Factors such as cigarette tax increases, restaurant smoking bans, and increased awareness of smoking health risks have fewer people smoking. Cigarette tax revenue is anticipated to decrease by less than 1% in FY 2013-14 and then decline by an annual rate of 2% throughout the remaining years of the forecast.



Source: Department of Management Services

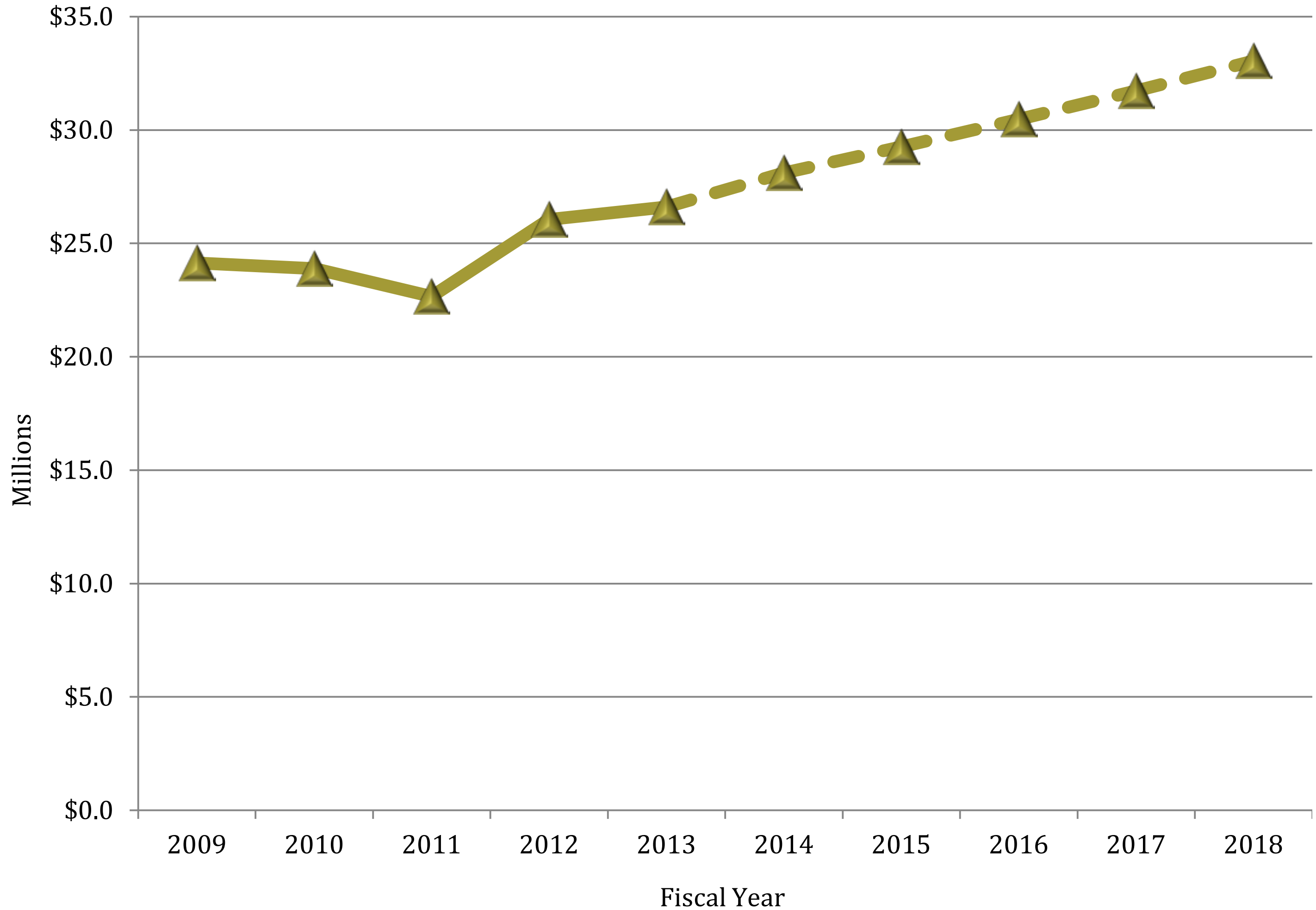


Amusement tax revenue has grown moderately over the last few years. Amusement tax revenue is projected to grow by 2% per year throughout the forecast period. This revenue is wholly dedicated to tourism and related projects and services.

Source: Department of Management Services

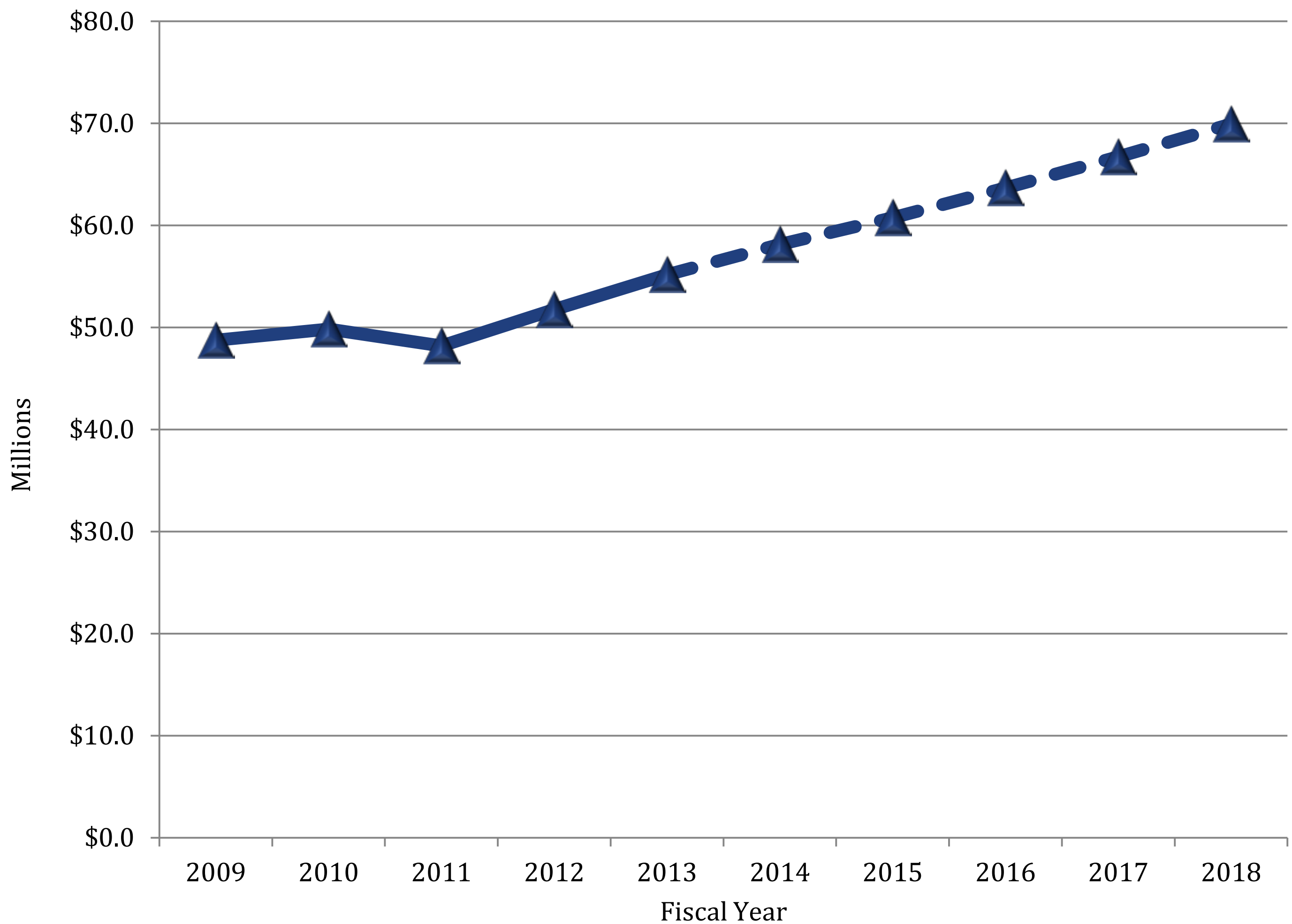
After declining during the recession, Hotel Occupancy tax revenue has started to rebound. Hotel occupancy tax is expected to increase by 6% in FY 2013-14 and then grow annually by 4% throughout the remainder of the forecast period.

Hotel Occupancy Tax



Source: Department of Management Services

Restaurant Tax



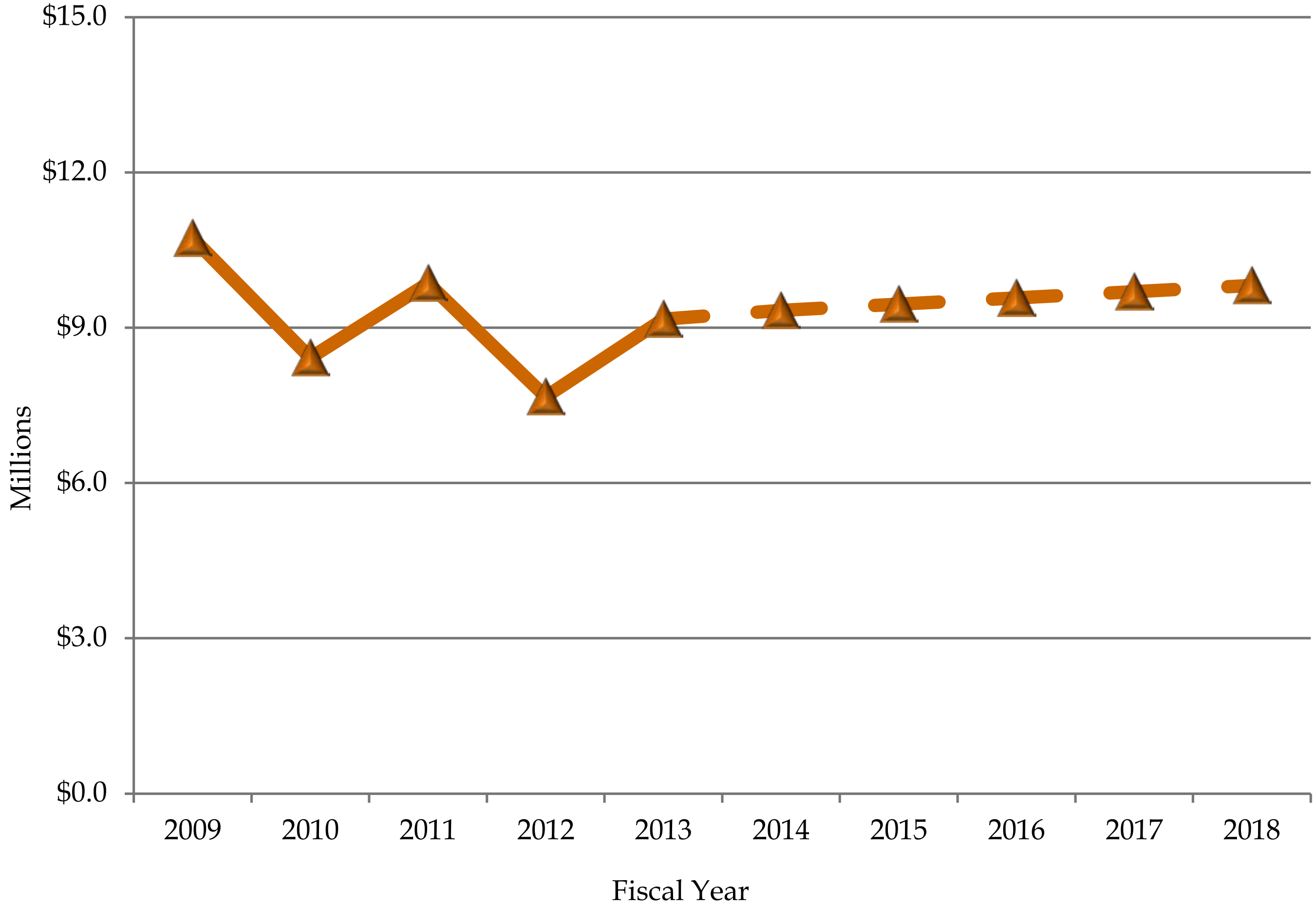
Restaurant tax revenue remained steady throughout the recession. Since FY 2010-11, restaurant tax revenue has increased 7% each fiscal year. Following this growth trend, restaurant tax revenue is anticipated to grow by an average of 5% throughout the forecasted period.

Source: Department of Management Services

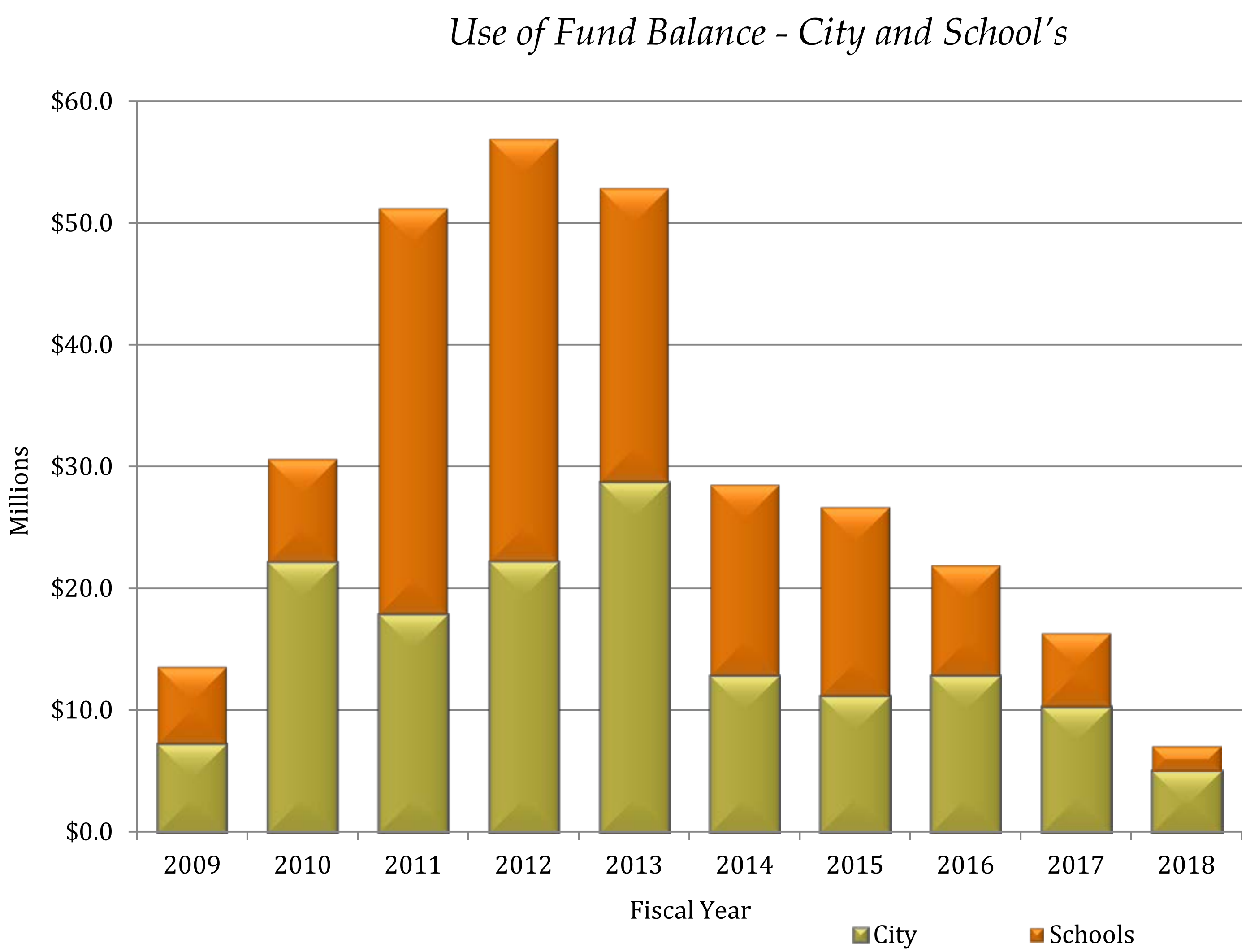
Other Taxes

(Tax on Deeds, Tax on Wills and Bank Net Capital)

Other tax revenues consist of Tax on Deeds, Tax on Wills and Bank Net Capital. These revenues have been difficult to estimate in previous years. Over the forecasted period, these revenues are conservatively estimated to grow annually at 1%.



Source: Department of Management Services



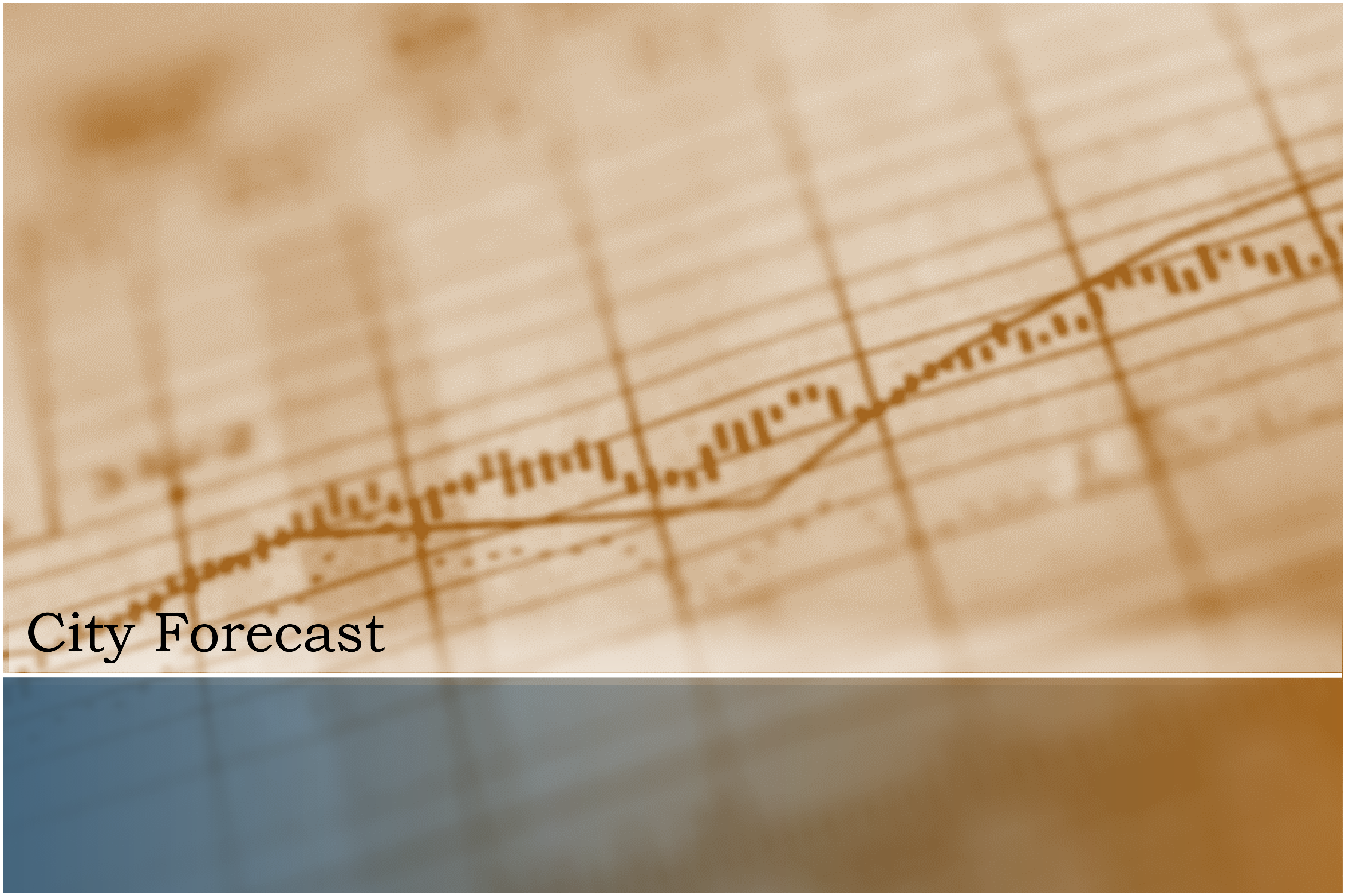
In FY 2008-09, the City and Schools use of fund balance totaled less than 1% of the total operating budget. City and Schools have both relied heavily on the use of fund balance in recent years. The FY 2011-12 operating budget included the use of nearly $57 million or four times the amount of fund balance used in FY 2008-09. The forecast assumes the gradual reduction in the use of fund balance by both the City and School's as real estate tax is projected to rebound in the out years of the forecast.

Source: Department of Management Services

Revenue Summary Table

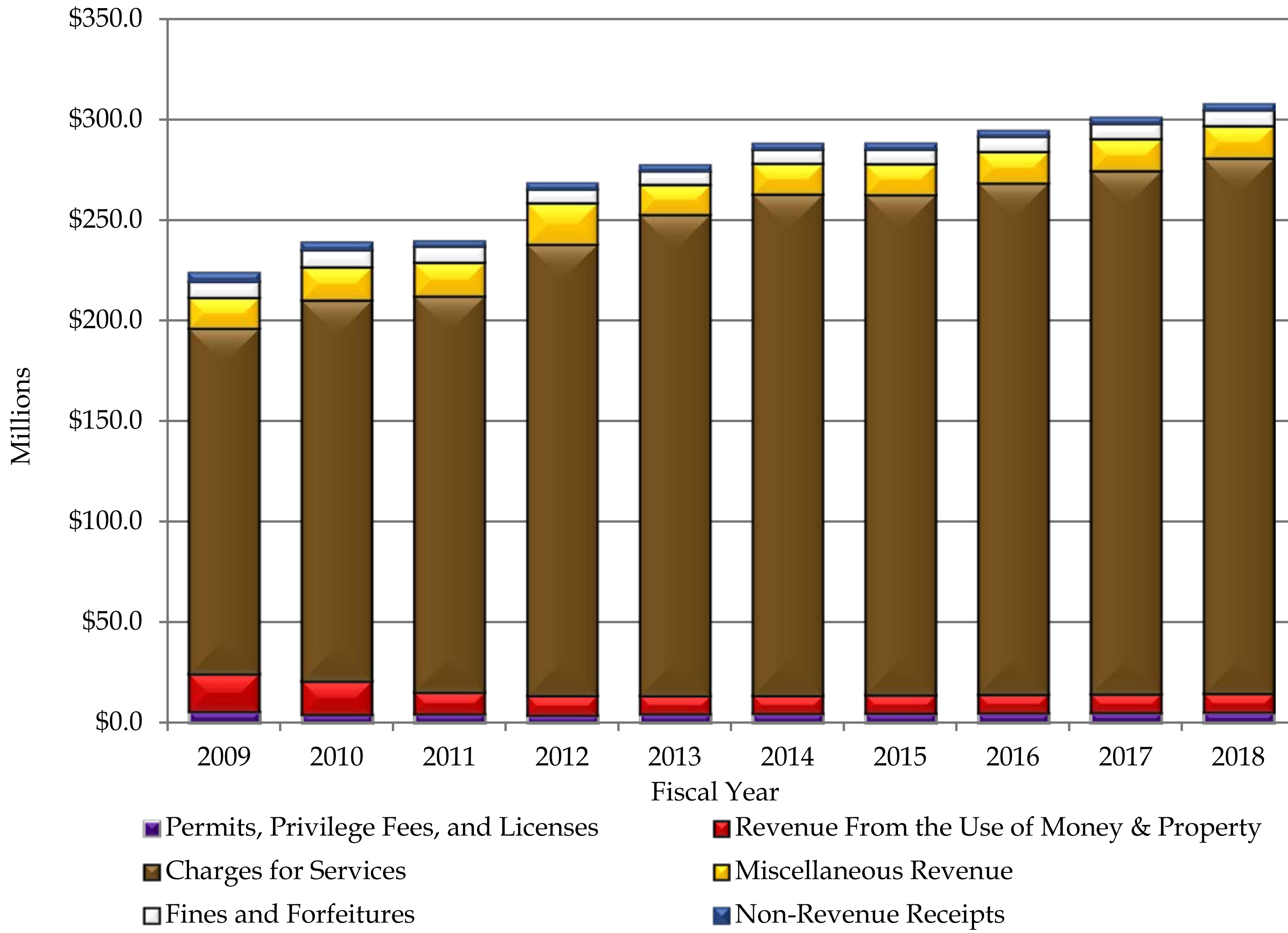
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Real Estate	474,312,812	462,146,656	457,972,275	457,972,275	462,526,118	471,724,878
Personal Property Tax	132,412,895	138,327,181	145,235,168	151,438,359	157,930,838	163,523,165
General Sales Tax	54,098,252	57,987,462	59,593,715	61,244,461	62,940,932	64,684,396
Utility Tax	44,979,473	42,898,636	42,009,902	41,165,606	40,363,524	39,601,546
Business License	42,423,932	42,791,543	43,647,374	44,520,321	45,410,728	46,318,942
Cable Franchise*	7,527,233	7,243,599	7,547,830	7,864,839	8,195,162	8,539,359
Automobile	9,627,435	9,150,843	9,150,843	9,150,843	9,150,843	9,150,843
Cigarette	12,153,510	12,117,050	11,874,708	11,637,214	11,404,470	11,176,381
Amusement	5,800,563	5,941,774	6,068,759	6,198,530	6,331,147	6,466,675
Hotel	26,608,521	28,104,282	29,259,085	30,464,749	31,723,539	33,037,826
Restaurant	55,155,356	58,140,927	60,749,619	63,668,455	66,728,277	69,935,910
Other Taxes	9,163,323	9,334,383	9,452,923	9,573,135	9,695,033	9,818,646
Fees & Other Local Revenues	277,512,835	288,164,968	288,305,907	294,634,661	301,122,766	307,786,948
State and Federal	442,109,756	440,362,295	436,993,774	439,227,426	446,396,811	448,794,374
Federal	120,604,286	122,249,358	121,751,999	120,614,881	120,687,068	120,737,962
Fund Balance	52,903,829	28,568,349	26,722,030	21,944,178	16,387,600	7,123,658
Total	**1,767,394,011**	**1,753,529,305**	**1,756,335,910**	**1,771,319,932**	**1,796,994,855**	**1,818,421,508**

* Cable Franchise is rolled up within Other Taxes in expenditure to revenue spreadsheet



City Forecast

Fees and Local Revenues – City

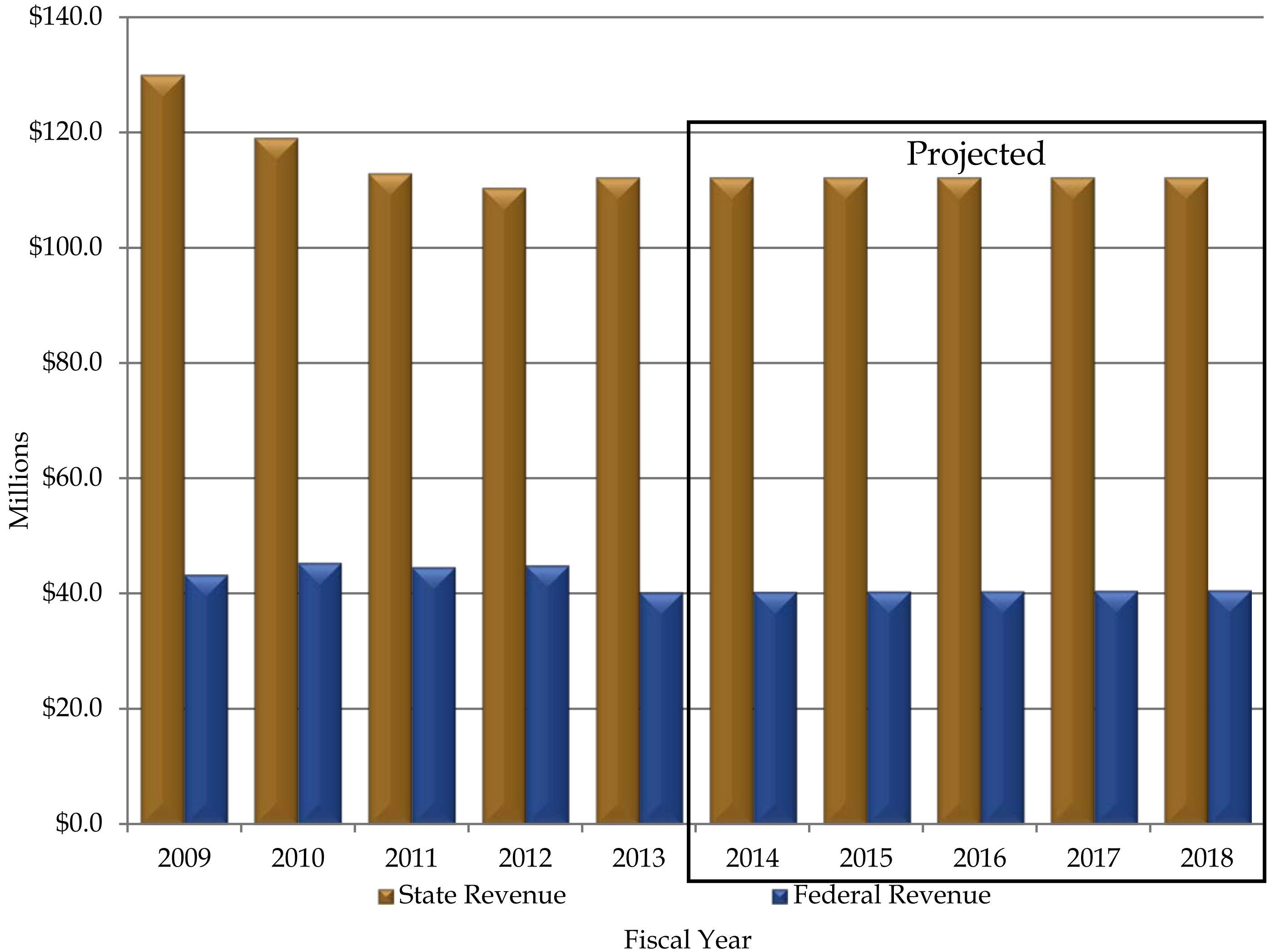


Fees and Other Local Revenues consist of various revenue sources specific to different departments and funds. The largest of these revenues are the Charges for Services including utilities and solid waste collection fees. Included in the forecast are approved rate increases for storm water and utility sewer rate increases.

Source: Department of Management Services

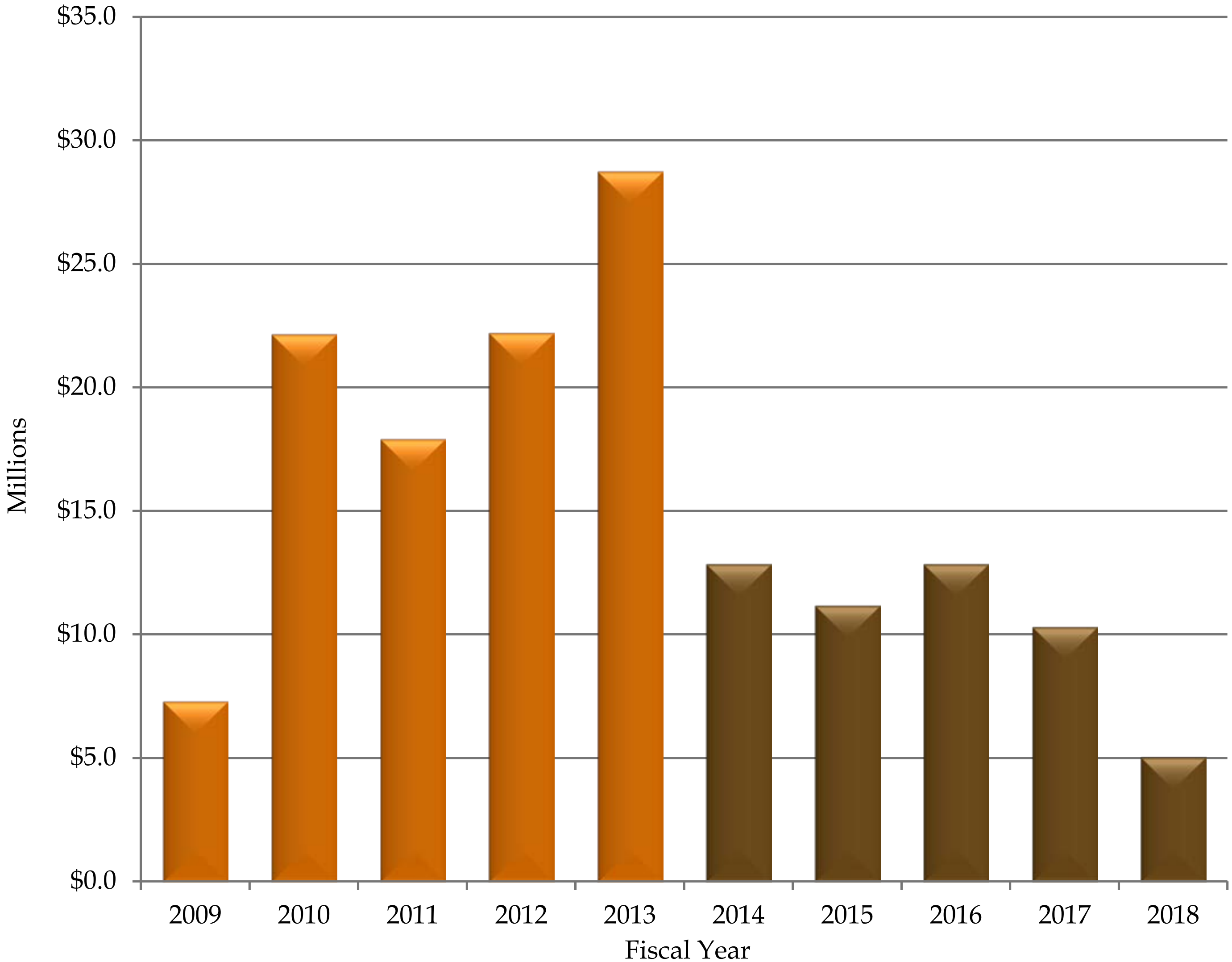
As previously discussed, sequestration remains a significant threat to the City of Virginia Beach and the Hampton Roads region. The uncertainty of sequestration and funding impacts has resulted in Federal and State revenues remaining flat over the forecasted period.

State and Federal Revenue – City



Source: Department of Management Services

Fund Balance – City



Fund balance historically has been used in the Five Year Forecast to balance funds that have planned use of fund balance such as ARP, Sandbridge TIF, Town Center SSD, Town Center TIF, etc. Based on the trend over the last five years, fund balance is included as a strategy to lower the deficit in future. It is assumed that small amounts of General Fund Fund Balance will be used over the forecasted period and its use will gradually decline over time. General Fund Fund Balance usage is projected as:

FY 2013-14	$10 million
FY 2014-15	$7.5 million
FY 2015-16	$5.0 million
FY 2016-17	$2.5 million
FY 2017-18	$0

Source: Department of Management Services

City Expenditures

Expenditures	FY 2008-09	FY 2012-13	$ Change	% Change
Personal Services	$ 319,526,685	$ 322,910,857	$ 3,384,172	1%
Fringe Benefits	112,030,605	129,214,799	17,184,194	15%
Operating (includes reserves) *	309,060,310	311,071,437	2,011,127	1%
Pay-As-You-Go	56,078,423	45,655,285	(10,423,138)	-19%
Debt Service	100,050,282	111,025,013	10,974,731	11%
Total	**$ 896,746,305**	**$ 919,877,391**	**$23,131,086**	**3%**

* An accounting change occurred driving this number up by about $9 million. Prior to FY 2011-12 the budgeted SPSA payment was net of the revenue received. This expenditure is now fully grossed up resulting in a higher budgeted expense for SPSA services of which $9 million is offset by revenue. The FY 2008-09 number is adjusted to reflect this accounting change.

City Forecast

The FY 2012-13 City of Virginia Beach operating budget is about 3% higher than it was five years ago in FY 2008-09. The two largest cost increases over this time period are attributable to increased cost in fringe benefits and increases in debt service. Over the last five years, expenses related to fringe benefits have increased by $17.1 million. Fringe benefits are by far the largest driver of the City's operating budget and are primarily attributable to increases in the Virginia Retirement System (VRS) rate, life insurance rate and health insurance costs. Fringe benefit costs represented 35% of the total salaries in FY 2008-09 and grew to 40% in FY 2012-13.

Debt service increased over the last five years as City Council replaced CIP pay-as-you-go with debt financing options in the CIP. During the recession, pay-as-you-go was brought back to the City's operating budget to support services. The relationship between reduced pay-as-you-go and increased debt is almost one to one as reflected in the above table.

Five year forecast base line expenditures are not typically reduced nor are reductions to services ever assumed without direction from City Council. The Adopted Operating Budget and Adopted CIP are the guiding tools in developing the

Five Year Forecast. This creates a base line expense that typically only grows and compounds as other budget drivers are introduced into the operating budget.

City Expenditure Assumptions

	Fiscal Year				
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
VRS Mandated Pay Increase	1.0%	1.0%	1.0%	1.0%	0.0%
Other Pay Increase	0.0%	0.0%	0.0%	0.0%	0.0%
Mandated VRS Rate Change	-1.0%	-1.0%	-1.0%	-1.0%	0.0%
Other VRS Rate Change	0.0%	2.0%	0.0%	2.0%	0.0%
Health Insurance (percentage change)	5.2%	15.3%	12.4%	8.7%	10.1%
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%
Pay-As-You-Go (percentage change)*	45.0%	0.0%	15.0%	-3.0%	0.0%

* Increase related to change in pay-as-you-go usage as reflected in the adopted CIP and increased transportation funding from the dedication of two cents of the real estate tax. Over the past several years, pay-as-you-go has been reduced so that it could be used in the operating budget to preserve services.

In looking out five years, there are five key drivers of the City's operating budget.

- **Salary Increases** - The projected forecast assumes a 1% pay increase for full-time personnel for the first four years of the forecasted period. This pay increase is based on City Council's decision to phase in the transition of employees 5% contribution toward their retirement. This phased in approach will be fully implemented by the last year of the forecasted period.

- **Fringe Increases** - The projected forecast assumes increased cost in both health insurance and VRS payments.

    - **Health Insurance** - Costs are estimated to increase by 5.2% in FY 2013-14, 15.3% in FY 2014-15, 12.4% in FY 2015-16, 8.7% in FY 2016-17 and 10.1% in FY 2017-18.

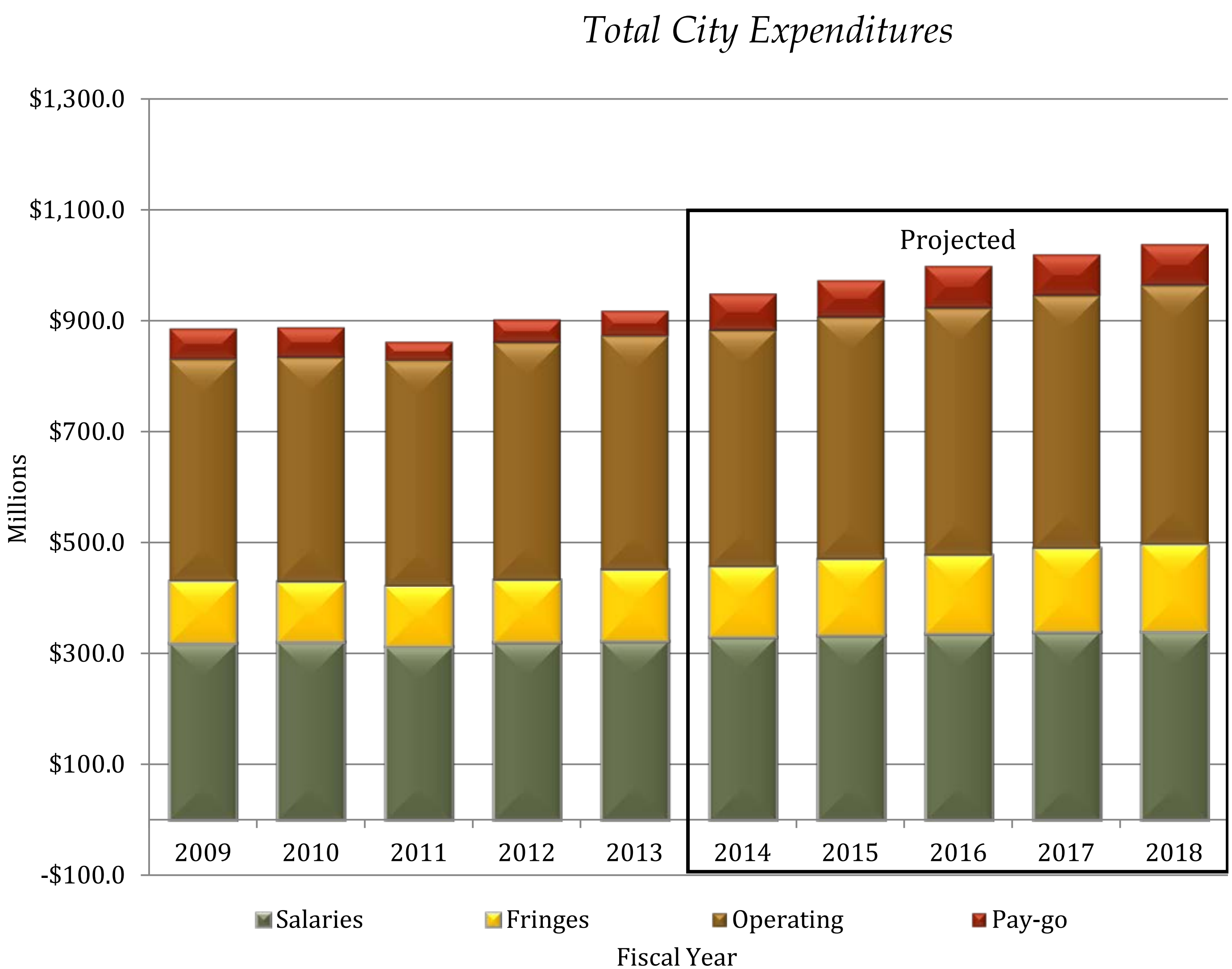
    - **VRS Changes** – The next five years are based on multiple assumptions, the primary one being the City's VRS contribution rate will annually decrease 1% for the first four years of the forecasted period until all employees contribute 5% annually to VRS. In addition, the City's VRS contribution rate is assumed to increase by 2% every two years throughout the forecast period. This 2% increase every two years is applied to both Plan I and Plan II employees.

- **SPSA** - The projected forecast assumes a decrease in the SPSA tipping fee reimbursement revenue. SPSA reimbursement revenue and refuse disposal revenues decline by 50% in FY 2014-15 and completely goes away in FY 2015-16. This represents an annual revenue loss of $11.4 million in the out years of the forecast. Ultimately the loss in this revenue increases the expense required to continue receiving SPSA services.

- **Debt/Pay-As-You-Go** - Debt service and pay-as-you-go are both anticipated to increase over the forecast. These increases are based on debt projections and scheduled pay-as-you-go contributions per the City of Virginia Beach Adopted CIP document. Pay-as-you-go is assumed to increase by the adopted CIP amount plus the additional amount of real estate tax dedicated to roadways by City Council. Debt projections include all debt types including utility, general obligation, public facility revenue bonds, etc.

- **Inflation** - The projected forecast assumes an annual inflation rate of 2% for all City operating expenses in line with projections with the urban inflation rate.

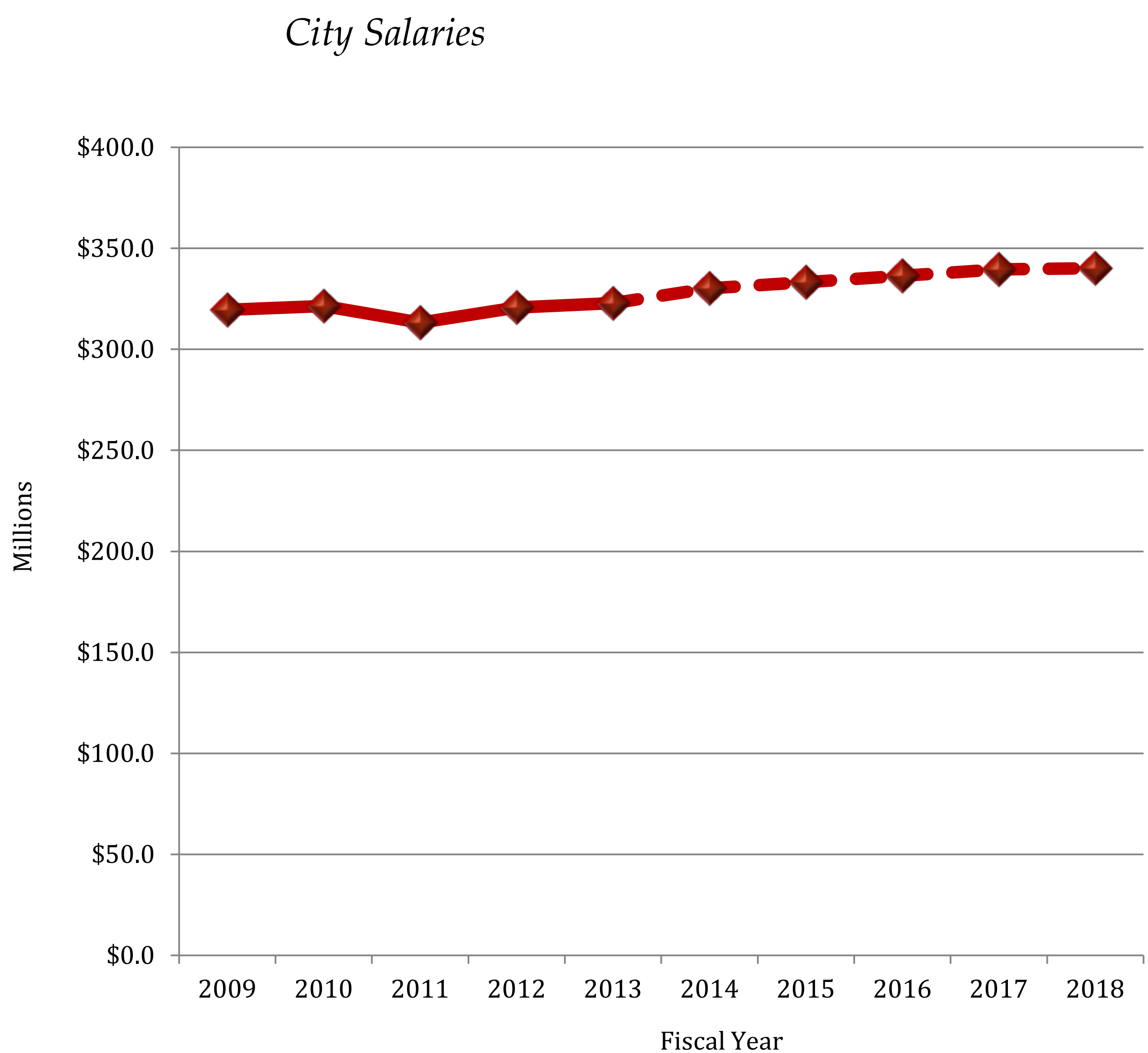
The following pages will briefly touch on each major driver and other operating expenditures for the City over the next five years.



Total City expenditures are anticipated to increase by 3% in FY 2013-14 then increase annually by an average of 2.3% the remainder of the forecasted period. The largest percent increases are attributable to fringe benefits and planned increases in pay-as-you-go funding.

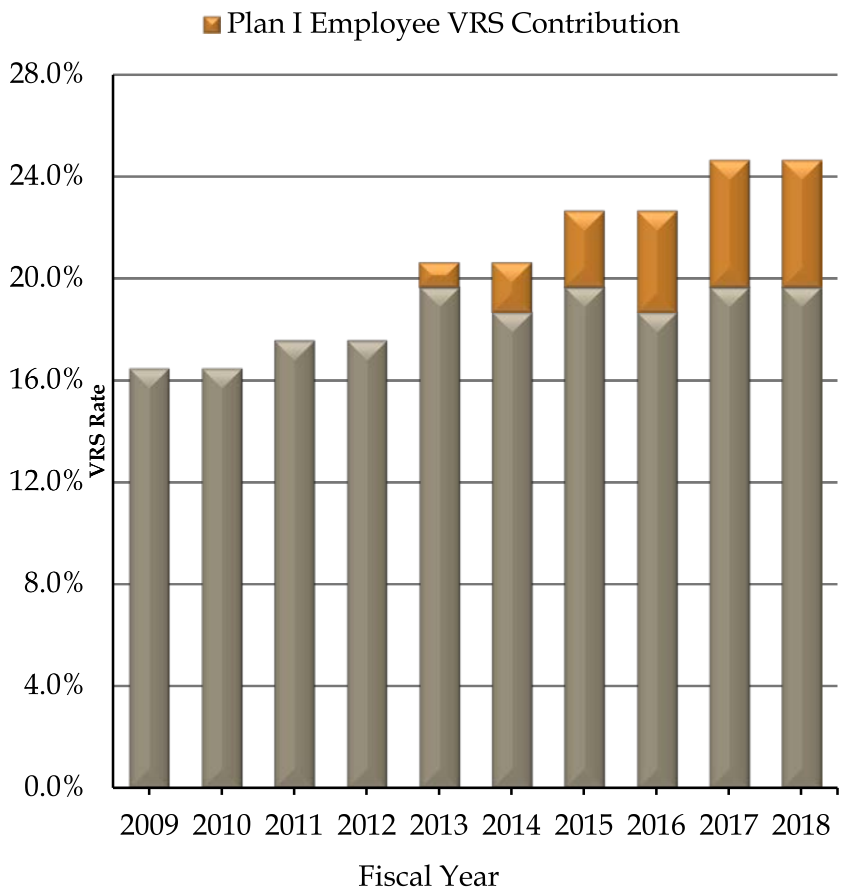
Source: Department of Management Services

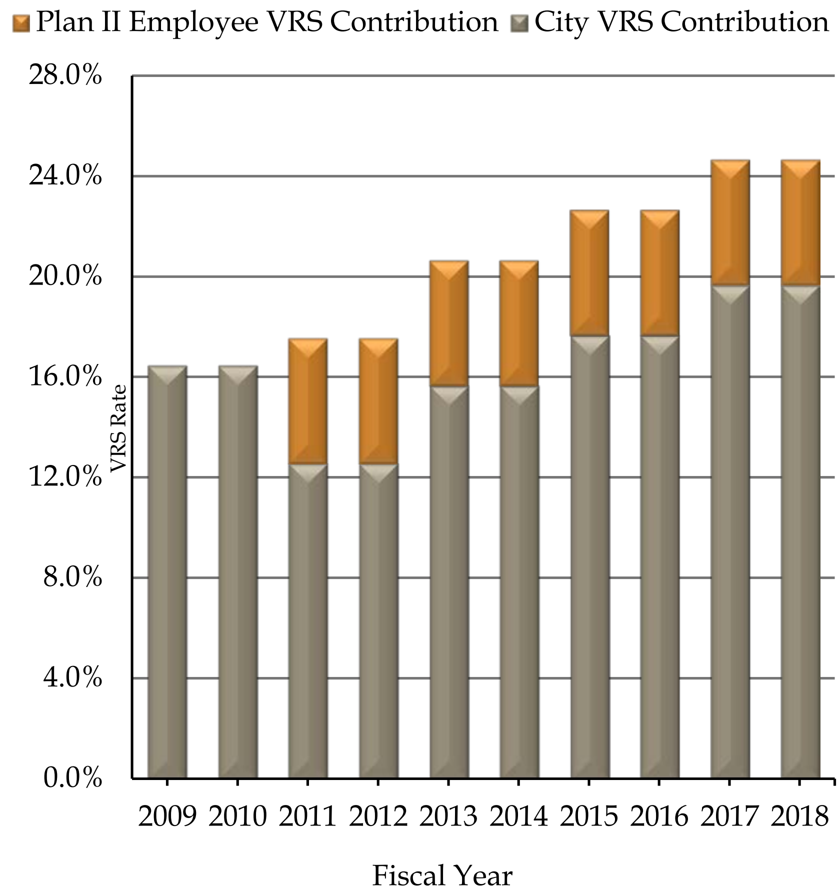
Salaries will increase by 1% each year through FY 2016-17 due to a State law requiring a salary increase to offset increased employee costs for retirement. The first salary increase was given in FY 2012-13. Over the five year span, this will shift 5% of retirement costs from the City to the employee. Other than this State mandated increase, there are no other salary increases included in the forecast.



Source: Department of Management Services

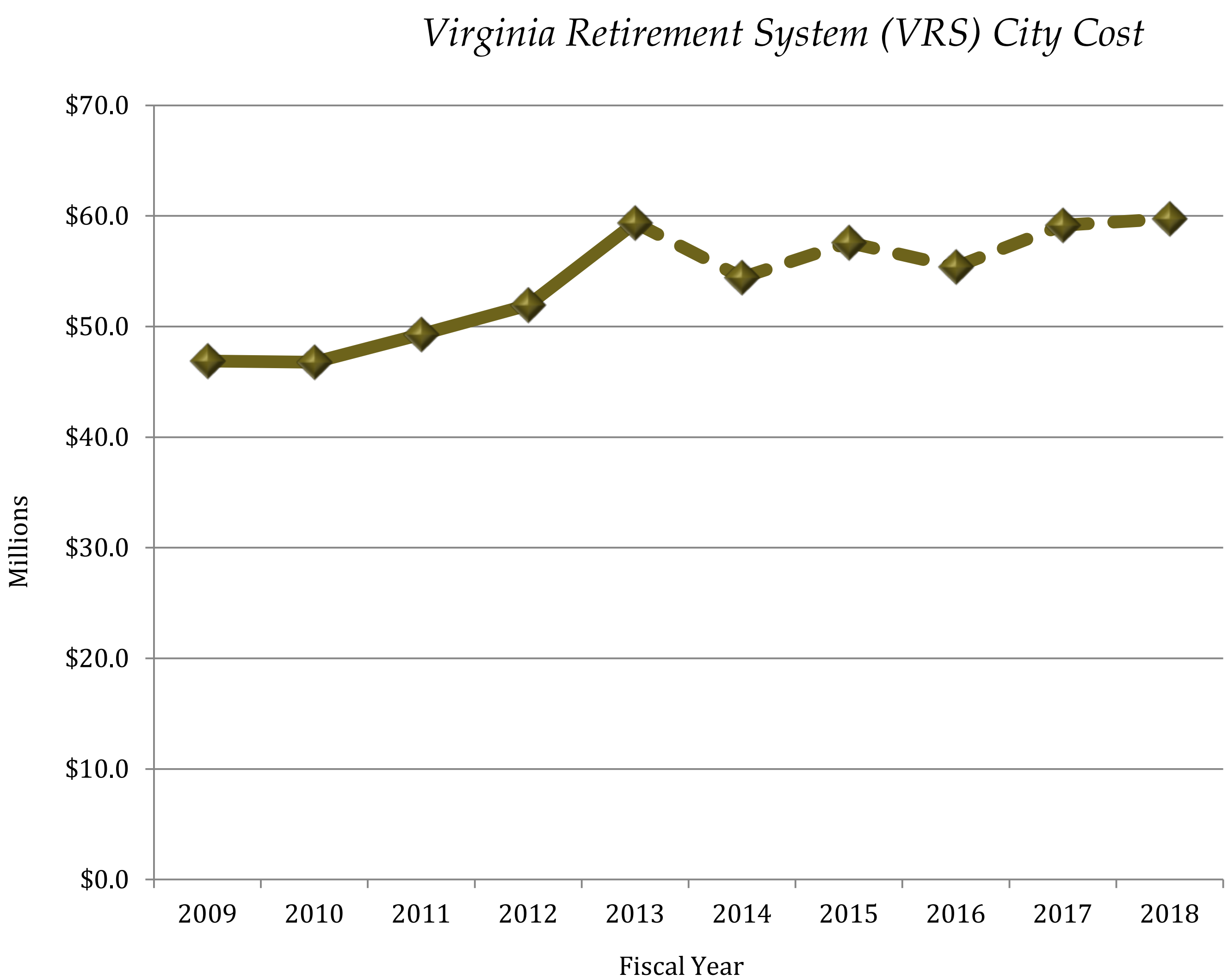
Virginia Retirement System (VRS) Contribution Rate





Plan I employees were hired prior to July 2010 and paying into their VRS through the phased in approach of 1% per year.

Plan II employees are employees hired after July 2010 with no prior VRS and paying 5% into their VRS.

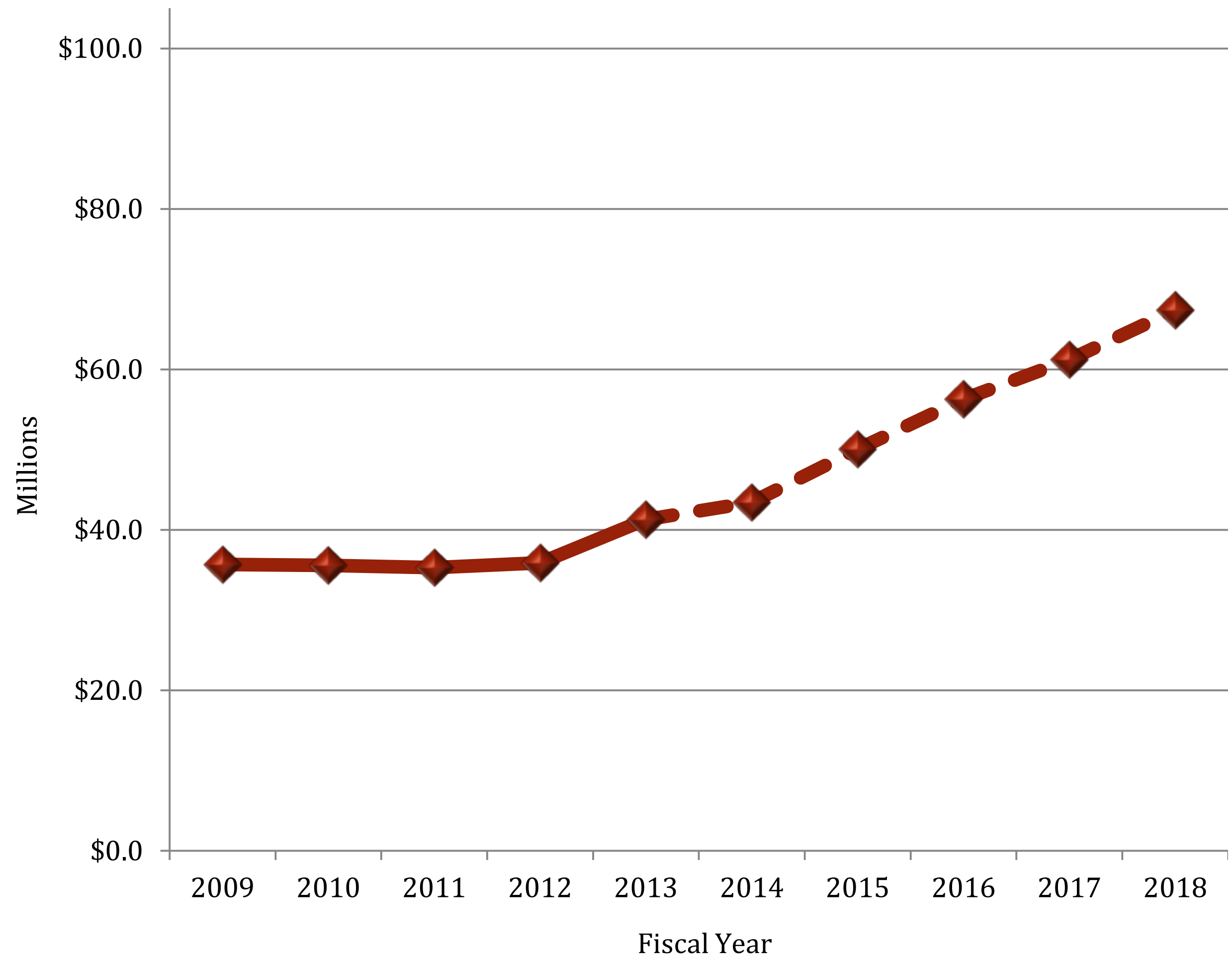


The City's contribution to VRS increased significantly over the last few years. As some of this cost responsibility is shared with employees, a decrease in City expenditures will be seen over the next five years; however, assumed increases in the VRS rate ultimately consume these cost savings. The City's projected VRS cost the last year of the forecasted period is anticipated to be slightly more than the FY 2012-13 budgeted amount.

Source: Department of Management Services

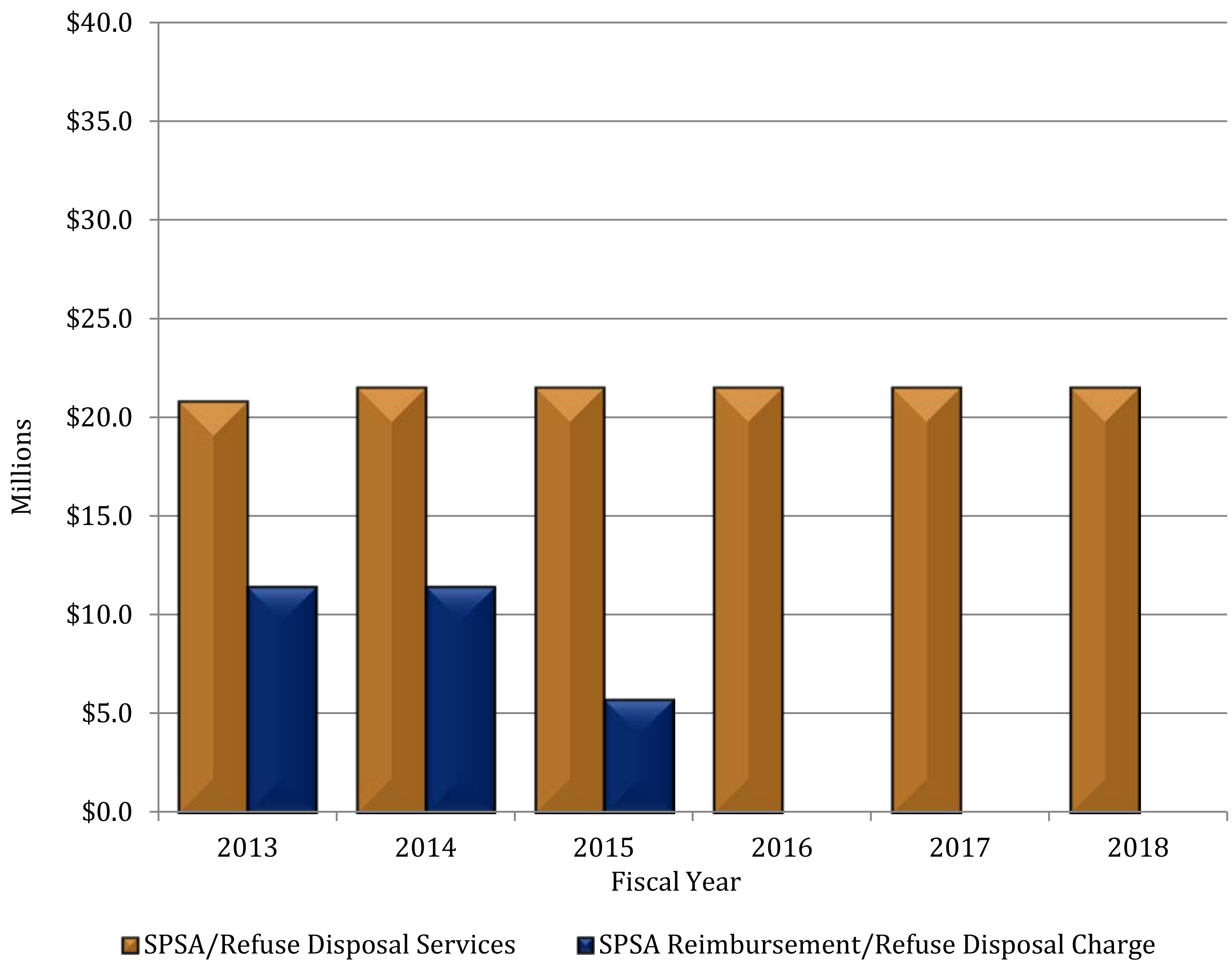
Health Insurance Costs

Health insurance costs for the City are driven by medical cost trends and utilization. Over the last five years these have resulted in an average annual increase of nearly 6%. The most recent evaluation decreased the GASB 45 liability from $8 million to $4 million for FY 2012-13 and 2013-14. This decrease has been used in this forecast to partially offset projected increases in the health insurance plan related to the elimination of a known deficit (the City Council and School Board agreed for FY 2010-11 and 2011-12 to use the fund balance of the health fund to keep employee premiums and the employer contribution lower through the recession); increases in employee utilization and medical trend; and beginning January, 2014 the implementation of the Federal Health Care Reform Act. Midway through the 2014 fiscal year the City/School health insurance plan will have to make several adjustments to accommodate the implementation of this new law.



Source: Department of Management Services

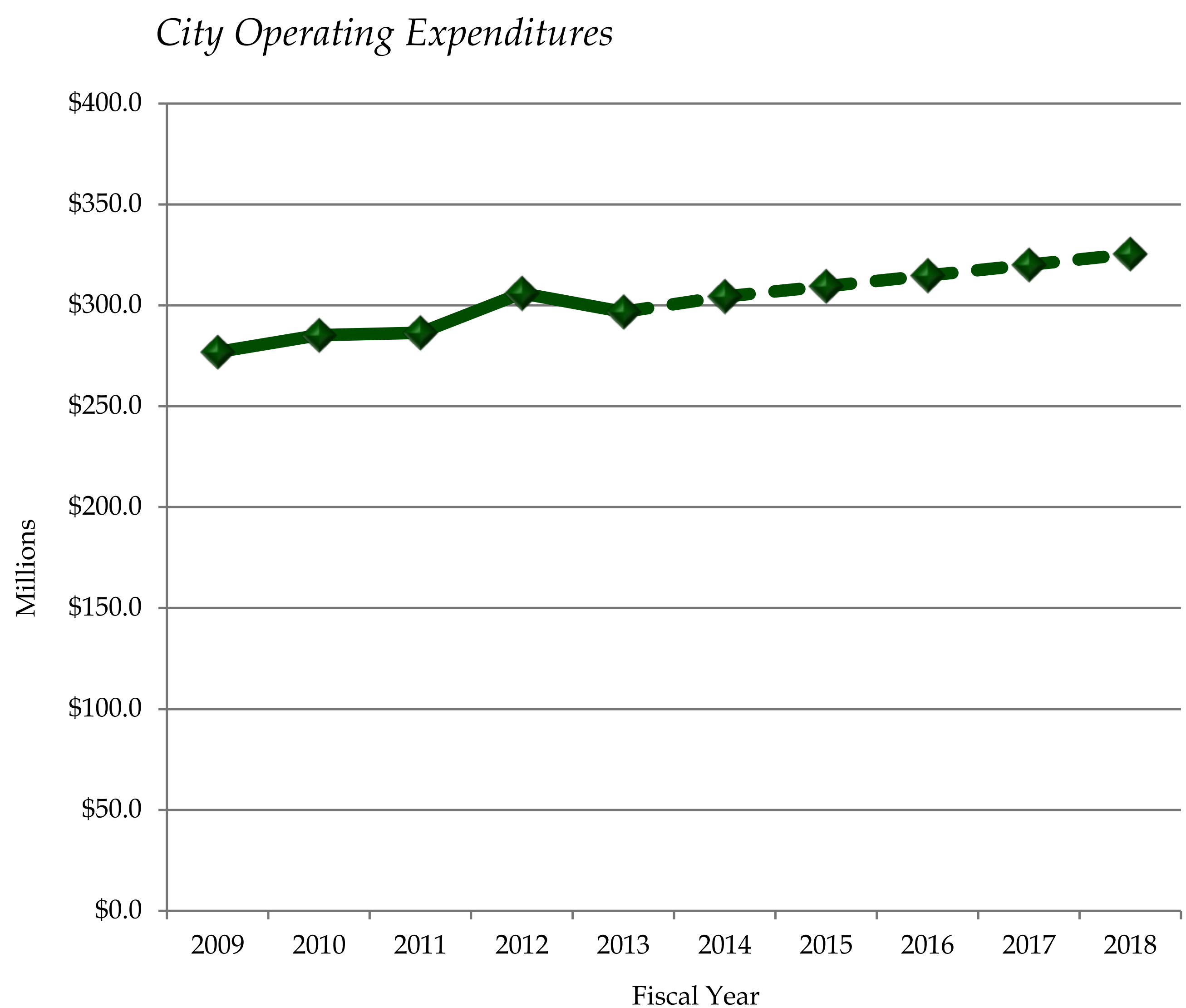
Southeastern Public Service Authority (SPSA) Contract Cost



The Southeastern Public Service Authority (SPSA) provides solid waste disposal services for the City of Virginia Beach on a contractual basis. This contractual agreement currently consists of a reduced per ton tipping fee that comes to the City in the form of a reimbursement. In mid FY 2014-15, the reimbursement for this reduced tipping fee goes away and the City will begin bearing the full cost of SPSA disposal services.

Source: Department of Management Services

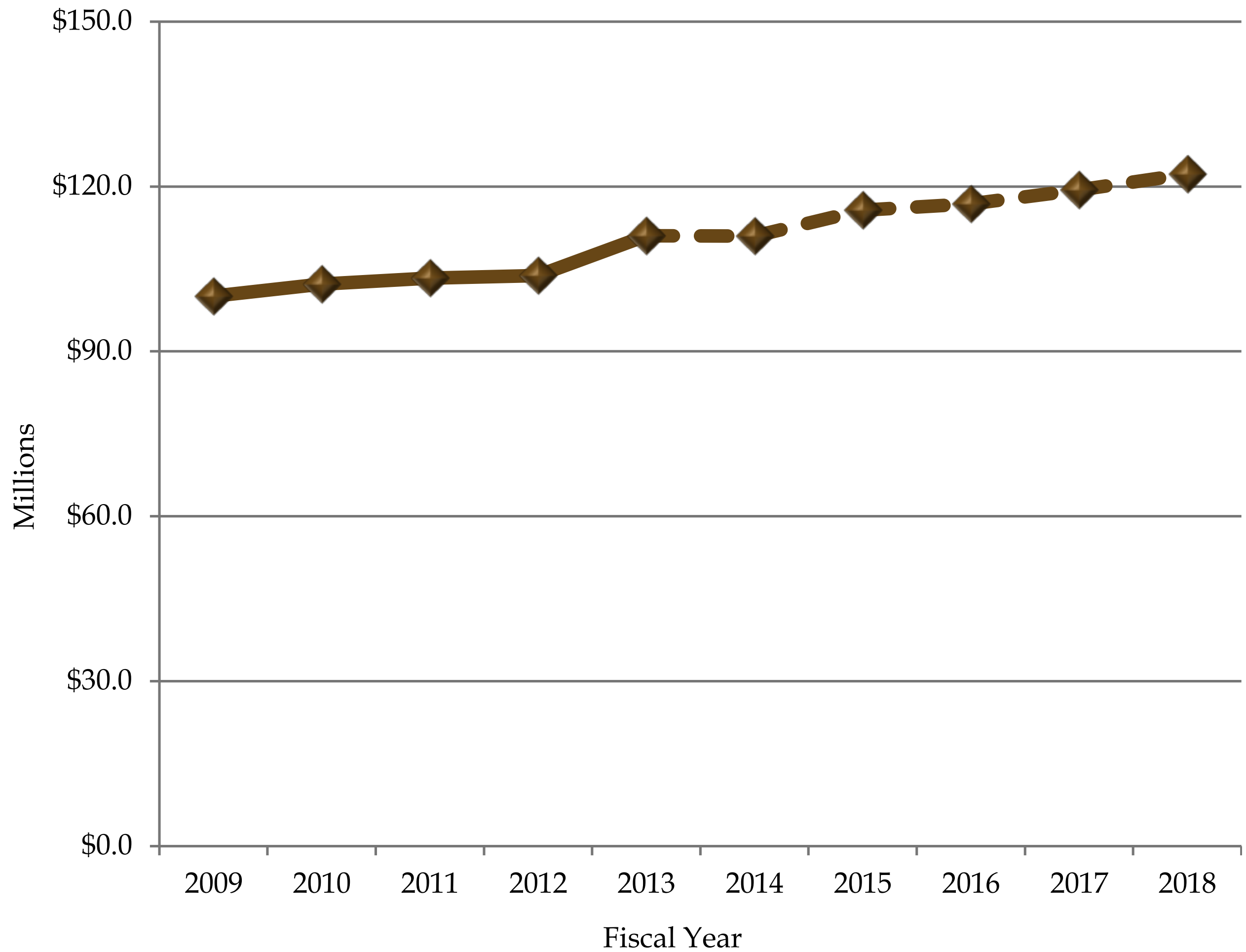
Other City expenditures consist of expenses such as contractual services, internal service charges, capital outlay, leases, etc. These expenditures are anticipated to increase on average 2.5% throughout the forecasted period. Increased cost in these expenditure accounts is primarily attributable to inflation.



Source: Department of Management Services

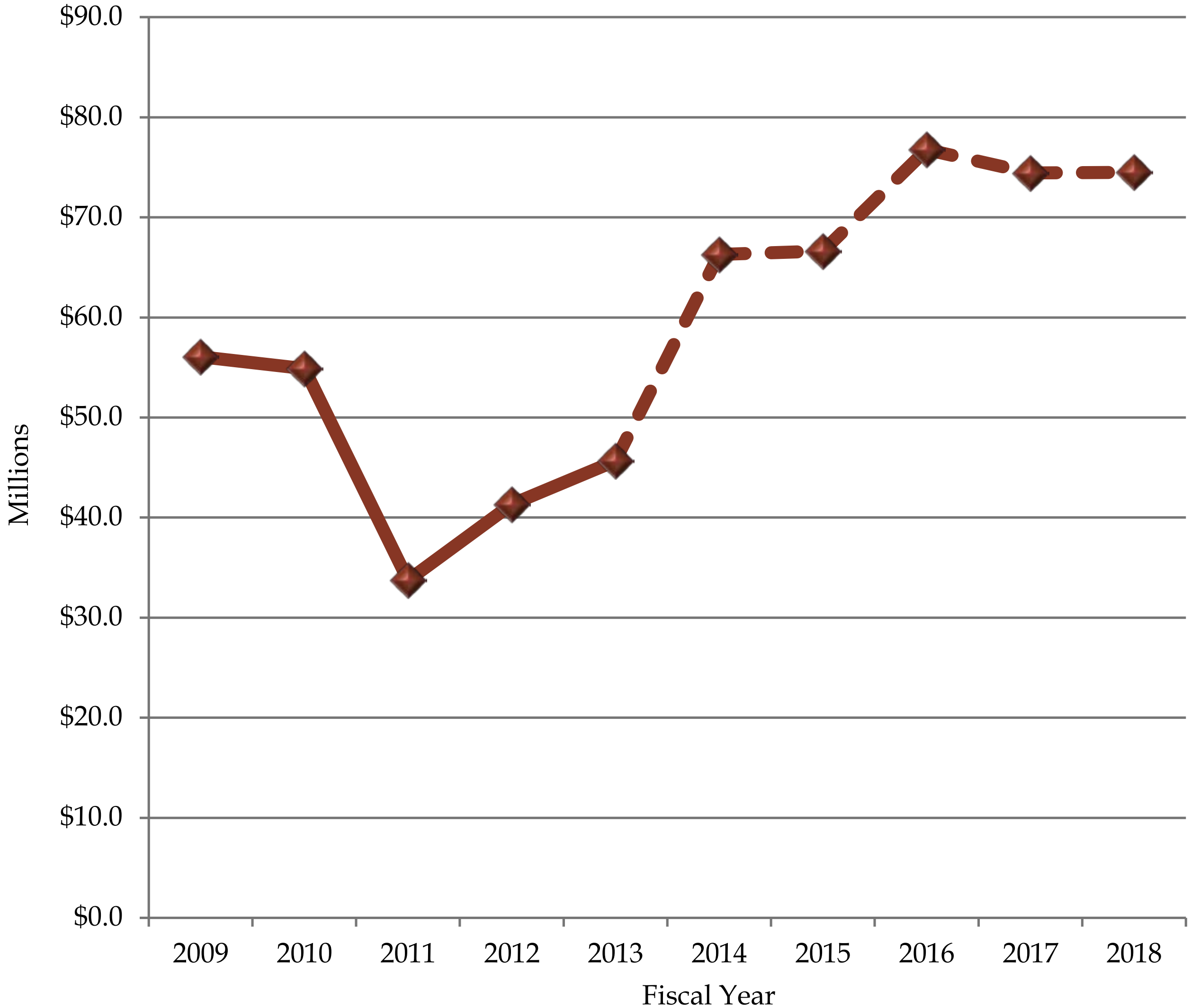
City Debt Service

Debt service is anticipated to grow at an average annual rate of 2% each year over the forecasted period. Debt projections for the City include general obligation bonds, public facility revenue bonds, storm water utility bonds and water and sewer bonds. This projection includes the issuance of debt for projects such as the Fire & Rescue Station-Blackwater; Elbow Road Extension, Williams Farm Recreation Center, Joint Use Library, Consent Order compliance and to address water quality and flood control backlogs.



Source: Department of Management Services

City Pay-As-You-Go



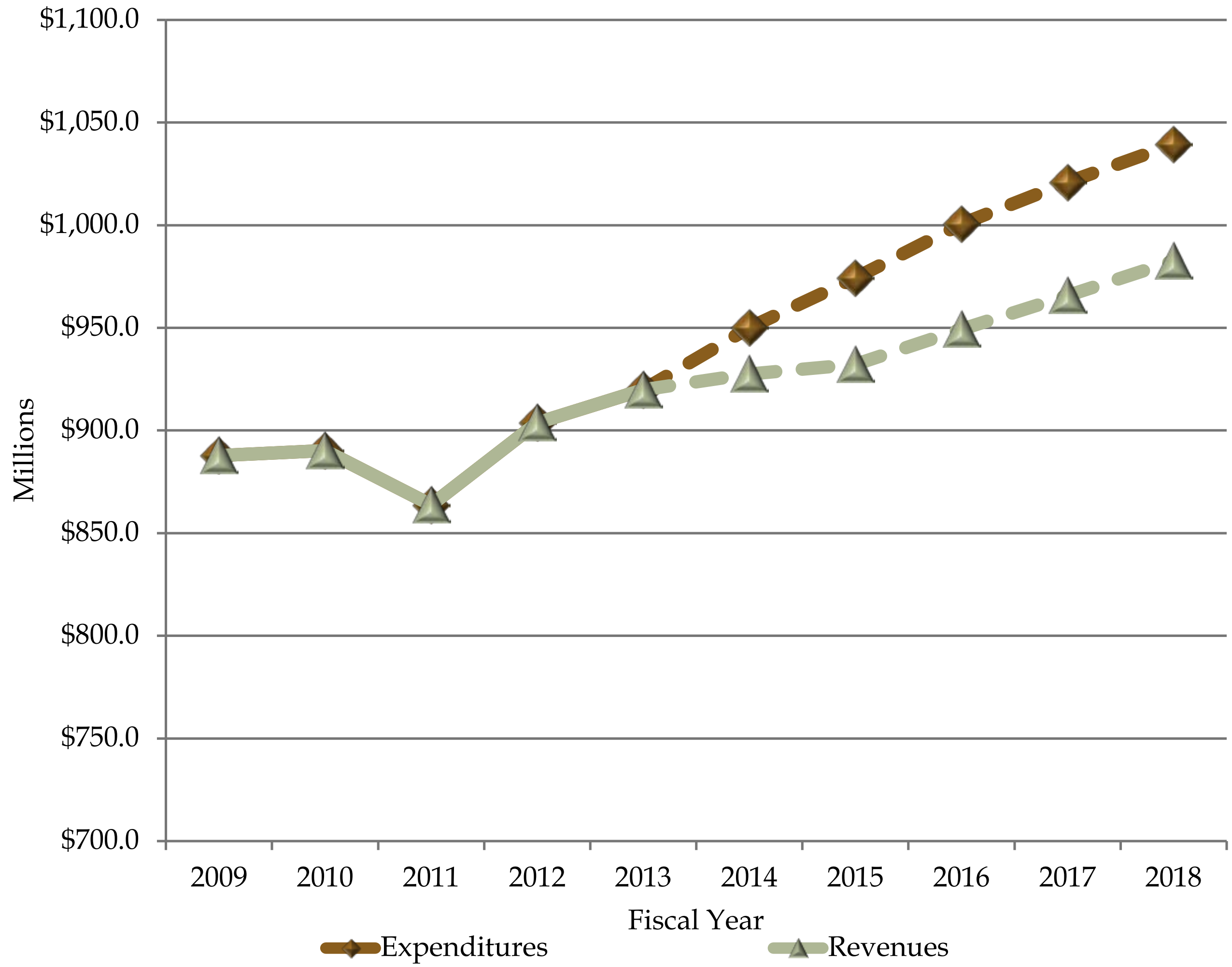
Source: Department of Management Services

During the recession, pay-as-you-go funding was reduced from the CIP and used to maintain City operations. In lieu of pay-as-you-go, fund balance was used in the CIP. Pay-as-you-go contributions are programmed to increase significantly over the forecasted period. The FY 2012-13 CIP shows increased contributions from the general fund, water and sewer fund and storm water fund over the next five years. In addition to the planned use of pay-as-you-go in the adopted CIP, this projection reflects the City Council two cent real estate dedication to Roadways (net of line of duty pay). Projections show pay-as-you-go increasing by 45% in FY 2013-14, remain flat in FY 2014-15, increasing an additional 15% in FY 2015-16, decrease 3% in FY 2016-17 and then remain flat the last year of the forecast.

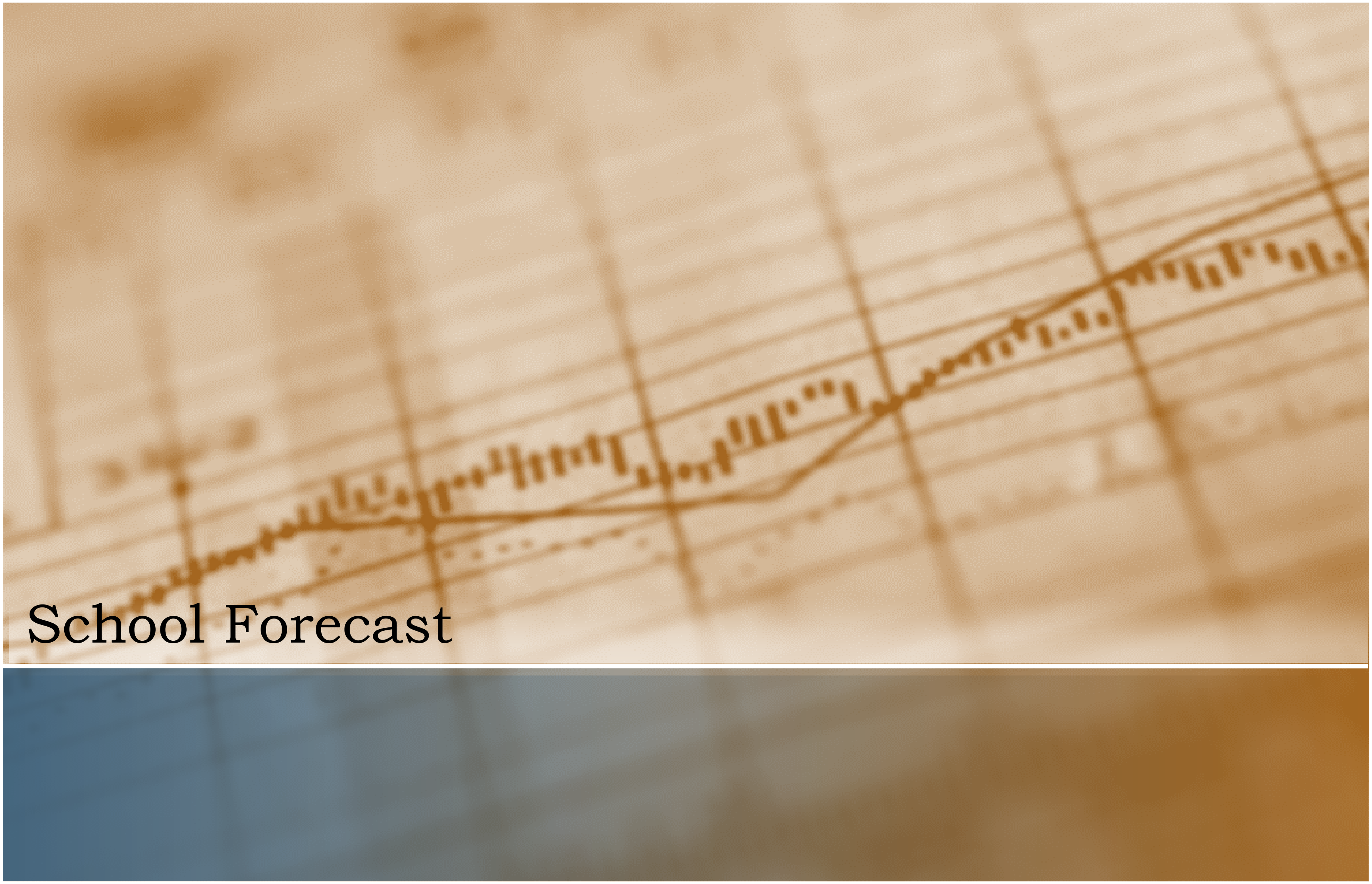
City Forecast

Over the next five years when comparing City revenues to expenditures, it is anticipated that the City will run a deficit each year. Below is the estimate of each year's deficit: (in millions)

FY 2013-14	($22.65)
FY 2014-15	($42.14)
FY 2015-16	($51.36)
FY 2016-17	($55.20)
FY 2017-18	($56.79)



Source: Department of Management Services



School Forecast

School Forecast

The School system, like the City, has seen an erosion of revenue over the past few fiscal years. Until last year, the City's contribution to the School system had been declining due to the deterioration of the real estate tax base, which provided the lion's share of local revenue to the School's based on the previous revenue sharing formula.

In addition to declining local revenue, the State also began reducing its contribution to local school systems as total State revenue declined during the recession. Historically, the State's goal for school funding has been to split costs between the State at 55% and the City at 45%. As the table on the next page illustrates, from 2008 to 2010, the State cut $1.6 billion statewide in funding to education. In terms of the region, these reductions amounted to approximately $400 million on a biennial basis. As a consequence, localities in Hampton Roads are now paying approximately one half of the cost of education.

Despite these reductions in State support, the cost of education has not declined. In FY 2012-13, the City Council determined that the existing revenue sharing formula would not sustain the School system's high academic standards. City Council adopted a budget that included $387.4 million for Schools and tasked the City Manager and the School Superintendent to develop a new funding formula. The resulting formula links the amount of local funding to the Schools on the State's contribution (SOQ) and then on a discretionary match above this amount which equals 32.37% of non-dedicated local tax revenues.

In addition to requesting the new formula, City Council dedicated the revenue generated from four cents of the six cent real estate tax rate increase adopted in FY 2012-13 to the Schools.

Based on the new formula and the dedication of four cent of the real estate tax rate, the Schools will receive $374.5 million in FY 2013-14. Over the remainder of the forecast period, revenue sharing dollars will increase each year and are projected to reach $391.3 million in FY 2017-18.

The School system receives the second largest share of its revenue after local funding from the State. This aid is distributed to school districts based on two criteria. The first is average daily membership, which in the simplest terms, is a calculation of the average enrollment for the

School system. As discussed previously in the "Demographics" section, School enrollment is projected to decline in each year of the forecast. In total, Schools are projecting a decline of 1,449 students from 2013 to 2018.

The second criterion for disbursement of State funds is the Local Composite Index (LCI). The LCI is a formula that uses a multitude of variables including net income and assessed property values to calculate a local community's ability to pay for education.

State Aid, which is the largest portion of State funding, is projected to decline slightly for the first three years of the forecast (primarily due to anticipated decreases in student enrollment), increase slightly in the fourth year, and then remain flat in the final year of the forecast. The other major source of State funding is State Share Sales Tax. Over the forecast, State Share Sales Tax like the City's General Sales Tax, is expected to increase based on an improving economy and growing statewide sales tax collections.

The other major source of revenue for the School system is the Federal government. Federal revenue is distributed in the form of grants as well as direct funding to assist with educating students associated with military families. Federal revenue is expected to remain essentially flat over the forecast period.

The School system also plans to reduce their reliance on fund balance and year end reversion funds over the forecast period. Over the past several fiscal years as State and City funding declined, the Schools have redirected reversion funding as well as fund balance from their non-operating funds in order to maintain operations. Typically, reversion and fund balance from these funds was used for large capital purchases or other one-time expenditures. Within the forecast, the use of fund balance declines from over $15 million in FY 2013-14 to just over $2 million in FY 2017-18.

State School Funding Policy Changes, 2008 - 2010

State Funding Policy Changes	**Year**	**Biennial Change (in millions of $'s)**
Cap Funding for support positions	2009	$ (754.0)
Eliminate school construction grants	2009	(55.0)
Adjust health care for participation rates	2010	(269.0)
Eliminate certain School expenditures from SOQ calculation (equipment, travel)	2010	(244.0)
Include $0 values in linear weighted average calculation	2010	(79.0)
Eliminate lottery support for School construction and operating costs	2010	(67.0)
Reduce K-3 class size program	2010	(36.0)
Update Federal deduction percentage	2010	(34.0)
Extend School bus replacement cycle from 12 to 15 years	2010	(19.0)
Eliminate enrollment loss assistance	2010	(16.0)
	Total	**$ (1,573)**

School Expenditure Assumptions

	Fiscal Year				
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
VRS Mandated Pay Increase	1.0%	1.0%	1.0%	1.0%	0.0%
Other Pay Increase	0.0%	0.0%	0.0%	0.0%	0.0%
Mandated VRS Rate Change	-1.0%	-1.0%	-1.0%	-1.0%	0.0%
Other VRS Rate Change	0.0%	0.0%	0.0%	0.0%	0.0%
Health Insurance	9.07%	16.91%	11.85%	8.11%	8.64%
Increase in Risk Management	10.0%	7.0%	5.0%	3.0%	2.0%
Inflation	2.04%	1.27%	1.28%	1.16%	1.05%
Increase in Utility Costs	2.1%	2.1%	2.0%	2.0%	2.0%
Increase in Fuel Costs	7.0%	3.0%	2.0%	0.0%	0.0%
Change in Staff (in FTE's)	-16.99	-2.08	-22.05	-8.56	+5.76

School expenditures throughout the forecasted period are anticipated to grow by 0.2% in the first year and then 1% annually in the remaining years. The main drivers of these increases are salaries, health insurance costs, debt service, and pay-as-you-go capital financing in the latter years of the forecast. Overall expenditure growth is minimal due to reductions in operating costs.

Like the City, the School Board decided to phase-in the VRS required 1% pay increase for employees each year in order to offset the 1% increase in retirement costs paid by employees. This 1% salary increase will continue through FY 2016-17 and Schools are projecting no additional pay increases throughout the forecast. The Schools are projecting a decline in staffing in each of the first four years of the forecast, with a small increase in the final year. When comparing projected staffing in FY 2017-18 to the current fiscal year, the Schools will have reduced 43.92 FTE's.

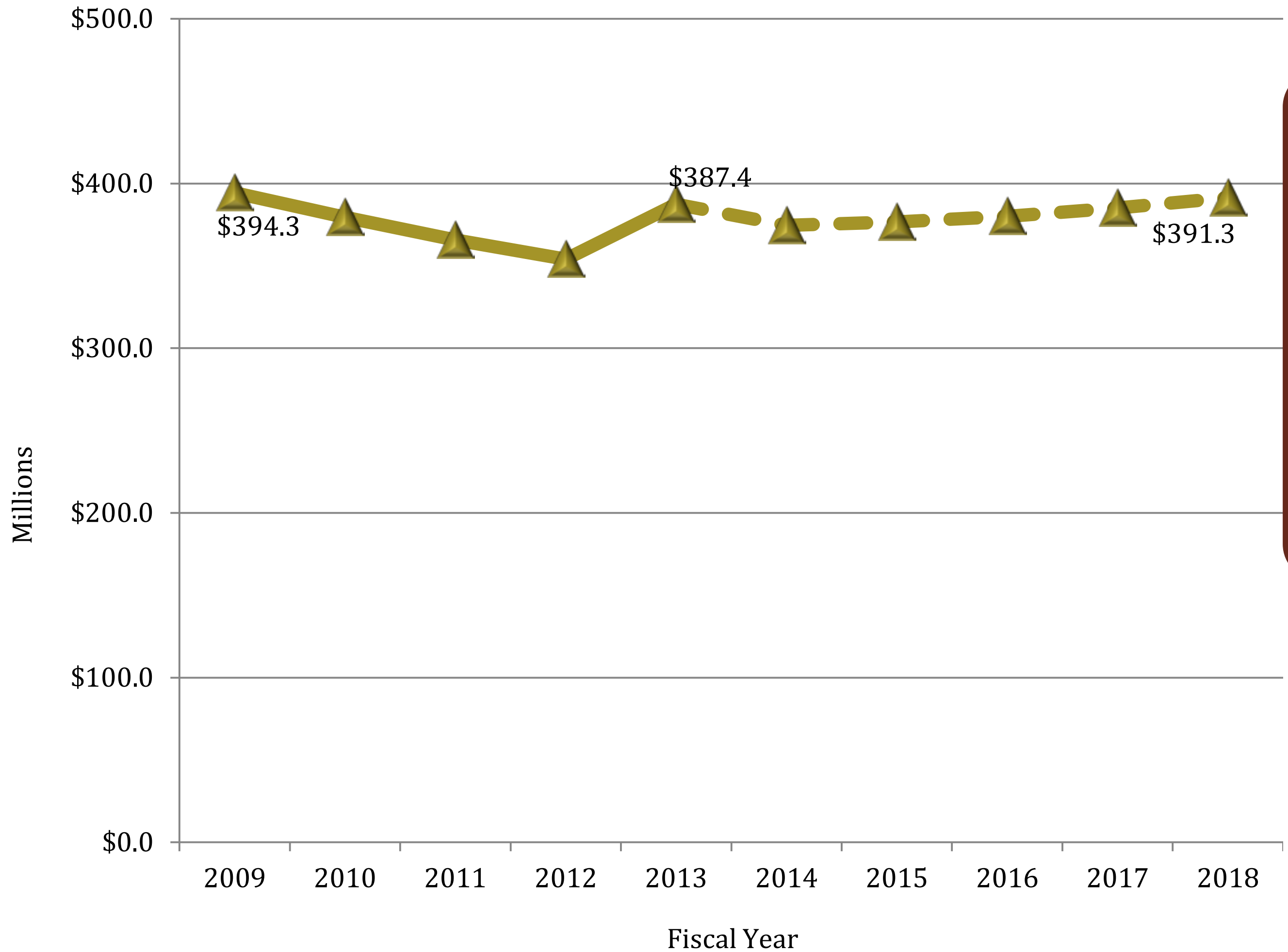
In terms of VRS costs, the Schools are projecting an annual decline due to the State mandate previously discussed. Other than the annual 1% reduction in the VRS rate through FY 2016-17, Schools are not projecting any VRS rate increases over the forecast period. This assumption will not hold for the entire five years as the unfunded liability for the teacher's pension plan is just over $800 million. The difficulty in projecting the impact of addressing this is that the VRS Board has not yet taken this into account for future rates and the General Assembly has not historically followed the VRS Board's recommendation in setting the biennial rate for the teacher's pension plan. However, the General Assembly recently adopted legislation to begin following that recommendation within the next several years. One concern for the City with this large unfunded liability is the new GASB requirement to begin showing it on the City's balance sheet at the end of the current fiscal year.

Health insurance is the largest driver of fringe benefit costs for the Schools as it is for the City. These costs are anticipated to increase over the forecast period as a result of the Federal Health Care Reform Act and increased utilization based on medical trends.

While personnel costs will be increasing during the forecast period, Schools are projecting declining spending in some operating accounts. Despite increases in fuel and energy costs, overall non-utility operating accounts are projected to decline 6% in the first year and an additional 3% over the final four years of the forecast.

Expenditures for pay-as-you-go capital financing and debt service are projected to increase over the forecast period. For several years, Schools have been redirecting pay-as-you-go capital financing to their operating budget to offset lost revenue. In order to continue the construction and maintenance of school facilities, this funding was replaced with the issuance of debt, which has created increased debt service costs over the forecasted period. Schools are also projecting the resumption of pay-as-you-go for the final three years of the forecast at $1 million each year.

City Contribution to Schools

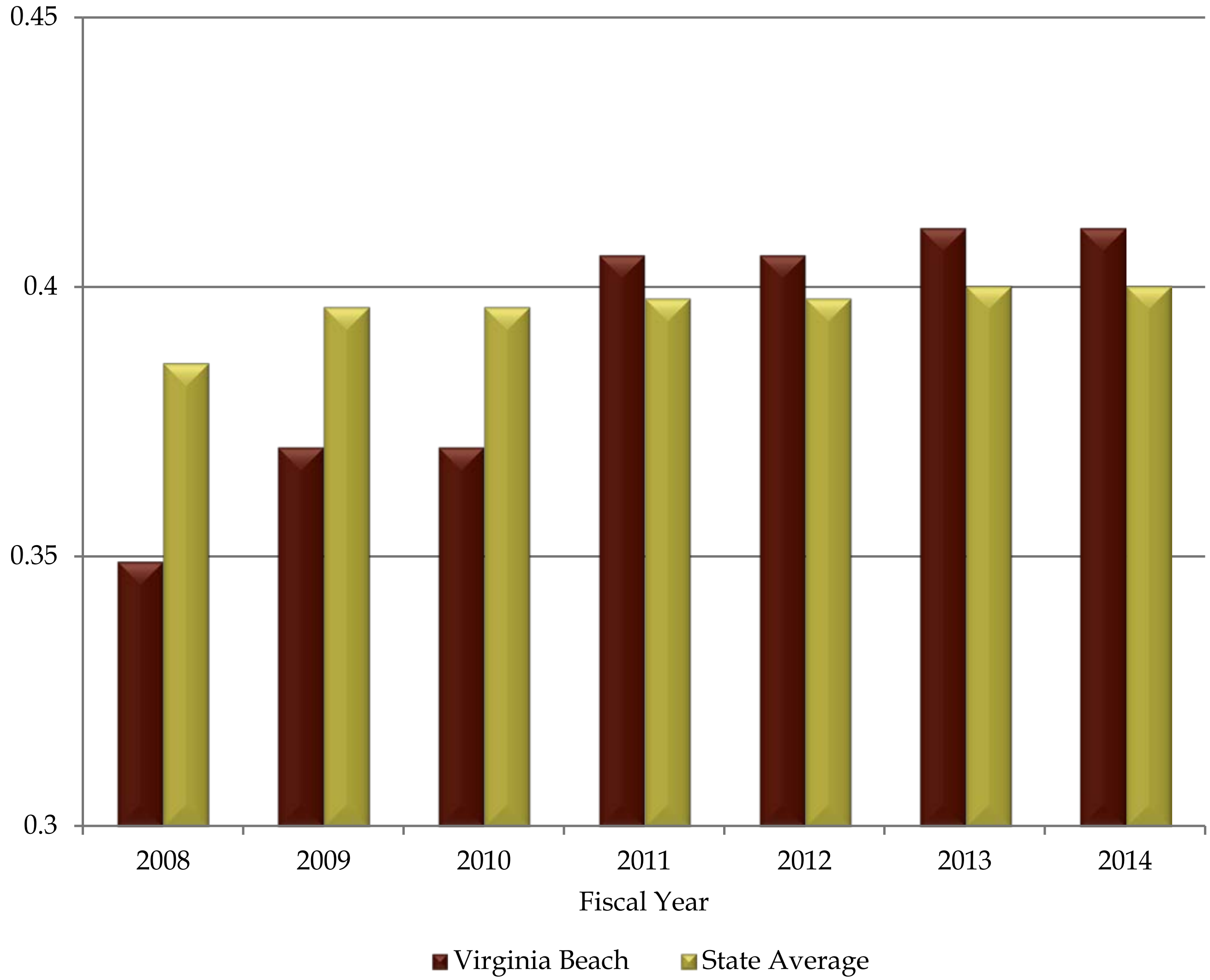


This graph displays the projected revenue Schools will receive from the City via the newly adopted City/School Revenue Sharing Formula. The FY 2012-13 amount included the one-time use of General Fund Fund Balance to balance the Schools Operating Budget.

Source: Department of Management Services

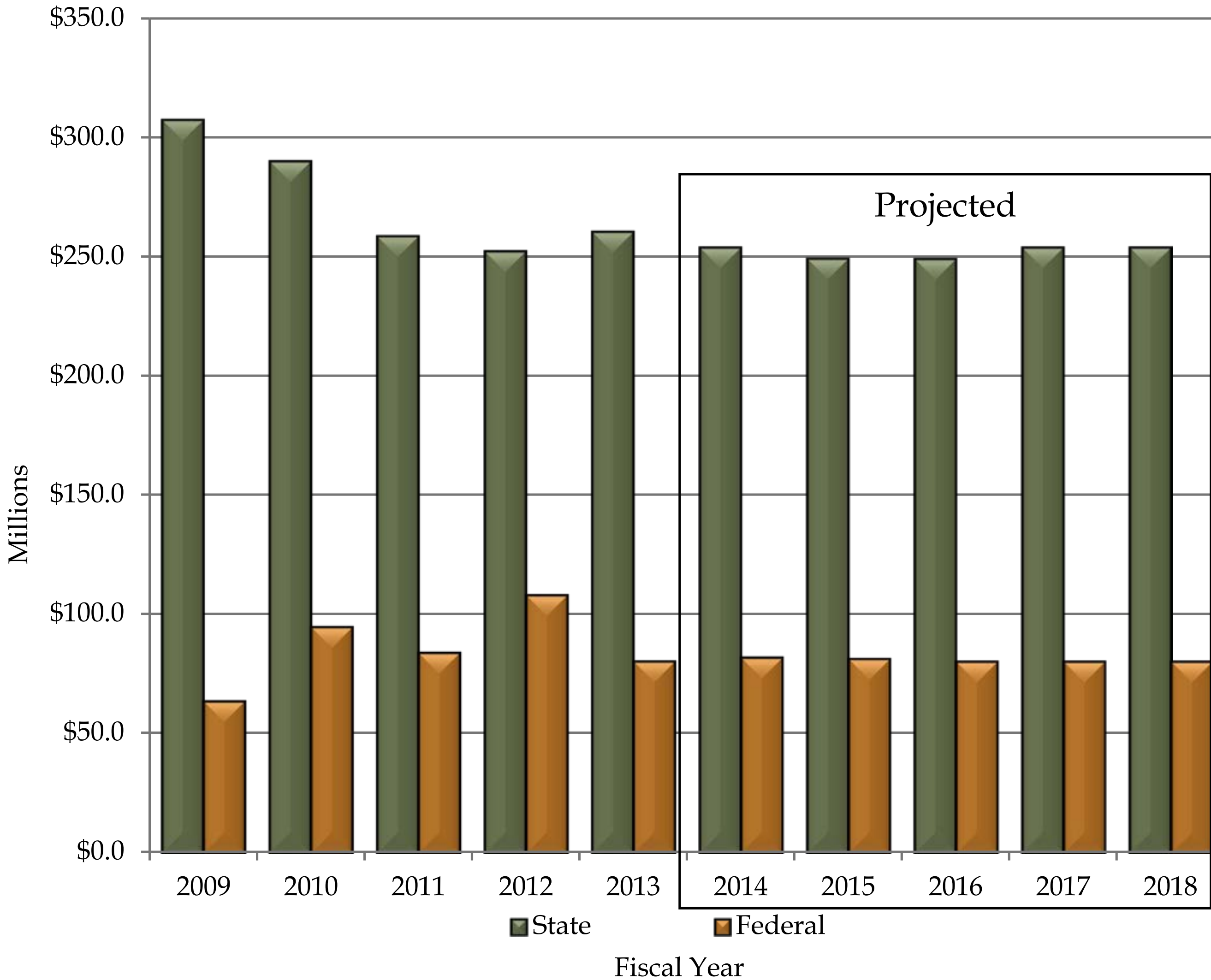
Local Composite Index

The Composite Index of Local Ability-to-Pay, computed for each locality, represents the portion of each dollar of minimum funding for education per State guidelines that the locality must provide. This percentage is based upon a formula consisting of the following key factors: real property value, gross income, taxable retail sales, student enrollment, and population. The greater the percentage, the lower amount of State funding that will be provided to the locality. As the graph illustrates, there has been a loss of State support for education through this computation.



Source: Virginia Department of Education

School State and Federal Revenue

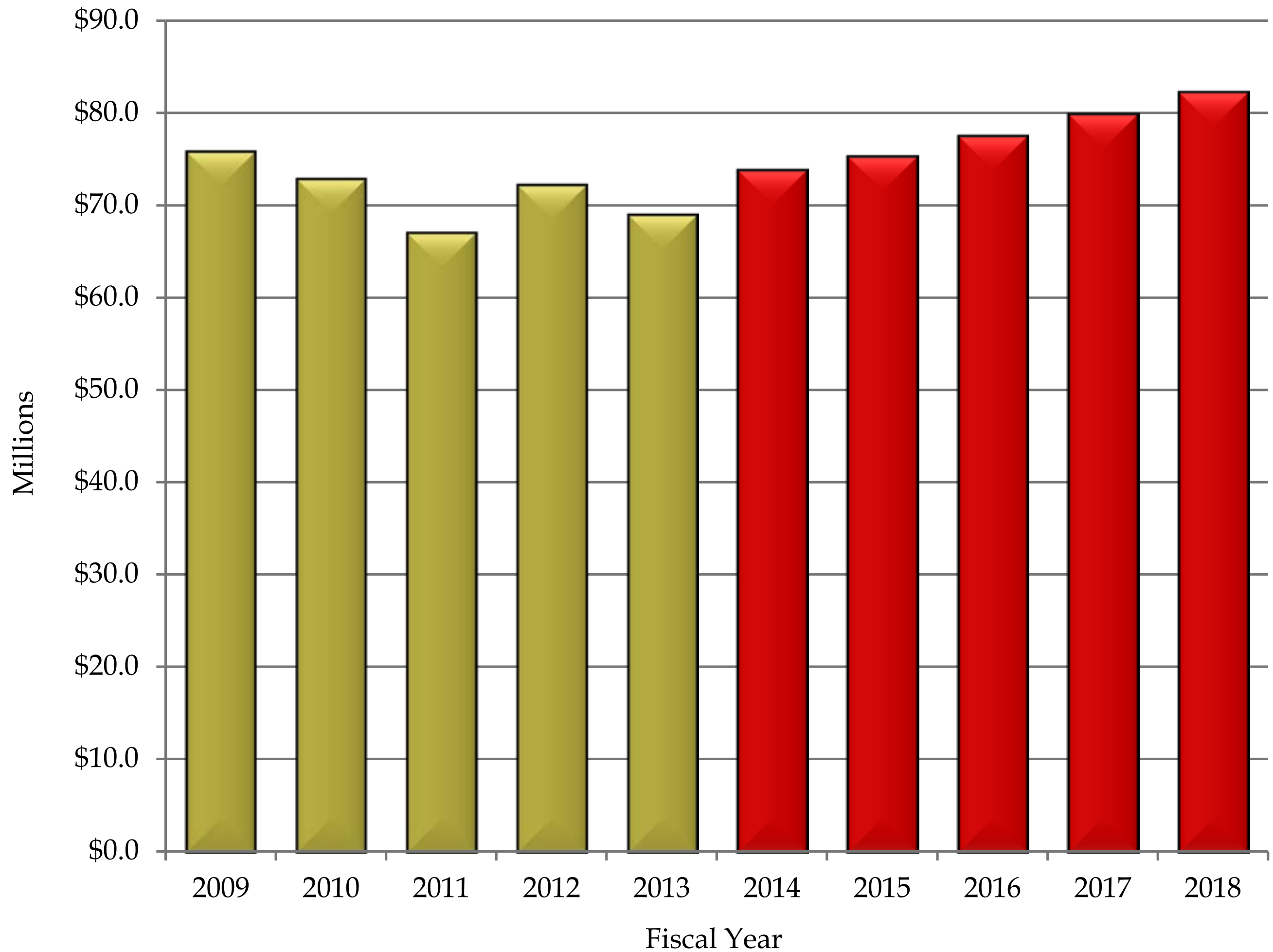


As previously discussed, sequestration remains a significant threat to Virginia Beach Schools. The uncertainty of sequestration and its impact on funding to localities resulted in Federal and State revenues remaining primarily flat over the forecasted period. The only reduction to these revenues over the forecasted period is the result of grants concluding within the next five years.

Source: Virginia Beach City Public Schools

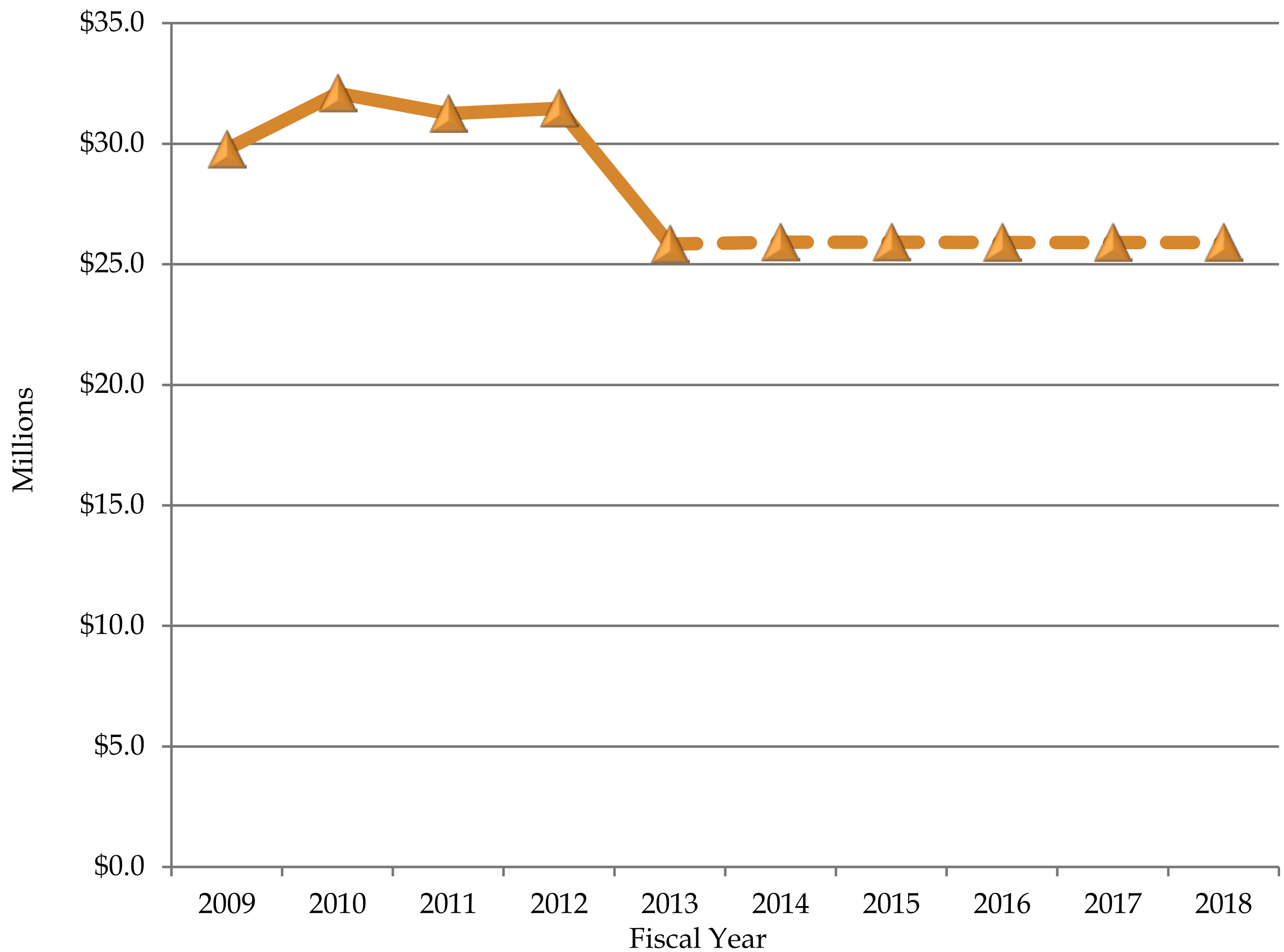
State Shared Sales Tax (Schools)

Schools receive revenue from the State in the form of Shared Sales Tax. It is assumed that this revenue will increase over the forecasted period at a similar rate as the City's general sales tax; however, State revenues in general are assumed to be volatile and as a result, this projection is optimistic at best.



Source: Virginia Beach City Public Schools

Other Local Revenue – Schools

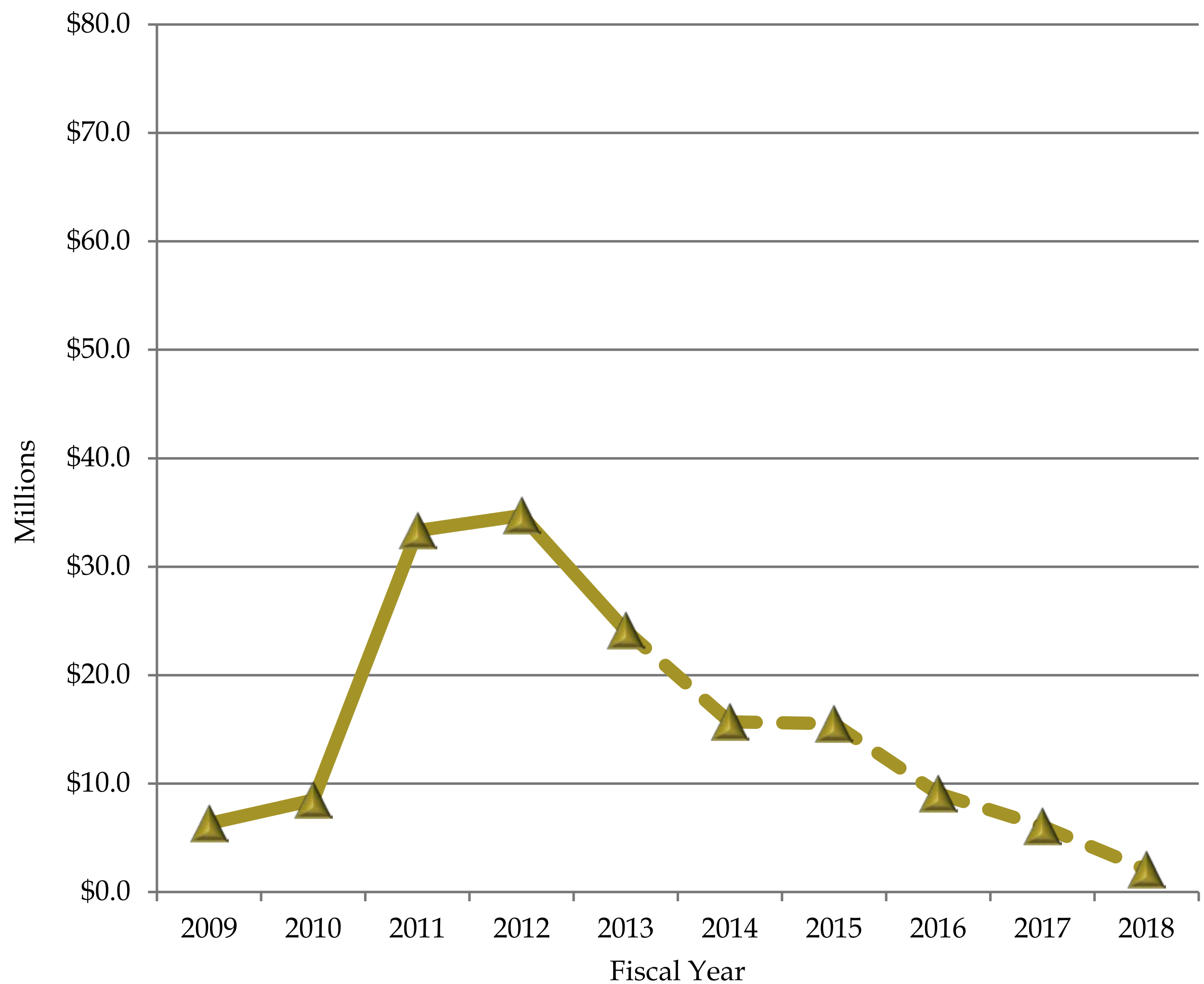


Other local School revenue includes charges for service, tuition and fees for certain programs, facility rental fees, and interest income. This revenue is expected to remain flat over the forecasted period. The decrease from FY 2011-12 to FY 2012-13 is due to the one-time use of School Risk Management funds to support the School operating budget.

Source: Virginia Beach City Public Schools

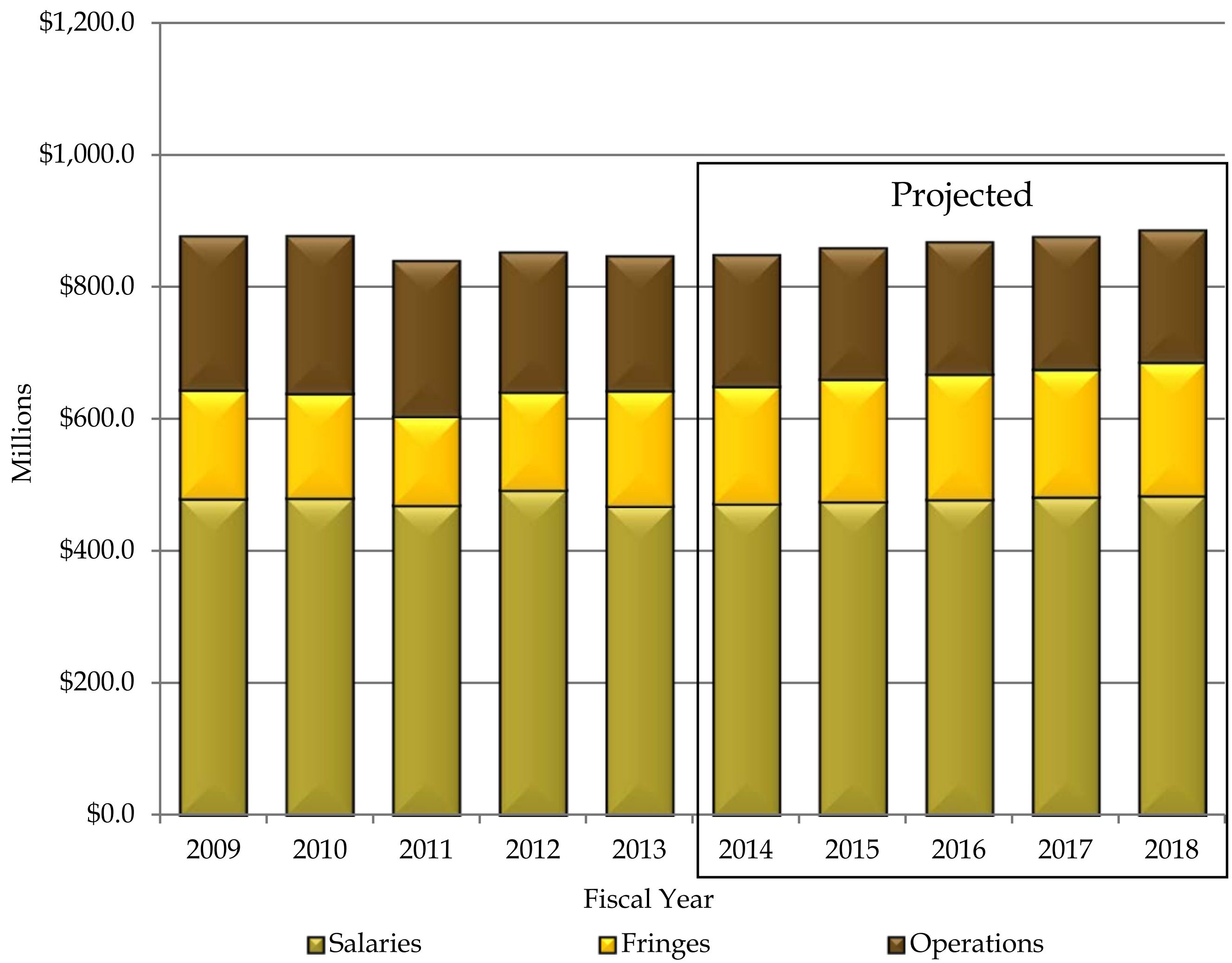
Like the City, the School system has used fund balance and reversion funding to avoid draconian cuts to School programming as revenues fell during the recession. The School system plans to reduce their reliance on this funding to support their operating budget over the next five years.

Fund Balance – Schools



Source: Virginia Beach City Public Schools

Total School Expenditures

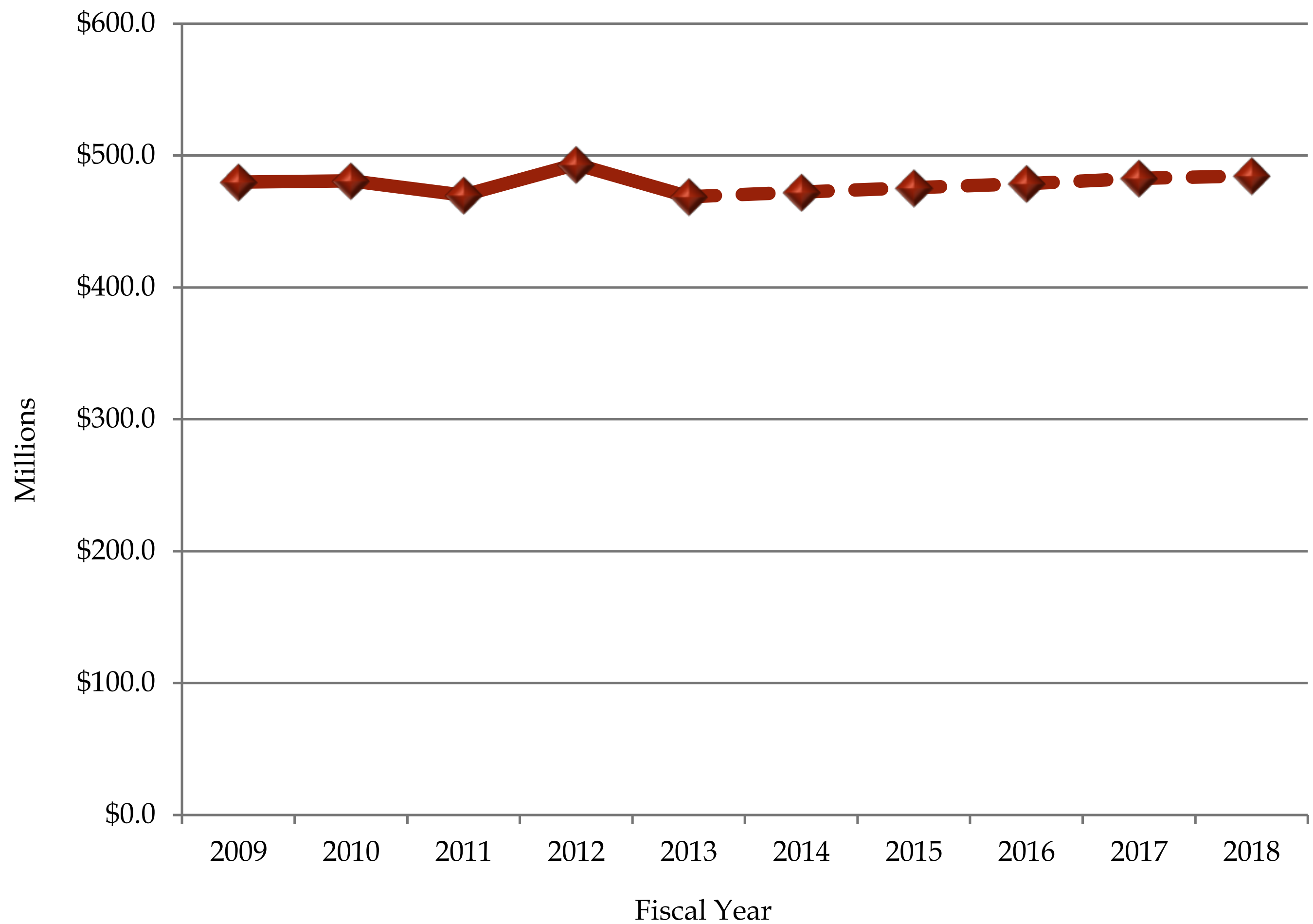


Schools project overall expenditures to increase by less than 1% in FY 2013-14 and then increase an additional 1% annually throughout the forecasted period.

Source: Virginia Beach City Public Schools

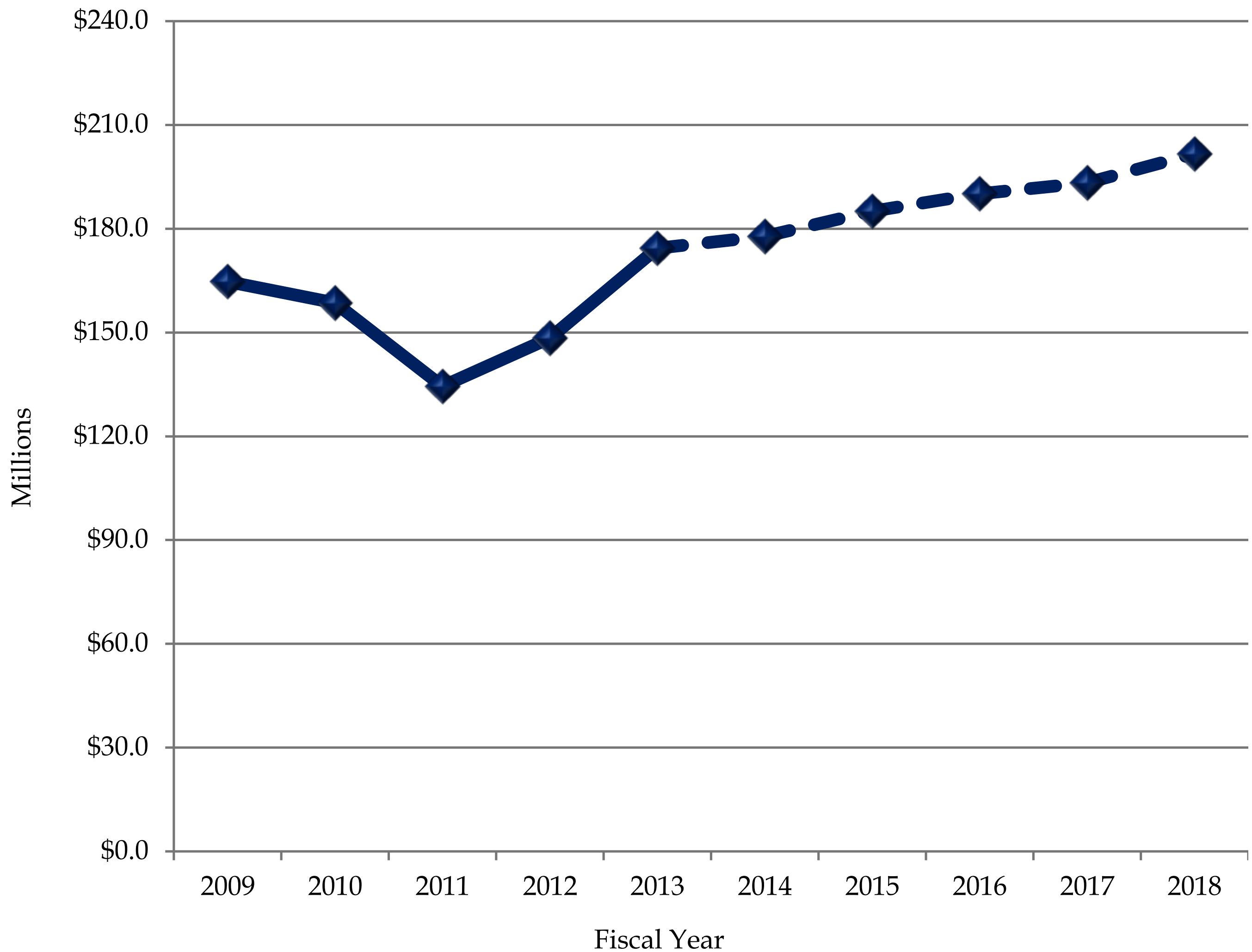
School Salaries

After Schools experiencing a significant decrease in salary costs from FY 2011-12 to FY 2012-13 due to declines in federal grants, salaries are projected to increase 1% annually through the first four years of the forecast.



Source: Virginia Beach City Public Schools

School Fringe Benefit Costs



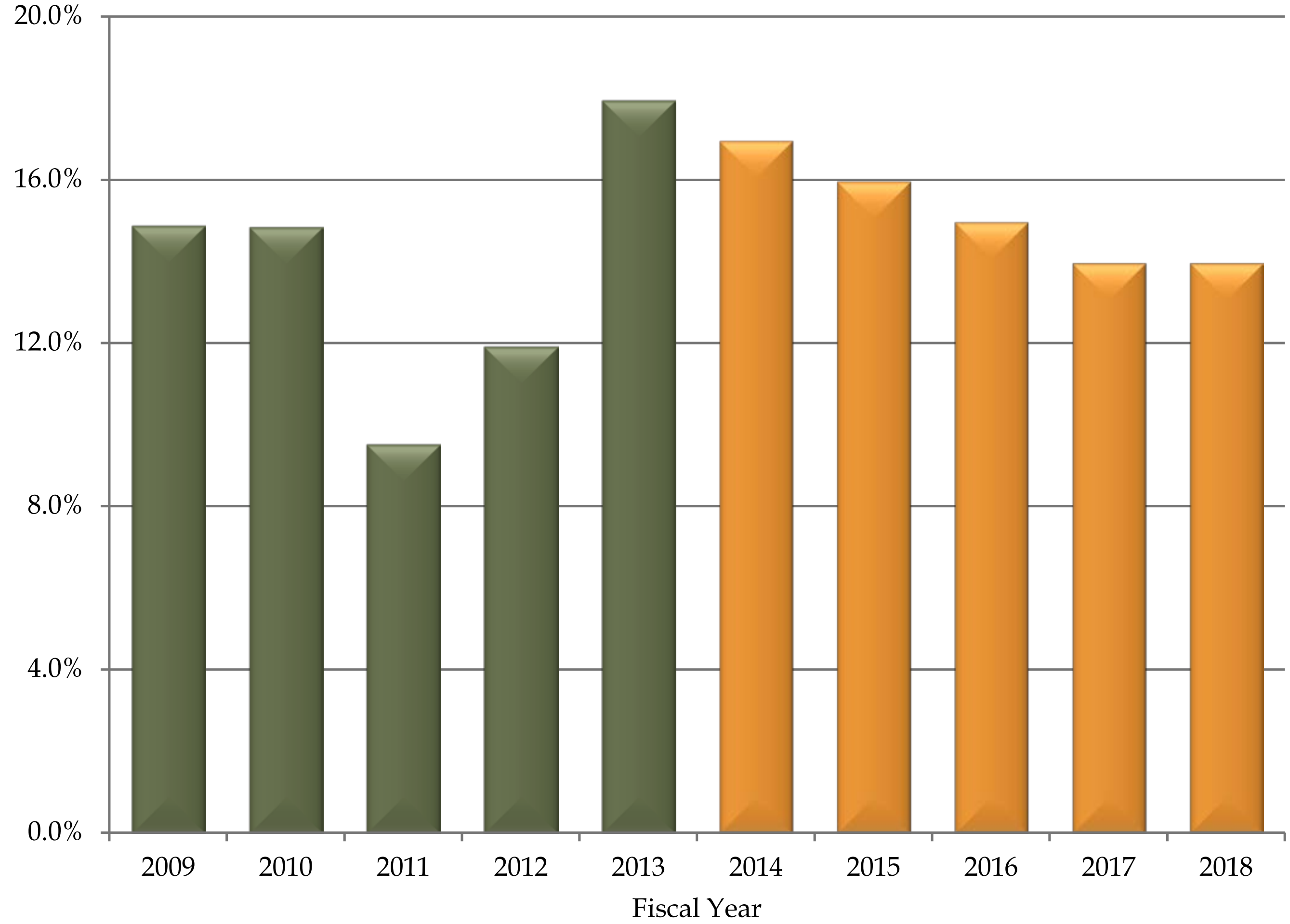
The same issues driving up City fringe benefit costs over the forecast period will impact Schools. Schools will also experience a decline in retirement costs due to a change in State law, but fringe benefit costs in total will increase, driven primarily by rising health care costs.

Source: Virginia Beach City Public Schools

Virginia Retirement System (VRS) Contribution Rate

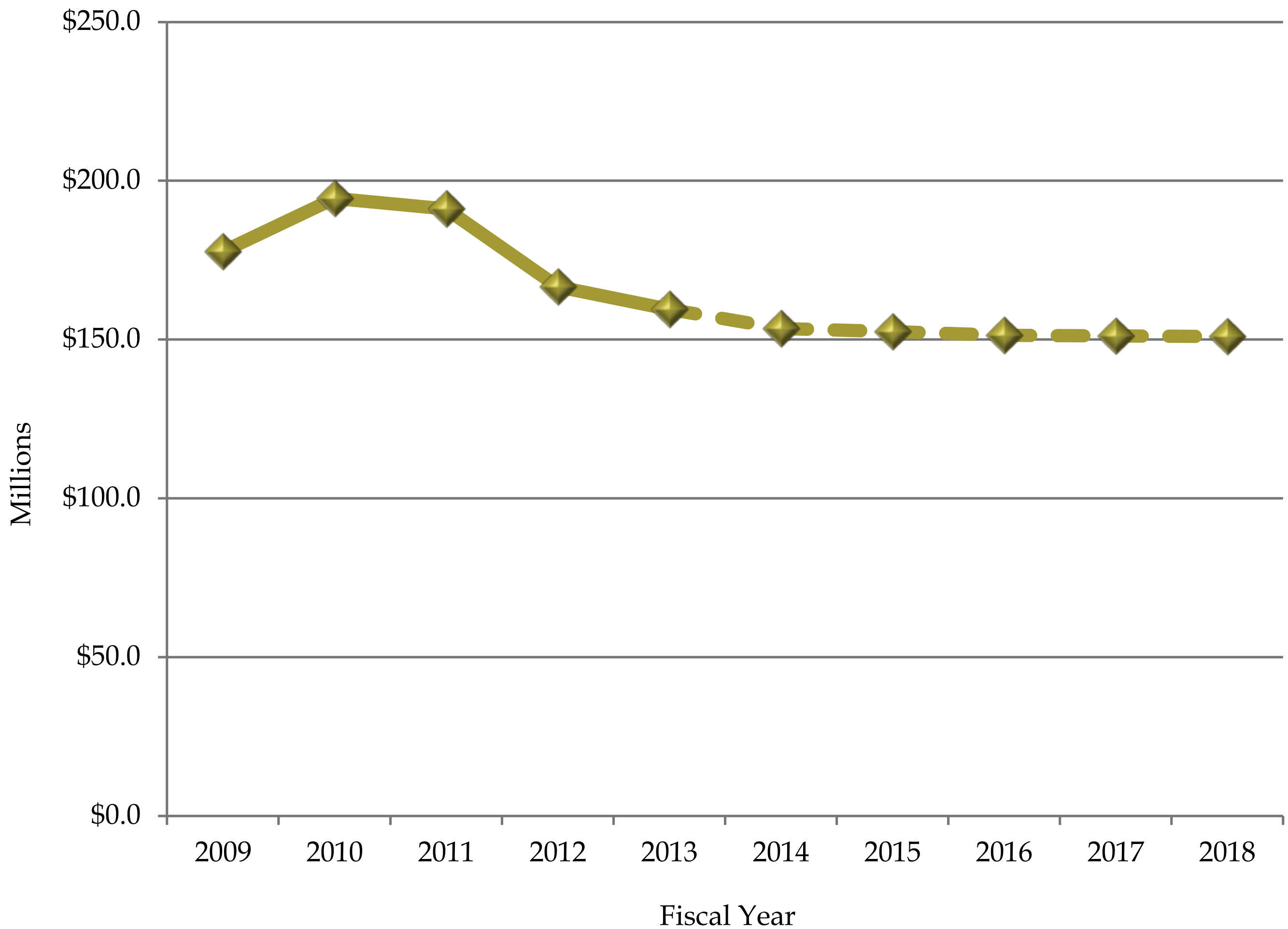
School Employees (Includes retirement and life insurance)

The School's VRS rate will decline by 1% each year, as school employees will be required to pay 1% of their own retirement costs.



Source: Virginia Beach City Public Schools

Other School Operating Expenditures

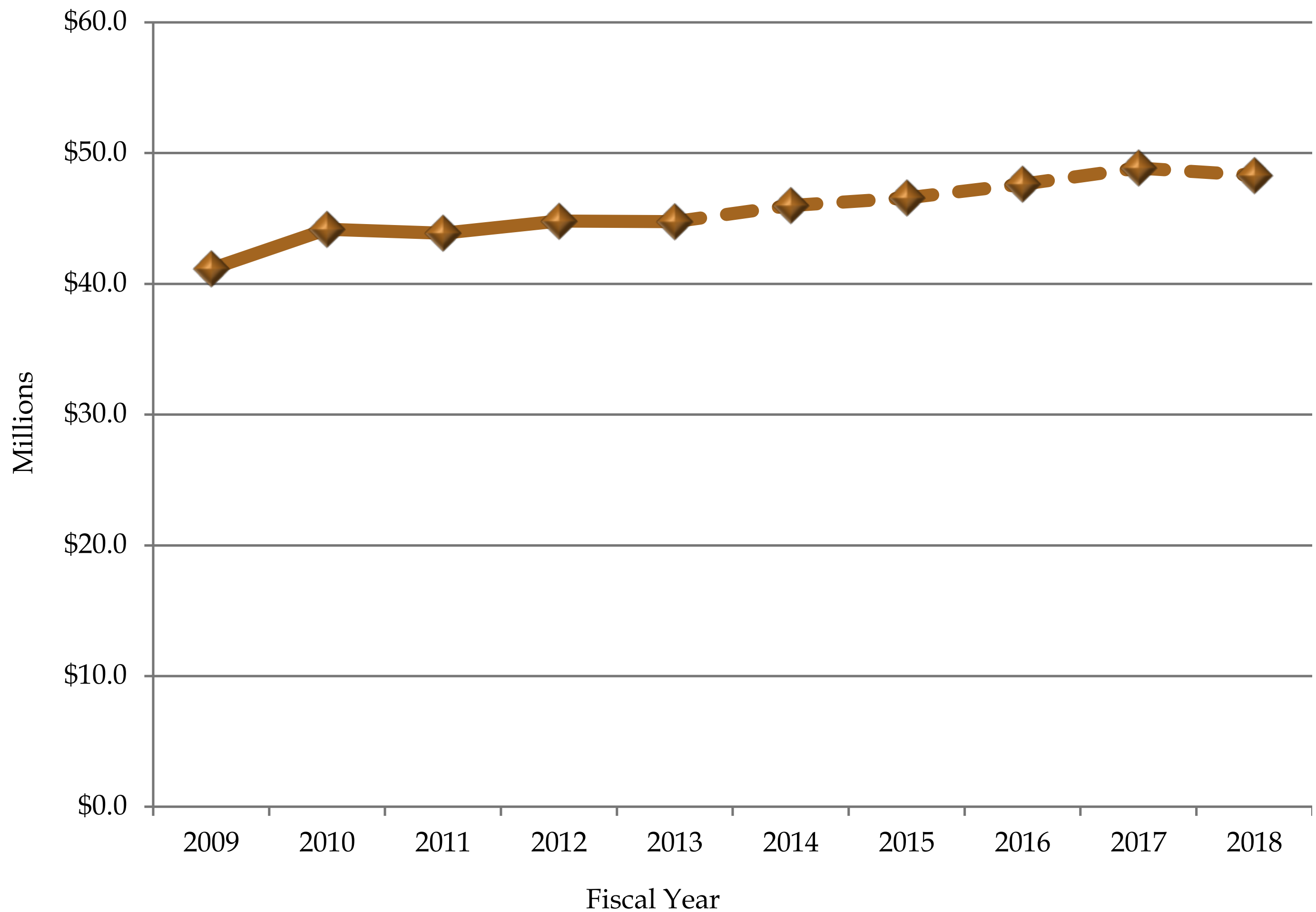


Source: Virginia Beach City Public Schools

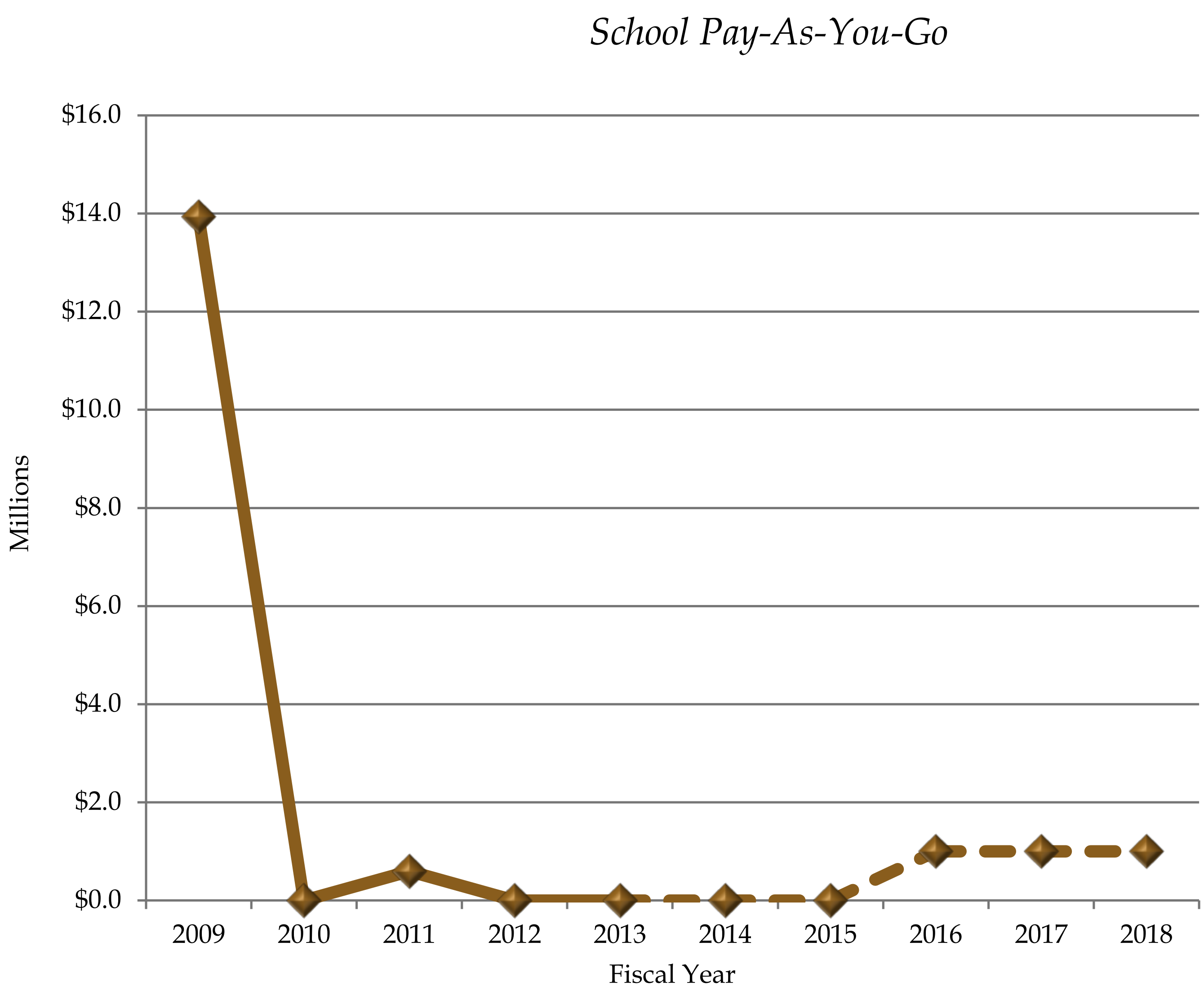
Other Schools operating expenses are projected to slightly decrease over the forecast period in spite of anticipated increases in utility and fuel costs.

School Debt Service

School debt service is projected to increase by an average of 2% annually the first four years of the forecast before slightly decreasing the last year. During the recession, Schools replaced pay-as-you-go with debt in the financing of capital projects. The result is the gradual increase in debt service over the displayed period of time.



Source: Virginia Beach City Public Schools



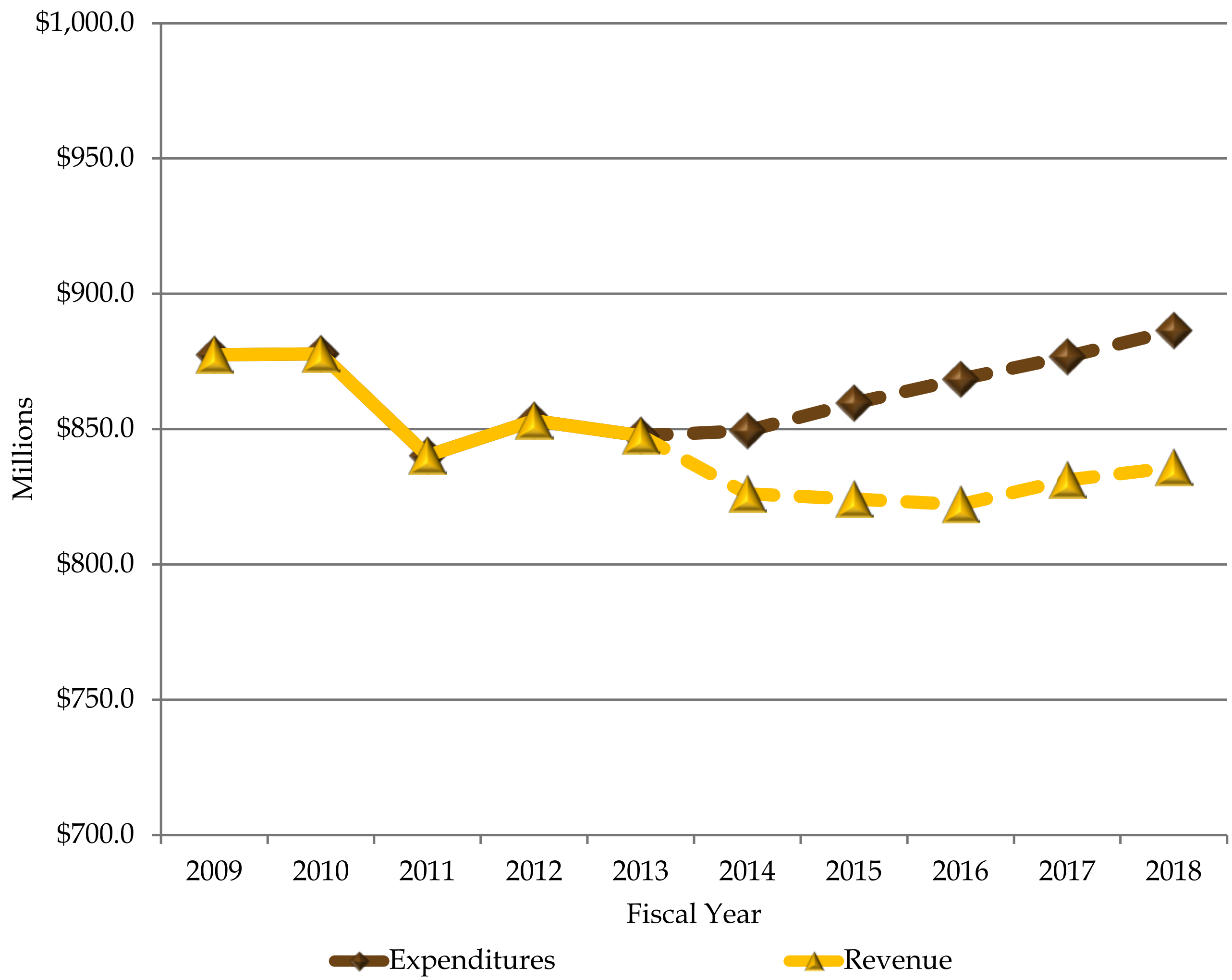
Source: Virginia Beach City Public Schools

After reaching a peak in FY 2008-09, the Schools eliminated pay-as-you-go financing of capital projects and instead used this funding to offset deficits due to declining State and local revenue that had supported School programs. Schools are projecting to maintain this policy through FY 2015-16. Over the last three years of the forecast period, Schools have included $1 million in pay-as-you-go annually.

Over the next five years when comparing School revenues to expenditures, it is anticipated that the Schools will run a deficit each year. Below is the estimate of each year's deficit: (in millions)

FY 2013-14 ($23.38)
FY 2014-15 ($35.55)
FY 2015-16 ($46.46)
FY 2016-17 ($45.61)
FY 2017-18 ($50.64)

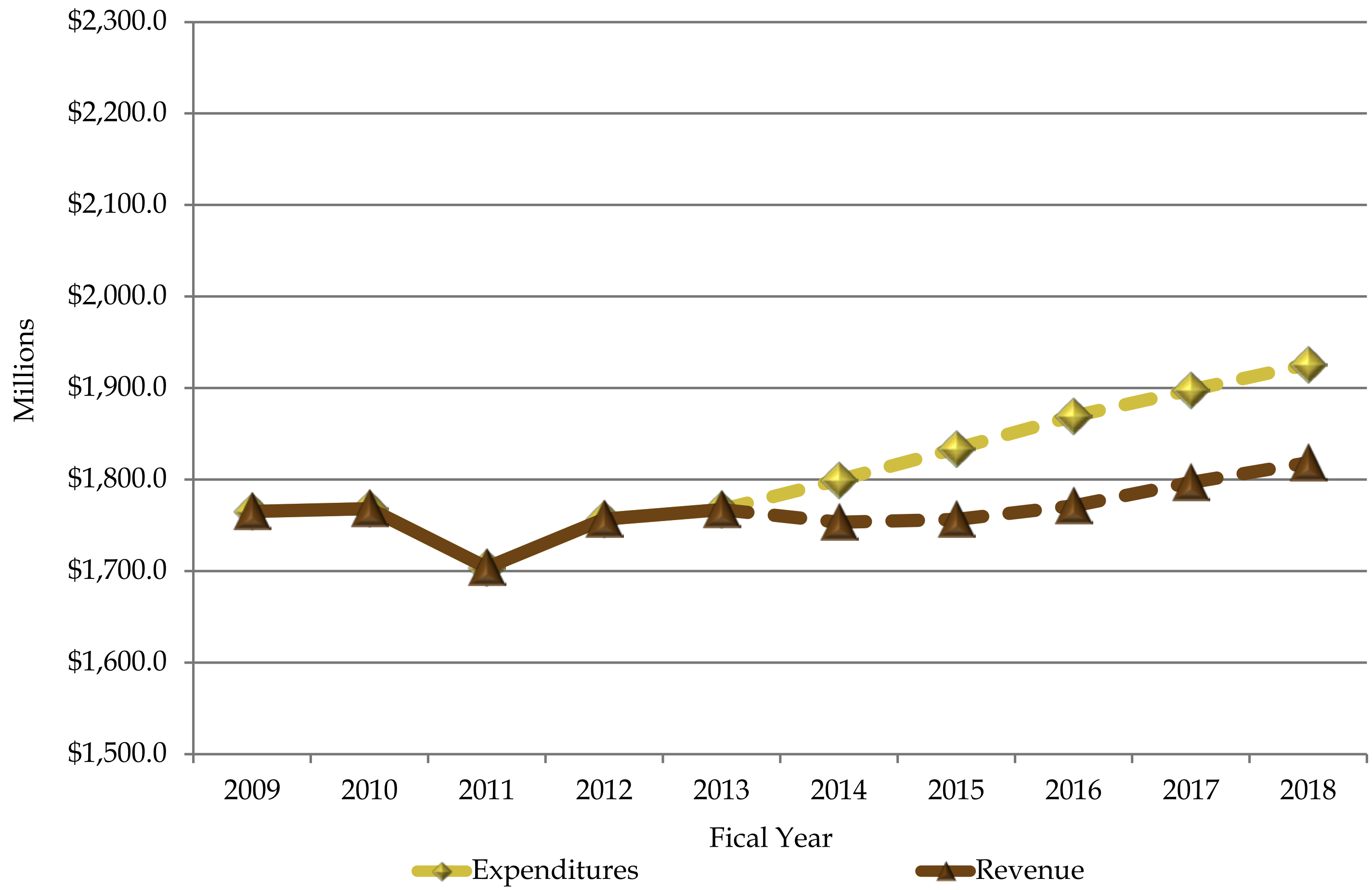
School Forecast



Source: Virginia Beach City Public Schools

Conclusions and Threats

Total Forecast
(City and Schools Combined)



Over the next five years when comparing total revenues to total expenditures, it is anticipated that the City will run a deficit each year. Below is the estimate of each year's deficit: (in millions)

FY 2013-14	($46.03)
FY 2014-15	($77.68)
FY 2015-16	($97.82)
FY 2016-17	($100.80)
FY 2017-18	($107.44)

Conclusions

While the economy has shown improvement over the past 12 months, a full recovery from the recession can still not be declared. All indications are that a full recovery will not occur until the housing market improves and real estate values stabilize.

While consumer driven revenues are improving, they are not able to replace the revenue lost from declining real estate taxes. As seen on the previous page, total City and Schools expenditures are projected to exceed revenues over the forecast period. Expenditures are projected to grow by less than 2% each year of the forecast. Revenues are projected to decline nearly 1% in FY 2013-14, remain relatively flat in FY 2014-15, and then grow about 1% each remaining year of the forecast. Revenue will not be able to even keep pace with the assumed inflationary rate over the forecast period (2%), let alone keep pace with additional expenditure increases driving of the operating budget.

Total expenditures throughout the forecasted period are anticipated to increase for several reasons:

- **Pay-As-You-Go** - Increases significantly over the forecast period. Pay-as-you-go increases as a result of programmed funding in the FY 2012-13 Adopted CIP document combined with an additional two cent real estate tax dedication to roadways by City Council. One strategy to balance the budget has been to reduce pay-as-you-go funding preserve essential services during the recession.

- **Salary Increases** - are anticipated to grow in relation to the State mandate requiring local employees to contribute to VRS. No additional compensation increases that would normally occur due to normal operating practices have been assumed throughout the forecasted period.

- **Health Insurance** - Is the largest driver of fringe benefits. Health insurance costs are anticipated to increase as a result of the Federal Health Care Reform Act and the result of adjustments made for employee utilization based on medical trends.

- **VRS Rates** - Continue to climb over the forecasted period. The City VRS rate is anticipated to increase by 2% every two years which follows long term trends of the VRS board raising the rate based on actuarial valuations. The School system does not have this history as the General Assembly makes the final determination of the rate, based on State budget requirements and has consistently lowered the rate for teachers pensions below the VRS board recommended rate. The increase in the VRS rates over the forecast period this rate is slightly offset through the State mandate requiring local employees to contribute to VRS. Employee contribution amounts are projected to be phased in by 1% annually.

- **SPSA Revenue Reimbursements** - Will be eliminated over the forecast period due to the end of the City's contract. The loss of this reimbursement creates a hole in the Waste Management Fund. No rate/fee changes are assumed in the Waste Management fund to fill this hole. Deciding how to replace this lost revenue will likely be a challenge for City leaders in the future.

Differing base line assumptions regarding the reduction of services and expenditures result in these shared cost drivers impacting both the City's and School's bottom line expenditures differently; however, it is apparent that the City of Virginia Beach as a whole is facing many of the same financial hurdles in years to come.

Revenues throughout the forecasted period are improving overall. Consumer driven revenues are increasing enough to nearly offset the decline in real estate revenues. A big factor in keeping revenues on the positive trend is the projected use of General Fund fund balance and School reversion funds. This forecast anticipates the use of General Fund fund balance and School reversion funds to support on-going operations. Using fund balance and School reversion funds during the recession allowed City Council and the School Board to maintain core services. This forecast provides a plan to gradually reduce the use of fund balance as real estate and other revenues grow. Without the use of General Fund fund balance, overall revenues do not see positive growth until the third year of the forecasted period.

Threats

The biggest threats to the viability of this forecast are sequestration and the impending fiscal cliff. While almost everyone agrees that sequestration and the tax increases that are scheduled to go into effect in January would reverse the positive gains that have been made in the economy, there appears to be no move afoot to avoid these economic hurdles. While many pundits believe that congress will act (even if that action is nothing more than kicking the can down the road), there appears to be nothing on the horizon with January less than two months away.

While it appears that many of the cuts in defense spending associated with sequestration would not impact our Navy-centric region, the non-defense spending cuts would certainly take a toll on many local programs including education, housing, public safety, and human services. A full list of these programs can be found in the "Appendix" section of this document.

Total Federal revenue equals $120 million and State revenue is $442 million. Just a 10% reduction could impact revenues by over $50 million. Even if the budget sequester can be avoided, the tax increases that are scheduled to go into effect on January 1, 2013 could stall or even reverse the gains made in the economy. If congress is unable to reach consensus, some of the more impactful tax code changes will be:

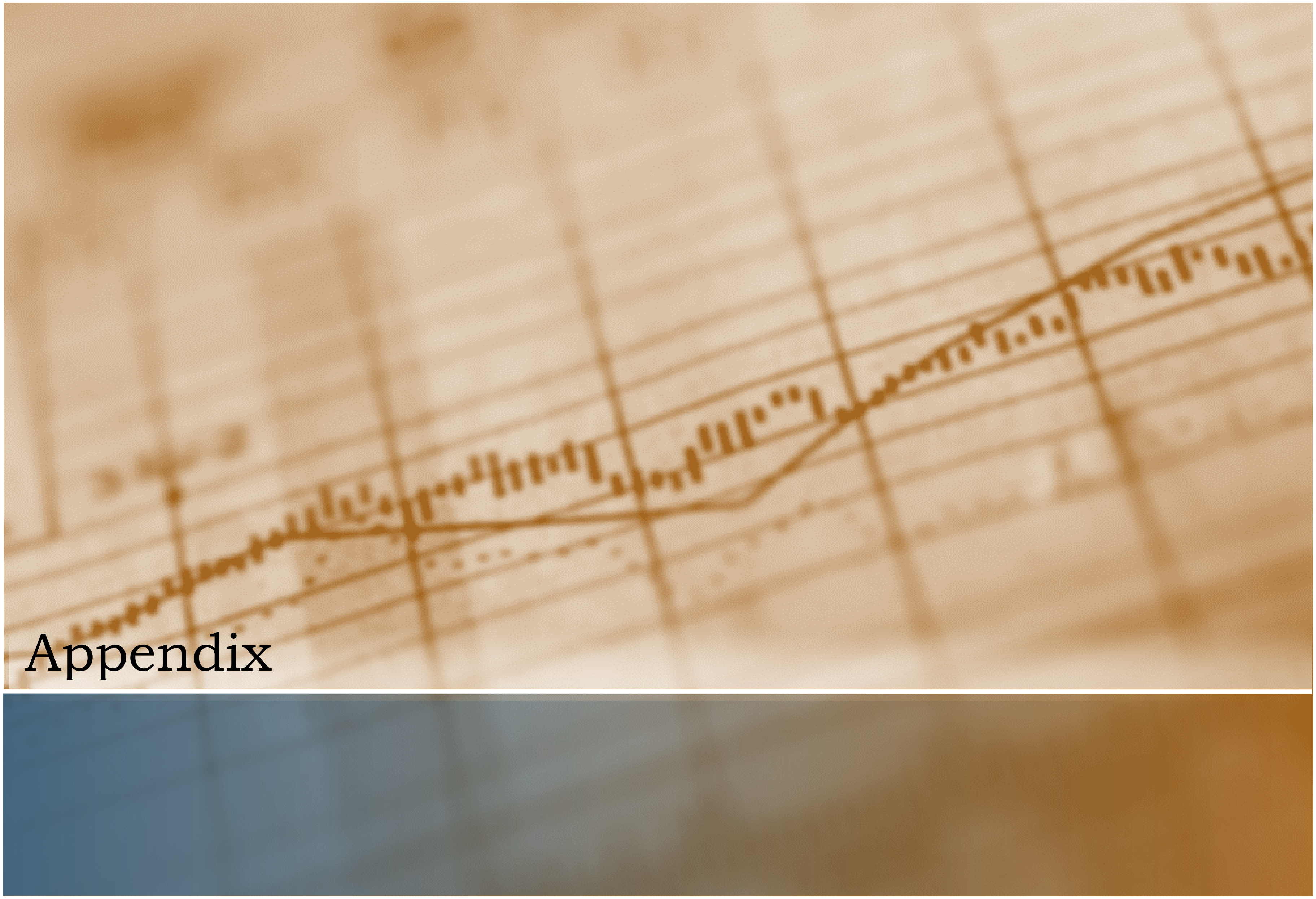
- The lowest income tax rate will increase from 10% to 15%
- The top income tax rate will increase from 35% to 39.6%
- The long-term capital gains tax rate will increase from 15% to 20%
- Dividends will be taxed at substantially higher rates
- The 2% payroll tax credit will expire

The Congressional Budget Office estimates that if sequestration and the impending changes in the tax code go into effect in January, the gross domestic product (GDP) could be cut by 4% in 2013, sending the economy into another recession. At the same time, it predicts unemployment would rise by almost a full percentage point, with a loss of about two million jobs.

Another potential threat to our economy is the on-going economic crisis that is occurring in Europe. Several countries in the Eurozone have relied on debt financing to support on-going programs and services to their citizens. Given the intertwined nature of the global economy and banking system how the European Union resolves this issue could affect American banks and businesses. Many major American corporations do a significant amount of business in these countries and have seen the amount of purchases decline significantly. If the European economy does not recover or at least stabilize, a global recession could occur which would certainly have consequences for the US economy.

While Europe has financial issues, the United States has a few of its own. The national debt and the budget deficit continue to weigh heavily on the economy. The amount owed in debt per person in the U.S., as of the date of this writing, is over $51,000. While both political parties agree that something needs to be done to stem the tide of debt, both have differing ideas on how to accomplish this.

No matter what is done in Washington or in Richmond over the next 5 years, there will certainly be ramifications on our local budget. While our local revenues, including real estate, continue to strengthen over the forecast period, we rely heavily on our federal and state partners to provide them funding needed to support critical safety net programs for our residents. Without this support, programs like food stamps, housing assistance, and education will be severely impacted.



Appendix

Appendix

Comparison of this Year's Forecast to last Year's Forecast:

The current financial forecast for the City is austere; however, both the City and Schools financial forecast have significantly improved since last year's FY 2012-13 Five Year Forecast. When comparing last year's forecast to this forecast it can be seen that the financial outlook is better in some of the years by as much as $86 million. Several variables contribute to the difference between last year's Five Year Forecast and this forecast. The best way to understand the impact of these variables is to review the City and School forecast separately. The only years to be compared are the out years of last year's forecast and the first four years of the current forecast. Five year forecasts are projections of both revenue and expenditures and, as result, to accurately cross walk the difference in change between forecasts, both must be individually analyzed. When comparing expenditures, negative numbers indicate that expenditures have decreased, thus making the deficit more favorable. The opposite is true with revenues. Negatives in revenues represent lost revenue, thus making the deficit more unfavorable. Positive revenue numbers indicate growth in revenues improving the deficit.

Total Forecast Comparison						
	FY 2013-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
FY 2012-13 Forecast (Last Year)	$ (90,093,166)	$ (132,258,618)	$ (157,640,527)	$ (168,467,270)	$ (165,850,621)	$ -
FY 2013-14 Forecast (Current)	-	(46,031,468)	(77,689,586)	(97,818,598)	(100,808,162)	(107,436,030)
Difference	**$ -**	**$ 86,227,150**	**$ 79,950,941**	**$ 70,648,672**	**$ 65,042,459**	**$ -**

The City's forecast has improved by nearly $40 million or more each year of the forecast compared to last year's projection. Expenditures have remained relatively close to what was projected; in fact, the difference between last year's projected overall expenditures and this year's forecasted overall expenditures is less than 1%. Revenue is the primary variable driving the change between forecast projections. City revenue is projected to be nearly $40 million more each year of the forecasted period when comparing to last year's forecast. This change for the better is almost entirely attributable to the projection of real estate revenue.

City				
	FY 2014	FY 2015	FY 2016	FY 2017
Last Year deficit:	$ (64,700,837)	$ (81,739,344)	$ (94,652,477)	$ (98,077,157)
Updated forecast deficit:	(22,649,273)	(42,135,912)	(51,362,386)	(55,201,546)
Change in deficit from last year forecast:	42,051,564	39,603,432	43,290,091	42,875,611
City Expenditures	(2,043,711)	(1,545,110)	(3,428,932)	(4,181,730)
City Revenue	40,007,853	38,058,322	39,861,159	38,693,880
Change in deficit from last year forecast:	$ 42,051,564	$ 39,603,432	$ 43,290,091	$ 42,875,610

Explanation of City Change

- City salary increases were not anticipated last year; however, the increase is offset by the VRS savings assumed by employee contributions increasing.
- Operating cost is slightly different as a result of SPSA increases previously reflected as expenditures not as loss in revenue.
- Updated debt service projections reflect more debt being retired than last year's forecast.
- Pay-as-you-go increase reflective of the adopted CIP and City Councils dedication of two cents to the Roadways CIP.
- Real estate did not decrease in FY 2012-13 as much as anticipated only -3.7% instead of 5%. In addition to this, a real estate tax increase was not anticipated last year.
- Increased revenue trends in consumer driven revenues.
- State and Federal revenues were anticipated to increase last year, this year they are assumed flat.
- General Fund fund balance was not used in last year's forecast and small amounts are used in this year's forecast.

Schools				
	FY 2014	FY 2015	FY 2016	FY 2017
Last Year deficit:	$ (67,557,781)	$ (75,901,183)	$ (73,814,793)	$ (67,773,464)
Updated forecast deficit:	(23,382,195)	(35,553,674)	(46,456,212)	(45,606,616)
Change:	**44,175,586**	**40,347,509**	**27,358,581**	**22,166,848**
School Expenditures	(38,241,826)	(40,661,010)	(48,671,248)	(57,765,433)
School Revenue	5,933,760	(313,501)	(21,312,657)	(35,598,585)
Change in deficit from last year forecast:	**$ 44,175,586**	**$ 40,347,509**	**$ 27,358,591**	**$ 22,166,848**

The Schools forecast has become more favorable in much of the same manner as the City's forecast. The Schools new Five Year Forecast, when compared to last year's, has improved by over $40 million in FY 2013-14 and FY 2014-15 and improved by over $20 million in FY 2015-16 and FY 2016-17. School State and Federal revenues are assumed to have no growth in this year's forecast; however, last year the Schools anticipated these sources to increase resulting in the decrease in assumed state and federal revenue. As noted in the "City Forecast" section, the projected amount of local City revenue provided to the Schools is projected to be nearly $20 million or more each year when compared to last year's forecast.

While revenue has increased in FY 2013-14 when comparing this year's forecast to last year's, School expenditures have declined. Forecasted salaries for FY 2013-14 declined $22.9 million in part due to the impacts of the early retirement incentive and reductions in certain federal grants. Fringe benefits are not forecasted to be as costly due to employees paying 2% of their retirement in FY 2013-14 and savings associated with lower salary costs.

City Plan 1 VRS Rates

Plan 1 Employees*										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
City VRS Contribution	16.48%	16.48%	17.58%	17.58%	19.68%	18.68%	18.68%	18.68%	19.68%	19.68%
Plan 1 Employee VRS Contribution	-	-	-	-	1%	2%	3%	4%	5%	5%
Total VRS Rate	**16.48%**	**16.48%**	**17.58%**	**17.58%**	**20.68%**	**20.68%**	**22.68%**	**22.68%**	**24.68%**	**24.68%**

* Plan 1 employees were hired prior to July 2011 and paying into their VRS through the phased in approach at 1% per year.

City Plan 2 VRS Rates

Plan 2 Employees*										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
City VRS Contribution	16.48%	16.48%	12.58%	12.58%	15.68%	15.68%	17.68%	17.68%	19.68%	19.68%
Plan 1 Employee VRS Contribution	-	-	5%	5%	5%	5%	5%	5%	5%	5%
Total VRS Rate	**16.48%**	**16.48%**	**17.58%**	**17.58%**	**20.68%**	**20.68%**	**22.68%**	**22.68%**	**24.68%**	**24.68%**

* Plan 2 employees were hired after July 2011 with no prior VRS years of service and paying into their VRS 5% per year.

School VRS Rates

School Employees										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
School VRS Contribution	14.89%	14.85%	9.53%	11.53%	16.96%	14.96%	12.96%	10.96%	8.96%	8.96%
Employee VRS Contribution	-	-	-	-	1%	2%	3%	4%	5%	5%
Total VRS Rate	**14.89%**	**14.85%**	**9.53%**	**11.53%**	**17.96%**	**16.96%**	**15.96%**	**14.96%**	**13.96%**	**13.96%**

List of Additional Programs That Could Be Impacted by Sequestration:

- Community Development Fund (Housing and Neighborhood Preservation)
- Section 8 Housing (Housing and Neighborhood Preservation)
- HOME Investment Partnership Program (Housing and Neighborhood Preservation)
- Homeless Assistance Grants (Housing and Neighborhood Preservation)
- State and Local Law Enforcement Assistance (Police)
- Juvenile Justice Programs (Police)
- Community Policing (Police)
- FEMA State and Local Programs (Fire)
- Disaster Relief (Fire)
- Emergency Food and Shelter (Fire)
- Title I Grants to Local Educational Agencies (VBCPS)
- Title II Improving Teacher Quality State Grants (VBCPS)
- Title IV 21st Century Community Learning Centers (VBCPS)
- Impact Aid - Public Law 874 (VBCPS)
- Title VI-B Special Education Grants to States (VBCPS)
- Special Education Preschool Grants to States (VBCPS)
- Title III English Language Acquisition State Grants (VBCPS)
- Perkins - State Grants for Career and Technical Education (VBCPS)
- Department of Defense - Public Law 486 (VBCPS)
- Adult Basic Education (VBCPS)
- NJROTC Reimbursements/Rebates (VBCPS)
- Department of Defense Education Activity (DoDEA) Strategic Foreign Languages Expansion Program (S-FLEP) Grant (VBCPS)

- Department of Defense Education Activity (DoDEA) Military Connected Academic Support Program (MCASP) Grant (VBCPS)
- National Security Agency (NSA) STARTALK Elementary Chinese Summer Academy Grant (VBCPS)
- Food Stamps Administration (Human Services)
- Family Preservation (Human Services
- Temporary Assistance to Needy Families (Human Services)
- Refugee/Entrant Assistance (Human Services)
- Home Energy Assistance (Human Services)
- Child Care Assistance (Human Services)
- Child Care Development Fund (Human Services)
- Chafee Education/Training (Human Services)
- Child Welfare Services (Human Services)
- Foster Care Title IV-E (Human Services)
- Adoption Assistance (Human Services)
- Social Services Block Grant (Human Services)
- Independent Living (Human Services)
- FAMIS (Human Services)
- Medical Assistance Programs (Human Services)

City of Virginia Beach | *Fiscal Year 2014-2018*

City and Schools	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Budget	FY 2015 Budget	FY 2016 Budget	FY 2017 Budget	FY 2018 Budget
6010 Personal Services	799,463,197	802,180,438	783,287,584	814,043,583	791,748,665	802,375,536	808,826,500	814,960,779	822,150,907	824,872,166
6020 Fringe Benefits	276,774,079	267,437,284	243,751,332	261,018,922	303,611,069	305,305,248	322,660,237	331,982,531	344,145,720	359,366,871
6030 Contractual Services	142,724,485	160,684,324	154,169,064	173,550,410	167,620,662	169,968,084	171,717,149	173,491,107	175,552,529	177,656,599
6040 Internal Services	30,315,334	31,092,250	30,406,642	31,256,914	35,201,507	36,678,261	37,174,358	37,680,378	38,196,517	38,722,980
6050 Other Charges	231,962,594	241,903,618	263,225,993	249,503,990	233,978,639	224,703,706	226,300,722	228,134,227	230,382,915	232,690,271
6060 Capital Outlay	43,108,192	39,537,701	12,174,809	10,583,622	12,937,647	12,699,247	12,796,042	12,538,582	12,708,567	12,916,421
6070 Leases and Rentals	4,249,713	4,519,828	4,273,599	4,196,682	4,218,300	4,302,666	4,388,719	4,476,494	4,566,024	4,657,344
6080 Land Structures and	2,344,009	1,933,448	2,108,850	3,490,668	2,365,184	2,412,488	2,460,738	2,509,953	2,560,152	2,611,355
6081 Pay-As-You-Go	70,014,731	54,884,677	34,346,430	41,319,475	45,655,285	66,295,606	66,622,880	77,777,931	75,428,727	75,487,825
6090 Depreciation and Bad Debt	425,000	433,500	450,000	475,000	485,000	485,000	485,000	485,000	485,000	485,000
6100 Debt Service Charges	141,204,711	146,432,893	147,203,422	148,614,496	155,772,999	156,950,586	162,242,720	164,478,199	168,243,158	170,559,973
6110 Reserves/Dedicated Tax Reserves	12,771,076	8,056,663	20,178,363	6,288,177	5,087,973	10,384,345	11,350,430	13,623,350	16,382,802	18,830,734
6110 Future Capital Projects	9,909,296	9,000,000	8,261,274	12,531,592	8,711,081	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
	1,765,266,417	**1,768,096,624**	**1,703,837,362**	**1,756,873,531**	**1,767,394,011**	**1,799,560,773**	**1,834,025,496**	**1,869,138,530**	**1,897,803,017**	**1,925,857,539**

	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Budget	FY 2015 Budget	FY 2016 Budget	FY 2017 Budget	FY 2018 Budget
4110 Real Estate	506,261,981	499,340,166	473,644,801	460,295,808	474,312,812	462,146,656	457,972,275	457,972,275	462,526,118	471,724,878
4111 Personal Property	135,568,880	119,922,496	118,574,744	123,689,318	132,412,895	138,327,181	145,235,168	151,438,359	157,930,838	163,523,165
4120 General Sales Tax	56,040,158	51,129,941	50,596,245	52,958,340	54,098,252	57,987,462	59,593,715	61,244,461	62,940,932	64,684,396
4121 Utility Tax	49,045,450	49,393,006	47,253,219	45,661,307	44,979,473	42,898,636	42,009,902	41,165,606	40,363,524	39,601,546
4122 Business License	43,180,830	40,556,906	40,771,644	41,342,542	42,423,932	42,791,543	43,647,374	44,520,321	45,410,728	46,318,942
4123 Automobile License	8,960,647	9,050,812	8,734,363	9,275,877	9,627,435	9,150,843	9,150,843	9,150,843	9,150,843	9,150,843
4124 Cigarette Tax	13,199,518	12,935,527	12,721,345	11,778,927	12,153,510	12,117,050	11,874,708	11,637,214	11,404,470	11,176,381
4125 Amusement Tax	5,597,076	5,300,732	5,700,550	5,579,451	5,800,563	5,941,774	6,068,759	6,198,530	6,331,147	6,466,675
4126 Hotel Room Tax	24,133,253	23,891,018	22,659,486	26,051,968	26,608,521	28,104,282	29,259,085	30,464,749	31,723,539	33,037,826
4127 Restaurant Meal Tax	48,745,131	49,829,621	48,188,033	51,752,268	55,155,356	58,140,927	60,749,619	63,668,455	66,728,277	69,935,910
4128 Other Taxes	16,143,498	14,292,820	16,398,883	14,677,555	16,690,556	16,577,982	17,000,753	17,437,974	17,890,195	18,358,005
4130 Permits, Privilege Fees, and	5,854,200	4,401,926	4,699,896	4,079,791	4,741,943	4,884,205	5,030,731	5,181,653	5,337,103	5,497,216
4140 From the Use of Money and	18,770,789	16,581,340	10,783,936	9,804,051	8,983,942	9,069,132	9,151,001	9,233,689	9,317,203	9,401,553
4150 Charges for Services	171,842,199	189,553,170	197,046,050	224,256,934	239,243,046	249,145,929	248,632,875	254,303,391	260,109,750	266,073,402
4160 Miscellaneous Revenue	15,315,597	16,561,697	16,643,811	20,587,660	14,889,436	15,206,653	15,421,533	15,629,121	15,848,351	16,074,160
4170 Fines and Forfeitures	7,950,911	8,526,239	8,219,750	6,872,815	6,819,373	7,023,954	7,234,673	7,451,712	7,675,264	7,905,522
4200 State Shared Sales Tax	75,934,465	72,941,384	67,116,477	72,311,348	69,064,589	73,896,210	75,331,088	77,591,021	79,918,751	82,316,314
4201 Other Sources from the	437,698,784	409,487,708	371,924,568	362,984,547	373,045,167	366,466,085	361,662,686	361,636,406	366,478,060	366,478,060
4300 Revenue from the Federal	106,910,488	140,069,677	128,470,021	152,962,388	120,604,286	122,249,358	121,751,999	120,614,881	120,687,068	120,737,962
4400 Non-Revenue Receipts	4,478,456	3,664,693	2,431,550	3,006,130	2,835,095	2,835,095	2,835,095	2,835,095	2,835,095	2,835,095
4900 Fund Balance/Dedicated Fund Balance	13,634,106	30,665,745	51,257,990	56,944,506	52,903,829	28,568,349	26,722,030	21,944,178	16,387,600	7,123,658
	1,765,266,417	**1,768,096,624**	**1,703,837,362**	**1,756,873,531**	**1,767,394,011**	**1,753,529,305**	**1,756,335,910**	**1,771,319,932**	**1,796,994,855**	**1,818,421,508**
Difference:	0	0	0	0	0	-46,031,468	-77,689,586	-97,818,598	-100,808,162	-107,436,031

City of Virginia Beach *Fiscal Year 2014-2018*

City

	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast
Personal Services	319,526,685	321,475,769	313,250,510	320,788,559	322,910,857	330,155,713	333,293,272	336,412,989	339,564,204	340,234,183
Fringe Benefits	112,030,605	108,893,464	109,268,927	112,613,404	129,214,799	127,561,092	137,622,061	141,929,830	150,880,453	157,774,009
Contractual Services	95,302,930	105,218,898	104,485,368	121,422,407	115,590,070	118,320,656	120,209,396	122,229,047	124,290,469	126,394,539
Internal Services	30,315,334	31,092,250	30,406,642	31,256,914	35,201,507	36,678,261	37,174,358	37,680,378	38,196,517	38,722,980
Other Charges	139,098,206	137,745,731	139,755,942	137,269,081	129,781,144	132,936,078	135,252,517	137,611,963	140,018,670	142,473,588
Capital Outlay	5,644,746	4,732,304	5,421,826	8,318,561	9,631,178	9,823,802	10,020,278	10,220,684	10,425,097	10,633,599
Leases and Rentals	4,249,713	4,519,828	4,273,599	4,196,682	4,218,300	4,302,666	4,388,719	4,476,494	4,566,024	4,657,344
Land Structures and	2,344,009	1,933,448	2,108,850	3,490,668	2,365,184	2,412,488	2,460,738	2,509,953	2,560,152	2,611,355
Pay-As-You-Go	56,078,423	54,884,677	33,746,430	41,319,475	45,655,285	66,295,606	66,622,880	76,777,931	74,428,727	74,487,825
Depreciation and Bad Debt	425,000	433,500	450,000	475,000	485,000	485,000	485,000	485,000	485,000	485,000
Debt Service Charges	100,050,282	102,249,219	103,343,444	103,802,413	111,025,013	110,969,575	115,674,876	116,866,787	119,394,906	122,265,494
Reserves/Dedicated Tax Reserves	12,771,076	8,056,663	8,930,152	6,288,177	5,087,973	3,184,345	4,150,430	6,423,350	9,182,802	11,630,734
Future Capital Projects	9,909,296	9,000,000	8,261,274	12,531,592	8,711,081	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
	887,746,305	**890,235,751**	**863,702,964**	**903,772,933**	**919,877,391**	**950,125,282**	**974,354,526**	**1,000,624,405**	**1,020,993,020**	**1,039,370,650**

	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast
Local Contribution- Schools	-394,330,115	-379,391,780	-365,762,238	-354,089,081	-387,445,180	-374,542,765	-376,719,208	-380,073,419	-385,049,502	-391,293,244
Real Estate	506,261,981	499,340,166	473,644,801	460,295,808	474,312,812	462,146,656	457,972,275	457,972,275	462,526,118	471,724,878
Personal Property	135,568,880	119,922,496	118,574,744	123,689,318	132,412,895	138,327,181	145,235,168	151,438,359	157,930,838	163,523,165
General Sales Tax	56,040,158	51,129,941	50,596,245	52,958,340	54,098,252	57,987,462	59,593,715	61,244,461	62,940,932	64,684,396
Utility Tax	49,045,450	49,393,006	47,253,219	45,661,307	44,979,473	42,898,636	42,009,902	41,165,606	40,363,524	39,601,546
Business License	43,180,830	40,556,906	40,771,644	41,342,542	42,423,932	42,791,543	43,647,374	44,520,321	45,410,728	46,318,942
Automobile License	8,960,647	9,050,812	8,734,363	9,275,877	9,627,435	9,150,843	9,150,843	9,150,843	9,150,843	9,150,843
Cigarette Tax	13,199,518	12,935,527	12,721,345	11,778,927	12,153,510	12,117,050	11,874,708	11,637,214	11,404,470	11,176,381
Amusement Tax	5,597,076	5,300,732	5,700,550	5,579,451	5,800,563	5,941,774	6,068,759	6,198,530	6,331,147	6,466,675
Hotel Room Tax	24,133,253	23,891,018	22,659,486	26,051,968	26,608,521	28,104,282	29,259,085	30,464,749	31,723,539	33,037,826
Restaurant Meal Tax	48,745,131	49,829,621	48,188,033	51,752,268	55,155,356	58,140,927	60,749,619	63,668,455	66,728,277	69,935,910
Other Taxes	16,143,498	14,292,820	16,398,883	14,677,555	16,690,556	16,577,982	17,000,753	17,437,974	17,890,195	18,358,005
Permits, Privilege Fees, and	5,854,200	4,401,926	4,699,896	4,079,791	4,741,943	4,884,205	5,030,731	5,181,653	5,337,103	5,497,216
From the Use of Money and	17,765,789	15,586,340	9,867,936	8,888,051	8,105,851	8,186,910	8,268,779	8,351,467	8,434,981	8,519,331
Charges for Services	153,575,787	169,945,999	177,546,297	207,362,524	222,539,320	232,441,933	231,928,879	237,599,395	243,405,754	249,369,406
Miscellaneous Revenue	4,816,110	5,073,796	5,814,881	6,927,884	6,630,392	6,879,957	7,094,837	7,307,681	7,526,911	7,752,720
Fines and Forfeitures	7,950,911	8,526,239	8,219,750	6,872,815	6,819,373	7,023,954	7,234,673	7,451,712	7,675,264	7,905,522
State Shared Sales Tax	0	0	0	0	0	0	0	0	0	0
Other Sources from the	130,122,515	119,174,222	113,070,934	110,470,990	112,341,803	112,342,311	112,342,311	112,342,311	112,342,311	112,342,311
Revenue from the Federal	43,339,013	45,436,556	44,654,849	44,970,635	40,276,106	40,373,310	40,449,376	40,500,466	40,572,653	40,623,547
Non-Revenue Receipts	4,478,456	3,664,693	2,431,550	3,006,130	2,835,095	2,835,095	2,835,095	2,835,095	2,835,095	2,835,095
Fund Balance/Dedicated Fund Balance	7,297,217	22,174,715	17,915,796	22,219,833	28,769,383	12,866,764	11,190,942	12,866,872	10,310,294	5,046,352
	887,746,305	**890,235,751**	**863,702,964**	**903,772,933**	**919,877,391**	**927,476,009**	**932,218,614**	**949,262,019**	**965,791,474**	**982,576,822**
Difference:	0	0	0	0	0	-22,649,273	-42,135,912	-51,362,386	-55,201,546	-56,793,828

City of Virginia Beach *Fiscal Year 2014-2018*

Schools

	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast
Personal Services	$ 479,936,512	$ 480,704,669	$ 470,037,074	$ 493,255,024	$ 468,677,101	$ 472,219,823	$ 475,533,228	$ 478,547,790	$ 482,586,703	$ 484,637,983
Fringe Benefits	$ 164,743,474	$ 158,543,820	$ 134,482,405	$ 148,405,518	$ 174,566,732	$ 177,744,156	$ 185,038,176	$ 190,052,701	$ 193,265,267	$ 201,592,862
Contractual Services	$ 47,421,555	$ 55,465,426	$ 49,683,696	$ 52,128,003	$ 52,023,463	$ 51,647,428	$ 51,507,753	$ 51,262,060	$ 51,262,060	$ 51,262,060
Internal Services	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Charges	$ 92,864,388	$ 104,157,887	$ 123,470,051	$ 112,234,909	$ 104,194,869	$ 91,767,628	$ 91,048,205	$ 90,522,264	$ 90,364,245	$ 90,216,683
Capital Outlay	$ 37,463,446	$ 34,805,397	$ 6,752,983	$ 2,265,061	$ 3,306,469	$ 2,875,445	$ 2,775,764	$ 2,317,898	$ 2,283,470	$ 2,282,822
Leases and Rentals	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Land Structures and	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Pay-As-You-Go	$ 13,936,308	$ -	$ 600,000	$ -	$ -	$ -	$ -	$ 1,000,000	$ 1,000,000	$ 1,000,000
Depreciation and Bad Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Debt Service Charges	$ 41,154,429	$ 44,183,674	$ 43,859,978	$ 44,812,083	$ 44,747,986	$ 45,981,011	$ 46,567,844	$ 47,611,412	$ 48,848,252	$ 48,294,479
Reserve for Contingencies	$ -	$ -	$ 11,248,211	$ -	$ -	$ 7,200,000	$ 7,200,000	$ 7,200,000	$ 7,200,000	$ 7,200,000
	$ 877,520,112	**$ 877,860,873**	**$ 840,134,398**	**$ 853,100,598**	**$ 847,516,620**	**$ 849,435,491**	**$ 859,670,970**	**$ 868,514,125**	**$ 876,809,997**	**$ 886,486,889**

	FY 2009 Amended	FY 2010 Amended	FY 2011 Amended	FY 2012 Amended	FY 2013 Adopted	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast
Local Contribution- Schools	$ 394,330,115	$ 379,391,780	$ 365,762,238	$ 354,089,081	$ 387,445,180	$ 374,542,765	$ 376,719,208	$ 380,073,419	$ 385,049,502	$ 391,293,244
Real Estate	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Personal Property	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General Sales Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Utility Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business License	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Automobile License	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cigarette Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amusement Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Hotel Room Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restaurant Meal Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Permits, Privilege Fees, and	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
From the Use of Money and	$ 1,005,000	$ 995,000	$ 916,000	$ 916,000	$ 878,091	$ 882,222	$ 882,222	$ 882,222	$ 882,222	$ 882,222
Charges for Services	$ 18,266,412	$ 19,607,171	$ 19,499,753	$ 16,894,410	$ 16,703,726	$ 16,703,996	$ 16,703,996	$ 16,703,996	$ 16,703,996	$ 16,703,996
Miscellaneous Revenue	$ 10,499,487	$ 11,487,901	$ 10,828,930	$ 13,659,776	$ 8,259,044	$ 8,326,696	$ 8,326,696	$ 8,321,440	$ 8,321,440	$ 8,321,440
Fines and Forfeitures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State Shared Sales Tax	$ 75,934,465	$ 72,941,384	$ 67,116,477	$ 72,311,348	$ 69,064,589	$ 73,896,210	$ 75,331,088	$ 77,591,021	$ 79,918,751	$ 82,316,314
Other Sources from the	$ 307,576,269	$ 290,313,486	$ 258,853,634	$ 252,513,557	$ 260,703,364	$ 254,123,774	$ 249,320,375	$ 249,294,095	$ 254,135,749	$ 254,135,749
Revenue from the Federal	$ 63,571,475	$ 94,633,121	$ 83,815,172	$ 107,991,753	$ 80,328,180	$ 81,876,048	$ 81,302,623	$ 80,114,415	$ 80,114,415	$ 80,114,415
Non-Revenue Receipts	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School Reversion/Fund Balance	$ 6,336,889	$ 8,491,030	$ 33,342,194	$ 34,724,673	$ 24,134,446	$ 15,701,585	$ 15,531,088	$ 9,077,306	$ 6,077,306	$ 2,077,306
	$ 877,520,112	**$ 877,860,873**	**$ 840,134,398**	**$ 853,100,598**	**$ 847,516,620**	**826,053,296**	**824,117,296**	**822,057,913**	**831,203,381**	**835,844,686**
Difference:	0	0	0	0	0	-23,382,195	-35,553,674	-46,456,212	-45,606,616	-50,642,203