# Forecast Scenarios

## MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

**Five-Year Financial Plan**

The City is in the process of developing a multi-year plan for financial sustainability to identify future expenditure needs and revenue challenges and develop strategies for addressing them. The first step in this process is to improve the estimation of future revenues and expenditures. The next steps are to use the improved estimates to model the future impact of current policy decisions and recommend and adopt policies that are designed to improve the City's estimated future financial condition.

**Multi-year Forecasts**

Multi-year General Fund revenue and expenditure projections have long been included in the City's budget as estimates of future surpluses and shortfalls. This budget contains more robust forecast assumptions than those in past years. In addition to basic five year trend projections, which rely on past patterns of revenue and expenditure changes, the new forecast model includes the impact on the operating budget of projects in the CIP, the impact on future operating budgets of past or current policy changes, and a more detailed estimate of future economic growth based on specific land use and development plans underway or under consideration. The economic development projections include the estimated impact of the National Science Foundation on local sales, meals and transient occupancy taxes and the impact of planned other new construction throughout the City on real estate property values and retail sales, business licenses and other revenue sources. The new forecast model is designed to allow officials and residents to examine the future impacts of changes in assumptions and/or policy choices. This model is to be the basis for the five-year financial plan that will be developed further in the process.

**Five-year Forecast for FY 2015 to FY 2019**

The charts on the following pages display the anticipated future surpluses or shortfalls resulting from expenditures in the FY 2015 budget growing at a fixed rate and revenues growing at a range of paces from low to medium to high. They also show the impact of development on revenues by adjusting the medium growth baseline.

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## FORECAST MODEL ASSUMPTIONS

**REVENUE GROWTH ASSUMPTIONS.** Several different scenarios of General Fund revenue growth have been developed for the period FY 2014 through FY 2019 based on varying assumptions about the rate of increase for each of the revenue categories listed below. Each scenario is based on FY 2015 approved tax and fee rates.

Annualized Increases

| | Medium | | | |
|---|---|---|---|---|
| Category | Base | Dev. Impact | Low | High |
| Real Estate Assessments | 3.1% | 3.6% | 2.0% | 4.3% |
| Personal Property | 5.0% | 5.0% | 3.0% | 7.0% |
| Local Sales Tax | 3.8% | 5.3% | 1.8% | 4.8% |
| Business License Tax | 2.7% | 3.1% | 0.7% | 4.7% |
| Transient Lodging Tax | 2.1% | 5.0% | 1.1% | 4.1% |
| Restaurant Meals Tax | 4.1% | 4.4% | 2.1% | 6.1% |
| Other Misc. Taxes | 1.0% | 1.0% | 0.0% | 2.0% |
| Intergovernmental | 1.6% | 1.6% | 0.0% | 3.0% |
| **Total Weighted Growth Rate** | **2.9%** | **3.3%** | **1.5%** | **4.3%** |

**The medium growth scenario**: These assumptions are based on the annualized historic rates of growth in revenues from FY 2010 to FY 2013, the last year for which we have full data. These rates of increase represent the continuation of the slow recovery in revenues since the 2007 and 2008 recession. It is assumed that the slow rate of growth will continue because of constrained federal spending and a sluggish economy. It does not anticipate another economic downturn within the next five years, which would make future shortfalls larger if one were to occur.

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

The estimates are conservative because it is difficult to accurately quantify the effects of future economic development and some of the development may be delayed. However, even under conservative estimates, under the base medium scenario, new development increases the annualized growth rate in revenues from 3.1% to 3.6% annually. By FY 2019, this equates to over $10 million dollars in additional tax revenue annually.

**High and low growth scenario:** Because of the uncertainty in doing long term projections, we have also included low and high growth projections. The low projections assume very sluggish growth, and the high projections assume more rapid economic growth and faster growth in real estate assessments.

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## FORECAST MODEL ASSUMPTIONS

**EXPENDITURE GROWTH ASSUMPTIONS**. The General expenditure growth rate is assumed to be the same in all scenarios.

Annualized Increases

| Category | Growth |
|---|---|
| City Personnel | 2.7% |
| City Non-Personnel | 2.6% |
| Other Costs | 2.4% |
| Cash Capital | * |
| Debt Service | * |
| Transit Subsidies | 11.0% |
| Schools | 3.0% |
| **Total Weighted Growth Rate** | **3.8%** |
| **Growth Rate with CIP Impact** | **4.1%** |

*Cash Capital and Debt Service reflect the 10 year CIP.

Expenditure growth is generally based on historic rates of growth in the various categories from FY 2010 to FY 2013, the last year for which a full year's data is available, as well as on the best information available regarding future growth in costs.

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

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

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

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

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

**CIP Impacts:** Through the CIP, the City is now modelling the long-term impacts of Capital Budget decisions on the operating budget. The impact of the CIP budget increases the annualized growth rate by about 0.3% per year. By FY 2019, the CIP impact on operating expenditures adds approximately $9.5 million to total expenditures. Information regarding the additional operating budget impact of specific projects is included in the CIP budget document.

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## FORECAST MODEL ASSUMPTIONS

**EXPENDITURE GROWTH ASSUMPTIONS**.

Development of the five-year financial plan will require the development of a more robust estimate of future expenditures along the lines of what has been done for revenues in the approved budget. Part of that has been accomplished with the incorporation of the future impact on the operating budget of the completion of capital projects.

Additional expenditure pressures that have been identified but not yet incorporated in specific detail in the model are employee benefits, ACPS operating cost increases resulting from the construction of new facilities, Washington Metropolitan Area Transit Authority (Metro) future needs, services related to new development such as the Beauregard corridor, and infrastructure needs such as storm water.

As the fiver-year financial plan is developed, the model for forecasting future expenditures will be fine tuned to include more detailed impacts of these and other anticipated costs.

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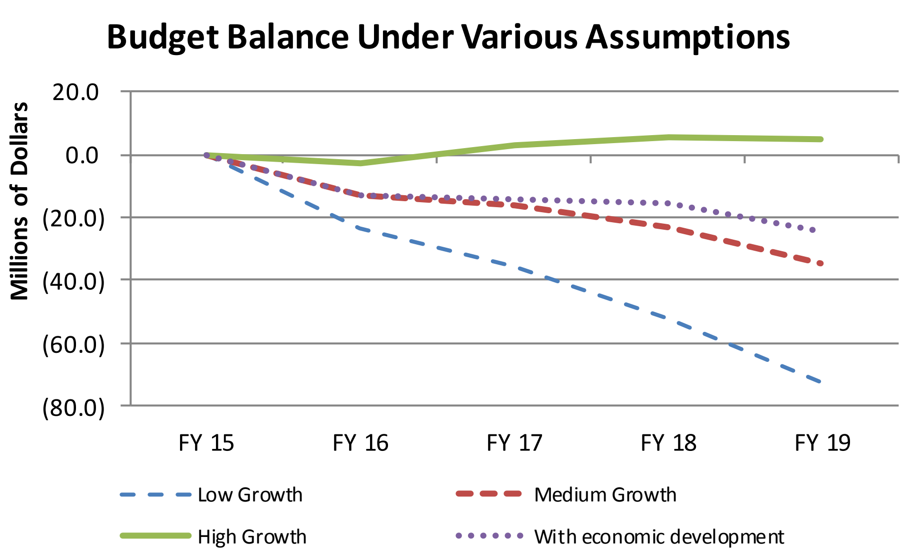
## BUDGET IMBALANCE UNDER VARIOUS SCENARIOS

With a long-term forecast growth rate in City expenditures of 4.1%, including capital budget operating impacts, annual revenues must grow by at least that rate to bring the budget into long-term balance. Since real estate revenues make up approximately 58% of General Fund revenues, changes in real estate assessments drive overall revenue growth. In the high growth scenario, real estate assessments are scheduled to grow at 4.3%; in all the others, real estate assessments are expected to grow at 3.6% or less. Only in the high growth scenario is the budget in long-term balance.

| Budget Balance Under Various Assumptions | FY 15 | FY 16 | FY 17 | FY 18 | FY 19 |
|---|---|---|---|---|---|
| Medium Growth | $0 | ($12,800,000) | ($16,300,000) | ($23,400,000) | ($34,900,000) |
| Medium Growth with Economic Development and Capital Impacts | $0 | ($12,800,000) | ($14,400,000) | ($15,800,000) | ($24,200,000) |
| Low Growth | $0 | ($23,200,000) | ($35,800,000) | ($51,800,000) | ($72,700,000) |
| High Growth | $0 | ($2,600,000) | $2,900,000 | $5,600,000 | $4,500,000 |



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## TAX RATE NEEDED TO SUSTAIN A BALANCED BUDGET

The chart below shows the real estate tax rate needed to sustain a balanced budget for the period FY 2015 through FY 2019 under current policy. The budget must be balanced either through revenue increases or expenditure decreases.

The inclusion of revenues from new development in the City increases revenues by almost $11 million dollars in FY 2019 compared to the medium growth scenario. As shown in the chart below, in FY 2019, this is expected to be the equivalent of approximately 2.6 cents of the real estate tax rate per $100 of assessed value.