



Five Year Financial Planning Model Updated

MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-Year Financial Planning Model

The City has long used multi-year financial forecasting as a planning and communication tool. In calendar year 2014, as part of the FY 2015 budget process, the City improved its forecast model from a static estimate of future revenues and expenditures based on current services to a multi-layered forecasting tool that now allows for more dynamic modeling of a greater number of variables and scenarios. Staff updated the model for the FY 2016 budget and again for the November 2015 City Council annual retreat. The revenue and expenditure assumptions have since been updated to reflect the decisions made in the FY 2017 City Council approved budget coupled with input from ongoing monitoring of the economic climate. The updated five year financial planning model combines projections of future revenues and expenditures based on historical analysis and economic indicators with planned or expected changes such as the proposed Capital Improvement Program (CIP) out-year funding, Alexandria City Public Schools (ACPS) projected enrollment changes and facility expansion plans, five-year financial forecast, the expiration of grants, and future changes in programmed service delivery. The updated model also includes the ability to layer various policy options under consideration on top of the baseline forecast in order to examine their individual and collective impact on the City's financial future.

Multi-year Forecasts

The multi-year financial planning model presented in November 2015 included 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 included the estimated impact of the National Science Foundation on transient occupancy taxes and the impact of planned other new construction throughout the City on real estate property values and other revenue sources. The multi-year forecast also includes the continuing growth of Potomac Yard and its effect on General Fund revenues. While most of the revenues from Potomac Yard development are set aside into a special fund to pay the principal and interest on bonds that are scheduled to be issued in 2017 for the building of the Potomac Yard Metrorail station, a percentage of the revenue resulting from Potomac Yard appreciation is applied to the General Fund to cover the estimated costs of City services to the new development.

The most significant difference between the November 2015 and current five-year model is the three cent increase in the real estate property tax approved by City Council in the FY 2017 budget, of which one cent supports City and ACPS operating expenditures and two cents were entirely allocated for capital improvement projects. In addition to increasing the real estate tax rate, the budget also reflects approximately \$8.3 million in service and efficiency cost reductions and nearly \$1 million in increased firefighter pay for market competitiveness, \$0.5 million in parking and traffic initiatives, and approximately \$2.7 million in other service enhancements. As a result of these adjustments, the \$22.4 million prior projected shortfall in FY 2017 has been eliminated to achieve a balanced budget with no use of fund balance, and the \$28.6 million projected shortfall for FY 2018 has been reduced to \$18.9 million. The shortfalls in FY 2019 and FY 2020 have been reduced from \$36.8 million and \$43.4 million to \$28.7 million and \$35.2 million respectively, and the shortfall in FY 2021 has been reduced from \$53.6 million to \$48.0 million.

Also included in the current model is the estimated five year cost to fully fund school enrollment growth and the ACPS approved CIP, which is \$60 million greater over a 5 year period than the amount of school project funding included in the City approved CIP. Included in those future costs are a Pre-K center and a West End elementary school, which were both funded in FY 2017 in the City CIP, a swing space elementary school, and a specialized secondary academy, and a second Pre-K facility. If the City fully funds the enrollment growth and facility expansion projects in the ACPS approved FY 2017 - FY 2026 CIP, the General Fund is estimated to increase by \$9.3 million in FY 2018 and by \$23.8 million over the FY 2017 approved budget by FY 2021.

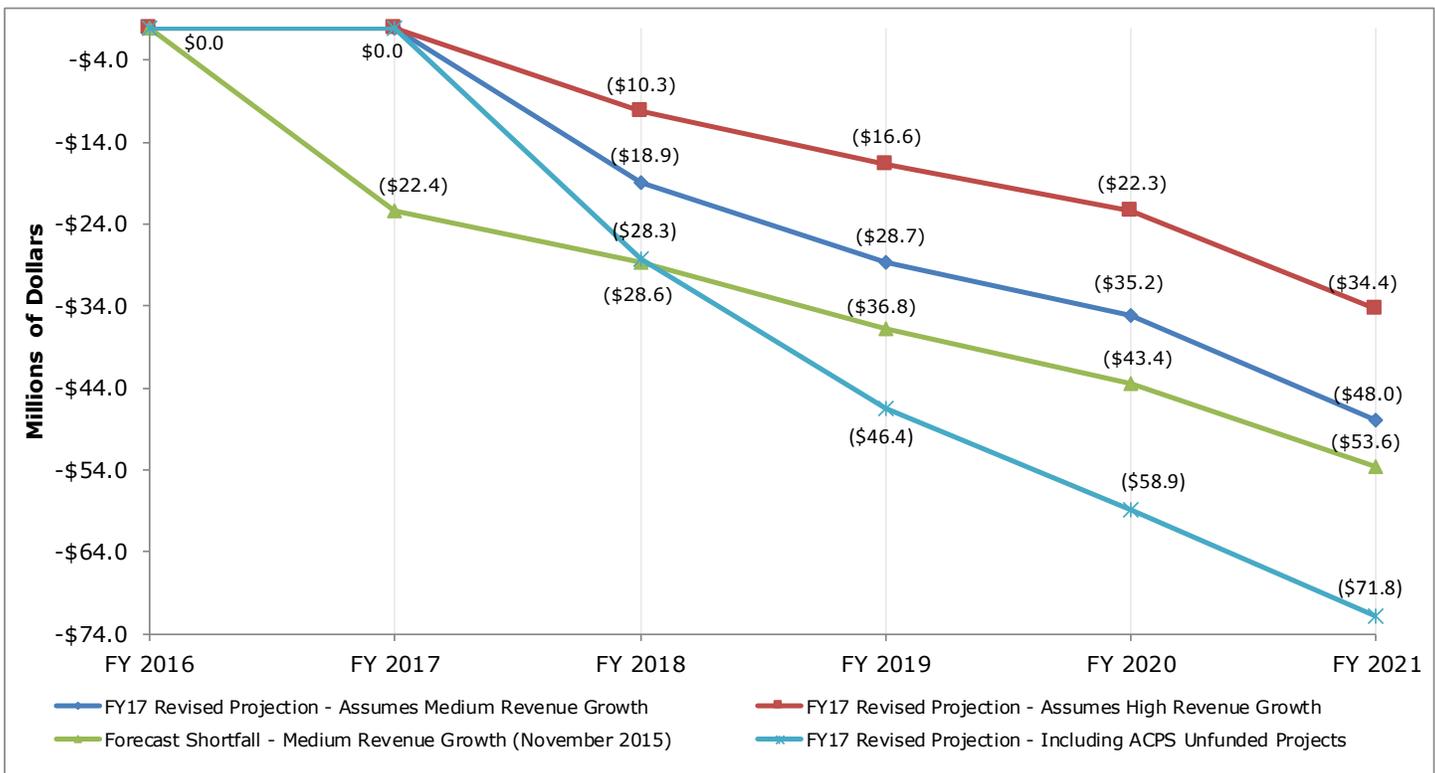


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Five-year Forecast for FY 2017 to FY 2021

The charts below display's the anticipated future surpluses or shortfalls resulting from expenditures in the FY 2017 budget growing at a fixed rate and revenues growing at a medium rate of growth. They also show the impact of planned development on revenues by adjusting the medium growth baseline and shows the impact of including ACPS operating costs and debt service of projects not funded in the City's approved FY 2017 - FY 2026 Capital Improvement Program (CIP).





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BUDGET IMBALANCE UNDER THE BASELINE ASSUMPTION

The City's revenue and expenditure growth rates are projected to be structurally out of balance starting in FY 2018. The City's revenues at current tax rates are not expected to keep up with projected expenditures going forward, resulting in a fiscal imbalance. The structural imbalance is estimated to be \$18.9 million in FY 2018, growing to \$48.0 million by FY 2021. However, since each year's budget will be balanced when the budget for that year is adopted, these deficits will be eliminated before they occur.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	402,552,010	414,447,617	424,672,008	435,451,826	446,543,604
Personal Property	46,080,000	46,512,929	47,101,187	47,701,211	48,313,235
Sales Tax	27,075,000	27,616,500	28,168,830	28,732,207	29,306,851
Utility Tax	12,700,000	13,017,500	13,342,938	13,676,511	14,018,424
Business License Tax	33,300,000	33,549,750	33,801,373	34,054,883	34,310,295
Recordation Tax	5,300,000	5,353,000	5,406,530	5,460,595	5,515,201
Transient Lodging	12,000,000	12,120,000	12,241,200	12,363,612	12,487,248
Restaurant Food	18,800,000	19,176,000	19,559,520	19,950,710	20,349,725
Communications Sales Tax	10,300,000	10,248,500	10,197,258	10,146,271	10,095,540
Other Local Taxes	11,602,709	11,621,828	11,625,715	11,637,470	11,657,057
Federal Revenue	9,600,382	9,600,382	9,600,382	9,600,382	9,600,382
State Revenue	46,628,595	46,628,595	46,628,595	46,628,595	46,628,595
Other Revenue	42,594,942	44,425,422	46,797,847	50,423,286	53,196,808
Total Revenue	678,533,638	694,318,022	709,143,382	725,827,560	742,022,965

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	223,693,920	227,495,385	234,341,424	241,457,111	248,854,494
City Non-Personnel	88,845,898	90,861,430	92,969,782	95,107,143	97,308,133
Other Costs	45,455,097	46,327,984	47,217,846	48,125,013	49,049,826
Debt Service	68,845,983	78,842,606	85,267,624	89,309,421	91,048,841
Cash Capital	25,224,991	24,748,450	25,416,818	26,096,590	26,804,499
Transit Subsidies	19,906,276	20,938,713	22,048,209	23,241,581	24,526,301
Schools	206,561,472	220,686,518	225,948,271	231,206,866	236,926,102
Total Expenditures	678,533,638	709,901,086	733,209,974	754,543,726	774,518,196
Operating Impact from CIP	-	3,357,826	4,639,592	6,442,946	15,501,049
Total Expenditures	678,533,638	713,258,912	737,849,566	760,986,672	790,019,245

Shortfall/Surplus	\$ (Millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues		\$678.5	\$694.3	\$709.1	\$725.8	\$742.0
Expenditures		\$678.5	\$713.3	\$737.9	\$761.0	\$790.0
Annual Deficit		\$0.0	(\$18.9)	(\$28.7)	(\$35.2)	(\$48.0)



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BUDGET IMBALANCE INCLUDING ACPS UNFUNDED PROJECTS

The ACPS baseline assumption includes operating cost associated with enrollment growth of existing schools along with operating and leased costs for a West End elementary school and Pre-K center funded in FY 2017 budget. The baseline assumption did not include operating costs for projects included in ACPS approved FY 2017 - FY 2026 CIP but not funded in the City's approved FY 2017 - FY 2026 CIP. These projects include operating cost for a specialized academy, a second Pre-K center, a swing space site and the debt service required to fund these projects in FY 2018 and beyond. The City's estimated cost to fund these projects increases the City's shortfall by \$9.3 million in FY 2018, growing to \$23.8 million by FY 2021. Over the period FY 2018 to FY 2021, the cumulative shortfall is expected to increase over \$74.6 million.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	402,552,010	414,447,617	424,672,008	435,451,826	446,543,604
Personal Property	46,080,000	46,512,929	47,101,187	47,701,211	48,313,235
Sales Tax	27,075,000	27,616,500	28,168,830	28,732,207	29,306,851
Utility Tax	12,700,000	13,017,500	13,342,938	13,676,511	14,018,424
Business License Tax	33,300,000	33,549,750	33,801,373	34,054,883	34,310,295
Recordation Tax	5,300,000	5,353,000	5,406,530	5,460,595	5,515,201
Transient Lodging	12,000,000	12,120,000	12,241,200	12,363,612	12,487,248
Restaurant Food	18,800,000	19,176,000	19,559,520	19,950,710	20,349,725
Communications Sales Tax	10,300,000	10,248,500	10,197,258	10,146,271	10,095,540
Other Local Taxes	11,602,709	11,621,828	11,625,715	11,637,470	11,657,057
Federal Revenue	9,600,382	9,600,382	9,600,382	9,600,382	9,600,382
State Revenue	46,628,595	46,628,595	46,628,595	46,628,595	46,628,595
Other Revenue	42,594,942	44,425,422	46,797,847	50,423,286	53,196,808
Total Revenue	678,533,638	694,318,022	709,143,382	725,827,560	742,022,965

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	223,693,920	227,495,385	234,341,424	241,457,111	248,854,494
City Non-Personnel	88,845,898	90,861,430	92,969,782	95,107,143	97,308,133
Other Costs	45,455,097	46,327,984	47,217,846	48,125,013	49,049,826
Debt Service	68,845,983	78,842,606	85,267,624	89,309,421	91,048,841
Cash Capital	25,224,991	24,748,450	25,416,818	26,096,590	26,804,499
Transit Subsidies	19,906,276	20,938,713	22,048,209	23,241,581	24,526,301
Schools - Baseline	206,561,472	220,686,518	225,948,271	231,206,866	236,926,102
Schools - Unfunded Projects	-	9,348,301	17,669,301	23,724,217	23,818,925
Total Expenditures	678,533,638	719,249,387	750,879,275	778,267,943	798,337,121
Operating Impact from CIP	-	3,357,826	4,639,592	6,442,946	15,501,049
Total Expenditures	678,533,638	722,607,213	755,518,867	784,710,889	813,838,170

Shortfall/Surplus	\$(Millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues		\$678.5	\$694.3	\$709.1	\$725.8	\$742.0
Expenditures		\$678.5	\$722.6	\$755.5	\$784.7	\$813.8
Annual Deficit		\$0.0	(\$28.3)	(\$46.4)	(\$58.9)	(\$71.8)
Cumulative Deficit		\$0.0	(\$28.3)	(\$74.7)	(\$133.5)	(\$205.4)



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BUDGET IMBALANCE INCLUDING PLANNED DEVELOPMENT

The planned development forecast includes the positive economic impact of the National Science Foundation headquarters moving to Alexandria which is projected to be completed in 2017 and is expected to create a demand for between 60,000 and approximately 90,000 additional hotel room nights annually. It also includes impacts of other development projects on real estate property values and other revenue sources. The structural imbalance is estimated to be \$10.3 million in FY 2018, growing to \$34.4 million by FY 2021. However, since each year's budget will be balanced when the budget for that year is adopted, these deficits will be eliminated before they occur.

Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Real Estate Tax	402,552,010	421,246,560	434,919,226	446,412,488	458,158,102
Personal Property	46,080,000	46,662,929	47,251,187	47,851,211	48,463,235
Sales Tax	27,075,000	27,892,665	28,450,518	29,019,529	29,599,919
Utility Tax	12,700,000	13,017,500	13,342,938	13,676,511	14,018,424
Business License Tax	33,300,000	33,885,248	34,139,387	34,395,432	34,653,398
Recordation Tax	5,300,000	5,353,000	5,406,530	5,460,595	5,515,201
Transient Lodging	12,000,000	13,023,150	13,153,382	13,284,915	13,417,764
Restaurant Food	18,800,000	19,367,760	19,755,115	20,150,218	20,553,222
Communications Sales Tax	10,300,000	10,248,500	10,197,258	10,146,271	10,095,540
Other Local Taxes	11,602,709	11,621,828	11,625,715	11,637,470	11,657,057
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Other Revenue	42,594,942	44,425,422	46,797,847	50,423,286	53,196,808
Total Revenue	678,533,638	702,973,538	721,268,079	738,686,903	755,557,648

Expenditures	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
City Personnel	223,693,920	227,495,385	234,341,424	241,457,111	248,854,494
City Non-Personnel	88,845,898	90,861,430	92,969,782	95,107,143	97,308,133
Other Costs	45,455,097	46,327,984	47,217,846	48,125,013	49,049,826
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Total Expenditures	678,533,638	713,258,912	737,849,566	760,986,672	790,019,245

Shortfall/Surplus	\$ (Millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues		\$678.5	\$703.0	\$721.3	\$738.7	\$755.6
Expenditures		\$678.5	\$713.3	\$737.9	\$761.0	\$790.0
Annual Deficit		\$0.0	(\$10.3)	(\$16.6)	(\$22.3)	(\$34.4)



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REVENUE GROWTH ASSUMPTIONS

Several different scenarios of General Fund revenue growth have been developed for the period FY 2017 through FY 2021 based on varying assumptions about the rate of increase for each of the revenue categories listed below. Each scenario is based on FY 2017 proposed tax and fee rates.

Annualized Increases

Category	Medium Growth	
	Base	Planned Dev. Impact
Real Estate Assessments	2.6%	3.3%
Personal Property	1.3%	1.3%
Sales Tax	2.0%	2.3%
Utility Tax	2.5%	2.5%
Business License Tax	0.8%	1.0%
Recordation Tax	1.0%	1.0%
Transient Lodging	1.0%	2.8%
Restaurant Food	2.0%	2.3%
Communications Sales Tax	-0.5%	-0.5%
Other Local Taxes	0.1%	0.1%
Intergovernmental	0.0%	0.0%
Other Revenue	5.7%	5.7%
Total Weighted Growth Rate	2.3%	2.7%

The medium growth scenario: These assumptions are based on the annualized historic rates of growth in revenues from FY 2011 to FY 2015, the last year for which we have full data. It is assumed that the slow rate of growth will continue because of constrained federal spending and a sluggish economy. It does not anticipate another economic downturn within the next five years, which would make future shortfalls larger if one were to occur.

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

The estimates are conservative because it is difficult to accurately quantify the effects of future economic development and some of the development may be delayed. However, even under conservative estimates, under the base medium scenario, new development increases the annualized growth rate in revenues from 2.3% to 2.7% annually. By FY 2021, this equates to over \$13.4 million dollars in additional tax revenue annually.



Five Year Financial Planning Model Updated

EXPENDITURE GROWTH ASSUMPTIONS

The general expenditure growth rates assumes that City programs and services will continue mostly unchanged over the next five years. City operations excluding the ACPS transfer, CIP funding and transit subsidies comprise 53% of the FY 2017 General Fund budget and are largely driven by personnel costs. The baseline forecast assumes the City workforce is unchanged in the next five years, and that salaries and benefit costs will continue to grow at a rate consistent with recent history.

Annualized Increases

Category	Growth
City Personnel	2.7%
City Non-Personnel	2.3%
Other Costs	1.9%
Cash Capital	1.5%
Debt Service	7.2%
Transit Subsidies	5.4%
Schools	3.5%
Total Weighted Growth Rate	3.4%
Growth Rate with CIP Impact	3.9%

Expenditure growth is generally based on historic rates of growth in the various categories from FY 2011 to FY 2015, the last year for which a full year’s data is available, as well as on the best information available regarding future growth in costs.

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

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

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

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

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

CIP Impacts: Through the CIP, the City is now modelling the long-term impacts of Capital Budget decisions on the operating budget. By FY 2021, the CIP impact on operating expenditures adds approximately \$15.5 million to total expenditures. Information regarding the additional operating budget impact of specific projects is included in the CIP budget document.