City of Virginia Beach

Five Year Forecast
FY 2011 through FY 2015

November 17, 2009

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The Department of Management Services would like to thank the following for providing the pictures on the cover of this document: William Coyle Photography, Carol Ostey (City Photographer), the Virginia Beach Department of Public Works/Engineering and the Department of the Navy.

A special thank you to Craig McClure, City Photographer, for his assistance in designing the cover.

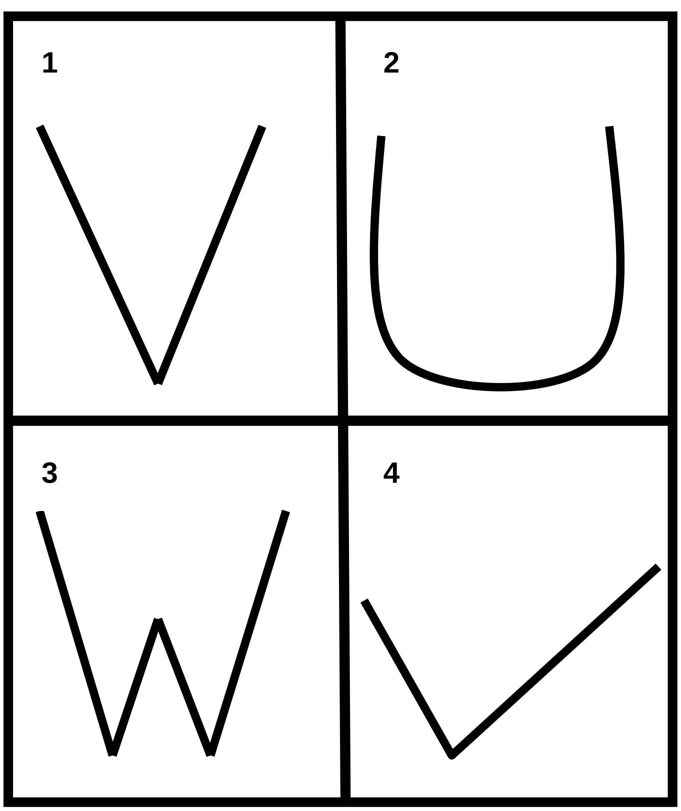
Introduction

This time last year we were in the midst of the steepest economic down-turn since well before the City was incorporated. The City, the region and the national economies were in a freefall driven in part by a collapse of the housing market, wayward banking industries, a falling stock market and extremely high fuel prices. This downturn began in late 2007 and picked up speed through the summer of 2008. At the time of last year's five year forecast, we were trying to determine how much further we had to fall to hit the bottom. We were trying to model the local economy and were using a "U" shape. We assumed that we were well down the left side and were approaching the bottom. City staff met with regional economists to get their best thinking on the situation and carefully monitored State and national forecasts.

Looking back, it appears that we were not as close to the bottom as we had originally thought. Housing and vehicles in particular had further to fall and continued to drive revenues downward. Overall, the economy in terms of tourism and retail sales continues to be sluggish at best. Unemployment remains high, though thankfully not as high as the State and national levels, and closures of major employers such as the paper mill in Franklin will not help the regional economy.

To assist us in understanding regional impacts of this recession, an economic "summit" was held on October 23, 2009. Area economists, surrounding cities budget and finance directors and regional City managers were in attendance. The discussion focused on the current status of the banking industry, employment, housing and local governments. During the summit, the following four models were used to help provide a picture of the local economy. For the most part, there was consensus that model #4 (on the table located on the left) was the predominate model for the Hampton Roads regional economy. All economists felt that consumer spending, sales, and housing will all begin to recover over the next twelve months, but it would be a slow recovery. In regards to employment, the economists felt model #2 best depicted employment trends. There was concern that employment would lag the recovery in other sectors and could remain weak for several years. One economist expressed concern that we could see a recovery illustrated by model #3 where the economy begins a recovery then falls. All economists expressed concern that if a carrier battle group was to be removed from the area, it would have a major effect on the regional economy. Given the cushion the

Models of the Hampton Roads Economy



military provides to the regional economy, it was felt that the loss of a battle group could damage the local economy for a long time.

Revenues in the current year's budget are $1,763.3 billion but are projected to decline in FY 2010-11 to just over $1,702 billion, a loss of $61.3 million in revenues. They are not estimated to recover to the current year's level until FY 2013-14. This decline is being driven predominately by the loss of housing values.

The planning assumptions for each year of the forecast years are primarily:

Real Estate Tax Revenues
Real estate tax revenues represent 28% of the total budget and are projected to decline further before rising in the later years of the forecast and are tied directly to the local housing market.

Personal Property Tax Revenues
Personal property tax revenues represent 7% of the total budget and are projected to decline over the first year of the forecast period before beginning a slow recovery.

The Commonwealth
The Commonwealth continues to reduce their budget thereby impacting its contribution of revenues to the City. The assumptions concerning the local impact of State cuts included in the current fiscal year are anticipated to continue into at least the first year of the forecast ($3 million for the City in FY 2009-10). As this document goes to press, the Virginia Beach Public Schools received notice that due to an increase in the City's composite index (from 37% to 40.6%) there will be a decrease of $15.5 million in State basic aid funding. These cuts could continue and go deeper.

Dedicated Revenues
City Council's policy of dedicating revenues such as the Tourism Advertising Program (TAP), Tourism Growth Investment Fund (TGIF), School Funding Formula, and the Agricultural Reserve Program (ARP) will remain as defined by the requirements of each policy.

Expenditures
The forecast assumed that there is no major increases to any expenditure account in the first year (FY 2011). This means any increase in operating costs, leases, or utility costs are being absorbed. It also means that for the second year in a row, funding would not be available for salary increases. Small increases are included related to School Grant Programs, Storm Water Fund, and the Federal Sanitary Sewer Consent Decree.

Beginning in the second year (FY 2012) of the forecast, 1.5% of total payroll costs (salaries and fringe benefits) is included. Every year thereafter, 3% of payroll was included. This funding would allow coverage for potential increases in salaries, retirement, or health insurance costs. Likewise, the forecast allows for a 2% increase in all other operating accounts beginning in the third year (FY 2013) and continuing through the fifth year (FY 2015).

The table below reflects the projected revenues and expenditures over the next five years.

The City's portion (excluding utilities) of the projected deficit is $36.5 million and the Schools' is $43.4 million. In both cases, balancing the FY 2010-11 budget, and potentially the next four years will require fundamental changes in how and which services are delivered.

	FY 2010 Budget	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
		Forecast Period				
City Revenues*	$ 758.9	$ 714.5	$ 716.2	$ 723.6	$ 732.9	$ 749.9
City Expenditures	$ 758.9	$ 751.0	$ 758.1	$ 785.0	$ 813.4	$ 834.3
Variance	$ -	$ (36.5)	$ (41.9)	$ (61.4)	$ (80.5)	$ (84.4)
Utility Revenues**	$ 126.5	$ 128.1	$ 129.1	$ 130.2	$ 131.1	$ 131.7
Utility Expenditures	$ 126.5	$ 132.6	$ 136.3	$ 140.3	$ 144.6	$ 148.7
Variance	$ -	$ (4.5)	$ (7.2)	$ (10.1)	$ (13.5)	$ (17.0)
School Revenues	$ 877.9	$ 859.4	$ 874.0	$ 897.1	$ 922.2	$ 958.3
School Expenditures	$ 877.9	$ 902.8	$ 919.4	$ 945.6	$ 972.7	$ 1,002.6
Variance	$ -	$ (43.4)	$ (45.4)	$ (48.5)	$ (50.5)	$ (44.3)
Total Revenues	$ 1,763.3	$ 1,702.0	$ 1,719.3	$ 1,750.9	$ 1,786.2	$ 1,839.9
Total Expenditures	$ 1,763.3	$ 1,786.4	$ 1,813.8	$ 1,870.9	$ 1,930.7	$ 1,985.6
Variance	$ -	$ (84.4)	$ (94.5)	$ (120.0)	$ (144.5)	$ (145.7)

*City includes other non-general fund programs such as Parks & Recreation and Sheriff

**Utility includes both Water & Sewer and Stormwater

As we review the numbers above, it is important to note the difficulty in forecasting five years into the future, especially during the current economic climate. The process of developing the forecast may be as important as the final output. Reviewing the various assumptions and understanding the threats to the forecast can help City Council and the School Board formulate effective fiscal management strategies as we develop the Operating Budget for FY 2010-11 and beyond.

Threats to the Forecast

While both the City and Schools have attempted to reflect a forecast that outlines the major areas of concern, there are many unknowns both in the short term and over the next five years that could substantially change this forecast. Identified below are several of these:

The Length and Severity of the Current Economic Downturn

Old Dominion University's "State of the Region" report cited a 5% decrease in the housing market. This is in unison with the City's Real Estate Assessor who also is projecting a 5% overall decline in real estate assessments. Federal Treasury Secretary Timothy Geithner recently testified that he sees positive signs that the economy is recovering, although the recession remains "alive and acute" for families dealing with unemployment and facing home foreclosures. Many industries continue to adjust from the recessionary impacts and layoffs and employee pay continues to be reduced. This month alone, the Virginia Franklin Paper Mill which has been open since the 1800's, announced it was closing with a loss of approximately 1,100 jobs. There is still an unknown possibility of whether a second stimulus package will be offered by the Federal government and to what extent.

The State Budget and What They Have To Do To Balance

In the current fiscal year, the State has reduced funding to the City mid-year in FY 2009-10 by $3 million. This amount is beyond the budgeted reductions that occurred as part of the Adopted FY 2009-10 budget. The State has reduced its budget four times over the last two years. Public School funding has been somewhat protected through these reductions by the use of Federal stimulus funding. The implications of a new Governor and his effects on the upcoming State biennial budget are unknown; however, Governor elect McDonnell has stated during the campaign a willingness to shift State education funding to transportation and to restructure funding towards the classroom.

Healthcare and Virginia Retirement System (VRS) Costs

While the forecast assumes a modest increase in payroll costs, it is unclear what the City and Schools may be facing over the next five years in health and pension costs. The Federal government is currently debating whether or not to make major changes in healthcare requirements. This unknown cost could cause the City and School deficits displayed in the forecast years to increase significantly. VRS rates are anticipated to increase over the forecast period as well; however, this forecast assumes that both the City and School system will adjust other programs downward to absorb this increase at least in the first year.

Maintenance and Replacement of Infrastructure

As the City and School systems continue to age, it is necessary to maintain and replace facilities and operations that are essential services for citizens. Additionally, new facilities are needed in the future that will require the City's net debt per capita to cross its current threshold of $2,400.

Overview of City Economy

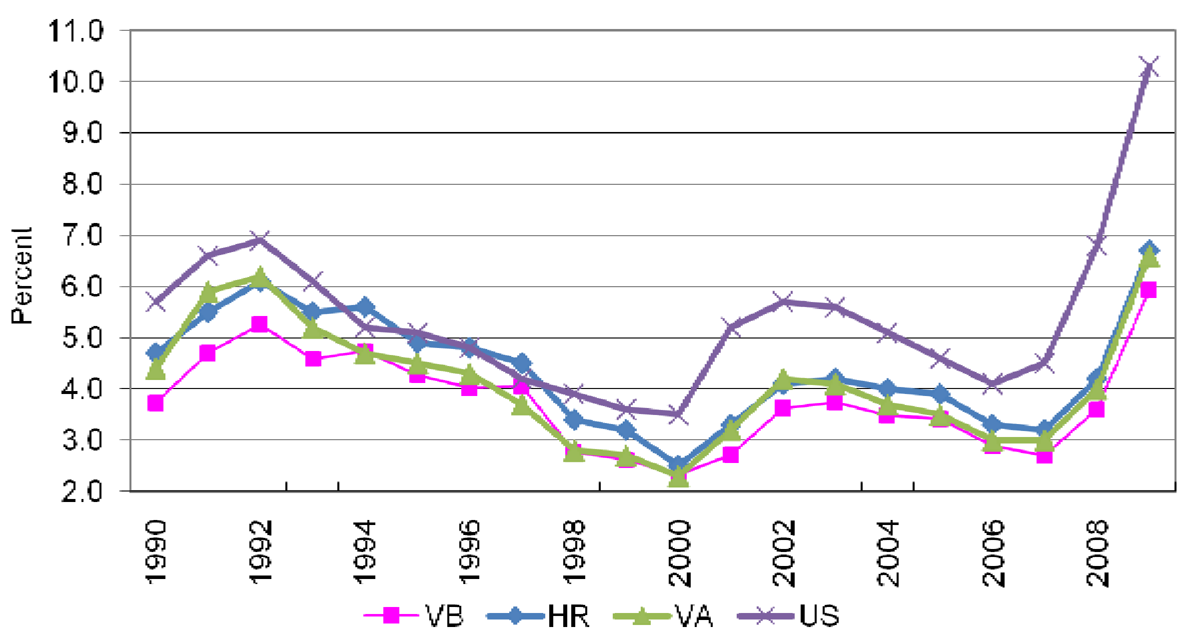
Virginia Beach's housing industry and local economic activity are experiencing unprecedented challenges. These are difficult times for citizens and businesses, not just within the City but also nationwide. Disposable incomes are diminishing and credit concerns continue to ripple through the national economy. Virginia Beach is not immune and the following section will review some of these unprecedented impacts and their effects on the City's economic viability.

Military Spending

The Hampton Roads regional economy is somewhat cushioned by military and Federal government spending. Department of Defense spending is estimated to be $18.8 billion in 2009 related to payroll and services. According to Old Dominion University's "State of the Region" report, military spending and its related spinoff industries account for nearly 45% of the gross regional product. Direct military spending alone is 29% of the region's economy, up from last year's 28%, and it is critical for the long term viability of the regional economy that we maintain that presence in terms of naval carrier groups and their related squadrons. The loss of a carrier group could have nearly a $1 billion impact annually on the regional economy.

Unemployment

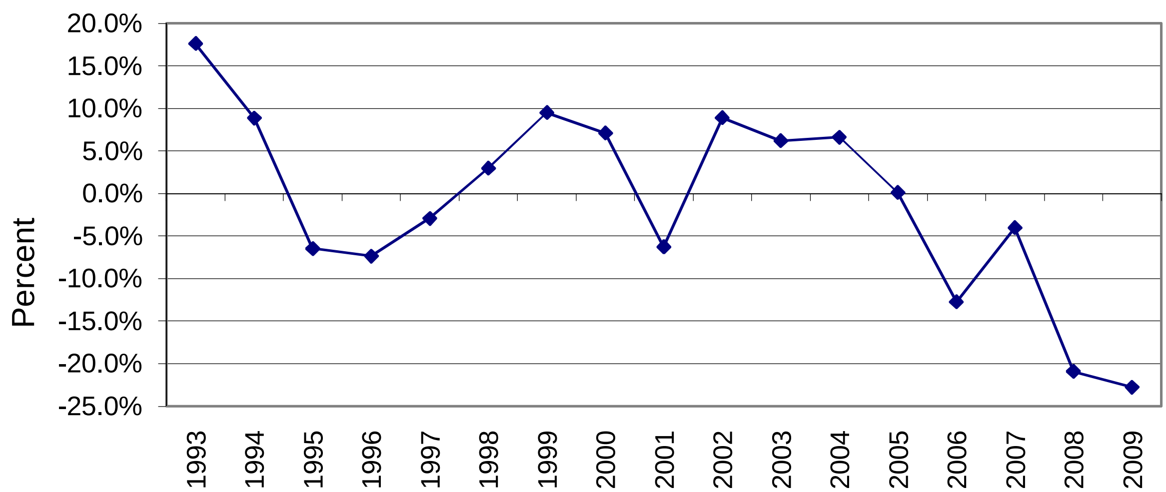
The Virginia Employment Commission (VEC) reports that since December 2007, unemployment has climbed from 2.9% to 5.9% in Virginia Beach. This indicates that people are still being laid off and are having difficulty finding new employment. According to the VEC, Hampton Roads' unemployment is faring worse than Virginia Beach. While Virginia Beach is maintaining around a 6% unemployment level, Hampton Roads is close to 7%. This indicates that some localities are above 7% and it is important to note because Virginia Beach malls and specialty stores attract neighboring shoppers. The loss of employment, the transition to lesser paying jobs and the threat of job loss has diminished consumer spending activities; in particular general sales, real estate and personal property tax revenues.



Source: VA Employment Commission and Bureau of Labor Statistics

New Car Registrations (Virginia Beach)

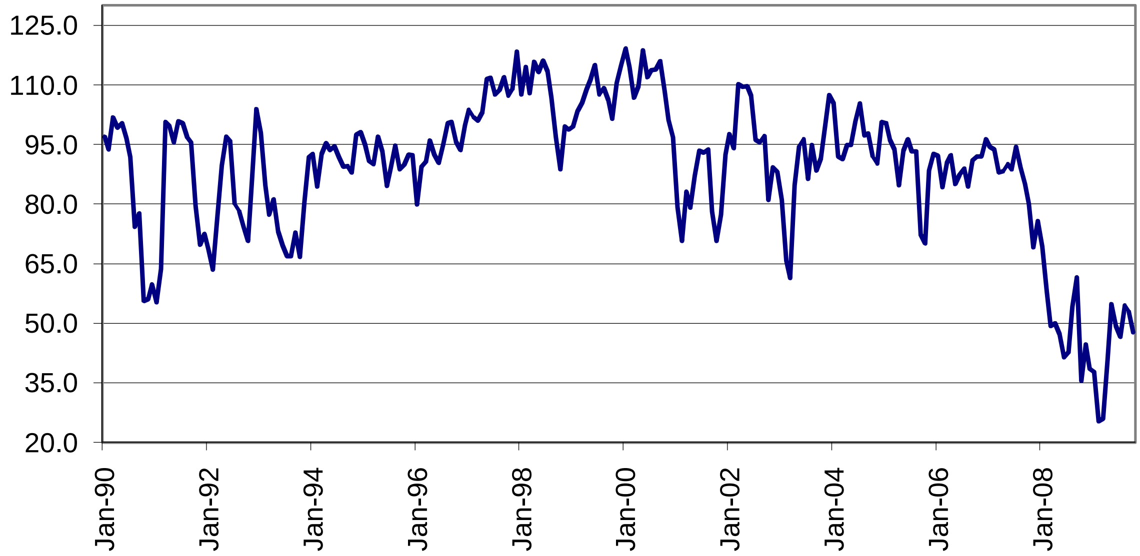
The largest consumer driven revenue for the City is personal property and 80% of this revenue comes from vehicles. New car registrations are currently at their lowest level in over 15 years. Typically, if a consumer's income exceeds consumption, and they desire a better vehicle, residents will trade vehicles for new models or upgrade a used car. Year-over-year, this desire has kept personal property revenues growing. When trade-in values are high, the consumer can afford a higher valued vehicle, and vice versa. Unfortunately this is not happening due to financial constraints. In August 2009, the Federal "Cash for Clunkers" program was utilized. This helped slow the decline in the car market but appears to have done little to revive the industry long-term.



Source: Virginia Automobile Dealers Association

Consumer Confidence (National)

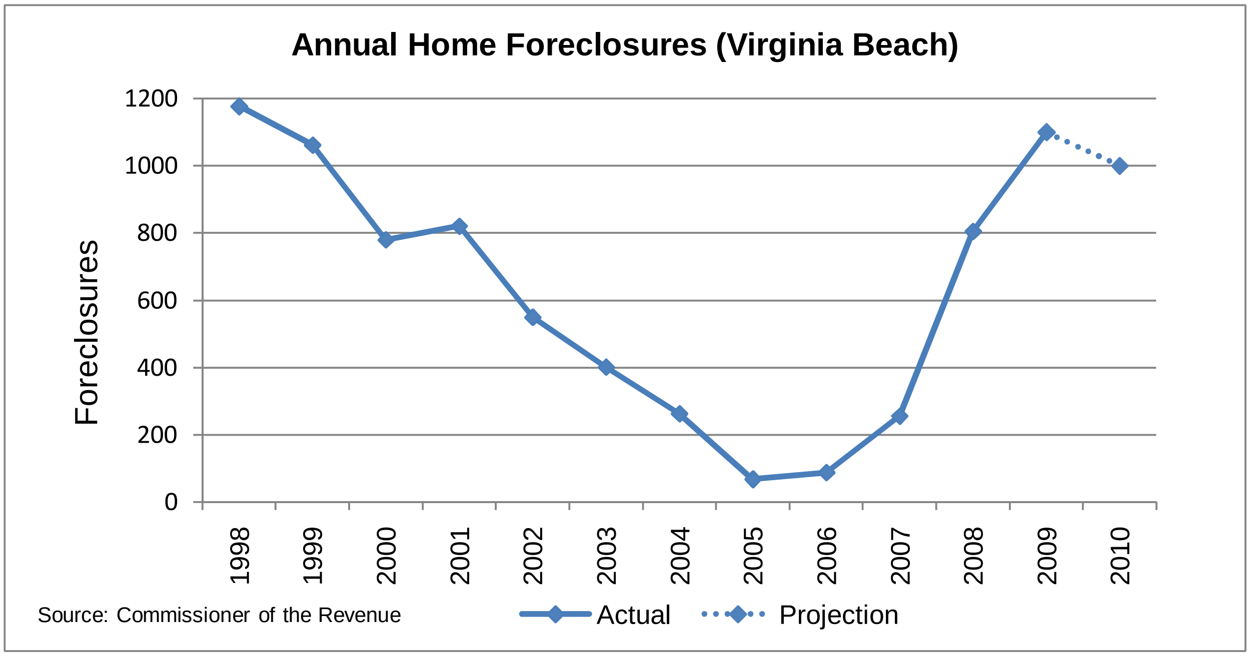
The National consumer index illustrates a consumer's willingness to purchase consumer luxury or marginally better goods. As with any recession, consumer confidence falls, however; because of its protraction and its impact on employment, this recession is driving consumer confidence to historic lows. Between August of 2004 and August 2007, the economy was healthy, and consumers were willing to purchase goods. The recent readings of consumer confidence are similar to those of the early 1990's recession. Noticeably, in September 2007, consumers began to notice the recessionary signs. In March 2009, eighteen months later, consumer confidence bottomed out at 25. (Readings at or above 100 indicate a healthy economy). Since then, it has recovered to a rating of 48 and while it is still 52 points below a "healthy" economy, the upward trend is generally considered indicative that a recovery is happening. In Virginia Beach, consumer driven employment accounts for nearly 100,000 jobs or 56% of all employment in the City.



Source: The Conference Board

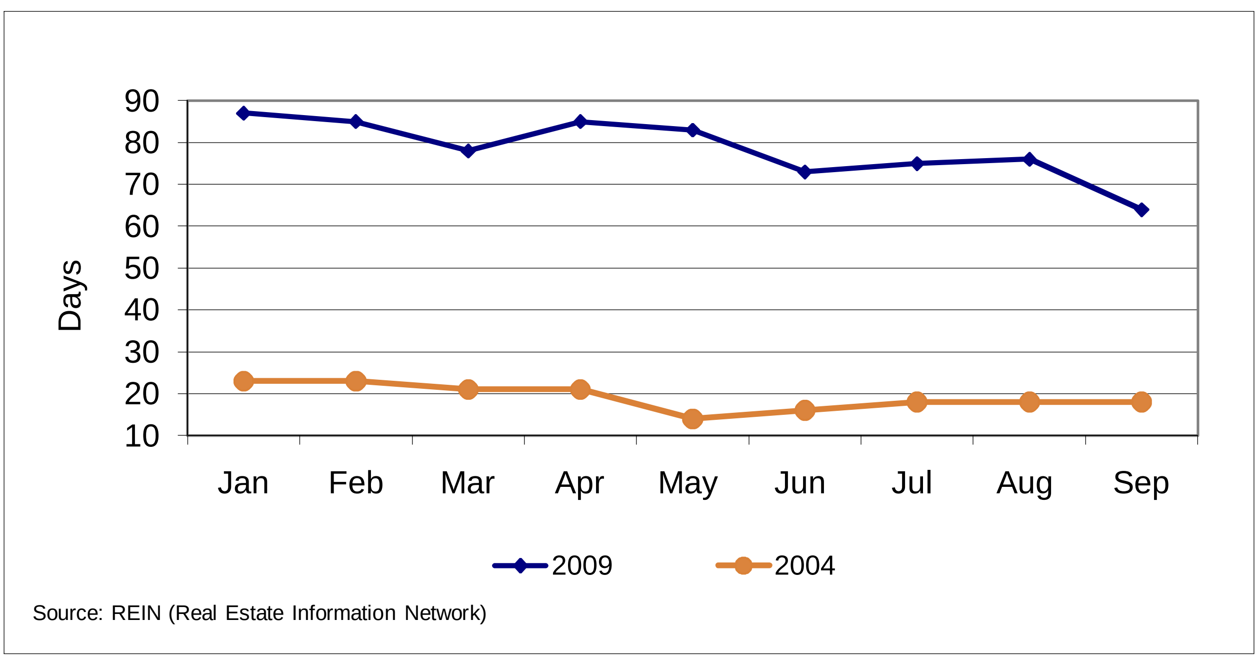
Annual Home Foreclosures (Virginia Beach)

Our largest single tax revenue is real estate taxes. The City of Virginia Beach is on pace to reach the 1999 foreclosure point. The present rate is 55% higher than the previous year and represents 696 foreclosures through August 2009. While this represents less than ½ a percent of the total homes, the impact on the housing industry and City real estate tax revenues far exceeds the small number of homes involved in foreclosure. Since banks are unwilling to hold the foreclosed properties until the market gets better, most will sell below the assessed value. Given the small number of sales throughout the City, the selling price of foreclosed homes is creating a further drag on home prices and assessments. With more foreclosed homes available, lower sales prices offered, and a subdued market, the overall impact on real estate tax revenue collection is causing the City to experience negative revenue growth.



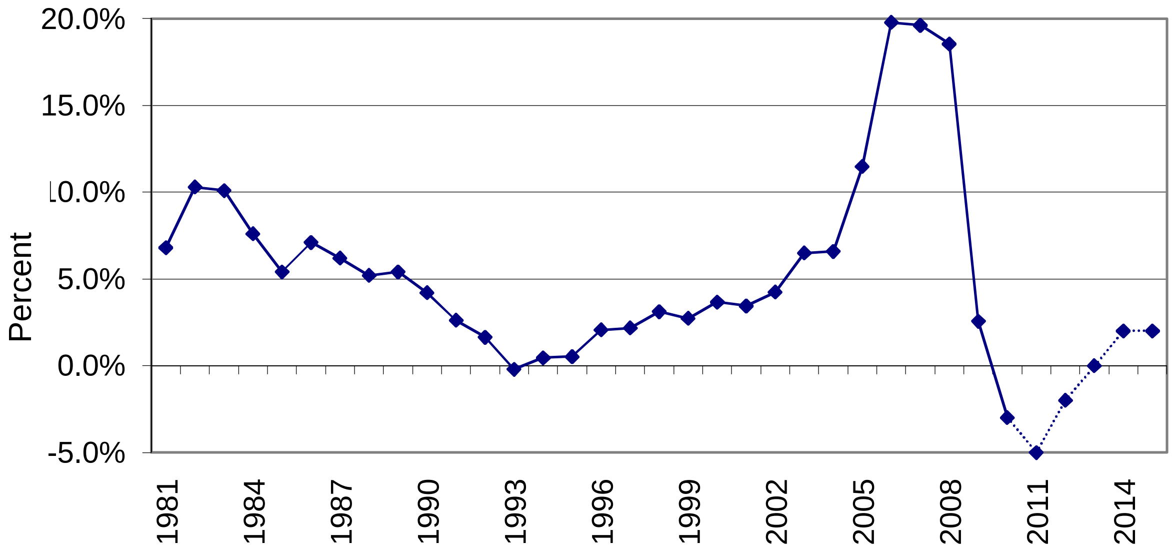
Average Days on the Market (Virginia Beach)

Reflecting the slow housing market in Virginia Beach, the length of time a home stayed on the market increased from a low of 19 days in 2004 to over 78 days in 2009. This slow down is resulting in excess inventory and real pressure to lower asking prices to get a sale. Homeowners who relied on the equity in their homes as a piece of their savings are feeling decidedly less wealthy.



Appreciation of Residential and Commercial Properties (Virginia Beach)

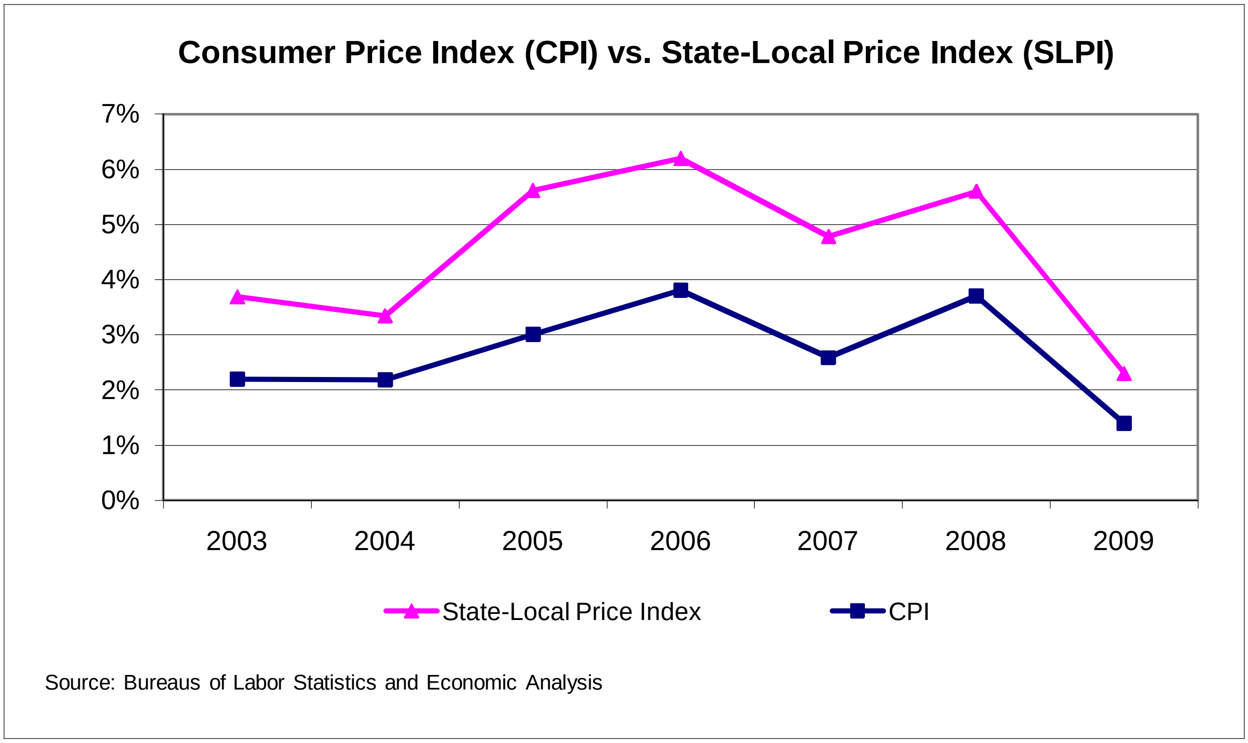
Over time, the value of real estate has fluctuated based on market conditions for homes, commercial properties, and apartments. The last two years of decline in value were preceded by four years of dramatic increases in values. Beginning in 2008, market values began to decline and that decline is expected to continue for the next several years. As values dropped new construction also slowed.



Source: Real Estate Assessors Office

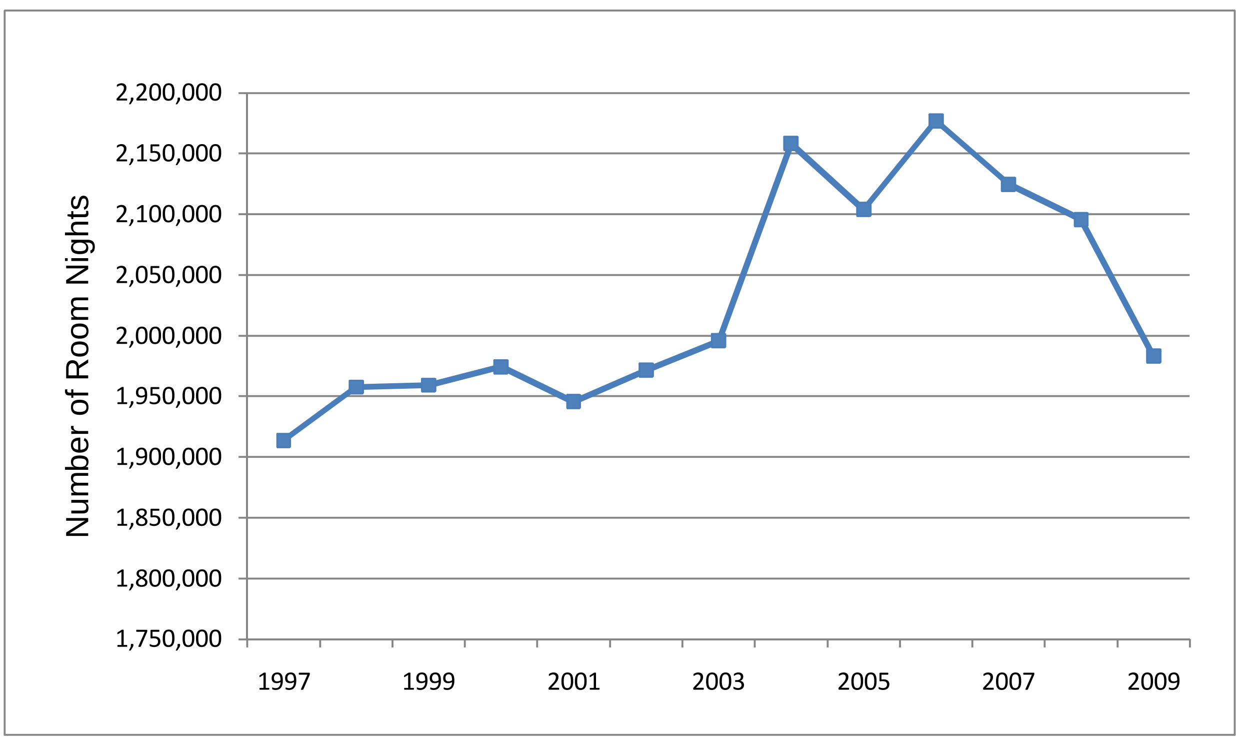
Consumer Price Index (CPI) vs. State-Local Price Index (SLPI) – (National)

Both of the indices on the next graph are created by the Bureau of Labor Statistics and Economic Analysis to track the cost of goods for consumers, whether they are homeowners, in the case of the Consumer Price Index, or State and local governments in the case of the State-Local Price Index. This illustrates that between 2008 and 2009 the cost of goods purchased by governments (asphalt, concrete, paper products, etc.) and goods purchased by the general public have remained low. What this will mean for the City and Schools is that upward pressure on costs such as fuel, contracts, and other goods should be relatively stable over the short-term. The City should be cautious over the long-term about rising inflation given the lower revenue projections.



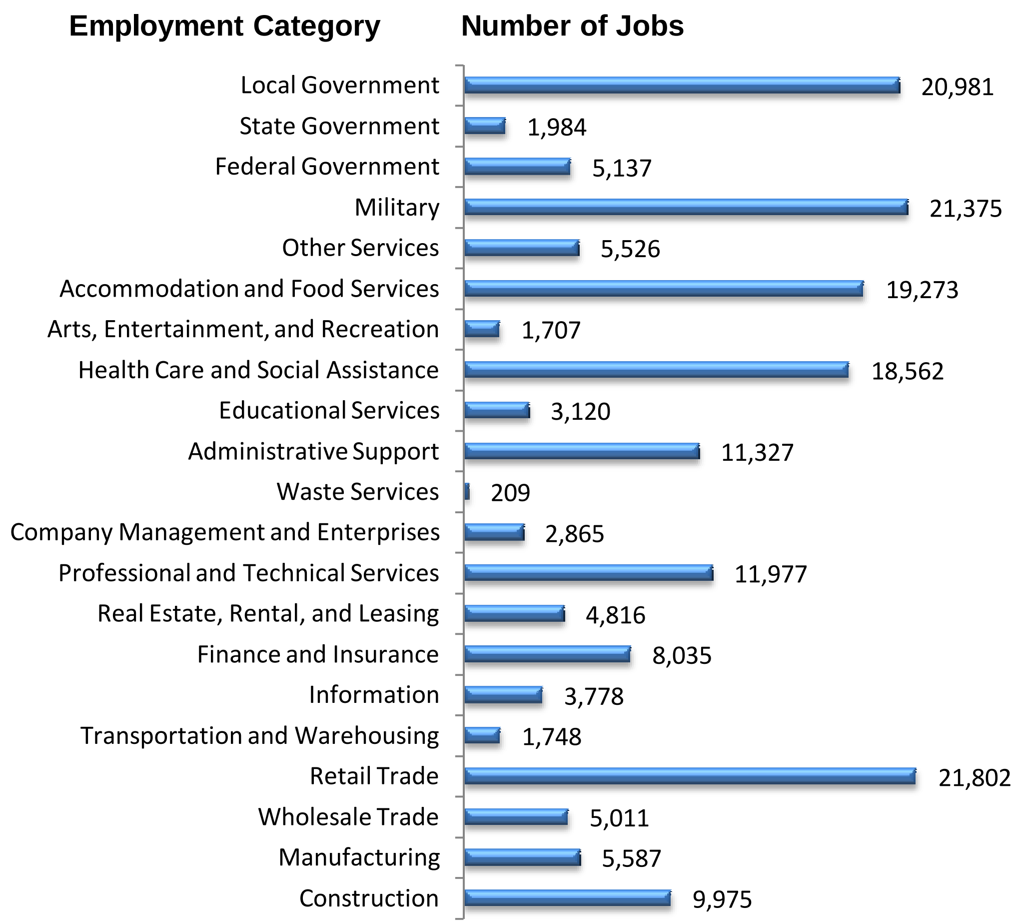
Virginia Beach Hotel Room Nights

The graph illustrates the economies impact on hotel stays in Virginia Beach and while down from historic levels, it remains strong compared to other cities in the Hampton Roads region and even cities like Myrtle Beach and Ocean City.



Virginia Beach Employment

As was mentioned earlier, military employment and military related services represent a cushion to the local economy. Adding in State and local government employment, including School employment there is a significant stabilizing effect on the Virginia Beach economy especially in recessionary environments. However, the City's other major employers, accommodations, food services and retail trades are highly impacted by the local and national economies. These industries alone account for 41,000 jobs. Add to that construction jobs and others which are affected by the economy and over 30% of the employment base of the City could be struggling.



Source: Virginia Employment Commission and Bureau of Economic Analysis

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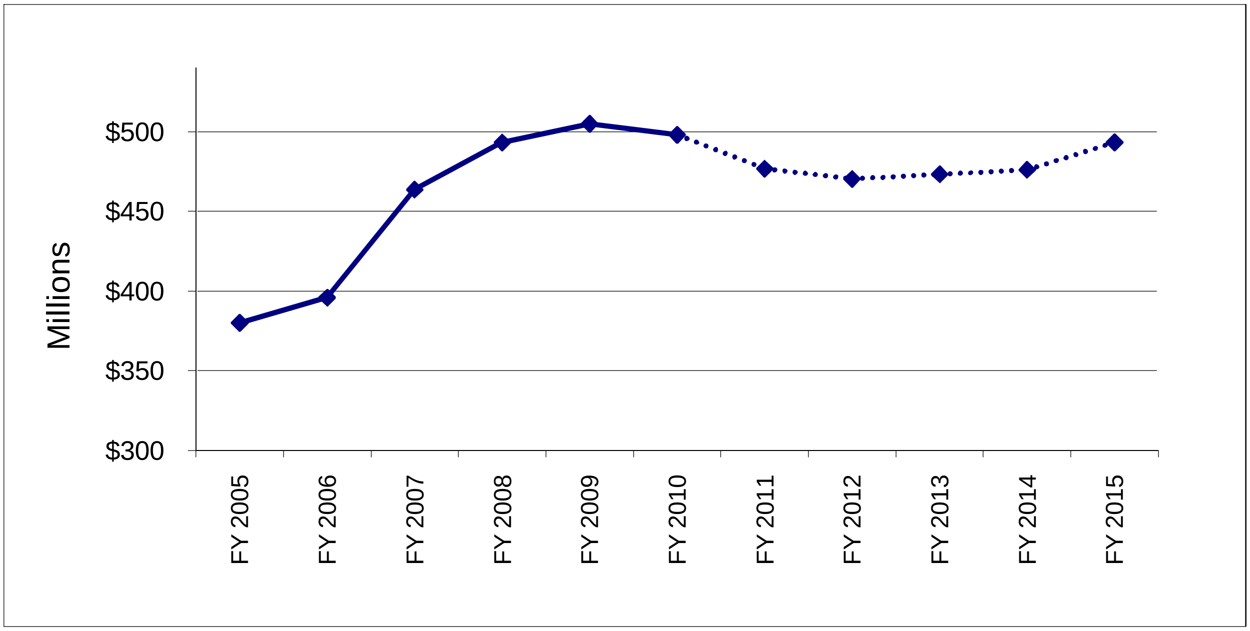
Revenues

This section discusses the major revenues received to support City and School services and programs. The National, State and local economies are still suffering the impacts of the recessionary environments they began to experience in late 2007. In the first year of the forecast, total revenues are projected to decline -3.5% between FY 2009-10 and FY 2010-11 or $61.3 million. This section will examine each revenue stream over the next five years beginning with real estate taxes.

Real Estate Taxes

Amount of Total Budget = **28%**

Change Between FY 2010 & FY 2011 = **-$21.6 million***



The graph above illustrates the anticipated change in the real estate tax revenues throughout the forecasted period. The City's real estate tax is the largest single source of revenue for the City; therefore, it is important to discuss the impact that the current housing market is having on this revenue. Real estate revenue is projected to decline more than $21 million between FY 2009-10 and FY 2010-11 due to the current housing market situation and the lack of available credit to homebuyers.

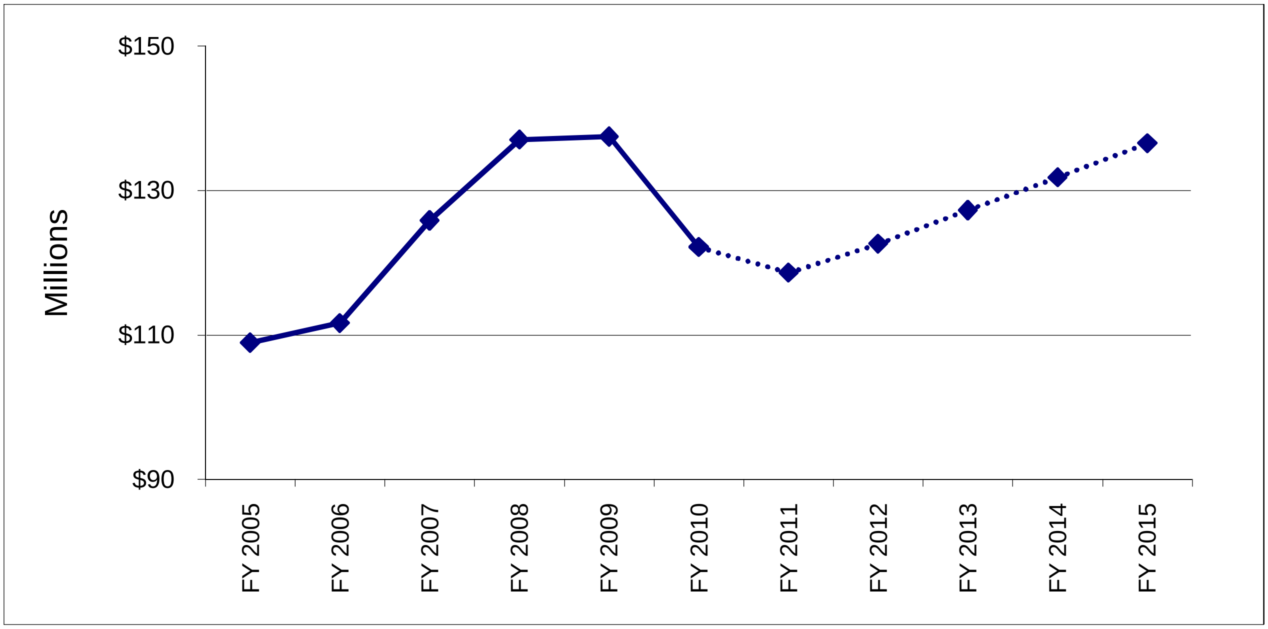
This is the second year of real decline and follows four years of significant housing value increases which the City Council partially mitigated by lowering the tax rate by 27% or 33 cents. The housing market does not appear to be appreciably improving, volume of sales is low and the inventory of housing on the market is high which is all impacting this revenue. Commercially, vacancies are on the rise and rents are decreasing. The City's Real Estate Assessor estimates that real estate revenue overall will decrease 5% in FY 2010-11. This is in agreement with Old Dominion University's "State of the Region" analysis that estimates home prices will decline another 5%.

* Shows only the current years real estate tax revenue

Personal Property Taxes

Amount of Total Budget = **7%**

Change Between FY 2010 & FY 2011 = **-$5.5 million***



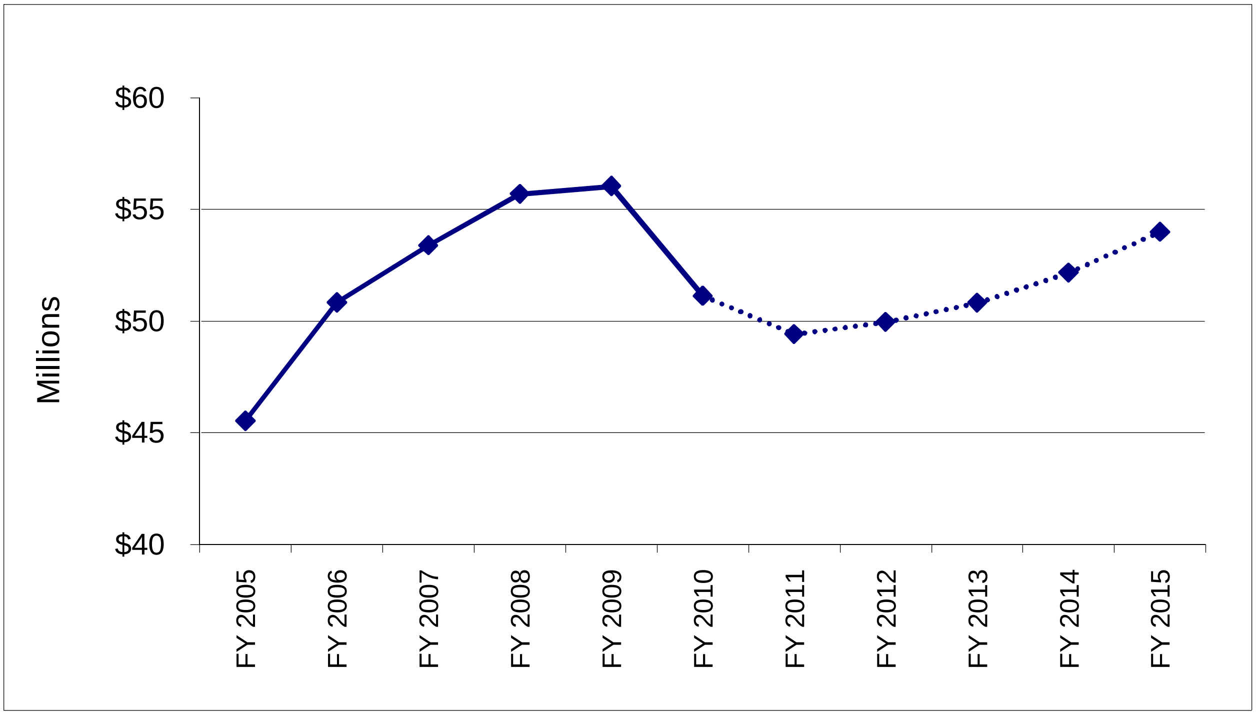
As discussed earlier in the City's economy section, the largest portion of the personal property tax is generated through personal vehicle ownership. The tax on vehicles is currently split between the amount the taxpayer pays and the amount provided as tax relief from the State. Based on the current status, the State remits a fixed amount regardless of the assessed value of automobiles in the City, $53.4 million. The remainder is charged to the vehicle owner. The tightening in lending standards and falling house prices have made it difficult for people to buy new or newer used vehicles. Since 80% of the personal property revenue is generated through vehicles, this is detrimental to this revenue stream. After FY 2010-11, revenue is expected to slowly recover, assuming credit is more readily available to consumers and the local economy gains strength.

* Shows only the current years personal property tax revenue

General Sales Tax

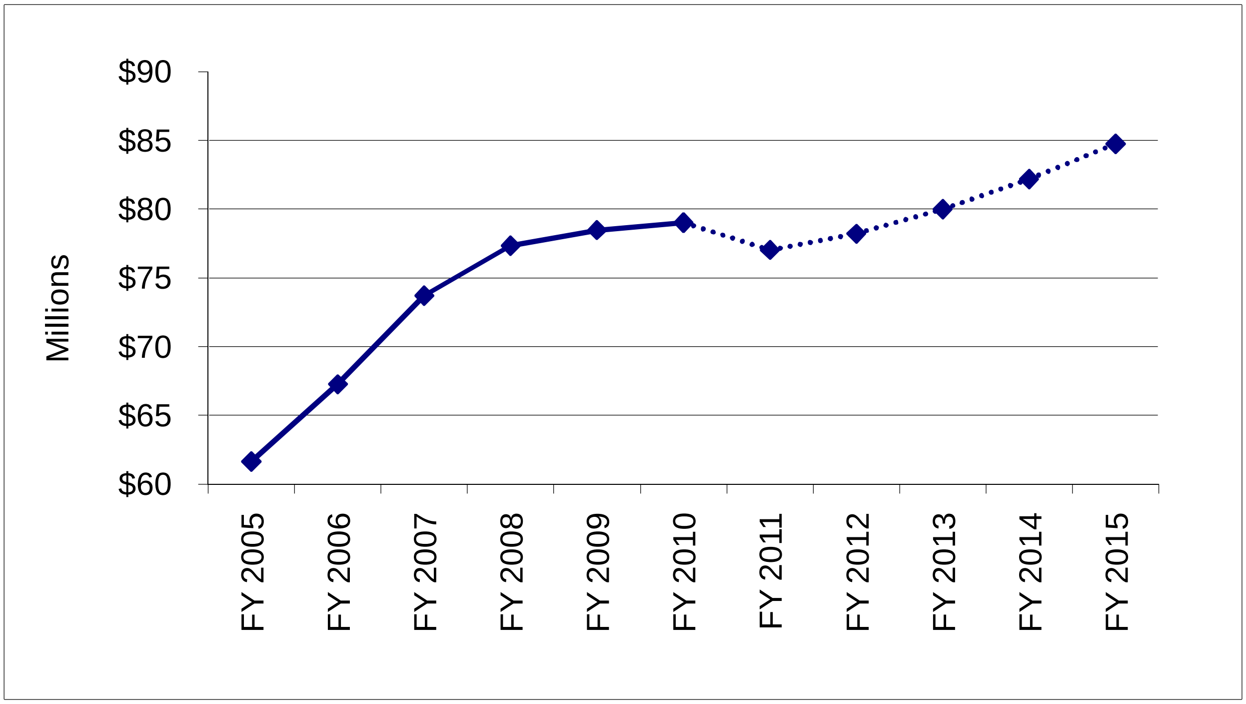
Amount of Total Budget = **3%**

Change Between FY 2010 & FY 2011 = **-$1.7 million**



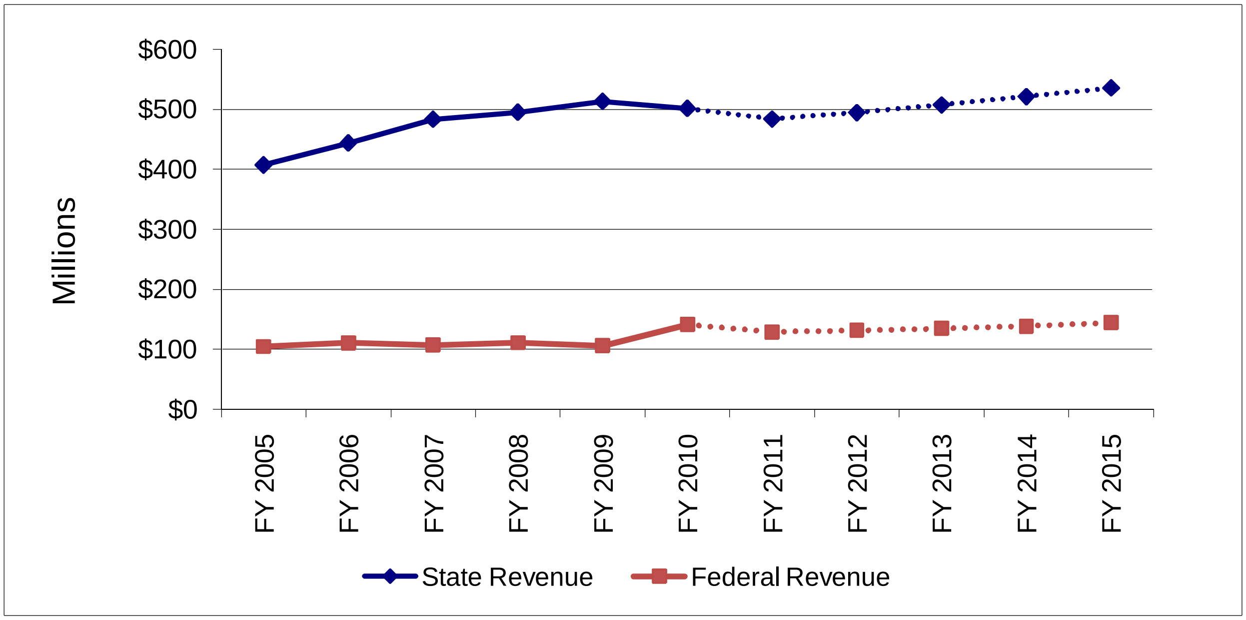
During a recessionary period, specific key indicators are used to indicate impending change, for Virginia Beach, general sales revenue is that indicator. While the real estate tax base has declined in prior years, general sales revenues had no historical basis for a decreasing trend. Between FY 2009-10 and FY 2010-11, a -3.3% decline in general sales tax revenue is anticipated to occur resulting in a decrease of $1.7 million. Less discretionary income and high unemployment has forced consumers to scale back their spending habits and increase savings. As the recession dissipates, general sales revenues will begin to recover to a more historic level.

Hotel, Restaurant and Amusement Taxes
Amount of Total Budget = **4.5%**
Change Between FY 2010 & FY 2011 = **-$2.0 million**



Hotel room revenues are anticipated to decline a total of $1.3 million dollars between FY 2009-10 and FY 2010-11. According to Old Dominion University's "State of the Region" 2009 report, hotel revenues are declining due to the deteriorating economic conditions, slightly higher than average room rates, higher energy prices than in the past and additional rooms in the region. When families are losing their jobs or experiencing increased costs, vacations are one of the first items they choose to eliminate as a "luxury." Along with the decline in hotel room revenue, restaurant and amusement revenues are declining as well. Families are less likely to attend events that collect amusement taxes as well as eating out at local restaurants. As additional money is available to people to travel, dine out and attend events, this revenue stream is anticipated to increase over the forecast period by 10% between FY 2010-11 and FY 2014-15.

State and Federal Revenues
Amount of Total Budget = **36%**
Change Between FY 2010 & FY 2011 = **-$30.1 million**



The graph above illustrates the anticipated change in State and Federal revenue. State revenue comprises 28.4% of the total budget in FY 2010-11 while Federal revenue comprises 7.6%. Overall, these revenues are declining a total of -4.7% from FY 2009-10 or approximately $30.1 million. Federal revenue increases in FY 2009-10 are largely attributable to the American Recovery and Reinvestment Act (ARRA). At the time of this forecast, the City and Schools have received more than $95 million in economic stimulus funding in the form of grants and stabilization funds. It is important to note that this funding is one-time funding. Most Federal revenue is program specific and cannot be used for other general City programs. It is unknown whether the Federal government will enact a second stimulus recovery plan and where those funds will be directed.

Future years of the forecast for State revenue are projected by the School System. The School's forecast assumes an average increase of 3.5% in basic aid revenue after an initial loss in revenue due to an increase in the City's Composite Index* and in spite of a declining student enrollment. Two major concerns for this School revenue over the forecast period are the Commonwealth's decision to use FY 2010-11 Federal stimulus funding to fix a larger than anticipated revenue funding gap in FY 2009-10 and the required rebenchmarking effort which is projected to add $150 million in State costs for education at a time when State revenues are declining. At this time, there is no decision as to how the Commonwealth will remedy education funding for FY 2010-11.

* The Composite Index is the State's determination of a localities ability to pay for education. As the index rises, the States portion of funding decreases.

Tax Impact for Virginia Beach for FY 2008-09 through FY 2014-15

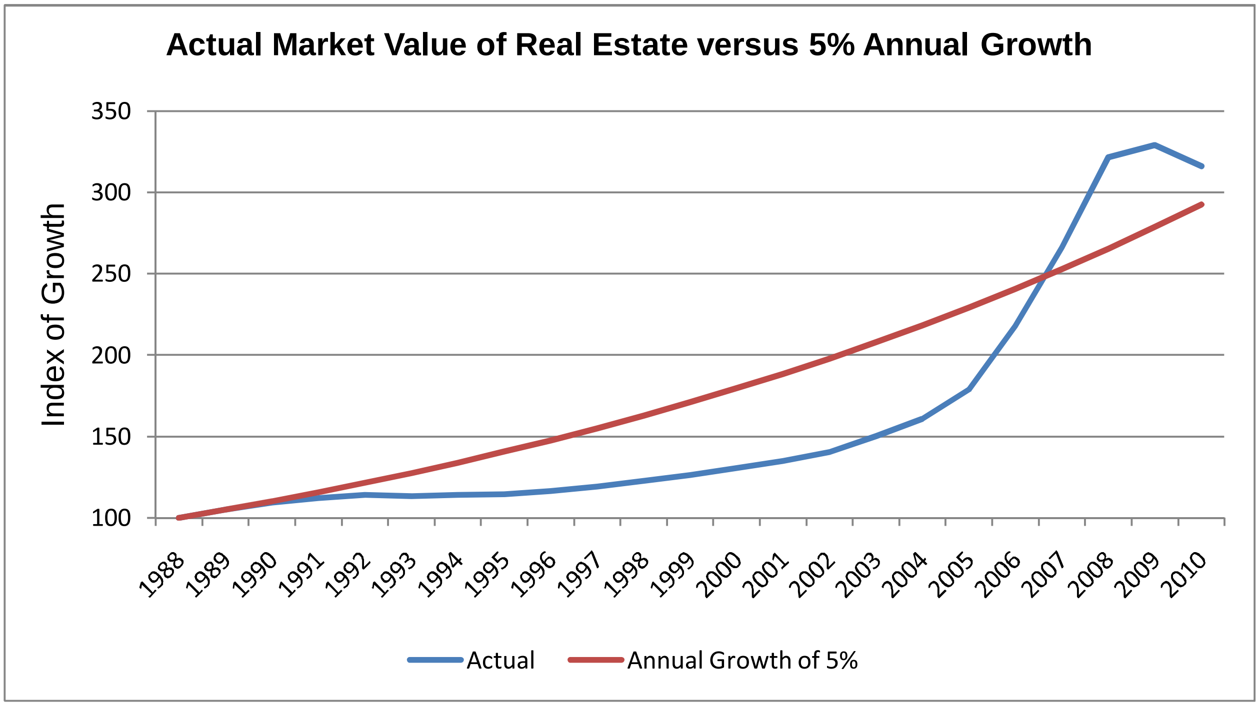
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Real Estate Tax	$2,308.66	$2,224.16	$2,112.95	$2,070.70	$2,070.70	$2,112.11	$2,175.47
Personal Property Tax	244.11	155.08	154.93	152.84	148.97	143.85	137.83
Electricity Utility Tax	36.00	36.00	36.00	36.00	36.00	36.00	36.00
Gas Utility Tax	36.00	36.00	36.00	36.00	36.00	36.00	36.00
Va Telecommunications Tax	70.68	70.68	70.68	70.68	70.68	70.68	70.68
Water Utility Tax	36.00	36.00	36.00	36.00	36.00	36.00	36.00
Restaurant Tax	251.48	251.48	251.48	251.48	251.48	251.48	251.48
Admissions Tax	25.69	25.69	25.69	25.69	25.69	25.69	25.69
Vehicle License Decal	52.00	52.00	52.00	52.00	52.00	52.00	52.00
Stormwater Utility Fee	73.37	80.67	87.97	87.97	87.97	87.97	87.97
Water & Sewer	509.52	518.52	518.52	518.52	518.52	518.52	518.52
Residential Refuse Fee	None	None	None	None	None	None	None
Total Tax Impact	**$3,643.51**	**$3,486.29**	**$3,382.23**	**$3,337.87**	**$3,334.01**	**$3,370.30**	**$3,427.64**
Variance		($157.22)	($104.06)	($44.35)	($3.86)	$36.28	$57.35

*Note: Real Estate: $247,400/ median home assessment, Personal Property: 2 cars=$7,762, Vehicle License Decal: 2 vehicles

The table above illustrates the impact of Virginia Beach taxes on the “average family”. The table shows that the tax burden on citizens on average will **decrease** for FY 2010-11 due to the fluctuating economy and changes in real estate growth. Although tax rates are not assumed to change within the forecast, on average, homeowners are projected to experience about a 5% decrease in the value of their homes in FY 2010-11 and another 2% in FY 2011-12. This follows a decrease of 3% in the current year.

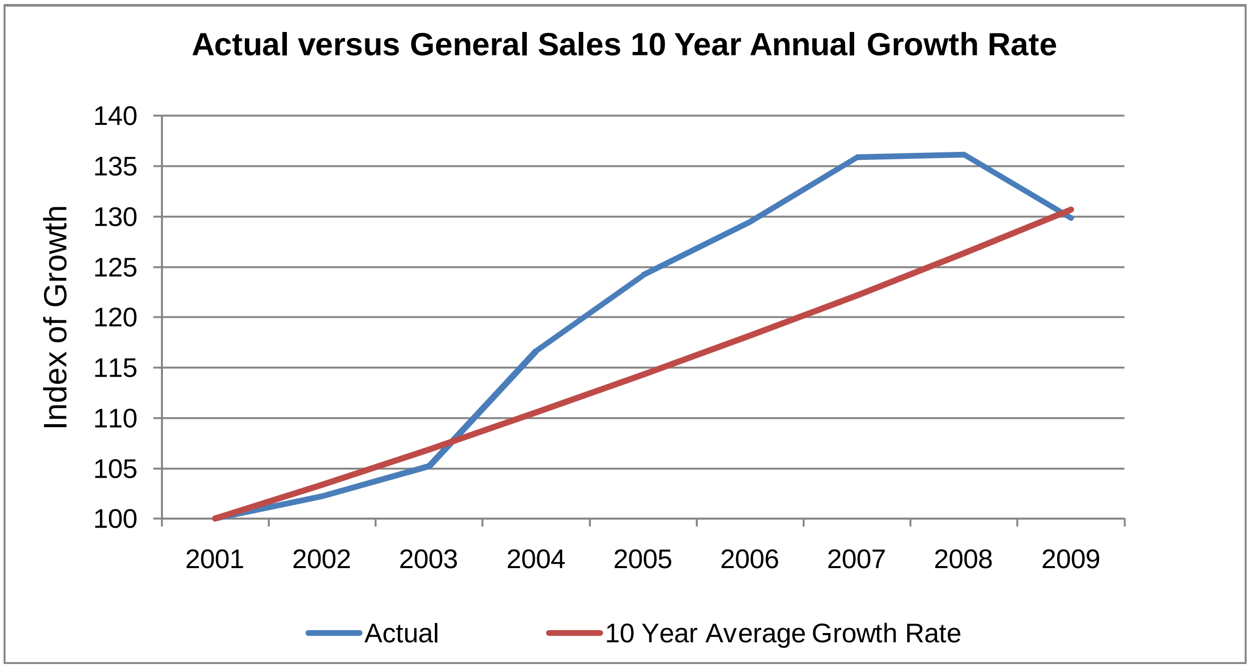
Using the median home assessment of $247,400 the total taxes paid in FY 2010-11 would be $104.06 less than what would be paid in FY 2009-10. In order to make the City’s real estate tax revenue the same as FY 2009-10, a 4.2 cent increase in the rate would be needed and would generate $21.6 million in FY 2010-11. If the real estate tax was raised from the current rate of .89 cents to 93.2 cents in FY 2010-11; the average homeowner would not pay more in taxes. (Some homeowners would pay more and some would still pay less). This same situation exists in personal property taxes where because of declining car values a rate increase of .20 cents would be needed to achieve revenue neutrality. If this option was considered the City would still have the lowest rate in the region at $3.90 per $100 of value (current rate is $3.70 per $100 of value).

When Might the Downturn in the Economy End?



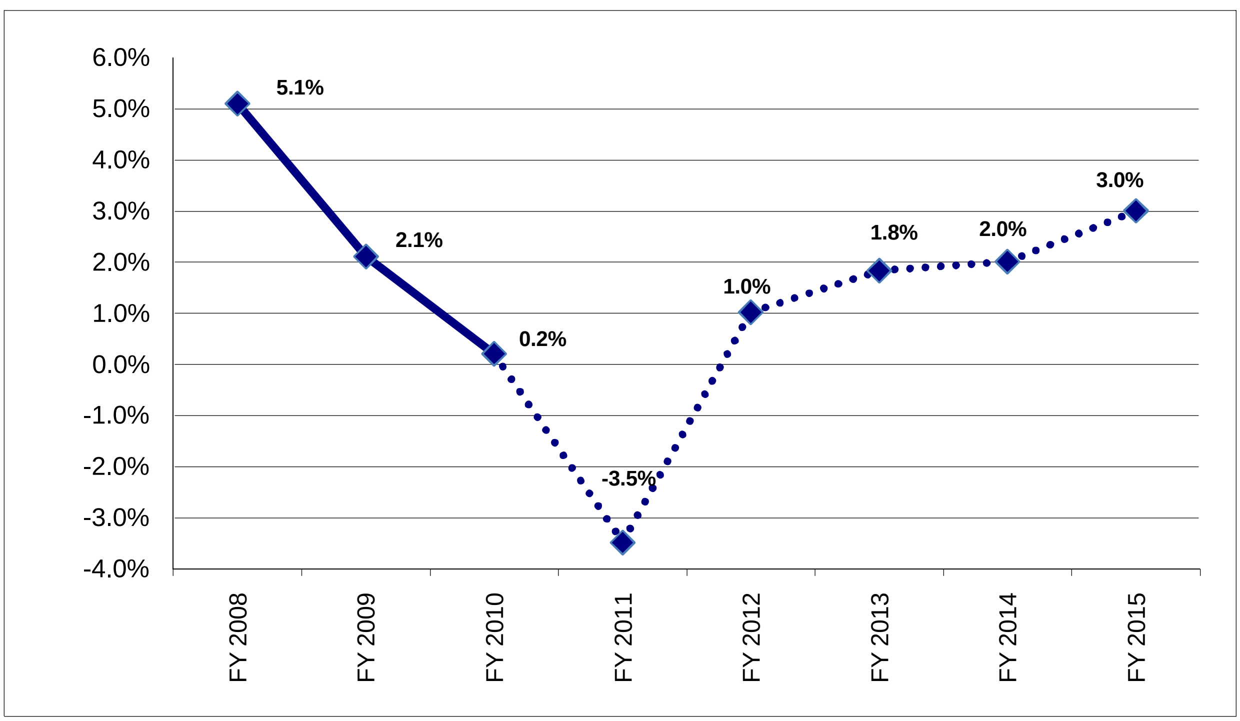
The economy has a natural tendency to grow, but this growth doesn't always occur in a linear manner, meaning the economy experiences booms and busts. Using both real estate and general sales as examples, they have experienced this recently: periods of below average growth, followed by well above average growth, and are now experiencing unprecedented decline. It may be informative to compare the actual growth in these revenues, to a series of constructed numbers based on the long-term average growth rate of real estate and general sales revenues. This may provide insight as to whether the current revenue streams have reached a bottom or have further to fall to achieve a balance. In other words, this approach smoothes out the "boom and bust" cycles that each revenue has experienced and compares the projected revenue to the long-term average without the boom and bust cycle.

Using a 5% annual growth rate (which roughly represents the long-term average appreciation for our City), the graph illustrates that from 1993 through 2006 real estate values underperformed the historic trends while beginning in 2007 it exceeds the average growth rate. The graph on real estate above suggests that the actual real estate is still above the long-term trend, which implies real estate may still have further to fall. This coincides with the forecast by the Real Estate Assessor and by many regional economists.



For general sales, the ten year growth rate was used as a proxy rather than a much longer term growth rate, since the strong growth in the 1970's and 1980's influenced the overall long term rate and is unlikely to reoccur. The above graph on general sales, however, suggests that we may have reached the bottom and that we may begin to experience some upward movement in this revenue.

Annual Percent Change in Total Revenue



Looking at all revenue sources combined, the year-to-year change in total revenue growth is displayed. In the first year of the forecast (FY 2010-11), total revenue will experience a decline of -3.5% from the current fiscal year or $61.3 million. This reduced revenue growth is being experienced at greater rates in other parts of the country. The overall economic recovery may be prolonged and difficult. A large part of the City's recovery will rely on the stability of the military, the recovery in the housing market, a rise in consumer confidence, and growth in employment.

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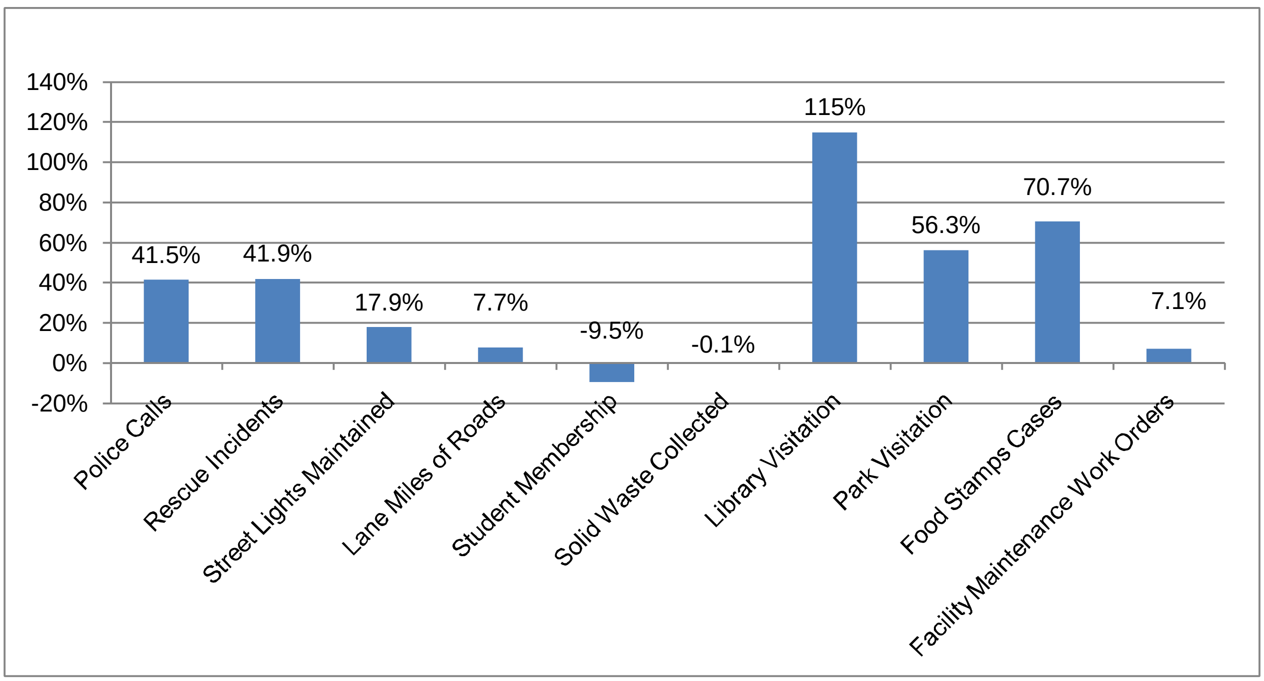
Expenditures

The forecast would be incomplete without an examination of expenditures and what is driving the cost of government services.

For most private sector businesses there is a direct link between number of customers and the success of the business. In government that link is less clear. As discussed below, governments, particularly local governments who are closer to the citizens, find the demand for their programs and services increasing even as the economy stalls or population growth slows. For example, demand for libraries increase as people shift from purchasing books to borrowing them. The demand for emergency medical services increases as people put off preventative health care due to costs. Claims for public assistance through human services rise as more individuals find themselves unemployed or underemployed.

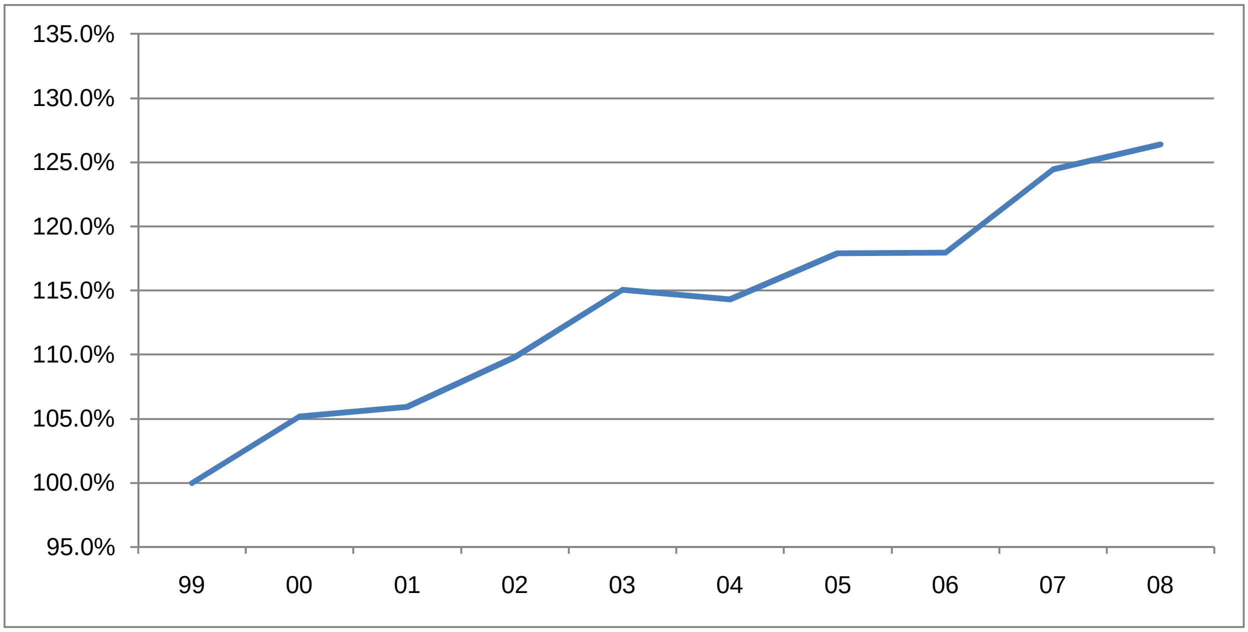
As the national economy creates financial constraints for families alongside declining revenues; service demands for the City are increasing. This is unlike a business during a recession that is losing revenue due to a decrease in its number of customers. For example, relating to this increase in demand for services, the number of food stamp cases in Virginia Beach has increased 70% from FY 1999-00 and FY 2008-09. Also indicative of an increase in City service usage is the number of people visiting the City's libraries, an increase of 115% from FY 1999-00 to FY 2008-09. Citizens are experiencing the effects of the Federal and State economies and utilizing services at the local level.

Changes in Service Demand from FY 2000 to FY 2009



Another way to view this demand is to control for the growth in population. The difficult challenge ahead for both the City Council and School Board is maintaining existing services, expanding services or reducing services with less money than before which is occurring for both families and the City.

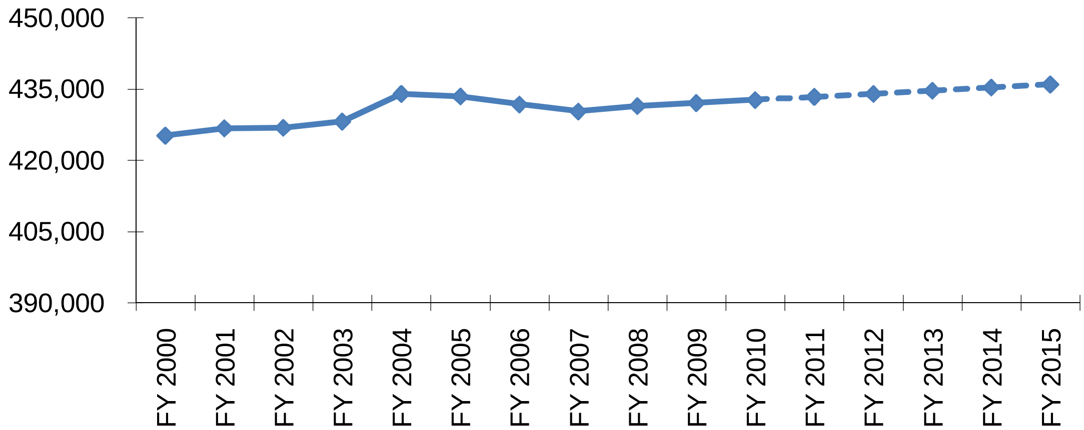
Demand for Services Index



Total population growth is not necessarily a representative benchmark against which expenditure growth should be compared. That’s because total population growth does not necessarily translate directly into the growth in services that citizens are demanding from the City and Schools especially in this recessionary economy where jobs continue to decline.

To illustrate this phenomena, the City has developed a Demand for Services Index, which tracks total citizen demand for key government services (police, fire, and EMS calls, library book borrowing, waste tons collected, park visitation, health care clinic visitation, food stamp cases, number of registered vehicles, roadway land miles, number of prisoners, street light maintenance) in relation to the growth in population. The base index year is 1999 (index of 100%). Subsequent increases in the index represent demand for services above the level of increase in the population. If the demand for these services grew at the same rate as the population, the index would remain at 100% for each year. Consequently, the growth in the index reflects that demand for services has exceeded the growth in the population, meaning that slower population growth has not lessened the demand for services from citizens. In essence the graph depicts the per capita consumption or demand for municipal services.

Virginia Beach Population

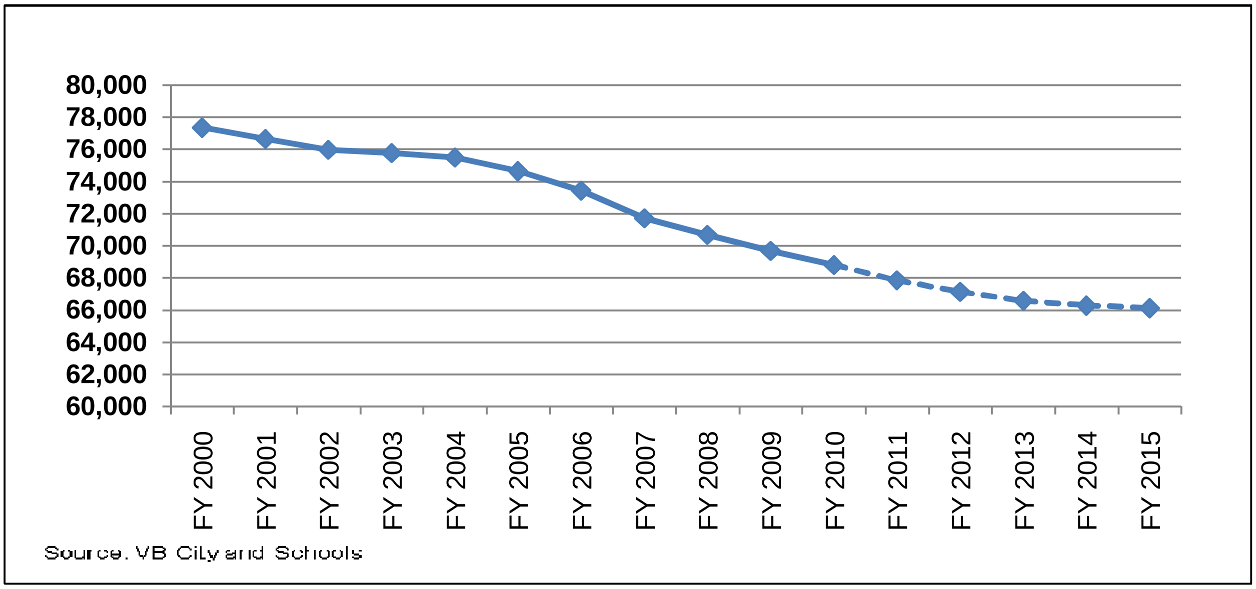


Source: VB City and Schools

As the graph on population illustrates, Virginia Beach's population growth has significantly leveled off, though it is still rising at about half a percent per year. However, the City's population is aging which can shift the need for services from youth oriented programs to services to support elderly populations. As a percentage of our population, individuals over age sixty-five have increased from 4.5% in 1980 to 10.1% in 2008. The City's median age has increased from 26.9 years in 1980 to 35.7 in 2008. Correspondingly the number of households with children has declined from 44.8% in 1990 (data was unavailable in 1980) to 36.9% currently. As the number of households with children has decreased, so has School enrollment.

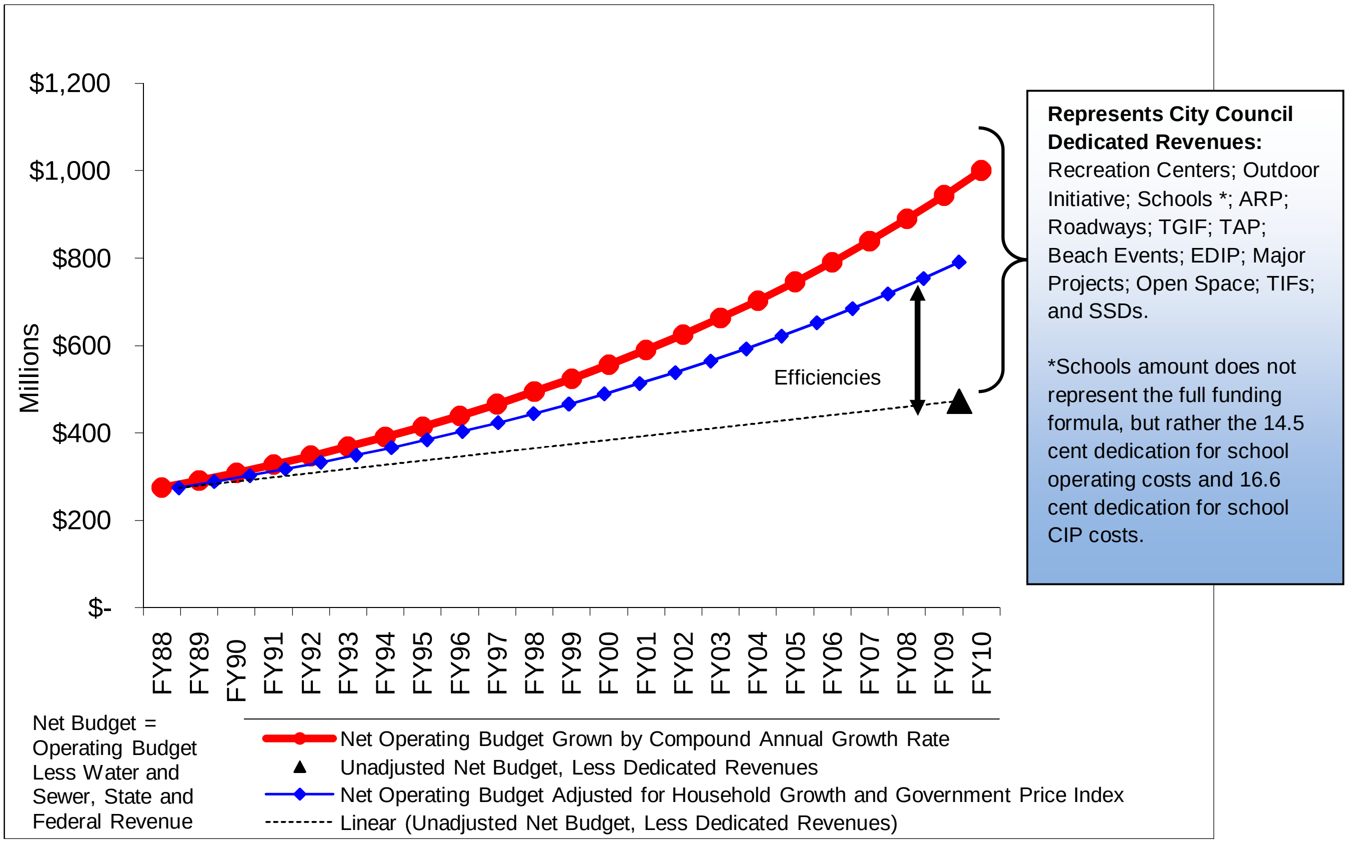
A final comment concerning population demographics and its impact on the City is that while family incomes have risen since 1980, from $21,809 to $73,874 the percent of that income that goes to housing costs has also increased. In 1980, 26.3% of homeowners paid greater than 30% of their income to housing costs. Today 34.5% are paying greater than 30% of their incomes for housing. For those renting it is worse, 37.8% of renters paid more than 30% of their incomes in rent, today nearly 50% of renters are in that category. On the flip side, today 18.4% of homeowners are mortgage free compared to 1980 where only 11% had no mortgage.

Student Enrollment



As the graph above shows, student enrollment in the Virginia Beach Public Schools has declined from its peak in FY 2000 of 77,359 to 68,807 today. The School System is forecasting this decline to continue over the next five years resulting in a total student decrease of 11,236. While this decline is significant, it is dispersed across the School system and has come during times of increasing complexity in delivery of classroom education. “No Child Left Behind” has added to the administrative burdens of classroom teachers as has the State Standards of Learning requirements. In addition, the changes demographically in our community are also changing the learning environment in the Schools. Children living in poverty comprise 10.4% of our total population.

Comparison of Budget Growth FY 1988 to FY 2010



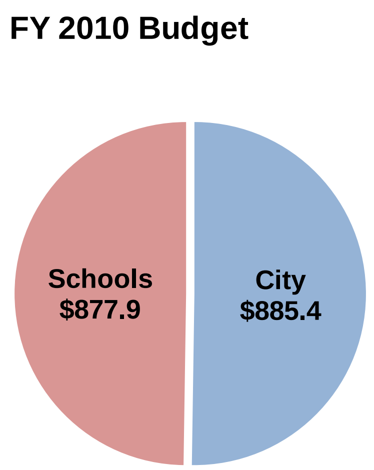
The graph above shows the growth of the budget since FY 1997-88, which is the year that City Council began to dedicate certain revenues. The red line represents the net Operating Budget (total Operating Budget less Water and Sewer, State and Federal revenue) in FY 1987-88 grown at the compound annual growth rate of 6.055%. The blue line represents the growth of the FY 1987-88 budget by an index of household growth (more indicative of demand growth than population) and the Implicit Price Deflator for State and Local expenditures (essentially CPI for government purchases). The black triangle represents the FY 2009-10 budget, less all of the City Council dedicated revenues. The dashed black line shows the trend line of how the budget would likely have grown without the Council dedications. So, what does this mean?

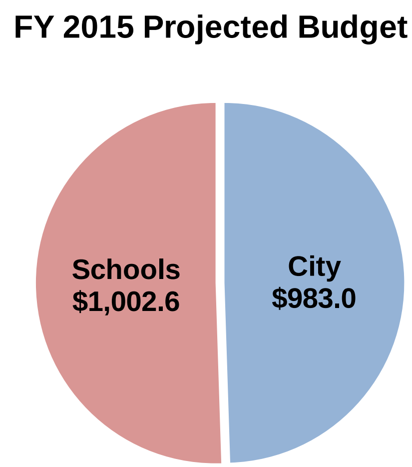
While the cost of government increased as a result of the dedication of revenue streams, the City Council recognized that important initiatives funded by these revenue streams would not have moved forward without dedicated funding sources. The City Council chose to invest in initiatives that would enhance the community. Many of these dedications were approved via referendums.* The cost of government services has not grown at excessive rates, but rather has kept pace with governmental inflation and household growth. This fact indicates that the City has become more streamlined and

* Referendums include: Parks and Recreation, Roadways, Schools

efficient since FY 1987-88. This is especially pronounced since the budgetary growth includes many new programs and enhanced services since that time. Services such as a large-scale recycling program, a significantly enhanced local contribution to education, the opening of numerous facilities and enhancements to the Emergency Response System were all added within that general government growth.

City and School Comparison of Expenditures





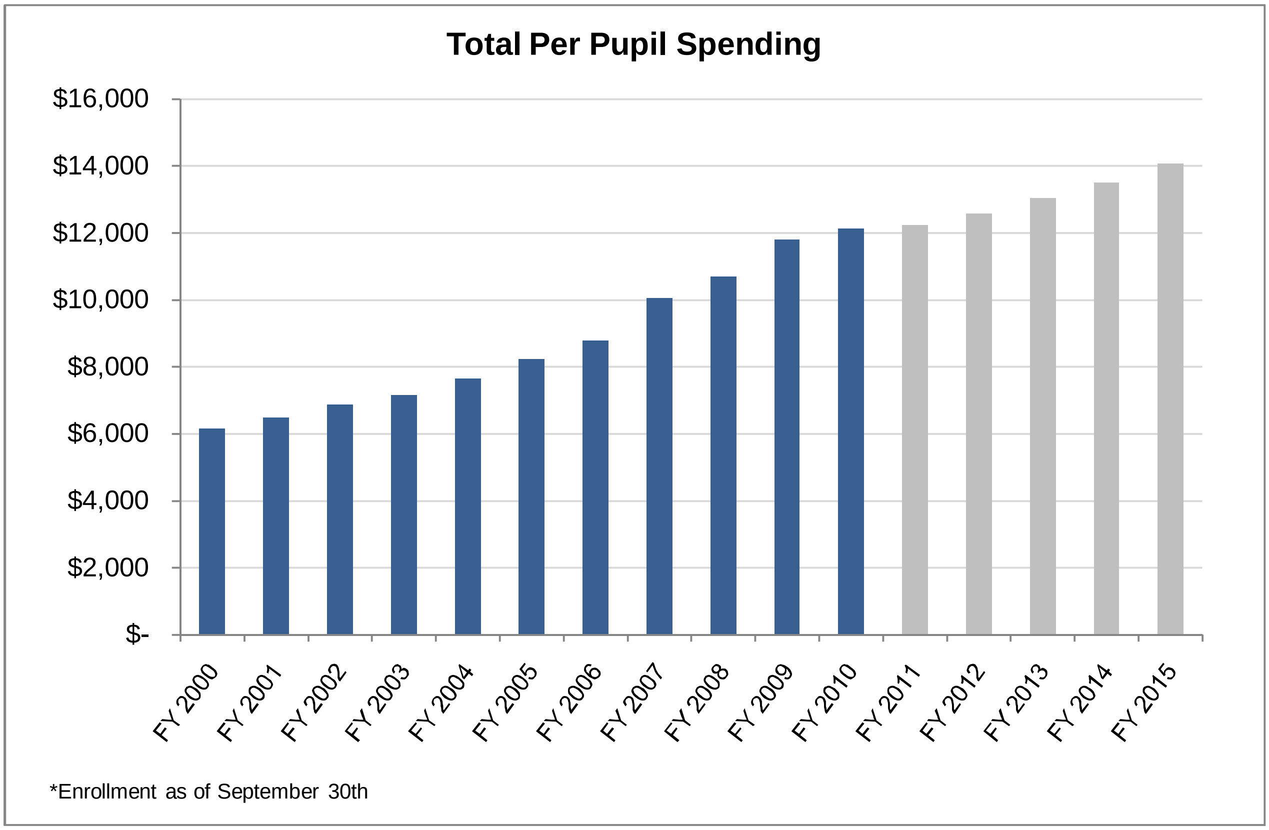
As can be seen by the graph, the total City budget has remained split roughly equal between the City programs and the public School system even with the decreases in student enrollment. This split reflects the importance that the community and the City Council place on a quality educational system and the complexities that drive increasing School costs.

Local Operating Expenditures Per Pupil and Per Pupil Spending

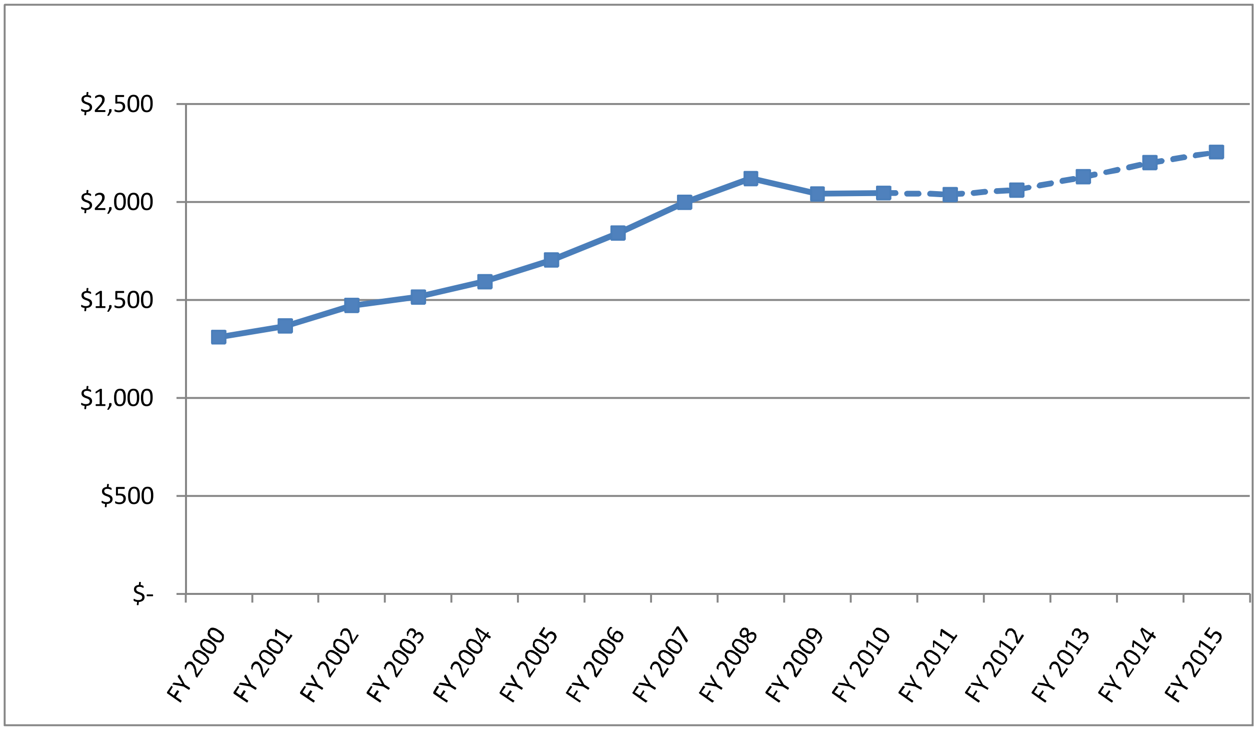
	2003	2004	2005	2006	2007	2008
Virginia Beach	$3,192	$3,573	$3,642	$3,919	$4,561	$4,848
Chesapeake	$3,180	$3,264	$3,463	$3,827	$4,698	$4,573
Norfolk	$2,404	$2,686	$2,825	$2,839	$2,695	$3,170
Portsmouth	$1,946	$1,832	$2,160	$2,605	$1,974	$2,671
Suffolk	$2,372	$2,310	$2,683	$3,031	$2,904	$3,407
Hampton	$2,302	$2,686	$2,568	$2,735	$2,844	$3,200
Newport News	$2,620	$2,471	$2,528	$2,982	$3,017	$3,122

Source: Virginia Department of Education Superintendent's Annual Report

The City continues to provide funding enhancements to maintain a quality education system. During the 15 year period, student enrollment has declined 14.5%. Per pupil spending has more than doubled during this period. As can be seen by the table above, Virginia Beach spends the most local operating dollars per pupil in Hampton Roads.



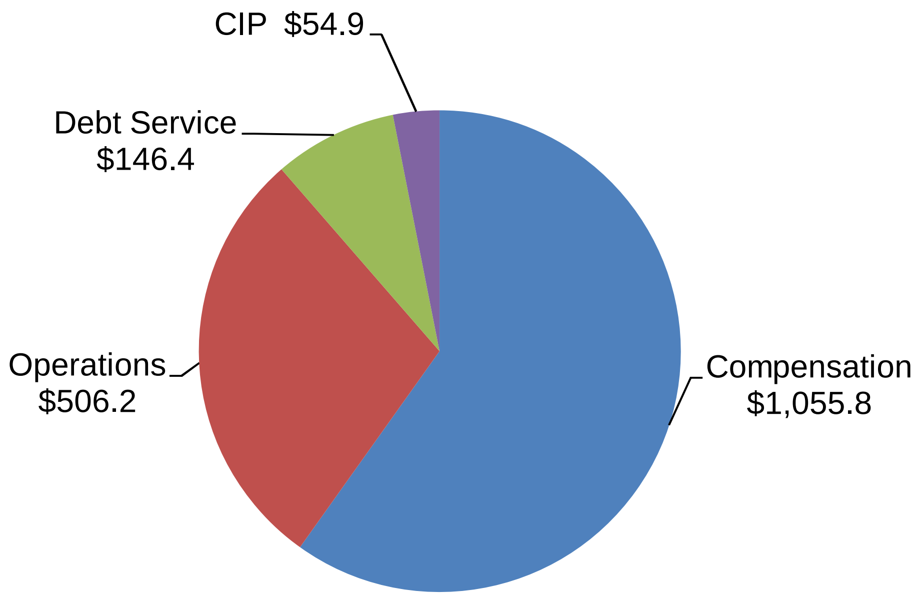
Growth of City Budget Per Capita



Looking just at the portion of the City's budget used to provide municipal services other than Schools, it has grown from $557 million in FY 1999-00 to $983 million in FY 2015. Expenditures are increasing over the next five years by 11%, driven by the need to address utility increases, rising demand for services, opening of new facilities already in the pipeline, and Federal mandates such as the need for salary increases to retain the City workforce. Given these increases in costs; the City would see per capita expenditures increase over the sixteen year period from $1,311 per person in FY 1999-00 to $2,255 in FY 2014-2015. This would be an increase of 72% and if adjusted for inflation over the same time period an increase of 19.7%. However, it is important to note that during this same period we:

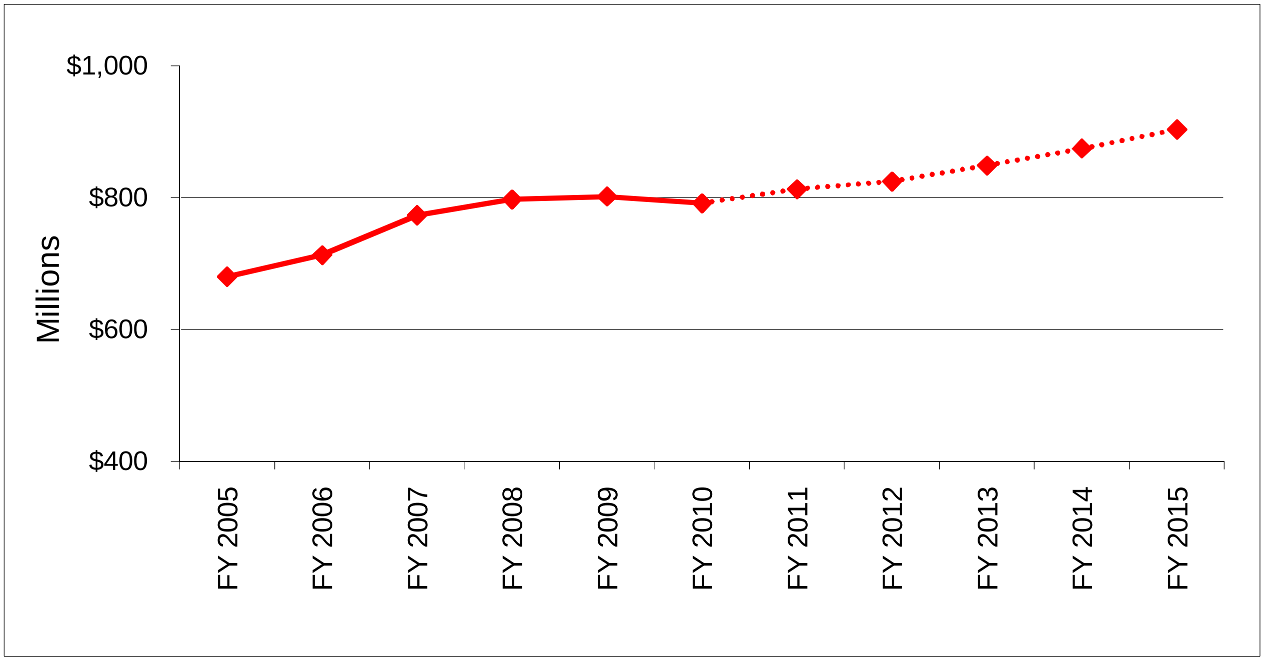
- Opened a new Convention Center;
- Expanded the Jail facility
- Addressed new State and Federal mandates for example: provided a fraud hotline, increased administrative oversight of mental health programs and requirements, replaced voting systems, and addressed the Freedom of Information Act (FOIA)
- Opened a new Juvenile Detention Center
- Expanded two libraries and opened a new one in the Princess Anne District
- Addressed the concerns of the Base Realignment and Closure Commission (BRAC) through a program to eliminate encroachment around Oceana Naval Air Station
- Offset State reductions to Constitutional Offices thereby maintaining services
- Built a new mental health facility (Biznet) and expanded services to those in need
- Added 36 positions to the Emergency Medical System, 5 new E911 operators, 10 fire fighters, and 25 police officers

FY 2009-10 Total Budget (Operations and Compensation)



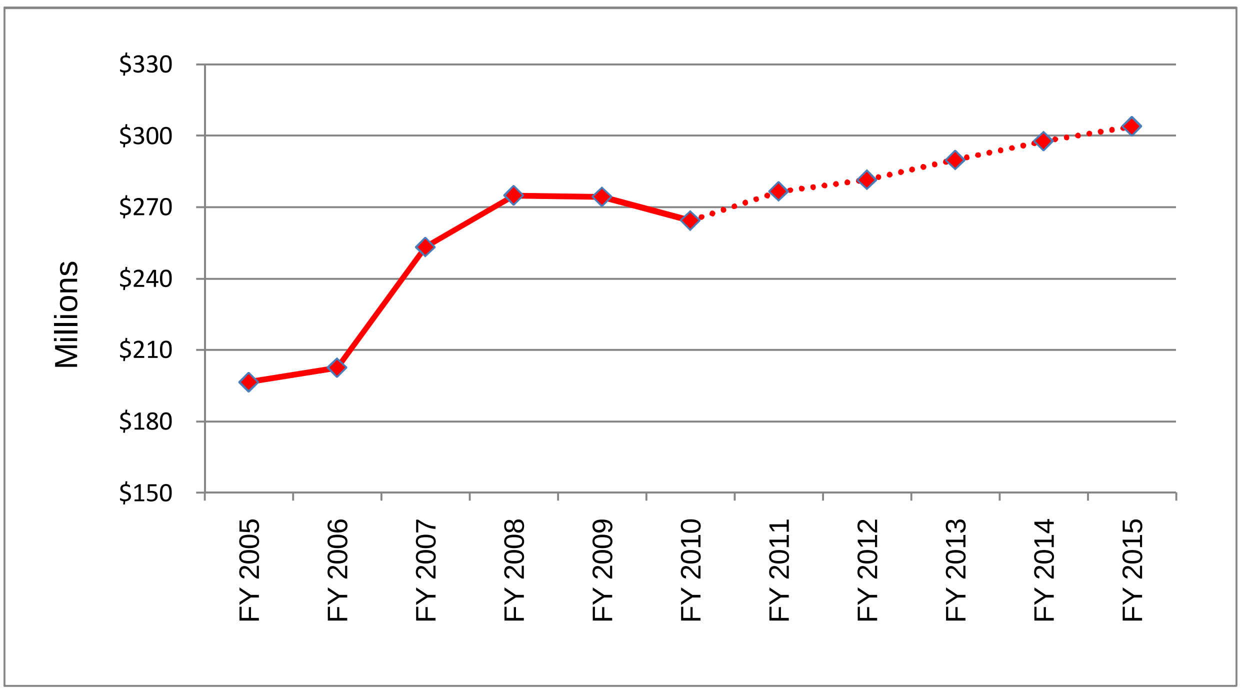
As was noted above, the budget is split roughly 50/50 between City and School funding; however, another way to look at the total expenditures is to examine where the money is getting spent. As the graph illustrates, nearly 67% goes into compensation. The following graphs will examine these categories in more detail.

City and School Salaries

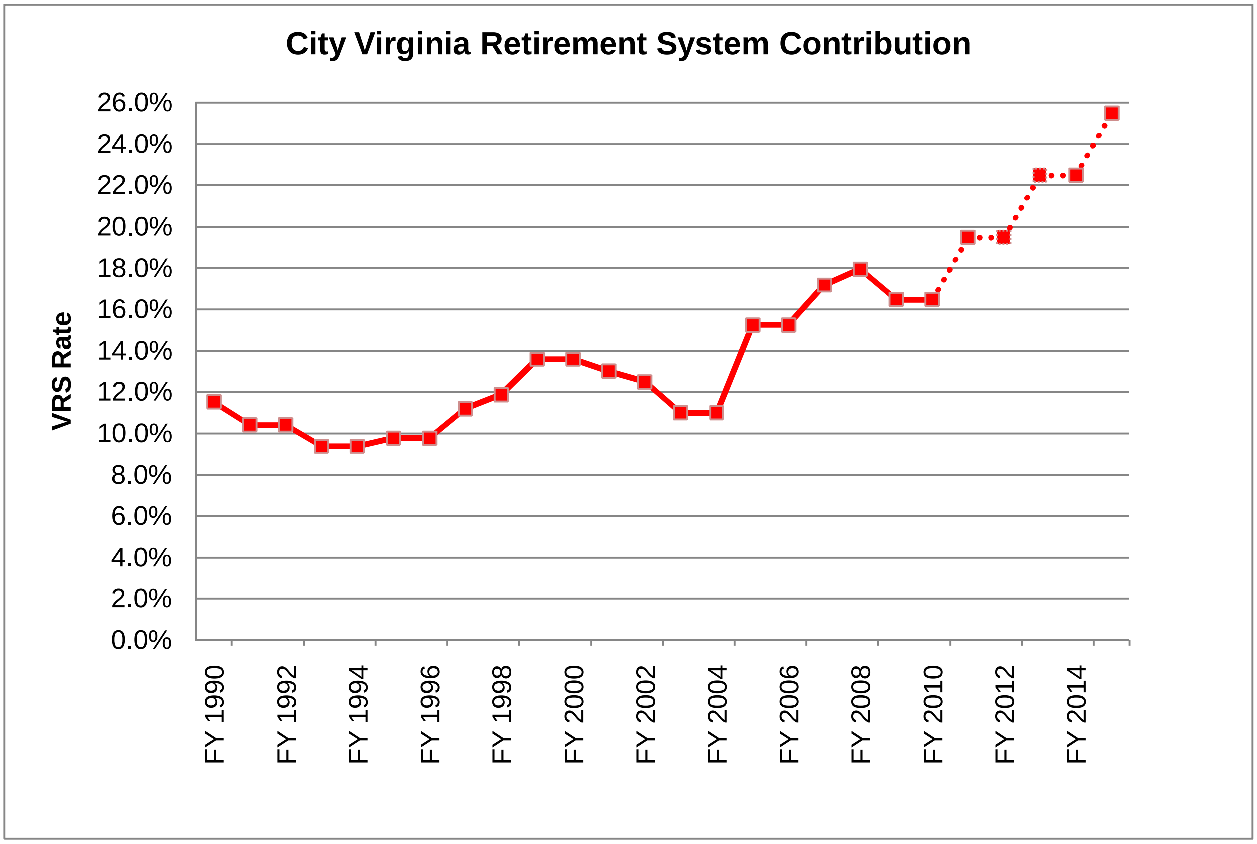


As was discussed earlier in this report, the City and School system employs over 20,000 people making the two systems the second largest employer in the City. Because of this a substantial portion, nearly 67% of the total budget goes to employee compensation be it base pay, overtime, or fringe benefits. As the graph illustrates payroll in the forecast is projected to have no increase in the first year, 1.5% beginning in the second year and 3% each year thereafter. For the City each 1% increase in salaries for FY 2010-11 requires roughly $4 million dollars in additional funding, so a 3% increase would require $12 million. Add to that a 3% increase in School salaries for FY 2010-11 at $18 million (each 1% is $6 million); the increase to the forecasted budget deficit in that year would rise $30 million just for that first year.

City and School Fringe Benefits



Fringe benefits, which are comprised of FICA, Medicaid, VRS, life insurance and the health care contribution will also need to increase over the next five years. The forecast assumes that in total these costs will increase by 1.5% each year starting in the second year and 3% every year thereafter. There are two major concerns in this area for the City and School system over the forecast period. First are health care costs and the Federal health care initiatives, and the second is the anticipated increases in pension costs.



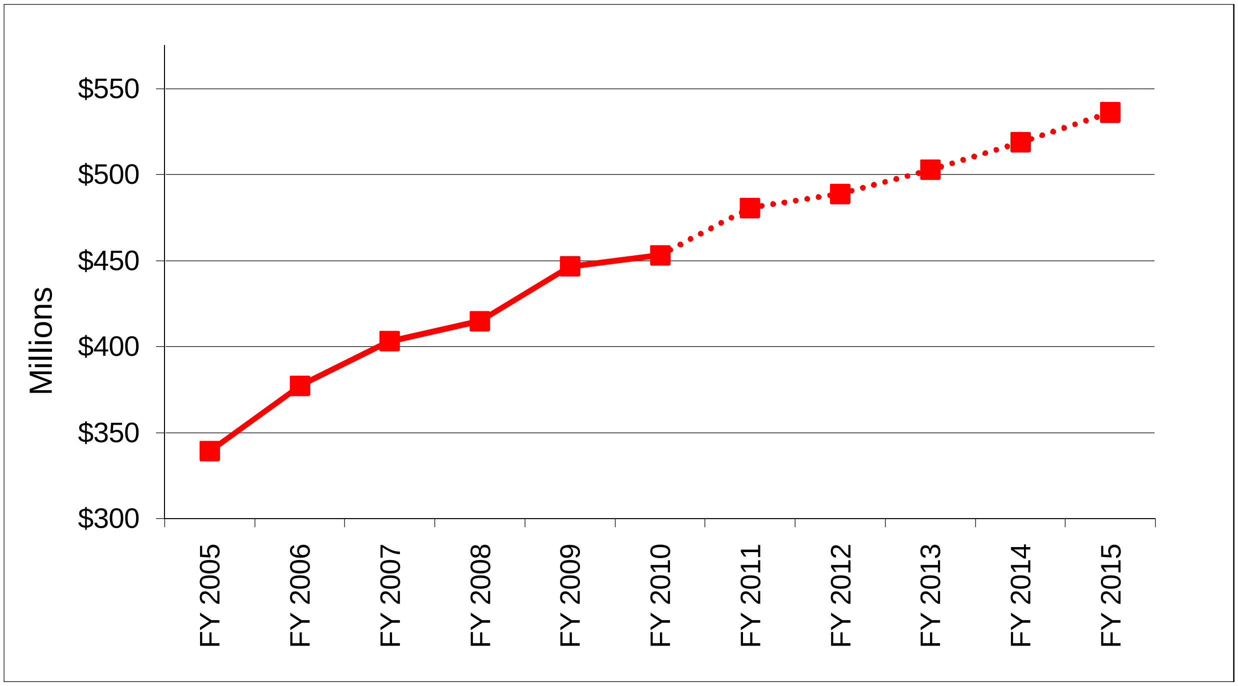
As has been well documented over the last year, the Virginia Retirement System (VRS) has been significantly affected by the current recession as its investment portfolio has declined by nearly $11 billion. Because of this, it is anticipated that the City and Schools will see increases in their VRS rates (the City's current rate is 16.48% of full-time salaries and the School's current rate is 14.85% for teachers and 11.64% for non-teachers). At the time of this report VRS had not notified localities or School Boards of their exact rate changes. As the graph illustrates, if the City rates increase by 3% at the beginning of each biennium (VRS only recommends rate changes to coincide with the State's biennial budget), the City's rate would reach 25.48% of payroll by the end of the forecast period. For the City, an increase in the VRS rate from 16.48% to 19.48% in FY 2010-11 will require an additional $8.7 million for all funds. The direction given to City agencies has been to absorb this increase within anticipated funding for FY 2010-11.

Health Care Costs

As was noted earlier in this report, the Federal Government is undertaking a major overhaul of the nation's health care system. At the time of this report, there was not a clear consensus on what form this would take making any attempt to forecast impacts to the City and Schools moot. However; issues such as requiring health care coverage for part-time employees has the potential to raise our health care cost by millions of dollars. This on top of potential increases in health care costs of 5% to 10% each year could make health care of significant concern over the forecast period.

It should also be noted that the forecast assumes that the $8.7 million GASB45 payment for City and Schools will continue to be made from the Health Insurance fund for the next five years. In the short term, the Health Insurance fund has a sufficient balance to incur this cost without raising either the employee or employer contributions. This will not be possible for all five years. Eventually health care premiums and/or employer contributions will need to increase.

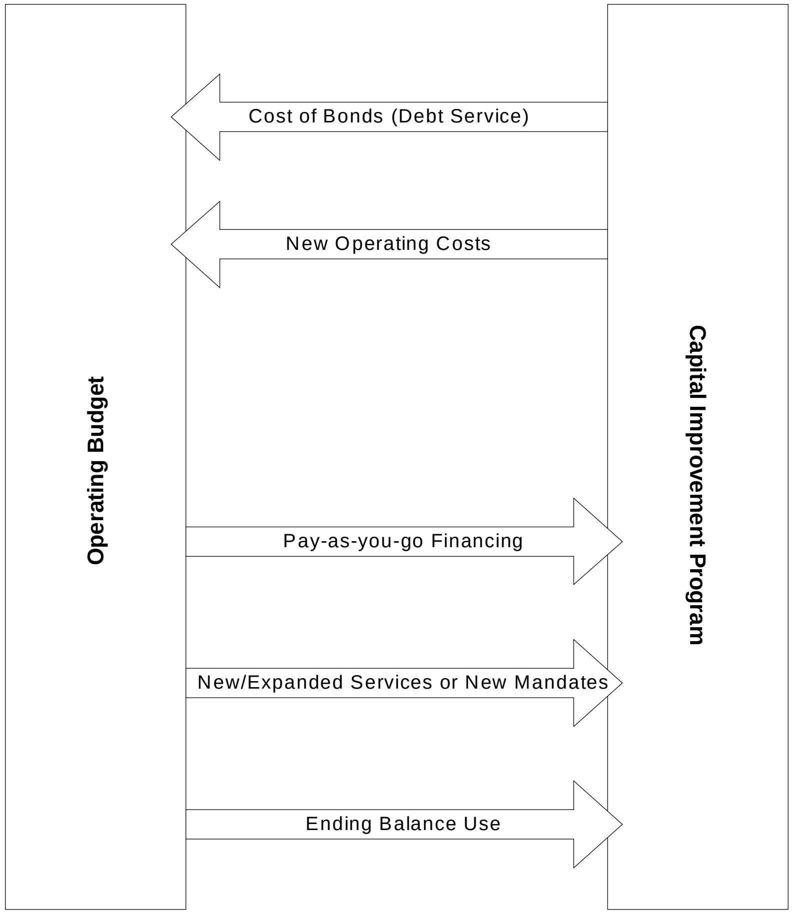
Total Operating Costs for the City and Schools



Total operating costs for the City and Schools represent costs that are not personnel related. This includes such expenses as: the SPSA contract; basic office supplies; new vehicles; and fuel, among other expenses. For the purposes of this forecast, operating account expenditures were held to a 2% increase beginning in the third year. Schools increased these accounts for grant programs an average of 4% each year beginning in FY 2010-11 through the end of the forecast period.

Capital Improvement Program and Economic Development Initiatives

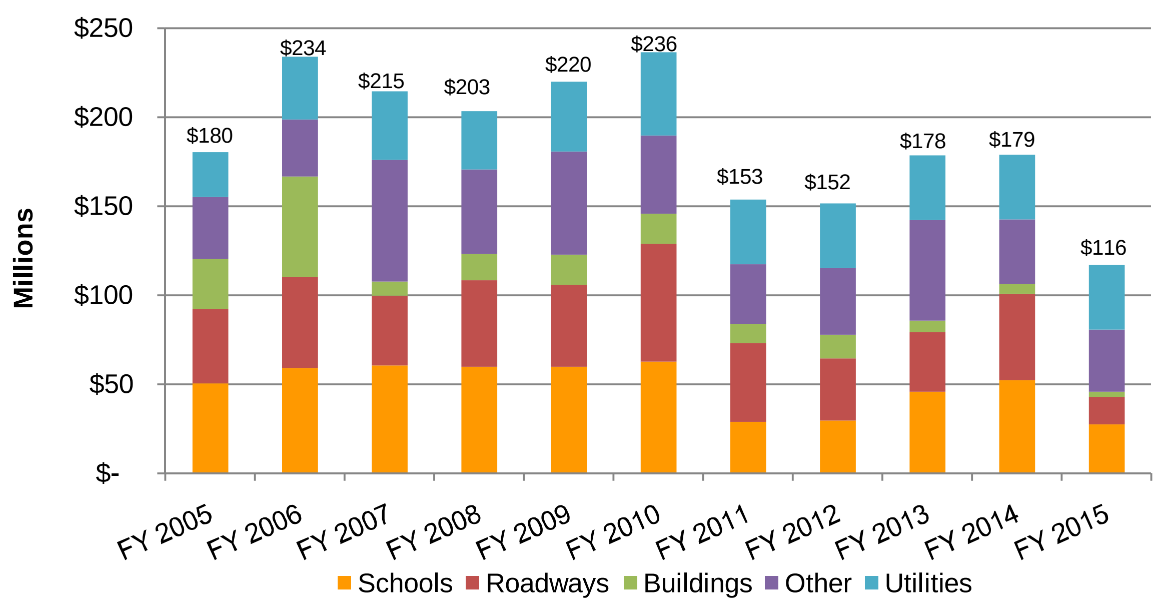
The interrelationship between the Capital Improvement Program and the Operating Budget is demonstrated below:



The Operating Budget provides funding to the Capital Improvement Program through pay-as-you-go payments (cash funding supporting by annual revenue). The Capital Improvement Program impacts the Operating Budget with debt service and operation and maintenance expenditures added to future budgets. One strategy implemented in the FY 2009-10 Operating Budget was reallocating $10 million of pay-as-you-go funding for service needs in the Operating Budget and replacing that funding in the Capital Improvement Program with a one-time fund balance use of $10 million.

Given the current state of the local and national economies, the forecast assumes that the City will not replace the $10 million in pay-as-you-go funding through the forecast period nor will it continue to replace it with fund balance. This means that $15 million of pay-as-you-go financing will be returned to the Operating Budget in each of the first two years to help offset the anticipated loss in revenue with $10 million of pay-as-you-go financing returned in years three through five of the forecast. The forecast also assumes that $5 million in charter bonds, originally planned for the Schools Capital Improvement Program, will be allocated to the City to help offset the significant loss in pay-as-you-go funding.

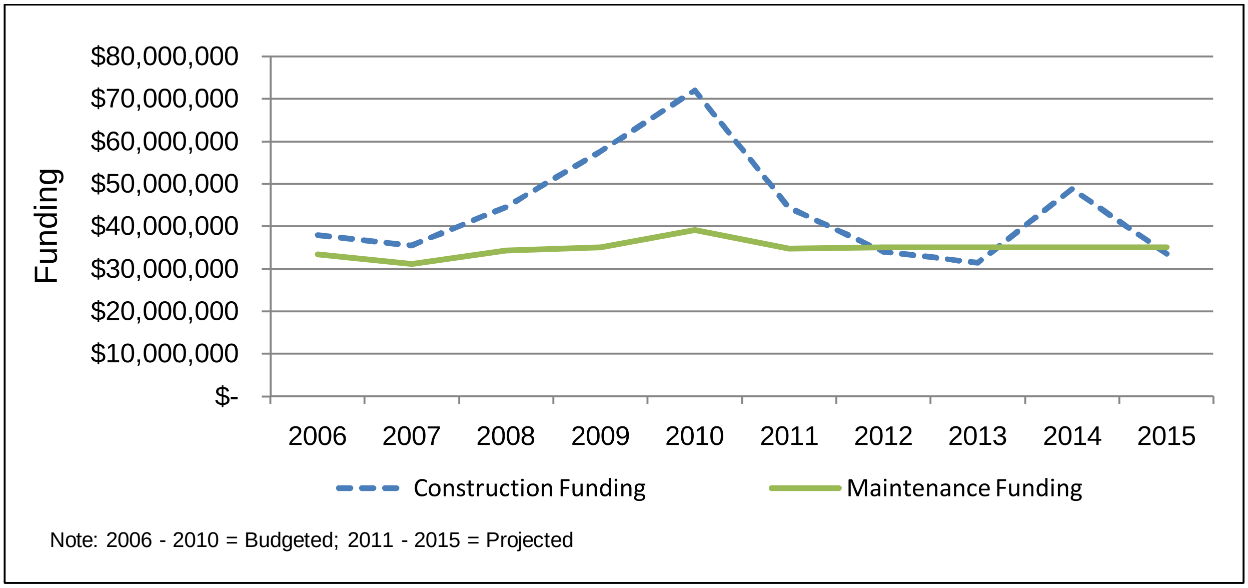
Capital Improvement Program Funding FY 2005 to FY 2015



*Other includes Parks & Recreation, Economic Development, ComIT, and Coastal

Combined with the dramatic reductions in State funding for roadway projects, it is anticipated that the six-year Capital Improvement Program will experience a significant reduction in projects as higher priority projects push lower priority projects beyond FY 2014-15 funding. While the City has a documented backlog of needed capital projects, strategies will have to be developed to ensure that the most pressing capital projects move forward. Alternatives could include placing a moratorium on all projects not currently under construction (until the economy improves); initiating a dedicated revenue stream or use of more fees to address infrastructure needs; focus only on rehabilitation/renewal projects and not on new projects or expansions of existing infrastructure; and continue to work with the State to ensure they reestablish their commitments to issues like roadways and Schools. Since roadways are a top City Council priority, it will be discussed in more detail on the next page.

Total Roadway Funding (includes Local, State, and Federal funding)
FY 2005-06 thru FY 2014-15



Transportation has become an increasingly significant issue for the City. Our growth in population over the years and the increase in vehicle miles travelled, coupled with dramatically reduced State funding for roadway construction, has resulted in the need to regularly evaluate our transportation needs to determine how best to allocate available funding. The challenge to the City has been to balance the construction funding needs of the most critical new roadway projects with the maintenance needs of the City's current roads.

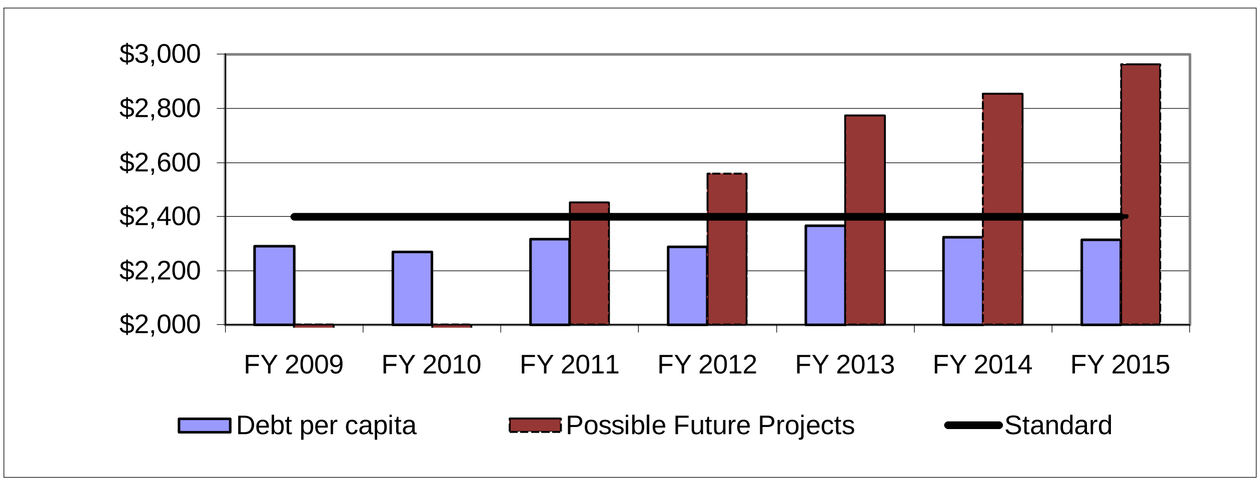
The chart above illustrates the budgeted and projected roadway construction and maintenance funding for the period from FY 2006 to FY 2015 from all sources – local, State, and Federal. Included is State funding managed by the Virginia Department of Transportation (VDOT) on our behalf. For the period FY 2010 through FY 2015, construction funding from VDOT has been dramatically reduced, with urban allocation funding (for construction of urban highways) being eliminated. To ensure that many of the projects that would have received urban allocation funding are continued, local funding has been transferred from other roadway projects, resulting in project delays (examples of delayed projects are Elbow Road Extended – Phase II, Indian River Road – Phase VII, Laskin Road – Phase II, Seaboard Road, and Witchduck Road – Phase II). The increases shown in construction funding in FY 2009 and FY 2010 are primarily the result of funding from the 2009 American Recovery and Reinvestment Act (ARRA), while the increase shown in FY 2014 represents a greater amount of charter bond funding for the Lesner Bridge project.

On the maintenance side, of the total amount spent by the City for roadway maintenance that is reimbursable, almost 90% is covered by annual VDOT roadway maintenance funding. An example of roadway maintenance expenses not covered by

VDOT roadway maintenance funding is landscaping. (Besides roadway surface maintenance, VDOT maintenance funding is also provided for related activities such as maintenance of roadway drainage.) That amount has been increasing over the years, but VDOT has projected that the VDOT maintenance funding to the City over the next few years may not increase beyond the amount provided in FY 2010. While the current target cycle for pavement maintenance is 15 years, recent funding limitations has resulted in an extended cycle of closer to 30 years. To help mitigate this, City Council provided an additional $4 million towards resurfacing and pavement maintenance in FY 2009-10 through the use of fund balance. So the anticipated leveling off of VDOT maintenance funds combined with the increasing need for roadway maintenance further complicates the funding issues.

In an effort to reduce the effects of decreased State funding on our roadway projects and to ensure that higher priority project schedules are maintained, the City has actively sought, and received, funding from other sources, including $10,640,000 under the 2009 ARRA for the Witchduck Road – Phase I Capital Improvement Program project, and several million dollars from the Federal Highway Safety Commission for highway safety improvement projects. In addition, $27,340,000 from the ARRA is being provided directly to VDOT for the Great Neck Road/Interstate 264 ramps and the Princess Anne Road – Phase IV project. For FY 2011 and FY 2012, the City is applying for almost $100 million in grant funding to advance Capital Improvement Program roadway projects.

Net Debt Per Capita



The graph above displays the net debt per capita based on the Adopted FY 2009 Capital Improvement Program (noted in blue above). Without additional projects, the net debt per capita will remain below the City Council standard of $2,400 reaching a peak of $2,367 by FY 2014-15.

As noted above, a backlog of important capital projects exists. The current debt per capita indicator leaves little flexibility for additional projects. As the City ages and develops, certain infrastructure needs will be necessary (i.e. additional Capital Improvement Program projects). Adding additional projects would cause the City's net debt per capita to exceed the $2,400 limit as represented with the red columns on the graph. This assumes the issuance of roughly $60 million in additional debt each year or doubles the City's current charter debt level. Some of these projects include but are not limited to the Williams Farm Community Center, the Animal Care Shelter, Lesner Bridge replacement and the large vehicle garage at Leroy Drive.

The City will need to review its net debt per capita standards to ensure that future infrastructure needs can be met, while at the same time maintaining its AAA bond rating. Staff plans to bring this issue forward for City Council discussion in the near future. A key concern will be the impact of any new debt load on the City's annual debt service amount. At $60 million in additional debt each year for five years the City would increase its debt service by $3 million by FY 2014-15. That is why it is important that any new project initiatives should have a funding plan in place to pay for debt service and the operations and maintenance costs of the project before the project is undertaken.

Economic Development Initiatives

Many successful public/private partnerships have been established in the City, and investment in economic development projects have provided significant returns to the City, which has helped offset the effects of the recession. For example, the partnership at Town Center, through phase IV, will generate $523 million in private development, while the City will have contributed $140 million for infrastructure (parking facilities and streets). The result has been a 1 to 3.7 public to private investment ratio. Not only has Town Center created new jobs, entertainment options, hotel rooms, and restaurants, it provides approximately $5.7 million in taxes (excluding real estate) to the City to address City Council priorities like public education, police and tourism.

Another example is the public/private partnership at Lynnhaven Mall, which has provided over $100 million in private investment to the City's $11.5 million – a public to private ratio of 1 to 8.7. Like Town Center, the Lynnhaven Mall TIF provides unique shopping, entertainment, and restaurant options, but the businesses within the district also provides $9.9 million (excluding real estate) in other taxes to the City. Combining the non-real estate tax revenue of the Town Center and Lynnhaven Mall TIFs they provide the City $15.6 million of revenue to the City a year or approximately the equivalent of three cents on the real estate tax rate.

As City Council intended, the 31st Street hotel/park/parking facility is proving to be a redevelopment catalyst for the resort area. In addition to providing public parking and a public park, the project is generating positive fiscal impact from direct revenues to the City. In 2007, the development provided $1.3 million of net positive fiscal impact. The Virginia Beach Amphitheater is also proving to be an excellent entertainment venue for the City. In the amphitheater's thirteen years of operation, it has provided performances for more than 3.7 million people and generated almost $15 million in direct revenue.

Conclusions

The consensus is that recovery from the recession will take time. Within that time, revenues will have decreases at rates that are unprecedented. However, Virginia Beach is faring better than many of our regional neighbors and similar sized communities across the country. The Associated Press put together a "Stress Index" for major communities across the country. This index factors in unemployment, foreclosures, and bankruptcies for each community. As the table below illustrates, Virginia Beach, while certainly not immune from the effects of this recession, is less financially stressed.

Stress Index

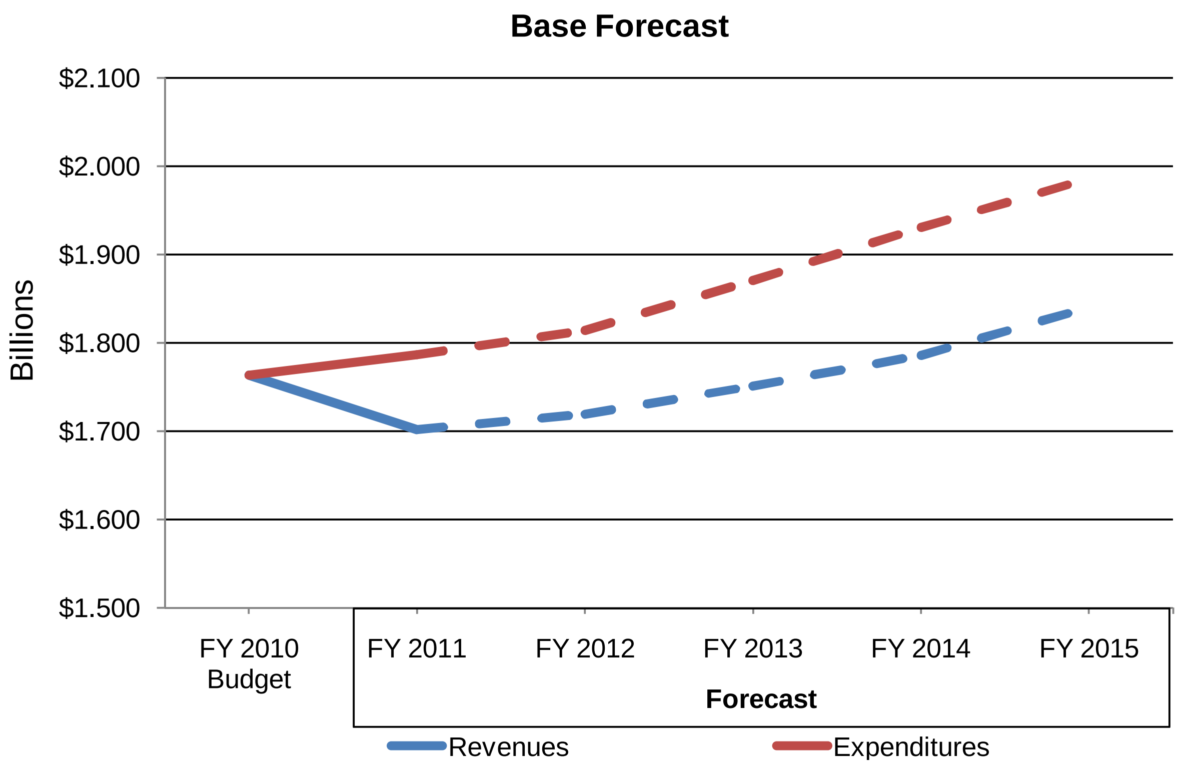
Community	Current Month Stress Index	Oct 2007 Stress Index
Virginia Beach	7.65	3.51
Chesapeake	8.40	3.65
Norfolk	10.18	4.78
Portsmouth	10.51	4.72
Newport News	8.88	4.29
Hampton	9.35	4.13
Fairfax County	7.07	2.65
Henrico County	9.05	3.54
Chesterfield County	8.76	3.42
Clark County Nevada	23.83	9.24
Los Angeles California	16.38	6.63
Miami-Dade Florida	16.22	7.33
Charleston County South Carolina	10.47	4.86
Baltimore County Maryland	8.37	4.29

Source: Associated Press Interactive: AP Economic Stress Index

City and Schools Total Revenues and Expenditures

As the revenue section of this report illustrates, revenues will continue to decline over the next several years led by real declines in the value of housing and commercial properties. Consumers, which have been the backbone of the economy both nationally and locally, will continue to spend less and, therefore, keep tax revenues low. Lingering effects such as high unemployment rates, under employment, and negative housing values are expected to continue for a while and the recovery period will take time. Most regional economists are saying that the recovery will be slow.

The impact of the economy and its slow recovery on revenues critical to on-going City and School services and programs will continue to be felt over the next five years. In the first year of the forecast, revenue loss accounts for $61.3 million of the projected deficit. It is not until the fourth year of the forecast (FY 2013-14) that we see a return to the current year's revenue level. This long recovery in the revenues mirrors what economists are saying about the overall economy both nationally and locally.

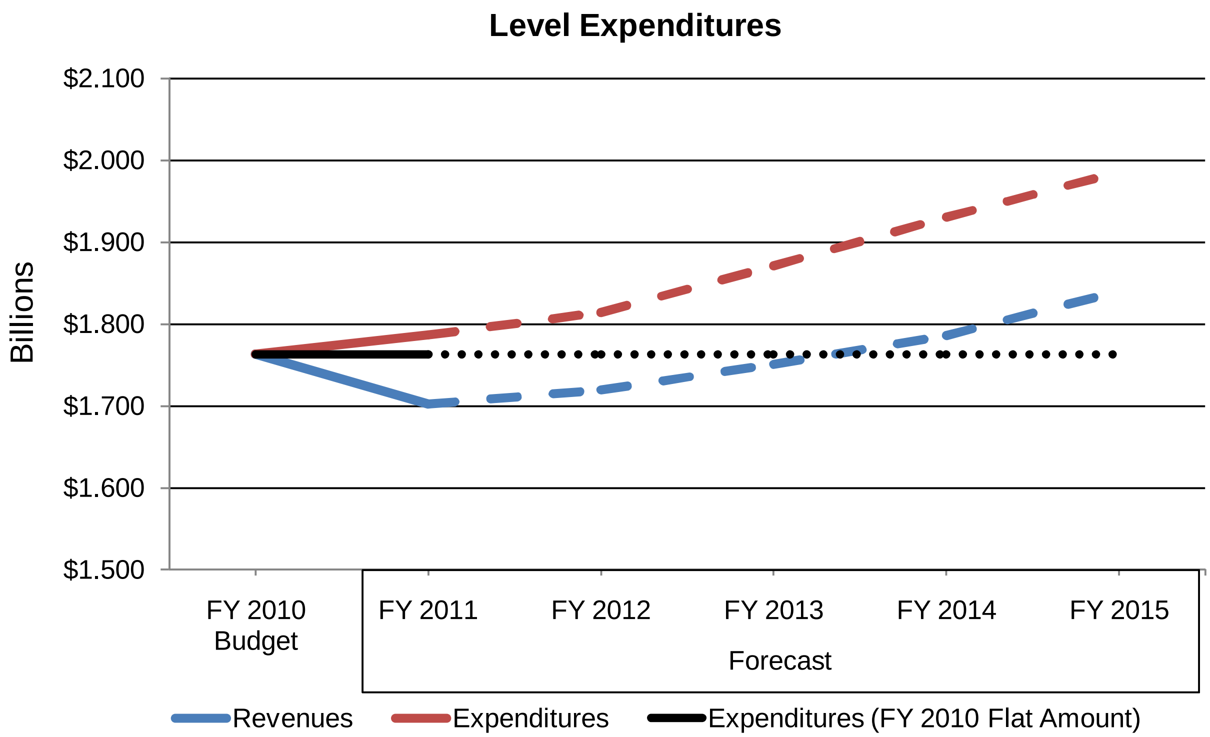


Revenues are just a part of our problems over the next five years. As the graph shows, expenditures even at the low levels assumed in the forecast will contribute to our deficits. The first year expenditures are assumed to be relatively flat with no funding set aside for either payroll or operating increases. In FY 2015, expenditures exceed revenues by $145.7 million.

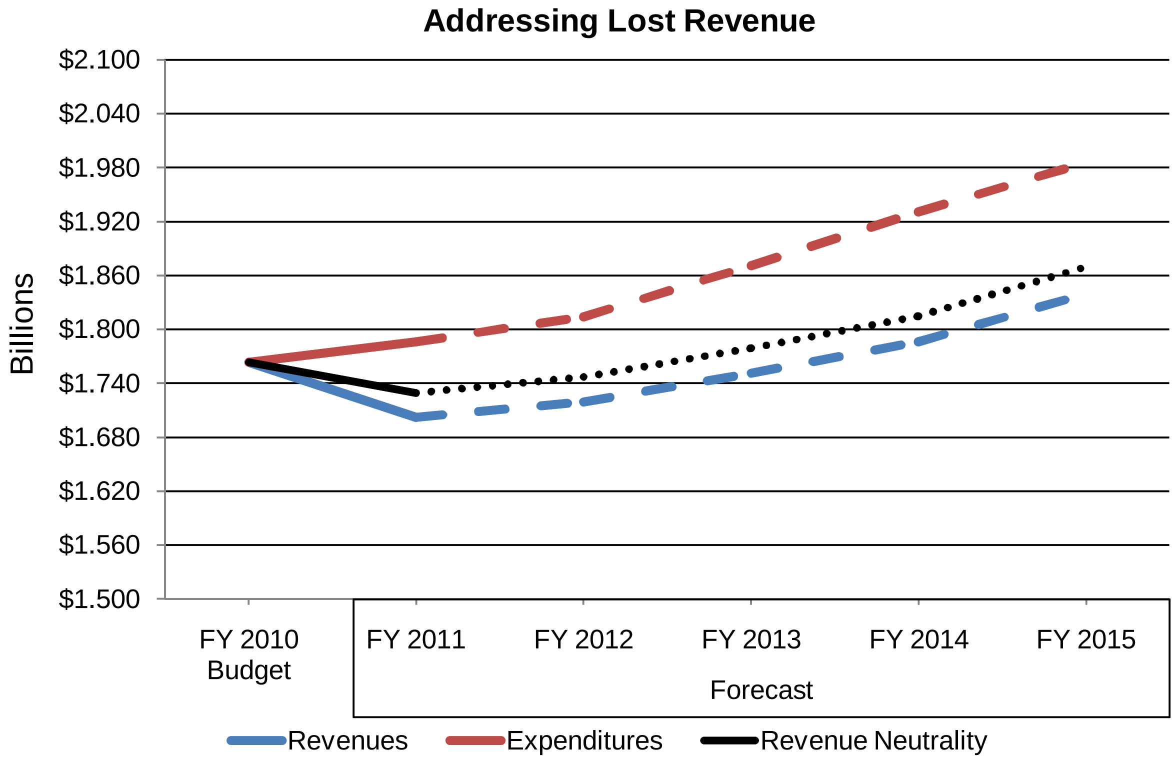
Without major and difficult changes, this structural deficit will remain throughout the next five years. Use of fund balance and other "one-time" fixes such as Federal stimulus funds will not close these gaps. It will not be possible for the economy alone to grow sufficiently to eliminate the deficit based on our best economic advice.

Another way to look at this structural problem is what if we could hold expenditures absolutely level for the next five years. That means no increase in payroll costs. What would the deficit look like if it was entirely driven by revenue decline?

Level Expenditures



Even holding expenditures at the FY 2010 level, we cannot close the gap until the third year of the forecast. The reality is that costs would not remain flat throughout the five years resulting in a need to cut services just to remain at the current level. In other words, if electrical and fuel costs increased by $5 million in one year, we would have to cut $5 million somewhere else to remain level. The City and Schools ability to attract and retain qualified employees such as teachers, police officers, and engineers would be difficult if there are no pay raises for five years.



A second way to approach this deficit would be from the revenue side of the equation; since, particularly in the first two years of the forecast, the deficit is predominately revenue related. As the graph above shows, keeping real estate and personal property at the FY 2010 level would reduce the deficit in FY 2011 from $84.4 million to $57 million. By the last year, the deficit has dropped to $116 million.

Combined City and School Forecast in Detail

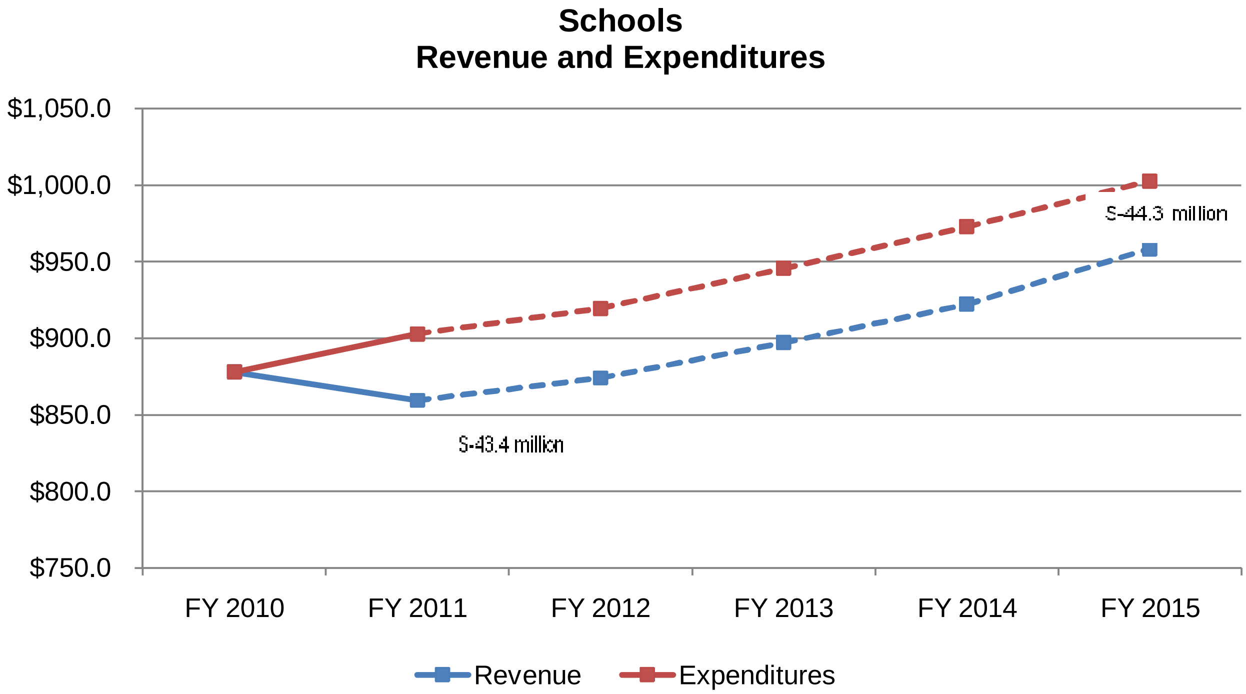
Expenditures	04-05 Budget	05-06 Budget	06-07 Budget	07-08 Budget	08-09 Budget	09-10 Budget	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Personnel	$259,806,299	$274,228,551	$302,643,148	$314,048,774	$322,041,891	$321,686,191	$321,768,417	$326,594,943	$336,392,792	$346,484,575	$356,879,113
Fringe Benefits	$76,516,417	$81,785,077	$102,893,060	$105,519,925	$109,515,490	$108,918,658	$108,869,560	$110,502,603	$113,817,681	$117,232,212	$120,749,178
Contractual Services	$74,376,317	$78,865,200	$86,469,489	$93,268,891	$95,302,930	$99,634,374	$100,050,181	$101,592,350	$105,327,535	$110,246,907	$115,315,534
Internal Services	$38,028,847	$42,099,732	$31,748,913	$33,999,736	$30,315,334	$31,072,750	$31,173,642	$31,244,252	$31,872,378	$32,511,195	$33,194,182
Other Charges	$100,290,000	$108,001,915	$119,920,169	$128,596,340	$133,344,927	$137,810,219	$139,099,891	$139,965,029	$142,941,245	$145,951,911	$149,012,085
Capital Outlay	$7,914,076	$9,167,749	$8,262,055	$8,000,316	$5,644,746	$4,743,800	$6,127,224	$6,186,155	$6,340,522	$6,499,204	$6,662,330
Leases	$4,441,069	$3,993,412	$4,492,191	$4,730,533	$4,249,713	$4,519,828	$4,519,828	$4,519,828	$4,610,225	$4,702,429	$4,796,478
Land Structures	$41,897,917	$38,231,978	$49,427,434	$52,077,906	$58,422,432	$57,193,910	$60,830,713	$60,747,640	$66,609,200	$67,950,736	$68,352,358
Debt Service	$72,044,597	$80,510,051	$83,921,469	$93,028,452	$100,050,282	$102,682,719	$104,489,856	$107,038,418	$111,029,313	$119,233,068	$121,045,473
Reserves	$14,823,709	$17,043,153	$16,849,659	$24,383,854	$18,680,072	$17,169,357	$6,746,783	$6,099,447	$6,465,892	$7,225,806	$7,048,979
Depreciation	$330,000	$352,000	$420,000	$428,400	$425,000	$0	$0	$0	$0	$0	$0
GASB	$0	$0	$0	$3,000,000	$4,000,000	$0	$0	$0	$0	$0	$0
Schools	$710,768,986	$764,250,440	$832,468,321	$862,011,247	$877,520,112	$877,860,873	$902,793,097	$919,380,361	$945,563,296	$972,663,032	$1,002,582,196
Total Budget	**$1,401,238,234**	**$1,498,529,258**	**$1,639,515,908**	**$1,723,094,374**	**$1,759,512,929**	**$1,763,292,679**	**$1,786,469,191**	**$1,813,871,025**	**$1,870,970,080**	**$1,930,701,074**	**$1,985,637,906**

Revenues	04-05 Budget	05-06 Budget	06-07 Budget	07-08 Budget	08-09 Budget	09-10 Budget	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Real Estate	$372,117,762	$389,931,189	$458,854,744	$487,989,563	$499,148,556	$491,664,376	$469,152,112	$462,571,281	$465,306,173	$467,919,945	$484,907,047
Public Service Real Estate	$6,905,591	$5,016,179	$3,775,947	$4,090,908	$4,518,482	$5,080,847	$5,729,494	$5,758,142	$5,815,723	$5,873,881	$5,961,989
Delinquent Real Estate	$1,121,572	$1,014,381	$1,014,381	$1,157,836	$1,244,459	$1,244,459	$1,885,082	$2,048,229	$2,225,496	$2,321,800	$2,422,272
Personal Property	$46,701,426	$53,953,080	$68,465,466	$80,186,471	$78,276,398	$62,440,080	$57,610,907	$61,718,049	$66,135,024	$70,508,301	$75,058,230
Public Service Personal Property	$2,383,322	$1,839,608	$1,520,425	$1,527,448	$1,571,727	$1,761,661	$1,921,298	$1,902,085	$1,902,085	$1,921,106	$1,940,317
Delinquent Personal Property	$2,455,003	$2,455,003	$2,455,003	$1,923,762	$2,307,887	$2,307,887	$1,425,262	$1,425,262	$1,425,262	$1,404,744	$1,394,632
Interest on Delinquent	$1,088,302	$1,729,007	$1,729,007	$1,464,012	$1,350,484	$1,350,484	$1,478,037	$1,682,621	$1,915,523	$2,048,092	$2,189,836
PPTRA	$57,407,844	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868	$53,412,868
General Sales Tax	$45,538,506	$50,833,174	$53,390,260	$55,691,644	$56,040,158	$51,129,941	$49,422,069	$49,964,186	$50,822,547	$52,165,780	$53,991,413
Utility Tax	$40,941,917	$40,332,827	$37,722,684	$23,680,089	$23,791,320	$24,088,712	$24,410,944	$24,762,630	$25,093,719	$25,429,235	$25,769,240
Utility Tax Consumption	$1,641,706	$1,576,053	$1,585,793	$1,624,392	$1,619,709	$1,648,863	$1,670,920	$1,693,271	$1,715,922	$1,738,876	$1,762,136
Cox Cable Franchise	$4,857,144	$4,612,615	$4,941,085	$4,746,613	$5,413,198	$5,873,378	$5,971,433	$6,031,148	$6,121,615	$6,244,047	$6,400,148
Cell Phone Tax	$5,267,578	$8,466,780	$7,906,182	$0	$0	$0	$0	$0	$0	$0	$0
Virgina Telecom Tax	$0	$0	$0	$16,909,586	$23,634,421	$23,655,431	$21,768,895	$21,986,586	$22,316,385	$22,762,712	$23,331,780
Business License	$34,065,874	$37,140,370	$40,794,218	$44,987,245	$43,180,830	$40,556,906	$40,771,644	$41,181,807	$41,800,718	$42,637,211	$43,490,479
Restaurant Tax	$38,105,144	$42,628,705	$47,333,185	$49,134,920	$48,745,131	$49,829,621	$48,734,960	$49,573,361	$50,766,848	$52,140,075	$53,811,026
Amusement Tax	$4,165,074	$4,596,930	$4,673,180	$5,161,559	$5,597,076	$5,300,732	$5,700,550	$5,836,191	$5,972,733	$6,112,811	$6,256,550
Hotel Room Tax	$19,367,563	$20,026,688	$21,697,915	$23,044,882	$24,133,253	$23,891,018	$22,586,167	$22,802,343	$23,258,686	$23,936,096	$24,677,752
Cigarette Tax	$12,039,152	$11,203,160	$10,476,120	$10,749,109	$13,199,518	$12,935,527	$10,905,184	$10,733,709	$10,556,861	$10,709,882	$10,865,112
Revenue from Commonwealth	$407,003,281	$443,475,749	$483,053,667	$494,945,450	$513,091,423	$501,339,854	$483,724,976	$494,521,739	$507,561,736	$521,174,228	$535,505,140
Revenue from Federal	$104,492,022	$110,660,326	$106,881,122	$111,028,405	$105,960,878	$141,244,957	$128,788,280	$131,440,514	$134,572,543	$138,513,737	$144,338,503
Fund Balance	$17,540,766	$18,929,819	$17,105,995	$22,525,149	$14,233,506	$24,142,528	$10,471,161	$11,034,126	$11,057,934	$11,124,829	$11,232,308
Other Revenues	$176,031,685	$194,694,747	$210,726,661	$227,112,463	$239,041,647	$238,392,549	$254,478,596	$257,326,359	$261,178,528	$266,129,433	$271,207,249
Total Budget	**$1,401,238,234**	**$1,498,529,258**	**$1,639,515,908**	**$1,723,094,374**	**$1,759,512,929**	**$1,763,292,679**	**$1,702,020,839**	**$1,719,406,507**	**$1,750,934,929**	**$1,786,229,689**	**$1,839,926,028**
Revenues Under/Over by:	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**-$84,448,352**	**-$94,464,517**	**-$120,035,151**	**-$144,471,385**	**-$145,711,878**

Virginia Beach City Public Schools

Five-Year Forecast
FY 2011 – FY 2015
November 17, 2009

Dr. James G. Merrill
Superintendent



Each year, City Administration presents to the City Council a five-year projection for planning purposes. The City Administration requests that the School division prepare a forecast of expenditures for the forecast period. Revenue forecasts related to the local contribution have been provided by the City Department of Management Services.

The application of the Revenue Sharing Policy permits the allocation of the local contribution between pay-as-you-go Capital Improvement Program funding and the Operating Budget. The information presented in this report assumes pay-as-you-go funding is reinstated in FY 2012-13. In addition to this amount, there is an assumption that the Sandbridge TIF funds will continue to be allocated to pay-as-you-go each year.

Every two years, as part of the biannual budget, the General Assembly re-benchmarks K-12 education. This is done based on recommendations from the State Board of Education. For the past two biennia, the re-benchmarking cost the Commonwealth over $1 billion in new funding for each of those biennia. For the upcoming biennium, the information that is available at this time is that the re-benchmarking will only cost the Commonwealth approximately $150 million. What this means to the City of Virginia Beach and other localities is that instead of rather considerable increases in education funding for K-12 coming from the General Assembly, there will likely be not even enough money to even maintain current services.

It should be kept in mind in reviewing this forecast that this is the administration's estimate of revenues and minor increases in grants for the forecast period. There are many unknowns at the time of this projection, such as new State or Federal mandates, changes in Impact Aid funding, changes in the level of State funding, grant matches, and new School Board priorities. These items are not easily forecast, nor are their effects on expenditures.

The forecast is based upon the following assumptions:

Enrollment
• Student enrollment is estimated to continue to decline over the forecast period • Forecast-projected enrollment numbers are based upon the September 30th enrollment of each fiscal year • Enrollment used in the forecast is based upon preliminary estimates provided by the Demographer and should not be considered final projections
Average Daily Membership (ADM)
• State revenues are based upon the March ADM • ADM is assumed to decline from the September 30th projected enrollment
Revenue
Federal Revenue • Federal revenue has been projected to increase slightly beginning in FY 2012 • The average growth in this revenue between FY 2010-11 and FY 2014-15 is 4.4 percent • Federal Impact Aid funding is always "current year" Federal money   o Not forward-funded like most other Federal funds (grants) received by the division

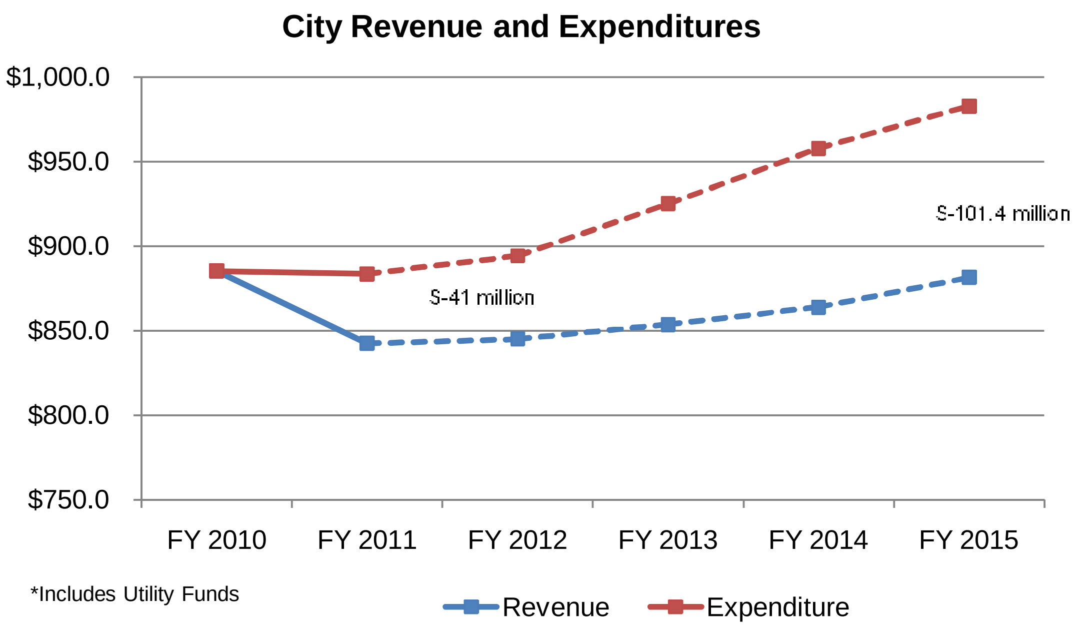
Department of Defense
• Department of Defense funds have been projected slightly to increase beginning in FY 2010-11
• Funds are subject to re-appropriation each year via the Federal budget process
 	
State Sales Tax
• Sales tax has been projected at an average increase of 3.4 percent per year over the forecast period
 	
State Basic Aid
• This projection assumes no changes in any of the components of State funding
  o Composite Index was recalculated with the State biennial budget and increased from 37% to 40.6% resulting in a decrease of $15.5 million in State funding beginning in FY 2011.
  o Basic aid projections are assumed to increase an average of 3.5 percent over the forecast period
  o Increases in the index will result in a shift of funding from the State to the City and a decrease in the index will result in a shift of funding from the City to the State
  o No changes are projected in the SOQ standards
 	
Local Contribution
• The City Department of Management Services has provided the estimated total revenue for each of the forecasted years
• The City has also provided the School's portion of the revenue based on the Revenue Sharing Formula policy.
• The numbers used are estimates only and could change in either direction

Expenditures	
Programs	o All current educational programs would continue during the forecast period o No program additions or expansions have been forecasted o The increases in grant and other fund expenditures are an average of 3.9 percent over the forecast period.
Staffing	o Changes in staffing levels due to changes in enrollment are reflected for

Expenditures		
		each year in the forecast period (calculated at 22:1)
Compensation Increase	o	Total compensation increases are included at 1.5% of payroll in FY 2012 and 3% of payroll every year after. This is concurrent with the City's forecasted assumption.
	o	Market Salary Adjustments (MAG Study) for the Unified Scale have not been included during this forecast period.
Mandates	o	No changes in Federal or State mandates have been included for the forecast period
GASB45	o	The portion of the GASB45 required contribution is $3.7 million in FY 2010-11 and is projected to be paid from the City/School Health Insurance fund.
School Allocations	o	School allocations have been adjusted to reflect changes in student enrollment

School Expenditures	04-05 Budget	05-06 Budget	06-07 Budget	07-08 Budget	08-09 Budget	09-10 Budget	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Personnel	$420,229,987	$438,415,592	$470,751,205	$483,345,695	$479,936,512	$469,868,211	$ 491,353,025	$ 498,124,664	$ 512,672,832	$ 528,348,766	$ 546,897,165
Fringe Benefits	$119,968,813	$120,744,491	$150,338,571	$169,379,776	$164,743,474	$155,389,520	$ 167,692,152	$ 170,946,410	$ 175,942,414	$ 180,398,910	$ 183,129,184
Contractual Services	$40,119,283	$48,583,038	$52,568,715	$52,095,619	$47,421,555	$47,344,628	$ 58,241,758	$ 59,521,826	$ 61,604,281	$ 63,858,540	$ 66,402,710
Other Charges	$68,323,284	$80,664,775	$92,625,586	$91,908,777	$92,864,388	$94,011,707	$ 106,622,730	$ 109,958,616	$ 113,591,351	$ 117,660,863	$ 122,530,842
Capital Outlay	$5,943,622	$5,729,516	$7,067,263	$2,235,533	$37,463,446	$34,007,102	$ 34,811,522	$ 35,786,858	$ 36,561,658	$ 37,366,955	$ 38,217,982
Transfers	$7,963,570	$11,603,187	$13,014,114	$9,535,095	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Schools Debt Service	$41,303,652	$40,912,433	$40,282,967	$41,402,094	$41,154,429	$44,183,674	$ 44,071,910	$ 45,041,987	$ 45,190,761	$ 45,028,999	$ 45,404,312
Schools Pay Go/Technology Fund	$6,916,775	$17,597,408	$12,936,308	$12,108,658	$13,936,308	$ -	$ -	$ -	$ -	$ -	$ -
City Manager Adjustment	$ -	$ -	-$7,116,408	$ -	$ -	$33,056,031	$ -	$ -	$ -	$ -	$ -
Total Budget	**$710,768,986**	**$764,250,440**	**$832,468,321**	**$862,011,247**	**$877,520,112**	**$877,860,873**	**$902,793,097**	**$919,380,361**	**$945,563,296**	**$972,663,032**	**$1,002,582,196**
School Revenues											
	04-05 Budget	**05-06 Budget**	**06-07 Budget**	**07-08 Budget**	**08-09 Budget**	**09-10 Budget**	**FY 10-11**	**FY 11-12**	**FY 12-13**	**FY 13-14**	**FY 14-15**
Revenue from Commonwealth	$ 313,922,458	$ 332,723,868	$ 367,166,453	$ 369,918,862	$ 383,510,734	$ 366,692,862	$ 351,939,218	$ 362,597,429	$ 375,495,410	$ 388,962,335	$ 403,144,042
Revenue from Federal	$ 58,062,239	$ 65,707,727	$ 64,154,148	$ 65,547,757	$ 63,571,475	$ 94,633,121	$ 82,176,444	$ 84,828,678	$ 87,960,707	$ 91,901,901	$ 97,726,667
Fund Balance	$ 9,852,124	$ 10,528,948	$ 8,078,043	$ 9,136,017	$ 6,336,889	$ 5,053,038	$ 7,883,306	$ 8,159,221	$ 8,526,386	$ 8,952,706	$ 9,489,868
Transfers from Other Funds	$ 256,418,891	$ 268,713,519	$ 307,224,646	$ 336,870,685	$ 339,239,378	$ 335,208,106	$ 320,894,158	$ 319,773,348	$ 319,936,820	$ 320,656,596	$ 328,356,297
Other Revenues	$ 24,292,847	$ 28,066,537	$ 32,625,756	$ 27,027,174	$ 29,770,899	$ 32,090,072	$ 52,436,365	$ 53,601,611	$ 55,332,994	$ 57,448,929	$ 60,261,814
Schools Debt Service	$ 41,303,652	$ 40,912,433	$ 40,282,967	$ 41,402,094	$ 41,154,429	$ 44,183,674	$ 44,071,910	$ 45,041,987	$ 45,190,761	$ 45,028,999	$ 45,404,312
Schools Pay Go	$ 6,916,775	$ 17,597,408	$ 12,936,308	$ 12,108,658	$ 13,936,308	$ -	$ -	$ -	4,645,436	9,290,872	13,936,308
Total Budget	**$710,768,986**	**$764,250,440**	**$832,468,321**	**$862,011,247**	**$877,520,112**	**$877,860,873**	**$859,401,401**	**$874,002,274**	**$897,088,514**	**$922,242,337**	**$958,319,308**
Revenues Under/Over by:	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**-$43,391,696**	**-$45,378,087**	**-$48,474,782**	**-$50,420,695**	**-$44,262,888**

City Forecast



The City's portion of the forecast is comprised of general City programs such as Police, Recreation, Landscape Maintenance, Trash Collection/Disposal, Libraries, and Constitutional Offices. It also includes the two utility enterprise funds of Storm Water and Water and Sewer.

It is important to remember that the revenue forecast does not assume any rate increases and that expenditure forecasts were increased by 1.5% of payroll in FY 2012 with 3% of payroll thereafter. Beginning in FY 2013, 2% increases in operating accounts were projected with minor increases in the utility funds beginning in FY 2011. Costs for these general government programs, examined separately from the two utilities, will exceed projected revenues over the forecast period; this is mostly due to extraordinary losses in State, real estate and personal property revenue streams. The revenue situation does improve in later years of the forecast; however, not enough to close the gap between forecasted revenues. Again, this display assumes no increase in growth in expenditures.

General Government	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
				Forecast Period		
Revenues	$758.0	$714.5	$716.2	$723.6	$732.9	$749.9
Expenditure	$758.0	$751.0	$758.1	$785.0	$813.4	$834.3
Deficit/Surplus		**-$36.5**	**-$41.9**	**-$61.4**	**-$80.5**	**-$84.4**

The Water and Sewer Fund and Storm Water Funds operate as a business and do not rely on tax revenues from the general government. The deficit in the Water and Sewer Fund is primarily attributable to the water services contract with the City of Norfolk due to high pumping demand as well as increases in electricity, fuel and road paving. In order to address deficits in the fund from FY 2010-11 through FY 2013-15, rate increases may be necessary between 5% and 7%.

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Water & Sewer		**Forecast Period**				
Revenues	$101.5	$101.0	$101.7	$102.5	$103.0	$103.3
Expenditure	$101.5	$105.5	$108.9	$112.6	$116.5	$120.3
Deficit/Surplus		**-$4.5**	**-$7.2**	**-$10.1**	**-$13.5**	**-$17.0**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Storm Water		**Forecast Period**				
Revenues	$25.0	$27.1	$27.4	$27.7	$28.1	$28.4
Expenditure	$25.0	$27.1	$27.4	$27.7	$28.1	$28.4
Deficit/Surplus		**$0**	**$0**	**$0**	**$0**	**$0**