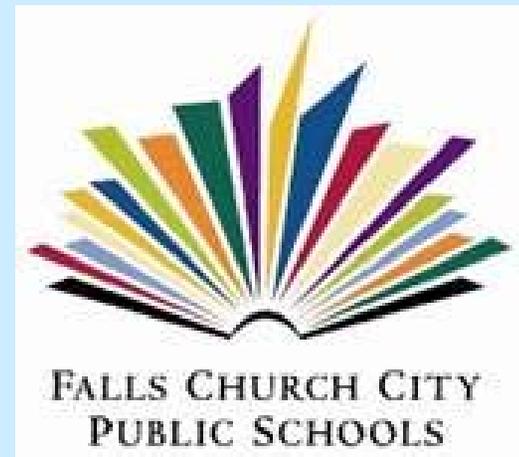




School Board/City Council Retreat Finance Discussion



S.W.O.T. Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats



Strengths

- Location, location, location
- Low unemployment, high household income
- Diversified economy
- High proportion of own source revenue
- Prudent financial management
 - Aa, AA2,AA+ bond ratings (recently cited in Fitch rating confirmation)
 - Adopted financial policies
 - Fully funded pension & OPEB

Diversified Economy

CITY OF FALLS CHURCH, VIRGINIA
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita
1999	10,100	\$ 46,704,869	\$ 47,306
2000	10,377	50,393,190	50,036
2001	10,900	52,889,102	51,938
2002	11,000	53,790,886	52,512
2003	11,000	55,636,102	54,117
2004	10,600	59,429,981	57,547
2005	10,942	64,214,621	61,837
2006	11,085	67,128,015	64,698
2007	11,280	NA	NA
2008	11,280	NA	NA

Source: FY2008 Comprehensive Annual Financial Report

Personal Income

		Single Filer Median AGI	Married Couple Median AGI	Total Median AGI
Virginia		21,639	67,160	35,372
Loudoun	County	30,064	109,120	64,087
Falls Church	City	32,550	116,483	54,556
Fairfax	County	29,928	105,230	52,591
Arlington	County	38,769	106,585	48,120
Alexandria	City	36,848	92,933	45,299
Prince William	County	26,097	84,970	44,740
Fairfax	City	28,181	88,008	44,428

Diversified Economy - Top employers 2008

Employer	Employees	% of Total City Employment
Kaiser Permanente	580	8.87%
Tax Analysts	184	2.81%
Giant Food Store	146	2.23%
Koon's Ford & Dodge	126	1.93%
Don Beyer Volvo	98	1.59%
United States Postal Service	76	1.16%
Center for Multicultural Human Services	76	1.16%
Knowlogy	61	0.93%
Total	1,347	14.2%

Mixed use developments could add 1,400 jobs

Own Source Revenues FY2009

- General Government
 - Local 94.76%
 - State 5.03%
 - Federal 0.21%
- School Division
 - Local 86.25%
 - State 12.36%
 - Federal 1.39%

Comparative Tax Rates

Rank	2008	Base Rate	Special Taxing Districts Range		Commercial Rate
1	Leesburg	1.320			
2	Manassas Park	1.270			
3	Herndon	1.160			
4	Loudoun	1.140	0.130	0.300	
5	Vienna	1.120			
6	Manassas (includes fire)	1.050			
7	Falls Church	1.030			
8	Prince William	0.970	0.003	0.200	
9	Fairfax County	0.920	0.010	0.220	1.030
10	Arlington	0.848	0.043	0.144	0.973
11	Alexandria	0.845			
12	City of Fairfax	0.790	0.001	0.220	

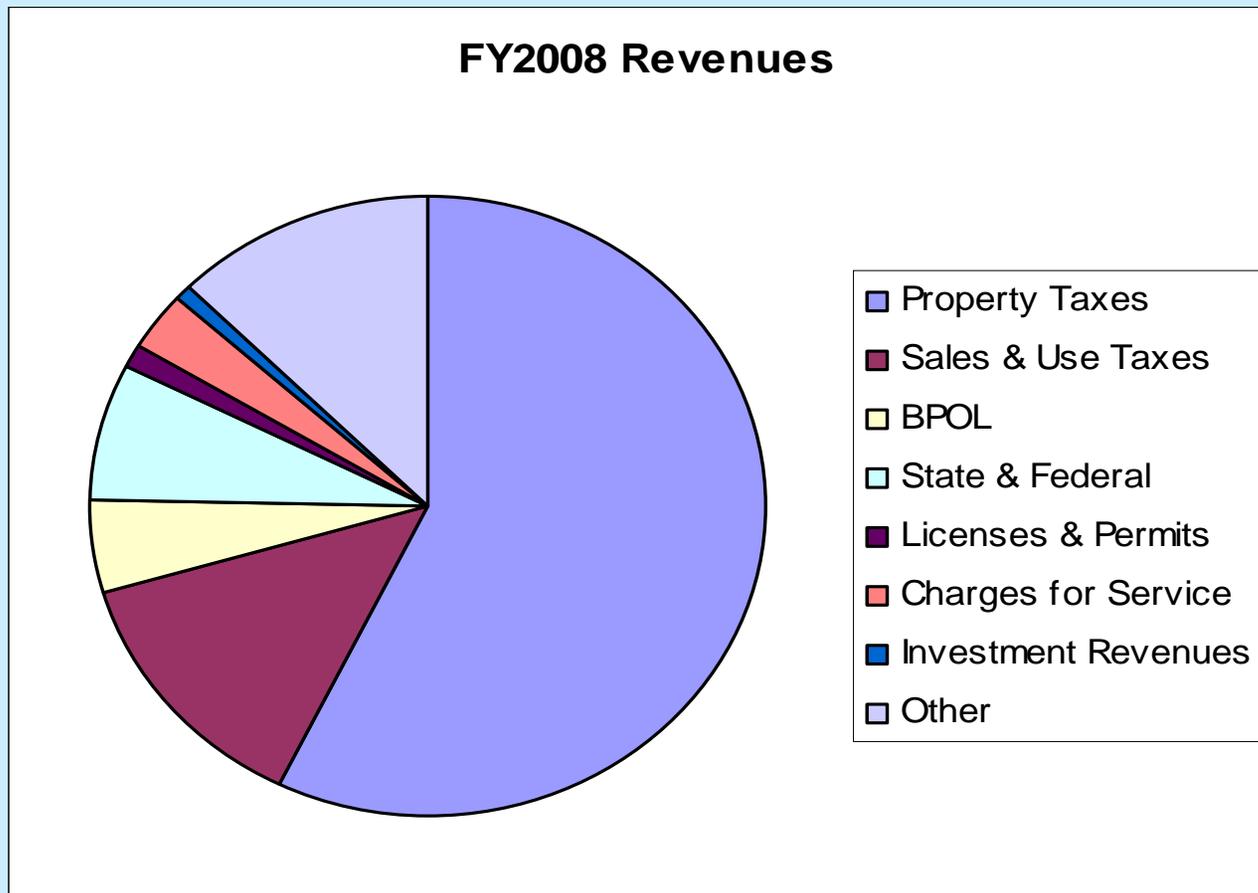
Water utility

- Stable revenue stream
- Strong net assets

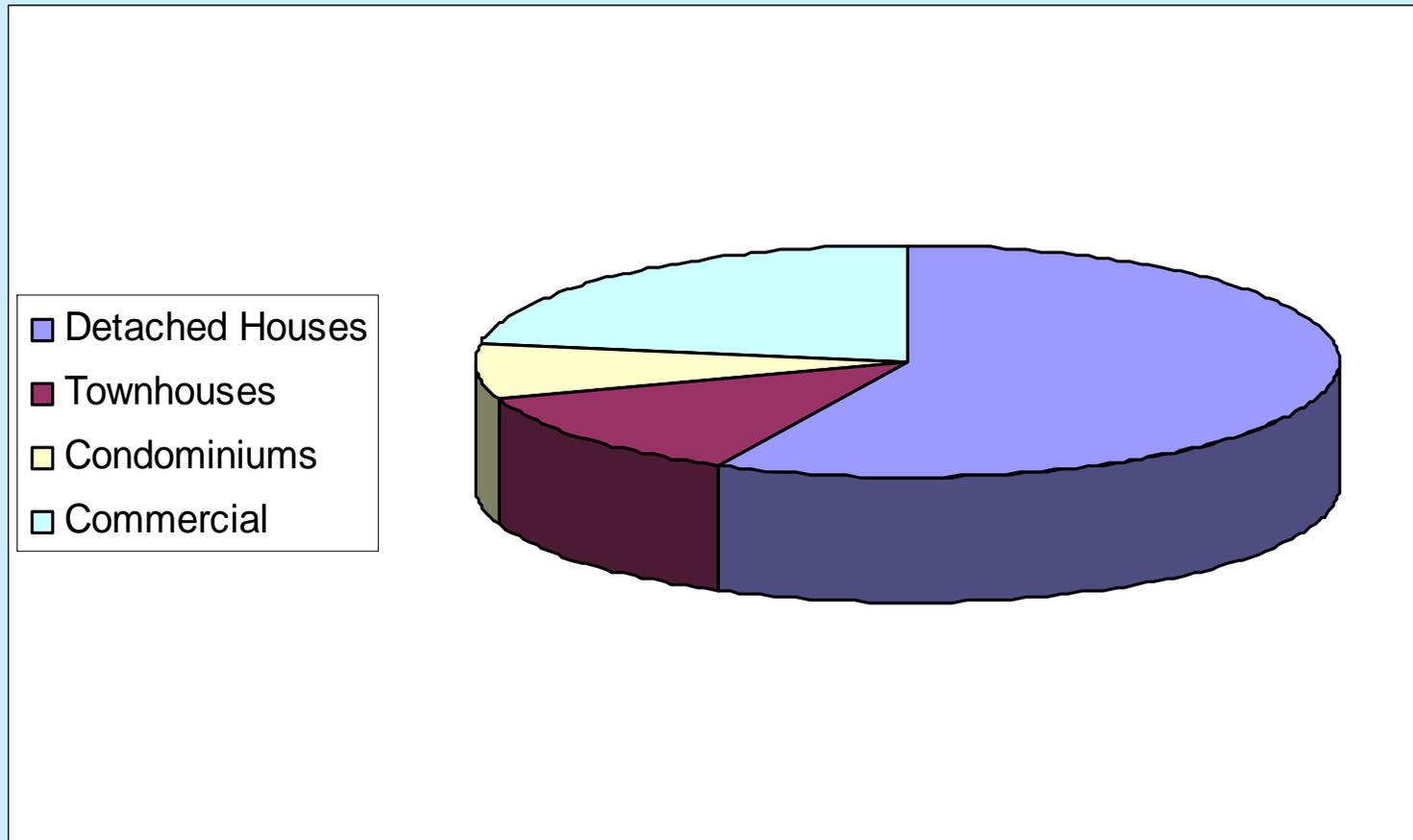
Weaknesses

- Small land area = little margin for error
- Heavy dependence on property tax

Revenue Mix



Distribution of Real estate Assessments



Note: Condo developments are commercial until completed

Estimated 2009 Assessment Change

- **Single Family Detached: – 3.5%**
- **Townhouses: – 4.0%**
- **Condominiums: – 8.0%**
- **Multi Family: – 3.0%**
- **Commercial: – 3.0%**
- **Overall: – 3.0-3.5%**

New Construction

- **\$12 million in residential**
- **\$25 million in commercial**
- **Additional construction 2010 depends on pace of new projects**
 - **City Center**
 - **Northgate**
 - **Hotel**
 - **BJ's**
- **Net combined assessment change decrease -2%-2.5%**

Opportunities

- Strengths relative to region = competitive advantage
- Recalibrate expectations
- Process reengineering
 - Are we doing the right things?
 - Are we doing them well?
 - According to whom?

Threats

- Declining sales tax – estimate of -5% consistent with neighbors
- Decline in BPOL due to pace of construction & economic activity
- State cuts – as high as 15%. Education not held harmless for FY2010

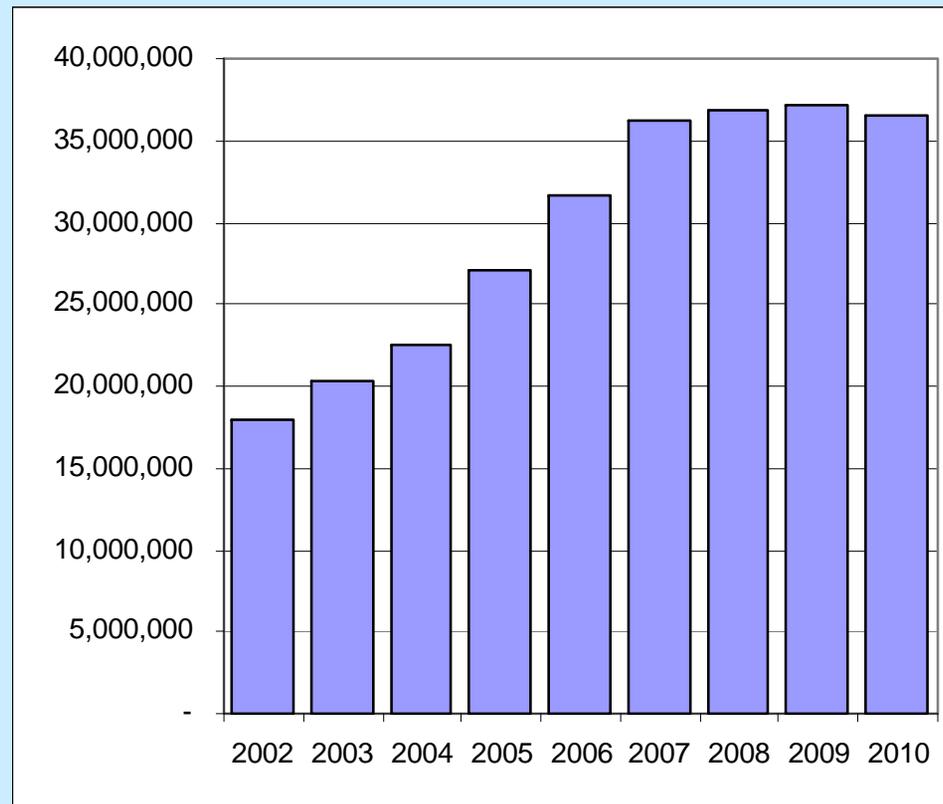
Very Preliminary FY2010 Revenue Estimates

	2009	2010	Increase (decrease)
Real estate tax	37,144,000	36,529,680	(614,320)
Personal Property tax	3,200,000	3,200,000	-
BPOL	3,184,000	3,184,000	-
Sales tax	4,100,000	3,895,000	(205,000)
Other local taxes	6,049,000	6,100,000	51,000
Intergovernmental Revenues	3,659,000	3,110,150	(548,850)
Other Revenues	7,172,000	7,172,000	-
Total Revenues	64,508,000	63,190,830	(1,317,170)

Decline from 2008: -2.04%

Major Revenue Source: Real Estate

2002	17,879,932	
2003	20,253,157	13.27%
2004	22,591,725	11.55%
2005	27,072,634	19.83%
2006	31,582,289	16.66%
2007	36,210,859	14.66%
2008	36,877,643	1.84%
2009	37,144,000	0.72%
2010	36,530,000	-1.65%



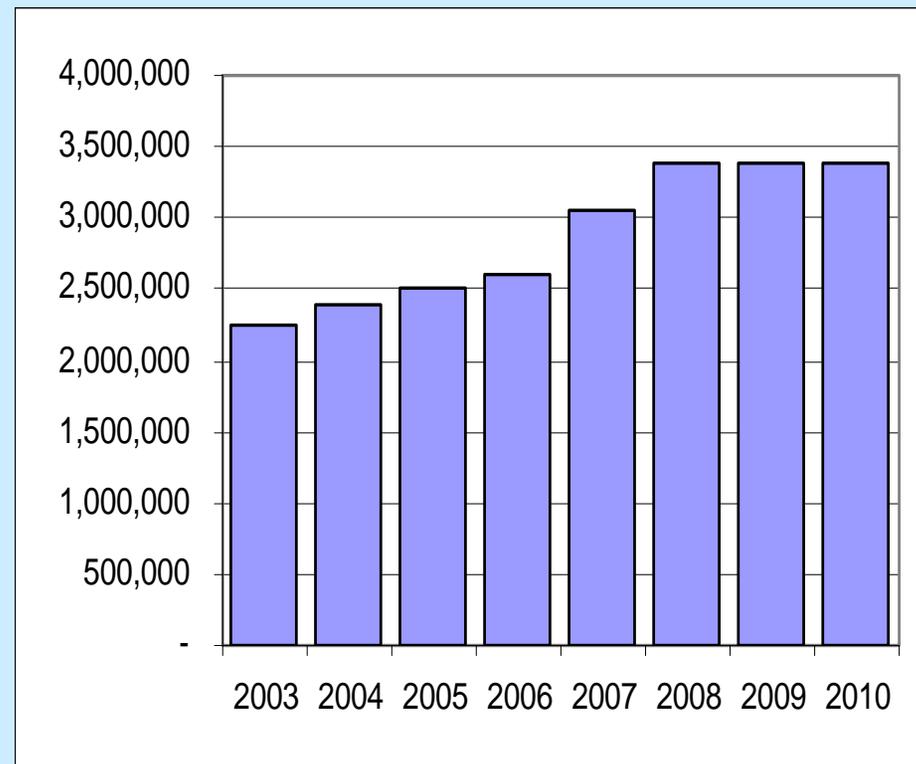
Major Revenue Source: Personal Property

2003	2,249,397	
2004	2,393,411	6.40%
2005	2,500,000	4.45%
2006	2,597,000	3.88%
2007	3,045,139	17.26%
2008	3,395,868	11.52%
2009	3,395,000	0.00%
2009	3,395,000	0.00%

2008 Assessments:

Business property = 30%

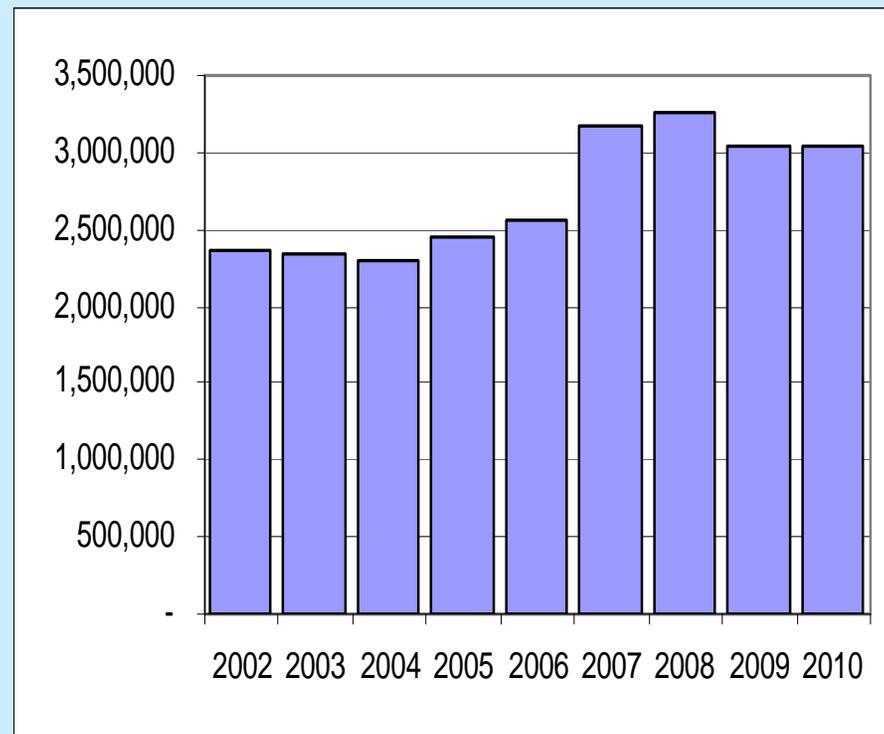
Personal vehicles = 70%



Major Revenue Source: Business License

2002	2,370,279	
2003	2,343,068	-1.15%
2004	2,296,618	-1.98%
2005	2,458,000	7.03%
2006	2,557,500	4.05%
2007	3,170,000	23.95%
2008	3,265,100	3.00%
2009	3,036,000	-7.00%
2010	3,036,543	0.00%

Construction contractors are required to pay BPOL for projects within the City



Cost Drivers



Budgetary Comparisons

	2006	2007	2008	2009
Regular Salaries	11,011,237	11,337,743	12,415,457	13,422,914
		2.97%	9.51%	8.11%
Other Pay	850,777	936,287	907,251	1,104,177
		10.05%	-3.10%	21.71%
Benefits	2,556,879	2,975,471	4,404,645	3,805,219
		16.37%	48.03%	-13.61%
Other Operating	21,606,215	21,457,042	20,617,688	19,846,171
		-0.69%	-3.91%	-3.74%
Total Gen'l Gov't	36,025,108	36,706,544	38,345,041	38,178,481
		1.89%	4.46%	-0.43%
School Transfer	25,107,302	27,196,087	29,076,300	30,147,600
		8.32%	6.91%	3.68%
PAUG Capital	3,526,266	2,967,000	3,414,000	2,101,480
		-15.86%	15.07%	-38.45%
	64,658,676	66,869,631	70,835,341	70,427,561
		3.42%	5.93%	-0.58%

Personnel Costs

- **General Fund = 48% of budget**
 - **1% increase = \$150,000**
- **School Division = 80% of Budget**
 - **1% increase = \$280,000**

Pension Costs

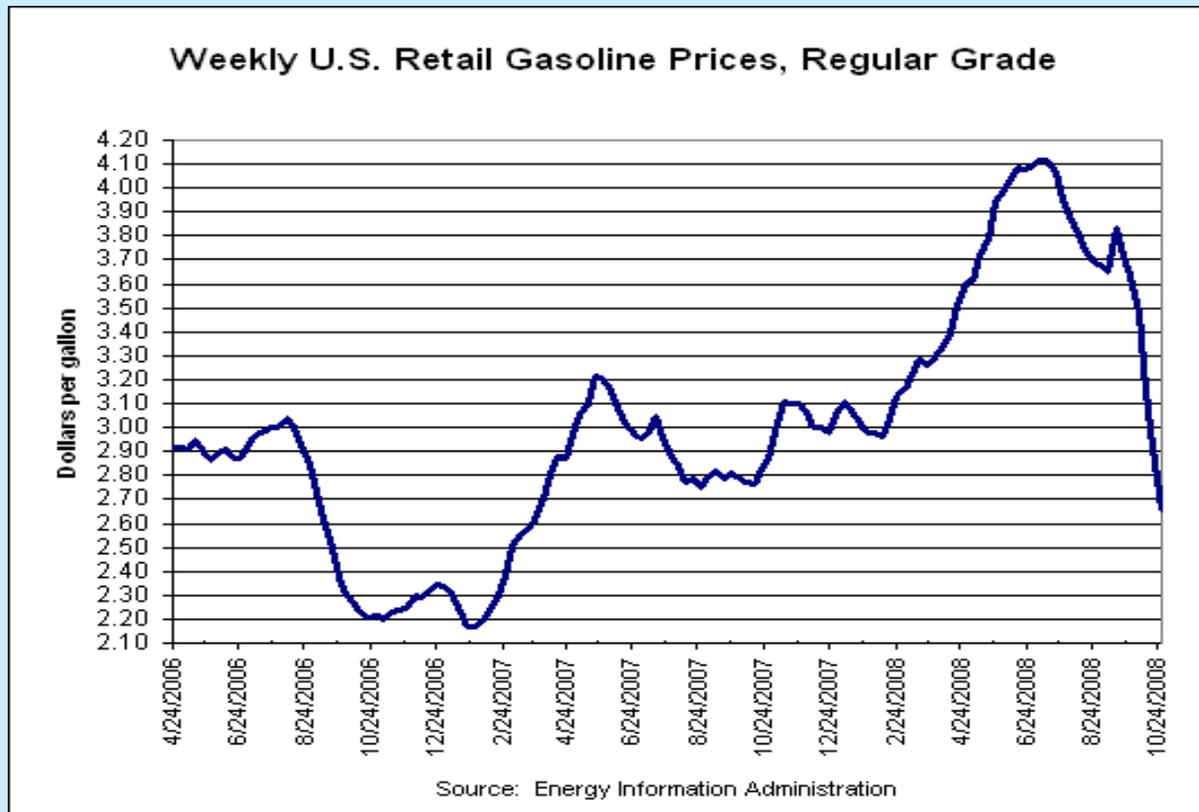
- **City participates in four defined benefit plans – Basic (School & General Government), Police, VRS (constitutional officers), VRS (Schools’ teachers & administrators)**
- **School 2009 budget**
 - **VRS = \$2,894,487**
 - **City Basic = \$158,941**
- **General Government 2009 budget**
 - **City Basic/Police (General Fund) = \$735,734**
 - **City Basic (water/sewer) = \$203,892**
 - **VRS = \$65,411**

Pension Costs

- **50+% invested in equities – S&P 500 index down 33% since September 2007**
- **Average decline of public pension funds during FY2008 – 14%**
- **VRS decline 1st quarter 2009 – 20%**
- **City plan ended FY2008 116% funded**

Other Operating Costs

Energy costs – very volatile



Other Operating Costs

- Health Insurance Costs – Nationally increasing at 6.5% for last two years
- Inflation rate – Gross CPI = 5.8%, Core CPI = 3.5% through September
 - COLA's
 - Contract adjustments
- Interest rates
 - Borrowing – currently unsustainably high
 - Investing – likely to remain very low for some time

Capital Costs

- General Government facilities
 - Study being refined
- School facilities
 - Study early in process