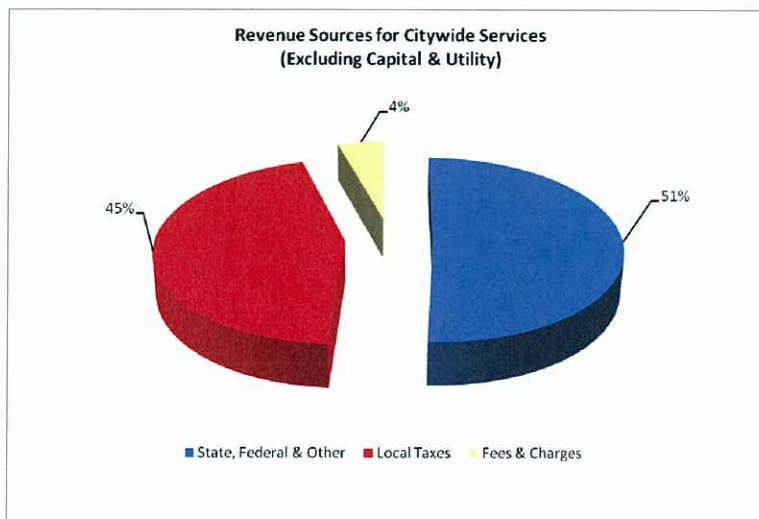


## REVENUE ANALYSIS

The adopted Fiscal Year (FY) 2010-2011 Operating & Capital Fund Budget is \$459,722,299 which represents a 1.5% increase over the prior year. The FY 2010-2011 General Fund budget is \$163,451,793 or 1% less than the prior year.

The City of Suffolk is dependent on local taxes, fees and charges, and state and federal funding to deliver high quality services and programs to its citizens. As illustrated in the following graph, excluding capital and utility funding, the City receives 51% of its revenue from the state and federal government, 45% from local taxes, and 4% from fees and charges for services.



Since the City relies on revenues from local, state, and federal sources, Suffolk's financial position is affected by economic conditions at each level.

Several methodologies are used to develop revenue estimates for the operating and capital budget including analysis of historic trends and monthly revenue collections, real estate assessment data, and estimates from state and federal agencies. The Department of Budget and Strategic Planning, which is responsible for revenue projections, also consults with the City Assessor, Commissioner of the Revenue, Treasurer, Director of Finance, and other department heads to estimate revenues for the upcoming fiscal year. Additionally, a conservative five-year growth model is prepared by the City's financial consultant, Davenport and Company.

### Economic Overview

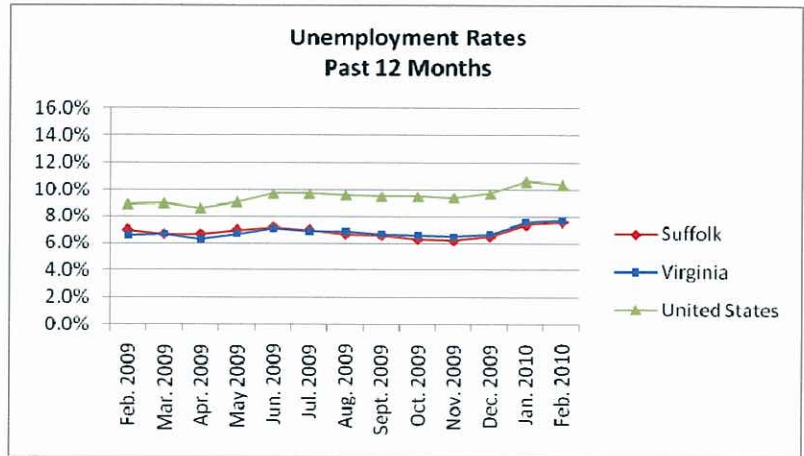
#### *National*

The national economy has endured a long and protracted economic downturn marked by the housing and financial crisis, tight credit markets, high energy prices, significant job losses, and weak consumer spending. Nevertheless, there are signs that the economy is beginning to recover. Home sales have improved and prices are stabilizing. Additionally, business equipment spending and exports are improving. Real Gross Domestic Product (GDP), which fell 2.2% in FY 2009, is projected to grow 0.4% in FY 2010 and 2.3% in FY 2011. However, continuing job losses and

tight credit are impeding consumer spending. As a result, the recovery is expected to be slow and uneven.

**State**

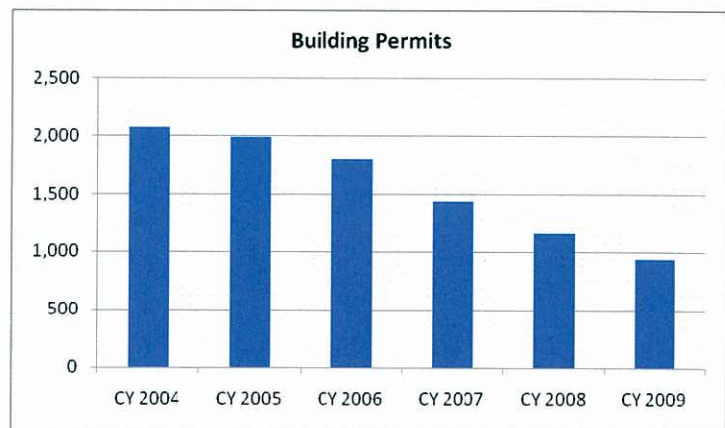
The economic downturn has been particularly challenging for the Commonwealth of Virginia. The State faces a budget shortfall of more than \$4 billion in the FY 2010-2012 biennium. State revenues have declined in the areas of withholding, individual nonwithholding, corporate income tax, recordation tax, and sales tax collections. Additionally, the State has experienced higher than anticipated growth in individual tax refunds. State general fund revenues are expected to fall 3.3% in FY 2010. Combined with the 9.2% decline in FY 2009, this represents a 12.2% reduction in general fund revenues. While a modest recovery of 4.0% and 4.8%, respectively, are anticipated over the next biennium, total general fund revenues in FY 2012 are projected below FY 2007 levels. Consequently, the FY 2010-2012 biennium budget includes deep reductions in education, health and human services, and aid to localities.



Source: Virginia Employment Commission

**Local**

With an abundance of land, 430 square miles, and close proximity to regional transportation routes, the City of Suffolk continues to see its local economy grow despite the economic challenges of the last few years. Private investment in the community remains strong. In 2009, 510 jobs and \$111.8M in new expansion projects were announced including commercial, retail, and office, banking and financial services, food processing, manufacturing, modeling and simulation, hotel, and restaurant developments. However,

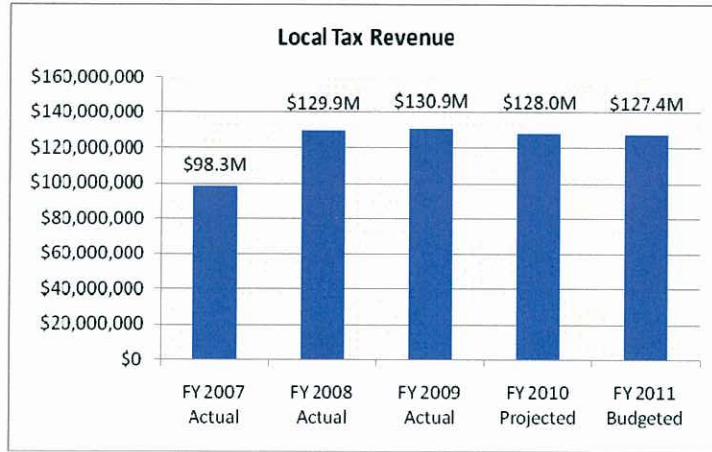


Source: Department of Planning and Community Development

Suffolk has not been immune to the economic recession. The unemployment rate climbed to 7.6% in February 2010, residential and commercial development activity have declined, and foreclosures have increased 600% over the last five years.

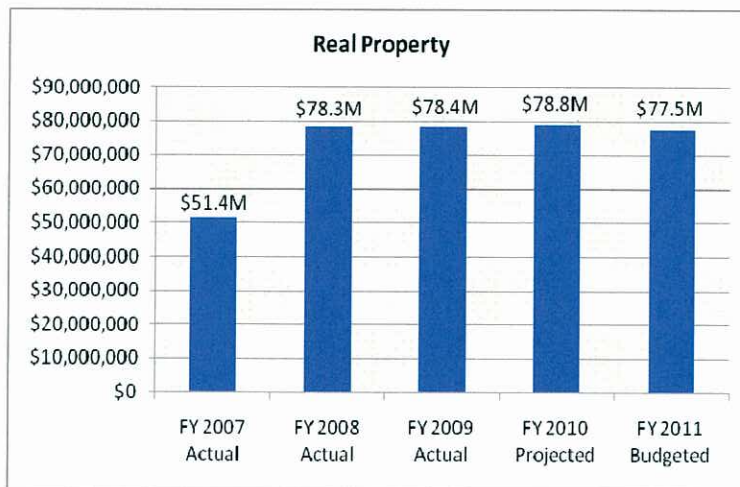
**Local Revenue**

Local tax revenue consists of general property taxes, including taxes on real and personal property, public service corporation taxes, and penalties and interest on taxes, and other local taxes such as sales and use, public facilities tax rebate, communications sales tax, utility taxes, business license, motor vehicle license, bank stock, recordation & probate, tobacco, admissions, lodging, and meals. Local tax revenue accounts for 78% of all General Fund revenues. No significant changes are anticipated in local tax revenue in FY 2010-2011. Level revenue is projected at \$127.4M.

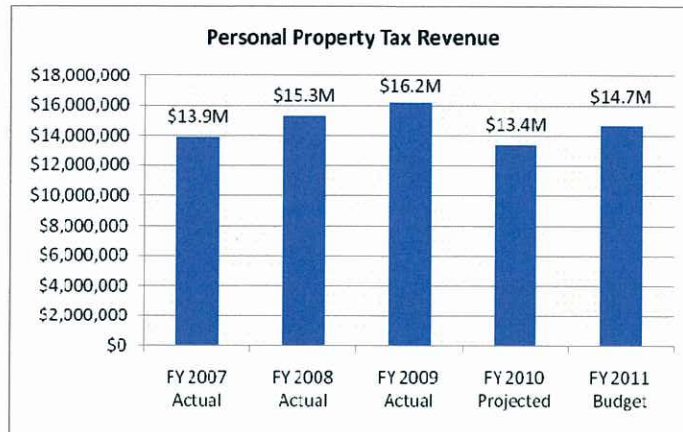


***General Property Taxes***

General property taxes account for 58% of General Fund revenues and consist of taxes on real estate; personal property including airplanes, boats, cars, trucks, trailers, mobile homes, recreational vehicles and machinery and tools; public service corporation taxes; and penalties and interest. General property tax revenue is projected to remain flat in FY 2010-2011. This includes a projected 2% decrease in real property tax revenue due to an overall 4% decline in residential real estate assessments. The citywide real estate tax rate is unchanged at \$.91 per \$100 of assessed value.



A 9% increase in personal property tax revenue is anticipated in FY 2010-2011 based on car sale trends as documented in NADA book values.

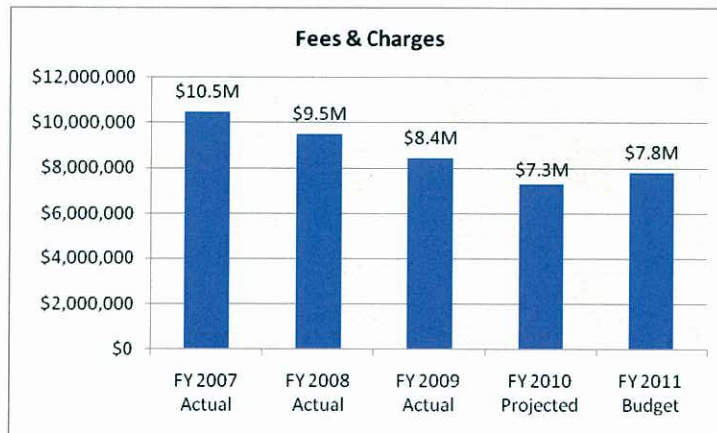


***Other Local Taxes***

Other local taxes include all locally assessed taxes other than property taxes. Revenue within this category is projected to remain flat in FY 2010-2011 at \$32.1M. A 22% increase is projected in lodging tax revenue in the next fiscal year. This substantial increase is largely due to the number of new lodging establishments that have opened in Suffolk. A 9% decrease in utility and tobacco tax revenue is anticipated in the next fiscal year.

**Revenue from Fees and Charges**

Revenue from fees and charges accounts for roughly 5% of General Fund revenues and consists of permits, privilege fees, and regulatory licenses; fines & forfeitures; revenue from use of money and property; charges for services; miscellaneous revenue; and recovered costs. In FY 2010-2011, \$7.8M is projected in revenue from fees and charges. Overall, revenue from fees and charges is projected to increase 6% over the prior fiscal year.



***Permits, Privilege Fees, and Regulatory Licenses***

A 3% increase is projected in permits, privilege fees, and regulatory licenses revenue in FY 2010-2011. Although declines in zoning use and ordinance fee (-20%) and weapons permits

(-10%) revenue is anticipated, this will be offset by increases in fishing permits (58%), land use application fees (11%), building permits (10%), and borrow pit fees (3%).

### ***Fines & Forfeitures***

The fines and forfeitures category is comprised of General District Court fines, parking fines and violation fees, false alarm violation fees, and police weights and measures fines and fees. Revenue generated in this category is projected to decrease 19% in FY 2010-2011. This reduction is due to the transfer of police weights & measures fines from the General Fund to the Road Maintenance Fund. Otherwise, fines and forfeitures revenue is projected to increase in the following categories: parking fines and violations (25%), General District Court fines (17%), and false alarm violations (13%).

### ***Revenue from Use of Money and Property***

Revenue from use of money and property consists of interest earned on investments, bond proceeds, and the rental of city facilities. An overall 3% decrease is projected in this category in FY 2010-2011. Significant reductions are projected in interest on bond proceeds (-71%) and recreational building rentals (-26%). Interest on investments (40%), park facility use fees (25%), and airport hangar tie-down rent (11%) are anticipated to increase.

### ***Charges for Services***

A 13% increase in charges for services revenue is projected in FY 2010-2011. The most significant change is projected to occur in Emergency Medical Services (EMS) fee revenue. This fee will be adjusted to the Medicare approved rate from \$450 to \$650. As a result, a 78% increase in EMS fee revenue is anticipated. Other notable increases that are projected include court appointed attorney fees (32%) and recreation fees (22%) based on trends in current year collections. A reduction in revenue is anticipated for excess fee revenue (-53%) as a result of a State mandated change in the funding formula from one-third to two-thirds remittance of fees collected by the Circuit Court Clerk's office to the Commonwealth of Virginia.

### ***Miscellaneous Revenue***

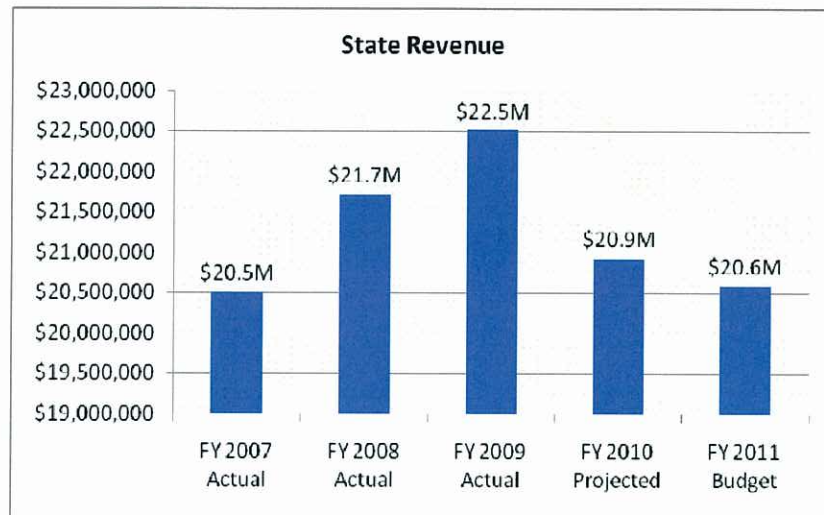
Miscellaneous revenue is comprised of delinquent tax collection fees; automated refuse container sales; tourism gift shop sales; gifts, donations, and contributions and payments from the Suffolk Redevelopment and Housing Authority. Miscellaneous revenues are anticipated to increase 9% in FY 2010-2011.

### ***Recovered Costs***

Recovered costs, which consist of reimbursements from other localities, the Suffolk School Board, the City's dumpster service, and the Department of Social Services, are anticipated to increase 19% in FY 2010-2011.

### **State Revenue**

State revenue is estimated at \$20.6M in FY 2010-2011 and consists of non-categorical aid, shared expenses, and categorical aid. Revenue from the Commonwealth of Virginia, which represents 13% of all General Fund revenue, is projected to decline 5% in FY 2010-2011 as the State faces a \$4 billion shortfall in the next biennium.



### ***Non Categorical Aid***

The City of Suffolk receives various sources of non-categorical aid from the Commonwealth of Virginia including motor vehicle carrier tax, mobile home titling tax, tax on deeds/grantors tax, rolling stock tax, House Bill 599 aid for law enforcement, personal property tax relief, and vehicle rental tax revenue. Personal property tax relief revenue, which represents the largest source of non-categorical aid, is projected to be level in FY 2010-2011. Non-categorical aid will decrease in the following revenue lines in FY 2010-2011: mobile home titling tax (-31%), vehicle rental tax (-41%), and HB 599 funding (-9%). A 21% increase is anticipated in tax on deeds/grantors tax revenue. Overall, non-categorical aid is projected to decrease 5% in the next fiscal year. Additionally, the City will be required to return an estimated \$392,933 in funding to the Commonwealth in the form of a lump sum payment and/or elected reductions for State supported local functions.

### ***Shared Expenses***

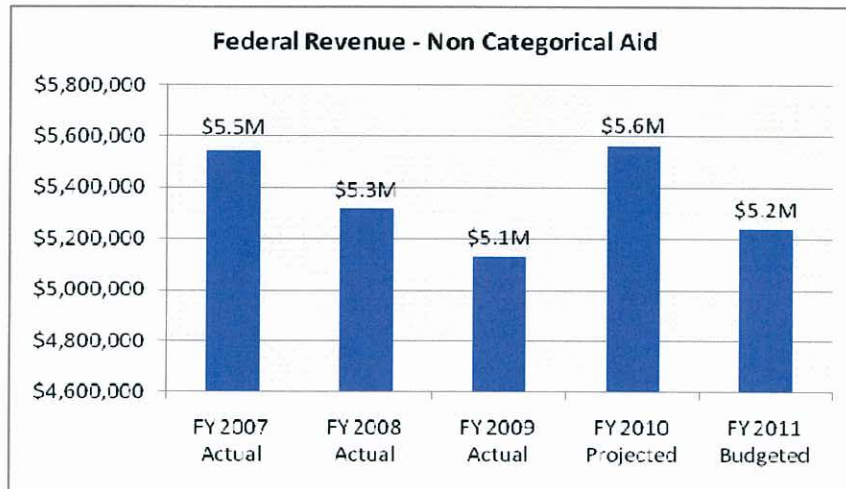
The Commonwealth of Virginia's Compensation Board provides funding to the City of Suffolk for the shared expenses of operating State assisted local offices including the offices of the Commonwealth's Attorney, Sheriff, Commissioner of the Revenue, Treasurer, Voter Registrar, and Circuit Court Clerk. A 13% reduction in State shared expense revenue is estimated in FY 2010-2011.

### ***Categorical Aid***

Categorical aid consists of various sources of State financial assistance for specific locally administered programs and services including social service programs, public safety, courthouse maintenance, and library services. Categorical aid is projected to decrease 1% in FY 2010-2011.

**Federal Revenue**

Federal revenues are estimated at \$5,242,273 in FY 2010-2011. This represents a 5% decrease from the prior year adopted budget. The largest sources of federal revenues include public assistance grants for the Supplemental Nutrition Assistance (formerly Food Stamps) and Temporary Assistance for Needy Families (TANF) programs.



**Other Funds**

In addition to the General Fund, the City has a capital projects fund, debt service fund, six special revenue funds and two enterprise funds to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

***Capital Projects Fund***

The Capital Projects Fund accounts for the financial resources used to acquire or construct major capital facilities other than those normally financed by proprietary fund types. Each year, the City Council adopts a Capital Improvement Plan (CIP) which identifies major capital projects for a 10 year period. Projects identified in the first year of the CIP are eligible for funding in the Capital Projects Fund budget which is adopted by the City Council as part of the budget process.

The Capital Projects Fund budget for FY 2010-2011 is \$36,426,000. This represents a 65% increase over the prior year as a number of capital improvement projects were delayed in the previous fiscal year due to economic conditions. Revenue for the Capital Projects Fund is derived from the issuance of general obligation and revenue bonds, State and Federal grants, and the transfer of funds from the General Fund. The anticipated breakdown of revenue for the Capital Projects Fund in FY 2010-2011 includes 4% cash from the General Fund, 10% general obligation bonds, 10% state and federal grants, and 76% revenue bonds. Revenue bonds will support planned public utilities projects while anticipated state and federal grants are identified for planned improvements to the Suffolk Executive Airport.

***Debt Service Fund***

The Debt Service Fund is used to account for the payment of general long term debt principal, interest, and related costs. Revenues in this fund are derived through the transfer of funds from