

REVENUE ANALYSIS

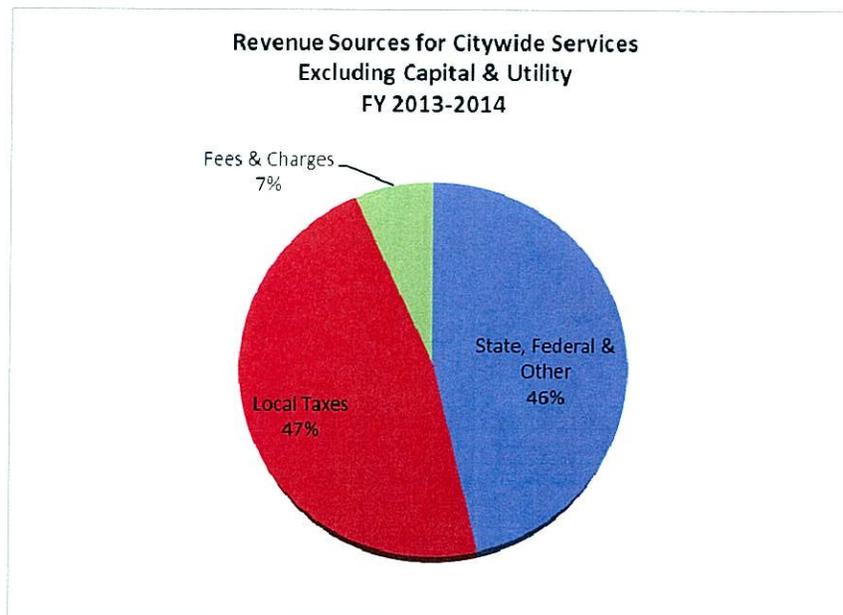
As part of the budget development process, the City projects the revenues that will be available during the fiscal year to provide services to Suffolk's citizens. This section of the operating and capital budget provides an overview of the methods that are used to project revenue, the primary sources of City revenues, the economic conditions impacting local revenues, and a detailed analysis of local revenue projections for FY 2013-2014.

Revenue Projection Methods

The task of analyzing and projecting revenues is a year-long process performed throughout the fiscal year by the City's Department of Budget and Strategic Planning. As part of this process, the Department monitors and evaluates revenues each month to ensure that enough revenue is available for city departments to meet service demands and carryout the directives of City Council and the City Manager. Detailed quarterly projection reports are provided to the City Manager and City Council. In addition to quarterly revenue projections, the Department analyzes historic trends and monthly/year-over-year revenue collections; evaluates changes in real estate assessed values and tax exemption programs; compiles direct estimates from city departments and state/federal agencies; reviews state and federal legislation that may have an impact on local governments; consults with local officials and department heads to include the City Assessor, the Commissioner of the Revenue, the Treasurer, the Director of Finance, and others on budget related matters of impact, and coordinates the preparation of a five year growth model with the City's financial consultant.

Where Does the Money Come From?

The City derives its revenues from three primary sources: 1) local taxes, 2) fees and charges and 3) state, federal, and other funding. The breakdown of citywide service revenue sources, excluding capital and utility fund revenue, is depicted in the pie chart below. Local tax revenue comprises the largest share of citywide revenue at 47% followed by state, federal and other revenue (46%), and fees and charges (7%).



State and federal funding has declined as a percentage of citywide revenue in recent years. As a result, the City relies more heavily on local taxes and fees and charges as a revenue source to provide for citywide services.

**Budgeted Citywide Revenue Sources
Excluding Capital & Utility
FY 2009 – FY 2014**

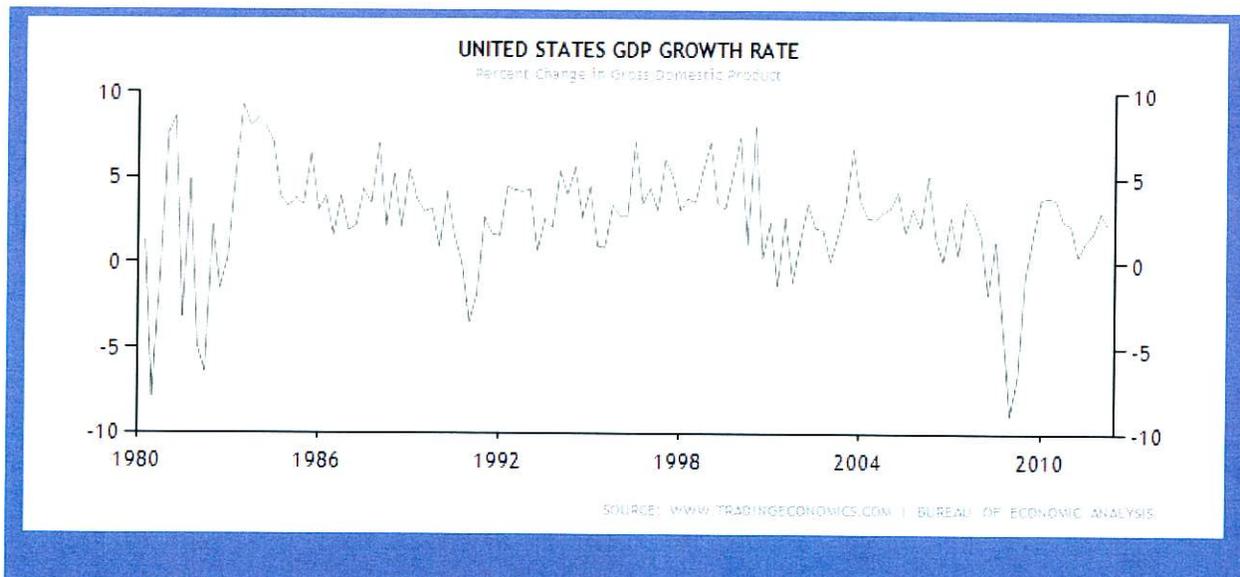
	Local Taxes	Fees & Charges	State, Federal, & Other
FY 2009	44%	5%	51%
FY 2010	44%	4%	52%
FY 2011	45%	4%	51%
FY 2012	45%	7%	48%
FY 2013	47%	7%	46%
FY 2014	47%	7%	46%

Economic Outlook

The City’s dependency on revenue from state and federal sources requires the Department of Budget and Strategic Planning to closely monitor national and state economic conditions and trends, as well as the local economy. Summarized below is the national, state, and local economic outlook.

The National Economy

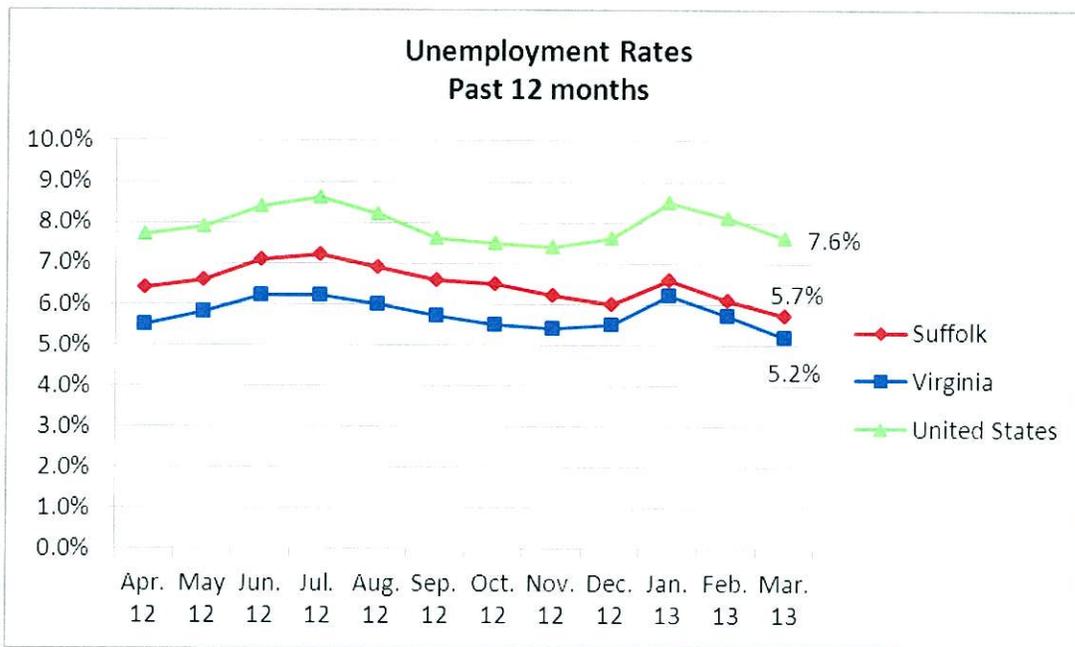
The national economy is continuing to slowly recover from the economic recession. Economic growth has been modest and far less robust than periods following previous recessions. Although the recession officially ended in June 2009, the economy is still not back to pre-recession levels. The economy grew by 2.2% in 2012, but ended the year with only 0.4% growth in the fourth quarter. The looming year-end deadline to avoid the fiscal cliff and federal sequestration greatly contributed to the economy’s poor fourth quarter numbers.



However, the economy rebounded with 2.5% growth in the first quarter of 2013 as the fiscal cliff and federal sequester were temporarily avoided by Congress. Unfortunately, an economic slowdown is projected throughout the spring and summer with the continued uncertainty over the impact that federal sequestration will have on the economy. Businesses have been reluctant to hire new workers and make capital investments. Looking ahead most economists are in agreement that businesses are poised for growth and expect the economy to improve by fall 2013. The housing market has been a bright spot and continued improvement is projected throughout the remainder of the year and into 2014.

The State Economy

The state economy is performing ahead of projections. Virginia’s unemployment of 5.2% is well below the national average of 7.6%. State revenue collections have been increasing year-over-year. The housing market is also improving statewide. The biggest hurdle for the state economy is federal sequestration due to Virginia’s sizeable federal workforce and federal contractors who rely heavily on defense spending.



Source: Virginia Employment Commission

The Local Economy

The local economy continues to grow and diversify with strong growth in various sectors including food and beverage processing, manufacturing, and retail. Defense spending is also rebounding locally after the disestablishment of the Joint Forces Command. The U.S. Navy has announced the relocation of 1,500 cyber defense jobs to the former Joint Forces Command site in northern Suffolk. In 2012 the Department of Economic Development announced 1,957 new jobs and more than \$94M in private investment. Most recently, Unilever announced that it will invest \$96.2M at its Lipton Tea facility in downtown Suffolk. Suffolk’s unemployment rate is 5.7%, slightly higher than the state average (5.2%), but below the national average (7.6%). The local housing market is showing signs of improvement, but the effects of the downturn are still being

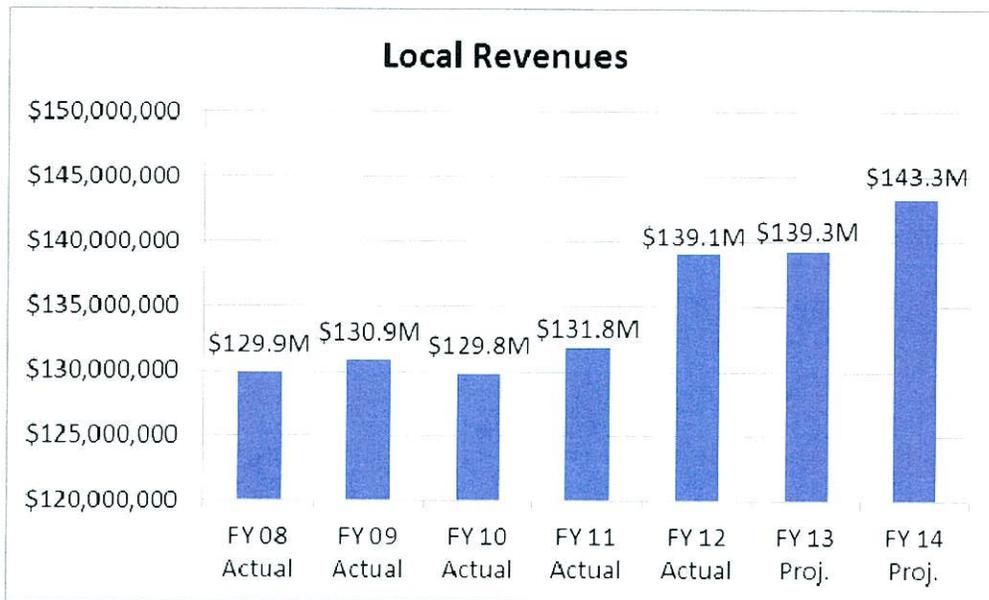
felt with a 3.22% decline in assessed values due to market sales. Median residential sales prices have risen slightly in the last year and building permit activity is trending higher.

FY 13 Revenue Projections

Local Revenue

Local tax revenue is comprised of general property taxes (real property, public service corporation taxes, personal property, and penalties and interest) and other local taxes (sales, public facilities rebate, communications sales, utility taxes, business license, motor vehicle license, bank stock, recordation and probate, tobacco, admissions, lodging, and meals). These revenue sources account for approximately 80% of all General Fund revenues.

Local tax revenue is projected to increase 3% in FY 14' to \$143.3M lead by public service corporation taxes (23%), recordation and probate tax (22%), business license (8%), meals tax (6%), and personal property tax (5%) revenue.

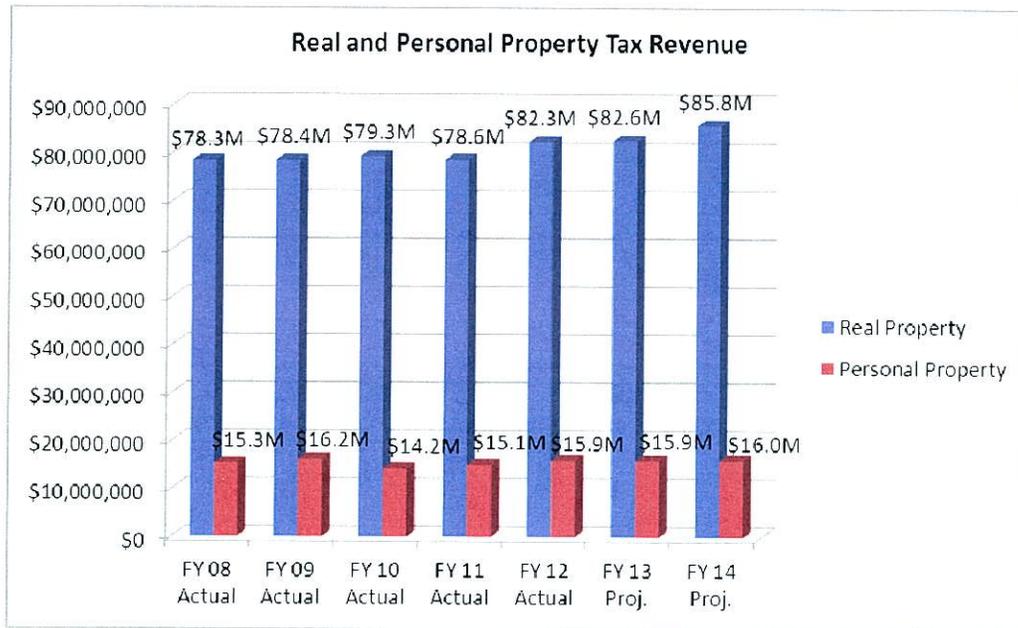


General Property Taxes

General property taxes account for 59% of General Fund revenues and consist of taxes on real estate, personal property (airplanes, boats, cars, trucks, trailers, mobile homes, recreational vehicles and machinery and tools), public service corporation taxes, and penalties and interest. Real estate tax revenue is the City's largest source of revenue comprising 59% of General Fund revenues. The City is projecting a 2% increase in real estate tax revenue in FY 14'. The increase is being driven by an adjustment to the tax rate to include \$.03 to neutralize the loss of assessed value due to the reassessment and \$.03 for additional schools funding. The real estate tax will increase from \$.97 to \$1.03 per \$100 of assessed value.

Personal property tax revenue has been trending higher and is projected to increase 5% or \$800,000 in FY 14'. Public service corporation tax revenue is also projected to increase 23% or

\$600,000. Public service corporation taxes are assessed and collected by the Virginia Department of Taxation and remitted to the City. This source of tax revenue includes taxes on electric utilities and cooperatives, gas pipeline distribution companies, public service water companies, telephone and telegraph companies, pipeline transmission companies and railroads.

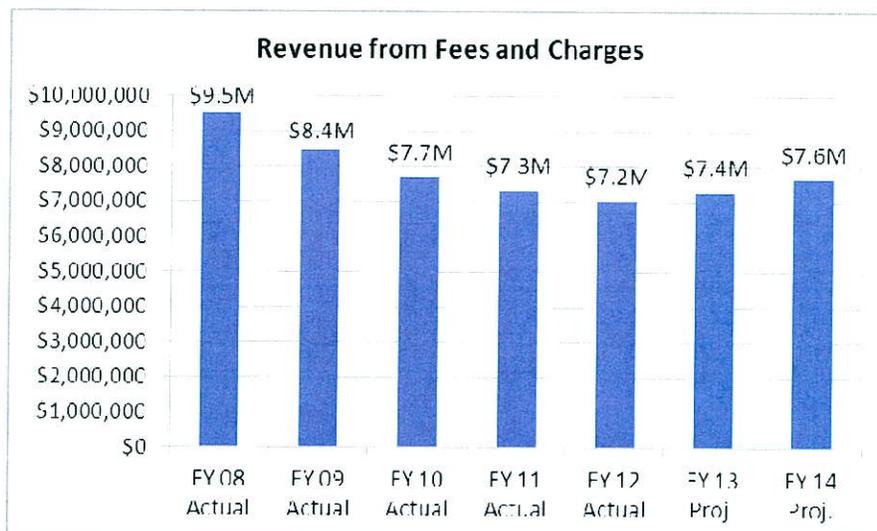


Other Local Taxes

Other Local Tax revenue is projected to increase 3% or \$985,000 in FY 14'. The primary drivers of the increase include the bank stock tax (22%), business license (8%), meals (6%), and sales tax (4%) revenue. Business license, meals, and sales tax revenue have increased year-over-year due to the growth of the City.

Revenue from Fees and Charges

Revenue from fees and charges account for 4% of all General Fund revenue and consist of permits, privilege fees, and regulatory licenses; fines & forfeitures; revenue from the use of money and property; charges for services; miscellaneous revenue; and recovered costs. Revenue from fees and charges is projected to increase 3% in FY 14' based on current trends.



Permits, Privilege Fees, and Regulatory Licenses

Revenue from permits, privilege fees, and regulatory licenses consists of revenue from animal licenses, land use applications, land transfers, zoning, use and ordinances, building and weapons permits, borrow pit fees, and fishing and other miscellaneous permits. This revenue source decreased 45% between FY 07' and FY 11' as a result of the housing market decline. However, zoning, use and ordinance fees; weapons permits; and borrow pit fees are trending higher. Permits, privilege fees, and regulatory license revenue is projected to increase 10% in FY 14'.

Fines & Forfeitures

Revenue from fines and forfeitures is comprised of General District Court fines, parking fines and violation fees, and false alarm violation fees. Revenue from fines and forfeitures is projected to increase 6% in FY 14' as General District Court fines and parking fines are trending higher.

Revenue from Use of Money and Property

Revenue from the use of money and property consists of interest earned on investments, bond proceeds, and the rental of city facilities. Interest rates continue to remain at low levels and very little growth is anticipated in FY 14'.

Charges for Services

Charges for Services includes fees and charges for emergency medical service, court security, animal adoptions, recreation and special events, grave openings, and sale of service revenue to other City funds. Slight growth is projected in FY 14' based on current trends.

Miscellaneous Revenue

Miscellaneous revenue is comprised of delinquent tax collection fees; tourism gift shop sales; gifts, donations, and contributions and payments in lieu of taxes from the Suffolk Redevelopment and Housing Authority. Delinquent tax collection, the largest source of revenue in this category, has trended lower in FY 13', and a 6% decrease is projected in FY 14'.

Recovered Costs

Recovered costs include reimbursements from other localities, the Suffolk School Board, and the Department of Social Services. Recovered cost revenue is projected to increase 5% in FY 14'.

State Revenue

Revenue from the Commonwealth of Virginia represents 12% of all General Fund revenue and includes non-categorical aid, shared expenses, and categorical aid. State revenue is projected to decrease 3% to \$21.1M in FY 14'.

Non-Categorical Aid

The City receives various sources of non-categorical aid from the Commonwealth of Virginia including motor vehicle carrier, mobile home titling, rolling stock, deeds/grantors, and vehicle rental tax revenue, as well as House Bill 599 (police operational aid) and personal property tax relief funding. Non-categorical aid is projected to increase 3% in FY 14' to \$13.8M.

Shared Expenses

The City receives funding from the Commonwealth of Virginia Compensation Board for the shared expenses of operating state-assisted local offices including the offices of the

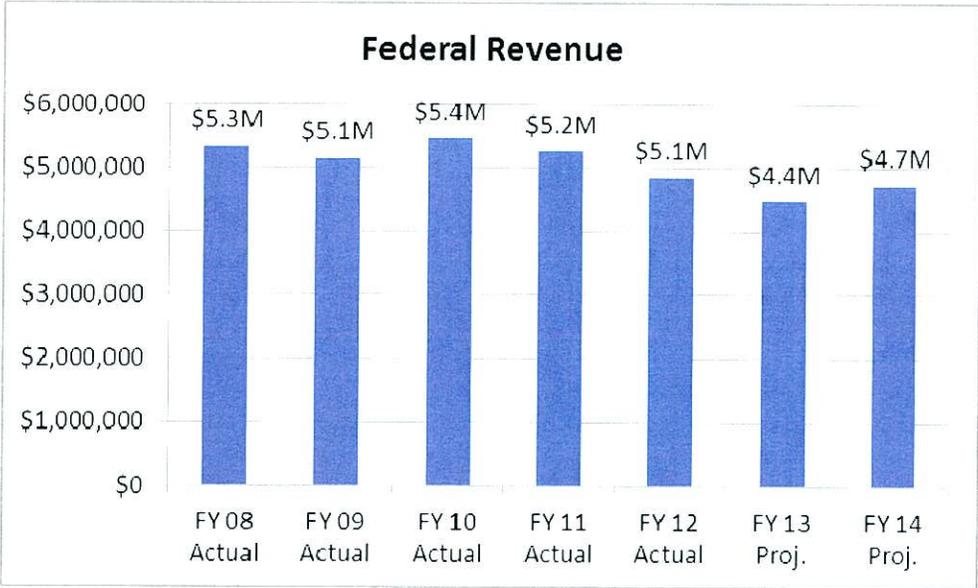
Commonwealth’s Attorney, Sheriff, Commissioner of the Revenue, Treasurer, Voter Registrar, and Circuit Court Clerk. State shared expense revenue is projected to increase 6% in FY 14’ to approximately \$2.7M based on estimates provided by the Compensation Board of Virginia.

Categorical Aid

The City receives categorical aid from the State for specific locally administered programs and services including social service programs, public safety, courthouse maintenance, and library services. Categorical aid is projected to increase 2% in FY 14’ to \$4.6M.

Federal Revenue

The City receives Federal revenue for emergency services, the food stamp program, and temporary assistance for needy families. Federal revenue is projected to increase 6% in FY 14’ to approximately \$4.7M.



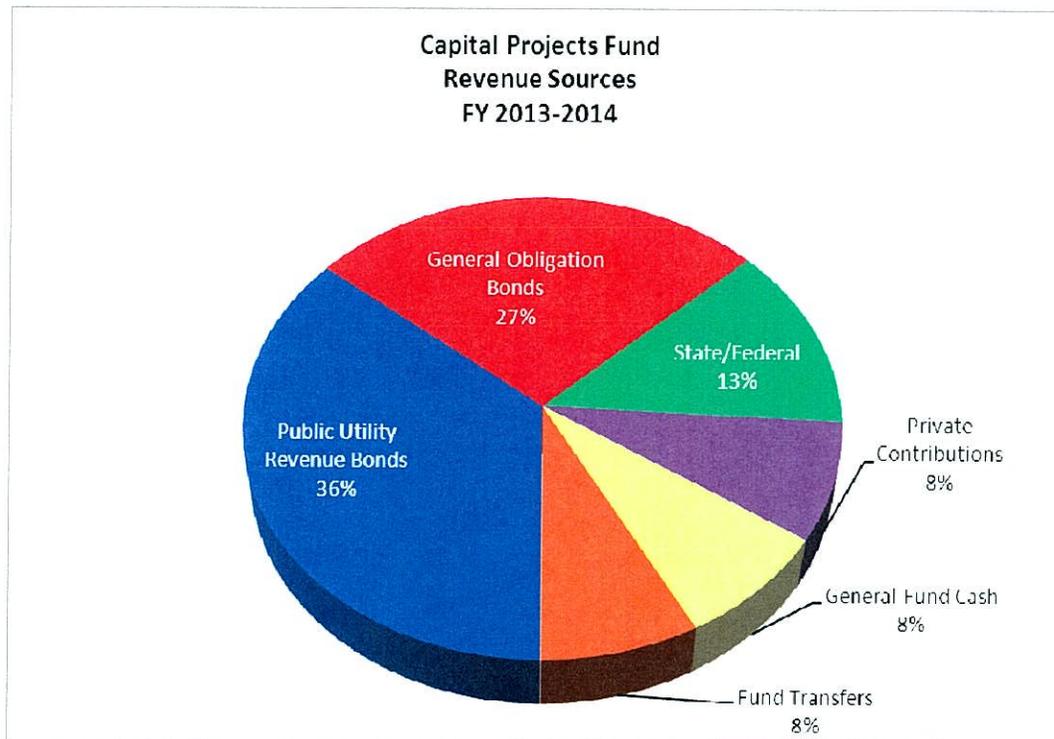
Other Funds

In addition to the General Fund, the City also has 16 other funds which account for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. These funds include the Capital Projects Fund, the Debt Service Fund, seven special revenue funds (Aviation, Consolidated Grants, Downtown Business Overlay Taxing District, Road Maintenance, Law Library, Route 17 Special Taxing District, and Transit), three enterprise funds (Utility, Stormwater Utility, and Refuse), three internal service funds (Fleet Management, Information Technology, and Risk Management), and one discreetly presented component unit, the Schools Fund.

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 recommended 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 14' is \$44.4M, an 18% decrease over FY 13'. The Capital Projects Fund derives revenues from the issuance of general obligation and revenue bonds, state and federal grants, and the transfer of funds from the General Fund. The Capital Projects Fund is supported by the following funding sources: \$16.1M public utility revenue bonds (36%); \$12.1M general obligation bonds (27%); \$5.8M state/federal funding (13%); \$3.7M private contributions (8%); \$3.5M General Fund cash (8%); and \$3.1M fund transfers via the Risk Fund, Road Maintenance Fund, Route 17 Special Taxing District Fund, and Stormwater Fund (8%).



Debt Service Fund

The Debt Service Fund is used to account for the payment of general long term debt principal, interest, and related costs associated with projects that are debt financed. Revenues in this fund are derived through the transfer of funds from the General Fund, Route 17 Special Taxing District Fund, and the Consolidated Grants Fund. The Debt Service Fund budget will increase 3% in FY 14' to \$26.4M.

Special Revenue Funds

Special Revenue Funds provide for revenue derived from specific sources other than major capital projects that are restricted by legal and regulatory provisions to finance specific activities.

Downtown Business Overlay Taxing District

The Downtown Business Overlay Taxing District (DBOD) provides for revenues and expenditures related to enhanced services provided in a specifically designated area of downtown Suffolk. Revenues are derived from an additional real estate tax levy assessed on properties located within the district's boundaries. The real estate tax levy for FY 14' has been reduced \$.01 to \$.105 per \$100 of assessed value to neutralize the impact of the 12.6% growth of assessed values in the district. The DBOD budget for FY 14' is \$200,000, a 9% decrease over FY 13'.

Road Maintenance Fund

The Road Maintenance Fund accounts for revenues and expenditures related to the maintenance of roads and bridges. Revenues are derived primarily from the State Urban Street Maintenance Program. The Road Maintenance Fund budget for FY 14' is \$22.3M, a 4% increase over FY 13' based on the State funding formula which accounts for additional roadway miles in the City.

Consolidated Grants Fund

The Consolidated Grants Fund is used to account for revenues and expenditures involving governmental grant program operating expenditures. Revenue budgeted in the Consolidated Grants Fund is derived from a transfer of funds from the General Fund which are used to provide required local matches to state and federal grants received throughout the fiscal year, as well as a portion of federal Community Development Block Grant (CDBG) entitlement funds used for debt payments against a HUD Section 108 loan acquired by the City in previous years to revitalize the Fairgrounds section of downtown. The Consolidated Grants Fund budget for FY 14' is \$683,980, a 38% decrease over FY 13'. This significant reduction is due to a change in the way funds are budgeted for the Consolidated Grants Fund in FY 14'. Due to uncertainties surrounding federal sequestration, the City did not budget the full amount of federal CDBG and HOME grant funds anticipated to be received in FY 14'. These funds will be accepted and appropriated at a later date upon receipt of a final award letter from HUD.

Law Library Fund

The Law Library Fund provides for the operation, maintenance, and purchase of legal materials for the Suffolk Law Library. Revenues are obtained through the collection of fees on court cases processed in the Circuit and General District courts. The Law Library Fund budget for FY 14' is \$38,960, a 19% decrease over FY 13'.

Route 17 Special Taxing District Fund

The Route 17 Special Taxing District Fund provides for revenues and expenditures related to enhanced economic development and transportation services provided in a specifically designated area of northern Suffolk. Revenues are derived from an additional real estate tax levy assessed on properties located within the district's boundaries. The additional real estate tax levy is unchanged at \$.25 per \$100 of assessed value in FY 14'. The Route 17 Special Taxing District Fund budget for FY 14' is approximately \$2.5M, a 27% increase over FY 13'. The increase is attributable to an approximately \$1.3M draw from the Route 17 Special Taxing District's committed fund balance in support of capital projects within the district including the College

Drive/Hampton Roads Crossing Connector, Harbour Towne Parkway/Harbour View Boulevard Intersection Improvement, and College Drive 16-inch transmission main projects.

Aviation Facilities Fund

The Aviation Facilities Fund accounts for the revenues and expenditures of the Suffolk Executive Airport. The Fund's revenues are comprised of fuel sales (57%), rental of facilities such as airport hangars (20%), miscellaneous revenue to include an airport usage fee (1%), and the transfer of funding support from the General Fund (21%). The Aviation Facilities Fund budget for FY 14' is approximately \$1.1M, a 16% decrease over FY 13'. A trend of declining fuel sales is the biggest factor contributing to the decrease in revenue.

Transit Fund

The Transit Fund accounts for the revenues and expenditures of Suffolk's transit service which is outsourced to the Virginia Regional Transit Authority (VRTA) and includes four bus routes and ADA service. The Transit Fund derives revenues from the General Fund transfer (70%), operating and capital funding from the VRTA via state and federal grant funding (25%), and fare collections (5%).

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of enterprise funds is for the costs of providing goods or services to the general public to be financed or recovered primarily through user charges.

Utility Fund

The Utility Fund accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, capital financing and related debt service and fixed assets of the water and sewer systems. The Utility Fund is designed to be self-sustaining. The Utility Fund budget for FY 14' is approximately \$45.3M, a 5% increase over FY 13'. The Utility Fund derives revenues through charges for water and sewer service, water and sewer availability charges, bulk water sales, meter service charges, hydrant rentals, capital contributions from development, capitalized interest, bond rebates, special fees, sale of services, and miscellaneous revenue. Water and sewer rates will increase \$.71 (water) and \$.47 (sewer) monthly per 100 cubic feet in FY 14' to address state and federal regulatory mandates and system growth.

Stormwater Utility Fund

The Stormwater Utility Fund provides for the operation, management, construction and maintenance of stormwater facilities, as well as mosquito control services. A stormwater fee of \$5.24 per month is assessed on all residential units. Commercial businesses pay a multiple of the equivalent residential unit. The stormwater fee is a result of the Federal Clean Water Act of 1972 and amendments thereafter which require cities to make improvements to reduce the amount of pollution from stormwater runoff. No federal or state funding is provided to offset the cost of the water quality measures. The Fund earns additional revenue through permit and inspection fees paid by developers based on a percentage of hard surface coverage required for development and the sale of services such as engineering services to other City funds. The FY 14' budget also

provides for revenue from the transfer of funds from the stormwater fund balance to support capital project needs. The Stormwater Utility Fund budget for FY 14' is approximately \$4.6M, a 14% decrease over FY 13'. The decrease is due to the elimination of a one-time \$425,000 draw from the Stormwater Fund Balance which was needed for capital improvements in FY 13'.

Refuse Fund

The Refuse Fund accounts for the revenues and expenditures of the City's refuse collection and recycling services which include citywide refuse, recycling, and bulk refuse pickup and landfill post closure planning and management. The Fund is designed to be self-sustaining through revenue generated by a \$17.50 per month fee for refuse collection, the sale of trash cans, and sale of service to other City funds. The Refuse Fund budget for FY 14' is approximately \$6M, a 2% increase over FY 13'.

Internal Service Funds

Internal service funds are used to account for the operational cost of services provided to other city departments. Revenue is derived from charges on a cost reimbursement basis. The internal service funds include the Fleet Management Fund, Technology and General Services Fund, and Risk Management Fund.

Technology and General Services Fund

The Technology and General Services Fund accounts for the City's technology infrastructure including central computer and telephone systems. The cost of operating these systems is allocated to the various city departments and agencies on a cost reimbursement basis. The Technology and General Services Fund budget for FY 14' is approximately \$5.5M, a 14% increase over FY 13'.

Fleet Management Fund

The Fleet Management Fund provides for the financing of vehicles and the maintenance, repairs, and fuel costs of the City. Operating costs are allocated to the various city departments and agencies including the Western Tidewater Community Services Board, Suffolk Health Department, Western Tidewater Regional Jail, and Suffolk Public Schools, who use fleet equipment on a cost reimbursement basis. The Fleet Management Fund budget for FY 14' is approximately \$14.3M, an 11% increase over FY 13'.

Risk Management Fund

The Risk Management Fund provides for the funding and payment of auto, police liability, general liability, health and worker's compensation claims against the City, exclusive of the Suffolk Public Schools' employees. Charges to other funds are based on estimated claims for the year. The Risk Management Fund budget for FY 13' is approximately \$17.4M, a 4% decrease over FY 13'.

Discretely Presented Component Unit

Discretely presented component units are reported separate from the primary government to emphasize that they are legally separate from the City. The Schools Fund is a discretely presented component unit.

Schools Fund

The Schools Fund provides for the activities of the Suffolk Public School System. The appropriation by the City consolidates the funding for the existing three School funds including the School Operating Fund, School Food Service Fund, and School Grants Fund. Revenues are derived from local, state, federal, and other sources. The School Operating Fund budget for FY 14' is approximately \$142.8M, a 3.25% increase over FY 13'. The City is providing \$3M in additional local funds to the school division in FY 14' via a \$.03 increase in the real estate tax rate.