

REVENUE ANALYSIS

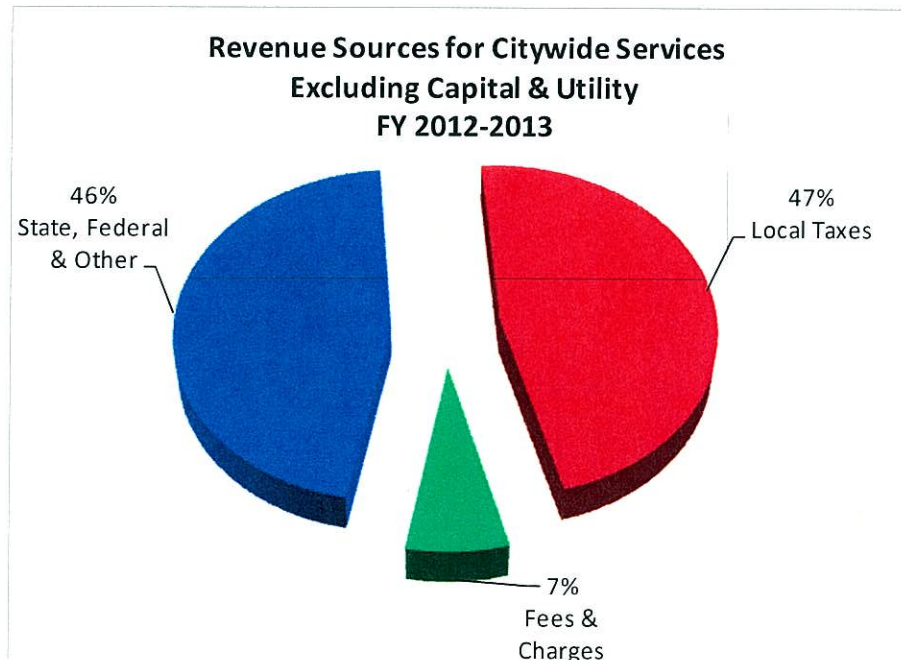
As part of the budget development process, the City must project the revenues that will be available during the fiscal year to provide services to Suffolk's citizens. This section of the operating and capital budget provides an overview of the methods that are used to project revenue, the primary sources of City revenues, the economic conditions impacting local revenues, and a detailed analysis of local revenue projections for FY 2012-2013.

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. The City is now reliant upon local taxes and fees and charges for a greater percentage of citywide revenue.

**Budgeted Citywide Revenue Sources
Excluding Capital & Utility
FY 2009 – FY 2013**

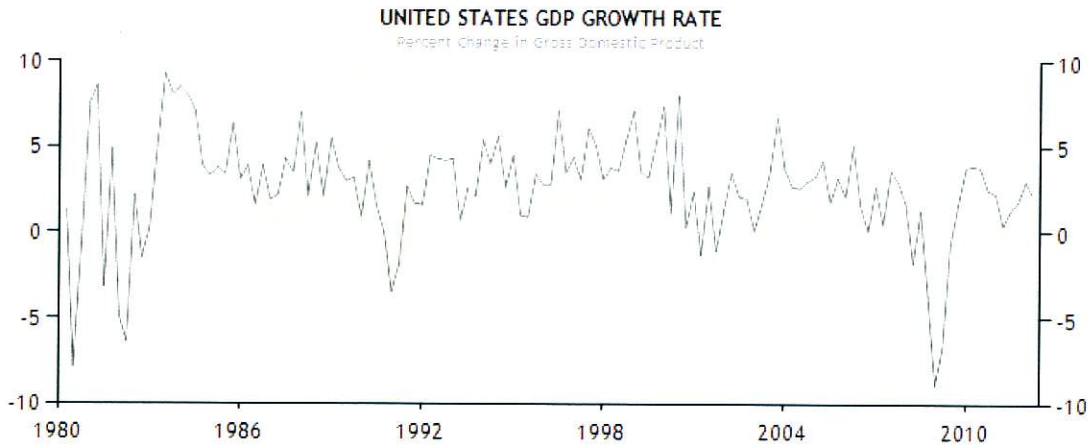
	Local Taxes	Fees & Charges	State, Federal, & Other
FY 2009	44%	5%	51%
FY 2010	44%	4%	52%
FY 2011	45%	4%	51%
FY 2012	45%	7%	48%
FY 2013	47%	7%	46%

Economic Outlook

Given the City’s dependency on revenue from local, state, and federal sources, economic conditions impacting all three levels of government affect city revenues. A summary of the national, state, and local economic outlook is provided in the sections below.

The National Economy

The national economy is slowly recovering from the economic recession. Although the recession officially ended in June 2009, the economy is not back to pre-recession levels. Economic growth has been modest and far less robust than periods following previous recessions. This is illustrated by the chart below which provides an overview of economic growth between 1980 and 2012. In 2010 and 2011, the economy posted growth of 3.1% and 1.7%, respectively. In comparison, economic growth topped 4% after the 1991 recession and 8% following the 1981-1982 recessions.

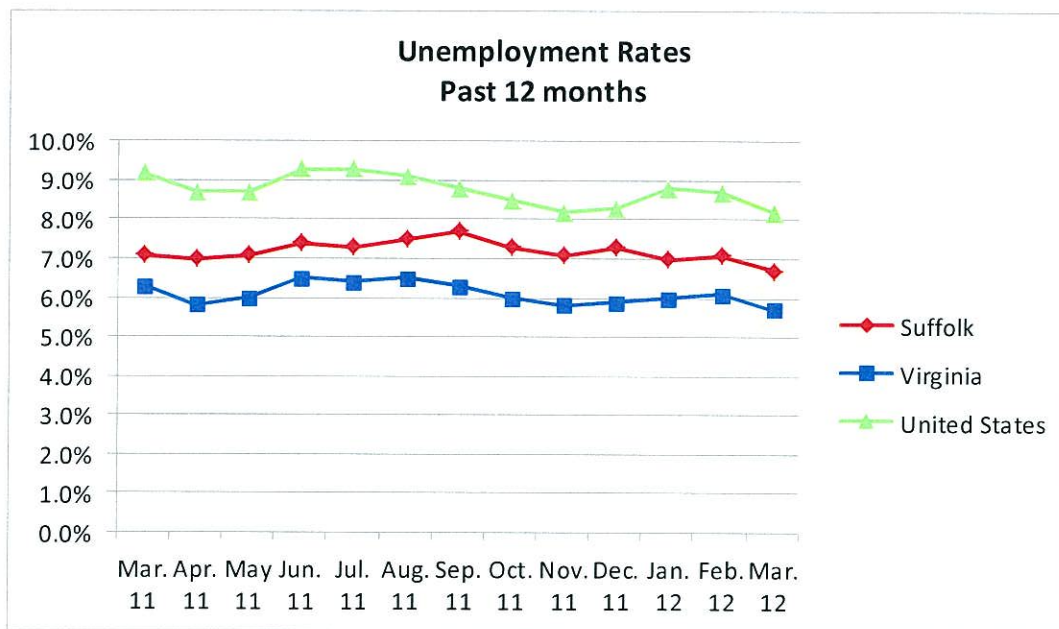


SOURCE: WWW.TRADINGECONOMICS.COM | BUREAU OF ECONOMIC ANALYSIS

Significant economic growth is not expected over the next 12 to 18 months. The job market is not expanding fast enough to dramatically change the employment picture and drive down the unemployment rate. Business investment in equipment and software, production capacity, and buildings is improving, but at a slow pace. Gasoline prices are leveling off, but remain high at nearly \$4 per gallon. The housing market also continues to be constrained by distressed properties. The biggest positive to note is that retail sales are outpacing projections. Consumer confidence and spending are up, but this could be jeopardized if salaries and wages do not improve.

The State Economy

The state economy is a little more positive. Virginia’s unemployment rate is currently 5.7% in March 2012, the lowest in over 3 years. State revenues are exceeding forecasts with strong growth in corporate and personal income tax and sales tax receipts. The official economic forecast for Virginia has been revised upward. The State’s general fund revenues are \$83.3M above the official forecast for FY 2012. Nevertheless, the state government is cautiously optimistic and continues to maintain a conservative approach to its fiscal policy. The flow of money to localities has been reduced in recent years and is not expected to increase in the near future.



The Local Economy

The local economy is also showing signs of improvement with strong job creation and investment by the private sector, and increased consumer spending. Suffolk’s unemployment rate is down to 6.7% from a peak high of 8.1% in the summer of 2010. The Department of Economic Development announced 980 new jobs and more than \$103M in private investment in 2011. A number of the City’s targeted industry sectors are experiencing growth including advanced manufacturing, hospitality, office & administration, medical, modeling, simulation & technology, retail, and warehousing & distribution. Suffolk’s high tech, modeling and simulation industry is still an integral part of the local economy despite the closing of the Joint Forces