Strategic Budget Planning October 2011

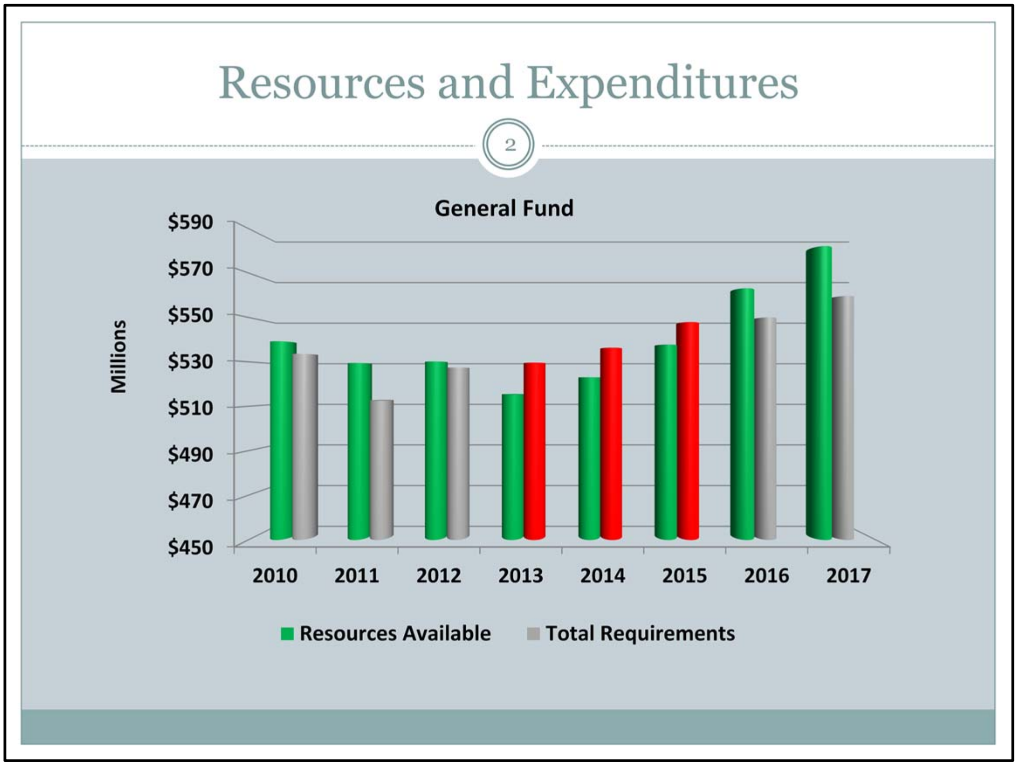
1

5-YEAR FORECAST

- ECONOMIC FORECAST
- IMPACTS ON CITY REVENUE
- EXPENDITURE DRIVERS

DEBT METRICS

STAFFING HISTORY



Cost to continue current level of service will exceed forecast revenue during FY 2013-2015

Economic Forecast: National Economy

3

REVIEW OF ECONOMIC CONDITIONS
ASSUMPTIONS UNDERLYING REVENUE FORECAST

Economic Forecast: National Economy

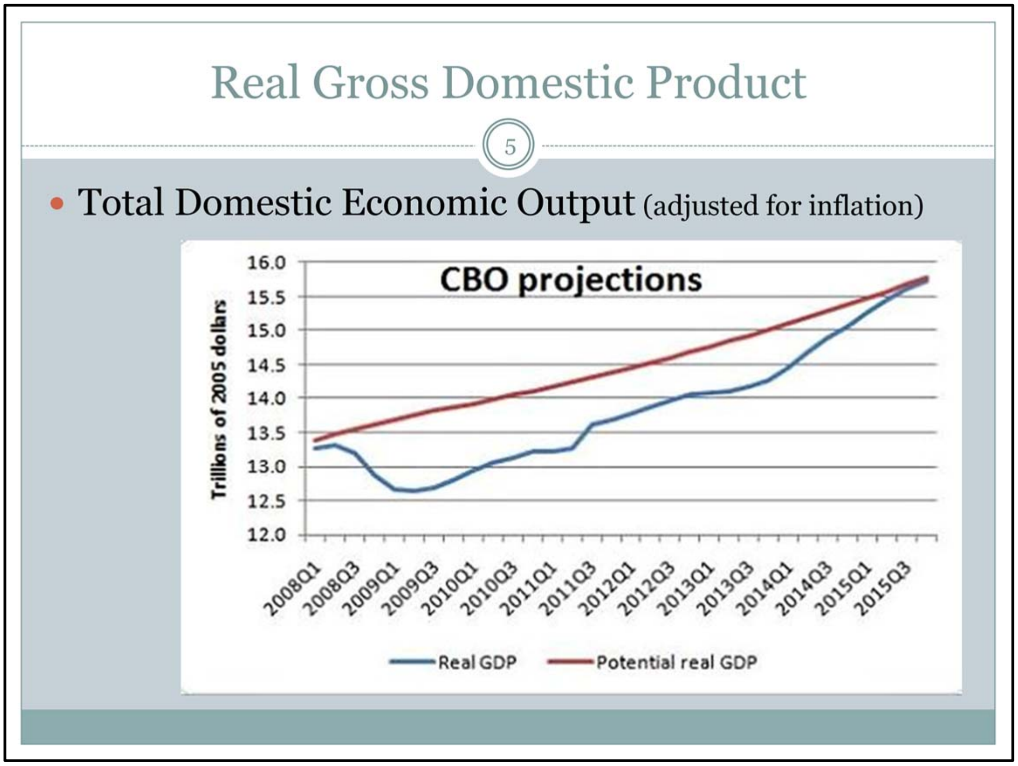
4

- Congressional Budget Office (CBO) – August 2011
  - Independent of Congress or President
  - Within range of Federal Reserve and Blue Chip Consensus
- Assumptions
  - Current Laws In Effect
  - No Change in Tax, Fiscal or Monetary Policy
- CBO Forecast
  - Very slow growth, "Jobless" Recovery through CY 2014
  - Recovery peaks CY's 2015-2016
  - Recovery levels off 2016-2017

The revenue forecast is derived in the context of assumptions about the national and regional economy.
The economic assumptions that inform the revenue forecast are obtained from the Congressional Budget Office August forecast.

This forecast offers both the macroeconomic expertise and time horizon required for the City's 5-year forecast horizon.

The CBO forecast is somewhat more conservative than the Federal Reserve consensus forecast (consisting of forecasts by the Board of Governors and presidents of the Federal Reserve Banks) and more upbeat than the Blue Chip consensus, based on a survey of corporate and academic economists.



GDP is the measure of total domestic (within the borders of the US) economic activity.

Potential Real GDP = Economic output if aggregate demand (purchases by consumers, business & government) had not fallen because of the recession.

Real GDP = Actual and predicted economic output. Slow growth through mid-2014, accelerated growth mid-2014 through 2015, resume normal growth 2016-2017.

Hampton Roads tends to lag behind US slightly on turning points, both expansion and recession. The nature of our recent recession is different from the typical recessions experienced since WWII and this has important implications for the nature of the recovery. What we are used to are typically called “inventory” recessions caused by imbalances between monetary policy and the real economy or by price shocks and that are best managed through adjustments in monetary policy. The recent recession is due to a crisis in the financial markets where sudden loss of value of overpriced assets resulted in sudden and extreme balance sheet restructuring by both producers and consumers, with a resulting contraction in the demand for and availability of credit (debt financing of consumption and investment).

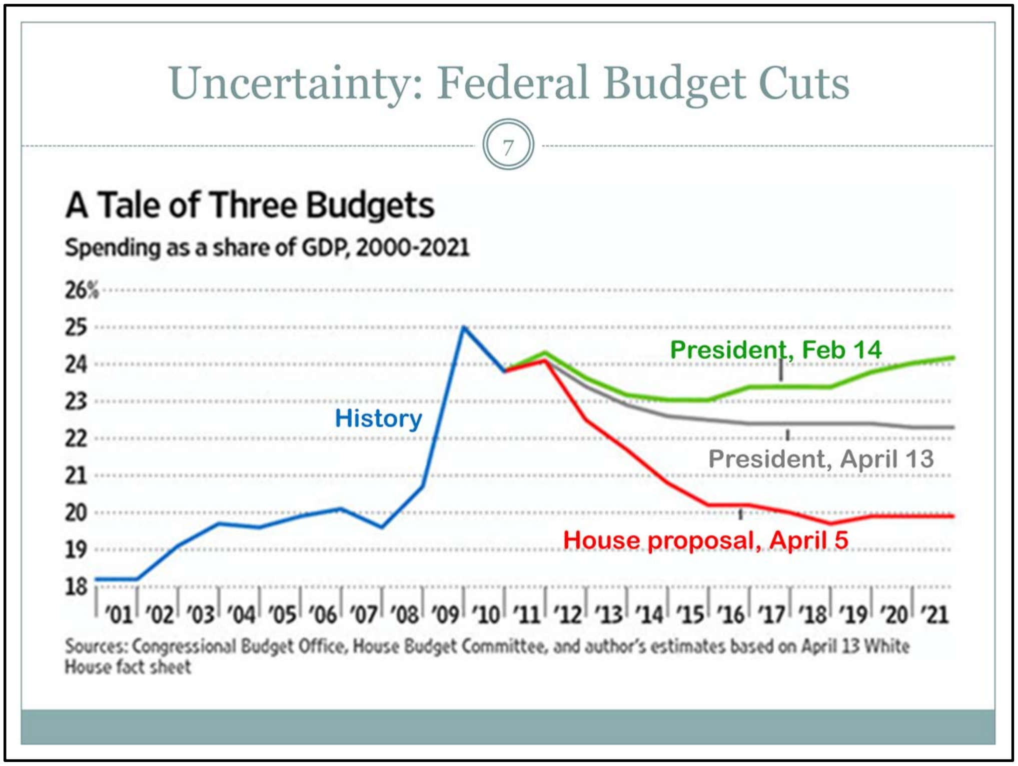
National Economy: Risks & Uncertainties

6

- Fiscal Austerity: Further Reductions in Federal Spending, esp. Defense, SSI, & Medical Programs
  - Additional austerity measures will hurt recovery
  - Federal gridlock will stall any stimulus or aid to state/local government
  - May lead to further reductions in state funding
- Other Risks & Uncertainties
  - Stagnation: Recovery postponed beyond 5 years
  - Unanticipated external shock to economy
  - Institutional uncertainties inhibiting business
  - International Economic Recession affecting Exports (12% of US GDP)

Uncertainty plays a much larger role in this forecast than in any year prior to the onset of the recession in 2007-2008.

The political forces both at home and abroad combine with current economic conditions and our region's heavy dependence on Federal spending (military) and international trade (ports) to make any forecast subject to great risk. We do not want to be so conservative that we unnecessarily reduce public services to the community, nor do we dare be so optimistic that negative developments require emergency curtailment of City services.



The evidence is that fiscal consolidation during economic contractions or early stages of recovery results in further reduction of aggregate demand and so further economic contraction or delay of recovery. We know that consolidation is coming because of the politics of the deficit issue, the question is how deep and how fast.

The rapid rise in 2008-2009 reflect the contraction in Gross Domestic Product as well as additional expenditures to protect the financial system (TARP) and stimulate the economy (ARRA).

Impact of Federal, State, and Local Spending

8

- In 2009, Federal Stimulus Plan helped move economy forward
- Since 2009, increases in Federal spending has been more than offset by reductions at state and local level
- Since 3rd quarter of 2010, net government impact on economy has been negative
  - Modest stimulative impact at federal level
  - Larger reductions at state and local level

Goldman Sachs Analysis as published in NY Times.

2009 impact of Stimulus was approx. 1.3% of GDP.