

Vision Statement

Hanover – where a family of communities, inspired by its people, traditions, spirit and history, is the foundation for its future.

Mission Statement

The mission of Hanover Government is to provide a superior quality of life that is defined, encouraged and supported by the community itself,

- *Where government focuses efficiently and effectively on the general well-being, education and safety of the people, and*
- *Where service delivery is based on sound financial management practices, and*
- *Where growth is managed in creative and innovative ways*

Value Statements

- *Commitment to Hanover Vision and Mission*
 - *Open and Responsive Leadership that Promotes Trust*
 - *Effective and Compassionate Government Focused on Citizen Needs*
 - *Accountability for Results, Actions and Outcomes*
 - *Mutual Respect that Fosters Civility*
 - *Encouragement of Pride, Dedication and Integrity*
- Foster an Environment that Encourages Citizen Participation in their Government and Community*

Budget Objectives

The County of Hanover begins its budget formulation process with direction from the Board of Supervisors through the adoption of budget objectives. It is from these budget objectives and other related Board adopted goal statements for the County that the County Administrator and County departments are provided direction in formulating budgets to best meet such Board objectives. The Board of Supervisors adopted the following objectives for the 2003-04 budget in February 2003.

The County Administrator will present a Proposed Budget, Five-Year Financial Plan and Capital Improvements Plan to the Board of Supervisors by February 26, 2003. These budgets and plans, based on *sound financial management practices*, will:

- *Enable the County to provide a superior quality of life that is defined, encouraged and supported by the Community itself where the County focuses efficiently and effectively on the general well-being, education, and safety of the people;*
- Account for State revenue reductions imposed upon the County and constrained local revenue growth by restricting expenditures and their related service levels and/or further maximizing opportunities for additional revenues in order to maintain the real property tax rate of \$.82;
- Serve as the basis for implementing *service delivery* and capital planning for all County departments;
- Promote *education* as a priority by maintaining student-teacher ratios, continuing the use of technology in the schools, focusing on instruction for all students, funding school facilities that limit overcrowding with no school over capacity by 10% for more than three consecutive years, and continuing the accumulation and utilization of the School Savings Plan;
- Promote law enforcement, court services, communications and fire/ems as a priority by providing financial and staffing resources to produce efficient and effective service levels and meet capital needs for all affected agencies;
- Provide adequate employee compensation including consideration of market-based pay for performance increases, salary benchmark adjustments, and a comprehensive benefits plan that will be market sensitive and enables the County and School System to attract and retain outstanding employees;
- Maintain compliance with the County's *sound financial management practices* and policies to ensure adequate reserves, limits on the County's debt burden, and maintenance or improvement to the Aa1/AA+/AA bond ratings;
- Operate a water and wastewater system as a self-supporting enterprise fund that provides high quality and reliable *service delivery* to its customers, including development of a capital improvement program, while limiting user and/or capacity fee rate increases to that which is needed to ensure long-term viability of the system.
- Plan for the anticipated financial impact of the proposed 2004 Bond Referendum utilizing a phased construction schedule that provides for the construction of these projects that would be *supported by the community*.

Note: Words *italicized* in the above objectives are meant to illustrate connection to words and phrases used in the County's mission statement.

BOARD OF SUPERVISORS

Aubrey M. Stanley, Jr., Chairman
Beaverdam District

Timothy E. Ernst, Vice Chairman
Ashland District

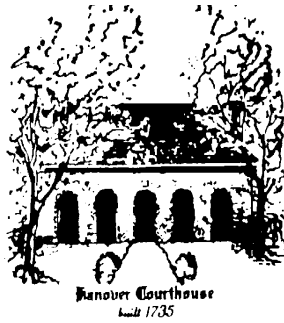
Tom Giles
Chickahominy District

Elton J. Wade, Sr.
Cold Harbor District

Charles D. McGhee
Henry District

J. T. "Jack" Ward
Mechanicsville District

John E. Gordon, Jr.
South Anna District



Richard R. Johnson
County Administrator

Cecil R. "Rhu" Harris, Jr., CPA
Deputy County Administrator

John H. Hodges
Deputy County Administrator

Sterling E. Rives, III
County Attorney

COUNTY ADMINISTRATOR'S OFFICE

County of Hanover

P. O. Box 470

7516 County Complex Road

Hanover, Virginia 23069-0470

Web Site: www.co.hanover.va.us

Phone: 804-365-6005
Fax: 804-365-6234

April 9, 2003

The Honorable Members of the Board of Supervisors
County of Hanover, Virginia

Dear Members of the Board:

I am pleased to present for your consideration Hanover County's Adopted 2003-04 Operating and Capital Improvements Budgets as well as the County's Five-Year Operating and Capital Improvements Plans. No other issue, on an annual basis, consumes more of our resources. This year is especially challenging, as the County had to react to mid-year changes in State funding and the continued reduction of State revenue support as a part of meeting increasing service commitments. In addition to this chaotic situation brought to us by the State, we also had to factor in the economy's impact on local revenues, the maintenance of an 82-cent tax rate, the requirements of increasing service level needs from our citizens and the need to compensate our employees fairly and equitably. If there were to be a theme for this year's process I think it should be "keeping a balanced human perspective". I say that because we can easily get lost in the emotions, the rhetoric and the sheer complexity of the financial side of the equation while losing sight of the fact that all of our budget balancing deliberations boil down to just one thing – people.

In the past, with the Board's leadership, I believe we have met many challenges and have been able to provide a very efficient and effective level of services. Every request for new or enhanced services had to be balanced against the need for other services and against the difficulty some taxpayers face in paying for those services. On one hand we might have a family with a member desperately in need of services from our Community Services Board but being told there is a long waiting list, or worse, that we do not offer that service. On the other hand there is the difficulty some of our elderly or other citizens on fixed incomes face in paying the additional taxes necessary to fund new services. I believe we have historically done a good job striking a balance between those issues and may need to work even harder this year to keep a balanced human perspective.

Hanover County continues to enjoy a reputation as one of the best run counties in the country, with rating agencies giving only 35 counties nationwide a higher financial rating than Hanover. In our most recent general obligation bond sale, we traded higher than the average AAA rated localities selling bonds on that same day. More importantly, however, we have not obtained a prominent position just with regard to our financial condition. We have done so while keeping tax rates stable and at the same time managing an extremely efficient and effective delivery of services. But make no mistake, this position of moderate taxes, financial stability and quality service delivery has been and remains under attack to a degree never before experienced.

Certainly some of this attack results from the general economic problems we see throughout the country, including our local economy which is currently experiencing one of the poorest retail sales periods in recent history. But the historic quality of our County's financial operations, combined with the good fortune of our geographic location, has given us the capacity to deal with those problems. What leaves us vulnerable is the unbalanced and often chaotic system of sharing revenues and service delivery with the State. Unfortunately, there is now an overwhelming disconnect on the part of the State regarding their commitment of revenues to localities and the State mandated services those state revenues are supposed to fund. This disconnect can be seen

most graphically in the County's budget where in just three years we have had to replace over \$6.1 million in State revenues that we reasonably expected to be provide as their part of funding local services.

Lets look more specifically at how this affects our budget deliberations.

IMPACT OF STATE BUDGET PROBLEMS

Nowhere is this more obvious than in those direct local services where the State has been a primary funding source. This includes schools, law enforcement, social services, mental health/mental retardation services, courts and general revenues. In the provision of local services such as these, it may not be readily apparent which services are directly and/or indirectly funded through State revenues. There are, however, many County services that were either initiated and/or expanded directly as a result of a State initiative and the continuation of those services depend on the continuation of State support at a rate that will maintain the increasing cost of that service. We must realize that just maintaining a level of funding over several years, particularly in a growing County like Hanover, is in fact a cut. It is not realistic to expect that a locality can, over several years, maintain services at the same or less cost in the face of population growth, inflation and often exponential increases in demands for service.

More than ever, it is now also apparent that we cannot depend on State funding. What makes this difficult is that local service recipients become dependent upon or expect that such service is now locally provided and should be continued undiminished. The State can and does, however, unilaterally withdraw support without any change in that service expectation. This all boils down to one inescapable reality as we struggle to maintain stability in the relative tax burden on our citizens and keep up with the increasing cost of services. This new reality is that regardless of how well we set priorities, how efficiently we plan for service delivery and how conservatively we handle our financial operations, we cannot do so while funding more and more of what has traditionally been the States' share of local services.

In October 2002, the Governor made an unprecedented move in reducing currently appropriated funding to local governments in mid-year. The impact to the County was over \$621,000 and in a timely pro-active manner the Board established a Budget and Legislative Review Committee to establish a process whereby in November 2002 the County's budget was reduced by \$621,000. This required assistance from all departments in formulating budget reduction scenarios to meet the proposed cuts as well as to anticipate that additional reductions would need to be made in December 2002 when the Governor announced modifications to the 2002-03 and 2003-04 budgets. Fortunately, there was only an additional \$183,000 in State reductions for the current year. Together with the October 2002 reductions, total reductions were \$806,000 and those deductions were carried forward in the 2003-04 budget as well.

With these cuts and the funding anticipated for next year, this means that in the last three years alone we have had to pick up \$12.0 million in State funding, of which \$6.1 million was reasonably anticipated to be provided to the County in 2003-04 in financial plans developed just three years ago. That is \$6.1 million dollars to replace State funding and provide for no enhancement to services while keeping taxes stable and funding increasing service needs.

The following table illustrates how the State budget adjustments to local funding have not only impacted us in the year in which such reduction occurred, but how the on-going impact of such reduction, often supplanted by local funding, can dramatically impact the local government:

		<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
On-Going State Budget Reductions:				
Salary increases for State supported positions	\$	814,409	982,775	1,061,846
Other State impacts		397,000	2,430,898	183,757
Total new State budget reductions		<u>1,211,409</u>	<u>3,413,673</u>	<u>1,245,602</u>
On-going impact of accumulated reductions		0	1,259,865	4,860,480
Total State budget reductions	\$	<u>1,211,409</u>	<u>4,673,538</u>	<u>6,106,082</u>
Three-year cumulative total				<u><u>11,991,029</u></u>

While the State's financial condition has been caused by a number of factors, primary among those has to be the Personal Property Tax Relief Program, now projected to cost over one billion dollars per year at its current 70% implementation. This has been implemented while the State has struggled to balance its budget, given no salary increases to employees and cut funds originally budgeted to localities Statewide by over \$175.0 million over the State's biennium budget. Even with current proposals in the General Assembly, many of these proposals that would restore some funding back to localities are tied to aggressive

“revenue triggers” that must be attained prior to such additional revenues being given to the localities. Therefore, in following our conservative budgetary practices, we cannot recognize these revenues until such “triggers” are attained and the likelihood of that happening seems highly speculative at best.

Before we move on to the major issues in the adopted budget, let's first look to ourselves to consider how effectively we are using our own resources to try and mitigate the service delivery problem caused by the State.

HOW EFFICIENT AND EFFECTIVE ARE WE?

Initially identified last year, but much more apparent during this year, is the increasing challenge of managing competing goals to maintain or even lower our real estate tax rate while at the same time addressing the many new State and Federal mandates as well as departmental, citizen and business initiated requests for new or expanded levels of service. In trying to best manage such requests or requirements, it often involves re-prioritizing very fixed resources, primarily staff time.

The practical fact is that there are very real limits to what we can do for our citizens because there are very real limits to our resources and those of our citizens. We are generally staffed at a relatively thin margin of flexibility to provide our core services at a very high level of effectiveness and efficiency. This requires that we leverage any and all resources to attaining a significant return from such allocations. We, as a County workforce and elected officials, have taken great pride for many years on how we accomplish “so much with so little”. This is evident in virtually each and every service that we perform. The lion's share of the credit for this level of productivity goes to our employees, as they are the very core of our service delivery, regardless of what form it takes. As State budget shortfalls have further constrained our resources in conjunction with increased demands for services, we are again being asked to “do more with less” but such a phrase is just that and reality is somewhat different.

A general indicator of the efficiency with which we operate is an analysis of comparative per capita spending in functional areas. It shows that education and public safety, our priority expenditure functions, are closest to the Statewide per capita averages. All of our other functional areas are well below the Statewide averages. As an example, the area of administrative expenditures is 17% below the Statewide average and the lowest in the region, including the rural localities of New Kent, Caroline, King William and Goochland. While it is certainly not possible to give you an in depth analysis in this presentation, I have selected four areas that I believe will provide more specific examples of how we are performing in the areas of Public Safety, Public Schools, Human Services and General Administration.

Public Safety

Law Enforcement - In law enforcement we have an organization under the leadership of Colonel Stuart Cook that is recognized throughout the State and even nation for its professionalism and effectiveness. The Sheriff's Office will have a national inspector visit in the summer of 2003 as it pursues becoming one of the most highly accredited law enforcement agencies in the United States through national accreditation by the Commission on Accredited Law Enforcement Agencies. In meeting the State accreditation just five years ago and becoming only the eighth Virginia county to achieve such honor, the Sheriff's Office met 208 standards. Last spring the Sheriff's Office was re-accredited by the state commission with the highest compliance rating in the Commonwealth. In pursuing national accreditation, 434 standards need to be met. This honor would be the first for a full-service Virginia Sheriff's Office. Further, the crime rate remains the lowest in the region, with a rate less than half of the other jurisdictions in the metro area. But even with that level of effectiveness and substantial resources prioritized for that department over the last ten years, they still have only 1.7 officers per 1,000 population. With this year's tight budget, the Sheriff's Office has even taken it upon themselves to further reduce their operating portion of their budget by 6.4%.

Fire/EMS - While we still have a strong volunteer system in fire and emergency medical services, the growth of two income families and tighter workforce budgets in private business have caused a rapid decline in weekday volunteer availability. This has required the addition of 49 paid fire/EMS providers in the last 10 years. At about the same time, we had an 80% increase in call load, primarily in medical responses. Faced with those challenges, we have been able to handle the increased call load and provide significantly enhanced support for the volunteers as well as improving response times and the overall level of protection provided. While responding to a call load almost half the size of that averaged in Richmond, Chesterfield and Henrico, Hanover's total Fire/EMS budget is only about one fifth of these localities. Even adjusted to a per capita basis, our cost is still about half that of the region.

In the Fire/EMS support divisions, the Training Division, under Chief Buchanan, has three personnel and provided classes to over 1,000 attendees, in addition to in-service training, OSHA training, general curriculum development and development of a new leadership/management curriculum. Our Fire Safety Division under Chief Flournoy has six fire inspectors conducting over

1,100 inspections last year along with 440 fire/arson investigations including 25 arrests, taught 65 public education classes attended by over 6,000 people and provided over 300 hours of standby time manning station shortages.

Animal Control - In Animal Control we have had a seven year increase in calls of over 57% but only added two additional officers to answer those calls, increasing our calls per officer over 20% in that same period.

Public Schools

Hanover County's cost per pupil of \$6,887 is the second lowest cost in the Commonwealth of Virginia. This extremely low cost results from continued fiscal prudence and significant cost reductions over the past two years as we have faced a steadily diminishing State effort. For example, in the 2001-02 budget, \$1,350,000 was cut from technology funding and this year's budget remains at that reduced level. Non-personnel accounts, such as travel, supplies and professional training have been reduced by over \$1,142,000 or about 13% over the past two fiscal years. In 2003-04, a significant additional reduction of administrative expenses will occur through employee attrition. In total, the School Board has taken the initiative in addressing funding shortfalls by reducing its operating portion of the budget in total by \$1.6 million. Finally, and most importantly, the effectiveness of the schools can best be measured in having 100% of Hanover's schools with full State accreditation. Among Virginia school districts with enrollments above 15,000 students, Hanover is one of only two in the State with 100% of schools meeting full accreditation criteria.

Human Services

Community Services Board (CSB) - The County's CSB, providing mental health, mental retardation and substance abuse services had a 2001 consumer satisfaction rating of 95.2%, sixth in the State among 40 CSBs. Yet during this past year, the State REDUCED funding to these most vulnerable citizens by over \$141,000 just in Hanover County. Because of this, the CSB's State budget had to be reduced approximately 8%. In a budget that is already over 80% salaries and fixed costs, this cut cannot be considered for the "learning to do more with less" excuse. Clearly client services must be impacted, but no direction came from the State to do so. Rather, we have had to make up the State reductions with local funding to keep service levels from dropping when the need for services is increasing. Our Community Services Board's provision of mental health, mental retardation and substance abuse services has been outstanding despite the fact that we have case managers who are serving up to 50 clients, compared to an average of 30 in the other CSBs in the region. The State of Virginia is ranked 14th highest in per capita income in the nation yet ranked 45th in per capita spending for community-based mental health services.

Social Services - Social Services handled over 8,300 office visits in 2002, a 22% increase, and over 30,000 calls, an increase of 11%. Even with this dramatic increase in service, in just this past December they continued the timely processing of 100% of all benefit program applications. At the same time, the department's Fraud Detection Unit showed a 172% increase in recovered overpayments during calendar year 2002. Finally, Hanover's caseload management per social worker is over 13% higher than the average Statewide.

General Administration

Human Resources - The County's Human Resources office provides policy development, recruitment and selection, compensation and benefits, employee relations, and training for a workforce of over 900 full-time and 300 part-time employees. In Hanover, we have seven staff members or 1 per 146 employees. In comparison, national averages indicate a 1 to 100 ratio with the rest of the region also close to the national average.

Facilities Management - The addition of an extra maintenance person for facilities management as part of the 2002-03 budget lowered the facility square footage per maintenance person from 98,900 square feet to 82,400 square feet, which still far exceeds the regional average of 71,400 square feet per person.

While these preceding examples are not intended to be a definitive assessment of our efficiency and effectiveness, I do believe that it provides a good indication of the level we strive for everyday. Certainly it indicates that those who would have us believe that our current financial dilemma can be addressed by "just learning to do more with less" or "by just reorganizing like the State has done" are not in touch with the reality of the situation. We have had to operate efficiently for years in order to keep our house in order, to maintain the highest financial rating in the Country for a county with less than 100,000 population, to keep our taxes low and yet keep our service delivery at a level of effectiveness that makes others envy us as a community in which to live, raise a family and do business.

While we have illustrated the productivity and initiative that departments have undertaken to "do more with less", we are also now faced with the realization that there isn't much more we can do without impacting our ability to provide the current level of core services. If it were not for the efficiency and the effectiveness of these County agencies in providing quality service at a

reasonable cost, the County would have had an even more difficult challenge in the continued eroding of State revenues. However, the continued problems of the State and their impact upon the County must be further addressed, as this issue appears to continue for the foreseeable future.

With these issues being put in some perspective, we can now look at the major recommendations in the proposed budget.

BUDGET HIGHLIGHTS

In reviewing the County budget, it is the General Fund that serves as the primary operating fund of the County (excluding public utilities as an example) and from which nearly all County services receive all or most of the local funding. In total, the County's General Fund Budget for 2003-04 is \$140.9 million, which is \$6.4 million or 4.7% higher than the prior year (which recognizes the exclusion of \$1.2 million in food stamps that is no longer required to be accounted for in the County's budget). With these additional funds, we have prepared a budget that has accommodated service level demands from a 2.4% projected population increase, student enrollment increase of 2.1%, public safety calls for service exceeding population growth rates by a factor of 3:1 and inflationary pressures on current costs of 2.4%. While these factors are incorporated into every budget process, they also represent the real factors that are not within the County's direct control to reduce or eliminate.

In illustrating how this \$6.4 million budget increase was projected and allocated, the following are the primary sources for this increase:

- General Revenues - \$5.6 million: This revenue source is up only 4.4% as continued strong growth in real property revenues was mitigated by flat growth in State revenues and declining growth in sales tax and investment income. In recognition of the high reassessment being experienced to many of our residents, the adopted budget significantly enhances tax relief for the elderly and disabled program as permitted under the Code of Virginia. Additionally, \$500,000 of the increase is due solely to a change in accounting procedures relating to the tax relief program. This change will be discussed later.
- Fee-Based/Revenue Recovery Programs - \$952,000: This is comprised of a variety of County programs that can maximize cost recovery for the correlated services being performed through the ability to be reimbursed (e.g., \$156,000 in Social Services revenue recoveries, \$200,000 in transition of Adult Probation services to the County, \$190,000 in building inspection fee increases, \$63,000 in public works fee increases and other revenue recovery programs that will be further addressed).

In balancing the budget to this \$6.4 million revenue increase, expenditures were closely scrutinized in comparison to prior budgets and trends, with the following primary uses accounting for the \$6.4 million net increase:

- Education - \$4.9 million: The increase in funding for the schools, which reduced the School Board's request by \$565,000, is the County's best attempt at meeting the commitment to maintain student: teacher ratios, provide \$2.2 million in new operating funding for the new Hanover High School opening in September 2003, provide \$2.7 million towards adequately compensating its employees and other factors of public education for the students of the County. This resulted in 103 new positions needed in 2003-04 (an additional 10 positions are included in the fee-funded cafeteria budget). It is apparent that the schools have reduced their budget in other areas in order to meet such priorities and we will need to address the best manner to absorb this \$565,000 reduction as part of the budget review and adoption process.
- Solid Waste Services - \$400,000: With the transition of solid waste disposal at the County landfill to a contracted hauling service via the County's new transfer station, the 2003-04 fiscal year represents the full year funding of this operational change that has been planned for since 1999-00.
- Compensation - \$1.2 million: The Adopted Budget contains an average 3.0% salary increase for both the Schools and County. These merit raises are needed just to maintain the competitive position it has taken the County years to achieve. Our work force is highly productive and other localities in the region are expected to give raises at least equal to this. In a change from previous years, a benchmark program is not included for any employee. In the private sector, raises have averaged 3.5 - 4.1% according to several recent business surveys.
- New Positions/Programs - \$428,000: Of the new positions being added, \$383,000 of such costs are based directly on fee cost recovery programs. The remaining \$45,000 is for 2-person EMS crew in order to meet response call loads and mitigate the 22 instances of no ambulances available that have occurred since July 2002. An additional nine positions

are correlated to direct revenue recovery: Social Services (2), Public Works, Treasurer, and the transition of four positions from the Pamunkey Regional Jail related to Community Corrections (adult probation) (State funded). These positions and the services that they provide are funded by the revenues generated from such positions; if any of these positions were eliminated, then an offsetting reduction in revenues would also occur.

- Capital Improvement Program (local funding) - \$858,000 decrease: As with any business that is under revenue constraints, the capital program was looked at closely to determine what capacity existed for deferrals and/or reductions in capital commitments. Two examples are the reduction in local road funding of \$150,000 and local airport funding of \$100,000. From funding that was available, it was also necessary for the County to fully leverage its current cash proffer resources meeting the need to purchase a \$750,000 aerial ladder truck three years ahead of its previously planned schedule due to safety problems that have caused the old equipment to be removed from service.
- Community Services Board - \$255,000: New local funding provided that was needed as a direct result of State reductions to CSB programs. This is in addition to full funding of salary increases and can hopefully prevent the erosion of meeting existing service level demands.
- Pamunkey Regional Jail - \$130,000: Although the inmate population has increased 32.7% from prior budget assumptions due to actual trends, the budget increase is only 5.5%. This recognizes the economies of scale at the jail and the ability of the jail to rent vacant beds.

Year-end Balance

The County has had a long tradition of being able to have current fiscal year forecasted surpluses available to be reinvested into the following fiscal year's budget. Due to the unusual and unexpected shortages being experienced in revenues (e.g., sales tax and investment income) and low attrition being experienced, the current year's projected year-end surplus is under pressure to achieve the projected \$3.0 million needed to fund the 2003-04 budget. Fiscal strategies and a closer monitoring throughout the year should enable the County to achieve such projected surplus, but this may cause certain spending restrictions imposed upon departments between now and the end of the fiscal year, including restrictions on reappropriation of balances. Through quarterly reports and preliminary year-end reports presented to the Board of Supervisors, such issues will be more formally addressed.

2004 Bond Referendum

Perhaps there is no bigger challenge faced by local government than keeping its capital infrastructure sufficient in a dynamic and growing community like Hanover. This involves strategically structuring periodic referendum questions to place before the public the need for such capital investment at the very favorable rates available with the strong financial rating we enjoy. Certainly an example of the strength of our long-term fiscal planning is the proposed 2004 \$95.0 million bond referendum.

Many localities first publicly address such a need in the year that the referendum will be held. Such a quick timeline may not permit the extensive review, public input, prioritization, scope changes and fiscal impact analysis that should accompany such a significant issue. This referendum to provide funding for capital initiatives in education, public safety, libraries and parks was initially proposed to occur in 2004 during the 1999-00 budget process. The very favorable interest rates that Hanover County can expect due to having a high bond rating makes such a referendum process prudent on a cyclical basis to meet our capital needs. Even more importantly, it gives our voters an opportunity to reaffirm the priorities we believe they would like for us to set.

However, while we had previously stated that a goal for this referendum would result in no tax rate increase, such a commitment can no longer be made due to the uncertainty of future State revenue reductions that may be imposed on the County. Previously, through prioritization of the projects and natural growth of local revenues a no tax rate commitment could be made, but it is likely that as the State continues to withdraw from its commitment to funding local government, the County may need to consider additional revenues to offset future State revenue shortfalls.

Five-Year Financial Plan Highlights

In planning for possible financial commitments in meeting service demands and in recognizing long-term flat funding proposals from the State, the County's Five Year Financial Plan includes revenue-generating alternatives in 2004-05 for a payment in lieu of taxes program for the County's public utilities and in 2005-06, the possibility of initiating an EMS fee recovery system that has appeared to work well in other localities. Both of these financing options will be carefully reviewed as part of long-range planning and further refined or eliminated in the preparation of subsequent budgets. As part of making the County recognize difficult issues today that would not be effective for many years, this long-range planning and disclosure of such issues further

makes the budget an open process giving elected officials, citizens and businesses ample opportunity to give thoughtful consideration to these issues before a final decision is made.

Public Utilities

With the commitment of public utility resources in meeting the challenges associated with the new wastewater treatment plant, this entire department should be commended for their constant provision of quality water and sewer treatment services. In meeting the infrastructure needs and expenditures of our utility function, water and sewer capacity fees increase 3%. This budget also includes the integration of the operation of the Country Club Hills Sanitary System into the public system operations. Water user fees will not require any increase, which excluding the implementation period of the new rate structure, is the first time since 1991 that water user fees have not changed. However, there are some modifications to the sewer user fee rate structures to align water and sewer tier thresholds. Finally, three new positions are included to meet the operational and technological needs of this service.

BUDGET OBJECTIVES, STRATEGIC PLANS AND PRIORITIES

The County has long prided itself on formulating and adopting policies, objectives and strategic plans to guide the conduct of future operations of the County. During the preceding year, the establishment of Vision, Mission and Goal Statements provided further foundation for continued operational effectiveness and efficiency. Together with the annual budget objectives, these have provided a pathway from which this proposed budget could best be formulated. The Strategic Process Team, initiated in 2001, will continue to work towards formulating models by which we can better illustrate meeting these goals.

The County has previously established its fiscal year work plan priorities at the beginning of the fiscal year. In order to better align our priority setting process with available resources, a revision to this process will now have our priorities adopted in conjunction with the budget process. This will ensure the alignment of resources is best positioned to achieve these priorities. From a management retreat held in October 2002, the following objectives were proposed and ranked accordingly:

1. **Employee Compensation and Survey:** The County's priority over recent years to maintain competitive compensation for our employees has enabled us to build a highly effective and efficient workforce with very low turnover. The continuation of strategic compensation, benefit and work environment assessments will further promote a strong work environment. The 2003-04 budget and five-year plans provide for annual merits and benchmarks (benchmarks in outyears of plan only) to continue this market based compensation and benefits program. As an example, effective October 2003, the County will be able to offer an "opt-out" health insurance credit that provides additional benefits for employees who choose to not be enrolled in the County's health insurance. This program is not anticipated to require no additional funding and can be utilized by participating employees for a variety of additional benefits such as deferred compensation and short-term disability.
2. **Implementation of the New Budget Reality:** In preparing long-range plans that previously were based upon State commitments to continued funding and strong local revenue growth, additional conservative assumptions should now be recognized. The constraints of both of these funding sources and the impact of such reduced funding in providing services in the same manner as previously provided will be a great challenge. Additional attention has also been given to new sources of revenues in mitigating the impact of service level reductions. The 2003-04 budget and the ensuing five-year capital and operating plans illustrate the manner in which the new budget reality has been recognized in the County.
3. **Approval of Bond Referendum:** A 2004 Bond Referendum has been planned for several years in order to access the most favorable interest rate in general obligation debt as well as to get public input and approval for critically important projects for the schools, parks, libraries and public safety facilities. In planning for this question in 2004, it is necessary to appropriately stagger such projects in order to achieve financial policy compliance and minimize budgetary stress. Because of such self-imposed constraints, it is imperative that such projects be narrowed in scope from previous capital plans. The 2003-04 budget provides a well-defined and focused scope of projects for the 2004 bond referendum.
4. **Workplace Productivity:** As the County adheres to established vision and mission statements with the focus upon core responsibilities, it is critical that service levels and objectives be structured in such a manner as to achieve the greatest efficiencies, effectiveness and economies of scale in illustrating workplace productivity. While additional resources are currently severely limited, we do plan to continue efforts at implementing more productivity assessment measures in each department.

5. **Citizen Survey:** There is no better measure as to the effectiveness of a service level and/or the manner in which to best provide services than to properly gauge public sentiment for the services being performed and/or proposed to be performed by the County. Currently, the 2003-04 budget does not reflect funding to initiate a formal statistically based sample survey performed by an independent firm and staff resources are not sufficient to perform such a survey in-house. This needs to be discussed further during the budget process and considered for further funding and planning.
6. **Regionally Compatible Radio System:** The importance of having a radio system that provides virtually 100% coverage in the County and is compatible with other systems in the region is vital in having our public safety function perform their service. The 2003-04 budget addresses coverage issues through the establishment of another tower, acquisition of regionally compatible handheld radios and the 2004 referendum question includes \$8.5 million for significant improvements to the radio system.
7. **Completion of Wastewater Treatment Plant:** Perhaps no project in the County's history has consumed more staff resources than the Totopotomoy Waste Water Treatment Plant, because of the necessity of obtaining multiple state and federal permit approvals and responding to the subsequent legal challenges. As it appears that the County is on the verge of completing these processes, construction of the plant is projected to be completed during the 2003-04 fiscal year, and the plant is expected to become operational in early 2005, with applicable operating costs accounted for in the 2003-04 budget.
8. **311 System:** As our 911 system is a vital communication link that needs to be focused on high priority public safety transmissions, there is also a growing demand for non-emergency service. In many public sectors, this demand is met through the establishment of a 311 system that provides an easy-to-remember number for all to access regarding important, but non-emergency issues (e.g., information referrals, common questions answered, etc.). During the 2003-04, the process to implement this new system will be further reviewed, but implementation itself is being delayed due to lack of available funding.
9. **Update County Code:** The last comprehensive revision and update of the County Code was in 1982. Since that time, there have been revisions to outdated and non-applicable Code sections only when new ordinances have been proposed within a particular section. This more comprehensive update of the County Code will provide for a more relevant and applicable codebook by codifying current practices in a standardized format. In the 2003-04 budget, the County Attorney's office has structured their staffing resources to accommodate this revision in-house.
10. **Marketing Audit:** In this "information hungry" age, the County has tried its best to provide the appropriate information from originating departments through WEB based information and most recently through the use of our public information function. For a large and varied service provider that the County has become, industry standards recommend periodic marketing audits to be performed in assessing all of the information that is provided and determine if there are unintended redundancies and/or voids. This allows for the strategic dissemination of information at the most appropriate time and in the most appropriate manner. The 2003-04 budget has existing staff resources comprised in several departments to work together in this marketing audit and formulate recommendations for improving such information being communicated.
11. **Public Access Channel:** With the 1997 negotiated franchise agreement with ATT Broadband, the County was able to reserve a public information channel that can be utilized in any manner that the County deems appropriate. The evolution of these channels first begins with a "rolling slide" show that provides current information about the County, As it is recommended by industry sources that the initiation of such channel utilization be done in the most professional manner in order to have the greatest potential for viewer ship on a regular basis, the appropriate equipment and staffing would need to be acquired to implement this initiative. While the 2003-04 budget does not provide the funding for this new initiative due to a lack of available funding, further research will be conducted on how best to implement such an endeavor and the five-year financial plan illustrates both the equipment and staffing resource to implement this 24-hour rolling slide show.

CONCLUSION

This has clearly been the most difficult budget to prepare that I have been associated with in recent years. With our resources under attack and calls for service increasing, we have tried to seek efficiencies in a manner that does not detract from our effectiveness and thereby construct a budget that provides adequately for our core services. At the same time, we are clearly losing ground in our already strapped support service areas as well as trying hard to avoid diminishing other services such as Recreation and Libraries that some might see as less critical. To undertake reductions in those services in the current circumstances would, in my opinion, be short sighted because that impact on the quality of life in the County would only leave us having to reinstitute those services in the near future with even more confusion, lost effort and cost.

The difficulty in crafting this budget has also left us vulnerable to some complaints that we have not been able to provide information to departments and other interested parties as early or completely as we have in the past and I am sorry for that. The new reality is, however, that as issues become more complex and difficult, the resources to deal with those issues remain very finite. This places us in the box of having to streamline our approach to leave time for those things that have to be done.

While the County strives to remain very strong financially and our financial and growth policies endeavor to keep revenues at pace with a very high level of quality service delivery, there are still many worthwhile requests that were not funded this year. This includes requests in the areas of Education, Public Safety, Human Services and General Administration. This has been due almost exclusively to the need to again use most of our financial flexibility to cover for the substantial shortfall in State funding mentioned throughout this letter.

Even with all of these challenges, I believe that this budget still builds on the priorities and goals of the Board of Supervisors and on the values of our citizens. This includes a proposed \$95.0 million bond referendum in 2004, competitive compensation for our employees, a real estate tax rate projected to remain at the current 82 cents for the full five-year financial planning horizon and the other items previously noted. As our population grows, the demand for new services is strong, but if we are to maintain our relative position of economic strength among Virginia localities, we must properly plan for and prioritize our needs.

In closing, I would like to thank the various department heads and their dedicated staffs who have worked so hard and in a true spirit of teamwork to develop these budget requests and recommendations. In particular, I would like to thank Deputy County Administrator Rhu Harris, Director of Finance and Management Services Joe Casey, Budget Manager Chris Sorensen, and Budget Analyst Reginald Thompson for the extra hours in the evening, on weekends and on holidays when they and the staffs of the budget office and Human Resources pulled together the literally thousands of details necessary to make this budget complete.

Sincerely,

Richard R. Johnson
County Administrator

2003-04 Budget Highlights

Using the Board adopted budget objectives as a guideline, the following budget highlights are presented in a similar manner to best illustrate the budget formulation process focus on achieving such Board adopted objectives:

Tax Rate/Funding Sources: There is no increase in the real property tax rate. No additional real property tax rate increases are identified in the Five-Year Financial Plan. The Five-Year Financial Plan was formulated to accommodate the opening of the new high school's operating and debt service impacts as well as other related impacts of the Capital Improvements Program (CIP).

Education: Local school budget target reduced by \$250,000, with funding provided for the operating needs for the new Hanover High School opening in September 2003, and in meeting County's compensation commitments in lieu of State funds not provided for teacher salary increases. A five-year target operating budget and schools savings plan was formulated to accommodate existing service level demands, with expectations that State funding sources in future years will be restored to historical levels as additional local resources are phased-in to meet desired service goals.

Public Safety: Continued support for the Fire/EMS operation as the County continues to integrate paid resources with volunteer resources in providing fire protection and rescue services to meet the needs of our residents. There will also be a continued focus on additional law enforcement staffing in providing resources to the Sheriff's Office.

Employees: The provision of a 3.0% average salary increase for the schools and the County's equivalent 3.0% compensation increase, comprised of a 2.5% merit increase and continued benchmark program, further ensure that the compensation program remains competitive. The continued emphasis in such market based compensation in our Five-Year Financial Plan.

Service Levels/CIP: Service level budget objectives attained and noted in other budgetary highlights, with limited other highlights as focus has been to leverage revenue sources to meet current service level demands. Highlights include: Full year funding of transition to solid waste transfer station and hauling operation, aerial ladder truck accelerated to 2003-04 to meet safety standards and further maximization of revenue recovery programs correlated to service being provided. School capacity goals met in CIP with new school facility space provided over five years to accommodate new student growth and CIP utilization of savings plan sources, most notably cash proffers.

Financial Policies: All financial policies continue to be met in each year of the Five-Year Financial Plan.

Long-Range Financial Plans: In recognition of further State constraints throughout the Five-Year Financial Plan, existing revenue sources are focused upon meeting core responsibilities with consideration of a public utility payment in lieu of taxes program, EMS fee recovery program and recognition of higher level of employer commitment towards health insurance.

Public Utilities: Inflationary increase in utility fee structure for capacity fees that continues to align capacity and user fees to their corresponding costs in providing utility services to new and existing residential and commercial customers with operations anticipating the opening of the new wastewater treatment plant.

Bond Referendum: All projects have been further refined as the County is still targeted to hold a bond referendum in 2004 with goal of County to properly stagger projects to align with natural growth of revenues.

BUDGET MESSAGE – SYNOPSIS

While the preceding budget message is meant to capture all of the elements in the adopted budget, the following synopsis illustrates the traditional format by which budgetary information is expressed in the letter. As part of this synopsis, the following areas are illustrated and presented:

- Financial Condition and Economic Development Overview
- County Budget Summary
- Employee Compensation and Benefits
- Revenues by Category and Changes in Fee Supported Programs
- Expenditures by Function
- Five-Year Capital Improvements Program
- Five-Year Financial Plan

FINANCIAL CONDITION AND ECONOMIC DEVELOPMENT OVERVIEW

Financial Condition: During periods of national and state reversionary conditions, much attention is given to indicators of unemployment, income levels, new housing starts and taxable sales. Income and sales taxes tend to be more elastic; that is they change in proportion to changes in economic activity whereas property taxes are considered more inelastic. The recession of the State can be summarized by income and sales tax growth far below growth levels experienced over the prior five years. Fortunately, the diverse, strong and stable business climate of the County and the County residents who work so hard in their various professions have enabled the County to weather such national and state reversionary conditions fairly well, with the exception of sales tax, which has experienced declines as previously noted. The overall strong economic environment has enabled the County in continuing to have the lowest unemployment rate in the Richmond region at 2.4% in December 2002. Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 9.2% last year and 98.2% of taxes were collected in 2001-02. The County has collected over 98% of taxes every year since 1997.
- Total outstanding delinquent taxes represent only 1.7% of the total tax levy, the lowest percentage since this ratio was formally tracked in 1980. This ratio has declined every year since reaching a high of 7.9% in 1992.
- The County has continued to realize high median new home sales prices over many years with new home median values at \$216,400 in 2002, a 6.8% increase over the prior year (average new home was \$230,600, a 8.7% increase over the prior year). The average value of a house in the County is now \$168,900, a 9.3% increase over the prior year.
- The County has also maintained its strong bond rating of AA1/AA/AA+ with only four counties in Virginia and 35 counties nationwide having higher bond ratings than Hanover.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 8.3% (policy is <10%) as this ratio continues to decrease from its high of 10% in 1992.
- The undesignated fund balance as of June 2002, including cash flow reserves, was \$12.7 million, which represented 10.3% of General Fund revenues in fiscal year 2001-02.
- Population growth rate is expected to be 2.4%, with a total population of 94,032 estimated for July 2003.

To internally assess our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows that Hanover has the 8th lowest level of fiscal stress and the 6th highest median adjusted gross income, higher than all but one of the State's AAA rated localities. Hanover has maintained and strengthened its own ratings of Aa1, AA+ and AA. A component of the fiscal stress index is a locality's tax rate compared to State-wide averages, with low tax rate jurisdictions assigned a lower stress as they would appear to have the greater capacity to raise their taxes. With the County's commitment to remain a low tax locality, it does place stress upon our budgetary process as the services sought by many residents in the County are similar to services offered by higher taxing localities. The preceding economic highlights are not only very strong indicators of fiscal health, but also indicative of the traditionally strong indicators that the County has maintained or improved over many years.

Economic Development Update: As Hanover continues to mature, the Board of Supervisors is focusing on long-range strategic planning. During the 2002-03 fiscal year the Board initiated an update of the Economic Development Strategic Plan designed to encourage and support growth of existing and future businesses. This plan outlines the County's four major Economic Development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to County development regulations.

A major objective of the Economic Development Strategic Plan is the establishment of Economic Development Zones (EDZ). The Board of Supervisors designated five EDZs in January 2001. The purpose of these zones is to give priority consideration for development of infrastructure and fast track permitting to support new and expanding industrial and office projects in Hanover County. Selection of the EDZs was based on several factors: Comprehensive Plan designation, site location, cost to serve the site with infrastructure, the amount of product currently available for sale, and the level of private sector activity occurring in the area. The County's commercial tax base continues to grow through a combination of existing business expansions and new business attraction. The following projects located in the EDZs have or will have the infrastructure available to accommodate both new and expanding businesses:

- Northlake Business Park, a 400-acre industrial park located at the intersection of Lewistown Road and Interstate 95 is actively being developed.
- Atlee Station, a 240-acre office park offering high-quality business sites. Current occupants include the Richmond Newspapers production plant and the Federal Express distribution center. Owens & Minor, a Fortune 500 medical supply company, purchased 25 acres for construction of its corporate headquarters.
- Atlee Commerce Center, a 35-acre business park with 120,000 sq. ft. of completed office-service space.
- Hanover Industrial Airpark continues to be an incubator of varied growing and emerging industrial businesses
- Bell Creek Business Park, a 177-acre combination of high-end commercial and industrial property. The Bell Creek development team created the County's first Community Development Authority (CDA) to create a public/private partnership to fund infrastructure improvements for the business park. In 2002-03, with Board approval and community support of the CDA, bonds were successfully issued through the CDA.
- Lewistown Commerce Centre, a 200-acre commercial and industrial park located at the intersection of Lewistown Road and Interstate 95, just south of Northlake Business Park
- Crescent Business Center (CBC) and Lakeridge Industrial Park are also experiencing development activity of new and growing businesses.

The County has begun to position itself well for economic development in the region. The County has the lowest property tax rate; no business, professional and occupational tax (BPOL); high residential wealth and education (i.e., customers and employees); available commercial and industrial sites; water and wastewater capacity; and comprehensive planning that targets business development for appropriate areas while maintaining a high quality of residential, forestal and agricultural uses in other parts of the County.

COUNTY BUDGET SUMMARY

In reflecting the budget changes from one year to another, the County has traditionally analyzed the increase in three manners: Total Operating Fund, Total Budget and Total General Fund. The Total Operating Budget and the Total General Fund budget increases reflect trends in budgetary growth to meet increased service costs and citizen demands for new services. The Total Budget also includes impacts of any capital expenditure that may be significantly higher or lower from one year to the next as certain projects are not necessarily built every year; such as new school facilities and utility infrastructure. Therefore, the consistent presentation of the following budget indicators and an understanding of the dynamics of how each of these budget indicators is compiled should hopefully provide for a good measure of changes in the size and scope of the County's budget (all \$ changes and % changes are based upon proposed budget to current budget):

- **Total Operating Budget (\$241.2 million, a \$11.9 million and 5.2% increase):** Basically meets the continuation of existing service levels with a few targeted initiatives within the ability of our natural growth of revenues.
- **Total Budget of All Funds (\$254.4 million, a \$9.8 million and 4.0% increase):** As there were no significant capital projects in either the prior year or in 2003-04, the percentage changes noted under operating budget and total budget are much more comparable and in-line with one another than they otherwise may be.
- **Total General Fund Budget (\$140.9 million, a \$5.2 million and 3.8% increase):** As the total budget in the preceding two bullets reflected the activities of the capital projects and self-funded utilities fund, the General Fund reflects a more consistent year to year comparison of operating impacts of various functions and the fairly level capital contribution from the General Fund to fund capital projects. The highest uses of funding as a percentage of total budget have traditionally been in education and public safety (For 2003-04, education is 51.2% and Public Safety is 18.6%). These two Board priority areas account for 69.8% of the total General Fund budget and only reflect the operating component of these functions and not the General Fund capital contribution in these areas. The highest sources of funding as a percentage of the total budget have traditionally been general property taxes, State/Federal sources and other local taxes (For 2003-04, general property taxes is 60.6%, State/Federal sources is 16.3% and other local taxes is 15.5%). These primary funding sources represent over 92% of total funding.

EMPLOYEE COMPENSATION AND BENEFITS

The Board of Supervisors continues to recognize that competitive employee compensation is critical to our success. In keeping with a market-based and performance driven approach for 2003-04, we have included an average pay-for-performance salary adjustment of 3.0% of the salary range midpoint. Determining an appropriate merit increase for employees is based upon many criteria including, but not limited to, the following:

- Metro-Richmond local government increases as that is our target employee base for public sector workers
- Inflationary conditions
- Private sector merit increase projections
- Current economic conditions, including State revenue's provided to localities, in ascertaining availability of funding.

While national private sector increases are projected to be between 3.9 – 4.3%, it appears that the local government market will be providing ~2.5 - 3.0% in merit increases. Therefore, the County's 3.0% merit program is competitive with that of local government indicators.

The School Board's commitment is also to have competitive teacher salary scales and positions through its own benchmark program that meets the objectives of the grading, evaluation, hiring and promotion of its positions, including teachers. We have worked very well with the School Board with our joint Benefits Committee in establishing consistent application of our benefits; including health insurance, retirement, disability insurance and flexible spending accounts. The school's 3.0% average salary increase, together with targeted benchmarks also is competitive with the local government school divisions and equitable to that of the County's compensation program.

In addition, \$52,000 net for reclassifications to 13 position titles are included in the budget. These upgrades are primarily needed to better classify positions based upon actual functions and do not have any impact upon the number of total full-time equivalent positions. Career ladders have been developed for certain positions in recent years as a recruitment and retention strategy and to recognize the advancing achievements of our workforce during their careers with the County. This review includes keeping pace with the dynamic changes of how business is conducted. As part of the budget, career ladders will be established for firefighters, public utility agents and Social Services social workers and eligibility workers. Together with our existing career ladder programs, the County will have over 50% of its employees eligible to participate in career ladders.

Another market-based adjustment is expanding the salary range spread between the minimum and maximum salary from 60% to 70%. The benefit will illustrate more market competitive ranges for better recruitment and provide some additional capacity for long-term employees who may be reaching the top of the range

All workplaces are currently striving to determine the best complement and mix of salaries, benefits, work functions and work environment that not only attract desired applicants, but also encourage those exceptional workers to stay and invest their knowledge, energy and dynamic approaches towards making the organization properly define and achieve best practices. The County has done an exceptional job thus far in creating a high quality and challenging work environment for its employees and has a recognized comprehensive pay-for-performance system; including benchmarks, tuition assistance and career ladders. However, there should be continual reviews and assessments of our structure to determine if we are allocating the finite financial resources in the best manner and identifying other benefit programs that may be of little or no cost to administer.

In regards to benefits, the Board of Supervisors has accomplished much over the past few years in pursuing a market-based benefits package that competes favorably in attracting and retaining employees. The most recent review of market-based strategies is in the provision for a “cafeteria-type” program whereby employees receive a fixed amount per year to apply to employee paid deductions and/or convert such benefit to cash. Historically, the County has provided an employer-funded benefit that virtually covers 100% of an employee’s own health insurance (does not include any co-pays and/or additional family members covered). There are many employees who have chosen to not be covered by such employer paid health insurance and therefore it is recommended to provide what is termed an “opt-out credit” for \$200 annually to all employees not enrolled in health insurance. This initiative has a conservative break-even assumption in that those employees choosing to opt-out would result in County savings equal to that of all employees receiving opt-out credit.

Self-Insurance Fund (\$1.2 million and 12.1% increase): The Self-Insurance Fund provides for health insurance payments through County contributions and employee deductions. It is illustrated under this section as it serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. Employer assumptions include a 4.0% increase in premiums funded for participating, vacant and new positions with remaining claim expenses funded through employee payroll deductions and investment income generated. As investment income revenues and surplus balances are lower than projected, there exists potential for premium increases for employees and/or higher co-pay contributions in mitigating fiscal pressure upon this fund. As the County will be entering into a new five-year contract during 2003-04, such impact to the premium structure will be presented to the Board of Supervisors as part of contract award recommendations.

REVENUES BY CATEGORY AND CHANGES IN FEE SUPPORTED PROGRAMS

The following revenues have been highlighted to reflect the County’s reliance upon these revenue sources. In order to align revenues with specific expenditure functions, the revenues related to schools, Community Services Board and Public Utilities are addressed under the applicable expenditure by function discussions.

Real Property Taxes (\$6.3 million and 11.6% increase): The total value of taxable real estate in Hanover reached \$7.5 billion in January 2003, which is an increase of 10.4% over the prior year (6.5% from reassessments and 3.9% from new construction). The 2003 tax base is projected to increase 6.6% over the next year (2.8% from reassessments and 3.8% from new construction). Although this growth assumption is still a healthy growth rate, it also represents a conservative estimate based upon historical growth experienced in the tax base. While there is caution of a recession, much of the projected increase in new construction is a result of the many projects (both commercial and residential) that are occurring now that will be added to our tax base in January 2004. Future assumptions in five-year plans of new construction past 2004 continue this conservative philosophy. In recognition of the high reassessment being experienced by many of our residents, the County significantly enhanced tax relief for the elderly and disabled program as permitted under the Code of Virginia. As recent changes in the State law allow the County to raise its current income threshold, the County’s threshold of income for qualifying increased from \$30,000 to \$40,000 and increased the maximum relief to \$850. This initiative should provide relief to 200 new households and over \$45,000 of additional tax relief. In addition to changing income limits in the program, the County also changed the accounting methodology for tax relief. In past years, the amount budgeted was the net of anticipated revenue less the allowance for tax relief. In FY2004, the amount budgeted for real estate tax is the total amount of revenue to be received by the County. The revenue rebated through tax relief will appear as an expense in the Health and Welfare function.

Personal Property Taxes (\$1.0 million and 3.5% increase): This revenue category had experienced 6.9% - 12.7% in annual growth between 1996 – 2001 with both strong investment in new vehicles and business property, but first beginning with a 5.7% growth in 2001 and now with a 4.6% growth in 2002, this revenue source has fallen short of budgetary assumptions. The personal property growth rate had been the strongest among all local tax revenues over the last five years, however the tax base growth of 4.6% in 2002 was the lowest since the recession of the early 1990’s and is mainly attributable to declining valuation in

vehicles and business property. The County should still continue to recognize steady growth in this category for the foreseeable future. These tax revenues are recognized as general property taxes for the payments received directly from taxpayers whereas payments directly received from the State as part of the car tax relief program are recognized as non-categorical State revenues, per State requirements. The State's tax relief of a qualifying car tax bill remains at 70% again in 2003-04. For purposes of analyzing this revenue source, the total tax revenue budgeted is \$30.3 million which includes the State reimbursement portion of \$14.2 million.

Sales Taxes (\$1.1 million and 8.7% decrease): Perhaps no one revenue source has experienced the impact of the recession as has the sales tax with a decreasing total revenue for the first time since the recession of the early 1990's. However, stronger growth is forecasted based upon the opening of a major national retailer in May 2003 expected to provide \$700,000 annually and other retail related prospects. It is projected that sales tax for the current fiscal year will be \$10.4 million, which would be at its lowest level since 1999-00, and represents a budget shortfall of \$2.3 million as many of the County's retail sales businesses are having flat and even declining growth in their taxable sales. As a benchmark, our top ten sales tax providers, which represent over 33% of our total sales tax revenues, are currently experiencing declining sales on average of 2.9% in 2002-03. This revenue source has traditionally been one of the County's strongest and steady source with revenues growing over 57.2% over the last seven years.

Investment Income (\$481,000 and 39.1% decrease): The County's current investment return rate is 3.0%, which is at its lowest point since such return rates have been formally tracked since 1996. For fiscal years ending 1998-2001, the County's average investment return was 5.8%, but beginning in 2001 investment return rates began to decline sharply, as has been experienced throughout the country, as the County's return rate was only 3.5% for 2001-02. Although such performance has declined, the County has consistently performed well against established benchmarks (e.g., Virginia's Local Government Investment Pool), outperforming such benchmarks by .6% in 2001-02 and currently exceeding such benchmark by over 1.5%. Each 1% of an investment return rate generates approximately \$457,000 in investment income for the County, with the impact of such lower return rates equating to a decrease of over \$1.0 million in investment income when compared to return rates from the 1998-2001 time period. Even with such low returns, the County is still outperforming industry standard benchmarks for investment portfolio returns and in fact, many public sector entities have experienced negative returns on their investments over the last year.

State and Federal Revenues (\$1.1 million and 10.9% decrease): The revenues noted here are not inclusive of those of other funds (School, Community Services and Comprehensive Services) as those other funds and their revenue sources are noted under their applicable sections. Included as part of this decrease is a change in accounting standards in recording 100% federal support for food stamps; for while this program will continue, the distribution of ~\$1.2 million in food stamps is not reflected as a revenue and off-setting expenditure in Social Services. The Governor's Budget adversely impacts General Fund revenues in areas despite the moderate expectations in the County's prior plans: The State has provided a 0% salary increase for State supported positions (e.g., constitutional offices) for which the County continues to fund, which further widens the gap between the locally funded portion of position and State supported portion and salary reimbursements for some of our human services functions. In addition, there have been many mid-year 2002-03 State revenue reductions that are continuing into the 2003-04 fiscal year including, but not limited to, the following: elimination of the anti-litter grant, reduction ABC profits distribution by 50%, reduction in operating expenditure reimbursements for constitutional offices, elimination of 1 deputy to 1,500 in population funding ratio and many other manners in which State government has reduced its obligation to local government while not relieving it of any of the responsibilities that were associated with such funding.

Changes in Fee Supported Programs

The County relies upon various user fees to reimburse program and/or service costs provided back to the users and customers of such program or service. As there are inflationary pressures, mandates and the need to keep pace with service level demands, it is necessary for many of these fees to be amended each year in conjunction with budget process. Those subject to proposed increases are as follows:

- Stormwater Management Fee: The County's continuing role in this program has provided an alternative to residential and business development in managing storm water. This program is 100% funded by the fees it collects and with the increased costs in acquiring and constructing storm water management basins and the staffing resources needed as part of such oversight requires the fee to increase to \$825 per equivalent residential unit.
- Erosion and Sediment Fee: This program was initiated in the preceding year to comply with the federal mandate of erosion management of projects under construction and was designed to have fees recover 70% of such costs. In order to meet such cost recovery standards, the fee structure has been increased on residential projects for costs associated with compliance in those areas. The commercial fees will remain unchanged.
- Building Inspection Fees: As part of providing improved customer service and expediting builders in the processing of their permits, a uniform residential permit fee of \$425 is proposed in place of a tiered fee structure based upon square footage.

This enables all building permit applicants to know the cost of their permit. Parks and Recreation Fee: As part of the annual methodology in charging fees to recover a stated percent of program costs, the fees for certain park programs increase in proportion to the increased cost in providing such continuing service.

EXPENDITURES BY FUNCTION

The following section of the budget message illustrates all the functions of the County. Under each functional area are the departmental budgets with the dollar and percentage change in the operating budget noted. A brief illustration of a department's budget and operating highlights is presented. It is the intent of this budget message to disclose significant funding decisions in the adopted budget (i.e., all new positions and related changes in personnel practices, funding of capital improvements, etc.). Generally, all functional areas of the County are impacted by inflationary pressures on operating expenditures, salary/benefit increases to retain and attract a committed workforce, vehicle/equipment/technology replacement cycles, and service demand changes correlated to factors such as population, enrollment, public safety responses and/or greater participants in the services provided by the County.

In addition to the operating budgets and 2003-04 capital budget information that are illustrated in this section, subsequent sections contain further analysis of the Capital Improvements Program (CIP) and employee compensation. Furthermore, because the 2004 bond referendum is such an important issue for the County, it is imperative that all projects in the referendum be addressed specifically in this letter, even though acquisition or construction of such projects may be staggered over many years subsequent to 2004. Therefore, as applicable, all such bond referendum projects in the capital improvements program (CIP) are also noted under departmental sections in this budget message.

PUBLIC SAFETY

Fire/Emergency Medical Services (EMS) (\$91,000 and 1.4% increase): With the addition of two EMT providers, who are cross-trained as firefighters, this deployment will further ensure that calls for service will be responded to in a timely manner. The consolidated Fire/EMS structure together with administrative focus on ensuring that firefighters/EMTs and their stations are properly managed has enabled us to detect operational efficiencies and enhanced safety measures such as: conversion plans from electrical to gas heat at one station with subsequent stations identified in the future, direct acquisition of EMS vehicles, health screenings and physical tests for volunteer/paid staff, federal guideline standards identified for fire hose replacement and breathing apparatus compliance. In April 2003, the Board of Supervisors was presented with a budget transfer for \$380,000 that reallocated currently appropriated funding for West Hanover Rescue Squad improvements and reserves in order to acquire breathing apparatus with OSHA approved facemasks. In addition, the five-year financial plan continues the breathing apparatus replacement program. Included in this budget is the continuation from adding Ashcake in 2002-03 having the County fund maintenance and repair for ambulances and related squad equipment at the County's Fleet Management facility. The Fire/EMS portion of the capital budget includes a \$750,000 (\$600,000 proffer funded) aerial truck for Mechanicsville and two ambulance chassis. This truck will be acquired under new practices of standardized proposals that enable the manufacturer to provide such truck to the County in a more timely and less expensive manner.

For the 2004 bond referendum, the CIP includes funding for new fire stations for Ashland, Black Creek and Farrington as well as improvements to Chickahominy, Doswell, Mechanicsville and Rockville Fire Stations. These projects are proposed for a bond referendum in 2004. The Black Creek and Farrington Fire Station projects will also accommodate EMS vehicles and provide space inside the station dedicated to EMS staff needs.

Sheriff's Office (\$236,000 and 2.0% increase, .45% locally funded decrease):

As part of their operations, 32 vehicles will be acquired at a cost of \$678,000 as these vehicles have generally met their 110,000-mile useful life, the highest utilization rate in the region as a result of deputies maintaining and caring for their assigned vehicles to the highest standards. The budget includes the first phase in improving the firing range by installing the first of four bullet traps, a program that is likely to be federally mandated in the near future.

The County's budget does not assume additional State funding based on the potential State funding of Compensation Board increases contingent on achieving certain revenue growth thresholds. Local funding now constitutes 76.0% of their total budget, up from 65.0% just four years ago. There are currently four vacancies in the Sheriff's Office, which is a credit to the retention of our existing deputies, in considering that the Sheriff's Office has not had a recruitment process since June 2002. The County

expresses special thanks to the American Heart Association for their recent contribution of \$105,000 for the purchase of 42 defibrulators for sheriff patrol vehicles.

For the 2004 referendum, the CIP includes a combined Public Safety Training and Communications Facility, that will primarily house all the training needs of our public safety functions as well as house our Communications Department. This project has represented a successful collaboration between Sheriff, Fire/EMS and Communications.

Emergency Communications (\$81,000 and 3.3% decrease): Nearly all the budgetary issues involved with Emergency Communications center around its capital budget in addressing adequate coverage of the communications system and the degree to which the County can best be compatible with neighboring localities. For the capital budget, \$250,000 has been provided in 2003-04 for the last phase of funding for an 800 MHz tower and transmitter site as part of establishing an additional tower location in the County for better coverage.

For the 2004 referendum, a radio system upgrade has been added to the referendum question during this budget process in recognition of the need to significantly upgrade the County's current communication system which was acquired in 1989.

Animal Control (\$23,000 and 3.7% increase): The increase is primarily associated with the replacement of a vehicle.

Juvenile Court Services Unit (\$11,000 and 2.2% decrease): This budget primarily represents juvenile detention fees to house juveniles sentenced by the court to the Merrimac Juvenile Detention Center. While juvenile detention fees and populations continue to increase, the budget decrease is attributable to the reclassification of a vacant full-time position to a part-time resources.

Community Corrections : This recognizes the Pamunkey Regional Jail's transition to the County, as required by the State, in the function of providing adult probation services to those deemed necessary by the judges. In absorbing this function and its four positions, the current 100% State funded commitment of \$200,000 is proposed with no local supplement. As this State supported amount has not changed in two years, further efforts will need to be made in future years to best determine what local funding, if any, would be needed to supplement the ability of this service to function properly.

Pamunkey Regional Jail (\$137,000 and 5.5% increase): This budget reflects the per diem costs to house inmates as part of the County's participation in the Pamunkey Regional Jail Authority. The costs for housing inmates have benefited from the economies of scale of the larger jail operations as well as the benefits of using available capacity for bed rentals to other entities. The County had assumed an average of 168 inmates per day this fiscal year, but based upon current trends, inmates per day for next fiscal year is estimated to be 32.7% higher than previous budget assumptions at 223 inmates per day. The ability of the jail to absorb the higher inmate population is based upon the strength of the jail's bed rentals and operating efficiencies.

Building Inspections (\$10,000 and .9% increase): The increase is primarily attributable to inflationary expenses.

PUBLIC SCHOOLS

The County school system, which enrolls approximately 18,000 students, continues to "raise the bar" of standards expected for public education. The Hanover school district is the recipient of two prestigious U.S. Senate awards for quality and has seven schools nationally recognized as U.S. Department of Education Blue Ribbon Schools. Hanover is the only school district of its size or larger in Virginia to feature all schools accredited by a regional accrediting agency. Hanover County Public Schools received a 97 percent family approval rating in its most recent survey. Well in advance of the 2006 time line, 100% of Hanover's schools have earned full State accreditation. Among Virginia school districts with enrollments above 15,000 students, Hanover is one of only two in the state with 100% of schools meeting full accreditation criteria. Hanover leads the Richmond metro area on this measure. County students performed in the top 10 percent in the State on the Stanford 9 Assessment. Less than one percent (0.4%) of students drop out before graduation and 83 percent of graduates attend a 2 or 4-year college. All schools demonstrate high expectations for students and offer a model of rigorous academic and technical preparation. The County has received the School Match "What Parents Want" designation for four consecutive years and has been rated a "Gold Level School District" by Expansion Management Magazine (a national business relocation publication). In 2001, the American Music Conference named Hanover one of the "Top 100 Communities in America for Music Education."

School Operating Budget (\$8.1 million and 6.5% increase, 7.2% local increase): This \$131.8 million budget, adjusted for a \$565,000 local funding reduction from School Board request, includes all school operations, excluding the self-funded cafeteria operations. School operations and textbooks are funded through a combination of local and non-local sources and debt service is 100% locally funded. The Schools budget includes 102.4 additional positions, of which 45.4 are teachers to meet accreditation standards, maintain average class sizes, meet our special education students' needs and continue phase-in plans for previously

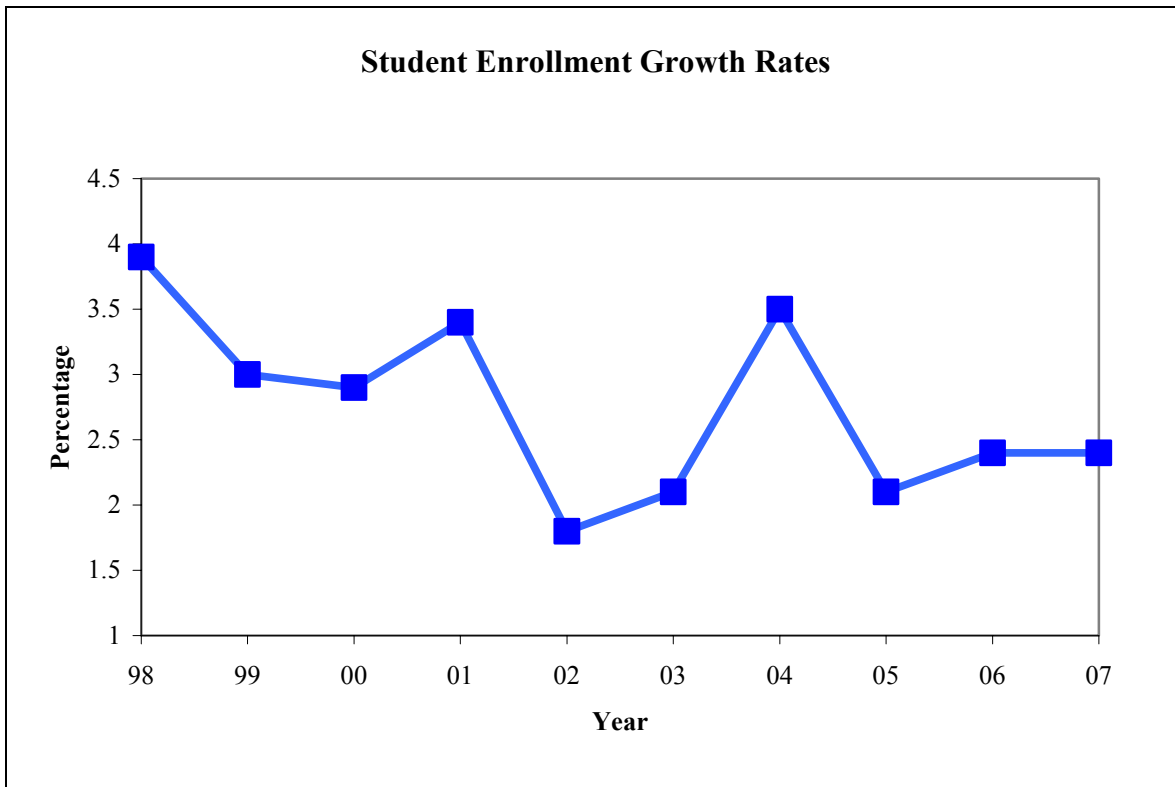
planned initiatives. The budget also includes all of the operating and personnel needs for the opening of the new Hanover High School in September 2003, the County's fourth high school and last project constructed under the highly successful 1997 bond referendum.

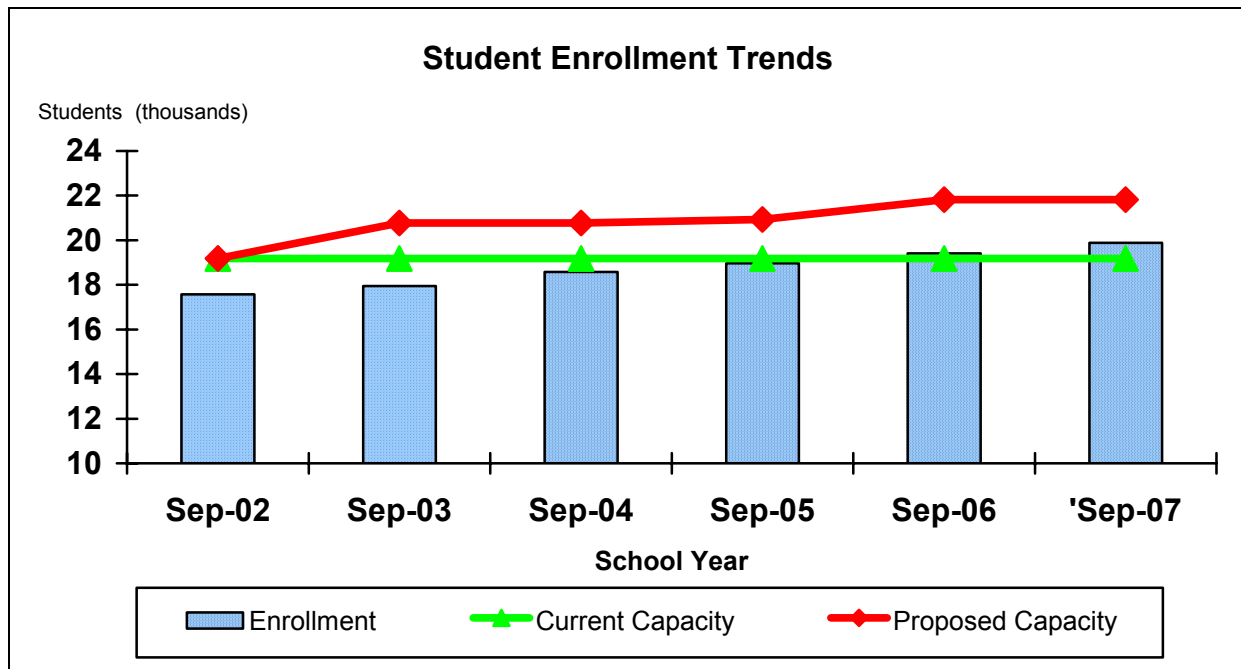
Cafeteria Operating Budget (\$931,000 and 17.6% increase): School cafeteria operations generally parallel inflationary and enrollment growth factors as with more students being served, there are correlated increases in revenues collected from fees charged to the students and related non-local support of food programs. Ten additional food service positions are needed to meet the needs of Hanover High School.

School Capital Budget: The Schools capital budget and related CIP is initially based upon the CIP budget objective that will provide appropriate classroom space to "limit overcrowding with no schools over capacity by 10% for more than three consecutive years." For the 2003-04 fiscal year, the capital budget provides \$4,809,000. The \$1,355,000 school bus acquisition and replacement program for 25 buses is part of the phased objective of shortening the replacement cycle for buses from 17 to 12 years. Finally, \$450,000 has been provided for on-going facilities improvements and \$475,000 for technology infrastructure.

For the 2004 bond referendum, projects have been aligned to meet the CIP objective and fund many types of capital improvements that would subsequently be built or acquired in years subsequent to 2004. However, in order to meet school enrollment constraints prior to the referendum, especially at Pearson's Corner Elementary School, a new elementary school opening in 2006 and an addition to Stonewall Jackson Middle School to be completed in 2005 will be constructed. The funding for these projects will be provided by the State Literary Loan Fund and Virginia Public School Authority (VPSA) debt. Further enhancement of the CIP objective may be warranted to determine if maximum over-capacity thresholds should be set and/or redistricting should be considered if neighboring school districts have capacity over the long-term. Specific to the referendum would be funding for a vocational and career facility space at all three high schools and a stand-alone Trades Based Center, and technology and facility improvements at all of the County's schools.

We are projecting for September 2003, a 2.1% school enrollment growth. As the following graphs illustrate, because of recent student enrollment trends and new school capacity provided, the capacity constraints (generally in the mid-90% range) have been greatly alleviated in recent years and for the foreseeable future:





PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$50,000 and 2.3% increase): Program participation continues to increase each year with the majority of this coming from special event participation, athletics and youth programs and the fee-paid programs account for \$28,000 of the \$50,000 budget increase. The summer playground program has been one of the most demanded programs in the County and with its cap of serving 1,100 students, many people line up to register their children hours before the office opens. The practice of having the fees charged for this program equaling 50% of total program cost would necessitate a fee increase for non-residents from the current fee of \$150 to \$170. The Parks and Recreation Advisory Committee (PRAC) recommended this increase at its January 2003 meeting. Program costs of the therapeutic aid workers are not included in the 50% funding formula as 100% of all such costs are County funded. The annual allotment to the PRAC is \$30,000 for PRAC to best distribute amongst the various needs of the many recreational-type organizations. In addition to two vehicle replacements, \$33,000 is provided for other capital needs.

The capital budget has \$100,000 (proffer funded) for Pole Green Park for continuing its program field lighting with improving existing lighting to cover an additional football field and soccer field. The collaboration between the organizations using park facilities and providing in-kind improvements should enable the parks to be enhanced every year. While the three regional park concept appears to be the manner in which the County will operate for the foreseeable future, opportunities may exist for acquiring smaller sites dedicated for specific purposes to further accommodate the needs of citizens.

For the 2004 bond referendum, the CIP will include funds for significant improvements to all of the County's regional parks as well as improvements to school playgrounds, establishment of smaller park sites utilizing existing County property, Hanover Wayside Park improvements and Cold Harbor Battlefield Park improvements. Through this referendum, many of the objectives of the parks master plan will be realized.

Pamunkey Regional Library (\$61,000 and 3.2% increase): The County has benefited greatly as part of this regional library system that serves four counties. Over 700,000 items were circulated in the library in the prior year, which has almost doubled in circulation over the last ten years.

For the 2004 bond referendum, the CIP will provide funds for a new Mechanicsville Library and Atlee Library. Proffers have already funded land acquisition costs for the new Atlee Library that is presently renting facility space with anticipation that a site will be selected in the near future.

HUMAN SERVICES

Comprehensive Services Act (CSA) (\$358,000 and 10.5% increase, .4% local increase): For a program that had experienced a five-year period of significant cost escalation, the last two years have brought cost containment measures as the collaboration between many of our human service and education agencies has fostered an environment to manage caseloads in compliance with significant regulations in a very professional manner. The large increase in FY04 is due to an accounting change regarding Medicaid payments and revenue.

Community Resources (\$9,000 and 2.7% increase, 4.4% local increase): Over the last year, Community Resources has done an excellent job of leveraging the federal funds from the certified pass-through program and further reinvesting those federal funds into human service programs, as required under State regulations.

Social Services (\$810,000 and 16.6% decrease, 4.3% local increase): In total, Social Services served one in twelve County residents in the prior fiscal year. Welfare caseloads have remained relatively stable over the past two years at ~120 cases as the “Welfare to Work” program appears to be effective in deploying clients into the workforce in a timely manner. There are also ~45 children in foster care with 80% of all foster care children going to college. Also, as measures of effectiveness: 99% of food stamp applications are processed within 30 days, the State has given a 95% effectiveness measure in addressing child service complaints, which is one of the highest measures in the State, and the County is in the top 7% of all county social service programs in maximization of non-local revenue.

Due to a change in accounting standards, the \$1.2 million Federal food stamps program that is administered by Social Services and had previously been recorded as both a federal revenue and expenditure is no longer recorded on the County’s fiscal records. Social Services continues to maximize its non-local revenue opportunities to further address service needs. As part of this non-local funding, primarily federal, two new positions (a social worker and eligibility worker) are funded. In addition, Social Services has been provided funding for establishing small satellite operations in best positioning its workers in areas for clients to access.

Tax Relief for the Elderly (\$450,000 and 100% increase): The County has historically offered a tax relief program for qualifying citizens. The amount of tax relief has not been shown in previous budgets, but instead has been netted in the real estate tax revenue. In FY04, however, the County is changing the accounting procedure for this program by increasing real estate tax revenue by the amount of the relief (\$450,000) and also showing the amount of relief as an expense.

Health Department (\$39,000 and 8.4% decrease): This budget represents Hanover’s tradition of funding a 45% share of this State agency budget. As State budgetary practices continue to constrain this State agency, the County’s obligation is also mitigated. The Health Department represents a stand alone State function for which the County’s share rises, and in this case falls, in proportion to State funding of this service. This office should be recognized for trying to best administer to the needs of its customers with funding sources that often have to be stretched thin.

Community Services Board (CSB) (\$226,000 and 2.9% increase, 8.7% local increase): The total CSB budget is \$8.1 million. The funding provided, which included \$212,000 more in local funding than previously planned to offset State reductions enable CSB to meet current service levels with current staffing resources, but does not provide any additional resources for them to make any reductions in waiting lists, counselor caseloads and other indicators that had been desired as part of a County/State approach in achieving such waiting list reductions.

In the capital budget \$70,000 has been provided for information systems technology upgrade to provide hardware and software to enable all staff to access current systems used.

COMMUNITY DEVELOPMENT

Economic Development (\$10,000 and 1.0% increase): A budget in itself does not foster economic development, it is the mindset, strategic plans and economic vitality and acceptance that foster such desired development. The funding of programs and personnel dedicated to enhancing economic development efforts should net desired effects over the long-term as they are able to implement the County’s strategic plan.

Planning Department (\$5,000 and .3% decrease): This primarily represents flat funding.

Geographic Information System (GIS) (\$23,000 and 4.2% decrease): This primarily represents flat funding.

The budgets of the following divisions under community development are generally small in scope:

- **Extension Service (\$79 and .1% increase):** This function represents the County's share in participating in the State extension service, which has been an invaluable resource for our agri-business and residents interested in horticulture.
- **Cannery (\$5,000 and 9.6% decrease):** This function provides a great resource for residents to can their fruits and vegetables and their budgetary needs over the years have been minimal.
- **Industrial Development Authority Fund (\$34,000 and 19.6% increase):** The budget primarily consists of fees contributed towards the General Fund from the IDA's agreed-upon share for IDA bonds issued to businesses, for which such fees in the General Fund are incorporated into the Economic Development budget. The increase is attributable to fees being received as a result of \$35.0 million in IDA bonds issued in the last year.
- **Soil and Water Conservation District (\$15,000 and 26.1% increase):** This is the County's share for participating in this district, which services residents in conservation planning and education.

Community Support (\$136,000 and 11.3% decrease): The contributions to various local and regional entities are classified under community development to reflect their community support intentions. The budget reflects flat funding for all discretionary contributions and continuation of funding formula agreements (e.g., share of Richmond Regional Planning District Commission (RRPDC)). The primary factors for the decreases are \$33,000 in one-time capital contributions funded in the prior year for J. Sergeant Reynolds, recognition of lower lodging tax revenues collected and therefore remitted to the Greater Richmond Convention Center Authority, and a 50% funding reduction to many agencies which provide non contractual-services.

PUBLIC WORKS

Public Works (\$90,000 and 9.8% increase): Public Works is a function that is increasingly being mandated to meet various Federal and State regulations imposed upon the County for which no federal or state assistance is provided. A recent example were the environmental mandates in erosion and sediment (E&S) control during residential/commercial construction projects that required the County to provide a service (three positions) for which a portion of such costs were funded with E&S fees. In continuing to meet the needs of this program and now that of a storm water management program, another new position is being created and funded by a combination of increased E+S fees and the inclusion of personnel costs in the storm water management fee. The result is that E&S fees should still recover ~61% of the E&S program costs.

In the capital budget, the planned continuation of \$150,000 per year in local funding for roads has been postponed for the 2003-04 budget, but is planned to continue in future years. However, proffers and State revenue sharing funds, will provide \$1.35 million in road improvements. In addition, \$350,000 for regional stormwater implementation is funded by stormwater management fees. This program was intended to be self-funded by such fees, and the current equivalent residential unit fee of \$550 needs to be increased to \$825 in order to meet the inflationary costs of this program, including stormwater pond projects previously established by the County, and the funding correlated to the position previously noted. Road proffer and stormwater management fees are examples of revenue-based programs that use current land use plan development to determine the development impact so that fees can then be structured to develop appropriate revenue recovery financial models. It is anticipated that such models will be reviewed closely subsequent to the adoption of the Comprehensive Plan.

Solid Waste Management (\$498,000 and 20.0% increase): In December 2002, the end of utilizing the County landfill for trash disposal was realized as we have successfully migrated towards a transfer station facility. The waste collected now is taken to private landfills outside of the County through a contracted waste transporter. The \$359,000 full year funding for this transition in costs to transport and dispose of the solid waste was partially included in the 2002-03 budget during the implementation year and is now fully funded. In addition, new compactor systems will be installed at the Elmont and Mechanicsville convenience centers. Due to a continued focus of allocating resources County-wide in the most efficient and effective manner, the convenience center hours between 7PM and 9PM are underutilized and therefore, with a cost savings of \$40,000, it is proposed that a reduction of 14 convenience center hours per week become effective July 1. These new hours are consistent with all neighboring jurisdictions, however, consideration will be given to structuring the hours to accommodate seasonal-type activities.

In the capital budget, \$650,000 for the final phase of the landfill cover and cap has been provided and when complete, the County's cost for such closure would be \$4.0 million. A yard waste composting site will be established on the closed landfill. This landfill closure escrow was started in 1991 to begin the cash accumulation for such a large project that would not be eligible for debt financing and is a clear example of the County's strategic financial planning in meeting large future obligations with

prudence in starting such savings plans early, rather than adversely impacting operations in the year in which such large project expenditures are needed.

Facilities Management (\$47,000 and 3.5% decrease): This primarily represents flat funding.

In the capital budget \$64,000 has been provided for Wickham Building roof replacement as the roofing system has deteriorated to the point that warrants a replacement of such roof.

Hanover Airport (\$5,000 and 3.0% decrease): The operating budget of the airport is primarily for the support that the County's Airport Manager provides to the County's Airport which is managed by the fixed-based operator.

Fleet Services (\$29,000 and 2.0% increase): The economies of scale continue to be realized with the consolidation of the County and school fleet operations in a new facility as this operation now operates with only a \$15,000 General Fund subsidy as it receives user charges from its customers to support its operation.

GENERAL GOVERNMENT

By their very nature in which some departments operate, many general government administrative departments have base budgets that change only slightly in their scope of operations annually. The County has prided itself on providing high quality and technologically-current services to its citizens in the most efficient and effective manner. This is further supported by the State's composite of the general government administration function statewide in which the County's cost for providing such services is 83% of the Statewide per capita average and the lowest percentage in the region (including Caroline, New Kent, Goochland and King William Counties). The following summarizes the operating budgets for these administrative departments:

- **Board of Supervisors (\$103,000 and 21.9% decrease):** This decrease in funds is mainly attributable to the reduction of travel expenses and no bond issuance costs as there are no proposed bond issuances during the next fiscal year.
- **County Administrator's Office (\$156,000 and 19.8% increase):** This increase is primarily due to the transfer of budget for the Public Safety Director from the Fire/EMS budget to the County Administrator's budget.
- **County Attorney's Office (\$48,000 and 5.3% decrease):** This represents the transfer of costs of delinquent tax outside legal resources being funded from the Treasurer's Office.
- **Treasurer (\$108,000 and 12.4% increase):** This increase recognizes the contracted legal services for delinquent tax collection (funded from penalties assessed as part of such legal collection efforts) that were previously expended under the County Attorney's budget. In addition, in order to leverage additional resources in further enhancing collection opportunities in the varied, yet structured manner of delinquent tax collection, an additional customer service agent position is warranted, funded by an assumption of enhanced revenue collections.
- **Registrar (\$48,000 and 13.9% decrease):** Through 2002-03, \$149,000 has been reserved in the Registrar's budget to meet future voting machine compliance regulations as part of a multi-year plan. This plan would not commence until Federal and State recommendations have been made about desired or required voting methods and due to budgetary constraints, additional increases to this reserve are not deemed necessary at this time.

The remaining budgets of this function include the following that represent flat funding, with decreases the result of capital items provided for in the previous fiscal year that represented one-time expenditures:

- **Finance (\$37,000 and 5.1% increase)**
- **Human Resources (\$9,000 and 1.7% decrease)**
- **Assessor (\$14,000 and 2.1% decrease)**
- **Commissioner of the Revenue (\$2,000 and .2% increase)**
- **Management Services (\$1,000 and .3% decrease)**
- **Purchasing (\$18,000 and 4.2% increase)**
- **General Services (\$2,000 and .8% decrease)**
- **Information Technology (IT) (\$78,000 and 3.4% increase)**

In the capital budget, the only administrative items in the capital budget pertain to Information Technology with \$403,000 provided towards Wide Area Network (WAN) enhancements and computer upgrades as the County continues to pursue its desire to have sufficient technological resources available, secured and advanced to meet the increased demand on our information systems.

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$34,000 and 4.3% increase, 25.9% local decrease): The local decrease in funding is attributable to the benefit the County has received in excess fees of the Clerk's office increasing substantially, mainly as a result of continued high volumes of the office and less additional State funding.

Commonwealth's Attorney's Office (\$53,000 and 6.0% increase, 44.9% local increase): The decrease of the Compensation Board in funding existing positions as well as the non-renewal of a new State position that is now locally funded have caused the local share of this office to increase by 44.9%.

Court Services (\$30,000 and 3.3% increase): This function, although initially intended to be a State supported function, has evolved to receiving only partial funding for some positions with little State support provided for increased workload demands.

The remaining budgets of this function include the following that represent flat funding, with decreases the result of capital items provided for in the previous fiscal year that represented one-time expenditures:

- **Circuit Court (\$25,000 and 15.2% decrease)**
- **General District Court (\$10,000 and 36.7% decrease)**
- **Juvenile and Domestic Relations Court (\$7,000 and 23.6% decrease)**
- **Magistrates (\$0 and 0.0% increase)**

For the 2004 bond referendum, the construction of a third courts building at the Courthouse Complex is proposed as a result of a significant cost that needs to be funded in a timely manner for which such bond financing is an appropriate source of funding. Although the courts building is outside the scope of the Five-Year Capital Improvements Program, it is included as part of the referendum because its need should arise within the permissible seven year period following a referendum for issuance of bond referendum-related debt.

NONDEPARTMENTAL

This category traditionally appropriates funds for those functions not identified elsewhere and includes debt service for County obligations, excluding school and utility obligations, as well as reserves available for future appropriation. Reserve for contingencies will meet the County's budget policy of .5% of budget.

Debt Service (\$127,000 and 5.6% decrease): The County's debt service will decrease as no new issuances are proposed during fiscal year 2003-04 for which principal and interest would be incurred while obligations on existing debt continue to decline.

PUBLIC UTILITIES

Public Utilities operates as an enterprise fund, whereby the operations and capital expenditures are funded with revenues generated from customer user fees and one-time fees paid for capacity. The County's tax revenues are not used to support the utilities operations, but rather the department operates as a self-supporting business, providing water and wastewater services to a customer base of approximately 17,200 residences and businesses. The County has received many inquiries and has seen many statements from residents who do not receive County water and sewer service that mistakenly believe that their tax dollars fund the utility system, including all costs related to the Totopotomoy Wastewater Treatment Plant (TWWTP). Each year we identify that the entire utility operations is self-funded from user and capacity fees that it generates. In addition, it is the capacity fees from new customers that are used as the funding source for capital projects for providing expansion of service, such as the new wastewater treatment plant. Finally, the utility fund pays a recovered cost fee to the General Fund for administrative support provided to its operations. Therefore, it should give comfort to any resident that is not on the water and sewer system that they pay no taxes whatsoever towards the funding of this operation.

Utility Operating Budget (\$183,000 and 1.1% increase): Due to lower than previously estimated future debt service payments, the utilities operating budget is increasing by only 1.1%. There are no changes to water user fees and limited changes to the sewer user fees. The sewer user fee changes include the addition of a 4,000 to 15,000 gallon tier to be consistent with the current water tier for the same usage and an increase to the flat rate sewer rate to be equivalent to the average non-irrigation user. Based upon utility customer request and in an effort to simplify the program, the measurement period for the irrigation credit program is changing from two billing periods to one winter billing period with a 5.0% increase in the winter usage multiplier to 125%. The estimated annual cost of all of these changes is less than \$1 on the average metered sewer user (\$20 on the flat rate customer).

Excluding the operating expenditures of the new plant, the remainder of the operating budget increased 0.6%. This reflects the anticipated increases in State fees and charges (i.e., lab fees, permits and permit renewals), new positions and annual merit increase, and an anticipated increase in sewer billings from Henrico County). Included in this proposed budget are three new positions including a Systems Engineer, Utility Technician I and a Laboratory Services Manager. Also, included is a career development program for the utility agent staff that will compensate the utility agents staff for skills and licenses obtained during their employment with Hanover County and the upgrade of the Administrative Assistant to an Office Manager to properly reflect the current supervisory duties. As part of a restructuring of personnel, the vacant utility service manager position will be downgraded to a utility agent, effective with the budget adoption, and all utility agent and engineer positions will be managed by the Senior Utility Engineer.

Utility Capital Budget: In order to meet inflationary impacts on capital expenditures, an average 3.0% capacity fee increase is necessary in 2003-04 to fund the Capital Improvement Plan (CIP). The Public Utilities CIP is developed in accordance with the County's Comprehensive Plan and positions Public Utilities to meet the water and wastewater needs of its current and future residential and commercial customers. The current purchased water capacity from the City of Richmond is 10 million gallons per day (mgd). With the two future increments of 5 mgd of future water capacity to be contractually purchased over the next eight years, the County has positioned itself for the long-term in meeting the water needs of its current and future customers (residents and businesses). In meeting wastewater treatment service demands, the TWWTP is under construction to meet the long-term needs of its current and future customers. This plant will be able to provide 5 mgd of capacity when it is scheduled to open in 2004. While the current County Conditional Use Permit will allow for a 15 mgd facility, the master plan for this facility is tentatively planned for 5 mgd incremental increases in capacity as needed. The following is a summary of the 2003-04 capital projects:

Cold Harbor Road Waterline	\$ 381,000
Hanover-Richmond Waterline	925,000
New Ashcake Road Waterline	319,000
Pole Green Waterline	212,000
Other Waterline Source and Distribution Projects	647,000
Other Wastewater Collection and Treatment Projects	605,000
Ashland WWTP Rehab & Improvements	325,000
Doswell 1.0 MG Water Storage Tank Rehab	270,000
Doswell WTP Lagoon & Sludge Handling Improvements	200,000
Other Maintenance Capital – Heavy Equipment/Storage Buildings	<u>165,000</u>
	\$4,049,000

FIVE-YEAR CAPITAL IMPROVEMENTS PROGRAM (CIP)

The Capital Improvements Program (CIP) is the County's plan for investing in facilities, equipment, and vehicles over the next five years and includes those items with a unit cost greater than \$50,000. The 2003-04 capital budget for County and School projects is \$9.0 million million, which is \$400,000 lower than the current fiscal year. The General Fund cash transfer for County and School projects is \$3.2 million, which compares to last year's funding of \$4.0 million. The continued non-debt funding strategy for the CIP should help to further strengthen the County's debt ratios as well as improve "pay-as-you-go" funding with the total funding sources of the County and School Five-Year CIP now representing 28.0% in "pay-as-you-go" funding (non-debt sources); this is well above the County's budget policy target of >10%. The CIP recognizes the continued accumulation and utilization of the School and County Savings Plan, initially established in the 1995-96 fiscal year. This plan was designed to reserve County savings and proffers to be utilized for capital improvement projects that may have been previously debt financed.

The 2004 bond referendum is currently proposed to have four questions totaling \$95.0 million as follows: Schools \$44.7 million, Public Safety \$34.7 million, Parks \$5.2 million and Libraries \$10.3 million. As noted in the preceding departmental descriptions, bond referendum projects have been individually identified and will be further reviewed and assessed in preparation of the 2004-05 budget, for which Board of Supervisors approval for such referendum questions will be requested.

FIVE-YEAR FINANCIAL PL

The County's Five-Year Financial Plan represents the County's attempt to quantify the impacts of future needs matched with a projection of available resources. Each year this plan is adopted by the Board of Supervisors, thereby indicating to the public the County's expected tax rates, operating costs, capital improvements, debt service requirements, school allocations and service level plans. The plan is illustrated with detailed assumptions in a separate section of the budget document. Generally, the plan seeks to maintain or enhance all current budgetary objectives and Board adopted goal statements. The County's conservative revenue forecasting has enabled it to meet future targets, however, the State in recent years has increasingly provided an unstable revenue source from which either local sources and/or re-allocation of existing funding uses needs to be done to supplant such State shortfalls.

The success of the Five-Year Financial Plan for the General Fund has served as the basis from which the Five-Year Financial Plans should be formulated for other major operating funds (School, Utility and CSB), which will balance current local five-year targets and non-local revenue assumptions with expenditure plans.

DEPARTMENTAL AND EMPLOYEE RECOGNITION

While it is difficult, if not impossible, to recognize the achievements of the many employees that work so hard every day, it does help to provide to give a few representative examples of some employees for whom the County is grateful for their continued service:

- **Amy Thomas**, Program Coordinator for Hanover County's Supported Employment program, received the Supported Employment Provider of the Year Award at the July 2002 conference of the Virginia Association for Persons in Supported Employment (VA-APSE). The Supported Employment Provider of the Year Award recognizes highly effective professionals who provide Supported Employment services. Hanover's Supported Employment program assists individuals who have disabilities find competitive employment. Job coaches work closely with individuals, matching their skills and abilities with the needs of local employers. Hanover County's Supported Employment Program currently provides support to 70 clients working with 39 employers.
- **Anita M. Howard**, Communications Officer of the Year for Hanover County, also was named "Telecommunicator of the Year" by the Virginia Chapter of APCO (Association of Public Safety Communications Officials) in May 2002. Ms. Howard was chosen from among nominations received from across the Commonwealth of Virginia. "Since being hired Anita has repeatedly demonstrated exceptional leadership and initiative, serving as the Officer in Charge of her shift on numerous occasions, and never fails to exceed expectations," said Charlie Udriet, Deputy Director of Communications.
- **Barbara M. Rose**, Deputy County Attorney for Hanover County, received the 2002 Cherin Award, given to an outstanding Deputy or Assistant Local Government Attorney in the Commonwealth of Virginia. Bestowed by the Local Government Attorneys of Virginia, Inc. (LGA), the Cherin Award is not awarded annually but only when the LGA's Awards Committee deems that a nominee's legal practice, service to the profession and service to the community reflect "extraordinary skills and dedication". "The committee is of the opinion that Barbara Rose's exemplary public service career in state and local government, her service in state and local bar associations and her service to her church and her community enhances the image of all local government attorneys," noted one committee member. Ms. Rose is the co-author of the local taxation chapter in the *LGA Handbook of Virginia Local Government Law* and has edited portions of the *Virginia County Supervisors' Manual*. She also has contributed to the LGA's efforts to guide the development of the law in matters before the Supreme Court of Virginia, by assisting in the preparation of Amicus briefs filed by the LGA.
- In March 2002, three members of the Hanover Sheriff's Office received Commonwealth Valor Awards as recognition for their brave actions in two separate incidents. Sgt. **Rickey R. Dandridge** and Deputy Sheriff **Anthony Q. Luellen** received Valor Awards for their "uncommon valor and intrepidity" in subduing an armed, intoxicated subject on June 2, 2001. Deputy **Wayne R. Frye** was recognized for his actions in apprehending a suspect accused of robbing a local convenience store on Sept. 27, 2001. The Commonwealth Valor Awards are given each year by the Virginia Public Safety Foundation, Inc. The Valor Awards honor officers across the State of Virginia who show "an extraordinary level of courage and professionalism in the face of danger."
- On Christmas night, the East Hanover VRS was dispatched to a residence in Pebble Creek and arrived quickly only to find that the patient had gone into cardiac arrest. Upon the quick and professional actions of EMT Will Mills and his crew, defibrillated the patient en route to the hospital. Thankfully, the patient has made a recovery and has expressed his deepest gratitude to the quality of care that in fact saved his life.
- Social Services: Under **Judy Davis**, Foster Care Supervisor, Hanover's foster care unit has exceeded State expectations throughout the year despite considerable growth in caseload size. She has helped her staff develop new skills and work "smarter" using innovative suggestions based on policy and best practices, contributing to the job performance of those she supervises. **Jean Coleman-Gaines**, Automated Systems Specialist, has completed projects outside of her routine job function while successfully managing her regular responsibilities. She was instrumental in converting the Social Services' Agency-wide Leave and Payroll Reporting System from the State to the County system and the agency's devices from manual Food Stamp Coupon Issuance to Electronic Benefits Transfer. She also designed and implemented the agency's calendar system, which management uses to monitor activities and to develop monthly reports.
- **Human Resources** for its Career Development Program, which now covers 26 positions and half of all County employees (excluding senior management), which is at least 20% more employees than neighboring localities report. The County has created a general ladder framework, which can be used as a model for other localities. We believe that the program is partially responsible for lowering the County's employee turnover rate from 14% three years ago to 10.1% last year.
- The **Department of Public Safety (Fire/EMS)** for its merger last year. It is unique to combine four diverse components - Career and Volunteer as well as Fire and EMS - into one entity.
- The **Pamunkey Regional Jail** held the nation's first Citizens Jail Academy in the fall of 2002 and is offering another class this spring.
- The Hanover Senior Travel Commission, established to assist **Parks and Recreation** in providing trips for senior citizens, offers about 12 trips annually, serving 600 travelers. The coordinator of this program was named one of Hanover County's "Outstanding Volunteers" in 2002.