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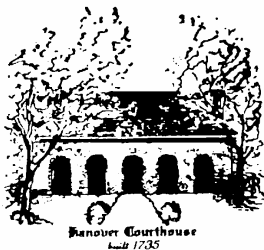
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April 13, 2005

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

Dear Members of the Board:

I am pleased to present Hanover County's Adopted Fiscal Year 2006 Budget as well as the County's Five-Year Operating and Capital Improvements Plans. County staff has worked closely with County departments, Constitutional Officers and the School Superintendent and his staff to develop a fiscal year 2006 financial plan that addresses our current challenges and seeks to maintain or improve County and school services for the 5 year financial planning horizon. This budget and the 5 year financial plans are based on maintaining our current real and personal property tax rates with no rate increases over the 5 years.

While this 400-page document reflects an enormous amount of good work on the part of many people, I understand that Board members and citizens may not be ready to jump into it all at once. Therefore, I will highlight what I see as the critical issues in FY06 and ask you to look over the budget synopsis that follows for more information about these issues and all of the departments.

Financial and Economic Condition Update

The County enters the FY06 budget process in the strongest financial position in many years. The adopted budget, for the first time since FY01, recognizes State revenue for salary increases to both teachers and Constitutional Officers. In addition, the State has provided a modest increase in operating funding for programs jointly administered by localities. The County's revenues are strong with real estate assessments growing at over 6% annually. The County has continued to realize high median new home sales prices with new home median values at \$269,000 in 2004, a 6.3% increase and the average value of a house now \$195,000, a 7.7 % increase over the prior year.

Commercial, office and industrial business property grew \$175.8 million for the calendar year. As an example, the relocation of Owens and Minor and Mohawk Carpet to Hanover County reflects our continued message that we are open for business. A drive down Bell Creek Road, Rt. 360 or Sliding Hill Road will give you a hint of the many construction projects that are underway. Our retail sales are growing 8.2% over this fiscal year and with the addition of such large new retailers as Target and Home Depot, we hope that next year will be even bigger than this year.

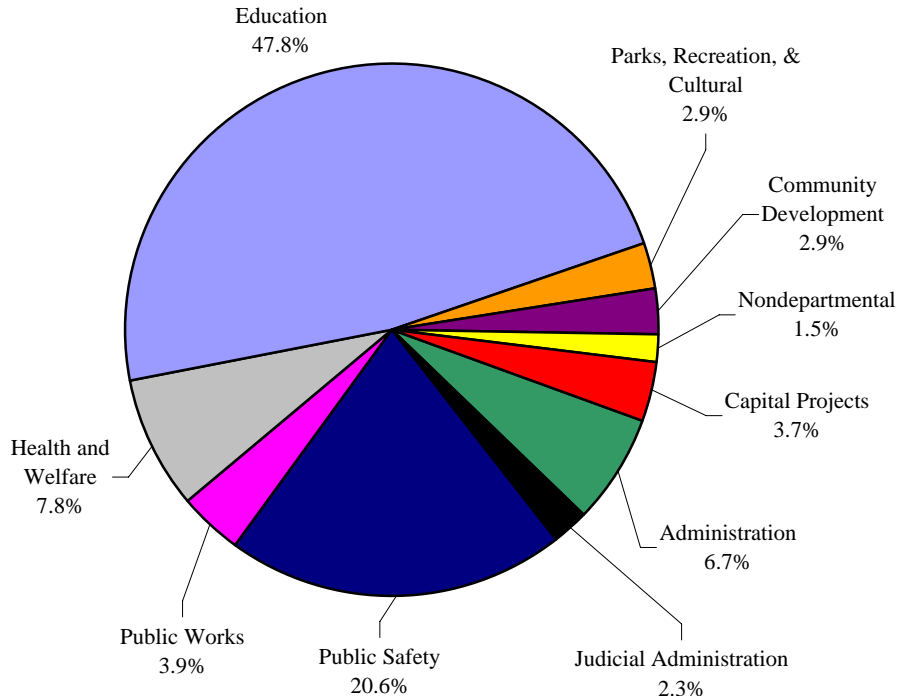
The County also maintains a strong fund balance in excess of 10% of its revenues, which meets our cash flow needs and provides for a contingency fund for unanticipated expenditures. In addition, the County has specific reserves set aside for economic development incentives and funding for subsequent years budgets.

The overall strong economic environment has enabled the County to continue to have the lowest unemployment rate in the Richmond region at 2.0% (December 2004); compared to 3.6% in the region and 5.1% in the United States. This low unemployment rate, along with the highest median adjusted gross incomes in the region (\$39,611), indicates that Hanover County is flourishing economically as well as in so many other ways.

Budget Summary

We traditionally measure changes in our budget by comparing the Total Budget and the Total General Fund Budget. The Total General Fund Budget increases reflect increased service costs and citizen demands for new services. The Total Budget also includes impacts of any capital expenditures, which may vary from year to year depending on the construction of new facilities such as a new school.

- Total Budget for all funds is \$327.5 million, reflecting a 5.4% increase from the prior year. This increase reflects the overall increase in operating budgets of 8.6% and the reduction in capital budgets because we funded the construction of a new 2006 elementary school in FY05.
- Total General Fund Budget is \$167.5 million, an 8.6% increase over the prior year. This increase basically continues existing services, provides merit pay increases for County and School employees and meets the needs of mandated programs such as the incarceration of local inmates. We continue to spend most of our money on Education (47.8%), Public Safety (20.6%) and Human Services (7.8%). These three services account for 76.2% of the total General Fund budget. The following graph illustrates the uses of General Fund expenditures by function:



General Fund Revenues

Our previous five year plan anticipated ongoing revenues for the upcoming year would increase 7.4% while current projections show that we will increase 8.2%. The following revenues have been highlighted:

Real Property (\$74.2 million): The total value of taxable real estate in Hanover reached \$8.1 billion as of January 2005, which is an increase of \$795.7 million or 9.8% over the prior year. This increase is made of 6.8% from assessment growth and 3.0% from new construction. While new residential construction is down compared to prior year's new commercial and industrial construction continue to be strong sources of tax base growth.

Personal Property Taxes (\$33.0 million): This revenue source is projected to increase \$1.4 million. Personal property growth remains steady with a projected growth rate of 6.5%. However, this estimate is based on the State's participation in car tax relief at 70% and the localities collecting the remaining 30%. Currently, there are several proposals in the General Assembly, which could alter this approach in future fiscal years, ranging from the capping of the State funding amount to having the State fund 100% by 2012.

Sales Taxes (\$14.5 million): The increase in revenues over the current year forecast is a result of the strong retail growth being seen throughout the County. Several new national retailers and restaurants such as Home Depot, Target, Pet Smart, Applebee's and TGI Friday's to name just a few are now locating along the Rt. 360 and Rt. 1 corridors. Along with the national retailers, we are also seeing a tremendous increase in small local businesses and restaurants. A recent analysis indicated that the County's sales

tax per capita is one of the highest in the state due primarily to strong retail establishments and the retail sales from Paramount's Kings Dominion.

State & Federal Revenues (\$10.4 million): The amended FY05 State budget did provide for a 3.0% merit pay increases for Constitutional Officers and it appears that a 3.0% merit will be provided in FY06. There continues to be strength in human services support with an increase of \$384,000 or 9.8% for Social Services programs. The County, however, is seeing a decrease in several other funding sources such as ABC profits and liter taxes.

While not revenue but still a source of funding for the budget, the adopted budget utilizes \$941,000 of fund balance savings from the FY05 budget over our original plan to address several school and County capital projects. These funds are one-time savings from the current fiscal year and will be spent specifically on replacement capital projects, which will not have an on-going operational impact. Furthermore, the budget includes \$50,000 from the County's economic development reserve account to fund a one-time grant to the Greater Richmond Chamber of Commerce as part of a regional initiative.

General Fund Expenditures

Our five-year plan anticipated expenditures for the upcoming year would increase 7.1% while current projections show that we will increase 8.6%. This increase is primarily the result of the four unanticipated items listed below which are either Federally mandated, or for which service demands grew at a disproportionate rate from prior years.

No Child Left Behind Act (Federal mandates)	\$550,000
Significant increase in local inmates at Pamunkey Regional Jail	704,000
Gas and diesel price increases (including Solid Waste hauling contract)	300,000
Additional tax relief for elderly and disabled	307,000

Education

The education provided by the Hanover County Public Schools is second to none in the State with the unique and enviable combination of outstanding academic results (top 5% in the State) combined with tremendous cost efficiency (2nd lowest cost per pupil in the State). Local funding for the school budget is \$82.7 million or a 5.0% increase over the current year. The total school budget will result in funding of 48 new positions to maintain our student instructional position ratio, continuing to put the instructional and curriculum needs of our students first and foremost. The cost to fund the Federal mandate of the No Child Left Behind Act is \$550,000 and represents the primary reason the school budget exceeds original projections.

We experienced an unpleasant reality when the construction bids for the 2006 elementary school were opened in January 2005. Construction costs were much higher than anticipated, due largely to general market conditions which have recently produced unprecedented price increases, driven largely by steel and construction costs nationally and internationally, coupled with the significant road improvements which are required at the Rt. 301/Whippoorwill Road intersection. School and County staff worked together to develop a plan to fund this increased cost and I am recommending that funding for the 2006 elementary school come from \$700,000 in the debt service savings, \$917,000 in facility improvement capital project reprioritization, and \$2.1 million in additional debt financing.

The capital program is highlighted by the construction of the new 2008 elementary school, alternative education facility and a trades-based center, which collectively will achieve the County's goal of providing capacity for our growing student population. These new facilities along with significant facilities improvements (roof and mechanical, particularly), at nearly all schools over the next five years will meet the challenge of keeping our facilities current.

Public Safety

Public safety services include the Sheriff's Office, Fire and Emergency Medical Services, Pamunkey Regional Jail, Emergency Communications, Animal Control, Community Corrections and Building Inspections. Funding for these departments represents 20.6% of the total General Fund.

Another budget area that experienced significant increase was inmate population growth at the Pamunkey Regional Jail. For many years the jail was able to generate additional revenue through bed rentals. However, we no longer have that funding option due to a 20.9% increase in inmate population and costs projected to increase 34.5% to \$4,080,000. This increase, taken in conjunction with the loss of daily rental space has a double-edged financial effect on the County, decreasing our revenues and increasing our expenses. During the past five years Hanover's inmate population has increased 110.1% and is anticipated to grow at least 5.0% annually over the next 5 years. In conjunction with this inmate increase, we are now planning for an expansion of this facility and are requesting the State authorize this expansion for funding in the FY07 State budget.

The Hanover Sheriff's Office is one of only a few law enforcement agencies to receive both state and national accreditation. The Sheriff's Office is recognized as a leader amongst our peers because of the leadership provided by Sheriff Cook and the outstanding staff he has assembled who are responsive to the needs of the community. Working with the County, Sheriff Cook has obtained \$744,000 in law enforcement grants to provide additional communication and computer resources for this office during FY05.

The Sheriff's Office budget is \$14.9 million, an increase of \$1.2 million and 9.1%. Local funding for the Sheriff's Office is \$11.9 million or 80.0% of the total office budget. The Sheriff requested 17 additional law enforcement positions of which 10 are funded to assist the department in moving closer to the Sheriff's goal of 20 sworn officers per 10,000 population. We will continue to work with the Sheriff to monitor our law enforcement needs for the upcoming fiscal year. Together we want to be proactive in meeting the challenges of crime fighting in the Richmond metro area.

Fire and Emergency Medical Services (Fire/EMS) has seen one of the most significant transformations ever in the last few years. In the last twelve months the volunteers, Fire/EMS staff, and Board of Supervisors all worked towards achieving the following:

- Fire/EMS performance standards for service delivery.
- Recognition of the following volunteer-initiated priorities: 1) Equip volunteer and paid Fire/EMS equally; 2) Building maintenance of all Fire and Rescue Squads; 3) Computers for officers with Internet access; and 4) Standardization of equipment (fire trucks, ambulances, breathing apparatus, etc.).
- Establishment of an EMS Fee Recovery Program that began in March 2005 that leverages funding from Medicare/Medicaid and insurance companies.
- Deployment of over 100 Fire/EMS staff and volunteers in strategic locations thereby providing the County the best opportunity to meet the response standards.

The Fire/EMS budget is \$9.7 million, an increase of \$1.6 million and 19.6%. The budget provides for 11 new firefighter/EMS positions, which will allow us to meet the volunteers' request for additional manpower. It's anticipated that by September we will have five station/squads manned on a 24/16 hour basis and three stations/squads manned on an 8 hour schedule five days a week. Fortunately, we still have a strong complement of volunteers who give freely of their time to assist the community in this very valuable service. Currently volunteers are running approximately 45% of our calls with paid staff making up the difference of 55%. Of concern to us, however, are the increasing call loads, which are causing additional volunteer fire companies to discuss the possible request for County staff.

With the FY06 budget, Fire/EMS will continue to work towards its response goals of 16 firefighters on scene in nine minutes or less 90% of the time and ALS provider on the scene in 9 minutes or less 80% of the time. Current rates for Fire/EMS are below goals at 50%, however, we should see significant improvement with the transition to the 24/16 schedule that began on March 1, 2005 along with redeployment and relocation of ambulances in fire stations.

Other public safety highlights include the addition of two emergency communications officers and an Animal Control officer to keep pace with the increasing call load demands.

Human Services

Human Service agencies include the departments of Community Services Board, Social Services, Health and Community Resources along with the programs of Comprehensive Services Act and tax relief for the elderly and disabled. Human Services makes up 7.8% of the General Fund budget with local funding for human services agencies totaling \$8.7 million or a 15.8% increase over the current year. Programmatic funding in all of these departments is being increased due to more citizens in need of these services.

While Hanover County is one of the wealthiest counties in central Virginia, we still have many citizens who need assistance from time to time. Budget highlights include \$307,000 increase in tax relief for the elderly and disabled. This program helps citizens with limited income and net worth pay their real estate tax bills. Real estate tax relief is available from 25% up to 100% for qualifying individuals. In addition, the program has been expanded to raise the net worth threshold from \$100,000 to \$125,000 and adjustments to other income thresholds.

The Community Services Board budget will add two staff and rent 5,600 sq. ft of additional space to meet growing client needs. Additionally, a vacant accountant position will be upgraded to assist in providing additional financial analysis of the very complicated reimbursement programs associated with State and Federal grants and client insurance payments.

The Comprehensive Services Act program serves at-risk youth and families by coordinating with local human service agencies and the schools to decide what services are needed and making sure they are provided. This State mandated program is anticipated to grow 13.8% during the next fiscal year due to increased case loads and costs per case.

Other Budget Highlights

Some of the other key changes in this budget include:

- **Solid Waste Disposal Hauling Contract:** The County recently entered into a new contract and as a result of the increased cost of fuel for vendors and with the projected increase in waste tonnage, there is an additional \$167,000 impact to the FY06 budget that was not anticipated.
- **Gas:** Gas purchases are estimated to increase 33.5% as the County spends \$690,000 annually on fuel, excluding fuel for education, which is \$584,000.
- **Transportation Planning:** Incorporated in this budget are funds to allow the planning department and VDOT to jointly develop a traffic analysis for all significant development proposals. By having the County prepare a report on the necessary improvements at the beginning of the process we will be more consistent and improve the process for the development community.
- **Parks and Recreation:** Continued emphasis on the County's much recognized therapeutic recreation program continues with six part-time aides added, additional coverage for grounds maintenance with upgrades to certain positions and provision of recreation management software to significantly enhance the efficiencies and effectiveness of managing this operation.
- **Public Works:** As the County's drainage maintenance needs continue to expand, I am recommending the upgrading of a part-time position to full-time along with additional funding for operating costs.

Capital Improvements Program

The Capital Improvements Program is the County's five-year plan for investing in facilities, equipment and vehicles whose individual costs exceed \$50,000. The adopted five-year plan for County projects is \$75.0 million and is funded with General Fund cash, grants, developer proffers and debt through the bond referendum. The County budget policies recommend the use of pay as you go funding for 10% or more to recognize the need to balance the use of debt with the use of other resources for funding. This plan uses "pay as you go" funding for 35.5% of County and school projects. The following are the County projects funded in the FY06 Capital Improvements Plan:

Information Technology Equipment	\$117,000
Disaster Recovery Program	160,000
General District Court Renovations	205,000
Communications System Equipment escrow	1,625,000
Emergency Medical Dispatch Software (\$50,000 grant funding)	100,000
Communication Channel Bank Equipment Replacement	250,000
Fire Apparatus Replacement	900,000
Ambulance Replacement	150,000
Road Way Improvements (100% funded by developer proffers and VDOT)	1,000,000
Regional Storm water Implementation (100% funded by stormwater fees)	1,000,000
Drainage Improvements (Hazard Mitigation Grant funding \$337,000)	450,000
Traffic Improvements (100% developer proffers)	400,000
Airport Improvements (\$412,000 funded by grants)	515,000
Courthouse Park Improvements	100,000
Mechanicsville Library	350,000

Bond Referendum

In order to meet our capital needs over the next five years, I am recommending the Board of Supervisors and the School Board authorize a referendum for the November 2005 ballot. The County has successfully implemented all projects approved by the citizens in the 1994 and 1997 referendums. By using these successful models, the County and schools can fund the necessary capital infrastructure for our public safety, schools, parks and libraries for the upcoming five years. The 2005 bond referendum is currently proposed to have three questions totaling \$95.1 million as follows: Schools \$54.5 million, Public Safety \$30.8 million, Parks and Libraries \$9.7 million.

It should be apparent that the County's natural growth of revenues (~6.0% annually) is being consumed in providing for current service levels with a focus on public safety and education and human services. Therefore, funding this referendum without a tax rate change, as I have recommended, can only be accomplished if we continue to be very conservative in our expenditures, as reflected in this budget and in our five-year financial plan.

Employee Compensation and Benefits

The County and schools continue to ask the employees to perform at higher levels and we're fortunate to have a workforce that is responsive to citizen needs and accountable for performances. Therefore, we continue to focus upon ensuring that the existing

employees are properly compensated and provided benefits (e.g., health insurance) that are competitive in the Richmond region. In continuing with this recognition, the FY06 budget provides for a 3% average merit increase for all County and School employees along with a 15% increase for the employer share of health insurance. While these insurance increases may seem alarming, Hanover still enjoys favorable costs compared to the regional averages for health insurance.

In addition, targeted benchmarks have been provided to County and school positions that are below the annual market survey. This process ensures our existing employees are properly compensated and that vacant positions are properly graded to attract prospective employees.

Currently over 22% of our County workforce evaluations are aligned with our fiscal year. While this process has worked in the past, beginning with this budget all County staff move to June 30th performance evaluations. Employees who have not worked a full year will receive a performance evaluation in June, however, their merit raise will be prorated for the proportion of the fiscal year they have been employed. Moving all employees' performance evaluation dates to June 30th with the proration method outlined has no financial impact on the budget.

The County is proud to have supported 19 employees who have been involved in the reserves since 2001, with 8 currently on active duty. Therefore, the FY06 budget provides for the continuation of the benefit established in 2001 that provides a pay supplement to a military reservist called to active duty for any difference in pay between the County salary and the military pay.

Public Utilities

The Department of Public Utilities operates a water and wastewater system as a self-supporting enterprise fund that delivers high quality and reliable services to customers, including the development of a capital improvement program. This service delivery is funded through user and capacity fees that are established at the level necessary to ensure the long-term viability of the system, to satisfy bond covenants and to fund services provided to the Department by the County's general government.

The Department is currently undertaking a comprehensive rate study, the first study since 2000. The rate study is necessary due to a number of significant changes that have occurred since the previous rate study. A key change is the decrease in the growth rate in the Suburban Service Area. The growth rate is far below that envisioned by the County's Comprehensive Plan and has resulted in revenues significantly below previous assumptions and projections. The effect of this decrease is compounded by the requirement that several Capital Improvement Program projects must now be undertaken in accordance with the County's Comprehensive Plan. A number of facility upgrades must also be undertaken due to new or revised regulations. For example, the Chesapeake Bay 2000 Agreement and related implementing regulations will entail improvements to three of the County's wastewater treatment plants with a total estimated cost of over \$7.3 million. Other regulations, both existing and proposed, along with industry standards, necessitate that the County increase its investment in the renewal and replacement of existing infrastructure to maintain the quality and reliability of services. And finally, the rate study will address and make allowances for current allocated payments to the County's General Fund, that exceed those anticipated when the last rate study was performed. Therefore, user fees are forecast to increase 6% and capacity fees are forecast to increase by 6.0%. These increases will position the Department to begin meeting its long-term financial planning operating and capital goals. Upon conclusion of the rate study and review by the Board of Supervisors, it is anticipated the user fee rate structure will be revised and future increases implemented as necessary to meet long-term objectives and ensure financial integrity of the system.

Conclusion

I believe this budget sets the path for the future of public service in Hanover County. We have focused on meeting core service level needs. I believe that this budget builds on the priorities and goals of the Board of Supervisors and on the values of our citizens. This includes a proposed \$95.1 million bond referendum in 2005, competitive compensation for our employees, a real estate tax rate projected to remain at the current 86 cents for the full five-year financial planning horizon and the other items previously noted. As our population grows, the demand for new services will also grow, and we must properly plan for and set priorities if we are to maintain our relative position of economic strength among Virginia localities and our tradition of financial responsibility. The FY06 initiative setting process is one manner in which we use to focus on such priority setting process and such proposed initiatives are illustrated immediately subsequent to this budget message.

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 this budget. In particular, I would like to thank Deputy County Administrator Joe Casey and Budget Manager Chris Sorensen 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,

Cecil R. Harris, Jr.
County Administrator

FY06 Initiative Setting Process

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. The Vision, Mission and Value Statements together with the budget policy guidelines, provide the foundation for our initiative setting process for improvements. The initiatives are initially developed in the fall at a management retreat, and then proposed to the Board of Supervisors for consideration as part of the budget process. The following initiatives are recommended and have been funded for the FY06 fiscal year

• **Community Relations Initiatives**

- **Conduct Citizen Survey:** The County has not conducted a comprehensive citizen survey since the late 1980's. While many departments such as public utilities and schools survey their customers, a comprehensive look at all County services is overdue. Information obtained from this survey will be used to guide the county in meeting citizen requests for services.
- **Develop Bond Referendum Information:** A bond referendum is recommended as part of the proposed FY06 budget. In order to inform citizens of this proposal, staff is recommending that informational material be printed and mailed to each household and that staff time be dedicated to attending informational meetings in the community to present this information.
- **Engage with State and Federal Legislators:** While the County has developed a good relationship with both our state and federal legislators we are seeking to expand this relationship for the next fiscal year. In FY05, the County engaged the assistance of a consultant to work with our Congressional delegation and that effort was rewarded by securing funding for public utility improvement projects (\$300,000) and transportation planning (\$100,000). Because of this success, the FY06 budget contains additional funding to assist with other County issues in accessing Federal grants along with additional emphasis on state grant opportunities.
- **Conduct Economic Development Competitiveness Assessment:** In updating and reviewing our Economic Development strategic plan staff feels that a review of our competitiveness is appropriate. Included in this review is a SWOT analysis, establishment of performance measurers for the department and a review with the Board of Supervisors of the County's site competitiveness for new prospects. This review will include an analysis of our targeted industries, site availability, infrastructure needs and business costs.

Service Delivery Initiatives

- **Emphasis Public Safety Funding and Preparedness:** Public safety is one of the Board's two long-standing priority service levels, the identification of this priority reflects our need to develop current and long range plans to meet the law enforcement, Fire/EMS, Pamunkey Regional Jail, and emergency communications' needs of the future. With the ever growing challenges to meet response times in both the Sheriffs office and Fire/EMS we will continue to need to develop plans which can address the personnel needs of these departments. The Pamunkey Regional Jail is experiencing annual growth of 20% and the County will need to develop plans for an expansion of this facility during the upcoming fiscal year. The new communications system that is proposed as part of the capital plan is critical for officer safety and for regional assistance.
- **Emphasis Education Operations and Capital Funding:** The next five years bring significant challenges to Hanover County and the School Board in addressing our growing student population capital needs, federal and state mandates and opening new facilities. Education has been a long-standing priority of the Board of Supervisors and the identification of this priority is especially significant as we develop 5 year plans to address these challenges during the FY06 fiscal year.
- **Establish Long-term Transportation Strategies:** The County has for years primarily relied on VDOT to address the transportation needs of our citizens, however, the State is now openly admitting that it will not be able to meet the growing highway transportation funding needs of the future without local assistance. As a result of this, the County now more than ever needs to develop a long term transportation strategy which will recognize our needs and the limited resources available to address these needs. In order to provide consistent standards for development I am recommending that the Planning department develop a traffic impact analysis using consultants along with VDOT to disclose the transportation impacts of all significant development proposals. Through this process staff will be able to more consistently address our highway issues to limit any further erosion of the transportation system.
- **Consider Development of Blight Abatement and Property Maintenance:** The Sheriff, County Attorney, Building Inspector, Planning and Public Works departments are prepared to working jointly to provide the Board with a program to address blight abatement and property maintenance for the upcoming year. This program known as the "Broken Windows Program" will help the County address various issues associated with absentee landlords not maintaining properties, and vacant areas becoming eyesores to there neighbors.
- **Develop Coordination of Anti-Litter Program with VDOT:** As initially identified by the Board Chairman in January, the "Clean Hanover" initiative is a project for the County to undertake in addressing the many areas that become overrun with trash and debris. This proposal is to develop a comprehensive program of resources in conjunction with VDOT to improve our roadside litter problem.
- **Conduct Facility Space Needs Analysis:** The last space study was conducted in 1993 to anticipate County faculty needs for the 10 years ending 2003. As we have come to the end of this planning horizon it is prudent that we undertake a new study to review the need growing programs and our aging infrastructure.
- **Consider Modification of the County Decal:** County Treasurer and the Board of Supervisors are reviewing options to eliminate the annual county decal in a programs that is revenue neutral to the County and citizens.

Budget Summary

Changes in the County's budget can be measured in three categories: Total Operating Fund, Total Budget and Total General Fund. Increases in the Total Operating Budget and the Total General Fund budget reflect increased service costs and citizen demands for new services. The Total Budget also includes capital improvements costs that may vary significantly from one year to the next because certain projects (such as new school facilities and utility infrastructure) are not built every year. Analyzing the dynamics of each of these budget indicators provides a complete picture of the size and scope of the County's budget (all \$ changes and % changes are based upon FY06 budget to adopted FY05 budget).

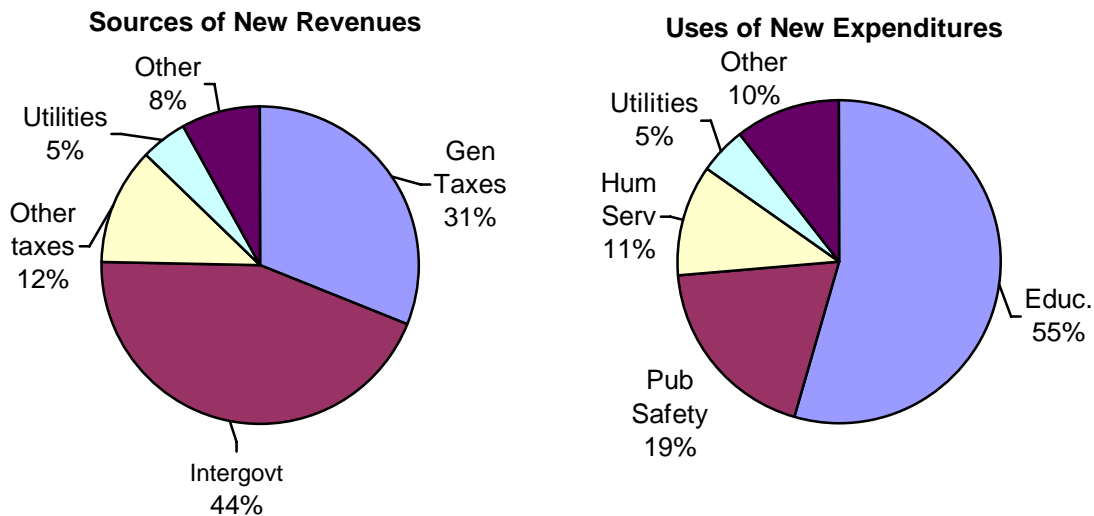
These changes reflect both the Board's original adopted budget and the amended budget that was adopted subsequent to the State's budget amendments last year. Had the State followed its traditional timeline for budget adoption, the County would have incorporated such State adjustments as part of the County adopted budget, therefore it is prudent to also disclose the FY06 budget to the FY05 amended budget.

- Total Operating Budget, excluding internal service funds (\$290.9 million, a \$21.9 million and 8.2% increase):** Basically continues existing service levels with a few targeted initiatives (primarily education and public safety) and market compensation/benefit program. The chart below highlights changes in funds between FY05 and FY06.

 - Change from the Amended Budget: With the State amendment of \$3.1 million factored into the base FY05 budget, the total operating budget would reflect an \$18.5 million and 6.8% increase.
- Total Budget of All Funds (\$327.5 million, a \$16.9 million and 5.4% increase):** Due primarily to the FY05 budget including the new elementary school being constructed to open in 2006, capital budgets declined by \$7.6 million, resulting in a lower percentage increase than the operating budget.

 - Change from the Amended Budget: With the State amendment of \$3.1 million factored into base FY05 budget, the total all funds budget would reflect a \$10.9 million and 3.7% increase.
- Total General Fund Budget (\$167.5 million, a \$13.3 million and 8.6% increase):** The total budget in the preceding two bullets includes the activities of the capital projects and other funds (e.g., Public Utilities Fund). The General Fund provides a truer year to year comparison of the operating impacts of various functions and the fairly level capital contribution from the General Fund to fund capital projects and their related debt service. Education (47.8% of the proposed FY06 General Fund) and public safety (20.6%) account for 68.4% of the total General Fund budget. With greater recognition of human services funding (7.8% of total), these three functions account for 76.2% of the total budget. Primary revenue sources for the General Fund total budget have traditionally been general property taxes, State/Federal sources and other local taxes. (For FY06, general property taxes is 69.3%, State/Federal sources is 6.2% and other local taxes is 15.3 %.) These primary funding sources represent 90.8% of total funding.

The following charts summarize the sources and uses for the increase in the **total operating budget**:



FY06 Budget Highlights

The following budget highlights are presented to illustrate how the budget strives to achieve the Board's adopted policy-budget guidelines:

Quality of Life/Efficient and Effective: The budget has been based upon enabling the County to provide a *superior quality of life* that focuses *efficiently and effectively on the general well being, education and safety of the people*.

Revenue Sources – Mitigate Tax Burden, Maximize Non-Local Sources, Diversify Local Sources: The real property tax rate shall be maintained to meet priority service level needs and position the County with a stronger financial base for long-term capital needs. No property tax rate increase is projected in the Five-Year Financial Plan. Fee-recovery programs have been targeted in those areas in which inflationary costs and other service level demands were warranted (e.g., building inspection fees, planning fees, parks and recreation fees). Non-local revenue sources continue to be recognized, primarily in human service areas of Social Services and Community Services Board.

Service Delivery: Through *sound financial management practices*, funding is provided to ensure *service delivery* is maintained in all County departments and capital planning goals are also attained in the Capital Improvements Program.

Priority - Education: Total school operating budget increased by 8.0% and local target funding of schools increased by 6.8% over the amended target set after the State budget amendments for FY05. The additional revenues provided by the State in the FY05 amended budget have provided a stronger non-local base than has existed in many years. The five-year target operating budget and schools capital plan were formulated to accommodate existing service level demands as well as the significant operating impacts of two new elementary schools, a trades-based center and an alternative education facility. Assumptions in the plan include an expectation that the State will continue to provide sufficient funding support to meet Standards of Quality and compensation thresholds. The new elementary schools to open in 2006 and 2008 should provide the County with the capacity to meet long-term enrollment needs.

Priority - Public Safety: The demands of this priority service continue to be addressed through the addition of 26 positions, primarily in Fire/EMS services and law enforcement. Both of these departments utilize national standards and detailed service delivery models that illustrate the need for additional staffing resources to meet the response times and service demands placed upon them by the citizens with Fire/EMS also trying to attain the response and deployment standards approved by the Board of Supervisors in FY05.

Compensation/Benefits: The provision of a 3.0% average salary increase for the schools and the County further ensures that the compensation program remains competitive to attract and retain outstanding employees. In addition, benefits are maintained, which required a 15% increase in employer contributions to health insurance to maintain current coverage levels.

Financial Management: All financial policies (specifically, debt and fund balance) continue to be met in each year of the Five-Year Financial Plan. This ensures adequate reserves, limits the County's debt burden and maintains or improves the Aa1/AA+/AA bond rating.

Public Utilities: Because of the need for capacity and user fees to reflect accurately the costs of providing quality and reliable *service delivery* to new and existing customers, utility user fees are proposed to increase by 6.0% and capacity fees by 6.0%. The traditional adjustment for inflation has been 3.0% in years past, but the initial assessment of the five-year rate study indicates the additional revenue is required for Public Utilities to fund properly its long-term capital plans, which not only includes new infrastructure, but also maintaining its existing infrastructure with renewal and replacement funds.

2005 Bond Referendum: All projects have been further prioritized over the last five years to ensure that affordability and debt capacity models can be attained and revenue sources secured without adversely impacting core service levels. These projects, totaling \$95.1 million, meet priority service needs that would be *supported by the community*.

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

BUDGET SYNOPSIS

While the preceding County Administrator's Budget Message is meant to highlight the budget and the factors that would be focused upon through budget adoption, the following synopsis details the changes in the budget. The purpose of this synopsis is to provide a summarized version of the manner in which the County's budget funds are allocated, the sources of such funding, long-term financial planning and other items that are considered relative to illustrating how the County attempts to best provide the services needed and desired by the citizens in an efficient and effective manner. The remainder of the ~400 page budget document can then be referenced and referred to for further information that can better serve the users of this document. As part of this synopsis, the following areas are presented:

- Budget Policy – Budget Guidelines
- Financial Condition Overview
- General Fund - Budget Change Support
- Employee Compensation and Benefits
- General Fund - Revenues by Category and Changes in Fee Supported Programs
- Expenditures by Function
- Public Utilities – Budget and Capital Improvements Program
- County/School – Five-Year Capital Improvements Program
- General Fund – Five-Year Financial Plan

BUDGET POLICY – BUDGET GUIDELINES

The Board of Supervisor's Budget Policy contains the following guidelines that serve as a foundation in how the budget is formulated:

- The overall objective of the budget will be to adhere to the County's mission statement, long range strategic plans and/or current initiatives from which the budgets shall be initially formulated.
- Initiatives that are presented to the Board of Supervisors should also ensure compliance with the mission statement.
- Annual recurring budget guidelines shall be focused in certain areas, with additional guidelines and/or objectives formulated, if applicable, by the County Administrator in the formulation of the proposed budget.
- Priority service levels:
 - *Education*: Provide a funding plan for the Hanover County Schools that provides the basis for educating all students by maintaining the student teacher ratio, providing appropriate instructional materials and appropriate capital infrastructure to limit overcrowding.
 - *Public Safety*: Provide financial resources, including staffing and equipment, for all law enforcement and public safety departments to ensure that desired standards can be achieved and/or maintained in an effective and efficient manner.
- *Sound financial management practices*:
 - Mitigate the tax rate burden upon the citizens and dependency upon the real property tax rate through provision of *service delivery* in the most efficient and effective manner while maximizing opportunities for additional revenues from non-tax sources (e.g., State revenues) and diversification of local revenue sources.
 - Five Year Financial Plan and Five Year Capital Improvements Program (CIP) shall be annually prepared and adopted by the Board of Supervisors in illustrating the manner and the means in which the County's operating and capital needs are planned to be funded.
 - Funding recommendations should include recurring revenue to meet recurring expenses.
 - Maintain compliance with the County's financial polices to ensure adequate reserves, limits on the County's debt burden and maintenance or improvement to the Aa1/AA+/AA bond ratings.
 - If bond referendums are identified in the Five-Year CIP, ensure that the plan for the anticipated financial impact of the proposed referendum with a phased construction schedule is comprised of projects that would be *supported by the community*.
- Employee Compensation:
 - Provide adequate employee compensation including consideration of pay for performance increases, salary benchmark adjustments, if applicable, and a comprehensive benefits plan.
 - Ensure that such compensation and benefits provided will be market sensitive and enable the County and School system to attract and retain outstanding employees.
- Public Utilities:
 - Operate a water and wastewater system as a self-supporting enterprise fund that provides high quality and reliable *service delivery* to customers, including the development of a capital improvement program.
 - Limit user and/or capacity fee rate increases to that which is needed to ensure long-term viability of the system.

Note: Words *italicized* in the preceding guidelines are meant to illustrate connection to words and phrases used in the County’s mission statement.

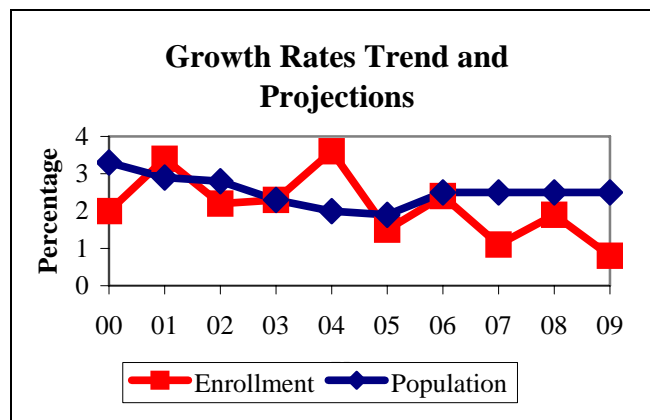
FINANCIAL CONDITION OVERVIEW

Traditional measures of economic conditions focus on a few variables: 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. Fortunately, the diverse, strong and stable business climate of the County and the County residents have enabled the County to continue to maintain a fiscally strong local government and mitigate, when applicable, national and State recession conditions fairly well. The overall strong economic environment has led to the lowest unemployment rate in the Richmond region at 2.0% (December 2004), compared to 3.6% in region, 3.0% in Virginia and 5.1% in United States.

The County also relies upon a strong fund balance policy, which reserves at least 10% of its revenues (the industry benchmark for a fiscally well-managed local government). When balances are projected to be above such thresholds, excess balances can be either saved for future years in which economic conditions warrant using it to mitigate one-time revenue shortfalls and/or expenditure mandates, and/or targeting it for future capital needs to mitigate debt and/or other local funding needs. The undesignated fund balance as of June 2004 was \$15.2 million, which represented 10.7% of General Fund revenues, improvements over both the prior fiscal year’s balance of \$13.6 million and its 10.6% ratio. The 10% fund balance policy is projected to be favorable at June 30, 2005, after meeting year-end fund balance policy thresholds and planned needs for the FY06 budget. The Five-Year Financial Plan is balanced each year and its reliance on use of surplus each year reinvested into the subsequent year is at a conservative level that should be accomplished; compliance with the fund balance policy is expected to be maintained throughout the next five years.

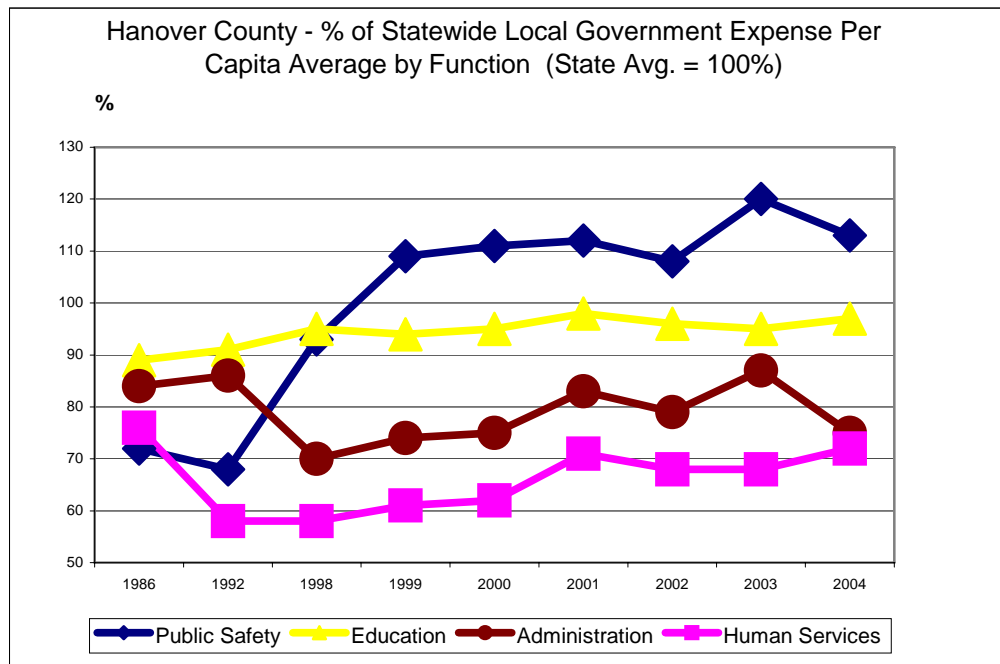
Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 3.0% in FY04 and taxes collected were 100.1% of current levy (strong collections of delinquent taxes impacted this ratio); the County has collected over 98% of taxes every year since 1997.
- Total outstanding delinquent taxes on June 30, 2004 represent only 1.6% of the total tax levy, maintaining the County’s ratio below 2.0% annually since 2000.
- The County has continued to realize high median new home sales prices over many years with new home median values at \$269,000 in 2004, a 6.3% increase over the prior year (average new home was \$291,000, a 9.8% increase over the prior year). The average value of a house in the County is now \$195,000, a 7.7% increase over the prior year.
- The County has also maintained its strong bond rating of Aa1/AA/AA+ (positive outlook) with only seven counties in Virginia and ~40 counties nationwide having higher bond ratings than Hanover.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 7.5% (policy is <10%), the lowest ratio since 1990.
- Population growth rate is expected to be 1.9%, with a total population of 97,606 estimated for July 2005. Current long-term models illustrate compliance with the County Comprehensive Plan’s 2.5% annual growth rate.
- Enrollment growth is expected to be 1.5%, with a total enrollment of 18,536 estimated for September 2005. The difference between population growth and enrollment growth is that the County calculates population using a people per household norm multiplied by occupancy permits, whereas enrollment will vary depending on the difference between the size of kindergarten classes entering and senior classes graduating. In the long-run, such variability between enrollment and population growth should be minimal.



To assess internally our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The 2004 State report shows that Hanover has the 11th lowest level of fiscal stress and the 8th highest median adjusted gross income (\$39,784). 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 generate additional revenue. 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.

A general indicator of the efficiency with which the County operates is an analysis of comparative per capita spending in functional areas as prepared by the State's Auditor of Public Accounts. It shows that only in education and public safety, our priority expenditure functions, is Hanover closest to the State-wide per capita averages. All of our other functional areas are well below the State-wide averages. For example, the area of administrative expenditures is 75% of the State-wide average and the lowest in the region, including the rural localities of New Kent, Caroline, King William and Goochland. While it is not practical to provide an in depth analysis as part of this synopsis, the four areas – Public Safety, Public Schools, Human Services and General Administration – represent the County's two Board priorities and two other representative functions of local government, respectively.



GENERAL FUND – BUDGET CHANGE SUPPORT

The General Fund serves as the primary operating fund from which nearly all County services receive all or most of its local funding. In addition to specific increases noted in other sections of this budget message, the budget is prepared to accommodate service level demands (e.g., 1.9% projected population increase, 1.5% student enrollment increase and ~3.0% inflationary pressures). 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 addition, many areas of the County's operation are mandated by Federal or State law for which budgetary control is always a challenge. Finally, the cost of providing services to the citizens will always continue to increase as residents desire more and more from their local government in attaining their desired quality of life.

An additional \$13.3 million is available in revenue to the General Fund. The primary revenue sources for this increase (represents 92.9% of total increase) are:

- General Property Tax Base Revenues - \$6.8 million: This revenue source is up 6.3% due to continued strong growth in real property revenues. This sustainable tax base of both residential and commercial properties reflects the high quality of life in the County.
- Other local taxes - \$2.6 million: The primary factor is the growth in sales tax revenue. Projected trends are up because the County's retail sales environment continues to improve.
- Charges for Services - \$2.2 million: In FY05, the County will recognize only four months of revenue in the newly established EMS fee recovery program and did not recognize any additional funding from the E911 tax rate increase

that was targeted towards the new communications system project. The FY05 budget surplus revenue and the FY06 additional revenue from the E911 tax has been transferred to the County Improvements Fund for this project as part of the FY06 budget.

- Intergovernmental - \$703,000: Comprised primarily of a \$367,000 increase in State Compensation Board funding of constitutional offices in compliance with State funding allocations and a \$384,000 increase in State and Federal funding of Social Services in compliance with mandated programs.

After cutting department requests to best match current service level goals with available revenue sources, the following primary uses account for the General Fund budget increase (represents 79.0% of total increase):

- Education - \$3.9 million: The increase in funding for the schools as requested by the School Board is the County's best attempt at meeting the commitment to maintain student teacher ratios. As part of the deliberations with the schools and recognition that the schools are ~50% of the County's operation, they also are a stakeholder in the County's revenue increase. The budget includes 48 new positions.
- New Positions - \$1.9 million: For net new 35 full-time and 8 part-time positions which can generally be classified as fee-recovered and locally funded:
 - Revenue Recovered (\$175,000): Commonwealth Attorney, Social Services (5), including a part-time position in Social Services.
 - Locally Funded (\$1.7 million): Full-time positions for Sheriff (8 full year and 3 mid year in Sheriff's Office and 1 in Court Services), Fire/EMS (11), Emergency Communications (2), Animal Control, Assessor, Human Resources, Finance, Information Technology, and Public Works Operations. Part-time positions have been created for Parks and Recreation (6) and Public Works. In addition, Public Works Operations has a position reclass from part-time to full-time and Assessor has a reclass from full-time to part-time.
- Community Services Board (CSB) - \$469,000: New local funding that was needed as a direct result of one new full-time one part-time position, providing funds for increases in employee health insurance, and desire to meet current service level demands.
- Comprehensive Service Act (CSA) - \$356,000: New local funding to meet mandated population of at-risk children being served, \$219,000 of which was provided in the State budget amendment to FY05 budget.
- Pamunkey Regional Jail - \$1,046,000: The inmate population has increased 20.9% to 353 inmates per day. As the regional jail capacity is further occupied by local inmates bed rental revenues that mitigated County costs are declining.
- Social Services operating expenses – \$233,000: This increase is primarily due to increases in mandated programs, which is offset by State and Federal revenue since a greater percentage of the population is being served through better outlets, outreach and other programs to provide information to targeted eligible people.
- Health Insurance - \$293,000: Primarily due to premium rate increases in health insurance costs (as employer costs have increased 15%). Health insurance impacts also have been incorporated into the School and CSB budget as target adjustments.
- Tax Relief for Elderly and Disabled - \$307,000: As noted in other parts of this message and synopsis, enhancements to the relief program and the number of participants have resulted in an increase to this budget.
- County Improvements Fund - \$1,453,000: Primarily the recognition of the E911 tax revenues collected in FY05 and FY06 that will be transferred into the County Improvements Fund to begin to fund the replacement to the County's emergency communication system.
- Public Works Operations - \$353,000: The \$167,000 increased cost in the solid waste hauling contract of the County accounts for much of the increase in this County division.

EMPLOYEE COMPENSATION AND BENEFITS

The Board of Supervisors has long recognized that competitive employee compensation is critical to the County's success. In keeping with a market-based and performance driven approach, included in the budget is an average pay-for-performance salary adjustment of 3.0% of the salary range midpoint. Beginning July 1, 2005, all County employees will have their annual merit review for their work performed through the June 30 fiscal year. This will enable employees to have their review correlated to fiscal year work plans, objectives and other measures of performance, including opportunities for performance incentives, that are better measured during a fiscal year period. A common review date of July 1 for all employees will also enable managers to compare the performance of multiple employees simultaneously while realizing administrative efficiencies. Pro-rated merits will be provided for those employees who received a merit during the preceding eleven months and also for new employees hired prior to May 1, 2005. For employees hired after May 1, 2005, any prorated merit increase will be factored into their starting salary.

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; and
- Current economic conditions, including State revenues provided to localities, in ascertaining availability of funding.

While national private sector increases are projected to average ~3.5%, it appears that the local government market will be providing ~3.0% in merit increases. Therefore, the County's merit program is competitive with that of local government indicators and private sector. The County's benchmark program, long credited with providing market based adjustments targeted to those positions with market constraints and mitigating retention issues and enhancing employee morale, is also funded.

To mitigate pressures upon the benchmark program and to continue to meet market sensitive position grade classifications, a 1.5% salary scale adjustment has been included. The effect of higher midpoints is absorbed within departmental budgets based upon the current salary scale structure.

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 employees. The County has worked with the School Board on a Benefits Committee in establishing consistent application of employee benefits, including health insurance, retirement, disability insurance and flexible spending accounts. The School's 3.0% average salary increase, together with targeted benchmarks, is also competitive with the local government school divisions and equitable to that of the County's compensation program.

In addition, 23 County position title reclassifications are included in the budget at a net cost of \$76,000. These upgrades are primarily needed to better classify positions based upon actual functions or recognize those part-time positions where additional hours classify the position as benefits-eligible. Career ladders have been developed for many positions as a recruitment and retention strategy and to recognize the advancing achievements of the workforce during their careers with the County. This review includes keeping pace with the dynamic changes of how business is conducted. As a result of the County's career ladder programs, the County will have over 70% of its eligible employees covered by career development plans with the addition of one new career ladder proposed for account clerk positions.

Self-Insurance Fund (\$2.5 million and 16.8% increase): The Self-Insurance Fund provides for health insurance payments through County contributions and employee deductions. This program serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. Employer assumptions include a 15.0% increase in departmental budgets for premiums funded for participating, vacant and new positions with remaining claim expenses primarily funded through employee payroll deductions. The County's increased costs for health insurance are in-line with market averages. The County must balance its need to mitigate employee deductions to ensure market competitiveness, but also mitigate escalating employer costs by further reviewing coverage, co-pays and access provided to health insurance.

GENERAL FUND – 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 their applicable expenditure by function narratives.

Real Property Taxes (\$74.2 million, a \$5.4 million and 7.9% increase): The total value of taxable real estate in the County reached \$8.9 billion in January 2005, which is an increase of 9.8% over the prior year (6.8% from reassessments and 3.0% from new construction). The 2005 tax base is projected to increase 8.4% by January 2006 (5.4% from reassessments and 3.0% from new construction). Although this growth assumption is still a healthy growth rate, it also represents a conservative estimate based upon sales to assessment ratios currently being experienced and historical growth experienced in the tax base. The projected increase in new construction is a result of the many projects (both commercial and residential) currently underway. Future assumptions in five-year plans of new construction continue at a conservative estimate. In recognition of the reassessment being experienced by many of our residents, the tax relief for the elderly and disabled program is proposed to raise the net worth maximum from \$100,000 to \$125,000. Tax relief available to the elderly and disabled will increase by 67.0% to \$765,000, of which only \$25,000 is from the proposed change to the program. The primary increase is attributable to the greater number of participants now in the program (over 1,000) receiving greater tax relief based upon modifications made to the program over the last year. The ordinance to increase the tax relief available to the elderly and disabled will be done in conjunction with other changes to the County's Code for taxation, expected to occur by May 2005. Together with the County's long-standing land use program under State guidelines that provides \$4.7 million in tax relief, the County's total tax relief is over \$5.5 million.

Personal Property Taxes (\$33.0 million, a \$1.4 million and 4.4% increase): During 2004, the standard automobile evaluation guide for cars (NADA) recognized a significant decrease in valuation. Fortunately, the other areas of personal property (business property and volume of new cars) enabled the tax base to have a net increase of 3.0%. From the most recently issued NADA tables that will be used for the 2005 tax year, it appears that used car depreciation is returning to more customary trends. This should result in a projected 2005 tax base increase of 6.5%. 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 is assumed to remain at 70% again in FY06. For purposes of analyzing this revenue source, the total tax revenue budgeted includes the State reimbursement portion of \$14.6 million. If the General Assembly modifies the Personal Property Tax Relief Act (PPTRA), further analysis will be required.

Sales Taxes (\$14.5 million, a \$2.0 million and 15.6 % increase): With the new retail establishments recently and/or planned to open in the near future (including, but not limited to, Target and Home Depot), the County should be poised to gain a greater share of taxable sales in the marketplace. The current year has continued the trend started in the prior year with a projected 7.9% increase in FY05. The projected annual increase of 8.2% in FY06 recognizes the contributions from the many new retail establishments. As a benchmark, our top ten sales tax providers, which represent over 49% of our total sales tax revenues, are currently experiencing increasing retail sales on average of over 15% in FY05.

State and Federal Revenues (\$10.4 million, an \$703,000 and 7.2% increase): The revenues noted here are not inclusive of those of School, Community Services and Comprehensive Services as those other funds and their revenue sources are noted under their applicable sections. The State Budget assumptions have finally recognized State-supported positions (e.g., constitutional offices) with a 2.5% salary increase effective December 1, 2005. The State has funded their share for mandated programs (often Federally mandated as well) and is in compliance with Sheriff deputy support with the State formula of 1 Sheriff's position partially funded for every 1,500 in County population which calculates to a 6.7 deputies to 10,000 population ratio, far below the current service level provided in the County.

Year-end Balance (\$3.9 million, an \$941,000 and 31.8% increase): The County has had a long tradition of conservative spending, which allows for current fiscal year forecasted surpluses available to be reinvested into the following fiscal year's budget. The current year's projected year-end surplus is projected to meet the reinvestment needed to fund the FY06 budget. The increase is comprised of four primary factors: 1) School Board is furthering its goal in reinvesting its operating surplus into the School Improvements Fund and with a projected \$750,000 surplus in the School Fund anticipated to be returned to the General Fund at year-end, this surplus is \$350,000 higher than prior year estimates; 2) \$625,000 in E-911 fees collected in FY05 that were targeted for the communications system will be forwarded from the General Fund to the County Improvements Fund to begin escrow of funds for this project; 3) one-time use of \$112,000 to meet capital match of Federal Hazard Mitigation grant for storm water control project; and 4) \$50,000 from the County's economic development reserve account to fund a one-time grant to the Chamber of Commerce.

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. Due to inflationary pressures, mandates and the need to keep pace with service level demands, it is necessary for certain fees to be amended periodically in conjunction with the budget process. Those increases identified for this year's budget process are as follows:

- **Parks and Recreation Fees:** These fees were last adjusted in FY03 and the only park fees proposed to change for FY06 are in relation to the summer playground program (\$10 increase to \$95 for County residents and \$20 increase to \$190 for non-residents). In 2003, these fees recovered 50% of the program costs and in FY06, it is anticipated that such fees will recover 50% of the summer playground cost.
- **Planning Permit Fees:** These fees were last adjusted in FY99 and at that time those revised fees recovered over 22% of the Planning Department's budget. With the fee increase proposed, it is anticipated that such fees will recover 22.6% of the FY06 Planning Department's budget, an increase from the 19.1% recovery in FY05's budget. The revised fees are centered around those services that involve significant time and effort in working with the applicant through rezonings and conditional use permits. The proposed fees also recognize the FY06 initiative for transportation strategies and the additional effort and expense needed in certain cases for traffic studies to best determine the impact of the proposed project.
- **Building Inspection Fees:** These fees were last adjusted in FY03, when such fees were changed to a flat rate schedule for residential permits. The proposed fee for a single family house is proposed to increase to \$450 from \$425. The Building Inspection's FY06 budget recognizes permit fees as 92.0% of its funding source, compared to FY05, when such fees were down to 88.1% of its budget. Building inspection fees may be more volatile in certain years based upon the variability in the scope of commercial construction and the volume of new home construction.

EXPENDITURES BY FUNCTION

The following section of the budget synopsis 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 synopsis to disclose significant changes in funding (i.e., all new positions, funding of capital improvements, major initiatives, 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 more participants in the services provided by the County. For those departments that recognize significant revenues that are recovered through fees, grants, etc., the local funding change is noted as local funding is the general revenues of the County allocated amongst all General Fund funded departments (e.g., general property taxes, other local taxes, etc.).

In addition to the operating budgets and FY06 capital budget information that are illustrated in this section, other sections contain further analysis of the Capital Improvements Program (CIP) and employee compensation. Furthermore, because the 2005 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 2005. Therefore, as applicable, all such bond referendum projects in the CIP are also noted under departmental sections in this budget synopsis.

PUBLIC SAFETY

Fire/Emergency Medical Services (EMS) (\$1.6 million and 19.6% increase, 4.3% increase in local funding): Since the adoption of the FY05 budget last April, the Fire/EMS operations of the County have seen significant positive changes. These include, but are not limited to: 1) Deployment study done in June 2004 that best positioned paid staff with volunteers in trying to attain newly adopted performance standards to ensure that a quality service response be provided to every citizen, 2) Volunteer incentive enhancements, based upon volunteer input, that are expected to be approved in April 2005 to retain and attract volunteers; and 3) Implementation of the EMS Fee Recovery Program on March 1, 2005 enabling the recovery of revenues from primarily the Federal government and private insurance companies. The County has been very fortunate for the volunteers that we have had, the ones that we currently have and are grateful for any citizen that desires to be a Fire/EMS volunteer. However, new positions have been and will continue to be added to Fire/EMS for the foreseeable future until it achieves the simple standards of this profession – to have a response team of trained Fire/EMS personnel (paid and/or volunteer) arrive in a timely manner and address professionally the 911 call that was placed.

In conjunction with the full year recovery of the EMS fee initiative, which will recognize an additional \$1,250,000 in FY06, Fire/EMS will be adding 11 positions in FY06 (3 lieutenants and 8 firefighters/EMTs). Plans for staffing increases over the five-year plan are part of the strategic goal of providing people to respond to calls. In addition to ongoing operational expenses, the budget contains funding for radios, training center improvements and equipment. The budget also recognizes a \$67,000 J. Sergeant Reynolds EMS training program; the costs of this program are offset through revenue recovered from having County Fire/EMS staff serve as instructors for such programs.

The Fire/EMS portion of the capital budget includes \$900,000 for fire truck replacements and \$150,000 for ambulance replacements.

For the 2005 bond referendum, the CIP includes funding for new fire stations for Ashland, Farrington and Black Creek. The Farrington and Black Creek Fire Station projects are also planned to accommodate EMS vehicles and provide space inside the station dedicated to EMS staff needs.

Sheriff's Office (\$1.3 million and 9.1% increase, 10.4% increase in local funding): This State and nationally accredited office continues to be the envy of local law enforcement agencies as an effective operation in not only maintaining the lowest crime rate in the region, but also community policing, responsiveness to citizen needs, and a pro-active approach to blight and criminal activity that can arise in other places if not properly safeguarded against. These plans are formulated based upon desired response times correlated to number of people served and associated demand factors (e.g., burglaries, other crimes occurring).

While there may always be a funding constraint between what the Sheriff's Office considers it needs in meeting the highest standards of deployment and service, the County will always work towards putting the resources towards this office in meeting the priority service levels established by the Board for public safety. The local share of funding for this office will increase 10.4%, which would increase such funding to 80.0% of their \$14.9 million budget. The budget includes the addition of 11 positions (10 deputies and one administrative assistant). In addition, the temporary position created in FY04 to provide for cross

training in a support position will continue in a temporary basis through FY06 for another support position. This temporary position will then be removed from the position count upon completion of cross-training and transition of new employee into permanent position. The County hopes to work further with the Sheriff's Office in determining the staffing standards for service to meet shared goals and various measures (e.g., sworn officers per 10,000 population rate, calls for service, response times, etc.).

As part of their operations, 43 vehicles will be acquired at a cost of \$878,000 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.

As the Sheriff's Office also comprises the Court Services division that it supervises (addressed under Judicial Administration function), the following statement reflects total funding provided to the Sheriff's Office: Total budget \$16.0 million, a \$1.4 million and 9.2% increase, and 10.5% increase in local funding.

Emergency Communications (\$121,000 and 4.8% increase): An integral component in ensuring public safety responsiveness is an effective and properly staffed Emergency Communications Department. Two communications officers, of which one is a supervisor, are needed to maintain service availability for the current volume of 911 dispatches and communications. In addition, \$8,000 has been provided for 60" monitors in the dispatching room to track information that provides cross-benefit amongst the dispatchers.

For the capital budget, \$100,000 has been provided to initiate an EMS dispatch library, which can provide the fastest resource available for a communications officer to respond to a caller's urgent and critical questions that may need to be addressed prior to the rescue squad team arriving at the scene. This system module is funded 50% with a State grant. In addition, \$250,000 has been provided for channel bank equipment which will replace equipment ~15 years old and provide for a redundant power supply, which will eliminate a single point of failure with the system.

For the 2005 referendum, \$27.5 million has been targeted to meet interoperability of the system's users. A consultant has been under contract since January 2005 to perform the critical analysis to best determine the scope and timing for system replacement. In addition, the project scope for this system now includes a facility for Emergency Communications to move its operations, as our current facility is undersized and the new system will require a larger facility.

Animal Control (\$110,000 and 15.5% increase): The budget includes a replacement vehicle and an animal control officer. An analysis of service level constraints illustrated that the County has one animal control officer for every 1,574 service calls, whereas comparable statistics of neighboring jurisdictions illustrate ratios ranging from ~1,000 to 1,375. Even with this new position, the County would still have the highest ratio in the region at an estimated 1,417. There are many other manners in which to illustrate the service demands upon this office (e.g., animals captured, dog licenses, rabies cases, patrol mileage, etc.), but in all of these other measures the County's service also is performing more with less due to the invaluable service being provided by a limited staff.

Juvenile Court Services Unit (\$74,000 and 11.2% increase, 12.8% increase in local funding): While not a staffing resource, but in essence the by-product of a strong law enforcement division and judicial system, this budget is comprised of juvenile offenders who are placed at the Merrimac Juvenile Detention Center as well as other community programs provided to address accountability, public safety and treatment (e.g., case management, probation, electronic monitoring, community service and treatment groups). The increase in the budget primarily represents the change in juvenile detention fees and the number of juvenile offenders sentenced by the court. The flat State funding results in 100% of the budget increase being locally funded.

Pamunkey Regional Jail (\$1,046,000 and 34.5% increase): The strong law enforcement and judicial system trends experienced with juveniles noted previously have also resulted in more adult inmates housed at the jail. 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 292 inmates per day this fiscal year, but based upon current trends, 353 inmates per day is predicted in the next fiscal year, 20.9% higher than previous budget assumptions. The local cost increase is rising higher than inmate growth due to less capacity for jail to rent beds as local inmates are occupying more and more of this facility. The initial budget request projected a higher increase, but available accumulated balances and year-end projections should mitigate the impacts in FY06.

Community Corrections (\$21,000 and 9.3% increase, 77.3% increase in local funded): This function, initially 100% funded by the State is required to provide community corrections and pre-trial services to those deemed necessary by the judges. With flat State funding, but inflationary and merit based needs for operating, the local share will increase to 19.6% of the total budget in FY06 and most likely continue to increase in the future. The budget increase is mainly attributable to \$8,000 being provided

from local funds that can hopefully be matched with departmental savings for fiber optic phone lines to their office in order for their office to function in a manner comparable with other County offices. Opportunities may exist for cost recoveries for such services and these revenue options will be further reviewed with the Community Criminal Justice Board to determine the ability to administer and estimated recoveries that could be provided. If deemed fiscally prudent, such proposals may be brought to the attention of the Board of Supervisors during FY06.

Building Inspections (\$26,000 and 2.0% increase): The interactive voice response system approved in the current budget is expected to be fully implemented by July 2005. This will enable builders and other people involved in the building permit process to schedule inspections and other services of the Building Inspections Office 24 hours a day. With the proposed fee increase, this office is expected to recover 92.0% of its expenses. In addition, funding has been provided for vehicle replacement and \$5,000 has been provided for unsafe building removal to improve the timeliness of this program with such expenditures recoverable through liens placed on the property.

PUBLIC SCHOOLS (Also refer to Superintendent's Message in Section B under Education Section)

The County and school staffs continue to work together to ensure that funding levels are provided to best meet student-teacher ratios, the ever increasing demand upon mandated special education programs and compliance with the No Child Left Behind Act (NCLB). These discussions focused not only on operational needs, but capital needs over the next five years. The capital program is being addressed with a 2006 elementary school that should start construction shortly and a 2008 elementary school as part of the 2005 bond referendum. The Pearson's Corner and Pole Green elementary school districts that will be primarily affected by these new schools should hopefully recognize the relief that these new schools will provide. The elementary classroom space is becoming more and more challenged by the need to meet mandated programs and concentrated growth in a few school districts. What results is simply using classroom space for these targeted programs and having to deploy modular trailers sooner and in greater numbers than initially anticipated. Hopefully, through the efforts of joint County and school focus teams, the definition of when that threshold is crossed is now better defined and can be integrated into long-range capital planning.

The County's projected cost per pupil of \$8,024 is projected to be one of the lowest in the Commonwealth of Virginia. In FY04, the County ranked as the 2nd lowest in its overall cost per pupil. 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 was one of the first two in the State with 100% of schools meeting full accreditation criteria and currently is in the top 5% of Virginia schools on measures of student achievement.

The school system, which enrolls 18,536 students (18,911 including pre-K), continues to "raise the bar" of standards expected for public education. The school district is the recipient of two prestigious U.S. Senate awards for quality and has eight 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 and received a 97% family approval rating in its most recent survey. Students performed in the top 10% in the State on the Stanford 9 Assessment and have the highest SAT scores in the region. Only 0.4% of students drop out before graduation and 83% 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).

The following School budget includes adjustments needed to meet the additional cost of the 2006 elementary school as initially identified in the County Administrator's budget message.

School Operating Budget (\$11.6 million and 8.0% increase, 5.0% local increase): This \$157.3 million budget includes all school operations, excluding the self-funded cafeteria operations. The gross State increase to the schools represents a \$7.9 million or 15.1% increase, which reflects the Governor's recommendation to fund the State's Standards of Quality for education. School textbooks are funded through a combination of local and non-local sources and debt service is 100% locally funded. This budget includes 44.2 net additional positions (3.5 positions expired with grant expiration), of which 25.2 are teachers to meet accreditation standards, maintain average class sizes, meet special education students' needs and continue phase-in plans for previously planned initiatives. Because of the 1.5% increase in students, many of these positions are driven by enrollment increases. With these additional resources the pupil teacher ratio (core classes) is projected to be 18.0:1 in FY06 (this ratio was 17.9:1 in FY05, five years prior to that it was 19.0:1 and ten years prior to that it was 21.6:1). The local increase of 5.0% includes the General Fund's contribution to the School's capital program, which is part of the target setting process. When accounting for the State budget amendments that took place subsequent to the adoption of the FY05 County's budget, the local increase is 6.8%.

Cafeteria Operating Budget (\$292,000 and 4.5% 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. One additional food service position is needed to meet the needs of schools.

School Capital Budget: The capital budget and related CIP is in compliance with 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.” As the planning process is in place for a 2006 and 2008 elementary school, it is anticipated that such school capacity statements will be further reviewed to address two factors that have arisen in recent years: 1) the need for classroom space that became supplanted through use of existing classrooms for special education or other non-classroom activities (many of which are mandated) and 2) higher concentration of growth in specific districts that caused the overcrowding factor to increase at a much faster trend.

For FY06, the capital budget provides \$16.2 million. This includes additional costs for the 2006 elementary school, land acquisition and planning/design for the new 2008 elementary school, completion of the alternative education facility and technology infrastructure. In addition, \$1.7 million is provided for the school bus acquisition and replacement program for 25 buses and \$1.1 million for the computer replacement program.

For the 2005 bond referendum, long-term school capital goals can be realized. Specific to the School’s \$54.5 million referendum would be a new elementary school to open in 2008, a new trades-based center and technology and facility improvements at all of the County’s schools. Further efforts have been put forth in leveraging \$2.5 million in proffers and related capital savings plan to apply towards school referendum projects. If current construction trends continue, then projects such as the 2008 elementary school will be completed through a combination of reduced scope in project and/or utilizing referendum capacity in prioritizing facilities improvements.

PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$179,000 and 7.2% increase): Program participation continues to increase each year with the majority of this coming from an ~8% increase in special event participation, athletics and youth programs. The annual allotment to the Parks and Recreation Advisory Commission (PRAC) is \$20,000 for PRAC to distribute amongst the various needs of the many recreational-type organizations. Part-time therapeutic recreation aides (6) have been added to continue to meet the needs of this targeted population in providing recreational opportunities for such youth. In order to better manage the significant and various recreational programs, \$30,000 has been provided for recreation management software that should greatly enhance the effectiveness and efficiency of this office.

The capital budget has \$100,000 for Courthouse Park improvements to enable Blue Star Football to relocate their football games to Courthouse Park from the overcrowded Washington-Henry School site currently used. Parks and Recreation has had great success in recent years in collaborating with organizations in providing resources towards such improvements and enhancements.

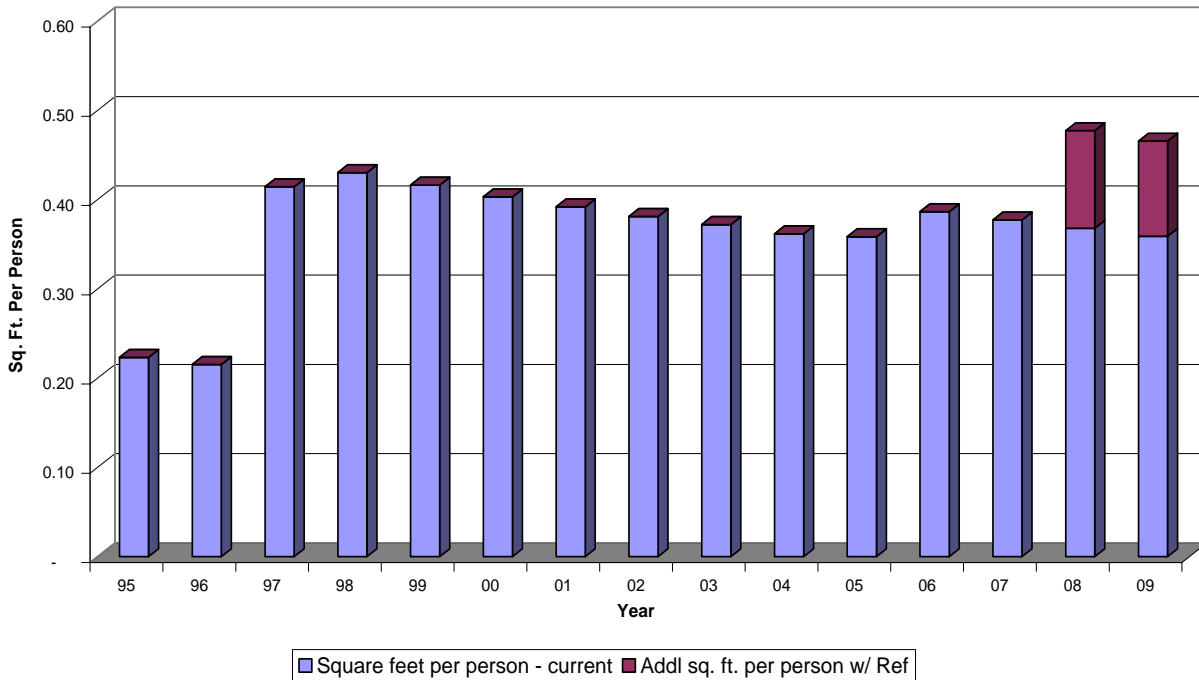
For the 2005 bond referendum, the CIP will include \$4.6 million in funds for significant improvements to Pole Green, Poor Farm and Courthouse Parks as well other park improvements at Hanover Wayside Park, new park development and playgrounds, with an additional \$1.2 million funded by the capital savings plan to mitigate the debt impact of the referendum.

Pamunkey Regional Library (\$140,000 and 6.8% increase): The County has benefited greatly as part of this regional library system that serves four counties. Over 800,000 items were circulated in the library in the prior year, which has almost doubled in circulation over the last ten years. In furthering its desire for standardized service levels amongst all of its County libraries, \$16,000 has been provided to enable the Montpelier branch to increase its hours from 48 to 54 hours per week with future plans providing funds to get to the standard 60 hour week.

For the 2005 bond referendum, the CIP will provide funds for a replacement Mechanicsville Library, of which 12.2% of such project is now funded with the capital savings plan. Needs assessments and/or goals for facility infrastructure provide the support for each and every project in the referendum. While not provided in detail in this synopsis, the following example illustrates the rationale for library projects.

The County and the Pamunkey Regional Library often refer to the goal to have a .6 per square feet of library space per person in the County. This standard is in the County’s Comprehensive Plan and is based upon the State Library recommendations. As the following chart indicates, the County greatly enhanced its ratio from .2 to .4 in 1997 with the addition of Atlee Library and expansion of the Ashland Library into a new facility. In addition, 3,680 square feet are expected to be added at Rockville Library by December 2005 when the square footage deficit from the .6 goal will be 21,000 square feet. Until additional square feet are added, this ratio will further decline as the County grows. With the replacement of the Mechanicsville Library to open by 2008 the County’s ratio will be at its highest point since formally tracked, but still 13,000 square feet below the .6 goal. In the long-term, an expanded Atlee Library could possibly further help the County achieve this standard.

Library Square Feet Per Person



HUMAN SERVICES

Community Resources (\$21,000 and 5.8% increase, 23.4% increase in local funding): This department continues to serve as the foundation in facilitating and maximizing volunteer and community resources. The efforts of County residents who invest their valuable time into their community is a hallmark tradition. An example is the Hanover’s Promise initiative, an effort that mobilizes all sectors of the community to ensure children and youth have access to the fundamental resources they need to succeed. This effort is meeting initial goals, however, continued progress depends to a large extent on sufficient staffing. The local funding increase is attributable to fully funding an already approved vacant position that was previously funded by a grant that has now expired. With 32.9% of the budget coming from non-local sources, efforts will be continued to decrease the actual amount of local funding. In addition, Community Resources provides the administrative oversight to the CSA Fund as follows:

- **Comprehensive Services Act (CSA) (\$548,000 and 13.8% increase, 20.4% increase in local funding):** This mandated program for at-risk youth and their families continues to become more expensive. Relevant factors include the high level of care needed, the cost of those services, the duration of service and the steady increase in the number of youth being served each year. A formula based on vendor rate increases and population is used to project future costs. In FY06 it is projected that 135 youth will be served (4.0% increase) at an average of \$31,400 per youth. The local increase is higher due to the decrease in Medicaid funding support (fees revenue recognition per change in accounting practice). The Community Policy and Management Team, comprised of representatives from the County Administrator’s Office, Juvenile Court Services Unit, Schools, Social Services, Health Department and Community Services Board, addresses and implements case management and cost containment strategies in order to provide these much-needed services to at-risk youth and their families in the most efficient and cost-effective manner possible.

Social Services (\$364,000 and 7.5% increase, 2.5% decrease in local funding): Social Services is the primary local agency in meeting the social services needs of individuals that arise from a variety of circumstances. Changes in this budget are correlated to serving these individuals in mandated programs; fortunately such mandated programs have high State/Federal reimbursement rates. All of the Federal, State and/or local service standards have been met or exceeded (e.g., timely application processing of Food Stamps, Medicaid, and Temporary Assistance for Needy Families (TANF)). Through efforts of staff and community, and required Federal funding share for eligible recipients, a greater proportion of the population is being served, which has had a positive impact upon the community. As an example, the following programs have increased over a three year period: Food stamps 44%, child care 36%, TANF 37% and Medicaid 68%. An initiative that centers on community capacity building and improved customer services is represented by AmeriCorps positions staffing Hanover Safe Place, the Earned Income Tax Incentive Program and the Pharmacy Connection which has already had \$462,000 worth of prescriptions for 202 of Hanover’s eligible citizens.

Positions requested include: 4 full-time positions (one case aide to meet the requirements of the Federal Child and Family Services Review and the State Performance Improvement Plan; one case aide to maintain compliance with State timeliness/quality requirements; one eligibility worker for Medicaid processing at Regional Memorial Hospital (funded by the hospital); and a social worker for Child Day Care). In addition, a part-time social worker position is needed for implementing the new State mandated Foster/Adoptive Parent curriculum and a reclass from part-time to full-time for the Americorps Volunteer.

Health Department (\$25,000 and 5.6% increase): This budget represents the County's tradition of funding a 45% share of this State agency budget. State funding for this department has been limited in recent years, also mitigating the County's obligation. The Health Department represents a stand-alone State function for which the County's share rises in proportion to State funding of this service. This office should be recognized for its best efforts to meet the needs of citizens in the face of budget shortfalls.

Tax Relief for the Elderly and Disabled (\$307,000 and 67.0% increase): In order to recognize this real property tax relief in compliance with State accounting standards, the relief component of this program is illustrated as an expense whereas the offsetting revenue is recognized under real property tax revenues. This program is administered by the Commissioner of the Revenue's Office and the total relief is projected to be \$765,000. The primary factor for this increase was recognized as a FY05 budget amendment soon after budget adoption with enhancements to the program in addition to the continuing promotion efforts put forth by the Commissioner of the Revenue and County. The proposed 2005 expansion of the tax relief program was previously noted under real property revenue changes.

Community Services Board (CSB) (\$1.1 million and 13.5% increase, 12.8% increase in local funding): While our focus for new funding uses has been primarily directed towards the priority service levels of education and public safety, we can not ignore the needs, many of them mandated, in the provision of human services to our citizens. The total CSB budget is \$9.5 million. The County has been working with CSB staff in recent years to provide them the same target increase philosophy as afforded to education and public safety priorities. This has enabled CSB to meet current service levels with current staffing resources, but has not enabled them to significantly reduce the waiting lists, counselor caseloads and other indicators that had been desired as part of a County/State approach. For example, the mental retardation waiting list has grown 17.6% from 136 to 160 individuals during the last year.

In meeting the growing demand for current service delivery of clients, \$86,000 has been provided for 5,800 sq. ft. of office space that should be recovered through ability to recover operating costs from revenue generated services provided. The budget includes funding for an additional printer for Logomotion to meet the growing demand for client-run textile printing and embroidery services. In addition, an upgrade of a vacant accountant's position to Controller will provide financial analysis to better manage the often difficult environment of services provided that can be reimbursed through State, Federal, insurance and/or client revenue sources. A part-time clinician position is needed to provide CSA utilization review services. Finally, a reclassification of six positions and additional hours added to six part-time positions to meet growing client demands and the need for increased information technology and quality improvement requirements. The total cost of all of these positions is \$203,000, of which 59% will be recovered through client fees, Medicaid and/or other sources.

COMMUNITY DEVELOPMENT

Economic Development (\$18,000 and 1.8% increase): Economic development is fostered through strategic planning and creating and maintaining a positive business climate. The funding of programs and personnel dedicated to achieving the County's economic development goals and objectives should reach the desired results over the long-term. An initiative of public access accomplished during the fiscal year was the Resource Guide, a publication that provides students interested in careers and jobs with County businesses a perspective of what services and industries exist. Economic Development also provides the administrative oversight over two fiduciary funds:

- **Economic Development Authority (EDA) Fund (\$360,000 and 179.8% increase):** The EDA issues tax-exempt bonds for qualifying projects and partners with local developers in furthering economic development goals. The budget consists of fees to partially recover Economic Development costs on revenue bonds issued. The budget increase is due to the additional interest income earned on new loans and the expected repayment of principal net of declining principal balance on outstanding EDA bonds.
- **Community Development Authority (CDA) Fund (\$60,000 and 5.0% increase):** This fund recognizes a special assessment district with the revenues representing assessment liens on applicable CDA properties and expenditures representing the offsetting payment to the trustee that administers the bonds.

Planning Department (\$102,000 and 6.3% increase): In preparing for the proposed transportation initiative, the Planning Department has drafted a policy to further involve County-hired transportation consultants for those rezonings involving a traffic impact of more than 500 vehicle trips per day. In order to offset the additional \$40,000 cost of this initiative (total transportation study budget is \$70,000), the Planning fees are proposed to be structured to provide for the additional revenues to not only offset

this cost, but to also account for inflation of Planning Department services since the fees were last adjusted in 2000. In addition, Planning provides the administrative oversight over the GIS Division as follows:

- **Geographic Information System (GIS) (\$18,000 and 3.0% increase):** The ability of GIS to provide a support service to other departments, the citizens, businesses and other interested users of GIS information continues to be realized. An example of such technology is the web site www.co.hanover.va.us/planning/gismap.htm, which is one of the most accessed websites in the County providing relevant information for every County tax parcel.

The budgets of the following divisions under community development are generally small in scope and require little administrative oversight with the total budget for the following two divisions totaling \$174,000:

- **Extension Service (\$4,000 and 5.1% increase):** This function represents the County's share in participating in the State extension service, which has been a valuable resource for our agri-business and residents interested in horticulture. The increase is attributable to required payment to Virginia Tech in administering this program.
- **Soil and Water Conservation District (\$4,000 and 5.0% increase):** This is the County's share for participating in this district, which services residents in conservation planning and education. The increase is attributable to supplement State salary increase.

Community Support (\$90,000 and 7.6% increase): The contributions to various local and regional entities are classified under community development to reflect their community support intentions. The budget reflects basically flat funding for all discretionary contributions and continuation of funding formula agreements (e.g., share of Richmond Regional Planning District Commission (RRPDC)). Increases are attributable to new regional participation funding for the following organizations: \$25,000 for the VCU Children's Medical Center for pediatric oncology in order to ensure that this vital service remains in Central Virginia; \$33,378 as first of four installments to J. Sergeant Reynolds Community College for parking lot improvements at the Parham Road campus; \$2,000 to Homeward, an organization dedicated to finding housing solutions for disadvantaged people; \$5,000 to Hanover Adult Center to help meet increased operating expenses; \$15,000 to the Montpelier Center for Arts and Education for grounds and building development; \$25,000 to Habitat for Humanity to help meet permitting costs of building affordable homes; and \$2,000 to the Hanover Historical Society for the Parson's Cause living history presentation. Finally, the lodging tax-supported funding for Richmond Metro Convention and Visitor's Bureau and Greater Richmond Convention Center Authority increased in correlation to projected increases in lodging tax revenues.

PUBLIC WORKS

Public Works (\$96,000 and 8.1% increase, 15.2% increase in local funding): Public Works is a function that is increasingly being mandated to meet various regulations imposed upon the County for which no Federal or State assistance is provided; for example erosion and sediment control (E&S) during residential/commercial construction projects, which are funded with E&S fees. In addition, the service level of stormwater management is continually being defined, especially in response to the high volume of citizen calls in the wake of Hurricane Isabel and Tropical Storm Gaston. The transportation section of public works has also been challenged to define local responsibilities in the wake of deficient funding provided by the State for their road infrastructure programs. These local initiatives have included developing plans to how best manage State resources, road proffers and developer contributions in meeting traffic impacts from existing and planned development. A part-time intern position is included in the budget to assist with data collection and report preparation for the mandated Virginia Pollutant Discharge Elimination System (VPDES) Permit for Small Municipal Separate Storm Sewer Systems, administered in the past by the Department of Environmental Quality (DEQ), and now by the Department of Conservation and Recreation (DCR).

In the capital budget, proffers, developer contributions and State revenue sharing funds, will provide \$1.4 million in road and traffic improvements. In addition, \$400,000 for regional stormwater implementation is funded by stormwater management fees. Road proffer and stormwater management fees are examples of revenue-based programs that use current land use plans to determine the development impact so that fees can then be structured to develop appropriate revenue recovery financial models. Finally, \$450,000 for stormwater management control has been provided to assist with remediation of drainage infrastructure needs related to Gardner Estates, with 75% of such funding dependent upon a Federal Hazard Mitigation grant. Projects such as this can not be funded by stormwater management fees as these are issues that arise in already developed areas of the County.

Public Works has historically managed construction projects for the County. If there is a favorable bond referendum, the County will begin to have significant projects to manage over a five to seven-year period. Therefore, it is anticipated that construction management resources will be further reviewed to best align resources towards needs.

Public Works also provides administrative oversight over the following divisions:

- **Public Works Operations (\$353,000 and 11.3% increase):** Public Works Operations provides for the operation of the County's solid waste disposal and hauling system which includes a centralized transfer station available for commercial haulers and six convenience centers available free of charge to residents. Over 37,000 tons are collected in the County and hauled to a facility for disposal outside of the County. In addition, recycling centers are available at every convenience

center and transfer station that collect over 27,000 tons annually, a 42.1% recycling ratio that is far above industry standards for a drop-off operation. Included in the funding is the recognition of the recent contract approved for hauling services, which will cost \$145,000 more in the FY06 budget than what was initially planned due to the rising costs of fuel for such services.

- **Hanover Airport (\$129 and 0.1% decrease and 9.6% decrease in local funding):** The County is fortunate to have a strong fixed-base operator in a lease agreement managing the Hanover Airport. The local funding primarily supports one County employee as well as maintenance and improvements to the airfield and terminal facilities. When available, State funds are invested into this function, reducing the local burden of funding such operation. The capital budget re-instates annual local funding to best leverage State and Federal grants with \$515,000 to begin west hangar site design and construction; of which only 20% is locally funded.
- **Cannery (\$1,000 and 2.7% increase):** This function provides a great resource for residents to can their fruits and vegetables and the budgetary needs over the years have been minimal.

Facilities Management (\$119,000 and 8.3% increase): Facilities Management's primary function is to manage all County facilities, including repair, maintenance and improvements, as well as the County's telecommunications system. The increase primarily represents the role this department plays in meeting repair and maintenance needs for facilities in the County and operating increases associated with utility services, telecommunication services and custodial contracts. In addition, \$25,000 has been provided as part of a County initiative for a facility space needs study. The most recent space needs study was performed more than a decade ago. A space needs study will help the County identify upcoming challenges in work space and analyze alternatives.

Fleet Services (\$22,000 and 1.3% increase): This \$1.7 million internal service fund provides a fleet management program of repair and maintenance for County and school vehicles and communications radios for which it charges an internal fee to recover its cost of services. A \$40,000 General Fund subsidy in FY06 has been provided to mitigate internal service charges. A part-time radio technician position is being added to further strengthen this vital internal service by ensuring that our radios, virtually all of which are for public safety purposes, are properly maintained and functioning. The increase in the budget is partially due to acquiring a \$10,000 brake lathe for heavy trucks/school buses and beginning to recognize building maintenance funds, as this facility is now over four years old.

GENERAL GOVERNMENT

By their nature, many general government administrative departments have base budgets that change only slightly in their annual scope of operations. The County prides itself on providing high quality and technologically-current services to 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 87% of the State-wide per capita average and the lowest percentage in the region (including Caroline, New Kent, Goochland and King William Counties). Unless otherwise specified in departmental description for new positions or other large impacts, virtually all operating budget increases in administration are the result of inflationary, merit and benefit (e.g., health insurance) impacts. The following summarizes the operating budgets for these administrative departments:

- **Board of Supervisors (\$52,000 and 12.3% increase):** This budget includes \$15,000 to meet the County initiative of engaging further with Federal legislators by making funds available for a consultant to help with Federal grants and to represent the County on important pieces of legislation.
- **County Administrator's Office (\$59,000 and 5.8% increase):** The increase is primarily due to \$50,000 from the County's economic development reserve account to fund a one time grant to the Chamber of Commerce. The County Administrator's Office provides administrative oversight over the Board of Supervisor's budget.
- **Human Resources (HR) (\$97,000 and 16.2% increase):** HR serves prospective employees in providing access to job-related information and application oversight while providing the existing worker with a market-based compensation and benefits package, advancement opportunities through career ladders and the training and educational opportunities needed to better perform their job duties. Almost 60% of applicants now find out about County job needs through the WEB page and with the application package system now available on the WEB site, it is much easier for prospective employees to apply for various County jobs, as evidenced by the over 4,000 applications received last year. This has also mitigated the administrative effort of processing paper and correspondence for HR, since many of these tasks can now be done via this new system. In order to continue to provide services to employees and serve as a resource in best addressing compensation, benefit and training needs, an HR Coordinator position is included; the last time HR received a full-time position was in FY01. In addition, the budget increase is comprised of maintenance fees for the applicant tracking system.
- **County Attorney's Office (\$84,000 and 8.8% increase):** The increase is partially attributable to the full-year funding for the Assistant County Attorney position targeted mid-year in FY05 to meet the increase in demand for legal services from all departments since the current staffing level in this office was established nine years ago.
- **Commissioner of the Revenue (\$59,000 and 5.9% increase):** In addition to many services provided by this office, two high volume activities include: over 82,000 personal property taxpayer accounts valued annually and over 14,000 State

income tax returns that required processing assistance. In addition, through communication and other outreach programs, ~1,000 households qualified for tax relief for the elderly and disabled. The budget increase includes \$10,000 provided for document imaging as this department can hopefully serve as a model of how administratively the County can begin to electronically archive and store the voluminous amount of documents that are required to be maintained.

- **Assessor (\$95,000 and 13.8% increase):** This office reviews over 42,000 tax parcels annually to establish an equitable market-based tax base for real property. Despite this workload, the office has maintained sales-assessment ratios between 95-97%, low coefficient of dispersion ratios (this measures volatility amongst assessed values) and few appeals to the Board of Equalization result in valuation changes. In order to ensure staff resources exist to provide the proper oversight over the numerous parcels, a supervisory appraiser position is proposed. This new position is mitigated by restructuring a full-time position to part-time. The net result is that the Assessor's Office staffing ratio will decrease from 6,000 per parcel to 5,250 per parcel, which is closer to the 4,875 per parcel ratio that existed in FY00, when the last position was added to this office.
- **Treasurer (\$103,000 and 10.0% increase):** For many years now, this office has attained a virtual 100% collection policy on taxes owed the County and oversees an investment portfolio that has consistently outperformed established investment return benchmarks. As this office has continued to offer its services and skills directly and indirectly in assisting departments with collections of their billings, the County's receivable management program has been further strengthened. In 2002, the Treasurer recognized efficiencies through cost cutting opportunities and was able to defund a vacant account clerk position with the understanding that funding could be re-established when work volume would necessitate the staff resources to maintain desired service levels. The FY06 budget contains the funding in re-establishing such position.
- **Finance (\$95,000 and 11.7% increase):** Finance provides the resources needed in its budget division to best enable departments to formulate budgetary requests, County Administrator to review and adjust, and the Board of Supervisors to further review and amend, while producing publicly accessible documents to best illustrate how taxpayer funds are spent. In addition, Finance also provides the support services for payroll, accounts payable, financial reporting, debt management and audit. As the County relies upon current local economic analysis and the related impacts to the numerous revenue streams to an even greater extent than before, as well as becoming more of a resource for departments in developing and capturing performance measures, a budget analyst position is requested; its first full-time position since FY99. The Finance and Management Services Department recognizes the division of management services separately as follows:
 - **Management Services (\$26,000 and 10.0% increase):** Management Services is comprised of the Public Information Office and the Internal Audit Division. The County's one public information officer provides a quarterly newsletter, WEB updates and highlights, press releases, cable TV contact and support to the many areas in which the County's departments need to communicate with the public. The Internal Audit Division executes a Board Finance Committee approved Internal Audit Plan. In trying to meet standard business practices in having the "audit universe" cycle reviewed every 3.5 years, additional resources were added in FY05 to reduce audit cycle to 9 years with long-term goals to accomplish such standard.
- **Purchasing (\$30,000 and 6.9% increase):** This function serves as administrative agent in procurement of all goods and services above a \$2,000 unit cost as well as all procurement card oversight. In addition, Purchasing provides oversight of general liability, automobile and related insurance programs. The Purchasing and General Services Department recognizes the division of General Services separately as follows:
 - **General Services (\$18,000 and 5.8% increase):** A variety of services is provided through this division, including risk management in ensuring workplace safety guidelines and related training are followed; a print shop which provides for all internal large printing orders and copier machine oversight; the phone system which includes the receptionist; motor pool fleet management; and mail courier for all internal and outgoing mail.
- **Registrar (\$31,000 and 9.3% decrease):** Through FY05, \$186,000 has been reserved in the Registrar's budget to meet future voting machine compliance regulations. The acquisition of new voting machines is anticipated to occur during FY05, upon completion of Electoral Board review, which also includes additional funding sources provided by the State. As the FY06 budget does not need to continue such capital funding for the voting machine initiative, the Registrar's budget has decreased accordingly.
- **Information Technology (IT) (\$169,000 and 6.5% increase):** IT's role in meeting the system and technological needs of departments and related entities is to continue to provide the support and leadership, where applicable, in ensuring a 24/7 fully functioning computer and system environment, with proper controls, archives and contingency plans. A new senior systems engineer position is needed for numerous projects involving new technology for various departments and HIPAA security compliance requirements. A consultant contract is required to assist in implementing a new security methodology, in accordance with the HIPAA compliance recommendations received in 2002.

In the capital budget, the only administrative items that pertain to Information Technology are \$117,000 provided towards technology infrastructure – 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 the information systems. In addition, \$160,000 has been provided for disaster recovery to increase business continuity by reducing downtime for Computer Aided Dispatch (CAD) and all public safety systems.

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$168,000 and 17.6% increase, 42.5% decrease in local funding): The Clerk's Office has evolved over recent years into a professionally managed business providing high levels of customer service, timely recordations and resource for historical inquires. As part of this effectiveness and efficiency with the large volumes of transactions, additional fees collected are being returned to the General Fund to offset the costs of this office. However, as refinancings and certain other recordations are highly correlated to economic activity and interest rates, local funding amounts are expected to diminish from current levels. The total budget increase and the significant local funding decrease is associated with the Technology Trust Fund grant from the State Compensation Board as this grant in prior years had been appropriated by the Board of Supervisors as a mid-year budget amendment. In order to continue staffing needs that exist from this FY05 grant, six part-time positions will now be illustrated as part of the adopted budget.

Commonwealth's Attorney's Office (\$115,000 and 10.1% increase, 3.3% decrease in local funding): While not defined by the State as a public safety function, the judicial administration services of the Commonwealth's Attorney are needed almost in direct proportion to law enforcement personnel deployed arresting and/or charging people with crimes, traffic violations and/or referral needs for legal counsel. With State funding opportunities from the State Compensation Board, including the partial funding of a new legal assistant position, this department's local funding as a % of total budget actually decreases to 46.1% from 52.5% in FY05.

Court Services (\$111,000 and 10.9% increase, 11.0% increase in local funding): The security of the courts through bailiffs and serving of court-related papers (e.g., subpoenas) is performed by a division of the Sheriff's Office. A deputy is included in the FY06 budget to provide the needed support services required by the courts in providing for the safety and security of the court's increasing case load.

The following divisions of judicial administration (totaling \$284,000 in funding) represent the County's contributions to these State-related functions, with expenditures primarily representing operating expenditures and only 2 full-time positions.

- **Circuit Court (\$32,000 and 22.3% increase)**: The increase is primarily due to funding for a new judge.
- **General District Court (\$2,000 and 1.7% decrease)**: Funding level remained flat for operations. The capital budget includes \$205,000 for completion of the District Court renovations that were started in FY05.
- **Juvenile and Domestic Relations Court (\$8,000 and 26.9% decrease)**: The decrease in the budget is attributable to office improvements provided in the FY05 budget.
- **Magistrates (\$0 and 0% increase)**: Funding level for FY05 is maintained for FY06 for this service that provides independent review for issuing warrants, bail bond hearings and related incarceration procedures.

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 at \$809,000 and the \$154,000 reserve for revenue transfers enables the County to recognize insurance recoveries, grants and other revenue adjustments during the fiscal year (offsetting reserve is also in revenue portion of budget).

Debt Service (\$342,000 and 17.8% decrease): The County's debt service will decrease as no new issuances are proposed during FY06 for which principal and interest would be incurred while obligations on existing debt continue to decline.

PUBLIC UTILITIES – BUDGET AND CAPITAL IMPROVEMENTS PROGRAM

Public Utilities operates as an enterprise fund, meaning 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 18,300 residences and businesses. Tax dollars are not used to fund the utilities operations and the Public Utilities Fund pays a recovered cost fee to the General Fund for administrative support provided to its operations and a service assessment charge for law enforcement, fire protection and emergency medical services.

Utility Operating Budget (\$1.1 million and 5.4% increase): This \$20.9 million budget includes a 6.0% increase in water/sewer user fees in positioning rates towards target levels that are currently being developed through a rate study. The continued increase in the number and complexity of environmental regulations, permitting requirements, and other State and Federal mandates being imposed are resulting in a higher cost of operations. In addition to the operating impact, the capital budget also includes several facility upgrade projects that are required by State and Federal mandates and an increase in the

investment in the renewal and replacement of existing infrastructure to maintain quality and reliability of services. User fees are proposed to fund a portion of capital expenses to increase the water supply from the City of Richmond and related distribution projects due to the decommissioning of two wells over the past five years. Considering the current growth trend these projects could have possibly been delayed, but are needed to replace the lost well supply. The combination of higher capital and operating costs to ensure regulatory compliance, water reliability, water quality, and system security is anticipated to result in rate increases that exceed traditional inflationary increases for both user and capacity fees over the next five years. The County does continue to provide a user fee relief program based upon the same criteria as the tax relief program.

Other operating expenditure increases include personnel (increases align with those of County’s compensation and benefits program), purchased water, and debt service. Purchase of water budget is increasing by 10.4% primarily due to the City of Richmond commodity rate increase. The debt service budget reflects an 8.2% increase that reflects a future \$9.1 million debt issuance.

Utility Capital Budget: As with any year following a Comprehensive Plan update, Public Utilities is formulating its long-range capital improvements program to be in compliance with the Comprehensive Plan. Although growth in the Suburban Service Area is significantly below previous forecast and Comprehensive Plan estimates, several major capital projects must be undertaken to remain in compliance with the Comprehensive Plan, Voluntary Settlement Agreement, and the City of Richmond contract. These projects, combined with true growth related projects, result in the proposed water and sewer capacity fee increase.

The CIP goal is to position 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 six years, the County has positioned itself for the long-term in meeting the water needs of its current and future customers (residents and businesses). To meet current and future wastewater treatment service demands, the Totopotomoy Wastewater Treatment Plant was placed into service in August 2004. This plant is able to provide 5 mgd of capacity. 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 FY06 capital projects:

Hanover-Richmond Waterline	\$ 4,847,000
Cold Harbor Waterline	100,000
Lockwood P.S. – Meadowbridge Road Waterline	1,519,000
Walnut Grove Waterline	198,000
Other General Water Capital Projects	173,000
Shelton Pointe Pump Station & Force Main	849,000
Other General Wastewater Capital Projects	120,000
General Water Rehab & Replacement	348,000
General Wastewater Rehab & Replacement	<u>315,000</u>
Total FY06 Utility Capital Projects	<u>\$ 8,469,000</u>

COUNTY/SCHOOL – **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 FY06 capital budget for County and School projects is \$23.5 million, which is \$5.0 million lower than the current fiscal year. Decrease is primarily attributable to \$18.8 million in FY05 budget for 2006 elementary school. The General Fund cash transfer for County and School projects is \$6.1 million, 73.8% higher than the current year, which is primarily attributable to: 1) \$1.6 million from E911 tax revenues recognized in FY05 and FY06 for communication system project and 2) additional plans for School Board to target a higher FY05 surplus to be reinvested into school capital projects. 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 representing 35.5% in “pay-as-you-go” funding (non-debt sources), which 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. This plan is designed to reserve County savings and proffers for capital improvement projects that may have been previously debt financed.

GENERAL FUND - FIVE-YEAR FINANCIAL PLAN

Traditionally, great efforts have been spent on the Five-Year Financial Plan in illustrating conservative revenue growth and how such revenue growth could best be spent. As fiscal flexibility is limited in meeting current service levels, the County is selective in any enhancements of service levels and prioritizes resources in areas that core services are most being impacted (e.g., staffing of fire/ems, student-teacher ratios including ever-increasing need for special education services, sheriff patrols). Therefore, some service level enhancements are either staggered, phased-in or deferred until the County can afford to provide such enhancements, unless a corresponding revenue increase could be generated. This situation is most represented by the bond referendum (Education, Public Safety, Libraries, Parks) where such projects are staggered to enable revenue and debt affordability models to be accomplished without a tax rate increase.

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 budget guidelines and the Board's adopted initiatives.

The success of the Five-Year Financial Plan for the General Fund has served as the basis from which five-year financial plans are being formulated for Public Utilities and hopefully soon for other major operating funds (School and CSB), which will balance current local five-year targets and non-local revenue assumptions with expenditure plans. The following table illustrates how the County's Year 2 of the prior fiscal year's Plan (amended by the State budget amendment) compares with the FY06 budget:

	Amended <u>Plan</u>	Adopted <u>Budget</u>	Variance <u>to Plan</u>	Percent <u>Change</u>
Revenues:				
Real property taxes	\$ 73,112,000	74,466,000	1,354,000	1.9%
Personal property taxes	33,626,000	33,035,000	-591,000	-1.8%
Sales taxes	13,121,000	14,525,000	1,404,000	10.7%
Recordation taxes	1,661,000	2,052,000	391,000	23.5%
Use of money and property	1,002,000	579,000	-423,000	-42.2%
Other	42,717,000	42,814,000	97,000	-0.2%
Total	165,239,000	167,471,000	2,232,000	1.4%
Expenditures:				
Pamunkey Regional Jail	3,375,854	4,080,000	704,146	20.9%
School	82,124,452	82,724,452	600,000	0.7%
Tax relief	481,920	765,000	283,080	58.7%
Trash hauling	836,358	981,120	144,762	17.3%
Gas increase	530,377	689,471	159,094	30.0%
Other	77,890,039	78,230,957	340,918	0.1%
Total	165,239,000	167,471,000	2,232,000	1.4%

ECONOMIC DEVELOPMENT UPDATE

The Board of Supervisors is focusing on long-range strategic planning and a competitive analysis of the business potential of the County as Hanover continues to mature and grow. The Economic Development Strategic Plan was developed and adopted to encourage and support growth of existing and future businesses, and outlines the County's four major Economic Development goals: expansion of the tax base, economic stability, job retention and job creation. In addition, the Strategic Plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to County development regulations. This year, the Department of Economic Development will undergo an Economic Development Competitive Analysis, including a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, Regional Competitiveness Tour, Performance Metrics, and Benchmarking, to collect information that will assist in updating the Economic Development Strategic Plan.

A major result of the Economic Development Strategic Plan was the establishment of five Economic Development Zones (EDZs). 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 the 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 and/or potential sites located in the EDZs either have or will have the infrastructure available to accommodate both new and expanding businesses:

Lewistown EDZ

- Northlake Business Park, a 400-acre industrial park located at the intersection of Lewistown Road and Interstate 95. Northlake has attracted a diverse number of new companies over the past three years. These include:
 - A 50,000 square foot multi-tenant flex building brought two new companies, OSI and Instant File Systems, representing \$780,000 in tenant upfit investment and 240 new employees.
 - Vimco, a subsidiary of Lutron, built a new 54,000 square foot building creating 105 new jobs and relocating 45 jobs from outside the County for a total investment of over \$6.0 million. Vimco received assistance from the Governor's Opportunity Fund.
 - Michelin invested \$3.0 million in a 50,000 square foot facility creating 50 new jobs.
 - Rolling Hills Recreational Vehicles invested \$2.5 million in an 18,000 square foot facility, creating 30 new jobs.
 - Champion Window and Door initiated construction on their new facility in Northlake in 2004.
 - Northlake Trade Center, a development of Flex Condos, is currently under construction. Site plan approval was achieved in 2004. The project, developed by Hunter Benis of Benis Construction, will include 4 buildings ranging in size from 10,000 to 20,000 SF. They will be sold in whole or in part as condos.
 - Devon USA, purchased 60 acres at Northlake and is currently constructing more than 500,000 square feet of new high-bay light manufacturing and distribution space. The first two phases of construction of The Enterchange at Northlake are nearly complete, and the first tenant, Owen & Minor distribution facility, has signed a lease for 113,000 SF.
- 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. First phase construction of roads, water, and sewer were completed in August 2004.
- Hunter's Ridge is continuing to be developed. The Park is designed to be flexible for small business owners, and parcels range in size from 1.5 to 8 acres.

Sliding Hill EDZ

- Atlee Commerce Center is a 35-acre business park with 120,000 square feet of completed office-service space. A new office/service building is under construction, and two new service providers have facilities under construction.
 - Crescent Business Center, a 165-acre business park, is the location of Trane Corporation's regional headquarters. Mohawk Carpet is the lead tenant in a second building, CBC II. Both Phases I and II are fully leased, and construction of CBC III is nearly complete. Five additional speculative buildings are planned for the development.
- The Hanover County Airpark is continuing to provide a vital tax base to the County. New construction continues to take place with the completion of a successful Office/Flex condo project this year. Lease and sale activity continues to be very high in this development, which is primarily occupied by small to medium-sized firms.

Chamberlayne EDZ

- Atlee Station, a 240-acre office park offering high-quality business sites. Owens & Minor, a Fortune 500 company, purchased 25 acres in Atlee Station and its corporate headquarters is under construction. The facility is due to be occupied by early 2006.
- Rutland, a mixed-use development by HH Hunt, the developer of Wyndam, was rezoned in 2004 and construction is scheduled to begin this year.

Polegreen EDZ

- Bell Creek Business Park, a 177-acre combination high-end commercial and industrial property includes a 64,000 square foot retail shopping center, professional offices, a 25,000 square foot office/service building, and a 200-pupil day care center.

Creighton EDZ

- There is no major commercial activity this year, but the Brooks Site continues to be analyzed and marketed for a significant industrial user.

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; and water and wastewater capacity. In addition, the County utilizes 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.

A target study for the region was completed in 2004. A key target that was identified in the study was Supply Chain Management and Logistics operations. Current business trends and the east coast population base place Hanover in a key position to attract this industry. An analysis of business models of major retailers and manufacturers will be ongoing to keep the County abreast of opportunities for new investment.

Retail is becoming a more significant component of the County's economic development strategy as a result of Hanover County's population base and income. Typically, these uses are market driven and have not been actively encouraged by economic development programs; however, the strong potential, proximity to the retail hub at Virginia Center and the new Atlee/Elmont interchange on I-95 will create opportunities for Hanover's Economic Development program to become more involved in retail development. Currently, the Mechanicsville Turnpike area and Sliding Hill Road have the most potential for continued retail growth, with Mechanicsville having a mature foundation of current retailers and service providers. National retailers like Home Depot, Target, and Kohl's are new members of the Hanover County business community.

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, a few representative examples of some employees for whom the County is grateful for their continued service:

- **Norma M. Gates**, Chief Deputy Clerk for the Circuit Court, received a Distinguished Service Award from the Supreme Court of Virginia. She was one of only two Circuit Court Clerk employees in the State to win the 2004 award.
- **Barbara M. Rose**, Deputy County Attorney, received the Metropolitan Richmond Women's Bar Association's 2004 Women of Achievement Award. This award is given to a metropolitan Richmond government attorney who has earned the respect of the community at large for her professional and/or civic contributions.
- **Randy P. Abernathy**, Deputy Fire/EMS Chief, was recognized by the Old Dominion Emergency Services Alliance (ODEMSA) as Outstanding EMS Administrator. ODEMSA includes members from 22 counties and six cities, including metro Richmond and Petersburg and Southside Virginia. ODEMSA's mission is to assess, identify, coordinate, plan and implement an efficient and effective regional EMS delivery system.
- **Dayna L. Sonovick** was named "Rookie of the Year" by the VA Rural Water Association, an organization of rural water and wastewater systems. Ms. Sonovick is an Operator-in-Training at the Ashland Wastewater Treatment Plant. The "Rookie of the Year" designation is awarded to "an operator who strives for excellence and demonstrates a commitment to public service and has served for no more than one year."
- **Sgt. Judson Flagg** of the Sheriff's Office received a 2004 Valor Award from the Retail Merchant's Association of Greater Richmond. He was nominated for actions that resulted in the successful apprehension of a mental subject (and personal injury to himself) while off-duty. The Valor Awards honor officers across the State of Virginia who show "an extraordinary level of courage and professionalism in the face of danger."

Several Hanover County employees were recognized for their professionalism and ability by being elected to leadership positions on state and national associations over the last year:

- The Treasurer's Association of Virginia named **M. Scott Miller**, Treasurer, as its "Treasurer of the Year". Miller was recognized for "years of continued service to the association" and creative leadership. Miller is currently President-elect of the Treasurer's Association of Virginia and is due to be installed as President in June 2005.
- **M.J. Flournoy**, Chief Fire Marshal, was elected president of the Virginia Fire Prevention Association (VFPA). Flournoy is a 36-year veteran of Hanover's fire service, having started as a volunteer with the Ashland Volunteer Fire Department in 1968. The VFPA has about 450 members representing most local governments in the State, and works closely with the General Assembly on fire training and fire code issues.
- **Kathleen T. Seay**, Director of Hanover County's Internal Audit Division, was elected President of the Virginia Local Government Auditor's Association (VLGAA).
- **Eddie Buchanan**, Division Chief for Hanover Fire/EMS, is serving as a Director at Large for the International Society of Fire Service Instructors. He is the only Virginia resident on the Board and is one of three at-large nationwide representatives. A 23-year veteran of Hanover's fire service, Buchanan is assigned to the Training and Quality Assurance Division of Hanover Fire/EMS.

Several Hanover County departments were also honored over the last year:

- The **National Association of Counties (NACo)** presented an Achievement Award for the submission, "Bell Creek CDA: A Unique Method of Financing Infrastructure". The County's entry was one of 17 entries nationwide to be recognized as a "**Best of Category**" winner. According to NACo, "this additional recognition program was initiated to highlight the most outstanding county model programs submitted to the awards competition."
- Also winning a **NACo Achievement Award** was the Social Services program entitled, "Social Services' Local Response to CQI". "CQI" stands for "Continuous Quality Improvement". The CQI program enabled the Department to enhance the efficiency and effectiveness of services in an environment of greatly expanding service demands.
- The Ashland Wastewater Treatment Plant received the **Platinum Award from the Association of Metropolitan Sewerage Agencies (AMSA)**. The County was one of only 19 local governments nationwide that had facilities earning the award that is given only to those facilities that achieve 100% compliance with National Pollutant Discharge Elimination System (NPDES) permits for five consecutive years.
- The Pamunkey Regional Library received two awards from the **Virginia Public Library Director's Association (VPLDA)**. The VPLDA selected the Library's "Train Day", as the "Outstanding Program for All Ages" that celebrated Ashland's connection to trains with storytelling, live musicians, a train-shaped Moonwalk and other activities and crafts. Pamunkey Regional Library also received the award for "Outstanding Staff Development Project" for introducing the library's patrons to "PamCat", the Library's on-line catalog.
- The **Virginia Recreation and Park Society** named the County's 1st annual "Heritage Day" as the Best New Program for localities with a population between 50,001-100,000. The Statewide awards program honors individuals, departments and organizations throughout Virginia who demonstrated excellence during the previous year.

ADOPTED FY05 INITIATIVES STATUS

In order to best assess the capacity and ability to achieve the FY06 initiatives, the following status report on the previously adopted initiatives for the FY05 fiscal year has been provided:

- **Finalize Bond Referendum Plan:** As the County has been planning for this referendum for several years, with annual prioritization involving many departments and public input upon the scope of projects within County affordability constraints, the Adopted FY06 Budget should illustrate the most recent and accurate account for the 2005 Proposed Bond Referendum. The Board is expected to approve the referendum in May 2005.
- **Use of Performance Measures:** Formal performance measurement accumulation of information has expanded to 17 departments since being introduced in FY04. Development of summary performance data integrated with County strategic goals and objectives that are being developed should hopefully provide a product that can serve the department in attaining a higher standard of performance as well as illustrate to the citizen the manner in which services are being provided efficiently and effectively.
- **Develop Emergency Action Plan:** All departments are working on plans to inform and train employees about appropriate actions to take and proper evacuation procedures in the event of an emergency in the workplace.
- **Regionally Compatible Digital Radio System:** A radio system upgrade or replacement is the #1 non-schools priority in the proposed 2005 bond referendum and with the approval of a consultant's contract in January 2005, this initiative and project will continue to undergo scope, timing and implementation review in preparation for 2005 Bond Referendum.
- **Update County Code:** The continuation of the FY04 Priority in updating the County Code is further being achieved in FY05 with ten sections of the Code already revised and/or authorized for a public hearing. In addition three other sections are scheduled to be reviewed by the Board prior to fiscal year-end. This will then complete the targeted code sections that were scheduled to be updated.
- **Review Benchmark Process or Other Alternatives:** The County, with the State amendments in May 2004 was able to provide a 4% merit and reinstated the benchmark program in FY05. The annual position survey has now been refined to enable the County to best match its positions with those of our peer localities in the region. This also enables the County to identify career ladder opportunities and reclassification of certain positions. The long-term financial plans of the County illustrate 3% merit increases with a benchmark program. Benefits will continue to also be reviewed in meeting both market conditions and affordability constraints, with particular emphasis upon health insurance.
- **Public Access:** The County has been able to quantify the resources and equipment needed to implement a cable TV channel in a variety of forms. In addition, research was done on other manners to communicate to the public (e.g., WEB video-streaming technology), but both of these outlets appear to not only require a commitment of manpower, but also a high operating cost. Other alternatives are being reviewed as well, including archiving in the libraries via DVD Board meetings. For visible public access enhancements in FY05, the County will implement an interactive voice response (IVR) system for the Building Inspections Office, which will enable citizens to schedule inspections and other Building Inspection services 24 hours a day. In addition, the County has consistently enhanced the WEB page in both the content and availability of information (e.g., new position application process). There are numerous other examples of new manners in which the public can get access to information, with one example being Economic Development's Resource Guide, which provides all students with opportunities for their services in County businesses.