

FY08 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 is 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 is decreased 5 cents to 81 cents, while continuing to meet priority service level demands and position the County with a stronger financial base for long-term capital needs. The budget reflects an aircraft personal property tax rate decrease of 50% or fifty cents and a mobile homes tax rate reduction of 5 cents to 81 cents. No other property tax rate change 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. 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. This budget includes a realignment of certain services for Community Services Board.

Priority - Education: Total school operating budget increased by 5.3% and local funding of schools increased by 8.2%. The revenues provided by the State for FY08 have increased by only 2.6%, bringing the local funding 50.1% of the total operating budget. 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 one elementary school, a trades school and the Georgetown School. The new elementary school scheduled to open in 2008 should provide the County with the capacity to meet long-term enrollment needs.

Priority - Public Safety: This priority area was further assisted by the Board of Supervisors resolution at FY07 budget adoption to receive the first \$500,000 of revenues that are over the Five-Year Financial Plan. This priority service continues to be addressed through the addition of 11.5 positions- Sheriff's Office (8.5), Fire/EMS (1), Emergency Communications (1) and Animal Control (1). In addition to these new positions, twelve positions were added mid-year in FY07 with a Federal SAFER grant totaling \$1.2 million over five years. The grant funding of these positions will transition from 90% of allowable costs to 0% over the five years. Fire/EMS utilizes Board adopted response time and deployment standards. The Sheriff's Office continues to increase its sworn officers to 10,000 population ratio from 19.1 in FY07 to 19.5 in FY08 with ultimate goal of 20.0 by FY10.

Compensation/Benefits: The provision of a 4.0% average salary increase for the schools and the County further ensures that the compensation program remains competitive to attract and retain outstanding employees. Additionally, funding is provided for the annual salary benchmark review and to enable an employee's health insurance premium to remain the same for the second consecutive year.

Financial Management: Debt and fund balance financial policies continue to be met in each year of the Five-Year Financial Plan with the expansion of debt per capita ranging from \$1,800 to \$1,900 and growing by 2% annually. This ensures adequate reserves, limits the County's debt burden and maintains the AAA bond rating. The County continues to stagger construction of the 2005 referendum projects to manage the debt burden. In addition, the budget utilization of prior year's balance maintains the undesignated fund balance goal of 10.6% of revenues.

Public Utilities: To reflect accurately the costs of providing quality and reliable *service delivery* to new and existing customers, water utility user fees are increasing by 6.0%, sewer user fees by 5.0% and capacity fees by 4.0%. These increases are slightly lower than anticipated in the five-year rate study model, which indicated that additional revenue is required for Public Utilities to fund its long-term capital plans.

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

Supplement to County Administrator's Letter

While the preceding County Administrator's Letter is meant to highlight the budget and the factors focused upon through budget adoption, the following supplemental information details the changes in the budget. The purpose 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 illustrating how the County attempts to provide the services needed and desired by the citizens in an efficient and effective manner. The following areas are presented:

- Employee Compensation and Benefits
- General Fund – Budget Change Support
- General Fund – Revenues by Category and Changes in Fee-Supported Programs
- Expenditures by Function
 - Public Safety
 - Public Schools
 - Parks, Recreation and Cultural
 - Human Services
 - Community Development
 - Public Works
 - General Government
 - Judicial Administration
 - Nondepartmental
- Public Utilities – Operating Budget and Five-Year Capital Improvements Program
- County/School – Five-Year Capital Improvements Program

Changes in the County's budget can be measured in three categories: Total Operating Fund, Total Budget of all funds, 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 dollar and percentage changes are based upon FY08 budget to FY07 budget).

- **Total Operating Budget, excluding internal service funds (\$321.8 million, a \$16.4 million and 5.4% increase):**

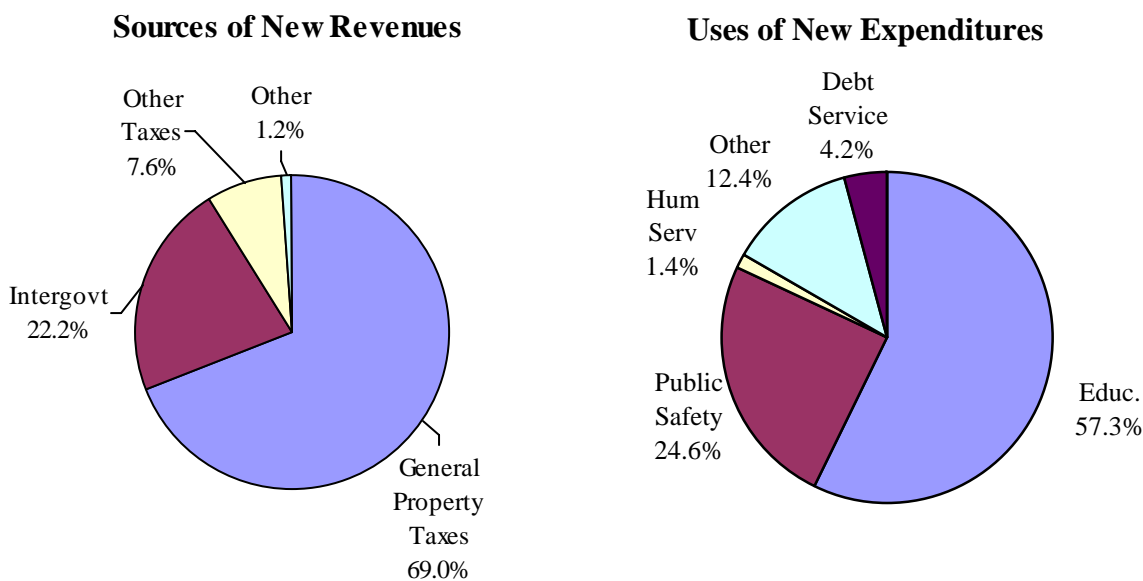
The budget continues existing service levels with a few targeted initiatives (primarily education, public safety and road improvements) and market compensation/benefit program, while reducing the real property tax rate by five cents. The increase is primarily due to a \$15.1 million increase in General Fund operating and \$2.2 million increase in the School Fund less an \$863,000 decrease in the Community Services Fund and \$688,000 decrease in the Public Utilities Fund.
- **Total Budget of All Funds (\$389.3 million, a \$18.9 million and 4.6% decrease):**

This overall decrease is primarily due to a \$37.9 million decrease in the capital projects offsetting the \$17.2 million increase in the General Fund. The decrease in capital projects is due to funding in FY07 for bond referendum and other large projects (e.g., \$28.0 million communications system and \$5.3 million for fire stations).
- **Total General Fund Budget (\$199.6 million, a \$17.2 million and 9.5% increase):**

The total budget in the preceding two bullets includes the activities of the capital projects and/or other funds (e.g., Public Utilities Fund). The General Fund provides a year-to-year comparison of the operating impacts of various functions and a \$2.1 million increase in capital contribution from the General Fund to fund capital projects. Priority service levels of education (46.5% of the General Fund budget) and public safety (21.3%) together with human services funding (7.5%), account for 75.3% of the total General Fund budget. Primary revenue sources for the General Fund budget have traditionally been general property taxes, State/Federal sources, and other local taxes (for FY08, general property taxes comprise 70.6%,

State/Federal sources comprise 6.1%, and other local taxes comprise 13.8%). These primary funding sources represent 90.5% of total funding.

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



EMPLOYEE COMPENSATION AND BENEFITS

The Board of Supervisors has long recognized that competitive employee compensation is critical to the County’s success. Recognizing that compensation is only one aspect of a quality work environment, the County focuses on employee development in addition to the maintenance of competitive compensation and benefits. In keeping with a market-based and performance driven approach, included in the budget is an average pay-for-performance salary adjustment of 4.0% of the salary range midpoint.

Determining an appropriate merit increase for employees is based upon many criteria including, but not limited to, the following:

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

Based upon data received, it appears that the local government market in the metro area will be providing ~4.0% in merit increases. The County’s benchmark program, long credited with maintaining market competitiveness, improving employee retention, and enhancing employee morale, is also funded at \$937,000. This cost includes establishing recruit entry-level grades for the Sheriff deputy and firefighter at a cost of \$274,000. An additional review of senior management was incorporated into the benchmark process review with three positions identified as being significantly below their peers with a total of \$23,000 provided to recognize this differential. To acknowledge a general market shift in the salary range structure and to continue to maintain competitive starting salary levels, a 2.0% salary scale adjustment has been included.

The School Board continues to be committed to have competitive teacher salary scales through its own benchmark program. The County has worked with the School Board through a Benefits Committee in

establishing consistent application of employee benefits, including health insurance, retirement, disability insurance, and flexible spending accounts. Most recently this committee worked collaboratively to propose changes to retiree health insurance benefits. The School's 4.0% 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, 10 County position title reclassifications are included in the budget at a net cost of \$52,000 and two positions (17 employees) are moving to a forty hour work week at a net cost of \$35,000. These upgrades are primarily needed to better classify positions based upon actual functions. Career ladders have been developed for many positions to recognize the advancing achievements of the workforce during their careers with the County. Continuous efforts are made to identify opportunities for improvements to compensation and benefit management programs.

Self-Insurance Fund (\$2.2 million and 11.1% increase): The Self-Insurance Fund provides for health insurance payments through employer contributions and employee deductions. This program serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. Employer assumptions include a 10.1% increase in departmental budgets for premiums funded for participating, vacant, and new positions. The remaining claim expenses are primarily funded through employee payroll deductions. The County's increased costs for health insurance are in-line with market averages. The County is funding in FY08 the employee share of increased costs to enable employee deductions to remain stable for a second consecutive year. This budget also includes funding to increase the opt-out credit from \$200 to \$300 annually for employees that do not elect health insurance through the County.

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, the budget is prepared to accommodate service level demands (e.g., 1.5% projected population increase, 0.7% student enrollment increase and ~3.0% inflationary pressures). 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 increase as residents desire more from their local government.

An additional \$17.2 million is available in revenue to the General Fund. The primary revenue sources for this net increase (representing 96.1% of total increase) are:

- **General Property taxes - \$11.3 million increase:** This revenue source is up a net of 8.7% due to continued strong growth in real property revenues offset by a reduction in the tax rate by five (5) cents. Real property assessments grew 13.6% for 2007 (net 7.0% after tax rate decrease), in addition to a 2.8% increase in new growth. This sustainable tax base of both residential and commercial properties reflects the recognition of the high quality of life offered by the County.
- **Other local taxes - \$1.2 million increase:** Sales tax and other local taxes are generally in-line with the Five-year Financial Plan. Sales tax is projected to increase 5.6% from the FY07 budget and 6.0% from FY07 projections due moderate growth in sales. Recordation tax is projected to increase by 19.4% from the FY07 budget and in-line with FY07 projected revenues due to the impact of continued growth in property values.
- **Charges for Services - \$626,000 increase:** A primary factor for the increase is increased revenue for EMS fees and Parks and Recreation fees based upon projected revenues for these fees in FY07. Parks and Recreation has seen a 42% increase in program participation in the last year.

- Intergovernmental - \$937,000 increase: Comprised primarily of a net increase of \$302,000 Federal SAFER funds for new firefighter positions and training. The 2007 grant for new positions totals \$1.2 million over five years. A mid-year budget appropriation was approved in FY07 for \$284,000. The final year of grant funding will be FY11. Other increases include State Compensation Board funding of constitutional offices in the amount of \$411,000 and a \$148,000 increase in State and Federal funding of Social Services.
- Use of Prior Year Balance - \$2.4 million increase: This increase primarily is due to the use of one-time surplus revenue from FY06 and projected for FY07 for the communications system in the amount of \$2.3 million.

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 net increase (representing 96.6% of total increase):

- Education - \$7.0 million increase: The increase in funding for the schools, as requested by the School Board, reflects the County's desire to work collaboratively with the schools, who are ~50% of the County's local funding availability, to maintain the delivery of excellent education service and have same compensation and benefit changes as County. The school budget includes 22 new positions.
- New County Positions - \$1.3 million increase: For a net new 23 full-time and 2 part-time positions, which can generally be classified as fee-recovered and locally funded:
 - Revenue Recovered - \$118,000 increase: Building Inspector position to be funded with permit fees; one mid-year recreation coordinator, and part-time therapeutic recreation aide to be funded with increased recreation fees; and one Sheriff deputy partially funded by the Compensation Board.
 - Locally Funded - \$1.2 million: Full-time positions for Sheriff (7.5), Fire/EMS, Emergency Communications, Commissioner of the Revenue, Information Technology, Clerk of the Circuit Court, Court Services, Public Works, Animal Control and Planning. In addition, a part-time position for Parks and Recreation and a Social Services position reclassification from part-time to full-time.
- County Compensation and Benefits - \$4.1 million increase: In addition to the impact that a 4.0% merit increase has upon the budget (\$2.3 million), the following also impact such an increase:
 - Benchmark Program – The total cost of the benchmark program is \$937,000, including \$274,000 for the initiation of recruit positions for the Sheriff deputy and firefighter.
 - Health Insurance - \$500,000: Primarily due to premium rate increases in health insurance costs (as employer costs have increased 10.1%) as well as a continuation of the FY07 plan to fund the employee share of increased cost for the second consecutive year. Health insurance impacts also have been incorporated into other non-General Fund budgets.
- Community Services Board (CSB) - \$463,000 increase: New local funding represents an increase over the five-year plan projection to recognize the impact of lower than projected fee revenue and federal revenues not keeping pace with operating expense growth. This funding will enable the CSB to implement a realignment of resources and services to focus on service areas where alternative options are less accessible.
- Social Services - \$201,000 increase: This increase is primarily due to increases in mandated programs, which is offset by State and Federal revenue.
- Tax Relief for Elderly and Disabled - \$114,000 increase: Enhancements to the relief program were adopted by the Board of Supervisors in November 2006 to increase the maximum acreage exclusion used to calculate net worth from one acre to five acres and increase the minimum annual exemption from \$900 to \$1,150. This change has allowed for more households to access tax relief.

- County Improvements Fund - \$2.1 million increase: The increase is due to the recognition of cash funding for the final phase of the Communication System project in the amount of \$3.6 million and additional transportation funding of \$200,000. This one-time funding is the utilization of FY06 undesignated fund balance surplus and projected FY07 surplus primarily from real property assessments for tax year 2007 being greater than estimated in the budget.

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 (\$93.1 million, a \$9.4 million and 11.3% increase): The total value of taxable real estate in the County reached \$11.7 billion in January 2007, which is an increase of 16.4% over the prior year (13.6% from reassessments and 2.8% from new construction). The reassessment increase is offset by a tax rate reduction of five (5) cents to 81 cents which lowers the reassessment impact down to 7.0%. The 2007 tax base is projected to increase 9.0% by January 2008 (7.0% from reassessments and 2.0% 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. Future assumptions in the Five-year Financial Plan continue at a conservative estimate of 5.5% for reassessment. To help mitigate the impacts of real property taxes, the County has developed a tax relief program for elderly and disabled that provides \$1.2 million in relief and together with the County’s land use program that provides approximately \$5.5 million in tax relief, the County’s total tax relief is over \$6.7 million.

Public Service Corporation Taxes (\$3.5 million, a \$211,000 and 5.7% decrease): This revenue category is a compilation of businesses that are directly assessed by the State Corporation Commission (SCC) and have property tax rates, as applicable, that are the same as those classified under real and personal property tax categories. Much of the decrease is attributable to depreciation on 30 businesses in this category that have not had offsetting investments in their property to keep pace with the depreciation.

Personal Property Taxes (\$24.8 million, a \$2.3 million and 10.3% increase): The State’s fixed allotment of \$15.0 million for car tax relief is recognized as non-categorical State revenues. The actual percent relief to be applied to the taxpayer’s bill is quantified in September of each year with completion of vehicle assessments. It is anticipated that the 61% State relief for 2006 will be reduced to 58% for 2007. This shifting of burden from the State to the taxpayer accounts for a higher percent increase in this revenue and \$600,000 additional tax burden upon the taxpayers. It is projected that by FY12, the cumulative additional tax burden will be \$13.2 million with a 46% relief rate. The total personal property levy (taxpayer and State portion) is estimated to grow 4% over the FY07 forecast due to NADA data for sports utility vehicles that are likely to depreciate at a higher rate than in recent past. Included in this category is the mobile homes tax rate that is being lowered 5 cents to 81 cents and the aircraft tax rate which is being lowered 50 cents to a 50-cent rate; however, based upon expected increase of corporate aircraft at the Hanover County Airport the tax rate reduction is revenue-neutral.

Sales Taxes (\$18.4 million, a \$980,000 and 5.6% increase): The current year growth trend for sales tax has moderated, as compared to the double digit growth rate of 13% in FY06. FY07 receipts to date are approximately 7% higher than prior year and results in a FY07 projected deficit of \$62,000. The conservative projected annual increase of 6.0% in FY08 over the FY07 forecast recognizes a continuation of the current growth trend. The estimate of 6.0% growth has also been incorporated into future fiscal years of the Five-year Financial Plan. With existing plans for additional retail establishments in the County and retail strategies being

further developed in FY08 as part of an initiative, opportunities exist for greater growth potential in sales taxes.

Communications Sales and Use Tax (\$5.7 million, a \$132,000 and 2.4% increase): This new tax replaces many of the current state and local communications taxes and fees with a centrally administered communications sales and use tax, a uniform statewide E-911 tax on landline telephone service and imposes a public rights-of-way use fee on cable television providers beginning January 1, 2007. Revenues will be collected by the Virginia Department of Taxation and distributed to localities on a monthly basis.

State and Federal Revenues (\$27.1 million, an \$937,000 and 3.6% increase): The State budget assumptions include 4.0% salary increase effective December 1, 2007 for State supported positions (e.g., constitutional officers). The State funding is in compliance with Sheriff deputy support at 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, 190.7% below the current service level provided in the County (19.5 sworn officers). The budget includes continued SAFER grant funding for 12 new firefighter positions. This grant was initially recognized with a mid-year budget appropriation of \$284,000 in FY07. The total grant is \$1.2 million over five years, funding a portion of the position costs ranging from 90% of allowable costs in the first year to 30% in year four. The final year of the grant funding will extend through the first quarter of FY11.

Year-end Balance (\$6.0 million, a \$2.4 million and 68.9% increase): The \$6.0 million of year end balance includes \$2.3 million of accumulated funds for the final appropriation of the communications system project, specifically the 911 center facility. The County has had a long tradition of conservative spending, which allows for prior year actual surpluses and current fiscal year forecasted surpluses to be reinvested into the following fiscal year's budget. The projected FY07 surplus is primarily the result of accumulated funds, which are made up of all excess undesignated fund balance at June 30, 2006 and FY07 projected surplus.

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:

- **Public Works Erosion and Sediment Control Fees:** These fees directly recover the cost of the County's adherence to State guidelines under erosion and sediment control program as inspections, monitoring and other labor-related administration of the program. The commercial fee is increasing from \$60/acre to \$300/acre and base fee decrease from \$900 to \$600 to better reflect the cost of the program and mitigate the impact upon the small commercial projects. The residential subdivision rate is increasing from \$5,400 plus \$550/acre to \$5,600 plus \$600/acre.
- **Public Works Stormwater Management Fees:** Fees are based on the capital and oversight costs incurred in designing, acquiring and building drainage basins. Due to increased program costs based on current state and federal standards, the fees are increasing from \$1,000 to \$1,150 per equivalent residential unit.
- **Building Inspection Fees:** Based upon service demands and cost, the building inspection fees are increasing by an average of 11% in building permits and 48% in mechanical, electrical and plumbing permits. This will bring the fees in-line with neighboring jurisdiction fees, providing \$272,000 in fees above FY07 forecast and fund a Plan Examiner position to respond to the additional demands of commercial inspections.
- **Parks and Recreation Fees:** To simplify payment by users and recognize an inflationary increase in cost, the summer youth program fees are increasing from \$95 to \$125; special field trips are now incorporated into the base fee of \$125.

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 and more details can be found on the departmental pages later in the document. 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. In addition to the operating budgets and capital budget information that are illustrated in this section, other sections contain further analysis of the CIP and employee compensation.

PUBLIC SAFETY

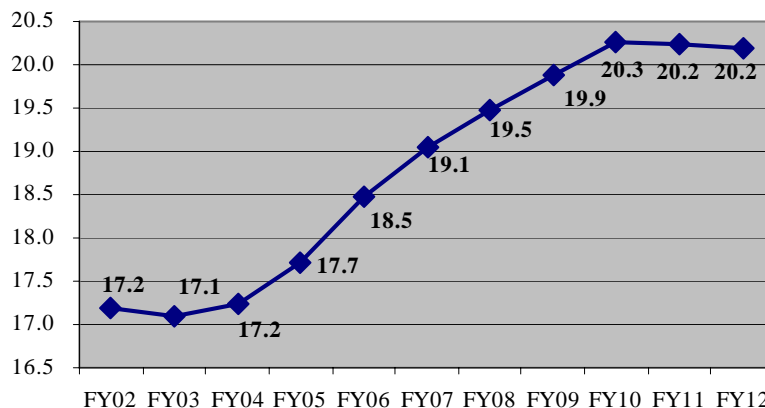
Fire/EMS (\$1.7 million and 15.4% increase, 11.3% increase in local funding): During FY07 the County received a SAFER grant award of \$1.2 million. The first year of the grant funds 90% of allowable salary and fringe expenses for twelve firefighter positions. This grant allowed for new positions identified in the Five-Year Financial Plan to be hired early to meet current service level needs. The General Funds identified in the plan and the Fire/EMS \$250,000 share of the Board's public safety initiative for FY08 is sufficient to offset the local share match for these positions in FY08.

The FY08 budget includes funding for a lieutenant position for Station 2 in Beaverdam. The additional position and the FY07 SAFER positions results in ten of our twelve volunteer fire stations receiving assistance from paid staff. This budget also includes the full year impact or an additional \$110,000 for the advanced life support (ALS) incentive program started in January 2007. The Fire/EMS portion of the capital budget includes \$975,000 for fire truck replacements and \$165,000 for ambulance replacement.

Sheriff's Office (\$1.6 million and 9.4% increase, 9.6% increase in local funding): The FY08 Five-Year Financial Plan includes 31 sworn officers between FY08 and FY12, with seven of these positions planned for FY08. In addition to sworn officers, the plan includes four new positions for administration and maintenance, with two in FY08. The new positions for FY08 include two sergeants, one school resource officer for the new Tech Center, three deputies, a major in the Investigative Operations Division, IT programmer analyst, and a part-time support services coordinator.

A ratio that has been tracked in recent years is sworn officers per 10,000 population with the ratio improving from 19.1 in FY07 to 19.5 in FY08. This same ratio was 17.2 in FY2000. While no one ratio can define the services needed for this office, because impacts include population growth, traffic through the County and crime in central Virginia, the current plan reaches 20 sworn officers per 10,000 population in FY10. As the County begins to develop future Five-Year Financial Plans, staffing plans will be monitored to ensure that the resources of the County are prioritized as directed by the Board of Supervisors with an initial objective to attain and maintain 20 officers ratio.

Sheriff's Office Sworn Officers per 10,000 Citizens



As part of their operations, 45 vehicles will be acquired at a cost of \$943,000 as these vehicles have generally met their ~110,000-mile useful life. The local share of funding for this office will increase 9.6%, which would increase such local funding to 80.5% of their \$18.1 million budget.

The Sheriff's Office also includes the Court Services division (addressed under Judicial Administration function). Total funding provided to the Sheriff's Office, including Court Services, is \$19.4 million, a \$1.7 million and 9.4% increase, and 9.4% increase in local funding.

Emergency Communications (\$218,000 and 7.4% increase): An integral component in ensuring public safety responsiveness is an effective and properly staffed Emergency Communications Department. One communications officer is included in the budget to help maintain service availability for the current volume of 911 dispatches and communications. The Five-Year Financial Plan includes three additional communications officer positions. The budget also includes funding for initial operating expenses associated with the tower sites for the new emergency communications system.

For the capital budget, \$88,000 has been provided for law enforcement call taking software, enhancing Officers' ability to handle and process law enforcement calls in a more consistent, timely and efficient manner. The bond referendum included \$33.4 million to replace the communications system, of which \$7.4 million is funded with cash. FY08 includes the final appropriation of \$3.6 million of cash funding for this project, which was previously funded over three years. This funding is primarily for construction of the 911-call center.

Animal Control (\$94,000 and 10.0% increase): The budget includes the addition of a kennel attendant supervisor to respond to the increased animal population at the expanded facility and provide supervision resources to the current staff. This budget also includes \$12,000 for management software and \$70,000 for the replacement of two vehicles.

Juvenile Court Services Unit (\$12,000 and 1.7% increase, 2.0% increase in local funding): The budget is primarily 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 is to cover inflationary increases.

Pamunkey Regional Jail (\$206,000 and 4.7% increase): This budget reflects the per diem costs (\$38.39 per day increasing to \$42.57 per day, 10.9% increase) to house inmates as part of the County's participation in the Pamunkey Regional Jail Authority (PRJA). 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 governments.

Community Corrections (\$39,000 and 12.2% increase, 10.6% increase in local funding): 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. The increase is primarily in personnel costs due to benchmarking.

Building Inspections (\$166,000 and 11.7% increase): The fees charged by this function traditionally provide the funding for building inspection services and result in the need for an average of 11% rate increase of building permits and 48% increase of mechanical, electrical and plumbing permits. In FY08, funding has been provided for the addition of a plan examiner position that is offset with additional revenue and \$32,000 for the replacement of two vehicles.

PUBLIC SCHOOLS

The County and School staffs continue to enjoy a solid working relationship to ensure that funding is provided and managed to meet the challenges and opportunities that accompany a growing school community.

The School Board operates the 14th largest district in the Commonwealth, consisting of 23 schools throughout the County with a projected FY08 enrollment of 18,984 students (19,926 including non-K-12 students). In 2008, the school district will open its 24th and 25th schools, an elementary school and a trades school. Funding for the construction of these two facilities is being provided as a result of a voter approved referendum. Based on County growth trends and projected student enrollment trends, no additional new schools are planned for several years. While the operating budget will continue to focus on preserving academic classroom ratios and other educational initiatives, the slower growth pattern will allow the County and Schools to focus on renovating existing, aging facilities.

School Operating Budget (\$185.6 million and 5.3% increase, 8.5% local increase): This \$185.6 million budget includes the School and Textbook operating funds. The State increase represents a modest \$2.0 million or 2.4% increase, which is a typical increase in the second year of the State’s biennium budget. This budget includes 31.5 new FTEs consisting of the following positions: 11.5 teachers (7.5 special education), 1 guidance counselor, 11 aides (8 special education), 4 bus drivers (2 special education), 2.5 planning staff for new schools, 1 mechanic, and .5 human resources staff.

Other notable increases in the budget include funding of the 4% pay adjustment, increased health insurance premiums, VRS employer contribution rates, debt service, fuel, transferring the cost of cafeteria monitors to the General Fund, and operating adjustment for schools only (central office departments did not receive additional operating adjustments).

Food Services Budget (\$7.6 million and 2.6% increase): Food service 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. This budget reflects the transfer of the costs of cafeteria monitors to the General Fund. The budget also contains a \$.10 increase for the price of lunch, increasing the price to \$2.00 for students and \$2.85 for adults, as well as increasing the price of student and adult breakfast by \$.10.

School Capital Budget: The \$20.1 million dollar capital budget is funded with \$4.6 million of cash (including proffers) and \$15.5 million of debt. Funded projects include:

Trades School	\$8,190,000
Facilities Improvements	\$2,700,000
Mechanical and Roofing Repairs and Replacements	\$4,500,000
Technology Infrastructure	\$1,100,000
Computer Replacements	\$1,240,000
School Buses	\$1,838,000
Reserve for Savings Plan	\$500,000

Future CIPs will focus on facility renovation. Over the past several years, School and County staff have focused on new construction to meet the significantly increasing student population. However, based on recent facilities constructed or in-process of construction and more recent population trends, student enrollment growth will moderate, allowing the redirection of CIP funding from new construction to the renovation of existing facilities.

PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$478,000 and 16.0% increase): Parks and Recreation program participation increased by 42% in FY06 and is expected to continue to grow. This growth has contributed to a total program fee revenue increase of \$197,000 or 59.2% from the FY07 budget. The revenue increase is also partly due to an inflationary increase in the summer youth program fees. For convenience, the cost of field trips has also been combined with the base fee. This additional revenue increase is offset by a corresponding increase in expenditures for operational program costs and the addition of a recreation coordinator position to start mid-FY08. A part-time capital project specialist has been added to assist with managing the capital projects underway and planned. In addition to positions, this budget includes \$70,000 for the purchase of grounds equipment with increased safety features. The annual allotment to the Parks and Recreation Advisory

Commission (PRAC) remains at \$20,000 for PRAC to distribute amongst the various needs of the many recreational-type organizations.

The capital budget includes the bond referendum project for new playground equipment at Hanover elementary schools in the amount of \$420,000.

Pamunkey Regional Library (\$159,000 and 6.8% increase): The County has benefited greatly as part of this regional library system that serves four counties. Over 849,000 items were circulated in the library, a 2% increase over the prior year. In furthering its desire for standardized service levels among all of its County libraries, \$49,000 has been provided for a resource librarian position to be utilized at all branch locations as necessary.

The capital budget contains the final appropriation of \$708,000 for the \$5.8 million bond referendum project to replace the Mechanicsville Library. The new library is expected to open by fall of 2008. Further assessment needs will be conducted for the existing Mechanicsville Library to determine its disposition.

The County and the Pamunkey Regional Library often refer to the goal to have a 0.6 per square feet of library space per person in the County. With the replacement of the Mechanicsville Library in 2008, the County's ratio will be at its highest point since formally tracked, but still 13,000 square feet below the 0.6 goal.

HUMAN SERVICES

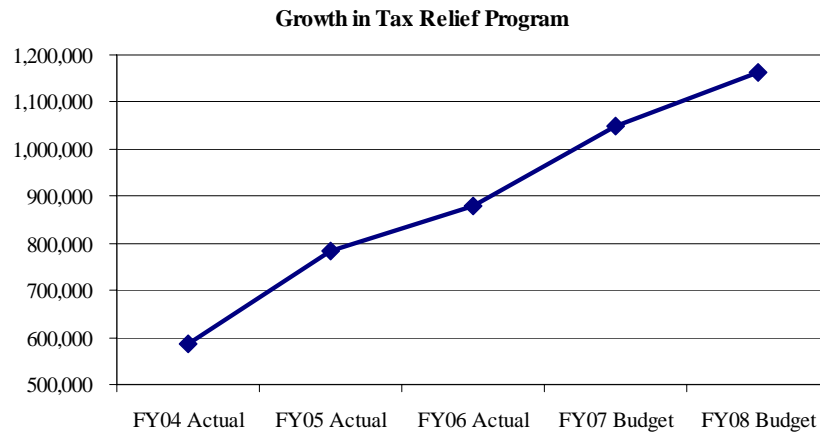
Community Resources (\$26,000 and 6.3% decrease, 1.2% decrease in local funding): This department continues to serve as the foundation in facilitating and maximizing volunteer and community resources and anticipates several enhancements that will further strengthen the County's volunteer program. The decrease in the budget is primarily due to loss of a grant funded position for FY08. In addition, Community Resources provides the administrative oversight to the Comprehensive Services Act Fund as follows:

- **Comprehensive Services Act (CSA) (\$306,835 and 6.3% increase, 1.4% increase in local funding):** This mandated program for at-risk youth is funded from a compilation of relevant factors that include: level of care needed, cost and duration of services, and the number of youth served.

Social Services (\$201,000 and 3.6% increase, 5.2% increase in local funding): Social Services is the primary local agency in meeting the social service needs of individuals that arise from a variety of circumstances. This budget includes the reclassification of a part-time eligibility aid to a full-time customer service agent to respond to the need for greater resources in the fuel assistance program. Other changes in this budget are correlated to serving individuals in mandated programs; fortunately, such mandated programs have high State/Federal reimbursement rates. The following programs have increased participation over the past year: Food stamps 35%, TANF 9%, Medicaid and FAMIS 7%, and energy assistance 40%.

Health Department (\$36,000 and 7.2% increase): This budget represents the County's tradition of funding a 45% share of this State agency budget. 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 efforts to meet the needs of citizens in the face of a fairly moderate budget.

Tax Relief for the Elderly and Disabled (\$114,000 and 10.9% 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 and 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 \$1,164,000 for 1,600 households. The primary factor for budget increase is the program change that was adopted by the Board of Supervisors in November 2006 to increase the maximum acreage exclusion to calculate net worth from one acre to five acres and the increase in the minimum annual exemption from \$900 to \$1,150. The change was expected to enable an additional 283 households to qualify for 100% relief for 2007.



Community Services Board (CSB) (\$399,000 and 3.6% decrease, 10.3% increase in local funding): The total CSB budget is \$10.6 million and reflects a rebalancing of revenues and expenditures as approved by the Community Services Board in December 2006. Multiple years of flat revenue growth in fees, state funding, and federal funding combined with increased personnel cost and inflationary growth in operating expenditures has presented budget challenges that have become more significant in the past two years. This budget reflects a reduction in fee revenue of \$600,000 and a realignment of resources that results in a staff reduction of 14 positions. The staff reduction will occur without layoffs and through retirements, attrition, reassignments and outsourcing. In addition to staff reductions, long term counseling services will be limited to allow a greater focus on acute care and clubhouse needs. Collaboration will be a priority of the CSB to encourage access of private and non-profit services for extended long term counseling. Proposals for the outsourcing of Logomotion, a printing business that provides jobs to clients with disabilities, to a non-profit have been received, and this transition is on schedule to be completed in FY07. Finally, this budget is in accordance with the long range strategic planning goals of the CSB: 1) to focus resources on providing evidence-based, best practice services to those with severe disabilities emphasizing regional and collaborative relationships; 2) to transition from being a direct provider of services to a broker or contractor for selected services; and 3) to reduce administrative overhead and indirect costs through management reorganization, consolidation of administrative support positions, and purchase of selected rental properties.

COMMUNITY DEVELOPMENT

Economic Development (\$105,000 and 9.8% 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 have shown the ability to reach the desired results over the long-term. Included in this budget is \$55,000 to fund a retail strategy initiative. Economic Development also provides administrative oversight over the following fund:

- **Economic Development Authority (EDA) Fund (\$171,216 and 96.8% decrease):** 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 decrease in the budget reflects an accounting change for recording the pass through debt payments. These payments will be tracked in balance sheet accounts instead of revenue and expense accounts as the transactions are not revenues or expenses of the fund.

Planning Department (\$136,000 and 7.0% increase): The budget includes the addition of a senior planner position dedicated to furthering the timely review of plans and enhancing customer service goals. Funding of \$30,000 for the County's Historic Preservation Fund is included in the Planning Department operating budget; previously this funding was included under Community Support. In addition, Planning provides the administrative oversight for the GIS Division as follows:

- **Geographic Information System (GIS) (\$28,000 and 4.2% increase):** GIS provides a support service to other departments, the citizens, businesses and other interested users of GIS information. The budget includes \$32,000 for software applications that will enable GIS capabilities to be enhanced and expanded to more County Departments and staff in FY08.

The budgets of the following community development divisions are generally small in scope and require little administrative oversight with the budget for the two divisions totaling \$180,000:

- **Extension Service (\$7,000 and 7.3% increase):** This function represents the County's share in participating in the State extension service (administered by Virginia Tech), which has been a valuable resource for our agri-business and residents interested in horticulture. The increase is due to assuming rent expense that was paid by the Master Gardeners' Association in FY07.
- **Soil and Water Conservation District (\$7,000 and 8.0% increase):** This is the County's share for participating in this district, which services residents in conservation planning and education. The increase in the budget is attributable to supplementing State salary increases.

Community Support (\$3,000 and 0.2% 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 or a modest increase in funding for all discretionary contributions and continuation of funding formula agreements.

PUBLIC WORKS

Public Works (\$45,000 and 2.8% increase, 0.3% increase in local funding): The Public Works function continues to be mandated to meet various Federal and State regulations, often with no financial assistance provided. This budget includes the addition of an Account Clerk position to provide administrative support for the Septic Pumpout Program. There is also additional funding of \$10,000 for stormwater and drainage easement maintenance.

The transportation section of public works continues to be challenged to define local responsibilities in the wake of insufficient funding provided by the State for their road infrastructure programs. These responsibilities include developing plans to manage State resources, road proffers, and developer contributions in meeting traffic impacts from existing and planned development.

In the capital budget, the transportation initiative of General Fund contributions to roadway improvements continues in the amount of \$1.2 million, \$900,000 above prior year plans for FY08. Due to the lack of progress in finding a statewide transportation solution, the Board identified transportation as a priority for revenues that were greater than planned revenues. The FY08 Five-Year Financial Plan includes \$13.2 million for roadway improvements over the five years, including \$4.0 million in State revenue matching funds. Other projects in the plan include \$1.8 million for New Ashcake Road Extension, \$275,000 for Rt. 301/New Ashcake Road/Rural Point Road project and \$175,000 for Teman Road/Tyler Station Road.

Public Works also provides administrative oversight over the following divisions:

- **Public Works Operations (\$123,000 and 3.3% increase):** A major function of Public Works Operations is the operation of the County's solid waste disposal and hauling system that includes a centralized transfer station available for commercial haulers and six convenience centers available free of charge to residents. There were 37,700 tons collected in the County (a 1.8% increase) and hauled to a facility for disposal outside of the County. In addition, recycling services are available at every convenience center and transfer station that collects 10,000 tons annually. Included in the funding for this division is \$190,000 for operational equipment (e.g. roll off containers and loaders). Public Works Operations also manages many of the County's easement clearing programs, street signs, anti-litter initiatives, and the Cannery.
 - **Cannery (\$6,700 and 14.0% 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.

- **Airport (\$323,000 and 41.3% increase, 9.0% decrease in local funding):** The County is fortunate to have a strong fixed-base operator (FBO) in a lease agreement managing the Hanover Airport. In FY07, the County entered into an amendment to the lease agreement with the FBO to assist in securing debt through the Virginia Resources Authority to construct hangars where the debt service will be funded with hangar rental fees. Based upon this agreement, an airport enterprise fund has been created to track the revenue, debt service, operating and capital transactions for this activity. The budget decrease is primarily due to lower capital expenditures for FY08. The local funding 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 operations. The capital budget provides local funding in the amount of \$72,000 to leverage State and Federal grants.

Facilities Management (\$155,000 and 9.5% increase): Facilities Management's primary function is to manage all County facilities, including repair, maintenance, and improvements, as well as the County's telecommunications, HVAC, generator and security systems. The increase includes funding for general repair, maintenance, and upgrades of County facilities and operating increases associated with utility services, telecommunication services and custodial contracts. There is also \$30,000 funding for an upgrade of the telephone software, \$25,000 for Historic Courthouse improvements and \$20,000 for replacement of HVAC units at Rockville Library.

In the capital budget, \$84,000 has been provided for replacement of the Parks and Recreation maintenance facility roof. There is an additional \$679,000 over the remaining for years for renovations of the existing court buildings, roof replacement at the Human Services building, a voicemail system and HVAC upgrade for the Vaughan-Bradley building.

Fleet Services (\$457,000 and 24.0% increase): This \$2.4 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. In providing such fleet repair service, the hourly internal fee charged will be increased from \$55 to \$57 and the radio maintenance fee will increase from \$75 to \$80. The respective vehicle and radio maintenance rates are far below comparable private vendor rates for similar services. The leasing program continues with a total of 33 leased vehicles with three departments now having their entire fleet under such leased program. Also, this budget includes the purchase of five replacement lease vehicles.

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 92% of the statewide per capita average and the lowest percentage in the region (including Caroline, New Kent, Goochland and King William Counties). Unless otherwise specified in departmental descriptions 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 (\$86,000 and 14.4% increase): This budget includes an additional \$50,000 for Boardroom audio visual equipment to begin replacement of the aging equipment that has experienced recent technical problems.

County Administrator's Office (\$84,000 and 7.6% increase): The increase is primarily due to inflationary changes and salary increases as the result of the annual benchmark study. The County Administrator's Office provides supervision and direction to nearly all County-related operations, while also administering to the

general inquiries of residents. The County Administrator's Office provides oversight for the following division:

- **Public Information (\$13,000 and 10.7% increase):** The County's one public information officer (PIO) 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. In addition to inflationary changes, the budget includes the cost of taking the PIO position from a 37.5 to a 40 hour week.

Human Resources (HR) (\$41,000 and 5.1% increase): The increase is primarily due to salary increases as the result of the annual benchmark study. HR serves prospective employees in providing access to job-related information and application oversight (over 6,600 applications in FY06) 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.

County Attorney's Office (\$53,000 and 4.9% increase): This office provides legal counsel to the Board of Supervisors, School Board, and nearly all County departments and agencies. This includes ordinance development, legal representation, and related support in ensuring compliance with policies, laws and regulations.

Commissioner of the Revenue (\$77,000 and 6.8% increase): In addition to many services provided by this office, two high volume activities include: 170,822 personal property taxpayer accounts valued in 2006 (a 4.4% increase over 2005) and 14,854 State income tax returns, requiring processing assistance. The budget increase includes the addition of a Customer Service Agent to assist with business property audits.

Assessor (\$57,000 and 6.7% increase): The Assessor's Office is responsible for the appraisal of all real property in the County and to assure equalization of market value of assessments. Approximately 33,500 tax parcels were reassessed for 2007 (77% of the County). Despite this workload, the office has maintained sales to assessment ratios above 96% while keeping coefficient of dispersion levels (this measures volatility amongst assessed values) of less than 10%, and few appeals to the Board of Equalization result in valuation changes. Included in the budget is funding for recent career ladder position moves in FY07 and salary increases due to position turnover since the FY07 budget development.

Treasurer (\$104,000 and 8.8% increase): For many years now, this office has attained an almost 100% collection rate on taxes owed the County and oversees an investment portfolio that has consistently outperformed established investment return benchmarks. This budget includes the reclassification of an accountant IV to an accounting supervisor to better reflect the duties performed and salary increases as a result of the annual benchmark study.

Finance (\$18,000 and 1.9% increase): Finance provides the resources needed in its budget division to support departments, County Administrator, and the Board of Supervisors. In addition, Finance also provides support services for payroll, accounts payable, financial reporting, debt management, and audit. The budget has remained stable due to position turnover, resulting in limited salary growth.

Internal Audit (\$19,000 and 8.3% increase): Internal Audit executes a Board Finance Committee approved Internal Audit Plan. Although standard business practices recommend an audit cycle review every 3.5 years, current resources provide for an audit cycle every 7 years. The budget increase is primarily due to the replacement of computers.

Purchasing (\$34,000 and 6.5% increase): Purchasing serves as the administrative agent in procuring goods and services above a \$5,000 unit cost. This department also supervises procurement card utilization and handles disposal of surplus property. In addition, Purchasing provides oversight and allocation of general liability, automobile and related insurance programs. The total estimated insurance cost for the County will be

\$665,000 in FY08. The Purchasing and General Services Department recognizes the division of General Services separately as follows:

- **General Services (\$18,000 and 4.2% decrease):** A variety of services is provided through this division, including risk management ensuring workplace safety guidelines and related training; a print shop providing for large internal 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. The decrease is the result of a \$30,000 mailing machine in the FY07 budget.

Registrar (\$22,000 and 7.0% increase): In addition to inflationary increases, this budget includes additional operating funding (such as printing and binding) in preparation for three elections in FY08.

Information Technology (IT) (\$291,000 and 9.3% increase): IT's role in meeting the needs of departments and related entities is to provide the support and leadership to ensure a 24/7 fully functioning computer and system environment, with proper controls, archives, and contingency plans. A new senior systems engineer position is needed to support extensive growth in County number of servers. This budget also includes the reclassification of a project manager position to deputy director and a senior system engineer to project manager to respond to workload demands.

In the capital budget is \$729,000 for technology infrastructure needs (Wide Area Network (WAN) enhancements and computer upgrades). The County continues to meet its plan of having sufficient technological resources available to meet the increased demand on information systems.

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$67,000 and 5.7% increase, 27.8% increase in local funding): The Clerk of the Circuit Court's Office performs a variety of support functions for the Circuit Court and legal recordations (e.g., property, wills). The local funding increase is the result of the addition of a locally funded Deputy Clerk III position and the reclassification of a part-time clerk to a part-time deputy clerk to meet increased customer service level demands.

Commonwealth's Attorney's Office (\$85,000 and 6.0% increase, 6.3% increase in local funding): The 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 referral needs for legal counsel. A component of the local funding increase is to implement a Citizen Training Workshop.

Court Services (\$105,000 and 8.8% increase, 6.5% increase in local funding): The security of the courts through bailiffs and serving of court-related papers (e.g., subpoenas) is performed by this division of the Sheriff's Office. The funding increase includes the replacement of two vehicles and the addition of one Court Services deputy position to assist with increasing workload demands.

The following divisions of judicial administration (totaling \$340,000 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 (\$6,000 and 2.7% decrease):** The decrease is due to a 10% decrease in operating and capital expenditures due to one-time expenditures in FY07 combined with a 2.0% increase in State funding.
- **General District Court (\$9,000 and 9.2% decrease):** The FY07 budget included \$13,000 for office improvement resulting in a decrease in funding for FY08.
- **Juvenile and Domestic Relations Court (\$25,000 and 40.9% decrease):** The FY07 budget included \$36,000 for office improvements, whereas the FY08 budget includes only \$9,000 in capital expenses for lighting in the courtroom. The difference between these two project costs results in an overall budget decrease.
- **Magistrates:** Funding is level for this service that provides independent review for issuing warrants, bail bond hearings, and related incarceration procedures.

The first phase of a court facility space study was conducted in FY07. The capital budget includes a new courts building for \$42.5 million, estimated to be completed 18 months after the initiation of construction. In FY08 \$2.2 million is provided for the first phase of architectural and site development. The financial plan was developed to absorb this large impact without raising the tax rate. This project plans to use \$5.7 million in accumulated and planned savings of cash to offset larger debt impact. Future financial plans are able to absorb the interest expense and operating cost of the facility including funding principal payments within two years of issuance. This project was initially estimated in the prior budget process based on a plan to expand the existing buildings and to cost \$18 million, 100% funded by debt and to begin in FY11.

In conjunction with a FY07 Board initiative to develop detailed needs assessment criteria and facility need analysis, and based upon discussions with the existing judges, Commonwealth's Attorney, Clerk of Circuit Court, and the Sheriff's Office this project was revised to a new stand-alone courts facility featuring strong safety and security measures. The need for such facility necessitated accelerating the project to begin in FY08 and also at a higher cost. This project will now allow all courts to be operated and secured under one facility with one entrance to the public for court access, a sally port to transport prisoners securely to court and holding cells designed to secure and segregate prisoners (e.g., male, female, juvenile). A byproduct of such new court facility is that the County's other facility space needs, which were also mounting from preliminary facility analysis, should be remedied for the long-term by renovating the two existing court facilities.

NONDEPARTMENTAL

This category traditionally appropriates funds for those functions not identified elsewhere and includes debt service for County obligations, excluding school, airport, and utility obligations, as well as reserves available for future appropriation. Reserve for contingencies will meet the County's budget policy at \$975,000. The \$325,000 reserve for revenue transfers enables the County to recognize insurance recoveries, grants, and other revenue adjustments during the fiscal year (offsetting reserve is also budgeted in the revenue portion of the budget).

Debt Service (\$692,000 and 43.7% increase): The County's debt service is increasing due to the recognition of the principal and interest payments for the first debt issuance of \$7.4 million under the 2005 bond referendum that occurred in October 2006, offset by the reduction of debt service for existing obligations.

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. Rather, the department operates as a self-supporting business, providing water and wastewater services to a customer base of 19,260 residences and businesses, an increase of 435 customers and 2.4%. 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 (\$378,000 and 1.6% decrease): This \$22 million budget includes a 6.0% increase in water and a 5.0% increase in sewer user fees in positioning rates towards target levels that are a result of the September, 2005 rate study. The average residential bill for water and sewer will increase \$1.91 and \$3.23, respectively. Operating expenditure increases include personnel (increases align with those of County's compensation and benefits program), chemicals, and purchased water. Purchase of water budget is increasing by 19.0%, primarily due to increases in the City of Richmond commodity rate and Henrico County cost of service.

Further, the continued increase in the number and complexity of environmental regulations, permitting requirements, and other State and Federal mandates being imposed are resulting in higher costs 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. The combination of higher capital and operating costs to ensure regulatory compliance, water reliability, water quality, and system security results in rate increases that exceed traditional inflationary increases for both user and capacity fees over the next five years. The County continues to provide a user fee relief program based upon the same qualifying criteria as the tax relief program. Residential elderly customers will receive a 50% discount on the rates designed for typical indoor use. No discount is offered for the highest rate tier designed for outdoor use and irrigation.

Utility Capital Budget: Although growth in the Suburban Service Area is below Comprehensive Plan estimates, several major capital projects must be undertaken to remain in compliance with the Comprehensive Plan, and the City of Richmond contract. These projects, combined with true growth related projects, result in a 4.0% 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 15 million gallons per day (mgd). With the one additional increment of 5 mgd of future water capacity to be contractually purchased in the next five 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's 5 mgd of current capacity will also develop 5 mgd incremental increases in capacity as needed through 15 mgd permitted capacity. The following is a summary of the FY08 capital projects:

Hanover-Richmond Waterline	\$3,870,000
Chamberlayne Road Waterline Improvements	230,000
Meadowbridge Road Waterline	296,000
Other General Water Capital Projects	430,000
Shelton Pointe Pump Station and Force Main	3,607,000
Upper Opossum Creek Sewerage Improvements	74,000
Other General Wastewater Capital Projects	120,000
General Water Rehabilitation and Replacement	749,000
General Wastewater Rehabilitation and Replacement	<u>684,000</u>
Total FY08 Utility Capital Projects	<u>\$10,060,000</u>

COUNTY/SCHOOL – **FIVE-YEAR CAPITAL IMPROVEMENTS PROGRAM**

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 FY08 capital budget for County and School projects is \$32.7 million, which is \$38.3 million lower than the current fiscal year and primarily attributable to the appropriation of \$62.8 million of bond referendum projects in FY07. The FY08 budget includes \$15.9 million of bond referendum projects, \$2.2 million for a new courts building, and \$200,000 of increased funding for road improvements. The General Fund cash transfer for County and School projects is \$8.8 million, \$2.1 million and 30.5% increase over prior year, which is primarily attributable to: 1) \$3.6 million (increase of \$1.6 million) for the communication system project and 2) additional \$200,000 for road improvements. The continued controlled 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 44.7% 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 future capital improvement projects that may have been previously debt financed or deferred.

FINANCIAL CONDITION OVERVIEW

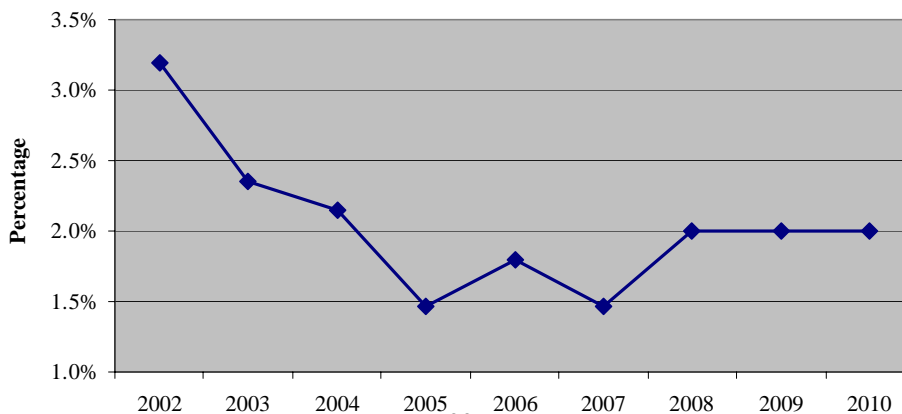
Traditional measures of economic conditions focus on a few variables: unemployment, income levels, new housing starts and taxable sales. Income and sales taxes tend to be more elastic; that is they change in proportion to changes in economic activity whereas property taxes are considered more inelastic. Fortunately, the diverse, strong and stable business climate of the County and its 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 2.3% (March 2007), compared to 3.1% in region, 3.1% in Virginia and 4.5% in the United States.

The County also relies upon a strong fund balance policy, which reserves at least 10% minimum (10.6% goal) of its general fund 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 or expenditure mandates targeted for future capital needs to mitigate debt or other local funding needs. The undesignated fund balance as of June 2006 was \$21.3 million, which represented 12.4% of General Fund revenues. The 10% fund balance policy is projected to be favorable at June 30, 2007, after meeting year-end fund balance policy thresholds and planned needs for the FY08 budget. The FY08 budget includes fund balance utilization for one time capital expenditures in the amount of \$2.3 million, while still maintaining the 10.6% undesignated fund balance goal. 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; therefore 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:

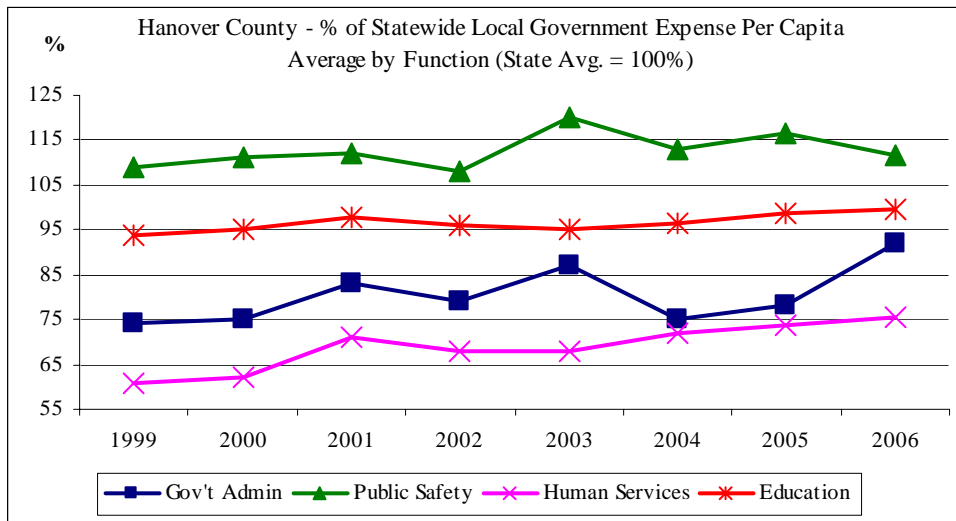
- The tax base grew by 10.6% in FY06 and taxes collected were 96.5% of the tax levy within the fiscal year.
- The County has continued to realize high median new home sales prices over many years, with the new home median sales price at \$406,800 in 2006, a 10.9% increase over the prior year value of \$366,800. The average value of a house is \$270,900 for 2007.
- The County has also improved its strong bond rating, receiving an upgrade from AA+ to AAA from Fitch Rating Services and an upgrade from AA to AA+ from Standard & Poor's, both in September 2006. Moody's maintained the County's rating of AA1.
- The population growth rate was 1.5%, with a total estimated population of 100,626 at July 2007.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 6.2% (policy is <10%).
- Enrollment growth is expected to be 0.7%, with a total enrollment of 18,984 estimated for September 2007.

Population Growth Rate Trend and Projection



To assess internally our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows that Hanover has the 12th lowest level of fiscal stress and the 10th highest median adjusted gross income (\$41,554). 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, the County's priority service levels, is Hanover at or above the Statewide per capita averages. All of our other functional areas are below the county Statewide averages. For example, the area of administrative expenditures is 8% below the Statewide average and the lowest in the region, including the rural localities of New Kent, Caroline, King William and Goochland. While it is not practical to provide an in depth analysis as part of this synopsis, the four areas – Public Safety, Education, Human Services and General Administration – represent the County's two Board priorities and two other representative functions of local government, respectively.



ECONOMIC DEVELOPMENT UPDATE

As Hanover continues to mature and grow, the Board of Supervisors maintains its focus on long-range strategic planning. The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports growth of existing and new businesses. This plan outlines the County's four major Economic Development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to County development regulations. The Board undertook a competitiveness analysis of the County's economic development program in 2005 and has identified the provision of infrastructure for economic development as a top priority during the 2007 Comprehensive Plan update.

A major objective of the Economic Development Strategic Plan was the establishment of five Economic Development Zones (EDZ). The purpose of these zones is to give priority consideration for development of infrastructure and fast track permitting to support new and expanding business 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.

In the past four years, Hanover County has added over 600 acres of zoned property in three business parks - Lewistown Commerce Center, Northlake Business Park, and Bell Creek Business Park. Now, the proverbial ships are starting to come in, generating revenue for the County and creating high-quality employment opportunities for residents. Owens & Minor, a Fortune 500 company, has relocated its home office from Henrico County to the Atlee Station office park. Approximately 450 people are employed at the Hanover office. Over 1 million square feet of office and commercial space has been added to Lewistown Commerce Center, Northlake Business Park, Bell Creek Business Park, and the Crescent Business Center in Lakeridge Business Park during the past five years. Analytics Corporation relocated to the Crescent Business Center in 2006 with 42 employees.

Recently, Bass Pro Shops announced its intention to open a 150,000 square foot retail store at Lewistown Commerce Center by October, 2008. Completion of the improvements at the Atlee/Elmont interchange has opened up approximately 350 acres of new land for retail, hotel, commercial and industrial development. Also, the completion of the North Lakeridge Parkway extension to U.S. Rt. 1 in 2006 opened up an additional 150 to 200 acres for development. Further construction of the North Lakeridge Parkway is underway and should be completed this fall.

Since 2003, commercial and industrial development has represented 30% of the total value of building permits issued in Hanover. In 2006, the new capital investment in real property was \$258.4 million with new real property tax collections at \$777,723 in the same year. The County continues 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.

DEPARTMENTAL ACHIEVEMENTS

Hanover County and several departments were recognized for outstanding achievement over the last year:

- Hanover County was selected as among the **“100 Best Communities for Young People”** by “America’s Promise-The Alliance for Youth.” The recognition goes to localities which recognize the critical importance of keeping five essential promises to youth: caring adults, safe places, a healthy start, effective education and opportunities to help others. Hanover County was one of only 7 localities in Virginia to receive this recognition and was one of four local governments specifically mentioned in a story in “USA Today.” Hanover County has been a designated Community of Promise by America’s Promise since 2003 and was recognized for such accomplishments as the “Graduate Warranty” program offered by the Schools.
- The **National Association of Counties (NACo)** presented an Achievement Award to Hanover County for the submission, “Blight Abatement and Anti-Litter Campaign”. This initiative was a true public/private partnership that involved the Departments of **Public Works, Planning, Sheriff’s Office, Building Inspection, Community Connections, Juvenile Court Services Unit, County Attorney’s Office** and **County Administrator’s Office**. The **Board of Supervisors** also played a key role in the “Clean Hanover” initiative. The Board of Supervisors adopted the Uniform Statewide Property Maintenance Code standards for the maintenance of existing buildings. The Board also asked the General Assembly to add Hanover County to the list of counties having the authority to require that the owner of occupied residential property cut their grass, an authorization which was granted in the 2006 Session.
- Hanover County also received **“Patriotic Employer Award”** from the **U.S. Department of Defense**. The “Patriotic Employer Award” is sponsored by the National Committee of Employer Support of the Guard and Reserve (ESGR). This award recognizes employers for employment policies and practices that support their employees’ participation in the National Guard and Reserve. On Oct. 10, 2001, the

Board of Supervisors approved a military pay supplement for Hanover County employees called to active military duty. The supplement makes up the difference, if any, between the military pay and the employee's regular salary. Altogether, 17 County employees have been called to active military duty since 9/11. Four are currently on military leave – **Shawn Beazley** of Fleet Services; **Howard Eckstein** of Finance; **Thomas Nelson** of Fire/EMS and **Michael Purcell** of the Sheriff's Office.

- **Parks & Recreation** received the **Excellence Achievement Award from National Safety Council**. This award recognizes departments for “outstanding efforts in occupational safety performance.” Parks & Recreation had no employees lose work days to injuries in 2005 despite having to perform numerous tasks which involve some safety risks. In December, the Department was further recognized with the National Safety Council's “Industry Leader” Award.
- The Department of **Public Utilities** received the Excellence in Waterworks Operations Award from the Virginia Department of Health (VDH). This is the top award given by the VDH, which regulates water quality standards in the Commonwealth of Virginia. The VDH also presented the **Doswell Water Treatment Plant** with an Excellence in Waterworks Performance Award for meeting goals that were more stringent than simply meeting requirements.
- Also with the Department of Public Utilities, the **Doswell Wastewater Treatment Plant** received the National Association of Clean Water Agencies Gold Peak Performance Award for five years of 100% permit compliance. The **Ashland Wastewater Treatment Plant** received the National Association of Clean Water Agencies Gold Peak Performance Award for one year of 100% permit compliance. The **Totopotomoy Wastewater Treatment Plant** received the National Association of Clean Water Agencies Gold Peak Performance Award for one year of 100% permit compliance. The **Courthouse Wastewater Treatment Plant** received the National Association of Clean Water Agencies Gold Peak Performance Award for one year of 100% permit compliance
- The **Sheriff's Office** underwent an extensive four-day reassessment three independent assessors from the Commission on Accreditation for Law Enforcement, Inc (CALEA). At the conclusion of the inspection, the assessment team found the Sheriff's Office to be in compliance with all 329 mandatory standards applicable to their function, and 75 optional standards. The Sheriff's Office is one of only four law enforcement agencies in the Commonwealth to have received both state and national accreditation, and is the only Sheriff's Office in the state with primary law enforcement responsibility to have national accreditation from the Commission on Accreditation for Law Enforcement (CALEA).
- The **Pamunkey Regional Library** received two awards from the **Virginia Public Library Director's Association** (VPLDA). The Cochrane Rockville Branch Library staff received the VPLDA's 2006 Outstanding Library Staff Award. The staff was nominated for their excellent work delivering service to library patrons from the old bookmobile during the 10-month period last year when the library was being renovated and enlarged. The Cochrane Rockville Branch Library was also named the “Outstanding Facility” for libraries serving a population of over 100,000.
- The **Department of Social Services** received two awards from the Virginia League of Social Services Executives: the Outstanding Group Public Service Award (the students and PTA of Washington-Henry Elementary School) and the Spirit of Collaboration Award to the Hanover Care for Kids Program.
- For the 21st consecutive year, Hanover County's **Comprehensive Annual Financial Report (CAFR)** qualified for the **GFOA's Certificate of Achievement for Excellence in Financial Reporting**. Only 32% of counties nationwide received this award this year. Hanover County has achieved this recognition each year since 1985. Hanover County also received the GFOA's Award for **Distinguished Budget Presentation** for the 17th consecutive year. Only 18% of county governments in Virginia received the Distinguished Budget Presentation Award this year.

Hanover County itself was recognized by “**Progressive Farmer**” magazine for being among the “**Best Places to Live**” in the U.S. The magazine ranked Hanover County #15 in the nation and #5 in the South. Rankings were based on such factors as low crime, health care, air quality and tax burden. Hanover County had a perfect score of four stars on crime rate, air quality and tax burden. This was the second national magazine recognition of Hanover County in two years. The previous year, “**The American City Business Journal**” had ranked Hanover County as being one of the top 50 counties or independent cities in the U.S. for quality of life.