

Appendix 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 that are not otherwise addressed in the proceeding letter. 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
- County/School – Five-Year Capital Improvements Program
- Public Utilities
- Financial Condition Overview
- Economic Development Update

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 3.5% based upon the employee's actual salary. This is a change from paying off the grade mid-point to the actual salary to be consistent with Hanover Schools and surrounding localities, allowing for equitable comparisons.
- The County's benchmark program which maintains market competitiveness, improves employee retention, and enhances employee morale, is also funded at \$415,000. This cost includes grade moves for 100 positions and 367 employees.
- To acknowledge a general market shift in the salary range structure and to continue to maintain competitive starting salary levels, a 2.5% salary scale adjustment is included.
- The School Board continues its commitment to offer competitive teacher salary scales through its own benchmark program. The School's 3.5% 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.
- Seven position title reclassifications are included in the budget at a net cost of \$31,000. These reclassifications are primarily needed to better classify positions based upon actual functions.
- Career ladders have been developed for many positions in the County to recognize the advancing achievements of the workforce during their careers with the County. This budget includes new career ladders for Radio Technician positions in Fleet Management, Construction Coordinators in Public Works, and Safety Specialist in General Services.
- Funding is provided to limit the increase in employee health premiums to approximately 3%. This is the first increase in the employee health premium in three years.
- Retiree benefits include the LEOS enhanced benefit, VRS retiree health insurance credit and other post employment benefits funding beginning January 1, 2009.

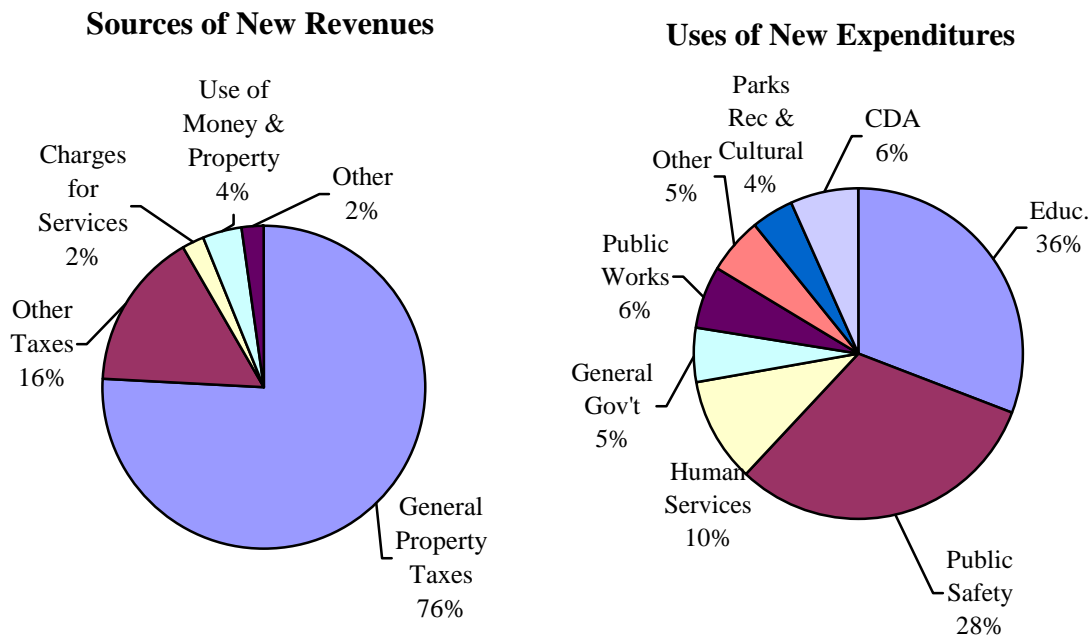
Appendix to County Administrator's Letter

Self-Insurance Fund (\$3.2 million and 14.9% increase): The Self-Insurance Fund provides for health insurance payments through employer contributions and employee deductions and other post employment benefit (GASB45) payments. This program serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. Employer assumptions include an 8.0% increase in departmental budgets for health insurance premiums funded for participating, vacant, and new positions and \$278 annual cost for other post employment benefits for all benefit eligible 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 FY09 employee premiums are projected to increase 3.0%. This budget also includes funding the opt-out credit in the amount of \$300 annually for employees that do not elect health insurance through the County and \$250,000 for the first phase of an employee health and wellness program, of which \$50,000 is funded with revenues from insurance carrier.

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, 0.1% 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.

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



An additional \$17.1 million is available in revenue to the General Fund. The primary revenue sources for this net increase (representing 92.6% of total increase) are:

Appendix to County Administrator's Letter

- General Property taxes - \$9.8 million increase: This revenue source is up 7.8% due to continued growth in real property revenues. Real property assessments grew 7.2% for 2008, in addition to a 2.5% 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 - \$2.0 million increase: Sales tax and other local taxes are generally in-line with the Five-Year Financial Plan. Sales tax is projected to increase 6.3% from the FY08 budget. Recordation tax is projected to decrease by 3.6% from the FY08 budget and increase 2.5% from FY08 projected revenues due to the impact of decreased transactions in FY08. Of the total increase in other local taxes \$499,000 is attributable to incremental revenues generated by the Lewistown Community Development Authority (CDA). The incremental revenue is defined as 75% of any revenue collected greater than the 2006 base year. This revenue is returned to the CDA for the life of the outstanding debt to offset debt service costs and will be transferred to the Lewistown CDA Fund upon receipt.
- Use of Prior Year Balance - \$3.9 million increase: This increase is due to the use of reserve for capital for the new courts building (\$2.5 million) and the emergency communications system (\$1.5 million). The use of reserve for the courts project was anticipated in the Five-Year Financial Plan and the additional appropriation to the emergency communications system recognizes costs exceeding the original appropriation estimate.

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 87.6% of total increase):

- Education - \$4.7 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 ~45% of the County's local funding availability. The school budget includes 67.2 additional full time equivalents (FTE).
- New County Positions - \$1.1 million increase: Funding for 14 full-time and 8 part-time new positions. The part-time positions have an associated revenue recovery of \$7,800. The full-time positions are locally funded for the following departments: Sheriff (5), Fire/EMS (8) and Emergency Communications (1).
- County Compensation and Benefits - \$3.3 million increase: In addition to the impact that a 3.5% merit increase has upon the budget (\$2.1 million), the following also impact such an increase:
 - Benchmark Program – The General Fund cost of the benchmark program is \$335,000 and results in grade changes for 81 positions and 305 employees.
 - Enhanced Retiree Benefits - \$183,000: This cost includes the enhanced VRS LEOS benefit for the Sheriff's Office and Fire/EMS Department and a retiree health insurance credit based upon years of service for non-LEOS VRS participants beginning January 1, 2009.
 - Other post-employment benefits - \$279,000: This cost is in response to the Governmental Accounting Standards Board (GASB) Statement 45 that requires local governments to fund or recognize a liability equal to the estimated future cost of retiree health insurance. Rating agencies encourage localities to fund the cost to protect against a negative impact on the bond ratings. Accordingly, this cost is recognized in all funds at an amount that is estimated to fully fund the liability.
 - Health Insurance - \$311,000: The increase is primarily due to premium rate increases in health insurance costs (as employer costs have increased 8.0%).

Appendix to County Administrator's Letter

- Public Safety - \$1.0 million operating and capital increase: This increase is made up of \$741,000 operating and \$279,000 capital increase. The operating increase is due to increased fuel costs for all departments, \$60,000 for fire uniforms, \$102,000 for computer replacements for Fire/EMS and Emergency Communications, replacement vehicles for the Sheriff's Office and Fire/EMS department, and operating expenses associated with towers for the new emergency communications system. These expenses will be detailed in the departmental sections of this appendix and Section B.
- Comprehensive Service Act (CSA) - \$615,000 increase: The additional local funding represents an increase over the Five-Year Plan projection due to the State establishing different funding based upon the service type. The local match will be lower for community based programs and higher for the more costly residential services. In addition, the State provided clarification on eligibility for children with solely mental health services in FY08 which will result in an increase in the number of children receiving services.
- Tax Relief for Elderly and Disabled - \$206,000 increase: Enhancements to the relief program were adopted by the Board of Supervisors in October 2007 to increase the eligibility criteria to the State maximums, including the acreage exclusion to ten acres, maximum allowable net worth to \$200,000, and removed the maximum discount that could be received by participants. This change has allowed for more households to access tax relief.
- County Improvements Fund - \$4.1 million increase: The increase is primarily due to the recognition of the use of reserve for capital to fund the new courts building in the amount of \$2.5 million and an additional appropriation to the emergency communications system in the amount of \$1.5 million to recognize expenditures greater than the original 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 (\$100.4 million, a \$7.3 million and 7.8% increase): The total value of taxable real estate in the County reached \$12.8 billion in January 2008, which is an increase of 9.7% over the prior year (7.2% from reassessments and 2.5% from new construction). The 2008 tax base is projected to increase 5.0% by January 2009 (2.5% from reassessments and 2.5% from new construction). This growth assumption is 2.5% below the FY08 Five-Year Financial Plan estimate and is based upon the sales to assessment ratio for 2007 sales. The margin between sales prices and assessments has narrowed and results in a lowering of future reassessment estimates. Future assumptions in the Five-Year Financial Plan continue at conservative estimates for reassessment ranging from 2.5% to 4.5%, as compared to last year's 5.5%. Each \$.01 of the real property tax rate generates \$1.2 million. The median home tax bill is projected to be \$2,539, an increase of 7.2%.

To mitigate the financial burden of a real and personal property December 5th due date and improve accuracy of personal property bills, the second half real property due date moves from December 5th to October 5th of the same year. This does not impact the total revenue collections. The total revenue includes \$275,000 of incremental revenues generated by the Lewistown CDA which will be transferred to the Lewistown CDA Fund upon receipt.

Appendix to County Administrator's Letter

Public Service Corporation Taxes (\$3.6 million, a \$121,000 and 3.5% increase): 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. The increase is the result of increased assessment in FY08, although our Five-Year Financial Plan assumes a decrease of 5% in years one through five to recognize the expectation that new investments will likely not keep pace with depreciation.

Personal Property Taxes (\$27.0 million, a \$2.2 million and 8.7% 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 59% State relief for 2007 will be reduced to 56% for 2008. This shifting of burden from the State to the taxpayer accounts for a higher percent increase in this revenue and \$1.4 million additional tax burden upon the taxpayers. It is projected that by FY13, the cumulative additional tax burden will be \$15.0 million with a 40% relief rate. The total personal property levy (taxpayer and State portion) is estimated to grow 5.0% over the FY08 forecast.

This revenue collection timing would also be impacted by the due date initiative. Again to mitigate the financial burden of a real and personal property December 5th due date and improve accuracy of personal property bills, the personal property tax due date moves from December 5th to February 5th of the following calendar year. This initiative does not impact the total revenue collections, but does allow for more accurate bills and is expected to reduce refunds by 2,000 and abatements by 4,000 annually. Most of these adjustments are the result of sales and purchases that are made throughout the year, therefore a later billing date will result in more accurate bills.

As in the real property revenue, the total personal property revenue includes \$70,000 of incremental revenues generated by the Lewistown CDA.

Tax Penalty and Interest (\$884,000, a \$65,000 and 6.8% decrease): The tax due date change includes a change to the calculation of penalty and interest. To protect against mailing delays or short-term oversight, the penalty changes from 10% to 2% if the tax amount is paid in full by the first day of the month immediately following the due date. If full payment is not made by that date, the full 10% penalty is due. Also interest accrues beginning the month immediately following the due date, as opposed to the first day after the due date. This change will result in less tax penalty and interest revenue, but is offset with increased interest revenue as the result of earlier real property collections. Overall the tax due date and penalty changes are projected to be revenue neutral.

Sales Taxes (\$20.0 million, a \$1.6 million and 8.6% increase): The current year growth trend for sales tax continues to moderate and overall is projected to increase 6.2%, as compared to 6.8% in FY07. FY08 receipts to date are approximately 6.0% higher than prior year and are expected to be in line with the budget estimate. The estimate of 6.5% growth has been incorporated into future fiscal years of the Five-Year Financial Plan. The difference between the 6.2% projected growth and the overall increase of 8.6% is the recognition of \$450,000 of incremental revenues pledged to the Lewistown CDA. This revenue will be transferred to the Lewistown CDA Fund upon receipt.

Communications Sales and Use Tax (\$5.9 million, a \$233,000 and 4.1% increase): This State centrally administered communications sales and use tax is a uniform statewide E-911 tax on landline telephone service and a public rights-of-way use fee on cable television providers that began January 1, 2007. This tax replaced the local consumer utility and E911 tax on telecommunications and will replace cable television fees upon expiration of the existing franchise agreement in 2012. The FY08 collections are estimated to be \$50,000 below budget and due to the increasing population and number of cellular phone lines, this revenue is estimated to grow 5% annually.

Appendix to County Administrator's Letter

State and Federal Revenues (\$27.1 million, a \$3,500 and .01% increase): The State budget assumptions include a 2.0% on December 1, 2008 salary increase for State supported positions, but this is mitigated with a 90-day hiring freeze extending to the Sheriff's Office and Commonwealth's Attorney. No new positions are funded in fiscal year 2009. The lack of funding increase results in a decrease in compensation board revenue from the FY08 Plan in the amount of \$94,000. Additionally, the State budget does not include the distribution of ABC profits and liter taxes to local governments resulting in a loss of \$96,000 annually to the County. State budget reductions have had a measurable impact on this budget and the balancing process. The budget includes continued FY07 SAFER grant funding for 12 new firefighter positions which extends through the second quarter of FY11.

Year-end Balance (\$9.9 million, a \$3.9 million and 65.8% increase): The \$9.9 million of year end balance includes \$2.5 million of accumulated funds for the new courts building and \$1.5 million additional appropriation to the communications system project. 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.

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 for inspections, monitoring and other labor-related administration under the erosion and sediment control program. Renewal fees are new in FY09 to recognize a different level of effort that is required for projects based upon the duration of the project. The six month renewal fees are \$200 for erosion and sediment plans for less than 10,000 sq. feet of land disturbance, \$600 for plans greater than 10,000 sq. feet of land disturbed, \$800 for up to 10 acres, and \$1,600 for residential subdivisions
- **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 \$1,150 to \$1,250 per equivalent residential unit.
- **Planning Permit Fees:** These fees are used to recover a percentage of the costs associated with the processing, review and advertising of applications as well as the inspection of their respective projects. The fees are centered on those services that involve significant time and effort in working with the applicant. Several fees are increasing and the changes are detailed in Section B, Planning Department.
- **Courthouse Fees:** This fee is increasing from \$5 to the State allowed maximum of \$10 to offset related expenses for courthouse security.
- **Animal Control Adoption Fees:** To recognize the cost of services provided, specifically increased costs for sterilization fees, this fee is increasing from \$40 per animal to \$50 per animal.

Appendix to County Administrator's Letter

EXPENDITURES BY FUNCTION

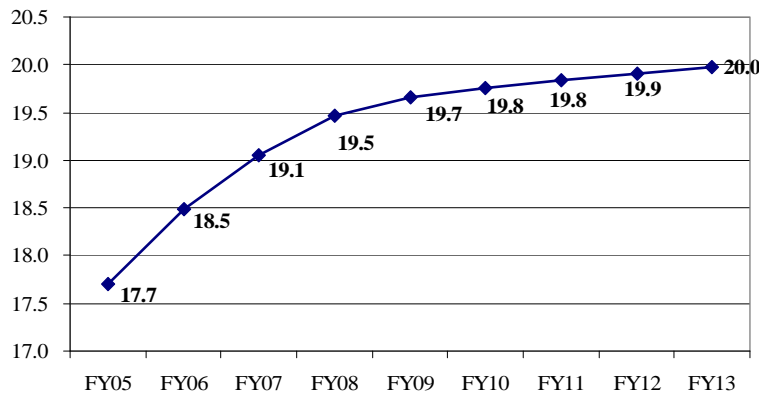
The following section of the budget synopsis illustrates all the functions of the County. Under each functional area are the departmental budgets with the dollar and percentage change in the operating budget noted. A brief illustration of a department's budget and operating highlights is presented and 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 (\$1.3 million and 10.1% increase, 12.5% increase in local funding): The FY09 budget includes funding for eight positions including one lieutenant and two firefighter/medic positions to allow for daytime staffing of the Black Creek Fire Station, one captain to provide additional support services at the Mechanicsville Station, and four firefighter/medic positions to increase EMS coverage to the rural areas of Hanover. This budget also includes funding for the VRS LEOS enhanced benefit and two replacement vehicles. The Fire/EMS portion of the capital budget includes \$1,040,000 for fire truck replacements and \$346,000 for ambulance replacement.

Sheriff's Office (\$1.6 million and 8.6% increase, 10.6% increase in local funding): The FY09 Five-Year Financial Plan includes 25 sworn officers between FY09 and FY13, with five of these positions planned for FY09. The FY09 positions include four deputies and one investigator. A ratio that continues to be tracked is sworn officers per 10,000 population with the ratio improving from 19.5 in FY08 to 20.0 in FY13. This same ratio was 17.2 in FY2002. 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 FY13. 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 then maintain 20 officers ratio.

Sheriff's Office Sworn Officers per 10,000 Citizens



This budget includes 47 replacement vehicles at a cost of \$1.1 million as these vehicles have generally met their ~110,000-mile useful life. The budget also includes \$33,000 for furniture and fixtures and \$15,000 for software enhancements. The local share of funding for this office will increase 10.6%, which would increase such local funding to 82.0% of their \$19.7 million budget.

Appendix to County Administrator's Letter

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 \$21.0 million, a \$1.6 million and 8.4% increase, and 9.4% increase in local funding.

Emergency Communications (\$456,000 and 14.4% increase): An integral component in ensuring public safety responsiveness is an effective and properly staffed Emergency Communications Department. One radio systems manager effective January 2009 is included in the budget to help manage the new radio system during project development and after implementation. Funding is provided in FY09 for the replacement of HVAC systems at the existing towers, ProQA system recertification and background investigations. The budget also includes funding for operating expenses associated with the tower sites for the new emergency communications system, including electrical service for the towers and tower lease expense.

The capital budget includes an additional appropriation of \$1.7 million to the emergency communications system and facility that brings the total cost to \$35.1 million. These funds are needed to complete the project and reflect actual costs that have exceeded the estimates. Of the \$1.7 million, \$200,000 will be funded with recovered cost from Randolph Macon College and Town of Ashland for the cost of new radios.

Animal Control (\$90,000 and 8.8% increase): The budget includes the replacement of two vehicles and an incinerator. The total budget increase for this office is partially offset with an increase to the animal control adoption fees from \$40 to \$50 per animal that results in an additional \$8,000 of revenue in FY09.

Juvenile Court Services Unit (\$24,000 and 3.5% increase, 4.3% increase in local funding): The budget funds juvenile offenders who are placed at the Merrimac Juvenile Detention Center as well as other community programs, addressing accountability, public safety, and treatment (e.g., case management, probation, electronic monitoring, community service and treatment groups). The increase in the budget is to reflect the continuation of the previously federally funded Drug Court and moving one of the related positions from the Community Services Board budget to this budget now funded with local revenues and donation.

Pamunkey Regional Jail (\$125,000 and 2.7% increase): This budget reflects the per diem costs (\$42.57 per day increasing to \$47.71 per day, 12.1% increase) to house inmates as part of the County's participation in the Pamunkey Regional Jail Authority (PRJA). While the per diem cost has increased 12.1%, the County's population of inmates has decreased 13.5%. 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 (\$36,000 and 10.1% increase, 29.1% increase in local funding): This function, initially 100% funded by the State, provides community corrections and pre-trial services to those deemed necessary by the judges. The increase is in operating costs due to the replacement of five computers and an 18.7% increase in building lease expense.

Building Inspections (\$102,000 and 6.4% increase): The fees charged by this function traditionally provide the funding for building inspection services. In FY09 \$36,000 has been provided for the replacement of two vehicles.

Appendix to County Administrator's Letter

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 successful school community.

The School Board operates the 14th largest district in the Commonwealth, consisting of 23 schools throughout the County with a projected FY09 enrollment of 18,693 students (19,682 including non-K-12 students). In school year 2008-09, the school district will open Laurel Meadow Elementary and The Hanover Center for Trades and Technology schools, the district's 24th and 25th schools. Based upon County growth trends and projected student enrollment trends, no additional 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 (\$199.1 million and 7.4% increase, 5.1% local increase): This \$199.1 million budget includes the School and Textbook operating funds. The State increase represents a \$8.6 million or 10.0% increase for the first year of the State's biennium budget. This budget includes 67.2 new FTEs consisting of the following positions: Enrollment based – 8 special education teachers/support staff and 4 special education aides; Opening of Laurel Meadow Elementary School – 35.9 total FTEs; Opening of Hanover Center for Trades and Technology – 16 total FTEs, Other positions – 3.3 FTEs.

Other notable increases in the budget include funding of the 3.5% pay adjustment, benchmark adjustments, increased health insurance premiums, debt service, vehicle fuel and other utility costs, operating expenditures associated with the opening of two new schools, and several parental and community engagement related initiatives.

Food Services Budget (\$8.0 million and 6.2% increase): The Food Services budget includes five new positions for the new Laurel Meadow Elementary School. In addition to these five new positions, the school nutritionist position has been transferred from this budget to the operating budget. The budget maintains the cost of breakfast at the current rates, but includes a \$0.15 price increase for student and adult lunches.

School Capital Budget: The \$10.2 million dollar capital budget is funded with \$4.7 million of cash (including proffers) and \$5.5 million of debt. Funded projects include:

Facilities Improvements	\$2,500,000
Mechanical and Roofing Repairs and Replacements	\$3,100,000
Technology Infrastructure	\$1,000,000
Computer Replacements	\$1,109,000
School Buses	\$1,978,000
Reserve for Savings Plan	\$500,000

PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$263,000 and 7.6% increase): This budget includes one part-time groundskeeper, one part-time recreation program assistant, and part-time positions sufficient to open an additional summer playground program site, including a recreation supervisor, therapeutic recreation aid, and three recreation aides. Summer program fees will partially offset the cost of the additional program site and result in local costs of approximately \$5,000. Overall, parks and recreation fees are projected to increase \$35,000 in FY09. In addition to positions, this budget includes \$40,000 for a Parks and Recreation Facility Master Plan, \$51,000 for the purchase of grounds equipment, \$20,000 for park bleachers repair, and \$35,000 for facility repairs. The annual allotment to the Parks and Recreation Advisory Commission (PRAC) increased by \$10,000 to \$30,000 for PRAC to distribute amongst the various needs of the many recreational-type organizations.

The capital budget includes the bond referendum projects including \$1.0 million for Pole Green Park, \$400,000 for Poor Farm Park, \$300,000 for Courthouse Park, and \$260,000 for Hanover Wayside Park.

Appendix to County Administrator's Letter

Pamunkey Regional Library (\$231,000 and 9.3% increase): The County has benefited greatly as part of this regional library system that serves four counties. Over 904,000 items were circulated in the library, a 6.1% increase over the prior year. In furthering its desire for standardized service levels among all of its County libraries, \$84,000 has been provided to increase Library staffing hours and \$15,000 has been provided for operating cost associated with the opening of the Mechanicsville Library. This library is larger than the existing branch and will result in increased operating expenses.

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, which is scheduled to open December 2008, the County's ratio will be at its highest point since formally tracked at 0.5.

HUMAN SERVICES

Community Resources (\$21,000 and 5.5% increase, 2.7% increase 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. In addition, Community Resources provides the administrative oversight to the Comprehensive Services Act Fund as follows:

- **Comprehensive Services Act (CSA) (\$589,000 and 11.4% increase, 27.8% 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. The additional local funding reflects the impact of two critical changes to this program. First, the State recently implemented adjustments to the reimbursement rates for CSA-funded services. Instead of the standard rate, the new formula ties reimbursements to the type of service. As an example, the cost for residential placement is now reimbursed at the rate of 55%; under the new formula, we would only receive 49% in FY09 and 45% in FY10 reimbursement for that expense. As a result, the County will have a greater financial burden for this service. Secondly, the State recently set forth policy guidelines clarifying that those children presenting solely with mental health issues can be determined eligible for mandated services. Because this change will increase the number of children eligible to receive services, an increase in expenditures for mandated services will occur.

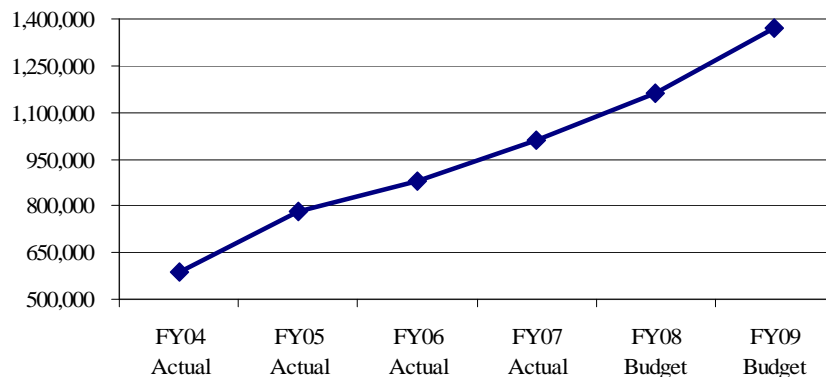
Social Services (\$245,000 and 4.2% increase, 4.3% increase in local funding): Social Services is the primary local agency in meeting the social service needs of individuals that arise from a variety of circumstances. This budget helps to serve individuals in mandated programs; fortunately, such mandated programs have high State/Federal reimbursement rates. The following programs have increased participation over the past year: Food stamps 10%, Medicaid and FAMIS 7%, and energy assistance 5%.

Health Department (\$21,000 and 3.8% 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.

Appendix to County Administrator's Letter

Tax Relief for the Elderly and Disabled (\$206,000 and 17.7% 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 \$1,370,000 for 1,600 households. Together with the County's land use program that provides approximately \$6.0 million in tax relief, the County's total tax relief is over \$7.4 million. The primary factor for budget increase are the enhancements to the relief program that were adopted by the Board of Supervisors in October 2007 to increase the eligibility criteria to the State maximums, including the acreage exclusion to ten acres, maximum allowable net worth to \$200,000, and removed the maximum discount that could be received by participants. This change has allowed for more households to access tax relief.

Growth in Tax Relief Program



Community Services Board (CSB) (\$577,000 and 5.4% increase, 2.9% increase in local funding): The total CSB budget is \$11.2 million and reflects the addition of two State funded positions, a MH Case Manager and a MHSA Clinician, and two locally funded positions, MR Training Specialist and MH Case Manager. This budget also includes two position reclassifications including an Automated System Specialist to an Automated Specialist Senior and a Training Specialist I to a Transportation Supervisor. This budget also includes the continuation of the previously federally funded Drug Court and moving one of the related positions from the Community Services Board budget to the Juvenile Court Services budget funded with local revenues and donation.

The capital budget includes \$320,000 of funding to replace CSB's healthcare information system. The current system is over 15 years old and no longer has reliable and cost effective support services available. The replacement of this system will improve the efficiency and timing of service billing.

COMMUNITY DEVELOPMENT

Economic Development (\$17,000 and 1.5% decrease): Economic development is fostered through strategic planning and creating and maintaining a positive business climate. The decrease in this budget is the result of the FY08 budget including \$55,000 to fund a retail strategy initiative. Economic Development also provides administrative oversight for the following fund:

- **Economic Development Authority (EDA) Fund (\$190,000 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. These payments were tracked in the balance sheet accounts for FY08, but it has been determined that it is more appropriate to track these transactions as revenues and expenses of the fund.

Appendix to County Administrator's Letter

Planning Department (\$222,000 and 10.6% increase): This budget includes funding to take an existing part-time planner position to full time and to fund the replacement of one vehicle. Funding of \$30,000 for the County's Historic Preservation Fund continues to be 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) (\$30,000 and 4.3% 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 over an intranet.

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 \$206,000:

- **Extension Service (\$3,000 and 3.0% 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.
- **Soil and Water Conservation District (\$8,500 and 8.9% 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 funding to assist with additional employee benefit and technology costs.

Community Support (\$103,000 and 7.4% increase): The contributions to various local and regional entities are classified under community development to reflect their community support intentions. The increase is primarily due to a contribution to Operation Hope for \$25,000 and the recognition of pass-through incremental lodging taxes generated by the Lewistown CDA to the Greater Richmond Convention Center and the Richmond Metro Convention and Visitors Bureau in the amount of \$61,000

PUBLIC WORKS

Public Works (\$148,000 and 8.8% increase, 7.4% 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 increased hours for a part-time Civil Engineer III, which is offset with stormwater fee revenue, \$7,000 for the underground storage tank program, and funding for the replacement of one vehicle. There is also additional funding of \$6,000 for stormwater basin 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 \$2.2 million, which is in line with prior year plans for FY09. The FY09 Five-Year CIP includes an annual increase of \$100,000 each year and results in a total appropriation of \$12.0 million over the five years, including \$5.0 million in State revenue matching funds. Public Works also provides administrative oversight over the following divisions:

- **Public Works Operations (\$248,000 and 6.4% 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 37,182 tons collected in the County (a 1.9% increase) and the majority hauled to a facility for disposal outside of the County. More tons are expected in FY09 due to two additional private haulers. In addition, recycling services are available at every convenience

Appendix to County Administrator's Letter

center and transfer station that collects 17,000 tons annually. Included in the funding for this division is \$65,000 for operational equipment and \$10,000 to address drainage issues. This budget also includes \$35,000 for curbside recycling, which will be offset with user fees from approved service districts for Ashcreek and Milestone subdivisions. Public Works Operations also manages many of the County's easement clearing programs, street signs, anti-litter initiatives, and the Cannery.

- **Cannery (\$8,800 and 16.1% decrease):** This function provides a great resource for residents to can their fruits and vegetables and the budgetary needs over the years have been minimal. The budget decrease is primarily the result of the FY08 budget including \$5,100 for a can sealer.
- **Airport (\$26,000 and 2.4% increase, 45.0% increase in local funding):** The County has a fixed-base operator (FBO) in a lease agreement managing the Hanover Airport. The budget increase is primarily due to higher capital expenditures for FY09 over FY08 in the amount of \$82,000. The local funding supports one County employee as well as maintenance and improvements to the airfield and terminal facilities. This budget also includes terminal furniture that is fully grant funded and security cameras which are 90% grant funded. The capital budget provides local funding in the amount of \$169,000 to leverage State and Federal grants.

Facilities Management (\$213,000 and 11.9% increase): Facilities Management manages 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 funding for a part-time preventive maintenance technician, \$39,000 for an upgrade to the maintenance software system, \$23,000 funding for an upgrade of the telephone software, \$25,000 for Historic Courthouse improvements and \$18,500 to fund a boiler for the Wickham Annex.

In the capital budget, \$185,000 has been provided for replacement of the Human Services building roof and \$54,000 for building automatic system upgrades.

Fleet Services (\$346,000 and 14.7% increase): This \$2.7 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. In providing such fleet repair service, the hourly internal fee charged will be increased from \$57 to \$60 and the radio maintenance fee will increase from \$80 to \$85. The respective vehicle and radio maintenance rates are far below comparable private vendor rates for similar services. The leasing program, whereby Fleet Services purchases the vehicle and then leases it to the department, continues to expand with a total of 49 leased vehicles with five departments now having their entire fleet under such leased program. The Five-Year Plan includes the addition of four departments and 55 vehicles to this program. Also, this budget includes funding for a full time Parts Expeditor/Fuel Coordinator position, the replacement of seven lease vehicles, \$16,000 for replacement of a radio van, and \$10,000 for diagnostic software upgrades.

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 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 and other post

Appendix to County Administrator's Letter

employment benefits) impacts. The following summarizes the operating budgets for these administrative departments:

Board of Supervisors (\$45,000 and 6.5% increase): This budget includes an additional \$50,000 for Boardroom remote sound system and \$15,000 for the second citizen survey. Replacement of the Boardroom audio visual equipment began last year and continues throughout the Five-Year Plan at \$50,000 per year.

County Administrator's Office (\$53,000 and 4.4% increase):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 (\$16,000 and 12.1% 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. The budget includes \$10,000 for an annual progress report and additional graphic design/printing services.

Human Resources (HR) (\$25,000 and 2.9% increase): HR serves prospective employees in providing access to job-related information and application oversight (over 6,600 applications in FY07) 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 (\$48,000 and 4.3% 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. This budget includes funding for the reclassification of one Assistant County Attorney I to an Assistant County Attorney II.

Commissioner of the Revenue (\$38,000 and 3.2% increase): In addition to many services provided by this office, two high volume activities include: 173,426 personal property taxpayer accounts valued in 2007 (a 4.3% increase over 2006) and 14,678 State income tax returns, requiring processing assistance.

Assessor (\$30,000 and 3.3% 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 20,000 tax parcels were reassessed for 2008 (46% of the County). The office continues to maintain 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.

Treasurer (\$41,000 and 3.2% increase): This office attains 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 three customer service agents to revenue Collection agents to better reflect the duties performed and \$5,000 for a security camera for the office.

Finance (\$40,000 and 4.2% 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 includes the combination of two non-benefited part-time positions to one benefited part-time position.

Appendix to County Administrator's Letter

Internal Audit (\$19,000 and 7.6% 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 an increase in salary as a result of the annual benchmark study and career development moves within the department.

Purchasing (\$15,000 and 2.7% 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 is \$1.1 million in FY09. The Purchasing Department recognizes the division of General Services separately as follows:

- **General Services (\$40,000 and 9.9% increase):** 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 increase is the result of \$16,000 for the replacement of a mail van.

Registrar (\$22,000 and 6.3% increase): This budget includes \$15,000 for additional voting machines.

Information Technology (IT) (\$192,000 and 5.6% 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. This budget includes the reclassification of a computer operations supervisor to a manager of production services, \$31,800 for a digitizing study and \$20,000 for a facilities evaluation. The department is beginning to experience facility issues related to HVAC and electricity. This infrastructure will need to be upgraded to allow for increasing hardware.

In the capital budget is \$136,000 for technology infrastructure needs (Wide Area Network (WAN) enhancements and computer upgrades).

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$70,000 and 5.6% increase, 60.7% 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 primarily the result of a projected decrease in excess fees in the amount of \$38,000 and minimal State funding for constitutional officers from the Compensation Board in FY09. This lack of funding results in the local share increasing significantly to cover salary, benefits and operating increases for the office.

Commonwealth's Attorney's Office (\$118,000 and 7.9% increase, 6.4% 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. The Compensation Board funded a FY08 mid-year new attorney position, which accounts for the total increase above the local increase.

Court Services (\$66,000 and 5.1% increase, 4.7% decrease 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 includes replacement of three vehicles. Local funding is decreasing primarily due to increase of courthouse security fees from \$5 to \$10.

Appendix to County Administrator's Letter

The following divisions of judicial administration (totaling \$329,000 in funding) represent the County's contributions to these State-related functions, with expenditures primarily representing operating expenditures.

- **Circuit Court (\$16,000 and 7.6% decrease):** The decrease is due to a 20.8% decrease in operating expenditures due to one time expenditures in FY08 for facility upgrades. The budget includes \$5,000 of funding for facility upgrades.
- **General District Court:** Funding is level for this service.
- **Juvenile and Domestic Relations Court (\$4,000 and 12.1% increase):** The budget includes \$10,000 for security upgrades for the clerk's office.
- **Magistrates:** Funding is level for this service that provides independent review for issuing warrants, bail bond hearings, and related incarceration procedures.

The court facility space study concluded in FY08 and the County contracted for architectural services in February 2008. The capital budget includes additional funding for the new courts building in the amount of \$43.4 million. This funding combined with the FY08 appropriation of \$2.2 million results in a total budget of \$45.6 million. The total cost of this project was estimated to be \$42.5 million in the FY08 budget, an increase of \$3.1 million. The facility is estimated to be completed 18 months and open in December 2011. The financial plan was developed to absorb this large impact of debt service and operating costs without raising the tax rate. Although due to the projected lower real property reassessments in the 2009 tax year, the project was delayed six months. This project plans to use \$5.7 million in accumulated and planned savings of cash to offset larger debt impact.

To have all of the judicial administration functions within one new facility would now result in an 115,000 square foot facility costing \$54.9 million; \$12.4 million above the FY08 initial estimate. The County staff worked with Commonwealth Attorney Trip Chalkley and Clerk of the Circuit Court Frank Hargrove, Jr. to reduce the scope of the project. Based upon their input, it is anticipated that some judicial functions will remain in one of the existing buildings, requiring renovation of the building. The CIP includes \$3.3 million of funding for courts building renovations in FY13.

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, General Fund transfers to other funds, as well as reserves available for future appropriation. A transfer to the Lewistown CDA for incremental generated revenues in the amount of \$812,000 is included in this budget. Reserve for contingencies will meet the County's budget policy at \$1.0 million. The \$338,000 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 (\$62,000 and 2.7% decrease): The County's debt service is decreasing due to the delay of debt issuances for the 2005 bond referendum projects. The budget issuance schedule assumes an aggressive timing to ensure adequate cash flows with issuance timing based upon actual cash flow needs of the projects. The planned issuance for the fall of 2007 has been moved to the summer of 2008 and results in a decrease in debt service costs.

Appendix to County Administrator's Letter

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 FY09 capital budget for County and School projects is \$24.5 million, which is \$8.2 million lower than the current fiscal year and primarily attributable to the appropriation of \$8.2 million for the Hanover Center for Trades and Technology in FY08. The FY09 budget includes \$10.3 million of bond referendum projects, \$5.7 million for a new courts building, \$2.2 for road improvements, and \$1.4 million for Fire/EMS engines and ambulances. The General Fund cash transfer for County and School projects is \$13.0 million, \$4.2 million and 47.7% increase over prior year, which is primarily attributable to: 1) \$5.7 million for the new courts building offset by \$1.5 million (decrease of \$2.1 million) for the communication system project. 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 40.9% 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.

Appendix to County Administrator's Letter

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 19,472 residences and businesses. 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 (\$316,000 and 1.4% decrease): This \$21.6 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 bi-monthly residential bill for water and sewer will increase \$2.49 and \$3.65, respectively. Operating expenditure increases include personnel (increases align with those of County's compensation and benefits program), chemicals, and purchased water.

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. The combination of higher capital and operating costs required to ensure regulatory compliance, water reliability, water quality, and system security results in rate increases that exceed 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.

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. These projects, combined with increased construction costs due to inflation, result in a 6.0% 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 \$19.7 million CIP budget of fourteen projects includes \$5.6 million for Lower Opposum Creek Sewerage, \$5.0 million for Middle Chickahominy River Sewerage Improvements and \$3.2 million for the Hanover-Richmond waterline, including one additional increment of 5 mgd water capacity from the City of Richmond.

Appendix to County Administrator's Letter

FINANCIAL CONDITION OVERVIEW

The County has maintained its AAA bond rating with Fitch Ratings and has positioned itself well with the other rating agencies for the next bond rating planned later this year. Hanover County is the smallest county by population to earn Fitch's AAA rating, but most importantly this has enabled us to receive very low interest rates when issuing debt.

The State's financial and economic condition appears to have moderated in the past year as evidenced by revenue collections, in both income taxes (5.3% increase) and sales taxes (8.4% increase). This is reflective of the low State unemployment and high median adjusted gross incomes. However, while the schools benefited from a change in the composite index that contributed to a total 9.8% State revenue increase in the FY09 budget and CSB from an 11.2% State increase, local funding of constitutional offices increased 2.4%. The unreliability of State funding continues to be one of our biggest challenges.

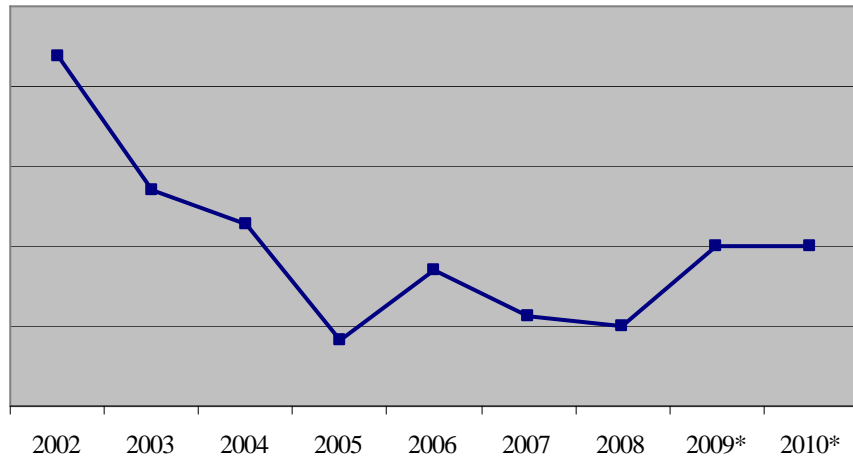
The County also relies upon a strong fund balance policy, which reserves at least 10% minimum (10.6% goal) of its general fund revenues (the industry benchmark for a fiscally well-managed local government). When balances are projected to be above such thresholds, excess balances can be either saved for 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 2007 was \$22.5 million, which represented 12.3% of General Fund revenues. The 10% fund balance policy is projected to be favorable at June 30, 2008, after meeting year-end fund balance policy thresholds and planned needs for the FY09 budget. The FY08 budget includes fund balance utilization for one time capital expenditures in the amount of \$9.9 million, including \$3.7 million of reserve for capital, 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:

- Low unemployment of 3.3% in March 2008 which was a major contributing factor in the Richmond region being recognized as one of the lowest unemployment rates in the nation for metropolitan areas;
- Local sales tax growth of 6.0% projected in FY08 continues positive trends of our local retail merchants;
- In 2007, median new home sale valued at \$413,200 and average home valued at \$292,400. With great national attention focused upon the housing industry and sub-prime loans, the County has fared quite well as evidenced by days on the market (DOM) trends (90 DOM in December 07 compared to 43 DOM in December 06). The ability of existing homeowners to sell their homes at good values and shorter times on the market than regional benchmarks recognizes the demand and value that exists for the County's quality of life and strong business environment;
- Commercial/industrial property growth increased the tax base by \$66.8 million reflecting the strength of this significant segment of our economy to keep pace with the impacts of our residential demand;
- The tax base grew by 9.4% in FY07 and taxes collected were 96.4% of the tax levy within the fiscal year;
- The population growth rate was 1.5%, with a total estimated population of 102,232 at July 2008 and the five-year average (1.7%) is in-line with the Comprehensive Plan assumption of 2.0%; and
- Enrollment growth is expected to be 0.1%, with a total enrollment of 19,682 estimated for September 2008.

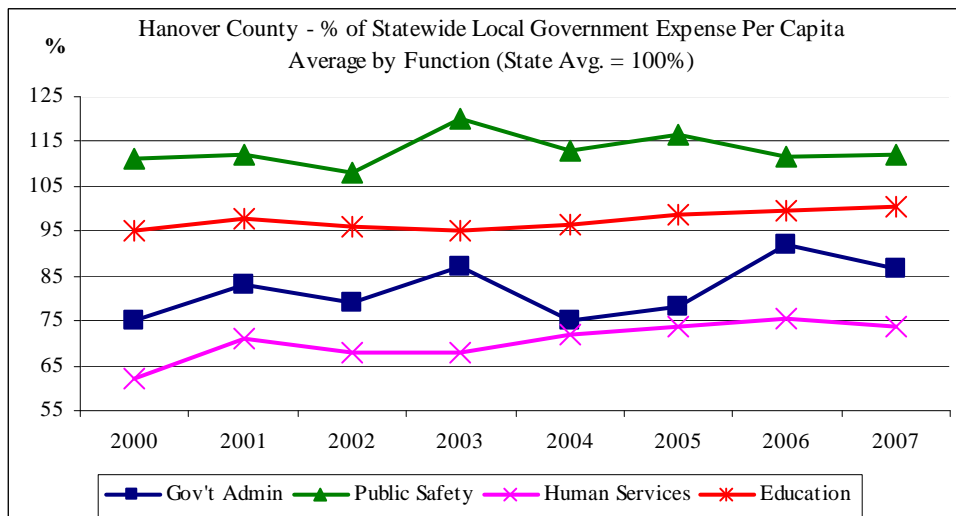
Appendix to County Administrator's Letter

Population Growth Rate Trend and Projection



To assess our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows that Hanover has the 14th lowest level of fiscal stress and the 11th highest median adjusted gross income (\$45,738). 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 13% 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.



Appendix to County Administrator's Letter

ECONOMIC DEVELOPMENT UPDATE

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's development regulations. In 2007 the Board completed a Comprehensive Plan update, which added significant new business designations to the area west of Route 33 to Hylas and northeast of Ashland, along Interstate 95.

Six Economic Development Zones (EDZs) 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 County's four newest business parks have over 600 acres of zoned property and over one million square feet of office and commercial space that are now generating revenue for the County and creating high-quality employment opportunities for residents. Owens & Minor, a Fortune 500 company, is located at the Atlee Station office park and employs approximately 500 people. Bass Pro Shops will open a 150,000 sf retail store at Winding Brook by October 2008. The Bass Pros project includes the extension of Lakeridge Parkway from its current terminus to Lakeridge Industrial Park, which will interconnect the Lewistown Road and Atlee/Elmont interchanges. Country Vintner is constructing a 130,000 sf headquarters and distribution center in Northlake, which is expected to be completed by June 2008. The 350 acres around the Atlee/Elmont interchange has land for retail, hotel, commercial, and industrial development and a Home Depot and Gander Mountain have recently opened in that area. Also, the completion of the North Lakeridge Parkway extension to U.S. Rt. 1 in 2006 opened up an additional 200 acres for development. From 2003 through 2007, commercial and industrial development has accounted for 32 percent of the total value of building permits issued in Hanover.

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.