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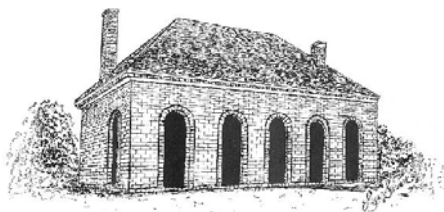
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April 9, 2008

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

Dear Members of the Board:

I am pleased to present Hanover County's adopted Fiscal Year 2009 Budget. We have worked closely with County departments, Constitutional Officers, and the School Superintendent to develop a financial plan that continues to meet our current challenges. This budget is based on maintaining our current real property tax rate for the next five years while developing long-term funding and expenditure plans to address future service needs, as well as recognizing a slower rate of revenue growth. Because revenue growth has slowed, we are limited in our ability to increase service levels and/or modify the current tax rate. It is my recommendation that during this period, we live within our current tax rate and further prioritize limited resources to meet priority service levels.

Developing a budget concurrently during a Governor's biennium proposal and subsequent General Assembly actions is always a challenge. With an adopted State budget that changed long-standing funding formulas, shifted revenues to new State initiatives and required localities across the Commonwealth to reduce State aid by \$50 million each year of the biennium, it proved an even greater challenge for local budgets. Hanover County's impact is estimated at \$1.2 million each year and the County's budget was adjusted to reflect this impact.

The County's resolve to effectively manage through these fiscal challenges is one example why Hanover County continues to be recognized as a great place to live, work and play. We are one of only six localities in Virginia to be named one of the 100 Best Communities for Young People by America's Promise - The Alliance for Youth. This is the second consecutive year we achieved this recognition. You may also recall that Money magazine ranked Mechanicsville as #54 on its list of the Top 100 "Best Places to Live." Mechanicsville's ranking was the highest of any place in Virginia. The area considered by Money magazine for this award included not only what we might call "greater Mechanicsville" but most of eastern Hanover.

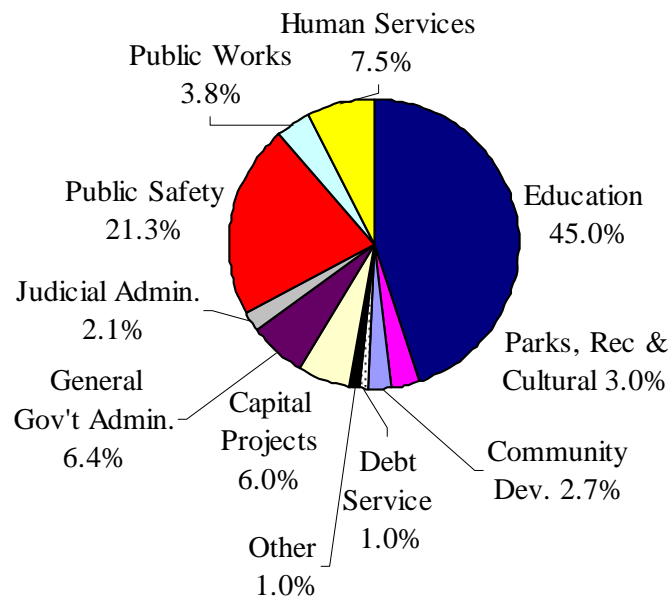
This document reflects an enormous amount of work, and while we recognize that a large document is necessary to describe the full spending plan, the section following this letter concentrates on any changes in staffing, revenue rates and large capital purchases. The goal of this letter is to reflect on the highlights of our \$417.7 million budget.

*Hanover: People, Tradition and Spirit*

## Budget Summary

We traditionally measure changes in our budget by comparing the total budget for all funds and the General Fund budget. The General Fund budget increase reflects increased service costs and transfer of one-time surplus funds to capital budgets. The total budget also includes impacts for capital expenditures, which may vary from year to year depending on large capital projects (e.g., new school).

- The total budget for all funds is \$417.7 million, reflecting a 7.3% increase. The increase is due to an increase in State funding for schools and an increase in capital for Public Utilities. Excluding capital projects, internal service funds and fiduciary funds, the operating budgets are increasing by 6.7%.
- Total General Fund budget is \$216.7 million, an 8.6% increase. This increase provides for a 3.5% merit pay increase for County and school employees, 14 new County full-time positions and the one-time transfer of \$7.6 million in funds accumulated in fund balance surplus to the capital budget. Excluding this one-time transfer of funds for capital and \$844,000 in incremental revenue for Lewistown Community Development Authority (CDA), the remaining General Fund budget is increasing 6.2%. The budget increase is comprised of the County spending most of the revenues on Education (45.0%), Public Safety (21.3%) and Human Services (7.5%). These three services account for 73.8% of the total General Fund budget. The following graph illustrates the uses of the General Fund expenditures by function:



## Employee Compensation and Benefits

County local government and schools are primarily service organizations whose budgets for employee compensation and benefits make up 71.3% of the total operating budget. Our ability to provide quality service and meet the high standards of the community is dependent upon our ability to recruit and retain qualified staff. As we look to determine what level of compensation will keep us at the competitive level in the Richmond region, we find that our peers are funding 3.5% to 4.0% in compensation increases. For

Hanover to recognize the significant efforts of our employees, a 3.5% merit pay increase for all County and school employees is funded, as well as the continuation of the benchmarking program. The collaboration of the schools working together with the County enabled us to meet this joint County/school goal.

County and school employees have worked hard to manage our self-insured health insurance plan costs, and for the first time in three years a moderate increase of 3.0% in employee premiums is needed to meet claims projections. Within our health insurance costs, the first phase of a joint County and school health and wellness program is funded. This program's mission is to improve employee health and thereby reduce escalating health insurance costs. Examples of such wellness programs to be considered include help with weight management, nutrition, physical activity and smoking cessation.

In order to stay competitive in the region two benefit programs are being enhanced with an effective date of January 1, 2009:

- Virginia Retirement System (VRS) Law Enforcement Officer Supplement (LEOS) program is increased to the maximum in order to keep the Sheriff's officers and firefighters/EMTs current with their market peers.
- VRS retiree healthcare credit will enable all County employees to receive additional retirement funding to assist with escalating healthcare cost.

In addition, through prudent fiscal management, the County and schools have worked together to fund the retiree healthcare liability as required under recent accounting standards. While this liability is significant, the County is positioned much more favorably than most government entities. This is because the County only provides retirees access to our health insurance program and does not provide any direct subsidies to these retirees.

I am continuously impressed with the performance of our employees and the efficiency with which we are able to provide services to our citizens. Maintaining our compensation and benefits at a competitive level will ensure that the County is able to continue a high level of service well into the future.

## **General Fund Revenues**

The County's financial and local economic indicators continue to reflect a strong local economy when compared to benchmarks (Refer to the Financial and Economic Condition section for more information). Our Five-Year Financial Plan anticipated ongoing revenues for the upcoming year to increase at 6.3%, a conservative amount based upon previous trends averaging 8.3% over the preceding three years. This conservative approach positions the County well when certain primary revenues experience lower rates of growth as is the case for real property revenues. In total, the County's operating revenues, excluding CDA commitments, are \$205.0 million or 0.1% above the financial plan's previous target established in April 2007.

**Tax Billing Efficiency Initiative:** Customer service is always a high priority for us, and we are continually looking at ways to provide better, quicker and more cost effective service to our customers; the citizens. This budget includes staggering our concentrated real and personal property tax December 5<sup>th</sup> due date away from the holiday season. Real property taxes will now be due in two halves (June 5<sup>th</sup> and October 5<sup>th</sup>) and personal property will be due on February 5<sup>th</sup>. This will make our personal property bills more accurate by reducing 6,000 refunds and abatements that have resulted each year because of changes to their vehicles under proration that take place after the bills are printed. Also included in this budget is the lowering of the late payment penalty from 10% to 2% for the 5,800 taxpayers who pay

within 25 days of the due date and are frustrated by such a high penalty. The effects of all of these positive changes are revenue-neutral.

**Real Property (\$7.3 million increase):** The sustainable tax base of both residential and commercial properties, including new construction growth, reflects the high quality of life in the County. The impact of this year's projected reassessment provides us with an opportunity to maintain the tax at 81 cents in 2008. This will result in an average assessment increase tax impact of 7.2%, which is consistent with the previous Five-Year Financial Plan assumption. The 2009 projected reassessment assumption has been lowered from 5.5% to 2.5%, resulting in an impact of \$637,000 to the FY09 budget and an on-going impact of \$1.9 million for the FY10 budget. The lower assumption is based upon 2007 home sales data which reflect housing values increasing at a much slower rate than previous plan assumptions. The tax relief for elderly and disabled program enhancements approved by the Board of Supervisors in October 2007 will raise total relief to \$1.4 million and the land use program increasing to \$6.2 million in tax relief will lessen the tax bill impact of assessment increases.

**Personal Property (\$2.2 million increase):** Personal property growth remains steady with a projected growth rate of 5.4%. With the State's participation in car tax relief frozen at a fixed \$15.0 million annually, it is projected that this relief will be reduced to 56.0% in 2008 under the State's formula. Quite simply, a \$20,000 car previously would have a tax bill in 2005 of \$214 and now the same valued car will pay taxes of \$316 in 2008.

**Sales Taxes (\$1.6 million increase):** With new retail establishments recently opened and others expected to open during 2008 (Lowe's, BassPro), the County should be poised to gain a greater share of taxable sales in the marketplace. The current year is projected to increase 6.2% over FY07 with a projected annual increase of 6.3% in FY09 over the FY08 forecast.

**State and Federal Revenues (\$3,500 increase):** Even with the State's 2008-2010 adopted budget including a 2.0% pay increase effective December 1, 2008, for local constitutional offices, the State's reduction of \$50 million per year in aid to localities generally keeps intergovernmental revenues flat. The State's budget does not honor the State's already low deputy ratio (6.7 per 10,000 population). In addition, no longer will any ABC profits be distributed back to local governments. Social Services non-local funding is increasing 4.2%.

**Fee Changes (\$211,000 increase):** Certain fees are periodically reviewed to determine if they are recovering the costs for the services they provide. To better reflect cost recovery goals for FY09, changes are included for erosion and sediment control, planning, courthouse security, stormwater management and animal adoption.

## **General Fund Expenditures**

### **Public Safety**

The Sheriff's Office continues to be leaders in deploying highly qualified officers in a manner that results in the lowest crime rate in the region. Sheriff Cook is a strong advocate of community policing which requires a physical presence by our uniformed officers with 72.3% of the Sheriff's budget invested in sworn officers. The Sheriff's Office budget is \$19.7 million, an increase of \$1.6 million and 8.6%. The budget contains funding for five additional sworn officers. This will put us at 19.7 sworn officers per 10,000 population as we continue the trend of raising our sworn officers ratio to meet our goal of 20.0 officers per 10,000 population. While this ratio is increasing each year, the attainment of the 20.0 ratio will take longer than the previous plan due to revenue constraints and funding of the new LEOS initiative for FY09.

The Fire/EMS budget is \$14.3 million, an increase of \$1.3 million and 10.1%. As the County has responded over recent years to volunteer requests for support in conjunction with meeting response time and service goals, paid staff has been provided upon volunteer requests. As the time constraints for volunteer services continues to escalate together with the training demands needed to meet service standards, the existing volunteer resources that the County has today should be commended for their time and dedication. In order to meet the request of Black Creek for daytime staffing, this budget includes the addition of three firefighters/EMTs. In addition, a captain position will be provided to assist Mechanicsville, which at 2,114 calls in 2007, was the most calls for any station in the County. While Fire/EMS goals for priority one responses (e.g., cardiac arrest) are being met in the suburban area, a multi-year plan to meet this challenge in the rural areas will begin with four EMTs stationed at Doswell to expand coverage to 24/7.

With construction of the 911 center proceeding and tower locations planned to be finalized by May 2008, Emergency Communications has managed this complex and dynamic project very well. As was noted in November 2007 when the 911 center contract was awarded, the FY09 CIP budget contains \$1.7 million primarily from cash reserves to complete this project and a new position to manage this larger system. Operationally, Emergency Communications has done exceptionally well in maintaining staffing levels, lowering its turnover rate of dispatchers from 30% in 2004 to 17% in 2007 and is currently staffed at 94.3% with only two vacancies.

## **Education**

Our nationally recognized school system continues to be a model of high quality at a low cost. This is evidenced by being the first school district in Virginia to undergo a SACS/CASI Quality Assurance Accreditation review. In addition, they are one of only three school districts with enrollments above 15,000 having 100% State accreditation and have one of the lowest drop-out rates in the State. All of these measures of high performance are attained with the eleventh lowest per pupil cost in the State (2nd lowest amongst school systems with more than 15,000 students). Forbes magazine ranked our schools 48<sup>th</sup> in the nation last summer for delivering “the most bang for the buck.”

The school operating budget is \$199.1 million, an increase of 7.4%. The local funding increase resulted in a \$4.7 million and 5.1% increase from FY08. This compares to an \$8.3 million and 9.8% increase in State funding, primarily as a result of State initiatives and composite index formula which will now yield a higher share of State dollars. The school budget also includes funding for 67 new positions; of which 15 positions are needed to meet No Child Left Behind requirements and 52 positions for staffing the new Laurel Meadow Elementary School and new Hanover Center for Trades and Technology.

## **Human Services**

The Governor’s budget reduced its funding share of Comprehensive Services Act (CSA) mandated expenditures. Calculations based on the new State match rates and local expenditures from FY07 show the potential for a \$150,000 reduction in State revenues. In addition, new guidelines by the State beginning in November 2007, now classify children with only mental health issues as a mandated group. To meet both of these challenges and natural growth in the program, the County will utilize a \$200,000 CSA reserve in the General Fund and allocate an additional \$327,000 in local funding to CSA for a 27.8% local increase in the \$5.8 million FY09 CSA budget.

A great deal of effort and strategic planning went into the formulation of the Community Services Board (CSB) FY08 budget, and the CSB should be credited with implementing many of their FY08 budget goals. As the State budget has received attention in MH/MR areas, the total CSB budget is increasing 5.4% to \$11.2 million, of which the local budget is increasing 2.9%. In FY08, the County’s local increase was 10.3% and the local funding investment in CSB is evident with the local share of the budget increasing from 40.7% in FY07 to 45.5% in FY09. The County and CSB staffs have continued to

develop targeted local funding for five-year plans that provide flexibility to CSB in leveraging non-local revenues to best administer programs. For FY09, four new positions will be able to address mental health, mental retardation and substance abuse service needs.

In October 2005, the County received \$400,000 in Federal funding to establish a Drug Court. The Drug Court primarily involves strict program alternatives for those juveniles facing sentencing in court. This grant enabled the County to hire three people. The Governor's budget did not include funding for the continuation of this program. Included in this budget is local funding and a private donation to enable the CSB clinician and Juvenile Court Services probation officer to continue their direct service provision. The coordinator role will be absorbed by the Juvenile Court Services Director and CSB staff. These two departments will continue to work in developing benchmarks for success in determining the best use of local dollars.

### **Other General Fund Budget Highlights**

Some of the other significant changes include:

- **Courts Building:** In FY08, the architectural contract for a new courts building began with detailed reviews performed for the size and scope of the building. Our goal is to meet the service needs within the most efficient and thereby cost-beneficial use of space. In working closely with Commonwealth Attorney Trip Chalkley and Clerk of the Circuit Court Frank Hargrove, Jr., we have reduced the scope of the new facility 23,000 square feet and saved \$9.3 million. We anticipate opening a new 92,000 square foot facility in December 2011, which should meet our needs for at least 15 years.
- **Fuel:** Just as citizens have faced escalating fuel price increases, the County also has to allocate a greater share of the budget to fuel and related energy costs. As fuel consumption is mostly used in our public safety areas, we have instituted several new programs to conserve fuel; however, the increased fuel prices will require the County to spend \$223,000 more in FY09 on fuel.
- **Parks and Recreation:** The success of the summer playground program continues to be recognized with the planned opening of another school site. We will now have 13 school sites that provide 1,300 children with summer playground programs. In addition, to meet a Board initiative, \$40,000 is provided in the FY09 budget to develop a Comprehensive Master Plan for parks.
- **Bond Referendum Projects:** Over the next year we will have completed many of the most visible projects of the 2005 Bond Referendum with the opening of a 911 Center, Ashland and Farrington Fire Stations, Mechanicsville Library, new fields and trails at many park sites, Laurel Meadow Elementary School and the Hanover Center for Trades and Technology. As the 2005 bond referendum projects are proceeding according to schedule, the County and schools will need to further determine the fiscal capacity, debt policy constraints, scope and timing of the next capital initiatives. As the County has successfully illustrated with the 2005 referendum, success is closely linked with the degree of planning and community input into prioritizing projects.
- **Digital Imaging:** In focusing on how the County can be most responsive to its customers and be most efficient in how information is collected, stored and retrieved by many employees, a digital imaging study is recommended for the development and administration departments. The pilot program of digital imaging has been a success for Commissioner of the Revenue Scott Harris, with over 32,000 documents containing over 75,000 pages already saved in the computer system and easily retrievable.

### **Public Utilities**

The focus of the annual rate setting process is to ensure both the adequacy and equity of utility rates. For the next fiscal year and ensuing five-years, we will assume a customer growth rate of 1.5%. We have a number of capital projects in support of the Comprehensive Plan and other replacement and renewal projects. Costs include regulatory requirements, Henrico and Richmond fees for water and wastewater

services and general inflation. As a result of current forecasts and further reviews of expenditure plans, the following rate increases are needed in FY09: 6.0% water, 5.0% sewer and 6.0% capacity fees. The Utility Facilities Master Plan is being revised and financial models are being updated. Positioning our Utility Facilities Master Plan to accomplish Comprehensive Plan objectives, especially the business targeted area around Rt. 33 and I-295 is critical to long-term fiscal health of the County.

## Conclusion

While most County budgets contain modest levels of uncertainty, this year's budget process contained more than usual. Governor Kaine's February 12, 2008, announcement of 5.4% cuts in local funding came upon us without any definition as to the specific programmatic impacts. While we understand the Governor's short timeframe for this announcement, without knowing the impact to specific programs, we were unable to account for any specific reduction until the final State budget was adopted which will occur subsequent to adoption of our County budget. The final budget reduction for Hanover County is estimated at \$1.2 million for FY09.

Local governments have during this year's General Assembly been put into a position of trying to manage resources and provide public services with reduced State support, delegation in State responsibility and attacks on local authorities. From proposals that ranged from changes to the long-standing funding formulas for the Comprehensive Services Act, to reductions in local taxation authority (abolishment of machinery and tools tax), to shifting of development growth impacts to current residents (elimination of proffers), our ability to locally meet services at a reasonable cost and control our fate is severely challenged. All of these changes were proposed without substitute, equivalent funding for localities. The approval of any one of these issues would have meant either a change in the level of service we currently provide to our citizens or additional tax burdens.

Hanover County citizens are proud of a long history of providing quality services for a fair cost to our citizens. We have been recognized as a national leader for these efforts and this budget continues to promote these goals while also maintaining our current tax rates.

Hanoverians are very special people, and I raise to you a very recent example. On February 10, 2008, the County was experiencing high winds with significant power outages. The resulting high winds caused numerous downed power lines that started 46 brush fires and subsequently burned 450 acres. With the efforts of over 200 volunteer and career firefighters of Fire/EMS and seven other departments, along with untold numbers of citizens, the County did not lose any homes. This type of response by our employees and citizens makes us all proud to be Hanoverians.

In closing, I would like to thank the dedicated staffs of the County and School Board who have worked together for many long hours as a team to establish this financial plan.

Sincerely,



Cecil R. Harris, Jr.  
County Administrator