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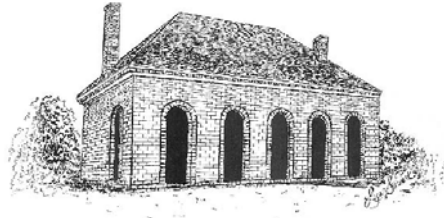
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HANOVER COUNTY

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April 28, 2010

TO: Joseph P. Casey, Deputy County Administrator

FROM: Vivian McGettigan, Director of Finance

SUBJECT: State Reports on Per Capita Expenditures and Fiscal Stress

In March of each year, the County receives two reports from the State: 1) *Comparative Report of Local Government Revenues and Expenditures* from the State Auditor of Public Accounts and 2) *Report on the Comparative Revenue Capacity, Revenue Effort and Fiscal Stress of Virginia's Counties and Cities* from the State Commission on Local Government. This memo summarizes the two reports.

Comparative Report of Local Government Revenues and Expenditures

The State Auditor of Public Accounts annually issues a *Comparative Report of Local Government Revenues and Expenditures*. This report for the fiscal year ended June 30, 2009, is a compilation of all local governments' revenues and expenditures in a uniform accounting classification. The Finance Department has internally analyzed such report focusing on expenditures per capita by function to provide an independent gauge as to the cost of providing services to County residents relative to a sample of other localities and Statewide averages.

The analysis primarily focuses upon a Statewide average expenditure per capita in the eight general governmental functions. For each function, a comparison of Hanover County as a percentage of the Statewide average for counties is noted with comparable larger jurisdictions of Chesterfield and Henrico as well as smaller jurisdictions of Caroline, Goochland, King William and New Kent. It should be noted that although the calculation of expenditures per capita is presented in a comparable format, each local government may provide a varying level of service with respect to a particular function that may distort such comparisons (e.g., Henrico's public works function will always have a much higher cost per capita since Henrico includes its road maintenance in its public works function whereas most other county governments have such services performed by the State).

Hanover: People, Tradition and Spirit

The following table is a result of such compilation for the fiscal year ended June 30, 2009 (sorted in highest County function cost per capita to lowest as a % of Statewide average for counties):

	<u>State</u> <u>Average</u>	<u>Hanover</u>	<u>Henrico</u>	<u>Chesterfield</u>	<u>Goochland</u>	<u>Caroline</u>	<u>King</u> <u>William</u>	<u>New Kent</u>
Public Safety	\$424	130%	127%	116%	65%	89%	56%	71%
Education	\$1,768	107%	88%	101%	75%	77%	79%	83%
Judicial Admin.	\$50	97%	88%	96%	140%	131%	131%	142%
General Gov't	\$107	87%	155%	102%	158%	96%	90%	150%
Parks, Rec & Cul.	\$88	83%	123%	66%	57%	28%	68%	45%
Health & Welfare	\$313	78%	76%	72%	96%	81%	77%	46%
Public Works	\$121	68%	151%	54%	101%	88%	78%	75%
Community Dev.	\$97	54%	107%	50%	73%	60%	31%	68%

Narrative highlights from the preceding table are as follows:

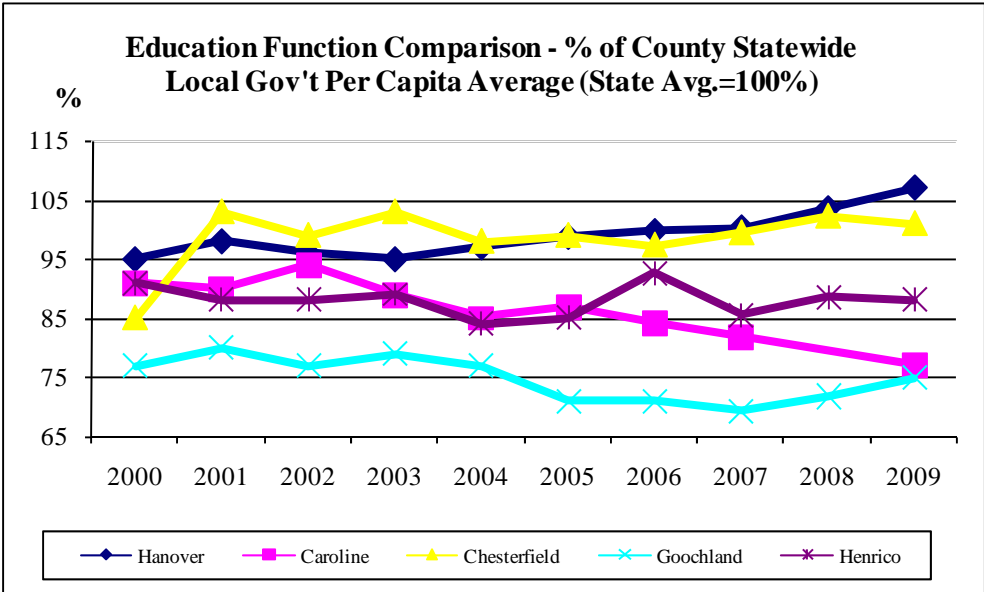
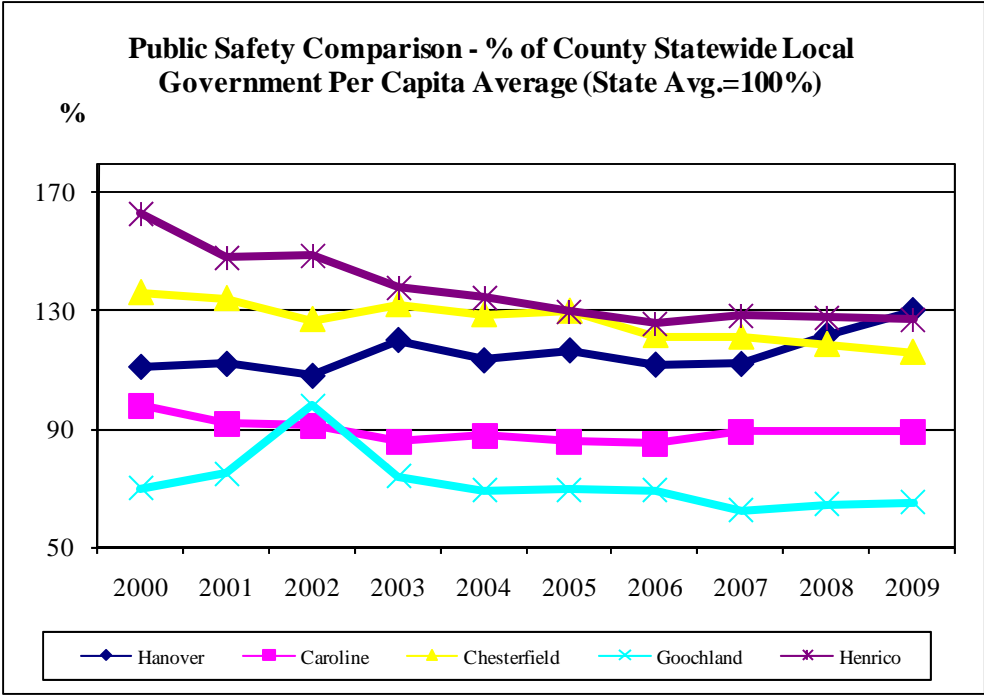
- Public Safety is one of two functions which have a per capita cost greater than the Statewide average for counties. As noted in the table, public safety is 130% of the Statewide average of \$424 which calculates to a \$552 cost per capita and represents an 8% increase from the prior year. The public safety function has traditionally been a priority function of the Board of Supervisors.
- Education, another priority function of the Board, is the second highest indicator compared to the Statewide average for counties, and exceeds the Statewide average at 107%. However, the Hanover School system received notice from the State Department of Education that it had the 27th lowest cost per pupil in the State of Virginia in 2008-09 (per pupil cost excludes debt service and capital costs).

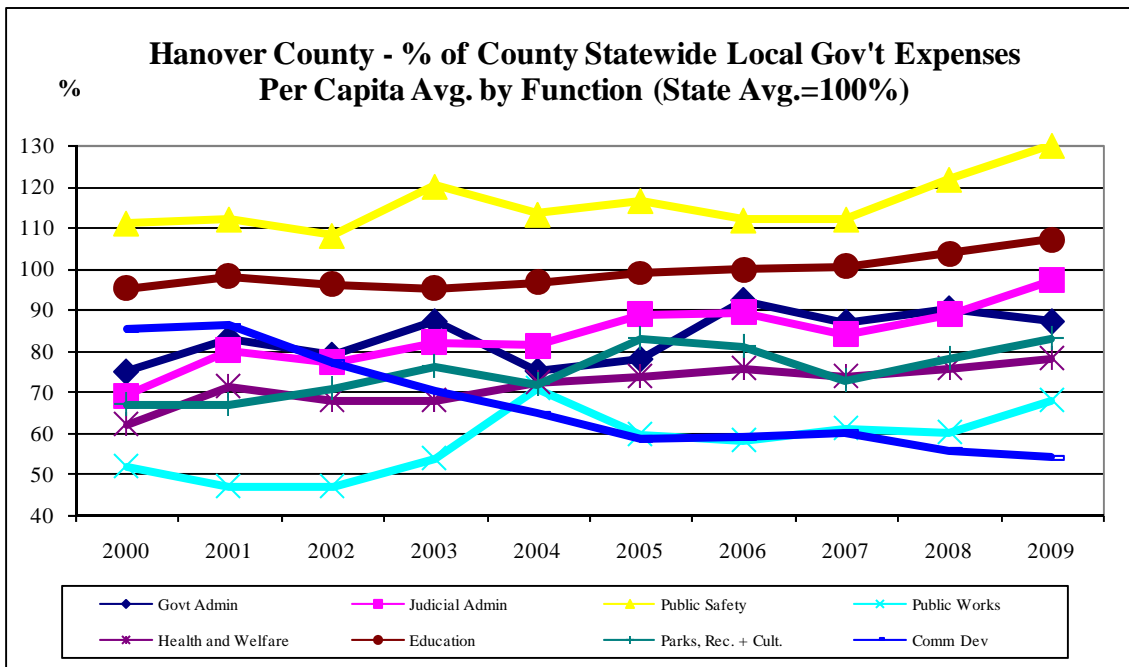
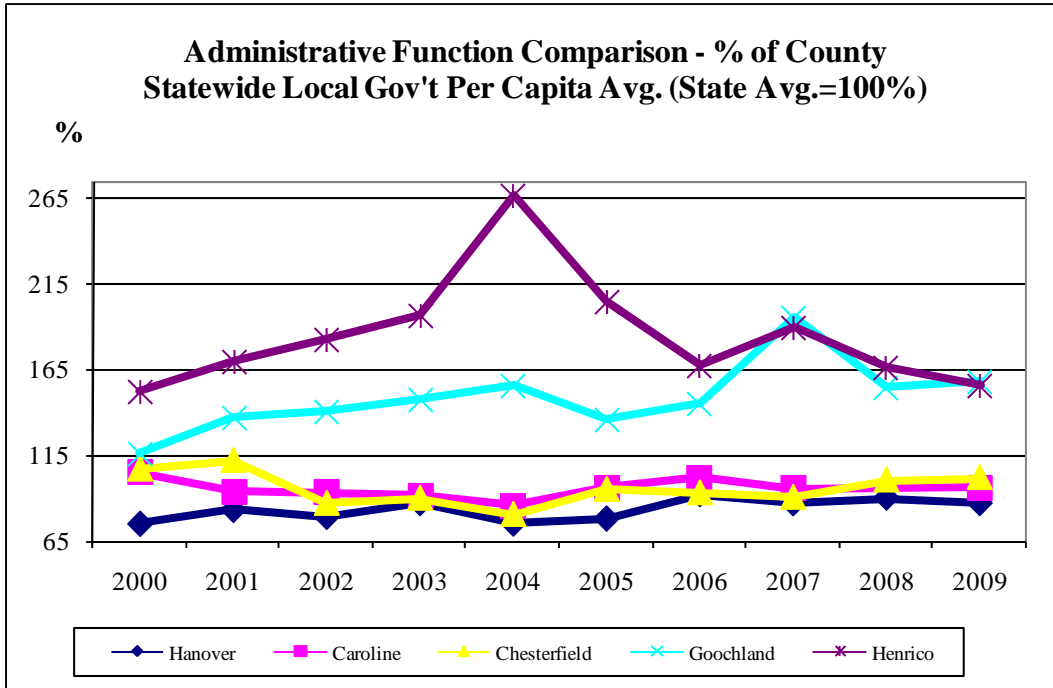
	Hanover	Henrico	Chesterfield	Goochland	Caroline
Enrollment as % of population	19%	16%	19%	11%	15%
Cost per pupil	9,711	9,369	9,587	11,246	9,544

The variability between an indicator close to the Statewide average in function cost per capita and the lowest per pupil cost is mainly attributable to a higher school enrollment base as a percentage of the population.

- Administration is 87% of the Statewide average for counties at a per capita cost of \$92. This is the lowest average among the other six jurisdictions validating Hanover's emphasis on streamlined administrative processes.

The following trend charts illustrate the County's position over time relative to the other jurisdictions tracked for our two priority service levels (education and public safety) as well as administration. In addition, a trend chart of all of the County's functions is presented. The charts illustrate the budgetary emphasis placed upon education and public safety as well as the cost efficiency of the administrative function.





Report on the Comparative Revenue Capacity, Revenue Effort and Fiscal Stress of Virginia's Counties and Cities

Each year the State Commission on Local Government provides the *Report on the Comparative Revenue Capacity, Revenue Effort and Fiscal Stress of Virginia's Counties and Cities*. The Finance Department reviews the report as one independent benchmark amongst many in ascertaining the relative strength of the County's fiscal and economic indicators. Since statistics have been maintained beginning in 1992, this report has traditionally shown Hanover County as being a county with very low fiscal stress and favorably positioned among AAA localities in the State, actually ranking higher than many of them in all of the indicators. While the report was issued recently in March 2010, the statistics used to compile such data are approximately two years old. There are four indicators ranked as part of this report and they are as follows (for each indicator a Statistic Background and County Ranking analysis is outlined):

Fiscal Stress

- **Statistic Background:** composite index measurement of the three equivalent indicators noted below (revenue capacity per capita, revenue effort and median adjusted gross income). The lower the fiscal stress index, the higher the local government is ranked. Therefore, a decreasing stress index (higher ranking) between years is considered favorable.
- **County Ranking:** for Hanover County, our fiscal stress index is 152.1, which is 0.6% higher than the prior year (negative trend). The County ranks 19th, which is down (less favorable) in comparison to the previous year's ranking of 16th. The highest ranking was 7th in 1998 and this year marks our lowest ranking. The AAA localities ranked ahead of the County include: Loudoun (3), Arlington (5), Fairfax (6), Alexandria (9), and Albemarle (12). The top three non-AAA rated local governments ahead of Hanover include: Goochland (1), Falls Church (2) and Bath (4). Other AAA localities ranked below the County include: Prince William (30), Chesterfield (37), Henrico (45), Virginia Beach (58), and Charlottesville (94).

Median Adjusted Gross Income

- **Statistic Background:** reflects the median adjusted gross income for all State tax returns filed in 2007. Generally, the higher the median adjusted gross income, the wealthier the people and households that comprise that local government.
- **County Ranking:** for Hanover County, our median adjusted gross income is \$47,362, which is 0.4% higher than the prior year. The County ranks 13th, which is down from the previous year ranking of 11th. The highest ranking was 6th in 2000 and this year marks our lowest ranking. The AAA localities ranked ahead of the County include: Loudoun (1), Fairfax (3), Arlington (4), and Alexandria (6). The top three non-AAA rated local governments ahead of Hanover include: Falls Church (2), Fauquier (5) and Stafford (7). Other AAA localities ranked below Hanover include: Prince William (14), Chesterfield (19), Albemarle (21), Henrico (29), Virginia Beach (43), and Charlottesville (83).

Revenue Capacity per Capita

- **Statistic Background:** a representative tax system methodology that focuses on four specific revenues (real property tax, public service corporation tax, motor vehicle license tax and local sales tax) and other local source revenues based upon a base indicator of total adjusted gross income. Each of these base revenues are then multiplied by the Statewide average for each category then divided by the population to generate the Revenue Capacity per Capita statistic. Generally, the higher the statistic,

the more indicative that there is a higher base from which revenues are calculated, therefore local governments with strong bases per capita (i.e., high tax base) will have a higher revenue capacity per capita.

- County Ranking: for Hanover County, our revenue capacity per capita is \$2,245, which is 4.9% higher than the prior year. The County ranks 25th, which is up (improved) from the previous year ranking of 27th. The highest ranking was 16th in 2000 and last year marked our lowest ranking. The AAA localities ranked ahead of the County include: Arlington (4), Alexandria (7), Fairfax (9), Loudoun (10), and Albemarle (16). The top three non-AAA rated local governments ahead of Hanover include: Bath (1), Falls Church (2) and Goochland (3). The AAA localities ranked below us include: Prince William (28), Henrico (32), Charlottesville (29), Virginia Beach (41), and Chesterfield (48).

Revenue Effort

- Statistic Background: the focus is on the degree to which the local government actually utilizes its revenue generating potential through actual revenues generated in the four categories specifically mentioned above in addition to other locally generated revenues. This total local revenue figure is then divided by the total revenue capacity to generate the Revenue Effort statistic. Generally, the lower the ratio below 1.0 the greater capacity a local government has to generate additional local revenues through Statewide average taxes and fees, therefore local governments with strong bases and low tax rates will be ranked more favorably.
- County Ranking: for Hanover County, our revenue effort is .82, which is 1.2% higher than the prior year. The County ranks 60th, which is down (more favorable) in comparison to the previous year ranking of 53rd. The County's highest ranking was 35th in 2003 and this year marks our lowest (most favorable) ranking. Only one AAA locality is ranked ahead of Hanover County: Albemarle (46). While there are 59 localities ranked ahead of Hanover (too numerous to list in this memo), all of these localities represent small rural localities that have very low tax rates and a correlation of lower levels of service provided (top three are Lancaster, Northumberland, and Bath). The AAA localities ranked below us are: Chesterfield (82), Henrico (83), Fairfax (85), Prince William (88), Alexandria (89), Virginia Beach (91), Arlington (92), Loudoun (93), and Charlottesville (112).

If you have any questions or other suggestions for enhanced reporting, please call or e-mail me at your convenience.

cc: Cecil R. "Rhu" Harris, Jr., County Administrator
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Michael Thornton, Assistant Superintendent of Business and Operations
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