

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 appendix details the changes in the budget. The purpose is to provide a summarized version of the manner in which the County's budget funds are allocated, the sources of such funding, long-term financial planning and other items illustrating how the County attempts to provide the services needed and desired by the citizens in an efficient and effective manner. The following areas are presented in the appendix:

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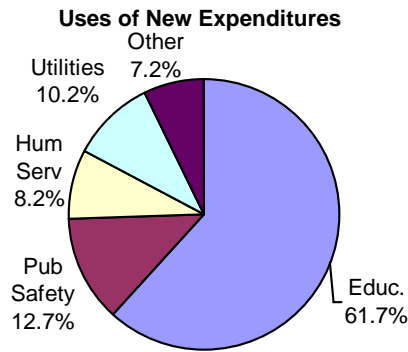
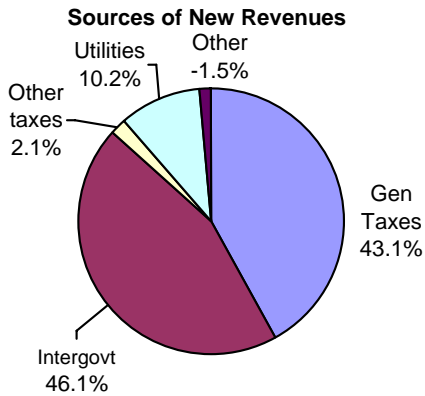
Changes in the County's budget can be measured in three categories: Total Operating Fund, Total Budget and Total General Fund. Increases in the Total Operating Budget and the Total General Fund budget reflect increased service costs and citizen demands for new services. The Total Budget also includes capital improvements costs that may vary significantly from one year to the next because certain projects (such as new school facilities and utility infrastructure) are not built every year. Analyzing the dynamics of each of these budget indicators provides a complete picture of the size and scope of the County's budget (all dollar and percentage changes are based upon FY07 budget to FY06 budget).

- **Total Operating Budget, excluding internal service funds (\$322.4 million, a \$31.5 million and 10.8% increase):**
The budget continues existing service levels with a few targeted initiatives (primarily education and public safety) and market compensation/benefit program. The increase is primarily due to a \$14.9 million increase in the General Fund and \$13.0 million increase in the School Fund.
- **Total Budget of All Funds (\$408.2 million, a \$80.7 million and 24.6% increase):**
Approximately 58% of this increase, or \$46.9 million, is due to an increase in the County and School capital budgets, primarily related to the bond referendum projects approved by County voters in November 2005.

- **Total General Fund Budget (\$182.3, a \$14.9 million and 8.9% increase):**

The total budget in the preceding two bullets includes the activities of the capital projects and/or other funds (e.g., Public Utilities Fund). The General Fund provides a year-to-year comparison of the operating impacts of various functions and the relatively level capital contribution from the General Fund to fund capital projects and their related debt service. Priority service levels of education (47.1% of the General Fund budget) and public safety (21.1%) together with human services funding (7.8%), account for 76.0% of the total General Fund budget. Primary revenue sources for the General Fund budget have traditionally been general property taxes, State/Federal sources and other local taxes. (For FY07, general property taxes comprise 71.1%, State/Federal sources comprise 6.1% and other local taxes comprise 14.4%.) These primary funding sources represent 91.6% of total funding.

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



FY07 Budget Highlights

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

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

Revenue Sources – Mitigate Tax Burden, Maximize Non-Local Sources, Diversify Local Sources: The real property tax rate shall be maintained to meet priority service level needs and position the County with a stronger financial base for long-term capital needs. No property tax rate increase is projected in the Five-Year Financial Plan. Fee-recovery programs have been targeted in those areas in which inflationary costs and other service level demands were warranted (e.g., stormwater management fees, and erosion and sediment control fees). Non-local revenue sources continue to be recognized, primarily in human service areas of Social Services and Community Services Board; however, \$111,000 in Federal Certified Pass-Through Funds are no longer available for which the County used to assist in providing services to at-risk children.

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

Priority - Education: Total school operating budget increased by 12.0% and local funding of schools increased by 7.2%. The additional revenues provided by the State for FY07 have provided a stronger non-local base than has existed in many years. The five-year target operating budget and schools capital plan were formulated to accommodate existing service level demands as well as the significant operating impacts of two new elementary schools, a trades-based center and an alternative education facility. Assumptions in the plan include an expectation that the State will continue to provide sufficient funding support to meet Standards of Quality and compensation thresholds. The new elementary schools to open in 2006 and 2008 should provide the County with the capacity to meet long-term enrollment needs.

Priority - Public Safety: The demands of this priority service continue to be addressed through the addition of sixteen positions, Sheriff's Office (9), in Fire/EMS (5), and Emergency Communications (2). Fire/EMS utilizes Board adopted response time and deployment standards and the Sheriff's Office uses a variety of national standards and detailed service delivery models that illustrate the need for additional staffing resources to meet the response times and service demands placed upon them by the citizens.

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

Financial Management: All financial policies (specifically, debt and fund balance) continue to be met in each year of the Five-Year Financial Plan. This ensures adequate reserves, limits the County's debt burden and maintains or improves the Aa1/AA+/AA bond rating. While the County has recently passed a \$95.1 million bond referendum, the appropriate staggering of such projects and the related debt ensures a well-managed debt management program.

Public Utilities: Because of the need for capacity and user fees to reflect accurately the costs of providing quality and reliable *service delivery* to new and existing customers, utility user fees are proposed to increase by 8.0%, sewer user fees by 7.0% and capacity fees by 16.0%. The results of the five-year rate study model indicate the additional revenue is required for Public Utilities to fund properly its long-term capital plans, which not only includes new infrastructure, but also maintaining its existing infrastructure with renewal and replacement funds. Further integration of long-term financial models and related fee increases will be further developed over the next year.

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

BUDGET POLICY – BUDGET GUIDELINES

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

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

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

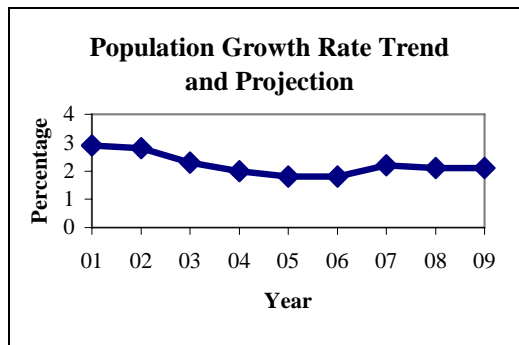
FINANCIAL CONDITION OVERVIEW

Traditional measures of economic conditions focus on a few variables: unemployment, income levels, new housing starts and taxable sales. Income and sales taxes tend to be more elastic; that is they change in proportion to changes in economic activity whereas property taxes are considered more inelastic. Fortunately, the diverse, strong and stable business climate of the County and its residents have enabled the County to continue to maintain a fiscally strong local government and mitigate, when applicable, national and State recession conditions fairly well. The overall strong economic environment has led to the lowest unemployment rate in the Richmond region at 2.2% (March 2006), compared to 3.3% in region, 3.2% in Virginia and 4.8% in the United States.

The County also relies upon a strong fund balance policy, which reserves at least 10% 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 2005 was \$16.2 million, which represented 10.5% of General Fund revenues. The 10% fund balance policy is projected to be favorable at June 30, 2006, after meeting year-end fund balance policy thresholds and planned needs for the FY07 budget. The Five-Year Financial Plan is balanced each year and its reliance on use of surplus each year reinvested into the subsequent year is at a conservative level that should be accomplished; therefore compliance with the fund balance policy is expected to be maintained throughout the next five years.

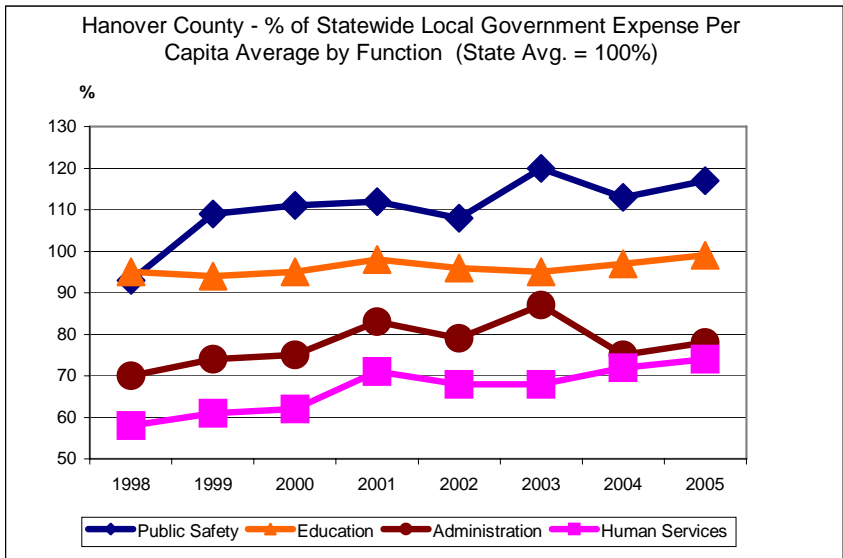
Further indicators of continued economic strength and strong financial condition are as follows:

- The tax base grew by 7.5% in FY05 and taxes collected were 99.4% of current levy; the County has collected over 98% of taxes every year since 1997.
- Total outstanding delinquent taxes on June 30, 2005 represent only 1.5% of the total tax levy, maintaining the County's ratio below 2.0% since 2000 and 3.0% since 1997.
- The County has continued to realize high median new home sales prices over many years with new home median values at \$347,000 in 2006, a 15.9% increase over the prior year value of \$299,400. The average value of a house in the County in 2006 is \$217,300, an 11.2% increase.
- The County has also maintained its strong bond rating of Aa1/AA/AA+ (positive outlook) with only seven counties in Virginia and ~46 counties nationwide having higher bond ratings than Hanover.
- Debt policy compliance is strong in all indicators, highlighted by debt service to expenditures at 6.9% (policy is <10%), the lowest ratio since 1990.
- Population growth rate is expected to be 1.7%, with a total population of 99,212 estimated for July 2006. The average annual growth rate over the last five years was 2.4% as compared to the County Comprehensive Plan's 2.5% annual growth rate assumption.
- Enrollment growth is expected to be 1.8%, with a total enrollment of 18,848 estimated for September 2006.



To assess internally our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows that Hanover has the 12th lowest level of fiscal stress and the 8th highest median adjusted gross income (\$40,797). 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 closest to the Statewide per capita averages. All of our other functional areas are well below the county State-wide averages. For example, the area of administrative expenditures is 22% 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.



EMPLOYEE COMPENSATION AND BENEFITS

The Board of Supervisors has long recognized that competitive employee compensation is critical to the County's success. Recognizing that many aspects of the work environment are important to current and prospective employees – including a supportive culture in which opinions are valued, the ability to develop personally and professionally, and an opportunity to contribute to our organization – we will continue to ensure that our compensation and benefits remain competitive and attractive. In keeping with

a market-based and performance driven approach, included in the budget is an average pay-for-performance salary adjustment of 4.0% of the salary range midpoint.

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

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

While national private sector increases are projected to average 3.8%, it appears that the local government market will be providing ~4.0% in merit increases. Therefore, the County's merit program is competitive with that of local government indicators and the private sector. Average worker's salary of \$40,000 in FY05 has grown with merit increases to \$43,000; however, because of rising health insurance costs, that average worker's net pay actually only increased \$2,600 or 6.5% over 2 years (average of 3.2% per year). The same employee with family health insurance coverage only realized a net increase of \$1,750 or 4.4% over the same two years (2.2% per year). The County's benchmark program, long credited with maintaining market competitiveness mitigating retention issues, and enhancing employee morale, is also funded.

To acknowledge a general market shift in salary range structure and to continue to maintain competitive starting salary levels in market sensitive positions, a 2.0% salary scale adjustment has been included.

The School Board's commitment is also to have competitive teacher salary scales and positions through its own benchmark program that meets the objectives of the grading, evaluation, hiring and promotion of its employees. The County has worked with the School Board through a Benefits Committee in establishing consistent application of employee benefits, including health insurance, retirement, disability insurance and flexible spending accounts. The School's 4.0% average salary increase, together with targeted benchmarks, is also competitive with the local government school divisions and equitable to that of the County's compensation program.

In addition, five County position title reclassifications are included in the budget at a net cost of \$21,000. These upgrades are primarily needed to better classify positions based upon actual functions. Career ladders have been developed for many positions as a recruitment and retention strategy and to recognize the advancing achievements of the workforce during their careers with the County. This review includes keeping pace with the dynamic changes of how business is conducted. Further efforts to match career ladders to appropriate market benchmarks and identify other opportunities for improvements to compensation and benefit management programs will be reviewed during the next fiscal year.

Self-Insurance Fund (\$2.1 million and 11.8% increase): The Self-Insurance Fund provides for health insurance payments through employer contributions and employee deductions. This program serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. Employer assumptions include a 15.0% increase in departmental budgets for premiums funded for participating, vacant, and new positions. The remaining claim expenses are primarily funded through employee payroll deductions. The County's increased costs for health insurance are in-line with market averages. The County will also fund in FY07 the employee share of such increases to enable employee deductions to remain stable for the first time since 2002, thus ensuring market competitiveness.

GENERAL FUND – BUDGET CHANGE SUPPORT

The General Fund serves as the primary operating fund from which nearly all County services receive all or most of its local funding. In addition to specific increases noted in other sections of this budget synopsis, the budget is prepared to accommodate service level demands (e.g., 1.7% projected population increase, 1.8% student enrollment increase and ~3.0% inflationary pressures). While these factors are incorporated into every budget process, they also represent the real factors that are not within the County's direct control to reduce or eliminate. In addition, many areas of the County's operation are mandated by Federal or State law for which budgetary control is always a challenge (e.g., fuel and insurance expenditures). Finally, the cost of providing services to the citizens will increase as residents desire more and more from their local government in attaining their desired quality of life.

An additional \$14.9 million is available in revenue to the General Fund. The primary revenue sources for this net increase (representing 93.9% of total increase) are:

- General Property taxes - \$13.6 million increase: This revenue source is up 11.7% due to continued strong growth in real property revenues. This sustainable tax base of both residential and commercial properties reflects the high quality of life in the County. A 6-cent increase in the generating equipment tax rate to provide "revenue-neutral" machinery and tools tax equivalent results in an additional \$125,000. Additionally, the County is implementing a permanent vehicle license decal in 2006. While the implementation is revenue neutral in total, the assessment method for personal property will change from loan value to trade value. This results in an assessment increase, which will be offset by a seven cent reduction in the personal property tax rate. An additional \$3.4 million is being budgeted to this category to reflect the elimination of the annual decal fee and the forecast reduction in State revenues as a result of the changes to the "no car tax." The offsetting reduction of \$3.4 million will be found in other local taxes and non-categorical State aid.
- Other local taxes - \$658,000 increase: Sales tax is strong and is projected to increase 20.0% from the FY06 budget due to an increase in retailers. The elimination of \$2.4 million for annual vehicle licenses (noted previously), however, offsets much of the growth in sales tax in this category.
- Charges for Services - \$276,000 decrease: A primary factor for the decrease was a decline in budgetary projections of the EMS fee recovery program established in March 2005. The fees for this program were based upon average trends that included above average data (i.e., hurricane, severe flu season). The FY07 budget includes a more conservative estimate.
- Intergovernmental - \$754,000 increase: Comprised primarily of a \$339,000 increase in State Compensation Board funding of constitutional offices in compliance with State funding allocations and a \$409,000 increase in State and Federal funding of Social Services in compliance with mandated programs. The above increases are offset by a \$214,000 decrease in delinquent State Personal Property Tax Relief and an \$111,000 decrease in Federal certified pass-through funding.

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 88.3% of total increase):

- Education - \$5.8 million increase: The increase in funding for the schools as requested by the School Board is the County's best attempt at meeting the commitment to maintain student-teacher ratios. As part of the deliberations with the schools and recognition that the schools are ~50% of the County's local funding availability, they also are a stakeholder in the County's revenue increase. The school budget includes 111 new positions.
- New Positions - \$1.8 million increase: For net new 27 full-time and 3 fewer part-time positions which can generally be classified as fee-recovered and locally funded:

- Revenue Recovered - \$267,000 increase: Homeland Security Investigator in the Sheriff's Office and Commonwealth Attorney (partial funding by the State Compensation Board), Public Works (2 positions - one full-time position funded by Erosion and Sediment Control Fees and one part-time position funded by Stormwater Management Fees), Facilities Management (contracted savings) and Parks and Recreation (midyear hire partially funded by Recreation Fees).
- Locally Funded - \$1.5 million: Full-time positions for Sheriff (8), Fire/EMS (5), Emergency Communications (2), Information Technology, Risk Management, Public Works and Planning. In addition, the following departments have position reclasses from part-time to full-time: Treasurer, Juvenile Court Services and Animal Control.
- Compensation and Benefits - \$3.5 million increase: In addition to the impact that a 4.0% merit increase has upon the budget (\$1.9 million), the following also impact such an increase:
 - Virginia Retirement System - \$560,000: The rate as set by the State has increased from 11.0% to 12.5% of full-time salaries as the actuarial assumptions for this retirement system continue to reflect more conservative estimates for investment returns based upon poor market conditions between 2001-2003. This rate has increased from a low of 7.5% in FY02.
 - Health Insurance - \$300,000: Primarily due to premium rate increases in health insurance costs (as employer costs have increased 15.0%) as well as FY07 plan to fund the employee share so that employee costs remain stabilized. Health insurance impacts also have been incorporated into other non-General Fund budgets.
 - Life Insurance - \$450,000: Life insurance payments to the VRS will resume in FY07 at 1.2% after being zero percent since FY03.
- Community Services Board (CSB) - \$344,000 increase: New local funding covers increases in employee health insurance as well as desire to meet current service level demands.
- Comprehensive Service Act (CSA) - \$82,000 increase: New local funding to meet mandated population of at-risk children being served.
- Social Services operating expenses - \$243,000 increase: This increase is primarily due to increases in mandated programs, which is offset by State and Federal revenue since a greater percentage of the population is being served through better outlets, outreach and other programs to provide information to targeted eligible people.
- Tax Relief for Elderly and Disabled - \$285,000 increase: As noted in other parts of this appendix, enhancements to the relief program in recent years and the number of participants have resulted in an increase to this budget.
- County Improvements Fund - \$802,000 increase: Primarily the recognition of additional cash funding for the communications system to ensure this high priority project can meet targeted implementation timeframes and \$200,000 for the roadway improvements initiative as included in the Transportation Strategies presented to the Board in October 2005.
- Fuel Costs - \$401,000 increase: The price of fuel has increased 58% compared to current FY06 budget assumptions, consequently the FY07 budget assumption provides a 66% increase above the FY06 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 (\$83.7 million, a \$9.4 million and 12.7% increase): The total value of taxable real estate in the County reached \$10 billion in January 2006, which is an increase of 12.4% over the prior year (8.5% from reassessments and 3.9% from new construction). The 2006 tax base is projected to increase 9.8% by January 2007 (6.9% from reassessments and 2.9% from new construction). Although this growth assumption is still a healthy growth rate, it also represents a conservative estimate based upon sales to assessment ratios currently being experienced and historical growth experienced in the tax base. The projected increase in new construction is a result of the many projects (both commercial and residential) currently underway. Future assumptions in five-year plans of new construction continue at a conservative estimate. To help mitigate the impacts of real property taxes, the County has developed a tax relief program for elderly and disabled that provides \$1,050,000 million in relief and together with the County's land use program under State guidelines that provides \$5.2 million in tax relief, the County's total tax relief is over \$6.3 million.

Public Service Corporation Taxes (\$3.7 million, a \$305,000 and 7.6% decrease): This revenue category is a compilation of businesses that are directly assessed by the State Corporation Commission (SCC) and have property tax rates, as applicable, that are the same as those classified under real and personal property tax categories. Much of the decrease is attributable to depreciation on 28 businesses in this category that have not had offsetting investments in their property to keep pace with the depreciation. In 2002, the State began classifying a previous County taxpayer under a new property classification of generating equipment. Previously, such equipment was valued under the County's machinery and tools tax rate and a revenue neutral tax rate was developed by the County to generate the same revenue under this new tax rate category. As the SCC valuation process has produced a variance where such revenues would have been greater under the machinery and tools method, it is proposed to re-adjust this revenue neutral generating equipment rate from \$.49 to \$.55 that is estimated to generate an additional \$125,000.

Personal Property Taxes (\$22.5 million, a \$4.1 million and 22.5% increase): From the most recently issued NADA tables that will be used for the 2006 tax year, it appears that used car depreciation is 8.0% and together with projected new vehicles sales and business property changes, this should result in a projected 2006 tax base increase of 6%. These tax revenues are recognized as general property taxes for the payments received directly from taxpayers. 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 will be quantified in September each year with completion of vehicle assessments. It is anticipated that the 70% State relief for 2005 will be reduced to approximately 60% for 2006. This is due to the reduction of total relief from the State, the growth of this tax base, and the revenue-neutral assessment change to implement the permanent decal. The actual relief rate would be calculated annually as part of the assessment process, which generally concludes in September of each year. The permanent decal initiative (no annual decal and related fee) resulted in a change in the personal property assessment from loan value to trade value and an offsetting personal property rate reduction of seven cents to \$3.57.

Sales Taxes (\$17.4 million, a \$2.9 million and 20.0% increase): With the new retail establishments recently and/or planned to open in the near future (including, but not limited to, Target, another Home Depot and Lowe's), the County should be poised to gain a greater share of taxable sales in the marketplace. The current year has continued the trend started in the prior year with a projected 11% increase in FY06 that resulted from increased sales and new vendors within the County. The projected annual increase of 8.0% in FY07 over the FY06 forecast recognizes the contributions from the many new retail establishments. As a benchmark, our top ten sales tax providers, which represent over 38% of our total sales tax revenues, are currently experiencing an approximate 8% increase in retail sales. A more conservative estimate of 5.5% growth has been incorporated into future fiscal years of the Five-Year Financial Plan.

State and Federal Revenues (\$26.2 million, a \$1.1 million and 4.4% increase): The revenues noted here are not inclusive of those of School, Community Services and Comprehensive Services because they are in other funds and their revenue sources are noted under their applicable sections. The State Budget assumptions have recognized State-supported positions (e.g., constitutional offices) with a 3.0% salary increase effective December 1, 2006. The State has funded their share for mandated programs (often Federally mandated as well) and is in compliance with Sheriff deputy support with the State formula of 1 Sheriff's position partially funded for every 1,500 in County population which calculates to a 6.7 deputies to 10,000 population ratio, 174.6% below the current service level provided in the County (18.4 sworn officers).

Year-end Balance (\$3.5 million, a \$352,000 and 9.0% decrease): The County has had a long tradition of conservative spending, which allows for current fiscal year forecasted surpluses available to be reinvested into the following fiscal year's budget. The current year's projected year-end surplus is projected to meet the reinvestment needed to fund the FY07 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 under erosion and sediment control program as inspections, monitoring and other labor-related administration of the program necessitate the residential component of the fees to increase \$98,000 in total. The fee increase is correlated to the hiring of an additional position for this function and would raise the residential subdivision rate from \$3,400 plus \$200/acre to \$5,400 plus \$550/acre.
- **Public Works Stormwater Management Fees:** The County's current stormwater management program was established in FY04 and the fee models that support the program are based upon the capital and oversight costs incurred in designing, acquiring and building drainage basins. As the program costs increase under current state and federal standards, the correlating fees that support such program are also designed to increase with the current fees increasing from \$900 to \$1,000 per equivalent residential unit.

EXPENDITURES BY FUNCTION

The following section of the budget synopsis illustrates all the functions of the County. Under each functional area are the departmental budgets with the dollar and percentage change in the operating budget noted. A brief illustration of a department's budget and operating highlights is presented. It is the intent of this budget synopsis to disclose significant changes in funding (i.e., all new positions, funding of capital improvements, major initiatives, etc.). Generally, all functional areas of the County are impacted by inflationary pressures on operating expenditures, salary/benefit increases to retain and attract a committed workforce, vehicle/equipment/technology replacement cycles, and service demand changes correlated to factors such as population, enrollment, public safety responses and/or more participants in the services provided by the County. For those departments that recognize significant revenues that are recovered through fees, grants, etc., the local funding change is noted as local funding is the general revenues of the County allocated amongst all General Fund funded departments (e.g., general property taxes, other local taxes, etc.).

In addition to the operating budgets and capital budget information that are illustrated in this section, other sections contain further analysis of the Capital Improvements Program (CIP) and employee compensation. Furthermore, because the 2005 bond referendum was such an important issue for the County, all projects in the referendum are addressed, even though acquisition or construction of such projects may be staggered over many years.

PUBLIC SAFETY

Fire/Emergency Medical Services (EMS) (\$1.5 million and 15.7% increase, 24.8% increase in local funding): The FY06 fiscal year is the first full fiscal year for the EMS Fee Recovery Program that began in March 2005 and enabled the recovery of revenues primarily from the Federal government and private insurance companies. While such revenues are being realized at an amount below initial estimates, next year's budget has been developed with the continuation of service levels and EMS fees providing \$1.2 million in revenues that otherwise would not be available. However, because of the lower budget for EMS fees, the initial plan to add eight positions has been reduced to five positions as well as lower growth assumptions for other areas of the Fire/EMS department. During the past year, the County has implemented a variety of volunteer incentive programs and has actually seen a net increase in the number of volunteers for the first time since 1998. However, new positions have been and will continue to be added to Fire/EMS for the foreseeable future until it achieves the simple standards of this profession – to have a response team of trained Fire/EMS personnel (paid and/or volunteer) arrive in a timely manner and address professionally the 911 or service call that was placed. This combined service effort was recently ranked by County residents with an 88% favorable rating for fire services and a 64% favorable rating for ambulance/emergency medical services, ranking 6th and 10th, respectfully, in the South region.

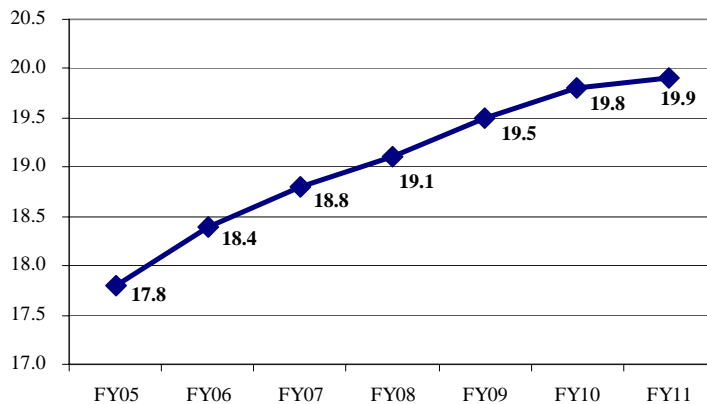
Fire/EMS will be adding 5 positions (a battalion chief to ensure that a chief position is staffed 24/7 and 4 firefighters/EMTs). The additional staff results in nine of our twelve volunteer fire stations receiving assistance from paid staff. Plans for staffing increases over the Five-Year Financial Plan are part of the strategic goal of providing people to respond to calls. In the last few years the importance and the value of having advanced life support (ALS) certification (paramedic) has led many of our benchmarked peers to establish some type of incentive program. Recognizing that the attractiveness of such programs could encourage our well-trained personnel to migrate and challenge recruiting efforts, an ALS incentive will be developed over the next few months and presented for Board approval. This proposed budget includes \$100,000 of funding for this initiative. Efforts to further review volunteer incentives as they pertain to ALS certifications will also occur. This department is one of the primary departments impacted by the increase in fuel costs at an amount of \$155,000.

The Fire/EMS portion of the capital budget includes \$950,000 for fire truck replacements and \$276,000 for ambulance replacements. The bond referendum projects for replacement fire stations for Ashland and Farrington are appropriated in FY07 and the Black Creek replacement is appropriated in FY10. The Farrington and Black Creek Fire Station projects are planned to accommodate EMS vehicles and provide space inside the station dedicated to EMS staff needs.

Sheriff's Office (\$1.7 million and 11.3% increase, 12.1% increase in local funding): This State and nationally accredited office continues to be the envy of local law enforcement agencies as an effective operation in not only maintaining the lowest crime rate in the region, but also community policing, responsiveness to citizen needs, and a pro-active approach to controlling blight and criminal activity. These plans are formulated based upon desired response times correlated to number of people served and associated demand factors (e.g., burglaries, other crimes occurring). The success of these plans and programs are reflected in the County's recent survey in which 96% of County residents gave the Sheriff services a favorable rating, ranking 3rd in the South region.

During the development of the FY06 Five Year Financial Plan and correlated bond referendum affordability models, the Board of Supervisors worked towards establishing long-term staffing plans for the Sheriff's Office that could be incorporated into balanced long-term financial plans. The result was a plan for 34 positions between FY07 and FY10, with eight of these positions planned for FY07. Therefore, those nine positions (8 deputies and a sergeant for the "Safe Streets" program) are included in the budget. One ratio that has been compiled in recent years is sworn officers per 10,000 populations with the ratio improving from 18.4 in FY06 to 18.8 in FY07. This same ratio was 17.8 five years ago and 13.4 ten years ago. While no one ratio can define the services needed for this office as Hanover is not only affected by its population, but also the traffic through the County and crime in central Virginia, the current plan does provide for the improvement of this ratio to 19.9 by FY11. As the County begins to develop future five-year financial plans, the importance of the Board of Supervisors in working with the Sheriff's Office in establishing staffing plans will further ensure that the resources of the County can be prioritized.

Sheriff's Office Sworn Officers per 10,000 Citizens



As part of their operations, 45 vehicles will be acquired at a cost of \$936,000 as these vehicles have generally met their ~110,000-mile useful life, the highest utilization rate in the region as a result of deputies maintaining and caring for their assigned vehicles to the highest standards. This department is also one of the primary departments impacted by the increase in fuel costs with their budget increasing \$141,000, a 45% increase. The local share of funding for this office will increase 11.8%, which would increase such funding to 80.7% of their \$16.4 million budget.

The Sheriff's Office also includes the Court Services division (addressed under Judicial Administration function). Total funding provided to the Sheriff's Office, including Court Services, is \$17.7 million, a \$1.6 million and 10.4% increase, and 11.3% increase in local funding.

Emergency Communications (\$304,000 and 11.5% increase): An integral component in ensuring public safety responsiveness is an effective and properly staffed Emergency Communications Department. Emergency Communications has researched appropriate benchmarks for a properly supported public safety function. Two communications officers are included in the budget to help maintain service availability for the current volume of 911 dispatches and communications. The Association for Public Communications Officers (APCO) staffing ratios indicate that based upon current service levels (e.g., 205,000 calls handled annually), 40.5 dispatchers are required. The two additional

communications officers in FY07 bring the total to 33, and the Five-Year Financial Plan continues to bring Hanover County closer to APCO compliance.

For the capital budget, \$54,000 has been provided to initiate the second of three phases for a public safety dispatch library, providing the fastest resource available for a communications officer to respond to a caller's urgent and critical questions that may need to be addressed prior to the arrival of public safety personnel at the scene. The bond referendum included a \$33.4 million project to replace the communications system, of which \$7.4 million is funded with cash. Over the next fiscal year, a contract to purchase the system should be completed and the 911 center designed. The implementation phase will begin shortly thereafter, including the selection of appropriate tower site locations and the many related steps in utilizing an interoperable, high coverage system centered in a facility to house such equipment and staff Emergency Communication personnel.

Animal Control (\$117,000 and 14.4% increase): In February 2006, the new 1,870 square foot addition of the Animal Shelter began housing animals. The facility is now designed to house 168 animals, an increase in capacity of 48 animals or 40%. The budget includes a replacement vehicle and an upgrade to full-time for a kennel attendant to better serve the increased space of the facility.

Juvenile Court Services Unit (\$62,000 and 8.4% decrease, 9.4% decrease in local funding): The budget is primarily comprised of juvenile offenders who are placed at the Merrimac Juvenile Detention Center as well as other community programs provided to address accountability, public safety and treatment (e.g., case management, probation, electronic monitoring, community service and treatment groups). The decrease in the budget primarily represents the net change in juvenile detention daily per diem fees from FY04 to FY07 (from \$137.50 to \$132.38) and the decreased estimated number of juvenile offenders sentenced by the court from FY04 to FY05 (3,883 to 2,219) as the lower number is result of current caseload trends. An investment in treatment-related programs results in the upgrade of two part-time youth supervisor positions into one full-time position. This resource will also help the County to further develop its anti-litter programs by leveraging community service activities for juveniles.

Pamunkey Regional Jail (\$261,000 and 6.4% increase): This budget reflects the per diem costs (\$32.74 per day increasing to \$38.39 per day) to house inmates as part of the County's participation in the Pamunkey Regional Jail Authority (PRJA). The costs for housing inmates have benefited from the economies of scale of the larger jail operations as well as the benefits of using available capacity for bed rentals to other entities. The budget projected an average of 353 inmates per day for FY06, but actual inmates per day are averaging 220. It appears that recent growth trends over the past five years (FY02 averaged 203 inmates per day, 8% lower) have leveled off with 312 inmates per day projected for FY07, a 54% increase from FY02. Current plans to address facility expansion have also been mitigated with recent inmate trends; however, the PRJA will continue to monitor expansion models and timing of State support for such expansion to position the PRJA, as well as the County for such expansion

Community Corrections (\$69,000 and 27.9% increase, 55.9% increase in local funded): This function, initially 100% funded by the State is required to provide community corrections and pre-trial services to those deemed necessary by the judges. With service level desires and merit-based needs for operating, the local share will increase to 21.7% of the total budget in FY07 and most likely continue to increase in the future. The budget increase is mainly attributable to \$42,000 in additional State funding that was part of amended FY06 budget. Similar to Juvenile Court Services Unit, the County is working further with this division to leverage resources for achieving anti-litter objectives. Opportunities may exist for cost recoveries for such services as the Community Criminal Justice Board has supported the start of such programs. It is anticipated that such proposals may be brought to the Board of Supervisors in May 06.

Building Inspections (\$118,000 and 9.0% increase): The fees charged by this function traditionally provide the funding for Building Inspections. In recent years, this office has benefited from technological advancements to serve its customers, most recently its voice-activated telephone system for builders to check permit status. In FY07, funding has been provided to create digital file records of certificates of occupancy. In addition, funding has been provided for vehicle replacement.

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

The County and school staffs continue to work together to ensure that funding levels are provided to best meet student-teacher ratios, the ever increasing demand upon mandated special education programs and compliance with the No Child Left Behind Act (NCLB). These discussions focused not only on operational needs, but capital needs over the next five years. The capital program is being addressed with an elementary school under that is currently under construction that will open in 2006 and a 2008 elementary school that was included in 2005 bond referendum. The Pearson's Corner and Pole Green elementary school districts that will be primarily affected by these new schools should hopefully recognize the relief that these new schools will provide.

The County's projected cost per pupil of \$8,799 is projected to be one of the lowest in the Commonwealth of Virginia. In FY04, the County ranked as in the top 5 in its overall cost per pupil. Finally, and most importantly, the effectiveness of the schools can best be measured in having 100% of Hanover's schools with full State accreditation. Among Virginia school districts with enrollments above 15,000 students, Hanover was one of the first two in the State with 100% of schools meeting full accreditation criteria and currently is in the top 5% of Virginia schools on measures of student achievement.

The school system, which enrolls 18,848 students (19,787 including non-K-12), continues to "raise the bar" of standards expected for public education. The school district is the recipient of two prestigious U.S. Senate awards for quality and has eight schools nationally recognized as U.S. Department of Education Blue Ribbon Schools. Hanover is the only school district of its size or larger in Virginia to feature all schools accredited by a regional accrediting agency. Only 0.44% of students drop out before graduation and 80% of graduates attend a 2 or 4-year college. All schools demonstrate high expectations for students and offer a model of rigorous academic and technical preparation. The County has received the School Match "What Parents Want" designation for four consecutive years and has been rated a "Gold Level School District" by Expansion Management Magazine (a national business relocation publication). In the County's most recent survey, 97% provided a favorable rating, ranking 2nd in the South region.

School Operating Budget (\$176.1 million and 12.0% increase, 7.2% local increase): This \$176.1 million budget includes all school operations, excluding the self-funded cafeteria operations. The State increase represents a \$13.3 million or 19.3% increase, which reflects the Governor's recommendation to fund the State's Standards of Quality for education. School textbooks are funded through a combination of local and non-local sources and debt service is 100% locally funded. This budget includes 111.4 additional positions, of which 63.4 are teachers to meet accreditation standards, maintain average class sizes, meet special education students' needs and continue phase-in plans for previously planned initiatives. Other selected positions include 14 special education paraprofessionals, 12 bus drivers, 6 cafeteria workers, 3 bus driver aides, and 3 custodians. Because of the 2.2% increase in students, some of these positions are driven by enrollment increases. With these additional resources the pupil teacher ratio (core classes) is projected to be 17.8:1 in FY07 (this ratio was 18.0:1 in FY06). The local increase of 7.2% includes the General Fund's contribution to the School's capital program (\$2.5 million), which is part of the target setting process. The school system is also impacted by increased fuel costs, with their budget increasing \$269,000, or 46% for fuel.

Cafeteria Operating Budget (\$537,000 and 7.8% increase): School cafeteria operations generally parallel inflationary and enrollment growth factors as with more students being served, there are correlated increases in revenues collected from fees charged to the students and related non-local support of food programs. Six additional food service positions are needed to accommodate the opening of Kersey Creek Elementary School.

School Capital Budget: The capital budget and related CIP is in compliance with the CIP budget objective that will provide appropriate classroom space to “limit overcrowding with no schools over capacity by 10% for more than three consecutive years.” As additional facility space will arise with a 2006 and 2008 elementary schools and the indirect school enrollment relief of a Trades Based Center and Alternative Education facility, it is anticipated that such school capacity statements will continue to be monitored to address the variety of impacts to school capacity in future years.

The capital budget provides \$27.1 million, including \$23.7 million for bond referendum projects. This includes construction for the new 2008 elementary school and technology infrastructure. In addition, \$1.7 million is provided for the school bus acquisition and replacement program for 28 buses and \$1.2 million for the computer replacement program. Future bond referendum projects include a new trades-based center and technology and facility improvements at all of the County’s schools. Further efforts have been put forth in leveraging \$2.2 million in proffers and related capital savings plan to apply towards school projects, including \$420,000 reserve for construction appropriation for FY07. These non-debt sources will also provide a first resource in any inflationary impacts caused by the construction industry as inflationary impacts in the last two years (48.2%) are equivalent to the sum of the prior fourteen years (50.9%).

PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$338,000 and 12.8% increase): Program participation continues to increase each year with the majority of this coming from an 11% increase in special event participation, athletics and youth programs. The annual allotment to the Parks and Recreation Advisory Commission (PRAC) is \$30,000 for PRAC to distribute amongst the various needs of the many recreational-type organizations. A recreation coordinator has been added mid-FY07 to help provide the resource for the varied recreational programs. The funding for this position is available due to an anticipated increase of \$61,000 in program recreation fees, a 22.4% increase. This increase reflects increased participation, not a rate increase. This department is also one of the primary departments impacted by the increase in fuel costs with their budget increasing \$36,000, a 134% increase.

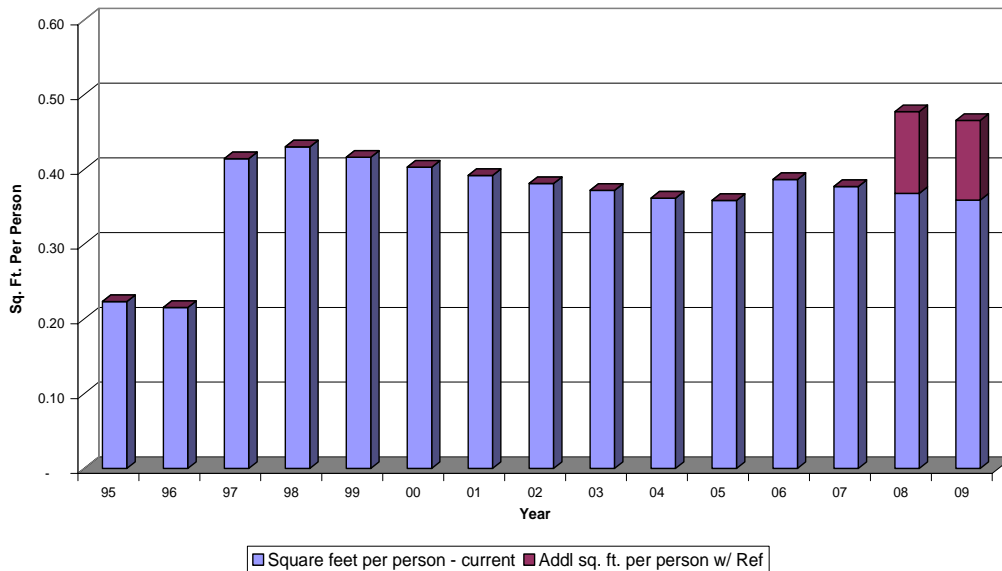
The capital budget has bond referendum projects for Courthouse Park improvements (\$100,000), Pole Green Park (\$650,000) and new park development for Montpelier (\$300,000), horse trails (\$25,000) and Doswell (\$25,000), in addition to Cold Harbor (\$50,000), which is not a bond referendum project. Future years of the CIP will include \$ 4.8 million for bond referendum projects: Pole Green, Poor Farm and Courthouse Parks as well other park improvements at Hanover Wayside Park, Montpelier and playgrounds, of which \$1.3 million will be funded by the capital savings plan to mitigate the debt impact of the referendum. In addition, capital grants will be sought to further leverage local funds.

Pamunkey Regional Library (\$148,000 and 6.7% increase): The County has benefited greatly as part of this regional library system that serves four counties. Over 830,000 items were circulated in the library, a 3% increase over the prior year. The 3,680 square foot expansion of the Cochrane Rockville Library in November 2005 has provided a great resource for residents in that area of the County. In furthering its desire for standardized service levels amongst all of its County libraries, \$17,000 has been provided to enable the Montpelier branch to increase its hours from 54 to 60 hours per week.

The capital budget contains the bond referendum project for the \$5.4 million replacement Mechanicsville Library, expected to open by August 2008. Further assessment needs to be conducted for existing Mechanicsville Library to determine its disposition. Needs assessments and/or goals for facility infrastructure provide the support for major capital projects. While not provided in detail in this synopsis for all capital projects, the following example illustrates the rationale for library projects.

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

Library Square Feet Per Person



HUMAN SERVICES

Community Resources (\$36,000 and 9.6% increase, 45.0% 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. During FY06, funds were no longer available from the Federal certified pass-through program through which the County was able to claim local administrative costs associated with the provision of pre-placement services for eligible children. The revenue totaled more than \$400,000 during the County’s three-year participation and offset the costs of 3.5 FTE positions (1 in Community Resources, 2 in Social Services and .5 in CSB). With the end of the program, funds are no longer available during FY07. As these positions provided a great resource in treatment programs and related activities, the budget is designed to maintain an equivalent 2 FTEs at Social Services, funded 80.0% with non-local funds. One

permissible use for the remaining grant funding was the acquisition of a grants finder internet-based application, which was implemented in January 2005. This resource for County agencies and related non-profits will allow immeasurable support in their efforts to find and leverage grants to alleviate burdens on General Fund revenues. In addition, Community Resources provides the administrative oversight to the CSA Fund as follows:

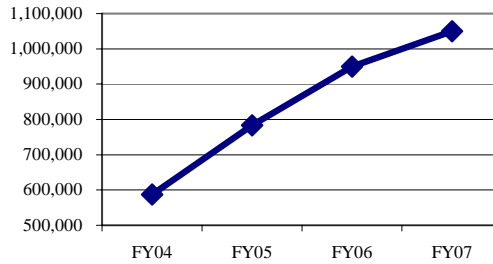
- **Comprehensive Services Act (CSA) (\$369,000 and 8.2% increase, 3.9% increase in local funding)**: This mandated program for at-risk youth is funded from a compilation of relevant factors that include: level of care needed, cost and duration of services, and the number of youth served. The Community Policy and Management Team, comprised of representatives from the County Administrator's Office, Juvenile Court Services Unit, Schools, Social Services, Health Department and Community Services Board, addresses and implements case management and cost containment strategies in order to provide these much-needed services to at-risk youth in the most efficient and cost-effective manner possible.

Social Services (\$405,000 and 7.7% increase, 9.0% 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. Changes in this budget are correlated to serving these individuals in mandated programs; fortunately such mandated programs have high State/Federal reimbursement rates. All of the Federal, State and/or local service standards have been met or exceeded (e.g., timely application processing of Food Stamps, Medicaid, and Temporary Assistance for Needy Families (TANF)). Recently, the County received notice from the State that it has the highest rate in timeliness of Medicaid application processing (99.5%). Through efforts of staff and community, and required Federal funding share for eligible recipients, a greater proportion of the population is being served. As an example, the following programs have increased over the past year: Food stamps 8%, child care 8%, TANF 6% and Medicaid 10%. Additional space will be rented to better meet client needs.

Health Department (\$37,000 and 8.1% increase): This budget represents the County's tradition of funding a 45% share of this State agency budget. The Health Department represents a stand-alone State function for which the County's share rises in proportion to State funding of this service. This office should be recognized for its efforts to meet the needs of citizens in the face of a fairly moderate budget.

Tax Relief for the Elderly and Disabled (\$285,000 and 37.3% 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 \$1,050,000 for 1,400 people (FY03 only had 780 qualified applicants). The primary factor for this increase was recognized as a \$185,000 FY06 budget amendment soon after budget adoption with enhancements to the program in addition to the continuing promotion efforts put forth by the Commissioner of the Revenue and the County.

Growth in Tax Relief Program



Community Services Board (CSB) (\$1.4 million and 15.0% increase, 8.3% increase in local funding): The total CSB budget is \$11.0 million. The County and CSB staffs develop targeted local funding for five-year plans that provide flexibility to CSB in leveraging grants, Medicaid revenues and other fees to best administer services. This has enabled CSB to meet current service levels with current staffing resources, while assessing ways to expand resources in targeted areas. However, the increasing demand for services, the severity of the presenting problems, counselor caseloads and administrative infrastructure warrant additional resources, including four additional positions, to achieve desired services. Persons requesting services have more difficult and challenging behaviors and medical needs than in past years. The mental retardation waiting list has remained fairly static despite the fact that 26 individuals were removed from the waiting list in FY05, and it is estimated that at least that number will be removed from the waiting list in FY06. In meeting the growing demand for current service delivery of clients, a new 5,800 sq. ft. East Hanover Office should be open by April 2006, and a new facility will be rented in Doswell for CSB's client-based day activity programs.

COMMUNITY DEVELOPMENT

Economic Development (\$55,000 and 5.4% increase): Economic development is fostered through strategic planning and creating and maintaining a positive business climate. The funding of programs and personnel dedicated to achieving the County's economic development goals and objectives should reach the desired results over the long-term. An initiative of competitive risk assessment performed during FY06 should enable the County to incorporate some strategies into the Comprehensive Plan Update during FY07. To help meet the hours of its customers and prospective clients, the hours of this office will be increased to 40 hours per week. Economic Development also provides the administrative oversight over the following fiduciary fund:

- **Economic Development Authority (EDA) Fund (\$383,000 and 68% decrease):** The EDA issues tax-exempt bonds for qualifying projects and partners with local developers in furthering economic development goals. The budget consists of fees to partially recover Economic Development costs on revenue bonds issued. The FY06 budget recognized certain pass through payments to trustees. Since this pass through money does not represent actual revenue or expenses, the FY07 budget does not recognize such payments.

Planning Department (\$234,000 and 13.6% increase): The anti-litter and blight abatement initiatives of FY06 have resulted in the development of increased standards for reporting, enforcement, and maintenance of applicable properties. This has also resulted in additional code compliance reviews being performed by Planning with service calls increasing from 309 in FY05 to 375 projected in FY07. Based upon recent trends and limited staffing resources in place, an additional code compliance position will be established. The Planning Department will also be performing its five-year update to the Comprehensive

Plan with consultant fees of ~\$100,000, of which \$50,000 was provided in FY06. A continued focus of Planning that will also be reviewed as part of the Comprehensive Plan process is capturing measurements for open space and preserved acres as rezoning in recent years has enabled the preservation of 3,729 acres of land in preservation lots, open space and conservation areas. In addition, Planning provides the administrative oversight over the GIS Division as follows:

- **Geographic Information System (GIS) (\$67,000 and 11% increase)**: GIS provides a support service to other departments, the citizens, businesses and other interested users of GIS information. An example of such technology is the web site www.co.hanover.va.us/planning/gismap.htm, which is one of the most accessed websites in the County providing relevant information for every County tax parcel. Another example would be \$20,000 in ArcGIS software and applications that will enable GIS capabilities to be enhanced and expanded to more County Departments and staff in FY07.

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

- **Extension Service (\$1,000 and 1.2% 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. During FY05, the number of volunteer hours increased by 11.1% and is expected to continue to increase.
- **Soil and Water Conservation District (\$5,000 and 6.0% increase)**: This is the County's share for participating in this district, which services residents in conservation planning and education. This office was one of the central agencies in assisting many landowners whose properties were damaged from severe erosion as result of recent hurricanes and tropical storms in having such lands restored to their agricultural and/or pastoral nature. The increase in the budget is attributable to supplement State salary increase.

Community Support (\$107,000 and 8.3% increase): The contributions to various local and regional entities are classified under community development to reflect their community support intentions. The budget reflects basically flat or a modest increase in funding for all discretionary contributions and continuation of funding formula agreements (e.g., share of Richmond Regional Planning District Commission (RRPDC), lodging tax revenues for the Greater Richmond Convention Center Authority). Increases are attributable to new regional participation funding for two organizations: \$25,000 for the first of four installments for the expansion of the VCU Engineering School (part of the \$203.8 million Monroe Park Campus Addition), a regional economic development initiative the County also participated in when the school was first planned in 1992; and \$66,800 for the first of ten installments to J. Sergeant Reynolds Community College for \$5 million in infrastructure improvements at the Parham Road campus. In addition, an allocation of up to \$37,000 to Habitat for Humanity as part of the general methodology agreed-upon at the end of the prior budget process will help offset County-incurred costs of building two affordable homes per year.

In FY07, the County will bring closure to its initial funding agreement of the first recipient of the Historic Preservation Fund created in FY02 as the Hanover Tavern renovation project will have reached \$200,000 in total funds received from the County. As initially planned, this fund will continue with an annual installment of \$30,000. It is intended that this program be funded and administered in a manner similar to the Parks and Recreation fund for organizations to access, with the County's Historical Commission playing a significant role in determining the best manner in which to allocate such funding.

Community Development Authority (CDA) Fund (\$1.2 million and 100.0% decrease): This fund was initially created in FY06 to recognize a special assessment district with the revenues representing assessment liens on applicable CDA properties and expenditures representing the offsetting payment to

the trustee that administers the bonds. These bonds are not an obligation of the County, nor is there any moral obligation of the County for such bonds. However, due to current accounting standards for such CDA-type process, such County involvement is not subject to appropriation, but rather through balance sheet only transactions.

PUBLIC WORKS

Public Works (\$351,000 and 27.5% increase, 17.9% increase in local funding): Public Works is a function that is increasingly being mandated to meet various regulations and recent State audits imposed upon the County for which no Federal or State assistance is provided. For example, the County's erosion and sediment control (E&S) program was based upon an Alternative Inspection Plan that was submitted to the State for approval. This Alternative Plan called for all active residential/commercial construction projects to be prioritized based on specific criteria and inspected at approximately one per month. This Alternative Inspection Plan was denied, requiring the County to follow the standard State requirements that all active projects to be inspected every two weeks. In addition, the service level of stormwater management reflects increasing maintenance costs of storm sewer infrastructure constructed by developers and annual maintenance of regional stormwater ponds as these facilities come on line.

The transportation section of public works has also been challenged to define local responsibilities in the wake of deficient funding provided by the State for their road infrastructure programs. These local initiatives have included developing plans to manage State resources, road proffers and developer contributions in meeting traffic impacts from existing and planned development. Finally, Public Works has become the de facto department which has managed County construction projects and with the bond referendum projects recently started the resources of this department have become even further strained.

A construction coordinator and part-time civil engineer have been added to meet E&S and stormwater management demands, with such resources funded by increased E&S residential fees and stormwater management fees. In addition, a chief of engineering position will provide an additional resource to help the department manage the existing heavy workload of this office and County construction projects that are in their early stages: a 911 center, two fire stations, parks improvements at six sites, and a library. As there are many other bond referendum projects in the CIP and continued projects thereafter (e.g., new courts building), the proper management resource of an engineer will ensure these projects are built in the most appropriate and cost effective manner. This resource will also provide the technical support needed in maintaining increasing quality review of developer plans and related projects in a timely manner, and address environmental agency audit requirements.

In the capital budget, the transportation initiative of General Fund contributions to roadway improvements for the first time since FY03 will start with \$100,000 in FY07 and increase by \$100,000 each year thereafter for a total of \$1.5 million invested over the five-year CIP. Proffers, developer contributions and State revenue sharing funds will also provide \$1.1 million in road improvements to North Lakeridge Parkway South (phase II). The County is also identifying specific road projects as part of the five-year CIP to better illustrate funding uses and allocation. In addition, a \$450,000 Federal grant (matched with \$50,000 in road proffers) for a hazard elimination safety program will hopefully be obtained that can construct safety improvements on certain road corridors. Finally, \$400,000 for regional stormwater implementation is funded by stormwater management fees. Public Works also provides administrative oversight over the following divisions:

- **Public Works Operations (\$304,000 and 8.8% 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 38,000 tons collected in the County (a 2% increase) and hauled to a facility for disposal outside of the County. In addition, recycling services are available at every convenience center and transfer station that collects 10,000 tons annually. Included in the

funding is the 40-hour workweek for equipment operators and supervisory staff to provide better coverage for operations. In addition, funding for additional resources for certain post-holiday high volumes should reduce waiting times. Vehicle replacements and equipment needs (e.g., refuse containers, compactor systems) account for \$164,000. Public Works Operations also manages many of the County's easement clearing programs, street signs and anti-litter initiatives. In addition, oversight is provided over the following operation:

- **Cannery (\$1,000 and 2.7% increase):** This function provides a great resource for residents to can their fruits and vegetables and the budgetary needs over the years have been minimal.
- **Airport (\$16,000 and 10.8% increase, 13.3% increase in local funding):** The County is fortunate to have a strong fixed-base operator in a lease agreement managing the Hanover Airport. The local funding primarily supports one County employee as well as maintenance and improvements to the airfield and terminal facilities. When available, State funds are invested into this function, reducing the local burden of funding such operations. The capital budget provides local funding to leverage State and Federal grants with \$200,000 for airport terminal building renovations and \$415,000 to complete the pavement and drainage site work for the west hangar site construction project of which only 20% is locally funded. The County's fixed based operator, Heart of Virginia Aviation, is constructing the hangar buildings and maintenance hanger expansion.

Facilities Management (\$85,000 and 5.5% increase): Facilities Management's primary function is to manage all County facilities, including repair, maintenance, and improvements, as well as the County's telecommunications, HVAC, generator and security systems. The increase primarily represents the role this department plays in meeting repair and maintenance needs for facilities in the County and operating increases associated with utility services, telecommunication services and custodial contracts. The County's telecommunication system integrates County, school, regional jail, and library facilities with much of the servicing of such systems performed through a contractual arrangement. A joint analysis recently conducted realized that a cost savings and opportunities for greater service would be attained if such services were performed in-house. Therefore, a new telecommunications technician position has been funded with contract savings of County and school. The in-house position will also provide appropriate cross-training to ensure that such services could be performed in the timeliest manner. In addition, \$25,000 has been provided as part of a County initiative for developing a long-term renovation and maintenance plan together with the Courthouse Commission for the Historic Courthouse and surrounding grounds. In FY07, funding should provide sidewalk and lighting improvements, and future years will continue to have funding invested for specific improvements.

In the capital budget, \$150,000 has been provided to improve the Taylor Complex well site. The Public Utilities Department will continue to provide operational maintenance. In addition, \$50,000 is needed to replace a 30-year old generator for the Wickham Building to ensure that proper capacity exists for back-up power for Information Technology systems, especially those supporting the public safety function.

Fleet Services (\$192,000 and 11.2% increase): This \$1.9 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 \$52 to \$55 and the radio maintenance fee will increase from \$70 to \$75. The respective vehicle and radio maintenance rates are far below comparable private vendor rates for similar services. In continuing a plan towards enhancing the fleet management program, the pilot program of five vehicles being leased to departments will now be expanded to a total of 14 vehicles with two departments now having their entire fleet under such leased program. The lease program enables Fleet Services to purchase, maintain, repair and replace a department's vehicles for a fixed monthly fee thereby increasing services and enabling departments to minimize oversight in managing the varying costs and purchase cycles of their vehicles.

GENERAL GOVERNMENT

By their nature, many general government administrative departments have base budgets that change only slightly in their annual scope of operations. The County prides itself on providing high quality and technologically-current services to citizens in the most efficient and effective manner. This is further supported by the State's composite of the general government administration function statewide in which the County's cost for providing such services is 75% of the State-wide per capita average and the lowest percentage in the region (including Caroline, New Kent, Goochland and King William Counties). Unless otherwise specified in departmental descriptions for new positions or other large impacts, virtually all operating budget increases in administration are the result of inflationary, merit and benefit (e.g., health insurance) impacts. The following summarizes the operating budgets for these administrative departments:

- **Board of Supervisors (\$130,000 and 27.6% increase):** This budget includes an additional \$27,000 to meet the County initiative of engaging further with Federal legislators by making funds available for a consultant to help with Federal grants and to represent the County on important pieces of federal legislation. In addition, \$100,000 in bond issuance costs (e.g., financial advisor, rating agencies, and bond counsel) is included in order for the FY07 bonds to be issued as part of the approved bond referendum.
- **County Administrator's Office (\$37,000 and 3.5% increase):** The increase is primarily due to inflationary changes and \$5,000 anticipated to formulate two of the Board's proposed initiatives (Human Services Strategic Plan and Public Safety Strategic Plan). The County Administrator's Office provides supervision and direction to nearly all County-related operations, while also administering to the general inquiries of residents. In addition, administrative oversight is provided over the Board of Supervisor's budget and activities, as well as serving as the agent for the Board's initiatives, policy-setting goals and other focus areas. The County Administrator's Office provides oversight for the following division:
 - **Public Information (\$15,000 and 14.6% increase):** The County's one public information officer (PIO) provides a quarterly newsletter, WEB updates and highlights, press releases, cable TV contact and support to the many areas in which the County's departments need to communicate with the public. In FY06, the PIO served as the coordinator for administering a grant that will provide a local radio frequency to be utilized during emergencies and disasters for public information. Increases in the budget primarily reflect postage and printing increases associated with the quarterly newsletter.
- **Human Resources (HR) (\$111,000 and 16.1% increase):** HR serves prospective employees in providing access to job-related information and application oversight (over 5,000 applications annually, about two-thirds via WEB site) 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. In correlation to a proposed initiative in leadership and succession planning, HR will serve as the conduit in further developing a "university" model to foster management training programs (\$40,000) to provide the tools necessary for leadership in the organization (a proposed Board initiative).
- **County Attorney's Office (\$38,000 and 3.6% increase):** The increase is primarily inflationary for this office that provides the legal counsel to the Board of Supervisors, School Board and nearly all County departments and agencies. This includes ordinance development, legal representation and related support in ensuring compliance with policies, laws and regulations.
- **Commissioner of the Revenue (\$67,000 and 6.3% increase):** In addition to many services provided by this office, two high volume activities include: 163,653 personal property taxpayer accounts valued in 2005 (a 3% increase over 2004) and 29,099 State income tax returns (a 9% increase) that required processing assistance. The budget increase includes \$20,000 provided for an enhancement to

the phone system to better provide automatic call distribution to customer service agents for which such enhancement will also benefit other customer service functions.

- **Assessor (\$62,000 and 8.0% increase):** The Assessor's Office is responsible for the appraisal of all real property in the County. In this capacity the Assessor evaluates all real estate to assure equalization of market value. Approximately 22,000 tax parcels will be reviewed in 2006 (52% of the County). Despite this workload, the office has maintained sales to assessment ratios of 95-97% while keeping coefficient of dispersion levels (this measures volatility amongst assessed values) of less than 10%, and few appeals to the Board of Equalization result in valuation changes. Included in the budget is the \$33,000 conversion of the remaining two vehicles in the Assessor's Office to a fleet management program whereby annual leasing costs are paid to Fleet Management Fund to repair existing vehicle and provide funding for future vehicle replacement.
- **Treasurer (\$32,000 and 2.8% increase):** For many years now, this office has attained an almost 100% collection rate on taxes owed the County and oversees an investment portfolio that has consistently outperformed established investment return benchmarks. As identified during the permanent decal initiative presentations, the cost savings of an annual decal process have been realized in the Treasurer's budget with \$75,000 reduction in operating expenses and the alignment of such staff resources to better assist in delinquent collections. To further strengthen this area, a part-time customer service agent position will be upgraded to full-time. Finally, \$10,000 has been provided for office renovations to achieve a more desired operational setting.
- **Finance (\$44,000 and 4.8% 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 the support services for payroll, accounts payable, financial reporting, debt management and audit. Increases in the budget are primarily inflationary.
- **Internal Audit (\$47,000 and 26.3% increase):** Internal Audit is now recognized as a department; previously it was a division of Management Services. This department executes a Board Finance Committee approved Internal Audit Plan. While the standard business practices in having the "audit universe" cycle reviewed is every 3.5 years, additional resources in recent years have reduced the audit cycle from 9 to 7 years. Recent audits have identified opportunities for County savings, most notably in the consolidated contractual agreements with cellular companies to "pool" individual plans into a one larger pool. As an internal audit position was added after the adopted FY06 budget from additional year-end school surplus funds to initiate school-related internal audits, the increase in the FY07 budget reflects this new position.
- **Purchasing (\$45,000 and 9.4% increase):** This function serves as administrative agent in procurement of all goods and services above a \$5,000 unit cost as well as all procurement card oversight and disposal of surplus property. In addition, Purchasing provides oversight of general liability, automobile and related insurance programs. It is estimated that such insurance programs will cost the County \$1 million in total in FY07. The Purchasing and General Services Department recognizes the division of General Services separately as follows:
 - **General Services (\$106,000 and 33.0% increase):** A variety of services is provided through this division, including risk management in ensuring workplace safety guidelines and related training are followed; a print shop which provides for all internal large printing orders and copier machine oversight; the phone system which includes the receptionist; motor pool fleet management; and mail courier for all internal and outgoing mail. In furthering a risk management program a safety specialist position is needed to provide the necessary field inspections of active County project sites as well as training for the varied workforce of the County.
- **Registrar (\$24,000 and 8.0% increase):** The acquisition of new voting machines and their immediate use in two special elections has been a tremendous workload for this relatively small office; and, from initial results, it appears that the new machines will serve the County well. The Registrar is still pursuing higher reimbursement opportunities for the new voting machines to

supplant local funding provided to acquire such machines. In addition, the machines rely upon \$14,000 in annual software updates.

- **Information Technology (IT) (\$383,000 and 13.9% increase):** IT's role in meeting the system and technological needs of departments and related entities is to continue to provide the support and leadership, where applicable, in ensuring a 24/7 fully functioning computer and system environment, with proper controls, archives and contingency plans. A new senior systems engineer position is needed to support extensive growth in County technology applications.

In the capital budget, the only administrative items that pertain to Information Technology are \$607,000 provided towards technology infrastructure – Wide Area Network (WAN) enhancements and computer upgrades – as the County continues to meet its plan of having sufficient technological resources available and secured to meet the increased demand on the information systems.

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$70,000 and 6.2% increase, 158.2% 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) and has greatly enhanced its technological resources, primarily through the State's Technology Trust Fund (\$115,000 in FY07). The local funding increase is the result of total non-local revenues actually declining \$66,000, with local funding now 10.6% of the budget, an increase from 4.4% in FY06.

Commonwealth's Attorney's Office (\$168,000 and 13.4% increase, 15.6% 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/or referral needs for legal counsel. With potential State Compensation Board funding for a new assistant commonwealth's attorney in FY07, resources should be in place to meet such anticipated demands. The local funding increase is a result of the County paying for approximately 50% of the new position.

Court Services (\$66,000 and 5.9% increase, 5.7% increase in local funding): The security of the courts through bailiffs and serving of court-related papers (e.g., subpoenas) is performed by this division of the Sheriff's Office.

The following divisions of judicial administration (totaling \$380,000 in funding) represent the County's contributions to these State-related functions, with expenditures primarily representing operating expenditures and only 2 full-time positions.

- **Circuit Court (\$42,000 and 24.4% increase):** A new part-time judge was added in April 2005 for two days a week to assist with higher court caseloads.
- **General District Court (\$14,000 and 15.8% increase):** Extensive renovations have been performed in this courtroom over the past two years as part of a capital project and in FY07 \$13,000 has been provided to further renovate the cashier area.
- **Juvenile and Domestic Relations Court (\$39,000 and 179.2% increase):** As the budget for this office was only \$21,600 in FY06, the \$36,000 in office improvements planned for FY07 account for the large increase in this budget.
- **Magistrates (\$1,000 and 38.0% increase):** Funding level for this service that provides independent review for issuing warrants, bail bond hearings and related incarceration procedures was increased to account for small office improvements.

In the capital budget, all of the judicial administration agencies are working together with County staff in developing space needs for court-related activities and correlated supporting functions. In FY06 the County began its first phase of facility space studies and in FY07 an additional \$50,000 has been targeted to develop facility options for the courts to meet their needs for the long-term. While initial estimates for court facility needs have been identified in subsequent years of the CIP, the analysis and alternatives

developed as part of the FY07 review will provide a more definitive project timeline, scope and cost estimate for the subsequent CIP formulation process.

NONDEPARTMENTAL

This category traditionally appropriates funds for those functions not identified elsewhere and includes debt service for County obligations, excluding school and utility obligations, as well as reserves available for future appropriation. Reserve for contingencies will meet the County's budget policy of .5% of budget at \$876,000 and the \$160,000 reserve for revenue transfers enables the County to recognize insurance recoveries, grants and other revenue adjustments during the fiscal year (offsetting reserve is also in revenue portion of budget).

Debt Service (\$2,000 and .1% decrease): The County's debt service will decrease as the first issuance under the bond referendum will not incur principal or interest payments until FY08, as existing obligations are being reduced.

PUBLIC UTILITIES – BUDGET AND CAPITAL IMPROVEMENTS PROGRAM

Public Utilities operates as an enterprise fund, meaning the operations and capital expenditures are funded with revenues generated from customer user fees and one-time fees paid for capacity. The County's tax revenues are not used to support the utilities operations, but rather the department operates as a self-supporting business, providing water and wastewater services to a customer base of 18,825 residences and businesses, an increase of 436 customers and 2.4%. Tax dollars are not used to fund the utilities operations and the Public Utilities Fund pays a recovered cost fee to the General Fund for administrative support provided to its operations and a service assessment charge for law enforcement, fire protection and emergency medical services.

Utility Operating Budget (\$1.1 million and 5.2% increase): This \$22.9 million budget includes an 8.0% increase in water and a 7.0% increase in sewer user fees in positioning rates towards target levels that are a result of the recently completed rate study. The average residential bill for water and sewer will increase \$2.95 and \$4.88, respectively. Operating expenditure increases include personnel (increases align with those of County's compensation and benefits program), chemicals, and purchased water. Purchase of water budget is increasing by 19.7%, primarily due to increases in the City of Richmond commodity rate and Henrico County cost of service.

Further, the continued increase in the number and complexity of environmental regulations, permitting requirements, and other State and Federal mandates being imposed are resulting in a higher cost of operations. In addition to the operating impact, the capital budget also includes several facility upgrade projects that are required by State and Federal mandates and an increase in the investment in the renewal and replacement of existing infrastructure to maintain quality and reliability of services. User fees are proposed to fund a portion of capital expenses to increase the water supply from the City of Richmond and related distribution projects due to the decommissioning of two wells over the past five years. Considering the current growth trend these projects could have possibly been delayed, but are needed to replace the lost well supply. The combination of higher capital and operating costs to ensure regulatory compliance, water reliability, water quality, and system security results in rate increases that exceed traditional inflationary increases for both user and capacity fees over the next five years. The County does continue to provide a user fee relief program based upon the same criteria as the tax relief program.

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, Voluntary Settlement Agreement, and the City of Richmond contract. These projects, combined with true growth related projects, result in a 16.0% water and sewer capacity fee increase.

The CIP goal is to position Public Utilities to meet the water and wastewater needs of its current and future residential and commercial customers. The current purchased water capacity from the City of Richmond is 15 million gallons per day (mgd). With the one additional increment of 5 mgd of future water capacity to be contractually purchased in the next five years, the County has positioned itself for the long-term in meeting the water needs of its current and future customers (residents and businesses). To meet current and future wastewater treatment service demands, the Totopotomoy Wastewater Treatment Plant’s 5 mgd of current capacity will also develop 5 mgd incremental increases in capacity as needed through 15 mgd permitted capacity. The following is a summary of the FY07 capital projects:

Hanover-Richmond Waterline	\$2,426,000
	4,847,000
Cold Harbor Waterline	100,000
Lockwood P.S.	400,000
Garnett Road Water Storage Tank & Pump Station	200,000
Other General Water Capital Projects	125,000
Atlee Manor Sewer Service	1,288,000
Lower Opossum Creek Sewerage Improvements	1,442,000
General Water Rehab & Replacement	1,052,000
General Wastewater Rehab & Replacement	642,000
Powwhite Creek WW Pump Station and Force Main	700,000
Totopotomoy Waste Water Treatment Plant Expansion	2,000,000
General Other Improvements	300,000
Total FY07 Utility Capital Projects	<u>\$10,575,000</u>

COUNTY/SCHOOL –
FIVE-YEAR CAPITAL IMPROVEMENTS PROGRAM

The Capital Improvements Program (CIP) is the County’s plan for investing in facilities, equipment, and vehicles over the next five years and includes those items with a unit cost greater than \$50,000. The FY07 capital budget for County and School projects is \$71.1 million, which is \$47.5 million higher than the current fiscal year, which is primarily attributable to the appropriation for \$62.8 million in bond referendum projects. The General Fund cash transfer for County and School projects is \$6.7 million, \$616,000 and 10.1% higher than the current year, which is primarily attributable to: 1) \$2.0 million for communication system project and 2) additional plans for School Board to target a higher operating surplus to be reinvested into school capital projects. The continued non-debt funding strategy for the CIP should help to further strengthen the County’s debt ratios as well as improve “pay-as-you-go” funding with the total funding sources of the County and School Five-Year CIP representing 38.3% 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. By FY11 accumulated cash in the school savings plan is

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\$1.5 million for future school projects and County savings plan is \$4.3 million (for future stormwater projects, roads and proffer-related projects)

Between the April 2005 adoption of the FY06 budget and the approval of the bond referendum for the November 2005 ballot, the Board approved some changes in the referendum question primarily to accommodate the higher cost of the communications system and re-prioritization of park projects. The proposed Five-Year CIP is in compliance with the bond referendum and related information provided to community groups and the public.

FIVE-YEAR FINANCIAL PLANS

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

The County's Five-Year Financial Plan represents the County's attempt to quantify the impacts of future needs matched with a projection of available resources. Each year this plan is adopted by the Board of Supervisors, thereby indicating to the public the County's expected tax rates, operating costs, capital improvements, debt service requirements, school allocations and service level plans. The plan is illustrated with detailed assumptions in a separate section of the budget document. Generally, the plan seeks to maintain or enhance all current budget guidelines and the Board's adopted initiatives.

The success of the Five-Year Financial Plan for the General Fund has served as the basis from which five-year financial plans are being formulated for Self-Insurance Fund and Fleet Management Fund to be presented along with the General Fund for public input and Board adoption. In FY08, it is anticipated that the Public Utilities Fund will develop a five-year financial plan for similar adoption.

ECONOMIC DEVELOPMENT UPDATE

As Hanover continues to mature and grow, the Board of Supervisors maintains focus on long-range strategic planning. The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports growth of existing and future businesses. This plan outlines the County's four major Economic Development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to County development regulations. In fiscal year 2006, the Board undertook a competitiveness analysis of the County's economic development program. This analysis included a SWOT analysis and a tour of three other jurisdictions in the Richmond Region: Henrico County, Chesterfield County, and Goochland County. The Board has identified the provision of infrastructure for economic development as a top priority and has requested that the revision of the Comprehensive Plan be advanced to study the options available.

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

In fiscal year 2005, commercial and industrial development represented 43% of the total value of building permits issued in Hanover. This is one of the highest percentages in the past ten years. Through November 2005, the percentage is 27%, still above the County's historic percentage. Several major retail developments have opened in 2005, including a Target in Hanover Square South in Mechanicsville and a Home Depot near the newly reconstructed Atlee-Elmont interchange in "NorthCross Center". The "NorthCross Center" is the first major new retail project within the 167 acres planned for commercial development, which takes advantage of opportunities created by Virginia Center Commons, the revitalization of U.S. Rt. 1, and the improved road network around the new interchange. The Atlee-Elmont interchange also includes about 357 acres planned for industrial zoning.

The County continues to position itself well for economic development in the region. The County has the lowest property tax rate; no business, professional and occupational tax (BPOL); high residential wealth and education (i.e., customers and employees); available commercial and industrial sites; and water and wastewater capacity. In addition, the County utilizes comprehensive planning that targets business development for appropriate areas while maintaining a high quality of residential, forestal, and agricultural uses in other parts of the County.

DEPARTMENTAL ACHIEVEMENTS

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

- The **National Association of Counties (NACo)** presented an Achievement Award for the submission, “South Anna River Water Quality Initiative,” presented by the **Department of Public Utilities**. The initiative provided residents of the Country Club Hills subdivision with public wastewater service and closed old sewage treatment lagoons, thereby improving the water quality of the South Anna River.
- Also with the Department of Public Utilities, the **Doswell Wastewater Treatment Plant** received the Platinum Award from the **National Association of Clean Water Agencies (NACWA)**. The Platinum Award is given only to those facilities that achieve 100% compliance with National Pollutant Discharge Elimination System (NPDES) permits for five consecutive years. Only 22 other localities in the U.S. had a facility receive such recognition in 2005. The **Ashland** and **Courthouse Wastewater Treatment Plants** received the Gold Award from the NACWA. The Gold Award is given to those facilities that receive perfect permit compliance for the entire year. The Doswell Water Treatment Plant also received the **Virginia Department of Health Operational Excellence Award**.
- The Old Dominion Emergency Medical Services Alliance Inc. (ODESMA) recognized **Hanover’s Department of Emergency Communications** as being the best in the region. Hanover County Communications Officers were honored for their selfless devotion to duty and service during Tropical Storm Gaston in August 2004. This performance was also recognized as the “Outstanding Team Performance” by the **Virginia Chapter of Association for Public Safety Communications Officials (APCO)**
- For the 20th consecutive year, Hanover County’s 2004 **Comprehensive Annual Financial Report (CAFR)** qualified for the **GFOA’s Certificate of Achievement for Excellence in Financial Reporting**. Only 16% of counties nationwide received this award. Hanover County has achieved this recognition each year since 1985. Hanover County also received the GFOA’s Award for **Distinguished Budget Presentation** for the 15th consecutive year. Only 17% of county governments in Virginia received the Distinguished Budget Presentation Award this year.
- The **Sheriff’s Office** was re-accredited for four years by the Virginia Law Enforcement Professional Standards Commission (VLEPSC). The Sheriff’s Office is one of only four law enforcement agencies in the Commonwealth to have received both state and national accreditation, and is the only Sheriff’s Office in the state with primary law enforcement responsibility to have national accreditation from the Commission on Accreditation for Law Enforcement (CALEA).
- The **Pamunkey Regional Jail** received a three-year accreditation from the American Correctional Association (ACA). Pamunkey Regional Jail is one of only nine county, city or regional jails in Virginia to have been re-accredited and was the 8th Virginia jail to be accredited in 2003.
- The Virginia Association of Zoning Officials (VAZO) presented Hanover County with its “**Outstanding Organization**” award for creating and adopting the State’s first Career Development Program for Code Compliance Officers. It was the first time this award had been given by the VAZO, which has 282 members across Virginia. The award was presented to the offices of **Human Resources and Planning**.
- The **Department of Public Works** received a Bronze Excellence Award in Solid Waste Management from **Solid Waste Association of North America (SWANA)**. SWANA’s Excellence Awards Programs recognize outstanding solid waste programs and facilities that promote socially, environmentally and economically sound management of solid waste. Only 36 programs nationwide and two in Virginia were recognized by SWANNA.
- The **Department of Social Services** received an “Innovations in Human Services” award from the **American Public Human Services Association** for its program of continuous quality improvement and performance measurement.

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

