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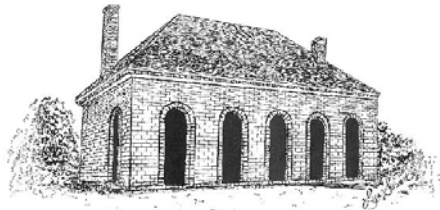
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HANOVER COURTHOUSE

HANOVER COUNTY

ESTABLISHED IN 1720

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June 7, 2011

TO: Joseph P. Casey, Deputy County Administrator

FROM: Kathleen T. Seay, Director of Finance and Management Services

SUBJECT: State Reports on Per Capita Expenditures and Fiscal Stress

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

Comparative Report of Local Government Revenues and Expenditures

The State Auditor of Public Accounts annually issues a *Comparative Report of Local Government Revenues and Expenditures*. This report for the fiscal year ended June 30, 2010, is a compilation of all local governments' revenues and expenditures in a uniform accounting classification. The Department of Finance and Management Services has internally analyzed such report, focusing on expenditures per capita by function, to provide an independent gauge as to the cost of providing services to County residents relative to a sample of other localities and Statewide averages.

The analysis primarily focuses upon a statewide average expenditure per capita in the eight general governmental functions. For each function, a comparison of Hanover County as a percentage of the statewide average for all counties is noted, as well as a comparison of Hanover County with the two larger counties also in the Richmond Metropolitan Statistical Area of Chesterfield and Henrico, and with three of the Virginia counties closest to Hanover in population, consisting of Stafford, Spotsylvania, and Albemarle counties. It should be noted that although the calculation of expenditures per capita is presented in a comparable format, each local government may provide a varying level of service with respect to a particular function that may distort such comparisons (e.g., Henrico's public works function will always have a much higher cost per capita since Henrico includes its road maintenance in its public works function, whereas most other county governments have such services performed by the State).

The following table is a result of such compilation for the fiscal year ended June 30, 2010 (sorted in highest County function cost per capita to lowest as a % of statewide average for counties):

	<u>State</u> <u>Average</u>	<u>Hanover</u>	<u>Henrico</u>	<u>Chesterfield</u>	<u>Stafford</u>	<u>Spotsylvania</u>	<u>Albemarle</u>
Public Safety	\$424	122%	126%	118%	113%	96%	88%
Education	\$1,731	101%	93%	100%	117%	109%	96%
Judicial Admin.	\$48	94%	90%	98%	107%	99%	100%
Parks, Rec & Cul.	\$84	83%	128%	64%	82%	64%	71%
General Gov't	\$104	82%	153%	95%	71%	65%	83%
Health & Welfare	\$320	75%	74%	68%	55%	61%	104%
Public Works	\$120	63%	159%	50%	47%	45%	48%
Community Dev.	\$101	52%	97%	44%	35%	28%	298%

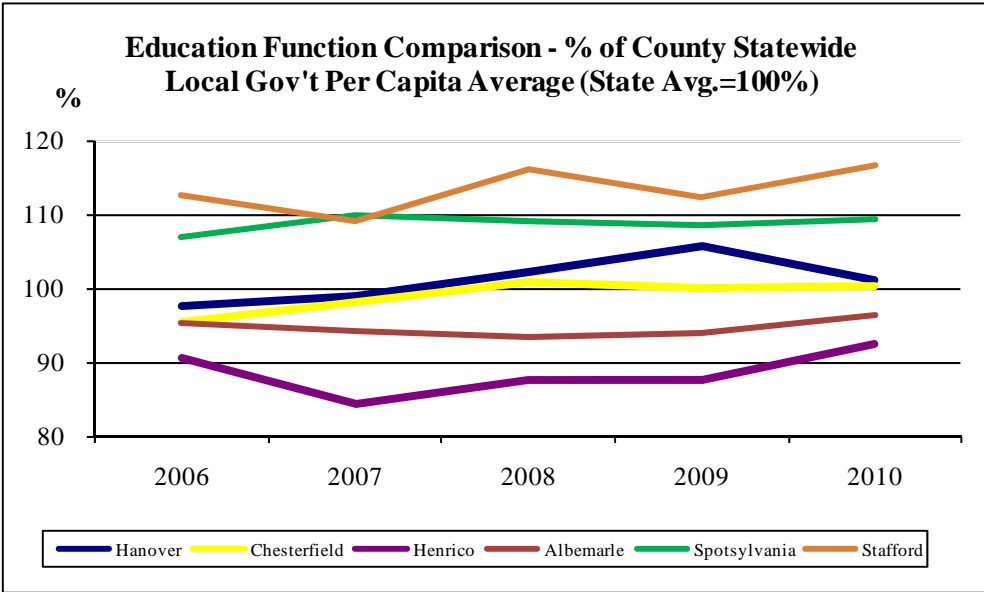
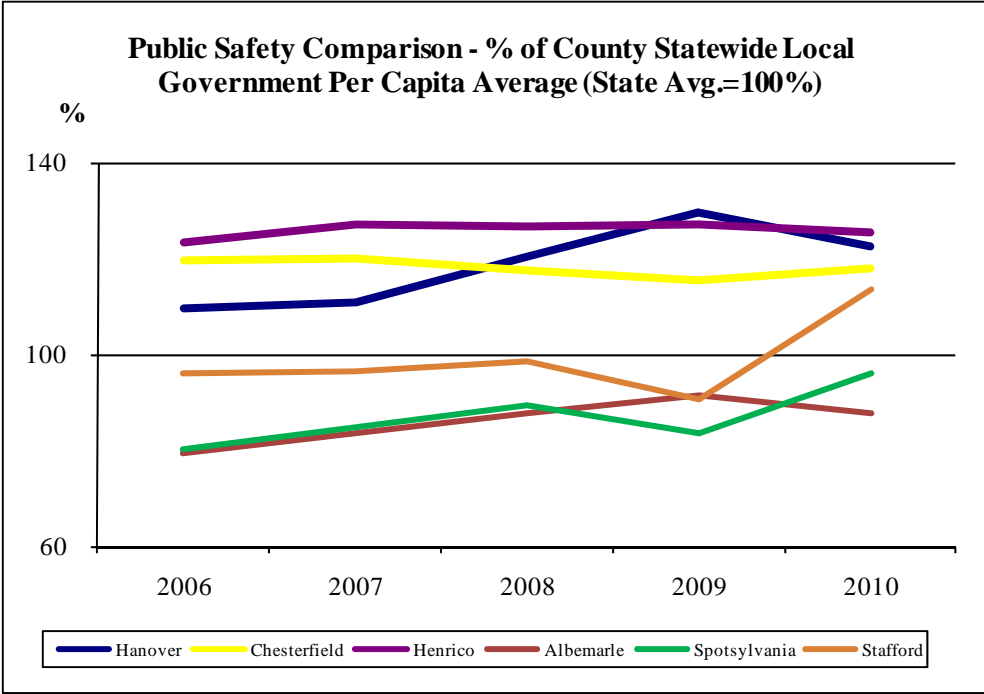
Narrative highlights from the preceding table are as follows:

- Public Safety, which has traditionally been a priority function of the Board of Supervisors, is, accordingly, one of two functions which have a per capita cost greater than the statewide average for counties. As noted in the table, public safety is 122% of the statewide average of \$424, which calculates to a cost per capita of \$519 and represents a 6% decrease in the cost per capita and an 8% decrease in relation to the state-wide average in comparison to the prior year.
- Education, another priority function of the Board, is, accordingly, the second highest indicator compared to the statewide average for counties, and exceeds the statewide average at 101%. Also of interest, Hanover recently learned that our schools lead all of Virginia's school districts with 68% of expenditures directed to classroom instruction. Our school system continues to be among the highest performing in the state while maintaining among the lowest per-pupil costs (fourth-lowest per-pupil cost among the 15 school divisions with enrollment greater than 15,000 students).

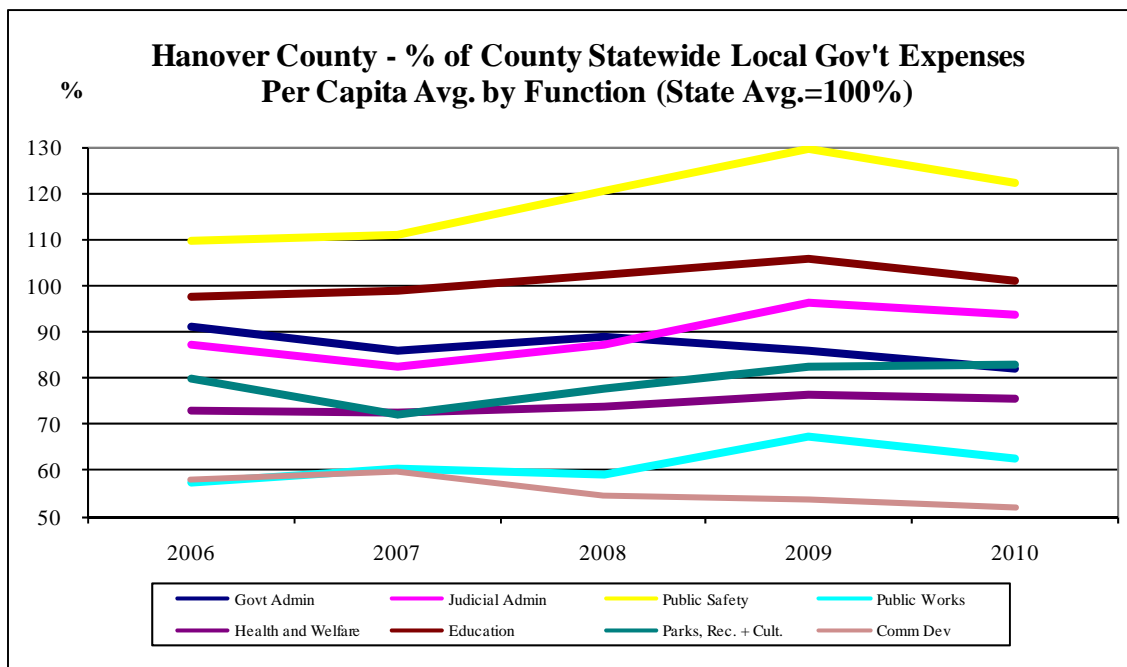
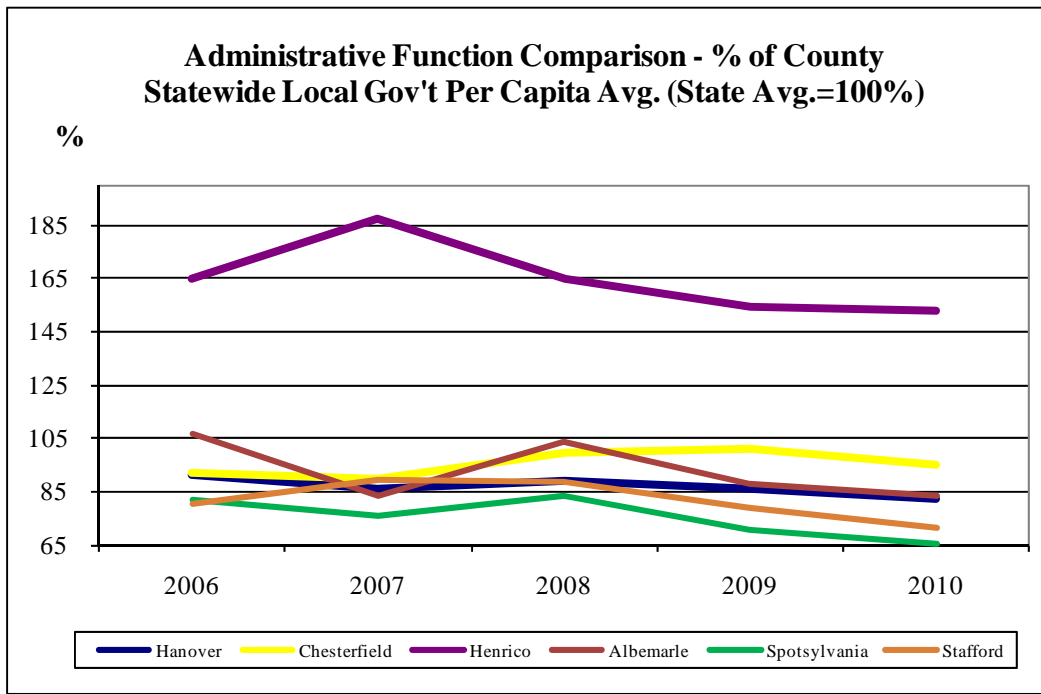
	Hanover	Henrico	Chesterfield	Stafford	Spotsylvania	Albemarle
Enrollment as % of population	18%	16%	18%	21%	19%	13%
Cost per pupil	9,252	9,138	9,369	9,399	9,624	12,572

- Administration is 82% of the statewide average for counties at a per capita cost of \$86. This is the third lowest among the six comparative jurisdictions, demonstrating Hanover's emphasis on streamlined administrative processes. In addition Hanover's administration costs as a percent of the statewide average remain lower than the neighboring rural counties of Caroline, New Kent, King William, and Goochland.

The following trend charts illustrate the County's position over time relative to the other jurisdictions tracked for our two priority service levels (education and public safety) as well as administration. In addition, a trend chart of all of the County's functions is presented. The charts illustrate the budgetary emphasis placed upon education and public safety, the effect of fiscal year 2010's cost savings initiatives, as well as the cost efficiency of the administrative function.



Hanover: People, Tradition and Spirit



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

Each year the State Commission on Local Government provides the *Report on the Comparative Revenue Capacity, Revenue Effort and Fiscal Stress of Virginia's Counties and Cities*. The Department of Finance and Management Services reviews the report as one independent benchmark amongst many in ascertaining the relative strength of the County's fiscal and economic indicators. Since statistics have been maintained beginning in 1992, this report has traditionally shown Hanover County as being a county with very low fiscal stress and favorably positioned among AAA localities in the State, actually ranking higher than many of them in all of the indicators. While the report was issued recently in March 2011, the statistics used to compile such data are approximately two years old. There are four indicators ranked as part of this report and they are as follows (for each indicator a Statistic Background and County Ranking analysis is outlined):

Fiscal Stress

- **Statistic Background:** composite index measurement of the three equivalent indicators noted below (revenue capacity per capita, revenue effort and median adjusted gross income). The lower the fiscal stress index, the higher the local government is ranked. Therefore, a decreasing stress index (higher ranking) between years is considered favorable.
- **County Ranking:** for Hanover County, our fiscal stress index is 153.0, which is 0.6% higher than the prior year (negative trend). However, comparatively speaking, the County ranks 18th, which is up (more favorable) in comparison to the previous year's ranking of 19th. The highest ranking was 7th in 1998 and this year marks our second lowest ranking. The AAA localities ranked ahead of the County include: Fairfax (4), Arlington (5), Loudoun (6), Alexandria (10), and Albemarle (14). The top three non-AAA rated local governments ahead of Hanover include: Goochland (1), Bath (2), and Falls Church City (3). Other AAA localities ranked below the County include: Prince William (31), Chesterfield (36), Henrico (48), Virginia Beach (51), and Charlottesville (101).

Median Household Income

- **Statistic Background:** Past reports contained the median adjusted gross income for all State tax returns. This statistic is no longer available. The report from the State Commission on Local Government now reports the median household income based on data from the U.S. Census Bureau.
- **County Ranking:** for Hanover County, our median household income for 2008 is \$77,935. The County has the 13th highest median household income of the 134 localities in Virginia. The AAA localities ranked ahead of the County include: Loudoun (1), Fairfax (2), Arlington (4), Prince William (6), and Alexandria (8). The top three non-AAA rated local governments ahead of Hanover include: Falls Church (3), Fairfax City (5) and Stafford (7). Other AAA localities ranked below Hanover include: Chesterfield (19), Albemarle (23), Virginia Beach (25), Henrico (31), and Charlottesville (78).

Revenue Capacity per Capita

- **Statistic Background:** a representative tax system methodology that focuses on four specific revenues (real property tax, public service corporation tax, motor vehicle license tax and local sales tax) and other local source revenues based upon a base indicator of total adjusted gross income. Each of these base revenues are then multiplied by the statewide average for each category, then divided by the population to generate the Revenue Capacity per Capita statistic. Generally, the higher the statistic, the more indicative that there is a higher base from which revenues are calculated, therefore local governments with strong bases per capita (i.e., high tax base) will have a higher revenue capacity per capita.

- County Ranking: for Hanover County, our revenue capacity per capita is \$2,293, which is 2.1% higher than the prior year. The County ranks 26th, which is down (negative trend) from the previous year ranking of 25th. The highest ranking was 16th in 2000 and this year marks our second lowest ranking. The AAA localities ranked ahead of the County include: Arlington (5), Alexandria (6), Fairfax (13), Loudoun (14), and Albemarle (15). The top three non-AAA rated local governments ahead of Hanover include: Bath (1), Falls Church (2) and Goochland (3). The AAA localities ranked below us include, Charlottesville (28), Henrico (36), Prince William (37), Virginia Beach (40), and Chesterfield (49).

Revenue Effort

- Statistic Background: the focus is on the degree to which the local government actually utilizes its revenue generating potential through actual revenues generated in the four categories specifically mentioned above in addition to other locally generated revenues. This total local revenue figure is then divided by the total revenue capacity to generate the Revenue Effort statistic. Generally, the lower the ratio below 1.0 the greater capacity a local government has to generate additional local revenues through statewide average taxes and fees, therefore local governments with strong bases and low tax rates will be ranked more favorably.
- County Ranking: for Hanover County, our revenue effort is .81, which is 1.5% lower than the prior year. The County ranks 69th, which is less favorable in comparison to the previous year's ranking of 60th. The County's highest ranking was 35th in 2003 and this year marks our lowest ranking. Only one AAA locality is ranked ahead of Hanover County: Albemarle (58). While there are 68 localities ranked ahead of Hanover (too numerous to list in this memo), all of these localities represent small rural localities that have very low tax rates and a correlation of lower levels of service provided (top three are Middlesex, Northumberland, and Lancaster). The AAA localities ranked below us are: Chesterfield (81), Henrico (85), Alexandria (90), Virginia Beach (91), Fairfax (92), Loudoun (97), Prince William (98), Arlington (101), and Charlottesville (118).

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

cc: Cecil R. "Rhu" Harris, Jr., County Administrator
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