

Appendix to County Administrator's Letter

While the preceding County Administrator's Letter is meant to highlight the budget, the following supplemental information details the changes in the budget that are not otherwise addressed in the preceding letter. The purpose is to provide a summarized version of the manner in which the County's budget funds are allocated, the sources of such funding, long-term financial planning and other items illustrating how the County attempts to provide the services needed and desired by the citizens in an efficient and effective manner. The following areas are presented:

- Employee Compensation and Benefits
- General Fund – Revenues by Category
- Expenditures by Function
 - Public Safety
 - Public Schools
 - Parks, Recreation and Cultural
 - Human Services
 - Community Development
 - Public Works
 - General Government
 - Judicial Administration
 - Nondepartmental
- County and School – Five-Year Capital Improvements Program
- Public Utilities – Operating Budget and Five-Year Capital Improvements Program
- Financial Condition Overview
- Economic Development Update

EMPLOYEE COMPENSATION AND BENEFITS

The Board of Supervisors has long recognized that competitive employee compensation is critical to the County's success. Recognizing that compensation is only one aspect of a quality work environment, the County focuses on employee development in addition to the maintenance of competitive compensation and benefits.

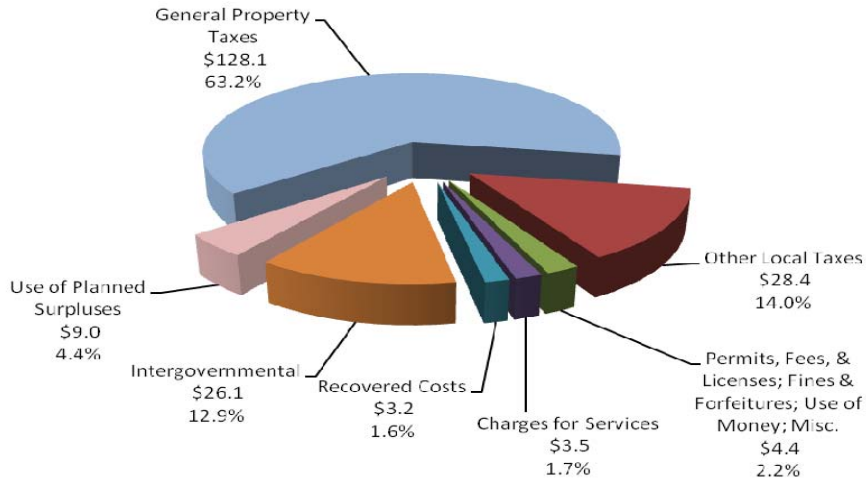
- The FY12 budget includes a 2.25% compensation adjustment. The last compensation increase was in July of 2008, and, in response to the economy, the County has held back on increasing compensation since then. The County further reduced its personnel related expenses during the same time period by the elimination of 36 positions and putting many others on indefinite hold. The FY12 budget compensates employees at a rate similar to one provided by our peers in the region within the last year.
- Also included in the FY12 budget is an additional 1.75% pay adjustment for those employees whose hours were adjusted from a 37.5 hour work week to a 40 hour work week with no additional compensation as part of the FY11 budget process.
- Career ladders have been developed for many positions in the County to recognize the advancing achievements of the workforce during their careers with the County. This budget anticipates the continuation of this employee program.
- Funding is provided to try to limit any increase, if required, in employee health premiums with a 13% increase in the per employee cost paid by the employer.

Self-Insurance Fund (\$2.5 million and 8.7% increase): The Self-Insurance Fund provides for health insurance payments through employer contributions and employee deductions and other post employment benefit (GASB45) payments. This program serves all County entities, including the Pamunkey Regional Jail and Pamunkey Regional Library. This budget also includes an opt-out credit in the amount of \$400 annually for employees that do not elect health insurance through the County, and \$100,000 for the employee health and wellness program, of which \$50,000 is funded with revenues from our insurance carrier. Due to the over-funding of the Other Post-Employment Benefits (OPEB) liability in previous years, this budget includes a suspension of the OPEB credit for the current year's budget.

Appendix to County Administrator's Letter

The General Fund serves as the primary operating fund from which nearly all County services receive all or most of their local funding. In addition to specific funding adjustments noted in other sections, the budget is prepared to accommodate service level changes with many areas of the County's operation being mandated by Federal or State law for which budgetary control is always a challenge.

General Fund Revenue Sources



GENERAL FUND – REVENUES BY CATEGORY

Available ongoing revenues in the General Fund have resulted in an overall decrease of 0.3% or \$584,000 through a combination of mixed revenue indicators. After factoring in one-time funding sources, the General Fund budget is increasing 2.1% or \$4.1 million.

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 (\$96.8 million, a \$2.2 million and 2.2% decrease): The total value of taxable real estate in the County decreased to \$12.8 billion in January 2011. The 2011 tax base is projected to decrease 1.0% in January 2012 (2.5% decrease from reassessments and 1.5% increase from new construction). This growth assumption is based upon the sales to assessment ratio for 2010 sales. The margin between sales prices and assessments has narrowed and results in a lowering of future reassessment estimates. The total revenue includes \$170,000 of incremental revenues generated by the Lewistown CDA, which will be transferred to the Lewistown CDA fund upon receipt.

Public Service Corporation Taxes (\$4.1 million, a \$104,000 and 2.5% 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. The decrease is mainly the result of a decreased assessment for generating equipment in 2010. The Five-Year General Fund Financial Plan assumes a decrease of 4% in years two through five to recognize the expectation that new investments will likely not keep pace with depreciation.

Personal Property Taxes (\$21.9 million, a \$419,000 and 1.9% decrease): The decrease in personal property tax revenue is based upon our preliminary assessment of existing vehicle sales and continued conservative assumptions for new vehicle purchases. The State's fixed allotment of \$15.0 million for car tax relief is recognized as non-categorical State revenue. The actual percent relief to be applied to the taxpayer's bill is quantified in September of each year with completion of vehicle assessments. The 66% State relief for 2009 decreased to 64% for 2010.

Appendix to County Administrator's Letter

Sales Taxes (\$17.0 million, a \$1.9 million and 12.8% increase): The current year trend for sales tax is up from FY10, and is projected to increase 12.8% from FY11 budget (6.0% above the FY11 forecast). Sales Tax is expected to increase annually by 5.0% to 6.0% throughout the County's Five-Year Financial Plan. The total sales tax includes \$246,000 incremental sales tax revenue generated by the Lewistown CDA.

State and Federal Revenues (\$26.1 million, a \$337,000 and 1.3% increase): The State budget assumptions include the Governor's amendments to the 2010-2012 biennium budget. Some funding has been restored for State support of local offices but reductions are still significant in this category of intergovernmental revenue. Overall, Federal aid is expected to increase only slightly with no significant increases in any particular category. Non-Categorical State Aid is projected to remain flat.

Charges for Services (\$3.5 million, a \$74,700 and 2.1% decrease): These revenue accounts include Parks and Recreation fees and EMS cost recovery fees. Contractual changes in late FY10 have resulted in improved returns for EMS cost recovery fees. While the FY12 budget anticipates this higher ratio, the financial impact is tempered by a lower patient transport ratio due to the success of the Department of Fire/EMS' nationally recognized Quick Response Vehicle (QRV) program.

Revenue from Use of Money (\$0.7 million, a \$800,000 and 53.0% decrease): The FY12 budget fully recognizes the reduction in interest income the County is realizing in FY11. The entire decrease in this category is attributable to the loss of interest income due to low interest rates.

EXPENDITURES BY FUNCTION

The following section of the budget synopsis illustrates all the functions of the County. Under each functional area are the departmental budgets with the dollar and percentage change in the operating budget noted. A brief illustration of a department's budget and operating highlights is presented and more details can be found on the departmental pages later in the document. Generally, all functional areas of the County are impacted by the current and projected economic climate. County-wide, departments are dealing with staff reductions, and a significantly decreased Service Level Plan that mainly addresses equipment replacements without additions.

In the detail that follows, it is noted – particularly in the larger departments – that some of the operational decrease is attributable to the integration of the Fleet Services Department into the General Fund. Fleet Services has previously been accounted for as an Internal Service Fund, however, in the FY12 budget, the County identified cost savings and efficiencies that could be realized should the Fleet Services Department operate as an entity of the General Fund instead of an Internal Service Fund. As a part of this change, departments within the General Fund will no longer budget or be billed for the labor component of their fleet needs. Another associated change is that departments that had been part of the County's lease program and were billed a certain amount annually for payment into the Internal Service Fund for the replacement of their department's fleet, will not be responsible for that cost in their budget. Instead, vehicle replacement funds will be budgeted as a pool of funds annually within the General Fund. This all results in some departments showing decreases in their budgets that are attributable to costs they are no longer responsible for and are therefore not a true decrease in available funds to the department.

PUBLIC SAFETY

Fire/EMS (\$351,800 and 2.5% increase, 0.8% increase in local funding): The FY12 budget still holds three firefighter positions unfunded with local dollars but Fire/EMS was able to leverage Federal grant funding to fill the positions. Operationally the budget has remained relatively flat, and the increase stated is based on the compensation adjustment and the coverage of the increasing health care cost. Included in the Service Level Plan for FY12 are two vehicles for the administrative fleet. An additional increase in the personnel line items is the initial projected funding for the premiums associated with the Line of Duty Act coverage. The benefit was previously funded by the Commonwealth but has been shifted to a local responsibility with no change in

Appendix to County Administrator's Letter

the benefit; totaling \$36,000 to cover our volunteer fire and EMS providers and an additional \$35,000 for career staff coverage. The Fire/EMS portion of the capital budget includes \$550,000 for the fire engine and heavy rescue apparatus replacement plan as well as \$366,000 for the ambulance replacement plan. Fire/EMS has seen a 9.5% increase in other revenue sources that can mainly be attributed to the EMS Fee Recovery rate increase adopted in the FY11 budget process, as well as 8.1% in intergovernmental revenues which is the aforementioned Federal SAFER grant.

Sheriff's Office (\$345,000 and 1.8% increase): The FY11 budget removed the funding for seven vacant Sheriff's Deputy positions; these positions will remain unfunded in FY12. The Sheriff's Office has a flat operational budget for FY12 and the increase stated is due to the compensation adjustment and the healthcare rate increases. This budget does include 27 replacement vehicles at a cost of \$660,000 as these vehicles have generally met their 110,000-mile useful life. There are also funds allocated to replace 20 Mobile Data Terminals, at a cost of \$160,000, most of which are reaching the end of their extended warranty period and useful life. An FY12 addition to the personnel line items is the initial premium estimate of the cost of the Line of Duty Act coverage previously funded by the Commonwealth which was shifted to local responsibility. This funding level covers our sworn hazardous duty career and volunteer staff totaling \$51,000.

The Sheriff's Office also includes the Court Services division (addressed under the Judicial Administration function). Total funding provided to the Sheriff's Office, including Court Services, is \$20.7 million, a \$330,000 and 1.8% increase.

Emergency Communications (\$4,000 and 0.1% decrease; 6.4% increase in local funding): An integral component in ensuring public safety responsiveness is an effective and properly staffed Emergency Communications Department. As part of the implementation of a new radio system in FY11, the Radio Shop was integrated into Emergency Communications from Fleet Services and accounted for in the General Fund. As we smoothed the transition process into Communications, accounting changes were implemented to better reflect how repair costs are split between departments causing the fluctuation in local funding. The operational budget is down based on savings on a major service contract associated with the 911 center, as well as removing costs that were previously transferred to the Fleet fund. The overall increase in the budget is created by the proposed compensation and benefits coverage for the employees. Emergency Communications has two vacant Communications Officer positions that are unfunded but still authorized in the FY12 budget. The Service Level Plan has provided \$9,900 in capital repairs to replace roofs and HVAC systems at the County tower sites.

Animal Control (\$50,000 and 4.9% decrease): The FY12 budget for Animal Control is relatively flat after accounting for the Fleet related accounting change. The capital line items show a 100% decrease but an additional supplement of one-time funding in FY11 will keep the department on schedule for replacement vehicles and other small facility improvements.

Juvenile Court Services Unit (45,000 and 6.6% increase, 7.3% increase in local funding): The budget is primarily comprised of the cost of housing 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 overall increase can be attributed to an increased per diem bed days rate at Merrimac Juvenile Detention Center going from \$141 to \$166 per juvenile per day. The number of secure detention bed days is not projected to increase substantially, but the increased cost of housing offenders is a \$100,000 increase. The decrease in personnel is due to a locally funded vacant position being eliminated after the district gained an additional State funded position.

Pamunkey Regional Jail (\$9,300 and 0.2% decrease): This budget reflects the per diem costs decreasing to \$50.74 per day (\$2.03 or 3.8% decrease) to house inmates as part of the County's participation in the Pamunkey Regional Jail Authority (PRJA). While the per diem cost has decreased, the County's population of

Appendix to County Administrator's Letter

inmates has increased 3.2%. The costs for housing inmates have benefited from the economies of scale of the larger jail operations as well as the benefits of using available capacity for bed rentals to other governments.

Community Corrections (\$8,900 and 2.0% increase, 1.7% increase in local funding): This function is required to provide community corrections and pre-trial services to those deemed necessary by the judges. Community Corrections receives a grant from the Department of Criminal Justice Services and during FY10 funding was increased to provide an additional Pre-Trial Investigator position and operational costs associated with the employee. The majority of the increases reflected can be attributed to the compensation adjustment as well as covering the increased cost of healthcare.

Building Inspections (\$5,600 and 0.4% decrease): The fees charged by this function traditionally provide the funding for building inspection services. The FY12 budget remained flat in terms of service level ability, but the decrease in operations can be attributed to the Fleet Services accounting change. The slight increase in personnel is due to the compensation adjustment and health insurance increase. A vacant Customer Service Agent position is eliminated in FY12.

PUBLIC SCHOOLS

The County and School staffs continue to enjoy a solid working relationship to ensure that funding is provided and managed to meet the challenges and opportunities that accompany a successful school community. The School Board operates the 14th largest division in the Commonwealth, consisting of 25 schools throughout the County with a projected FY12 enrollment of 18,065 students (19,110 including non-K-12 students). The School Board is committed to preserving the core values of the Division during this time of economic recession and enrollment change.

School Operating Budget (\$2.8 million and 1.6% increase, 0.4% local decrease): The increase in this budget is the result of a compensation adjustment for employees, increased employer contributions to health insurance, and an increase in Virginia Retirement System costs. This budget includes the reduction of approximately 17 positions from the FY11 actual FTE count through attrition. These reductions coincide with declining enrollment in recent years independent of the current economic challenges. Additionally, reduced fuel and energy costs have been achieved as a result of the Schools energy management program.

Textbook Fund Budget (\$171,000 and 66.8% increase): This budget contains funding for one full-time position and temporary part-time positions during the summer, as well as consumable textbook purchases for elementary students. The budget reflects a substantial increase over previous years to allow the program to rebuild from the previous reductions. There is no local funding for this program in FY12.

Food Services Budget (\$137,000 and 1.9% increase): The Food Services budget is based upon continued participation of elementary and middle schools in both the National School Breakfast and Lunch Programs. There will be no price increase for student and adult breakfasts and lunches. There is no local funding for this program.

School Capital Budget: The \$14.5 million capital budget is funded with \$2.6 million of cash (including proffers) and \$11.9 million of debt. Funded projects include:

Beaverdam Renovation	\$3,200,000
Technology Infrastructure	\$182,000
Student Information System	\$750,000
Facilities Renovation	\$3,700,000
Washington Henry Renovation	\$4,000,000
Mechanical/Roofing Improvements	\$1,000,000
Computer Replacement	\$849,000
School Buses	\$819,000



Appendix to County Administrator's Letter

PARKS, RECREATION AND CULTURAL

Parks and Recreation (\$160,000 and 4.7% decrease, 2.5% decrease in local funding): The decrease in this budget can mainly be attributed to the Youth Summer Program, where revenue and expenditure forecasts were adjusted to reflect the new design of the program. The cost of the vehicle lease program is no longer housed in the department's budget, which is the only other major operational adjustment. In the personnel category a Groundskeeper position is unfunded for FY12, in addition to the two positions unfunded in the FY11 budget. The Service Level Plan provided \$23,000 to do carpeting improvements at the Taylor Complex as well as three concession stand renovations.

Pamunkey Regional Library (\$50,000 and 1.8% decrease): The County has benefited greatly as part of this regional library system that serves four counties. Over 1,174,335 items were circulated in the library, a 14.7% increase over the prior year.

HUMAN SERVICES

Community Resources (\$9,300 and 2.3% increase, 3.2% increase in local funding): This department continues to serve as the foundation in facilitating and maximizing volunteer and community resources and anticipates several enhancements that will further strengthen the County's volunteer program. In addition, Community Resources provides the administrative oversight to the Comprehensive Services Act Fund.

- **Comprehensive Services Act (CSA) (\$5,200 and 0.1% increase, 5.0% decrease 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 FY12 operating budget will remain flat from FY11 with only a slight overall increase due primarily to a compensation adjustment and increased health insurance costs. While the local share of Medicaid costs is anticipated to increase approximately 3% in FY12, the overall budget for mandated expenditures will remain unchanged. The increase in State revenue reflects a decision by the County beginning in FY12 to no longer charge a prorated share of the State reversion account to the CSA State revenue.

Social Services (\$491,500 and 8.7% increase, 15.9% increase in local funding): Social Services is the primary local agency meeting the social service needs of individuals that arise from a variety of circumstances. Changes in the FY12 budget are correlated to serving individuals in mandated programs. 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). The increase in local funding is due to the recognition of reduced State and Federal support.

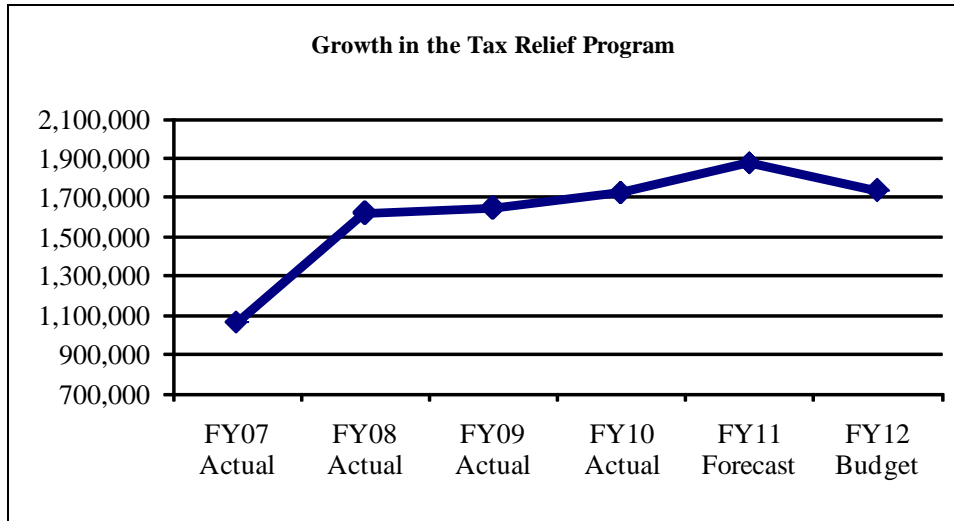
Health Department (\$13,300 and 2.8% decrease): This budget represents the County's tradition of funding a 45% share of this State agency budget. The Health Department represents a stand-alone State function for which the County's share changes in proportion to State funding of this service. The local budget reduction anticipates reduced State funding; thereby reducing the local match amount.

Community Services Board (CSB) (\$646,000 and 5.8% decrease, 0.5% decrease in local funding): The total CSB budget is \$10.5 million and reflects an overall decrease of 5.8%. The decrease is primarily due to the privatization of the previously publicly run Group Homes. The decrease in local funding is also due in part to the removal of local funding for a lease of office space to support the debt service on the purchase of a building; creating overall savings, but these savings are not truly reflected as the compensation adjustment caused for a relatively flat transfer from the general fund.

Tax Relief for the Elderly and Disabled (\$139,500 and 7.4% decrease): 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 \$1.7 million for 1,744 households. Together with the County's land use program that provides approximately \$5.7 million in tax relief, the County's total tax relief is over \$7.4 million. Enhancements to the relief program

Appendix to County Administrator's Letter

were adopted by the Board of Supervisors in 2007 to increase the eligibility criteria for gross income limit to \$50,000, including the acreage exclusion to ten acres, maximum allowable net worth to \$200,000, and removing the maximum discount that could be received by participants. The primary reason for the budget decrease is that it appears that this program has reached a majority of the potential qualified population and the taxable value of real property has decreased, thereby lowering the value of the eligible property.



COMMUNITY DEVELOPMENT

Economic Development (\$51,700 and 5.0% decrease): Economic development is fostered through strategic planning and creating and maintaining a positive business climate. The decrease in this budget is attributed to the reduced funding level of the vacant Market Analyst position that will not be filled, although some funding is provided for professional services to complete some of the tasks previously performed by this position. Other operational increases are due to budgeting the new building related costs for its first full year. Economic Development also provides administrative oversight over the following fund:

- **Economic Development Authority (EDA) Fund (\$7,800 and 3.0% 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 decrease can be attributed to bond holders paying down principal on the bonds.

Planning Department (\$10,300 and 0.5% increase): The overall increase in the budget is due to the compensation adjustments. The operational budget decreased primarily due to the elimination of the lease payment to Fleet Services for future vehicles. The operational budget includes funding to restore the Citizen's Planning Academy for FY12.

The budgets of the following community development divisions are generally small in scope and require little administrative oversight of the budget for the two divisions:

- **Extension Service (\$3,900 and 4.4% decrease):** 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, 4-H and various other industry related programs. The decrease in local funding of this budget can be attributed to Hanover County's portion of a position not authorized to be filled by Virginia Tech that was removed from the budget.
- **Soil and Water Conservation District (\$2,955 and 3.0% decrease):** This is the County's share for participating in this district, which serves residents in conservation planning and education. The reduction in the local contribution will translate into reduced educational outreach.

Appendix to County Administrator's Letter

Community Support (\$37,000 and 3.2% decrease): The contributions to various local and regional entities are classified under community development to reflect their community support intentions. The decrease is primarily due to lower levels of contribution based on the economic climate.

PUBLIC WORKS

Public Works (\$61,600 and 3.5% increase, 6.8% increase in local funding): The Public Works function continues to be mandated to meet various Federal and State regulations, often with no financial assistance provided. Beginning in FY12, the Public Works and Cannery budgets are combined in order to streamline processes. The Cannery function provides a great resource for residents to can their fruits and vegetables and the cannery schedule remains unchanged from FY11. Beginning with the 2011 season, users will be charged for the actual cost of cans. The cost of jars will remain unchanged from the 2010 season.

The transportation section of Public Works continues to be challenged to define local responsibilities in the wake of insufficient funding from the State for their road infrastructure programs. These responsibilities include developing plans to manage State resources, road proffers, and developer contributions in meeting traffic impacts from existing and planned development.

For FY12, funding in the amount of \$15,000 has been included for automated stormwater facility monitoring and \$4,000 for the MS4 (Municipal Storm Sewer System) permit fee. The application fee is required when updating the MS4 permit with the Department of Conservation and Recreation. This Phase II permit is required of all localities with a population over 100,000 and is intended to address stormwater pollution.

In the capital budget, the funding of roadway improvements continues in the amount of \$2,100,000 (\$300,000 from the General Fund) and \$100,000 for regional stormwater implementation. Public Works also provides administrative oversight over the following divisions:

- **Public Works Operations (\$36,300 and 1.0% increase):** A major function of Public Works Operations is the operation of the County's solid waste disposal and hauling system that includes a centralized transfer station available for commercial haulers and six convenience centers available free of charge to residents. There were 37,736 tons collected in the County in FY10 with the majority 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 18,800 tons annually.

Included in the funding for this division is \$74,000 for operational equipment (e.g., roll-off containers and compactor systems). Convenience centers will re-open on Wednesdays beginning July 1, 2011 but will continue to be closed on holidays. Public Works Operations also manages many of the County's easement clearing programs, street signs, and anti-litter initiatives.

- **Recycling Service District (\$285 and 0.4% decrease):** Recycling Service Districts were established by the Board of Supervisors in 2008 in response to petitions from two subdivisions. There are now a total of 13 participating subdivisions. The slight decrease represents a reduction in the number of recycling bins that will be purchased for resale. The rate will remain at \$22.80 per year for FY12.
- **Airport (\$9,000 and 1.3% increase, 1.5% increase in local funding):** The County has a fixed-base operator (FBO) in a lease agreement managing the Hanover Airport. The local funding supports one County employee as well as maintenance and improvements to the airfield and terminal facilities. The Airport Fund includes both operating and capital accounts. The FY12 operating budget will remain flat, while the slight increase in the capital improvements program is relative to airport improvements.

General Services (\$1,930,000 and 97.2% increase): In FY12, the General Services, Fleet Services, and Facilities Management budgets will be combined under the title of General Services in the Public Works functional area in order to streamline processes. As a result, Fleet Services will no longer be an Internal Service Fund and will become part of the General Fund. When considered together, the General Services

Appendix to County Administrator's Letter

Department, including Fleet Services, saw a decrease in funding of 5.4%. General Services provides a variety of services, including risk management, ensuring workplace safety guidelines and related training; copier machine oversight; motor pool fleet management; and mail courier for all internal and outgoing mail. 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. Fleet Services provides a fleet management program of repair and maintenance for County and School vehicles. The FY12 plan reduces funding for professional services, uniforms and apparel and educational training. The budget includes capital funding for fleet replacement and a fuel management program. The FY12 budget eliminates a vacant unfunded Parts/Fuel Coordinator position.

GENERAL GOVERNMENT

The County continues to pride 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 82.0% of the statewide per capita average and the lowest percentage in the region. The following summarizes the operating budgets for these administrative departments:

Board of Supervisors (\$32,400 and 6.5% increase): The overall increase is comprised of an operational decrease and a personnel increase. The decrease in operating is primarily due to reductions in educational training and advertising as well as various other expenditures in light of the current economy. The audit contract remains intact while the citizen survey is performed periodically. The personnel increase is due mainly to increased health insurance costs and a compensation adjustment for the one full-time employee serving as Executive Assistant and Clerk to the Board. The FY12 budget also continues funding of \$20,000 for the additional updating of audio visual equipment in the Boardroom.

County Administrator's Office (\$19,100 and 1.6% increase): Beginning in FY12, the Public Information Officer function will be merged into the County Administrator's Office. The County Administrator's Office provides supervision and direction to nearly all County-related operations, while also administering to the general inquiries of residents. The County's one Public Information Officer (PIO) provides a quarterly newsletter, website updates and highlights, press releases, cable TV contact and support to the many areas in which the County's departments need to communicate with the public. The budget includes the elimination of a vacant unfunded Administrative Assistant position.

Human Resources (HR) (\$20,350 and 2.4% decrease): Human Resources serves prospective employees in providing access to job-related information and application oversight (over 3,600 applications in FY10) while providing existing employees with a market-based compensation and benefits package, advancement opportunities through career ladders, and the training needed to better perform their job duties. The personnel decrease is mainly due to salary savings and the operating increase is primarily due to increases in maintenance service contracts and books and subscriptions.

County Attorney's Office (\$23,900 and 2.1% increase): This office provides legal counsel to the Board of Supervisors, School Board, and nearly all County departments and agencies. This includes ordinance development, legal representation, and related support in ensuring compliance with policies, laws and regulations. The personnel increase is due mainly to a compensation adjustment and increased health insurance costs. The decrease in the operating budget is due primarily to reductions in office supplies and educational training. The department will also continue with reduced employee hours for one position in FY12.

Commissioner of the Revenue (\$38,600 and 3.1% increase): In addition to many services provided by this office, two high volume activities include: 177,799 personal property taxpayer accounts valued in 2010 and 10,042 State income tax returns requiring processing assistance. The budget includes the elimination of a

Appendix to County Administrator's Letter

vacant unfunded Customer Service Agent position. This budget also includes funding for new vehicle registration notices. These notices will serve as a reminder to citizens and potentially reduce the costs associated with collection efforts. The overall increase is due mainly to a compensation adjustment and increased health insurance costs.

Assessor (\$9,780 and 1.1% increase): The Assessor's Office is responsible for the appraisal of all real property in the County and to assure equalization of market value of assessments. Approximately 25,000 tax parcels were reassessed for 2011 (56% of the County). The office continues to maintain sales to assessment ratios of approximately 96% while keeping coefficient of dispersion levels (this measures volatility amongst assessed values) of less than 10%, and few appeals to the Board of Equalization result in valuation changes. The decrease in operating is due mainly to the removal of the department vehicle lease payment as a result of the Fleet Services department accounting change.

Treasurer (\$23,670 and 1.7% increase): This office attains an almost 100% collection rate on taxes owed the County and oversees an investment portfolio that has consistently outperformed established investment return benchmarks. The Commonwealth of Virginia pays the County a commission to handle some basic DMV transactions, such as vehicle registration renewals or handicapped parking placards, etc. on their behalf. The overall budget increase is due mainly to a compensation adjustment and increased health insurance costs. The decrease in operating is primarily due to reductions in printing and binding, postage, and office supplies.

Finance & Management Services (\$72,400 and 4.9% decrease): Beginning in FY12, the Purchasing Department will become a division of Finance & Management Services. Finance & Management Services provides the resources needed in its Budget Division to support departments, County Administration, and the Board of Supervisors. In addition, Finance & Management Services also provides support services for payroll, accounts payable, financial reporting, debt management, and the audit. The Purchasing Division serves as administrative agent in the procurement of all goods and services above a \$5,000 unit cost as well as all procurement card oversight and disposal of surplus property. The operating decrease is primarily due to reductions in printing and postage and one-time funding for a cyclical computer network equipment replacement in FY11. The budget eliminates a vacant unfunded Office Manager position and a vacant funded Deputy Director of Purchasing position.

Internal Audit (\$10,300 and 3.7% decrease): Internal Audit executes a Board Finance Committee approved Internal Audit Plan. Although standard business practices recommend an audit cycle review every three years, current resources provide for an audit cycle every seven to ten years. This budget includes funding for a National Association of Local Government Auditors (NALGA) peer review. The decrease in personnel is mainly due to salary savings.

Registrar (\$17,400 and 5.0% increase): The Registrar's Office is under the Electoral Board and implements the election laws of the Commonwealth of Virginia. The increase in operating is primarily due to Service Level Plan funding in the amount of \$39,000 for printing and mailing of new voter cards in compliance with statutory disclosure requirements. There is reduced funding for fees and miscellaneous charges and there are further savings from relocating voting machines from leased to County owned storage facilities. This department continues to streamline processes in order to meet the current economic challenges while meeting statutory requirements.

Information Technology (IT) (\$90,600 and 2.3% increase): In FY12, the Geographic Information System (GIS) division will be merged into the Information Technology Department. IT's role in meeting the needs of departments and related entities is to provide the support and leadership to ensure a 24/7 fully functioning computer and system environment, with proper security, controls, archives, and contingency plans. GIS provides a support service to other departments, the citizens, businesses and other interested users of GIS information. The personnel increase is due mainly to a compensation adjustment and increased health

Appendix to County Administrator's Letter

insurance costs. The operating decrease is primarily due to one-time funding for GIS advertising in FY11 and the removal of the department vehicle lease payment as a result of the Fleet Services accounting change.

JUDICIAL ADMINISTRATION

Clerk of the Circuit Court (\$18,300 and 1.4% increase, 5.8% increase in local funding): The Clerk of the Circuit Court's Office performs a variety of support functions for the Circuit Court and legal recordations (e.g. property, wills). The Clerk's Office has funding from the State Technology Trust Fund that is held on behalf of Hanover County. The Clerk's Office has one vacant Deputy Clerk position that is unfunded for the FY11 and FY12 budget cycle. The overall operational budget has decreased and the Clerk has leveraged remote access fees to cover maintenance costs for the land records system in FY12, shifting the cost away from the general fund. The overall increase in the total budget is attributed to the increased cost of healthcare as well as the compensation adjustment which included a large portion of the staff being eligible to receive the additional 1.75% for the increase in hours effective in FY11.

Commonwealth's Attorney's Office (\$23,800 and 1.5% decrease, 6.5% increase in local funding): The services of the Commonwealth's Attorney are needed almost in direct proportion to law enforcement personnel deployed arresting and/or charging people with crimes, traffic violations, and referral needs for legal counsel. The local funding decrease can be attributed to removal of local funding for an Assistant Commonwealth's Attorney position that no longer has a State Compensation Board match, as well as cost savings created by the Office in the area of legal books and subscriptions.

Court Services (\$13,000 and 1.0% increase): 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 increase can be attributed to the two replacement vehicles in the FY12 Service Level Plan after none were approved in FY11 as a cost saving measure.

The following divisions of judicial administration (totaling \$207,000 in funding) represent the County's mainly operating contributions to these State-related functions:

- **Circuit Court (\$15,000 and 16.2% decrease):** Decreases can be attributed to operational reductions implemented through collaboration between the Judge and County.
- **General District Court: (\$8,000 and 7.4% decrease):** The decrease seen in the departmental budget is directly linked to the trends in court appointed attorneys fees that the County has been incurring.
- **Juvenile and Domestic Relations Court (\$11 and 0.1% increase):** The Judge and County have worked together to present a flat operational budget.
- **Magistrates (\$31 and 0.4% increase):** This department provides independent review for issuing warrants, bail bond hearings, and related incarceration procedures.

The capital budget includes additional funding for the new courts building in the amount of \$50.0 million. Due to the current economic conditions the new courts project has been delayed until FY16.

NONDEPARTMENTAL

This category traditionally appropriates funds for those functions not identified elsewhere and includes debt service for County obligations, excluding school, airport, and utility obligations, General Fund transfers to other funds, as well as reserves available for future appropriation. A transfer to the Lewistown CDA for incremental generated revenues in the amount of \$426,000 is included in this budget. Reserve for contingencies will meet the County's budget policy at \$993,400. The reserve for revenue transfers (\$500,000) enables the County to recognize insurance recoveries, grants, and other revenue adjustments during the fiscal year (offsetting reserve is also budgeted in the revenue portion of the budget). The reserve for IT contingencies in FY11 was moved to the CIP in FY12.

Debt Service (\$530,800 and 14.2% increase): The County's debt service is increasing due to the planned debt issuances for the 2005 bond referendum projects and the purchase of two buildings to eliminate rent

Appendix to County Administrator's Letter

payments for an overall cost savings. The debt issuance schedule meets anticipated cash flow needs of the capital projects.

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 FY12 capital budget for County and School projects is \$18.8 million, which is \$8.5 million more than the current fiscal year. The FY12 budget includes \$2,100,000 for road improvements, and \$916,000 for Fire/EMS fire apparatus and ambulances. The General Fund cash transfer for County and School projects is \$4.0 million, \$1.7 million and 70.2% increase over prior year, which is primarily attributable to the majority of School CIP funding being transferred into the School operating category in FY11. Restoring funding in the School CIP category results in a large percentage increase for FY12. 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.

PUBLIC UTILITIES **BUDGET AND CAPITAL IMPROVEMENTS PROGRAM**

Public Utilities operates as an enterprise fund, meaning the operations and capital expenditures are funded with revenues generated from customer user fees and one-time fees paid for capacity. The County's tax revenues are not used to support the utilities operations. Rather, the department operates as a self-supporting business, providing water and wastewater services to a customer base of 20,125 residences and businesses. The Public Utilities fund pays a recovered cost fee to the General Fund for administrative support provided to its operations and a service assessment charge for law enforcement, fire protection, and emergency medical services.

Utility Operating Budget: This \$22 million budget is a 1.1% decrease from the previous budget. This reduction is accomplished by deferring some maintenance and rehabilitation activities, reduced dependence on Henrico County for wastewater treatment, fewer price increases for non-discretionary expenses, and lower debt service. A resolution was adopted increasing water and sewer user fees to 3.0% and 2.0% respectively. The combined residential bill for water and sewer will increase on average \$15.36 for the entire year. There are no increases in miscellaneous fees. The County continues to provide a user fee relief program based upon the same qualifying criteria as the tax relief program.

Utility Capital Budget: Growth in the Suburban Service Area is below Comprehensive Plan estimates. The CIP goal is to position Public Utilities to ensure regulatory compliance and meet the needs of its current and future residential and commercial customers, including extending service to the Route 33 corridor. The \$2.8 million CIP budget includes a \$1.3 million joint capital payment to the City of Richmond, along with other water and sewer projects. There is no recommended increase in water or sewer capacity fees.

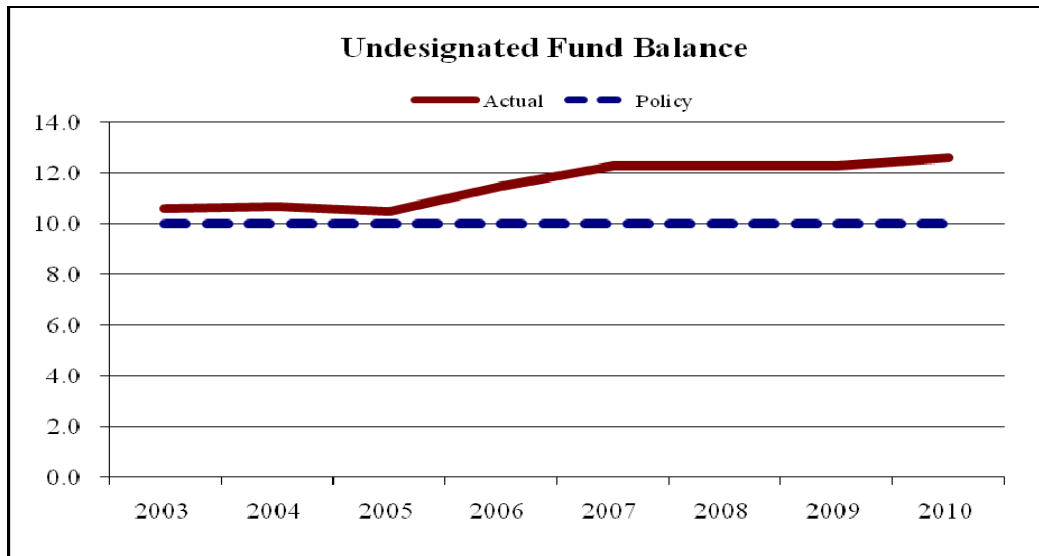
FINANCIAL CONDITION OVERVIEW

In January 2011, Hanover County's 'Triple-AAA' rating status was affirmed by all three national bond rating agencies. Moody's Financial Service, Fitch Ratings and Standard & Poor's all praised Hanover's financial management and noted that economic trends are slowly improving. "The AAA ratings reflect the County's sizeable tax base, sound and effectively-managed financial position with sound reserve levels and manageable

Appendix to County Administrator's Letter

debt burden," Moody's reported. "Moody's expects Hanover County to continue its conservative budgeting approach and effective expenditure management to maintain a sound financial position." "The County's financial management is strong, mitigating concerns raised by growth pressures," reported Fitch Ratings, which cited the County's "ample reserves, controlled expenditure growth and conservative out-year financial planning." Standard & Poor's expects "economic development to continue to strengthen the economy further, as well as the employment and tax bases, while allowing the County to maintain its rural nature." "The County's excellent fiscal policies, as well as adherence to those policies, and overall health of its financial position provide rating stability," Standard & Poor's added. These strong ratings have enabled Hanover County to receive low interest rates when issuing debt with the most recent bond sale in January 2011 receiving a total interest rate at 4.19%. Proceeds from that bond sale will complete the financing for the Bond Referendum projects approved by voters in 2005.

The County relies upon a strong fund balance policy, which reserves at least 10.0% minimum (10.6% goal) of its General Fund revenues (the industry benchmark for a fiscally well-managed local government). When balances are projected to be above such thresholds, excess balances can be either saved for future years in which economic conditions warrant using it to mitigate one-time revenue shortfalls or for expenditure mandates targeted for future capital needs to mitigate debt or other local funding needs. The undesignated fund balance as of June 2010 was \$24.5 million, which represented 12.6% of General Fund revenues. The fund balance is projected to be favorable on June 30, 2011, after meeting year-end fund balance policy thresholds and planned needs for the FY12 budget. The Five-Year Financial Plan is balanced each year, and its reliance on the 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.



Beginning in August 2008, the County began to experience revenue reductions primarily in sales tax collections, personal property taxes and development related fees. By the end of FY09 the economic slowdown produced lower than budgeted revenue of \$8.5 million (4.1%). County management, recognizing that the recession would impact multiple years, established a \$2.1 million new reserve for revenue stabilization on June 30, 2009. The intent of this new reserve is to provide a source of one time funding to provide flexibility as the County continues to weather the recession. The FY12 budget includes use of \$1.6 million of the reserve for revenue stabilization.

Our strategies to address recessionary challenges and Hanover's focus on long-term planning have positioned the County well to continue to provide high quality services to our citizens. The County Administrator's Office recognized the slowdown very early in FY09 and established a new task force to address the decreasing

Appendix to County Administrator's Letter

revenues, entitled the "Fiscal Reality Initiative". This team, made up of representatives from County Administration, Finance, Economic Development and the Commissioner of the Revenue offices, meet on a regular basis to share information on revenue trends, economic information and forecasts, to better anticipate future revenue streams and to provide the foundation for short-term and multi-year financial planning.

Even through the recent recession, the County remains strong and resilient as demonstrated by the following indicators of continued economic strength and strong financial condition:

- Virginia historically weathers recessions better than the Country and Hanover weathers in a manner similar to Virginia. The County's unemployment rate of 5.9% in March 2011 is below the State's 6.3% and compares favorably to the national rate of 9.2%;
- Because our long-term facility requirements were substantially met with the 2005 referendum projects the County is in an envious position of having reduced capital financing and cash funding needs in the Five-Year Plan which has provided for enhanced flexibility in financial planning. Recent capacity from new schools and additions combined with flat enrollment growth has enabled the schools to structure their CIP needs to allow for no new schools, but rather, several substantial renovations. In addition the replacement program for seven (7) fire and emergency medical services stations will be completed by 2011, finishing all major station projects. In addition, the targeted square footage per person has been achieved with the completion of recent library projects. The County has long-term solid waste contracts through 2023;
- One of Hanover's strengths in the current economically challenging times has been our stable real estate tax base. The total value of taxable real estate in the County has decreased by only 0.5% for calendar year 2010 as the result of a 1.6% decrease from reassessments and 1.1% increase from new construction and natural growth. This compares favorably to our neighbors who have seen more significant reductions in real estate reassessment;
- Our retail vacancy rate of 5.5% is very low;
- Hanover has added 2.2 million square feet of new business construction since 2006;
- Foreclosures have remained steady and low as compared with other jurisdictions;
- Hanover citizens continue to benefit from high sales tax per capita of \$150 in FY10;
- While the average new home sale values are down from \$347,400 in 2009 to \$272,100 in 2010, the average overall home assessment is from \$278,200 in 2009 to \$262,500 in 2010. The ability of existing homeowners to sell their homes at good values and shorter times on the market than regional benchmarks recognizes the demand and value that exists for the County's quality of life and strong business environment;
- Schools enrollment growth is expected to decrease by 0.1% in FY12, with a total enrollment of 19,110 estimated for September 2011.

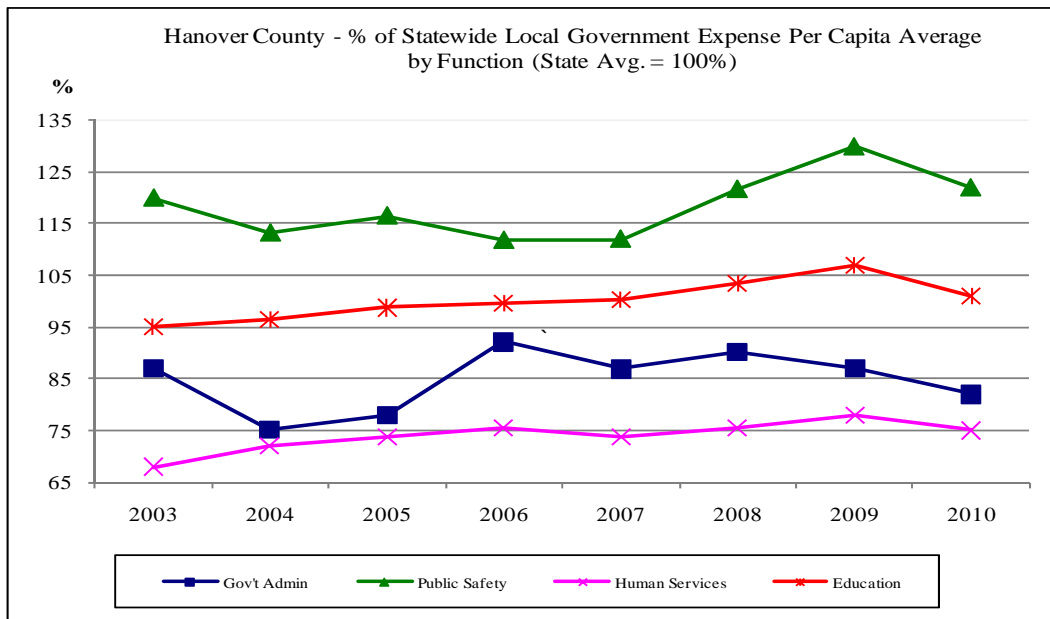
To assess internally our financial health, the County has traditionally tracked State-published indicators of fiscal stress and median adjusted gross income. The most recent State report shows that Hanover has the 16th lowest level of fiscal stress and the 15th highest median adjusted gross income (\$47,362). 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. Hanover has the lowest regional real property tax rate of \$0.81 as compared to Henrico's \$0.87, Chesterfield's \$0.97 and Richmond's \$1.20. 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 the County's two priority service level areas, public safety and education, is Hanover above the statewide per

Appendix to County Administrator's Letter

capita averages. Education is slightly above (6.2%) the state-wide average demonstrating the two Boards' commitment to quality education while maintaining efficient delivery of the educational services. Hanover's School system received notice from the State Department of Education that it had the 22nd lowest cost per pupil in the State of Virginia in 2007-09 (per pupil cost excludes debt service and capital costs).

All of our other functional areas are below the Statewide averages for counties. Demonstrating the County's emphasis on efficiently providing services, the County's general government function is at 82.2% of the statewide average. We are also below our regionally comparative governments of Henrico at 152.9%, Chesterfield at 95.1%, City of Richmond at 171.8%, Spotsylvania at 65.3%, Stafford at 71.3%, and Albemarle at 83.4%. While it is not practical to provide an in depth analysis as part of this synopsis, the three areas – Public Safety, Education and General Administration – represent the two of the Board's priorities and one other representative function of local government, respectively. The County's Community Development function, while operating at 48.0% below the statewide average, has significantly contributed in recent years to the quality of life in Hanover County, the diversification of the County's revenue base, and to the County's ability to attain triple AAA bond status.



ECONOMIC DEVELOPMENT UPDATE

The Board of Supervisors' adopted Economic Development Strategic Plan encourages and supports the growth of existing and new businesses. This plan outlines the County's four major economic development goals: expansion of the tax base, economic stability, job retention, and job creation. The plan identifies target industries, utilization of incentives, the establishment of economic development zones for infrastructure enhancement, and revisions to the County's development regulations. Six Economic Development Zones (EDZs) give priority consideration for development of infrastructure and fast track permitting to support new and expanding industrial and office projects in the County. Selection of the EDZs was based on several factors: Comprehensive Plan designation, site location, cost to serve the site with infrastructure, the amount of product currently available for sale, and the level of private sector activity occurring in the area. The County's commercial tax base continues to grow through a combination of existing business expansions and new business attraction. From FY05 through FY10 commercial and industrial development has accounted for 40.0% of the total value of building permits issued in Hanover.

Appendix to County Administrator's Letter

The Dominion Resources GreenTech Incubator (DRGI) is a partnership Hanover County has with the Virginia Biotechnology Research Park, the Town of Ashland, and Dominion Resources. The incubator includes both a domestic incubation program and an international commercialization center. DRGI serves both domestic and foreign entrepreneurs starting early stage businesses focused on clean, green, alternative energy related technologies and services. The incubator currently has seven member firms.

Doswell Laminating and Coating is a recent success for Hanover County. Management staff and investment bankers worked out the purchase of the complete asset including the real estate, facility, and machinery and tools allowing for the company to continue to operate and save over 30 jobs. Another initiative to promote and keep business in Hanover County was our front page story in the Winter Edition of the Hanover Review explaining the positive impact to local businesses as well as priority government services when residents shop local. The "Live Here, Shop Here" campaign has continually been promoted throughout the year.

Hanover County is regarded as a positive business environment by the business community itself. Over 100 companies were interviewed and 65% rated the overall business climate in Hanover as good or excellent. Over half of these businesses consider themselves to be growing, with 30% anticipating adding new jobs in the coming year. Our businesses have rated the quality of the local workforce at 87%, indicating positive business and employment trends being created for Hanover County. Another positive indicator is that businesses are continuing to make capital investments, showing that over the past 18 months 28% indicated that overall investment in their facility had increased, while 34% reported increased investment in equipment.

The County is proud to have four major business parks: Atlee Station, Northlake, Lakeridge Industrial Park, and the Air Park. Together, these sites have more than 600 acres of zoned property and more than one million square feet of office and commercial space that are now generating revenue for the County and creating high-quality employment opportunities for residents. Winding Brook continues to market aggressively to significant retail and hospitality end users. The increase in leasing activity at the Air Park has been another positive sign in our overall economic development outlook.

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 license tax (BPOL); 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, forestry, and agricultural uses in other parts of the County.