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# CITY OF HARRISONBURG, VIRGINIA

## FINANCIAL TREND MONITORING SYSTEM

AN EVALUATION OF THE CITY'S FINANCIAL CONDITION

For the Five Year Period Ended June 30, 2011

19th Edition

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## Introduction

One of City Council's eleven 1993 cost containment goals was to "review the past five years for benchmarking and evaluating key trends in financial planning for the City and management." To address that goal staff looked at a number of ways in which to develop the benchmarking and evaluation of key trends. A decision was made to use a format developed in 1980 that was revised in 1986 and again in 2003 by the International City/County Management Association (ICMA). The format calls for the development of a Financial Trend Monitoring System (FTMS) based on a number of primary factors that influence a local government's financial condition. A number of quantifiable indicators were then developed that were used to measure different aspects of the factors. The indicators were also used to monitor changes in order to identify trends. The development of this system allowed the City to do the following:

1. Develop quantifiable indicators that will:
  - a. Provide a better understanding of the City's financial condition.
  - b. Identify emerging problems before they reach serious proportions.
  - c. Identify existing problems that may not be readily apparent.
  - d. Present a straightforward picture of the City's financial strengths and weaknesses.
  - e. Introduce long range considerations into the annual budget process.
  - f. Assist in establishing future financial policies.
2. Incorporate benchmarks that are used by national credit rating agencies.
3. Combine financial and nonfinancial data in the same analysis.

The initial development of this system in 1994 was under the general direction of Lester O. Seal, Director of Finance. However, credit for much of the initial work must go to Thomas F. McKenzie, Peter A. Poirot and Neil D. Showalter, who were MBA students at James Madison University. Early into the project, Dr. Carl Weaver, who was head of the MBA program at JMU at that time, was contacted about having some of his students assist with the project. Dr. Weaver selected these three students and they did an outstanding job at no cost to the City.

The ICMA's handbook, *Evaluating Financial Condition*, served as the primary source document for the indicators and the implications associated with each indicator. The 2003 edition of ICMA's handbook uses 42 quantifiable indicators to identify trends that may be occurring within local governments and classifies "warning" trends for the indicators. The City's FTMS develops 26 of those indicators and compares what is happening in Harrisonburg with the warning trends identified by the ICMA handbook, and when possible, explains any unusual trends observed. It is important to recognize that the trends identified are simply numerical indicators. Numbers ignore political constraints, the personal preferences of City leaders, and the wishes of Harrisonburg residents. Clearly, the numbers are only part of the overall picture.

## Factor 1 Revenue Indicators

It is important to study and analyze revenues because, without revenues, a government cannot provide services. In addition to analyzing total revenues, there are a number of things to consider. The City does not want to be overly dependent on any one source of revenue whether it is from property owners, businesses, or external sources (for example the federal government). If there are too many conditions attached to its revenues, the City may not have the flexibility to adjust to changing demands. If revenue growth rates do not match expenditure growth rates and population growth rates, the City may experience large operating deficits in the future or it may have to cut back on services or raise taxes, neither of which is politically popular.

Analyzing revenues will help to identify the following problems:

- Deterioration of the revenue base
- Over dependence on external sources of funding
- Poor estimating and forecasting techniques
- An unfair tax burden on one segment of the population, i.e., property owners
- Poor collection procedures

Indicator 5, One-Time Revenues, was not developed.

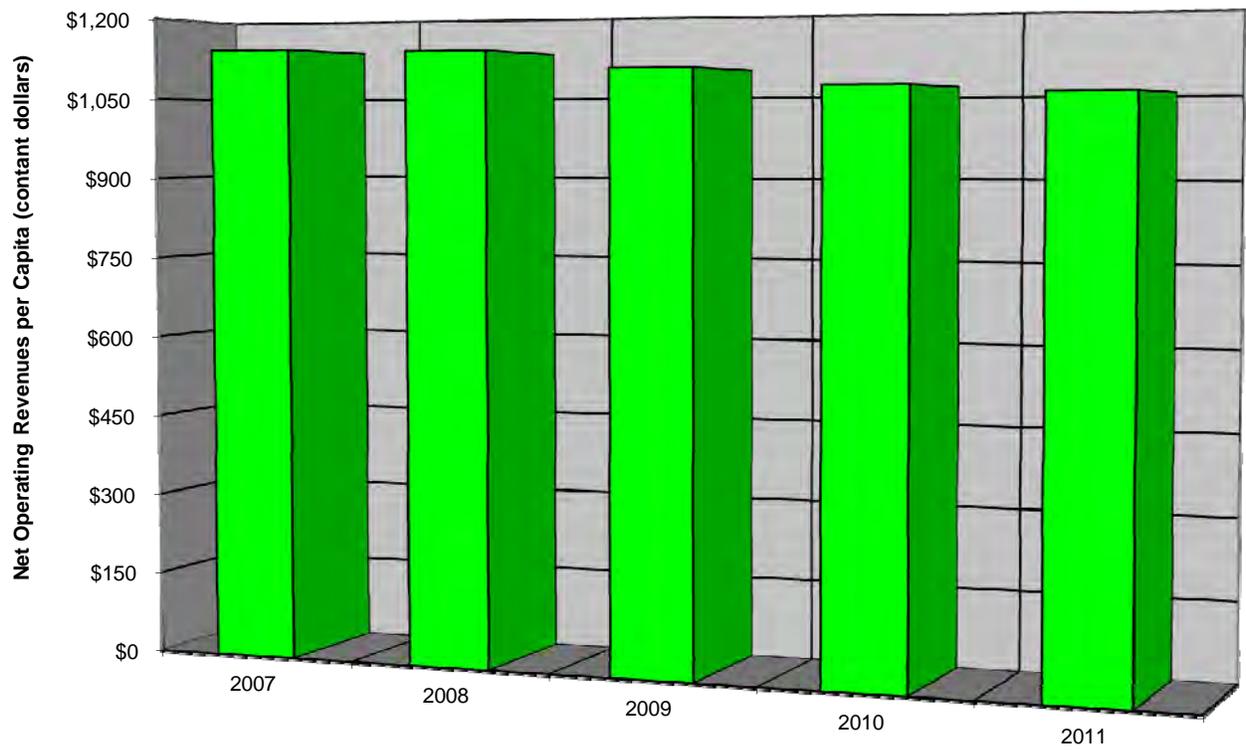
## Indicator 1 Net Operating Revenues per Capita

Net operating revenues per capita show changes in revenues relative to changes in population. Net operating revenues per capita in constant dollars have decreased overall 7.3% over the past five years. A declining trend indicates that inflation has outpaced net operating revenues growth. The nominal dollar five-year growth rate is less than one percent. Revenue growth over the past five years has mainly been driven by increased real estate tax assessments and intergovernmental revenue. However, due to weak economic conditions that began in fiscal year 2008, economically sensitive revenues such as sales taxes, business license taxes and hotel/motel taxes have either remained relatively flat or actually decreased since 2007. Also, investment revenue has had a negative impact on this indicator declining \$1.6 million since 2007 as the result of historically low interest rates.

The important issue to consider is the reason(s) for revenue growth. Are total tax revenues rising because of higher tax rates, more population growth, or inflation? This factor needs to be closely monitored. What happens when population growth no longer results in an increase in revenues? What if more public assistance households move into the City or if more are created by unemployment? Is it reasonable to assume that the increased level of revenues will continue? Do increased revenues per capita indicate an increase in the tax burden? What would be the effect on the City if businesses and citizens decided to relocate to jurisdictions that have lower tax burdens?

| Description                                  | 2007          | 2008          | 2009          | 2010          | 2011          |
|--|---------------|---------------|---------------|---------------|---------------|
| Net Operating Revenues (Nominal)             | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| CPI for the Area (1982-84=1.000)             | 1.971         | 2.050         | 2.080         | 2.101         | 2.145         |
| Net Operating Revenues (Constant)            | \$52,097,802  | \$52,895,378  | \$52,974,288  | \$52,254,089  | \$52,868,352  |
| Population                                   | 45,752        | 46,660        | 48,134        | 48,914        | 50,057        |
| Net Operating Revenues per Capita (Nominal)  | \$2,244       | \$2,324       | \$2,289       | \$2,244       | \$2,265       |
| Net Operating Revenues per Capita (Constant) | \$1,139       | \$1,134       | \$1,101       | \$1,068       | \$1,056       |

# Net Operating Revenues per Capita



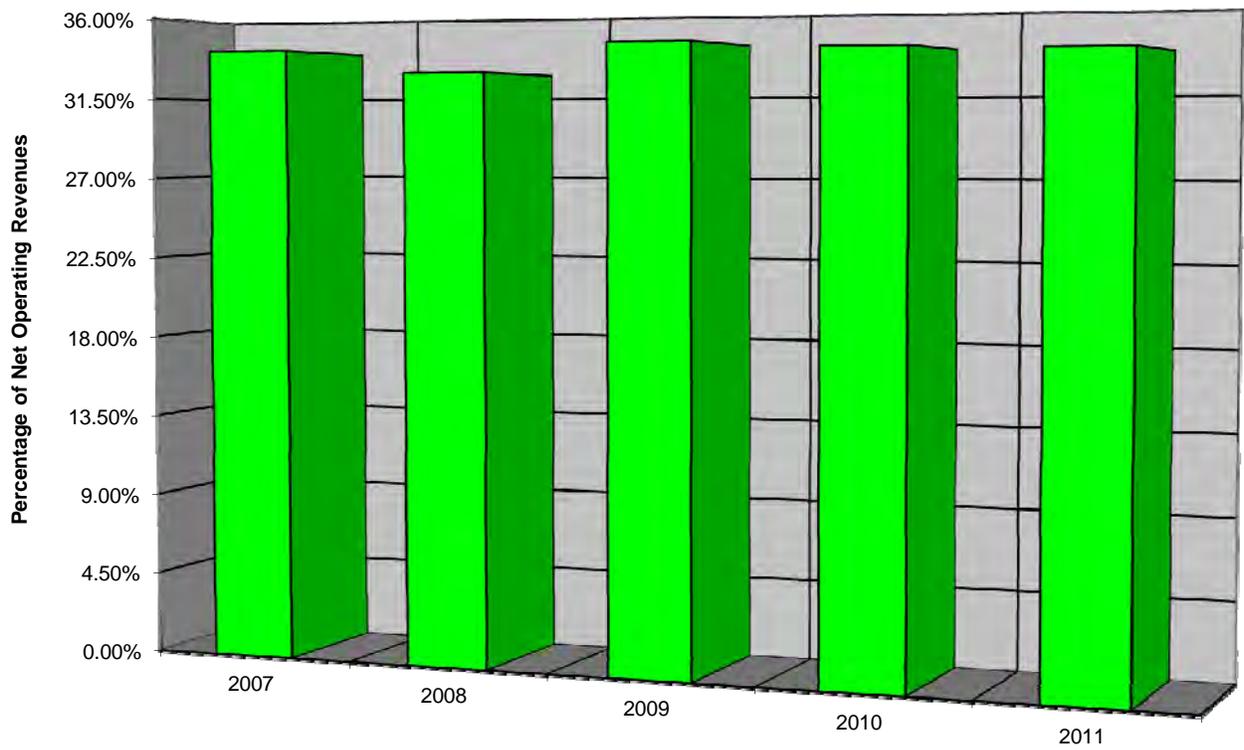
## Indicator 2 Restricted Revenues

Restricted revenues are those revenues that are earmarked for specific uses. Categorical aid for education is one example. While these revenues are restricted, the programs they support should not be looked upon as optional programs that can be easily cut. If these sources of revenue dry up, the City may have to make the tough decision of cutting a vital program or paying for the program from other revenue sources. As the percentage of restricted revenues increases, a city loses its flexibility. As the needs and desires of constituents change, the City finds itself increasingly unable to meet those changing needs because of revenue restrictions.

Restricted revenues as a percentage of total operating revenues have trended downward slightly since 2007. However, since 2007, state and federal funding for education has increased \$606,000 (2.8%) and \$1.6 million (30.5%), respectively. The increase in federal funding for education has mainly been the result of federal stimulus funds provided to make up for decreased state funding. Although actual restricted revenues have been increasing, they have increased at a slower rate than net operating revenues, contributing to the downward trend of this indicator. The Handbook suggests that a locality should analyze how essential these services are to the locality and its citizens, and develop contingency plans for funding those services deemed essential. Since the majority of these revenues are used for education, the City has very little choice other than to fund these programs.

| <b>Description</b>  | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   |
|---|---------------|---------------|---------------|---------------|---------------|
| Restricted Revenues   | \$35,003,380  | \$35,586,439  | \$37,924,512  | \$37,416,321  | \$38,463,588  |
| Net Operating Revenues  | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| Restricted Revenues as a Percentage of Net Operating Revenues | 34.09%        | 32.82%        | 34.42%        | 34.08%        | 33.92%        |

# Restricted Revenues



### Indicator 3 Intergovernmental Revenues

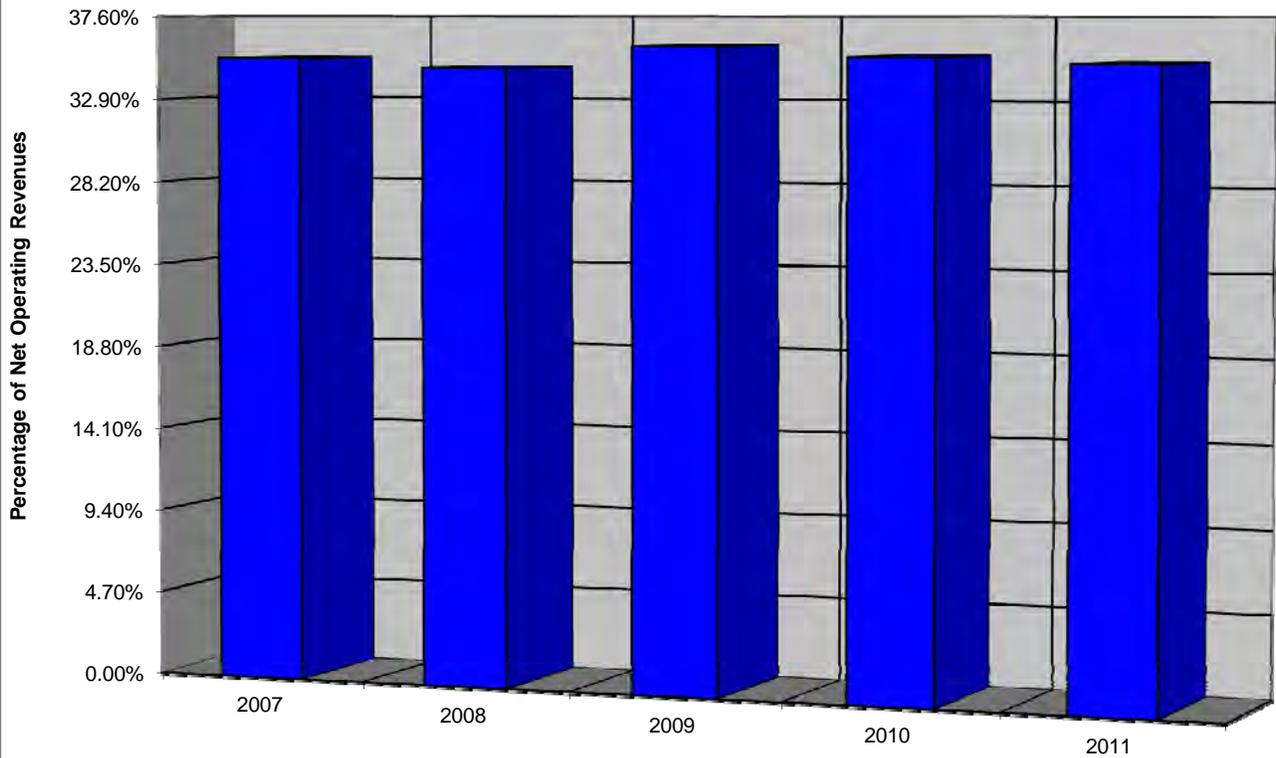
Analyzing intergovernmental revenues as a percentage of total operating revenues is important because, while intergovernmental revenues will always be a major component of total revenues, localities do not want to rely too heavily on external support for several reasons. First, those revenues can be reduced or eliminated, often without input from the locality. Second, there are often conditions attached to intergovernmental revenues.

Intergovernmental revenues as a percentage of total revenues have decreased slightly since 2007. Although this indicator has declined over the past five years, intergovernmental funding for education has increased \$2.2 million (8.2%) since 2007. The City's share of state sales tax for education increased \$593,000 (16.6%), and federal funding for education has increased \$1.6 million (30.5%). In addition, the Commonwealth's funding for the School Board's special education programs, as well as the state's communications sales and use tax revenue, have also increased since 2007. The communications sales and use tax revenue, which was enacted during 2007, replacing a number of local revenue sources, amounted to \$1.7 million in 2011. Although actual intergovernmental revenues have been increasing, they have increased at a slower rate than net operating revenues, contributing to the downward trend of this indicator.

The City should keep in mind the following issues. Are the trends we have identified likely to continue? What contingency plans exist in case these revenues are cut or are less than anticipated? If intergovernmental revenues diminish, can the programs that the funds support be terminated or will a new revenue source need to be found?

| Description  | 2007          | 2008          | 2009          | 2010          | 2011          |
|--|---------------|---------------|---------------|---------------|---------------|
| Intergovernmental Revenues   | \$36,192,852  | \$37,670,579  | \$39,648,796  | \$38,892,397  | \$39,799,250  |
| Net Operating Revenues   | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| Intergovernmental Revenues as a Percentage of Net Operating Revenues | 35.25%        | 34.74%        | 35.98%        | 35.43%        | 35.10%        |

# Intergovernmental Revenues



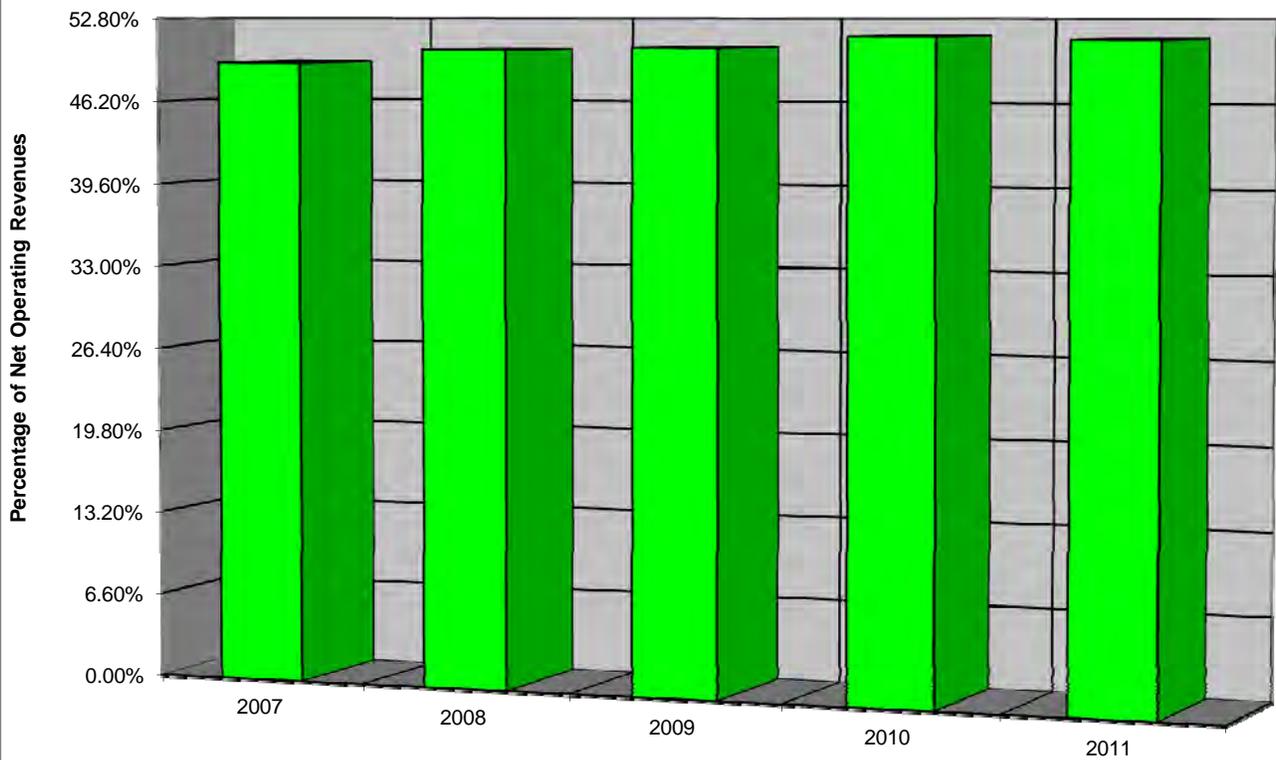
## Indicator 4 Elastic Revenues

Elastic revenues are revenues that respond directly to changes in the economy. In general, during inflationary periods it is desirable to have a high percentage of elastic tax revenues in order to keep pace with the rising prices a government must incur. Elastic tax revenues for purposes of this indicator are all property taxes, local sales taxes, business license taxes, hotel/motel room taxes, restaurant food taxes and admission taxes.

This indicator has been trending upwards since 2007. This indicator tends to have an inverse relationship to the intergovernmental revenues indicator. Due to an increase in real estate assessments in 2008 and the first annual reassessment in 2009, real estate tax collections have increased \$8.3 million (56.5%) since 2007. In 2011, personal property tax collections increased \$225,000 (3.8%) compared to 2010. Restaurant food tax collections have increased \$733,000 (9.6%), while sales tax and business license tax collections have decreased \$665,000 (5.7%) and \$459,000 (7.6%), respectively, over the past five years.

| Description  | 2007          | 2008          | 2009          | 2010          | 2011          |
|--|---------------|---------------|---------------|---------------|---------------|
| Elastic Revenues   | \$50,615,194  | \$54,607,655  | \$55,696,474  | \$56,480,851  | \$58,107,467  |
| Net Operating Revenues                                     | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| Elastic Revenues as a Percentage of Net Operating Revenues | 49.29%        | 50.36%        | 50.55%        | 51.45%        | 51.24%        |

# Elastic Revenues



## Indicator 6 Major Tax Revenues

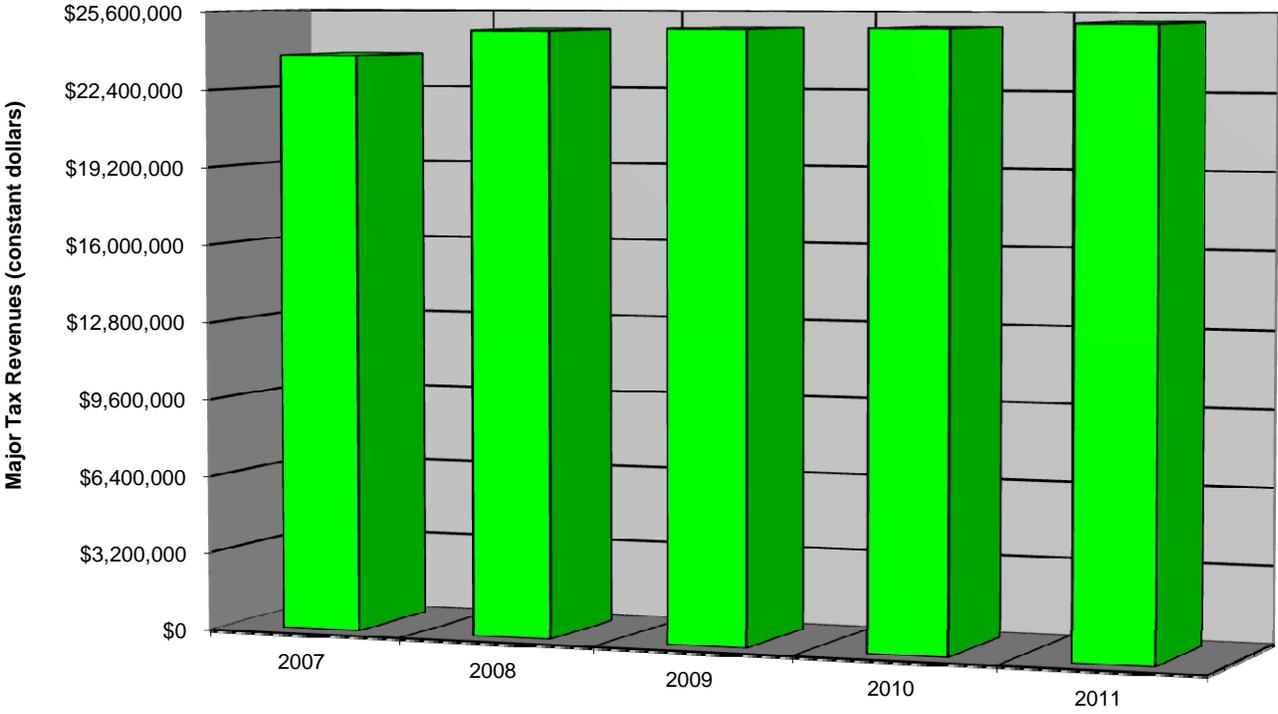
The City's major tax revenues are those taxes which the City tends to rely on the most heavily for funding its programs and services. Major tax revenues for the purpose of this indicator are real estate taxes, personal property taxes, sales and use taxes, business license taxes and restaurant food taxes.

This indicator has been increasing at a steady rate over the last five years. The increase in 2008 was due to increased real estate assessments, and in 2007 was due to an increase in the personal property tax rate. Real estate tax collections have increased 56.5% in nominal dollars (43.8% constant dollars) over the last five years. Personal property tax collections have decreased 9.8% in nominal dollars (17.1% constant dollars) since 2007. Restaurant food tax collections have also had a positive impact on this indicator and were discussed further in Indicator 4, Elastic Revenues.

Sales taxes and business license taxes have had negative effects on this indicator. Sales tax collections have declined 5.7% in nominal dollars (13.3% constant dollars), while business license tax collections have decreased 7.6% in nominal dollars (15% constant dollars) since 2007.

| Description                      | 2007         | 2008         | 2009         | 2010         | 2011         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Major Tax Revenues (Nominal)     | \$46,929,864 | \$50,939,028 | \$51,898,673 | \$52,535,726 | \$54,121,385 |
| CPI for the Area (1982-84=1.000) | 1.971        | 2.050        | 2.080        | 2.101        | 2.145        |
| Major Tax Revenues (Constant)    | \$23,810,180 | \$24,848,306 | \$24,951,285 | \$25,005,105 | \$25,231,415 |

# Major Tax Revenues



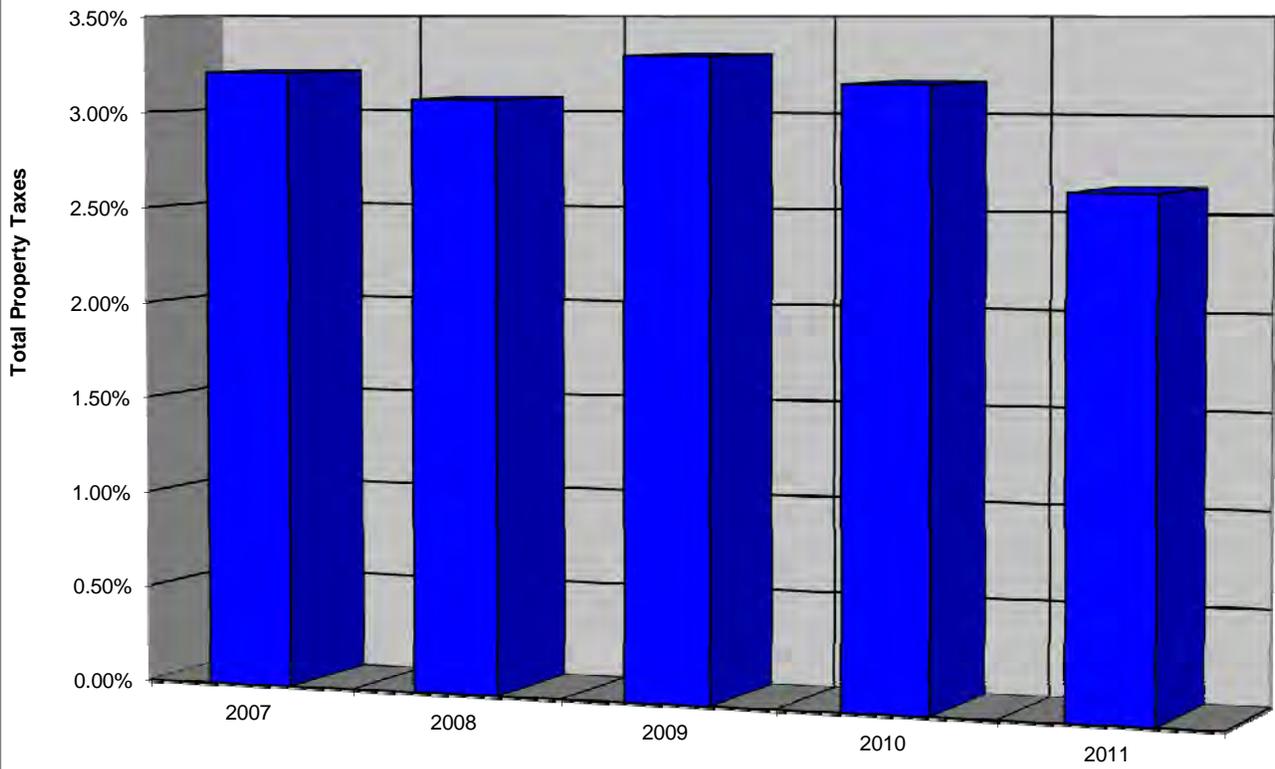
## Indicator 7 Current Year Uncollected Property Taxes

Uncollected property taxes as a percentage of the property tax levy for current year taxes have been mixed over the past five years alternating increases and decreases. Credit-rating agencies assume that a locality will normally not collect from two to three percent of its property taxes within the year that the taxes are due. If current year uncollected property taxes rise to more than five to eight percent, credit-rating agencies consider this a negative factor because it signals potential problems in the stability of the property tax base. The indicator for 2011 is currently 2.63%. This may be an indication that the City's taxpayers are able to pay their taxes. This might also be an indication that the City's rate is at a reasonable level.

The City should analyze whether its collection procedures are adequate, especially in regard to delinquent taxes. If delinquency is a problem, the City may also wish to analyze the penalties charged delinquent taxpayers. If these penalties are low, taxpayers may be using the City for a low-interest source of financing for their tax bills.

| <b>Description</b>  | <b>2007</b>  | <b>2008</b>  | <b>2009</b>  | <b>2010</b>  | <b>2011</b>  |
|---|--------------|--------------|--------------|--------------|--------------|
| Current Year Uncollected Property Taxes   | \$761,509    | \$836,924    | \$961,132    | \$975,586    | \$824,849    |
| Total Property Taxes  | \$23,722,324 | \$27,221,485 | \$29,095,900 | \$30,809,804 | \$31,326,231 |
| Current Year Uncollected Property Taxes as a Percentage of Total Property Taxes | 3.21%        | 3.07%        | 3.30%        | 3.17%        | 2.63%        |

# Current Year Uncollected Property Taxes



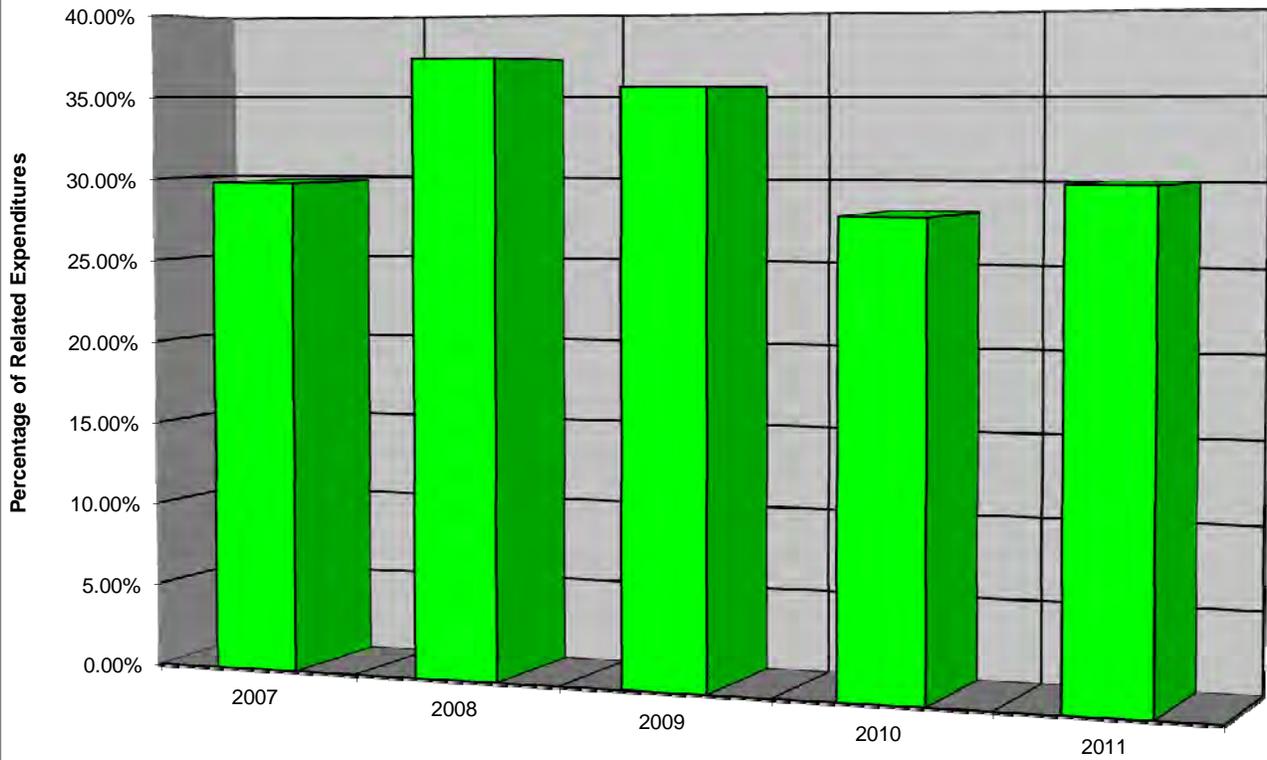
## Indicator 8 User Charge Coverage

User charge coverage refers to whether or not fees and charges cover the entire cost of providing a service. A warning trend could develop as fees provided by these services begin to decrease as a percentage of the operating expenditures incurred to provide the services. The City then starts depending on general tax revenues to finance these expenditures. Expenditures used in this indicator do not include capital outlay expenditures. The idea being that user fees are generally not structured to cover these types of costs. The activities analyzed for this indicator are parks and recreation programs, golf course, building inspection, downtown parking and school cafeteria services.

The sharp increase in 2008 was due to building and inspection permit revenue which more than doubled compared to 2007. This one-time increase in building permit revenue was from several large developments that received building permits during 2008. School cafeteria services have been a negative factor on this indicator declining from 30% coverage in 2007 to 22.7% coverage in 2011. Although it should be noted that increased federal intergovernmental revenue for school cafeteria services continue to make up the difference in this decline. Also during the past five years, the user charge coverage for the golf course has increased from 51.9% in 2007 to 65.4% in 2011.

| Description  | 2007        | 2008        | 2009        | 2010        | 2011        |
|--|-------------|-------------|-------------|-------------|-------------|
| Revenues from User Charges   | \$1,832,241 | \$2,621,775 | \$2,566,037 | \$2,040,479 | \$2,288,168 |
| Operating Expenditures for Services for which there is a Fee                 | \$6,153,729 | \$7,034,797 | \$7,210,812 | \$7,254,974 | \$7,622,180 |
| Revenues from User Charges as a Percentage of Related Operating Expenditures | 29.77%      | 37.27%      | 35.59%      | 28.13%      | 30.02%      |

# User Charge Coverage



## Indicator 9 Revenue Surplus (Shortfall)

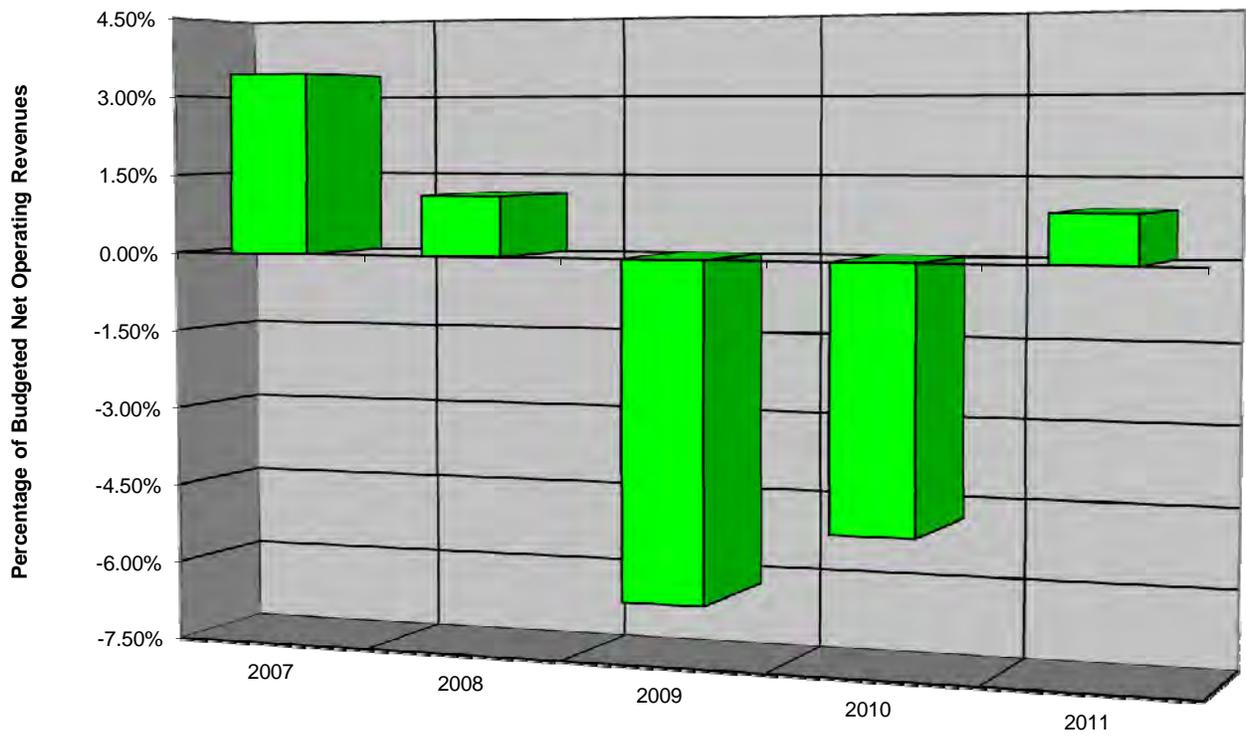
The purpose of this indicator is to examine the differences between revenue estimates and revenues actually collected during the fiscal year. Significant shortfalls that continue year after year can signal major warning trends.

Estimating revenues is a critical part of the budget process, so this area deserves attention and close scrutiny each fiscal year. Although actual revenues have exceeded budgeted revenues in three of the past five years, the trend for this indicator has been declining with shortfalls in 2009 and 2010. The shortfalls were from the decline in economically sensitive revenue as a result of the weak economy.

When looking at the chart below, bear in mind that a surplus is an underestimation of revenues. The budget figures quoted are for General Fund revenues only.

| <b>Description</b>   | <b>2007</b>  | <b>2008</b>  | <b>2009</b>   | <b>2010</b>   | <b>2011</b>  |
|--|--------------|--------------|---------------|---------------|--------------|
| Actual Net Operating Revenues  | \$73,772,195 | \$79,005,506 | \$78,332,407  | \$78,285,358  | \$83,514,600 |
| Budgeted Net Operating Revenues  | \$71,331,766 | \$78,123,298 | \$83,628,340  | \$82,330,630  | \$82,767,313 |
| Revenue Surplus (Shortfall)  | \$2,440,429  | \$882,208    | (\$5,295,933) | (\$4,045,272) | \$747,287    |
| Revenue Surplus (Shortfall) as a Percentage of Budgeted Net Operating Revenues | 3.42%        | 1.13%        | (6.33%)       | (4.91%)       | .90%         |

# Revenue Surplus (Shortfall)



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## Factor 2 Expenditure Indicators

The indicators developed under this factor are intended to aid the City in identifying the following types of problems:

- Excessive growth in overall expenditures as compared to growth in revenues and community wealth
- Ineffective budget controls
- A decline in personnel productivity

Indicator 11, Expenditures by Function, was not developed.

Indicator 13, Fixed Costs as a Percentage of Net Operating Expenditures, was not developed. It was felt that the usefulness of the information did not justify the difficulty in developing the ratio from existing records.

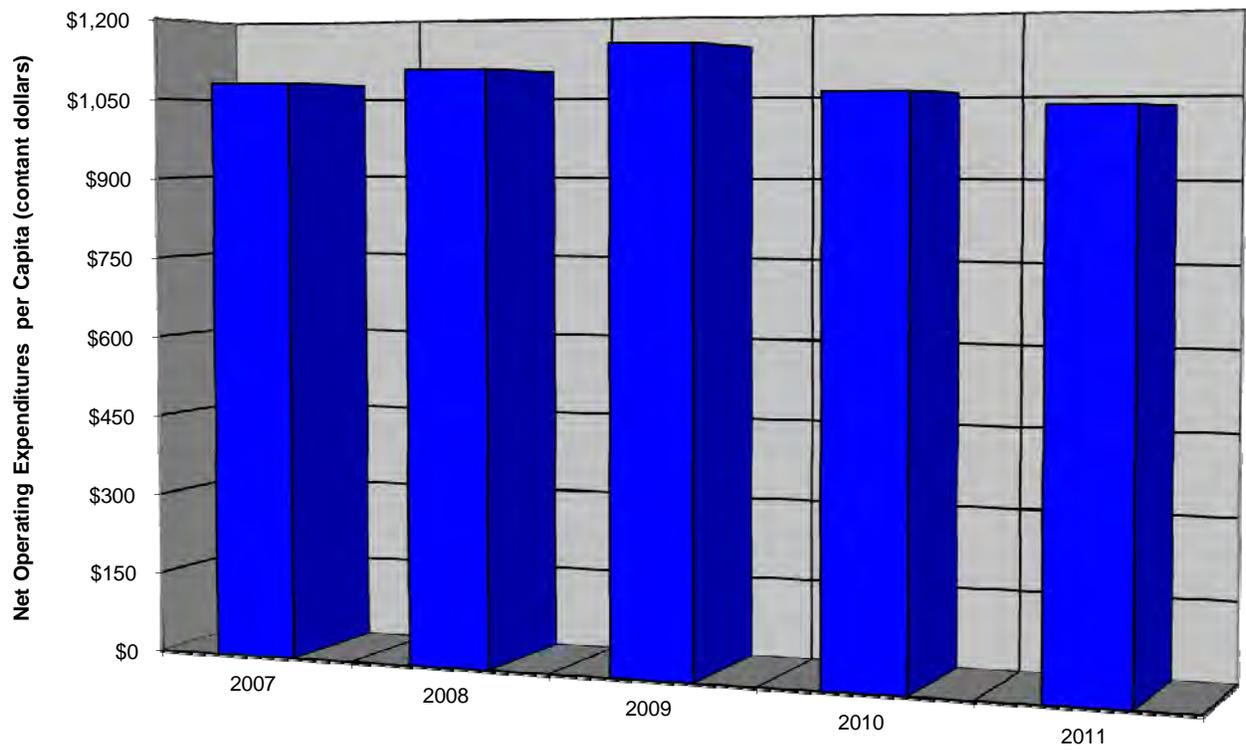
## Indicator 10 Net Operating Expenditures per Capita

Net operating expenditures per capita show changes in expenditures relative to changes in population. With public opinion stronger than ever against tax increases, local governments increasingly feel the need to focus on expenditures.

Net operating expenditures per capita have increased 4.4% over the past five years in nominal dollars but decreased 4.1% in constant dollars. This indicator has decreased the past two years mainly due to cost containment measures implemented as a result of declining revenue collections. The overall increase in net operating expenditures has mainly been due to increased spending on education and public safety. Spending on education the last five years has increased by \$6.7 million or 13.6%, while public safety has increased \$2.3 million, which is a 15.4% increase. Debt service has also been a contributing factor to increased expenditures, increasing \$3.4 million or 38% since 2007 mainly from the construction of the new elementary/middle school complex along with the related construction of Linda Lane.

| <b>Description</b>                               | <b>2007</b>  | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   |
|--|--------------|---------------|---------------|---------------|---------------|
| Net Operating Expenditures (Nominal)             | \$97,137,129 | \$105,259,548 | \$114,581,587 | \$108,656,297 | \$110,901,986 |
| CPI for the Area (1982-84=1.000)                 | 1.971        | 2.050         | 2.080         | 2.101         | 2.145         |
| Net Operating Expenditures (Constant)            | \$49,283,170 | \$51,346,121  | \$55,087,301  | \$51,716,467  | \$51,702,558  |
| Population                                       | 45,752       | 46,660        | 48,134        | 48,914        | 50,057        |
| Net Operating Expenditures per Capita (Nominal)  | \$2,123      | \$2,256       | \$2,380       | \$2,221       | \$2,216       |
| Net Operating Expenditures per Capita (Constant) | \$1,077      | \$1,100       | \$1,144       | \$1,057       | \$1,033       |

# Net Operating Expenditures per Capita



## Indicator 12 Employees per Capita

The purpose of this indicator is to determine if a trend of increasing employees is occurring, which might indicate that government is becoming more labor intensive or that personnel productivity is declining. Employee figures are the budgeted full-time equivalent (FTE) positions for that year.

The actual number of FTE's has increased over the past five years with a total five-year increase of 37.8 FTEs (6.4%), while the trend of employees (FTEs) per 1,000 residents has had an overall decrease since 2007. The five-year increase in actual FTEs consisted of 9.5 fire personnel; 8 public transportation personnel; 6.9 police personnel; 6.2 parks and recreation personnel and, other minor changes in other City departments.

| <b>Description</b>                          | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Number of Employees (Full-time Equivalents) | 595.2       | 613.9       | 638.7       | 632.5       | 633.0       |
| Population                                  | 45,752      | 46,660      | 48,134      | 48,914      | 50,057      |
| Municipal Employees per 1,000 Residents     | 13.01       | 13.16       | 13.27       | 12.93       | 12.65       |

**Municipal Employees  
(Full-time Equivalents)  
By Department**

| <b>Department<sup>1</sup></b>      | <b>2007</b>  | <b>2008</b>        | <b>2009</b>       | <b>2010</b>  | <b>2011</b>       |
|------------------------------------|--------------|--------------------|-------------------|--------------|-------------------|
| Clerk of Council                   | 1            | 1                  | 1                 | 1            | 1                 |
| City Manager                       | 4.4          | 4.4                | 4.7               | 4.5          | 4.4               |
| City Attorney                      | 1            | 1                  | 1                 | 1            | 1                 |
| Human Resources                    | 2.7          | 3.0                | 3.0               | 3.1          | 3.0               |
| Commissioner of the Revenue        | 11.5         | 11.5               | 11.7              | 11.7         | 11.4              |
| Treasurer                          | 7            | 7                  | 7.7               | 7.5          | 7.5               |
| Finance                            | 7            | 7.4                | 7.4               | 7.4          | 7.4               |
| Information Technology             | 4.8          | 6.4                | 7.4               | 6.8          | 7.0               |
| Registrar                          | 2.4          | 2.2                | 2.2               | 2.7          | 2.7               |
| Police                             | 102.6        | 108.8 <sup>2</sup> | 111.8             | 109.8        | 109.5             |
| Fire                               | 74.3         | 78.8 <sup>3</sup>  | 82.8 <sup>5</sup> | 83.5         | 83.8              |
| Public Works                       | 60.9         | 60.9               | 61.9              | 59.8         | 59.8              |
| Parks and Recreation               | 69.4         | 70.6               | 71.2              | 70.7         | 75.6 <sup>7</sup> |
| Planning and Community Development | 28.2         | 28.4               | 29.3              | 28.6         | 27.8              |
| Economic Development               | 11.9         | 9.6                | 11.9              | 11.6         | 11.6              |
| Community Development Block Grant  | 1            | 1.6                | 1.5               | 1.2          | 1.2               |
| Public Utilities                   | 53.4         | 54.0               | 56.9              | 56.9         | 56.9              |
| Public Transportation              | 79.8         | 78.6               | 86.4 <sup>4</sup> | 87.1         | 87.8              |
| Sanitation                         | 56.9         | 60.9               | 61.5              | 60.9         | 56.9              |
| Central Garage                     | 13           | 15.8               | 15.4              | 14.7         | 14.7              |
| Central Stores                     | 2            | 2                  | 2                 | 2            | 2                 |
| <b>TOTAL</b>                       | <b>595.2</b> | <b>613.9</b>       | <b>638.7</b>      | <b>632.5</b> | <b>633.0</b>      |

<sup>1</sup> Figures do not include boards and commissions.

<sup>2</sup> Reflects hiring four new police officers and an additional investigator.

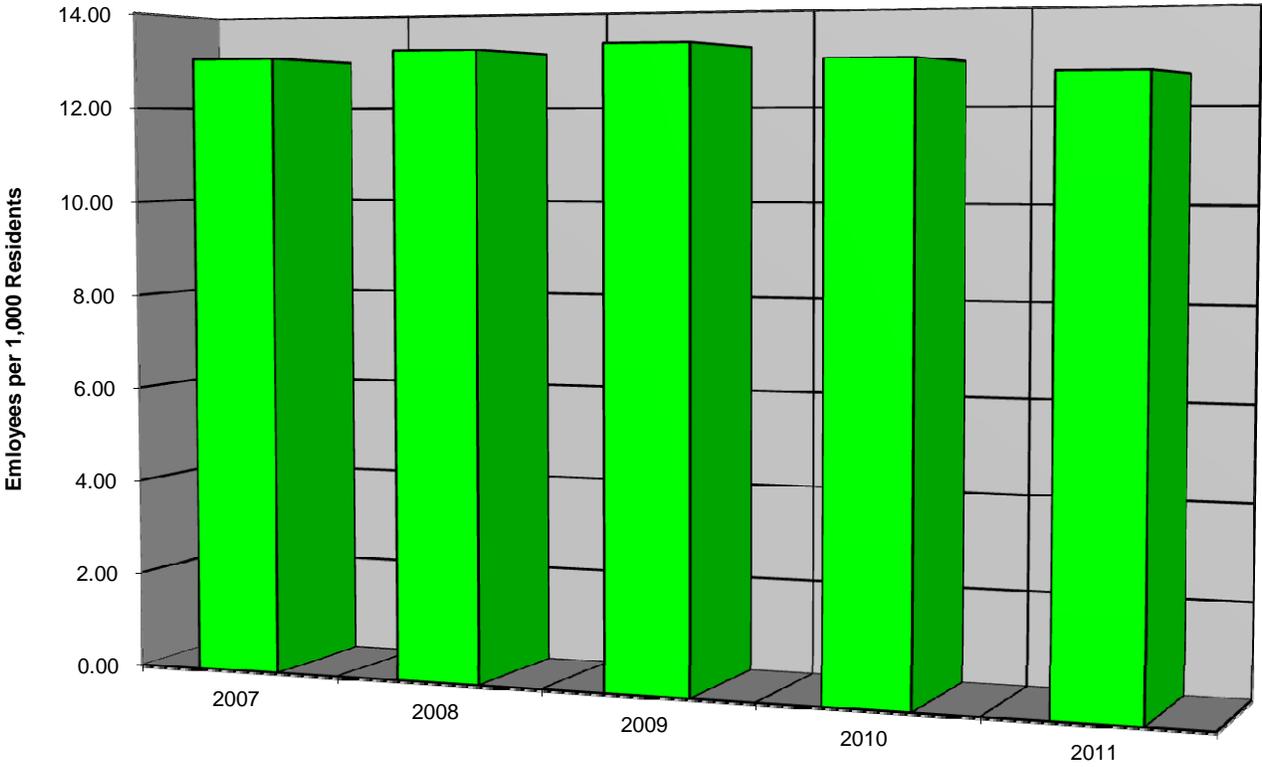
<sup>3</sup> Reflects hiring six new firefighters and a computer program administrator during 2008 and 2009.

<sup>4</sup> Reflects hiring additional bus drivers.

<sup>5</sup> Reflects hiring additional personnel for the Simms Recreation Center.

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# Employees per Capita



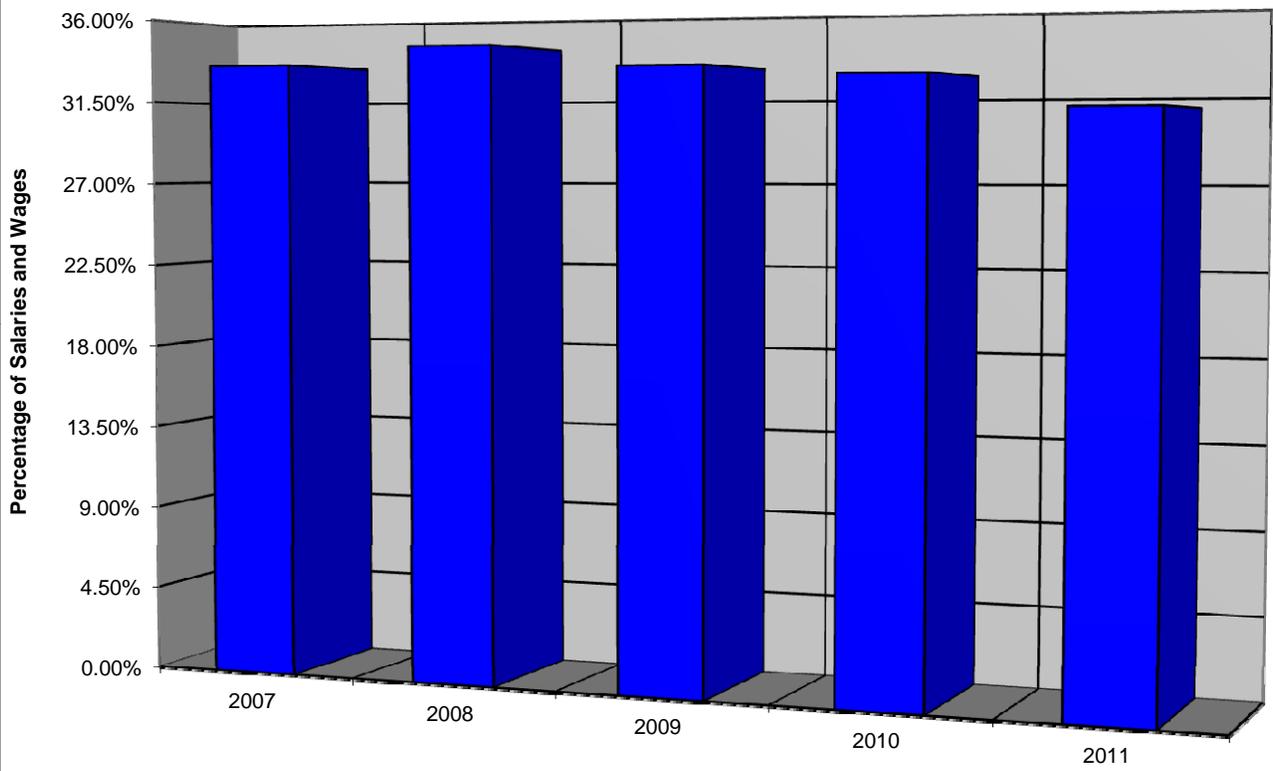
## Indicator 14 Fringe Benefits

The ICMA Handbook explains that this indicator can be helpful in guiding policy because fringe benefits can be difficult to quantify in the normal budgeting process. As a result, these costs can escalate unnoticed while straining finances. The City's primary fringe benefit expenditures consist of VRS retirement, VRS life insurance, health insurance, and employer's share of FICA. While accumulated vacation and sick leave are considered employee or fringe benefits, these benefits are not recorded as expenditures until actually paid.

This trend has decreased overall since 2007, partly due to decreases in required VRS retirement contribution rates for both the City and the School Board, resulting in a decrease of \$2.9 million (49.5%) over the past five years. Savings of approximately \$730,000 from a three month VRS rate holiday for the School Board were also a contributing factor to the 2010 decline. Health insurance expenditures have increased 36.6% over the past five years as the result of five percent premium increases in 2008 and 2009 and a ten percent premium increase in 2010. There was however a 5 percent decrease in health insurance premiums in 2011 which contributed to the declining trend.

| <b>Description</b>   | <b>2007</b>  | <b>2008</b>  | <b>2009</b>  | <b>2010</b>  | <b>2011</b>  |
|--|--------------|--------------|--------------|--------------|--------------|
| Expenditures for Fringe Benefits                                 | \$14,470,018 | \$15,967,472 | \$16,486,388 | \$16,084,792 | \$15,345,188 |
| Salaries and Wages   | \$43,240,521 | \$46,416,102 | \$49,563,489 | \$49,125,922 | \$49,490,183 |
| Fringe Benefit Expenditure as a Percentage of Salaries and Wages | 33.46%       | 34.40%       | 33.26%       | 32.74%       | 31.01%       |

# Fringe Benefits



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### Factor 3 Operating Position Indicators

The indicators developed under this factor are intended to aid the City in assessing its operating position. Specifically, operating position refers to a government's ability to balance its budget and pay its bills.

Analyzing operating position can help a City identify the following types of problems:

- Continuing operating deficits
- A decline in unrestricted reserves
- A decline in liquidity (its cash position)
- Ineffective forecasting techniques
- Ineffective budget controls

## Indicator 15 Operating Surplus (Deficit)

Operating results are important indicators of a City's financial position. When current year expenditures exceed the current year's revenues, an operating deficit occurs. This does not mean that the City is operating on a budget deficit. Reserves from prior years may be used to offset a current year budget deficit. If the trend continues, the financial condition of the municipality may deteriorate, and the City will need more revenues to meet the increasing amount of expenditures. Increasing operating deficits from year to year are usually considered negative factors in analyzing financial condition, but many political and environmental factors play a part in the budgeting process, so that mere reduction of expenditures and/or increasing revenues may not be the most desirable solutions. Since this indicator focuses on operating results, significant one-time revenues and expenditures have been eliminated.

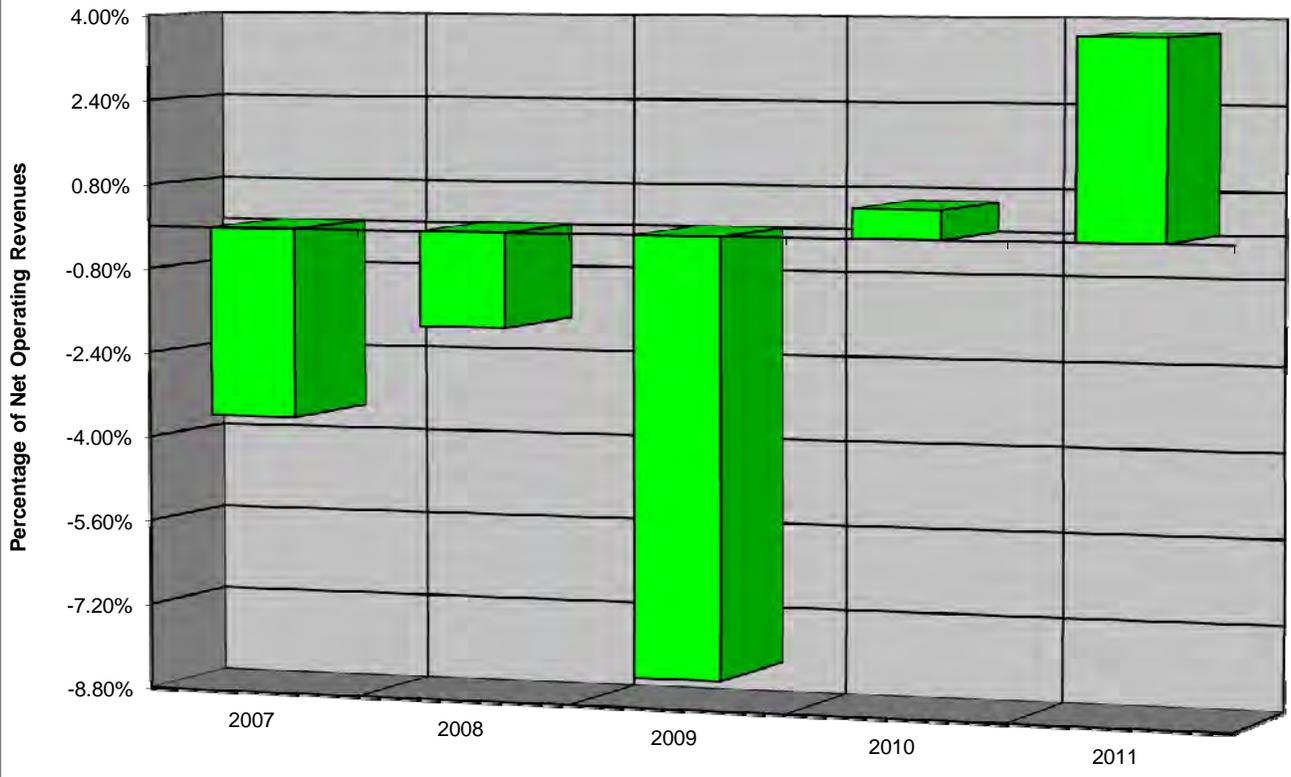
The General Fund has had operating deficits in three of the past five years with a small surplus in 2010 and an approximately \$3 million surplus in 2011. The deficit in 2007 was due to approximately \$3.7 million in transfers to the General Capital Projects Fund for road projects. The deficit in 2008 was mainly due to the use of unassigned fund balance to fund expenditures. The significant deficit in 2009 was the result of a decline in revenue from the weak economy and the use of \$4.2 million of unassigned funds balance to balance the 2009 budget. The \$3 million surplus in 2011 was, in part, due to the return of \$1.9 million from School Fund's fund balance.

The Special Revenue Funds have had operating surpluses in three of the last five years. The operating deficit in 2009 and 2011 was due to \$1.6 and \$1.9 million, respectively, being returned to the General Fund from the School Fund's fund balance.

| <b>Description</b>  | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>  | <b>2011</b>  |
|---|---------------|---------------|---------------|--------------|--------------|
| General Fund Operating Surplus (Deficit)  | (\$2,624,157) | (\$1,404,168) | (\$6,454,157) | \$428,630    | \$3,023,489  |
| General Fund Net Operating Revenues   | \$73,772,195  | \$78,742,656  | \$78,332,407  | \$78,285,358 | \$81,234,705 |
| General Fund Surplus (Deficit) as a Percentage of Net Operating Revenues          | (3.56%)       | (1.78%)       | (8.24%)       | 0.55%        | 3.72%        |
| Special Revenue Funds Operating Surplus (Deficit)                                 | \$244,960     | \$1,090,015   | (\$159,962)   | \$573,476    | (\$782,628)  |
| Special Revenue Funds Net Operating Revenues                                      | \$28,912,572  | \$29,692,868  | \$31,854,111  | \$31,500,482 | \$32,167,909 |
| Special Revenue Funds Surplus (Deficit) as a Percentage of Net Operating Revenues | 0.85%         | 3.67%         | (.50%)        | 1.82%        | (2.43%)      |

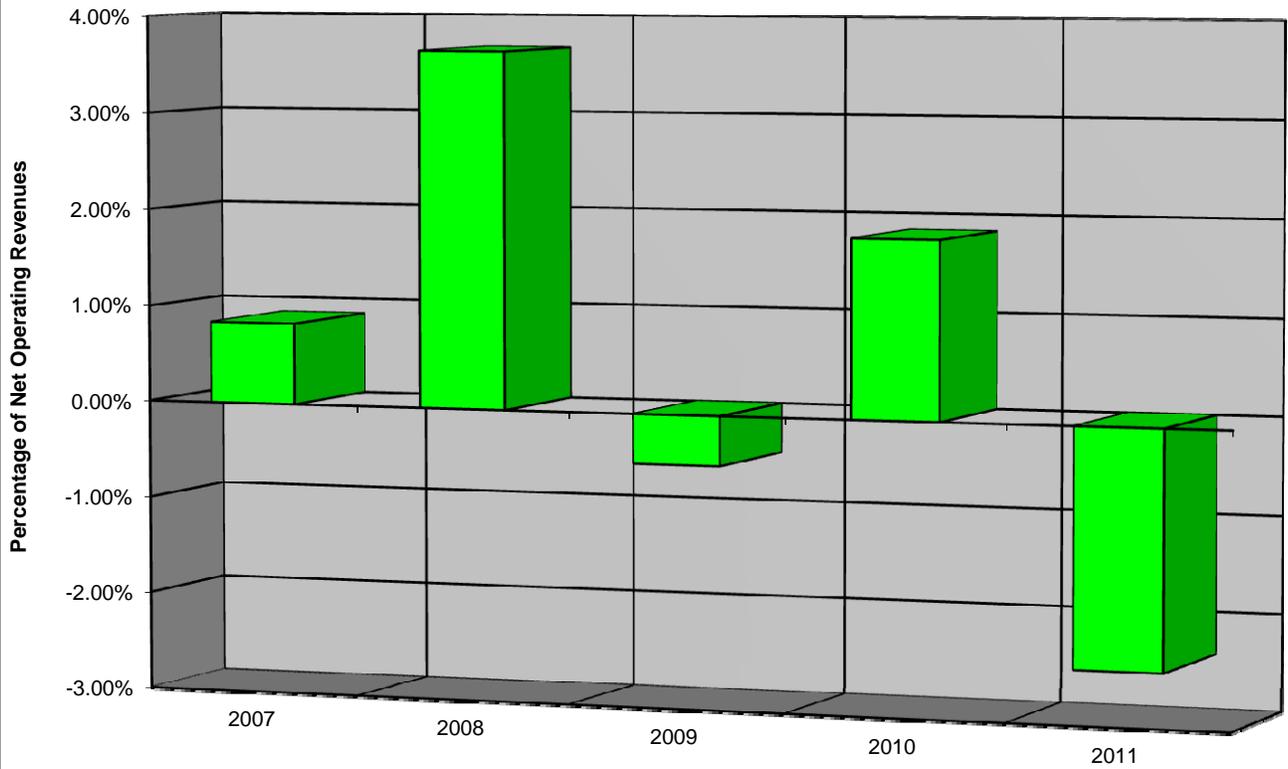
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# Operating Surplus (Deficit) (General Fund)



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## Operating Surplus (Deficit) (Special Revenue Funds)



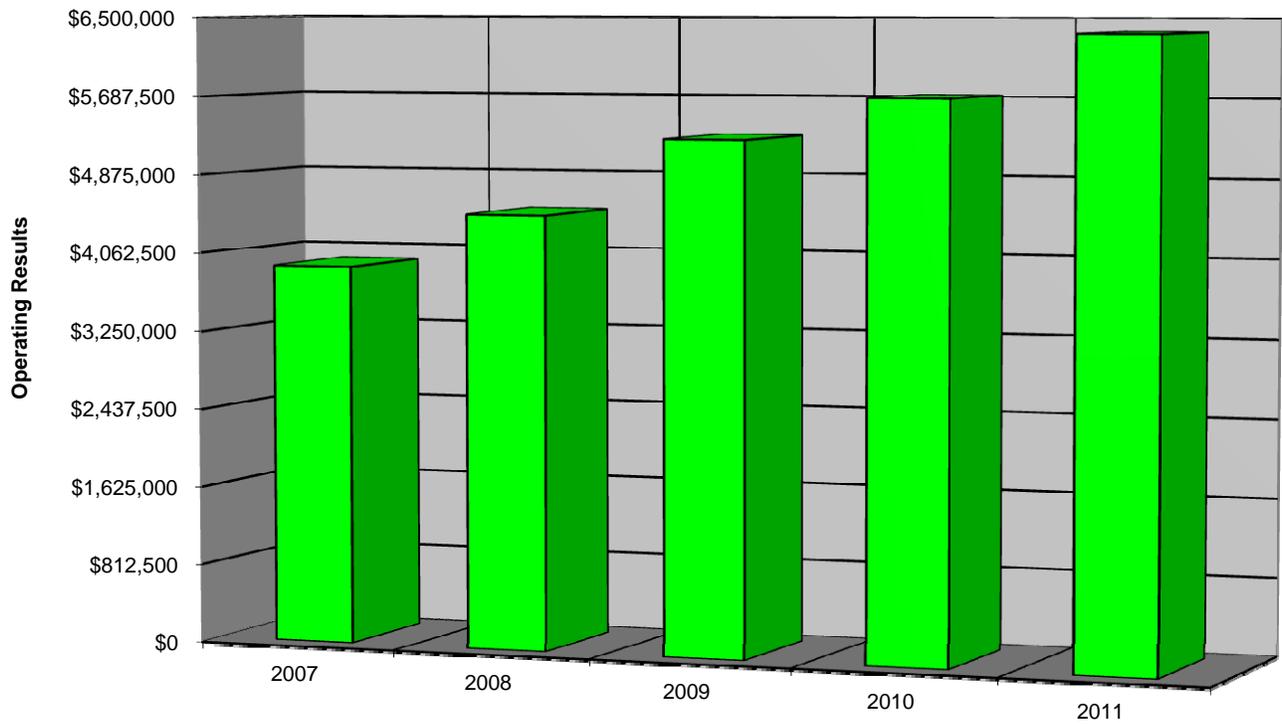
## Indicator 16 Enterprise Fund Operating Results

Enterprise Funds operating results have been trending up since 2007. The overall increase in the indicator has mainly been the result of a combination of two factors. First, continued positive operating results in the Water Fund due to rate increases enacted over the past five years. Second, increasing revenue in the Sanitation Fund has more than offset increasing expenses. Revenue in the Sanitation Fund has increased \$1.9 million (23.6%), while expenses have remained flat. However, there are several factors that are having negative impacts on this indicator. Contributions to the Harrisonburg-Rockingham Regional Sewer Authority from the Sewer Fund have increased \$2.2 million (77.8%). The City has been increasing sewer authority revenue rates to offset these increased contributions to the Regional Sewer Authority. Also, Public Transportation Fund expenses have increased for personal services and fringe benefits by 21.5%.

Enterprise Fund net income is the result of these funds covering the "user charge" for the services they render. If transfers from the General Fund substantially support an Enterprise Fund, the Enterprise Fund probably needs to consider charging user fees or increasing the fees already charged. The figures shown below are for the City's primary government Enterprise Funds and reflect operating income (loss) and operating grants less depreciation, amortization and one-time charges.

| Description                                 | 2007        | 2008        | 2009        | 2010        | 2011        |
|---|-------------|-------------|-------------|-------------|-------------|
| Enterprise Fund Operating Results (Nominal) | \$3,923,093 | \$4,491,577 | \$5,279,977 | \$5,712,428 | \$6,364,055 |

# Enterprise Fund Operating Results



## Indicator 17 Unassigned Fund Balances

Maintenance of a sufficient unassigned fund balance allows local governments to have adequate funds on hand to operate throughout the year, including periods of low revenue collections. The size of the unassigned fund balance can affect the City's ability to withstand financial emergencies and short-term revenue losses due to actions by other levels of government. It can also be used to accumulate funds for capital purchases without incurring debt. An appropriate fund balance also helps in securing and maintaining better credit ratings, which result in lower borrowing costs. As a result, taxes and other user rates can be lower than otherwise would be necessary.

Rating agencies typically recommend a minimum fund balance of 5% of the budget. A smaller balance may be justified by a long-term trend of annual budget surpluses. A much larger balance may be warranted, especially if budget revenues and expenses are economically sensitive or otherwise not easily forecasted. Rating agencies tend to look unfavorably on large swings in the percentage and especially on unplanned declines. Decreasing fund balances are warning trends because the City may not be able to meet its future needs unless more revenues are generated. The City has taken a proactive approach to preserve the General Fund's unassigned fund balance through the adoption of the City's Financial Management Policies. It is the City's policy to maintain an unassigned fund balance of no less than 12 percent of the General Fund budget plus adequate funds for working capital purposes, which is typically considered 4 percent.

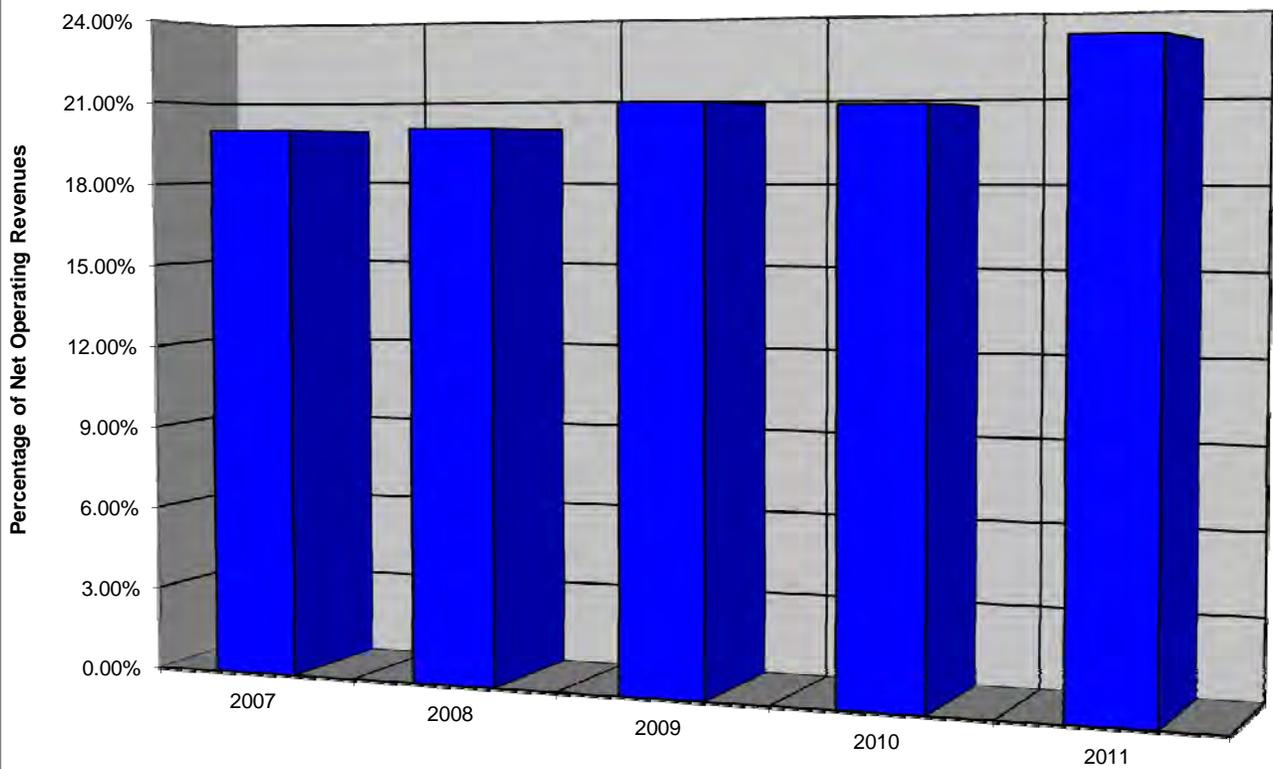
Unassigned fund balance as a percentage of net operating revenues for the General Fund has been trending upwards over the past five years. Although there were operating deficits in the General Fund in 2008 and 2009, as noted in Indicator 15, Operating Surplus (Deficit), this indicator still increased during those years. The 2010 budget did not require the use of unassigned fund balance to balance the budget, which offset the impact of the operating deficit in 2009, while the sale of the land on Port Republic Road offset the impact of the operating deficit in 2008.

While unassigned fund balance as a percentage of net operating revenues for the Special Revenue Funds had generally been trending up from 2007 to 2010, the indicator did decrease in 2009 mainly due to \$1.6 million being returned to the General Fund from the School Fund's fund balance. The 2011 decrease in Special Revenue Fund unassigned fund balance was due to \$1.9 million being returned to the General Fund from the School Fund's fund balance.

| <b>Description</b>  | <b>2007</b>  | <b>2008</b>  | <b>2009</b>  | <b>2010</b>  | <b>2011</b>  |
|---|--------------|--------------|--------------|--------------|--------------|
| Unassigned Fund Balance (General Fund)                            | \$14,711,182 | \$15,747,798 | \$16,363,415 | \$16,273,005 | \$18,711,352 |
| Net Operating Revenues  | \$73,772,195 | \$78,742,656 | \$78,332,407 | \$78,285,358 | \$81,234,705 |
| Unassigned Fund Balance as a Percentage of Net Operating Revenues | 19.94%       | 20.00%       | 20.89%       | 20.79%       | 23.03%       |
| Unassigned Fund Balance (Special Revenue Funds)                   | \$4,097,042  | \$4,773,839  | \$4,146,802  | \$4,961,500  | \$2,959,135  |
| Net Operating Revenues  | \$28,912,572 | \$29,692,868 | \$31,854,111 | \$31,500,482 | \$32,167,909 |
| Unassigned Fund Balance as a Percentage of Net Operating Revenues | 14.17%       | 16.08%       | 13.02%       | 15.75%       | 9.20%        |

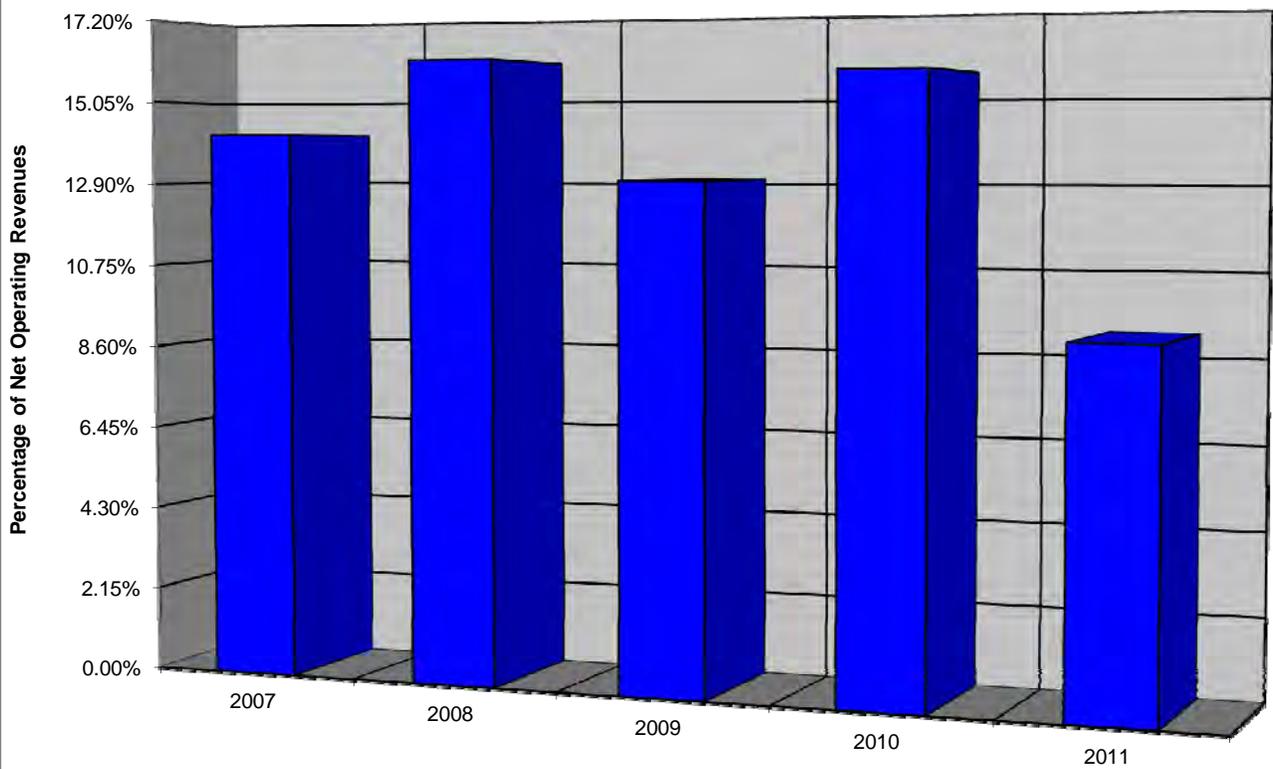
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## Unassigned Fund Balances (General Fund)



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## Unassigned Fund Balances (Special Revenue Funds)



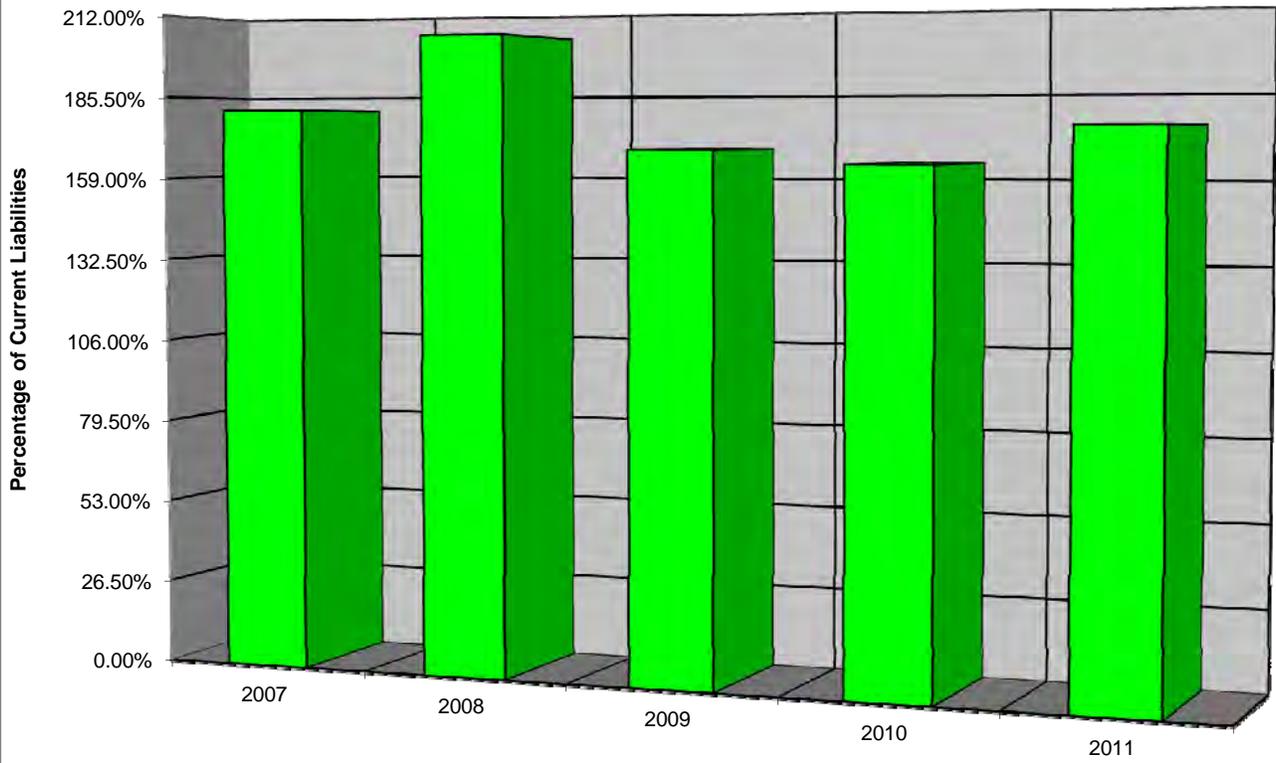
## Indicator 18 Liquidity

A good measure of a local government's short-term financial condition is its cash position. Cash position, which includes cash and short-term investments, determines a government's ability to pay its short-term obligations. The credit industry benchmark of less than a one to one ratio is considered a negative factor with three or more years being an extreme negative factor. The City continues to be in a healthy cash position. The decline in 2009 was due to decreasing revenue and the use of fund balance reserves resulting from weak economic conditions. The 2008 increase was due to the sale of land on Port Republic Road.

However, it is not uncommon for a City the size of Harrisonburg to experience fluctuations in its cash position over the course of a year. The ultimate goal is to manage cash effectively to prevent insolvency. The City has adopted cash management policies and procedures to prevent any unfavorable situations.

| Description  | 2007         | 2008         | 2009         | 2010         | 2011         |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash and Cash Equivalents  | \$28,362,734 | \$30,436,846 | \$24,874,798 | \$26,422,422 | \$29,976,244 |
| Current Liabilities  | \$15,673,469 | \$14,879,717 | \$14,767,076 | \$16,094,850 | \$17,006,745 |
| Cash and Short-term Investments as a Percentage of Current Liabilities | 180.96%      | 204.55%      | 168.45%      | 164.17%      | 176.26%      |

# Liquidity



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## Factor 4 Debt Indicators

The indicators developed under this factor are intended to aid the City in monitoring changes in debt structure. The overriding concern is to ensure that the City's outstanding debt does not exceed its ability to repay in a worst-case scenario. Specific considerations to be analyzed include determining whether or not debt is (1) proportional in size and rate of growth to its tax base, (2) extends past the useful life of the facilities it finances, (3) used to finance the operating budget, (4) requires repayment schedules that put excessive burdens on operating expenditures, and (5) so high as to jeopardize the City's credit rating.

Indicator 22, Overlapping Debt, was not developed because the City does not have overlapping debt.

## Indicator 19 Current Liabilities

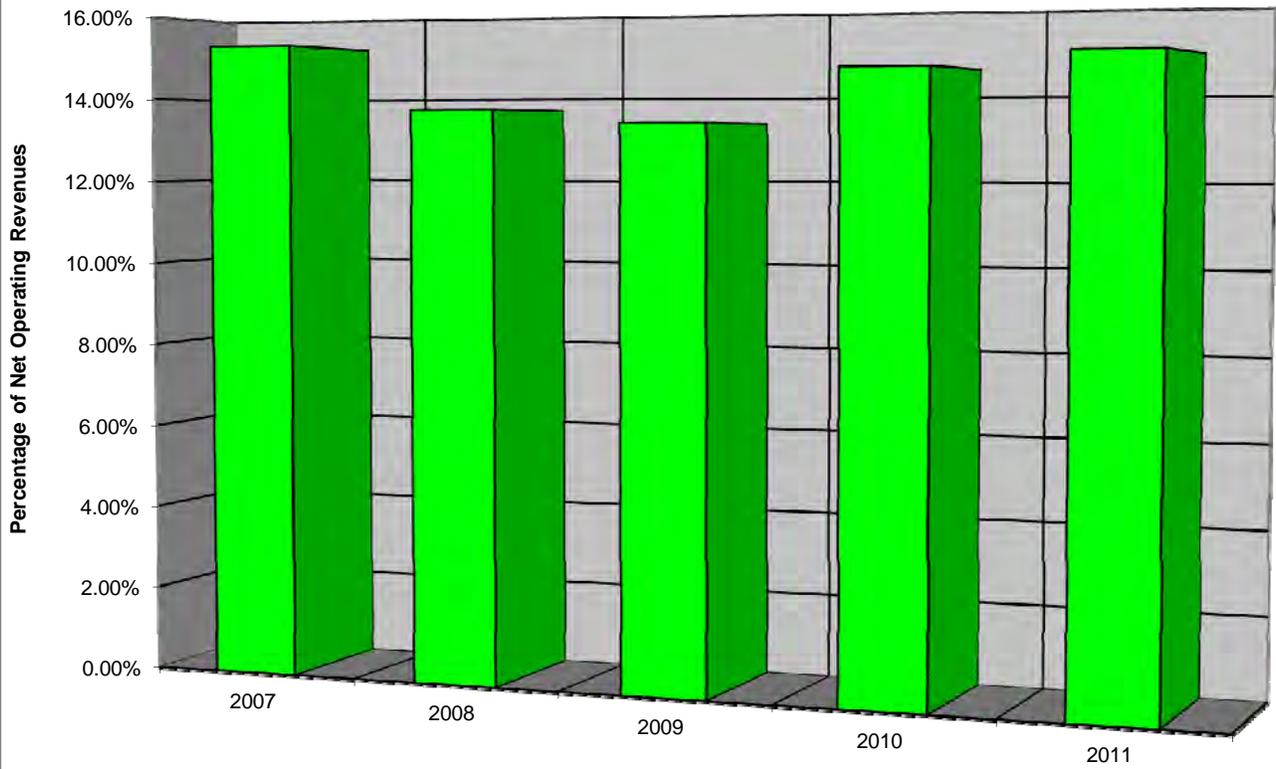
Current liabilities are the sum of all liabilities due at the end of the fiscal year and principal on long-term debt that is due the following year. This indicator is mainly concerned with identifying whether increasing levels of short-term borrowing are being used to finance deficit spending and/or mask liquidity problems.

The warning trend identified by the Handbook is an increasing ratio of current liabilities to net operating revenues. This indicator has begun trending upward since 2009 after trending downward from 2007 to 2009. The increase in 2010 was due to the first principal payment along with accrued interest on the June 2009 \$13.5 million bond issue. The increase in 2011 was due to the first principal payment on the August 2010 bond issue.

Two credit industry benchmarks considered negative factors are (1) short-term debt outstanding at the end of the year exceeding 5% of operating revenues, and (2) a two-year trend of increasing short-term debt outstanding at the end of the fiscal year. The City does not have any short-term borrowings and is not in violation of either benchmark. The Handbook suggests adopting policies, which will prohibit these situations from occurring.

| <b>Description</b>  | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   |
|---|---------------|---------------|---------------|---------------|---------------|
| Current Liabilities   | \$15,673,469  | \$14,879,717  | \$14,767,076  | \$16,094,850  | \$17,006,745  |
| Net Operating Revenues  | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| Current Liabilities as a Percentage of Net Operating Revenues | 15.26%        | 13.72%        | 13.40%        | 14.66%        | 15.00%        |

# Current Liabilities



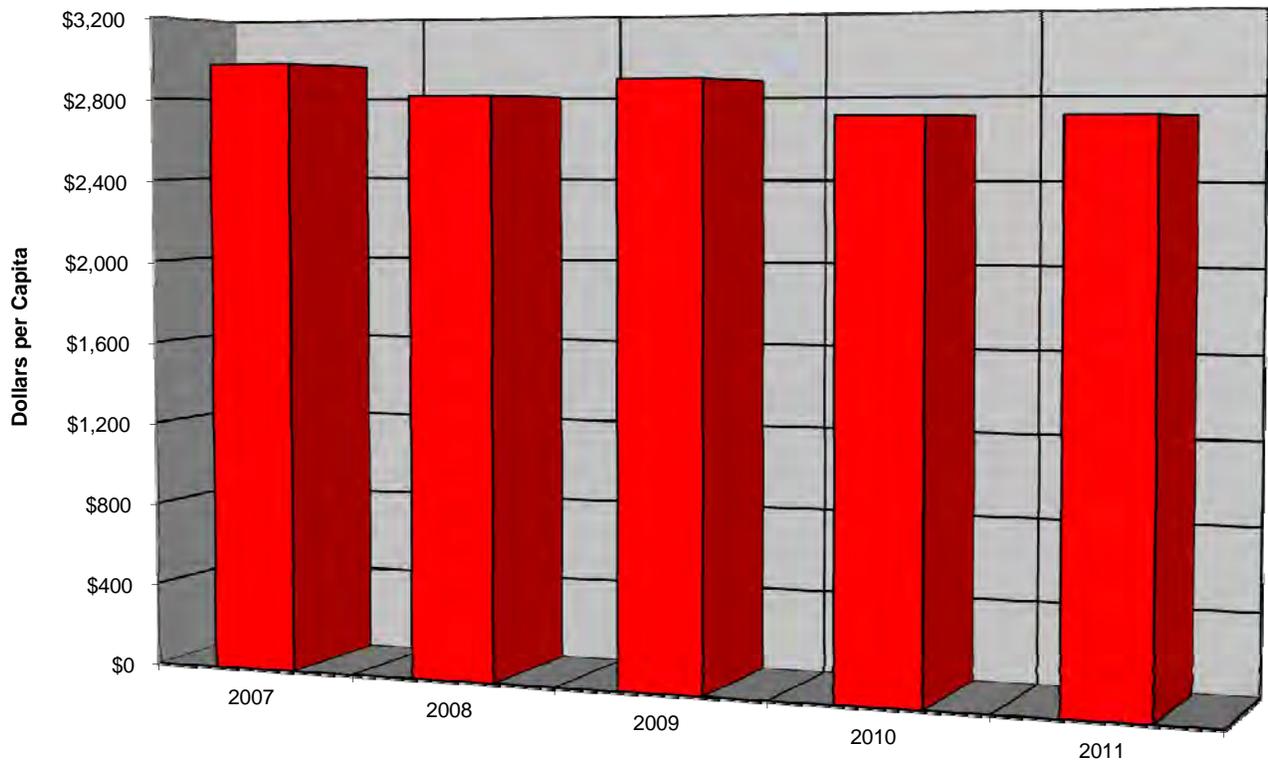
## Indicator 20 Long - Term Debt

This indicator is used to help assess whether local government resources are adequate to pay its long-term debt. This indicator is computed by comparing net direct general long-term debt to assessed real property valuation and also to population. The assessed valuation of real property in the City is used with the assumption that real property taxes will be the primary source of debt repayment.

This indicator has been decreasing overall the past five years as a percentage of assessed real property valuation, as well as a decreasing per capita trend. The indicator as a percentage of assessed real property valuation declined sharply in 2008, compared to the per capita indicator, due to an approximate 36% increase in property value reassessments. The ICMA Handbook suggests that an increasing indicator is a warning trend, but it also points out that a credit industry benchmark warning signal is when debt exceeds ten percent of assessed real property valuation. The City's ratio is currently 3.45%.

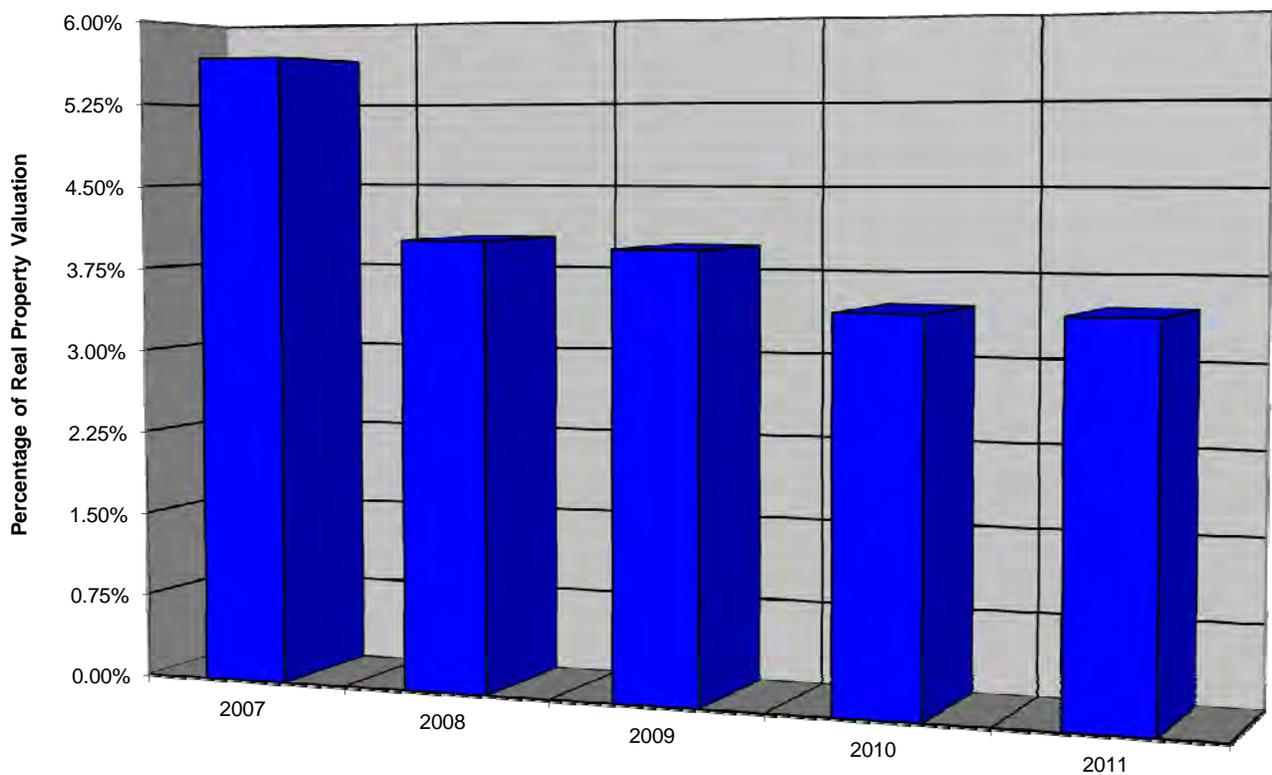
| Description  | 2007            | 2008            | 2009            | 2010            | 2011            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Long-term Debt   | \$135,554,145   | \$130,960,058   | \$138,679,660   | \$132,534,675   | \$135,637,593   |
| Population   | 45,752          | 46,600          | 48,134          | 48,914          | 50,057          |
| Long-term Debt per Capita  | \$2,963         | \$2,807         | \$2,881         | \$2,710         | \$2,710         |
| Assessed Real Property Valuation                                   | \$2,397,653,625 | \$3,252,988,206 | \$3,496,364,495 | \$3,838,637,996 | \$3,926,748,542 |
| Long-term Debt as a Percentage of Assessed Real Property Valuation | 5.65%           | 4.03%           | 3.97%           | 3.45%           | 3.45%           |

# Long-Term Debt per Capita



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# Long-Term Debt as a Percentage of Real Property Valuation



## Indicator 21 Debt Service

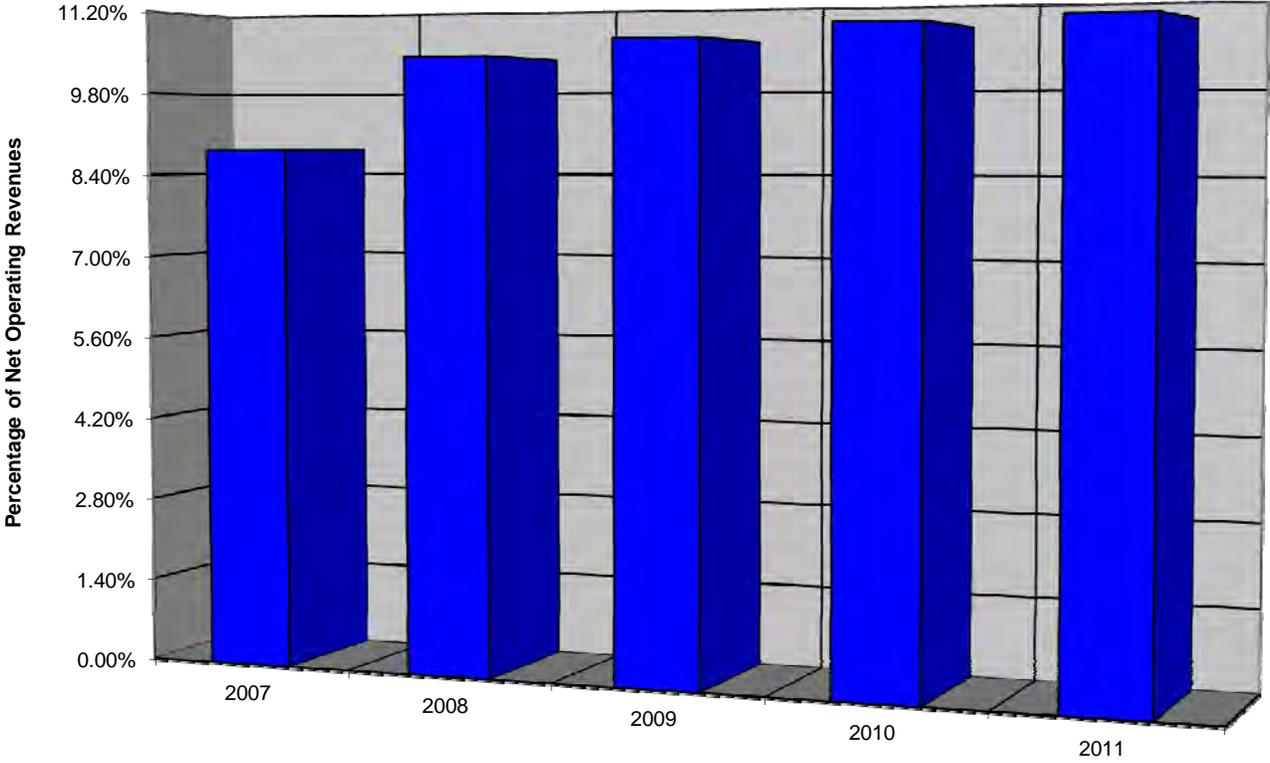
This indicator is determined by comparing the amount of the City's debt principal and interest payments for the year to its net operating revenues. The primary purpose of this indicator is to determine the effect of debt on the flexibility of expenditures, since debt service can be a major part of a government's fixed costs.

This indicator has increased overall since 2007. The sharp increase in 2008 was due to the first debt service payment from the October 2006 \$50 million bond issue. The ICMA Handbook calls an increasing indicator a warning trend, but it also indicates that the credit industry warning benchmark is 20 percent with 10 percent considered acceptable. This indicator for 2011 was above 10 percent at 10.95%.

The policy implications are generally the same as those for Indicator 19 with the additional suggestion that the effect of debt service on annual fixed cost be analyzed prior to the issuance of bonded long-term debt.

| <b>Description</b>                                     | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   |
|--|---------------|---------------|---------------|---------------|---------------|
| Debt Service   | \$9,052,145   | \$11,250,785  | \$11,729,847  | \$11,919,419  | \$12,412,766  |
| Net Operating Revenues                                 | \$102,684,767 | \$108,435,524 | \$110,186,518 | \$109,785,840 | \$113,402,614 |
| Debt Service as a Percentage of Net Operating Revenues | 8.82%         | 10.38%        | 10.65%        | 10.86%        | 10.95%        |

# Debt Service



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## Factor 5 Unfunded Liability Indicators

Unfunded liabilities are those which have been incurred prior to the balance sheet date, are not payable until a future date and for which reserves have not been set aside.

Pension and employee leave liabilities are the unfunded liabilities considered under this factor. Because the City has no policy control over the Virginia Retirement System, we did not develop Indicators 23 and 24 relating to pension obligations and assets. Developing these indicators would not disclose any information, which is not already highlighted in the Defined Benefit Pension Plan note to the financial statements contained in the City's Comprehensive Annual Financial Report.

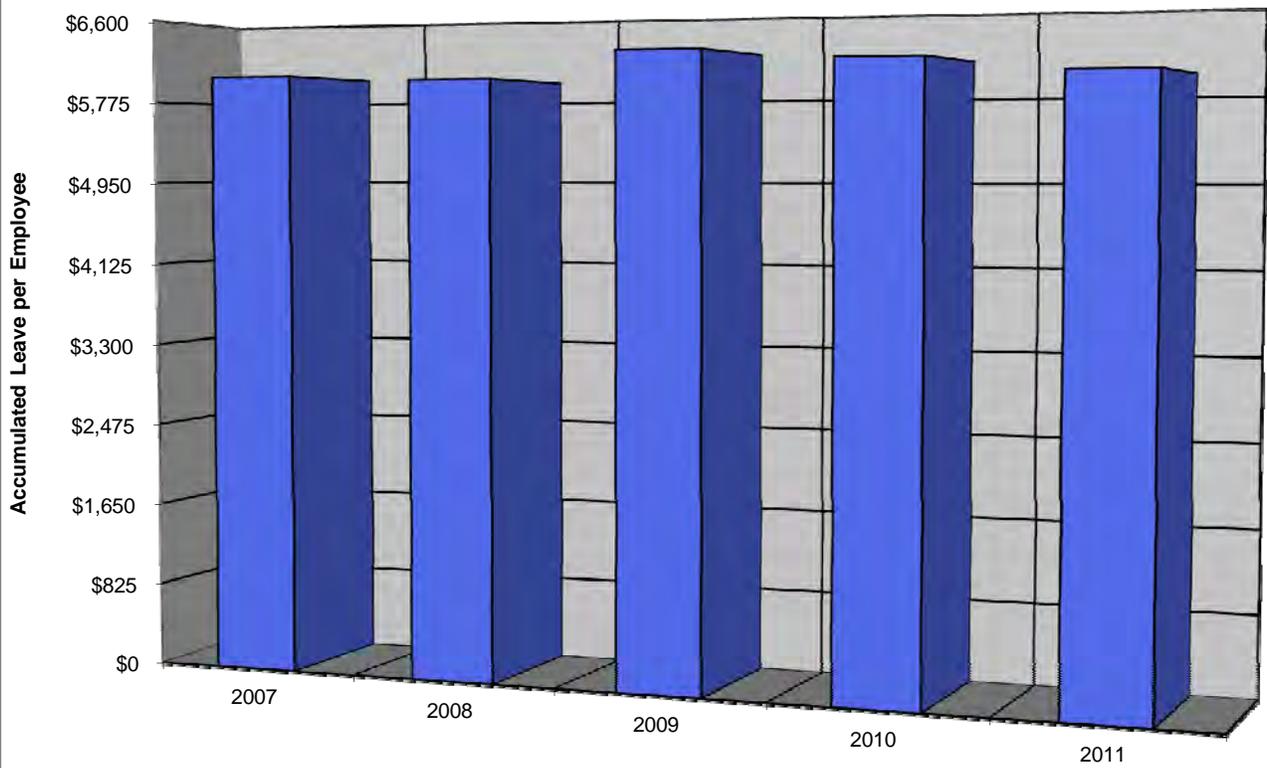
## Indicator 25 Accumulated Employee Leave

Accumulated employee leave is the dollar value of all unused vacation and sick leave benefits. This indicator has two basic impacts on the City. The initial impact represents an opportunity cost for work that an employee does not perform. The second impact occurs at the termination or retirement of an employee when an expenditure is recorded for the payment of any unused vacation or sick leave. The second situation typically has the greatest implications for local governments. As employee leave accumulates, these payments are effectively postponed and the impact on future budgets increase.

The indicator has continued to show an overall decreasing trend since 2007. The decreasing trend can be attributable to an increase in the number of retirements over the past several years. To control the growth of this indicator, the ICMA Handbook suggests that leave policies be established or amended to encourage employees to use their paid time off. Such policies include setting limits on accrued leave or cashing out accrued leave only if designated levels of paid leave have been used during the year. The City maintains a limit on the amount of accrued annual leave an employee may carry forward each calendar year. Sick leave accumulation is unlimited, but the amount that the City pays in the event an employee leaves employment is capped based on years of service. This type of leave policy is normal practice for Virginia local governments.

| <b>Description</b>                                    | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Accumulated Employee Leave                            | \$3,582,480 | \$3,666,504 | \$3,983,594 | \$3,884,743 | \$3,800,581 |
| Number of Employees (Full-time Equivalents)           | 595.2       | 613.9       | 638.7       | 632.5       | 633.0       |
| Accumulated Leave per Employee (Full-time Equivalent) | \$6,019     | \$5,972     | \$6,237     | \$6,142     | \$6,004     |

# Accumulated Employee Leave



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## Factor 6 Capital Plant Indicators

Much of a corporation's wealth is invested in fixed long-term assets, such as property, plant, and equipment; much of a city's asset base is reflected in capital assets such as streets, buildings, and heavy equipment. While the City does not use these assets to support profitable enterprise, the assets support the quality of life Harrisonburg residents have come to expect. These assets must be properly maintained or there may be undesired consequences. If, for example, the City does not maintain its streets, not only will taxpayers complain, but also the community will be less attractive to businesses that the City is encouraging to relocate.

Like many types of preventive maintenance, the cost of maintaining the asset is usually less than the costs of prematurely replacing the asset. Unfortunately, when revenues are tight and demands for services are high, the temptation to defer capital expenditures is great. A locality can get away with this for a year or so to temporarily ease its financial pressures. But if the City defers these expenditures for too long of a period, roads and sidewalks can become unsafe, property values can decline (leading to a decline in revenues), and the eventual cost of repairing or replacing the asset can become enormous. Developing the indicators described in this factor can help City officials determine if they are investing enough in its capital plant.

Indicator 26, Maintenance Effort, was not developed. It is extremely difficult to determine which amount for maintenance of assets were actually maintenance expenditures and which were administrative, beautification or other expenses. Further, it is felt that this is not a problem area given the condition of the City's streets, parks, and other assets.

## Indicator 27 Capital Outlay

A capital outlay refers to expenditures from general operating funds for operating equipment that is expected to last more than one year, for example a dump truck or a computer system. This indicator also includes expenditures for street repaving. It does not include expenditures for capital construction projects such as streets or bridges.

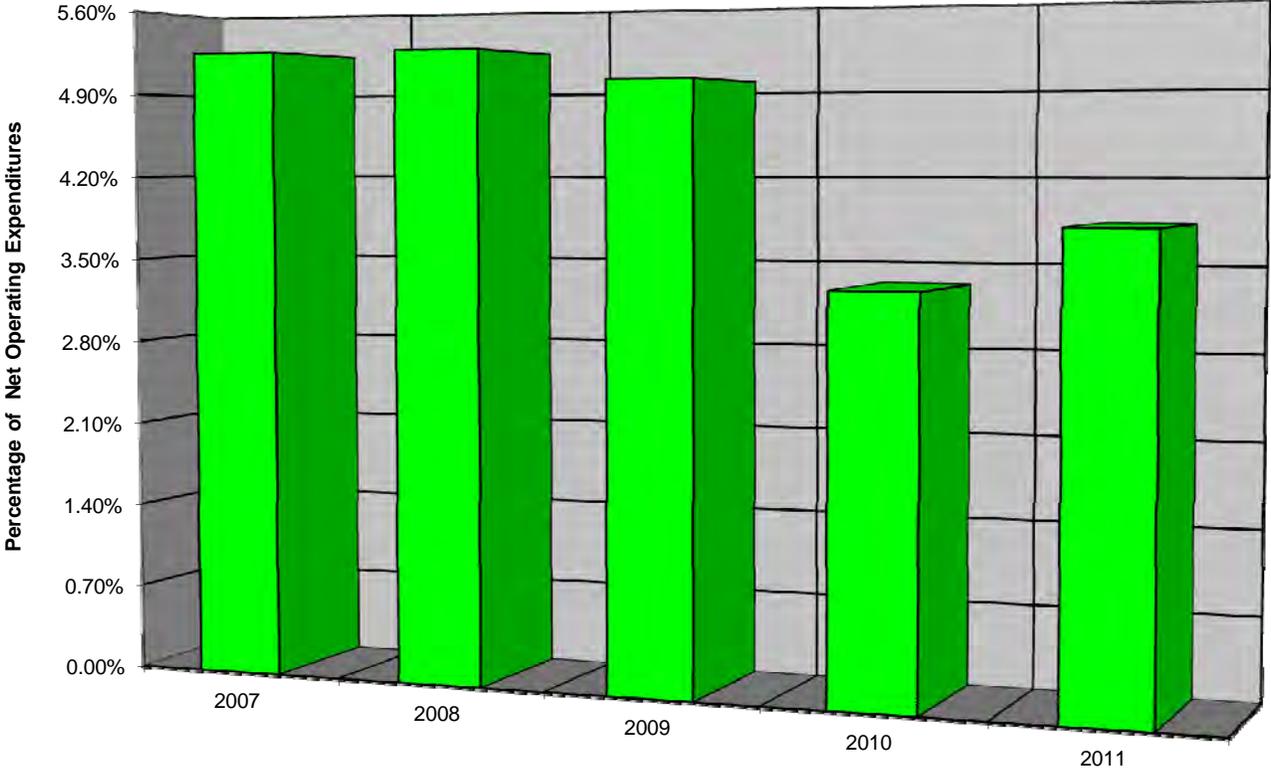
Capital outlay needs to be included in the budgeting process because equipment such as vehicles wear out and equipment like computer systems can become obsolete (or inefficient). Just as with maintenance efforts, during periods of low revenue, a city may postpone these expenditures for a year to focus on providing services, but there can be major costs associated with continual postponement. For instance, the decision not to purchase new vehicles may result in service trucks that spend more time in the shop than performing the operations for which they were originally purchased.

This indicator has decreased overall from 2007. The sharp decline in 2010 was from a decrease in street paving expenditures and a general decrease in other capital outlay due to declining revenue.

It is especially important to examine the overall trend in this indicator. If a city purchases a whole fleet of vehicles in one year, the next year's capital outlay is likely to be low. This is not a warning trend, but a three or more year decline in capital outlay as a percentage of net operating expenditures could be considered a warning trend.

| Description  | 2007         | 2008          | 2009          | 2010          | 2011          |
|--|--------------|---------------|---------------|---------------|---------------|
| Capital Outlay   | \$5,086,644  | \$5,519,756   | \$5,723,432   | \$3,612,870   | \$4,250,866   |
| Net Operating Expenditures                                   | \$97,137,129 | \$105,259,548 | \$114,581,587 | \$108,656,297 | \$110,901,986 |
| Capital Outlay as a Percentage of Net Operating Expenditures | 5.24%        | 5.24%         | 5.00%         | 3.33%         | 3.83%         |

# Capital Outlay



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## Factor 7 Community Needs and Resources

The indicators developed under this category encompass a number of characteristics of the community. These indicators may or may not be important when considered alone, but they often help to explain the trends observed in other indicators. The indicators may also help determine whether or not to change some of the City's policies. For example, a decline in personal income may lead to a decrease in spending at restaurants and retail business, which will result in lower than expected tax revenues for the City. If unemployment rates have increased then the City could reexamine its tax rates and policies. Due to the difficulty in obtaining timely and accurate data, the following indicators were not developed:

Indicator 29, Population Density

Indicator 30, Population under 18 and over 64

Indicator 32, Poverty Households

Indicator 35, Home Ownership

Indicator 36, Vacancy Rates

Indicator 37, Crime Rates

## Indicator 28 Population

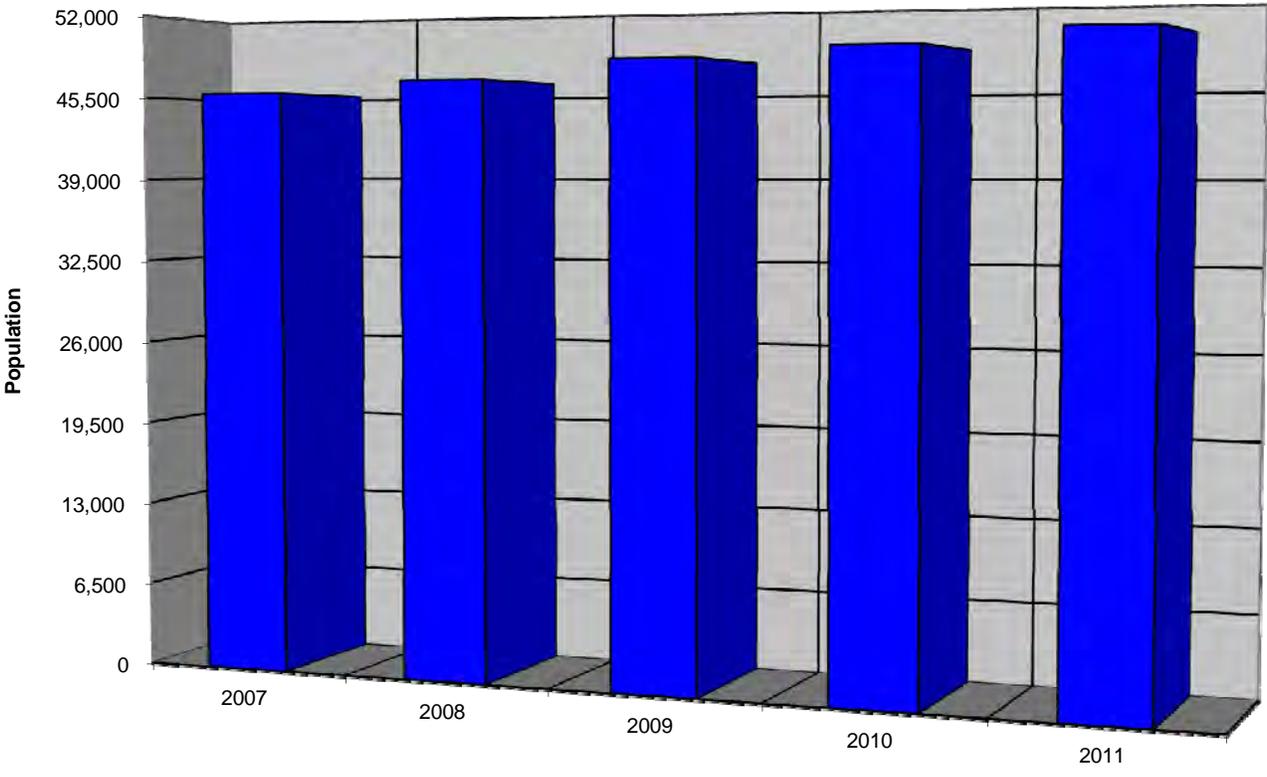
Harrisonburg has experienced population growth of roughly 9.4% over the past five years. This raises several interesting questions. Is this growth rate likely to continue? If it does, how long will the City's infrastructure support the growth? Will job growth keep pace? Is there sufficient undeveloped real estate to permit future development or will increased competition for housing drive housing prices artificially high? How will JMU's continued expansion affect the City's ability to sustain this growth? According to the 2010 U.S. Census Bureau, the City's population was 48,914, a 20.9% increase over the 2000 population.

Rapid changes in population size can have significant effects on a city's short-term and long-term financial health. For example, a rapid increase can cause the City to invest heavily in roads and schools or hire additional employees. If this trend is reversed, the City may be left with too large an asset base for its population. If the population is increasing due to young families with children, the City can expect its expenditures to increase rapidly for the foreseeable future. Conversely, if the expansion is due to an influx of professionals, it is likely that revenues will increase at a higher rate than expenditures.

| <b>Description</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Population         | 45,752      | 46,660      | 48,134      | 48,914      | 50,057      |

Source: U.S. Census Bureau (2010) and Weldon Cooper Center for Public Service (2007-2009, 2011)

# Population



## Indicator 31 Personal Income per Capita

Personal income per capita is important to a local government. When personal income is high, the City can generate higher tax revenues. Individuals with high personal income generally also require less in the way of services from the City. Further, the distribution of income is also important. A city with a large middle class and a small standard deviation of income will face different fiscal challenges than a city with a small number of very wealthy residents and a large number of low-income families, even though the two cities may have similar per capita income figures.

This indicator has shown a stable increase in nominal dollars for the five years studied with a five-year growth rate of 8.8% in nominal dollars. There are several possible explanations for this. First, favorable economic conditions in the City could be increasing personal income. Second, since the population is also increasing, then the people moving in may have higher personal income than those moving out. Third, an increase in the cost-of-living due to inflationary pressures could be pushing personal income higher. This indicator has a flat five-year growth rate in constant dollars. This would indicate that a significant portion of the nominal dollar growth was due to an increase in inflation.

In 2009, the most recent year that official data has been obtained, the Harrisonburg Metropolitan Statistical Area (HMSA) ranking fell to 72<sup>nd</sup> overall in the state, which was 69.6% of the \$44,057 state average. The HMSA was 77.4% of the \$39,635 national average. It should be noted that the large number of college students that reside within the City tends to depress the per capita income figures.

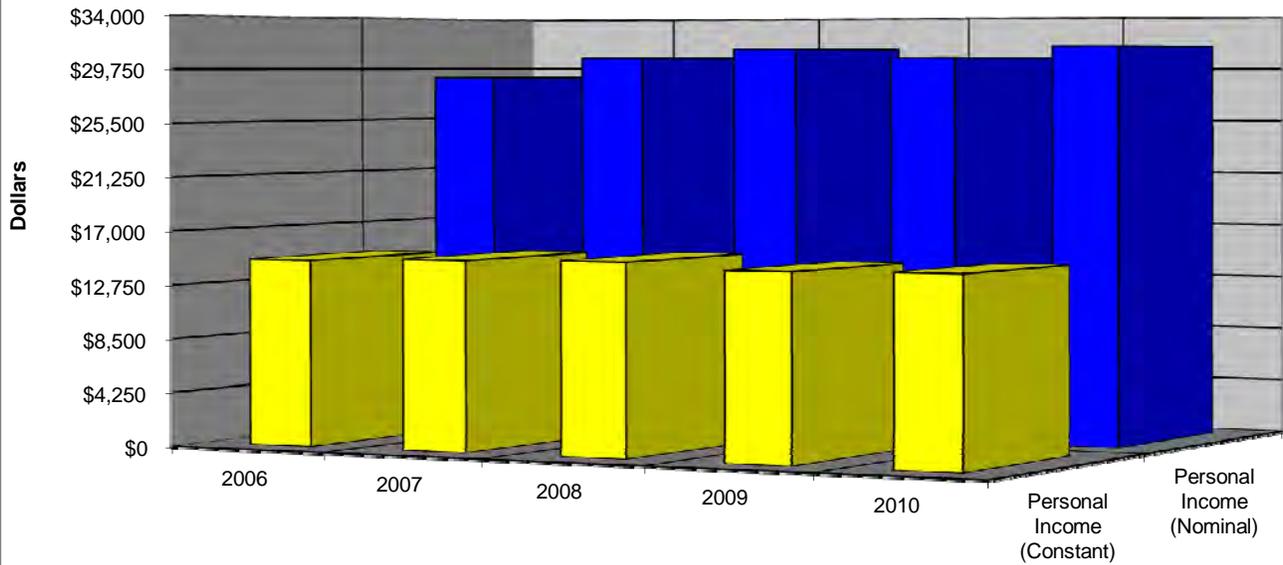
| Description                                       | 2006     | 2007     | 2008     | 2009     | 2010                  |
|---|----------|----------|----------|----------|-----------------------|
| Personal Income per Capita (Nominal) <sup>a</sup> | \$29,006 | \$30,654 | \$31,355 | \$30,673 | \$31,572 <sup>b</sup> |
| CPI for the Area (1982-84=1.000)                  | 1.971    | 2.050    | 2.080    | 2.101    | 2.145                 |
| Personal Income per Capita (Constant)             | \$14,716 | \$14,953 | \$15,075 | \$14,599 | \$14,719              |

Source: Bureau of Economic Analysis

<sup>a</sup> These amounts are for the Harrisonburg Metropolitan Statistical Area.

<sup>b</sup> Estimated.

# Personal Income per Capita



## Indicator 33 Property Value

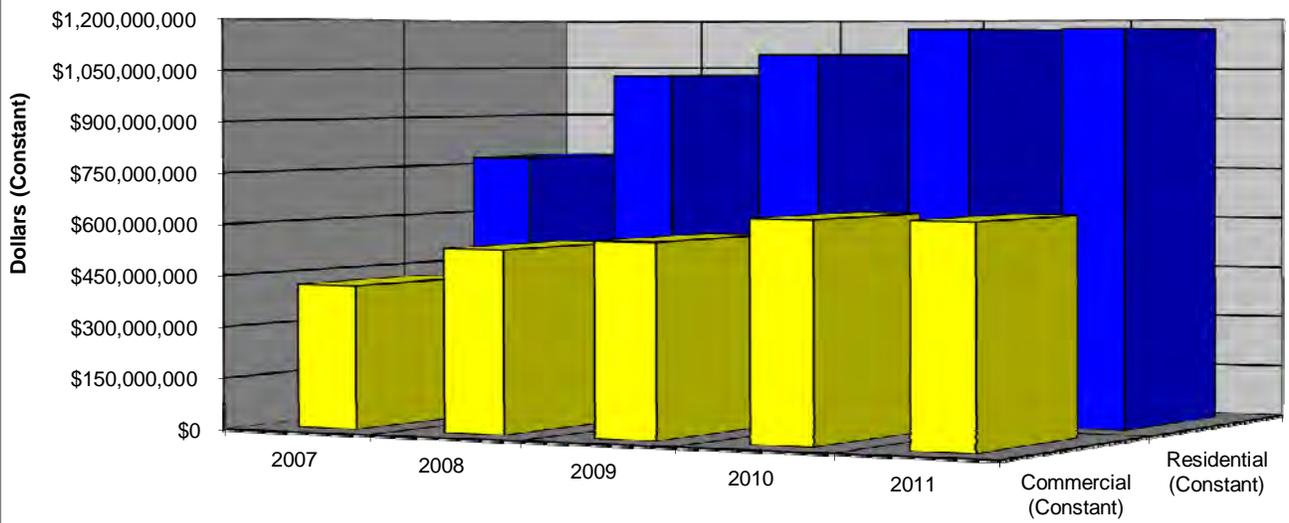
Property value is an important indicator since property taxes are such an important component of the City's revenues. The overall five-year growth rate for residential property is 64.3% in nominal dollars (50.9% in constant dollars) and 64.7% for commercial/industrial property (51.4% in constant dollars). It should be noted that 2008 was a reassessment year while 2009 was the first year of annual reassessments. Over one-half of the five-year increase occurred during the 2008 property value reassessment, which increased residential property values 38.1% (32.8% in constant dollars) and commercial/industrial property values 32.1% (27% in constant dollars).

If property values increase too fast, problems may result. If values rise faster than personal income or prices in general, more citizens, especially those on fixed incomes, may be unable to pay their taxes. The increase in value of commercial/industrial property (and resulting taxes) may cause companies to relocate to Rockingham County or even out of the area. Further, housing prices that are artificially high may deter people or companies from locating in the City.

| <b>Description</b>                                      | <b>2007</b>     | <b>2008</b>     | <b>2009</b>     | <b>2010</b>     | <b>2011</b>     |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Market Value of Taxable Residential Property (Nominal)  | \$1,528,652,129 | \$2,111,233,783 | \$2,275,254,580 | \$2,454,130,651 | \$2,510,853,924 |
| Market Value of Taxable Commercial Property (Nominal)   | \$828,541,876   | \$1,094,534,067 | \$1,173,035,128 | \$1,333,884,176 | \$1,364,937,892 |
| CPI for the Area (1982-84=1.000)                        | 1.971           | 2.050           | 2.080           | 2.101           | 2.145           |
| Market Value of Taxable Residential Property (Constant) | \$775,571,856   | \$1,029,870,138 | \$1,093,872,394 | \$1,168,077,416 | \$1,170,561,270 |
| Market Value of Taxable Commercial Property (Constant)  | \$420,366,249   | \$533,919,057   | \$563,959,196   | \$634,880,617   | \$636,334,682   |

Source: City of Harrisonburg Commissioner of the Revenue

# Property Value



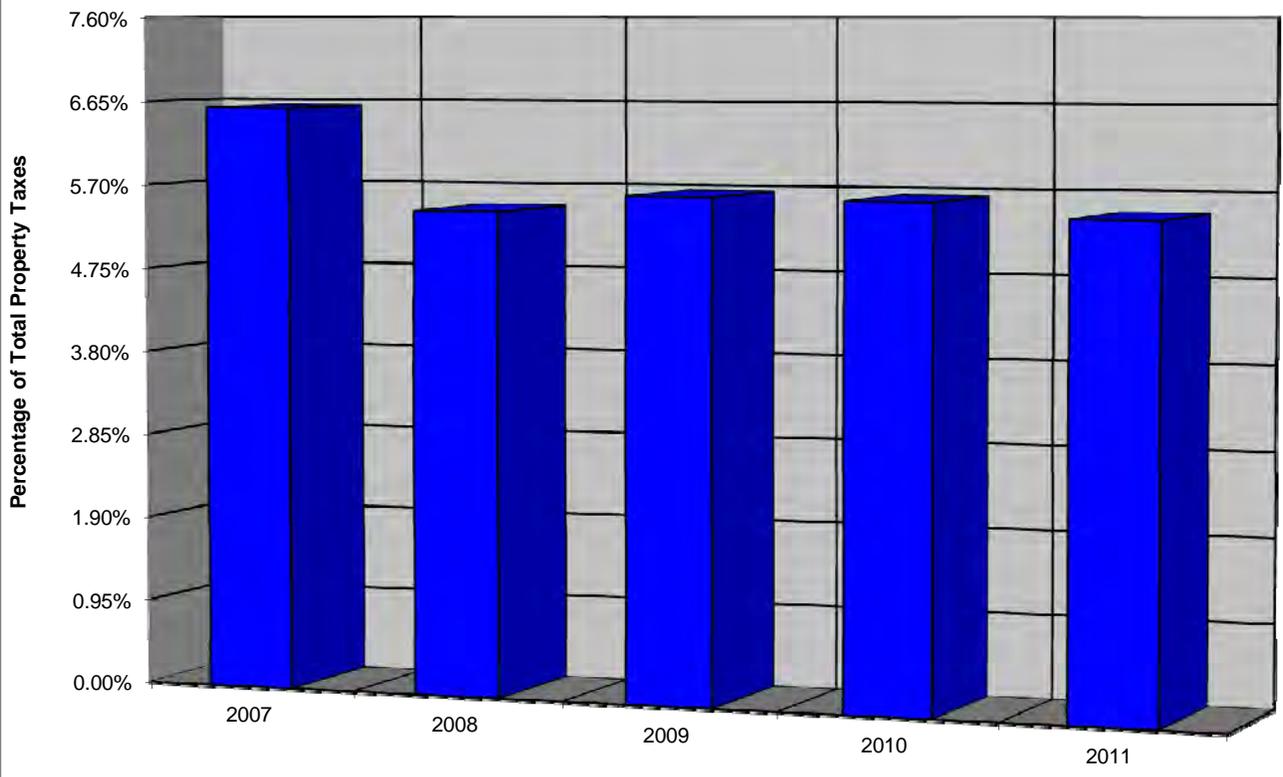
## Indicator 34 Top Five Property Taxpayers

This indicator measures the concentration of the property tax base in the City. Since a diverse property tax base is essential to the health of any local government, this indicator can help analyze the vulnerability of the City to the fortunes of a few taxpayers. If a local government relies heavily on a few taxpayers for property taxes, it is vulnerable to any changes in these taxpayers' assessments. Bond rating agencies use this indicator to determine the degree of concentration within the locality. This concentration of revenue, in a few sources, raises the same concerns initiated by Indicator 3, Intergovernmental Revenues. Generally, a local government may have cause for concern if the top five taxpayers hold more than 20 percent of the property tax base.

This indicator has been decreasing overall the past five years but did increase slightly in 2009. Currently the top five taxpayers comprise 5.45% of the property tax base. This indicates that the City has been relying less on these large taxpayers since 2007.

| Description  | 2007         | 2008         | 2009         | 2010         | 2011         |
|--|--------------|--------------|--------------|--------------|--------------|
| Top Five Taxpayers   | \$1,560,999  | \$1,482,712  | \$1,640,991  | \$1,729,755  | \$1,707,175  |
| Total Property Taxes                                       | \$23,722,324 | \$27,221,485 | \$29,095,900 | \$30,809,804 | \$31,326,231 |
| Top Five Taxpayers as a Percentage of Total Property Taxes | 6.58%        | 5.45%        | 5.64%        | 5.61%        | 5.45%        |

# Top Five Property Taxpayers



## Indicator 38 Unemployment Rate

A stable base of employment is vital to a city. In the short-term, a high level of unemployment may result in lower revenues, increased delinquency on taxes, and higher expenditures. A low level of unemployment may discourage new businesses from locating to the City due to labor shortages. The long-term implications are more serious. If unemployment rates bounce up and down, the City will have much greater difficulty accurately forecasting its revenues, expenditures, and capital needs, making long-range planning difficult. Additionally, it gives the impression of overall economic instability, making Harrisonburg less attractive to an individual or business thinking of relocating.

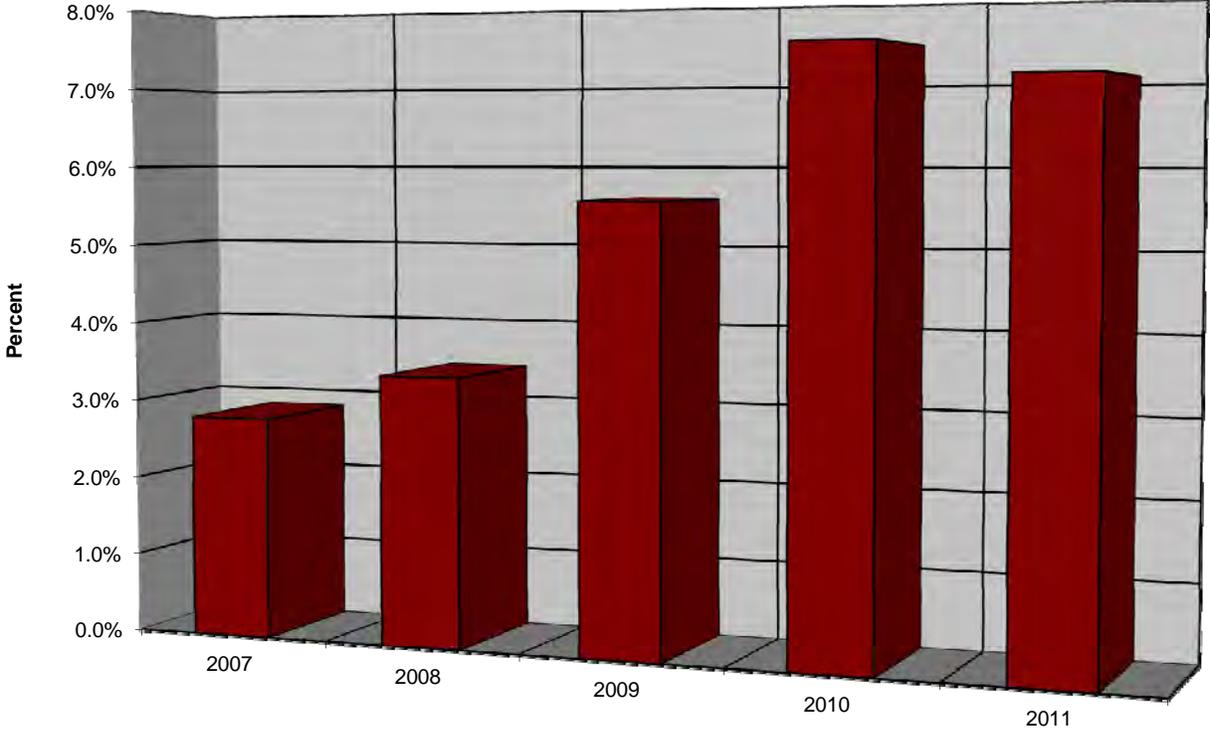
The unemployment rate measures the number of residents who are unemployed; it does not consider whether those who are employed work in Harrisonburg or elsewhere in the region. Of course, there are limitations to the unemployment rate. People who are employed part-time or who are otherwise "underemployed" are still considered as employed for statistical purposes. People who have stopped looking for work are no longer considered unemployed, and are not counted as part of the work force. Consequently, the unemployment rate can be misleading.

The City's average annual unemployment rate increased from 2007 to 2011, due to unfavorable economic conditions, but decreased slightly from 2010 to 2011. As the following table shows, the City's unemployment rate compares favorably to the national unemployment rate but is slightly higher than the state unemployment rate.

| <b>Description</b>         | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Local Unemployment Rate    | 2.8%        | 3.4%        | 5.6%        | 7.5%        | 7.1%        |
| State Unemployment Rate    | 3.0%        | 3.3%        | 5.5%        | 7.1%        | 6.5%        |
| National Unemployment Rate | 4.5%        | 4.9%        | 7.6%        | 9.7%        | 9.3%        |

Source: Virginia Employment Commission.

# Unemployment Rate



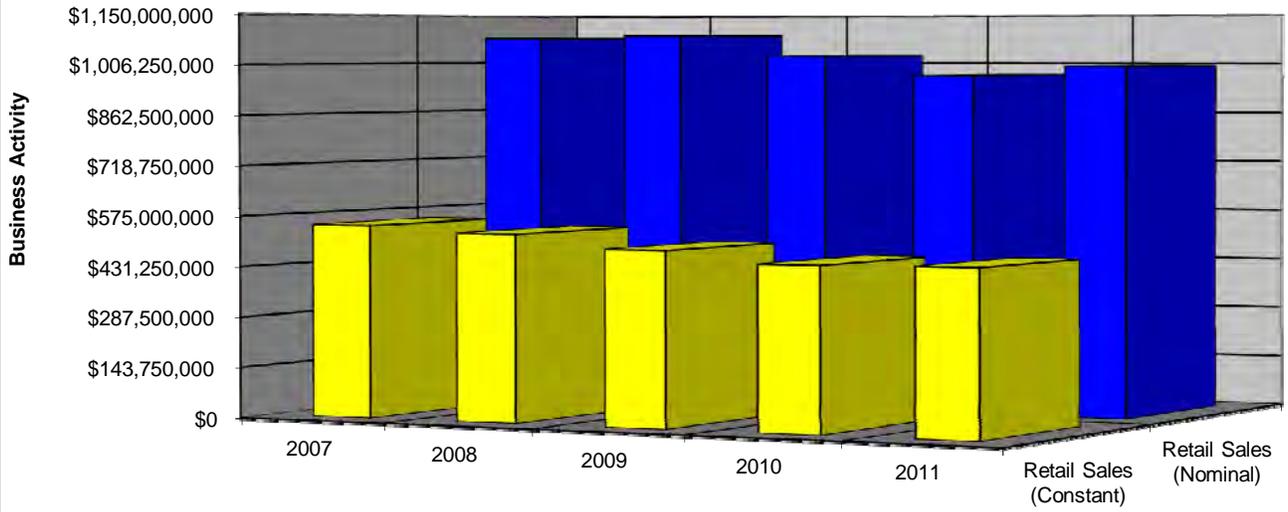
## Indicator 39 Business Activity

Growth in business activity is generally a sign of a healthy local economy. There are several measures of business activity. We have chosen to develop retail sales since local sales taxes and restaurant food taxes are important components of the City's revenues. The general economic environment continued to erode through 2010 as evidenced by the retail sales data. Retail sales declined in 2009 and again in 2010, but began to trend upward in 2011. Retail sales in 2011 are still lagging behind 2007, 7.4% in nominal dollars (14.9% constant dollars).

| <b>Description</b>               | <b>2007</b>     | <b>2008</b>     | <b>2009</b>     | <b>2010</b>   | <b>2011</b>     |
|----------------------------------|-----------------|-----------------|-----------------|---------------|-----------------|
| Retail Sales (Nominal)           | \$1,080,727,995 | \$1,089,143,925 | \$1,029,004,052 | \$973,141,709 | \$1,000,380,856 |
| CPI for the Area (1982-84=1.000) | 1.971           | 2.050           | 2.080           | 2.101         | 2.145           |
| Retail Sales (Constant)          | \$548,314,559   | \$531,289,720   | \$494,713,487   | \$463,180,252 | \$466,378,021   |

Source: Virginia Department of Taxation

# Business Activity



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## Conclusion

Overall the City appears to be in sound financial condition when looking collectively at the trends for all of the developed indicators. Of the 26 indicators that were developed for which there are defined warning trends, five qualified as constituting a warning trend. In addition, six of the indicators have benchmarks that have been developed by the credit rating agencies. The City has exceeded one of the credit industry benchmarks. The following list summarizes any significant trends that match the ICMA definition of a warning trend.

### ICMA Warning Trends

1. **Indicator 1 – Net Operating Revenues per Capita** – The warning trend is decreasing net operating revenues per capita (constant dollars). The indicator has been decreasing since 2007 mainly from the weak economy over the past several years.
2. **Indicator 21 – Debt Service** – The warning trend is increasing debt service as a percentage of net operating revenues. This indicator has shown an increase since 2007 mainly due the \$50 million bond issue in 2007 for construction of the new elementary/middle school complex and the related construction of Linda Lane, as well as, several smaller bond issues the past three years.
3. **Indicator 27 – Capital Outlay** – The warning trend is decreasing capital outlay as a percentage of net operating expenditures. Capital outlay expenditures have been declining due to the postponement of equipment purchases as a result of unfavorable economic conditions.
4. **Indicator 38 – Unemployment Rate** – The warning trend is an increasing rate of unemployment. The average unemployment rate increased significantly from 2.8% in 2007 to 7.1% in 2011, which was a slight improvement over 2010.
5. **Indicator 39 – Business Activity** – The warning trend is decreasing retail sales in constant dollars. This indicator has shown declining retail sales in constant dollars since 2007 of 14.9%, mainly from weak economic conditions over this time period.

### Credit Industry Benchmarks

1. **Indicator 15 – Operating Surplus (Deficit)** – This indicator violates three of the four credit industry benchmarks established for this indicator. The four benchmarks are: (1) two consecutive years of operating deficits, (2) the current year operating deficit greater than that of the previous year, (3) two or more operating deficits in the last five years and (4) an abnormally large deficit of more than 5 to 10 percent in one year.

