CITY OF HARRISONBURG, VIRGINIA

FINANCIAL TREND MONITORING SYSTEM

AN EVALUATION OF THE CITY'S FINANCIAL CONDITION

For the Five Year Period Ended June 30, 2015

23rd Edition

FINANCIAL TREND MONITORING SYSTEM
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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

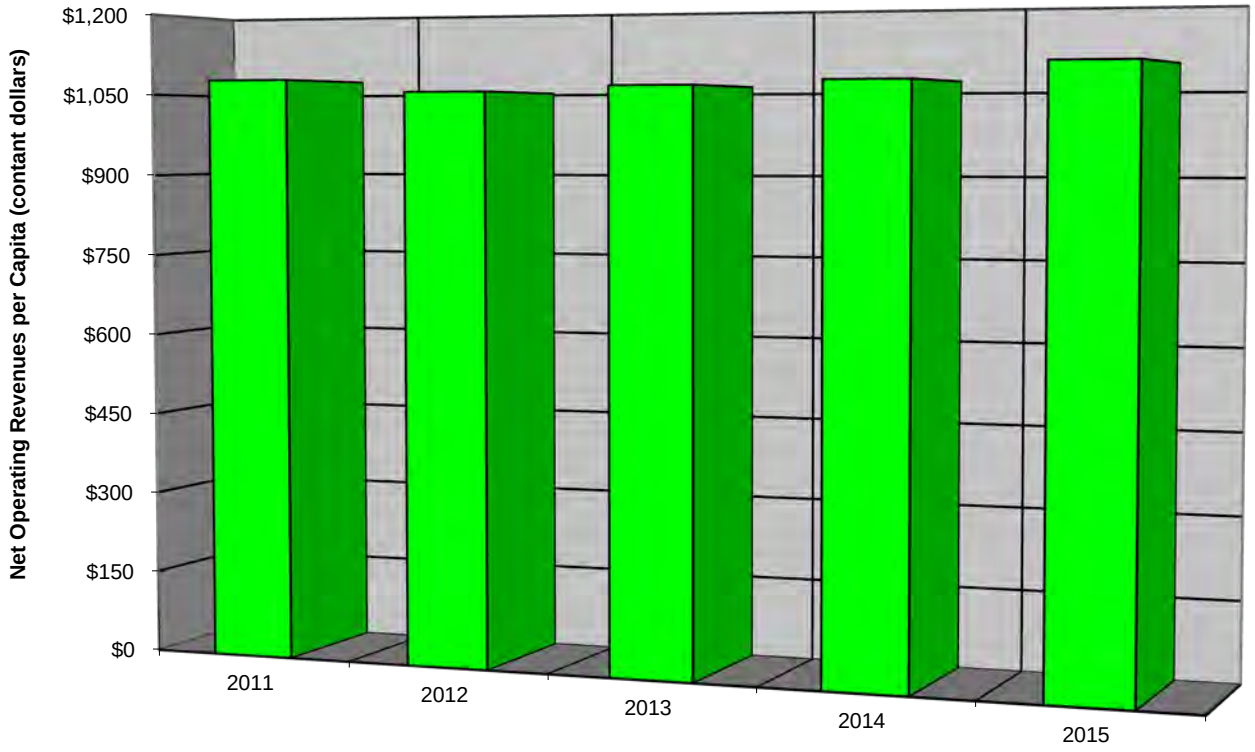
Net operating revenues per capita show changes in revenues relative to changes in population. Net operating revenues per capita in constant dollars have increased overall 2.4% over the past five years. The nominal per capita five-year growth rate is 9.9%. Revenue growth over the past five years has been driven by increases in intergovernmental revenue for education, real estate tax collections, and restaurant food tax collections. It should be noted that tax rates for restaurant food taxes increased in 2013, as well as, for real estate taxes which increased in 2013 and 2015. Most all of the economically sensitive revenues such as local sales taxes and business license taxes have surpassed their pre-recessionary highs of 2008.

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	**2011**	**2012**	**2013**	**2014**	**2015**
Net Operating Revenues (Nominal)	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Net Operating Revenues (Constant)	$53,868,655	$53,556,913	$55,412,050	$56,369,394	$59,359,921
Population	50,057	50,862	52,127	52,612	53,875
Net Operating Revenues per Capita (Nominal)	$2,308	$2,330	$2,391	$2,452	$2,536
Net Operating Revenues per Capita (Constant)	$1,076	$1,053	$1,063	$1,071	$1,102

2011-2014: Reclassified for refuse, landfill and recycling operations which were moved from the General Fund to the Sanitation Fund.

Net Operating Revenues per Capita



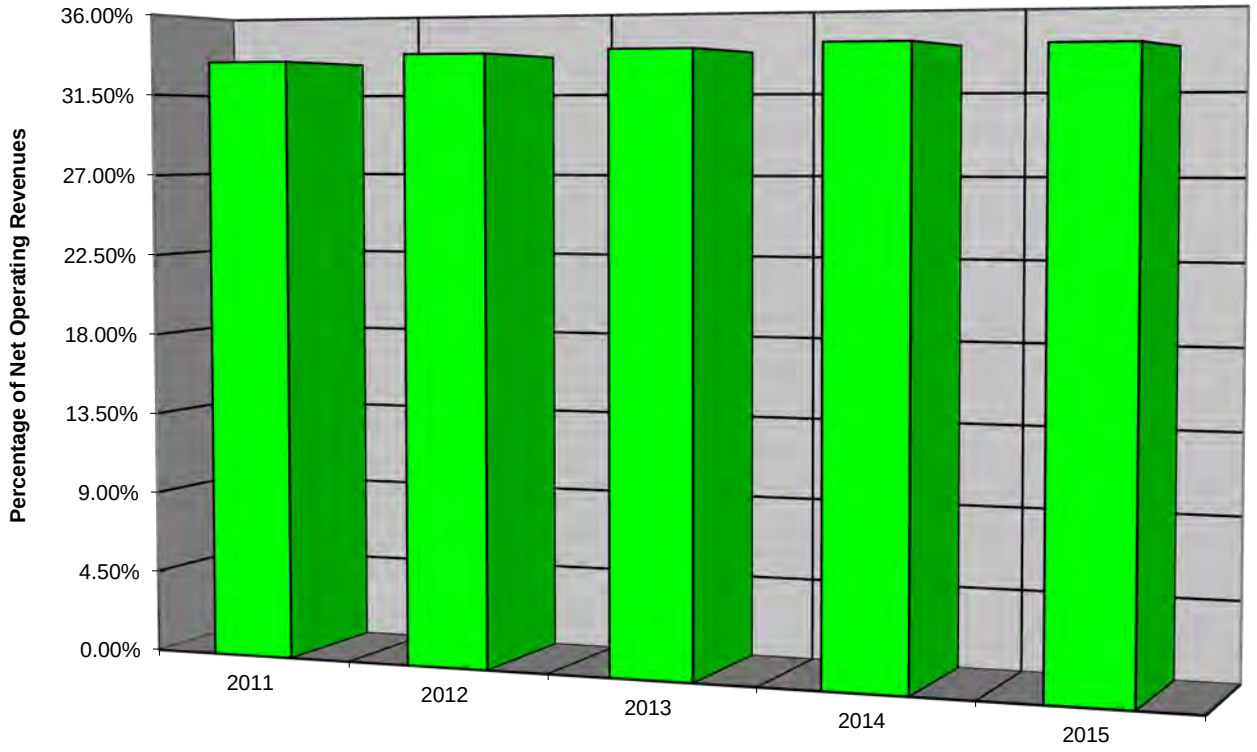
Indicator 2
Restricted Revenues

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 increased slightly since 2011. Restricted revenues have increased 20.6%, while net operating revenues have increased by 18.3% over the past five years. Although restricted revenues and net operating revenues have both increased, it should be noted that while state funding for education has increased $8.5 million (37.6%), federal funding has decreased $1.4 million (20.5%). The increase in state funding for education has largely been the result of an increase in basic school aid revenue as the school systems' average daily membership (ADM) continues to increase, and from a general increase in funding as the economic recovery continues. The decrease in federal funding for education is due to the end of stimulus funding that was provided by the federal government during the recession. 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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Restricted Revenues	$38,463,588	$39,873,104	$42,149,439	$43,969,910	$46,376,280
Net Operating Revenues	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
Restricted Revenues as a Percentage of Net Operating Revenues	33.29%	33.64%	33.82%	34.08%	33.94%

Restricted Revenues



Indicator 3
Intergovernmental Revenues

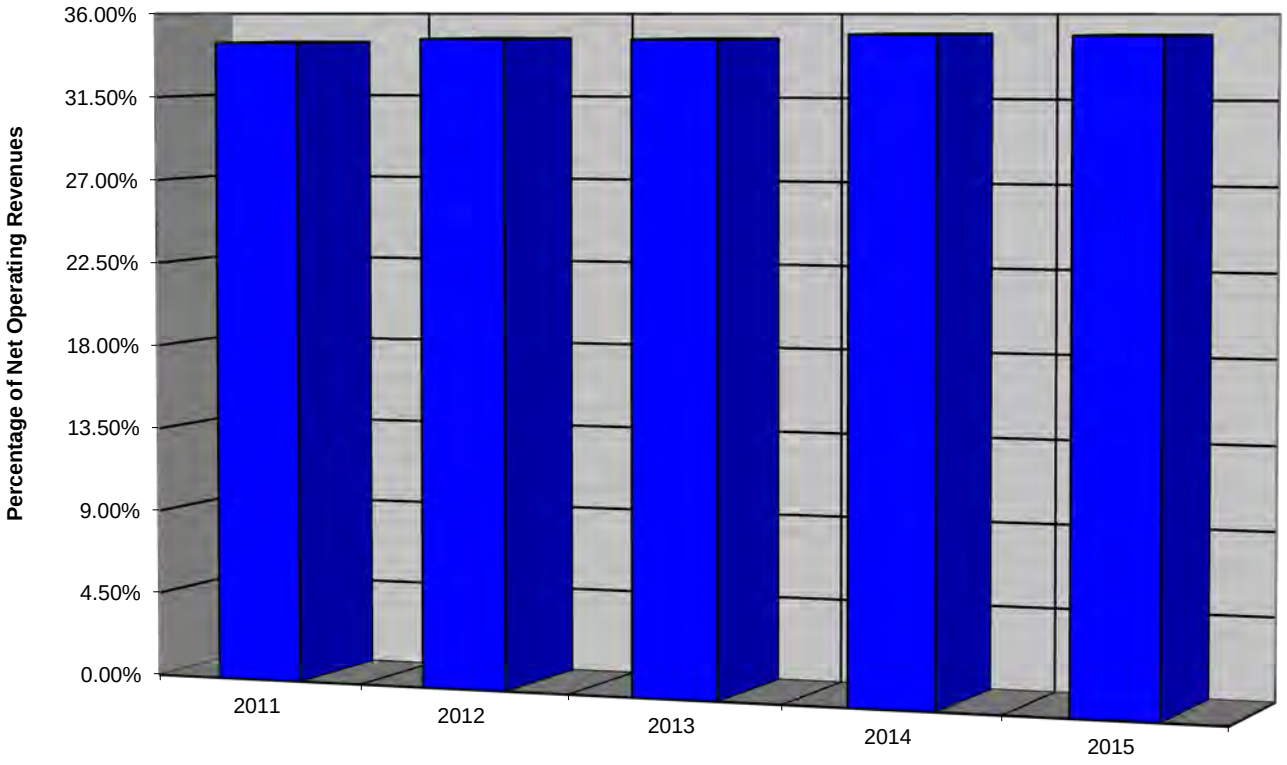
Analyzing intergovernmental revenues as a percentage of total operating revenues is important. While intergovernmental revenues will always be a major component of total revenues, localities do not want to rely too heavily on external support for several reasons. First, those revenues can be reduced 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 increased slightly since 2011. However, actual intergovernmental revenue has increased $7.9 million (19.9%) since 2011. The Commonwealth's funding has increased over $10 million (31.8%), while federal funding has decreased $2.1 million (25.3%). State basic school aid funding, as discussed within Indicator 2, Restricted Revenues, as well as the schools' share of state sales tax, fringe benefits payments, and at-risk education programs have contributed to the state five-year increase. In addition, the Commonwealth's VDOT revenue sharing for street paving increased approximately $671,000. Federal funding has decreased since 2011, which was the result of the end of stimulus funding provided during the recession. However, federal revenues have increased approximately $766,000 within the school food program.

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	**2011**	**2012**	**2013**	**2014**	**2015**
Intergovernmental Revenues	$39,799,250	$41,107,017	$43,226,167	$45,124,007	$47,736,092
Net Operating Revenues	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
Intergovernmental Revenues as a Percentage of Net Operating Revenues	34.44%	34.68%	34.69%	34.97%	34.93%

Intergovernmental Revenues



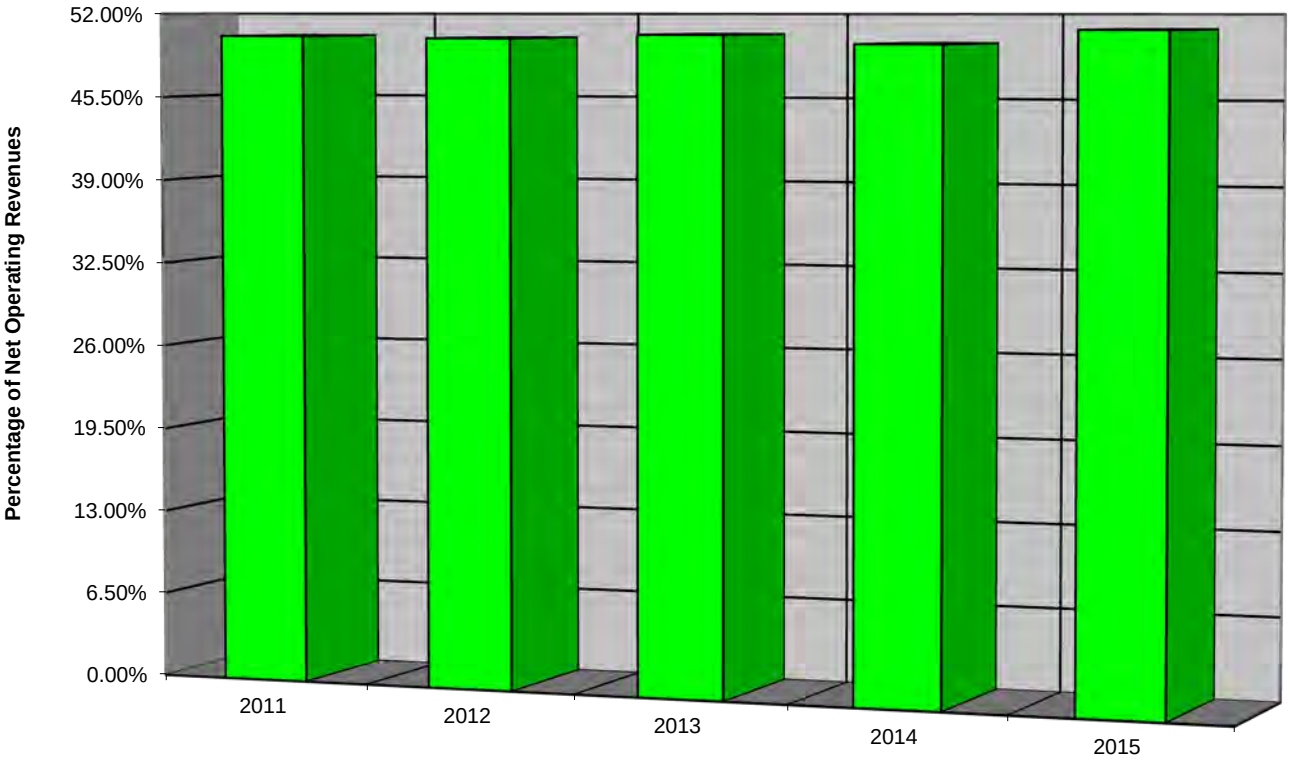
Indicator 4
Elastic Revenues

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 tends to have an inverse relationship to the intergovernmental revenues indicator and has increased overall since 2011. Due to an increase in the real estate tax rate in 2013 and 2015, real estate tax collections have increased $3.8 million (16.8%) since 2011. Local sales tax collections increased $1.5 million (13.6%) over the past five years and in 2014 exceeded its pre-recessionary high that occurred in 2008. In 2013, meals tax and hotel/motel tax rates increased, contributing to the restaurant food tax collection increase of $2.6 million (31.5%), and the hotel/motel room tax collection increase of $642,000 (39.3%). In addition, over the past five years, personal property tax collections have increased $1.8 million (28.8%) which included a tax rate increase in 2015, while business license tax collections have increased $688,000 (12.3%) surpassing its pre-recessionary high in 2008.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Elastic Revenues	$58,107,467	$59,440,691	$62,869,580	$64,238,101	$69,523,102
Net Operating Revenues	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
Elastic Revenues as a Percentage of Net Operating Revenues	50.29%	50.15%	50.45%	49.79%	50.88%

Elastic Revenues



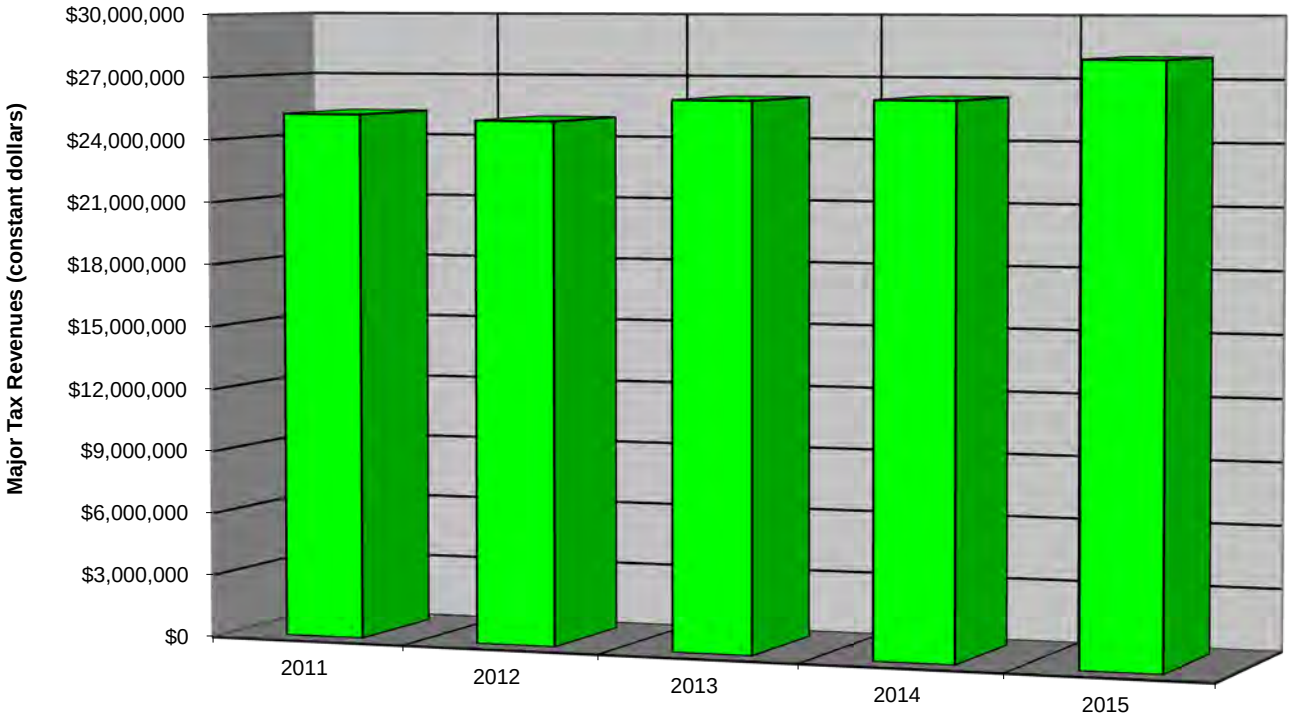
Indicator 6
Major Tax Revenues

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 had an overall increase during the past five years. A major contributor to this increase is real estate tax collections which have increased $3.8 million. Real estate tax collections have increased 16.8% in nominal dollars (8.8% constant dollars). Personal property tax collections have increased 28.8% in nominal dollars (20% constant dollars) since 2011. Restaurant food tax collections have also had a positive impact on this indicator and were discussed further in Indicator 4, Elastic Revenues. Local sales tax collections have rebounded from its recessionary low in 2010 and have increased 13.6% in nominal dollars (5.9% constant dollars) over the past five years.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Major Tax Revenues (Nominal)	$54,121,385	$55,310,565	$58,584,138	$59,812,335	$64,591,501
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Major Tax Revenues (Constant)	$25,231,415	$24,993,477	$26,048,972	$26,130,334	$28,058,862

Major Tax Revenues



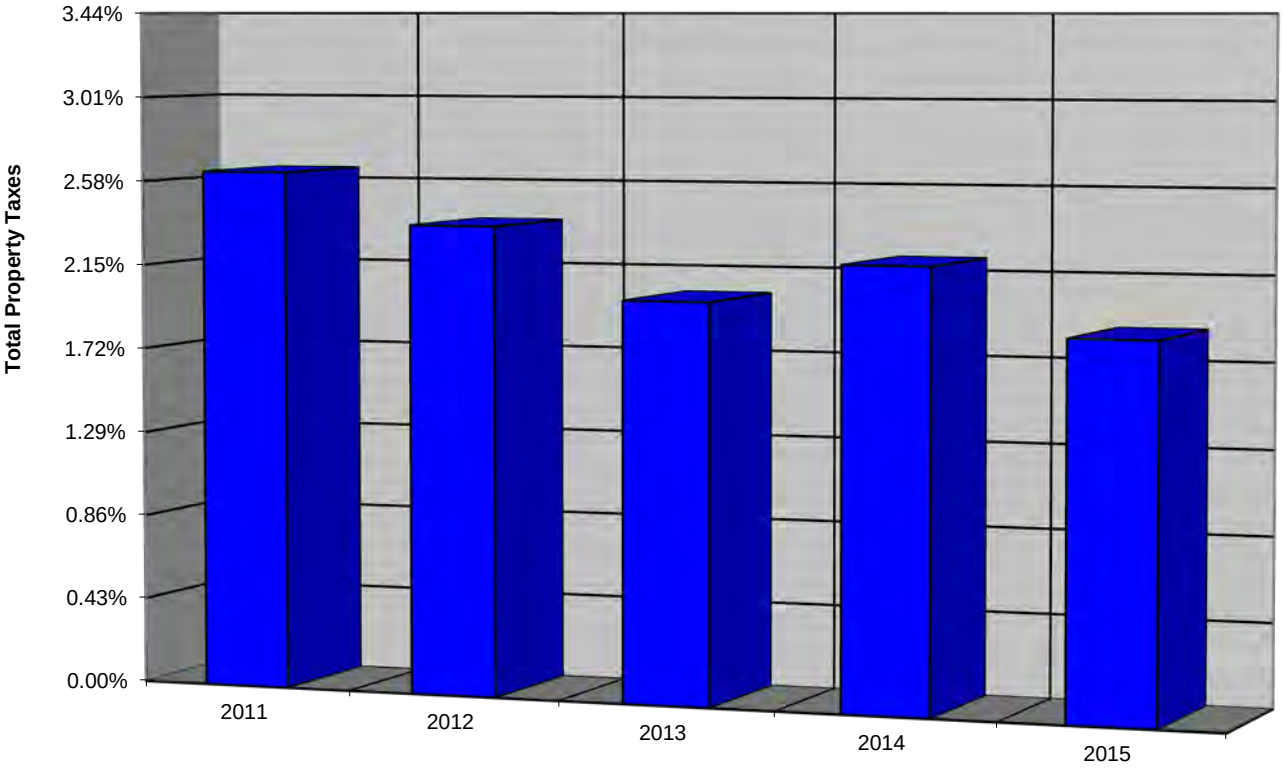
Indicator 7
Current Year Uncollected Property Taxes

Uncollected property taxes as a percentage of the property tax levy for current year taxes have decreased over the past five years. 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. This trend has been declining overall since 2011 and is currently 1.88% which is the lowest uncollected percentage and the first time this percentage has been below 2% since this report has been prepared. Real estate property uncollected taxes have improved from 1.98% in 2011 to 1.48% in 2015. Personal property uncollected taxes have improved from 5.85% to 3.71% over the past five years. This may be an indication that the City's taxpayers are able to pay their taxes and that the City's rate is at a reasonable level. The improved personal property tax collection rate has also coincided with additional personal property tax collection methods.

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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Current Year Uncollected Property Taxes	$824,849	$757,774	$675,600	$740,505	$699,563
Total Property Taxes	$31,326,231	$31,917,343	$33,518,148	$33,472,734	$37,288,334
Current Year Uncollected Property Taxes as a Percentage of Total Property Taxes	2.63%	2.37%	2.02%	2.21%	1.88%

Current Year Uncollected Property Taxes



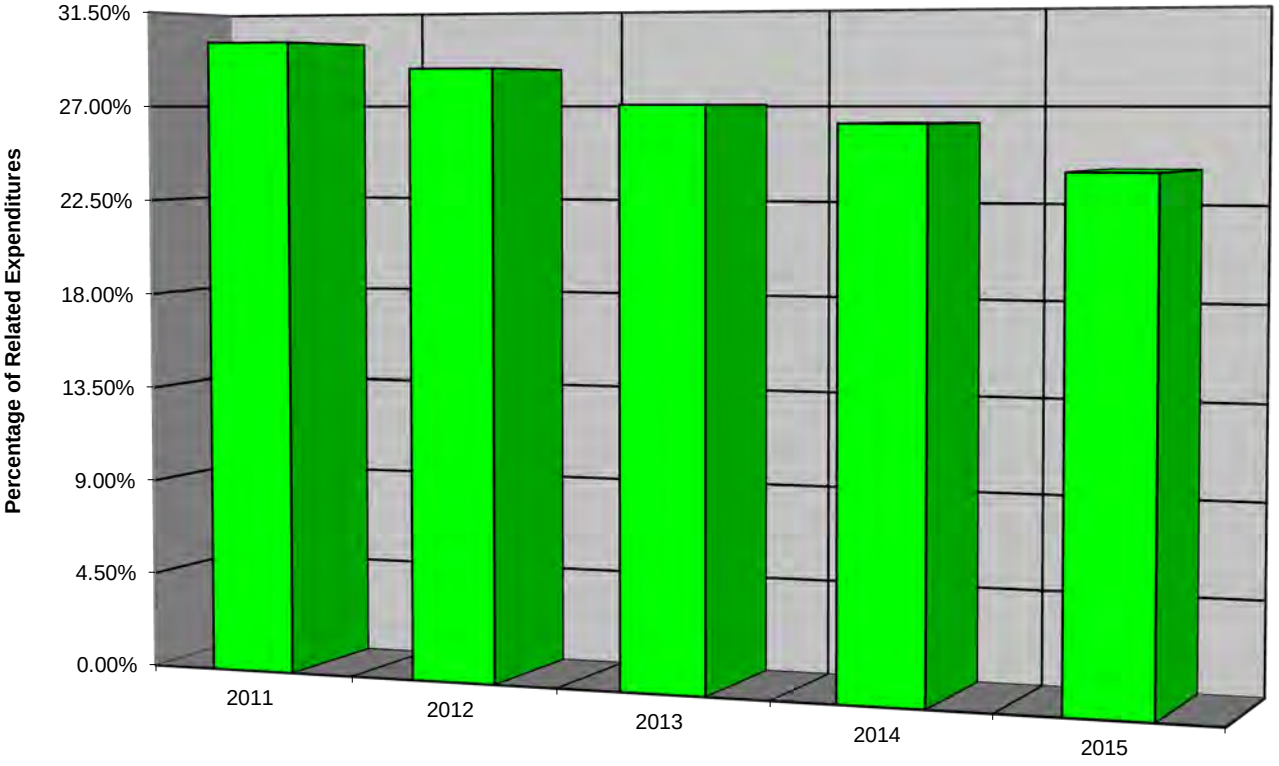
Indicator 8
User Charge Coverage

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.

This indicator has been trending down since 2011. The 30.02% user charge coverage in 2011 was largely due to building and inspection permit revenue; however, building permit revenue has decreased while expenditures have increased over the past five years. School cafeteria services continue to have a negative impact on this indicator declining from 22.7% coverage in 2011 to 16.1% coverage in 2015. It should be noted that increased federal intergovernmental revenue for school cafeteria services continue to help make up the difference in this decline. Also, the user charge coverage for the golf course has remained relatively constant over the past five years with 2015 being at 65.6%

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Revenues from User Charges	$2,288,168	$2,272,084	$2,214,228	$2,185,102	$2,162,053
Operating Expenditures for Services for which there is a Fee	$7,622,180	$7,899,695	$8,176,591	$8,327,944	$8,965,029
Revenues from User Charges as a Percentage of Related Operating Expenditures	30.02%	28.76%	27.08%	26.24%	24.12%

User Charge Coverage



Indicator 9
Revenue Surplus (Shortfall)

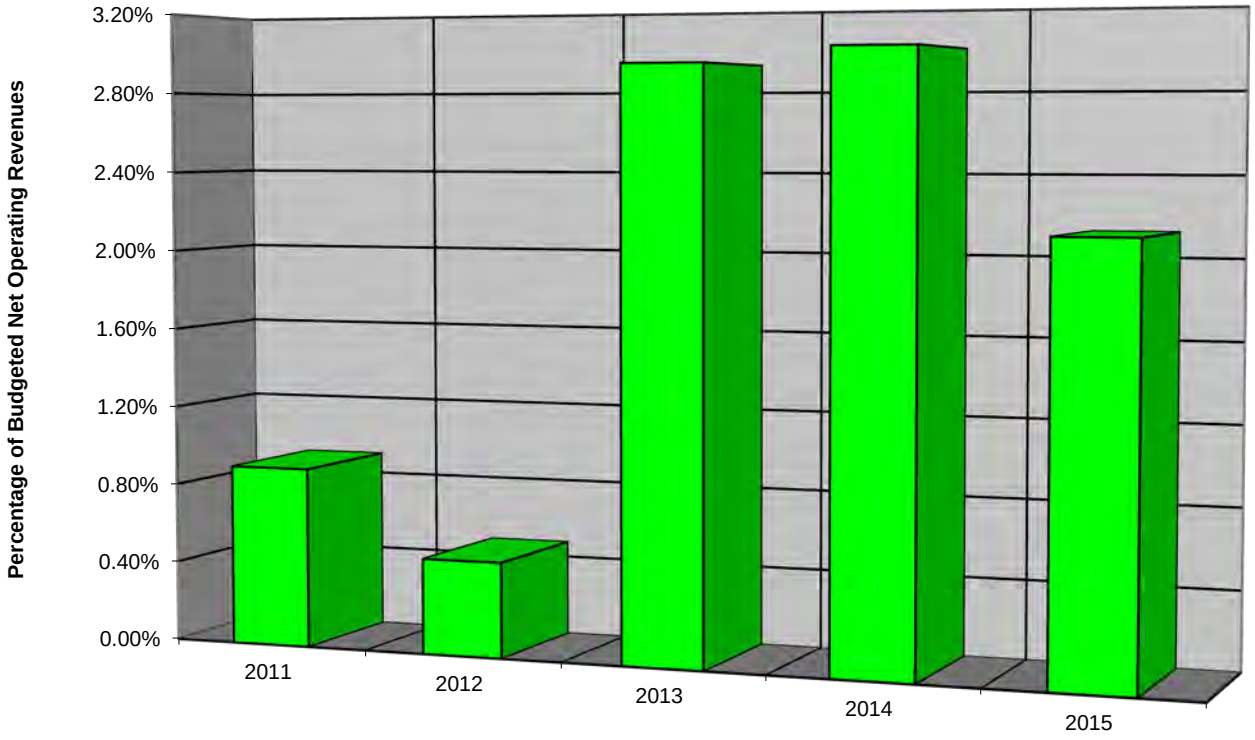
The purpose of this indicator is to examine the differences between revenue estimates and revenues actually collected during the fiscal year. Significant shortfalls that continue year after year can signal major warning trends.

Estimating revenues is a critical part of the budget process, so this area deserves attention and close scrutiny each fiscal year. Actual revenues have exceeded budgeted revenues every year during the past five years, a sign that the economy is out performing management's predictions.

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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Actual Net Operating Revenues	$83,514,600	$86,567,169	$91,645,709	$94,934,840	$94,357,063
Budgeted Net Operating Revenues	$82,767,313	$86,156,948	$89,031,277	$92,158,494	$92,394,162
Revenue Surplus (Shortfall)	$747,287	$410,221	$2,614,432	$2,776,346	$1,962,901
Revenue Surplus (Shortfall) as a Percentage of Budgeted Net Operating Revenues	0.90%	0.48%	2.94%	3.01%	2.12%

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.

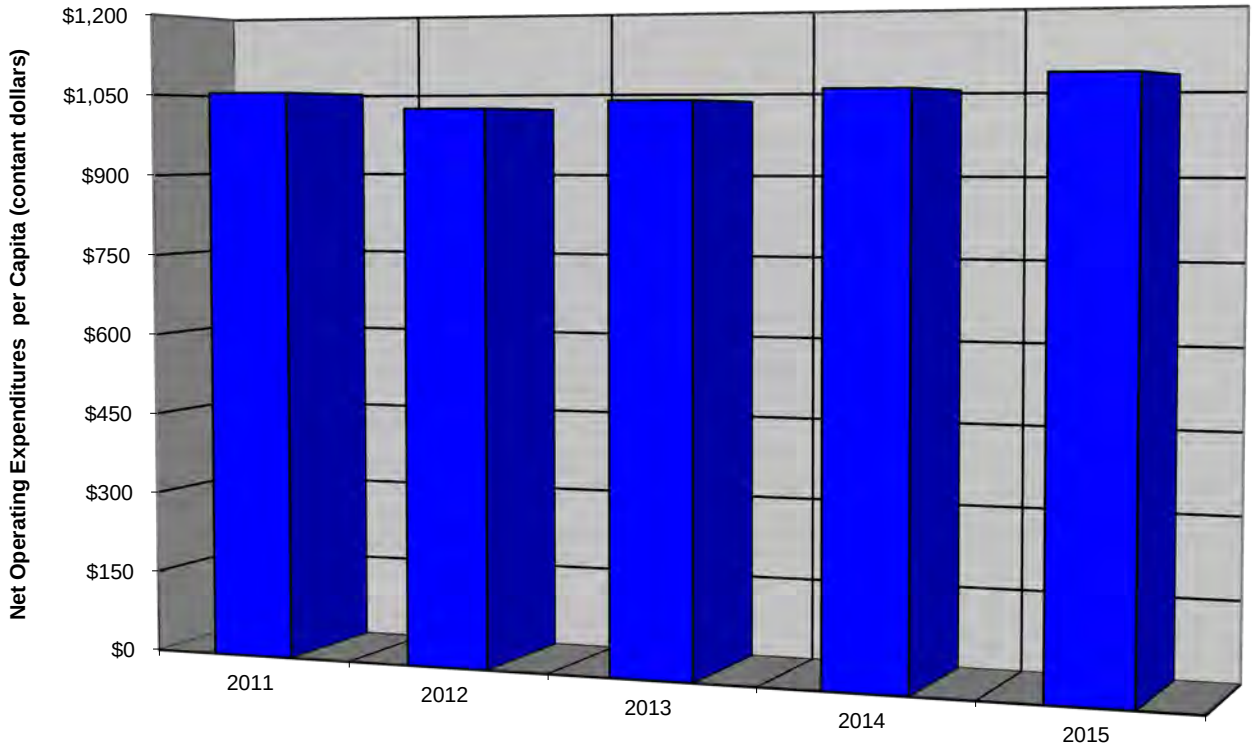
Net operating expenditures per capita have increased 10.2% in nominal dollars (2.7% in constant dollars) over the past five years. The overall increase to $134 million in net operating expenditures has mainly been due to increased spending on education, public works, public safety, and jail and judicial administration.

Spending on education during the last five years has increased by $8.8 million (15.2%). Public works expenditures have increased $4.1 million (55.5%) since 2011, mainly from increased spending for the City's street repaving program. Public safety spending has increased $3.5 million (20.2%) since 2011. Jail and judicial administration has increased by $3.1 million (107%) since 2011 due to an increase in the City's share of bed rentals at the Middle River Regional Jail (MRRJ) and an initial buy-in payment of over $1.1 million in 2015 as the City became a member jurisdiction of the MRRJ. It should also be noted that debt service has decreased $125,000 since 2011 as debt has debt has matured, as well as, the City taking advantage of favorable interest rates to refinance existing debt.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Net Operating Expenditures (Nominal)	$113,025,385	$115,073,637	$121,457,697	$127,105,170	$134,094,219
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Net Operating Expenditures (Constant)	$52,692,487	$51,998,932	$54,005,201	$55,528,689	$58,251,181
Population	50,057	50,862	52,127	52,612	53,875
Net Operating Expenditures per Capita (Nominal)	$2,258	$2,262	$2,330	$2,416	$2,489
Net Operating Expenditures per Capita (Constant)	$1,053	$1,022	$1,036	$1,055	$1,081

2011-2014: Reclassified for refuse, landfill and recycling operations which were moved from the General Fund to the Sanitation Fund.

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. It may also indicate that an increasing population is creating and increasing demand on services. 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 26.4 FTEs (4.2%), while the overall trend of employees (FTEs) per 1,000 residents has decreased since 2011.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Number of Employees (Full-time Equivalents)	633.0	634.7	629.0	646.2	659.4
Population	50,057	50,862	52,127	52,612	53,875
Municipal Employees per 1,000 Residents	12.65	12.48	12.07	12.28	12.24

Municipal Employees
(Full-time Equivalents)
By Department

Department[1]	2011	2012	2013	2014	2015
Clerk of Council	1	1	1	1	1
City Manager	4.4	4	4	4	4
City Attorney	1	1	1	1	1
Human Resources	3	3	3	4	4
Commissioner of the Revenue	11.4	11.8	11.2	10.9	10.9
Treasurer	7.5	7.4	7.2	7.2	7.2
Finance	7.4	7.3	7.3	7.3	7.3
Information Technology	7.0	8	8.5	10.7	10.7
Registrar	2.7	2	2.5	2.5	2.5
Police	109.5	108.4	108.6	115.2	115.4
Fire	83.8	83.7	83.7	83.7	84.8
Public Works	59.8	89.2[2]	85.3	86.0	65.2[4]
Parks and Recreation	75.6	75.9	73.8	72.2	72.4
Planning and Community Development	27.8	28.0	27.7	28.7	25
Economic Development	11.6	10.6	10.2	10.8	10.8
Community Development Block Grant	1.2	1.2	1.2	1.2	1.2
Public Utilities	56.9	54.8	56.7	58.3	58.5
Public Transportation	87.8	49.8[3]	47.1	50.9	58.8
School Transportation	-	38.8[3]	40.2	42.5	43
Sanitation	56.9	31[2]	31	31	58.9[4]
Central Garage	14.7	15.8	15.8	15.1	14.8
Central Stores	2	2	2	2	2
TOTAL	633.0	634.7	629.0	646.2	659.4

[1] Figures do not include boards and commissions.
[2] Reflects transferring refuse collection, city landfill, and recycling operations from Sanitation to Public Works.
[3] Reflects transferring school bus operations from Public Transportation to School Transportation.
[4] Reflects transferring refuse collection, city landfill, and recycling operations from Public Works to Sanitation.

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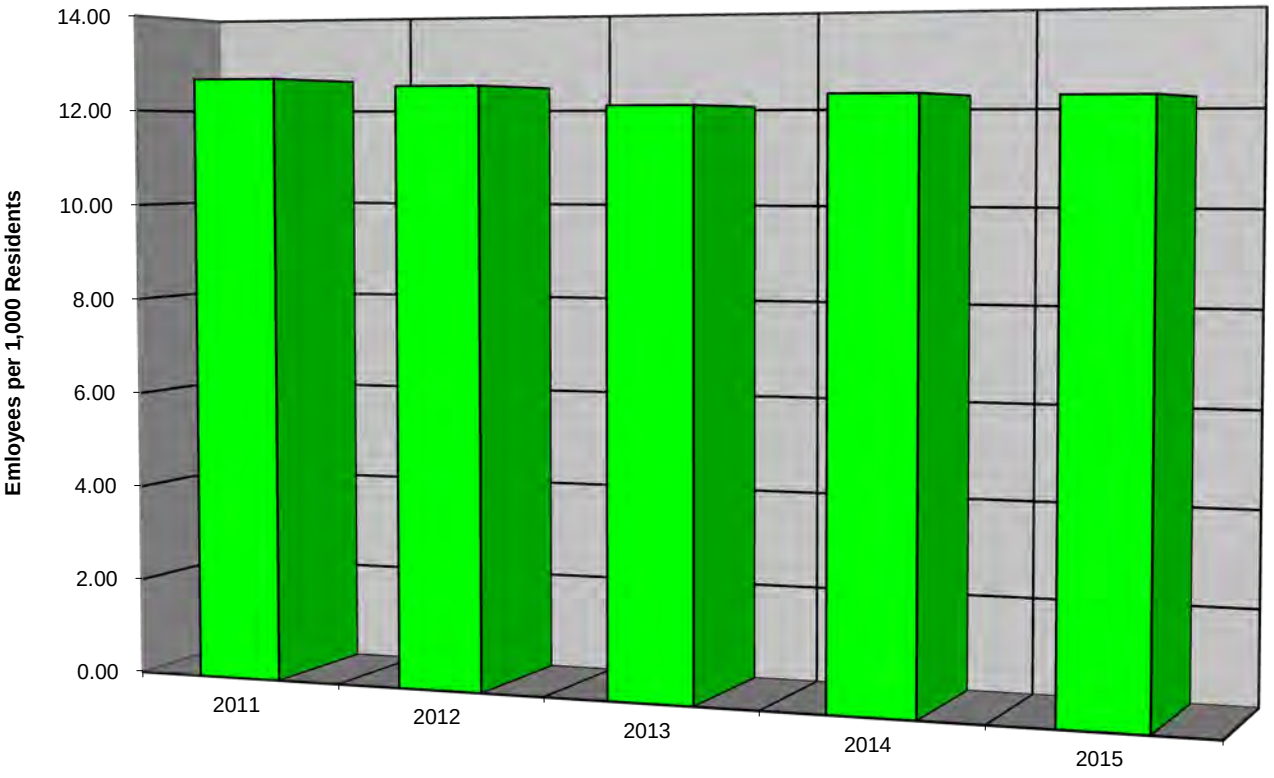
Employees per Capita



Indicator 14
Fringe Benefits

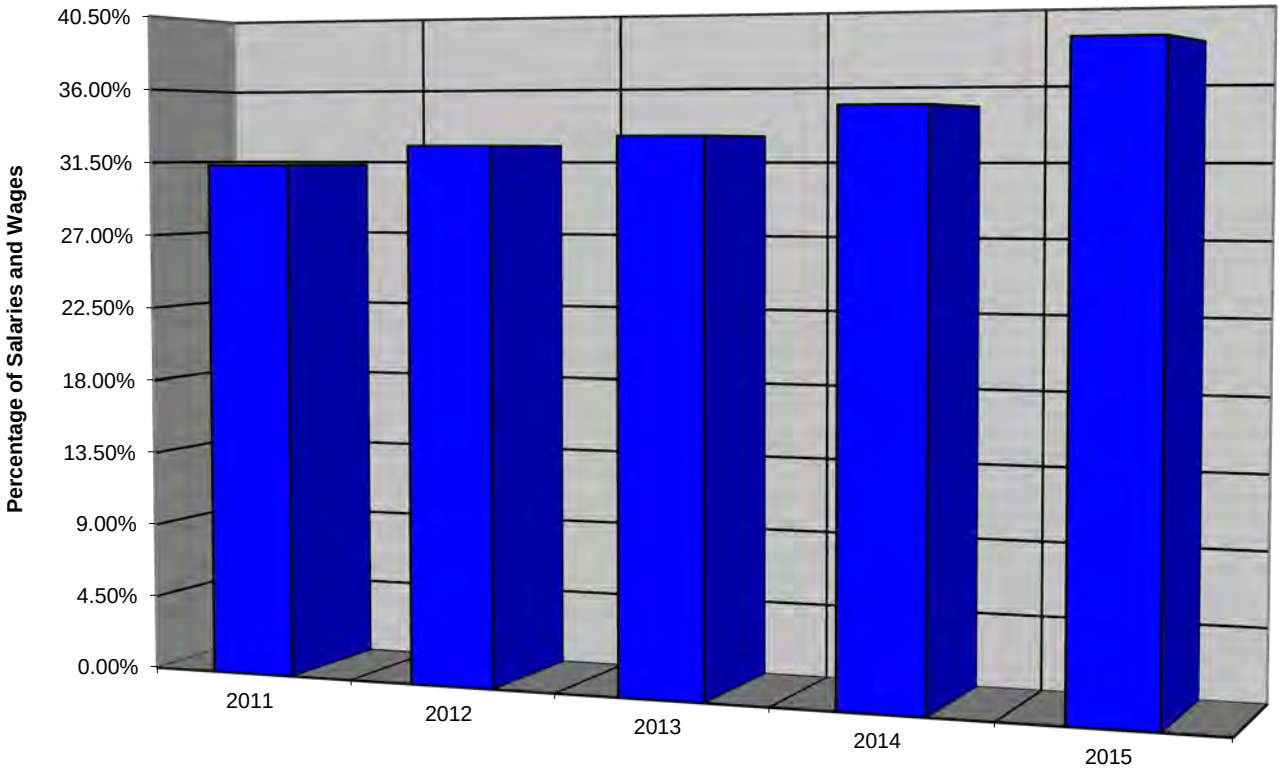
The ICMA Handbook explains that this indicator can be helpful in guiding policy because fringe benefits can be difficult to quantify in the normal budgeting process. As a result, these costs can escalate unnoticed while straining finances. The City's primary fringe benefit expenditures consist of VRS 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 been increasing since 2011 due to increases in required VRS retirement contributions for both the City and the School Board and health insurance rate increases in 2014 and 2015. School Board retirement contributions have increased $2.35 million (87.1%) since 2011 as the result of increased contribution rates from the VRS statewide teacher pool being underfunded while the City's retirement contributions have remained flat. In 2013, VRS required employees to begin contributing the 5% employee retirement contribution. In prior years, the City and the School Board made this contribution on behalf of the employee. Health insurance expenditures have increased over the past five years as the result of a 15% premium increase in 2014 and a 13.1% premium increase in 2015. There was however a five percent decrease in the health insurance premium in 2011 and no change to the health insurance premium in 2012 or 2013.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Expenditures for Fringe Benefits	$15,858,250	$16,885,316	$18,517,545	$19,692,840	$22,413,038
Salaries and Wages	$50,619,786	$51,927,229	$55,951,498	$56,534,287	$58,157,302
Fringe Benefit Expenditure as a Percentage of Salaries and Wages	31.33%	32.52%	33.10%	34.83%	38.54%

2011-2014: Reclassified for refuse, landfill and recycling operations which were moved from the General Fund to the Sanitation Fund.

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)

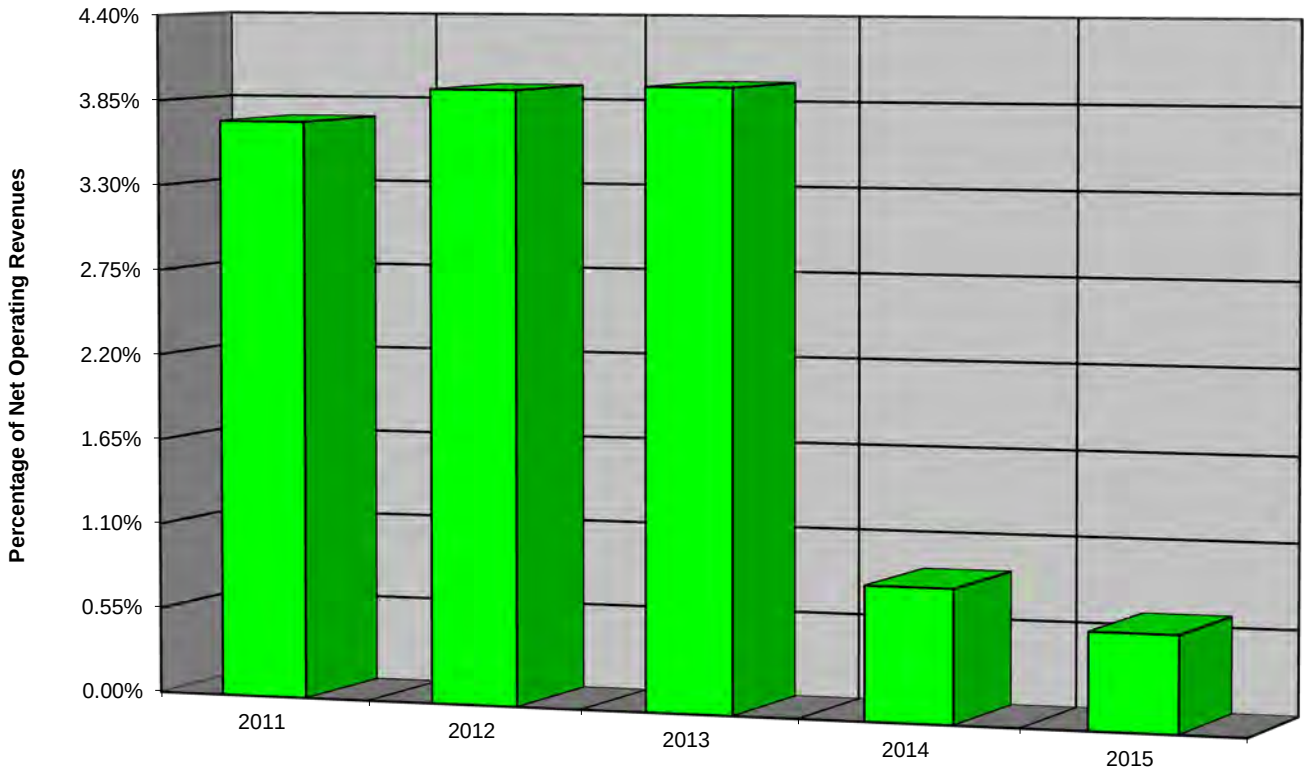
Operating results are important indicators of a City's financial position. When current year expenditures exceed the current year's revenues, an operating deficit occurs. This does not mean that the City is operating on a budget deficit. Reserves from prior years may be used to offset a current year 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 surpluses in each the last five years. The $3 million surplus in 2011 was partially due to the return of $1.9 million from the School Fund. The $3.4 million surplus in 2012 can be attributed to actual expenditures being below budgeted expenditures and $1.6 million being returned from the School Fund. The $3.6 million surplus in 2013 is a result of improved operating results, as well as, the return of approximately $600,000 from the School Fund. In 2015, the School Fund returned $521,000 to the General Fund.

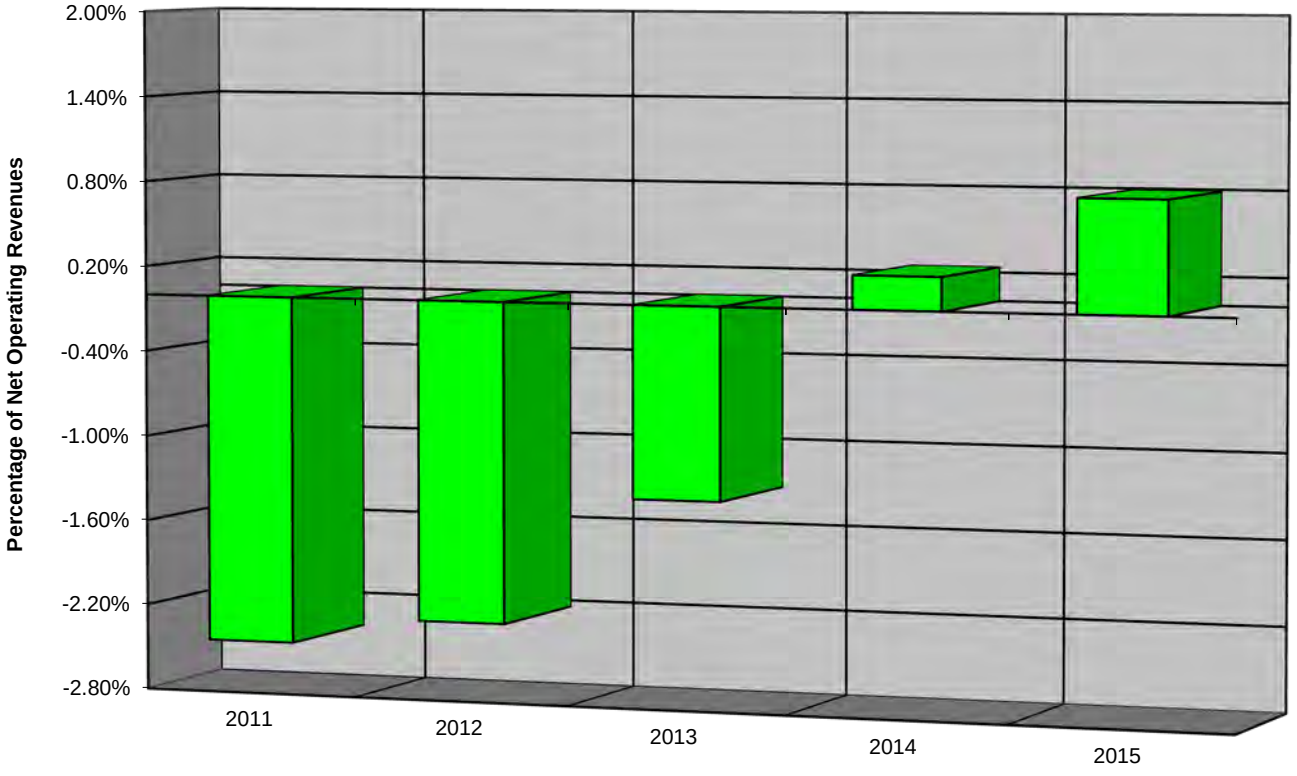
The Special Revenue Funds have had an operating deficit in three of the last five years. These operating deficits are, in part, due to School Fund fund balance being returned to the General Fund.

Description	2011	2012	2013	2014	2015
General Fund Operating Surplus (Deficit)	$3,023,489	$3,399,160	$3,638,143	$815,428	$586,355
General Fund Net Operating Revenues	$81,234,705	$86,263,916	$91,645,709	$94,934,840	$94,357,063
General Fund Surplus (Deficit) as a Percentage of Net Operating Revenues	3.72%	3.94%	3.97%	0.86%	0.62%
Special Revenue Funds Operating Surplus (Deficit)	($782,628)	($829,948)	($519,350)	$94,302	$332,762
Special Revenue Funds Net Operating Revenues	$32,167,909	$36,992,772	$38,715,350	$39,981,496	$42,289,476
Special Revenue Funds Surplus (Deficit) as a Percentage of Net Operating Revenues	(2.43%)	(2.24%)	(1.34%)	0.24%	0.79%

Operating Surplus (Deficit)
(General Fund)



Operating Surplus (Deficit)
(Special Revenue Funds)



Indicator 16
Enterprise Fund Operating Results

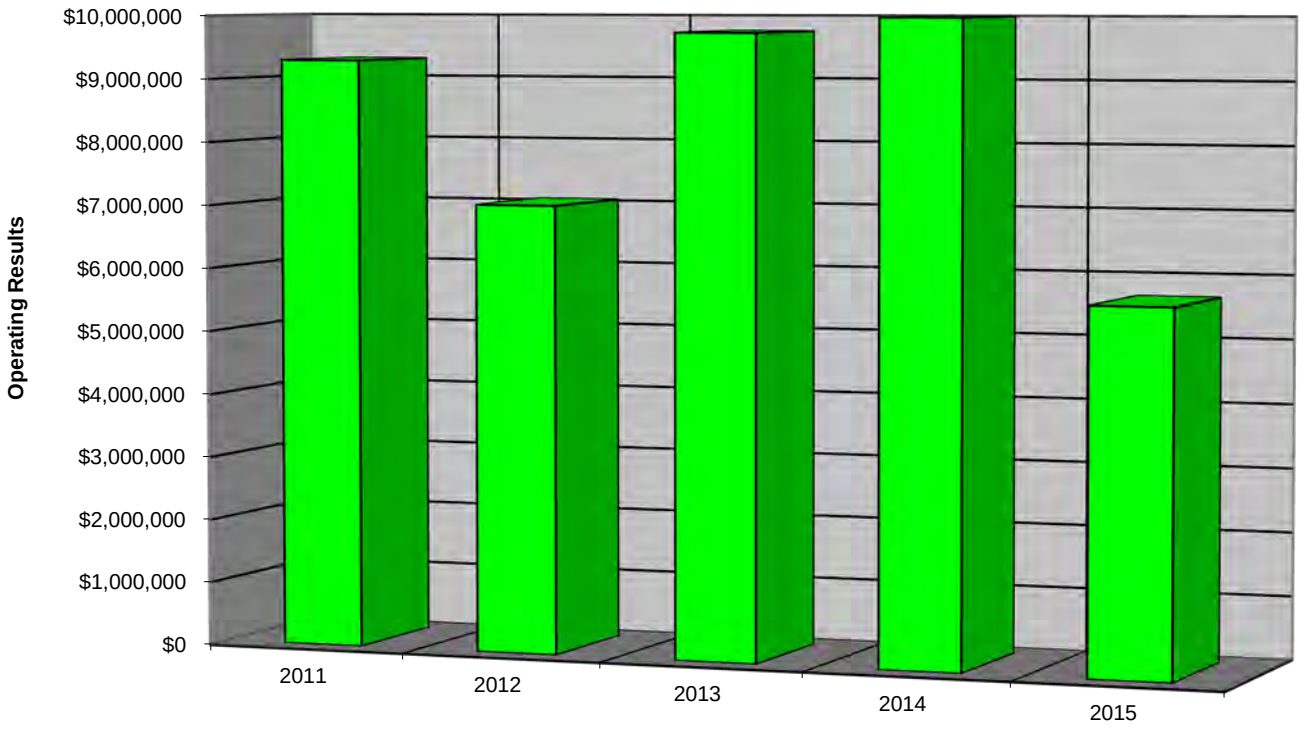
Enterprise Fund operating results have decreased overall since 2011. This was largely the result of the closure of the resource recovery facility and the revenue decrease from steam sales to James Madison University and tipping fees at the facility in 2015. However, several factors are having positive impacts on this indicator. Since 2011, Sewer Fund revenue has increased $2 million (25.9%) to offset contributions to the Harrisonburg-Rockingham Regional Sewer Authority, which have increased $1.1 million (21.1%). Public Transportation Fund revenues (including State and Federal funding) have increased $1.3 million (47.6%) since 2011. Although, Public Transportation revenues have increased, these revenues have been offset by an increase in personal services and maintenance and repair of the transit bus fleet.

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	2011	2012	2013	2014	2015
Enterprise Fund Operating Results (Nominal)	$9,295,808	$7,405,573	$9,755,861	$10,341,587	$5,668,366

2011-2014: Reclassified for refuse, landfill and recycling operations which were moved from the General Fund to the Sanitation Fund.

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 local governments adopt a formal fund balance reserve policy and tend to look unfavorably on large swings in the percentage and especially on unplanned declines. 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. 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 fourteen percent of the General Fund budget plus adequate funds for working capital purposes, which is typically considered four percent.

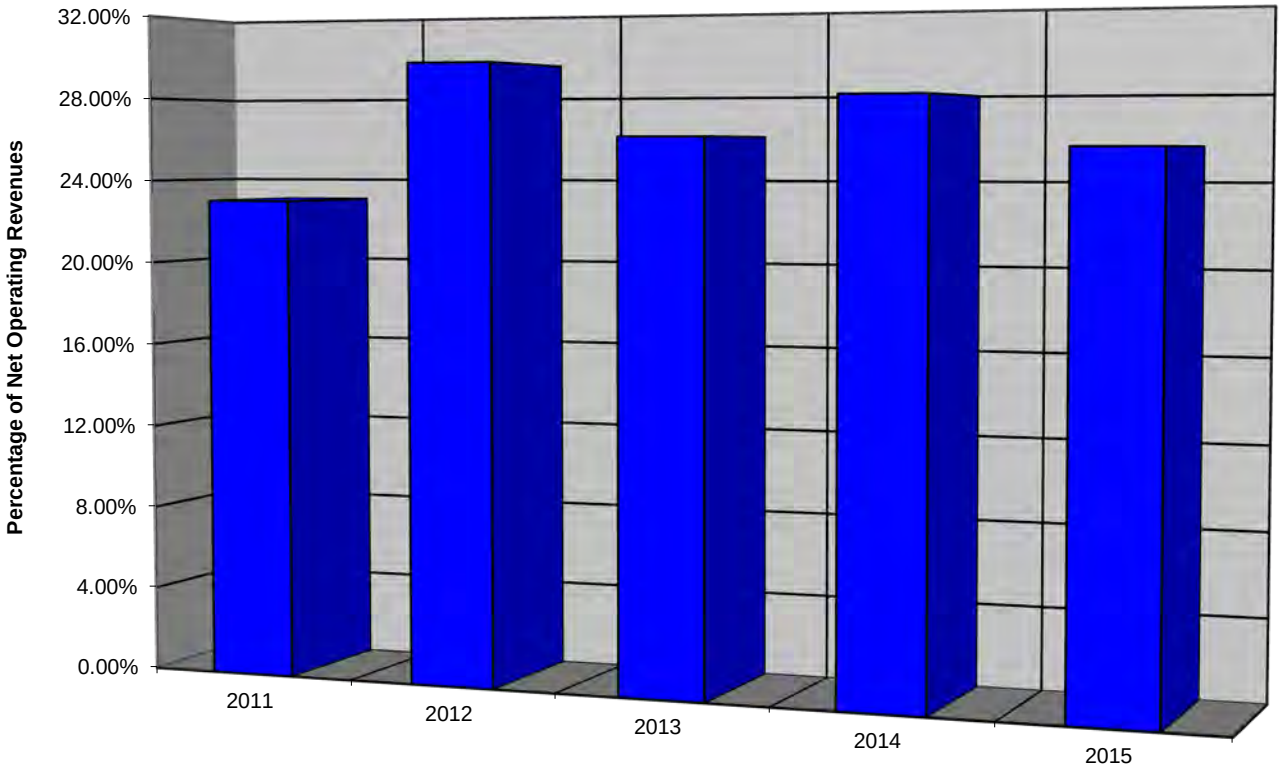
Unassigned fund balance as a percentage of net operating revenues for the General Fund has generally been following an upward trend since 2011. The 6.6% increase in 2012 was due to an operating surplus of $3.4 million and using approximately $2.2 million less in fund balance to balance the fiscal year 2013 budget compared to the previous year. The 3.5% decrease in 2013 can be attributed to the one-time use of approximately $3.9 million to fund various capital projects and the use of $1.6 million to balance the fiscal year 2014 budget. The increase in 2014 was from

generally positive operating results and only using $177,477 from fund balance to balance the fiscal year 2015 budget. The $2.4 million decrease in 2015 of unassigned fund balance can be attributed to favorable operating results which were offset by a $1.8 million transfer to the General Capital Projects Fund for various capital projects and the initial $1.1 million buy-in agreement payment for membership in the Middle River Regional Jail.

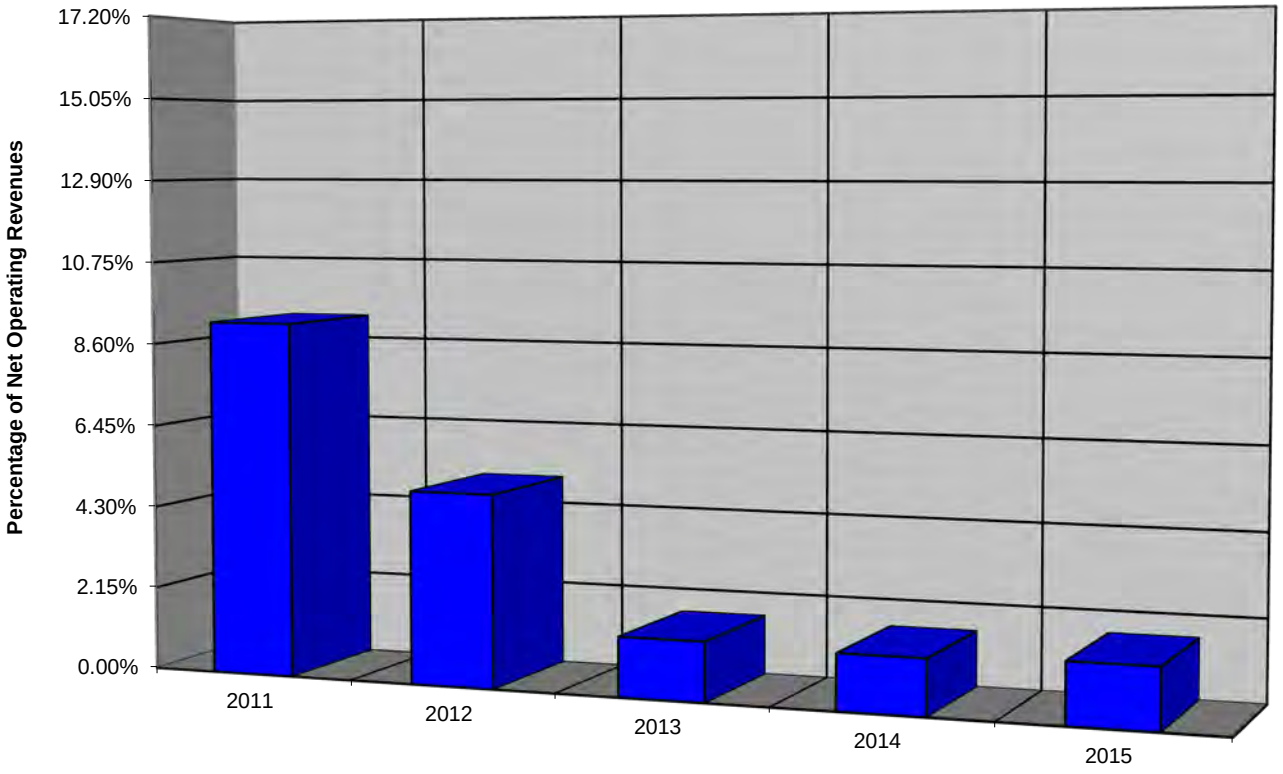
The decrease of fund balance as a percentage of net operating revenues for the Special Revenue Funds can be attributed to School Fund fund balance being returned to the General Fund.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Unassigned Fund Balance (General Fund)	$18,711,352	$25,534,922	$23,932,401	$26,595,398	$24,214,042
Net Operating Revenues (General Fund)	$81,234,705	$86,263,916	$91,645,709	$94,934,840	$94,357,063
Unassigned Fund Balance as a Percentage of Net Operating Revenues	23.03%	29.60%	26.11%	28.01%	25.66%
Unassigned Fund Balance (Special Revenue Funds)	$2,959,135	$1,845,204	$596,537	$577,334	$665,160
Net Operating Revenues (Special Revenue Funds)	$32,167,909	$36,992,772	$38,715,350	$39,981,496	$42,289,476
Unassigned Fund Balance as a Percentage of Net Operating Revenues	9.20%	4.99%	1.54%	1.44%	1.57%

Unassigned Fund Balances
(General Fund)



Unassigned Fund Balances
(Special Revenue Funds)



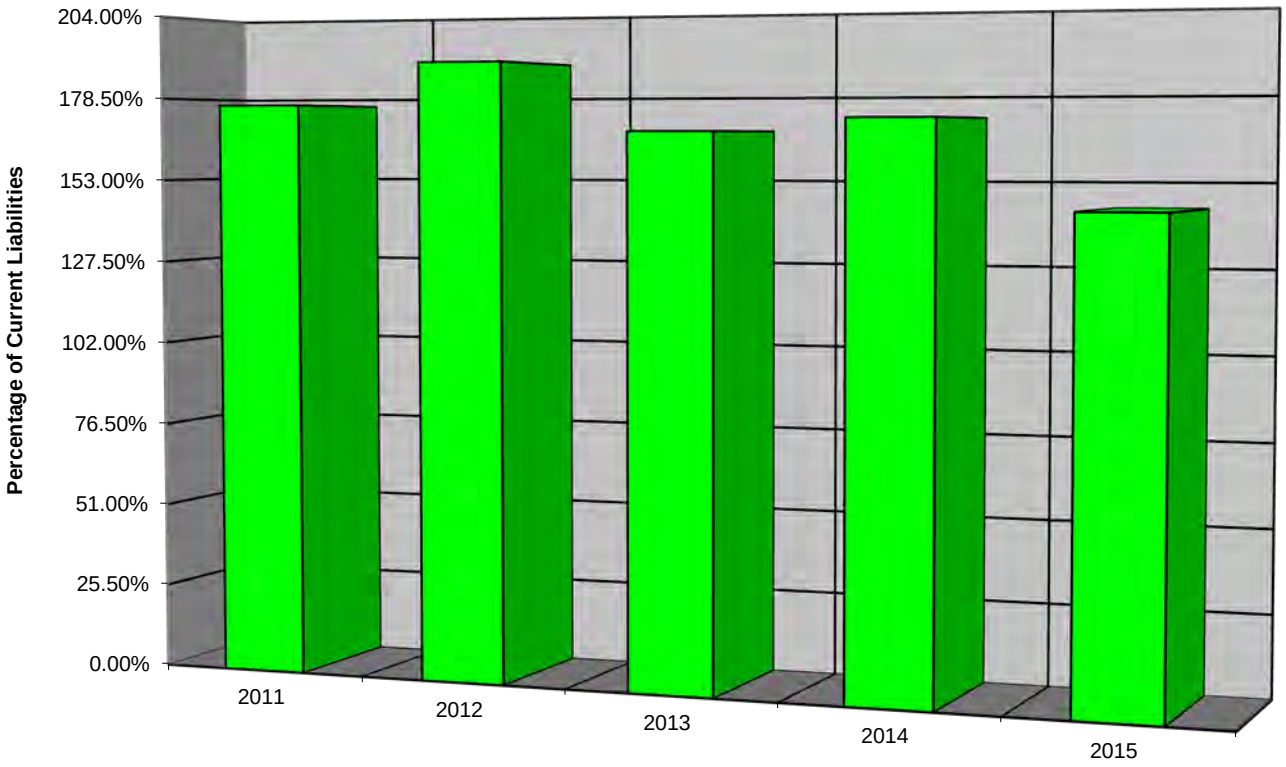
Indicator 18
Liquidity

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 2013 can be attributed to the one-time transfer of $3.9 million to the General Capital Projects Fund. Also in 2013, a $1.2 million entry to eliminate negative cash within the Public Transportation Fund had an impact on this indicator. If this entry were removed, the indicator would have been 174.41%. The decline in 2015 can be attributed to a $1.8 million transfer to the General Capital Projects Fund for several capital projects and a transfer of $2.7 from the General Fund to the Sanitation Fund for the Rockingham County landfill obligation.

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	**2011**	**2012**	**2013**	**2014**	**2015**
Cash and Cash Equivalents	$29,976,244	$32,355,893	$31,993,473	$34,340,409	$33,730,957
Current Liabilities	$17,006,745	$17,105,525	$19,017,709	$19,940,744	$23,219,722
Cash and Short-term Investments as a Percentage of Current Liabilities	176.26%	189.15%	168.23%	172.21%	145.27%

Liquidity


Percentage of Current Liabilities
204.00%
178.50%
153.00%
127.50%
102.00%
76.50%
51.00%
25.50%
0.00%
2011
2012
2013
2014
2015

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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

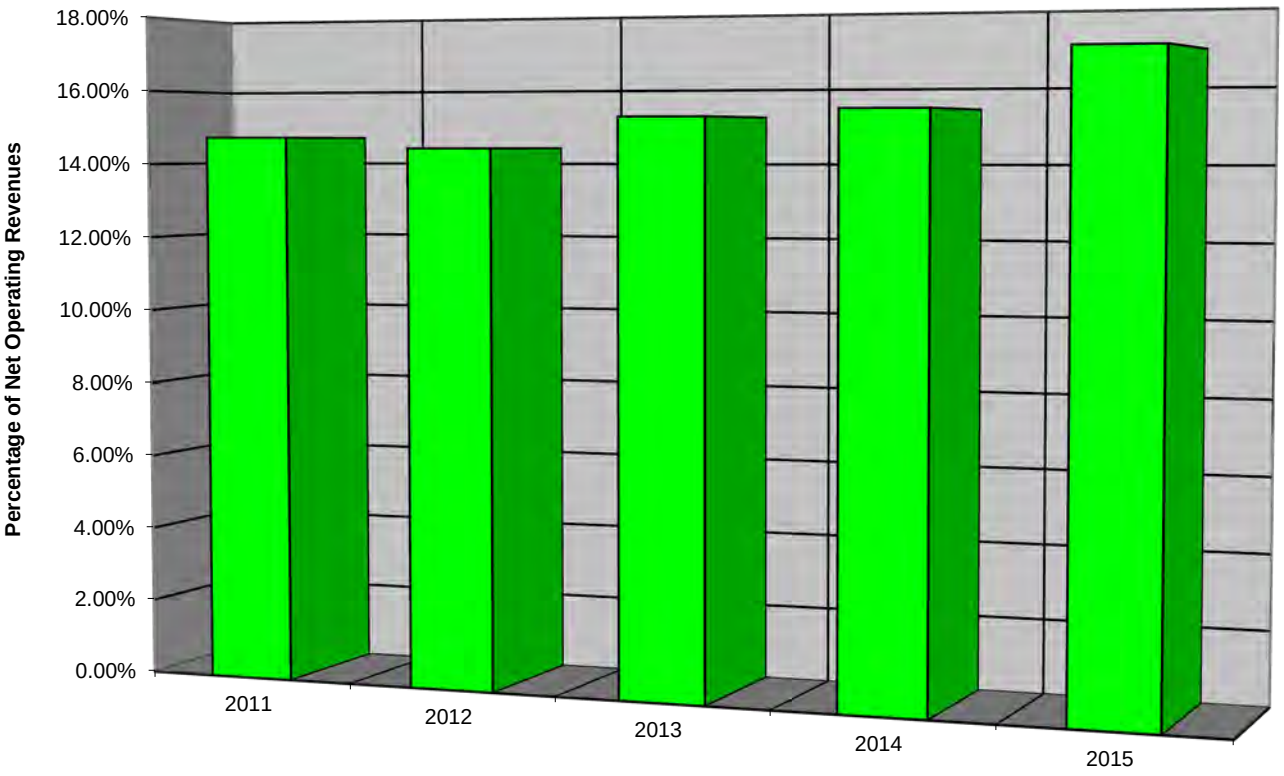
Current liabilities are the sum of all liabilities due at the end of the fiscal year and principal on long-term debt that is due the following year. This indicator is mainly concerned with identifying whether increasing levels of short-term borrowing are being used to finance deficit spending and/or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

The warning trend identified by the Handbook is an increasing ratio of current liabilities to net operating revenues. This indicator has trended upward since 2011. The 2013 increase can be attributed to the increase in School Board current liabilities due to the change in timing of the School Board's year-end VRS payments. The increase in 2014 can be attributed to a scheduled $905,000 principal payment on the Series 2014B Refunding Bonds issued in June 2014. The 2015 increase in current liabilities was due to several factors. These factors include a $1.1 highway and street maintenance accounts payable, $980,000 due within one year for the Middle River Regional Jail buy-in agreement, and an increase in interest expense due to the timing of scheduled interest payments related to the Series 2014B Refunding Bonds.

Two credit industry benchmarks considered negative factors are (1) short-term debt outstanding at the end of the year exceeding five percent 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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Current Liabilities	$17,006,745	$17,105,525	$19,017,709	$19,940,744	$23,219,722
Net Operating Revenues	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
Current Liabilities as a Percentage of Net Operating Revenues	14.72%	14.43%	15.26%	15.45%	16.99%

Current Liabilities



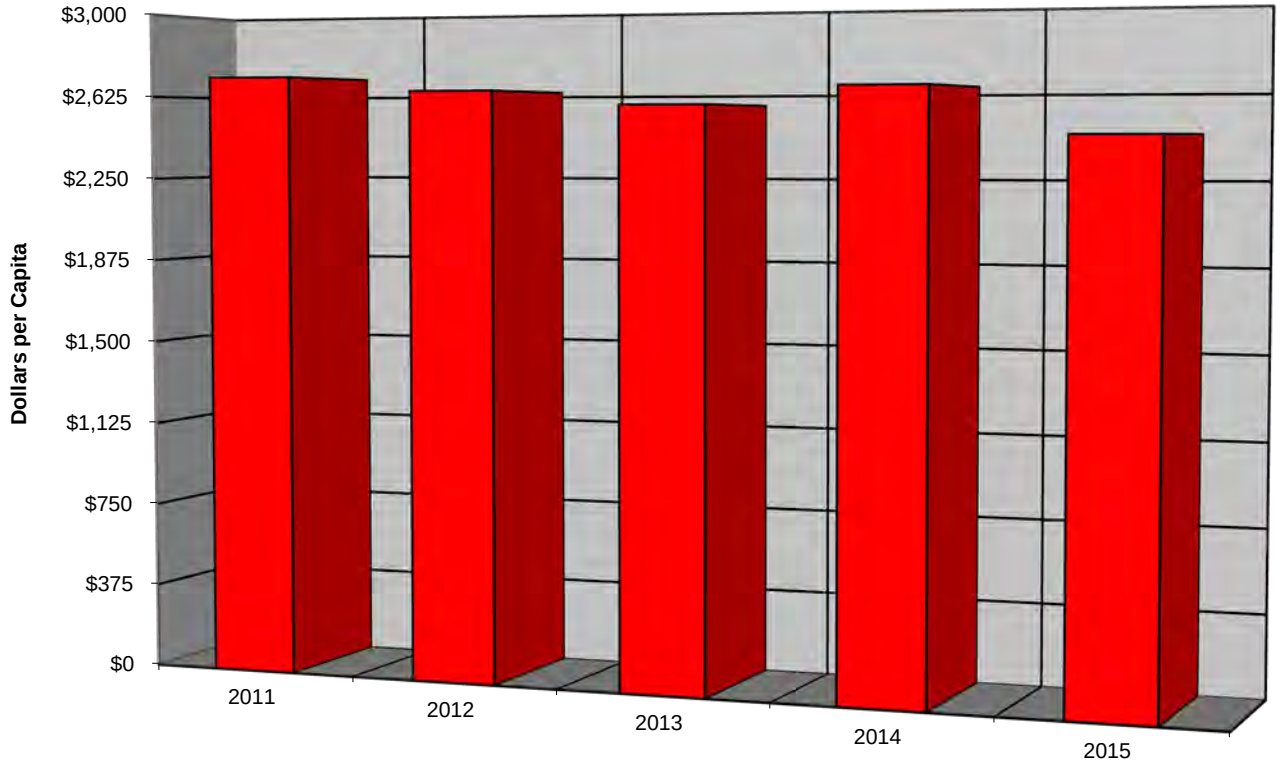
Indicator 20
Long - Term Debt

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 decreased overall during the past five years both as a percentage of assessed real property valuation and per capita. In 2014, the City issued $13.6 million in new debt for capital project purposes that included the City Hall project. It should also be noted that the City's assessed real property valuation has remained essentially flat over the past five years, which has resulted in only a small decrease to the percentage of assessed property valuation trend. 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 10% of assessed real property valuation. The City's ratio is currently 3.37%.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Long-term Debt	$135,637,593	$134,519,418	$134,552,817	$140,043,447	$132,125,528
Population	50,057	50,862	52,127	52,612	53,875
Long-term Debt per Capita	$2,710	$2,645	$2,581	$2,662	$2,452
Assessed Real Property Valuation	$3,926,748,542	$3,981,213,335	$3,910,635,027	$3,908,554,902	$3,923,502,387
Long-term Debt as a Percentage of Assessed Real Property Valuation	3.45%	3.38%	3.44%	3.58%	3.37%

Long-Term Debt per Capita



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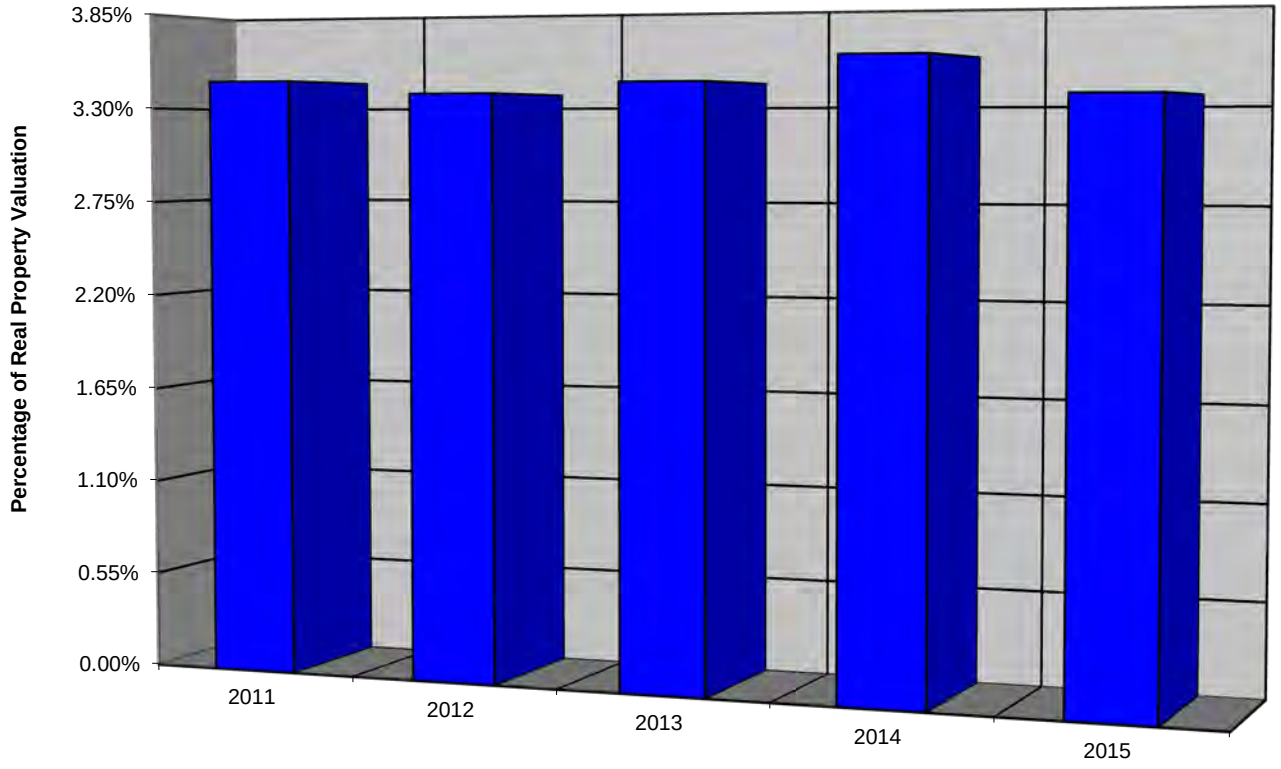
Long-Term Debt as a Percentage of Real Property Valuation



Indicator 21
Debt Service

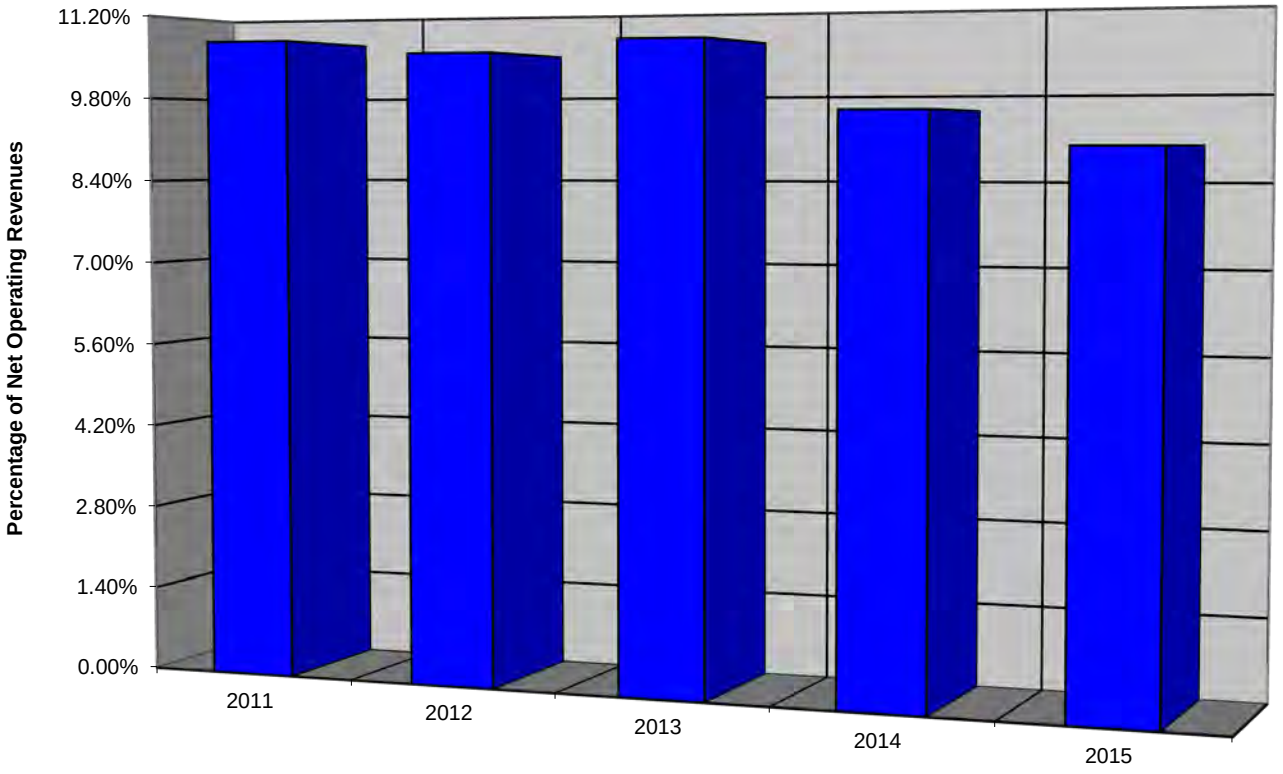
This indicator is determined by comparing the amount of the City's debt principal and interest payments for the year to its net operating revenues. The primary purpose of this indicator is to determine the effect of debt on the flexibility of expenditures, since debt service can be a major part of a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

This indicator has been decreasing since 2011. The ICMA Handbook calls an increasing indicator a warning trend, but it also indicates that the credit industry warning benchmark is 20% with 10% considered acceptable. The indicator for 2015 was below 10% at 8.99%. The increase in 2013 was due to the City making the final principal payment of $540,000 on the Joint Judicial Complex capital lease one year ahead of schedule. The indicator would have been 9.83% in 2013 and 9.56% in 2014 if this payment had been made on its normally scheduled payment date. The City has also been able to take advantage of favorable interest rates over the past five years by refinancing existing debt which have resulted in debt service savings.

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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Debt Service	$12,412,766	$12,460,635	$13,352,121	$12,332,297	$12,286,265
Net Operating Revenues	$115,548,266	$118,521,448	$124,621,700	$129,029,544	$136,646,539
Debt Service as a Percentage of Net Operating Revenues	10.74%	10.51%	10.71%	9.56%	8.99%

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

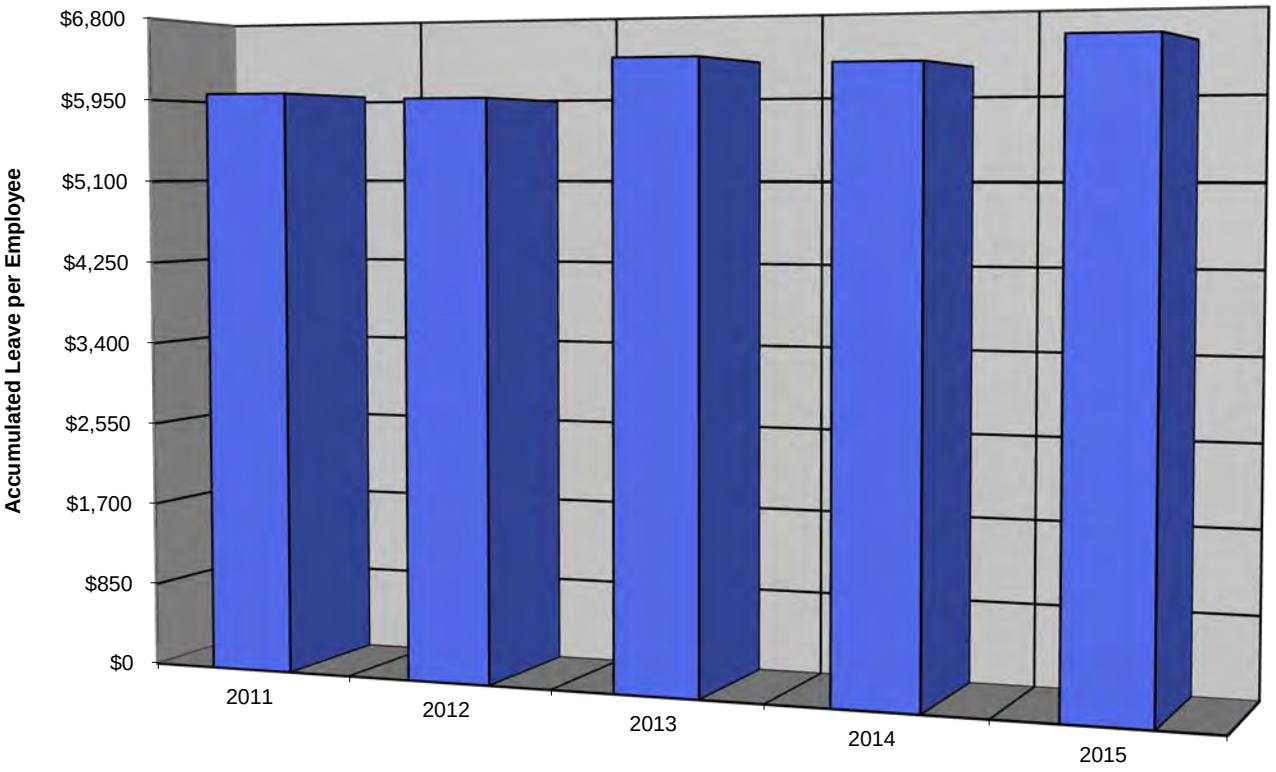
Accumulated employee leave is the dollar value of all unused vacation and sick leave benefits. This indicator has two basic impacts on the City. The initial impact represents an opportunity cost for work that an employee does not perform. The second impact occurs at the termination or retirement of an 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 shows an overall increase since 2011. The increase in 2013 was due to the VRS requirement of providing a salary increase to employees to offset the five percent retirement contribution required to be paid by employees effective July 1, 2012. The City provided a 5.75% salary increase to mitigate the impact to employees. Effective January 1, 2014, the City implemented a new Paid-Time-Off (PTO) leave plan for new hires as part of the new VRS hybrid retirement plan that essentially reduced both the hours earned by employees and the allowable annual carryover hours. Under the new PTO leave plan, this indicator should begin to decline over time as the City's workforce turns over. In general, the increase in 2015 was from the implementation of a salary study initiated by the City.

The City maintains a limit on the amount of accrued annual leave and PTO 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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Accumulated Employee Leave	$3,800,581	$3,770,670	$3,978,750	$4,042,361	$4,281,064
Number of Employees (Full-time Equivalents)	633.0	634.7	629.0	646.2	659.4
Accumulated Leave per Employee (Full-time Equivalent)	$6,004	$5,941	$6,326	$6,256	$6,492

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.

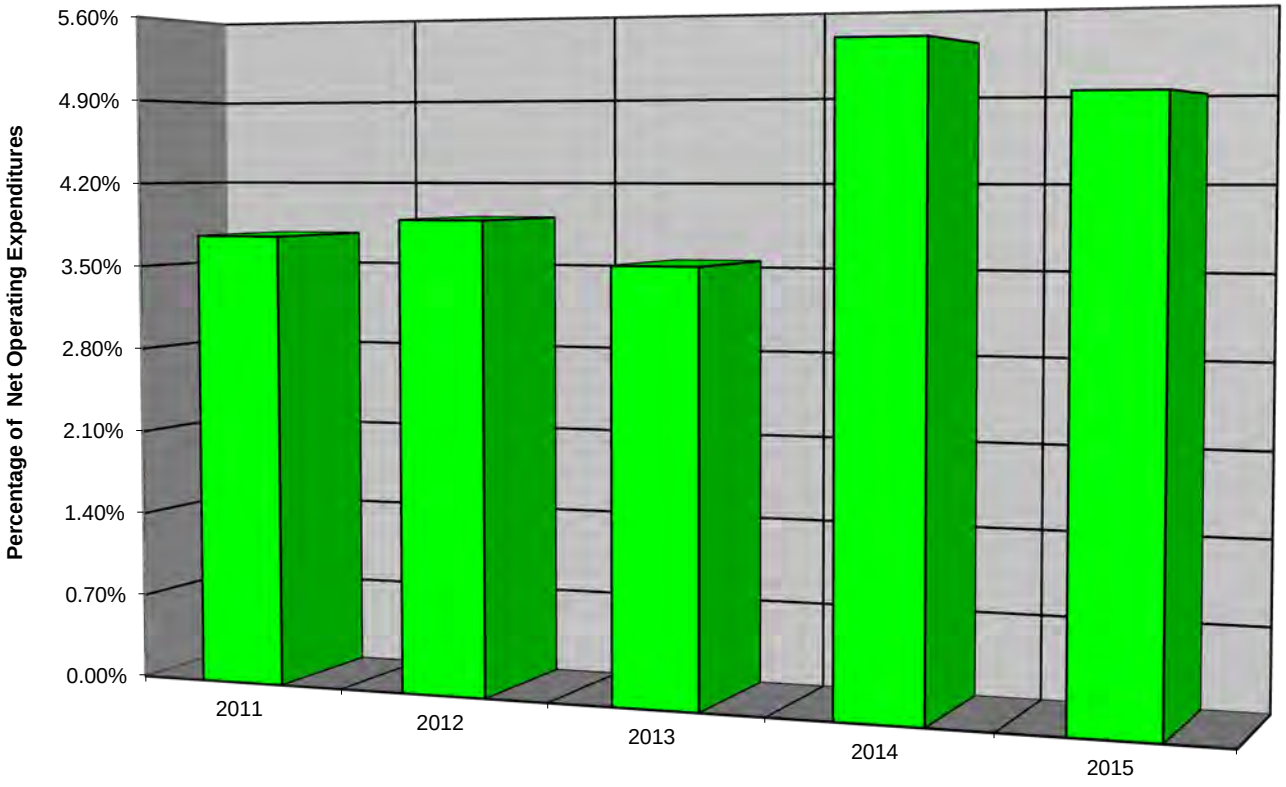
Capital outlay needs to be included in the budgeting process because equipment such as vehicles wear out and equipment like computer systems can become obsolete (or inefficient). Just as with maintenance efforts, during periods of low revenue, a city may postpone these expenditures for a year to focus 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 trend has increased since 2011. The sharp increase in 2014 was from increased street repaving expenditures, new software for the Treasurer and Commissioner's offices, additional police patrol cars and the purchase of a new fire truck. In 2014 and 2015, the street repaving program was aided by approximately $280,000 and $950,000, respectively, in VDOT revenue sharing funds.

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	**2011**	**2012**	**2013**	**2014**	**2015**
Capital Outlay	$4,250,866	$4,495,610	$4,315,782	$6,788,198	$6,418,900
Net Operating Expenditures	$113,025,385	$115,073,637	$121,457,697	$127,105,170	$134,092,219
Capital Outlay as a Percentage of Net Operating Expenditures	3.76%	3.91%	3.55%	5.34%	4.92%

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

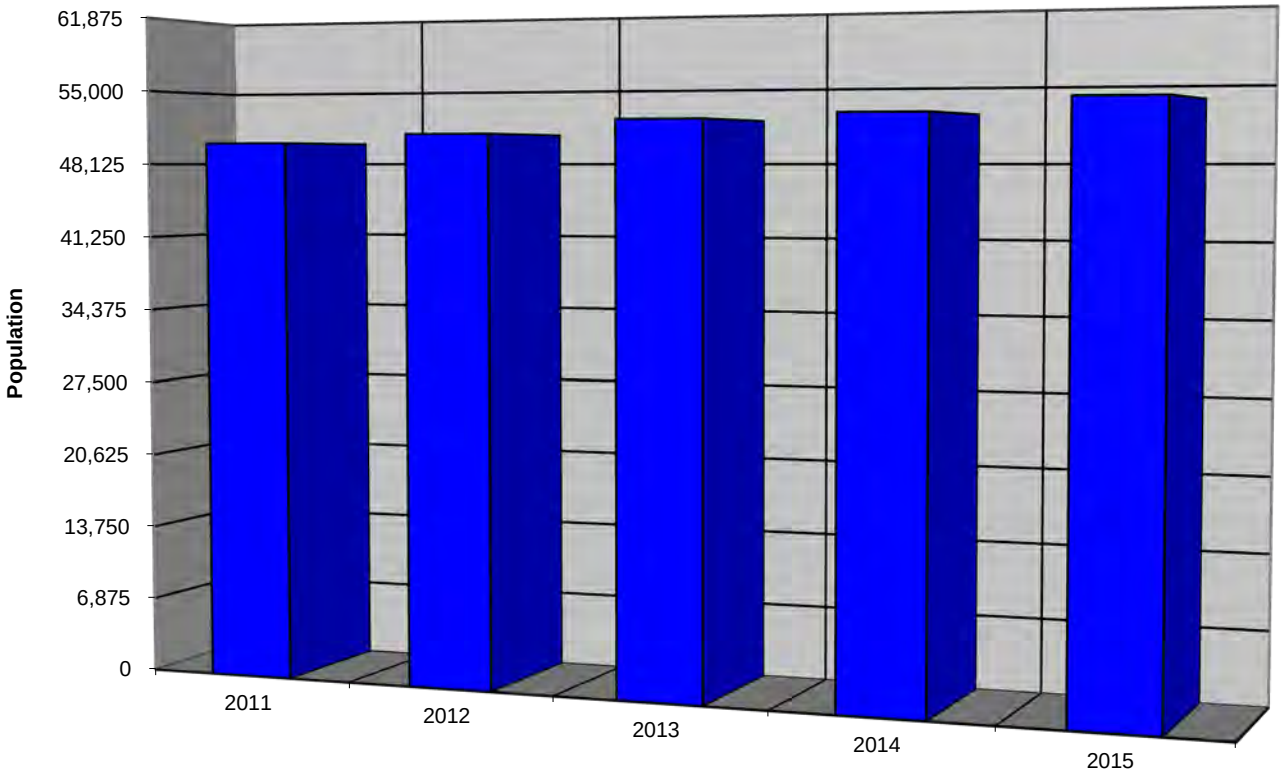
Harrisonburg has experienced population growth of roughly 7.6% over the past five years. This raises several interesting questions. Is this growth rate likely to continue? If it does, how long will the City's infrastructure support the growth? Will job growth keep pace? Is there sufficient undeveloped 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. The City's population has increased 10.1% since the 2010 census to 53,875.

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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Population	50,057	50,862	52,157	52,612	53,875

Source: U.S. Census Bureau (2010) and Weldon Cooper Center for Public Service (2011- 2015)

Population


Population
61,875
55,000
48,125
41,250
34,375
27,500
20,625
13,750
6,875
0
2011
2012
2013
2014
2015

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.

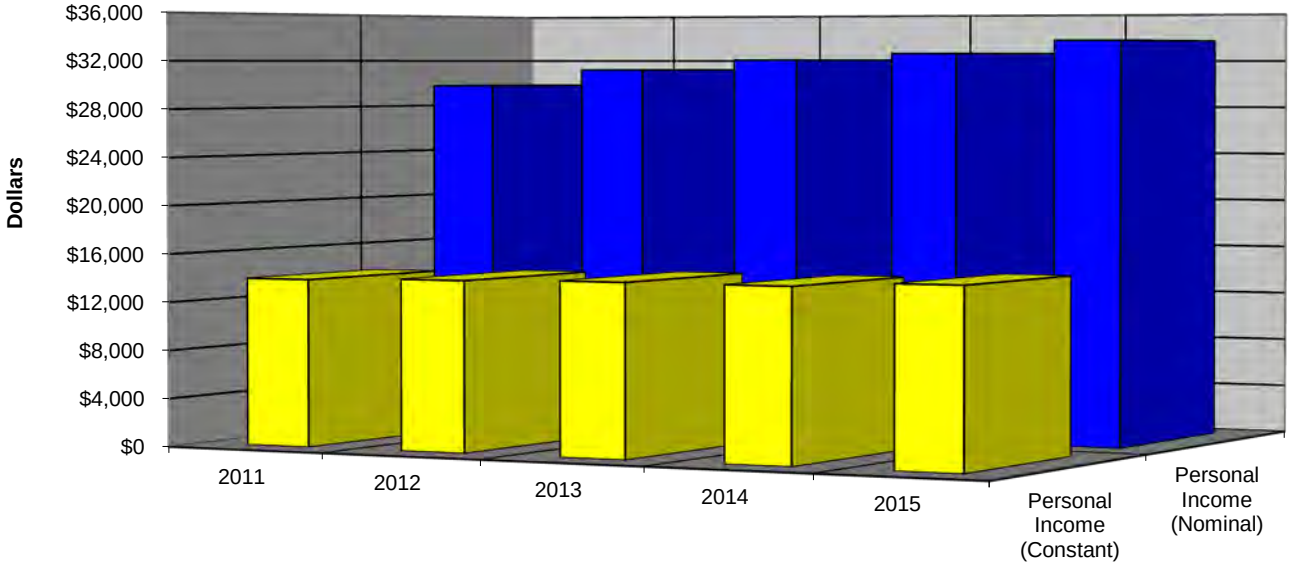
This indicator has shown an overall increase in nominal dollars over the past five years of 13.1%. There are several possible explanations for this increase. First, favorable economic conditions in the City could be increasing personal income. Second, since the population is also increasing, the people 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. In constant dollars, this indicator has increased 5.4%. This would indicate that a portion of the nominal dollar growth was due to inflation.

In 2015, the Harrisonburg Metropolitan Statistical Area (HMSA) ranking was 75th overall in the state, which was 66.9% of the $50,345 state average. The HMSA was 73.2% of the $46,049 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	2011	2012	2013	2014	2015
Personal Income per Capita (Nominal) [a]	$29,801	$31,207	$32,069	$32,614	$33,703
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Personal Income per Capita (Constant)	$13,893	$14,102	$14,259	$14,248	$14,641

Source: Bureau of Economic Analysis
[a] These amounts are for the Harrisonburg Metropolitan Statistical Area.

Personal Income per Capita



Indicator 33
Property Value

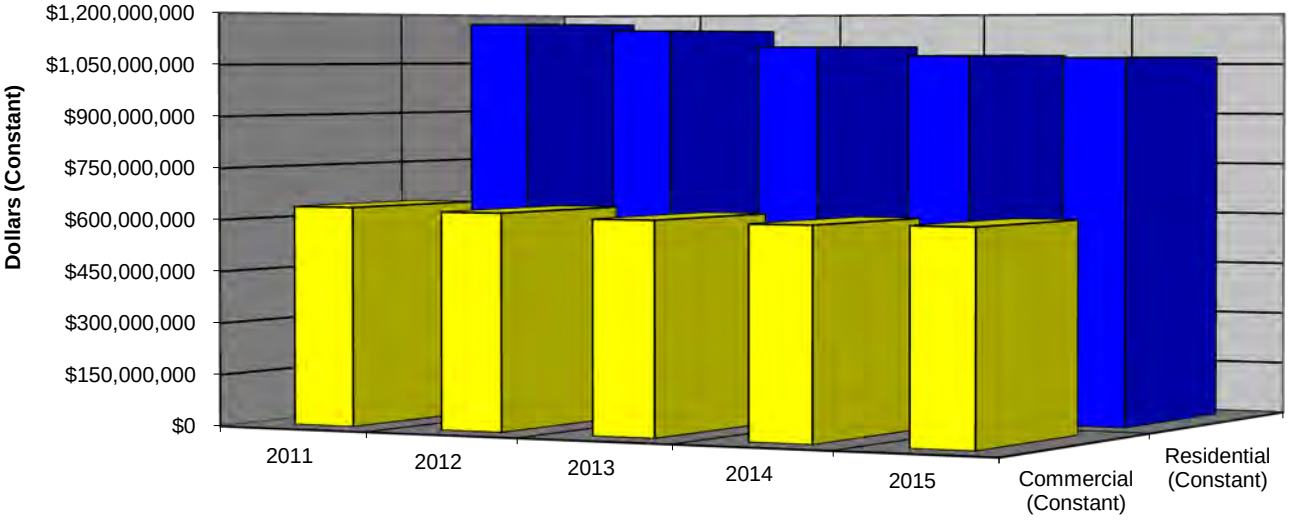
Property value is an important indicator since property taxes are such an important component of the City's revenues. The overall five-year rate for residential property has declined in nominal dollars by 1.9% (a decrease of 8.6% in constant dollars) and increased by 3.1% for commercial/industrial property (a decline of 3.9% in constant dollars). This five-year trend of decreased residential assessments in both nominal and constant dollars and declining commercial/industrial property in constant dollars has created budgetary pressures of essentially zero growth in real estate revenues other than those offset by increased real estate tax rates.

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.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Market Value of Taxable Residential Property (Nominal)	$2,510,853,924	$2,543,042,004	$2,475,833,386	$2,461,494,084	$2,463,332,515
Market Value of Taxable Commercial Property (Nominal)	$1,364,937,892	$1,388,078,371	$1,382,285,462	$1,393,309,162	$1,407,562,622
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Market Value of Taxable Residential Property (Constant)	$1,170,561,270	$1,149,137,824	$1,100,859,665	$1,075,357,835	$1,070,083,629
Market Value of Taxable Commercial Property (Constant)	$636,334,682	$627,238,306	$614,622,260	$608,697,755	$611,452,051

Source: City of Harrisonburg Commissioner of the Revenue

Property Value



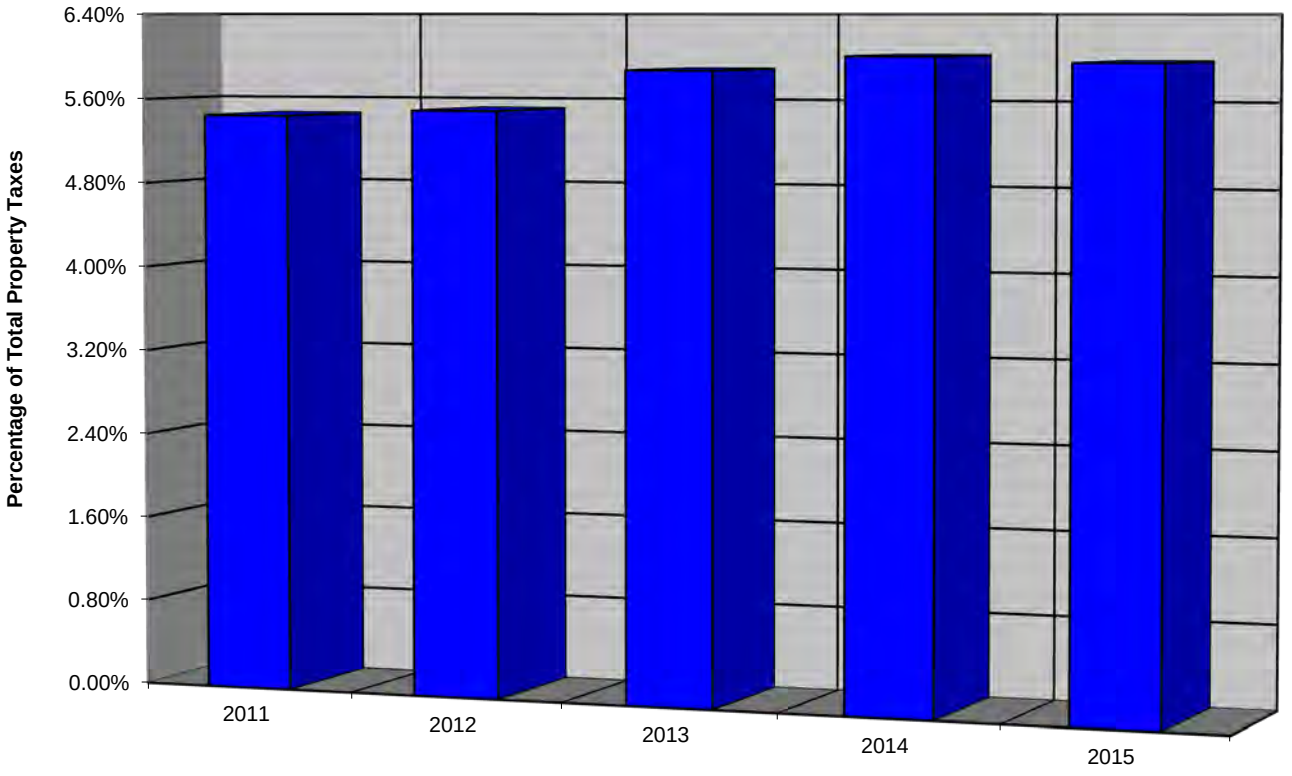
Indicator 34
Top Five Property Taxpayers

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 twenty percent of the property tax base.

Overall this indicator has increased since 2011. Currently the top five taxpayers comprise 5.97% of the property tax base. This indicates that the City has been relying slightly more on these large taxpayers since 2011.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Top Five Taxpayers	$1,707,175	$1,757,839	$1,974,803	$2,017,435	$2,227,786
Total Property Taxes	$31,326,231	$31,917,343	$33,518,148	$33,472,734	$37,288,334
Top Five Taxpayers as a Percentage of Total Property Taxes	5.45%	5.51%	5.89%	6.03%	5.97%

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.

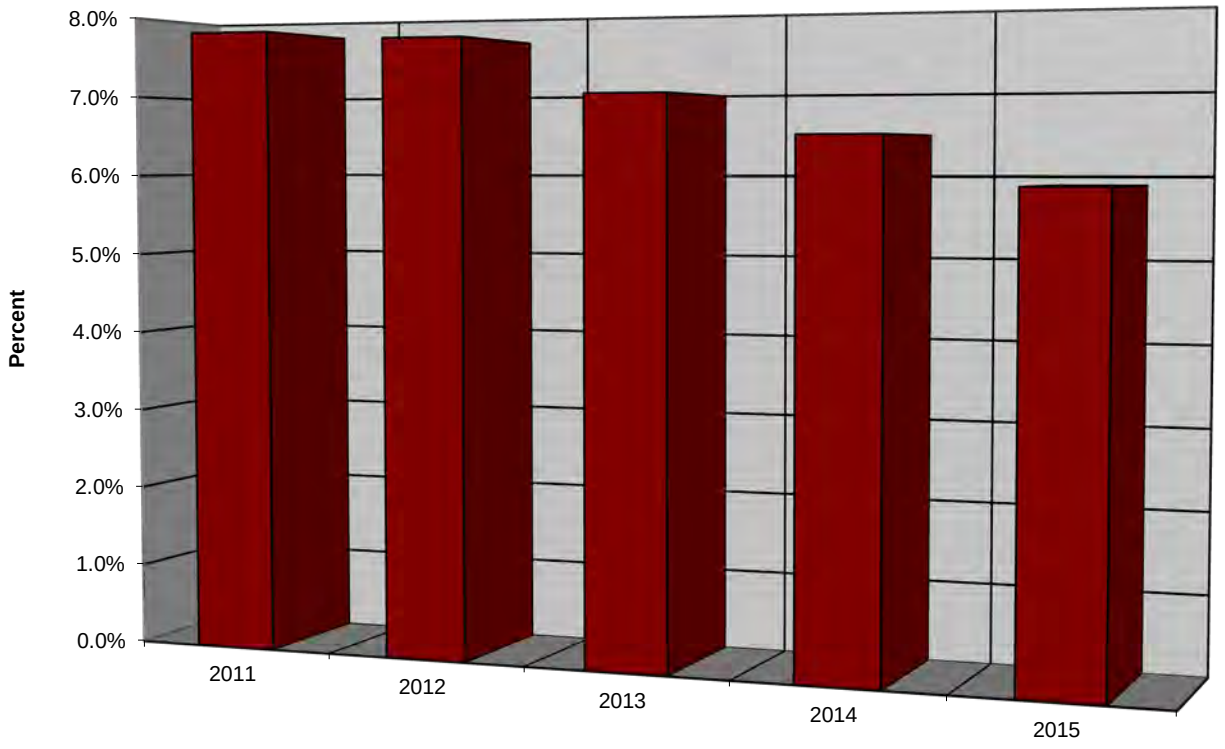
The unemployment rate measures the number of residents who are unemployed; it does not consider whether those who are employed work in Harrisonburg or elsewhere in the region. Of course, there are limitations to the unemployment rate. People who are employed part-time or who are otherwise "underemployed" 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 has steadily decreased from 2011 to 2015 due to improving economic conditions. As the following table shows, the City's unemployment rate compares favorably to the national unemployment rate but is higher than the state unemployment rate.

Description	2011	2012	2013	2014	2015
Local Unemployment Rate	7.8%	7.7%	7.0%	6.5%	5.9%
State Unemployment Rate	6.7%	6.4%	5.8%	5.4%	4.9%
National Unemployment Rate	9.2%	8.5%	7.7%	6.7%	5.6%

Source: Virginia Labor Market Information, Bureau of Labor Statistics

Unemployment Rate



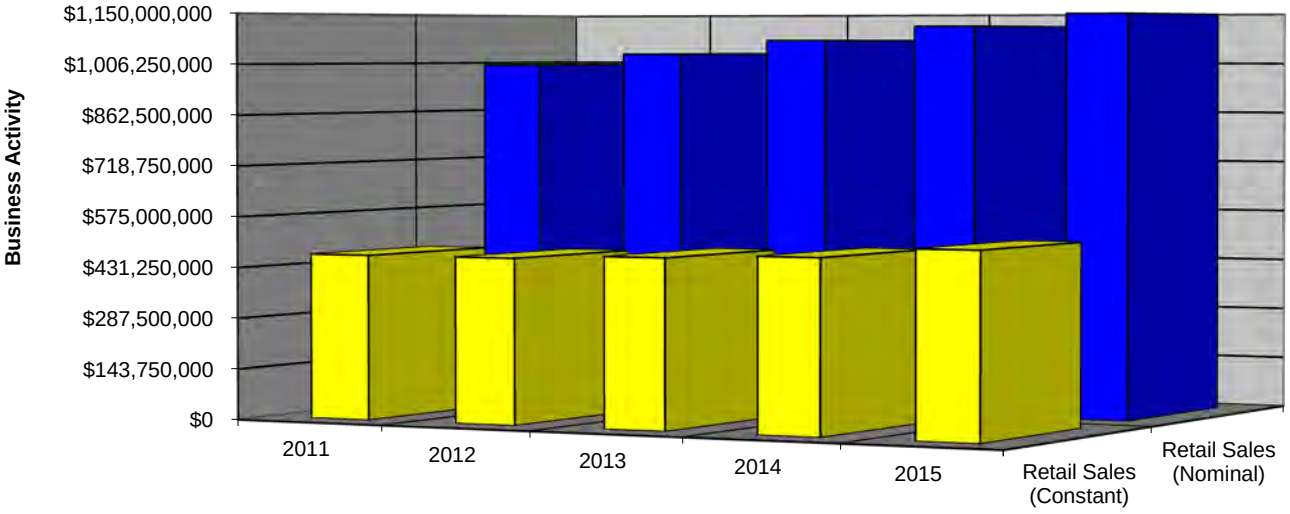
Indicator 39
Business Activity

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 has continued to improve since 2011 as evidenced by the retail sales data. Retail sales have increased 18.7% in nominal dollars (10.6% in constant dollars) over the past five years. This is a positive indication that the local economy has been steadily improving with 2014 nominal retail sales exceeding pre-recession retail sales levels from 2008.

Description	**2011**	**2012**	**2013**	**2014**	**2015**
Retail Sales (Nominal)	$1,000,380,856	$1,033,572,984	$1,073,489,520	$1,114,464,617	$1,187,699,414
CPI for the Area (1982-84=1.000)	2.145	2.213	2.249	2.289	2.302
Retail Sales (Constant)	$466,378,021	$467,046,084	$477,318,595	$486,878,382	$515,942,404

Source: Virginia Department of Taxation

Business Activity



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, six 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 not exceeded any of the credit industry benchmarks. The following list summarizes any significant trends that match the ICMA definition of a warning trend.

<u>ICMA Warning Trends</u>

1. **Indicator 2 – Restricted Revenues –** The warning trend is increasing restricted revenues as a percentage of net operating revenues. This indicator has been increasing since 2011 mainly from state and federal funding for education.

2. **Indicator 3 – Intergovernmental Revenues –** The warning trend is increasing intergovernmental revenues as a percentage of net operating revenues. This indicator has been slightly increasing since 2011. The underlying concern with increases to intergovernmental revenues is that the City may have to find other means to fund programs if these intergovernmental revenues decrease in the future.

3. **Indicator 8 – User Charge Coverage –** The warning trend is decreasing revenues from user charges as a percentage of expenditures for related services. This indicator has decreased since 2011. The programs with the largest negative impact are school cafeteria and building permits.

4. **Indicator 10 – Net Operating Expenditures per Capita –** The warning trend is increasing net operating (constant dollars). This indicator has shown a trend of increasing expenditures per capita the last four years.

5. **Indicator 14 – Fringe Benefits –** The warning trend is increasing fringe benefits expenditures as a percentage of salaries and wages. This indicator has been trending upward since 2011 due to increased VRS contributions and health insurance expenditures.

6. **Indicator 19 – Current Liabilities –** The warning trend is increasing current liabilities as a percentage of net operating revenues. This indicator has shown an increasing trend. The timing of the School Board's VRS year end payment has been the most significant factor since 2012.

7. **Indicator 33 – Property Value –** The warning trend is a declining growth or drop in value of residential and/or commercial property (constant dollars). This indicator has shown a declining trend in real property assessed values for both residential and commercial properties since 2011.

8. **Indicator 34 – Top Five Property Taxpayers –** One of the warning trends is an increasing percentage of taxes paid by a few taxpayers. This indicator has shown an increasing trend since 2011.