CITY OF HARRISONBURG, VIRGINIA

FINANCIAL TREND MONITORING SYSTEM

AN EVALUATION OF THE CITY'S FINANCIAL CONDITION

For the Five Year Period Ended June 30, 2021

29th 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 several 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 several primary factors that influence a local government's financial condition. A few quantifiable indicators were then developed that were used to measure different aspects of the factors. The indicators were also used to monitor changes 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
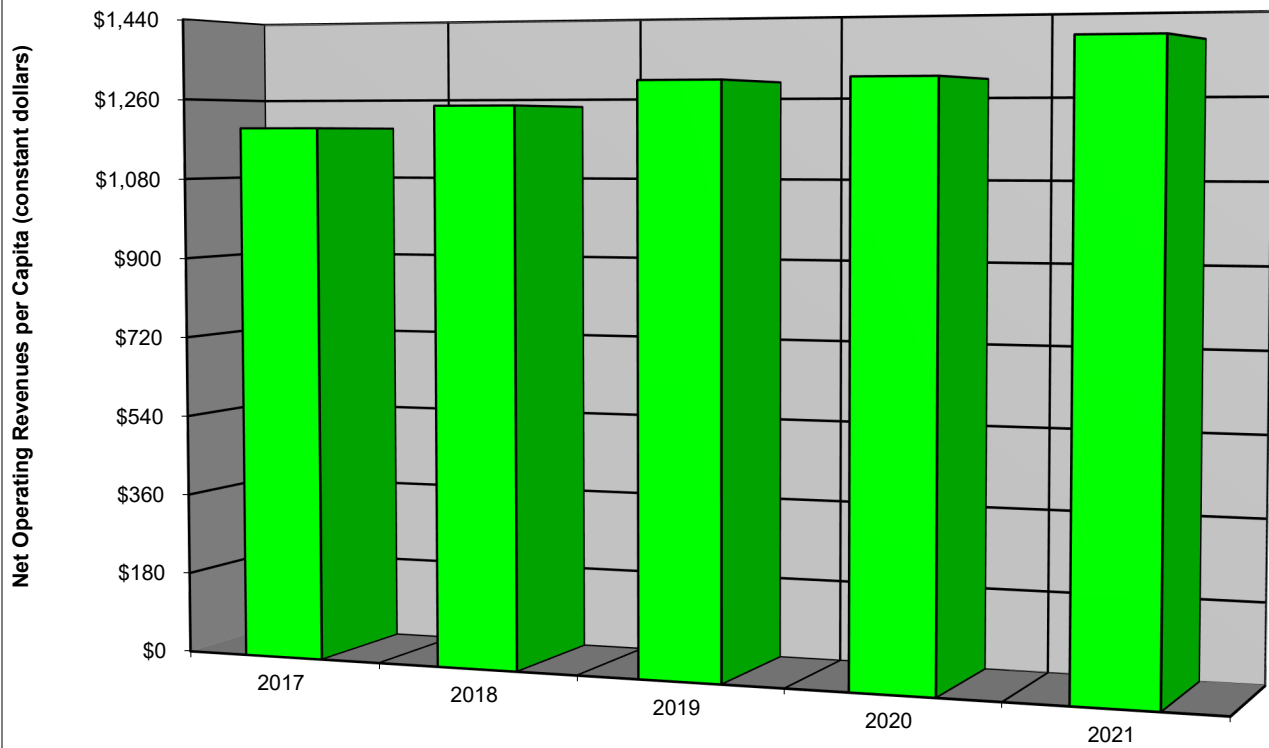## Net Operating Revenues per Capita

Net operating revenues per capita show changes in revenues relative to changes in population. Net operating revenues per capita in nominal dollars have increased 24.9% over the past five years; in constant dollars the growth rate is 15.9%. Revenue growth over the past five years has been driven by increases in intergovernmental revenue for education, and real estate and personal property tax collections. It should be noted that real estate tax rates increased in 2018 and 2020 while the restaurant food tax rate increased in 2018.

The impact of the COVID-19 pandemic on local tax revenue in 2020 and 2021 was significant. Due to this significant interruption to the local economy, it is estimated that the City lost in excess of $6 million in tax and other revenue in the General Fund from the beginning of the pandemic. Restaurant food and hotel/motel room taxes were the most affected by the pandemic. This loss of local revenue was offset by the use of $3.6 million in 2020 and $5.8 million in 2021 in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Funds (CRF) provided by the Commonwealth of Virginia.

The important issue to consider is the reason for revenue growth. Are total tax revenues rising because of higher tax rates, more population growth, or inflation? These factors need 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	2017	2018	2019	2020	2021
Net Operating Revenues (Nominal)	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Net Operating Revenues (Constant)	$65,319,577	$67,895,538	$70,018,664	$71,331,480	$76,398,152
Population	54,689	54,606	53,997	54,810	55,220
Net Operating Revenues per Capita (Nominal)	$2,809	$2,987	$3,169	$3,217	$3,503
Net Operating Revenues per Capita (Constant)	$1,194	$1,243	$1,297	$1,301	$1,384

Net Operating Revenues per Capita

Net Operating Revenues per Capita (constant dollars)

2017	2018	2019	2020	2021

Y-axis values: $0, $180, $360, $540, $720, $900, $1,080, $1,260, $1,440

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 are eliminated, 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 overall since 2017. Over the past five years, restricted revenues have increased 42.2% with net operating revenues increasing 25.9%. It should be noted that state funding for education has increased $12.3 million (33.6%), while federal funding for education has increased $5 million (71.1%). 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. The use of CARES Act funds for both the City and the School Board in 2020 and 2021 also contributed to the increase in restricted revenues. 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 little choice other than to fund these programs.

Description	2017	2018	2019	2020	2021
Restricted Revenues	$53,778,059	$55,279,276	$59,127,682	$64,647,149	$76,485,237
Net Operating Revenues	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
Restricted Revenues as a Percentage of Net Operating Revenues	35.00%	33.90%	34.55%	36.66%	39.54%

Restricted Revenues
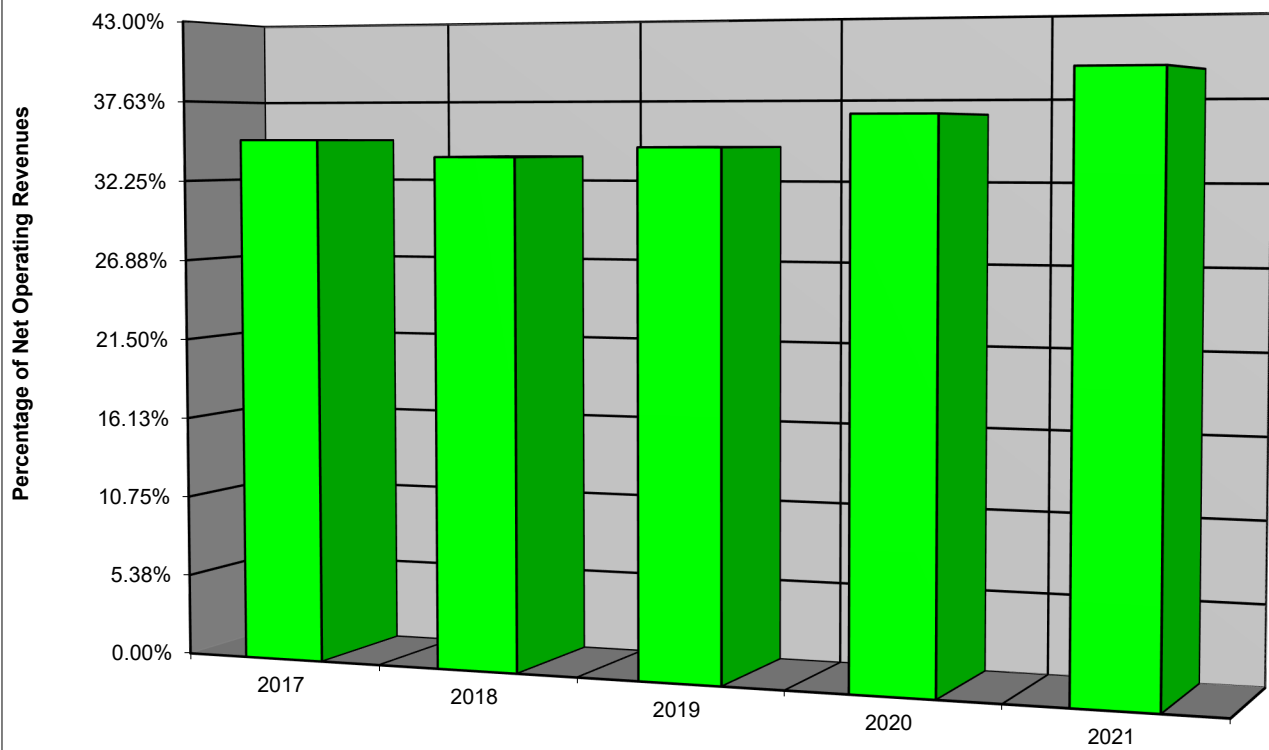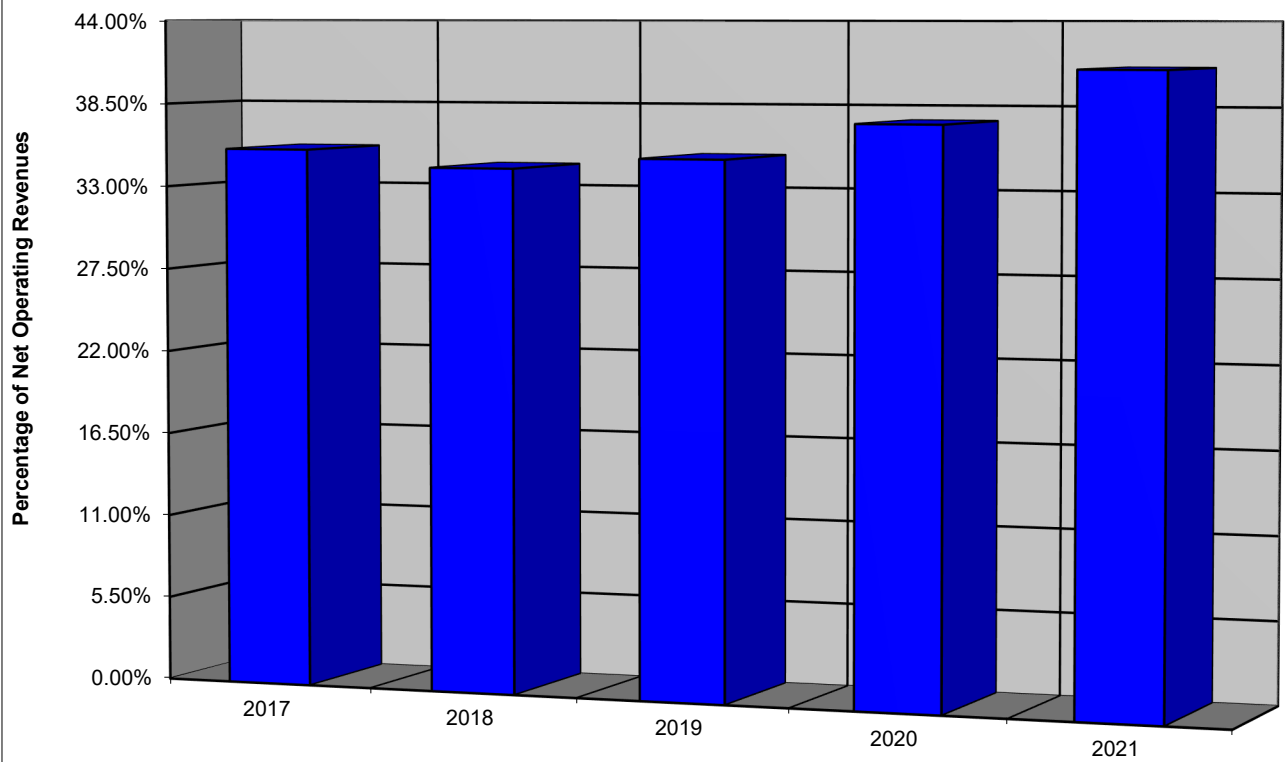
Indicator 3
Intergovernmental Revenues

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 operating revenues have increased since 2017 with actual intergovernmental revenue increasing $24.8 million (45.4%). The Commonwealth's funding has increased $13.2 million (28.3), while federal funding has increased $11.5 million (147.6%). State basic school aid funding, as discussed within Indicator 2, Restricted Revenues, the schools' share of state sales tax, and an additional state assistance supplement have contributed to the state five-year increase. The increase in federal funding was mainly due to the use of CARES Act funds by both the City and School Board. Federal funding within the school food program has increased by $1.6 million (46.8%) since 2017.

The City should keep the following issues in mind. Are the trends that have been 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	2017	2018	2019	2020	2021
Intergovernmental Revenues	$54,582,635	$56,147,742	$60,163,375	$66,142,103	$79,340,799
Net Operating Revenues	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
Intergovernmental Revenues as a Percentage of Net Operating Revenues	35.53%	34.43%	35.16%	37.51%	41.02%

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 decreased overall since 2017, and generally has an inverse relationship to the intergovernmental revenues indicator. Over the past five years, real estate tax collections have increased $7.3 million (23.6%) due to an increase in the real estate tax rate in 2018 and 2020, and an average increase of approximately 2.4% in real estate assessments. After decreasing $1.6 million (11.2%) in 2020 due to the COVID-19 pandemic, restaurant food tax revenue increased in 2021 by $638,000 (5.1%) resulting in an increase of $1 million (8.2%) over the past five years. It should be noted that there was an increase to the restaurant food tax rate in 2018. Personal property tax collections have increased $2.9 million (31.0%), local sales tax collections have increased $2.5 million (19.3%), and business license tax collections have increased $459,000 (6.9%). Hotel/motel room tax collections decreased by $72,000 (2.7%) over the past five years due to the pandemic, after increasing $511,000 (19.5%) from 2017 to 2019.

Description	2017	2018	2019	2020	2021
Elastic Revenues	$77,914,220	$84,536,488	$87,682,430	$87,786,325	$92,585,994
Net Operating Revenues	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
Elastic Revenues as a Percentage of Net Operating Revenues	50.71%	51.84%	51.24%	49.78%	47.86%

Elastic Revenues
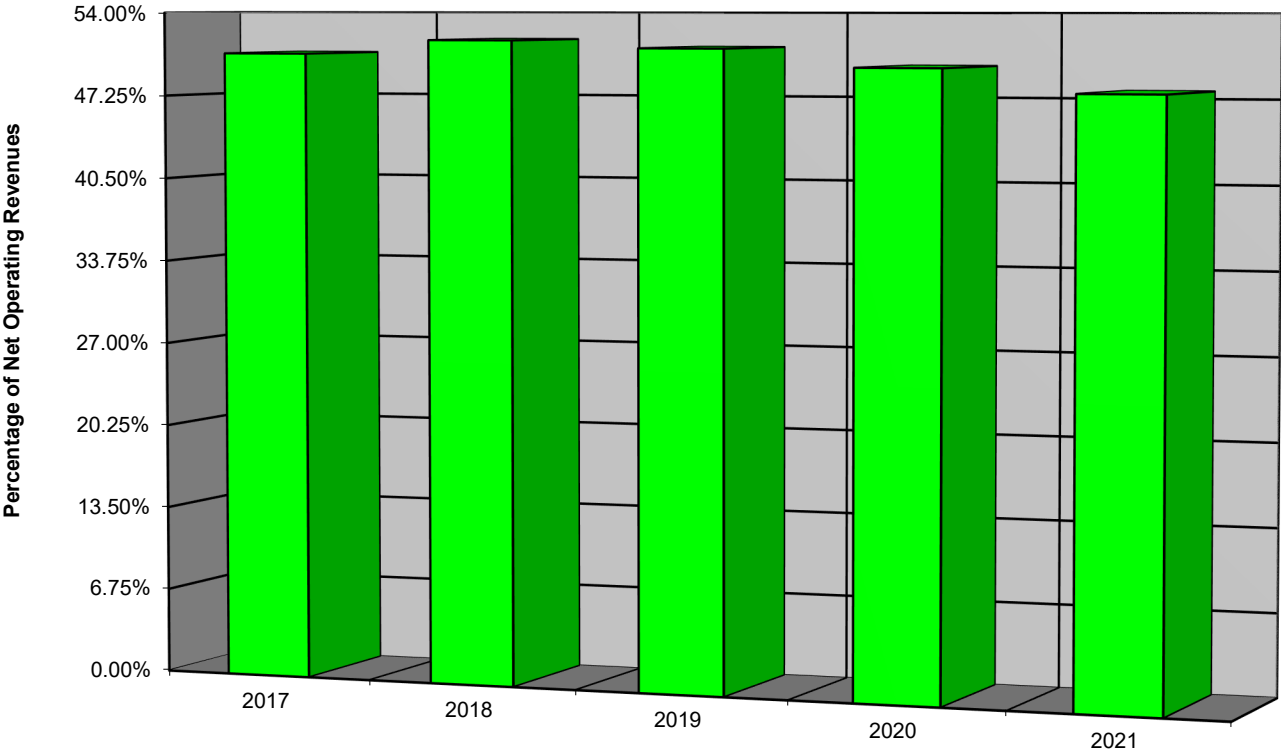
Indicator 6
Major Tax Revenues

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.

Major tax revenues have increased overall during the past five years but did see a decline in constant dollars in 2020 due to the COVID-19 pandemic particularly for restaurant food tax revenue. Real estate tax collections have been a major contributor with a $7.3 million increase which is an increase of 23.6% in nominal dollars (14.8% in constant dollars), which were discussed further in Indicator 4, Elastic Revenues. Personal property tax collections have increased 30.1% in nominal dollars (21.7% in constant dollars). Local sales tax collections have increased $2.5 million, 19.3% in nominal dollars (10.8% in constant dollars). Restaurant food tax collections have also had a positive overall impact on this indicator over the past five years and were discussed further in Indicator 4.

Description	2017	2018	2019	2020	2021
Major Tax Revenues (Nominal)	$72,476,437	$78,604,203	$81,531,831	$81,753,072	$86,710,497
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Major Tax Revenues (Constant)	$30,814,812	$32,724,481	$33,359,996	$33,071,631	$34,245,852

Major Tax Revenues

Chart: Major Tax Revenues (constant dollars), years 2017–2021. Y-axis labeled from $0 to $36,000,000 in increments of $4,500,000. Bars: 2017 approximately $30,500,000; 2018 approximately $32,500,000; 2019 approximately $33,000,000; 2020 approximately $32,500,000; 2021 approximately $34,000,000.
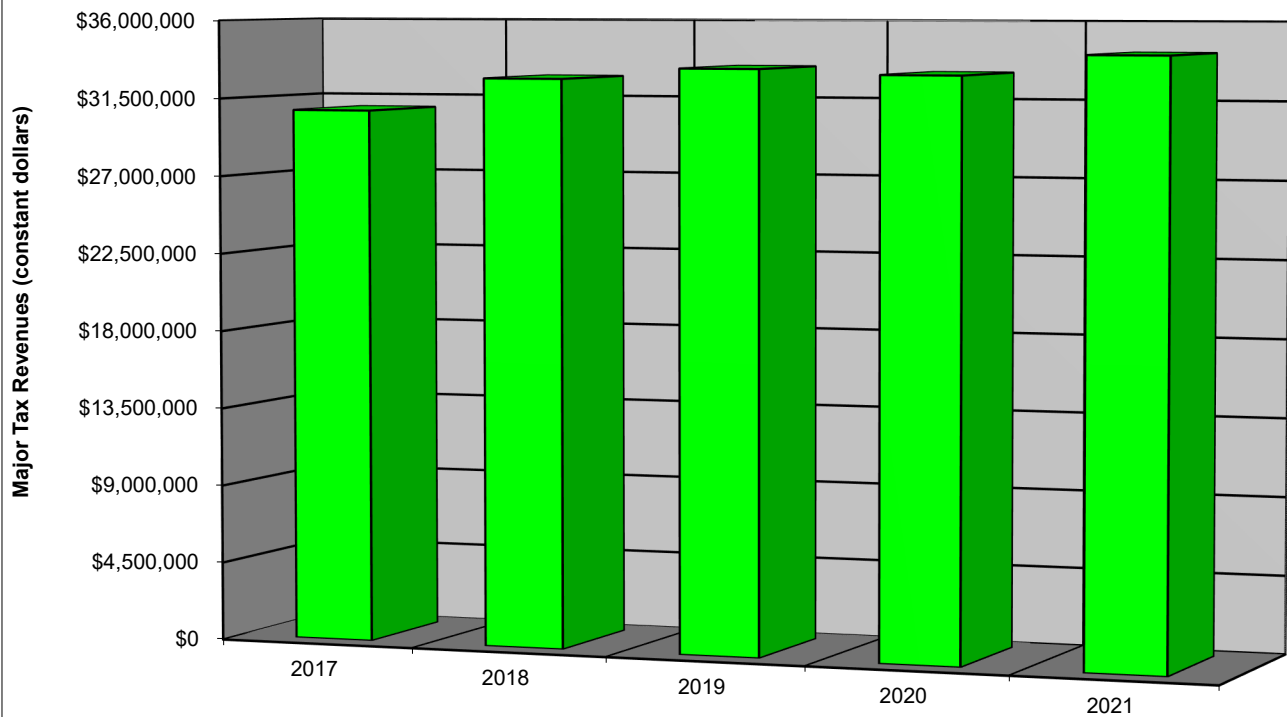
Indicator 7
Current Year Uncollected Property Taxes

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 indicator increased in 2020 and 2021 after trending downward in 2018 and 2019 and is currently at 2.04%. The increase in 2020 can be attributed to the disruption of the local economy from the COVID-19 pandemic and ultimately on the timing of property tax collections. Overall, uncollected real estate taxes decreased from 1.74% in 2017 to 1.33% in 2021. The percentage of uncollected personal property taxes have also decreased from 5.44% to 4.70% over the past five years.

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 being charged to 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	2017	2018	2019	2020	2021
Current Year Uncollected Property Taxes	$1,071,856	$971,654	$859,260	$1,031,249	$1,103,469
Total Property Taxes	$43,406,093	$47,285,573	$48,793,283	$51,411,484	$54,116,941
Current Year Uncollected Property Taxes as a Percentage of Total Property Taxes	2.47%	2.05%	1.76%	2.01%	2.04%

Current Year Uncollected Property Taxes
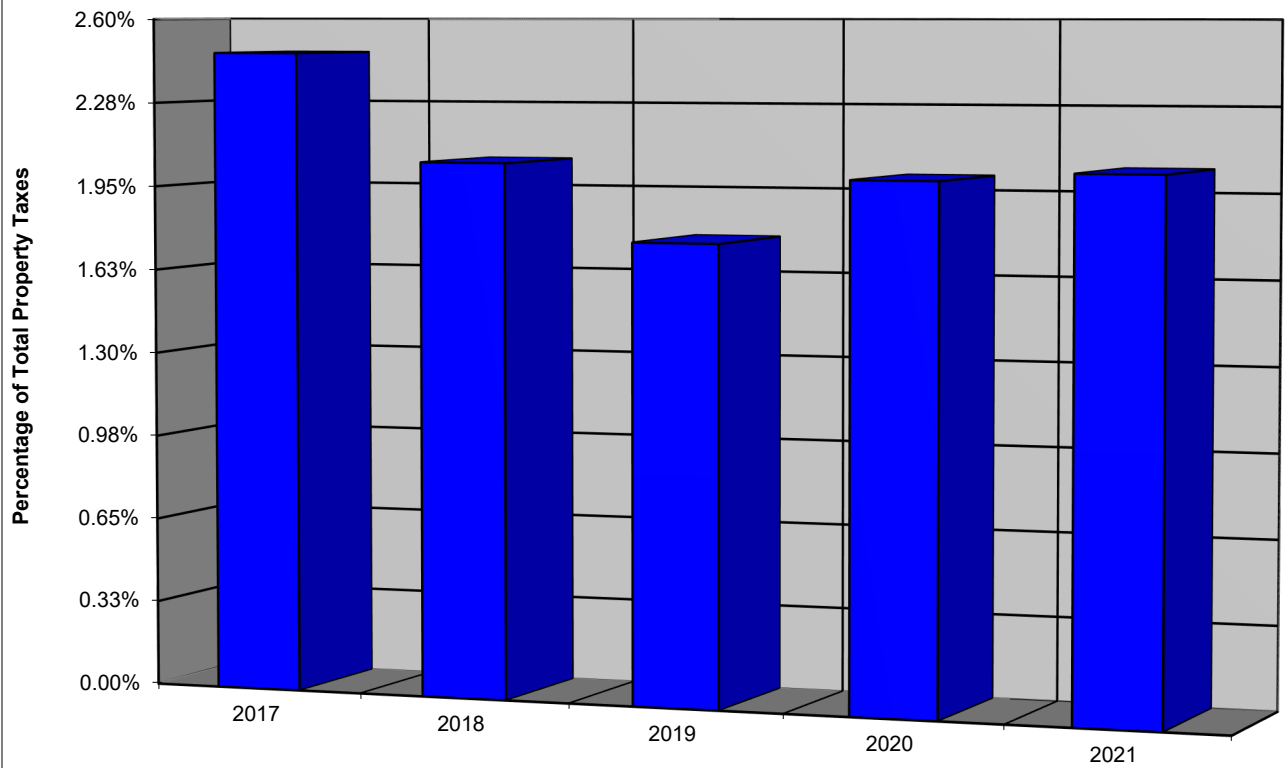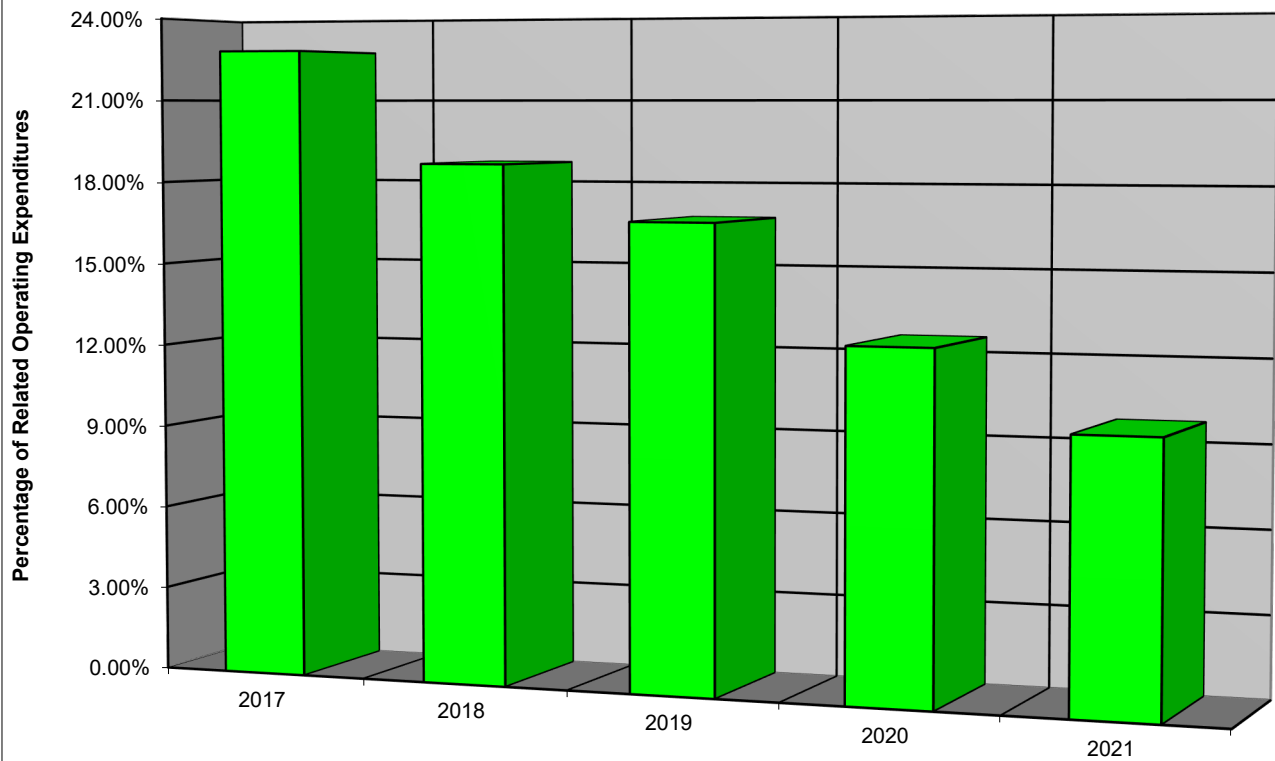
Indicator 8
User Charge Coverage

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 downtown parking, golf course, school cafeteria services, and parks and recreation programs.

This indicator has trended down significantly since 2017. The decline in 2020 and 2021 can be attributed generally to the impact the COVID-19 pandemic had on all parks and recreation activities and the School Board no longer charging for student lunches throughout the school system.

Over the past five years downtown parking revenues declined by 21.5% while expenditures declined by 41.8% creating a 78.3% user charge coverage in this activity. The user charge coverage for the golf course has increased over the past five years with 2021 being at 90.8% as compared to 66.6% in 2017. Parks and recreation programs user charge coverage has trended down to 2.0% in 2021 from 12.5% in 2017. School cafeteria services continue to have a negative impact on this indicator with a user charge coverage of 0.1% in 2021. It should be noted that federal intergovernmental revenue increases for school cafeteria services continue to make up the difference in this decline.

Description	2017	2018	2019	2020	2021
Revenues from User Charges	$1,935,812	$1,734,494	$1,608,507	$1,190,672	$901,604
Operating Expenditures for Services for which there is a Fee	$8,497,140	$9,265,320	$9,616,873	$9,500,547	$9,285,845
Revenues from User Charges as a Percentage of Related Operating Expenditures	22.78%	18.72%	16.73%	12.53%	9.71%

User Charge Coverage

Percentage of Related Operating Expenditures

| Year	Value
2017	~22.80%
2018	~18.70%
2019	~16.50%
2020	~11.90%
2021	~8.70%

Indicator 9
Revenue Surplus (Shortfall)

The purpose of this indicator is to examine the differences between revenue estimates and actual revenues 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. In 2020, the COVID-19 pandemic had a significant impact on this indicator due to the loss of revenue from disruptions to the local economy. There was a shortfall of $3.1 million in other local tax revenue which was offset by the use of CARES Act funds. In 2021, real estate tax, personal property tax, local sales tax, and business license tax revenues were significantly higher than anticipated.

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	2017	2018	2019	2020	2021
Actual Net Operating Revenues	$103,330,071	$111,294,805	$115,122,374	$118,476,291	$127,614,850
Budgeted Net Operating Revenues	$102,575,433	$109,230,918	$112,919,518	$118,084,675	$122,734,175
Revenue Surplus (Shortfall)	$754,638	$2,063,887	$2,202,856	$391,616	$4,880,675
Revenue Surplus (Shortfall) as a Percentage of Budgeted Net Operating Revenues	0.74%	1.89%	1.95%	0.33%	3.98%

Revenue Surplus (Shortfall)

Percentage of Budgeted Net Operating Revenues

4.24%	
3.71%	
3.18%	
2.65%	
2.12%	
1.59%	
1.06%	
0.53%	
0.00%	

2017 2018 2019 2020 2021
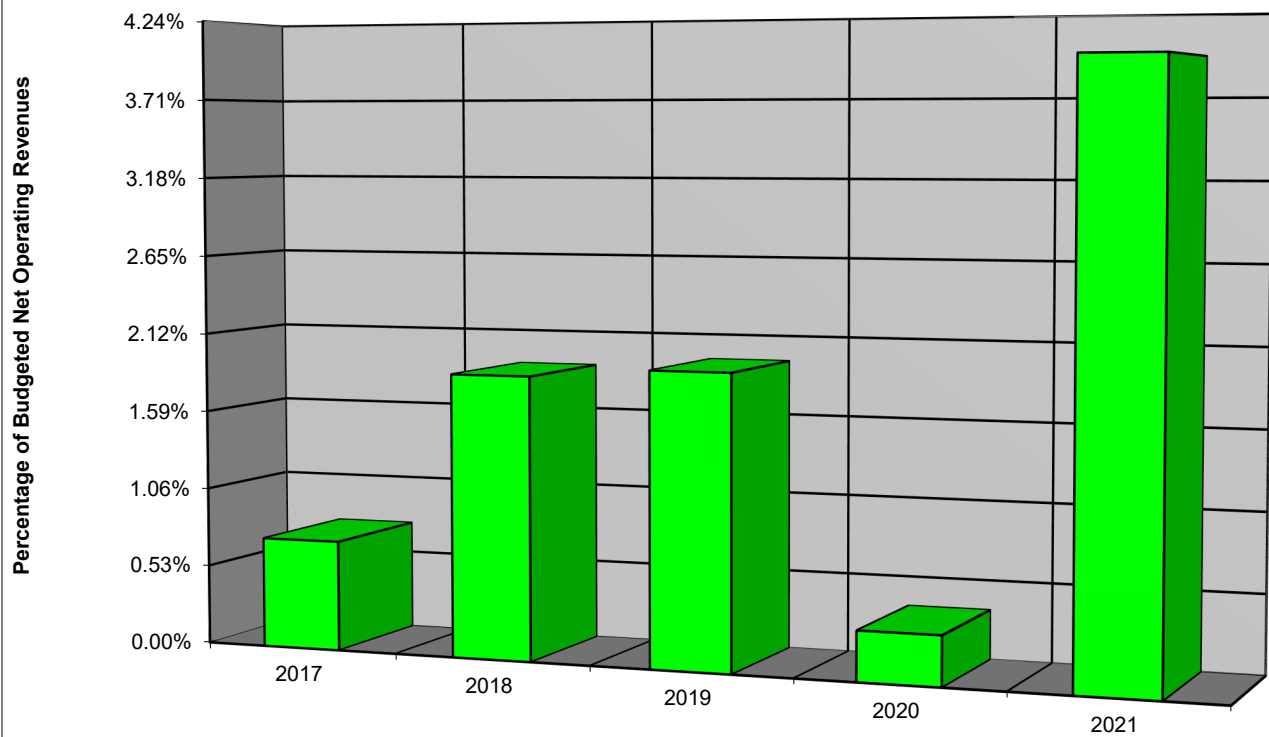
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Factor 2
Expenditure Indicators

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 20.9% in nominal dollars (12.3% in constant dollars) over the past five years. The overall increase to $179.4 million in net operating expenditures has mainly been due to increased spending on education, public safety, and planning and community development.

Spending on education during the last five years has increased by $17.3 million (22.9%). Since 2017, public safety spending has increased by $4.5 million (20.5%). Planning and community development has increased $2.9 million (70.9%) over the past five years largely due to community and business assistance payments using federal CARES Act funding.

Description	2017	2018	2019	2020	2021
Net Operating Expenditures (Nominal)	$146,939,029	$155,279,751	$165,756,650	$168,071,698	$179,372,277
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Net Operating Expenditures (Constant)	$62,474,077	$64,646,025	$67,821,870	$67,990,169	$70,842,132
Population	54,689	54,606	53,997	54,810	55,220
Net Operating Expenditures per Capita (Nominal)	$2,687	$2,844	$3,070	$3,066	$3,248
Net Operating Expenditures per Capita (Constant)	$1,142	$1,184	$1,256	$1,240	$1,283

Net Operating Expenditures per Capita
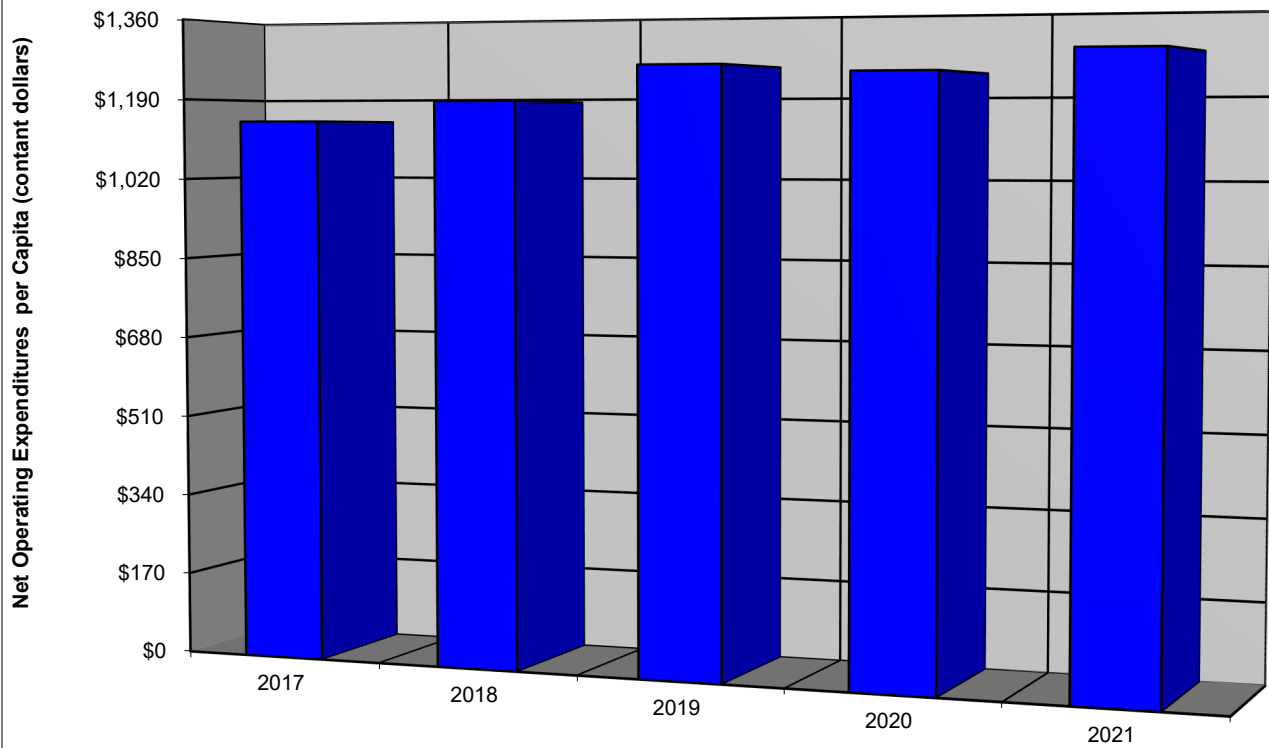
Indicator 12
Employees per Capita

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 FTEs has increased over the past five years with a total five-year increase of 63.8 FTEs (9.8%). The 2018 increase was due to 5.7 FTEs in school transportation, 5.2 FTEs in parks and recreation, and 4.5 FTEs in police. The 2019 increase was from 9.4 FTEs in public transportation, 6.9 FTEs in parks and recreation, and 4.2 FTEs in police. The 2021 increase was from 6.4 FTEs in public transportation, school transportation and central garage.

Description	2017	2018	2019	2020	2021
Number of Employees (Full-time Equivalents)	651.6	679.1	701.9	705.6	715.4
Population	54,689	54,606	53,997	54,810	55,220
Municipal Employees per 1,000 Residents	11.91	12.44	13.00	12.87	12.96

Municipal Employees
(Full-time Equivalents)
By Department

Department[1]	2017	2018	2019	2020	2021
Clerk of Council	1	1	1	1	1
City Manager	4	3.3	4.5	4.5	4.5
City Attorney	2.5	2.5	2	2	2
Human Resources	4.6	5	5	5	5
Commissioner of the Revenue	10.9	11.2	11.3	11.3	11.3
Treasurer	7.2	7.9	8.3	8.4	8.4
Finance	8.3	8.3	8.8	9.3	9.8
Information Technology	10	11.5	11.5	12	14
Registrar	2.5	2.9	2.9	2.7	2.7
Police	127.9	132.4	136.6	138.6	138.6
Fire	85.9	86.7	87	88.4	89.4
Public Works	65.5	67.6	67.9	67.9	72.4
Parks and Recreation	71.9	77.1	84	82.5	79.1
Planning and Community Development	24	25	25	25	25
Economic Development	11	11	8	8.8	8.1
General Properties	3.5	4	3	3	3
Community Development Block Grant	0.8	0.7	0.6	0.6	0.6
Public Utilities	61	64.2	65.1	65.1	65.3
Public Transportation	58.3	60.2	69.6[3]	67	71
School Transportation	44.3	50[2]	53.3	55.6	57.3
Sanitation	25.2	25.2	25.2	25.7	25
Stormwater	3.7	3.7	3.7	3.7	3.7
Central Garage	15.6	15.7	15.6	15.5	16.2
Central Stores	2	2	2	2	2
TOTAL	651.6	679.1	701.9	705.6	715.4

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[1] Figures do not include boards and commissions.
[2] Reflects additional bus drivers for the new Bluestone Elementary School.
[3] Reflects additional bus drivers and hours to part-time employees from an increase in bus routes.

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Employees per Capita

Employees per 1,000 Residents

13.60	
11.90	
10.20	
8.50	
6.80	
5.10	
3.40	
1.70	
0.00	

2017   2018   2019   2020   2021
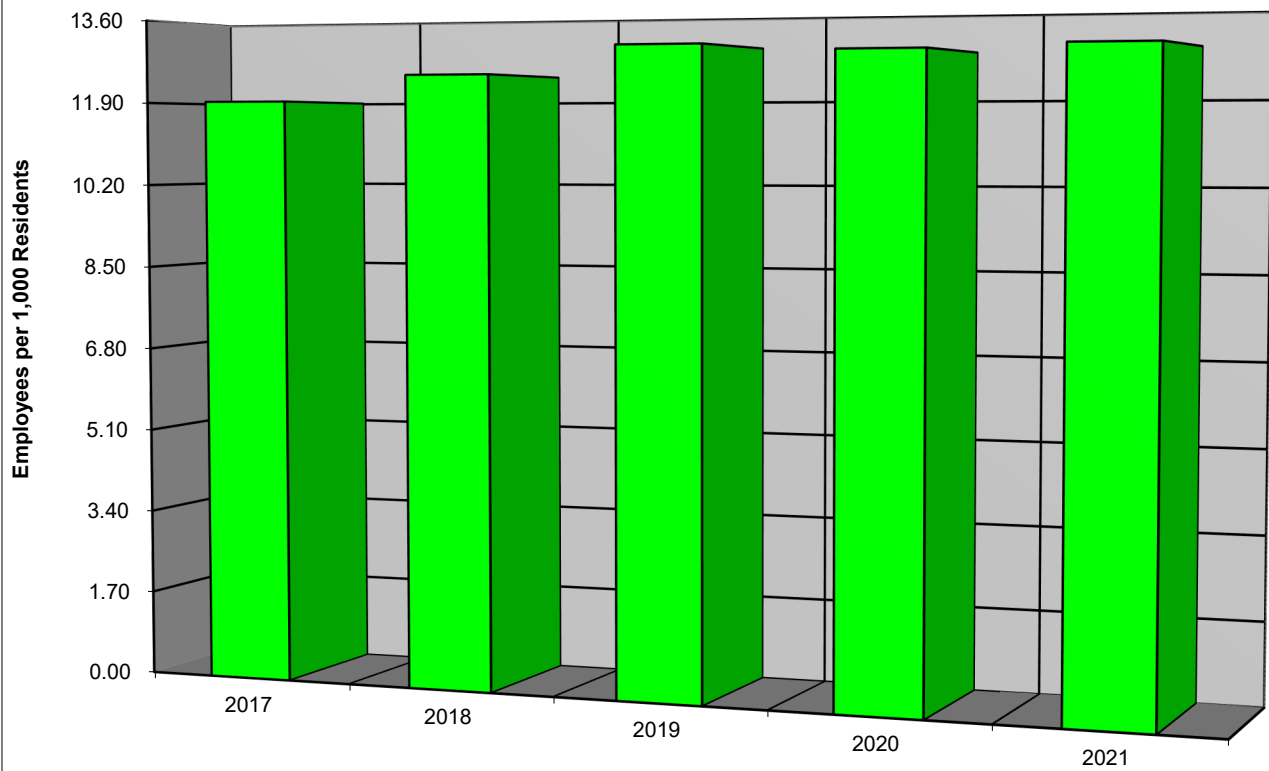
Indicator 14
Fringe Benefits

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 health insurance, VRS retirement 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 indicator has decreased overall since 2017 largely due to decreases in required VRS retirement contributions for the City as well as health insurance premiums remaining relatively stable. Increasing contribution rates for the VRS statewide teacher pool have increased School Board retirement contributions by $2 million (35.7%) since 2017 while the City's retirement contributions increased $501,000 (21.8%). Health insurance premiums have decreased by 4.3% in part due to a 2021 premium holiday.

Description	2017	2018	2019	2020	2021
Expenditures for Fringe Benefits	$24,469,875	$26,648,431	$27,250,169	$28,114,277	$28,713,229
Salaries and Wages	$63,899,133	$67,408,782	$70,470,755	$74,205,212	$77,670,411
Fringe Benefit Expenditure as a Percentage of Salaries and Wages	38.29%	39.53%	38.67%	37.89%	36.97%

Fringe Benefits
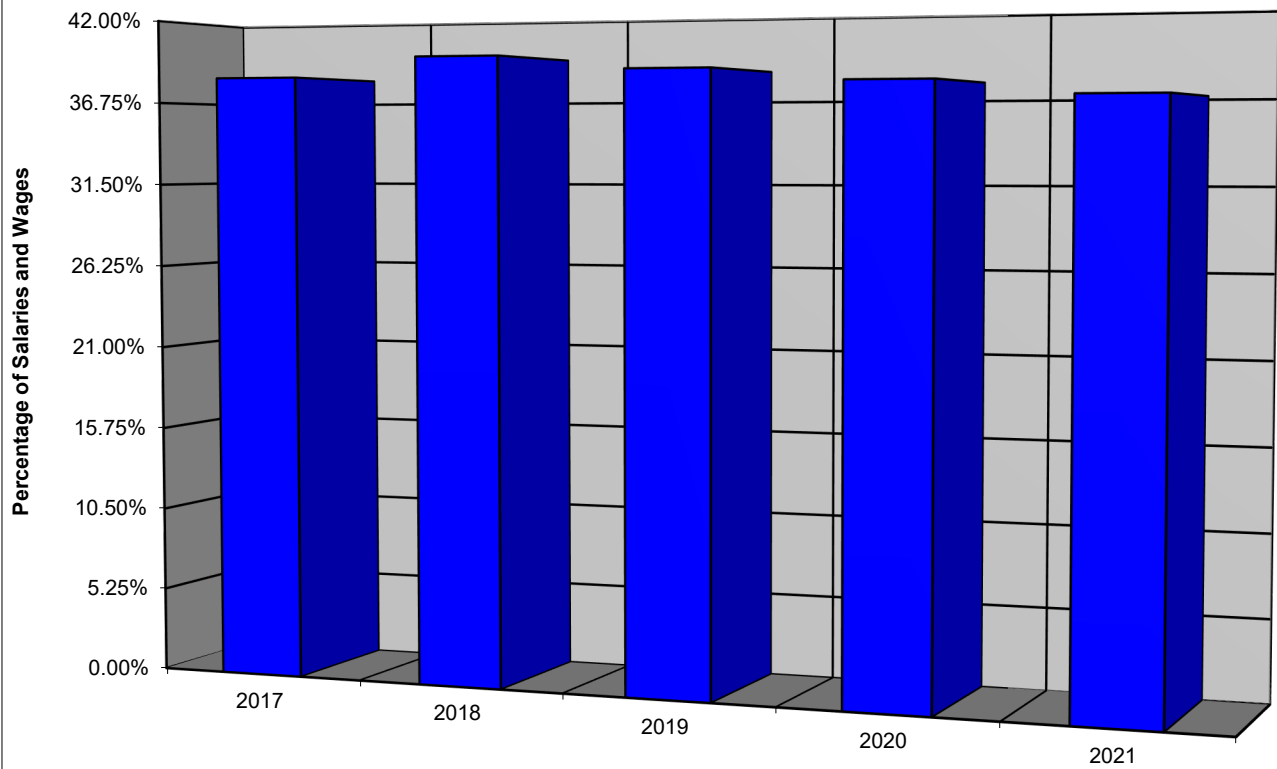
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Factor 3
Operating Position Indicators

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 from 2017 through 2021. The surpluses in 2017 through 2019 were mainly the result of positive operating results. The operating surplus in 2020 was from the use of federal CARES Act funds, as well as unused school appropriations retained by the City. The operating surplus in 2021 was a combination of federal CARES Act funds, tax revenue significantly exceeding budget estimates, cost savings due to the COVID-19 pandemic and unused school appropriations retained by the City.

Description	2017	2018	2019	2020	2021
General Fund Operating Surplus (Deficit)	$2,216,142	$3,773,441	$1,763,559	$2,717,933	$12,656,717
General Fund Net Operating Revenues	$103,330,071	$111,294,805	$115,122,374	$118,476,291	$127,614,850
General Fund Surplus (Deficit) as a Percentage of Net Operating Revenues	2.14%	3.39%	1.53%	2.29%	9.92%

Operating Surplus (Deficit)
(General Fund)

Percentage of Net Operating Revenues

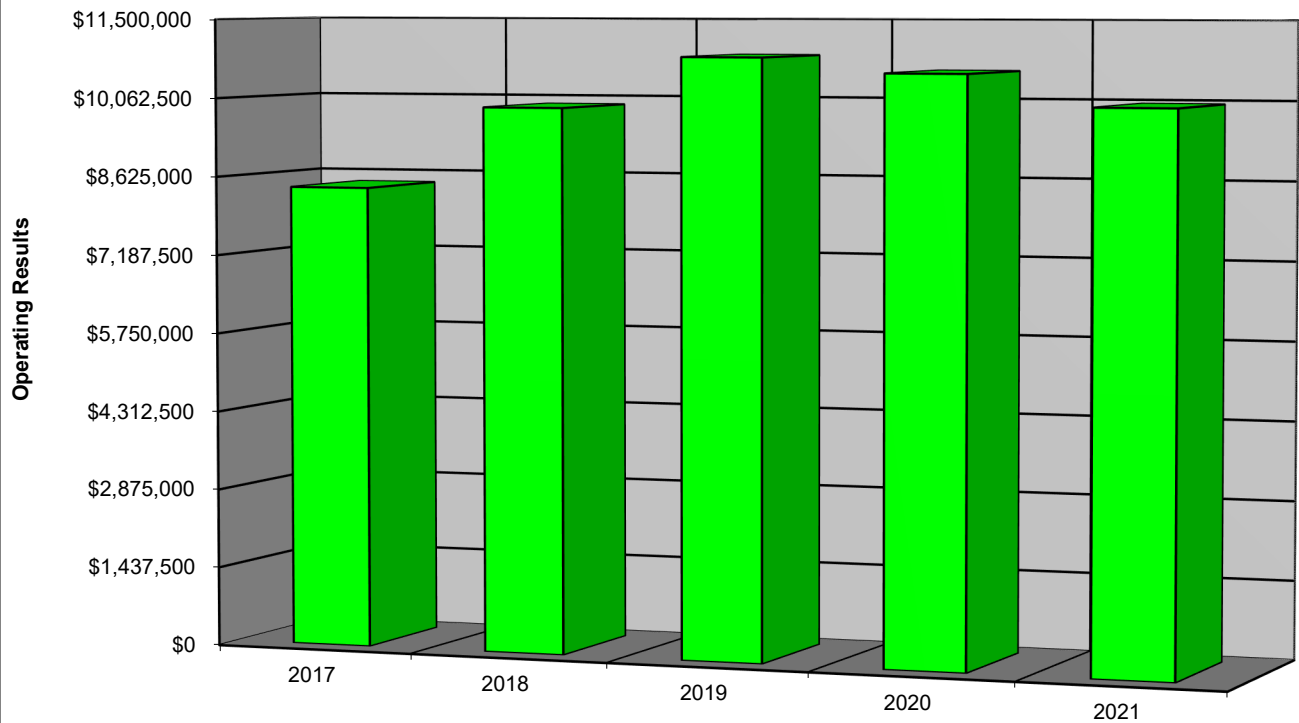| Year	
2017	
2018	
2019	
2020	
2021	
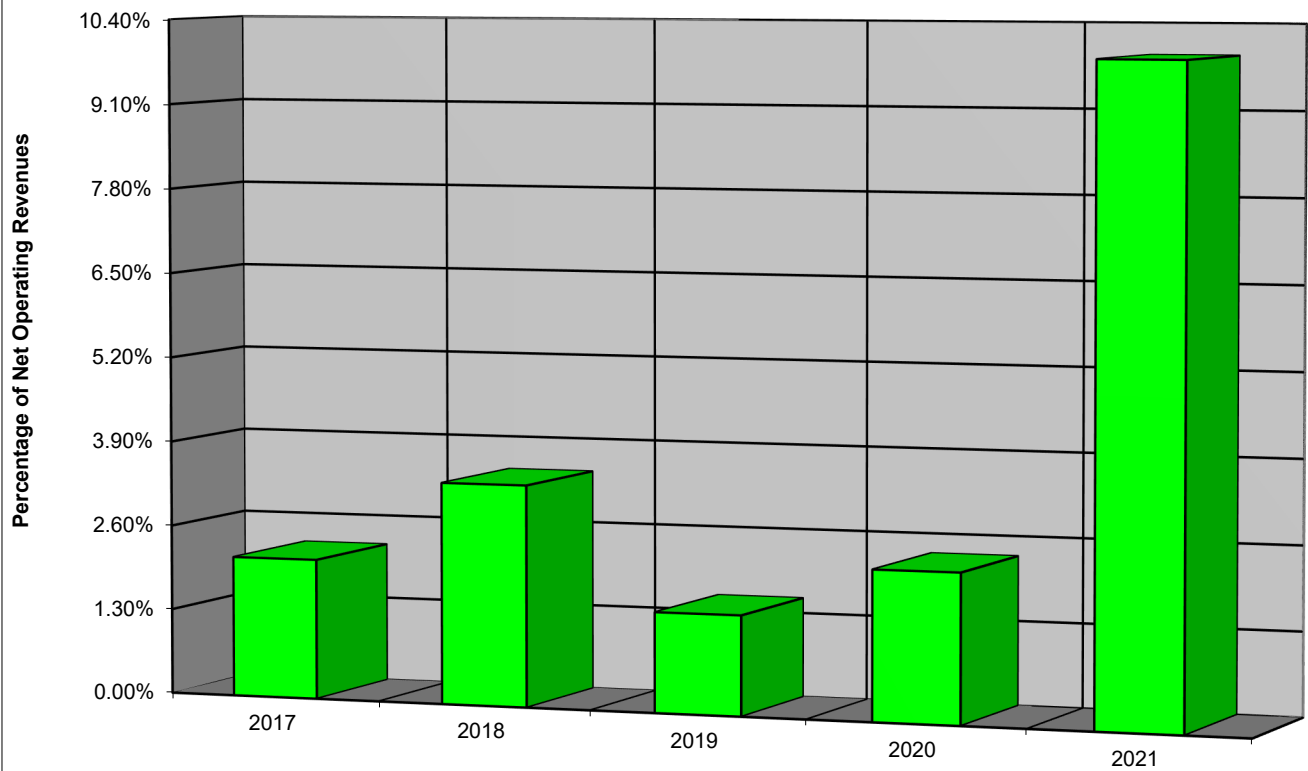
Indicator 16
Enterprise Fund Operating Results

Enterprise Fund operating results have increased $1.6 million overall since 2017. The increase can mainly be attributed to increases in charges for services within the Water Fund. Water Fund revenues have increased $1.9 million (24.8%) over the past five years as the result of rate increases from 2017 to 2020 and increased usage. The increased revenue is being used to fund debt service for the eastern raw water line project and to provide funding for general asset replacements. Since 2017, Sewer Fund revenue has increased $816,000 (7.7%) to offset contributions to the Harrisonburg-Rockingham Regional Sewer Authority. Public Transportation Fund revenues have increased $1.3 million (30.2%). The COVID-19 pandemic did have an impact on Water and Sewer Fund revenue in 2021 due to a decrease in usage from a number of institutional customers. However, since overall expenses have also increased, the Public Transportation Fund operating results contribution to Enterprise Fund operating results have been minimal. The Sanitation Fund's revenue decreased $30,000 (0.7%) while a decrease in expenses of $162,000 has offset the impact of this reduction in revenue.

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 City should 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	2017	2018	2019	2020	2021
Enterprise Fund Operating Results (Nominal)	$8,427,564	$9,919,469	$10,849,347	$10,581,447	$10,010,632

Enterprise Fund Operating Results

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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.
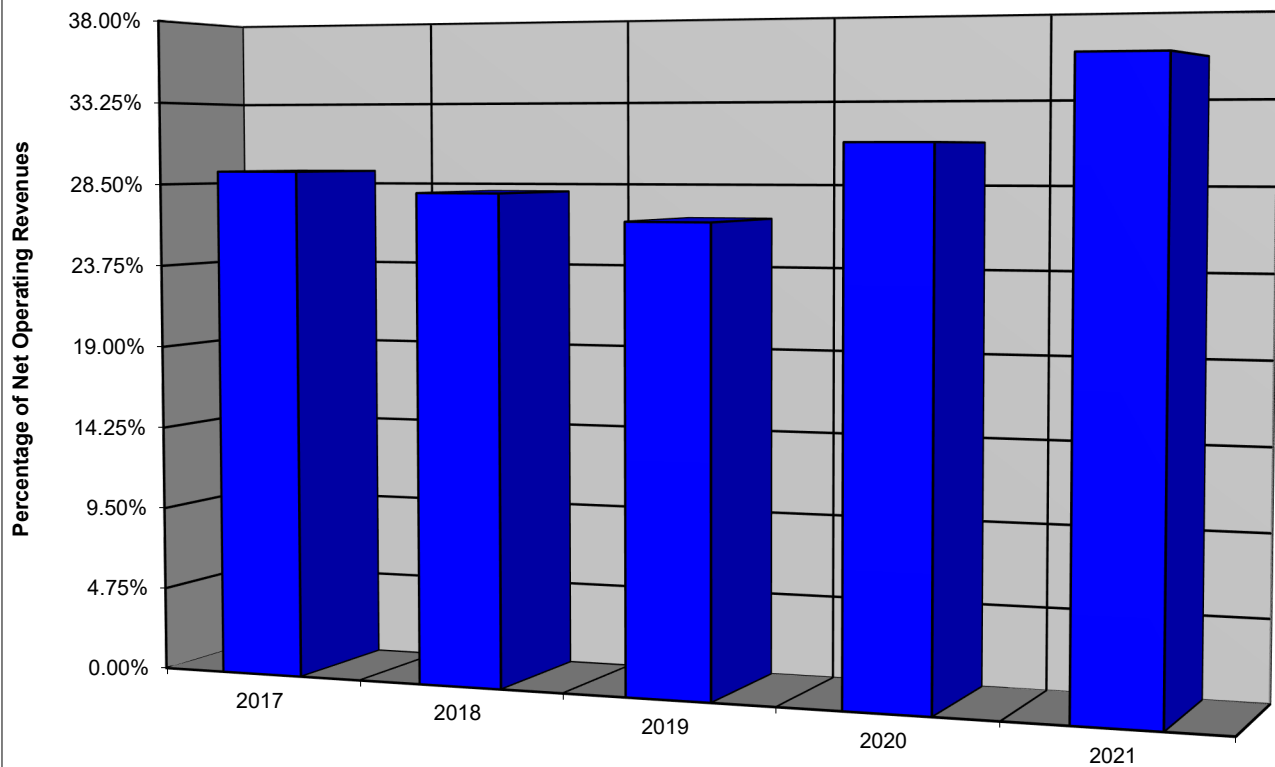
Rating agencies typically recommend local governments adopt a formal fund balance reserve policy and tend to look unfavorably on large swings in the percentage and especially on unplanned declines. A smaller balance may be justified by a long-term trend of annual budget surpluses. A much larger balance 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 <u>Financial Management Policies</u>. 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.

Over the past five years, unassigned fund balance for the General Fund increased $15.2 million to $45.5 million in 2021. The declines in unassigned fund balance as a percentage of net operating revenue in 2018 and 2019 were the result of using $1.4 million and $1.9 million of unassigned fund balance, respectively, to balance the subsequent year budgets. These uses were within the recommended uses of fund balance in the City's <u>Financial Management Policies</u>. The $6.1 million increase in 2020 was due to cost containment measures enacted in the fourth quarter of 2020 due to the COVID-19 pandemic, the reimbursement of funds transferred to the School Bond Capital Projects Fund in 2019 for the construction of the new high school, balancing the 2021 budget without using unassigned fund balance, and from the use of federal CARES Act funds. The 2021 $8.8 million

increase of unassigned fund balance was mainly from federal CARES Act funds allocated to the City, local sales tax and property tax revenues exceeding budget projections, retaining unused school appropriations and a continued deferral of capital outlay due to the COVID-19 pandemic. In addition, the City used $3 million from unassigned fund balance to balance the 2022 budget.

Description	2017	2018	2019	2020	2021
Unassigned Fund Balance (General Fund)	$30,226,183	$31,239,773	$30,561,724	$36,632,322	$45,459,532
Net Operating Revenues (General Fund)	$103,330,071	$111,294,805	$115,122,374	$118,476,291	$127,614,850
Unassigned Fund Balance as a Percentage of Net Operating Revenues	29.25%	28.07%	26.55%	30.92%	35.62%

Unassigned Fund Balances
(General Fund)

Chart showing Percentage of Net Operating Revenues for years 2017–2021, with y-axis ranging from 0.00% to 38.00% in increments (0.00%, 4.75%, 9.50%, 14.25%, 19.00%, 23.75%, 28.50%, 33.25%, 38.00%).
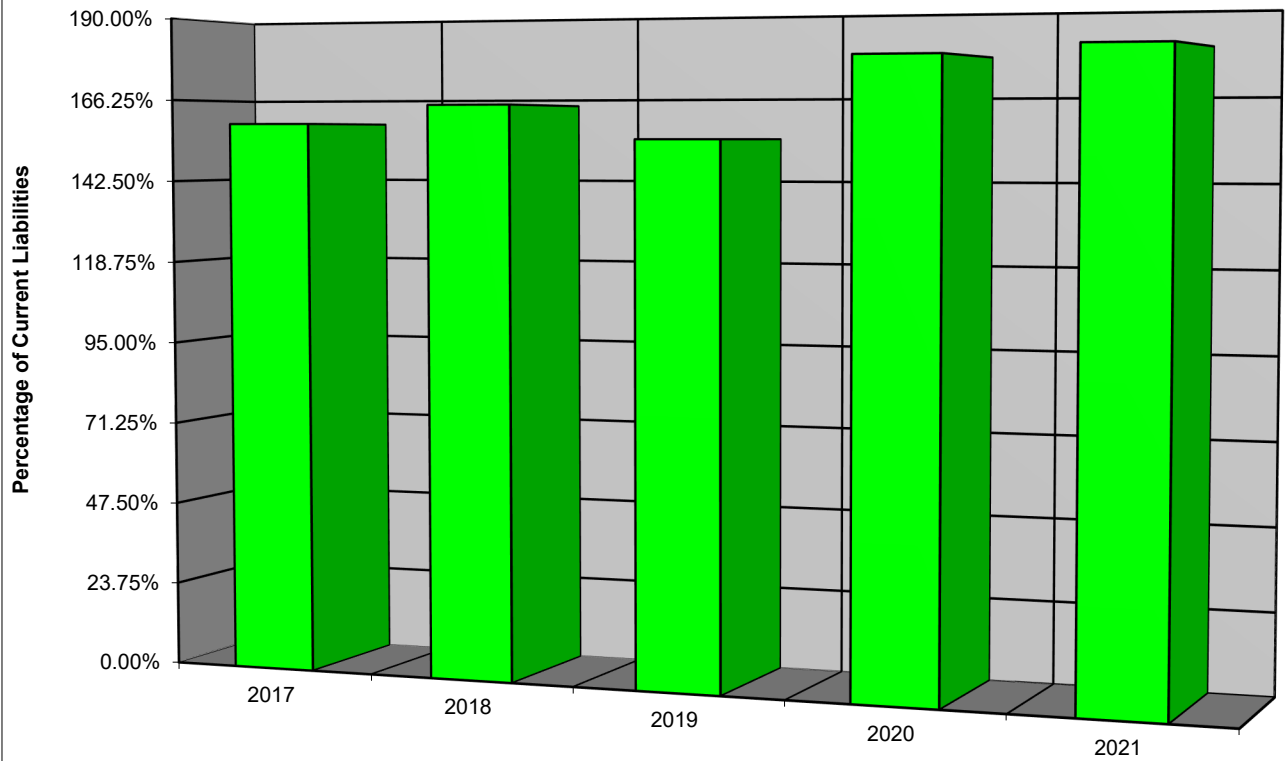
Indicator 18
Liquidity

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 2018 increase of cash and cash equivalents as a percentage of current liabilities is related to positive operating results. The decrease in the liquidity indicator in 2019 is largely due to the transfer of $2.5 million to the School Bond Capital Projects Fund to provide funding for design and engineering for the new high school. The increase in 2020 was due to the reimbursement of funds previously transferred to the School Bond Capital Projects Fund from a general obligation bond issued in June 2020 and CARES Act funds provided by the Commonwealth of Virginia. The 2021 increase was largely due to a combination of the General Fund's positive operating results from tax revenue significantly exceeding budget estimates, general cost savings due to the COVID-19 pandemic, unused school appropriations retained by the City and federal CARES Act funds. The City was also allocated $11.9 million in federal American Rescue Plan Act (ARPA) funds increasing both cash and cash equivalents and current liabilities.

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	2017	2018	2019	2020	2021
Cash and Cash Equivalents	$41,204,925	$46,156,350	$46,274,304	$54,386,547	$79,182,876
Current Liabilities	$25,883,441	$28,050,859	$29,894,653	$30,580,214	$43,901,521
Cash and Short-term Investments as a Percentage of Current Liabilities	159.19%	164.55%	154.79%	177.85%	180.36%

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.
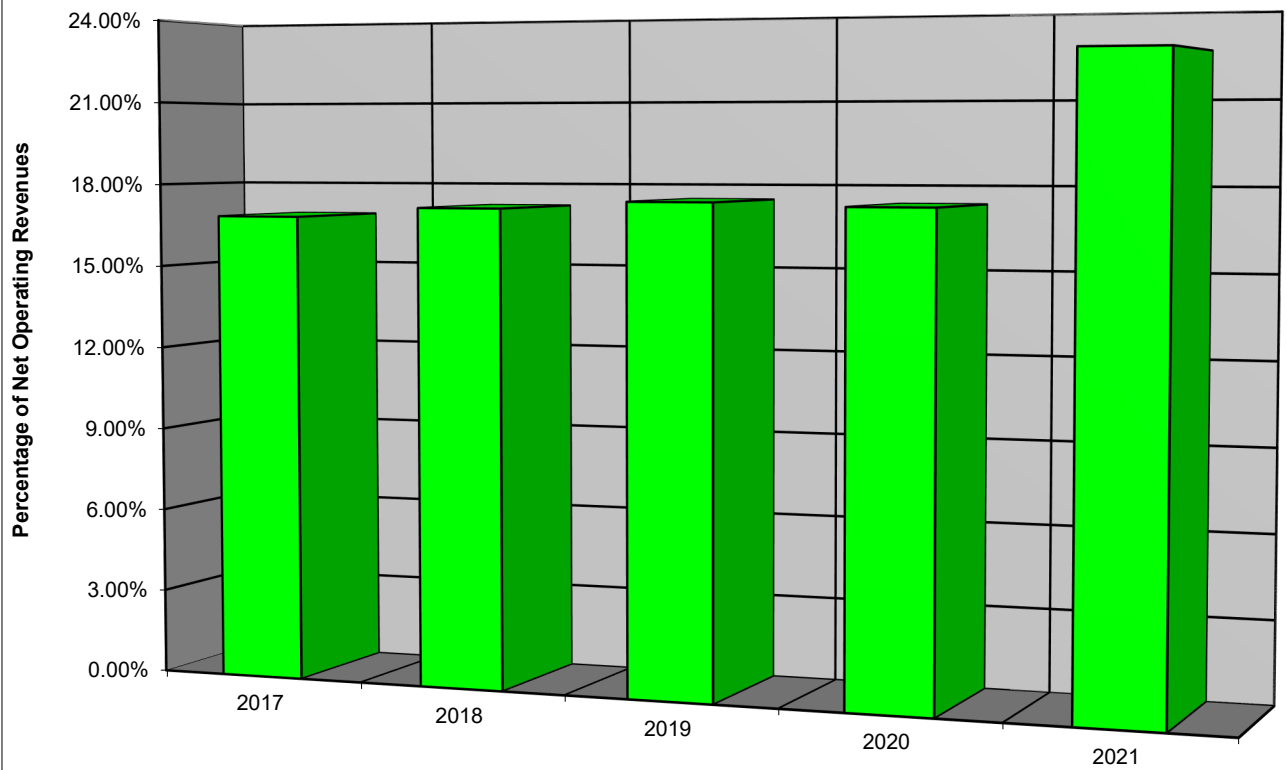
Indicator 19
Current Liabilities

Current liabilities are the sum of all liabilities due at the end of the fiscal year and the 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 increased since 2017 and is currently 22.70%. The increase in 2021 is from the first $11.9 million allocation of federal ARPA funds that were provided to the City. As of the end of 2021, these funds had not yet been expended. However, if ARPA funds are not included in the calculations then this indicator would be 16.53% which is a continued positive trend.

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	2017	2018	2019	2020	2021
Current Liabilities	$25,883,441	$28,050,859	$29,894,653	$30,580,214	$43,901,521
Net Operating Revenues	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
Current Liabilities as a Percentage of Net Operating Revenues	16.85%	17.20%	17.47%	17.34%	22.70%

Current Liabilities

Percentage of Net Operating Revenues

| | 2017 | 2018 | 2019 | 2020 | 2021 |

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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 re-payment.

This indicator has decreased overall the past five years both as a percentage of assessed real property valuation and per capita. This indicator increased slightly in 2020 due to $13.5 million in debt being issued to reimburse the City for costs it had incurred for the construction of the new high school up to the point that construction was paused due to the COVID-19 pandemic and for the purchase of the former Panos property. No new debt was issued in 2021. It should also be noted that the City's assessed real property valuation has increased by $443.4 million (11.0%) over the past five years. With the recent issuance of new debt for schools, it is anticipated that this indicator will increase significantly in 2022. 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 3.34%.

Description	2017	2018	2019	2020	2021
Long-term Debt	$167,818,406	$160,300,330	$154,163,367	$161,436,910	$150,114,910
Population	54,689	54,606	53,997	54,810	55,220
Long-term Debt per Capita	$3,069	$2,936	$2,855	$2,945	$2,718
Assessed Real Property Valuation	$4,047,555,148	$4,105,936,387	$4,249,756,402	$4,372,685,766	$4,490,939,557
Long-term Debt as a Per-centage of Assessed Real Property Valuation	4.15%	3.90%	3.63%	3.69%	3.34%

Long-term Debt
per Capita
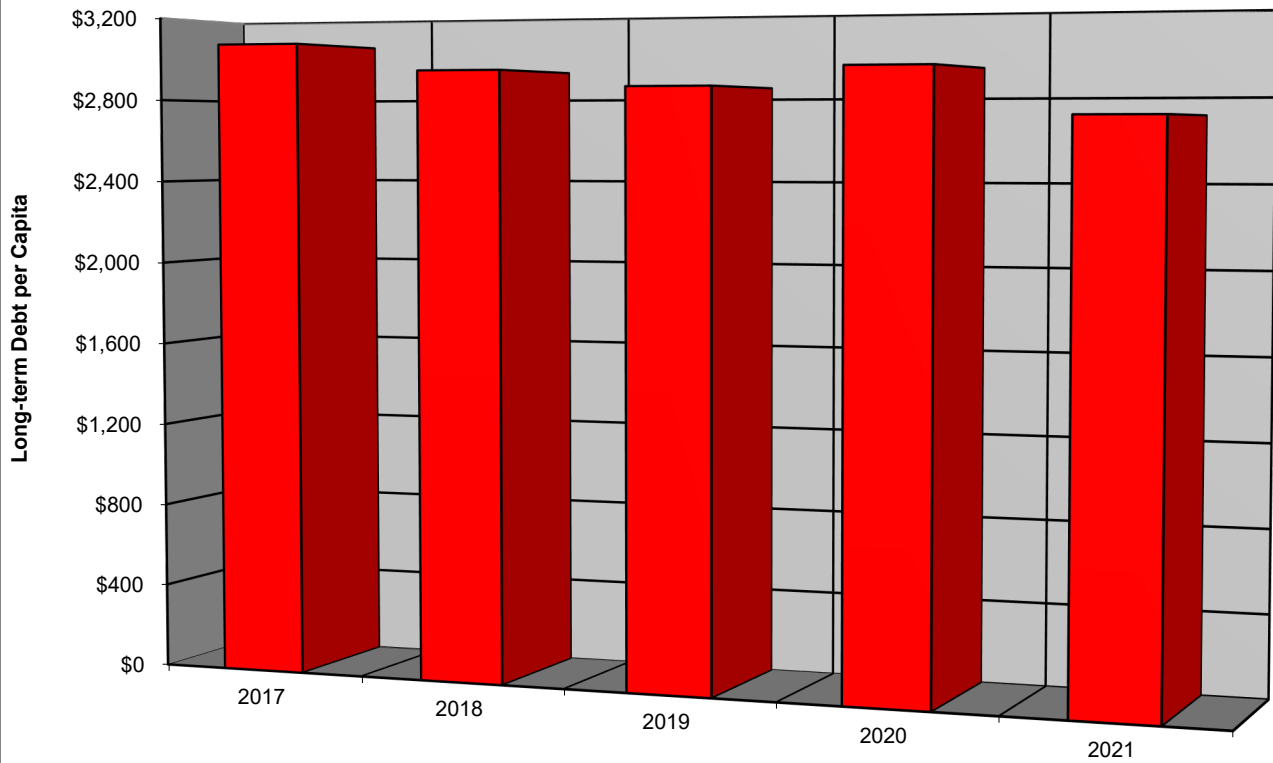
Long-term Debt as a Percentage of Real Property Valuation
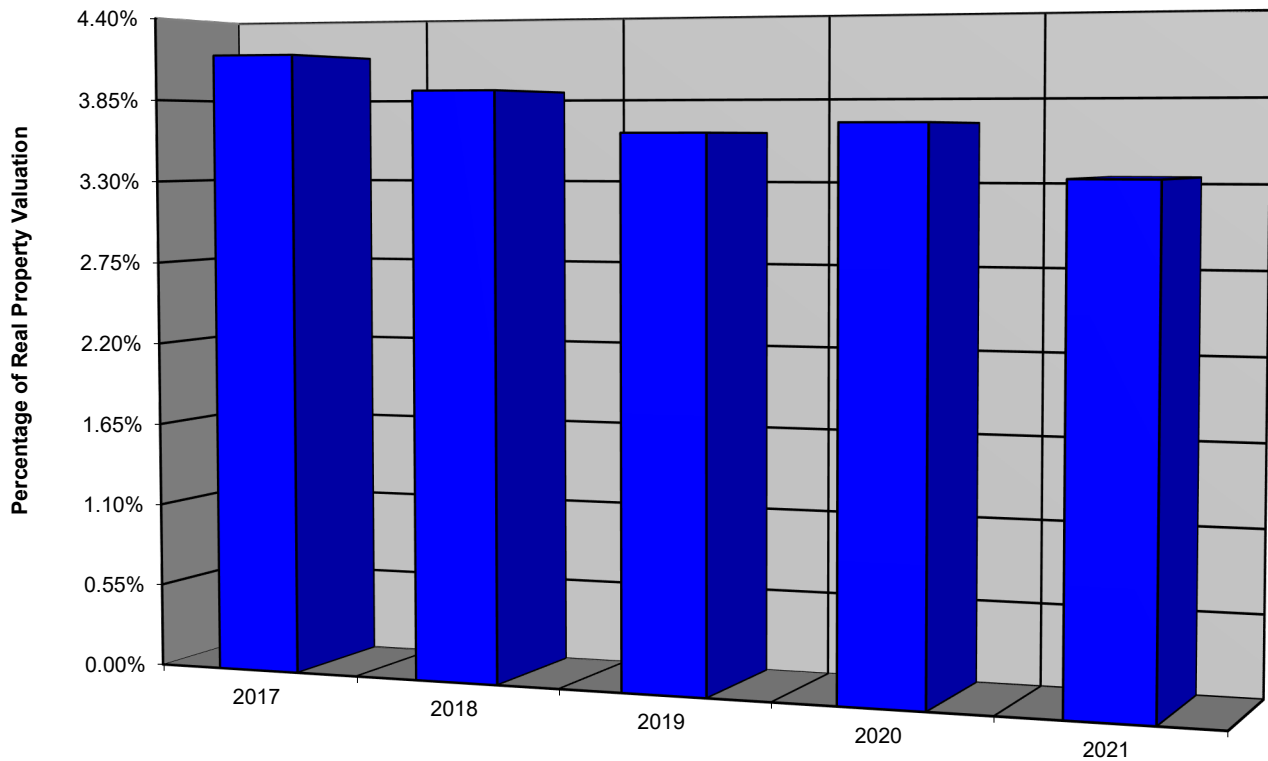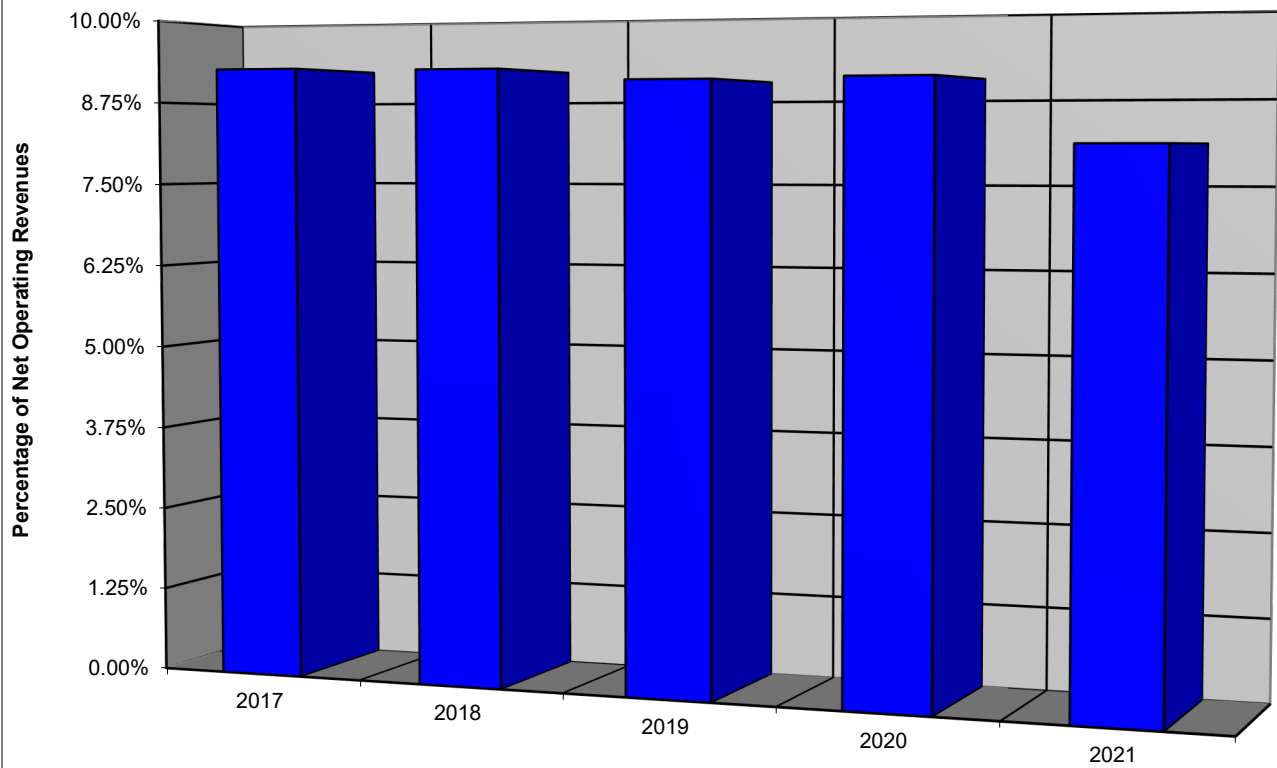
Indicator 21
Debt Service

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 decreased overall since 2017. 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 has remained below 10% during the past five years and is currently at 8.12%. Total debt service has increased $1.5 million since 2017. With the recent issuance of debt for the construction of a second high school, this indicator will be increasing over the next several years.

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	2017	2018	2019	2020	2021
Debt Service	$14,206,981	$15,035,534	$15,481,961	$15,997,620	$15,703,053
Net Operating Revenues	$153,631,644	$163,085,083	$171,125,616	$176,331,418	$193,440,121
Debt Service as a Percentage of Net Operating Revenues	9.25%	9.22%	9.05%	9.07%	8.12%

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, Indicators 23 and 24 relating to pension obligations and assets were not developed. 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.
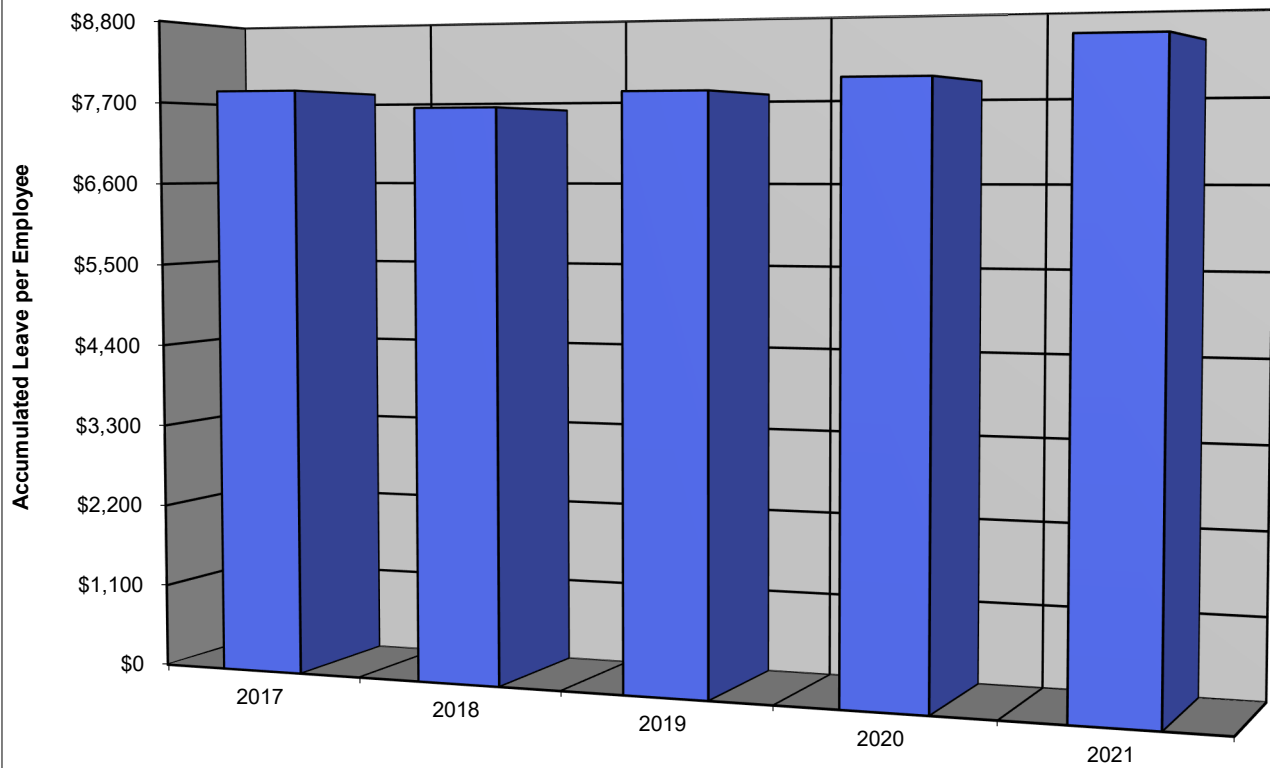
Indicator 25
Accumulated Employee Leave

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 2017. This indicator has been increasing since 2018 with significant increases in 2020 and 2021. That is likely due to salary increases and the accumulation of leave through the COVID-19 pandemic. However effective January 1, 2014, the City implemented the Paid Time Off (PTO) leave plan for new hires as part of the VRS hybrid retirement plan. The PTO leave plan essentially reduced both the hours earned by employees and the allowable annual carryover hours. Under the PTO leave plan, this indicator should begin to decline over time as the City's workforce turns over.

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	2017	2018	2019	2020	2021
Accumulated Employee Leave	$4,257,729	$4,255,636	$4,550,872	$4,560,115	$4,708,213
Full-time Employees	543	560	584	574	558
Accumulated Leave per Employee	$7,841	$7,599	$7,793	$7,944	$8,438

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 the businesses that the City is encouraging to relocate to Harrisonburg.

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 amounts of 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

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.
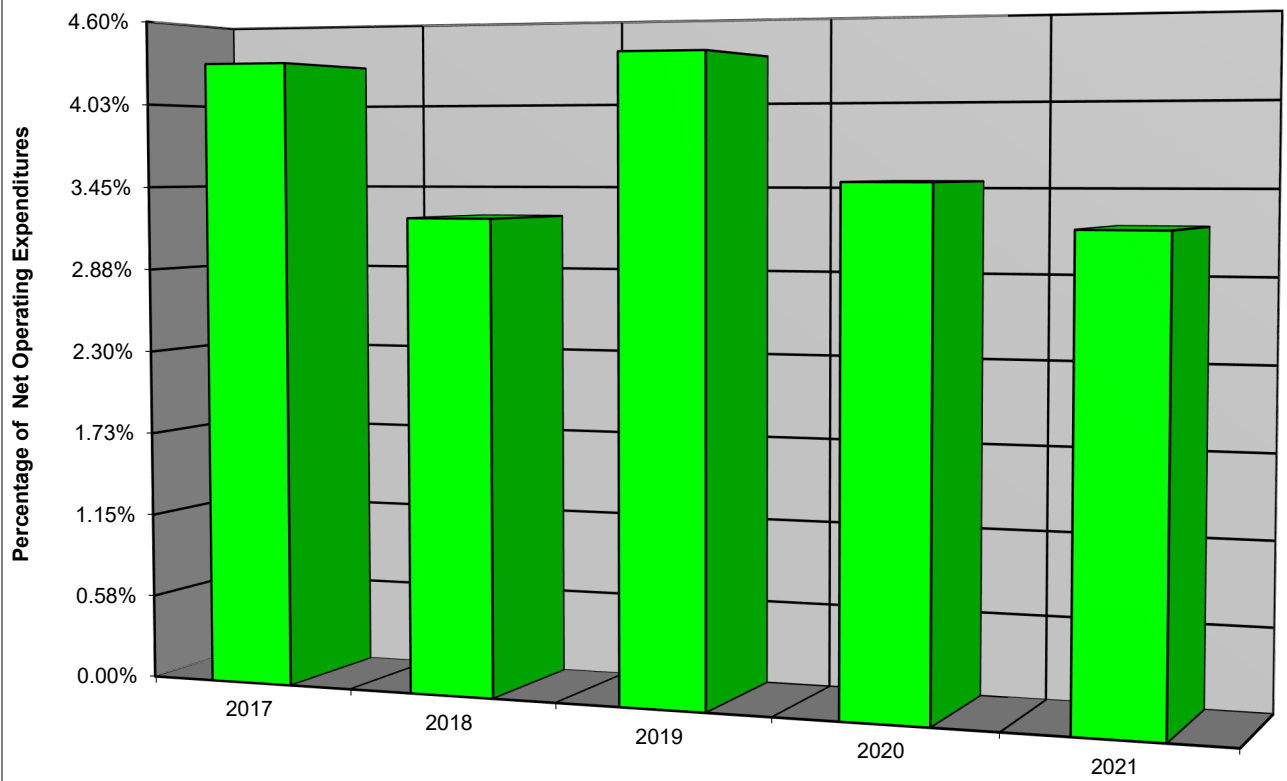
Capital outlay needs to be included in the budgeting process because equipment such as vehicles wear out and equipment like computer systems can become obsolete (or inefficient). Just as with maintenance efforts, during periods of low revenue, a city may postpone these expenditures for a year to focus 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 decreased since 2017. In 2019, the $7.2 million capital outlay included purchases of a new fire engine, fire division air packs, a line painting truck and $1.1 million of School Fund and Nutrition Fund capital outlay purchases. In 2020 and 2021, due to reduced revenue projections as a result of the COVID-19 pandemic, the City significantly curtailed capital outlay to only essential needs.

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	2017	2018	2019	2020	2021
Capital Outlay	$6,318,403	$5,040,139	$7,209,095	$5,875,877	$5,742,260
Net Operating Expenditures	$146,939,029	$155,279,751	$165,756,650	$168,071,698	$179,372,277
Capital Outlay as a Percentage of Net Operating Expenditures	4.30%	3.25%	4.35%	3.50%	3.20%

Capital Outlay

Chart showing Capital Outlay as a Percentage of Net Operating Expenditures for years 2017–2021:
- 2017: ~4.30%
- 2018: ~3.20%
- 2019: ~4.40%
- 2020: ~3.50%
- 2021: ~3.15%

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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
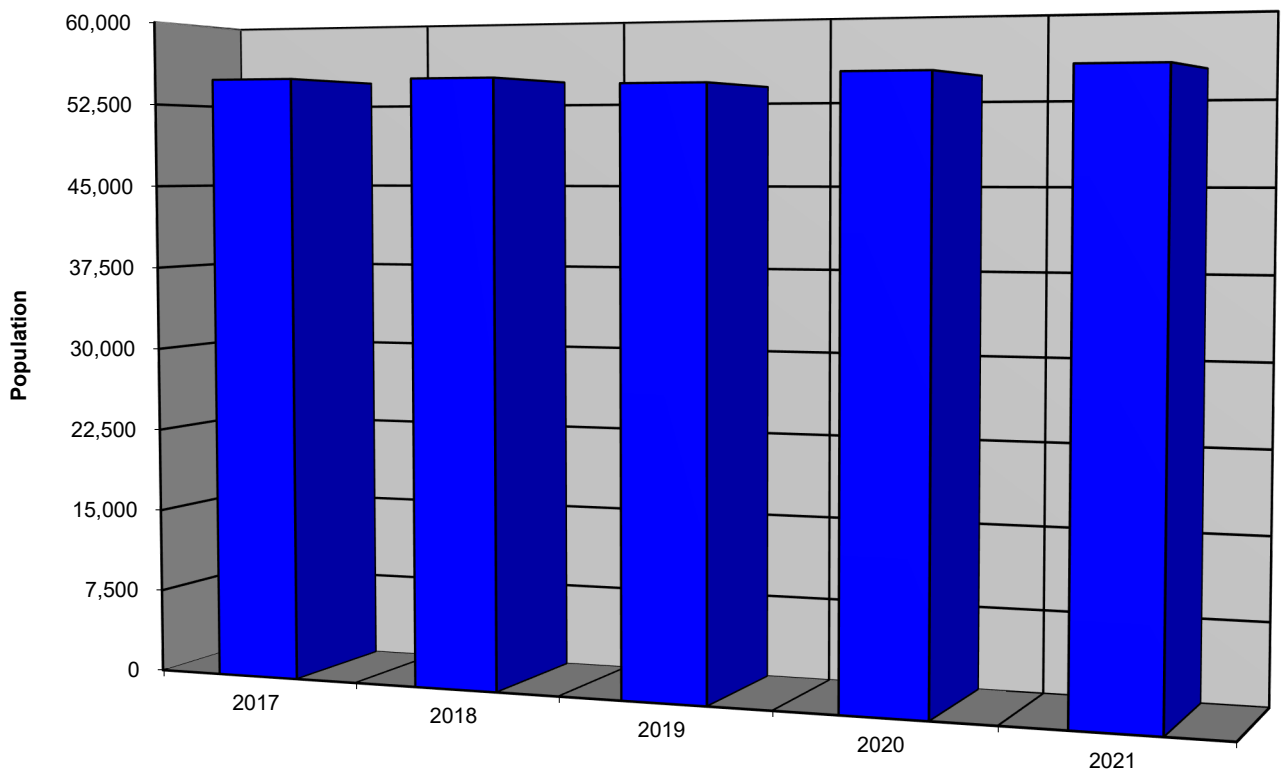
Indicator 28
Population

Harrisonburg has experienced a population increase of 531 (1.0%) over the past five years. This raises several interesting questions. Will the 5-year growth rate continue, or will the growth rate begin to subside as indicated by the decline from 2017 to 2019? If the City's population does increase, 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?

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	2017	2018	2019	2020	2021
Population	54,689	54,606	53,997	54,810	55,220

Source: Weldon Cooper Center for Public Service

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 require less in the way of services from the City. Further, the distribution of income is 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 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 18.7%. 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 slightly, 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 9.3%. This would indicate that approximately one-half of the nominal dollar growth has been due to inflation.

In 2020, the Harrisonburg Metropolitan Statistical Area (HMSA) personal income per capita of $43,232 ranks 69th overall in the state, which was 69.8% of the $61,958 state average. The HMSA was 72.6% of the $59,510 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	2017	2018	2019	2020	2021
Personal Income per Capita (Nominal) [a]	$36,434	$38,114	$39,471	$40,413	$43,232
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Personal Income per Capita (Constant)	$15,618	$15,868	$16,150	$16,348	$17,074

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

Personal Income per Capita
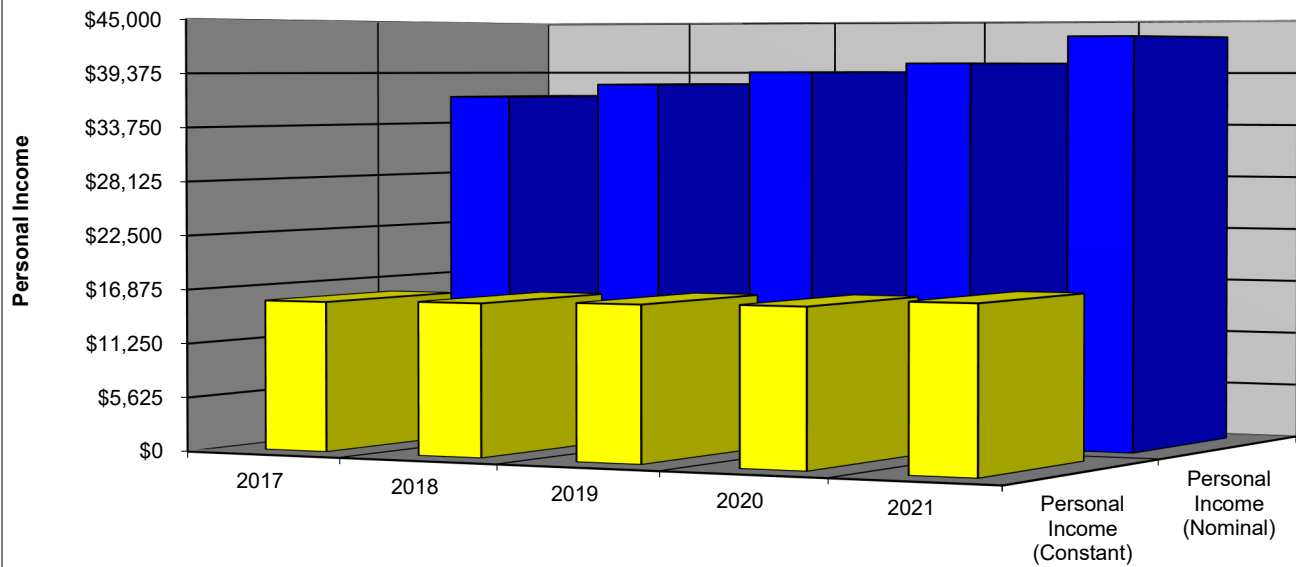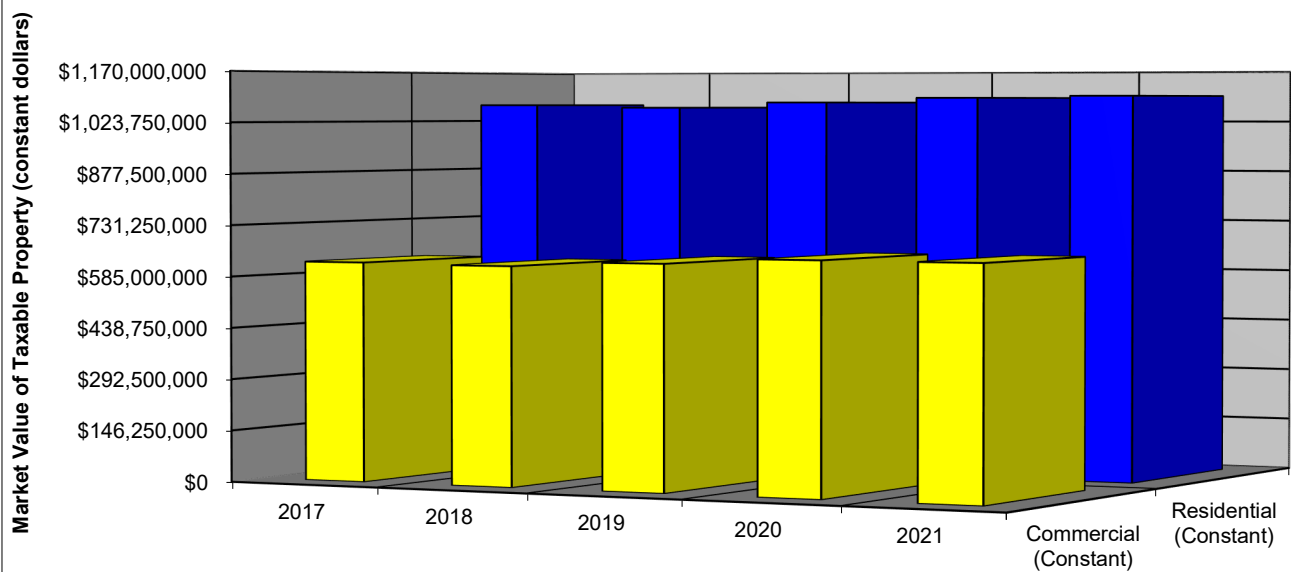
Indicator 33
Property Value

Property value is an important indicator since property taxes are such an important component of the City's revenues. The overall five-year market value for residential property has increased in nominal dollars by 10.4% (2.5% in constant dollars). The market value for commercial/industrial property has increased in nominal dollars by 12.1% (4.2% 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.

Description	2017	2018	2019	2020	2021
Market Value of Taxable Residential Property (Nominal)	$2,521,144,415	$2,556,995,612	$2,639,449,190	$2,703,149,330	$2,782,886,650
Market Value of Taxable Commercial Property (Nominal)	$1,470,670,436	$1,493,403,527	$1,552,749,097	$1,611,049,491	$1,649,108,907
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Market Value of Taxable Residential Property (Constant)	$1,071,915,142	$1,064,527,732	$1,079,971,027	$1,093,507,011	$1,099,086,355
Market Value of Taxable Commercial Property (Constant)	$625,285,049	$621,733,358	$635,331,054	$651,719,050	$651,306,835

Source: City of Harrisonburg Commissioner of the Revenue

Property Value

Market Value of Taxable Property (constant dollars)

Y-axis labels
$1,170,000,000
$1,023,750,000
$877,500,000
$731,250,000
$585,000,000
$438,750,000
$292,500,000
$146,250,000
$0

2017   2018   2019   2020   2021   Commercial (Constant)   Residential (Constant)
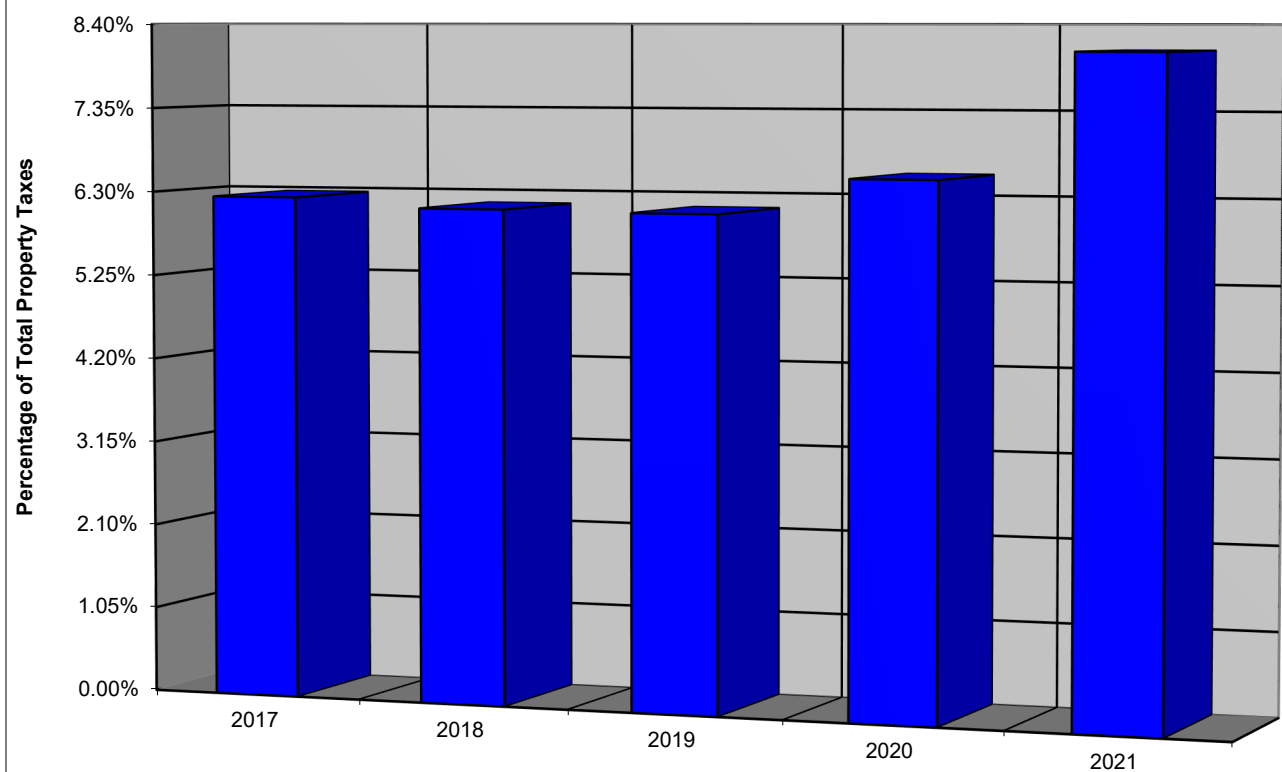
Indicator 34
Top Five Property Taxpayers

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 2017. Currently, the top five taxpayers comprise 8.08% of the property tax base. This indicates that the City has been relying more on these large taxpayers since 2017, however, this still represents a low reliance on the top five property taxpayers showing an overall diverse property tax base.

Description	2017	2018	2019	2020	2021
Top Five Taxpayers	$2,713,344	$2,901,268	$2,982,808	$3,371,103	$4,375,225
Total Property Taxes	$43,406,093	$47,285,573	$48,793,283	$51,411,484	$54,116,941
Top Five Taxpayers as a Percentage of Total Property Taxes	6.25%	6.14%	6.11%	6.56%	8.08%

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 steadily decreased from 2017 to 2019 due to improving economic conditions during that time. However, the COVID-19 pandemic had a significant impact on the local economy, particularly the restaurant and hospitality industries, which in turn increased the unemployment rate. As the following table shows, the City's unemployment rate compares favorably to the state and national unemployment rate.

Description	2017	2018	2019	2020	2021
Local Unemployment Rate	4.7%	3.9%	3.3%	4.8%	5.5%
State Unemployment Rate	4.0%	3.3%	2.8%	4.3%	5.7%
National Unemployment Rate	4.7%	4.1%	3.8%	6.0%	6.9%

Source: Virginia Labor Market Information, Bureau of Labor Statistics

Unemployment Rate
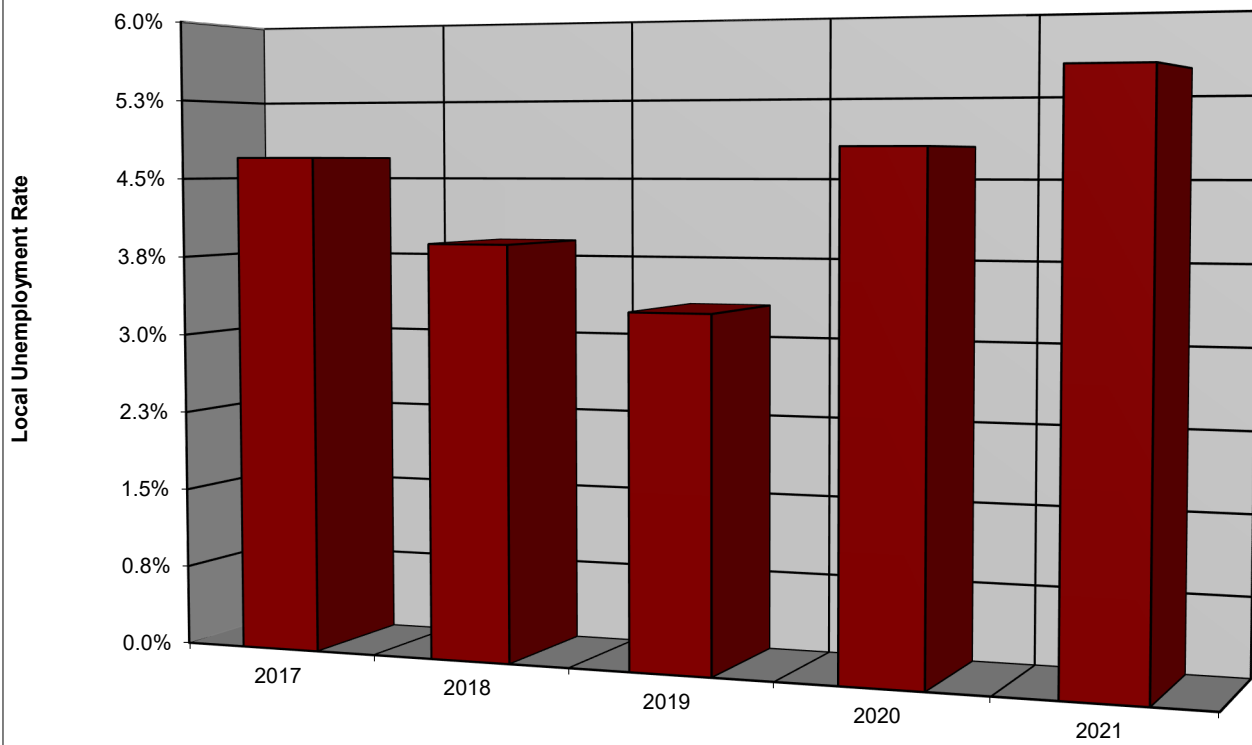
Indicator 39
Business Activity

Growth in business activity is generally a sign of a healthy local economy. There are several measures of business activity. It has been 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 improve 2017 through 2019 as evidenced by the retail sales data. Although the COVID-19 pandemic did impact business activity to a certain degree, such as specifically the restaurant industry, retail sales remained resilient as consumers continued steady retail activity. Overall since 2017, retail sales have increased 10.2% in nominal dollars (2.3% increase in constant dollars) over the past five years, showing that a portion of the increase in retail sales can be attributed to inflation. For 2020, retail sales did have a 2.3% decline in nominal dollars (3.4% decline in constant dollars) due to fallout from the COVID-19 pandemic.

Description	2017	2018	2019	2020	2021
Retail Sales (Nominal)	$1,225,641,168	$1,236,992,346	$1,274,893,892	$1,245,763,504	$1,350, 241,272
CPI for the Area (1982-84=1.000)	2.352	2.402	2.444	2.472	2.532
Retail Sales (Constant)	$521,105,939	$514,984,324	$521,642,345	$503,949,638	$533,270,645

Source: Virginia Department of Taxation

Business Activity
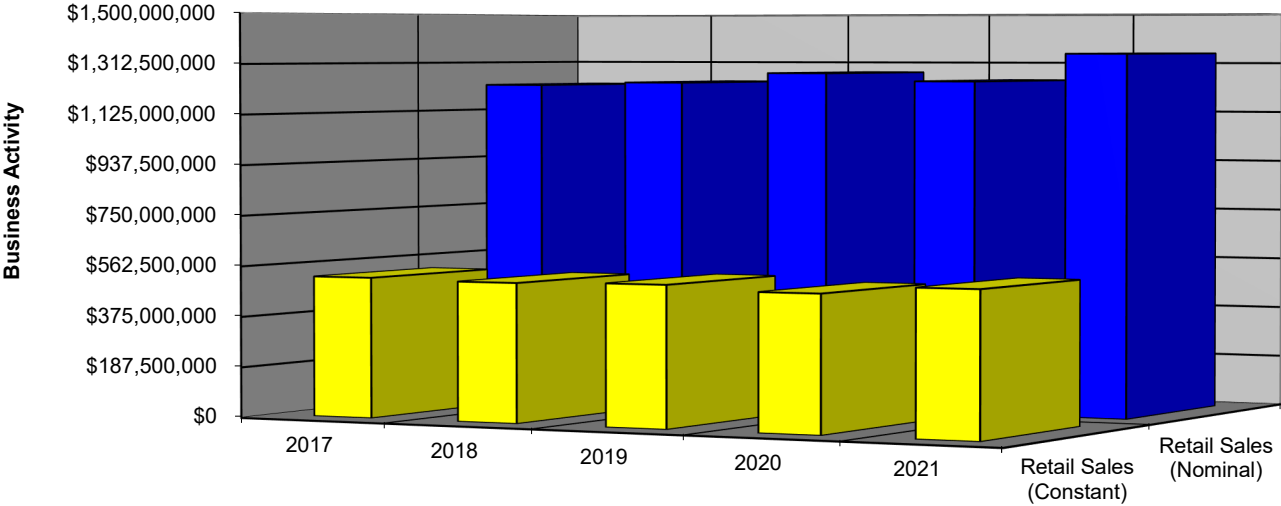
Conclusion

Overall the City appears to be in sound financial condition when looking collectively at the trends for all of the developed indicators. Credit rating agencies have developed benchmarks on six of the indicators within the Financial Trend Monitoring System. The City has not exceeded any of the credit industry benchmarks. Of the twenty-six indicators that were developed, each has a defined warning trend. The City displays nine indicators that qualify as constituting a warning trend. The following list summarizes the significant trends that match the ICMA definition of a warning trend.

ICMA Warning Trends

1. **Indicator 2 – Restricted Revenues –** The warning trend is an increasing amount of restricted revenues as a percentage of net operating revenues. This indicator has increased overall from 2017 through 2021 with a decline in 2018. State funding for education, federal funding for school food programs and federal COVID-19 pandemic relief funding have contributed to the increasing trend.

2. **Indicator 3 – Intergovernmental Revenues –** The warning trend is an increasing amount of intergovernmental revenues as a percentage of net operating revenues. This indicator, like Indicator 2, has increased overall from 2017 through 2021 with a decline in 2018. The underlying concern with increases to intergovernmental revenues is that the City may need to find other ways to fund programs if intergovernmental revenues decrease in the future.

3. **Indicator 4 – Elastic Revenues Intergovernmental Revenues –** The warning trend is a decreasing amount of elastic revenues as a percentage of net operating revenues. This indicator has decreased since 2017 due to operating revenues increasing by 26.2%, but elastic revenues only increasing by 18.8%. The economic effects of the COVID-19 pandemic have negatively impacted this indicator the past two years.

4. **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 been trending down since 2017. The programs with the largest negative impact are parks and recreation and school cafeteria services, although federal revenues make up a substantial percentage of cafeteria revenues.

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

6. **Indicator 12 – Employees per Capita –** The warning trend is an increasing number of employees per capita. During the past five years there has been an 9.8% increase of full-time equivalent employees per capita.

7. **Indicator 19 – Current Liabilities –** The warning trend is increasing current liabilities as a percentage of net operating revenues. This indicator has been increasing the past five years.

8. **Indicator 25 – Accumulated Employee Leave –** The warning trend is increasing accumulated employee leave per full-time employee. This indicator has had an overall increase of accumulated employee leave per full-time employee. Although this indicator has been increasing, it is anticipated that the PTO leave plan implemented in 2014 will decrease accumulated employee leave as the City's workforce turns over.

9. **Indicator 27 – Capital Outlay –** The warning trend is decreasing capital outlay as a percentage of net operating expenditures. There has been a decline in capital outlay expenditures due to the COVID-19 pandemic curtailing capital outlay to only essential projects.

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