CITY OF HARRISONBURG, VIRGINIA

FINANCIAL TREND MONITORING SYSTEM

AN EVALUATION OF THE CITY'S FINANCIAL CONDITION

For the Five Year Period Ended June 30, 2023

31st Edition

FINANCIAL TREND MONITORING SYSTEM
TABLE OF CONTENTS

Introduction	1-2
Factor 1: Revenue Indicators	3
Indicator 1: Net Operating Revenues per Capita	4
Graph: Net Operating Revenue per Capita	5
Indicator 2: Restricted Revenues	6
Graph: Restricted Revenues	7
Indicator 3: Intergovernmental Revenues	8
Graph: Intergovernmental Revenues	9
Indicator 4: Elastic Revenues	10
Graph: Elastic Revenues	11
Indicator 6: Major Tax Revenues	12
Graph: Major Tax Revenues	13
Indicator 7: Current Year Uncollected Property Taxes	14
Graph: Current Year Uncollected Property Taxes	15
Indicator 8: User Charge Coverage	16
Graph: User Charge Coverage	17
Indicator 9: Revenue Surplus (Shortfall)	18
Graph: Revenue Surplus (Shortfall)	19
Factor 2: Expenditure Indicators	20
Indicator 10: Net Operating Expenditures per Capita	21
Graph: Net Operating Expenditures per Capita	22
Indicator 12: Employees per Capita	23-24
Graph: Employees per Capita	25
Indicator 14: Fringe Benefits	26
Graph: Fringe Benefits	27
Factor 3: Operating Position Indicators	28
Indicator 15: Operating Surplus (Deficit)	29
Graph: Operating Surplus (Deficit) - General Fund	30
Indicator 16: Enterprise Fund Operating Results	31
Graph: Enterprise Fund Operating Results	32
Indicator 17: Unassigned Fund Balances	33-34
Graph: Unassigned Fund Balances - General Fund	35
Indicator 18: Liquidity	36
Graph: Liquidity	37
Factor 4: Debt Indicators	38
Indicator 19: Current Liabilities	39
Graph: Current Liabilities	40
Indicator 20: Long-term Debt	41
Graph: Long-term Debt per Capita	42
Graph: Long-term Debt as a Percentage of Real Property Valuation	43
Indicator 21: Debt Service	44
Graph: Debt Service	45

FINANCIAL TREND MONITORING SYSTEM
TABLE OF CONTENTS

Factor 5: Unfunded Liability Indicators 46
Indicator 25: Accumulated Employee Leave 47
Graph: Accumulated Employee Leave 48

Factor 6: Capital Plant Indicators 49
Indicator 27: Capital Outlay 50
Graph: Capital Outlay 51

Factor 7: Community Needs and Resources 52
Indicator 28: Population 53
Graph: Population 54
Indicator 31: Personal Income per Capita 55
Graph: Personal Income per Capita 56
Indicator 33: Property Value 57
Graph: Property Value 58
Indicator 34: Top Five Property Taxpayers 59
Graph: Top Five Property Taxpayers 60
Indicator 38: Unemployment Rate 61
Graph: Unemployment Rate 62
Indicator 39: Business Activity 63
Graph: Business Activity 64

Conclusion 65

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. It was determined to use a format developed 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 in 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

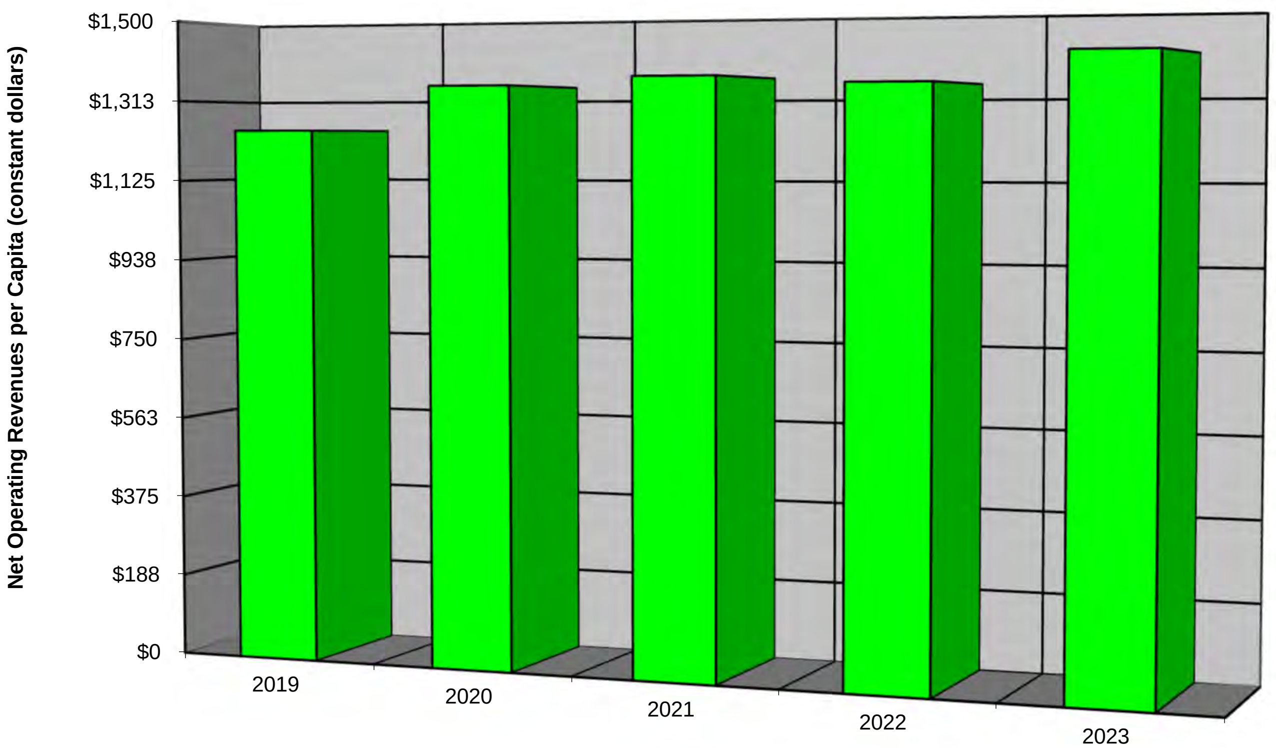
Net operating revenues per capita show changes in revenues relative to changes in population. Net operating revenues per capita in nominal dollars have increased 35.5% (13.8% in constant dollars) over the past five years. Revenue growth has been driven mostly by increases in intergovernmental revenue for education with modest growth in real estate tax revenue and personal property tax collections. The City increased real estate tax rates in 2020, 2022, and 2023. Although revenues in nominal dollars have increased over the past five years, revenues in constant dollars did decrease slightly in 2022 due to an increase in inflation.

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 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 CARES Act funds 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	**2019**	**2020**	**2021**	**2022**	**2023**
Net Operating Revenues (Nominal)	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Net Operating Revenues (Constant)	$68,370,464	$69,682,180	$74,876,414	$74,435,005	$78,790,774
Population	55,011	51,814	54,892	55,220	55,700
Net Operating Revenues per Capita (Nominal)	$3,038	$3,324	$3,454	$3,675	$4,116
Net Operating Revenues per Capita (Constant)	$1,243	$1,345	$1,364	$1,348	$1,415

Net Operating Revenues per Capita



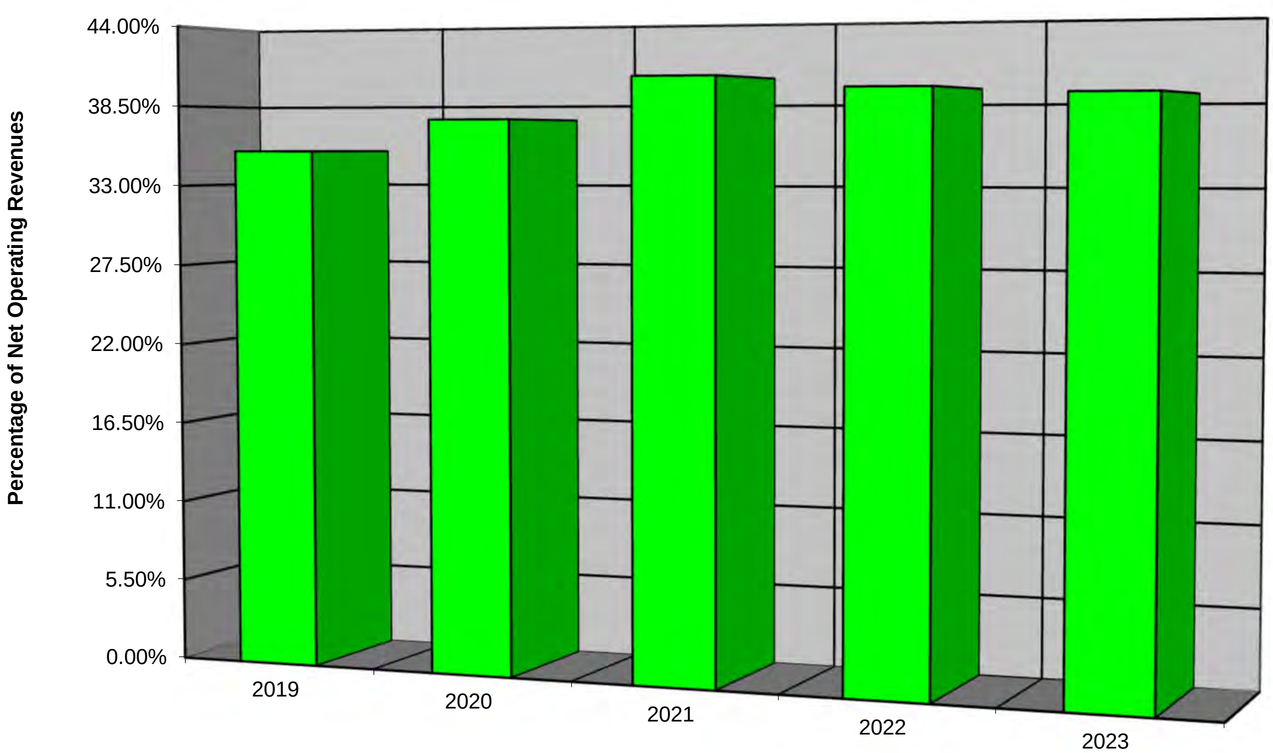
Indicator 2
Restricted Revenues

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 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 2019. Over the past five years, restricted revenues have increased 51.9% while net operating revenues increased 37.2%. It should be noted that state funding for education has increased $21.1 million (51.0%), while federal funding for education has increased $8.9 million (120.9%). The additional state funding for education has largely been the result of an increase in the basic school aid revenue as the school systems' average daily membership (ADM) continues to rise, a school constructions grant, COVID funds, and preschool initiative funding. The use of CARES Act and ARPA funds for both the City and the School Board from 2020 through 2023 have 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	2019	2020	2021	2022	2023
Restricted Revenues	$59,127,682	$64,647,149	$76,485,237	$80,067,086	$89,831,594
Net Operating Revenues	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
Restricted Revenues as a Percentage of Net Operating Revenues	35.39%	37.53%	40.34%	39.56%	39.18%

Restricted Revenues



Indicator 3
Intergovernmental Revenues

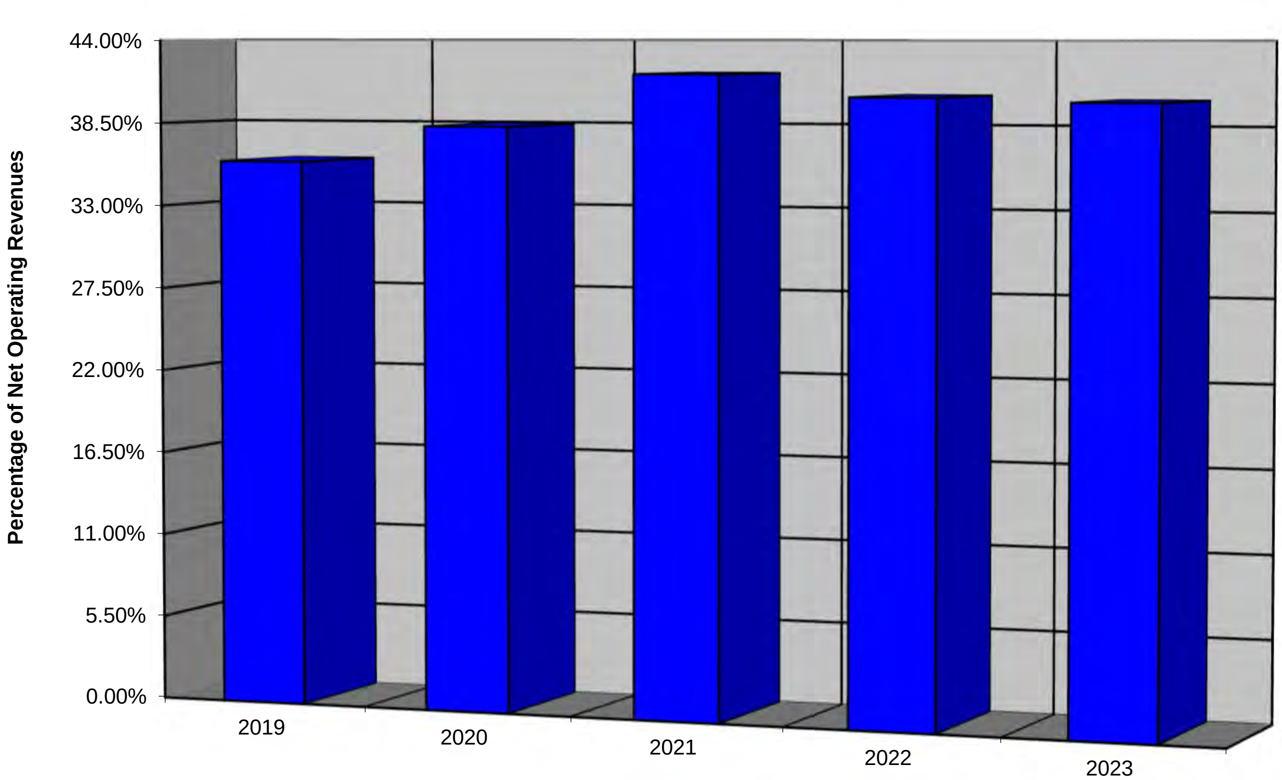
Analyzing intergovernmental revenues as a percentage of total operating revenues is important. While intergovernmental revenues will always be a major component of total revenues, localities do not want to rely too heavily on external support for several reasons. First, those revenues can be reduced 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 overall since 2019 with actual intergovernmental revenue increasing $31.9 million (53.0%). The Commonwealth's funding has increased $22.4 million (43.4%), while federal funding has increased $9.5 million (112.3%). The state's school funding has increased $21.1 million (51.0%) as discussed within Indicator 2, Restricted Revenues. The increase in federal funding was mainly due to the use of CARES Act and ARPA funds by both the City and School Board. Federal funding within the school food program has increased by $1.7 million (44.6%) since 2019.

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	**2019**	**2020**	**2021**	**2022**	**2023**
Intergovernmental Revenues	$60,163,375	$66,142,103	$79,340,799	$82,024,787	$92,064,090
Net Operating Revenues	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
Intergovernmental Revenues as a Percentage of Net Operating Revenues	36.00%	38.40%	41.85%	40.42%	40.15%

Intergovernmental Revenues



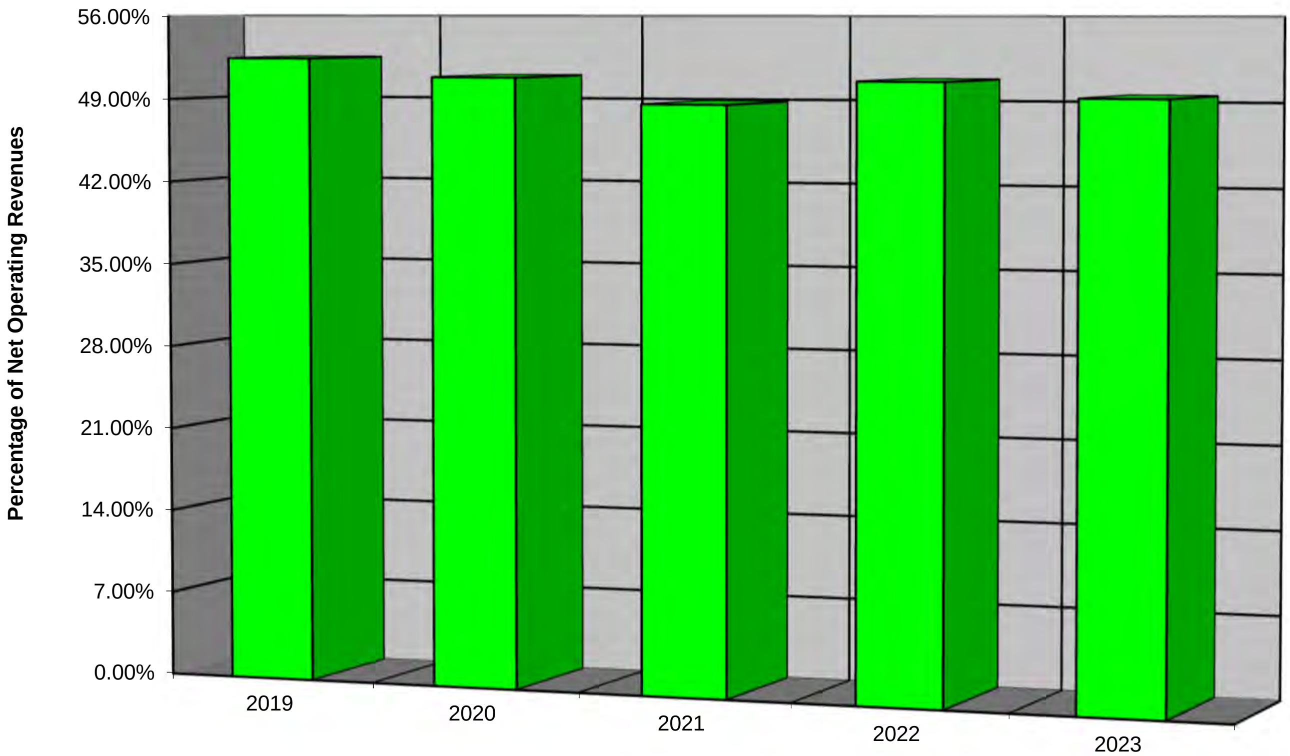
Indicator 4
Elastic Revenues

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 generally has an inverse relationship to the intergovernmental revenues indicator and has decreased overall since 2019 with a one-year increase in 2022. Over the past five years, real estate tax collections have increased $10.2 million (28.6%) due to an increase in the real estate tax rate in 2020, 2022, and 2023, and an average increase of approximately 4.2% in real estate assessments. After decreasing $1.6 million (11.2%) in 2020 due to the COVID-19 pandemic, restaurant food tax revenue increased to $18 in 2023 resulting in an increase of $3.8 million (26.8%) over the past five years. Personal property tax collections have increased $4.8 million (47.4%), local sales tax collections have increased $4.0 million (27.7%), and business license tax collections have increased $1.5 million (21.4%), and hotel/motel tax collections have increased by $844,000 (26.9%).

Description	**2019**	**2020**	**2021**	**2022**	**2023**
Elastic Revenues	$87,682,430	$87,786,325	$92,585,994	$103,063,759	$113,560,133
Net Operating Revenues	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
Elastic Revenues as a Percentage of Net Operating Revenues	52.47%	50.96%	48.84%	50.79%	49.53%

Elastic Revenues



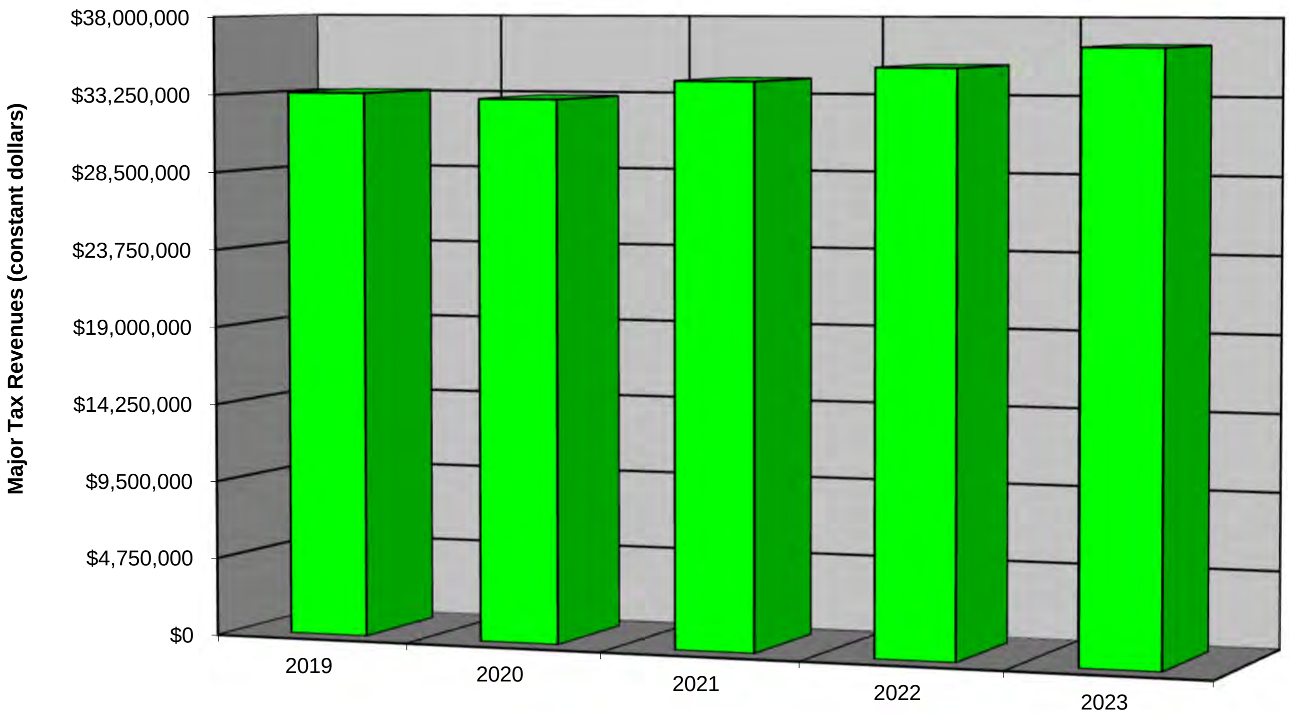
Indicator 6
Major Tax Revenues

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 over the past five years but did see a slight 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 $10.2 million increase which is an increase of 28.6% in nominal dollars (8.0% in constant dollars), which were discussed further in Indicator 4, Elastic Revenues. Local sales tax collections have increased $4.0 million, 27.7% in nominal dollars (7.2% in constant dollars). Personal property tax collections have increased $4.8 million, 47.4% in nominal dollars (23.8% in constant dollars). In 2023, the City eliminated the motor vehicle tax and absorbed the revenue into its personal property tax revenue resulting in an increase of approximately $1.2 million in personal property tax revenue. 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	**2019**	**2020**	**2021**	**2022**	**2023**
Major Tax Revenues (Nominal)	$81,531,831	$81,753,072	$86,710,497	$95,750,229	$105,852,818
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Major Tax Revenues (Constant)	$33,359,996	$33,071,631	$34,245,852	$35,124,809	$36,375,539

Major Tax Revenues



Indicator 7
Current Year Uncollected Property Taxes

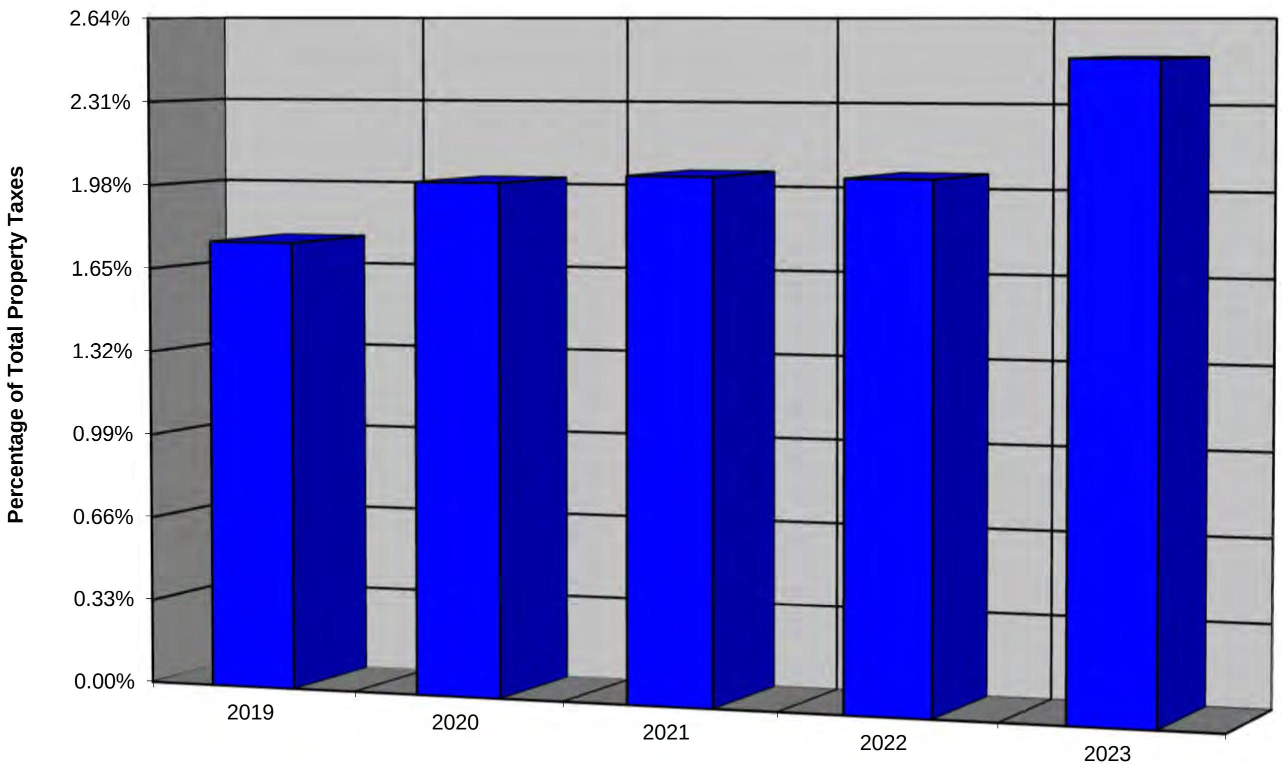
Uncollected property taxes as a percentage of the property tax levy for current year taxes have increased over the past five years. Credit rating agencies assume that a locality will normally not collect from two to three percent of its property taxes within the year that the taxes are due. If current 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 has been increasing since 2019 and is currently at 2.49%. 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 increased from 1.27% in 2019 to 1.69% in 2023. The percentage of uncollected personal property taxes has increased from 3.91% to 5.43% 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	**2019**	**2020**	**2021**	**2022**	**2023**
Current Year Uncollected Property Taxes	$859,260	$1,031,249	$1,103,469	$1,171,768	$1,610,277
Total Property Taxes	$48,793,283	$51,411,484	$54,116,941	$57,484,253	$64,571,060
Current Year Uncollected Property Taxes as a Percentage of Total Property Taxes	1.76%	2.01%	2.04%	2.04%	2.49%

Current Year Uncollected Property Taxes



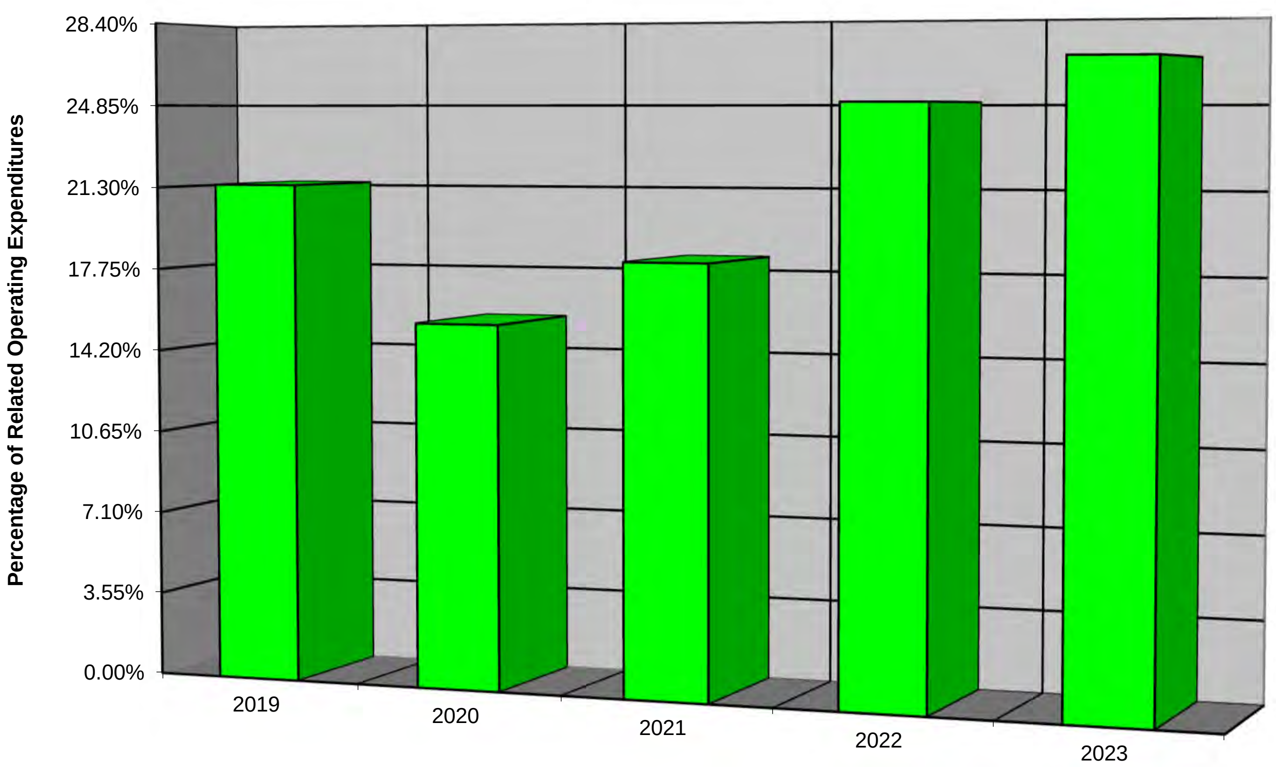
Indicator 8
User Charge Coverage

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, and parks and recreation programs.

After a significant decrease in 2020 that can be attributed generally to the impact the COVID-19 pandemic had on all parks and recreation activities, this indicator has been trending upward the past three years increasing to 26.82%. Over the past five years downtown parking revenues increased by 22.3% while expenditures increased by 14.2% creating an 81.4% user charge coverage in this activity. The user charge coverage for the golf course has increased over the past five years with 2023 at 116.8% as compared to 55.8% in 2019. Parks and recreation programs user charge coverage has trended down to 8.2% in 2023 from 10.3% in 2019.

Description	**2019**	**2020**	**2021**	**2022**	**2023**
Revenues from User Charges	$1,157,165	$830,667	$895,951	$1,270,900	$1,487,512
Operating Expenditures for Services for which there is a Fee	$5,398,747	$5,321,939	$4,886,349	$5,088,521	$5,545,986
Revenues from User Charges as a Percentage of Related Operating Expenditures	21.43%	15.61%	18.34%	24.98%	26.82%

User Charge Coverage



Indicator 9
Revenue Surplus (Shortfall)

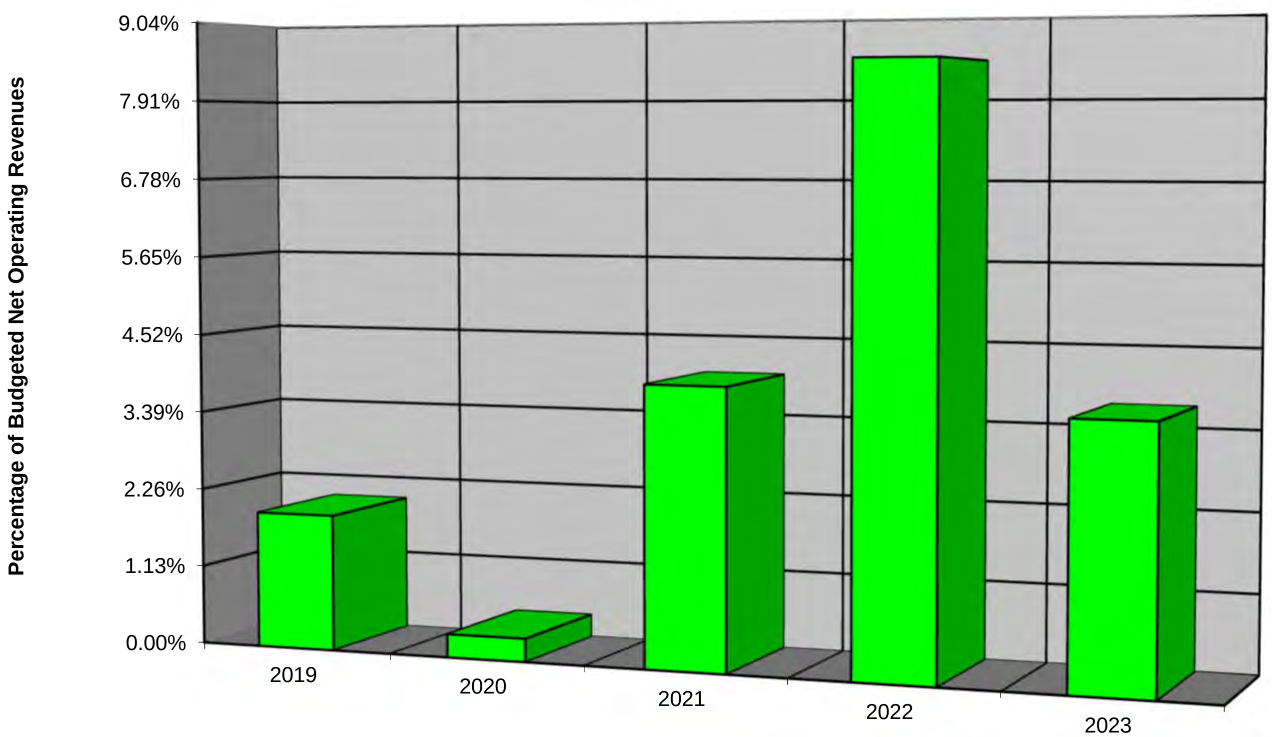
The purpose of this indicator is to examine the differences between revenue estimates and actual revenues collected during the fiscal year. Significant shortfalls that continue year after year can signal major warning trends.

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 and 2022, real estate tax, personal property tax, local sales tax, and business license tax revenues were significantly higher than anticipated. In 2023, other local tax revenue was $5.6 million higher than anticipated from restaurant food taxes ($2 million), local sales and use taxes ($1.3 million), business licenses taxes ($1.1 million) and hotel/motel taxes ($706,000). In addition, interest revenue exceeded budget estimates by $1.9 million due to increasing interest rates.

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	**2019**	**2020**	**2021**	**2022**	**2023**
Actual Net Operating Revenues	$115,122,374	$118,476,291	$127,614,850	$132,281,327	$148,882,182
Budgeted Net Operating Revenues	$112,919,518	$118,084,675	$122,734,175	$121,966,291	$143,586,250
Revenue Surplus (Shortfall)	$2,202,856	$391,616	$4,880,675	$10,315,036	$5,295,932
Revenue Surplus (Shortfall) as a Percentage of Budgeted Net Operating Revenues	1.95%	0.33%	3.98%	8.46%	3.69%

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

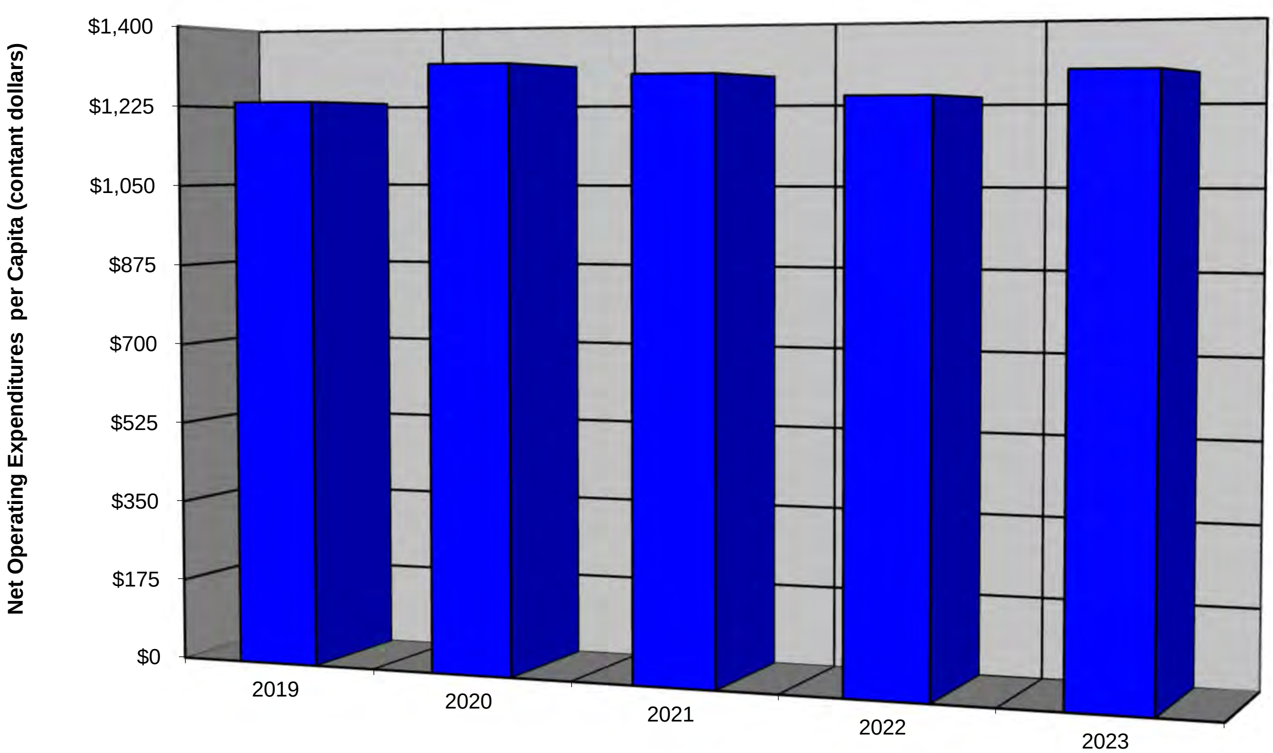
Net operating expenditures per capita show changes in expenditures relative to changes in population. With public opinion stronger than ever against tax increases, local governments increasingly feel the need to focus on expenditures. Although expenditures in nominal dollars have increased over the past five years, expenditures in constant dollars decreased in 2022 due to an increase in inflation.

Net operating expenditures per capita have increased 24.6% in nominal dollars (4.7% in constant dollars) over the past five years. The overall increase to $209.2 million in net operating expenditures has mainly been due to increased spending on education, debt service, public safety, and jail and judicial administration.

Spending on education during the last five years has increased by $26.3 million (30.8%). Since 2019, debt service has increased $5.5 million (35.5%), public safety spending has increased $4.2 million (16.5%), and jail and judicial administration has increased $2.6 million (35%)

Description	2019	2020	2021	2022	2023
Net Operating Expenditures (Nominal)	$165,756,650	$168,071,698	$178,987,822	$186,735,001	$209,184,105
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Net Operating Expenditures (Constant)	$67,821,870	$67,990,169	$70,690,293	$68,501,468	$71,884,572
Population	55,011	51,814	54,892	55,220	55,700
Net Operating Expenditures per Capita (Nominal)	$3,013	$3,244	$3,261	$3,382	$3,756
Net Operating Expenditures per Capita (Constant)	$1,233	$1,312	$1,288	$1,241	$1,291

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 35.9 FTEs (5.1%). The 2021 increase included 6.4 FTEs in public transportation, school transportation and central garage. The 10.5 FTEs (1.5%) increase in 2022 was concentrated in central garage, public transportation, community development, public utilities, and parks and recreation. The 2023 increase of 11.9 FTEs (1.6%) was in part due to additions to school transportation, fire, and public utilities.

Description	2019	2020	2021	2022	2023
Number of Employees (Full-time Equivalents)	701.9	705.6	715.4	725.9	737.8
Population	55,011	51,814	54,892	55,220	55,700
Municipal Employees per 1,000 Residents	12.76	13.62	13.03	13.15	13.25

Municipal Employees
(Full-time Equivalents)
By Department

Department[1]	2019	2020	2021	2022	2022
Clerk of Council	1	1	1	1	1
City Manager	4.5	4.5	4.5	4.9	5.4
City Attorney	2	2	2	2	2
Human Resources	5	5	5	5.5	6
Commissioner of the Revenue	11.3	11.3	11.3	11.3	11.8
Treasurer	8.3	8.4	8.4	8.4	8.8
Finance	8.8	9.3	9.8	10.2	11.2
Information Technology	11.5	12	14	14	15
Registrar	2.9	2.7	2.7	2.7	2.7
Police	136.6	138.6	138.6	138.6	139.4
Fire	87	88.4	89.4	90.2	93.8
Public Works	67.9	67.9	72.4	72.2	71.6
Parks and Recreation	84	82.5	79.1	80	77.8
Planning and Community Development	25	25	25	26	26
Economic Development	8	8.8	8.1	7.9	7.8
General Properties	3	3	3	3.5	3.5
Community Development Block Grant	0.6	0.6	0.6	0.6	0.6
Public Utilities	65.1	65.1	65.3	66.2	69.1
Public Transportation	69.6[2]	67	71	72.9	72.8
School Transportation	53.3	55.6	57.3	57.7	62
Sanitation	25.2	25.7	25	25.4	24.1
Stormwater	3.7	3.7	3.7	3.7	3.7
Central Garage	15.6	15.5	16.2	19	19.7
Central Stores	2	2	2	2	2
TOTAL	701.9	705.6	715.4	725.9	737.8

[1] Figures do not include boards and commissions.
[2] Reflects additional bus drivers and hours to part-time employees from an increase in bus routes.

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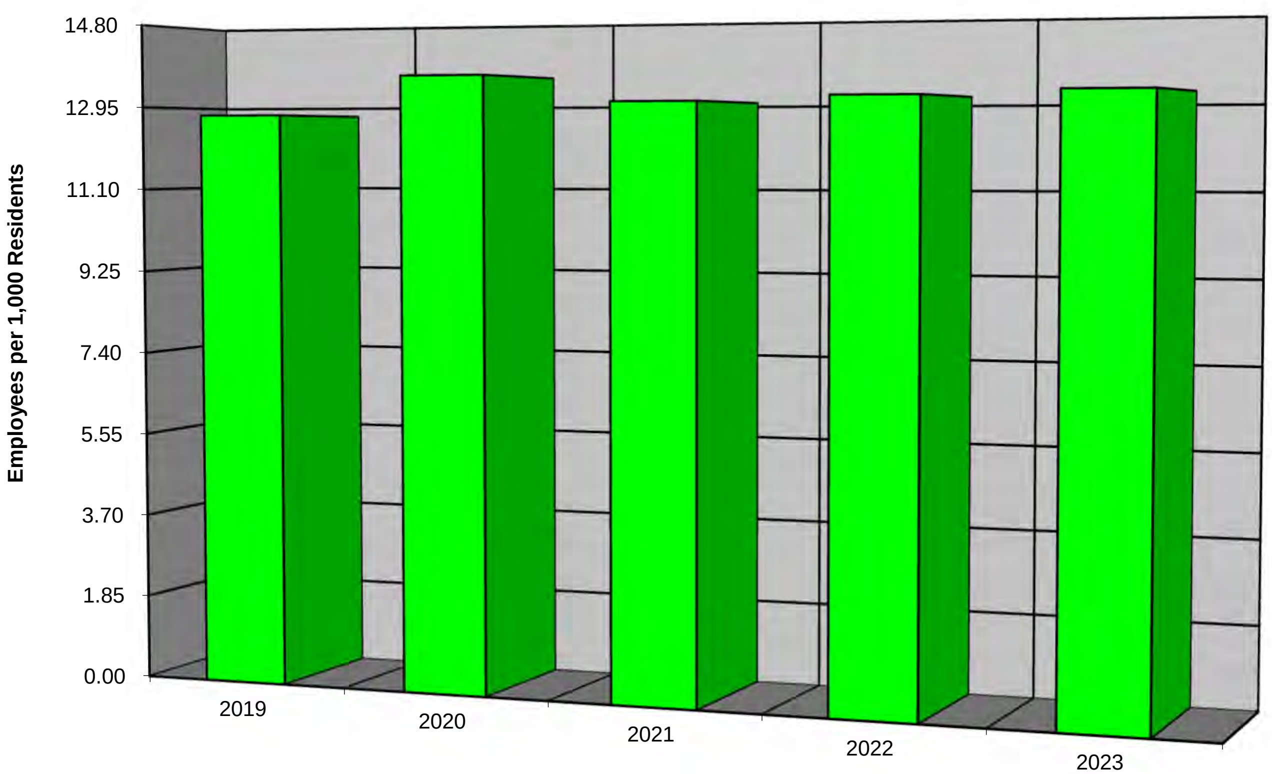
Employees per Capita



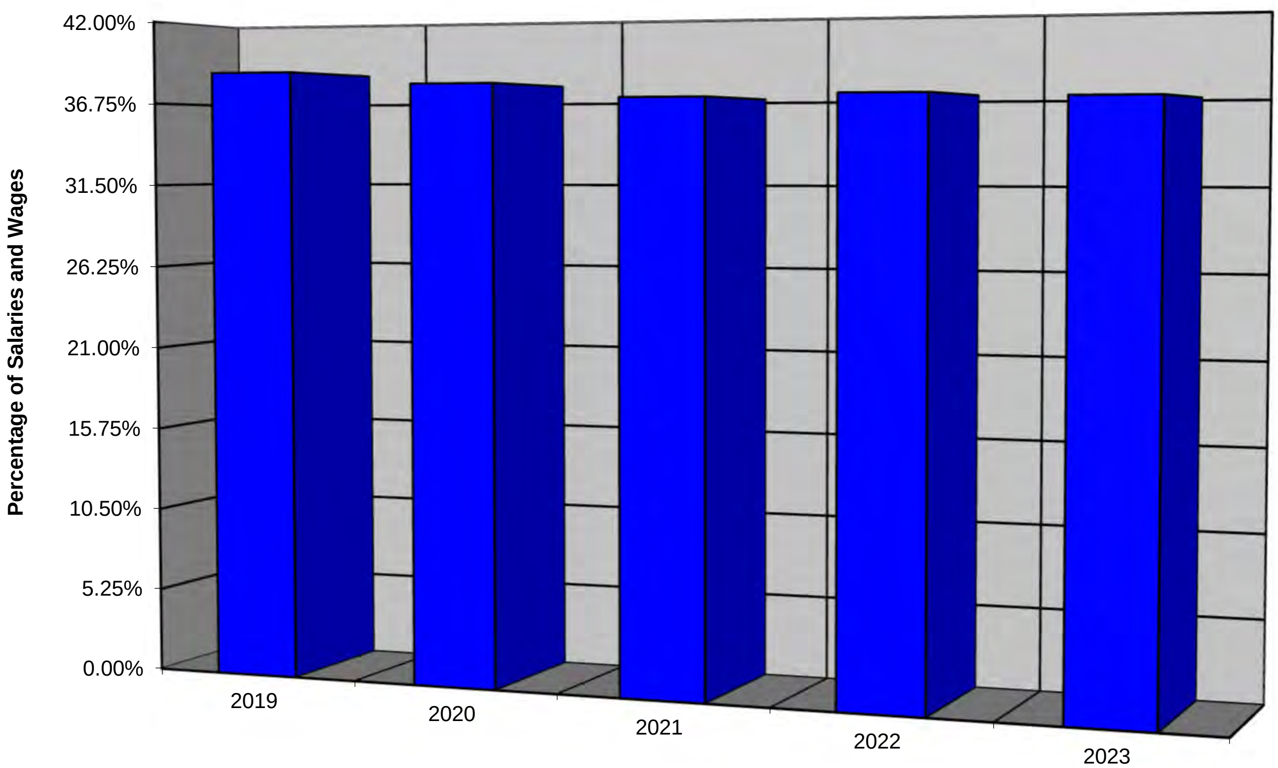
Indicator 14
Fringe Benefits

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 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 2019 as wages and salaries have been increasing at a higher rate than increases in fringe benefits. Overall, health insurance contributions have remained constant since 2019 due to insurance premiums remaining flat through 2022 as well as position vacancies. Increasing contribution rates for VRS retirement and new hires have increased School Board retirement contributions by $2.5 million (37.8%) since 2019 while the City's retirement contributions increased $1.2 million (48.3%).

Description	**2019**	**2020**	**2021**	**2022**	**2023**
Expenditures for Fringe Benefits	$27,250,169	$28,114,277	$28,713,229	$30,477,442	$33,153,973
Salaries and Wages	$70,470,755	$74,205,212	$77,670,411	$82,047,351	$89,813,312
Fringe Benefit Expenditure as a Percentage of Salaries and Wages	38.67%	37.89%	36.97%	37.15%	36.91%

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

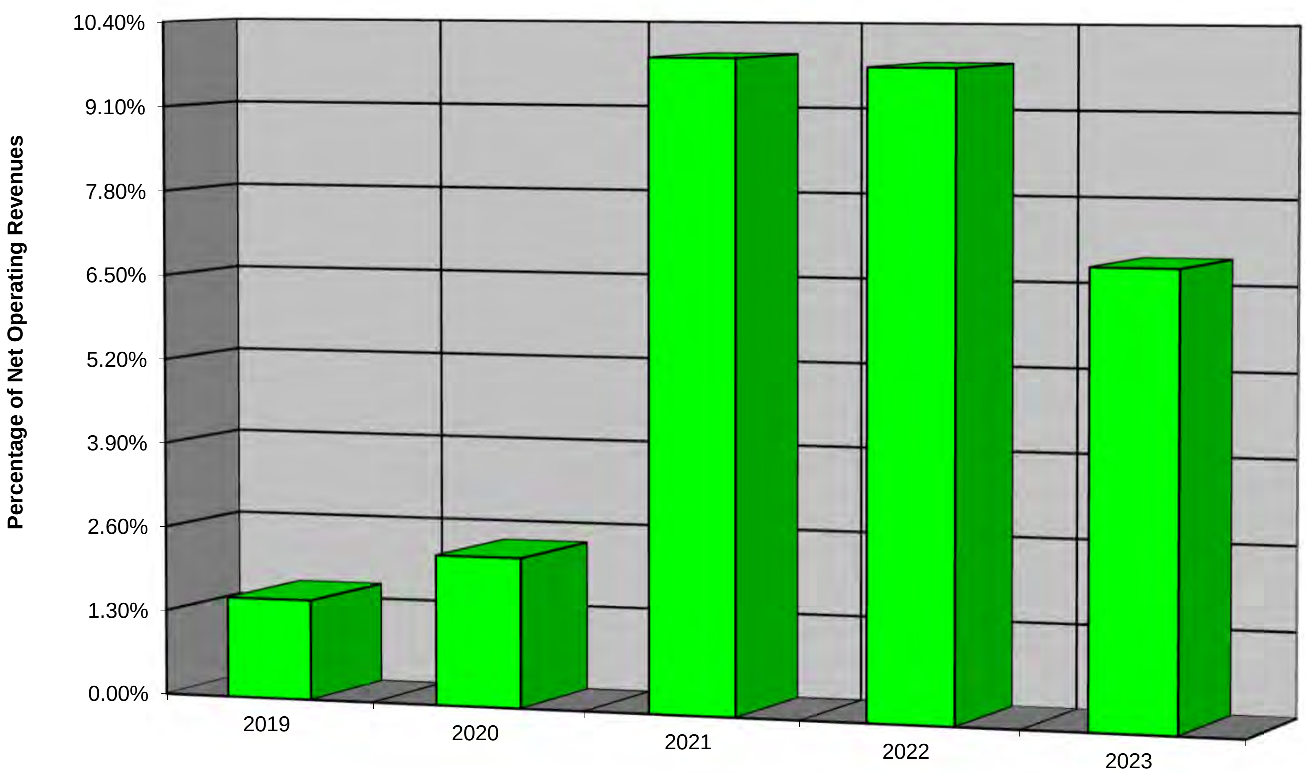
Indicator 15
Operating Surplus (Deficit)

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 2019 through 2023. The surplus in 2019 was 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 surpluses for 2021, 2022 and 2023 were a combination of federal COVID funds, tax revenue significantly exceeding budget estimates, cost savings due to the COVID-19 pandemic and school appropriations retained by the City. The 2023 $10.3 million surplus was largely due to positive operating results from increased tax and use of money revenues.

Description	2019	2020	2021	2022	2023
General Fund Operating Surplus (Deficit)	$1,763,559	$2,717,933	$12,656,717	$12,963,349	$10,259,221
General Fund Net Operating Revenues	$115,122,374	$118,476,291	$127,614,850	$132,281,327	$148,882,182
General Fund Surplus (Deficit) as a Percentage of Net Operating Revenues	1.53%	2.29%	9.92%	9.80%	6.89%

Operating Surplus (Deficit)
(General Fund)



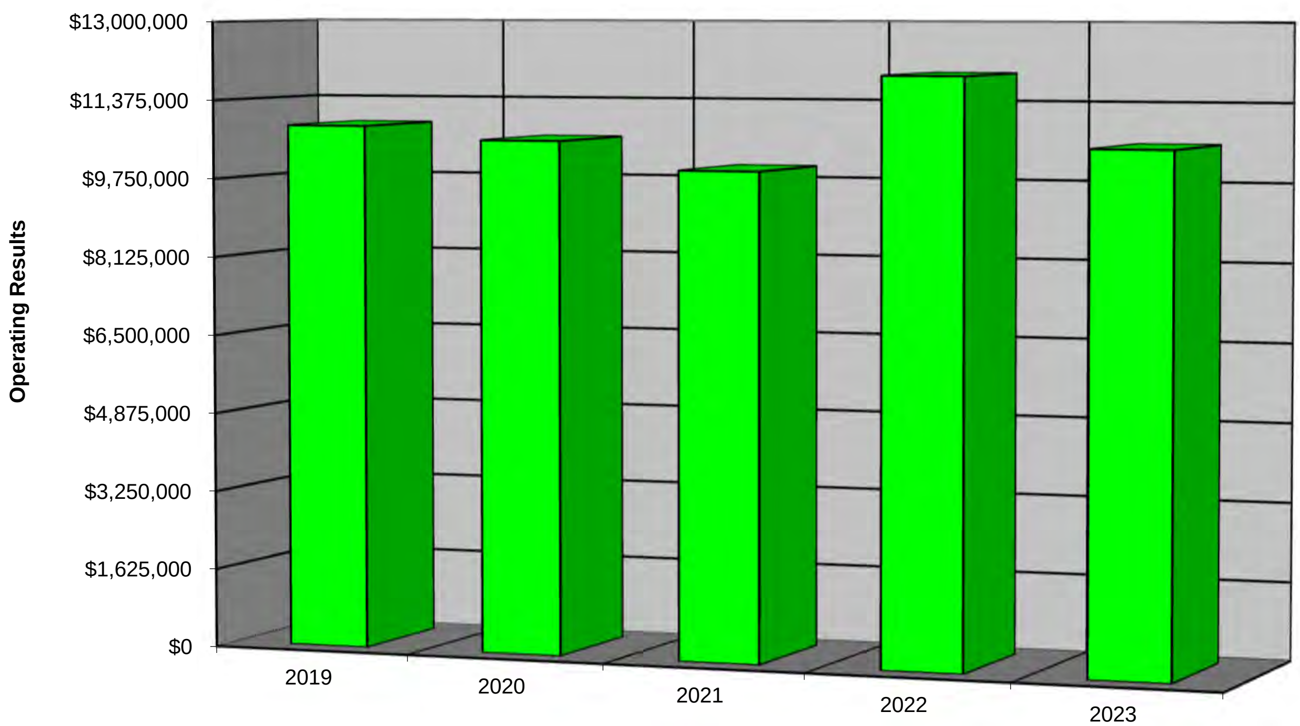
Indicator 16
Enterprise Fund Operating Results

Enterprise Fund operating results have declined by $311,000 overall since 2019. The decline can mainly be attributed to negative operating results in the Public Transportation, Sanitation and Stormwater Funds. Negative operating results were offset by positive operating results within the Water and Sewer Funds. Water Fund revenues have increased $2.0 million (23.7%) over the past five years as the result of rate increases 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 2019, Sewer Fund revenue has increased $1.6 million (14.9%) to offset contributions to the Harrisonburg-Rockingham Regional Sewer Authority and to provide funding for general asset replacements. The COVID-19 pandemic had an impact on Water and Sewer Fund revenue in 2021 due to a decrease in usage from several institutional customers. Public Transportation Fund revenues increased $1.1 million (22.4%) which is attributed to increased intergovernmental revenue during the COVID-19 pandemic. However, overall expenses also increased by $1.5 million (31.7%), resulting in negative operating results in the Public Transportation Fund. Sanitation Fund revenues have increased $279,000 (6.7%) while expenses increased $1.2 million (69.6%) which also contributed to the overall decline in Enterprise Fund operating results.

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	**2019**	**2020**	**2021**	**2022**	**2023**
Enterprise Fund Operating Results (Nominal)	$10,849,347	$10,581,447	$10,010,632	$11,957,083	$10,537,885

Enterprise Fund Operating Results



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Indicator 17
Unassigned Fund Balances

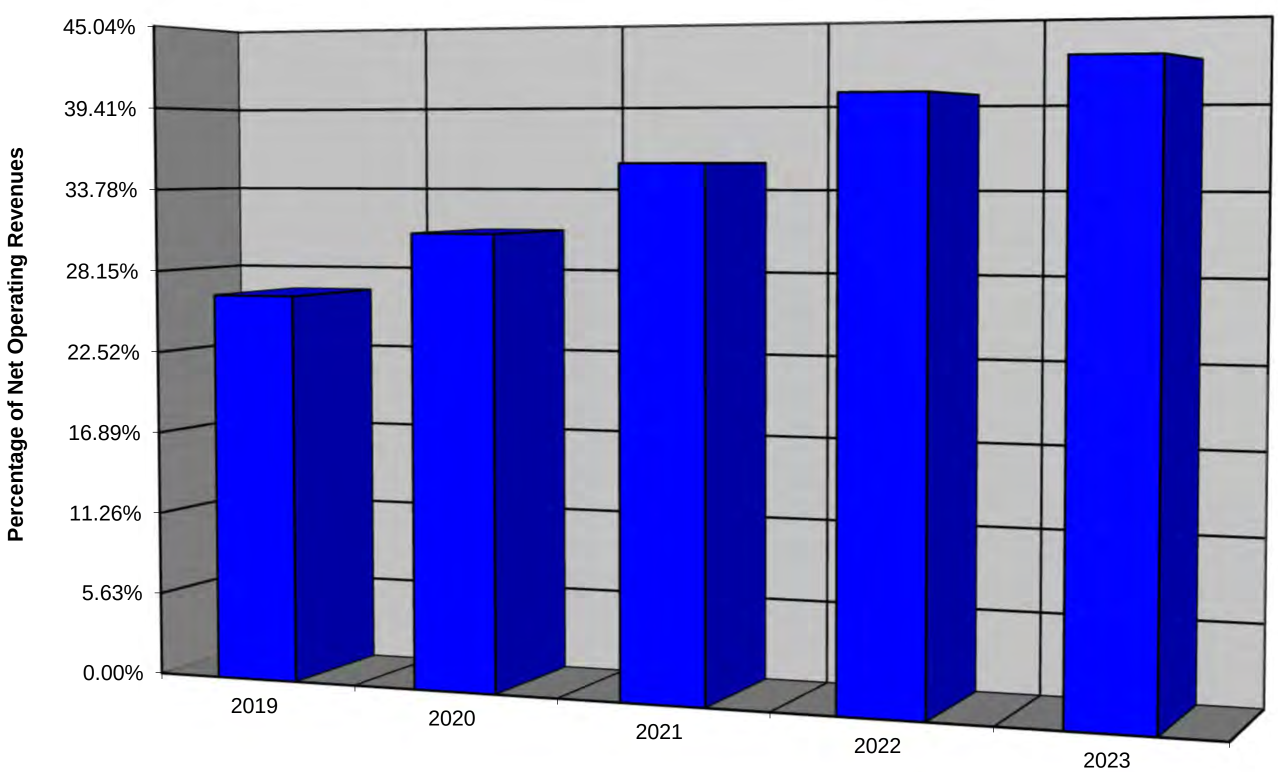
Maintenance of a sufficient unassigned fund balance allows local governments to have adequate funds on hand to operate throughout the year, including periods of low revenue collections. The size of the unassigned fund balance can affect the City's ability to withstand financial emergencies and short-term 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 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.

Over the past five years, unassigned fund balance for the General Fund increased $32.5 million to $63.1 million in 2023. The unassigned fund balance 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 increases in unassigned fund balance in 2021 and 2022 were primarily from federal CARES Act funds allocated to the City, property tax and other local tax revenues exceeding budget projections, retaining unused school appropriations and a continued deferral of capital outlay due to the COVID-19 pandemic. The increase in 2023 can be attributed to property tax and other local tax revenues exceeding budget projections, increased interest revenue and retaining unused school appropriations. In addition, the City used $3 million, $6.3 million, and $5 million from unassigned fund balance to balance the 2022, 2023 and 2024 budgets, respectively.

Description	2019	2020	2021	2022	2023
General Fund Unassigned Fund Balance	$30,561,724	$36,632,322	$45,459,532	$53,108,748	$63,065,854
General Fund Net Operating Revenues	$115,122,374	$118,476,291	$127,614,850	$132,281,327	$148,882,182
General Fund Unassigned Fund Balance as a Percentage of Net Operating Revenues	26.55%	30.92%	35.62%	40.15%	42.36%

Unassigned Fund Balances
(General Fund)



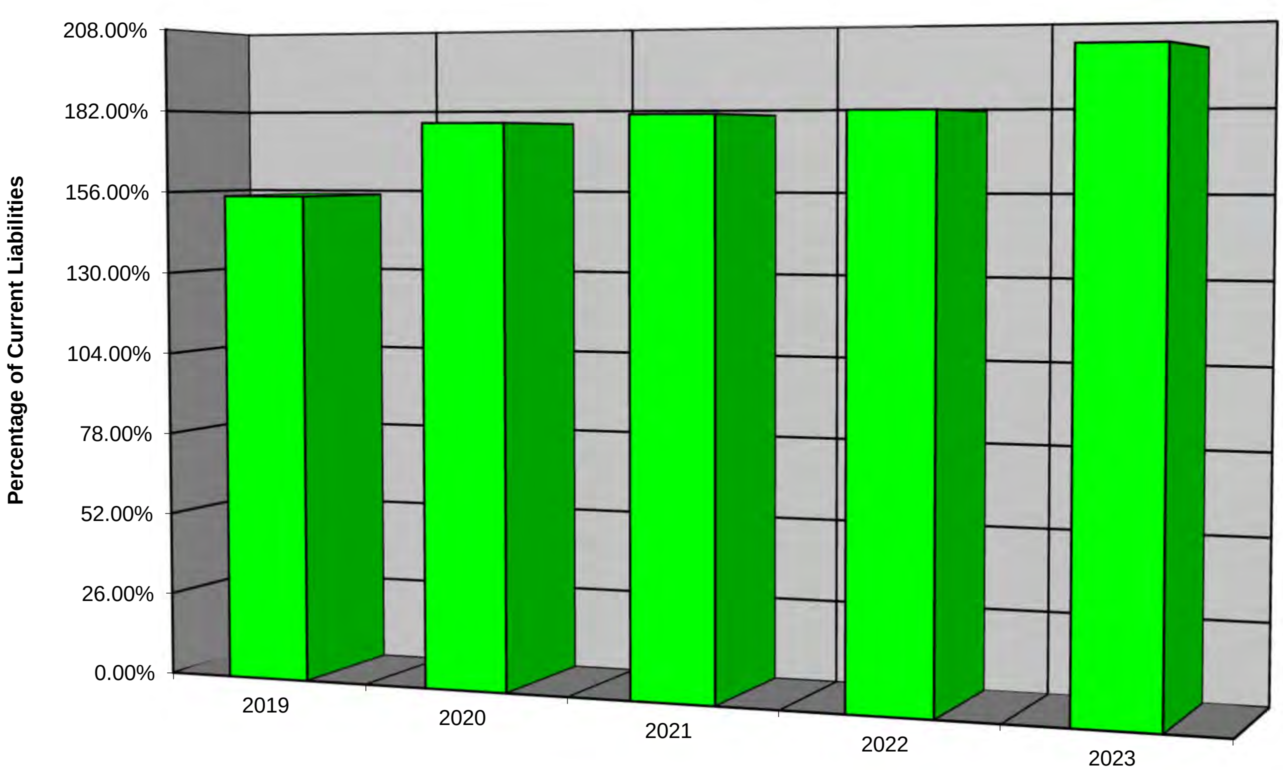
Indicator 18
Liquidity

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 liquidity indicator 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 2023 increase was primarily due to a combination of the General Fund's positive operating results from tax revenue significantly exceeding budget estimates, interest revenue exceeding budget revenue and unused school appropriations retained by the City. It should be noted that outstanding encumbrance balances have increased $3.9 million since 2020. This is due to the delay in delivery of major equipment orders from continued supply chain issues. This in effect has allowed cash to be retained until the equipment is delivered and purchased, which has contributed to the increase in this indicator.

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	**2019**	**2020**	**2021**	**2022**	**2023**
Cash and Cash Equivalents	$46,274,304	$54,386,547	$79,182,876	$104,519,201	$112,627,360
Current Liabilities	$29,894,653	$30,580,214	$43,901,521	$57,610,873	$56,192,756
Cash and Short-term Investments as a Percentage of Current Liabilities	154.79%	177.85%	180.36%	181.42%	200.43%

Liquidity



Percentage of Current Liabilities
208.00%
182.00%
156.00%
130.00%
104.00%
78.00%
52.00%
26.00%
0.00%
2019
2020
2021
2022
2023

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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

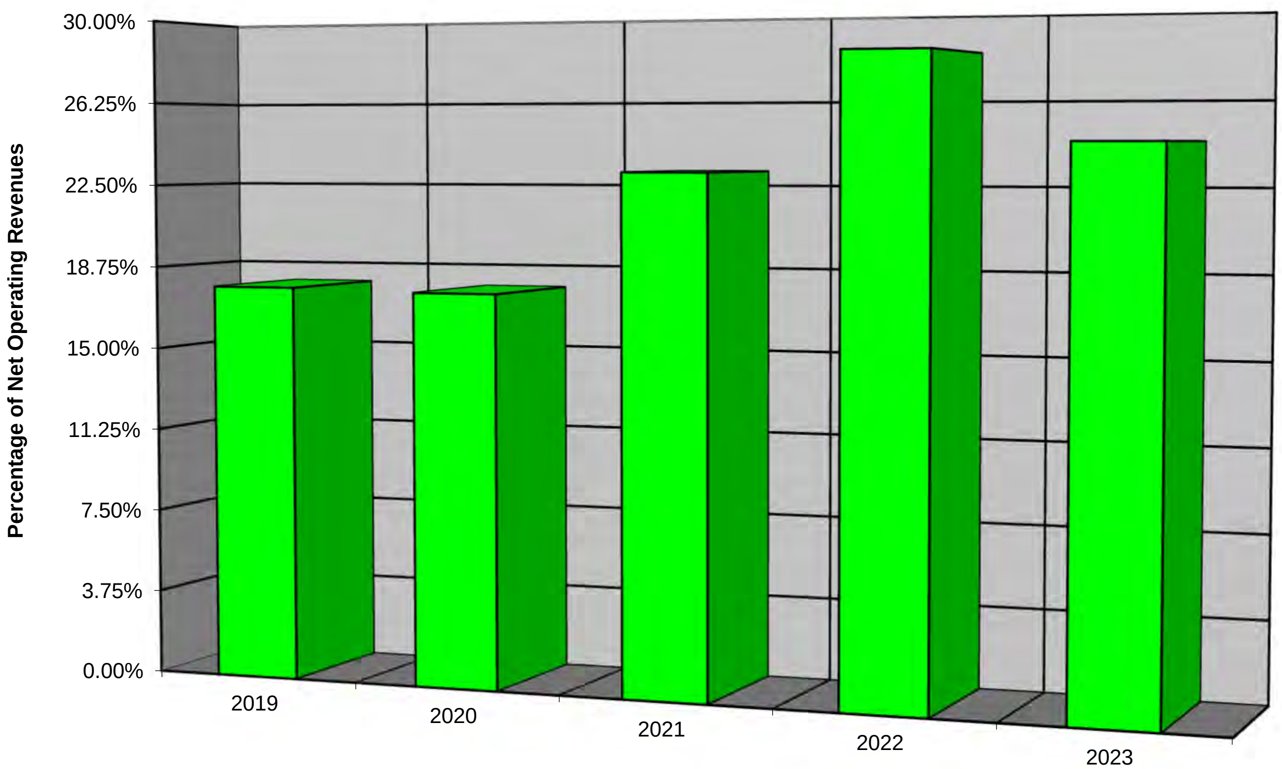
Current liabilities are the sum of all liabilities due at the end of the fiscal year and the principal on long-term debt that is due the following year. This indicator is mainly concerned with identifying whether increasing levels of short-term borrowing are being used to finance deficit spending and/or 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 2019 and is currently 24.51%. The increase in 2021 was from the first $11.9 million allocation of federal ARPA funds that were provided to the City, while the increase in 2022 was from the second $11.9 million allocation of federal ARPA funds. However, if ARPA funds are not included in the calculations, then this indicator would be 16.87% and 17.63% for 2021 and 2022, respectively, which is a relatively flat trend. As of the end of 2023, approximately $4.3 million ARPA funds have been expended. The 2023 indicator percentage decline can be attributed to the increase in operating revenues.

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	2019	2020	2021	2022	2023
Current Liabilities	$29,894,653	$30,580,214	$43,901,521	$57,610,873	$56,192,756
Net Operating Revenues	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
Current Liabilities as a Percentage of Net Operating Revenues	17.89%	17.75%	23.16%	28.39%	24.51%

Current Liabilities



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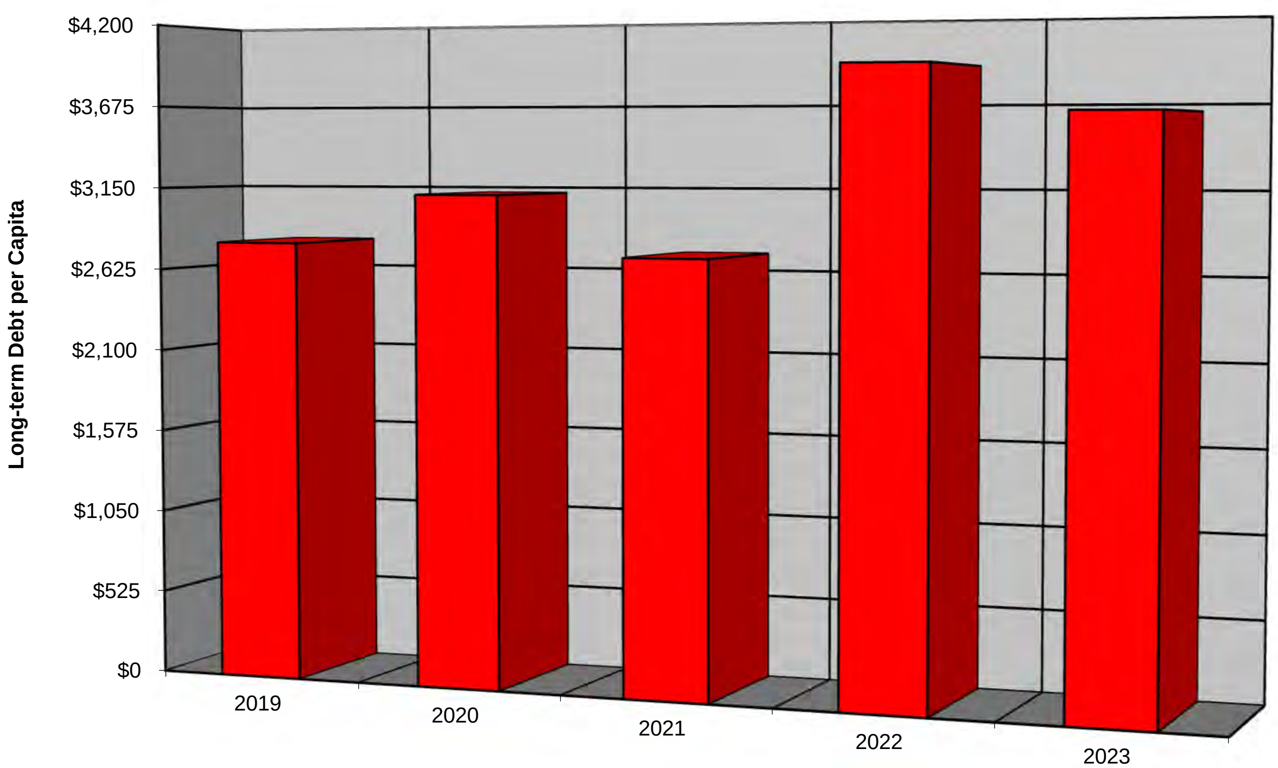
Indicator 20
Long-term Debt

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.

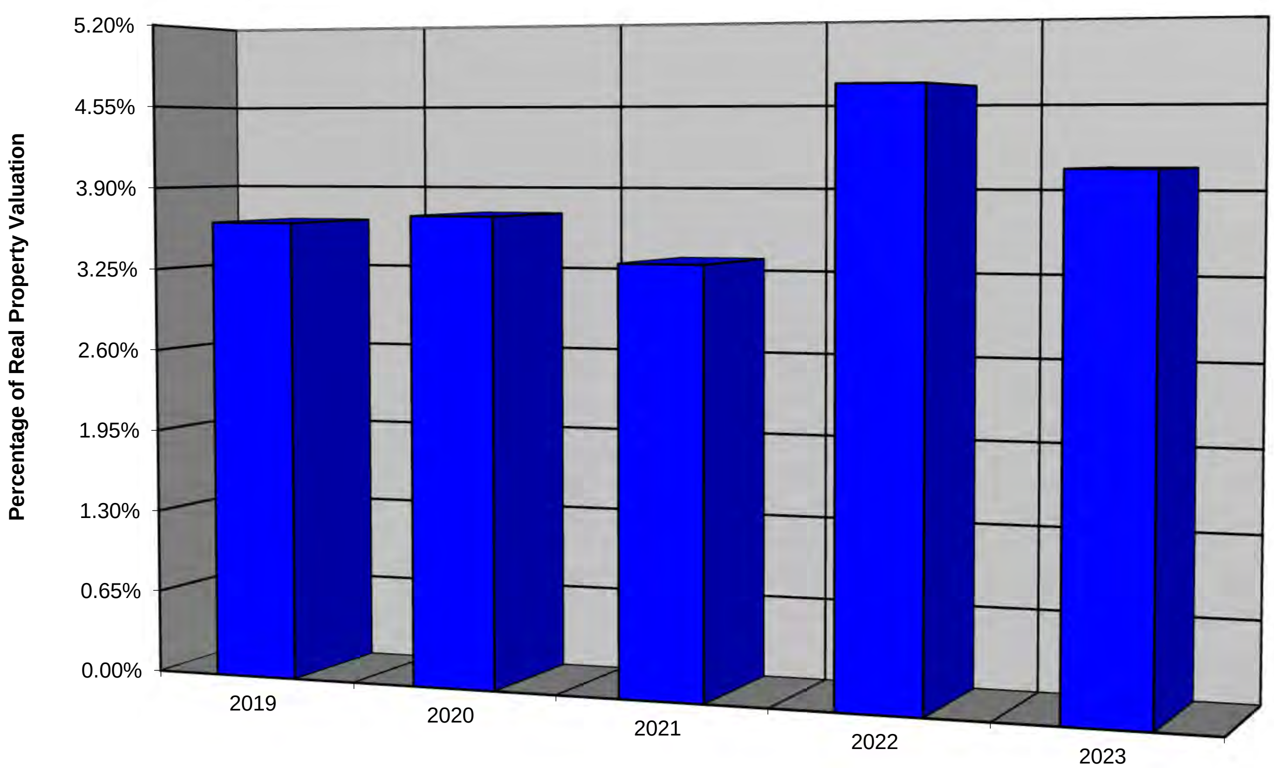
This indicator has increased overall the past five years both as a percentage of assessed real property valuation and per capita. This indicator increased slightly in 2020 due to $13.5 million in debt being issued to reimburse the City for costs it had incurred for the construction of the new high school up to the point that construction was paused due to the COVID-19 pandemic and for the purchase of the former Panos property. This indicator increased significantly in 2022 with the issuance of $84.6 million in new debt for the construction of Rocktown High School. No new debt was issued in 2021 or 2023. It should also be noted that the City’s assessed real property valuation has increased by $718.4 million (16.9%) over the past five years. 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 4.07%.

Description	2019	2020	2021	2022	2023
Long-term Debt	$154,163,367	$161,436,910	$150,114,910	$216,353,669	$202,284,503
Population	55,011	51,814	54,892	55,220	55,700
Long-term Debt per Capita	$2,802	$3,116	$2,735	$3,918	$3,632
Assessed Real Property Valuation	$4,249,756,402	$4,372,685,766	$4,490,939,557	$4,605,151,095	$4,968,195,034
Long-term Debt as a Percentage of Assessed Real Property Valuation	3.63%	3.69%	3.34%	4.70%	4.07%

Long-term Debt per Capita



Long-term Debt as a Percentage of Real Property Valuation



Indicator 21
Debt Service

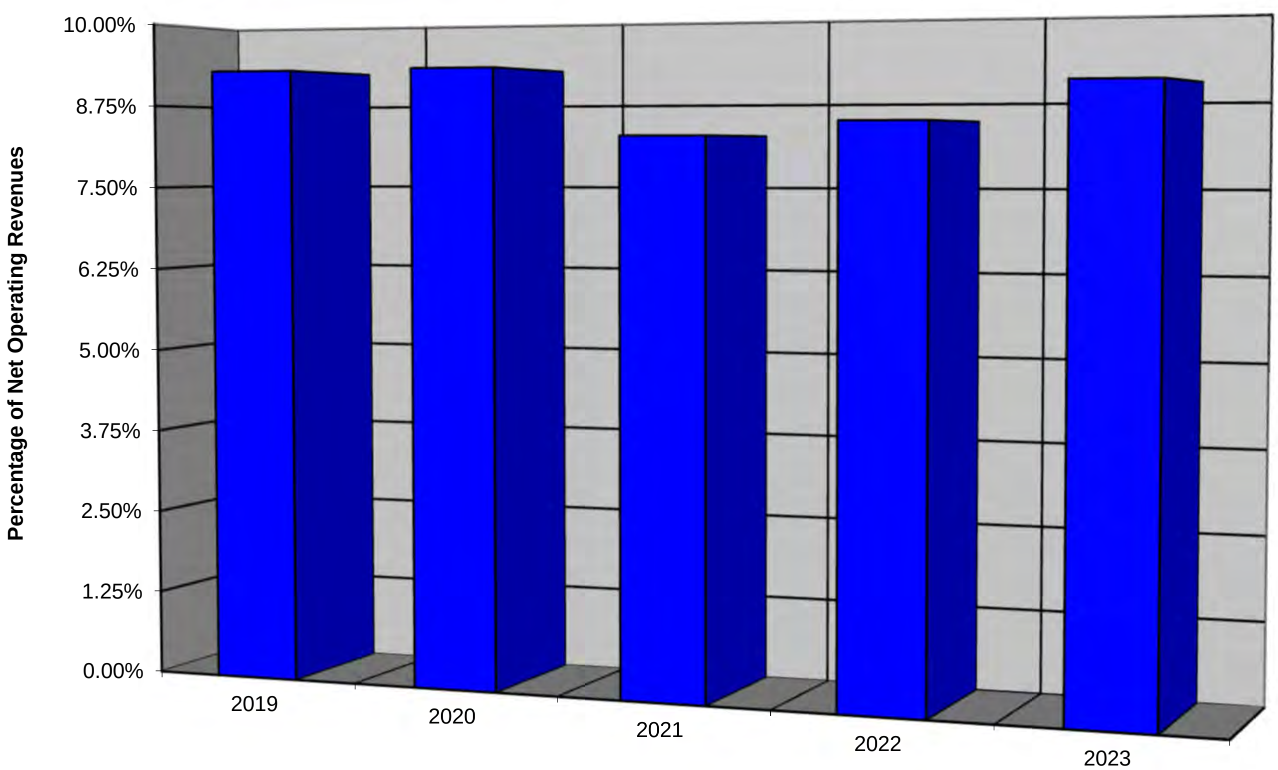
This indicator is determined by comparing the amount of the City's debt principal and interest payments for the year to its net operating revenues. The primary purpose of this indicator is to determine the effect of debt on the flexibility of expenditures, since debt service can be a major part of a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

This indicator has decreased overall since 2019. 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 9.05%. Total debt service has increased $5.3 million since 2019. The increase in 2023 was due to a full year of debt service payments from the $84.6 million in new debt issued for the construction of Rocktown High School.

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	2019	2020	2021	2022	2023
Debt Service	$15,481,961	$15,997,620	$15,703,053	$17,230,196	$20,753,950
Net Operating Revenues	$167,097,413	$172,254,349	$189,587,081	$202,909,824	$229,281,153
Debt Service as a Percentage of Net Operating Revenues	9.27%	9.29%	8.28%	8.49%	9.05%

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

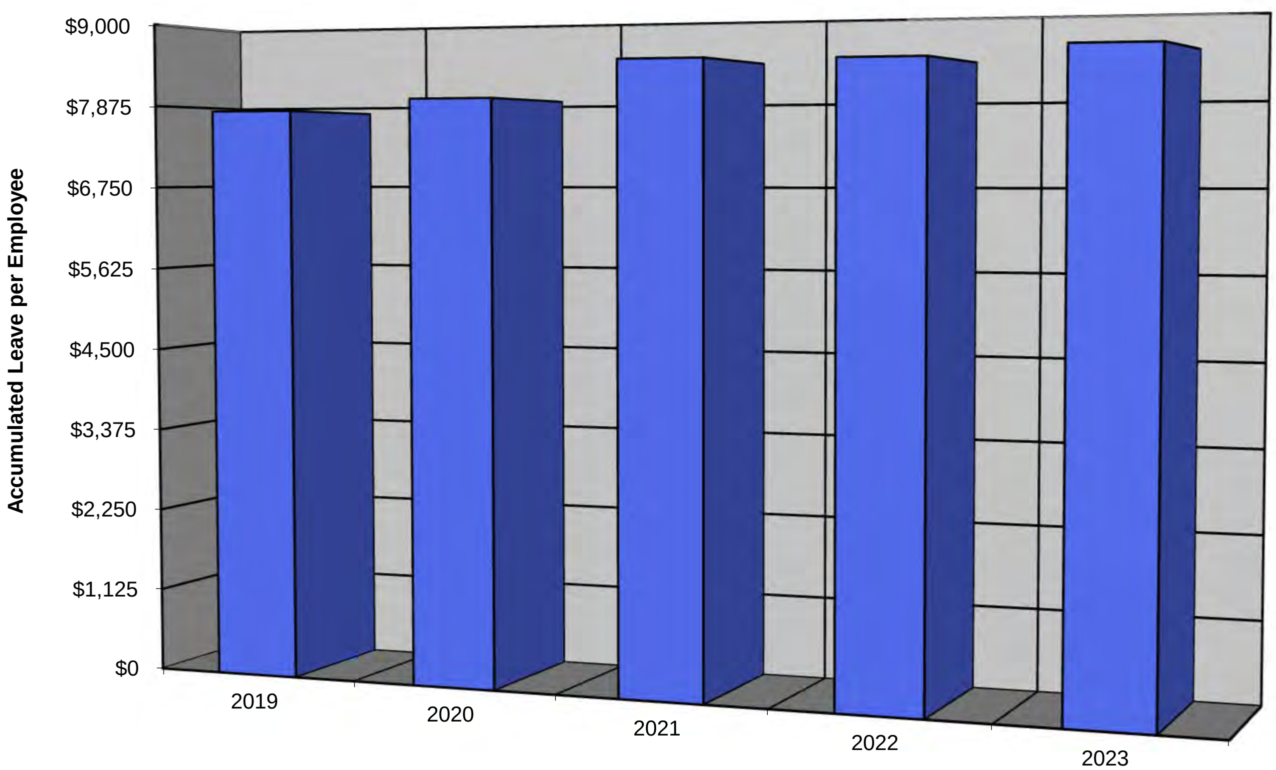
Accumulated employee leave is the dollar value of all unused vacation and sick leave benefits. This indicator has two basic impacts on the City. The initial impact represents an opportunity cost for work that an employee does not perform. The second impact occurs at the termination or retirement of an 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 2019. The overall increase is likely due to salary increases combined with the accumulation of leave during the COVID-19 pandemic when employees were unable to travel. Effective January 1, 2014, the City implemented a 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	2019	2020	2021	2022	2023
Accumulated Employee Leave	$4,550,872	$4,560,115	$4,708,213	$4,621,908	$5,149,682
Full-time Employees	584	574	558	549	602
Accumulated Leave per Employee	$7,793	$7,944	$8,438	$8,419	$8,554

Accumulated Employee Leave



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.

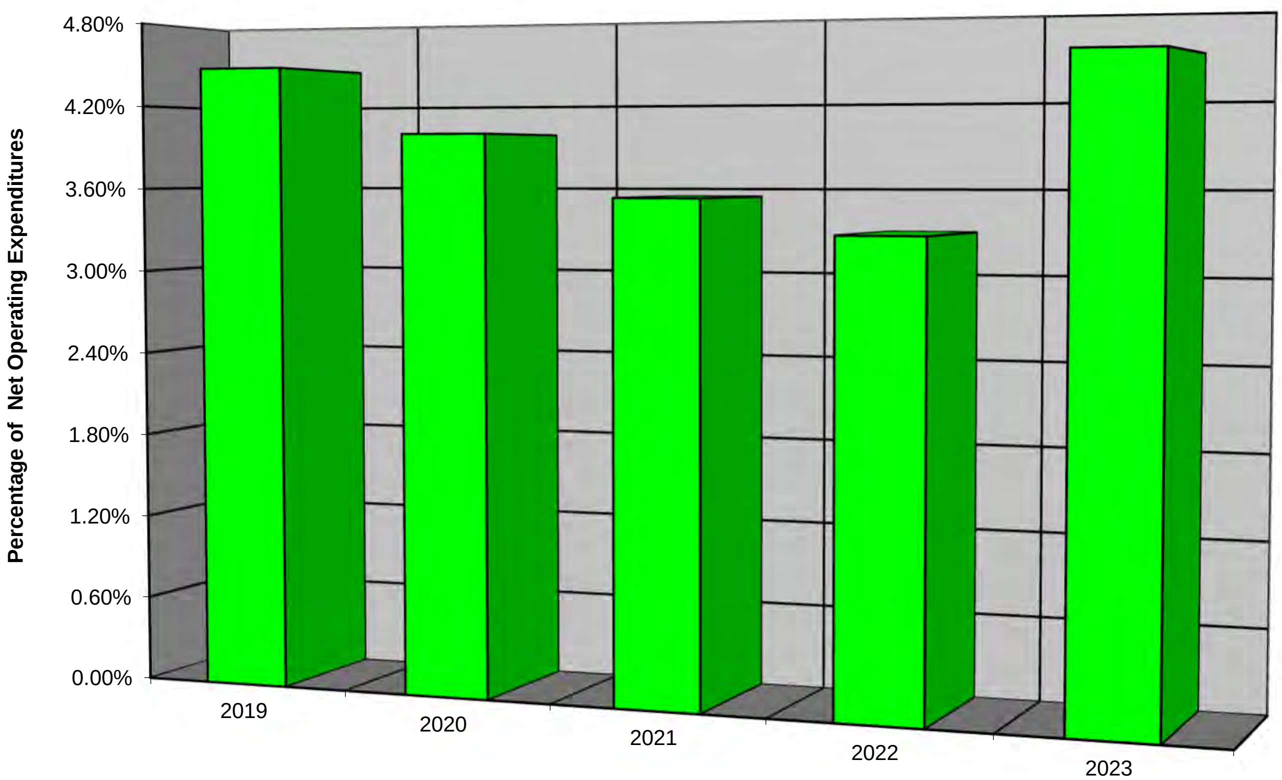
Capital outlay needs to be included in the budgeting process because equipment such as vehicles wear out and equipment like computer systems can become obsolete (or inefficient). Just as with maintenance efforts, during periods of low revenue, a city may postpone these expenditures for a year to focus 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 indicator has increased marginally overall since 2019. 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. In 2023, the increase can largely be contributed to the timing of street paving expenditures. It should be noted that outstanding encumbrance balances have increased $3.9 million since 2020. This is due to the delay in delivery of major equipment orders from continued supply chain issues.

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	2019	2020	2021	2022	2023
Capital Outlay	$7,402,760	$6,707,624	$6,346,747	$6,162,949	$9,480,918
Net Operating Expenditures	$165,756,650	$168,071,698	$178,987,822	$186,735,001	$209,184,105
Capital Outlay as a Percentage of Net Operating Expenditures	4.47%	3.99%	3.55%	3.30%	4.53%

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

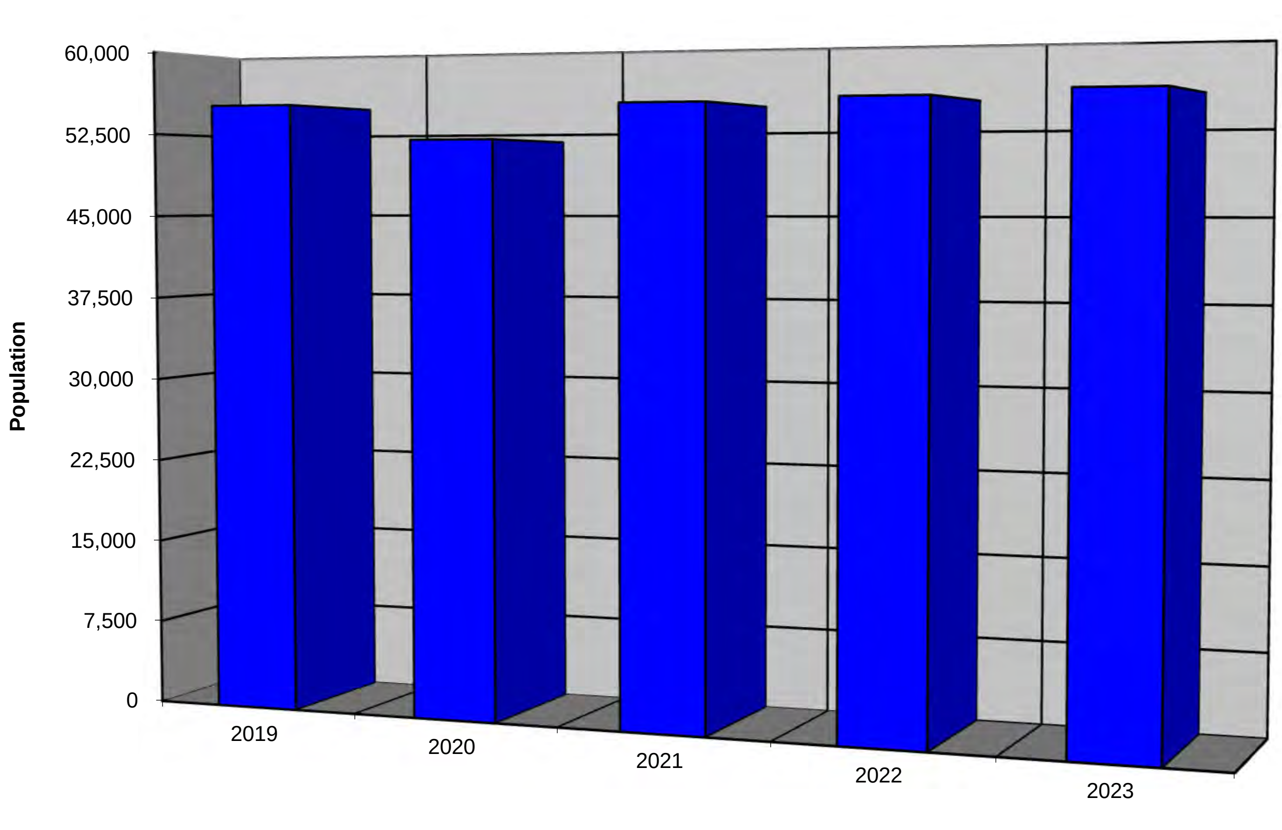
Harrisonburg has experienced a population increase of 689 (1.3%) over the past five years. This raises several interesting questions. Will the City's historical population increases return or will the growth rate continue to subside. If the City's population does increase, how long will the City's infrastructure 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	**2019**	**2020**	**2021**	**2022**	**2023**
Population	55,011	51,814	54,892	55,220	55,700

Source: Weldon Cooper Center for Public Service

Population



60,000
52,500
45,000
37,500
30,000
22,500
15,000
7,500
0
Population
2019
2020
2021
2022
2023

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.

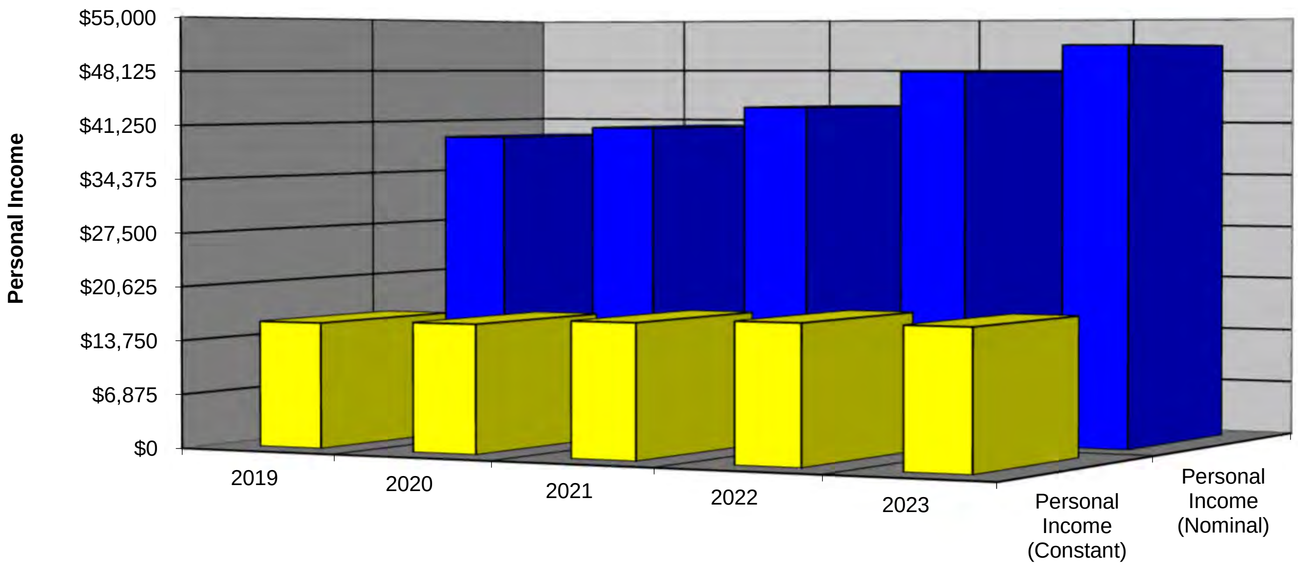
This indicator has shown an increase in nominal dollars over the past five years of 31.4%. There are several possible explanations for this increase. First, favorable economic conditions in the City could be increasing personal income. Second, since the population is also increasing slightly, the people 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. Fourth, the Commonwealth of Virginia has been increasing the minimum wage rate over the past several years which could also be attributing to higher personal income. In constant dollars, this indicator has increased 10.4%. This would indicate that over 60 percent of the nominal dollar growth has been due to inflation.

In 2023, the Harrisonburg Metropolitan Statistical Area (HMSA) personal income per capita of $51,466 ranks 55th overall in the state, which was 74.6% of the $68,985 state average. The HMSA was 75.9% of the $67,767 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	2019	2020	2021	2022	2023
Personal Income per Capita (Nominal) [a]	$39,164	$40,536	$43,349	$48,056	$51,466
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Personal Income per Capita (Constant)	$16,025	$16,398	$17,120	$17,629	$17,686

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

Personal Income per Capita



Indicator 33
Property Value

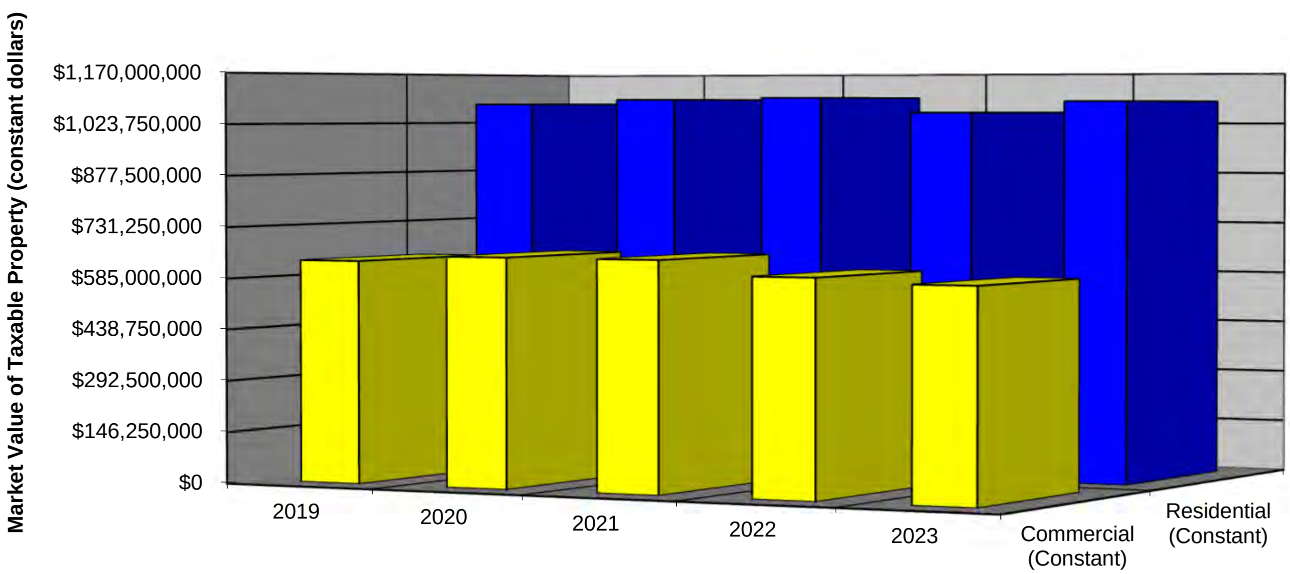
Property value is an important indicator since property taxes are such an important component of the City's revenues. The five-year market value for residential property has increased in nominal dollars by 20.1% (0.8% in constant dollars). The market value for commercial/industrial property has increased in nominal dollars by 11.7% (decreased 6.2% in constant dollars). Due to inflationary pressures over the past couple of years, constant dollar market values of commercial/industrial properties have decreased overall since 2019.

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	2019	2020	2021	2022	2023
Market Value of Taxable Residential Property (Nominal)	$2,639,449,190	$2,703,149,330	$2,782,886,650	$2,879,333,087	$3,169,133,064
Market Value of Taxable Commercial Property (Nominal)	$1,552,749,097	$1,611,049,491	$1,649,108,907	$1,663,457,156	$1,734,399,851
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Market Value of Taxable Residential Property (Constant)	$1,079,971,027	$1,093,507,011	$1,099,086,355	$1,056,248,381	$1,089,049,163
Market Value of Taxable Commercial Property (Constant)	$635,331,054	$651,719,050	$651,306,835	$610,219,059	$596,013,695

Source: City of Harrisonburg Commissioner of the Revenue

Property Value



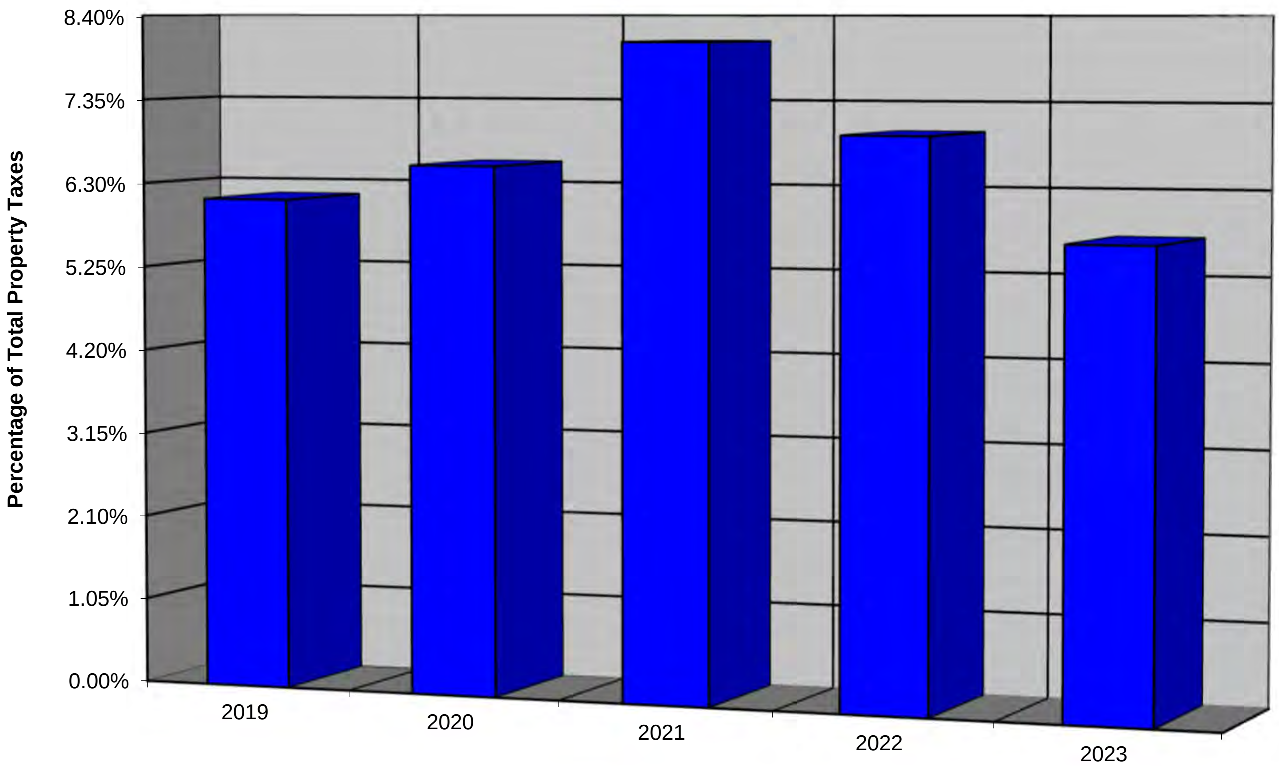
Indicator 34
Top Five Property Taxpayers

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 decreased since 2019. Currently, the top five taxpayers comprise 5.71% of the property tax base. This indicates that the City has been relying less on these large taxpayers since 2019. This still represents a low reliance on the top five property taxpayers showing an overall diverse property tax base.

Description	2019	2020	2021	2022	2023
Top Five Taxpayers	$2,982,808	$3,371,103	$4,375,225	$4,009,433	$3,687,380
Total Property Taxes	$48,793,283	$51,411,484	$54,116,941	$57,484,253	$64,571,060
Top Five Taxpayers as a Percentage of Total Property Taxes	6.11%	6.56%	8.08%	6.97%	5.71%

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.

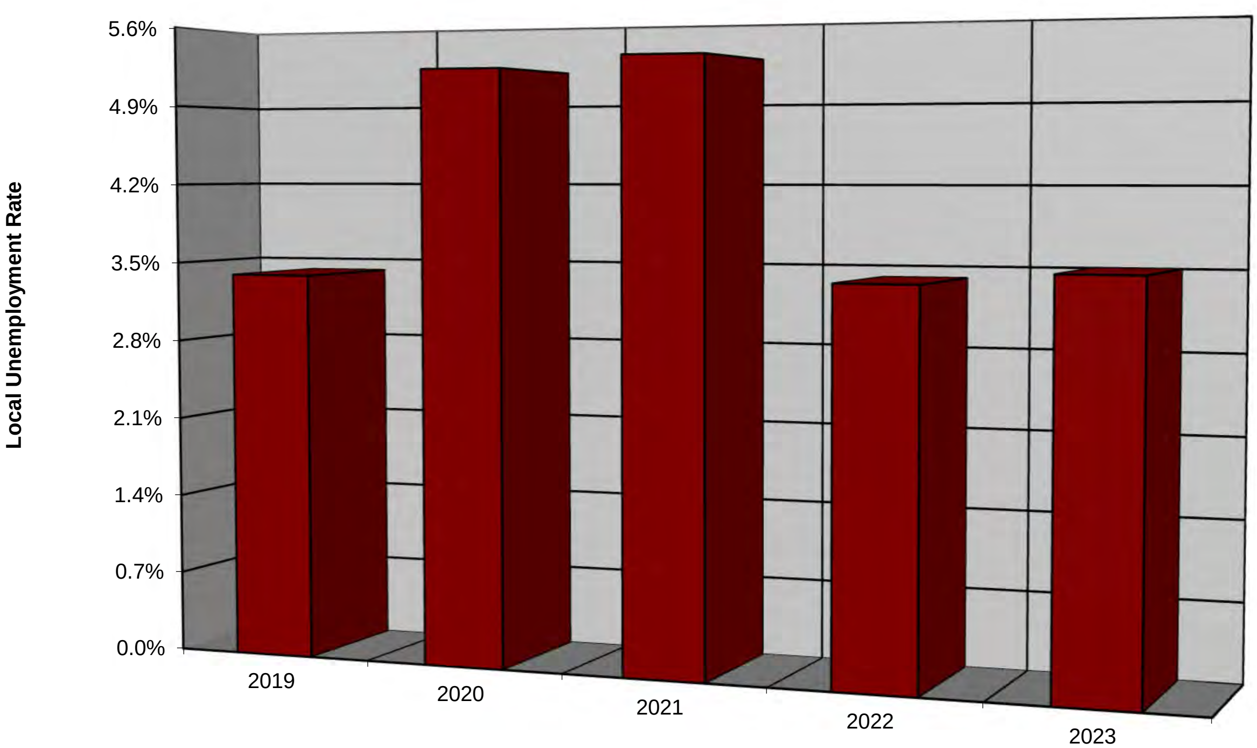
The unemployment rate measures the number of residents who are unemployed; it does not consider whether those who are employed work in Harrisonburg or elsewhere in the region. Of course, there are limitations to the unemployment rate. People who are employed part-time or who are otherwise "underemployed" 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 COVID-19 pandemic had a significant impact on the local economy in 2020 and 2021, particularly the restaurant and hospitality industries, which in turn increased the unemployment rate. The 2023 local unemployment rate is currently back to pre-pandemic levels. As the following table shows, the City's unemployment rate is higher than the state unemployment rate but is consistent to the national unemployment rate.

Description	2019	2020	2021	2022	2023
Local Unemployment Rate	3.4%	5.2%	5.3%	3.4%	3.5%
State Unemployment Rate	2.9%	4.6%	5.4%	3.0%	3.0%
National Unemployment Rate	3.8%	6.0%	6.9%	4.2%	3.5%

Source: Virginia Labor Market Information, Bureau of Labor Statistics

Unemployment Rate



Indicator 39
Business Activity

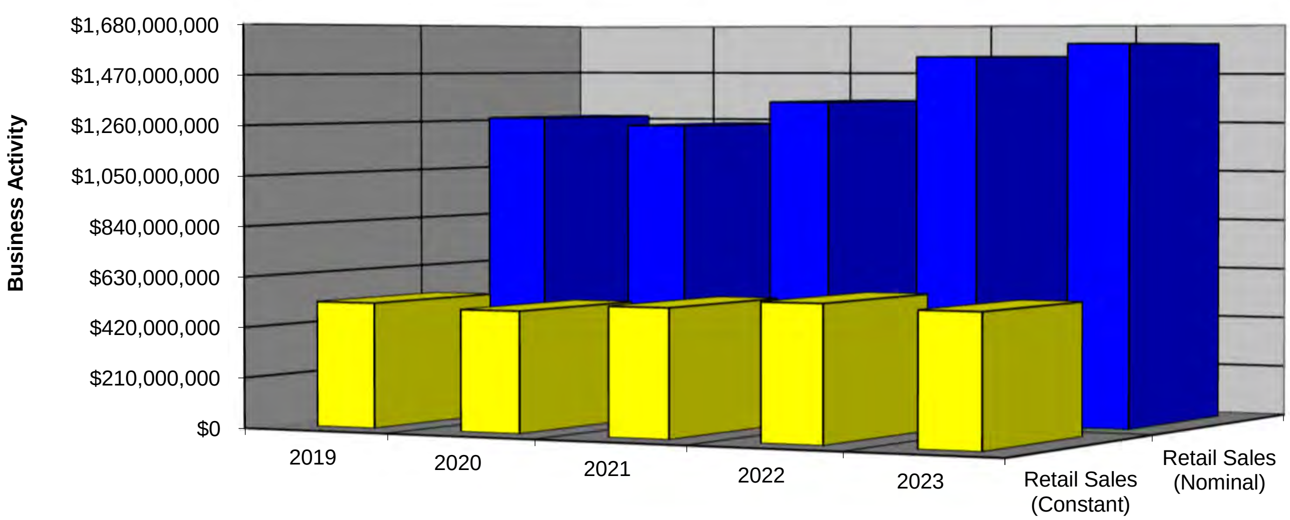
Growth in business activity is generally a sign of a healthy local economy. There are several measures of business activity. It has been chosen to develop retail sales since local sales taxes and restaurant food taxes are important components of the City's revenues.

The COVID-19 pandemic did impact business activity to a certain degree, specifically the restaurant and travel industries, however retail sales overall remained resilient as consumers continued steady retail activity. Overall, retail sales have increased 25.5% in nominal dollars (5.4% in constant dollars) over the past five years, showing that a significant 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 the COVID-19 pandemic. Retail sales after 2020 have surpassed pre-pandemic activity.

Description	**2019**	**2020**	**2021**	**2022**	**2023**
Retail Sales (Nominal)	$1,274,893,892	$1,245,763,504	$1,350, 241,272	$1,543,887,582	$1,599,451,726
CPI for the Area (1982-84=1.000)	2.444	2.472	2.532	2.726	2.910
Retail Sales (Constant)	$521,642,345	$503,949,638	$533,270,645	$566,356,413	$549,639,768

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 exceeded one of the credit industry benchmarks. Of the twenty-six indicators that were developed, each has a defined warning trend. The City displays six indicators that qualify as constituting a warning trend. The following list summarizes the significant trends that match the ICMA definition of a warning trend.

<u>Credit Industry Benchmarks</u>

1. **Indicator 20 – Long-term Debt –** One of the negative credit industry benchmarks for long-term debt is an increase of 20% over the previous year as a percentage of assessed real property valuation. Due to the issuance of new debt for the construction of Rocktown High School, this benchmark increased 42.2% in 2022.

<u>ICMA Warning Trends</u>

1. **Indicator 7 – Current Year Uncollected Property Taxes –** The warning trend is an increasing amount of uncollected property taxes as a percentage of net property tax. This trend has increased overall since 2019. However, uncollected property taxes as a percentage of total property taxes is 2.49% which is below the five to eight percent that credit rating agencies consider to be a negative factor.

2. **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 2019 due to operating revenues increasing by 37.2%, but elastic revenues only increasing by 29.5%. The economic effects of the COVID-19 pandemic negatively impacted this indicator in 2020 and 2021.

3. **Indicator 12 – Employees per Capita –** The warning trend is an increasing number of employees per capita. During the past five years there has been a 6.9% increase in full-time equivalent employees per capita.

4. **Indicator 19 – Current Liabilities –** The warning trend is increasing current liabilities as a percentage of net operating revenues. This indicator has increased overall during the past five years due to unexpended ARPA funds allocated to the City.

5. **Indicator 21 – Debt Service –** The warning trend is increasing long-term debt as a percentage of net operating revenues. Since 2019, this indicator has decreased overall, but since 2021 debt service as a percentage of net operating revenues has followed an increasing trend.

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

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