



COUNTY OF AUGUSTA, VA FIVE YEAR FINANCIAL PLAN

Executive Summary

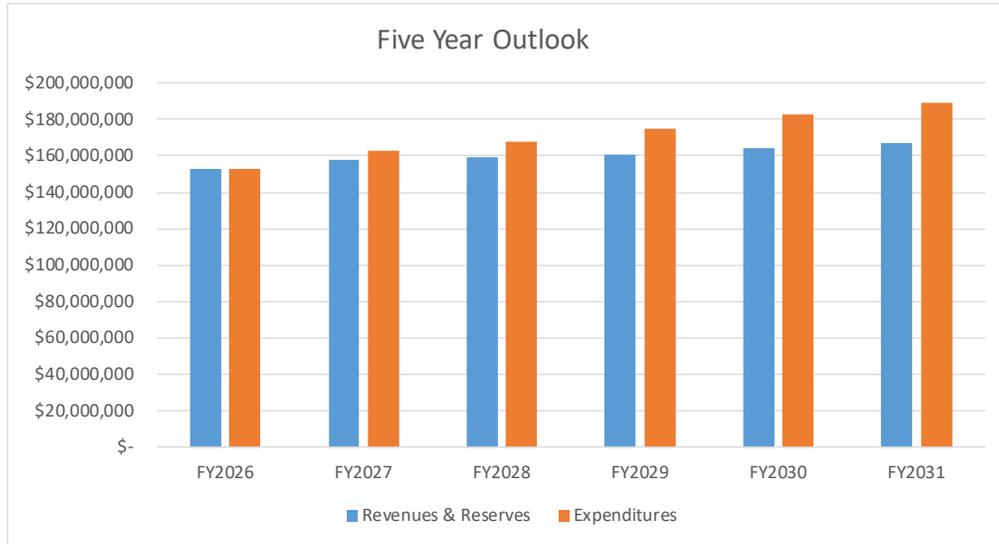
A Board Strategic Plan initiative is to provide an annual five-year financial projection of revenues and expenditures. This is the fifth Plan prepared for the Board. **The goal of the plan is to bring awareness of potential future funding needs, and to set achievable targets so the County can begin developing revenue, savings and operational proposals that may require multi-year planning efforts. This is a process that will need attention annually.**

The Board identified the following major strategic goals to make Augusta County an even better community in the future. These goals can be achieved or refined through financial planning.



A Five-Year Financial Plan will provide the basis for funding the priorities that will assist in serving the public need. The exercise of a five-year forecast allows decision makers to see the areas of need and plan a way for corrective action. **It shows the cost of County services is projected to steadily outpace revenue growth. If the County does not consider revenue adjustments, the gap between revenues and expenditures will rise from \$5 million to approximately \$22 million from FY 2026-27 to FY 2030-31, as reflected in the following chart.**

The gap is less than the projections in the FY25 Five-Year Financial Plan due to actions by the Board in the FY25 budget. The effective 10 cent real estate tax increase in FY25 funded the courthouse debt service, Middle River Regional Jail operations from the general fund with no reserves, reinstated capital funding, funded fire & rescue personnel to begin implementation of the Fire Rescue Strategic Plan and allocated funding to a pay/reclass study. This action made the five year outlook more favorable.



	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Revenues & Reserves	\$ 153,177,810	\$ 157,856,251	\$ 159,404,950	\$ 160,387,968	\$ 163,980,051	\$ 167,270,469
Expenditures	\$ 153,177,810	\$ 162,899,952	\$ 167,923,680	\$ 174,620,460	\$ 183,038,286	\$ 189,270,126

Overall increases in expenditures in the next five years are based on historical growth, market adjustments, additional staffing, and upcoming capital expenditures.

- Employee wages and benefits make up over 28% of total general fund expenditures, growing from \$43 million to \$57 million in the next five years, or 34%.
- Other Charges (utilities, etc.) (\$1.6 million or 34%)
- Professional & Contractual Services (\$2.5 million or 39%)
- Materials & Supplies (\$1.6 million, 34%); Contributions (\$5.6 million or 61%)
- Transfers to other funds (\$9.7 million or 16%)
- Capital and Debt Service (\$750,000 or 4%)

Total General Fund expenditures are projected to grow \$36 million, or 24%, over the five-year period. To put this in context, expenditures grew \$35 million or 34% from FY 2019 to FY 2024. A portion of future growth is due to the inability to continue the practice of funding some operations from reserves which has happened in the most recent budget cycles to close projected deficits. There is a stabilization of debt service over the five-year period as the courthouse debt is included in the analysis.

Major capital projects taking place over the next five years include:

- Capital projects related to implementation of the fire and rescue strategic plan.
- Capital investment related to implementation of the economic development strategic plan.
- Capital investment for County’s portion of the relocation of a commercial scale area and compactor at the landfill, and
- Replacement of apparatus and equipment that has reached the end of life.

Further implementation of the strategic plans for Fire and Rescue and Economic Development are not

included in the Five-Year Forecast, but are considered in the Financial Summary. Replacement capital items are funded through depreciation savings accounts in the County Capital Improvement Fund.

In contrast, total General Fund revenues are projected to grow only \$15 million, or 11%, over the next five year period. In comparison, revenues grew \$34 million, or 33%, from FY 2019 to FY 2024, due to Board actions or market adjustments. Changes in revenue included a 5-cent increase in the real estate tax rate in 2018, a reassessment with nominal growth in 2019, a 10-cent increase in personal property for vehicles in 2021, implementation of a cigarette tax and an increase in the meals and lodging percentage, increases to vehicle personal property values due to nationwide inventory shortages and a 10 cent effective increase in the real estate tax rate in 2024 due to reassessment. Future projections of property taxes in the plan do not include increases in tax rates or future reassessment values.

Conclusion

Despite these challenges, if the County takes proactive action to address the projected imbalance between revenues and expenditures, it can continue to provide necessary services for citizens and plan for future needs over the next five years. A proactive approach to financial planning allows for adequate preparation in case of future economic downturns.

Major drivers influencing the development of the proposed FY 2026 budget are:

- strategic plans for fire & rescue and economic development
- operating costs for completed capital projects
- requests for new positions
- school debt service limit
- maintaining an appropriate undesignated fund balance
- school funding – affected by the composite index/state funding
- implementation of comprehensive plan initiatives

The plan provides the following Financial Summary to assist in decision making surrounding the FY 2026 budget and beyond. Note that not all the items on the list above are included in the summary but that does not lower the importance for consideration. **Items included in the summary will be an investment in growing the tax base, and meeting the expectation of providing quality services and service delivery throughout the County.**

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Financial Summary	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
See Future Budget Considerations for more details on Uses and Sources below.						
USES						
Courthouse						
Second half annual operating costs	232,470	244,094	256,298	269,113	282,569	296,697
Fire & Rescue Strategic Plan:						
Capital	4,570,000	5,720,948	4,500,000	1,800,000	1,800,000	500,000
Personnel	0	896,534	1,048,158	1,111,047	2,150,516	2,279,547
Total	4,570,000	6,617,482	5,548,158	2,911,047	3,950,516	2,779,547
Economic Development Strategic Plan:						
Capital	1,150,000	2,150,000	2,150,000	1,000,000	1,000,000	1,000,000
Personnel	64,976	68,875	73,007	77,387	164,062	173,905
Total	1,214,976	2,218,875	2,223,007	1,077,387	1,164,062	1,173,905
School Debt Service Funding	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
School Composite Index Shortfall	0	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Uses	8,017,446	13,080,450	12,027,463	8,257,548	9,397,147	8,250,150
SOURCES						
Capital funding adjustments	-650,000	-650,000	-650,000	-650,000	-650,000	-650,000
Allocation of reinstated capital funding	-1,632,339	-1,632,339	-1,632,339	-1,632,339	-1,632,339	-1,632,339
One-time use of MRRJ Reserve		-1,000,000	-1,000,000	-1,000,000	-1,000,000	
FY25 Economic Development capital funding	-800,000	-800,000	-800,000	-800,000	-800,000	-800,000
Mill Place Industrial Park tax base	-600,000	-600,000	-600,000	-600,000	-600,000	-600,000
Total - sources to offset one time capital expenditures	-3,682,339	-4,682,339	-4,682,339	-4,682,339	-4,682,339	-3,682,339
Use of tourism dollars	-64,976	-68,875	-73,007	-77,387	-82,031	-86,952
FY27 Growth	-232,470	-244,094	-256,298	-269,113	-364,600	-383,650
Total - sources to offset operating expenditures	-297,446	-312,968	-329,305	-346,501	-446,630	-470,603
Revenue needed from other sources	4,037,661	8,085,143	7,015,819	3,228,708	4,268,177	4,097,208
Estimated one-cent on real estate tax	1,215,270	1,215,270	1,215,270	1,215,270	1,215,270	1,215,270
Estimated effective tax increase	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.03	\$ 0.04	\$ 0.03

Developing capital strategies and achievable targets is important so the County can begin developing revenue, savings, and operational proposals that may require multi-year planning efforts. There remains a significant amount of work and planning by County departments and policy makers to further develop long term initiatives. Policy makers also have the authority to implement changes in revenue streams and the policies that surround them.

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COUNTY OF AUGUSTA, VA FIVE YEAR FINANCIAL PLAN

Approaches to Foster Fiscal Stability

Financial stability is central to the County’s ability to provide services to the public. The projections in this plan illustrate the importance of developing and implementing multi-year strategies to correct the projected imbalance between expenditures and revenues. Actions taken in earlier years of the planning horizon can play a significant role in reducing projected future year deficits and soften the financial impact felt by citizens. Future revenue provides a framework intended to meet key financial goals for the County during the coming five years: to reduce reliance on reserves for operating expenditures, to implement strategic plans, to incorporate debt service and operation expenditures for large capital projects into the budget, and to manage service delivery expectations across all departments.

Revenues: By far, the most significant factor in increased revenue is fostering a healthy economic climate, where growth in economic activity drives growth in revenues. In the base case projections above, the Five-Year Financial Plan assumes \$15 million in base revenue growth over the coming five years. This growth plays a significant role in reducing projected imbalances between revenue and spending over the plan’s horizon.

In addition to revenue growth generated by increased economic activity, the Five-Year Financial Plan assumes the County will take actions to increase revenues over and above the base projection by \$22 million. The plan provides approaches for this revenue, but assumes that policy makers will select and implement one or more actions from the options available to them under the constraints of State law, local policies and public hearing requirements.

Property taxes: Property taxes are the primary source of government funding. Real estate and personal property account for two-thirds of general fund revenues. In order to gain traction on matching revenues and expenditures in future years, changes in these tax rates will need to be considered. The following reflect the revenue generated for one cent of tax:

Real estate	\$.52/\$100	\$1,215,270
Property – vehicles	\$2.60/\$100	\$ 85,000
Property - business	\$2.00/\$100	\$ 20,000

Property taxes are incorporated into the School funding formula and any deviations from the formula will need to be determined by the Board of Supervisors.

Fire tax: In 2023, the Board requested the General Assembly to amend the state code to allow Augusta County to participate in the establishment of fire tax districts. Prior to the law change, Augusta was the only locality in Virginia that was not allowed to utilize fire tax districts. Revenue from a fire tax would specifically cover expenses related to the Fire Department. Implementation of a fire tax is a potential solution to funding

portions of the Fire and Rescue Strategic Plan.

Local taxes: Many local taxes are set at the maximum rates set by Virginia Code. Consideration of sources of funding that do meet maximum allowable amounts could bring nominal revenue to offset future costs.

Type	Derived
Local Sales Type	1% of State collections
Consumer Utility Tax (electric)	Varies by customer type - max
Business License Tax	Varies by customer type - max
Utility License Tax (telephone)	.5% max
Bank Franchise Tax	80% of State Tax (max)
Recordation Tax	8.3% max
Wills & Administrative Tax	3.3% max
Cigarette Tax	\$.30 per pack (\$.40 is allowable mix)
Lodging Tax	6% max (3% tourism)
Meals Tax	6% max (3% tourism)

The 2024 General Assembly passed bills that allow localities to go to referendum for an additional local sales tax of up to 1% for construction or renovation of schools. The Governor will take action on this bill on March 24, 2025. This bill will allow for flexibility in funding school debt service and future school capital projects. Current sales tax collections are budgeted at \$10 million.

Grants: Departments make the best effort to apply for grants available to improve services and are cognizant of long-term costs associated with the program supported by the grant. State and federal funding included in the Five-Year Financial Plan are static from year to year and have been in place for many years. The OMB issued guidance on January 27, 2025, suggested a pause on some federal financial assistance programs, but this guidance was later rescinded, therefore, potential impacts of the Federal Funding freeze are not included in the Plan.

Acting now to meet future needs: The plan notes approaches for effect, but assumes that policy makers will select and implement one or more actions available to them under the constraints of State law, local policies and public hearing requirements. Investment over time will assist in meeting expenditure needs in later years.

Future budget considerations: Details of future budget considerations summarized in the Financial Summary are provided below for further contemplation. All of the considerations can be tied to goals set forth by the current board at their earlier strategic planning session, and listed as a strategic goal provided in the executive summary. It is worthy to mention that not all requests in the budget are included in the summary, including school needs beyond the current funding formula.

Financial Summary	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
See Future Budget Considerations for more details on Uses and Sources below.						
USES						
Courthouse						
Second half annual operating costs	232,470	244,094	256,298	269,113	282,569	296,697
Fire & Rescue Strategic Plan:						
Capital	4,570,000	5,720,948	4,500,000	1,800,000	1,800,000	500,000
Personnel	0	896,534	1,048,158	1,111,047	2,150,516	2,279,547
Total	4,570,000	6,617,482	5,548,158	2,911,047	3,950,516	2,779,547
Economic Development Strategic Plan:						
Capital	1,150,000	2,150,000	2,150,000	1,000,000	1,000,000	1,000,000
Personnel	64,976	68,875	73,007	77,387	164,062	173,905
Total	1,214,976	2,218,875	2,223,007	1,077,387	1,164,062	1,173,905
School Debt Service Funding	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
School Composite Index Shortfall	0	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Uses	8,017,446	13,080,450	12,027,463	8,257,548	9,397,147	8,250,150
SOURCES						
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Allocation of reinstated capital funding	-1,632,339	-1,632,339	-1,632,339	-1,632,339	-1,632,339	-1,632,339
One-time use of MRRJ Reserve		-1,000,000	-1,000,000	-1,000,000	-1,000,000	
FY25 Economic Development capital funding	-800,000	-800,000	-800,000	-800,000	-800,000	-800,000
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Revenue needed from other sources	4,037,661	8,085,143	7,015,819	3,228,708	4,268,177	4,097,208
Estimated one-cent on real estate tax	1,215,270	1,215,270	1,215,270	1,215,270	1,215,270	1,215,270
Estimated effective tax increase	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.03	\$ 0.04	\$ 0.03

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Future Budget Considerations as Summarized in Financial Summary

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Courthouse						
Remaining half of operating costs for new courthouse	232,470	244,094	256,298	269,113	282,569	296,697
FY2026 budget includes one half year of operating cost, full debt service payment and full year of bailiff funding.						
Note: Capital allocation for the courthouse is applied to other capital projects, strategic plans or depreciation accounts.						
Fire & Rescue Strategic Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Capital:						
Crimora Station	1,370,000	2,520,948	1,300,000	1,300,000	1,300,000	-
Churchville Station	2,000,000	2,000,000	2,000,000	-	-	-
Preston L. Yancey Renovation	700,000	700,000	700,000	-	-	-
Capital Apparatus Replacement for Volunteers	500,000	500,000	500,000	500,000	500,000	500,000
Total Capital	4,570,000	5,720,948	4,500,000	1,800,000	1,800,000	500,000
Personnel:						
Year 1 (FY25): EMS Only - 11 (Churchville & Stuarts)	-	-	-	-	-	-
Year 1 (FY25): Firefighters (Weyers Cave) -3 - Funded	-	-	-	-	-	-
Year 1 (FY25): Training - 2 - Funded FY25	-	-	-	-	-	-
Year 2 (FY26): Firefighters - 3 (Churchville Hub)	-	222,479	235,828	249,977	264,976	280,875
Year 2 (FY26): EMS Only - 8 (Riverheads Hub)	-	-	-	-	-	-
Year 2 (FY26): Training Lieutenant - 1	-	79,747	84,532	89,604	94,980	100,679
Year 3 (FY27): EMS Only - 8 (Preston L. Yancey)	-	594,308	629,966	667,764	707,830	750,300
Year 4 (FY28): Fire Marshal - 1	-	-	97,832	103,702	109,924	116,519
Year 5 (FY29): None	-	-	-	-	-	-
Year 6 (FY30): Firefighters - 3 (Crimora)	-	-	-	-	264,976	280,875
Year 6 (FY30): EMS Only - 8 (Crimora)	-	-	-	-	707,830	750,300
Total Personnel	-	896,534	1,048,158	1,111,047	2,150,516	2,279,547
Grand Total	4,570,000	6,617,482	5,548,158	2,911,047	3,950,516	2,779,547
The Fire & Rescue Strategic Plan implementation will involve issues of how to deliver services with a combined volunteer and career system, and includes significant capital expenditures for equipment, apparatus, and facilities.						
The above is based on F&R Budget requests and the Fire & Rescue Strategic Plan.						
Personnel above assumes reorg of staff to save 12 additional positions - 3 Middlebrook, 3 Dooms, 6 New Hope. If these positions remain at the respective station, an additional 12 positions will be needed.						
Economic Development Plan	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Capital:						
Site Identification Study and Site Evaluation, Prioritization and Development Timeline (1)	150,000	-	-	-	-	-
New Site Purchase (2)	1,000,000	2,000,000	2,000,000	-	-	-
Shell Building Development	-	-	-	1,000,000	1,000,000	1,000,000
Develop marketing approach for core sectors	-	150,000	-	-	-	-
Comparative Incentive Review for Target Sector	-	-	150,000	-	-	-
Total Capital	1,150,000	2,150,000	2,150,000	1,000,000	1,000,000	1,000,000
Personnel:						
Marketing Coordinator	64,976	68,875	73,007	77,387	82,031	86,953
Additional Position	-	-	-	-	82,031	86,953
Total Personnel	64,976	68,875	73,007	77,387	164,062	173,905
Grand Total	1,214,976	2,218,875	2,223,007	1,077,387	1,164,062	1,173,905
Implementation of the action matrix from the strategic Economic Development Action Plan.						
The strategic plan will include desirable types of development, desirable locations, and an incentive philosophy and guideline.						

Capital:						
(1) Included as a recommendation in Strategic Economic Development Action Plan; Price based on Timmons Proposal; Includes Site Identification Study and Site Evaluation, Prioritization and Development Timeline; Would prepare five-year written strategy for bringing all viable acreage to optimal status and targeted needs for properties. Would determine which of the County's target sectors are best for each site and ROI model.						
(2) Included as a recommendation in Strategic Economic Development Action Plan; Price based off \$50,000/acre for 100 acres; Choice of site would be based off Timmon's site evaluation; would give County its second publically-owned property. Site could be identified through capital request #1 Site Identification and Site Evaluation process						
Personnel:						
The Strategic Economic Development Action Plan (SEDAP) recommends three additional action areas that would call for increased marketing activities. One recommendation details adding additional staff assistance to the department. The Marketing Coordinator would strengthen the economic development and tourism programs within the County by increasing marketing for both programs of work. This position would remove all tourism tasks from the current Economic Development Project Manager position and increase economic development and tourism opportunities for the County. The funding for the new position could be supplemented with the tourism development budget as funded by meals and lodging tax. That funding, as required by state code and county ordinance, is to be used for tourism purposes. With this additional position, the existing project manager could focus solely on economic development initiatives, including assisting on business attraction projects and growing a more robust existing business retention program, as recommended by the SEDAP.						
Debt service for the water tank in Mill Place has been funded through the growth in the tax base in Mill Place.						
Note: The summary shows the continuation of this resolution to recoup funds for improvements in Mill Place in the amount of \$600,000.						
School Debt Service Funding	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Requested increase in debt service	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
	2006	2026				
Approved debt service limit	7,256,250	7,256,250				
Annual debt service payments	5,992,000	10,737,530				
Ratio	1.21	0.68				
Sales tax referendum for school construction (1%)		10,475,327				
Potential increase, but remember based on consumer spending		3,219,077				
School staff has noted that the debt service limit will not cover items in next 10 year plan until late in plan						
Reference:						
School Debt Service funding is provided by the general fund and capped at an established amount (\$7,256,250).						
School capital improvements are planned within the annual debt service funding available.						
Transfer from general fund to debt fund for school annual debt service payments (principal and interest on loans). This amount is static at						
History – Board of Supervisors in the early 1990's established a budget/funding plan for school construction. Plan included establishing a meals tax.						
School debt service allocation was established in 1994 at \$2,435,000						
1998 increased to \$3,690,000 +\$1,255,000						
1999 increased to \$4,832,250 +\$1,142,250						
2006 increased to \$7,256,250 +\$2,424,000 (1/2 of 2005 reassessment growth)						
Note: School CIP account is in County Capital Improvement Fund						
School Composite Index Shortfall	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
reassessment is calculated into the composite index formula		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
EXAMPLE OF SIGNIFICANT IMPACT ONLY - Many factors are included in the composite index formula.						
State revenues are based upon a State biennial budget and incorporate at composite index rate. The rate for the 2024-2026 biennial budget is .3888. The composite index is a representation of a localities ability to pay or fund education. The index is comprised of a weighted formula that compares three local measure of wealth - real property values, adjusted gross income, and local option sales taxes - to statewide averages and adjusts these indicators by student population and total population. The sum of two-thirds of the student population component and one-third of the population component is then multiplied by a local nominal share of the Standard of Quality. The product of this formula - the local composite index (LCI) is then applied to the established SOQ costs, less the estimate sales and use tax revenues returned to the locality on the basis of its school age population, to determine required local expenditures to meet the SOQ.						
9						
As a point of reference, Rockingham County's LCI increased by 6.7% after their last reassessment, which reduced the State funding from the formula noted above.						

Conclusion

The Five-Year Financial Plan shows the cost of County services is projected to steadily outpace revenue growth during the five-year period. If the County does not take corrective action, the gap between revenues and expenditures will rise and baselined service delivery will be impacted (which does not address improved services either). **The exercise of a Five-Year Forecast allows decision makers to see the areas of need and plan a way for future funding considerations.**

The projects noted in the plan are specified due to the large impact within a short period of time. It is important to note that all County departments show increases through the baseline projections and will continue service delivery at the level provided today. Future plan updates may have a different focus, as other long-term capital projects may rise to the forefront or there is a different service delivery focus area.

The goal of the plan is to bring awareness of funding needs, and to set achievable targets so the County can begin developing revenue, savings and operational proposals that may require multi-year planning efforts. This will allow decision makers to continue to foster the fiscal stability that is the foundation of the County's finances.

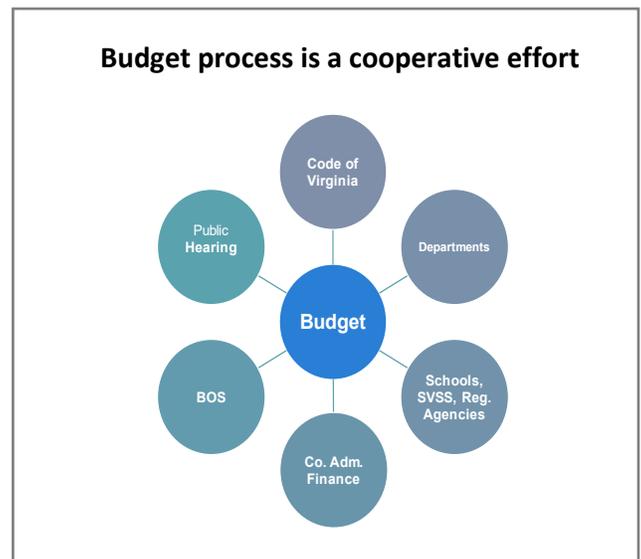
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Five Year Financial Plan – Addendum

Purpose of the Plan

The Five-Year Financial Plan is a component of a comprehensive effort by the County to improve its long-range financial management and planning. To this end, the County is currently practicing the following strategies:

- **Annual Balanced Budget:** The County follows the guidelines set forth in the Code of Virginia in preparing the annual budget. County departments, the School Board, Constitutional offices and Regional agencies draft a spending plan relative to their needs. County Administration and Finance balances the budget utilizing existing revenue sources and reserves. The Board of Supervisors seeks public input and determines if additional funding sources are required to meet service demands.
- **Capital Planning:** The Capital Improvement Plan offers a systematic approach to planning and financing capital improvements. A minimum general fund appropriation has been established over time by the Board of Supervisors for annual capital funding. Revenue sources are earmarked for capital, including local taxes such as consumer utility, business license and meals, and property tax rate or assessed value increases. Other revenue sources include year-end fund balance, state and federal grants and debt service. The appropriation is allocated to savings for replacement of apparatus, computers, and vehicles, as well as construction and regional projects.
- **School Revenue Sharing and Debt Service Funding:** Annual school funding is calculated through growth in non-categorical general fund revenues. School Debt Service funding is provided by the general fund and capped at an established amount. School capital improvements are planned within the annual debt service funding available.
- **Formal Financial Policies:** The County has adopted Finance Policies to assist the Board of Supervisors in maintaining fiscal stability and accountability in the use of its resources to provide services to the citizens. Policies provide guidance on investments, budget, audit, debt, grants and fund balance allocations.
- **Pay & Reclassification Analysis:** The County prepares an analysis of pay grades in relation to the local market every few years. Job duties are taken into consideration. The budget will reflect the adjustments needed.



Multi-year forecasting is a best practice for all governments. The five-year plan process is designed to enhance the County's ability to identify the key components in County revenues, expenditures, and needed public services. Increased service demands and large capital projects are drivers in the need for additional revenue sources. Overall, the County will minimize volatility by looking beyond the typical budget horizon, and balance revenues with public service delivery that citizens can expect and rely on. Board of Supervisors' priorities will also be achieved.

The Five-Year Financial Plan will help identify the need for action over the next five years. Using the detailed revenue and expenditure forecasts and analysis of the effects on public services, the County can institute changes that will minimize volatility, discontinue reliance on operational reserves, and right-size public services. Some changes require longer lead times including changes to facilities, workforce, and service mix.

Five Year Outlook for General Fund Supported Operations

Economic Projections: Over the next five years, revenue projections assume a continued increase in tax revenues based on slow, but steady growth in property values and the local economy. The County's property tax, sales tax and other tax bases are projected to remain steady. This will contribute to the County's relative stability and capacity to deliver public services, finance infrastructure improvements, and stay an attractive market and an appealing place to live, work and visit. December 2024's unemployment rate was 2.2%, a slight decrease from 2.3% in December 2023, and less than the State average of 3%.

The economic climate stabilized in 2023 and the expected soft-landing or mild recession did not occur in 2024. Economic conditions may be affected by the change in administrations at the Federal level. The housing market shows high values continuing, partly due to lack of inventory. Personal property values on vehicles have declined slightly, but not as fast as originally expected. Prices on goods and services have remained higher even as inflation has slowed. Interest rates on earnings increased in early 2023, but are dropped only slightly as the Fed adjustments to the rate have been minor. Interest on bonds has dropped slightly.

Summary of 'Base Case' Projections and Findings: For several years the County has managed to provide a balanced budget while the gap between revenues and expenditures has persisted and grown. In each of the most recent budget cycles, the County has had to close projected deficits utilizing reserves. For example, in the proposed FY 2026 budget, \$1.6 million in reserves are used to fund more than 1.1% of General Fund-supported services. A substantial proportion of budget-balancing efforts have been made by baselining current expenditures and limiting the addition of new requests. Due to revenue constraints, the underlying problem of not funding new or more improved services has not been fully addressed. This includes hiring additional staff that is needed.

Similarly, the five-year projections shown in the table portray a significant gap between projected revenues and expenditures over the period, if current service levels and policies are continued—this is the 'base case.' The base case projection starts with what the County's spending looks like as of the proposed FY2026 budget

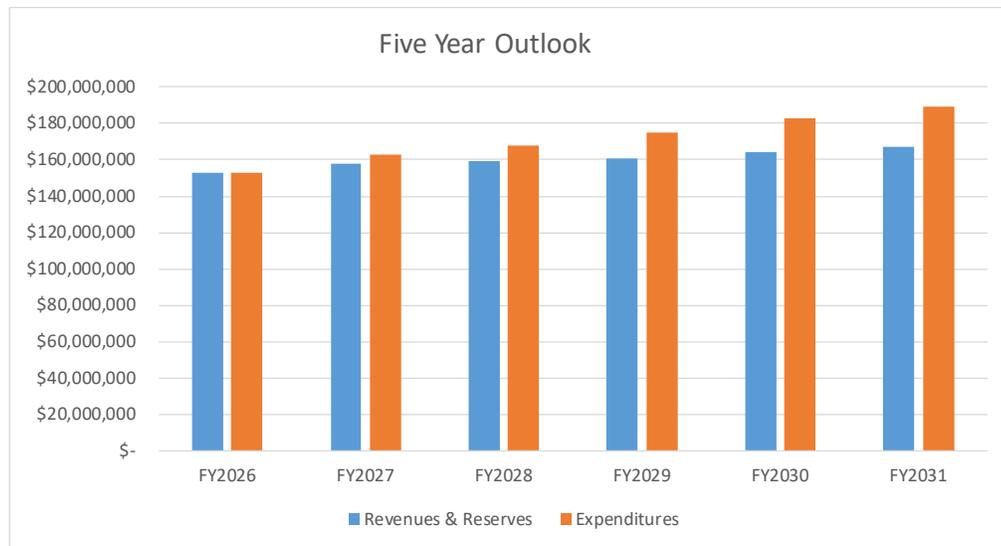
and estimates all of the significant changes that are known in the coming five-year time horizon. From today’s public service levels, the projection adds known revenue and expenditure changes in all areas where there is reasonable information or basis for a projection.

For example, adjusting contractual services for the reassessment contract, which is only required every 5 years. Other adjustments are less clear—for example the change in employee benefit costs for retirement (Virginia Retirement System or VRS) and health insurance or the cost of fuel. These changes are much less predictable, but are modeled as much as possible.

On the revenue side, all reasonably known and expected changes in the period are included in the projections. This includes slowly increasing general tax revenue, such as property, business and sales tax, known changes in state and federal revenues, and changes in projected fees that track the economy, such as building inspection and planning fees. Consideration for market changes on revenues, such as interest income, are part of the budget projections and are carried over to future projections at that level.

The County’s base case shows the cost of County services is projected to steadily outpace revenue growth during the five-year period. The gap is attributable to some clear factors; labor costs are preliminarily projected to increase at the rate of 6% on average during the period. Labor costs account for one third of the annual budget. Most other operating expenditures are preliminarily projected to grow at the rate of inflation or historical averages, though the plan adds detailed projections for some areas of known cost.

With these growth rates the gap between revenues and expenditures will rise from \$5 million to approximately \$22 million from FY 2026-27 to FY 2030-31.



	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Revenues & Reserves	\$ 153,177,810	\$ 157,856,251	\$ 159,404,950	\$ 160,387,968	\$ 163,980,051	\$ 167,270,469
Expenditures	\$ 153,177,810	\$ 162,899,952	\$ 167,923,680	\$ 174,620,460	\$ 183,038,286	\$ 189,270,126

Details are reflected in the Master Financial Schedule on the following page.

Master Financial Schedule	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
SOURCES						
Property Taxes	\$ 93,801,886	\$ 94,854,633	\$ 96,302,186	\$ 97,794,738	\$ 99,980,111	\$ 101,532,054
Local Taxes	25,847,800	26,422,670	27,015,547	27,627,108	28,258,059	28,909,135
Licenses, Permits & Fees	819,540	852,322	886,414	921,871	958,746	997,096
Fines, Forfeitures & Penalties	278,450	297,942	318,797	341,113	364,991	390,541
Interest & Investment Income	3,800,000	3,800,000	3,800,000	3,800,000	3,800,000	3,800,000
Rents & Sale of Surplus	376,626	387,925	399,563	411,549	423,896	436,613
Charges for Services	3,508,874	3,894,850	4,323,284	4,798,845	5,326,718	5,912,657
Miscellaneous	114,240	114,240	114,240	114,240	114,240	114,240
Recovery of Government Costs	112,435	112,435	112,435	112,435	112,435	112,435
State Revenue	13,471,942	13,741,381	14,016,208	14,296,533	14,582,463	14,874,113
Federal Revenue	1,138,492	1,138,492	1,138,492	1,138,492	1,138,492	1,138,492
Total Revenues	\$ 143,270,285	\$ 145,616,889	\$ 148,427,167	\$ 151,356,925	\$ 155,060,151	\$ 158,217,375
Transfers-In						
Revenue Recovery	1,758,369	1,863,871	1,975,703	2,094,246	2,219,900	2,353,094
Capital	80,491	80,491	-	-	-	-
Total General Fund Resources	\$ 145,109,145	\$ 147,561,251	\$ 150,402,870	\$ 153,451,170	\$ 157,280,051	\$ 160,570,469
Fund Balance	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000
Reserves	1,568,665	3,795,000	2,502,080	436,798	200,000	200,000
Grand Total Sources	\$ 153,177,810	\$ 157,856,251	\$ 159,404,950	\$ 160,387,968	\$ 163,980,051	\$ 167,270,469
USES						
Salaries & Wages	\$ 31,879,109	\$ 33,791,856	\$ 35,819,367	\$ 37,968,529	\$ 40,246,641	\$ 42,661,439
Fringe Benefits	11,163,148	11,832,937	12,542,913	13,295,488	14,093,217	14,938,810
Other Charges	4,497,005	4,721,855	4,957,948	5,205,845	5,466,138	5,739,445
Professional & Contractual Services	6,478,900	7,306,010	7,679,068	8,596,355	10,092,839	8,997,481
Materials & Supplies	4,670,564	4,950,798	5,247,846	5,562,716	5,896,479	6,250,268
Capital Outlay	177,085	187,710	198,973	210,911	223,566	236,980
Capital	6,811,648	10,112,493	8,337,153	7,580,471	7,577,148	7,580,444
Debt Service (General Fund)	11,465,557	11,210,128	11,451,873	11,447,022	11,450,143	11,446,449
Contributions	9,312,719	10,243,991	11,268,390	12,395,229	13,634,752	14,998,227
Transfers Out						
Revenue Recovery	160,000	160,000	160,000	160,000	160,000	160,000
Shenandoah Valley Social Services	1,823,276	1,896,207	1,972,055	2,050,938	2,132,975	2,218,294
Children's Services Act	2,544,000	2,671,200	2,804,760	2,944,998	3,092,248	3,246,860
School Fund	53,998,930	55,618,898	57,287,465	59,006,089	60,776,271	62,599,560
School Capital Improvement	1,695,869	1,695,869	1,695,869	1,695,869	1,695,869	1,695,869
Fund Balance	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000
Grand Total Uses	\$ 153,177,810	\$ 162,899,952	\$ 167,923,680	\$ 174,620,460	\$ 183,038,286	\$ 189,270,126
Surplus/(Shortfall)	\$ 0	\$ (5,043,701)	\$ (8,518,730)	\$ (14,232,492)	\$ (19,058,235)	\$ (21,999,657)

The Code of Virginia requires that administration “prepare and submit to the governing body an estimate of the amount of money needed during the ensuing fiscal year” for operations of the County. Historically, local practice has been that each year’s budget be balanced. Balancing the budget will require a combination of expenditure reductions and/or additional revenues.

Detail of Base Case Countywide Revenue Projections:

Assumptions of Percentage Change in Major General Fund Revenues						
	FY 2027 Forecast	FY 2028 Forecast	FY 2029 Forecast	FY 2030 Forecast	FY 2031 Forecast	5yr average
Property Taxes	1%	2%	2%	2%	2%	2%
Local Taxes	2%	2%	2%	2%	2%	2%
Licenses, Permits & Fees	4%	4%	4%	4%	4%	4%
Fines & Forfeitures	7%	7%	7%	7%	7%	7%
Interest & Investment Income	0%	0%	0%	0%	0%	0%
Rents & Sale of Surplus	3%	3%	3%	3%	3%	3%
Charges for Services	11%	11%	11%	11%	11%	11%
State Revenue	2%	2%	2%	2%	2%	2%
Federal Revenue	0%	0%	0%	0%	0%	0%
Recovery of Government Costs	0%	0%	0%	0%	0%	0%
Transfer from Revenue Recovery	6%	6%	6%	6%	6%	6%

Source: Master Financial Schedule

- Property Taxes:** The base case projections assume the property tax assessments will grow an average of 1.5% for real estate, 3.5% for vehicles and 2% for other business personal property. These averages are based on historical experience from 2015 as a base tax year to 2024, the last completed tax year. Historic property value assessment increases are used in lieu of property tax collections, as any change in the tax rate in past years would generate an average increase that is overstated. Public service corporation real estate is assessed by the State Corporation Commission and follows the annual sales assessment ratio percentage, which declines as the assessment moves away from the fair market value. Overall, property taxes are estimated to increase by 2% per year in the financial plan, barring any further actions by the Board of Supervisors to add revenue.
- Local taxes:** Taken together, this group of locally generated revenues is projected to increase by 2% per year. Each component of local taxes was estimated to increase by its respective historical average increase. Sales tax revenue has grown 56% over the last five years. Sales tax collections have remained stable at a 1.6% increase over the twelve-month period of CY2024, therefore, sales tax projections show a slight increase to follow spending trends.
- Licenses, Permits and Fees:** These locally-controlled revenues are projected to grow by 4% per year based on historical averages. The fees are volatile from year to year, as large construction projects may

come and go from year to year.

- **Interest & Investment Income:** Interest earned on bank deposits for County investments increased significantly due to investment rate changes in 2023. The proposed forecast for the next 5 years is flat, as the continued growth in investment rates is undetermined as the Fed continues to monitor rates with the expectation that they will be lowered. Spending will also occur for large capital projects such as the courthouse, animal shelter and 911 system, therefore reducing the balance of cash earning interest over the next year. Revenue has varied from -210% to +89% over a historical five-year period, so it is hard to predict.
- **State and Federal Revenues:** Overall, State and Federal revenues are assumed to be roughly flat or declining during the period. Payment in-lieu of taxes for Federal lands within the County has been fully funded by the Federal government in recent years and is estimated to continue in the forecast.

Detail of Base Case Countywide Expenditure Projections:

Assumptions of Percentage Change in Major General Fund Expenditures						
	FY 2027 Forecast	FY 2028 Forecast	FY 2029 Forecast	FY 2030 Forecast	FY 2031 Forecast	5yr average
Salaries & Wages	6%	6%	6%	6%	6%	6%
Fringe Benefits	6%	6%	6%	6%	6%	6%
Other Charges	5%	5%	5%	5%	5%	5%
Professional & Contractual Services	13%	5%	12%	17%	-11%	7%
Materials & Supplies`	6%	6%	6%	6%	6%	6%
Capital Outlay	10%	10%	10%	10%	10%	10%
Capital	77%	-1%	-23%	-13%	0%	8%
Debt Service	2%	0%	-2%	0%	0%	0%
Contributions	10%	10%	10%	10%	10%	10%
Transfers	3%	3%	3%	3%	3%	3%

Source: Master Financial Schedule

- **Salary & Wage Costs:** This report projects General Fund supported salary and fringe benefits to increase from \$43 million in FY 2026 to \$58 million in FY 2031, an increase of \$15 million or 34%. This growth reflects the annualization of positions added in prior fiscal years, vacancies, pay and reclassification adjustments and employee raises or bonuses. The annual increase for salaries and wages is projected to be 6% for each year of the plan.
- **Fringe Benefits:** Fringe benefits include employer contributions for taxes for social security and Medicare, VRS, and health insurance. VRS rates are calculated on a bi-annual basis and are affected

by actuarial studies for the pool of employees as well as the strength of investment earnings. The Virginia Retirement System (VRS) rate for all Defined Benefit employees increased from 10.39% in FY24 to 11.02% in FY25 and FY26. VRS separated the employer contribution into Defined Benefit and Defined Contribution components effective for contribution rates beginning July 1, 2024. The Defined Contribution rate for FY26 continues at an additional 2.13% for employees in the Hybrid VRS Plan. Contributions to VRS will increase as new employees enter the Hybrid VRS Plan and former employees leave VRS Plans 1 and 2. Per VRS, the alternative amortization scheduled increased rates in the short term but moderates rates in the long term. As an example of volatility, rates have fluctuated from as high as 12.55% in FY 2016 to as low as 10.39% in FY 2024.

The County is part of the SAW Health Insurance consortium and is self-insured, whereby all claims are paid from premiums with the exception of those that meet stop-loss thresholds. Health insurance increases have fluctuated from 0% in FY 2025 to upwards of 17.1% in FY 2017. A health insurance reserve account is held within the general fund, and assists in leveling the effect of premiums in the budget. The proposed FY 2026 budget includes the use of the reserve. It also includes holding the per employee budget of \$8208 flat, utilizing self-insurance funding for the 10.8% or \$518 FY2026 estimated increase in insurance costs per employee. The total savings to the general fund budget is \$225,848. The annual increase for fringe benefits is projected to be 6% for each year of the plan, or \$3.8 million (34%) over five years.

- **Baseline Requirements:** Non-employee and non-capital costs to operate government are included in the plan. Other charges consist of insurance, utilities, postage, dues and training. Professional and contractual services consist primarily of maintenance service contracts, audit services, solid waste and recycling hauling and reassessment services. Materials and supplies include office supplies, as well as vehicle fuel and maintenance and supplies specific to departmental functions. Capital outlay is nominal, and includes new capital purchases, some of which will be added to depreciation for future replacement. Historical averages for these groups are used to predict future growth in the expenditures and will capture the potential changes in costs due to the bettering of equipment over time. Baseline expenditures showed an increase due to inflation over the last few years. Services as a subscription (SaaS) are becoming the norm and added cost to the operating budget starting in FY2027 for new ERP software. Cost of operations will increase \$2.5 million in the five-year period, or 30%. A deduction for completion of the reassessment contract in was made the FY2027 budget and added in the plan in FY29 and FY30 for the 1/1/29 reassessment.
- **Contributions:** This category includes support of volunteer fire and rescue agencies, juvenile detention home and regional jail. Jail contributions stabilized in FY 2024 and the County took corrective action in FY2025 to alleviate the use of reserve funding in the original budget for the jail contribution on the general fund. The plan designates contribution expenditures at an estimated increase of 10% per year, based on historical data.
- **Capital and Debt Service:** The capital transfer in the forecast is held at the current Board of Supervisors approved appropriation adjusted for the school debt service funding formula. Debt service in the plan

is based on amortization schedules for debt funded by the general fund. Capital and debt service is fairly static from year to year with the addition of \$4.1 million estimated for courthouse debt in FY2025.

- **Transfers:** Funds for revenue recovery are set by policy and the school capital transfer is for annual school bus purchases. Transfers to Shenandoah Valley Social Services and Children’s Services Act are increased by historical averages and without the use of reserves. The School Fund transfer is based on historical average increases, but will be affected by any changes in revenue per the funding formula.