APPENDIX "F"

ECONOMIC OUTLOOK

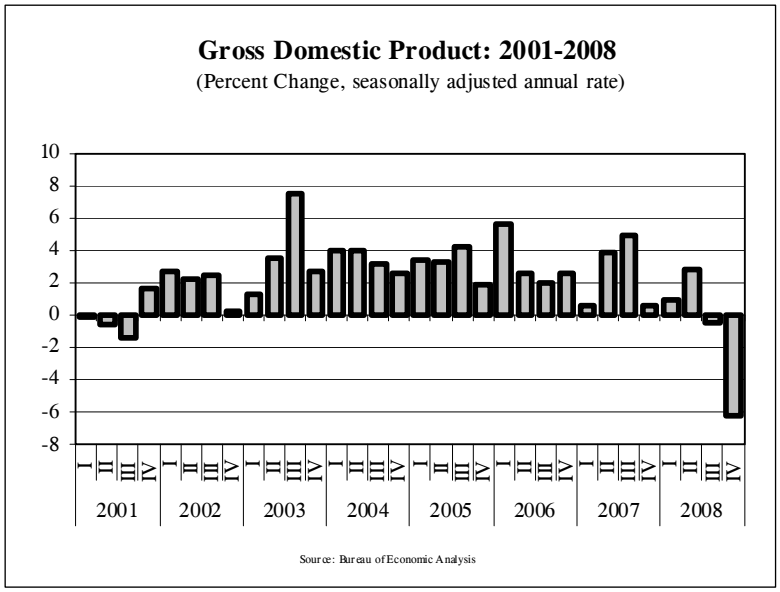
National Economy

"The U.S. economy weakened markedly in the second half of 2008 as the turmoil in the financial markets intensified, credit conditions tightened further, and asset values continued to slump. Conditions in the labor market worsened significantly after early autumn, and nearly all major sectors of the economy registered steep declines in activity late last year." This was the introductory statement made by Ben Bernanke during testimony to Congress on February 24, 2009 as part of the Federal Reserve's Semiannual Monetary Policy Report to Congress. The United States technically entered a recession in December 2007, as defined by the National Bureau of Economic Research, and as Mr. Bernanke's statement implies, the magnitude of our current economic condition escalated throughout 2008, while the length of this recession, and the extent to which it may worsen, are unknown. Throughout 2008 and through the first quarter of 2009, a number of efforts have been made on the part of both the Federal Reserve and the Treasury Department to correct and/or mitigate any further deterioration in the financial markets and in the economy as a whole. The effectiveness of these measures will not fully be known for some time, and have been met with some criticism related to both their scope and taxpayer cost. One of these recent legislative actions, the Troubled Asset Relief Program (TARP), which was a component of the Emergency Economic Stabilization Act, otherwise known as the "bank bail-out", was introduced in October 2008 by Federal Reserve Chairman Bernanke, as well as then Treasury Secretary Henry Paulson, and quickly approved by Congress. The bill consisted of $787 billion of taxpayer funded liquidity infused directly into the nation's largest financial institutions in what was originally intended to purchase what have been described as "toxic assets", that is, the mortgage backed assets for which no market currently exists. The funds were also intended to promote short term lending between banks, loosen the overall credit markets and help to restore confidence in the financial system. Another measure consists of an $825 billion stimulus package comprised of $550 billion in government spending intended to assist in job creation and economic growth, as well as $275 billion in tax relief, to individuals and businesses, with additional tax incentives provided to businesses that make investments in capital infrastructure and who have not been recipients of TARP funds. The efficacy and immediacy of these fiscal measures is uncertain, and has been a source of contention among members of Congress, largely divided because of political and philosophical differences related to the federal government's role in capital market intervention, as well as the total dollar commitments of these legislative fiscal measures and their long-term impact on the national deficit. However, it has, and will continue to be the belief of the current administration that such significant policies are necessary to counteract what has been referred to as "a crisis not seen since the Great Depression."

Our economic trouble really began to manifest itself in the fourth quarter of 2007, when downward fluctuations in quarterly gross domestic product (GDP) statistics were experienced, with nominal increases in GDP recognized in the first and second quarters of 2008, only to be followed by three consecutive quarters of negative growth through the first quarter of 2009. Despite efforts by the Fed to control the mortgage and credit market problems through systematically lowering the Federal Funds Rate to further facilitate bank and consumer lending, conditions continued to deteriorate. As a result of worsening economic conditions, which subsequently reduced consumer spending, the labor market was significantly impacted, with employers forced to slash their payrolls. As of this writing, in February 2009, the national unemployment rate peaked at 8.9 percent. Credit and financial market conditions, unemployment, and lowered consumer confidence have continued to define the existing economic climate. Economic experts are uncertain when this recession will reach bottom so that the U.S. may begin what is expected to be a lengthy and arduous period of recovery. One unifying idea that has been widely accepted is that the economy will recover and that the strength of America's economic system, and the proactive measures it takes to ensure its global standing and continued leadership among the world's economic powers, is certain.

Economic Indicators

Most economists consider gross domestic product (GDP) as the best way to view the current condition of the national economy. It is important because GDP is considered as the broadest measure of economic performance as it monitors the final value of all goods and services produced within the United States. As seen in the graph below, the economy fell into a period of recession in 2001, as negative GDP growth occurred over the first three quarters of the year. In the 27 quarters since the third quarter of 2001, the economy had seen positive growth in every quarter. Beginning in the second quarter of 2006, mostly due to weaknesses in the housing market, the economy began to transition from the rapid expansion experienced in the previous several years. This mediocre growth trend continued into the first two quarters of 2008, before posting its first negative showing since 2001 in the third quarter of 2008 and falling sharply in the fourth quarter of 2008.



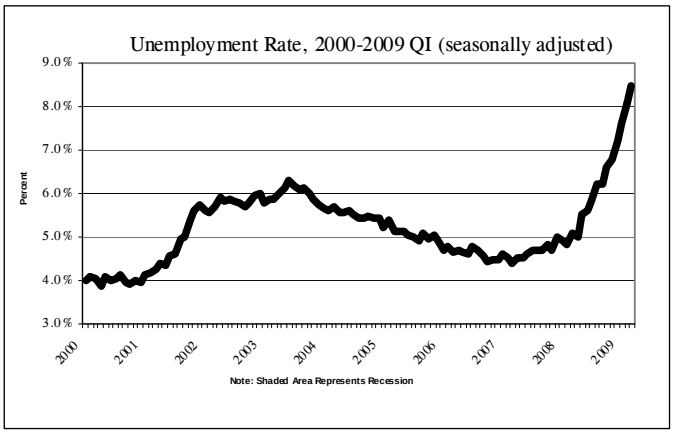
It is anticipated that gross domestic product will continue to falter in 2009, as recent spikes in unemployment, combined with lower consumer confidence, volatility in consumer goods prices, and overall economic instability will strongly act as growth inhibitors. The weakness in the fourth quarter of 2008 can be attributed partly due to the net export and import of goods and services reflecting significant downward percentage changes, signifying worsening economic conditions both domestically and abroad. For example, in 4Q08, exports decreased by 23.6 percent, after having increased by 3 percent in the previous quarter. Similarly, imports, which had already seen four straight quarters of negative growth, registered their largest decrease in recent years, with a decline of 17.5 percent.

Equity Market Growth:	DJIA	NASDAQ	S&P 500
Jan-Dec 2008	(32.7)%	(39.6)%	(37.6)%
Jan 2000 - Dec 2008	(22.7)%	(61.8)%	(37.9)%

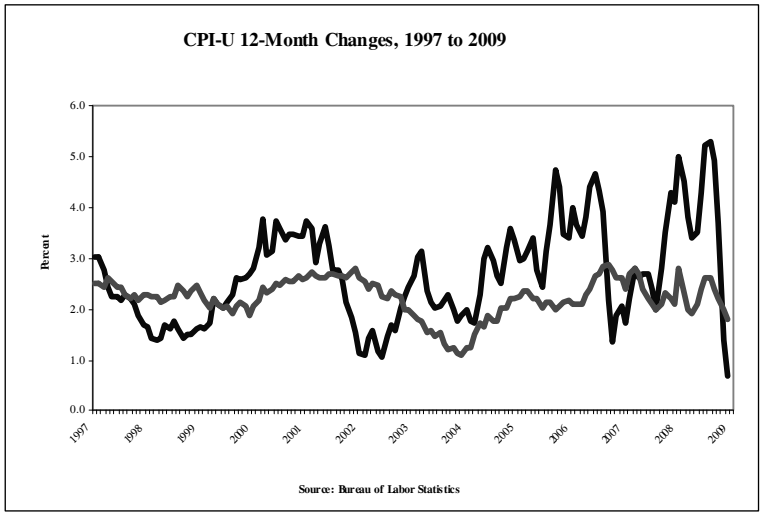
Recent GDP statistics reflect a weakening economy and the equity markets were no exception to this trend. Nearly all of 2008 saw steep declines in each of the equity market indices, with the overall markets recognizing a cumulative reduction of approximately 40 percent in value. The housing and financial crises, volatile fuel and commodity prices, and overall questions concerning the depth and anticipated length of the current recession, as well as the federal government's efforts to counteract and/or mitigate further recessionary economic degradation has continued to make the markets susceptible to change.

Like all areas of the economy, the labor market has suffered dramatically as a result of our current recession, with employers slashing payrolls throughout 2008. From 2004 through the first quarter of 2007, the national unemployment rate had experienced a steady decline, reaching a low of 4.4 percent during this period. Unemployment rose to 5.0 percent by December 2007, beginning an upward trend as a result of job losses in manufacturing, construction and retail, though these losses were partially offset by marginal job growth in the health care and food service industries. After having experienced average payroll employment growth of 95,000 jobs per month during the fourth quarter of 2007, 17,000 fewer jobs were recognized in January 2008. Significant decreases in employment occurred in those industries most directly related to the mortgage and credit crises, particularly construction, which lost 39,000 jobs in February 2008 alone, decreasing by a

total of 331,000 since its peak in 2006. It is important to note that economists consider the natural unemployment rate, the rate at which the economy functions most efficiently, to be somewhere between 5.0 and 6.0 percent. In situations where the rate is lower, there is considered to be a labor surplus and a shortage when rates are above the 5.0 percent mark. One trend of particular importance concerning the labor market is the number of discouraged workers among the potentially employable labor force. The Bureau of Labor Statistics defines these individuals as those that "have given a job market related reason for not looking currently for a job."

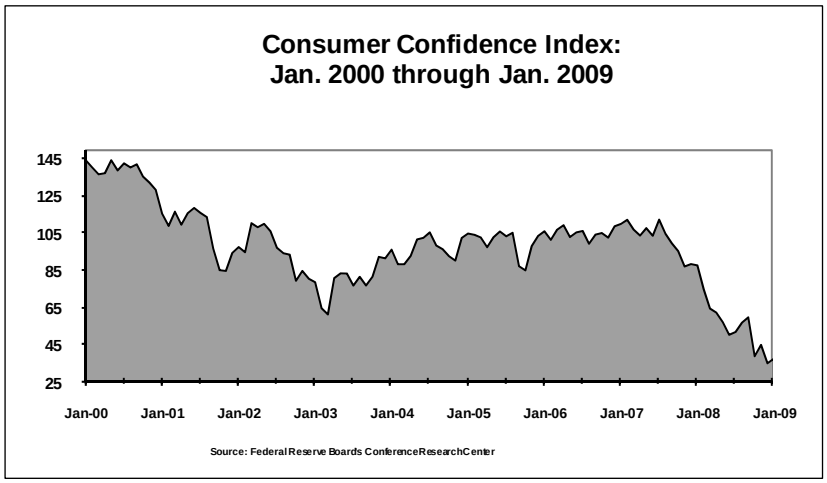


Throughout 2008 and into the second quarter of 2009, employers continued to slash jobs as a result of overall conditions in the economy. In March 2009, employers cut an additional 663,000 from their payrolls, bringing the national unemployment rate to 8.5 percent. Since the recession officially began in December 2007, the total number of unemployed has risen to 5.3 million, while nearly two-thirds of those jobs were lost in the last five months leading up to March. The number of long-term unemployed, which is defined as those individuals who have remained jobless for greater than 27 weeks, rose to 3.2 million in March 2009, increasing 1.9 million since the recession began. As a result of these job losses, the number of individuals who were underemployed or qualified as discouraged workers also rose significantly. Among the pool of unemployed, those who had lost their job and completed temporary work to generate income increased by 547,000 workers in March, a segment of the underemployed population that has doubled since March 2008. It should also be noted that the unemployment rate is a lagging indicator in that the current rate is based upon economic events from months beforehand. Thus, this lagging indicator confirms long-term trends, but does not predict them.



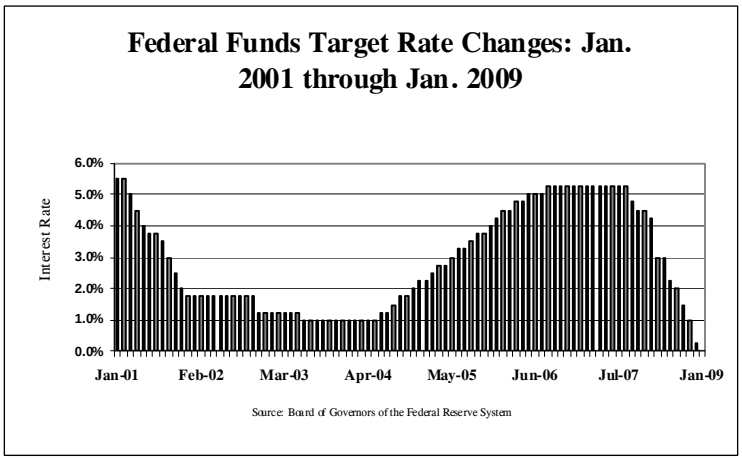
The Consumer Price Index (CPI-U) is an economic indicator most commonly referred to when measuring inflation in the United States. In the twelve months between January 2008 and January 2009, the CPI-U declined from 5.0 percent to 0.7 percent, due mostly to lower prices for crude oil. After edging slightly upward in 2008, core consumer price inflation, measured as CPI-U less food and energy, experienced similar, yet less dramatic volatility. The deceleration experienced in the first quarter of 2009 can be attributed somewhat to the recent drop in energy prices, which have reduced costs of production, and, therefore, lessened one source of pressure on the prices of final goods and services. Energy prices, though, remained volatile, reflecting the continued political uncertainties in the Middle East, the fluctuating value of the dollar as well as industry analysts' and investors' opinion on the economy and its impact on domestic fuel consumption. From April through September 2008, a surge in energy prices, particularly that of gasoline and diesel fuel, was experienced, with the per barrel price of oil reaching an all time high of $147. As a result, fuel prices began to rise, with the national per gallon pump price of gasoline averaging $4.10 by July 2008. However, given the more recent decreases in fuel prices, core consumer price inflation has experienced little movement.

One of the most important economic indicators is the Consumer Confidence Index, as it measures the level of faith that consumers have in the current economy. The consumer market is especially important as it comprises two-thirds of the nation's economy. During times of economic downturn, Americans typically become less confident in the economy. This was the case for several years following the economic recession of 2001, as can be seen in the graph to the right. As economic downturns become longer and consumers hear continued negative economic reports, the level of consumer confidence tends to decline. Conversely, confidence tends to increase with positive economic and political news, especially increases in employment levels. Beginning in late 2007 and lasting throughout 2008 and the first quarter of 2009, consumer confidence plummeted, as economic conditions continued to worsen, further fueling consumer worries and driving up the personal savings rate. In addition, while individuals have been less likely to spend, those who would like to are unable to do so as a result of restricted access to credit. In January 2009, consumer confidence hit a historic low of 37.7, down from 38.6 the month prior, reflecting an increasingly pessimistic attitude toward the state of the economy that is widely shared among Americans. However, while uncertainty about short-term economic health has driven down both confidence and consumption, individuals' collective long-term outlook remains somewhat positive, with registered gains in confidence related to projected future job availability when the economy begins the recovery process.



New and existing home sales, one of the principal drivers of consumer spending over the past several years, fell dramatically in 2006, 2007 and throughout 2008. Home sales activity continued to decline in the first quarter of 2009, with existing home sales dropping 4.6 percent from February 2008, and total housing inventory rising 5.2 percent, or 3.8 million homes available for sale. As of this writing, the surplus of unsold homes on the national market represents a 9.7 month supply based on the current pace of sales. In addition, building permits and new residential construction fell dramatically throughout 2008 and through the first quarter of 2009. Building permits issued in March 2009 totaled 513,000 nationally, down 9 percent from the month prior and 45 percent from March 2008. New residential housing starts numbered 510,000 in March 2009, a 10.8 percent decrease from the previous month's revised estimate, while year-over-year new home construction declined by 48.4 percent.

In response to the current economic crisis and in addressing the pivotal role the performance of the real estate market will play in our recovery effort, several initiatives were introduced by the federal government early in 2009 to assist existing and first time homebuyers. For example, the "American Recovery and Reinvestment Act of 2009" or Bill H.R. 1 which was signed by the President on February 17, 2009, includes refundable tax credits of up to $8,000, and reinstates the 2008 FHA, Fannie Mae and Freddie Mac loan limits for first time homebuyers. Also included in the bill are tax and other incentives for commercial builders focusing on energy conservation and efficiency in building design, tax relief for businesses, and residential construction incentives with Low Income Housing Grants. According to the National Association of Realtors, in January 2009, first time homebuyers accounted for half of all home sales, with purchasing activity concentrated in the lower price ranges. The national median existing home price in February 2009 was $165,000, which represented a 15.5 percent reduction from the year prior. In addition to other factors, this adjustment in median sales price was partly attributable to the purchasing characteristics of first time homebuyers. Distressed sales, which typically sell for 20 percent below market price, are the kind that have been commonly sought by first time buyers and represented approximately 45 percent of transactions in February 2009, which in turn contributed to the year-over-year decline in the median home price.



When the economy began to stabilize in 2004 from the slowdown experienced from 2001 through 2003, concern of inflation prompted the Fed to begin increasing the federal funds target rate, the interest rate that banks charge each other. From 2004 through the first half of 2006, the Fed increased the target rate by a ¼ point seventeen times. This upward trend occurred because the Fed identified that the threat of inflation was still a concern, and was mostly resulting from higher energy prices. When energy prices began to recede in August 2006 and inflationary statistics began to stabilize, the Fed made the decision to halt the rate hikes at a rate of 5 ¼ percent. However, both 2007 and 2008 were a different story. Beginning in September 2007, the Fed initiated the first of five rate cuts, when in March 2008 an unexpectedly favorable assessment of the CPI prompted a 75 basis point rate cut, bringing the rate to 2 ¼ percent, the lowest since 2004. While inflation has been an ongoing and key issue monitored by the Fed, it can be inferred through their actions over the past two calendar years that combating the credit crisis and addressing the lack of liquidity in the financial markets was a more pressing issue. It is, however, important to note that these rate cuts are necessary to facilitate growth through capital investment, by encouraging financial institutions to lend money, and to increase the value of the equity market. It is the job of the Federal Reserve to find the appropriate rate at which growth is stimulated, while not unreasonably contributing to inflationary pressures.

As a corollary to the reduction in GDP, a significant downturn in retail and commercial sales and production, combined with large declines in the prices of energy and fuel commodities, food and manufacturing products, has recently led to resurgence in the strength in the exchange value of the dollar, easing inflationary worries in the near term. Inflation was still very much a worry during the first two quarters of the year when steep increases in food and energy prices heightened concerns over inflation. Despite its efforts to provide a balance between loosening an increasingly tighter credit market, while also addressing the issue of inflation, the Fed had little choice but to continue to cut the Federal funds rate. By December 2008, the Fed had lowered the rate 8 times, for a total of 325 basis points for the year, ending at a level of 0.00 – 0.25 percent, with the Fed at this time indicating that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time."

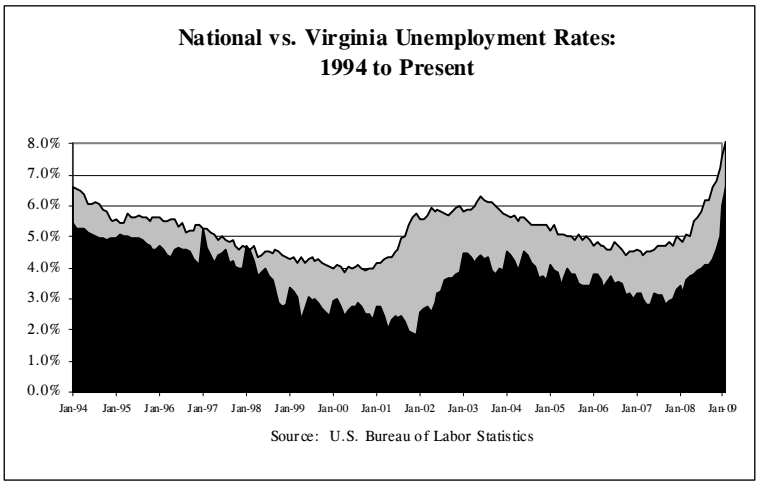
Virginia Economy

As the national economy has experienced booms and contractions over the years, the Virginia economy has followed the economic trends experienced by the United States. While the State economy generally tends to follow the lead of the nation, the Commonwealth tends to outperform the national economy in several economic indicators. Population growth and per capita income have both outpaced national levels. The Commonwealth of Virginia has experienced a lower unemployment rate than the majority of the country for many years. Other indicators, such as new business incorporations, new vehicle registrations, and manufacturing production employment seem to mimic national trends.

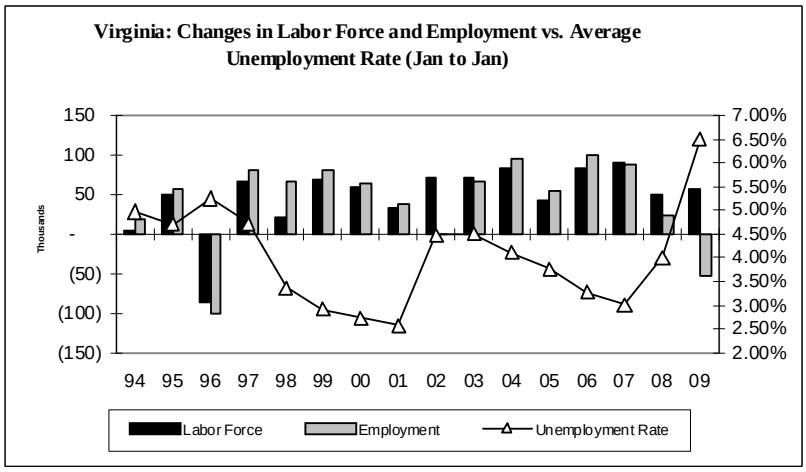
According to the U.S. Census Bureau 2008 estimate, the population in the State of Virginia has grown by over 690,574 people since 2000, an increase of 9.7 percent, as it remains the twelfth most populous state in the country. During the same time period the national population increased by 8.0 percent, 1.7 percent less than the growth experienced in Virginia. In addition, Virginia is also one of the most educated states in the U.S., with 33.6 percent of persons 25 years of age or older having a bachelor's degree or higher, ranking sixth among the states. Correspondingly, with a 2008 per capita personal income of $42,876 and an average annual salary of $45,531, Virginia ranks eighth and eleventh among the states, respectively in these categories.

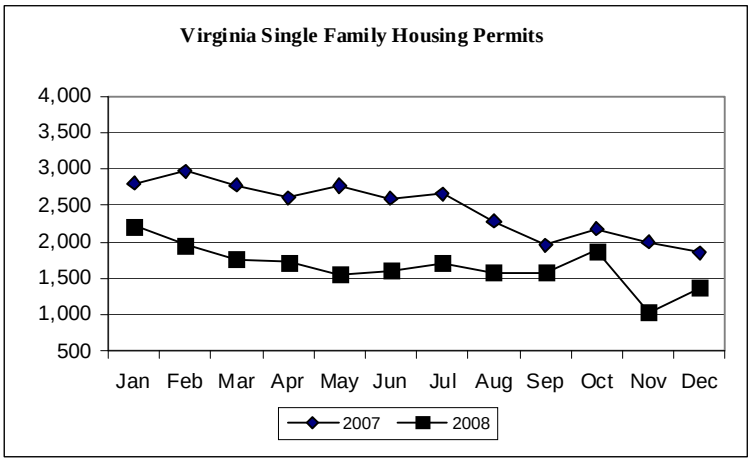
According to the Weldon Cooper Center at the University of Virginia, economic conditions have contributed to a slower rate of population growth in Virginia. While the population of the Commonwealth was at an estimated 7.8 million as of July 1, 2008, the level of growth has recently been slower than that experienced in the first half of the decade. Between 2000 and 2005 the average annual growth rate in the state was 1.2 percent, while in the last two years growth has averaged less than 1 percent. Virginia's population growth equation is comprised of two elements; natural increases, resulting from more births than deaths, and net in-migration, the net difference between individuals moving in and leaving the state. In recent years, these two figures as a percentage of the total population growth statistic have been relatively even. However, while the level of natural increase has been steadily growing throughout the second half of the decade, the migration rate has declined to half the level seen between 2000 and 2005. According to the Weldon Cooper Center's demographics and workforce group, this can be somewhat explained by worsening economic conditions that have limited population mobility, while the housing market has restricted homeowners from movement because they fear an inability to sell their home given the market conditions. As a result, demographer Mike Spar says that "We can expect a continued slowing of the state's growth through 2009, and probably into 2010 as well. The two factors most responsible for slowing growth – the recession and the housing crisis – are unlikely to resolve any time soon. Until they do, domestic migration will not return to its previous high level."

From 2003 to 2007, national and State unemployment rates steadily decreased. In 2007, when the economy began to crumble, unemployment rates began to rise again. In spite of worsening unemployment in the State, according to the U.S. Bureau of Labor Statistics, Virginia had the ninth lowest unemployment rate average in the nation in 2008 at 4.0 percent, and was the lowest of the large states. The unemployment rate for the nation averaged 5.8 in 2008, indicating that even during times of economic difficulty, Virginia continues to fare better than most states in the U.S.

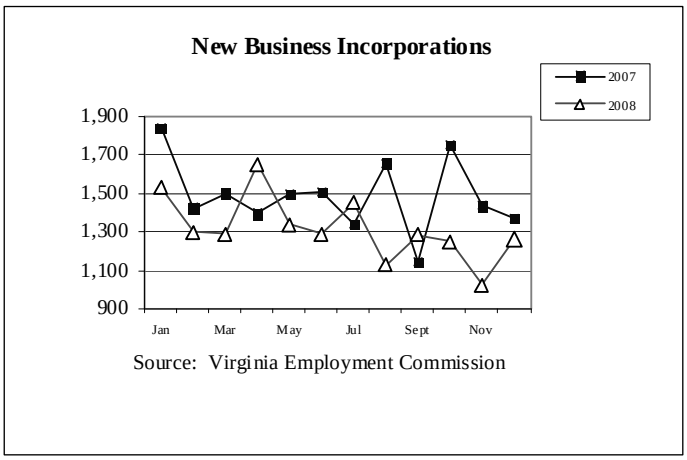


Typically during periods of normal growth, throughout the state the level of job growth varies significantly by geographic area. The northern portion of the state, which offers the highest concentration of professional and business services, as well as technology and federal contracting jobs, accounts for more than one-half of the state's job growth. Industrial and manufacturing labor, which is concentrated in the southern portion of the state, accounts for the remainder of the state's job growth. In the national unemployment rankings, Northern Virginia is not treated as a separate area, but as part of the Washington, D.C./Virginia/Maryland/West Virginia metropolitan area. Employment in the Richmond Metropolitan Area, one of nine publishable metropolitan statistical areas in Virginia, was down 0.8 percent or 5,200 jobs to 628,000 in 2008. Major losses occurred in construction, finance and state government, while additional losses were recognized in manufacturing, transportation, and the leisure/hospitality industries.





While population and unemployment are important indicators, other business economic indicators are vital in analyzing the performance of the Virginia economy. Since many other sectors of the economy feed off of new home construction, one significant indicator is the number of single family building permits issued. Following the national housing market trend, the number of single family building permits issued in Virginia in 2008 was well below levels seen in 2007 and 2006. In 2007, 29,216 single family permits (adjusted) were issued in Virginia, 9,295 fewer than in 2006, while in 2006, 38,511 single family permits (adjusted) were issued, 11,137 or 28.9 percent less than the levels seen in 2005. In the same time frame, the single family permits issued in the United States fell 15.0 percent. The number of single family housing permits issued in the State in 2008 totaled 19,962, 9,254 fewer than in 2007, representing a decline of approximately 31.7 percent.



Virginia is a very attractive location for businesses as it features a low tax burden, business-friendly laws, and an aggressive economic development program. New business incorporations are one way in which the soundness of the State economy is measured. Due to the fact that the incorporation of a new business requires a large investment, this indicator is tied heavily to perceptions of the state of the economy. In 2007, 17,708 new businesses were incorporated, a 9.5 percent decrease from 2006, while in 2008, 15,805 new businesses were incorporated, a 10.7 percent decrease from the prior year, continuing a relatively downward trend that began in late 2005. In February 2008, the number of incorporations continued to decline, with 1,298 registered incorporations, compared to 1,528 in the previous month, representing a 15 percent decline. Incorporations began to pick up temporarily in April, jumping to 1,651 before leveling off at 1,263 by December 2008.

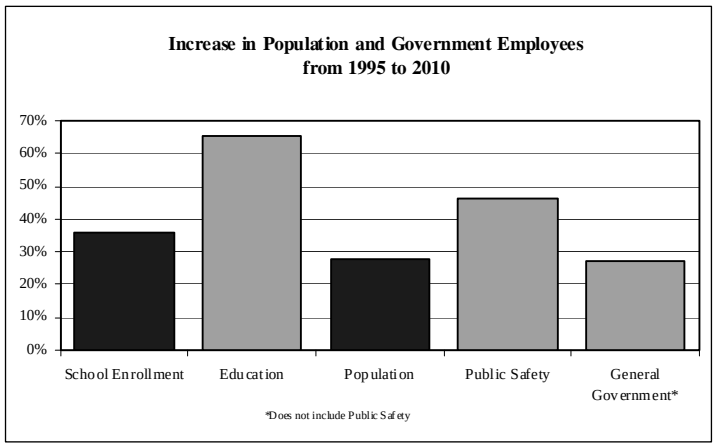
For the third straight year, automobile sales in Virginia decreased from the prior year's measures. According to the Virginia Employment Commissions' *Virginia Economic Indicators* publication for the fourth quarter of 2008, the newest of such publications, 406,644 vehicles were registered in the state during 2008, compared to 508,749 registered in 2007 (revised), a decrease of 102,105, or 20 percent. It is important to note that even during the periods in which registrations decreased in Virginia, the auto market had historically remained one of the strongest pieces of the economy. Low interest rates and other financing incentives supported strong sales over the last five years. However, the economic climate, higher oil prices throughout most of 2008, and consumer pessimism have contributed to a precipitous decline in automobile sales. While the major auto manufacturers struggle to stay afloat, and still offer incentives to move their mounting vehicle inventory, consumer worry has largely superseded the attraction of lower prices, extremely low interest rates for potential buyers and a variety of other incentives. The domestic auto companies have been significant beneficiaries of government funding and have been working with Congress to establish a mutually agreeable plan for short term survival, and long term success, as stipulated by Congress as a condition for funding. While, as of this writing, these plans are under development, U.S. auto sales continued to tumble by an

additional 34 percent in April 2009, the 18th continual monthly decline, surpassing the already pessimistic predictions made by industry analysts. In February, auto sales registered a seasonally adjusted annual rate of 9.1 million units, the lowest since 1981, while sales totaled 13.2 million for 2008, while averaging 16.8 million units from 2000 through 2007.

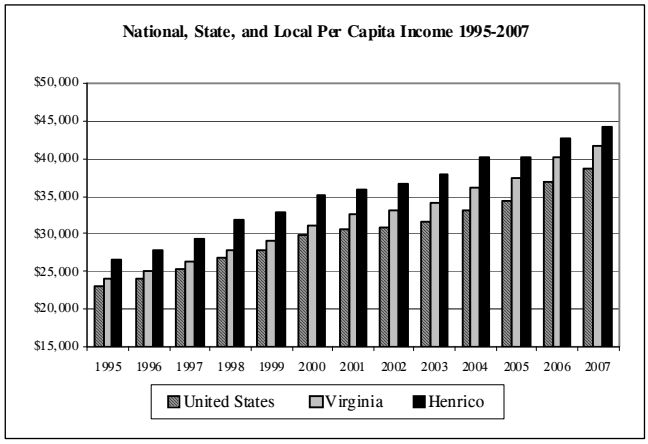
Although some of the previously mentioned statistics show decline in selected areas, it is important to note that over the past several years, Virginia has continually maintained one of the strongest state economies in the United States. According to the Bureau of Labor Statistics of the U.S. Department of Labor, Virginia, with a 4.0 percent unemployment rate average in 2008 performed relatively better than most states. However, according to the first quarter 2009 release of the *Virginia Economic Trends* document issued by Chmura Economics and Analytics, the figures reveal "the depth and breadth of the recession which has taken a firm hold on Virginia's economy". According to the report, the state lost approximately 30,000 jobs in 2008. Virginia's growth rate slowed, from 1.7 percent in 2006, to 0.9 percent in 2007 and it was anticipated that this growth was further reduced to 0.4 percent in 2008, with the state growing by an average of 14,400 jobs. While this decline registers consecutive years of job growth at a declining rate, Virginia still managed to perform better than the nation. In 2008, the national job growth rate transitioned to negative, with a projected average job loss statistic at -0.2 percent. According to the Virginia Employment Commission, "Virginia's job growth average was kept positive by still good gains in private education and health care, total government (education and defense), professional and business services, leisure and hospitality, and miscellaneous services." In addition, "…most of the job loss Virginia experienced in CY 2008 was coming from the continuing decline in manufacturing and the contraction in construction (especially residential building)". Specifically, among industries with rising employment averages in 2008, the private education and health services sectors added the most jobs with 11,300, a 2.7 percent rate of growth, while total government (federal, state and local) added 9,000, a 1.3 percent rate of growth, professional and business services added 6,800 jobs, a 1.1 percent rate of growth, leisure and hospitality added 900 jobs, a 0.3 percent growth rate, and miscellaneous services and the transportation, warehousing and utilities industries added 2,300 or 1.2 percent growth, and 100 jobs, or 0.1 percent growth respectively.

The depleting economy has taken a toll on the State's financial situation. According to a February 2009 Washington Post article, tax collections in the state for January had fallen by 15 percent, the most significant reduction in state revenue in over a decade, and the sixth straight monthly decline in tax receipts, mostly attributable to the 26 percent decline in capital gains tax revenue, and the nearly 11 percent decline in individual income tax withholding receipts, the two revenue sources that comprise the majority of general fund revenues. In February 2008, Governor Kaine revised revenue forecasts for the FY2007-08 Biennial Budget to reflect a $1.05 billion shortfall. Accordingly, in April of 2008, the State cut its Aid to Localities by $50.0 million across the state, and Henrico County incurred a reduction of approximately $1.5 million, which was reflected in the FY2008-09 Adopted Budget. In October 2008, further revised revenue projections revealed a deeper anticipated shortfall of $2.5 billion. In response, the Governor implemented a number of one-time cost saving measures for the 2009 fiscal year, also noting that all programs – including education that had previously been held harmless – would be subject to budget cuts. In December 2008 the Governor's budget was presented his proposed FY2009-10 budget to the General Assembly, which included a revenue shortfall that had risen to $3.2 billion, and corresponding cuts to local government, as well as to education, were announced. In February 2009, the Governor once again revised revenue forecasts, which reflected a budget shortfall approaching $4.0 billion, the deepest on record in the Commonwealth. As of this writing, in March 2009, the state House and Senate had approved a compromise budget, which includes the use of $1.5 billion of Federal Economic Stimulus funding apportioned to the state to partially offset the budget shortfall. A total of about $4 billion is expected to flow to state and local agencies over approximately a two year period from the federal stimulus package.

Local Economy

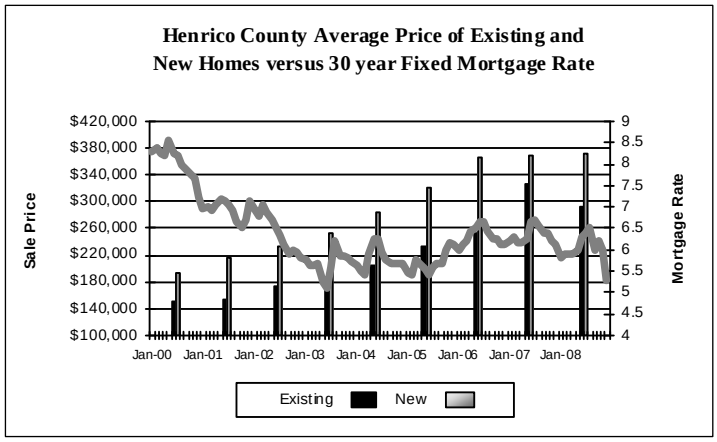


Over the past ten years, the Henrico County economy has become more diverse as the County has grown. Since 1995, the County's population has increased 27.5 percent. Increasing from 239,683 to 305,634, Henrico is now the fourth most populous County in the Commonwealth. At the same time, the average daily student population attending Henrico County Public Schools has increased by 35.9 percent. In reaction to such growth trends, the County of Henrico has responded to the needs of the community by offering more services. As education and public safety are both high priorities of the County, these two areas experienced the most employment growth. The education personnel complement increased by 65.6 percent since 1995 as the number of education facilities grew 25 percent over the same time period. This figure does not include additions or renovations to existing structures. Public Safety increased its personnel complement by 46.2 percent over the same period. A large portion of this increase is due to the additional personnel in the Sheriff's Office needed to staff the regional jail, which opened in 1996, as well as additional positions within the Division of Fire. It also should be noted that 171 positions have been added in the Division of Police over the same sixteen years. Since 1995, General Government (excluding Public Safety) experienced an increase in personnel of 27.2 percent. All increases in personnel and service levels were accomplished while real estate tax rates in Henrico decreased from $0.98 per $100 of assessed value to $0.87 per $100 of assessed value during this time period. In addition, Henrico citizens experienced increases in income larger than national and State averages. From 1995 to 2007, per capita income in Henrico has increased by $17,384, or 61.1 percent, to an average of $44,079. It should be noted that as of this writing, the 2007 County data is the most recent information released by the Bureau of Economic Analysis.

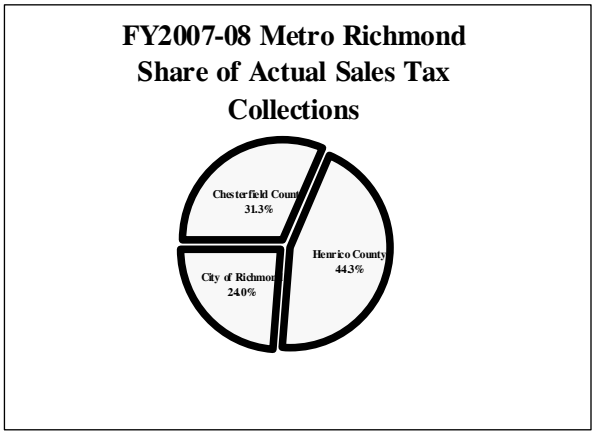


Recent conditions in the national and state economies have severely disrupted the County's economy, particularly with respect to business failures and employment. While typically the county's unemployment average falls well below that of state and federal figures, in March 2009, Henrico County registered a 7.2 percent unemployment rate, still well below the national average of 8.5 percent, but slightly exceeding the state unemployment rate of 6.8 percent, the worst in 17 years. Between January 1, 2008 and March 2009, the County had lost approximately 10,300 jobs, some of which are the result of business closures and/or failures. Qimonda, a semi-conductor manufacturer that was once the County's top real estate and personal property tax payer, as well as its top consumer of water and sewer services, recently announced that it would cease all operations by April 2009. This action will result in the cumulative loss of nearly 3,000 jobs. However, while unfortunate as these circumstances may be, the County continued to post employment figures greater than those of surrounding localities. Over the last year, the County averaged a 3.7 percent unemployment rate, which is higher than the 3.3 percent unemployment rate experienced in the prior year. This rate is lower than the Metro Richmond Area average of 4.0 percent for 2008, a figure that is also up from the prior year rate of 3.0 percent, as the Richmond area has also suffered significant job losses as a result of the recession.

One of the most important economic indicators the County monitors is general property tax revenue. This revenue includes both current and delinquent real and personal property tax revenue. Property tax generates the largest percentage of revenue for Henrico County, representing 46.3 percent of total General Fund operating revenue in FY2007-08. A large driver behind the growth in this revenue is the strength seen in the County's real estate market, relative to the national market, over the past few years. The chart below illustrates the overall upward trend in the average sales price of new and existing homes in comparison to the decrease in fixed mortgage rates. Through January 2007, residential sales prices for new and existing homes had increased by nearly 50 percent. However, in 2008, as a result the housing market crisis experienced nationwide, there was a corresponding drop in demand for housing in Henrico County, resulting in a higher monthly inventory, and stagnation in sales prices. Interest rates on 30 year fixed rate mortgages also fell significantly over this period, which facilitated some home buying and somewhat alleviated downward pressure on sales prices. During this time, the average residential sales price for new and existing homes increased 48.8 percent. It should be noted that the Board of Supervisors has decreased the Real Property Tax Rate three times since FY2004, from $0.94 per $100 of assessed value in CY2004 to $0.92 per $100 of assessed value in CY2005, then to $0.90 per $100 in CY2006, and was reduced again to $.87 per $100 in CY2007. The rate has remained unchanged in CY2008 and CY2009.

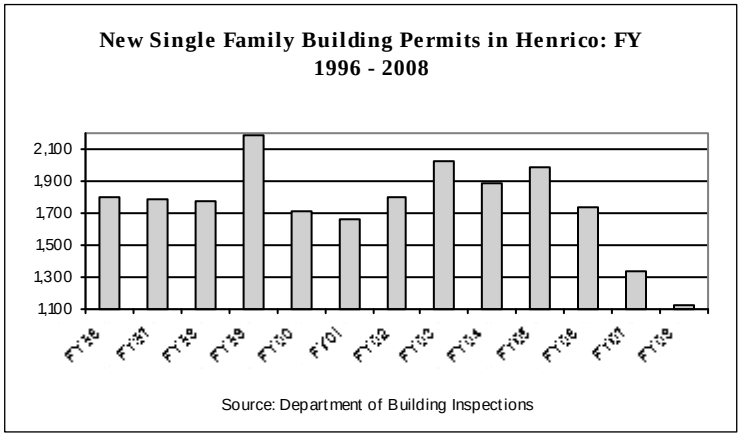


Another indicator the County monitors is local sales tax receipts compared to those collected in the Richmond Metropolitan Area. In actual dollars, Henrico's local sales tax receipts totaled $57.4 million in FY2007-08. It should be noted that these figures include sales tax revenue from the Short Pump Town Center. Over the past fiscal year, Henrico County recorded a 44.3 percent share of the total local sales taxes collected in the Richmond area, compared to 31.7 in Chesterfield County, and about 24 percent in Richmond City. Henrico County's figure is just under the five year average of 46.5 percent. Overall, the Richmond Metropolitan Area experienced a slight increase of approximately 1 percent, significantly down from the previous year over year increase of 7.4 percent increase. Based on these statistics, while there was clearly some reduction in consumption which correlated to the reduced level of sales revenue generated in the region, any level of growth experienced in the current economic climate is a strong indicator of the economic strength and resiliency of the area.



Building permit fees are also an important economic indicator carefully monitored by the County of Henrico. This revenue is considered to be elastic, meaning it will vary from year to year based on current economic situations. A change in the number of building permits issued can be used to gather information about the shape the economy will take in the future. In FY2005-06, actual revenues decreased when compared to FY2004-05 as the number of new single-family permits issued decreased 12.8 percent in FY2005-06, reflective of the cooling housing market being experienced nationwide. Prior to the market cool down, Henrico County experienced a boom in new home construction, as did the rest of the country, due to historically low interest rates. In fact, in FY2001-02 and FY2002-03, the level of single family permits increased each year, with an overall 21.5 percent increase during this period. However, in FY2003-04, the number of permits dropped by 6.7 percent. In FY2004-05, the number of permits in Henrico jumped by 5.2

percent. While Henrico County experienced significant growth in the number of single-family permits being issued over the five-year boom period between 2001 and 2005, the national growth pace was greater during this time period. Over this period, the national average annual increase for single-family permits issued was 6.9 percent, with an overall 31.7 percent growth comparing 2005 to 2001 levels. Henrico County, on the other hand, averaged an annual 5.2 percent increase for single-family permits issued during this time period, with an overall 21.1 percent increase between 2005 and 2001 levels. While at first glance it may seem as if Henrico lagged in the market, the slower growth has resulted in lower inventories of available homes on the market, which has left Henrico less susceptible to a decline in value as demand for new homes is likely to continue to decrease throughout 2008. The number of single family building permits fell dramatically in 2007 and throughout 2008, as high energy prices and a devalued dollar led to higher building prices, and reduced residential development. The housing and credit crises have resulted in fewer home buyers coupled with rising defaults stemming from adjustable-rate mortgages to sub-prime borrowers, adding additional properties to an already saturated housing market.



The County also monitors changes in the number of new and used automobile registrations. These registrations gauge the community's confidence in the local economy and determine the amount of its citizens' disposable income. In 2008, the County of Henrico reported 15,396 new and 50,853 used automobile registrations. These overall numbers mark a 2.6 percent decrease from those recorded in the previous year. For 2007, 33.2 percent of all car sales occurring in the Richmond Metropolitan Area occurred in Henrico County.

Conclusion

The downturn in the economy that began in late 2007 has continued throughout the first quarter of 2009, having appreciated significantly by the middle of 2008, leading to pronounced economic degradation worldwide. The disruption in short term funding markets caused in part by home foreclosures, which in turn contributed to the financial difficulties, and at times, failure, of major financial institutions such as Bear Stearns and Lehman Brothers, propelled a downward economic spiral resulting in the recession that we are faced with today, and it's full economic impact, and duration, are unknown at this time. With the Fed funds rate currently at a level between 0 - .25 percent, these lower rates may begin to ease the credit markets, slowly alleviate consumer worry and promote improved economic activity over the next several months. Consumer spending should continue to decline in 2009 and perhaps into 2010, particularly purchases of consumer durables, because of rising unemployment, increased personal savings rates and low consumer confidence, and declining net worth resulting from losses in the equity and housing markets. However, the impact of these factors will also be partially offset from the savings gained from lower food and energy prices, effectively increasing household income by a slight margin, which may translate into continued marginal growth in the consumption of non-durable goods and services.

Residential and commercial investment fell dramatically throughout 2008, while U.S. home prices fell by 19 percent for the year. Improved consumer sentiment, favorable interest rates and reduced prices for new and existing single family homes, as well as incentives such as the Federal Housing Tax Credit for First Time Home Buyers should incite some increased sales activity in the third and fourth quarters of 2009. There is also some hope that federal stimulus funding will promote a boost in purchasing activity among federal, state and local government entities, which should help to somewhat offset the overall decline in GDP, which is anticipated to continue to decline at a moderate rate for the next several quarters.

While the national economy continues to move forward through a period of uncertainty, the County of Henrico has certainly been affected by the economic troubles experienced throughout the nation. However, the County continues to respond better than national averages. Local sales tax collections are growing, though at a slow pace, but remain the strongest in the Metropolitan Richmond area. As the County of Henrico continues to operate within sound and conservative parameters, it is prepared to handle periodic fluctuations and uncertainties in the national, state and local economies, as well as the more severe economic conditions that we are faced with today.

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