THREE YEAR FORECAST
OF
REVENUES AND EXPENDITURES

Background

The Henrico County budget is organized on the basis of funds. Each fund is considered a separate accounting entity. Accounting for the operation of each fund is performed using a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate.

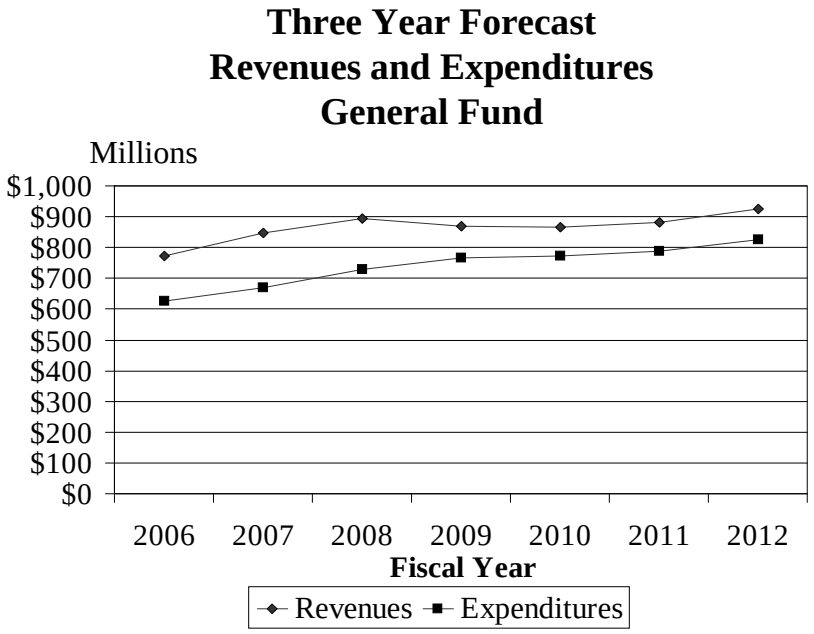
Funds are grouped into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Governmental Funds include most governmental functions of the County and include the General, Special Revenue, Debt Service and Capital Projects Funds. Proprietary Funds, on the other hand, account for functions financed and operated in a manner similar to a private business enterprise. The intent of Proprietary Funds is to finance or recover, through charges to users, the cost of providing these services. Proprietary Funds used by Henrico County include both the Enterprise (Public Utilities and Belmont Golf Course) and Internal Service Funds such as Central Automotive Maintenance (CAM). In FY2001 the County established an Internal Service Fund called the Technology Replacement Fund for the purpose of funding a computer replacement program. In FY2005, the Risk Management function was moved to the Internal Service Fund series for more appropriate classification. Fiduciary Funds budgeted by Henrico County are for the James River Juvenile Detention Center (JRJDC) Agency Fund. As the fiscal agent for JRJDC, Henrico eliminates the need for the Commission to duplicate various administrative functions related to personnel, procurement, accounting, and budget responsibilities.

The information that follows constitutes the forecast of the County's cost of operations for FY2010 through FY2012. The FY2010 data represents the budget adopted by the Board of Supervisors, while FY2011 and FY2012 are included for projective purposes. This data is presented by fund and includes a description of major revenue and expenditure assumptions used to develop each forecast. Henrico County has opted to project revenues and expenses of each fund, as opposed to simply projecting the County's General Fund requirements. The actual forecasts, showing the relationship between revenues and expenditures and the predicted effects on fund balance, are presented in a schedule at the end of the narrative.

The revenue and expenditure forecasts for each fund are formulated using a combination of statistical forecasting techniques, regional economic data, and local government operating experience. Preliminary estimates for the subsequent fiscal year are initiated in August of each year, using a variety of forecasting models.

In the late fall, the County's annual financial audit is finalized. The previous year's revenue and expenditure forecasts are compared against audited financial statements to determine if revenue model refinements are necessary. At that point, refined forecasts are prepared for the upcoming fiscal year.

Revised estimates are analyzed against a variety of forecasted economic data with special emphasis on: consumer and wholesale prices, local population, retail sales, building and construction activity, employment, wages, interest rates, and Federal/State funding to ensure the forecast is consistent with future economic expectations. Continuing refinements are made until the budget is adopted by the Board of Supervisors annually.



Fiscal Years 2009 through 2012 are estimated. Revenues depicted are prior to transfers to other funds.

GENERAL FUND

(Fund 01)

The General Fund reflects all revenues and expenditures of the County not required to be accounted for in another fund. Local revenues are primarily derived from Real and Personal Property Taxes, Business License Taxes, Local Sales Tax, Charges for Services, and Use of Money and Property. Revenues are received from the State for educational purposes, public safety, constitutional officers, and road maintenance. Revenues from the Federal Government are largely for social services and education.

Major expenditures include the cost of general government services such as education, public safety, streets and roadways, health and social services, recreation and libraries, and transfers to other funds, primarily to fund the County's debt service requirements and capital projects.

Revenues

Assumptions

Total estimated General Fund revenue for FY2010, prior to transfers to other funds, is $866,648,500. This is a decrease of $3,355,273, or 0.4 percent under FY2009 estimates. General Fund revenues for the County of Henrico are categorized into three broad categories: Local Tax Revenue, Other Local Revenue, and State and Federal Revenue. The table below summarizes General Fund revenue by category. Following is a brief discussion of the revenue components in each of these categories, including graphs depicting the historical trends of these revenue sources as compared with future projections.

Local Tax Revenue:

Description	FY 2008 Actual	FY 2009 Original	FY 2010 Approved	Increase (Decrease)
Local Tax Revenue	$ 491,167,250	$ 510,302,000	$ 524,115,000	$ 13,813,000
Other Local Revenue	40,866,695	24,914,900	25,237,800	322,900
State and Federal Revenue	360,601,090	334,786,873	317,295,700	(17,491,173)
Total General Fund Revenue	$ 892,635,035	$ 870,003,773	$ 866,648,500	$ (3,355,273)

Local Tax Revenue represents Henrico County's principal source of revenue. County tax revenue is projected to total $524.1 million or 60.5 percent of total General Fund revenue for FY2010. This is an increase of 2.7 percent, or $13.8 million over the current fiscal year. Local Tax Revenue includes:

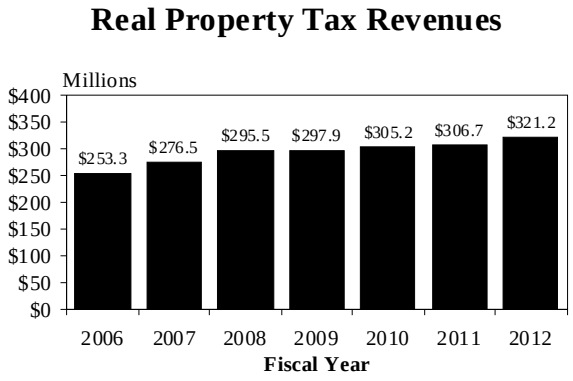
Local Tax Revenue	FY 2009 Original	FY 2010 Approved	Increase (Decrease)	Percent Change	Pct. Of Revenue
Real Property Tax	$ 297,945,000	$ 305,190,000	$ 7,245,000	2.4%	58.2%
Personal Property Tax	101,146,400	102,730,000	1,583,600	1.6%	19.6%
Other Property Taxes	1,280,000	1,580,000	300,000	23.4%	0.3%
Local Sales Tax	56,000,000	57,100,000	1,100,000	2.0%	10.9%
Business License Tax	29,000,000	30,600,000	1,600,000	5.5%	5.8%
Motor Vehicle License Tax	6,325,000	6,325,000	0	0.0%	1.2%
Consumer Utility Tax (*)	2,450,000	2,600,000	150,000	6.1%	0.5%
Hotel/Motel Tax	8,365,600	9,200,000	834,400	10.0%	1.8%
Bank Franchise Tax	2,000,000	3,000,000	1,000,000	50.0%	0.6%
Other Local Taxes	5,790,000	5,790,000	0	0.0%	1.1%
Total Local Tax Revenue	$ 510,302,000	$ 524,115,000	$ 13,813,000	2.7%	100.0%

*Electric Only

The majority, 78.1 percent, of the $524.1 million in Local Tax revenues is derived from Real and Personal Property Tax revenues (including delinquent collections), which are estimated to generate approximately $409.5 million or 47.2 percent of total General Fund revenue. Local Sales Tax revenue increased $1,100,000, or 2.0 percent in FY2010 and makes up 10.9 percent of Local Tax revenue. Business & Professional License (BPOL) Tax revenue is projected to increase to $30.6 million in FY2010. The County's BPOL taxpayers are exempt from paying taxes on the first $100,000 in gross receipts and all payers pay BPOL taxes at the maximum tax rate of $0.20/$100 after the first $100,000 of gross receipts

The Motor Vehicle License Tax revenue is projected to remain flat at $6.3 million in FY2010. The Consumer Utility Tax revenue (electric only) estimate of $2.6 increased slightly for FY2010. Revenue from the 8.0 percent Hotel/Motel Tax is anticipated to increase by $834,400, or 10.0 percent. These funds will be paid to the Richmond Convention Center during FY2010. The Convention Center will return $2.3 million (a fourth of the 8.0 percent levy) to the County at the end of FY2010. The assumptions used when preparing the FY2010 – FY2012 revenue estimates for each of these taxes are described in greater detail in the following pages.

Real Property Taxes are estimated to generate almost $305.2 million or 35.2 percent of the County's total General Fund revenue in FY2010. This is an increase of $7.2 million or 2.4 percent over the current fiscal year. Included within this total is revenue derived from current real estate taxes and real estate taxes paid by public service corporations. The FY2010 budget is balanced within the tax rate of $0.87 per $100 of assessed value for CY2009 and CY2010.



Fiscal Years 2009 through 2012 are estimated.

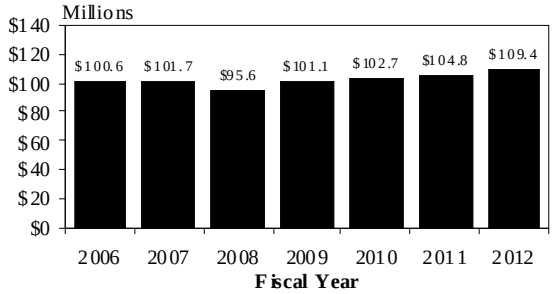
Assessment information for January 2009 indicates real estate assessments total $34.7 billion, reflecting growth of $0.2 billion or 0.7 percent over the January 2008 assessed values. The commercial percentage of the tax base equated to 31.1 percent in January 2009. The commercial ratio increased slightly from January 2008, due to the decrease in the value of residential reassessments, and new commercial construction that was completed in 2008.

As mentioned, the total real estate tax base increased 0.7 percent from the 2008 value. Of this amount, new construction added 2.1 percent to the tax base, or $712.2 million, while residential and commercial reassessments decreased $455.8 million a drop of 1.3 percent. The residential tax base declined $71.6 million as new construction of $363.0 million didn't offset the $434.6 million decline due to reassessments. Overall the commercial tax base increased 3.1 percent due to new construction of $349.2 million.

Out year projections on movements in countywide assessments are based on a forecast model factoring in changes in both residential and commercial values as well as the addition of new residential and commercial construction. The FY2011 and FY2012, projections assume increases to the County's real property tax collections of 0.5 and 4.8 percent respectively.

Personal Property Taxes are levied on the tangible property of individuals and businesses. For individuals, this tax is primarily on automobiles and recreational vehicles. Businesses personal property includes motor vehicles, machines, furniture, computers, fixtures and tools. The approved budget maintains the following Personal Property Tax rates: $3.50 per $100 of assessed value for tangible personal property; $1.00 per $100 of assessed value for machinery and tools; $1.60 per $100 of assessed value on airplanes; and $1.00 per $100 of assessed value for one vehicle for rescue squad volunteers. Also included are Personal Property Tax rates of $0.40 per $100 of assessed value for machinery and tools used in Semiconductor Manufacturing; and $0.01 per $100 of assessed value for tangible personal property owned by disabled veterans and vehicles equipped for the physically handicapped.

Personal Property Tax Revenues



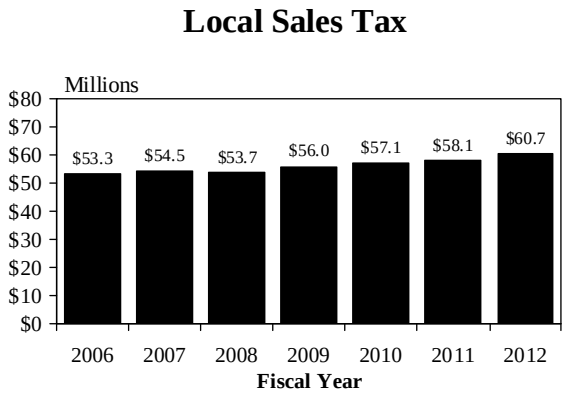
Fiscal Years 2009 through 2012 are estimated.
Includes PPTRA reimbursements.
FY2007 includes a one time PPTRA payment of $5.1 million.

FY2009 marks the eleventh year of the Personal Property Tax Relief Act (PPTRA) enacted by the General Assembly in 1998, although actual reimbursements to localities were capped by the State in the 2004 legislative session. Due to the State payment cap the amount of tax relief will vary by year and locality. The amount of funding Henrico will receive on an annual basis is $37.0 million. For Henrico residents owning qualifying individual vehicles assessed at or below $1,000, the State's reimbursement is intended to pay 100.0 percent of the CY2009 tax levy. For qualifying individual vehicles assessed between $1,001 and $20,000, the State will pay Henrico County 65.0 percent of the CY2009 tax levy. With qualifying individual vehicles valued at $20,001 or more, the State will pay Henrico County 65.0 percent of the CY2009 tax levy for the first $20,000 of value only. The PPTRA payments from the State are included in the projections for FY2010 through FY2012. Henrico's payment will remain constant at $37.0 million, so as personal property values increase over time, the actual percentage of State reimbursement will decrease.

Personal Property Tax revenue is estimated at $102.7 million for FY2010. This represents 11.9 percent of total General Fund revenue. This revenue includes taxes from current personal property and taxes on personal property owned by public service corporations. FY2010 estimates for personal property incorporate a decrease for vehicle assessments due to the downturn in the economy. A decline in vehicle sales has also been factored into these projections as well. Projections for Personal Property Tax receipts anticipate a 2.0 percent increase for FY2011 and a 4.5 percent increase in FY2012.

Other General Property Tax revenue includes delinquent real estate and personal property taxes, land redemptions and interest and penalties on delinquent taxes.

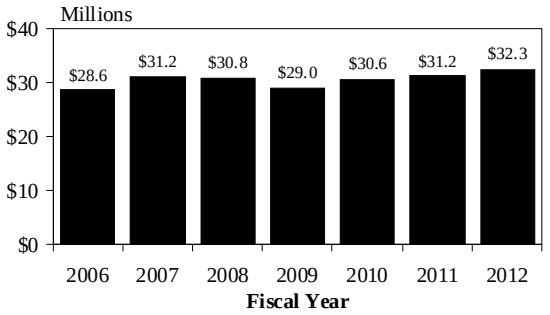
Local Sales Tax revenue is considered an elastic revenue source because it is responsive to changes in the economy. Virginia's Sales Tax rate was increased to 5.0 percent during FY2005. The Virginia General Assembly approved the increase in May 2004 and dedicated the proceeds to local education. With the increase the State will retain 4.0 percent and return 1.0 percent as unrestricted revenue to the locality where the funds were collected (localities also receive a blended 1.25 percent back from the State for local education – see the discussion on State Revenues). Local Sales Tax revenue is projected to generate $57.1 million in FY2010, an increase of $1,100,000, or 2.0 percent from the current fiscal year budget. The increase is due to the completion of the Short Pump Town Center CDA commitments, and the ability to begin recognizing this revenue in the General Fund.



Fiscal Years 2009 through 2012 are estimated.

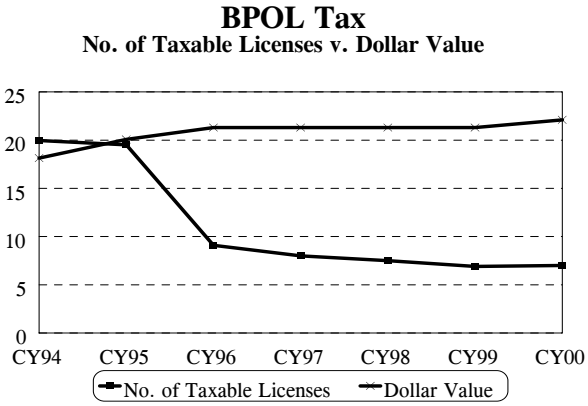
Henrico County's retailers continue to lead the Richmond Metropolitan Area in the generation of Local Sales Tax revenue. As of March of 2009, Henrico County is recording 39.5 percent of the Local Sales Tax dollars redistributed to localities in the Richmond Metropolitan Area by the State. Projections for FY2011 are increasing by 1.7 percent and FY2012 assumes an increase of 4.5 percent.

Business & Professional License (BPOL) Taxes are levied on businesses operating in the County. In January 1996, Henrico County embarked on the most ambitious BPOL tax reduction strategy in Virginia in an effort to continue to attract economic development to the County. This strategy, completed with the FY2000 Annual Fiscal Plan, resulted in the exemption of the first $100,000 of gross receipts for County businesses. This exemption is different from the "threshold" tax reduction in other Virginia localities. For Henrico County businesses, the first $100,000 of gross receipts is exempt from the BPOL tax – regardless of total gross receipts. In a "threshold" locality, if a business exceeds $100,000 in gross receipts, all gross receipts are taxable as the tax reduction only applies to businesses with total gross receipts below the $100,000 threshold. In addition, the FY2010 budget maintains a maximum uniform BPOL tax rate of $0.20/$100 of gross receipts for all business categories.



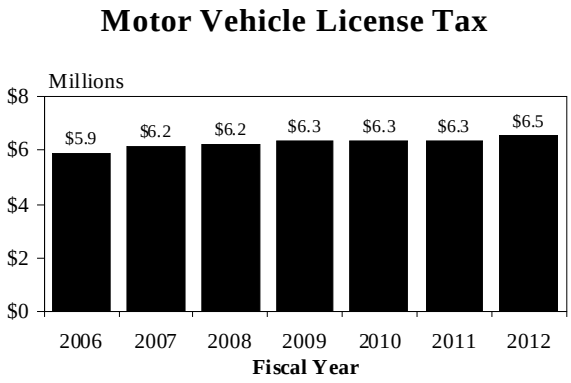
Fiscal Years 2009 through 2012 are estimated.

The graph to the left depicts the success of Henrico's BPOL tax reduction program. The success is apparent by comparing the change in the number of *taxable* business licenses issued in calendar year 2000 and those issued in calendar year 1995 (the year before the tax reduction was implemented). All County businesses must hold a valid business license, but that license may or may not be taxable. The BPOL tax reduction was implemented in phases and was initiated in January 1996, when the Board of Supervisors implemented a standard exemption for the first $25,000 of gross receipts earned by County businesses. In January 1997, the earnings exemption was increased to the first $50,000 of gross receipts. The FY1998 budget continued the rate rollback and the gross receipts exemption was increased to the first $75,000 earned by County businesses. The FY1999 budget raised the gross



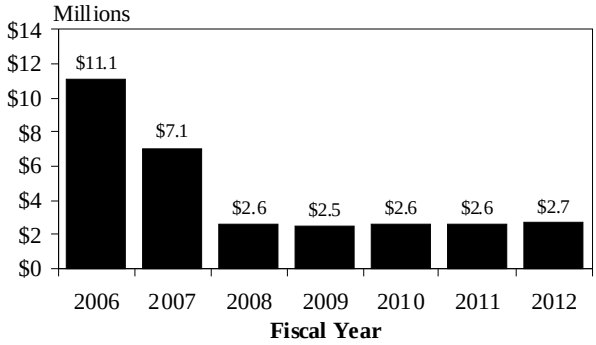
receipts exemption amount to $100,000 and continued the rate rollback. The FY2000 budget completed the rate rollback at the maximum uniform rate of $.20/$100 of gross receipts for all business categories. A category change was implemented in FY2002, when utility companies discontinued paying BPOL taxes, and began paying a Local Consumption Tax, which is based on actual usage of electricity. This change was initiated by the State due to the forthcoming deregulation of the utility industry in Virginia. The FY2010 forecast assumes BPOL tax receipts will increase by 5.5 percent to $30.6 million. The FY2011 and FY2012 predictions assume increases of 2.0 percent and 3.5 percent respectively, and are based on prior year actual collections growing slightly during the current economic slow down. It should be noted that these projections do not include any assumptions to changing local taxing authority in this regard, which has been discussed at the General Assembly during the most recent legislative session.

Motor Vehicle License Taxes are collected for every motor vehicle or trailer normally garaged, stored or parked in the County. The FY2010 revenue estimate remained the same $6.3 million. The projection for FY2011 assumes no increase while the FY2012 projection assumes a 3.5 percent increase.



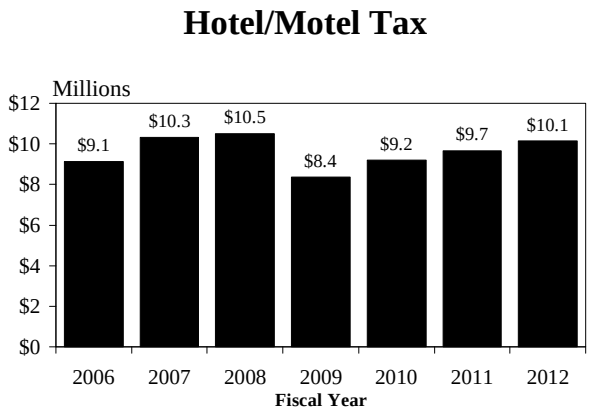
Fiscal Years 2009 through 2012 are estimated.

Consumer Utility Taxes are estimated at $2.6 million in FY2010. This is a result of legislation approved by the General Assembly in the 2006 Legislative Session, which was the passage of the Virginia Communications Sales & Use Tax (HB568). This bill changed the way certain communication mediums are taxed in Virginia by removing the taxing authority from localities and placing a statewide tax on certain services. Included in the statewide 5.0 percent sales and use tax are landline telephones, cellular telephones, Voice Over Internet Protocol (VOIP), paging services, cable television services, satellite television services, and satellite radio. With its passage, localities no longer administer several local fees such as Consumer Utility Taxes or local E-911 fees on landline telephones. The State will distribute the revenues from the new tax to localities based upon FY2006 actual receipts, after administrative costs for the tax are covered along with funding for the telephone relay service center for the deaf and payment of any local cable franchise fees that will now be collected by the State Department of Taxation. In total, the local revenues affected by the Communications Sales & Use Tax, which went into affect January 1, 2007, and totals $14.2 million in FY2010, include the Consumer Utility taxes on telephones (including Mobile Phone Utility), Local E-911 fees of $2.0 million (in the Other Local Revenue category), and Cable Franchise Fee of $3.6 million. These revenues will no longer be collected locally, but will be collected by the State and categorized as State Revenue, Communications Sales and Use Tax (HB#568). This will not affect the Consumer Utility Tax as it applies to electric and gas companies, as well as Wireless E-911 fees received by the County from the State.



Fiscal Years 2009 through 2012 are estimated.

Hotel/Motel Taxes under the Code of Virginia are defined as "transient occupancy taxes". These taxes are similar to the Sales Tax in that they are based on the value of a purchase, which in this case is a motel or hotel room. The Hotel/Motel Tax rate in the Richmond Metropolitan Area is 8.0 percent. Historically, Henrico County levied a 2.0 percent Hotel/Motel Tax, with proceeds utilized to offset local tourism expenditures. However, in FY1997, the Virginia General Assembly authorized an additional 4.0 percent levy of the Hotel/Motel Tax. The additional 4.0 percent levy represents a regional effort by the Counties of Chesterfield, Hanover, Henrico and the City of Richmond to finance the expansion of the Richmond Convention Center.



Fiscal Years 2009 through 2012 are estimated.

In the 1998 Legislative Session, the Virginia General Assembly authorized an additional 2.0 percent levy in the Hotel/Motel Tax (bringing the entire levy to 8.0 percent) and earmarked the additional 2.0 percent levy for the Richmond Convention Center. FY2010 revenue estimates for the Hotel/Motel Tax total $9.2 million, which is an increase of $834,400, or 10.0 percent from the FY2009 estimate. In FY2010, the entire 8.0 percent levy will be transferred to the Richmond Convention Center Authority. At the end of the fiscal year, Henrico County's local 2.0 percent component for tourism expenses will be returned from the Authority. FY2011 and FY2012 projections assume annual increases of 5.0 percent.

Bank Franchise Taxes are derived from the taxation of net capital on banks located in the County. In FY2010, Bank Franchise Taxes are estimated at 3.0 million. Bank Franchise tax revenue is projected to remain constant in FY2011 at $3,000,000 and increase to $3,120,000 in FY2012.

Other Local Taxes includes funds received for grantor's taxes, recordation taxes, daily rental tax, and the consumption tax. In total $5.8 million is budgeted in FY2010, while the projections for FY2011 and FY2012 are $5.9 and $6.2 million respectively.

Other Local Revenue:

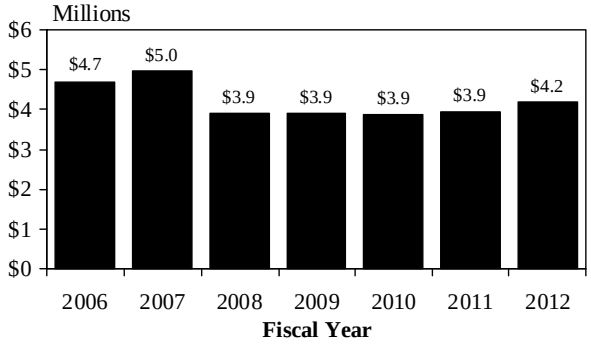
Other Local Revenue is estimated to generate $25.2 million in FY2010. This is a $322,900 or 1.3 percent increase from FY2009. More detailed information on each of these categories of local revenue is included in the pages that follow.

Other Local Revenue	FY 2009 Approved	FY 2010 Approved	Increase (Decrease)	Percent Change
Permits, Fees and Licenses	$ 3,905,600	$ 3,859,200	$ (46,400)	(1.2%)
Fines and Forfeitures	2,622,900	2,727,900	105,000	4.0%
Use of Money and Property	8,533,200	8,533,200	0	0.0%
Charges for Services	3,171,300	3,176,800	5,500	0.2%
Miscellaneous	6,681,900	6,940,700	258,800	3.9%
Total Other Local Revenue	$ 24,914,900	$ 25,237,800	$ 322,900	1.3%

Permits, Fees and Licenses include such items as structure and equipment permits, municipal library fees, zoning application fees, fees for the rental of school facilities and dog licenses. This revenue category is estimated to generate $3.9 million in FY2010, the same when compared to the current fiscal year.

Building Permit Fees, which is an elastic revenue, accounts for more than 68.7 percent of this revenue category. In FY2010, Building Permit Fees are anticipated to remain flat. The projection for this revenue continues the expectation that this revenue source will achieve current projections but not continue at the historical highs that were seen in FY2005, FY2006, and FY2007. In examining the estimated value of construction depicted on individual building permits, Henrico County experienced highs in this local economic indicator in FY2005, FY2006 and FY2007. The total value of building permits from residential and non-residential construction, and the value of additions and alterations to existing structures was $533.2 million in FY2005, $541.0 million in FY2006, and $493.2 million in FY2007.

Permits, Fees, and Licenses



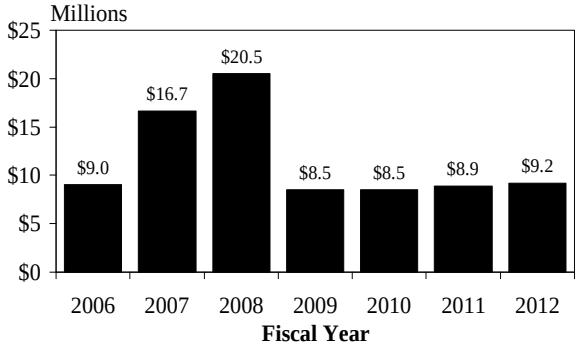
Fiscal Years 2009 through 2012 are estimated.

Information through the second quarter of FY2009 indicates a decrease in the total value of permits issued as compared to the first two quarters of FY2008. Residential permit values decreased $77.3 million, non-residential permit values decreased $49.7 million, and additions/alterations decreased $27.9 million. Decreases are not anticipated to continue during the balance of FY2009 but are anticipated to stabilize at these lower levels in the near term.

Looking back, residential building permit values in FY2007 totaled $294.1 million and $271.0 in FY2008. The number of new single-family building permits issued in FY2007 was 1,357 and in FY2008 was 1,140. In FY2008, the total value of these permits decreased 23.1 million or 7.8 percent compare to FY2007. The number of building permits and the total value of these permits is projected to decrease due to the slow down in the construction industry. The estimates assume a slight increase in construction activity during FY2012. The total projected for the Permits, Fees, and Licenses revenue category is $3.9 million in FY2011 and $4.2 million in FY2012.

Fines and Forfeitures include revenue for such items as traffic and parking violations, false alarm fees and courthouse maintenance fees. This category is estimated at $2.7 million in FY2010. This represents an increase of $105,000, or 4.0 percent compared to the FY2009 approved budget. Collections from traffic violations produce the vast majority of the revenues in this area, and are budgeted to increase by $150,000 in FY2010. Total projections in Fines and Forfeitures revenue category is $2.8 million for FY2011 and $2.9 million for FY2012.

Use of Money and Property

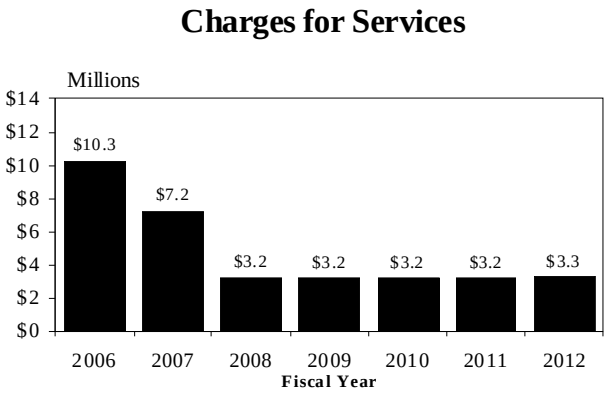


Fiscal Years 2009 through 2012 are estimated.

Use of Money and Property is estimated to generate $8.5 million in FY2010. This category of revenue includes receipts from the sale of County property and interest on County investments. The County generates revenue from the prudent and timely investment of cash reserves. The County invests cash reserves in Banker's Acceptances, Certificates of Deposit, Commercial Paper and Treasury Notes. Adherence to stringent cash management principles requires

investing public funds in instruments that are safe, liquid, and generate adequate yields (See "Financial Guidelines"). The FY2010 estimate for interest on investments is anticipated to remain constant. Interest rates are anticipated to increase slightly, so revenue from use of money and property is projected to increase to 8.9 million in FY2011 and 9.2 million in FY2012.

Charges for Services are revenues paid by users of various County services including participation fees for Recreation and Parks special interest classes and sports leagues; charges for overdue and lost books; cafeteria receipts; and charges for data processing services. Revenue from Charges for Services is estimated at $3.2 million in FY2010. This FY2010 estimate charge for services is anticipated to remain constant, when compared to FY2009. Prior to FY2008 this revenue category also included the E-911 Service Charge which was replaced by the State Communication Sales and Use Tax (HB#568), and the payment-in-lieu of taxes from the Water and Sewer Enterprise Fund, which was eliminated in an effort to limit the increase of water and sewer rates. This revenue category is projected to remain constant at $3.2 million in FY2011 and slightly increase to $3.3 in FY2012.

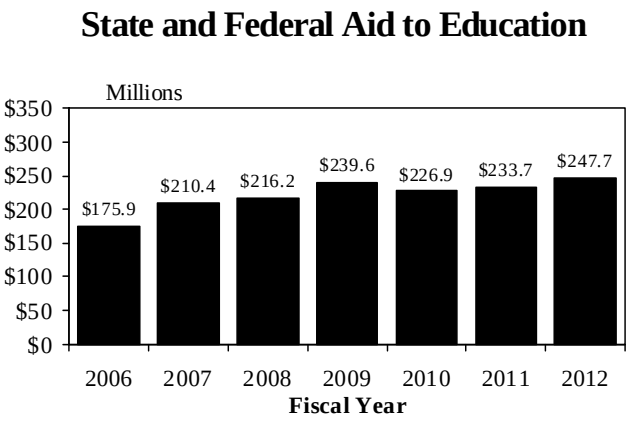


Fiscal Years 2009 through 2012 are estimated.

State and Federal Revenue:

State and Federal revenue is estimated at $317.3 million in FY2010, which represents 36.6 percent of total General Fund revenue. This is a projected decrease of approximately 5.2 percent over the current fiscal year. This category is comprised of revenue for General Government programs totaling $90.4 million and Education funding in the amount of almost $226.9 million. Following is a look at the components.

State and Federal Aid to Education is estimated to decrease from $239.6 million in FY2009 to 226.9 million in FY2010. This is a decrease of $12.7 million or 5.3 percent. The projected increase for FY2011 is 3.0 percent and the increase for FY2011 is project to be 6.0 percent. This forecast is different from the normal State allocation of funding, which is for larger increases in what is the first year of the State budgeting biennium with smaller increases in the second year of the biennium budget. Due to continued economic uncertainty and anticipated shortfalls in State revenue collections, this projection assumes a small increase in FY2011, the first year of the biennial budget with a slightly larger increase in the second year of the biennial budget, FY2012.



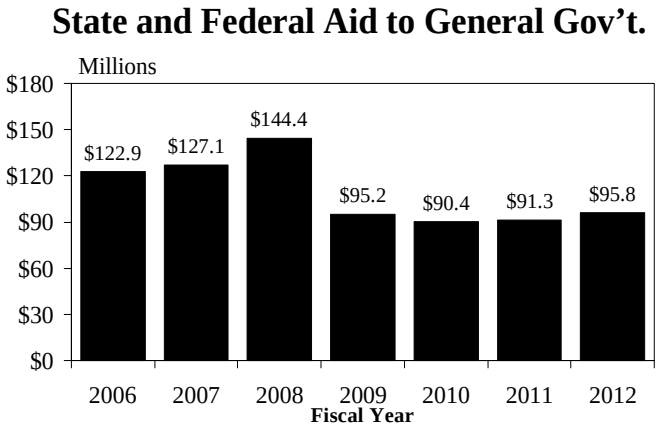
Fiscal Years 2009 through 2012 are estimated.

Beginning in FY1999, The State began allocating the State Lottery proceeds for local Education as a source of revenue for Education Capital Projects or for the payment of debt service. Henrico chose to allocate the State Lottery funds for pay-as-you-go capital projects. Due to the significant shortfalls in State revenue collections, beginning with FY2010, the allocation of State Lottery proceeds for capital is being eliminated as these lottery proceeds have been reallocated by the State to the operating portion of the budget.

Federal reimbursements for Education comprise less than one percent of this revenue category. As such, they have a minimal impact on the level of total appropriations. In FY2010, Federal funding for Education totals

$550,000, which remains constant with FY2009. The FY2011 and FY2012 projections are based on Federal revenue remaining at $550,000.

State and Federal Aid to General Government is estimated at $90.4 million in FY2010. This represents a decrease of approximately $4.8 million or 5.1 percent when compared to the FY2009 budget. General Government programs for which Henrico County receives State and Federal funding include police, street and highway maintenance, social services, and partial payments for the salaries and benefits of constitutional officers and their employees. The budget estimate for the car tax payment from the State is included in the local Personal Property Tax projections for FY2009 through FY2012, due to the State not fully implementing the PPTRA (see Personal Property Taxes section). As such the budget for personal property tax is in one central location. It must be noted that the budget adopted by the Virginia General Assembly in May 2004 froze the PPTRA reimbursement to localities. The future payment to localities will equal the actual FY2005 payment. Henrico's payment under the State cap is $37.0 million. As such, over time, the reimbursement from the State will remain flat, while the local component (paid by the County taxpayers) will increase. The projected decrease in State Aid to General Government programs is based on state revenue shortfalls and assumes the elimination of the construction component of the State Gas Tax allocation that Henrico receives for street and highway construction. Henrico is projected to receive of $28.7 million for road maintenance in FY2010. The FY2011 and FY2012 projections assume increases of 1.0 percent and 4.95 percent respectively.



Fiscal Years 2009 through 2012 are estimated. PPTRA payments are reflected in the FY2006-FY2008 totals. Current and future year projections include the estimate for personal property in one central location (local revenue).

Expenditures

Assumptions

In the course of developing the FY2010 Annual Fiscal Plan, difficult decisions were required to bring the budget into balance and maintain the real estate tax rate at $0.87 per $100 of assessed value in CY2009 and CY2010. These decisions were reached after careful review and planning by the Board of Supervisors. This planning reaches beyond FY2010 and is intended to establish a balance between the County's recurring revenues and expenditures in future years. The FY2010 General Fund Budget of $772.2 million represents an increase of $6.6 million or 0.9 percent, which is discussed below and in greater detail in the County Manager's Budget Message and respective department narratives. Due to the limited growth in revenue projections, the growth in the General Fund budget of 0.9 percent over last year's approved budget is not only the smallest growth in the General Fund budget in the nine years the County has adhered to the five percent base budget growth rate, but it is also the smallest year to year budget growth in fifteen years.

Despite this minimal growth, this budget meets all fixed costs and maintains all current service levels. Additionally, $750,000 is provided in the Education budget to plan for the opening of the West Area Middle School and High School #1. It also continues to provide Real Estate Tax Relief for qualifying senior and permanently disabled citizens, meets the accounting requirements for post-employment benefits besides pensions required by GASB-45, and meets all of the County's debt service obligations.

Education is the top priority of the Board of Supervisors. In FY2010, the Education budget represents 54.9 percent of General Fund expenditures. General Fund Education expenditures total $424.3 million in the Annual Fiscal Plan, which represents an increase of almost $3.0 million, or 0.7 percent. Of the total expenditures in Education, 46.5 percent are funded with locally generated revenues and 53.5 percent are funded with State and

Federal funding. It must be noted that the totals above do not include Debt Service costs for Education, which are entirely a local responsibility (see the Debt Service Fund forecast).

A portion of the increase in General Fund Education expenditures can be attributed to capital projects, which were approved in the November 2000 and March 2005 bond referendums. In FY2010, these costs are associated with planning positions for a new West Area Middle School and High School #1. Also, funding for costs associated with an anticipated enrollment increase of 537 students that will bring total countywide enrollment to 48,822. Included are 31.00 new full-time equivalent positions in the General Fund. Of the 31.00 new positions, 19.00 are instructional positions that maintain current pupil-teacher ratios. Additionally, funding is included to continue the laptop initiative for all middle and high school students, lease desktop computers for elementary schools, maintain and expand the local and wide area networks, and provide high speed internet access throughout the system.

For General Government, the total for the FY2010 Annual Fiscal Plan is $347.9 million, an increase of $3.6 million, or 1.0 percent. The FY2010 budget for General Government has no new positions in the General Fund.

General Fund expenditures, *prior to transfers*, are forecasted to grow by 2.1 percent in FY2011 and 4.5 percent in FY2012. The proposed levels of operational funding allows for the continuation of existing service levels as well as new operating costs associated with projects approved in the March 2005 Bond Referendum. As agreed to by the Board of Supervisors and the School Board during FY2002 budget deliberations, the baseline expenditure projections for existing operations assume a maximum 5.0 percent increase in FY2002 through FY2012. Due to the impact of the current recession, the growth in expenditures is not anticipated to achieve the five percent maximum during the projection period. The total anticipated increase of 2.1 percent in FY2011 includes $16.2 million for estimated operating expenditures associated with projects approved in the March 2005 Bond Referendum. The total anticipated increase of 4.5 percent in FY2012 includes $17.7 million for estimated operating expenditures associated with projects approved in the March 2005 Bond Referendum.

The FY2010 Capital Budget totals $53.0 million. The five-year Capital Improvement Program for FY2010 through FY2014 includes requests that are almost $1.9 billion. The County of Henrico will continue to ensure necessary Capital Projects are funded in a manner that maintains the County's AAA/AAA/Aaa bond ratings (See "Financial Guidelines"). Of the $53.0 million FY2010 Capital Budget, $33.8 million is for Water and Sewer projects. The debt service on Water and Sewer projects is paid using revenues from water and sewer user and connection fees. The remaining balance of just over $19.2 million within the FY2010 Capital Budget has been approved for Education and County General Fund supported departments. Landfill revenues of $3.6 million support two projects associated with the Springfield Road Landfill. General Fund revenue from a portion of the Motor Vehicle License Fees totaling $850,000 is designated for various road improvement projects. Central Automotive Maintenance (CAM) fund balance of $590,600 will fund the replacement of the existing CAM fuel management system.

As a means of ensuring the County does not rely too heavily on debt financing for required infrastructure improvements, the FY2010 Annual Fiscal Plan includes $14.2 million in pay-as-you-go funding. In the area of Education, $2.5 million is included for roof replacements and mechanical improvements. The remaining $11.7 million has been allocated for General Government projects in a variety of ways: $7.0 million has been allocated to support future land purchases; $2.0 million will go towards the replacement of the E-911 software application; $617,000 for technology upgrade projects; $462,300 for the planning and design cost for replacement of the Human Services Building HVAC system; $175,000 to continue implementing and updating the Geographic Information System; $150,000 for a jail feasibility study: and $1.2 million will go towards a variety of other projects, such as improvements and rehabilitations of park facilities, mechanical improvements, roof replacement, pavement rehabilitation and building maintenance area safety improvements.

(To) From General Fund Balance is the amount added to or taken from the General Fund Balance based on budgetary needs. This forecast assumes expenditures for FY2010 will use $5.0 million from ending FY2009 undesignated fund balance. The use of undesignated fund balance is for capital projects including $2.5 million for Education capital improvements including roof replacements and HVAC improvements as well as various General Government capital improvements totaling $2.5 million. The General Government projects include roof

replacements, mechanical improvements, pavement rehabilitation, recreation facility rehabilitation, and continued funding for the Geographic Information System, as well as other projects.

To (From) Debt Service Fund represents the forecast of General Fund support to the Debt Service Fund. The debt service levels through FY2011 are calculated on existing and projected debt service requirements. The forecast period is based on projected debt service costs arising from the $237.0 million General Obligation (GO) Bond Referendum approved by the voters in November 2000 and projected debt service on the $349.3 million General Obligation (GO) Bond Referendum approved by the voters in March 2005. The debt from the November 2000 Referendum was issued over a seven-year period from FY2001 to FY2007. The debt from the March 2005 Referendum was also planned to be issued over a seven-year period from FY2006 to FY2012. However due to current economic uncertainty the planned GO Bond issue for FY2010 has been delayed until the economy recovers and growth in revenues to cover the cost of debt service and operating costs of new facilities is anticipated. Thus the projected GO Bond issues for the next three years are zero in FY2010, $77.5 million in FY2011, and $33.3 million in FY2012.

To (From) Capital Projects is projected at $15.0 million in FY2010, of which, $14.2 million is targeted for General Fund (pay-as-you-go) support for capital improvement projects – as mentioned above. Projections for FY2011 and FY2012 are for transfers of $5.8 million each year. In each of these years, the County anticipates allocating $5.0 million for funding of routine capital projects such as roof repairs, pavement rehabilitation and mechanical improvements. The FY2006 Approved Budget established a ceiling for the County's undesignated fund balance of 18.0 percent and once this balance is reached additional reserves will be allocated to a Capital Reserve and used for pay-as-you-go capital projects. In FY2010, this amount equals $9.2 million. However FY2011 and FY2012 do not project an allocation from the Capital Reserve as this is based on actual results of operations. Also included for road projects is $850,000 of Motor Vehicle License Fees in each fiscal year of the projection period.

To (From) Internal Services Fund is a transfer to purchase new vehicles. There is no transfer recommended for FY2010. Also the forecast for FY2011 and FY2012 do not anticipate transfers to Central Automotive Maintenance (CAM) to purchase new vehicles for the County's fleet.

To (From) Technology Replacement Fund is a transfer to purchase new equipment that will be added to the Technology Replacement Fund. There is no transfer recommended for FY2010 and none anticipated for FY2011 and FY2012. Once new equipment is added to the technology replacement program, the cost to replace the equipment in the future comes from Technology Replacement Fund reserves. The use of accumulated reserves are planned in each of these years to replace equipment, which has been in the program a minimum of three years and has reached functional obsolescence.

To (From) Risk Management Fund is the transfer of funds to support risk management operations. The fund was established in FY2005. The FY2010 transfer is for $4.3 million to support the cost of the County's Risk Management operations, which includes the cost of the County's self-insurance program and the cost to purchase insurance policies as well as funding the administrative costs of the operation. The anticipated transfers for FY2011 and FY2012 are $4.4 million and $4.5 respectively to fund the cost of the County's Risk Management operation.

To (From) Special Revenue Fund is the anticipated local requirement from the General Fund to support a variety of State and Federal grant programs including the Capital Area Training Consortium (CATC), the Community Corrections Services Program, the Comprehensive Services Act (CSA), and the Virginia Juvenile Community Crime Control Act (VJCCCA). Also included in the transfer is the County's funding for the curbside-recycling program in the Solid Waste Division and the County's funding for the Department of Mental Health, Mental Retardation and Substance Abuse. The transfer to the Special Revenue Fund is estimated at $23.2 million in FY2010. The projections over the forecast period are $23.7 million in FY2011 and $24.6 million in FY2012, and were determined after analyzing all of the individual components of the Special Revenue Fund.

To (From) Water and Sewer Enterprise Fund represents the annual transfer to pay for the debt service costs associated with $32.0 million in debt for infrastructure improvements made at the Elko Industrial Tract for

current and future economic development prospects. The FY2010 estimate of these costs is $1.6 million and the projections for FY2011 and FY2012 are $1.9 million each year.

To (From) Agency Fund represents the transfer to pay for Henrico County's share of the operating costs and debt service requirements associated with the James River Juvenile Detention Center (JRJDC). The JRJDC Agency Fund accounts for the James River Juvenile Detention Center budget. Henrico County, as the majority partner serves as the fiscal agent for the James River Juvenile Detention Center Commission. Henrico's role as fiscal agent eliminates the need for the Commission to duplicate various administrative functions related to personnel matters, procurement and accounting activities and budget responsibilities. The JRJDC Agency Fund accounts for the Commission's revenues from participating localities, operating and debt service expenditures. As the forecast indicates, the transfer to the JRJDC Agency Fund is anticipated at $3.4 million for FY2010, and remains at $3.4 million in FY2011 and FY2012.

(To) Designated Fund Balance – State Revenues represents the allocation of State revenues designated to cover cost increases in voter approved Education projects. $5.0 million was budgeted in FY2009, which was a one time allocation.

(To) From OPEB - GASB 45 represents the anticipated funding for the significant cost that arose from a new accounting requirement issued by the Government Accounting Standards Board (GASB) known as GASB 45. A new fiduciary fund was created in FY2006 with an allocation of $6.7 million. The transfer will allow the County to budget for the annual cost of public employee non-pension benefits, all outstanding obligations and commitments related to Other Post Employment Benefits (OPEB) in the same manner as reporting financial information for pensions. Projections for FY2010, FY2011, and FY2012 are $6.0 million each year.

(To) From Revenue Stabilization are current year funds held in reserve to offset increases in future operating costs associated with schools, parks, fire facilities, and libraries that will be constructed with General Obligation Bond funds authorized by the voters in the March 2005 referendum. This funding source was first used in FY2003. The use of the designated fund balance is an allocation from the Revenue Stabilization reserve, which was created by the Board of Supervisors in FY2002 to pay for Bond Referendum operating costs. The fund uses current revenues as a financing source and not one-time sources. Once the large one-time incremental increases, which arise from these projects, dissipate, then the reserve will no longer be required. In FY2008, the fund had a budgeted net use of $2.7 million, which brought the cumulative balance in the fund to nearly $8.2 million. The FY2009 projection assumes a net use to the fund of $3.4 million, which will reduce the balance of the fund to just under $4.8 million. In FY2010, a forecasted uses of $.8 million is anticipated, and $4.0 million is anticipated to be allocated from this reserve in FY2011 exhausting the fund.

Ending General Fund Balance represents reserves not appropriated for expenditure, including the designated and undesignated balances.

General Fund Forecast

	FY07-08 Actual	FY08-09 Original	FY09-10 Forecast	FY10-11 Forecast	FY11-12 Forecast
Revenues:					
Current Real Estate Tax	$ 288,052,710	$ 290,945,000	$ 297,890,000	$ 299,379,450	$ 313,644,449
P.S. Real Estate Tax	7,405,714	7,000,000	7,300,000	7,300,000	7,519,000
Current Personal Prop. Tax (1)	68,668,976	100,981,400	102,600,000	104,652,000	109,361,340
P.S. Personal Property Tax	119,665	165,000	130,000	130,000	130,000
Other General Property Tax	4,124,284	1,280,000	1,580,000	1,817,000	1,907,850
Local Sales Tax	53,742,210	56,000,000	57,100,000	58,055,068	60,667,546
Business License Tax	30,847,775	29,000,000	30,600,000	31,212,000	32,304,420
Motor Vehicle License Tax	6,234,901	6,325,000	6,325,000	6,325,000	6,546,375
Consumer Utility Tax	2,590,251	2,450,000	2,600,000	2,600,000	2,691,000
Bank Franchise Tax	11,113,801	2,000,000	3,000,000	3,000,000	3,120,000
Hotel/Motel Tax	10,489,235	8,365,600	9,200,000	9,660,000	10,143,000
Other Local Taxes	7,777,728	5,790,000	5,790,000	5,905,800	6,201,090
Local Taxes Sub-Total	**491,167,250**	**510,302,000**	**524,115,000**	**530,036,318**	**554,236,070**
Permits, Fees, & Licenses	4,325,128	3,905,600	3,859,200	3,936,384	4,172,567
Fines & Forfeitures	3,004,587	2,622,900	2,727,900	2,782,458	2,921,581
Use of Money & Property	20,539,577	8,533,200	8,533,200	8,874,528	9,207,323
Charges for Services	3,230,229	3,171,300	3,176,800	3,176,800	3,272,104
Miscellaneous Revenue	9,767,174	6,681,900	6,940,700	7,079,514	7,433,490
Total Local Revenue	**532,033,945**	**535,216,900**	**549,352,800**	**555,886,002**	**581,243,135**
State & Federal-Schools	216,196,407	239,569,000	226,901,000	233,708,030	247,730,512
State & Federal-General Government (1)	144,404,683	95,217,873	90,394,700	91,298,647	95,817,930
Total State & Fed. Revenue	**360,601,090**	**334,786,873**	**317,295,700**	**325,006,677**	**343,548,442**
Total Revenue	**892,635,035**	**870,003,773**	**866,648,500**	**880,892,679**	**924,791,577**

(1) PPTRA Car Tax Reimbursements are reflected as State Aid, although budget estimates do not break out PPTRA Reimbursements from Current Personal Property Tax estimates. FY08 actual = $37,001,783. Forcast period FY10 thru FY12 equal $37,000,000.

Transfers:					
(To) From Fund Balance	(45,374,187)	5,000,000	5,000,000	5,000,000	5,000,000
(To) From Debt Service Fund	(51,678,821)	(53,773,253)	(55,782,472)	(56,286,287)	(59,374,564)
(To) From Capital Projects Fund	(35,598,369)	(30,140,180)	(15,000,000)	(5,850,000)	(5,850,000)
(To) From Internal Services Fund	(135,500)	-	-	-	-
(To) From Health Care Fund	(1,149,644)	-	-	-	-
(To) From Risk Management Fund	(9,215,632)	(4,099,771)	(4,361,686)	(4,448,920)	(4,537,898)
(To) From Special Revenue Fund	(20,429,055)	(22,863,994)	(23,235,305)	(23,700,011)	(24,648,012)
(To) From Enterprise Fund	(2,836,762)	(1,852,587)	(1,609,569)	(1,869,108)	(1,876,026)
(To) From JRJDC Agency Fund	(3,164,700)	(3,285,493)	(3,359,898)	(3,359,983)	(3,439,823)
(To) From Capital Reserve	8,888,700	15,000,000	9,150,000	-	-
(To) Designated Fund Balance - State Revenues	-	(5,000,000)	-	-	-
(To) From OPEB - GASB 45	(6,400,000)	(6,725,000)	(6,000,000)	(6,000,000)	(6,000,000)
(To) From Revenue Stabilization	2,722,657	3,381,962	750,000	4,029,174	-
Total Transfers	**(164,371,313)**	**(104,358,316)**	**(94,448,930)**	**(92,485,135)**	**(100,726,323)**
Total Resources	**$ 728,263,722**	**$ 765,645,457**	**$ 772,199,570**	**$ 788,407,544**	**$ 824,065,254**
Expenditures:					
General Government Administration	$ 54,809,182	$ 60,945,160	$ 59,366,920	$ 59,366,920	$ 61,147,928
Judicial Administration	7,619,824	8,206,133	8,311,621	8,311,621	8,560,970
Public Safety	150,601,905	155,057,267	157,800,222	158,397,923	165,699,715
Public Works	34,121,936	35,919,540	35,935,899	35,935,899	37,013,976
Health & Social Services	23,392,327	20,365,471	20,439,876	20,439,876	21,053,072
Education	394,607,776	421,296,863	424,250,000	438,713,383	460,720,991
Recreation & Culture	30,340,025	32,871,941	33,169,410	34,316,300	35,955,212
Community Development	21,636,073	19,767,580	20,668,681	20,668,681	21,288,741
Miscellaneous	11,134,674	11,215,502	12,256,941	12,256,941	12,624,649
Total Expenditures	**$ 728,263,722**	**$ 765,645,457**	**$ 772,199,570**	**$ 788,407,544**	**$ 824,065,254**
Fund Balance:					
Reserved (*)	8,264,511	10,112,500	9,200,000	9,400,000	9,600,000
Designated (**)	98,598,757	83,198,076	73,298,076	74,268,902	79,268,902
Undesignated Fund Balance	132,844,459	138,536,301	138,995,923	141,913,358	148,331,746
Total Fund Balance	**239,707,727**	**231,846,877**	**221,493,999**	**225,582,260**	**237,200,648**

* Represents reserves (largely comprised of encumbrances).

** Changes to designated fund balance are the results of the use of or addition to the Revenue Stabilization Fund and Designated State Revenues

*** With the establishment in the FY2006 approved Annual Fiscal Plan of an undesignated fund balance ceiling at 18%, the changes to undesignated fund balance in the projections reflect necessary addition to maintain the 18% ceiling.