



COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

Virgil R. Hazelett, P.E.
County Manager

June 25, 2009

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

Enclosed is the Approved Annual Fiscal Plan for FY2009-10, including both the operating and capital budgets that you approved at your April 28, 2009 meeting. The Board of Supervisors made no changes to the FY2009-10 proposed budget that you received at your March 10, 2009 meeting.

Again, I would like to thank the County staff for their efforts in developing this budget. As always, the staff and I stand ready to assist you in answering any questions you may have regarding the Approved Annual Fiscal Plan for FY2009-10.

Respectfully submitted,

Virgil R. Hazelett, P.E.
County Manager





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COUNTY OF HENRICO

Virgil R. Hazelett, P.E.
County Manager

March 10, 2009

The Honorable Board of Supervisors
County of Henrico
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Honorable Members of the Board:

I am proud to submit to you the Proposed FY2009-10 Annual Fiscal Plan for the County of Henrico. The plan before you was developed during a period of deteriorating national, State, and regional economic conditions – an economic environment that is unlike any we have seen in our generation and one that will likely continue its downturn into the foreseeable future. At this writing, most economists are predicting that the current recession will be the longest since the recessions of 1973-1975 and 1980-1982, which each lasted 24 months. Officially beginning in December 2007, the current recession isn't expected to recover before the end of calendar year 2009, and as the economy continues to worsen, predictions on the length of the recession increase. In prior economic downturns, the Richmond area has proven to be resilient, mostly a result of its diversified business climate. However, the area has been directly impacted by the current economic downturn, including Henrico County, which has seen a number of businesses close its doors and has experienced significant loss of jobs. Two of the County's largest businesses - Circuit City and Qimonda – have declared bankruptcy, resulting in a direct impact on the County's revenues and nearly 5,000 lost jobs. In all, the Richmond region has experienced job losses in excess of 10,000 in the last thirteen months, 6,500 of which were located within Henrico County. The full impact of these job losses on the region will not be fully realized for many months.

Due to the economic uncertainty, the development of this budget has been extremely difficult, to say the least. In developing this budget, all discussions centered around three core ideals: **1) refraining from increasing the tax or fee burden on County residents; 2) continuing to provide services at existing levels; and 3) continuing the County's long history of avoiding layoffs.** While this last ideal may contradict the recent practices of other area employers, both public and private, additional job losses in the region will worsen the local unemployment rate and hinder local recovery efforts. Historically, positions are only added to the County's complement after an exhaustive evaluation of the need for a new position, so all positions that are included in the complement are necessary to provide services at existing levels.

In developing the Proposed Budget, all County departmental operations and services have been reviewed and analyzed to identify efficiencies in their operations. Due to realized efficiencies, and associated cost savings, I am extremely pleased to say that services to citizens are not being impacted in the Proposed Budget. That being said, I must caution you that if the economy continues to worsen, it may be necessary to reduce service levels at some point in the future. I would consider the reduction in service levels to our citizens as a last resort and I will continue to look for internal efficiencies to avoid reducing service levels.

The consistent foresight of the Board of Supervisors, working in conjunction with the School Board to limit growth in base budget expenditures for both General Government as well as the Henrico County Public Schools since FY2001-02, has proven to be one of the most important factors in our ability to prepare this budget without reducing service levels. Another important factor is the consistent fiscal stewardship provided by the Board of Supervisors in our conservative approach in projecting revenues. Also, the Board's continued emphasis on multi-year planning has proven to be invaluable during the development of this budget. With the continued uncertainty in the economy, and its subsequent impact on all revenue sources, it was imperative that the preparation of this budget focus on several fundamental premises:

Revenue Assumptions:

- The County continues to utilize the most up-to-date sales information in determining the assessed values of real estate and this continues to be the case as assessed values are based on sales information as of the end of calendar year 2008. Using the most recent sales data has resulted in an **overall decrease from the reassessment of almost \$455.8 million**. In spite of this, I feel very fortunate to be able to say that the total value of real estate in Henrico County increased due to new construction that was completed during calendar year 2008. The total increase in the land book was just over \$256.4 million, which resulted in a 0.74 percent increase - the lowest percentage increase in the land book in over 30 years.
- As in the past, the revenue estimates in the Proposed Budget have been prepared with extreme caution. This is particularly the case for estimates of our elastic revenue sources such as Local Sales Tax, Business and Professional License Tax, Business Personal Property Tax, as well as fees received from new building permits. Currently, Local Sales Tax receipts are lagging those of last year by 2.5 percent, individual personal property valuations have dropped by 12.5 percent, and BPOL receipts are expected to be impacted when payments are due this spring. These revenues have been impacted in the Proposed Budget and the growth for FY2010-11 is also anticipated to be anemic, at best.
- The FY2009-10 Proposed Budget is the first to include the impact of revenues generated from Short Pump Town Center. For the five-year period from FY2004-05 through FY2008-09, the revenues generated at Short Pump Town Center have been dedicated to paying the debt service the Community Development Authority (CDA) incurred to construct the public infrastructure portions of the center. With the completion of the debt service commitment associated with the Short Pump Town Center CDA, all generated revenues from Short Pump will now be deposited into the County's General Fund. In FY2007-08, revenues from Short Pump totaled in excess of \$7.0 million.
- The ever-growing State budget shortfall and the inability of the State to meet its financial obligation to localities continue to be a serious concern. State aid estimates included in the Proposed Budget reflect budget reductions included in the Governor's Amendments to the Biennial Budget and do not assume any impact of potential federal stimulus funding that the State may receive. In saying that, I must note that in mid-February 2009, the Governor announced a continued decline in State revenue collections that resulted in the need for an additional \$800 million in budget reductions. The Governor recommended and the General Assembly agreed to use the federal stimulus funding to offset the increasing State budget shortfall that is now estimated at over \$4 billion. The allocation of federal stimulus funding to alleviate additional State budget reductions is a concern as this funding is one-time in nature and may defer additional State budget reductions into the next, FY2010-12, biennium.

- The Proposed Budget does not include any federal stimulus funding. If the County does receive funding through the federal stimulus legislation, these funds should be used for one-time needs (as the funding is only for a two-year period, at most) and would be added to the budget through the amendment process.

Expenditure Assumptions:

- The General Fund Operating Budget of the County does not deviate from the long-term financial plan that has been in place since FY2001-02, which requires that continuing operational expenses are met within a 5.0 percent maximum threshold. In fact the actual growth in the Operating Budget is well below the 5.0 percent threshold at a mere 0.86 percent, which is the smallest year over year growth in the General Fund Budget in 15 years.
- All known fixed operational costs will be funded with current revenues and service delivery will not be impacted in any operational area for the General Government or Education. To achieve this, departments were required to identify savings within their respective budgets. All General Government departments were allocated a 7.5 percent reduction to non-fixed cost line items. Also, the allocation for future replacement of technology equipment in the technology replacement fund is being reduced by 20.0 percent. This is based on the assumption that the majority of computer equipment can be replaced on a four-year cycle as opposed to the previous three-year cycle. The County has also begun to downsize the cylinder size for vehicles in the fleet. When a vehicle is scheduled for replacement, the use of the vehicle will be reviewed to determine if a smaller sized vehicle will meet the user's needs. As such, an eight-cylinder vehicle will be replaced with a six-cylinder vehicle and a six-cylinder vehicle will be replaced with a four-cylinder vehicle. The County will also consider the purchase of hybrid vehicles in the future if that decision makes fiscal sense. With gas prices currently at much lower levels than just six months ago, these decisions may seem unimportant. However, gas prices will increase at some point in the future and this plan will lead to permanent, long-term savings.
- Debt service obligations are the first funding obligation included in each operating budget. The assumptions in the Proposed Budget continue this premise. However, in an effort to avoid financial commitments that may require future service-level reductions, the Proposed Capital Budget delays the scheduled \$77.5 million General Obligation (GO) Bond issue in FY2009-10. Because of its triple triple-A bond rating, the County has the ability to issue debt at advantageous interest rates, but the prudent decision is to delay the GO Bond issue until projected revenue growth will be available to pay for the additional debt service. It should be noted that the projected debt service for these bonds in FY2010-11 is \$8.5 million. This cost would be in addition to the \$16.2 million required to operate bond funded facilities that are currently being constructed. The revenue forecast for FY2010-11 simply does not support the combined \$24.7 million requirement. The County will continue to monitor existing outstanding debt and use the County's bond rating to refinance outstanding debt at lower interest rates if these opportunities to save taxpayer funds arise, as was done in February 2009 with the refinancing of \$70.6 million in Water and Sewer Enterprise fund debt.
- Operating costs for new facilities funded through prior General Obligation (GO) Bond Referenda continue to be fully funded.
- The Post retirement benefits arising from the Governmental Accounting Standards Board (GASB) - 45 pronouncement continue to be fully funded. This is the third year in which these costs are present and have been fully funded.

- The Proposed Budget provides additional funding for the County’s Real Estate Tax Advantage Program (REAP) for our eligible senior and handicapped residents. While there are no enhancements to the program included in the Proposed Budget as the program is at the maximum levels allowed under State code. It is anticipated that the program will require additional funding as participation continues to increase.

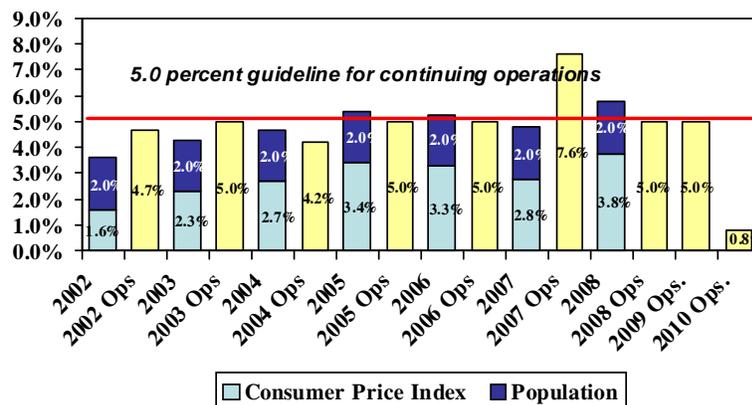
Henrico County’s Approach to Budgeting

Municipalities throughout the State and nation are facing very difficult financial decisions and Henrico County is not immune from these difficult decisions. Many localities have been forced to reduce service levels, furlough employees, eliminate positions, and/or raise tax rates. These are very difficult decisions that have an impact on all residents within the locality. However, our approach to budgeting has proven to be a sound guide in these difficult economic times and we have worked very hard to prepare for a downturn in the economy. This does not mean that the decisions that have been made during the development of this budget have been easy, because they have been very difficult. However, because of the hard work and decisions that are made on an annual basis, we have the ability to make these difficult decisions without impacting service levels, raising taxes, or eliminating positions. Henrico County is not an island that is immune from economic realities. By consistently adhering to a plan that minimizes annual expense increases over many years, using multi-year budget planning, and by utilizing a cautious approach in projecting the County’s resources, times of economic uncertainty may be navigated without significant disruptions in service delivery or levels of taxation.

Minimizing Incremental Expenditure Increases:

Our continuing adherence to the financing plan that was developed with both the November 2000 and March 2005 General Obligation Bond issues was based on a premise that limiting budgeted incremental expenditures annually to a maximum of 5.0 percent prior to adding in the incremental operating expenses arising from new bond funded facilities has allowed for consistent sustainable growth. This financing plan was devised after examining a twenty-year period of actual County expenditures. It was also cross-validated with the assumption that incremental expenditure increases can be maintained at levels that do not exceed the combined effect of inflationary increases (as measured by the CPI-U) and annual population growth.

Percent Change in the CPI & Population Combined v. Incremental Budget Increases



New Bond Project Operating Costs were funded in the year that new projects came on-line and are in addition to incremental budget increases. Once funded, these costs became part of continuing operations.

The accompanying chart reflects that with the exception of one year since FY2001-02, the County’s General Fund for both General Government and Education has been maintained at this 5.0 percent level. In FY2006-07, extraordinary increases in both health care and retirement costs precluded that budget from being presented within this guideline without adversely impacting service delivery.

Funding for the day to day operational costs of new facilities has been met largely through the use of the Revenue Stabilization Fund created by the Board of Supervisors. As a result of funding in the Capital Budget and careful budgeting within the Operating Budget, each facility that has opened has been fully staffed and operational – on day one.

While our efforts to date have been proactive, I continue to express concerns regarding these costs and believe that funding for public infrastructure may present the most significant funding challenge for Henrico County as we continue growing and becoming more urbanized. One of the most common characteristics of urban America is the decay or need for expansion of public infrastructure. To date, Henrico County, through the planning efforts of the Board of Supervisors has defied this trend.

Multi-Year Planning:

The multi-year planning that is utilized by Henrico is not the same as the Biennial Budget process that is used by the Commonwealth and many localities throughout Virginia. The major difference is that with a Biennial Budget, a legislative body would approve a two-year spending plan with only the first year being adopted. The second year of a Biennial Budget would be adopted by a legislative body with amendments but would not include preparation for the upcoming fiscal year. Henrico County's approach is that anticipated costs and revenues for future fiscal years must be considered while preparing each annual budget. This is not a fool-proof method as economic conditions can change quickly and more dramatically than anticipated. However, it does provide a framework that fully recognizes future budgetary requirements. This methodology can be seen in some of the difficult decisions that are being made with the submission of the Proposed Operating and Capital Budgets for FY2009-10. One of the most difficult decisions was to delay the planned \$77.5 million GO Bond issue that included funding for School, Fire, Library and Road projects. In looking at FY2010-11 and the incremental revenue necessary to fund the required operating costs to open a middle school and a high school (9th and 10th grades) as well as the additional costs associated with the completion of other projects including fire stations and libraries, which is estimated at \$16.2 million, the ability to fund an additional \$8.5 million in new debt service is simply not possible within projected resources. The highest priority in FY2010-11 will be to continue existing service levels and provide the funding necessary to open completed facilities approved on the March 2005 referendum within available resources.

Local Taxes:

This budget continues the County's position as the locality with the lowest taxes in the Richmond Metropolitan Area as well as the urban locality with the lowest tax burden in the Commonwealth of Virginia. This has been reconfirmed again this year by the Chesapeake Report which compares thirteen of the largest municipalities in the Commonwealth of Virginia, and is an independent report compiled by the City of Chesapeake. Since its inception in the mid 1980's, the Chesapeake Report has consistently noted that Henrico's Real Estate Taxes as well as our overall local tax burden on residents and businesses located within the County is the lowest when examining the large full service local governments in the Commonwealth. The most recent report, FY2007-08, analyzed average sales prices of homes in these localities and used the local Real Estate Tax Rate to generate a comparative analysis of average Real Estate Taxes paid in each of these localities. Once again, Henrico's Real Estate Taxes were the lowest of this grouping. In addition to this, the FY2007-08 report noted:

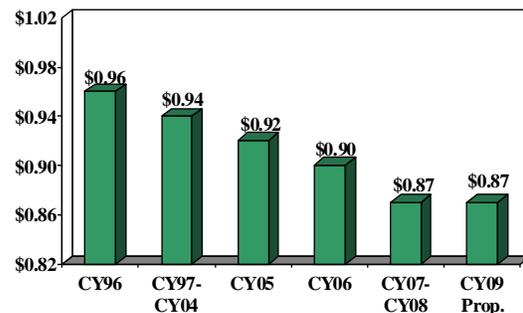
- ✓ Personal Property Taxes Paid on a \$10,000 vehicle were the lowest in Henrico County, when looking at this grouping of localities.
- ✓ Local Utility Consumer taxes on a monthly electric bill for residential and commercial customers were the lowest in Henrico County.

- ✓ Henrico County was the only locality in the grouping that did not impose a local tax on residential or commercial natural gas bills.
- ✓ Henrico County was one of only three localities in this grouping that does not charge a fee for Emergency Medical Services transport.
- ✓ In looking at the overall combined monthly tax and fee obligations for these localities – residents of Henrico continue to pay the lowest amount for public services than any locality in this grouping.

Maintaining stable tax rates during an economic downturn is vital in the preparation for economic recovery. While many local governments have proposed raising their real estate tax rate to offset the declines in assessments, I am not recommending that course for Henrico. In this difficult economic environment, I believe every appropriate measure should be taken to mitigate the local tax burden on our residents and business. As such, this budget was prepared using the existing tax rate of \$0.87/\$100 of assessed valuation. **It should be noted that to maintain current levels of real estate revenues with a \$455.8 million decrease in real estate reassessments would require a \$0.02 increase in the real estate tax rate in Calendar Year 2009.** The Proposed Budget factors in the reduction in revenue from the downward change in assessments.

The chart to the right demonstrates the stability and general downward trend in the County's Real Estate Tax rate since 1996. Between 2004 and 2007, as the value of real estate was increasing, the County's Real Estate Tax rate was reduced from \$0.94/\$100 of assessed valuation to the current level of \$0.87/\$100 of assessed valuation. Those reductions were made to partially offset the increase in assessments at the time and had no detrimental impact on service delivery for General Government or Education.

Real Estate Tax Rate:
County of Henrico



Real Estate Tax Rate: Per \$100 of Assessed Valuation

Finally, Henrico County has one of the lowest local tax burdens in the nation, while it possesses a AAA/AAA/Aaa General Obligation Bond rating. I am pleased to report to you that this rating places us in the upper echelon of local governments in the nation, as there are only 22 of 3,033 counties nationwide that possess such a rating. Mathematically – Henrico's bond ratings are higher than 99.3% of ratings of other counties in the nation.

THE FY2009-10 PROPOSED ANNUAL FISCAL PLAN:

The total recommended Operating Budget for all Funds including the General, Special Revenue, Enterprise, Debt Service, Internal Service, and Agency Funds is \$1,058,614,701, which reflects an increase of \$19,217,167, or 1.8 percent. The total Proposed Budget is illustrated in the table that follows.

**FY2009-10 Proposed Budget
All Funds**

	FY2008-09	FY2009-10	Dollar	Percent
	<u>Approved</u>	<u>Proposed</u>	<u>Change</u>	<u>Change</u>
General Fund:				
General Government Admin.	\$ 60,945,160	\$ 59,366,920	\$ (1,578,240)	(2.6)%
Judicial Administration	8,206,133	8,311,621	105,488	1.3%
Public Safety	155,057,267	157,800,222	2,742,955	1.8%
Public Works	35,919,540	35,935,899	16,359	0.0%
Health & Social Services	20,365,471	20,439,876	74,405	0.4%
Education	421,296,863	424,250,000	2,953,137	0.7%
Recreation, Parks & Culture	32,871,941	33,169,410	297,469	0.9%
Community Development	19,767,580	20,668,681	901,101	4.6%
Miscellaneous	12,635,309	12,256,941	(378,368)	(3.0)%
Reduction in State Aid*	<u>(1,419,807)</u>	<u>0</u>	<u>1,419,807</u>	<u>(100.0)%</u>
Total General Fund	765,645,457	772,199,570	6,554,113	0.9%
Special Revenue Fund	110,960,367	116,690,603	5,730,236	5.2%
Enterprise Funds	73,126,389	74,738,455	1,612,066	2.2%
Internal Service Funds	23,672,980	25,610,472	1,937,492	8.2%
Debt Service Fund	53,773,253	57,782,472	4,009,219	7.5%
Agency Fund	<u>12,219,088</u>	<u>11,593,129</u>	<u>(625,959)</u>	<u>(5.2)%</u>
Total Proposed Budget	<u>\$1,039,397,534</u>	<u>\$1,058,614,701</u>	<u>\$ 19,217,167</u>	<u>1.8%</u>

* The \$1,419,807 reduction in State Aid was the County's allocation of a statewide reduction of \$50.0 million in State Aid to Localities.

As you delve into each area in this budget, you will find that all service levels have been maintained, which has been difficult due to the limited growth in resources and the additional costs requirements. The majority, 86.9 percent, of the incremental increase in the Proposed FY2009-10 General Fund budget is allocated to the areas of Education and Public Safety, which are local government's highest priorities. Other specific highlights of the FY2009-10 Proposed Budget include:

- As stated earlier, one of the difficult decisions that was made in preparing the FY2009-10 Proposed Budget was the decision to delay the planned \$77.5 million General Obligation Bond issue originally scheduled for FY2009-10. However, the delay is necessary due to the impact that this issue would have on the FY2010-11 budget, which would be an estimated additional \$8.5 million in debt service costs.
- The Proposed Budget before you does not include a merit or cost of living increase for General Government and Education employees. This was a very difficult decision as our employees provide the highest level of services for our residents each and every day. However, in light of current economic conditions, revenue projections, and increases in fixed costs funding for even a small increase could not be identified.
- Another difficult decision was the allocation of a 7.5 percent reduction to all General Government departments. In an effort to balance the budget, all General Government departments were thoroughly reviewed and analyzed for potential savings. Each department was allocated a 7.5 percent reduction in their non-fixed cost line items. Mandated or legally required expenditures were exempted from this reduction as were fixed costs such as energy. This method of identifying areas within the budget allowed for the reductions to occur without reducing service levels to our citizens.

- The Proposed Budget for Education includes a total General Fund appropriation of \$424,250,000, 54.9 percent of the Proposed General Fund Budget. This amount represents an increase of \$2,953,137 or 0.7 percent over the FY2008-09 Approved Annual Fiscal Plan. While the State is reducing revenues to Education by over \$6.5 million, the County is increasing the allocation to Schools by over \$9.5 million, and this does not include the additional \$5.2 million that the County is allocating for the increased cost of Education debt service. The additional \$14.7 million that is being allocated for Education demonstrates the Board of Supervisors continued emphasis on ensuring that Education is a top funding priority on an annual basis. That funding recommendation fully meets the operating budget funding request of the Henrico County School Board. As a note, if the elimination of the State Lottery and State Construction funding that were allocated for School construction projects is included, the total reduction in State Aid for Education is over \$13 million.
- The Proposed Budget for General Government does not include any new positions. In October of 2008, the County implemented a more restrictive hiring freeze to conserve resources. Only those positions that are deemed critical to the provision of existing service levels will be approved for recruitment. As of this writing there are 229 vacant positions in the County's complement.
- Another difficult decision was **to not recommend an increase in the water and sewer rates**. The Water and Sewer Enterprise is required to absorb many increases in fixed costs in FY2009-10, and by not recommending an increase in the water and sewer rates, needed capital infrastructure will be delayed. However, not increasing the water and sewer rates in a recessionary period will provide the most benefit to our citizens. Delaying needed capital projects was a decision that has been made for Schools and General Government, so it was a prudent decision to delay water and sewer capital projects as well. This will allow our citizens additional financial relief during these difficult economic times. Though some capital projects have been deferred, existing water and sewer rates will provide sufficient resources to cover annual operating, debt service, and critical capital infrastructure requirements.

GENERAL FUND

Revenues

The plan before you maintains our *conservative* approach in projecting available resources. While many entities take a year-by-year approach in budgeting, Henrico has and will continue to take a multi-year approach to allocating public resources. That approach is a basic premise of our financial management. Total estimated General Fund revenue for FY2009-10, prior to transfers to other funds, is \$866,648,500, which represents a decrease of (\$3,355,273) or (0.4) percent when compared to the current fiscal year.

In looking at the broader revenue categories, the following is noted:

- Total local revenues are estimated at \$549,352,800 and represent an increase of \$14,135,900 or 2.6 percent over the current Approved Annual Fiscal Plan. It should be noted that local revenues have increased from 61.4 percent of total revenues in FY2008-09 to 63.4 percent of total General Fund revenues in FY2009-10 due to the reductions in State Aid to localities. General Property Taxes reflect an increase of \$9,128,600, or 2.3 percent, and are based on maintaining the Real Estate Tax Rate of \$0.87/\$100 of assessed valuation.

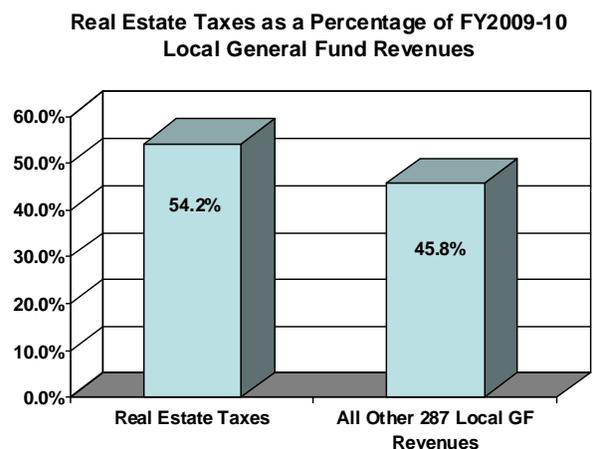
- State revenues for Education and General Government are estimated at \$306,360,500 and are based on the Governor's Amendments to the Biennial Budget. This amount reflects a projected decrease of \$17,491,173, or a 5.4 percent decrease when compared to the FY2008-09 Approved Annual Fiscal Plan. The projections for State Aid for General Government do not assume any reduction in State Gasoline Tax payments from the State for the maintenance of the County's road network, which is the third largest in the Commonwealth. Although the State Gasoline Tax estimate does not include funding that is normally allocated to the Capital Budget. If the State allocates funding to Henrico for road construction, these funds will be added to the Capital Budget through the amendment process. In the area of State Aid for Education, the estimate does not include State Lottery funding for capital construction as the Lottery allocation for construction was moved to the operations portion of the budget. As stated above, these estimates are based on the Governor's Amendments to the Biennial Budget and do not reflect the impact of the revenue shortfall announced in February 2009 or the inclusion of federal stimulus funding the State is using to offset additional budget reductions. Overall, projected State Aid now represents 35.3 percent of General Fund revenues prior to transfer to other funds.
- Federal revenues of \$10,935,200 reflect no change for the current fiscal year estimate. The vast majority of these revenues are dedicated for Social Service programs. Also these estimates do not include any funding associated with American Recovery and Reinvestment Act of 2009 (federal stimulus funding) that was recently passed by Congress and signed into law by President Obama. If the County receives any federal stimulus funding, these amounts will be added to the budget once the funding is secured and will be done through the amendment process.

General Fund Revenues

	FY2008-09 Original	FY2009-10 Estimated	Dollar Change	Percent Change
Local Revenues				
General Property Taxes	\$ 400,371,400	\$ 409,500,000	\$ 9,128,600	2.3
Other Local Taxes	109,930,600	114,615,000	4,684,400	4.3
Total Taxes	510,302,000	524,115,000	13,813,000	2.7%
Permits/Fees/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%
Charges for Services	3,171,300	3,176,800	5,500	0.2
Miscellaneous Revenues	45,000	45,000	-	0.0%
Recovered Costs	4,065,500	4,130,700	65,200	1.6%
Non-Revenue Receipts	2,571,400	2,765,000	193,600	7.5%
Total Other Local Revenue	24,914,900	25,237,800	322,900	1.3
Total Local Revenues	\$ 535,216,900	\$ 549,352,800	\$ 14,135,900	2.6%
State/Federal Revenues				
State-Education	\$ 238,984,000	\$ 226,476,000	\$ (12,508,000)	-5.2%
State-Public Works	32,149,780	28,745,000	(3,404,780)	-10.6%
State-General Government	52,717,893	51,139,500	(1,578,393)	-3.0%
Total State Revenues	\$ 323,851,673	\$ 306,360,500	\$ (17,491,173)	-5.4%
Total Federal Revenues	\$ 10,935,200	\$ 10,935,200	\$ -	0.0%
Total General Fund Revenues Prior to Transfer	\$ 870,003,773	\$ 866,648,500	\$ (3,355,273)	-0.4%
Transfers to Other Funds	(122,740,278)	(109,348,930)	13,391,348	-10.9%
(To)/From Fund Balance (Cap.)	5,000,000	5,000,000	-	0.0%
From Fund Balance (Cap. Reserve)	15,000,000	9,150,000	(5,850,000)	-39.0%
To Fund Balance (State Revenues)	(5,000,000)	-	5,000,000	100.0%
(To) Revenue Stabilization Fund	(2,345,451)	-	2,345,451	(100.0)
From Revenue Stabilization Fund	5,727,413	750,000	(4,977,413)	-86.9%
Total General Fund Revenues	\$ 765,645,457	\$ 772,199,570	\$ 6,554,113	0.9%

What follows is a more detailed discussion of the components of these broader revenue categories.

The General Property Tax category is anticipated to increase by \$9,128,600 over the FY2008-09 Annual Fiscal Plan. This represents an increase of 2.3 percent. In looking at the larger components, Current Real Estate Taxes are projected to increase by \$6,945,000 or 2.4 percent. This revenue projection assumes a continuation of the current Real Estate Tax Rate, \$0.87/\$100 of assessed valuation. Over time, the County's reliance on the Real Estate Tax to fund the operating Budget has continued to increase. This fact has been noted in the



Financial Trends document and is indicative of continued changes made to local revenue sources by the Virginia General Assembly. This is especially important to note in the current economic climate, which saw a decrease in the assessed value of real estate and the impact this one revenue source has on County operations. The graph on the previous page clearly demonstrates just how reliant the County's General Fund is on the Real Estate Tax. As you can see, this one revenue source represents 54.2 percent of the total local General Fund revenues that are utilized to fund both General Government and Education operations. The other 287 local revenues in the form of other taxes, fees, permits, charges for services, interest earnings, and miscellaneous revenues account for the remaining 45.8 percent of total local General Fund revenues. Also, to illustrate our continued reliance on this revenue source, in looking back to the FY1997-98 Annual Fiscal Plan, Real Estate Taxes represented 39.6 percent of budgeted local General Fund revenues.

In CY2009, the assessed valuation of real property in the County will total \$34.7 billion, which is an overall increase of \$256.4 million or 0.7 percent, which is the lowest year over year increase in the land book in over 30 years. Information that will be presented during budget deliberations will show that residential reassessments decreased by 1.2 percent, while commercial reassessments decreased 0.2 percent. This is the first decrease in the assessed value of real estate in at least 30 years. Finally, the combination of commercial reassessment and commercial new construction will reflect a commercial component of the tax base that exceeds 31.1 percent, which is an increase from the 30.0 percent that commercial represented in the prior year.

The annual assessment of real estate in the County reflects the most recent 2008 sales data of comparable properties. By using the most recent sales data in determining the assessed value of property, Henrico County has been able to capture the most current values for the real estate market. We pride ourselves on using the most recent sales data so our assessments are as accurate as possible and the decline in real estate values is indicative of the current market. The projection for real property tax revenue for FY2009-10 of \$297.9 million is based on maintaining the current Real Estate Tax Rate of \$0.87/\$100 of assessed valuation in Calendar Year 2009.

Personal Property Tax revenues, which include PPTRA reimbursements from the State, are projected to increase by \$1,618,600 or 1.6 percent to a total of \$102,600,00. If the estimate is compared to actual FY2007-08 collections the FY2009-10 estimate for Personal Property Tax revenues reflects a decrease over \$3.0 million. This reduced estimate as compared to Fy2007-08 actual collections is based on the anticipated decline in the value of vehicles and is another example of the County's conservative approach to revenue projections. Again, this estimate is due to the uncertainty in the economy and the effect this may have on this revenue, which includes business as well as individual personal property.

Total Personal Property estimates continue to be impacted by the reality that disbursements by the State to localities under the Personal Property Tax Relief Act (PPTRA) remain capped at \$950.0 million. However, due to the decreasing values of vehicles, the actual amount of tax relief our citizens receive will actually increase as the State's portion of the Personal Property Tax bills will increase from the 61.0 percent used in CY2008.

The forecasts for our Other Local Tax Revenues for FY2009-10 reflect an increase of \$4,684,400 or 4.3 percent. This revenue category includes two of the County's most elastic revenue sources, so extreme caution has been used in projecting these revenues this year. The projection for Local Sales Tax receipts of \$57,100,000, reflects a budgeted increase of \$1,100,000 or 2.0 percent. An increase is projected for this only due to the fact that the Sales Taxes generated at Short Pump Town Center (SPTC) will be included in the General Fund for the first time. During the last five years, Local Sales Tax receipts, as well as other local taxes generated by SPTC, were dedicated to pay for public infrastructure improvements. The debt obligation for the Community Development Authority (CDA) ends in FY2008-09, so these local revenues can now be used for General Fund expenditures. The

projection for Business and Professional License Taxes (BPOL), which is also a very elastic revenue source totals, \$30,600,000 for FY2009-10. The BPOL projection assumes a \$1,600,000 increase over the FY2008-09 Approved Budget. However when compared to FY2006-07 and FY2007-08 actual BPOL collections the budget assumes a decrease. This revenue will also see the addition of BPOL revenues generated at SPTC. Transient Occupancy Taxes are projected to increase by almost 10.0 percent in FY2009-10. While this revenue projection reflects a budgeted increase, it represents a 12.0 percent decrease when compared to FY2007-08 actual collections.

The projection for all other locally generated revenues such as permits and fees, fines and forfeitures, interest earnings, charges for services, miscellaneous revenues and recovered costs totals \$25,237,800. This total represents an increase of \$322,900 or 1.3 percent when compared to the FY2008-09 Annual Fiscal Plan.

As noted, there is much uncertainty with State Revenue projections for FY2009-10. The economic situation continues to deteriorate and State revenue forecasts have been revised three times during the current fiscal year. The Governor's Proposed Amendments to the Biennial Budget included significant reductions in State Aid to Localities to close a projected \$3.2 billion revenue shortfall in State revenues. All areas received budget reductions including K-12 Education. The budget before you is based on the Governor's Amendments to the Biennial Budget. In February 2009, the Governor announced additional revenue shortfalls that amounted to \$800.0 million, which brought the total revenue shortfall in the Biennial Budget to an estimated \$4.0 billion. The Governor did not recommend additional expenditures reductions to account for the additional \$800.0 million revenue shortfall but recommended the use of federal stimulus funding. The House and Senate have agreed with the Governor and adopted a Biennial Budget that includes the use of federal stimulus funding so that additional budget reductions were not required. In fact the Biennial Budget passed by the House and Senate use additional federal stimulus funding to restore some of the previous reductions in State Aid to Localities for K-12 Educations, public safety, and constitutional officers. Though the General Assembly adopted a budget, specific details are not known and localities typically do not receive specific revenue details for approximately thirty days.

As I stated above the budget before you is based on the Governor's Proposed Amendments to the Biennial Budget and does not include the use of the federal stimulus funding. I believe this is the prudent course of action and the one we must take. The federal stimulus funding to States will provide relief in FY2009-10 and potentially in FY2010-11, but will not be permanent funding. Also if the economy continues to deteriorate further, the State may be required to reduce State Aid to Localities further. So it is possible that the projections for State Aid that must be made will require revisions during FY2009-10 depending on economic conditions.

Overall, State Revenues are projected to decrease from the current fiscal year by \$17.5 million, and these reductions are seen in each of the three broad components.

The first overall category, State revenues for Education is projected at \$226,476,000 and reflects a decrease of 5.2 percent when compared to the current fiscal year. These revenue estimates represent anticipated receipts in the second year of the State Biennial Budget. These estimates are indicative of the actual overstatement of revenues by the State when the FY2008-10 Biennial Budget was prepared. K-12 Education is usually excluded from budget reductions by the State due to the high priority placed on attempting to meet the constitutional requirements to fund K-12 Education. However due to the severity of the revenue shortfall, budget reductions were necessary in all areas of the budget.

The budget adopted by the House and Senate include additional funding for Education from the federal stimulus funding however I have taken the conservative approach and any additional funding from the federal stimulus funding is not included in this Proposed Budget. Until I am certain that the State will be

able to sustain funding levels at the level based on the federal stimulus funding I will not include these funds in the Operating Budget for ongoing expenses.

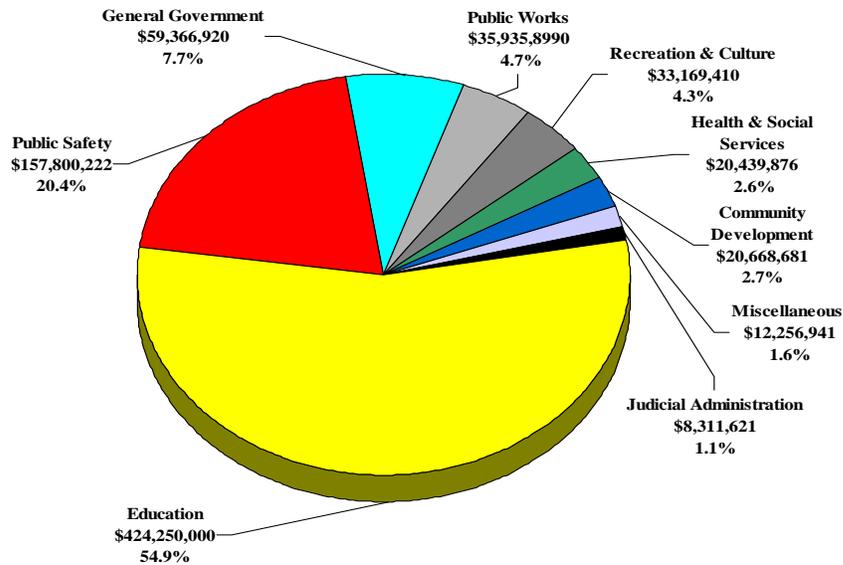
The second component is State Gasoline Tax revenues for Public Works, which is projected to decrease by \$3,404,780 to a total allocation of \$28,745,000. This proposed estimate is an example of the uncertainty that exists within the State Budget. Normally the Gasoline Tax allocation to Henrico is distributed between maintenance of current roads and construction costs in the Capital Budget. However, as the amount of revenue collected from gasoline taxes statewide declined, due to the conservation that begin when the price of gas exceeded \$3.75 per gallon, the State is being required to rethink the allocation of gas taxes. At this time I do not know if the Gasoline Tax allocation to Henrico will include funding for construction, so this estimate does not include an allocation for construction. The estimate is based on the State maintaining the Gasoline Tax allocation for operations at the same level as in the current year, which totals \$28,745,000. If additional State Gasoline Taxes are allocated from the State above our projections, an amendment will be brought to you to add that revenue to the budget. This is the course of action that must be taken due to the unknowns that exists within the area of transportation in the State Budget.

State revenues for all other General Government totals \$51,139,500, which is a projected decrease of \$1,578,393. This estimate includes all anticipated reductions in allocations for Constitutional Officers, State Law Enforcement (House Bill 599), Social Services, and other areas that receive State funding allocations.

In total, State Aid for FY2009-10 is projected at \$306,360,500, which represents a decrease of \$17,491,173, or 5.4 percent and reflects the State's over projecting of revenues with the preparation of the FY2008-10 Biennial Budget and the continued underestimating of the impact the current recession will have on State Revenue collections.

Projections for Federal Aid total \$10,935,200 and are unchanged from the FY2008-09 estimates. The majority of Federal Aid is allocated for Social Services programs and the projections were developed based on current information.

FY2009-10 Proposed General Fund Expenditures \$772,199,570



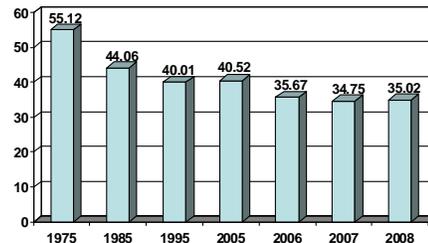
General Fund Expenditures

The total Proposed General Fund Budget for FY2009-10 is \$772,199,570. Highlights of the Proposed General Fund Budget are noted in the pages that follow and specific details regarding each departmental budget may be found in the narratives included within this Proposed Budget document.

Division of Police

The FY2009-10 Proposed Budget for the Division of Police totals \$66,579,523 and provides the funding necessary to maintain service levels as well as continues fully funding for previously funded initiatives. These initiatives ensure that our police officers have the optimum equipment to aid them in their efforts. In developing each annual fiscal plan the goal is to provide Public Safety agencies with the funding necessary to expand service levels. Although, with the current economic climate the goal of this Proposed Budget is to maintain service levels as well as fully fund existing initiatives. This budget provides the necessary funding to achieve these goals.

Crimes per 1,000 Residents



The Division of Police complement totals 799 in FY2009-10, which is a decrease of 14 positions that were transferred to the Sheriff's Office. These 14 positions are located at Jail West and after a thorough review of the positions it was determined that it would be more appropriate for these positions to report to the Sheriff. The positions will perform the same function, only the reporting responsibility will change.

One of the Board of Supervisor's top priorities is maintaining the appropriate level of patrol officers for our increasing population. The County has made many recent enhancements so the Division can continue to attract and retain the best and most qualified police officers. These enhancements have proven successful as the number of vacant police officer positions has decreased dramatically during the last four years. Even with the limited incremental funding available in the Proposed FY2009-10 Budget, funding has been allocated to maintain these enhancements that include:

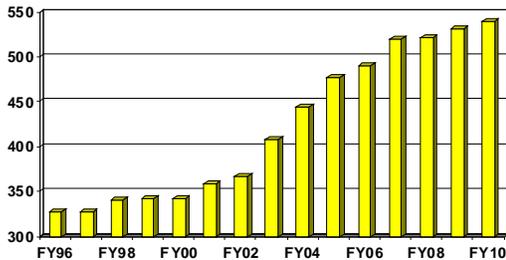
- The expanded career development program that includes the fifth step. The Division's sworn officers are now able to complete the criteria for these advancement opportunities within a minimum of nine years. Previously the career development program had four levels that took a minimum of eight years to complete.
- The expanded assigned and take home vehicle program. This enhancement made all police officers successfully completing the Police Academy eligible for assignment of a take home vehicle. Previously, officers had to complete a probationary period, a minimum of one year, to be eligible for a take home vehicle. Besides assisting in recruitment and retention, accelerating the take home vehicle program increases police visibility throughout the County's neighborhoods, and reduces response times for first responders in a catastrophic event. The Division of Police's FY2009-10 Budget continues this important program at the same level of funding as in the FY2008-09 Budget with no funding reduction. The program anticipates replacing approximately 108 vehicles annually at an estimated cost of \$2,574,800.
- Continues the funding to provide mobile radios in all police vehicles at a cost of \$414,541. This is the third year of this initiative that will be fully completed over a five year period. These mobile radios will enhance officer safety and allow greater interoperability with Hanover County's new emergency communications network. In addition, the installation of the mobile radios will provide emergency communication abilities in the event the portable radio used by the officer is disabled or inoperable.
- The Division also outfits all officers with a Mobile Data Computers (MDCs). The MDC is considered standard equipment for all officers. The Division currently has 603 of these semi-ruggedized units. The County began the program in December 1997, and since that time, through the use of the County's Technology Replacement Fund, these units have been systematically replaced on a regularly scheduled basis. By regularly upgrading the MDC, officers on the street are able to take advantage of up-to-date technology while performing their duties. The MDCs provide officers with access to a vast amount of information from their patrol cars including access to warrants, arrests, and incident reports, as well as a link to State and National Crime databases. Officers also receive call for service information, which is relayed through the radio system, on their MDC. It must be noted that even with the 20 percent reduction in Technology Replacement Funding in all departments that participate in the program. The MDC's will continue to be replaced on regular basis, so that the officers have the technology necessary to perform their duties.

This year, I am also pleased to report that The Division was reaccredited by the Virginia Law Enforcement Professional Standards Commission in 2007 and the Commission on Accreditation for Law Enforcement Agencies (CALEA) in 2008. Also the external recognition for our Division of Police continues, as the Division placed second in the nation for the International Chief of Police National Law Enforcement Challenge. The Division competes each year with agencies of similar size from across the country to determine which police departments have done the best job of not only conducting enforcement activities, but also activities related to policy and procedures, prevention and education, and training.

Division of Fire

The FY2009-10 Proposed Budget of \$50,195,913 for the Division of Fire fully funds the continuation of all services at existing levels including the nine new positions that were added to the Division of Fire’s personnel complement in September 2008. The nine positions are for the new Fire Medic Unit at Fire Station #22 that will improve service delivery efforts in the area served by Fire Station #22. The addition of this funding highlights the County’s efforts to enhance Emergency Medical Services to our citizens.

Henrico County’s
Division of Fire’s Personnel Complement:
The Past 15 Years



The Division of Fire personnel complement totals 540 in FY2009-10, which reflects the nine new positions discussed above. The chart on the left shows 15 years of changes within Fire’s personnel compliment, and displays the County’s emphasis on ensuring that the Division of Fire’s personnel complement is consistently increasing in relation to the County’s population increases and the needs of the County residents. During this 15 year period the Fire personnel complement has increased from 327 to the FY2009-10 level of 540, which represents an overall increase of 65.1 percent during this timeframe.

I am proud to say that the Division of Fire continues its commitment to maintaining national accreditation status by being reaccredited in August 2008. The Division first received national accreditation in FY1998-99 and was reaccredited in FY2002-03. The Division also continues to successfully complete the required Accreditation Annual Compliance reviews. It is also important to note that the Division of Fire was the first internationally accredited fire service organization in the State of Virginia and the ninth in the world. There are only 121 fire service organizations in the world currently accredited.

With the addition of the nine new position for the Fire Medic Unit at Station #22, the County now has fourteen fully-equipped units that provide Emergency Medical Service (EMS) on a twenty-four hour a day, seven day a week basis. The most recent *Chesapeake Report* also noted that Henrico County is one of only three localities surveyed that does not charge for this service.

Other highlights within the Proposed Budget for the Division of Fire this year include:

1. The FY2009-10 Proposed Budget includes \$330,000 in order to continue the Self-Contained Breathing Apparatus replacement program for the Division. The replacement program will upgrade the existing inventory of 238 SCBA units over a three-year period. The FY2009-10 funding will purchase 93 air packs.
2. By budgeting for the consistent replacement of apparatus, we can ensure that our firefighters have the proper working equipment so that they may perform their duties effectively. The apparatus replacement program continues to be budgeted at \$1,500,000 in FY2009-10 and will replace one ladder truck, two brush trucks and one ambulance.
3. The FY2009-10 Proposed Budget continues funding that totals \$96,000 for the Emergency Medical Services Equipment (EMS) Enhancement Program that is used to replace EMS

equipment on a routine and systematic basis. This includes the systematic replacement of the Division's 53 defibrillators.

4. The Division's firefighter safety and health continues to be a top priority. Proper equipment and apparatus is vital to the safety of the firefighter. Funding of \$225,000 is included within the budget for new replacement turnout gear for firefighters as part of the on-going replacement plan as well as additional equipment to provide the Division's personnel with the best available personal protective equipment.
5. The FY2009-10 Proposed Budget for the Division of Fire continues at existing levels the joint EMS response effort of the volunteer rescue squads and the Division by providing \$218,625 in local funding, which the volunteer rescue squads will use to purchase medical supplies, gasoline, and insurance.

Library

The Proposed \$16,399,039 Budget for the Library provides the funding necessary to continue existing service levels at all County Libraries. The traditional role of the Library is currently undergoing a transformation, fueled by the availability of new technology and new ways of delivering services that come as a result of that technology. These resources are available for research purposes from all of our County libraries. Online Internet services encompass such things as an online catalog, access via the Internet to powerful subscription databases for newspapers, magazines, and immensely popular business and research databases. The funding is provided to continue these services at existing levels as well as maintain the funding allocation for the purchase new and replacement books, audiobooks, DVDs and other materials so the collections meet the demands of the residents.

One of the most popular services offered by the Library is public computers with access to the internet. This service is even more important to our citizens that are currently unemployed and use Library computers to search for and apply for jobs. Many employers are requiring applications to be submitted electronically, so this service is very valuable to many job seekers in our County. The public computers in the County Libraries have been replaced on a routine systematic basis through the County's Technology Replacement fund and this systematic replacement will not change with the adjustments being made to the technology replacement program. Computers used by the public will stay on a replacement schedule that allows for their replacement before they begin to deteriorate and not perform at the level expected.

Recreation and Parks

The Division of Recreation and Parks offers a variety of quality programs and facilities to meet the recreational needs of the citizens of Henrico County. Specialized programs offered by the Division include activities for the mentally and physically challenged and for the senior adults of the County. In addition, the Division manages the operation of the 19th century living history museum at Meadow Farm/Crump Park, the County's seven recreation centers, and two community centers. The Division manages the County's park system, which exceeds 3,500 acres, and also maintains 211 fields, 208 courts and 244 facilities and amenities.

The Division's FY2009-10 Proposed Budget is \$16,770,371, which will also provide funding of \$159,000 for the Hunton Recreation Center and property around the facility that was purchased in the fall of 2008. Funding is also included to continue the facility rehabilitation program that began in FY2000-01 and is used to maintain Recreation and Parks facilities. The funding totals \$377,434 and the projects included maintenance of a football field at Short Pump Park; roof replacements for restroom facilities at Meadow Farm, Virginia Randolph, and Highland Spring Recreation Facility;

pond and lake management at various County parks; electrical projects at various facilities; HVAC system installation for the concession building at Pouncey Tract Park; resurfacing of the upper parking lot at Deep Run Park; resurface the paved trail and construct a head wall at Deep Run Park; regrade, sod, and install irrigation at the special events area at Deep Run Park and around Deep Run Recreation Center; install irrigation and various construction and painting projects. The funding for the equipment replacement program began in FY2008-09 and continues at the same level of \$177,000. Equipment to be replaced in FY2009-10 includes a stump chipper, a SandPro multi-purpose vehicle, a riding reel mower, a dump truck, a riding rotary mower two 30' x 30' tents for special events, and 12 aluminum bleachers.

Public Works

Funding to support the Public Works Proposed Budget is to be provided by the State's Gasoline Tax, the County's General Fund, and miscellaneous revenue. Gasoline Tax revenues are normally provided to support road maintenance operations in the Operating Budget and are utilized for new road infrastructure in the Capital Budget. The Proposed FY2009-10 Budget includes an estimated Gasoline Tax allocation of \$28,745,000 that is dedicated for road maintenance operations in the Public Works Operating Budget. Since the portion of the Gas Tax allocation for road construction is unknown at this time, no estimate has been included in the Proposed Capital Budget. Once the allocation for road construction is known, these funds will be added to the Capital Budget through the amendment process.

The total Public Works Department's Proposed Budget for FY2008-09 is \$35,935,899, which is a \$16,359 increase over the FY2008-09 Approved Annual Fiscal Plan. As stated above the State Gasoline Tax allocated within the Operating Budget totals \$28,745,000 and is being maintained at the same level as the FY2008-09 Approved Annual Fiscal Plan. In addition, a County subsidy of \$6,640,735 and miscellaneous Departmental revenue of \$550,164 represent the remaining funding sources. The funding being budget will allow the department to maintain all existing service levels and road maintenance operations. If the actual Gasoline Tax allocation exceeds our estimate, additional funding will be added to the Public Works Budget through the amendment process.

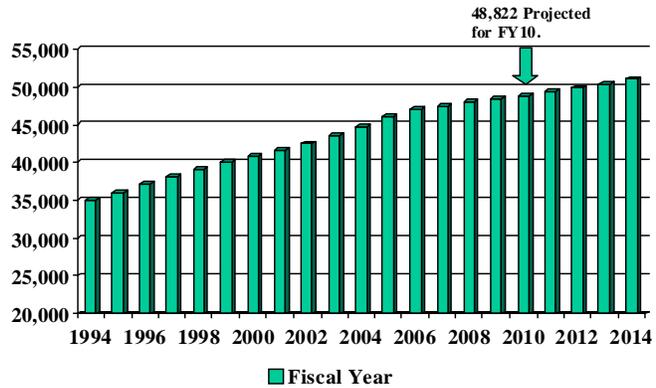
Education

The Proposed Budget includes a total General Fund appropriation of \$424,250,000 for Education in FY2009-10. This amount represents an increase of \$2,953,137, or 0.7 percent over the FY2008-09 Approved Annual Fiscal Plan. Of the \$424,250,000, \$197,224,000 (46.5 percent) will be provided from General Fund revenues and \$227,026,000 (53.5 percent) comes directly from the State and Federal Governments to support Education. It must be noted that State Aid for Education is decreasing by \$12.5 million, which includes the elimination of the State Lottery Funds, so the additional local allocation for Henrico Public Schools is over \$9.5 million excluding the allocation for debt service which is entirely County funded. In the FY2009-10 Budget, local Education debt service expenditures will total \$40,054,789, which is an increase of \$5,234,098 or 15.0 percent. In total, local support for the Education operating and debt service budgets is proposed at \$237,278,789 for FY2009-10, which is a 6.7 percent increase from the FY2008-09 Approved annual Fiscal Plan for these areas.

Education's FY2009-10 Budget for the Special Revenue Fund totals \$54,130,040, which is a 2.7 percent increase over the FY2008-09 Approved Annual Fiscal Plan. In total, with all funds (General Fund, Special Revenue Fund and Debt Service Fund) included, the FY2009-10 Budget for Education totals \$518,434,289, which is an increase of \$9,632,386 or 1.9 percent over the FY2008-09 Approved Annual Fiscal Plan.

In the FY2009-10 budget, 21.0 positions are being added to the General Fund to accommodate an estimated 537 additional students as well as balance class sizes through out the system at a cost of \$1.1 million. This proposed staffing level will allow Henrico County Schools to have an average class size in our elementary schools at 20.1:1, middle schools at 21.6:1, and high schools at 21.4:1. The graph reflects a fifteen year history of actual student enrollment at the Henrico County Public Schools with the current projected enrollment for FY2008-09 as well as Education’s projections for enrollment through FY2013-14.

Henrico County School Membership
FY1994-FY2014 Projected



FY10 reflects projected 9/30/09 ADM.

A total of \$750,000 is recommended to fund the costs for 10.0 planning positions associated with the two new schools that are scheduled to open in the Fall of 2010 (FY2010-11). The two new schools are the High School #1 and the West Area Middle School.

The School Board requested increases in full-time equivalent (FTE) positions from the FY2008-09 Approved Annual Fiscal Plan to the FY2009-10 Proposed Budget is 71.63 FTE. Of these, 50.38 are within the School’s General Fund and 21.25 are within the Special Revenue Fund. The additional positions include: 43.55 Instructional positions; 9.84 Instructional Assistants; 5.00 School Administrative positions including Principals, Assistant Principals, Librarians, and Nurses; 5.50 Administrative, Clerical, and Other Professional positions; 5.25 Technical positions that include Bus Assistants and Clinic Attendants, and 2.49 Bus Driver positions. Of the total 71.63 FTE, 27.63 were added to the Schools complement during FY2008-09 and 44.0 FTE are being added in FY2009-10 (31.0 FTE in the General Fund and 13.0 FTE in the Special Revenue Fund).

The School Resource Officer (SRO) Program, which is a joint effort with the Division of Police, assigns a Uniformed Police Office to each middle and high school in the County. Also one SRO is responsible for gang prevention Countywide and another SRO is dedicated to providing relief throughout the system and is not assigned to a specific school. A total of 25 Police Officers participate in the program. The School Resource Officer provides a safer environment to the students and staff of the schools while also providing a positive role model and adviser to the students.

The FY2009-10 Proposed Capital Budget for Education is \$2,500,000, which only includes the General Fund allocation for roof replacements and mechanical improvements projects that continues the initiative that began in FY1998-99. This will be the twelfth year of this initiative that has provided a total of \$30.0 million for these critical maintenance needs.

The decision on what to recommend for the Education, as well as General Government, Proposed Capital Budget was very difficult. Many projects that would normally be recommended for funding are not included in the Proposed FY2009-10 Capital Budget. This includes the projects that were included in the School Board Approved Capital Budget with State Lottery and State Construction as the funding source. These projects are not recommended for funding because the Governor eliminated these funding sources for school capital construction in his Proposed Amendments to the FY2008-10 Biennial Budget due to the State revenue shortfall. The other projects that would normally be recommended for funding but are not recommended at this time are the General Obligation Bond projects that were planned for

funding in FY2009-10. This was an extremely difficult decision because these were projects our citizens approved on the March 2005 referendum. The School projects scheduled for FY2009-10 totaled \$65.6 million (the General Government projects would add \$11.8 million) and included many projects. However my first responsibility is to provide services at existing levels, and when looking at the additional debt service costs that would be necessary in FY2010-11, over \$7.2 million for the Schools projects alone, and add that to the additional operating costs of new facilities that could potentially exceed \$16.0 million, (the new high school and middle school will add \$10.6 million) I could not move forward with the planned GO Bond issue. There is simply too much uncertainty in the economy and I cannot commit to additional costs that are not fully supported by projected revenues. Once the economy begins to recover and there is a clear sign that revenues are increasing, these critical projects will be recommended for funding.

It must be noted that since the voters approved the November 2000 referendum, all projects approved by the voters on both the November 2000 and March 2005 referenda have been funded on time and as planned. Also additional funding in the amount of \$60.1 has been appropriated by the Board of Supervisors from FY2006-07 through FY2008-09 to cover inflationary increases in construction costs that occurred after the passage of the March 2005 referendum. This additional funding was appropriated to avoid any delays in these critical projects. However, due to the current recession, I have no choice but to delay the scheduled GO Bond projects.

The Board of Supervisors has consistently allocated the majority of the General Fund Budget to Education and provided the necessary funding for capital projects. Through the leadership of the Henrico County School Board, this funding has enabled the Henrico County Public Schools to develop a nationwide reputation for producing graduates who excel in their future endeavors. The funding provided to the Henrico County Public Schools is a key component in our quality of life, it is a key component in our efforts to foster a quality local workforce and it is a key component to the successes in the County's economic development efforts. Education remains a top funding priority of the Board of Supervisors.

SPECIAL REVENUE FUND

The Special Revenue Fund includes the Department of Public Utilities' Solid Waste and Street Light operations, the Henrico County Public Schools' Cafeteria Programs, and State and Federal grants for various educational and General Government programs including the Capital Area Training Consortium (CATC), the Community Corrections Services Program, Wireless E-911 communications, Virginia Juvenile Community Crime Control Act (VJCCCA), the Comprehensive Services Act (CSA), and Mental Health/Mental Retardation/Substance Abuse. The Proposed Special Revenue Fund Budget for FY2009-10 totals \$116,690,603, which represents an increase of \$5,730,236 or 5.2 percent over the current fiscal year.

Of this increase, \$1,445,151 is included within Education's component of the Special Revenue Fund and \$4,285,085 is included within the General Government component. Within the General Government component, the Mental Health Budget increased by \$1,368,874 and the Comprehensive Services Act (CSA) Budget increased by \$306,359. The Capital Area Training Consortium (CATC) Budget increased by \$2,076,175 due to the City of Richmond joining CATC. Previously the City of Richmond operated as a single unit and was not part of this regional consortium. Solid Waste reflects an increase of \$749,372 or 6.6 percent. This increase is due to fixed costs such vehicle repair, gasoline, and a contractual increase for the curbside recycling program. The balance of the General Government increase may be found within the areas of Community Corrections, VJCCCA, and Wireless E-911 communications. Total General Fund support to the Special Revenue Fund is proposed at \$23,235,305

for FY2009-10. This reflects an increase of \$371,311 or 1.6 percent. The components of the Special Revenue Fund are seen in the following chart.

FY2009-10 Proposed Special Revenue Fund Expenditures				
<u>Department</u>	<u>FY2008-09 Approved</u>	<u>FY2009-10 Proposed</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
CATC	1,590,346	3,666,521	2,076,175	130.55
Commonwealth Attorney	815,786	835,304	19,518	2.39
Community Corrections	1,729,023	1,741,679	12,656	0.73
Comprehensive Services Act	8,258,252	8,564,611	306,359	3.71
Education	52,684,889	54,130,040	1,445,151	2.74
Mental Health	30,742,163	32,111,037	1,368,874	4.45
Non-Departmental	557,023	111,895	(445,128)	(79.91)
Public Safety	1,232,732	1,410,225	177,493	14.40
Public Works	897,000	897,000	0	0.00
Solid Waste	11,314,696	12,064,068	749,372	6.62
Street Lights	60,855	70,200	9,345	15.36
USDA (Juv. Detention)	31,000	35,000	4,000	12.90
VJCCCA	1,046,602	1,053,023	6,421	0.61
Total Special Revenue:	110,960,367	116,690,603	5,730,236	5.16

ENTERPRISE FUNDS

Water and Sewer

The Water and Sewer Enterprise Fund accounts for the provision of water and sewer services to residents of Henrico County. All activities necessary to provide such services are accounted for in this Fund, including operations, construction, and related debt service. The total cost of water and sewer services is funded by user fee revenue. No County taxes are used to support these services.

The Proposed Budget includes revenue estimates based on not increasing water and sewer rates, and a 1.5 percent growth in the water customer base and the sewer customer base. Revenues generated by the Water and Sewer Enterprise Fund support the annual operating requirements, resources also must be sufficient to service debt, bond coverage requirements, and current as well as future capital infrastructure requirements within the Capital Budget. In the Proposed Five Year Capital Improvement Program, requested capital infrastructure for the Water and Sewer Enterprise Fund totals \$416,948,680.

The FY2009-10 Proposed Budget of \$73,545,976 includes expenditures for personnel, operating, capital outlay and debt service. Overall, the Water and Sewer Proposed Operating Budget including debt

The FY2009-10 Proposed Budget of \$73,545,976 includes expenditures for personnel, operating, capital outlay and debt service. Overall, the Water and Sewer Proposed Operating Budget including debt service costs is projected to increase by 2.3 percent, or \$1,624,213. The FY2009-10 Proposed Budget includes a number of fixed cost increases including: a \$900,000 increase in the payment to the City of Richmond for the purchase of water, a payment that totals \$8.5 million in the budget; as well as \$600,000 in anticipated payments to Cumberland County under the reservoir authority agreement; operating costs associated with the Goochland Sewer Pump Station are anticipated to increase \$700,000 due to increased odor and corrosion control costs based on actual volumes and chemical rates; and increases in the cost for chemicals, which are increasing \$1.5 million or 44.8 percent over the current year budget.

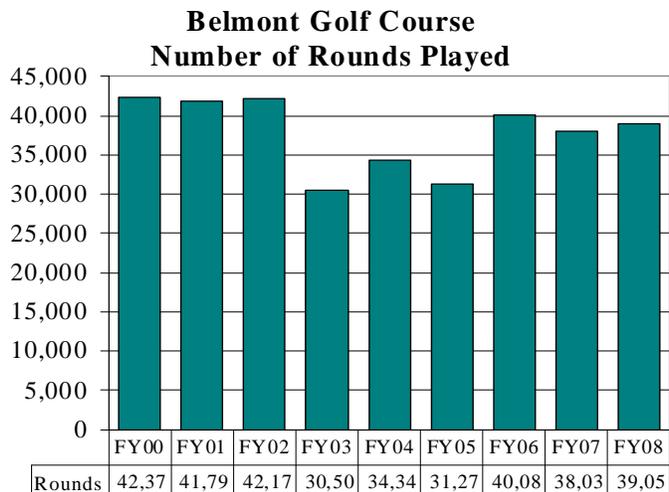
Debt service expenditures of \$15,413,013 (included within the overall budget noted above) represent a decrease of \$2,692,068 when compared to the current fiscal year. The decrease in debt service expenditures is due to the refinancing of \$70.4 million in outstanding debt in February 2009. Because the Water and Sewer Enterprise Fund earned its second AAA bond rating, the debt could be refinanced at a true interest cost (TIC) of 3.71 percent that resulted in a saving of over \$5.65 million. The majority of this savings is being allocated in FY2009-10 and FY2010-11 to alleviate the pressure from the closing of Qimonda, which was the enterprise fund’s largest customer.

In addition to the Proposed Operating Budget, the Water and Sewer Proposed Capital Budget (found within the Capital Budget component of this document) totals \$33,802,600 for FY2009-10, all of which is funded with Water and Sewer revenues. As an Enterprise Fund, revenues generated by this operation must support both the proposed operating expenditures as well as ensuring that Proposed Capital Budget expenditures over a multi-year period may be funded. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund represents 22.3 percent of the total County Five-Year Capital Improvement Program. However, when looking at the County’s current FY2008-09 Operating Budget, the Water and Sewer fund represents 6.9 percent of recommended expenditures. The difference between the relative proportion required for Water and Sewer in the Capital Budget as opposed to the Operating Budget is indicative of the significant infrastructure maintenance and replacement requirements that are present in this operation.

Belmont Golf Course

The Belmont Park Golf Course is operated and maintained by the Department of Recreation and Parks. The Golf Course has a PGA golf professional under contract. In addition to golf services, the professional operates the Pro Shop at the Golf Course. The snack bar is staffed and operated by the County. All activities necessary to run this public facility are accounted for in the Belmont Park Golf Course Enterprise Fund and are paid for by the people who use the course.

The Proposed Budget for the Belmont Golf Course in FY2009-10 is \$1,192,479, which represents a decrease of 1.0 percent from the previous Approved Budget. This budget includes \$1,014,515 for the Golf Course operations, \$155,464 for the Snack Bar, and \$22,500 for payment on a loan from the General Fund.



The personnel component for the Golf Course operations and the Snack Bar increased by \$18,096 or 3.2 percent due to salary adjustments as well as rising costs of health care. Operating expenditures are forecasted to increase by \$28,954 or 5.7 percent while the capital outlay budget is expected to decrease by \$59,197. The capital outlay budget will still fund the replacement of a core harvester that removes aerification plugs, a fertilizer spreader, a three inch trash pump for the sand traps, a weed trimmer, and a chain saw. The facility rehabilitation projects for the golf course consist of refurbishing the well pumps to provide more water to the irrigation lake. The snack bar anticipates replacing a vacuum, the hot dog machine, and a vending machine.

The FY2009-10 Propose Budget does not include a fee increase for the Belmont Golf Course. As a point of reference this is the first year since FY2004-05 that the golf course has not increased rates.

HEALTHCARE FUND

Effective January 1, 2008, Henrico County's health care program transitioned to a self-insurance program in an effort to save administrative expenses. Prior to this transition, the County's health care program operated as a fully insured program, which, in exchange for the payment of a premium, an insurance company assumed the risk, administered the program, and paid all claims. With the transition to a self-insured program, the County pays claims and third party administrative fees. Self-insurance allows the County to more fully control all aspects of the plan, including setting rates to smooth out the impact of increases on employees and the County, while maintaining adequate funding to cover claims, expenses, and reserves.

The Proposed FY2009-10 Budget for the Healthcare fund totals \$80,843,361, which is an increase of \$7,172,939 or 9.74 percent. Included in this figure is \$60,219,302 in funding that is budgeted within individual County and Schools departments as the County's contributions for Healthcare for employees. The balance of funding, \$20,624,059, is the employee and retiree payments for their portion of healthcare. The majority of the budget \$75,443,361 or 93.32 percent of the total Healthcare budget is allocated for payment of claims. The remaining \$5,400,000 or 6.68 percent is allocated for the payment of third party administrative fees, premium payments for excess risk insurance, and an actuarial study.

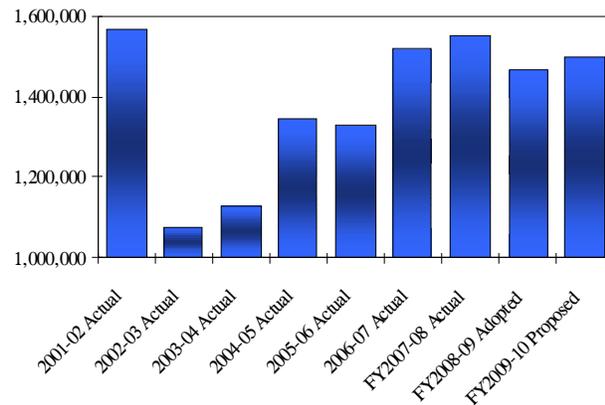
AGENCY FUND

The James River Juvenile Detention Commission (JRJDC) Agency Fund was created to account for expenditures of the James River Juvenile Detention Center. 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, and the operating and debt service expenditures.

The JRJDC Proposed Operating Budget (excluding debt service) totals \$4,912,908 for FY2009-10. This is an increase of \$97,830 or 2.0 percent when compared to FY2008-09 Approved Budget. Debt service costs, paid entirely by Henrico County, are budgeted at \$680,221.

The Commission bills each participating locality their operating share based on the number of beds assigned in the 60-bed facility. Per the JRJDC agreement, Henrico has 52 beds and Powhatan and Goochland have 4 beds each. The Commission will bill the participating localities their share of the operating costs at the following percentages: Henrico-86.6 percent, Powhatan-6.7 percent, and Goochland-6.7 percent. Additionally, some localities in Virginia are operating above capacity in their detention homes, and the JRJDC will lease bed space to them, as space is available.

JRJDC State Funding



State Aid for the Commission is estimated at \$1,498,939 in the Proposed Budget. This figure represents a 3.6 percent decrease compared to the actual State funding received in FY2007-08 and is indicative of the State funding reductions that are seen in all areas of the County Budget that receive Aid from the Commonwealth. As can be seen on the accompanying graph, the level of State funding remains below what it was in FY2001-02 when the average daily population of the facility was 34, as compared to the average daily population of 59 in FY2007-08.

Total Henrico County funds for the Commission are budgeted at \$3,286,700 in FY2009-10 and represent an increase of \$1,207.

DEBT SERVICE FUND

The County is projected to have total outstanding general debt of \$503,050,000 as of June 30, 2009. The distribution of the debt is: \$372,915,000 of General Obligation (GO) bonds (\$258,233,395 for Schools and \$114,681,605 for General Government), \$28,695,000 of Industrial Development Authority (IDA) bonds for the regional jail project, \$12,050,000 of IDA bonds for General Government projects, \$85,430,000 of Virginia Public School Authority (VPSA) bonds, and \$3,960,000 for the JRJDC. It must be noted that of the \$503,050,000 projected June 30, 2009, outstanding debt, \$343,663,395 or 68.3 percent is attributed to Education projects and \$159,386,605 or 31.7 percent is attributed to General Government projects.

In order to ensure that the County does not exceed its ability to service current and future debt requirements, an annual long-term **debt affordability analysis** is performed and utilized as a forecasting tool when confronted with the question of potential debt issues. The County has established the following debt affordability guidelines – debt service as a percentage of assessed value, 1.49 percent; debt service as a percentage of General Fund expenditures, 7.75 percent; and net bonded debt per capita, \$1,650. Following are three of the ratios that are calculated in the debt capacity analysis, which was most recently completed in February 2009:

- The ratio of net bonded debt to total assessed value is a standard measure of the County's ability to meet interest and principal payments on its long-term debt. The County has a ratio of 1.24% in FY2008-09.
- The ratio of debt service to General Fund expenditures measures the percentage of the budget used to pay debt service and provides a measure of the annual demands placed on the Operating Budget by the County's long-term debt. This ratio is 6.56% in FY2008-09.

- Net bonded debt per capita is the amount of debt outstanding divided by the number of County resident. The amount of debt per capita in FY2008-09 is \$1,646.

On March 8, 2005, the County voters approved a \$349,300,000 General Obligation (GO) Bond Referendum. The referendum included projects for Schools, Fire, Public Library, Roads, and Recreation and Parks. Of the total \$349,300,000 referendum approved by the voters, Education projects totaled \$220,000,000 and General Government projects totaled \$129,300,000. The funding for these projects is being phased in over a seven-year period with one GO Bond issue per year.

However, because of the current difficult economic environment, I have chosen to take the prudent approach and delay the planned FY2009-10 issuance of GO Bonds. The future issuance of GO bonds will be contingent upon the recovery of the economy and the subsequent revenue growth to ensure adequate coverage of the associated debt service costs. The General Obligation Bond issue that would have been recommended for funding in FY2009-10 totaled \$77,457,000. Of that amount, \$65,657,000 was for School projects and \$11,800,000 was for General Government projects. However at this time I am doubtful that additional revenue growth will occur in FY2010-11 to pay the \$8.5 million in debt service cost that would arise from the issue.

It should be noted that the County has \$146.4 million in outstanding GO Bond authorization from the \$349.3 million GO Bond Referendum approved in March 2005 that is for projects that include new School facilities as well as renovations and addition to existing School facilities, Fire Stations, Recreation facilities, and Libraries.

CAPITAL IMPROVEMENT PROGRAM

One of the County's financial priorities is met through the five-year Capital Improvement Program (CIP), which ensures that infrastructure improvements are planned thoroughly and that financing those improvements is done prudently, which became a more difficult decision with the FY2009-10 Proposed Capital Budget due to the recession and the unknowns with the economy. The CIP is a very valuable document because we must achieve a balance between available resources and competing priorities and this year these decisions are even more difficult. The five-year CIP for FY2009-10 through FY2013-14 totals \$1,872,507,375. This amount is indicative of the County's increasing infrastructure requirements and the demand that the Capital Budget will continue to place on resource allocation in the future. Projects recommended for funding in the firsts year of the CIP are included in the Proposed Capital Budget that follows.

Proposed FY2009-10 Capital Budget:

The Proposed Capital Budget for FY2009-10 totals \$52,993,200 and is funded through a variety of revenue sources. Although all of the revenues sources included in the Proposed Capital Budget are pay-as-you-go funding. The concern with the FY2009-10 Proposed Capital Budget is the revenue sources that are not included: General Obligation (GO) Bonds, State Lottery, State Construction, and State Gasoline taxes. I am recommending to delay the \$77.5 million GO Bond issue that was originally planned for FY2009-10. Due to the uncertainty of the economy and County revenue collections, as well as the significant increase in known operating costs for projects currently funded with GO Bonds, I cannot commit to increased debt service costs in FY2010-11. Currently, operating costs for bond projects currently funded and being constructed are expected to total \$16.2 million in FY2010-11. The debt service from this \$77.5 million issue would add \$8.5 million to that total for FY2010-11. At this writing, that total far exceeds the anticipated revenue increment for that year. The remaining revenue sources that are not included, State Lottery, State Construction and State Gasoline Tax revenue, were not included in the Governor's Proposed Amendments to the FY2008-10

The remaining \$33,802,600 of the FY2009-10 Proposed Capital Budget is designated for water and sewer projects, which are supported by forecasted revenues generated by the Water and Sewer Enterprise fund. Public Utilities has requested \$8,025,000 for recurring water and sewer projects such as water and sewer line rehabilitation, capital project plan review, connections, extensions, preventive maintenance of various water and sewer pump stations, and various relocations, adjustments, and crossings projects. The remaining projects in this area planned in FY2009-10 include the following: \$16,000,000 for the Four Mile Creek Trunk Sewer and Eastern Force Main, \$275,000 for Water Reclamation Facility improvements, \$1,180,000 for the Strawberry Hill Basin Sewer Rehabilitation, \$372,600 for the River Road Sewer Pump Station improvements, \$400,000 for the Meredith Branch Sewer Pump Station, \$1,000,000 for the North Gayton Road Extended 16" water main, and \$1,500,000 for the Water Treatment Plant expansion. Additionally, the Proposed Budget includes \$50,000 for a roof replacement project, \$200,000 to provide for emergency power at the sewer stations, \$300,000 for water meters, \$3,000,000 to continue to allocate funds for an automated water meter reading program, and \$1,500,000 for a fire flow enhancement program

G.F.O.A. DISTINGUISHED BUDGET AWARD

The Government Finance Officers Association (GFOA) of the United States and Canada, each year nationally recognizes budgets that meet certain rigorous standards. GFOA presented an Award for Distinguished Budget Presentation to the County of Henrico for its Annual Fiscal Plan for FY2008-09. In order to receive this award, a governmental unit must publish a budget document that meets stringent program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is valid for a period of one year only. After receiving the award for twenty consecutive years, we believe our current budget continues to conform to the program requirements, and we will be submitting it to GFOA to determine its eligibility for a twenty-first year.

SUMMARY

The challenges encountered in the development of the Proposed Operating and Capital Budgets for FY2009-10 were many. When the process began in the fall of 2008, the price of gasoline and diesel fuel were just below their all time highs in the Richmond metropolitan area and the cost of natural gas, fuel oil, and electricity were sharply increasing. These increasing fixed costs had to be considered during budget development. The banking crisis had begun, the credit markets were continuing to tighten, and although the economy had not "officially" been declared in a recession, there was little doubt that the economy was spiraling downward quickly. Since the fall of 2008, the economy has deteriorated significantly. Quite frankly, I don't know when we will see a bottom, and additional declines are imminent. Many economists are projecting the recession will last at least until December 2009, but there is little certainty in their projections. In an effort to mitigate further erosion of the economy, the federal government is pumping \$750 billion into the banking and financial services industries in an effort to avert a potential collapse of the banking system and credit markets, as well as allocating funds to American automobile companies in an attempt to avoid bankruptcy that would create numerous additional job losses. In addition, the federal government recently introduced the American Recovery and Reinvestment Act of 2009 (federal stimulus funding) that allocated \$787 billion in an effort to stimulate the economy and avoid additional job losses nationwide. While these efforts are unprecedented in size and scope, it may be years before the success of these efforts is determined.

As of February 2009, the estimated revenue shortfall for the State of Virginia is \$4.0 billion. The General Assembly passed a budget that includes federal stimulus money to offset the additional \$800 million revenue shortfall announced by Governor Kaine in February, as well as restore funding to other areas of the budget. So where does that leave Henrico County?

Henrico is undoubtedly feeling the effects of the recession. Two of the County's largest companies – Qimonda and Circuit City – recently declared bankruptcy. The Richmond metropolitan area has lost over 10,000 jobs since January 2008, with almost 6,500 of those job losses located in Henrico. For the first time in at least 30 years, the value of real property has declined. Our elastic revenues are declining and State Aid has declined by nearly \$17.5 million.

Given these obstacles, many factors contributed to successfully balancing the Proposed FY2009-10 Operating and Capital Budgets, including the following:

- Maintain all taxes and fees at current year levels. In these difficult economic times, we do not want to add a financial burden to our residents.
- Continue multi-year financial planning so costs incurred in FY2009-10 will not impact the County's ability to provide existing service levels in future fiscal years.
- Reviewed all line items in General Government Departments and identified areas that could be reduced without impacting service levels to our citizens. The result of this analysis was to reduce all General Government departmental non-fixed cost line items by 7.5 percent.
- After a thorough analysis of the County's technology replacement efforts, it was determined that the department allocations could be reduced by 20.0 percent. This reduction is possible by extending the replacement of most computers from a three-year to a four-year replacement cycle.
- Implemented an effort to downsize the County's vehicle fleet. Each vehicle that is scheduled for replacement will be reviewed to determine if the number of cylinders can be reduced. An eight-cylinder is replaced with a six-cylinder and a six-cylinder is replaced with a four-cylinder. Also Central Automotive Maintenance (CAM) is evaluating the use of hybrid vehicles.
- Delay the planned \$77.5 million General Obligation Bond issue that was scheduled for FY2009-10. In light of the current economic environment and the \$16.2 million of new incremental operating expenditures that are required in FY2010-11 from new facilities opening including; a new high school (9th and 10th grades), new middle school, fire stations, and library additions, resources are not sufficient to cover the \$8.5 million in additional debt service expenditures. This delay impacts both Education and General Government projects.
- Continued the County financial policy of avoiding the use of one-time funding sources for ongoing operating costs.
- If the funding source for a capital project was eliminated or could not be confirmed the project was not recommended for funding. This includes projects funded with State Gasoline Taxes, State Lottery funding, and State Construction funding. If any of these funding sources are restored the funding will be added to the budget through the amendment process.
- Encourage the continued review of the County's operations and search and identify internal efficiencies and cost savings wherever possible.
- Continue to budget all revenues conservatively.
- Continue the more restrictive hiring freeze implemented in October 2008. Currently, this hiring freeze has resulted in 229 positions being held vacant.

As I noted earlier, many localities in Virginia are reducing service levels, raising taxes and fees, or a combination of both. However due to the financial guidance provided by the Board of Supervisors, Henrico County has avoided many of these extremes, at least in the short term.

Eventually, the current recession will come to an end and the recovery will begin. By making the difficult decisions today we will place ourselves in a better position to prosper in the future when the economy does rebound.

I am extremely proud to present to you this financial plan for FY2009-10. I would like to thank the County staff for the many hours of hard work that went into the development of this budget. I would also like to express my gratitude to our Department Heads who continue to be good stewards of the public's resources and who continue to seek both efficiency and service quality improvement in their daily operations. Finally, I would like to thank the Superintendent and the School Board for their efforts and continued cooperation that will result in the continued success of our County.

As always, the staff and I stand ready to assist you in making the best possible choices for the present and future of our community.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Virgil R. Hazelett". The signature is written in a cursive, flowing style.

Virgil R. Hazelett, P.E.
County Manager

