Virgil R. Hazelett, P.E.
County Manager

COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

July 1, 2012

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

Enclosed is the Approved Annual Fiscal Plan for FY2012-13, including both the operating and capital budgets, that were approved by the Board of Supervisors at the April 24, 2012 meeting. Included in this document is the one change made by the Board to the County Manager's proposed budget the week of Legislative Budget Reviews. As approved on April 24, 2012, $18,363 has been added to the Public Relations and Media Services budget to allow for the continuation of quarterly Henrico Today publications, and the same amount was removed from the County Manager's Reserve for Contingencies within the Non-Departmental area of the General Fund budget. These changes were made without increasing the total operating budget. Further, no changes were made to the proposed capital budget.

Again, I would like to thank the County staff for their efforts in developing this budget. And, 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 FY2012-13.

Respectfully submitted,

Virgil R. Hazelett, P.E.
County Manager

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COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

Virgil R. Hazelett, P.E.
County Manager

March 13, 2012

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am pleased to submit to you the Proposed FY2012-13 Annual Fiscal Plan for the County of Henrico. As we enter the sixth year of this economic downturn, I cannot help but be amazed at all that this County has accomplished in spite of unprecedented declines in resources. With your steadfast guidance, Henrico remains one of the few localities in the Commonwealth, and the country for that matter, that has balanced each and every budget in this economic downturn without significant service delivery reductions, without raising taxes on its citizens and businesses, and without laying off one employee. In spite of the unprecedented challenges the FY2012-13 budget process has presented, the plan before you does not deviate from this ideology.

As we have discussed on several occasions, this budget process began with a $53.6 million General Fund budget shortfall, easily the largest budget gap in my twenty years as County Manager. Achieving a balanced budget in FY2012-13 without significant impact to service delivery efforts and without layoffs has required significant budget reductions across the board. It has also required a number of budget reduction strategies that have never before been considered in Henrico County. More specifically, the following unprecedented budgetary decisions have been made in this budget:

- In addition to a 2.0 percent vacancy savings rate applied to all General Government departments in the FY2012-13 Proposed Budget, the County will offer a one-time voluntary retirement incentive to 1) all full-time Henrico County employees who will have met all eligibility requirements for full retirement through the Virginia Retirement System no later than September 1, 2012; and 2) who choose to retire during the period of July 1, 2012 through September 1, 2012. Employees who are eligible for the Henrico County Retiree Supplement that elect to participate would receive a cash payment equivalent to 10.0 percent of the employee's annual base salary, and a monthly healthcare supplement amount double the current rate of $3.00 per full year of service to $6.00 per full year of service for the first five years from their retirement date. Employees who are not eligible for the Henrico County Retiree Supplement that choose to participate would receive a cash payment equivalent to 15.0 percent of the employee's annual base salary.

- Henrico County's internal policy of maintaining an undesignated fund balance equivalent to 18.0 percent of General Fund expenditures will be lowered to 15.0 percent of General Fund expenditures at fiscal year-end June 30, 2012. Expected one-time "savings" of more than $22 million will be applied to a Vehicle Replacement Reserve within the Capital Budget, which will

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fund replacement police vehicles, fire apparatus, and school buses for at least the next three fiscal years.

- Technology replacement allocations within each participating General Government department, totaling $1.7 million, have been completely removed from the respective departmental budgets. In the FY2012-13 Proposed Budget, the $2.9 million appropriation in the Technology Replacement Fund will be funded utilizing Technology Replacement Fund Balance, which could be sustained for the next three fiscal years with existing Fund Balance levels, if necessary.

- In addition to these unprecedented budgetary decisions, 26 positions across a number of General Government departments have been "unfunded" and placed into the County's "hold complement" for future allocation. Further, targeted operating and capital outlay reductions have been made across all General Government departments.

- Within the Education budget submitted by the School Board:

  - $11.0 million in one-time funding has been utilized to balance Education's budget in an effort to minimize classroom disruption and avoid layoffs of existing staff. Using one-time funds in the budget means that the County will need to generate adequate incremental revenue and/or additional cost savings in FY2013-14 in the amount of $11.0 million simply to make Education "whole" in the next budget process.

  - The VRS rate for teachers has been assumed at a level reflecting the average of the lower VRS rate in the House Appropriations' budget submission, the higher VRS rate in Senate Finance's budget submission and in the Governor's Proposed 2012-2014 Biennial Budget.

  - Contracts for <u>newly hired</u> school bus drivers will be reduced from the two existing bus driver contracts - 186 day/7 hours per day and 202 day/8 hours per day - to a standard 183 day/6 hour per day contract.

  - Centralized school bus parking locations are being established across the County to significantly reduce "deadhead miles." This initiative includes aggressively reducing the number of take-home buses, eliminating a significant amount of bus mileage and yielding significant savings in the areas of diesel fuel and automotive maintenance.

  - In addition to these unprecedented budget reduction strategies, Education has also achieved additional budgetary savings in the following areas:

    - Post Retirement Earnings Program (PREP) benefits for retired Schools employees have been restructured for the second consecutive fiscal year.

    - A total of 58.1 FTE will be eliminated in FY2012-13 through attrition. Included in this figure are 19.6 central office and other professional positions, 28.5 instructional positions necessary to increase the pupil-teacher-ratio (PTR) by 0.25, and 10.0 Exceptional Education instructional positions due to declining enrollment. Partially offsetting this reduction in FTE is the addition of 10.0 teachers into a "teacher reserve" for future classroom adjustment.

    - Across the board operating reductions have been applied to all Education departments.

In spite of the difficult reductions recommended in this Proposed Budget, Education and Public Safety clearly remain the top funding priorities. In regards to Education, of the $53.6 million General Fund budget shortfall, $27.6 million was allocated to General Government and $26.0 million was allocated to Education, in spite of Education funding representing more than 54 percent of the total General Fund budget in FY2011-12. Further, in total, the General Fund budget is declining just under $8.4 million. However, funding for Education is actually increasing $300,000 in the FY2012-13 Proposed Budget, compared to a decline of nearly $8.7 million for General Government departments. As a result, the percentage of the total General Fund budget allocated to Education is increasing from 54.3 percent to 55.0 percent in the plan before you. In addition, with the creation of the Vehicle Replacement Program within the Capital Budget, as noted above, Education is being allocated $2.5 million for the replacement of school buses, an item that was removed from the budget in a previous year as a cost savings measure.

In looking at the area of Public Safety, the General Fund budget is declining $3.2 million in the FY2012-13 Proposed Budget. However, when you add back Police's vehicle replacement program and Fire's apparatus replacement program, which will continue to be funded outside of the operating budget, Public Safety would reflect a net increase of just under $900,000. Clearly, Public Safety and Education remain the top priorities of the Board of Supervisors, and these priorities have been reflected in the plan before you.

Further, it must be noted that the plan before you may change, depending on any fundamental changes made by the General Assembly to the Governor's Proposed 2012-2014 Biennial Budget or any other approved bills that would harm localities. In reviewing the budget submissions from both Houses' finance committees, it is highly likely that aid to localities will actually exceed the Governor's budget proposal. However, the legislation that gives me the greatest concern in regards to the plan before you is Senate Bill 497, which would prohibit localities and school divisions across the State from picking up the 5.0 percent VRS employee rate. Employees would be required to pay that cost, and localities would be required to pass on at least a 5.0 percent salary increase to partially offset this cost to employees. Staff has diligently reviewed this bill, and has determined that for Henrico County to implement this bill without impact to employee salaries would require a County cost of nearly $8.0 million – General Government and Schools – due to the cost of salary driven benefit costs. I hope it's clear by now that Henrico does not have $8.0 million available to apply towards this mandate, should it be approved. Again, this is the one outstanding bill in the 2012 General Assembly that continues to concern me.

With the exception of the utilization of one-time funds in the area of Education, all of the budget reduction strategies noted above are sustainable for at least the next three fiscal years. This is critical as we continue to slowly ascend from the depths of this economic downturn. Even in the face of a $53 million budget shortfall, we must not close our eyes to what lies ahead. The FY2013-14 budget process may likely be just as challenging, if not more challenging, than the budget process in which we currently find ourselves. Revenues aren't expected to recover significantly as real estate will likely continue its struggle, and a number of incremental fixed costs have already been identified, such as operating costs for new facilities and making Education "whole" after using $11.0 million in one-time funds in the plan before you. Further, we have very little to no flexibility remaining in the operating budget for further expenditure reductions with this being the County's fourth consecutive fiscal year of cost reductions. Further operating budget reductions will require a reduction in services, reducing the number of existing employees, and/or revenue enhancements.

In addition to the known fixed costs forthcoming, I must remind the Board of Supervisors that a very large - and very real - expenditure is on the horizon that must be funded. We are at the point where it is critical that we begin the process of replacing the County's 800MHz radio system, an expenditure that is currently estimated at more than $37 million. This system is the backbone of the County's communications network, notably in the area of Public Safety. The current system is now nearly 13 years old, and because of its age, system maintenance support and replacement components will significantly dwindle in the near future. The current goal is to have a fully functional replacement

system by late 2016. Staff is currently working on a funding plan that will likely include a combination of cash and debt financing. A needs assessment will soon be underway, and more detail will be provided to the Board of Supervisors when the assessment is completed.

Where We Are and Where We've Been

In this economic downturn, virtually every single General Fund revenue source has been impacted, particularly the two largest funding sources, real estate tax collections and aid from the Commonwealth, which combined, account for approximately two thirds of total General Fund revenues. Estimated General Fund revenues in this FY2012-13 Proposed Budget total just under $825 million, more than $22 million less than the amount collected in FY2006-07. In other words, Henrico County is currently operating with less revenue than it collected six fiscal years ago. In these six years, the County has opened 43 new or newly renovated facilities that received incremental operating costs, including new schools, new parks, a new library, new fire stations, as well as a number of renovations and additions. In fact, these 43 facilities alone required $55.3 million in new operating costs in the General Fund – funding for staff, utilities, etc. That's just one example of the service delivery enhancements and initiatives this County has undertaken over the past six years, particularly in the areas of Public Safety and Education. All of these initiatives required incremental expenditures, and incremental expenditures require a revenue source. Yet, the County operates with substantially less revenue than before these initiatives began. I often find myself asking how we've balanced each and every budget in this time period without harsh budgetary actions. And every time, I come back to the same answer – fiscal stewardship.

Entering the economic recession that began in December 2007, Henrico County was better prepared for the subsequent fiscal impact of an economic downturn than most municipalities in the Commonwealth of Virginia, if not the country as a whole. The fiscal management and foresight of this Board of Supervisors over the years has paid significant dividends as we have navigated through this downturn. Since FY2001-02, Henrico has capped continuing operating expenditure growth at five percent annually, even during the periods of strong economic expansion and real estate growth. This capping of expenditures allowed the County to conservatively estimate revenues, which proved to be critical when General Fund revenues began declining as the County was afforded the opportunity to "true up" revenues rather than reduce expenditures dollar-for-dollar with declining revenues. Henrico County positioned itself prior to the recession as the "leanest of the lean." With the sizable reductions made over the past four fiscal years, Henrico County is that much leaner. In fact, including the $53.6 million budget gap that is being covered in the FY2012-13 Proposed Budget, the County has absorbed or trimmed more than $96 million in expenditures from the budget – General Government and Education combined – since FY2010-11. To summarize the actions taken over the past three fiscal years:

- Within General Government, 169 vacant positions have been either eliminated or "unfunded" and moved to the County's hold complement. In addition to these positions, at this writing, more than 200 positions remain vacant due to the hiring freeze that has been in effect since October 2008.

- In addition to the General Government positions, Education has eliminated 207.6 vacant positions through attrition over the past three fiscal years. Including the 169 General Government positions, a total of 376.6 vacant positions have been eliminated or unfunded in the past three fiscal years in the County's complement.

- In addition to vacant positions being eliminated, the County instituted a "vacancy savings rate" to capture expenditure savings due to annual attrition. Further, as noted above, a proposed retirement incentive is being recommended to capture additional vacancy savings next fiscal year.

- Both General Government and Education have applied across-the-board operating reductions for four consecutive fiscal years. These reduced expenditures were mostly the result of departments "changing how Henrico does business," and finding efficiencies and cost savings in every possible aspect of their respective operations.

- More than $280 million in outstanding debt has been refunded since 2009, achieving nearly $18 million in debt service savings over the life of the bonds.

- Technology replacement costs were reduced significantly from FY2009-10 to FY2011-12, and then eliminated completely in FY2012-13. Technology replacement schedules have been expanded to maximize the usage of existing equipment. In addition, Information Technology has meticulously reviewed the County's telecommunications costs and has saved more than $1.0 million annually by finding and recommending efficiencies in this area.

- Travel and tuition costs have been removed from all departmental budgets, with the exception of the budget for Countywide training programs. There remains a reserve account with a balance dedicated to travel and tuition – in which I must approve every request.

- The County's Energy Reduction and Environmental Sustainability Program has yielded permanent cost savings in the County's utility costs – both General Government and Schools.

- Central Automotive Maintenance (CAM) has implemented an initiative to downsize vehicles when acceptable as they are being replaced, saving one-time capital costs in addition to gasoline costs. In addition, departments have been encouraged to "turn in" underutilized motor pool vehicles.

- As noted above, the FY2012-13 Proposed Budget recommends an internal Fund Balance policy change, and a Vehicle Replacement Reserve has been created to remove a number of vehicle replacement requirements from the operating budget as a budget balancing tool.

- Education is utilizing one-time funds to avoid staff layoffs and is making fundamental changes to its transportation system and early retirement program.

There are a number of other targeted operating budget reductions that have been made throughout this economic downturn. The initiatives this County has undertaken to reduce costs have required an incredible effort on behalf of all County and Schools staff. We have done everything we can possibly do and cut everywhere we can possibly cut. County departments cannot reduce resources any further and continue to provide the current level of services. If the County doesn't achieve adequate revenue growth in FY2013-14 to cover its fixed cost increases, <u>there are simply no more options outside of significant service reductions, elimination of existing staff, and/or consideration of a tax rate increase or other revenue enhancement</u>.

<u>Breaking Down the $53 Million Budget Gap</u>

Unlike many localities across the State, Henrico County made a pointed decision to continue issuing debt and continuing construction projects throughout this economic downturn, in spite of the associated incremental operating and debt service costs. This decision has proven to be beneficial for a number of reasons: 1) interest rates have remained at historic lows and the County's triple-AAA bond rating has yielded the lowest true interest costs on record; 2) construction bids have been exceptionally generous in this time period; 3) continuing these construction jobs have kept people employed in one of the hardest impacted sectors of the economy; and 4) Henrico County has better positioned itself for future growth. In addition, I feel that the County had a moral obligation to the citizens of Henrico County to complete the projects that were voted on and approved on the March 2005 G.O. Bond Referendum. While the decision to continue the County's capital improvement program has a short-term cost, the long-term

benefits will prove to be invaluable. In FY2012-13, there are significant fixed costs that must be addressed that arise from the continued building of County infrastructure, specifically in the areas of debt service and incremental operating costs for new facilities.

The County's $53.6 million budget shortfall that was addressed in this budget process was generated solely by fixed cost increases, as there is inadequate revenue growth - to say the least - to cover the incremental costs present in the FY2012-13 Proposed Budget. Overall, General Fund revenues are actually increasing in the plan before you, albeit by only $3.2 million, and that figure is misleading as it includes $5.5 million in one-time Federal Jobs Funds for Education. However, fixed cost increases far outpaced the minute increase in revenues. The following fixed cost increases were addressed in the FY2012-13 Proposed Budget:

- In the Governor's Proposed 2012-2014 Biennial Budget, the recommended VRS employer rate for teachers was increased from 6.33 percent in FY2011-12 to 11.66 percent in FY2012-13, an increase of more than 84 percent.

- On the General Government side, the VRS employer rate has increased from 12.16 percent in FY2011-12 to 14.98 percent in FY2012-13, an increase of more than 23 percent.

- The VRS Group Life rate is increasing from 0.28 percent in FY2011-12 to 1.19 percent in FY2012-13, a 325 percent increase. This cost increase impacts both General Government and Education.

- In FY2011-12, $10.2 million in incremental operating costs for new facilities was funded from the Revenue Stabilization Reserve, which must be funded with current revenues in FY2012-13.

- The FY2012-13 Proposed Budget addresses the increased cost of healthcare benefits for employees, which increased in calendar year 2012.

- Debt service costs are increasing $6.1 million in FY2012-13, due to the $66.1 million G.O. Bond issue in August 2011.

Fixed cost increases combined with a zero or negative revenue growth environment requires expenditure reductions. County and Schools staff have worked meticulously in doing just that. Everyone is doing more with much less.

Global Revenue Assumptions

- The County continues to utilize the most up-to-date sales information in determining the assessed values of real estate and this remains the case as assessed values are based on sales information as of the end of calendar year 2011. Using the most recent sales data has resulted in an overall reduction in real estate market value of more than $1.0 billion or 3.3 percent in 2012, the third consecutive year of overall declines.

- 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 receipt are relatively flat after a strong showing in FY2010-11. Individual personal property valuations and BPOL receipts are expected to increase slightly in FY2011-12 due to an overall increase in vehicle valuations and increased economic activity. Through December 2011, structure and equipment permit revenues reflected an increase of more than 74 percent for the fiscal year, as compared to the same time period the previous fiscal year. The Proposed Budget before you includes an overall increase in

elastic revenues as a result of the growing economy, but we must prepare revenue estimates with cautious optimism – therefore, projections of these revenues have been estimated very conservatively. As always, these elastic revenues will continue to be monitored closely and adjustments will be made, if necessary.

- Estimated State revenues are balanced to the Governor's Proposed 2012-2014 Biennial Budget. At this writing, it appears that the budget amendments developed by both General Assembly Houses' finance committees would provide additional funding for localities, over and above the Governor's Proposed budget. That being said, we must remain extremely cautious in projecting these resources at the local level, as revenue estimates at the State level continue to be fairly aggressive. In addition, there are a number of other bills outside of the budget still being considered that could impact localities fiscally.

THE FY2012-13 PROPOSED ANNUAL FISCAL PLAN:

The total recommended Operating Budget for the General Fund is decreasing $8,369,447 or 1.1 percent as compared to the FY2011-12 adopted budget. Including all funds, the Operating Budget totals $1,047,222,937, which reflects an increase of $3,491,343 or 0.3 percent. The total Proposed Budget is illustrated in the table that follows.

FY2012-13 Proposed Budget (Expenditures)
All Funds

General Fund:	FY2011-12 Approved	FY2012-13 Proposed	Dollar Change	Percent Change
General Government Admin.	$ 55,759,533	$ 55,362,271	$ (397,262)	(0.7%)
Judicial Administration	8,049,983	7,761,951	(288,032)	(3.6%)
Public Safety	155,821,049	152,642,617	(3,178,432)	(2.0%)
Public Works	35,765,565	35,504,297	(261,268)	(0.7%)
Health & Social Services	20,180,869	16,250,691	(3,930,178)	(19.5%)
Education	403,750,000	404,050,000	300,000	0.1%
Recreation, Parks & Culture	33,257,069	32,432,295	(824,774)	(2.5%)
Community Development	19,058,975	19,762,124	703,149	3.7%
Miscellaneous	12,018,323	11,525,673	(492,650)	(4.1)%
Total General Fund	**743,661,366**	**735,291,919**	**(8,369,447)**	**(1.1%)**
Special Revenue Fund	125,898,394	125,698,177	(200,217)	(0.2%)
Enterprise Funds	79,610,279	82,243,801	2,633,522	3.3%
Internal Service Funds	31,165,703	33,976,235	2,810,532	9.0%
Debt Service Fund	54,854,043	60,982,785	6,128,742	11.2%
Agency Fund	8,541,809	9,030,020	488,211	5.7%
Total Proposed Budget	**$1,043,731,594**	**$1,047,222,937**	**$ 3,491,343**	**0.3%**

As you delve into each area in this budget, you will see that a number of departments reflect a reduction in overall expenditures – some a result of reduced State funding and others are reflective of targeted reductions in expenditures. Other specific highlights of the FY2012-13 Proposed Budget include:

- While the overall Proposed Budget, all funds, is increasing by $3.5 million, General Fund expenditures are decreasing nearly $8.4 million. All increased costs in the above referenced funds are attributable to fixed cost increases. In fact, of the $11.9 million increase outside of the General Fund, $8.5 million is attributable to increased costs of debt service expenditures,

both in the Debt Service Fund and in the Water and Sewer Enterprise Fund. In looking globally at the fund level, I offer the following as highlights:

- ✓ In the General Fund, Public Safety is declining $3.2 million, mostly due to the removal of the replacement police vehicles and fire apparatus from the operating budget and funding these items in the capital budget.

- ✓ Effective with day care services provided after February 1, 2012, the Department of Social Services will no longer process payment for day care programs. The Virginia Department of Social Services implemented a new Virginia Case Management System to provide electronic time and attendance tracking services for child day care programs. The state will process all vendor payments and will no longer require any local match for any of the child day care programs. As such, the budget in the area of Health and Social Services is declining $3.9 million.

- ✓ Within the Enterprise Funds category, the Proposed Budget for the Water and Sewer Fund is increasing $2.6 million, mostly related to a $2.4 million increase in debt service costs related to the full-year appropriation of a planned $85 million new debt issue in FY2012-13. Outside of debt service, the Water and Sewer Fund's operating expenditures are only increasing $232,657 or 0.4 percent.

- ✓ In the area of Internal Service Funds, the total increase noted above is $2.8 million, an increase that is misleading as it is simply due to the removal of all departmental appropriations for the Technology Replacement Fund in an effort to close the budget gap in FY2012-13, and instead utilizing Technology Replacement Fund Balance.

- ✓ The Debt Service Fund is increasing $6.1 million related to the $66.1 million debt issuance in FY2011-12. As a note, <u>this debt issuance completed the March 2005 G.O. Bond Referendum authorization</u>, and the FY2012-13 Proposed Capital Budget includes the final $40.2 million appropriation for citizen approved projects from this referendum.

- ✓ In the area of Agency Funds, the overall expenditure increase of $488,211 is solely due to the creation of a new Line of Duty Act Fund, which has been allocated $500,000 in the FY2012-13 Proposed Budget. As you may recall, the 2010 General Assembly passed the cost of this State-created program to localities in the passage of the 2010-2012 Biennial Budget. The Line of Duty Act provides a death benefit and/or a healthcare benefit to the employee and/or surviving spouse of Public Safety personnel, including volunteer rescue squad members, who are disabled or killed in the line of duty. The County must make a decision by July 1, 2012 as to whether it prefers to participate in a VRS-sponsored pooled program or manage these benefits internally.

- Across-the-board and targeted expenditure reductions have been made to all General Government departments in this proposed budget. More specifically:

  - ✓ In addition to the removal of funding of 26 positions, most departments were allocated a turnover rate of 3.0 percent of salaries and variable rate benefits –

2.0 percent attributed to capturing normal annual attrition and 1.0 percent attributed to the retirement incentive initiative.

- ✓ Targeted operating and capital outlay expenditure reductions have been applied to most General Government departments.

- ✓ Technology replacement costs have been removed from all participating departmental budgets in FY2012-13. Funding in this area was reduced substantially over the past three fiscal years before finally being removed in the plan before you. Technology Replacement Fund expenditures will be funded with Technology Replacement Fund Balance in FY2012-13.

- In the area of Non-Departmental, donations to outside agencies were again reduced by 10.0 percent across-the-board in the FY2012-13 Proposed Budget, the fourth consecutive year of 10.0 percent reductions. Henrico County continues to fulfill all of its regional obligations.

- The FY2012-13 Proposed Budget includes $3.9 million in funding associated with the opening of new facilities, utilizing funding from the Revenue Stabilization Fund. The new facilities opening in FY2012-13 include Glen Allen High School (12th grade), the replacement of Fire Station #7 and Fire Station #9, the renovation of Fire Station #10, the renovation and expansion of Fire Station #13, the Tuckahoe Annex (the new Library headquarters located in the old Tuckahoe Library), Dabbs House Visitors Center, Twin Hickory Park, and Best Plaza. No new positions were added as a result of these new facilities in FY2012-13.

- The Proposed Budget for Education includes a total General Fund appropriation of $404,050,000, 55.0 percent of the Proposed General Fund Budget. This amount represents an overall increase of $300,000 or 0.1 percent when compared to the FY2011-12 Approved Annual Fiscal Plan. The Proposed Budget for Education includes $2.5 million in funding from the Revenue Stabilization Fund associated with the addition of the 12th grade at Glen Allen High School.

- A recommended increase of 5.0 percent in water and sewer rates is suggested for the maintenance of the County's long-term water and sewer infrastructure and the continued funding requirements arising from the Water and Sewer Enterprise Fund. Rates in this area must be sufficient to provide for annual operating, debt service and capital budget requirements, but they also must ensure that funding for longer-term infrastructure requirements are met as well. By continuing to adjust rates incrementally on an annual basis, it is hoped that significant one-time increases may be avoided in future years and that our infrastructure is well maintained.

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, even as the majority of revenues have deteriorated in the past several years. That approach is a basic premise of our financial management. Total estimated General Fund revenue for FY2012-13, prior to transfers to other funds, is $824,966,705, which represents an increase of $3,189,535 or 0.4 percent when compared to the current fiscal year.

General Fund Revenues

	FY2011-12 Original	FY2012-13 Estimated	Dollar Change	Percent Change
Local Revenues				
General Property Taxes	$ 388,660,000	$ 379,975,000	$ (8,685,000)	(2.2%)
Other Local Taxes	114,755,000	116,235,000	1,480,000	1.3%
Total Taxes	503,415,000	496,210,000	(7,205,000)	(1.4%)
Permits/Fees/Licenses	3,345,200	3,443,900	98,700	3.0%
Fines and Forfeitures	2,390,000	2,390,000	-	0.0%
Use of Money and Property	9,784,400	7,872,500	(1,911,900)	(19.5%)
Charges for Services	3,748,700	3,725,700	(23,000)	(0.6%)
Miscellaneous Revenues	2,857,800	3,028,400	170,600	6.0%
Recovered Costs	4,278,870	4,286,370	7,500	0.2%
Total Other Local Revenue	26,404,970	24,746,870	(1,658,100)	(6.3%)
Total Local Revenues	**$ 529,819,970**	**$ 520,956,870**	**$ (8,863,100)**	**(1.7%)**
State/Federal Revenues				
State-Education	$ 204,679,000	$ 214,883,000	$ 10,204,000	5.0%
State-Public Works	28,745,000	28,745,000	-	0.0%
State-General Government	47,848,000	47,551,555	(296,445)	(0.6%)
Total State Revenues	$ 281,272,000	$ 291,179,555	$ 9,907,555	3.5%
Total Federal Revenues	$ 10,685,200	$ 12,830,280	$ 2,145,080	20.1%
Total General Fund Revenues Prior to Transfer	**$ 821,777,170**	**$ 824,966,705**	**$ 3,189,535**	**0.4%**
Transfers to Other Funds	(93,364,475)	(110,119,018)	(16,754,543)	17.9%
(To)/From Fund Balance (Cap.)	5,000,000	5,000,000	-	0.0%
From Fund Balance (Cap. Reserve)	-	5,000,000	5,000,000	100.0%
From Vehicle Capital Reserve	-	6,574,800	6,574,800	100.0%
From Revenue Stabilization Fund	10,248,671	3,869,432	(6,379,239)	(62.2%)
Total General Fund Revenues	**$ 743,661,366**	**$ 735,291,919**	**$ (8,369,447)**	**(1.1%)**

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

The General Property Tax category is anticipated to decrease by $8,685,000 or 2.2 percent when compared to the FY2011-12 Annual Fiscal Plan. In looking at the larger components, Current Real Estate Taxes are projected to decrease by $11,400,000 or 4.2 percent, partially offset by increases in other property tax categories, including Personal Property Tax collections. The revenue projections for Real Estate Taxes assume a continuation of the current Real Estate Tax Rate, $0.87/$100 of assessed valuation.

In CY2011, the assessed valuation of real property in the County will total $30.7 billion, an overall decline of just over $1.0 billion, or 3.3 percent. This decline reflects the third consecutive year-over-year decline in real estate valuation, over which the County's real estate tax base has dropped $3.1 billion, or 9.0 percent. The graph to the right indicates the extent to which real estate valuations have been impacted throughout this economic downturn. The entire reduction was in the area of residential real estate, which declined by $1.1 billion or 4.9 percent, the fourth consecutive year of reduced valuation in this market. Commercial real estate posted a slight increase in CY2011 of $62.2 million or 0.7 percent after two preceding years of declines. Commercial valuation as a percentage of the overall tax base increased from 29.2 percent to 30.4 percent.

The annual assessment of real estate in the County reflects the most recent 2011 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 FY2012-13 is $261.8 million, which represents a reduction of $11.4 million from the current fiscal year's adopted budget.

Personal Property Tax revenues, which include PPTRA reimbursements from the State, are projected to increase slightly in FY2012-13 to $105.0 million, an increase of $1.2 million or 1.2 percent. Due to the strength of the used car market, vehicle valuations are projected to increase in the current fiscal year. Also, with the recent announcements of businesses relocating or expanding in Henrico County, as well as the continued impact of the "Henrico, VA" initiative, business personal property tax collections are anticipated to increase slightly. Again, the conservative estimate of this revenue source is due to the slow growth expectations of 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.

The forecasts for our Other Local Tax Revenues for FY2012-13 reflects a slight net increase of $1.5 million or 1.3 percent. The projection for Local Sales Tax receipts of $58,400,000 reflects a budgeted increase of $2,350,000 or 4.2 percent. Business and Professional License Taxes (BPOL) collections reflect a decline of $1,250,000 or 4.2 percent, to $28,600,000, to better reflect prior year actuals and maintain the County's conservative posture in regards to its local tax revenues.

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 $24,746,870. This total represents a net decrease of $1,658,100 or 6.3 percent when compared to the FY2011-12 Annual Fiscal Plan.

In the Proposed Budget, overall State revenues are estimated to increase $9.9 million or 3.5 percent as compared to the FY2011-12 Adopted Budget. This increase is solely the result of increased funding for State aid to Education, which is estimated to increase $10.2 million in FY2012-13. Of this increased revenue for Education, more than half is due to the projected increase in the VRS rate for teachers. It should be noted that State revenues were mostly balanced to the Governor's Proposed 2012-2014 Biennial Budget. Though all of the locality-specific detail is not yet available, it appears that the budgets being considered by the House and Senate each would provide additional aid to localities. However, we cannot be sure until a compromise is reached and a final budget adopted. Estimates of State aid must remain conservative, as revenue estimates at the State level may prove to be aggressive. If the State misses these revenue estimates, reductions in aid to localities would be necessary.

What follows is a discussion of the three broad components of State aid.

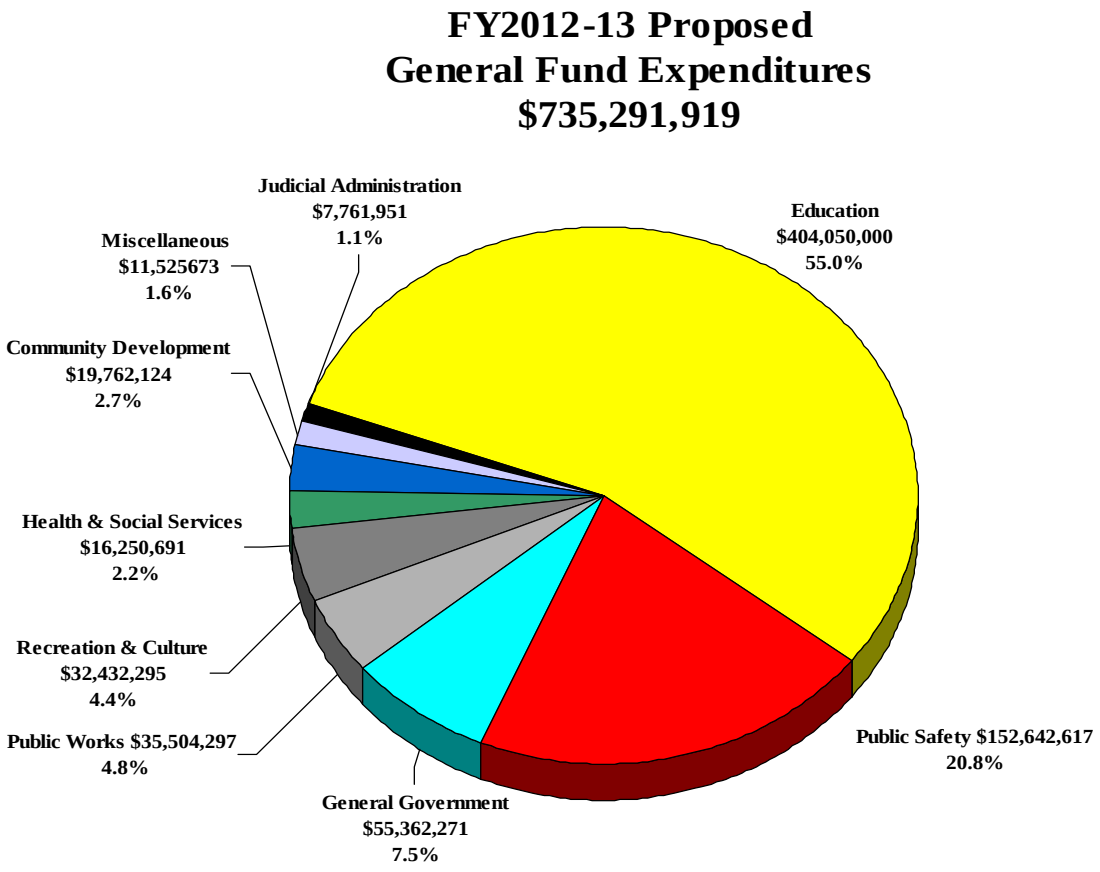
The first overall category, State revenues for Education is projected at $214,883,000 and reflects an increase of $10.2 million or 5.0 percent when compared to the current fiscal year. As noted above, more than half of this revenue increment is attributed to the increased VRS employer rate. Also noted above, it is highly likely that additional aid to localities for Education will be approved in the final budget bill. Should additional State funding be added for Education, it is highly recommended that these funds should remain "off the table" and not appropriated in the FY2012-13 budget, as they would be deferred to the following fiscal year, FY2013-14, to help offset the $11.0 million in one-time funding that Education is receiving in FY2012-13. Clearly, it has required a demonstrable effort by the Board of Supervisors to provide Education with adequate local resources to continue the quality Education system County citizens expect.

The second component is State Gasoline Tax revenues for Public Works, which is projected to remain flat with FY2011-12 estimates with a total allocation of $28,745,000. Since the current distribution structure began in 1986, the Gasoline Tax allocation to Henrico has been distributed between maintenance of current roads and construction costs in the Capital Budget. However, the amount of revenue collected from gasoline taxes statewide declined due to the conservation that began when the price of gas exceeded $3.75 per gallon nearly four years ago. It remains uncertain if the Gasoline Tax allocation to Henrico will include funding for construction. 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 $47,551,555, which is a projected net decrease of $296,445. This estimate includes all anticipated allocations for Constitutional Officers, State Law Enforcement (House Bill #599), Social Services, and other areas that receive State funding allocations. More specifically, House Bill #599 funds are estimated at $7,650,000 in FY2012-13, an increase of $300,000 from the current fiscal year budget, though this increase is misleading. The increase is only due to conservative estimates made in the FY2011-12 adopted budget. The Governor's Proposed 2012-2014 Biennial Budget leaves House Bill #599 funds flat with the current fiscal year level. It should be noted, however, that the *Code of Virginia* states that the program's funding growth should be tied to the overall rate of growth in the State General Fund, which is projected to grow at 3.3 percent in FY2012-13 and 4.5 percent in FY2013-14. That being said, the budget bill "trumps" the *Code of Virginia*, and the level of House Bill #599 funds have remained flat in the current fiscal year, and in each year of the Governor's Proposed 2012-2014 Biennial Budget, in spite of projected budget growth in each of these three fiscal years. In FY2007-08, the County collected $10.1 million in House Bill #599 funding. The State's share of funding for constitutional officers has increased $100,600 in FY2012-13, but still remains well below the levels seen in FY2007-08.

Projections for Federal Aid total $12,830,280 and reflect an increase of $2,145,080 in FY2012-13. However, this increase is slightly misleading, as it's mostly due to the utilization of $5.5 million of one-time Federal Jobs Funds to assist in balancing Education's operating budget requirements. Offsetting this increase is the elimination of a number of federal Social Services revenue sources due to the State taking over a number of day care services going forward, and is therefore retaining the federal funds for themselves. The majority of Federal Aid is allocated for Social Services programs and the projections were developed based on current information.

General Fund Expenditures



The total Proposed General Fund Budget for FY2012-13 is $735,291,919, a net reduction of $8,369,447 or 1.1 percent. General Government departmental highlights of the Proposed General Fund Budget are provided below. Specific details regarding each departmental budget may be found in the narratives included within this Proposed Budget document.

- As previously noted, the Division of Police's vehicle replacement program and the Division of Fire's apparatus replacement program have been removed from the operating budget and will be funded within the Vehicle Replacement Reserve in the FY2012-13 Capital Budget.

- Also included in the Division of Fire's FY2012-13 budget is operating costs associated with the replacement of Fire Stations #7 and #9, the renovation of Fire Station #10, and the renovation and expansion of Fire Station #13.

- The budget for General Services includes $930,000 in new operating costs associated with the Tuckahoe Annex (new Library headquarters located in the old Tuckahoe Library) and Best Plaza.

- In the Recreation and Parks budget, $364,446 in new operating costs associated with the Dabbs House Visitors Center and Twin Hickory Park has been added.

- The General Services' and Recreation and Parks' budgets continue their respective maintenance programs. For General Services, the Building Maintenance Program continues their efforts in replacing worn carpet and painting General Government facilities.

- The FY2012-13 Proposed Budget continues the County's Real Estate Advantage Program for our senior citizens at its current levels.

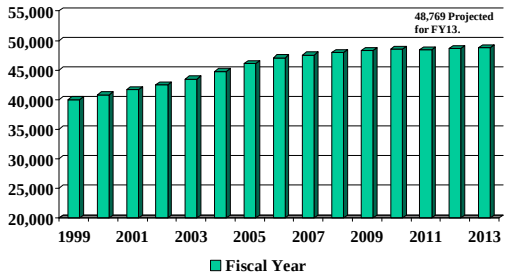
Education

The Proposed Budget includes a total General Fund appropriation of $404,050,000 for Education in FY2012-13. This amount represents an increase of $300,000 or 0.1 percent as compared to the FY2011-12 Approved Annual Fiscal Plan. Of the $404,050,000, $189,167,000 (46.7 percent) will be provided from General Fund revenues and $215,183,000 (53.3 percent) comes directly from the State and Federal Governments to support Education, including $5.5 million in one-time Federal Jobs Funds. As a result of the $66.1 million bond issue in FY2011-12, local Education debt service expenditures will increase $1,733,735 in FY2012-13 to $39,257,303. In total, local support for the Education operating and debt service budgets is proposed at $236,294,569 for FY2012-13.

Education's FY2012-13 Budget for the Special Revenue Fund totals $61,211,735, which is a 0.2 percent reduction as compared to the FY2011-12 Approved Annual Fiscal Plan. In total, with all funds (General Fund, Special Revenue Fund and Debt Service Fund) included, the FY2012-13 Budget for Education totals $504,519,038, which is an increase of $1,893,342 or 0.4 percent as compared to the FY2011-12 Approved Annual Fiscal Plan.

In an effort to reduce a projected $26 million funding gap in the FY2012-13 budget, Education is reducing its complement by 58.1 FTE through attrition, which will be partially offset by the addition of 10.0 instructional positions into a "teacher reserve." Central office and other professional staff will be reduced by 19.6 FTE, exceptional education positions will be reduced by 10.0 FTE due to declining enrollment in this area, and the number of teachers will be reduced by 28.5 FTE as a result of increasing the pupil-teacher-ratio (PTR) by 0.25. The proposed staffing level will reflect an average class size of 20.8:1 for elementary schools, 22.5:1 for middle schools, and 21.6:1 for high schools. The graph to the right reflects a fifteen year history of actual student enrollment at the Henrico County Public Schools with the current projected enrollment for FY2012-13.

Henrico County School Membership
FY1999-FY2013 Projected



FY11 reflects projected 9/30/10 ADM.

In addition to the elimination of positions through attrition, Education has also conserved funding in FY2012-13 through the following actions:

- Restructuring of Post Retirement Earnings Program (PREP) benefits for retired Schools employees.
- Reduced departmental operating budgets by more than $6.0 million through identified savings.
- Identified cost savings in transportation as a result of eliminating "deadhead" miles by establishing several central locations for buses to be stored. In addition, newly hired school bus driver contracts will include a reduction in the number of paid hours to more closely reflect actual hours worked.
- $11.0 million in one-time funding will be utilized to help close Education's budget gap and to avoid significant service delivery reductions and layoffs.

A total of $2,491,746 is recommended to fund operating costs associated with the 12th grade at Glen Allen High School.

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. A total of 27 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 FY2012-13 Proposed Capital Budget for Education is $5,018,792, which includes $2,500,000 in appropriation from the Vehicle Replacement Program to purchase replacement school buses, and $18,792 to appropriate the last of the March 2005 GO Bond Referendum authorization to the Education Bond Project Reserve to continue previously funded GO Bond projects that may be underfunded. The Proposed Capital Budget also includes the annual $2,500,000 General Fund allocation for roof replacements and mechanical improvements projects that continues the initiative that began in FY1997-98. This will be the 16th year of this initiative that has provided a total of $40.0 million for these critical maintenance needs.

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 of our quality of life, our efforts to foster a quality local workforce, and 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 Region Workforce Partnership (CRWP), the Community Corrections Services Program, Wireless E-911 Communications, Virginia Juvenile Community Crime Control Act (VJCCCA), the Comprehensive Services Act (CSA), and Mental Health/Developmental Services/Substance Abuse. The Proposed Special Revenue Fund Budget for FY2012-13 totals $125,698,177, which represents a slight reduction of $200,217 or 0.2 percent as compared to the current fiscal year.

It should be noted that many of these grant funded programs rely on State Aid. Estimates of State funding were based on the Governor's Proposed 2012-2014 Biennium Budget. Should the General Assembly provide additional funding, or less funding, as compared to the Governor's Proposed Budget, amendments to this budget may be necessary in FY2012-13. The components of the Special Revenue Fund are seen in the chart on the following page:

FY2012-13 Proposed Special Revenue Fund Expenditures

Department	FY2011-12 Adopted	FY2012-13 Proposed	Increase/ (Decrease)	Percent Change
CRWP	$4,959,921	$5,485,944	526,023	10.6%
Commonwealth Attorney	858,274	873,837	15,563	1.8%
Community Corrections	1,815,156	1,758,065	(57,091)	(3.1%)
Comprehensive Services Act	8,796,782	7,743,396	(1,053,386)	(12.0%)
Education	61,352,128	61,211,735	(140,393)	(0.2%)
Mental Health	32,442,571	32,825,896	383,325	1.2%
Other	100,201	100,201	0	0.0%
Public Safety	1,423,867	1,486,924	63,057	4.4%
Public Works	897,000	897,000	0	0.0%
Solid Waste	12,267,102	12,331,964	64,862	0.5%
Street Lights	72,500	83,100	10,600	14.6%
USDA (Juv. Detention)	27,500	24,000	(3,500)	(12.7%)
VJCCCA	885,392	876,115	(9,277)	(1.0%)
Total Special Revenue:	**$125,898,394**	**$125,698,177**	**($200,217)**	**(0.2%)**

Specific highlights of the Proposed Budget for the Special Revenue Fund are as follows:

- In the Capital Region Workforce Partnership (CRWP) area, formally Capital Area Training Consortium (CATC), overall expenditures are increasing $526,023 due to the addition of seven positions added during FY2011-12 as a result of additional Workforce Investment Act (WIA) funds received.

- In the area of Mental Health, FY2012-13 expenditures are increasing $383,325 or 1.2 percent, supported by a General Fund transfer of $13,784,168, which has been reduced by $650,187 in FY2012-13. Personnel expenditures are increasing $918,120 due to the addition of several complement III positions in FY2011-12, that each had dedicated funding sources, as well as increased costs of benefits. Allocations for operating expenditures decreased $534,795 as a result of the Department's efforts in increasing operating efficiencies. These savings have allowed the Department to absorb the cost of providing Day Support Services to individuals who graduate from special education programs without a waiting list. Efforts such as these have allowed Mental Health and Development Services to decrease its requirement for support from the County's General Fund for three straight fiscal years and lower its percentage of County support for five consecutive fiscal years.

- Funding for the Comprehensive Services Act (CSA) has been reduced by $1,057,935 or 12.0 percent from the FY2011-12 Approved Budget. The decrease is attributable to a decline in the cost of purchased services for children and families. In FY2012-13, CSA will fund services for an estimated 275 children.

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 a 5.0 percent increase for water and sewer rates as well as a 5.0 percent increase in water and sewer connection fees.

The FY2012-13 Proposed Budget of $81,014,994 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 3.3 percent, or $2,624,785. Excluding debt service costs, the FY2012-13 Water and Sewer Proposed Operating Budget is increasing 0.4 percent or $232,657 from the FY2011-12 Adopted Budget, solely the result of increased personnel costs due to increases in the cost of benefits.

Debt service expenditures of $22,783,414 represent a net increase of $2,392,128 when compared to the current fiscal year. The reason for this increase is due to the full-year funding of an anticipated $85 million issuance of new debt in FY2012-13. The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2011 was $176.5 million.

In addition to the Proposed Operating Budget, the Water and Sewer Proposed Capital Budget (found within the Capital Budget component of this document) totals $89,764,219 for FY2012-13. In the Proposed Five Year Capital Improvement Program, requested capital infrastructure for the Water and Sewer Enterprise Fund totals $585,083,774 over five years. 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 31.9 percent of the total County Five-Year Capital Improvement Program. However, when looking at the County's current FY2011-12 Operating Budget, the Water and Sewer fund represents 7.5 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 FY2012-13 is $1,228,807, which represents an overall increase of 0.7 percent from the FY2011-12 Approved Budget. This budget includes $1,055,862 for the Golf Course operations, $150,445 for the Snack Bar, and $22,500 for payment on a loan from the General Fund.

The total personnel component for the Golf Course operations and the Snack Bar increased by 2.1 percent due to increases in retirement, group life, and healthcare benefit costs. The operating component is projected to decrease $7,529 while the capital outlay component reflects an increase of

$3,633 when compared to the FY2011-12 Approved Budget. The rehabilitation project planned for FY2012-13 includes the replacement of the snack bar and the pro shop building roof.

The revenues for Belmont Golf Course consist of green fees, cart rentals, and the sale of items at the Snack Bar. Prices are set to provide a quality yet affordable golfing experience for the County's citizens. Green fees will remain the same in FY2012-13. The last time greens fees were increased was in FY2010-11 when they were increased $1.

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 FY2012-13 Budget for the Healthcare fund totals $92,946,501, which is an increase of $3,043,296 or 3.4 percent. Included in this figure is $67,007,979 in funding that is budgeted within individual County and Schools departments as the County's contributions for Healthcare for active and retired employees. The balance of funding, $25,938,522, is the employee and retiree payments for their portion of healthcare, as well as the use of $888,352 in one-time federal Early Retiree Reinsurance Program (ERRP) funding that the County received in FY2010-11, and the utilization of $2.0 million from the Premium Stabilization Reserve, which was necessary to minimize the rate increase to the County and its active and retired employees in calendar year 2012. The majority of the budget, $87,646,501 or 94.3 percent of the total Healthcare budget is allocated for payment of claims. The remaining $5,300,000 is allocated for the payment of third party administrative fees, premium payments for excess risk insurance, and an actuarial study.

AGENCY FUND

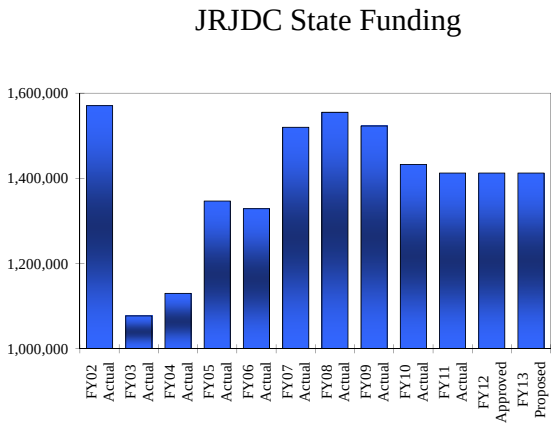
The James River Juvenile Detention Commission (JRJDC) Agency Fund was created to account for expenditures of the James River Juvenile Detention Center. Henrico County, as the majority partner, serves as the fiscal agent for the James River Juvenile Detention Center Commission. Henrico's role as fiscal 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 $4,853,142 for FY2012-13. This is a decrease of $14,057 or 0.3 percent when compared to the FY2011-12 Approved Budget. Debt service costs, paid entirely by Henrico County, are budgeted at $676,878.

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.

State Aid for the Commission is estimated at $1,412,270 in the Proposed Budget. This figure remains at the same level as in the past two fiscal years. 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 43 in FY2010-11.

Total Henrico County funds for the Commission are budgeted at $3,271,174 in FY2012-13 and represents a decrease of $9,915.



DEBT SERVICE FUND

The County is projected to have total outstanding general debt of $533,180,000 as of June 30, 2012. The distribution of the debt is: $430,540,000 of General Obligation (GO) bonds ($284,415,643 for Schools and $146,124,357 for General Government), $25,180,000 of Industrial Development Authority (IDA) bonds for the regional jail project, $8,505,000 of IDA bonds for General Government projects, $66,530,000 of Virginia Public School Authority (VPSA) bonds, and $2,425,000 for the JRJDC, which is included in the total outstanding debt figure above as it is included in the bond rating agencies' calculations. It must be noted that of the $533,180,000 projected June 30, 2012 outstanding debt, $350,945,643 or 65.8 percent is attributed to Education projects and $182,234,357 or 34.2 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 the calculation of these three ratios in the debt capacity analysis, which was most recently completed in February 2012:

- 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 1.46% in FY2011-12.

- 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 6.87% in FY2011-12.

- Net bonded debt per capita is the amount of debt outstanding divided by the number of County residents. The amount of debt per capita exceeded the guideline of $1,650 in FY2011-12, and was calculated at $1,693; however, this is solely the result of the County combining the final two planned GO Bond issues from the March 2005 GO Bond Referendum due to the attractive interest rate environment. This ratio will fall well below the guideline of $1,650 in FY2012-13 as a result of a reduction in total outstanding debt due to scheduled principal payments in FY2012-13, coupled with no planned new debt issuances in the fiscal year and a projected increase in the County's population.

In August 2011, the County issued $66.1 million in new GO bonds, which combined the planned FY2011-12 and FY2012-13 debt issues into one larger issue due to a historically low interest rate environment. As such, all bonds associated with the $349.3 million GO Bond Referendum approved by the voters on March 8, 2005 have been issued. The FY2012-13 Capital Budget appropriates the final $40.2 million associated with the March 2005 GO Bond Referendum, further detailed below.

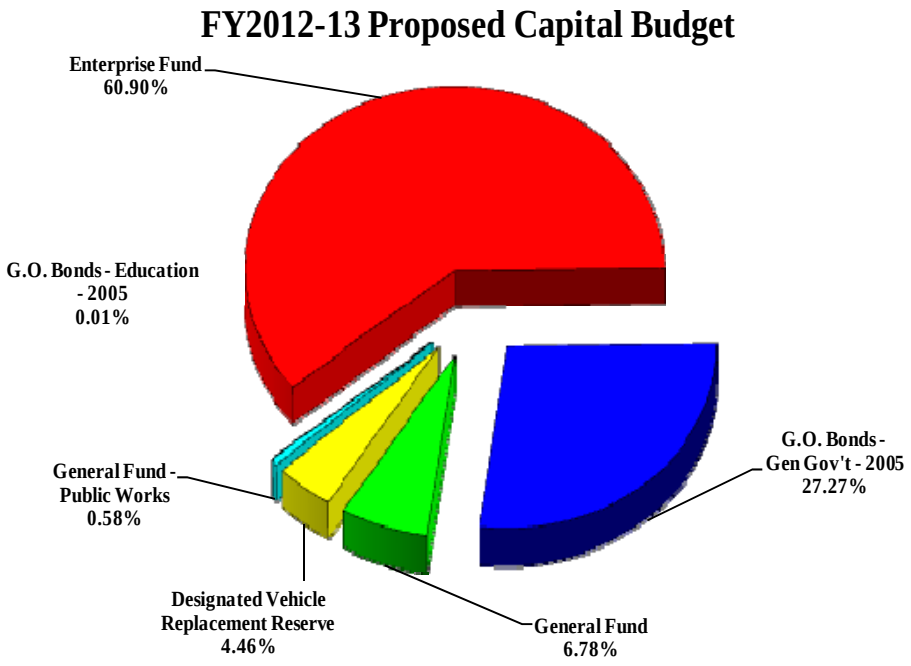
CAPITAL IMPROVEMENT PROGRAM

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. The CIP is a very valuable document because we must achieve a balance between available resources and competing priorities. The five-year CIP for FY2012-13 through FY2016-17 totals $1,833,712,265. 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. In order to provide a more accurate picture in the CIP, projects that do not have an identified and verified source of funding have been labeled "No Funding Source". Of the $1.8 billion projected over the next five years, $1.1 billion is identified as "No Funding Source". Projects recommended for funding in the first year of the CIP are included in the Proposed Capital Budget that follows.

Proposed FY2012-13 Capital Budget:

The Proposed Capital Budget for FY2012-13 totals $147,407,811 and is funded through a variety of revenue sources. For the fourth consecutive fiscal year, no State Transportation Funding (Gas Tax) has been included in the Proposed Capital Budget for Public Works projects due to continued uncertainty associated with that funding source. Since the amount of the County's Gas Tax allocation is unknown at this time, the prudent decision is to not propose any funding for Road projects that would utilize Gas Tax as a funding source. If the General Assembly approves a budget that includes funding for road projects, these projects will be appropriated via an amendment to the budget in FY2012-13.

The funding percentages included in the Proposed Capital Budget may be seen on the graph below:



Total Recommended Resources: **$147,407,811** **100.0%**

Highlights of the FY2012-13 Proposed Capital Budget are as follows:

The issuance of General Obligation (G.O.) Bonds - March 2005 will fund $40.2 million for General Government and $18,792 for Education will be added to the reserve for Education bond projects. This appropriation represents the final appropriation of the March 2005 G.O. Bond Referendum. The General Government 2005 G.O. Bond projects in the Capital Budget include the construction of the Varina Area Library, the replacement of the Dumbarton Area Library, development of Short Pump Park, and a reserve for Public Library bond projects as well as Fire bond projects. The funding being allocated to the various reserves represents available authorization of March 2005 G.O. bonds not previously issued for specific projects. With identified funding shortfalls in other bond projects, the prudent decision is to propose putting these funds into a reserve for future allocation.

The Proposed FY2012-13 Capital Budget includes the use of $10.0 million of General Fund revenues for various capital projects. These projects consist of $2.5 million for roof replacements and mechanical improvements at Education facilities, as well as $7.5 million for various General Government projects. The General Government projects include funding for the first phase of renovations to Best Plaza, roof replacement, mechanical improvements, pavement rehabilitation projects, UPS replacement, Recreation and Parks facility rehabilitation projects, various information technology hardware and software upgrades, improvements to the County's data network and replacement of the telephone system to a VOIP solution, and continued enhancements for the County's Geographical Information System. General Fund – Public Works revenue of $850,000 has been designated for various road improvement projects.

It is important to note that a Vehicle Replacement Reserve totaling $6,574,800 was created for the FY2012-13 Capital Budget in order to fund the School Bus Replacement Program - $2,500,000; the Fire Apparatus Replacement Program - $1,500,000; and the Police Vehicle Replacement Program -

$2,574,800. This reserve will be sustainable for three years and funding for these important vehicles will return to the operating budget at this time.

The remaining $89,764,219 of the FY2012-13 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 $7,575,000 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 program area planned in FY2012-13 include the following: $3,700,000 for the Strawberry Hill Basin Sewer Rehabilitation, $2,160,000 for the River Road Basin Sewer Rehabilitation, $406,344 for the Gillies Creek Basin Sewer Rehabilitation, $465,750 for the Broadwater Creek II Sewer Pump Station Improvements, $4,140,000 for the Gambles Mill Sewer Pump Station Flow Equalization Basin Modification, $1,552,000 for the Strawberry Hill Sewer Pump Station Capacity Improvements, $698,625 for the Strawberry Hill Force Main Creighton Road Vent Facility, $1,035,000 for the Broadwater Creek I Sewer Pump Station and Flow Equalization Basin, $5,796,000 for the Beverly Hills Area Water Rehabilitation, and $1,360,000 for the Ridge Water Pressure Zone. The Proposed Budget also includes $60,000,000 for costs associated with permitting, design, utility relocations, land acquisition, mitigation, and construction for the Cobbs Creek Reservoir in Cumberland County, a project that will be completed over the next ten years and has a projected cost of nearly $280 million. Additionally, the Proposed Budget includes $50,000 for roof replacements, $325,000 for water meters, and $500,000 for various information technology projects.

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 FY2011-12. 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 22 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 23rd year.

SUMMARY

Without question, this budget process has been the most difficult this County has ever experienced. Significant fixed cost increases, combined with little to no revenue growth, has created a situation in which the County has been forced to make unprecedented budget reductions and consider entirely unique budgetary decisions - decisions that this County has never had to consider in the past. It gives me great pleasure to present to you a fiscal plan that achieves all of this without significant service delivery impacts, without laying off one employee, and without requesting a tax rate increase. This County's prevailing goal in each and every budget process throughout this economic downturn has been just that – and we've been extremely successful in doing so.

However, I cannot state with enough emphasis that we've done everything we can possibly do to achieve these goals – there is nothing left. Remarkably, this County has absorbed more than $96 million in expenditures over the past three fiscal years. We have, quite literally, looked at and considered <u>everything</u>. Without significant changes in revenue collections, particularly in the area of real estate, revenue enhancements will be necessary to avoid significant service delivery reductions and laying off existing staff.

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

find ways to do more with less, while also seeking 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 future of our community.

Respectfully submitted,

Virgil R. Hazelett, P.E.
County Manager