APPENDIX "F"

ECONOMIC OUTLOOK

National Economy

"Economic Activity in the United States expanded at a moderate rate in the second half of 2011 following an anemic gain in the first half, and the moderate pace of expansion appears to have continued into the opening months of 2012. Activity was held down in the first half of 2011 by temporary factors, particularly supply chain disruptions stemming from the earthquake in Japan and the damping effect of higher energy prices on consumer spending. As the effects of these factors waned over the second half of the year, economic activity picked up. Conditions in the labor market have improved since last summer, with an increase in the pace of job gains and a noticeable reduction in the unemployment rate. Meanwhile, consumer price inflation has stepped down from the temporarily high levels observed over the first half of 2011, as commodity and import prices retreated and as longer-term inflation expectations remained stable. Looking ahead, growth is likely to be modest during the coming year, as several factors appear likely to continue to restrain activity, including restricted access to credit for many households and small businesses, the still-depressed housing market, tight fiscal policy at all levels of government and some slowing in global economic growth." This was the introductory statement made by Ben Bernanke during testimony to Congress on February 29, 2012 as part of the Federal Reserve's Semiannual Monetary Policy Report to Congress.

As Mr. Bernanke's statement indicates, the U.S. economy improved modestly in 2011 and through the first quarter of 2012. Given the fragile economic conditions that exist, the Federal Open Market Committee (FOMC) has expressed its intent to aggressively pursue efforts to counteract recessionary impediments to growth. The FOMC took a number of steps in 2011 and the early months of 2012 to provide additional monetary policy support to bolster the economic recovery within the context of price stability, and credit availability and affordability. The steps taken included: "…modifying the forward rate guidance included in post-meeting statements, increasing the average maturity of the Federal Reserve's securities holdings, and shifting the reinvestment of principal payments on agency securities to agency-guaranteed mortgage-backed securities (MBS)." In an effort to better execute its congressional mandates of promoting employment, stabilizing prices (controlling inflation) and moderating interest rates, the FOMC has made its longer term goals fully transparent so as to best educate and communicate existing and future policy objectives so that market participants - from household consumers to businesses - can make better informed decisions. In August 2011, the FOMC modified its forward rate guidance, stating that economic conditions "were likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013." Then, at the Committee's January 2012 meeting, the FOMC again modified its forward guidance to indicate that "it expected economic conditions to warrant exceptionally low levels for the federal funds rate at least through 2014." In addition, at its January 2012 Summary of Economic Projections (SEP), the FOMC made available individual Federal Reserve Bank participants' (which included the members of the Board of Governors and the presidents of the 12 Federal Reserve Banks) individual economic assessments concerning both monetary policy and the appropriate target federal funds rate. Their individual insights and collective economic assessments can be a valuable tool in projecting the approximate pace and success of the recovery in the coming months/years.

As stated in the 2012 Monetary Report to Congress, the economy "showed continued gradual improvement in the pace of economic activity during the second half of 2011, as the influence of the temporary factors that dampened activity in the first half of the year subsided. However, a number of additional factors, including ongoing weakness in the housing sector, modest growth in real disposable income, and the restraining effects of fiscal consolidation, suggested that the pace of recovery would be modest in coming quarters". In addition, "…as the monetary/fiscal issues overseas, particularly in Europe begin to wane, there will be an uptick in demand for U.S. exports, strengthening the pace of economic expansion". It was also collectively thought that inflation will be subdued at "rates at or below the FOMC's longer-run objective of 2.0 percent." In addition to these projections, it was also estimated that the unemployment rate will remain elevated in the near term, but should moderate to a level between 5.2 to 6.0 percent in the long run.

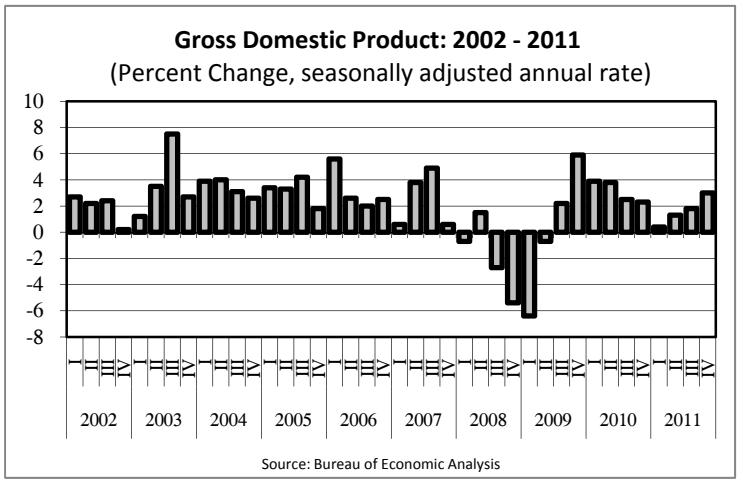
From 2008 to the present the Federal Reserve and the Treasury Department have taken significant steps to correct and/or mitigate any further deterioration in the financial markets and in the economy as a whole, following the "Great Recession" that began December 2007, and technically ended in June 2009. In December 2008, the Federal Open Market Committee (FOMC) lowered the federal funds rate in the target range of 0.0 to 0.25 percent and indicated that conditions could potentially warrant exceptionally low rate levels for some time. As of March 2012, the Fed Funds Rate remained at 0.00 – 0.25 percent, a level unchanged for over 38 months.

While the recovery's trajectory has been low, and the pace of economic expansion has been, in Bernanke's words "uneven and modest by historical standards", the recovery is in fact taking place, indicated by steady increases in real gross domestic product (GDP), which, after minimal gains in the first half of 2011, increased at an annualized 2-1/4 percent rate in the second half, based on fourth quarter 2011 data. In addition, there have been positive developments in the labor market, with private payroll increasing by an average of 165,000 per month since the middle of 2011, while nearly 260,000 jobs were added in January 2012, with gains being recognized across nearly all industries. However, the public sector continued to lose jobs, primarily at the state and local government level. This is symptomatic of several variables, not the least of which are the struggling housing market, higher than average unemployment, and below average consumer demand.

Economic Indicators

Most economists consider gross domestic product (GDP) as the best way to view the current condition of the national economy. It is important because GDP is considered as the broadest measure of economic performance as it monitors the final value of all goods and services produced within the United States.

After exiting a brief recession in 2001, where negative GDP growth had occurred in the first three quarters of 2001, the economy experienced a period of rapid expansion, recognizing continual quarterly increases in the output of goods and services produced in the United States. Beginning in the second quarter of 2006, mostly due to weaknesses in the housing market, the economy began to transition from the rapid expansion experienced in the previous several years. This mediocre growth trend continued into the first quarter of 2008, before posting its first negative showing since 2001, while falling sharply in the third and fourth quarters of 2008, through the first quarter and second quarters of 2009, before rebounding in third and fourth quarters of 2009, with growth of 2.2 percent and 5.9 percent, respectively. GDP increased in each consecutive quarter of 2010, increasing 3.7 percent in 1Q, 1.7 percent in 2Q, 2.6 percent in 3Q and 3.1 percent in 4Q. The increases beginning in 4Q 2009 and extending throughout 2010 are largely attributable to positive contributions from personal consumption expenditures (consumer spending), exports and non-residential fixed investment, however, these increases were partly offset by a decrease in inventory investment and in state and local government spending. Growth moderated in 2011, with an annual increase of 1.7 percent in GDP, versus the 3.0 increase recognized in 2010. The deceleration was primarily reflected by downturns in private inventory investment and in federal spending. The growth over this period is primarily a reflection of positive consumer spending, increases in exports and nonresidential fixed investment. These gains, which were partly offset by reductions in state and local government spending and private inventory investment, were also offset by the increased importation of goods, which are a subtraction in the calculation of GDP.

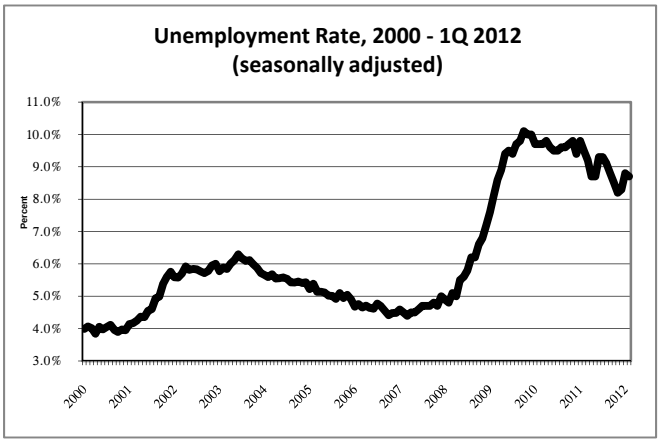


Despite small year over year losses in the NASDAQ and S&P 500, overall financial market statistics reflect an improving economy, though the indices are still far from levels seen during the peak of 2007. U.S. economic and political issues and the European debt crisis largely left investors frustrated and pessimistic.

Equity Market Growth:	DJIA	NASDAQ	S&P 500
Jan-Dec 2011	4.69%	(3.21)%	(1.12)%
Jan 2002-Dec 2011	21.29%	31.62%	8.91%

Just as in 2010, uncertainty and volatility continued to define the market in 2011, though 2011 didn't see the positive gains recognized the year prior. While the Dow gained around 5.0 percent to close the year, the NASDAQ and S&P 500 closed slightly down, with declines of 3.21 and 1.12 percent respectively, performances that were more reflective of the year's market performance. However, these small increases/decreases in market value somewhat mask the volatility that occurred throughout the year, where gains and losses fluctuated dramatically from the various domestic and geo-political, natural disaster related and financial crises that exacerbated uncertainty in an already fragile environment. Most analysts are in agreement that the market is likely to perform relatively well in 2012, particularly if the European debt crisis is resolved. However, if any efforts by the European Union (EU) to control the crisis are perceived by global investors and stakeholders as inadequate, gains may be further suppressed by continued investor timidity. Assuming the crises ease overseas, interest rates on Treasury bonds and yields will likely increase, while corresponding prices will fall as investors balance their portfolios to include greater equity investments.

The labor market continues to suffer as a result of the recession. As of Februrary 2012, the seasonally adjusted national unemployment stands at 8.7 percent. However this figure is down from the 9.5 percent unemployement rate the existed the same time a year prior. From 2004 through the first quarter of 2007, the national unemployment rate had experienced a steady decline, reaching a low of 4.4 percent during that period. Unemployment rose to 5.0 percent by December 2007, beginning an upward trend as a result of job losses in manufacturing, construction and retail. Significant decreases in employment occurred in those industries most directly related to the mortgage and credit crises, particularly construction, which by February 2011 had decreased by 2.2 million jobs and had an industry specific seasonally unadjusted unemployment rate of 20.0 percent. It is important to note that economists consider the natural unemployment rate, the rate at which the economy functions most efficiently, to be somewhere between 5.0 and 6.0 percent. In situations where the rate is lower, there is considered to be a surplus of jobs, and a shortage when rates are above the 5.0 – 6.0 percent mark.

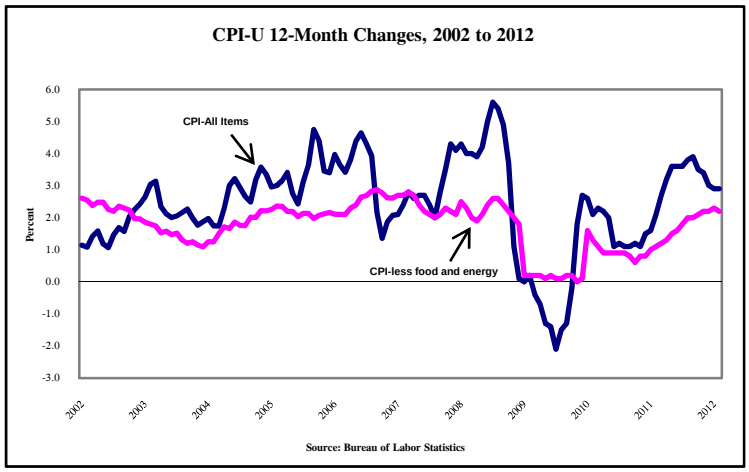


Gradual economic improvement led to marginal increases in employment from 3Q 2011 through 1Q 2012. While there were no dramatic fluctuations in the unemployment rate, averaging 8.6 percent over the same period, the U.S. did increase non-farm employment by 223,000, 284,000 and 227,000 in December 2011, and January and February 2012, respectively. This represents a significant improvement over the previous nine months, during which an average of 143,000 jobs per month were added. The recent jobs additions represent an even bigger improvement from the jobs added/lost during the ending period of the recession (2Q 2009) and the beginning of the recovery period (3Q 2009 to present). For example, during 2009, the economy was losing an average of 422,000 non-farm payroll jobs per month.

The seasonally adjusted unemployment rate currently stands at 8.3 percent, down 0.7 percent from February 2011, and down considerably from its high of 10.1 percent in October 2009. However, while unemployment has held (Jan – Feb) at 8.3 percent, this statistic continues to be somewhat understated due to the fact that the market

is not adding jobs at a fast pace, but the labor force is also diminished from exiting discouraged workers and those who are marginally attached to the labor force. For example, in February 2012, there were approximately 1 million discouraged workers, defined by the Bureau of Labor Statistics (BLS) as those persons "…who are not currently looking for work because they believe there are no jobs available for them", and about 1.6 million persons who were marginally attached to the labor force given that they "…wanted and were available for work, and had looked for a job sometime in the prior 12 months, …but had not searched for work in the 4 weeks preceding the (BLS) survey." Given their respective labor force participation/employment prospect status, neither of these groups - which amount to 2.6 million individuals - is included in the unemployment statistic. The total statistic also does not capture the involuntary part-time or underemployed workers, a group comprised of 8.1 million individuals who are currently working in a part-time capacity because they are unable to find full-time work. BLS calculates an alternative measure of unemployment, referred to as the U-6 (a sub-category of the Bureau's "Alternative Measures of Labor Underutilization"), which includes unemployed persons as well as all persons marginally attached to the labor force, plus individuals employed part-time for economic reasons, as a percent of the civilian labor force. When taking all of these unemployed and/or underemployed individuals into consideration the February 2012 unemployment rate jumps to 16.7 percent.

While the unemployment figures are staggering, the actual unemployment impact is further understated when population growth is taken into consideration. Under normal conditions the labor market would have naturally added some jobs relative to population growth from December 2007 to the present. During the recession and subsequent recovery, the defensive posture of preserving job loss due to economic conditions, rather than adding jobs as population growth necessitates, means that the market would need to add millions more jobs than those lost over the course of the recovery to equal the pre-recession level of employment.

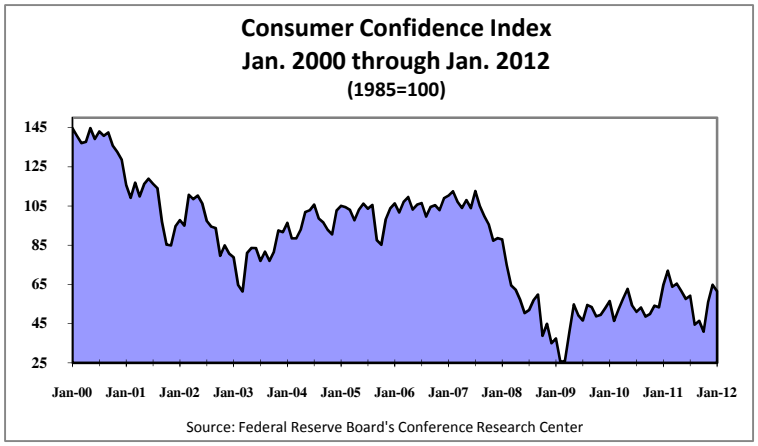


The Consumer Price Index (CPI) is an economic indicator most commonly referred to when measuring inflation in the United States. The Bureau of Labor Statistics (BLS) defines the CPI as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services." The BLS calculates the aggregate industry/category data for two population groups: wage earners/clerical workers, and all urban consumers. Given that the Consumer Price Index – All Urban Consumers (CPI-U) represents approximately 87 percent of the entire U.S. population, this is the statistic commonly used when evaluating price and/or inflationary changes. In addition, what is referred to as the core CPI index, that is the CPI-U less food and energy, is a helpful index that excludes goods whose prices are typically more volatile, such as food and energy, which are subject to sudden, dramatic changes and are not necessarily representative of relative price changes.

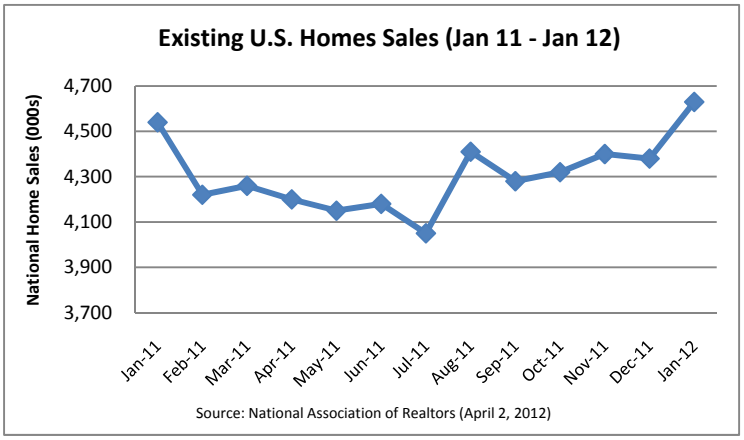
From January 2011 to January 2012, the percentage change in the CPI-U (not seasonally adjusted) rose from 1.6 percent to 2.9 percent, averaging a 3.2 percent monthly (12 month) change in 2011. The index increased 1.3 percent for all of 2011 (January 2011 to January 2012), after decreasing 1.0 percent the year prior. The un-adjusted 12 month energy index ending January 2012 rose by 6.1 percent, driven largely by gasoline and fuel oil prices. Energy Commodities as a whole increased by 10.0 percent, the bulk of the increase attributable to Gasoline (all types), which increased by 9.7 percent over the 12 month period, and Fuel oil, which increased 12.1 percent over the 12 month period. Electricity prices have advanced slightly at 2.4 percent. Household energy prices declined by 0.6 percent in 2011, after registering a 0.6 percent increase in 2010, while food prices increased at 4.4 percent, exceeding inflation and with increased commodity prices contributed largely to the year-over-year CPI-U increase of 2.9 percent in January 2012.

One of the most important economic indicators is the Consumer Confidence Index (CCI), as it measures the level of faith that consumers have in the current economy. The index, which is developed through a survey conducted by the Conference Board, reports data concerning consumer attitudes and buying intentions, and is compiled into three segments: the overall Consumer Confidence Index; the Present Situation Index and the Expectations Index. The overall CCI is a composite of the other two indices and is weighted 40% - Present Situation Index and 60% - Expectations Index. The benchmark year/value is 1985=100, and is the basis for each subsequent monthly and/or yearly comparison.

The consumer market is especially important as it comprises two-thirds of the nation's economy. During economic downturns, Americans typically become less confident in the economy. This was the case for several years following the economic recession of 2001, as can be seen in the graph to the right. As economic downturns become longer and consumers observe continued negative economic reports, the level of consumer confidence tends to decline. Conversely, confidence tends to increase with positive economic and political news, especially increases in employment levels. Beginning in late 2007 and lasting throughout 2010, consumer confidence remained low. Even though the economic environment has improved modestly, individuals have still been less likely to spend, and those who would like to are unable to do so as a result of restricted access to credit. In February 2009, consumer confidence hit a historic low of 25.3, down from 37.4 the month prior, reflecting the pessimistic attitude toward the state of the economy that was widely shared among Americans. The index increased significantly in 2010 from its low of 2009, with February 2010 registering 46.4 – an 83.4 percent, February to February increase.



Consumer confidence on average has continued to rise from the unprecedented lows of 2009, increasing from 54.48 in 2010, to 58.09 in 2011 and 67.77 for the first three months of 2012. January 2012 was down slightly after making significant gains the previous two months because of increased optimism about the job market. This confidence was eroded by slightly worsened job market perceptions, as well as a sharp decrease in consumers' views of the current economy. Referred to as the "present situation index", and serving as a gauge of consumers' assessment of current economic conditions, the statistic dropped to 38.4 in January from a recently revised figure of 46.5.

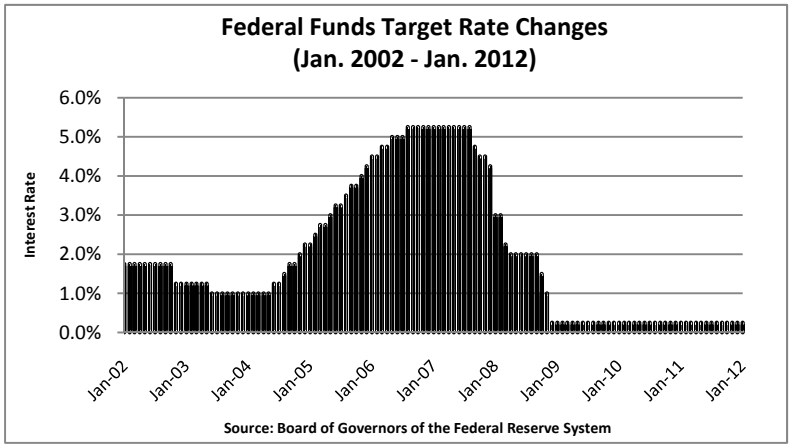


New and existing home sales, one of the principal drivers of consumer spending over the past several years, fell dramatically from 2006 through 2008. Although existing homes sales were down marginally from 2009 to 2010, in 2011, average sales figures increased by 1.98 percent (January 2011 to January 2012). Home sales activity increased monthly in 2009 and the first quarter of 2010 as the homebuyer tax credits of $8,000 for new homebuyers, and $6,500 for existing homebuyers incentivized some to buy homes. However, with an April 30, 2010 home purchase deadline for program eligibility, a precipitous drop off in home purchases occurred, largely attributable to the

cessation of the program. Home sales have since moderated, as sales prices dropped correspondingly to reduced demand.

From January 2011 to January 2012, home sales increased 1.98 percent, attributable to favorable housing affordability conditions. As of January 2012, the inventory of unsold homes on the national market is approximately 2.3 million housing units, or a 6.0 month supply based on the current pace of sales. While January 2012 inventory is 10,000 units greater than the 2011 inventory figure of 2.3 million units, the monthly supply of inventory has decreased from 8.2 to 6.0 months, based on the pace of sales in January 2012. Building permits and new residential construction, while having increased in 2009 from a dramatic drop in 2008, moderated in 2010. Building permits issued in January 2011 totaled 676,000 nationally, up 19.0 percent from the January 2011 rate of 568,000. New residential housing starts numbered 699,000 in January 2012, a 9.9 percent increase from the January 2011 rate of 636,000.

The national median existing home price in January 2012 was $154,600, representing a 2.0 percent reduction from the national median home price registered in January 2011. This is a slight improvement from the previous year over year assessment, which reflected a 3.7 percent reduction in median home price from January 2010 to January 2011. In addition to other factors, the downward adjustment in median sales price is partly attributable to the purchasing characteristics of first time homebuyers. Distressed sales, which typically sell for 20 percent below market price, are the kind that have been commonly sought by first time buyers and represented approximately 35 percent of transactions in January 2012.



Beginning in September 2007, the Fed initiated the first of five rate cuts, when in March 2008 an unexpectedly favorable assessment of the CPI prompted a 75 basis point rate cut, bringing the rate to 2 ¼ percent, the lowest since 2004. While inflation has been an ongoing and key issue monitored by the Fed, it can be inferred through their actions over the past two calendar years that combating the credit crisis and addressing the lack of liquidity in the financial markets has been a more pressing issue. It is, however, important to note that rate cuts typically are necessary to facilitate growth through capital investment, by encouraging financial institutions to lend money, and to increase the value of the equity market. It is the job of the Federal Reserve to find the appropriate rate at which growth is stimulated, while not unreasonably contributing to inflationary pressures.

Despite its efforts to provide a balance between loosening a tight credit market, while also addressing the issue of inflation, the Fed had little choice but to continue to cut the Federal funds rate. By December 2008, the Fed had lowered the rate 8 times, for a total of 325 basis points for the year, ending at a level of 0.00 – 0.25 percent, with the Fed at this time indicating that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time." The Fed funds rate has remained at this level since December 2008, and as of March 2012, represented over 38 months unchanged at effectively a 0.00 percent rate of interest. However, as previously mentioned, the access to credit for both businesses and individuals has remained restricted, despite the continuation of historically low interest rates.

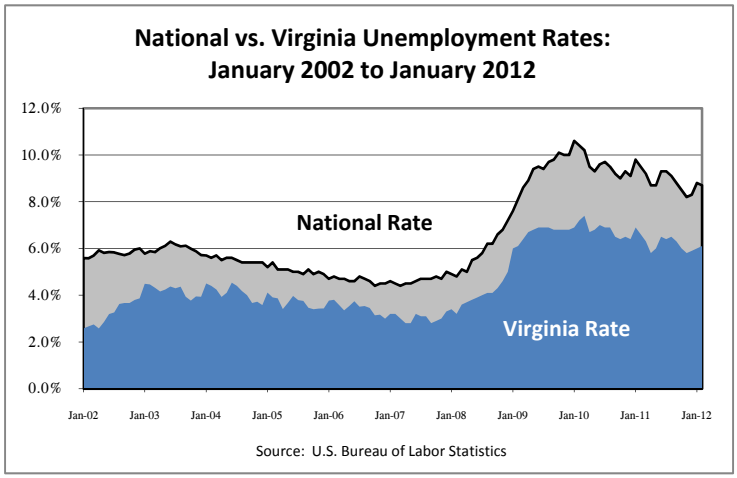
Virginia Economy

As the national economy has experienced booms and contractions over the years, the Virginia economy has largely followed the economic trends experienced by the United States. While the State economy generally

follows the lead of the nation, the Commonwealth has outperformed the national economy in several economic indicators. Population growth and per capita income have both outpaced national levels. The Commonwealth of Virginia has experienced a lower unemployment rate than the majority of the country for many years. Other indicators, such as new business incorporations, new vehicle registrations, and manufacturing production employment seem to mimic national trends.

According to the 2010 U.S. Census, the population in the State of Virginia is 8,001,024, an increase of 922,509, or 13.0 percent from 2000 Census figures. Virginia remains the twelfth most populous state in the Country. Over 80.0 percent of the State's growth during this period was concentrated in three major metropolitan statistical areas, with the greatest occurring in Northern Virginia, which accounted for roughly 55.0 percent of growth, followed by metropolitan Richmond at 17.0 percent and Hampton Roads at 10.0 percent. During the same time period the national population increased by 9.7 percent, 3.3 percent less than the growth experienced in Virginia. In addition, Virginia is also one of the most educated states in the U.S., with 34.0 percent of persons 25 years of age or older having a bachelor's degree or higher, ranking eighth among the states, while 14.1 percent hold a graduate degree or higher, ranking sixth among the states. Correspondingly, with a 2011 per capita personal income of $45,920 and an average annual wage and salary disbursement of $50,957, Virginia ranks seventh and tenth among the states, respectively in these categories. While the average salary in the U.S. grew by 2.77 percent from 2009 to 2010, the Virginia state average grew by 3.02 percent, a comparison that reinforces Virginia's strong economic position in the U.S. It should be noted that State per capita personal income data represents 2011 estimates, and average annual salary and wage disbursement data represents 2010 preliminary data, the most recent data available.

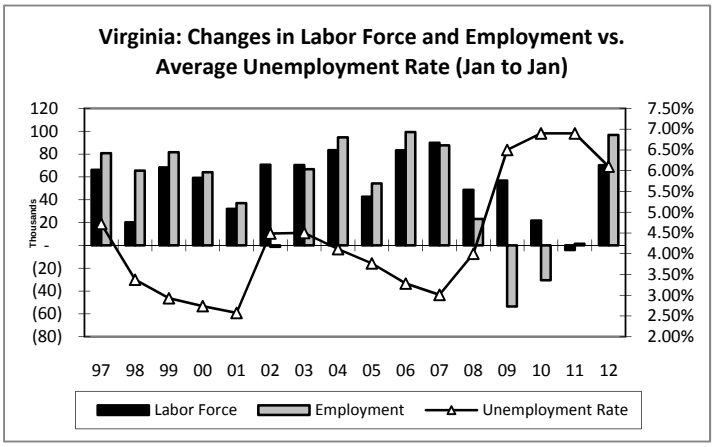
While the population of the Commonwealth was estimated at over 8 million as of April 1, 2010, the level of growth has recently been slower than that experienced in the first half of the decade. From 2000 through 2006, the average year over year population growth was roughly 1.3 percent, while growth from 2007 through 2010 (As of April 2010) averaged just over 1.0 percent growth. While the growth rate has yet to return to levels observed prior to the recession, higher rates of growth are anticipated. Virginia's population growth equation is comprised of two elements; natural increases, resulting from more births than deaths, and net in-migration, the net difference between individuals moving in and leaving the state. In recent years, these two figures as a percentage of the total population growth statistic have been relatively even. However, in the second half of the decade, the balance between these two contributing factors has grown less even, with natural increases exceeding migration into the state. This phenomenon was likely caused by economic conditions that resulted in a stagnant housing market and limited job prospects, factors that limited mobility. However, from 2009 through 2010, growth in the state was such that the net migration for the eleven year period 2000 – 2010 rose to a level equivalent to natural growth, with each component rising 6.5 percent to comprise the 13.0 percent total population growth statistic. The rise in in-migration, returning to a balance between natural and migration factors, is encouraging, as it is an indication that Virginia's labor market, as well as its numerous amenities are competitive relative to the nation. From 2003 to 2007, national and state unemployment rates steadily decreased. In 2007, when the economy began to crumble, unemployment rates began to rise, with the national rate spiking at 10.1 percent in October 2009, before moderating to 9.7 percent by January 2010.



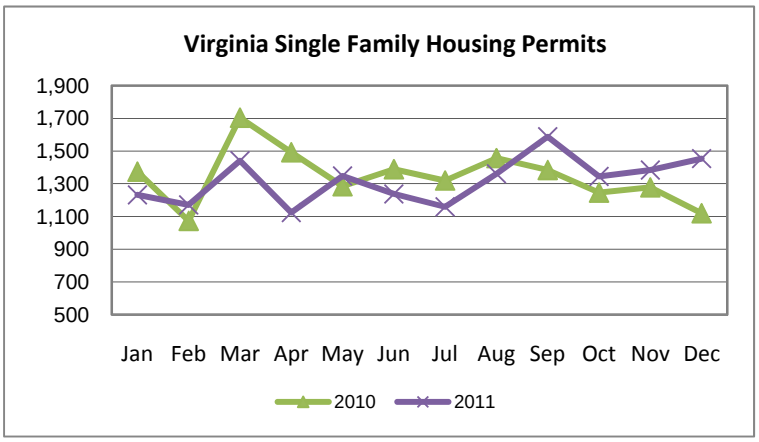
Given the recent, relative improvement in the U.S. labor market as of February 2012, Virginia experienced a reduction in its unemployment rate. However, Virginia continues to outperform the nation in this respect, and the State's unemployment rate of 6.1 percent as of February 2012 is significantly lower than the national unemployment rate of 8.7 percent. Despite the economic hardships experienced throughout the country, according to the U.S. Bureau of Labor Statistics, Virginia

had the 8th lowest seasonally adjusted unemployment rate in the nation as of February 2012, registering at 5.7 percent. This statistic is an improvement from its 9th place ranking of 6.4 percent unemployment the year prior and significantly better than the United States unemployment rate during the same period. Virginia's unemployment and labor statistics indicate that even during times of economic difficulty, Virginia continues to fare better than most states in the U.S.

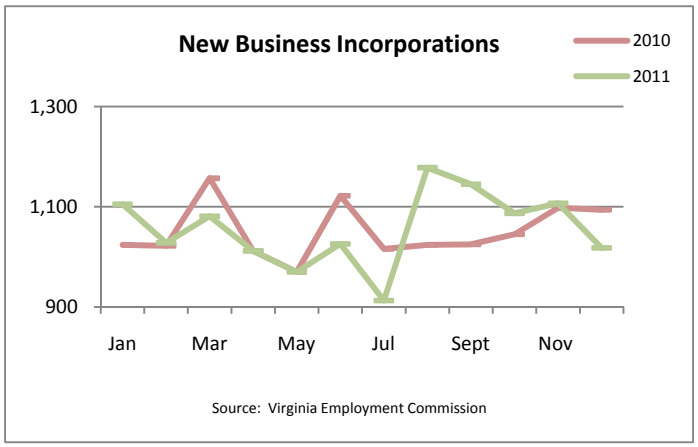
Typically during periods of normal growth, throughout the state the level of job growth varies significantly by geographic area. The northern portion of the state, which offers the highest concentration of professional and business services, as well as technology and federal contracting jobs, accounts for more than one-half of the state's job growth. Industrial and manufacturing labor, which is concentrated in the southern portion of the state, accounts for the remainder of the state's job growth. Employment in the Richmond Metropolitan Area, one of nine publishable metropolitan statistical areas in Virginia, was 633,159 in January 2012, which is up 34,596 jobs, or 5.8 percent from January 2011. Looking back over a four year period, regional employment is up 12,029, since January 2008, representing a 1.9 percent increase. However, while employment has grown over the period identified, the Civilian Labor Force in total has grown to 677,711, and the number of unemployed has risen to 44,552, from 24,523 of the total labor force. This growth in unemployed persons has resulted in the unemployment rate rising from 3.8 percent to 6.6 percent as of January 2012. Since the recession began, the area has experienced significant job loss due to business closings, particularly in the trade/transportation, manufacturing, and finance industries.



While population and unemployment are important indicators, other business economic indicators are vital in analyzing the performance of the Virginia economy. Since many other sectors of the economy feed off of new home construction, one significant indicator is the number of single family building permits issued. 2011 saw a minor decrease from 2010, with 15,757 permits issued for the year, representing a decrease of 351 permits, or 2.2 percent from the prior year. The lackluster performance in this statistic roughly approximated the national housing trend for 2011. The continuation of low numbers is partly attributable to the surplus of inventory on the market from foreclosures, weakened consumer demand and insufficient access to credit. While the year over year difference in single family housing permits is significant, it doesn't approach the reduction in permits that has occurred since the recession began. To put in perspective the significant drop in residential building from pre-recession levels, in 2010 and 2011 there were 16,236 and 14,964 building permits issued respectively, which represents decreases of 44.8 and 49.2 percent respectively, from the 29,434 permits issued in 2007. It should be noted that fourth quarter 2011 permit data is preliminary. Despite the modest increase in demand for housing related to the Homebuyer Tax Credit, which expired September 30, 2010, it has been the opinion of real estate agents and industry analysts that the credit did little to perpetuate upward sales momentum. Home prices have stabilized, but are still below their 2006 peak, and many existing



homeowners currently owe more on their homes than what they're worth. While the efforts to modify loans that were facing foreclosure has been ineffective, there exists the potential for many new homes to continue to be added to the existing over-saturated inventory, which should act to depress prices, and further dissuade builders from obtaining permits, given the gross supply and demand imbalance that will likely exist.



Virginia is a very attractive location for businesses as it features a low tax burden, business-friendly laws, and an aggressive economic development program. New business incorporations are one way in which the soundness of the State economy is measured. Due to the fact that the incorporation of a new business requires a large investment, this indicator is tied heavily to perceptions of the state of the economy. In 2011, 12,670 new businesses were incorporated, representing an increase of 0.48 percent from 2010. This minor increase represents an improvement over prior year over year statistics, which saw reductions in 2009 and 2010 of 18.4 percent and 1.9 percent respectively. While the 2011 marginal increase in new business incorporations is encouraging, recent figures continue a relatively downward trend that began in late 2005 and accelerated when the recession began in 2007. For example, in 2005 there were 20,783 new businesses incorporated, while in 2007 this number had dropped to 17,855, and by 2010 had reduced to 12,609, representing a decrease of 39.3 percent from 2005. General economic uncertainty, compounded by historically low consumer confidence has strongly affected business growth, and correspondingly, the number of new business incorporations in the state.

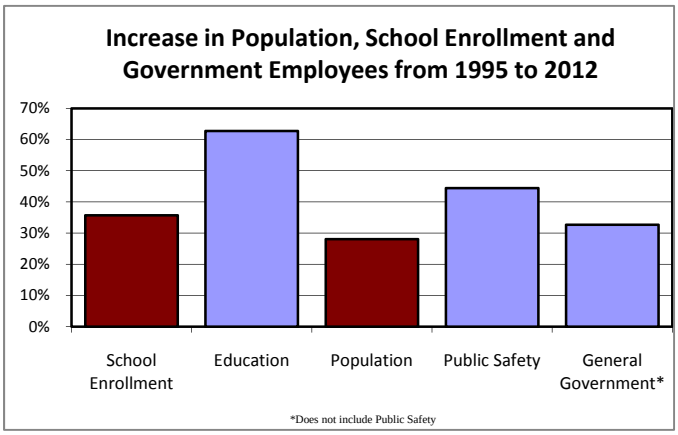
After three straight years of decreased automobile sales in Virginia from 2007 through 2009, year-over-year growth in this statistic occurred in 2010 and was approved upon in 2011. According to the Virginia Employment Commissions' *Virginia Economic Indicators* publication for the fourth quarter of 2011, 389,903 new vehicles were registered in the state during 2011, compared to 358,920 registered in 2010, an increase of 8.6 percent. However, while there were continued gains in automobile sales and registrations in 2011, looking back to 2008, this figure represents a decrease of 16,741, or 4.1 percent, and is evidence of how far the economy has fallen these past several years. It is important to note that, prior to the recession and the subsequent automotive industry crisis, even during the periods in which auto registrations decreased in Virginia, the market had historically remained one of the strongest pieces of the economy. Low interest rates and other financing incentives supported strong sales in the years leading up to the nation's economic decline. However, the economic climate, fuel price volatility, and drastic changes in consumer behavior contributed to a precipitous decline in automobile sales from 2007 through 2009. Domestic auto manufacturers rebounded in 2010, after reaching the lowest point in three decades in 2009, and 2011 continued the trend of sales growth. U.S. auto sales were approximately 12.7 million in 2011, reflecting a 10.0 percent increase from 2010, and a 22.0 percent increase from 2009. In addition, despite rising gas prices through the first quarter of 2012, sales have remained strong, and according to analysts, it is projected that total industry sales in 2012 will exceed 14.0 million.

Although some of the previously mentioned statistics show a decline in select areas, it is important to note that over the past several years, Virginia has continually maintained one of the strongest state economies in the country. According to the Bureau of Labor Statistics, as of March 2012, Virginia's seasonally adjusted unemployment rate was 5.6 percent, 2.6 percent lower than the U.S. rate of 8.2 percent, representing the 9th lowest monthly unemployment rate in the U.S.

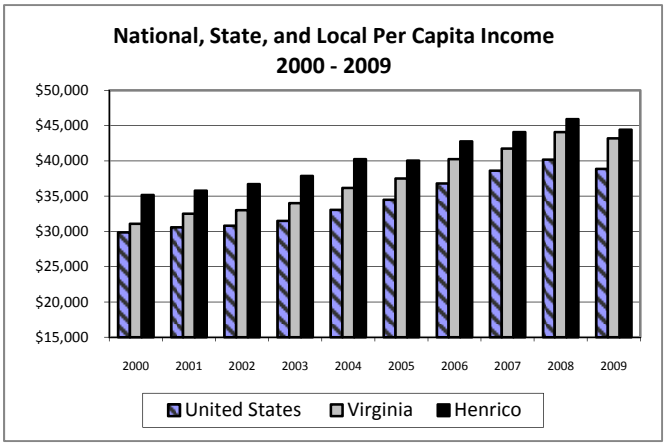
The average number of unemployed workers in the State fell in 2011, dropping from 294,746 to 268,833, or 8.8 percent, while the size of the state's overall civilian labor force increased from 4,255,162 in 2010 to 4,306,174 in 2011, an increase of 1.2 percent. In addition, 2011 job growth in Virginia was higher than labor/employment

statistical estimates had indicated. Nonfarm employment increased by 1.2 percent, identical to the increase in the state's labor force. The gain of 1.2 percent in 2011 was preceded by two years of employment declines, and despite the gains realized in 2011, average nonfarm employment remains below the 2008 peak of 3,762,900. A total of eight Virginia industrial sectors added jobs in 2011, the largest of which occurred in professional and business services, which added 12,200 jobs, representing an increase of 1.9 percent from 2010. Job losses in 2011 occurred in the Virginia employment sectors of information, manufacturing and construction.

Local Economy



Over the past sixteen years, Henrico County's economy has become more diverse as the County has grown. Since 1995 the County's population has increased 28.0 percent based on 2010 Census figures. Increasing from 239,683 to 306,935, Henrico is now the fifth most populous County in the Commonwealth. At the same time, the average daily student population attending Henrico County Public Schools has increased by 35.7 percent. In reaction to such growth trends, the County of Henrico has responded to the needs of the community by offering more services. As education and public safety are both high priorities of the County, these two areas experienced the most employment growth. The education personnel complement increased by 62.7 percent since 1995 as the number of education facilities grew 27 percent over the same time period. This figure does not include additions or renovations to existing structures. Public Safety increased its personnel complement by 44.4 percent over the same period. A large portion of this increase is due to the additional personnel in the Sheriff's Office needed to staff the regional jail, which opened in 1996, as well as additional positions within the Division of Fire, with additions of 155 and 212 to the Divisions respectively. It also should be noted that a net of 169 positions have been added in the Division of Police over the same sixteen years. Since 1995, General Government (excluding Public Safety) experienced an increase in personnel of 24.3 percent. All increases in personnel and service levels were accomplished while real estate tax rates in Henrico decreased from $0.98 per $100 of assessed value to $0.87 per $100 of assessed value during this time period. In addition, Henrico citizens experienced increases in income larger than national and State averages. From 1995 to 2009, per capita income in Henrico has increased by $18,282, or 69.9 percent, to an average of $44,423. It should be noted that as of this writing, the 2009 County level data is the most recent information released by the Bureau of Economic Analysis, and as such, 2009 revised national and state figures are used for comparative purposes.

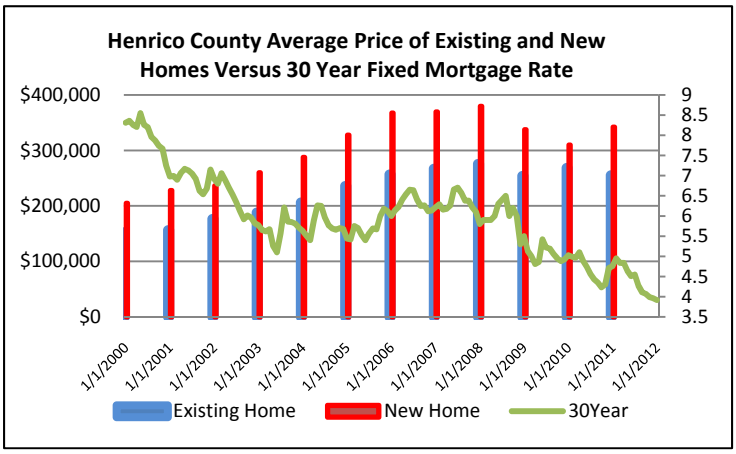


The downturn in the national and state economies disrupted the County's economy, particularly with respect to business failures and employment. While historically the county's unemployment had fallen well below that of state and federal figures, in March 2009, Henrico County registered a 7.1 percent unemployment rate, slightly exceeding the state unemployment rate of 7.0 percent, the worst in 17 years. The County's unemployment rate remained higher than that of the state through January 2010, when the unemployment rate of 7.4 percent fell below that of the state's 7.6 percent. As of February 2012, Henrico County's not-seasonally adjusted unemployment rate was 5.8 percent, below the State of Virginia's rate of 6.1 percent, which had also fallen from

6.6 percent from the prior year. Henrico's existing unemployment rate of 5.8 percent represents a significant, year-over-year improvement in unemployment from the February 2011 rate of 6.5 percent. Relative to the state and the region, Henrico County continues to outperform its neighbors with respect to employment. The Richmond Metropolitan Area in February 2012 registered an unemployment rate of 6.8 percent. The State of Virginia, as well as Henrico County and the greater Richmond area have registered year over year improvements in employment.

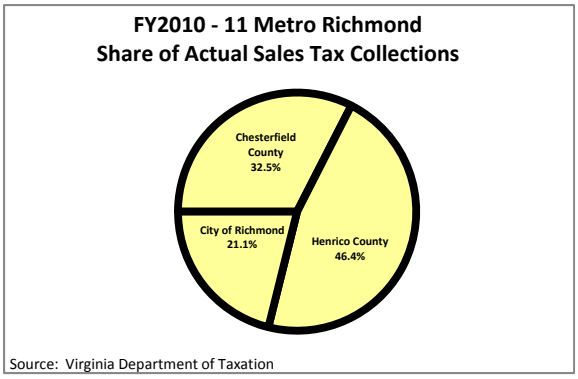
Despite the severity of the recession's impact on the local economy, there have been signs of improvement that indicate that the recovery is progressing. Henrico's highly skilled workforce, sound infrastructure and business friendly environment have facilitated corporate expansion and economic development activities that should translate into labor growth, as well as have a corresponding impact on local revenues in the future. In addition, consumer confidence is improving, as reflected in increased sales tax revenues. Henrico County continues to lead its regional counterparts in this category.

One of the most important economic indicators the County monitors is general property tax revenue. This revenue includes both current and delinquent real and personal property tax revenue. Property tax generates the largest percentage of revenue for Henrico County, representing 46.1 percent (estimated) of total General Fund operating revenue in FY2012-13.



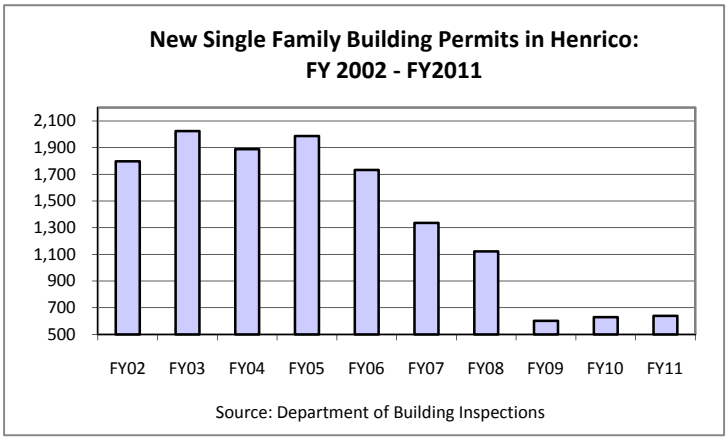
A large driver behind the growth in this revenue historically, has been the strength seen in the County's real estate market, relative to the national market. The chart below illustrates the overall upward trend in the average sales price of new and existing homes in comparison to the decrease in fixed mortgage rates. However, in 2008, as a result of the housing market crisis experienced nationwide, there was a corresponding drop in demand for housing in Henrico County, resulting in a higher monthly inventory, and stagnation in sales prices. Interest rates on 30 year fixed rate mortgages also fell significantly over this period, which facilitated some home buying and somewhat alleviated downward pressure on sales prices. The average 30 year fixed mortgage rate for 2011 was 4.45 percent, and was 3.98 percent in January 2012. Despite the strongest winter for home sales nationally in five years, the continued drop in the 30 year fixed interest rate is an indication of a still weak housing market. It should be noted that the Board of Supervisors has decreased the Real Property Tax Rate three times since FY2004, from $0.94 per $100 of assessed value in CY2004 to $0.92 per $100 of assessed value in CY2005, then to $0.90 per $100 in CY2006, and was reduced again to $.87 per $100 in CY2007. The rate has remained unchanged through CY2012.

Another indicator the County monitors is local sales tax receipts compared to those collected in the Richmond Metropolitan Area. In actual dollars, Henrico's local sales tax receipts totaled $57.2 million in FY2010-11, representing a 4.7 percent increase from the prior fiscal year. Over the past fiscal year, Henrico County recorded a 46.4 percent share of the total local sales taxes collected in the Richmond area, compared to 32.5 in Chesterfield County, and 21.1 percent in Richmond City. Henrico County's figure is slightly above the five year average of 45.2 percent. While Henrico's sales tax collections increased by 4.7 percent, its percentage share of regional



sales also increased by 2.9 percent, which is an indication of the strength of Henrico's local retail base. Overall, the Richmond Metropolitan Area experienced an increase of 2.5 percent, a significant improvement from the previous year over year decrease of approximately 3.3 percent in FY10, and the decrease of 3.9 percent experienced in FY09. Growth in retail sales is encouraging, and indicative of an improving economy. In addition, Henrico County's sales figures have continued to out-perform other localities in the region, and have in fact grown as a percentage share of regional expenditures since FY10. These statistics are a reflection of the quality and variety of Henrico County's local retail base, which is an attractive option for local residents, as well as a shopping destination for consumers of neighboring localities and other non-residents.

Building permit fees are also an important economic indicator carefully monitored by the County of Henrico. This revenue is considered to be elastic, meaning it will vary from year to year based on current economic situations. A change in the number of building permits issued can be used to gather information about the shape the economy will take in the future. In FY2006-07, actual revenues decreased when compared to FY2005-06 as the number of new single-family permits issued decreased 16.0 percent, reflective of the cooling housing market being experienced nationwide. This cooling trend is further reflected upon analysis of the FY2007-08 to FY2008-09 permit data, which reveals that single family permits actually declined by 46.4 percent during this period. Prior to the market cool down, Henrico County experienced a boom in new home construction, as did the rest of the country, primarily due to historically low interest rates and the availability of credit. In fact, in FY2001-02 and FY2002-03, the level of single family permits increased each year, with an overall 21.5 percent increase during this period. However, in FY2003-04, the number of permits dropped by 6.7 percent, while in FY2004-05, the number of permits in Henrico jumped back up by 5.2 percent. While Henrico County experienced significant growth in the number of single-family permits being issued over the five-year boom period between 2001 and 2005, the national growth pace was greater during this time period. Over this period, the national average annual increase for single-family permits issued was 6.9 percent, with an overall 31.7 percent growth comparing 2005 to 2001 levels. Henrico County, on the other hand, averaged an annual 5.2 percent increase for single-family permits issued during this time period, with an overall 19.3 percent increase comparing FY2005 and FY2001 levels. The number of single family building permits fell dramatically in 2007, falling 25.5 percent, and further declining at a rate of 16.0 percent in 2008. FY2009 registered the lowest numbers over the ten year period examined, with 602 permits issued, reflecting a decrease of 46.3 percent from the 1,122 permits issued in FY2008, and represents a decline of 70.3 percent from the high point of 2003 over the period identified. FY2010 reflected a modest improvement in the number of single family permits issued, registering 630 permits, reflecting an increase of 4.6 percent from the prior fiscal year. In FY2011, 639 single family building permits were issued, representing a nominal increase of 9 permits or 1.4 percent from the prior year.



The County also monitors changes in the number of new and used automobile registrations. These registrations gauge the community's confidence in the local economy and determine the amount of its citizens' disposable income. In 2011, the County of Henrico reported 10,689 new and 45,068 used automobile registrations. These overall numbers represent a 4.3 percent increase from those recorded in the previous year. For 2011, 36.1 percent of all care sales occurring in the Richmond Metropolitan Area occurred in Henrico County.

Conclusion

The recession that began in late 2007 was officially declared as having ended June 2009, though its effects on all sectors of the economy are still being felt through the first quarter of 2012. The slow economic recovery is continuing, though the trajectory of growth in 2011 was lower than many analysts had estimated. While 2010 had

been a reasonably strong growth year both domestically and globally, a combination of financial, natural disaster and geo-political crises in 2011, as well as the expiration of stimulus funds, stymied growth and exposed how fragile the economic recovery truly was and continues to be. Despite dramatic volatility in the U.S. stock market throughout much of 2011, the indices closed relatively flat, while overseas markets suffered due in large part to the ongoing European debt crisis.

GDP increased at revised rates of 1.8 percent and 3.0 in the third and fourth quarters of 2011, respectively, primarily reflecting positive contributions from private inventory investment, personal consumption expenditures (PCE), nonresidential fixed investment, exports, and residential fixed investments. These contributions were offset by reductions in federal, state and local government spending, while imports (which are a subtraction in the GDP calculation), increased. In addition, gross domestic purchases, which are purchases made by U.S. residents, regardless of the origin of the goods or services, increased 1.3 and 3.1 percent in the third and fourth quarters of 2011, respectively, which may indicate improved consumer sentiment, and a strengthening domestic economy.

However, while consumers may be more willing to spend down savings, and potentially borrow to make big-ticket purchases in the coming months, higher energy prices may temper consumer spending growth. The national average per gallon price of gasoline as of this writing is $3.840 (Richmond, VA average is $3.794) and it is expected by most analysts that gasoline could climb in excess of $4.00 per gallon and maintain this level throughout the summer months of 2012, possibly exceeding the July 2008 peak national average price of $4.11 per gallon. While the increase in the Consumer Price Index (CPI) is driven primarily by energy, the CPI, which grew by 3.0 percent from December 2010 to December 2011, is expected to be in the range of 2.0 - 2.5 percent for 2012. Grocery prices have risen 3.6 percent over the 12 months through March 2012 and it is expected that food prices will rise about 3.0 percent for the year. While the high cost of fuel and food presents some longer term inflationary worries, these more volatile prices, as has historically been the case, are expected to moderate. Core CPI, excluding food and energy, is up slightly higher than the Federal Reserve's target of 2.0 percent, registering 2.3 percent for March 2012, though analysts expect core inflation to be in the range of 2.0 percent by the end of the year.

Given the recession's impact on the labor market, the level of current and projected growth is unlikely to have an immediate, strong impact on job creation. Based on economists' assessments, it would take approximately three to four percent annual growth to lower the unemployment rate by one percentage point annually, and Federal Reserve Chairman Ben Bernanke has been quoted as saying that growth of 3.5 percent per year (an annual growth factor that exceeds current estimates) means it would take five to six years for the labor market to normalize. Jobs, however, are slowly being added, and the seasonally adjusted unemployment rate as of February 2012 of 8.3 percent represents a downward trend in the unemployment rate that began in October 2011. Analysts predict job growth in the neighborhood of about 2 million jobs in 2012, which equates to approximately 185,000 jobs added per month. This level of employment growth means it will likely take several years to recover the millions of jobs lost during the recession, and as such, the unemployment rate is not likely to drastically drop anytime soon, and is expected hold at 8.0 – 8.3 percent throughout 2012.

Analysts generally expect the economic recovery to continue at a modest pace through 2012, and likely decelerate to some degree from the prior year, as stimulus funding and certain tax provisions for businesses expire, which will hinder capital investments made by businesses. In addition, leading economic indicators also suggest a significant slowing of overseas economies, reducing export growth. Weakened demand for U.S. goods overseas, combined with a slowdown of domestic consumer spending will stymie growth and further elongate the recovery effort. The increasing likelihood that Europe's financial woes will result in a full recession, and as domestic and foreign debt concerns increase the potential for further draconian austerity measures in the U.S. and abroad, governmental policy decisions may augment existing levels of uncertainty and consumer pessimism, and further restrain growth. In addition, the insufficient pace of growth may result in elevated unemployment for the foreseeable future, increased consumer savings rates and correspondingly weakened demand for credit. These variables (among others) indicate that interest rates will remain low, and may possibly necessitate another round of quantitative easing by the Fed in 2012 or early 2013, subject to domestic political considerations that may change considerably after November 6, 2012, following the outcome of the presidential election.

Like the rest of the nation, the County of Henrico continues to recover from the effects of the most devastating recession in over 80 years. However, the County continues to respond better than national averages. Sales tax collections grew in FY 2011 by 4.7 percent, following a 2.5 percent drop in the prior year, and Henrico County's sales remain the strongest in the Metropolitan Richmond area. As the County of Henrico continues to operate within sound and conservative parameters, it is prepared to handle periodic fluctuations and uncertainties in the national, state and local economies, as well as the more severe economic conditions that we are faced with today.

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